CBSE Test Paper 03
Ch-5 Retirement or Death of a partner

1. Gaining ratio is calculated at the time of:
   a. Both Admission and Dissolution
   b. Retirement or death
   c. Admission
   d. Dissolution
2. Treatment of General Reserve at the time of retirement is:
   a. Debit side of Capital account of all the partners
   b. Credit side of Capital account of all the partners
   c. Debit the gainer partner
   d. Only in Balance sheet at the time of retirement of a partner, general reserve given in the balance sheet should be credited to all the partners (including outgoing partner) in their old profit sharing ratio.
3. Bad debts recovered will ______________
   a. Less from debtors
   b. Decrease the Revaluation Profit
   c. Add in debtors
   d. Increase the Revaluation Profit
4. Why is outgoing partner entitled to a share of goodwill of the firm
   a. Goodwill earned by the firm is the effort of retired partners
   b. Goodwill earned by the firm is the effort of all the partners
   c. Goodwill earned by the firm is the effort of only one the partners
   d. Goodwill earned by the firm is the effort of new partners
5. When a Partner dies, amount due to him will be paid to:
   a. Remaining Partners
   b. His Executor
   c. None of These
   d. Gainer partner
6. Dinkar, Navita and Vani were partners sharing profits and losses in the ratio of 3 : 2 : 1. Navita died on 30th June, 2017. Her share of profit for the intervening period was

based on the sales during that period, which were Rs.6,00,000. The rate of profit during the past four years had been 10% on sales. The firm closes its books on 31st March every year.

7. P, Q and R are partners in a firm sharing profits in the ratio of 2:2:1 on 1.4.2007 the partners decided to share future profits in the ratio of 3:2:1 on that day balance sheet of the firm shows General Reserve of Rs 50,000. Pass entry for distribution of reserve.
8. The capital of A and B are Rs. 50,000 and Rs. 40,000. To Increase the Capital base of the firm to Rs. 1, 50,000, they admit C to join the firm; C is required to Pay a sum of Rs. 70,000, what is the amount of premium of goodwill?
9. What do you understand by 'Gaining Ratio'?
10. How is Gaining Ratio calculated?
11. Naresh, Raj Kumar and Bishwajeet are equal partners. Raj Kumar decides to retire. On the date of his retirement, the Balance Sheet of the firm showed the following: General Reserves Rs 36,000 and Profit and Loss Account (Dr.) Rs 15,000. Pass the necessary journal entries to the above effect.
12. Alok, Narendra and Shiv were partners in a firm sharing profits in the ratio of 5 : 3 : 2. Goodwill appeared at Rs 90,000 and general reserve at Rs 50,000 in the books of the firm. Narendra decided to retire from the firm. On the date of his retirement, goodwill of the firm was valued at Rs 2,40,000. The new profit sharing ratio of Alok and Shiv was 2 : 3. Record necessary journal entries on Narendra's retirement.
13. X, Y, and Z were partners sharing profits and losses in the ratio of 4: 3: 2 respectively. Y retired on 31st March 2012. On that date the capitals of X, Y. and Z after all necessary adjustments stood at Rs. 19,650; Rs. 19,800 and Rs. 9,150 respectively. The entire capital of the firm as newly constituted is fixed at Rs. 28,000 between X and Z in the proportion of 5/8th and 3/8th after passing entries in their accounts for adjustments. Calculate the actual cash to be paid or to be brought in by the continuing partners and pass the necessary journal entries.
14. X, Y, and Z are partners sharing profits in the ratio of 14: 5: 6. Y retires and surrenders 1/5th of his share in favour of X and the remaining share in favour of Z. The goodwill of the firm is valued at 2 years purchase of super profits for the last three years. The profits for the last three years are Rs. 40,000, Rs. 50,000, Rs. 75,000. The normal profits for a similar firm are Rs. 35,000. Goodwill appears in the Balance Sheet at Rs. 50,000. The profits for the first year after Y's retirement was Rs. 80,000. Pass necessary

journal entries to adjust goodwill and to distribute profits.

