# BOOK-1

# CHAPTER-4

# RECONSTITUTION OF A PARTNERSHIP FIRM-RETIREMENT/DEATH OF A PARTNER

## (A) RETIREMENT OF A PARTNER

### Section A: One Mark Questions

**I. Fill in the blanks:**

1. __________ ratio is used to distribute accumulated profits and losses at the time of retirement of a partner.
2. Profit or loss on revaluation is shared among the partners in __________ ratio on retirement of a partner.
3. New ratio – Old ratio = __________
4. Accumulated losses are transferred to the Capital Accounts of the partners at the time of retirement in their __________ ratio.
5. General reserve is to be transferred to __________ Accounts at the time of retirement of a partner.
6. Goodwill raised to the extent of retiring partner's share only is to be debited to continuing partners capital accounts in __________ ratio.
7. In the absence of any instruction Retiring Partner's Capital A/c is closed by transferring its balance to __________ A/c
8. __________ ratio is used for adjustment of continuing partners capitals.
9. X,Y and Z are the partners sharing profits and losses in the ratio of 3:2:1.If Y retires, the new ratio of X and Z will be __________.
10. Share gained is calculated by deducting __________ share from the New Share.
11. The ration in which the remaining partners' will share future profits after retirement is called __________ ratio.
12. The balance in the retiring partner's loan A/c is shown on the __________ side of the B/S till the last installment is paid.
13. The amount paid to the Retiring Partner in excess of what is due to him is called __________ goodwill.
14. In the absence of any agreement as the disposed of amount due to Retiring Partner, Sec __________

    a. of the Indian Partnership Act, 1932 is applicable.
15. If goodwill already appears in the books, if will be written off by debiting __________ A/c in their OPSR.

## II. Multiple Choice Questions:

**1.** Abhishek, Rajat and Vivek are partners sharing profits in the ratio of 5:3:2. If Vivek retires, the New Profit Sharing Ratio between Abhishek and Rajat will be–

(a) 3:2 (b) 5:3

(c) 5:2 (d) None of the above

**2.** The old profit sharing ratio among Rajender, Satish and Tejpal were 2:2:1.The New Profit Sharing Ratio after Satish's retirement is 3:2. The gaining ratio is–

(a) 3:2 (b) 2:1 (c) 1:1 (d) 2:2

**3.** Anand, Bahadur and Chander are partners. sharing profit equally. On Chander's retirement, his share is acquired by Anand and Bahadur in the ratio of 3:2. The New Profit Sharing Ratio between Anand and Bahadur will be:

(a) 8:7 (b) 4:5 (c) 3:2 (d) 2:3

**4.** In the absence of any information regarding the acquisition of share in the profit of the retiring/deceased partner by the remaining partners, it is assumed that they will acquire his/her share:-

(a) Old Profit Sharing Ratio (b) New Profit Sharing Ratio

(c) Equal Ratio (d) None of the above

**5.** On retirement/death of a partner, the Retiring/Deceased Partner's Capital Account will be credited With:

(a) his/her share of goodwill.

(b) goodwill of the firm.

(c) shares of goodwill of remaining partners

(d) none of the above.

**6.** Govind, Hari and Pratap are partners. On retirement of Govind, the goodwill already appears in the Balance Sheet at ₹ 24,000. The goodwill will be written-off by debiting:

(a) All Partners' Capital Accounts in their old profit sharing ratio.

(b) Remaining Partners' Capital Accounts in their new profit sharing ratio.

(c) Retiring Partners' Capital Accounts from his share of goodwill.

(d) none of the above.

**7.** Chaman, Raman and Suman are partners sharing profits in the ratio of 5:3:2. Raman retires, the new profit sharing ratio between Chaman and Suman will be 1:1. The goodwill of the firm is valued at ₹ 1,00,000 Raman's share of goodwill will be adjusted by:

(a) debiting Chaman's Capital Account and Suman's Capital Account with ₹ 15,000 each.

(b) debiting Chaman's Capital Account and Suman's Capital Account with ₹ 21,429 and 8,571 respectively.

(c) debiting only Suman's Capital Account with ₹ 30,000.

(d) debiting Raman's Capital Account with ₹ 30,000.

