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:

Old Ratio (A,B and C)= $\frac{1}{2}:\frac{2}{5}:\frac{1}{10}$ 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, the new ratio becomes 5: 4.

× 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 up by Ram and Mohan in the ratio of 3:2. Find out the new ratio.

Solution:

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

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

Ram and Mohan decided to take his share in the ratio of 3:2

Share of Sohan taken by Ram $=\frac{7}{15}\times\frac{3}{5}=\frac{21}{75}$

Share of Sohan taken by Mohan $=\frac{7}{15}\times\frac{2}{5}=\frac{14}{75}$

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

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

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

$\therefore$ New profit Ratio(Ram and Mohan) = 36:39 or 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 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

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

His share is divided between Shiv and Had equally i.e in the ratio of 1:1

Share of Mohan takes by Shiv $= \frac{5}{14} \times \frac{1}{2} = \frac{5}{28}$

Share of Mohan takes by Hari $= \frac{5}{14} \times \frac{1}{2} = \frac{5}{28}$

New profit share = Old profit share + Share taken from Mohan

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

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

$\therefore$ New profit share (Shiv and Hari) = 15:13

b. Old Ratio (P,Q and R) = 5:4:1

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

Since, no information is given as to how Q and R are acquiring P's profit share after his retirement, therefore the new profit sharing ratio between Q and R is calculated just by crossing out the P's share. That is, the new ratio becomes 4 : 1

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

Question 4.

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

B's Gain $= \frac{2}{3} - \frac{3}{9} = \frac{6-3}{9} = \frac{3}{9}$

C's Gain $= \frac{1}{3} - \frac{2}{9} = \frac{3-2}{9} = \frac{1}{9}$

$\therefore$ Gaining Ratio = 3:1

Question 5.

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

Solution:

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

New Ratio (Mangli and Sanvali) = 5:3

Gaining Ratio = New Ratio - Old Ratio

Mangli's Gain $= \frac{5}{8} - \frac{3}{9} = \frac{45-24}{72} = \frac{21}{75}$

Sanvali's Gain $= \frac{3}{8} - \frac{2}{9} = \frac{27-16}{72} = \frac{11}{75}$

Gaining Ratio = 21:11

Question 6.

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:

Calculation of Gaining Ratio

X : Y : Z

Old Ratio = $\frac{1}{2} : \frac{3}{10} : \frac{1}{5}$

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

New Ratio after Y's retirement = 5:2

Gaining share = New Share - Old share

X's Gain = $\frac{5}{7} - \frac{5}{10} = \frac{15}{70}$

Z's Gain = $\frac{2}{7} - \frac{2}{10} = \frac{6}{70}$

Gaining Ratio = 15:6 or 5:2

Question 7.

a. W, X, Y and Z are partners sharing profit and losses in the ratio of 1/3, 1/6, 1/3 and 1/6 respectively Y retire and W, X and Z decided to share the profit and losses equally in future .calculate gaining ratio

b. A, B and C are partners sharing profit 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) Old Ratio (W, X, Y and Z)= $\frac{1}{3} : \frac{1}{6} : \frac{1}{3} : \frac{1}{6}$ or 2:1:2:1

New Ratio (W, X and Z)= 1:1:1

Gaining Ratio = New Ratio - Old Ratio

W's Gain= $\frac{1}{3} - \frac{2}{6} = \frac{2-2}{6} = 0$

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

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

∴ Gaining Ratio = 0:1:1

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

C's Profit Share =2/9

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

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

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

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

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

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

∴ New Profit Ratio (A and B)=44:37

Gaining Ratio= New Ratio-Old Ratio

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

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

∴ Gaining Ratio=8:10 or 4:5

Question 8.

T Sita ,Geeta and Meeta were partners in a firm sharing profit in the 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
Her share is divided between Sita and Meeta equally i.e in the ratio of 1:1

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

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

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

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

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

∴ New Profit Ratio(Sita and Meeta)=20:20 or 1:1

Question 9.

R, S and M are partners sharing profit 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
M retires from the firm.

$$\text{His Profit share}=\frac{1}{5}$$

M's share taken by R and S in ratio of 1:2

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

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

New Ratio= Old Ratio + Share acquired from M

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

$$\text{R's New Share:}\frac{2}{5}+\frac{2}{15}=\frac{6+2}{15}=\frac{8}{15}$$

∴ New Profit (R and S)=7:8

Question 10.

A, B, C and D were partners in a firm sharing profit 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:

Old Ratio (A, B, C and D)=5:3:2:2

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

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

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

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

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

∴ New Profit Ratio (A and D) = 7:5

Question 11.

A, B, and C were partners in a firm sharing profit in the ratio of 8:4:3. B retired 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
B retires from the firm.
B's Share taken by A and C in ratio of 1:1

Share taken by A= $\frac{4}{15} \times \frac{1}{2} = \frac{2}{15}$

Share taken by C= $\frac{4}{15} \times \frac{1}{2} = \frac{2}{15}$

New Ratio= Old Ratio + Share acquired from B

A's New Share: $\frac{8}{15} + \frac{2}{15} = \frac{10}{15} = \frac{2}{3}$

C's New Share: $\frac{3}{15} + \frac{2}{15} = \frac{5}{15} = \frac{1}{3}$

∴ New Profit (A and C)=2:1

Question 12.

A, B and C are partners in a firm sharing profit 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 circumstance:

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

b. If B gives his share to A and C in equal proportion.

c. If B gives his share to A and C in the ratio of 3:1.

d. If B gives his share to A only.

Solution:

Old Ratio (A, B and C)=4:3:2
B retires from the firm.

His Profit Share= $\frac{3}{9}$

(a) B gives his share to A and C in their original ratio.
origninal Share (A and C)=4:2

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

Share taken by A= $\frac{3}{9} \times \frac{2}{6} = \frac{6}{54}$

New Ratio = Old Ratio + Share acquired from B

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

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

∴ New Profit Ratio (A and C)=36:18 or 2:1

(b) B givens his Share to A and C in equal proportion.

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

Share taken by C= $\frac{3}{9} \times \frac{1}{2} = \frac{3}{18}$

New Ratio = Old Ratio + Share acquired from B

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

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

∴ New Profit Ratio (A and C)=11:7

(c) B givens his Share to A and C in the Ratio 3:1

Share taken by A=$\frac{3}{9}\times\frac{3}{4}=\frac{9}{36}$

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

New Ratio = Old Ratio + Share acquired from B

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

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

∴ New Profit Ratio (A and C)=25:11

(d) B givens his Share to A only.

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

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

∴ New Profit Ratio (A and C)=7:2

Question 13.

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

Solution:

Old Ratio (A, B and C)=5:3:2

C retires from the firm

His Profit Share =$\frac{2}{10}$

C's Share taken by A in entriety

New Ratio= Old Ratio + Share acquired from C

A's New Share:$\frac{5}{10}+\frac{2}{10}=\frac{2}{10}$

B's New Share:$\frac{3}{15}+0=\frac{3}{10}$

∴ New Profit (A and B)=7:3

Question 14.

A, B and C are partners in the firm sharing profit in the ratio of 5:3:2 respectively B retire and his share is taken up by A and C in the ratio of 2:1. Then immediately ,D is admitted for 25% share of profit, half of which was gifted by A and remaining share was taken by D equally from A and C. Calculate new profit-sharing ratio after D's admission.

Solution:

Old Profit Sharing Ratio amongst Partner's (A, B and C)=5:3: 2

B retires and his share was taken by A and C in ratio of 2:1

Gaining Ratio of A and C is 2:1

A's old Share =$\frac{5}{10}$

Share acquired from B=$\frac{3}{10}\times\frac{2}{3}=\frac{6}{30}$

New Share of A =$\frac{5}{10}+\frac{6}{30}=\frac{21}{30}$

C's old Share =$\frac{2}{10}$

Share acquired from B=$\frac{3}{10}\times\frac{1}{3}=\frac{3}{30}$

New Share of C =$\frac{2}{10}+\frac{3}{30}=\frac{9}{30}$

New ratio between A and C is 21:9 or 7:3

After this D is admitted for 25% Share

Half of this 25% was gifted by A and remaining half was provided by A and C equally.

It means 75% (50%+1/2 of remaining 50%) of 25%(given to D) was actually given by A and rest 25% was given by C.

Share acquired D from A=$\frac{1}{4}\times\frac{3}{4}=\frac{3}{16}$

Share acquired from C=$\frac{1}{4}\times\frac{1}{4}=\frac{1}{16}$

A's New Share =$\frac{7}{10}-\frac{3}{16}=\frac{112-30}{160}=\frac{82}{160}$

C's New Share =$\frac{3}{10}-\frac{1}{16}=\frac{48-10}{160}=\frac{38}{160}$

D's Share =$\frac{1}{4}=\frac{40}{160}$

∴ New Ratio = 41:19:20

Question 15.

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 Rs.72,000. Calculate M's share of goodwill and pass the necessary Journal entry for the same without opening the Goodwill Account. L and 0 decided to share the future profits and losses in the ratio of 5:3.

Solution:

Journal

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

Working Note:

1 Calculation of gaining Ratio

Old Ratio (L, M and O)=4:3:2
M retires from the firm.
New Ratio (L and O)=5:3
Gaining Ratio=New Ratio - Old Ratio

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

$$\text{O's New Share} = \frac{3}{8} - \frac{2}{9} = \frac{27-16}{36} = \frac{11}{72}$$

$\therefore$ Gaining Ratio=13:11

2 Adjustment of Goodwill
Goodwill of the firm= ₹ 72,000

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

This share of goodwill is to be debited to remaining partners' Capital Account in their Gaining ratio(i.e.,13:11)

$$\text{L is to be debited with } 24,000 \times \frac{13}{24} = ₹13,000$$

$$\text{O is to be debited with } 24,000 \times \frac{11}{24} = ₹11,000$$

Question 16.

P, Q and R were partners sharing profits in the ratio of 2:1:1. Q retired and the new profit-sharing ratio between P and R was equal. On Q's retirement, the goodwill of the firm was valued at Rs.40,000. Pass necessary Journal entry for the treatment of goodwill without opening Goodwill Account on Q's retirement.

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	R's Capital A/c	Dr.		10,000	
	To Q's Capital A/c				10,000
	(Being adjustment Q's Share of goodwill made)				

Working Note:
1 Calculation of gaining Ratio

Old Ratio (P, Q and R)=2:1:1
Q retires from the firm.
New Ratio (P and R)=1:1
Gaining Ratio=New Ratio - Old Ratio

$$\text{P's Share} = \frac{1}{2} - \frac{2}{4} = \frac{2-2}{4} = 0$$

$$\text{R's Share} = \frac{1}{2} - \frac{1}{4} = \frac{2-1}{4} = \frac{1}{4}$$

Here, only R is Gaining.

2 Adjustment of Goodwill

Goodwill of the firm= ₹ 40,000

$$\text{Q's share of goodwill} = 40,000 \times \frac{1}{4} = ₹10,000$$

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

This share of goodwill is to be debited to R's Capital Account.

Question 17.

A, B and Care three partners sharing profits in the ratio of 4:3:2. B retires and goodwill of the firm is valued at Rs.10,800. No goodwill appears as yet in the books of the firm. A and C decide to share future profits in the ratio of 5:3. Pass Journal entries.

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	A's Capital A/c	Dr.		1,950	
	C's Capital A/c	Dr.		1,650	
	To B's Capital A/c				3,600
	(Being adjustment B's Share of goodwill made)				

Working Note:

1 Calculation of gaining Ratio

Old Ratio (A, B and C)=4:3:2
M retires from the firm.
New Ratio (A and C)=5:3
Gaining Ratio=New Ratio - Old Ratio

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

$$\text{C's New Share} = \frac{3}{8} - \frac{2}{9} = \frac{27-16}{36} = \frac{11}{72}$$

$\therefore$ Gaining Ratio=13:11

2 Adjustment of Goodwill
Goodwill of the firm = ₹ 10,800

$$\text{B's share of goodwill} = 10,800 \times \frac{3}{9} = ₹3,600$$

This share of goodwill is to be debited to remaining partners' Capital Account in their Gaining ratio(i.e .13:11)

$$\text{A is to be debited with } 3,600 \times \frac{13}{24} = ₹1,950$$

$$\text{C is to be debited with } 3,600 \times \frac{11}{24} = ₹1,650$$

Journal

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

Working Note:

1 Calculation of gaining Ratio

Old Ratio (A, B and C)=3:2:1
B retires from the firm.
New Ratio (A and C)=2:1
Gaining Ratio=New Ratio - Old Ratio

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

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

$\therefore$ Gaining Ratio=1:1

2 Adjustment of Goodwill
Goodwill of the firm=₹ 90,000

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

This share of goodwill is to be debited to remaining partners' Capital Account in their Gaining ratio(i.e.,1:1)

$$\text{A is to be debited with } 30,000 \times \frac{1}{2} = ₹15,000$$

$$\text{C is to be debited with } 30,000 \times \frac{1}{2} = ₹15,000$$

Question 18.

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? Rs.90,000. Pass necessary Journal entry for the treatment of goodwill on B's retirement.

Solution:

Question 19.

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? Rs.1,39,200. A and C agreed to pay him? Rs.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 ₹	Credit ₹
	A's Capital A/c	Dr.		5,850	
	C's Capital A/c	Dr.		4,950	
	To B's Capital A/c				10,800
	(Being adjustment B's Share of goodwill made)				

Working Note:

i. Calculation of B's share of goodwill
A, B and C are sharing profit in ratio 4/9: 3/9: 2/9
B retires from the firm. Remaining partners agreed to pay him ₹1,50,000
B's Capital after making necessary adjustment ₹1,39,200
Therefore, Hidden Goodwill is ₹(1,50,000-1,39,200) i.e., ₹10,800

ii. Gaining Ratio
New profit sharing ratio between A and B is 5:3

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

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

Gaining ratio = 13:11

Thus ,B's share of goodwill will be brought in by A and C in the gaining ratio 13:11 i.e.,

$$\text{A is debited with } 10,800 \times \frac{13}{24} = 5,850$$

$$\text{C is debited with } 10,800 \times \frac{11}{24} = 4,950$$

Question 20.

A, B and C were partners, sharing profits and losses in the ratio of 2:2:1. B decides to retire on 31st March 2016.On the date of his retirement, some of the assets and liabilities appeared in the books follows Creditors Rs.70,000; Building Rs.1,00,000; Plant and Machinery Rs.40,000; Stock of Raw Materials Rs.2,000 Stock of Finished Goods Rs.30,000 and Debtors Rs.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 Rs.18,000 and Finished Goods at Rs.35,000.

e. An Old Computer previously written off was sold for Rs.2,000 as scrap.

f. Firm had to pay Rs. 5,000 to an injured employee.

