NCERT Solutions for Class 12 Accountancy

Partnership Accounts Chapter 3
Reconstitution of a Partnership Firm - Retirement/Death of a partner

Short answers : Solutions of Questions on Page Number : 217
Q1 :

What are the different ways in which a partner can retire from the firm?

Answer :

The following are the different ways in which a partner can retire from a firm.

i. ***With the consent of all other partners***: A partner must take the consent of all the co-partners of the firm before his/her retirement. Thereafter, the partner can retire from the firm if and only if all the partners agree on the decision of his/her retirement.

ii) ***With an express agreement by all the partners***: In case of written agreement among the partners a partner may retire from the firm by expressing his/her intention of leaving the firm though a notice to the other partners of the firm.

iii) ***By giving a written notice***: If partnership among the partners is at will then a partner may retire by giving notice in writing to all the other partners informing them about his/her intention to retire.

Q2 :

Write the various matters that need adjustments at the time of retirement of partner/partners.

Answer :

The following are the various matters that need to be adjusted at the time of retirement of partners/partner.

1. Calculation of new gaining ratio of all the remaining partners of the firm.

2. Calculation of new ratio of the remaining partners of the firm.

3. Calculation of goodwill of the new firm and its accounting treatment.

4. Revaluation of assets and liabilities of the new firm.

5. Distribution of accumulated profits and losses and reserves among all the partners (including the retiring partner).

6. Treatment of Joint Life Policy

7. Settlement of the amount due to the retiring partner

8. Adjustment of capital accounts of the remaining partners in their new profit sharing ratio.

Q3 :

Distinguish between sacrificing ratio and gaining ratio.

Answer :

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

Short answersnumerical questionslong answers : Solutions of Questions on Page Number : 218

Q1 :

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

Answer :

Books of Aparna, and Sonia

Journal

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

Working Notes:

1. Manisha's share in goodwill:

Total goodwill of the firm × Retiring Partner's Share = $1,80,000 \times \frac{1}{3} = 60,000$

2. Gaining Ratio = New Ratio - Old Ratio

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

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

Gaining Ratio between Aparna and Sonia = 3 : 7

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

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

Q2 :

Explain the modes of payment to a retiring partner.

Answer :

The following are the modes of payment to a retiring partner.

1. If the amount due to the retiring partner is to be paid in lump sum on the day of his/her retirement then the following Journal entry need to be passed.

Retiring Partner's Capital A/c Dr.
To Cash/Bank A/c
(Retiring partner paid in cash)

2) If the amount due to the retiring partner is to be paid in installments then the balancing figure of his/her capital account is transferred to his/her loan account. In this case, the retiring partner receives equal installments along with the interest on the amount outstanding. The following necessary Journal entry is to be passed.

Retiring Partner's Capital A/c Dr.
To Retiring Partner's Loan A/c

(Retiring partner capital account transferred to the

retiring partner's loan account @ -------- % p.a.).

3) If the amount due to the retiring partner is to be paid partly in cash and partly in equal installments then a certain amount is paid in cash to the retiring partner on the date of the retirement and the rest amount due to him/her is transferred to his/her loan account. The following necessary Journal entry is to be passed.

Retiring Partner's Capital A/c (with the total amount due to the retiring partner) Dr.
To Retiring Partner's Loan A/c (with the amount transferred to the partner's loan account)
To Cash A/c (with the amount paid in cash immediately on the date of the retirement)
(Retiring partner partly paid in cash and balance transferred to the partner's loan account)

Q3 :

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

Answer :

Books of Saroj and Shanti

Journal

Date	Particulars		L.F.	Amount Rs	Amount Rs
	Sangeeta's Capital A/c	Dr.		12,000	
	Saroj's Capital A/c	Dr.		18,000	
	Shanti's Capital A/c	Dr.		30,000	
	To Goodwill A/c				60,000
	(Goodwill written off)				
	Saroj's Capital A/c	Dr.		18,000	
	To Sangeeta's Capital A/c				18,000
	(Sangeeta's share of goodwill adjusted to Saroj's Capital Account in her gaining ratio)				

Working Notes:

1. Sangeeta's share of goodwill.

Total goodwill of the firm × Retiring Partner's share $= 90,000 \times \frac{2}{10} 18,000$

2. Gaining Ratio = New Ratio â€“ Old Ratio

Saroj's Gaining Share $= \frac{1}{2} - \frac{3}{10} = \frac{10-6}{20} = \frac{4}{20}$

Shanti's Gaining Share $= \frac{1}{2} - \frac{5}{10} = \frac{10-10}{20} = \frac{0}{20}$

Q4 :

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

Answer :

The legal executer of the deceased partner is entitled for the balancing figure of the deceased partner's capital account. The balancing figure of the deceased partner's capital account is derived after posting the below mentioned items in Step 1 and Step 2.

