Reconstitution of a Partnership Firm
Retirement/Death of a Partner

PART 1
Objective Questions

• Multiple Choice Questions

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

Ans. (b) Shubham's New Profit Share = Old Profit Share + Share taken from Nitin $= \frac{1}{5} + \frac{2}{5} = \frac{3}{5}$

Aman's new profit share $= \frac{2}{5}$ (same as earlier)

New profit sharing ratio of Aman and Shubham $= \frac{2}{5} : \frac{3}{5} = 2 : 3$

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

Ans. (a) Profit or loss on revaluation is shared among all the partners in old profit sharing ratio with the view that the retiring partner does not benefit or loose because of the change in the values of assets and liabilities.

3. 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

Codes

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

Ans. (a) Gaining Ratio = New Profit Ratio – Old Profit Ratio

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

Ans. (b) As per the Section 37 of Indian Partnership Act, 1932, retiring partner is entitled to get interest at the rate of 6% on the unpaid amount.

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

Ans. (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

Ans. (b) Profit from the date of last balance sheet to the date of death

$$= \frac{\text{Turnover Till the Date of Death}}{\text{Previous Year's Turnover}} \times \text{ Previous Year's Profit}$$

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

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

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

Ans. (a) Z's share of goodwill $= 3,60,000 \times \frac{1}{3} =$ ₹ 1,20,000

Amount given by X to Z $= 1,20,000 \times \frac{1}{2} =$ ₹ 60,000

Amount given by Y to Z $= 1,20,000 \times \frac{1}{2} =$ ₹ 60,000

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

Column I (Items/Transactions)	**Column II** (Entry)
A. Increase in liabilities	(i) Credit - Revaluation Account
B. Bad debts recovered	(ii) Credit - Partners' Capital Account
C. Accumulated losses	(iii) Debit - Revaluation Account
D. Profit and loss (Cr)	(iv) Debit - Partners' Capital Account

Codes

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

Ans. (d) Increment in liability is loss whereas bad debts recovered are profitable for the firm.
Accumulated losses reduce partners' capital whereas profit and loss (credit) added into their capital.

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

Ans. (c) Profit and Loss Suspense A/c Dr
To Deceased Partner's Capital A/c

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

Ans. (d) old profit sharing ratio, gaining ratio

11. How revaluation account will be affected if there is an increase in liability and decrease in asset by the same amount?

(a) Profit on revaluation (b) Loss on revaluation (c) No profit, no loss (d) Cannot be determined

Ans. (c) Change in both the sides of revaluation account by the same amount nullify the effect of each other.

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

Ans. (c) Gaining Ratio = New Profit Sharing Ratio – Old Profit Sharing Ratio

$$\text{Anita} = \frac{2}{3} - \frac{2}{5} = \frac{10}{15} - \frac{6}{15} = \frac{4}{15};\ \text{Chavi} = \frac{1}{3} - \frac{1}{5} = \frac{5}{15} - \frac{3}{15} = \frac{2}{15}$$

Gaining Ratio = 4 : 2 or 2 : 1

$$\text{Rama's Share of Goodwill} = 30{,}000 \times \frac{2}{5} = ₹\ 12{,}000;\ \text{Anita's share} = 12{,}000 \times \frac{2}{3} = ₹\ 8{,}000$$

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

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 **(CBSE 2020)**

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

Ans. (c) Average Profit of the Last 2 Years = 46,000 + 44,000 = ₹ 90,000

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

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

Ans. (a) Hidden

15. 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 can retire from the firm with the consent of all the partners only.

Codes

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

Ans. (c) Revaluation of asset is necessary because present value of assets is different from book value. Partner can also retire in accordance with an express agreement by the partners or by giving notice in writing to all other partners of his intention to retire, in case of retirement.

• Assertion-Reasoning MCQs

Directions *(Q. Nos. 1 to 4) 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.

1. 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.

Ans. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

2. 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.

Ans. (d) If the amount of any asset is understated, then revaluation account will be credited to restore asset amount to its actual value because increase in the value of an asset is profit for the firm.

3. Assertion (A) Accumulated profits and losses will be debited and credited to all the partners' capital account.
Reason (R) Accomulated profits and losses are distributed among partners in old profit sharing ratio.

Ans. (d) Accumulated profits are credited and losses are debited to partners' capital account in old profit sharing ratio.

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

Ans. (c) The profit that is earned through capital items is called the capital profit. It is not recurring in nature.

• Case Based MCQs

1. Direction *Read the following case study and answer the question no. (i) to (iv) 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

Balance Sheet
as on 31st March, 2020

Liabilities		Amt (₹)	Assets		Amt (₹)
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.

(i) 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

Ans. (c) Old profit sharing ratio = 3:2:1; New profit sharing ratio = 5:1

Gaining Ratio = New Profit Sharing Ratio – Old Profit Sharing Ratio

$$\text{Alpha} = \frac{5}{6} - \frac{3}{6} = \frac{1}{6}; \text{ Gamma} = \frac{1}{6} - \frac{1}{6} = 0$$

(ii) 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

Ans. (b) Beta's share of goodwill = $42{,}000 \times \frac{1}{3}$ = ₹ 14,000

(iii) 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			12,000
(Being..............................)			

(b)

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

(c)

Alpha's Capital A/c	Dr	12,000	
To Beta's Capital A/c			12,000
(Being..)			

(d)

Alpha's Capital A/c	Dr	4,000	
To Beta's Capital A/c			4,000
(Being..)			

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

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

(iv) 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)

Ans. (d) Book value of premises = ₹ 80,000; 20% appreciation = $80{,}000 \times \frac{20}{100}$ = ₹ 16,000

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

2. **Direction** *Read the following case study and answer the question no. (i) to (iv) 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 $\frac{5}{25}$th of his share to Arjun and remaining share to Nakul. Goodwill of the firm is valued at 2 years' purchases 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.

(i) What will be gaining ratio of remaining partners?

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

Ans. (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

(ii) What will be the amount of super profit?

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

Ans. (b) Average Profit = (50,000 + 55,000 + 60,000) / 3 = ₹ 55,000

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

(iii) The new profit sharing ratio of remaining partners would be

(a) 19:26 (b) 3:2 (c) 15:10 (d) 26:19

Ans. (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 of Arjun and Nakul $= \frac{15}{25} : \frac{10}{25} = 15:10$ or 3:2

(iv) Bhim's share of goodwill will be

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

Ans. (c) Firm's Goodwill = Super Profit × No. of years Purchase = 25,000 × 2 = ₹ 50,000

Bhim's Share of Goodwill = Firm's Goodwill × Partners' Share $= 50{,}000 \times \frac{1}{5}$ = ₹ 10,000

PART 2
Subjective Questions

• Short Answer (SA) Type Questions

1. What are the various matters that need adjustments at the time of retirement of a partner? **(NCERT)**

Ans. Following are the adjustments required at the time of retirement of a partner

(i) Adjustment in profit sharing ratio (New profit sharing ratio and gaining ratio).
(ii) Adjustment for goodwill.
(iii) Adjustment of profit/loss arising on the revaluation of assets and reassessment of liabilities.
(iv) Adjustment of accumulated profits, reserves and losses.
(v) Computation of amount due to retiring partner and payment to retiring partner.
(vi) Adjustment of capitals (if agreed).

