Settlement of Amount Due to Retiring partner

4 Marks Question

1. Sita, Geeta and Rita were partners sharing profits in the ratio of 2:2:1 respectively. Following was their balance sheet as at 31st March, 2013.

		asa	t 31st Mar	ch, 2013		· · · · ·
	Liabilities		Amt (₹)		Assets	Amt (₹)
Capitals A/cs Sita Geeta Rita Creditors		1,20,000 80,000 1,00,000	3,00,000 60,000	Cash Stock Debtors Building		41,000 60,000 44,000 2,00,000
Bills Payable Profit and Loss /	A/c		40,000 25,000	Plant		80,000
			4,25,000			4,25,000

Balance Sheet

On the above date Sita retired and following were agreed

(i) Stock was valued at Rs. 59,000; debtors Rs. 40,000; building Rs. 2,10,000; plant Rs. 70,000 and creditors Rs. 50,000.

(ii) Amount due to Sita will be transferred to Sita's loan account. Prepare revaluation account and Sita's capital account. (Compartment 2014)

ns.	Dr	F	Revaluation	Account		Cr
	Particulars		Amt (₹)	Particular	5	Amt (₹)
	To Stock A/c		1,000	By Building A/c		10,000
	To Debtors A/c	1.1	4,000	By Creditors A/c		10,000
	To Plant A/c		10,000			
	To Profit on Revaluation Tra	nsferred to				
	Sita's Capital A/c	2,000				
	Geeta's Capital A/c	2,000				
	Rita Capital A/c	1,000	5,000			
			20,000			20,000

Dr	Sita's Capital Account				
Particulars	Amt (र)	Particulars	Amt (₹)		
To Sita's Loan A/c	1,32,000	By Balance b/d	1,20,000		
		By Profit and Loss A/c	10,000		
		By Revaluation A/c (Profit)	2,000		
	1,32,000		1,32,000		

Working Note

Share in profit and loss = $25,000 \times \frac{2}{5} = ₹10,000$

6 Marks Questions

2. Following is the balance sheet of X, Y and Z as on 31st March, 2008. They shared profits in the ratio of 3:3:2

as at 31st March, 2008										
Liabilities		Amt (₹)	Assets	Amt (₹)						
Sundry Creditors		2,50,000	Cash at Bank	50,000						
General Reserve		80,000	Bills Receivable	60,000						
Partners' Loan A/cs			Debtors 80,000							
Х	50,000		(-) Provision for Doubtful Debts (4,000)	76,000						
Y	40,000	90,000	Stock	1,24,000						
Capital A/cs			Fixed Assets	3,00,000						
X	1,00,000		Advertisement Suspense A/c	16,000						
Y	60,000		Profit and Loss A/c	4,000						
Z	50,000	2,10,000								
		6,30,000		6,30,000						

Balance Sheet

On 1st April, 2008, Y decided to retire from the firm on the following terms (i) Stock to be depreciated by Rs. 12,000.

(ii) Advertisement suspense account to be written-off.

(iii) Fixed assets to be appreciated by 10%.

(iv) Provision for doubtful debts to be increased to Rs. 6,000.

(v) Goodwill of the firm valued at Rs. 80,000 and the amount due to the retiring partner be adjusted in X's and Z's capital account.

Prepare revaluation account, partners' capital account and the balance sheet to give effect to the above. (All India 2009)

Ans.	Dr	Account	Cr			
	Particulars		Amt (₹)	Particulars	Amt (₹)	
	To Stock A/c		12,000	By Fixed Assets A/c	30,000	
	To Provision for Doubtful Deb	ts A/c	2,000			
	To Profit Transferred to					
	X's Capital A/c	6,000				
	Y's Capital A/c	6,000				
	Z's Capital A/c	4,000	16,000			
			30,000		30,000	