Step 1: The following items are posted in the debit side of the deceased partner's capital account.

a) Credit balance of the deceased partner's capital account and/or current account.

b) Deceased partner's share of profit up to the date of his/her death.

c) Deceased partner's share of goodwill.

d) Deceased partner's share in accumulated reserves and profit account.

e) Deceased partner's share in gain on revaluation of assets and liabilities.

f) Deceased partner's share of Joint Life Policy.

g) Interest on capital, if any, up to the date of the death.

h) Salary or commission, if any, up to the date of the death.

Step 2: The following items are posted in the credit side of the deceased partner's capital account.

a) Debit balance of the deceased partner's capital account and/or current account.

b) Amount withdrawn in the form of drawings up to the date of death of the partner.

c) Interest on drawings, if any, up to the date of the death.

d) Deceased partner's share in loss on revaluation of assets and liabilities.

e) Deceased partner's share of loss up to the date of the death.

f) Deceased partner's share in the accumulated losses of the firm.

The legal executor is entitled for the balancing figure that is the excess of the credit side over the debit side of the deceased partner's capital account.

Deceased Partner's Capital Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
	Revaluation A/c (Loss)				Balance b/d		
	Profit and Loss Suspense A/c (Share of loss up to the date of the death)				Profit and Loss Suspense A/c (Share of profit up to the date of the death)		
	Accumulated Losses A/c				Goodwill		
	Goodwill A/c (Written off)				Reserves and Profits		
	Partner Executor's A/c (*Balancing Figure*)				Revaluation A/c (gain)		
					Joint Life Policy A/c		
					Interest on Capital A/c		
					Salary A/c		
					Commission A/c		

Q5 :

Himanshu, Gagan and Naman are partners sharing profits and losses in the ratio of 3:2:1. On March 31, 2007, Naman retires.

The various assets and liabilities of the firm on the date were as follows:

Cash Rs 10,000, Building Rs 1,00,000, Plant and Machinery Rs 40,000, Stock Rs 20,000, Debtors Rs 20,000 and Investments Rs 30,000.

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

(i) Building to be appreciated by 20%.

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

(iii) A provision of 5% on debtors to be created for bed and doubtful debts.

(iv) Stock was to be valued at Rs 18,000 and Investment at Rs 35,000.

Record the necessary journal entries to the above effect and prepare the Revaluation Account.

Answer :

Books of Himanshu and Gagan

Journal

Date	Particulars		L.F.	Amount Rs	Amount Rs
	Building A/c	Dr.		20,000	
	Investment A/c	Dr.		5,000	
	To Revaluation A/c	Dr.			25,000
	(Value of Building and Investment increased at the time of Naman's retirement)				

	Revaluation A/c Dr. To Plant and Machinery A/c To Provision for Bad and Doubt Debts A/c To Stock A/c (Assets revalued and Provision for Bad and Doubtful Debts made at the time of Naman's retirement)		7,000	 4,000 1,000 2,000
	Revaluation A/c Dr. To Himanshu's Capital A/c To Gagan's Capital A/c To Naman's Capital A/c (Profit on revaluation transferred to all Partners' Capital Accounts in their old profit sharing ratio)		18,000	 9,000 6,000 3,000

Revaluation Account

Dr. **Cr.**

Particular		**Amount Rs**	**Particular**	**Amount Rs**
Plant and Machinery		4,000	Building	20,000
Stock		2,000	Investment	5,000
Provision for Bad and Doubtful Debts		1,000		
Profit transferred to Capital Account:				
Himanshu	9,000			
Gagan	6,000			
Naman	3,000	18,000		
		25,000		25,000

Q6 :

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

Answer :

At the time of retirement or at the event of death of a partner, the goodwill is adjusted among the partners in gaining ratio with the share of goodwill of the retiring or the deceased partner. As per Para 16 of Accounting Standard 10, it is mandatory to record goodwill in the books only when consideration in money or money's worth has been paid for it.

In case of retirement and death of a partner, goodwill account cannot be raised. There are namely two probable situations on which the treatment of goodwill rests.

1. If ***goodwill already appears*** in the books of the firm.

2. If ***no goodwill appears*** in the books of the firm.

Situation 1: If goodwill <u>already appears</u> in the books of the firm.

Step 1: Write off the existing goodwill

If goodwill already appears in the old balance sheet of the firm (if mentioned in the question), then first of all, this goodwill should be written off and should be distributed among all the partners of the firm including the retiring or the deceased partner in their old profit sharing ratio. The following Journal entry is passed to write off the old/existing goodwill.

