CHAPTER 5

RETIREMENT/DEATH OF A PARTNER

Retirement of a Partner	Retirement of a partner means ceasing to be partner of the firm. A partner may retire 1. If there is Agreement to this effect 2. All Partners' give consent 3. At Will by giving written notice
Amount due to Retiring/ Deceased Partner	1. Credit Balance of his capital. 2. Credit Balance of his current account (if any). 3. Share of Goodwill. (To be given by gaining partners) 4. Share of Reserves or Undistributed Profits. 5. His share in the profit on revaluation of assets and reassessment of liabilities. 6. If retirement is during the year, the retiring partner will be given. Share in profits up to the date of retirement. 7. Interest on capital if involved. 8. Salary if any up to the date of Retirement/Death Deductions from the above Sum (To be Debited to the Capital Account) 1. Debit balance of his current account (if any) 2. Share of existing Goodwill to be written off. 3. Share of Accumulated loss. 4. Drawings and interest on drawings (if any). 5. Share of loss on account of Revaluation of assets and liabilities. 6. His share of business loss up to the date of Retirement/Death (To P & L suspense A/c)
Gaining Ratio	The ratio in which the continuing partners have acquired the share from the retiring/deceased Partner is called Gaining Ratio.

Sacrificing Ratio v/s Gaining Ratio	
Why the Retiring or Deceased Partner is entitled to his share of Goodwill at the time of Retirement/Death?	Because the Goodwill has been earned by the firm with the efforts of the existing partners, hence at the time of retirement/ death of a partner it is valued as per agreement.
Hidden Goodwill	If the firm has agreed to settle the retiring or deceased partner by paying a lump sum amount, then the amount paid to him in access of what is due shall be treated as his share of goodwill and known as hidden goodwill
Disposal Amount due to Retiring partner	The outgoing partners' account is settled as per the terms of partnership deed i.e. 1. In lump sum immediately 2. In various instalments with or without interest as agreed 3. Partly in cash immediately and partly in instalments at the agreed intervals
What are the provisions if the Retiring Partner is not paid fully at the time of Retirement	In the absence of any agreement, Section 37 of the Indian Partnership Act, 1932 is applicable, which states that the outgoing partner has an option to receive 1. Either Interest @ 6% till the date of payment 2. Such share of Profits which has been earned with his/her money
Deceased Partner share of profit may be calculated	1. On the basis of last years profit (On Average Basis) 2. On the basis of sales

Points to remember -

1. When the question is silent about the amount payable to retiring partner, then the whole amount payable is transferred to his/her loan account.
2. In case of death of a partner, Capital Account of the Deceased Partner is closed by transferring the whole amount to the executors of the deceased Partner.
3. Any payment to the executors of the deceased partner is made through executor's account, not through the deceased partners' capital account.
4. Goodwill already appeared in the books must be written off in old PSR.
5. All accumulated profits and all accumulated losses are to be distributed among old partners in their old PSR.

6. In case of specific fund, like investment fluctuation fund, market value of the investment must be considered. For workman compensation fund, actual liabilities must be considered (to be deducted from fund).
7. Revaluation profit/loss is to be distributed in old PSR.

Accounting Treatment

1. Calculation of new profit-sharing ratio and gaining ratio
2. Treatment of goodwill.
3. Revaluation account preparation with the adjustment in respect of unrecorded assets/liabilities.
4. Distribution of reserves and accumulated profits/loss.
5. Ascertainment of share of profit/loss till the date of retirement/death.
6. Adjustment of capital if required.
7. Settlement of the Accounts due to Retired/Deceased partner.

1. New Profit Sharing Ratio & Gaining Ratio

Calculation of the two ratios.

Following situations may arise

(i) When no information about new ratio or gaining ratio is given in the question

> In this case it is considered that the share of the retiring partner is acquired by the remaining partners in the old ratio. Then no need to calculate the new ratio/gaining ratio as it will be the same as before.

(ii) Gaining ratio is given which is different from the old ratio in this case,

> **New share of continuing partner = old share + share gained from the outgoing partner.**

(iii) If the new ratio is given

> **Gaining ratio = New Ratio - Old ratio**

2. Treatment Of Goodwill.

Steps to be followed

1. When old goodwill appears in the books then first of all this is written off in the old ratio. Remember **Old Goodwill in Old Ratio.**

   All Partner's capital A/c Dr.
   To Goodwill A/c

2. After written off old goodwill, adjustment of retiring partner's share of goodwill will be made through the following journal entry

Gaining Partner's Capital A/c	Dr. (in gaining ratio)
To Retiring / Deceased Partner's	Current A/c (if any)
To Retiring/Deceased Partners'	Capital A/c

OR

Alternative entry with raising of goodwill of its value and written off:-

1. Journal entries passed are : -

   Goodwill A/c Dr. (Current value of goodwill)

   To all partners capital A/c

   (Being the goodwill raised is current value) (In old profit sharing ratio)

2. Counting partners capitals A/c Dr. (In new profit sharing ratio)

   To goodwill A/c

   (Being the goodwill written of)

3. Revaluation of Assets and Reassessment of Liabilities

Revaluation A/c is prepared in the same way as in the case of admission of a new partner. Profit and loss on revaluation is transferred among all the partners in old ratio.

4. Adjustment of Reserves and Surplus (Profits)

(Appearing in the Balance Sheet - Liability Side)

(a) General Reserve A/c Dr.
Reserve Fund A/c Dr.
Profit & Loss A/c (Credit Balance) Dr.
To all partners' Capital/Current A/c (in old ratio)

(b) Specific Funds - if the specific funds such as workmen's compensation fund or investment fluctuation fund are in excess of actual requirement, the excess will be transferred to the Capital A/c in old ratio.
Workmen Compensation Fund A/c Dr.
Investment Fluctuation Funds A/c Dr
To All Partner's Cap A/c's (in old Ratio)

(c) For distributing accumulated losses (P & A/c Dr. Balance)

All partner's Capital/Current A/c Dr. (in old ratio)
To P & L A/c

5. Adjustment of Capitals

At the time of retirement /death, the remaining partners may decide to adjust their capitals in their new profit sharing Ratio. Then following situation may arise

Case 1 . When the total capital of the new firm is not given in the question

- Then the sum of their adjusted capitals of remaining partners' will be treated as the total capital of the new firm which will be divided in their New Profit Sharing Ratio.
- Excess or Deficiency of capital in the individual capital A/c is calculated.
- Such excess or shortage is adjusted by withdrawal or contribution in cash or transferring to Partner's current A/cs.

Journal Entries

(a) For excess Capital withdrawn by the partners
Partner's Capital A/c Dr.
To Cash/Bank A/c / Partner's Current A/c

(b) For deficiency, cash will be brought in by the partner
Cash/Bank A/c /Partner's Current A/c Dr.
To Partner's Capital A/c

Case 2. When the capital of the new firm as decided by the partners is specified, divide the capital in new profit sharing ratio and make adjustments accordingly.