2. Explain the treatment of goodwill at the time of retirement or on the event of death of a partner. **(NCERT)**

Ans. In case of retirement or death of a partner, the adjustment for 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 accounts will be debited in their gaining ratio.

The following journal entry 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)

3. Ajay, Pranav and Vijay are in partnership sharing profits in the ratio of 4 : 3 : 1. Pranav takes retirement on 30th June, 2019. The firm's profits for various years were : 2014 (profit ₹ 3,24,444), 2015 (profit ₹ 80,000), 2016 (profit ₹ 10,000), 2017 (loss ₹ 10,000), 2018 (profit ₹ 40,000) and 2019 (profit ₹ 50,000).

Ajay and Vijay decided to share future profits in the ratio of 3 : 2. Goodwill is to be valued on the basis of 2 years' purchase of average profit of 4 completed years immediately preceding the year of retirement of a partner. Pass the journal entry to record Pranav's share of goodwill.

Ans.

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2019				
Jun 30	Ajay's Capital A/c $(22{,}500 \times 4/15)$ Dr		6,000	
	Vijay's Capital A/c $(22{,}500 \times 11/15)$ Dr		16,500	
	To Pranav's Capital A/c			22,500
	(Being the Pranav's share of goodwill credited to Pranav and debited to Ajay and Vijay in their gaining ratio of 4 : 11)			

Working Notes

1. Gaining Ratio = New Share – Old Share

$$\text{Ajay's gain} = \frac{3}{5} - \frac{4}{8} = \frac{24-20}{40} = \frac{4}{40}; \quad \text{Vijay's gain} = \frac{2}{5} - \frac{1}{8} = \frac{16-5}{40} = \frac{11}{40}$$

$$\text{Gaining ratio of Ajay and Vijay} = \frac{4}{40} : \frac{11}{40} = 4:11$$

2. $$\text{Average profit of 4 years} = \frac{80{,}000 + 10{,}000 + (10{,}000) + 40{,}000}{4} = ₹\ 30{,}000$$

$$\text{Firm's goodwill} = 30{,}000 \times 2 = ₹\ 60{,}000$$

$$\text{Pranav's share of goodwill} = 60{,}000 \times \frac{3}{8} = ₹\ 22{,}500$$

4. A, B, C, D and E were partners in a firm sharing profits and losses in the ratio of 5 : 4 : 3 : 2 : 1 respectively. Unfortunately, D and E met with a tragic car accident in which both of them died. The goodwill of the firm was valued at ₹ 1,50,000 and A, B and C decided to share the future profits and losses in the ratio of 4 : 6 : 5 respectively. Give the journal entries to record the above.

Ans.

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	B's Capital A/c Dr		20,000	
	C's Capital A/c Dr		20,000	
	To D's Capital A/c			20,000
	To E's Capital A/c			10,000
	To A's Capital A/c			10,000
	(Being the goodwill adjusted by debiting gaining partners and crediting sacrificing partners)			

Working Note

Statement Showing the Required Adjustment for Goodwill

Particulars	A (₹)	B (₹)	C (₹)	D (₹)	E (₹)
Right of Goodwill before Death of D and E (5 : 4 : 3 : 2 : 1)	50,000	40,000	30,000	20,000	10,000
Right of Goodwill after Death of D and E (4 : 6 : 5)	40,000	60,000	50,000	—	—
Gain (+) / Sacrifice (–)	(–) 10,000	(+) 20,000	(+) 20,000	(–) 20,000	(–) 10,000

Alternatively

Particulars	A	B	C
A. Their New Shares	4/15	6/15	5/15
B. Their Old Shares	5/15	4/15	3/15
C. Difference being Gain/ Sacrifice (–)	(1/15) (Sacrifice)	2/15 (Gain)	2/15 (Gain)

Note *In this case, A has also sacrificed his share to the extent of 1/15 in favour of B and C. They are required to compensate A for such sacrifice.*

5. X, Y and Z are partners sharing profits and losses in the ratio of 2 : 2 : 1. Y retires from the firm on 31st March, 2020. On the date of Y's retirement, the following balances appeared in the books of the firm

Advertisement suspense account	₹ 25,000
Contingency reserve	₹ 15,000
Workmen's compensation reserve	₹ 20,000
Loss in business account	₹ 15,000

Pass the necessary journal entries for the adjustment of these items on Y's retirement.

Ans. **JOURNAL**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
2020					
Mar 31	Contingency Reserve A/c	Dr		15,000	
	Workmen's Compensation Reserve A/c	Dr		20,000	
	To X's Capital A/c				14,000
	To Y's Capital A/c				14,000
	To Z's Capital A/c				7,000
	(Being the contingency reserve and workmen's compensation reserve transferred to capital accounts on Y's retirement)				
Mar 31	X's Capital A/c	Dr		16,000	
	Y's Capital A/c	Dr		16,000	
	Z's Capital A/c	Dr		8,000	
	To Advertisement Suspense A/c				25,000
	To Loss in Business A/c				15,000
	(Being the amount of advertisement suspense account and loss in business account transferred to capital accounts on Y's retirement)				

6. X, Y and Z were partners in a firm sharing profits in 2 : 2 : 1 ratio. X died on 1st July, 2019. On that date, the goodwill of the firm was valued at ₹ 22,500. On the death of a partner, his share of profit in the year of death was to be calculated on the basis of the average profits of the last four years. The profit for the last four years were

2015-16	₹ 80,000
2016-17	₹ 72,000
2017-18	₹ 84,000
2018-19	₹ 56,000 (Loss)

Pass necessary journal entries.

Ans. **JOURNAL**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Y's Capital A/c	Dr		6,000	
	Z's Capital A/c	Dr		3,000	
	To X's Capital A/c				9,000
	(Being goodwill adjusted)				
	Profit and Loss Suspense A/c	Dr		4,500	
	To X's Capital A/c				4,500
	(Being deceased partner's share of profit transferred)				

Working Notes

1. X's share of goodwill $= 22{,}500 \times \frac{2}{5} = ₹\ 9{,}000$ (to be adjusted by Y and Z in the ratio 2 : 1)

2. Four year's average profit $= \frac{80{,}000 + 72{,}000 + 84{,}000 + (56{,}000)}{4} = ₹\ 45{,}000$; X's share of profit

$$= 45{,}000 \times \frac{2}{5} \times \frac{3}{12} = ₹\ 4{,}500$$

7. Monu, Nigam and Shreya were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 1. The firm closes its books on 31st March every year. As per the terms of partnership deed on the death of any partner, the share of goodwill of the deceased partner will be calculated on the basis of 50% of the net profits credited to the partners' capital acount during the last four completed years before death. Monu died on 1st July, 2015. The profits for last four years were

Years	Profits (₹)
2011-12	97,000
2012-13	1,05,000
2013-14	30,000
2014-15	84,000

His share of profit in the year of his death was to be calculated on the basis of sales. Sales for the year ended 31st March, 2015 amounted to ₹ 21,00,000. From 1st April, 2015 to 30th June, 2015 the firm's sales were ₹ 2,00,000.

