

# Chapter 5 Retirement / Death of a Partner

Question 1.

A, B and C were partners sharing profits in the ratio of 1/2, 2/5 and 1/10. Find the new ratio of the remaining partners if C retires.

Solution:

$$\text{Old Ratio (A,B and C)} = \frac{1}{2} : \frac{2}{5} : \frac{1}{10} \text{ or } 5:4:1$$

As we can see, no information is given as to how A and B are acquiring C's profit share after his retirement, so the new profit sharing ratio between A and B is calculated just by crossing out the C's share.

That is,

New Profit Share Ratio (After C's retirement)

$$A's = \frac{1}{2} \times \frac{5}{5} = \frac{5}{10}$$

$$B's = \frac{2}{5} \times \frac{2}{2} = \frac{4}{10}$$

$$\therefore \text{New Profit Ratio A and B} = 5:4$$

Question 2.

Ram, Mohan and Sohan were partners sharing profits in the ratio of 1/5, 1/3 and 7/15 respectively. Sohan retires and his share was taken by Ram and Mohan in the ratio of 3 : 2. Find out the new ratio.

Solution:

$$\text{Old Ratio (Ram, Mohan and Sohan)} = \frac{1}{5} : \frac{1}{3} : \frac{7}{15}$$

$$\text{or, old Ratio (Ram, Mohan and Sohan)} = \frac{3}{15} : \frac{5}{15} : \frac{7}{15} = 3:5:7$$

$$\text{Sohan's Profit Share} = \frac{7}{15}$$

$$\text{Sohan taken by share in the ratio (Ram and Mohan)} = 3:2$$

$$\text{Ram's Share} = \frac{7}{15} \times \frac{3}{5} = \frac{21}{75}$$

$$\text{Mohan's Share} = \frac{7}{15} \times \frac{2}{5} = \frac{14}{75}$$

New profit share = Old profit share + Sohan taken by share

$$\text{Ram's} = \frac{3}{15} + \frac{21}{75} = \frac{15}{75} + \frac{21}{75} = \frac{36}{75}$$

$$\text{Mohan's} = \frac{5}{15} + \frac{14}{75} = \frac{25}{75} + \frac{14}{75} = \frac{39}{75}$$

$$\therefore \text{New profit Sharing Ratio( Ram and Mohan)} = \frac{36}{75} : \frac{39}{75} = 12:13$$

Question 3.

From the following particulars, calculate new profit-sharing ratio of the partners:

(a) Shiv, Mohan and Hari were partners in a firm sharing profits in the ratio of 5 : 5 : 4. Mohan retired and his share was divided equally between Shiv and Hari.

(b) P, Q and R were partners sharing profits in the ratio of 5 : 4 : 1. P retires from the firm.

Solution:

a.

Old ratio Shiv, Mohan and Hari = 5:5:4

$$\text{Mohan's Profit share} = \frac{5}{14}$$

Mohan's share is divided equally between Shiv and Hari in the ratio = 1:1

$$\text{Mohan's Share taken by Shiv} = \frac{5}{14} \times \frac{1}{2} = \frac{5}{28}$$

$$\text{Mohan's Share taken by Hari} = \frac{5}{14} \times \frac{1}{2} = \frac{5}{28}$$

New profit share = Old profit share + Mohan's Share taken by

$$\text{Shiv's New Share} = \frac{5}{14} + \frac{5}{28} = \frac{10}{28} + \frac{5}{28} = \frac{15}{28}$$

$$\text{Hari's New Share} = \frac{4}{14} + \frac{5}{28} = \frac{8}{28} + \frac{5}{28} = \frac{13}{28}$$

$$\therefore \text{New profit share Shiv and Hari} = \frac{15:13}{28} = 15:13$$

b.

Old Ratio P,Q and R = 5:4:1

$$P's \text{ Profit Share} = \frac{5}{10}$$

Since, no information is given as to how Q and R are acquiring P's profit after his retirement, therefore the new profit sharing ratio between Q and R is calculated simply by crossing out P's share.

$$\therefore \text{New profit Ratio (Q and R)} = 4 : 1$$

Question 4.

Sita, Geeta and Meeta were partners in a firm sharing profits in the ratio of 7 : 6 : 7. Geeta retired and her share was divided equally between Sita and Meeta. Calculate the new profit-sharing ratio of Sita and Meeta.

Solution:

Old Ratio (Sita, Geeta and Meeta) = 7 : 6 : 7

Geeta's Profit Share = 6/20

After Geeta retired in the firm Geeta's share is divided between equally (Sita and Meeta) = 1 : 1

$$\text{Geeta taken by Sita's Share} = \frac{6}{20} \times \frac{1}{2} = \frac{6}{40}$$

$$\text{Geeta taken by Meeta's Share} = \frac{6}{20} \times \frac{1}{2} = \frac{6}{40}$$

New Profit Share = Old Profit Share + Geeta taken by Share

$$\text{Sita's} = \frac{7}{20} + \frac{6}{40} = \frac{14}{40} + \frac{6}{40} = \frac{20}{40}$$

$$\text{Meeta's} = \frac{7}{20} + \frac{6}{40} = \frac{14}{40} + \frac{6}{40} = \frac{20}{40}$$

∴ New Profit Shareing Ratio in the Sita and Meeta =  $\frac{20:20}{40}$  or 1:1

Question 5.

R, S and M are partners sharing profits in the ratio of 2/5, 2/5 and 1/5. M decides to retire from the business and his share is taken by R and S in the ratio of 1 : 2. Calculate the new profit-sharing ratio.

Solution:

Old Ratio R, S and M = 2 : 2 : 1

$$\text{M's Profit share} = \frac{1}{5}$$

M's after retires in the firm. His share taken by R and S = 1:2

$$\text{M's Share taken by R} = \frac{1}{5} \times \frac{1}{3} = \frac{1}{15}$$

$$\text{M's Share taken by S} = \frac{1}{5} \times \frac{2}{3} = \frac{2}{15}$$

New Ratio= Old Ratio + M's Share taken by

$$\text{R's} = \frac{2}{5} + \frac{1}{15} = \frac{6}{15} + \frac{1}{15} = \frac{7}{15}$$

$$\text{S's} = \frac{2}{5} + \frac{2}{15} = \frac{6}{15} + \frac{2}{15} = \frac{8}{15}$$

∴ New Profit (R and S)=7:8

Question 6.

A, B and C were partners sharing profits in the ratio of 4 : 3 : 2. A retires, assuming B and C will share profits in the ratio of 2 : 1. Determine the gaining ratio.

Solution:

Old Ratio (A, B and C) = 4 : 3 : 2

New Ratio (B and C) = 2 : 1

Gaining Ratio = New Ratio - Old Ratio

$$\text{B's share} = \frac{2}{3} - \frac{3}{9} = \frac{6}{9} - \frac{3}{9} = \frac{3}{9} \text{ (Gain)}$$

$$\text{C's Share} = \frac{1}{3} - \frac{2}{9} = \frac{3}{9} - \frac{2}{9} = \frac{1}{9} \text{ (Gain)}$$

∴ Gaining Ratio (B and C) = 3:1

Question 7.

Kangli, Mangli and Sanvali are partners sharing profits in the ratio of 4 : 3 : 2. Kangli retires. Assuming Mangli and Sanvali will share profits in the future in the ratio of 5 : 3, determine the gaining ratio.

Solution:

Old Ratio between Kangli, Mangli and Sanvali = 4 : 3 : 2

New Ratio between Mangli and Sanvali = 5 : 3

Gaining Ratio = New Ratio - Old Ratio

$$\text{Mangli's} = \frac{5}{8} - \frac{3}{9} = \frac{45}{72} - \frac{24}{72} = \frac{21}{72} \text{ (Gain)}$$

$$\text{Sanvali's} = \frac{3}{8} - \frac{2}{9} = \frac{27}{72} - \frac{16}{72} = \frac{11}{72} \text{ (Gain)}$$

Gaining Ratio (Mangli's and Sanvali's) =  $\frac{21:11}{72}$  or, 21 : 11

Question 8.

X, Y and Z are partners sharing profits in the ratio of 1/2, 3/10 and 1/5. Calculate the gaining ratio of remaining partners when Y retires from the firm.

Solution:

Old Ratio (X, Y and Z) =  $\frac{1}{2} : \frac{3}{10} : \frac{1}{5}$

Old Ratio (X, Y and Z) =  $\frac{5}{10} : \frac{3}{10} : \frac{2}{10}$

After Y's retirement new profit share in the Ratio as (X and Z) = 5:2

Gaining share = New Share - Old share

$$X's = \frac{5}{7} - \frac{5}{10} = \frac{50-35}{70} = \frac{15}{70} \text{ (Gain)}$$

$$Z's = \frac{2}{7} - \frac{2}{10} = \frac{20-14}{70} = \frac{6}{70} \text{ (Gain)}$$

Gaining Ratio =  $\frac{15:6}{70}$  or 5:2

Question 9.

(a) W, X, Y and Z are partners sharing profits and losses in the ratio of 1/3, 1/6, 1/3 and 1/6 respectively. Y retires and W, X and Z decide to share the profits and losses equally in future. Calculate gaining ratio.

(b) A, B and C are partners sharing profits and losses in the ratio of 4 : 3 : 2. C retires from the business. A is acquiring 4/9 of C's share and balance is acquired by B. Calculate the new profit-sharing ratio and gaining ratio.

Solution:

(a)

$$\text{Old Ratio W, X, Y and Z} = \frac{1}{3} : \frac{1}{6} : \frac{1}{3} : \frac{1}{6} \text{ or } \frac{2:1:2:1}{6} = 2:1:2:1$$

$$\text{New Ratio (W, X and Z)} = 1 : 1 : 1$$

$$\text{New Ratio} = \text{New Ratio} - \text{Old Ratio}$$

$$W's \text{ Share} = \frac{1}{3} - \frac{2}{6} = \frac{2-2}{6} = \text{Nil}$$

$$X's \text{ Share} = \frac{1}{3} - \frac{1}{6} = \frac{2}{6} - \frac{1}{6} = \frac{1}{6} (\text{Gain})$$

$$Z's \text{ Share} = \frac{1}{3} - \frac{1}{6} = \frac{2}{6} - \frac{1}{6} = \frac{1}{6} (\text{Gain})$$

$$\therefore \text{New Ratio} = 0:1:1$$

(b)

$$\text{Old Ratio (A, B and C)} = 4 : 3 : 2$$

$$C's \text{ Profit Share} = 2/9$$

A get by 4/9 of C's Share and remaining Share is get by B.

$$\text{Share get by A} = \frac{2}{9} \times \frac{4}{9} = \frac{8}{81}$$

$$\text{Share get by B} = C's \text{ Share} - \text{Share get by A} = \frac{2}{9} - \frac{8}{81} = \frac{18}{81} - \frac{8}{81} = \frac{10}{81}$$

New profit share = Old Profit share + share get from C

$$A's = \frac{4}{9} + \frac{8}{81} = \frac{36}{81} + \frac{8}{81} = \frac{44}{81}$$

$$B's = \frac{3}{9} + \frac{10}{81} = \frac{27}{81} + \frac{10}{81} = \frac{37}{81}$$

$$\therefore \text{New Profit Ratio (A and B)} = 44 : 37$$

$$\text{Gaining Ratio} = \text{New Ratio} - \text{Old Ratio}$$

$$A's = \frac{44}{81} - \frac{4}{9} = \frac{44}{81} - \frac{36}{81} = \frac{8}{81} (\text{Gain})$$

$$B's = \frac{37}{81} - \frac{3}{9} = \frac{37}{81} - \frac{27}{81} = \frac{10}{81} (\text{Gain})$$

$$\frac{8:10}{81}$$

$$\therefore \text{Gaining Ratio} = \frac{8:10}{81} \text{ or } 4:5$$

Question 10.

Kumar, Lakshya, Manoj and Naresh are partners sharing profits in the ratio of 3 : 2 : 1 : 4. Kumar retires and his share is acquired by Lakshya and Manoj in the ratio of 3 : 2. Calculate new profit-sharing ratio and gaining ratio of the remaining partners.

Solution:

$$\text{Kumar's share} = \frac{3}{10} \text{ (acquired by Lakshya and Manoj in 3:2)}$$

$$\text{Share acquired by Lakshya} = \frac{3}{10} \times \frac{3}{5} = \frac{9}{50}$$

$$\text{Share acquired by Manoj} = \frac{3}{10} \times \frac{2}{5} = \frac{6}{50}$$

$$\text{Lakshya's New Share} = \frac{2}{10} + \frac{9}{50} = \frac{19}{50}$$

$$\text{Manoj's New Share} = \frac{1}{10} + \frac{6}{50} = \frac{11}{50}$$

$$\text{Naresh's share (as retained)} = \frac{4}{10} \text{ or } \frac{20}{50}$$

$$\text{New Profit Sharing Ratio} = 19 : 11 : 20$$

$$\text{Gaining Ratio} = 3 : 2 \text{ (as given in the question)}$$

Question 11.

A, B, C and D were partners in a firm sharing profits in 5 : 3 : 2 : 2 ratio. B and C retired from the firm. B's share was acquired by D and C's share was acquired by A. Calculate new profit-sharing ratio of A and D.

Solution:

$$\text{Old Ratio (A, B, C and D)} = 5:3:2:2$$

B's and C's retire from the firm

$$\text{B's Share} = \frac{3}{12}$$

$$\text{C's Share} = \frac{2}{12}$$

B's Share was get by D's and C's Share was get by A's.

$$\therefore \text{D's New Share} = \text{D's Old Share} + \text{Share of B's} = \frac{2}{12} + \frac{3}{12} = \frac{5}{12}$$

$$\therefore \text{A's New Share} = \text{A's Old Share} + \text{Share of C's} = \frac{5}{12} + \frac{2}{12} = \frac{7}{12}$$

$$\therefore \text{New Profit Ratio (A and D)} = 7:5$$

Question 12.

A, B and C were partners in a firm sharing profits in 8 : 4 : 3. B retires and his share is taken up equally by A and C. Find the new profit-sharing ratio.

Solution:

Old Ratio (A, B and C) = 8 : 4 : 3

$$\text{B's Profit ratio} = \frac{4}{15}$$

B's retires the firm. His Share taken by A and C = 1:1

$$\text{B's Share taken by A} = \frac{4}{15} \times \frac{1}{2} = \frac{4}{30}$$

$$\text{B's Share taken by C} = \frac{4}{15} \times \frac{1}{2} = \frac{4}{30}$$

New Ratio= Old Ratio + Share acquired from B

$$\text{A's : } \frac{8}{15} + \frac{2}{15} = \frac{10}{15}$$

$$\text{C's : } \frac{3}{15} + \frac{2}{15} = \frac{5}{15}$$

$$\therefore \text{A and C New Ratio} = \frac{10}{15} : \frac{5}{15} \text{ or } 2 : 1$$

Question 13.

A, B and C are partners sharing profits in the ratio of 5 : 3 : 2. C retires and his share is taken up by A. Calculate new profit-sharing ratio of A and B.

Solution:

Old Ratio in the A, B and C=5:3:2

$$\text{Retiring Partner C's Profit Share} = \frac{2}{10}$$

C's share is taken by A in entirety

New Ratio= Old Ratio + Share from C

$$\text{A's } \frac{5}{10} + \frac{2}{10} = \frac{7}{10}$$

$$\text{B's } = \frac{3}{10}$$

$$\therefore \text{New Profit sharing Ratio (A and B)} = 7:3$$

Question 14.

P, Q and R are partners sharing profits in the ratio of 7 : 5 : 3. P retires and it is decided that profit-sharing ratio between Q and R will be same as existing between P and Q. Calculate New profit-sharing ratio and Gaining Ratio.

Solution:

#### Calculation of Gaining Ratio

P : Q : R = 7 : 5 : 3 (Old Ratio)

Q : R = 7 : 5 (New Ratio)

Gaining Ratio = New Ratio - Old Ratio

$$Q's = \frac{7}{12} - \frac{5}{15} = \frac{35}{60} - \frac{20}{60} = \frac{15}{60}$$

$$R's = \frac{5}{12} - \frac{3}{15} = \frac{25}{60} - \frac{12}{60} = \frac{13}{60}$$

New Ganing Ratio (Q and R) = 15:13

Question 15.

Murli, Naveen and Omprakash are partners sharing profits in the ratio of 3/8, 1/2 and 1/8. Murli retires and surrenders 2/3rd of his share in favour of Naveen and remaining share in favour of Omprakash. Calculate new profit-sharing ratio and gaining ratio of the remaining partners.

Solution:

Old Ratio = 3:4:1

$$\text{Murli's share} = \frac{3}{8}$$

$$\text{Share acquired by Naveen} = \frac{3}{8} \times \frac{2}{3} = \frac{2}{8}$$

$$\text{Remaining Share} = \frac{3}{8} - \frac{2}{8} = \frac{1}{8} \text{ (acquired by Omprakash)}$$

$$\text{Gaining Ratio} = \frac{2}{8} : \frac{1}{8} = 2 : 1$$

$$\text{Naveen's New Share} = \frac{4}{8} + \frac{2}{8} = \frac{6}{8}$$

$$\text{Omprakash's New Share} = \frac{1}{8} + \frac{1}{8} = \frac{2}{8}$$

New Profit Sharing Ratio = 3 : 1

Question 16.

A, B and C are partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. B decides to retire from the firm. Calculate new profit-sharing ratio of A and C in the following circumstances:

- If B gives his share to A and C in the original ratio of A and C.
- If B gives his share to A and C in equal proportion.
- If B gives his share to A and C in the ratio of 3 : 1.
- If B gives his share to A only.

Solution:

Old Ratio (A, B and C) = 4 : 3 : 2

Retiring Partner B's Profit Ratio =  $\frac{3}{9}$

(a)

B gives his share in the original ratio to A and C.

Old Ratio (A and C) = 4:2

$$\text{B's Share taken by A} = \frac{3}{9} \times \frac{4}{6} = \frac{12}{54}$$

$$\text{B's Share taken by C} = \frac{3}{9} \times \frac{2}{6} = \frac{6}{54}$$

New Ratio = Old Ratio + B's Share Acquired

$$A's = \frac{4}{9} + \frac{12}{54} = \frac{24}{54} + \frac{12}{54} = \frac{36}{54}$$

$$C's = \frac{2}{9} + \frac{6}{54} = \frac{12}{54} + \frac{6}{54} = \frac{18}{54}$$

$$\therefore \text{New Ratio (A and C)} = \frac{36}{54} : \frac{18}{54} \text{ or, } 2:1$$

(b)

B gives his Share to A and C in equal proportion

$$\text{B's Share taken by A} = \frac{3}{9} \times \frac{1}{2} = \frac{3}{18}$$

$$\text{B's share taken by C} = \frac{3}{9} \times \frac{1}{2} = \frac{3}{18}$$

New Ratio = Old Ratio + B's Share taken up

$$A's \text{ New Share} = \frac{4}{9} + \frac{3}{18} = \frac{8}{18} + \frac{3}{18} = \frac{11}{18}$$

$$C's \text{ New Share} = \frac{2}{9} + \frac{3}{18} = \frac{4}{18} + \frac{3}{18} = \frac{7}{18}$$

$$\therefore \text{New Ratio (A and C)} = 11:7$$

**(c)**

**B gives his Share to A and C in the Ratio 3 : 1**

$$\text{B's Share taken by A} = \frac{3}{9} \times \frac{3}{4} = \frac{9}{36}$$

$$\text{B's Share taken by C} = \frac{3}{9} \times \frac{1}{4} = \frac{3}{36}$$

New Ratio = Old Ratio + B's taken by Share

$$\text{A's} = \frac{4}{9} + \frac{9}{36} = \frac{16}{36} + \frac{9}{36} = \frac{25}{36}$$

$$\text{C's} = \frac{2}{9} + \frac{3}{36} = \frac{8}{36} + \frac{3}{36} = \frac{11}{36}$$

∴ A and C New Ratio 25 : 11

**(d)**

**B gives his Share to A only**

$$\text{A's New Share} = \text{A's Old Share} + \text{Share of B's} = \frac{4}{9} + \frac{3}{9} = \frac{7}{9}$$

$$\text{C's New Share} = \frac{2}{9}$$

∴ New Profit Ratio (A and C) = 7 : 2

Question 17.

L, M and O are partners sharing profits and losses in the ratio of 4 : 3 : 2. M retires and the goodwill is valued at ₹ 72,000. Calculate M's share of goodwill and pass the necessary Journal entry for Goodwill. L and O decided to share the future profits and losses in the ratio of 5 : 3.

Solution:

**Journal**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	L's Capital A/c O's Capital A/c To M's Capital A/c (Being adjustment of M's Share of goodwill made)	Dr. Dr.	13,000 11,000	24,000

**Working Notes:**

**1. Calculation of Gaining Ratio**

$$\text{Old Ratio} = 4 : 3 : 2$$

M's retires from the firm

$$\text{New Ratio (L and O)} = 5 : 3$$

Gaining Ratio = New Ratio - Old Ratio

$$\text{L's Share} = \frac{5}{8} - \frac{4}{9} = \frac{45}{72} - \frac{32}{72} = \frac{13}{72}$$

$$\text{O's Share} = \frac{3}{8} - \frac{2}{9} = \frac{27}{72} - \frac{16}{72} = \frac{11}{72}$$

$$\therefore \text{Gaining Ratio} = 13:11$$

**2. Adjustment of Goodwill**

Goodwill of the firm = Rs. 72,000

$$\text{M's of goodwill} = 72000 \times \frac{3}{9} = ₹24,000$$

This share of goodwill is to be debited to remaining partners' Capital A/c in their Gaining ratio (L and O) = 13 : 11

$$\text{Debited by L's Share} = 24,000 \times \frac{13}{24} = ₹13,000$$

$$\text{Debited by O's Share} = 24,000 \times \frac{11}{24} = ₹11,000$$

**Question 18.**

P, Q, R and S were partners in a firm sharing profits in the ratio of 5 : 3 : 1 : 1. On 1st January, 2017, S retired from the firm. On S's retirement the goodwill of the firm was valued at ₹ 4,20,000. The new profit-sharing ratio between P, Q and R will be 4 : 3 : 3.

Showing your working notes clearly, pass necessary journal entry for the treatment of goodwill in the books of the firm on S's retirement.

Solution:

Journal				
Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	R's Capital A/c To P's Capital A/c To S's Capital A/c (Goodwill adjusted)	Dr.	84,000 42,000 42,000	

Working Notes:

Gaining Ratio = New Ratio - Old Ratio

$$P = \frac{4}{10} - \frac{5}{10} = -\frac{1}{10} \text{ (sacrifice)}$$

$$Q = \frac{3}{10} - \frac{3}{10} = 0$$

$$R = \frac{3}{10} - \frac{1}{10} = \frac{2}{10}$$

$$P's \text{ share} = 4,20,000 \times \frac{1}{10} = 42,000$$

$$R's \text{ share} = 4,20,000 \times \frac{2}{10} = 84,000$$

$$S's \text{ share} = 4,20,000 \times \frac{1}{10} = 42,000$$

Question 19.

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 ₹ 1,80,000. Aparna and Sonia decided to share future profits in the ratio of 3 : 2. Pass necessary journal entries.

Solution:

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

**Working Notes:**

**WN1: Calculation of Manisha's Share in Goodwill**

Manisha's share = Firm's Goodwill x Manisha's Profit Share

$$\text{Manisha's share} = 1,80,000 \times \frac{1}{3} = 60,000$$

**WN2: Calculation of Gaining Ratio**

Gaining Ratio = New Ratio - Old Ratio

$$\text{Aparna's gain} = \frac{3}{5} - \frac{3}{6} = \frac{3}{30}$$

$$\text{Sonia's gain} = \frac{2}{5} - \frac{1}{6} = \frac{7}{30}$$

Gaining Ratio=3:7

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

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

Question 20.

Hanny, Pammy and Sunny are partners sharing profits in the ratio of 3 : 2 : 1. Goodwill is appearing in the books at a value of ₹ 60,000. Pammy retires and at the time of Pammy's retirement, goodwill is valued at ₹ 84,000. Hanny and Sunny decided to share future profits in the ratio of 2 : 1. Record the necessary journal entries.

Solution:

Journal				
Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Hanny's Capital A/c	Dr.	30,000	
	Pammy's Capital A/c	Dr.	20,000	
	Sunny's Capital A/c		10,000	
	To Goodwill A/c			60,000
	(Old goodwill written-off in old ratio)			
	Hanny's Capital A/c	Dr.	14,000	
	Sunny's Capital A/c	Dr.	14,000	
	To Pammy's Capital A/c			28,000
	(Adjustment for goodwill in gaining ratio)			

**Working Notes:**

**WN1: Calculation of Pammy's Share in Goodwill**

Pammy's share = Firm's Goodwill x Pammy's Profit Share

$$\text{Pammy's share} = 84,000 \times \frac{2}{6} = 28,000 \text{ (to be borne by gaining partners in gaining ratio)}$$

**WN2: Calculation of Gaining Ratio**

Gaining Ratio = New Ratio - Old Ratio

$$\text{Hanny's gain} = \frac{2}{3} - \frac{3}{6} = \frac{1}{6}$$

$$\text{Sunny's gain} = \frac{1}{3} - \frac{1}{6} = \frac{1}{6}$$

Gaining Ratio = 1:1

Question 21.

A, B and C are partners sharing profits in the ratio of 3 : 2 : 1. B retired and the new profit-sharing ratio between A and C was 2 : 1. On B's retirement, the goodwill of the firm was valued at ₹ 90,000. Pass necessary journal entry for the treatment of goodwill on B's retirement.

Solution:

**Journal**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	A's Capital A/c C's Capital A/c To B's Capital A/c (Being adjustment M's Share of goodwill made)	Dr. Dr.	15,000 15,000	30,000

**Working Notes:**

**1. Calculation of gaining Ratio**

$$A : B : C$$

$$\text{Old Ratio} = 3 : 2 : 1$$

B's partner is retirement from the firm.

$$A : C$$

$$\text{New Ratio} = 2 : 1$$

Gaining Ratio = New Ratio - Old Ratio

$$A's = \frac{2}{3} - \frac{3}{6} = \frac{4}{6} - \frac{3}{6} = \frac{1}{6}$$

$$C's = \frac{1}{3} - \frac{1}{6} = \frac{2}{6} - \frac{1}{6} = \frac{1}{6}$$

$$\therefore \text{Gaining Ratio (A and C)} = 1:1$$

**2. Adjustment of Goodwill**

Goodwill of the firm = Rs. 90,000

$$B's \text{ share of goodwill} = 90,000 \times \frac{2}{6} = ₹30,000$$

B's share of goodwill is to be debited to remaining partners Capital A/c in their Gaining ratio A and C = 1 : 1

$$\text{Debited by A's Share} = 30,000 \times \frac{1}{2} = ₹15,000$$

$$\text{Debited by C's Share} = 30,000 \times \frac{1}{2} = ₹15,000$$

Question 22.