All Partners' Capital A/c	Dr.
To Goodwill A/c	
(Goodwill written of among all the partners in their old ratio)	

Step 2: Adjusting goodwill through partner's capital account.

After writing off the old goodwill, the goodwill need to be adjusted through the partner's capital account with the share of the goodwill of the retiring or the deceased partner. The following Journal entry is passed.

Remaining Partner's Capital A/c Dr.
To Retiring/Deceased Partner's Capital A/c
(Gaining Partner's Capital A/c is debited in their

gaining share and retiring/deceased partner's capital

account in credited for their share of goodwill)

Situation 2: If no goodwill appears in the books of the firm.

As no goodwill appears in the books of the firm, so the goodwill is adjusted through the partner's capital account with the share of the goodwill of the retiring or the deceased partner. The following Journal entry is passed.

Remaining Partner's Capital A/c Dr.
To Retiring/Deceased Partner's Capital A/c
(Gaining partner's capital account is debited in their gaining

share and retiring/deceased partner's capital account in

credited for their share of goodwill)

Q7 :

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

Answer :

At the time of retirement or death of a partner, it becomes inevitable to revalue the assets and liabilities of the firm for ascertaining their true and fair values. The revaluation is necessary as the value of assets and liabilities may increase or decrease with the passage of time. Further, it may be possible that there are certain assets and liabilities that remained unrecorded in the books of accounts. The retiring or the deceased partner may be benefited or may bear loss due to change in the values of assets and liabilities. Therefore, the revaluation of the assets and liabilities is necessary in order to ascertain the true profit or loss that is to be divided among all the partners in their old profit sharing ratio.

Q8 :

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

Pass the necessary journal entries to the above effect.

Answer :

Books of Naresh and Bishwajeet

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs
	General Reserve A/c Dr.		36,000	
	To Naresh's Capital A/c			12,000
	To Raj Kumar's Capital A/c			12,000
	To Bishwajeet's Capital A/c			12,000
	(General Reserve distributed among old partner in old ratio)			

	Naresh's Capital A/c Dr.		5,000	
	Raj Kumar's Capital A/c Dr.		5,000	
	Bishwajeet's Capital A/c Dr.		5,000	
	To Profit and Loss A/c			15,000
	(Debit balance of Profit and Loss Account written off)			

Q9 :

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

Answer :

In case of death of a partner during the year, his/her executer is entitled for share of profit up to the date of death of the partner.

The share of profit can be calculated by one of the two methods.

1) **On time basis:** Under this method, profit up to the date of the death of the partner is calculated on the basis of the last year's/years' profit or average profit of last few years. In this approach, it is assumed that the profit will be uniform throughout the current year. The deceased partner will be entitled for the share of the profit proportionately up to the date of his/her death.

Share of Deceased Partner in Profit =

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

Example- A, B and C are equal partners. The profit of the firm for the years 2008, 2009 and 2010 are Rs 10,00,000, Rs 7,00,000 and Rs 13,00,000 respectively. C dies on April 30, 2011. The share of C in the firm's profit will be calculated on the basis of average profit of last three years. Firm closes its books every year on December 31.

In this case, C's share in the profits will be calculated for four months, i.e. from January 01, 2011 to April 30, 2011.

$$\text{Average Profit} = \frac{10,00,000 + 7,00,000 + 13,00,000}{3} = \text{Rs } 10,00,000$$

$$\text{C's share of profit} = 10,00,000 \times \frac{4}{12} \times \frac{1}{3} = \text{Rs } 1,11,111 \text{ approx.}$$

2) **On the sale basis:** Under this method, profit is calculated on the basis of last year's sale. In this situation, it is assumed that the net profit margin of the current year's sale is similar to that of the last year's.

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

Example- X Y and Z are equal partners. The last year's sales and profit were Rs 25,00,000 and Rs 2,50,000. Z died on the April 30, 2011. Sales of the current year till the date of Z's death amounts to Rs 12,00,000. Firm closes its books on December 31 every year.

$$\text{Z's share of profit} = \frac{2,50,000}{25,00,000} \times 12,00,000 \times \frac{1}{3} = \text{Rs } 40,000$$

Q10 :

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

Answer :

Goodwill is an intangible asset of a firm that is earned by the efforts of all the partners of the firm. After the retirement or death of a partner, the fruits of the past performance and reputation will be shared only by the remaining partners. Thus the remaining partners should compensate the retiring or the deceased partner by entitling him/her a share of firm's goodwill.

