

VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce Sub. ACT Date 16.06.2021

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Reconstitution Retirement/Death of a Partner

Question 9:

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

Books of Prateek, Rocky 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
Rocky	20,000	Cash at Bank	18,000
Kushal	20,000	Cash in Hand	3,000
	70,000		
	1,02,000		1,02,000

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

- Amount standing to the credit of the Partner's Capital account.
- Interest on capital at 5% per annum.
- Share of goodwill on the basis of twice the average of the past three years' profit and
- 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 Rocky'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 Profit and Loss (Suspense) A/c General Reserve A/c To Rockey's Capital A/c (Share of profit, interest on capital and share of General Reserve credited to Rockey's Capital Account)	Dr. Dr. Dr.	250 1,000 4,571	5,821
June 30	Prateek's Capital A/c Kushal's Capital A/c 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)	Dr. Dr.	4,800 3,200	8,000
June 30	Rockey's Capital A/c To Rockey Executor's A/c (Balance of Rockey's Capital Account transferred to his Executor's Account)	Dr.	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. Rocky'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. Rocky'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

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

3. Gaining Ratio = New Ratio – Old Ratio

$$\text{Prateek's Share} = \frac{3}{5} - \frac{3}{7} = \frac{21-15}{35} = \frac{6}{35}$$

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

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

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

Question 10:

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

Books of Suri, Narang and Bajaj

Balance Sheet as on April 1, 2015

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	12,000	Freehold Premises	40,000
Sundry Creditors	18,000	Machinery	30,000
Reserves	12,000	Furniture	12,000
Capital Accounts:		Stock	22,000
Narang	30,000	Sundry Debtors	20,000
Suri	20,000	Less: Reserve	1,000
Bajaj	28,000	for Bad Debt	
	88,000	Cash	7,000
	1,30,000		1,30,000

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

- a) Freehold premises and stock are to be appreciated by 20% and 15% respectively.
- b) Machinery and furniture are to be depreciated by 10% and 7% respectively.
- c) Bad Debts reserve is to be increased to Rs 1,500.
- d) Goodwill is valued at Rs 21,000 on Bajaj's retirement.
- e) The continuing partners have decided to adjust their capitals in their new profit sharing ratio after retirement of Bajaj. Surplus/deficit, if any, in their capital accounts will be adjusted through current accounts.

Prepare necessary ledger accounts and draw the Balance Sheet of the reconstituted firm.

ANSWER:

Revaluation Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Machinery	3,000	Freehold Properties	8,000
Furniture	840	Stock	3,300
Reserve for Bad debts	500		
Capitals:			
Narang	3,480		
Suri	1,160		
Bajaj	2,320		
	11,300		11,300

Partners' Capital Account

Dr.				Cr.			
Particulars	Narang	Suri	Bajaj	Particulars	Narang	Suri	Bajaj
Bajaj's Capital A/c	5,250	1,750		Balance b/d	30,000	30,000	28,000
Bajaj's Loan			41,320	Reserves	6,000	2,000	4,000
Balance c/d	34,230	31,410		Revaluation (Profit)	3,480	1,160	2,320
				Narang's Capital A/c			5,250
				Suri's Capital A/c			1,750
	39,480	33,160	41,320		39,480	33,160	41,320
Suri's Current A/c		15,000		Balance b/d	34,230	31,410	
Balance c/d	49,230	16,410		Narang's Current A/c	15,000		
	49,230	31,410			49,230	31,410	

Balance Sheet as on April 01, 2015

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	12,000	Free hold Premises	48,000
Sundry Creditors	18,000	Machinery	27,000
Bajaj's Loan	41,320	Furniture	11,160
Suri's Current	15,000	Stock	25,300
Capital Account:		Sundry Debtors	20,000
Narang	49,230	Less: Reserve for Bad Debt	1,500
Suri	16,410	Cash	7,000
		Narang's Current Account	15,000
	1,51,960		1,51,960

Working Notes:

1. Bajaj Share in Goodwill = Total Goodwill of the firm \times Retiring Partner's Share

$$= 21,000 \times \frac{1}{3} = \text{Rs } 7,000$$

2. Gaining Ratio = New Ratio – Old Ratio

$$\text{Narang's Gaining Share} = \frac{3}{4} - \frac{3}{6} = \frac{9-6}{12} = \frac{3}{12}$$

$$\text{Suri's Gaining Share} = \frac{1}{4} - \frac{1}{6} = \frac{3-2}{12} = \frac{1}{12}$$

