CBSE Test Paper 01

Ch-5 Retirement or Death of a partner

1. M, N and H are partners without partnership deed. M wants to get retired. The profit on revaluation on the date was ` 12000.and other partners N and H want to share this in the new ratio 3:2. M wants this to be shared equally How this profit should be shared
   a. 6000 equally between each partner
   b. 4000 equally between each partner
   c. 8000 equally between each partner
   d. 3000 equally between each partner
2. If any asset is taken over by a partner at the time of his retirement, how will you record it?
   a. Balance Sheet
   b. Revaluation Account
   c. Cr. Side of his capital account
   d. Dr. side of his capital account
3. New Ratio – Old Ratio = ?
   a. New ratio of continuing partners
   b. Both Sacrificing ratio and New ratio of continuing partners
   c. Sacrificing ratio
   d. Gain Ratio
4. Calculation of sharing of profit up to date of death will be calculated on the basis of
   a. Yearly basis
   b. Time basis
   c. Turnover basis
   d. Both Time basis and Turnover basis
5. There are some adjustments are to be done at the time of retiring partner
   a. New profit sharing ratio of continuing partners
   b. Accounting treatment of goodwill
   c. Preparation of Executor's Account
   d. Adjustment of Reserves and Profits

   Which of the above adjustments are to be done

a. b, c and d
b. a, c , b
c. a, b , c, d
d. a , b and d

6. State any two items of deductions that may have to be made from the amount of payable to a retiring partner.

7. Neetu, Meetu and Teetu were parents in a firm. On 1st January 2018, Meetu retired. On Meetu's retirement, the goodwill of the firm was valued at Rs.4,20,000. Pass necessary journal entry for the treatment of goodwill on Meetu's retirement.

8. Give the Journal entry to distribute the 'Workmen Compensation Reserve' of Rs.60,000 at the time of retirement of Vinod, when there is no claim against it. The has three partners.

9. X, Y and Z were partners sharing profits in the ratio of $\frac{1}{2}$, $\frac{3}{10}$ and $\frac{1}{5}$. X retired from the firm. Calculate the gaining ratio of the remaining partners.

10. Give the journal entry to distribute 'workmen compensation reserve' of Rs 60,000 at the time of retirement of Sajjan, when there is no claim against it. The firm has three partners Rajat, Sajjan and Kavita.

11. P, Q, and R are partners sharing profits in the ratio of 4: 3: 1. P retires and his share is taken over by Q and R equally. Find the new profit sharing ratio of Q and R.

12. Meera, Sarthak and Rohit were partners sharing profits in the ratio of 2 : 2 : 1. On 31 March 2018, their Balance Sheet was as follows :

Balance Sheet of Meera, Sarthak and Rohit as at 31 March 2018

Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Creditors	3,00,000	Fixed Assets	7,00,000
Contingency Reserve	1,00,000	Stock	2,00,000
Capital :		Debtors	1,50,000
Meera	4,00,000	Cash at bank	3,50,000

Sarthak	4,00,000		
Rohit	2,50,000		
	14,00,000		14,00,000

Sarthak died on 15th June, 2018. According to the partnership deed, his executors were entitled to : The firm's profits for the last four years were : 2014 - 15 Rs.1,20,000, 2015 - 16 Rs.2,00,000, 2016 - 17 Rs.2,60,000 and 2017 - 18 Rs.2,20,000. Sarthak's executors were paid the amount due immediately. Prepare Sarthak's Capital Account to be presented to his executors.

i. Balance in his Capital Account.
ii. His share of goodwill will be calculated on the basis of thrice the average of the past 4 years' profits.
iii. His share in profits up to the date of death on the basis of average profits of the last two years. The time period for which he survived in the year of death will be calculated in months.
iv. Interest on capital @ 12% p.a. up to the date of his death.

13. X, Y, and Z are partners sharing profits and losses in the ratio of 4: 3: 2. Y retires and surrenders l/9th of his share in favour of X and the remaining in favour of Z. Calculate the new profit-sharing ratio and the gaining ratio.

14. Giriija, Yatin, and Zubin were partners sharing profits in the ratio 5 : 3 : 2. Zubin died on 1st August 2015. Amount due to Zubin's executor after all adjustments was Rs.90,300. The executor was paid Rs.10,300 in cash immediately and the balance in two equal annual instalments with interest @ 6% p.a. starting from 31st March 2017. Accounts are closed on 31st March each year. Prepare Zubin's Executors Account till he is finally paid.

