PART – 1
CHAPTER 04
RECONSTITUTION OF A PARTNERSHIP FIRM – RETIREMENT / DEATH OF A PARTNER

Question

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

Answer: The different ways in which a partner can retire from the firm are as follows:

1. Consent of other partners: A partner can retire from the firm provided that he/she has the consent of all his/her co-partners. The approval of all other partners of the firm can only lead the retirement of the partner concerned.
2. Expression of the agreement by all the partners: In the cases when there is a written agreement among all the partners, a partner of the organization may retire by providing a notice of his /her intention of leaving the firm to the partners of the organization.
3. By providing a written notice: A partner may retire from the organization if in case if the partnership is at the will of all other partners of the organization. Thus in such cases the partner may retire from the organization by providing the written notice about his/her intention to retire from the organization.

Question 2

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

Answer: The various adjustments that are done during the time of the retirement of the partner are as follows:

1. The new gaining ratio of all the other partners of the organization which are remaining is calculated.
2. The accounting treatment of the goodwill is calculated.
3. Accumulated profit and losses and reserves are distributed among all the partners which includes the retiring partner.
4. Revaluation of assets and liabilities of the new firm is done.
5. Treatment of the Joint Life Policy is done.
6. The capital accounts of the remaining partners are made to adjust in their new profit sharing ratio.
7. Settlement of the amount which is due to the retiring partner is made.

Question 3

Distinguish between sacrificing ration and gaining tab.

Answer:

Basis of Difference	Sacrificing Ratio	Gaining Ratio
1. Meaning	It refers to the ratio in which the old partners agree to share their share of profits in the favour of any newcomer.	It refers to the ratio in which the share of the profit of any retired partner is obtained by the continuing partners.

2. Calculation	Sacrificing Ratio = Old Ratio – New Ratio	Gaining Ratio = New Ratio – Old Ratio
3. Time	The sacrificing ration is calculated during the admission of any new partner/partners.	The gaining ratio is calculated during the time of retirement/death of the old partners/partner.
4. Objective	Its calculation is made in order to determine the share of the profit or the loss when the existing partners give share of profit or loss to favour new partner/partners. The amount of compensation thus has to be paid to the existing partners by the new partner or partners.	Its calculation is made in order to determine the share of profit and loss which is acquired by all other partners in from the retired or the deceased partner of the firm.
5. Effect	The effect of this is that it reduces the share of profit of the existing partners.	The effect of this is that it leads to the increase of the profit share of all the other remaining partners.

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

Answer: The revaluation of the assets and the liabilities is done at the event of the death or the retirement of the partner so that the changes and adjustments in the value of assets and liabilities can be made. This is done by crediting all the profit and the gains and debiting all the losses. Further the profit or the loss due to the revaluation is divided among all the other partners which includes the retired partner in the existing sharing ratio of profit.

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

Answer: The goodwill of the firm is achieved by the combined efforts of all the partners and hence when a partner is to retire, he/she must get the returns for his/her effort for building the goodwill of the organization. The goodwill is an intangible asset for the organization which is shared by the remaining partners of the organization who compensate the retiring/deceased partner of the firm by providing him/her with the share of the goodwill.

Question 6
Explain the modes of payment to a retiring partner.

Answer: The various modes of payment to a retiring partner are-

1. The following journal entry of the retiring partner has to be passed when the retiring partner is paid the due amount in lump sum on the retirement day.

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

2. The following journal entry has to be passed when the amount due to the retiring partner is paid in instalments. In such case, the balancing figure of the capital account of the retiring partner is transferred to his/her loan account.
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)

3. The following journal entry has to be passed when the amount which is due to the retiring partner is partly paid in cash and partly in equal instalments. The amount which is paid in cash is paid on the last day of the retirement and the rest of the amount is transferred to the loan account.
Retiring Partner's Capital A/c   Dr
　　To Retiring Partner's Loan A/c
　　To Cash A/c

(Retiring partner partly paid in cash and balance transferred to the partner's loan account)

Question 7
How will you compute the amount payable to a deceased partner?

Answer: The balancing figure of the deceased partners' capital account is given to the legal executor of the deceased partner.

Deceased Partner Capital Account

Dr. **Cr.**

Date	**Particulars**	**J.F.**	**Amount**	**Date**	**Particulars**	**J.F.**	**Amount**
	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 A/c (Written off) **Partner's Executor's A/c** (Balancing Figure)					Goodwill Reserves and Profits Revaluation A/c (Gain) Joint Life Policy A/c Interest on Capital A/c Salary A/c Commission A/c			

Question 6

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

Answer: At the time of the retirement or the death of the partner, the goodwill is adjusted among the partners in the gaining ration of the partner who is about to retire or has deceased.

