Chapter 3

Reconstitution of a Partnership Firm – Retirement/Death of a Partner

EXERCISE-3.1

1 Marks

1. Anita, Jaya and Nisha are partners sharing profits and losses in the ratio of 1:1:1 Jaya retires from the firm. Anita and Nisha decided to share the profit in future in the ratio 4 :3. Calculate the gaining ratio.

Answer Gaining ratio = New ratio – Old ratio

$$\text{Anita's gain} = \frac{4}{7} - \frac{1}{3} = \frac{12-7}{21} = \frac{5}{21}$$

$$\text{Nisha's gain} = \frac{3}{7} - \frac{1}{3} = \frac{9-7}{21} = \frac{2}{21} \text{ or } 5:2$$

2. Azad, Vijay and Amit are partners sharing profits and losses in the proportion of 1/4,1/8,10/16 and Calculate the new profit sharing ratio between continuing partners if (a) Azad retires; (b) Vijay retires; (c) Amit retires.

Answer Share of partners $= \frac{1}{4} : \frac{1}{8} : \frac{10}{16}$ or $\frac{4:2:10}{16}$

$= 4:2:10$ or $2:1:5$

(a) If Azad retires, Vijay and Amit's share = 1 : 5

(b) If Vijay retires, Azad and Amit's share = 2 : 5

(c) It Amit retires, Azad and Vijay's share = 2 : 1

3. Calculate the gaining ratio in each of the above situations.

Answer Gaining = ratio New ratio – Old ratio

(a) If Azad retires

$$\text{Vijay's gain} = \frac{1}{6} - \frac{1}{8} = \frac{4-3}{24} = \frac{1}{24}$$

$$\text{Amit's gain} = \frac{5}{6} - \frac{5}{8} = \frac{20-15}{24} = \frac{5}{24}$$

$$= 1:5$$

(b) If Vijay retires

$$\text{Azad's gain} = \frac{2}{7} - \frac{2}{8} = \frac{16-14}{56} = \frac{2}{56}$$

$$\text{Amit's gain} = \frac{5}{7} - \frac{5}{8} = \frac{40-35}{56} = \frac{5}{56}$$

$$= 2:5$$

(c) If Amit retires

$$\text{Azad's gain} = \frac{2}{3} - \frac{2}{8} = \frac{16-6}{24} = \frac{10}{24}$$

$$\text{Vijay's gain} = \frac{1}{3} - \frac{1}{8} = \frac{8-3}{24} = \frac{5}{24}$$

$$= 10:5 \text{ or } 2:1$$

4.Anu, Prabha and Milli are partners. Anu retires. Calculate the future profit sharing ratio of continuing partners and gaining ratio if they agree to acquire her share : (a) in the ratio of 5:3; (b) equally.

Answer Anu, Prabha and Milli = 1:1:1

Anu retires.

(a) Her share $\left(\frac{1}{3}\right)$ acquired by Prabha and Milli in 5 : 3.

$$\text{Prabha gets} = \frac{1}{3} \times \frac{5}{8} = \frac{5}{24} \text{ (gain)}$$

$$\text{Milli gets} = \frac{1}{3} \times \frac{3}{8} = \frac{3}{24} \text{ (gain)}$$

Prabha's new share $= \frac{1}{3} + \frac{5}{24} = \frac{8+5}{24} = \frac{13}{24}$

Milli's new share $= \frac{1}{3} + \frac{3}{24} = \frac{8+3}{24} = \frac{11}{24}$; New ratio $= 13 : 11$

(b) Anu's share $\left(\frac{1}{3}\right)$ acquired by Prabha and Milli equally.

Prabha gets $= \frac{1}{3} \times \frac{1}{2} = \frac{1}{6}$ (gain)

Milli gets $= \frac{1}{3} \times \frac{1}{2} = \frac{1}{6}$ (gain)

Prabha's new share $= \frac{1}{3} + \frac{1}{6} = \frac{2+1}{6} = \frac{3}{6}$

Milli's new share $= \frac{1}{3} + \frac{1}{6} = \frac{2+1}{6} = \frac{3}{6}$; New ratio $= 3 : 3$ or $1 : 1$

5. Rahul, Robin and Rajesh are partners sharing profits in the ratio of 3 : 2 : 1. Calculate the new profit sharing ratio of the remaining partners if (i) Rahul retires; (ii) Robin retires; (iii) Rajesh retires.

Prabha's new share $= \frac{1}{3} + \frac{5}{24} = \frac{8+5}{24} = \frac{13}{24}$

Milli's new share $= \frac{1}{3} + \frac{3}{24} = \frac{8+3}{24} = \frac{11}{24}$; New ratio $= 13 : 11$

(b) Anu's share $\left(\frac{1}{3}\right)$ acquired by Prabha and Milli equally.

Prabha gets $= \frac{1}{3} \times \frac{1}{2} = \frac{1}{6}$ (gain)

Milli gets $= \frac{1}{3} \times \frac{1}{2} = \frac{1}{6}$ (gain)

Prabha's new share $= \frac{1}{3} + \frac{1}{6} = \frac{2+1}{6} = \frac{3}{6}$

Milli's new share $= \frac{1}{3} + \frac{1}{6} = \frac{2+1}{6} = \frac{3}{6}$; New ratio $= 3 : 3$ or $1 : 1$

6.Puja, Priya, Pratistha are partners sharing profits and losses in the ratio of 5 : 3 : 2. Priya retires. Her share is taken by Priya and Pratistha in the ratio of 2 : 1. Calculate the new profit sharing ratio.

Answer Puja, Priya and Pratistha having 5 : 3 : 2 ratio. Puja retires and her share taken by

$$\text{Priya} = \frac{5}{10} \times \frac{2}{3} = \frac{10}{30}$$

$$\text{Pratistha} = \frac{5}{10} \times \frac{1}{3} = \frac{5}{30}$$

$$\text{New share of Priya} = \frac{3}{10} + \frac{10}{30} = \frac{9+10}{30} = \frac{19}{30}$$

$$\text{New share of Pratistha} = \frac{2}{10} + \frac{5}{30} = \frac{6+5}{30} = \frac{11}{30} = 19 : 11$$

Note *There is a mistake in question. Hence, it is assumed that Puja retires.*

7.Ashok, Anil and Ajay are partners sharing profits and losses in the ratio of 1/2, 3/10 and 1/5. . Anil retires from the firm. Ashok and Ajay decide to share future profits and losses in the ratio of 3 : 2. Calculate the gaining ratio.

Answer Ashok : Anil : Ajay

$$\frac{1}{2} : \frac{3}{10} : \frac{1}{5}$$

$$\frac{5 : 3 : 2}{10} = 5 : 3 : 2$$

Anil retires.