Dr		Partne			Cr		
Particulars	x	Y	Z	Particulars	x	Y	Z
To Profit and Loss A/c	1,500	1,500	1,000	By Balance b/d	1,00,000	60,000	50,000
To Advertisement	6,000	6,000	4,000	By General Reserve A/c	30,000	30,000	20,000
Suspense A/c				By X 's Capital A/c	_	18,000	
To Y's Capital A/c	18,000	_	12,000	By Z 's Capital A/c	—	12,000	—
To Y's Loan A/c	-	1,18,500		By Revaluation A/c	6,000	6,000	4,000
To Balance c/d	1,10,500	_	57,000	(Profit)	and the state of the state of the state		
	1,36,000	1,26,000	74,000		1,36,000	1,26,000	74,000

Balance Sheet as at 1st April, 2008

Liabilities		Amt (₹)	Assets		Amt (₹)			
Creditors		2,50,000	Stock		1,12.000			
X's Loan A/c		50,000	Fixed Assets		3,30,000			
Y's Loan A/c (40,000 + 1, 18,500)		1,58,500	Debtors	80,000				
Capital A/cs			() Provision For Doubtful Debts	(6,000)	74,000			
Х	1,10,500		Cash at Bank		50,000			
Z	57,000	1,67,500	Bills Receivable		60,000			
		6,26,000			6,26,000			

Working Note

Calculation of Y's Share of Goodwill

Firm's goodwill = ₹ 80,000

Y's share of goodwill =
$$80,000 \times \frac{3}{8} = ₹ 30,000$$

To be contributed by X and Z in their gaining ratio i.e. 3:2.

X = 30,000 ×
$$\frac{3}{5}$$
 = ₹ 18,000
Z = 30,000 × $\frac{2}{5}$ = ₹ 12,000

3. R, S and T were partners in a firm sharing profits in 2 : 2 : 1 ratio. On 1st April, 2004, their balance sheet was as follows

as at 1st April, 2004								
Liabilities		Amt (₹)	Assets	Amt (₹)				
Bank Loan		12,800	Cash	51,300				
Sundry Creditors		25,000	Bills Receivable	10,800				
Capital A/cs			Debtors	35,600				
R	80,000		Stock	44,600				
S	50,000		Furniture	7,000				
Т	40,000	1,70,000	Plant and Machinery	19,500				
Profit and Loss A/c		9,000	Building	48,000				
		2,16,800		2,16,800				

	Ba	land	ce	Sh	eet	
s	at	1st	Ac	oril,	2004	

S retired from the firm on 1st April, 2004 and his share was ascertained on the revaluation of assets as follows; stock Rs. 40,000, furniture Rs. 6,000, plant and machinery Rs. 18,000, building Rs. 40,000; Rs. 1,700 were to be provided for doubtful debts. The goodwill of the firm was valued at Rs. 12,000.

S was to be paid Rs. 18,080 in cash on retirement and the balance in three equal yearly instalments.

Prepare revaluation account, partners' capital account, S's loan account and balance sheet on 1st April, 2004. (All India 2008)

Ans.	Dr Revaluation Account							
	Particulars	Amt (₹)	Particulars		Amt (₹)			
	To Stock A/c	4,600	By Loss Transferred to					
	To Furniture A/c	1,000	R's Capital A/c	6,720				
	To Plant and Machinery A/c	1,500	S's Capital A/c	6,720				
	To Building A/c	8,000	T's Capital A/c	3,360	16,800			
	To Provision for Doubtful Debts A/c	1,700						
		16,800			16,800			

Dr		Partne	ers' Capit		Cr		
Particulars	R	S	Т	Particulars	R	5	T
To Revaluation A/c (Loss)	6,720	6,720	3,360	By Balance b/d	80,000	50,000	40,000
To S's Capital A/c	3,200	_	1,600	By Profit and Loss A/c	3,600	3,600	1,800
To Cash A/c	_	18,080		By R's Capital A/c		3,200	-
To S's Loan A/c		33,600		By T's Capital A/c	_	1,600	_
To Balance c/d	73,680		36,840				
	83,600	58,400	41,800]	83,600	58,400	41,800
				1	and a second sec	Contractor of the Advancement	Company of the second state

