

Retirement or Death of a Partner

June 15	To B's Executor's A/c (Balance transferred)	44,158	June 15	By A's Capital (Goodwill)(1)	9,600
			June 15	By C's Capital (Goodwill)(1)	9,600
			June 15	By A's Capital A/c(2) (Profit)	667
			June 15	By C's Capital A/c (Profit)	666
			June 15	By Interest on Capital(3)	625
		56,158			56,158

Working Notes:

(1) Valuation of Goodwill:

Total Profit = 15,000 + 17,000 + 19,000 + 13,000 = 64,000

Average Profit = 64,000 ÷ 4 = 16,000

Goodwill of the Firm = 3 x Average Profit = 3 x 16,000 = ₹48,000

B's Share = 48,000 x 2/5 = ₹19,200

Since A and C have gained equally, they will be debited by 19,200 ÷ 2 = ₹9,600 each.

(2) Profit and Loss (Suspense)

(Share of Profit from the date of last Balance Sheet to the date of death) 2½ months.

$$= ₹64,000/4 \times 2/5 \times 2.5/12 = ₹1,333$$

Note: This amount of ₹1,333 will be credited to B and debited to A and C in their gaining ratio i.e. equally. It should not be debited to Profit & Loss Suspense A/c because profit sharing ratio of continuing partners does not remain the same.

(3) Interest on Capital = ₹25,000 x 12/100 x 2.5/12 = ₹625

SOLUTION : 66.

JOURNAL ENTRIES

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2011 Aug. 1	General Reserve A/c Dr. To Sunil's Capital A/c (Sunil's share of General Reserve transferred to his account)		15,000	15,000
	Akhil's Capital A/c Dr. Nikhil's Capital A/c Dr. To Sunil's Capital A/c (Adjustment for Sunil's share of Goodwill : $80,000 - 1,00,000 + 1,20,000 + 1,80,000 = 2,80,000/4 \times 3$ $= 2,10,000$. Sunil's share = $2,10,000 \div 3 = 70,000$)		35,000 35,000	70,000
	P & L Suspense A/c Dr. To Sunil's Capital A/c (Sunil's share of profit upto the date of death :		20,000	20,000

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1,80,000 x 4/12 x 1/3 = ₹20,000)			
Interest on Capital A/c To Sunil's Capital A/c (Interest on capital for four months)	Dr.	1,600	1,600
Sunil's Capital A/c Dr. To Sunil's Executor's A/c (Amount due to Sunil transferred to his Executor's A/c)		1,86,600	1,86,600
Sunil's Executor's A/c To Bank A/c To Sunil's Executor's Loan A/c (Amount paid to Sunil's Executors and the balance transferred to Loan A/c)	Dr.	1,86,600	50,000 1,36,600

Dr.		SUNIL'S CAPITAL A/C		Cr.	
Particulars	₹	Particulars	₹		
To Sunil's Executor's A/c— balance transferred	1,86,600	By Balance b/d	80,000		
		By General Reserve A/c	15,000		
		By Akhil's Capital A/c	35,000		
		By Nikhil's Capital A/c	35,000		
		By P & L Suspense A/c	20,000		
		By Interest on Capital A/c	1,600		
	1,86,600		1,86,600		

Dr.		SUNIL EXECUTOR'S A/C		Cr.	
Particulars	₹	Particulars	₹		
To Bank A/c	50,000	By Sunil's Capital A/c	1,86,600		
To Sunil's Executor's Loan A/c	1,36,600				
	1,86,600		1,86,600		

SOLUTION : 67.

Dr. PARTNER'S CAPITAL ACCOUNTS				Cr.			
Particulars	X	Y	Z	Particulars	X	Y	Z
	₹	₹	₹		₹	₹	₹
To Y's Capital A/c				By Balance b/d	2,00,000	1,50,000	1,00,000
(Share of Goodwill)	90,000		30,000	By Reserve	45,000	30,000	15,000
To Y's				By P & L Suspense		12,000	
Executor's A/c		3,12,000		A/c (See Note 1)			
To Balance c/d	1,55,000		85,000	By X's Capital A/c			

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				(Share of Goodwill)		90,000	
				By Z's Capital A/c (Share of Goodwill)		30,000	
	2,45,000	3,12,000	1,15,000		2,45,000	3,12,000	1,15,000

Dr. FS EXECUTOR'S ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Bank A/c	3,12,000	By Y's Capital A/c	3,12,000

BALANCE SHEET OF X AND Z as at 1st August, 2011

Liabilities	₹	Assets	₹
Sundry Creditors	44,000	Stock	1,20,000
Bank Loan(3)	40,000	Debtors	64,000
Capitals:		Fixed Assets	1,28,000
X 1,55,000		Profit & Loss Suspense A/c	12,000
Z 85,000	2,40,000		
	3,24,000		3,24,000

Working Notes :

(1) Ascertainment of Y's share of profit:

Total Profits for last three years = 80,000 + 1,30,000 + 1,50,000 = ₹3,60,000

Average Profits = ₹3,60,000 ÷ 3 = ₹1,20,000.

Profit from 1st April to 31st July, 2011 = 1,20,000 x 4/12 = ₹40,000.

Y's share of profit = 40,000 x 2/6 = ₹13,333

Less : 10% of 13,333 1,333

12,000

(2) Y's share of Goodwill =

Total Profits of last three years = ₹3,60,000

Y's share in profit (Goodwill) = 3,60,000 x 2/6 = ₹1,20,000

It will be contributed by X and Z in the ratio of 3 : 1.

SOLUTION : 68.

JOURNAL

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2015 Nov. 5	Interest on Capital A/c(1) To N's Capital A/c (Interest credited to N's Capital Account)		960	960

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Nov. 5	Reserves A/c To N's Capital A/c (Transfer of N's share of Reserves to N's Capital Account)	Dr.	1,800	1,800
Nov. 5	P & L Suspense A/c To N's Capital A/c (Transfer of 2/10th share of profit i.e. ₹2,40,000 x 15/100 x 2/10)	Dr.	7,200	7,200
Nov. 5	L's Capital A/c Dr. M's Capital A/c Dr. To N's Capital A/c(2) (Adjustment of N's share of goodwill into the Capital Accounts of L and M in their gaining ratio i.e., 5:3)		3,375 2,025	5,400
Nov. 5	Bank A/c To Investments A/c (Sale of investments)	Dr.	12,000	12,000
Nov. 5	N's Capital A/c To N's Executor's A/c (Amount due to ^transferred to his Executor's Account)	Dr.	35,360	35,360
Nov. 5	N's Executor's A/c To Bank A/c (Amount paid to N's Executors)	Dr.	35,360	35,360

Dr.			N'S CAPITAL ACCOUNT			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
2015			2015					
Nov. 5	To N's Executor's A/c	35,360	April 1	By Balance b/d	20,000			
			Nov. 5	By Interest on Capital	960			
			Nov. 5	By Reserves	1,800			
			Nov. 5	By P & L Suspense	7,200			
			Nov. 5	By L's Capital A/c	3,375			
			Nov. 5	By M's Capital A/c	2,025			
		35,360			35,360			

Dr.			N'S EXECUTOR'S ACCOUNT			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
2015			2015					
Nov. 5	To Bank A/c	35,360	Nov. 5	By N's Capital A/c	35,360			

Working Notes :

(1) Calculation of Interest on Capital:

Number of days from April 1, 2015 to November 5, 2015 = 219

Retirement or Death of a Partner

Interest on Capital = $20,000 \times 219/365 \times 8/100 = ₹960$

(2) Calculation of Goodwill:

Average Profit = $₹(10,500 + 12,000 + 12,500 + 13,000)/4 = ₹12,000$

Less : 25% of 12,000 = ₹3,000
9,000

Goodwill = $9,000 \times 3 = ₹27,000$

N's share of Goodwill = $27,000 \times 2/10 = ₹5,400$

It will be credited to the Capital Account of N and will be debited to the Capital Accounts of L and M in their gaining ratio i.e., 5:3.

SOLUTION : 69.

Working Notes :

(1) Valuation of Firm's Goodwill:

Average Profit = $(₹20,000 + ₹1,10,000 + ₹80,000 + ₹80,000 - ₹1,60,000) \div 5 = ₹66,000$

Value of Finn's Goodwill = Average Profit x Number of Years' Purchase Firm's Goodwill
 $= ₹66,000 \times 3 = ₹1,98,000$

R's Share of Goodwill = $₹1,98,000 \times 9/20 = ₹89,100$

(2) R's Share of Profit/Loss till the date of his death:

R's share of Profit/Loss will be calculated on the basis of the profit or loss for the year ending 31-3-2016. In this year firm incurred a loss of ₹1,60,000.

Hence, R's Share of Loss = $₹1,60,000 \times 1/12 \times 9/20 = ₹6,000$

Dr.			R'S CAPITAL A/C			Cr.	
Date	Particulars	₹	Date	Particulars	₹		
2016			2016				
April 30	To P & L Suspense A/c (Share of Loss)(2)	6,000	April 30	By Balance b/d	4,00,000		
April 30	To Profit & Loss A/c (₹1,60,000x9/20)	72,000	April 30	By General Reserve (60,000 x 9/20)	27,000		
April 30	To R's Executor's A/c	4,38,100	April 30	By P's Capital A/c (Goodwill) (89,100x5/11)	40,500		
			April 30	By Q' Capital A/c (Goodwill) (89,100x6/11)	48,600		
		5,16,100			5,16,100		

SOLUTION : 70.

Dr.		REVALUATION ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Machinery A/c	2,000	By Land & Building A/c	34,000		
To Stock A/c	2,000				
To Provision for Doubtful	300				

Retirement or Death of a Partner

Debts			
To Profit transferred to :			
G's Capital A/c	20,790		
E's Capital A/c	5,940		
F's Capital A/c	2,970	29,700	
		34,000	34,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	G	E	F	Particulars	G	E	F
	₹	₹	₹		₹	₹	₹
To Goodwill A/c	28,000	8,000	4,000	By Balance b/d	70,000	20,000	10,000
To E's Executor's A/c	—	28,340	—	By General Reserve	14,000	4,000	2,000
To Balance c/d (2)	76,790	—	10,970	By Revaluation A/c	20,790	5,940	2,970
				By Profit & Loss Suspense A/c (1)		6,400	
	1,04,790	36,340	14,970		1,04,790	36,340	14,970

Dr. E'S EXECUTOR'S ACCOUNT Cr.

Particulars	₹	Particulars	₹
To E's Executor's Loan A/c	58,340	By E's Capital A/c	28,340
		By E's Loan A/c	30,000
	58,340		58,340

BALANCE SHEET OF G and F as at 24th Aug.. 2011

Liabilities	₹	Assets	₹
Capital A/c :		Land & Building	94,000
G	76,790	Machinery	38,000
F	10,970	Stock	5,000
Creditors	14,000	Debtors	12,000
E's Executor's Loan A/c	58,340	Less: Provision for Doubtful Debts	300
		Cash	5,000
		Profit & Loss Suspense A/c	6,400
	1,60,100		1,60,100

Working Notes :

(1) Calculation of E's Share in profit for 146 days :

$$= ₹80,000 \times 146/365 \times 2/10 = ₹6,400$$

Retirement or Death of a Partner

(2) Calculation of adjusted Capitals of G and F:

G's Capital (Adjusted) = ₹76,790

F's Capital (Adjusted) = ₹10,970

= ₹87,760

New profit sharing ratio of G and F = 7:1

G's Capital = ₹87,760 x 7/8 = ₹76,790

F's Capital = ₹87,760 x 1/8 = ₹10,970

Adjusted Capitals of partners are the same as shown by their Capital Accounts. Hence, there is no need of transferring any amount to their Current Accounts.

