NCERT SOLUTIONS

CLASS - 12th

Class : 12th

Subject : Accountancy

Chapter : 4

Chapter Name : Reconstitution of a Partnership Firm – Retirement/Death of a Partner

Q1 What are the different ways in which a partner can retire from the firm.

Answer. A partner can retire from the firm in the following ways:

i) Retirement through mutual consent : By mutual consent of all the partners, a partner can retire from the firm.

ii) Through provision in partnership deed: A partner can retire by expressing his willingness to retire stating the reason of retiring if provision is there in partnership deed.

iii) Through written notice : Any partner can retire by giving a written notice and stating the intention for retiring when the partnership is at will.

Page : 213 , Block Name : Short Answer Question

Q2 Write the various matters that need adjustments at the time of retirement of a partners.

Answer. The following matters need adjustment at time of retirement of partners:

i) Calculating gaining ratio and new profit showing ratio

ii) Ascertainment of goodwill

iii) Revaluation of assets and liabilities.

iv) Distribution of accumulated profits /reserves to old partner’s capital a/c

v) Ascertainment of share of profit till date of retirement.

vi) Adjustment of capital.

vii) Settlement of the amount due to the retiring partner.

Page : 213 , Block Name : Short Answer Question

Q3 Distinguish between sacrificing ratio and gaining tab.

Answer.

Sacrificing ratio	Gaining ratio
i) It is the ratio at which old partners agree to sacrifice their share of profit in favour of a new partner.	i) It is the ratio at which continuing partner acquire share of retiring or deceased partner.
ii) It is calculated as : old ratio less new ratio.	ii) It is calculated as : new ratio less old ratio.
iii) It is calculated during admission of a new partner.	iii) It is calculated during retirement or death of old partner.
iv) It results in a decrease in the share of existing partners.	iv) It results in an increase in the share of existing partners.

Page : 213 , Block Name : Short Answer Question

Q4 Why do firm reevaluate assets and reassess their liabilities on retirement or on the event of death of a partner.

Answer. Firms evaluate assets and reassess their liabilities on retirement or in the event of death of a partner so as to record the true and correct value of assets and liabilities at that time. With due time, value of assets may increase or may decrease or certain assets and liabilities may be unrecorded , so the retiring or deceased partner may be benefitted or may bear loss so it is necessary to revalue the assets and liabilities.

Page : 214 , Block Name : Short Answer Question

Q5 Why a retiring/deceased partner is entitled to a share of goodwill of the firm.

Answer. When a partner retires or is deceased , he sacrifices his share of profits In the form which is acquired by the continuing partners. So, on return of such gain, the gaining partners need to compensate the retiring or deceased partner for their sacrifice. Thus evaluation of goodwill of a firm is necessary.

Page : 214 , Block Name : Short Answer Questions

Q1 Explain the modes of payment to a retiring partner.

Answer. 1) lump sum : In full settlement, lump sum payment is made to the retiring partner.

In this case the following entry is passed:

Retiring partner capital A/c Dr To bank a/c (Being payment made to retired partners.)		

2) Transfer to loan a/c : The balance amount of retiring partner is transferred to his loan account and then the amount is paid in instalments. The retiring partners receive equal instalments along with interest on the amount due.

The following entry is passed:

Retiring partner capital A/c Dr To retiring partner loan A/c (Being amount transferred to loan a/c)		

3) Some payment in cash and some in instalment: Sometimes the amount is partly paid in cash and partly in equal instalment by transferring to loan a/c .

Following journal entry is passed:

Retiring partner A/c Dr To bank A/c To retiring partner loan A/c (Being partly paid in cash partly in equal instalments)		

Page : 214 , Block Name : Long Answer Question

Q2 How will you compute the amount payable to a deceased partner?

Answer. The capital balance is added up with his share of profit or loss, interest on capital , reserves , profit on revaluation etc and the drawings, interest on drawing is decreased to calculate the final balance amount which is either paid or transferred to his executor’s loan a/c.

Deceased partner’s capital account

Particulars	**Amount**	**Particulars**	**Amount**
To loss on revaluation	XXX	By balance b/d	XXX
To accumulated losses	XXX	By profit on revaluation	XXX
To goodwill(written off)	XXX	By general reserve	XXX
To partner’s executor a/c	XXX	By accumulated profit	XXX
(balancing figure)	XXX	By interest on capital	XXX
		By gaining partner capital a/c	XXX

Page : 214 , Block Name : Long Answer Question

Q3 Explain the treatment of goodwill at the time of retirement or in the event of death of a partner?

Answer. The share of goodwill of retiring or deceased is calculated first. Then the gaining partners compensate with that amount to the retiring or deceased partner .

i) If goodwill already exist in books of account :

The existing goodwill is written off among old partners of the firm in old ratio.following journal entry is passed:

All partner's capital account --------Dr

To goodwill a/c

(Being goodwill written off)

ii) Adjusting goodwill through partner's capital account : After goodwill in the books is written off , the share of goodwill or retiring or deceased partner is adjusted by the gaining partner in gaining ratio. Following entry is passed:

Gaining partner's capital a/c--------Dr

To retiring/deceased partner

(Being goodwill adjusted to capital a/c in gaining ratio)

Page : 214 , Block Name : Long Answer Question

Q4 Discuss the various methods of computing the share in profits in the event of death of a partner.

Answer. The various methods of computing the share in profit in the event of death of partner are:

1) On basis of time- Under this method profit of last few years is considered and either average profit is calculated or profit of previous year is taken. The share of deceased /retiring partner is calculated on the basis of profit taken up to the date of retirement on death.
1) On basis of sale- Under this method , the sale upto date of retirement or death is ascertained first and then the rate of profit percentage on the basis of previous year sales is taken. On this basis, profit upto the date of death is calculated and considering the old ratio of partners, share of deceased/retiring partner is finally computed.

Page : 214 , Block Name : Long answer Question

Q1 Aparna ,Manisha and Sonia are partners sharing profits in the ratio of 3 : 2 : 1. Manisha retires and goodwill of the firm is valued at Rs. 1,80,000.Aparna and Sonia decided to share future in the ratio of 3 : 2. Pass necessary journal entries.

