CHAPTER – 04

RETIREMENT OR DEATH OF A PARTNER

As we already knew that reconstitution of the partnership firm can also take place on the retirement of the partner or death of the partner. Here, the existing partnership deed comes to an end, and in its place, a new partnership deed comes into existence where remaining partners shall continue to do the business but on different terms and conditions. In both cases, i.e. on retirement or death of a partner, we are required to determine the sum due to the retiring partner or to the legal representatives of the deceased partner.

Retirement of a Partner:

A partner has right to retire from the firm after giving due notice in advance. Old partnership comes to an end after the retirement of a partner, but the firm continues and a new partnership comes into existence between the remaining partners.

A retiring partner is entitled to get the following:

(1) **Share in Goodwill-** Goodwill of the firm is valued and the retiring partner's share of goodwill is credited to his capital account.

(2) **Share in Reserves-** Reserves are the undistributed profits of the previous years. Hence, the retiring partner's share of reserves or undistributed profits is also credited to his capital account.

(3) **Share in Revaluation of Assets and Liabilities-** Assets and Liabilities are revalued on the date of retirement and retiring partner's share of profit is credited or loss is debited to his capital account.

Amount due to Retiring Partner:

1. Credit Balance of his Capital Account;
2. Credit Balance of his Current Account (if any);
3. His share of goodwill, accumulated profits, reserves etc.;
4. His share in the profit on revaluation of assets and liabilities;
5. His share of profit, interest on capital up to the date of retirement;
6. Any salary/commission due to him.

The following deductions (if any) made from his share:

1. Debit balance of the his-current account (if any);
2. His share of Goodwill to be written off, accumulated losses;
3. His share of loss on revaluation of assets and liabilities;
4. His share of loss, drawing and interest on drawings up to the date of retirement.

The various accounting aspects involved in retirement or death are as follows:

1. New profit sharing ratio
2. Gaining ratio
3. Goodwill Treatment
4. Accumulated profit and losses -Distribution
5. Profit and Loss till the date of retirement or death
6. Adjustment of Capital
7. Settlement of the amount due to retired /deceased partner.

New Profit Sharing Ratio:

The new profit sharing ratio is the ratio in which the remaining partners will share future profits after the retirement or death of any partners. In other words, the new profit sharing ratio of each remaining partner will be the sum total of his old share of profits in the firm and the portion of the retiring partner's share of the profit acquired.

New Share of Partner = Old share + Acquired share from retiring/deceased partner.

(a) Nothing is mention about the new profit sharing ratio at the time of retirement:

If nothing is stated about the future ratio of the remaining partner, then their old ratio is considered as their new ratio.

For example, Kapil, Anu and Priti are partners in firm sharing profits and losses in the ratio 5: 3: 2. If Anu retires, then the new profit sharing ratio of Kapil and Priti will be 5: 2.

(b) Remaining partners acquire the share of retiring/deceased partner in the specified ratio:

If the remaining partners acquire the share of retiring/deceased partner in a specified ratio, other than their old ratio, then there is a need to compute a new profit sharing ratio among them. The new profit sharing ratio is equal to the sum total of their old ratio and the share acquired from the retiring/deceased partner.

For example, Kapil, Anu and Priti are partners in firm sharing profits and losses in the ratio 5: 3: 2. If Anu retires from the firm and her share was acquired by Kapil and Priti in the ratio 2: 1. In that case, the new share of profit will be calculated as follows:

New share of remaining partner = Old share + Acquired share from the outgoing partner.

Anu's share = $\frac{3}{10}$

New share of Kapil = $\frac{5}{10} + (\frac{3}{10} \times \frac{2}{3}) = \frac{21}{30}$

New share of Priti = $\frac{2}{10} + (\frac{3}{10} \times \frac{1}{3}) = \frac{9}{30}$

New Profit sharing ratio = $\frac{21}{30} : \frac{9}{30} = 7 : 3$

(c) Remaining partners may agree on a particular new profit sharing ratio:

If the remaining partners decide a particular profit sharing ratio to share the future profits of the firm, in such a case the ratio so specified will be the new profit sharing ratio.

Gaining Ratio:

The ratio in which the continuing partners acquire the share of the retiring /deceased partner is called the gaining ratio.

(a) If nothing is mention in agreement:

If nothing is mention in the agreement about the gaining ratio, then it is assumed that the remaining partners acquire the share of the retiring/deceased partner in their old profit sharing ratio. In that case, the gaining ratio of the remaining partners will be the same as their old profit sharing ratio and there is no need to compute the gaining ratio.

(b) If a new profit sharing ratio is given:

If the new profit sharing ratio is given of the remaining partners then we have to compute the gaining ratio. In this case, the gaining ratio is calculated by deducting the old ratio from the new ratio.

Gaining ratio = New ratio – Old ratio

For example X, Y and Z are partners in a firm, sharing profits and losses in ratio 5:3:2. Y retires from the firm and X and Z decide to share future profits and losses in the ratio 7: 3. The gaining ratio will be calculated as follows:

X's gain = $\frac{7}{10} - \frac{5}{10} = \frac{2}{10}$

X's gain = $\frac{3}{10} - \frac{2}{10} = \frac{1}{10}$

Difference between Sacrificing Ratio and Gaining Ratio

Basis of Difference	Sacrificing Ratio	Gaining Ratio
Meaning	It is the ratio in which the old partners surrender a part of their share in favour of new partner.	It is the ratio in which the remaining partners acquire the outgoing partner's share.
When Calculated	Sacrificing Ratio is calculated at the time of the admission of the partner.	Gaining Ratio is calculated at the time of retirement or death of the partner.
Formula for Calculation	Sacrificing Ratio = Old Ratio – New Ratio	Gaining Ratio = New Ratio – Old Ratio
Purpose for Calculation	New partner's share of goodwill is divided between the old partners in sacrificing ratio.	Goodwill paid to retiring partner is paid by the remaining partners in their gaining ratio.

Treatment of Goodwill:

The outgoing partner is entitled to his share of goodwill at the time of retirement/death because the goodwill has been earned by the firm with the efforts of all the existing partners. Therefore, goodwill is valued as per the agreement, at the time of retirement/death.

Due to the retirement/death of any partner, the continuing partners make again because the future profit will be shared only between the continuing partners. Therefore, the continuing partners should compensate the retiring/deceased partner for his share of goodwill in the gaining ratio. At the time of retirement or death of a partner, the goodwill is evaluated on the basis of agreement among the partners. As such, in case of retirement or death of a partner, the adjustment of goodwill will be made through partner's capital accounts. The retiring or deceased partner's capital account will be credited with his share of goodwill and continuing partner's capital account will be debited in their gaining ratio. The following journal will be recorded:

Continuing Partner's Capital A/cs Dr. (In the gaining ratio)

To Retiring/ Deceased Partner's Capital A/c (with his share of goodwill)
(Retiring/ Deceased Partner's share of goodwill adjusted to continuing partners in the gaining ratio)

When the Goodwill is already appearing in the books:
Usually, the goodwill is not shown in the books of the firm. However, if, at the time of retirement or death of a partner, it appears in the balance sheet of a firm, it will be written off by debiting all the partner's capital accounts in their old profit sharing ratio and crediting the goodwill account. In such a case, the following journal entry is recorded:
All Partner's Capital A/cs Dr.
To Goodwill A/c

Adjustment of Accumulated Profits and Reserves:
If at the time of retirement there is any balance sheet of General Reserve, Reserve Fund or any undistributed amount of P and L A/c appearing in the balance sheet, it belongs to all the partners and should be transferred to the capital accounts of all partner's in their profit sharing ratio. Following entries are passed for this purpose:

(i) For distributing Reserves and Accumulated Profits:
General Reserve A/c Dr.
Reserve Fund A/c Dr.
Profit and Loss A/c Dr.
To All Partner's Capital A/cs or Current A/cs (in old ratio)

(ii) For distributing accumulated losses:
All Partner's Capital A/cs or Current A/cs Dr.(in old ratio)
To Profit and Loss A/c

(iii) For distributing surplus of Specific Reserves:
In case specific reserves like 'Workmen Compensation Reserve' or 'Investment Fluctuation Reserve' are in excess of actual obligations, the excess will be transferred to capital accounts of all partners in old ratio. The entry will be:
Workmen's Compensation Reserve A/c Dr.
Investment Fluctuation Reserve A/c Dr.
To All Partner's Capital A/cs or Current A/cs (in old ratio)

Payment of the amount due to retiring partner:
When the amount due to retiring partner is ascertained after all adjustments, it is either paid out in cash or transferred to his loan account.

(i) If the amount is paid in cash or cheque:
Retiring Partner's Capital A/c Dr.
To Cash/Bank A/c

(ii) If the amount is not paid in cash, the amount due to him will be transferred to his loan account:
Retiring Partner's Capital A/c Dr.
To Retiring Partner's Loan A/c

(Balance to his capital a/c transferred to his loan a/c)

The amount of loan is repaid to him according to the terms of the agreement. But in absence of agreement, the retiring partner as per Section 37 of the Indian Partnership Act, 1932, is entitled to @6%p.a till the loan is paid off. At his option, instead of the interest, he may take share of profits which has been earned by the firm by the use of the amount due to him. The right is also available to the legal representatives of the deceased partner.

Note: If nothing is mentioned in the question about the payment of the amount due to retiring partner, it will be transferred to his loan account.

Adjustment of Partner's Capital:
At the time of retirement or death of a partner, the remaining partners may decide to adjust their capital contribution in their new profit sharing ratio. The adjustment of the remaining partner's capitals may involve any one of the following cases:

1. **When the total capital of a new firm is specified**:
   Steps:
   (a) Compute the new capitals of the remaining partners by dividing total capital in their new profit sharing ratio.
   (b) Calculate the amount of adjusted old capital of the remaining partners after all adjustments regarding goodwill, accumulated profit and losses, profit or loss on revaluation etc.
   (c) Find out the surplus or deficiency, as the case may be, in each of the remaining partner's capital account by comparing the new capital and the adjusted capital. '
   (d) Adjust the surplus by paying cash to the concerned partner or by crediting his Current Account as agreed. Adjust the deficiency by asking the concerned partner to pay cash or by debiting his current account.

Journal Entries:
For excess capital withdrawn by the remaining partners:
Partner's Capital A/c's (individually) Dr.
To Cash/Bank A/c.
For the amount of capital to be brought in by the partners:
Cash/Bank A/c Dr.
To Partner's Capital A/c's (individually)
If the adjustment is made through the current account:

For excess capital:
Partner's Capital A/c's (individually) Dr.
To Partner's Current A/c's (individually)

For short capital:
Partner's Current A/c's /individually) Dr.
To Partner's Capital A/c's (individually)

2. **When the total capital of the new firm is not specified**:
   Calculate the total capital of the new firm which will be equal to the aggregate of the adjusted old capitals of the continuing partners after all adjustments like goodwill, accumulated profits and losses, profit and losses on revaluation etc.
   After calculating the total capital of the new firm, follow the same steps as discussed in case 1.
3. **When the amount payable to retiring partner will be contributed by continuing partners in such a way that their capitals are adjusted proportionately to their new profit sharing ratio**:
   Calculate the total capital of the reconstituted firm by adding the adjusted old capitals of remaining partners and the cash to be brought in by continuing partners in order to make payment to the retiring/ deceased partner. Then follow the same step we discussed in case 1.

Death of a Partner:

The accounting treatment in the event of the death of a partner is the same as that in the case of the retirement of a partner. Here, his claim is transferred to his executor's account and settled in the same manner as that of the retired partner.

The only major difference between the retirement and death of a partner is that retirement normally takes place at the end of the accounting period whereas death may occur on any day. Therefore, in case of death, his claim shall also include his share of profit or loss, interest on capital, interest on drawings (if any), from the beginning of the year to the date of death.

Calculation of profit for the intervening period:

Share of profit of a deceased partner

(A) On the basis of time :

$$\text{Profit of the firm till the date of death of partner} = \frac{\text{Previous Year Profit or Average profit of a given number of past years}}{12} \times \text{No's of months from last Balance Sheet to the date of death}$$

$$\text{Share of deceased partner} = \text{Profit of the firm till the date of death} \times \text{Deceased partner share}$$

(B) On the basis of turnover (sale basis) :

$$\text{Profit of the firm till the date of death of partner} = \frac{\text{Average profit of a given numbers of years or Profit of previous year}}{\text{Sale of last year}} \times \text{Sale from the date of last Balance Sheet till the date of death}$$

Share of deceased partner = Profit of the firm till the date of death × Deceased partner share

Accounting Treatment of Outgoing Partner's Share in Profit:

Through Profit and Loss Suspense Account

In case of Profit:

Profit and Loss Suspense A/c Dr.

