

# PARTNERSHIP RETIREMENT & DEATH

## Solution 1

### Revaluation Account

Particulars	₹	Particulars	₹
To Machinery	40,000	By Land & Buildings	60,000
To Stock	20,000	By Creditors	10,000
To Provision for Bad Debts	10,000	By Cash & Bank-Joint Life Policy	60,000
To Profit on revaluation t/f to			
Ram's capital A/c	30,000		
Rahul's capital A/c	20,000		
Rohit's capital A/c	10,000		
	<b>1,30,000</b>		<b>1,30,000</b>

### Partners' Capital Accounts

	Ram	Rahul	Rohit		Ram	Rahul	Rohit
To Ram's Capital	-	30,000	60,000	By Balance b/d	3,00,000	2,00,000	1,00,000
To Cash & Bank	2,10,000			By Revaluation A/c	30,000	20,000	10,000
To Ram's Loan	2,10,000			By Rahul's Capital	30,000		
To Balance c/d	-	3,00,000	3,00,000	By Rohit's Capital	60,000		
				By Cash & Bank	-	1,10,000	2,50,000
	<b>4,20,000</b>	<b>3,30,000</b>	<b>3,60,000</b>		<b>4,20,000</b>	<b>3,30,000</b>	<b>3,60,000</b>

### Ram's Loan Account

Particulars	₹	Particulars	₹
To Balance c/d	2,10,000	By Ram's Capital A/c	2,10,000
	<b>2,10,000</b>		<b>2,10,000</b>

### Cash & Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Ram's Capital	2,10,000
To Revaluation A/c-JLP	60,000	By Balance c/d	3,10,000
To Rahul's Capital	1,10,000		
To Rohit's Capital	2,50,000		
	<b>5,20,000</b>		<b>5,20,000</b>

### Balance Sheet

Liabilities	Amount	Assets	Amount
Capital Account		Land & Building	2,60,000
Rahul 3,00,000		Machinery	1,60,000
Rohit 3,00,000	6,00,000	Stock	80,000
Ram's Loan Account	2,10,000	Debtors 2,00,000	
Creditors	1,90,000	Less: Provision for Bad Debts (10,000)	1,90,000
		Cash & Bank	3,10,000
	<b>10,00,000</b>		<b>10,00,000</b>

#### Working Notes:

- Gaining ratio of existing partners:  
 $\text{Rahul } 1/2 - 1/3 = 1/6$      $\text{Rohit } 1/2 - 1/6 = 2/6$
- Total goodwill of firm is ₹ 1,80,000  
 Ram's share  $(1/2 \times ₹ 1,80,000) = ₹ 90,000$   
 Ram's share of goodwill is to be borne by Rahul and Rohit in their gaining ratios i.e.  
 Rahul =  $1/3 \times ₹ 90,000 = ₹ 30,000$                       Rohit =  $2/3 \times ₹ 90,000 = ₹ 60,000$

**Solution 2****Revaluation Account**

Particulars	Amount	Particulars	Amount
To Provision for doubtful debts	3,250	By Building	10,000
To Machinery	6,750	By Loss Transferred	
To Stock	9,000	Aarav: 4,500	
		Nirav : 3,000	
		Purav : <u>1,500</u>	9,000
	<b>19,000</b>		<b>19,000</b>

**Capital Accounts**

Particulars	Aarav	Nirav	Purav	Particulars	Aarav	Nirav	Purav
To Revaluation (Loss)	4,500	3,000	1,500	By Balance b/d	80,000	50,000	35,000
To Purav Cap	10,200	6,800		By General Res	30,000	20,000	10,000
To Bank A/c			60,500	By Aarav & Nirav's Cap.	-	-	17,000
To Bal. c/d	1,30,300	85,200		By Bank A/c	35,000	25,000	
	<b>1,45,000</b>	<b>95,000</b>	<b>62,000</b>		<b>1,45,000</b>	<b>95,000</b>	<b>62,000</b>

**Bank Account**

Particulars	Amount	Particulars	Amount
To Balance b/d	12,500	By Purav's Capital	60,500
To Aarav's Capital	35,000	By Balance c/d	12,000
To Nirav's Capital	25,000		
	<b>72,500</b>		<b>72,500</b>

**Balance Sheet**

Liabilities	Amount	Assets	Amount
Capital Accounts:		Building	60,000
Aarav           1,30,300		Machinery	60,750
Nirav <u>85,200</u>	2,15,500	Debtors           65,000	
Trade Creditors	50,000	Less: Provision <u>(3,250)</u>	61,750
		Stock	71,000
		Cash (12,500+35,000 +25,000-59,500)	12,000
	<b>2,65,500</b>		<b>2,65,500</b>

**Working Notes:****Valuation of goodwill:**

Year	Profits	Weights	Product
31 <sup>st</sup> March 2021	41,000	1	41,000
31 <sup>st</sup> March 2022	50,000	2	1,00,000
31 <sup>st</sup> March 2023	55,000	3	1,65,000
		<b>6</b>	<b>3,06,000</b>

Weighted average profit  $(3,06,000/6) = 51,000$

Goodwill (2 years purchase)  $= 2 \times 51,000 = 1,02,000$

Purav's share  $= 1/6\text{th} = 1,02,000/6 = 17,000$

**Note:** Goodwill calculated with weighted average method since there was trend in profits, however simple average method could also have been applied.