Pass necessary journal entries relating to the amount of goodwill and profit to be transferred to Monu's capital account. Also show your workings clearly. **(All India (C) 2016)**

Ans. **JOURNAL**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Nigam's Capital A/c $(79{,}000 \times 3/4)$	Dr		59,250	
	Shreya's Capital A/c $(79{,}000 \times 1/4)$	Dr		19,750	
	To Monu's Capital A/c				79,000
	(Being amount of goodwill transferred to Monu's capital account)				
	Profit and Loss Suspense A/c	Dr		4,000	
	To Monu's Capital A/c				4,000
	(Being share of profit transferred to deceased partner's capital account)				

Working Notes

1. **Calculation of Share of Goodwill**

Monu's share in goodwill $= (97{,}000 + 1{,}05{,}000 + 30{,}000 + 84{,}000) \times \frac{50}{100} \times \frac{4}{8} = ₹\ 79{,}000$

2. **Calculation of Share in Profit**

Monu's share in profit $= \frac{84{,}000}{21{,}00{,}000} \times 2{,}00{,}000 \times \frac{4}{8} = ₹\ 4{,}000$

8. X, Y and Z are partners sharing profits in the ratio of 4 : 3 : 1. Y retires, giving his share of profits to X and Z for ₹ 32,400; ₹ 14,400 being paid by X and ₹ 10,000 by Z. You are required to give necessary journal entries to record the transfer of Y's share to X and Z. X and Z bring the necessary amount.

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	X's Capital A/c	Dr		14,400	
	Z's Capital A/c	Dr		18,000	
	To Y's Capital A/c				32,400
	(Being Y's share of goodwill credited to him by debiting gaining partners in their gaining ratio of 4 : 5)				
	Cash/Bank A/c	Dr		32,400	
	To X's Capital A/c				14,400
	To Z's Capital A/c				18,000
	(Being amount brought by X and Z to pay Y on his retirement)				
	Y's Capital A/c	Dr		32,400	
	To Cash/Bank A/c				32,400
	(Being amount paid to Y on his retirement for selling his share)				

9. Surender, Ramesh, Naresh and Mohan are partners in a firm sharing profits in 2:1:2:1 ratio. On the retirement of Naresh, the goodwill was valued at ₹ 2,16,000. Surender, Ramesh and Mohan decided to share future profits equally. Pass the necessary journal entry for the treatment of goodwill without opening goodwill account.

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Ramesh's Capital A/c	Dr		36,000	
	Mohan's Capital A/c	Dr		36,000	
	To Naresh's Capital A/c				72,000
	(Being Naresh's share of goodwill adjusted to remaining partners)				

Working Note

Calculation of Gaining Ratio; Gaining Ratio = New Share – Old Share

Surender $= \frac{1}{3} - \frac{2}{6} = \frac{2-2}{6} = \frac{0}{6} = 0$; Ramesh $= \frac{1}{3} - \frac{1}{6} = \frac{2-1}{6} = \frac{1}{6}$; Mohan $= \frac{1}{3} - \frac{1}{6} = \frac{2-1}{6} = \frac{1}{6}$

Gaining ratio of Ramesh and Mohan = 1 : 1; Naresh's share of goodwill = $2{,}16{,}000 \times \frac{2}{6}$ = ₹ 72,000

10. X, Y and Z are partners sharing profits in the ratio of 4 : 3 : 2. On 1st April, 2017, Y gave a notice to retire from the firm. X and Z decided to share future profits in the ratio of 1 : 1. The capital accounts of X and Z after all adjustments showed a balance of ₹ 21,500 and ₹ 40,250 respectively. The total amount to be paid to Y was ₹ 47,750. This amount was to be paid by X ₹ 33,250 and by Z ₹ 14,500. Pass necessary journal entries in the books of the firm for the above transactions. Show your working clearly.

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
2017					
Apr 1	Cash A/c	Dr		47,750	
	To X's Capital A/c				33,250
	To Z's Capital A/c				14,500
	(Being cash to be paid to Y brought in by X and Z)				
Apr 1	Y's Capital A/c	Dr		47,750	
	To Cash A/c				47,750
	(Being cash paid to Y for his capital)				

11. Kavi, Ravi, Kumar and Guru were partners in a firm sharing profits in the ratio of 3 : 2 : 2 : 1. On 1st February, 2017, Guru retired and the new profit sharing ratio decided between Kavi, Ravi and Kumar was 3 : 1 : 1. On Guru's retirement, the goodwill of the firm was valued at ₹ 3,60,000.

Showing your working notes clearly, pass necessary journal entry in the books of the firm for the treatment of goodwill on Guru's retirement. **(CBSE 2017)**

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
2017 Feb 1	Kavi's Capital A/c	Dr		81,000	
	To Ravi's Capital A/c				18,000
	To Kumar's Capital A/c				18,000
	To Guru's Capital A/c				45,000
	(Being amount of goodwill adjusted)				

Working Notes

1. **Calculation of Gaining Ratio**

Gaining Ratio = New Share − Old Share

$$\text{Kavi} = \frac{3}{5} - \frac{3}{8} = \frac{24-15}{40} = \frac{9}{40};\ \text{Ravi} = \frac{1}{5} - \frac{2}{8} = \frac{8-10}{40} = \left(\frac{2}{40}\right)$$

$$\text{Kumar} = \frac{1}{5} - \frac{2}{8} = \frac{8-10}{40} = \left(\frac{2}{40}\right)$$

2. **Calculation of Share of Goodwill**

$$\text{Guru's Share of Goodwill} = 3{,}60{,}000 \times \frac{1}{8} = ₹\ 45{,}000$$

$$\text{Kavi Gains} = 3{,}60{,}000 \times \frac{9}{40} = ₹\ 81{,}000$$

$$\text{Ravi Sacrifices} = 3{,}60{,}000 \times \frac{2}{40} = ₹\ 18{,}000\ ;\ \text{Kumar Sacrifices} = 3{,}60{,}000 \times \frac{2}{40} = ₹\ 18{,}000$$

12. Aditi, Kartik and Tina were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31st March, 2019, their balance sheet was as follows

Balance Sheet of Aditi, Kartik and Tina
as at 31st March, 2019

Liabilities		Amt (₹)	Assets	Amt (₹)
Creditors		96,000	Furniture	4,30,000
Capital			Stock	1,50,000
Aditi	3,00,000		Debtors	83,000
Kartik	2,00,000		Cash	33,000
Tina	1,00,000	6,00,000		
		6,96,000		6,96,000

Aditi died on 1st November, 2019. It was agreed that

(i) Goodwill of the firm be valued at ₹ 1,00,000.

(ii) Profit for the year 2019-20 be taken as having accrued at the same rate as the previous year 2018-19. Profit for the year 2018-19 was ₹ 96,000.

(iii) Half the amount was paid to Aditi's executors immediately and the remaining half will be paid in two equal annual instalments with interest @ 6% p.a.

