Important Questions of Partnership

Admission, Retirement & Death - 10

PYQs + MTP

5.6 - 10

Dissolution

✓

3:1 → SR

(b) A and B are partners, sharing profits and losses in the proportion of 3/4th and 1/4th As at 31st March, 2021, following is the Balance Sheet of A and B.

Balance Sheet as at 31st March, 2021

Liabilities		(₹)	Assets	(₹)
Capital accounts			Cash in hand	1,15,000
A	2,85,000		Cash at bank	1,10,000
B	1,55,000	4,40,000	Sundry Debtors	1,60,000
Creditors		3,75,000	Stock	2,00,000
General reserve		60,000	Bills receivable	30,000
			Land and building	2,50,000
			Office furniture	10,000
		8,75,000		8,75,000

They agreed to take C into Partnership on 1st April, 2021 on the following terms:

(i) Goodwill is to be valued at ₹ 2,00,000. C is unable to bring cash for his share of goodwill. So, it was decided that due credit for goodwill be given to A and B for their sacrifice in favour of C through C's current account.

(ii) C pays ₹ 1,40,000 as his capital for 1/5th share in the future profits. 3:1:1

(iii) Stock and Furniture to be reduced by 10%.

(iv) A provision @ 5% for doubtful debts to be created on debtors.

(v) Land and building to be appreciated by 20%.

(vi) Capital Accounts of the partners be readjusted on the basis of their profit sharing arrangement and any excess or deficiency is to be transferred to their Current Accounts.

Prepare Revaluation Account and Partners Capital Accounts. **(10 Marks)**

WN1 C's share of GoodWill = $200{,}000 \times \frac{1}{5} = 40{,}000$

C's Current A/c Dr.		40,000
To A cap	30,000	
To B cap	10,000	

Revaluation A/c

Dr

Particulars	₹	Particulars	₹
To Stock	20,000	By Land & Buil	50,000
To furniture	1000		
To prov. for DD	8000		
To gain on Rev			
A 15750			
B 5250	21000		

Partner's Capital A/c

Cr.

	A	B	C		A	B	C
				by bal b/d	285000	155000	
				By Rev A/c	15750	5250	
				By Bank			140,000
				By C's current	30,000	10,000	
To bal c/d	375750	185250	140,000	by Gen Res	45000	15000	
				by bal b/d	375750	185250	140,000
To B's Current		45250					
To bal c/d	420,000	140,000	140,000	by A's Current A/c	44250	—	—

WN2 Capital Adj

Total cap of the firm on the basis of C

$= 140{,}000 \times 5$

$= £700{,}000$

A's Cap $= 700{,}000 \times \frac{3}{5} = 420{,}000$

B's cap $= 700{,}000 \times \frac{1}{5} = 140{,}000$

WN3 New PSR

C's share $= \frac{1}{5}$

Remain. Sh $= 1 - \frac{1}{5} = \frac{4}{5} \begin{cases} A \\ B \end{cases} 3:1$

A's Share $= \frac{4}{5} \times \frac{3}{4} = \frac{12}{20}$

B Share $= \frac{4}{5} \times \frac{1}{4} = \frac{4}{20}$

C $= \frac{1}{5} \times \frac{4}{4} = \frac{4}{20}$

$\underline{12:4:4}$

$3:1:1$

Dec 23

3/10

X, Y and Z were partners sharing profit and losses in the ratio of 5: 3: 2. Their Balance Sheet as on 31st March 2023 is as follows:

5/10

Balance Sheet as on 31 March, 2023

Liabilities	Amount ₹	Assets	Amount ₹
Capital Accounts		Building	2,00,000
X	4,25,000	Machinery	3,50,000
Y	2,55,000	Debtors	1,95,000
Z	1,40,000	Stock	1,05,000
General Reserve	25,000	Bank	25,000
Trade Creditors	30,000		
	8,75,000		8,75,000

Y retired from the business on 1 April, 2023 on the following terms:

(i) To appreciate building by 20% and to depreciate machinery by 5%.

