(1) When assets and liabilities are to be shown in the books at their new values

In this method all changes in the values of assets and liabilities are recorded in the revaluation account or profit and loss adjustment account. The net gain or loss of the revaluation account or profit and loss adjustment account is distributed among the old partners in their old profit sharing ratio. Revaluation A/c is a nominal account. It is debited by the decrease in the value of assets and increase in the amount of liabilities. It is credited by the increase in the value of assets or decrease in the amount of liabilities. By closing the revaluation account; if it shows credit balance, it indicates net gain and if there is debit balance, it indicates net loss. Net profit or net loss of revaluation account is transferred to the capital accounts of the old partners in their old ratio and the assets and liabilities will appear in the balance sheet of the new firm at their revised values. (This is also explained in chapter 4.)

Journal Entries

	Particulars		L.F.	Debit (₹)	Credit (₹)
(1)	When value of assets increase :				
	Assets A/c	Dr		✓	
	To Revaluation A/c				✓
(2)	When value of assets decrease :				
	Revaluation A/c	Dr		✓	
	To Assets A/c				✓
(3)	When bad debt reserve and discount reserve is provided on debtors :				
	Revaluation A/c	Dr		✓	
	To Bad debt reserve A/c				✓
	To Discount reserve on debtors A/c				✓
(4)	Accrued income, prepaid expense, unrecorded assets are to be recorded :				
	Accrued income A/c	Dr		✓	
	Prepaid expense A/c	Dr		✓	
	Assets A/c	Dr		✓	
	To Revaluation A/c				✓
(5)	When liabilities increase :				
	Revaluation A/c	Dr		✓	
	To Liabilities A/c				✓
(6)	When liabilities decrease :				
	Liabilities A/c	Dr		✓	
	To Revaluation A/c				✓

	Particulars	L.F.	Debit (₹)	Credit (₹)
(7)	When unrecorded liability or unpaid liabilities are to be recorded :			
	Revaluation A/c Dr		✓	
	To Liabilities A/c			✓
	To Unpaid liabilities A/c			✓
(8)	When revaluation account is closed :			
	(A) If it is profit of revaluation account, it is distributed among old partners in their old profit sharing ratio :			
	Revaluation A/c Dr		✓	
	To Old partners' capital A/c			✓
	(B) If it is loss of revaluation account, it is distributed among old partners in their old profit sharing ratio :			
	Old partners' capital A/c Dr		✓	
	To Revaluation A/c			✓

Illustration 18 : Patel and Shah are partners in a firm sharing profit and loss in the ratio of 3:2. The balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Patents		10,000
Patel	1,20,000		Land-Building		1,40,000
Shah	1,30,000	2,50,000	Machinery		70,000
Loan		1,00,000	Furniture		80,000
Creditors		80,000	Motor car		1,20,000
Bills payable		20,000	Stock		40,000
Outstanding expense		30,000	Debtors	21,000	
			− Bad debt reserve	1000	20,000
		4,80,000			**4,80,000**

They admitted Raval as a new partner for $\frac{1}{5}$th share from 1-4-2016. Raval brought ₹ 2,00,000 as his capital. The partners decided to revalue assets and liabilities as follows :

(1) Land-building is to be appreciated by 20 %.

(2) Machinery is to be depreciated by 10 %.

(3) Furniture is valued at ₹ 60,000.

(4) Motor car is to be depreciated by 20 %.

(5) A provision for doubtful debt is to be kept at ₹ 5000.

(6) Patents are valueless.

(7) Outstanding interest on loan is ₹ 6000.

(8) Creditors and bills payable are to be paid 10 % less.

(9) Unrecorded investment is valued ₹ 20,000.

(10) Insurance premium which was debited to profit and loss account by ₹ 30,000. Out of this ₹ 10,000 is for next year.

Give necessary journal entries. Prepare revaluation account, partners' capital accounts and balance sheet after admission.