Case 3. When the amount payable to retiring partner will be contributed by continuing partners in such a way that their capitals are adjusted proportionate to their new profit sharing ratio then calculations will be as under

> Total capital of the new firm = balance in capital accounts of remaining partners + amount payable to retiring/deceased partner

(Retirement of a Partmer)

Illustration 1: A, B and C are partners sharing profit and loss in the ratio of 3:2:1 then on retirement of a partner; the gaining ratio/new ratio will be

On A's Retirement ratio between B and C will be 2: 1

On B's Retirement ratio between A and C will be 3: 1

On C's Retirement ratio between A and B will be 3: 2

Illustration 2: A, B & C share profit and losses in the ratio 3:2:1. On C's death his share is taken by A and B in the ratio of 2:1 Calculate new ratio.

Solution: In this case gaining ratio = 2:1 (given)

A's old share = 3/6, B's old share = 2/6 & C's share = 1/6

A’s gain = 2/3 of C’s share 2/3* 1/6 = 2/18

B’s gain = 1/3 of C’s share = 1/3* 1/6 = 1/18

A’s new share = A’s old + A’s gain

= 3/6 + 2/18 = 11/18

B’s new share = B’s old share + B’s gain

= 2/6 + 1/18 = 7/18

New ratio = 11:7

Illustration 3 : A, B and C are partners in the ratio of 3:2:1. C retires and A & B decide to share future profit in the ratio of 5:3. Calculate Gaining ratio of A and B.

Solution: A’s Gain = 5/8- 3/6=3/24

B’s Gain = 3/8-2/6 = 1/24

Gaining ratio = 3:1

Illustration 4: A, B and C are partners sharing profits and losses in the ratio of 3:2:1. B retires and gifted $\frac{1}{2}$ of his share in favour of A and sells remaining share to A and C in the ratio of 1:2. Find out gaining ratio and new ratio.

Solution:

B’s share = $\frac{2}{6} = \frac{1}{3}$; gifted to A = $\frac{1}{3} \times \frac{1}{2} \times \frac{1}{6}$

Remaining shares of B = $\frac{1}{3} - \frac{1}{6} = \frac{2-1}{6} = \frac{1}{6}$

A’s gain = Gifted share of B + Share sold by B

Share sold by B to A = $\frac{1}{6} \times \frac{1}{3} = \frac{1}{18}$

A’s gain = $\frac{1}{6} + \frac{1}{18} = \frac{3+1}{18} = \frac{4}{18}$ or $\frac{2}{9}$

C’s gain = $\frac{1}{6} \times \frac{2}{3} = \frac{2}{18}$ or $\frac{1}{9}$

Gaining ratio = $\frac{2}{9} : \frac{1}{9}$ or 2 : 1

A's new share = $\frac{3}{6} + \frac{2}{9} = \frac{9+4}{18} = \frac{13}{18}$

C's new share = $\frac{1}{6} + \frac{1}{9} = \frac{3+2}{18} = \frac{5}{8}$

New profit sharing ratio of A and C is $\frac{13}{18} : \frac{5}{18}$ or 13 : 5

Illustration 5: A, B and C were partners sharing profits in the ratio of 6:4:5. On 1st April, 2016, B retired from the firm and the new profit sharing ratio between A and C was decided as 11:4. On B's retirement, the goodwill of the firm valued at ₹ 1,80,000. Pass journal entry for treatment of goodwill on B's retirement.

(CBSE Delhi)

Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 April,1	A's Capital A/c Dr.		60,000	
	To B's Capital A/c			48,000
	To C's Capital A/c			12,000
	(Being adjustment of goodwill made on B's retirement)			

Working Notes:

Gaining Ratio = A's gain = $\frac{11}{15} - \frac{6}{15} = \frac{11-6}{15} = \frac{5}{15}$

C's gain = $\frac{4}{15} - \frac{5}{15} = -\frac{1}{15}$ (sacrificed)

B's share is goodwill = 1,80,000 × $\frac{4}{15}$ = ₹ 48,000

A will compensate C to the extent of sacrifice made by C i.e. 1,80,000 × $\frac{1}{15}$

= ₹ 12,000

Illustration 6: M. N. & P are partners in a firm. P retires & the goodwill of the firm is valued at ₹ 30,000. M & N decide to share future profits in the ratio of 3:2. Pass necessary

1. If goodwill A/c already appears in the books at ₹ 18,000
2. When goodwill account raised and written books.

Solution:

Old ratio of M, N & P = 1:1:1 (since profit sharing ratio is not given it is treated as equal) New ratio = 3:2

M's gain = 3/5 - 1/3 = 4/15
N's gain = 2/5 - 1/3 = 1/15
Gaining ratio = 4 : 1

Ps share of goodwill = 30,000 ×1/3
= ₹ 10,000

Case 1. If goodwill A/c appears in the books at ₹ 18,000.

Journal

Date	Particulars	LF.	Debit (₹)	Credit (₹)
1.	M's Capital A/c Dr. N's Capital A/c Dr. P's Capital A/c Dr. To Goodwill A/c (Being the existing goodwill written off in old ratio i.e. 1:1:1)		6,000 6,000 6,000	 18,000
2.	Goodwill Dr. To M's Capital A/c To N's Capital A/c To P's Capital A/c (Being adjustment made for goodwill on retirement in gaining ratio i.e. 4:1)		30,000	 10,000 10,000 10,000
3.	M's Capital A/c Dr. N's Capital A/c Dr. To Goodwill (Goodwill writing off immediately with new profit ratio 3.2)		18,000 12,000	 30,000

Case 2. When no goodwill account appears in the book entry as 2 & 3 above.

Illustration 7 : R, S & T are partners in a firm sharing profit & loss in the ratio of 2:2:1. T Retires and his balance in capital a/c after adjustment for reserve & revaluation of assets & liabilities comes out to be ₹ 50,000. R &S agree to pay him ₹ 60,000. Give journal entry for the adjustment of goodwill.

Solution:

New ratio between R & S = gaining ratio = 2:2 or 1:1

T's share of goodwill (hidden) = 60,000 – 50,000 = 10,000

Hence adjustment entry is

Journal

Date	**Particulars**	**L.F.**	**Debit (₹)**	**Credit (₹)**
	R's capital A/c Dr.		5,000	
	S's capital A/C Dr.		5,000	
	To T's capital A/c			10,000
	(T's share of goodwill adjusted in gaining ratio i.e. 1:1			

Illustration 8: X, Y and Z are partners sharing profits in the ratio of 3:2:1. Y retires selling his share to X and Z for ₹ 36,000; ₹ 24,000 being paid by X and ₹ 12,000 by Z. The profit after Y's retirement is ₹ 63,000.

Pass necessary journal entries to

(i) Record the sale of Y's share to X and Z and

(ii) Distribute the profit between X and Z.