**Solution 3****Journal Entries**

	L.F.	Dr.	Cr.
Revaluation A/c Dr.		19,400	
To Plant A/c			16,000
To Provision for Doubtful Debts A/c			3,400
(Reduction in the values of assets and creation of provision for doubtful debts)			
Building A/c Dr.		50,000	
Investments A/c Dr.		9,000	
To Revaluation A/c			59,000
(Increase in value of assets)			
Revaluation A/c Dr.		39,600	
To Satyam's Capital A/c			9,900
To Shivam's Capital A/c			9,900
To Sundaram's Capital A/c			19,800
(Transfer of Profit on revaluation to Capital Accounts in the profit sharing ratio)			
General Reserve A/c Dr.		80,000	
To Satyam's Capital A/c			20,000
To Shivam's Capital A/c			20,000
To Sundaram's Capital A/c			40,000
(Being Transfer of reserve to Capital Account in the profit sharing ratio)			
Satyam's Capital A/c Dr.		18,000	
Sundaram's Capital A/c Dr.		12,000	
To Shivam's Capital A/c			30,000
(Being adjustment entry for goodwill passed)			
Satyam's Loan A/c Dr.		94,000	
To Investments A/c			94,000
(Being investments taken over by Satyam for loan)			
Shivam's Capital A/c Dr.		2,07,900	
To Shivam's Loan A/c			2,07,900
(Being amount payable to Shivam transferred to his Loan A/c)			
Satyam's Capital A/c Dr.		86,900	
To Bank A/c			86,900
(Being Capital accounts adjusted in Profit sharing ratio)			
Bank A/c Dr.		20,200	
To Sundaram's Capital A/c			20,200
(Being Capital accounts adjusted in Profit sharing ratio)			

**Balance Sheet**

Liabilities	Amount	Assets	Amount
Capital Accounts:		Building	3,00,000
Satyam 1,20,000		Plant	1,44,000
Sundaram <u>1,80,000</u>	3,00,000	Trade Rec. 68,000	
Shivam Loan	2,07,900	Less: Provision (3,400)	64,600
Trade Creditors	75,000	Stock	45,280
		Bank (95,720+20,200-86,900)	29,020
	<b>5,82,900</b>		<b>5,82,900</b>

**Working Notes:****Revaluation Account**

Particulars	Amount	Particulars	Amount
To Provision for doubtful debts	3,400	By Building	50,000
To Plant	16,000	By Investments	9,000
To Profit Transferred			
Satyam: 9,900			
Shivam : 9,900			
Sundaram : <u>19,800</u>	39,600		
	<b>59,000</b>		<b>59,000</b>

**Capital Accounts**

Particulars	Satyam	Shivam	Sundaram	Particulars	Satyam	Shivam	Sundaram
To Shivam's Cap.	18,000	-	12,000	By Balance b/d	1,95,000	1,48,000	1,12,000
To Shivam Loan A/c		2,07,900		By General Reserve	20,000	20,000	40,000
To Bank A/c	86,900			By Revaluat. (Profit)	9,900	9,900	19,800
To Balance c/d	1,20,000		1,80,000	By Satyam & Sundaram Cap.	-	30,000	-
				By Bank A/c			20,200
	<b>2,24,900</b>	<b>2,07,900</b>	<b>1,92,000</b>		<b>2,24,900</b>	<b>2,07,900</b>	<b>1,92,000</b>

**Adjustment of goodwill:** Goodwill = 1,20,000

Particulars	Satyam	Shivam	Sundaram
Credit in Old Ratio (1:1:2)	30,000	30,000	60,000
Debit in New Ratio (2:3)	(48,000)		(72,000)
	<b>18,000 Dr.</b>	<b>30,000 Cr.</b>	<b>12,000 Dr.</b>

**Solution 4****Revaluation Account**

Particulars	Amount	Particulars	Amount
To Furniture	40,000	By Office Equipment	47,000
To Stock	50,000	By Building	5,00,000
To Joint Life Policy	10,000	By Provision for doubtful debts	15,000
To Profit Transferred to			
A's Capital	2,31,000		
B's Capital	1,54,000		
C's Capital	77,000		
	<b>5,62,000</b>		<b>5,62,000</b>

**Capital Accounts**

Particulars	A	B	C	Particulars	A	B	C
To B's Capital	90,000		30,000	By Balance b/d	8,00,000	4,20,000	4,00,000
To B's Loan A/c		8,14,000		By General Reserve	1,80,000	1,20,000	60,000
To Balance c/d	11,21,000		5,07,000	By Revaluation	2,31,000	1,54,000	77,000
				By A's Capital		90,000	
				By C's Capital		30,000	
	<b>12,11,000</b>	<b>8,14,000</b>	<b>5,37,000</b>		<b>12,11,000</b>	<b>8,14,000</b>	<b>5,37,000</b>

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### Balance Sheet

Liabilities	Amount	Assets	Amount
A's Capital Account	16,300	Plant & Machinery	18,500
B's Loan Account	29,200	Inventories	13,600
Trade Payables	7,500	Trade Receivables	15,000
Less: Reserve for Discount (150)	7,350	Less: Provision for Bad Debts (750)	14,250
		Balance at Bank	6,000
		Cash	500
	<b>52,850</b>		<b>52,850</b>

### Solution 6

#### In The Books of X, Y and Z

#### Revaluation A/c

Particulars	₹	Particulars	₹
To Provision for Doubtful Debts	13,000	By Building	62,500
To Machinery	33,750	By Loss on revaluation	12,000
To Stock	27,750	X	2,000
		Y	4,000
		Z	6,000
	<b>74,500</b>		<b>74,500</b>

#### Partners' Capital A/c

Particulars	X	Y	Z	Particulars	X	Y	Z
To Loss on Revaluation	2,000	4,000	6,000	By Balance b/d	1,75,000	2,50,000	4,00,000
To Bank	-	-	9,04,000	By General Reserve	50,000	1,00,000	1,50,000
To Z's Capital	1,20,000	2,40,000	-	By X and Y's Capital	-	-	3,60,000
To Balance c/d	6,03,000	6,06,000	-	By Bank	5,00,000	5,00,000	-
	<b>7,25,000</b>	<b>8,50,000</b>	<b>9,10,000</b>		<b>7,25,000</b>	<b>8,50,000</b>	<b>9,10,000</b>

#### Bank A/c

Particulars	₹	Particulars	₹
To Balance b/d	62,500	By Z's Capital	9,04,000
To X's Capital	5,00,000	By Balance c/d	1,58,500
To Y's Capital	5,00,000		
	<b>10,62,500</b>		<b>10,62,500</b>

#### Valuation of Goodwill:

Total Profit of past 3 years	₹ 2,75,000 + ₹ 2,50,000 + ₹ 1,95,000 = ₹ 7,20,000
Average profit	₹ 7,20,000 / 3 = ₹ 2,40,000
Goodwill (3 years purchase)	₹ 2,40,000 x 3 = ₹ 7,20,000
Z's share = (3/6)th	₹ 7,20,000 X 1/2 = ₹ 3,60,000