SOLUTION : 71.

JOURNAL

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2010 June 30	Reserve Fund A/c Dr. To Sohan's Capital A/c (Transfer of Sohan's share of reserve fund to his Capital A/c)		1,500	1,500
June 30	Interest on Capital A/c Dr. To Sohan's Capital A/c (Interest credited to his Capital A/c)		150	150
June 30	Ram's Capital A/c Dr. Mohan's Capital A/c Dr. To Sohan's Capital A/c (Sohan's share of goodwill adjusted to the continuing partners' Capital Accounts in their gaining ratio i.e., equally)		2,500 2,500	5,000
June 30	P & L Suspense A/c Dr. To Sohan's Capital A/c (Transfer of profit till his death)		750	750
June 30	Sohan's Capital A/c Dr. To Sohan's Executor's A/c (Amount due to Sohan transferred to his Executor's A/c)		17,400	17,400

Dr.			SOHAN'S CAPITAL A/C			Cr.	
Date	Particulars	₹	Date	Particulars	₹		
2010 June 30	To Sohan's Executor's A/c		2010	By Balance b/d	10,000		
	(Balance transferred)	17,400	April 1	By Reserve Fund	1500		
			June 30	By Interest on Capital	150		
			June 30 June 30	By Ram's Capital A/c	2,500		

Retirement or Death of a Partner

			June 30	By Mohan's Capital A/c	2,500
			June 30	By P & L Suspense	750
		17,400			17,400

Dr. SOMAN'S EXECUTOR'S A/C Cr.					
Date	Particulars	₹	Date	Particulars	₹
2010 July 1 2011 March 31	To Bank A/c To Balance c/d	1,775 16,328	2010 June 30 2011 March 31	By Sohan's Capital A/c By Interest A/c (17,400 – 1,775) x 6/100 x 9/12	17,400 703
		18,103			18,103
2011 June 30	To Bank (1/4th of ₹15,625 Add: Interest (703 + 234)	3,906 937	2011 April 1 June 30	By Balance b/d By Interest A/c 15,625 x 6/100 x 3/12	16,328 234
2012 March 31	To Balance c/d	12,246	2012 March 31	By Interest A/c (15,625 – 3,906) = 11,719 x 6/100 x 9/12	527
		17,089			17,089
2012 June 30	To Bank (1/4th of ₹15,625 Add: Interest (527 + 176)	3,906 703	2012 April 1 June 30	By Balance b/d By Interest A/c 11,719 x 6/100 x 3/12	12,246 176
2013 March 31	To Balance c/d	8,165	2013 March 31	By Interest A/c (11,719 – 3,906) = 7,813 x 6/100 x 9/12	352
		12,774			12,774
2013 June 30	To Bank (1/4th of ₹15,625 Add: Interest (352 + 117)	3,906 469	2013 April 1 June 30	By Balance b/d By Interest A/c 7,813 x 6/100 x 3/12	
2014 March 31	To Balance c/d	4,083	2014 March 31	By Interest A/c	

Retirement or Death of a Partner

2014 June 30	To Bank A/c		2014 April 1 June 30	$(7,813 - 3,906) = 3,907 \times 6/100 \times 9/12$ By Balance b/d By Interest A/c $3,907 \times 6/100 \times 3/12$	176
		8,458			8,458
		4,142			4,083
		4,142			59 4,142

Note: (1) The date, of closing the accounts is 31st March and the date of payment of instalments is 30th June.

SOLUTION : 72.

REVALUATION ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Stock	3,000	By Land and Building	20,000
To Profit transferred to :		By Provision for Doubtful Debts	2,000
A's Capital A/c 3,800			
B's Capital A/c 5,700			
C's Capital A/c 9,500	19,000		
	22,000		22,000

A's CAPITAL ACCOUNT					
Dr.					Cr.
Date	Particulars	₹	Date	Particulars	₹
2013			2013		
May 31	To Advertisement		April 1	By Balance b/d	50,000
	Suspense A/c	2,000	May 31	By Contingency	
May 31	To A's Executor's A/c	63,500	May 31	Reserve	3,000
				By Workmen Compensation Reserve	2,000
				By Revaluation A/c	3,800
				By B's Capital A/c(1) (Goodwill)	2,250
				By C's Capital A/c (Goodwill)	3,750
				By P & L Suspense A/c(2)	700
		65,500			65,500

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A's EXECUTOR'S ACCOUNT					
Dr.					Cr.
Date	Particulars	₹	Date	Particulars	₹
2013 May 31	To Bank A/c	18,500	2013 May 31	By A's Capital A/c	63,500
2014 March 31	To Balance c/d	48,000	2014 March 31	By Interest A/c $45,000 \times 8/100 \times 10/12$	3,000
		66,500			66,500
2014 May 31	To Bank (1/3 of ₹45,000 + Int. (3,000 + 600)	15,000 3,600 18,600	2014 April 1	By Balance b/d	48,000
2015 March 31	To Balance c/d	32,000	2015 May 31	By Interest A/c $45,000 \times 8/100 \times 2/12$	600
		50,600	2015 March 31	By Interest A/c $(45,000 - 15,000) \times 8/100 \times 10/12$	2,000
2015 May 31	To Bank (1/3 of ₹45,000 + Int. (2,000 + 400)	15,000 2,400 17,400	2015 April 1	By Balance b/d	32,000
2016 March 31	To Balance c/d	16,000	2016 May 31	By Interest A/c $30,000 \times 8/100 \times 10/12$	400
		33,400	2016 March 31	By Interest A/c $(30,000 - 15,000) \times 8/100 \times 10/12$	1,000
2016 May 31	To Bank A/c	16,200	2016 April 1	By Balance b/d	16,000
		16,200	2016 May 31	By Interest A/c $15,000 \times 8/100 \times 2/12$	200
					16,200

Working Notes:

(1) Valuation of Goodwill =

Average Profit = ₹ $(17,000 + 15,000 + 23,000 + 25,000) \div 4 = ₹20,000$

Goodwill at 1½ year's purchase = $20,000 \times 1\frac{1}{2} = ₹30,000$

A's share = $30,000 \times 2/10 = ₹6,000$

A's share of goodwill will be adjusted into the Capital Accounts of B and C in their gaining ratio 3:5.

Retirement or Death of a Partner

(2) Ascertainment of A's share of profit =

Average profit of proceeding 3 years = $(15,000 + 23,000 + 25,000) \div 3 = ₹21,000$

A's share = $21,000 \times 2/12 \times 2/10 = ₹700$

SOLUTION : 73.

JOURNAL ENTRIES

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2011				
May 15	General Reserve A/c To M's Capital A/c To N's Capital A/c (Transfer of General Reserve)	Dr.	60,000	36,000 24,000
May 15	Land and Building A/c To Revaluation A/c (Increase in the value of Land and Building)	Dr.	1,20,000	1,20,000
May 15	Revaluation A/c To Plant and Machinery A/c To Furniture and Fixtures A/c To Vehicles A/c To Debtors A/c To Provision for Doubtful Debts A/c (Decrease in the value of Assets)	Dr.	41,500	20,000 9,000 7,500 3,000 2,000
May 15	Revaluation A/c To M's Capital A/c To N's Capital A/c (Transfer of profit on revaluation)	Dr.	78,500	47,100 31,400
May 15	M's Capital A/c N's Capital A/c To Goodwill A/c (Goodwill already existing in the books written off)	Dr. Dr.	9,000 6,000	15,000
May 15	M's Capital A/c To N's Capital A/c (N's share of goodwill i.e., 2/5 of 45,000 adjusted to M's Capital A/c)	Dr.	18,000	18,000
May 15	Profit & Loss Suspense A/c To N's Capital A/c (Transfer of 2/5th share of profit upto 15th February 'i.e., ₹20,000 x 2/5 x 3/24)	Dr.	1,000	1,000
May 15	N's Capital A/c To N's Executor's A/c (Amount due to N transferred to his Executor's Account)	Dr.	4,68,400	4,68,400

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May 15	N's Executor's A/c To Bank A/c (Amount paid immediately)	Dr.	68,400	68,400
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Note : Valuation of Goodwill :

Average Profit = $(20,000 + 18,000 + 10,000 + 7,000 + 15,000 + 20,000) \times 1/6 = ₹15,000$

Goodwill = $15,000 \times 3 = ₹45,000$

Dr.			N'S CAPITAL A/C			Cr.	
Date	Particulars	₹	Date	Particulars	₹		
2011			2011				
May 15	To Goodwill A/c	6,000	April 1	By Balance b/d	4,00,000		
May 15	To N's Executor's A/c	4,68,400	May 15	By General Reserve A/c	24,000		
			May 15	By Revaluation A/c	31,400		
			May 15	By M's Capital A/c (Goodwill)	18,000		
			May 15	By P & L Suspense A/c	1,000		
		4,74,400			4,74,400		

Dr.			A'S EXECUTOR'S A/C			Cr.	
Date	Particulars	₹	Date	Particulars	₹		
2011			2011				
May 15	To Bank A/c	68,400	May 15	By N's Capital A/c	4,68,400		
Nov 16	To Bank A/c (1/2 of ₹4,00,000 + Interest ₹14,000)	2,14,000	Nov. 16	By Interest A/c (7% p.a. on ₹4,00,000 for six months)	14,000		
2012			2012				
Mar. 31	To Balance c/d	2,05,250	Mar. 31	By Interest A/c (7% p.a. on ₹2,00,000 for 4.5 months)	5,250		
		4,87,650			4,87,650		

ADDITIONAL QUESTIONS Calculation of New Profit-Sharing Ratio

SOLUTION : 74.

Old Ratio of A, B, C and D = 4:3:2: 1.

When A and C retire, the new ratio between B and D will be 3 : 1.

SOLUTION : 75.

Old Ratio of A, B and C = 1/2: 3/8: 1/8

This can be written as (4: 3: 1)/8 or 4 : 3 : 1

Retirement or Death of a Partner

Thus, when C retires, the new ratio between A and B will be 4 : 3.

SOLUTION : 76.

B's share will be divided between A and C in the ratio of 1 : 1.

A will gain $\frac{1}{2}$ of $\frac{4}{15} = \frac{2}{15}$

Hence, A's new Share = $\frac{8}{15} + \frac{2}{15} = \frac{10}{15}$

C will gain $\frac{1}{2}$ of $\frac{4}{15} = \frac{2}{15}$

Hence, C's new Share = $\frac{3}{15} + \frac{2}{15} = \frac{5}{15}$

New Ratio of A & C = $\frac{10}{15} : \frac{5}{15} = 2:1$

SOLUTION : 77.

Old Ratio of Shiv, Mohan and Hari is 5 : 5 : 4 or $\frac{5}{14} : \frac{5}{14} : \frac{4}{14}$

Mohan's share will be divided between Shiv and Hari equally.

Shiv will gain $\frac{1}{2}$ of $\frac{5}{14} = \frac{5}{28}$

Hari will gain $\frac{1}{2}$ of $\frac{5}{14} = \frac{5}{28}$

Shiv's new share = $\frac{5}{14} + \frac{5}{28} = \frac{(10 + 5)}{28} = \frac{15}{28}$

Hari's new share = $\frac{4}{14} + \frac{5}{28} = \frac{(8 + 5)}{28} = \frac{13}{28}$

Thus, New Ratio between Shiv and Hari is $\frac{15}{28} : \frac{13}{28}$ or 15 : 13.

SOLUTION: 78.