15. Narang, Suri, and Bajaj are partners in the firm sharing profits and losses in the proportion of 1/2, 1/6 and 1/3 respectively. The Balance Sheet on 31st March 2010 was as follows :

Balance Sheet
as on 31st March 2010

Liabilities		**Amt(Rs.)**	**Assets**		**Amt(Rs.)**
Capital Accounts:			Freehold Premises		40,000
Narang	30,000		Machinery		30,000
Suri	30,000		Furniture		12,000
Bajaj	28,000	88,000	Stock		22,000
Bills Payable		12,000	Sundry Debtors	20,000	
			Less: Provision for Bad Debts	1,000	19,000
Sundry Creditors		18,000	Cash		7,000
		1,30,000			1,30,000

Bajaj retires from the business on the above date and the partners agree to the following:

a. Freehold premises and stock are to be appreciated by 20% and 15% respectively.
b. Machinery and furniture are to be depreciated by 10% and 7% respectively.
c. Provision for Bad debts is to be increased to Rs 1,500.
d. Goodwill is valued at Rs 21,000 on Bajaj's retirement.
e. The continuing partners have decided to adjust their capitals in their new profit-sharing ratio after the retirement of Bajaj. The surplus/deficit, if any, in their capital accounts will be adjusted through their current accounts.

Prepare necessary ledger accounts and draw the Balance Sheet of the reconstituted firm.

Answer

1. b. (b) Retirement or death, **Explanation:** Gaining ratio is that ratio in which continuing partners acquire the share of outgoing partner. It is calculated at the time of retirement or death of a partner.
2. b. (b) Credit side of Capital account of all the partners, **Explanation:** At the time of retirement of a partner, general reserve given in the balance sheet should be credited to all the partners (including outgoing partner) in their old profit sharing ratio.
   as it is similar to profit which is earned by the business with the help of all partner. so shared with all partners including old partner.
3. d. (d) Increase the Revaluation Profit, **Explanation:** Bad debts recovered will be shown in the credit side of revaluation account by which revaluation profit will increase. The amount received in the form of bad debts recovered will be added to cash while preparing balance sheet.
4. b. (b) Goodwill earned by the firm is the effort of all the partners
   Explanation: Goodwill earned by the firm is the effort of all the partners. When a partner retires from the firm, he should get his share of goodwill other than his capital amount (adjusted).
5. b. (b) His Executor, **Explanation:** In case of death of a partner, amount due to him will be paid to his legal heirs or his executors. Excutors are the leagl heirs or the family/relatives.
6. Profits of the film till Navita's death = 10% of Rs. 6,00,000 = Rs. 60,000
   Navita's Share in profits of the film = $\frac{2}{6} \times 60,000$ = **Rs. 20,000**
7. General Reserve A/c Dr. 50,000

   To P‘s Capital A/c 20,000

   To Q‘s Capital A/c 20,000

To R‘s Capital A/c 10,000

(Being general reserve distributed between old partner in their old profit sharing ratio, i.e. , 2 : 2 : 1 on the event of change in profit sharing ratio among existing partner.)

8. The total capital presently of the firm is Rs. 90,000.

   To increase the capital base to Rs.1,50,000, additional Rs.60,000 capital is needed

   Hence, C is to bring in Rs. 60,000 (Rs. 1,50,000 - 90,000).

   However, C bring in Rs 70,000.

   Therefore, the excess of Rs.10,000 (Rs.70,0000 - Rs.60,000) represent premium for goodwill.

9. Gaining Ratio is the ratio by which the share of remaining or continuing partners increases, when one or more partners retire from the firm. It is computed by deducting old ratio from the new ratio.

10. Gaining Ratio = New Ratio - Old Ratio.(it is used when new & old ratio is given in question but if it is not given than old ratio of reamining partner become gaining ratio)

11. **JOURNAL**

Date	Particulars	L.F.	Dr. Rs	Cr. Rs
i	General Reserve A/c Dr.		36,000	
	To Naresh’s Capital A/c			12,000
	To Raj Kumar’s Capital A/c			12,000
	To Bishwajeet’s Capital A/c			12,000
	(Being general reserve transferred to old partner in their old ratio, i.e., 1 : 1 : 1.)			
ii	Naresh’s Capital A/c Dr.		5,000	

	Raj Kumar’s Capital A/c Dr.		5,000	
	Bishwajeet’s Capital A/c Dr.		5,000	
	To Profit and Loss A/c			15,000
	(Being debit balance of Profit and Loss Account transferred to old partner in their old ratio.)			

12.