8. On retirement/death of a partner, the remaining partner(s) who have gained due to change in profit sharing ratio should compensate the:
   (a) retiring partners only.
   (b) remaining partners (who have sacrificed) as well as retiring partners.
   (c) remaining partners only (who have sacrificed).
   (d) none of the above.

**III. True or False Type Questions:**

1. Profit or loss on revaluation is transferred to All Partners' Capital Accounts in case of retirement of a partner.
2. Accumulated profit is transferred to Continuing Partners Capital Accounts.
3. Adjustment of partners' capitals of the remaining partners is to be made in the New Ratio.
4. New Share = Old share + share sacrificed.
5. Share gained is computed by deducting Old share from the New Share.
6. Increase in the value of asset is debited to Revaluation Account.
7. Gain ratio is used to adjust the goodwill raised to the extent of retiring partner share only.
8. Full value of goodwill raised on retirement is credited to All Partners Capital Accounts including retiring partner in their old ratio.
9. Sec 37 of the Indian Partnership Act, 1932 states that the outgoing partner has an option to receive either interest @ 6% p.a. till the date of payment or such share of profits which has been earned with his money.

## Key Answers:

**I. Fill in the blanks:**

| | | | |
|---|---|---|---|
| (1) | Old | (2) | Old |
| (3) | Gain Ratio | (4) | Old |
| (5) | All the Partners capital | (6) | Gain |
| (7) | Retiring Partner's Loan | (8) | New |
| (9) | 3:1 | (10) | Old |
| (11) | G.R. | (12) | Liabilities |
| (13) | Hidden | (14) | 37 |
| (15) | All Partners' Capital | | |

**II. Multiple Choice Questions:**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (1) | b | (2) | c | (3) | a | (4) | a |
| (5) | a | (6) | a | (7) | c | (8) | b |

**III. True or False:**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (1) | True | (2) | False | (3) | True | (4) | False |
| (5) | True | (6) | False | (7) | True | (8) | True |
| (9) | True | | | | | | |

## IV. Very Short Answer Questions:

1. What do you mean by retirement of a partner?
2. Give the formula for calculating Gain Ratio.
3. Why the Gain Ratio is required on retirement of a partner?
4. Why the New Ratio is required on retirement of a partner?
5. Give the formula for calculation of new profit sharing ratio on retirement of a partner.
6. What do you mean by Hidden Goodwill ?
7. Portion gained= New Share - __________

## Section B: Two Marks Questions

1. Mention any two circumstances for retirement of a partner.
2. What is Gain Ratio?
3. State any two differences between sacrificing ratio and gaining ratio.
4. State any two purposes of calculating new profit sharing ratio.
5. Name two methods of treatment of goodwill?
6. How do you close the Revaluation Account on retirement of a partner?
7. Pass the journal entry for adjusting retiring partners share of goodwill when no goodwill is raised.
8. Mention any two modes of payment on settlement of Retiring Partner's Capital Account.
9. Pass the journal entry to close Retiring Partner's Capital Account when the payment is made immediately.
10. Give the journal entry to close Revaluation Account when when it is transferred to Loan A/c.
11. Give the journal entry to close Revaluation Account when there is a profit.
12. Give the journal entry to close Revaluation Account when there is a loss.
13. Why do firms revalue the assets and liabilities on retirement?
14. Why retiring partner is entitled to a share of goodwill of the firm?
15. A, B, C are partners in a form sharing Profits and Losses in the ratio of 3:2:1. If B retires, then what Will be the NPSR of A & B.
16. Pass the journal entry for Deceased Partner's Share of profits for the intervening period:

## Section C : 6 Marks Problems.

1. Ankit,Suchit and Chandru are partners in a firm sharing profits and losses in the ratio of 4:3:2.Ankit retires from the firm.Suchit and Chandru agreed to share in the ratio of 5:3 in future.

   Calculate gain ratio of Suchit and Chandru

   (**Ans: Gain Ratio =21:11**

2. Vani,Rani and Soni are partners in a firm sharing profits and losses in the ratio of 4:3:2.Soni retires from the firm.Vani and Rani agreed to share equally in future.

   Calculate gain ratio of Vani and Rani.