Gaining Ratio between Narang and Suri = 3:1

3. Calculation of New Capitals of the existing partners.

Balance in Narang's Capital	=	34,230
Balance in Suri's Capital	=	31,410
Total Capital of the New firm after revaluation of assets and liabilities and adjustment of Goodwill and Reserves	=	<u>Rs</u> <u>65,640</u>

Based on new profit sharing ratio of 3:1

$$\text{Narang's Capital} = 65,640 \times \frac{3}{4} = \text{Rs } 49,230$$

$$\text{Suri's Capital} = 65,640 \times \frac{1}{4} = \text{Rs } 16,410$$

NOTE:

i. In the given Question Suri's Capital is Rs 30,000 instead of Rs 20,000.

ii. Due to insufficient balance in Bajaj's Capital Account, the amount due to Bajaj is transferred to his Loan Account.

Question 11:

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

Books of Rajesh, Pramod and Nishant

Balance Sheet as on March 31, 2015

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	6,250	Factory Building	12,000
Sundry Creditors	10,000	Debtors	10,500
Reserve Fund	2,750	Less: Reserve	500
Capital Accounts:		Bills Receivable	7,000
Rajesh	20,000	Stock	15,500
Prمود	15,000	Plant and Machinery	11,500
Nishant	15,000	Bank Balance	13,000
	69,000		69,000

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

- a) Stock was valued at 10% less than the book value.
- b) Factory buildings were appreciated by 12%.
- c) Reserve for doubtful debts be created up to 5%.
- d) Reserve for legal charges to be made at Rs 265.
- e) The goodwill of the firm be fixed at Rs 10,000.
- f) The capital of the new firm be fixed at Rs 30,000. The continuing partners decide to keep their capitals in the new profit sharing ratio of 3:2.

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

ANSWER:

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs
2015 Mar. 31	Revaluation A/c Dr.		1,840	
	To Stock A/c			1,550
	To Reserve for Doubtful Debts A/c			25
	To Reserve for Legal Charges A/c			265

	(Assets and Liabilities are revalued)			
Mar. 31	Factory Building A/c	Dr.	1,440	
	To Revaluation A/c (Factory Building appreciated)			1,440
Mar. 31	Rajesh's Capital A/c	Dr.	160	
	Pramod's Capital A/c	Dr.	120	
	Nishant's Capital A/c	Dr.	120	
	To Revaluation A/c			400
	(Loss on Revaluation adjusted to Partners' Capital Account)			
Mar. 31	Rajesh's Capital A/c	Dr.	2,000	
	Nishant's Capital A/c	Dr.	1,000	
	To Pramod Capital's A/c			3,000
	(Pramod's share of goodwill adjusted to Rajesh's and Nishant's Capital Account in their gaining ratio)			
Mar. 31	Reserve Fund A/c	Dr.	2,750	
	To Rajesh's Capital A/c			1,100
	To Pramod's Capital A/c			825
	To Nishant's Capital A/c			825
	(Reserve Fund distributed all the partners)			
Mar. 31	Pramod's Capital A/c	Dr.	18,705	
	To Pramod's Loan A/c			18,705
	(Pramod's Capital transferred to his Loan Account)			
Mar. 31	Rajesh's Capital A/c	Dr.	940	
	Nishant's Capital A/c	Dr.	2,705	
	To Rajesh's Current A/c			940
	To Nishant's Current A/c			2,705
	(Excess in Capital Account is transferred to Current Account)			

Parters' Capital Account

Dr.							Cr.
Particulars	Rajesh	Pramod	Nishant	Particulars	Rajesh	Pramod	Nishant
Revaluation (Loss)	160	120	120	Balance b/d	20,000	15,000	15,000
Pramod's Capital A/c	2,000		1,000	Reserve Fund	1,100	825	825
Pramod's Loan A/c		18,705		Rajesh's Capital A/c		2,000	
Rajesh's Current A/c	940			Nishant's Capital A/c		1,000	
Nishant's Current A/c			2,705				
Balance c/d	18,000		12,000				
	21,100	18,825	15,825		21,100	18,825	15,825

Balance Sheet as on March 31, 2015

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	6,250	Plant and Machinery	11,500
Sundry Creditors	10,000	Debtors	10,500
Reserve for Legal Charges	265	<i>Less: Reserve</i>	(525)
Pramod's Loan	18,705	Bills Receivable	7,000
Current Account:		Stock	15,500
Rajesh	940	<i>Less: 10% Depreciation</i>	(1,550)
Nishant	2,705		13,950
Capital Account:		Factory Building	12,000
Rajesh	18,000	<i>Add: 12% Appreciation</i>	1,440
Nishant	12,000	Bank Balance	13,000
	68,865		68,865