New share of Ashok and Ajay = 3 : 2

Gaining ratio = New ratio – Old ratio

$$\text{Ashok's gain} = \frac{3}{5} - \frac{5}{10} = \frac{6-5}{10} = \frac{1}{10}$$

$$\text{Ajay's gain} = \frac{2}{5} - \frac{2}{10} = \frac{4-2}{10} = \frac{2}{10}$$

Gaining ratio = 1 : 2

TEST YOUR UNDERSTANDING I

Choose the correct option in the following s:

1. Abhishek, Rajat and Vivek are partners sharing profits in the ratio of 5:3:2. If Vivek retires, the New Profit Sharing Ratio between Abhishek and Rajat will be–

(a) 3:2 (b) 5:3 (c) 5:2 (d) None of these

Answer (b) 5 :3

2. The old profit sharing ratio among Rajender, Satish and Tejpal were 2:2:1. The new profit sharing ratio after Satish's retirement is 3:2. The gaining ratio is

(a) 3 : 2 (b) 2 : 1

(c) 1 : 1 (d) 2 : 2

Answer (c)

Working Note

Gaining ratio = New ratio – Old ratio

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

$$\text{Tejpal's gain} = \frac{2}{5} - \frac{1}{5} = \frac{2-1}{5} = \frac{1}{5}$$

$$= 1:1$$

3. Anand, Bahadur and Chander are partners. Sharing Profit equally on Chander's retirement, his share is acquired by Anand and Bahadur in the ratio of 3 : 2. The new profit sharing ratio between Anand and Bahadur will be

(a) 8 : 7 (b) 4 : 5 (c) 3 : 2 (d) 2:3

Answer (a)

Working Note

Chander's share

$$\text{acquired by Anand (gain)} = \frac{1}{3} \times \frac{3}{5} = \frac{3}{15}$$

$$\text{acquired by Bahadur (gain)} = \frac{1}{3} \times \frac{2}{5} = \frac{2}{15}$$

$$\text{Anand's new ratio} = \frac{1}{3} + \frac{3}{15} = \frac{5+3}{15} = \frac{8}{15}$$

$$\text{Bahadur's new ratio} = \frac{1}{3} + \frac{2}{15} = \frac{5+2}{15} = \frac{7}{15}$$

New ratio = 8 : 7

4. In the absence of any information regarding the acquisition of share in profit of the retiring/deceased partner by the remaining partners, it is assumed that they acquire his/her share
(a) old profit sharing ratio (b) new profit sharing ratio (c) equal ratio (d) None of these
Answer (a) Old profit sharing ratio

TEST YOUR UNDERSTANDING II

• Choose the correct option in the following s
1. On retirement/death of a partner, the retiring/deceased partner's capital account will be credited with
(a) his/her share of goodwill
(b) goodwill of the firm
(c) shares of goodwill of remaining partners
(d) None of the above
Answer (a) His/Her share of goodwill

2. Gobind, Hari and Pratap are partners. On retirement of Gobind, the goodwill already appears in the Balance Sheet at T 24,000. The goodwill will be written off
(a) by debiting all partners' capital accounts in their old profit sharing ratio
(b) by debiting remaining partners' capital accounts in their new profit sharing ratio
(c) by debiting retiring partners' capital accounts from his share of goodwill
(d) None of the above
Answer (a) By debiting all partners' capital accounts in their old profit sharing ratio

3.Chaman, Raman and Suman are partners sharing profits in the ratio of 5:3:2. Raman retires, the new profit sharing ratio between Chaman and Suman will be 1:1. The goodwill of the firm is valued at Rs. 1,00,000 Raman's share of goodwill will be adjusted
(a) by debiting Chaman's Capital account and Suman's Capital Account with Rs 15,000 each.
(b) by debiting Chaman's Capital account and Suman's Capital Account with Rs. 21,429 and 8,571 respectively.
(c) by debiting only Suman's Capital Account with Rs. 30,000.

(d) by debiting Raman's Capital account with Rs. 30,000.
Answer (c)

Working Note

Gaining ratio of remaining partners

Chaman's gain = New ratio − Old ratio

$$= \frac{1}{2} - \frac{5}{10} = \frac{5-5}{10} = \frac{0}{10} \text{ (No gain or loss)}$$

$$\text{Suman's gain} = \frac{1}{2} - \frac{2}{10} = \frac{5-2}{10} = \frac{3}{10} \text{ (gain)}$$

4. On retirement/death of a partner, the remaining partner(s) who have gained
due to change in profit sharing ratio should compensate the
(a) retiring partners only.
(b) remaining partners (who have sacrificed) as well as retiring partners.
(c) remaining partners only (who have sacrificed).
(d) none of these.

Answer (b) Remaining partners (who have sacrificed) as well as partners

EXERCISE-3.2

2 Marks

1. Vijay, Ajay and Mohan are friends. They passed B (Hons) from Delhi University in June, 2013. They decided to business of computer hardware. On 1st of August, 2013, they introduced the capital of Rs. 50,000, Rs.30,000 and Rs. 20,000 respectively and started the business in partnership at Delhi. The profit sharing ratio decided between there was 4:2:1. The business was running successfully. But on 1st February, 2019, due to certain unavoidable circumstances and family circumstances, Ajay decided to settle in Pune and decided to retire from the partnership on 31st March, 2020; with the consent of partners, Ajay retires as on 31st March, 2020, the position of assets and liabilities are as follows

Balance Sheet of Vijay, Ajay and Mohan
as on March 31, 2013

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital Accounts			Goodwill	56,000
Vijay	1,80,000		Stock	90,000
Ajay	1,20,000		Debtors	66,000
Mohan	1,00,000	4,00,000	Land and Buildings	1,20,000
Bills Payable		12,000	Machinery	1,59,000
General Reserve		42,000	Motor Van	31,000
Creditors		90,000	Cash at Bank	22,000
		5,44,000		5,44,000

On the date of retirement, the following adjustments were to be made
(1) Firm's goodwill was valued at Rs. 1,48,000.
(2) Assets and Liabilities are to be valued as under; Stock Rs. 72,000; Land and Buildings Rs. 1,35,600; Debtors Rs. 63,000; Machinery Rs.1,50,000; Creditors Rs. 84,000.
(3) Vijay to bring Rs. 1,20,000 and Mohan Rs. 30,000 as additional capital.
(4) Ajay was to be paid Rs. 97,200 in cash and the balance of his Capital Account to be transferred to his Loan Account Work out the amount

Answer

Dr **Revaluation Account** Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Stock	18,000	By Land and Building		15,600
To Debtors	3,000	By Creditors		6,000
To Machinery	9,000	By Loss Transferred to		
		Vijay's Capital	4,800	
		Ajay's Capital	2,400	
		Mohan's Capital	1,200	8,400
	30,000			30,000