To Deceased Partner's Capital A/c (Share of profit for the intervening period)

In case of Loss:

Deceased Partner's Capital A/c Dr.

To Profit and Loss Suspense A/c (Share of loss for the intervening period)

The executors of deceased partner are entitled to the following:

1. The credit balance of deceased partner's capital account;
2. His share of goodwill;
3. His share of profit till the date of death;
4. His share of profit on revaluation of assets and liabilities;
5. His share of accumulated profits and reserves;
6. His interest on capital if partnership deed provides till the date of death;
7. His share of Joint Life Policy (if any);
8. His salary and commission due (if any);

The following deduction has to made from above.

1. His drawings, interest in drawings till the date of death;
2. His share of loss till the date of death;
3. His share of loss on revaluation of assets and liabilities.
4. His share of the reduction in the value of goodwill (if any).

The legal representative of a deceased partner is entitled, at his discretion, to interest at 6% p.a on the amount due from the date of death to the date of payment or that portion of profits earned by the firm from the beginning of the year till the date of his death.

Solved Examples

Q1. A, B and M were partners sharing profits in the ratio of 5 : 4 : 3. M retired and his share was taken up by A and B in the ratio of 3 : 2. Find out the new ratio.

Solution: M's share will be divided between A and B in the ratio of 3 : 2.

A will gain = $\frac{3}{5}$ of $\frac{3}{12} = \frac{9}{60}$

Hence, A's new share = $\frac{5}{12} + \frac{9}{60} = \frac{34}{60}$

B will gain= $\frac{2}{5}$ of $\frac{3}{12} = \frac{6}{60}$

Hence, B's new share = $\frac{4}{12} + \frac{6}{60} = \frac{26}{60}$

New Ratio = A $\frac{34}{60}$: B $\frac{26}{60}$ or 17 : 13.

Q2. A, B, C and D are partners sharing profits and losses in the ratio of 1/3, 1/6, 1/3 and 1/6 respectively. C retires and A, B and D decide to share the profits and losses equally in figure. Calculate the gaining ratio.

Solution: Gaining Ratio = New Ratio - Old Ratio

Hence, A's Gaining Ratio = $\frac{1}{3} - \frac{1}{3} = 0$

B's Gaining Ratio = $\frac{1}{3} - \frac{1}{6} = \frac{1}{6}$

D's Gaining Ratio = $\frac{1}{3} - \frac{1}{6} = \frac{1}{6}$

Thus, A gains nothing, whereas B and D gain 1/6 each. Hence, Gaining Ratio between A, B and D = 0 : 1 : 1.

Q3. A, B and C are sharing profits in the ratio of 3 : 2 : 1. Goodwill is appearing in the books at a value of ₹3,00,000. B retires and on the day of B's retirement Goodwill is valued at ₹6,00,000. A and C decided to share future profits in the ratio of 3 : 2. Pass the necessary Journal entries.

Solution: JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	A's Capital A/c Dr.		1,50,000	
	B's Capital A/c Dr.		1,00,000	
	C's Capital A/c Dr.		50,000	
	To Goodwill A/c			3,00,000
	(Goodwill existing in the books written off in old ratio)			
	A's Capital A/c Dr.		60,000	
	C's Capital A/c Dr.		1,40,000	
	To B's Capital A/c (2/6 of 6,00,000)			2,00,000
	(B's share of goodwill adjusted to remaining partners in their gaining ratio 3 : 7)			

Now: Gaining Ratio = New Ratio – Old Ratio

A Gains = $\frac{3}{5} - \frac{3}{6} = \frac{18-15}{30} = \frac{3}{30}$

C Gains = $\frac{2}{5} - \frac{1}{6} = \frac{12-5}{30} = \frac{7}{30}$

As such Gaining Ratio between A and C = 3 : 7

Q4. Sagar, Manu and Akanksha are partners sharing profits as 20%, 30% and 50%. Sagar decided to retire with the consent of other partners and sold his share to Manu. Goodwill was valued at two and a half years purchase of the average profits of three years. Profits of these three years were ₹50,000, ₹70,000 and ₹60,000. Reserve fund stood in the balance sheet at ₹30,000 at the time of her retirement. You are required to record necessary journal entries to record above adjustments on Sagar's retirement. Also prepare her capital account to find out the amount due to him when his capital balance in the balance sheet was ₹1,00,000 before any above adjustment.

Solution: **JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Reserve Fund A/c Dr.		30,000	
	To Sagar's Capital A/c			6,000
	To Manu's Capital A/c			9,000
	To Akanksha's Capital A/c			15,000
	(Reserve Fund transferred to Capital accounts)			
	Manu's A/c Dr.		30,000	
	To Sagar's Capital A/c			30,000
	(Sagar's share of goodwill transferred to Manu's Capital A/c)			

Dr. **SAGAR'S CAPITAL ACCOUNT** **Cr.**

Particulars	₹	Particulars	₹
To Sagar's Loan A/c		By Balance b/d	1,00,000
(Balancing Figure)	1,36,000	By Reserve Fund	6,000
		By Manu's Capital A/c	30,000
	1,36,000		1,36,000

Q5. P, Q and R are partners sharing profits in the ratio of 2 : 2 : 1. P retires and after all adjustments relating to revaluation, goodwill and accumulated profits the capital account of Q showed a credit balance of ₹1,40,000 and that of R ₹1,00,000. It was decided to adjust the capitals of Q and R in their profit sharing ratio. Calculate the new capitals of the partners and record necessary entry for bringing in or withdrawing cash.

Solution: To Capital of Q and R after all adjustments = ₹1,40,000 + ₹1,00,000 = ₹2,40,000.

This Capital should be in their profit sharing ratio, i.e., 2 : 1.

∴ Q's Capital in the new firm should be = 2,40,000 × $\frac{2}{3}$ = ₹1,60,000

R's Capital in the new firm should be = 2,40,000 × $\frac{1}{3}$ = ₹ 80,000

Hence, Cash to be brought in by Q = ₹1,60,000 - ₹1,40,000 = ₹20,000

Cash to be withdrawn by R = ₹1,00,000 - ₹80,000 = ₹20,000

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		20,000	
	To B's Capital A/c			20,000
	(Amount brought in by B to raise his capital to profit sharing ratio)			
	C's Capital A/c Dr.		20,000	
	To Bank A/c			20,000
	(Amount withdrawn by C to bring his capital to profit sharing ratio)			

Q6. Khushboo, Leela and Meena were partners in a firm sharing profits in the ratio of 5 : 3 : 2. Their Balance Sheet on 31st March, 2015 was as follows:

BALANCE SHEET OF KHUSHBOO, LEELA AND MEENA
as at 31st March, 2015

Liabilities		₹	Assets	₹
Creditors		70,000	Bank	44,000
Capitals :			Debtors	24,000
Khushboo	90,000		Stock	60,000
Leela	56,000		Building	1,40,000
Meena	60,000	2,06,000	Profit and Loss A/c	8,000
		2,76,000		2,76,000

On April 1, 2015 Leela retired on the following terms:

(i) Building was to be depreciated by ₹10,000.

(ii) A Provision of 5% was to be made on debtors for doubtful debts.

(iii) Salary outstanding was ₹4,8000.

(iv) Goodwill of the firm was valued at ₹1,40,000.

(v) Leela was to be paid ₹20,800 through cheque and the balance was to be paid in two equal quarterly instalments (starting from 30th June, 2015) along with interest @ 10% per annum.

Prepare Revaluation Account, Leela's Capital Account and her Loan Account till it is finally paid.

Solution:

Dr. REVALUATION ACCOUNT Cr.

Particulars	₹	Particulars		₹
To Building A/c	10,000	By Loss transferred to:		
To Provision for Doubtful Debts A/c	1,200	Khushboo's Capital A/c	8,000	
To Salary Outstanding A/c	4,800	Leela's Capital A/c	4,800	
		Meena's Capital A/c	3,200	16,000
	16,000			16,000

Dr Leela's Capital A/c Cr.

Particulars	₹	Particulars	₹
To Profit and Loss A/c	2,400	By Balance b/d	56,000
To Revaluation A/c (Loss)	4,800	By Khushboo's Capital A/c (Note 1)	30,000
To Bank A/c	20,800	By Meena's Capital A/c (Note 1)	12,000
To Leela's Loan A/c (Balancing figure)	70,000		
	98,000		98,000

Dr. LEELA'S LOAN ACCOUNT Cr

Date	Particulars	₹	Date	Particulars	₹
2015			2015		
June 30	To Bank A/c (₹35,000 + ₹1,750)	36,750	April 1	By Leela's Capital A/c	70,000
Sept. 30	To Bank A/c (₹35,000 + ₹875)	35,875	June 30	By Interest A/c (₹70,000 × $\frac{10}{100}$ × $\frac{3}{12}$)	1,750
			Sept. 30	By Interest A/c (₹35,000 × $\frac{10}{100}$ × $\frac{3}{12}$)	875
		72,625			72,625

Note (1): Leela's share in Goodwill = ₹1,40,000 × $\frac{3}{10}$ = ₹42,000, which is contributed by Khushboo and Meena in their gaining ratio of 5 : 2.

Q7. A, B and C are partners in a firm. A retires on 1st April, 2012. 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 when amount is paid in Four yearly instalments plus interest @ 10% p.a. Books are closed on 31st March every year.

Solution:

Dr. A's LOAN A/C Cr.

Date	Particulars	₹	Date	Particulars	₹
2013			2012		
March 31	To Bank (20,000 + 8,000)	28,000	April 1	By A's Capital A/c	80,000
March 31	To Balance c/d	60,000	2013 March 31	By Interest on ₹80,000 @ 10%	8,000
		88,000			88,000
2014			2013		

March 31	To Bank (20,000 + 6,000)	26,000	April 1 2014	By Balance b/d	60,000
March 31	To Balance c/d	40,000	March 31	By Interest on ₹60,000 @ 10%	6,000
		66,000			66,000
2015 March 31	To Bank (20,000 + 4,000)	24,000	2014 April 1	By Balance b/d	40,000
March 31	To Balance c/d	20,000	2015 March 31	By Interest on ₹40,000 @ 10%	4,000
		44,000			44,000
2016 March 31	To Bank (20,000 + 2,000)	22,000	2016 April 1	By Balance b/d	20,000
			2016 March 31	By Interest on ₹20,000 @ 10%	2,000
		22,000			22,000

Q8. X, Y and Z were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. The firm closes its books on 31st March every year. Y died on 24th June, 2018. Y's share in the profits of the firm till the date of death from the last Balance Sheet was to be calculated on the basis of sales. Sales during the year 2017-18 was ₹15,00,000 and profit earned during the year was ₹3,00,000. Sales from 1st April, 2018 to 24th June, 2018 were ₹2,00,000. On Y's death goodwill of the firm was valued at ₹1,20,000. The total amount payable to Y's executors on his death was ₹1,75,000. This amount was paid to them on 15-7-2018. Pass the necessary journal entries for the above transactions in the books of the firm.

