3

Accounting for Retirement and Death of Partner

Learning Objectives :

After studying this chapter, you should be able to understand:

- Meaning and methods of retirement of a partner
- New profit-sharing ratio and gaine ratio after retirement or death of a partner
- Distinction between sacrifice ratio and gaine ratio
- Accounting treatment of goodwill on retirement or death of a partner
- Accounting treatment for revaluation of assets and reassessment of liabilities on retirement or death of a partner
- Accounting treatment of accumulated profits/losses and reserves on retirement or death of a partner.
- Accounting treatment for joint life policy and individual life policy on retirement of a partner.
- Computation and payment of amount due to retiring or deceased partner
- Adjustment of capital on retirement or death of a partner
- Preparation of diseased partner's executors account under the provisions of section 37 of the Indian Partnership Act, 1932
- Accounting treatment admission cum retirement

An existing partner may decide to leave the firm due to ill health, old age, misunderstanding, mutual consent or due to other similar reasons. Thus, a partner leaving the firm is known as a retiring or an outgoing partner. As per section 32 (1) of the Indian Partnership Act, 1932 a partner may retire under the following circumstances:

(i) With the consent of all the partners.

(ii) As per agreement to that effect.

(iii) By giving notice in writing to all other partners, if partnership is at will.

Accounting problems arising at the time of retirement of a partner :

1. Calculation of new profit-sharing ratio and gaining ratio
2. Accounting treatment of goodwill
3. Accounting treatment of revaluation of assets and reassessment of liabilities
4. Accounting treatment of accumulated profits/ losses
5. Adjustment of joint life policies
6. Determination of amount payable to retiring partner
7. Amount payable to retiring partner's representatives.
8. Adjustment of capital

Calculation of New Profit Sharing Ratio

On retirement of a partner, the profit sharing ratio of the remaining partners also changes. Thus, new profit sharing ratio of the remaining partners is required to be computed. New profit sharing ratio on retirement of a partner is the ratio in which the remaining partners decide to share future profits.

New Profit Sharing Ratio(NPSR) = Old Profit Sharing Ratio (OPSR) + Gaine Ratio(GR); NPSR = OPSR + GR
Gaine Ratio (GR) = New Profit Sharing Ratio (NPSR) - Old Profit Sharing Ratio (OPSR)

I. If the new profit sharing ratio of the remaining partners is not given in the question, it will be assumed that the remaining partners continue to share profits in the old ratio.
   A,B and C are partners in a firm sharing profits in the ratio of 3:2:1. Calculate new ratio when :
   (a) A retires then new ratio will be 2: 1
   (b) B retires then new ratio will be 3: 1
   (c) C retires then new ratio will be 3: 2

Note: New profit sharing ratio of the remaining partners is calculated by simply striking out the share of retiring partner.

II. **When a partner acquires retiring partner's entire share :** In this case, the share of the acquiring partner will increase and the share of other partners will remain the same.
   Illustration : A, B and C are partners in a firm sharing profits in the ratio of 2:2:1. C retires from the firm. C's entire share is acquired by A. Calculate new profit sharing ratio.
   NPSR = OPSR + GR or A's New Share $\frac{2}{5}+\frac{1}{5}=\frac{3}{5}$; new ratio of A & B $\frac{3}{5}:\frac{2}{5}=$ 3:2

III. When remaining partners purchase the retiring partner's share in a specific proportion:
   In such a case, the acquired share is added to their existing shares to arrive at the new profit sharing ratio.

(i) A, B and C are partners in a firm sharing profits in the ratio of 5: 4: 3. B retires, and his share is taken by A and C equally. Find new profit sharing ratio.
B's Share $\frac{4}{12}$; A will gain $\frac{4}{12}\times\frac{1}{2}=\frac{2}{12}$; C will gain $\frac{4}{12}\times\frac{1}{2}=\frac{2}{12}$
NPSR= OPSR + GR; A's new share = $\frac{5}{12}+\frac{2}{12}=\frac{7}{12}$; C's new share = $\frac{3}{12}+\frac{2}{12}=\frac{5}{12}$] and NPSR = 7:5

(ii) A, B and C are partners sharing profits in the ratio of 5: 3:2. C retires and his share is taken by A and B in the ratio of 2: 1. Calculate new profit sharing ratio.
C's share $\frac{2}{10}$;A will gain $\frac{2}{10}\times\frac{2}{3}=\frac{4}{30}$; B will gain $\frac{2}{10}\times\frac{1}{3}=\frac{2}{30}$
NPSR= OPSR + GR; A's new share = $\frac{5}{10}+\frac{4}{30}=\frac{19}{30}$; B's new share = $\frac{3}{10}+\frac{2}{30}=\frac{11}{30}$; or 19:11

Gain Ratio

The ratio in which the continuing partners acquire the outgoing (Retired or Deceased) partner's share is the ratio in which the remaining partners will pay the amount of goodwill to the retiring or deceased partner.

(i) When new profit sharing ratio is given.

Illustration : A,B and C are partners in a firm sharing profits equally. B retires and new profit ratio is 5: 4. Calculate the gaine ratio.

(G.R.) = NPSR – OPSR; A = $\frac{5}{9}-\frac{1}{3}=\frac{2}{9}$; B = $\frac{4}{9}-\frac{1}{3}=\frac{1}{9}$; or 2:1

(ii) When new profit sharing ratio is not given. In such a case, it is assumed that the remaining partners continue to share profits in old ratio. Thus gain to the continuing partners is in the old ratio.

Illustration : A, B and C are partners in a firm sharing profits in the ratio of 5:1. Find out the gaine ratio when,
   (a) A retires then Gain Ratio is 4: 1 (b) B retires then Gain Ratio is 5: 1
   (c) C retires then Gain Ratio is 5: 4

Distinction between sacrifice ratio and Gaine Ratio

Basis of difference	Sacrifice ratio	Gaine ratio
1. Meaning	It is the ratio in which old partners sacrifice their share of profits in favour of new partner	It is the ratio in which remaining partners acquire share of profit from the outgoing partner (retired or deceased partner)
2. When calculated	At the time of admission of a new partner	At the time of retirement or death of a partner

3.	Formula for calculation	Old profit sharing ratio – new profit sharing ratio	New profit sharing ratio – old profit sharing ratio
4.	Purpose of calculation	New partner's share of goodwill is divided between the old partners in sacrifice ratio	Goodwill paid to outgoing partner is paid by the remaining partners in their gaine ratio
5.	Effect	It signifies reduction in share of profits of the old partners.	It signifies increase in share of profits of the remaining partners

Accounting Treatment of Goodwill

According to A.S. 26 and Indian A.S. 38, goodwill can be recorded in the books only when some consideration in money or moneys worth has been paid for it. It also states that internally generated goodwill should not be recognized as an asset. Hence only purchased goodwill can be recorded in the books. Goodwill should not be raised in the books of accounts at the time of retirement/death, rather goodwill should be adjusted through partner's capital accounts.

i. Write off the existing book value of goodwill if any appearing in Balance Sheet

All Partner's Capital A/c Dr.

To Goodwill A/c

(Being existing goodwill written off in OPSR)

ii. Give credit for outgoing partner's (retired or deceased partner) share of goodwill to outgoing partner.

Remaining Partner's Capital A/c Dr.

To Retiring / Deceased Partner's Capital A/c

(Being retiring/deceased partner's share of goodwill adjusted in GR)

Illustration : 1

(i) A,B and C are partners in a firm. C retires and goodwill of the firm is valued at ₹ 60,000. A and B agree to share future profits in the ratio of 3:2. Goodwill is appearing in their books at the value of ₹ 36,000. Pass necessary journal entries for goodwill.

Gain Ratio = NPSR – OPSR; A = $\frac{3}{5} - \frac{1}{3} = \frac{9-5}{15} = \frac{4}{15}$;B =$\frac{2}{5} - \frac{1}{3} = \frac{6-5}{15} = \frac{1}{15}$;or 4:1

A's Capital A/c	Dr.	16,000	
B's Capital A/c	Dr.	4,000	
To C's Capital A/c			20,000

(Being retiring partner's share of goodwill adjusted to remaining partner's in their gaine ratio)

A's Capital A/c	Dr.	12,000	
B's Capital A/c	Dr.	12,000	
C's Capital A/c	Dr.	12,000	
To Goodwill A/c			36,000

(Being existing goodwill written off)

(ii) A, B and C are partners in a firm sharing profits in the ratio of 3:4:3. C retires and goodwill of the firm is valued at ₹60,000. New profit sharing ratio is 3:7. Pass necessary Journal entry in relation to goodwill.

(G.R.) = NPSR – OPSR; A = $\frac{3}{10} - \frac{3}{10} = \text{Nil}(0)$;B =$\frac{7}{10} - \frac{4}{10} = \frac{3}{10}$

B's Capital A/c	Dr.	18,000	
To C's Capital A/c			18,000

(Being C's share of goodwill ₹ 18,000 adjusted with gaining partner B)

(iii) Sacrifice made by continuing partner besides retiring partner.

Continuing Partner's Capital A/c - Dr. (who has gained)

To Retiring/Deceased Partner's Capital A/c

To continuing Partner's Capital A/c (who has sacrificed)

Illustration 2 :

A,B, and C are partners in a firm sharing profits in the ratio of 3:2:1. C retires and new profit sharing ratio between A and B was 1:2. The goodwill of the firm is valued at at ₹60,000. Pass journal entry for goodwill.

(G.R.)= NPSR – OPSR; A = $\frac{1}{3} - \frac{3}{6} = -\frac{1}{6}$;B =$\frac{2}{3} - \frac{2}{6} = \frac{2}{6}$(Gain)

B's Capital A/c Dr.		20,000	
	To C's Capital A/c		10,000
	To A's Capital A/c		10,000
(Being A and C compensated for goodwill)			

(iv) **Accounting treatment of hidden goodwill:**

If a firm has agreed to settle the accounts of the retiring partner by paying him a lump sum amount. Then the amount paid to him in excess of his share (after all adjustments) is taken as his share of goodwill.

Illustration 3 :

A, B, and C are partners in a firm sharing profits in the ratio of 3:2:3. C retires and his capital after making all adjustments stands at ₹ 1,20,000. A and B agreed to pay him ₹ 1,50,000 in full settlement of his claim. Pass necessary journal entry for the treatment of goodwill.

Hidden Goodwill =1,50,000 – 1,20,000 = ₹ 30,000

A's Capital A/c		Dr.	18,000	
B's Capital A/c		Dr.	12,000	
	To C's Capital A/c			30,000
(Being C's Share of goodwill adjusted in gaine ratio 3:2)				

Revaluation of Assets and Reassessment of Liabilities

(I) When revised value of assets/liabilities to be recorded:

To give effect to the change in the values, revaluation account/P&L adjustment account is prepared in the same manner as is prepared at the time of admission of a new partner. Profit/loss on revaluation is distributed among all the partners including retiring/deceased partner in their old profit sharing ratio.

If there is profit: Revaluation A/c Dr.
To All Partner's Capital A/c (OPSR)
(Being distribution of profits on revaluation)

If there is Loss: All Partner's Capital A/c Dr. (OPSR)
To Revaluation A/c
(Being distribution of loss on revaluation)

(II) When revised value of assets/liabilities are not to be recorded:

In this case memorandum revaluation account is prepared in the same manner as is prepared at the time of admission of a new partner.

1- Distribution of profits on revaluation in lower part of the account.

Memorandum Revaluation A/c Dr. (in OPSR)
To Old Partners Capital A/c
(Profit transferred to Capital A/c)

Note: In case of loss, reverse entry will be made.

2- Reverse entry for above profit:

Remaining Partner's Capital A/c Dr. (in NPSR)
To Memorandum Revaluation A/c
(Adjustment made for profit)

Note: In case of loss, reverse entry will be made.

Adjustment for Accumulated Profits/Losses

All the accumulated profits/losses, reserves be allocated among all the partners including retiring/ deceased partner in their old profit sharing ratio.

General Reserve A/c Dr.
P&L A/c Dr.
Investment Fluctuation Reserve A/c Dr. (Deduct fall in value of investment, if any)

Workmen Compensation Reserve A/c   Dr   (Deduct claim, if any)
To All Partner's Capital A/c   (OPSR)
(Being reserves amd accumulated profits transferred to Partner's Capital A/c in OPSR)

For undistributed losses :

All Partner's Capital A/c   Dr.
To Profit and Loss A/c
To Advertisement Exp. A/c   (Deferred Revenue Expenditure A/c)
(Being losses distributed)

Note: Employees Provident Fund is a liability of the firm. Hence, it will not be distributed among the partners.

Illustration 4 :

X, Y and Z are partners sharing profits in ratio 2:2:1. Z decided to retire from the firm on 31st March, 2017. Their balance sheet stood as under:

Liabilities		Amount ₹	Assets	Amount ₹
Creditors		30,000	Cash at Bank	36,500
Workmen Compensation Reserve		10,000	Debtors	51,500
Bills Payable		20,000	Investments	10,000
Provision for Doubtful Debts		1,000	Stock	40,000
Profit & Loss		8,000	Freehold Property	72,000
Bank Loan		6,000	Plant &Machinery	50,000
Employee's Provident Fund		5,000	Furniture	20,000
General Reserve		10,000	Patents	6,000
Capitals:			Advertisement Expenses	5,000
X	80,000			
Y	80,000		Goodwill	9,000
Z	50,000	2,10,000		
		3,00,000		**3,00,000**

Other conditions at the time of retirement are as under:

(i) Goodwill of the firm be fixed at ₹ 1,00,000. **(ii)** Unrecorded Assets ₹ 5,000. **(iii)** Investment valued at ₹ 15,000 and taken by Z. **(iv)** Provision of ₹ 3,500 be made in respect of outstanding legal charges. **(v)** Freehold property appreciated by ₹ 8,000. **(vi)** Plant & Machinery overvalued by ₹ 10,000. **(vii)** Furniture reduced to ₹ 17,000. **(viii)** O/s salary ₹ 2,000. **(ix)** Patent reduced by ₹ 1,000. **(x)** Bad debts reserve is to be increased to ₹ 1,500 and provision for discount be created at 2%. **(xi)** Prepaid Insurance ₹ 1,000. **(xii)** Bank Loan would be paid off. **(xiii)** A liability of ₹ 5,000 included in creditors was not likely to arise. **(xiv)** A Liability against Workmen Compensation is ₹ 12,000. **(xv)** Stock is to be valued at 20% less. Prepare Revaluation Account.

Solution:

Dr. **Revaluation Account** Cr.

Particulars	Amount₹	Particulars		Amount₹
To Provision for Legal Expenses	3,500	By Unrecorded asset		5,000
To Plant &Machinery	10,000	By Investments A/c		5,000
To Furniture A/c	3,000	By Freehold Property		8,000
To Outstanding Salary A/c	2,000	By Prepaid Insurance A/c		1,000
To Patents	1,000	By Creditors A/c		5,000
To P.B.D. A/c	500	By Loss Transferred to:		
To P.D.D. A/c	1,000	X's Capital A/c	2,800	
To Liability for Workmen	2,000	Y's Capital A/c	2,800	
compensation		Z's Capital A/c	1,400	7,000
To Stock A/c	8,000			
	31,000			**31,000**

Payment of Amount Due to Retiring Partner

Amount due to the retiring partner can be settled in the following ways:

1. Payment of full amount in lump-sum
2. By transferring balance of his capital account to his loan account
3. Payment is instalments
4. Payment by annuity

I. **Payment of full Amount in lumpsum :**

1- Lumpsum Payment –If firm has sufficient liquidity (cash and bank balance) then payment is made in full to the retiring partner. Necessary journal entry for the same:

Retiring Partner's Capital A/c	Dr.	(amount payable)	
To Cash/Bank A/c			
<u>(Being amount due to retiring partner paid)</u>			

Example 1 : A retired on 1-4-2017. On that date, adjusted balance of his capital account was ₹60,000. Amount due to a paid in cash.

A's Capital A/c	Dr.	60,000	
To Cash A/c			60,000
<u>(Being A's due amount paid)</u>			

Sometimes bank loan is obtained to pay off the amount due to the retiring partner.

(i) For loan taken from bank :

Bank A/c Dr.

<u>To Bank Loan A/c</u>

(ii) Payment made to retiring partner :

Retiring Partners Capital A/c Dr.