   **(Ans. Gain Ratio = 1:3)**

3. A,B,C and D are partners in a firm sharing profits and losses in the ratio of 2:1:2:1.On A's retirement continuing partners decided to share future profits equally. Calculate gain ratio.

   **(Ans. Gain Ratio = B and D only = 1:1)**

4. A, B, and C are Partners' Sharing Profits and Losses in the ratio of 1:1:1. B retires from the Firm . A and C decided to share the profit in future in the ratio of 4:3.

   Calculate the Gain ratio.

   **(Ans. Gain Ratio = A and C only = 5 : 2)**

5. Ashok, Anil and Ajay are Partners' Sharing Profits and Losses in the ratio of 1/2, 3/10,and 1/5. Anil retires from the firm. Ashok and Ajay decided to share future profits and losses in the ratio of 3:2.

   Calculate the Gain Ratio.

   **(Ans. Gain Ratio = Ashok and Ajay = 1 : 2)**

## Problems on calculation of NPSR

6. Lata, Abhishek and Apeksha are partners sharing profits and losses in the ratio of 3/8,1/2 and 1/8.Lata retires and surrenders 2/3rd of her share in favour of Abhishek and the remaining share in favour of Apeksha.Calculate new profit sharing ratio.

   **(Ans. 3:1)**

7. Naveen,Suresh and Tarun are partners sharing profits and losses in the ratio of 5:3:2.Suresh retires from the firm and his share is acquired by Naveen and Tarun in the ratio of 2:1. Calculate NPSR

   **(Ans. 7:3)**

8. Vidya,Sandhya, Lata and Sudha are partners sharing profits in the ratio of 3:2;1:4.Vidya retires and her share is acquired by Sandhya and Lata in the ratio of 3:2. Calculate new profit sharing ratio and gaining ratio of the remaining partners.

   **(Ans. NPSR = 19:11:20  GR = 3:2:0)**

9. Puja, Priya and Pratistha are partners sharing profits and losses in the ratio of 3:2:1. Priya retires. Her share is taken by puja and pratistha in the ratio of 2:1. Calculate NPSR

   **(Ans.NPSR = 13:5)**

10. P, Q & R are Partners Sharing Profits in the ratio of 3:2:1. Q retires and his share is acquired by P & R in the ratio of 3:2. Calculate NPSR

    **(Ans.NPSR = 3:1)**

## Section D

## 12 Marks Problems Without Capital Adjustments

**1.** Digvijay, Brijesh and Parakaram were partners in a firm sharing profits in the ratio of 2 : 2 : 1.

**Balance Sheet as on March 31, 2018 was as follows:**

| Liabilities | Amount ₹ | Assets | Amount ₹ |
|---|---|---|---|
| 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, 2018 on the following terms:

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

(b) Bad debts amounting to ₹ 2,000 were to be written off.

(c) Patents were considered as valueless.

**Prepare:**

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

**(Ans : Loss on Revaluation ₹ 11,000, Balance of Capital Accounts: Digvijay ₹ 66,333 and Parakaram ₹ 67,667, Balance Sheet Total ₹ 2,74,000).**

**2.** Radha, Sheela and Meena were in partnership sharing profits and losses in the proportion of 3:2:1.

On April 1, 2018, Sheela retires from the firm and on that date,

**Balance Sheet was as follows:**

| Liabilities | | Amount ₹ | Assets | Amount ₹ |
|---|---|---|---|---|
| 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 | | Loose Tools | 4,000 |
| Meena | 15,000 | 45,000 | | |
| | | **70,500** | | **70,500** |

**The terms were:**

(a) Goodwill of the firm was valued at ₹ 13,500 & written off.

(b) Expenses owing to be brought down to ₹ 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 ₹ 24,300.

**Prepare :**

1. Revaluation Account
2. Partners' Capital Accounts and
3. Balance Sheet of the firm after retirement of Sheela.

**(Ans : Profit on Revaluation ₹ 1,350, Balance of Capital Accounts: Radha ₹ 28,975 and Meena ₹ 19642, Balance Sheet Total = ₹ 84,100).**

**3.** 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, 2018**

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

**Additional Information:**

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

(b) Goodwill of the firm be valued at ₹ 42,000 and the same be written off immediately.