Solution:

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Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	X's Capital A/c Dr.		24,000	
	Z's Capital A/c Dr.		12,000	
	To Y's Capital A/c			36,000
	(Being Y's share is purchase by X and Z on his retirement)			
	Profit & Loss Appropriation A/c Dr.		63,000	
	To X's Capital A/c			45,500
	To Y's Capital A/c			17,500
(ii)	(Being profit distributed between X and Z in new profit sharing ratio			

Working Notes:

Gaining ratio= 24000:12000 = 2:1

Y's share = $\frac{2}{6}$

X's gaining share = $\frac{2}{6} \times \frac{2}{3} = \frac{4}{18}$

Z's gaining share = $\frac{2}{6} \times \frac{1}{3} = \frac{2}{18}$

X's new share is = $\frac{3}{6} + \frac{4}{18} = \frac{9+4}{18} = \frac{13}{18}$

Z's new share is = $\frac{1}{6} + \frac{2}{18} = \frac{5}{18}$

New Profit sharing Ratio between X and Z = 13: 5

Illustration 9: A,B and C are partner sharing profits in the ration of 3:2:1 . A dies on 31st July 2015. The profits of the firm for the year ending 31st March 2015, were 42,000. Calculate as share of profit :-

A). On time Basis from 1 April to 31st July 2015 on the basis of Last year's Profrit

(B). On sales basis Sales for the last year ₹ 2,10,000 and for current year upto 31st July are ₹ 90,000?

Solution

(A). A's Profit = Preceding year's profit × Proportionate Period × Share of A

= ₹ 42,000 × 4/12 × 3/6

= ₹ 7,000

Journal Entries

Date	Particulars	L.F	Debit (Rs)	Credit (₹)
2015 July 31	Profit and Loss Suspense A/c Dr. To A's Capital A/c (A's share of profit transferred to his capital A/c)		7,000	 7,000

(B). $= \frac{90,000}{2,10,000} \times 42,000$

= ₹ 18,000

A's share = ₹ 18,000×3/6

= ₹ 9,000

Illustration 10. Anjali, Muskan and Jasmeet were partners in a firm sharing profits in capitial ratio. On 31st March, 2020. Their Balance sheet was as follows:

Liabilities	(₹)	Assets	(₹)
Creditors	30,000	Cash	12,000
Investment Fluctuation reserve	10,000	Bank balance	3,000
Workmen compensation Reserve	12,000	Bulding Furniture	6,00,000 1,00,000
		Investments stock	1,00,000 2,00,000
		Debtors	60,000
Profit and Loss A/c	20,000	Less : PDD (3,000)	57,000
Capitals			
Anjali 4,00,000			
Muskan 3,00,000			
Jasmeet 3,00,000	10,00,000		
	10,72,000		10,72,000

On the above date, Muskan retired and Anjali and Jasmeet agreed to continue the business with following terms:

(1) Goodwill of the firm was valued at ₹ 70,000.

(2) Workmen compensation claim is estimated 25% more than the balane in workmen compensation reserve.

(3) Investment were sold to muskan for cash ₹ 95,000.

(4) Provisian for doubtful debts is to be maintained at the existing rate after writing off. Some debtors as bad debts, and the new provision for doubtful debts amounts to ₹ 2,500.

(5) Furitture prchased for ₹ 40,000 wrongly included in the value of building.

(6) Building to be depreciated by 10%.

(7) Amount due to muskan was transterred to her loan account after paying 30% of the tatal dues, By taking necessary loan from bank if any.

Prepare Revaluation A/c Partners capital AICS and the Balance sheet after Muskan's Retirement.

Solution:

Dr. Revaluation A/c Cr.

Particulars	₹	Particulars	₹
To workmen			
Compensation claim	3,000		
To Bad debts	7,000		
To Provision for doubtful debts	2,500	by Loos on Revalvation A/c	68,500
	56,000		
	68,500		68,500

Dr. Partner's Capital A/cs Cr.

Particulars	Anjali	Muskan	Jasmeet	Particulars	Anjali	Muskan	Jasmeet
To Revalva-tions A/c	27,400	20,550	20,550	by bal. b/d	4,00,000	3,00,000	3,00,000
To muskan	12,000		9,000	by IFRA/C	2,000	1,500	1,500
To BankA/c Cash A/c		92,385		by P&LA/C	8,000	6,000	6,000
To Muskan's Loan	2, 15,565			By Anjali		12,000	
To balance c/d	3,70,600		2,77,950	by Jasmeet		9, 000	
	4,10,000	3,28,500	3,07,500		4,10,000	3,28,500	3,07,500

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	30,000	Cash	14,615
Workmen		Bank Balance	3,000
Compensation claim	15,000	Bulding	5,04,000
Muskan's Loan	2,15,565	Furniture	1,40,000
Capital A/cs		Stock	2,00,000
Anjali 3,70,600		Debtors	47,500
Jasmeet 2,77,950	6,48,550		
	9,09,115		9,09,115

Working Note:

(1) Debtors 60,000

Less: bad debts (10,000)

50,000

Less: PDD (2,500)

47,500

Rate of Provision for doubtfuldebts = $\frac{3,000}{60,000} \times 100$ = 5 %

debtors after bad debts = $\frac{2,500}{5} \times 100$ = 50,000

$\therefore$ bad debts = 60,000 – 50,000 = 10,000

Illustration 11. P, Q and R are partners in a from whose B/s as an 31.3.2019 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	18,240	Bank	16,240
Gen. Reserve	7,500	Debtors	22,500
Capitals		Plant	26,500
Capitals		Furniture	5,000
P 20,000			
Q 14,500			
R 10,000	44,500		
	70,240		70,240

Retired with the following terms:

(i) To reduce plant and furniture by 5% and 10% resp.

(ii) To provide for PDD @ 5% on debtors.

(iii) Creditors are to be for paid more ₹ 3050.

(iv) Goodwill was valued at ₹ 12,000

(v) New ratio 5 : 3.

(vi) Q should be paid and the amount required to pay Q shall be brought in by P and R in such a way that their capitals are in new profit sharing ratio. Prepare revalvation A/c. Partrner's capital A/c and B/S.

Ans. Dr. Revaluation A/c Cr.

Particulars	Amount (₹)	Porticulars	Amount (₹)
To plant	1,325		
To Furniture	500		
To PDD	1125	by loss on Revalation	6,000
To Creditors	3050		
	6,000		6,000

Dr. Cr.

Particulars	P	Q	R	Particular	P	Q	R
To (loss on Rev. Revalvatin)	2,000	2,000	2,000	by bal. b/d	20,000	14,500	10,000
To Q's Cap	3,500		500	by Gen. Reserve	2,500	2,500	2,500
To Bank A/c		19,000		by R's cap		3500	
				by bank		500	
To bal. C/d	28,750		17,250	by bank	11,750		7250
	34,250	21,000	19,750		34,250	21,000	19750

B/S

Liabilties		Amount (₹)	Assets		Amount (₹)
Creditors (1824 + 3050)		21,290	Bank		16,240
Capitals			Debtors	22,500	
			Less: PDD	1125	21,375
Capitals			Plant		25,175
P	28,750		Fruniture		4,500
R	17,250	46,000			
		67,290			67,290

W.N.