<u>To Bank A/c</u>

II. **By transferring balance of his capital account to his loan account**

If the question is silent on settlement of retiring partner's account the amount due to him is transferred to his loan account.

Retiring Partner's Capital A/c Dr.

To Retiring Partner's Loan A/c

<u>(Being amount due to retiring partners transfer to his loan account)</u>

III. **Payment partly in cash and partly by transferring into loan account**

Sometimes it is possible that at the time of retirement, a part of amount due to retiring partner is paid in cash and the balance amount is transferred to his loan account.

Retiring Partner's Capital A/c Dr.

To Cash A/c

To Retiring Partner's Loan A/c

<u>(Being retiring partner paid partly in cash and balance by transfer to his loan account)</u>

IV. **Payment in Instalments :**

It may be agreed among the partners that the retiring partner shall be paid in instalments. In such a case balance in his capital account is transferred to his loan account. Interest is calculated on unpaid amount and credited to his loan account at the agreed rate. If not agreed, then @6% p.a. till date of payment.

(i) Balance of capital account transferred to his loan account

Retiring Partner's Capital A/c Dr.

To Retiring Partner's Loan A/c

<u>(Being retiring partner's capital account balance transfer to his loan account)</u>

(ii) For interest on balance of loan account

Interest A/c Dr.

To Retiring Partner's Loan A/c

<u>(Being for interest or retired partners loan account)</u>

(iii) Payment of instalment amount with interest

Retiring Partner's Loan A/c Dr.

To Cash/Bank A/c

(Being instalment paid)

Illustration 5 : Y retires on 1-1-2014. His capital account shows a credit balance of ₹ 30,000 and is to be paid in three equal annual instalments along with interest @ 6% p.a. Prepare B's Loan account.

Solution :

Dr. B's Loan A/c Cr.

Date	Particulars	Amount₹	Date	Particulars	Amount₹
31.12.14	To Bank A/c (10,000 + 1,800)	11,800	01.01.14	By B's Capital A/c	30,000
31.12.14	To Balance c/d	20,000	31.12.14	By Interest A/c (30,000 x 6%)	1,800
		31,800			**31,800**
31.12.15	To Bank A/c (10,000 + 1,200)	11,200	01.01.15	By Balance b/d	20,000
31.12.15	To Balance c/d	10,000	31.12.15	By Interest A/c (20,000 x 6%)	1,200
		21,200			**21,200**
31.12.16	To Cash A/c (10,000 + 600)	10,600	01.01.16	By Balance b/d	10,000
			31.12.16	By Interest A/c (10,000 x 6%)	600
		10,600			**10,600**

V. **Payment by Annuity Method :** Under this method annuity is paid to the retiring partner or deceased partner's legal representative. The total claim is transfer to Annuity Suspense Account or Annuity Accounts. The interest at a certain rate on the unpaid balance is credited and Annuity payments are debited. Any surplus or deficit in this account after the final annuity payment will be shared among the existing partners in their profit sharing ratio. If the annuity receiver remains alive after paying off the total annuity, then this amount will be treated as expenses and charged to profit and loss account

Journal Entries

(1) Balance of retiring partner's capital account is transferred to annuity suspense account

Retiring Partner's Capital A/c Dr.

To Annuity Suspense A/c

(Being balance of retiring partner's capital account transferred to Annuity Suspense)

(2) Interest on unpaid Balance

Interest A/c Dr.

To Annuity Suspense A/c

(Being interest due)

(3) Payment on Annuity,

Annuity Suspense A/c Dr.

To Bank/Cash A/c

(Being amount of annuity paid)

(4) Balance of annuity amount at the time of death of annuity receiver

Annuity Suspense A/c Dr.

To Remaining Partner's Capital A/c

(Being balance of Annuity Suspense account transfer to remaining Partner's Capital account)

(5) If the Annuity receiver is alive, even when the balance of annuity has finished. In such a situation, pass the following entry in addition to the above three entries till the time he is alive.

P & L A/c Dr.

To Annuity Suspense A/c

Illustration 6 :

A, B and C were partner in a firm. B retires on 31-03-2012 and his capital account shows a credit balance of ₹ 25,000 after all adjustments. It is decide that the life annuity of ₹ 6,000 per annum with 10% interest p.a. assuming that the annuitant passes away immediately after payment of the second annuity.

Solution :

Dr. **B's Annuity A/c** Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount₹
31.03.2013	To Bank A/c		6,000	01.04.2012	By B's Capital A/c		25,000
31.03.2013	To Balance c/d		21,500	31.03.2013	By Interest A/c		2,500
			27,500				**27,500**
31.03.2014	To Bank A/c		6,000	01.04.2013	By Balance b/d		21,500
31.03.2014	To A's Capital A/c		8,825	31.03.2014	By Interest A/c		2,150
31.03.2014	To B's Capital A/c		8,825				
			23,650				**23,650**

Illustration 7 :

A, B and C were partner in a firm. C retires on 01-01-2014 and his capital account shows a credit balance of ₹ 40,000. Show the relevant ledger accounts in the books of firm.

(i) Amount payable to C is transferred to his loan account.

(ii) Amount payable to C immediately is paid in cash.

(iii) That C be paid 50% in cash and the balance 50% be transferred to his Loan A/c

(iv) Amount due to C payable in two equal annual instalments along with interest @10% p.a.

(v) Amount due to C payable in two equal faft yearly instalment along with interest @10% p.a.

(vi) The life annuity of ₹ 10,000 per annum with 10% per annum with 10% interest p.a. assuming that the C passes away immediately after payment of the second annuity.

(vii) The life annuity of ₹ 10,000 per annum with 10% interest p.a. assuming that the C passes away immediately after payment of the fourth annuity.

(viii) Amount due to C payable in two equal instalments ₹ 15,000 each (cum-interest) and interest @10% p.a. and balance amount (along with interest) paid at the end of third year.

(ix) Amount due to C payable in two equal annual instalments along with interest @10% p.a., first instalment will be start on 01-01-2015.

Solution :

(i) Dr. **C's Capital Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To C's Loan A/c	40,000	By Balance b/d	40,000
	40,000		**40,000**

(ii) Dr. **C's Capital Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Cash/Bank A/c	40,000	By Balance b/d	40,000
	40,000		**40,000**

(iii) Dr. **C's Capital Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Cash/Bank A/c	20,000	By Balance b/d	40,000
To C's Loan A/c	20,000		
	40,000		**40,000**

(iv) Dr. **C's Loan Account** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31-12-14	To Cash/Bank A/c (₹ 20000 + 4000)	24,000	01-01-14	By C's Capital A/c	40,000
31-12-14	To Balance c/d	20,000	31-12-14	By Interest A/c (₹ 40000x10%)	4,000
		40,000			**44,000**

31-12-15	To Cash/Bank A/c (₹ 20000 + 2000)	22,000	01-01-15 31-12-15	By Balance c/d By Interest A/c	20,000 2,000
		22,000			**22,000**

(v) Dr. **C's Loan Account** Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
30-06-14	To Cash/Bank A/c (₹ 20000 + 2000)	22,000	01-01-14	By C's Capital A/c	40,000
			30-06-14	By Interest A/c (40000x10/100 x 6/12)	2,000
31-12-14	To Cash/Bank A/c (₹ 20000 + 1000)	21,000	31-12-14	By Interest A/c	1,000
		43,000			**43,000**

(vi) Dr. **Annuity Suspense A/c** Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31-12-14	To Cash/Bank A/c	10,000	01-01-14	By C's Capital A/c	40,000
31-12-14	To Balance c/d	34,000	31-12-14	By Interest A/c (₹ 40000x10%)	4,000
		44,000			**44,000**
31-12-15	To Cash/Bank A/c	10,000	01-01-15	By Balance b/d	34,000
31-12-15	To Capital A/c(Profit on Death) A's Capital ₹ 13,700 B's Capital ₹ 13,700	27,400	31-12-15	By Interest A/c (₹ 34000 x 10%)	3,400
		37,400			**37,400**

(vii) Dr. **Annuity Suspense A/c** Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31-12-14	To Cash/Bank A/c	16,000	01-01-14	By C's Capital A/c	40,000
31-12-14	To Balance c/d	28,000	31-12-14	By Interest A/c (40000x10%)	4,000
		44,000			**44,000**
31-12-15	To Cash/Bank A/c	16,000	01-01-15	By Balance b/d	28,000
31-12-15	To Balance c/d	14,800	31-12-15	By Interest A/c (28000 x 10%)	2,800
		30,800			**30,800**
31-12-16	To Cash/Bank A/c	16,000	01-01-16	By Balance b/d	14,800
31-12-16	To Balance c/d	280	31-12-16	By Interest A/c (14,800x10%)	1,480
		16,280			**16,280**
31-12-17	To Cash/Bank A/c	16,000	01-01-17	By Balance b/d	280
			31-12-17	By Interest A/c (280 x 10%)	28
			31-12-17	P and L A/c	15,692
		16,000			**16,000**

(viii) Dr. **C's Loan A/c** Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31-12-14	To Cash/Bank A/c	15,000	01-01-14	By C's Capital A/c	40,000
31-12-14	To Balance c/d	29,000	31-12-14	By Interest A/c	

				(40000x10%)	4,000
		44,000			**44,000**
31-12-15	To Cash/Bank A/c	15,000	01-01-15	By Balance b/d	29,000
31-12-15	To Balance c/d	16,900	31-12-15	By Interest A/c	
				(29000 x 10%)	2,900
		31,900			**31,900**
31-12-16	To Cash/Bank A/c	18,590	01-01-16	By Balance b/d	16,900
	(16900 + 1690)		31-12-16	By Interest A/c	
				(16,900x10%)	1,690
		18,590			**18,590**

(ix) Dr. **C's Loan A/c** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31-12-14	To Balance c/d	44,000	01-01-14	By C's Capital A/c	40,000
			31-12-14	By Interest A/c	
				(40000x10%)	4,000
		44,000			**44,000**
01-01-15	To Bank/Cash A/c	24,000	01-01-15	By Balance b/d	44,000
	(20000 + 4000)		31-12-15	By Interest A/c	
31-12-15	To Balance c\d	22,000		(20000 x 10%)	2,000
		46,000			**46,000**
01-01-16	To Cash/Bank A/c	22,000	01-01-16	By Balance b/d	22,000
		22,000			**22,000**

Illustration 8 :

A, B and C are partners sharing profits in the ratio 2: 2: 1. Their Balance Sheet as on 31-03-2017 was as follows:

Balance Sheet

Liabilities		Amount ₹	Assets	Amount ₹
Sundry Creditors		35,000	Cash	15,000
Provision for Bad debts		1,000	Sundry Debtors	20,000
Bank Loan		14,000	Stock	30,000
General Reserve		20,000	Furniture	10,000
Capital A/c's			Plant and Machinery	40,000
A	45,000		Building	60,000
B	45,000		Goodwill	10,000
C	30,000	1,20,000	P and L A/c	5000
		1,90,000		**1,90,000**

B Retires on the above date and the partners agreed that:

(i) The goodwill of the Firm is to be valued at ₹24,000. **(ii)** Furniture, Plant and Machine are to be depreciated by 10% and 5% respectively. **(iii)** Provision for doubtful debts is to be increased to ₹1,500. **(iv)** Stock and Buildings are to be appreciated 20% and 10% respectively. **(v)** That out of the amount of Insurance Premium, which was debited annually to P and L A/c ₹1,500 be carry forward for unexpired insurance on 31.03.17. **(vi)** That a provision for ₹2,000 be made in respect of outstanding salaries.

Pass journal entries and prepare Revaluation A/c , Partner's Capital A/c and Balance Sheet of the new firm.

Solution:

Journal

Date	Particulars	L.F.	Amount Dr. ₹	Amount Cr. ₹
	General Reserve A/c Dr.		20,000	
	To A's Capital A/c			8,000

	To B's Capital A/c			8,000
	To C's Capital A/c			4,000
	(Being General Reserve transferred to Partner's Capital A/c			
	A's Capital A/c Dr.			
	B's Capital A/c Dr.		2,000	
	C's Capital A/c Dr.		2,000	
	To P and L A/c		1,000	5,000
	(Being loss transfer to Partner's Capital A/c)			
	A's Capital A/c Dr.		4,000	
	B's Capital A/c Dr.		4,000	
	C's Capital A/c Dr.		2,000	
	To Goodwill A/c			10,000
	(Being goodwill written off)			
	Revaluation A/c Dr.		5,500	
	To Furniture A/c			1,000
	To Plant and Machinery A/c			2,000
	To P.B.D. A/c			500
	To Outstanding salaries A/c			2,000
	(Being decrease in value of assets and increase in the amount of liabilities)			
	Stock A/c Dr.		6,000	
	Buildings A/c Dr.		6,000	
	Prepaid Insurance A/c Dr.		1,500	
	To Revaluation A/c			13,500
	(Being values of assets increased)			
	Revaluation A/c Dr.		8,000	
	To A's Capital A/c			3,200
	To B's Capital A/c			3,200
	To C's Capital A/c			1,600
	(Being profit on revaluation transferred to Partner's Capital A/c)			
	A's Capital A/c Dr.		6,400	
	C's Capital A/c Dr.		3,200	
	To B's Capital A/c			9,600
	(Being B's share of goodwill adjusted in gaine ratio)			
	B's Capital A/c Dr.		59,800	
	To B's Loan A/c			59,800
	(Being B's balance of Capital A/c transferred to B's Loan A/c)			

Dr. **Revaluation Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Furniture A/c	1,000	By Stock A/c	6,000
To Plant and Machinery A/c	2,000	By Buildings A/c	6,000
To P.B.D. A/c	500	By Prepaid Insurance A/c	1,500
To Outstanding Salaries A/c	2,000		
To Profit transferred to:			
A's Capital A/c 3,200			
B's Capital A/c 3,200			
C's Capital A/c 1,600	8,000		
	13,500		**13,500**

Dr. **Partner's Capital Account** Cr.

Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
To PandL A/c	2000	2000	1000	By Balance b/d	45000	45000	30000
To Goodwill A/c	4000	4000	2000	By General Reserve	8000	8000	4000
To B's Capital	6400	-	3200	By Revaluation	3200	3200	1600
To B's Loan	-	59800	-	By A's Capital A/c	-	6400	-
To Balance c/d	43800	-	29400	By C's Capital A/c	-	3200	-
	56200	**65800**	**35600**		**56200**	**65800**	**35600**

Balance Sheet of A and C
as on 31 March, 2017

Liabilities		Amount ₹	Assets	Amount ₹
Sundry Creditors		35,000	Cash	15,000
Provision for Bad-debts A/c		1,500	Sundry Debtors	20,000
Outstanding Salaries		2,000	Stock	36,000
Bank Loan		14,000	Furniture	9,000
B's Loan A/c		59,800	Plant and Machinery	38,000
Capital A/c			Buildings	66,000
A's Capital	43,800		Pre-paid Insurance	1,500
B's Capital	29,400	73,200		
		1,85,500		**1,85,500**

Illustration 9 :

The Balance Sheet of M, N and O who are sharing profits in the ratio of 1/2, 1/3 and 1/6 respectively, as at 31st March, 2014 was as follows:

Liabilities			Amount ₹	Assets	Amount ₹
Bills Payable			7,000	Cash at Bank	25,650
Sundry Creditors			18,000	Bills Receivable	5,400
Profit and Loss A/c			6,000	Debtors	17,800
Investment Fluctuation Reserve			5,000	Stock	22,300
Capital A/cs:				Investments	12,000
	M	50,000		Patents	10,000
	N	25,000		Furniture	3,500
	O	20,000	95,000	Plant and Machinery	9,750
				Buildings	24,000
				Advertisement Expenditure	600
			1,31,000		**1,31,000**

M retires from business on 1st April, 2014 and his share in the firm is to be ascertained on revaluation of assets as follows: Stock ₹ 20,000; Furniture ₹ 3,000; Plant and Machinery ₹ 9,000; Buildings ₹ 20,000; Investments ₹10,000; Accrued Income ₹500; Patents ₹11,500 and ₹850 is to be provided for doubtful debts. A debtor whose dues of ₹1,000 were written off as bad debts paid ₹400. The goodwill of the firm is agreed to be valued at ₹ 6,000 and adjustment in this respect was to be made in the continuing Partners' Capital Accounts without raising goodwill account. M is to be paid ₹ 9,200 in cash on retirement and balance in three equal yearly instalments with interest @ 5% p.a. Prepare Revaluation A/c, Partners' Capital A/c and Balance Sheet. Also prepare M's Loan A/c till it is finally closed.