#### Journal entry for adjustment of goodwill

X's capital A/c Dr.	1,20,000	
Y's capital A/c Dr.	2,40,000	
To Z's capital A/c		3,60,000

(Being Goodwill adjusted through Partners Capital account as per gaining ratio)

**Solution 7****Journal Entries**

	L.F.	Dr.	Cr.
A's Capital A/c	Dr.	21,000	
B's Capital A/c	Dr.	14,000	
C's Capital A/c	Dr.	7,000	
To P&L Adjustment A/c			42,000
(Being Profit written back for making adjustments)			
P&L Adjustment A/c	Dr.	6,000	
To B's Capital A/c			6,000
(Being Bonus credited to B's capital account)			
P&L Adjustment A/c	Dr.	36,000	
To A's Capital A/c			12,000
To B's Capital A/c			18,000
To C's Capital A/c			6,000
(Being Distribution of profits in the new ratio)			
Fixtures A/c	Dr.	9,800	
To Provision for Bad Debts A/c			1,800
To A's Capital A/c			2,667
To B's Capital A/c			4,000
To C's Capital A/c			1,333
(Being Revaluation of assets on A's retirement)			
B's Capital A/c	Dr.	14,000	
C's Capital A/c	Dr.	4,667	
To A's Capital A/c			18,667
(Being adjustment entry for goodwill passed)			
B's Capital A/c	Dr.	2,700	
C's Capital A/c	Dr.	900	
To Provision for Bad Debts A/c			3,600
(Being provision increased to 6%)			
A's Capital A/c	Dr.	1,62,334	
To B's Capital A/c			1,62,334
(Being Amount payable to A paid by B)			
Cash A/c	Dr.	30,234	
To C's Capital A/c			30,234
(Being Cash brought by C)			
B's Capital A/c	Dr.	34,634	
To Cash A/c			34,634
(Being Cash withdrawn by B)			

**Capital Accounts**

Particulars	A	B	C	Particulars	A	B	C
To P&L Adj A/c	21,000	14,000	7,000	By Balance b/d	1,50,000	1,00,000	50,000
To A's Capital	-	14,000	4,667	By P&L Adj A/c	-	6,000	-
To PDD	-	2,700	900	By P&L Adj A/c	12,000	18,000	6,000
To B's Capital	1,62,334			By Fixtures & PDD	2,667	4,000	1,333
To Cash		34,634		By B's Capital	14,000		
To Balance c/d	-	2,25,000	75,000	By C's Capital	4,667		
				By A's Capital		1,62,334	
				By Cash	-	-	30,234
	<b>1,83,334</b>	<b>2,90,334</b>	<b>87,567</b>		<b>1,83,334</b>	<b>2,90,334</b>	<b>87,567</b>

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### Cash Account

Particulars	Amount	Particulars	Amount
To Balance b/d	50,000	By B's Capital	34,634
To C's Capital	30,234	By Balance c/d	45,600
	<b>80,234</b>		<b>80,234</b>

### Balance Sheet of B and C as on 31st March, 2023 (after retirement of A)

Liabilities	Amount	Amount	Assets	Amount	Amount
Creditors		40,000	Fixtures		39,800
Capital Accounts			Debtors	90,000	
B	2,25,000		Less: Provision for bad debts	(5,400)	84,600
C	<u>75,000</u>	3,00,000	Stock		1,70,000
			Cash		45,600
		<b>3,40,000</b>			<b>3,40,000</b>

#### Working Notes:

Calculation of goodwill:

1. Average of last five year's profit

31.3.2019	15,000
31.3.2020	23,000
31.3.2021	25,000
31.3.2022	35,000
31.3.2023	42,000
	<b>1,40,000</b>

Average Profit = 1,40,000 / 5 = 28,000

2. Goodwill at two years' purchase 28,000 x 2 = 56,000

#### Adjustment of Goodwill

Particulars	A	B	C
Credit in Old Ratio (2:3:1)	18,667	28,000	9,333
Debit in New Ratio (3:1)	-	(42,000)	(14,000)
	<b>18,667 Cr.</b>	<b>14,000 Dr.</b>	<b>4,667 Dr.</b>

### Solution 8

#### Journal Entries

		₹	₹	
3Jan 23	A's Capital A/c	Dr.	500	
	B's Capital A/c	Dr.	500	
	To C's Capital A/c			1,000
	(Being the required adjustment for goodwill through the partner's capital accounts)			

#### Revaluation Account

Particulars	₹	Particulars	₹
To Furniture (2,800-2,300)	500	By Machinery (5,850-5,000)	850
To Inventory (950-750)	200		
To Profit Transferred	150		
A's Capital	50		
B's Capital	50		
C's Capital	<u>50</u>		
	<b>850</b>		<b>850</b>

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**Partner's Capital Accounts as on 3.1.2021**

	A	B	C		A	B	C
To C's Capital	500	500	-	By Balance b/d	4,100	4,100	4,500
To Executor's A/c			6,050	By General Reserves	500	500	500
				By Revaluation	50	50	50
				By A's Cap	-	-	500
To Balance c/d	4,150	4,150	-	By B's Cap	-	-	500
	<b>4,650</b>	<b>4,650</b>	<b>6,050</b>		<b>4,650</b>	<b>4,650</b>	<b>6,050</b>

**C's Executors Account**

Particulars	₹	Particulars	₹
To Cash	1,000	By C's Capital A/c	6,050
To Balance c/d	5,050		
	<b>6,050</b>		<b>6,050</b>

(iii) Provision for Doubtful Debts Account is a credit balance. To close, this account is to be debited. It becomes a gain for the partners. Therefore, either Partners' Capital Accounts (including C) or Revaluation Account is to be credited.

**Note:** Profit sharing ratio is equal before or after the death of C because nothing has been mentioned in respect of profit-sharing ratio.

