VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

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Reconstitution Retirement/Death of a Partner

Question 1:

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

ANSWER:

Books of Aparna, and Sonia

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs
	Aparna's Capitals A/c Dr. Sonia's Capital A/c Dr. To Manisha's Capital A/c (Manisha's share of goodwill adjusted to Aparna's and Sonia's Capital Account in their gaining ratio)		18,000 42,000	 60,000

Working Notes:

1. Manisha's share in goodwill:

Total goodwill of the firm × Retiring Partner's Share = $1,80,000\times\frac{1}{3}=60,000$

2. Gaining Ratio = New Ratio − Old Ratio

Aparna Gaining share $=\frac{3}{5}-\frac{3}{6}=\frac{18-15}{30}=\frac{3}{30}$

Sonia Gaining Share $=\frac{2}{5}-\frac{1}{6}=\frac{12-5}{30}=\frac{7}{30}$

Gaining Ratio between Aparna and Sonia = 3 : 7

3. Aparna's share in goodwill $=60,000\times\frac{3}{10}=18,000$

Sonia's share in goodwill $= 60,000 \times \frac{7}{10} = 42,000$

Question 2:

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

ANSWER:

Books of Saroj and Shanti

Journal

Date	Particulars		L.F.	Amount Rs	Amount Rs
	Sangeeta's Capital A/c	Dr.		12,000	
	Saroj's Capital A/c	Dr.		18,000	
	Shanti's Capital A/c	Dr.		30,000	
	To Goodwill A/c				60,000
	(Goodwill written off)				
	Saroj's Capital A/c	Dr.		18,000	
	To Sangeeta's Capital A/c				18,000
	(Sangeeta's share of goodwill adjusted to Saroj's Capital Account in her gaining ratio)				

Working Notes:

1. Sangeeta's share of goodwill.

Total goodwill of the firm × Retiring Partner's share $= 90,000 \times \frac{2}{10} 18,000$

2. Gaining Ratio = New Ratio – Old Ratio

Saroj's Gaining Share $= \frac{1}{2} - \frac{3}{10} = \frac{10-6}{20} = \frac{4}{20}$

Shanti's Gaining Share $= \frac{1}{2} - \frac{5}{10} = \frac{10-10}{20} = \frac{0}{20}$

Question 3:

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

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

Cash Rs 10,000, Building Rs 1,00,000, Plant and Machinery Rs 40,000, Stock Rs 20,000, Debtors Rs 20,000 and Investments Rs 30,000.

The following was agreed upon between the partners on Naman's retirement:

(i) Building to be appreciated by 20%.
(ii) Plant and Machinery to be depreciated by 10%.
(iii) A provision of 5% on debtors to be created for bad and doubtful debts.
(iv) Stock was to be valued at Rs 18,000 and Investment at Rs 35,000.

Record the necessary journal entries to the above effect and prepare the Revaluation Account.

ANSWER:

Books of Himanshu and Gagan

Journal

Date	Particulars		L.F.	Amount Rs	Amount Rs
	Building A/c	Dr.		20,000	
	Investment A/c	Dr.		5,000	
	To Revaluation A/c	Dr.			25,000
	(Value of Building and Investment increased at the time of Naman's retirement)				
	Revaluation A/c	Dr.		7,000	
	To Plant and Machinery A/c				4,000
	To Provision for Bad and Doubt Debts A/c				1,000
	To Stock A/c				2,000
	(Assets revalued and Provision for Bad and Doubtful Debts made at the time of Naman's retirement)				
	Revaluation A/c	Dr.		18,000	
	To Himanshu's Capital A/c				9,000
	To Gagan's Capital A/c				6,000
	To Naman's Capital A/c				3,000
	(Profit on revaluation transferred to all Partners' Capital				

	Accounts in their old profit sharing ratio)			

Revaluation Account

Dr. **Cr.**

Particular		**Amount Rs**	**Particular**	**Amount Rs**
Plant and Machinery		4,000	Building	20,000
Stock		2,000	Investment	5,000
Provision for Bad and Doubtful Debts		1,000		
Profit transferred to Capital Account:				
Himanshu	9,000			
Gagan	6,000			
Naman	3,000	18,000		
		25,000		25,000

Question 4:

Naresh, Raj Kumar and Bishwajeet are equal partners. Raj Kumar decides to retire. On the date of his retirement, the Balance Sheet of the firm showed the following: General Reserves Rs 36,000 and Profit and Loss Account (Dr.) Rs 15,000.