Solution:

Dr. **Revaluation Account** Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Stock A/c	2,300	By Patent A/c	1,500
To Furniture A/c	500	By Accrued Income	500

To Plant and Machinery	750	By Bad debts recovered		400
To Buildings A/c	4,000	By Loss transferred to:		
To P.B.D. A/c	850	M's Capital A/c	3,000	
		N's Capital A/c	2,000	
		O's Capital A/c	1,000	6,000
	8,400			**8,400**

Dr. **Partner's Capital Account** **Cr.**

Particular	M ₹	N ₹	O ₹	Particulars	M ₹	N ₹	O ₹
To Advertisement Expenses	300	200	100	By Balance b/d	50,000	25,000	20,000
To Revaluation	3,000	2,000	1,000	By P and L A/c	3,000	2,000	1,000
To M's Capital	-	2,000	1,000	By Investments Fluctuation Reserve	1,500	1,000	500
To Bank A/c	9,200	-	-	By N's Capital A/c	2,000	-	-
To M's Loan A/c	45,000	-	-	By O's Capital A/c	1,000	-	-
To Balance c/d	-	23,800	19,400				
	57,500	**28,000**	**21,500**		**57,500**	**28,000**	**21,500**

Balance Sheet of N and O
As on 01 April, 2014

Liabilities		Amount ₹	Assets		Amount ₹
Bills Payable		7,000	Cash at Bank		16,850
Sundry Creditors		18,000	Bills Receivables		5,400
M's Loan A/c		45,000	Debtors	17,800	
			(-) PBD	850	16,950
			Stock		20,000
Capital A/c's			Patents		11,500
N	23,800		Accrued income		500
O	19,400	43,200	Furniture		3,000
			Plant and Machinery		9,000
			Buildings		20,000
			Investments		10,000
		1,13,200			**1,13,200**

Dr. **M's Loan Account** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31-3-15	To Bank A/c (15000+2250)	17,250	1-4-2014	By M's Capital A/c	45,000
31-3-15	To Balance c/d	30,000	31-3-15	By Interest 45000x5%	2,250
		47,250			**47,250**
31-3-16	To Bank A/c	16,500	1-4-15	By Balance b/d	30,000
31-3-16	To Balance c/d	15,000	31-3-16	By Interest	1,500
		31,500			**31,500**
31-3-17	To Bank A/c 15000+750	15,750	1-4-16	By Balance b/d	15,000
			31-3-17	By Interest A/c(1500x5%)	750
		15,750			**15,750**

Working Notes :

(i) Fall in market value of investments is charged out of IFR and balance of IFR is transferred to partners' Capital A/c in their old Ratio.

(ii) M's share in goodwill ₹ 6000X1/2 = ₹ 3000 is adjusted through capital A/c of N and O in their gaine ratio 2:1

(iii) Bank balance: 25650 + 400 – 9200 = ₹16850

Illustration 10 :

X, Y and Z are partners sharing profits in the ratio 2: 2: 1. Their Balance Sheet as on 31st December, 2016 was as under :

Liabilities		Amount ₹	Assets		Amount ₹
Creditors		37,000	Bank		9,000
Bills Payable		13,000	Debtors	40,000	
Reserve Fund		10,000	Less: Provision for D.D.	2,000	38,000
Capital Accounts			Stock		40,000
X	60,000		Furniture		20,000
Y	60,000		Machinery		78,000
Z	20,000	1,40,000	Goodwill		15,000
		2,00,000			**2,00,000**

X retired on 1st January, 2017 on the following terms:

(i) Provision for doubtful debts be raised by ₹ 2,000. **(ii)** Stock be increased by ₹4,000 and Machinery be reduced to ₹75,000. **(iii)** Outstanding claim for damages of ₹1,200 is to be provided. **(iv)** Creditors be reduced by ₹4,000. **(v)** Goodwill of the firm is valued at ₹ 60,000. **(vi)** The continuing partners agreed to pay ₹ 60,000 in cash on retirement of X, to be contributed by continuing partners in the ratio of 3:2. The balance capital of X be treated as loan.

Prepare Revaluation Account, Capital Account and Balance Sheet of new firm.

Solution:

Dr. Revaluation Account Cr.

Particulars		Amount ₹	Particulars	Amount ₹
To Provision for Doubtful Debts A/c		2,000	By Creditors A/c	4,000
To Outstanding Claim for Damages A/c		1,200	By Stock A/c	4,000
To Machine A/c		3,000		
To Capital A/c's(Profit):				
X	720			
Y	720			
Z	360	1,800		
		8,000		**8,000**

Dr. Partner's Capital Account Cr.

Particulars	X₹	Y₹	Z₹	Particulars	X₹	Y₹	Z₹
To Goodwill A/c	6,000	6,000	3,000	By Balance b/d	60,000	60,000	20,000
To X's Capital A/c	-	16,000	8,000	By Reserve Fund A/c	4,000	4,000	2,000
To Bank A/c	60,000	-	-	By Revaluation A/c	720	720	360
To X's Loan	22,720	-	-	By Y's Capital A/c	16,000	-	-
To Balance c/d	-	78,720	35,360	By Z's Capital A/c	8,000	-	-
				By Bank A/c	-	36,000	24,000
	88,720	**1,00,720**	**46,360**		**88,720**	**1,00,720**	**46,360**

Balance Sheet of Y and Z

As on 1st Jan 2017

Liabilities	Amount ₹	Assets		Amount ₹
Creditors	33,000	Bank		9,000
Bills Payable	13,000	Debtors	40,000	
O/S Claim for Damages	1,200	Less: Provision for BD	4,000	36,000
X's Loan	22,720	Stock		44,000
Capital A/cs:		Furniture		20,000

Y	78,720		Machinery	75,000
Z	35,360	1,14,080		
		1,84,000		**1,84,000**

Working Notes:

(i) X's share in goodwill 60,000×$\frac{2}{5}$=₹ 24,000 has been debited to capital A/c of Y and Z in their gaine ratio 2:1 and credited to X's capital A/c

(ii) Amount contributed by Y and Z ₹60,000 in the ratio of 3:2 which, is ₹36,000 and ₹24,000 respectively.

Adjustment of Capital

On retirement/death of a partner, the remaining partner's share in profits is to be changed. As a result the total capital of the firm is also changed. Therefore, adjustment in Capital Account is required. This capital can be adjusted in three ways:

I. When Total Capital of the New Firm is given : Steps for adjustment of capital are as under :

(a) Ascertain adjusted capital of remaining partners.

(b) Calculate proportionate capital of remaining partners on the basis of capital of the new firm in their profit sharing ratio.

(c) Find surplus/deficit by comparing proportionate capital and adjusted capital.

(d) Adjust the surplus by paying or by transfer to the credit side of current account of the concerned partner. In case of deficit, the amount of deficiency is brought by the concerned partner or alternatively transferred to the debit side of his current account.

Journal Entries

(a) When adjusted capital is more than the proportionate capital

Concerned Partner's Capital A/c Dr.
To Cash/Bank/Concerned Partners' Current A/c

(b) When adjusted capital is less than the proportionate capital

Cash/Bank/Concerned Partner's Current A/c Dr.
To Concerned Partner's Capital A/c

Illustration 11 :

A, B and C are partners in a firm sharing profits in the ratio of 3:2:1. C retires on 31-03-2016. On that date adjusted capital of A,B and C stood at ₹ 30,000, ₹ 20,000 and ₹ 25,000. Capital of the new firm is ₹ 50,000 and new profit sharing ratio is 1:1. Calculate amount to be paid or to be brought by the partners and pass necessary Journal entries.

Solution:

A's Capital	Dr.	5,000	
To Cash A/c			5,000
(Being cash withdrawn by A)			
Cash A/c	Dr.	5,000	
To B's Capital			5,000
(Being cash brought in by B)			

II. When the total capital of the new firm is not given :

(i) Ascertain adjusted capital of the remaining partners.

(ii) Calculate total capital of the new firm as follows:
Total capital of the new firm=aggregate of adjusted capital of remaining partners.

(iii) Calculate new capital of remaining partners by dividing total capital of the new firm in their new profit sharing ratio. Journal entries will be same as recorded above.

Illustration 12 :

A, B and C are partners in a firm sharing profits in the ratio of 5:3:2. A retired on 31-03-2017 on which date the capital of A,B and C after all the necessary adjustments stood at ₹ 60,000, ₹ 50,000 and ₹ 40,000 respectively.

Capital of the reconstituted firm will be readjusted by bringing in or paying cash so that the future capitals of B and C be in their profit sharing ratio. Pass necessary Journal entries.

Solution :

New profit sharing ratio 3:2

Capital of the new firm is - ₹50,000 + ₹40,000 = ₹90,000

		B ₹	C ₹	
(A)	New Capital ₹ 90,000	54,000	36,000	
(B)	Existing Capital	50,000	40,000	
(C)	Cash to be brought in (Paid off) (A-B)	4,000	(4,000)	
1.	Cash A/c	Dr.	4,000	
	To B's Capital A/c			4,000
	(Being cash brought in by B to make capital proportionate to profits)			
2.	C's Capital A/c	Dr.	4,000	
	To Cash A/c			4,000
	(Being cash paid off to C to make his capital proportionate to profit sharing ratio)			

III. When the retiring Partner is to be paid through amount brought by the remaining partners in a manner to make their capitals proportionate to their new profit sharing ratio.

a) When decided to leave a minimum cash/bank balance

i. Capital the new firm = total adjusted capital of all the partners + minimum cash balance required – opening cash balance

ii. Calculate new capital of each remaining partner

iii. Calculate the surplus/deficit

Journal entries will be same as recorded above in point no. 1

b) when no information is available regarding minimum cash/bank balance:

i. Total capital of new firm = Total adjusted capital of all the partners

ii. Calculate new capital of each remaining partner

iii. Calculate surplus/deficit

Journal entries will be same as recorded above in point no.1

Illustration 13 :

A, B and C are partner in a firm sharing profits in the ratio of 3:2:1. C retired. On that date the adjusted capital of A,B and C stood at ₹ 30,000, ₹ 40,000 and ₹ 30,000. C is to be paid in cash. The cash balance amounted to ₹ 20,000 and a minimum cash balance of ₹ 10,000 is to be maintained. Calculate amount of cash to be paid or to be brought in by the continuing partners.

Solution :

Total capital of the new firm = ₹ 30,000 + ₹ 40,000 + ₹ 30,000+₹ 10,000 - ₹ 20,000 = ₹ 90,000

A = 90,000$\times \frac{3}{5}$= ₹54,000; B = 90,000$\times \frac{2}{5}$= ₹36,000

		B ₹	C ₹
(A)	New Capital ₹ 90,000 (3:2)	54,000	36,000
(B)	Existing Capital	30,000	40,000
(C)	Cash to be brought in (Paid off) (A-B)	24,000	(4,000)

Cash A/c	Dr.	24,000	
To A's Capital A/c			24,000
B's Capital A/c	Dr.	4,000	
To Cash A/c			4,000

Illustration14 :

A, B and C are partners in a firm sharing profits in the ratio of 3:2:1. C retired and on that date adjusted capital of A,B and C stood at ₹ 40,000, ₹ 30,000 and ₹ 30,000. C is to be paid through cash. Calculate amount of cash to be paid or to be brought in by the continuing partners.

Particulars		Amount ₹	Particulars	Amount ₹
To PBD A/c		2,000	By Buildings A/c	20,000
To Machinery A/c		10,000	By Creditors A/c	6,000
To Outstanding Rent		1,000		
To Stock A/c		1,000		
To Profit Transfer				
A's Capital A/c	6,000			
B's Capital A/c	3,000			
C's Capital A/c	3,000	12,000		
		26,000		**26,000**

Solution :

Capital of the new firm = 40,000+30,000+30,000 = ₹ 1,00,000

A's share = 60,000 B's Share = 40,000		B ₹	C ₹
(A)	New Capital ₹ 1,00,000 (3:2)	60,000	40,000
(B)	Existing Capital	40,000	30,000
(C)	Amount to be brought in	20,000	10,000

Cash A/c	Dr.	30,000	
To A's Capital A/c			20,000
To B's Capital A/c			10,000

Illustration15 :

The Balance Sheet of A, B and C who are partners in a firm and sharing profits according to their capitals. Their Balance Sheet as at 31st March, 2017 was as under:

Liabilities		Amount ₹	Assets		Amount ₹
Creditors		24,000	Goodwill		10,000
General Reserve		20,000	Buildings		1,00,000
Workmen Compensation Reserve		16,000	Machinery		50,000
Capital A/cs			Stock		18,000
A	80,000		Debtors	20,000	
B	40,000		Less: Provision for D.D	1,000	19,000
C	40,000	1,60,000	Cash at Bank		15,000
			Profit and Loss A/c		8,000
		2,20,000			**2,20,000**

On that date, B decided to retire from the firm and was paid for his share in the firm subject to the following terms:

(i) Buildings to be appreciated by 20%.

(ii) Provision for Doubtful Debts to be increased to 15% on Debtors.

(iii) Machinery to be depreciated by 20%.

(**iv**) Stock is overvalued by ₹1,000.

(v) Creditors reduced by ₹6,000.

(vi) Outstanding Rent ₹1,000.

(vii) Claim against Workmen Compensation Reserve is determined at ₹ 8,000.

(viii) Goodwill of the firm is valued at ₹72,000 and the retiring partner's share is adjusted through the Capital Accounts of the remaining partners.

(ix) The capital of the new firm be fixed at ₹ 1,20,000. Adjustments are to be made through current account.

Prepare the Revaluation Account, Capital Accounts of partners and the Balance Sheet after retirement of B.

Dr. **Partner's Capital A/c** **Cr.**

Particulars	A₹	B₹	C₹	Particulars	A₹	B₹	C₹
To PandL A/c	4,000	2,000	2,000	By Balance b/d	80,000	40,000	40,000
To Goodwill A/c	5,000	2,500	2,500	By General Reserve	10,000	5,000	5,000

To B's Cap. A/c	12,000	-	6,000	By WCR	4,000	2,000	2,000
To B's Loan A/c	-	63,500	-	By A's Cap. A/c	-	12,000	-
To Balance c/d	79,000	-	39,500	By Revaluation A/c.	6,000	3,000	3,000
				By C's Cap. A/c	-	6,000	-
	1,00,000	**68,000**	**50,000**		**1,00,000**	**68,000**	**50,000**
To Balance c/d	80,000	-	40,000	By Balance b/d	79,000	-	39,500
				By Current A/c	1,000	-	500
	80,000	**-**	**40,000**		**80,000**	**-**	**40,000**

Balance Sheet A and C
As on 31—03-2017

Liabilities		Amount ₹	Assets		Amount ₹
Creditors		18,000	Buildings		1,20,000
Outstanding Rent		1,000	Machinery		40,000
Liability for Workmen Compensation		8,000	Stock		17,000
Capital A/c			Debtors	20,000	
A	80,000		(-)PBD	3,000	17,000
C	40,000	1,20,000	Cash on Bank		15,000
B's Loan A/c		63,500	Current A/c		
			A	1,000	
			C	500	1,500
		2,10,500			**2,10,500**

Working Notes :

(i) B's share in goodwill ₹ 72,000$\times\frac{1}{4}$ =₹ 18,000 will be debited to A and C's capital A/c in their gaine ratio 2:1 and credited to B.

(ii) Workmen compensation reserve to the extent of liability (₹8,000) is credited to workmen compensation liability A/c and the balance is credited to Partner's capital A/c.

(iii) In absence of information, amount payable to B is transferred to his loan A/c.

(iv) Adjustment of capital is made through the partner's current account.