Working Notes:

1) Pramod's share of goodwill = Total goodwill of the firm × Retiring Partner's Share

$$= 10,000 \times \frac{3}{10} = \text{Rs } 3,000$$

2) Gaining Ratio = New Ratio – Old Ratio

$$\text{Rajesh's Gaining Share} = \frac{3}{5} - \frac{4}{10} = \frac{6-4}{10} = \frac{2}{10}$$

$$\text{Nishant Gaining Share} = \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$$

Gaining Ratio between Rajesh and Nishant = 2:1

NOTE: In the above solution, in order to adjust the capital of remaining partners in the new firm according to their new profit sharing ratio, the surplus or the deficit of Capital Account is transferred to their Current Account. But, in order to match the answer with that of given in the book, the surplus or the deficit amount of the Partners' Capital Account, will either be withdrawn or brought in by the old partners. This treatment will be shown in the Partners' Capital itself and no need to transfer the surplus or deficit capital balance to their Current Accounts. The following Journal entry is passed to record the withdrawal of surplus capital by the partners.

If existing partners withdraw their excess capital

Journal entry

Rajesh's Capital A/c	Dr.	940	
Nishant's Capital A/c	Dr.	2,705	
To Bank A/c			3,645
(Surplus Capital withdrawn)			

Balance Sheet as on March 31, 2015

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	6,250	Plant and Machinery	11,500
Sundry Creditors	10,000	Debtors	10,500
Reserve for Legal Charges	265	Less: Reserve	(525)
Pramod's Loan	18,705	Bills Receivable	7,000
Capital:		Stock	15,500
Rajesh	18,000	Less: 10% Depreciation	(1,550)
Nishant	12,000		13,950
	30,000	Factory Building	12,000
		Add: 12% Appreciation	1,440
		Bank Balance	9,355
	65,220		65,220

Question 12:

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

**Books of Jain, Gupta and Malik
Balance Sheet as on March 31, 2016**

Liabilities	Amount Rs	Assets	Amount Rs
Sundry Creditors	19,800	Land and Building	26,000
Telephone Bills Outstanding	300	Bonds	14,370
Accounts Payable	8,950	Cash	5,500
Accumulated Profits	16,750	Bills Receivable	23,450
Capitals :		Sundry Debtors	26,700
Jain	40,000	Stock	18,100
Gupta	60,000	Office Furniture	18,250
Malik	20,000	Plants and Machinery	20,230
	1,20,000	Computers	13,200
	1,65,800		1,65,800

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

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

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

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

ANSWER:

In the books of Jain and Gupta

Revaluation Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Office Furniture	4,000	Stock	1,900
Land and Building	6,000	Plant and Machinery	3,300

Provision for Doubtful Debts	1,700	Loss transferred to		
		Jain's Capital A/c	3,250	
		Gupta's Capital A/c	1,950	
		Malik's Capital A/c	1,300	6,500
	11,700			11,700

Partners' Capital Account

Dr.				Cr.			
Particulars	Jain	Gupta	Malik	Particulars	Jain	Gupta	Malik
Revaluation (Loss)	3,250	1,950	1,300	Balance b/d	40,000	60,000	20,000
Malik's Capital	1,125	675		Accumulated Profits	8,375	5,025	3,350
Cash			16,500	Jain's Capital A/c			1,125
Malik's Loan			7,350	Gupta's Capital A/c			675
Balance c/d	53,900	69,000		Cash	9,900	6,600	
	58,275	71,625	25,150		58,275	71,625	25,150

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
Sundry Creditors	19,800	Stock (18,100 + 1,900)	20,000
Telephone Bills Outstanding	300	Bonds	14,370
Accounts Payable	8,950	Cash	5,500
Malik's Loan	7,350	Bills Receivable	23,450
Partners' Capital:		Sundry Debtors	26,700
Jain	53,900	Less: Provision for Bad Debts	1,700
Gupta	69,000		25,000
	1,22,900	Land and Building (26,000 – 6,000)	20,000
		Office Furniture (18,250 – 4,000)	14,250
		Plant and Machinery (20,230 + 3,300)	23,530
		Computers	13,200
	1,59,300		1,59,300

Working Note:

$$1) \text{ Malik's share of goodwill} = \text{Total Goodwill} \times \text{Retiring Partner Share} = 9,000 \times \frac{2}{10} = 1,800$$