Answer. Old Ratio = 3 : 2 : 1

New Ratio = 3 : 2

Gaining ratio = New Ratio – Old Ratio

Aparna's Gain = $\frac{3}{5} - \frac{3}{6} = \frac{18-5}{30} = \frac{4}{30}$

Sonia's Gain = $\frac{2}{5} - \frac{1}{6} = \frac{12-5}{30} = \frac{7}{30}$

Journal Entries

Particulars		**Dr. Amount ₹**	**Cr. Amount ₹**
Aparna's capital A/c	Dr	18000	
Sonia's capital A/c	Dr	42000	
To Manisha's capital A/c			60,000
(Being gaining partners compensating retiring partner in gaining ratio 3 : 7)			

Working Note:

Goodwill of firm = 1,80,000

Manisha's share of goodwill = $\frac{2}{6}) \times 1,80,000 = 60,000$

Gaining ratio = 3 : 7.

Page : 214 , Block Name : Numerical questions

Q2 Sanhgeeta, Saroj and Shanti are partners sharing profit in the ratio 2 : 3 : 5 . Goodwill is appearing in the books at the value of Rs. 60,000. Sangeeta retires and Goodwill is valued at Rs. 90,000.Saroj and Shanti decided to share future profits equally . Record necessary journal entries.

Answer.

Journal Entries

Particulars	**Dr. amount** ₹	**Cr. amount** ₹
Sangeeta's capital A/c Dr Saroj's capital A/c Dr Shanti's capital A/c Dr To Goodwill account A/c (Being goodwill in books written off to old partners capital account old ratio)	12,000 18,000 30,000	 60,000
Saroj's capital A/c Dr To Sangeeta's capital A/c (Being Gaining partner compensating retiring partner)	18,000	 18,000

Working Note :

Old Ratio : 2 : 3 : 5

New Ratio : 1 : 1

Gaining Ratio: New ratio – Old Ratio

Saroj's gain in share = $\frac{1}{2} - \frac{3}{10}$ = $\frac{10-6}{20}$ = $\frac{4}{20}$ = $\frac{1}{5}$

Shanti's Gain in share = $\frac{1}{2} - \frac{5}{10} = \frac{10-10}{20} = 0$

Thus only Saroj is gaining share on Retirement of Sangeeta . So Saroj will compensate Sangeeta .

Goodwill of Firm = 90,000

Sangeeta's share of goodwill = $\frac{2}{10}) \times 90,000$ = 18,000

Page : 214 , Block Name: Numerical Questions.

Q3 Himanshu, Gagan and Naman are partners sharing profits and losses in the ratio of 3:2:1. On march 31,2017. Naman retires

The various assets and liabilities of the firm on the date were as follows:

Cash Rs. 10,000, Building Rs. 1,00,000.plant and machinery Rs. 40,000. Stock Rs. 20,000 and Investments Rs. 30,000.

The following was agreed upon between the partner's on Naman's Retirement

i) Building to be appreciated by 20%

ii) Plant and building to be depreciated by 10%

iii) A provision of 5% on debtors to be created for bad and doubtful debts .

iv) Stock was to be valued at Rs.18,000 and Investment at Rs.35,000.

Record the necessary journal entries to the above effect and prepare the revaluation account

Answer.

Journal Entries

Particulars		Dr. amount ₹	Cr. amount ₹
i) Building A/c	Dr	20,000	
Investment account	Dr	5000	

To revaluation account (Being increase in the value of assets)		25,000
ii) Revaluation A/c Dr To plant and machinery A/c To provision for doubtful debt A/c To stock A/c (Being decrease in the value of assets on revaluation)	7000	 4000 1000 2000
iii) Revaluation A/c Dr To himanshu's capital A/c To gagan's capital A/c To naman's capital A/c (Being profit on revaluation transferred to old partners in old ratio 3:2:1)	18000	 9000 6000 3000

Revaluation account

Particulars	**Amount** ₹	**Particulars**	**Amount** ₹
To plants machinery	4000	By building	20,000
To provision for doubtful debts	1000	By investment	5000
To stock	2000		

To profit on revaluation:			
Himanshu : 9000			
Gagan : 6000			
Naman : 3000	18000		
	25000		**25000**

Page : 214 , Block Name : Numerical Questions

Q4 Naresh, Raj Kumar and Bishwajeet are equal partners. Raj kumar decides to retire. On the date of his retirement , the balance sheet of the firm showed the following : General reserves Rs.36000 and profit and loss account (Dr.) Rs.15,000.

Pass necessary journal entries to the above effect.

Answer.

Journal entries

Particulars	Dr. amount ₹	Cr.amount ₹
General reserves A/c Dr	36000	
To Naresh's capital A/c		12000
To Raj kumar's capital A/c		12000
To Bishwajeet’s capital A/c		12000
(Being general reserves transfer to old partners in old ratio 1:1:1)		

Naresh's capital A/c Dr Raj kumar's capital A/c Dr Bishwajeet's capital A/c Dr To A/c not mention (Being debit balance of P & L A/c transferred to old partners)	5000 5000 5000	 15000

Page : 214 , Block Name : Numerical Questions

Q5 Digvijay , Brijesh and Parakaram were partners in a firm sharing profits in the ratio of 2:2:1 . Their balance sheet as on March 31,2017 was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Creditors	49,000	Cash	8,000
Reserves	18,500	Debtors	19,000
Digvijay's capital	82,000	Stock	42,000
Brijesh's capital	60,000	Buildings	2,07,000
Parakaram's capital	75,000	Patents	9,000
	2,85,000		**2,85,000**

Brijesh retired on March 31, 2017 on the following terms:

i) Goodwill of the firm was valued at Rs. 70,000 and was not to appear in the books.

ii) Bad debts amounting to Rs 2,000 were to be written off.

iii) Patents were considered as valueless.

Prepare revaluation account, partner's capital accounts and the balance sheet of Digvijay and Parakaram after Brijesh retirement.

Answer.

