CBSE Test Paper 04
Ch-5 Retirement or Death of a partner

1. Which of the following item is not shown in the credit side of deceased partner's capital account?
   a. Share of reserve
   b. Share of profit
   c. Revaluation profit
   d. Share of loss
2. _______ can be calculated on the basis of time and sales.
   a. Goodwill of the firm
   b. Deceased partner's share of profit
   c. Revaluation Profit
   d. Revaluation loss
3. If the gaining share is given, first calculate the share acquired by the each continuing partner and then should be added to continuing partners respective share to find out the which ratio of the remaining partner
   a. Gaining share
   b. Sacrificing share
   c. Old share
   d. New share
4. Why there is need to calculate New profit share ratio
   a. After retirement of a partner, there will be change in the continuing partners' ratio.
   b. After retirement of a partner, there is no change in the continuing partners' ratio.
   c. To settle the loan amount due to outgoing partner
   d. Both After retirement of a partner, there will be change in the continuing partners' ratio. and After retirement of a partner, there is no change in the continuing partners' ratio.
5. Retiring partner's share of goodwill is calculated as follows:
   a. Value of firm's goodwill x His Share of profit
   b. Value of firm's goodwill x Sacrificing partner's share
   c. Value of firm's goodwill x All partners share

d. Value of firm’s goodwill x Gainer partner’s share

6. What are the adjustments required on the retirement or death of a partner?

7. How is goodwill adjusted in the books of a firm - when a partner retires from partnership?

8. Give the name of the compensation which is paid by a new Partner to sacrificing Partners for sacrificing their share of profits.

9. P, Q and R were partners in a firm sharing profits in the ratio of 5 : 4 : 3. Their capitals were Rs 40,000, Rs 50,000 and Rs 1,00,000 respectively. State the ratio in which the goodwill of the firm amounting to Rs 1,20,000 will be adjusted on the retirement of R.

10. Kumar, Verma and Naresh were partners in a firm sharing profit and loss in the ratio of 3 : 2 : 2 . On 23rd January, 2015, Verma died. Verma’s share of profit till the date of his death was calculated at Rs 2,350. Pass necessary journal entry for the same in the books of the firm.

11. X, Y, and Z are partners sharing profits and losses equally. Z retires and his share is acquired by X and Y in the ratio 2: 1. Calculate the new profit sharing ratio.

12. What Adjustments are to be done at the time of Retirement?

13. Manav, Nath and Narayan were partners in a firm sharing profits in the ratio of 1 : 2 : 1. The firm closes its books on 31st March every year. On 30th September, 2015, Nath died. On that date, his capital account showed a debit balance of Rs 5,000. There was a debit balance of Rs 30,000 in the profit and loss account. The goodwill of the firm was valued at Rs 3,80,000. Nath’s share of profit in the year of his death was to be calculated on the basis of average profit of last 5 years, which was Rs 90,000. Pass necessary journal entries in the books of the firm on Nath’s death.

14. 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			**Assets**	

		Amount Rs		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.

15. Sameer, Yasmin and Saloni were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 3. On 31st March, 2016, their balance sheet was as follows.

Balance Sheet

as on 31st March, 2016

		Amount			Amount

Liabilities		(Rs)	Assets		(Rs)
Creditors		1,10,000	Cash		80,000
General Reserve		60,000	Debtors	90,000	
Capital A/cs			(-) Provision for Doubtful Debts	(10,000)	80,000
Sameer	3,00,000		Stock		1,00,000
Yasmin	2,50,000		Machinery		3,00,000
Saloni	1,50,000	7,00,000	Building		2,00,000
			Patents		60,000
			Profit and Loss A/c		50,000
		8,70,000 ========			8,70,000 ========

On the above date, Sameer retired and it was agreed that:

i. Debtors of Rs 4,000 will be written off as bad debts and a provision of 5% on debtors for bad and doubtful debts will be maintained.
ii. An unrecorded creditor of Rs 20,000 will be recorded.
iii. Patents will be completely written-off and 5% depreciation will be charged on stock, machinery and building.
iv. Yasmin and Saloni will share the future profits m the ratio of 3 : 2.
v. Goodwill of the firm on Sameer's retirement was valued at Rs 5,40,000.

Pass necessary journal entries for the above transactions in the books of the firm on Sameer's retirement.