Numerical questions : Solutions of Questions on Page Number : 219

Q1 :

Digvijay, Brijesh and Parakaram were partners in a firm sharing profits in the ratio of 2:2:1. Their Balance Sheet as on March 31, 2007 was as follows:

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

Brijesh retired on March 31, 2007 on the following terms:

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

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

(iii) Patents were considered as valueless.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of Digvijay and Parakaram after Brijesh's retirement.

Answer :

Books of Digvijay and Parakaram

Revaluation Account

Dr. **Cr.**

Particular	Amount Rs	Particular	Amount Rs

Bad Debts	2,000		
Patents	9,000	Loss transferred to Capital Account:	
		Digvijay	4,400
		Brijesh	4,400
		Parakaram	2,200
	11,000		11,000

Partners' Capital Account

Dr. **Cr.**

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

Balance Sheet as on March 31, 2007

Liabilities	**Amount Rs**	**Assets**		**Amount Rs**
Creditors	49,000	Cash		8,000
Brijesh's Loan	91,000	Debtors	19,000	
		Less: Bad Debts	2,000	17,000
Digvijay's Capital A/c	66,333	Stock		42,000
Parakaram's Capital A/c	67,667	Buildings		2,07,000
	2,74,000			2,74,000

Note: As sufficient balance is not available to pay the amount due to Brijesh, the balance of his Capital Account transferred to his Loan Account.

Working Note:

1. Brijesh's Share of Goodwill

Total goodwill of the firm × Retiring Partner's Share $= 70,000 \times \frac{2}{5} = \text{Rs } 28,000$

2. Gaining Ratio = New Ratio â€“ Old Ratio

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

Parakaram's Share $= \frac{1}{3} - \frac{1}{5} = \frac{5-3}{15} = \frac{2}{15}$

Gaining ratio between Digvijay and Parakaram = 4 : 2 or 2 : 1

Q2 :

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

Liabilities		Amount Rs	Assets	Amount Rs
Trade Creditors		3,000	Cash-in-Hand	1,500
Bills Payable		4,500	Cash at Bank	7,500
Expenses Owing		4,500	Debtors	15,000
General Reserve		13,500	Stock	12,000
Capitals:			Factory Premises	22,500
Radha	15,000		Machinery	8,000
Sheela	15,000		Losse Tools	4,000
Meena	15,000	45,000		
		70,500		70,500

The terms were:

a) Goodwill of the firm was valued at Rs 13,000.

b) Expenses owing to be brought down to Rs 3,750.

c) Machinery and Loose Tools are to be valued at 10% less than their book value.

d) Factory premises are to be revalued at Rs 24,300.

Prepare:

1. Revaluation account

2. Partner's capital accounts and

3. Balance sheet of the firm after retirement of Sheela.

Answer :

Books of Radha and Meena

Revaluation Account

Dr. **Cr.**

Particulars		Amount Rs	Particulars	Amount Rs
Machinery		800	Expenses Owing	750
Loose Tools		400	Factory Premises	1,800
Profit transferred to Capital Account:				
Meena	675			
Radha	450			
Sheela	225	1,350		
		2,550		2,550

Parters' Capital Account

Dr. **Cr.**

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

Balance Sheet as on April 01, 2007

Liabilities	Amount Rs	Assets		Amount Rs
Trade Creditors	3,000	Cash in Hand		1,500
Bills Payable	4,500	Cash at Bank		7,500
Expenses Owing	3,750	Debtors		15,000
Sheela's Loan	24,283	Stock		12,000
		Factory Premises		24,300
Capitals:		Machinery	8,000	

Q3 :

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

Books of Pankaj, Naresh and Saurabh
Balance Sheet as on March 31, 2007

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

Additional Information

(i) Premises have appreciated by 20%, stock depreciated by 10% and provision for doubtful debts was to be made 5% on debtors. Further, provision for legal damages is to be made for Rs 1,200 and furniture to be brought up to Rs 45,000*.

(The amount of Rs 450 that is being given in the book for furniture is a mistake, as it should be Rs 45,000)

(ii) Goodwill of the firm be valued at Rs 42,000.

(iii) Rs 26,000 from Naresh's Capital account be transferred to his loan account and balance be paid through bank; if required, necessary loan may be obtained from Bank.

(iv) New profit sharing ratio of Pankaj and Saurabh is decided to be 5:1.

Give the necessary ledger accounts and balance sheet of the firm after Naresh's retirement.