Dr		S's Loan	S's Loan Account				
Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)		
2005		· · ·	2004				
Mar 31	To Cash A/c	11,200	Apr 1	By S's Capital A/c	33,600		
	To Balance c/d	22,400					
	200 B	33,600		 A state of the sta	33,600		
2006			2005				
Mar 31	To Cash A/c	11,200	Apr 1	By Balance b/d	22,400		
Mar 31	To Balance c/d	11,200					
		22,400		ана. 1 стали — стал	22,400		
2007	1. C.		2006	K			
Mar 31	To Cash A/c *	11,200	Apr 1	By Balance b/d	11,200		
		11,200			11,200		
	1						

Working Note

Calculation of S's Share of Goodwill

Firm's goodwill = ₹ 12,000

S's share of goodwill = $12,000 \times \frac{2}{5} = ₹4,800$, to be contributed by R and T in their gaining ratio, i.e. 2 : 1.

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4. The balance sheet of A, B and C who were sharing profits and losses in the ratio of 1/2, 1/3 and 1/6 respectively, was as follows on 1st April, 2004

	Balance Sheet
7	as at 1st April, 2004

Liabilities		Amt (₹)	Assets		Amt (₹)
Bills Payable		6,400	Cash		25,650
Sundry Creditors		12,500	Bills Receivable		5,400
Capital A/cs		-	Debtors		17,800
Α	40,000		Stock		22,300
В	25,000		Furniture	· · ·	3,500
C	20,000	85,000	Plant and Machinery	· -	9,750
Profit and Loss A/c		4,500	Building	1	24,000
		1,08,400			1,08,400

A retired from the business on 1st April, 2004 and his share in the firm was to be ascertained on the revaluation of the assets as follows Stock Rs. 20,000; furniture Rs. 3,000; plant and machinery Rs. 9,000; building Rs. 20,000; Rs. 850 was to be provided for doubtful debts. The goodwill of the firm was valued at Rs. 6,000. A was to paid Rs. 11,500 in cash on retirement and the balance in three equal yearly instalments with interest at 9% per annum. Prepare revaluation account, partners' capital account and As loan account on the date of his retirement. (Delhi

Ans.	Dr		Cr		
	Particulars	Amt (₹)	Particulars		Amt (₹)
	To Stock A/c	2,300	By Loss Transferred to		
	To Furniture A/c	500	A's Capital A/c	4,200	
	To Plant and Machinery A/c	750	B's Capital A/c	2,800	
	To Building A/c	4,000	C's Capital A/c	1,400	8,400
	To Provision for Doubtful Debts A/c	850			
	•	8,400			8,400

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Partners' Capital Account

Cr С В Ċ Particulars Particulars A B A To A's Capital A/c 2,000 1,000 By Balance b/d 40,000 25,000 20,000 ____ To Revaluation A/c (Loss) 4,200 2,800 1,400 By Profit and Loss A/c 2,250 1,500 750 By B's Capital A/c To Cash A/c 2,000 11,500 _ ____ By C 's Capital A/c To A's Loan A/c 29,550 1,000 mainer ------To Balance c/d 21,700 18,350 Wards. 45,250 45,250 26,500 20,750 26,500 20,750

Dr		A's Loan A	Cr		
Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)
2005			2004		
Mar 31	To Bank A/c (9,850 + 2,660)	12,510	Apr 1	By A's Capital A/c	29,550
Mar 31	To Balance c/d	19,700	2005		
			Mar 31	By Interest (29,550 × 9%)	2,660
		32,210			32,210
2006			2005		
Mar 31	To Bank A/c (9,850 + 1,773)	11,623	Apr 1	By Balance b/d	19,700
Mar 31	To Balance c/d	9,850	2006		
			Mar 31	By Interest A/c (19,700 × 9%)	1,773
		21,473			21,473
2007			2006		Sector Carlos Carlos Carlos Carlos
Mar 31	To Bank A/c (9,850 + 887)	10,737	Apr 1	By Balance b/d	9,850
			2007	-	
			Mar 31	By Interest A/c (9,850 × 9%)	887
		10,737			10,737

Working Note

Amount of each equal instalment without interest $=\frac{29,550}{3}=₹9,850$