Following conditions were decided at the time of retirement :

(1) Value of goodwill is ₹ 4000.

(2) Value of fixed assets is to be appreciated by 20 %.

(3) Stock is found overvalued by 10 %.

(4) New profit-loss sharing ratio of F and G is decided at 4:1.

(5) Amount due to E is to be paid in cash and casn balance of ₹ 1000 in the new firm is to be maintained. For this purpose F and G brought cash in such a way as to make their capitals proportionate to their new profit sharing ratio.

Prepare necessary accounts and balance sheet of the new firm.

Ans. :

Revaluation Account

Dr Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Stock A/c		600	By Land-building A/c	1200
To Partners capital A/c (Profit) :			By Furniture A/c	800
E	560			
F	420			
G	420	1400		
		2000		**2000**

Capital Accounts of Partners

Dr Cr

Particulars	E (₹)	F (₹)	G (₹)	Particulars	E (₹)	F (₹)	G (₹)
To Goodwill A/c	400	300	300	By Balance b/d	8000	5000	2000
To E's capital A/c	–	1600	–	By General reserve A/c	800	600	600
To G's capital A/c	–	400	–	By F's capital A/c	1600	–	400
To Cash A/c	10,560	–	–	By Revaluation A/c	560	420	420
To Balance c/f	–	14,400	3600	By Cash A/c	–	10,680	480
	10,960	**16,700**	**3900**		**10,960**	**16,700**	**3900**

Cash Account

Dr Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	400	By E's capital A/c	10,560
To F's capital A/c	10,680	By Balance c/f	1000
To G's capital A/c	480		
	11,560		**11,560**

Balance Sheet as on 1-4-2015 After Retirement

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Creditors		8000	Land-Building	7200
Bills payable		2000	Furniture	4800
Capital Accounts :			Stock	6000
F	14,400		Debtors	9000
G	3600	18,000	Cash	1000
		28,000		**28,000**

Explanation : (1) Gaining ratio

Old profit-loss sharing ratio of E, F and G = 4:3:3

New profit-loss sharing ratio of F and G = 4:1

Gain = New share − Old share

$F = \frac{4}{5} - \frac{3}{10} = \frac{5}{10}$

$G = \frac{1}{5} - \frac{3}{10} = -\frac{1}{10}$ (Sacrifice)

(2) Distribution of goodwill

G sacrifice his share, so he will receive goodwill.

Goodwill receivable by E = $\frac{4}{10} \times 4000$ = ₹ 1600

Goodwill payable by F = $\frac{5}{10} \times 4000$ = ₹ 2000

Goodwill receivable by G = $\frac{1}{10} \times 4000$ = ₹ 400

Journal Entries :

F's capital A/c...Dr	2000	
To E's capital A/c		1600
To G's capital A/c		400

(3) : New capital of F and G

F's capital (₹ 6020 − ₹ 2300)	= ₹ 3720
G's capital (₹ 3420 − ₹ 300)	= ₹ 3120
Additional necessary capital	= ₹ 11,160
(Paid to E ₹ 10,560 + Required closing cash ₹ 1000 − Opening balance of cash ₹ 400)	
Total capital of F and G	= ₹ 18,000

∴ New capital of F = $18,000 \times \frac{4}{5}$ = ₹ 14,400

New capital of G = $18,000 \times \frac{1}{5}$ = ₹ 3600

9. Determination of Amount Payable to the Deceased Partner and Payment to his Executor

The retirement of a partner normally takes place at a planned date but the death of partner may occur any time. When a partner dies, his heirs are entitled to receive the amount due to the deceased partner. The heirs of the deceased partner are also entitled to receive the share of profits of the firm from the begining of the year to the date of death, interest on capital, salary etc. as well. The heirs of the deceased partner are entitled to receive the following :

(i) The amount standing to the credit of the deceased partner's capital account and current account

(ii) His share of accumulated profits and reserves

(iii) His share of profit of the revaluation account

(iv) His share in the goodwill of the firm

(v) His share in profits of the firm form the begining of the year to the date of death

(vi) Interest on capital upto the date of his death if provided by the partnership deed

(vii) His salary or commission upto the date of his death, if provided by the partnership deed

(viii) Loan given to the firm and its interest upto the date of his death

Following amounts are debited to his capital account :

(i) Debit balance of current account

(ii) His share in the loss of revaluation account

(iii) His share in accumulated losses

(iv) His share in deffered revenue expenditure

(v) His share in the old goodwill of the firm shown in the books of the firm

(vi) His drawings

(vii) Interest on drawings

(viii) His share in the loss that may have occurred till the date of his death, from the last balance sheet

The above adjustments are made in the capital account of the deceased partner and thereafter the balance of the capital account is transferred to his executor's account.

Deceased partners' capital A/c...Dr

To deceased partners' executor's A/c

- **Profit share to the deceased partner :**

He is entitled to receive his share in profit of the firm from the beginning of the year to the date of death. If he dies during the year before year ends, his share in profit is calculated without calculating the profit for the year of death. Therefore his share in profit from the beginning of the year till the date of death is calculated on the basis of the past profit or sales as follows :

(1) On the basis of last year's profit

(2) On the basis of average profit of past few years

(3) On the basis of previous year's sales and profit

e.g. 'A' died on 30-6-2016. His share in profit is $\frac{1}{5}$. Financial year ended on 31st March. Last three year's profit is as under :

2013-14 ₹ 80,000

2014-15 ₹ 60,000

2015-16 ₹ 40,000

Sales for the year 2015-16 amounted to ₹ 2,00,000. Sales from the first three months of current year is ₹ 60,000.

Find out the deceased partners' share in the profit of the firm under following basis :

(1) On the basis of last year's profit

(2) On the basis of average profit of last three years

(3) On the basis of last year's sales and profit

Ans. : (1) On the basis of last year's profit :

Profit share for three months from 1-4-2016 to 30-6-2016 will be payable to A. Last year, 2015-16 profit is ₹ 40,000.

Share in profit of A = ₹ 40,000 $\times \frac{1}{5} \times \frac{3}{12}$ = ₹ 2000

(2) On the basis of average profit of last three years :

Average profit = $\frac{80{,}000 + 60{,}000 + 40{,}000}{3}$ = ₹ 60,000

A's share of profit = ₹ 60,000 $\times \frac{1}{5} \times \frac{3}{12}$ = ₹ 3000

(3) On the basis of last year's profit and sales :

Sales of 2015-16 ₹ 2,00,000 : Profit ₹ 40,000

Three months of 2016-17 sales ₹ 60,000 : (?)

$\frac{40{,}000 \times 60{,}000}{2{,}00{,}000}$ = ₹ 12,000 (Profit of the firm for 3 months)

Profit share of B = 12,000 $\times \frac{1}{5}$ = ₹ 2400

B's share of profit is payable before accounting year ends. Following journal entry is passed to give profit share to B.

Profit and loss suspense A/c...Dr

To B's capital A/c

Other payments which affect profit like interest on capital, interest on loan, salary, commission etc. are also transferred to the profit and loss suspense account. For this journal entry will be :

(i) Interest on capital A/c...Dr

Interest on loan A/c...Dr

Salary A/c...Dr

Commission A/c...Dr

To Deceased partners' capital A/c

(ii) Profit and loss suspense A/c...Dr

To Interest on capital A/c

To Interest on loan A/c

To Salary A/c

To Commission A/c

Deceased Partners' Capital Account

Dr Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Current A/c (Debit balance)	✓	By Balance b/d	✓
To Revaluation A/c		By Current A/c (Credit balance)	✓
(Share in loss of revaluation account)	✓	By Reserve A/c (Share in reserve)	✓
To Profit and loss A/c		By Profit and loss A/c	
(Accumulated losses)	✓	(Share in accumulated profit)	✓
To Goodwill A/c - written off		By Revaluation A/c (Share in profit)	✓
(Share in old goodwill)	✓	By Other partners' capital A/c	
To Drawings A/c	✓	(Share in goodwill)	✓
To Interest on drawings A/c	✓	By Interest on capital A/c	✓
To Advertisement campaign exp. A/c	✓	By Salary or commission A/c	✓
To Profit and loss suspense A/c		By Loan A/c (given to firm)	✓
(Share in loss till the date of death)	✓	By Interest on loan A/c	✓
		By Profit and loss suspense A/c	
		(Share in profit till the date of death)	✓
	✓✓✓		✓✓✓

- **Payment to deceased partner :**

Payment to the executors of deceased partner is made as provided in the partnership deed or as agreed by the remaining partners and the executors. The dues may be paid :

Amount payable to the deceased partner is paid as under :

(1) Full in one instalment

(2) In more than one instalment

Following journal entries are passed when the payment is made as per above method :

(1) Full amount is paid in one installment,

Deceased partners' executors' A/c...Dr

To Bank A/c

(2) When payment is made in more than one instalment : In this case the executor is entitled to interest at 6 % p.a. unless agreed otherwise. As per Indian Partnership Act, 1932 the executor has option to take the share of profit instead of interest.

When instalment with interest is paid, following journal entry will be passed :

(i) When interest is due :

Interest A/c ...Dr

To Deceased partners' executors' A/c

(ii) When installment is paid including interest :

Deceased partners' executors' A/c...Dr

To Bank A/c

Illustration 24 : X, Y and Z are the partners sharing profit and loss in the ratio of 5:3:2. Balance sheet of the firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital Accounts :			Fixed capital	80,000
X	50,000		Debtors	20,000
Y	80,000		Stock	80,000
Z	70,000	2,00,000	Cash	30,000
General reserve		20,000	Advertisement campaign expenditure	40,000
Creditors		30,000		
		2,50,000		**2,50,000**

Z died as on 31-12-2016. The terms of partnership deed are as under :

(1) Share of profit for the period from the closing of the last financial year to the date of death on the basis of the last year's profit to be given.