Answer :

Revaluation Account

Dr. **Cr.**

Particulars		Amount Rs	Particulars	Amount Rs
Stock		900	Premises	16,000
Provision for Legal Damages		1,200	Provision for Doubtful Debts	100
Profit transferred to Capital:			Furniture	4,000
Pankaj	9,000			
Naresh	6,000			
Saurabh	3,000	18,000		
		20,100		20,100

Parters' Capital Accounts

Dr. **Cr.**

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

Bank Account

Dr. **Cr.**

Particulars	Amount Rs	Particulars	Amount Rs
Balance b/d	7,600	Naresh's Capital A/c	28,000
Bank Loan (*Balancing Figure*)	20,400		
	28,000		28,000

Balance Sheet as on March 31, 2007

Liabilities		Amount Rs	Assets		Amount Rs
Sundry Creditors		15,000	Debtors	6,000	
Bills Payable		12,000	*Less*: Provision for Doubtful Debts	300	5,700
Bank Loan/overdraft		20,400	Stock		8,100
Outstanding Salaries		2,200	Furniture		45,000
Provision for Legal Damages		7,200	Premises		96,000
Naresh's Loan		26,000			
Capitals:					
Pankaj	47,000				
Saurabh	25,000	72,000			
		1,54,800			1,54,800

Q4 :

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

Books of Puneet, Pankaj and Pammy

Balance Sheet as on March 31, 2007

Liabilities		Amount Rs	Assets	Amount Rs
Sundry Creditors		1,00,000	Cash at Bank	20,000
Capital Accounts:			Stock	30,000
Puneet	60,000		Sundry Debtors	80,000
Pankaj	1,00,000		Investments	70,000
Pammy	40,000	2,00,000	Furniture	35,000
Reserve		50,000	Buildings	1,15,000
		3,50,000		3,50,000

Mr. Pammy died on September 30, 2007. The partnership deed provided the following:

(i) The deceased partner will be entitled to his share of profit up to the date of death calculated on the basis of previous year's profit.

(ii) He will be entitled to his share of goodwill of the firm calculated on the basis of 3 years' purchase of average of last 4 years' profit. The profits for the last four financial years are given below: for 2003-04; Rs 80,000; for 2004-05, Rs 50,000; for 2005-06, Rs 40,000; for 2006-07, Rs 30,000.

The drawings of the deceased partner up to the date of death amounted to Rs 10,000. Interest on capital is to be allowed at 12% per annum.

Surviving partners agreed that Rs 15,400 should be paid to the executors immediately and the balance in four equal yearly instalments with interest at 12% p.a. on outstanding balance.

Show Mr. Pammy's Capital account, his Executor's account till the settlement of the amount due.

Answer :

Pammy's Capital Account

Dr. Particulars	Amount Rs	Particulars	Cr. Amount Rs
Drawings	10,000	Balance b/d	40,000
Pammy Executor's A/c	75,400	Profit and Loss (Suspense)	3,000
		Puneet's Capital A/c	15,000
		Pankaj's Capital A/c	15,000
		Interest on Capital	2,400
		Reserve	10,000
	85,400		85,400

Pammy's Executor Account

Dr. Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Cr. Amount Rs
2007-08				2007-08			
Sep. 30	Bank		15,400	Sep. 30	Pammy's Capital A/c		75,400
Mar. 31	Balance c/d		63,600	Mar. 31	Interest		3,600
			79,000				79,000
2008-09				2008-09			
Sep. 30	Bank		22,200	April 01	Balance b/d		63,600
	(15,000+3,600+3,600)			Sep. 30	Interest		3,600

Mar. 31	Balance c/d	47,700	Mar. 31	Interest	2,700
		69,900			69,900
2009-10			2009-10		
Sep. 30	Bank	20,400	April 01	Balance b/d	47,700
Mar. 31	Balance c/d	31,800	Sep. 30	Interest	2,700
			Mar. 31	Interest	1,800
		52,200			52,200
2010-11			2010-11		
Sep. 30	Bank	18,600	April 01	Balance b/d	31,800
	(15,000+1,800+1,800)		Sep. 30	Interest	1,800
Mar. 31	Balance c/d	15,900	Mar. 31	Interest	900
		34,500			34,500
2011-12			2011-12		
Sep. 30	Bank	16,800	April 01	Balance b/d	15,900
	(15,000+900+900)		Sep. 30	Interest	900
		16,800			16,800

Q5 :

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

Books of Prateek, Rockey and Kushal

Balance Sheet as on March 31, 2007

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

Rockey died on June 30, 2007. Under the terms of the partnership deed, the executors of a deceased partner were entitled to:

a) Amount standing to the credit of the Partner's Capital account.

b) Interest on capital at 5% per annum.

c) Share of goodwill on the basis of twice the average of the past three years' profit and

d) Share of profit from the closing date of the last financial year to the date of death on the basis of last year's profit.