(c) ₹ 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 form Bank.

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

Give the Revaluation A/c, Capital Accounts and Balance Sheet of the firm after Naresh's Retirement.

**(Ans : Profit or Revaluation ₹ 18,000, Balance of Capital Account of Pankaj, ₹ 47,000 and of Saurabh, ₹ 25,000).**

**(Total Amount Credited to Naresh's Capital = ₹ 54,000, Balance Sheet Total = ₹ 1,54,800).**

## Problems With Capital Adjustments

**1.** 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, 2018 was as follows:

**Balance Sheet as on April 1, 2018**

| Liabilities | | Amount ₹ | Assets | | Amount ₹ |
|---|---|---|---|---|---|
| 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 | 40,000 | | Sundry Debtors | 20,000 | |
| Surj | 20,000 | | Less : RBD | 1,000 | 19,000 |
| Bajaj | 28,000 | 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 ₹ 1,500.

(d) Goodwill is valued at ₹ 21,000 on Bajaj's retirement and it is written off.

(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 cash.

**Prepare:**

Revaluation a/c, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.

**(Ans : Profit on Revaluation, ₹ 6,960; Balance in Capital Accounts of Narang, ₹ 49,230; and that of Suri, ₹ 16,410. Amount at Credit in Bajaj Capital is ₹ 41,320, Balance Sheet Total = ₹ 1,57,960)**

**2.** Following is the Balance Sheet of Jain, Gupta and Malik as on March 31, 2018.

**Balance Sheet as on March 31, 2018**

| Liabilities | | Amount ₹ | Assets | Amount ₹ |
|---|---|---|---|---|
| Sundry Creditors | | 19,800 | Land and Buildings | 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 | 1,20,000 | Plant and Machinery | 20,230 |
| | | | 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, 2018 and his share in the business is to be calculated as per the following terms of revaluation of assets and liabilities :

Stock ₹ 20,000; Office furniture ₹ 14,250; Plant and Machinery ₹ 23,530; Land and Building ₹ 20,000.

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

The continuing partners agreed to pay ₹ 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 a/c, Capital Accounts, and Balance Sheet of the reconstituted firm.

**(Ans:Rev.Loss ₹ 6,500 Capitals: Jain ₹ 59,525 Gupta ₹ 72,375 Malik's Loan ₹ 7,350 B/S Total ₹ 1,68,300)**

**3.** The Balance Sheet of Amit, Bhima and Chandru who are partners in a firm Sharing profits according to their capitals as on March 31, 2018 was as under:

| Liabilities | Amount ₹ | Assets | | Amount ₹ |
|---|---|---|---|---|
| Creditors | 21,000 | Buildings | | 1,00,000 |
| Amit's Capital | 80,000 | Machinery | | 50,000 |
| Bhimu's Capital | 40,000 | Stock | | 18,000 |
| Chandru's Capital | 40,000 | Debtors | 20,000 | |
| General Reserve | 20,000 | Less: PBD | 1,000 | 19,000 |
| | | Cash at bank | | 14,000 |
| | **2,01,000** | | | **2,01,000** |

On that date, Bhima decided to retire from the firm and was paid for his share in the firm subject to the following:

1. Buildings to be appreciated by 20%.
2. Provision for Bad debts to be increased to 15% on Debtors.
3. Machinery to be depreciated by 20%.
4. Goodwill of the firm is valued at ₹ 72,000 and the retiring partner's share is adjusted through the capital accounts of remaining partners.
5. The capital of the new firm be fixed at ₹ 1,20,000 and it should be adjusted equally among Continuing partners and adjustments are to be made in cash.

**Prepare:**

Revaluation Account, Capital Accounts of the partners, and the Balance Sheet after retirement of Bhima.

**(Ans: Rev profit ₹ 8,000 Capital balances : Amit ₹ 80,000 Chandru ₹ 40,000 Bhimu's loan ₹ 65,000 B/S Total ₹ 2,06,000)**

**4.** X. Y and Z were partners sharing profits and losses in the ratio of 2 : 2 : 1 respectively. Their Balance Sheet as on 31.3.2018 was as under.

