CBSE Test Paper 02

Ch-5 Retirement or Death of a partner

1. Deceased partner share of profit can be calculated on the basis of
   a. None of these
   b. Sales basis
   c. Time basis
   d. Time basis and Sale Basis
2. Gaining Ratio is Applicable for:
   a. For the distribution of Reserves and profits
   b. For Revaluation
   c. Retiring partner's share of goodwill only
   d. For the Calculation of profit
3. Deceased partners share of profit is shown in :
   a. Credit side of his capital account and in the B/S liability side
   b. Credit side of his capital account only
   c. Credit side of his capital account and in the B/S asset side
   d. Debit side of his capital account only
4. R, S and T are partners sharing profit in the ratio of 7:5:4. T died on 30th June 2012.Profit for the year was ₹24000 for the year 2011-2012. How much share in profits for the death period will be credited to T's account
   a. 2000
   b. 6000
   c. 1500
   d. 3000
5. A, M and B are partners in a firm sharing profit and losse in the ratio of 3:2:2 B has desired to retire from the firm and desires his son should be admitted as partner in his place. The partnership deed is silent A and M agrees to the change and sharing profit and loss in the same ratio. Do you think the change will be as per the law and why?
   a. Permission from court is required
   b. Yes because it is done through the consent of all the partners
   c. Both Yes because it is done through the consent of all the partners and No not to

be admitted as per the law options

d. No not to be admitted as per the law

6. Name the account which is opened to credit the share of profit of the deceased partner, till the time of his death to his capital account.
7. X, Y, and Z are partners in the firm sharing profits and losses in the ratio of 5 : 4 : 3. On Mar. 31,2009, X desired to retire from the firm and the remaining partners decided to carry on. Y and Z decided to share future profits equally. Calculate the gaining ratio.
8. Differentiate between ‘profit and loss appropriation account’ and ‘profit and loss suspense account’.
9. If the retiring partner is not paid the full amounts due to him immediately on retirement, how should his Capital Account be shown in subsequent Balance Sheet?
10. For which share of goodwill a partner is entitled at the time of his retirement?
11. A, B and C are partners in a firm. B retires from the firm on the Jan 2015. On the date of his retirement Rs. 66,000 were due to him. It was decided that the payment will be done in 3 equal yearly instalments together with interest @ 10% p.a. on the unpaid balance, Prepare B’s Loan A/c.
12. Sandeep, Praveen, and Tara are partners sharing profits in the ratio of 3: 2: 1. On 1st April 2012, Sandeep gave the notice to retire from the firm. Praveen and Tara decided to share future profits, in the ratio of 2: 3. The capital accounts of Praveen and Tara after all adjustments showed a balance of Rs. 64,000 and Rs. 1,00,000 respectively. The total amount to be paid to Sandeep was Rs. 1,23,000. This amount was to be paid by Praveen and Tara in such a way that their capitals become proportionate to their new profit-sharing ratio.

    Pass necessary journal entries for the above transactions in the books of the firm. Show your workings clearly.
13. E, F, G, H are partners sharing profits in the ratio of 1: 4: 3: 5. E and H retire. Calculate the new profit sharing ratio of remaining partners.
14. (Death of a partner) M, N and O were partners in a firm sharing profits and losses equally.Their Balance Sheet on 31-12-2014 was as follows:

Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Capitals :		Plant and machinery	60,000

M 70,000		Stock	30,000
N 70,000		Sundry Debtors	95,000
O 70,000	2,10,000	Cash at Bank	40,000
General Reserve	30,000	Cash in Hand	35,000
Creditors	20,000		
	2,60,000 ========		2,60,000 ========

N died on 14th March, 2015. According to the Partnership Dead, executor's on the deceased partner are entitle to :

i. Balance of partner's capital A/c.
ii. Interest on capital @ 5% p.a.
iii. Share of goodwill calculated on the basis of twice the average of past there years profits.
iv. Share of profits from the closure of the last accounting year till the date of the death on the basis of twice the average of three completed year's profit before death. Profits for 2012, 2013 and 2014 were Rs. 80,000, Rs. 90,000 and Rs. 1,00,000 respectively. Show the working for deceased partner's share of goodwill and profits till the date of his death. Pass the necessary journal entries and prepare N's Capital A/c to be rendered to his executors.