Ans. :

Journal Entries

Date/No.	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	Land-Building A/c Dr To Revaluation A/c [Being increase in the value of land-building is transferred to revaluation A/c.]		28,000	28,000
1-4-2016	Revaluation A/c Dr To Machinery A/c [Being decrease in the value of machinery is transferred to revaluation A/c.]		7000	7000
1-4-2016	Revaluation A/c Dr To Furniture A/c [Being decrease in the value of furniture is transferred to revaluation A/c.]		20,000	20,000
1-4-2016	Revaluation A/c Dr To Motor car A/c [Being decrease in the value of motor car is transferred to revaluation A/c.]		24,000	24,000
1-4-2016	Revaluation A/c Dr To Bad debt reserve A/c [Being increase in provision for bad debt is transferred to revaluation A/c.]		4000	4000
1-4-2016	Revaluation A/c Dr To Patents A/c [Being decrease in patent is transferred to revaluation A/c.]		10,000	10,000
1-4-2016	Revaluation A/c Dr To Outstanding interest on loan A/c [Being outstanding interest on loan is transferred to revaluation A/c.]		6000	6000

Date/No.	Particulars		L.F.	Debit (₹)	Credit (₹)
1-4-2016	Creditors A/c	Dr		8000	
	Bills payable A/c	Dr		2000	
	To Revaluation A/c				10,000
	[Being decrease the value of creditors and bills payable is transferred to revaluation A/c.]				
1-4-2016	Investment A/c	Dr		20,000	
	To Revaluation A/c				20,000
	[Being unrecorded investment is transferred to revaluation A/c.]				
1-4-2016	Prepaid insurance premium A/c	Dr		10,000	
	To Revaluation A/c				10,000
	[Being prepaid insurance premium transferred to revaluation A/c.]				
1-4-2016	Patel's capital A/c	Dr		1800	
	Shah's capital A/c	Dr		1200	
	To Revaluation A/c				3000
	[Being the distribution of revaluation loss between old partners in their old ratio.]				
1-4-2016	Cash A/c	Dr		2,00,000	
	To Raval's capital A/c				2,00,000
	[Being capital ₹ 2,00,000 brought in cash by new partner.]				
	Total			**3,42,000**	**3,42,000**

Revaluation Account

Dr Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Machinery A/c	7000	By Land-Building A/c		28,000
To Furniture A/c	20,000	By Creditors A/c		8000
To Motor car A/c	24,000	By Bills payable A/c		2000
To Bad debt reserve A/c	4000	By Investment A/c		20,000
(New bad debt reserve ₹ 5000 – Old bad debt reserve ₹ 1000)		By Prepaid insurance premium A/c		10,000
To Patents A/c	10,000	By Loss transferred to old partners' capital A/c		
To Outsatnding interest on loan A/c	6000	Patel	1800	
		Shah	1200	3000
	71,000			**71,000**

Partners' Capital Account

Dr Cr

Particulars	Patel (₹)	Shah (₹)	Raval (₹)	Particulars	Patel (₹)	Shah (₹)	Raval (₹)
To Revaluation A/c	1800	1200	–	By Balance b/d	1,20,000	1,30,000	–
To Balance c/d	1,18,200	1,28,800	2,00,000	By Cash A/c	–	–	2,00,000
	1,20,000	**1,30,000**	**2,00,000**		**1,20,000**	**1,30,000**	**2,00,000**

Balance Sheet After Admission

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Land-Building		1,68,000
Patel	1,18,200		Machinery		63,000
Shah	1,28,800		Furniture		60,000
Raval	2,00,000	4,47,000	Motor car		96,000
Loan		1,00,000	Stock		40,000
Creditors		72,000	Debtors	21,000	
Bills payable		18,000	– Bad debt reserve	5000	16,000
Outstanding expenses		30,000	Investment		20,000
Outstanding interest on loan		6000	Prepaid insurance premium		10,000
			Cash		2,00,000
		6,73,000			**6,73,000**

Explanation : Assets and liabilities will be shown in the balance sheet at their new values.