The treatment of the goodwill is done under the two situations:

1. When the goodwill already appears in the books of firm.

Step 1:

Write off the existing goodwill.

All Partner's Capital A/c   Dr (in old ratio)

To Goodwill A/c

(Goodwill written off among all the partners in their old ratio)

The retiring partners or partner must be compensated by the existing partners by the amount of their share of goodwill .

Step 2:

Adjusting goodwill through partner's capital account

Remaining Partner's Capital A/c   Dr(in gaining ratio)

To Retiring/Deceased Partner's Capital A/c

(Gaining partner's capital account is debited in their gaining ratio and retiring/deceased partner's capital account is credited for their share of goodwill)

2. In case of hidden goodwill i.eIf no goodwill appears in the books of the firm.

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 ratio and retiring/deceased partner's capital account is credited for their share of goodwill)

Question 7

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

Answer: The various methods which can be used to compute the share in the profits in the event of the death of the partner are:

1. On the basis of time: As per this method the calculation of the profit is made up to the date of the death of the partner., This is done by taking the average profit of the few past years or the profit made in the last year. Further it is assumed that the profit will be constant throughout the current year. The share of profit of the partner is calculated by multiplying the dead partner's share in the profit with the average profit from the balance sheet till the date when the partner has died.

Share of Deceased Partner in Profit = Previous Year/Average Profit x

The share of profit of the dead partner = Time period from date of balance sheet till death / 12 months or 365 days or 52 weeks × Profit share of Deceased Partner

2. On the basis of sales: As per this method, the profit is calculated on the basis of the sales of the previous year.

Share of Deceased Partner in Profit = Previous Year's Profit × Sales from the beginning of the current year up to the death × share of the deceased partner.

Question 8

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:

Journal Entries				
Date	**Particular**	**L.F.**	**Amount**	**Amount**
	Aparna's Capital 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 A/c in their gaining ratio)		18000 42000	60000

Working Notes:

1. Manisha's share in goodwill = Total goodwill of the firm × Retiring partner's share

= 180000 × 1/3 = 60000

2. Gaining ratio = New ratio – Old ratio
Aparna's gaining share = 3/5 – 3/6 = (18 – 15)/30 = 3/30
Sonia's gaining share = 2/5 – 1/6 = (12 – 5)/30 = 7/30
Gaining ratio between Aparna and Sonia = 3:7

3. Aparna's share in goodwill = 60000 × 3/10 = 18000
Sonia's share in goodwill = 60000 × 7/10 = 42000

Question 9
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:

Journal Entries

Date	**Particular**	**L.F.**	**Amount**	**Amount**
	Sangeeta's Capital A/c Dr Saroj's Capital A/c Dr Shanti's Capital A/c Dr To Goodwill A/c (Goodwill written off)		12000 18000 30000	 60000
	Saroj's Capital A/c Dr To Sangeeta's Capital A/c		18000	 18000

	(Sangeeta's share of goodwill adjusted to Saroj's Capital A/c in her gaining ratio)			

Working Notes:

1. Sangeeta's share of goodwill = Total goodwill of the firm x Retiring partner's share
= 90000 × 2/10 = 18000

2. Gaining ratio = New ratio – Old ratio
Saroj's gaining ratio = 1/2 – 3/10 = (10-6)/20 = 4/20
Shanti's gaining ratio = 1/2 – 5/10 = (10 – 10)/20 = 0/20

Question 10

Himanshu, Gagan and Naman are partners sharing profits and losses in the ratio of 3:2:1. On March 31, 2017, Naman retires.

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

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

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

(i) Building to be appreciated by 20%.

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

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

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

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

Answer:

Journal Entries				
Date	**Particular**	**L.F.**	**Amount**	**Amount**
	Building A/c Dr Investment A/c Dr To Revaluation A/c (Value of building and investment increased at the time of Naman's retirement)		20000 5000	 25000
	Revaluation A/c Dr To Plant and Machinery A/c To Provision for Bad and Doubtful debts A/c		7000	 4000 1000

	To Stock A/c (Assets revalued and provision for bad and doubtful debts made at the time of Naman's retirement)			2000
	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 partner's capital account in their old profit sharing ratio)		18000	 9000 6000 3000

Revaluation Account			
Particular	**Amount**	**Particular**	**Amount**
Plant and Machinery	4000	Building	20000
Stock	2000	Investment	5000
Provision for Bad and Doubtful Debts	1000		
Profit Transferred to Capital Account			
Himanshu 9000			

Gagan	6000			
Naman	3000	18000		
		25000		25000

Question 11

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

Pass the necessary journal entries to the above effect.