Illustration 16 :

L, M and N were partners in a firm sharing profits in the ratio of 2: 1: 1. On 1st April, 2017 their Balance Sheet was as follows:

Balance Sheet of L, M and N
As on 1st April, 2017

Liabilities			Amount ₹	Assets		Amount ₹
Capital A/c				Land		8,00,000
	L	6,00,000		Buildings		6,00,000
	M	4,80,000		Furniture		2,40,000
	N	4,80,000	15,60,000	Debtors	4,00,000	
General Reserve			4,40,000	Less:	20,000	3,80,000
Workmen Compensation Fund			3,60,000	Stock		4,40,000
Creditors			2,40,000	Cash		1,40,000
			26,00,000			**26,00,000**

On the above date N retired. The following were agreed : **(i)** Goodwill of the firm was valued at ₹ 6,00,000. **(ii)** Land was to be appreciated by 40% and Building was to be depreciated by ₹ 1,00,000. **(iii)** Furniture was to be depreciated by ₹ 30,000. **(iv)** The liabilities for Workmen Compensation Fund was determined at ₹ 1,60,000. **(v)** Amount payable to N was transferred to his loan account (vi) Capital of L and M were to be adjusted in their new profit sharing ratio and for this purpose current accounts of the partners will be opened. Prepare Revaluation Account, Partners' Capital A/c and the Balance Sheet of the new firm.

Solution :

Dr. Revaluation Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Building A/c	1,00,000	By Land A/c	3,20,000
To Furniture A/c	30,000		
To Profit transferred to			
L's Cap. A/c 95,000			
M's Cap. A/c 47,500			
N's Cap. A/c 47,500	1,90,000		
	3,20,000		**3,20,000**

Dr. Partner's Capital A/c Cr.

Particulars	L ₹	M ₹	N ₹	Particulars	L ₹	M ₹	N ₹
				By Balance b/d	6,00,000	4,80,000	4,80,000
To N's Cap. A/c	1,00,000	50,000	-	By General Res.	2,20,000	1,10,000	1,10,000
To N's Loan A/c	-	-	8,37,500	By Workmen Compensation Reserve	1,00,000	50,000	50,000
To Balance c/d	9,15,000	6,37,500	-	By Revaluation	95,000	47,500	47,500
				By L's Cap A/c	-	-	1,00,000
				By M's Cap A/c	-	-	50,000
	10,15,000	**6,87,500**	**8,37,500**		**10,15,000**	**6,87,500**	**8,37,500**
To Current A/c (B/F)	-	1,20,000	-	By Balance b/d	9,15,000	6,37,500	-
To Balance c/d	10,35,000	5,17,500	-	By Current A/c (B/F)	1,20,000	-	-
	10,35,000	**6,37,500**	**-**		**10,35,000**	**6,37,500**	**-**

Balance Sheet of New Firm
As on 1st April, 2017

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c		Land	11,20,000
L 10,35,000		Building	5,00,000
M 5,17,500	15,52,500	Furniture	2,10,000
		Debtors 4,00,000	
N's Loan A/c	8,37,500	(-)Provision: 20,000	3,80,000
Liability for workmen		Stock	4,40,000
Compensation	1,60,000		
Creditors	2,40,000	Cash	1,40,000
M's Current A/c	1,20,000	L's Current A/c	1,20,000
	29,10,000		**29,10,000**

Working Notes :

(i) Gaine ratio is 2:1

(ii) N's share in goodwill 60,000× $\frac{1}{4}$ =₹ 1,50,000 is adjusted through capital accounts of L and M in their gaine ratio 2:1

(iii) Total adjusted capital of L and M 9,15,000+6,37,500 = ₹15,52,500

L's share 15,52,500× $\frac{2}{3}$ =₹ 10,35,000

M's share 15,52,500× $\frac{1}{3}$ =₹ 5,17,500

Illustration 17 :

X, Y and Z were partners in a firm whose Balance Sheet as on 31st December, 2016 was as under:

Liabilities			Amount ₹	Assets	Amount ₹
Creditors			18,240	Cash	16,240
General Reserve			7,500	Debtors	22,500
Capitals:				Stock	26,500
	X	20,000		Furniture	5,000
	Y	14,500			
	Z	10,000	44,500		
			70,240		**70,240**

Y retired on that date. In this connection, it was decided to make the following adjustments:

(a) To reduce stock and furniture by 5% and 10% respectively.

(b) To provide for doubtful debts at 5% on debtors.

(c) A long dispute with the creditors was settled and firm has to pay ₹ 9,050. In anticipation ₹ 6,000 have already been included in sundry creditors for this purpose.

(d) Goodwill was valued at ₹ 12,000.

(e) To share profits and losses in 5:3 ratio.

(f) Y should be paid off and the entire sum payable to Y shall be brought in by X and Z in such a way that their capitals should be in their new profit sharing ratio.

Prepare Revaluation A/c, Partners' Capital A / c's and Balance Sheet after Y's retirement.

Dr. Revaluation Account Cr

Particulars	Amount ₹	Particulars			Amount ₹
To Stock A/c	1,325	By Loss transferred to Capital			
To Furniture A/c	5,00		X	2,000	
To Provision for Doubtful Debt A/c	1,125		Y	2,000	
To Creditors A/c	3,050		Z	2,000	6,000
	6,000				**6,000**

Dr. Partner's Capital A/c Cr.

Particulars	X₹	Y₹	Z₹	Particulars	X₹	Y₹	Z₹
To Revaluation A/c	2,000	2,000	2,000	By Balance b/d	20,000	14,500	10,000
To Y's Capital A/c	3,500	-	500	By General Reserve	2,500	2,500	2,500
To Balance c/d	17,000	19,000	10,000	By X's Capital A/c	-	3,500	-
				By Z's Capital A/c	-	500	-
	22,500	**21,000**	**12,500**		**22,500**	**21,000**	**12,500**
To Cash	-	19,000	-	By Balance b/d	17,000	19,000	10,000
To Balance c/d	28,750	-	17,250	By Cash A/c	11,750	-	7,250
	28,750	**19,000**	**17,250**		**28,750**	**19,000**	**17,250**

Balance Sheet of X and Z

Liabilities		Amount ₹	Assets		Amount ₹
Creditors		21,290	Cash		16,240
X's Capital	28,750		Debtors	22,500	
Y's Capital	17,250	46,000	Less: Provision for D.D.	1,125	21,375
Stock		25,175			
Furniture		4,500			
		67,290			**67,290**

Working Notes:

(i) G.R. = NPSR – OPSR X : $\frac{5}{8}-\frac{1}{3}=\frac{7}{24}$ Y:$\frac{3}{8}-\frac{1}{3}=\frac{1}{24}$ GR 7:1

(ii) Y's share in goodwill 12,000×$\frac{1}{3}$ =₹ 4,000 is adjusted through capital accounts of X and Z in their gaine ratio 7:1

(iii) Adjustment of Capital:

Total adjusted capital of X,Y and Z: 17,000+19,000+10,000 = ₹46,000

X's Capital 46,000×$\frac{5}{8}$ =₹ 28,750

Y's Capital 46,000×$\frac{3}{8}$ =₹ 17,250

Illustration 18 :

A, B and C are partners in a firm sharing profits and losses in the ratio of 3: 2: 1. Their Balance Sheet as at 31st March, 2017 is:

Liabilities			Amount ₹	Assets		Amount ₹
Creditors			30,000	Cash		26,000
Bills Payable			13,000	Debtors	25,000	
General Reserve			12,000	Less: Provision for D.D.	3,000	22,000
Workmen Compensation Reserve			9,000	Stock		18,000
Capital				Furniture		30,000
	A	40,000		Machinery		63,000
	B	40,000		Goodwill		12,000
	C	30,000	1,10,000	Profit and Loss		3,000
			1,74,000			**1,74,000**

B retires on 1st April, 2017 on the following terms:-

(a) Provision for Doubtful Debts be raised by ₹1,000. **(b)** Stock to be depreciated by 10% and Furniture by 5%. **(c)** There is an outstanding claim for damages of ₹1,100 and it is to be provided for. **(d)** Creditors will be written back by ₹6,000. **(e)** Goodwill of the firm is valued at ₹21,000. **(f)** Outstanding Rent ₹600. **(g)** B is paid in full with the cash brought in by A and C in such a manner that their capitals are in proportion to their profit sharing ratio and Cash in hand remains at ₹10,000. Prepare the Revaluation A/c, Partners 'Capital Accounts and the Balance Sheet of A and C.

Solution: **Revaluation Account**

Particulars	Amount ₹	Particulars	Amount ₹
To P.B.D. A/c	1,000	By Creditors A/c	6,000
To Stock A/c	1,800		
To Furniture A/c	1,500		
To Claim for Compensation	1,100		
To Outstanding Rent	600		
	6,000		**6,000**

Dr. **Partner's Capital A/c** **Cr.**

Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
To Goodwill	6,000	4,000	2,000	By Balance b/d	40,000	40,000	30,000
To PandL A/c	1,500	1,000	500	By General Reserve	6,000	4,000	2,000
To B's Capital	5250	-	1750	By Workmen Reserve	4,500	3,000	1,500
To Balance c/d	37,750	49,000	29,250	By A's Capital A/c	-	5,250	-
				By C's Capital A/c	-	1,750	-
	50,500	**54,000**	**33,500**		**50,500**	**54,000**	**33,500**
To Cash A/c	-	49,000	-	By Balance b/d	37,750	49,000	29,250

To Cash A/c b/f To Balance c/d	- 75,000	- -	4,250 25,000	By Cash A/c b/f	37,250	-	-
	75,000	**49,000**	**29,250**		**75,000**	**49,000**	**29,250**

Balance Sheet
As on 31 March, 2017

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	24,000	Cash in Hand	10,000
Bills Payable	13,000	Debtors 25,000	
Outstanding Payable	600	Less: Provision for DD. 4,000	21,000
Claim for Compensation	1,100	Stock	16,200
Capital A/c's		Furniture	28,500
A 75,000		Machinery	63,000
C 25,000	1,00,000		
	1,38,700		**1,38,700**

Working Noted :

(i) B's share in goodwill 21,000$\times \frac{2}{6}$ =₹ 7,000 is adjusted through capital accounts of A and C in their gaine ratio 3:1

(ii)

Dr. **Cash Account** **Cr.**

Particulars	Amount₹	Particulars	Amount ₹
To Balance b/d	26,000	By B's Capital A/c	49,000
To A's Capital A/c	37,250	By C's Capital	4,250
		By Balance c/d	10,000
	63,250		**63,250**

(iii) Total adjusted capital of the new firm:
37,750+49,000+29,250+10,000-26,000 = ₹1,00,000
A's Capital 1,00,000$\times \frac{3}{4}$ =₹ 75,000
B's Capital 1,00,000$\times \frac{1}{4}$ =₹ 25,000

Illustration19 :

A, B and C are partners sharing profits as 5: 4: 1. Their Balance Sheet as on March 31, 2017 was as follows :

Balance Sheet as on March 31, 2017

Liabilities	Amount ₹	Assets	Amount ₹
Capital		Fixed Assets	1,00,000
A: 80,000		Investments	60,000
B: 70,000		Stock	10,000
C: 50,000	2,00,000	Debtors	60,000
Creditors	30,000	Cash in hand	50,000
Reserves	50,000	Goodwill	20,000
Provident Fund	20,000		
	3,00,000		**3,00,000**

C retires on the above date and on the same date D is admitted with $\frac{1}{5}$ share in the profits. For this the following terms were agreed upon:

1. Goodwill of the firm is valued at ₹ 60,000. **2.** Fixed assets are depreciated by 4%. **3.** Stock is valued at ₹ 18,000. **4.** Amount due to the retiring partner shall be transferred to his loan account. **5.** The new firm of A, B and D will have the profit sharing ratio of 2: 2: 1 and its total capital will be ₹ 2,00,000. Prepare Revaluation Account, Capital Accounts and Balance Sheet of the new firm.

Solution:

Revaluation Account

Particulars	Amount ₹	Particulars	Amount ₹
To Fixed Assets A/c	4,000	By Stock A/c	8,000
To Profits transferred to			
A's Capital A/c 2,000			
B's Capital A/c 1,600			
C's Capital A/c 400	4,000		
	8,000		**8,000**

Dr. **Partner's Capital Account** **Cr.**

Particulars	A ₹	B ₹	C ₹	D ₹	Particulars	A ₹	B ₹	C ₹	D ₹
To Goodwill	10,000	8,000	2,000	-	By Balance b/d	80,000	70,000	50,000	
To C's Loan	-	-	59,400	-	By Reserves	25,000	20,000	5,000	
To Cash A/c (Bal. Figure)	23,000	3,600	-	-	By D's Current A/c	6,000	-	6,000	
To Balance c/d	80,000	80,000	-	40,000	By Revaluation	2,000	1,600	400	
					By Cash A/c	-	-	-	40,000
	113000	**91,600**	**61,400**	**40,000**		**113000**	**91,600**	**61,400**	**40,000**

Balance Sheet the New Firm
As on 31 March, 2017

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c's		Fixed Assets	96,000
A 80,000		Investments	60,000
B 80,000		Stock	18,000
D 40,000	2,00,000	Debtors	60,000
C's Loan A/c	59,400	Cash	63,400
Provident Fund	20,000	D's Current A/c	12,000
Creditors	30,000		
	3,09,400		**3,09,400**

Working Notes:

(i) Treatment of goodwill:

C's share in goodwill 60,000x$\frac{1}{10}$= ₹ 6,000

D's share in goodwill 60,000x$\frac{1}{5}$= ₹ 12,000

Sacrifice made by A: $\frac{5}{10}$- $\frac{2}{5}$ = $\frac{1}{10}$; A's capital AC is credited by 60,000x$\frac{1}{10}$ = ₹ 6,000

D's Current A/c Dr. 12,000
  To A's Capital A/c 6,000
  To C's Capital A/c 6,000

(ii) Cash Balance: 50,000 + 40,000 – 23,000 – 3,600 = ₹ 63,400

Illustration20 :

Ajay, Akshay and Abhishek are partners. They were sharing profits in ratio of 5:3:2. Balance Sheet as on 31 March, 2017 was as followings:

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	30,000	Cash at Bank	10,000
Workmen Compensation Reserve	10,000	Debtors 20,000	
Investment Fluctuation Reserve	3,000	Less: PBD 1,000	19,000

Bills Payable	3,000	Stock	6,000
Outstanding Expenses	2,000	Investment	12,000
Employees' Provident Fund	7,000	Leasehold Property	66,000
Reserve	10,000	Plant and Machinery	48,000
Capitals		Furniture	20,000
Ajay 60,000		Trademark	3,000
Akshay 45,000		Patent	5,000
Abhishek 30,000	1,35,000	Profit and Loss Account (Dr.)	4,000
		Advertisement	2,000
		Goodwill	5,000
	2,00,000		**2,00,000**

Ajay retired on 31-3-2017 and Akshay and Abhishek decided to share profits in future in the ratio of 2:3 respectively. The other terms on retirement were as follows : **(i)** Goodwill of the firm is to be valued at ₹ 40,000. **(ii)** Accrued income of ₹ 1,500 be provided for. **(iii)** The market value of investments was ₹8,000. **(iv)** Bad debts recovered ₹ 1,000. **(v)** Leasehold property over valued by 10% **(vi)** Plant and Machinery undervalued by 20% **(vii)** Furniture is depreciated by 15%. **(viii)** Trade marks valued at 20% less. **(ix)** Patents valued at 40% more. **(x)** Liability against Workmen Compensation is ₹ 10,000. **(xi)** Prepaid insurance ₹ 2,000. **(xii)** O/s bills for Repair ₹ 2,000 **(xiii)** There is an old computer valued at ₹ 5,000. It does not appear in the books. It is taken by Ajay. **(xiv)** Provision for doubtful debts is not required. **(xv)** A long dispute with the creditors was settled and firm has to pay ₹ 10,000. In anticipation ₹ 6,000 have already been included in sundry creditors for this purpose. **(xvi)** Stock is reduced by ₹ 3,000. **(xvii)** Capital of the firm, as newly constituted be fixed at ₹ 80,000.

Prepare Revaluation A/c, Partner's Capital A/cs and the Balance Sheet of the new firm.