(2) Goodwill of the firms is to be valued on the basis of twice the average of the past three years' profits. Profit of last three years was as under :

2013-14 ₹ 80,000

2014-15 ₹ 70,000

2015-16 ₹ 60,000

Calculate amount payable to Z's executor by preparing his capital.

Ans. :

Z's Capital Account

Dr Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Advertisement campaign expenditure	8000	By Balance b/d	70,000
To Z's executors' A/c	1,03,000	By General reserve A/c	4000
		By Profit and loss suspense A/c (Share in profit)	9000
		By X's capital A/c (goodwill)	17,500
		By Y's capital A/c (goodwill)	10,500
	1,11,000		**1,11,000**

Explanation : (1) Z's share in profit

On the basis of last year, 2015-16 profit, from 1-4-2016 to till date of death 31-12-2016, for 9 months profit is payable to Z.

$$\text{Z's share in profit} = 60{,}000 \times \frac{2}{10} \times \frac{9}{12}$$

$$= ₹\ 9000$$

(2) Valuation of goodwill and share of Z in goodwill

$$\text{Average profit} = \frac{80{,}000 + 70{,}000 + 60{,}000}{3}$$

$$= ₹\ 70{,}000$$

$$\text{Goodwill of firm} = ₹\ 70{,}000 \times 2$$

$$= ₹\ 1{,}40{,}000$$

$$\text{Z's goodwill} = 1{,}40{,}000 \times \frac{2}{10}$$

$$= ₹\ 28{,}000$$

X and Y will give goodwill to Z in their gaining ratio :

Old ratio of X, Y and Z = 5:3:2

Old ratio of X and Y = Gaining ratio = 5:3

$$\text{Goodwill given by X} = ₹\ 28{,}000 \times \frac{5}{8}$$

$$= ₹\ 17{,}500$$

$$\text{Goodwill given by Y} = ₹\ 28{,}000 \times \frac{3}{8}$$

$$= ₹\ 10{,}500$$

Illustration 25 : A, B and C are the partners in a firm. Following are the balances as on 31-3-2015 in the books of the firm.

Capital : A ₹ 90,000, B ₹ 50,000, C ₹ 60,000

Contigency reserve ₹ 9000; Investment fluctuation reserve ₹ 3000; Goodwill ₹ 15,000

B died as on 30-6-2015

It was agreed by the remaining partners that :

(1) Interest on capital to B is to be allowed 12 % p.a.

(2) Drawing of B was ₹ 6000. Interest on drawing ₹ 300 will be charged.

(3) B's share of goodwill is to be valued at the profits credited to his account during the previous three completed years.

(4) B's share of profit is to be allowed on the basis of average of three completed years' profit before death. Profit of last three years was ₹ 60,000, ₹ 70,000 and ₹ 50,000 respectively.

(5) B's executors is to be paid ₹ 9200 immediately and the balance in two equal yearly instalments with interest at 6 % p.a.

(6) Profit and loss sharing ratio of A and C is to be kept 2:1 after B's death. Prepare B's executor's account and executor's loan account till it is finally paid.

Ans. :

B's Executor's Account

Dr | Cr

Date	Particulars	Amt. (₹)	Date	Particulars	Amt. (₹)
1-7-15	To Goodwill A/c	5000	1-7-15	By B's capital A/c	50,000
,,	To Drawings A/c	6000	,,	By Contigency reserve A/c	3000
,,	To Interest on drawings A/c	300	,,	By Investment fluctuation reserve A/c	1000
,,	To Bank A/c	9200	,,	By Capital's Interest A/c	1500
,,	To B's executor's loan A/c	1,00,000		By A's capital A/c	60,000
				By Profit and loss suspense A/c	5000
		1,20,500			**1,20,500**

B's Executor's Loan Account

Dr | Cr

Date	Particulars	Amt. (₹)	Date	Particulars	Amt. (₹)
31-3-16	To Balance c/f	1,04,500	1-7-15	By B's executor's A/c	1,00,000
			31-3-16	By Interest A/c (₹ 1,00,000 $\times \frac{6}{100} \times \frac{9}{12}$)	4500
		1,04,500			**1,04,500**
30-6-16	To Bank A/c (50,000 + 4500 + 1500)	56,000	1-4-16	By Balance b/d	1,04,500
31-3-17	To Balance c/f	52,250	30-6-16	By Interest A/c (₹ 1,00,000 $\times \frac{6}{100} \times \frac{3}{12}$)	1500
			31-3-17	By Interest A/c (₹ 50,000 $\times \frac{6}{100} \times \frac{9}{12}$)	2250
		1,08,250			**1,08,250**
30-6-17	To Bank A/c (₹ 50,000 + ₹ 2250 + ₹ 750)	53,000	1-4-17	By Balance b/d	52,250
			30-6-17	By Interest A/c (₹ 50,000 $\times \frac{6}{100} \times \frac{3}{12}$)	750
		53,000			**53,000**

Explanation : (1) Interest on capital

₹ 50,000 $\times \frac{12}{100} \times \frac{3}{12}$ = ₹ 1500

(2) Gaining ratio

Old ratio of A, B and C = 1:1:1

New ratio of A and C = 2:1

Gain = New share − Old share

A's gain = $\frac{2}{3} - \frac{1}{3} = \frac{1}{3}$

C's gain = $\frac{1}{3} - \frac{1}{3} = 0$. Entire share of B received by A.

(3) Share of goodwill payable to B

Goodwill of B to be calculated at the profits credited to his account during the previous three completed years.

Average profit of last three years = ₹ 60,000 + ₹ 70,000 + ₹ 50,000 = ₹ 1,80,000

Goodwill payable to B = ₹ 1,80,000 × $\frac{1}{3}$ = ₹ 60,000

A will give goodwill to B

(4) Share in profit of B

Average profit of last three years = $\frac{60{,}000 + 70{,}000 + 50{,}000}{3}$ = ₹ 60,000

B's Share in profit = ₹ 60,000 × $\frac{1}{3} \times \frac{3}{12}$ = ₹ 5000

Note : As per Partnership Act 1932, the deceased partners' executors are entitled to interest at 6 % p.a. on their loan.

Illustration 26 : M, N and O are the partners sharing profit and loss in the ratio of 2:1:2. Balance sheet as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital Accounts :			Land-building	1,00,000
M	1,00,000		Machinery	60,000
N	60,000		Stock	36,000
O	80,000	2,40,000	Debtors	40,000
General reserve		10,000	Cash	11,000
Workmen compensation reserve		18,000	Loan to O	30,000
Creditors		42,000	O's current A/c	4000
Bad debt reserve		6000	Advertisement campaign expenditure	5000
Current Accounts :			Profit-loss A/c	60,000
M	20,000			
N	10,000	30,000		
		3,46,000		**3,46,000**

O died as on 1-12-2016. Provisions of partnership deed were as under :

(1) Land-building is to be appreciated by 10 %. (2) Value of machinery is to be reduced by 5 %.

(3) Provision for doubtful debts is to be kept at 10 % on debtors.

(4) Goodwill is to be valued at 3 years' purchase of the average profit of last 5 years.

(5) Previous 4 years profit was as under :

2011-12	₹ 80,000	2012-13	₹ 60,000
2013-14	₹ 70,000	2014-15	₹ 50,000

(6) O's share of profit till the date of his death based on last year's profit.

(7) New profit and loss sharing ratio of M and N is decided at 3:2.

(8) O's executors is to be paid ₹ 6800 immediately and the balance in 4 equal half yearly instalments with interest at 12 % p.a.

Prepare O's capital account and O's executor's account till it is finally paid.

Ans. :

O's Capital Account

Dr Cr

Date	Particulars	Amt. (₹)	Date	Particulars	Amt. (₹)
1-12-16	To Advertisement campaign expenditure A/c	2000	1-12-16	By Balance b/d	80,000
”	To Profit and loss A/c	24,000	”	By General reserve A/c	4000
”	To O's loan A/c	30,000	”	By Workmen compensation reserve A/c	7200
”	To O's current A/c	4000	”	By Revaluation A/c	3600
”	To Profit and loss suspense A/c (Loss)	16,000	”	By M's capital A/c (goodwill)	24,000
”	To Bank A/c	6800	”	By N's capital A/c (goodwill)	24,000
”	To O's executor's A/c	60,000			
		1,42,800			**1,42,800**

O's Executor's Account

Dr Cr

Date	Particulars	Amt. (₹)	Date	Particulars	Amt. (₹)
31-3-17	To Balance c/f	62,400	1-12-16	By O's capital A/c	60,000
			31-3-17	By Interest A/c (₹ 60,000 $\times \frac{12}{100} \times \frac{4}{12}$)	2400
		62,400			**62,400**
31-5-17	To Bank A/c (15,000 + 2400 + 1200)	18,600	1-4-17	By Balance b/d	62,400
30-11-17	To Bank A/c (15,000 + 2700)	17,700	31-5-17	By Interest A/c (₹ 60,000 $\times \frac{12}{100} \times \frac{2}{12}$)	1200
31-3-18	To Balance c/f	31,200	30-11-17	By Interest A/c (₹ 45,000 $\times \frac{12}{100} \times \frac{6}{12}$)	2700
			31-3-18	By Interest A/c (₹ 30,000 $\times \frac{12}{100} \times \frac{4}{12}$)	1200
		67,500			**67,500**
31-5-18	To Bank A/c (₹ 15,000 + ₹ 1200 + ₹ 600)	16,800	1-4-18	By Balance b/d	31,200
30-11-18	To Bank A/c (₹ 15,000 + ₹ 900)	15,900	31-5-18	By Interest A/c (₹ 30,000 $\times \frac{12}{100} \times \frac{2}{12}$)	600
			30-11-18	By Interest A/c (₹ 15,000 $\times \frac{12}{100} \times \frac{6}{12}$)	900
		32,700			**32,700**