Answer:

Journal Entries				
Date	**Particular**	**L.F.**	**Amount**	**Amount**
	General Reserves A/c Dr To Naresh's Capital A/c To Raj Kumar's Capital A/c To Bishwajeet's Capital A/c (General reserve distributed among old partner in old ratio)		36000	 12000 12000 12000
	Naresh's Capital A/c Dr Raj Kumar's Capital A/c Dr		5000 5000	

	Bishwajeet's Capital A/c Dr To Profit and Loss A/c (Debit balance of profit and loss account written off)		5000	15000

Question 12
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, 2017 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, 2017 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:

Revaluation Account			
Particular	**Amount**	**Particular**	**Amount**
Bad Debts	2000	Loss transferred to Capital A/c	
Patents	9000	Digvijay	4400
		Brijesh	4400
		Parakaram	2200
	11000		11000

Partner's Capital A/c							
Particulars	**Digvijay**	**Brijesh**	**Parakaram**	**Particulars**	**Digvijay**	**Brijesh**	**Parakaram**
Brijesh's Capital	18667		9333	Balance b/d	82000	60000	75500
Revaluation (Loss)	4400	4400	2200	Digvijay's Capital		18667	

Brijesh's Loan		91000		Parakaram's Capital		9333	
Balance c/d	66333		67667	Reserves	7400	7400	3700
	89400	95400	79200		89400	95400	79200

Balance Sheet as on March 31, 2007			
Liabilities	**Amount**	**Assets**	**Amount**
Creditors	49000	Cash	8000
Brijesh's Loan	91000	Debtor 19000	
Digvijay's Capital	66333	(-) Bad Debts 2000	17000
Parakaram's Capital	67667	Stock	42000
		Building	207000
	274000		274000

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

Working Notes:

1. Brijesh’s share of goodwill = Total goodwill of the firm × Retiring partner’s share
= 70000 x 2/5 = 28000

2. Gaining ratio = New ratio – Old ratio

Digvijay's share = 2/3 – 2/5 = (10 – 6)/15 = 4/15
Parakaram's share = 1/3 – 1/5 = (5 -3)/15 = 2/15
Gaining ratio between Digvijay and Parakaram = 4:2 = 2:1

Question 13

Radha, Sheela and Meena were in partnership sharing profits and losses in the proportion of 3:2:1. On April 1, 2017, 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 13,500.
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:

Revaluation Account			
Particular	**Amount**	**Particular**	**Amount**
Machinery	800	Expenses	750
Loose Tools	400	Owing Factory Premises	1800
Profit trf to Capital A/c			
Meena 675			
Radha 450			
Sheela 225	1350		
	2550		2550

Partner's Capital A/c							
Particulars	**Radha**	**Sheela**	**Meena**	**Particulars**	**Radha**	**Sheela**	**Meena**

Sheela's Capital	3375		1125	Balance b/d	15000	15000	15000
Sheela's Loan		24450		General Reserve	6750	4500	2250
Balance c/d	19050		16350	Revaluation (Profit)	675	450	225
				Radha's Capital		3375	
				Meena's Capital		1125	
	22425	24450	17475		22425	24450	17475

Balance Sheet			
Liabilities	**Amount**	**Assets**	**Amount**
Trade	3000	Debtors	15000
Creditor's Bills	4500	Stock	12000
Payable Expenses	3750	Factory Premises	24300
Owing Sheela's Loan	24450	Machinery 8000	
Capitals:		(-) 10% Dep 800	7200
Radha 19050		Loose Tools 4000	
Meena 16350	35400	(-) 10% Dep 400	3600
		Cash in Hand	1500

		Cash at Bank	7500
	71100		71100

Question 14

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, 2017

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.

(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			
Particular	**Amount**	**Particular**	**Amount**
Stock	900	Premises	16000

Prov. For Legel Damages	1200	Prov. For Doubtful Debts	100
Profit trf to Capital A/c		Furniture	4000
Pankaj 9000			
Naresh 6000			
Saurabh 3000	18000		
	20100		20100

Partner's Capital A/c							
Particulars	**Pankaj**	**Naresh**	**Saurabh**	**Particulars**	**Pankaj**	**Naresh**	**Saurabh**
Naresh's Capital	14000			Balance b/d	46000	30000	20000
Naresh's Loan		26000		General Reserve	6000	4000	2000
Bank		28000		Revaluation (Profit)	9000	6000	3000
Balance c/d	47000		25000	Pankaj's Capital		14000	
	61000	54000	25000		61000	54000	25000