Date	Particulars		L.F.	Dr. (₹)	Cr.(₹)
	Alok's Capital A/c (90,000$\times$ 5/10)	Dr.		45,000	
	Narendra's Capital A/c (90,000 $\times$ 3/10)	Dr.		27,000	
	Shiv's Capital A/c (90,000$\times$2/10)	Dr.		18,000	
	To Goodwill A/c				90,000
	(Being the existing goodwill written-off in old ratio)				
	General Reserve A/c	Dr.		50,000	
	To Alok's Capital A/c (50,000 $\times$ 5/10)				25,000
	To Narendra's Capital A/c (50,000 $\times$ 3/10)				15,000
	To Shiv's Capital A/c (50,000$\times$2/10)				10,000
	(Being general reserve distributed among the old partners in old ratio)				
	Shiv's Capital A/c (2,40,000 $\times$ 4/10)	Dr.		96,000	
	To Alok's Capital A/c (2,40,000$\times$1/10)				24,000
	To Narendra's Capital A/c (2,40,000$\times$ 3/10) (Being adjustment made for goodwill)				72,000

Working Note:

Calculation of Gaining Ratio

Gaining Ratio = New Share - Old Share

Alok = $\frac{2}{5}-\frac{5}{10}=\frac{4-5}{10}=\frac{1}{10}$ Sacrifice
Shiv = $\frac{3}{5}-\frac{2}{10}=\frac{6-2}{10}=\frac{4}{10}$ Gain

At the retirement of narendra, Alok Sacrifice by 1/10 and shiv gained by 4/10. Hence Alok's Capital account is credited by Rs. 24,000 and Shiv's Capital Account is debited by 96,000. Retiring partner Narendra's Capital Account is credited by his share Rs. 72,000.

13. **Capital A/c**

Particular	**X**	**Y**	**Z**	**Particular**	**X**	**Y**	**Z**
To balance c/d	17,500		10,500	By balance c/d	19,650	19,800	9,150
To Y's loan		19,800					
To cash	2,150			By cash			1,350
	19,650	**19,800**	**10,500**		**19,650**	**19,800**	**10,500**

Or Calculation of Cash to be paid or brought in by X and Z:

		X(Rs.)	**Z(Rs.)**
A.	New Capital (Rs 28,000 in the ratio of 5 : 3)	17,500	10,500
B.	Existing Capital (After other adjustments)	19,650	9,150
C.	Cash to be brought in (Paid off) (A - B)	(2,150)	1,350

Journal

Date	**Particulars**		**L.F.**	**Dr. (Rs.)**	**Cr. (Rs.)**
2012 Mar. 31	X's Capital A/c	Dr.		2,150	
	To Cash A/c (Being the excess capital withdrawn by X)				2,150
	Cash A/c	Dr.		1,350	

	To Z's Capital A/c (Being the shortage of capital brought in by Z)				1,350

14. **Journal**

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
	X's Capital A/c(Rs. 50,000 $\times$14/25)	Dr.		28,000	
	Y's Capital A/c(Rs. 50,000 $\times$5/25)	Dr.		10,000	
	Z's Capital A/c(Rs. 50,000$\times$6/25)	Dr.		12,000	
	To Goodwill A/c (Being the existing goodwill written off in old ratio)				50,000
	X's Capital A/c(Rs. 8,000$\times$1/5)	Dr.		1,600	
	Z's Capital A/c(Rs. 8,000$\times$4/5)	Dr.		6,400	
	To Y's Capital A/c(40,000$\times$1/5) (Being Y's share of goodwill adjusted in the capital accounts of gaining partners in their gaining ratio)				8,000
	Profit and Loss A/c	Dr.		80,000	
	To X's Capital A/c(Rs. 80,000$\times$3/5)				48,000
	To Z's Capital A/c(Rs. 80,000$\times$2/5) (Being a share of profit adjusted in the capital accounts of gaining partners in the new ratio)				32,000

1. **Calculation of New Profit-Sharing Ratio**:
   Y's share is 5/25 which he is surrendering in favour of X and Z in the ratio of 1/5: 4/5 or 1: 4.
   Therefore, X will get 1/5 of 5/25 = 1/25 and Z will get 4/5 of 5/25 = 4/25.
   So, gaining ratio between X and Z is 1/25: 4/25 or 1: 4 or we can calculate it by applying the formula

2. X will get 1/5 of 5/25 = 1/25 so Z will get 5/25 - 1/25 = 4/25 (additional formula)
3. Gaining ratio = New ratio - Old ratio & than New ratio = Gaining ratio + Old ratio
4. Old ratio = 14:5:6
5. Gaining ratio =1:4
6. So the total share of X in the new firm will be: 14/25 + 1/25 = 15/25
   The total share of Z in the new firm will be: 6/25 + 4/25 = 10/25
   The new profit sharing ratio = X : Z = 15/25 : 10/25 or 3 : 2.
7. **Calculation of Goodwill**:
   i. Average Profit = $\frac{40{,}000+50{,}000+75{,}000}{3}$ = Rs. 55,000
   ii. Super Profit =Actual Average Profit - Normal Profit
   iii. Actual Average Profit= 55,000(calculated above)
   iv. Normal profit = 35,000(given)
   v. Super Profit = Rs. 55,000 - Rs. 35,000 = Rs. 20,000
   vi. Goodwill = 2 X super profit
   vii. i.e Rs. 20,000 $\times$ 2 = Rs. 40,000
   viii. Y's Share of Goodwill = Rs. 40,000 $\times$ 5/25 = Rs. 8,000 i.e to be distributed between X & Z in gaining ratio which is 1:4