2) Gaining Ratio = New Ratio – Old Ratio

$$\text{Jain's Gaining share} = \frac{5}{8} - \frac{5}{10} = \frac{50-40}{80} = \frac{10}{80}$$

$$\text{Gupta Gaining Share} = \frac{3}{8} - \frac{3}{10} = \frac{30-24}{80} = \frac{6}{80}$$

Gaining Ratio between Jain and Gupta = 10:6

Question 13:

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

Books of Arti, Bharti and Seema

Balance Sheet as on March 31, 2016

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	12,000	Buildings	21,000
Creditors	14,000	Cash in Hand	12,000
General Reserve	12,000	Bank	13,700
Capitals:		Debtors	12,000
Arti 20,000		Bills Receivable	4,300
Bharti 12,000		Stock	1,750
Seema 8,000	40,000	Investment	13,250
	78,000		78,000

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

- (a) The capital to her credit at the time of her death and interest thereon @ 10% per annum.
- (b) Her proportionate share of reserve fund.
- (c) Her share of profits for the intervening period will be based on the sales during that period, which were calculated as Rs 1,00,000. The rate of profit during past three years had been 10% on sales.
- (d) Goodwill according to her share of profit to be calculated by taking twice the amount of the average profit of the last three years less 20%. The profits of the previous years were:
 2013 – Rs 8,200
 2014 – Rs 9,000
 2015 – Rs 9,800

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

ANSWER:

Books of Arti and Seema

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs
2016				
June 12	Interest on Capital A/c General Reserve A/c Profit and Loss (Suspense) A/c To Bharti's Capital A/c (Profit, interest and general reserve are in credited to Bharti's Capital account)	Dr. Dr. Dr.	240 4,000 3,333	7,573
June 12	Arti's Capital A/c Seema's Capital A/c To Bharti's Capital A/c (Bharti's share of goodwill adjusted to Arti's and Seema's Capital Account in their gaining ratio, 3:1)	Dr. Dr.	3,600 1,200	4,800
June 12	Bharti's Capital A/c To Bharti's Executor's A/c (Bharti's capital account is transferred to her executor's account)	Dr.	24,373	24,373
June 12	Bank A/c To Investment A/c To Profit on Sale of Investment (Investment sold)	Dr.	16,200	13,250 2,950
June 12	Bharti's Executor A/c To Bank A/c	Dr.	24,373	24,373

(Bharti Executor paid)			
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Bharti's Capital Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2016 June 12	Bharti's Executor's A/c		24,373	2016 Mar. 31	Balance b/d		12,000
				June 12	Interest on Capital		240
					Profit and Loss (Suspense)		3,333
					General Reserve		4,000
					Arti's Capital A/c		3,600
					Seema's Capital A/c		1,200
			24,373				24,373

Bharti's Executor's Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2016 June 12	Bank		24,373	2016 June 12	Bharti's Capital A/c		24,373
			24,373				24,373

Working Notes:

1. Bharti's share of profit = Profit is 10% of sales

Sales during the last year for that period were Rs 1,00,000

If sales are Rs 1,00,000, then the profit is Rs 10,000

$$\text{Bharti's share} = 10,000 \times \frac{2}{6} = \text{Rs } 3,333$$

2. Bharti's Share of Goodwill

Goodwill of the firm = Average Profit \times Number of Years Purchase

$$\text{Average Profit} = \frac{8,200 + 9,000 + 9,800}{3} = \text{Rs } 9,000$$

Or, $9,000 - 20\%$ of $9,000 = 9,000 - 1,800 = \text{Rs } 7,200$

Goodwill of the firm = $7,200 \times 2 = \text{Rs } 14,400$

$$\text{Bharti's share} = 14,400 \times \frac{2}{6} = \text{Rs } 4,800$$

3. Gaining Ratio = New Ratio - Old Ratio

$$\text{Arti's Gaining Share} = \frac{3}{4} - \frac{3}{6} = \frac{9-6}{12} = \frac{3}{12}$$

$$\text{Seema's Gaining Share} = \frac{1}{4} - \frac{1}{6} = \frac{3-2}{12} = \frac{1}{12}$$

Gaining ratio between Arti and Seema = 3:1

4. Interest on Capital for 73 days, i.e. from April 1, 2016 to June 12, 2016

$$\text{Interest on capital} = \text{Amount of Capital} \times \text{Rate of Interest} \times \text{Period} = 12,000 \times \frac{10}{100} \times \frac{73}{365} = \text{Rs } 240$$