Explanation : (1) **Revaluation Account**

Dr Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Machinery A/c		3000	By Land-building A/c	10,000
To Partners' capital A/c (Profit) :			By Bad debt reserve A/c	2000
M	3600			
N	1800			
O	3600	9000		
		12,000		**12,000**

(2) Valuation of goodwill

5 years average profit $= \frac{80,000 + 60,000 + 70,000 + 50,000 - 60,000}{5}$

$= \frac{2,00,000}{5}$

= ₹ 40,000

Goodwill = 40,000 × 3

= ₹ 1,20,000

(3) Distribution of goodwill

Share of O in goodwill $= 1,20,000 \times \frac{2}{5}$

= ₹ 48,000

Gaining ratio of M and N :

Gain = New share − Old share

$M = \frac{3}{5} - \frac{2}{5} = \frac{1}{5}$

$N = \frac{2}{5} - \frac{1}{5} = \frac{1}{5}$

∴ Gaining ratio of M and N = 1:1

∴ Goodwill is to be given by M and N to O in equal proportion.

Journal Entry :

M's capital A/c...Dr	24,000	
N's capital A/c...Dr	24,000	
To O's capital A/c...Dr		48,000

(4) : O's share in profit :

O died as 1-12-2016, so O will receive his share in profit from 1-4-2016 to 1-12-2016 i.e. for 8 months.

Last year 2015-16, the amount of loss is ₹ 60,000.

∴ O's share in loss $= 60,000 \times \frac{8}{12} \times \frac{2}{5}$

= ₹ 16,000

Illustration 27 : A, B and C are the partners sharing profit and loss in the ratio of 3:2:1. The balance sheet of the firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Creditors		10,000	Goodwill	30,000
Partners' loan :			Patents	25,000
A	12,000		Building	80,000
B	20,000	32,000	Furniture	60,000
General reserve		18,000	Stock	50,000
Capital Accounts :			Debtors	60,000
A	90,000		Cash	15,000
B	90,000			
C	80,000	2,60,000		
		3,20,000		**3,20,000**

B died on 30-6-2016. Under the partnership agreement, the executor of B is entitled to receive following :

(1) Interest on his capital at 10 % p.a.

(2) Share in general reserve.

(3) His loan and outstanding interest on loan.

(4) Value of goodwill is decided at ₹ 30,000.

(5) Share of profit upto the date of death on the basis of last year's sales and profit. Sales for the year 2015-16 was ₹ 12,00,000. First three months sales of current year was ₹ 4,50,000. Net profit for the year 2015-16 was ₹ 2,40,000.

(6) Patents are to be written off fully. Building is to be appreciated by 20 %.

Prepare the balance sheet as on 30-6-2016 after the death of B.

Ans. :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Creditors		10,000	Building	96,000
A's loan		12,000	Furniture	60,000
B's executor's A/c		1,45,550	Stock	50,000
Capital Accounts :			Debtors	60,000
A	72,000		Cash	15,000
C	74,000	1,46,000	Profit and loss suspense A/c (30,000 profit + 2250 Interest on capital + 300 interest on loan)	32,550
		3,13,550		**3,13,550**

Explanation : (1) **Revaluation Account**

Dr Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Patents A/c	25,000	By Building A/c		16,000
		By Partners' capital A/c (Profit) :		
		A	4500	
		B	3000	
		C	1500	9000
	25,000			**25,000**

(2) **Capital Accounts of Partners**

Dr Cr

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Revaluation A/c	4500	3000	1500	By Balance b/d	90,000	90,000	80,000
To Goodwill A/c	15,000	10,000	5000	By General reserve A/c	9000	6000	3000
To B's capital A/c	7500	–	2500	By Interest on capital A/c	–	2250	–
To B's executors' A/c	–	1,45,550	–	By B's loan A/c	–	20,000	–
To Balance c/f	72,000	–	74,000	By Interest on B's loan A/c	–	300	–
				By A's capital A/c	–	7500	–
				By C's capital A/c	–	2500	–
				By Profit and loss suspense A/c	–	30,000	–
	99,000	**1,58,550**	**83,000**		**99,000**	**1,58,550**	**83,000**

(3) **Interest on capital to B from 1-4-2016 to 30-6-2016 = 3 months**

$= ₹\ 90,000 \times \frac{10}{100} \times \frac{3}{12} = ₹\ 2250$

(4) **Outstanding interest on loan to B for 3 months at 6 % p.a. (As not stated in the partnership deed)**

$= ₹\ 20,000 \times \frac{6}{100} \times \frac{3}{12} = ₹\ 300$

(5) **Distribution of goodwill and share of B in goodwill**

Old ratio of A, B and C = 3:2:1

B died; gaining ratio of A and C = 3:1

Share of B in goodwill = $\frac{2}{6} \times 30,000 = ₹\ 10,000$

Which will be given by A and C in the ratio of 3:1.

Journal Entry :

A's capital A/c...Dr	7500	
C's capital A/c...Dr	2500	
To B's capital A/c		10,000

(6) B's share in the profit of the firm from 1-4-2016 to 30-6-2016 means 3 month's profit

If sales of 2015-16 ₹ 12,00,000 : Net profit ₹ 2,40,000

∴ 3 months sales of 2016-17 ₹ 4,50,000 : (?)

$\frac{2,40,000 \times 4,50,000}{12,00,000}$ = ₹ 90,000 (Three month's profit of the firm)

B's share in profit = 90,000 × $\frac{2}{6}$ = ₹ 30,000

Note : B's share in profit, interest on capital and interest on loan should be transferred to profit and loss suspense account and it is shown on assets side of balance sheet.

	Interest on capital	₹	2250
+	Interest on loan	₹	300
+	Share in profit	₹	30,000
		₹	32,550

EXERCISE

1. Select appropriate alternative for each question :

(1) Debit balance of profit and loss account shown in the balance sheet at the time of retirement of a partner is ....

(a) recorded on the debit side of all partners' capital accounts including the retiring partner in their old profit-loss sharing ratio

(b) recorded on the credit side of all partners' capital accounts including the retiring partner in their old profit-loss sharing ratio

(c) credit side of the retiring partners' capital account only

(d) debit side of the remaining partners' capital accounts in their gaining ratio

(2) Goodwill shown in the balance sheet at the time of the retirement of a partner is recorded as ....

(a) shown in new balance sheet, if decided by partners

(b) debit side of all partners' capital accounts in their old profit-loss sharing ratio

(c) credit side of all partners' capital accounts in their old profit-loss sharing ratio

(d) debit side of reriting partners' capital account only

(3) Goodwill payable to the retiring partner is recorded as ....

(a) credit side of all partners' capital accounts, in their old profit-loss sharing ratio

(b) credit side of all partners' capital accounts, in their gaining ratio

(c) debit side of continuing partners' capital accounts, in their gaining ratio

(d) debit side of continuing partners' capital accounts, in their new profit-loss sharing ratio

(4) When only old profit-loss sharing ratio is given, gaining ratio of remaining partners will be ....

(a) 1:1 (b) old ratio

(c) capital ratio (d) can not be calculated

(5) A partner, except the retiring partner also receives goodwill when ....

(a) his capital is more

(b) new share in new profit-loss sharing ratio is more than his old share

(c) new share in new profit-loss sharing ratio is less than his old share

(d) new share and old share are equal

(6) Loss of revaluation account at the time of retirement or death is recorded in .... account in .... ratio on .... side of the capital accounts.

(a) remaining partners, new profit-loss sharing, debit

(b) all partners, old profit-loss sharing, credit

(c) all partners, old profit-loss sharing, debit

(d) all partners, equal proportion, debit

(7) If partnership deed is silent, interest is payable at .... on unpaid amount payable to the retiring partner.

(a) 10 % p.a. (b) 12 % p.a.

(c) 6 % p.a. (d) zero

(8) Accounting year ends on 31-3-2016. A partner dies on 30-6-2016. Deceased partners' share in profit is $\frac{1}{3}$. Profit share payable to the partner is to be calculated on the basis of last year's profit ₹ 24,000. .... amount will be paid as share in profit at the time of death.

(a) ₹ 8000 (b) ₹ 24,000

(c) ₹ 1333 (d) ₹ 2000

(9) Sweta, Geeta and Jyoti are equal partners. Gita retires. Gita's share is gained by Sweta and Jyoti equally. New profit and loss sharing ratio of Sweta and Jyoti will be ....

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

(c) 1:2 (d) 1:1

(10) Workmen profit sharing fund is recorded as .... at the time of the retirement of a partner.

(a) a liability in new balance sheet

(b) credited to all partners' capital account in their old profit-loss sharing ratio

(c) debited to all partners' capital account in their old profit-loss sharing ratio

(d) credited to the retiring partners' capital account

2. Answer following questions in one sentence :

(1) State the circumstances of the retirement of a partner.

(2) Which important accounting aspects are considered at the time of the retirement or death of a partner ?

(3) Which balances are credited to all partners' capital accounts in their old profit-loss sharing ratio ?

(4) Which balances are debited to all partners' capital accounts in their old profit-loss sharing ratio ?

(5) Explain accounting treatment of old goodwill appearing in the balance sheet of the firm at the time of the retirement of a partner.