Pass the necessary journal entries to record the above transactions in the books of the firm on the date of her death. **(CBSE 2020)**

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
2019					
Nov 1	Kartik's Capital A/c	Dr		30,000	
	Tina's Capital A/c	Dr		20,000	
	To Aditi's Capital A/c				50,000
	(Being deceased partner's share of goodwill transferred to her capital account)				
Nov 1	Profit and Loss Suspense A/c	Dr		28,000	
	To Aditi's Capital A/c				28,000
	(Being Aditi's share of profit till the date of death credited to Aditi's capital account)				
Nov 1	Aditi's Capital A/c	Dr		3,78,000	
	To Aditi's Executors A/c				3,78,000
	(Being share of deceased partner transferred to executors account)				
Nov 1	Aditi's Executors A/c	Dr		1,89,000	
	To Bank A/c				1,89,000
	(Being half the amount paid to executors)				

Working Notes

Aditi's Share of Goodwill $= 1,00,000 \times \frac{5}{10} = ₹\ 50,000$; Aditi's Share of Profit $= 96,000 \times \frac{5}{10} \times \frac{7}{12} = ₹\ 28,000$

13. Aan, Shaan and Mahan were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. On 31st March, 2019, their balance sheet was as follows

Balance Sheet of Aan, Shaan and Mahan
as at 31st March, 2019

Liabilities		Amt (₹)	Assets	Amt (₹)
Creditors		1,20,000	Furniture	3,70,000
Capital			Stock	1,50,000
Aan	2,00,000		Debtors	75,000
Shaan	3,00,000		Bank	1,25,000
Mahan	1,00,000	6,00,000		
		7,20,000		7,20,000

Mahan died on 1st December, 2019. The following terms were agreed upon on Mahan death

(i) Goodwill of the firm was valued at ₹ 80,000.

(ii) Profit for the year 2019 – 20 be taken as having accrued at the same rate as the previous year. Profits for the year 2018 -19 were ₹ 60,000.

(iii) Half the amount was paid to Mahan executors immediately.

Pass the necessary journal entries to record the above transactions in the books of the firm. **(CBSE 2020)**

Ans.

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
2018					
Dec 1	Aan Capital A/c	Dr		8,000	
	Shaan Capital A/c	Dr		8,000	
	To Mahan Capital A/c				16,000
	(Being distribution of goodwill)				
Dec 1	Profit and Loss Suspense A/c	Dr		4,000	
	To Mahan Capital A/c				4,000
	(Being profit transferred)				

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
Dec 1	Mahan Capital A/c	Dr		1,20,000	
	To Mahan Executors A/c				1,20,000
	(Being amount due to executors of Mahan)				
Dec 1	Mahan Executors A/c	Dr		60,000	
	To Bank A/c				60,000
	(Being half amount paid to Mahan)				

Working Note

Total Goodwill = ₹ 80,000

Mahan's Share of Goodwill $= 80,000 \times \frac{1}{5} =$ ₹ 16,000 ; Mahan's Share of Profit $= 60,000 \times \frac{4}{12} \times \frac{1}{5} =$ ₹ 4,000

Amount Due = 1,00,000 + 16,000 + 4,000 = ₹ 1,20,000

14. X, Y and Z were partners in a firm sharing profits in 3 : 2 : 1 ratio. The firm closes its books on 31st March every year. Y died on 12th June, 2019. On Y's death, the goodwill of the firm was valued at ₹ 60,000.
His share in the profits of the firm till the time of his death was to be calculated on the basis of previous year's profit which was ₹ 1,50,000. According to Y's will, the executors should donate his share to an orphanage for girls.
Pass necessary journal entries for the treatment of goodwill and Y's share of profit at the time of his death.

Ans. **JOURNAL**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
2019					
Jun 12	X's Capital A/c	Dr		15,000	
	Z's Capital A/c	Dr		5,000	
	To Y's Capital A/c				20,000
	(Being the goodwill adjusted)				
Jun 12	Profit and Loss Suspense A/c	Dr		10,000	
	To Y's Capital A/c				10,000
	(Being Y's share of profit till the date of death transferred to his capital account)				
Jun 12	Y's Capital A/c	Dr		30,000	
	To Y's Executor's A/c				30,000
	(Being amount due to Y transferred to his executor's account)				

Working Notes

1. Gaining Ratio = New Share − Old Share

$X = \frac{3}{4} - \frac{3}{6} = \frac{9-6}{12} = \frac{3}{12}$; $Z = \frac{1}{4} - \frac{1}{6} = \frac{3-2}{12} = \frac{1}{12}$ ⇒ Gaining ratio = 3 : 1

2. **Calculation of Goodwill**

$60,000 \times \frac{2}{6} =$ ₹ 20,000 ; to be shared by X and Z in their gaining ratio, i.e. 3 : 1.

X will share $= 20,000 \times \frac{3}{4} =$ ₹ 15,000 ; Z will share $= 20,000 \times \frac{1}{4} =$ ₹ 5,000

3. **Calculation of Y's Share in Profit**

$$1,50,000 \times \frac{2}{6} \times \frac{73}{365} = ₹\ 10,000$$

15. The balance sheet of A,B and C who were sharing profits and losses in the ratio of 1/2, 1/3 and 1/6 respectively, was as follows on 1st April, 2014.

Balance Sheet
as at 1st April, 2014

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

A retired from the business on 1st April, 2014 and his share in the firm was to be ascertained on the revaluation of the assets as follows

Stock ₹ 20,000; Furniture ₹ 3,000; Plant and Machinery ₹ 9,000; Building ₹ 20,000; ₹ 850 was to be provided for doubtful debts. The goodwill of the firm was valued at ₹ 6,000.

A was to paid ₹ 11,500 in cash on retirement and the balance to be transferred to his loan account.

Prepare revaluation account and partners' capital accounts on the date of A's retirement.

Ans. Dr **Revaluation Account** Cr

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

Dr **Partners' Capital Account** Cr

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To A's Capital A/c	—	2,000	1,000	By Balance b/d	40,000	25,000	20,000
To Revaluation A/c (Loss)	4,200	2,800	1,400	By Profit and Loss A/c	2,250	1,500	750
To Cash A/c	11,500	—	—	By B's Capital A/c	2,000	—	—
To A's Loan A/c	29,550	—	—	By C's Capital A/c	1,000	—	—
To Balance c/d	—	21,700	18,350				
	45,250	26,500	20,750		45,250	26,500	20,750

Working Note

Calculation of A's Share of Goodwill

Firm's goodwill = ₹ 6,000 ; A's share of goodwill $= 6{,}000 \times \frac{1}{2} =$ ₹ 3,000

To be contributed by B and C in their gaining ratio i.e. 2 : 1

$$B = 3{,}000 \times \frac{2}{3} = ₹\ 2{,}000\ ; \quad C = 3{,}000 \times \frac{1}{3} = ₹\ 1{,}000$$

• Long Answer (LA) Type Questions

1. A, B and C are partners sharing profits in the ratio of 4:3:1. B retired, giving his share of profit to A and C for ₹ 8,100 in which ₹ 3,600 being paid by A and ₹ 4,500 by C. Profit for the year after B's retirement was ₹ 10,500. A and C bring the necessary amount.
You are required
(i) To calculate new profit sharing ratio between A and C.
(ii) To give the journal entries to record the above transactions.

Ans. (i) A and C paid ₹ 8,100 to B in the ratio of ₹ 3,600 and ₹ 4,500 i.e. 4:5. Hence, they will divide B's profit share between themselves in the same ratio. i.e. 4:5.

Their ganing ratio will be $A = \frac{3}{8} \times \frac{4}{9} = \frac{1}{6}$; $B = \frac{3}{8} \times \frac{5}{9} = \frac{5}{24}$

Now, their new profit sharing ratio will be

New Ratio = Old Ratio + Gaining Ratio

New Ratio of $A = \frac{4}{8} + \frac{1}{6} = \frac{2}{3}$; New Ratio of $B = \frac{1}{8} + \frac{5}{24} = \frac{1}{3}$

$\therefore$New ratio of A and C will be 2:1.