Pass the necessary journal entries to the above effect.

ANSWER:

Books of Naresh and Bishwajeet

Journal

Date	**Particulars**	**L.F.**	**Amount Rs**	**Amount Rs**
	General Reserve A/c Dr.		36,000	
	To Naresh's Capital A/c			12,000
	To Raj Kumar's Capital A/c			12,000
	To Bishwajeet's Capital A/c			12,000

	(General Reserve distributed among old partner in old ratio)			
	Naresh's Capital A/c Dr.		5,000	
	Raj Kumar's Capital A/c Dr.		5,000	
	Bishwajeet's Capital A/c Dr.		5,000	
	To Profit and Loss A/c			15,000
	(Debit balance of Profit and Loss Account written off)			

Question 5:

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

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

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

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

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

(iii) Patents were considered as valueless.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of Digvijay and Parakaram after Brijesh's retirement.

ANSWER:

Books of Digvijay and Parakaram

Revaluation Account

Dr. Particular	Amount Rs	Particular	Cr. Amount Rs
Bad Debts	2,000		
Patents	9,000	Loss transferred to Capital Account:	
		Digvijay	4,400
		Brijesh	4,400
		Parakaram	2,200
	11,000		11,000

Partners' Capital Account

Dr. Particularss	Digvijay	Brijesh	Parakaram	Particularss	Digvijay	Brijesh	Cr. Parakaram
Brijesh's Capital A/c	18,667		9,333	Balance b/d	82,000	60,000	75,500
Revaluation (Loss)	4,400	4,400	2,200	Digvijay's Capital A/c		18,667	
Brijesh's Loan		91,000		Parakaram's Capital A/c		9,333	
Balance c/d	66,333		67,667	Reserves	7,400	7,400	3,700
	89,400	95,400	79,200		89,400	95,400	79,200

Balance Sheet as on March 31, 2017

Liabilities	Amount Rs	Assets		Amount Rs
Creditors	49,000	Cash		8,000
Brijesh's Loan	91,000	Debtors	19,000	
		Less: Bad Debts	2,000	17,000
Digvijay's Capital A/c	66,333	Stock		42,000
Parakaram's Capital A/c	67,667	Buildings		2,07,000
	2,74,000			2,74,000

Note: As sufficient balance is not available to pay the amount due to Brijesh, the balance of his Capital Account transferred to his Loan Account.

Working Note:

1. Brijesh's Share of Goodwill

Total goodwill of the firm × Retiring Partner's Share $= 70,000 \times \frac{2}{5} = \text{Rs } 28,000$

2. Gaining Ratio = New Ratio – Old Ratio

Digvijay's Share $= \frac{2}{3} - \frac{2}{5} = \frac{10-6}{15} = \frac{4}{15}$

Parakaram's Share $= \frac{1}{3} - \frac{1}{5} = \frac{5-3}{15} = \frac{2}{15}$

Gaining ratio between Digvijay and Parakaram = 4 : 2 or 2 : 1

Question 6:

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

Liabilities		Amount Rs	Assets	Amount Rs
Trade Creditors		3,000	Cash-in-Hand	1,500
Bills Payable		4,500	Cash at Bank	7,500
Expenses Owing		4,500	Debtors	15,000
General Reserve		13,500	Stock	12,000
Capitals:			Factory Premises	22,500
Radha	15,000		Machinery	8,000
Sheela	15,000		Losse Tools	4,000
Meena	15,000	45,000		
		70,500		70,500

The terms were:
a) Goodwill of the firm was valued at Rs 13,500.
b) Expenses owing to be brought down to Rs 3,750.
c) Machinery and Loose Tools are to be valued at 10% less than their book value.
d) Factory premises are to be revalued at Rs 24,300.
Prepare:
1. Revaluation account
2. Partner's capital accounts and
3. Balance sheet of the firm after retirement of Sheela.