Solution: **JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 June 24	Profit and Loss Suspense A/c[1] Dr. To Y's Capital A/c (Y's share of profit till the date of death)		16,000	16,000
"	X's Capital A/c Dr. Z's Capital A/c Dr. To Y's Capital A/c (Y's share of goodwill adjusted into the Capital A/cs of X and Z in their gaining ratio of 2 : 1)		32,000 16,000	48,000
"	Y's Capital A/c Dr. To Y's Executor's A/c (Y's Capital A/c transferred to his Executor's A/c)		1,75,000	1,75,000
July 15	Y's Executor's A/c Dr. To Bank A/c (Amount paid to Y's Executors)		1,75,000	1,75,000

Working Notes:

(1) Calculation of Y's Share of Profit:

(i) Ratio of Profit to Sales = $\frac{\text{Profit (Last Year)}}{\text{Sales (Last Year)}} \times 100 = \frac{3,00,000}{15,00,000} \times 100 = 20\%$

(ii) Profit upto the date of death = 2,00,000 × $\frac{20}{100}$ = ₹40,000

(iii) Y's Share of Profit = 40,000 × $\frac{2}{5}$ =₹16,000

QUESTIONS FOR PRACTICE

MCQ

1. The journal entry for writing-off goodwill already appearing in the books of account at the time of retirement of partner is

(a) All Partner's Capital A/c Dr.
To Goodwill A/c

(b) Goodwill A/c Dr.
To All partner's Capital A/c

(c) Goodwill A/c Dr.
To Retiring Partner's Capital A/c

(d) None of the above

2. 'P', 'Q' and 'R' are partners sharing profits in the ratio of 2 : 1 : 1. 'R' retires and assets and liabilities are revalued; resulting in a profit of ₹12,000. 'R's' share of revaluation will be

(a) ₹6,000 (b) ₹3,000
(c) ₹2,000 (d) None of these

3. 'A', 'B' and 'C' were in partnership sharing profits and losses equally. 'B' retires. After adjustments, his capital account shows a credit balance of ₹1,20,000 as on 1st April, 2021. The balance due to 'B' is to be paid in three equal yearly instalments together with interest @ 5% per annum on outstanding balance. Amount to be paid to 'B' on 30th March, 2023 will be

(a) ₹60,000 (b) ₹40,000
(c) ₹44,000 (d) ₹54,000

4. Neeti, Preeti and Swati are partners sharing profit in the equal ratio. At the time of retirement of Neeti, Workmen Compensation Reserve (WCR) appears in the books at ₹70,000. There is a claim of ₹ 25,000 against it. The amount of WCR credited to Neeti's capital account will be

(a) ₹ 33,300 (b) ₹16,667
(c) ₹ 15,000 (d) None of these

5. Abhishek, Rajat and Vivek are partners sharing profits in the ratio of 5 : 3 : 2. If Vivek retires, the new profit sharing ratio between Abhishek and Rajat will be

(a) 3 : 2 (b) 5 : 3
(c) 5 : 2 (d) None of these

6. The old profit sharing ratio among Rajender, Satish and Tejpal were 2 : 2 : 1. The new profit sharing ratio after satish's retirement is 3 : 2. The gaining ratio is

(a) 3 : 2 (b) 2 : 1
(c) 1 : 1 (d) 2 : 2

7. Anand, Bahadur and Chander are partners sharing profit equally. On Chander's retirement, his share is acquired by Anand and Bahadur in ratio of 3 : 2. The new profit sharing ratio between Anand and Bahadur will be

(a) 8 : 7 (b) 4 : 5
(c) 3 : 2 (d) 2 : 3

8. On the death of a partner, the amount due to him will be credited to

(a) all partner's capital accounts
(b) remaining partner's capital accounts
(c) his executor's account
(d) Any of the above

9. Chaman, Raman and Suman are partners sharing profits in the ratio of 5 : 3 : 2. Raman retires, the new profit sharing ratio between Chaman and Suman will be 1 : 1. The goodwill of the firm is valued at ₹ 1,00,000. Raman's share of goodwill will be adjusted.

(a) by debiting Chaman's capital account and Suman's capital account with ₹ 15,000 each
(b) by debiting Chaman's capital account and Suman's capital account with ₹21,429 and ₹8,571 respectively
(c) by debiting only Suman's capital account with ₹ 30,000
(d) by debiting Raman's capital account with ₹30,000

10. On retirement/death of a partner, the remaining partner(s) who have gained due to change in profit sharing ratio should compensate the

(a) retiring partners only
(b) remaining partners (who have sacrificed) as well as retiring partners
(c) remaining partners only (who have sacrificed)
(d) None of the above

11. In case of retirement of a partner, profit or loss on revaluation of assets and re-assessment of liabilities is distributed among …… in ……. Profit sharing ratio.

(a) all the partners, old
(b) all the partners, new
(c) other than retiring partner, old
(d) other than retiring partner, new

12. On the death of a partner, his share in the profits of the firm till the date of his death is transferred to the

(a) debit of profit and loss account
(b) credit of profit and loss account
(c) debit of profit and loss suspense account
(d) credit of profit and loss suspense account

13. Unless agreed otherwise, it is presumed that the continuing partners gain in their …… and hence their …… is same as their old profit sharing ratio.

(a) new profit sharing ratio, gaining ratio
(b) new profit sharing ratio, sacrificing ratio
(c) old profit sharing ratio, sacrificing ratio
(d) old profit sharing ratio, gaining ratio

14. Which of the following statements is/are incorrect?

(i) Revaluation of asset is necessary because present value of assets is different from market value.
(ii) A partner has right to retire by giving due notice in advance.

(a) Only (i) (b) Only (ii)
(c) Both (a) and (b) (d) None of these

15. A, B and C are partners with capitals ₹1,00,000, ₹75,000 and ₹50,000 respectively. On C's retirement, his share is acquired by A and B in ratio of 5 : 3. Gaining ratio will be
(a) 3 : 2 (b) 2 : 2
(c) 5 : 3 (d) None of these

16. At the time of retirement of Mahesh, value of stock is given ₹60,000 in the balance sheet of the firm. Pass a journal entry when found stock is undervalued by ₹ 15,000.
(a) Revaluation A/c Dr. 15,000
To Stock A/c 15,000
(b) Stock A/c Dr. 15,000
To Revaluation A/c 15,000
(c) Stock A/c Dr. 45,100
To Revaluation A/c 45,000
(d) Revaluation A/c Dr. 45,000
To Stock A/c 45,000

17. P, Q and R were partners in a firm. On 31st March, 2021, R retired. The amount payable to R ₹2,17,000 was transferred to his loan account. R agreed to receive interest on this amount as per the provisions of Partnership Act, 1932.
Statement the rate at which interest will be paid to R.
(a) 12% (b) 6%
(c) 10% (d) None of the above

18. Claim of the retiring partner is payable in which of the following form?
(a) Fully in cash
(b) Fully transferred to loan account to be paid later with some interest on it
(c) Partly in cash and partly as loan repayable later with agreed interest
(d) Any of the above method

19. ______ goodwill is the excess of total capital of firm over the combined capital of partners.
(a) Hidden (b) Old
(c) New (d) None of these

20. Find the incorrect pair.

Column I	Column II
A. Gaining ratio	(i) Old profit Ratio – New Profit Ratio
B. Retirement of a partner	(ii) Relation with a firm of the partner comes to an end
C. Change in value of assets and liabilities	(iii) Revaluation account
D. Amount payable to retiring partner	(iv) Retiring partner's loan account

Options
(a) A-(i) (b) B-(ii)
(c) C-(iii) (d) D-(iv)

SUBJECTIVE QUESTIONS

1. A, B and C are partners in a firm whose books are closed on March 31st each year. A died on 30th June, 2017 and according to the agreement, the share of profits of a deceased partner upto the date of the death is to be calculated on the basis of the average profits for the last five years. The net profits for the last 5 years have been: 2013 — ₹14,000; 2014 — ₹18,000; 2015 — ₹16,000; 2016 — ₹ 10,000 (loss) and 2017 — ₹ 16,000. Calculate A's share of the profits upto the date of death and pass necessary journal entry.

2. Jayant, Kartik and Leena were partners in a firm sharing profits and losses in the ratio of 5:2:3. Kartik died and Jayant and Leena decided to continue the business. Their gaining ratio was 2: 3. Calculate the new profit sharing ratio of Jayant and Leena.

3. A, B and C are equal partners. C retires. He surrenders 3/5th of his share in favour of A and 2/5th in favour of B. Calculate new ratio and gaining ratio.

4. Arjun, Bhim and Nakul are partners sharing profits and losses in the ratio of 14 : 5 : 6 respectively. Bhim retires and surrenders his 5/25th share in favour of Arjun. The goodwill of the firm is valued at 2 years' purchase of super profits based on average profits of last 3 years. The profits for the last 3 years are ₹50,000, ₹55,000 and ₹60,000 respectively. The normal profits for the similar firm are ₹30,000. Goodwill already appears in the books of the firm at ₹75,000. The profit for the first year after Bhim's retirement was ₹1,00,000. Give the necessary Journal Entries to adjust Goodwill and distribute profits showing your workings.

5. Nandan, John and Rosa are partners sharing profits in the ratio of 4:3:2. On 1st April, 2012, John gave a notice to retire from the firm. Nandan and Rosa decided to share future profits in the ratio of 1:1. The capital accounts of Nandan and Rosa after all adjustments showed a balance of ₹43,000 and ₹80,500 respectively. The total amount to be paid to John was ₹95,500. This amount was to be paid by Nandan and Rosa in such a way that their capitals become proportionate to their new profit-sharing ratio. Pass necessary Journal entries in the books of the firm for the above transactions. Show your working clearly.

6. Vikas, Vishal and Vaibhav were partners in a firm sharing profits in the ratio of 2 : 2 : 1. The firm closes its books on 31st March every year. On 31st December, 2015 Vaibhav died. On that date his capital account showed a credit balance of ₹3,80,000 and goodwill of the firm was valued at ₹1,20,000. There was a debit balance of ₹50,000 in the Profit and Loss Account. Vaibhav's share of profit in the year of his death was to be calculated on the basis of the average profit of last five years. The average profit of last five years was ₹75,000.

Pass necessary journal entries in the books of the firm on Vaibhav's death.

7. Vikas, Gagan and Momita were partners in a firm sharing profits in the ratio of 2 : 2 : 1. The firm closes its books on 31st March every year. On 30th September, 2014 Momita died. According to the provisions of partnership deed, the legal representatives of a deceased partner are entitled for the following in the event of his/her death:

(i) Capital as per the last Balance Sheet.

(ii) Interest on capital at 6% p.a. till the date of her death.

(iii) Her share of profit to the date of death calculated on the basis of average profits of last four years.

(iv) Her share of goodwill to be determined on the basis of three years' purchase of the average profits of last four years. The profits of last four years were:

Year	Profit (₹)
2010-2011	30,000
2011-2012	50,000
2012-2013	40,000
2013-2014	60,000

The balance in Momita's capital account on 31-3-2014 was ₹60,000 and she had withdrawn ₹10,000 till the date of her death. Interest on her drawings were ₹300.

Prepare Momita's capital account to be presented to her executors.

8. Banwari, Girdhari and Murari are partners in a firm sharing profits and losses in the ratio of 4:5:6. On 31st March, 2014, Girdhari retired. On that date the capitals of Banwari, Girdhari and Murari before the necessary adjustments stood at ₹2,00,000, ₹1,00,000 and ₹ 50,000 respectively. On Girdhari's retirement, goodwill of the firm was valued at ₹1,14,000. Revaluation of assets and reassessment of liabilities resulted in a profit of ₹ 6,000. General Reserve stood in the books of the firm at ₹ 30,000.

The amount payable to Girdhari was transferred to his loan account. Banwari and Murari agreed to pay Girdhari two yearly instalments of ₹ 75,000 each including interest@10% p.a. on the outstanding balance during the first two years and the balance including interest in the third year. The firm closes its books on 31st March every year.

Prepare Girdhari's loan account till it is finally paid showing the working notes clearly.

9. Shirish, Harit and Asha were partners in a firm sharing profits in the ratio of 5 : 4 : 1. Shirish died on 30th June, 2018. On this date their Balance Sheet was as follows :

Balance Sheet of Shirish, Harit and Asha

as at 31st March, 2018

Liabilities		(₹)	Assets	(₹)
Capitals:			Plant and Machinery	5,60,000
Shirish	1,00,000		Stock	90,000
Harit	2,00,000		Debtors	10,000
Asha	3,00,000	6,00,000	Cash	40,000
Profits for the year 2017 – 18		80,000		
Bills Payable		20,000		
		7,00,000		7,00,000

According to the partnership deed, in addition to deceased partner's capital, his executor is entitled to :

(i) Share in profits in the year of death on the basis of average of last two years' profit. Profit for the year 2016—17 was ₹60,000.

(ii) Goodwill of the firm was to be valued at 2 years purchase of average of last two years' profits.

Prepare Shirish's Capital Account to be presented to his executor.