(2) **Memorandum Revaluation Account :**

The partners may decide that the value of assets and liabilities will continue to appear in the books at the existing values, yet no partner may be put into any undue advantage or disdavantage because of change in values. In such case an increase or decrease in the amount of assets and liabilities is recorded in the Memorandum Revaluation Accounts. This account is divided into two parts. First part is similar to the revaluation account and in the second part, all entries of first part are reversed. The balance of first part (i.e. profit or loss on revaluation) is transferred to the capital accounts of the old partners in their old profit sharing ratio. The balance of the second part is transferred to all partners including the new partner, in the new profit-loss sharing ratio. (If there is profit in the first part, it becomes loss or debit balance in the second part and if it is debit balance or loss in the first part, it becomes credit balance or profit in the second part.) The journal entries are passed in the Memorandum Revaluation Account as follows :

Note : Memorandum Revaluation Account is given only for the information to students. It's concept and practical aspects are not expected in the examination.

Transaction	Journal Entries
(1) For increase in assets or decrease in liabilities	Assets A/c...Dr Liabilities A/c...Dr To Memorandum Revaluation A/c
(2) For decrease in assets or increase in liabilities	Memorandum Revaluation A/c...Dr To Assets A/c To Liabilities A/c
(3) For transferring the balance of the first part of the memorandum revaluation account to old partners capital a/c in old profit sharing ratio (If credit side exceeds debit side i.e. in case of profit.)	Memorandum Revaluation A/c...Dr To Old partners' capital A/c (Old profit-loss sharing ratio) **Note :** Accounting entry for loss is debited to partners' capital accounts and credited to the Memorandam Revaluation Account)
(4) For reversing the first entry :	Memorandum Revaluation A/c...Dr To Assets A/c To Liabilities A/c
(5) For reversing the second entry :	Assets A/c...Dr Liabilities A/c...Dr To Memorandum Revaluation A/c
(6) For transferring the balance i.e. profit or loss of the second part of the memorandum revaluation account to all including new partners' capital A/c in the new profit sharing ratio. There will be debit balance or loss in the second part as against entry no. 3 and reverse effect of entry no. 3 will be given in new ratio.	All partners' capital A/c...Dr (New profit-loss sharing ratio) To Memorandum Revaluation A/c

Illustration 19 : Pass necessary journal entries for illustration 18 and prepare memorandum revaluation account, partners' capital accounts and balance sheet after admission.

Ans. :

Journal Entries

Date/No.	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	Memorandum Revaluation A/c Dr		71,000	
	To Machinery A/c			7000
	To Furniture A/c			20,000
	To Motor car A/c			24,000
	To Bad debt reserve A/c			4000
	To Patents A/c			10,000
	To outstanding interest on loan A/c			6000
	[Being decrease in assets and increase in liabilities and provision are transferred to memorandum revaluation A/c.]			

Date/No.	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	Land-Building A/c Dr		28,000	
	Creditors A/c Dr		8000	
	Bills payable A/c Dr		2000	
	Investment A/c Dr		20,000	
	Prepaid insurance premium A/c Dr		10,000	
	To Memorandum Revaluation A/c			68,000
	[Being increase in assets and decrease in liabilities are transferred to memorandum revaluation account.]			
1-4-2016	Patel's capital A/c Dr		1800	
	Shah's capital A/c Dr		1200	
	To Memorandum Revaluation A/c			3000
	[Being loss of memorandum revaluation A/c is transferred to old partners capital A/c in their old profit sharing ratio.]			
1-4-2016	Machinery A/c Dr		7000	
	Furniture A/c Dr		20,000	
	Motor car A/c Dr		24,000	
	Bad debt reserve A/c Dr		4000	
	Patents A/c Dr		10,000	
	Outstanding interest on loan A/c Dr		6000	
	To Memorandum Revaluation A/c			71,000
	[Being reversing entry of decrease in assets and increase in liabilities and provisions.]			
1-4-2016	Memorandum Revaluation A/c Dr		68,000	
	To Land-Building A/c			28,000
	To Creditors A/c			8000
	To Bills payable A/c			2000
	To Investment A/c			20,000
	To prepaid insurance premium A/c			10,000
	[Being reversing entry of increase assets and decrease liabilities and provisions.]			
1-4-2016	Memorandum Revaluation A/c Dr		3000	
	To Patel's capital A/c			1440
	To Shah's capital A/c			960
	To Raval's capital A/c			600
	[Being profit balance of second part of memorandum revaluation A/c is transferred to all partners' capital A/c in their new profit sharing ratio.]			