Revaluation account

Particulars	**Amount** ₹	**Particulars**	**Amount** ₹
To patents	9000	By loss on revaluation	
To bad debts	2000	Digvijay : 44000	
		Brijesh : 44000	
		Parakaram : 22000	11,000
	11000		**11,000**

Partners capital account

Particulars	**Digvijay**	**Brijesh**	**Parakaram**	**Particulars**	**Digvijay**	**Brijesh**	**Parakaram**
To brijesh A/c	18667		9333	By balance b/d	82000	60,000	75500

To loss on revaluation	4400	4400		By Digvijay A/c		18667	
To Brijesh loan A/c		91000		By Parakaram A/c		9333	
To balance c/d	66333		67667	By reserves	7400	7400	3700
	89400	**95400**	**79200**		**89400**	**95400**	**79200**

Balance sheet

Liabilities	**Amount** ₹	**Assets**	**Amount** ₹
Creditors	49000	Cash	8000
Partner's capital A/c		Debtors : 19000	
Digvijay : 66333		Loss: bad debts : 2000	17000
Parakaram : 67667	134000	Stock	42000
Brijesh loan A/c	91000	Building	207000
	274000		**274000**

Working note :

Old ratio = 2:2:1

Goodwill of firm = 70,000

Brijesh share of goodwill = $\frac{2}{5} \times 70,000$

= 28,000

Since new ratio is not mentioned .

Old ratio is taken as gaining ratio

Therefore gaining ratio = 2:1

Therefore

Particular	Dr Amount ₹	Cr Amount ₹
Digvijay's capital A/c Dr	18667	
Parakaram's capital A/c Dr	9333	
To Brijesh's capital A/c		28000
(Being gaining partner compensating retiring partner)		

Page : 215 , Block Name : Numerical Question

Q6 Radha, Sheela and Meena were in partnership sharing profits and losses in the proportion 3:2:1. On April 1, 2017. Sheela retires from the firm. On that date ,their balance sheet was as follows

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Trade creditors	3,000	Cash- in - hand	1,500

Bills payment	4,500	Cash at bank	7,500
Expenses owing	4,500	Debtors	15,000
General reserves	13,500	Stock	12,000
Capitals:		Factory premises	22,500
Radha 15000		Machinery	8,000
Sheela 15000		Losse tools	4,000
Meena 15000	45,000		
	70,500		**70,500**

The terms were:

i) Goodwill of the firm was valued at Rs.13,500.

ii) Expenses owing to be brought down to Rs.3,750.

iii) Machinery and loose tools are to be valued at 10% less than their book value.

iv) Factory premises are to be revalued at Rs, 24,300.

Prepare:

1) Revaluation account

2) Partner's capital account and

3) Balance sheet of the firm after retirement of sheela.

Answer.

Revaluation A/c

Particulars	Amount ₹	Particulars	Amount ₹
To machinery	800	By expenses	750
To loose tools	400	By factory premises	1800
To profit on revaluation:			
Radha 675			
Sheela 450			
Meena 225	1350		
	2550		**2550**

Partner's capital A/c

Particulars	Radha	Sheela	Meena	Particulars	Radha	Sheela	Meena
To sheela capital a/c	3375		1125	By bal c/d	15000	15000	15000
To bal c/d	19050	24450	16350	By radha capital a/c		3375	
				By meena capital a/c		1125	
				By profit on revaluation	675	450	225

				By general reserve	6750	4500	2250
	22425	**24450**	**17475**		**22425**	**24450**	**17475**

Balance sheet

Liabilities	**Amount** ₹	**Assets**	**Amount** ₹
Creditors	3000	Cash in hand	1500
Bill payable	4500	Cash at bank	7500
Expense owing	3750	Debtors	15000
Capitals :		Stock	12000
Radha 19050		Factory premises	24300
Meena 16350	35400	Machinery	7200
Sheela's loan A/c	24450	Loose tools	3600
	71100		**71100**

Working note :

1) Goodwill of form = 13,500.

Sheela's share = $\frac{2}{6} \times 13,500 = 4,500$.

Old ratio = 3:2:1

Gaining ratio will be same as old ratio, as nothing is mentioned in question.

Therefore, Gaining ratio = 3:1

Particulars	**Dr Amount** ₹	**Cr Amount** ₹
Radha's capital A/c Dr	3375	
Meena's capital A/c Dr	1125	
To sheela's capital A/c		4500
(Being gaining partner compensating sacrificing partner)		

Page : 215 , Block Name : Numerical Question

Q7 Pankaj, Naresh and Saurabh are partners sharing profits in the ratio 3:2:1. Naresh retired from the firm due to his illness. On that date the balance sheet of the firm was as follows:

Books of Pankaj , Naresh and Saurabh

Balance sheet as on March 31,2017

Liabilities	**Amount** ₹	**Assets**	**Amount** ₹
General reserve	12,000	Bank	7,600
Sundry creditors	15,000	Debtors 6,000 Less: provision for doubtful debt 400	5,600

Bills payable	12,000	Stock	9000
Outstanding salary	2,200		
Provision for legal damages	6,000		
Capital :		Furniture	41,000
Pankaj 46,000		Premises	80,000
Naresh 30,000			
Saurabh 20,000	96,000		
	1,43,200		**1,43,200**

Additional information

i) Premises have appreciated by 20%,stock depreciated by 10% and provision for doubtful debts was to be made 5% on debtors. Further , provision for legal damages is to be made for Rs. 1,200 and furniture to be brought up to Rs. 45,000.

ii) Goodwill of the firm to be valued at Rs.42,000

iii) Rs.26,000 from Naresh capital account be transferred to his loan account and balance be paid through bank : if required, necessary loan may be obtained from bank .

iv) New profit sharing ratio of Pankaj and Saurabh is decided to be 5:1.

Give necessary ledger accounts and balance sheet of the firm after Naresh's retirement .

Answer.