Dr **Capital Account** Cr

Particulars	Vijay	Ajay	Mohan	Particulars	Vijay	Ajay	Mohan
To Goodwill	32,000	16,000	8,000	By Balance b/d	1,80,000	1,20,000	1,00,000
To Loss on Revaluation	4,800	2,400	1,200	By General Reserve	24,000	12,000	6,000
To Ajay's Capital	33,829		8,457	By Cash (Ad Cap)	1,20,000		30,000
To Cash		97,200		By Vijay's Capital		33,829	
To Ajay's Loan		58,686		By Mohan's Capital		8,457	
To Balance c/d	2,53,371		1,18,343				
	3,24,000	1,74,286	1,36,000		3,24,000	1,74,286	1,36,000

Working Note

$$\text{Ajay's share of goodwill} = 1{,}48{,}000 \times \frac{2}{7} = 42{,}286$$

To be paid in gaining ratio by remaining partners

$$\text{Vijay's contribution} = 42{,}286 \times \frac{4}{5} = 33{,}829$$

$$\text{Mohan's contribution} = 42{,}286 \times \frac{1}{5} = 8{,}457$$

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

$$\text{Vijay's share} = \frac{4}{5} - \frac{4}{7} = \frac{28-20}{35} = \frac{8}{35}$$

$$\text{Mohan's share} = \frac{1}{5} - \frac{1}{7} = \frac{7-5}{35} = \frac{2}{35}$$

$$= 8 : 2$$

$$= 4 : 1$$

Do it yourself III

1. The Balance Sheet of A, B and C who were sharing the profits in proportion to their capitals stood as on March 31, 2007.

Balance Sheet
as on March 31, 2007

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Bills Payable		6,250	Land and Building		12,000
Sundry Creditors		10,000	Debtors	10,500	
Reserve Fund		2,750	(–) Provision		
Capitals			for Bad Debts	(500)	10,000
A	20,000		Bill Receivables		7,000
B	15,000		Stock		15,500
C	15,000	50,000	Plant and Machinery		11,500
			Cash at Bank		13,000
		69,000			69,000

B retired on the date of Balance Sheet and the following adjustments were to be made
(a) Stock was depreciated by 10%.
(b) Factory building was appreciated by 12%.
(c) Provision for doubtful debts to be created up to 5%.
(d) Provision for legal charges to be made at Rs. 265.
(e) The goodwill of the firm to be fixed at Rs. 10,000.
(f) The capital of the new firm to be fixed at Rs. 30,000. The continuing partners decide to keep their capitals in the new profit sharing ratio of 3:2. Work out the final balances in capital accounts of the firm and the amount to bh brought in and/or withdrawn by A and C to make their capitals proportionate to then new profit sharing ratio.

Balance Sheet
as on March 31, 2007

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Bills Payable		6,250	Land and Building		12,000
Sundry Creditors		10,000	Debtors	10,500	
Reserve Fund		2,750	(−) Provision		
Capitals			for Bad Debts	(500)	10,000
A	20,000		Bill Receivables		7,000
B	15,000		Stock		15,500
C	15,000	50,000	Plant and Machinery		11,500
			Cash at Bank		13,000
		69,000			69,000

Dr **Partners' Capital Account** Cr

Particulars	A	B	C	Particulars	A	B	C
To Revaluation A/c	160	120	120	By Balance b/d	20,000	15,000	15,000
To B's Capital A/c	2,000		1,000	By Reserve Fund	1,100	825	825
To B's loan A/c		18,705		By A's Capital A/c		2,000	
To Bank A/c	940		2,705	By C's Capital A/c		1,000	
To Balance c/d	18,000		12,000				
	21,100	18,825	15,825		21,100	18,825	15,825

Balance Sheet
as on March 31, 2007

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Bills Payable		6,250	Land and Building	12,000	
Sundry Creditors		10,000	(+) Appreciation	1,440	13,440
Reserve for Legal Charges		265	Debtors	10,500	
B's Loan A/c		18,705	(–) Provision	(525)	9,975
			Bills Receivable		7,000
			Stock	15,500	
		3,645	(–) Depreciation	(1,550)	13,950
Capital A/c		50,000	Plant and Machinery		11,500
A	18,000		Bank Balance		9,355
B	12,000	30,000			
		65,220			65,220

Working Note

$$\begin{array}{lcccccc} & & A & : & B & : & C \\ \text{Old Ratio} & = & 4 & : & 3 & : & 3 \end{array}$$

$$\text{New Ratio} = A : C$$
$$3 : 2$$

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

$$A = \frac{3}{5} - \frac{4}{10}$$
$$= \frac{6-4}{10} = \frac{2}{10}$$

$$C = \frac{2}{5} - \frac{3}{10}$$
$$= \frac{4-3}{10} = \frac{1}{10} = 2 : 1$$

$$\text{Firms Goodwill} = 10{,}000$$

$$\text{B's share} = 10{,}000 \times \frac{3}{10} = 3{,}000$$

Dr **Bank Account** Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	13,000	By A's Capital A/c	940
		By B's Capital A/c	2,705
		By Balance c/d	9,355
	13,000		13,000

2. R, S and M were carrying on business in partnership sharing profits in the ratio of 3 : 2 : 1 respectively. On March 31, 2011, Balance Sheet of the firm stood as follows

Balance Sheet
as on March 31, 2011

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Sundry Creditors		16,000	Building	23,000
Capitals			Debtors	7,000
R	20,000		Stock	12,000
S	7,500		Patents	8,000
M	12,500	40,000	Bank	6,000
		56,000		56,000

Shyam retired on the above mentioned date on the following terms
(a) Buildings to be appreciated by ? 8,800.
(b) Provision for doubtful debts to be made @ 5% on debtors.
(c) Goodwill of the firm to be valued at ? 9,000.
(d) Rs.5,000 to be paid to S immediately and the balance due to him to be treated as a loan carrying interest @ 6% per annum.

Prepare the balance sheet of the reconstituted firm.

Answer

Dr **Revaluation Account** Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Provision for Doubtful Debts		350	By Building	8,800
To Profit on Revaluation Transferred to				
R's Capital	4,225			
S's Capital	2,817			
M's Capital	1,408	8,450		
		8,800		8,800

Dr **Partners' Capital Account** Cr

Particulars	R	S	M	Particulars	R	S	M
To S's Capital	2,250		750	By Balance b/d	20,000	7,500	12,500
To Cash		5,000		By Profit on Revaluation	4,225	2,817	1,408
To S's Loan		8,317		By R's Capital		2,250	
				By M's Capital		750	
To Balance c/d	21,975		13,158				
	24,225	13,317	13,908		24,225	13,317	13,908

Balance Sheet
as on March 31, 2011

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Creditors		16,000	Building	(23,000 + 8,800)	31,800
S's Loan		8,317	Debtors	(7,000 – 350)	6,650
Capital			Stock		12,000
R	21,975		Patents		8,000
M	13,158	35,133	Bank	(6,000 – 5,000)	1,000
		59,450			59,450

Working Note

$$\text{S's share of goodwill} = 9{,}000 \times \frac{2}{6} = 3{,}000$$

To be paid in gaining ratio by remaining partners.

$$\text{R's share} = 3{,}000 \times \frac{3}{4} = 2{,}250$$

$$\text{M's share} = 3{,}000 \times \frac{1}{4} = 750$$

EXERCISE-3.3

4 Marks

1. On December 31, 2007, the Balance Sheet of Pinki, Qureshi and Rakesh showed as under

Balance Sheet

as on March 31, 2007

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Sundry Creditors		25,000	Buildings	26,000
Reserve Fund		20,000	Investments	15,000
Capitals			Debtors	15,000
Pinki	15,000		Bills Receivables	6,000
Qureshi	10,000		Stock	12,000
Rakesh	10,000	35,000	Cash	6,000
		80,000		80,000

The partnership deed provides that the profit be shared in the ratio of 2:1:1 and that in the event of death of a partner, his executors be entitled to be paid out

(a) The capital of his credit at the date of last Balance Sheet.