(1) Q's Share of G/w $= 12,000 \times \frac{1}{3} = 4,000$

(2) Gaining Ratio

$$P = \frac{5}{8} - \frac{1}{3} = \frac{7}{24}$$

$$R = \frac{3}{8} - \frac{1}{3} = \frac{1}{24} = 7:1$$

(3) Tatal Capital of new form = adjusted capitals of P and R + amount payable to Q

= 17,000 + 10,000 + 19,000 = 46,000

(4) New Capitals

$$P = 46{,}000 \times \frac{3}{8} = 17{,}250$$

$$R = 46{,}000 \times \frac{3}{8} = 17{,}250$$

DEATH OF A PARTNER

Accounting treatment in the case of death is same as in the case of retirement except the following:

1. The deceased partners claim is transferred to his executer's account.
2. Normally the retirement takes place at the end of the Accounting Period but the death may occur at any time. Hence the claim of deceased partner shall also include his share of profit or loss, interest on capital and drawings if any from the date of the last balance sheet to the date of his death.

- Calculation of Profits/ Loss for the intervening Period

  It is calculated by any one of the two methods given below:

a. On Time Basis: In this method proportionally profit for the time period is calculated either on the basis of last year's profit or on the basis of average profits of last few years and then deceased partner's share is calculated based on his share of profits.

b. On Turnover or Sales Basis: in this method the profits up to the date of death for the current year are calculated on the basis of current year's sales up to the date of death by using the formula.

Profits for the current year up to the date of death =

Sales of the current year up to the date of death/total sales of last year x Profit for the last year.

Then from this profit the deceased partner's share of profit is calculated.

If the remaining partners decides to change their profit sharing ratio in new firm, then the adjustment entry for deceased partners' share in current year's profit will be passed.

Payment for retiring deceased partner :-

a. When payment is made in full

retiring deceased partners capitals A/c to bank Dr.

b. When Payment is made in instalments. When payment is made in instalments interest is paid on instalments at agreed price or @ 6% per annum. Journal entries are

(i) When interest is allowed

Interest A/c Dr.

To Deceased Partner's Executor or retiring partner loan A/c

(ii) When instalment is paid

retiring partners loan A/c or Desease partners executor a = A/c Dr.

To Bank A/c (interest & instalment amount)

Illustration 12.

Rinku, Pinku and Tinku were in partnership sharing profits in 3 : 2 : 1. On Ist April, Pinku retires from the firm. On that date, their balance sheet was as follows:

Liabilities	Amount (₹)	Assets		Amount (₹)
Trade creditors	5,700	Cash in Hand		9,000
Outstanding expenses	4,500	Debtors	16,000	
General Reserve	10,500	Less: Prevision	1,000	15,000
		Stock		12,000
		Building		22,500
Workmen compensation Reserve	4,8000	Investments		8,000
Capitals		Plant		4,000
Rinku 20,000				
Pinku 15,000				
Tinku 10,000	45,000			
	70,500			70,500

Adjustments:

(1) Goodwill of the firm valued at ₹ 15,000.

(2) Rinku took over investments at an agreed value of ₹ 7,200 for cash.

(3) Building and plant were revalued at ₹ 24,300 and ₹ 3,600 respectively.
(4) Provision for doubtful debts to be increased to ₹ 2,950
(5) Outstanding expenses to be reduced to ₹ 3,750.
(6) Claim on account of workmen compensation is ₹ 1,800.
(7) Pinku be paid ₹ 5,000 in cash and balance will be transferred to his Loan A/c.
(8) Rinku and Tinku decided to adjust their capital in profit sharing ratio after Pinku's retirement, by bringing or withdrawing necessary cash.
Prepare Revaluation A/c partner's Capital A/c and Balance sheet after Pinku's retirement.

Dr. **Revaluation A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Investments	800	by outstanding expenses	750
To Plant	400	by building	1,800
To Provision for doubtful debts	1,950	by Loss on Revaluation	600
	3,150		3,150

Dr. **Partners' Capital A/c** **Cr.**

Particular	Rinku	Pinku	Tinku	Particular	Rinku	Pinku	Tinku
To Pinku's Capital	3,750		1,250	by balance b/d	20,000	15,000	10,000
To Revaluation A/c (Loss)	300	200	100	by General Reserve	5,250	3,500	1,750
To Cash A/c To Pinku's Loan		5,000 19,300		by Workmen Compensation Reserve	1,500	1,000	500
Cash A/c			2,500	by Rinku's Capital		3,750	
				by Tinku's Capital		1,250	
To balance c/d	25,200		8,400	by Cash A/c	2,500		
	29,2500	24,500	12,250		29,250	24,500	12,250

Balance Sheet

Liabilities	Amount (₹)	Assets		Amount (₹)
Trade creditors	5,700	Cash in Hand (900 + 2500 – 2500 + 7200 – 500)		11,200
Outstanding Expenses	3,750	Debtors	16,000	
		Less: Provision	2,950	13,050
Workmen Compensation claim	1,800	Stock		12,000

Pinku's Loan	19,300	Building	24,300
Capital		Plant	3,600
Rinku 25,200			
Tinku 8,400	33,600		
	64,150		64,150

Working Notes:

(1) Pinku's share of Goodwill = $15,000 \times \frac{2}{6}$ = 5.000

(2) Total Capital of new firm = adjusted capital of Rinku + adjusted capital of Tinku
= 22,700 + 10,900 = 33,600
to be divided in 3 : 1

Retirement of a Partner

Illustration 13

Raman, Ayush and Aalok are partners in a firm, sharing profits and losses in 5 : 3 : 2. On Ist April, 2021 Raman decided to retire from the firm.

After making all the adjustments in his capital on the date of retirement his claim amounted to ₹ 2,50,000.

You are required to pass journal entries in the following cases:

(i) When no information is given regarding settlement of Raman's Claim.

(ii) When Raman's claim is to be settled immediately in full. Available cash and bank balance on Ist April, 2021 was ₹ 90,000.

(iii) When Raman's claim is to be paid in full and if required, bank load should be taken to the extent of shortage of funds.

(iv) Raman is to paid ₹ 80,000 by a cheque accepting a 3 month draft of ₹ 50,000 and balance is to be transferred into his Loan A/c.