CBSE Test Paper 04

Ch-5 Retirement or Death of a partner

Answer

1. d. Share of loss, **Explanation:** Share of loss is not shown in the credit side it is shown in the debit side of deceased partner's capital account. Following items are shown in the credit side of his account:
    - Share of profit
    - Revaluation profit
    - Share of reserve
2. b. Deceased partner's share of profit, **Explanation:** Deceased partner's share of profit can be calculated on the basis of the time and sales. His share of profit will be transferred to his capital account.
3. d. New share, **Explanation:** When gain share of partners is given in the question, in such a case to find out the new share of continuing partners, share acquired by them should be added to their old share. we can say, New ratio = Old ratio + Gaining ratio
4. a. After retirement of a partner, there will be change in the continuing partners' ratio.

    Explanation: When a partner is retired from the firm, there will be change in the ratio of remaining partners because retiring partner will give his share to remaining partners. It is necessary to find out the new ratio of existing partners.
5. a. Value of firm's goodwill x His Share of profit

    Explanation: At the time of retirement, share of goodwill is calculated for the retired partner as follows: Value of firm's goodwill x His Share of profit

6. **At the time of the retirement or death of a partner, adjustments are made for the following:**

    i. Adjustment in regard to goodwill.
    ii. Adjustment in regard to undistributed profits and losses.
    iii. Adjustment in regard to the Joint Life Policy and individual policies.

iv. Adjustment in regard to revaluation of assets and reassessment of liabilities.

7. When a partner retires, the goodwill is adjusted through partner’s capital accounts. The retiring partner’s capital account is credited with his/her share of goodwill and remaining partner’s capital account is debited in their gaining ratio.

8. Premium for Goodwill.

9. Goodwill will be adjusted by the remaining partners in their gaining ratio. Here, R's share of goodwill, i.e. ₹30,000 (1,20,000 $\times$ 3/12) will be contributed by P and Q in their gaining ratio, i.e. 5: 4.

10. **JOURNAL**

Date	Particulars		LF	Amt(Rs)	Amt(Cr)
2015 Jan 23	Profit and Loss Suspense A/c	Dr		2,350	
	To Verma's Capital A/c				2,350
	(Being proportionate profit up to the date of death of Mr. Verma is given in his profit sharing ratio e.g.2/7)				

11. Calculation of New Profit Sharing Ratio:
Old Ratio = X : Y : Z = 1 : 1 : 1
Z’s share is acquired by X and Y in the ratio 2: 1

Z's share 1/3 i.e to be distributed between other partners in gaining ratio so
X’s gain = $\frac{1}{3} \times \frac{2}{3} = \frac{2}{9}$
Y's gain = $\frac{1}{3} \times \frac{1}{3} = \frac{1}{9}$

As we all know that gaining ratio = New ratio - old ratio

so New ratio = old ratio + gaining ratio
X's new share = $\frac{1}{3} + \frac{2}{9} = \frac{5}{9}$
Y's share = $\frac{1}{3} + \frac{1}{9} = \frac{4}{9}$

so New profit sharing ratio of X and Y = 5: 4.

12. The retirement of a partner dissolves an existing partnership and requires the adjustment of asset values to calculate the fair value of the equity of the partner retiring. Following adjustments are to be done at the time of Retirement :

    a. Calculation of New Profit Sharing Ratio and Gaining Ratio.
    b. Treatment of Goodwill (Calculation of Retiring partners share and adjustment of same)
    c. Revaluation of Assets and Reassessment of Liabilities
    d. Treatment of Accumulated profits and Reserves (General Reserves etc.).
    e. Adjustment of Interest on capital , Salary, commission etc. payable to retiring partner.
    f. Payment to the Retiring partner in lump sum or in installment or may be treated as loan.
    g. Adjustment of Capital (Remaining partners).

13. **JOURNAL**

Date	**Particulars**		**LF**	**Amount (Dr.)**	**Amount (Cr.)**
2015, Sep 30	Manav's Capital A/c (1,90,000 $\times$ 1 / 2)	Dr.		95,000	
	Narayan's Capital A/c (1,90,000 $\times$ 1/2)	Dr.		95,000	
	To Nath's Capital A/c				1,90,000
	(Being Nath's share of goodwill adjusted in the capital accounts of gaining partners in gaining ratio)				
	Manav's Capital A/c (30,000$\times$1 / 4)	Dr.		7,500	
	Nath's Capital A/c (30,000$\times$2 / 4)	Dr.		15,000	
	Narayan's Capital A/c (30,000$\times$1 / 4)	Dr.		7,500	