**Solution 9**

(a) Arup : Swarup : Reserve

$$\frac{1}{2} : \frac{1}{3} : \frac{1}{6} = \frac{3:2:1}{6}$$

**(A) Calculation of Swarup Share of Profits From 1st Jan, 2021 to 1st May, 2021:**

$$\begin{aligned} \text{Average profits} &= (45000+39000+51,000)/3 \\ &= 1,35,000/3 = 45,000 \end{aligned}$$

$$\text{Profit From 1st Jan, 2021 to 1st May, 2021} = 45000 \times 4/12 = 15000$$

$$\text{Swarup's Share in Profit} = 15000 \times 2/5 = 6,000$$

**(B) Calculation of Swarup's Share in Firm's Goodwill :**

$$\begin{aligned} \text{Average profits} &= (45000+39000+51,000)/3 \\ &= 1,35,000/3 = 45000 \end{aligned}$$

$$\begin{aligned} \text{Goodwill} &= \text{Average Profits} \times \text{No. of year's purchase} \\ &= 45000 \times 3 = 1,35,000 \end{aligned}$$

$$\text{Swarup's Share in Goodwill} = 1,35,000 \times 2/5 = 54000$$

**Ledger of Firm**

Dr.		Swarup's Executors Account		Cr.	
Particulars	Amount	Particulars	Amount		
To Swarup's Executors Loan A/c (Bal. Fig.)	1,38,000	By Swarup's capital A/c	60,000		
		By Profit & Loss Suspense A/c	6,000		
		By Arup's Capital A/c (Share in Goodwill)	54,000		
		By Reserve (45000×2/5)	18,000		
	<b>1,38,000</b>		<b>1,38,000</b>		

**Solution 10****Journal Entries**

			₹	₹
1	General Reserve A/c	Dr.	5,000	
	To Seed's Capital A/c			2,500
	To Plant's Capital A/c			1,500
	To Flower's Capital A/c			1,000
	(Being General Reserve transferred to Capital Account)			
2	Seed's Capital A/c	Dr.	3,750	
	Flower's Capital A/c	Dr.	7,500	
	To Plant's Capital A/c			11,250
	(Being Adjustment for goodwill on the death of Plant on the basis of gaining ratio) (Value = $3 \times (10,000 + 13,000 + 12,000 + 15,000)/4$ )			
3.	Revaluation A/c	Dr.	5,000	
	To Fixed Assets A/c			4,000
	To Bill Receivable A/c			1,000
	(Being Depreciation of fixed assets @ 10% and writing off of one bill for ₹ 1,000 on Plant's death)			
4.	Seed's Capital A/c	Dr.	2,500	
	Plant's Capital A/c	Dr.	1,500	
	Flower's Capital A/c	Dr.	1,000	
	To Revaluation A/c			5,000
	(Being Loss on Revaluation transferred to capital accounts)			
5.	P&L Suspense A/c	Dr.	1,500	
	To Plant's Capital A/c			1,500
	(Being Plant's share of four month's profit based on the previous year)			
6.	Plant's Capital A/c		27,750	
	To Plant's Executor A/c			27,750
	(Being Amount standing to the credit of Plant's Capital Account transferred to the credit of his Executor's Account)			
7.	Plant's Executor A/c	Dr.	7,750	
	To Bank A/c			7,750
	(Being Amount paid to Plant's Executors)			

**Solution 11****Revaluation Account**

Particulars	₹	Particulars	₹
To Buildings	10,000	By Investments	3,000
To Plant & Machinery	26,000	By Loss transferred	
To Provision for doubtful Debts	27,800	A's Capital	30,400
		B's Capital	18,240
		C's Capital	<u>12,160</u>
	<b>63,800</b>		<b>60,800</b>
			<b>63,800</b>

**Partner's Capital Accounts**

Particulars	A	B	C	D	Particulars	A	B	C	D
To Revaluation	30,400	18,240	12,160	--	By Bal. b/d	80,000	20,000	30,000	--
To Investment	--	15,000	--	--	By Reserves	10,000	6,000	4,000	--
To B's Loan	-	22,760	-	--	By C & D's Capital	10,000	30,000	-	--

To A & B's Capital	-	-	20,000	20,000	By Bank (Bal. Fig.)	10,400	--	78,160	60,000
To Bal. c/d	80,000	--	80,000	40,000					
	<b>1,10,400</b>	<b>56,000</b>	<b>1,12,160</b>	<b>60,000</b>		<b>1,10,400</b>	<b>56,000</b>	<b>1,12,160</b>	<b>60,000</b>

### Bank Account

Particulars	₹	Particulars	₹
To A's Capital	10,400	By Bank Overdraft	44,000
To C's Capital	78,160	By Balance c/d	1,04,560
To D's Capital	60,000		
	<b>1,48,560</b>		<b>1,48,560</b>

### Balance Sheet as at 01.04.2023

Liabilities	₹	Assets	₹
Partners' capital accounts		Land	10,000
A's capital	80,000	Buildings	1,90,000
C's capital	80,000	Plant & Machinery	1,04,000
D's capital	<u>40,000</u>	Trade Receivables	1,39,000
Long Term Debt		Less: Provision	<u>(27,800)</u>
Trade Payables		Furniture	43,000
B's Loan Account		Inventories	1,30,000
		Balance at Bank	1,04,560
	<b>6,92,760</b>		<b>6,92,760</b>

### Solution 12

#### Revaluation Account

Particulars	₹	Particulars	₹
To Buildings	11,000	By Investments	4,000
To Plant & Machinery	80,000	By Loss transferred	
To Bad Debts	23,850	A's Capital	33,255
		B's Capital	22,170
		C's Capital	<u>55,425</u>
	<b>1,14,850</b>		<b>1,14,850</b>

#### Partner's Capital Accounts

Particulars	A	B	C	D	Particulars	A	B	C	D
To Revaluation	33,255	22,170	55,425	--	By Bal. b/d	1,24,000	96,000	1,60,000	--
To Investments	--	46,000	--	--	By D's Capital	-	60,000	30,000	--
To B's Loan	-	87,830	-	--					
To B & C's Capital	-	-	-	90,000	By Bank (Bal. Fig.)	29,255	--	25,425	2,10,000
To Bal. c/d	1,20,000	--	1,60,000	1,20,000					
	<b>1,53,255</b>	<b>1,56,000</b>	<b>2,15,425</b>	<b>2,10,000</b>		<b>1,53,255</b>	<b>1,56,000</b>	<b>2,15,425</b>	<b>2,10,000</b>