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

Solution:

Revaluation Account

Dr. Cr.

Particulars		₹	Particulars	₹
To Plant and Machinery A/c (40,000×10%)		4,000	By Building A/c (1,00,000×20%)	20,000
To Provision for Doubtful Debts		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	6,000			
B's Capital A/c	6,000			
C's Capital A/c	3,000	15,000		
		27,000		27,000

Journal

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

Question 21.

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 Rs.12,000.

b. The value of stock to be decreased by Rs.10,000.

c. Machinery of the book value of Rs.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 40,00G

e. Unrecorded investment worth Rs.10,000.

f. An item of Rs.1,000 included in bills payable is not likely to be claimed, hence should be written back.

Pass necessary Journal entries.

Solution:

Revaluation Account

Dr. Cr.

Particulars		₹	Particulars	₹
To Stock A/c		10,000	By Furniture A/c	12,000
To Machinery A/c		5,000	By Investment A/c	10,000
To Debts A/c		2,000	By Bills Payable A/c	1,000
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		
		23,000		23,000

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
(a)	Furniture A/c Dr.		12,000	
	To Revaluation A/c			12,000
	(Being increase in value transferred to Revaluation Account)			
(b)	Revaluation A/c Dr.		10,000	
	To Stock A/c			10,000
	(Being decrease in stock transferred to Revaluation)			
(c)	Revaluation A/c Dr.		5,000	
	To Machinery A/c			5,000
	(Being decrease in value of machinery transferred to Revaluation Account)			
(d)	Revaluation A/c Dr.		2,000	
	To Provision for Doubtful debts A/c			2,000
	(Being increase in liabilities to Revaluation Account)			
(e)	Investment A/c Dr.		10,000	
	To Revaluation A/c			10,000
	(Being increase in value transferred to Revaluation Account)			
(f)	Bills Payable A/c Dr.		1,000	
	To Revaluation A/c			1,000
	(Being decrease in liabilities transferred to Revaluation Account)			
(g)	Revaluation A/c Dr.		6,000	
	To X's Capital A/c			3,000
	To Y's Capital A/c			1,800
	To Z's Capital A/c			1,200
	(Being Revaluation Profit transferred to Partners' Capital Account)			

Question 22.

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. In the absence of partnership deed, profits are distributed equally among all the partners.

Therefore, Profit Share of each Partner $= 12000 \times \frac{1}{3} =$₹4,000

Journal

Particulars		L.F.	Debit ₹	Credit ₹
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 23.

X, Y and Z are partners in a firm sharing profits and losses in the ratio of 3:2:1. retires from the firm 31st March, 2016. On the date of Z's retirement, the following balances appeared in the books of the firm

General Reserve Rs.1,80,000

Profit and Loss Account (Dr.) Rs.30,000

Workmen Compensation Reserve Rs.24,000 which was no more required

Employees' Provident Fund Rs.20,000.

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

Solution:

Journal

Particulars		L.F.	Debit ₹	Credit ₹
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				30,000
(Being Debit balance in profit and Loss A/c distributed among partners in old ratio)				

Working Note:

1 Calculation of share in credit Balance of Reserve

Total Credit Balance of Reserves

= General Reserve + WCF

=1,80,000+24,000

=2,04,000

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

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

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

2 Calculation of share in Debit Balance of Profit and Loss A/c

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

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

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

Note: Employment 'Provident fund will not be distributed as it is a liability and not accumulated profit.

Question 24.

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 Rs.80,000 and General Reserve at Rs.40,000. Naveen decided to retire from the firm. On the date of his retirement, goodwill of the firm was valued at Rs.1,20,000. The new profit ratio decided among Asha and Shalini is 2:3. Record necessary Journal entries on Naveen's retirement. (Delhi 2015 C)

Solution:

Journal

Particulars		L.F.	Debit ₹	Credit ₹
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

Gain of Partner=New share - Old Share

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

Shalini's Gain (sacrifice) = $\frac{3}{5}-\frac{2}{10}=\frac{6-2}{10}=\frac{4}{10}$

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

Asha's sacrifice for $\frac{1}{10}$ th share : $1,20,00\times\frac{1}{10}=12,000$

Naveen's sacrifice for $\frac{3}{10}$ th share : $1,20,00\times\frac{3}{10}=36,000$

Question 25.

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 11/2 times the average profit of the three preceding completed years.

C gave a notice on 31st March, 2016 to retire on 30th September, 2016, when the balance of his Capital Account wasRs.6,000 and his Current Account (Dr.) Rs.500. The profits for the three preceding completed years were: year ended 31st March, 2014 Rs.2,800; year ended 31st March, 2015 Rs.2,200 and year ended 31st March, 2016 Rs.1,600. What amount is due to C in accordance with the partnership agreement?

Solution:

C's Capital Account

Dr. Cr.

Particulars	₹	Particulars	₹
To C's Loan A/c	7,700	By Balance b/d	6,000
		By C's Current A/c	1,700
	7,700		7,700

C's Current Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d	500	By Profit and Loss Suspense A/c (Share of profit)(WN1)	550
To C's Capital A/c (Balancing figure)	1,700	By D's Current A/c (Share of goodwill)(WN2)	1650
	2,200		2,200

Working Notes:

1: Calculation of profit (April 01,to 2016 to Sept.30,2016)

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

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

$$= ₹2,200$$

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

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

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 26.

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, 2016 was:

Liabilities		₹	Assets	₹
Creditors		49,000	Cash	8,000
Reserve		18,500	Debtors	19,000
Capital A/c s:			Stock	42,000
X	82,000		Building	2,07,000
Y	60,000		Patents	9,000
Z	75,500	2,17,500		
		2,85,000		2,85,000

Y retired on 1st April, 2016 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. Cr.

Particulars	Rs.	Particulars		Rs.
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	11,000
	11,000			**11,000**

Partners' Capital Account

Dr. **Cr.**

Particulars	X	Y	Z	Particulars	X	Y	Z
To Revaluation A/c (Loss)	4,400	4,400	2,200	By Balance b/d	82,000	60,000	75,000
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	
	89,400	**95,400**	**79,200**		**89,400**	**95,400**	**79,200**

Balance Sheet
as on March 31,2016 (after Y's Retirement)

Liabilities		Rs.	Assets	Rs.
To Creditors A/c		49,000	By Cash A/c	8,000
To Y's Loan A/c		91,000	By Debtors A/c (19000-2000)	17,000
To Capital A/cs:			By Stock A/c	42,000
X	66,333		By Building A/c	2,07,000
Y	67,667	1,34,000		
		2,74,000		**2,74,000**

Working Note:
1 :Calculation of Gaining ratio
Old ratio (X,Y and Z) =2:2:1
Y retires from the firm.
∴ Gaining Ratio =2:1

2: Adjustment of Goodwill
Goodwill of the firm= ₹70,000

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

this share of goooodwill is to be distributed between X and Z in their gaining ratio(i.e. 2:1)

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

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

Journal

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

Question 27.

The Balance Sheet of X, Y and Z who were sharing profits in proportion to their capitals stood as at 31st March, 2016:

Liabilities		₹	Assets		₹
Sundry Creditors		13,800	Cash at Bank		19,000
			Sundry Debtors	10,000	
Capital A/cs:			Less: Provision for Doubtful Debts	200	9,800
X	45,000		Stock		16,000
Y	30,000		Plant and Machinery		17,000
Z	15,000	90,000	Land and Building		50,000
		2,85,000			2,85,000

Y retires on 1st April, 2016 and the following readjustments were agreed upon:

a. Out of insurance which was debited to the Profit and Loss Account, 1,500 be carried forward; 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 be adjusted to that of X and Z who are going to share in future profits in the ratio of:

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

Solution:

Journal

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

Balance Sheet

As on March 31,2016 (after Y's Retirement)

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

Working Notes:

1.

Revaluation Account

Dr. **Cr.**

Particulars		₹	Particulars	₹
To Provision for Doubtful debts A/c (500-200)		300	By Prepaid Insurance A/c	1,500
To Provision for Outstanding Repairs Bills A/c		4,000	By Land And Building A/c (50,000 ×20%)	10,000
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	7,200		
		11,500		11,500

2.

Partners' Capital Account

Dr. **Cr.**

Particulars	X	Y	Z	Particulars	X	Y	Z
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	X's Capital A/c		5,400	
				Z's Capital A/c		1,800	
	48,600	39,600	16,200		48,600	39,600	16,200

3: Calculation of Ratio

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

∴ Old Ratio (X, Y and Z)= 3:2:1

Y retires from the firm.

New Ratio (X and Z)= 3:1

Gaining Ratio= New Ratio- Old Ratio

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

$$Y\text{'s Share} = \frac{1}{4} - \frac{1}{6} = \frac{1}{12}$$

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

4: Adjustment of Goodwill

Goodwill Of the firm=21,600

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

This share of goodwill is to be distributed between X and Z in their gaining ratio (i.e. 3:1)

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

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

Question 28.

A, B and C are partners in a firm, sharing profits and losses as A 1/3, Li 1/2, and C 1/6 respectively. The Balance Sheet of the firm as at 31st March, 2016 was:

Liabilities		Rs.	Assets		Rs.
Capital A/c s:			Factory Building		50,000
A	30,000		Plant and Machinery		40,000
B	40,000		Furniture		10,000
C	25,000	95,000	Stock		25,000
General Reserve		16,000	Debtors	18,000	
Sundry Creditors		25,000	Less: Provision for Doubtful Debts	500	17,500
Loan Payable		15,000	Cash in Hand		8,500
		1,51,000			**1,51,000**

C retires on 1st April, 2016 subject to the following adjustments:

a. **Goodwill of the firm be valued at Rs.24,000. C's share of goodwill be adjusted into the accounts 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 Rs.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 ₹	Credit ₹
Profit and Loss Adjustment A/c	Dr.		6,000	
To Plant and machinery				4,000
To Provision for Doubtful Debts A/c				1,500
To Furniture A/c				500
(Being decrease in value of Assets and provision for doubtful debts transferred to profit and Loss adjustment Account)				
Stock A/c	Dr.		3,750	
Factory Building A/c	Dr.		5,000	
To Profit and Loss Adjustment A/c				8,750
(Being increases in value of Assets transferred to Profit and Loss Adjustment Account)				
Profit and Loss Adjustment A/c	Dr.		2,750	
To A's Capital A/c				917
To B's Capital A/c				1,375
To C's Capital A/c				458
(Being profit distributed among A, B and C in their old ratio)				
A's Capital A/c	Dr.		6,400	
To B's Capital A/c				2,400
To C's Capital A/c				4,000
(Being C's Share of goodwill and B's gain in goodwill adjustment)				
C's Capital A/c	Dr.		32,125	
To C's Loan A/c				32,125
(Being loan from bank)				
Reserve Fund A/c	Dr.		16,000	
To A's Capital A/c				5,333
To B's Capital A/c				8,000
To C's Capital A/c				2,667
(Being Reserve Fund distributed among partners in their old ratio)				

Profit and Loss Adjustment Account

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Plant and machinery A/c (40,000×10%)		4,000	By Stock A/c (25,000×15%)	3,750
To Furniture A/c (10,000×5%)		500	By Factory building A/c (50,000×10%)	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		
		8,750		**8,750**

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
	36,250	**51,775**	**32,125**		**36,250**	**51,775**	**32,125**

Balance Sheet
As on March 31,2016 (after C's Retirement)

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

Working Note:

1 Calculation of Gaining Ratio

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

C retires from the firm.

New Ratio (A and B)=3:2

Gaining Ratio =New Ratio - Old Ratio

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

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

2 : Adjustment of Goodwill

Goodwill of the firm= ₹24,000

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

A's Gain in Goodwill $=24,000\times\frac{8}{30}$ =₹6 ,400

B's Sacrifice in Goodwill $=24,000\times\frac{3}{30}$ =₹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
Balance c/d	34,650	46,975		By Revaluation A/c (Profit)	917	1375	458
				By A's Capital A/c (Goodwill)			
	36,250	**49,375**	**32,125**		**36,250**	**49,375**	**32,125**

3: Calculation of Gaining Ratio

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

C retires from the firm.

New Ratio (A and B)= 2:3

Gaining Ratio = New Ratio - Old Ratio

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

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

Sacrifing Ratio 2:3

4 Adjustment of Goodwill

Goodwill of the firm= ₹24,000

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

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

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

Question 29.

X, Y and Z were in partnership sharing profits and losses and losses in the proportions of 3:2:1. On 1st April, 2016 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/c			Factory Premises	22,500
X	15,000		Machinery	8,000
Y	15,000		Loose tools	4,000
Z	15,000	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		₹	Particulars	₹
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)	
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		1,125	By Balance b/d		15,000	15,000
To Y's Loan A/c		24,450		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 Y's Capital A/c (Goodwill)		1,125	
	22,425	24,450	17,475		22,425	24,450	17,475

Balance Sheet
As on April 01,2016 (after Y's Retirement)

Liabilities		₹	Assets	₹
To Trade Creditors A/c		3,000	By Cash in Hand A/c	1,500
To Bills Payable A/c		4,500	By Cash at Bank A/c	7,500
To Expenses Owing A/c		3,750	By Debtors A/c	15,000
To Y's Loan A/c		24,450	By Stock A/c	12,000
To Capital A/c			By Factory Premises A/c	24,300
X	19,050		By Machinery A/c (8000-800)	7,200
Z	16,350	35,400	By Loose tools A/c (4,000-400)	3,600
		71,100		71,100

Working Notes:
1: Calculation of Gaining Ratio
Old Ratio (X, Y and Z)=3:2:1
Y retires from the firm.
∴ Gaining Ratio = 3:1

2: Adjustment of Goodwill
Goodwill of the firm= ₹13,500

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

This Share of goodwill is to be distributed between X and Z in their gaining ratio(i.e. 3:1)

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

$$\text{Y's Share} = 4,500 \times \frac{1}{4} = ₹1,125$$

Question 30.

R, S and M were carrying on business in partnership sharing profits in the ratio 3:2:1 respectively. On 31st March, 2016, Balance Sheet of the firm stood as:

Liabilities		₹	Assets	₹
Sundry Creditors		16,000	Bank	6,000
Capital A/cs:			Debtors	7,000
R	20,000		Stock	12,000
S	7,500		Patents	8,000
M	12,500	40,000	Building	23,000
		56,000		56,000

S retired on 1st April, 2016 on the following terms:
a. Building to be appreciated by ₹8,800.
b. Provision for Doubtful Debts be made @ 5% on Debtors.
c. Goodwill of the firm be valued at ₹9,000 and adjustment in this respect was to be made in the continuing Partners' Capital Accounts without raising the Goodwill Account.
d. ₹5,000 be paid to S immediately and the balance due to him treated as a loan carrying interest @ 6% p.a.