Date/No.	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	Cash A/c Dr		2,00,000	
	To Raval's capital A/c			2,00,000
	[Being new partner brought capital of ₹ 2,00,000 in cash.]			
	Total		**4,84,000**	**4,84,000**

Memorandum Revaluation Account

Dr Cr

Particulars		Amt. (₹)	Particulars		Amt. (₹)
To Machinery A/c		7000	By Land-Building A/c		28,000
To Furniture A/c		20,000	By Creditors A/c		8000
To Motor car A/c		24,000	By Bills payable A/c		2000
To Bad debt reserve A/c		4000	By Investment A/c		20,000
To Patents A/c		10,000	By Prepaid insurance premium A/c		10,000
To Outstanding interest on loan A/c		6000	By Old partners' capital A/c (3:2) :		
			Patel	1800	
			Shah	1200	3000
		71,000			**71,000**
To Land-Building A/c		28,000	By Machinery A/c		7000
To Creditors A/c		8000	By Furniture A/c		20,000
To Bills payable A/c		2000	By Motor car A/c		24,000
To Investment A/c		20,000	By Bad debt reserve A/c		4000
To Prepaid insurance premium		10,000	By Patents A/c		10,000
To Profit transferred to all partners' capital A/c (12:8:5)			By Outstanding interest on loan A/c		6000
Patel	1440				
Shah	960				
Raval	600	3000			
		71,000			**71,000**

Partners' Capital Account

Dr Cr

Particulars	Patel (₹)	Shah (₹)	Raval (₹)	Particulars	Patel (₹)	Shah (₹)	Raval (₹)
To Memorandum revaluation A/c	1800	1200	–	By Balance b/d	1,20,000	1,30,000	–
To Balance c/d	1,19,640	1,29,760	2,00,600	By Memorandum revaluation A/c	1440	960	600
				By Cash	–	–	2,00,000
	1,21,440	**1,30,960**	**2,00,600**		**1,21,440**	**1,30,960**	**2,00,600**

Balance Sheet as on 1-4-2016 After Admission

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Patent		10,000
Patel	1,19,640		Land-Building		1,40,000
Shah	1,29,760		Machinery		70,000
Raval	2,00,600	4,50,000	Furniture		80,000
Loan		1,00,000	Motor car		1,20,000
Creditors		80,000	Stock		40,000
Bills payable		20,000	Debtors	21,000	
Outstanding expenses		30,000	− Bad debt reserve	1000	20,000
			Cash		2,00,000
		6,80,000			**6,80,000**

Note : As memorandum revaluation account is prepared, all assets and liabilities are shown at their old values.

Explanation : New profit-loss sharing ratio

Old profit-loss sharing ratio of Patel and Shah 3:2

Share of Raval $= \frac{1}{5}$

Remaining share for Patel and Shah is $1 - \frac{1}{5} = \frac{4}{5}$

$\frac{4}{5}$th share will be divided between Patel and Shah in the ratio of 3:2

Patel's new share $= \frac{4}{5} \times \frac{3}{5} = \frac{12}{25}$

Shah's new share $= \frac{4}{5} \times \frac{2}{5} = \frac{8}{25}$

Raval's new share $= \frac{1}{5} = \frac{5}{25}$

$\therefore$ New ratio = 12:8:5

The two points are important about the memorandum revaluation account :

(1) If first part of the memorandum revaluation shows loss then the second part will show profit and if the first part shows profit then the second part will show loss.

(2) The value of assets and liabilities except cash and capital account, will continue to appear at old values in the balance sheet of the firm after reconstitution.