#### Working Note:

- Calculation for adjustment of Amount of Goodwill

Particulars	A	B	C	D
Credit in Old Ratio (3:2:5)	90,000	60,000	1,50,000	
Debit in New Ratio (3:4:3)	90,000	-	1,20,000	90,000
	-	<b>60,000 Cr.</b>	<b>30,000 Cr.</b>	<b>90,000 Dr.</b>

- Capital of partners in the reconstituted firm :

Total capital of the reconstituted firm (given) 4,00,000

A (3/10) 1,20,000    B (4/10) 1,60,000    C (3/10) 1,20,000

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**Solution 13****Journal Entries (31<sup>st</sup> March, 2023)**

			₹	₹
1.	Revaluation A/c	Dr.	30,000	
	To Furniture			10,000
	To Inventory			20,000
	(Being revaluation of Furniture and inventory in trade recorded)			
2.	K's Capital A/c	Dr.	15,000	
	L's Capital A/c	Dr.	9,000	
	M's Capital A/c	Dr.	6,000	
	To Revaluation A/c			30,000
(Being net revaluation loss debited to capital accounts of K, L and M in the ratio 5 : 3 : 2)				
3.	N's Capital A/c	Dr.	15,000	
	To L's Capital A/c			15,000
	(Being adjusting entry for goodwill passed in gaining/sacrificing ratio)			
4.	Reserve A/c	Dr.	50,000	
	To K's Capital A/c			25,000
	To L's Capital A/c			15,000
	To M's Capital A/c			10,000
(Being reserve transferred to capital accounts, K, L and M)				
5.	L's Capital A/c	Dr.	81,000	
	To Cash & Bank A/c			40,500
	To N's Capital A/c			40,500
(Being 50% of the amount due to L was paid off in cash and balance was retained in the firm as capital of N)				
6.	K's Capital A/c	Dr.	7,500	
	M's Capital A/c	Dr.	17,000	
	To Cash & Bank A/c			24,500
	(Being amount paid to K & M to make capital proportionate)			

**Working Note:**

## 1. Calculation for adjustment of Amount of Goodwill

Particulars	K	L	M	N
Credit in Old Ratio (5:3:2)	25,000	15,000	10,000	
Debit in New Ratio (5:2:3)	25,000	-	10,000	15,000
	-	<b>15,000 Cr.</b>	-	<b>15,000 Dr.</b>

## 1. Calculation of excess capital paid off to M to make capital proportionate.

Particulars	K	M	N
Capital Balance	50,000	34,000	25,500
P&L Ratio	<b>5</b>	<b>2</b>	<b>3</b>
Total capital taking N as base (25,500 * 10/3) ie 85,000 divided in PSR 5:2:3	<b>42,500</b>	<b>17,000</b>	<b>25,500</b>
Excess Capital paid off	<b>7,500</b>	<b>17,000</b>	-

**Capital Accounts of partners**

	K	L	M	N		K	L	M	N
To Revaluation	15,000	9,000	6,000	-	By Bal. b/d	40,000	60,000	30,000	
To Cash	-	40,500	-	-	By Reserve	25,000	15,000	10,000	

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A/c									
To N's Capital	-	40,500	-	-	By L's Capital	-	-	-	40,500
To L's Capital	-	-	-	15,000	By N's Capital	-	15,000	-	-
To Cash (Bal. Fig.)	7,500	-	17,000	-					
To Bal. c/d	42,500	-	17,000	25,500					
	<b>65,000</b>	<b>90,000</b>	<b>40,000</b>	<b>40,500</b>		<b>65,000</b>	<b>90,000</b>	<b>40,000</b>	<b>40,500</b>

### Balance Sheet as at 01.04.2023

Liabilities	₹	Assets	₹
Partners' capital accounts		Furniture	10,000
K	42,500	Trade Receivables	50,000
M	17,000	Inventory	30,000
N	25,500	Cash & Bank	15,000
Trade Payables	20,000		
	<b>1,05,000</b>		<b>1,05,000</b>

### Solution 14

Under Section 37 of the Partnership Act, Z can exercise any of the following two options in the absence of a contract:

- Z is entitled to interest at the rate of six per cent per annum on the amount of his share in the property of the firm or
- Z is entitled at his option to such share of the profits made since he ceased to be a partner as may be attributable to the use of his share of the property of the firm

Option 1 :  $50,000 \times \frac{6}{100} \times \frac{6}{12} = 1,500$

Option 2:  $40,000 \times \frac{50,000}{30,000+40,000+50,000} = 16,667$

It will be beneficial for Z to opt for ₹ 16,667.

### Solution 15

#### Joint Life Policy Premium Account

Date		₹	Date		₹
10 June, 2018	To Bank A/c	<u>3,000</u>	31 Dec, 2018	By Profit & Loss A/c	<u>3,000</u>
10 June, 2019	To Bank A/c	<u>3,000</u>	31 Dec, 2019	By Profit & Loss A/c	<u>3,000</u>
10 June, 2020	To Bank A/c	<u>3,000</u>	31 Dec, 2020	By Profit & Loss A/c	<u>3,000</u>
10 June, 2021	To Bank A/c	<u>3,000</u>	31 Dec, 2021	By Profit & Loss A/c	<u>3,000</u>

#### Profit & Loss Account

Date		₹		₹
31 Dec, 2018	To Joint Life Policy Premium A/c	<u>3,000</u>		
31 Dec, 2019	To Joint Life Policy Premium A/c	<u>3,000</u>		
31 Dec, 2020	To Joint Life Policy Premium A/c	<u>3,000</u>		
31 Dec, 2021	To Joint Life Policy Premium A/c	<u>3,000</u>		

#### Joint Life Policy Account

Date		₹	Date		₹
15 April 2022	To Capital A/c (Transfer)		15 April 2022	By Bank A/c	3,600
	Red 5/10	1,800			
	White 3/10	1,080			
	Black 2/10	720			
		<b>3,600</b>			<b>3,600</b>