Old Ratio of A, B and C = $\frac{1}{5} : \frac{1}{3} : \frac{7}{15}$

C's share will be divided between A and B in the ratio of 3 : 2

A will gain $\frac{3}{5}$ of $\frac{7}{15} = \frac{21}{75}$

B will gain $\frac{2}{5}$ of $\frac{7}{15} = \frac{14}{75}$

A's new share = $\frac{1}{5} + \frac{21}{75} = \frac{(15 + 21)}{75} = \frac{36}{75}$

B's new share = $\frac{1}{3} + \frac{14}{75} = \frac{(25 + 14)}{75} = \frac{39}{75}$

Thus, new ratio between A and B = $\frac{36}{75} : \frac{39}{75}$ or 36 : 39 or 12 : 13

SOLUTION : 79.

Old Ratio of X, Y and Z = $\frac{4}{9} : \frac{3}{9} : \frac{2}{9}$

X's share will be divided between Y and Z in the ratio of 2 : 1

Y will gain $\frac{2}{3}$ of $\frac{4}{9} = \frac{8}{27}$

Z will gain $\frac{1}{3}$ of $\frac{4}{9} = \frac{4}{27}$

Y's new share = $\frac{3}{9} + \frac{8}{27} = \frac{(9 + 8)}{27} = \frac{17}{27}$

Z's new share = $\frac{2}{9} + \frac{4}{27} = \frac{(6 + 4)}{27} = \frac{10}{27}$

Thus, new ratio between Y and Z = $\frac{17}{27} : \frac{10}{27}$ or 17 : 10.

SOLUTION: 80.

Old Ratio of A, B and C = $\frac{4}{9} : \frac{3}{9} : \frac{2}{9}$

(i) When B's share is taken up by A and C in the ratio of 2 : 1

A will gain $\frac{2}{3}$ of $\frac{3}{9} = \frac{2}{9}$

C will gain $\frac{1}{3}$ of $\frac{3}{9} = \frac{1}{9}$

A's new share = $\frac{4}{9} + \frac{2}{9} = \frac{6}{9}$

Retirement or Death of a Partner

C's new share = $\frac{2}{9} + \frac{1}{9} = \frac{3}{9}$

Thus, new ratio between A and C = $\frac{6}{9} : \frac{3}{9}$ or 6:3 or 2: 1

(ii) When B's share is taken up by A and C equally

A will gain $\frac{1}{2}$ of $\frac{3}{9} = \frac{1}{6}$

C will gain $\frac{1}{2}$ of $\frac{3}{9} = \frac{1}{6}$

A's new share = $\frac{4}{9} + \frac{1}{6} = \frac{8 + 3}{18} = \frac{11}{18}$

C's new share = $\frac{2}{9} + \frac{1}{6} = \frac{4 + 3}{18} = \frac{7}{18}$

Thus, new ratio between A and C = $\frac{11}{18} : \frac{7}{18}$ or 11 : 7

(iii) When B's share is taken up by A alone

A's new share = $\frac{4}{9} + \frac{3}{9} = \frac{7}{9}$

C's new share = $\frac{2}{9}$

Thus, new ratio between A and C = $\frac{7}{9} : \frac{2}{9}$ or 7 : 2

Calculation of Gaining Ratio

SOLUTION : 81.

Gaining Ratio = New Ratio - Old Ratio

Gaining Ratio of Mangli = $\frac{5}{8} - \frac{3}{9} = \frac{45 - 24}{72} = \frac{21}{72}$

Gaining Ratio of Sanvali = $\frac{3}{8} - \frac{2}{9} = \frac{27 - 16}{72} = \frac{11}{72}$

Mangli and Sanvali = 21 : 11

SOLUTION : 82.

Gaining Ratio = New Ratio - Old Ratio

Gaining Ratio of A = $\frac{7}{12} - \frac{1}{3} = \frac{7 - 4}{12} = \frac{3}{12}$

Gaining Ratio of C = $\frac{5}{12} - \frac{1}{3} = \frac{5 - 4}{12} = \frac{1}{12}$

Thus, Gaining Ratio between A and C = 3 : 1

SOLUTION : 83.

Old Ratio of A, B and C = 1,00,000 : 75,000 : 50,000 or 4 : 3 : 2

C's share will be divided between A and B in the ratio of 2 : 1

A will gain $\frac{2}{3}$ of $\frac{2}{9} = \frac{4}{27}$

B will gain $\frac{1}{3}$ of $\frac{2}{9} = \frac{2}{27}$

Hence, A's new share = $\frac{4}{9} + \frac{4}{27} = \frac{12 + 4}{27} = \frac{16}{27}$

B's new share = $\frac{3}{9} + \frac{2}{27} = \frac{9 + 2}{27} = \frac{11}{27}$

Thus, New Ratio between A and B = 16:11

Gaining Ratio between A and B = 2:1

SOLUTION : 84.

Old Ratio of A, B and C = $\frac{1}{3} : \frac{1}{3} : \frac{1}{3}$

C's share will be divided between A and B in the ratio of 6 : 4 or 3 : 2

A will gain $\frac{3}{5}$ of $\frac{1}{3} = \frac{3}{15}$

B will gain $\frac{2}{5}$ of $\frac{1}{3} = \frac{2}{15}$

Retirement or Death of a Partner

Hence, A's new share = $1/3 + 3/15 = (5 + 3)/15 = 8/15$

B's new share = $1/3 + 2/15 = (5 + 2)/15 = 7/15$

Thus, New Ratio between A and B = 8:7

Gaining Ratio between A and B = 3:2

Treatment of Goodwill

SOLUTION : 85.

JOURNAL

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
	O's Capital A/c Dr. To N's Capital A/c (O's Capital account debited as he alone has gained on N's retirement)		20,000	20,000

Gaining Ratio = New Ratio - Old Ratio

M gains = $1/2 - 3/6 = (3 - 3)/6 = 0$

O gains = $1/2 - 1/6 = (3 - 1)/6 = 2/6$

Only O gains on N's retirement.

Hence, he will be debited by the entire amount of goodwill payable to N.

SOLUTION : 86.

JOURNAL

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
	Naresh Capital A/c (1/6 of ₹90,000)	Dr.	15,000	
	Yogesh Capital A/c (1/6 of ₹90,000)		15,000	
	To Mukesh Capital A/c (2/6 of ₹90,000)	Dr.		30,000
	(Retiring partner's share of goodwill debited to the accounts of continuing partners in their gaining ratio equally)	i.e.,		

Gaining Ratio = New Ratio - Old Ratio

Ravi Gains = $1/3 - 2/6 = (2 - 2)/6 = 0$

Naresh Gains = $1/3 - 1/6 = (2 - 1)/6 = 1/6$

Yogesh Gains = $1/3 - 1/6 = (2 - 1)/6 = 1/6$

Thus, Gaining Ratio between Ravi, Naresh and Yogesh = 0: 1: 1

SOLUTION : 87.

Calculation of Gaining Ratio :

L Gains: $2/6 - 1/2 = (2 - 3)/6 = 1/6$

N Gains: $1/6 - 1/2 = (1 - 3)/6 = 2/6$

As such, Gaining Ratio between L and N = 1:2

Retirement or Death of a Partner

JOURNAL

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
	L's Capital A/c (1,80,000 x 1/3)(1) Dr.		60,000	
	N's Capital A/c (1,80,000 x 2/3) Dr.		1,20,000	
	To M's Capital A/c			1,20,000
	To O's Capital A/c			60,000
	(M and O's share of goodwill debited to gaining partners in their gaining ratio of 1 : 2)			

Working Note: (1)

M's Share of Goodwill	= ₹3,60,000 x 2/6	1,20,000
O's Share of goodwill	= ₹3,60,000 x 1/6	60,000
		1,80,000

SOLUTION : 88.

(a) A's Share is taken up by B and C equally.

B will gain 1/2 of 5/10 = 5/20

Hence, B's new share = 3/10 + 5/20 = (6 + 5)/20 = 11/20

C will gain 1/2 of 5/10 = 5/20

Hence C's new share = 2/10 + 5/20 = (4 + 5)/20 = 9/20

New Ratio of B and C = 11/20 : 9/20 or 11 : 9

Gaining Ratio : Since B and C have acquired A's share equally, the gaining ratio will be 1 : 1.

(b) A's share of Goodwill = ₹2,00,000 x 5/10 = ₹1,00,000

JOURNAL

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
	B's Capital A/c Dr.		50,000	
	C's Capital A/c Dr.		50,000	
	To A's Capital A/c			1,00,000
	(Retiring partner's share of goodwill debited to B and C in their gaining ratio of 1 : 1)			

SOLUTION : 89.

JOURNAL

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
	O's Capital A/c (2/6 of ₹1,20,000) Dr.		40,000	
	To L's Capital A/c (1/6 of ₹1,20,000)			20,000
	To M's Capital A/c (1/6 of ₹1,20,000)			20,000
	(O gains 2/6 share of profit whereas L loses 1/6 share of profit and M also loses 1/6 share of profit. O compensates L and M for the loss in share of profit)			

Retirement or Death of a Partner

Working Notes :

$$O \text{ Gains} = 2/3 - 2/6 = 2/6$$

$$M \text{ Sacrifices} = 1/3 - 3/6 = 1/6$$

Thus O gains $2/6$ which includes $1/6$ sacrificed by M in favour of O. Hence, O is required to compensate M for such sacrifice.

SOLUTION : 90.

JOURNAL

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
	A's Capital A/c Dr.		4,000	
	B's Capital A/c Dr.		4,000	
	To C's Capital A/c			8,000
	(C's share of goodwill debited to the accounts of continuing partners in their gaining ratio i.e., equally)			

Working Notes :

(i) Valuation of Goodwill :

$$\text{Average Profit} = ₹(10,000 + 25,000 - 15,000 + 36,000 + 44,000) \div 5 = ₹20,000$$

$$\text{Value of Goodwill at 2 year's purchase} = ₹20,000 \times 2 = ₹40,000$$

$$C's \text{ share of Goodwill} = ₹40,000 \times 2/10 = ₹8,000.$$

(ii) Calculation of Gaining Ratio = New Ratio - Old Ratio

$$\text{Gaining Ratio of A} = 6/10 - 5/10 = 1/10$$

$$\text{Gaining Ratio of B} = 4/10 - 3/10 = 1/10$$

SOLUTION : 91.

JOURNAL

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2014	Y's Capital A/c Dr.		5,000	
April 1	Z's Capital A/c Dr.		5,000	
	To X's Capital A/c			10,000
	(X's share of goodwill debited to the accounts of continuing partners in their gaining ratio i.e., equally)			

Working Notes :

Calculation of New Profit Sharing Ratios :

In future X will get only $1/2$ of his previous share.

$$\text{Hence X's new share} = 1/2 \text{ of } 3/6 = 1/4$$

Balance $1/4$ will be divided between Y and Z equally.

$$\text{Hence, Y will gain } 1/2 \text{ of } 1/4 = 1/8$$

$$\text{Z will gain } 1/2 \text{ of } 1/4 = 1/8$$

$$Y's \text{ new share} = 2/6 + 1/8 = (8 + 3)/24 = 11/24$$

Retirement or Death of a Partner

Z's new Share = $1/6 + 1/8 = (4 + 3)/24 = 7/24$

Thus, New Share of X, Y and Z = $1/4 : 11/24 : 7/24 = 6 : 11 : 7$

SOLUTION : 92.