Bank A/c			
Particular	**Amount**	**Particular**	**Amount**
Balance b/d	7600	Naresh's Capital	28000
Bank Loan (BF)	20400		
	28000		28000

Balance Sheet as on March 31, 2007			
Liabilities	**Amount**	**Assets**	**Amount**
Sundry Creditors	15000	Debtors 6000	
Bills Payable	12000	(-) Prov for Doubtful Debts 300	5700
Bank Loan	20400	Stock	8100
O/s Salaries	2200	Furniture	45000
Prov. For Legel Damages	7200	Premises	96000
Naresh's Loan	26000		
Capitals			
Pankaj 47000			
Saurabh 25000	72000		
	154800		154800

Question 15

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, 2017 was as follows:

Books of Puneet, Pankaj and Pammy

Balance Sheet as on March 31, 2017

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, 2017. 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 2013–14; Rs 80,000; for 2014–15, Rs 50,000; for 2015–16, Rs 40,000; for 2016–17, 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 A/c			
Particular	**Amount**	**Particular**	**Amount**
Drawing	10000	Balance b/d	40000
Pammy's Executor's A/c	75400	Profit & Loss (Suspense)	3000
		Puneet's Capital	15000
		Pankaj's Capital	15000
		Int. On Capital	2400
		Reserves	10000
	85400		85400

Pammy's Executor's A/c							
Date	**Particulars**	**J. F.**	**Amount**	**Date**	**Particulars**	**J. F.**	**Amount**
2007-08				2007-08			

Sep-30	Bank		15400	Sep-30	Pammy's Capital		75400
Mar-31	Balance c/d		63600	Mar-31	Interest		3600
			79000				79000
2008 -09				2008-09			
Sep-30	Bank		22200	Apr-01	Balance b/d		63600
	(15000+3600 +3600)			Sep-30	Interest		3600
Mar-31	Balance c/d		47700	Mar-31	Interest		2700
			69900				69900
2009-10				2009-10			
Sep-30	Bank		20400	Apr-01	Balance b/d		47700
Mar-31	Balance c/d		31800	Sep-30	Interest		2700

				Mar-31	Interest		1800
			52200				52200
2010-11				2010-11			
Sep-30	Bank		18600	Apr-01	Balance b/d		31800
	(15000+1800+1800)			Sep-30	Interest		1800
Mar-31	Balance c/d		15900	Mar-31	Interest		900
			34500				34500
2011-12				2011-12			
Sep-30	Bank		16800	Apr-01	Balance b/d		15900
	(15000+900+900)			Sep-30	Interest		900
			16800				16800

Working Notes:

1. Pammy's share of profit = Previous year's profit × Proportionate period × Share of deceased partner
$= 30000 \times 6/12 \times 1/5 = 3000$

2. Pammy's share of goodwill
Average profit = (80000+50000+40000+30000)/4 = 200000/4 =50000
Goodwill of the firm = Average profit x Number of year's purchase
$= 50000 \times 3 = 150000$
Pammy's share $= 150000 \times 1/5 = 30000$

3. Gaining ratio = New ratio – Old ratio
Puneet's share = 2/4 – 2/5 = (10 – 8)/20 = 2/20
Pankaj's share = 2/4 – 2/5 = (10 – 8)/20 = 2/20
Gaining ratio between Puneet and Pankaj = 2:2 = 1:1

4. Interest on capital for 6 months i.e. from Apr 1, 2007 to Sep 30, 2007
= Amount of capital × Rate of interest × Period $= 40000 \times 12/100 \times 6/12 = 2400$

5. Interest amount
The firm closes its books every year on March 31, while instalments to Pammy's Executor are paid on Sep 30 every year.
Amount outstanding on 30 Sep = 75400 – 15400 = 60000

Calculation of Interest

Periods	Amt O/s	Yearly Interest	For 6 Months
2007-08	60000	60000 x 12/100 = 7200	7200 x 6/12 = 3600
2008-09	45000	45000 x 12/100 = 5400	5400 x 6/12 = 2700
2009-10	30000	30000 x 12/100 = 3600	2700 x 6/12 = 1800
2010-11	15000	15000 x 12/100 = 1800	1800 x 6/12 = 900

Question 16
Following is the Balance Sheet of Prateek, Rockey and Kushal as on March 31, 2017.

Books of Prateek, Rockey and Kushal

Balance Sheet as on March 31, 2017

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, 2017. 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, 2015, March 31, 2016 and March 31, 2017 were Rs 12,000, Rs 16,000 and Rs 14,000 respectively. Profits were shared in the ratio of capitals.
Pass the necessary journal entries and draw up Rockey's capital account to be rendered to his executor.