**Solution 16****Joint Life Policy Account**

Date		₹	Date		₹
10 June, 2018	To Bank A/c	<u>3,000</u>	31 Dec, 2018	By Profit & Loss A/c	<u>3,000</u>
10 June, 2019	To Bank A/c	3,000	31 Dec, 2019	By Profit & Loss A/c	2,100
				By Balance c/d	900
		<u>3,000</u>			<u>3,000</u>
1 Jan 2020	To Balance b/d	900	31 Dec, 2020	By Profit & Loss A/c	1,900
10 June, 2020	To Bank A/c	3,000		By Balance c/d	2,000
		<u>3,900</u>			<u>3,900</u>
1 Jan 2021	To Balance b/d	2,000	31 Dec, 2021	By Profit & Loss A/c	1,400
10 June, 2021	To Bank A/c	3,000		By Balance c/d	3,600
		<u>5,000</u>			<u>5,000</u>
1 Jan 2022	To Balance b/d	3,600	15 April 2022	By Bank A/c	3,600
		<u>3,600</u>			<u>3,600</u>

**Profit & Loss Account**

Date		₹		
31 Dec, 2018	To Joint Life Policy A/c	<u>3,000</u>		
31 Dec, 2019	To Joint Life Policy A/c	<u>2,100</u>		
31 Dec, 2020	To Joint Life Policy A/c	<u>1,900</u>		
31 Dec, 2021	To Joint Life Policy A/c	<u>1,400</u>		

**Solution 17****Joint Life Policy Account**

Date		₹	Date		₹
10 June, 2017	To Bank A/c	<u>3,000</u>	31 Dec, 2017	By Profit & Loss A/c	<u>3,000</u>
10 June, 2018	To Bank A/c	3,000	31 Dec, 2018	By Profit & Loss A/c	2,100
				By Balance c/d	900
		<u>3,000</u>			<u>3,000</u>
1 Jan 2019	To Balance b/d	900	31 Dec, 2019	By Profit & Loss A/c	1,900
10 June, 2019	To Bank A/c	3,000		By Balance c/d	2,000
		<u>3,900</u>			<u>3,900</u>
1 Jan 2020	To Balance b/d	2,000	31 Dec, 2020	By Profit & Loss A/c	1,400
10 June, 2020	To Bank A/c	3,000		By Balance c/d	3,600
		<u>5,000</u>			<u>5,000</u>
1 Jan 2021	To Balance b/d	3,600	15 April 2021	By Bank A/c	3,600
		<u>3,600</u>			<u>3,600</u>

**Solution 18****Revaluation Account**

Particulars	Amount	Particulars	Amount
To Stock	1,500	By Land and Building	25,000
To Profit transferred		By Prov. for doubtful debt	2,000
Monika	8,500		
Yedhant	8,500		
Zoya	8,500		
	<u>27,000</u>		<u>27,000</u>

**Partners' Capital Accounts**

	Monika	Yedhant	Zoya		Monika	Yedhant	Zoya
To Zoya	4,375	4,375	-	By Balance b/d	1,00,000	75,000	75,000
To Zoya's	-	-	98,125	By Revaluation	8,500	8,500	8,500

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Executor							
To Balance c/d	1,08,125	83,125	-	By Gen. Reserve	4,000	4,000	4,000
				By P&L Suspense A/c*	-	-	1,875
				By Monika & Yedhant	-	-	8,750
	<b>1,12,500</b>	<b>87,500</b>	<b>98,125</b>		<b>1,12,500</b>	<b>87,500</b>	<b>98,125</b>

\*Profit and Loss Suspense =  $[(25,000 + 20,000 + 22,500)/3] \times 3/12 \times 1/3 = 1,875$

### Balance Sheet as at 1.07.2021

Liabilities	₹	Assets	₹
Partners' capital accounts		Land & Building	1,75,000
Monika's capital	1,08,125	Investment	65,000
Yedhant's capital	83,125	Stock	13,500
Zoya's Executor	98,125	Trade receivable	35,000
Sundry creditors	20,000	Profit & Loss Suspense	1,875
		Cash in hand	7,000
		Cash at bank	12,000
	<b>3,09,375</b>		<b>3,09,375</b>

### Calculation of goodwill and Zoya's share

Average of last five year's profits and losses for the year ended on 31st March.

Average Profit =  $1,31,250/5 = 26,250$

Goodwill at 1 year purchase = ₹ 26,250 x 1 = ₹ 26,250

Zoya's Share of Goodwill = ₹ 26,250 X 1/3 = ₹ 8,750

which is contributed by Monika and Yedhant in their gaining Ratio

Monika = ₹ 8750 X 1/2 = ₹ 4375      Yedhant = ₹ 8750 X 1/2 = ₹ 4375

### Solution 19

#### Journal Entries in the books of M/s ABC

S.No.	Particulars	L.F.	Debit	Credit
1.	Fixed assets A/c      Dr.		51,000	
	To Revaluation A/c			51,000
	(Revaluation of fixed assets)			
2.	Revaluation A/c      Dr.		11,000	
	To Stock A/c			8,000
	To Provision for doubtful debts A/c			3,000
	(Reduction in the value of stock and provision @ 5% on sundry debtors created for doubtful debts)			
3.	B's capital A/c      Dr.		10,500	
	C's capital A/c      Dr.		21,000	
	To A's capital A/c			31,500
	(Adjustment for goodwill & joint life policy (W.N.1))			
4.	Revaluation A/c      Dr.		40,000	
	To A's capital A/c			20,000
	To B's capital A/c			12,500
	To C's capital A/c			7,500
	(Transfer of profit on revaluation)			
5.	General reserve A/c      Dr.		80,000	
	To A's capital A/c			40,000
	To B's capital A/c			25,000
	To C's capital A/c			15,000
	(Transfer of general reserve)			

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**Balance Sheet (revised)  
as on 1st January, 2021**

Liabilities	₹	Assets	₹
Sundry creditors	1,50,000	Cash	40,000
Partners' loan A/cs:		Bills receivable	50,000
A 40,000		Sundry debtors 60,000	
B 30,000	70,000	Less: Provision (3,000)	57,000
Partners' capital A/cs: (W.N.2)		Stock	1,12,000
A 1,91,500		Fixed assets	3,31,000
B 1,07,000			
C 71,500	3,70,000		
	<b>5,90,000</b>		<b>5,90,000</b>

**Working Notes:**

(1) Adjustment for goodwill and joint life policy

	₹
Average profit of last five years	20,000
Add: Insurance premium per annum	10,000
Average profit before charging premium	<b>30,000</b>
Value of goodwill (3x ₹ 30,000)	90,000
Add: Surrender value of joint life policy	78,000
Total amount for adjustment	<b>1,68,000</b>

	A	B	C
	₹	₹	₹
Raised in old profit sharing ratio (8:5:3)	84,000	52,500	31,500
Written off in new profit sharing ratio (5:6:5)	52,500	63,000	52,500
Net effect in capital accounts	<b>31,500</b>	<b>10,500</b>	<b>21,000</b>
	(Cr.)	(Dr.)	(Dr.)