**Balance Sheet as on 31.03.2018**

| Liabilities | | Amount ₹ | Assets | | Amount ₹ |
|---|---|---|---|---|---|
| Creditors | | 35,500 | Cash at Bank | | 20,000 |
| Reserves Fund | | 20,000 | Debtors | 40,000 | |
| Profit & Loss A/c | | 2,500 | Less R.B.D. | 2,000 | 38,000 |
| Capital A/c | | | Stock | | 20,000 |
| X | 50,000 | | Machinery | | 20,000 |
| Y | 30,000 | | Furniture | | 10,000 |
| Z | 20,000 | 1,00,000 | Buildings | | 50,000 |
| **Total** | | **1,58,000** | **Total** | | **1,58,000** |

Z retired on 1.4.2018 from the business. The following adjustment are to be made:

(a) Stock to be increased by 20%.

(b) Maintain P.B.D at 10% on debtors.

(c) Depreciate machinery and furniture by 10% each.

(d) Buildings are be revalued at ₹ 60.000

(e) Goodwill to the extent of retiring partners share is created at ₹15,000.

**Prepare:**

Revaluation Account, Partners Capital Accounts and Balance Sheet as on 1.4.2018.

**(Ans: Rev profit ₹ 9,000 Capital balances : X ₹ 62,600 Y ₹ 42,600 Z's Loan 41,300 B/S Total ₹ 1,82,000)**

**5.** Srikant, Girish and Manju are partners sharing profits and losses equally. Their Balance sheet as on 31.03.2017 was as follows

**Balance Sheets as on 31.03.2018**

| **Liabilities** | | **Amount ₹** | **Assets** | **Amount ₹** |
|---|---|---|---|---|
| Creditors | | 30,000 | Cash | 24,000 |
| Bills payable | | 20,000 | Bills receivable | 28,000 |
| Bank overdraft | | 25,000 | Stock | 36,000 |
| Reserve Fund | | 15,000 | Investments | 9000 |
| **Capital** | | | Debtors | 20,000 |
| Srikant | 60,000 | | Furniture | 25,000 |
| Girish | 50,000 | | Machinery | 32,000 |
| Manju | 30,000 | | Buildings | 50,000 |
| | | 1,40,000 | Profit Loss A/c | 6,000 |
| **Total** | | **2,30,000** | **Total** | **2,30,000** |

Manju retired on 1.4.2018 from the business and the following adjustments are to be made:

(a) Goodwill of the firm is created ₹ 18,000 ( Retain in the business )

(b) Maintain provision for doubtful debts at 5% on Debtors

(c) Increase stock by ₹ 4,000

(d) Depreciate Machinery and Furniture by 10% each.

**Prepare:**

(i) Revaluation Account.

(ii) All Partners Capital A/cs

(iii) Balance Sheet as on 1.04.2018

**(Ans: Rev Loss ₹ 2,700 Capital balances : Shrikant ₹ 68,100 Girish ₹ 58,100 Manju's Loan ₹ 38,100 B/S Total ₹ 2,39,300)**

# (B) DEATH OF A PARTNER

## Section A: One Marks Questions

**I. Fill in the blanks**

1. Executors account is generally prepared at the time of ________ of a partner.
2. Accounting treatment at the time of retirement and death is_________.
3. The period from date of the last Balance Sheet and the date of the partners' death is called _________ period.
4. __________ Account is debited for the transfer of share of accrued profit of a deceased partner.
5. Accrued profit is calculated on the basis of ____________
6. Amount payable to the Executors of the deceased partner is transferred to __________ account

**II. Multiple Choice Questions:**

1. Accrued profit is ascertained on the following ways:
   (a) Average profit (b) Previous year's profit
   (c) On sales (d) All of the above.
2. Amount due to deceased partner is settled in the following manner:
   (a) Immediate full payment
   (b) Transferred to Loan Account
   (c) Partly paid in cash and the balance transferred to Loan A/c
   (d) All of the above.
3. Deceased partner's share of profit in the accrued profit may be.
   calculated on the basis of:
   (a) Last years profit (b) average profit of past few years
   (c) Sales (d) All the above
4. Amount payable to the Executors of the deceased partner is transferred to:
   (a) Executors Loan Account (b) Executors Account
   (c) Remaining Partners' Capital A/cs (d) Non of the above
5. Items to be considered while calculating the amount payable to the deceased partner is:
   (a) His share of capital (b) His share in reserve
   (c) His share in accrued profit (d) All the above

**III. True of False**

1. Deceased partner's claim is transferred to his Executor's Account
2. Deceased partners' share of profit for the year intervening period may be calculated on the basis of last year's profit/ average of past few years or on the basis of sales.
3. Deceased partner may be paid in one lump sum or installments with interest.