X, Y and Z are partners sharing profits in the ratio of 3 : 2 : 1. Goodwill is appearing in the books at a value of ₹ 60,000. Y retires and at the time of Y's retirement, goodwill is valued at ₹ 84,000. X and Z decide to share future profits in the ratio of 2 : 1. Pass the necessary journal entries through Goodwill Account.

Solution:

**Journal Entry**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	X's Capital A/c Y's Capital A/c Z's Capital A/c To Goodwill A/c (Being goodwill written off)	Dr. Dr. Dr.	30,000 20,000 10,000	60,000
	Goodwill A/c To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Being before Y's retired distributed of goodwill)	Dr.	84,000	42,000 28,000 14,000
	X's Capital A/c Z's Capital A/c To Goodwill A/c (Being after Y's retired distributed of goodwill)	Dr. Dr.	56,000 28,000	84,000

**Working Notes :**

**1. Calculation of Gaining Ratio**

$$X : Y : Z$$

$$\text{Old Ratio} = 3 : 2 : 1$$

$$X : Z$$

$$\text{New Ratio} = 2 : 1$$

$$\text{Gaining Ratio} = \text{New Ratio} - \text{Old Ratio}$$

$$X's = \frac{2}{3} - \frac{3}{6} = \frac{4-3}{6} = \frac{1}{6}$$

$$Z's = \frac{1}{3} - \frac{1}{6} = \frac{2-1}{6} = \frac{1}{6}$$

$$\text{Gaining Ratio (X and Z)} = 1:1$$

**2. Calculation of Partner's share of Goodwill (3 : 2 : 1)**

$$\text{Debited by X's share} = 84,000 \times \frac{3}{6} = ₹42,000$$

$$\text{Debited by Y's Share} = 84,000 \times \frac{2}{6} = ₹28,000$$

$$\text{Debited by Z's Share} = 84,000 \times \frac{1}{6} = ₹14,000$$

**3. Calculation of Partner's share of Goodwill after Y retried (2 : 1)**

$$\text{Debited by X's Share} = 84,000 \times \frac{2}{3} = ₹56,000$$

$$\text{Debited by Z's Share} = 84,000 \times \frac{1}{3} = ₹28,000$$

Question 23.

A, B and C are partners sharing profits in the ratio of 4/9 : 3/9 : 2/9. B retires and his capital after making adjustments for reserves and gain (profit) on revaluation stands at ₹ 1,39,200. A and C agreed to pay him ₹ 1,50,000 in full settlement of his claim. Record necessary journal entry for adjustment of goodwill if the new profit-sharing ratio is decided at 5 : 3.

Solution:

Journal				
Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	A's Capital A/c C's Capital A/c To B's Capital A/c (Being adjustment B's Share of goodwill made)	Dr. Dr.	5,850 4,950	10,800

#### Working Notes:

##### 1. Calculation of B's share of goodwill

$$A : B : C$$

$$\text{Old Ratio} = 4 : 3 : 2$$

B retires from the firm.

Remaining partners A's and C's agreed to pay = Rs.1,50,000

B's Capital after adjustment = Rs.1,39,200

Hidden Goodwill is = Rs.1,50,000 - Rs.1,39,200 = Rs.10,800

##### 2. Calculation of Gaining Ratio

$$A : B$$

$$\text{New Ratio} = 5 : 3$$

Gaining Ratio = New Ratio - old Ratio

$$A's = \frac{5}{8} - \frac{4}{9} = \frac{45 - 32}{72} = \frac{13}{72}$$

$$C's \text{ gain} = \frac{3}{8} - \frac{2}{9} = \frac{27 - 16}{72} = \frac{11}{72}$$

Gaining ratio (A and C)=13:11

B's share of goodwill is to be debited to remaining partners Capital A/c in their Gaining ratio A and C = 13 : 11

$$\text{Debited by A's Share} = 10,800 \times \frac{13}{24} = 5,850$$

$$\text{Debited by C's Share} = 10,800 \times \frac{11}{24} = 4,950$$

Question 24.

M, N and O are partners in a firm sharing profits in the ratio of 3 : 2 : 1. Goodwill has been valued at ₹ 60,000. On N's retirement, M and O agree to share profits equally. Pass the necessary journal entry for treatment of N's share of goodwill.

Solution:

**Journal Entry**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	O's Capital A/c To N's Capital A/c (Being adjustment of N's share of goodwill)	Dr.	20,000	20,000

**Working Notes:**

**1. Calculation of Gaining Ratio**

$$M : N : O$$

$$\text{Old Ratio} = 3 : 2 : 1$$

$$M : O$$

$$\text{New Ratio} = 1 : 1$$

$$\text{Gaining Ratio} = \text{New Ratio} - \text{Old Ratio}$$

$$M's = \frac{1}{2} - \frac{3}{6} = \frac{3}{6} - \frac{3}{6} = \text{Nil}$$

$$O's = \frac{1}{2} - \frac{1}{6} = \frac{3}{6} - \frac{1}{6} = \frac{2}{6}$$

$$\text{Gaining by only O's Share} = \frac{2}{6}$$

**2.**

**Calculation of Retiring Partner's share of Goodwill**

$$N's \text{ of goowill} = 60,000 \times \frac{2}{6} = ₹20,000$$

Thus, only O's Share Capital A/c would be debited with Rs.20,000

Question 25.

A, B, C and D are partners in a firm sharing profits in the ratio of 2 : 1 : 2 : 1. On the retirement of C, Goodwill was valued ₹ 1,80,000. A, B and D decide to share future profits equally. Pass the necessary journal entry for the treatment of goodwill.

Solution:

**Journal Entry**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	B's Capital A/c D's Capital A/c To C's Capital A/c (Being adjustment of C's share of goodwill)	Dr. Dr.	30,000 30,000	60,000

**Working Notes :**

**1. Calculation of Gaining Ratio**

$$A : B : C : D$$

$$\text{Old Ratio} = 2 : 1 : 2 : 1$$

$$A : B : D$$

$$\text{New Ratio} = 1 : 1 : 1$$

C's retires from the firm.

Gaining Ratio = New Ratio - Old Ratio

$$A' s = \frac{1}{3} - \frac{2}{6} = \frac{2}{6} - \frac{2}{6} = \text{Nil}$$

$$B' s = \frac{1}{3} - \frac{1}{6} = \frac{2}{6} - \frac{1}{6} = \frac{1}{6}$$

$$D' s = \frac{1}{3} - \frac{1}{6} = \frac{2}{6} - \frac{1}{6} = \frac{1}{6}$$

$$\text{Gaining Ratio (B and D)} = 1:1$$

**2. Calculation of Retiring Partner's Share of goodwill**

$$\text{C's share of goodwill} = 1,80,000 \times \frac{2}{6} = ₹60,000$$

C's share of goodwill is to be debited to remaining partners Capital A/c in their Gaining ratio B and D = 1 : 1

$$\text{Debited by B's Share} = 60,000 \times \frac{1}{2} = ₹30,000$$

$$\text{Debited by D's Share} = 60,000 \times \frac{1}{2} = ₹30,000$$

Question 26.

A, B and C were partners in a firm sharing profits in the ratio of 6 : 5 : 4. Their capitals were A – ₹ 1,00,000; B – ₹ 80,000 and C – ₹ 60,000 respectively. On 1st April, 2009, A retired from the firm and the new profit sharing ratio between B and C was decided as 1 : 4. On A's retirement, the goodwill of the firm was valued at ₹ 1,80,000. Showing your calculations clearly, pass the necessary journal entry for the treatment of goodwill on A's retirement.

Solution:

**Journal Entry**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	C's Capital A/c To A's Capital A/c To B's Capital A/c (Being adjustment of A's and B's share of goodwill made)	Dr.	96,000	72,000 24,000

**Working Notes:**

**1. Calculation of Gaining Ratio**

A : B : C

Old Ratio = 6 : 5 : 4

B : C

New Ratio = 1 : 4

A's retires from the firm.

Gaining Ratio = New Ratio - Old Ratio

$$B's = \frac{1}{5} - \frac{5}{15} = \frac{3}{15} - \frac{5}{15} = -\frac{2}{15} \text{ (sacrifice)}$$

$$C's = \frac{4}{5} - \frac{4}{15} = \frac{12}{15} - \frac{4}{15} = \frac{8}{15} \text{ (Gain)}$$

**2. Calculation of Retiring Partner's share of Goodwill**

$$A's \text{ goodwill} = 1,80,000 \times \frac{6}{15} = ₹72,000$$

$$B's \text{ goodwill} = 1,80,000 \times \frac{2}{15} = ₹24,000$$

A's and B's share of goodwill be brought by C only.

C's Capital A/c debited = 72,000 + 24,000 = Rs.96,000.

Question 27.

X, Y and Z are partners sharing profits and losses in the ratio of 5 : 3 : 2. Z retires and on the date of his retirement, the following adjustments were agreed upon:

- (a) The value of Furniture is to be increased by ₹ 12,000.
- (b) The value of stock to be decreased by ₹ 10,000.
- (c) Machinery of the book value of ₹ 50,000 is to be depreciated by 10%.
- (d) A Provision for Doubtful Debts @ 5% is to be created on debtors of book value of ₹ 40,000.
- (e) Unrecorded Investment worth ₹ 10,000.
- (f) An item of ₹ 1,000 included in bills payable is not likely to be claimed, hence should be written back.

Pass necessary journal entries.

Solution:

**Revaluation A/c**

Dr.	Rs.	Cr.
Particulars	Particulars	Rs.
To Stock A/c	10,000	By Furniture A/c
To Machinery A/c	5,000	By Investment A/c
To Provision for D. Debts A/c	2,000	By Bills Payable A/c
To Profit transferred to:		
X's Capital A/c	3,000	
Y's Capital A/c	1,800	
Z's Capital A/c	1,200	6,000
	<b>23,000</b>	<b>23,000</b>

**Journal**

Sr. No.	Particulars	L.F.	Debit Rs.	Credit Rs.
i.	Furniture A/c To Revaluation A/c (Being increase in value transferred to Revaluation Account)	Dr.	12,000	12,000
ii.	Revaluation A/c To Stock A/c (Being decrease in stock transferred to Revaluation)	Dr.	10,000	10,000
iii.	Revaluation A/c To Machinery A/c (Being decrease in value of machinery transferred to Revaluation Account)	Dr.	5,000	5,000
iv.	Revaluation A/c To Provision for Doubtful debts A/c (Being increase in liabilities to Revaluation Account)	Dr.	2,000	2,000
v.	Investment A/c To Revaluation A/c (Being increase in value transferred to Revaluation Account)	Dr.	10,000	10,000
vi.	Bills Payable A/c To Revaluation A/c (Being decrease in liabilities transferred to Revaluation Account)	Dr.	1,000	1,000
vii.	Revaluation A/c To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Being Revaluation Profit transferred to Partners' Capital Account)	Dr.	6,000	3,000 1,800 1,200

**Question 28.**

A, B and C were partners, sharing profits and losses in the ratio of 2 : 2 : 1. B decides to retire on 31st March, 2018. On the date of his retirement, some of the assets and liabilities appeared in the books as follows:

Creditors – ₹ 70,000; Building – ₹ 1,00,000; Plant and Machinery – ₹ 40,000; Stock of Raw Material – ₹ 20,000; Stock of Finished Goods – ₹ 30,000 and Debtors – ₹ 20,000.

The following was agreed among the partners on B's retirement:

- (a) Building to be appreciated by 20%.
- (b) Plant and Machinery to be depreciated by 10%.
- (c) A Provision of 5% on Debtors to be created for Doubtful Debts.
- (d) Stock of Raw Materials to be valued at ₹ 18,000 and Finished Goods at ₹ 35,000.
- (e) An Old Computer previously written off was sold for ₹ 2,000 as scrap.

(f) Firm had to pay ₹ 5,000 to an injured employee.

Pass necessary journal entries to record the above adjustments and prepare the Revaluation Account.

Solution:

Revaluation Account			
Dr.	Rs.	Particulars	Cr.
To Plant and Machinery A/c ( $40,000 \times 10\%$ )	4,000	By Building A/c ( $1,00,000 \times 20\%$ )	20,000
To Provision for Doubtful Debts A/c	1,000	By Stock of finished Goods A/c	5,000
To Stock of Raw Material A/c	2,000	By Computer A/c	2,000
To Workmen's Compensation Claim A/c	5,000		
To Profit transferred to: A's Capital A/c B's Capital A/c C's Capital A/c	6,000 6,000 3,000	15,000	
		<b>27,000</b>	<b>27,000</b>

#### Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Building A/c Stock of Finished Good A/c Computer A/c To Revaluation A/c (Being increase in value Assets transferred to Revaluation Account)	Dr. Dr. Dr.	20,000 5,000 2,000	27,000
	Revaluation A/c To Plant and Machinery A/c To Provision for Doubtful Debts A/c To Stock of Raw Material A/c To Workmen's Companion Claim A/c (Being increase in value Assets transferred to Revaluation Account)	Dr.	12,000	4,000 1,000 2,000 5,000
	Revaluation A/c To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being Revaluation Profit transferred to Partners' Capital account)	Dr.	15,000	6,000 6,000 3,000

Question 29.

Ramesh wants to retire from the firm. The gain (profit) on revaluation on that date was ₹ 12,000. Mohan and Rahul want to share this in their new profit-sharing ratio of 3 : 2. Ramesh wants this to be shared equally. How is the profit to be shared ? Give reasons.

Solution:

Revaluation of assets and liabilities is made at the time of Ramesh's retirement and not after his retirement. Therefore, profits on revaluation will be distributed among all the partners in their old profit sharing ratio or equally in absence of partnership deed.

$$\text{Profit Share of Ramesh's} = 12,000 \times \frac{1}{3} = ₹4,000$$

$$\text{Profit Share of Mohan's} = 12,000 \times \frac{1}{3} = ₹4,000$$

$$\text{Profit Share of Rahul's} = 12,000 \times \frac{1}{3} = ₹4,000$$

**Journal**

Particulars	L.F.	Debit Rs.	Credit Rs.
Revaluation A/c	Dr.	12,000	
To Ramesh's Capital A/c			4,000
To Mohan's Capital A/c			4,000
To Rahul's Capital A/c			4,000
(Being Revaluation profit distributed among all the partners in their old ratio)			

Question 30.

X, Y and Z are partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Z retires from the firm on 31st March, 2018. On the date of Z's retirement, the following balances appeared in the books of the firm:

General Reserve – ₹ 1,80,000

Profit and Loss Account (Dr.) – ₹ 30,000

Workmen Compensation Reserve – ₹ 24,000, which was no more required

Employees Provident Fund – ₹ 20,000.

Pass necessary journal entries for the adjustment of these items on Z's retirement.

Solution:

**Journal**

<b>Particulars</b>	<b>L.F.</b>	<b>Debit Rs.</b>	<b>Credit Rs.</b>
General Reserve A/c	Dr.	1,80,000	
Workmen Compensation Reserve A/c	Dr.	24,000	
To X's Capital A/c			1,02,000
To Y's Capital A/c			68,000
To Z's Capital A/c			34,000
(Being Accumulated Profit distributed among partners in old ratio)			
X's Capital A/c	Dr.	15,000	
Y's Capital A/c	Dr.	10,000	
Z's Capital A/c	Dr.	5,000	
To Profit and Loss A/c			
(Being Debit balance in profit and Loss account distributed among partners in old ratio)			30,000

**Working Notes:**

**1. Total Credit Balance of Reserves = General Reserve + Workmen Compensation Reserve**  
 $= 1,80,000 + 24,000 = 2,04,000$

**Distribution of Reserves**

$$X's \text{ share Reserve} = 2,04,000 \times \frac{3}{6} = 1,02,000$$

$$Y's \text{ share Reserve} = 2,04,000 \times \frac{2}{6} = 68,000$$

$$Z's \text{ share Reserve} = 2,04,000 \times \frac{1}{6} = 34,000$$

**2. Distribution of Debit Balance of Profit and Loss A/c**

$$X's = 30,000 \times \frac{3}{6} = 15,000$$

$$Y's = 30,000 \times \frac{2}{6} = 10,000$$

$$Z's = 30,000 \times \frac{1}{6} = 5,000$$

**Note:** Employees' Provident fund being a liability will not be distributed.

Question 31.

Asha, Naveen and Shalini were partners in a firm sharing profits in the ratio of 5 : 3 : 2. Goodwill appeared in their books at a value of ₹ 80,000 and General Reserve at ₹ 40,000. Naveen decided to retire from the firm. On the date of his retirement, goodwill of the firm was valued at ₹ 1,20,000. The new profit ratio decided among Asha and Shalini is 2 : 3.

Record necessary journal entries on Naveen's retirement.

Solution:

**Journal**

<b>Particulars</b>	<b>L.F.</b>	<b>Debit Rs.</b>	<b>Credit Rs.</b>
Asha's Capital A/c	Dr.	40,000	
Naveen's Capital A/c	Dr.	24,000	
Shalini's Capital A/c	Dr.	16,000	
To Goodwill A/c			80,000
(Being Existing goodwill written off amongst existing partners in old ratio)			
General Reserve A/c	Dr.	40,000	
To Asha's Capital A/c		20,000	
To Naveen's Capital A/c		12,000	
To Shalini's Capital A/c		8,000	
(Being General Reserve distributed among all partners in old ratio)			
Shalini's Capital A/c	Dr.	48,000	
To Asha's Capital A/c		12,000	
To Naveen's capital A/c		36,000	
(Being Goodwill adjusted by debiting gaining partners and crediting sacrificing and retiring partner)			

**Calculation of Gaining Ratio**

Gaining Ratio = New share - Old Share

$$\text{Asha's} = \frac{2}{5} - \frac{5}{10} = \frac{4}{10} - \frac{5}{10} = \frac{-1}{10} \text{ (sacrifice)}$$

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

Thus, Both Asha and Naveen would be compensated by Shalini in the ratio of 1:3

$$\text{Asha's sacrifice for } \frac{1}{10} \text{ th} = 1,20,000 \times \frac{1}{10} = 12,000$$

$$\text{Naveen's sacrifice for } \frac{3}{10} \text{ th} = 1,20,000 \times \frac{3}{10} = 36,000$$

Question 32.

Ram, Laxman and Bharat are partners sharing profits in the ratio of 3 : 2 : 1. Goodwill is appearing in the books at a value of ₹ 1,80,000. Laxman retires and at the time of his retirement, goodwill is valued at ₹ 2,52,000. Ram and Bharat decided to share future profits in the ratio of 2 : 1. The Profit for the first year after Laxman's retirement amount to ₹ 1,20,000. Give the necessary journal entries to record goodwill and to distribute the profit. Show your calculations clearly.

Solution:

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Ram's Capital A/c Laxman's Capital A/c Bharat's Capital A/c To Goodwill A/c (Being goodwill written off)	Dr. Dr. Dr.	90,000 60,000 30,000	1,80,000
	Ram's Capital A/c Bharat's Capital A/c To Laxman's Capital A/c (Being adjustment of Laxman's share of goodwill)	Dr. Dr.	42,000 42,000	84,000
	Profit and Loss Appropriation A/c To Ram's Capital A/c To Bharat's Capital A/c (Being profit on revaluation transferred to 'Partners Capital A/c)	Dr.	1,20,000	80,000 40,000

**Working Notes :**

**1. Calculation of Gaining Ratio**

Old Ratio (Ram, Laxman and Bharat) = 3 : 2 : 1

New Ratio (Ram and Bharat) = 2 : 1

Gaining Ratio = New Ratio - Old Ratio

$$\text{Ram's} = \frac{2}{3} - \frac{3}{6} = \frac{4}{6} - \frac{3}{6} = \frac{1}{6}$$

$$\text{Bharat's} = \frac{1}{3} - \frac{1}{6} = \frac{2}{6} - \frac{1}{6} = \frac{1}{6}$$

Gaining Ratio (Ram and Bharat) = 1 : 1

**2. Calculation of Retiring Partner's share of goodwill**

$$\text{Laxman's goodwill} = 2,52,000 \times \frac{2}{6} = ₹84,000$$

Laxman's share of goodwill is to be debited to remaining partners Capital A/c in their Gaining ratio (Ram, Bharat) = 1 : 1

$$\text{Debited by Ram's Share} = 84,000 \times \frac{1}{2} = ₹42,000$$

$$\text{Debited by Bharat's Share} = 84,000 \times \frac{1}{2} = ₹42,000$$

**Question 33.**

The Partnership Deed of C and D, who are equal partners has a clause that any partner may retire from the firm on the following terms by giving a six-month notice in writing:

The retiring partner shall be paid-

- (a) the amount standing to the credit of his Capital Account and Current Account.
- (b) His share of profits to the date of retirement, calculated on the basis of the average profit of the three preceding completed years.
- (c) half the amount of the goodwill of the firm calculated at  $1\frac{1}{2}$  times the average profit of the three preceding completed years.

C gave a notice on 31st March, 2017 to retire on 30th September 2017, when the balance of his Capital Account was ₹ 6,000 and his Current Account (DR.) ₹ 500. The profits for the three preceding completed years were : year ended 31st March, 2015 – ₹ 2,800; year ended 31st March, 2016 – ₹ 2,200 and year ended 31st March, 2017 – ₹ 1,600. What amount is due to C in accordance

with the partnership agreement?

Solution:

C's Capital Account			
Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To C's Loan A/c	7,700	By Balance b/d By C's Current A/c	6,000 1,700
	7,700		7,700

C's Current Account			
Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Balance b/d	500	By Profit and Loss Suspense A/c	550
To C's Capital A/c (Balancing fig.)	1,700	By D's Current A/c	1650
	2,200		2,200

### Working Notes:

1.

Calculation of Average Profit (1st April 2017 to 30th Sep. 2017)

$$\text{Average Profit} = \frac{\text{Profit of previous 3 years}}{3}$$

$$= \frac{2,800 + 2,200 + 1,600}{3} = \frac{6,600}{3}$$

$$= ₹2,200$$

$$\text{C's Profit share (for 6 months)} = \text{Average Profit} \times \text{C's Share} \times \frac{6}{12}$$

$$= 2,200 \times \frac{1}{2} \times \frac{6}{12} = ₹550$$

2.

Calculation of Goodwill

$$\text{Goodwill} = \text{Average Profit} \times 1.5$$

$$= 2,200 \times 1.5 = ₹3,300$$

$$\text{C's Share of Goodwill} = 3,300 \times \frac{1}{2} = ₹1,650$$

Question 34.

X, Y and Z were partners in a firm sharing profits in the ratio of 2 : 2 : 1. Their Balance Sheet as at 31st March, 2018 was:

Y retired on 1st April, 2018 on the following terms:

- (a) Goodwill of the firm was valued at ₹ 70,000 and was not to appear in the books.
- (b) Bad Debts amounted to ₹ 2,000 were to be written off.
- (c) Patents were considered as valueless.

Prepare Revaluation Account, Partners Capital Accounts and the Balance Sheet of X and Z after Y's

retirement.

Solution:

Revaluation Account			
Dr.	Rs.	Particulars	Cr.
To Bad Debts A/c	2,000	By Loss Transferred to:	
To Patents A/c	9,000	X's Capital A/c	4,400
		Y's Capital A/c	4,400
		Z's Capital A/c	2,200
	<b>11,000</b>		<b>11,000</b>

Partners Capital Account							
Dr.	Particulars	X	Y	Z	Particulars	X	Cr.
To Revaluation A/c (Loss)	4,400	4,400	2,200	By Balance b/d	82,000	60,000	75,500
To Y's Capital A/c (Goodwill)	18,667		9,333	By Reserve A/c (Old Ratio)	7,400	7,400	3,700
To Y's Loan A/c		91,000		By X's Capital A/c (Goodwill)		18,667	
To Balance c/d	66,333		67,667	By Z's Capital A/c (Goodwill)		9,333	
	<b>89,400</b>	<b>95,400</b>	<b>79,200</b>			<b>89,400</b>	<b>95,400</b>
							<b>79,200</b>

**Balance Sheet**  
*as on 1<sup>st</sup> April 2018 (after Y's Retirement)*

Liabilities	Rs.	Assets	Rs.
Creditors	49,000	Cash	8,000
Y's Loan	91,000	Debtors (19,000-2,000)	17,000
Capital		Stock	42,000
X	66,333	Building	2,07,000
Z	67,667		
	1,34,000		
	<b>2,74,000</b>		<b>2,74,000</b>

**Working Note:**

1.

**Journal**

Particulars	L.F.	Debit Rs.	Credit Rs.
X's Capital A/c	Dr.	18,667	
Z's Capital A/c	Dr.	9,333	
To Y's Capital A/c (Being adjustment of goodwill made on Y's retirement)			28,000

**Adjustment of Goodwill**

Goodwill of the firm = ₹70,000

Y's retired in the firm.

$$Y's\ Goodwill = 70,000 \times \frac{2}{5} = ₹28,000$$

Y's share of goodwill is to be distributed by X and Z = 2:1 (Gaining Ratio)

$$X's\ Share\ of\ Goodwill = 28,000 \times \frac{2}{3} = ₹18,667$$

$$Z's\ Share\ of\ Goodwill = 28,000 \times \frac{1}{3} = ₹9,333$$

**Question 35.**

Kanika, Disha and Kabir were partners sharing profits in the ratio of 2 : 1 : 1. On 31st March, 2016, their Balance Sheet was as under:

Liabilities	₹	Assets	₹
Trade creditors	53,000	Bank	60,000
Employees' Provident Fund	47,000	Debtors	60,000
Kanika's capital	2,00,000	Stock	1,00,000
Disha's capital	1,00,000	Fixed assets	2,40,000
Kabir's capital	80,000	Profit and Loss A/c	20,000
	4,80,000		
			4,80,000

Kanika retired on 1st April, 2016. For this purpose, the following adjustments were agreed upon:

(a) Goodwill of the firm was valued at 2 years purchase of average profits of three completed years preceding the date of retirement. The profits for the year:

2013-14 were ₹ 1,00,000 and for 2014-15 were ₹ 1,30,000.

(b) Fixed Assets were to be increased to ₹ 3,00,000.

(c) Stock was to be valued at 120%.

(d) The amount payable to Kanika was transferred to her Loan Account.

Prepare Revaluation Account, Capital Accounts of the partners and the Balance Sheet of the reconstituted firm.