(b) His proportion of reserves at the date of last Balance Sheet.

(c) His proportion of profits to the date of death based on the average profits of the last three completed years, plus 10%.

(d) By way of goodwill, his proportion of the total profits for the three preceding years. The net profit for the last three years were

	Rs.
2005	16,000
2006	16,000
2007	15,400

Rakesh died on April 1, 2007. He had withdrawn Rs. 5,000 to the date of his death. The investment were sold at par and R's Executors were paid off.

Prepare Rakesh's Capital Account that of his executors.

Answer

Dr **Rakesh's Capital Account** Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Drawings	5,000	By Balance b/d	10,000
To Rakesh's Executor's	22,936	By Reserve Fund	5,000
		By Profit and Loss (Suspense)	1,086
		By Pinki's Capital	7,900
		By Qureshi's Capital	3,950
	27,936		27,936

Dr **Rakesh's Executor's Account** Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance c/d	22,936	By Rakesh's Capital	22,936
	22,936		22,936

Working Note

$$\text{Profit and Loss} = \frac{16{,}000 + 16{,}000 + 15{,}400}{3}$$

$$= \frac{47{,}400}{3} = 15{,}800 + 10\% \text{ of } 15{,}800$$

$$= 15{,}800 + 1{,}580$$

$$= 17{,}380$$

$$= 17{,}380 \times \frac{1}{4} \times \frac{3}{12} = 1{,}086.25$$

$$\text{Pinki's Capital} = 15800 \times \frac{2}{4} = 7{,}900$$

$$\text{Qureshi's Capital} = 15{,}800 \times \frac{1}{4} = 3{,}950$$

Short Answer Type s

1. What are the different ways in which a partner can retire from the firm?
Answer A partner can retire from the firm in three different ways. They are as follow
(i) Retirement Through Mutual Consent A partnership firm take its shape through mutual consent of partners in the same way. A partner may retire if all the partners agree on the decision of his/her retirement.
(ii) When There is a Provision in Partnership Deed When there is a provision for the retirement of a partner in the partnership deed in that case partner may retire from the firm by expressing his/her intention of leaving the firm though a notice to the other partners of the firm.
(iii) Retirement Through Written Notice In case when partnership among the partners is at will, then a partner may retire by giving notice in writing to all the other partners informing them about his/her intention to retire.

2. Write the various matters that need adjustments at the time of retirement of partners.
Answer The following are the various matters that need to be adjusted at the time of retirement of partners/partner
(i) Revaluation of assets and liabilities of the new firm.
(ii) Calculation of goodwill of the new firm and its accounting treatment.
(iii) Calculation of new ratio of the remaining partners of the firm.
(iv) Computation of new gaining ratio among rest of the partners.
(v) Distribution of accumulated profits and losses and reserves among all the partners (including the retiring partner).
(vi) Treatment of Joint Life Policy.
(vii) Disposal of the amount due to the retiring partner
(viii) Adjustment of capital accounts of the remaining partners in their new profit sharing ratio.

3. Distinguish between sacrificing ratio and gaining ratio.

Answer Difference between Sacrificing and Gaining Ratio

Basis of Difference	Sacrificing Ratio	Gaining Ratio
Objective	It is calculated to ascertain the share of profit and loss given up by the existing partners in favour of new partners/partner.	It is calculated to ascertain the share of profit and loss acquired by the remaining partners (of the new firm in case of retirement) from the retiring or deceased partner.
Meaning	It is the ratio in which old partners agree to sacrifice their share of profit in favour of new partners/partner.	It is the ratio in which continuing partner acquires the share of profit from outgoing partner/partner
Time	It is calculated at the time of admission of new partners/partner.	It is calculated at the time of retirement/death of old partners/partner.
Calculation	Sacrificing Ratio = Old Ratio – New Ratio.	Gaining Ratio = New Ratio – Old Ratio.
Effect	It reduces the profit sharing ratio of the existing partners.	It increases the profit sharing ratio of the remaining partners.

4. Why do firm revaluate assets and reassess their liabilities on retirement or on the event of death of a partner?

Answer At the time of retirement or death of a partner, it becomes inevitable to revalue the assets and liabilities of the firm for ascertaining their true and fair values. The revaluation is necessary as the value of assets and liabilities may increase or decrease with the passage of time.

Further, it may be possible that there are certain assets and liabilities that remained unrecorded in the books of accounts. The retiring or the deceased partner may be benefitted or may bear loss due to change in the values of assets and liabilities. Therefore, the revaluation of the assets and liabilities is necessary in order to ascertain the true profit or loss that is to be divided among all the partners in their old profit sharing ratio.

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

Answer Goodwill is an intangible asset of a firm that is earned by the efforts of all the partners of the firm. After the retirement or death of a partner, the fruits of the past performance and reputation will be shared only by the remaining partners.

Thus, the remaining partners should compensate the retiring orthe deceased partner by entitling him/her a share of firm's goodwill.

Long Answer Type s

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

Answer Payment to a retiring partner can be made in the following ways

(i) Lump Sum Payment : A lump sum payment can be made to the retiring partner in full settlement. In that case, the following Journal entry will be passed

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Retiring Partner's Capital A/c Dr To Cash/Bank A/c (Being payment made to the retiring partner)			

(ii) Opening the Loan Account Sometimes the amount due to the retiring partner is paid in instalments then the balancing figure of his/her capital account is transferred to his/her loan account, in this case, the retiring partner receives equal instalments along with the interest on the amount outstanding. In that case the following journal entries will be passed for transferring the amount paid to him/her in retiring partner's loan account.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Retiring Partner's Capital A/c Dr To Retiring Partner's Loan A/c (Being balance of retiring partner's capital account transferred to his/her loan account with such and such percentage of interest per annum)			