(ii) **JOURNAL**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	A's Capital A/c	Dr		3,600	
	C's Capital A/c	Dr		4,500	
	To B's Capital A/c				8,100
	(Being B's share of goodwill credited to him in gaining ratio 4:5)				
	Cash A/c	Dr		8,100	
	To A's Capital A/c				3,600
	To C's Capital A/c				4,500
	(Being amount brought in by A and C to pay B)				
	B's Capital A/c	Dr		8,100	
	To Cash A/c				8,100
	(Being amount paid to B on his retirement)				
	Profit and Loss Appropriation A/c	Dr		10,500	
	To A's Capital A/c				7,000
	To C's Capital A/c				3,500
	(Being amount of profit distributed after B's retirement in their new profit sharing ratio)				

Working Notes

1. A's share of profit $= 10,500 \times \frac{2}{3} =$ ₹ 7,000

2. C's share of profit $= 10,500 \times \frac{1}{3} =$ ₹ 3,500

2. Mahesh, Mukesh and Raju were partners in a firm sharing profit and losses in the ratio of 2 : 1 : 1. Their balance sheet as at 31st March, 2019 was as follows

Balance Sheet
as at 31st March, 2019

Liabilities		Amt (₹)	Assets	Amt (₹)
Creditors		10,200	Cash in Hand	680
General Reserve		10,880	Cash at Bank	17,000
Capital			Furniture	30,600
Mahesh	34,000		Stock	13,600
Mukesh	17,000		Debtors	20,400
Raju	17,000	68,000	Bills Receivable	6,800
		89,080		89,080

On 30th June, 2019 Raju retired. As per the provisions of a partnership deed, he was entitled to the following

(i) The capital to his credit at the date of last balance sheet.

(ii) Interest on capital @ 10% p.a.

(iii) Share of goodwill on the basis of three years' purchase of the average profits of last three years. The profit of the firm during the previous three years were

(a) ₹ 17,000 (b) ₹ 30,600 (c) ₹ 23,800.

Prepare Raju's capital account.

Ans. Dr **Raju's Capital Account** Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Raju's Loan A/c	37,995	By Balance b/d	17,000
		By Interest on Capital A/c $\left(17{,}000 \times 10\% \times \frac{3}{12}\right)$	425
		By Mahesh's Capital A/c	11,900
		By Mukesh's Capital A/c	5,950
		By General Reserve A/c	2,720
	37,995		37,995

Working Note

$$\text{Average profit} = \frac{17{,}000 + 30{,}600 + 23{,}800}{3} = \frac{71{,}400}{3} = ₹\,23{,}800$$

$$\text{Firm's goodwill} = 23{,}800 \times 3 = ₹\,71{,}400\text{ ; Raju's share of goodwill} = 71{,}400 \times \frac{1}{4} = ₹\,17{,}850$$

to be contributed by Mahesh and Mukesh in gaining ratio, i.e. 2 : 1.

3. Kanika, Sakshi and Aroha are partners sharing profits and losses as 25%, 35% and 40%. Kanika decided to retire with the consent of other partners and sold her share to Sakshi. Goodwill was valued at two and a half years' purchase of the average profits of three years. Profits of these three years were ₹ 1,50,000, ₹ 1,70,000 and ₹ 1,60,000. Reserve fund stood in the balance sheet at ₹ 1,30,000 at the time of retirement.

You are required to record necessary journal entries regarding above adjustment on Kanika's retirement. Also prepare her capital account to find out the amount due to her, when her capital balance in the balance sheet was ₹ 1,25,000 before any of the above adjustment.

Ans. **JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Sakshi's Capital A/c Dr		1,00,000	
	To Kanika's Capital A/c			1,00,000
	(Being Kanika's share of goodwill adjusted in Sakshi's capital account)			
	Reserve Fund A/c Dr		1,30,000	
	To Kanika's Capital A/c $(1{,}30{,}000 \times 25/100)$			32,500
	To Sakshi's Capital A/c $(1{,}30{,}000 \times 35/100)$			45,500
	To Aroha's Capital A/c $(1{,}30{,}000 \times 40/100)$			52,000
	(Being transfer of reserve fund to partners' capital accounts in their old ratio i.e. 25:35:40)			

Dr	Kanika's Capital Account		Cr
Particulars	**Amt (₹)**	**Particulars**	**Amt (₹)**
To Kanika's Loan A/c	2,57,500	By Balance b/d	1,25,000
		By Sakshi's Capital A/c (Share of goodwill)	1,00,000
		By Reserve Fund A/c	32,500
	2,57,500		2,57,500

Working Note

Calculation of Value of Goodwill and Kanika's Share of Goodwill

$$\text{Average Profit} = \frac{\text{Total Profits}}{\text{Number of Years}} = \frac{1,50,000 + 1,70,000 + 1,60,000}{3} = \frac{4,80,000}{3} = ₹\ 1,60,000$$

$$\text{Goodwill} = \text{Average Profit} \times \text{Number of Years' Purchase} = 1,60,000 \times 2.5 = ₹\,4,00,000$$

$$\text{Thus, Kanika's share of goodwill} = 4,00,000 \times \frac{25}{100} = ₹\,1,00,000$$

4. The balance sheet of A, B and C, who were sharing profits in the ratio of 5 : 3 : 2 as at 31st March, 2020 was as follows

Balance Sheet
as at 31st March, 2020

Liabilities		**Amt (₹)**	**Assets**	**Amt (₹)**
Creditors		1,10,000	Bank	88,000
Employees Provident Fund		22,000	Debtors	2,20,000
Profit and Loss A/c		1,87,000	Stock	1,76,000
Capital A/c			Fixed Assets	1,32,000
A	88,000			
B	1,36,400			
C	72,600	2,97,000		
		6,16,000		6,16,000

A retired on 31st March, 2020. It was agreed that

(i) Goodwill of the firm was valued ₹ 1,76,000.

(ii) Fixed assets are to be depreciated by ₹ 5,500.

(iii) Make a provision for doubtful debts at 5% on debtors.

(iv) New profit sharing ratio of B and C will be 2 : 3.

(v) A liability for claim, included in creditors for ₹ 22,000 is settled at ₹17,600.

The amount to be paid to A ₹ 2,63,450 and to B ₹ 4,510 and cash brought in by C ₹ 2,12,960 by leaving a balance of ₹ 33,000 in the bank.

Prepare revaluation account and partners' capital account.

Ans.

Dr	Revaluation Account			Cr
Particulars	**Amt (₹)**	**Particulars**		**Amt (₹)**
To Fixed Assets	5,500	By Creditors		4,400
To Provision for Doubtful Debts	11,000	By Loss Transferred to		
		A's Capital A/c	6,050	
		B's Capital A/c	3,630	
		C's Capital A/c	2,420	12,100
	16,500			16,500

Dr **Partners' Capital Account** Cr

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Revaluation A/c (Loss)	6,050	3,630	2,420	By Balance b/d	88,000	1,36,400	72,600
				By Profit and Loss A/c	93,500	56,100	37,400
To A's Capital A/c	—	17,600	70,400	By B's Capital A/c	17,600	—	—
To Bank	2,63,450	4,510	—	By C's Capital A/c	70,400	—	—
To Balance c/d	—	1,66,760	2,50,140	By Bank A/c	—	—	2,12,960
	2,69,500	1,92,500	3,22,960		2,69,500	1,92,500	3,22,960

Working Notes

1. **Calculation of Gaining Ratio**

Gaining Ratio = New Ratio – Old Ratio

$$B = \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}, \quad C = \frac{3}{5} - \frac{2}{10} = \frac{6-2}{10} = \frac{4}{10} \Rightarrow \text{Gaining ratio} = 1:4$$

2. A's share of goodwill $= 1{,}76{,}000 \times \frac{5}{10} =$ ₹ 88,000 to be contributed by B and C in 1 : 4.

5. A, B and C are partners with profit sharing ratio 5 : 3 : 2. Their balance sheet is as follows

Balance Sheet
as at ...