6. Distribution of Reserves and Accumulated Profit-Losses

(A) Accounting Treatments :

Balances of reserves, accumulated profits or losses or fictitious assets appearing in the books of the firm before the admission of a new partner, are distributed among old partners' in their old ratio because they were created out of the profits earned during earlier period before the new partner was admitted. The new partner should not be put to undue advantage or disadvantage due to such balances. The journal entry will be :

Date/No.	Particulars	L.F.	Debit (₹)	Credit (₹)
	Profit and loss A/c (Profit) Dr General reserve A/c Dr Capital reserve A/c Dr Reserve funds A/c Dr Contigency reserve A/c Dr Workmen compensation reserve A/c Dr Investment fluctuation reserve A/c Dr To old partners' capital/current A/c (Being balances of reserves and profit distributed between old partners in their old ratio.)			
	Old partners' capital/current A/c Dr To Profit-loss A/c (Loss) To Advertisement campaign exp. A/c To Research and development exp. A/c To Unamortised other revenue exp. A/c (Being balance of loss and fictitious assets distributed to old partners in their old ratio.)			

Workmen compensation fund is an amount set aside out of the profit to meet a future liability or a possible loss against workmen's compensation claim. At the time of the admission of a partner the surplus amount out of the amount payable i.e. amount of reserve in excess of the liability is distributed among the old partners in their old profit sharing ratio. If the amount of claim accepted is more then the reserve, the additional amount of claim is debited to the revaluation account and no surplus amount out of reserve will be distributed between old partners.

Investment fluctuation reserve is an amount set aside out of the profit to adjust the loss due to fall in the value of investments. At the time of the admission of a partner the surplus out of the investment fluctuation reserve after deducting decrease in the value of investment is distributed among the old partners in their old profit sharing ratio. If the loss due to decrease in the value of investment is more than the balance of reserve, additional amount is debited to the revaluation account.

Balances of reserves and revenue expenditure, not written off, shown in the balance sheet in old firm are recorded by two methods at the time of the admission of a new partner. If no instruction is given, the accounting effect will be given as per the explanation (1) given below :

Note : (1) When partners decide to distribute the balances of reserves and accumulated profits and losses : These balances must be distributed among old partners in their old profit-loss ratio even if no instruction is given in the question regarding reserves and accumulated profit and loss. Consequently these balances will not be shown in the balance sheet of the new firm.

(2) **When partners decide to show the balances of reserves and accumulated profit and loss at the same value without any change :** If partners decide not to make any change in the balance of reserves, accumulated profit and loss and fictitious assets and show these balances in the new balance sheet at their old values, in this situation if the net amount of such balances is credit, it is debited to the capital accounts of gaining partner including new partner by the amount of gain and credited to sacrificing partners' capital accounts by the amount of sacrifice. If net amount of such balances is debit, it is credited to the gaining partners' capital accounts by the amount of gain and debited to sacrificing partners' capital accounts by the amount of their sacrifice.

Illustration 20 : P and Q are the partners sharing profit and loss in the ratio of 2:1. They decided to admit R as a new partner on 1-4-2016. All three partners' new profit-loss sharing ratio is decided at 3:1:2. The balance sheet of R and Q show the following balances :

General reserve	: ₹ 10,000	
Profit-loss A/c	: ₹ 11,000	
Workmen compensation reserve	: ₹ 14,000	
Advertisement campaign expenditure	: ₹ 6000	
Research and development expenditure	: ₹ 3000	
Investment fluctuation reserve	: ₹ 10,000	
Investment	: ₹ 15,000	(Market value ₹ 14,000)

The firm accepted claim of ₹ 5000 for workmen's compensation.

From the following situation pass necessary journal entries :

(1) When the partners decide to distribute all balance of reserves and accumulated profit and loss.

(2) When partners decide not to distribute all the balance of reserve and profit and loss. But without any change all reserve balance is to appear in the balance sheet.

Ans. : (1) When partners decide to distribute balances of all reserves and accumulated profit and losses :

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	General reserve A/c Dr		10,000	
	Profit-loss A/c Dr		11,000	
	To P's capital A/c			14,000
	To Q's capital A/c			7000
	[Being balances of general reserve and profit and loss of the firm are distributed between old partners in their old profit sharing ratio.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	Workmen's compensation reserve A/c Dr		14,000	
	To Claim for workmen compensation A/c			5000
	To P's capital A/c			6000
	To Q's capital A/c			3000
	[Being after provision for the accepted claim of workmen compensation, surplus amount is distributed between partners P and Q in their old ratio.]			
1-4-2016	Investment fluctuation reserve A/c Dr		10,000	
	To Investment A/c			1000
	To P's capital A/c			6000
	To Q's capital A/c			3000
	[Being a loss due to fall in the value of investment is adjusted against investment fluctuation reserve and remaining surplus is distributed between old partners in old sharing ratio.]			
1-4-2016	P's capital A/c Dr		6000	
	Q's capital A/c Dr		3000	
	To Advertisement campaign exp. A/c			6000
	To Research and development exp. A/c			3000
	[Being balances of advertisement compaign exp. and research and development exp. are written off by debiting old partners' capital accounts in their old ratio.]			