(iii)Some Payment in Cash and Some in Instalment Sometimes the amount due to the retiring partner is paid partly in cash and partly in equal instalments in that case a certain amount is paid in cash to the retiring partner and the rest amount due to him/her is transferred to his/her loan account. The following necessary journal entry is to be passed.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Retiring Partner's Capital A/c Dr			
	To Cash/Bank A/c			
	To Retiring Partner's Loan A/c			
	(Being part payment made to retiring partner and the balance amount transferred to his/her loan account with such and such percentage of interest per annum)			

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

Answer In case of a death, the legal executor of the deceased partner is entitled for a claim which includes his share of profit or loss, interest on capital, interest on drawings In that case for computing the amount payable is calculated by preparing the deceased partner's capital account as follows

Dr **Deceased Partners' Capital Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Revaluation A/c (Loss)				By Balance b/d		
	To Profit and Loss Suspense A/c (Share of loss up to the date of the death)				By Profit and Loss Suspense A/c (Share of profit up to the date of the death)		
					By Goodwill		
	To Accumulated Losses A/c				By Reserves and Profits		
	To Goodwill A/c (Written off)				By Revaluation A/c (gain)		
	To Partner Executor's A/c (Payment due) (Balancing Figure)				By Joint Life Policy A/c		
					By Interest on Capital A/c		
					By Salary A/c		
					By Commission A/c		

Note *In the above capital account, the legal executor will be entitled for the balancing figure that is the excess of the credit side over the debit side of the deceased partner's capital account*

Note: In the above capital account, the legal executor will be entitled for the balancing
figure that is the excess of the credit side over the debit side of the deceased partner's capital account.

3. Explain the treatment of goodwill at the time of retirement or on the event of death of a partner.

Answer At the time of retirement or is the event of death of a partner, the goodwill of the firm is adjusted among the partners in their gaining ratio with the share of goodwill of the retiring or the deceased partner. At the time of retirement or on the event of death of a partner, goodwill account is not opened hence only two situations are left for treating the goodwill first when
goodwill account is already there in the book or it appear in the books and second when the amount of goodwill is not appearing in the books.

The treatment of goodwill will be as follows in the above two situations

First Situation When Goodwill Already Appears in the Books of the Firm

Step 1 Write-off the Existing Goodwill When goodwill account already exist in the book of the firm or mentioned in the book first of all, it will be written oft and should be distributed among all the partners of the firm including the retiring or the deceased partner in their old profit sharing ratio. In that case, the journal entry will be as follows

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	All Partner's Capital A/c Dr To Goodwill A/c (Being goodwill written off among all the partners in their profit sharing ratio)			

Step 2 Adjusting Goodwill Through Partners' Capital Account

After writing off the old goodwill, the amount of goodwill now needs to be adjusted through the partner's capital account with the share of the goodwill of the retiring orthe deceased partner. The following journal entry is passed.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Remaining Partners' Capital A/c Dr To Retiring/Deceased Partner's Capital A/c (Being existing partner's capital account is debited in their gaining ratio and retiring/deceased partner's capital account is credited)			

Second Situation When No Goodwill Appears in the Books of the Firm
In second case, when no goodwill appears in the books of the firm, the amount of goodwill will be adjusted through the partner's capital account with the share of the goodwill of the retiring or the deceased partner. The following journal entry'is passed

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Remaining Partner's Capital A/c Dr To Retiring /Deceased Partner's Capital A/c (Being existing partner's capital account is debited in their gaining ratio and retiring/ deceased partner's capital account is credited)			

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

Answer Computation of profit will be different in case of death of a partner as compare to the retirement. The reason is that in case of retirement everything is pre-planned but in case of death nothing is planned. In case of death, the share of profit.can be calculated by one of the two methods.

(i) On the Basis of Time

In this method, profit upto the date of the death of the partner is calculated on the basis of time passed till the death of the partner from the beginning of the year on the bases of the last year's/years' profit or average profit of last few years.
The assumption in this method is that the profit will be uniform throughout the

current year. The share of the deceased partner profit will be calculated as follows

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

Example A, B, C and D are equal partners. The profit of the firm for the years 2009, 2010 and 2011 are ? 5,00,000, ? 7,00.000 and <9,00,000 respectively. C dies on June 30, 2012. The share of C in the firm's profit will be calculated on the basis of average profit of last three years. Firm closes its books every year on December 31.
In this case, C's share in the profits will be calculated for four months. i e., from January 1. 2012

$$\text{Average Profit} = \frac{5,00,000 + 7,00,000 + 9,00,000}{3} = ₹\ 7,00,000$$

$$\text{C's Share of Profit} = 7,00,000 \times \frac{6}{12} \times \frac{1}{4} = ₹\ 87,500$$

(ii) On the Basis of Sale
In this method, profit up to the date of the death of the partner is calculated on the basis of sales affected till the date of the' death of the partner from the beginning of the year. The assumption in this method is that the net profit margin for current year will be same as the previous year. The share of the deceased partner profit will be calculated as follows

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

Example A, B and C are equal partners. The last year's sales and profit were ? 40,00,000 and ? 4,00,000. C died on June, 2012. Sales of the current year till the date of C's death amounts to ? 15,00,000. Firm closes its books on December 31 every year.

Example A, B and C are equal partners. The last year's sales and profit were ₹ 40,00,000 and ₹ 4,00,000. C died on June, 2012. Sales of the current year till the date of C's death amounts to ₹ 15,00,000. Firm closes its books on December 31 every year.

$$\text{C's Share of Profit} = \frac{4,00,000}{40,00,000} \times 15,00,000 \times \frac{1}{3} = ₹\ 50,000$$

Numerical s

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

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Aparna's Capital A/c	Dr		18,000	
	Sonia's Capital A/c	Dr		42,000	
	To Manisha's Capital A/c				60,000
	(Being Manisha's share of goodwill adjusted to remaining partners capital account in gaining ratio)				

Working Note

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

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

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

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

or 3 : 7

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

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

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

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Sangeeta's Capital A/c	Dr		12,000	
	Saroj's Capital A/c	Dr		18,000	
	Shanti's Capital A/c	Dr		30,000	
	To Goodwill A/c				60,000
	(Being existing goodwill written off among old partners in old ratio)				
	Saroj's Capital A/c	Dr		18,000	
	To Sangeeta's Capital A/c				18,000
	(Being Sangeeta's share of goodwill is adjusted from Saroj's capital account in gaining ratio)				

Working Note

Sangeeta's share of goodwill = Total goodwill of firm × Retiring partners' share

$$= 90{,}000 \times \frac{2}{10} = ₹\ 18{,}000$$

Gaining ratio = New ratio − Old ratio

$$\text{Saroj's gaining ratio} = \frac{1}{2} - \frac{3}{10} = \frac{5-3}{10} = \frac{2}{10}$$

$$\text{Shanti's gaining ratio} = \frac{1}{2} - \frac{5}{10} = \frac{5-5}{10} = 0$$

Hence, goodwill will be adjusted from Saroj's capital account to Sangeeta's capital account.