Solution **Journal**

Date	Particular	L.F.	Dr.₹	Cr.₹
(i)	Raman Capital A/c Dr.		2,50,00	
	To Raman's Loan A/c			2,50,000
	(Amount due to Raman transferred to his Loan A/c)			
(ii)	Raman's Capital A/c Dr.		2,50,000	
	To Bank A/c			90,000
	To Bank overdraft			1,60,000
	(Raman paid in full by availing overdraft facility of ₹ 1,60,000)			
(iii)	Bank A/c Dr.		1,60,000	
	To Bank Loan A/c			1,60,000

	(Loan of ₹ 1,60,000 taken from bank)			
	Raman's Capital A/c Dr.		2,50,000	
	To Bank A/c			2,50,000
	(Full payment made to Raman)			
(iv)	Raman's Capital A/c Dr.		2,50,000	
	To Bank A/c			80,000
	To Bills Payable A/c			50,000
	To Raman's Loan A/c			1,20,000
	(Paid Raman ₹ 80,000 by cheque accepting a draft ₹ 50,000 fro 3 months and balance transferred to his Loan A/c)			

Illustration 14.

Seeta, Geeta and Anita are partners in a firm. Geeta retires on Ist April, 2018. On the date of retirement 60,000 is due to her after all adjustments. It is agreed to pay her 20,000 on the date of retirement and balance into four half yearly in instalments (equal) along with Interest @ 10% p.a. Books are closing on 31st march every years. First instalment is due on 31 st Dec, 2018. Prepare Geeta's Loan A/c till final settlement.

Solution:

Dr. Geeta's Loan A/c Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2018 July1	To Bank A/c	20,000	2018 July 1	by Geeta's Capital A/c	60,000
2018 Dec 31	To Bank A/c (10,0000 + 2,000)	12,000	Dec 31	by Interest A/c (40,000 × $\frac{10}{100} \times \frac{6}{12}$)	2,000
			2019 March 31	by Interest A/c (30,000 × $\frac{10}{100} \times \frac{3}{12}$)	750
2019 March 31	To balance c/d	30,750			
		62,750			62,750
2019 June 30	To Bank A/c (10,000 + 750 + 750)	11.500	2019	by balance b/d	30,750
Dec 31	To Bank A/c (10,000 + 1,000)	11,000	June 30	by Interest A/c (30,000 × $\frac{10}{100} \times \frac{3}{12}$)	750

			31 Dec	by Interest A/c $(20{,}000 \times \frac{10}{100} \times \frac{6}{12})$	1,000
			2020 March 31	by Interest A/c (1,000 $\times \frac{10}{100} \times \frac{3}{12})$	250
2020 March 30	To balance c/d	10,250			
		32,750			32,750
			2020 April 1	by balance c/d	10,250
2020 June 30	To Bank A/c (10,000 + 250 + 250)	10,500	June 30	by Interest A/c $(10{,}000 \times \frac{10}{100} \times \frac{3}{12})$	250
		10,500			10,500

Illustration 15.

Ram, Lakhan and Bharat are partners in a firm. On Ist April 2015. Bharat retires. On the date of retirement ₹ 1,20,000 was due to him after all the adjustments. Ram and Lakhan agreed tow pay him this amount into three instalments of ₹ 40,0000 including interest @ 10% p.a. on the outstanding amount and the balance including interest in the fourth years, at the end of each years. Prepare Bharat's Loan A/c till the date of final settlement.

Dr. Bharat's Loan A/c Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2016 March 31	To bank A/c	40,000	2015 April 12	by Bharat's Capital	1,20,000
			2016 March 31	by Interest A/c $(1{,}20{,}000 \times \frac{10}{100})$	12,000
March 31	To balance c/d	92,000			
		1,32,000			1,32,000
			2016 April 1	by balance b/d	92,000
2017 March 31	To Bank A/c	40,000	2017 March	by Interest A/c $(92{,}000 \times \frac{10}{100})$	9,200

March 31	To balance c/d	61,200			
		1,01,200			1,01,200
			2017 April 1	by balance b/d	61,200
2018 March 31	To Bank A/c	40,000	2018 March 31	by Interest A/c $(61,200 \times \frac{10}{100})$	61,20
March 31	To balance c/d	27,320			
		67,320			67,320
			2018 April 1	by balance c/d	27,320
2019 March 31	To Bank A/c	30,052	2019 March 31	by Interest A/c $(27,320 \times \frac{10}{100})$	2,732
		30,052			30,052

Illustration 16: Karma, Varma and Sharma are partners sharing profit and losses in the ratio 4 : 3 : 2. Verma died after 3 months of closing books of account. His share of profit calculated as 9,000. Pass Journal entries if:

(i) There is no change in profit sharing ratio

(ii) New profit sharing of karma and sharma is 1 : 1.

Sol. (i) P & C suspense A/c Dr. 9000

To Verma's Cap A/c9,000

(ii) Gaining Ratio = New Ratio – Old Ratio

$$\text{Karma} = \frac{1}{2} - \frac{4}{9} = \frac{1}{18}$$

$$\text{Sharma} = \frac{1}{2} - \frac{2}{9} = \frac{5}{18} = 1 : 5$$

Karma's Cap A/c Dr. 1,800

Sharma's cap A/c Dr. 7,200

To verma's Cap A/c 9,000

Illustration 17: What will be the entries if in above Question there was a share of loss of ₹6,000 of verma.

Sol. (i) Verma's cap A/c Dr.. 6,000

To P & L Suspense A/c 6,000

(ii) Verma's Cap A/c Dr... 6,000

To Karma's cap A/c	1,000	
To Sharma's cap A/c		5,000

Illustration 18: The balance sheet of P, Q & R as at 31st Dec.2014 was as follows.

Liabilities	₹	Assets	₹
Bills Payable	20,000	Cash at Bank	1,58,000
Employees Provident Fund	50,000	Bills Receivable	8,000
Workmen compensation	90,000	Stock	90,000
reserve		Sundry Debtors	1,60,000
Loan	1,71,000	Furniture	20,000
Capital Accounts		Plant & Machinery	65,000
P 2,27,500		Building	3,00,000
Q 1,52,500		Advertisement	
R1,20,000	5,00,000	Suspense	30,000
	8,31,000		**8,31,000**

The profit ratio was 3:2:1 R died on 30th April 2015. The partnership deed provides that:

a. Goodwills is to be calculated on the basis of 3 years purchase of preceding 5 years' average profits. The profits were 2014. ₹ 2,40,000, 2013 ₹ 1,60,000, 2012 ₹ 2,00,000, 2011 ₹ 1,00,000 and 2010 - ₹ 50,000.

b. Deceased partner should be given share of profits upto the date of death on the basis of previous year profits.

c. The assets have been revalued as under
Stock ₹ 1,00,000, Debtors ₹ 1,50,000, Furniture ₹ 15,000. Plant and Machinery ₹ 50,000, Building ₹ 3,50,000. A bill for ₹ 6000 was found worthless.

d. A sum of ₹ 72,333 was paid immediately to R's executor & balance is paid in two equal instalments (annual) with interest of 10% p.a. On outstanding amount. Ist instalment was paid on 30th April 2016.