10. A, B and C were partners in a firm. A died on 31.3.2018 and the Balance Sheet of the firm on that date was as under:

Balance Sheet of A, B and C

as at 31.3.2018

Liabilities		(₹)	Assets	(₹)
Creditors		7,000	Cash at Bank	12,000
General Reserve		9,000	Debtors	32,000
Workmen's Compensation Fund		10,000	Furniture	30,000
Profit and Loss Account		6,000	Plant	40,000
Capital :			Patents	8,000
A	40,000			
B	30,000			
C	20,000	90,000		
		1,22,000		1,22,000

On A's death it was found that patents were valueless, furniture was to be brought down to ₹24,000, plant was to be reduced by ₹ 10,000 and there was a liability of ₹7,000 on account of workmen's compensation.
Pass the necessary journal entries for the above at the time of A's death

HOMEWORK

1. Aman, Nitin and Shubham are partners sharing profits in the ratio of 2:2:1. Nitin retired and his share is taken by Shubham only. Calculate new profit sharing ratio of Aman and Shubham.
(a) 2:6 (b) 2:3
(c) 1:1 (d) 2:1

2. In case of retirement of a partner, profit or loss on revaluation of assets and re-assessment of liabilities is distributed among ……… in ……… profit sharing ratio.
(a) all the partners, old
(b) all the partners, new
(c) other than retiring partner, old
(d) other than retiring partner, new

3. Find the incorrect pair.

Column-I	Column-II
A. Gaining Ratio	(i) Old Ratio – New Ratio
B. Retirement of a partner	(ii) Relation with the firm of a partner comes to an end
C. Change in value of assets and liabilities	(iii) Revaluation Account
D. Amount payable to retiring partner	(iv)Retiring Partner's Capital A/c

(a) A-(i) (b) B-(ii)
(c) C-(iii) (d) D-(iv)

4. P, Q and R were partners in a firm. On 31st March, 2018, R retired. The amount payable to R ₹2,17,000 was transferred to his loan account. R agreed to receive interest on this amount as per the provisions of Partnership Act, 1932. State the rate at which interest will be paid to R.
(a) 12% (b) 6%
(c) 10% (d) None of these

5. What adjustments out of the following will be required at the time of retirement of a partner?
(i) Adjustment in profit sharing ratio
(ii) Adjustment of reserve and surplus
(iii) Adjustment of goodwill
(iv) Adjustment of capital (if agreed)
(v) Adjustments of profit/loss on revaluation of assets and liabilities
(vi) Computation of amount due to retiring partner and payment to him.

Alternatives
(a) (i), (ii), (iv), (v), (vi) (b) (i), (ii), (iii), (v), (vi)
(c) (i), (ii), (iii), (iv), (vi) (d) All of these

6. Rex, Tex and Flex are partners in a firm in the ratio of 5: 3 : 2 . As per their partnership agreement, the share of deceased partner is to be calculated on the basis of profits and turnover of previous accounting year. Tex expired on 31st December, 2019. Turnover till the date of death was ₹18,00,000. Their profits and turnover for the year 2018-19 amounted to ₹4,00,000 and ₹ 20,00,000 respectively. An amount of ………… will be given to his executors as his share of profits till the date of death.
(a) ₹2,70,000 (b) ₹1,08,000
(c) ₹3,60,000 (d) ₹4,44,444

7. X, Y and Z are partners sharing profits and losses equally. Z retires. Firm's goodwill at the time of retirement is ₹ 3,60,000. Z being compensated by X and Y in the gaining ratio 1:1. Journalise the transaction.

(a)	X's Capital A/c	Dr	60,000
	Y's Capital A/c	Dr	60,000
	To Z 's Capital A/c		1,20,000
(b)	Y's Capital A/c	Dr	90,000
	X's Capital A/c	Dr	30,000
	To Z's Capital A/c		1,20,000
(c)	Z's Capital A/c	Dr	1,20,000
	To X's Capital A/c		60,000
	To Y's Capital A/c		60,000
(d)	Z's Capital A/c	Dr	1,20,000
	To X's Capital A/c		30,000
	To Y's Capital A/c		90,000

8. Match the columns (at the time of retirement of partners situations).

Column-I	Column-II
A. Increase in Liabilities	(i) Credit-Revaluation A/c
B. Bad debts recovered	(ii) Credit-Partner's Capital A/c
C. Accumulated Losses	(iii) Debit- Revaluation A/c
D. Profit and Loss (Cr.)	(iv) Debit- Partner's Capital A/c

	A	B	C	D
(a)	(iii)	(i)	(ii)	(iv)
(b)	(i)	(iii)	(iv)	(ii)
(c)	(i)	(iii)	(ii)	(iv)
(d)	(iii)	(i)	(iv)	(ii)

9. On the death of a partner, his share in the profits of the firm till the date of his death is transferred to the
(a) debit of profit and loss account
(b) credit of profit and loss account
(c) debit of profit and loss suspense account
(d) credit of profit and loss suspense account

10. Unless agreed otherwise, it is presumed that the continuing partners gain in their ………… and hence their ……… is same as their old profit sharing ratio.
(a) new profit sharing ratio, gaining ratio
(b) new profit sharing ratio, sacrificing ratio
(c) old profit sharing ratio, sacrificing ratio
(d) old profit sharing ratio, gaining ratio

11. Rajat, Mishi and Tanvi were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Tanvi died on

31st October, 2019. According to the partnership agreement, her share of profits from the closure of last accounting year till the date of her death was to be calculated on the basis of aggregate profits of two completed years before death. Profits of the firm for the years ending 31st March, 2018 and 31st March, 2019 were ₹57,000 and ₹63,000 respectively. The firm closes its books on 31st March every year. Tanvi's share of profits till the date of her death will be :

(a) ₹24,000 (b) ₹27,000
(c) ₹14,000 (d) ₹12,000

12. Anita, Rama and Chavi are partners sharing profits and losses in the ratio of 2:2:1. Rama died. At that time, goodwill of the firm valued at ₹30,000. What contribution has to be made by Anita and Chavi in order to pay Rama's executor?

(a) ₹20,000 and ₹10,000 (b) ₹6,000 and ₹6,000
(c) ₹8,000 and ₹4,000 (d) ₹15,000 and ₹15,000

13. Riva, Meetu and Asha were partners in a firm sharing profits and losses in the ratio of 1 : 2 : 3. Meetu died on 31st July, 2019. According to the partnership agreement, her share of profit from the closure of last accounting year till the date of her death was to be calculated on the basis of aggregate profits of two completed years before her death. Profits of the firm for the years ending 31st March, 2018 and 31st March, 2019 were ₹ 46,000 and ₹ 44,000 respectively. The firm closes its books on 31st March every year. Meetu's share of profit till the date of her death will be

(a) ₹20,000 (b) ₹5,000
(c) ₹10,000 (d) ₹45,000

14. ……… goodwill is the excess of total capital of firm over the actual combined capital of partners.

(a) Hidden (b) Old
(c) New (d) None of these

15. A, B and C were partners sharing profits and losses in the ratio of 2 : 2 :1. Books are closed on 31st March every year. C dies on 5th November, 2018. Under the partnership deed, the executors of the deceased partner are entitled to his share of profit to the date of death, calculated on the basis of last year's profit. Profit for the year ended 31st March, 2018 was ₹2,40,000. C's share of profit will be :

(a) ₹28,000 (b) ₹32,000
(c) ₹28,800 (d) ₹48,000

Directions (Q. Nos. 16 to 18) There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below.

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(c) Assertion (A) is true, but Reason (R) is false.
(d) Assertion (A) is false, but Reason (R) is true.

16. Assertion (A): Retirement of a partner results into a reconstitution of the firm.
Reason (R): In retirement, old partnership agreement discontinues and new partnership agreement come into existence.

17. Assertion (A): If the amount of any asset is understated, then revaluation account will be debited to restore asset amount to its actual value.
Reason (R): Increase in the value of an asset is profit for the firm.

18. Assertion (A): Profit or loss on the revaluation of assets and liabilities is a capital profit.
Reason (R): Capital profits are recurring in nature.

19. A, B and C were partners in a firm sharing profits and losses in the ratio of 5 :3 : 2. C retired and his capital balance after adjustments regarding reserves, accumulated profits/losses and his share of gain on revaluation was ₹2,50,000. C was paid ₹3,22,000 including his share of goodwill. The amount credited to C's Capital Account, on his retirement, for goodwill will be :

(a) ₹72,000 (b) ₹7,200
(c) ₹14,400 (d) ₹3,22,000

Directions: Read the following case study and answer the question no. 20 to 23 on the basis of the same. Alpha, Beta and Gamma are partners sharing profits in the ratio of 3:2:1. Beta retired from the firm. On that date, the balance sheet of the firm was as follows

Liabilities		**Amount (₹)**	**Assets**		**Amount (₹)**
Creditors		15,000	Bank		7,600
General Reserve		12,000	Furniture		41,000
Bills Payable		12,000	Stock		9,000
Outstanding Salary		2,200	Premises		80,000
Provision for Legal Damages		6,000	Debtors	6,000	
Capital			(-) Provision for Doubtful debts	(400)	5,600
Alpha	46,000				
Beta	30,000				
Gamma	20,000	96,000			
		1,43,200			1,43,200

Additional Information

(a) Premises to be appreciated by 20%, stock to be depreciated by 10% and provision for doubtful debts was to be maintained @ 5% on debtors. Further, provision for legal damages is to be increased by ₹ 1,200 and furniture to be brought upto ₹45,000.

(b) Goodwill of the firm is valued at ₹42,000.

(c) ₹ 26,000 from Beta's capital account be transferred to his loan account and balance to be paid through bank; if required, necessary loan may be obtained from bank.

(d) New profit sharing ratio of Alpha and Gamma is decided to be 5:1.

20. What will be the gaining ratio of Alpha and Gamma?

(a) 1:1
(b) Entire Beta's share taken by Gamma only
(c) Entire Beta's share taken by Alpha only
(d) None of these

21. What is the value of Beta's share of goodwill?

(a) ₹7,000
(b) ₹14,000
(c) ₹21,000
(d) Cannot be determined from the given data

22. What will be correct journal entry for distribution of general reserve among partners?

(a)	Alpha's Capital A/c	Dr	6,000
	Beta's Capital A/c	Dr	4,000
	Gamma's Capital A/c	Dr	2,000
	To General Reserve A/c		2,000
(b)	General Reserve A/c	Dr	2,000
	To Alpha's Capital A/c		6,000
	To Beta's Capital A/c		4,000
	To Gamma's Capital A/c		2,000
(c)	Alpha's Capital A/c	Dr	12,000
	To Beta's Capital A/c		12,000
(d)	Alpha's Capital A/c	Dr	4,000
	To Beta's Capital A/c		4,000

23. 20% appreciation in the value of premises would be recorded as

(i) Revaluation A/c debited by ₹16,000
(ii) Revaluation A/c credited by ₹16,000
(iii) Premises increased by ₹16,000 in the assets side of the balance sheet
(iv) Premises decreased by ₹ 16,000 in the assets side of the balance sheet

Alternatives

(a) (i), (iv) (b) (ii), (iv)
(c) (i), (iii) (d) (ii), (iii)

24. What is profit/loss of Revaluation Account which will be transferred to Partner's Capital Accounts ?

(a) Loss of ₹9,900 (b) Loss of ₹5,600
(c) Profit of ₹9,900 (d) Loss of ₹10,200

Direction: Read the following case study and answer the question no. 25 to 28 on the basis of the same.

Arjun, Bhim and Nakul are partners sharing profits and losses in the ratio of 14:5:6. Bhim retires and gives 5/25th of his share to Arjun and remaining share to Nakul. Goodwill of the firm is valued at 2 years purchase of super profits based on average profits of last 3 years. Profit for the last 3 years are ₹ 50,000, ₹ 55,000 and ₹ 60,000 respectively. Normal profits for the similar firm are ₹ 30,000. Goodwill already exist in the books of the firm at ₹ 75,000. Profit for the first year after Bhim's retirement was ₹ 1,00,000.

25. What will be gaining ratio of remaining partners?

(a) 26 :19
(b) 1:4
(c) 4:1
(d) 19:26

26. What will be the amount of super profit?

(a) ₹55,000 (b) ₹25,000
(c) ₹50,000 (d) None of these

27. The new profit sharing ratio of remaining partners would be

(a) 19:26 (b) 3:2
(c) 16:9 (d) 26:19

28. Bhim's share of goodwill will be

(a) ₹50,000 (b) ₹25,000
(c) ₹10,000 (d) ₹20,000

29. X, Y and Z are in partnership sharing profits in the proportion of 3: 2: 1. There is no Goodwill A/c in the books of the firm. As from 1st April ,2020 it was agreed that X should give only part of time, to the business and that in consequence he should receive in future only one half of his share, the remaining half being divided equally between Y and Z. The Goodwill to be valued for this purpose, at ₹40,000. What will be Journal entry for adjustment of Goodwill .