4. Retirement normally takes place at the end of an accounting period, where as death of a partner may occur any time.
5. Amount payable to the Executors of the deceased partner is transferred to Executors Loan Account

**IV. Very Short Answer Questions:**

1. Who is an 'Executor'?
2. When do you prepare Executors Account?
3. Which account is credited for the share of accrued profit of a deceased partner?
4. What is intervening period?
5. How do you close the Executors Account?

## Section B: Two Marks Questions

1. Give the meaning of accrued profit.
2. State any two differences between retirement and death of a partner.
3. Write any two ways of settlement of claims to the deceased partner.
4. Write the journal entry to close the deceased partner's Capital Account.
5. Pass Journal entry for transfer of accrued profit of the deceased partner.
6. Write the journal entry for cash paid immediately to the executors of the deceased partner.
7. How do you close the executors account when the payment is not made immediately?
8. A, B, C were partners in a firm sharing profits in the ratio of 5:4:1. The profit of the firm for the year ending on 31-3-2017 was ₹ 1,00,00. B dies on 30-6-2017. Calculate B;s share of profit from 1-4-2-17 to 30-6-2017.
9. Deceased Partners' Share of Profit =____________________________
10. Give the Journal Entry when retiring partner's whole amount is treated as loan.
11. Pass the Journal Entry when retiring partner is partly paid in cash and the remaining amount is treated as loan
12. P,Q and R are partners in a firm sharing profits in the ratio of 3;2:1. R retires and the balance in his Capital Account after making necessary adjustments workout to be ₹60, 000 .P and Q agreed to pay him ₹ 75,000 in full settlement of his claim.

    Find out the hidden goodwill.

## Key Answers:

**I. Fill in the Blanks:**

1. Death
2. Uniform
3. Intervening
4. P and L Suspense Account
5. Previous year's profit / Average profit
6. Executors Loan Account

**II. Multiple Choice Questions:**

| | | | | |
|---|---|---|---|---|
| (1) d | (2) d | (3) d | (4) a | 5) d |

**III. True of False**

| | | | | |
|---|---|---|---|---|
| (1) True | (2) True | (3) True | (4) True | 5) True |

## Section C: Six Marks Questions

1. Ramesh, Prakash and Suresh were partners in a firm sharing profits and losses in the ratio of 5:3:2. On 31st March 2017, their Balance Sheet was as under

**Balance Sheet as on 31.3.2017**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Creditors, | | 14,000 | Cash | 8,000 |
| Reserve Fund | | 6,000 | Debtors | 11,000 |
| Capitals: | | | Patents | 11,000 |
| Ramesh | 30,000 | | Stock | 10,000 |
| Prakash | 25,000 | | Machinery | 50,000 |
| Suresh | 15,000 | 70,000 | | |
| | | **90,000** | | **90,000** |

Ramesh died on 30th Sept 2017. It was agreed between his executors and the surviving partners that:

(a) Goodwill to be valued at two and half years purchase of the average profits of the previous four years which were: 2013-14 ₹12, 000, 2014-15 ₹ 20,000, 2015-16 ₹13, 000 and 2016-17 ₹15, 000,

(b) Share in the profit from the date of last Balance Sheet till to the date of death to be calculated on the basis of last year's profit.

(c) Interest on capital to be allowed at 12% p.a.

(d) Share in the Revaluation Account balance, his share is ₹ 5, 000(Cr).

**Prepare:**

Ramesh's Capital Account.