Prepare Revolution account & R's executor account till it is finally settled. Accounts are closed on 31st December each year.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars		(₹)	Particulars	(₹)
To Debtors A/c		10,000	By Stock A/c	10,000
To Furniture A/c		5,000	By Building A/c	50,000
To Plant & Machinery A/c		15,000		
To Bill Receivable A/c		6,000		
To profits transferred to				
P's capital A/c	12,000			
Q's Capital A/c	8,000			
R's Capital A/c	4000	24,000		
		60,000		60,000

R's Capital Account

Dr. **Cr.**

Date	Particular	₹	Date	Particular	₹
2013 30th April	To Advertisement Suspense A/c (30,000 × 1/6)	5,000	2013 30th April	By balance b/d	1,20,000
			30th April	By Workmen Compensation reserve	15,000
30th April	To R's Executor A/c	2,22,333	30th April	By Revaluation A/c	4,000
			30th April	By P's Capital A/c (Goodwill)	45,000
			30th April	By Q's capital A/c (Goodwill)	30,000
			30th April	By P&L Suspense A/c	13,333
		2,27,333			**2,27,333**

R's Executor Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particular	₹
30.4.15	To Bank A/c	72,333	30.4.15	By R's capital A/c	2,22.333
31.12.15	To Balance c/d	1,60,000	31.12.15	By interest A/c	
				(10% on 1,50,000× $\frac{8}{12}$)	10,000
		2,32,333			**2,32,333**
30.4.16	To Bank A/c 75000		1.1.16	By Balance b/d	1,60,000
	15000	90,000	30.4.16	By Interest A/c	
30.12.16	To Balance c/d	80,000		$(\frac{10}{100} \times 1{,}50{,}000 \times \frac{4}{12})$	5,000
			31.12.16	$(\frac{10}{100} \times 75{,}000 \times \frac{8}{12})$	5,000
		1,70,000			**1,70,000**
				By Balance b/d	80,000
30.4.17	To Bank A/c 80,000		1.1.17	By interest A/c	
	Add Interest 2,500	82,500	30.4.17	$(\frac{10}{100} \times 75{,}000 \times \frac{4}{12})$	2,500
		82,500			**82,500**

Working Note:

Average Profit = 2,40,000 + 1,60,000 + 2,00,000 + 1,00,000 + 50,000/5

= ₹ 1,50,000Goodwill = ₹ 1,50,000 × 3 = ₹ 4,50,000

R's share = $4,50,000 \times \frac{1}{6}$ = ₹ 75,000

contribution by P&Q in ratio 3:2

P's share = $\frac{3}{5} \times 75000$ = ₹ 45000 Q's share $\frac{2}{5} \times 75{,}000$ = ₹ 30,000

R's share of profits = $2,40,000 \times \frac{4}{12} \times \frac{1}{6}$ = ₹ 13,333

Illustration 19: (Death of a partner) M, N and O were partners in a firm sharing profits and losses equally.

Their Balance Sheet on 31-12.2014 was as follows:

Liabilities		(₹)	Assets	₹
Capitals:			Plant and machinery	60,000
M	70,000		Stock	30,000
N	70,000		Sundry Debtors	95,000
O	70,000	2,10,000	Cash at Bank	40,000
General Reserve		30,000	Cash in Hand	35,000
Creditors		20,000		
		2,60,000		2,60,000

N died on 14th March, 2015. According to the Partnership Deed, executers of the deceased partner are entitling to:

(i) Balance of partner's capital A/c

(ii) Interest on capital @ 5% p.a.

(ii) Share of goodwill calculated on the basis of twice the average of past three years' profits.

(iv) Share of profits from the closure of the last accounting year till the date of death on the basis of twice the average of three completed year's profits before death.

Profits for 2012, 2013 and 2014 were ₹ 80,000, ₹ 90,000, ₹ 1,00,000 respectively. Show the working for deceased partner's share of goodwill and profits till the date of his death. Pass the necessary journal entries and prepare N's Capital A/c to be rendered to his executors.

(CBSE 2011 Modified)

Solution

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2015 March, 14th	General Reserve A/c Dr.		10,000	
	To N's Capital A/c			10,000
	(Being transfer of N's share of general reserve of his Capital A/c)			
	Interest on Capital A/c Dr.		700	
	To N's Capital A/c			700
	(Being interest 5% p.a. credited to N's Capital A/c upto 14.03.2010)			
	M's Capital A/c Dr.		30,000	
	O's Capital A/c Dr.		30,000	
	To N's Capital A/c			60,000
	(Being goodwill adjusted in gaining ratio i.e. 1:1)			
	Profit and Loss Suspense A/c Dr.		12,000	
	To N's Capital A/c			12,000
	(Being the transfer of N's share of profit to his capital A/c)			
	N's Capital A/c Dr.		1,52,700	
	To N's Executor A/c			1,52,700
	(Being the transfer of amount due to N's executor A/c)			

N's Capital A/c

Dr. Cr.

Particulars	(₹)	Particulars	(₹)
To N's Executors A/c	1,52,700	By Balance b/d	70,000
		By General Reserve A/c	10,000
		By Interest on Capital A/c	
		(70,000*5/100*73/365)	700
		By M's Capital A/c	30,000
		By O's Capital A/c	30,000
		By Profit & Loss	
		Suspense A/c	
		(90,000*2*73/365*1/3)	12,000
	1,52,700		**1,52,700**

Working Note:

1. Calculation of Goodwill

   Average profit for 3 years

   (₹ 80,000 + 90,000 + 1,00,000)/3 = ₹ 90,000

   Goodwill of the firm=Average Profit × No. of years of Purchase

   = 90,000 × 2 = ₹ 1,80,000

   N's Share in Goodwill = 1,80,000 × 1/3 = 60,000

2. Time from the date of last balance Sheet (31st December, 2014) to the date of death (14th March, 2015)

   = 31 days of January + 28 days of Feb (2015 is not a leap year) + 14 days of March = 73 days

Death of a Partner (Share of Profit/Loss)

If books have not been closed, then share of Profit/Loss for the period of work done in current year is calulated either on the basis of previous year's average profit or on the basis of percentage of profit/loss on sales/turnonver such profit/Loss share of deceased partner can be recorded in the books in two ways:

(1) If there is no change in profit sharing ratio of remaining partners.

In this case profit and loss suspense A/c is opened entry.

For share of profit	For share of loss
P & L suspense A/c for	Deceased partner's
To deceased partners	Capital/current A/c Dr
capial/current A/c	To P&L suspense A/c

(2) If new profit sharing ratio to remaining partners changes.

In this case profit/Loss of deceased partner is recorded through capital/current A/cs entry.

For share of profit	For share of Loss
Gaining partners's cap.current A/c	Deceased/sacrificing
	partner's cap/current A/c
To deceased/sacificing	To caining partner's
Partner's cap/current A/c	capital/current A/c

PRACTICE QUESTIONS

Q.1 Fiil in the missing information/figures in the following Ledger accounts and Balance of the firm

Revaluation Account

Dr. Cr.