(6) Explain accounting treatment of the new goodwill of the firm valued at the time of the retirement of a partner.

(7) When and why the profit and loss adjustment account is prepared ?

(8) Who gives the share in goodwill to the retiring or deceased partner ? Why ?

3. Calculate the new profit and loss ratio and gaining ratio for the following questions :

(1) X, Y and Z are the partners sharing profit and loss in the ratio of 5:3:2. Z retires.

(2) A, B and C are the partners sharing profit and loss in the ratio of $\frac{1}{2}$, $\frac{1}{3}$ and $\frac{1}{6}$ respectively. (A) If A retires (B) If B retires (C) If C retires.

(3) P, Q and R are the partners sharing profit and loss in the ratio of 40 %, 20 % and 40 % respectively. Q retires. P is acquiring $\frac{3}{20}$ and R is acquiring $\frac{1}{20}$ from Q's share.

(4) M, N and O are the partners sharing profit and loss in the ratio of 3:2:1. M retires. N is acquiring $\frac{1}{10}$ from M's share and balance is acquired by O.

(5) C, B and D are the partners sharing profit and loss in the ratio of 4:5:3. D retires and his share is taken up by C and B in the ratio of 2:1.

(6) A, M and C are the partners sharing profit and loss in the ratio of 3:5:2. M retires and his share is taken up by C only.

(7) P, Q, R and S are the partners sharing profit and loss in the ratio of 4:3:2:1. Q retires and his share of profit is gained equally by R and S.

(8) M, N, O and P are the partners sharing profit and loss in the ratio of 5:3:2:2. N and P retired. N's share is acquired by O and P's share is acquired by M.

(9) A, B and C are the partners sharing profit and loss in the ratio of $\frac{1}{2}$, 30 % and $\frac{1}{5}$ respectively. B's share is taken over by A and C in the ratio of 3:2.

(10) A, B and C are the partners sharing profit and loss in the ratio of 5:3:2. B and C sharing profit in the ratio of 40 % and 60 % after the retirement of A.

(11) A, B and C are the partners sharing profit and loss in the ratio of 3:2:1. C retires. The new profit and loss sharing ratio of A and B is decided at 7:5.

(12) A, B and C are the partners sharing profit in the ratio of 4:5:1. Following journal entry for goodwill is passed at the time of the retirement of B :

A's capital A/c...Dr	6000	
C's capital A/c...Dr	4000	
To B's capital A/c...		10,000

(13) A, B, C and D are the partners sharing profit and loss in the ratio of 4:3:2:1. C retires. After the retirement of C, A will maintain his old profit share.

4. Give necessary entry of goodwill for the following :

(1) Akruti, Prakruti and Sanskruti are the partners sharing profit and loss in the ratio of 5:3:2. Sanskruti retires. At the time of her retirement the goodwill is valued at ₹ 30,000.

(2) X, Y and Z are the partners sharing profit and loss in equal proportions. Goodwill appears at ₹ 42,000 in the books of the firm. At the time of retirement of X, the goodwill of the firm is valued at ₹ 1,20,000.

(3) L, M, N and O are the partners sharing profit and loss in the ratio of 5:4:3:3. L retires on 1-4-2017. At the time of retirement of L, goodwill appears at ₹ 75,000 in the books of old firm. The new profit and loss sharing ratio of M, N and O is decided at 3:1:1. On L's retirement, the goodwill of the firm is valued at ₹ 90,000.

(4) A, B and C are the partners of a firm. B retires. At the time of B's retirement, the goodwill of the firm is valued at ₹ 60,000. The new profit-loss sharing ratio of A and C decided at 7:2.

(5) B, R, T and S are the partners sharing profit and loss in the ratio of 4:3:1:2. B retires. Goodwill is appearing in their books at ₹ 20,000 and at the time of B's retirement, goodwill is valued at ₹ 60,000. R, T and S decided to share the future profits of new firm in the ratio of 1:2:2.

(6) A, M, U and L are the partners sharing profit and loss in the ratio of 6:4:3:2. U retires. His capital account after making adjustments for reserves and profit on revaluation is ₹ 80,000. Remaining partners have agreed to pay him ₹ 1,40,000 in full settlement of his claim. The new profit-loss sharing ratio of A, M and L is decided at 6:5:4 after the retirement of U.

5. Dhaval, Kamal and Naval are the partners sharing profit and loss in the ratio of 2:2:1. Naval retires on 31-3-2016. Balance sheet of the firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital Accounts :			Goodwill	10,000
Dhaval	30,000		Machinery	20,000
Kamal	20,000		Investments	10,000
Naval	10,000	60,000	Debtors	30,000
General reserve		5000	Stock	10,000
Investment fluctuation fund		2500	Cash-bank	5000
Bad debt reserve		2000		
Creditors		15,500		
		85,000		**85,000**

Following adjustments are agreed at the time of retirement :

(1) Value of machinery is ₹ 25,000 and value of stock is ₹ 5000.

(2) Value of investments is ₹ 8000, which is taken by Naval at this price.

(3) An amount of ₹ 5000 included in creditors is no longer payable.

(4) The provision for workmen compensation to be credited at ₹ 2000.

(5) The provision for doubtful debts is to be kept at 10 % on debtors.

(6) Goodwill of the firm is valued at ₹ 40,000.

Pass journal entries. Prepare necessary accounts and the balance sheet of the firm after Naval's retirement.

6. Rohit, Mohit and Virat are partners sharing profit and loss in the ratio of 4:3:2. Balance sheet of the firm as on 31-3-2017 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital Accounts :			Goodwill		36,000
Rohit	1,60,000		Land-building		1,50,000
Mohit	96,000		Machinery		90,000
Virat	80,000	3,36,000	Stock		85,000
Reserve fund		45,000	Debtors	60,000	
Workmen compensation reserve		13,500	– Bad debt reserve	4000	56,000
Partners' loan :			Bank		63,000
Rohit	10,000		Advertisement campaign expenditure		4500
Mohit	16,000	26,000			
Creditors		64,000			
		4,84,500			**4,84,500**

Rohit retired on 1-4-2017. Terms of retirement is as under :

(1) Value of land-building is ₹ 1,80,000.

(2) Value of machinery is to be reduced by ₹ 15,000.

(3) Provision for doubtful debts is to be kept at 10 % on debtors.

(4) ₹ 5000 not payable to creditors.

(5) Valuation of goodwill is ₹ 1,80,000.

(6) New profit-loss sharing ratio of Mohit and Virat is 2:1.

(7) ₹ 20,000 are to be paid to Rohit and balance will be kept as loan.

Prepare Revaluation account, Partners' capital accounts and Balance sheet after retirement.

7. Vijay, Laxmi and Siddhi are the partners sharing profit and loss in the ratio of 5:3:2. Siddhi retired on 1-4-2016. Terms of retirement are as under :

(1) New profit-loss sharing ratio of Vijay and Laxmi is 2:3.

(2) Goodwill of the firm is valued at ₹ 60,000.

(3) Market value of investments is ₹ 40,000. Siddhi will take over investment at this value.

(4) ₹ 3000 to be written off from debtors and 5 % bad debt reserve is to be maintained.

(5) Value of stock shown in the book is ₹ 1000 more than its cost. It is to be recorded at cost.

(6) Claim of ₹ 7000 is accepted for workmen compensation.

(7) ₹ 12,000 to be paid to Siddhi immediately.

Balance sheet of the firm on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital Accounts :			Land-building		1,30,000
Vijay	85,000		Machinery		70,000
Laxmi	64,000		Investments		60,000
Siddhi	71,000	2,20,000	Stock		35,000
Investment fluctuation fund		15,000	Debtors	23,000	
Workmen compensation fund		17,000	– Bad debt reserve	4000	19,000
Creditors		56,000	Cash		36,000
Provident fund		42,000			
		3,50,000			**3,50,000**

Prepare necessary accounts and balance sheet after retirement.

8. Jaya, Mamta and Smruti are the partners sharing profit and loss in the ratio of $\frac{2}{5}$, $\frac{5}{10}$ and $\frac{1}{10}$. Balance sheet of the firm on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Creditors		90,000	Goodwill	30,000
General reserve		70,000	Building	2,82,000
Capital Accounts :			Machinery	1,45,000
Jaya	2,00,000		Investments	33,000
Mamta	1,00,000		Stock	20,000
Smruti	90,000	3,90,000	Debtors	50,000
Current Accounts :			Loan to Smruti	30,000
Jaya	26,000		Current account : Smruti	10,000
Mamta	14,000	40,000		
Bad debt reserve		10,000		
		6,00,000		**6,00,000**

Smruti retired on 1-4-2017 as a partner. At the time of her retirement, partners decided that :

(1) ₹ 4000 is outstanding for rent payable.

(2) Interest on investment is receivable ₹ 2500.

(3) Investments to be sold for ₹ 35,000.

(4) Goodwill of the firm is valued at ₹ 2,00,000.

(5) Jaya and Mamta will share future profit in the ratio of 1:1.

Prepare necessary accounts and balance sheet after retirement.

9. Madhav, Radha and Gopi are the partners sharing profit and loss in the ratio of $\frac{1}{2}$, $\frac{1}{3}$ and $\frac{1}{6}$. Balance sheet of the firm on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital Accounts :			Cash-bank		12,000
Madhav	1,36,000		Debtors	80,000	
Radha	50,000		− Bad debt reserve	5000	75,000
Gopi	54,000	2,40,000	Stock		62,000
Creditors		50,000	Investments (Market value ₹ 64,000)		58,000
Workmen compensation reserve		24,000	Patent		35,000
Employee provident fund		15,000	Building		75,000
Investment fluctuation reserve		12,000	Advertisement campaign expenditure		24,000
		3,41,000			**3,41,000**

Radha retired from 1-4-2016. Partners decided that :

(1) Value of patent is to be reduced by 20 % whereas value of building is to be reduced to 90 %.