Record necessary Journal entries and prepare the Balance Sheet of the Reconstituted Firm.

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Revaluation A/c	Dr.		350	
	To Provision for Doubtful Debts A/c				350
	(Being Provision for Doubtful Debts created)				
	Building A/c	Dr.		8,800	
	To Revaluation A/c				8,800
	(Being Increase in value of Building transferred to Revaluation Account)				
	Revaluation A/c	Dr.		8,450	
	To R's Capital A/c				4,225
	To S's Capital A/c				2,817
	To M's Capital A/c				1,408
	(Being Revaluation Profit distributed between partners in their old Ratio)				
	R's Capital A/c	Dr.		2,250	
	M's Capital A/c	Dr.		750	
	To S's Capital A/c				3,000
	(Being S's Share of Goodwill Adjusted)				
	S's Capital A/c	Dr.		13,317	
	To 6% Loan A/c				8,317
	To Bank A/c				5,000
	(Being ₹5,000 paid to S and Balance of S's Capital transferred to his Loan Account)				

Balance Sheet

As on March 31,2016 (after S's Retirement)

Liabilities		₹	Assets		₹
To Sundry Creditors A/c		16,000	By Building A/c (23,000+8,800)		31,800
To S's Loan A/c		8,317	By Debtors A/c	7,000	
To Capital A/c s:			Less: Provision for Doubtful Debts	(350)	6,650
R	21,975		By Stock A/c		12,000
M	13,158	35,133	By Patents A/c		8,000
			By Bank A/c (6,000-5,000)		1,000
		59,450			**59,450**

Working Note :

1: Calculation of Gaining Ratio

Old Ratio (R, S and M) = 3:2:1

S retires from the firm.

∴ Gaining ratio = 3:1

2 : Adjustment of Goodwill

Goodwill of the firm =₹9,000

$$\text{S's Share of Goodwill} = 9,000 \times \frac{2}{6} = ₹3,000$$

This Share of Goodwill is to be distributed between R and M in Their Gaining Ratio (i.e.3:1).

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

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

3

Revaluation Account

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Provision for Doubtful Debts (6,000 × 5%)		350	By Building A/c	8,800
To Profit transferred to:				
R's Capital A/c	4,225			
S's Capital A/c	2,817			
M's Capital A/c	1,408	8,450		
		8,800		**8,800**

4

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Partners' Capital Account

Dr. Cr.

Particulars	R	S	M	Particulars	R	S	M
To S's Capital A/c	2,250			By Balance b/d	20,000	7,500	12,500
To Bank A/c		5,000		By Revaluation A/c	4,225	2,817	1,408
To 6% S's Loan A/c		8,317		By R's Capital A/c		2,250	
To Balance c/d	21,975		13,158	By M's Capital A/c		750	
	24,225	**13,317**	**13,908**		**24,225**	**13,317**	**13,908**

Question 31.

X, Y and Z were partnership in a firm sharing profits and losses in the ratio of 2:2:1. On 31st March, 2016, their Balance Sheet was:

Liabilities		₹	Assets	₹
Bills Payable		98,000	Cash	30,000
Sundry Creditors		1,02,000	Bills Receivable	9,000
Profit and Loss A/c		75,000	Debtors	21,000
Capital A/cs:			Stock	40,000
X	80,000		Furniture	80,000
Y	80,000		Plant and Machinery	1,20,000
Z	65,000	2,25,000	Building	2,00,000
		5,00,000		5,00,000

On 1st April, 2016, X retired from the business. On X's retirement, the assets and liabilities were revalued as:

i. Stock was depreciated by 10%, Furniture was depreciated by 20% and Plant and Machinery by 5% Building was appreciated by 20%.

ii. The goodwill of the firm was valued at ₹60,000. X was to be paid ₹19,600 in cash on retirement, the balance in three equal installments.

Prepare Revaluation Account, Partners' Capital Accounts, X's Loan Account and the Balance Sheet as at 1st April 2016.

Solution:

Revaluation Account

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Stock A/c (40,000 × 10%)		4,000	By Building A/c (2,00,000 × 20%)	40,000
To Furniture A/c (80,000 × 20%)		16,000		
To Plant and Machinery A/c (1,20,000 × 5%)		6,000		
To Profit transferred to:				
X's Capital A/c	5,600			
Y's Capital A/c	5,600			
Z's Capital A/c	2,800	14,000		
		40,000		**40,000**

Partners' Capital Account

Dr. Cr.

Particulars	R	S	M	Particulars	R	S	M
To X's Capital A/c (Goodwill)		16,000	8,000	By Balance b/d	80,000	80,000	65,000
To Cash A/c	19,600			By Profit and Loss A/c	30,000	30,000	15,000
X's Loan A/c	1,20,000			By Revaluation A/c (profit)	5,600	5,600	2,800
To Balance c/d		99,600	74,800	Y's Capital A/c (Goodwill)	16,000		
				Z's capital A/c (goodwill)	8,000		
	1,39,600	**1,15,600**	**82,800**		**1,39,600**	**1,15,600**	**82,800**

Balance Sheet
As on March 31,2016 (after S's Retirement)

Liabilities		₹	Assets	₹
Bills Payable A/c		98,000	Cash A/c (30,000-19,600)	10,400
Sundry Creditors A/c		1,02,000	Bills Receivable A/c	9,000
X's Loan A/c		1,20,000	Debtors A/c	21,000
Capital A/cs:			Stock A/c (40,000-4,000)	36,000
Y	99,600		Furniture A/c (80,000 - 16000)	64,000
Z	74,800	1,74,400	Plant and Machinery A/c (1,20,000 - 6,000)	1,14,000
			Building A/c (2,00,000 + 40,000)	2,40,000
		4,94,400		4,94,400

X's Loan Account

Dr. Cr.

Particulars	₹	Particulars	₹
		By Y's Capital A/c	1,20,000
To Balance C/d	1,20,000		
	1,20,000		1,20,000

Working Note:
Adjustment of Goodwill
Old Ratio (X, Y and Z) = 2 : 2 : 1
X retires from the firm.
∴ Gaining Ratio = 2 : 1
Goodwill of the firm = ₹60,000

$$X's\ Share\ of\ Goodwill = 60,000 \times \frac{2}{5} = ₹24,000$$

This share of goodwill is to be distributed between Y and Z in their gaining ratio (i.e.2 : 1).

$$Y's\ Share = 24,000 \times \frac{2}{3} = ₹16,000$$

$$Z's\ Share = 24,000 \times \frac{1}{3} = ₹8,000$$

Question 32.

Vijay, Vivek and Vinay were partners in a firm sharing profits 2:2:1 ratio. On 31st March, 2016, Vivek retired from the firm. On the date of Vivek's retirement Balance Sheet of the firm was:

Liabilities		₹	Assets		₹
Creditors		54,000	Bank		55,200
Bills Payable		24,000	Debtors	12,000	
Outstanding Rent		4,400	Less: Provision for Doubtful Debts	800	11,200
Provision for Legal Claims		12,000	Stock		18,000
Capital A/cs:			Furniture		8,000
Vijay	92,000		Premises		1,94,000
Vivek	60,000				
Vinay	40,000	1,92,000			
		2,86,400			2,86,400

On Vivek's retirement it was agreed that:
a. Premises will be appreciated by 5% and Furniture will be appreciated by ₹2,000. Stock will be depreciated by 10%.
b. Provision for Doubtful Debts was to be made at 5% on Debtors and Provision for Legal Damages to be made for ₹14,400.
c. Goodwill of the firm was valued at ₹48,000.
d. ₹50,000 from Vivek's Capital Account will be transferred to his Loan Account and the Balance be paid by cheque.

Prepare Revaluation Account, Partner's Capital Accounts and the Balance Sheet after Vivek's retirement.

Solution:

Revaluation Account

Dr. Cr.

Particulars		₹	Particulars	₹
To Stock A/c		1,800	By Premises A/c	9,700
To Provision for Legal Damages A/c		2,400	By Furniture A/c	2,000
To Gain (profit) transferred to:			By Provision for Doubtful Debts A/c	200
Vijay Capital A/c	3,080			
Vivek Capital A/c	3,080			
Vinay's Capital A/c	1,540	7,700		
		11,900		**11,900**

Partners' Capital Account

Dr. Cr.

Particulars	Vijay	Vivek	Vinay	Particulars	Vijay	Vivek	Vinay
To Vivek A/c	12,800		6,400	Balance b/d	92,000	60,000	40,000
To Bank A/c		32,280		By Revaluation A/c	3,080	3,080	1,540
To Vivek's Loan A/c		50,000		By Vijay's Capital A/c		12,800	
Balance c/d	82,280		35,140	Vinay's Capital A/c		6,400	
	95,080	**82,280**	**41,540**		**95,080**	**82,280**	**41,540**

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Balance Sheet

as on March 31, 2016 (after Vivek's Retirement)

Liabilities		₹	Assets		₹
To Creditors A/c		54,000	By Bank A/c		22,920
To Bills Payable A/c		24,000	By Stock A/c		16,200
To Outstanding Rent A/c		4,400	By Furniture A/c		10,000
To Provision for Legal Claims A/c		14,400	By Premises A/c		2,03,700
To Capital A/c:			By Debtors A/c	12,000	
Vinay	82,280		Less: prov. For Doubtful Debts	600	11,400
Vivek's	35,140	1,17,420			
To Vivek's Loan A/c		50,000			
		2,64,220			**2,64,220**

Question 33.

X, Y and Z are partners sharing profits in the ratio of 4:3:2. Their Balance Sheet as at 31st March, 2016, stood as follows:

Liabilities		₹	Assets		₹
Creditors		4,140	Cash at Bank		3,300
Capital A/c s:			Sundry Debtors	3,045	
X	12,000		Less: Provision for Doubtful Debts	105	2,940
Y	9,000		Stock		4,800
Z	6,000	27,000	Land and Building		5,100
					15,000
		31,140			31,140

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.
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. That 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.

You are required to show:

i. Revaluation Account;
ii. Partners' 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:			By Land and building (15,000×10%)	1,500
X's Capital A/c	1,140		By Provision for Doubtful Debts A/c	105
Y's Capital A/c	855		By Stock A/c (4,800 × 20%)	960
Z's Capital A/c	570	2,565		
		2,565		**2,565**

Partners' Capital Account

Dr. Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
To Y's Capital A/c	1,200		600	Balance b/d	12,000	9,000	6,000
To X's Capital A/c (Rectification)		420		By Revaluation A/c (profit)	1,140	855	570
To Z's Capital A/c (Rectification)		390		X's Capital A/c (Goodwill)		1,200	
To Y's Loan A/c		10,845		Z's Capital A/c (Goodwill)		600	
Balance c/d	12,360		6,360	Z's Capital A/c (Rectification)	420		390
	13,560	**11,655**	**6,960**		**13,560**	**11,655**	**6,960**

Balance Sheet

As on March 31,2016 (after Y's Retirement)

Liabilities		₹	Assets	₹
To Creditors A/c		4,140	By Cash at Bank A/c	3,300
To Y's Loan A/c		10,845	By Sundry Debtors A/c	3,045
To Capital A/c s:			By Stock (4,800 +960)	5,760
Y	12,360		By Plant and Machinery A/c	5,100
Z	6,360	18,720	By Land and Building A/c (15,000 + 1,500)	16,500
		33,705		33,705

Working Note:

Adjustment of Goodwill
Old Ratio (X, Y and Z) = 4 : 3 : 2
Y retires from the firm.
∴ Gaining Ratio = 4 : 2 or 2 : 1
Goodwill of the firm = ₹ 5,400

$$\text{Ys Share of Goodwill} = 5,400 \times \frac{3}{9} = ₹1,800$$

This share of goodwill is to be distributed between X and Z in their gaining ratio (i.e. 2: 1).

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

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

Question 34.

(Value Based) P, Q and R were partners sharing profits and losses in the ratio 4: 3: 3. The Balance Sheet of the firm as at 31st March, 2010, stood as:

Liabilities		₹	Assets	₹
Creditors		10,000	Cash and Bank	20,000
Employees' Provident Fund		20,000	Debtors	15,000
Reserves		10,000	Stock	17,000
Workmen Compensation Reserve		10,000	Fixed Assets	52,000
Capital A/cs:			Drawings : R	6,000
P	30,000			
Q	15,000			
R	15,000	60,000		
		1,10,000		1,10,000

Retired on the above date on the following terms and conditions:

a. Fixed Assets are to be depreciated by ₹2,000 and ₹1,000 Provision for Doubtful Debts is to be created.
b. A liability of ₹4,000 for Workmen Compensation is to be created.
c. Goodwill of the firm is valued at ₹50,000 and adjustment for goodwill is to be done without opening the Goodwill Account.
d. New profit-sharing ratio of P and Q is 2: 1.
e. Final balance payable to R is to be treated as loan carrying interest @10% p.a.
f. Final balance of R is to be settled in three equal annual installments plus interest and first installment is payable on 31st March, 2011.
g. R decided that out of the due amount as per (f) above, first two installments will be placed in fixed deposit and the interest shall be used for educating a girl child from poor family.

Pass Journal entries relating to R's retirement. Also, show Balance Sheet of P and as at 1st April, and R's Loan Account for the years 2011, 2012 and 2013. Indicate the values communicated.