Answer:

Journal Entries				
Date	**Particular**	**L.F.**	**Amount**	**Amount**
2007				

Jun-30	Interest on Capital A/c Dr Profit and Loss A/c Dr General Reserve A/c Dr To Rockey's Capital A/c (Share of profit, interest on capital and share of general reserve credited to Rockey's capital account)		250 1000 4571	5821
Jun-30	Prateek's Capital A/c Dr Kushal's Capital A/c Dr To Rockey's Capital A/c (Rockey's share of goodwill adjusted to Prateek's and Kushal's Capital A/c in their gaining ratio i.e. 3:2)		4800 3200	8000
Jun-30	Rockey's Capital A/c Dr To Rockey's Executor A/c (Balance of Rockey's capital a/c transferred to his Executor's a/c)		33821	33821

Rockey's Capital A/c							
Date	**Particulars**	**J. F.**	**Amount**	**Date**	**Particulars**	**J. F.**	**Amount**
2007				2007			
Apr-01	Rockey's Executor's A/c		33821	Apr-01	Balance b/d		20000
					Interest on Capital		250
					Profit and Loss		1000
					(Suspense)		
					General Reserve		4571
					Prateek's Capital		4800
					Kushal's Capital		3200
			33821				33821

Working Notes:

1. Rockey's share of profit = Previous year's profit × Proportionate period × Share of deceased partner

$= 14000 \times 3/12 \times 2/7 = 1000$

2. Rockey's share of goodwill

Average profit = (12000+16000+14000)/3 = 42000/3 = 14000

Goodwill of the firm = Average profit × Numbers of year's purchase

= 14000 × 2 = 28000

Rockey's share = 28000 × 2/7 = 8000

3. Gaining ratio = New ratio – Old ratio

Prateek's share = 3/5 – 3/7 = (21 – 15)/35 = 9/35

Kushal's share = 2/5 – 2/7 = (14 – 10)/35 = 4/35

Gaining ratio between Prateek and Kushal = 9:4

4. Interest on capital for 3 months i.e. from Apr 1, 2007 to Jun 30, 2007

= Amount of capital × Rate of interest × Period = 20000 × 5/100 × 3/12 = 250

Question 17

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, 2015 was as follows:

Books of Suri, Narang and Bajaj

Balance Sheet as on April 1, 2015

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	20,000		*Less:* Reserve for Bad Debt	1,000	19,000
Bajaj	28,000	88,000			
			Cash		7,000
		1,30,000			1,30,000

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

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

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

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

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

e) The continuing partners have decided to adjust their capitals in their new profit sharing ratio after retirement of Bajaj. Surplus/deficit, if any, in their capital accounts will be adjusted through current accounts.
Prepare necessary ledger accounts and draw the Balance Sheet of the reconstituted firm.

Answer:

Revaluation Account			
Particular	**Amount**	**Particular**	**Amount**
Machinery	3000	Freehold Properties	8000
Furniture	840	Stock	3300
Reserve for bad debts	500		
Capital:			
Narang 3480			
Suri 1160			
Bajaj 2320	6960		
	11300		11300

Partner's Capital A/c							
Particulars	**Narang**	**Suri**	**Bajaj**	**Particulars**	**Narang**	**Suri**	**Bajaj**
Bajaj's Capital	5250	1750		Balance b/d	30000	30000	28000

Bajaj's loan			41320	Reserves	6000	2000	4000
Balance c/d	34230	31410		Revaluation (Profit)	3480	1160	2320
				Narang's Capital			5250
				Suri's Capital			1750
	39480	33160	41320		39480	33160	41320
Suri's Current A/c		15000		Balance b/d	34230	31410	
Balance c/d	49230	16410		Narang's Current A/c	15000		
	49230	31410			49230	31410	

Balance Sheet as on April 1, 2007			
Liabilities	**Amount**	**Assets**	**Amount**
Bills Payable	12000	Freehold Premises	48000
Sundry Creditor	18000	machinery	27000
Bajaj's Loan	41320	Furniture	11160
Suri's Current A/c	15000	Stock	25300

Capital:		Sundry Debtor 20000	
Narang 49230		(-) Reserve 1500	18500
Suri 16410	65640	Cash	7000
		Narang's Current A/c	15000
	151960		151960

Working Notes:

1. Bajaj's share in goodwill = Total goodwill of the firm × Retiring partners share
= 21000 × 1/3 = 7000

2. Gaining ratio = New ratio – Old ratio
Narang's gaining share = 3/4 – 3/6 = (9 – 6)/12 = 3/12
Suri's gaining share = 1/4 – 1/6 = (3 – 2)/12 = 1/12
Gaining ratio between Narang and Suri = 3:1