3. Himanshu, Gagan and Naman are partners sharing profits and losses in the ratio of 3 : 2 :1 On March 31, 2007, Naman retires. The various assets and liabilities of the firm on the date were as follows Cash Rs.10,000, Building Rs. 1,00,000, Plant and Machinery Rs. 40,000, Stock Rs. 20,000, Debtors Rs. 20,000 and Investments Rs. 30,000.

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

(i) Building to be appreciated by 20%.

(ii) Plant and Machinery to be depreciated by 10%.

(iii) A provision of 5% on debtors to be created for bad and doubtful debts.
(iv) Stock was to be valued at Rs. 18,000 and Investment at Rs. 35,000.
Record the necessary journal entries to the above effect and prepare the revaluation account.

Dr **Revaluation Account** Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Plant and Machinery		4,000	By Building	20,000
To Stock		2,000	By Investment	5,000
To Provision for Bad Debts		1,000		
To Profit Transferred to Capital A/c				
Himanshu	9,000			
Gagan	6,000			
Naman	3,000	18,000		
		25,000		25,000

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Building A/c	Dr		20,000	
	Investment A/c	Dr		5,000	
	To Revaluation A/c				25,000
	(Being increasing value of assets adjusted in revaluation account)				
	Revaluation A/c	Dr		7,000	
	To Plant and Machinery A/c				4,000
	To Stock A/c				2,000
	To Provision for Bad Debts A/c				1,000
	(Being assets adjusted and provision made for bad debts)				
	Revaluation A/c	Dr		18,000	
	To Himanshu				9,000
	To Gagan				6,000
	To Naman				3,000
	(Being profit transferred to partners' capital accounts in 3 : 2 : 1 ratio)				

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

Pass the necessary journal entries to the above effect.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	General Reserve A/c	Dr		36,000	
	To Naresh's Capital A/c				12,000
	To Raj Kumar's Capital A/c				12,000
	To Bishwajeet's Capital A/c				12,000
	(Being general reserve distributed among all partners in old ratio)				
	Naresh's Capital A/c	Dr		5,000	
	Raj Kumar's Capital A/c	Dr		5,000	
	Bishwajeet's Capital A/c	Dr		5,000	
	To Profit and Loss A/c				15,000
	(Being profit and loss distributed among all partners in old ratio)				

5. Digvijay, Brijesh and Parakaram were partners in a firm sharing profits in the ratio of 2 : 2 : L Their Balance Sheet as on March 31, 2007 was as follows

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

Brijesh retired on March 31, 2007 on the following terms

(i) Goodwill of the firm was valued at ? 70,000 and was not to appear in the books.

(ii) Bad debts amounting to ? 2,000 were to be written off.

(iii) Patents were considered as valueless.

Prepare revaluation account, partners' capital accounts and the balance sheet of Digvijay and Parakaram after Brijesh's retirement

Answer

Dr **Revaluation Account** Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Bad Debts	2,000		
To Patents	9,000	By Loss Transferred to Capital Account	
		Digvijay	4,400
		Brijesh	4,400
		Parakaram	2,200
	11,000		11,000

Dr **Partners' Capital Account** Cr

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

Balance Sheet

Dr as on 31 March, 2007 (New Firm) Cr

Liabilities	Amt. (₹)	Assets		Amt. (₹)
Creditors	49,000	Cash		8,000
Brijesh's Loan	91,000	Debtors	19,000	
Digvijay's Capital A/c	66,333	(–) Bad Debts	(2,000)	17,000
Parakaram's Capital A/c	67,667	Stock		42,000
		Buildings		2,07,000
	2,74,000			2,74,000

Note *If no information is given, the amount due to Brijesh (the balance of his capital account) is transferred to his loan account.*

Note: If no information is given, the amount due to Brijesh (the balance of his capital account) is transferred to his loan account.

Working Note

Brijesh's share of goodwill = Goodwill of firm × His profit share

$$= 70{,}000 \times \frac{2}{5} = ₹\ 28{,}000$$

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

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

$$\text{Parakaram's gain} = \frac{1}{3} - \frac{1}{5} = \frac{5-3}{15} = \frac{2}{15} \text{ or } 4:2 \text{ or } 2:1$$

Brijesh's share of goodwill to be contributed by remaining partners in gaining ratio.

$$\text{Digvijay} = 28{,}000 \times \frac{2}{3} = ₹\,18{,}667;\ \text{Parakaram} = 28{,}000 \times \frac{1}{3} = ₹\ 9{,}333$$

6. Radha, Sheela and Meena were in partnership sharing profits and losses in the proportion of 3:2:1. On April 1, 2007, Sheela retires from the firm. On that date, their Balance Sheet was as follows:

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Trade Creditors		3,000	Cash in Hand	1,500
Bills Payable		4,500	Cash at Bank	7,500
Expenses Owing		4,500	Debtors	15,000
General Reserve		13,500	Stock	12,000
Capitals			Factory Premises	22,500
Radha	15,000		Machinery	8,000
Sheela	15,000		Loose Tools	4,000
Meena	15,000	45,000		
		70,500		70,500

The terms were
(a) Goodwill of the Firm was valued at ? 13,000.
(b) Expenses owing to be brought down to ? 3,750.
(c) Machinery and Loose Tools are to be valued at 10% less than their book value.
(d) Factory premises are to be revalued at ? 24,300.
Prepare
1. Revaluation account
2. Partners'capital accounts
3. Balance sheet of the firm after retirement of Sheela

Answer

Dr **Revaluation Account** Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Machinery		800	By Expenses Owing	750
To Loose Tools		400	By Factory Premises	1,800
To Profit Transferred to Capital Account				
Meena	675			
Radha	450			
Sheela	225	1,350		
		2,550		2,550

Dr **Partners' Capital Account** Cr

Particulars	Radha	Sheela	Meena	Particulars	Radha	Sheela	Meena
To Sheela's Capital A/c	3,250		1,083	By Balance b/d	15,000	15,000	15,000
To Sheela's Loan A/c (Balancing Figure)		24,283		By General Reserve	6,750	4,500	2,250
To Balance c/d	19,175		16,392	By Revaluation (Profit)	675	450	225
				By Radha's Captial A/c		3,250	
				By Meena's Capital A/c		1,083	
	22,425	24,283	17,475		22,425	24,283	17,475

Balance Sheet

Dr as on April 1, 2007 (New Firm) Cr

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Trade Creditors		3,000	Cash in Hand		1,500
Bills Payable		4,500	Cash at Bank		7,500
Expenses Owing		3,750	Debtors		15,000
Sheela's Loan		24,283	Stock		12,000
Capitals			Factory Premises		24,300
Radha	19,175		Machinery	8,000	
Meena	16,392	35,567	(–) 10%	(800)	7,200
			Loose Tools	4,000	
			(–) 10%	(400)	3,600
		71,100			71,100

Working Note

(i) General reserve is to be written off among all partners in old profit sharing ratio.