Solution:

Journal

Particulars		L.F.	Debit Rs.	Credit Rs.
Revaluation A/c	Dr.		3,000	
To Fixed Assets A/c				2,000
To Provision for Doubtful Debts A/c				1,000
(Being decrease in value of Fixed Assets and Provision for Doubtful debts transferred to Revaluation Account)				
P's Capital A/c	Dr.		1,200	
Q's Capital A/c	Dr.		900	
R's Capital A/c	Dr.		900	
To Revaluation A/c				3,000
(Being Revaluation loss distributed among partners in their old ratio)				
Workmen's Compensation Reserve A/c	Dr.		10,000	
To Outstanding Workmen's Compensation A/c				4,000
To P's Capital A/c				2,400
To Q's Capital A/c				1,800
To R's Capital A/c				1,800
(Being Workmen's Compensation claim adjusted against Workmen's Compensation Reserve amount is distributed among the partners)				
Reserves A/c	Dr.		10,000	
To P's Capital A/c				4,000
To Q's Capital A/c				3,000
To R's Capital A/c				3,000
(Being Reserves distributed among all the Partners in their old ratio)				
P's Capital A/c	Dr.		13,333	
Q's Capital A/c	Dr.		1,667	
To R's Capital A/c				15,000
(Being R's share of goodwill adjusted)				
R's Capital A/c	Dr.		27,900	
To R's Loan A/c				27,900
(Being R's capital balance transferred to his Loan Account)				

Balance Sheet

As on March 31,2010 (after R's Retirement)

Liabilities		₹	Assets		₹
Creditors		10,000	Cash at Bank		20,000
Employees' Provident Fund		20,000	Debtors	15,000	
Outstanding Workmen's compensation Reserve		4,000	Less: Provision for Doubtful Debts	(1,000)	14,000
R's Loan A/c		27,900	Stock		17,000
Capital A/cs:			Fixed Assets (52,000 - 2,000)		50,000
P	21,867				
Q	17,233	39,100			
		1,01,000			1,01,000

R's Loan Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
2011			2011		
Mar. 31	To Bank A/c (9,300+ 2,790)	12,090	Apr. 01	By R's Capital A/c	27,900
Mar. 31	To Balance c/d	18,600	Mar. 31	By Interest (27,900 × 10%)	2,790
		30,690			30,690
2012			2011		
Mar. 31	To Bank A/c (9,300 +1,860)	11,160	Apr. 01	By Balance b/d	18,600
			2012		
Mar. 31	To Balance c/d	9,300	Mar. 31	By Interest A/c (18,600 × 10%)	1,860
		20,460			20,460
2013			2012		
Mar. 31	To Bank A/c (9,300 + 930)	10,230	Apr. 01	By Balance b/d	9,300
			2013		
			Mar. 31	By Interest A/c (9,300 × 10%)	930
		10,230			10,230

Value involved are:

1. Social Welfare
2. Charity
3. Motivating education

Working Notes:

1

Revaluation Account

Dr. Cr.

Particulars	₹	Particulars		₹
To Fixed Assets A/c	2,000	By Loss transferred to:		
To Provision for Doubtful Debts A/c	1,000	P's Capital A/c	1,200	
		Q's Capital A/c	900	
		R's Capital A/c	900	3,000
	3,000			3,000

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Partners' Capital Account

Dr. Cr.

Particulars	P	Q	R	Particulars	P	Q	R
To Drawings A/c			6,000	By Balance b/d	30,000	15,000	15,000
				By Workmen's Compensation			
To R's Capital A/c (Goodwill)	13,333	1,667		Reserve A/c	2,400	1,800	1,800
To Revaluation A/c	1,200	900	900	By Reserves A/c	4,000	3,000	3,000
To R's Loan A/c			27,900	By P's Capital A/c (Goodwill)			13,333
To Balance c/d	21,867	17,233		By Q's Capital A/c (Goodwill)			1,667
	36,400	**19,800**	**34,800**		**36,400**	**19,800**	**34,800**

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3 Calculation of Gaining Ratio
Old Ratio (P, Q and R) = 4: 3: 3
New Ratio (P and Q) = 2 : 1
R retires from the firm.
Gaining Ratio = New Ratio - Old Ratio

$$\text{P's Share} = \frac{2}{3} - \frac{4}{10} = \frac{20-12}{30} = \frac{8}{30}$$

$$\text{Q's Share} = \frac{1}{3} - \frac{3}{10} = \frac{10-9}{30} = \frac{1}{30}$$

$$\therefore \text{Gaining Ratio} = 8 : 1$$

4 Adjustment of Goodwill
Goodwill of the firm = Rs. 50,000

$$\text{Rs Share of Goodwill} = 50,000 \times \frac{3}{10} = ₹15,000$$

This share of goodwill is to be distributed between P and R in their gaining ratio (i.e.8:1).

$$\text{P's Share} = 15,000 \times \frac{1}{9} = ₹13,333$$

$$\text{Q's Share} = 15,000 \times \frac{1}{9} = ₹1,667$$

Question 35.

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, 2016 is:

Liabilities		₹	Assets		₹
Creditors		7,000	Land and Building		36,000
Bill payable		3,000	Plant and Machinery		28,000
Reserves		20,000	Electronic Typewriter		8,000
Capital A/c			Stock		20,000
A	32,000		Sundry Debtors	14,000	
B	24,000		Less: Provision for Doubtful Debts	2,000	12,000
C	20,000	76,000	Bank		2,000
		1,06,000			1,06,000

On 1st April, 2016, 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 employees 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. Cr.

Particulars		₹	Particulars	₹
To Plant and Machinery A/c (28,000 × 10%)		2,800	By Stock A/c (20,000 × 10%)	2,000
To Electronic Typewriter A/c (8,000 × 10%)		800	By Land and Building A/c (36,000 × 10%)	3,600
To Outstanding Salary A/c		2,000	By Provision for Doubtful Debts A/c	2,000
To Profit transferred to:				
A's Capital A/c	800			
B's Capital A/c	600			
C's Capital A/c	600	2,000		
		7,600		7,600

Partners' Capital Account

Dr. Cr.

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

Balance Sheet
as on April 01, 2016 (after B's retirement)

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

Working Note:
Adjustment of Goodwill

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

B retires from the firm.

∴ Gaining Ratio = 4 : 3

Goodwill of the firm = ₹14,000

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

This share of goodwill is to be distributed between A and C in their gaining ratio (i.e. 4 : 3).

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

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

Question 36.

Following is the Balance Sheet of X, Y and Z as at 31st March, 2016. They shared profits in the ratio of 3:3:2.

Liabilities		₹	Assets		₹
Sundry Creditors		2,50,000	Cash at Bank		50,000
General Reserve		80,000	Bills Receivable		60,000
Partners' Loans A/c			Debtors	80,000	
X		50,000	Less: provision for Doubtful debts	4,000	76,000
Y		40,000	Stock		1,24,000
Capital A/c			Fixed Assets		3,00,000
X	1,00,000		Advertisement Suspense A/c		16,000
Y	60,000		Profit and Loss A/c		4,000
Z	50,000	2,10,000			
		6,30,000			6,30,000

On 1st April, 2016, Y decided to retire from the firm on the following terms:

a. Stock to be depreciated by ₹12,000.
b. Advertisement 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 be adjusted in X's and Zs Capital Accounts.

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

Solution:

Revaluation Account

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Stock A/c		12,000	By Fixed Assets (3,00,000 × 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		
		30,000		**30,000**

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 Capital 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	
	1,36,000	**1,26,000**	**74,000**		**1,36,000**	**1,26,000**	**74,000**

Balance Sheet
as on April 01, 2016 (after Y's Retirement)

Liabilities		Rs.	Assets		Rs.
To Sundry creditors A/c		2,50,000	By Cash at Bank A/c		50,000
To X's Loan A/c		50,000	By Bills Receivable A/c		60,000
To Y's Capital A/c:			By Debtors A/c	80,000	
X	1,10,500		Less: Prov. for Doubtful Debts A/c	(6,000)	74,000
Z	57,000	1,67,500	By Stock A/c (1,24,000-12,000)		1,12,000
			By Fixed Assets A/c (3,00,000+30,000)		3,30,000
		6,26,000			**6,26,000**

Y's Loan Account

Dr. Cr.

Particulars	₹	Particulars	₹
		By Balance b/d	40,000
To Balance c/d	1,58,500	By Y's Capital A/c	1,18,500
	1,58,500		**1,58,500**

Working Note:

1 Adjustment of Goodwill

Old Ratio X Y Z

3 : 3 : 2

Gaining Ratio X Z

3 : 2

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

$$\text{X's Gain in Goodwill} = 30,000 \times \frac{3}{5} = ₹18,000$$

$$\text{Z's Gain in Goodwill} = 30,000 \times \frac{2}{5} = ₹12,000$$

2 Distribution of General Reserve

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

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

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

3 Writing-off Advisement Suspense

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

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

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

4 Writing-off Profit and Loss (Loss)

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

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

$$\text{Z's Share} = 4,000 \times \frac{2}{8} = ₹1,500$$

Question 37.

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, 2016 stood as follows:

Liabilities		Rs.	Assets		Rs.
Creditors		21,000	Cash at Bank		5,750
Workman compensation reserve		12,000	Debtors	40,000	
Investment fluctuation reserve		6,000	Less: provision for doubtful debts	2,000	38,000
Capital A/cs:			Stock		30,000
X	68,000		Investment (market valueRs.17,600)		15,000
Y	32,000		Patents		10,000
Z	21,000	1,21,000	Machinery		50,000
			Advertisement Expenditure		5,250
			Goodwill		6,000
		1,60,000			**1,60,000**

Z retired on the above date on the following terms:

a. **Goodwill of the firm is to be valued at Rs.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 Rs.750 is to be created.**
f. **A liability of Rs.4,000 included in creditors is not likely to be paid.**
g. **Amount due to Z to be settled on the following basis: Rs.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 ₹	Credit ₹
2016					
April 01	X's Capital A/c	Dr.		3,000	
	Y's Capital A/c	Dr.		2,000	
	Z's Capital A/c	Dr.		1,000	
	To Goodwill A/c				6,000
	(Being existing Goodwill Written off)				
April 01	X's Capital A/c	Dr.		3,480	
	Y's Capital A/c	Dr.		2,320	
	To Z's Capital A/c				5,800
	(Being Z's share of goodwill credited to him and gaining partners debited in gaining ratio)				

Revaluation Account

Dr. Cr.

Particulars	₹	Particulars		₹
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 Prov. For Doubtful 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. Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
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
				By Workmen Compensation Reserve			
To Advertisement expenditure A/c	2,625	1,750	875	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**	**29,625**		**76,625**	**37,750**	**29,625**

Balance Sheet
As on April 01, 2016 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 A/cs:			Debtors	40,000	
X	67,120		Less: prov. for Doubtful Debts	2,400	37,600
Y	31,413	98,533	Machinery		45,000
Z's Loan		2,500			
		1,21,283			**1,21,283**

Note:
Amount due to Z
= (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 one year : 50% of 5,000 = Rs.2,500
Amount payable by Bills o f Exchange: Rs.2,500 (balance 50%)

Question 38.

P, Q and R are partners sharing profits and losses in the ratio of 3 : 2 : 1. Following is their Balance sheet as at 31st March, 2016:

Liabilities		₹	Assets	₹
Capital A/cs:			Plant and Machinery	2,00,000
P	2,00,000		Stock	1,00,000
Q	1,50,000		Debtors	1,00,000
R	1,00,000	4,50,000	Cash	1,00,000
Creditors		50,000		
		5,00,000		5,00,000

Q retires from the business on 1st April, 2016. Following was agreed upon retirement of Q:

a. Plant and Machinery has been revalued at ₹3,00,000.
b. Stock has been revalued at ₹90,000.
c. A sum of ₹15,000 is to be written off from Debtors.
d. Goodwill of the firm is valued at ₹1,50,000. Q's share is to be adjusted in the account of P and R.
e. P and R will continue to carry on the business and shall share profits and losses equally in future.
f. Amount payable to Q shall be paid after three years and till that time it will remain in the business as Loan bearing interest @ 10% p.a.
g. Q decided to donate interest to an Orphanage every year.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of P and R as 1st April, 2016. What values are conveyed by 'Q'?

Solution:

Revaluation Account

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Stock A/c		10,000	By Plant and Machinery A/c	1,00,000
To Debtors A/c		15,000		
To Profit on Revaluation transferred to:				
P Capital A/c	37,500			
Q Capital A/c	25,000			
R Capital A/c	12,500	75,000		
		1,00,000		**1,00,000**

Partners' Capital Account

Dr. Cr.

Particulars	P	Q	R	Particulars	R	P	R
To Q's Capital A/c			50,000	By Balance b/d	2,00,000	1,50,000	1,00,000
To Q's Loan A/c		2,25,000		By Revaluation A/c (profit)	37,500	25,000	12,500
To Balance c/d	2,37,500		62,500	By R's Capital		50,000	
	2,37,500	**2,25,000**	**1,12,500**		**2,37,500**	**2,25,000**	**1,12,500**

Balance Sheet
as on April 01, 2016 (after retirement)

Liabilities		Rs.	Assets	Rs.
Creditors		50,000	Plant and Machinery (2,00,000+1,00,000)	3,00,000
Q's Loan		2,25,000	Stock (1,00,000-10,000)	90,000
Capital A/c's:			Debtors (1,00,000-15,000)	85,000
P	2,37,500		Cash	1,00,000
R	62,500	3,00,000		
		5,75,000		**5,75,000**

Values involved are:

1. Charity
2. Sympathy
3. Fulfilling responsibility towards society

Working Notes:

1 Calculation of Gaining Ratio Old Ratio
(P, Q and R) = 3:2:1
New Ratio (P and R) =1:1
Gaining Ratio = New Ratio - Old Ratio

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

$$R's\ Share = \frac{1}{2} - \frac{1}{6} = \frac{3-1}{6} = \frac{2}{6} \text{ or } \frac{1}{3}$$

2 Adjustment of Goodwill
Total Goodwill of the Finn = 1,50,000

$$Q's\ Share\ in\ Goodwill = \frac{2}{6} \times 1,50,000 = 50,000$$

It is to be adjusted by the Gaining partners i.e. only by R

Question 39.

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 Rs.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 Rs.1,45,000 and Rs.63,000 respectively. State the amount of actual cash to be brought in or to be paid to the partners.

Solution:

Old Ratio (X. Y. and Z) = 3 2 1

Y retires from the firm.

$\therefore$ New Ratio (X and Z) = 3 : 1

Total capital of the New Firm = ₹2,10,000

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

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

Ascertainment of Actual Cash to be brought in or to be paid to the partners

Particulars	X	Z
New Capital	1,57,500	52,500
Existing Capital	1,45,000	63,000
Cash Paid /Brought in	(12,500) (Brought in)	10,500 (Paid)

Question 40.

Manoj, Naveen and Deepak were partners sharing profits in the ratio of 3: 2: 1. On 1st April, 2016 Naveen retired. On that date Balance Sheet was:

Liabilities		₹	Assets	₹
General Reserve		6,000	Plant	30,000
Expenses Outstanding		2,000	Patents	3,000
Bills Payable		5,000	Debtors	9,500
Creditors		10,000	Stock	11,000
Capital A/cs:			cash	500
Manoj	12,000			
Naveen	10,000			
Deepak	9,000	31,000		
		54,000		54,000

The terms were:

a. Goodwill of the firm be valued at ₹12,000 and Naveen's share of goodwill be adjusted in the accounts of Manoj and Deepak who share the profits and losses in the ratio of 3:2.

b. Expenses outstanding are to be brought down to ₹1,500; Plant is to be valued at 10% less and Patents at ₹4,000.

c. Total capital of the new firm will be fixed at ₹25,000 to be contributed by partners in profit-sharing ratio.