(ii) Provision for debts is to be created at 10%.

(iii) Goodwill of the firm is valued at 1,60,000 and ~~Goodwill is not to be raised in the books of accounts~~. New profit sharing ratio will be 5:3 - 5/8

(iv) Entire sum payable to Y should be brought by X and Z in such a way to make their capital according to new profit ratio. Balance of Y to be paid immediately.

You are required to prepare Revaluation Account, Partners Capital Accounts and Balance Sheet after retirement. **(10 Marks)**

WN1 Goodwill.

$48000 \times \frac{5}{12}$

X cap Dr. 20,000

Z cap Dr. 28000

To Y cap A/c 48000

Revaluation A/c

Cr.

Particulars	₹	Particulars	₹
To Mach.	17500	By Build.	40,000
To prov. for DD	19500		
To gain on Rev X - 1500 Y 900 Z 600	3000		

Partner's Capital A/c

	X	Y	Z		X	Y	Z
To Ycap	20.000		28000	by bal b/d	425000	255000	140.000
				By Gen Res.	12500	7500	5000
				By Rev	1500	900	600
				By X cap		20.000	
To bal c/d	419000	311400	117600	By Z cap		28000	
To Bank		311400		by bal b/d	419000	311400	117600
				by Bank	1.11.000		200400
To bal c/d	530000		318000				

Balance Sheet
as on ...

Liab	₹	Assets	₹
Cap A/c X : 530,000 Z : 318000	848000	Building Machinery	240,000 332500
		Debtors. 195000 (-) prov. for DD (19500)	175500
Creditors	30,000	Stock Bank	105000 25000
	878000		878000

WN2 Gaining Sh.

$$X : \frac{5}{8} - \frac{5}{10} = \frac{25-20}{40} = \frac{5}{40}$$

$$Z - \frac{3}{8} - \frac{2}{10} = \frac{15-8}{40} = \frac{7}{40}$$

5:7

WN3 Cap. Adj

Total cap of the firm after Retirement

Comb. cap of X & Z = 536600
(419000 + 117600)

\+ Amt to be brought in = 311400

848000

	X	Z
New Cap.	$\frac{5}{8} \times 848000$	$\frac{3}{8} \times 848000$
	530000 ✓	318000 ✓
Ex cap	419000 ✓	117600 ✓
	1,11,000	200400

311400

Jan 21

$\frac{2}{4}$

The partnership deed of a firm consisting of 3 partners - P, Q and R (profit sharing ratio being 2:1:1) and whose fixed capitals are ₹ 30,000, ₹ 12,000 and ₹ 8,000 respectively provides as follows:

(i) The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.

(ii) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.

(iii) That an insurance policy of ₹ 25,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.

(iv) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated upto 31st December following his death.

(v) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.

(vi) That the partnership books to be closed annually on 31st December.

P died on 30th September, 2020. The amount standing to the credit of his current account as on 31st December, 2019 was $\boxed{₹ 5,000}$ and from that date to the date of death he had withdrawn ₹ 30,000 from the business. - Drawings

An unrecorded liability of ₹ 6,000 was discovered on 30th September, 2020 and it was decided to record it and immediately pay it off. -. Rev A/c

The trading results of the firm (before charging interest on capital) had been as follows:

2017	Profit ₹ 29,340
2018	Profit ₹ 26,470
2019	Loss ₹ 8,320
2020	Profit ₹ 13,470

(-) GOC

31/12/20

You are required to prepare an account showing amount due to P's legal heir as on 31st December, 2020.