ANSWER:

Books of Radha and Meena

Revaluation Account

Dr. **Cr.**

Particulars		Amount Rs	Particulars	Amount Rs
Machinery		800	Expenses Owing	750
Loose Tools		400	Factory Premises	1,800
Profit transferred to Capital Account:				
Meena	675			
Radha	450			
Sheela	225	1,350		
		2,550		2,550

Parters' Capital Account

Dr. **Cr.**

Particulars	Radha	Sheela	Meena	Particulars	Radha	Sheela	Meena
Sheela's Capital A/c	3,375		1,125	Balance b/d	15,000	15,000	15,000
Sheela's Loan A/c		24,450		General Reserve	6,750	4,500	2,250
Balance c/d	19,050		16,350	Revaluation (Profit)	675	450	225
				Radha's Capital A/c		3,375	

				Meena's Capital A/c		1,125	
	22,425	24,450	17,475		22,425	24,450	17,475

Balance Sheet as on April 01, 2017

Liabilities		Amount Rs	Assets		Amount Rs
Trade Creditors		3,000	Cash in Hand		1,500
Bills Payable		4,500	Cash at Bank		7,500
Expenses Owing		3,750	Debtors		15,000
Sheela's Loan		24,450	Stock		12,000
			Factory Premises		24,300
Capitals:			Machinery	8,000	
Radha	19,050		*Less*: 10%	(800)	7,200
Meena	16,350	35,400	Loose Tools	4,000	
			Less: 10%	(400)	3,600
		71,100			71,100

Working Notes:

1) Sheela's share of goodwill

Total goodwill of the firm × Retiring Partner's share =13,500×26=4,50013,500×26=4,500

2) Gaining Ratio = New Ratio − Old Ratio

Radha's Share $= \frac{3}{4} - \frac{3}{6} = \frac{18-12}{24} = \frac{6}{24}$

Meena's Shares $= \frac{1}{4} - \frac{1}{6} = \frac{6-4}{24} = \frac{2}{6}$

Gaining Ratio between Radha and Meena = 6 : 2 or 3 : 1

Question 7:

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

Books of Pankaj, Naresh and Saurabh
Balance Sheet as on March 31, 2017

Liabilities	Amount Rs	Assets	Amount Rs

General Reserve		12,000	Bank		7,600
Sundry Creditors		15,000	Debtors	6,000	
Bills Payable		12,000	*Less:* Provision for Doubtful Debt	400	5,600
Outstanding Salary		2,200			
Provision for Legal Damages		6,000	Stock		9,000
Capitals:			Furniture		41,000
Pankaj	46,000		Premises		80,000
Naresh	30,000				
Saurabh	20,000	96,000			
		1,43,200			1,43,200

Additional Information

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

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

(iii) Rs 26,000 from Naresh's Capital account be transferred to his loan account and balance be paid through bank; if required, necessary loan may be obtained from Bank.

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

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

ANSWER:

Revaluation Account

Dr. **Cr.**

Particulars		**Amount Rs**	**Particulars**	**Amount Rs**
Stock		900	Premises	16,000
Provision for Legal Damages		1,200	Provision for Doubtful Debts	100
Profit transferred to Capital:			Furniture	4,000
Pankaj	9,000			
Naresh	6,000			
Saurabh	3,000	18,000		
		20,100		20,100

Parters' Capital Accounts

Dr. **Cr.**

Particulars	**Pankaj**	**Naresh**	**Saurabh**	**Particulars**	**Pankaj**	**Naresh**	**Saurabh**

Naresh's Capital A/c	14,000			Balance b/d	46,000	30,000	20,000
Naresh's Loan A/c		26,000		General Reserve	6,000	4,000	2,000
Bank		28,000		Revaluation (Profit)	9,000	6,000	3,000
Balance c/d	47,000		25,000	Pankaj's Capital A/c		14,000	
	61,000	54,000	25,000		61,000	54,000	25,000

Bank Account

Dr. **Cr.**

Particulars	**Amount Rs**	**Particulars**	**Amount Rs**
Balance b/d	7,600	Naresh's Capital A/c	28,000
Bank Loan (*Balancing Figure*)	20,400		
	28,000		28,000

Balance Sheet as on March 31, 2017

Liabilities		**Amount Rs**	**Assets**		**Amount Rs**
Sundry Creditors		15,000	Debtors	6,000	
Bills Payable		12,000	*Less*: Provision for Doubtful Debts	300	5,700
Bank Loan/overdraft		20,400	Stock		8,100
Outstanding Salaries		2,200	Furniture		45,000
Provision for Legal Damages		7,200	Premises		96,000
Naresh's Loan		26,000			
Capitals:					
Pankaj	47,000				
Saurabh	25,000	72,000			
		1,54,800			1,54,800