**(Ans: Amount payable to Ramesh's Executors: ₹ 62,300)**

2. Pavan, Madan and Suman were partners sharing profits & losses in the ratio of 2:1:1. Their balance sheet as on 31.3.2017 was as under:

**Balance Sheet as on 31-03-2017**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Sundry Creditors | | 25,000 | Cash | 6,000 |
| Reserve Fund | | 20,000 | Stock | 12,000 |
| Capitals | | | Debtors | 15,000 |
| Pavan | 15,000 | | Investments | 15,000 |
| Madan | 10,000 | | Buildings | 32,000 |
| Suman | 10,000 | 35,000 | | |
| | | **80,000** | | **80,000** |

The partnership deed provides that in the event of death of partner, his executors entitled to get the followings:

(a) The Capital at the date of last Balance Sheet

(b) His proportion of reserve fund.

(c) His share of profit to the date of death based on the average profits of the last three years profits.

(d) His share of goodwill. Goodwill of the firm is twice the average profit of last 3 years profits, the profits for the last three years were:

2014-15 ₹16,000, 2015-16 ₹16,000, and 2016-17 ₹15,520.

Suman died on July 1st, 2017. He had also with drawn ₹5000 till to the date of his death.

**Prepare**

Suman's Capital and her Executors Account.

**(Ans: Amount transfered to Suman's Executors A/c : ₹18,910)**

**3.** Akash, Anil and Adarsh are the partners sharing profits and losses in the ratio of 3:2:1, Their capitals as on 01.04.2017 were ₹ 70,000, ₹ 90,000 and ₹ 60,000 respectively. Akash died on 31.12.2017 and the Partnership Deed provided the following:

(a) Interest on Akash's Capital at 8% p.a

(b) Akash's salary ₹ 2,000 p.m

(c) His share of accrued profit up to the date of death based on previous year's profit. Firms profit for 2016-17 ₹ 24,000

(d) His share of Goodwill ₹ 12,000

Ascertain the amount payable to Akash's Executor by preparing Akash's Capital A/c

**(Ans: Amount payable to Akash's Executors: ₹ 1,13,200)**

**4.** X.Y and Z are partner's sharing profits and losses in the ratio of 2:2:1. Their capital balances on 01.04.2017 stood at ₹ 90,000, ₹ 60,000 and ₹ 40,000 respectively. Mr. Y died on 01.01.2018 partnership deed provides the following:

a. Interest on capital at 10% p.a.

b. Salary to Y, ₹ 2,000 per month.

c. Y's share of Goodwill

d. His share of profit up to the date of death on the basis of previous year's profit.

i. Total good will of the firm is ₹ 54,000

ii. Profit of the firm for the year 2016-17 is ₹30,000

You are required to ascertain the amount payable to Executors of Y by preparing Executor's Account.

**(Ans: Amount payable to Executor of Mr.Y: ₹ 1,13,100)**

5. Raju, Ravi and Roopa are partners sharing profit and losses in the ratio of 4:3:3. Their capital balances on 01.04.2017 stood ₹ 1, 00,000, ₹ 80, 000 and ₹ 50, 000 respectively.

Raju died on 01.10.2017. The partnerships deed provides the followings:

(a) Interest on capital at 12% p.a.

(b) He had withdrawn ₹ 5, 000 up to the date of death.

(c) Raju's share of goodwill ₹ 5, 000

(d) His share of profit up to the date of death on the basis of previous year profits. Previous year's profits ₹ 20,000.

Prepare Raju's Executors Account.

**(Ans: Amount payable to Raju's Executors: ₹ 1,10,000)**

6. Puneet, Pankaj and Prakash 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.

**Balance Sheet as on March 31,2017.**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| 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 |
| Praksh | 40,000 | 2,00,000 | Furniture | 35,000 |
| Reserve Fund | | 50,000 | Buildings | 1,15,000 |
| | | **3,50,000** | | **3,50,000** |

Mr. Prakash died on 30th Sept 2017. The partnership deed provided the following:

a. 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.

b. He will be entitled to his share of goodwill of the firm calculated on the basis of 3 year's purchase of average of last 4 years profit. The profits for the last four financial years are given below:

For 2013-14 ₹ 80,000, for 2014-15 ₹ 50,000, for 2015-16 ₹ 40,000, and for 2016-17 ₹ 30, 000.