Solution :

Dr. **Revaluation Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Investments A/c	1,000	By Accrued Income	1,500
To Leasehold Property $\frac{66,000x10}{110}$	6,000	By Bad debts recovered	1,000
To Furniture A/c	3,000	By Plant and Machinery A/c	
To Trade Marks A/c	600	48,000x$\frac{20}{80}$	12,000
To Outstanding bills for repairs	2,000	By Patents A/c	2,000
To Stock A/c	3,000	By Prepaid Insurance	2,000
To Creditors A/c	4,000	By Old Computer	5,000
To Profits transferred to		By P.B.D A/c	1,000
Ajay's Capital A/c 2,450			
Akshay's Capital A/c 1,470			
Abhishek's Capital A/c 980	4,900		
	24,500		**24,500**

Dr. **Partner's Capital Account** **Cr.**

Particulars	Ajay ₹	Akshay₹	Abhishek₹	Particulars	Ajay ₹	Akshay₹	Abhishek₹
To PandL A/c	2,000	1,200	800	By Balance b/d	60,000	45,000	30,000
ToAdvertisements	1,000	600	400	By Reserve	5,000	3,000	2,000
To Goodwill	2,500	1,500	1,000	ByRevaluation	2,450	1,470	980
To Ajay's Capital	-	4,000	16,000	By Akshey's Cap.	4,000	-	-
To Computer	5,000	-	-	By Abhishek Cap.	16,000	-	-
To Ajay's Loan A/c	76,950	-	-				
To Balance c/d	-	42,170	14,780				
	87,450	**49,470**	**32,980**		**87,450**	**49,470**	**32,980**

To Bank A/c (b/f)	-	10,170	-	By Balance b/d	-	42,170	14,780
To Balance c/d	-	32,000	48,000	Bu Bank (Bal Fig)	-	-	33,220
	-	**42,170**	**48,000**		**-**	**42,170**	**48,000**

Balance Sheet Akshay and Abhishek
As on 31 December, 2016

Liabilities	Amount₹	Assets	Amount ₹
Creditors	34,000	Cash at Bank	34,050
Bills Payable	3,000	Debtors	20,000
Outstanding Expenses	2,000	Stock	3,000
Employee's Provident Fund	7,000	Investment	8,000
Outstanding bills For Repairs	2,000	Leasehold property	60,000
Liability from workmen compensation	10,000	Plant and Machinery	60,000
		Furniture	17,000
Ajay's Loan A/c	76,950	Trade Marks	2,400
Capital A/c's		Patents	7,000
Akshay 32,000		Accrued Income	1,500
Abhishek 48,000	80,000	Prepaid Insurance	2,000
	2,14,950		**2,14,950**

Working Notes:

(i) Fall in market value of investment ₹ 3,000 charged from IFR and ₹ 1,000 charged from Revaluation A/c

(ii) Liability of workmen compensation is adjusted by WCR.

(iii) Ajay's share in Goodwill 40,000$\times \frac{5}{10}$ =₹ 20,000 is adjusted through capital account of Akshay and Abhishek in their gaine ratio 1:4

(iv) GR = NPSR – OPSR

Akshay:$\frac{2}{5} - \frac{3}{10} = \frac{5}{50}$ Abhishek:$\frac{3}{5} - \frac{2}{10} = \frac{20}{50}$

(v) Bank Balance: 10,000+1,000+33,220-10,170 = ₹ 34,050

(vi) In absence of information amount payable to Ajay is transferred to his Loan A/c

Adjustment of Life Policies in Case of Retirement

- When a joint life policy is taken by the firm on the lives of all the partners, following conditions will arise :

(a) When premium paid is treated as trade expenses :

In this situation surrender value of joint life policy is distributed between all the partners in their old profit sharing ratio and joint life policy will be shown in the balance sheet at surrender value.

i. Joint life policy is recorded at surrender value in the books

Joint Life Policy A/c   Dr.   (Surrender value on the date of retirement of partner)
    To All Partner's Capital A/c   (OPSR)
(Being distribution of surrender value in old ratio)

ii. Remaining Partner's Capital A/c   Dr.   (NPSR)
    To Joint Life Policy A/c   (Surrender value on the date of retirement of partner)
(Joint life policy A/c closed by transferring remaining amount to partner's capital A/c)

Note: Joint life policy is actually surrendered on the date of retirement of a partner and amount is received from insurance company.

i. For amount received from insurance company

Cash A/c   Dr.   (Surrender value received)
    To Joint Life Policy A/c
(Surrender Value Received)

ii. For amount received from insurance company

Joint Life Policy A/c Dr. (S.V.)
To All Partner's Capital A/c (OPSR)
(Distribution of surrender value received)

(b) When premium paid is treated as capital expenditure :

In this situation, joint life policy already appears in the balance sheet of the firm at surrender value on the date of retirement. Therefore, there is no need to pass any entry in the books. However, if there is revaluation on the date of retirement, then adjustment is made through the revaluation account. Joint life policy A/c appear in the balance sheet at its revalued price. If remaining partner's decide that joint life policy account should not appear in balance sheet, then pass the following entry:

Remaining Partner's Capital A/c Dr. (NPSR)
To Joint life policy A/c
(Joint life policy account closed by transferring it to remaining partner's capital account)

Note: Joint life policy is actually surrendered on the date of retirement of a partner and amount is received from insurance company.

1. On receiving surrender value
   Cash A/c Dr. (Surrender value)
   To Joint Life Policy A/c
   (Cash received on surrender of policy)
2. Joint Life Policy A/c Dr. (Balance amount if any)
   To All Partner's Capital A/c (OPSR)
   (Joint life policy account closed)

Note : If amount received is less than what is shown in books, reverse entry will be passed.

Illustration 21 :

X, Y and Z are partners sharing profits at 4:3:2 respectively. The surrender value of joint life policy is ₹ 90,000 on the date of retirement of Z. It is decided that joint life policy will not appear in balance sheet. A and B decide to share future profits equally.

Pass the entries under the following conditions :

(i) When premium paid is treated as trade expenses.

(ii) When the Joint Life Policy Account already appears in the balance sheet at its surrender value.

Solution : 1 **JOURNAL**

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
Date of Retirement	Joint Life Policy A/c Dr.		90,000	
	To A's Capital A/c			40,000
	To B's Capital A/c			30,000
	To C's Capital A/c			20,000
	(Joint Life Policy recorded on surrender value at the time of C's Retirement)			
Date Of Retire-Ment	A's Capital A/c Dr.		45,000	
	B's Capital A/c Dr.		45,000	
	To Joint Life Policy A/c			90,000
	(Being policy account closed)			

or

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
Date of Retirement	A's Capital A/c Dr.		5,000	
	B's Capital A/c Dr.		15,000	
	To C's Capital A/c			20,000
	(Share of C's in JLP charged to A and B in their gain ratio1: 3)			

Solution: 2

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
Date of	A's Capital A/c Dr.		45,000	

Retirement	B's Capital A/c Dr. To Joint Life Policy A/c (Being policy account closed)		45,000	90,000

Illustration 22 :

A, B, C are partners in a firm sharing profits in the ratio of 5:3:2. On the date of retirement of C. Joint Life Policy appears in balance sheet ₹ 10,000. Firm decide to surrender the policy and receives ₹ 12,000 from insurance company. Pass necessary Journal entries.

Solution:

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Cash A/c Dr. To Joint Life Policy A/c (Cash received at the time of surrender of policy		12,000	 12,000
	Joint Life Policy A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Balance of joint life policy distributed among the partners)		2,000	 1,000 600 400

Adjustment of Life Insurance policy at the time of Death of a Partner

Death is a universal truth that cannot be avoided. Therefore, a firm may take individual life policies and/or joint life policy on lives of all the partners.

For the purpose of maintaining liquidity and to arrange money to settle the account of deceased partner's legal representative's also life policies are taken by firms on the lives of partners.

Types of Policies :

1. Individual or Separate Life Policy
2. Joint Life Policy

1. **Individual or Separate Life Policy :** The firm can take separate/individual life policy on the life of partners. Premium is paid by firm and it is treated as expense. Therefore, at the end of the year premium A/c is transfer to PandL account. On the death of a partner amount payable to legal representatives of deceased partner is calculate as follows:

Policy amount of deceased partner	
Received from insurance company	**xxx**
(+) Surrender value of policies of survival partners'	**xxx**
Total Amount	**xxx**

Share of deceased partner:

Total amount X profits sharing ratio of deceased partner

Accounting treatment of individual life policy :

Journal Entries

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	1. For premium paid Insurance Premium A/c Dr. To Cash / Bank A/c (Insurance premium paid)			
	2. At the end premium A/c is transferred to PandL A/c Profit and Loss A/c Dr. To Insurance Premium A/c (Premium transferred to P and L A/c)			

	3. For Policy amount due on death of a partner Insurance Company A/c Dr. To Life Policy of Deceased A/c (Policy amount due)			
	4. For Policy amount received Bank A/c Dr. To Life Policy of Deceased Partner A/c (Policy amount received)			
	5. Policy amount of deceased partner+surrender value of policy of surviving partners are distributed between all the partners. Life Policy of Deceased Partner A/c Dr. Life Policies of other Partners A/c Dr. To All Partners Capital A/c (Total amount of policy distributed in all the partners)			

Alternative Method :

Policy amount of deceased partner	**xxx**
(+) Surrender value of policy of surviving partners'	**xxx**
Total Amount	**xxx**

Under this situation share of deceased partner is debited to remaining partners' capital A/c in gaine ratio and credited to deceased partner's capital A/c

Remaining Partner's Capital/ Current A/c Dr.

To Deceased Partner's Capital/Current A/c

(Deceased partners share in policy amount credited to his capital A/c)

Illustration 23 :

A, B and C share profit and losses of the firm in the ratio of 3:2:1. The firm had taken three individual life policies for ₹ 60,000, ₹ 50,000 and ₹ 80,000 for the lives of A, B and C. The firm pays ₹ 10,000,₹ 6,000 and ₹ 4,000 respectively on their policies as premium. The premium in charged to profit and loss A/c of the firm. A died on 1 July 2017 and the amount of his policy is received in full on 3 July. The surrender values of the policies of B and C on the date of death were ₹ 16,000 and ₹ 8,000 respectively which is to be shown in the books.

Pass Journal entries in the books of the firm and show the life policy in the Balance Sheet.

Journal

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
April 2017	Insurance Premium A/c Dr. To Cash / Bank A/c (Insurance premium paid)		20,000	 20,000
July 2017	Insurance Company A/c Dr. To Life Policy A/c (Policy amount due)		60,000	 60,000
July 2017	Bank A/c Dr. To Insurance Company A/c (Policy amount received)		60,000	 60,000
July 2017	Life Policy A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Policy amount and surrender value distributed among the partners)		84,000	 42,000 28,000 14,000

Balance Sheet of New Firm

Liabilities	Amount ₹	Assets	Amount ₹
		Life Policy Bond C (Surrender Value)	24,000

2. **Joint Life Insurance Policy on the lives of partners :** A partnership firm may decide to take joint life policy on the lives of all the partners. The firm pays the premium and the amount of policy is payable to the firm on the death of any partner or on the maturity of policy whichever is earlier. The accounting treatment of premium to be paid on joint life policy is made under the following three methods.

(I) When premium paid is treated as trade expense : In the situation accounting entries are:

Journal

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	1. On payment of premium Insurance Premium A/c Dr. To Cash / Bank A/c (Insurance Premium Paid)			
	2. At the end of the year Profit and Loss A/c Dr. To Insurance Premium A/c (Premium transferred to P and L A/c)			
	3. When policy amount becomes due Insurance Company A/c Dr. To Joint Life Policy A/c (Policy amount due)			
	4. For policy amount received Bank A/c Dr. To Insurance Company (Policy amount received)			
	5. For distribution of amount of policy Joint Life Policy A/c Dr. To All Partner's Capital A/c (Policy amount distributed)			

Note : The balance in Insurance Premium A/c (if any) on the date of death of the partner, will be transferred to Joint Life Policy A/c

Illustration 24 :

A, B and C are partners in a firm sharing profits in the ratio of 3:2:1. On 1-4-2013 firm took a joint life policy for ₹ 60,000 paying, ₹ 5,000 as premium annually. Premium paid is treated as business expense. On 5-4-2016 B died and the insurance claim was received on 8-4-2016. Pass the necessary Journal entries in the books of firm.

Solution :

Journal

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
2013 April, 1	Insurance Premium A/c Dr. To Bank A/c (Insurance premium paid)		5,000	 5,000
2014 March, 31	Profit and Loss A/c Dr. To Insurance Premium A/c (Premium transferred to P and L A/c)		5,000	 5,000

2014 April, 1	Insurance Premium A/c Dr. To Bank A/c (Insurance premium paid)		5,000	 5,000
2015 March, 31	Profit and Loss A/c Dr. To Insurance Premium A/c (Premium transferred to P and L A/c)		5,000	 5,000
2015 April, 1	Insurance Premium A/c Dr. To Bank A/c (Insurance premium paid)		5,000	 5,000
2016 March, 31	Profit and Loss A/c Dr. To Insurance Premium A/c (Premium transferred to P and L A/c)		5,000	 5,000
2016 April, 1	Insurance Premium A/c Dr. To Bank A/c (Insurance premium paid)		5,000	 5,000
2016 April, 5	Insurance Company A/c Dr. To Joint Life Policy A/c (Policy amount due)		60,000	 60,000
2016 April, 8	Bank A/c Dr. To Insurance Company (Policy amount received)		60,000	 60,000
2016 April, 8	Joint Life Policy A/c Dr. To Insurance Premium A/c (Insurance premium transferred to Joint life policy account)		5,000	 5,000
2017 March, 31	Joint Life Policy A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Joint Life Policy balance credited to partners Cap. A/c)		55,000	 27,500 18,333 9,167

Note : In the year of death of the partner, premium paid is transferred to joint life policy account.

(II) When premium paid is treated as Investment :

The element of investment is implied in life insurance, so some accountants do not consider it as expense but they consider it as an investment. Joint life policy account is debited by the amount of premium paid and shown in assets side of the balance sheets at the end of each year. The balance of joint life policy account is kept equal to the surrender value, so PandL account is debited with the difference of the amount of joint policy A/c and surrender value. The following entries will be passed in the books of firm.

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	1. On the payment of premium Joint Life Policy A/c Dr. To Bank A/c (Insurance premium paid)			
	2. On transferring the difference between the amounts of premium paid and surrender value to P and L A/c			

	Profit and Loss A/c Dr. To Joint Life Policy A/c (Premium transferred to P and L A/c) 3.When policy amount becomes due Insurance Company A/c Dr. To Joint Life Policy A/c (Policy amount due)			
	4. For policy amount received Bank A/c Dr. To Insurance Company (Policy amount received)			
	5. Balance of policy account distributed Joint Life Policy A/c Dr. To All Partner's Capital A/c (Policy amount distributed)			

Illustration 25 :

Pass the Journal entries and prepare Joint Life Policy A/c from the previous example (illustration 24) assuming that premium paid is treated as investment. The surrender value of policy is as follows; on31 March, 2013-Nil; on 31 March 2014-₹2,000; On 31 March, 2015-₹4,000.

Solution: **Journal**

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
2013 April, 1	Joint Life Policy A/c Dr. To Bank A/c (Insurance premium Paid)		5,000	5,000
2014 March, 31	Profit and Loss A/c Dr. To Joint Life Policy A/c (Premium transferred to P and L A/c)		5,000	5,000
2014 April, 1	Joint Life Policy A/c Dr. To Bank A/c (Insurance premium paid)		5,000	5,000
2015 March, 31	Profit and Loss A/c Dr. To Joint Life Policy A/c (Premium transferred to P and L A/c)		3,000	3,000
2015 April, 1	Joint Life Policy A/c Dr. To Bank A/c (Insurance premium paid)		5,000	5,000
2016 March, 31	Profit and Loss A/c Dr. To Joint Life Policy A/c (Premium transferred to P and L A/c)		3,000	3,000
2016 April, 1	Joint Life Policy A/c Dr. To Bank A/c (Insurance premium paid)		5,000	5,000
2016 April, 5	Insurance Company A/c Dr. To Joint Life Policy A/c (Policy amount due)		60,000	60,000
2016 April, 8	Bank A/c Dr. To Insurance Company (Policy amount received)		60,000	60,000

2016 April, 8	Joint Life Policy A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Policy amount distributed)		51,000	 25,500 17,000 8,500

Dr. **Joint Life Policy Account** **Cr.**

Date	Particulars	J.F.	Amount₹	Date	Particulars	J.F.	Amount₹
2013 April, 1	To Bank		5,000	2014 March, 31	By Profit and Loss A/c		5,000
			5,000				**5,000**
2014 April, 1	To Bank		5,000	2015 March, 31 March, 31	By Profit and Loss A/c By Balance c/d		3,000 2,000
			5,000				**5,000**
2015 April, 1 April, 1	To balance b/d To Bank		2,000 5,000	2016 March, 31 March, 31	By Profit and Loss A/c By Balance c/d		3,000 4,000
			7,000				**7,000**
2016 April, 1 April, 1 April, 8	To balance b/d To Bank To A's Capital To B's Capital To C's Capital		4,000 5,000 25,500 17,000 8,500	2017 April, 15	By Insurance Company		60,000
			60,000				**60,000**

(III) When premium paid is treated as Investment and joint life policy reserve is credited : Under this method the premium paid on the joint life policy is debited to joint life policy account. The amount of the premium paid is debited to the PandL Appropriation A/c and credited to joint life policy reserve account. The adjustment regarding difference between the premium paid and the surrender value is made through the joint life policy reserve account.