(ii) Sheela's share of goodwill $= 13{,}000 \times \frac{2}{6} = ₹\ 4{,}333$

(iii) Gaining ratio of remaining partner's

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

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

or 3 : 1

(iv) Contribution for goodwill of retiring partner by remaining partners

Radha $= 4{,}333 \times \frac{3}{4} = ₹\ 3{,}250$

Meena $= 4{,}333 \times \frac{1}{4} = ₹\ 1{,}083$

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

Balance Sheet

Dr as on March 31, 2007 Cr

Liabilities		Amt. (₹)	Assets		Amt. (₹)
General Reserve		12,000	Bank		7,600
Sundry Creditors		15,000	Debtors	6,000	
Bills Payable		12,000	(–) Provision for	(400)	5,600
Outstanding Salary		2,200	Doubtful Debts		
Provision for Legal Damages		6,000	Stock		9,000
Capitals			Furniture		41,000
Pankaj	46,000		Premises		80,000
Naresh	30,000				
Saurabh	20,000	96,000			
		1,43,200			1,43,200

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

Answer

Dr **Revaluation Account** Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Stock		900	By Premises	16,000
To Provision for Legal Damages		1,200	By Provision for Doubtful Debts	100
To Profit Transferred to Capital			By Furniture	4,000
Pankaj	9,000			
Naresh	6,000			
Saurabh	3,000	18,000		
		20,100		20,100

Dr **Partners' Capital Account** Cr

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

Dr **Bank Account** Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	7,600	By Naresh's Capital A/c	28,000
To Bank Loan (Balancing Figure)	20,400		
	28,000		28,000

Balance Sheet

Dr as on March 31, 2007 (New Firm) Cr

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Sundry Creditors		15,000	Debtors	6,000	
Bills Payable		12,000	(–) Provision for Bad Debts	300	5,700
Outstanding Salary		2,200	Stock		8,100
Provision for Legal Damages		7,200	Furniture		45,000
Bank Loan		20,400	Premises		96,000
Naresh's Loan		26,000			
Capitals					
Pankaj	47,000				
Saurabh	25,000	72,000			
		1,54,800			1,54,800

Working Note

(i) General reserve is to be distributed among all partner's in old ratio.

(ii) Naresh's share of goodwill $= 42000 \times \frac{2}{6} =$ ₹ 14,000

(iii) Gaining ratio of remaining partner's

Pankaj's gain $= \frac{5}{6} - \frac{3}{6} = \frac{5-3}{6} = \frac{2}{6}$; Saurabh's gain $= \frac{1}{6} - \frac{1}{6} = 0$

Only Pankaj has gained on Naresh's retirement. Hence, contribution of goodwill for retiring partner will be made by Pankaj.

8. Puneet, Pankaj and Pammy are partners in a business sharing profits and losses in the ratio of 2 : 2 : 1 respectively. Their balance sheet as on March 31, 2007 was as follows:

Balance Sheet

as on March 31, 2007

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Sundry Creditors		1,00,000	Cash at Bank	20,000
Capital Accounts			Stock	30,000
Puneet	60,000		Sundry Debtors	80,000
Pankaj	100,000		Investments	70,000
Pammy	40,000	2,00,000	Furniture	35,000
Reserve		50,000	Buildings	1,15,000
		3,50,000		3,50,000

Mr. Pammy died on September 30, 2007. The partnership deed provided the following:
(i) The deceased partner will be entitled to his share of profit up to the date of death calculated on the basis of previous year's profit.
(ii) He will be entitled to his share of goodwill of the firm calculated on the basis of 3 years' purchase of average of last 4 years' profit. The profits for the last four financial years are given below:
for 2003–04; Rs. 80,000; for 2004–05, Rs. 50,000; for 2005–06, Rs. 40,000; for 2006–07, Rs. 30,000.
The drawings of the deceased partner up to the date of death amounted to Rs. 10,000. Interest on capital is to be allowed at 12% per annum.
Surviving partners agreed that Rs. 15,400 should be paid to the executors immediately and the balance in four equal yearly instalments with interest at 12% p.a. on outstanding balance.
Show Mr. Pammy's Capital account, his Executor's account till the settlement

of the amount due

Dr **Pammy's Capital Account** Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Drawings	10,000	By Balance b/d	40,000
To Pammy Executor's A/c	75,400	By Profit and Loss (Suspense)	3,000
		By Puneet's Capital A/c (goodwill)	15,000
		By Pankaj's Capital A/c (goodwill)	15,000
		By Interest on Capital (6 months)	2,400
		By Reserve	10,000
	85,400		85,400

Dr **Pammy's Executor's Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2003-04				2003-04			
Sep 30	To Bank		15,400	Sep 30	By Pammy's Captial A/c		75,400
Mar 31	To Balance c/d		63,600	Mar 31	By Interest		3,600
			79,000				79,000
2004-05				2004-05			
Sep 30	To Bank		22,200	Apr 1	By Balance b/d		63,600
	(15,000+3,600+3,600)			Sep 30	By Interest		3,600

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
Mar 31	To Balance c/d		47,700	Mar 31	By Interest		2,700
			69,900				69,900
2005-06				2005-06			
Set 30	To Bank (15,000+2,700+2,700)		20,400	Apr 01	By Balance b/d		47,700
				Sep 30	By Interest		2,700
Mar 31	To Balance c/d		31,800	Mar 31	By Interest		1,800
			52,200				52,200
2006-07				2006-07			
Sep 30	To Bank (15,000+1,800+1,800)		18,600	Apr 01	By Balance b/d		31,800
				Sep 30	By Interest		1,800
Mar 31	To Balance c/d		15,900	Mar 31	By Interest		900
			34,500				34,500
2007-08				2007-08			
Sep 30	To Bank (15,000+900+900)		16,800	Apr 01	By Balance b/d		15,900
				Sep 30	By Interest		900
			16,800				16,800

Working Note

(i) Pammy's share of profit = Previous years' profit × Period till date of death × Deceased partner's share

$$= 30{,}000 \times \frac{6}{12} \times \frac{1}{5} = ₹\ 3{,}000$$

(ii) Pammy's share of goodwill =

Firm's goodwill × Deceased partner's share

Firm's goodwill = Average profit × Number of purchase years.

$$= \frac{80{,}000 + 50{,}000 + 40{,}000 + 30{,}000}{4} \times 3$$

$$= \frac{2{,}00{,}000}{4} \times 3 = 50{,}000 \times 3 = ₹\,1{,}50{,}000$$

Deceased partner's share $= 1{,}50{,}000 \times \frac{1}{5} = ₹\ 30{,}000$

(iii) Gaining Ratio If no information is given, old ratio of remaining partners is considered as gaining ratio. Thus, here gaining ratio is 2 : 2 or 1 : 1.