Liabilities		Amt (₹)	Assets	Amt (₹)
Creditors		80,000	Bank	40,000
Bills Payable		60,000	Debtors	60,000
General Reserve		30,000	Furniture	40,000
Reserve for Contingency		20,000	Investment	30,000
Workmen Compensation Fund		40,000	Building	1,00,000
Provident Fund		40,000	Prepaid Insurance	10,000
Capital A/cs			Goodwill	20,000
A	40,000		Patents	30,000
B	30,000		Profit and Loss	40,000
C	30,000	1,00,000		
		3,70,000		3,70,000

Adjustments

(i) C takes retirement, new ratio of A and B is 3:2.
(ii) ₹ 10,000 given to C in cash and balance transferred to C's loan account.
(iii) Prepaid insurance is no more required.
(iv) ₹ 10,000 unrecorded typewriter has to be shown in the balance sheet.
(v) Investment is valued at ₹ 20,000 and is taken over by A at this value.
(vi) Make 5% provision for discount on creditors.
(vii) Outstanding repair bills due ₹ 10,000.
(viii) Provident fund decreased by 10,000.
(ix) Accrued commission ₹ 5,000.
(x) Building increased by 20%.
(xi) Goodwill of the firm valued at ₹ 40,000.

Prepare necessary ledgers.

Ans. Dr **Revaluation Account** Cr

Particulars		Amt (₹)	Particulars	Amt (₹)
To Prepaid Insurance A/c		10,000	By Typewriter A/c (Unrecorded)	10,000
To Investment A/c		10,000	By Provision for Creditors A/c	4,000
To Outstanding Repair Bill A/c		10,000	By Provident Fund A/c	10,000
To Profit Transferred to			By Accrued Commission A/c	5,000
A's Capital A/c	9,500		By Building A/c	20,000
B's Capital A/c	5,700			
C's Capital A/c	3,800	19,000		
		49,000		49,000

Dr **Partners' Capital Account** Cr

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Investment A/c	20,000	—	—	By Balance b/d	40,000	30,000	30,000
To Goodwill A/c	10,000	6,000	4,000	By General Reserve A/c	15,000	9,000	6,000
To Profit and Loss A/c	20,000	12,000	8,000	By Reserve for Contingency A/c	10,000	6,000	4,000
To C's Capital A/c	4,000	4,000	—	By Workmen Compensation Fund A/c	20,000	12,000	8,000
To Cash A/c	—	—	10,000	By A's Capital A/c	—	—	4,000
To C's Loan A/c	—	—	37,800	By B's Capital A/c	—	—	4,000
To Balance c/d	40,500	40,700	—	By Revaluation A/c (Profit)	9,500	5,700	3,800
	94,500	62,700	59,800		94,500	62,700	59,800

Dr **Bank Account** Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	40,000	By C's Capital A/c	10,000
		By Balance c/d	30,000
	40,000		40,000

Balance Sheet
as at ...

Liabilities		Amt (₹)	Assets	Amt (₹)
Creditors (80,000 – 4,000)		76,000	Bank	30,000
Outstanding Repair Bill		10,000	Typewriter (Unrecorded)	10,000
Provident Fund (40,000 – 10,000)		30,000	Accrued Commission	5,000
Bills Payable		60,000	Building (1,00,000 + 20,000)	1,20,000
C's Loan		37,800	Debtors	60,000
Capital A/s			Furniture	40,000
A	40,500		Patents	30,000
B	40,700	81,200		
		2,95,000		2,95,000

Working Notes

1. **Calculation of Gaining Ratio**

   Gaining Ratio = New Share – Old Share

   $$A = \frac{3}{5} - \frac{5}{10} = \frac{6-5}{10} = \frac{1}{10}; \quad B = \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$$

   Gaining ratio = 1 : 1

2. **C's Share in Goodwill** Goodwill = $40{,}000 \times \frac{2}{10} =$ ₹ 8,000

   ₹ 8,000 given by continuing partners in gaining ratio, i.e. 1 : 1.

6. A, B and C were in partnership sharing profits in proportion to their capitals. Their balance sheet on 31st March, 2019 was as follows

Balance Sheet
as at 31st March, 2019

Liabilities		Amt (₹)	Assets		Amt (₹)
Creditors		15,600	Cash		16,000
Reserve		6,000	Debtors	20,000	
Capital A/cs			(–) Provision for Doubtful Debts	(400)	19,600
A	90,000		Stock		18,000
B	60,000		Machinery		48,000
C	30,000	1,80,000	Buildings		1,00,000
		2,01,600			2,01,600

On the above date, B retired owing to ill health and the following adjustments were agreed upon

(i) Buildings to be appreciated by 10%.
(ii) Provision for doubtful debts to be increased to 5% of debtors.
(iii) Machinery to be depreciated by 15%.
(iv) Goodwill of the firm be valued at ₹ 36,000 and be adjusted into the capital accounts of A and C who will share profits in future in the ratio of 3 : 1.
(v) A provision to be made for outstanding repairs bill of ₹ 3,000.
(vi) Included in the value of creditors is ₹ 1,800 for an outstanding legal claim, which is not likely to arise.
(vii) Out of the insurance premium paid, ₹ 2,000 is for the next year. The amount was debited to profit and loss account.
(viii) B to be paid ₹ 9,000 in cash and balance to be transferred to his loan account.

Prepare the revaluation account, partners' capital account and the balance sheet of the new firm after B's retirement.

Ans. Dr **Revaluation Account** Cr

Particulars		Amt (₹)	Particulars	Amt (₹)
To Provision for Doubtful Debts A/c		600	By Building A/c	10,000
To Machinery A/c		7,200	By Creditors A/c	1,800
To Outstanding Repair A/c		3,000	By Prepaid Insurance A/c	2,000
To Profit Transferred to				
A's Capital A/c	1,500			
B's Capital A/c	1,000			
C's Capital A/c	500	3,000		
		13,800		13,800

Dr **Partners' Capital Account** Cr

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To B's Capital A/c	9,000	—	3,000	By Balance b/d	90,000	60,000	30,000
To Cash A/c	—	9,000	—	By Reserve A/c	3,000	2,000	1,000
To B's Loan A/c	—	66,000	—	By Revaluation A/c (Profit)	1,500	1,000	500
To Balance c/d	85,500	—	28,500	By A's Capital A/c	—	9,000	—
				By C's Capital A/c	—	3,000	—
	94,500	75,000	31,500		94,500	75,000	31,500

Balance Sheet
as at 31st March, 2019

Liabilities		Amt (₹)	Assets		Amt (₹)
Outstanding Repairs		3,000	Building		1,10,000
Creditors		13,800	Debtors	20,000	
Capital A/cs			(–) Provision for Doubtful Debts	(1,000)	19,000
A	85,500		Machinery		40,800
C	28,500	1,14,000	Prepaid Insurance		2,000
B's Loan A/c		66,000	Stock		18,000
			Cash		7,000
		1,96,800			1,96,800