Revaluation A/c

Particulars	Amount ₹	Particulars	Amount ₹
To stock	900	By premises	16000
To provision for legal damage	1200	By provision for debtors	100
To profit on revaluation:		By furniture	4000
Pankaj 9000			
Naresh 6000			
Saurabh 3000	18000		
	20100		**20100**

Partner's capital account

Particulars	**Pankaj**	**Naresh**	**Saurabh**	**Particulars**	**Pankaj**	**Naresh**	**Saurabh**
To Naresh's A/c	14000			By bal b/d	46000	30,000	20,000
To balance c/d	47000		25000	By pankaj's A/c		14,000	
To naresh's A/c		26000		By general reserve	6000	4000	2000

To Loan a/c				By profit on revaluation	9000	6000	3000
To bank a/c		28000					
	61,000	**54,000**	**25000**			**54000**	**25000**

Balance sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
To provision for legal damage	7200	Premises	96000
Sundry creditors	15000	Stock	81000
Billo payable	12000	Debtors 6000	
Outstanding salary	2200	Less: provision 300	5700
Naresh's loan A/c	26000	Furniture	45000
Capital A/c:			
Pankaj: 47000			
Saurabh: 25000	72000		
Bank loan:	20400		

	154800		**154800**

Working note :

Goodwill of firm = 42,000

Goodwill of naresh = $\frac{2}{6} \times 42,000 = 14,000$

Old ratio : 3:2:1

New ratio : 5:1

Gaining ratio = new ratio – old ratio

Pankaj gain = $\frac{5}{6} - \frac{3}{6} = \frac{2}{6}$

Saurabh gain = $\frac{1}{6} - \frac{1}{6} = 0$

Therefore , Pankaj capital A/c Dr 14,000

To naresh capital A/c 14,000

Balance to be paid from bank = 28,000

Less: bank balance = 7,600

Bank loan to be taken = 28,000-7,600= 20,400

Page : 216 , Block Name : Numerical Question

Q8 Puneet, Pankaj and Pammy are partners in a business sharing profits and losses in the ratio of 2:2:1 respectively. Their balance sheet as on March 31, 2017 was as follows:

Books of Puneet, Pankaj and Pammy

Balance sheet as on March 31,2017

Liabilities	Amount (Rs)	Assets	Amount (Rs)

Sundry creditors	1,00,000	Cash at bank	20,000
Capital account :		stock	30,000
Puneet : 60,000		Sundry debtors	80,000
Pankaj : 1,00,000		Investments	70,000
Pammy : 40,000	2,00,000	Furniture	35,000
Reserve	50,000	Buildings	1,15,000
	3,50,000		**3,50,000**

Mr. Pammy died on September 30,2017.the partnership deed provided the following :

i) The deceased partner will be entitled to his share of profit up to the date of death calculated on the basis of previous year's profit .

ii) He will be entitled to his share of goodwill of the firm calculated on the basis of 3 years' purchase of average of last 4 years' profit . the profit for the last four financial years are given below:

for 2013-14: Rs. 80,000; for 2014-15: Rs.50,000; for 2015–16, Rs. 40,000; for 2016–17, Rs. 30,000.

The drawings of the deceased partner up to the date of death amounted to Rs. 10,000. Interest on capital is to be allowed at 12% per annum. Surviving partners agreed that Rs. 15,400 should be paid to the executors immediately and the balance in four equal yearly instalments with interest at 12% p.a. on outstanding balance.

Show Mr. Pammy's Capital account, his Executor's account till the settlement of the amount due.

Answer.

Mr. Pammy's capital A/c

Particulars	Amount ₹	Particulars	Amount ₹
To drawings	10,000	By balance b/d	40,000
To pammy's executor A/c	75,400	By profit and loss suspense A/c	3,000
		By Pankaj capital A/c	15,000
		By Puneet capital A/c	15,000
		By Interest on capital	2,400
		By Reserves	10,000
	85400		**85400**

Working note :

i) Pammy died on September 30,2017.

Therefore No. of months from year ending till his death = 6 months .

Profit of last year = 30,000

Therefore pammy's share of profit = $$\begin{aligned} f(1) &= 2(1)^2 - 4(1) + 5 \\ &= 2 - 4 + 5 \end{aligned}$$

ii) Average profit of last 4 years = $80000 + 50000 + 40000 + 30000) \div 4$

$200000 \div 4$ =50,000

Goodwill = $3 \times (average \quad profit) = 3 \times 50000 = 1,50,000$

Pammy's share of goodwill for 6 months = $\frac{1}{5} \times 15,000 = 30,000$

Old ratio = 2:2:1

Gaining ratio = 2:2 (since nothing is mentioned in question, old ratio as taken as gaining ratio)

Interest on capital @12% = $\frac{12}{100} \times 40,000 \left(\frac{6}{12}\right) = 2400$

Reserves = 50,000

Therefore, pammy's share of reserve = $\left(\frac{1}{5}\right) \times 50,000 = 10,000$

Instalment = $60000 \div 4 = 15000$

Pammy's executor A/c

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2017-18			2017-18		
Sep 30	To bank A/c	15400	Sep 30	By Pammy capital A/c	75400
Mar 31	To bal c/d	63600	Mar 31	By interest	3600
		79000			**79000**
2018-19			2018-19 Ap 1	By bal b/d	63600
Sep 30	To bank $(15000 + 36000 + 360$	22200	Sep 30	By interest	3600

Mar 31	To balance c/d	47700	Mar 31	By interest (@12Y.on 45000)	2700
		69900			**69900**
2019-20			2019-20 Ap 1	By bal b/d	47700
Sep 30	To bank $(15000 + 2700 + 2700)$	20400	Sep 30	By interest	2700
Mar 31	To bal c/d	31800	Mar 31	By interest (@12Y.on 30000 for 6 months)	1800
		52200			**52200**
2020-21			2020-21 Ap 1	By bal b/d	31800
Sep 30	To bank account $(15000 + 1800 + 1800)$	18600	Sep 30	By interest	1800
Mar 31	To bal c/d	15900	Mar 31	By interest (@12Y.on 15000 for 6 months)	900
		34500			**34500**
2021-22			2021-22 Ap 1	By bal b/d	15900

Sep 30	To bank account $(15000 + 900 + 900)$	16800	Sep 30	By interest	900
		16800			**16800**

Page : 217 , Block Name : Numerical questions.