Particulars	₹	**Particulars**	₹
To stock A/c	_____	By Fixed Assets	_____
To profit transferred to			
P's Capital A/c _____			
Q's Capital A/c _____			
R's Capital A/c _____	_____		
	_____		_____

Partner's Capital Account

Dr. Cr.

Particulars	P (₹)	Q (₹)	R(₹)	Particulars	P (₹)	Q (₹)	R (₹)
To ___	___	___	___	By balance b/d	___	___	___
To ___	___		___				
To Q's Loan A/c		___		By ____ (Profit)	___	___	___
To balance c/d	___		___	By ___		___	
				By ___		___	
	___	___	___		___	___	___

Balance sheet of P and R (After Retirement)

As at 31.03.2016

Liabilities	Amount (₹)	Assets	**Amount** (₹)
Sundry creditors	48,000	Cash	43,000
Bills Payables	20,000	Debtors ____	
Q's Loan A/c	_____	Less: provision ____	_____
Capitals:		Stock	54,000
P _____		Fixed assets (tangible)	_____
R _____	_____		
	_____		_____

Hints to answer:

Stock ₹ 6,000, Revaluation Profits ₹ 63,600 (distributed in old ratio 5:4:3)

Q's goodwill share = 72,000 × $\frac{4}{12}$ = 24,000 (in gaining ratio of P and R)

Q's Loan A/c = ₹ 1,85,200,

Ps Capital – ₹ 1,86,000

Q's Capital – ₹ 1,11,900

Balance sheet total ₹ 5,51,600.

Q.2 L, M and N were partners in a firm sharing profits in the ratio of 3 : 2 : 1. The firm closes its books on 31st March every year and balance of general reserve as on 31.03.2016 was ₹ 12,000.

N died on 1st Oct. 2016. It was agreed between his executors and the remaining partners that:

a) Goodwill be valued at 3 years purchase of the average profits of the previous eight yea₹ The average profits of previous eight years were ₹ 12,000.

b) Revaluation profit was ₹ 18,000.

c) Profit for the year 2016-2017 be taken as having accrued at the same rate as the previous year which was ₹ 30,000.

d) Interest on Capital be provided @ 10% p.a.

Fill in the missing figures in the following accounts:

N's Capital Account

Dr. Cr.

Particulars	(₹)	Particulars	₹
To _____	_______	By balance b/d	____
		By ____	____
		By ____	____
		By ____	____
		By ____	____
		By L's Capital A/c	____
	____	By M's Capital A/c	____

N's Executor's Account

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To cash	4,250	By ______	______
To Executors Loan A/c	25,000		

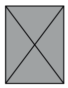
Balance is N's opening Capital & interest on Capital

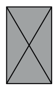
29,250-13,500 = ₹ 15,750

Let N's Capital = ₹ x

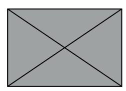
Interest on capital $= x \times \frac{10}{1000} \times \frac{6}{12} = \frac{x}{20}$

₹ $15{,}750 = x + \frac{x}{20}$

₹ 15,750 = 

$x = 15{,}750 \times$  = ₹ 15,000

N's Capital (opening) = ₹ 15,000

Interest on Capital = 15000 × 

Interest N's Capital = ₹ 750

Q.3. **B/s**

Liabilities	**(₹)**	**Amount**	**Amount**
Profit & loss A/c	9,000	Cash	51,300
		Bill receivable	10,800
Capitals :		Debtors	35,600
R 80,000		Stock	44,600
S 50,000		Furniture	7,000
T <u>40,000</u>	1,70,000	Plant & Machinery	19,500
Bank loan	12,800	Building	48,000
Creditors	25,000		
	2,16,800		2,16,800

S retired from the firm on 1-4-2009 and his share was ascertained on the revaluaton of assets as follows:

Stock ₹ 40,000; Furniture ₹ 6,000; Plant and Machinery ₹ 18,000; Building ₹ 60,000; ₹ 1,700 were to be provided for doubtful debts. The goodwill of the firm was valued at ₹ 12,000.

R & T agreed to share future profits in ratio 3 : 2. S was to be paid ₹ 17,680 in cash on retirement and the balance in three equal yearly installments. Prepare Revaluation Account, Partners' Capital Accounts, S's Loan Account and Balance Sheet on 1-4-2009.

[Ans. Profit on Revaluation ₹ 3,200; Capital A/cs : R ₹ 82,480 and T ₹ 40,040; S's Loan ₹ 42,000; Balance Sheet Total ₹ 2,02,320; Gain Ratio 1:1]

Q 4. Practical Question

P,Q and R are partners in a firm whose books are closed on 31st March every year.. R died on 24 August 2018 and R is share of profits upto date of death is to be calculated on the basis of the average profits of the last three yea₹ Net Profits of the last three years were ₹ 10,000 ₹ 14,000 and ₹ 13,800. Calculate R's share of Profits and pass journal entry.

Q.5. A, B, and C partners sharing profits in 4 : 3 : 2. Their Balance Sheet as under:

Liabilities			**Assets**		
Capitals :			Land & Building		1,20,000
(₹)			Stock		32,000
A	50,000		Debtors	25,000	
B	40,000		Less : Provision	500	24,500
C	26,000	1,16,000	Bank		3,500
Creditors		64,000			
		1,80,000			1,80,000

B retired on this date on the following terms.

1. Land & Building appreciated by 15%.

2. Create provision for doubtful debts @ 5% on debto₹ (Hi) Stock be reduce to ₹ 28,000.
3. Liability for damages ₹ 650.
4. Goodwill of the firm was ₹ 45,000 and new profit sharing ratio was agreed as 5:3.
5. B was paid ₹ 3,100 and balance in 3 equal instalments with interest @ 5% p.a. Prepare Revaluation A/c, Partners' Capital A/c and Balance Sheet of new firm and B's loan A/c till the date of his final payment.

[Ans. Profit on Revaluation ₹ 12,600; For Goodwill: Dr. A ₹ 8.125 and C ₹ 6,875; Capital A/cs: A ₹ 47,475 and C ₹ 21,925; Bank Balance ₹ 400; Balance Sheet ₹ 1,90,000)

Q.6. B, C and D are partners, sharing profits in the ratio 2:2:1:1. B and D died in an accident and A and C decided to share future profits equally. Goodwill of the firm is valued at ₹ 60,000. Pass necessary journal entry. -

[Ans. Gaining ratio of A and C is 1:2, Dr. A ₹ 10,000, C ₹ 20,000 and Cr. B ₹ 20,000, D ₹ 10,000]

Q.7. Mohan Sohan ad Hari were partners in a firm sharing profits in 2:2:1 ratio firm closes its books on 31st March every year. Mohan died on 24-8-2017. Mohan's death, the goodwill of the firm was valued ₹ 75,000. The partnership deed provided that on the death of a partner, his share in the profits of! firm in the year of his death will be calculated on the basis of last year's profits. The profit of the firm for the year ended 31-3-2017 was ₹ 2,00,000. Calculate Mohan's share of profit till the time of his death and pass the necessary journal entries for the treatment of goodwill and his share of profit.