(a) Y's Capital A/c Dr 5,000
Z's Capital A/c Dr 5,000
To X's Capital A/c 10,000

(b) Y's Capital A/c Dr 10,000
Z's Capital A/c Dr 10,000
To X's Capital A/c 20,000

(c) X's Capital A/c Dr 10,000
To Y's Capital A/c 5,000
To Z's Capital A/c 5,000

(d) X's Capital A/c Dr 20,000
To Y's Capital A/c 10,000
To Z's Capital A/c 10,000

30. Ajay, Bhawna and Shreya were partners sharing profits in the ratio 2 : 2 : 1. On July 1, 2017 Shreya died. The books of accounts are closed on March 31 every year. Sales for the year 2016-17 amounted to ₹5,00,000 and that from 1st April to 30th June 2017 were ₹1,40,000. The rate of profit during the past three years had been 10% on sales. Since Shreya's legal representative was her only son, who is specially abled, it was decided that the profit for the purpose of settling Shreya's account is to be calculated as 20% on sales. Calculate Shreya's share of profits till the date of her death.

(a) ₹1,200 (b) ₹5,000
(c) ₹5,600 (d) ₹6,000

SUBJECTIVE QUESTIONS

1. X, Y and Z are partners sharing profits in the ratio 1:2:3. Z retires on 1st April, 2018 and his capital after making all adjustments for reserves and profit on revaluation stands at ₹2,40,000. X and Y here agreed to pay him ₹3,00,000 in full settlement of his claim.
Record necessary journal entry for the treatment of goodwill if the new profit-sharing ratio is decided as 1:3.

2. A, B and C are partners in a firm. A retires on 1st January, 2013. 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 Account until he is paid the amount due to him. A is to be paid in four equal instalments along with interest @10% p.a. The partnership firm closes its books on 31st December every year.

3. A, B and C are partners sharing profits and losses in the ratio of 2 : 3 : 1. B retires and sells his share of profit to A and C for ₹8,100, being purchased by A for ₹3,600 and by C for ₹4,500. The profit for the year after B's retirement was ₹10,500.
You are required to give necessary journal entries to record the sale of B's share to A and C and distribution of profit among partners.

4. Leena, Madan and Naresh were partners in a firm sharing profits and losses in the ratio of 2:2:3. On 31st March, 2015, their Balance Sheet was as follows:

Balance Sheet
as at 31st March, 2015

Liabilities		(₹)	Assets	(₹)
Trade Creditors		1,60,000	Land and Building	10,00,000
Bank overdraft		44,000	Machinery	5,00,000
Long-term Debts		4,00,000	Furniture	7,00,000
Employees' Provident Fund		76,000	Investments	2,00,000
Capitals:			Closing Stock	8,00,000
Leena	12,50,000		Sundry Debtors	4,00,000
Madan	8,00,000		Bank	80,000
Naresh	10,50,000	31,00,000	Deferred Advertisement Expenditure	1,00,000
		37,80,000		37,80,000

On 31st March, 2015, Madan retired from the firm and the remaining partners decided to carry on the business. It was decided to revalue assets and liabilities as under:

(i) Land and Building be appreciated by ₹2,40,000 and Machinery be depreciated by 10%.
(ii) 50% of Investments were taken over by the retiring partner at book value.
(iii) An old customer, Mohit whose account was written off as bad debt had promised to pay ₹7,000 in settlement of his full debt of ₹10,000.
(iv) Provision for Doubtful Debts was to be made at 5% on debtors.
(v) Closing Stock will be valued at market price which is ₹1,00,000 less than the book value.
(vi) Goodwill of the firm be valued at ₹5,60,000 and Madan's share of goodwill be adjusted in the accounts of Leena and Naresh. Leena and Naresh decided to share future profits and losses in the ratio of 3 : 2.
(vii) The total capital of the new firm will be ₹32,00,000 which will be in the proportion of the profit-sharing ratio of Leena and Naresh.

(viii) Amount due to Madan was settled by accepting a Bill of Exchange in his favour payable after 4 months.
Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the firm after Madan's retirement.

5. X, Y and Z were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 31st March, 2015 their Balance Sheet was as follows:

Balance Sheet of X, Y and Z
as at 31st March, 2015

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		21,000	Land and Building		62,000
Investment Fluctuation Fund		10,000	Motor Vans		20,000
Profit and Loss A/c			Investments		19,000
Capitals:		40,000	Machinery		12,000
X	50,000		Stock		15,000
Y	40,000		Debtors	40,000	
Z	20,000	1,10,000	*Less:* Provision	3,000	37,000
			Cash		16,000
		1,81,000			1,81,000

On the above date, Y retired and X and Z agreed to continue the business on the following terms:
(i) Goodwill of the firm was valued at ₹51,000.
(ii) There was a claim of ₹4,000 for Workmen's Compensation.
(iii) Provision for bad debts was to be reduced by ₹1,000.
(iv) Y will be paid ₹8,200 in cash and the balance will be transferred in his loan account which will be paid in four equal yearly instalments together with interest @ 10% p.a.
(v) The new profit sharing ratio between X and Z will be 3 : 2 and their capitals will be in their new profit sharing ratio. The capital adjustments will be done by opening current accounts.
Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.

6. X, Y and Z were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31.3.2016 their Balance Sheet was as follows:

Liabilities		(₹)	Assets	(₹)
Capital Accounts :			Building	50,000
X	75,000		Patents	15,000
Y	62,500		Machinery	75,000
Z	37,500		Stock	37,500
Creditors		1,75,000	Debtors	20,000
			Cash at Bank	20,000
		42,500		
		2,17,500		2,17,500

Z died on 31st July, 2016. It was agreed that:
(a) Goodwill be valued at $2\frac{1}{2}$ year's purchase of the average profits of the last four years, which were as follows:

Years	Profits (₹)
2012-2013	32,500
2013-2014	30,000
2014-2015	40,000
2015-2016	37,500

(b) Machinery be valued at ₹70,000; Patents at ₹20,000 and Building at ₹62,500.
(c) For the purpose of calculating Z's share of profits in the year of his death the profits in 2016-2017 should be taken to have been accrued on the same scale as in 2015-2016.
(d) A sum of ₹17,500 was paid immediately to the executors of Z and the balance was paid in four half yearly instalments together with interest at 12% p.a. starting from 31.1.2017.

Give necessary journal entries to record the above transactions and Z's executors' account till the payment of instalment due on 31.1.2017.

7. 'G', 'E' and 'F' were partners in a firm sharing profits in the ratio of 7:2:1. The Balance Sheet of the firm as on 31st March, 2017 was as follows:

Balance Sheet of 'G', 'E' and 'F'
as at 31st March, 2017

Liabilities		(₹)	Assets	(₹)
Capitals:			Goodwill	40,000
G	70,000		Land and Buildings	60,000
E	20,000		Machinery	40,000
F	10,000	1,00,000	Stock	7,000
General Reserve		20,000	Debtors	12,000
Loan from 'E'		30,000	Cash	5,000
Creditors		14,000		
		1,64,000		1,64,000

'E' died on 24th August, 2017. Partnership deed provides for the settlement of claims on the death of a partner in addition to his capital as under:

(i) The share of profit of deceased partner to be computed upto the date of death on the basis of average profits of the past three years which were ₹80,000.

(ii) His share in profit/loss on revaluation of assets and reassessment of liabilities which were as follows:
Land and Buildings were revalued at ₹94,000, Machinery at ₹38,000 and Stock at ₹ 5,000. A provision of $2\frac{1}{2}$ % was to be created on debtors for doubtful debts.

(iii) The net amount payable to E's executor was transferred to his Loan Account, to be paid later on. Prepare Revaluation Account, Partners' Capital Accounts, E's Executor A/c, and Balance Sheet of 'G' and 'F' 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.

8. N, S and B were partners in a firm sharing profits and losses in proportion of 1/2, 1/6 and 1/3 respectively. The Balance Sheet on 31st March, 2017 was as follows:

Balance Sheet
as at 31st March, 2017

Liabilities		(₹)	Assets		(₹)
Capital Accounts:			Freehold Premises		40,000
N	30,000		Machinery		30,000
S	30,000		Furniture		12,000
B	28,000	88,000	Stock		22,000
Bills Payable		12,000	Sundry Debtors	20,000	
General Reserve		12,000	*Less:* Provision for Doubtful Debts	1,000	19,000
Sundry Creditors		18,000	Cash		7,000
		1,30,000			1,30,000

B retired from the business on the above date and the partners agreed to the following:

(a) Freehold premises and stock were to be appreciated by 20% and 15% respectively.

(b) Machinery and furniture were to be depreciated by 10% and 7% respectively.

(c) Provision for Doubtful debts was to be increased by ₹1,500.

(d) On B's retirement, Goodwill of the firm was valued at ₹21,000.

(e) The continuing partners decided to adjust their capitals in their new profit-sharing ratio after retirement of B. Surplus/deficit, if any, in their capital accounts was to be adjusted through their current accounts.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.

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

Balance Sheet of Sameer, Yasmin and Saloni as at 31st March, 2016

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		1,10,000	Cash		80,000
General Reserve		60,000	Debtors	90,000	
Capitals:			*Less:* Provision	10,000	80,000
Sameer	3,00,000		Stock		1,00,000
Yasmin	2,50,000		Machinery		3,00,000
Saloni	1,50,000	7,00,000	Building		2,00,000
			Patents		60,000
			Profit and Loss Account		50,000
		8,70,000			8,70,000

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

(i) Debtors of ₹4,000 will be written off as bad debts and a provision of 5% on debtors for bad and doubtful debts will be maintained.

(ii) An unrecorded creditor of ₹20,000 will be recorded.

(iii) Patents will be completely written off and 5% depreciation will be charged on stock, machinery and building.

(iv) Yasmin and Saloni will share future profits in the ratio of 3 : 2.

(v) Goodwill of the firm on Sameer's retirement was valued at ₹5,40,000.

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

10. Sushma, Gautam and Kanika were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 31st March, 2018, their Balance Sheet was as follows:

Balance Sheet of Sushma, Gautam and Kanika

as at 31st March, 2018

Liabilities		(₹)	Assets	(₹)
Creditors		60,000	Cash at Bank	1,40,000
Employees' Provident Fund		40,000	Sundry Debtors	1,60,000
Profit and Loss Account		1,00,000	Stock	2,40,000
Capitals:			Investments	2,00,000
Sushma	3,00,000		Fixed Assets	3,60,000
Gautam	2,50,000			
Kanika	3,50,000	9,00,000		
		11,00,000		11,00,000

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

(i) Fixed Assets will be reduced to ₹2,90,000.

(ii) A provision of 5% on debtors for bad and doubtful debts will be created.

(iii) Stock was to be valued at ₹2,18,000. Sushma took over the stock at this value.

(iv) Goodwill of the firm on Sushma's retirement was valued at ₹8,00,000. Sushma's share of goodwill was treated by debiting Gautam and Kanika's Capital Accounts.

(v) Sushma was paid cash brought by Gautam and Kanika in such a way that their capitals became in profit sharing ratio and a balance of ₹58,000 was left in the bank.

(vi) Gautam and Kanika will share the future profits in the ratio of 2 : 3.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.