Q9 Following is the Balance Sheet of Prateek, Rockey and Kushal as on March 31, 2017.

Books of Prateek, Rockey and Kushal

Balance Sheet as on March 31, 2017

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Sundry creditors	16,000	Bills receivable	16,000
General reserve	16,000	Furniture	22,600
Capital accounts :		Stock	20,400
Prateek : 30,000		Sundry debtors	22,000
Rockey : 20,000		Cash at hands	18,000
Kushal : 20,000	70,000	Cash in hand	3000
	1,02,000		**1,02,000**

Rockey died on June 30, 2017. Under the terms of the partnership deed, the executors of a deceased partner were entitled to:

a) Amount standing to the credit of the Partner's Capital account.

b) Interest on capital at 5% per annum.

c) Share of goodwill on the basis of twice the average of the past three years' profit and

d) Share of profit from the closing date of the last financial year to the date of death on the basis of last year's profit. Profits for the year ending on March 31, 2015, March 31, 2016 and March 31, 2017 were Rs. 12,000, Rs. 16,000 and Rs. 14,000 respectively. Profits were shared in the ratio of capitals. Pass the necessary journal entries and draw up Rockey's capital account to be rendered to his executor.

Answer. Working notes :

No. of months till june 30 = 3 months .

i) Interest on capital at @5% for 3 months = $20000 \times \frac{5}{100} \times \frac{3}{12} = 250$

ii) Average profit of last 3 years = $12000 + 16000 + 14000 \div 3 = \frac{42000}{3} = 14000$

therefore, goodwill = $2 \times 14000 = 28,000$

therefore, rockey's share of goodwill = $\frac{2}{7} \times 28000 = 80000$

Old ratio = 3:2:2

Gaining ratio = 3:2 (old ratio will be taken as gaining ratio)

iii) Profit of previous year = 14000

Rockey's share of profit for 3 months = $14000 \times \frac{2}{7} \times \frac{3}{12} = 1000$

Journal entries

Particulars	Dr. Amount ₹	Cr. Amount ₹
i) Interest on capital A/c Dr	250	

To rockey's capital A/c (Being interest on capital received for 3 months)		250
ii) Prateek's capital A/c Dr Kushal's capital A/c Dr To rockey's capital A/c (Being gaining partner compensating for gain of share)	4800 3200	 8000
iii) Profit and loss suspense A/c Dr To rockey's capital A/c (being profit transferred to partners capital account)	1000	 1000
v) Rockey's capital A/c Dr To rockey's executorA/c (being amount transferred to executor a/c)	33821	 33821

Rockey's capital a/c

Particulars	**Amount** ₹	**Particulars**	**Amount** ₹
To Rockey's executor A/c	33821	By balance b/d	20,000
		By interest on capital	250
		By prateek's capital	4800

		By kushal's capital A/c	3200
		By p/l suspense A/c	1000
		By general reserve	4571
	33821		**33821**

Page : 217 , Block Name : Numerical Questions

Q10 Narang, Suri and Bajaj are partners in a firm sharing profits and losses in proportion of $\frac{1}{2}, \frac{1}{6}$ and $\frac{1}{3}$ respectively. The Balance Sheet on April 1, 2015 was as follows:

Books of Suri and Bajaj

Balance Sheet as on April 1, 2015

Liabilities	**Amount** ₹	**Assets**	**Amount** ₹
Bills payable	12,000	Freehold premises	40,000
Sundry creditors	18,000	Machinery	30,000
Reserves	12,000	Furniture	12,000
Capital account:		Stock	22,000
Narang's 30,000		Sundry debtors 20000	

Suri's. 30,000		Less:reserve for bad debt 1000	19,000
Bajaj's 28,000	88,000	Cash	7,000
	1,30,000		**1,30,000**

Bajaj retires from the business and the partners agree to the following:

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

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

c) Bad Debts reserve is to be increased to Rs.1,500.

d) Goodwill is valued at Rs. 21,000 on Bajaj's retirement.

e) The continuing partners have decided to adjust their capitals in their new profit sharing ratio after retirement of Bajaj. Surplus/deficit, if any, in their capital accounts will be adjusted through current accounts. Prepare necessary ledger accounts and draw the Balance Sheet of the reconstituted firm.

Answer.

Revaluation A/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To machinery	3,000	By freehold premises	8000
To furniture	840	By stock	3300
To bad debts	500		
To profit on revaluation:			

Narang: 3480			
Suri: 1160			
Bajaj: 2320	6960		
	11300		**11300**

Partner's capital a/c

Particulars	Narang	Suri	Bajaj	Particulars	Narang	Suri	Bajaj
To bajaj a/c	5250	1750		By bal b/d	30,000	30,000	28,000
To bajaj loan			41320	By narang a/c			5250
To bal c/d	34230	31410		By suri a/c			1750
				By profit on revaluation	3480	1160	2320
				By reserves	6000	2000	4000
							41000
	39480	**33160**	**41320**		**39480**	**33160**	**41320**
To suri current		15000		By bal b/d	34230	31410	

To bal c/d	49230	16410		By narang capital a/c	15000		
	49230	**31410**			**49230**	**31410**	

Balance sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Bills payable	12000	Freehold premises	48000
Sundry creditors	18000	Stock	25300
Bajaj loan a/c	41320	Machinery	27000
Capital account:		Furniture	11160
Narang: 49230		Debtors 20000	
Suri: 16410	65640	Less : bad debts 1500	18500
Current account: suri	15000	Narang's current a/c	15000
	151960		**151960**

Working note :

1) Goodwill of the firm = 21,000

Bajaj's share of goodwill : $\frac{2}{6} \times 21000 = 7000$

Old ratio = 3:1:2

Gaining ratio = 3:1

Narang's capital A/c	Dr	5250	
Suri's capital A/c	Dr	1750	
To Bajaj's capital A/c			7000

(goodwill compensated by gaining partner)

2) Adjusted capital of narang = 34230

Adjusted capital of suri = 31410

Total capital of firm $= 34230 + 31410 = 65640$

Narang's new capital = $\frac{3}{4} \times 65640 = 49230$

Suri's new capital = $\frac{1}{4} \times 65640 = 16410$

New ratio:

Narang = $\frac{3}{4} \times \frac{2}{6} + \frac{3}{6} = \frac{18}{24}$

Suri = $\frac{1}{4} \times \frac{2}{6} + \frac{1}{6} = \frac{6}{24}$

Therefore new ratio = 18:6 = 3:1

Page : 218 , Block Name : Numerical question

Q11 The Balance Sheet of Rajesh, Pramod and Nishant who were sharing profits in proportion to their capitals stood as on March 31, 2015:

Books of Rajesh, Pramod and Nishant

Balance Sheet as on March 31, 2015

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Bills payable	6,250	Factory building	12,000
Sundry creditors	10,000	Debtors 10,500	
Reserve funds	2,750	Less : reserve 500	10,000
Capital accounts:		Bills receivable	7,000
Rajesh 20,000		Stock	15,500
Pramod 15,000		Plant and machinery	11,500
Nishant 15,000	50,000	Bank balance	13000
	69000		**69000**

Pramod retired on the date of Balance Sheet and the following adjustments were made:

a) Stock was valued at 10% less than the book value.

b) Factory buildings were appreciated by 12%.

c) Reserve for doubtful debts be created up to 5%.

d) Reserve for legal charges to be made at Rs. 265.

e) The goodwill of the firm be fixed at Rs. 10,000.

f) The capital of the new firm be fixed at Rs. 30,000. The continuing partners decide to keep their capitals in the new profit sharing ratio of 3 : 2.

Pass journal entries and prepare the balance sheet of the reconstituted firm after transferring the balance in Pramod's Capital account to his loan account.

Answer.

Journal entries

Particulars		Dr. Amount ₹	Cr. Amount ₹
i) Revaluation A/c	Dr	1840	
To stock A/c			1550
To reserve for doubtful debt			25
To reserve for legal charges			265
(being decrease in value of assets and increase in liability)			
ii) Factory building A/c	Dr	1440	
To Revaluation A/c			1440
(Being increase in value fassel)			
iii) Rajesh's capital A/c	Dr	160	
Pramod's capital A/c	Dr	120	
Nishant's capital A/c	Dr	120	
To Revaluation A/c			400
(being loss on revaluation)			
iv) General reserve A/c	Dr	2750	
To Rajesh's capital A/c			1100
To Pramod's capital A/c			825
To Nishant's capital A/c			825

(Being general reserve distributed to old partners)		
v) Rajesh's capital A/c Dr Nishant's capital A/c Dr To Pramod's capital A/c (being gaining partner compensating retiring partner in ratio 2:1)	2000 1000	 3000
vi) Pramod's capital A/c Dr To parmod loan A/c (being balance of parmod transferred to loan a/c)	18705	 18705
vii) Rajesh's capital A/c Dr Nishant's capital A/c Dr To bank A/c (being excess capital withdrawn)	940 2705	 3645

Revaluation a/c

Particulars	**Amount** **₹**	**Particulars**	**Amount** **₹**
To stock	1550	By factory building	1440
To reserve for doubtful debts	25	By loan on devaluation:	
To reserve for legal charge	265	Rajesh 160	

		Pramod 120	
		Nishant <u>120</u>	400
	<u>1840</u>		**<u>1840</u>**

Partner's capital a/c

Particulars	**Rajesh**	**Pramod**	**Nishant**	**Particulars**	**Rajesh**	**Pramod**	**Nishant**
To Pramod	2000		1000	By bal b/d	20,000	15,000	15000
To loss on revaluation	160	120		By reserve	1100	825	825
To bank a/c	940		120	By Rajesh's a/c		2000	
To bal c/d	18000		2705	By nishant's a/c		1000	
To Pramod's loan a/c		18705	12000				
	<u>21100</u>	**<u>18825</u>**	**<u>15825</u>**		**<u>21100</u>**	**<u>18825</u>**	**<u>15825</u>**

Balance sheet

liabilities	**Amount**	**Assets**	**Amount**

	₹		₹
Reserve for legal charge	265	Stock (15500-1550)	13950
Bills payable	6250	Factory (12000+1440)	13440
Sundry creditors	10,000	Debtors 10500	
Capital a/c		Less: reserve <u>525</u>	9975
Rajesh : 18000		Bills receivable	7000
Nishant: <u>12000</u>	30,000	Plant machinery	11,500
Pramod loan a/c	18705	Bank	9355
	<u>65220</u>		**<u>65220</u>**

Working note :

1) Old ratio = 4:3:3

New ratio = 3:2

2) Goodwill of firm = 10,000

Pramod share = $\frac{3}{10} \times 10000 = 30,000$

Gain of rajesh = $\frac{3}{5} - \frac{4}{10}$ = $\frac{30-20}{50}$ = $\frac{10}{50}$

Gain of nishant = $\frac{2}{5} - \frac{3}{10}$ = $\frac{20-15}{20}$ = $\frac{5}{50}$

Therefore , gaining ratio = 10:5=2:1

3) Total capital of firm = 30,000

Capital of rajesh = $\frac{3}{5} \times 30000$ = 18,000

Capital of nishant = $\frac{2}{5} \times 30000$ = 12,000

4) Bank balance = 1,30,000

Less: nishant capital = 2705

Less: rajesh capital = 940

=19355

Page : 219 , Block Name : Numerical Questions

Q12 Following is the Balance Sheet of Jain, Gupta and Malik as on March 31, 2016.

Books of Jain, Gupta and Malik

Balance Sheet as on March 31, 2016

Liabilities	**Amount (Rs.)**	**Assets**	**Amount(Rs.)**
Sundry creditors	19,800	Land and building	26,000
Telephone bills outstanding	300	Bond	14,370
Accounts payable	8,950	Cash	5500
Accumulatory profits	16,750	Bills receivable	23,450
Capitals:		Sundry debtors	26,700
Jain : 40,000		Stock	18,100

Gupta : 60,000		Office furniture	18,250
Malik : 20,000	1,20,000	Plants and machinery	20,230
		Computers	13,200
	1,65,800		**1,65,800**

The partners have been sharing profits in the ratio of 5:3:2. Malik decides to retire from business on April 1, 2016 and his share in the business is to be calculated as per the following terms of revaluation of assets and liabilities : Stock, Rs.20,000; Office furniture, Rs.14,250; Plant and Machinery Rs.23,530; Land and Building Rs.20,000.