Note : (1) Claim for workmen's compensation of ₹ 5000 will appear in new balance sheet on liabilities side. (2) Investment of ₹ 14,000 will appear in new balance sheet on assets side. (3) Balance of reserves, profit, advertisement campaign expenses and research and development expenses will not appear in balance sheet.

(2) When partners decide balance of reserves, profit and loss is to be appear in the new balance sheet without any change :

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	R's capital A/c Dr		10,000	
	To P's capital A/c			5,000
	To Q's capital A/c			5,000
	[Being balance of reserves and profit and loss are debited to R's capital in his gaining ratio and distributed between P and Q in their sacrificing ratio.]			

Explanation (1) Balance of reserves, profits and losses :

	₹
General reserve	10,000
Profit-loss A/c	11,000
Workmen compensation reserve	9000
(₹ 14,000 − ₹ 5000 claim)	
Investment fluctuation reserve	9000
(₹ 10,000 − ₹ 1000 loss on investment)	
	39,000
Less : Advertisement campaign exp.	6000
Research and development exp.	3000
Net Amount (Credit balance)	**30,000**

(2) **Sacrificing ratio :**

Old profit-loss sharing ratio of P and Q = 2:1

New profit-loss sharing ratio of P, Q and R = 3:1:2

Sacrifice = Old share − New share

P's sacrifice $= \frac{2}{3} - \frac{3}{6} = \frac{1}{6}$

Q's sacrifice $= \frac{1}{3} - \frac{1}{6} = \frac{1}{6}$

∴ Sacrificing ratio = 1:1

Net balance of reserves, profit and loss ₹ $30,000 \times \frac{2}{6}$, gain share of R = ₹ 10,000.

(3) **Different circumstances arising for reserves disclosed in the books of old partnership firm :**

Reserves are created by a partnership firm against the possible losses in the assets. These assets are revalued at the time of the admission of a partner. Different situations arise at the time of revaluation. Required accounting treatments in such situation increases reliability of accounts. Theses reserves include investment fluctuation reserve, bad debt reserve, workers accident compensation reserve etc. This is explained as under.

Note : If it is not mentioned that the balance of profit and loss account has a credit balance or debit balance, in this case, assume that the balance is credit balance.

Illustration 21 : Esha and Rucha are the partners in a firm sharing profit-loss equally. Balances of their firm as on 31-3-2016 were as under :

Balance		₹
Investment	: ₹	50,000
Debtors	: ₹	40,000
Investment fluctuation reserve	: ₹	6000
Bad debt reserve	: ₹	3000
Workmen compensation reserve	: ₹	10,000
Workmen profit sharing fund	: ₹	2000

They admitted Eva as a new partner for $\frac{1}{5}$th share in the firm on 1-4-2016. Pass journal entries in following cases :

(1) If investments are valued as under :

(i) ₹ 48,000 (ii) ₹ 40,000

(iii) ₹ 60,000 (iv) ₹ 50,000

(2) If following amount of workmen compensation claim is accepted :

(i) Zero (ii) ₹ 6000

(iii) ₹ 12,000

(3) If provision for bad debt is to be made as follows :

(i) New provision for bad debt reserve is not required.

(ii) Provision for bad debt reserve on debtors is to be kept 10 %.

(iii) Provision for bad debt reserve on debtors is to be kept 5 %.

(iv) After writting off bad debt ₹ 5000 provision for bad debt reserve is to be kept at 10 %.

(v) All debtors are solvent.