**Alternatively**, the net effect in partners' capital accounts due to adjustment for goodwill and joint life policy can be shown on the basis of profit sacrificing ratio. Profit sacrificing ratios are:

$$A = (8/16) - (5/16) = 3/16$$

$$B = (5/16) - (6/16) = (1/16)$$

$$C = (3/16) - (5/16) = (2/16)$$

Therefore, adjustments in partner's capital account:

$$A = 3/16 \times ₹ 1,68,000 = ₹ 31,500 \text{ (Cr.)}$$

$$B = (1/16) \times ₹ 1,68,000 = ₹ 10,500 \text{ (Dr.)}$$

$$C = (2/16) \times ₹ 1,68,000 = ₹ 21,000 \text{ (Dr.)}$$

**2) Partners' Capital Accounts**

	A	B	C		A	B	C
To A' capital A/c		10,500	21,000	By Balance b/d	1,00,000	80,000	70,000
To Balance c/d	1,91,500	1,07,000	71,500	By B and C's capital A/c	31,500	-	-
				By Revaluation A/c (Profit)	20,000	12,500	7,500
				By General reserve	40,000	25,000	15,000
	<b>1,91,500</b>	<b>1,17,500</b>	<b>92,500</b>		<b>1,91,500</b>	<b>1,17,500</b>	<b>92,500</b>

**Solution 20****Journal Entries**

	L.F.	Dr.	Cr.
B's Capital A/c	Dr.	49,500	
C's Capital A/c	Dr.	18,000	
To A's Capital A/c			67,500
(Being Share of revaluation profit ₹ 67,500 including good will due to A borne by B and C at the gaining ratio 11 : 4)			
A's Capital A/c	Dr.	1,17,500	
To A's Loan A/c			58,750
To Bank A/c			58,750
(Being Settlement of A's claim on his retirement by payment of 50% in case and transferring the balance to his Loan A/c)			
Bank A/c	Dr.	73,750	
To B's Capital A/c			60,333
To C's Capital A/c			13,417
(Being Cash brought in by the continuing partners)			

**Working Notes:**

## 1. Revaluation Profit , Goodwill Adjustment &amp; JLP increase

Goodwill	1,00,000
Sundry Fixed Assets	30,000
Joint Life Policy	5,000
	<b>1,35,000</b>

A's Share ₹ 1,35,000 × 5/10 = ₹ 67,500.

## 2. Gaining Ratio

$$B : 2/3 - 3/10 = 11/30 \quad C : 1/3 - 2/10 = 4/30$$

$$\text{Gaining Ratio : } B : C \quad 11 : 4$$

Since Assets increase including JLP & goodwill not to be shown so adjustment entry passed through capital accounts.

## 3. Total Capital

Assets as per Balance Sheet		1,90,000
Additional Bank Balance		15,000
		2,05,000
Less : Bank Loan	40,000	
Sundry Creditors	30,000	
A's Loan	58,750	(1,28,750)
		76,250
<b>B's share</b>		<b>50,833</b>
<b>C's share</b>		<b>25,417</b>

**Solution 21****Revaluation Account**

Particulars	Amount	Particulars	Amount
To Furniture	7,500	By Land and Building	33,000
To Inventory	8,740		
To Bad Debts	1,760		
To Profit transferred			
Diya	6,000		
Riya	3,000		
Kiya	6,000		
	<b>33,000</b>		<b>33,000</b>

### Partners' Capital Accounts

	Diya	Riya	Kiya		Diya	Riya	Kiya
To Kiya's Cap.	40,000	20,000	-	By Balance b/d	1,50,000	1,80,000	70,000
To Bank	-	-	2,79,800	By Revaluation	6,000	3,000	6,000
			-	By Gen. Reserve	56,000	28,000	56,000
				By Interest on Capital (70,000 *12%*6/12)			4,200
To Balance c/d	2,28,000	2,19,000		By Joint Life Policy	56,000	28,000	56,000
				By P&L Suspense A/c	-	-	27,600
				By Diya & Riya Cap. Acc			60,000
	<b>2,68,000</b>	<b>2,39,000</b>	<b>2,79,800</b>		<b>2,68,000</b>	<b>2,39,000</b>	<b>2,79,800</b>

### Balance Sheet as at 30.09.2023

Liabilities	₹	Assets	₹
Capital Accounts:		Land & Building	1,98,000
Diya	2,28,000	Furniture	67,500
Riya	<u>2,19,000</u>	Inventory	80,000
Trade Payables	60,000	Trade Receivables	94,990
		Bank	34,710
		(1,14,510+2,00,000-2,79,800)	
		Profit & Loss Suspense A/c	31,800
		(incl. Interest on Capital)	
	<b>5,07,000</b>		<b>5,07,000</b>

#### Working Notes:-

##### 1. Goodwill Valuation

Average Profits before Interest on Capital =  $\frac{1,62,000+1,99,000+1,87,000+1,96,000}{4}$

= 1,86,000

Less: Interest on Capital (3,00,000\*12%) = (36,000)

Adjusted Average Profit = 1,50,000

Goodwill = 1,50,000 \* 1 = 1,50,000

Particulars	Diya	Riya	Kiya
Credit in Old Ratio (2:1:2)	60,000	30,000	60,000
Debit in New Ratio (2:1)	(1,00,000)	(50,000)	
	<b>40,000 Dr.</b>	<b>20,000 Dr.</b>	<b>60,000 Dr.</b>

##### 2. Calculation of Kiya's share of Profit

Average Profit for full year before interest on capital = 1,86,000

6 months Profit = 93,000

Less: Interest on Capital (4,00,000\*12%\*6/12) = (24,000)

(Considered actual Capital as on 01.04.23)

Adjusted profit till the date of death = 69,000

Kiya's share 2/5th = 27,600

##### 3. Joint Life Policy

The JLP in this question is based on surrender value method- where in the amount shown in the balance sheet shall be deducted from the JLP proceeds received from insurance co, on the death of a partner.-  
2,00,000 - 60,000 (Balance Sheet Value) = 1,40,000- divided in profit sharing ratio between the partners.