Profits for the year ending on March 31, 2005, March 31, 2006 and March 31, 2007 were Rs 12,000, Rs 16,000 and Rs 14,000 respectively. Profits were shared in the ratio of capitals.

Pass the necessary journal entries and draw up Rockey's capital account to be rendered to his executor.

Answer :

Books of Prateek and Kushal

Journal

Date	Particulars		L.F.	Amount Rs	Amount Rs
2007 June 30	Interest on Capital A/c	Dr.		250	
	Profit and Loss (Suspense) A/c	Dr.		1,000	
	General Reserve A/c	Dr.		4,571	
	To Rockey's Capital A/c				5,821
	(Share of profit, interest on capital and share of General Reserve credited to Rockey's Capital Account)				
June 30	Prateek's Capital A/c	Dr.		4,800	
	Kushal's Capital A/c	Dr.		3,200	
	To Rockey's Capital A/c				8,000
	(Rockey's share of goodwill adjusted to Prateek's and Kushal's Capital Account in their gaining ratio, 3:2)				
June 30	Rockey's Capital A/c	Dr.		33,821	
	To Rockey Executor's A/c				33,821
	(Balance of Rockey's Capital Account transferred to his Executor's Account)				

Rockey's Capital Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2007 April 1	Rockey's Executor A/c		33,821	2007 April 1	Balance b/d		20,000
					Interest on Capital		250

					Profit and Loss (Suspense) A/c		1,000
					General Reserve		4,571
					Prateek's Capital		4,800

Q6 :

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

Books of Suri, Narang and Bajaj

Balance Sheet as on April 1, 2007

Liabilities		**Amount Rs**	**Assets**		**Amount Rs**
Bills Payable		12,000	Freehold Premises		40,000
Sundry Creditors		18,000	Machinery		30,000
Reserves		12,000	Furniture		12,000
Capital Accounts:			Stock		22,000
Narang	30,000		Sundry Debtors	20,000	
Suri	**30,000***		*Less:* Reserve	1,000	19,000
Bajaj	28,000	88,000	for Bad Debt		
			Cash		7,000
		1,30,000			1,30,000

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

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

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

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

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

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

Prepare necessary ledger accounts and draw the Balance Sheet of the reconstituted firm.

***In the given Question Suri's Capital is Rs 30,000 instead of Rs 20,000.**

Answer :

Revaluation Account

Dr. **Cr.**

Particulars		Amount Rs	Particulars	Amount Rs
Machinery		3,000	Freehold Properties	8,000
Furniture		840	Stock	3,300
Reserve for Bad debts		500		
Capitals:				
Narang	3,480			
Suri	1,160			
Bajaj	2,320	6,960		
		11,300		11,300

Partners' Capital Account

Dr. **Cr.**

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

Balance Sheet as on April 01, 2007

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	12,000	Free hold Premises	48,000
Sundry Creditors	18,000	Machinery	27,000
Bajaj's Loan			

Q7 :

The Balance Sheet of Rajesh, Pramod and Nishant who were sharing profits in proportion to their capitals stood as on March 31, 2007:

Books of Rajesh, Pramod and Nishant

Balance Sheet as on March 31, 2007

Liabilities		Amount Rs	Assets		Amount Rs
Bills Payable		6,250	Factory Building		12,000
Sundry Creditors		10,000	Debtors	10,500	
Reserve Fund		2,750	*Less:* Reserve	500	10,000
Capital Accounts:			Bills Receivable		7,000
Rajesh	20,000		Stock		15,500
Pramod	15,000		Plant and Machinery		11,500
Nishant	15,000	50,000	Bank Balance		13,000
		69,000			69,000

Pramod retired on the date of Balance Sheet and the following adjustments were made:

a) Stock was valued at 10% less than the book value.

b) Factory buildings were appreciated by 12%.

c) Reserve for doubtful debts be created up to 5%.

d) Reserve for legal charges to be made at Rs 265.

e) The goodwill of the firm be fixed at Rs 10,000.

f) The capital of the new firm be fixed at Rs 30,000. The continuing partners decide to keep their capitals in the new profit sharing ratio of 3:2.

Pass journal entries and prepare the balance sheet of the reconstituted firm after transferring the balance in Pramod's Capital account to his loan account.