15. Lalit, Madhur and Neena were partners sharing profits as 50%, 30% and 20% respectively. On 31st March, 2013 their balance sheet was as follows

Balance Sheet

as on 31st March, 2013

Liabilities		**Amount (Rs)**	**Assets**		**Amount (Rs)**
Creditors		28,000	Cash		34,000
Provident Fund		10,000	Debtors	47,000	
Investment Fluctuation Fund		10,000	(-) Provision for Doubtful Debts	(3,000)	44,000
Capital A/cs			Stock		15,000
Lalit	50,000		Investments		40,000
Madhur	40,000		Goodwill		20,000
Neena	25,000	1,1.5,000	Profit and Loss A/c		10,000
		1,63,000 =======			1,63,000 =======

On this date, Madhur retired and Lalit and Neena agreed to continue on the following terms

i. The goodwill of the firm was valued at Rs 51,000.
ii. There was a claim for workmen's compensation to the extent of Rs 6,000
iii. Investments were brought down to Rs 15,000.
iv. Provision for bad debts was reduced by Rs 1,000.
v. Madhur was paid Rs 10,300 in cash and the balance was transferred to his loan account payable in two equal installments together with interest @ 12% per annum.

Prepare revaluation account, partners' capital accounts and Madhur's loan account till the loan is finally paid off.

Answer

1. b. 4000 equally between each partner, **Explanation:** In the absence of partnership deed profit sharing ratio will be equal. In this case, M is right; profit should be shared equally among the partners i.e. 4,000 equally among all the partners.
2. d. Dr. side of his capital account, **Explanation:** Any asset taken by the partner will be shown in the debit side of his capital account. It means his capital account will be reduced by the same.
3. d. Gain Ratio, **Explanation:** At the time of retirement or death of a partner, gain ratio of remaining partners is calculated as follows: New Ratio – Old Ratio = Gain Ratio
4. d. Both Time basis and Turnover basis, **Explanation:** Deceased partner's share will be calculated on the basis of:
   - Time
   - Turnover

     Note: Read the question carefully while calculating the share of profit of deceased partner.
5. d. a, b and d, **Explanation:** Following adjustments are done at the time of retirement of a partner:
   - New profit sharing ratio of continuing partners
   - Accounting treatment of goodwill
   - Adjustment of Reserves and Profits

     Note: Executor's Account is prepared at the time of death of a partner.
6. i. His share of loss on revaluation of assets and reassessment of liabilities.

   ii. His share of existing goodwill written off or profit and loss dr balance given in balance sheet.
7. **JOURNAL Entry**

			Amt	Amt

Date	Particulars	LF	(Dr)	(Cr)
	Neetu's Capital A/c.......Dr.		70,000	
	Neetu's Capital A/c.......Dr.		70,000	
	To Meetu's Capital A/c (4,20,000 $\times \frac{1}{3}$)			1,40,000
	(Being the adjustment made for goodwill on retirement.)			

8.

Particulars	LF	Debit Amount Rs.	Credit Amount Rs.
Workmen Compensation Reserve A/c Dr.		60,000	
To Kunwar’s Capital A/c		...	20,000
To Vinod’s Capital A/c		...	20,000
To Himanshu’s Capital A/c		...	20,000
(Being Workmen Compensation Reserve distributed to all the partners in their profit sharing ratio,e.g. 1:1:1, on the retirement of Vinod)			

9. Old ratio of X : Y : Z = $\frac{1}{2}, \frac{3}{10}$ or $\frac{5}{10}, \frac{3}{10}, \frac{2}{10}$ = 5: 3: 2

X retired and there is no information regarding the new profit sharing ratio between y and z is given. So, after striking of the retiring partner's ratio, the remaining ratio will be new profit sharing ratio, i.e 3: 2

Hence, New profit sharing ratio of Y: Z = 3: 2

Gaining Ratio = New Profit Sharing Ratio - Old Profit Sharing Ratio

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

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

Hence, New profit sharing ratio of Y and Z = 3: 2.

10. **JOURNAL**

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Workmen Compensation Reserve A/c Dr.		60,000	
	To Rajat's Capital A/c			20,000
	To Sajjan's Capital A/c			20,000
	To Kavita's Capital A/c			20,000
	(Being workmen compensation reserve distributed between old partners in their old profit sharing ratio, i.e. , 1 : 1 : 1 on the event of retirement of Sajjan.)			

11. P's share $\frac{4}{8}$ is being taken over by Q and R equally i.e., $\frac{2}{8}$ by Q and $\frac{2}{8}$ by R. as we know that gaining ratio = new ratio - old ratio so new ratio = old ratio so there gaining ratio = 2/8 taken by Q & 2/8 taken by R
    Now, Q's share would be $\frac{3}{8}+\frac{2}{8}=\frac{5}{8}$
    R's share would be $\frac{1}{8}+\frac{2}{8}=\frac{3}{8}$
    Thus, the new profit sharing ratio between Q and R would be 5 : 3.