A provision of Rs.1,700 to be created for doubtful debts. The goodwill of the firm is valued at Rs.9,000.

The continuing partners agreed to pay Rs.16,500 as cash on retirement of Malik, to be contributed by continuing partners in the ratio of 3:2. The balance in the capital account of Malik will be treated as loan.

Prepare Revaluation account, capital accounts, and Balance Sheet of the reconstituted firm.

Answer .

Revaluation A/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To furniture	4000	By stock	1900
To land and building	6000	By plant and machinery	3300
To provision for debt	1700	By loss on revaluation:	

		Jain : 3250	
		Gupta : 1950	
		Malik : <u>1300</u>	6500
	<u>11700</u>		**<u>11700</u>**

Partner's capital a/c

Particulars	**Jain**	**Gupta**	**Malik**	**Particulars**	**Jain**	**Gupta**	**Malik**
To loss on revaluation	3250	1950	1300	By bal b/d	40000	60000	20000
To malik	1125	675		By accumulated profits	8375	5025	3350
To cash			16500	By jain a/c			1125
To malik loan			7350	Bygupta a/c			675
To bal c/d	53900	69000		By cash	9900	6600	
	58275	**71625**	**25150**		**58275**	**71625**	**25150**

Balance sheet

Liabilities		Amount ₹	Assets		Amount ₹
Sundry creditors		19800	Stock		20,000
Telephone bills o/s		300	Office Furniture		14250
Accounts payable		8950	Plants and machinery		23530
Capital account:			Land and building		20000
Jain :	53900	122900	Debtors	26700	
Gupta :	69000		Less : provision	1700	25000
Malik loan a/c		7350	Bonds		14370
			Bills receivable		23450
			Computers		13200
			Cash		5500
		159300			**159300**

Working note :

i) Old ratio = 5:3:2

ii) Goodwill of firm = 9,000

therefore, malik share of goodwill = $\frac{2}{10} \times 9000 = 1800$

gaining ratio will be same as old ratio i.e 5:3 as nothing is mentioned

Jain capital A/c Dr 1125

Gupta capital A/c Dr 675

To malik 1800

iii) Amount to pay malik in cash = 16500

therefore, by jain = $\frac{3}{5} \times 16500 = 9900$

by gupta = $\frac{2}{5} \times 16500 = 6600$

iv) Cash balance = 5500

Page : 219 , Block Name : Numerical Questions.

Q13 Arti, Bharti and Seema are partners sharing profits in the proportion of 3:2:1 and their Balance Sheet as on March 31, 2016 stood as follows :

Books of Arti, Bharti and Seema

Balance Sheet as on March 31, 2016

Liabilities		Amount (Rs.)	Assets	Amount (Rs.)
Bills payable		12,000	Buildings	21,000
Creditors		14,000	Cash in hand	12,000
General reserve		12,000	Bank	13,700
Capital :			Debtors	12,000
Arti	20,000		Bills receivable	4,300
Bharti	12,000		Stock	1,750

Seema 8,000	40,000	Investment	13,250
	78,000		**78,000**

Bharti died on June 12, 2016 and according to the deed of the said partnership, her executors are entitled to be paid as under :

(a) The capital to her credit at the time of her death and interest thereon @ 10% per annum.

(b) Her proportionate share of reserve fund.

(c) Her share of profits for the intervening period will be based on the sales during that period, which were calculated as Rs.1,00,000. The rate of profit during past three years had been 10% on sales.

(d) Goodwill according to her share of profit to be calculated by taking twice the amount of the average profit of the last three years less 20%. The profits of the previous years were :

2013 – Rs.8,200

2014 – Rs.9,000

2015 – Rs.9,800

The investments were sold for Rs.16,200 and her executors were paid out. Pass the necessary journal entries and write the account of the executors of Bharti.

Answer. Working note :

1) Number of days till death from last financial years= 73 days .

2) Interest on capital of bharti for 73 days @10 Y .= $12000 \times \frac{10}{100} \times \frac{73}{365} = 240$

3) Bharti share of reserve = $\frac{2}{6} \times 12000 = 4000$

4) Profit = 10% on sales

$$\frac{10}{100} \times 1,00,000 = 3333$$

5) Average profit of last 3 years = $(8200+9000+9800))\div 3$ = $\frac{27000}{3}$ = 9000

Goodwill = $2\times\left(9000-\frac{20}{100}\times 9000\right)=2\times 7200=14400$

Bharti's share of goodwill = $Z_{CO_2}=0.33$

Old ratio will only be the gaining ratio as nothing is mentioned as nothing is mentioned in question

Therefore, gaining ratio = 3:1

Therefore,

Particulars	**L/F**	**Dr Amount ₹**	**Cr Amount ₹**
Arti capital A/c Dr Seema capital A/c Dr To bharti capital A/c		3600 1200	 4800

Journal entries

Particulars	**Dr. amount ₹**	**Cr. Amount ₹**
i) Interest on capital A/c Dr To bharti capital A/c (being interest on capital given)	240	 240
ii) Reserves A/c Dr To bharti capital A/c (being reserves transferred to bharti capital a/c)	4000	 4000
iii) P/L suspense A/c Dr To bharti capital A/c	3333	 3333

(being his share of profit transferred)		
iv) Arti capital A/c Dr Seema capital A/c Dr To bharti capital A/c (being gaining partner compensating sacrificing partner)	3600 1200	 4800
v) Bank A/c Dr To investment A/c To profit on sale of investment (being investment sold)	16200	 13250 2950
vi) Bharti capital A/c Dr To bharti's executor A/c (being amount transferred to executor's account)	24373	 24373
vii) Bharti executor A/c Dr To bank A/c (being executor paid)	24373	 24373

Bharti capital a/c

Particulars	Amount ₹	Particulars	Amount ₹
To bharti executor a/c	24373	By balance b/d	12000
		By interest on capital	240