Journal

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	1. On payment of premium Joint Life Policy A/c Dr. To Bank A/c (Insurance premium paid)			
	2. On creation of joint life policy reserve A/c Profit and Loss Appropriation A/c Dr. To Joint Life Policy Reserve A/c (Joint Life Policy reserve created)			
	3. For transferring the difference between the premium paid and surrender value of the policy Joint Life Policy Reserve A/c Dr. To Joint Life Policy A/c (Difference charged to Joint life policy reserve A/c)			

	4. When policy amount becomes due Insurance Company A/c Dr. To Joint Life Policy A/c (Policy amount due)			
	5. For Policy amount received Bank A/c Dr. To Insurance Company (Policy amount received)			
	6. Balance of policy reserve account transferred: Joint Life Policy Reserve A/c Dr. To Joint Life Policy A/c (Balance of reserve A/c transferred to JLP A/c)			
	7. For distribution of amount of policy Joint Life Policy A/c Dr. To Partner's Capital A/c (Policy amount distributed)			

Illustration 26 :

Open the necessary accounts in the books of the firm from the data given in the previous example (illustration 24), if premium paid is treated as on investment and Reserve for Joint life Policy A/c is created.

Dr. **Joint Life Policy A/c** **Cr.**

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount₹
2013				2014			
April, 1	To Bank		5,000	March, 31	By JLP Reserve		5,000
			5,000				**5,000**
2014				2015			
April, 1	To Bank		5,000	March, 31	By JLP Reserve		3,000
				March, 31	By Balance c/d		2,000
			5,000				**5,000**
2015				2016			
April, 1	To balance b/d		2,000	March, 31	By JLP Reserve		3,000
April, 1	To Bank		5,000	March, 31	By Balance c/d		4,000
			7,000				**7,000**
2016				2017			
April, 1	To balance b/d		4,000	April, 5	By Insurance Company		60,000
April, 1	To Bank		5,000	April, 8	By JLP Reserve		4,000
April, 8	To A's Capital		32,000				
	To B's Capital		21,333				
	To C's Capital		10,667				
			64,000				**64,000**

Dr. **Joint Life Policy Reserve A/c** **Cr.**

Date	Particulars	J.F.	Amount₹	Date	Particulars	J.F.	Amount₹
2014				2014			
March, 31	To JLP		5,000	March, 31	By Profit and Loss Appropriation A/c		5,000
			5,000				**5,000**
2015				2015			
March, 31	To JLP		3,000	March, 31	By Profit and Loss Appropriation A/c		5,000

2015 March, 31	To Balance c/d	2,000				
		5,000				**5,000**
2016 March, 31	To JLP	3,000	2015 April, 1	By Balance b/d		2,000
2016 March, 31	To Balance c/d	4,000	2016 March, 31	By Profit and Loss Appropriation		5,000
		7,000				**7,000**
2016 April, 8	To JLP	4,000	2016 April, 1	By Balance b/d		4,000
		4,**000**				**4,000**

Retirement/Death of a Partner during the accounting year

The following adjustments are to be made, in case of death/ retirement of a partner, in addition to adjustment in capital.

1. Salary, Bonus, Commission and Fees
2. Interest on Capital
3. Drawings and interest on drawings
4. Share in joint life policy or individual life policy
5. Share in profits of firm

Calculation of share in profits :

(i) **On the basis of time :** Under this situation partnership deed may provide that either last year's profit or average profit of last few years may be taken as basis for determining the share of profits of retiring/deceased partner.

Share in profit = Amount of Profit till retirement/death X Profit of sharing ratio of retired/deceased partner

(ii) **On the basis of turnover :** In such cases the share of profit of retired/deceased partner will be computed on the basis of sales till the date of retirement/death of a partner and the profit and sales of last year. Firms profit is computed on sales basis.

Profit share of retired/deceased partner = $\frac{\text{Profit of last year X sales till retirement death}}{\text{Sales of last year}}$

Illustration 27 :

A, B, and C are partner in a firm sharing profits in the ratio of 3:2:1. A died on 31-08-2016. The sales and profit for the year ended on 31-03-2016 were ₹ 2,00,000 and ₹ 48,000 respectively. Find the share of A's profit. (i) On the basis of time (ii) On the basis of turnover.

(Sales from 1-4-2016 to 31-8-2016 ₹ 60000

Solution :

(i) On the basis of time

48000 x 5/12 = ₹ 20,000

A's Share in profit 20000 x 3/6 = ₹ 10,000

Profit and Loss Suspense A/c	Dr.	10,000	
To A's Capital/Current A/c			10,000
(Share of profit transferred to his capital A/c)			

(ii) On the basis of turnover

48,000 / 2,00,000 x 60000 = ₹ 7,200

Profit and Loss Suspense A/c	Dr.	7,200	
To Retiring/ Deceased Partner Capital A/c			7,200
(Share of profit transferred to his capital A/c)			

6. Share in goodwill of the firm

7. Share in profit/loss on revaluation of assets and reassessment of liabilities
8. Share in accumulated profits/loss and reserves

The format of retire/deceased partner's capital A/c

Dr. Retiring/ Deceased Partners Capital A/c Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d (if any) To Current A/c (if any) (Balance transfer) To Revaluation A/c (Share of loss) To Profit and Loss A/c (Dr. Balance) To Drawings A/c To Interest on Drawings A/c To P and L Suspense A/c (Share of loss of Current Year) To Balance Payable (b/f)		By Balance b/d By Current A/c (Balance transfer) By Remaining Partners Cap. A/c (Share of goodwill) By Revaluation A/c (Share of profit) By P and L A/c / General Reserve By PandL Suspense A/c (Share of profit of Current Year) By J.L.P. A/c (his share) By Self L.P. A/c (his share) By Remaining Partners Capital A/c (Share in surrender value of Life Policies of remaining partners) By Interest on Capital A/c By Salary/Fees/Bonus A/c	

Note : If partner's current accounts are maintained, then firstly, all the adjustments are to be made in the current account, then the final balance of the current account is transferred to capital a/c

Accounting Treatment for Non-Settlement of Final Payment of Retiring Partner and deceased Partner

As per provisions of section 37 of the Indian partnership Act, 1932, if amount of retiring/deceased partner still remains to be paid then:

Retiring partner or legal representative of deceased partner has the choice to get either of the following till the final settlement.

(i) Interest @ 6% p.a. on the balance amount

(ii) Share in the profit earned proportionate to his amount outstanding to total capital

Share profit =

$$\frac{\text{Outstanding amount of outgoing partner X profit from the date of retirement/death of a partner}}{\text{Total Capital}}$$

Illustration 28 :

A, B and C are partners in a firm sharing profits in the ratio of 2:2:1. C retired on 30-09-2016. On this date capital of A, B and C, after all necessary adjustments stood at ₹ 60,000. A and B continued to carry on the business for 6 months without settling the amount of C. During the period of 6 months ended on 31-3-2017 a profit of ₹ 50,000 is earned by the firm. Calculate amount payable to C.

Solution : According to section 37 of the Indian Partnership Act, 1932

Option I : ₹ 60,000 x 6/100 x 6/12 = ₹ 1,800

Option II : ₹ 60,000 x 50,000 /2,00,000 = ₹ 15,000

C should exercise option (ii) since the amount payable to him under this option is more as compared to the amount payable to him under option (i)

Illustration 29 :

Som, Mangal and Budh are partners in a firm. Their Balance Sheet as on 31st March, 2017 was as follows.

Liabilities	Amount ₹	Assets	Amount ₹
Capital:		Buildings	42,000
Som 30,000		Investments	17,000

Mangal 20,000		Joint Life Insurance Policy	15,000
Budh 15,000	65,000	Stock	18,000
Som's Current A/c 7,000		Debtors	16,000
Mangal's Current A/c 3,000	10,000	Budh's Current A/c	2,000
General Reserve	12,000	Cash at Bank	20,000
Bank Loan	28,000		
Joint Life Policy Reserve	15,000		
	1,30,000		**1,30,000**

On 30th September, 2017 Budh expired. Other information is as follows :

(i) He was entitled to salary of ₹ 500 per month and interest on capital at 10% p.a. **(ii)** He withdrew ₹ 3,000 for his daughter's marriage from the firm. **(iii)** His share in profit for current year will be based on last year's profit which was ₹ 6,000. **(iv)** Goodwill is valued at 90% of average profit of last four years. In last four years profits were, ₹ 3,000, ₹ 5,000 ₹ 4,000 and ₹ 6,000 respectively. **(v)** The present value of investment is₹ 20,500 and depreciation is to be charged ₹ 2,000 on Building. **(vi)** Payment received ₹ 30,000 for Joint Life Insurance Policy. **(vii)** Amount due to Budh is paid ₹ 5,750 in cash immediate and balance of amount transferred to his heir's loan account.

Prepare Budh's Capital Account and his Current Account.

Solution: Dr. Budh's Current Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	2,000	By General Reserve	4,000
To Drawing	3,000	By Salary	3,000
To Budh's Capital A/c	15,750	By Interest on Capital	750
		By PandL Suspense A/c (share in profit)	1,000
		By Som's Current A/c	750
		By Mangal's Current A/c	750
		By Revaluation A/c	500
		By Joint Life Policy	10,000
	20,750		**20,750**

Dr. Budh's Capital Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Budh's Executor A/c	30,750	By Balance b/d	15,000
		By Budh's Current A/c	15,750
	30,750		**30,750**

Dr. Budh's Executor Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Cash A/c	5,750	By Budh's Capital A/c	30,750
To Budh's Executor Loan A/c	25,000		
	30,750		**30,750**

Working Note:

(i) In absence of provisions in partnership deed profits are shared equally.

(ii) Salary, interest on capital and share in profit is credited to his capital account for 6 months.

(iii) Share in profits ₹ 6,000 x$\frac{6}{12}$x $\frac{1}{3}$= ₹ 1,000

(iv) Average profit = $\frac{3{,}000+5{,}000+4{,}000+6{,}000}{4}$ = ₹ 4,500

Budh's share in goodwill 40,00$x\,\frac{1}{3}$ =₹ 1,500

(v) Share in profit on revaluation 15,00$x\,\frac{1}{3}$ =₹ 500

(vi) Budh's share in Joint Life Policy

Entries:

Som's Current A/ Dr. 750
Mangal's Current A/c Dr. 750
To Budh's Current A/c 1500

(5) Dr. Revaluation Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Buildings A/c	2,000	By Investments	3,500
To Profit	1,500		
	3,500		**3,500**

B's share in Profit on Revaluation : 1,500 x$\frac{1}{3}$ = 500 ₹

(6) B's share in Joint Live Policy

Dr. Joint Life Policy Account Cr.

Particulars	Amount ₹	Assets	Amount ₹
To Balance b/d	15,000	By J.L.P Reserve A/c	15,000
To Som's Current A/c	10,000	By Bank A/c	30,000
To Mangal Current A/c	10,000		
To Budh's Current A/c	10,000		
	45,000		**45,000**

Illustration 30 :

A, B and C were partners in a firm sharing profits in the ratio 5:3:2. On 1-3-17 their Balance Sheet was as follows:

Balance Sheet

As at 31 March, 2017

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	21,000	Goodwill	10,000
Reserves	6,000	Buildings	20,000
Investment Fluctuation Reserve	2,000	Machinery	30,000
Workmen Compensation Reserve	10,000	Investments	10,000
Capitals A/c's		Patents	11,000
A 40000		Stock	10,000
B 25000		Debtors	8,000
C 15000	80,000	Cash	19,000
		Advertisement Expenses	1,000
	1,19,000		**1,19,000**

A died on 12-6-2017. It was agreed among his executors and the remaining partners that :

(i) Goodwill to be valued at two and half years purchase of the average profits of the previous 4 years, which were

Years	2016-17	2015-16	2014-15	2013-14
Profits	₹ 13000	₹ 12000	₹ 20000	₹ 15000

(ii) Patents valued at ₹ 8500, Machinery at ₹ 28000, Investments at ₹ 11000, Stock at ₹ 12000, Buildings at ₹ 25000 and Bad-debts at ₹ 500 **(iii)** Share in profits will be calculated on the basis of last year profits. **(iv)** Interest on capital be provided @ 10% p.a. **(v)** They had of Joint Life Policy ₹ 30000 and the annual premium has been charged to PandL A/c **(vi)** His Drawings up to date of death was ₹ 2400 and interest on drawings was ₹ 200 **(vii)** Liability against workmen compensation is determined ₹ 4000 **(viii)** Salary ₹ 12000 p.a. **(ix)** ₹ 28650 to be paid immediately to the executors of A and the balance transferred to his (executors) Loan Account. Prepare A's Capital Account and A's Executor's Account.

Solution : Dr. A's Capital Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Goodwill	5,000	By Balance b/d	40,000

To Advertisement Expenses	500	By Interest on capital	800
To Drawings	2,400	By Reserve	3,000
To Interest on Drawings	200	By Investment Fluctuation Reserve	1,000
To A's Executor A/c	78,650	By Workmen Compensation Reserve	3,000
		By Revaluation A/c	1,500
		By B's Capital A/c	11,250
		By C's Capital A/c	7,500
		By PandL Suspense A/c	1,300
		By Salaries A/c	2,400
		By Life Policies ₹ 30000 x 5 / 10	15,000
	86,750		**86,750**

Working Notes :

(i) Interest on Capital $40000 \times \frac{10}{100} \times \frac{73}{365}$ = ₹ 800 ;

(ii) Salary $12{,}000 \times \frac{73}{365}$ = ₹ 2,400

(iii) Share in Profits $13000 \times \frac{73}{365} \times \frac{5}{10}$ = ₹ 1300

(iv) Share in Goodwill: Average Profit = $\frac{13000+12000+20000+15000}{4}$ = ₹15,000;

Goodwill = 15,000x2.5 = ₹ 37,500

A's share in Goodwill = $37{,}500 \times \frac{5}{10}$ = ₹ 18,750 is adjusted through capital account of B and C in their Gaine ratio 3:2

(v) WCR 10,000 A's Share $6{,}000 \times \frac{5}{10}$ = ₹ 3,000

(-) WCL <u>-4,000</u>

Surplus ₹ <u>6,000</u>

(6) Dr. Revaluation Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Patent A/c	2,500	By Buildings A/c	5,000
To Machinery A/c	2,000	By Investment A/c	1,000
To Bad debts	500	By Stock A/c	2,000
To Profit	3,000		
	8,000		**8,000**

Dr. A's Executors Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Bank	28,650	By A's Capital A/c	78,650
To A's Executor's Loan A/c	50,000		
	78,650		**78,650**

Illustration 31 :

A, B and C were carrying on business with the following assets with effect from 1-4-2017. Furniture ₹ 18,000, Machine ₹ 72,000, Cash ₹ 10,000, Debtors ₹ 20,000. Their profit sharing ratio was 5:3:2. Capital is also shared in the same ratio. B died on 30-9-2017. His son claimed his father's interest in the firm.

The following was the settlement : **(i)** Allow his capital to his credit on the date death. **(ii)** Give 5% p.a. interest on his capital. **(iii)** He had been drawings @ ₹ 600 per month, which he withdrew at the beginning of each month. He is allowed to retain these drawings as a part his share of profit. **(iv)** Interest @ 6% p.a. be charged on his drawings. **(v)** Goodwill was valued twice the average profit, which were ₹ 21,000. Prepare B's personal Account.