REVALUATION ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Profit transferred 2,200 to :		By Provision for bad debts (₹2,000 - 10% of 16,000)	400
K's Capital A/c			
L's Capital A/c	1,320	By Creditors	4,000
M's Capital A/c	<u>880</u>		
	4,400		
	4,400		4,400

CAPITAL ACCOUNTS							
Dr.							Cr.
Particulars	K	L	M	Particulars	K	L	M
	₹	₹	₹		₹	₹	₹
To Profit and Loss A/c	1,800	1,080	720	By Balance b/d	40,000	36,000	32,000
To L's Capital A/c (Goodwill)	12,000		9,600	By Revaluation A/c	2,200	1,320	880
To L's Loan A/c		57,840		By K's Capital A/c (Goodwill)		12,000	
To Balance c/d	28,400		22,560	By M's Capital A/c (Goodwill)			9,600
	42,200	58,920	32,880		42,200	58,920	32,880

BALANCE SHEET OF K AND M as at 31st March, 2016

Liabilities	₹	Assets	₹
Creditors	26,000	Bank	20,000
L's Loan	57,840	Debtors	16,000
Capitals :		Less: Provision for bad debts	1,600
K	28,400		14,400
M	<u>22,560</u>	Building	<u>1,00,400</u>
	1,34,800		1,34,800

Working Notes :

L's share in Goodwill = $72,000 \times 3/10 = 21,600$

This share is debited to K and M in gaining ratio

Gaining Ratio = New Ratio - Old Ratio

K's Gaining Ratio = $2/3 - 5/10 = (20 - 15)/30 = 5/30$

M's Gaining Ratio = $1/3 - 2/10 = (10 - 6)/30 = 4/30$

Retirement or Death of a Partner

Gaining Ratio = 5:4

Entry for Goodwill adjustment will be:

K's Capital A/c (21,600 x 5/9) Dr. 12,000

M's Capital A/c (21,600 x 4/9) Dr. 9,600

To L's Capital A/c 21,600

SOLUTION : 93.

Dr.		REVALUATION ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Machinery	1,750	By Stock	2,500		
To Motor Vans	600	By Buildings	2,250		
To Provision for doubtful debts	975				
To Workmen's compensation	825				
To Profit transferred to :					
X's Capital	300				
Y's Capital	200				
Z's Capital	100				
	600				
	4,750				4,750

Dr.		CAPITAL ACCOUNTS				Cr.	
Particulars	X	Y	Z	Particulars	X	Y	Z
	₹	₹	₹		₹	₹	₹
To Y's Capital A/c				By Balance b/d	20,000	15,000	12,500
(Goodwill)	900	—	2,100	By Reserve Fund	3,000	2,000	1,000
To Y's Loan A/c	—	20,200	—	By Revaluation A/c (Profit)	300	200	100
To Balance c/d	22,400	—	11,500	By X's Capital (Goodwill)	—	900	—
				By Z's Capital (Goodwill)		2,100	
	23,300	20,200	13,600		23,300	20,200	13,600

BALANCE SHEET OF X AND Z as at 1st April, 2014

Liabilities	₹	Assets	₹
Creditors	9,500	Cash at Bank	1,250
Bills Payable	2,500	Debtors	8,000
Workmen's Compensation	825	Less : Provision for	
Y's Loan	20,200	Doubtful Debts	1,225
Capitals :		Stock	15,000

Retirement or Death of a Partner

X	22,400		Motor Vans	3,400
Z	11,500	33,900	Machinery	15,750
			Buildings	24,750
		66,925		66,925

Working Notes :

(1) Calculation of Gaining Ratio :

Y Gains = $3/5 - 1/2 = (6 - 5)/10 = 1/10$

Z Gains = $2/5 - 1/6 = (12 - 5)/30 = 7/30$

Thus, Gaining Ratio of X and Z = $1/10 : 7/30$ or $3 : 7$

Y's share of Goodwill = ₹9,000 x $1/3$ = ₹3,000

Which is to be contributed by X and Z in their gaining ratio of $3 : 7$ as under

X: ₹3,000 x $3/10$ = ₹900

Z: ₹3,000 x $7/10$ = ₹2,100

SOLUTION : 94.

JOURNAL ENTRY FOR GOODWILL

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2015 March 31	A's Capital A/c Dr. B's Capital A/c Dr. To C's Capital A/c (C's share of goodwill i.e., 1/6th of ₹27,000 debited to continuing partners in their gaining ratio i.e., $1/2 : 1/3$ or $3:2$)		2,700 1,800	4,500

Dr.

REVALUATION ACCOUNT

Cr.

Particulars	₹	Particulars	₹
To Patents A/c	1,000	By Investments A/c	5,800
To Plant and Machinery A/c	4,800	By Provident Fund A/c	500
To Provision for Doubtful Debts A/c	800	By Loss transferred to Capital A/cs:	
		A	150
		B	100
		C	50
	6,600		300
			6,600

Dr.

CAPITAL ACCOUNTS

Cr.

Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To Revaluation A/c	150	100	50	By Balance b/d	40,000	36,500	20,000
To C's Capital				By Reserve Fund	4,500	3,000	1,500

Retirement or Death of a Partner

A/c	2,700	1,800		By A's Capital			
To Investments				A/c			2,700
A/c			15,800	By B's Capital			
To C's Loan				A/c			1,800
A/c			10,150				
To Balance c/d	41,650	37,600	—				
	44,500	39,500	26,000		44,500	39,500	26,000

BALANCE SHEET OF THE FIRM (After C's Retirement) as at 31st March, 2015

Liabilities	₹	Assets	₹
Sundry Creditors	12,600	Cash at Bank	4,100
Provident Fund	2,500	Debtors	30,000
C's Loan	10,150	Less : Provision	1,800
Capitals :		Stock	25,000
A	41,650	Patents	4,000
B	37,600	Plant and Machinery	43,200
	1,04,500		1,04,500

SOLUTION : 95.

Dr.		REVALUATION ACCOUNT		Cr.	
Particulars		₹	Particulars		₹
To Building		40,000	By Creditors		4,000
To Provision for doubtful debts		3,000	By Loss on Revaluation		
To Outstanding Salary		5,000	transferred to :		
			P's Capital A/c		8,800
			Q's Capital A/c		13,200
			R's Capital A/c		22,000
		48,000			44,000
					48,000

Dr.	CAPITAL ACCOUNTS OF PARTNERS						Cr.
Particulars	P	Q	R	Particulars	P	Q	R
	₹	₹	₹		₹	₹	₹
To Revaluation				By Balance c/d	80,000	70,000	60,000
A/c (Loss)	8,800	13,200	22,000	By P's Capital			
To P & L A/c	2,000	3,000	5,000	A/c			
To R's Capital				(Goodwill)	—	—	14,400
A/c				By Q's Capital			
(Goodwill)	14,400	21,600	—	A/c			
To Bank A/c	—	—	15,000	(Goodwill)	—	—	21,600
To R's Loan							
A/c	—	—	54,000				

Retirement or Death of a Partner

To Balance c/d	54,800	32,200	—			
	80,000	70,000	96,000		80,000	70,000
					96,000	

BALANCE SHEET OF P AND Q as at 31st March, 2016

Liabilities	₹	Assets	₹
Creditors	66,000	Bank	30,000
Outstanding Salary	5,000	Debtors	40,000
R's Loan A/c	54,000	Less: Provision for doubtful debts	8,000
Capital Accounts:		Stock	50,000
P	54,800	Building	1,00,000
Q	32,200		
	2,12,000		2,12,000

Working Note : R's share of Goodwill = $72,000 \times 5/10 = ₹36,000$

It will be contributed by P and Q in their gaining ratio, i.e. 2 : 3

P's Capital A/c will be debited by = $36,000 \times 2/5 = ₹14,400$

Q's Capital A/c will be debited by = $36,000 \times 3/5 = ₹21,600$

SOLUTION : 96.

Dr.		REVALUATION ACCOUNT		Cr.	
Particulars		₹	Particulars		₹
To Stock		1,800	By Premises		9,700
To Provision for Legal Claims		2,400	By Furniture		2,000
To Profit transferred to :			By Provision for Bad Debts		200
Vijay's Capital A/c	3,080				
Vivek's Capital A/c	3,080				
Vinay's Capital A/c	1,540	7,700			
		11,900			11,900

Dr.	PARTNER'S CAPITAL ACCOUNTS						Cr.
Particulars	Vijay	Vivek	Vinay	Particulars	Vijay	Vivek	Vinay
	₹	₹	₹		₹	₹	₹
				By Bal. b/d	92,000	60,000	40,000
To Vivek's Capital A/c (Goodwill)	12,800		6,400	By Revaluation A/c	3,080	3,080	1,540
To Vivek's Loan A/c		50,000		By Vijay's Capital (Goodwill)		12,800	
To Bank A/c (Bal. figure)		32,280		By Vinay's Capital			
To Bal. c/d	82,280		35,140				

Retirement or Death of a Partner

				(Goodwill)		6,400	
	95,080	82,280	41,540		95,080	82,280	41,540

BALANCE SHEET (After Vivek's Retirement) as at 31st March, 2017

Liabilities	₹	Assets	₹
Creditors	54,000	Bank (55,200 – 32,280)	22,920
Bills Payable	24,000	Debtors	12,000
Outstanding Rent	4,400	Less : Provision	600
Provision for Legal Claims	14,400	Stock	16,200
Vivek's Loan	50,000	Furniture	10,000
Capital A/cs :		Premises	2,03,700
Vijay	82,280		
Vinay	35,140		
	1,17,420		
	2,64,220		2,64,220

Working Note :

Gaining Ratio 2:1.

Vivek's Share in Goodwill = $48,000 \times \frac{2}{5} = ₹19,200$, which will be contributed by Vijay and Vinay in their gaining ratio of 2 : 1.

SOLUTION : 97.

REVALUATION ACCOUNT				Cr.
Dr.				
Particulars	₹	Particulars	₹	
To Stock	4,600	By Loss on Revaluation		
To Furniture	1,000	transferred to :		
To Plant & Machinery A/c	1,500	R's Capital A/c	6,720	
To Building	8,000	S's Capital A/c	6,720	
To Provision for Doubtful		T's Capital A/c	3,360	
Debts	1,700			16,800
	16,800			16,800

Dr.	PARTNER'S CAPITAL ACCOUNTS						Cr.
Particulars	R	S	T	Particulars	R	S	T
	₹	₹	₹		₹	₹	₹
To				By Balance			
Revaluation				b/d	80,000	50,000	40,000
A/c (Loss)	6,720	6,720	3,360	By Profit &			
To S's Capital				Loss A/c	3,600	3,600	1,800
A/c	3,200	—	1,600	By R's			
To Cash A/c	—	18,080	—	Capital A/c	—	3,200	—
To S's Loan	—	33,600	—				
To Balance				By T's			
c/d	73,680	—	36,840	Capital A/c	—	1,600	—

Retirement or Death of a Partner

	83,600	58,400	41,800		83,600	58,400	41,800
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BALANCE SHEET as at 01.04.2014

Liabilities		₹	Assets		₹
Bank Loan		12,800	Cash (51,300 – 18,080)		33,220
Sundry Creditors		25,000	Bills Receivable		10,800
S's Loan		33,600	Debtors	35,600	
Capitals :			Less : Provision	1,700	33,900
R	73,680		Stock		40,000
T	36,840	1,10,520	Furniture		6,000
			Plant & Machinery		18,000
			Building		40,000
		1,81,920			1,81,920

Dr. S's LOAN ACCOUNT Cr.

Date	Particulars	₹	Date	Particulars	₹
31.03.15	To Cash A/c	11,200	1.4.14	By S's Capital A/c	33,600
31.03.15	To Balance c/d	22,400			
		33,600			33,600
31.3.16	To Cash A/c	11,200	1.4.15	By Balance b/d	22,400
31.3.16	To Balance c/d	11,200			
		22,400			22,400
31.3.17	To Cash A/c	11,200	1.4.16	By Balance b/d	11,200

SOLUTION : 98.