(2) Liability of workmen compensation reserve is decided at ₹ 30,000.

(3) Bad debt reserve on debtors is to be increased by 5 %.

(4) ₹ 40,000 is to be paid to Radha as her share in goodwill.

(5) ₹ 500 received from bad debt written off earlier ₹ 3000.

(6) ₹ 5000 to be paid to Radha in cash and balance amount in two equal annual instalment with 10 % interest per annum.

Prepare Revaluation account, Partners' capital account and Balance sheet. Also prepare Radha's loan account till it is finally paid.

10. Deep, Jyoti and Geeta are the partners sharing profit and loss in the ratio of their capitals. Balance sheet of their firm as 31-3-2017 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital Accounts :			Goodwill		14,000
Deep	1,00,000		Land-building		2,90,000
Jyoti	1,50,000		Trademark		60,000
Geeta	1,00,000	3,50,000	Stock		50,000
General reserve		28,000	Debtors	40,000	
Creditors		60,000	− Bad debt reserve	6000	34,000
Provident fund		32,000	Bank		22,000
		4,70,000			**4,70,000**

Jyoti retired on the above date. Partners decided that,

(1) New profit and loss sharing ratio of Deep and Geeta is to be kept at 1:1. Goodwill of the firm valued at ₹ 70,000.

(2) Bad debt reserve on debtors is to be reduced upto 10 %.

(3) Stock is shown in the books at 25 % more than its cost, stock to be recorded at cost.

(4) ₹ 60,000 is paid for trademark during current year, which is for total 6 years.

(5) Liability of provident fund is decided at ₹ 35,000.

(6) Total capital of the new firm is to be kept as the total capital of the old firm. Deep and Geeta will maintain this capital in their new profit-loss sharing ratio. For this purpose the difference is to be transferred to their current accounts.

Prepare necessary accounts and balance sheet after retirement.

11. Moon, Star and Sun are the partners of a firm. Sun retires on 31-3-2017. Moon and Star will distribute future profit and loss in the ratio of 5:1. Balance sheet of their firm on 31-3-2017 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital Accounts :			Building	2,40,000
Moon	1,60,000		Machinery	1,30,000
Star	2,00,000		Furniture	80,000
Sun	1,80,000	5,40,000	Stock	45,000
General reserve		90,000	Debtors	30,000
Creditors		60,000	Bank	1,75,000
Bills payable		10,000		
		7,00,000		**7,00,000**

Conditions of retirement were as under :

(1) Goodwill of the firm is valued at ₹ 60,000.

(2) Creditors are payable after one month, which are to be paid immediately at 12 % discount per annum.

(3) Computer, written off from the books is now valued at ₹ 12,000. Moon will take over the computer at this value.

(4) After retirement of Sun, Moon and Star will maintain their capital in the new profit and loss sharing ratio and difference is to be tansferred to bank account.

Prepare necessary accounts and balance sheet after retirement.

12. E, M and I are partners sharing profit and loss in the ratio of 5:3:2. Balance sheet of their firm on 31-3-2017 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital Accounts :			Building		1,20,000
E	60,000		Machinery		80,000
M	30,000		Stock		30,000
I	50,000	1,40,000	Debtors	40,000	
Reserve fund		50,000	– Bad debt reserve	2000	38,000
Workmen profit sharing fund		30,000	Cash		22,000
Creditors		70,000			
		2,90,000			**2,90,000**

I retired on 31-3-2017. Conditions of retirement were as under :

(1) I's profit share will be gained by E and M in the ratio of 2:3.

(2) Goodwill of the firm is valued at ₹ 1,00,000.

(3) Bad debt reserve on debtors is to be increased by 10 %.

(4) Building is valued at 110 %.

(5) Value of machinery is to be reduced by 10 %.

(6) Annual insurance premium of ₹ 24,000 is paid for the year ended on 30-6-2017.

(7) E and M will maintain total capital of the firm ₹ 1,00,000 in their new profit and loss sharing ratio after retirement of I. Prepare necessary accounts and balance sheet after retirement.

Prepare necessary accounts and balance sheet after retirement.

13. L, B and W are the partners of a firm sharing profit and loss in the ratio of 2:2:1. Balance sheet of their firm on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital Accounts :			Goodwill	8000
L	20,000		Building	37,000
B	12,500		Debtors	13,000
W	5000	37,500	Stock	5500
General reserve		5000	Cash	2000
Creditors		20,000		
Outstanding expenses		3000		
		65,500		**65,500**

W retired on 1-4-2016. Terms of retirement were decided as under :

(1) Market value of building is ₹ 50,000.

(2) Book value of stock is 10 % more than its cost. Stock is to be recorded at its cost.

(3) Personal expenses of W ₹ 500 was debited to profit and loss account.

(4) Goodwill of the firm is valued at ₹ 80,000.

(5) L will gain $\frac{5}{40}$ and B will gain $\frac{3}{40}$ from W's share of profit.

(6) Amount due to W is to be paid in cash and the same amount will be brought in cash by L and B in such a manner that their capital may remain in their new profit-loss sharing ratio in the new firm.

Prepare necessary accounts and balance sheet of the new firm.

14. Chirag, Jigar and Keshav are the partners sharing profit and loss in ratio of 3:2:1. Balance sheet of their firm on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Land-building		50,000
Chirag	30,000		Machinery		20,000
Jigar	20,000		Investments		10,000
Keshav	10,000	60,000	Stock		10,000
General reserve		6000	Debtors	20,000	
Creditors		44,000	− Bad debt reserve	2000	18,000
			Cash		2000
		1,10,000			**1,10,000**

Keshav retired on 31-3-2016. Following conditions were decided at the time of retirement :

(1) Value of land-building is to be increased by 20 %.

(2) Machinery is valued at 90 % of its book value.

(3) Market value of investment is 150 % of its book value.

(4) Bad debt reserve on debtors is to be reduced by 5 %.

(5) Goodwill of the firm is valued at ₹ 36,000.

(6) ₹ 2000 is outstanding for salary payable to an employee.

(7) Chirag and Jigar will bring necessary amount in cash in such a manner that amount due to Keshav is to be paid in cash and balance of cash may remain in the firm as working capital ₹ 14,000 and their capital in the new firm become proportionate to their new profit-loss sharing ratio.

Prepare necessary accounts and balance sheet of new firm.

15. E, F and G are the partners sharing profit and loss in the ratio of 4:3:3. E retires on 31-3-2017. Balance sheet of the firm on that date was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Goodwill	1000
E	8000		Land-building	6000
F	5000		Free hold assets	3000
G	2000	15,000	Furniture	3000
General reserve		2000	Stock	6600
Creditors		8000	Debtors	7000
Bills payable		2000	Cash	400
		27,000		**27,000**

Following terms of retirement were decided in partnership agreement and among the partners :

(1) Goodwill of the firm is valued at ₹ 7000.

(2) Value of land-building ₹ 7000 and furniture ₹ 2000 is decided.

(3) Stock is over valued by 10 %. ₹ 5000 to be paid to E immediately and balance to be transferred to his loan account.

(4) F and G will bring necessary cash in equal proportion in such a manner that E is to be paid his dues fully and ₹ 2000 remain as working capital (cash).

Prepare profit and loss adjustment account, cash account, partners' capital accounts and balance sheet.

16. Kamal, Bimal and Vimal are the partners sharing profit and loss in the ratio of 1:2:3. Their balance sheet shows following balances on 31-3-2016.

Capital : Kamal ₹ 10,000, Bimal ₹ 20,000 and Vimal ₹ 30,000

General reserve ₹ 24,000

Loan of Vimal ₹ 10,000

Goodwill ₹ 12,000

Vimal died on 31-5-2016. Following conditions were provided in partnership deed :

(1) Goodwill of the firm is to be valued at two years purchase of average profit of last three years.

Profit of last three years were ₹ 25,000, ₹ 40,000 and ₹ 25,000.

(2) Profit share of the deceased partner till the date of death is to be decided on the basis of average profit of last three years.

(3) Interest on capital is to be allowed at 12 % per annum.

Prepare Vimal's capital account.

17. C, S and T are the partners of a firm sharing profit and loss in the ratio of 2:1:2. Balance sheet of their firm on 31-3-2017 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Land-building	1,40,000
C	80,000		Investments	70,000
S	70,000		Stock	50,000
T	1,00,000	2,50,000	Debtors	25,000
Workmen accident compensation fund		10,000	Cash	20,000
T's loan		25,000	Advertisement suspense account	15,000
Creditors		35,000		
		3,20,000		**3,20,000**

T died on 30-6-2017. As per partnership deed, following accounting treatments are necessary to be given at the time of death of a partner :

(1) Interest on capital is to be allowed at 6 % per annum.

(2) Interest on drawings is to be charged at 12 % p.a. T withdrew ₹ 20,000 on 1-5-2017.

(3) Goodwill is to be valued at two times the average profit of last three years :

Profit of last three years was as under :

2014-15 ₹ 80,000, 2015-16 ₹ 75,000 and 2016-17 ₹ 85,000

(4) Profit share to be given on the basis of profit of previous year.

Prepare T's executor's account.