Prepare Ledger Accounts to record the above transactions and the Balance Sheet after Naveen's retirement.

Solution:

Revaluation Account

Dr. Cr.

Particulars	Rs.	Particulars		Rs.
To Plant A/c $(30,000 \times 10\%)$	3,000	By Expenses Owing A/c (2,000 - 500)		500
		By Patents A/c (4,000 - 3,000)		1,000
		By Loss transferred to:		
		Manoj's Capital A/c	750	
		Naveen's Capital A/c	500	
		Deepak's Capital A/c	250	1,500
	3,000			**3,000**

Partners' Capital Account

Dr. Cr.

Particulars	Manoj	Naveen	Deepak	Particulars	Manoj	Naveen	Deepak
To Revaluation A/c	750	500	250	By Balance b/d	12,000	10,000	9,000
To Naveen's Capital A/c	1,200		2,800	By General Reserve A/c	3,000	2,000	1,000
To Naveen's Loan A/c		15,500		By Manoj Capital A/c		1,200	
To Balance c/d	13,050		6,950	By Deepak Capital A/c		2,800	
	15,000	**16,000**	**10,000**		**15,000**	**16,000**	**10,000**
				By Balance b/d	13,050		6,950
To Balance c/d	15,000		10,000	By Cash A/c	1,950		3,050
	15,000		**10,000**		**15,000**		**10,000**

Balance Sheet
as on April 01, 2016 (after retirement)

Liabilities		Rs.	Assets	Rs.
Expense Owing		1,500	Plant (30,000-3,000)	27,000
Bills Payable		5,000	Patents	4,000
Creditors		10,000	Debtors	9,500
Naveen's Loan		15,500	Stock	11,000
Capital A/cs:			Cash (WN 4)	5,500
Manoj	15,000			
Deepak	10,000	25,000		
		57,000		**57,000**

Working Notes:

1 Calculation of Gaining Ratio
Old Ratio = 3: 2: 1
Naveen retires from the firm.
New Ratio = 3 : 2
Gaining Ratio = New Ratio - Old Ratio

$$\text{Manoj's Share} = \frac{3}{5} - \frac{3}{6} = \frac{18-18}{30} = \frac{3}{30}$$

$$\text{Deepak's Share} = \frac{2}{5} - \frac{1}{6} = \frac{12-5}{30} = \frac{7}{30}$$

$\therefore$ Gaining Ratio=3:7

2 Adjustment of Goodwill
Goodwill of the firm = ₹12,000

$$\text{Naveen's Share of Goodwill} = 12,000 \times \frac{2}{6} = ₹4,000$$

This share of goodwill is to be distributed between Manoj and Deepak in their gaining ratio (i.e. 3:7).

$$\text{Manoj's Share in Goodwill} = 4,000 \times \frac{3}{10} = ₹1,200$$

$$\text{Deepk's Gain in Goodwill} = 4,000 \times \frac{7}{10} = ₹2,800$$

3 Adjustment of Capital

$$\text{Manoj's New Capital} = 25,000 \times \frac{3}{5} = ₹15,000$$

$$\text{Deepak's New Capital} = 25,000 \times \frac{2}{5} = ₹10,000$$

4

Cash Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d	500		
To Manoj's Capital A/c	1,950		
To Deepak's Capital A/c	3,050	By Balance c/d	5,500
	5,500		5,500

Question 41.

On 31st March, 2016, the Balance Sheet of A, B and C who were sharing profits and losses in proportion to their capitals stood as:

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

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

a. That out of the amount of insurance which was debited entirely 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 are 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. Entire 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. Cr.

Particulars		Rs.	Particulars	Rs.
To Provision for Doubtful Debts A/c (500 200)		300	By Prepaid Insurance A/c	1,000
To Machinery A/c (24,000 × 5%)		1,200	By Freehold Premises A/c (50,000 × 10%)	5,000
To Outstanding Workman's Compensation 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		
		6,000		**6,000**

Partners' Capital Account

Dr. Cr.

Particulars	A	B	C	Particulars	A	B	C
By 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	
	46,500	**37,000**	**15,500**		**46,500**	**37,000**	**15,500**
				By Balance b/d	42,000		14,000
To Balance c/d **(WN3)**	45,000		15,000	By Cash A/c	3,000		1,000
	45,000		**15,000**		**45,000**		**15,000**

Balance Sheet
As on march 31, 2016 (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 Doubtful Debts	(500)	9,500
B's Loan		32,000	Stock		9,000
Capital A/cs:			Machinery (24,000 - 1,200)		22,800
A	45,000		Freehold Premises (50,000 + 5,000)		55,000
C	15,000	60,000	Prepaid Insurance		1,000
		1,09,300			**1,09,300**

Bank Account

Dr. Cr.

Particulars	₹	Particulars	₹
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		
	17,000		17,000

Working Notes:

1 Calculation of Profit Sharing Ratio

	A	B	C
Capital	45,000	30,000	15,000
Old ratio	3	:2	:1

B retires from the firm.
∴ New Ratio (A and C) = 3: 1 and
Gaining Ratio = 3:1

2 Adjustment of Goodwill
Goodwill of the firm = ₹18,000

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

This share of goodwill is to be distributed between A and C in their gaining ratio (i.e. 3:1).

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

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

3 Adjustment of Partners' Capital after B's Retirement

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

New Ratio = 3 : 1

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

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

Question 42.

X, Y and Z are partners in a firm sharing profits in the ratio of 3:1: On 31st March, 2016, their. Balance Sheet was:

Liabilities		₹	Assets		₹
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 Doubtful Debts	1,000	19,000
Z	28,000	78,000	Cash		7,000
		1,30,000			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 × 10%)		3,000	By Freehold Premises A/c (40,000 × 20%)	8,000
To Furniture A/c (12,000 × 10%)		840	By Stock A/c (22,000 × 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
				By X's Capital A/c (Goodwill)			5,525
				By Y's Capital A/c (Goodwill)			1,750
To Balance c/d	34,230	21,410		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**	

Working Notes:

1 Calculation of Profit Sharing Ratio

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

Z retires from the firm. .

∴ New Ratio (X and Y) = 3 : 1 and

Gaining Ratio = 3 : 1

2 Adjustment of Goodwill

Goodwill of the firm = ₹21,000

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

This share of goodwill is to be distributed between X and Y in their gaining ratio (i.e. 3: 1).

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

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

3 Adjustment of Partners' Capital after Z's Retirement

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

New Ratio = 3 : 1

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

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

Question 43.

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, 2016 is:

Liabilities		₹	Assets		₹
Creditors		30,000	Cash at Hand		18,000
Bills Payable		16,000	Debtors	25,000	
General Reserve		12,000	Less: provision for doubtful debts	3,000	22,000
Capital A/cs:			Stock		18,000
A	40,000		Machinery		30,000
B	40,000		Goodwill		70,000
C	30,000	1,10,000			10,000
		1,68,000			1,68,000

B retires on 1st April, 2016 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. B is 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. 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 × 10%)		1,800		
To Furniture A/c (30,000 × 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		
		6,000		**6,000**

Partners' Capital Account

Dr. 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	33,333	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	
				By General Reserve A/c	6,000	4,000	2,000
	46,300	**51,533**	**32,100**		**46,300**	**51,533**	**32,100**
To Cash A/c			2,450	To Balance b/d	35,800		28,600
By Balance c/d **(WN3)**	78,450		26,150	By Cash A/c	42,650		
	78,450		**28,600**		**78,450**		**28,600**

Cash Account

Dr. 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
		By Balance c/d	10,000
	60,650		**60,650**

Balance Sheet
as on April 01, 2016 (after B's retirement)

Liabilities		₹	Assets		₹
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)	21,000
Capital A/c's:			Stock		16,200
A	78,450		Furniture		28,500
C	26,150	1,04,600	Machinery		70,000
		1,45,700			1,45,700

Working Notes:
1 Calculation of Profit Sharing Ratio

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

B retires from the firm.

∴ New Ratio (A and C) = 3 : 1 and

Gaining Ratio = 3 : 1

2 Adjustment of Goodwill
Goodwill of the firm =₹22,000

$$B's\ Share\ of\ Goodwill = 22,000 \times \frac{2}{6} = ₹7,333$$

This share of goodwill is to be distributed between A and C in their gaining ratio (i.e. 3: 1).

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

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

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
= ₹40,200

Combined Capital of A and C after all adjustments = 35,000+28,600= ₹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
= ₹1,04,600

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

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

Question 44.

Following is the Balance Sheet of Kusum, Sneh and Usha as on 31st March, 2016, who have agreed to share profits and losses in proportion of their capitals:

BALANCE SHEET OF KUSUM, SNEH AND USHA as at 31st march, 2016

Liabilities		Rs.	Assets		Rs.
Capital A/cs:			Land and Building		4,00,000
Kusum	4,00,000		Machinery		6,00,000
Sneh	6,00,000		Closing Stock		2,00,000
Usha	4,00,000	14,00,000	Sundry Debtors	2,20,000	
Employees' Providing Fund		70,000	Less: Provision for Doubtful Debts	(20,000)	2,00,000
Workmen Compensation Reserve		30,000	Cash at Bank		2,00,000
Sundry Creditors		1,00,000			
		16,00,000			**16,00,000**

On 31st March, 2016, Kusum desired to retire 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 Rs.35,000.**
d. **The claim on account of Workmen Compensation Reserve was estimated at Rs.15,000.**
e. **Goodwill of the firm was valued at Rs.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 Rs.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. **Cr.**

Particulars	Rs.	Particulars		Rs.
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	75,000
	1,95,000			**1,95,000**

Partners' Capital Account

Dr. **Cr.**

Particulars	Kusum	Sneh	usha	Particulars	Kusum	Sneh	Usha
To Revaluation A/c	21,429	32,142	21,429	By Balance b/d	4,00,000	6,00,000	4,00,000
				By Workmen Compensation Fund			
To Usha's Capital A/c			80,000	A/c	4,286	6,428	4,286
To Bank A/c	1,00,000			By Usha's Capital A/c	80,000		
To Kusum's Loan A/c	3,62,857						
To Balance c/d		5,74,286	3,02,857				
	4,84,286	**6,06,428**	**4,04,286**		**4,84,286**	**6,06,428**	**4,04,286**
To Balance c/d		6,00,000	8,00,000	By Balance b/d		5,74,286	3,02,857
				By Bank A/c **(WN3)**		25,714	4,97,143
		6,00,000	**8,00,000**			**6,00,000**	**8,00,000**

Balance Sheet
as at March 31, 2016

Liabilities		Rs.	Assets	Rs.
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
Capital A/c :			Sundry Debtors (2,20,000 - 35,000)	1,85,000
Sneh	6,00,000		Bank	6,22,857
Usha	8,00,000	14,00,000		
		19,47,857		**19,47,857**

Working Notes

1 Calculation of Gaining Ratio

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

New Ratio (Sneh and Usha) = 3:4

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

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

It is to be adjusted by the Gaining partners i.e. only by Usha

3 Adjustment of Capital

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

New Profit Sharing Ratio = 3 : 4

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

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

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

4

Cash at Bank A/c

Dr. Cr.

Particular	₹	Particular	₹
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		
	7,22,857		7,22,857

Question 45.

The Balance Sheet of X, Y and Z who were sharing profits in the ratio of 5: 3 : 2 as at 31st March, 2016 is as follows:

Liabilities		₹	Assets	₹
Creditors		21,000	Cash at Bank	40,000
Employee's 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, 2016 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 pr 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. Cr.

Particulars	Rs.	Particulars		Rs.
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. Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
To Revaluation A/c (Loss)	2,750	1,650	1,100	By Balance b/d	40,000	62,000	33,000
X's Capital A/c		24,000	16,000	By Profit and Loss A/c	42,500	25,500	17,000
To Balance c/d	1,19,750	61,850	32,900	By Y's Capital A/c	24,000		
				By Z's Capital A/c	16,000		
	1,22,500	**87,500**	**50,000**		**1,22,500**	**87,500**	**50,000**
To Bank A/c	1,19,750			By Balance b/d	1,19,750	61,850	32,900
To Balance c/d		1,18,500	79,000	By Bank A/c		56,650	46,100
	1,19,750	**1,18,500**	**79,000**		**1,19,750**	**1,18,500**	**79,000**

Working Notes

1 Calculation of Gaining Ratio

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

New Ratio (Y and Z) = 3:2

Gaining Ratio = New Ratio - Old Ratio

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

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

Hence, gaining ratio is 3: 2.

2 Adjustment of Goodwill

Total Goodwill of the Firm = 80,000

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

To be borne by Gaining partners in their Gaining Ratio i.e. 3:2

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

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

3 Adjustment of Capital

X's Capital before adjustment = 1,19,350
Y's Capital before adjustment = 61,850
Z's Capital before adjustment = 32,900
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

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

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

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

4

Cash at Bank A/c

Dr. Cr.

Particulars	₹	Particulars	₹
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
	1,42,750		1,42,750

Question 46.

A, B and Care partners sharing profits in the ratio of 5:3:2. Their Balance Sheet as on 31st March, 2016 is given below:

Liabilities		₹	Assets	₹
Capital A/cs:			Building	18,00,000
A	11,00,000		Investments	4,00,000
B	11,40,000		Stock	6,00,000
C	7,60,000	30,00,000	Debtors	10,00,000
Workman compensation reserve		10,00,000	Cash and Bank	6,00,000
Creditors		2,00,000		
Employee's Provident Fund		2,00,000		
		44,00,000		44,00,000

C retires on 30th June, 2016 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 preceding three years.

Year	2011 - 12	2012 - 13	2013 - 14	2014 - 15	2015 - 16
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, 2016.

Solution:

Revaluation Account

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
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	5,00,000		
		6,00,000		**6,00,000**

Partners' Capital Account

Dr. Cr.

Particulars	A	B	C	Particulars	A	B	C
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 andL Suspense A/c			35,000
	18,50,000	**15,90,000**	**13,35,000**		**18,50,000**	**15,90,000**	**13,35,000**

Balance Sheet
as at June 30, 2016 after C's retirement

Liabilities		Rs.	Assets	Rs.
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 A/cs:			Debtors	10,00,000
A	17,00,000		Cash and Bank	6,00,000
B	15,00,000	32,00,000	P and L Suspense A/c	35,000
		49,35,000		**49,35,000**

Working Notes :

1. Calculation of Goodwill

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

Goodwill = 2 years' purchase of average profit

$$= 2 \times 6,00,000 = 12,00,000$$

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

This amount would be adjusted through A and B's Capital Accounts in their gaining ratio, 5: 3.