Note: Impact for unrecorded liability not to be given in earlier years. **(10 Marks)**

P's Capital A/c

Part	₹	Part	₹
To P's current A/c	25000	by bal b/d	30,000
To Rev A/c (6000 x 2/4)	3000	by Q current	5915
		by R current	5915
To P's Executor A/c	38465	by Int on cap (30,000 x 8%)	2400
		by profit sh (WN)	4735
		by Ins. Policies (WN)	17500
	66465		66465

WN1 Goodwill

Year	Profits	IOC	Profit after Int
2017	29340	4000	25340
2018	26470	4000	22470
2019	(8320)	4000	(12320)
			35490
		Avg.	11830
		GW =	23660

→ Q cap 5915
R cap 5915
To P's cap A/c 11830

WN2 Profit Share

Profit for 2020	–	13470
(–) Int on cap [50,000×8%]		(4000)
		9470

P's share - $\frac{2}{4} \times 9470 = 4735$

WN3 Insurance Policy

P's policy	=	25000
Surrender value of Q &R [$50,000 \times \frac{20}{100}$]	=	10,000
		35000

P's share - $35000 \times \frac{2}{4} = 17500$

WN4 P's Current A/c

To Draw.	30,000	by bal b/d	5000
		by P's cap A/c	25000

M/s. TB is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June, 2020 was as under:

Balance Sheet of M/s. TB as on 30-6-2020

Liabilities	Amount (')	Assets	Amount (')
A's Capital A/c	1,24,000	Land	1,20,000
B's Capital A/c	96,000	Building ↓5%	2,20,000
C's Capital A/c	1,60,000	Plant & Machinery	4,00,000
Long Term Loan	4,20,000	Investments	42,000
Bank Overdraft	64,000	Inventories	1,36,000
Trade Payables	2,13,000	Trade Receivables 15%	1,59,000 -85%
	10,77,000		10,77,000

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2020. For this purpose, following adjustments are to be made:

(a) Goodwill of the firm is to be valued at ₹ 3 lakhs due to the firm's location advantage but the same will not appear as an asset in the books of the reconstituted firm.

(b) Building and Plant & Machinery are to be valued at 95% and 80% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹ 46,000. Trade receivables are considered good only upto 85% of the balance sheet figure. Balance to be considered bad.

(c) In the reconstituted firm, the total capital will be 4 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.
A C D

(d) The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare Revaluation Account and Partners' Capital Accounts after reconstitution, along with working notes. **(10 Marks)**

B cap Dr 46000
To Inv

WN1 **Goodwill**

A	3/10	-	3/10	=	NIL	
B					2/10	Sacrifice
C	5/10	-	4/10	=	1/10	Sac.
D				=	3/10	Gain

Entry- D's Cap Dr 90,000

To B cap 60,000

To C cap A/c 30,000

Revaluation A/c

Particulars	₹	Particulars	₹
To Building	11000	By Investment	4000
To Plant & Mach	80,000	By Loss on Rev	
To Bad debts	23850	A 33255	
		B 22170	
		C 55425	110850

Partners' Cap A/c

Part	A	B	C	D	Part	A	B	C	D
To B cap				60,000	by bal b/d	124000	96000	160000	
To C cap				30,000					
To Investment		46000			By D cap		60,000	30,000	
To Rev A/c	33255	22170	55425		by Bank (bal fig)	29255		25425	210,000
To B's Loan A/c		87830							
To bal c/d	120,000	—	160,000	120,000					

MTP · June 24

The Balance Sheet of a Partnership Firm M/s Alpha and Associates consisted of two partners X and Y who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2024 was as follows:

Liabilities	₹	Assets	₹
X's Capital	4,10,000	Land & Building	3,80,000
Y's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss A/c	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry debtors	60,000
		Cash at Bank.	42,060
	9,06,800		9,06,800

On the above date, Z was admitted as a partner on the following terms:

(a) Z should get 1/5th of share of profits.

(b) Z brought ₹ 2,40,000 as his capital and ₹ 32,000 for his share of Goodwill.

(c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

A provision for doubtful debts to be created at 5% on sundry debtors.

An unrecorded liability of ₹ 6,000 for repairs to Buildings would be recorded in the books of accounts.

(d) Immediately after Z's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

1

Prepare Revaluation A/c, Capital Accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of Z.

(10 Marks)

JLP → Comment ✓

Dissolution