		By general reserve	4000
		By p/l suspense a/c	3333
		By Arti capital a/c	3600
		By Seema capital a/c	1200
	24373		**24373**

Bharti executor account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To bank a/c	24373	To bharti capital a/c	24373
	24373		**24373**

Page : 220 , Block Name : Numerical Question

Q14 Nithya, Sathya and Mithya were partners sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet as on March 31, 2015 was as follows :

Books of Nithya, Sathya and Mithya

Balance Sheet at March 31, 2015

Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Creditors	14,000	Investments	10,000

Reserve fund	6,000	Goodwill	5,000
Capitals:		Premises	20,000
Nithya :30,000		Patents	6,000
Sathya :20,000		Machinery	30,000
Mithya :20,000	80,000	stock	13,000
		Debtors	8,000
		Bank	8,000
	1,00,000		**1,00,000**

Mithya dies on August 1, 2015. The agreement between the executors of Mithya and the partners stated that :

(a) Goodwill of the firm be valued at 1 2 2 times the average profits of last four years. The profits of four years were : in 2011-12, Rs.13,000; in 2012-13, Rs.12,000; in 2013-14, Rs.16,000; and in 2014-15, Rs.15,000.

(b) The patents are to be valued at Rs.8,000, Machinery at Rs.25,000 and Premises at Rs.25,000.

(c) The share of profit of Mithya should be calculated on the basis of the profit of 2014-15.

(d) Rs.4,200 should be paid immediately and the balance should be paid in 4 equal half-yearly instalments carrying interest @ 10%.

Record the necessary journal entries to give effect to the above and write the executor's account till the amount is fully paid. Also prepare the Balance Sheet of Nithya and Sathya as it would appear on August 1, 2015 after giving effect to the adjustments.

Answer.

Working note :

1) Number of month of death from last financial year = 4

2) Avg. profit of both years = $(13000 + 12000 + 16000 + 15000) \div 4$ = $\frac{56000}{4}$ = 14,000

Therefore , goodwill $= 2.5 \times 14,000 = 35,000$

Mithya share of goodwill = $\frac{2}{10} \times 35000$ = 7,000

Old ratio will be taken as gaining ratio since nothing is mentioned .

Therefore, gaining ratio = 5:3

3) Revaluation account

Particulars	Amount ₹	Particulars	Amount ₹
To machinery	5000	By patents	2000
To profit on revaluation		By premises	5000
Nithya : 1000			
Sathya : 600			
Mithya : 400	2000		
	7000		**7000**

4) Profit of 2014-2015 = 15000

Mithya's share in profit = $15000 \times \frac{2}{10} \times \frac{4}{12}$ = 1000

5) Mithya's capital account

Particulars	Amount	Particulars	Amount

	₹		₹
To mithya's executor	28600	By balance b/d	20,000
To goodwill	1000	By reserve	1200
		By nithya capital account	4375
		By sathya capital account	2625
		By p/l suspense	1000
		By profit on revaluation	400
	29600		**29600**

6) mithya's executor a/c balance = 28600

Cash paid = 4200

Remaining balance = 28600-4200=24400

Therefore , each instalment value = $\frac{24400}{4} = 6100$

7) Partner's capital a/c

Particulars	Nithya	Sathya	Particulars	Nithya	Sathya
To goodwill	2500	1500	By bal b/d	30,000	30,000
To mithya	4375	2625	By general reserve	3000	1800

To bal c/d	27125	28275	By profit on revaluation	1000	600
	34000	**32400**		**34000**	**32400**

Journal entries

Particulars	**Dr. amount ₹**	**Cr. Amount ₹**
General reserve A/c Dr Profit on revaluation A/c Dr P/L suspense A/c Dr To account name not mention (being profit transferred)	1200 400 1000	 2600
Mithya capital A/c Dr To goodwill A/c (being goodwill written off)	1000	 1000
Nithya capital A/c Dr Sathya capital A/c Dr To mithya capital A/c (being gaining partners compensating dead partners)	4375 2625	 7000
Mithya capital A/c Dr To mithya executor A/c	28600	 28600

(being capital account transferred to executor a/c)		
Mithya executor A/c Dr To bank A/c (being paid in cash 4200)	4200	 4200
Profit on revaluation A/c Dr To nithya capital A/c To sathya capital A/c (being profit on revaluation transferred to old partners)	1600	 1000 600

Mithya executor account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2015			2015		
Aug 1	To bank a/c	4200	Aug 1	By mithya capital	28600
Jan 31	To bank a/c $(6100+1200)$	7320	Jan 31	By interest a/c	1220
Mar 31	To bal c/d	78605	Mar 31	By interest a/c	305
		30125			**30125**

2016			2016		
July 31	By bank a/c $(6100 + 305 + 610)$	7015	Ap 1	By bal b/d	18605
			Jul 31	By interest	610
Jan31	To bank a/c $(6100 + 610)$	6710	Jan 31	By interest a/c	610
			Mar 31	By interest a/c	102
Mar 31	To bal c/d	6202			
		19927			**19927**
2017			2017		
Jul 31	To bank a/c $(6100 + 102 + 102)$	6404	Ap 1	By bal b/d	6202
			Jul 31	By interest a/c	102
		6404			**6404**

Balance sheet

Liabilities	**Amount** ₹	**Assets**	**Amount** ₹

Creditors	14000	Investment	10,000
Mithya executor loan a/c	24400	Premises	25000
Capital a/c :		Machinery	25000
Nithya : 27125		Patent	8000
Sathya : 28275	55400	Stock	13000
		Debtors	8000
		Bank 8000	
		Less : 4200	3800
		p/l suspense	1000
	93800		**93800**

calculation of interest :

1) Interest on 24400 for 6 months @ 10% = 1220

2) Interest on 18300 for 6 month @ 10 % = 915

For 2 months = $\frac{2}{6} \times 915$ =305

For 4 months = $\frac{4}{6} \times 915$ = 610

3) Interest on 12200for 6 month @ 10% = 610

Page : 221 , Block Name : Numerical Question