SOLUTION FOR PRACTICE QUESTIONS

SOLUTION FOR MCQ QUESTIONS

1. **(a):**
2. **(b):** R's share in revaluation profits = 12,000 × $\frac{1}{4}$ =₹3,000
3. **(c):** Yearly instalment = $\frac{1,20,000}{3}$ = 40,000
   Amount outstanding on 1st April,2022 = ₹80,000
   Interest = 80,000 × $\frac{5}{100}$ = ₹4,000
   So amount paid to B on 31st March, 2023 = 40,000 + 4,000 = ₹44,000
4. **(c):** Amount to be credited to Neeti's Capital A/c = (70,000 – 25,000) × $\frac{1}{3}$ = ₹15,000
5. **(b):** if nothing is mentioned regarding new ratio or gain of existing partners, then the new ratio of remaining partners will be same as their old profit sharing ratio.
6. **(c):** Rajender's gain or sacrifice = $\frac{2}{5} - \frac{3}{5} = \frac{-1}{5}$
   Tejpal's gain or sacrifice = $\frac{1}{5} - \frac{2}{5} = \frac{-1}{5}$
   Gaining Ratio = 1 : 1
7. **(a):** Chander's share = $\frac{1}{3}$
   Anand gains = $\frac{1}{3} \times \frac{3}{5} = \frac{1}{5}$
   Bahadur gains = $\frac{1}{3} \times \frac{2}{5} = \frac{2}{15}$
   Anand's new share = $\frac{1}{3} + \frac{1}{5} = \frac{8}{15}$
   Bahadur's new share = $\frac{1}{3} + \frac{2}{15} = \frac{7}{15}$
   New ratio = 8 : 7
8. **(c):**
9. **(c):** Chaman gains = $\frac{1}{2} - \frac{5}{10}$ = Nil
   Suman gains = $\frac{1}{2} - \frac{2}{10} = \frac{3}{10}$
   Firm's goodwill = 1,00,000
   Raman's share of goodwill = 1,00,000 × $\frac{3}{10}$ =₹30,000, will be paid by Suman (gaining partner):
10. **(b)**
11. **(a)**
12. **(c)**
13. **(d)**
14. **(c)**
15. **(c):** On C's retirement his share is acquired by A and B in the ratio of 5 : 3. Therefore 5 : 3 is the gaining ratio.
16. **(b)**
17. **(b):** As per Section 37 of the Indian Partnership Act, 1932, retiring partner is entitled to get interest at the rate of 6% on the unpaid amount.
18. **(d)**
19. **(a)**
20. **(a)**

SOLUTIONS FOR SUBJECTIVE QUESTIONS

1. Average Profit = $\frac{14,000 + 18,000 + 16,000 - 10,000 + 16,000}{3} = \frac{₹54,000}{5}$ = ₹10,800

A's share = ₹10,800 × $\frac{3}{12} \times \frac{1}{3}$ = ₹900

Journal

Date	Particulars	L.f	Dr. (₹)	Cr. (₹)
2017 June 30	Profit and Loss Suspense A/c Dr. To A's Capital A/c		900	 900

2. Old Profit Sharing Ratio = 5:2:3

Jayant's share = 5/10, Kartik's share = 2/10, Leena's share = 3/10

Kartik dies; then gaining ratio of Jayant and Leena = 2:3; Kartik's Sacrifice = 2/10

Jayant's Gain = $\frac{2}{10} \times \frac{2}{5} = \frac{4}{5}$

Jayant's New Share = Old share + Gaining share = $\frac{5}{10} + \frac{4}{50} = \frac{29}{50}$

Leena's gain = $\frac{2}{10} \times \frac{3}{5} = \frac{6}{50}$

Leena's New share = Old share + Gaining share = $\frac{3}{10} + \frac{6}{50} = \frac{21}{50}$

New Ratio of Jayant and Leena after Kartik's death = $\frac{29}{50} : \frac{21}{50}$ or 29:21

3. (a): Calculation of new profit-sharing ratio:

A's gain = $\frac{1}{3} \times \frac{3}{5} = \frac{3}{15}$

A's new Share = Old Share + Gained Share = $\frac{1}{3} + \frac{3}{15} = \frac{5+3}{15} = \frac{8}{15}$

B's gain $= \frac{1}{3} \times \frac{2}{5} = \frac{2}{15}$

B's new Share = Old Share + Gained Share $= \frac{1}{3} + \frac{2}{15} = \frac{5+2}{15} = \frac{7}{15}$

New Profit-Sharing Ratio $= \frac{8}{15} : \frac{7}{15} = 8 : 7$

(b) Calculation of gaining ratio:

Gaining ratio = A's gain : B's gain $= \frac{3}{15} : \frac{2}{15} = 3 : 2.$

4.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Arjun's Capital A/c Dr.		42,000	
	Bhim's Capital A/c Dr.		15,000	
	Nakul's Capital A/c Dr.		18,000	
	To Goodwill A/c			75,000
	(Being the amount of existing goodwill written off to the capital accounts of all partners)			
	Arjun's Capital A/c Dr.		10,000	
	To Bhim's Capital A/c			10,000
	(Being the share of goodwill adjusted)			
	Profit and Loss A/c Dr.		1,00,000	
	To Arjun's Capital A/c			76,000
	To Nakul's Capital A/c			24,000
	(Being profit transferred to Capital A/cs of Arjun and Nakul in their new profit-sharing ratio)			

Working Notes:

1. **Calculation of share in existing goodwill:**

   Arjun's Share in Goodwill = ₹75,000 $\times \frac{14}{25} =$ ₹42,000

   Bhim's Share in Goodwill = ₹75,000 $\times \frac{5}{25} =$ ₹15,000

   Nakul's Share in Goodwill = ₹75,000 $\times \frac{6}{25}$ ₹18,000

2. **Valuation of goodwill:**

   Total Profit of last 3 years = ₹50,000 + ₹55,000 + ₹60,000 = ₹1,65,000

   Average profit = $\frac{₹1,65,000}{3}$ = ₹55,000

   Super profit = ₹55,000 — ₹30,000 = ₹25,000

   Goodwill = Super Profit × No. of years' purchase

   = ₹25,000 × 2 = ₹ 50,000

   Bhim's share in Goodwill = ₹50,000 $\times \frac{5}{25}$ = ₹10,000

3. **Calculation of New Profit-sharing Ratio:**

   Old Ratio of Arjun, Bhim and Nakul = 14 : 5 : 6

   Bhim surrenders his share in favour of Arjun = 5/25

   New Share of Arjun = $\frac{14}{25} + \frac{5}{25} = \frac{19}{25}$

   New Share of Nakul = $\frac{6}{25}$

   ∴ New Ratio of Arjun and Nakul = $\frac{19}{25} : \frac{6}{25}$ = 19 : 6.

5.

In the Books of Nandan, John and Rosa

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		95,500	
	To Nandan's Capital A/c			66,500
	To Rosa's Capital A/c			29,000
	(Being amount paid by Nandan and Rosa to bring their capital into their new profit-sharing ratio, i.e., 1: 1)			
	John's Capital A/c Dr.		95,500	

	To Bank A/c (Being the share of goodwill adjusted)			95,500

Working Notes:

(a) Total Adjusted Capital of the Firm:

Nandan's Capital = ₹ 43,000
Rosa's Capital = ₹ 80,500
John's Capital = ₹ 95,500
₹2,19,000

(b) Nandan and Rosa will contribute to the firm's capital in 1 : 1 ratio.

Nandan's New Capital = ₹1,09,500
Rosa's New Capital = ₹1,09,500
Amount to be brought in by Nandan = New Capital — Old Capital
= ₹1,09,500 – ₹43,000
= ₹66,500

Amount to be brought in by Rosa = New Capital — Old Capital
= ₹1,09,500 – ₹80,500
= ₹29,500.

6.

Journal of Vikas, Vishal and Vaibhav

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2015 Dec. 31	Vikas's Capital A/c Dr. Vishal's Capital A/c Dr. To Vaibhav's Capital A/c (Being Vaibhav share of goodwill adjusted in the capital accounts of the existing partners in their gaining ratio, *i.e.*, 1 : 1		12,000 12,000	 24,000
	Vaibhav's Capital A/c Dr. To Profit and Loss A/c (Being Vaibhav's share in debit balance of profit and loss account transferred)		10,000	 10,000
	OR			
	Vikas's Capital A/c Dr. Vishal's Capital A/c Dr. Vaibhav's Capital A/c Dr. To Profit and Loss A/c (Being Vaibhav's share in debit balance of profit and loss account transferred)		20,000 20,000 10,000	 50,000
	Profit and Loss Suspense A/c Dr. To Vaibhav's Capital A/c (Being Vaibhav's share of profit upto the date of death transferred to his capital account)		11,250	 11,250
	Vaibhav's Capital A/c Dr. To Vaibhav's Executors' A/c (Being amount due to Vaibhav transferred to his executors' account)		4,05,250	 4,05,250

Working Note: Vaibhav's share of profit of current year $= 75{,}000 \times \frac{9}{12} \times \frac{1}{5} = 11{,}250$

7.

Dr. Momita's Capital Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Drawings A/c	10,000	By Balance b/d	60,000
To Interest on Drawings A/c	300	By Profit and Loss Suspense A/c	4,500
To Momita's Executor's A/c	83,000	By Interest on Capital	1,800
		By Vikas's Capital A/c	13,500
		By Gagan's Capital A/c	13,500
	93,300		93,300

Working Notes:

(i) Calculation of Interest on Capital = $60{,}000 \times \frac{6}{100} \times \frac{6}{12} =$ ₹1,800

(ii) Calculation of Momita's Share of Profit = $45{,}000 \times \frac{1}{5} \times \frac{6}{12} =$ ₹4,500

(iii) Share in Goodwill = $45{,}000 \times 3 \times \frac{1}{5} =$ ₹27,000.

8.

Dr. Girdhari's Loan Account Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
2015			2014		
Mar. 31	To Bank A/c	75,000	April 1	By Girdhari's Capital A/c	1,50,000
			2015		
Mar. 31	To Balance c/d	90,000	Mar. 31	By Interest A/c	15,000
		1,65,000			1,65,000
2016			2015		
Mar. 31	To Bank A/c	75,000	April 1	By Balance b/d	90,000
			2016		
Mar. 31	To Balance c/d	24,000	Mar. 31	By Interest A/c	9,000
		99,000			99,000
2017			2016		
Mar. 31	To Bank A/c	26,400	April 1	By Balance b/d	24,000
			2017		
			Mar. 31	By Interest A/c	2,400
		26,400			26,400

Dr. Girdhari's Capital Account Cr.

Particulars	(₹)	Particulars	(₹)
To Girdhari's Loan A/c	1,50,000	By Balance b/d	1,00,000
		By Profit on Revaluation	2,000
		By Banwari's Capital A/c	15,200
		By Murari's Capital A/c	22,800
		By General Reserve A/c	10,000
	1,50,000		1,50,000

Working Note:

Total goodwill = ₹1,14,000

Girdhari's share = 1,14,000 × 5/15 = ₹38,000

Banwari's gain = 38,000 × 4/10 = ₹15,200

Murari's gain = 38,000 × 6/10 = ₹22,800

Girdhari's share in general reserve = 30,000 × 5/15 = ₹10,000

9.

Dr. Shirish's Capital Account Cr.

Particulars	(₹)	Particulars	(₹)
To Shirish's Executor's A/c	2,18,750	By Balance b/d	1,00,000
		By Profit and Loss A/c	40,000
		By Profit and Loss Suspense A/c	8,750
		By Harit's Capital A/c	56,000
		By Asha's Capital A/c	14,000
	2,18,750		2,18,750

10.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Revaluation A/c Dr.		24,000	
	To Patents A/c			8,000

	To Furniture A/c			6,000
	To Plant A/c			10,000
	(Being assets revalued)			
	Workmen's Compensation Fund A/c Dr.		10,000	
	To Claim for Workmen's Compensation			7,000
	To A's Capital A/c			1,000
	To B's Capital A/c			1,000
	To C's Capital A/c			1,000
	(Being compensation fund transferred to claim and balance distributed)			
	A's Capital A/c Dr.		8,000	
	B's Capital A/c Dr.		8,000	
	C's Capital A/c Dr.		8,000	
	To Revaluation A/c			24,000
	(Being loss on revaluation distributed among partners)			
	General Reserve A/c Dr.		9,000	
	Profit and Loss A/c Dr.		6,000	
	To A's Capital A/c			5,000
	To B's Capital A/c			5,000
	To C's Capital A/c			5,000
	(Being loss on revaluation distributed among partners in a profit sharing ratio)			
	Or			
	General Reserve A/c Dr.		9,000	
	To A's Capital A/c			3,000
	To B's Capital A/c			3,000
	To C's Capital A/c			3,000
	(Being general reserve distributed)			
	Profit and Loss A/c Dr.		6,000	
	To A's Capital A/c			2,000
	To B's Capital A/c			2,000
	To C's Capital A/c			2,000
	(Being profit and loss distributed among partners)			
	A's Capital A/c Dr.		38,000	
	To A's Executor's A/c			38,000
	(Being capital account transferred to A's executors account)			

SOLUTION FOR HOMEWORK QUESTIONS

SOLUTION FOR MCQ QUESTIONS

1. (b) **2. (a)** **3. (a)** **4. (b)** **5. (d)**

6. (b): Profit for the date of last balance sheet to the date of death

$= \frac{\text{Turnover Till the Date of Deth}}{\text{Privious Year'sTurnover}} \times \text{Previous Yours's Profit}$

$= \frac{18{,}00{,}00}{20{,}00{,}00} \times 4{,}00{,}000 =$ ₹3,60,000

Tex's Share in Profits = 3,60,000×3/10 = ₹1,08,000

7. (a): Z's share of goodwill = 3,60,000 × 1/3 =₹1,20,000

Amount given by X to Z = 1,20,000 × 1/3 =₹60,000

Amount given by Y to Z = 1,20,000 × 1/3 =₹60,000

8. (d)

9. (c)

10. (d)

11. (c): Tanvi's share for 7 months = 1,20,000$\times \frac{7}{12} \times \frac{2}{10} =$ ₹14,000

12. (c):

Anita= $\frac{2}{3}-\frac{2}{5}=\frac{4}{15}$ (Gain) ; Chavi= $\frac{1}{3}-\frac{1}{5}=\frac{2}{15}$ (Gain)

Gaining Ratio = 2: 1

Rama's share of goodwill = 30,000 × $\frac{2}{5}$ = ₹12,000

Anita's share = 12,000 × $\frac{2}{3}$ = ₹8,000

Chavi's share = 12,000 × $\frac{1}{3}$ = ₹4,000

13. (c): Accumulated profit of the last 2 years = 46,000 + 44,000 = ₹90,000

Meetu's Share in Profit till her death = 90,000 $\times \frac{2}{6} \times \frac{4}{12}$ = ₹10,000

14. (a)

15. (c): C's share of profit = 2,40,000 $\times \frac{1}{5} \times \frac{219}{365}$ = ₹28,800

16. (a)

17. (d)

18. (c)

19. (a)

20. (c): Old profit sharing ratio = 3 : 2 : , New profit sharing ratio = 5 : 1

Gaining Ratio = New profit sharing ratio – Old profit sharing ratio

Alpha = $\frac{5}{6}-\frac{3}{6}=\frac{1}{6}$, Gamma = $\frac{1}{6}-\frac{1}{6}$ = Nil

21. (b): Beta's share of goodwill = $\frac{2}{6}\times$ 42,000 = ₹14,000

22. (b): General reserve are distributed among old partners in old profit sharing ratio.