Working Notes

1. **Calculation of Gaining Ratio**
   Old ratio $\Rightarrow 3:2:1$; New ratio $\Rightarrow 3:1$
   Gaining Ratio = New Share – Old Share $\Rightarrow A = \frac{3}{4} - \frac{3}{6} = \frac{9-6}{12} = \frac{3}{12}, C = \frac{1}{4} - \frac{1}{6} = \frac{3-2}{12} = \frac{1}{12}$
   Gaining Ratio = 3 : 1
2. **Calculation of B's Share of Goodwill**
   Firm's goodwill = ₹ 36,000
   B's share of goodwill = $36{,}000 \times \frac{2}{6}$ = ₹ 12,000 to be contributed by A and C in their gaining ratio, i.e. 3 : 1.
3. Dr **Cash Account** Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	16,000	By B's Capital A/c	9,000
		By Balance c/d	7,000
	16,000		16,000

7. Chintan, Ayush and Sudha were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31st March, 2019, their Balance Sheet was as follows

Balance Sheet of Chintan, Ayush and Sudha
as at 31st March, 2019

Liabilities		Amt (₹)	Assets		Amt (₹)
Capital			Plant and Machinery		90,000
Chintan	90,000		Furniture		60,000
Ayush	60,000		Stock		30,000
Sudha	40,000	1,90,000	Debtors	60,000	
Provident Fund		30,000	(–) Provision for Doubtful Debts	(5,000)	55,000
General Reserve		20,000	Cash at Bank		15,000
Creditors		10,000			
		2,50,000			2,50,000

Chintan retired on the above date and it was agreed that

(i) Debtors of ₹ 5,000 were to be written-off as bad debts and a provision of 5% on debtors for bad and doubtful debts was to be created.
(ii) Goodwill of the firm on Chintan's retirement was valued at ₹ 1,00,000 and Chintan's share of the same will be adjusted by debiting the capital accounts of Ayush and Sudha.
(iii) Stock was revalued at ₹ 36,000.
(iv) Furniture was undervalued by ₹ 9,000.
(v) Liability for workmen's compensation of ₹ 2,000 was to be created.
(vi) Chintan was to be paid ₹ 20,000 by cheque and the balance was to be transferred to his loan account.

Pass the necessary journal entries in the books of the firm on Chintan's retirement. **(CBSE 2020)**

Ans. **JOURNAL**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
2019 Mar 31	General Reserve A/c To Chintan's Capital A/c (5/10) To Ayush's Capital A/c (3/10) To Sudha's Capital A/c (2/10) (Being general reserve distributed among the old partners)	Dr		20,000	 10,000 6,000 4,000
Mar 31	Bad Debts A/c To Debtors A/c (Being bad debts written-off)	Dr		5,000	 5,000
Mar 31	Provision for Bad Debts A/c To Bad Debts A/c (Being bad debts met out of provision for bad debts)	Dr		5,000	 5,000
Mar 31	Revaluation A/c To Provision for Bad Debts A/c (Being creation of provision for bad debts)	Dr		2,750	 2,750
Mar 31	Ayush's Capital A/c Sudha's Capital A/c To Chintan's Capital A/c (WN1) (Being goodwill adjusted in gaining ratio)	Dr Dr		30,000 20,000	 50,000
Mar 31	Stock A/c To Revalution A/c (Being value of stock increased)	Dr		6,000	 6,000
Mar 31	Furniture A/c To Revaluation A/c (Being furniture which was undervalued brought to its book value)	Dr		9,000	 9,000
Mar 31	Revaluation A/c To Workmen's Compensation Claim A/c (Being liability of workmen's compensation claim created)	Dr		2,000	 2,000
Mar 31	Revaluation A/c To Chintan's Capital A/c To Ayush's Capital A/c To Sudha's Capital A/c (Being profit on revaluation transferred to old partners)	Dr		10,250	 5,125 3,075 2,050
Mar 31	Chintan's Capital A/c (WN2) To Bank A/c To Chintan's Loan A/c (Being paid to Chintan ₹ 20,000 by cheque and balance transferred to his loan account)	Dr		1,55,125	 20,000 1,35,125

Working Notes

1. Chintan's Share of Goodwill $= 1,00,000 \times \frac{5}{10} =$ ₹ 50,000

   Chintan's Share divided in Gaining Ratio

   Ayush $= 50,000 \times \frac{3}{5} =$ ₹ 30,000 ; Sudha $= 50,000 \times \frac{2}{5} =$ ₹ 20,000

2. Chintan's Balance = 90,000 + 10,000 + 50,000 + 5,125 = ₹ 1,55,125

8. V, W and X were carrying out a business as partners and sharing profits in the ratio of 2 : 1 : 1. Their balance sheet as at 31st December, 2019 is as follows

Balance Sheet
as at 31st December, 2019

Liabilities		Amt (₹)	Assets		Amt (₹)
Bills Payable		10,600	Buildings		70,000
Sundry Creditors		11,000	Plant and Machinery		78,000
Capital A/cs			Stock		16,000
V	75,000		Debtors	22,000	
W	50,000		(–) Provision for Doubtful Debts	(400)	21,600
X	55,000	1,80,000	Bank		7,500
Profit and Loss A/c		1,400	Cash		9,900
		2,03,000			2,03,000

V decided to retire on that date because of health problems. In this regard, following adjustments were agreed upon

(i) The value of buildings to be increased to ₹ 96,000.

(ii) The provision for bad and doubtful debts on debtors to be maintained at 3%.

(iii) Plant and machinery should be valued at 20% less.

(iv) Goodwill of the firm is valued at ₹ 36,000 and V's share is to be adjusted in the remaining partners' accounts.

You are required to prepare revaluation account, partners' capital accounts and balance sheet.

Ans. Dr **Revaluation Account** Cr

Particulars		Amt (₹)	Particulars	Amt (₹)
To Provision for Doubtful Debts A/c		260	By Buildings A/c	26,000
To Plant and Machinery A/c		15,600		
To Profit Transferred to				
V's Capital A/c	5,070			
W's Capital A/c	2,535			
X's Capital A/c	2,535	10,140		
		26,000		26,000

Dr **Partners' Capital Account** Cr

Particulars	V (₹)	W (₹)	X (₹)	Particulars	V (₹)	W (₹)	X (₹)
To V's Capital A/c	—	9,000	9,000	By Balance b/d	75,000	50,000	55,000
To V's Loan A/c	98,770	—	—	By Profit and Loss A/c	700	350	350
To Balance c/d	—	43,885	48,885	By Revaluation A/c (Profit)	5,070	2,535	2,535
				By W's Capital A/c	9,000	—	—
				By X's Capital A/c	9,000	—	—
	98,770	52,885	57,885		98,770	52,885	57,885

Balance Sheet
as at 31st December, 2019

Liabilities		Amt (₹)	Assets		Amt (₹)
Bills Payable		10,600	Buildings		96,000
Sundry Creditors		11,000	Plant and Machinery		62,400
V's Loan		98,770	Stock		16,000
Capital			Debtors	22,000	
W	43,885		(–) Provision for Doubtful Debts	(660)	21,340
X	48,885	92,770	Bank		7,500
			Cash		9,900
		2,13,140			2,13,140

Working Notes

1. **Calculation of Gaining Ratio**

   Gaining Ratio = New Share – Old Share

   $$\text{W's Gain} = \frac{1}{2} - \frac{1}{4} = \frac{2-1}{4} = \frac{1}{4};\quad \text{X's Gain} = \frac{1}{2} - \frac{1}{4} = \frac{2-1}{4} = \frac{1}{4}$$

   Gaining ratio of W and X = 1 : 1

2. **Treatment of Goodwill**

   $$\text{V's share of goodwill} = 36,000 \times \frac{2}{4} = ₹18,000$$

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	W's Capital A/c	Dr		9,000	
	X's Capital A/c	Dr		9,000	
	To V's Capital A/c				18,000
	(Being V's share of goodwill adjusted among W and X in their gaining ratio)				

Chapter Test

Multiple Choice Questions

1. Which of the following statements is/are correct?

(i) Interest is payable @ 6% per annum on the amount remaining unpaid to the executor of deceased partner.