18. E, V and M are the partners of a firm sharing profit and loss in the ratio of 3:2:1. Balance sheet of their firm on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Goodwill	24,000
E	1,00,000		Land-building	2,00,000
V	1,20,000		Machinery	60,000
M	90,000	3,10,000	Debtors	80,000
Investment reserve		10,000	Investments (Market value ₹ 26,000)	30,000
Bad debt reserve		6000	Cash	40,000
Provident fund		70,000	Profit-loss A/c	42,000
Workmen profit sharing fund		30,000		
Creditors		50,000		
		4,76,000		**4,76,000**

V died on 1-10-2016. As per partnership deed, following was decided among partners :

(1) Goodwill is valued at ₹ 1,20,000.

(2) New profit-loss sharing ratio of E and M decided at 2:1.

(3) V is to be given profit share till the date of his death on the basis of the profit of last year.

(4) 10 % reserve for bad debt to be provided on debtors.

(5) Land and building is valued 10 % more.

(6) ₹ 1000 salary per month is payable to V.

(7) ₹ 45,000 to be paid to V's executor immediately and balance amount in two equal yearly instalments with interest at 10 % per annum.

Prepare V's executor account and executor's loan account till it is finally paid.

19. A, T and M are the partners sharing profit and loss in the ratio of 4:1:1. Balance sheet of their firm on 31-3-2017 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Land-building	12,000
A	15,000		Furniture	6000
T	12,000		Motor car	8000
M	9000	36,000	Debtors	15,000
General reserve		3000	Stock	6000
Creditors		17,000	Loan to M	9000
Bills payable		1000	Cash	1000
		57,000		**57,000**

M died on 1-7-2017. As per partnership agreement among partners :

(1) Value of land and building and furniture is to be increased by 10 %

(2) Cost of stock is ₹ 5500, which is to be brought in the books.

(3) ₹ 400 to be written off as bad debt from debtors.

(4) Goodwill is valued at ₹ 7200.

(5) M is to be given share in profit till the date of his death on basis of sales and net profit of last year. Sales of last year was ₹ 8,00,000. Sales of first three months of current year was ₹ 4,00,000. Net profit of last year was ₹ 2,40,000.

(6) ₹ 1850 to be paid to M's executor in cash and balance amount in two equal annual instalments with interest at 12 % interest per annum.

Prepare M's executor's account and executor's loan account till it is finally paid.

●

7

Dissolution of Partnership Firm

1. Introduction	4. Dissolution of Partnership Firm
2. Meaning of Dissolution	5. Accounting Treatment of Dissolution
3. Dissolution of Firm and Partnership	– Exercise

1. Introduction

So far we have undertaken the study in context to continuation of business inspite of changes in partnership due to the admission of a partner or retirement or death of a partner. This brings to the end of a partnership, but it is not dissolution of a partnership firm.

The partnership firm and partnership automatically comes to an end when the current business is closed and all partners get separated. We will study the transactions related to dissolution in this chapter.

2. Meaning of Dissolution

Dissolution means end of existence. Here dissolution is to be studied in the context of dissolution of partnership and a partnership firm, where two issues are considered for dissolution.

(i) Dissolution of a partnership firm

(ii) Dissolution of a partnership

When a partnership firm closes down its business on a permanent basis, (or a firm becomes non-existent from legal point of view) it is known as dissolution of a partnership firm. In brief, when a running firm is closed and its business activities are closed it is dissolution of a partnership firm.

When except one partner, all partners get separated from a firm, this is also an end of a partnership. If this continuous one partner will become the owner of sole proprietor firm. In this case also a partnership firm gets dissolved. When running business of the firm is sold to a joint stock company - this is also dissolution of a partnership firm.

3. Dissolution of Firm and Partnership

It is essential to understand the meaning of firm dissolution and partnership dissolution, which is as follows :

(A) **Dissolution of Firm :** As per section 39 of Indian Partnership Act when all partners get separated through dissolution of firm, that brings end of their partnership - it is known as dissolution of firm. In this manner when partnership is dissolved and close down the firm, it is dissolution of firm. The business of the firm is closed down in these circumstances. As a result of dissolution, liabilities of the firm are paid from the realisation of the sale of assets. From the remaining surplus capital of partners is redeemed as per their contract.

When the entire business of the firm is sold, that is also dissolution of a partnership firm.

(B) **Dissolution of Partnership :** When business is not closed down due to retirement of a partner, death of a partner, insolvency of a partner or due to any other reasons, and remaining partners keep business continuous, it is a dissolution of old partnership. Except outgoing partners remaining partners keep business continuous, consequently, new partnership takes place. Generally, the proportion of partnership changes between continuing partners. In these circumstances partnership firm does not get dissolved. But new partnership comes into existence due to reorganisation of partnership.

Partnership is a relation of partners. While firm is a group name of all partners.

(C) Difference between dissolution of partnership and partnership firm :

Base	Dissolution of Partnership	Dissolution of Partnership Firm
Meaning	Reorganisation of partnership means dissolution of partnership.	Permanent end of partnership firm is dissolution of partnership firm.
Existence of Firm	The existence of firm remains continuous.	There is end of existence of the firm.
Books of Accounts	Books of accounts remains continuous.	Books of accounts are closed.
Settlement of Accounts	No accounts are settled. But profit or loss arised due to revaluation is credited or debited respectively to partners' capital accounts. Generally accounts of outgoing partners are settled.	Accounts are settled. Through realisation account disposal of assets is done and liabilities are paid. Surplus amount is paid to partners for their final settlement.
Interference of court	It is voluntary dissolution of partnership. No need of court's interference.	Whenever required court interferes.
Effect	There may not be dissolution of firm, due to dissolution of partnership.	There is automatic dissolution of partnership, when partnership firm is dissolved.

4. Dissolution of Partnership Firm

In this chapter we will undertake study of important aspects of the dissolution of a partnership firm. Subsequently we will undertake study of accounting treatments for the dissolution of a firm.

(A) Methods of dissolution of firm

(B) Legal and other provision for accounting settlement of dissolution

(C) Procedure of dissolution

(A) Methods of dissolution of firm :

As per Indian Partnership Act 1932 there are two methods for dissolution of partnership firm :

(1) Normal dissolution or dissolution without interference of court

(2) Dissolution by the court

(1) Normal dissolution or dissolution without interference of court : Through any of the following methods partnership can be dissolved without the interference of court.

(i) **By agreement :** When all partners agree to dissolve the firm, partnership firm can be dissolved at any point of time. It is voluntary dissolution.

(ii) **Dissolution as per contract :** Dissolution of a partnership firm can be done on the basis of predetermined contract between the partners.

(iii) **Dissolution as per act :** In the following conditions there is compulsory dissolution by the act.

(a) when all partners of the firm become insolvent; or except one, all partners become insolvent.

(b) when business of firm becomes illegal, this also brings dissolution of a partnership firm.

(iv) **Dissolution on happenings of certain contingencies :**

(a) if constituted for a fixed term, by the expiry of that term.

(b) if constituted to carry out specific aim, by the completion thereof.

(v) **Dissolution by notice :** Where the partnership is at will, the firm may be dissolved by any partner giving notice in writing to all the other partners of his intention to dissolve the firm. The firm is dissolved as from the date mentioned in the notice as the date of dissolution or if no date is so mentioned, as from the date of the service of the notice.

(2) **Dissolution by the court :** When any partner file a suit for dissolution of a firm on any of the following grounds and the court orders to dissolve the firm.

(i) When any partner becomes of unsound mind.

(ii) When a partner becomes permanently incapable of performing his duties as a partner.

(iii) When a partner undertakes misconduct against partnership firm or against business of firm.

(iv) When a partner willfully and persistently breaches the partnership agreement.

(v) When a partner transfers his whole interest in the partnership to a third party without the consent of other partners.

(vi) When a firm continuously incurs losses and is unable to run a business due to loss.

(vii) When the court finds any other ground to be just and equitable for the dissolution of the firm.

(B) Legal and other provisions for accounting settlement of dissolution :

(1) **For loss of a firm :** As per Indian Partnership Act, the loss arised including capital deficit at the time of dissolution is executed in the following manner :

(a) First of all to be written off from the profit of the firm.

(b) If profit is not sufficient, then it will be met from the capital of the partners.

(c) If capital is not sufficient, then all partners would distribute this loss in their profit-loss sharing ratio and pay from their personal assets as per need.

(2) **Liabilities of a firm and personal liabilities of partners :** The liabilities of partners is unlimited. Thus for dues towards third party partners are responsible individually and collectively. As per legal provision, assets of the firm are used to discharge the liabilities of the firm and personal assets of partners are used to discharge their personal liabilities.

Since the liability of the partners is unlimited, after making the payment of personal liability from personal asset, surplus can be used to pay the liabilities of the firm.

(3) **Partners' loan to firm :** At the time of dissolution, first of all the dissolution expenses and then the liabilities of the firm are paid from the realisation of the assets of the firm. Than from surplus, the loan of partners is redeemed. If after making the payment of firms' liabilities, the available surplus is insufficient to return back loan of more than one partner and nothing can be recovered from partners, in this case the loan of these partners is redeemed in their loan proportion.

(4) Loan of partners' wife : If wife of a partner has given a loan to the firm from her personal fund, this loan will be treated as a liability towards the third party and will be redeemed accordingly.

If loan is given from the personal fund of her husband, then it will be treated as a loan of a partner.

(5) Liability of partners : Liability of partners is unlimited. If a partner or partners becomes insolvent, solvent partners are responsible to pay the dues of the firm from their personal property.

(6) Distribution of assets realisation of firm : The realisation of asset of the firm is paid in the following order :

(a) First of all dissolution expense is paid.

(b) Next, liabilities towards third parties are paid.