15. J, H and K were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 31st March, 2015 their balance sheet was as follows

Balance Sheet

as on 31st March, 2015

Liabilities		**Amount (Rs)**	**Assets**		**Amount (Rs)**
Creditors		42,000	Land and Building		1,24,000
Investment Fluctuation Fund		20,000	Motor Vans		40,000
Profit and Loss A/c		80,000	Investments		38,000

Capital A/cs			Machinery		24,000
J	1,00,000		Stock		30,000
H	80,000		Debtors	80,000	
K	40,000	2,20,000	(-) Provision for Doubtful Debts	(6,000)	74,000
			Cash		32,000
		3,62,000 =======			**3,62,000** ========

On the above date, H retired and J and K agreed to continue the business on the following terms

i. Goodwill of the firm was valued at Rs 1,02,000.
ii. There was a claim of Rs 8,000 for workmen's compensation.
iii. Provision for bad debts was to be reduced by Rs 2,000.
iv. H will be paid Rs 14,000 in cash and the balance will be transferred in his loan account which will be paid in four equal yearly instalments together with interest @ 10% per annum.
v. The new profit sharing ratio between J and K will be 3 : 2 and their capitals will be in their new profit sharing ratio. The capital adjustments will be done by opening current accounts.

Prepare revaluation account, partners' capital accounts and balance sheet of the new firm.

Answer

1. d. Time basis and Sale Basis, **Explanation:** There are two ways through which profit of a deceased partner can be calculated which are Sale Basis or Time Basis. Profit and Loss Suspense Account is temprorly account which is to be shown on the credit side of capital account of deceased partner.
2. c. Retiring partner's share of goodwill only, **Explanation:** The main purpose of calculating gaining ratio at the time of retirement of a partner is to adjust his amount of goodwill. After calculating his share of goodwill, gainer partners will be debited and outgoing partner will be credited.
3. c. Credit side of his capital account and in the B/S asset side
   Explanation: The amount payable to deceased partner's executor as profit (up to the date of death) will be transferred to the credit side of deceased partner's capital account and same will be shown in the assets side of the balance sheet.
4. c. 1500, **Explanation:** Share of profit of T will be calculated as follows:
   Profit for the previous year = Rs.24,000
   Profit for 3 months (from the last balance sheet to the date of his death) = 24,000 × 3/12 = Rs.6,000
   T's share of profit for 3 months = 6,000 × 4/16 = Rs. 1,500
5. b. Yes because it is done through the consent of all the partners
   Explanation: A new partner can be admitted with consent of all the partners. Once all the partners are ready, court will never interfere in such settlements.

6. When a partner dies, then Profit & Loss Suspense Account is opened to credit the deceased partner's share of profit.

7. Gaining ratio = New ratio - Old ratio

   NEW ratio = 1:1

   OLD ratio = 5:4:3 then

Gain by Y = 1/2 - 4/12 = (6 - 4)/12 = 2/12
Gain by Z = 1/2 - 3/12 = (6 - 3)/12 = 3/12
Therefore, gaining ratio = 2 : 3

8.

Basis	Profit & Loss Appropriation Account	Profit & Loss Suspense Account
Objective	Profit and loss Appropriation Account is prepared to show the allocation and distribution of Net Profit among the partners and reserves. It's a separate account that shows how profit obtained from Profit and Loss account is spent.	Profit and Loss Suspense Account is prepared when some fictitious profit, before ascertainment of actual profit, is calculated to adjust the deceased partner's share of profit, upto the date of his death.

9. If the retiring partner is not paid fully immediately on retirement, the remaining balance of his Capital Account will be transferred to his Loan Account and will be shown as his loan on the liabilities side of the Balance Sheet of the firm and if it is paid in instalments than it will be shown in balance sheet as well as its a/c also maintain properly till it finally paid.

10. At the time of retirement, a partner is eligible to get an amount equal to his own share only out of total goodwill of the firm.

11. **B's Loan A/c**

Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.
31.12.15	To Bank A/c		28,600	01.01.15	By B’s Capital A/c		66,000
	(22,000+6600)			31.12.15	By Interest A/c		6,600
31.12.15	To Balance c/d		44,000		(10% of 66,000)		
			72,600				**72,600**
31.12.16	To Bank A/c		26,400	01.01.16	By Balance b/d		44,000

31.12.16	To Balance c/d		22,000	31.12.16	By Interest A/c		4,400
					(10% of 44,000)		
			48,400				**48,400**
31.12.17	To Bank A/c		24,200	01.01.17	By Balance b/d		22,000
	(22,000+2,200)			31.12.17	By Interest A/c		2,200
	(Final Payment)				(10% of 22,000)		
			24,200				**24,200**