	To Profit and Loss A/c				30,000
	(Being the transfer of profit to old partners in old ratio)				
	Profit and Loss Suspense A/c (90,000 $\times$ 2 / 4 x $\frac{6}{12}$)	Dr.		22,500	
	To Nath's Capital A/c				22,500
	(Being Nath's share of profit till the date of his death transferred to his capital account)				
	Nath's Capital A/c	Dr.		1,92,500	
	To Nath's Executor A/c				1,92,500
	(Being the transfer of amount due to Nath's executor account)				

Working Notes:

1. **Calculation of Nath’s Share of Goodwill:**
   Firm’s goodwill = Rs 3,80,000; Nath’s share of goodwill = 3,80,000$\times\frac{2}{4}$ = Rs 1,90,000; Goodwill Amount Rs. 1,90,000 will be debited to Gaining Partners in their gaining ratio which is 1:1 for Manav and Narayan. Hence Manav's capital acount and Narayana's Capital Account will be debited by 95,000 each.
2. **Calculation of Profit and loss suspense account:** Nath's share in Profit up to date of death - 90,000x6/12x2/4 = 22,500.
3. **Calculation of Amount Transferred to Nath’s Executors Account**
   Nath's Capital Account

Dr			**Cr**
Particulars	**Amount (Rs.)**	**Particulars**	**Amount (Rs.)**
To Balance b/d	5,000	By Manav's Capital A/c	95,000
To Profit and Loss A/c	15,000	By Narayan's Capital A/c	95,000

To Nath's Executor A/c	1,92,500	By Profit and Loss Suspense A/c	22,500
	2,12,500		2,12,500

14. The following entries will be passed for the necessary adjustments at the time of Rockey's death :

Books of Prateek and Kushal
Journal

Date	Particulars		L.F.	Amount ₹	Amount ₹
2017					
June 30	Interest on Capital A/c	Dr.		250	
	Profit and Loss Suspense A/c	Dr.		1,000	
	General Reserve A/c	Dr.		4,571	
	To Rockey's Capital A/c				5,821
	(Being Rockey's Share of profit, interest on his capital and his share of General Reserve credited to Rockey's Capital Account)				
June 30	Prateek's Capital A/c	Dr.		4,800	
	Kushal's Capital A/c	Dr.		3,200	
	To Rockey's Capital A/c				8,000
	(Being Rockey's share of goodwill adjusted to Prateek's and Kushal's Capital Account in their gaining ratio)				
June	Rockey's Capital A/c	Dr.		33,821	

30					
	To Rockey's Executor A/c				33,821
	(Being Balance of Rockey’s Capital Account transferred to his Executor’s Account)				

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The Capital account to be rendered to the Executor of Rockey will be prepared in the following manner :

Rockey’s Capital Account							
Dr.							Cr.
Date	**Particulars**	**J.F.**	**Amount (₹)**	**Date**	**Particulars**	**J.F.**	**Amount (₹)**
2017				2017			
April 1	Rockey's Executor A/c		33,821	April 1	Balance b/d		20,000
					Interest on Capital A/c		250
					Profit and Loss Suspense A/c		1,000
					General Reserve A/c		4,571
					Prateek’s Capital A/c		4,800
					Kushal’s Capital A/c		3,200
			33,821				33,821

Working Notes or Calculations for various items to be given to Rockey are as follows :

1. Rockey’s Share of Profit = Previous year’s profit × Proportionate Period × Share of Deceased Partner
   = $14,000 \times \frac{3}{12} \times \frac{2}{7} = \text{Rs}1,000$

2. Rockey’s Share of Goodwill
   Goodwill of a firm = Average profit × Numbers of year’s Purchase
   Average Profit = $\frac{12{,}000+16{,}000+14{,}000}{3} = \frac{42{,}000}{3} = \text{Rs}14,000$
   Goodwill of a firm = 14,000 × 2 = ₹ 28,000
   Rockey's Share = $28,000 \times \frac{2}{7} = \text{Rs}8,000$. This amount will be debited from the Capital account of remaining partners i.e. Prateek and Kushal in their gaining ratio i.e.3: 2
3. Gaining Ratio = New Ratio − Old Ratio
4. Prateek's Share = $\frac{3}{5} - \frac{3}{7} = \frac{21-15}{35} = \frac{9}{35}$
   Kushal's Share = $\frac{2}{5} - \frac{2}{7} = \frac{14-10}{35} = \frac{4}{35}$
   Gaining Ratio between Prateek and Kushal = 9:4 or 3:2
5. Interest on Capital of Rockey for 3 months(i.e. from April 1, 2017 to June 30, 2017)
   = Amount of Capital × Rate of Interest × Period $= 20,000 \times \frac{5}{100} \times \frac{3}{12} = \text{Rs}250$