Question 8:

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

Books of Puneet, Pankaj and Pammy

Balance Sheet as on March 31, 2017

Liabilities		**Amount Rs**	**Assets**	**Amount Rs**
Sundry Creditors		1,00,000	Cash at Bank	20,000
Capital Accounts:			Stock	30,000
Puneet	60,000		Sundry Debtors	80,000
Pankaj	1,00,000		Investments	70,000
Pammy	40,000	2,00,000	Furniture	35,000
Reserve		50,000	Buildings	1,15,000
		3,50,000		3,50,000

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

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

(ii) He will be entitled to his share of goodwill of the firm calculated on the basis of 3 years' purchase of average of last 4 years' profit. The profits for the last four financial years are given below: for 2013–14; Rs 80,000; for 2014–15, Rs 50,000; for 2015–16, Rs 40,000; for 2016–17, Rs 30,000.

The drawings of the deceased partner up to the date of death amounted to Rs 10,000. Interest on capital is to be allowed at 12% per annum.

Surviving partners agreed that Rs 15,400 should be paid to the executors immediately and the balance in four equal yearly instalments with interest at 12% p.a. on outstanding balance.

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

ANSWER:

Pammy's Capital Account

Dr. Particulars	Amount Rs	Particulars	Cr. Amount Rs
Drawings	10,000	Balance b/d	40,000
Pammy Executor's A/c	75,400	Profit and Loss (Suspense)	3,000
		Puneet's Capital A/c	15,000
		Pankaj's Capital A/c	15,000
		Interest on Capital	2,400
		Reserve	10,000
	85,400		85,400

Pammy's Executor Account

Dr. Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Cr. Amount Rs
2017-18				2017-18			
Sep. 30	Bank		15,400	Sep. 30	Pammy's Capital A/c		75,400
Mar. 31	Balance c/d		63,600	Mar. 31	Interest		3,600
			79,000				79,000
2018-19				2018-19			
Sep. 30	Bank		22,200	April 01	Balance b/d		63,600
	(15,000+3,600+3,600)			Sep. 30	Interest		3,600
Mar. 31	Balance c/d		47,700	Mar. 31	Interest		2,700
			69,900				69,900
2019-20				2019-20			
Sep. 30	Bank		20,400	April 01	Balance b/d		47,700

Mar. 31	Balance c/d		31,800	Sep. 30	Interest		2,700
				Mar. 31	Interest		1,800
			52,200				52,200
2020-21				2020-21			
Sep. 30	Bank		18,600	April 01	Balance b/d		31,800
	(15,000+1,800+1,800)			Sep. 30	Interest		1,800
Mar. 31	Balance c/d		15,900	Mar. 31	Interest		900
			34,500				34,500
2021-22				2021-22			
Sep. 30	Bank		16,800	April 01	Balance b/d		15,900
	(15,000+900+900)			Sep. 30	Interest		900
			16,800				16,800

Working Notes:

1) Pammy's Share of Profit

Previous Year's Profit × Proportionate Period × Share of Deceased Partner $= 30,000 \times \frac{6}{12} \times \frac{1}{5} = \text{Rs } 3,000$

2) Pammy's Share of Goodwill

Goodwill of the firm = Average Profit × Numbers of Year's Purchase

Average Profit $= \frac{80,000 + 50,000 + 40,000 + 30,000}{4} = \frac{2,00,000}{4} = \text{Rs } 50,000$

Goodwill of the firm = 50,000 × 3 = Rs 1,50,000

$$\text{Pammy's Share} = 1,50,000 \times \frac{1}{5} = \text{Rs } 30,000$$

3) Gaining Ratio = New Ratio – Old Ratio

Puneet's Share $= \frac{2}{4} - \frac{2}{5} = \frac{10-8}{20} = \frac{2}{20}$

Pankaj's Share $= \frac{2}{4} - \frac{2}{5} = \frac{10-8}{20} = \frac{2}{20}$

Gaining Ratio between Puneet and Pankaj = 2 : 2 or 1 : 1

4) Interest on Capital for 6 months, i.e. from April 1, 2007 to September 30, 2007