Solution:

#### Revaluation Account

Dr.		Rs.		Cr.
Particulars		Particulars		
Revaluation Profit			Fixed Assets	60,000
Kanika's Capital	40,000		Stock	20,000
Disha's Capital	20,000			
Kabir's Capital	20,000	80,000		
		80,000		
				80,000

#### Partners' Capital Account

Dr.				Cr.
Particulars		Particulars		
Profit and Loss A/c	10,000	5,000	5,000	Balance b/d
Kanika's Capital A/c	35,000	35,000	Disha's Capital A/c	2,00,000
Kanika's Loan A/c	3,00,000	80,000	Kabir's Capital A/c	1,00,000
Balance c/d	3,10,000	1,20,000	Revaluation	80,000
		1,00,000		40,000
	3,10,000	1,20,000		20,000
				20,000
				1,00,000

#### Balance Sheet as on March 31, 2016

Liabilities	Rs.	Assets	Rs.
Employees' Provident Fund	47,000	Bank	60,000
Trade Creditors	53,000	Sundry Debtors	60,000
Kanika's Loan A/c	3,00,000	Stock	1,20,000
Capitals		Fixed Assets	3,00,000
Disha	80,000		
Kabir	60,000		
	5,40,000		
			5,40,000

#### Working Notes:

##### WN1: Calculation of Goodwill

Goodwill = Average Profits × Number of Years' Purchase

$$\text{Average Profits} = \frac{\text{Total Profits}}{\text{Number of Years}}$$

$$= \frac{1,00,000 + 1,30,000 - 20,000}{3}$$

$$= \frac{2,10,000}{3} = \text{Rs } 70,000$$

$$\text{Goodwill} = 70,000 \times 2 = \text{Rs } 1,40,000$$

$$\text{Kanika's share} = 1,40,000 \times \frac{2}{4} = 70,000 (\text{to be borne by gaining partners in gaining ratio})$$

Note: Since no information is given about the share of gain, it is assumed that the old partners are gaining in their old profit sharing ratio.

Question 36.

The Balance Sheet of X, Y and Z who were sharing profits in proportion to their capitals stood as follows at 31st March, 2018:

<b>Liabilities</b>	<b>Amount ₹</b>	<b>Assets</b>	<b>Amount ₹</b>
Sundry Creditors	13,800	Cash at Bank	11,000
Capital A/cs: X 45,000		Sundry Debtors 10,000	25,000
Y 30,000		Less: Provision for D. Debts 200	9,800
Z 15,000	90,000	Stock	16,000
		Plant and Machinery	17,000
		Land and Building	50,000
	<b>1,03,800</b>		<b>1,03,800</b>

Y retires on 1st April, 2018 and the following readjustments were agreed upon:

- (a) Out of insurance premium which was debited to the Profit and Loss Account ₹ 1,500 be carried forward as Unexpired Insurance.
- (b) The Provision for Doubtful Debts be brought up to 5% of Debtors.
- (c) The Land and Building be appreciated by 20%.
- (d) A provision of ₹ 4,000 be made in respect of outstanding bills for repairs.
- (e) The goodwill of the entire firm be fixed at ₹ 21,600.

Y's share of goodwill will be adjusted to that of X and Z who are going to share in future profits in the ratio of 3 : 1.

Pass necessary journal entries and give the Balance Sheet after Y's retirement.

Solution:

**Journal**

Particulars	L.F.	Debit Rs.	Credit Rs.
Revaluation A/c To Provision for Doubtful Debts A/c To Provision for Outstanding Repairs Bills A/c (Being Provision transferred to Revaluation Account)	Dr.	4,300	300 4,000
Prepaid Insurance A/c Land and Building A/c To Revaluation A/c (Being Increase in value of Assets transferred to Revaluation Account)	Dr. Dr.	1,500 10,000	11,500
Revaluation A/c To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Being Revaluation Profit distributed among X, Y and Z in their old Ratio)	Dr.	7,200	3,600 2,400 1,200
X's Capital A/c Z's Capital A/c To Y's Capital A/c (Being Y's Share of Goodwill adjusted)	Dr. Dr.	5,400 1,800	7,200
Y's Capital A/c To Y's loan A/c (Being Y's Capital balance after all adjustment transferred to his Loan Account)	Dr.	39,600	39,600

**Balance Sheet**

*as on 1<sup>st</sup> April 2018 (after Y's Retirement)*

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	13,800	Cash at Bank	11,000
Provision for Outstanding Repair Bills	4,000	Sundry Debtors	10,000
Y's Loan	39,600	<b>Less:</b> Provision for Doubtful Debts	(500)
Capital		Stock	9,500
X	43,200	Prepaid Insurance	16,000
Z	14,400	Plant and Machinery	1,500
	<b>57,600</b>	Land and Building	17,000
	<b>1,15,000</b>		<b>60,000</b>
			<b>1,15,000</b>

### Working Notes:

1.

#### Revaluation Account

Dr.	Rs.	Cr.
Particulars	Particulars	Rs.
To Provision for Doubtful debts A/c	300	By Prepaid Insurance A/c
To Provision for Outstanding Repairs Bills A/c	4,000	By Land And Building A/c (50,000 × 20%)
To Profit transferred to: X's capital A/c	3,600	
X's capital A/c	2,400	
Y's capital A/c	1,200	
	<b>7,200</b>	
	<b>11,500</b>	<b>11,500</b>

**Provision for Doubtful debts** = New Doubtful debts - Old Doubtful debts

$$\text{Provision for Doubtful debts} = 500 - 300 = 200$$

2.

#### Partners Capital Account

Dr.	Particulars	X	Y	Z	Particulars	X	Y	Z	Cr.
	To Y's Capital A/c	5,400		1,800	By Balance b/d	45,000	30,000	15,000	
	To Y's Loan A/c		39,600		By Revaluation A/c	3,600	2,400	1,200	
	To Balance c/d	43,200		14,400	By X's Capital A/c	5,400			
		<b>48,600</b>	<b>39,600</b>	<b>16,200</b>	By Z's Capital A/c	1,800			
		<b>48,600</b>	<b>39,600</b>	<b>16,200</b>					<b>16,200</b>

### 3. Calculation of Ratio

$$\text{Capital Ratio} = \frac{X}{45,000} : \frac{Y}{30,000} : \frac{Z}{15,000}$$

$$\text{Capital Ratio (X, Y and Z)} = 45,000 : 30,000 : 15,000 = 3 : 2 : 1$$

Y's retired in the firm.

$$X : Z = 3 : 1 \text{ (New Ratio)}$$

Gaining Ratio = New Ratio - Old Ratio

$$X's = \frac{3}{4} - \frac{3}{6} = \frac{9-6}{12} = \frac{3}{12}$$

$$Y's = \frac{1}{4} - \frac{1}{6} = \frac{3-2}{12} = \frac{1}{12}$$

$$\therefore \text{Gaining profit Ratio} = 3:1$$

### 4. Adjustment of Goodwill

Goodwill on the firm = 21,600

$$Y's \text{ Share of Goodwill} = 21,600 \times \frac{2}{6} = ₹7,200$$

Y's share of goodwill is to be distributed between X and Z in their gaining ratio 3 : 1.

$$X's = 7,200 \times \frac{3}{4} = ₹5,400$$

$$Y's = 7,200 \times \frac{1}{4} = ₹1,800$$

Question 37.

N, S and G were partners in a firm sharing profits and losses in the ratio of 2 : 3 : 5. On 31st March, 2016 their Balance Sheet was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	1,65,000	Cash	1,20,000
General Reserve	90,000	Debtors	1,35,000
Capitals :		Less: Provision	15,000
N 2,25,000			1,20,000
S 3,75,000		Stock	1,50,000
G 4,50,000	10,50,000	Machinery	4,50,000
	13,05,000	Patents	90,000
		Building	3,00,000
		Profit and Loss Account	75,000
			13,05,000

G retired on the above date and it was agreed that:

- (a) Debtors of ₹ 6,000 will be written off as bad debts and a provision of 5% on debtors for bad and doubtful debts will be maintained.
- (b) Patents will be completely written off and stock, machinery and building will be depreciated by 5%.
- (c) An unrecorded creditor of ₹ 30,000 will be taken into account.
- (d) N and S will share the future profits in 2 : 3 ratio.
- (e) Goodwill of the firm on G's retirement was valued at ₹ 90,000.

Pass necessary journal entries for the above transactions in the books of the firm on G's retirement.

Solution:

Journal		L.F.	Debit Rs.	Credit Rs.
Date	Particulars			
	General Reserve A/c To N's Capital A/c To S's Capital A/c To G's Capital A/c (Balance in reserve distributed among all partners in old ratio)	Dr.	90,000    	18,000 27,000 45,000
	N's Capital A/c S's Capital A/c G's Capital A/c To Profit and Loss A/c (Debit balance PandL A/c written off among all partners in old ratio)	Dr. Dr. Dr.	15,000 22,500 37,500	75,000
	N's Capital A/c S's Capital A/c To G's Capital A/c (Goodwill adjusted in gaining ratio)	Dr. Dr.	18,000 27,000	45,000
	Revaluation A/c To Patent A/c To Stock A/c To Machinery A/c To Building A/c To Creditors A/c (Decrease in assets and increase in liabilities debited to Revaluation A/c)	Dr.	1,65,000      	90,000 7,500 22,500 15,000 30,000
	Provision for Doubtful Debts A/c To Revaluation A/c (Excess provision written back)	Dr.	2,550	2,550
	N's Capital A/c S's Capital A/c G's Capital A/c To Revaluation A/c (Loss on revaluation debited to partners' capital accounts in old ratio)	Dr. Dr. Dr.	32,490 48,735 81,225	1,62,450
	G's Capital A/c To G's Loan A/c (Amount due to G transferred to his loan A/c)	Dr.	4,21,275	4,21,275

### *Working Notes:*

#### WN1: Calculation of G's Share of Goodwill

G's share = Firm's Goodwill x G's Profit Share

$$G's\ share = 90,000 \times \frac{5}{10} = 45,000 (\text{to be borne by gaining partners in gaining ratio})$$

### **WN2: Calculation of Gaining Ratio**

Gaining Ratio = New Ratio - Old Ratio

$$N's\ gain = \frac{2}{5} - \frac{2}{10} = \frac{2}{10}$$

$$S's\ gain = \frac{3}{5} - \frac{3}{10} = \frac{3}{10}$$

Gaining Ratio = 2:3

$$N's \text{ share} = 45,000 \times \frac{2}{5} = 18,000$$

$$S's\ share = 45,000 \times \frac{3}{5} = 27,000$$

## *WN2: Calculation of Excess/Deficit Provision for Doubtful Debts*

$$\text{Required Provision (@5\%)} = (1,35,000 - 6,000) \times \frac{5}{100} = 6,450$$

Existing Provision (after writing bad-debts) = 9,000

Excess Provision (to be written back) = 2,550 (9,000 - 6,450)

### **WN3: Calculation of G's Loan Balance**

Amount due to G = Opening Capital + Credits - Debits

$$= 4,50,000 + (45,000 + 45,000) - (37,500 + 81,225) = \text{Rs.} 4,21,275$$

### Question 38.

A, B and C are partners in a firm, sharing profits and losses as A 1/3, B 1/2 and C 1/6 respectively.

The Balance Sheet of the firm as at 31st March, 2018 was:

Liabilities	₹	Assets	₹
Capital A/cs:			
A	30,000	Factory Building	50,000
B	40,000	Plant ad Machinery	40,000
C	25,000	Furniture	10,000
	<u>95,000</u>	Stock	25,000
General Reserve	16,000	Debtors	18,000
Sundry Creditors	25,000	<i>Less: Prov. for Doubtful Debts</i>	500
		Cash in Hand	17,000
	<u>1,51,000</u>		8,500
			<u>1,51,000</u>

C retires on 1st April, 2018 subject to the following adjustments:

- (a) Goodwill of the firm be valued at ₹ 24,000. C's share of goodwill be adjusted into the account of A and B who are going to share in future in the ratio of 3 : 2.

(b) Plant and Machinery to be depreciated by 10% and Furniture by 5%.

(c) Stock to be appreciated by 15% and Factory Building by 10%.

(d) Provision for Doubtful Debts to be raised to ₹ 2,000.

You are required to pass journal entries to record the above transactions in the books of the firm and show the Profit and Loss Adjustment Account, Capital Account of C and the Balance Sheet of the firm after C's retirement.

Solution:

Journal

Particulars	L.F.	Debit Rs.	Credit Rs.
Profit and Loss Adjustment A/c To Plant and machinery A/c To Provision for Doubtful Debts A/c To Furniture A/c (Being decrease in value of Assets and provision for doubtful debts transferred to profit and Loss adjustment Account)	Dr.	6,000	4,000 1,500 500
Stock A/c Factory Building A/c To Profit and Loss Adjustment A/c (Being increases in value of Assets transferred to Profit and Loss Adjustment Account)	Dr. Dr.	3,750 5,000	8,750
Profit and Loss Adjustment A/c To A's Capital A/c To B's Capital A/c To C's Capital A/c ( Being profit distributed among A, B and C in their old ratio)	Dr.	2,750	917 1,375 458
A's Capital A/c To B's Capital A/c To C's Capital A/c (Being C's Share of goodwill and B's gain in goodwill adjustment)	Dr.	6,400	2,400 4,000
C's Capital A/c To C's Loan A/c (Being loan from bank)	Dr.	32,125	32,125
Reserve Fund A/c To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being Reserve Fund distributed among partners in their old ratio)	Dr.	16,000	5,333 8,000 2,667

## **Profit and Loss Adjustment Account**

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Plant and machinery A/c ( $40,000 \times 10\%$ )	4,000	By Stock A/c ( $25,000 \times 15\%$ )	3,750
To Furniture A/c ( $10,000 \times 5\%$ )	500	By Factory building A/c ( $50,000 \times 10\%$ )	5,000
To Provision for Doubtful Debts A/c (2,000-500)	1,500		
To Profit transferred to:			
A's Capital A/c	917		
B's Capital A/c	1,375		
C's Capital A/c	458	2,750	
		<b>8,750</b>	<b>8,750</b>

**Partners Capital Account**

Dr.	Cr.						
Particulars	A	B	C	Particulars	A	B	C
To B's Capital A/c (Goodwill)	2,400			By Balance b/d	30,000	40,000	25,000
To C's Capital A/c (Goodwill)	4,000			By Reserve fund A/c	5,333	8,000	2,667
To C's Loan A/c			32,125	By Revaluation A/c (Profit)	917	1,375	458
To Balance c/d	29,850	51,775		By A's Capital A/c (goodwill)		2,400	4,000
	<b>36,250</b>	<b>51,775</b>	<b>32,125</b>		<b>36,250</b>	<b>51,775</b>	<b>32,125</b>

**Balance Sheet**  
*as on 1<sup>st</sup> April 2018 (after C's Retirement)*

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	25,000	Factory Building	55,000
Loan Payable	15,000	Plant and Machinery	36,000
C's Loan	32,125	Furniture	9,500
Capital		Stock	28,750
A	29,850	Debtors	18,000
B	<u>51,775</u>	<b>Less:</b> Provision for Doubtful Debts	<u>(2,000)</u>
	81,625	Cash in Hand	16,000
	<b>1,53,750</b>		<b>8,500</b>
			<b>1,53,750</b>

**Working Notes:**

**1. Calculation of Gaining Ratio**

A    B    C

$$\text{Old Ratio } \frac{1}{3} : \frac{1}{2} : \frac{1}{6} = 2:3:1$$

C's retired on the firm.

A : B = 3 : 2 (New Ratio)

Gaining Ratio = New Ratio - Old Ratio

$$A's = \frac{3}{5} - \frac{2}{6} = \frac{18}{30} - \frac{10}{30} = \frac{8}{30} (\text{Gain})$$

$$B's = \frac{2}{5} - \frac{3}{6} = \frac{12}{30} - \frac{15}{30} = \frac{-3}{30} (\text{Sacrifice})$$

**2.**

Adjustment of Goodwill

Goodwill on the firm = ₹24,000

$$C's \text{ Share of Goodwill} = 24,000 \times \frac{1}{6} = ₹4,000$$

$$A's \text{ Share} = 24,000 \times \frac{8}{30} (\text{Gain}) = ₹6,400$$

$$B's \text{ Share} = 24,000 \times \frac{3}{30} (\text{Sacrifice}) = ₹2,400$$

Partners Capital Account							
Dr.							Cr.
Particulars	A	B	C	Particulars	A	B	C
To C's Capital A/c (Goodwill)	1,600	2,400		Balance b/d	30,000	40,000	25,000
To B's Loan A/c			32,125	By Reserve Fund	5,333	8,000	2,667
To Balance c/d	34,650	46,975		By Revaluation A/c (Profit)	917	1,375	458
				By A's Capital A/c (Goodwill)			4,000
	<b>36,250</b>	<b>49,375</b>	<b>32,125</b>		<b>36,250</b>	<b>49,375</b>	<b>32,125</b>

### 3. Calculation of Gaining Ratio

$$A:B:C = \frac{1}{3} : \frac{1}{2} : \frac{1}{6} = 2:3:1 \text{ (Old Ratio)}$$

C retired from the firm.

$$A : B = 2 : 3 \text{ (New Ratio)}$$

Gaining Ratio = New Ratio - Old Ratio

$$A' s = \frac{2}{5} - \frac{2}{6} = \frac{12}{30} - \frac{10}{30} = \frac{2}{30}$$

$$B' s = \frac{3}{5} - \frac{3}{6} = \frac{18}{30} - \frac{15}{30} = \frac{3}{30}$$

$$\text{Ganing Ratio} = 2:3$$

### 4.

Adjustment of Goodwill

Goodwill of the firm = ₹24,000

$$C' s \text{ of Goodwill} = 24,000 \times \frac{1}{6} = ₹4,000$$

C's share of goodwill is to be distributed between A and B in 2:3

$$A' s \text{ Goodwill} = 4,000 \times \frac{2}{5} = ₹1,600 \text{ (Sacrifice)}$$

$$B' s \text{ Goodwill} = 4,000 \times \frac{3}{5} = ₹2,400 \text{ (Sacrifice)}$$

Question 39.

X, Y and Z were in partnership sharing profits and losses in the proportions of 3 : 2 : 1. On 1st April, 2018 Y retires from the firm. On that date, their Balance Sheet was:

Liabilities	₹	Assets	₹
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
Reserve Fund	13,500	Stock	12,000
Capital A/cs: X	15,000	Factory Premises	22,500
Y	15,000	Machinery	8,000
Z	15,000	Loose Tools	4,000
	45,000		
	70,500		70,500

The terms were:

- (a) Goodwill of the firm was valued at ₹ 13,500 and adjustment in this respect was to be made in the continuing Partners Capital Accounts without raising Goodwill Account.
- (b) Expenses Owing to be brought down to ₹ 3,750.
- (c) Machinery and Loose Tools are to be valued @ 10% less than their book value.
- (d) Factory Premises are to be revalued at ₹ 24,300.

Show Revaluation Account, Partners Capital Accounts and prepare the Balance Sheet of the firm after the retirement of Y.

Solution:

#### Revaluation Account

Dr.			Cr.	
Particulars		Rs.	Particulars	Rs.
To Machinery A/c (8,000×10%)		800	By Expenses Owing A/c (4,500-3,750)	750
To Loose Tools A/c (4,000× 10%)		400	By Factory Premises A/c (24,300-22,500)	1,800
To Profit transferred to:				
X's Capital A/c	675			
Y's Capital A/c	450			
Z's Capital A/c	225	1,350		
		2,550		2,550

#### Partners Capital Account

Dr.					Cr.			
Particulars		X	Y	Z	Particulars	X	Y	Z
To Y's Capital A/c (Goodwill)	3,375		24,450	1,125	By Balance b/d	15,000	15,000	15,000
To Y's Loan A/c					By Reserve Fund A/c	6,750	4,500	2,250
To balance c/d	19,050			16,350	By Revaluation A/c	675	450	225
					By X's Capital A/c (Goodwill)		3,375	
					By Z's Capital A/c (Goodwill)		1,125	
	22,425	24,450		17,475		22,425	24,450	17,475

**Balance Sheet**  
**As on 1<sup>st</sup> April 2018 (after Y's Retirement)**

Liabilities	Rs.	Assets	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
Y's Loan	24,450	Stock	12,000
Capital		Factory Premises	24,300
X	19,050	Machinery (8,000-800)	7,200
Z	16,350	Loose tools (4,000-400)	3,600
	<b>35,400</b>		
	<b>71,100</b>		

**Working Notes:**

**1. Calculation of Gaining Ratio**

X : Y : Z = 3 : 2 : 1 (Old Ratio)

Y's retires from the firm.

∴ Gaining Ratio (X and Z) = 3 : 1

**2. Adjustment of Goodwill**

Goodwill of the firm = ₹13,500

$$Y's \text{ Goodwill} = 13,500 \times \frac{2}{6} = ₹4,500$$

$$X's = 4,500 \times \frac{3}{4} = ₹3,375$$

$$Z's = 4,500 \times \frac{1}{4} = ₹1,125$$

Question 40.

Pankaj, Naresh and Saurabh are partners sharing profits in the ratio of 3 : 2 : 1. On 31st March, 2018, Naresh retired from the firm due to his illness. On that date, Balance Sheet of the firm was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
General Reserve	12,000	Bank	7,600
Sundry Creditors	15,000	Debtors	6,000
Bills Payable	12,000	Less: Provision for D. Debts	400
Outstanding Salary	2,200	Stock	9,000
Provision for Legal Damages	6,000	Furniture	41,000
Capital A/cs:		Premises	80,000
Pankaj	46,000		
Naresh	30,000		
Saurabh	20,000		
	96,000		
	<b>1,43,200</b>		
			<b>1,43,200</b>

Additional Information:

(a) 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 ₹ 1,200 and furniture to be brought up to ₹ 45,000.

(b) Goodwill of the firm be valued at ₹ 42,000.

(c) ₹ 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.

(d) 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.

Solution:

#### Revaluation Account

Dr.	Particulars	Rs.	Particulars	Cr.
	Stock	900	Premises	16,000
	Provision for Legal Damages	1,200	Provision for Doubtful Debts	100
	Revaluation Profit		Furniture	4,000
	Pankaj's Capital A/c	9,000		
	Naresh's Capital A/c	6,000		
	Saurabh's Capital A/c	3,000		
		18,000		
		20,100		20,100

#### Partners' Capital Accounts

Dr.	Particulars	Pankaj	Naresh	Saurabh	Cr.
	Naresh's Capital A/c	14,000			
	Naresh's Loan A/c		26,000		
	Bank		28,000		
	Balance c/d	47,000		25,000	
		61,000	54,000	25,000	

#### Bank Account

Dr.	Particulars	Rs.	Particulars	Cr.
	Balance b/d	7,600		
	Bank Loan ( <i>Balancing Figure</i> )	20,400		
		28,000		

#### Balance Sheet as on March 31, 2018

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	15,000	Debtors	6,000
Bills Payable	12,000	<i>Less: Provision for Doubtful Debts</i>	300
Bank Loan	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	72,000	
	1,54,800		1,54,800

Question 41.

X, Y and Z are partners sharing profits in the ratio of 4 : 3 : 2. Their Balance Sheet as at 31st March, 2018 stood as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	24,140	Cash at Bank	3,300
Capital A/cs:		Sundry Debtors	3,045
X 12,000		Less: Provision for D. Debts 105	2,940
Y 9,000		Stock	4,800
Z 6,000	27,000	Plant and Machinery	5,100
		Land and Building	15,000
		Y's Loan	20,000
	51,140		51,140

Y having given notice to retire from the firm, the following adjustments in the books of the firm were agreed upon:

- (a) That the Land and Building be appreciated by 10%.
- (b) That the Provision for Doubtful Debts is no longer necessary since all the debtors are considered good.
- (c) That the stock be appreciated by 20%.
- (d) That the adjustment be made in the accounts to rectify a mistake previously committed whereby Y was credited in excess by ₹ 810, while X and Z were debited in excess of ₹ 420 and ₹ 390 respectively.
- (e) Goodwill of the firm be fixed at ₹ 5,400 and Y's share of the same be adjusted to that of X and Z who were going to share in the ratio of 2 : 1.
- (f) It was decided by X and Y to settle Y's account immediately on his retirement.

You are required to show:

- (i) Revaluation Account
- (ii) Partner's Capital Accounts and
- (iii) Balance Sheet of the firm after Y's retirement.

Solution:

#### Revaluation Account

Dr.			Cr.	
	Particulars	Rs.	Particulars	Rs.
To Profit transferred to:				
X's Capital A/c	1,140		By Land and building A/c ( $15,000 \times 10\%$ )	1,500
Y's Capital A/c	855		By Provision for Doubtful Debts A/c	105
Z's Capital A/c	570	2,565	By Stock A/c ( $4,800 \times 20\%$ )	960
		2,565		2,565

#### Partners Capital Account

Dr.				Cr.
	X	Y	Z	
To Y's Capital A/c	1,200		600	By Balance b/d
To X's Capital A/c (Rectification)		420		By Revaluation A/c (profit)
To Z's Capital A/c (Rectification)		390		By X's Capital A/c (Goodwill)
To Y's Loan A/c		10,845		By Z's Capital A/c (Goodwill)
To Balance c/d	12,360		6,360	By Z's Capital A/c (Rectification)
	13,560	11,655	6,960	420
				390
				13,560
				11,655
				6,960

**Balance Sheet**  
**As on 1<sup>st</sup> April 2018 (after Y's Retirement)**

Liabilities	Rs.	Assets	Rs.
Creditors	24,140	Cash at Bank	3,300
Capital		Sundry Debtors	3,045
Y	12,360	Stock (4,800 +960)	5,760
Z	6,360	Plant and Machinery	5,100
		Land and Building (15,000 +1,500)	16,500
		Y's Loan*	9,155
			<b>42,860</b>

\*Y's Loan Settle = 20,000 - 10,845 = 9,155

**Working Note:**

**Adjustment of Goodwill**

X : Y : Z = 4 : 3 : 2 (Old Ratio)

Y retires from the firm.

∴ Gaining Ratio = 4 : 2 = 2 : 1

Goodwill of the firm = Rs. 5,400

$$\text{Y's Goodwill} = 5,400 \times \frac{3}{9} = ₹1,800$$

$$X's = 1,800 \times \frac{2}{3} = ₹1,200$$

$$Z's = 1,800 \times \frac{1}{3} = ₹600$$

Y's share of goodwill is to be distributed between X and Z in their = 2 : 1 (Gaining Ratio)

Question 42.