(ii) Contingency reserve, profit and loss account (credit) balance and deferred revenue expenditure account are credited to capital accounts of existing partners in old profit sharing ratio at the time of retirement of old partner.

Alternatives

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

2. Increase in the liability at the time of retirement of a partner is

(a) credited to revaluation account (b) debited to profit and loss account

(c) debited to revaluation account (d) credited to partners' capital account

3. V, S and T are partners in a firm with profit sharing ratio 3 : 2 : 1 respectively. The extract of their balance sheet is as follows

Liabilities	Amt (₹)	Assets	Amt (₹)
Workmen Compensation Reserve	48,000		

At the time of retirement of T, if liability for workmen compensation to the extent of ₹ 24,000 is to be created, then at what amount will workmen compensation reserve be shown in new balance sheet?

(a) ₹ 48,000 (b) ₹ 72,000 (c) ₹ 24,000 (d) Not to be shown in new balance sheet

4. Match the following.

Column I	Column II
A. Employees Provident Fund	(i) Accumulated loss
B. Advertisement Expenditure	(ii) Statutory liability
C. Machinery Replacement Fund	(iii) Accumulated profit
D. General Reserve	(iv) Accumulated depreciation

Codes

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

5. A, B and C were partners sharing profits and losses in the ratio of 4:3:1. B retires and gives her share of profit to A for ₹ 3,500 and to C for ₹ 2,100. The gaining ratio of A and C will be

(a) 4:1 (b) 2:1 (c) 5:3 (d) 3:5

Short Answer (SA) Type Questions

1. A, B and C are partners sharing profit and loss in the ratio of 2 : 2 : 1. B retires from the firm on 31st March, 2018. On the date of B's retirement, the following balances appeared in the books of the firm.

Particulars	Amt (₹)
Advertisement suspense account	50,000
Contingency reserve	30,000
Workmen's compensation reserve	40,000
Loss in business account	30,000

Pass the necessary journal entries for the adjustment of these items on B's retirement.

2. Modi, Shah and Dharma are three partners of a firm doing work of constructions and maintaining equality in the different societies of India. They shared profits in the ratio of 1 : 2 : 2 from last 6 years.

On 31st May, 2019, Dharma died and his share is taken by Modi and Shah in the ratio of 1 : 3. For this situation, goodwill of the firm is valued at ₹ 2,00,000 on this date. Pass the journal entries for treatment of goodwill on Dharma's death. Also, calculate new ratio.

3. A, B and C are partners sharing profits in the ratio of 4 : 3 : 1 respectively. It is provided under the partnership deed that on the death of any partner, his share of goodwill is to be valued at one half of the net profits credited to his account during the last 4 completed years and share of profit to the date of death is to be based on average profits of the last three completed years, plus 10% (books of accounts are closed on 31st December). B died on 14th March, 2018.

The firm's profits for the last 4 calender years were as follows I (Profit ₹ 1,20,000), II (Profit ₹ 60,000), III (Losse ₹ 20,000) and IV (Profit ₹ 80,000).

Pass journal entries to adjust B's share of goodwill and profit assuming that profit sharing ratio between A and C in future will be 3 : 2.

4. X, Y and Z were partners in a firm sharing profits in the ratio of 5 : 3 : 2. Goodwill appeared in their books at a value of ₹ 60,000 and general reserve at ₹ 20,000. Y decided to retire from the firm. On the date of his retirement, goodwill of the firm was valued at ₹ 2,40,000. The new profit sharing ratio decided among X and Z was 2 : 3. Record necessary journal entries on Y's retirement.

Long Answer (LA) Type Questions

1. Kavya, Manya and Navita were partners sharing profits as 50%, 30% and 20% respectively. On 31st March, 2016, their balance sheet stood as follows

Balance Sheet of Kavya, Manya and Navita as at 31st March, 2016

Liabilities		Amt (₹)	Assets		Amt (₹)
Creditors		1,40,000	Fixed Assets		8,90,000
General Reserve		1,00,000	Investments		2,00,000
Capital			Stock		1,30,000
Kavya	6,00,000		Debtors	4,00,000	
Manya	5,00,000		(–) Provision for Bad Debts	(30,000)	3,70,000
Navita	4,00,000	15,00,000	Bank		1,50,000
		17,40,000			17,40,000

On the above date, Kavya retired and Manya and Navita agreed to continue the business on the following terms

(i) Firm's goodwill was valued at ₹ 60,000 and it was decided to adjust Kavya's share of goodwill in the capital accounts of continuing partners.

(ii) There was a claim for workmen's compensation to the extent of ₹ 4,000.

(iii) Investments were revalued at ₹ 2,13,000.

(iv) Fixed assets were to be depreciated by 10%.

(v) Kavya was to be paid ₹ 20,000 through a bank draft and the balance was transferred to her loan account.

Prepare revalutation and partner's capital account.

2. Kavya, Navya and Heena are partners sharing profits and losses in the ratio of 2 : 2 : 1. Heena retires on 31st March, 2018. The balance sheet of the firm as at 31st December, 2017 stood as follows

Balance Sheet as at 31st December, 2017

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital			Land and Building	20,00,000
Kavya	12,00,000		Investments	2,50,000
Navya	12,00,000		Stock	5,00,000
Heena	8,00,000	32,00,000	Sundry Debtors	8,00,000
General Reserve		8,00,000	Cash in Hand	2,00,000
Sundry Creditors		2,00,000	Cash at Bank	4,50,000
		42,00,000		42,00,000

In order to arrive at the balance due to Heena, it was mutually agreed that

(i) Land and building be valued at ₹ 24,00,000.
(ii) Investments to be valued at ₹ 2,00,000.
(iii) Stock be taken at ₹ 6,00,000.
(iv) Goodwill be valued at two years' purchase of the average profit of the past five years.
(v) Heena's share of profits upto the date of retirement be calculated on the basis of average profit of the preceding three years. The profits of the preceding five years were as under

Years	Profits (₹)
2013	4,00,000
2014	4,70,000
2015	6,00,000
2016	5,50,000
2017	6,50,000

(vi) Amount payable to Heena to be transferred to his loan account carrying interest @ 10% per annum.

You are required to prepare revaluation account, partners' capital accounts and the balance sheet as at 31st March, 2018.

Answers

Multiple Choice Questions

1. (a) ***2. (c)*** ***3. (c)*** ***4. (c)*** ***5. (c)***