Solution: Dr. B's Capital Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Drawings	3,600	By balance b/d	3,6000

To Interest on Drawings $3600 x \frac{3.5}{12} x \frac{6}{100}$	63	By Interest on Capital $36000 x \frac{5}{100} x \frac{6}{12}$	900
		By P and L Suspense A/c	3,600
To B's Executor A/c	49,437	By A's Capital A/c	9,000
		By C's Capital A/c	3,600
	53,100		**53,100**

Working Notes:

(i) Balance sheet is prepared to find out the capitals of the partners

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Partners' Capital (Bal. Figure)		Cash	10,000
A 60000		Debtors	20,000
B 36000		Furniture	18,000
C 24000	1,20,000	Machinery	72,000
	1,20,000		**1,20,000**

As the total capital is ₹ 1,20,000., which is to be distributed in ratio 5 : 3 : 2

(ii) Goodwill of the firm : ₹ 21,000 x 2 = ₹ 42,000

B's share in goodwill $42{,}000 x \frac{3}{10}$= ₹ 12,600 is adjusted through the capital account of A and C in Gain ratio of 5:2.

(iii) B's share in profit is equal to his drawings.

(iv) Interest on drawing is calculated for $\frac{6+1}{2}$=3.5 months.

Illustration 32 :

Khanna, Seth and Mehta were partners in a firm sharing profits in the ratio of 3:2:5. On 31.12.2016 the Balance Sheet of Khanna, Seth and Mehta was as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Capitals:		Goodwill	3,00,000
Khanna 3,00,000		Land and Buildings	5,00,000
Seth 2,00,000		Machinery	1,70,000
Mehta 5,00,000	10,00,000	Stock	30,000
General Reserve	1,00,000	Debtors	1,20,000
Loan from Seth	50,000	Cash	45,000
Creditors	75,000	Profit and Loss A/c	60,000
	12,25,000		**12,25,000**

On 14th March 2017, Seth died. The partnership deed provided that on the death of a partner the executor of the deceased partner is entitled to: **(i)** Balance in Capital Account; **(ii)** Share in profits up to the date of death on the basis of last year's profit; **(iii)** His share in profit/loss on revaluation of assets and re-assessment of liabilities, is calculated on the basis of following: **(a)** Land and Buildings was to be appreciated by ₹ 1,20,000; **(b)** Machinery was to be depreciated to ₹ 1,35,000 and Stock to ₹ 25,000, **(c)** A provision of two and half percent for bad and doubtful debts was to be created on debtors. (iv) The net amount payable to Seth's executors was transferred to his loan account, which was to be paid later.

Prepare Revaluation Account, Partners Capital Accounts, Seth's Executors A/c and the Balance Sheet of Khanna and Mehta who decided to continue the business keeping their capital balances in their new profit sharing ratio. Any surplus or deficit to be transferred to current accounts of the partners.

Solution: **Dr.** **Revaluation Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Machinery A/c	35,000	By Land and Buildings A/c	1,20,000
To Stock A/c	5,000		
To Provision of Bad-debts A/c	3,000		

To profit transferred: Khanna's Capital A/c 23100 Seth's Capital A/c 15400 Mehta's Capital A/c 38500	77,000		
	1,20,000		**1,20,000**

Dr. **Partner's Capital Account** **Cr.**

Particulars	Khanna ₹	Seth ₹	Mehta ₹	Particulars	Khanna ₹	Seth ₹	Mehta ₹
To Goodwill	90,000	60,000	1,50,000	By balance b/d	3,00,000	2,00,000	5,00,000
To PandL A/c	1,82,000	12,000	30,000	By General Reserve	30,000	20,000	50,000
To P and L Suspense	-	2,400	-	By Revaluation	23,100	15,400	38,500
To Seth's Executor A/c	-	1,61,000	-				
To Balance c/d	2,45,100	-	4,08,500				
	3,53,100	**2,35,400**	**4,08,500**		**3,53,100**	**2,35,400**	**5,88,500**

Dr. **Seth's Executors Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Seth's Executor's Loan A/c	2,11,000	By Seth's Capital A/c	1,61,000
		By Seth's Loan A/c	50,000
	2,11,000		**2,11,000**

Balance Sheet Khanna and Seth

As at 14 March, 2017

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Land and Buildings	620000
Khanna 2,45,100		Machinery	135000
Mehta 4,08,500	6,53,600	Stock	25000
Creditors	75,000	Debtors 1,20,000	
Seth's Executor's Loan A/c	2,11,000	(-) PBD 3,000	117000
P and L Suspense A/c	2,400	Cash	45000
	9,42,000		**942000**

Working Notes:

(i) Seth's share in Loss 60,000x$\frac{73}{365}$x$\frac{2}{10}$= ₹2,400

(ii) Adjustment Capital:

Total adjusted capital of Khanna and Mehta is 2,45,100+4,08,500=₹ 6,53,600 (capital of the new firm)

Khanna's capital 6,53,600×$\frac{3}{8}$ =₹ 2,45,100

Mehta's capital 6,53,600×$\frac{5}{8}$ =₹ 4,08,500

Summary

- **Retirement of a partner :** An existing partner may decide to leave firm due to ill health, old age, misunderstanding or mutual consent. A partner leaving the firm is known as retiring partner.
- **Retiring partner/outgoing partner :** The partner who leaves the firm is known as outgoing partner
- **Modes or ways of retirement** (i) By giving notice in writing to all other partners;(ii) by the virtue of an express agreement and (iii) with the consent of all the partners.
- **Problems arising at the time of retirement of a partner :** (i) Calculation of new profit sharing ratio and gaine ratio (ii) valuation and accounting treatment of goodwill. (iii) Revaluation of assets and reassessment of liabilities (iv) Adjustment of accumulated profits/losses and reserves (v) Adjustment of capital (vi) Settlement of the amount payable to retiring partner.

- **New profit sharing ratio:** New profit sharing ratio is the ratio in which remaining partners will share the future profits. (NPSR = OPSR + GR)
- **Gain Ratio :** The ratio in which old partners acquire retiring partner's share of profits is called the gain ratio. (G.R. = NPSR-OPSR)
  If is necessary to calculate gain ratio because the amount of goodwill is to be paid by remaining partners to retiring partner in their Gain Ratio.
- **Accumulated Profits/Losses and Reserves :** These items balance should be transferred to capital account of all partners in their old profit sharing ratio.
- **Settlement of amount due to the retiring partner:** The amount due to a retiring partner has to be paid to him over as lumpsum or transferred to his loan account. His loan may be payable with or without interest on investment.

Glossary

- **Retirement of a partner :** The partner who leaves the firm is known as retiring partner.
- **New profit sharing ratio :** New profit sharing ratio = Old profit sharing ratio - Gain Ratio
- **Gain Ratio :** New Profit Sharing Ratio- Old Profit Sharing Ratio
- **Joint Life Policy (JLP) :** Joint Life Policy means an insurance policy which is taken up by the firm on the lives of all the partners collectively.
- **Individual Life Policy (ILP) :** Individual Life Policy is taken by the firm in the name of an individual partner of the firm.
- **Surrender Value :** This is the value, which the insurance company will pass on to the firm if the policy is discontinued.

Questions for Exercise

Multiple Choice Questions :

1. A, B and C are partners sharing profits in the ratio of 2:2:1. On retirement of B, goodwill was valued at ₹30,000. Find the contribution of A and C to compensate B:
(a) ₹ 20,000 and ₹ 10,000 **(b)** ₹ 8,000 and ₹ 4,000
(c) ₹ 20,000 and ₹ 10,000 **(d)** ₹ 15,000 and ₹ 15,000

2. X, Y, Z were partners sharing profits in ratio of 5:3:2. Goodwill does not appears in the books, but it is agreed to be worth ₹1,00,000. X retires from the firm and Y and Z decide to share future profits equally. X's share of goodwill will be debited to Y's and Z's capital A/cs in ratio:
(a) 1/2: 1/2 **(b)** 2:3 **(c)** 3:2 **(d)** None

3. A, B and C are partners sharing profits in the ratio 1/2 , 3/10 and 1/5. B retires from the firm, A and C decide to share the future profits in 3:2. Calculate gain ratio.
(a) 1:2 **(b)** 3:2 **(c)** 2:3 **(d)** None

4. At the time of retirement of a partners, firm gets........ from the insurance company against the joint life policy.
(a) Policy value for the retiring partner and surrender value for the rest
(b) Surrender value **(c)** Policy amount **(d)** None of these

5. B, C, D are partners sharing profits in the ratio 7:5:4. D died on 30th June 2017 and profits for the year 2016-2017 were ₹ 12,000. How much share in profits will be credited to D's Account?
(a)₹ 3,000 **(b)** ₹ 750 **(c)** Nil **(d)** ₹ 1,000

6. The balance of joint life policy account as shown in the balance sheet represents:
(a) Surrender value of a policy **(b)** Annual premium of Joint Life Policy
(c) Total premium paid by the firm **(d)** Amount receivable at the maturity of the policy

7. After the death of a partner, amount payable to him is received by:
(a) Government **(b)** by his son **(c)** Executors of deceased partner **(d)** None

8. How is the premium paid on the JLP of the partners treated? It is ------ to the ------- accounts:
(a) Credited, Partner's Current A/c **(b)** Credited, Profit and Loss A/c
(c) Debited, Partner's Capital A/c **(d)** Debited, Profit and Loss A/c

9. A, B, C are partners sharing profits and loss in 5:3:2. The firm's balance sheet as on 31-3-2017 shows reserve balance of ₹ 25,000. Profit of the year ₹ 50,000. Joint Life Policy of ₹ 1,00,000, Fixed, assets of ₹ 1,20,000. On 1st June C died and on same date the executors of C will get along with capital:

(a) Share in joint life policy **(b)** Share in reserves

(c) Proportionate share of profit upto the date of death **(d)** All of the above

10. Joint Life Policy amount received by a firm is distributed in------

(a) Opening Capital Ratio **(b)** Closing Capital Ratio

(c) Old profit sharing ratio of partners **(d)** New profit sharing ratio of partners

Very Short Answer type Questions :

1. What is meant by retirement of a Partner?

2. State any two modes of retirement?

3. What is Joint Life Insurance Policy?

4. What is Surrender Value?

5. A, B and C are partners in a firm sharing profits in the ratio of 1/2: 3/10: 2/10. Calculate New profit sharing ratio and Gain ratio when: (i) A retires. (ii) B retires. (iii) C retires.

Ans. : New profit sharing Ratio: (i) 3:2 (ii) 5:2 (iii) 5:3 Gain Ratio: (i) 3:2 (ii) 5:2 (iii) 5:3

6. A, B and C are partners in a firm sharing profits in the ratio of 2:1:2. A retires and his share is entirely taken by B. Calculate New profit sharing ratio.

Ans.: New profit Sharing Ratio: 3:2

7. A, B and C are partners in a firm sharing profits in the ratio of ¼: 2/5: 7/20. B retires and his share is taken by A and C in the ratio of 1:2. Calculate New profit sharing ratio and Gain ratio.

Ans.: New profit Sharing Ratio: 23:37 Gain Ratio: 1:2

8. A, B and C are partners in a firm sharing profits in the ratio of 4:3:1. B retires selling his share of profit to A and C for ₹8,100, ₹3,600 being paid by A and ₹ 4,500 by C. Calculate New profit sharing ratio and Gain ratio.

Ans.: New profit Sharing Ratio: 2:1 Gain Ratio: 4:5

9. A, B and C are partners in a firm sharing profits in the ratio of 4:3:2. A retires and new profit sharing ratio of B and C will be 2:1. Calculate Gain ratio.

Ans.: Gain Ratio: 3:1

10. A, B and C are partners in a firm sharing profits in the ratio of 3:4:1. A retires. He surrendered 2/3rd of his share in favour of B and remaining in favour of C. Calculate new profit sharing ratio and Gain ratio.

Ans.: New profit sharing Ratio: 3:1 Gain Ratio: 2:1

Short Answer type Questions :

1. When final payment of a retiring partner is settled out at the time of retirement? Give rights of partners under Section 37 of Indian Partnership Act, 1932?

2. What do you mean by Gain ratio? How is it calculated?

3. Distinguish between sacrifice ratio and Gain ratio of partners?

4. A, B and C are partners in a firm sharing profits in the ratio of 2:3:4. C retires and the goodwill of the firm is valued at ₹45,000. Goodwill appeared in the books at ₹27,000. Pass necessary journal entries for treatment of goodwill.

5. A, B and C are partners in a firm sharing profits in the ratio of 5:3:2. B retires and the goodwill of the firm is valued at ₹ 21,000. Pass necessary journal entries for treatment of goodwill.

6. A, B and C are partners in a firm sharing profits in the ratio of 1:2:3. B retires and balance of his capital account after making all adjustments stands at ₹1,00,000. A and C agreed to pay him ₹1,30,000 in full settlement of his account. Pass necessary journal entries for treatment of goodwill, if the new profit sharing ratio is 1:3.

7. A, B and C are partners in a firm. A retires on 1st January, 2014. On the date of retirement, ₹80,000 is due to him in all. It is agreed to pay him this amount in instalments every year at the end of the year. Prepare A's Loan A/c in the following cases :

(i) Four yearly instalments plus interest @10% p.a. **(ii)** Three instalments of ₹ 25,000 including interest @ 10% p.a. on the outstanding balance and the balance including interest in the fourth year.

8. A, B and C are partners in a firm whose books are closed on March 31st each year. A died on 30-6-17 and according to the agreement, the share of profits of a deceased partner upto date of death is to be calculated on the basis of the average profits for the last five years. The net Profits/Loss for the last 5 years have been: ₹ 14,000, ₹18,000, ₹ 22,000, ₹(10,000)Loss, ₹ 16,000 respectively. Calculate A's share of the profits up to the date of death and pass necessary Journal entry.
   Ans.:₹ 1000
9. X, Y and Z are partners sharing profits in the ratio 3:2:1. X died on 10-4-2017. The sales and profits for 2016 were ₹ 2,00,000 and ₹ 20,000 respectively, sales from 1-1-17 to 10-4-17 was ₹ 120000. Find the share of X's profit.
   Ans. : ₹ 6000
10. A, B and C are equal partners in a firm. They were insured separately for ₹ 30000, ₹ 25000 and ₹ 40000. The premium is paid by the firm. A died and the policy money is received from the Insurance Company. The surrender values of the of policies of B and C was ₹ 3000 and ₹ 6000, Pass necessary Journal entries.

Essay type Questions :

1. How is Partner's share determined on the retirement or death? Explain.
2. What problems do arise on retirement or death of a partner and how are they settled?
3. How is accounting done for joint life insurance policy and several life insurance policies in the books of a firm? Explain.
4. What are the different methods of making payment due to a retiring partner? Explain.

Answers of Multi Choice Questions

Q.No.	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Ans.	B	B	A	B	B	A	C	D	D	C

Numerical Questions :

1. X, Y and Z were partners in a firm sharing profits in the ratio of 1/2: 1/3: 1/6 respectively. The Balance Sheet of the firm on 31st December, 2016 stood as follows:

Liabilities	**Amount(₹)**	**Assets**	**Amount(₹)**
Creditors	9,500	Cash at Bank	1,250
Bills Payable	2,500	Debtors 8,000	
Reserve Fund	6,000	Less: Provision for DD 250	7,750
Capitals:		Stock	12,500
X 20,000		Motor Vans	4,000
Y 15,000		Machinery	17,500
Z 12,500	47,500	Building	22,500
	65,500		**65,500**

Y retires from the firm on the above date subject to the following conditions: **(a)** Goodwill of the firm be valued at ₹ 9,000 and is not to be shown in the books of the firm. **(b)** Machinery would be depreciated by 10% and motor vans by 15%, **(c)** Stock would be appreciated by 20% and Buildings by 10%. **(d)** The provision for doubtful debt would be increased by ₹ 975. **(e)** Liability for workmen's compensation to the extent of ₹ 825 would be created. It was agreed that X and Z would share profits in future in the ratio of 3:2 respectively. You are required to prepare the Revaluation A/c, Capital A/c of partners and Balance Sheet of the firm after the retirement of Y.

Also solve if it is assumed that partners decided to show the assets and liabilities at their old book values.

Ans.: (i) Revaluation profit ₹ 600, Y's loan A/c ₹ 20,200, capital A/c X ₹ 22,400, Z ₹ 11,500 B/s₹ 66,925 **(ii)** Ans. Memorandum Revaluation A/c profit ₹600,capital A/c X ₹ 22,040,Z ₹ 11260 B/S₹65500(Total).