3. Calculation of new capitals of the existing partners
Balance in Narang's capital = 34230
Balance in Suri's capital = 31410
Total capital of the new firm after revaluation of assets and Liabilities and adjustment of goodwill and reserves
= Rs. 65640
Based on new profit sharing ratio of 3:1
Narang's capital = 65640 × 3/4 = 49230

Suri's capital = 65640 × 1/4 = 16410

Note:
(i) In the above question, Suri's capital is Rs.30000 instead of Rs.20000.
(ii) Due to insufficient balance in Bajaj's capital account, the amount due to Bajaj is transferred to his loan account.

Question 18
The Balance Sheet of Rajesh, Pramod and Nishant who were sharing profits in proportion to their capitals stood as on March 31, 2015:

Books of Rajesh, Pramod and Nishant

Balance Sheet as on March 31, 2015

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 Entries				
Date	Particular	L.F.	Amount	Amount
2007				

Mar -31	Revaluation A/c Dr To Stock A/c To Reserve and Doubtful Debt A/c To Reserve for Legel Charges A/c (Assets and liabilities are revalued)		1840	 1550 25 265
Mar -31	Factory Building A/c Dr To Revaluation A/c (Factory building appreciated)		1440	 1440
Mar -31	Rajesh's Capital A/c Dr Pramod's Capital A/c Dr Nishant's Capital A/c Dr To Revaluation A/c Loss on revaluation adjusted to partner's capital account)		160 120 120	 400
Mar -31	Rajesh's Capital A/c Dr Nishant's Capital A/c Dr To Pramod's Capital A/c		2000 1000	 3000

	(Pramod's share of goodwill adjusted to Rajesh's and Nishant's capital account in their gaining ratio)			
Mar -31	Reserve Fund A/c Dr		2750	
	To Rajesh's Capital A/c			1100
	To Pramod's Capital A/c			825
	To Nishant's Capital A/c			825
	(Reserve Fund distributed all the partners)			
Mar -31	Pramod's Capital A/c Dr		18705	
	To Pramod's Loan A/c			18705
	(Pramod's capital transferred to his loan a/c)			
Mar -31	Rajesh's Capital A/c Dr		940	
	Nishant's Capital A/c Dr		2705	
	To Rajesh's Current A/c			940

	To Nishant's Current A/c (Excess in capital account is transferred to current account)			2705

Partner's Capital A/c							
Particulars	**Rajesh**	**Pramod**	**Nishant**	**Particulars**	**Rajesh**	**Pramod**	**Nishant**
Revaluation (Loss)	160	120	120	Balance b/d	20000	15000	15000
Pramod's Capital	2000		1000	Reserve Fund	1100	825	825
Pramod's Loan		18705		Rajesh's Capital		2000	
Rajesh's Current A/c	940			Nishant's Capital		1000	
Nishant's Current A/c			2705				
Balance c/d	18000		12000				
	21100	18825	15825		21100	18825	15825

Balance Sheet as on March 31, 2007

Liabilities	Amount	Assets	Amount
Bills Payable	6250	Plant and Machinery	11500
Sundry Creditor	10000	Debtor 10500	
Reserve for Legal Charges	265	(-) Reserve 525	9975
Pramod's Loan	18705	Bills Receivables	7000
Rajesh's Current A/c	940	Stock 15500	
Nishant's Current A/c	2705	(-) 10% Dep 1550	13950
Capital:		Factory Building 12000	
Rajesh 18000		(+) 12% Appr. 1440	13440
Nishant 12000	30000	Bank Balance	13000
	68865		68865

Working Notes:

1. Pramod’s share of goodwill = Total goodwill of the firm × Retiring partner’s share
= 10000 × 3/10 = 3000

2. Gaining ratio = New ratio – Old ratio
Rajesh’s gaining share = 3/5 – 4/10 = (6 – 4)/10 = 2/10

Nishant's gaining share = 2/5 – 3/10 = (4 – 3)/10 = 1/10
Gaining ratio between Rajesh and Nishant = 2:1

Question 19

Following is the Balance Sheet of Jain, Gupta and Malik as on March 31, 2016.