A, B and C are partners sharing profits and losses in the ratio of 4 : 3 : 3 respectively. Their Balance Sheet as at 31st March, 2018 is:

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	7,000	Land and Building	36,000
Bills Payable	3,000	Plant and Machinery	28,000
Reserves	20,000	Electronic Typewriter	8,000
		Stock	20,000
Capital A/cs:			
A 32,000		Sundry Debtors	14,000
B 24,000		Less: Provision for D. Debts	2,000
C 20,000	76,000	Bank	12,000
			2,000
			<b>1,06,000</b>
			<b>1,06,000</b>

On 1st April, 2018, B retires from the firm on the following terms:

- (a) Goodwill of the firm is to be valued at ₹ 14,000.
- (b) Stock, Land and Building are to be appreciated by 10%.
- (c) Plant and Machinery and Electronic Typewriter are to be depreciated by 10%.

- (d) Sundry Debtors are considered to be good.  
 (e) There is a liability of ₹ 2,000 for the payment of outstanding salary to the employee of the firm. This liability has not been shown in the above Balance Sheet but the same is to be recorded now.  
 (f) Amount payable to B is to be transferred to his Loan Account.
- Prepare Revaluation Account, Partners Capital Accounts and the Balance Sheet of A and C after B's retirement.

Solution:

**Revaluation Account**

Dr.	Rs.	Cr.
Particulars	Particulars	Rs.
To Plant and Machinery A/c ( $28,000 \times 10\%$ )	2,800	By Stock A/c ( $20,000 \times 10\%$ )
To Electronic Typewriter A/c ( $8,000 \times 10\%$ )	800	By Land and Building A/c ( $36,000 \times 10\%$ )
To Outstanding Salary A/c	2,000	By Provision for Doubtful Debts A/c
To Profit transferred to:		
A's Capital A/c	800	
B's Capital A/c	600	
C's Capital A/c	600	2,000
	<hr/>	<hr/>
	<b>7,600</b>	<b>7,600</b>

**Partners Capital Account**

Dr.	A	B	C	Cr.
Particulars	Particulars	A	B	C
To B's Capital A/c	2,400		1,800	By Balance b/d
To B's Loan A/c		34,800		32,000
To Balance c/d	38,400		24,800	24,000
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>40,800</b>	<b>34,800</b>	<b>26,600</b>	<b>20,000</b>
				By Reserves A/c
				8,000
				6,000
				By Revaluation A/c
				800
				600
				By A's Capital A/c
				2,400
				By C's Capital A/c
				1,800
				<hr/>
				<b>40,800</b>
				<b>34,800</b>
				<b>26,600</b>

**Balance Sheet**  
**as on 1<sup>st</sup> April 2018 (after B's retirement)**

<b>Liabilities</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
Creditors	7,000	Land and Building (36,000+3,600)	39,600
Bills Payable	3,000	Plant and Machinery (28,000-2,800)	25,200
B's Loan	34,800	Electronic Typewriter (8000-800)	7,200
Capital		Stock (20,000+2,000)	22,000
A	38,400	Sundry Debtors	14,000
C	24,800	Bank	2000
Outstanding Salary	2,000		
	<b>1,10,000</b>		
			<b>1,10,000</b>

**Working Note:**

**Adjustment of Goodwill**

A : B : C = 4 : 3 : 3 (Old Ratio)

As B has retired from the firm, so the Gaining Ratio between A and C is 4 : 3

Goodwill of the firm = Rs.14,000

$$\text{B's of Goodwill} = 14,000 \times \frac{3}{10} = ₹4,200$$

B's share of goodwill is to be distributed between A and C in their Gaining Ratio.

$$A's = 4,200 \times \frac{4}{7} = ₹2,400$$

$$C's = 4,200 \times \frac{3}{7} = ₹1,800$$

Question 43.

Following is the Balance Sheet of X, Y and Z as at 31st March, 2018. They shared profits in the ratio of 3 : 3 : 2.

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	2,50,000	Cash at Bank	50,000
General Reserve	80,000	Bills Receivable	60,000
Partners' Loan A/cs:		Debtors	80,000
X	50,000	Less: Provision for D. Debts	4,000
Y	40,000	Stock	1,24,000
Capital A/cs:		Fixed Assets	3,00,000
X 1,00,000		Advertisements Suspense A/c	16,000
Y 60,000		Profit and Los A/c	4,000
Z 50,000	2,10,000		
	<b>6,30,000</b>		<b>6,30,000</b>

On 1st April, 2018, Y decided to retire from the firm on the following terms:

- (a) Stock to be depreciated by ₹ 12,000.
- (b) Advertisements Suspense Account to be written off.
- (c) Provision for Doubtful Debts to be increased to ₹ 6,000.
- (d) Fixed Assets be appreciated by 10%.
- (e) Goodwill of the firm, valued at ₹ 80,000 and the amount due to the retiring partners to be adjusted in X's and Z's Capital Accounts.

Prepare Revaluation Account, Partners Capital Accounts and the Balance Sheet to give effect to the above.

Solution:

#### Revaluation Account

Dr.	Particulars	Rs.	Particulars	Rs.
To Stock A/c		12,000	By Fixed Assets A/c ( $3,00,000 \times 10\%$ )	30,000
To Provision for Doubtful Debts A/c (6,000-4,000)		2,000		
To Profit transferred to:				
X's Capital A/c	6,000			
Y's Capital A/c	6,000			
Z's Capital A/c	4,000	16,000		
		<b>30,000</b>		<b>30,000</b>

**Partners Capital Account**

Dr.				Cr.			
Particulars	X	Y	Z	Particulars	X	Y	Z
To Profit and Loss A/c	1,500	1,500	1,000	By Balance b/d	1,00,000	60,000	50,000
To Advertise Suspense A/c	6,000	6,000	4,000	By General Reserve	30,000	30,000	20,000
To Y's Capital A/c	18,000		12,000	By Revaluation A/c	6,000	6,000	4,000
To Y's Loan A/c		1,18,500		By X's Capital A/c		18,000	
To Balance c/d	1,10,500		57,000	By Z's Capital A/c		12,000	
	<b>1,36,000</b>	<b>1,26,000</b>	<b>74,000</b>		<b>1,36,000</b>	<b>1,26,000</b>	<b>74,000</b>

**Balance Sheet**  
*as on 1<sup>st</sup> April 2018 (after Y's Retirement)*

Liabilities	Rs.	Assets	Rs.
Sundry creditors	2,50,000	Cash at Bank	50,000
X's Loan	50,000	Bills Receivable	60,000
Y's Loan	1,58,500	Debtors	80,000
Y's Capital		Less: Provision for D. Debts	(6,000) 74,000
X	1,10,500	Stock (1,24,000-12,000)	1,12,000
Z	57,000	Fixed Assets (3,00,000+30,000)	3,30,000
	<b>6,26,000</b>		<b>6,26,000</b>

**Y's Loan Account**

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Balance c/d	1,58,500	By Balance b/d	40,000
	<b>1,58,500</b>	By Y's Capital A/c	1,18,500
			<b>1,58,500</b>

**Working Note:**

**1. Adjustment of Goodwill**

Old Ratio (X, Y and Z) = 3 : 3 : 2

Y's retired from the firm.

Gaining Ratio (X and Z) = 3 : 2

$$\text{Y's Share of Goodwill} = 80,000 \times \frac{3}{8} = \text{Rs.}30,000$$

Y's share of goodwill is to be distributed between X and Z in their = 3 : 2 (Gaining Ratio)

$$X's = 30,000 \times \frac{3}{5} = \text{Rs.}18,000$$

$$Z's = 30,000 \times \frac{2}{5} = \text{Rs.}12,000$$

**2. Distribution of General Reserve (Old Ratio)**

$$X's = 80,000 \times \frac{3}{8} = \text{Rs.}30,000$$

$$Y's = 80,000 \times \frac{3}{8} = \text{Rs.}30,000$$

$$Z's = 80,000 \times \frac{2}{8} = \text{Rs.}20,000$$

### 3. Writing-off Advisement Suspense (Old Ratio)

$$X's = 16,000 \times \frac{3}{8} = \text{Rs.}6,000$$

$$Y's = 16,000 \times \frac{3}{8} = \text{Rs.}6,000$$

$$Z's = 16,000 \times \frac{2}{8} = \text{Rs.}4,000$$

### 4. Writing-off Profit and Loss (Loss) in Old Ratio

$$X's = 4,000 \times \frac{3}{8} = \text{Rs.}1,500$$

$$Y's = 4,000 \times \frac{3}{8} = \text{Rs.}1,500$$

$$Z's = 4,000 \times \frac{2}{8} = \text{Rs.}1,000$$

Question 44.

X, Y and Z are partners sharing profits and losses in the ratio of 3 : 2 : 1. The Balance Sheet of the firm as at 31st March, 2018 stood as follows:

Liabilities	Amount (₹)
Creditors	21,000
Workmen's Compensation Reserve	12,000
Investments Fluctuation Reserve	6,000
Capital A/cs:	
X	68,000
Y	32,000
Z	21,000
	1,21,000
	1,60,000

Assets	Amount (₹)
Cash at Bank	5,750
Debtors	40,000
Less: Provision for D. Debts	2,000
Stock	30,000
Investments ( Market Value ₹ 17,600)	15,000
Patents	80,000
Machinery	50,000
Advertisement Expenditure	5,250
Goodwill	6,000
	1,60,000

Z retired on the above date on the following terms:

- (a) Goodwill of the firm is to be valued at ₹ 34,800.
  - (b) Value of Patents is to be reduced by 20% and that of machinery to 90%.
  - (c) Provision for Doubtful Debts is to be created @ 6% on debtors.
  - (d) Z took over the investment at market value.
  - (e) Liability for Workmen Compensation to the extent of ₹ 750 is to be created.
  - (f) A liability of ₹ 4,000 included in creditors is not to be paid.
  - (g) Amount due to Z to be settled on the following basis:  
₹ 5,067 to be paid immediately, 50% of the balance within one year and the balance by a Bill of Exchange (without interest) at 3 Months.
- Give necessary journal entries for the treatment of goodwill, prepare Revaluation Account, Capital Accounts and the Balance Sheet of the new firm.
- Solution:

**Journal**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2016 1 <sup>st</sup> April	X's Capital A/c Y's Capital A/c Z's Capital A/c To Goodwill A/c (Being existing Goodwill Written off)	Dr. Dr. Dr.	3,000 2,000 1,000	6,000
1 <sup>st</sup> April	X's Capital A/c Y's Capital A/c To Z's Capital A/c (Being Z's share of goodwill credited to him and gaining partners debited in gaining ratio)	Dr. Dr.	3,480 2,320	5,800

**Revaluation Account**

Dr.	Particulars	Rs.	Particulars	Rs.	Cr.
To Patents A/c	2,000	By Investments A/c(17,600-15,000)		2,600	
To Machinery A/c	5,000	By Creditors A/c		4,000	
To Provision For D. Debts A/c	400	By Loss on Revaluation transferred:			
		X's Capital A/c	400		
		Y's Capital A/c	267		
		Z's Capital A/c	133	800	
	7,400				7,400

**Partners' Capital Account**

Dr.	Particulars	X	Y	Z	Particulars	X	Y	Z	Cr.
To Goodwill A/c	3,000	2,000	1,000		By Balance b/d	68,000	32,000	21,000	
To Revaluation A/c	400	267	133		By X's Capital A/c			3,480	
To Z's Capital A/c	3,480	2,320			By Y's Capital A/c			2,320	
To Advertisement expenditure A/c	2,625	1,750	875		By Workmen Compensation Reserve A/c	5,625	3,750	1,875	
To Investment A/c			17,600		By Investment Fluctuation Reserve A/c	3,000	2,000	1,000	
To Bank A/c			5,067						
To Z's Loan A/c			2,500						
To Bills payable A/c			2,500						
Balance c/d	67,120	31,413							
	76,625	37,750	29,675						
						76,625	37,750	29,675	

**Balance Sheet**

as on 1<sup>st</sup> April 2018 after Z's retirement

Liabilities	Rs.	Assets	Rs.
Creditors	17,000	Cash at Bank (5,750 - 5,067)	683
Workmen Compensation Claim	750	Stock	30,000
Bills payable	2,500	Patents	8,000
Capital		Debtors	40,000
X	67,120	Less: prov. for Doubtful Debts	(2,400)
Y	31,413	Machinery	45,000
Z's Loan			
	98,533		
	2,500		
	1,21,283		1,21,283

**Working Note:**

Amount due to Z's =  $(21,000 + 3,480 + 2,320 + 1,875 + 1,000) - (1,000 + 133 + 875 + 17,600) = 10,067$

Amount paid on Retirement immediately : Rs.5,067

Amount paid within 1 year :  $(5000 \times 50\%) = \text{Rs.}2,500$

Amount payable by Bills of Exchange (50% of Balance) = Rs.2,500

Question 45.

X, Y and Z are partners in a firm sharing profits in the ratio of 3 : 2 : 1. On 1st April, 2009, Y retires from the firm. X and Z agree that the capital of the new firm shall be fixed at ₹ 2,10,000 in the profit-sharing ratio. The Capital Accounts of X and Z after all adjustments on the date of retirement showed balance of ₹ 1,45,000 and ₹ 63,000 respectively. State the amount of actual cash to be brought in or to be paid to the partners.

Solution:

$$X : Y : Z = 3 : 2 : 1 \text{ (Old Ratio)}$$

Y's retires from the firm.

$$\therefore \text{Gaining Ratio } (X : Z) = 3 : 1$$

Total capital of the New Firm = Rs.2,10,000

Y's share of goodwill is to be distributed between X and Z in their = 3 : 1 (Gaining Ratio)

$$X's \text{ Share} = 2,10,000 \times \frac{3}{4} = ₹1,57,500$$

$$Z's \text{ Share} = 2,10,000 \times \frac{1}{4} = ₹52,500$$

**Computation of Actual Cash to be brought in or to be paid to the partners**

Particulars	X	Z
New Capital	1,57,500	52,500
Less: Existing Capital	(1,45,000)	(63,000)
<b>Cash Paid /Brought in</b>	<b>12,500</b> (Brought In)	<b>(10,500)</b> (Paid Out)

Question 46.

On 31st March, 2018 , The Balance Sheet of A, B and C who were sharing profits and losses in proportion to their capitals stood as:

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	10,800	Cash at Bank	13,000
Bills Payable	5,000	Debtors	10,000
Capital A/cs:		Less: Provision for D. Debts	200
A 45,000		Stock	9,000
B 30,000		Machinery	24,000
C 15,000	90,000	Freehold Premises	50,000
	<b>1,05,800</b>		<b>1,05,800</b>

B retires and following readjustments of assets and liabilities have been agreed upon before ascertainment of the amount payable to B:

- (a) Out of the amount of insurance premium which was debited to Profit and Loss Account, ₹ 1,000 be carried forward for Unexpired insurance.
- (b) Freehold Premises be appreciated by 10%.
- (c) Provision for Doubtful Debts is brought up to 5% on Debtors.
- (d) Machinery be depreciated by 5%.
- (e) Liability for Workmen Compensation to the extent of ₹ 1,500 would be created.

(f) That the goodwill of the entire firm be fixed at ₹ 18,000 and B's share of the same be adjusted into the accounts of A and C who are going to share future profits in the proportion of 3/4th and 1/4th respectively.

(g) Total capital of the firm as newly constituted be fixed at ₹ 60,000 between A and C in the proportion of 3/4th and 1/4th after passing entries in their accounts for adjustments, i.e., actual cash to be paid or to be brought in by continuing partners as the case may be.

(h) B be paid ₹ 5,000 in cash and the balance be transferred to his Loan Account.

Prepare Capital Accounts of Partners and the Balance Sheet of the firm of A and C.

Solution:

#### Revaluation Account

Dr.	Rs.	Cr.
Particulars	Particulars	Rs.
To Provision for D. Debts A/c (500 × 200)	300	By Prepaid Insurance A/c
To Machinery A/c ( $24,000 \times 5\%$ )	1,200	By Freehold Premises A/c ( $50,000 \times 10\%$ )
To Outstanding Workman's C. A/c	1,500	
To Profit transferred to:		
A's Capital A/c	1,500	
B's Capital A/c	1,000	
C's Capital A/c	500	3,000
	<b>6,000</b>	<b>6,000</b>

#### Partners' Capital Account

Dr.	A	B	C	Cr.	A	B	C
Particulars	Particulars	Particulars	Particulars	A	B	C	Cr.
To B's Capital A/c	4,500		1,500	By Balance b/d	45,000	30,000	15,000
To Bank A/c		5,000		By Revaluation A/c (profit)	1,500	1,000	500
To B's Loan A/c		32,000		By A's Capital A/c (Goodwill)		4,500	
To Balance c/d	42,000		14,000	By C's Capital A/c (Goodwill)		1,500	
	<b>46,500</b>	<b>37,000</b>	<b>15,500</b>		<b>46,500</b>	<b>37,000</b>	<b>15,500</b>
To Balance c/d	45,000		15,000	By Balance b/d	42,000		14,000
				By Cash A/c	3,000		1,000
	<b>45,000</b>		<b>15,000</b>		<b>45,000</b>		<b>15,000</b>

Balance Sheet as on 31 <sup>st</sup> March 2018 (after B's retirement)			
Liabilities	Rs.	Assets	Rs.
Creditors	10,800	Cash at Bank	12,000
Bills Payable	5,000	Debtors	10,000
Outstanding Workmen Compensation	1,500	Less : Provision for D. Debts	(500)
B's Loan	32,000	Stock	9,500
Capital A/c's:		Machinery (24,000-1,200)	9,000
A	45,000	Freehold Premises	22,800
C	15,000	(50,000+5,000)	55,000
		Prepaid Insurance	1,000
			1,09,300

## **Bank Account**

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Balance b/d	13,000	By B's Capital A/c	5,000
To A's Capital A/c	3,000	By Balance c/d	12,000
To C's Capital A/c	1,000		
	<b>17,000</b>		<b>17,000</b>

## **Working Notes:**

### **1. Calculation of Profit Sharing Ratio**

Capital Ratio (A, B and C) = 45,000 : 30,000 : 15,000

**Old ratio (A, B and C) = 3 : 2 : 1**

B retires from the firm.

∴ New/Gaining Ratio (A : C) = 3 : 1

## 2. Adjustment of Goodwill

Goodwill of the firm = Rs. 18,000

$$\text{B's Share of Goodwill} = 18,000 \times \frac{2}{6} = \text{Rs.}6,000$$

B's share of goodwill is to be distributed between A and C in their = 3 : 1 (Gaining Ratio)

$$A's\ Share = 6,000 \times \frac{3}{4} = ₹4,500$$

$$C's\ Share = 6,000 \times \frac{1}{4} = ₹1,500$$

### **3. Adjustment of Partners' Capital after B's Retirement**

Total Capital of the New Firm (after B's retirement) = Rs.60,000

New Ratio = 3 : 1

$$\text{A's New Capital} = 60,000 \times \frac{3}{4} = \text{Rs.}45,000$$

$$C's \text{ New Capital} = 60,000 \times \frac{1}{4} = \text{Rs.}15,000$$

### Question 47.

Amit, Balan and Chander were partners in a firm sharing profits in the proportion of 1/2, 1/3 and 1/6

respectively. Chander retired on 1st April, 2014. The Balance Sheet of the firm on the date of Chander's retirement was as follows:

<b>Liabilities</b>	<b>Amount (₹)</b>	<b>Assets</b>	<b>Amount (₹)</b>
Sundry Creditors	12,600	Bank	4,100
Provident Fund	3,000	Debtors	30,000
General Reserve	9,000	Less: Provision	1,000
Capital A/cs: Amit	40,000	Stock	25,000
Balan	36,500	Investments	10,000
Chander	20,000	Patents	5,000
	96,500	Machinery	48,000
	<b>1,21,100</b>		<b>1,21,100</b>

It was agreed that:

- (i) Goodwill be valued at ₹ 27,000.
- (ii) Depreciation of 10% was to be provided on Machinery.
- (iii) Patents were to be reduced by 20%.
- (iv) Liability on account of Provident Fund was estimated at ₹ 2,400.
- (v) Chander took over Investments for ₹ 15,800.
- (vi) Amit and Balan decided to adjust their capitals in proportion of their profit-sharing ratio by opening Current Accounts.

Prepare Revaluation Account and Partners Capital Accounts on Chander's retirement.

Solution:

**Revaluation A/c**

Dr.	Rs.	Cr.	Rs.
To Machinery A/c	4,800	By Investment A/c	5,800
To Patents A/c	1,000	By Provident Fund A/c	600
To Profit transferred to Amit's Capital A/c	300		
Balan's Capital A/c	200		
Chander's Capital A/c	100		
	600		
	6,400		6,400

**Partners' Capital Account**

Dr.	Cr.							
Particulars	Amit	Balan	Chander	Particulars	Amit	Balan	Chander	
To Investment A/c				By Balance b/d	40,000	36,500	20,000	
To Chander's Capital A/c	2,700	1,800	15,800	By Revaluation A/c (Profit)	300	200	100	
To Loan A/c				By General Reserve A/c	4,500	3,000	1,500	
To Current A/c		5,900	10,300	By Amit's Capital A/c			2,700	
To Balance c/d	48,000	32,000		By Balan's Capital A/c			1,800	
	50,700	39,700	26,100	By Current A/c	5,900			
					50,700	39,700	26,100	

**Working Notes :**

**1. Adjustment of Goodwill**

$$\text{Chander's Share of Goodwill} = 27,000 \times \frac{1}{6} = ₹4,500$$

$$\text{Amit is to pay} = 4,500 \times \frac{3}{5} = ₹2,700$$

$$\text{Balan is to pay} = 4,500 \times \frac{2}{5} = ₹1,800$$

**2. Adjustment of Capital**

**Adjusted Old Capital of Amit and Balan**

$$\text{Amit's} = 44,800 (40,000 + 4,500 + 300) - 2,700 = ₹42,100$$

$$\text{Balan's} = 39,700 (36,500 + 3,000 + 200) - 1,800 = ₹37,900$$

$$\text{Total Adjusted Capital} = 42,100 + 37,900 = ₹80,000$$

New Profit Sharing Ratio = 3 : 2

$$\text{Amit's Capital A/c} = 80,000 \times \frac{3}{5} = ₹48,000$$

$$\text{Balan's Capital A/c} = 80,000 \times \frac{2}{5} = ₹32,000$$

Question 48.

J, H and K were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 31st March, 2015, their Balance Sheet was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	42,000	Land and Building	1,24,000
Investment Fluctuation Fund	20,000	Motor Vans	40,000
Profit and Loss Account	80,000	Investments	38,000
Capital A/cs:		Machinery	24,000
J	1,00,000	Stock	30,000
H	80,000	Debtors	80,000
K	40,000	Less: Provision for D. Debts	6,000
	2,20,000	Cash	
	3,62,000		32,000
			3,62,000

On the above date, H retired and J and K agreed to continue the business on the following terms:

- (i) Goodwill of the firm was valued at ₹ 1,02,000.
- (ii) There was a claim of ₹ 8,000 for workmen's compensation.
- (iii) Provision for bad debts was to be reduced by ₹ 2,000.
- (iv) H will be paid ₹ 14,000 in cash and balance will be transferred in his Loan Account which will be paid in four equal yearly installments together with interest @ 10% p.a.
- (v) The new profit-sharing ratio between J and K will be 3 : 2 and their capitals will be in their new profit-sharing ratio. The capital adjustments will be done by opening Current Accounts.

Prepare Revaluation Account, Partners Capital Accounts and Balance Sheet of the new firm.

Solution:

#### Revaluation A/c

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Claim for Workmen Compensation A/c	8,000	By Provision for Debts A/c By Loss on Revaluation J's Capital A/c H's Capital A/c K's Capital A/c	2,000  3,000 1,800 1,200  6,000  8,000
	8,000		

#### Partners' Capital Account

Dr.				Cr.			
Particulars	J	H	K	Particulars	J	H	K
To Revaluation A/c	3,000	1,800	1,200	By Balance b/d	1,00,000	80,000	40,000
To H's Capital A/c	10,200		20,400	By IFF A/c	10,000	6,000	4,000
To Cash A/c		14,000		By PandL A/c	40,000	24,000	16,000
To H's Loan A/c		1,24,000		By J's Capital A/c		10,200	
To Balance c/d	1,36,800		38,400	By K's Capital A/c		20,400	
	1,50,000	1,40,600	60,000		1,50,000	1,40,600	60,000
To Current A/c	31,680			By Balance b/d	1,36,800		38,400
To Balance c/d	1,05,120		70,080	By Current A/c			31,680
	1,36,800		70,080		1,36,800		70,080

**Balance Sheet**  
for the year ending on 31<sup>st</sup> March 2015

Liabilities	Rs.	Assets	Rs.
Creditors	42,000	Land and Building	1,24,000
Capitals J K	1,05,120 70,080	Motor Vans Investment Machinery Stock Debtors Less : Provision	40,000 38,000 24,000 30,000 80,000 (4,000)
J's Current A/c	31,680	Cash (32,000 - 14,000)	76,000
Claim for Workmen C.	8,000	K's Current A/c	18,000
H's Loan	1,24,800		31,680
	<b>3,81,680</b>		<b>3,81,680</b>

**Working Notes:**

**1. Calculation of Gaining Ratio**

Gaining Ratio = New Ratio - Old Ratio

$$J's \text{ Share} = \frac{3}{5} - \frac{5}{10} = \frac{6-5}{10} = \frac{1}{10}$$

$$K's \text{ Share} = \frac{2}{5} - \frac{2}{10} = \frac{4-2}{10} = \frac{2}{10}$$

Gaining Ratio (J and k) = 1 : 2

**2. Adjustment of Goodwill**

$$H's \text{ share of Goodwill} = 1,02,000 \times \frac{3}{10} = ₹30,600$$

This amount of goodwill i.e. 30,600 is to be distributed between J and K in their = 1 : 2 (Gaining Ratio)

$$J's \text{ A/c Debited} = 30,600 \times \frac{1}{3} = ₹10,200$$

$$K's \text{ A/c Debited} = 30,600 \times \frac{2}{3} = ₹20,400$$

**3. Total Adjustment of Capital**

Total Adjusted Capital of J and K

$$J's \text{ Capital} = 1,00,000 + 10,000 + 40,000 - 3,000 - 10,200 = ₹1,36,800$$

$$K's \text{ Capital} = 40,000 + 4,000 + 16,000 - 1,200 - 20,400 = ₹38,400$$

$$\text{Total Adjusted Capital} = 1,36,800 + 38,400 = ₹1,75,200$$

$$J's = 1,75,200 \times \frac{3}{5} = ₹1,05,120$$

$$K's = 1,75,200 \times \frac{2}{5} = ₹70,080$$

K's New Capital > K's Adjusted Capital (K will pay 31,680 to the firm)

J's New Capital < J's Adjusted Capital (Firm will pay 31,680 to J)

**4. Amount transferred to H's Loan A/c**

Amount to be transferred = Balance Amount - Cash paid

$$= (1,40,600 - 1,800) - 14,000 = ₹1,24,800$$

Question 49.