Alpha's share = 12,000 × $\frac{3}{6}$ = ₹6,000; Beta's share = ₹12,000 × $\frac{2}{6}$ = 4,000; Gamma's share = 12,000 × $\frac{1}{6}$ = ₹2,000

23.(d): Book value of premises = ₹80,000; 20% appreciation = 80,000 × 20/100 = ₹16,000

As there is increase in value asset, it will be credited to revaluation account by 16,000 and premises increased value will be shown in the balance sheet.

24. (c):

Dr. Revaluation A/c Cr.

Particulars		₹	Particulars	₹
To Stock A/c		9,000	By Premises A/c	16,000
To Provision for Legal damages A/c		1,200	By Provision for Doubtful debts A/c	100
To Profit transferred to			By Furniture A/c	4,000
Alpha Capital A/c	4,950			
Beta Capital A/c	3,300			
Gamma Capital A/c	1,650	9,900		
		20,100		20,100

25.(b): Profit surrendered by Bhim to Arjun = $\frac{5}{25}\times\frac{5}{25}=\frac{1}{25}$

Profit surrendered by Bhim to Nakul = $\frac{5}{25}\times\frac{20}{25}=\frac{4}{25}$

Therefore, Gaining Ratio of Arjun and Nakul would be 1 : 4

26. (b):

Average Profit = $\frac{50,000+55,000+60,000}{3}$ = ₹55,000

Super Profits = Average Profit – Normal Profit = 55,000 – 30,000 = ₹25,000

27. (b): New share of Arjun = $\frac{14}{25}+\frac{1}{25}=\frac{15}{25}$

New share of Nakul = $\frac{6}{25}+\frac{4}{25}=\frac{10}{25}$

Thus the new profit sharing ratio = 3 : 2

28. **(c):** Firm's goodwill = Super profit × No. of years purchase = 25,000 × 2 = 50,000

Bhim's share of goodwill = 50,000 × $\frac{1}{5}$ = 10,000

29. **(a)**

30. **(c)** Shreya's share of profit = 28,000 × $\frac{1}{5}$ = ₹5,600

SOLUTION FOR SUBJECTIVE QUESTIONS

1. **Journal**

Date	Particulars	L.f	Dr. (₹)	Cr. (₹)
2018	X's Capital A/c Dr.		10,000	
April 1	Y's Capital A/c Dr.		50,000	
	To Z's Capital A/c			60,000
	(Being Z's share of goodwill adjusted in gaining ratio, i.e 1 :5)			

Working Notes:

(1) Calculation of Hidden Goodwill:

(₹): Amount agreed to be paid in full settlement to Z	3,00,000
Less: Z's Capital (after all adjustments)	2,40,000
Hidden Goodwill	60 000

(2) Calculation of Gaining Ratio:

New Ratio = 1:3 and Old Ratio = 1:2:3

X's Gain $= \frac{1}{4} - \frac{1}{6} = \frac{3-2}{12} = \frac{1}{12}$; Y's Gain $= \frac{3}{4} - \frac{2}{6} = \frac{9-4}{12} = \frac{5}{12}$

Gaining ratio of X and Y = 1:5.

2.

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

Date	Particulars	(₹)	Date	Particulars	(₹)
2013		2013	2013		
Dec. 31	To Bank A/c (20,000 + 8,000)	28,000	Jan. 1	By A's Capital A/c	80,000
Dec. 31	To Balance c/d	60,000	Dec. 31	By Interest on ₹80,000 @10%	8,000
		88,000			88,000
2014		2014	2014		
Dec. 31	To Bank A/c (20,000 + 6,000)	26,000	Jan. 1	By Balance b/d	60,000
Dec. 31	To Balance c/d	40,000	Dec. 31	By Interest on ₹60,000 @10%	6,000
		66,000			66,000
2015			2015		
				By Balance b/d	40,000
Dec. 31	To Bank A/c (20,000 + 4,000)	24,000	Jan. 1	By Interest on ₹40,000 @ 10%	4,000
Dec. 31	To Balance c/d	20,000	Dec. 31	By Interest on ₹40,000 @10%	4,000
		44,000			44,000

Date	Particulars	₹	Date	Particulars	₹
2016 Dec. 31	To Bank A/c (20,000 +2,000)	22,000	2016 Jan. 1	By Balance b/d	20,000
			Dec. 31	By Interest on ₹20,000 @ 10%	2,000
		22,000			22,000

3.

Journal

Date	Particulars	L.f	Dr. (₹)	Cr. (₹)
	A's Capital A/c Dr.		10,000	
	C's Capital A/c Dr.			
	To B's Capital A/c		50,000	
	(Being Partner's Capital Accounts adjusted for the sale of B's			60,000
	share to A and C):		10,500	
				7,000
	Profit and Loss Appropriation A/c Dr.			
	To A's Capital A/c			3,500
	To C's Capital A/c			
	(Being profit distributed in new ratio, i.e, 2 : 1)			

4.

Dr. **Revaluation Account** Cr.

Particulars		(₹)	Particulars	(₹)
To Machinery A/c		50,000	By Land and Building A/c	2,40,000
To Closing Stock A/c		1,00,000		
To Provision for Doubtful Debts A/c		20,000		
To Profit transferred to:				
Leena's Capital A/c	20,000			
Madan's Capital A/c	20,000			
Naresh's Capital A/c	<u>30,000</u>	70,000		
		2,40,000		2,40,000

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

Particulars	Leena (₹)	Madan (₹)	Naresh (₹)	Particulars	Leena (₹)	Madan (₹)	Naresh (₹)
To Deferred Advertisement Expenses A/c	28,571	28,571	42,858	By Balance b/d	12,50,000	8,00,000	10,50,000
				By Revaluation A/c (Gain)	20,000	20,000	30,000
To Madan's Capital A/c	1,60,000	--	--				
				By Leena's Capital A/c (WN 1 and 2)	--	1,60,000	16,000
To Naresh's Capital A/c	16,000	--	--				
To Investments A/c	--	1,00,000		By Bank A/c (Balancing Figure)	8,54,571	--	2,26,858
To Bills Payable A/c	--	8,51,429					
To Balance c/d (WN3)	19,20,000	--	12,80,000				
	21,24,571	9,80,000	13,22,858		21,24,571	9,80,000	13,22,858

Balance Sheet as at 1st April, 2015

Liabilities	(₹)	Assets	(₹)
Trade Creditors	1,60,000	Land and Building	12,40,000
Bank Overdraft	44,000	Machinery	4,50,000
Bills Payable	8,51,429	Furniture	7,00,000
Long-term Debts	4,00,000	Closing Stock	7,00,000

Employees' Provident Fund		76,000	Investments	1,00,000
Capital: Leena	19,20,000		Debtors 4,00,000	
Naresh	12,80,000	32,00,000	*Less*: Provision for Doubtful Debts 20,000	3,80,000
			Bank (WN4)	11,61,429
		47,31,429		47,31,429

Working Notes:

1. Calculation of Gain of each Partner:
   Gain of a Partner = New Share — Old Share
   Leena's Gain= 3/5 —2/7 = 11/35; Naresh's Gain =2/5 – 3/7 = –1/35
   Negative result shows that Naresh has sacrificed because Leena is the only gaining partner and she will compensate not only the retiring partner (Madan) but also the sacrificing partner (Naresh).
2. Naresh's Share of Goodwill = ₹5,60,000 × 1/35= ₹16,000.
   Madan's Share of Goodwill = Rs5,60,000 × 2/7 = ₹1,60,000.
3. Capital of the partners in the New Firm:
   Leena's capital = ₹32,00,000 × 3/5 = ₹19,20,000; Naresh's capital = ₹32,00,000 × 2/5 = ₹12,80,000
4.

Dr. Bank Account Cr.

Particulars	(₹)	Particulars	(₹)
To balance b/d	80,000	By Balance c/d	11,61,429
To Leena's Capital A/c	8,54,571		
To Naresh's Capital A/c	2,26,571		
	11,61,429		11,61,429

5. In adjustment No. (iii) an old customer Mohit whose account was written off as bad debt has promised to pay ₹7,000, is not treated as debtors because it is merely a promise to pay, if this promise is given in writing, then it could be treated as bad debts recovered and revaluation profit would have increased by ₹7,000.

5.

Dr. Revaluation Account Cr.

Particulars	Amount (₹)	Particulars		Amount (₹)
To Claim for Workmen Compensation A/c	4,000	By Provision for Bad Debts A/c		1,000
		By Partners' Capital A/cs:		
		(transfer of loss)		
		X	1,500	
		Y	900	
		Z	600	3,000
	4,000			4,000

Dr. Partners' Capital Accounts Cr.

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Revaluation A/c	1,500	900	600	By Balance b/d	50,000	40,000	20,000
To Y's Capital A/c	5,100	—	10,200	By Investment Fluctuation Fund	5,000	3,000	2,000
To Cash A/c	—	8,200	—	By Profit and Loss A/c	20,000	12,000	8,000
To Y's Loan A/c	—	61,200	—	By X's Capital A/c	—	5,100	—
To X's Current A/c	15,840	—	—	By Z's Capital A/c	—	10,200	—
To Balance c/d	52,560	—	35,040	By Z's Current A/c	—	—	15,840
	75,000	70,300	45,840		75,000	70,300	45,840

Balance Sheet of X and Z
as at 31st March, 2015

Liabilities		(₹)	Assets		(₹)
Partners' Capital			Land and Building		62,000
X	52,560		Motor Van		20,000
Z	35,040	87,600	Investments		19,000
X's Current A/c		15,840	Machinery		12,000
Y's Loan		61,200	Stock		15,000
Creditors		21,000	Debtors	40,000	
Claim for Workmen Compensation		4,000	*Less*: Provision	2,000	38,000
			Cash		7,800
			Z's Current A/c		15,840
		1,89,640			1,89,640

Working Notes:

1. Calculation of Gaining ratio: New share – Old share
   $X = \frac{3}{5} - \frac{5}{10} = \frac{1}{10}, Z = \frac{2}{5} - \frac{2}{10} = \frac{2}{10}$
   Gaining ratio = 1 : 2
2. Y's share of goodwill = 51,000 $\times \frac{3}{10}$ = ₹15,300
   X's gain = 15,300 $\times \frac{1}{3}$ = 5,100, Z's gain = 15,300 $\times \frac{2}{3}$ = 10,200
3. Adjustment of Capital in Profit-sharing Ratio = Total capital of X and Z after adjustments
   = Rs 68,400 + Rs 19,200 = ₹87,600
   X's Capital = 87,600 $\times \frac{3}{5}$ = Rs 52,560, Y's Capital = 87,600 $\times \frac{2}{5}$ = ₹35,040
   Amount transferred to X's Current A/c = 68,400 – 52,560 = ₹15,840
   Amount transferred from Z's Current A/c = 35,040 – 19,200 = ₹15,840