2. Calculation of C's share of Profit

a. $\text{Average profit (last 3 years)} = \frac{6,00,0004 + 8,00,000 + 7,00,000}{3} = \frac{21,00,000}{3} = 7,00,000$

b. $\text{Profit (from April 01, 2016 to 30th June, 2016)} = 7,00,000 \times \frac{3}{12} = 1,75,000$

c. $\text{C's Share in Profits} = ₹1,75,000 \times \frac{3}{12} = 35,000$

Question 47.

A, B and C were partners sharing profits and losses in the ratio of 2:2:1. C died on 31st March 2016. Profits and Sales for the calendar year 2015 were Rs.1,00,000 and Rs.10,00,000 respectively. Sales during January to March 2016 were Rs.1,50,000 . You are required to calculate share of profit of C up to the death

Solution:

Profit for the year 2015 = ₹1,00,000

Sales for the year 2015 = ₹10,0,000

$$\text{Ratio of Profit to Sales in 2015} = \frac{1,00,000}{10,00,000} \times 100 = 10\%$$

$$\text{Sales from Jan. to March 31, 2016} = ₹1,50,000$$

$$\therefore \text{Profit from Jan. 01 to March 31, 2016 on the basis of Profit Ratio of 2014} = 150,000 \times \frac{10}{100} = 15,000$$

$$\therefore \text{C's Profit Share (from Jan. to March 31, 2016)} = 15,000 \times \frac{1}{5} = ₹3,000$$

Question 48.

A, B and C are partners sharing profits and losses in the ratio of 3:2:1. B died on 31st March, 2016. For the year 2016, proportionate profit of 2015 is to be taken into consideration. For 2015, a bad debts of Rs.2,000 had to be adjusted. The profit for 2015 was Rs.14,000 before adjustment of bad debts. Calculate B's share of profit till his death.

Solution:

Profit for the year 2015 before adjusting bad debts = ₹14,000
Bad debts = ₹2,000
Profits after adjusting bad debts= ₹(14,000 - 2,000) = ₹12,000
Proportionate profits till 31st, March 2016

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

B's share of profit (from Jan 01 till 31 March. 2016) is ₹1,000

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

Question 49.

DK, PK and GK were partners in a firm sharing profits and losses in the ratio of 5:3:2. PK died on 31st May, 2016. 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 December, 2013, 2014 and 2015 were Rs.17,000; Rs.15,000 and Rs.13,000 respectively. Calculate Pies share of profit till his death and pass the necessary Journal entry for the same.

Solution:

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

$$\therefore \text{Avenge Profit} = \frac{17,000 + 15,000 + 13,000}{3} = ₹15,000$$

$$\text{PK's Profit Share (from Jan. to May 31, 2016)} = 15,000 \times \frac{5}{3} \times \frac{3}{10} = ₹1,875$$

Journal

Particulars		L.F.	Debit ₹	Credit ₹
Profit and Loss Suspense A/c	Dr.		1,875	
To PK's Capital A/c				1,875
(Being PK's profit share credited to his capital account)				

Question 50.

Ram, Manohar and Joshi were partners in a firm. Joshi died on 31st May, 2016. 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, 2014, 2015 and 2016 were Rs.7,000; Rs.8,000 and Rs.9,000 respectively. Calculate Joshi's share of profit till his death and pass necessary Journal entry for the sam.

Solution:

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

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

$$\text{Joshi's Profit Share (from April 01 to May 31, 2016)} = 8,000 \times \frac{2}{12} \times \frac{1}{3} = ₹444$$

Journal

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

Question 51.

From the following information, estimate share of the deceased partner in profits from the accounting date till the date of death:

Sales for the year 2014 – Rs.4,00,000; Profit for the year 2014 – Rs.80,000; Date of death 1.4.2015; Sales from 1.1.2015 to 31.3.2015- Rs.70,000; Share of deceased partner-2/5.

Solution:

$$\text{Profit for the year 2014} = ₹80,000$$

$$\text{Sales for the year 2014} = ₹4,00,000$$

$$\therefore \text{Ratio of Profit to Sales in 2014} = \frac{80,000}{4,00,000} \times 100 = 20\%$$

$$\therefore \text{Profit from Jan. 01 to March 31, 2015 on the basis of Profit Ratio of 2014} = 70,000 \times \frac{20}{100} = 14,000$$

$$\therefore \text{Deceased Partner's Profit Share (from Jan. 01 to March 31, 2015)} = 14,000 \times \frac{2}{5} = ₹5,600$$

Question 52.

Kumar, Verma and Naresh were partners in a firm sharing Profit 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 Rs.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

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

Question 53.

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, 2012. The firm's profits for the last four years were as:

2008 – Rs.1,20,000; 2009 – Rs.80,000; 2010 – Rs.40,000; 2011 – Rs.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 credited to R's Capital Account in 4 years

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

$= (1,20,000 + 80,000 + 80,000 + 4,000) \times \frac{3}{8} = ₹1,20,000$

$\therefore$ R's Share of Goodwill $= \frac{1}{2} \times$ (Profit Credited R's Capital Account in 4 years)

$= \frac{1}{2} \times 1,20,000 = ₹60,000$

b.

Journal

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

Working Notes:

R's Share of Goodwill = ₹60,000

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

R died.

∴ Gaining Ratio = 4 1

This share of goodwill is to be distributed between P and S in their gaining ratio (i.e. 4:1)

P's Share in Goodwill $= 60,000 \times \frac{4}{5} = ₹48,000$

S's Share in Goodwill $= 60,000 \times \frac{1}{5} = ₹12,000$

Question 54.

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, 2016. On Y's death the goodwill of the firm was valued at Rs.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 Rs.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 ₹	Credit ₹
2016					
June 30	X's Capital A/c	Dr.		15,000	
	Z's Capital A/c	Dr.		5,000	
	To Goodwill A/c				20,000
	(Being Y's share of goodwill adjusted through X and Y's Capital Account in gaining ratio, i.e., 3:1)				
June 30	Profit and Loss suspense A/c	Dr.		12,500	
	To Y's Capital A/c				12,500
	(Being Y's profit share till his death debited to PandL suspense A/c)				

Working Notes:

1: Calculation of Y's Share of Goodwill

Goodwill of the Firm = ₹60,000

$$Y's\ Share\ of\ Goodwill = 60,000 \times \frac{2}{6} = ₹20,000$$

20,000 will be debited to X's and Z's Capital A/c in gaining ratio of 3 : 1

$$X\ will\ pay\ = 20,000 \times \frac{3}{4} = ₹15,000$$

$$Z\ will\ pay = 20,000 \times \frac{1}{4} = ₹5,000$$

2: Calculation of Y's Share of Profit

Previous Year's Profit = ₹1,50,000

Y's share of Profit (till death) = Previous Year's Profit × Y's Profit Share × 3 months (April 01, 2016 till June 30, 2016)

$$Y's\ share\ of\ Profit\ (till\ death) = 1,50,000 \times \frac{2}{6} \times \frac{3}{12} = ₹12,500$$

Question 55.

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.

Balance Sheet

As at 31st March, 2016

Liabilities		₹	Assets	₹
Capital A/cs:			Sundry Assets	21,000
X	9,000			
Y	6,000	15,000		
Reserve		3,000		
Creditors		3,000		
		21,000		21,000

The profits for three years were: 2013 - 14 - ₹ 4,200; 2014- 15 ₹3,900; 2015 - 16 - ₹4,500. Y died on 1st August, 2016. Prepare necessary accounts.

Solution:

Y's Capital Account

Dr. Cr.

Particulars	₹	Particulars	₹
		By Balance b/d	6,000
		By X's Capital A/c (Reserve)	1,200
		By X's Capital A/c (Goodwill)	5,040
To Y's Executor's A/c	12,800	By X's Capital A/c (Profit)	560
	12,800		12,800

Working Notes:

1

$$\text{Old Ratio (X and Y)} = \frac{1}{2} : \frac{1}{3} \text{ or } 3:2.$$

2

$$\text{Y's Share of Reserve} = 3,000 \times \frac{2}{5} = 1,200$$

3 Calculation Ys Share of Profit

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

$$\therefore \text{Avenge Profit} = \frac{4,200 + 3,900 + 4,500}{3} = \frac{12,600}{3} = ₹4,200$$

$$\text{Y's Share of Profit (from April. 01 to August 01, 2016)} = 4,200 \times \frac{2}{5} \times \frac{4}{12} = ₹560$$

4 Calculation of Ys Share of Goodwill

Y's share of Goodwill = Y's Profit Share in last three year

Profit for last three years = 4,200 + 3,900 + 4,500 = ₹12,600

$$\therefore \text{Y's Share of Goodwill} = 12,600 \times \frac{2}{5} = ₹5,040$$

Question 56.

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% pa

c. Salary of Rs.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, 2016. His capital was Rs.80,000. He had withdrawn Rs.15,000 and interest on his drawings was calculated as Rs.1,200. Profit of the firm for the previous year ended 31st March, 2016 was Rs.30,000.

Prepare P's Capital Account to be rendered to his executors.

Solution:

P's Capital Account

Dr. Cr.

Particulars	₹	Particulars	₹
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 (12,000 × 2/12)	2,000
		By Profit and Loss Suspense A/c	2,000
	85,600		85,600

Working Notes:

1 Calculation of Interest on Capital

P's Capital Balance = ₹80,000

$$\text{Interest on Capital (for 2 months)} = 80,000 \times \frac{12}{100} \times \frac{2}{12} = ₹1,600$$

2 Calculation of Ps Share of Profit

Profit for last year = ₹30,000

$$\therefore \text{P's Share of Profit (for 2 Months)} = 30,000 \times \frac{2}{5} \times \frac{2}{12} = ₹2,000$$

Question 57.

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 - 12	2011 - 12	2012 - 13	2013 - 14
Profit (₹)	30,000	50,000	40,000	60,000

The balance in Momita's Capital Account on 31st 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. Particulars	Rs.	Cr. 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 Gangan's Capital A/c	13,500
	93,300		**93,300**

Working Notes:

1 Calculation of Interest on Momita's Capital

$$\text{Interest on Capital} = 60,000 \times \frac{6}{100} \times \frac{6}{12} = ₹1,800$$

2 Calculation of Momita's share in Profits

$$\text{Average profit} = \frac{30,000 + 50,000 + 60,000 + 40,000}{4} = ₹45,000$$

$$\text{Share of Momita in profits} = 45,000 \times \frac{1}{5} \times \frac{6}{12} = ₹4,500$$

3 Adjustment of Goodwill
Average Profit = 45,000
Goodwill of the firm = Average Profit × Number of years' purchase
= 45,000 × 3 = Rs.1,35,000

$$\text{Momita's Share of Goodwill} = 1,35,000 \times \frac{1}{5} = ₹27,000$$

$$\text{Vikas will pay} = 27,000 \times \frac{1}{2} = ₹13,500$$

$$\text{Gagan will pay} = 27,000 \times \frac{1}{2} = ₹13,500$$

Note: Since, here no information is given regarding the share acquired by Vikas and Gagan. Therefore, their gaining ratio is same as their new profit sharing ratio i.e. 2:2 or 1:1.

Question 58.

Iqbal and Kapoor are in partnership sharing profits and losses 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 Rs.20,000; Rs.25,000 and Rs.30,000 respectively. Kapoor's capital as per Balance Sheet was Rs.40,000 and his drawings till the date of death were Rs. 5,000. Draw Kapoor's Account to be rendered to his representatives.

Solution:

Kapoor's Capital Account

Dr. Cr.

Particulars	₹	Particulars	₹
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
	43,300		43,300

Working Notes

1 Calculation of Interest on Capita of Kapoor till date of his death

$$\text{Interest} = \text{Capital} \times \frac{\text{Rate}}{100} \times \frac{\text{Time}}{12}$$

$$= 40,000 \times -3x-3\ 100\ 12$$

$$= 300$$

2 Calculation of Share of Profit of Kapoor till date of his death

$$\text{Profits} = \text{Last Year's Profit} \times \frac{\text{Time}}{12} \times \text{Share in Profits}$$

$$= 30,000 \times \frac{3}{12} \times \frac{2}{5} = 3,000$$

3 Calculation of Interest on Drawings

Interest = Drawings × 2%

=5,000 × 2%

=100

Question 59.

A, B and C carried on business in partnership, sharing profits and losses in the proportion of 3:2:1. Their capitals as per the Balance Sheet as at 31st March, 2015 were A-; Rs.30,000; B-Rs.20,000; C.-Rs.15,000 On 31st December, 2015 C died. You are instructed to prepare an account for presentation to his executors, having regard to the following facts:

a. Capital carried interest at 12% p.a.

b. C's Drawings from 1st April, 2015 to the date of his death amounting to Rs.4,500.

c. C's share of profits for the portion of the current financial year for which he lived was to be taken at the sum calculated on the average of the last three completed years.

d. Goodwill of the firm be valued on the basis of two years' purchase of the average profit of last three completed years.

The annual profits of last three completed years were Rs.17,500; Rs.16,000 and Rs.19,000 respectively.

Pass necessary Journal entries and show the account of the executors of C.

Solution:

C's Capital Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Drawings A/c	4,500	By Balance b/d	15,000
		By Interest on Capital A/c	1,350
		By Profit and Loss Adjustment A/c	2,187
		By A's Capital A/c (Goodwill)	3,500
To C's Executor's A/c	19,870	By B's Capital A/c (Goodwill)	2,333
	24,370		24,370

C's Executor's Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance c/d	19,870	By C's Capital A/c	19,870
	19,870		19,870

Journal

Particulars		L.F.	Debit ₹	Credit ₹
	Dr		1,350	
Interest on Capital A/c				1,350
To C's Capital A/c				
(Being interest on capital allowed)				
Profit and Loss Suspense A/c	Dr		2,187	
To C's Capital A/c				2,187
(Being profit transferred to C's Capital Account)				
A's Capital A/c	Dr		3,500	
B's Capital A/c	Dr		2,333	
To C's Capital A/c				5,833
(Being C's share of goodwill adjusted)				
C's Capital A/c	Dr		19,870	
TO C's Executor's A/c				19,870
(Being Amount due to C after all adjustments transferred to his Executor's Account)				

Working Notes:

1 Calculation of Interest on Capital
C's Capital Balance = ₹15,000

$$\therefore \text{Interest on Capital (for 9 months)} = 15,000 \times \frac{12}{100} \times \frac{9}{12} = ₹1,350$$

2 Calculation of C's Share of Profit

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

$$\therefore \text{Avenge Profit} = \frac{17,500 + 16,000 + 19,000}{3} = \frac{52,500}{3} = ₹17,500$$

$$\therefore \text{C's Share of Profit} = 17,500 \times \frac{1}{6} \times \frac{9}{12} = ₹2,187 \text{ (Approx.)}$$

3 Calculation of Goodwill
Goodwill = Average Profit × No. of years purchase
= 17,500 × 2 =₹35,000

4 Adjustment of Goodwill
Old Ratio (A, B and C) = 3 : 2: 1
C died.
∴ New Ratio (A and B) = 3 : 2 and
Gaining Ratio = 3 : 2

$$\text{C's Share of Goodwill} = 35,000 \times \frac{1}{6} = ₹5,833$$

This share of goodwill is to be distributed between A and B in their gaining ratio (i.e. 3 : 2)

$$\text{A's Share in Goodwill} = 5,833 \times \frac{3}{5} = ₹3,500$$

$$\text{B's Share in Goodwill} = 5,833 \times \frac{2}{5} = ₹2,333$$

Question 60.