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

Show Mr Prkash's Aapital Account.

**(Ans: Amount payable to Prakash's Executors: ₹75,400)**

**7.** Arti, Bharti and Heema are partners sharing profits in the ratio of 3:2:1 and their Balance Sheet as on 31st March 2017 stood as follows:

**Balance sheet as on 31st March,2017**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Bills Payable | | 12,000 | Buildings | 21,000 |
| Creditors | | 14,000 | Cash in hand | 12,000 |
| Reserved Fund | | 12,000 | Bank | 13.700 |
| Capitals: | | | Debtors | 12,000 |
| Arati | 20,000 | | Bills Receivable | 4,300 |
| Bharti | 12,000 | | Stock | 1,750 |
| Heema | 8,000 | 40,000 | Investment | 13,250 |
| | | **78,000** | | **78,000** |

Bharti died on 1st June 2017 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 there on at 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 ₹ 1,00,000. The rate of profit during past three years had been 10% on sales.

(d) Her share in goodwill 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:

2014-15 ₹ 8,200

2015-16 ₹ 4,000

2016-17 ₹ 9,800

(e) The investments were sold for ₹16,200 and her executors were paid on.

**Prepare:**

The Bharti's Executors Account.

**(Ans: Amount paid to Bharti's Executors: ₹ 24,427)**

8. Raja, Rani and Mantri were partners sharing profits and losses in the ratio of 5:3:2. Their balance sheet as on 31 Dec 2017 was as follows.

**Balance sheet at 31st Dec, 2017.**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Creditors | | 14,000 | Investments | 10,000 |
| Reserve Fund | | 6,000 | Good will | 5,000 |
| Capitals: | | | Premises | 20,000 |
| Raja | 30,000 | | Patents | 6,000 |
| Rani | 30,000 | | Machinery | 43,000 |
| Mantri | 20,000 | 80,000 | Debtors | 8,000 |
| | | | Bank | 8,000 |
| | | **1,00,000** | | **1,00,000** |

Mantri dies on 1st May, 2018. The agreement between the Executors of Mantri and the partners stated that:

(a) Goodwill of the firm be valued at 2 ½ times the average profits of last four years. The profits of four years were: 2014 ₹ 13,000, 2015. ₹ 12,000, 2016. ₹ 16,000, and 2017. ₹ 15,000.

(b) The share of profit of Mantri should be calculated on the basis of the profit of 2017.

(c) ₹ 4,000 should be paid immediately and the balance should be translated to Executors loan A/c.

**Prepare**

Mantri's Capital Account.

**(Ans: Amount transferred to Executors loan A/c: ₹ 25,200)**

**9.** P.Q and R are partners sharing profits and losses in the ratio of 2:2:1. Their capital balances on 01.01.2017 stood at ₹ 70,000, ₹50,000 and ₹ 40,000 respectively. 'Q' died on 30.06.2017.

According to partnership deed, Q executors are entitled to get the following:

(a) Q's capital as on 01.01.2017.

(b) Interest on capital at 6% p.a

(c) Salary to Q at ₹1,000 per month.

(d) Q's share of goodwill.Goodwill of the firm is ₹60,000

(e) Q is entitled for commission of ₹4,000 per year

**Prepare:**

Q's Capital Account.

**(Ans: Amount payable to Q's Executors: ₹83,500)**

10. Girish, Mahesh and Varun were sharing profits and losses in the ratio of 6:3:2 respectively. Their capitals on 01.04.2017 stood at ₹ 60,000, ₹ 30,000 and ₹ 20,000 respectively. On 30th Sept 2017 Varun died.

The goodwill of the deceased partner's share is ₹ 10,000. The deceased partner's share in accrued profit up to the date of his death is ₹ 4,200 Varun's commission is ₹ 600 p.m. His drawings up to the date of death amounted to ₹ 8, 000. Interest on capital at 10% p.a.

**Prepare:**

Varun's Capital Account.

**(Ans: Amount payable to Varun's Executors: ₹ 30,800)**

## Section E:

## Practical Oriented Question

1. Prepare Executor's Loan Account with imaginary figures showing the repayment in two annual equal installments along with interest.