12. **Journal**

Date	**Particulars**		**L.F.**	**Dr.(Rs.)**	**Cr.(Rs.)**
	Bank A/c	Dr.		1,23,000	
	To Praveen's Capital A/c				50,800
	To Tara's Capital A/c				72,200
	Sandeep's Capital A/c	Dr.		1,23,000	
	To Bank A/c				1,23,000

Working Notes: CAPITAL A/C

PARTICULAR	SANDEEP	PARVEEN	TARA	PARTICULAR	SANDEEP	PARVEEN	TARA
TO BAL. C/D		1,14,800	1,72,200	BY BAL. B/D	1,23,000	64,000	1,00,000
TO CASH	1,23,000			BY CASH (B.F)		50,800	72,200
	1,23,000	1,14,800	1,72,200		1,23,000	1,14,800	1,72,200

a. Total Adjusted Capital of the New Firm :
   Capital of Sandeep = 1,23,000
   Capital of Praveen = Rs. 64,000
   Capital of Tara = Rs. 1,00,000
   (+) = Rs. 2,87,000
b. Praveen and Tara will contribute firm’s capital (Rs. 2,87,000) in the ratio of 2: 3.

Praveen's New Capital = Rs. 1,14,800

Tara's New Capital = Rs. 1,72,200

Amount to be paid by Praveen = New Capital - Old Capital

= Rs. 1,14,800 - Rs. 64,000

= Rs. 50,800

c. Amount to be paid by Tara = New Capital - Old Capital

= Rs. 1,72,000 - Rs. 1,00,000

= Rs. 72,200.

13. The combined share of E and H = $\frac{1}{13}+\frac{5}{13}=\frac{6}{13}$

The combined share of F and G = $\frac{4}{13}+\frac{3}{13}=\frac{7}{13}$ or $\left[1-\frac{6}{13}=\frac{7}{13}\right]$ (as we let the whole share be 1 so after the retirement of E & H the left share for F & G will be 1 - 6/13 = 7/13)

F's share out of $\frac{7}{13}$ = $\frac{4}{13}$

F's share out of 1 = $\frac{4}{13}\times\frac{13}{7}=\frac{4}{7}$

G's share out of $\frac{7}{13}$ = $\frac{3}{13}$

G's share out of 1 = $\frac{3}{13}\times\frac{13}{7}=\frac{3}{7}$

New profit sharing ratio between F and G = $\frac{4}{7}$: $\frac{3}{7}$ = 4 : 3.

14. **In the books of M,N and O**

Journal

Date	**Particulars**		**L.F**	**Debit Amount (Rs.)**	**Credit Amount (Rs.)**
2015 March,14	General Reserve A/c	Dr.		10,000	
	To N's Capital A/c				10,000
	(Being transfer of N's share of general reserve of his Capital A/c)				

	Interest on Capital A/c	Dr.		700	
	To N's Capital A/c				700
	(Being interest 5% p.a. credited to N's Capital A/c upto 14.03.2010)				
	M's Capital A/c	Dr.		30,000	
	O's Capital A/c	Dr.		30,000	
	To N's Capital A/c				60,000
	(Being goodwill adjusted in gaining ratio i.e. 1:1)				
	Profit and Loss Suspense's A/c	Dr.		12,000	
	To N's Capital A/c				12,000
	(Being the transfer to N's share of profit to his capital A/c)				
	N's Capital A/c	Dr.		1,52,700	
	To N's Executor A/c				1,52,700
	(Being the transfer of amount due to N's executor A/c)				

N's Capital A/c

Particulars	**Amount (Rs.)**	**Particulars**	**Amount (Rs.)**
To N's Executors A/c	1,52,700	By Balance b/d	70,000
		By General Reserve A/c	10,000
		By Interest on Capital A/c	

		$\left(70,000 \times \frac{5}{100} \times \frac{73}{365}\right)$	700
		By M's Capital A/c	30,000
		By O's Capital A/c	30,000
		By Profit & Loss $\left(90,000 \times 2 \times \frac{73}{365} \times \frac{1}{3}\right)$	12,000
	1,52,700 =======	.	1,52,700 =======

On the death of a partner, the accounting treatment regarding goodwill, revaluation of assets and reassessment of liabilities, accumulated reserves and undistributed profit are similar to that of the retirement of a partner, When the partner dies the amount payable to him/her is paid to his/her legal representatives. The representatives are entitled to the followings : (a) The amount standing to the credit to the capital account of the deceased partner (b) Interest on capital, if provided in the partnership deed upto the date of death: (c) Share of goodwill of the firm; (d) Share of undistributed profit or reserves; (e) Share of profit on the revaluation of assets and liabilities; (f) Share of profit upto the date of death; (g) Share of Joint Life Policy.