X, Y and Z are partners in a firm sharing profits in the ratio of 3 : 1 : 2. On 31st March, 2018, their Balance Sheet was:

Liabilities	Amount (₹)	Assets	Amount (₹)
Bills Payable	12,000	Freehold Premises	40,000
Sundry Creditors	28,000	Machinery	30,000
General Reserve	12,000	Furniture	12,000
Capital A/cs:		Stock	22,000
X 30,000		Sundry Debtors	20,000
Y 20,000		Less: Provision for D. Debts	1,000
Z 28,000	78,000	Cash	7,000
			1,30,000

Z 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) Provision for Doubtful Debts is to be increased to ₹ 1,500.
- (d) Goodwill of the firm is valued at ₹ 21,000 on Z's retirement.
- (e) The continuing partners have decided to adjust their capitals in their new profit-sharing ratio after retirement of Z. 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.

Solution:

#### Revaluation Account

Dr.			Cr.	
	Particulars	Rs.	Particulars	Rs.
To Plant and Machinery A/c ( $30,000 \times 10\%$ )		3,000	By Freehold Premises A/c ( $40,000 \times 20\%$ )	8,000
To Furniture A/c ( $12,000 \times 10\%$ )		840	By Stock A/c ( $22,000 \times 15\%$ )	3,300
To Provision for Doubtful Debts A/c (1,500 - 1,000)		500		
To Profit transferred to:				
X's Capital A/c	3,480			
Y's Capital A/c	1,160			
Z's Capital A/c	2,320	6,960		
		11,300		11.300

#### Partners' Capital Account

Dr.				Cr.			
Particulars	X	Y	Z	Particulars	X	Y	Z
To Z's Capital A/c	5,250	1,750		By Balance b/d	30,000	20,000	28,000
To Z's Loan A/c			41,320	By General Reserve	6,000	2,000	4,000
To Balance c/d	34,230	21,410		By X's Capital A/c (Goodwill)			5,250
				By Y's Capital A/c (Goodwill)			1,750
				By Revaluation A/c (Profit)	3,480	1,160	2,320
	39,480	23,160	41,320		39,480	23,160	41,320
To Y's Current A/c		7,500		By Balance b/d	34,230	21,140	
To Balance c/d(WN3)	41,730	13,910		By X's Current A/c	7,500		
	41,730	21,410			41,730	21,140	

Balance Sheet			
Liabilities	Rs.	Assets	Rs.
Bills Payable	12,000	Freehold Premises (40,000+8,000)	48,000
Sundry Creditors	28,000	Machinery (30,000-3,000)	27,000
Z's Loan	41,320	Furniture (12,000-840)	11,160
Capital		Stock (22,000+3,300)	25,300
X	41,730	Sundry Debtors	20,000
Y	13,910	Less: provision for Doubtful Debts	(1,500)
Y's Current		Cash	7,000
	55,640	X's Current	7,500
	7,500		
	<b>1,44,460</b>		<b>1,44,460</b>

### Working Notes:

#### 1. Calculation of Profit Sharing Ratio

X : Y : Z = 3 : 1 : 2 (Old Ratio)

Z retires from the firm..

Gaining Ratio/ New Ratio (X and Y) = 3 : 1

#### 2. Adjustment of Goodwill

Goodwill of the firm = Rs.21,000

$$\times \frac{2}{6}$$

Z's Share of Goodwill = 21,000  $\times \frac{2}{6}$  = Rs.7,000

Z's share of goodwill is to be distributed between X and Y in their = 3 : 1 (Gaining Ratio)

$$X's = 7,000 \times \frac{3}{4} = ₹5,250$$

$$Y's = 7,000 \times \frac{1}{4} = ₹1,750$$

#### 3.

Adjustment of Partners' Capital after Z's Retirement

Combined Capital of X and Y after all adjustments = 34,230 + 21,410 = Rs.55,640

New Ratio = 3 : 1

$$X's \text{ New Capital} = 55,640 \times \frac{3}{4} = ₹41,730$$

$$Y's \text{ New Capital} = 55,640 \times \frac{1}{4} = ₹13,910$$

Question 50.

X, Y and Z are partners sharing profits in the ratio of 5 : 3 : 7. X retires from the firm. Y and Z decided to share future profits in the ratio of 2 : 3. The adjusted Capital Accounts of Y and Z showed balance of ₹ 49,500 and ₹ 1,05,750 respectively. The total amount to be paid to X is ₹ 1,35,750. This amount is to be paid by Y and Z in such a way that their capitals become proportionate to their new profit-sharing ratio. Calculate the amount to be brought in or to be paid to partners.

Solution:

Total capital of firm before retirement = 1,35,750 + 49,500 + 1,05,750 = Rs.2,91,000

Amount to be brought by Y = 1,16,400 - 49,500 = Rs.66,900

$$*Y's \text{ new capital} = 2,91,000 \times \frac{2}{5} = 1,16,400$$

\*\*Existing capital of Y = Rs 49,500.

Amount brought by Z = 1,74,600 - 1,05,750 = Rs. 68,850

$$^Z's \text{ new capital} = 2,91,000 \times \frac{3}{5} = \text{₹}1,74,600$$

Existing capital of Z = Rs.1,05,750

Question 51.

The Balance Sheet of X, Y and Z who shared profits in the ratio of 5 : 3 : 2 as on 31st March, 2018 was as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	39,750	Bank( Minimum Balance)	15,000
Employees Provident Fund	5,250	Debtors	97,500
Workmen Compensation Reserve	22,500	Stock	82,500
Capital A/cs:		Fixed Assets	1,87,500
X	1,65,000		
Y	84,000		
Z	66,000		
	3,15,000		
	<u>3,82,500</u>		<u>3,82,500</u>

Y retired on the above date and it was agreed that:

- (i) Goodwill of the firm is valued at ₹ 1,12,500 and Y's share of it be adjusted into the accounts of X and Z who are going to share future profits in the ratio of 3 : 2.
- (ii) Fixed Assets be appreciated by 20%.
- (iii) Stock be reduced to ₹ 75,000.
- (iv) Y be paid amount brought in by X and Z in such a way as to make their capitals proportionate to their new profit-sharing ratio.

Prepare Revaluation Account, Capital Accounts of all partners and the Balance Sheet of the New Firm.

Solution:

**Revaluation A/c**

Dr.	Rs.	Cr.	Rs.
To Stock A/c	7,500	By Fixed Assets A/c	37,500
To Profit transferred to X's Capital A/c	15,000		
Y's Capital A/c	9,000		
Z's Capital A/c	6,000		
	30,000		
	37,500		37,500

**Partner's Capital Account**

Dr.	X	Y	Z	Particulars	X	Y	Z	Cr.
To Y's Capital A/c	11,250		22,500	By Balance b/d	1,65,000	84,000	66,000	
To Bank A/c		1,33,500		By Revaluation A/c	15,000	9,000	6,000	
To Balance c/d	2,20,500		1,47,000	By WCR A/c	11,250	6,750	4,500	
				By X's Capital A/c	11,250			
				By Z's Capital A/c (Goodwill)		22,500		
				By Bank A/c (Bal. fig.)	40,500			
	2,31,750	1,33,500	1,69,500		2,31,750	1,33,500	1,69,500	

**Balance Sheet**

*as on 1<sup>st</sup> April 2018 (after Y's retirement)*

Liabilities	Rs.	Assets	Rs.
Creditors	39,750	Fixed Assets	2,25,000
Employee's Provident Fund	5,250	Stock	75,000
Capital		Bank	15,000
X	2,20,500	Debtors	97,500
Z	1,47,000		
	3,67,500		4,12,500

**Working Notes:**

**1. Calculation of Gaining ratio**

Old Ratio (X, Y and Z) = 5 : 3 : 2

New Ratio (X and Z) = 3 : 2

Gaining Ratio = New Ratio - Old Ratio

$$X's = \frac{3}{5} - \frac{5}{10} = \frac{6}{10} - \frac{5}{10} = \frac{1}{10}$$

$$Z's = \frac{2}{5} - \frac{2}{10} = \frac{4}{10} - \frac{2}{10} = \frac{2}{10}$$

Gaining Ratio (X and Z)=1:2

## 2. Calculation of Retiring Partner's share of goodwill

$$Y's share of goodwill = 1,12,500 \times \frac{3}{10} = ₹33,750$$

Y's share of goodwill is to be distributed between X and Z in their = 1 : 2 (Gaining Ratio)

$$X's Capital A/c Debited = 33,750 \times \frac{1}{3} = ₹11,250$$

$$Z's Capital A/c Debited = 33,750 \times \frac{2}{3} = ₹22,500$$

## 2. Calculation of New Capital of Remaining Partners

Total Capital = Assets - Outside Liabilities

$$= 2,25,000 + 75,000 + 15,000 + 97,500 - 37,750 - 5,250$$

$$= 4,12,500 - 45,000$$

Total Capital = Rs.3,67,500

$$X's Capital A/c = 3,67,500 \times \frac{3}{5} = ₹2,20,500$$

$$Z's Capital A/c = 3,67,500 \times \frac{2}{5} = ₹1,47,000$$

Question 52.

X, Y and Z are partners sharing profits in the ratio of 5 : 3 : 2. Y retires on 1st April, 2018 from the firm, on which date capitals of X, Y and Z after all adjustments are ₹ 1,03,680, ₹ 87,840 and ₹ 26,880 respectively. The Cash and Bank Balance on that date was ₹ 9,600. Y is to be paid through amount brought in by X and Z in such a way as to make their capitals proportionate to their new profit-sharing ratio which will be X 3/5 and Z 2/5. Calculate the amount to be paid or to be brought in by the continuing partners assuming that a minimum Cash and Bank Balance of ₹ 7,200 was to be maintained and pass the necessary journal entries.

Solution:

$$\text{Total Capital of firm before retirement} = 1,03,680 + 87,840 + 26,880 = \text{Rs.2,18,400}$$

$$\text{Availability of Cash} = 9,600 - 7,200 = \text{Rs.2,440}$$

$$\text{Combined new Capital of X and Z} = \text{Rs.2,16,000}$$

$$X's new Capital = 2,16,000 \times \frac{3}{5} = ₹1,29,600$$

$$\text{Existing Capital of X} = \text{Rs.1,03,680}$$

$$\text{So, X has to bring} = 1,29,600 - 1,03,680 = \text{Rs.25,920}$$

$$Z's new Capital = 2,16,000 \times \frac{2}{5} = ₹86,400$$

$$\text{Existing capital of Z} = \text{Rs.26,880}$$

$$\text{So, Z has to bring} = 86,400 - 26,880 = \text{Rs.59,520}$$

Question 53.

A, B and C are partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Their Balance Sheet as at 31st March, 2018 is:

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	30,000	Cash in Hand	18,000
Bills Payable	16,000	Debtors	25,000
General Reserve	12,000	<i>Less: Provision for D. Debts</i>	3,000
Capital A/cs:			22,000
A                  40,000		Stock	18,000
B                  40,000		Furniture	30,000
C                  30,000	1,10,000	Machinery	70,000
		Goodwill	10,000
	<b>1,68,000</b>		<b>1,68,000</b>

Z is admitted as a new partner on 1st April, 2018 on the following terms:

- (a) Provision for doubtful debts is to be maintained at 5% on Debtors.
- (b) Outstanding rent amounted to ₹ 15,000.
- (c) An accrued income of ₹ 4,500 does not appear in the books of the firm. It is now to be recorded.
- (d) X takes over the Investments at an agreed value of ₹ 18,000.
- (e) New Profit-sharing Ratio of partners will be 4 : 3 : 2.
- (f) Z will bring in ₹ 60,000 as his capital by cheque.
- (g) Z is to pay an amount equal to his share in firm's goodwill valued at twice the average profits of the last three years which were ₹ 90,000 ; ₹ 78,000 and ₹ 75,000 respectively.
- (h) Half of the amount of the goodwill is to be withdrawn by X and Y.

You are required to pass journal entries, prepare Revaluation Account, Partners Capital and Current Accounts and the Balance Sheet of the new firm.

B retires on 1st April, 2018 on the following terms:

- (a) Provision for Doubtful Debts be raised by ₹ 1,000.
- (b) Stock to be depreciated by 10% and Furniture by 5%.
- (c) There is an outstanding claim of damages of ₹ 1,100 and it is to be provided for.
- (d) Creditors will be written back by ₹ 6,000.
- (e) Goodwill of the firm is valued at ₹ 22,000.
- (f) Bills paid in full with the cash brought in by A and C in such a manner that their capitals are in proportion to their profit-sharing ratio and Cash in Hand remains at ₹ 10,000.

Prepare Revaluation Account, Partners Capital Accounts and the Balance Sheet of A and C.

Solution:

### Revaluation Account

Dr.	Rs.	Cr.	
Particulars	Rs.	Particulars	Rs.
To Provision for Doubtful Debts A/c	1,000	By Creditors A/c	6,000
To Stock A/c ( $18,000 \times 10\%$ )	1,800		
To Furniture A/c ( $30,000 \times 5\%$ )	1,500		
To Outstanding claim for Damages A/c	1,100		
To Profit transferred to:			
A's Capital A/c	300		
B's Capital A/c	200		
C's Capital A/c	100	600	
	<u>6,000</u>		<u>6,000</u>

### Partners' Capital Account

Dr.	A	B	C	Cr.			
Particulars	A	B	C	Particulars	A	B	C
To B's Capital A/c (Goodwill)	5,500		1,833	To Balance b/d	40,000	40,000	30,000
To Goodwill A/c	5,000	3,333	1,667	By Revaluation A/c	300	200	100
To Cash A/c		48,200		By A's Capital A/c (Goodwill)		5,500	
By Balance c/d	35,800		28,600	By C's Capital A/c (Goodwill)		1,833	
	<b>46,300</b>	<b>51,533</b>	<b>32,100</b>	By General Reserve A/c	6,000	4,000	2,000
To Cash A/c			2,450		<b>46,300</b>	<b>51,533</b>	<b>32,100</b>
By Balance c/d	78,450		26,150	To Balance b/d	35,800		28,600
	<b>78,450</b>		<b>28,600</b>	By Cash A/c	42,650		
					<b>78,450</b>		<b>28,600</b>

### Cash Account

Dr.	Rs.	Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/d	18,000	By B's Capital A/c	48,200
To A's Capital A/c	42,650	By C's Capital A/c	2,450
	<b>60,650</b>	By Balance c/d	10,000
			<b>60,650</b>

### Balance Sheet as on 1<sup>st</sup> April 2018

Liabilities	Rs.	Assets	Rs.
Creditors	24,000	Cash in Hand	10,000
Bills payable	16,000	Debtors	25,000
Outstanding Claim for Damages	1,100	Less: Provision for Doubtful Debts	(4,000)
Capital		Stock	21,000
A	78,450	Furniture	16,200
C	26,150	Machinery	28,500
	<u>1,04,600</u>		<u>70,000</u>
	<b>1,45,700</b>		<b>1,45,700</b>

**Working Notes:****1. Calculation of Profit Sharing Ratio**

A : B : C = 3 : 2 : 1 (Old Ratio)

B retires from the firm.

Gaining Ratio and New Ratio (A and C) = 3 : 1

**2. Adjustment of Goodwill**

$$= 22,000 \times \frac{2}{6} = ₹7,333$$

Goodwill of the firm = Rs. 22,000 B's Share of Goodwill

B's share of goodwill is to be distributed between A and C in their = 3 : 1 (Gaining Ratio)

$$\text{A's} = 7,333 \times \frac{3}{4} = ₹5,500$$

$$\text{C's} = 7,333 \times \frac{1}{4} = ₹1,833$$

**3. Adjustment of Partner's Capital after B's Retirement**

Amount to be brought by A and C

= Cash to be paid to B + Minimum balance of Cash - Existing Balance of Cash

$$= 48,200 + 10,000 - 18,000$$

$$= \text{Rs. } 40,200$$

Combined Capital of A and C after all adjustments = 35,000 + 28,600 = Rs. 64,400

∴ Total Capital of the Firm

= Amount to be brought by A and C + Combined Capital of A and C

$$= 40,200 + 64,400$$

$$= \text{Rs. } 1,04,600$$

$$\text{A's New Capital} = 1,04,600 \times \frac{3}{4} = ₹78,450$$

$$\text{C's New Capital} = 1,04,600 \times \frac{1}{4} = ₹26,150$$

Question 54.

Following is the Balance Sheet of Kusum, Sneh and Usha as on 31st March, 2018, who have agreed to share profits and losses in proportion of their capitals:

Liabilities	₹
Capital A/cs	
Kusum	4,00,000
Sneh	6,00,000
Usha	<u>4,00,000</u>
Employees' Provident Fund	14,00,000
Workmen Compensation Reserve	70,000
Sundry Creditors	30,000
	1,00,000
	<b>16,00,000</b>

Assets	₹
Land and Building	4,00,000
Machinery	6,00,000
Closing Stock	2,00,000
Sundry Debtors	
<i>Less: Provision for Doubtful Debts</i>	2,20,000
Cash at Bank	21,429
	<u>2,00,000</u>
	<b>2,00,000</b>
	<b>16,00,000</b>

On 31st March, 2018, Kusum retired from the firm and the remaining partners decided to carry on the business. It was agreed to revalue the assets and reassess the liabilities on that date, on the following basis:

- (a) Land and Building be appreciated by 30%.
- (b) Machinery be depreciated by 30%.
- (c) There were Bad Debts of ₹ 35,000.
- (d) The claim against Workmen Compensation Reserve was estimated at ₹ 15,000.
- (e) Goodwill of the firm was valued at ₹ 2,80,000 and Kusum's share of goodwill was adjusted against the Capital Accounts of the continuing partners Sneh and Usha who have decided to share future profits in the ratio of 3 : 4 respectively.
- (f) Capital of the new firm in total will be the same as before the retirement of Kusum and will be in the new profit-sharing ratio of the continuing partners.
- (g) Amount due to Kusum be settled by paying ₹ 1,00,000 in cash and balance by transferring to her Loan Account which will be paid later on.

Prepare Revaluation Account, Capital Accounts of Partners and Balance Sheet of the new firm after Kusum's retirement.

Solution:

**Revaluation Account**

Dr.	Rs.	Cr.	
<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Machinery A/c	1,80,000	By Land and Building A/c	1,20,000
To Bad Debts A/c (35,000 - 20,000)	15,000	By Loss on Revaluation transferred to:	
		Kusum	21,429
		Sneh	32,142
		usha	21,429
	<b>1,95,000</b>		<b>75,000</b>
			<b>1,95,000</b>

**Partners' Capital Account**

Dr.	Cr.						
<b>Particulars</b>	<b>Kusum</b>	<b>Sneh</b>	<b>usha</b>	<b>Particulars</b>	<b>Kusum</b>	<b>Sneh</b>	<b>Usha</b>
To Revaluation A/c	21,429	32,142	21,429	By Balance b/d	4,00,000	6,00,000	4,00,000
To Usha's Capital A/c				By Workmen	4,286	6,428	4,286
To Bank A/c	1,00,000			Compensation Fund A/c	80,000		
To Kusum's Loan A/c	3,62,857			By Usha's Capital A/c			
To Balance c/d	<b>5,74,286</b>	<b>3,02,857</b>			<b>4,84,286</b>	<b>6,06,428</b>	<b>4,04,286</b>
	<b>4,84,286</b>	<b>6,06,428</b>	<b>4,04,286</b>				
To Balance c/d		6,00,000	8,00,000	By Balance b/d		5,74,286	3,02,857
		<b>6,00,000</b>	<b>8,00,000</b>	By Bank A/c		25,714	4,97,143
						<b>6,00,000</b>	<b>8,00,000</b>

**Balance Sheet  
as at 31<sup>st</sup> March 2018**

<b>Liabilities</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
Creditors	1,00,000	Land and Building	5,20,000
Employee's Provident Fund	70,000	Machinery (6,00,000 - 1,80,000)	4,20,000
Workmen's Compensation Claim	15,000	Stock	2,00,000
Kusum's Loan	3,62,857	Sundry Debtors (2,20,000 - 35,000)	1,85,000
Capital A/c :		Bank	6,22,857
Sneh	6,00,000		
Usha	<b>8,00,000</b>		<b>19,47,857</b>

## **Working Notes**

### **1. Calculation of Gaining Ratio**

Kusum: Sneh : Usha = 2 : 3 : 2 (Old Ratio)

Sneh : Usha = 3 : 4 (New Ratio)

Gaining Ratio = New Ratio - Old Ratio

$$\text{Sneh's Share} = \frac{3}{7} - \frac{3}{7} = \text{Nil}$$

$$\text{Usha's Share} = \frac{4}{7} - \frac{2}{7} = \frac{2}{7}$$

### **2. Adjustment of Goodwill**

Total Goodwill of the Firm = 2,80,000

$$\text{Kusum's Share in Goodwill} = \frac{2}{7} \times 2,80,000 = 80,000$$

Gaining partners only by Usha to get the goodwill

### **3. Adjustment of Capital**

Total Capital of Firm before Kusum's Retirement = 14,00,000

New Profit Sharing Ratio = 3 : 4

$$\text{Sneh's Capital} = \frac{3}{7} \times 14,00,000 = 6,00,000$$

$$\text{Usha's Capital} = \frac{4}{7} \times 14,00,000 = 8,00,000$$

Particular	Snehal	Usha
New Capital Balance	6,00,000	8,00,000
Adjusted Old Capital Balance	(5,74,286)	(3,02,857)
<b>Cash brought in by the Partner</b>	<b>25,714</b>	<b>4,97,143</b>

4.

#### **Cash at Bank A/c**

Dr.			Cr.
Particular	Rs.	Particular	Rs.
To Balance b/d	2,00,000	By Kusum's Capital A/c	1,00,000
To Sneh's Capital A/c	25,714	By Balance c/d	6,22,857
To Usha's capital A/c	4,97,143		
	<b>7,22,857</b>		<b>7,22,857</b>

Question 55.

The Balance Sheet of X, Y and Z who were sharing profits in the ratio of 5 : 3 : 2 as at 31st March, 2018 is as follows:

Liabilities	₹	Assets	₹
Creditors	50,000	Cash at Bank	40,000
Employees Provident Fund	10,000	Sundry Debtors	1,00,000
Profit and Loss A/c	85,000	Stock	80,000
Capital A/cs:		Fixed Assets	60,000
X	40,000		
Y	62,000		
Z	33,000		
	1,35,000		
	2,80,000		2,80,000

X retired on 31st March, 2018 and Y and Z decided to share profits in future in the ratio of 3 : 2 respectively.

The other terms on retirement were:

- (a) Goodwill of the firm is to be valued at ₹ 80,000.
- (b) Fixed Assets are to be depreciated to ₹ 57,500.
- (c) Make a Provision for Doubtful Debts at 5% on Debtors.
- (d) A liability for claim, included in Creditors for ₹ 10,000 is settled at ₹ 8,000.

The amount to be paid to X by Y and Z in such a way that their Capitals are proportionate to their profit-sharing ratio and leave a balance of ₹ 15,000 in the Bank Account.

Prepare Profit and Loss Adjustment Account and Partners Capital Accounts.

Solution:

#### Revaluation Account

Dr.	Particulars	Rs.	Cr.
To Fixed Assets A/c (60,000 - 57,500)	2,500	By Creditors A/c (10,000 - 8,000)	2,000
To Provision for Doubtful Debts A/c	5,000	By Loss on Revaluation transferred to:	
		X 2,750	
		Y 1,650	
		Z 1,100	5,500
	7,500		7,500

#### Partners' Capital Account

Dr.	Particulars	X	Y	Z	Cr.
To Revaluation A/c (Loss)	2,750	1,650	1,100		
X's Capital A/c	24,000	16,000			
To Balance c/d	1,19,750	61,850	32,900		
	1,22,500	87,500	50,000		
To Bank A/c	1,19,750				
To Balance c/d	1,18,500	79,000			
	1,19,750	1,18,500	79,000		

#### Working Notes

##### 1. Calculation of Gaining Ratio

X : Y : Z = 5 : 3 : 2 (Old Ratio)

X : Z = 3 : 2 (New Ratio)

Gaining Ratio = New Ratio - Old Ratio

$$Y's = \frac{3}{5} - \frac{3}{10} = \frac{6-3}{10} = \frac{3}{10}$$

$$Z's = \frac{2}{5} - \frac{2}{10} = \frac{4-2}{10} = \frac{2}{10}$$

Gaining Ratio (Y and Z) = 3 : 2

## 2. Adjustment of Goodwill

Total Goodwill of the Firm = 80,000

$$X's Share in Goodwill = \frac{5}{10} \times 80,000 = 40,000$$

$$Y's = 40,000 \times \frac{3}{5} = 24,000$$

$$Z's = 40,000 \times \frac{2}{5} = 16,000$$

X's share of goodwill is to be distributed between Y and Z in their = 3 : 2 (Gaining Ratio)

## 3. Adjustment of Capital

Total Capital of New Firm = X's Capital + Y's Capital + Z's Capital + Closing balance of Bank Account - Available Bank Balance = 1,19,750 + 61,850 + 32,900 + 15,000 - 32,000 = Rs.1,97,500

New Profit Sharing Ratio = 3 : 2 (Gaining Ratio)

$$Y's Capital = \frac{5}{3} \times 1,97,500 = 1,18,500$$

$$Z's Capital = \frac{2}{5} \times 1,97,500 = 79,000$$

Particular	X	Z
New Capital Balance	1,18,500	79,000
Adjusted Old Capital Balance	(61,850)	(32,900)
<b>Cash brought in by the Partner</b>	<b>56,650</b>	<b>46,100</b>

## 4.

### Cash at Bank A/c

Dr.			Cr.
	<b>Particulars</b>	<b>Rs.</b>	
To Balance b/d	40,000	By Creditors A/c	8,000
To Y's Capital A/c	56,650	By X's Capital A/c	1,19,750
To Z's capital A/c	46,100	By Balance c/d	15,000
	<b>1,42,750</b>		<b>1,42,750</b>

Question 56.