Dr. REVALUATION ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Provision for Doubtful Debts A/c	3,000	By Unexpired Insurance A/c	10,000
To Machinery A/c	12,000	By Land and Buildings A/c	50,000
To Outstanding Repairs A/c	15,000		
To Profit transferred to Capital Accounts :			
A	15,000		
B	10,000		
C	5,000		
	30,000		
	60,000		60,000

Retirement or Death of a Partner

Dr. CAPITAL ACCOUNTS				Cr.			
Particulars	A	B	C	Particulars	A	B	C
₹	₹	₹	₹	₹	₹	₹	₹
To B's Capital A/c				By Balance b/d	4,50,000	3,00,000	1,50,000
(Goodwill)	45,000		15,000	By Revaluation A/c	15,000	10,000	5,000
To Bank A/c		50,000					
To B's Loan A/c		3,20,000		By A's Capital A/c (Goodwill)		45,000	
To Balance c/d	4,20,000		1,40,000	By C's Capital A/c (Goodwill)		15,000	
	4,65,000	3,70,000	1,55,000		4,65,000	3,70,000	1,55,000

BALANCE SHEET OF THE FIRM (After B's Retirement) as at 1st April, 2014

Liabilities	₹	Assets	₹
Creditors	1,08,000	Cash at Bank	30,000
Outstanding Repairs	15,000	Debtors	1,00,000
B's Loan	3,20,000	Less : Provision	5,000
Capitals :		Stock	95,000
A	4,20,000	Unexpired Insurance	10,000
C	<u>1,40,000</u>	Machinery	2,28,000
	5,60,000	Land and Buildings	5,50,000
	10,03,000		10,03,000

SOLUTION : 99.

Dr. REVALUATION ACCOUNT				Cr.	
Particulars	₹	Particulars	₹		
To Provision for Doubtful Debts	600	By Building	10,000		
To Machinery	7,200	By Creditors	1,800		
To Provision for Repairs	3,000	By Prepaid Insurance	2,000		
To Profit Transferred to :					
A	1,500				
B	1,000				
C	500				
	<u>3,000</u>				
	13,800				13,800

Dr. CAPITAL ACCOUNTS				Cr.			
Particulars	A	B	C	Particulars	A	B	C
₹	₹	₹	₹	₹	₹	₹	₹
To B's Capital				By Bal. b/d	90,000	60,000	30,000

Retirement or Death of a Partner

A/c (Goodwill)	9,000		3,000	By Reserve	3,000	2,000	1,000
To Cash A/c		9,000		By Revaluation	1,500	1,000	500
To B's loan A/c		66,000		By A's Capital			
To Bal. c/d	85,500		28,500	A/c (Goodwill: 3/4 of 12,000)		9,000	
				By C's Capital			
				A/c (Goodwill : 1/4 of 12,000)		3,000	
	94,500	75,000	31,500		94,500	75,000	31,500
To Bal. c/d	90,000		30,000	By Bal. c/d	85,500		28,500
				By Cash A/c (Bal. figure)	4,500		1,500
	90,000		30,000		90,000		30,000

BALANCE SHEET as at 31st March, 2017

Liabilities		Assets	
Creditors	13,800	Cash(3)	13,000
Provision for Repairs	3,000	Debtors	20,000
B's Loan	66,000	Less : Provision for	
Capitals :		Doubtful Debts	1,000
A	90,000	Stock Machinery	40,800
C	30,000	Buildings Prepaid	1,10,000
		Insurance	2,000
	2,02,800		2,02,800

Working Notes :

(1) Since the old ratio and new ratio between A and C are the same i.e. 3 : 1, the gaining ratio will also be 3 : 1.

(2) Adjustment of Capitals :

	A	C
₹	₹	₹
Capital in new firm (₹1,20,000 in 3 : 1)	90,000	30,000
Less: Existing Capitals	85,500	28,500
Deficit brought in	4,500	1,500

Cash Balance = Opening Balance + Cash brought in by A & C – Cash paid to B
 = 16,000 + 4,500 + 1,500 – 9,000 = ₹13,000.

Retirement or Death of a Partner

SOLUTION : 100.

REVALUATION ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Investments A/c	1,000	By Machinery A/c	6,000
To Stock A/c	1,000		
To Debtors A/c To Profit transferred to Capital A/cs :	500		
Raja	1,750		
Nawab	1,050		
Badshah	700		
	3,500		
	6,000		6,000

CAPITAL ACCOUNTS							
Dr.							Cr.
Particulars	Raja	Nawab	Badshah	Particulars	Raja	Nawab	Badshah
	₹	₹	₹		₹	₹	₹
To Nawab's Capital A/c (Goodwill)	1,000		2,000	By Balance b/d	20,000	15,000	10,000
To Cash A/c		6,750		By Reserve A/c	2,000	1,200	800
To Nawab's Loan A/c		13,500		By Revaluation A/c	1,750	1,050	700
To Balance c/d	22,750		9,500	By Raja's Capital A/c (Goodwill)		1,000	
				By Badshah's Capital A/c (Goodwill)		2,000	
	23,750	20,250	11,500		23,750	20,250	11,500
To Balance c/d	24,000		16,000	By Balance b/d	22,750		9,500
				By Cash A/c	1,250		6,500
	24,000		16,000		24,000		16,000

BALANCE SHEET OF THE FIRM as at 1st April, 2014

Liabilities	₹	Assets	₹
Sundry Creditors	16,000	Cash	3,000
Nawab's Loan	13,500	Debtors	4,500
Capitals :		Stock	10,000
Raja	24,000	Investments	7,000
Badshah	16,000	Machinery	45,000
	40,000		
	69,500		69,500

Retirement or Death of a Partner

Working Notes :

CASH ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Balance b/d	2,000	By Nawab Capital A/c	6,750
To Raja Capital A/c	1,250	By Balance c/d	3,000
To Badshah Capital A/c	6,500		
	9,750		9,750

Working Notes :

Gaining Ratio = New Ratio - Old Ratio

Raja Gains = $3/5 - 5/10 = (6 - 5)/10 = 1/10$

Badshah Gains = $2/5 - 2/10 = (4 - 2)/10 = 2/10$

Thus Gaining Ratio is $1/10 : 2/10$ or $1 : 2$

Nawab's Share of Goodwill = $10,000 \times 3/10 = ₹3,000$

It will be debited to Raja and Badshah in their gaining ratio of $1 : 2$.

SOLUTION : 101.

JOURNAL ENTRIES

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
	Revaluation A/c Dr.		2,200	
	To Plant A/c			1,500
	To Stock A/c			550
	To Provision for Doubtful Debts A/c			150
	(Decrease in the value of assets)			
	Freehold Property A/c Dr.		1,000	
	To Revaluation A/c			1,000
	(Increase in the value of freehold property)			
	A's Capital A/c Dr.		480	
	B's Capital A/c Dr.		480	
	C's Capital A/c Dr.		240	
	To Revaluation A/c			1,200
	(Transfer of loss on revaluation)			
	B's Capital A/c Dr.		9,000	
	To A's Capital A/c			6,000
	To C's Capital A/c			3,000
	(A and C's share of goodwill debited to B's Capital Account)			
	Bank A/c Dr.		46,930	
	To B's Capital A/c			46,930
	(Amount brought in by B)			

Retirement or Death of a Partner

A's Capital A/c	Dr.	28,095	
C's Capital A/c	Dr.	21,260	
To Bank A/c			49,355
(Amount paid off to A and C)			

Dr.				Cr.			
Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To Revaluation A/c	480	480	240	By Balance b/d	22,575	30,000	18,500
To A's Capital A/c		6,000		By B's Capital A/c	6,000		3,000
To C's Capital A/c		3,000		By Bank A/c		46,930	
To Bank A/c	28,095		21,260				
To Balance c/d		67,450					
	28,575	76,930	21,500		28,575	76,930	21,500

BALANCE SHEET OF B as at.....

Liabilities	₹	Assets	₹
Trade Creditors	7,000	Sundry Debtors	6,250
B's Capital	67,450	Less : Provision	250
		Stock	4,950
		Plant	13,500
		Freehold Property	50,000
	74,450		74,450

Working Note:

	₹
Amount required to pay off A	28,095
Amount required to pay off C	21,260
	49,355
Amount available	2,425
Amount required to be brought in by B	46,930

SOLUTION : 102.

JOURNAL ENTRIES

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2014 April, 1	A's Capital A/c Dr. B's Capital A/c Dr.		6,000 4,000	

Retirement or Death of a Partner

C's Capital A/c Dr. To Profit & Loss A/c (Transfer of loss appearing in the Balance Sheet)	2,000	12,000
C's Capital A/c Dr. To B's Capital A/c (B's share of goodwill debited to C, as he alone has gained)	50,000	50,000
Plant and Machinery A/c Dr. To Revaluation A/c (Increase in the value of Plant and Machinery)	50,000	50,000
Revaluation A/c Dr. To Stock A/c To Debtors A/c To Workmen's Compensation A/c (Decrease in the value of assets and provision made for Workmen's Compensation)	68,000	30,000 30,000 8,000
A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Revaluation A/c (Transfer of loss on revaluation)	9,000 6,000 3,000	18,000
B's Capital A/c To B's Loan A/c (Transfer of B's Capital to his Loan Account) Dr.	2,00,000	2,00,000

Dr.				CAPITAL ACCOUNTS				Cr.			
Particulars		A	B	C	Particulars		A	B	C		
		₹	₹	₹			₹	₹	₹		
To Profit & Loss A/c		6,000	4,000	2,000	By Balance b/d	2,00,000	1,60,000	1,40,000			
To B's Capital A/c				50,000	By C's Capital A/c		50,000				
To Revaluation A/c		9,000	6,000	3,000							
To B's Loan A/c			2,00,000								
To Balance c/d		1,85,000		85,000							
		2,00,000	2,10,000	1,40,000		2,00,000	2,10,000	1,40,000			

Retirement or Death of a Partner

BALANCE SHEET OF A AND C as at 1st April, 2014

Liabilities	₹	Assets	₹
Creditors	52,000	Bank	70,000
Outstanding Expenses	10,000	Debtors	50,000
Workmen's Compensation	8,000	Stock	1,20,000
B's Loan (at 18% p.a.)	2,00,000	Plant and Machinery	3,00,000
Capitals :			
A 1,85,000			
C 85,000	2,70,000		
	5,40,000		5,40,000

Working Note:

Calculation of Gaining Ratio : New Ratio – Old Ratio

$$A = 1/2 - 3/6 = (3 - 3)/6 = 0$$

$$C = 1/2 - 1/6 = (3 - 1)/6 = 2/6$$

Only C gains 2/6th share.

SOLUTION : 103.

Dr. REVALUATION ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Plant & Machinery A/c	6,416	By Land & Buildings A/c	7,600
To Profit transferred to Capital Accounts :		By Investments A/c	400
A 528			
B 528			
C 528	1,584		
	8,000		8,000

Dr. CAPITAL ACCOUNTS Cr.							
Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
				By Balance b/d	28,000	26,800	35,800
To A's Capital A/c		1,600	1,600	By Revaluation A/c	528	528	528
To Investments A/c	8,400			By B's Capital A/c	1,600		
To Cash A/c	23,328			(Goodwill)			
To Balance c/d		49,728	34,728	By C's Capital			

Retirement or Death of a Partner

				A/c (Goodwill) By Cash A/c	1,600	24,000	
	31,728	51,328	36,328		31,728	51,328	36,328

BALANCE SHEET OF THE FIRM (After A's Retirement) as at 1st April, 2014

Liabilities	₹	Assets	₹
Sundry Creditors	7,400	Cash (1,433 + 24,000 – 23,328)	2,105
Capital Accounts:		Sundry Debtors	9,387
B	49,728	Plant & Machinery	20,564
C	34,728	Land & Buildings	59,800
	91,856		91,856

SOLUTION : 104.

JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017				
March 31	Reserve Fund A/c Dr.		18,000	
	To A's Capital A/c			8,000
	To B's Capital A/c			6,000
	To C's Capital A/c			4,000
	(Transfer of Reserve Fund)			
	Revaluation A/c Dr.		12,600	
	To Machinery A/c			12,000
	To Provision for Doubtful Debts A/c			600
	(Decrease in the value of Assets)			
	Patents A/c Dr.		2,000	
	Provision for Discount on Creditors A/c Dr.		500	
	Expenses Owning A/c Dr.		1,100	3,600
	To Revaluation A/c			
	(Increase in the value of patents and decrease in liabilities)			
	A's Capital A/c Dr.		4,000	
	B's Capital A/c Dr.		3,000	
	C's Capital A/c Dr.		2,000	
	To Revaluation A/c			9,000
	(Transfer of loss on revaluation)			
	A's Capital A/c Dr.		4,000	
	B's Capital A/c Dr.		3,000	
	C's Capital A/c Dr.		2,000	

Retirement or Death of a Partner

To Goodwill A/c (Goodwill existing in the books written off in old ratio)			9,000
A's Capital A/c	Dr.	9,800	
C's Capital A/c	Dr.	11,200	
To B's Capital A/c (B's share of goodwill debited to the Capital Accounts of A and C in their gaining ratio of 7 : 8)			21,000
Cash A/c	Dr.	30,000	
To A's Capital A/c			18,000
To C's Capital A/c (Cash brought in)			12,000
B's Capital A/c	Dr.	71,000	
To Cash A/c			30,000
To B's Loan A/c (Cash paid to B and the balance transferred to his Loan Account)			41,000

Dr. PARTNER'S CAPITAL ACCOUNTS				Cr.			
Particulars	A	B	C	Particulars	A	B	C
₹	₹	₹	₹	₹	₹	₹	₹
To Revaluation A/c	4,000	3,000	2,000	By Balance b/d	60,000	50,000	40,000
To Goodwill A/c (Written off)	4,000	3,000	2,000	By Reserve Fund A/c	8,000	6,000	4,000
To B's Capital A/c (Goodwill)	9,800		11,200	By A's Capital A/c (Goodwill)		9,800	
To Cash A/c		30,000		By C's Capital A/c (Goodwill)		11,200	
To B's Loan A/c		41,000		By Cash A/c	18,000		12,000
To Balance c/d	68,200		40,800				
	86,000	77,000	56,000		86,000	77,000	56,000

NEW BALANCE SHEET as at 31st March, 2017

Liabilities	₹	Assets	₹
Sundry Creditors	20,000	Cash	6,400
Less : Provision for Discount	500	Debtors	20,000
Expenses Owing	3,900	Less: Provision	1,000
B's Loan	41,000	Stock	30,000
Capitals :		Patents	10,000
		Machinery	1,08,000

Retirement or Death of a Partner

A	68,200		
C	40,800	1,09,000	
		1,73,400	1,73,400

Working Note:

Calculation of Gaining Ratio :

A Gains = $3/5 - 4/9 = 7/45$

C Gains = $2/5 - 2/9 = 8/45$

Therefore, Gaining Ratio = 7:8

SOLUTION : 105.

Dr.		REVALUATION ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Machinery A/c	3,000	By Furniture A/c	2,000	
To Provision for Doubtful Debts A/c	500	By Loss transferred to :		
		X's Capital A/c (3/6) 750		
		Y's Capital A/c (1/6) 250		
		Z's Capital A/c (2/6) 500	1,500	
	3,500		3,500	

Dr.				Cr.			
Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To Revaluation (Loss)	750	250	500	By Bal. b/d	30,000	30,000	28,000
To Furniture			14,000	By Gen. Reserve A/c	6,000	2,000	4,000
To Z's Capital A/c (Goodwill)	5,250	1,750		By X's Capital A/c (Goodwill)	—	—	5,250
To Z's Loan A/c			24,500	By Y's Capital A/c (Goodwill)			1,750
To Bal. c/d	30,000	30,000					
	36,000	32,000	39,000		36,000	32,000	39,000
To Y's Current A/c	—	15,000	—	By Balance b/d	30,000	30,000	—
To Bal. c/d	45,000	15,000	—	By X's Current A/c	15,000	—	—
	45,000	30,000			45,000	30,000	

Working Notes :

(1) Gaining Ratio for Adjustment of Goodwill between X and Y = $1/2 : 1/6$ or $3 : 1$

Z's share of Goodwill = ₹21,000 x $1/3$ = ₹7,000

It will be debited to X and Y in their gaining ratio of $3 : 1$

(2) New Ratio of X and Y = $1/2 : 1/6$ or $3 : 1$

Total capital of the new firm after the retirement of Z: ₹

X's existing Capital 30,000

Y's existing Capital 30,000

Total Capital Required 60,000

Retirement or Death of a Partner

This total capital of the new firm should be divided between X & Y in their new profit sharing ratio, i.e., 3:1.

$$X = 60,000 \times \frac{3}{4} = ₹45,000$$

$$Y = 60,000 \times \frac{1}{4} = ₹ 15,000 .$$

Therefore adjustment of Surplus/deficit in their current accounts.

	X	Y
	₹	₹
Capital Required	45,000	15,000
Less: Existing Capital	30,000	30,000
	(Deficit)15,000	15,000 (Surplus)

Hence, X's Current A/c will be debited by ₹ 15,000

and Y's Current A/c will be credited by ₹ 15,000

SOLUTION : 106.

REVALUATION ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Machinery A/c	10,000	By Provision for Doubtful	
To Patents A/c	4,000	Debts A/c	5,000
To Investments A/c	14,000	By Sundry Creditors A/c	2,000
		By Prepaid Insurance A/c	1,000
		By Loss transferred to Capital	
		A/cs :	
		A 10,000	
		B 6,000	
		C 4,000	20,000
	28,000		28,000

CAPITAL ACCOUNTS							
Dr.							Cr.
Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To Goodwill A/c (Written off)	12,000	7,200	4,800	By Balance b/d	1,40,000	90,000	76,000
To C's Capital A/c (Goodwill)	9,000	1,800	—	By A's Capital A/c (Goodwill)			9,000
To Revaluation A/c	10,000	6,000	4,000	By B's Capital A/c (Goodwill)			1,800
To Investments A/c			16,000				
To Balance c/d	1,09,000	75,000	62,000				
	1,40,000	90,000	86,800		1,40,000	90,000	86,800

Retirement or Death of a Partner

To Bank A/c			62,000	By Balance b/d	1,09,000	75,000	62,000
To Balance c/d	1,64,000	82,000		By Bank A/c	55,000	7,000	
	1,64,000	82,000	62,000		1,64,000	82,000	62,000

OPENING BALANCE SHEET as at 1st April. 2014

Liabilities	₹	Assets	₹
Sundry' Creditors	27,000	Cash at Bank	10,000
Capitals :		Debtors	80,000
A 1,64,000		Prepaid Insurance	1,000
B 82,000	1 2,46,000	Machinery	40,000
		Land & Building	1,42,000
	2,73,000		2,73,000

Working Notes :

(i) Gaining Ratio = New Ratio - Old Ratio

A Gains = $2/3 - 5/10 = 5/30$

B Gains = $1/3 - 3/10 = 1/30$

Therefore, Gaining Ratio = 5:1

(ii) Total Capital of the new firm after C's retirement should be:

Amount required to pay off C ₹
62,000

Add: Existing Capital of A 1,09,000

Add: Existing Capital of B 75,000
2,46,000

This Capital should be in the new profit sharing ratio of A and B :

Hence, A's new capital should be : $2,46,000 \times 2/3 = ₹1,64,000$

B's new capital should be : $2,46,000 \times 1/3 = ₹82,000$

Amount to be brought in by A and B :

	A(₹)	B(₹)
Capital Required in the new firm	1,64,000	82,000
Less : Existing Capital	1,09,000	75,000
	<u>55,000</u>	<u>7,000</u>

SOLUTION : 107.

JOURNAL ENTRIES

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2017				
March 31	X's Capital A/c Dr.		6,000	
	Y's Capital A/c Dr.		4,000	
	Z's Capital A/c Dr.		2,000	
	To Profit & Loss A/c			12,000
	(Transfer of loss appearing in the Balance Sheet)			
	Revaluation A/c Dr.		55,000	

Retirement or Death of a Partner

To Stock A/c			16,000
To Provision for Doubtful Debts A/c			7,000
To Machinery A/c			32,000
(Decrease in the value of assets)			
Bank A/c	Dr.	1,000	
To Revaluation A/c			1,000
(Amount realised on sale of old papers and materials)			
Buildings A/c	Dr.	40,000	
To Revaluation A/c			40,000
(Increase in the value of Buildings)			
Revaluation A/c	Dr.	10,000	
To Bank A/c			10,000
(Amount paid to the family of employee)			
X's Capital A/c	Dr.	12,000	
Y's Capital A/c	Dr.	8,000	
Z's Capital A/c	Dr.	4,000	
To Revaluation A/c			24,000
(Transfer of loss on revaluation)			
Y's Capital A/c .	Dr.	8,000	
Z's Capital A/c	Dr.	7,000	
To X's Capital A/c			15,000
(X's share of goodwill debited to the Capital Accounts of Y and Z in their gaining ratio of 8 : 7)			
Bank A/c	Dr.	1,61,000	
To Y's Capital A/c			88,000
To Z's Capital A/c			73,000
(Amount brought in by Y and Z)			
X's Capital A/c	Dr.	1,49,000	
To Bank A/c			1,49,000
(Amount paid off to X)			

Dr.				Cr.			
Particulars	X	Y	Z	Particulars	X	Y	Z
	₹	₹	₹		₹	₹	₹
To Profit & Loss A/c	6,000	4,000	2,000	By Balance b/d	1,52,000	1,48,000	84,000
To Revaluation A/c	12,000	8,000	4,000	By Y's Capital A/c			
To X's Capital A/c				(Goodwill)	8,000		
(Goodwill)		8,000	7,000	By Z's Capital A/c			
To Balance c/d	1,49,000	1,28,000	71,000	(Goodwill)	7,000		
	1,67,000	1,48,000	84,000		1,67,000	1,48,000	84,000

Retirement or Death of a Partner

To Bank A/c	1,49,000			By Balance b/d	1,49,000	1,28,000	71,000
To Balance c/d		2,16,000	1,44,000	By Bank A/c		88,000	73,000
	1,49,000	2,16,000	1,44,000		1,49,000	2,16,000	1,44,000

OPENING BALANCE SHEET as at 31st March, 2017

Liabilities	₹	Assets	₹
Sundry Creditors	51,000	Cash at Bank	25,000
Employee's Provident Fund	9,000	Sundry Debtors	1,00,000
Capitals :		Less : Provision	17,000
Y	2,16,000	Stock	24,000
Z	1,44,000	Machinery	48,000
	3,60,000	Buildings	2,40,000
	4,20,000		4,20,000

Working Notes :

(i) Gaining Ratio = New Ratio – Old Ratio

Y Gains = $3/5 - 2/6 = 8/30$

Z Gains = $2/5 - 1/6 = 7/30$

∴ Gaining Ratio = 8: 7

(ii) Total Capital of the new firm after X's retirement should be :

	₹
Amount required to pay off X	1,49,000
Add: Existing Capital of Y	1,28,000
Add: Existing Capital of Z	71,000
Add: Cash required as Working Capital	25,000
	3,73,000
Less : Cash at Bank (₹22,000 + ₹1,000 – ₹10,000)	13,000
	<u>3,60,000</u>

SOLUTION : 108.