Books of Jain, Gupta and Malik
Balance Sheet as on March 31, 2016

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, 2016 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:

Revaluation Account			
Particular	**Amount**	**Particular**	**Amount**
Office Furniture	4000	Stock	1900
Land and Building	6000	Plant and Machinery	3300
Prov. For Doubtful Debts	1700	Loss trf to:	
		Jain's Capital A/c 3250	
		Gupta's Capital A/c 1950	

		Malik's Capital A/c 1300	6500
	11700		11700

Partner's Capital A/c							
Particulars	**Jain**	**Gupta**	**Malik**	**Particulars**	**Jain**	**Gupta**	**Malik**
Revaluation (Loss)	3250	1950	1300	Balance b/d	40000	60000	20000
Malik's Capital	1125	675		Accumulated Profit	8375	5025	3350
Cash			16500	Jain's Capital			1125
Malik's Loan			7350	Gupta's Capital			675
Balance c/d	53900	69000		Cash	9900	6600	
	58275	71625	25150		58275	71625	25150

Balance Sheet			
Liabilities	**Amount**	**Assets**	**Amount**
Sundry Creditor	19800	Stock (18100+1900)	20000
O/s Telephone Bills	300	Bonds	14370
Accounts payable	8950	Cash	5500

Malik's Loan	7350	Bills Receivables	23450
Capital:		Sundry Debtor 26700	
Jain 53900		(-) Prov. For BD 1700	25000
Gupta 69000	122900	Land and Building	20000
		(26000 - 6000)	
		Office Furniture	14250
		(18250 - 4000)	
		Plant and Machinery	23530
		(20230 + 3300)	
		Computers	13200
	159300		159300

Working Notes:

1. Malik's share of goodwill = Total goodwill × Retiring partner share

= 9000 × 2/10 = 1800

2. Gaining ratio = New ratio – Old ratio

Jain's gaining share = 5/8 – 5/10 = (50 – 40)/80 = 10/80

Gupta's gaining share = 3/8 – 3/10 = (30 – 24)/80 = 6/80

Gaining ratio between Jain and Gupta = 10:6 = 5:3

Question 20

Arti, Bharti and Seema are partners sharing profits in the proportion of 3:2:1 and their Balance Sheet as on March 31, 2016 stood as follows:

Books of Arti, Bharti and Seema

Balance Sheet as on March 31, 2016

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, 2016 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:
2013 – Rs 8,200
2014 – Rs 9,000
2015 – 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:

Journal Entries				
Date	**Particular**	**L.F.**	**Amount**	**Amount**
2003 Jun-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 (Profir, interest and general reserve are in credited to Bharti's capital account)		240 4000 3333	7573

Jun-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)		3600 1200	4800
Jun-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)		24373	24373
Jun-12	Bank A/c Dr To Investment A/c To Profit on Sale of Investment A/c (Investments sold)		16200	13250 2950
Jun-12	Bharti's Executor's A/c Dr To Bank A/c		24373	24373

	(Bharti's Executor paid)			

Bharti's Capital A/c							
Date	**Particulars**	**J. F.**	**Amount**	**Date**	**Particulars**	**J. F.**	**Amount**
2003				2003			
Jun-12	Bharti's Executor's A/c		24373	Mar-31	Balance b/d		12000
					Interest on Capital		240
					Profit and Loss		3333
					(Suspense)		
					General Reserve		4000
					Arti's Capital		3600
					Seema's Capital		1200
			24373				24373

Bharti's Executor's A/c							
Date	**Particulars**	**J. F.**	**Amount**	**Date**	**Particulars**	**J. F.**	**Amount**

2003				2003			
Jun -12	Bank		24373	Jun -12	Bharti's Capital A/c		24373
			24373				24373

Working Notes:

1. Bharti's share of profit = Last year profit × Bharti's share = 10000 × 2/6 = 3333

2. Bharti's share of goodwill
Average profit = (8200+9000+9800)/3 = 9000
Or, 9000 – 20% of 9000 = 9000 – 1800 = 7200
Goodwill of the firm = Average profit × Number of years purchase = 7200 × 2 =14400
Bharti's Share = 14400 × 2/6 = 4800

3. Gaining ratio = New ratio – Old ratio
Arti's gaining share = 3/4 - 3/6 = (9-6)/12 = 3/12
Seemas gaining share = 1/4 – 1/6 = (3 – 2)/12 = 1/12
Gaining ratio between Arti and Seema = 3:1

4. Interest on capital for 73 days, i.e. from Apr 1, 2003 to Jun 12, 2003
= Amount of capital × Ratio of interest × Period = 12000 × 10/100 × 73/365 = 240

Question 21

Nithya, Sathya and Mithya were partners sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet as on March 31, 2015 was as follows:

Books of Nithya, Sathya and Mithya

Balance Sheet at March 31, 2015

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 August 1, 2015. The agreement between the executors of Mithya and the partners stated that:

(a) Goodwill of the firm be valued at times the average profits of last four years. The profits of four years were : in 2011-12, Rs 13,000; in 2012-13, Rs 12,000; in 2013-14, Rs 16,000; and in 2014-15, 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 2014-15.
(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 August 1, 2015 after giving effect to the adjustments.