A, B and C are partners sharing profits in the ratio of 5 : 3 : 2. Their Balance Sheet as on 31st March, 2018 is given below:

<b>Liabilities</b>	<b>₹</b>	<b>Assets</b>	<b>₹</b>
Capital A/cs:			
A	11,00,000	Building	18,00,000
B	11,40,000	Investments	4,00,000
C	7,60,000	Stock	6,00,000
Workmen Compensation Reserve	30,00,000	Debtors	10,00,000
Creditors	10,00,000	Cash and Bank	6,00,000
Employees' Provident Fund	2,00,000		
	2,00,000		
	<b>44,00,000</b>		
			<b>44,00,000</b>

C retires on 30th June, 2018 and it was mutually agreed that:

- (a) Building be valued at ₹ 22,00,000.
- (b) Investments to be valued at ₹ 3,00,000.
- (c) Stock be taken at ₹ 8,00,000.
- (d) Goodwill of the firm be valued at two years purchase of the average profit of the past five years.
- (e) C's share of profits up to the date of retirement be calculated on the basis of average profit of the preceding three years.

The profits of the preceding five years were as under:

Year	2013-14	2014-15	2015-16	2016-17	2017-18
Profit (₹)	4,00,000	5,00,000	6,00,000	8,00,000	7,00,000

- (f) Amount payable to C to be transferred to his Loan Account carrying interest @ 10% p.a.

Prepare Revaluation Account, Partners Capital Accounts and the Balance Sheet as at 30th June, 2018.

Solution:

<b>Revaluation Account</b>			
<b>Dr.</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Cr.</b>
To Investment A/c	1,00,000	By Building A/c	4,00,000
To Profit transferred to:		By Stock A/c	2,00,000
A's Capital A/c	2,50,000		
B's Capital A/c	1,50,000		
C's Capital A/c	1,00,000		
	<b>5,00,000</b>		
	<b>6,00,000</b>		
			<b>6,00,000</b>

Dr.

**Partners' Capital Account**

Cr.

<b>Particulars</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>Particulars</b>	<b>A</b>	<b>B</b>	<b>C</b>
To C's Capital A/c	1,50,000	90,000		By Balance b/d	11,00,000	11,40,000	7,60,000
To C's Loan A/c			13,35,000	By Revaluation A/c	2,50,000	1,50,000	1,00,000
To Balance c/d	17,00,000	15,00,000		By A's Capital A/c			1,50,000
				By B's Capital A/c			90,000
				By Workmen			
				Compensation Reserve			
				A/c	5,00,000	3,00,000	2,00,000
				By P and L Suspense A/c			35,000
	<b>18,50,000</b>	<b>15,90,000</b>	<b>13,35,000</b>			<b>18,50,000</b>	<b>15,90,000</b>
							<b>13,35,000</b>

**Balance Sheet**  
*as at 30<sup>th</sup> June 2018(after C's retirement)*

<b>Liabilities</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
Creditors	2,00,000	Building	22,00,000
Employee's Provident Fund	2,00,000	Investments	3,00,000
C's Loan	13,35,000	Stock	8,00,000
Capital		Debtors	10,00,000
A	17,00,000	Cash and Bank	6,00,000
B	15,00,000	Profit and Loss Suspense	35,000
	<b>32,00,000</b>		<b>49,35,000</b>
	<b>49,35,000</b>		<b>49,35,000</b>

**Working Notes :****1. Calculation of Goodwill**

$$\text{Average Profit} = \frac{4,00,000 + 5,00,000 + 6,00,000 + 8,00,000 + 7,00,000}{5} = 6,00,000$$

No. of purchase year = 2

Average Profit = Rs. 6,00,000

Goodwill = Average Profit  $\times$  No. years = 6,00,000  $\times$  2 = Rs. 12,00,000

C's share of goodwill = 12,00,000  $\times$   $\frac{2}{10}$  = 2,40,000

C's share of goodwill is to be distributed between A and B in their = 5 : 3 (Gaining Ratio)

**2. Calculation of C's share of Profit**

$$\text{Average profit (last 3 years)} = \frac{6,00,000 + 8,00,000 + 7,00,000}{3} = \frac{21,00,000}{3} = 7,00,000$$

$$\text{Profit (from 1st April 2016 to 30th June 2017)} = 7,00,000 \times \frac{3}{12} = 1,75,000$$

$$\text{C's Profits} = 1,75,000 \times \frac{2}{10} = 35,000$$

Question 57.

Kumar, Verma and Naresh were partners in a firm sharing profits and Loss in the ratio of 3 : 2 : 2. On 23rd January, 2015 Verma died. Verma's share of profit till the date of his death was calculated at ₹ 2,350. Pass necessary journal entry for the same in the books of the firm.

Solution:

The Journal entry for transferring Verma's share of profit to his capital account is given below:

Journal		L.F.	Debit Rs.	Credit Rs.
Particulars				
Profit and Loss Suspense A/c To Verma's Capital A/c	Dr.		2,350	2,350
(Being verma's share of Profit dispensed through his Capital Account)				

Question 58.

A, B and C were partners sharing profits and losses in the ratio of 2 : 2 : 1. C died on 30th June, 2018. Profit and Sales for the year ended 31st March, 2018 were ₹ 1,00,000 and ₹ 10,00,000 respectively. Sales during April to June, 2018 were ₹ 1,50,000. You are required to calculate share of profit of C up to the date of his death.

Solution:

$$\text{Profit (2017 - 18)} = \text{Rs.}1,00,000$$

$$\text{Sales (2017 - 18)} = \text{Rs.}10,00,000$$

$$\text{Ratio of Profit to Sales in 2017 - 18} = \frac{\text{Profit}}{\text{Sales}} \times 100 = \frac{1,00,000}{10,00,000} \times 100 = 10\%$$

$$\text{Sales from 1st April 2018 to 30th June 2018} = ₹1,50,000$$

$$\therefore \text{Profit from 1st April 2018 to 30th June 2018 Profit Ratio (2017 - 18)} = 1,50,000 \times \frac{10}{100} = 15,000$$

$$\therefore \text{C's Profit Share (from 1st April 2018 to 30th June 2018)} = 15,000 \times \frac{1}{5} = ₹3,000$$

Question 59.

A, B and C are partners sharing profits and losses in the ratio of 3 : 2 : 1. B died on 30th June, 2018. For the year ended 31st March, 2019, proportionate profit of 2018 is to be taken into consideration. During the year ended 31st March, 2018, bad debts of ₹ 2,000 had to be adjusted. The profit for the year ended 31st March, 2018 was ₹ 14,000 before adjustment of bad debts. Calculate B's share of profit till the date of his death.

Solution:

$$\text{Profit before adjusting bad debts (2017 - 18)} = \text{Rs.}14,000$$

$$\text{Bad debts} = \text{Rs.}2,000$$

$$\text{Profits after adjusting bad debts} = \text{Rs.}(14,000 - 2,000) = \text{Rs.}12,000$$

$$12,000 \times \frac{3}{12} = 3,000$$

$$\text{Proportionate profits (31st, March 2018)} =$$

$$= 3,000 \times \frac{2}{6} = ₹1,000$$

$$\text{B's share of profit (from 1st April 2018 till 30th June 2018)}$$

Question 60.

Ram, Manohar and Joshi were partners in a firm. Joshi died on 31st May, 2018. His share of profit from the closure of the last accounting year till the date of death was to be calculated on the basis of the average of three completed years of profits before death. Profits for the years ended 31st March, 2016, 2017 and 2018 were ₹ 7,000; ₹ 8,000 and ₹ 9,000 respectively. Calculate Joshi's share of profit till the date of his death and pass necessary journal entry for the same.

Solution:

$$\text{Average Profit} = \frac{\text{Profit for previous 3 years}}{3}$$

$$= \frac{7,000 + 8,000 + 9,000}{3} = ₹8,000$$

$$\text{Joshi's Profit (1st April 2018 to 31st May 2018)} = 8,000 \times \frac{1}{3} \times \frac{2}{12} = ₹444$$

**Journal**

Particulars	L.F.	Debit Rs.	Credit Rs.
Profit and Loss Suspense A/c To Joshi's Capital A/c	Dr.	444	444
(Being Joshi's Profit share credited to his capital account)			

Question 61.

X, Y and Z were partners sharing profits and losses in the ratio of 3 : 2 : 1 respectively. Y died on 30th June, 2018. The Profit from 1st April, 2018 to 30th June, 2018 amounted to ₹ 3,60,000. X and Z decided to share the future profits in the ratio of 3 : 2 respectively with effect from 1st July, 2018. Pass the necessary journal entries to record Y's share of profit up to the date of death.

Solution:

**Journal**

S. No.	Particulars	L.F.	Debit Rs.	Credit Rs.
	X's Capital A/c Z's Capital A/c To Y's Capital A/c (Proportionate profit dispensed to deceased partner)	Dr. Dr.	36,000 84,000	1,20,000

**Working Notes:**

**WN1: Calculation of Y's Share of Profit**

Y's share = Firm's Profit × Y's Profit Share

$$Y's \text{ share} = 3,60,000 \times \frac{2}{6} = 1,20,000 \text{ (to be borne by gaining partners in gaining ratio)}$$

**WN2: Calculation of Gaining Ratio**

Gaining Ratio = New Ratio - Old Ratio

$$X's \text{ gain} = \frac{3}{5} - \frac{3}{6} = \frac{3}{30}$$

$$Z's \text{ gain} = \frac{2}{5} - \frac{1}{6} = \frac{7}{30}$$

Gaining Ratio = 3:7

$$X's \text{ share} = 1,20,000 \times \frac{3}{10} = 36,000$$

$$Z's \text{ share} = 1,20,000 \times \frac{7}{10} = 84,000$$

Question 62.

X, Y and Z were partners in a firm. Z died on 31st May, 2018. His share of profit from the closure of

the last accounting year till the date of death was to be calculated on the basis of the average of three completed ₹ 19,000 and ₹ 17,000 respectively.

Calculate Z's share of profit till his death and pass necessary journal entry for the same assuming:

(a) there is no change in profit-sharing ratio of remaining partners, and

(b) there is change in profit-sharing ratio of remaining partners, new ratio being 3 : 2.

Solution:

**Journal**

S. No.	Particulars	L.F.	Debit Rs.	Credit Rs.
(a)	Profit and Loss Suspense A/c To Z's Capital A/c (Proportionate profit dispensed to deceased partner)	Dr.	1,000	1,000
(b)	X's Capital A/c Y's Capital A/c To Z's Capital A/c (Proportionate profit dispensed to deceased partner)	Dr. Dr.	800 200	1,000

**Working Notes:**

**WN1: Calculation of Z's Share of Profit**

Z's share = Firm's Average Profit × Z's Profit Share × Period for which Z remained in the business

$$\text{Average Profits} = \frac{\text{Total Profits}}{\text{Number of Years}}$$

$$= \frac{18,000 + 19,000 + 17,000}{3}$$

$$= \frac{54,000}{3} = \text{Rs } 18,000$$

$$\text{Z's share} = 18,000 \times \frac{1}{3} \times \frac{2}{12} = 1,000 \text{ (to be borne by gaining partners in gaining ratio in case (b))}$$

**WN2: Calculation of Gaining Ratio**

Gaining Ratio = New Ratio - Old Ratio

$$\text{X's gain} = \frac{3}{5} - \frac{1}{3} = \frac{4}{15}$$

$$\text{Y's gain} = \frac{2}{5} - \frac{1}{3} = \frac{1}{15}$$

Gaining Ratio = 4:1

$$\text{X's share} = 18,000 \times \frac{4}{5} = 800$$

$$\text{Y's share} = 18,000 \times \frac{1}{5} = 200$$

Question 63.

P, R and S are in partnership sharing profits 4/8, 3/8 and 1/8 respectively. It is provided in the Partnership Deed that on the death of any partner his share of goodwill is to be valued at one-half of the net profit credited to his account during the last four completed years.

R died on 1st January, 2018. The firm's profits for the last four years ended 31st December, were as: 2014 – ₹ 1,20,000; 2015 – ₹ 80,000; 2016 – ₹ 40,000; 2017 – ₹ 80,000.

- (a) Determine the amount that should be credited to R in respect of his share of Goodwill.  
 (b) Pass journal entry without raising Goodwill Account for its adjustment.

Solution:

a. Calculation of R's Share of Goodwill

Profit R's Capital A / c in 4 years

= Net profit for last 4 years x R's Share

$$= (1,20,000 + 80,000 + 40,000 + 80,000) \times \frac{3}{8} = ₹1,20,000$$

$$\text{R's Share of Goodwill} = \frac{1}{2} \times (\text{Profit R's Capital A / c in 4 years})$$

$$= \frac{1}{2} \times 1,20,000 = ₹60,000 \text{ (Credited)}$$

b.

**Journal**

Particulars	L.F.	Debit Rs.	Credit Rs.
P's Capital A/c	Dr.	48,000	
S's Capital A/c	Dr.	12,000	
To R's Capital A/c (Being R's share of goodwill adjusted)			60,000

**Working Notes:**

R's Share of Goodwill = Rs.60,000

P : R : S = 4 : 3 : 1 (Old Ratio)

R's death.

∴ Gaining Ratio (P and S) = 4 : 1

R's share of goodwill is to be distributed between P and S in their = 4 : 1 (Gaining Ratio)

$$P's = 60,000 \times \frac{4}{5} = ₹48,000$$

$$S's = 60,000 \times \frac{1}{5} = ₹12,000$$

Question 64.

X, Y and Z were partners in a firm sharing profit in 3 : 2 : 1 ratio. The firm closes its books on 31st March every year. Y died on 30th June, 2018. On Y's death the goodwill of the firm was valued at ₹60,000. Y's share in the profits of the firm till the time of his death was to be calculated on the basis of previous year's profit which was ₹ 1,50,000.

Pass necessary journal entries for the treatment of goodwill and Y's share of profit at the time of his death.

Solution:

**Journal**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2018 30 June	X's Capital A/c Z's Capital A/c To Y's Capital A/c (Being Y's share of goodwill adjusted through X and Y's Capital Account in gaining ratio, i.e., 3:1)	Dr. Dr.	15,000 5,000	20,000
30 June	Profit and Loss suspense A/c To Y's Capital A/c (Being Y's profit share till his death debited to P and L suspense A/c)	Dr.	12,500	12,500

**Working Notes:**

**1. Calculation of Y's Share of Goodwill**

Goodwill = Rs.60,000

$$Y's\ Goodwill = 60,000 \times \frac{2}{6} = ₹20,000$$

Y's share of goodwill is to be distributed between X and Z in their = 3 : 1 (Gaining Ratio)

$$X's\ debited\ Capital\ A/c = 20,000 \times \frac{3}{4} = ₹15,000$$

$$Z's\ debited\ Capital\ A/c = 20,000 \times \frac{1}{4} = ₹5,000$$

**2. Calculation of Y's Share of Profit**

Past Year Profit = Rs.1,50,000

Y's share of Profit (till death) = Previous Years Profit  $\times$  Y's Profit Share  $\times$  3 months (1<sup>st</sup> April 2018 till 30<sup>th</sup> June 2018)

$$= 1,50,000 \times \frac{2}{6} \times \frac{3}{12} = ₹12,500$$

Question 65.

X, Y and Z were partners in a firm sharing profits in the ratio of 4 : 3 : 1. The firm closes its books on 31st March every year. On 1st February 2018, Y died and it was decided that the new profit-sharing ratio between X and Z will be equal. Partnership Deed provided for the following on the death of a partner:

(a) His share of goodwill be calculated on the basis of half of the profits credited to his account during the previous four completed years. The firm's profits for the last four years were:

Year	2013-14	2014-15	2015-16	2016-17
Profit(₹)	1,50,000	1,00,000	50,000	1,00,000

(b) His share of profit in the year of his death was to be computed on the basis of average profit of past two years.

Pass necessary journal entries relating to goodwill and profit to be transferred to Y's Capital Account.

Solution:

**Journal**

Date	Particular	L.F.	Debit Rs.	Credit Rs.
	Z's Capital A/c To Y's Capital A/c (Being adjustment of Y's share of Goodwill)	Dr.	75,000	75,000
	Z's Capital A/c To Y's Capital A/c (Being adjustment Y's share of profit)	Dr.	23,438	23,438

**Working Notes:**

**1. Calculation of Gaining Ratio**

Old Ratio (X, Y and Z) = 4 : 3 : 1

New Ratio = (X and Z) = 1 : 1

Gaining Ratio = New Ratio - Old Ratio

$$X's = \frac{1}{2} - \frac{4}{8} = \frac{4}{8} - \frac{4}{8} = \text{Nil}$$

$$Z's = \frac{1}{2} - \frac{1}{8} = \frac{4}{8} - \frac{1}{8} = \frac{3}{8}$$

Gaining Ratio only Z's =  $\frac{3}{8}$

**2. Calculation of Retiring Partner's Share of Goodwill**

$$Y's \text{ share of goodwill} = 4,00,000 \times \frac{3}{8} \times \frac{1}{2} = ₹ 75,000$$

Y's share of goodwill is to be brought by Z only

**3. Calculation of Retiring partner's Share of Profit**

$$Y's \text{ share of profit} = 75,000 \times \frac{10}{12} \times \frac{3}{8} = ₹ 23,438$$

Average profit for past 2 years = Rs. 75,000

Question 66.

X and Y are partners. The Partnership Deed provides inter alia:

- (a) That the Accounts be balanced on 31st March every year.
- (b) That the profits be divided as : X one-half, Y one-third and carried to a Reserve one-sixth.
- (c) That in the event of the death of a partner, his Executors be entitled to be paid out:
  - (i) The Capital to his credit till the date of death.
  - (ii) His proportion of profits till the date of death based on the average profits of the last three completed years.
  - (iii) By way of Goodwill, his proportion of the total profits for the three preceding years.
- (d)

Liabilities	₹	Assets	₹
Capital A/cs:		Sundry Assets	
X	9,000		
Y	6,000	15,000	
			21,000
Reserve		3,000	
Creditors		3,000	
			21,000
			21,000

The Profits for three years were : 2015-16 : ₹ 4,200; 2016-17 : ₹ 3,900; 2017-18 : ₹ 4,500. Y died on 1st August, 2018. Prepare necessary accounts.

Solution:

#### Y's Capital Account

Dr.			Cr.
To Y's Executor's A/c	12,800	Particulars	Rs.

By Balance b/d	6,000
By X's Capital A/c (Reserve)	1,200
By X's Capital A/c (Goodwill)	5,040
By X's Capital A/c (Profit)	560
	<b>12,800</b>

#### Working Notes:

1.

$$X : Y = \frac{1}{2} : \frac{1}{3} = \frac{3}{6} : \frac{2}{6} = 3:2 \text{ (Old Ratio)}$$

#### 2. Calculation Y's Share of Reserve

$$Y's \text{ Share} = 3,000 \times \frac{2}{5} = 1,200$$

#### 3. Calculation Y's Share of Profit

$$\begin{aligned} \text{Average Profit} &= \frac{\text{Profit for Previous 3 years}}{3} \\ &= \frac{4,200 + 3,900 + 4,500}{3} = \frac{12,600}{3} = ₹4,200 \end{aligned}$$

$$Y's \text{ Share of Profit (1st April 2018 to 1st Aug 2018)} = 4,200 \times \frac{2}{5} \times \frac{4}{12} = ₹560$$

#### 4. Calculation of Y's Share of Goodwill

Y's share of Goodwill = Y's Profit Share in previous 3 years

$$\text{Profit for previous 3 years} = 4,200 + 3,900 + 4,500 = ₹12,600$$

$$\therefore Y's \text{ Share} = 12,600 \times \frac{2}{5} = ₹5,040$$

Question 67.

P, Q and R were partners in a firm sharing profits in 2 : 2 : 1 ratio. The Partnership Deed provided that on the death of a partner his executors will be entitled to the following:

- (a) Interest on Capital @ 12% p.a.
- (b) Interest on Drawings @ 18% p.a.
- (c) Salary of ₹ 12,000 p.a.
- (d) Share in the profit of the firm (up to the date of death) on the basis of previous year's profit.

P died on 31st May, 2108. His capital was ₹ 80,000. He had withdrawn ₹ 15,000 and interest on his drawings was calculated as ₹ 1,200. Profit of the firm for the previous year ended 31st March, 2018 was ₹ 30,000.

Prepare P's Capital Account to be rendered to his executors.

Solution:

P's Capital Account			
Dr.	Rs.	Particulars	Cr.
To Drawings A/c	15,000	By Balance b/d	80,000
To Interest on Drawings A/c	1,200	By Interest on Capital A/c	1,600
To P's Executor's A/c	69,400	By Salary A/c (12,000 × 2/12)	2,000
	<b>85,600</b>	By Profit and Loss Suspense A/c	2,000
			<b>85,600</b>

#### Working Notes:

##### 1. Calculation of Interest on Capital

$$\text{P's Capital} = \text{Rs. } 80,000$$

$$\text{P's Interest on Capital} = 80,000 \times \frac{12}{100} \times \frac{2}{12} = \text{₹ } 1,600$$

##### 2. Calculation of P's Share of Profit

$$\text{Profit for previous year} = \text{Rs. } 30,000$$

$$\text{P's Profit} = 30,000 \times \frac{2}{5} \times \frac{2}{12} = \text{₹ } 2,000$$

Question 68.

Vikas, Gagan and Momita were partners in a firm sharing profits in the ratio of 2 : 2 : 1. The firm closes its books on 31st March every year. On 30th September, 2014 Momita died. According to the provisions of Partnership Deed the legal representatives of a deceased partner are entitled for the following in the event of his/her death:

- (a) Capital as per the last Balance Sheet.
- (b) Interest on capital at 6% per annum till the date of her death.
- (c) Her share of profit to the date of death calculated on the basis of average profit of last four years.
- (d) Her share of goodwill to be determined on the basis of three years purchase of the average profit of last four years. The profits of last four years were:

Year	2010-11	2011-12	2012-13	2013-14
Profit (₹)	30,000	50,000	40,000	60,000

The balance in Momita's Capital Account on 13th March, 2014 was ₹ 60,000 and she had withdrawn ₹ 10,000 till date of her death. Interest on her drawings was ₹ 300.

Prepare Momita's Capital Account to be presented to her executors.

Solution:

**Momita's Capital Account**

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Drawings A/c	10,000	By Balance b/d	60,000
To Interest on Drawings A/c	300	By Interest on Capital A/c	1,800
To Executor's A/c	83,000	By Profit and Loss Suspense A/c	4,500
		By Vikas's Capital A/c	13,500
		By Gagan's Capital A/c	13,500
	<b>93,300</b>		<b>93,300</b>

**Working Notes:**

**1. Calculation of Interest on Momita's Capital**

$$\text{Interest on Capital (6 Months)} = 60,000 \times \frac{6}{100} \times \frac{6}{12} = ₹1,800$$

**2. Calculation of Momita's share in Profits**

$$\text{Average Profit} = \frac{\text{Profit for last 3 years}}{3}$$

$$\text{Average profit} = \frac{30,000 + 50,000 + 60,000 + 40,000}{4} = \frac{1,80,000}{4} = ₹45,000$$

$$\text{Momita's profit} = 45,000 \times \frac{1}{5} \times \frac{6}{12} = ₹4,500$$

**3. Adjustment of Goodwill**

$$\text{Average Profit} = 45,000$$

$$\text{Goodwill} = \text{Average Profit} \times \text{Number of years' purchase}$$

$$\text{Goodwill} = 45,000 \times 3 = \text{Rs.}1,35,000$$

$$\text{Momita's Goodwill} = 1,35,000 \times \frac{1}{5} = ₹27,000$$

Momita's share of goodwill is to be distributed between Vikas and Gagan in their = 1 : 1

$$\text{Vikas's} = 27,000 \times \frac{1}{2} = ₹13,500$$

$$\text{Gagan's} = 27,000 \times \frac{1}{2} = ₹13,500$$

**Note:** Since, here no information is given regarding the share acquired by Vikas and Gagan.

Thus, the goodwill distributed between new profit sharing ratio = 2 : 2 or 1 : 1

Question 69.

Iqbal and Kapoor are in partnership sharing profits and losses in 3 : 2. Kapoor died three months after the date of the last Balance Sheet. According to the Partnership Deed, the legal personal representatives of Kapoor are entitled to the following payments:

(a) His capital as per the last Balance Sheet.

(b) Interest on above capital @ 3% p.a. till the date of death.

(c) His share of profits till the date of death calculated on the basis of last year's profits.

His drawings are to bear interest at an average rate of 2% on the amount irrespective of the period. The net profits for the last three years, after charging insurance premium, were ₹ 20,000; ₹ 25,000 and ₹ 30,000 respectively. Kapoor's capital as per Balance Sheet was ₹ 40,000 and his drawings till the date of death were ₹ 5,000.

Draw Kapoor's Capital Account to be rendered to his representatives.

Solution:

Kapoor's Account			
Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Drawings A/c	5,000	By Balance b/d	40,000
To Interest on Drawings A/c	100	By Interest on Capital A/c	300
To Balance c/d	38,200	By Profit and Loss Adjustment A/c	3,000
	<b>43,300</b>		<b>43,300</b>

#### Working Notes

##### 1. Calculation of Interest on Capital

$$\text{Interest on Capital} = \text{Capital} \times \frac{\text{Rate}}{100} \times \frac{\text{Time}}{12}$$

$$= 40,000 \times \frac{3}{100} \times \frac{3}{12}$$

$$= 300$$

##### 2. Calculation of Share of Profit

$$\text{Profits} = \text{previous Year's Profit} \times \frac{\text{Time}}{12} \times \text{Share in Profits}$$

$$= 30,000 \times \frac{3}{12} \times \frac{2}{5} = 3,000$$

##### 3. Calculation of Interest on Drawings

$$\text{Interest on Drawings} = \text{Drawings} \times 2\% = 5,000 \times 2\% = 100$$

Question 70.

A, B and C were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 31st March, 2017, their Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Creditors	11,000	Building	20,000
Reserves	6,000	Machinery	30,000
Capital A/cs:		Stock	10,000
A 30,000		Patents	11,000
B 25,000		Debtors	8,000
C 15,000	70,000	Cash	8,000
	<b>87,000</b>		<b>87,000</b>

A died on 1st October, 2017. It was agreed among his executors and the remaining partners that:

- (i) Goodwill to be valued at  $\frac{1}{2}$  years purchase of the average profit of the previous 4 years, which were 2013-14: ₹ 13,000; 2014-15: ₹ 12,000; 2015-16: ₹ 20,000 and 2016-17: ₹ 15,000.
- (ii) Patents be valued at ₹ 8,000; Machinery at ₹ 28,000; and Building at ₹ 25,000.
- (iii) Profits for the year 2017-18 be taken as having accrued at the same rate as that of the previous year.
- (iv) Interest on capital be provided @ 10% p.a.
- (v) Half of the amount due to A to be paid immediately to the executors and the balance transferred to his (Executors) Loan Account.