(c) Next, loan of partners paid.

(d) Finally, capital and balances of current accounts of partners are redeemed.

(e) Even if any surplus remains after the payment shown in (d), surplus will be distributed among all the partners in their profit-loss sharing ratio.

(C) General procedure of dissolution :

When a firm is dissolved, at that time all assets of the firm are sold and the payment is made in the mentioned order. Due to the accounting treatments of dissolution, books of accounts of the firm will be closed.

5. Accounting Treatments of Dissolution

At the time of dissolution of firm, all assets of firm are sold and liabilities are paid from the realised income. If surplus remains, capital is redeemed. Books of accounts are closed. To incorporate complete procedure the following accounting treatments are given.

(A) Preparation of necessary accounts : The following accounts are prepared to follow the accounting procedure of dissolution and to give the accounting treatments.

(1) Realisation Account

(2) Partners Loan Account (if any)

(3) Partners Capital Accounts / Current Accounts

(4) Cash / Bank Account

(1) Realisation Account : An account which is prepared at the time of dissolution to give the accounting treatments to dispose off assets and payment of liabilities, is known as 'Realisation Account'.

To close assets and liabilities excluding cash / bank account are transferred to realisation account at their book value at the time of the dissolution of a firm.

Subsequently amount realised from the sale of assets is debited to cash account and credited to the realisation account. Payment of liabilities is debited to realisation account and credited to cash account.

The difference of realisation account will be either profit or loss. This difference is allocated between the partners in their profit sharing ratio. Profit is credited to their capital account. Loss is debited to their capital account.

To incorporate above mentioned dissolution related accounting treatments, realisation account is prepared. (The specimen of realisation account is given subsequently.)

(2) **Partners' Loan Account :** Many times for financial assistance purpose partners provide loan to the business. At the time of dissolution of a firm, partners' loan are repaid prior to the redemption of the capital of partners. Thus at the time of dissolution partners' loan accounts are also prepared. (when loan is provided by the partners.)

(3) **Partners' Capital Accounts / Current Accounts :** Earlier detailed study of partners' capital accounts / current accounts is undertaken. At the time of dissolution, parnters' capital is redeemed after the payment of all the liabilities.

(4) **Cash / Bank Account :** Since firm is dissolved, all transactions are done in cash form or through bank. Cash account is not transferred at the realisation account. All cash receipts and payments are recorded in this account. At last, surplus is paid to the partners.

Journal entries for the preparation of Dissolution Accounts :

(A) Before recording journal entries prepare above stated necessary accounts

(B) Disclose balances in partners' capital accounts and cash / bank account

(C) Disclose balances in partners' loan acconts (if any)

(1) Balances of accumulated reserve and undistributed profit :

First of all balances of accumulated reserves are the shown in the balance sheet of the firm, like general reserve, workmen compensation fund, credit balance of profit and loss account, debit balance of profit and loss account etc. These amounts are not transferred to the realisation account. These amounts are transferred to the partners capital account in their profit-sharing ratio. These accounts are not either assets or liabilities, but component of capital, hence it is transferred to the capital account. Journal entry for this is as follows :

(i) Reserves and credit balance of profit and loss account (profit) :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Reserves A/c Dr		✓	
	Investment fluctuation fund A/c Dr		✓	
	Workmen accident compensation fund A/c Dr		✓	
	Profit and loss A/c (Profit) Dr		✓	
	To Partners' capital A/c			✓
	[Being reserves and undistributed profit credited to partners' capital account in their profit and loss sharing ratio.]			

(ii) Debit balance of profit and loss account (loss) :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Partners' capital A/c Dr		✓	
	To Profit and Loss A/c (loss)			✓
	[Being debit balance of profit and loss A/c (loss) debited to capital account of partners in their profit and loss sharing ratio.]			

(2) When assets are closed and transferred to the realisation account :

Assets always disclose debit balance. At the time of dissolution of a firm, except cash/bank account all assets accounts disclosed in balance sheet are transferred to the debit side of realisation account at their book value. To close assets account, their accounts are credited. e.g. Land-building, plant-machinery, furniture, investments, debtors, goodwill, patent, trademark, copyright, bills receivable etc. where journal entry will be as follows :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr		✓	
	To Land-building A/c			✓
	To Plant-machinery A/c			✓
	To Furniture A/c			✓
	To Investments A/c			✓
	To Debtors A/c			✓
	To Bills receivable A/c			✓
	To Other assets A/c			✓
	[Being assets accounts are closed and transferred to realisation account at their book value.]			

Note : On the date of dissolution, balance of cash or bank account disclosed in the balance sheet is not transferred to the realisation account. It's separate account is prepared and same balance is disclosed. Because realisation from sale of assets and payment of liabilities are shown in the cash account. At last, surplus is transferred to the capital account of partners.

(3A) When accounts of provisions are closed and transferred to the realisation account :

Provisions always disclose credit balance. At the time of dissolution of a firm all provisions account disclosed in balance sheet are transferred to the credit side of realisation account at their book value. To close provision accounts, their accounts are debited. e.g. bad debt reserve, depreciation fund account, discount reserve on debtors or bills receivable account etc.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bad debt reserve A/c Dr		✓	
	Depreciation fund A/c Dr		✓	
	Discount reserve on debtors and bills receivable A/c Dr		✓	
	To Realisation A/c			✓
	[Being provisions accounts are closed and transferred to realisation account.]			

(3B) When liabilities accounts are closed and transferred to the realisation account :

Liabilities always disclose credit balance. At the time of dissolution of a firm liabilities accounts disclosed in balance sheet are transferred to the credit side of the realisation account at their book value.

To close liabilities accounts their accounts are debited. e.g. creditors, bills payable, bank overdraft, providend fund, workmen profit sharing fund, outstanding expenses etc. Journal entry will be as follows :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Creditors A/c Dr		✓	
	Bills payable A/c Dr		✓	
	Bank overdraft A/c Dr		✓	
	Workmen profit sharing fund A/c Dr		✓	
	Outstanding expenses A/c Dr		✓	
	To Realisation A/c			✓
	[Being liabilities accounts are closed and transferred to realisation account.]			

Note : Since the settlement of partners' accounts is to be done, capital accounts of partners, current accounts of parnters, loan accounts of partners are not transferred to the realisation account. Their accounts are separately opened and balances are shown there in. At last these accounts are closed in dissolution.

(4) **When assets are sold :**

(A) **Sale of assets :** In this case assets are sold in open market. The realisation of sale of assets is debited to the cash/bank account and realisation account is credited.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Cash/Bank A/c Dr		✓	
	To Realisation A/c			✓
	[Being sale of assets is credited to realisation account.]			

(B) **When assets taken over by a partner :** When any asset is taken over by a partner at that time partners' account is debited and realisation account is credited.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Respective Partners' capital A/c Dr		✓	
	To Realisation A/c			✓
	[Being assets taken over by partner is debited to his account and credited to realisation account.]			

Note : (1) The realisable value must be given of all the tangible and intangible assets at the time of dissolution of a firm. It must be indicated in question if there is no realisable value of any tangible and intangible assets.

(2) When assets recorded in the books are given to the creditors recorded in the books for their dues : This kind of asset and creditor are already transferred in the realisation account. Thus the realisable value of asset and payable amount to creditor will not be recorded.

(C) **When income is received from unrecorded asset :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Cash A/c Dr To Realisation A/c [Being amount realised on unrecorded assets.]		✓	✓

(5) **When liabilities are paid :**

(A) **Paid in cash :** When liabilities of the firm are paid in cash, realisation account is debited and cash/bank account is credited.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr To Cash / Bank A/c [Being all liabilities are paid.]		✓	✓

(B) **When liabilities payment is accepted by a partner :** When any partner pays the liability or accepts to pay the liability of the firm, in this case realisation account is debited and respective partners' capital is credited.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr To Respective partners' capital A/c [Being partner has accepted liabilitiy for payment.]		✓	✓

Note : When no information is given about the payment of liability at the time of dissolution it will be assumed that the liability is paid as per the book value.

(C) **When unrecorded liability is paid :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr To Cash / Bank A/c [Being unrecorded liability is paid.]		✓	✓

(6) **When dissolution expense of partnership firm is paid :**

Generally, dissolution expense of partnership firm is borne by the firm itself. The accounting treatment of dissolution expense for different situations can be given as follows :

(A) **When dissolution expense is paid by a firm and to be borne by the firm :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr		✓	
	To Cash / Bank A/c			✓
	[Being dissolution expense is paid.]			

(B) **When any partner accepts liability :**

(i) No accounting treatment is given, if the dissolution expense is to be borne and paid by any partner :

But, when any remuneration is payable to the respective partner to perform the responsibility of dissolution procedure, the following entry will be passed.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr		✓	
	To Respective partners' capital A/c			✓
	[Being remuneration is paid to partner for performance of dissolution procedure.]			

(ii) When the responsibility of the payment of the dissolution expense is accepted by a partner, but payment is made by the firm, in this case following journal entry will be passed.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Respective partners' capital A/c Dr		✓	
	To Cash / Bank A/c			✓
	[Being dissolution expense of the firm paid on the behalf of partner.]			

(7) **When loan of partner is paid :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Partners' loan A/c Dr		✓	
	To Bank / Cash A/c			✓
	[Being paid for loan of partner.]			

(8) **Distribution of balance of realisation account :**

The balance of realisation can be in the form of profit or loss. This profit or loss is distributed to the partners' current account or capital account in the profit-loss sharing ratio.