Answer :

Journal

Date	Particulars		L.F.	Amount Rs	Amount Rs
2007 Mar. 31	Revaluation A/c	Dr.		1,840	
	To Stock A/c				1,550
	To Reserve for Doubtful Debts A/c				25
	To Reserve for Legal Charges A/c				265
	(Assets and Liabilities are revalued)				
Mar. 31	Factory Building A/c	Dr.		1,440	
	To Revaluation A/c				1,440
	(Factory Building appreciated)				
Mar. 31	Rajesh's Capital A/c	Dr.		160	
	Pramod's Capital A/c	Dr.		120	
	Nishant's Capital A/c	Dr.		120	
	To Revaluation A/c				400

	(Loss on Revaluation adjusted to Partners' Capital Account)				
Mar. 31	Rajesh's Capital A/c Dr.				

Q8 :
Following is the Balance Sheet of Jain, Gupta and Malik as on March 31, 2002.

Books of Jain, Gupta and Malik
Balance Sheet as on March 31, 2002

Liabilities		**Amount Rs**	**Assets**	**Amount Rs**
Sundry Creditors		19,800	Land and Building	26,000
Telephone Bills Outstanding		300	Bonds	14,370
Accounts Payable		8,950	Cash	5,500
Accumulated Profits		16,750	Bills Receivable	23,450
			Sundry Debtors	26,700
Capitals :			Stock	18,100
Jain	40,000		Office Furniture	18,250
Gupta	60,000		Plants and Machinery	20,230
Malik	20,000	1,20,000	Computers	13,200
		1,65,800		1,65,800

The partners have been sharing profits in the ratio of 5:3:2. Malik decides to retire from business on April 1, 2002 and his share in the business is to be calculated as per the following terms of revaluation of assets and liabilities : Stock, Rs 20,000; Office furniture, Rs 14,250; Plant and Machinery Rs 23,530; Land and Building Rs 20,000.
A provision of Rs 1,700 to be created for doubtful debts. The goodwill of the firm is valued at Rs 9,000.
The continuing partners agreed to pay Rs 16,500 as cash on retirement of Malik, to be contributed by continuing partners in the ratio of 3:2. The balance in the capital account of Malik will be treated as loan.
Prepare Revaluation account, capital accounts, and Balance Sheet of the reconstituted firm.

Answer :

In the books of Jain and Gupta

Revaluation Account

Dr. Particulars	Amount Rs	Particulars		Cr. Amount Rs
Office Furniture	4,000	Stock		1,900
Land and Building	6,000	Plant and Machinery		3,300
Provision for Doubtful Debts	1,700	Loss transferred to		
		Jain's Capital A/c	3,250	
		Gupta's Capital A/c	1,950	
		Malik's Capital A/c	1,300	6,500
	11,700			11,700

Partners' Capital Account

Dr. Particulars	Jain	Gupta	Malik	Particulars	Jain	Gupta	Cr. Malik
Revaluation (Loss)	3,250	1,950	1,300	Balance b/d	40,000	60,000	20,000
Malik's Capital	1,125	675		Accumulated Profits	8,375	5,025	3,350
Cash			16,500	Jain's Capital A/c			1,125
Malik's Loan			7,350	Gupta's Capital A/c			675
Balance c/d	53,900	69,000		Cash	9,900	6,600	
	58,275	71,625	25,150		58,275	71,625	25,150

Balance Sheet

Liabilities		Amount Rs	Assets		Amount Rs
Sundry Creditors		19,800	Stock (18,100 + 1,900)		20,000
Telephone Bills Outstanding		300	Bonds		14,370
Accounts Payable		8,950	Cash		5,500
Malik's Loan		7,350	Bills Receivable		23,450
			Sundry Debtors	26,700	
Partners' Capital:			*Less*: Provision for Bad Debts	1,700	25,000
Jain	53,900		Land and Building (26,000 â€“ 6,000)		20,000
Gupta	69,000	1,22,900	Office Furniture (18,250 â€“ 4,000)		14,250
			Plant and Machinery (20,230 + 3,300)		23,530

Q9 :

Arti, Bharti and Seema are partners sharing profits in the proportion of 3:2:1 and their Balance Sheet as on March 31, 2003 stood as follows:

Books of Arti, Bharti and Seema

Balance Sheet as on March 31, 2003

Liabilities		Amount Rs	Assets	Amount Rs
Bills Payable		12,000	Buildings	21,000
Creditors		14,000	Cash in Hand	12,000
General Reserve		12,000	Bank	13,700
Capitals:			Debtors	12,000
Arti 20,000			Bills Receivable	4,300
Bharti	12,000		Stock	1,750
Seema	8,000	40,000	Investment	13,250
		78,000		78,000

Bharti died on June 12, 2003 and according to the deed of the said partnership, her executors are entitled to be paid as under:

(a) The capital to her credit at the time of her death and interest thereon @ 10% per annum.