Prepare A's Capital Account and A's Executors Account as on 1st October, 2017.

Solution:

Dr.	A's Capital Account			Cr.
Particulars	Rs.	Particulars	Rs.	
To A's Executors A/c	57,000	By Balance b/d By Reserve A/c By B's Capital A/c (Goodwill) By C's Capital A/c (Goodwill) By Profit and Loss Suspense A/c By Interest on Capital A/c	30,000 3,000 11,250 7,500 3,750 1,500	30,000 3,000 11,250 7,500 3,750 1,500
	<b>57,000</b>		<b>57,000</b>	<b>57,000</b>

A's Executors Account				
Dr.				Cr.
Particulars	Rs.	Particulars	Rs.	
To Bank A/c To A's Executors Loan A/c	28,500 28,500	By A's Capital A/c	57,000	57,000
	<b>57,000</b>		<b>57,000</b>	<b>57,000</b>

### Working Notes:

#### 1. Calculation of Reserve

$$\text{Reserve} = \frac{6,000 \times 5}{10} = ₹ 3,000$$

#### 2. Calculation of Interest on Capital

$$\text{Interest on capital} = \frac{30,000 \times 10 \times 6}{100 \times 12} = \frac{18,00,000}{1,200} = ₹ 1,500$$

#### Calculation of Profit and Loss Suspense

$$\text{Profit & Loss Suspenses} = \frac{15,000 \times 5 \times 6}{10 \times 12} = \frac{4,50,000}{120} = ₹ 3,750$$

#### 4. Calculation of Share in Revaluation Profit/Loss

$$\text{Revaluation} = -3,000 - 2,000 + 5,000 = \text{Nil}$$

#### Calculation of Share in Goodwill

$$\begin{aligned} \text{Goodwill} &= \text{Average Profit} \times \text{No. of years Purchase} \\ &= 15,000 \times 2.5 = \text{Rs. } 37,500 \end{aligned}$$

$$\text{A's Goodwill} = 37,500 \times \frac{5}{10} = ₹ 18,750$$

$$\text{Average profit} = \frac{\text{Total profit of previous 4 years}}{\text{No. of years}}$$

$$= \frac{13,000 + 12,000 + 20,000 + 15,000}{4} = \frac{60,000}{4} = ₹ 15,000$$

A's share of goodwill is debited to be distributed between B and C in their = 3 : 2

$$B's\ Capital = 18,750 \times \frac{3}{5} = 11,250$$

$$C's\ Capital = 18,750 \times \frac{2}{5} = 7,500$$

Question 71.

Virad, Vishad and Roma were partners in a firm sharing profits in the ratio of 5 : 3 : 2 respectively. On 31st March, 2013, their Balance Sheet was as under:

Liabilities	₹	Assets	₹
Capital A/cs:			
Virad	3,00,000	Buildings	2,00,000
Vishad	2,50,000	Machinery	3,00,000
Roma	1,50,000	Patents	1,10,000
	<u>7,00,000</u>	Stock	1,00,000
Reserve Fund	60,000	Debtors	80,000
Creditors	1,10,000	Cash	80,000
	<u>8,70,000</u>		<u>8,70,000</u>

Virad died on 1st October, 2013. It was agreed between his executors and the remaining partners that:

- (i) Goodwill of the firm be valued at  $2\frac{1}{2}$  years purchase of average profits for the last three years. The average profits were ₹ 1,50,000.
- (ii) Interest on capital be provided at 10% p.a.
- (iii) Profits for the 2013-14 be taken as having accrued at the same rate as that of the previous year which was ₹ 1,50,000.

Prepare Virad's Capital Account to be presented to his Executors as on 1st October, 2013.

Solution:

**Virad's Capital Account**

Dr.	Particulars	Rs.	Particulars	Rs.
To Executor's A/c	5,70,000	By Balance b/d By Vishad's Capital A/c By Roma's Capital A/c By Profit and Loss Suspense A/c By Reserve fund A/c By Interest on Capital A/c	3,00,000 1,12,500 75,000 37,500 30,000 15,000	5,70,000
	<b>5,70,000</b>			<b>5,70,000</b>

**Calculation of Gaining Ratio of Vishad and Roma:**

Old Ratio (Virad , Vishad and Roma) = 5 : 3 : 2

New Ratio (Vishad and Roma) = 3 : 2

Gaining Ratio = New Ratio - Old Ratio

$$\text{Vishad's} = \frac{3}{5} - \frac{3}{10} = \frac{6-3}{10} = \frac{3}{10}$$

$$\text{Roma's} = \frac{2}{5} - \frac{2}{10} = \frac{4-2}{10} = \frac{2}{10}$$

Gaining Ratio (Vishad and Roma) = 3 : 2

**Working Notes:**

**1. Calculation of Virad's Share of Goodwill:**

Goodwill = Average profit × Number of Years Purchase

$$= 1,50,000 \times 2 \frac{1}{2} = ₹3,75,000$$

$$\text{Goodwill of Virad} = 3,75,000 \times \frac{5}{10} = ₹1,87,500$$

Virad's share of goodwill is to be distributed between Vishad and Roma in their = 3: 2 (Gaining Ratio)

$$\text{Vishad's} = 1,87,500 \times \frac{3}{5} = ₹1,12,500$$

$$\text{Roma's} = 1,87,500 \times \frac{2}{5} = ₹75,000$$

**2. Calculation of Profit share of Virad:**

Profit for the year = Rs. 1,50,000

$$\text{Virad's profit} = 1,50,000 \times \frac{5}{10} \times \frac{6}{12} = ₹37,500$$

**3. Calculation of Interest on Virad's Capital:**

Virad's Capital = 3,00,000

$$\text{Interest on capital} = 3,00,000 \times \frac{10}{100} \times \frac{6}{12} = ₹15,000$$

**4. Virad's share Reserve fund:**

$$\text{Reserve Fund} = 60,000 \times \frac{5}{10} = ₹30,000$$

Question 72.

Kavita, Leena and Monica are partners in firm sharing profits in the ratio of 1 : 1 : 3 respectively. Their Capital Accounts showed the following balanceson 31st March, 2012: Kavita ₹ 70,000; Leena ₹ 65,000 and Monica ₹ 2,10,000. Firm closes its accounts every year on 31st March. Kavita died on 30th September, 2012. In the event of death of any partner, the Partnership Deed provides for the following:

- (a) Interest on capital will be calculated at the rate of 6% p.a.
- (b) The deceased partner's share in the goodwill of the firm will be calculated on the basis of 2 years purchase of the average profit of last three years. The profits of the firms for the last three years

were ₹ 90,000; ₹ 1,00,000 and ₹ 1,10,000 respectively.

(c) Her share in the Reserve Fund of the firm will be paid. The Reserve Fund of the firm was ₹ 60,000 at the time of Kavita's death.

(d) Her share of profit till the date of death will be calculated on the basis of sales. It is also specified that the sales during the year 2011-12 were ₹ 20,00,000. The sales from 1st April, 2012 to 30th September, 2012 were ₹ 4,00,000. The profit of the firm for the year ending 31st March, 2012 was ₹ 2,00,000.

Prepare Kavita's Capital Account to be presented to his legal representative.

Solution:

#### Kavita's Capital Account

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Kavita's Executor's A/c	1,32,100	By Capital A/c By Interest on Capital A/c By Leena's Capital A/c (Goodwill) By Monica's Capital A/c (Goodwill) By Share of Reserve A/c By P and L Suspense A/c (Profit)	70,000 2,100 10,000 30,000 12,000 8,000
	<b>1,32,100</b>		<b>1,32,100</b>

#### Working Note:

##### 1. Calculation of Goodwill

On the basis of 2 yrs purchase of average 3 years profit

$$\text{Average Profit} = \frac{\text{Sum of Profits}}{\text{Numbers of years}} = \frac{90,000 + 1,00,000 + 1,10,000}{3} = ₹1,00,000$$

$$\text{Goodwill} = \text{Average Profit} \times 2 = ₹1,00,000 \times 2 = ₹2,00,000$$

$$\text{Kavita's Share of Goodwill} = ₹2,00,000 \times \frac{1}{5} = ₹40,000$$

Kavita's share of goodwill is to be distributed between Leena and Monica in their = 1 : 3 (Gaining Ratio)

$$\text{Leena's share} = 40,000 \times \frac{1}{4} = ₹10,000$$

$$\text{Monica's share} = 40,000 \times \frac{3}{4} = ₹30,000$$

##### 2. Calculation of Profit and Loss Suspense

Profit for year 2011-12 = ₹2,00,000 = 10% of Sales.

Thus, Profit for the Period 1<sup>st</sup> April to 30<sup>th</sup> September = 10% of Sales

Share of profit for to be divided = ₹4,00,000 × 10% = ₹40,000

$$\text{Kavita's profit} = 40,000 \times \frac{1}{5} = ₹8,000$$

Question 73.

A, B and C are partners in a firm sharing profits in the proportion of 3 : 2 : 1. Their Balance Sheet as at 31st March, 2018 stood as follows:

<b>Liabilities</b>	₹	<b>Assets</b>	₹
Sundry Creditors	2,60,000	Cash in Hand	42,500
General Reserve	1,20,000	Cash at Bank	2,14,500
Capital A/cs:		Debtors	1,63,000
A 2,00,000		Stock	17,500
B 1,20,000		Investments	1,32,500
C 80,000	4,00,000	Building	2,10,000
	<b>7,80,000</b>		<b>7,80,000</b>

B died on 30th June, 2018 and according to the deed of the said partnership his executors are entitled to be paid as under:

- (a) The capital to his credit at the time of his death and interest thereon @ 10% per annum.
- (b) His proportionate share of General Reserve.
- (c) His share of profits from the intervening period will be based on the sales during that period. Sales from 1st April, 2018 to 30th June, 2018 were as ₹ 12,00,000. The rate of profit during past three years had been 10% on sales.
- (d) Goodwill according to his share of profit to be calculated by taking twice the amount of profits of the last three years less 20%. The profit of the previous three years were: 1st Year: ₹ 82,000; 2nd year: ₹ 90,000; 3rd year: ₹ 98,000.
- (e) The investments were sold at par and his executors were paid out in full.

Prepare B's Capital Account and his Executors Account.

Solution:

#### B's Capital Account

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To B's Executor's A/c	3,47,000	To Balance b/d	1,20,000
		To Interest on Capital A/c	3,000
		To General Reserve A/c	40,000
		To Profit and Loss Suspense A/c	40,000
		To Goodwill A/c	1,44,000
	<b>3,47,000</b>		<b>3,47,000</b>

#### B's Executor Account

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Bank A/c	3,47,000	By B's Capital A/c	3,47,000
	<b>3,47,000</b>		<b>3,47,000</b>

### **Working Notes:**

#### **1. Calculation of Interest on Capital**

Opening Capital = Rs. 1,20,000

$$\text{Interest on Capital} = 1,20,000 \times \frac{3}{12} \times \frac{10}{100} = ₹3,000$$

#### **2. Calculation of Profit Share up-to-death**

$$\text{B's Profit} = \frac{\text{Past Years Profit}}{\text{Past Years Sales}} \times \text{Sales till death} \times \text{B's Profit Share}$$

Previous Year's Profit = ₹98,000

$$\text{Rate of Profit to Sales} = \frac{\text{Past Profit}}{\text{past Years Sales}} \times 100$$

$$10 = \frac{98,000}{\text{Previous Year's Sales}} \times 100$$

$$\text{Previous Year's Sales} = \frac{98,00,000}{10}$$

Previous Year's Sales = ₹9,80,000

Sales till death = ₹12,00,000

$$\begin{aligned}\text{B's Profit (up - to - death)} &= \frac{\text{Past Years Profit}}{\text{Past Years Sales}} \times \text{Sales till death} \times \text{B's Profit Share} \\ &= \frac{98,000}{9,80,000} \times 12,00,000 \times \frac{2}{6} \\ \text{B's Profit} &= ₹40,000\end{aligned}$$

#### **3. Calculation of goodwill**

$$\text{Average Profits} = \frac{82,000 + 90,000 + 98,000}{3} = ₹90,000$$

Average Profits (less 20%) = ₹72,000

Goodwill = ₹72,000 × 2 = ₹1,44,000

B's Goodwill = ₹1,44,000

Question 74.

Babita, Chetan and David are partners in a firm sharing profits in the ratio of 2 : 1 : 1 respectively. Firm closes its accounts on 31st March every year. Chetan died on 30th September, 2012. There was a balance of ₹ 1,25,000 in Chetan's Capital Account in the beginning of the year. In the event of Death of any partner, the Partnership Deed provides for the following:

- (a) Interest on capital will be calculated at the rate of 6% p.a.
- (b) The executor of deceased partner shall be paid ₹ 24,000 for his share of goodwill.
- (c) His share of Reserve Fund of ₹ 12,000, shall be paid to his executor.
- (d) His share of profit till the date of death will be calculated on the basis of sales. It is also specified that the sales during the year 2011-12 were ₹ 4,00,000. The sales from 1st April, 2012 to 30th September, 2012 were ₹ 1,20,000. The profit of the firm for the year ending 31st March, 2012 was ₹

2,00,000.

Prepare Chetan's Capital Account to be presented to his executor.

Solution:

**Chetan's Capital Account**

Dr.	Rs.	Particulars	Cr.
To Chetan's Executor's A/c	1,79,750	By Capital A/c By Interest on Capital A/c(for 6 months) By Babita's Share Capital A/c (Goodwill) By David's Share Capital A/c (Goodwill) By Share of Reserve A/c By P and L Suspense A/c (Profit)	1,25,000 3,750 16,000 8,000 12,000 15,000
	<b>1,79,750</b>		<b>1,79,750</b>

**Working Note:**

1. Chetan's Goodwill = Rs.24,000

Chetan's share of goodwill is to be distributed between Babita and David in their = 2 : 1 (Gaining Ratio)

$$\text{Babita's} = 24,000 \times \frac{2}{3} = ₹16,000$$

$$\text{David's} = 24,000 \times \frac{1}{3} = ₹8,000$$

**2. Calculation of Profit and Loss Suspense**

Sales in the year (2011-12) = 4,00,000

Profit for year (2011-12) =  $4,00,000 \times 50\% \text{ (of Sales)} = 2,00,000$

Thus, Profit for the Period (1<sup>st</sup> April to 30<sup>th</sup> September) = 50% of Sales

Profit to be divided =  $1,20,000 \times 50\% = \text{Rs.}60,000$

$$= 60,000 \times \frac{1}{4} = ₹15,000$$

Chetan's Profit

Question 75.

Sunny, Honey and Rupesh were partners in a firm. On 31st March, 2014, their Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Creditors	10,000	Plant and Machinery	0,000
General Reserve	30,000	Furniture	15,000
Capital A/cs:		Investments	20,000
Sunny	30,000	Debtors	20,000
Honey	30,000	Stock	20,000
Rupesh	20,000		25,000
	80,000		1,20,000
	1,20,000		

Honey died on 31st December, 2014. The Partnership Deed provided that the representative of the deceased partner shall be entitled to:

- (a) Balance in the Capital Account of the deceased partner.

- (b) Interest on Capital @ 6% per annum up to the date of his death.  
(c) His share in the undistributed profits or losses as per the Balance Sheet.  
(d) His share in the profits of the firm till the date of his death, calculated on the basis of rate of net profit on sales of the previous year. The rate of net profit on sales of previous year was 20%. Sales of the firm during the year till 31st December, 2014 was ₹ 6,00,000.  
Prepare Honey's Capital Account to be presented to his executors.

Solution:

Honey's Capital Account			
Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Executors A/c	81,350	By Balance b/d	30,000
		By Interest on Capital A/c	1,350
		By Profit and Loss Suspense A/c	40,000
	81,350	By General Reserve A/c	10,000
			81,350

**Working Notes:**

**1. Calculation of Honey's Interest on Capital**

$$\text{Interest on Capital} = 30,000 \times \frac{9}{12} \times \frac{6}{100} = ₹1,350$$

**2. Calculation of Honey's in profit**

$$\text{Honey's profit} = \text{Sales} \times \frac{\text{Rate of Profit}}{100}$$

$$= 6,00,000 \times \frac{20}{100} = ₹1,20,000$$

$$\text{Honey's share in profits} = 1,20,000 \times \frac{1}{3} = ₹40,000$$

**3. Calculation of Honey's Share in General Reserve**

$$\text{Honey's Reserve} = 30,000 \times \frac{1}{3} = ₹10,000$$

**Question 76.**

R, S and T were partners sharing profits and losses in the ratio of 5 : 3 : 2 respectively. On 31st March, 2018, Their Balance Sheet stood as:

Liabilities	₹	Assets	₹
Sundry Creditors	40,000	Goodwill	25,000
Bills Payable	15,000	Leasehold	1,00,000
Workmens Compensation Reserve	30,000	Patents	30,000
Capital A/cs:		Machinery	1,50,000
R 1,50,000		Stock	50,000
S 1,25,000		Debtors	40,000
T 75,000	3,50,000	Cash at Bank	40,000
	4,35,000		4,35,000

T died on 1st August, 2018. It was agreed that:

- (a) Goodwill be valued at  $2\frac{1}{2}$  years purchase of average of last 4 years profits which were:

2014-15: ₹ 60,000; 2016-17: ₹ 80,000 and 2017-18: ₹ 75,000.

(b) Machinery be valued at ₹ 1,40,000; Patents be valued at ₹ 40,000; Leasehold be valued at ₹ 1,25,000 on 1st August, 2018.

(c) For the purpose of calculating T's share in the profits of 2018-19, the profits in 2018-19 should be taken to have accrued on the same scale as in 2017-18.

(d) A sum of ₹ 21,000 to be paid immediately to the Executors of T and the balance to be paid in four equal half-yearly installments together with interest @ 10% p.a.

Pass necessary journal entries to record the above transactions and T's Executors Account.

Solution:

**Journal**

<b>Particulars</b>	<b>L.F.</b>	<b>Debit Rs.</b>	<b>Credit Rs.</b>
Revaluation A/c To machinery A/c (Being decrease in value of Machinery transferred to Revaluation Account)	Dr.	10,000	10,000
Patents A/c Leasehold A/c To Revaluation A/c (Being increase in value Patents and Leasehold transferred to Revaluation Account)	Dr. Dr.	10,000 25,000	35,000
Revaluation A/c To R's Capital A/c To S's Capital A/c To T's Capital A/c (Being revaluation profit distributed among partners in their old ratio)	Dr.	25,000	12,500 7,500 5,000
R's Capital A/c S's Capital A/c T's Capital A/c To Goodwill A/c (Being goodwill written off among partners in their old ratio)	Dr. Dr. Dr.	12,500 7,500 5,000	25,000
R's Capital A/c S's Capital A/c To T's Capital A/c (Being T's share of goodwill adjusted)	Dr. Dr.	21,875 13,125	35,000
Profit and Loss Suspense A/c To T's Capital A/c (Being T's share of profit transferred to his capital account)	Dr.	5,000	5,000
Workmen's Compensation Reserve A/c To R's Capital A/c To S's Capital A/c To T's Capital A/c (Being Workmen's Compensation Reserve distributed among partners in their old ratio)	Dr.	30,000	15,000 9,000 6,000
T's Capital A/c To T's Executors A/c (Being amount due to T after all adjustments transferred to his Executor's Account)	Dr.	1,21,000	1,21,000
T's Executors A/c To Bank A/c (Being amount paid T's Executor)	Dr.	21,000	21,000

**T's Executor's Account**

Dr.	Particulars	Rs.	Date	Particulars	Cr. Rs.
2014 1 Aug 2015	To Cash A/c	21,000	2014 1 Aug 2015	By T's Capital A/c	1,21,000
31 Jan 31 Mar	To Cash A/c (25000+5000)	30,000	31 Jan 31 Mar	By Interest A/c ( $1,00,000 \times 10\%$ for 6 months) By Interest A/c ( $75,000 \times 10\%$ for 2 months)	5,000 1,250 <b>1,250</b>
	To Balance c/d	<b>76,250</b>			
		<b>1,27,250</b>			
2015 1 Aug	To Cash A/c (25,000 + 1,250 + 2,500)	28,750	2015 1 Apr	By Balance b/d By Interest A/c ( $75,000 \times 10\%$ for 4 months)	76,250 2,500
2016 31 Jan 31 Mar	To Cash A/c (25,000+ 2,500)	27,500	2016 31 Jan 31 Mar	By Interest A/c ( $75,000 \times 10\%$ for 6 months) By Interest A/c ( $75,000 \times 10\%$ for 2 months)	2,500 417 <b>417</b>
	To Balance c/d	<b>25,417</b>			
		<b>81,667</b>			
2016 1 Aug	To Cash A/c (25,000+417+833)	262,50	2017 1 Apr 1 Aug	By Balance b/d By Interest A/c ( $25,000 \times 10\%$ for 4 months)	25,417 833 <b>26,250</b>
		<b>26,250</b>			

**Working Notes:**

**1. Calculation of Goodwill**

Goodwill = Average Profit × Number of Year's Purchase

Goodwill = Average Profit × Number of Years' Purchase

$$\text{Average Profit} = \frac{65,000 + 60,000 + 80,000 + 75,000}{4} = \frac{2,80,000}{4} = ₹70,000$$

$$= 70,000 \times 2.5 = \text{Rs.} 1,75,000$$

**2. Adjustment of Goodwill**

R : S : T = 5 : 3 : 2 (Old Ratio)

T's death.

Gaining Ratio (R and S) = 5 : 3

$$\text{T's Goodwill} = 1,75,000 \times \frac{2}{10} = ₹35,000$$

T's share of goodwill is to be distributed between R and S in their = 5 : 3 (Gaining Ratio)

$$\text{R's} = 35,000 \times \frac{5}{8} = ₹21,875$$

$$\text{S's} = 35,000 \times \frac{3}{8} = ₹13,125$$

**3. Calculation of T's Share of Profit**

Profit for year (2011-12) = Rs. 75,000

$$\text{T's Profit (2011 - 12)} = 75,000 \times \frac{2}{10} \times \frac{4}{12} = ₹5,000$$

4.

**Revaluation Account**

Dr.	Rs.	Cr.
Particulars	Particulars	Rs.
To Machinery A/c	10,000	10,000
To Profit transferred to:		
R's Capital A/c	12,500	By Patents A/c
S's Capital A/c	7,500	By Leasehold A/c
T's Capital A/c	5,000	25,000
	<b>25,000</b>	<b>35,000</b>
	<b>35,000</b>	

5.

**T's Capital Account**

Dr.	Rs.	Cr.
Particulars	Particulars	Rs.
To Goodwill A/c	5,000	Balance b/d
To T's Executor's A/c	1,21,000	75,000
		By Workmen's Compensation Reserve A/c
		6,000
		By Profit and Loss Suspense A/c
		5,000
		By R's Capital A/c
		21,875
		By S's Capital A/c
		13,125
		By Revaluation A/c (profit)
	<b>1,26,000</b>	<b>5,000</b>
		<b>1,26,000</b>

Question 77.

Akhil, Nikhil and Sunil were partners sharing profits and losses equally. Following was their Balance Sheet as at 31st March, 2018:

Liabilities	₹	Assets	₹
Trade Creditors	40,000	Building	2,00,000
General Reserve	45,000	Plant and Machinery	80,000
Capital A/cs:		Stock	35,000
Akhil	1,95,000	Debtors	80,000
Nikhil	1,20,000	Cash at Bank	85,000
Sunil	80,000		
	<b>3,95,000</b>		<b>4,80,000</b>
	<b>4,80,000</b>		<b>4,80,000</b>

Sunil died on 1st August, 2018. The Partnership Deed provided that the executor of a deceased partner was entitled to:

- (a) Balance of Partners Capital Account and his share of accumulated reserve.
- (b) Share of profits from the closure of the last accounting year till the date of death on the basis of the profit of the preceding completed year before death.
- (c) Share of goodwill calculated on the basis of three times the average profit of the last four years.
- (d) Interest on deceased partner's capital @ 6% p.a.
- (e) ₹ 50,000 to be paid to deceased executor immediately and the balance to remain in his Loan Account.

Profits and Losses for the preceding years were: 2014-15: ₹ 80,000 Profit ; 2015-16: ₹ 1,00,000 Loss; 2016-17: ₹ 1,20,000 Profit; 2017-18: ₹ 1,80,000 Profit.

Pass necessary journal entries and prepare Sunil's Capital Account and Sunil's Executor Account.

Solution:

Journal		L.F.	Debit Rs.	Credit Rs.
Particulars				
General Reserve A/c To Akhil's Capital A/c To Nikhil's Capital A/c To Sunil's Capital A/c (Being general Reserve distributed among partners in their old ratio)	Dr.		45,000	15,000 15,000 15,000
Akhil's Capital A/c Nikhil's Capital A/c To Sunil's Capital A/c (Being Sunil's share of goodwill adjusted)	Dr. Dr.		35,000 35,000	70,000
Interest on Capital A/c To Sunil's Capital A/c (Being interest allowed on Sunil's Capital)	Dr.		1,600	1,600
Profit and Loss Suspense A/c To Sunil's Capital A/c (Being Sunil's profit share transferred to his capital account)	Dr.		20,000	20,000
Sunil's Capital A/c To Sunil's Executor's A/c (Being amount due to Sunil's after all adjustments transferred to his Executor's Account)	Dr.		1,86,600	1,86,600
Sunil's Executor's A/c To Bank A/c (Being amount paid to Sunil's Executor)	Dr.		50,000	50,000

**Sunil's Capital Account**

Dr.	Cr.		
Particulars	Rs.	Particulars	Rs.
To Sunil's Executor's A/c	186,600	By Balance b/d	80,000
		By Interest on Capital A/c	1,600
		By General Reserve A/c	15,000
		By Profit and Loss Suspense A/c	20,000
		By Akhil's Capital A/c (Goodwill)	35,000
		By Nikhil's Capital A/c (Goodwill)	35,000
	<b>1,86,600</b>		<b>1,86,600</b>

**Sunil's Executor's Account**

Dr.	Cr.		
Particulars	Rs.	Particulars	Rs.
To Bank A/c	50,000	By Sunil's Capital A/c	1,86,000
By Balance c/d	<b>1,86,600</b>		<b>1,86,600</b>

**Working Notes:**

**1. Calculation of Sunil's Share of Profit**

Profit for year (2017-18) = Rs.1,80,000

$$\text{Sunil's Profit (2017 - 18)} = 1,80,000 \times \frac{1}{3} \times \frac{4}{12} = ₹20,000$$

**2. Calculation of Goodwill**

Goodwill = Average Profit  $\times$  No. of Year's Purchase

Goodwill = Average Profit  $\times$  No. of Years Purchase

$$\text{Average Profit} = \frac{80,000 - 1,00,000 + 1,20,000 + 1,80,000}{4} = \frac{2,80,000}{4} = ₹70,000$$

$$= 70,000 \times 3 = \text{Rs.}2,10,000$$

**3. Adjustment of Goodwill**

Akhil's : Nikhil's : Sunil's = 1 : 1 : 1 (Old Ratio)

Sunil died

Gaining Ratio (Akhil's and Nikhil's) = 1 : 1

$$\text{Sunil's Goodwill} = 2,10,000 \times \frac{1}{3} = ₹70,000$$

Sunil's share of goodwill is to be distributed between Akhil and Nikhil in their = 1 : 1 (Gaining Ratio)

$$\text{Akhil's} = 70,000 \times \frac{1}{2} = ₹35,000$$

$$\text{Nikhil's} = 70,000 \times \frac{1}{2} = ₹35,000$$

**4. Calculation of Interest on Sunil's Capital**

Sunil's Capital = Rs.80,000

$$\text{Interest on Capital} = 80,000 \times \frac{6}{100} \times \frac{4}{12} = ₹1,600$$

Question 78.