Answer:

Journal Entries				
Date	**Particular**	**L.F.**	**Amount**	**Amount**
2002 May -01	Nithya's Capital A/c Dr Sathya's Capital A/c Dr Mithya's Capital A/c Dr To Goodwill A/c (Goodwill written off among all the partners)		2500 1500 1000	 5000
	Patents A/c Dr Premises A/c Dr To Revaluation A/c		2000 5000	 7000

	(Increase in the value of patents and premises)			
	Revaluation A/c Dr To Machinery A/c (Decrease in the value of machine)		5000	 5000
	Revaluation A/c Dr To Nithya's Capital A/c To Sathya's Capital A/c To Mithya's Capital A/c Profit on revaluation o assets and liabilities transferred to partner's capital account)		2000	 1000 600 400
	Reserve Fund A/c Dr To Nithya's Capital A/c To Sathya's Capital A/c To Mithya's Capital A/c (Reserve fund transferred to partner's capital account)		6000	 3000 1800 1200
	Nithya's Capital A/c Dr Sathya's Capital A/c Dr To Mithya's Capital A/c (Mithya's share of goodwill adjusted to		4375 2625	 7000

	Nithya's and Sathya's capital account in their gaining ratio 5:3)			
	Profit and Loss A/c (Suspense) Dr To Mithya's Capital A/c (Profit till date of death credited to Mithya's capital account)		1000	1000
	Mithya's Capital A/c Dr To Mithya's Executor's A/c (mithya's capital account transferred to her execuor's account)		28600	28600
	Mithya's Executor's A/c Dr To Cash A/c (Cash paid to Mithya's executor's account)		4200	4200

Mithya's's Executor's A/c

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2002				2002			

May-01	Bank		4200	May-01	Mithya's Capital A/c		28600
Oct-31	Bank (6100 + 1220)		7320	Oct-31	Interest		1220
Dec-31	Balance c/d		18605		(24400 x 10/100 x 6/12)		
				Dec-31	Interest		305
					(18300 x 10/100 x 2/12)		
			30125				30125
2003				2003			
Apr-30	Bank		7015	Jan-01	Balance b/d		18605
	(6100 + 305 + 610)			Apr-30	Interest		610
Oct-31	Bank (6100 + 610)		6710		(18300 x 10/100 x 4/12)		
Dec-31	Balance c/d		6202	Oct-31	Interest		610
					(12200 x 10/100 x 6/12)		

				Dec -31	Interest		102
					(6100 x 10/100 x 2/12)		
			19927				19927
2004				2004			
Apr -30	Bank		6405	Jan-01	Balance b/d		6202
	(6100 + 102 + 203)			Apr -30	Interest		203
					(6100 x 10/100 x 4/12)		
			6405				6405

Balance Sheet			
Liabilities	**Amount**	**Assets**	**Amount**
Creditor	14000	Investment	10000
Mithya's Executor's Loan A/c	24400	Premises	25000
Capital:		Machinery	25000
Nithya 27125		Stock	13000
Sathya 24400	55400	Debtors	8000

		Patents	8000
		Bank (8000 - 4200)	3800
		Profit and Loss (Suspense)	1000
	93800		93800

Working Notes:

1.

Partner's Capital A/c							
Particulars	**Nithya**	**Sathya**	**Mithya**	**Particulars**	**Nithya**	**Sathya**	**Mithya**
Goodwill	2500	1500	1000	Balance b/d	30000	30000	20000
Mithya's Capital	4375	2625		Revaluation A/c	1000	600	400
Mithya's Executor's A/c			28600	Reserve Fund	3000	1800	1200
Balance c/d	27125	28275		P/L A/c (Suspense)			1000
				Nithya's Capital A/c			4375
				Sathya's Capital A/c			2625
	34000	32400	29600		34000	32400	29600

2. Mithya's share of profit = Previous year profit x Proportionate period x Share of profit
= 15000 x 4/12 x 2/10 = 1000

3. Mithya's share of goodwill
Average profit = (13000 + 12000 + 16000 + 15000)/4 = 14000
Goodwill of the firm = Average profit x Number of years purchase = 14000 x 2.5 = 35000
Mithya's share = 35000 x 2/10 = 7000

4. Gaining ratio = New ratio – Old ratio
Nithya = 5/8 – 5/10 = 5/40
Sathya = 3/8 – 3/10 = 3/40
Gaining ratio of Nithya and Sathya = 5:3