(b) Her proportionate share of reserve fund.

(c) Her share of profits for the intervening period will be based on the sales during that period, which were calculated as Rs 1,00,000. The rate of profit during past three years had been 10% on sales.

(d) Goodwill according to her share of profit to be calculated by taking twice the amount of the average profit of the last three years less 20%. The profits of the previous years were:

2001 - Rs 8,200

2002 - Rs 9,000

2003 - Rs 9,800

The investments were sold for Rs 16,200 and her executors were paid out. Pass the necessary journal entries and write the account of the executors of Bharti.

Answer :

Books of Arti and Seema

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs
2003 June 12	Interest on Capital A/c Dr. General Reserve A/c Dr. Profit and Loss (Suspense) A/c Dr. To Bharti's Capital A/c (Profit, interest and general reserve are in credited to Bharti's Capital account)		240 4,000 3,333	 7,573
June 12	Arti's Capital A/c Dr. Seema's Capital A/c Dr. To Bharti's Capital A/c (Bharti's share of goodwill adjusted to Arti's and Seema's Capital Account in their gaining ratio, 3:1)		3,600 1,200	 4,800
June 12	Bharti's Capital A/c Dr. To Bharti's Executor's A/c (Bharti's capital account is transferred to her executor's account)		24,373	 24,373

June 12	Bank A/c Dr. To Investment A/c To Profit on Sale of Investment (Investment sold)			16,200	 13,250 2,950
June 12	Bharti's Executor A/c Dr. To Bank A/c (Bharti Executor paid)			24,373	 24,373

Bharti's Capital Account

Dr.

Q10 :
Nithya, Sathya and Mithya were partners sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet as on December 31, 2002 was as follows:

Books of Nithya, Sathya and Mithya

Balance Sheet at December 31, 2002

Liabilities		**Amount Rs**	**Assets**	**Amount Rs**
Creditors		14,000	Investments	10,000
Reserve Fund		6,000	Goodwill	5,000
Capitals:			Premises	20,000
Nithya	30,000		Patents	6,000
Sathya	30,000		Machinery	30,000
Mithya	20,000	80,000	Stock	13,000
			Debtors	8,000
			Bank	8,000
		1,00,000		1,00,000

Mithya dies on May 1, 2002. The agreement between the executors of Mithya and the partners stated that:

(a) Goodwill of the firm be valued at $2\frac{1}{2}$ times the average profits of last four years. The profits of four years were : in 1998, Rs 13,000; in 1999, Rs 12,000; in 2000, Rs 16,000; and in 2001, Rs 15,000.
(b) The patents are to be valued at Rs 8,000, Machinery at Rs 25,000 and Premises at Rs 25,000.
(c) The share of profit of Mithya should be calculated on the basis of the profit of 2002.
(d) Rs 4,200 should be paid immediately and the balance should be paid in 4 equal half-yearly instalments carrying interest @ 10%.
Record the necessary journal entries to give effect to the above and write the executor's account till the amount is fully paid. Also prepare the Balance Sheet of Nithya and Sathya as it would appear on May 1, 2002 after giving effect to the adjustments.

Answer :

Books of Nithya and Sathya

Journal

Date	Particulars		L.F.	Amount Rs	Amount Rs
2002					
May 1	Nithya's Capital A/c	Dr.		2,500	
	Sathya's Capital A/c	Dr.		1,500	
	Mithya's Capital A/c	Dr.		1,000	
	To Goodwill A/c				5,000
	(Goodwill written off among all the partners)				
May 1	Patents A/c	Dr.		2,000	
	Premises A/c	Dr.		5,000	
	To Revaluation A/c				7,000
	(Increase in the value of patents and premises)				
May 1	Revaluation A/c	Dr.		5,000	
	To Machinery A/c				5,000
	(Decrease in the value of machinery)				
May 1	Revaluation A/c	Dr.		2,000	
	To Nithya's Capital A/c				1,000
	To Sathya's Capital A/c				600
	To Mithya's Capital A/c				400
	(Profit on revaluation of assets and liabilities transferred to Partners' Capital Account)				

May 1	Reserve Fund A/c Dr.		6,000	
	To Nithya's Capital A/c			3,000
	To Sathya's Capital A/c			1,800
	To Mithya's Capital A/c			1,200
	(Reserve Fund transferred to Partners' Capital Account)			
May 1	Nithya's Capital A/c Dr.		4,375	
	Sathya's Capital A/c Dr.		2,625	
	To Mithya's Capital A/c			7,000
	(Mithya's share of goodwill adjusted to Nithya's and Sathya's Capital Account in their gaining ratio, 5:3)			