[Ans. Profit share ₹ 32,000, (i) Dr. Hari ₹ 20,000, Sohan ₹ 10,000 and Cr. Mohan ₹ 30,000, (ii) Dr.P&L Suspense and Cr. Mohan ₹ 32,000]

Q.8. A,B and C were partners in a firm sharing profits in the ratio of 5:3:2. On 31st March, 2017, their Balance sheet was as under:

Liabilities		Amount	Assets	Amount
Creditors		17,000	Buildings	20,000
General Reserve		10,000	Machinery	30,000

A's capital A/c	30,000		Stock	10,000
B's capital A/c	25,000		Patents	6,000
C's capital A/c	15,000	70,000	Debtors	8,000
			Cash	13,000
		87,000		87,000

A died on 1st October, 2017. It was agreed between his executors and the remaining partners that: (a) Goodwill to be valued at 2 years' purchase of the average profits of the previous five years, which were, 2012: ₹ 15000; 2013, 113,000; 2014 : ₹ 12,000 and 2015: 15,000 and 2016: ₹ 20,000. Patents be valued at ₹ 8,000; Machinery at ₹ 28,000; Buildings at ₹ 30,000.

(c) Profits for the year 2017-18 be taken as having accrued at the same rate as that of the previous year.

(d) Interest on capital be provided at 10% p.a.

(e) A sum of ₹ 11,500 was to be paid to his executors immediately. Prepare A's Capital A/c and his

Executor's Account at the time of his death.

Ans: Balance of A's Executor's Account ₹ 50,000 and A's Capital ₹ 61,500: Goodwill share of ₹ 15,000(3:2), Profit share ₹ 5,000]

Q.9. A, B and C were partners in a firm sharing profits in the ratio of 3 : 2 :1. The Balance Sheet as on 31.3.2016

Liabilities		Amount	(?) Assets	Amount
Creditors		4,000	Building	20,000
Reserves		6,000	Plant & Machinery	16,000
Capitals :			Stock	5,100
A	24,000		Debtors	6,000
B	12,000		Cash at Bank	6,900
C	8,000	44,000		
		54,000		54,000

A died on 30-9-2016. Under the partnership agreement, the executors of a deceased partner were entitled to:

(a) Amount standing to the credit of partner's Capital A/c.

(b) Interest on capital® 12% p.a.

(c) Share of goodwill on the basis of four years' purchase of last three years average profit.

(d) Interest on drawings @8% p.a. A had been with drawing ₹ 500 in the beginning of every month.

(e) Share of profit from the closing of the last financial year to the date of death on the basis of the last year's profit. Profits for the year 2014, 2015 and 2016 were ₹ 8,000, ₹ 12,000 and ₹ 7,000 respectively. Prepare A's Capital A/c to be rendered to his executo₹

Ans. A's Executors A/c '45120, Goodwill share = Rs 18,000

Question 10: (Preparation of balance sheet of the reconstituted firm) Vijay, Vivek and Vinay are partners in a firm sharing profits in 2:2:1 ratio, On 31.3.2015 Vivek retires from the firm. On the date of Vivek's retirement the balance sheet of the firm was as follows:

Balance Sheet of Vijay, Vivek and Vinay

Liabilities		₹	**Assets**		₹
Creditors		54,000	Bank		55,200
Bills Payable		24,000	Debtor	12,000	
Outstanding Rent		4,400	Less: Provision for		
Provision for Legal Claim		12,000	Doubtful	800	11,200
Capitals:			Stock		18,000
Vijay	92,000		Furniture		8,000
Vivek	60,000		Premises		1,94,000
Vinay	40,000	1,92,000			
		2,86,400			2,86,400

On Vivek's retirement it was agreed that:

i. Premises will be appreciated by 5% and furniture will be appreciated by ₹ 2,000. Stock will be depreciated by 10%

ii. Provision for bad debts was to be made at 5% on debtors and provision for legal damages to be made for ₹14,400.

iii. Goodwill of the firm is valued at ₹ 48000

iv. Amount due to Vivek is to be settled on the following basis

Case1. ₹50,000 from Vivek Capital A/c will be transferred to his loan A/c and the balance will be paid by cheque.

or

Case 2: Transfer to Vivek loan A/c and Vijay and Vinay decided to adjust their capital in new Profit sharing Ratio by withdrawing or bringng cash.

or

Case 3. Transfer to Vivek loan A/c and New firm capital is fixed 1,20,000 in new profit sharing Ratio.

or

Case 4. Vivek is to be paid through cash brought in by Vinay and Vijay in a manner that their capital are proportionate to their new profit sharing ratio which was to be 3:2

or

Case 5. Remaining partners decided to bring adequate amount to pay Vivek and to manintain a bank balance of ₹ 15,200. They also adequate their capitals as per their New Profit sharing Ratio.

Prepare Revaluation A/c, Partner's Capital A/c and balance that in alone all cases after Vivek retirement.

Retirement & Death of a Partner

Q.1 A, B and C are partner's with profit sharing ratio 4:3:2. B retires and Goodwill was valued ₹1, 08,000. If A& C share profits in 5:3, find out the goodwill shared by A and C in favour B.

A) ₹ 22,500 and ₹ 13, 500 B) ₹ 16, 500 and ₹.19, 500

C) ₹ 67,500 and ₹ 40, 500 D) ₹19,500 and ₹ 16, 500

Q.2 A, B and C share profits and losses of the firm equally. B retires from business and his share is purchased by A and C in the ratio of 2:3 New Profti sharing ratio between A and C respectively would be:-

A) 1:1 B) 2:2

C) 7:8 D) 3:5

Q.3 The accounting procedure at the retirement of a partners involves:-

A) Revaluation of Assets and liabilities

B) Ascertain his share of Goodwill

C) Finding the amount due to him

D) All of them

Q.4 If the remaining partner want to continue the business, after the death of a partner, a new partnership agreement is:-

A) Necessary B) Not necessary

C) Optional D) All of them

Q.5 An account operated to ascertain the loss or gain at the death of a partner is called :-

A) Realisation A/c B) Revaluaton A/c

C) Executor Ac D) Deceased Patner's A/c

Q.6 Amout due to outgoing partner is shown on the balance sheet as his:-

A) Liability B) Assets

C) Capital D) Loan

Q. 7 Retiring partner is compensated for parting with the firm's future profits in favour of remaining partner's. The remaining partner's contribute to such compensation amount in:-

A) Gaining Ratio B) Capital Ratio

C) Sacrificing Ratio D) Profit sharing Ratio

Fill in the Blanks :-

Q.8 Intangible asset which are not shown in the Balance Sheet results in an .... in the outgoing proprietorship.

Q.9 Goodwill may be .... if all the partner's are agreed, that it should not remain in the books.

Q.10 The payment made to the retiring partner in installment is known as ....