**Note:** Interest on capital only credited to Kiya (partner which died) & not to other partners on the assumption that remaining partners will be given their Interest on capital at the end of year. We are settling only the account of the partner which has died. However, Interest on capital can be credited to other partners as well.

### Solution 22

#### P's Capital Account

2020		₹	2020		₹
Sep. 30	To Current A/c	25,000	Jan. 1	By Balance b/d	30,000
	(30,000 - 5000)		Dec. 31	By Profit and Loss A/c :	
Dec. 31	To Profit and Loss Adj.	3,000		Interest on Capital	2,400
	(Unrecorded Liability)		Dec. 31	Share of Profit	4,735
Dec. 31	To Balance Transferred to P's Executor's A/c	38,465		Q & R (Goodwill)	11,830
			Dec. 31	Insurance Policies A/c	17,500
		<b>66,465</b>			<b>66,465</b>

#### Working Notes:

##### (i) Valuation of Goodwill

Year	Profit before Interest on fixed capital ₹	Interest ₹	Profit after interest ₹
2017	29,340	4,000	25,340
2018	26,470	4,000	22,470
2019	(-) 8,320	4,000	(-) 12,320
	<b>47,490</b>	<b>12,000</b>	<b>35,490</b>

Average	11,830
Goodwill at two years purchase of average net profits	23,660
Share of P in the goodwill	11,830

##### (ii) Profit on Separate Life Policy:

P's policy	25,000
Q and R's policy @ 20% of ₹ 50,000	<u>10,000</u>
	<b><u>35,000</u></b>
Share of P (1/2)	17,500

##### (iii) Share in profit for 2020:

Profit for the year	13,470
Less : Interest on capitals	<u>(4,000)</u>
	<b><u>9,470</u></b>
P's share in profit (1/2)	4,735

### Solution 23

#### Partner's Capital Accounts

Particular	A	B	C	Particular	A	B	C
To C's capital A/c (goodwill) (W.N. 1)	11,475	22,950		By balance b/d	2,25,000	1,12,500	1,35,000
To C's current A/c			9,180	By A & B Cap. A/c (goodwill) (W.N. 1)			34,425
To C's executor A/c			1,60,245				
To balance c/d	2,13,525	89,550					
	<b><u>2,25,000</u></b>	<b><u>1,12,500</u></b>	<b><u>1,69,425</u></b>		<b><u>2,25,000</u></b>	<b><u>1,12,500</u></b>	<b><u>1,69,425</u></b>

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### Partner's Current Accounts

Particulars	A	B	C	Particulars	A	B	C
To balance b/d	36,000	54,000	54,000	By Interest on capital	27,000	13,500	8,100
To balance c/d	83,528	39,787		By Profit & Loss A/c (W.N. 3)	79,028	70,162	26,595
				By Revaluation Profit (W.N. 4)	13,500	10,125	10,125
				By C's Capital			9,180
	<b>1,19,528</b>	<b>93,787</b>	<b>54,000</b>		<b>1,19,528</b>	<b>93,787</b>	<b>54,000</b>

### Balance sheet as on 31st December, 2022

Liabilities	₹	Assets	₹
Capital A/c		Land & building	1,80,000
A	2,13,525	Add : revaluation	45,000
B	89,550	Fixture & furniture	33,750
Current A/c		Less: revaluation	11,250
A	83,528	Stock	2,81,250
B	39,787	Debtors	45,000
C's executor A/c	1,60,245	Bank	90,000
C's interest on executors Amount	9,615		
Creditors	67,500		
	<b>6,63,750</b>		<b>6,63,750</b>

#### Working Notes:

#### 1. Calculation of goodwill ₹

##### Average profit of last 3 years up to 30.6.2022

2019 (6 months)	1,26,000
2020	2,83,500
2021	2,70,000
2022 (6 months)	1,17,000
	<b>7,96,500</b>
Years	3
Average profit	2,65,500
Less: 10% of capital employed	(58,500)
Less: remuneration of partners (56,250 x 3)	(1,68,750)
Average adjusted profit	38,250
Goodwill for 3 years	1,14,750
C's Share of Goodwill (3/10 x 1,14,750)	34,425

#### 2. Calculation of gaining ratio

Name of Partner	New ratio	-	Old ratio	Gaining Ratio
A	1/2	-	4/10	1/10
B	1/2	-	3/10	2/10

A's capital A/c	Dr.	11,475	
B's capital A/c	Dr	22,950	
To C's capital A/c			34,425

**Profit & Loss Appropriation Account**

<b>Particulars</b>	<b>1.4.22 to 30.6.22</b>	<b>1.7.22 to 31.12.22</b>	<b>Particulars</b>	<b>1.4.22 to 30.6.22</b>	<b>1.7.22 to 31.12.22</b>
To interest on capital (6 months):			By Net profit	1,17,000	1,17,000
A= 2,25,000 x 6%	13,500	13,500			
B= 1,12,500 x 6%	6,750	6,750			
C= 1,35,000 x 6%	8,100	-			
To Interest on executor amount (1,60,245 x 6%)	-	9,615			
To partners current A/c:					
A	35,460	43,568			
B	26,595	43,567			
C	26,595	-			
	<b><u>1,17,000</u></b>	<b><u>1,17,000</u></b>		<b><u>1,17,000</u></b>	<b><u>1,17,000</u></b>

3.

**Calculation of Revaluation Profit**

**Revaluation Account**

<b>Particulars</b>	<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>
To Furniture and Fixtures	11,250	By Land & building	45,000
To Profit:			
A (4/10) = 13,500			
B (3/10) = 10,125			
C (3/10) = 10,125	<u>33,750</u>		
	<b><u>45,000</u></b>		<b><u>45,000</u></b>