Amount of Capital × Rate of Interest × Period $= 40,000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs } 2,400$

5) Interest Amount
The firm closes its books every year on March 31, while installments to Pammy's Executor are paid on September 30 every year.
Amount outstanding on 30 September = 75,400 – 15,400 = Rs 60,000

Calculation of Interest

Periods	Amount Outstanding	Yearly Interest	For 6 Months
2017-18	60,000	$60,000 \times \frac{12}{100} = 7,200$	$7,200 \times \frac{6}{12} = 3,600$
2018-19	45,000	$45,000 \times \frac{12}{100} = 5,400$	$5,400 \times \frac{6}{12} = 2,700$
2019-20	30,000	$30,000 \times \frac{12}{100} = 3,600$	$3,600 \times \frac{6}{12} = 1,800$
2020-21	15,000	$15,000 \times \frac{12}{100} = 1,800$	$1,800 \times \frac{6}{12} = 900$

Question 9:

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

Books of Prateek, Rockey and Kushal

Balance Sheet as on March 31, 2017

Liabilities		Amount Rs	Assets	Amount Rs
Sundry Creditors		16,000	Bills Receivable	16,000
General Reserve		16,000	Furniture	22,600
Capital Accounts:			Stock	20,400
Prateek	30,000		Sundry Debtors	22,000
Rockey	20,000		Cash at Bank	18,000
Kushal	20,000	70,000	Cash in Hand	3,000
		1,02,000		1,02,000

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

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

b) Interest on capital at 5% per annum.

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

d) Share of profit from the closing date of the last financial year to the date of death on the basis of last year's profit.

Profits for the year ending on March 31, 2015, March 31, 2016 and March 31, 2017 were Rs 12,000, Rs 16,000 and Rs 14,000 respectively. Profits were shared in the ratio of capitals. Pass the necessary journal entries and draw up Rockey's capital account to be rendered to his executor.

ANSWER:

Books of Prateek and Kushal

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs

2017 June 30	Interest on Capital A/c Dr. Profit and Loss (Suspense) A/c Dr. General Reserve A/c Dr. To Rockey's Capital A/c (Share of profit, interest on capital and share of General Reserve credited to Rockey's Capital Account)		250 1,000 4,571	 5,821
June 30	Prateek's Capital A/c Dr. Kushal's Capital A/c Dr. To Rockey's Capital A/c (Rockey's share of goodwill adjusted to Prateek's and Kushal's Capital Account in their gaining ratio, 3:2)		4,800 3,200	 8,000
June 30	Rockey's Capital A/c Dr. To Rockey Executor's A/c (Balance of Rockey's Capital Account transferred to his Executor's Account)		33,821	 33,821

Rockey's Capital Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017 April 1	Rockey's Executor A/c		33,821	2017 April 1	Balance b/d		20,000
					Interest on Capital		250
					Profit and Loss (Suspense) A/c		1,000
					General Reserve		4,571
					Prateek's Capital		4,800
					Kushal's Capital		3,200
			33,821				33,821

Working Notes:

1. Rockey's Share of Profit = Previous year's profit × Proportionate Period × Share of Deceased Partner

$= 14,000 \times \frac{3}{12} \times \frac{2}{7} = \text{Rs } 1,000$

2. Rockey's Share of Goodwill

Goodwill of a firm = Average profit × Numbers of year's Purchase

$$\text{Average Profit} = \frac{12,000 + 16,000 + 14,000}{3} = \frac{42,000}{3} = \text{Rs } 14,000$$

Goodwill of a firm = 14,000 × 2 = Rs 28,000

$$\text{Rockey's Share} = 28,000 \times \frac{2}{7} = \text{Rs } 8,000$$

3. Gaining Ratio = New Ratio − Old Ratio

$$\text{Prateek's Share} = \frac{3}{5} - \frac{3}{7} = \frac{21-15}{35} = \frac{9}{35}$$

$$\text{Kushal's Share} = \frac{2}{5} - \frac{2}{7} = \frac{14-10}{35} = \frac{4}{35}$$

Gaining Ratio between Prateek and Kushal = 9:4 or 3:2

4. Interest on Capital for 3 months i.e. from April 1, 2017 to June 30, 2017

Amount of × Rate of Interest × Period $= 20,000 \times \frac{5}{100} \times \frac{3}{12} = \text{Rs } 250$