Kavita, Leena and Monica are partners in firm sharing profits in the ratio of 1:1:3 respectively. Their Capital Accounts showed the following balances on 31.3.2012. Kavita Rs.70,000; Leena Rs.65,000 and Monica Rs.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 firm for the last three years were Rs.90,000; Rs.1,00,000 and Rs.1,10,000 respectively.

c. Her share in the Reserve Fund of the firm will be paid. The Reserve Fund of the firm was Rs.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 sales during the year 2011-12 were Rs.20,00,000. The sales from 1st April, 2012 to 30th September 2012 were Rs.4,00,000. The profit of the firm for the year ending 31st March, 2012 was Rs.2,00,000.

Prepare Kavita's Capital Account to be presented to his legal representative

Solution:

Kavita's Capital Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Kavita's Executor's A/c	1,32,100	By Capital A/c	70,000
		By Interest on Capital A/c	2,100
		By Leena's Capital A/c *	10,000
		By Monica's Capital A/c *	30,000
		By Share of Reserve **	12,000
		By Profit Share	8,000
	1,32,100		1,32,100

Working Note:

*Calculation of Goodwill

On the basis of 2 yrs purchase of average 3 years profit

$$\text{Average Profit} = \frac{\text{Sum of Profits}}{\text{No. of years}} = \frac{90,000 + 1,00,000 + 1,10,000}{3} = ₹1,00,000$$

Goodwill = Average Profit × 2 = ₹1,00,000 × 2 =₹2,00,000

$$\text{Kavita's Share of Goodwill} = ₹2,00,000 \times \frac{1}{5} = ₹40,000$$

This share will be contributed by remaining partners in their Gaining Ratio

Gaining Ratio of Leena and Monica 1:3

$$\text{Leena's share of contribution} = \frac{1}{4} \times 40,000 = ₹10,000$$

$$\text{Monica's share of contribution} = \frac{3}{4} \times 40,000 = ₹30,000$$

**Sales in the year 2011-12 =20,00,000

Profit for year 2011-12 =2,00,000 = 10% of Sales.

Therefore, Profit for the Period 1 Apr - 30th Sep =10% of Sales of the same period

Share of profit for to be divided = 10% of ₹4,00,000=₹40,000

Kavita's Share of profit = 1/5th of ₹40,000 =₹8,000

Question 61.

A, B and C are partners in the proportion of 3: 2: 1. Their Balance Sheet as at 31st march , 2016 stood as follows:

Liabilities		₹	Assets	₹
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		Investment	1,32,500
C	80,000	4,00,000	Building	2,10,000
		7,80,000		7,80,000

B Died on 30th June, 2016 and according to the deed of the said partnership his executors are entitled to be paid as under:

i. The capital to his credit at the time of his death and interest there on @ 10% per annum.
ii. His proportionate share of general reserve.
iii. His share of profits for the intervening period will be based on the sales during that period. Sales from 1st April, 2016 to 30th June, 2016 were as ₹12,00,000. The rate of profit during past three years had been 10% on sales.
iv. 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.
v. The investments were sold at par and his executors were paid out in full.

Prepare B's Capital Account and his Executor's Account.

Solution:

B's Capital Account

Dr. Cr.

Particulars	₹	Particulars	₹
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
	3,47,000		3,47,000

B's Executor Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Bank A/c	3,47,000	By B's Capital A/c	3,47,000
	3,47,000		3,47,000

Working Notes:

1: Calculation of Interest on Capital

Opening Capital =₹1,20,000 (last year's dosing capital)

$$\text{Interest on Capital} = 1,20,000 \times \frac{10}{100} \times \frac{3}{12} = ₹3,000$$

2: Calculation of Profit Share up-to-death

$$\text{B's Profit Share (up-to-death)} = \frac{\text{Previous Year's Profit}}{\text{Previous Year's Sales}} \times \text{Sales till death} \times \text{B's Profit Share}$$

Previous Year's Profit =₹98,000

$$\text{Rate of Profit to Sales} = \frac{\text{Previous Year's Profit}}{\text{Previous Year's Sales}} \times 100$$

$$10 = \frac{98,000}{\text{Previous Year's Sales}} \times 100$$

Previous Year's Sales =₹9,80,000

Sales till death =₹12,00,000

$$\text{B's Profit Share (up-to-death)} = \frac{98,000}{9,80,000} \times 12,00,000 \times \frac{2}{6}$$

B's Profit Share (up-to-death) =₹40,000

3: Calculation of share of goodwill

$$\text{Average Profits} = \frac{82,000 + 90,000 + 98,000}{3} = ₹90,000$$

Average Profits (less 20%) = 72,000

Goodwill = 72,000 x 2 =₹1,44,000

B's Share of Goodwill =₹1,44,000

Question 62.

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 Rs.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 Rs.24,000 for his share of goodwill.

c. His share of Reserve Fund of Rs.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 Rs.4,00,000. The sales from 1st April, 2012 to 30th September, 2012 were Rs.1,20,000. The profit of the firm for the year ending 31st March, 2012 was Rs.2,00,000.

Prepare Chetan's Capital Account to be presented to his executor.

Solution:

Chetan's Capital Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Chetan's Executor's A/c	1,79,750	By Capital A/c	1,25,000
		By Interest on Capital A/c(for 6 months)	3,750
		By Babita's Share Capital A/c	16,000
		By Devid's Share Capital A/c	8,000
		By Share of Reserve A/c	12,000
		By Profit Share A/c**	15,000
	1,79,750		1,79,750

Working Note:
Chetan's Share of Goodwill = ₹24,000
This share will be contributed by remaining partners in their Gaining Ratio
Gaining Ratio of Babita and David = 2:1

$$\text{B abita's share of contribution} = \frac{2}{3} \times 24,000 = ₹16,000$$

$$\text{David's share of contribution} = \frac{1}{3} \times 24,000 = ₹8,000$$

**Sales in the year 2011-12 = 4,00,000
Profit for year 2011-12 =2,00,000 = 50% of Sales.
Therefore, Profit for the Period Apr 01 to 30th Sep = 50% of Sales of the same period
Share of Profit to be divided = 50% of ₹1,20,000 = ₹60,000
Chetan's Share of Profit =1/4th of ₹60,000 = ₹15,000

Question 63.

Sunny, Honey and Rupesh were partners in a firm. On 31st March, 2014, their Balance Sheet was as follows:

Liabilities		₹	Assets	₹
Sundry Creditors		10,000	Plant and Machinery	40,000
General Reserve		30,000	Furniture	15,000
Capital A/cs:			Investment	20,000
Sunny	30,000		Debtors	20,000
Honey	30,000		stock	25,000
Rupesh	20,000	80,000		
		1,20,000		1,20,000

Honey died on 31st December, 2014. The Partnership Deed provides that the representatives 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	₹	Particulars	₹
To Executor's A/c	81,350	Balance b/d	30,000
		By Interest on Capital A/c	1,350
		By Profit and Loss Suspense A/c	40,000
		By General Reserve A/c	10,000
	81,350		81,350

Working Notes:

1 Calculation of Interest on Honey's Capital

$$\text{Interest on Capital} = 30,000 \times \frac{6}{100} \times \frac{9}{12} = ₹1,350$$

2 Calculation of Honey's share in profits

$$\text{profit} = \text{Sales} \times \frac{\text{Rate of Profit}}{100}$$

$$= 6,00,000 \times \frac{20}{100} = ₹1,20,000$$

$$\text{Honey's share in profits} = 1,20,000 \times \frac{1}{3} = ₹40,000$$

3 Calculation of Honey's Share in General Reserve

$$\text{Honey's Share in General Reserve} = 30,000 \times \frac{1}{3} = ₹10,000$$

Question 64.

R, S and T were partners sharing profits and losses in the ratio of 5 : 3: 2 respectively. On 31st March, 2016, their Balance Sheet stood as:

Liabilities		₹	Assets	₹
Sundry Creditors		40,000	Goodwill	25,000
Bills Payable		15,000	Leasehold	1,00,000
Workmen 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 2016. It was agreed that:

a. Goodwill be valued at $2\frac{1}{2}$ years' purchase of average of last 4 years' profits which were: 2012-13: ₹65,000; 2013-14: ₹60,000; 2014-15: ₹80,000 and 2015-16: ₹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, 2016.
c. For the purpose of calculating T's share in the profits of 2016-17, the profits in 2016-17 should be taken to have accrued on the same scale as in 2015-16.
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

Particulars		L.F.	Debit Rs.	Credit Rs.
Revaluation A/c	Dr		10,000	
To machinery A/c				10,000
(Being Decrease in value of Machinery transferred to Revaluation Account)				
Patents A/c	Dr		10,000	
Leasehold A/c	Dr		25,000	
To Revaluation A/c				35,000
(Being increase in value Patents and Leasehold transferred to Revaluation Account)				
Revaluation A/c	Dr		25,000	
To R's Capital A/c				12,500
To S's Capital A/c				7,500
To T's Capital A/c				5,000
(Being Revaluation profit distributed among partners in their old ratio)				
R's Capital A/c	Dr		12,500	
S's Capital A/c	Dr		7,500	
T's Capital A/c	Dr		5,000	
To Goodwill A/c				25,000
(Being Goodwill written off among partners in their old ratio)				
R's Capital A/c	Dr		21,875	
S's Capital A/c	Dr		13,125	
To T's Capital A/c				35,000
(Being T's share of goodwill adjusted)				
Profit and Loss Suspense A/c	Dr		5,000	
To T's Capital A/c				5,000
(Being T's share of profit transferred to his capital account)				
Workmen's Compensation Reserve A/c	Dr		30,000	
To R's Capital A/c				15,000
To S's Capital A/c				9,000
To T's Capital A/c				6,000
(Being Workmen's Compensation Reserve distributed among partners in their old ratio)				
T's Capital A/c	Dr		1,21,000	
To T's Executors A/c				1,21,000
(Being Amount due to T after all adjustments transferred to his Executor's Account)				
T's Capital A/c	Dr		21,000	
To Bank A/c				21,000
(Being Amount paid T's Executor)				

T's Executor's Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
2012			2012		
Aug.01	To Cash A/c	21,000	Aug.01	By T's Capital A/c	1,21,000
2013			2013		
Jan. 31	To Cash A/c (25000+5000)	30,000	Jan. 31	By Interest (1,00,000×10% for 6 months)	5,000
Mar.31	To Balance c/d	76,250	Mar.31	By Interest (75,000×10% for 2 months)	1,250
		1,27,250			**1,27,250**
2013			2013		
Aug.01	To Cash A/c (25,000 + 1,250 + 2,500)	28,750	Apr.01	By Balance b/d	76,250
2014			Aug.01	By Interest (75,000×10% for 4 months)	2,500
Jan. 31	To Cash A/c (25,000+ 2,500)	27,500	2014		
Mar.31	To Balance c/d	25,417		By Interest (75,000×10% for 6 months)	2,500
				By Interest (75,000×10% for 2 months)	417
		81,667			**81,667**
2014			2014		
Aug.01	To Cash A/c (25,000+417+833)	262,50	Apr. 01	By Balance b/d	25,417
			Aug.01	By Interest (25,000×10% for 4 months)	833
		26,250			**26,250**

Working Notes:

1 Calculation of Goodwill
Goodwill = Average Profit × Number of Year's Purchase

$$\text{Average Profit} = \frac{65,000 + 60,000 + 80,000 + 75,000}{4} = \frac{2,804,000}{4} = ₹70,000$$

Goodwill = Average Profit × Number of Years' Purchase
= 70,000 × 2.5 = ₹1,75,000
2 Adjustment of Goodwill
Old Ratio (R, S and T)=5:3:2
T died.
∴ New Ratio (R and S) = 5 : 3 and
Gaining Ratio = 5 : 3

$$\text{T's Share in Goodwill} = 1,75,000 \times \frac{2}{10} = ₹35,000$$

This share of goodwill is to be distributed between R and S in their gaining ratio (i.e. 5: 3).

$$\text{R's Share in Goodwill} = 35,000 \times \frac{5}{8} = ₹21,875$$

$$\text{S's Share in Goodwill} = 35,000 \times \frac{3}{8} = ₹13,125$$

3 Calculation of T's Share of Profit
Profit for 2011-12 = ₹75,000

$$\text{T's Share of Profit in 2012} = 75,000 \times \frac{2}{10} \times \frac{4}{12} = ₹5,000$$

4

Revaluation Account

Dr. Cr.

Particulars		₹	Particulars	₹
To Machinery A/c		10,000	By Patents A/c	10,000
To Profit transferred to:			By Leasehold A/c	25,000
R's Capital A/c	12,500			
S's Capital A/c	7,500			
T's Capital A/c	5,000	25,000		
		35,000		35,000

5

T's Capital Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Goodwill A/c	5,000	Balance b/d	75,000
To T's Executor's A/c	1,21,000	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)	5,000
	1,26,000		1,26,000

Question 65.

Akhil, Nikhil and Sunil were partners sharing profits and losses equally. Following was their Balance Sheet as at 31st march, 2016.

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	3,95,000		
		4,80,000		4,80,000

Sunil died on 1st August 2016. 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 profits of the last four years.
d. Interest on deceased partner's capital @ 6% p.a.
e. ₹50,000 to be paid to deceased's executor immediately and the balance to remain in his loan account. Profits and Losses for the preceding years were: 2012-13- ₹80,000 Profit; 2013-14- ₹1,00,000 Loss; 2014-15- ₹1,20,000 Profit; 2015-16 - ₹1,80,000 Profit.

Pass necessary Journal entries and prepare Sunil's Capital Account and Sunil's Executor's Account.