6. **Journal**

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2016	X's Capital A/c	Dr.		10,938	
July 31	Y's Capital A/c	Dr.		6,562	
	To Z's Capital A/c				17,500
	(Being Z's share of goodwill compensated by the existing partners)				
	Profit and Loss Suspense A/c	Dr.		2,500	
	To Z's Capital A/c				2,500
	(Being Z's share of profit till the date of death)				
	Revaluation A/c	Dr.		5,000	
	To Machinery A/c				5,000
	(Being decrease in the value of machinery recorded)				
	Patents A/c	Dr.		5,000	
	Building A/c	Dr.		12,500	
	To Revaluation A/c				17,500
	(Being assets revalued)				
	Revaluation A/c	Dr.		12,500	
	To X's Capital A/c				6,250
	To Y's Capital A/c				3,750
	To Z's Capital A/c				2,500
	(Being Profit transferred to Partner's Capital Accounts)				
	Z's Capital A/c	Dr.		60,000	
	To Z's Executors' A/c				60,000
	(Being net amount due to Z transferred to his Executors' A/c)				
	Z's Executors' A/c	Dr.		17,500	
	To Bank A/c				17,500
	(Being partly cash paid to executors)				

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

Date	Particulars	(₹)	Date	Particulars	(₹)
2016 July 31	To Bank A/c	17,500	2016 July 31	By Z's Capital A/c	60,000
2017 Jan. 31	To Bank A/c (10,625 + 2,550)	13,175	2017 Jan. 31	By Interest on loan (for 6 months)	2,550
	To Balance c/d	31,875			
		62,550			62,550

Working Notes:

1. Calculation of goodwill:

Goodwill = Average profit × No. of years' purchase

Average profit $= \frac{(₹32{,}500)+₹30{,}000+₹40{,}000+₹37{,}500)}{4} = \frac{₹1{,}40{,}000}{4} = ₹35{,}000$

Goodwill = ₹17,500 $\times \frac{5}{8} = 10{,}937.5$ or ₹10,938, Y's gain = 17,500 $\times \frac{3}{8}$ = ₹6,562

2. Calculation of Profit:

Z's share in profit (2016-17) = 37,500 $\times \frac{4}{12} \times \frac{2}{10}$ = ₹2,500

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

Date	Particulars	(₹)	Date	Particulars	(₹)
2016	To Z's Executor's A/c	60,000	2016	By Balance b/d	37,500
July 31			July 31	By Profit and Loss Suspense A/c	2,500
				By Revaluation A/c	2,500
				By X's Capital A/c	10,938
				By Y's Capital A/c	6,562
		60,000			60,000

7.

Dr. **Revaluation Account** Cr.

Particulars		(₹)	Particulars	(₹)
To Machinery A/c		2,000	By Land and Buildings A/c	34,000
To Stock A/c		2,000		
To Provision for Bad and Doubtful Debts A/c		300		
To Profit transferred to Partners' Capital A/cs:				
G	20,790			
E	5,940			
F	2,970	29,700		
		34,000		34,000

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

Particulars	G (₹)	E (₹)	F (₹)	Particulars	G (₹)	E (₹)	F (₹)
To Goodwill A/c	28,000	8,000	4,000	By Balance b/d	70,000	20,000	10,000
To E's Executor's Loan A/c	—	28,340	—	By General Reserve A/c	14,000	4,000	2,000
To Balance c/d	76,790	—	10,970	By Revaluation A/c	20,790	5,940	2,970
				By P and L Suspense A/c $(80{,}000 \times \frac{2}{10} \times \frac{146}{365})$	—	6,400	—
	1,04,790	36,340	14,970		1,04,790	36,340	14,970

Balance Sheet of G and F
as at 24th August, 2017

Liabilities		(₹)	Assets		(₹)
Capital A/cs:			Land and Buildings		94,000
G	76,790		Machinery		38,000
F	10,970	87,760	Stock		5,000
E's Executor's Loan A/c		58,340	Debtors	12,000	
Creditors		14,000	*Less:* Provision for and doubtful debts	300	11,700
			Cash		5,000
			Profit and Loss Suspense A/c		6,400
		1,60,100			1,60,100

Dr. **E's Executor's Loan Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance c/d	58,340	By E's Capital A/c	28,340
		By E's Loan A/c	30,000
	58,340		58,340

Working Note:

Adjustment of Capital:

Total Capital of G and F= ₹76,790 + ₹10,970 = ₹87,760

Capital of G should be = $87,760 \times \frac{7}{8}$ = ₹76,790

Capital of F should be = $87,760 \times \frac{1}{8}$ = ₹10,970.

8.

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

Particulars		(₹)	Particulars	(₹)
To Machinery A/c		3,000	By Freehold Premises A/c	8,000
To Furniture A/c		840	By Stock A/c	3,300
To Provision for doubtful Debts		1,500		
To Partner's Capital A/c				
N	2,980			
S	993			
B	1,987	5,960		
		11,300		11,300

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	N (₹)	S (₹)	B (₹)	Particulars	N (₹)	S (₹)	B (₹)
To B's Capital A/c	5,250	1,750	—	By Balance b/d	30,000	30,000	28,000
To B's Loan A/c	—	—	40,987	By N's Capital A/c	—	—	5,250
To Balance c/d	33,730	31,243	—	By S's Capital A/c	—	—	1,750
				By General Reserve	6,000	2,000	4,000
				By Revaluation A/c	2,980	993	1,987
	38,980	32,993	40,987		38,980	32,993	40,987
To N's Current A/c	—	15,000	—	By Balance b/d	33,730	31,243	—
To Balance c/d	48,730	16,243	—	By S's Current A/c	15,000	—	—
	48,730	31,243	—		48,730	31,243	—

Balance Sheet of N & S
as at 31st March, 2017

Liabilities		(₹)	Assets		(₹)
Capital A/cs:			Freehold Premises		48,000
N	48,730		Machinery		27,000
S	16,243	64,973	Furniture		11,160
Bills Payable		12,000	Stock		25,300
Sundry Creditors		18,000	Sundry Debtors	20,000	
N's Current A/c		15,000	*Less:* Provision for doubtful debts	2,500	17,500
B's Loan A/c		40,987	Cash		7,000
			S's Current A/c		15,000
		1,50,960			1,50,960

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 = ₹21,000; B's share of Goodwill $= 21,000 \times \frac{2}{6} =$ ₹7,000.

N's gain = $7,000 \times \frac{3}{4} = 5,250$, S's gain = $7,000 \times \frac{1}{4} = 1,750$

(iii) Capital adjustment:

Total capital of N and S after all adjustments:

N's Capital = ₹33,730; S's Capital = ₹31,243; Total Capital = ₹64,973

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

N's Capital = $64,973 \times \frac{3}{4}$ = ₹48,730; S's Capital = $64,973 \times \frac{1}{4}$ = ₹16,243.

(iv) In the absence of any agreement, new profit-sharing ratio as well as gaining ratio will be the old ratio of the remaining partners.

9.

Books of the firm
Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2016	General Reserve A/c	Dr.		60,000	
Mar. 31	To Sameer's Capital A/c				24,000
(i)	To Yasmin's Capital A/c				18,000
	To Saloni's Capital A/c				18,000
	(Being General Reserve distributed among partners)				
(ii)	Sameer's Capital A/c	Dr.		20,000	
	Yasmin's Capital A/c	Dr.		15,000	
	Saloni's Capital A/c	Dr.		15,000	
	To Profit and Loss A/c				50,000
	(Being accumulated losses divided among partners)				
(iii)	Bad Debts A/c	Dr.		4,000	
	To Debtors A/c				4,000
	(Being debtors of ₹4,000 written off)				
(iv)	Provision for Bad and Doubtful Debts A/c	Dr.		4,000	
	To Bad Debts A/c				4,000
	(Being provision utilised for writing off bad debts)				
(v)	Provision for Bad and Doubtful Debts A/c	Dr.		1,700	
	To Revaluation A/c				1,700
	(Being excess provision transferred to Revaluation A/c)				
(vi)	Revaluation A/c	Dr.		20,000	

	To Creditors A/c (Being increase in creditors recorded)		20,000
(vii)	Revaluation A/c Dr. To Patents A/c To Stock A/c To Machinery A/c To Building A/c (Being decrease in assets recorded)	90,000	 60,000 5,000 15,000 10,000
(viii)	Sameer's Capital A/c Dr. Yasmin's Capital A/c Dr. Saloni's Capital A/c Dr. To Revaluation A/c (Being loss on revaluation transferred to Partner's Capital A/cs)	43,320 32,490 32,490	 1,08,300
(ix)	Yasmin's Capital A/c Dr. Saloni's Capital A/c Dr. To Sameer's Capital A/c (Being Goodwill adjusted to Partners' Capital A/cs on Sameer's retirement in gaining ratio 3 : 1)	1,62,000 54,000	 2,16,000
(x)	Sameer's Capital A/c Dr. To Sameer's Loan A/c (Being balance of Sameer's capital account transferred to Sameer's Loan A/c)	4,76,680	 4,76,680

Working Note:

Amount payable to Sameer = ₹3,00,000 – ₹43,320 + ₹24,000 – ₹20,000 + ₹2,16,000 = ₹4,76,680

10.

Dr. **Revaluation Account** Cr.

Particulars	(₹)	Particulars		(₹)
To Fixed Assets A/c	70,000	By Loss on Revaluation Transferred to:		
To Provision for Doubtful Debts A/c	8,000	Sushma's Capital A/c	50,000	
To Stock A/c	22,000	Gautam's Capital A/c	30,000	
		Kanika's Capital A/c	20,000	1,00,000
	1,00,000			1,00,000

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

Particulars	Sushma (₹)	Gautam (₹)	Kanika (₹)	Particulars	Sushma (₹)	Gautam (₹)	Kanika (₹)
To Revaluation A/c	50,000	30,000	20,000	By Balance b/d	3,00,000	2,50,000	3,50,000
To Sushma's Capital A/c	--	80,000	3,20,000	By Profit and Loss A/c	50,000	30,000	20,000
To Stock A/c	2,18,000	--	--	By Gautam's Capital A/c	80,000	--	--
To Bank A/c	4,82,000	--	--	By Kanika's Capital A/c	3,20,000	--	--
To Balance c/d	--	2,40,000	3,60,000	By Bank A/c	--	70,000	3,30,000
	7,50,000	3,50,000	7,00,000		7,50,000	3,50,000	7,00,000

Balance Sheet of Gautam and Kanika

as at 31st March 2018

Liabilities	(₹)	Assets		(₹)
Creditors	60,000	Bank		58,000
Employees Provident Fund	40,000	Sundry Debtors	1,60,000	
Capital A/cs:		*Less:* Provision	8,000	1,52,000
Gautam	2,40,000	Investments		2,00,000
Kanika	3,60,000	Fixed Assets		2,90,000
	7,00,000			7,00,000

Working Notes:

1. **Calculation of Gaining Ratio:**

   Gaining Ratio = New Ratio — Old Ratio

Gautam $\frac{2}{5} - \frac{3}{10} = \frac{1}{10} = \frac{5}{50}$; Kanika = $\frac{3}{5} - \frac{2}{10} = \frac{4}{10} = \frac{20}{50}$

Gaining Ratio = 5 : 20 or 1 : 4

2. Adjustment of Goodwill:

Sushma's Share in Goodwill = ₹8,00,000 × 5/10 = ₹4,00,000, which is to be contributed by Gautam and Kanika in their gaining ratio as under:

Gautam : ₹4,00,000 × 1/5 = ₹80,000, Kanika : ₹4,00,000 × 4/5 = ₹3,20,000.

3. Calculation of Proportionate Capitals:

(i) Existing Capitals of Gautam and Kanika(₹): Gautam ₹[2,50,000 + 30,000 – 30,000 – 80,000]= 1,70,000

Kanika ₹[3,50,000 + 20,000 – 20,000 – 3,20,000]= 30,000 = 2,00,000

Add: Shortage of Cash/Bank* to be brought in by

Gautam and Kanika in order to make payment to Sushma 4,00,000

Total Capital of the New Firm 6,00,000

* Shortage of Cash or Bank balance

= Amount paid to Sushma — Existing bank balance + Bank balance required

= ₹4,82,000 – ₹1,40,000 + ₹58,000 = ₹4,00,000

(ii) Proportionate Capital of partners in the ratio of 2 : 3 :

Gautam = ₹6,00,000 × 2/5 = ₹2,40,000

Kanika = ₹6,00,000 × 3/5 = ₹3,60,000

Calculation of the amount brought in or withdrawn by each partner:

Partners	Existing Capital (₹)	Proposed Capital (₹)	Surplus/Deficiency (₹)
Gautam	1,70,000	2,40,000	Deficiency = ₹70,000
Kanika	30,000	3,60,000	Deficiency = ₹3,30,000

Gautam and Kanika will bring ₹70,000 and ₹3,30,000.