

VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce Sub. ACT Date 25.8.2020

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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
	<u>70,000</u>		
	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

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

Rockey's Capital Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
April 1	Rockey's Executor A/c		33,821	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

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

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

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	7,000
	1,30,000	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		
	6,960		
	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
				Revaluation (Profit)	3,480	1,160	2,320
Balance c/d	34,230	31,410		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
	<hr/>	Narang's Current Account	15,000
	1,51,960		<hr/>
	<hr/>		1,51,960

Working Notes:

$$1. \text{ Bajaj Share in Goodwill} = \text{Total Goodwill of the firm} \times \text{Retiring Partner's Share} = 21,000 \times \frac{1}{3} = \text{Rs } 7,000$$

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 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.
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