B, C and D were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 31st December, 2008, their Balance Sheet was as follows:

<b>Liabilities</b>	<b>₹</b>	<b>Assets</b>	<b>₹</b>
Creditors	43,000	Cash	10,200
Bills Payable	17,000	Stock	24,500
General Reserve	70,000	Debtors	27,300
Capital A/cs:		Land and Building	1,40,000
B 40,000		Profit and Loss A/c	70,000
C 50,000			
D 52,000	1,42,000		
	<b>2,72,000</b>		<b>2,72,000</b>

B died on 31st March, 2009. The Partnership Deed provided for the following on the death of a partner:

- (a) Goodwill of the firm was to be valued at 3 years purchase of the average profit of last 5 years. The profits for the years ended 31st December, 2007, 31st December 2006, 31st December 2005 and 31st December 2004 were ₹ 70,000 ; ₹ 60,000 and ₹ 40,000 respectively.
- (b) B's share of profit and loss till the date of his death was to be calculated on the basis of the profit and loss for the year ended 31st December, 2008.

You are required to calculate the following :

- (i) Goodwill of the firm and B's share of goodwill at the time of his death.
- (ii) B's share in the profit or loss of the firm till the date of his death.
- (iii) Prepare B's Capital Account at the time of his death to be presented to his Executors.

Solution:

**(i) Calculation of Goodwill**

Goodwill = Average Profit × Number of Year's Purchase

∴ Goodwill = Average Profit × Number of Years' Purchase

$$\text{Average Profit} = \frac{-70,000 + 70,000 + 60,000 + 50,000 + 40,000}{5} \times \frac{1,50,000}{5} = ₹30,000$$

$$= 30,000 \times 3 = ₹90,000$$

B : C : D = 5 : 3 : 2 (Old Ratio)

After B's Death.

Gaining Ratio (C and D) = 3 : 2

$$\text{B's Share in Goodwill} = 90,000 \times \frac{5}{10} = ₹45,000$$

B's share of goodwill is to be distributed between C and D in their = 3 : 2 (Gaining Ratio)

$$\text{C's} = 45,000 \times \frac{3}{5} = ₹27,000$$

$$\text{D's} = 45,000 \times \frac{2}{5} = ₹18,000$$

**(ii) Calculation of as Share of Profit or Loss**

Loss for the Year (2008) = Rs.70,000

$$\text{B's loss} = \text{Loss of 2008} \times \frac{5}{10} \times \frac{3}{12}$$

$$= 70,000 \times \frac{5}{10} \times \frac{3}{12} = ₹8,750$$

(iii)

**B's Capital Account**

Dr.			Cr.	
Particulars		Rs.	Particulars	Rs.
To Profit and Loss A/c		35,000	By Balance b/d	40,000
To Profit and Loss Suspense A/c		8,750	By General Reserve A/c	35,000
To B's Executor's A/c		76,250	By C's Capital A/c (Goodwill)	27,000
		1,20,000	By D's Capital A/c (Goodwill)	18,000
				1,20,000

Question 79.

The Balance Sheet of X, Y and Z as at 31st March, 2018 was:

Liabilities	₹	Assets	₹
Bills Payable	2,000	Cash at Bank	5,800
Employees' Provident Fund	5,000	Bills Receivable	800
Workmen Compensation Reserve	6,000	Stock	9,000
General Reserve	6,000	Sundry Debtors	16,000
Loans	7,100	Furniture	2,000
Capital A/cs:		Plant and Machinery	6,500
X	22,750	Building	30,000
Y	15,250	Advertising	6,000
Z	12,000	Suspense	
	<b>76,100</b>		<b>76,100</b>

The profit-sharing ratio was 3 : 2 : 1. Z died on 31st July, 2018. The Partnership Deed provides that:

(a) Goodwill is to be calculated on the basis of three years purchase of the five years average profit. The profits were : 2017-18: ₹ 24,000; 2016-15: ₹ 20,000; 2014-15: ₹ 10,000 and 2013-14: ₹ 5,000.

(b) The deceased partner to be given share of profits till the date of death on the basis of profits for the previous year.

(c) The Assets have been revalued as: Stock – ₹ 10,000; Debtors – ₹ 15,000; Furniture – ₹ 1,500; Plant and Machinery – ₹ 5,000; Building – ₹ 35,000. A Bill Receivable for ₹ 600 was found worthless.

(d) A Sum of ₹ 12,233 was paid immediately to Z's Executors and the balance to be paid in two equal annual installments together with interest @ 10% p.a. on the amount outstanding.

Give journal entries and show the Z's Executors Account till it is finally settled.

Solution:

**Journal**

<b>Particulars</b>	<b>L.F.</b>	<b>Debit Rs.</b>	<b>Credit Rs.</b>
Workmen's Compensation Reserve To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Being Workmen's Compensation Reserve distributed among partners in their old ratio)	Dr.	6,000	3,000 2,000 1,000
General Reserve A/c To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Being general Reserve distributed among partners in their old ratio)	Dr.	6,000	3,000 2,000 1,000
X's Capital A/c Y's Capital A/c Z's Capital A/c To Advertisement Suspense A/c (Being advertisement Suspense Written off among partners in their old ratio)	Dr. Dr. Dr.	3,000 2,000 1,000	6,000
X's Capital A/c Y's Capital A/c To Z's Capital A/c (Being Z's Share of goodwill adjusted)	Dr. Dr.	4,500 3,000	7,500
Revaluation A/c To Sundry debtors A/c To Furniture A/c To Plant and Machinery A/c To Bills Receivable A/c (Being decrease in value of Assets transferred to Revaluation Account)	Dr.	3,600	1,000 500 1,500 600
Stock A/c Building A/c To Revaluation A/c (Being increase in value of Assets transferred to Revaluation Account)	Dr. Dr.	1,000 5,000	6,000
Revaluation A/c To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Being revaluation profit distributed among partners in their old ratio)	Dr.	2,400	1,200 800 400
Profit and Loss Suspense A/c To Z's Capital A/c (Being Z's share of profit transferred his capital account)	Dr.	1,333	1,333
Z's Capital A/c To Z's Executor's A/c (Being amount due to Z transferred to his Executor's Account)	Dr.	22,233	22,233
Z's Executor's A/c To Bank A/c (Being amount paid to Z's Executor)	Dr.	12,333	12,333

**Z's Executor's Account**

Dr.	Particulars	Rs.	Date	Particulars	Cr. Rs.
2014 31 July 2015	To Bank A/c	12,233	2014 31 July 2015	By Z's Capital A/c	22,233
31 Mar	To Balance c/d	10,667	31 Mar	By Interest A/c (10,000 × 10% for 8months)	667
		<b>22,900</b>			<b>22,900</b>
2015 31 July	To Bank A/c (5,000+667+333)	6,000	2015 1 Apr 31 July	By Balance b/d By Interest A/c (10,000 × 10% for 4 months)	10,667 333
2016			2016	By Interest A/c (5,000 × 10% for 8 months)	333
31 Mar	To Balance c/d	5,333	31 Mar		333
		<b>11,333</b>			<b>11,333</b>
2016 31 July	To Bank A/c (5,000+333+167)	5,500	2016 1 Apr 31 July	By Balance b/d By Interest A/c (5,000 × 10% for 4 months)	5,333 167
		<b>5,500</b>			<b>5,500</b>

### Working Notes

#### 1. Calculation of Goodwill

Goodwill = Average Profit × Number of Year's Purchase

∴ Goodwill = Average Profit × No. of Years Purchase

$$= 15,000 \times 3 = \text{Rs.} 45,000$$

$$\text{Average Profit} = \frac{24,000 + 16,000 + 20,000 + 10,000 + 5,000}{5} = \frac{75,000}{5} = \text{₹}15,000$$

#### 2. Adjustment of Goodwill

X : Y : Z = 3 : 2 : 1 (Old Ratio)

Z's died.

Gaining Ratio (X and Y) = 3 : 2

$$Z's \text{ Goodwill} = 45,000 \times \frac{1}{6} = \text{₹}7,500$$

Z's share of goodwill is to be distributed between X and Y in their = 3 : 2 (Gaining Ratio)

$$X's = 7,500 \times \frac{3}{5} = \text{₹}4,500$$

$$Y's = 7,500 \times \frac{2}{5} = \text{₹}3,000$$

#### 3. Calculation Z's Share of Profit

Profit for Past Year = Rs.24,000

$$Z's \text{ Profit} = 24,000 \times \frac{1}{6} \times \frac{4}{12} = \text{₹}1,333$$

4.

Revaluation Account			
Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Sundry Debtors A/c	1,000	By Stock A/c	1,000
To Furniture A/c	500	By Building A/c	5,000
To Plant and Machinery A/c	1,500		
To Bills Receivable A/c	600		
To Profit transferred to:			
X's Capital A/c	1,200		
Y's Capital A/c	800		
Z's Capital A/c	400	2,400	
		<b>6,000</b>	<b>6,000</b>

Question 80.

X, Y and Z were partners in a firm sharing profits and losses in the 5 : 4 : 3. Their Balance Sheet on 31st March, 2018 was as follows:

Liabilities	₹	Assets	₹
Creditors	2,00,000	Building	2,00,000
Employees Provident Fund	1,50,000	Machinery	3,00,000
General Reserve	36,000	Furniture	1,10,000
Investment Fluctuation Reserve	14,000	Investment(Market value ₹ 86,000)	1,00,000
Capital A/cs:		Debtors	80,000
X	3,00,000	Cash at Bank	1,90,000
Y	2,50,000	Advertisement Suspense	1,20,000
Z	1,50,000		
	<b>7,00,000</b>		<b>11,00,000</b>

X died on 1st October, 2018 and Y and Z decide to share future profits in the ratio of 7 : 5. It was agreed between his executors and the remaining partners that:

(i) Goodwill of the firm be valued at  $2\frac{1}{2}$  years purchase of average of four completed years profit which were:

Year	2014-15	2015-16	2016-17	2017-18
Profit (₹)	1,70,000	1,80,000	1,90,000	1,80,000

(ii) X's share of profit from the closure of last accounting year till date of death be calculated on the basis of last years profit.

(iii) Building undervalued by ₹ 2,00,000; Machinery overvalued by ₹ 1,50,000 and Furniture overvalued by ₹ 46,000.

(iv) A provision of 5% be created on Debtors for Doubtful Debts.

(v) Interest on Capital be provided at 10% p.a.

(vi) Half of the net amount payable to X's executor was paid immediately and the balance was transferred to his loan account which was to be paid later.

Prepare Revaluation Account, X's Capital Account and X's Executors Account as on 1st October,

2018.

Solution:

**Revaluation Account**

Dr.	Rs.	Particulars	Rs.	Cr.
To Machinery A/c	1,50,000	By Building A/c	2,00,000	
To Furniture A/c	46,000			
To Provision for D. Debts A/c	4,000			
	<b>2,00,000</b>		<b>2,00,000</b>	

**X's Capital Account**

Dr.	Rs.	Particulars	Rs.	Cr.
To Advertisement Suspense A/c	50,000	By Balance b/d	3,00,000	
To X's Executors A/c	5,05,000	By General Reserve A/c	15,000	
		By Y's Capital A/c	1,12,500	
		By Z's Capital A/c	75,000	
		By Profit and Loss Suspense A/c	37,500	
		By Interest on Capital A/c	15,000	
	<b>5,55,000</b>		<b>5,55,000</b>	

**X's Executors Account**

Dr.	Rs.	Particulars	Rs.	Cr.
To Bank A/c	2,52,500	By X's Capital A/c	5,05,000	
To X's Executors Loan A/c	2,52,500			
	<b>5,05,000</b>		<b>5,05,000</b>	

### **Working Notes:**

#### **1. Calculation of Share in General Reserve**

$$\text{General Reserve} = \frac{36,000 \times 5}{12} = ₹15,000$$

#### **2. Calculation of Interest on Capital**

$$\text{Interest} = \frac{3,00,000 \times 10 \times 6}{100 \times 12} = ₹15,000$$

#### **3. Calculation of Profit and Loss Suspense**

$$\text{Profit & Loss Suspense A/c} = \frac{1,80,000 \times 5 \times 6}{12 \times 12} = ₹37,500$$

#### **4. Calculation of Share in Goodwill**

Gaining Ratio = New Ratio - Old Ratio

$$Y's = \frac{7}{12} - \frac{4}{12} = \frac{3}{12}$$

$$Z's = \frac{5}{12} - \frac{3}{12} = \frac{2}{12}$$

$$\begin{aligned}\text{Goodwill} &= \text{Average profit} \times \text{No. of Years' Purchase} \\ &= 1,80,000 \times 2.5 = \text{Rs.}4,50,000\end{aligned}$$

$$X's \text{ Goodwill} = 4,50,000 \times \frac{5}{12} = ₹1,87,500$$

X's share of goodwill is to be distributed between Y and Z in their = 3 : 2 (Gaining Ratio)

$$Y's = 1,87,500 \times \frac{3}{5} = ₹1,12,500$$

$$Z's = 1,87,500 \times \frac{2}{5} = ₹75,000$$

Question 81.

X, Y and Z were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Z died on 30th June, 2018. The Balance Sheet of the firm as at that 31st March, 2018 is as follows:

**BALANCE SHEET as at 31st March, 2018**

<b>Liabilities</b>	<b>₹</b>	<b>Assets</b>	<b>₹</b>
X's Capital A/c	2,40,000	Machinery	2,40,000
Y's Capital A/c	1,60,000	Furniture	1,50,000
Z's Capital A/c	80,000	Investments	40,000
	16,000	Stock	64,000
X's Current A/c			
Y's Current A/c	5,000	Sundry Debtors	50,000
Reserve	60,000	Bills	22,000
Bills Payable	34,000	Receivable	
Sundry Creditors	40,000	Cash at Bank	37,000
		Cash in Hand	22,000
		Z's Current A/c	10,000
	6,35,000		6,35,000

The following decisions were taken by the remaining partners:

- (a) A Provision for Doubtful Debts is to be raised at 5% on Debtors.
- (b) While Machinery to be decreased by 10%, Furniture and Stock are to be appreciated by 5% and 10% respectively.
- (c) Advertising Expenses ₹ 4,200 are to be carried forward to the next accounting year and therefore, it is to be adjusted through the Revaluation Account.
- (d) Goodwill of the firm is valued at ₹ 60,000.
- (e) X and Y are to share profits and losses equally in future.
- (f) Profit for the year ended 31st March, 2018 was ₹ 16,000 and Z's share of profit till the date of death is to be determined on the basis of profit for the year ended 31st March, 2018.
- (g) The Fixed Capital Method is to be converted into the Fluctuating Capital Method by transferring the Current Account balances to the respective Partners Capital Accounts.

Prepare the Revaluation Account, Partners Capital Accounts and prepare C's Executors's Account to show that C's Executors were paid in two half-yearly installments plus interest of 10% p.a. on the unpaid balance. The first installment was paid on 31st December, 2018.

Solution:

**Revaluation Account**

<b>Dr.</b>			<b>Cr.</b>
<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Machinery A/c	24,000	By Furniture A/c	7,500
To Provision for D. Debts A/c	2,500	By Stock A/c	6,400
		By Prepaid Advertisement Exp. A/c	4,200
		By Loss transferred to:	
		X's Capital A/c	4,200
		Y's Capital A/c	2,800
		Z's Capital A/c	1,400
	26,500		8,400
			26,500

### Partners' Capital Accounts

Dr.				Cr.			
Particulars	X	Y	Z	Particulars	X	Y	Z
To Current A/c			10,000	By Balance b/d	2,40,000	1,60,000	80,000
To Revaluation A/c	4,200	2,800	1,400	By Current A/c	16,000	5,000	
To Z's Capital A/c		10,000		By Reserve A/c	30,000	20,000	10,000
To Z's Capital A/c		34,000		By Y's Capital A/c			34,000
To Z's Executors A/c			1,22,600	By Y's Capital A/c			10,000
To Balance c/d	2,81,800	1,38,200					
	<b>2,86,000</b>	<b>1,85,000</b>	<b>1,34,000</b>		<b>2,86,000</b>	<b>1,85,000</b>	<b>1,34,000</b>

### Z's Executor Accounts

Dr.				Cr.			
Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2017-18 31 Dec	To Bank A/c (61,300+6,130)		67,430	2017-18 30 Jun	By Z's Capital A/c By Interest A/c $(1,22,600 \times \frac{10}{100} \times \frac{6}{12})$		1,22,600
31 Mar	To Balance c/d		62,832.5	31 Dec	By Interest A/c $(61,300 \times \frac{10}{100} \times \frac{3}{12})$		6,130
			<b>1,30,262.5</b>				<b>1,532.5</b>
							<b>1,30,262.5</b>
2017-18 30 Jun	To Bank (61,300+3,065)		64,365	2017-18 1 April	By Balance b/d By Interest A/c $(61,300 \times \frac{10}{100} \times \frac{3}{12})$		62,832.5
				30 Jun			1,532.5
			<b>64,365</b>				<b>64,365</b>

### Working Notes:

#### 1. Calculation of Profit and Loss Suspense

$$P \& L \text{ Suspense} = \frac{8,16,000 \times 1 \times 3}{6 \times 12} = ₹34,000$$

#### 2. Calculation of Gaining Ratio and Share of Goodwill

Gaining Ratio = New Ratio - Old Ratio

$$X' s = \frac{1}{2} - \frac{3}{6} = \frac{3-3}{6} = Nil$$

$$Y' s = \frac{1}{2} - \frac{2}{6} = \frac{3-2}{6} = \frac{1}{6}$$

$$\text{Gaining Ratio Only } Y' = \frac{1}{6}$$

$$60,000 \times \frac{1}{6} = ₹10,000$$

Z's share of goodwill =

Z's share of goodwill is to be distributed only Y Gaining Ratio

Question 82.

X, Y and Z are partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Their Balance Sheet as at 31st March, 2018 was as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	18,000	Goodwill	12,000
Investments Fluctuation Reserve	7,000	Patents	52,000
Workmen Compensation Reserve	7,000	Machinery	62,400
		Sundry Debtors	24,000
		<i>Less : Provision for D.D.</i>	4,000
			20,000
Capital A/cs:		Investments	6,000
X	1,35,000	Stock	20,000
Y	95,000		
Z	74,000	Loan to Z	1,000
	3,04,000	Cash at Bank	600
	3,36,000	Profit and Loss A/c	1,50,000
		Z's Drawings	12,000
			3,36,000

Z died on 1st April, 2018, X and Y decide to share future profits and losses in ratio of 3 : 5. It was agreed that:

- (i) Goodwill of the firm be valued  $2\frac{1}{2}$  years purchase of average of four completed years profits which were : 2014-15 – ₹ 1,00,000; 2015-16 – ₹ 80,000; 2016-17 – ₹ 82,000.
- (ii) Stock undervalued by ₹ 14,000 and machinery overvalued by ₹ 13,600.

All debtors are good. A debtor whose dues of ₹ 400 were written off as bad debts paid 50% in full settlement.

Out of the amount of insurance premium which was debited entirely to Profit and Loss Account ₹ 2,200 be carried forward as an unexpired insurance premium.

₹ 1,000 included in Sundry Creditors is not likely to arise.

A claim of ₹ 1,000 on account of Workmen Compensation to be provided for.

- (iii) Investment be sold for ₹ 8,200 and a sum of ₹ 11,200 be paid to execution of Z immediately. The balance to be paid in four equal half-yearly installments together with interest @ 8% p.a. at half year rest.

Show Revaluation Account, Capital Accounts of Partners and the Balance Sheet of the new firm.  
Solution:

**Revaluation Account**

Dr.	Particulars	Rs.	Particulars	Rs.	Cr.
To Machinery A/c		13,600	By Creditors A/c	1,000	
To Profit transferred to:			By Stock A/c	14,000	
X's A/c	5,000		By Provision for Doubtful Debts A/c	4,000	
Y's A/c	3,000		By Investment A/c	2,200	
Z's A/c	2,000	10,000	By Bad Debts Recovered A/c	200	
		23,600	By Prepaid Insurance A/c	2,200	
		23,600		23,600	

**Partners' Capital Accounts**

Dr.	Particulars	X	Y	Z	Particulars	X	Y	Z	Cr.
To Goodwill A/c		6,000	3,600	2,400	By Balance b/d	1,35,000	95,000	74,000	
To Drawing A/c				12,000	By Revaluation A/c	5,000	3,000	2,000	
To Profit and Loss A/c		75,000	45,000	30,000	By IFR A/c	3,500	2,100	1,400	
To X's Capital A/c			8,750		By Y's Capital A/c	8,750		14,000	
To Z's Capital A/c			14,000		By WCR A/c	3,000	1,800	1,200	
To Z's Loan A/c				1,000					
To Z's Executors A/c				47,200					
To Balance c/d		74,250	30,550			1,55,250	1,01,900	92,600	
		1,55,250	1,01,900	92,600					

**Z's Executors Account**

Dr.	Particulars	Rs.	Particulars	Rs.	Cr.
To Bank A/c		11,200	By Z's Capital A/c	47,200	
To Z's Executors Loan A/c		36,000			
		47,200		47,200	

**Balance sheet  
as on 1<sup>ST</sup> April 2018 (after Z's death)**

Liabilities	Rs.	Assets	Rs.
Creditors	17,000	Patents	52,000
Z's Executors Loan	36,000	Machinery	48,800
Workmen Compensation Claim	1,000	Stock	34,000
Capital		Debtors	24,000
X	74,250	Prepaid Insurance	2,200
Y	30,550		
Bank Overdraft (600+8,200-11,200+200)			1,61,000
	1,04,800		
	2,200		
	1,61,000		1,61,000

**Working Notes:****1. Calculation of Gaining Ratio and Share of Goodwill**

Gaining Ratio = New Ratio - Old Ratio

$$X's = \frac{3}{8} - \frac{5}{10} = \frac{15-20}{40} = -\frac{5}{40} \text{ (Sacrifice)}$$

$$Y's = \frac{5}{8} - \frac{3}{10} = \frac{25-12}{40} = \frac{13}{40} \text{ (Gain)}$$

$$Z's \text{ Goodwill} = 70,000 \times \frac{2}{10} = ₹14,000$$

$$X's \text{ Goodwill} = 70,000 \times \frac{5}{40} = ₹8,750$$

**2. Calculation of Goodwill**

Goodwill = Average Profit × Number of years Purchase

$$= 28,000 \times 2.5 = \text{Rs. } 70,000$$

$$\text{Average Profit} = \frac{\text{Total Profits of previous 4 years}}{\text{No. of years}}$$

$$= \frac{1,00,000 + 80,000 + 82,000 - 1,50,000}{4} = \frac{1,12,000}{4} = ₹28,000$$

Question 83.

X, Y and Z were partners in a firm sharing profits in the ratio of 2 : 2 : 1. On 31st March, 2018 their Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Trade Creditors	1,20,000	Cash at Bank	1,80,000
Bills Payable	80,000	Stock	1,40,000
General Reserve	60,000	Sundry Debtors	80,000
Capital A/cs:		Building	3,00,000
X	7,00,000	Advance to Y	7,00,000
Y	7,00,000	Profit and Loss A/c	3,20,000
Z	60,000		
	14,60,000		
	17,20,000		17,20,000

Y died on 30th June, 2018. The Partnership Deed provided for the following on the death of a partner:

- (i) Goodwill of the business was to be calculated on the basis of 2 times the average profit of the past 5 years. The profits for the years ended 31st March, 2018, 31st March, 2017, 31st March, 2016, 31st March, 2015 and 31st March, 2014 were ₹ 3,20,000 (Loss) ; ₹ 1,00,000; ₹ 1,60,000; ₹ 2,20,000

and ₹ 4,40,000 respectively.

(ii) Y's share of profit or loss from 1st April, 2018 till his death was to be calculated on the basis of the profit or loss for the year ended 31st March, 2018.

You are required to calculate the following:

(a) Goodwill of the firm and Y's share of goodwill at the time of his death.

(b) Y's share in the profit or loss of the firm till the date of his death.

(c) Prepare Y's Capital Account at the time of his death to be presented to his executors.

Solution:

#### **Y's Capital Account**

Dr.	Cr.		
Particulars	Rs.	Particulars	Rs.
Advance to Y	7,00,000	Balance b/d	7,00,000
Profit and Loss A/c	1,28,000	General Reserve	24,000
Profit and Loss Suspense A/c	32,000	X's Capital A/c	64,000
	8,60,000	Z's Capital A/c	32,000
		Balance c/d (Amount due from Y)	40,000
			8,60,000

**Working Notes:**

**WN1: Calculation of Y's Share of Profit/Loss**

Y's share = Last Year's Profit/Loss x Y's Profit Share x Period for which Y remained in the business

$$\text{Y's share(loss)} = 3,20,000 \times \frac{2}{5} \times \frac{3}{12} = 32,000$$

**WN2: Calculation of Y's Share of Goodwill**

Y's share = Firm's Goodwill x Y's Profit Share

$$\text{Y's share} = 2,40,000 \times \frac{2}{5} = 96,000 \text{ (to be borne by gaining partners in gaining ratio)}$$

Firm's Goodwill = Average Profit x 2

$$\begin{aligned} \text{Average Profits} &= \frac{\text{Total Profits}}{\text{Number of Years}} \\ &= \frac{(3,20,000) + 1,00,000 + 1,60,000 + 2,20,000 + 4,40,000}{5} \\ &= \frac{6,00,000}{5} = \text{Rs } 1,20,000 \end{aligned}$$

$$\text{Firm's Goodwill} = 1,20,000 \times 2 = 2,40,000$$