Solution:

Journal

Particulars		L.F.	Debit ₹	Credit ₹
General Reserve A/c	Dr		45,000	
To Akhil's Capital A/c				15,000
To Nikhil's Capital A/c				15,000
To Sunil's Capital A/c				15,000
(Being General Reserve distributed among partners in their old ratio)				
Akhil's Capital A/c	Dr		35,000	
Nikhil's Capital A/c	Dr		35,000	
To Sunil's Capital A/c				70,000
(Being Sunil's share of goodwill adjusted)				
Interest on Capital A/c	Dr		1,600	
To Sunil's Capital A/c				1,600
(Being Interest allowed on Sunil's Capital)				
Profit and Loss Suspense A/c	Dr		20,000	
To Sunil's Capital A/c				20,000
(Being Sunil's profit share transferred to his capital account)				
Sunil's Capital A/c	Dr		1,86,600	
To Sunil's Executor's A/c				1,86,600
(Being Amount due to Sunil's after all adjustments transferred to his Executor's Account)				
Sunil's Executor's A/c	Dr		50,000	
To Bank A/c				50,000
(Being Amount paid to Sunil's Executor)				

Sunil's Capital Account

Dr. Cr.

Particulars	₹	Particulars	₹
		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
To Sunil's Executor's A/c	186,600	By Nikhil's Capital A/c (Goodwill)	35,000
	1,86,600		**1,86,600**

Sunil's Executor's Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Bank A/c	50,000	By Sunil's Capital A/c	1,86,000
By Balance c/d	1,36,600		
	1,86,600		**1,86,600**

Working Notes:

1 Calculation of Sunil's Share of Profit

Profit for 2013-14 = ₹1,80,000

$$\text{Sunil's Share of Profit} = 1,80,000 \times \frac{1}{3} \times \frac{4}{12} = ₹20,000$$

2 Calculation of Goodwill

Goodwill = Average Profit × Number of Year's Purchase

$$\text{Average Profit} = \frac{(80,000 - 1,00,000 + 1,20,000 + 1,80,000)}{4} = \frac{2,80,000}{4} = ₹70,000$$

∴Goodwill = Average Profit × Number of Years' Purchase

= 70,000 × 3 = ₹2,10,000

3 Adjustment of Goodwill

Old Ratio = 1 : 1 : 1

Sunil died.

∴ New Ratio = 1 : 1 and

Gaining Ratio = 1 : 1

$$\text{Sunil's Share in Goodwill} = 2,10,000 \times \frac{1}{3} = ₹70,000$$

This share of goodwill is to be distributed between Akhil and Nikhil in their gaining ratio (i.e. 1: 1).

$$\text{Akhil's Share in Goodwill} = 70,000 \times \frac{1}{2} = ₹35,000$$

$$\text{Nikhil's Share in Goodwill} = 70,000 \times \frac{1}{2} = ₹35,000$$

4 Calculation of Interest on Sunil's Capital

Sunil's Capital Balance = ₹80,000

$$\therefore \text{Interest on Capital (for 4 months)} = 80,000 \times \frac{6}{100} \times \frac{4}{12} = ₹1,600$$

Question 66.

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:

Liabilities		₹	Assets	₹
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		
		2,72,000		2,72,000

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; ₹50,000 and ₹40,000 respectively.
b. B's share of profit or loss till the date of his death was to be calculated on the basis of the profit or 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

$$\text{Average Profit} = \frac{(-70,000 + 70,000 + 60,000 + 50,000 + 40,000)}{5} \times \frac{1,50,000}{5} = ₹30,000$$

∴ Goodwill = Average Profit × Number of Years' Purchase

= 30,000×3 =₹90,000

Old Ratio (B, C and D) = 5: 3 : 2

B Died.

New Ratio (C and D) = 3 : 2

$$\text{B's Share in Goodwill} = 90,000 \times \frac{5}{10} = ₹45,000$$

This share of goodwill is to be distributed between C and D in their gaining ratio (i.e.3:2).

$$\text{C's Share in Goodwill} = 45,000 \times \frac{3}{5} = ₹27,000$$

$$\text{D's Share in Goodwill} = 45,000 \times \frac{2}{5} = ₹18,000$$

ii. Calculation of as Share of Profit or Loss

Loss for the Year (2008) = ₹70,000

$$\text{B's Share of Loss} = \text{Loss of 2008} \times \frac{5}{10} \times \frac{3}{12}$$

$$= 70,000 \times \frac{5}{10} \times \frac{3}{12} = ₹8,750$$

iii.

B's Capital Account

Dr. Cr.

Particulars	₹	Particulars	₹
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
		By C's Capital A/c (Goodwill)	27,000
To B's Executor's A/c	76,250	By D's Capital A/c (Goodwill)	18,000
	1,20,000		1,20,000

Question 67.

The Balance Sheet of X, Y and Z as at 31st March, 2016 was:

Liabilities		₹	Assets	₹
Bills Payable		2,000	Cash at Bank	5,800
Employee's Provident Fund		5,000	Bills Receivable	800
Workmen Compensation Reserve		6,000	Stock	9,000
General Reserve		6,000	Sundry Debtors	16,000
Loan		7,100	Furniture	2,000
Capital A/cs:			Plant and Machinery	6,500
X	22,750		Building	30,000
Y	15,250		Advertisement Suspense	6,000
Z	12,000	50,000		
		76100		76,100

The profit-sharing ratio was 3:2:1. Z died on 31st July, 2016. The Partnership Deed provides that:

a. Goodwill is to be calculated on the basis of three years' purchase of the five years' average profits. The profits were: 2015-16: ₹24,000; 2014-15: ₹16,000; 2013-14: ₹20,000; 2012-13: ₹10,000 and 2011-12: ₹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 receivable bill 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

Particulars		L.F.	Debit ₹	Credit ₹
Workmen's Compensation Reserve	Dr		6,000	
To X's Capital A/c				3,000
To Y's Capital A/c				2,000
To Z's Capital A/c				1,000
(Being Workmen's Compensation Reserve distributed among partners in their old ratio)				
General Reserve A/c	Dr		6,000	
To X's Capital A/c				3,000
To Y's Capital A/c				2,000
To Z's Capital A/c				1,000
(Being general Reserve distributed among partners in their old ratio)				
X's Capital A/c	Dr		3,000	
Y's Capital A/c	Dr		2,000	
Z's Capital A/c	Dr		1,000	
To Advertisement Suspense A/c				6,000
(Being Advertisement Suspense Written off among partners in their old ratio)				
X's Capital A/c	Dr		4,500	
Y's Capital A/c	Dr		3,000	
To Z's Capital A/c				7,500
(Being Z's Share of goodwill adjusted)				
Revaluation A/c	Dr		3,600	
To Sundry debtors A/c				1,000
To Furniture A/c				500
To Plant and Machinery A/c				1,500
To Bills Receivable A/c				600
(Being Decrease in value of Assets transferred to Revaluation Account)				

Stock A/c	Dr		1,000	
Building A/c	Dr		5,000	
To Revaluation A/c				6,000
(Being Increase in value of Assets transferred to Revaluation Account)				
Revaluation A/c	Dr		2,400	
To X's Capital A/c				1,200
To Y's Capital A/c				800
To Z's Capital A/c				400
(Being Revaluation profit distributed among partners in their old ratio)				
Profit and Loss Suspense A/c	Dr		1,333	
To Z's Capital A/c				1,333
(Being Z's share of profit transferred his capital account)				
Z's Capital A/c	Dr		22,233	
To Z's Executor's A/c				22,233
(Being Amount due to Z transferred to his Executor's Account)				
Z's Executor's A/c	Dr		12,333	
To Bank A/c				12,333
(Being Amount paid to Z's Executor)				

Z's Executor's Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
2012			2012		
July 31	To Bank A/c	12,233	July 31	By Z's Capital A/c	22,233
2013			2013		
Mar.31	To Balance c/d	10,667	Mar.31	By Interest A/c (10,000 × 10% for 8months)	667
		22,900			**22,900**
2013			2013		
July 31	To Bank A/c (5,000+667+333)	6,000	Apr. 01	By Balance b/d	10,667
			July 31	By Interest A/c (10,000 × 10% for 4 months)	333
2014			2014		
Mar.31	To Balance c/d	5,333	Mar. 31	By Interest A/c (5,000 × 10% for 8 months)	333
		11,333			**11,333**
2014			2014		
July 31	To Bank A/c (5,000+333+167)	5,500	Apr .01	By Balance b/d	5,333
			July 31	By Interest A/c (5,000 × 10% for 4 months)	167
		5,500			**5,500**

Working Notes

1 Calculation of Goodwill
Goodwill = Average Profit ×Number of Year's Purchase

$$\text{Average Profit} = \frac{24,000 + 16,000 + 20,000 + 10,000 + 5,000}{5} = \frac{75,000}{5} = ₹15,000$$

∴ Goodwill = Average Profit × Number of Years' Purchase
=15,000 × 3 = ₹45,000

2 Adjustment of Goodwill
Old Ratio = 3 : 2 : 1
Z died.
∴ New Ratio (X and Y) = 3 : 1 and
Gaining Ratio = 3 : 2

$$Z's\ Share\ in\ Goodwill = 45,000 \times \frac{1}{6} = ₹7,500$$

This share of goodwill is to be distributed between X and Y in their gaining ratio (i.e. 3: 1).

$$X's\ Share\ in\ Goodwill = 7,500 \times \frac{3}{5} = ₹4,500$$

$$Y's\ Share\ in\ Goodwill - 7,500 \times \frac{2}{5} = ₹3,000$$

3 Calculation Z's Share of Profit
Profit for Previous Year = ₹24,000

$$Z's\ Profit\ Share = 24,000 \times \frac{1}{6} \times \frac{4}{12} = ₹1,333$$

4

Revaluation Account

Dr. Cr.

Particulars		₹	Particulars	₹
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		
		6,000		6,000

Question 68.

The Balance Sheet of Rahat, Uma and Sarat who were sharing profits in the ratio of 4: 3: 1 as on 31st March, 2012 was as follows:

Liabilities		₹	Assets	₹
General Reserve		75,000	Cash	49,000
Bills Payable		35,000	Stock	98,000
Loan		39,000	Bills Receivables	1,25,000
Capital A/cs:			Furniture	82,000
Rahat	1,60,000		Machinery	1,00,000
Uma	1,10,000		Uma's Loan	50,000
Sarat	85,000	3,55,000		
		5,04,000		5,04,000

Uma died on 31st July, 2012. The partnership Deed provided for the following on the death of a partner:

a. Goodwill of the firm was to be valued at two years purchase of average profits for the last three years which were ₹88,000.
b. Uma's share of profit till the date of her death was to be calculated on the basis of sales. Sales for the year ended 31st March, 2012 amounted to ₹1,50,000 and that from 1st April to 31st July, 2012 to ₹90,000. The profit for the year ended 31st March, 2012 was 50,000.
c. Interest on capital was to be provided 7% p.a.
d. According to Uma's will, the executor should donate her share to 'Matri Chaya-an orphanage for girls'.

Prepare Uma's Capital Account to be rendered to her executor. Also identify the value being highlighted in the Questions.

Solution:

Uma's Capital Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Uma's Loan A/c	50,000	Balance b/d	1,10,000
To Uma's Executor's A/c	1,67,942	By General Reserve A/c	28,125
(Balancing Figure)		By Rahat's Capital A/c	52,800
		By Sarat's Capital A/c	13,200
		By P and L Suspense A/c	11,250
		By Interest on Capital A/c	2,567
	2,17,942		2,17,942

Values involved in the above scenario:
1. Sympathy towards orphans
2. Upliftment of underprivileged section

Working Notes:

1 Calculation of Share of Goodwill

$$\text{Goodwill} = \text{Average Profit} \times \text{No. of Years' Purchase}$$
$$= 88,000 \times 2$$
$$= ₹1,76,000$$

2 Calculation of Interest on Capital

$$\text{Interest on Uma's Capital} = 1,10,000 \times \frac{7}{100} \times \frac{4}{12} = ₹2,567$$

3 Calculation of General Reserve

$$\text{Uma's share of General Reserve} = 75,000 \times \frac{3}{8} = ₹28,125$$

4 Calculation of Gross Profit Rate

$$\text{Gross Profit Rate} = \frac{50,000}{1,50,000} \times 100 = 33.33\%$$

$$\text{P \& L Suspense} = 90,000 \times \frac{33.33}{100} \times \frac{3}{8} = ₹11,250$$

Question 69.

X, Y and Z were partners in a firm sharing profits and Losses in the ratio of 3: 2: 1. Z died on 31st March, 2016. The Balance Sheet of the firm as at that date was:

Liabilities	₹	Assets	₹
X's Capital A/c	1,20,000	Plant and Machinery	1,20,000
Y's Capital A/c	80,000	Furniture and Fittings	75,000
Z's Capital A/c	40,000	Investments	20,000
X's Current A/c	8,000	Stock-in-Trade	32,000
Y's Current A/c	2,500	Sundry Debtors	25,000
Reserve	30,000	Bills Receivable	11,000
Bills Payable	17,000	Cash at Bank	11,000
Sundry Creditors	20,000	Cash in Hand	18,500
		Z's Current A/c	5,000
	3,17,500		3,17,500

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 Plant and Machinery to be depreciated by 10%, Furniture and Stock-in-Trade are to be appreciated by 5% and 10% respectively.
c. Advertising Expenses ₹2,100 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 ₹30,000.
e. 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 and Partners' Capital Accounts.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars		Rs.
To Provision for Doubtful Debts A/c	1,250	By Furniture A/c(Appreciation)		3,750
To Plant and Machinery A/c(Depreciation)	12,000	By Stock-in-Trade A/c (Appreciation)		3,200
		By Advertisement Expenses A/c		2,100
		Loss transferred to:		
		X's Capital A/c	2,100	
		Y's Capital A/c	1,400	
		Z's Capital A/c	700	4,200
	13,250			**13,250**

Partners' Capital Account

Dr. **Cr.**

Particulars	X	Y	Z	Particulars	X	Y	Z
To Z's Current A/c			5,000	Balance b/d	1,20,000	80,000	40,000
To Revaluation A/c	2,100	1,400	700	By Partners' Current A/c	8,000	2,500	
To Z's Capital A/c	3,000	2,000		By Reserve A/c	15,000	10,000	5,000
To Z's Executor A/c			44,300	By X's Capital A/c			3,000
Balance c/d	1,37,900	89,100		By Y's Capital A/c			2,000
	1,43,000	**92,500**	**50,000**		**1,43,000**	**92,500**	**50,000**