15. **JOURNAL**

Date	Particulars		L/F	Amount (Dr)	Amount (Cr)
2016 March 31	General Reserve A/c	Dr		60,000	
	To Sameer's Capital A/c				24,000
	To Yasmin's Capital A/c				18,000
	To Saloni's Capital A/c				18,000
	(Being general reserve distributed among old partners in old ratio)				
	Sameer's Capital A/c	Dr		20,000	
	Yasmin's Capital A/c	Dr		15,000	
	Saloni's Capital A/c	Dr		15,000	
	To Profit and Loss A/c				50,000

	(Being balance of profit and loss account distributed among old partners in old ratio)				
	Yasmin's Capital A/c	Dr		1,62,000	
	Saloni's Capital A/c	Dr		54,000	
	To Sameer's Capital A/c				2,16,000
	(Being Sameer's share of goodwill adjusted)				
	Revaluation A/c	Dr		1,10,000	
	To Patents A/c				60,000
	To Stock A/c (1,00,000 x 5%)				5,000
	To Machinery A/c (3,00,000 x 5%)				15,000
	To Building A/c (2,00,000 x 5%)				10,000
	To Creditors A/c				20,000
	(Being decrease in the value of assets and increase in the value of liabilities recorded)				
	Bad Debts A/c	Dr		4,000	
	To Debtors A/c				4,000
	(Being bad debts charged)				
	Provision for Doubtful Debts A/c	Dr		4,000	
	To bad debts A/c				4,000
	(Being bad debts written-off from provision)				
	Provision for Doubtful Debts A/c	Dr		1,700	
	To Revaluation A/c				1,700
	(Being decrease in the value of provision recorded)				
	Sameer's Capital A/c	Dr		43,320	
	Yasmin's Capital A/c	Dr		32,490	

	Saloni's Capital A/c	Dr		32,490	
	To Revaluation A/c				1,08,300
	(Being loss on revaluation distributed among old partners)				
	Sameer's Capital A/c	Dr		4,76,680	
	To Sammer's Loan A/c				4,76,680
	(Being amount due to Sameer transferred to his loan account)				

Working Notes

Calculation of Gaining Ratio

Gaining Ratio = New Share - Old Share

Yasmin = $\frac{3}{5}-\frac{3}{10}=\frac{6-3}{10}=\frac{3}{10}$

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

Gaining Ratio = 3 : 1

Provision for Bad Debts

Debtors 90,000 (-) Bad debts (4,000) , which will be adjusted against provision for bad debts = 86,000

Provision for doubtful debts @ 5% =(86,000 $\times \frac{5}{100}$) = Rs 4,300

Existing provision after adjusting bad debts (10,000 - 4,000) = 6,000 (-) New provision = (4,300) $\implies$ Excess provision = Rs 1,700

Calculation of Sameer's Share of Goodwill

Firm's goodwill = Rs 5,40,000

Sameer's share = 5,40,000$\times\frac{4}{10}$ = Rs 2,16,000

To be contributed by Yasmin and Saloni in their gaining ratio i.e., 3:1.

Loss on Revaluation

It can be ascertained by preparing revaluation account in the following manner:

Revaluation A/c

Dr. Cr.

Particulars	Amount	Particulars		Amount

	(Rs)			(Rs)
To Patents A/c	60,000	By Provision for Doubtful Debts A/c		1,700
To Stock A/c	5,000	By Loss on Revaluation Transferred to:		
To Machinery A/c	15,000	Sameer Capital A/c	43,320	
To Building A/c	10,000	Yasmin Capital A/c	32,490	
To Creditors A/c	20,000	Saloni Capital A/c	32,490	1,08,300
	1,10,000 =======			1,10,000 ========

Partners Capital A/c

Dr. Cr.

Particulars	Sameer Amount (Rs)	Yasmin Amount (Rs)
To Sameer's Capital A/c		1,62,000
To P&L A/c	20,000	15,000
To Revaluation A/c (Loss)	43,320	32,490
To Sameer's Loan A/c	4,76,680	
To Balance C/d		58,510
	5,40,000 ========	2,68,000 ======