2. A, B and C are partners sharing profits in the ratio of 4:3:2. Their Balance Sheet on 31st March, 2017 was as follows:

Balance Sheet

Liabilities	**Amount(₹)**	**Assets**	**Amount(₹)**
Creditors	33,000	Cash	10,400

Employee'sProvident Fund	4,000	Debtors	15,000
General Reserve	27,000	Stock	30,000
Capital:		Machinery	50,000
A 70,000		Land and Building	1,00,000
B 45,000		Profit and Loss A/c	3,600
C 30,000	1,45,000		
	2,09,000		**2,09,000**

The firm had a Joint Life Insurance Policy for ₹ 40,000. The surrender value of the policy was ₹ 13,500 as on 31st March 2017. B retires on the above date on the following conditions :

(a) Land and Buildings are undervalued by ₹ 20,000. **(b)** Goodwill is to be valued at ₹ 18,000. **(c)** A provision for doubtful debts of 5% is to be created and Machinery be written down by 10% and Stock by 5%. **(d)** A provision of ₹ 1,500 be made in respect of legal charges. **(e)** Joint Life Policy will appear in Balance Sheet.

B to be paid ₹ 5,000 and balance be transferred to his loan account. Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of A and C.

Ans. : Revaluation profit ₹ 11,250; B's Loan A/c ₹ 62,050; Capital A/c A₹ 87,400 C ₹ 38,700; B/S ₹ 2,26,650

3. A and B are partners sharing profits in the ratio of A 1/2, B 1/3 and transfer to reserve 1/6. Their Balance Sheet as at 31st March, 2017 was as follows:

Liabilities	Amount(₹)	Assets	Amount(₹)
Employee's Provident Fund	18,000	Goodwill	15,000
Reserve Fund	12,000	Plant	90,000
Sundry Creditors	10,000	Patents	4,400
Profit and Loss A/c	24,000	Stock	30,000
Capitals:		Investments	20,000
A 80,000		Debtors 20,000	
B 40,000	1,20,000	Less: Provision 400	19,600
		Cash	5,000
	1,84,000		**1,84,000**

B retires on 1st April 2016. The terms were: **(i)** Goodwill is to be valued at ₹ 50,000. **(ii)** Value of Patents is to be increased by ₹ 3,000, but Plant was found over-valued by ₹ 15,000. **(iii)** Provision for doubtful debts should be 5% on debtors and provision for discount should also be made on debtors and creditors at 3%. **(iv)** Out of insurance which was entirely debited to profit and Loss Account ₹ 870 be carried forward as unexpired insurance. **(v)** Investments were revalued at ₹ 16,000. Half of these investments were taken over by B. **(vi)** There is a claim for Workmen's Compensation to the extent of ₹ 5,000.

B was paid off in full. A borrowed the necessary money from the bank on the security of plant and stock to pay off B. Prepare Revaluation Account, Capital Accounts and the Balance Sheet of A.

Ans.: Revaluation Loss ₹ 21,000; Bank Loan ₹ 47,000; Capital A/c A ₹ 60,000; B's ₹ 1,39,700

4. R, S and T were partners in a firm sharing profits in 2:2:1 ratio. On 31-3-2017, their Balance Sheet was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Bank loan	12,800	Cash	51,300
Sundry Creditors	25,000	Bills Receivable	10,800
Capitals		Debtors	35,600
R 80,000		Stock	44,600
S 50,000		Furniture	7,000
T 40,000	1,70,000	Plant and Machinery	19,500
Profit and Loss A/c	9,000	Buildings	48,000
	2,16,800		**2,16,800**

S retired from the firm on 1-4-2017 and his share was ascertained on the revaluation of assets as follows : Stock ₹ 40,000; Furniture ₹6,000; Plant and Machinery ₹ 18,000; Buildings ₹ 40,000; ₹ 1,700 were to be provided for doubtful debts. The goodwill of the firm was valued at ₹ 12,000.

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

Prepare Revaluation Account, Partners' Capital Accounts, S's Loan Account and Balance Sheet on 1-4-2017.

Ans. : Revaluation Loss ₹ 16,800; S's Loan A/c ₹ 33,600; Capital A/c R ₹ 73,680; T ₹ 36,840; B/s ₹ 1,81,920

5. The Balance Sheet of A, B and C who were sharing profits in proportion of their capitals, stood as follows on 31st March, 2017.

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	6,000	Cash at Bank	5,500
Employee's Provident Fund	900	Sundry Debtors 5,000	
A's Capital A/c	16,000	Less: Provision 100	4,900
B's Capital A/c	12,000	Stock	8,000
C's Capital A/c	8,000	Plant and Machinery	8,500
Contingency Reserve	9,000	Factory Land and Buildings	25,000
	51,900		**51,900**

B retires and the following adjustments of the assets and liabilities have been agreed upon before the ascertainment of the amount payable by the firm to B: **(a)** That the stock be depreciated by 6% **(b)** That the provision for doubtful debts be brought upto 5% on debtors. **(c)** That the factory Land and Building be appreciated by 20%. **(d)** That a provision of ₹ 770 be made in respect of outstanding legal charges. **(e)** That the goodwill of the entire firm be fixed as ₹ 10,800 and B's share of the same be adjusted into the accounts of A and C who are going to share in future in the proportion of 5/8: 3/8 (No goodwill account is to be raised). **(f)** That the entire capital of the firm as newly constituted be fixed at ₹ 28,000 between A and C in the proportion of 5/8:3/8 after passing entries in their accounts for adjustments(i.e. actual cash to be paid off or to be brought in by the continuing partners as the case may be).

Pass the necessary journal entries to give effect to the above arrangements and prepare the Balance Sheet of A and C after transferring the amount due to B to separate loan account in his name.

Ans.: Revaluation profit ₹ 3,600; B's Loan ₹ 19,800; Capital A/c A₹ 17,500; C ₹ 10,500; B/s ₹ 55,470

6. J, H and K were partners in a firm sharing profits in the ratio of 5:3:2. On 31-3-2017 their Balance Sheet was as follows:

Liabilities		Amount(₹)	Assets		Amount(₹)
Creditors		42,000	Land and Buildings		1,24,000
Investment Fluctuation Fund		20,000	Motor Vans		40,000
Profit and Loss A/c		80,000	Investments		38,000
Capitals:			Machinery		24,000
J	1,00,000		Stock		30,000
H	80,000		Debtors	80,000	
K	40,000	2,20,000	Less: Provision	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 ₹ 1,02,000. **(ii)** There was a claim of ₹ 8,000 for workmen's compensation. **(iii)** Provision for bad debts was to be reduced by ₹ 2,000. **(iv)** H will be paid ₹ 14,000 in cash and the balance will be transferred to his loan account, which will be paid in four equal yearly instalments together with interest @ 10% p.a. **(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, Partner's Capital Accounts and Balance Sheet of the new firm.

Ans.: Revaluation loss ₹ 6,000; H's Loan₹ 1,24,800; Capital A/c J ₹ 1,05,120; K ₹ 70,080; B/s ₹ 3,81,680; Current A/c J ₹ 31,680(Cr.); K ₹ 31680(Dr.)

7. Following is the Balance Sheet of A, B and C as at 31st March, 2017, who have agreed to share profits and losses in proportion of their capitals.

BALANCE SHEET as at 31st March, 2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals A/c's:		Land and Building	2,00,000
A 2,00,000		Machinery	3,00,000
B 3,00,000		Closing Stock	1,00,000
C 2,00,000	7,00,000	Sundry Debtors 1,10,000	
General Reserve	35,000	Less: Provision for D.D 10,000	1,00,000
Workmen's Compensation Reserve	15,000	Cash at Bank	1,00,000
Sundry Creditors	50,000		
	8,00,00		**8,00,000**

On 31st March,2017, A desired to retire from the firm and the remaining partners decided to carry on the business. It was agreed to revalue the assets and reassess the liabilities on the following basis: **(i)** Land and Buildings to be appreciated by 30%. **(ii)** Machinery be depreciated by 20%. **(iii)** There were Bad Debts of ₹ 17,000. **(iv)** The claim on account of Workmen's Compensation was estimated at ₹ 8,000. **(v)** Goodwill of the firm was valued at ₹ 1,40,000 and A's share of Goodwill to be adjusted against the capital Account of the continuing partners B and C who have decided to share future profits in the ratio of 4:3 respectively. **(vi)** Capital of the new firm in total will be the same as before the retirement of A and will be in the new profit sharing ratio of the continuing partners. **(vii)** Amount due to A be settled by paying ₹ 50,000 in cash and the balance by transferring to his Loan Account, which will be paid later on.

Prepare Revaluation Account, Capital Accounts of partners and Balance Sheet of the firm after A's retirement.

Ans.: Revaluation Loss ₹ 7,000; A's Loan ₹ 2,00,000; Capital A/c B ₹ 4,00,000; C ₹ 3,00,000; B/s ₹ 9,58,000, Bank 2,65,000

8. A, B and C partners sharing profits and losses in the ratio of 2:2:1. C retires on 31st March, 2017. The Balance Sheet of the firm as at 31st December, 2016 stood as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c's:		Land and Building	10,00,000
A 6,00,000		Investment	1,25,000
B 6,00,00		Stock	2,50,000
C 4,00,000	16,00,000	Sunday Debtors	4,00,000
General Reserve	4,00,000	Cash at Hand	1,00,000
Sundry Creditors	1,00,000	Cash at Bank	2,25,000
	21,00,000		**21,00,000**

In order to arrive at the balance due to C, it was mutually agreed that. **(i)** Land and Buildings be valued at ₹ 12,00,000. **(ii)** Investments to be valued at ₹ 1,00,000. **(iii)** Stock be taken at ₹ 3,00,000. **(iv)** Goodwill be valued at two years' purchase of the average profit of the past five years. Goodwill will not appear in the books of reconstituted firm. **(v)** C's share of profits up to the date of retirement be calculated on the basis of average profit of the preceding three years. The profits of the preceding five years were as under:

Year	2012	2013	2014	2015	2016
Profit (₹)	1,80,000	2,20,000	3,00,000	2,75,000	3,25,000

(vi) Amount payable to C is to be transferred to his Loan Account carrying interest 10% p.a.

You are required to prepare the Revaluation Account, Partners' Capital Accounts, and the Balance Sheet as at 31st March. 2017.

Ans: Revaluation profit ₹ 2,25,000; C's Loan ₹ 6,44,000; Capital A/c: A ₹ 7,98,000; B ₹ 7,98,000; B/S ₹ 23,40,000

9. P, Q and R were partners in a firm sharing profits in 2:2:1. The partnership deed provided that on the death a partner, his executors will be entitled for the following. **(i)** Interest on capital @ 12% p.a. **(ii)** Interest on drawings @ 18% p.a. **(iii)** Salary ₹ 12000 p.a. **(iv)** Share in the profits the firm (up to the date death) on the basis previous year's profits.

P died on 31-5-2017. His capital was ₹ 80,000 as on 31st March, 2017. He had withdrawn ₹ 15,000 and interest on his drawings was calculated as ₹ 1,200. The profit the firm for the previous year ended 31-3-2017 was ₹ 30,000. Prepare P's capital Account to be presented to his executors. (Ans : Amount due to P's executors ₹ 69400)

10. A, B and C are partners sharing profits in the ratio of 3:2:1. They had a Joint life policy ₹ 60,000 and the annual premium₹ 4,000 has been charged to Profit and Loss Account every year. Accounts are closed on 31, March annually. C died on 1st August 2017. Beside his of capital and insurance money, C's legal representatives are entitled to:

(i) Interest on capital at 10% per annum up to the date death. **(ii)** His share of profits based on average profits of the last three years. **(iii)** His share goodwill which is to be calculated at three year's purchase of the average profit of last 4 Years. C's capital on 1-4-2017 stood at ₹ 90,000 and his drawings from that date to the date death amounted to ₹ 5,500.

Profits for the last four years were ₹ 16,000, ₹ 26,000, ₹ (6,000) Loss, ₹ 34,000

Prepare C's Capital Account.

Ans. : ₹ 1,07,250

11. P, Q and R were partners in a firm sharing profits in the ratio 3:2:1. Their Balance sheet was as follows.

Balance Sheet as at 31-12-2016

Liabilities		Amount (₹)	Assets	Amount (₹)
Creditors		30,000	Cash	40,000
Bills Payable		40,000	Stock	40,000
General Reserve		60,000	Debtors	70,000
Capital A/c's:			Building	2,00,000
P	1,30,000		Land	3,00,000
Q	2,00,000		Goodwill	30,000
R	4,00,000	7,30,000	P & L A/c (Loss of the year 2016)	1,50,000
			Loan to R	30,000
		8,60,000		**8,60,000**

R died on 14-3-2017. The partnership deed provided for the following on the death a partner.

(i) Goodwill of the firm was to value at 3 years purchase of the average profit of last 5 years.

Years	2015	2014	2013	2012
Profits	₹ 70,000	₹ 80,000	₹ 1,10,000	₹ 2,20,000

(ii) R's share of profit or loss till the date of his death was to be calculated on the basis of the profits or loss for the year ending on 31-12-16. You are required to calculate the followings:

(i) Goodwill of the firm and R's share of goodwill at the time of his death.

(ii) R's share in the profit or loss of the firm till the date of his death.

Prepare R's Capital Account at the time of his death to be presented to his executors.

Ans.:₹ 3,78,000

12. P, Q and R were partners in a firm. Their Balance Sheet as at 31st March, 2017 was as follows:

Balance Sheet

As at 31 March, 2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	25,000	Cash	6,000
Reserve Fund	20,000	Stock	12,000
Capital A/c's:		Bills Receivables	6,000

P	15,000		Debtors	15,000
Q	10,000		Investments	15,000
R	10,000	35,000	Buildings	26,000
		80,000		**80,000**

The Partnership deed provides that the profits be shared in the ratio 2:1:1 and that in the event death of a partner, his executors will be entitled to be paid out;

(i) The Capital's to his credit at the date of Balance sheet. **(ii)** His proportion of reserve at the date of Balance sheet. **(iii)** His proportion of profits of the last 3 years, plus 10% and **(iv)** By way goodwill, his proportion of the total profits for the three preceding years. **(v)** share in profits on revaluation of buildings which is ₹ 4000 **(vi)** The net profits of last 3 years: ₹ 5000, ₹ 16000 and ₹ 17000.

R died on 30-06-2017. He had withdrawn ₹ 5000 up to the date of his death. The investments were sold at par and R's executors were paid off.

Prepare Partner's Capital Accounts, R Executor's Account and Balance sheet of surviving partners P and Q.

Ans.: R's Executor ₹ 24,100. Cap A/c P ₹ 19,000; Q ₹ 12,00; B/s ₹ 64,100

13. A, B and C are partners in a firm sharing profits in the ratio 2:2:1. The firm had taken a Joint Life Policy of ₹ 80000 on the lives all the partners on 1-4-2012. The firm pays annual premium ₹ 6000. The surrender value of the policy is as under:

31-3-13 Nil, 31-3-14 ₹ 2000; 31-3-15 ₹ 4000 and 31-3-16 ₹ 6000

C died on 1-6-2016. Prepare the necessary accounts in the books the firm. **(i)** If Premium paid is treated as trade expenses, **(ii)** premium paid is treated as an investment, **(iii)** premium paid is treated as investment and reserve is created.

14. A, B and C are partners sharing profit in 3:2:1 ratio. Their Balance Sheet as at 31st March, 2017 was as follows:

Balance Sheet as on 31-03-2017

Liabilities		Amount (₹)	Assets	Amount (₹)
Bills Payable		12,000	Cash in hand	12,000
Creditors		14,000	Bank	13,700
General Reserve		12,000	Debtors	12,000
Capital A/c's:			Bills Receivable	4,300
A	20,000		Stock	1,750
B	12,000		Investment	13,250
C	8,000	40,000	Buildings	21,000
		78,000		**78,000**

B died on 30-06-2017 and according to the deed of the partnership his executors were entitled to be paid as under:

(i) The capital to his credit at the time of his death and interest there on @ 10% p.a.. **(ii)** His proportionate share of General Reserve. **(iii)** His Share of profit for the intervening period based on the sales during that period. Sales were calculated as ₹1,20,000. The rate of profit during past three years had been 10% on sales. **(iv)** Goodwill according to his share of profit to be calculated by taking twice the amount of the profits of the last three years less 20%. The profits of previous three years were: ₹8,200; ₹9,000; ₹9,800. The investment were sold at par and his executers were paid out. Prepare B's Capital Account and his executer's account.

Ans. : ₹34,700.