JOURNAL

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
	Vehicle A/c Dr.		20,000	
	To Revaluation A/c			20,000
	(Vehicle recorded in the books)			
	Revaluation A/c Dr.		20,000	
	To Anand's Capital A/c			6,667
	To Bihari's Capital A/c			6,667
	To Shivin's Capital A/c			6,666
	(Transfer of profit on revaluation)			
	Bihari's Capital A/c Dr.		46,667	
	To Vehicle A/c			20,000

Retirement or Death of a Partner

To Bank A/c (Payment made to retiring partner)			26,667
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Death of a Partner

SOLUTION : 109.

DEV'S CAPITAL ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Drawings	15,000	By Balance b/d	77,000
To Profit & Loss A/c (Share in Loss : 57,000 x 2/5)	22,800	By Interest on Capital (Note 1)	2,310
To Dev's Executor's A/c	51,935	By Profit & Loss Suspense A/c (Note 2)	10,425
	89,735		89,735

Working Notes :

(i) Calculation of Interest on Capital: $77,000 \times 12/100 \times 3/12 = ₹2,310$

(Since drawing is not made out of capital, interest will be allowed on ₹77,000)

(ii) Calculation of Share of Profit:

Total Profit for 4 years = 2,04,000 + 1,80,000 + 90,000 – 57,000 = 4,17,000

Average Profit = $4,17,000 \div 4 = ₹1,04,250$

Profit for 3 months = $1,04,250 \times 3/12 = 26,062$

Dev's share of profit = $26,062 \times 2/5 = 10,425$

SOLUTION : 110.

MOMITA'S CAPITAL ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Drawings A/c	10,000	By Balance b/d	60,000
To Interest on Drawings A/c	300	By P/L Suspense A/c (Share of Profit)	4,500
To Momita's Executor A/c (Balancing figure)	83,000	By Interest on Capital	1,800
		By Vikas's Capital A/c (Goodwill)	13,500
		By Gagan's Capital A/c (Goodwill)	13,500
	93,300		93,300

Working Notes :

(i) Calculation of Interest on Capital : $60,000 \times 6/100 \times 6/12 = ₹1,800$

(ii) Calculation of Momita's Share of Profit:

Average Profit = $(30,000 + 50,000 + 40,000 + 60,000) \times 1/4 = ₹45,000$

Momita's Share = $45,000 \times 6/12 \times 1/5 = ₹4,500$

(iii) Share of Goodwill : $45,000 \times 3 \times 1/5 = ₹27,000$,

which is contributed by Vikas and Gagan in their gaining ratio.

Retirement or Death of a Partner

SOLUTION : 111.

Dr. CHETAN'S CAPITAL ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Chetan's Executor's A/c	1,79,750	By Balance b/d	1,25,000
		By Interest on Capital A/c	3,750
		By Babita's Capital A/c (goodwill 24,000 x 2/3)	16,000
		By David's Capital A/c (goodwill 24,000 x 1/3)	8,000
		By Reserve Fund A/c	12,000
		By Profit & Loss Suspense A/c	15,000
	1,79,750		1,79,750

Working Notes :

Chetan's share of Goodwill ₹24,000 will be borne by Babita and David in 2 : 1.

(i) Profit share till death = % Profit on Sales = $(2,00,000/4,00,000) \times 100 = 50\%$

(ii) Profit on Sale upto 30th September 2012 = 50% of ₹1,20,000 = ₹60,000

(iii) Chetan's share of profit = ₹60,000 x 1/4 = ₹15,000

SOLUTION : 112.

Aman's share of profit:

(i) On the basis of Sales = $3,00,000 \times 8,00,000/10,00,000 \times 3/6 = ₹1,20,000$

(ii) On the basis of Time = $3,00,000 \times 8/12 \times 3/6 = ₹1,00,000$

JOURNAL ENTRIES

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
Case (i)	Profit & Loss Suspense A/c Dr.		1,20,000	
	To Aman's Capital A/c (Aman's share of profit upto 30th Nov. 2007 on the basis of sales)			1,20,000
Case (ii)	Profit & Loss Suspense A/c Dr.		1,00,000	
	To Aman's Capital A/c (Aman's share of profit upto 30th Nov. 2007 on the basis of time)			1,00,000

SOLUTION : 113.

Dr. REVALUATION ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Machinery	10,000	By Patents	10,000
To Profit transferred to Capital A/cs :		By Leaseholds	25,000

Retirement or Death of a Partner

Ram	12,500		
Mohan	7,500		
Sohan	5,000	25,000	
		35,000	35,000

Dr.		SOHAN'S CAPITAL ACCOUNT		Cr.	
Particulars	₹	Particulars		₹	
To Sohan's Executor's A/c	1,26,000	By Balance b/d		75,000	
		By Revaluation A/c (Profit)		5,000	
		By Workmen's Compensation Reserve (Note 3)		6,000	
		By Ram's Capital A/c (5/8 of 35,000)		21,875	
		By Mohan's Capital A/c (3/8 of 35,000)		13,125	
		By Profit and Loss Suspense A/c (Note 2)		5,000	
	1,26,000			1,26,000	

Notes :

(1) Sohan's share of Goodwill = $1,75,000 \times \frac{2}{10} = 35,000$.

It will be contributed by Ram and Mohan in their gaining ratio of 5 : 3.

(2) Sohan's share of profit from 1st April to 31st July, 2017:

Profit for 2016-17 ₹75,000

Profit for 4 months = $75,000 \times \frac{4}{12} = 25,000$

Sohan's share = $25,000 \times \frac{2}{10} = ₹5,000$.

(3) Since there is no claim against Workmen's Compensation Reserve, Sohan's share in this reserve is credited to his account.

SOLUTION : 114.

Dr.		NISHA'S CAPITAL ACCOUNT		Cr.	
Particulars	₹	Particulars		₹	
To Nisha's Executor's A/c	77,740	By Balance b/d		60,000	
		By Reserves ($30,000 \times \frac{2}{5}$)		12,000	
		By Profit and Loss Suspense A/c (Note 2)		700	
		By Risha's Capital A/c (Share of Goodwill) (Note 3)		5,040	
	77,740			77,740	

Retirement or Death of a Partner

Dr. NISHA'S EXECUTOR'S ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Balance c/d	77,740	By Nisha's Capital A/c	77,740

Working Notes :

(1) Profit sharing Ratio between Risha and Nisha : $1/2 : 1/3 = 3 : 2$

(2) Nisha's share of Profit from 1st January 2017 to 31st May, 2017:

Average Profit = ₹ $(4,200 + 3,900 + 4,500) \div 3 = ₹4,200$

Nisha's Share = $4,200 \times 5/12 \times 2/5 = ₹700$

(3) Nisha's share of Goodwill :

Average Profit = 4,200

Goodwill on three year's purchase = $4,200 \times 3 = 12,600$

Nisha's share = $12,600 \times 2/5 = ₹5,040$.

SOLUTION : 115.

(i) Valuation of Goodwill:

Total Profits for the last 5 years

= $10,000 + 30,000 + 43,000 - 6,000 - 4,000 = 73,000$

Total Profits for valuation of Goodwill = 73,000 less 10% = 65,700

Average Profits = $65,700 \div 5 = ₹13,140$

X's share of Profit = $13,140 \times 5/10 = ₹6,570$

X's share of Goodwill = $6,570 \times 2 \text{ years} = ₹13,140$

(ii) As share of Profit (upto the date of death):

Average Profits of the previous 3 years = $43,000 - 6,000 - 4,000 = ₹11,000$

$11,000 + 10\% \text{ of } 11,000 = ₹12,100$

Profits for 5 months = $12,100 \times 5/12 = ₹5,042$

X's share = $5,042 \div 2 = 2,521$

Dr. X's CAPITAL ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Drawings	4,000	By Balance b/d	50,000
To X's Executor's A/c		By Y's Capital A/c (Goodwill)	7,884
(balance transferred)	61,661	By Z's Capital A/c (Goodwill)	5,256
		By P & L Suspense A/c	2,521
	65,661		65,661

SOLUTION: 116.

Valuation of Goodwill:

Average Profits = ₹ $(20,000 + 30,000 - 15,000 - 5,000 + 45,000) \div 5 = ₹15,000$

Total Goodwill = $15,000 \times 1.5 \text{ year's} = ₹22,500$

Net Goodwill = $22,500 - 4,500 \text{ (5\% of Book Debts)} = ₹18,000$

C's share = $18,000 \times 40/100 = ₹7,200$.

Retirement or Death of a Partner

JOURNAL ENTRY

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
	A's Capital A/c Dr.		3,120	
	B's Capital A/c Dr.		4,080	
	To C's Capital A/c			7,200
	(C's share of goodwill adjusted to the Capital Accounts of A and B in their gaining ratio i.e., 26 : 34)			

SOLUTION : 117.

(i) Valuation of Goodwill:

Total Profits of 3 years = 41,800 + 39,200 + 45,000 = ₹1,26,000

Seth's share of goodwill based upon his share of profit = $1,26,000 \times \frac{2}{5} = ₹50,400$

(ii) Seth's share of profit (upto the date of death):

Average Profit of 3 years = $1,26,000 \div 3 = ₹42,000$

Profits upto the date of death = $42,000 \times \frac{4}{12} = ₹14,000$

Seth's share = $14,000 \times \frac{2}{5} = ₹5,600$.

Dr.		SETH'S CAPITAL ACCOUNT		Cr.	
Particulars	₹	Particulars		₹	
To Seth's Heir's Loan A/c— balance transferred	1,28,000	By Balance b/d		60,000	
		By Reserve A/c		12,000	
		By Bhatt's Capital A/c (Goodwill)		50,400	
		By P & L Suspense A/c		5,600	
	1,28,000			1,28,000	

SOLUTION: 118.

(i) Valuation of Goodwill:

Total Profit = 15,000 + 13,000 + 12,000 + 15,000 + 20,000 = ₹75,000

Average Profit = $75,000 \div 5 = ₹15,000$.

Hence, Goodwill at 2 year's purchase = $15,000 \times 2 = ₹30,000$.

C's share of Goodwill = $30,000 \times \frac{2}{10} = ₹6,000$.

It will be adjusted into the Capital Accounts of A and B in the gaining ratio of 5 : 3.

(ii) Share of Profit payable to C (upto the date of death):

$20,000 \times \frac{6}{12} \times \frac{2}{10} = ₹2,000$.

(iii)

Dr.		REVALUATION ACCOUNT		Cr.	
Particulars	₹	Particulars		₹	
To Machinery A/c	2,000	By Patents A/c		2,000	
To Profit on Revaluation transferred to :		By Buildings A/c		10,000	
A	5,000				
B	3,000				
C	2,000				
	10,000				

Retirement or Death of a Partner

	12,000
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Dr.		C'S CAPITAL ACCOUNT		Cr.	
Particulars	₹	Particulars		₹	
C's Executor's A/c	27,750	By Balance b/d		15,000	
		By Reserves (10,000 x 2/10)		2,000	
		By Revaluation A/c		2,000	
		By A's Capital A/c (Goodwill)			
		(6,000 x 5/8)		3,750	
		By B's Capital A/c (Goodwill)			
		(6,000 x 3/8)		2,250	
		By Profit & Loss Suspense A/c			
		(Share of Profit)		2,000	
		By Interest on Capital			
		(15,000 x 10/100 x 6/12)		750	
	27,750			27,750	

Dr.		C'S EXECUTOR'S ACCOUNT		Cr.	
Particulars	₹	Particulars		₹	
To Bank A/c	7,750	By C's Capital A/c		27,750	
To Balance c/d	20,000				
	27,750			27,750	

SOLUTION: 119.