(iv) Contribution of remaining partners for deceased

$$\text{partner's goodwill} = \text{Puneet} \Rightarrow 30{,}000 \times \frac{1}{2} = ₹\,15{,}000$$

(v) Calculation of Instalments Amount Due to Pammy's Executor after paying some amount in cash was Rs.60,000 (= 75,400 -15,400) divided in 4 equal instalments (i.e., 60,000/4 = Rs. 15,000 each).

(vi)

Calculation of Interest

Year	Amount Due	Duration	Interest
2003-04	60,000	6 months	3,600
2004-05	60,000	6 months	3,600
	45,000	6 months	2,700
2005-06	45,000	6 months	2,700
	30,000	6 months	1,800
2006-07	30,000	6 months	1,800
	15,000	6 months	900
2007-08	15,000	6 months	900

9. Following is the Balance Sheet of Prateek, Rockey and Kushal as on March 31, 2007.

Balance Sheet
as on March 31, 2007

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

Rockey died on June 30, 2007. Under the terms of the partnership deed, the executors of a deceased partner were entitled to
(a) Amount standing to the credit of the Partner's capital account.
(b) Interest on capital at 5% per annum.
(c) Share of goodwill on the basis of twice the average of the past three years' profit.
(d) Share of profit from the closing date of the last financial year to the date of death on the basis of last year's profit.
Profits for the year ending on March 31, 2005, March 31, 2006 and March 31, 2007 were Rs. 12,000, Rs. 16,000 and Rs.14,000 respectively. Profits were shared in the ratio of capitals.
Pass the necessary journal entries and draw up Rockey's capital account to be

rendered to his executor.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
2007					
June 30	Interest on Capital A/c	Dr		250	
	Profit and Loss (Suspense) A/c	Dr		1,000	
	General Reserve A/c	Dr		4,571	
	To Rockey's Capital A/c				5,821
	(Being share of profit, interest on capital and share of general reserve credited to Rockey's capital account)				
June 30	Prateek's Capital A/c	Dr		4,800	
	Kushal's Capital A/c	Dr		3,200	
	To Rockey's Capital A/c				8,000
	(Being Rockey's share of goodwill adjusted to Prateek's and Kushal's capital account in their gaining ratio 3 : 2)				
June 30	Rockey's Capital A/c	Dr		33,821	
	To Rockey's Executor's A/c				33,821
	(Being balance of Rockey's capital account transferred to his executor's account)				

Dr **Rockey's Capital Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2007				2007	By Balance b/d		20,000
Apr 1	To Rockey's Executor A/c		33,821	Apr 1	By Interest on Capital (3 months)		250
					By Profit and Loss (Suspense) A/c		1,000
					By General Reserve		4,571
					By Prateek's Capital		4,800
					By Kushal's Capital		3,200
			33,821				33,821

Working Note

(i) Rockey's share of goodwill

$$\text{Firm's goodwill} = \frac{12{,}000 + 16{,}000 + 14{,}000}{3} \times 2$$

$$= \frac{42{,}000}{3} \times 2 = ₹\ 28{,}000$$

$$\text{Deceased Partner's share} = 28{,}000 \times \frac{2}{7} = ₹\ 8{,}000$$

(ii) Share of Profit = Previous years' Profit × Period till date of death × Deceased partner's share

$$= 14{,}000 \times \frac{3}{12} \times \frac{2}{7} = ₹\ 1{,}000$$

(iii) Gaining Ratio will be same as old ratio because no information is given *i.e.*, 3 : 2.

(iv) Contribution of remaining partners in deceased partner's share of goodwill

$$\text{Prateek} = 8000 \times \frac{3}{5} = ₹\ 4{,}800$$

$$\text{Kushal} = 8000 \times \frac{2}{5} = ₹\ 3{,}200$$

(v) Interest on capital for 3 months $= 20{,}000 \times \frac{5}{100} \times \frac{3}{12} = ₹\ 250$

10. Narang, Suri and Bajaj are partners in a firm sharing profits and losses in proportion of 1 2 , 1 6 and 1 3 respectively. The Balance Sheet on April 1, 2007 was as follows:

Balance Sheet

as on March 31, 2007

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Bills Payable		12,000	Freehold Premises		40,000
Sundry Creditors		18,000	Machinery		30,000
Reserves		12,000	Furniture		12,000
Capital Accounts			Stock		22,000
Narang	30,000		Sundry Debtors	20,000	
Suri	30,000		(−) Reserve for Bad Debt	(1,000)	19,000
Bajaj	28,000	88,000	Cash		7,000
		1,30,000			1,30,000

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

(a) Freehold premises and stock are to be appreciated by 20% and 15% respectively.

(b) Machinery and furniture are to be depreciated by 10% and 7% respectively.

(c) Bad Debts reserve is to be increased to Rs. 1,500.

(d) Goodwill is valued at Rs. 21,000 on Bajaj's retirement.

(e) The continuing partners have decided to adjust their capitals in their new profit sharing ratio after retirement of Bajaj. Surplus/deficit, if any, in their capital accounts will be adjusted through current accounts.

Dr **Revaluation Account** Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Machinery		3,000	By Freehold Properties	8,000
To Furniture		840	By Stock	3,300
To Reserve for Bad debts		500		
To Capitals				
Narang	3,480			
Suri	1,160			
Bajaj	2,320	6,960		
		11,300		11,300

Dr **Partners' Capital Account** Cr

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

Balance Sheet
as on April 1, 2007

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Bills Payable		12,000	Free hold Premises		48,000
Sundry Creditors		18,000	Machinery		27,000
Bajaj's Loan		41,320	Furniture		11,160
Suri's Current		15,000	Stock		25,300
Capital Account			Sundry Debtors	20,000	
Narang	49,230		(–) Reserve for Bad Debt	(1,500)	18,500
Suri	16,410	65,640	Cash		7,000
			Narang's Current Account		15,000
		1,51,960			1,51,960

Working Note

(i) Bajaj's share in goodwill = Firm good will × His share

$$= 21{,}000 \times \frac{2}{6} = ₹\,7{,}000$$

(ii) Gaining ratio = 3 : 1 (same as old ratio because no information is given).

(iii) Contribution of remaining partners in retiring partners goodwill

Share of Narang $= 7{,}000 \times \frac{3}{4} = ₹\,5{,}250$

Share of Suri $= 7{,}000 \times \frac{1}{4} = ₹\,1{,}750$

(iv) Calculation of New Capital of remaining partners.

Gapital after adjustments

Narang	=	34,230
Suri	=	31,410
Capital of New firm	=	65,640

(v) Share of Capital in New ratio of remaining partner

Narang's New capital $= 65{,}640 \times \frac{3}{4} = ₹\,49{,}230$

Suri's New capital $= 65{,}640 \times \frac{1}{4} = ₹\,16{,}410$

(vi) Profit sharing ratio of old partners

$$= \frac{1}{2} : \frac{1}{6} : \frac{1}{3} = \frac{3:1:2}{6} = 3:1:2$$