12. **Sarthak's Capital Account**

Particulars	Rs.	Particulars	Rs.
To Sarthak's Executors A/c	6,58,750	By Balance b/d	3,50,000
		By Interest on Capital A/c	8,750
		By P & L Suspense A/c	20,000
(Balancing figure)		By Meera's Capital A/c	1,60,000
		By Rohit's Capital A/c	80,000
		By Contingency Reserve A/c	40,000
	6,58,750		**6,58,750**

Working:,

i. Sarthak's Share of Profit

$$\frac{4{,}80{,}000}{2}=2,40,000\times\frac{2.5}{12}\times\frac{2}{5}=20,000$$

ii. Goodwill

Average profit = $\frac{1{,}20{,}000+2{,}00{,}000+2{,}60{,}000+2{,}20{,}000}{4}=\frac{8{,}00{,}000}{4}=2{,}00{,}000$

Goodwill = 2,00,000 x 3 = 6,00,000

Sarthak's Share of Goodwill = 6,00,000 x $\frac{2}{5}$ = 2,40,000

13. **Calculation of New Profit Sharing Ratio:**

		X	Z
(a)	Their existing shares	4/9	2/9
(b)	Share surrendered by Y in favour of X: 1/9 $\times$ 1/3 =	1/27	--
	Share surrendered by Y in favour of Z: 8/9 $\times$ 1/3 or *(**y's share - his surrender share in favour of x i.e. 1/3 - 1/27 =8/27)**	...	8/27
(c)	New Share of X and Z(a + b):	13/27	14/27
(d)	or New Share of X and Y	13	14

Calculation of Gaining Ratio: as we know that Gaining ratio = new ratio - old ratio so X gain =13/27 - 4/9 =1/27 & y gain = 14/27 - 2/9 = 8/27 so **1:8 or**

Gaining Ratio = Share surrendered by Y: Share surrendered by Y in favour of X in favour of Z

= 1/27: 8/27

= 1: 8

14. **Zubin's Executor's Loan A/c**

Date	Particular	(Rs.)	Date	Particulars	(Rs.)
1.8.15	To Bank A/c	10,300	1.8.15	By Zubin's Capital A/c	90,300
31.3.16	To Balanced c/d	83,200	31.3.16	By Interest	3,200
		93,500			**93,500**
31.3.17	To Bank A/c	48,000	1.4.16	By Balance b/d	83,200
"	To Balance c/d	40,000	31.3.17	By Interest	4,800
		88,000			**88,000**
31.3.18	To Bank A/c	42,400	1.4.17	By Balance b/d	40,000

			31.3.18	By Interest	2,400
		42,400			**42,400**

15. **Revaluation Account**

Particulars	Amount (Rs)	Particulars		Amount (Rs)
To Workmen's Compensation Claim A/c	6,000	By Provision for Doubtful Debts		1,000
To Investments A/c	15,000	By Loss Transferred to Partners' Capital A/c		
		Lalit	10,000	
		Madhur	6,000	
		Neena	4,000	20,000
	21,000 =======			21,000 =======

Partner's Capital Account

Particulars	**Lalit Amount (Rs)**	**Madhur Amount (Rs)**	**Neena Amount (Rs)**	**Particulars**	**Lalit Amount (Rs)**	**Madhur Amount (Rs)**	**Neena Amount (Rs)**
To Profit and Loss A/c (loss)	5,000	3,000	2,000	By Balance b/d	50,000	40,000	25,000
To Goodwill A/c	10,000	6,000	4,000	By Lalit's Capital A/c (Goodwill)		10,929	
To Revaluation A/c (Loss)	10,000	6,000	4,000	By Neena's Capital A/c(Goodwill)		4,371	
To Madhur's							

Capital A/c (Goodwill)	10,929		4,371				
To Cash A/c		10,300					
To Madhur's Loan A/c		30,000					
To Balance c/d	14,071		10,629				
	50,000 ======	55,300 ======	25,000 ======		50,000 ======	55,300 =======	25,000 =======

Madhur's Loan Account

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
Mar 31, 2014	To Bank A/c (15,000+ 3,600)	18,600	Apr 1, 2014	By Madhur's Capital A/c	30,000
Mar 31	To Balance c/d	15,000	Mar 31	By Interest A/c	3,600
		33,600 =======			33,600 =====
Mar 31, 2015	To Bank A/c (15,000+1,800)	16,800	Apr 1, 2015	By Balance b/d	15,000
			Mar 31	By Interest A/c	1,800
		16,800 ======			16,800 ======

Working Notes: Calculation of interest on loan: Interest for first year=30,000*12/100=3,600 Interest for second year=15000*12/100=1,800