(i) Valuation of Goodwill:

Profits for 3 years = ₹(16,000 + 24,000 + 20,000) = ₹60,000

Total Value of Goodwill = 60,000/3 x 2 = ₹40,000

Y's share of Goodwill = 40,000 x j = ₹16,000.

(ii) Y's share of profit (upto the date of his death):

= 20,000 x 6/12 x 2/5 = ₹4,000

Dr.		Y's CAPITAL ACCOUNT		Cr.	
Particulars	₹	Particulars		₹	
To Drawings A/c	5,000	By Balance b/d		50,000	
To Y's Executor's A/c—		By Interest on Capital A/c		3,000	
balance transferred	68,000	By Y's Capital A/c			
		(Goodwill)		16,000	
		By P & L Suspense A/c		4,000	
	73,000			73,000	

Retirement or Death of a Partner

SOLUTION : 120.

Z's CAPITAL ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Z's Executor's Account	80,250	By Balance b/d	50,000
		By General Reserve	4,000
		By X's Capital A/c (Goodwill : 3/5 of 20,000)	12,000
		By Y's Capital A/c (Goodwill : 2/5 of 20,000)	8,000
		By Revaluation A/c	5,000
		By Profit and Loss Suspense A/c	1,250
	80,250		80,250

JOURNAL ENTRY

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
	Z's Executor's A/c Dr.		80,250	
	To Bank A/c (Amount paid to Z's executor)			80,250

Working Notes :

(i)

REVALUATION ACCOUNT

Dr.			Cr.
Particulars	₹	Particulars	₹
To Buildings	9,000	By Machinery	34,000
To Profit Transferred to :		By Patents	5,000
X's Capital A/c	15,000		
Y's Capital A/c	10,000		
Z's Capital A/c	5,000		
	39,000		39,000

(ii) Goodwill = Average Profit x 3 = 2,00,000 x 3 = ₹1,20,000

Z's share of goodwill = 1,20,000 x 1/6 = ₹20,000 (X and Y will bear it in gaining ratio i.e. 3 : 2)

(iii) Z's share of Profits up to May 31, 2017 = (40,000 + 50,000) ÷ 2 x 2/12 x 1/6 = ₹1,250

SOLUTION : 121.

JOURNAL

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2015	General Reserve A/c Dr.		10,000	
June	To N's Capital A/c			10,000
12	(A's share of general reserve transferred to this Capital A/c)			

Retirement or Death of a Partner

June 12	Interest on Capital To N's Capital A/c (Interest @5% p.a. credited to N's Capital A/c upto 12th June 2015)	Dr.	700	700
June 12	M's Capital A/c O's Capital A/c To N's Capital A/c (Goodwill adjusted)	Dr. Dr.	30,000 30,000	60,000
June 12	Profit & Loss Suspense A/c Dr. To N's Capital A/c (N's share of profit till the date of death transferred to his capital account)		12,000	12,000
June 12	N's Capital A/c To N's Executor's A/c (Transfer of amount due to N's Executor's A/c)	Dr.	1,52,700	1,52,700

Dr. A's CAPITAL ACCOUNT		Cr.	
Particulars	₹	Particulars	₹
To N's Executor's A/c	1,52,700	By Balance b/d	70,000
		By General Reserve A/c	10,000
		By Interest on Capital A/c (₹70,000 x 5/100 x 73/365)	700
		By M's Capital A/c (Goodwill)	30,000
		By O's Capital A/c (Goodwill)	30,000
		By Profit and Loss Suspense A/c (Note 2)	12,000
	1,52,700		1,52,700

Working Notes :

1. Calculation of Goodwill = Average Profit x No. of years purchases

Average Profit = (₹80,000 + ₹90,000 + ₹1,00,000) ÷ 3 = ₹90,000

Goodwill = ₹90,000 x 2 = ₹1,80,000

N's share in Goodwill = ₹1,80,000 x 1/3 = ₹60,000

N's share in Goodwill is credited to N's Capital A/c and debited to M's Capital A/c and O's Capital A/c in their gaining ratio i.e. equally.

(2) Calculation of N's share of profit till the date of death:

= 90,000 (Average Profit) x 2 x 73/365 x 1/3 = ₹12,000

SOLUTION : 122.

Working Notes:

(1) Valuation of Firm's Goodwill :

Average Profit = (40,000 + 50,000 + 60,000 + 70,000 – 70,000) ÷ 5 = ₹30,000

Goodwill at 3 year's purchase = 30,000 x 3 = ₹90,000

B's share of Goodwill = 90,000 x 5/10 = ₹45,000

Retirement or Death of a Partner

(2) B's share of Loss (For 3 months):

$$= 70,000 \times 3/12 \times 5/10 = ₹8,750$$

Dr.			B'S CAPITAL A/C			Cr.	
Date	Particulars	₹	Date	Particulars	₹		
2016 June 30	To P&L Suspense A/c (Share of Loss)	8,750	2016 June 30	By Balance b/d	40,000		
June 30	To Profit & Loss A/c (₹70,000 x 5/10)	35,000	June 30	By General Reserve	35,000		
June 30	To B's Executor's A/c	76,250	June 30	By C's Capital A/c (Goodwill) (45,000 x 3/5)	27,000		
			June 30	By D' Capital A/c (Goodwill) (45,000 x 2/5)	18,000		
		1,20,000			1,20,000		

SOLUTION : 123.

Dr.			HIREN'S CAPITAL ACCOUNT			Cr.	
Date	Particulars	₹	Date	Particulars	₹		
2013 Aug. 31	To Advertisement Suspense A/c	3,200	2013 Aug. 31	By Balance b/d	6,000		
Aug. 31	To Hiren's Executor's A/c (balance transferred)	15,550	Aug. 31	By General Reserve	3,200		
			Aug. 31	By Interest on Capital (6% on ₹6,000 for 5 months)	150		
			Aug. 31	By Salary (₹100 x 5)	500		
			Aug. 31	By P&L Appropriation A/c (Note 1)	1,400		
			Aug. 31	By Suren's Capital A/c (Goodwill)	3,750		
				By Chaman's Capital A/c (Goodwill)	3,750		
		18,750			18,750		

Dr.			HIREN'S EXECUTOR'S ACCOUNT			Cr.	
Date	Particulars	₹	Date	Particulars	₹		
2013 Aug. 31	To Bank A/c	15,550	2013 Aug. 31	By Hiren's Capital A/c	15,550		

Retirement or Death of a Partner

Working Notes:

(1) Profit for 5 months	₹	4,050
Less : Interest on Capital 6% on (₹6,000 + ₹10,000 + ₹4,000) for 5 months : $20,000 \times 6/100 \times 5/12$	500	
Salary for 5 months: $5 \times (100 + 50)$	750	1,250
		<u>2,800</u>

Hiren's share of profit = $2,800 \times 2/4 = ₹1,400$

(2) Valuation of Goodwill:

Total profits for the two preceding years (₹4,000 + ₹6,000)	=	10,000
Average Profit = $10,000 \div 2$	=	5,000
Goodwill at 3 year's purchase = $5,000 \times 3$	=	15,000
Hiren's share of goodwill = $15,000 \times 2/4$	=	7,500
It will be debited to Suren and Chaman in their gaining ratio /' e., 1 : 1.		

SOLUTION : 124.

Dr.		HONEY'S CAPITAL ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Honey's Executor A/c (Balancing figure)	81,350	By Balance b/d	30,000		
		By Interest on Capital	1,350		
		By P/L Suspense A/c (Share of Profit)	40,000		
		By General Reserve A/c	10,000		
	<u>81,350</u>		<u>81,350</u>		

Working Notes :

- (i) Calculation of Interest on Capital: $30,000 \times 6/100 \times 9/12 = ₹1,350$
(ii) Calculation of Honey's Share of Profit: $6,00,000 \times 20/100 \times 1/3 = ₹40,000$
(iii) Share in General Reserve = $30,000 \times 1/3 = ₹10,000$.

SOLUTION : 125.

Dr.		KARAN'S CAPITAL ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	13,000	By Arun's Capital A/c (Goodwill)	90,000		
To Karan's Executor's A/c (Balancing figure)	2,00,430	By Varun's Capital A/c (Goodwill)	67,500		
		By P/L Suspense A/c (Share of Profit)	26,250		
		By Karan's Loan A/c	28,000		
		By Interest on Loan	1,680		
	<u>2,13,430</u>		<u>2,13,430</u>		

Retirement or Death of a Partner

Working Notes :

(1) Share in Goodwill:

Average Profit = $7,00,000 \div 4 = ₹1,75,000$

Karan's Share of Goodwill: $1,75,000 \times 3 \times 3/10 = ₹1,57,500$

It will be debited to Arun and Varun in their gaining ratio :

Arun's Share = $1,57,500 \times 4/7 = ₹90,000$

Varun's Share = $1,57,500 \times 3/7 = ₹67,500$

(2) Share in Profit = $1,75,000 \times 6/12 \times 3/10 = ₹26,250$

(3) Interest on Loan = $28,000 \times 12/100 \times 6/12 = ₹1,680$

SOLUTION : 126.

Dr.		REVALUATION ACCOUNT		Cr.	
Particulars	Amount	Particulars	Amount		
	₹		₹		
To Trade Marks	7,200	By Land & Building	9,600		
To Plant	14,400	By Loss on Revaluation transferred to Capital A/cs :			
		Ram	3,600		
		Krishna	6,000		
		Mohan	2,400	12,000	
	21,600			21,600	

Dr.		KRISHNA'S CAPITAL ACCOUNT		Cr.	
Particulars	Amount	Particulars	Amount		
	₹		₹		
To Advertisement		By Balance b/d	69,600		
Suspense A/c	6,000	By General Reserve A/c	8,000		
To Revaluation A/c	6,000	By Ram's Capital A/c(1)			
To Krishna's Legal Representative A/c	1,10,080	(Goodwill)	19,200		
		By Mohan's Capital A/c (Goodwill)	12,800		
		By Profit & Loss Suspense A/c(2)	9,000		
		By Interest on Capital A/c	3,480		
	1,22,080			1,22,080	

Dr.		KRISHNA'S LEGAL REPRESENTATIVE ACCOUNT		Cr.	
Particulars	Amount	Particulars	Amount		
	₹		₹		
To Cash	60,080	By Krishna's Capital A/c	1,10,080		
To Krishna's Legal					

Retirement or Death of a Partner

Representative Loan A/c	50,000	
	1,10,080	1,10,080

Working Notes :

(1) Krishna's share of goodwill:

Average profits of past three years = ₹31,200 + ₹28,800 + ₹36,000 = 96,000 ÷ 3 = ₹32,000

Value of firm's goodwill = 2 x 32,000 = ₹64,000

Krishna's share of goodwill = 5/10th of ₹64,000 = ₹32,000

(2) Krishna's share of Profit from the date of last balance sheet till his death

Previous year's profit i.e., for the year 2013-14 = ₹36,000

Firm's profit from 1-4-2014 to 30-9-2014 based on previous year

= 36,000 x 6/12 = ₹18,000

Krishna's share of profit = ₹18,000 x 5/10 = ₹9,000

(3) Krishna's Interest on capital for six months

69,600 x 10/100 x 6/12 = ₹3,480.