Working Note :

1. Calculation of Goodwill
   Average profit for 3 years
   $\frac{(R_S.80{,}000+90{,}000+1{,}00{,}000)}{2}$ = Rs. 90,000
   Goodwill of the firm = Average Profit $\times$ No. Of year of Purchase
   $= 90,000 \times 2$ = Rs. 1,80,000
   Total N's Share in Goodwill = $1,80,000 \times \frac{1}{3}$ = 60,000
2. Time from the date of last balance Sheet (31st December, 2014) to the date of death (14th March, 2015)
   = 31 days of January + 28 days of Feb (2015 is not a leap year) + 14 days of March = 73 days
   Payment for deceased : Partner payment for deceased partner either in lump sum or in installments.
   a. When payment is made in full (lump sum)

Accounting entry in this case will be
Deceased Partner's Executor A/c Dr.
To Bank A/c

b. When Payment is made in installments. When payment is made in installments interest is paid on installments at agreed price or @ 6% per annum.

Journal entries are :

i. When interest is allowed
Interest A/c Dr.
To Deceased Partner's Executor A/c

ii. When installment is paid :
Deceased partner's Executors A/c Dr.
To Bank A/c (interest & installment amount)

15. **Revaluation Account**

Particulars	**Amount (Rs)**	**Particulars**		**Amount (Rs)**
To Claim for Workmen Compensation Fund A/c	8,000	By Provision for Doubtful Debts A/c		2,000
		By Loss Transferred to Capital A/c:		
		J	3,000	
		H	1,800	
		K	1,200	6,000
	8,000 ======			8,000 ======

Partner's Capital Account

	J	**H**	**L**		**J**	**H**	**L**

Particulars	Amount (Rs)	Amount (Rs)	Amount (Rs)	Particulars	Amount (Rs)	Amount (Rs)	Amount (Rs)
To Revaluation A/c (Loss)	3,000	1,800	1,200	By Balance b/d	1,00,000	80,000	40,000
To H's Capital A/c (Goodwill)	10,200		20,400	By Investment Fluctuation Fund A/c	10,000	6,000	4,000
To H's Loan A/c		1,24,800		By Profit and Loss A/c	40,000	24,000	16,000
To Cash A/c		14,000		By J's Capital A/c		10,200	
To Current A/c (?)	31,680			By K's Capital A/c		20,400	
To Balance c/d	1,05,120		70,080	By Current A/c (Balancing figure)			31,680
	1,50,000 =======	1,40,600 ========	91,680 ========		1,50,000 =======	1,40,600 ========	91,680 =======

Balance Sheet

Liabilities		Amount (Rs)	Assets		Amount (Rs)
Creditors		42,000	Land and Building		1,24,000
J's Current A/c		31,680	Motor Van		40,000
Claim for Workmen Compensation Fund		8,000	Investments		38,000
H's Loan A/c		1,24,800	Machinery		24,000
Capital A/cs			Stock		30,000

J	1,05,120		Debtors	80,000	
K	70,080	1,75,200	(-) Provision for Doubtful Debts	(4,000)	76,000
			Cash (32,000-14,000)		18,000
			K's Current A/c		31,680
		3,81,680 ======			3,81,680 ======

Working Note

1. **Calculation of Gaining Ratio**
   Gaining Ratio = New Share - Old Share
   J = $\frac{3}{5}-\frac{5}{10}=\frac{6-5}{10}=\frac{1}{10}$
   K = $\frac{2}{5}-\frac{2}{10}=\frac{4-2}{10}=\frac{2}{10}$
   Gaining ratio = 1 : 2
2. Adjustment for Goodwill Firm's goodwill = Rs 1,02,000
   H's share of goodwill = 1,02,000$\times\frac{3}{10}$= Rs 30,600 will be debited to gaining partners i.e. J and K in gaining ratio i.e 1: 2.
   J's share = 30,600 $\times\frac{1}{3}$= Rs 10,200
   K's share = 30,600 $\times\frac{2}{3}$ = Rs 20,400
3. Adjustment of Capital J's capital after adjustment = 1,36,800
   K's capital after adjustment = 38,400
   Total capital of new firm = Rs 1,75,200
   J's adjusted capital = 1,75,200$\times\frac{3}{5}$ = Rs 1,05,120
   K's adjusted capital = 1,75,200 $\times\frac{2}{5}$ = Rs 70,080
4. Debit balance in current account is to be shown on the asset side of the balance sheet and credit balance in current account is to be shown on the liability side of the balance sheet. Cash paid to the retiring partner is deducted from the cash balance.