(A) **In case of profit :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr To Partners' current/capital A/c [Being profit of realisation account is distributed to partners' current/capital account.]		✓	✓

(B) **In case of loss :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Partners' current/capital A/c Dr To Realisation A/c [Being loss of realisation account is distributed to partners' current/capital accounts.]		✓	✓

(9) **When partners' current accounts are closed :**

At the time of dissolution, partners' current accounts are to be closed and are transferred to capital accounts :

(i) **When current accounts show credit balance :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Partners' current A/c Dr To Partners' capital A/c [Being balance current accouints of partners' are transfer to capital account.]		✓	✓

(ii) **When current accounts show debit balance :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Partners' capital A/c Dr To Partners' current A/c [Being balance of current accounts of partners' are transfer to capital account.]		✓	✓

(10) **When partners' capital accounts are closed :**

(i) **When closing balance of partners' capital account is debit balance and partner brings cash :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bank/Cash A/c Dr To Partners' capital A/c [Being partner brought cash for his debit balance of capital account.]		✓	✓

(ii) **When closing balance of partners' capital account is credit balance and payment is made to partner :**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Partners' capital A/c Dr		✓	
	To Bank/Cash A/c			✓
	[Being cash is paid to partners for their credit balance of capital account.]			

Note : All accounts will be closed after incorporation of above mentioned accounting treatments of dissolution of firm.

(11) **Accounting treatments of special transactions :**

(i) **When unrecorded assets are given to recorded creditor for his due :**

In these kind of circumstances from total amount of creditors, the amount of unrecorded assets is deducted and remaining amount of creditors is paid to them. e.g. there are total creditors of ₹ 90,000. One unrecorded asset is given to the book creditor of ₹ 50,000 against his due.

Total creditors	₹	90,000
Less : Unrecorded assets given to the creditors	₹	50,000
Remaining creditors will be paid	₹	40,000

It's journal entry will be as follows :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr		40,000	
	To Bank/Cash A/c			40,000
	[Being creditors are paid.]			

(ii) **When partial payment is made for unrecorded liability through unrecorded asset :**

e.g. ₹ 40,000 are payable to Amul, but not recorded in the books. The unrecorded asset of ₹ 20,000 is given to him and remaining amount is paid by cheque.

₹ 40,000	Payable for unrecorded liability
– ₹ 20,000	Given unrecorded asset
₹ 20,000	Payable amount

In this case, following journal entry will be given for paid amount.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Realisation A/c Dr		20,000	
	To Bank A/c			20,000
	[Being amount is paid for unrecorded liability.]			

Specimen of Realisation Account

Realisation Account

Dr | | | Cr

Particulars		Amt. (₹)	Particulars		Amt. (₹)
To Sundry Assets A/c :		**Journal entries no.**	**By Provisions A/c :**		**Journal entries no.**
Land-building	✓		Bad debt reserve	✓	
Plant-machineries	✓		Depreciation fund	✓	3(A)
Furniture	✓	(2)	Discount reserve on debtors -		
Investments	✓		bills receivable	✓	✓
Debtors	✓				
Bills receivable	✓		**By Sundry Liabilities A/c :**		
Other assets	✓	✓	Creditors	✓	
To Cash/Bank A/c			Bills payable	✓	
(Payment of liabilities)		5(A)	Bank overdraft	✓	3(B)
To Partners' capital A/c			Workmen profit sharing fund	✓	
(Liability accepted by partner)		5(B)	Outstanding expense	✓	✓
To Cash/Bank A/c			By Cash/Bank A/c		
(Payment of unrecorded liabilities)		5(C)	(Sale of assets)		4(A)
To Cash/Bank A/c			By Partners' capital A/c		
(Payment of dissolution expense)		6(A)	(Asset taken over by partner)		4(B)
To Partners' capital A/c			By Cash/Bank A/c		
(Remuneration of partner)		6(B)(ii)	(Sale of unrecorded asset)		4(C)
To Partners' current/capital A/c			By Partners' current/capital A/c		
(Distribution of profit of realisation account)		8(A)	(Distribution of loss of realisation account)		8(B)
		....			....

Illustration 1 : Pass journal entries for the following transactions :

(1) Land-building ₹ 1,00,000 and investments ₹ 50,000 are disclosed in the balance sheet at the time of dissolution. ₹ 80,000 and ₹ 60,000 are realised respectively from them.

Ans. : **Journal Entries**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr		1,50,000	
	To Land-building A/c			1,00,000
	To Investments A/c			50,000
	[Being at the time of dissolution land-building and investments accounts are closed and transfer them to realisation account.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2	Cash/Bank A/c Dr		1,40,000	
	To Realisation A/c			1,40,000
	[Being amount realised from sale of land-building and investments.]			

(2) At the time of dissolution total assets of the firm are of ₹ 4,00,000. Out of that 40 % are current assets. Where cash is included of ₹ 20,000. 120 % of fixed assets are realised. 80 % are realised from current assets.

Ans. : Explanation :

Assets ₹ 4,00,000

Current assets 40 %
₹ 1,60,000

Cash ₹ 20,000

Other current assets (?)
₹ 1,40,000
× 80 %
₹ 1,12,000 Realised

Fixed assets (?) 60 %
₹ 2,40,000
× 120 %
₹ 2,88,000 Realised

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr		3,80,000	
	To Fixed assets A/c			2,40,000
	To Current assets A/c			1,40,000
	[Being assets accounts are closed and transferred to realisation account.]			
2	Cash/Bank A/c Dr		4,00,000	
	To Realisation A/c			4,00,000
	[Being ₹ 2,88,000 realised from fixed assets and ₹ 1,12,000 realised from current assets.]			

(3) At the time of dissolution of firm, the value of machinery was of ₹ 70,000. It is taken by one partner for ₹ 78,000.

Ans. :

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr		70,000	
	To Machinery A/c			70,000
	[Being machinery account closed and transferred to realisation account.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2	Partners' capital A/c Dr To Realisation A/c [Being at the time of dissolution partner taken machines for ₹ 78,000.]		78,000	 78,000

(4) Dissolution expense of the firm is ₹ 20,000.

Ans. : **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr To Cash/Bank A/c [Being dissolution expense paid.]		20,000	 20,000

(5) At the time of dissolution of partnership firm following assets are appeared in the book :

Building ₹ 2,00,000 Furniture ₹ 40,000

Goodwill ₹ 20,000 Machinery ₹ 30,000

Realised ₹ 2,20,000 from building, ₹ 50,000 for furniture and machinery at book value. No value is realised for goodwill. Pass necessary journal entries.

Ans. : **Journal Entries**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr To Building A/c To Furniture A/c To Goodwill A/c To Machinery A/c [Being firm is dissolved all assets are transferred to realisation account.]		2,90,000	 2,00,000 40,000 20,000 30,000
2	Cash/Bank A/c Dr To Realisation A/c [Being ₹ 2,20,000 for building; ₹ 50,000 for furniture and ₹ 30,000 machinery are realised.]		3,00,000	 3,00,000

(6) Bad debt of ₹ 12,000 was written off, out of which ₹ 10,000 is received.

Ans. : **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Cash/Bank A/c Dr To Realisation A/c [Being amount received for bad debts.]		10,000	 10,000

(7) There is no value of goodwill in the books of a firm. But at the time of dissolution ₹ 35,000 realised for it.

Ans. : **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Cash/Bank A/c Dr		35,000	
	To Realisation A/c			35,000
	[Being realised for goodwill.]			

(8) Partner Naresh accepts to pay ₹ 30,000 for bills payable.

Ans. : **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr		30,000	
	To Naresh's Capital A/c			30,000
	[Being Naresh has accepted to pay bills payable.]			

(9) At the time of dissolution of the firm debtors are of ₹ 80,000 and creditors of ₹ 40,000. Partner Pratik accepts debtors at 20 % less than book-value and paid to creditors.

Ans. : **Journal Entries**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr		80,000	
	To Debtors A/c			80,000
	[Being debtors are transferred to realisation account.]			
2	Creditors A/c Dr		40,000	
	To Realisation A/c			40,000
	[Being creditors are transferred to realisation account.]			
3	Pratik's current/capital A/c Dr		64,000	
	To Realisation A/c			64,000
	[Being Pratik has accepted debtors at 20 % less than book-value.]			
4	Realisation A/c Dr		40,000	
	To Pratik's current/capital A/c			40,000
	[Being Pratik has paid to creditors.]			

(10) A partner Vijay has accepted responsibility for dissolution procedure of the firm. A firm has decided to pay remuneration of ₹ 12,000 for this task. A firm has paid him ₹ 6000 for expense.

Ans. : **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr		12,000	
	To Vijay's capital A/c			12,000
	[Being dissolution expense becomes payable to partner Vijay.]			
2	Vijay's A/c Dr		6000	
	To Cash/Bank A/c			6000
	[Being paid to Vijay for dissolution expense responsibility.]			

(11) Income tax liability of the partnership firm is determined for ₹ 35,000. It is not recorded in the books.

Ans. : **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr		35,000	
	To Cash/bank A/c			35,000
	[Being unrecorded income tax liability is paid.]			

(12) At the time of liquidation, after making payment of all liabilities and partners loan, surplus of asset is ₹ 60,000. The profit-loss sharing ratio of S, B and I are 4:3:3.

Ans. : **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr		60,000	
	To S's Current/capital A/c			24,000
	To B's Current/capital A/c			18,000
	To I's Current/capital A/c			18,000
	[Being excess of assets distributed among partners in the ratio of 4:3:3.]			

(13) Realised ₹ 25,000 for unrecorded machine, at the time of dissolution.

Ans. : **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Cash A/c Dr		25,000	
	To Realisation A/c			25,000
	[Being realised from sale of unrecorded machine.]			