15. **Revaluation Account**

Dr.				**Cr.**
Particulars		**Amt(Rs.)**	**Particulars**	**Amt(Rs.)**
To Machinery A/c (30,000 x 10%)		3,000	By Freehold Premises A/c(40,000 x 20 %)	8,000
To Furniture A/c(12,000 x 7%)		840	By Stock A/c(22,000 x 15 %)	3,300
To Provision for Bad Debts A/c(1,500 - 500)		500		
To Profit transferred to Capital A/cs:				
Narang (6960x 3/6)	3,480			

Suri (6960x 1/6)	1,160			
Bajaj (6960x 2/6)	2,320	6,960		
		11,300		11,300

Partner's Capital Accounts

Dr.							Cr.
Particulars	**Narang(Rs.)**	**Suri(Rs.)**	**Bajaj(Rs.)**	**Particulars**	**Narang(Rs.)**	**Suri(Rs.)**	**Bajaj(Rs.)**
To Bajaj's Capital A/c	5,250	1,750	--	By Balance b/d	30,000	30,000	28,000
To Balance c/d	34,230	31,410	41,320	By Reserves A/c	6,000	2,000	4,000
				By Revaluation A/c	3,480	1,160	2,320
				By Narang's Capital A/c(7,000 x 3/4)	--	--	5,250
				By Suri's Capital A/c(7,000 x 1/4)	--	--	1,750
	39,480	33,160	41,320		39,480	33,160	41,320
To Bajaj's Loan A/c	--	--	41,320	By Balance b/d	34,230	31,410	41,320
To Suri's Current A/c(balancing figure)	--	15,000	--	By Narang's Current A/c(balancing figure)	15,000	--	--
To Balance c/d	49,230	16,410	--				
	49,230	31,410	41,320		49,230	31,410	41,320

Balance Sheet of Narang and Suri

as at 1st April 2010

Liabilities		(Rs)	Assets		(Rs)
Capitals A/cs:			Freehold Premises	40,000	
Narang	49,230		Add : Appreciation	8,000	48,000
Suri	16,410	65,640	Machinery	30,000	
Suri's Current A/c		15,000	Less: Depreciation	3,000	27,000
Bajaj's Loan A/c		41.320	Furniture	12,000	
Bills Payable		12,000	Less : Depreciation	840	11,160
Sundry Creditors		18,000	Stock	22,000	
			Add: Appreciation	3,300	25,300
			Sundry Debtors	20,000	
			Less: Provision for Bad Debts	1,500	18,500
			Cash		7,000
			Narang's Current A/c		15,000
		1,51,960			1,51,960

Working Notes:

i. Profit sharing Ratio = $\frac{1}{2} : \frac{1}{6} : \frac{1}{3} = \frac{3:1:2}{6}$ = 3: 1: 2

ii. Goodwill of the firm = Rs 21,000; Bajaj's share of Goodwill = 21,000 $\times \frac{2}{6}$ = Rs. 7,000.

iii. Old ratio = 3:1:2 new ratio after Bajaj retirement 3:1

iv. Gaining ratio= New ratio - Old ratio

v. Gaining ratio Narang = 3/4 - 3/6 = 18/24 - 12 / 24 = 6/24

vi. Suri;s gaining ratio = 1/4 - 1/6 = 6/24 - 4 / 24 = 2/24 i.e gaining ratio = 3:1

vii.

Date	Particular	L.f	Dr	Cr
	Narang's capital a/c dr		5,250	
	Suri capital a/c dr		1,750	

	To Bajaj's capital a/c			7,000
	(being goodwill be given to retiring partner in gaining ratio of old partner)			

Capital adjustment :

viii. Total capital of Narang and Suri after all adjustment :

Narang's Capital = Rs. 34,230; Suri's Capital = Rs. 31,410; Total Capital = Rs. 65,640

New profit-sharing ratio i.e., 3: 1

Narang's Capital = 65,640 $\times \frac{3}{4}$ = Rs. 49,230; Suri's Capital = 65,640 $\times \frac{1}{4}$ = Rs. 16,410

that balance is to be shown in balancesheet as well as in capital A/c.