Ans. :

(1)	**(i) If value of investment is ₹ 48,000 :**			
	Investment fluctuation reserve A/c Dr		6000	
	To Investment A/c			2000
	To Esha's capital A/c			2000
	To Rucha's capital A/c			2000
	[Being decrease in the value of investment is written off against investment fluctuation reserve and balance amount of investment fluctuation reserve is distributed among old partners in old profit-loss sharing ratio.]			
	(ii) If value of investment is ₹ 40,000 :			
	Investment fluctuation reserve A/c Dr		6000	
	Revaluation A/c Dr		4000	
	To Investment A/c			10,000
	[Being investment fluctuation reserve is written off against decrease in investment and balance amount of decrease is debited to revaluation A/c.]			

	(iii) If value of investment is ₹ 60,000 : (A) Investment A/c Dr To Revaluation A/c [Being increase in the value of investment is credited to revaluation account.] (B) Investment fluctuation reserve A/c Dr To Esha's capital A/c To Rucha's capital A/c [Being balance of investment fluctuation reserve is distributed between old partners in old profit-loss sharing ratio.]		 10,000 6000	 10,000 3000 3000
	(iv) If value of investment is ₹ 50,000 : Investment fluctuation reserve A/c Dr To Esha's capital A/c To Rucha's capital A/c [Being remaining balance of investment fluctuation reserve is distributed between old partners in old profit-loss sharing ratio.]		 6000	 3000 3000

Explanation : Explanation regarding investment fluctuation reserve.

Particulars / Investments	(i) ₹	(ii) ₹	(iii) ₹	(iv) ₹
New value – Old value	48,000 50,000	40,000 50,000	60,000 50,000	50,000 50,000
Increase (Decrease)	(2000)	(10,000)	10,000	–

(1) Investment fluctuation reserve is ₹ 6000. Decrease in the value of investment is ₹ 2000 which is deducted from reserve and balance of reserve ₹ 4000 is credited to partners' capital accounts in their profit-loss sharing ratio.

(2) Decrease in investment is ₹ 10,000. Therefore ₹ 6000 of reserve will be fully utilised and balance of decrease ₹ 4000 (₹ 10,000 – ₹ 6000) is debited to revaluation account.

(3) Value of investment is increased by ₹ 10,000. Therefore entire amount of reserve is credited to partners' capital accounts.

(4) There is no change in the value of investment. Therefore entire amount of reserve is credited to partners' capital accounts.

(2)	**(i) If the claim of workmen compensation is zero :** Workmen compensation reserve A/c Dr To Esha's capital A/c To Rucha's capital A/c [Being balance of workmen compensation reserve is distributed between old partners in old profit-loss sharing ratio.]		 10,000	 5000 5000

	(ii) If the claim of workmen compensation is ₹ 6000 : Workmen compensation reserve A/c Dr To Provision for workmen compensation claim A/c To Esha's capital A/c To Rucha's capital A/c [Being provision made for claim of workmen compensation and remaining balance of workmen compensation reserve is distributed between old partners' in old profit-loss sharing ratio.]		10,000	6000 2000 2000
	(iii) If the claim of workmen compensation is ₹ 12,000 : Workmen compensation reserve A/c Dr Revaluation A/c Dr To Provision for workmen compensation claim A/c [Being provision made for claim of workmen compensation by fully utilising workmens' compensation reserve and balance amount of provision is debited to revaluation account.]		10,000 2000	12,000

Explanation : Explanation regarding workmen compensation reserve :

Particulars \ Investment	(i) ₹	(ii) ₹	(iii) ₹
Amount of accident compensation reserve	10,000	10,000	10,000
− Liabilities decided	Zero	6000	12,000
Increase (Decrease)	10,000	4000	(2000)

(1) The amount of option (i) and (ii) is ₹ 10,000 and ₹ 4000 respectively and it is created to the partners' capital accounts in their old profit-loss sharing ratio.

(2) In option (iii) the liability is decided as ₹ 12,000. ₹ 10,000 of reserve is only utilized and balance amount of ₹ 2000 is debited to the revaluation account.

(3)	(i) If new provision for bad debt reserve is not required bad debt reserve ₹ 3000 (old balance) will be deducted from debtors of ₹ 40,000 in balance sheet. Bad debt reserve is a provision for future possible bad debt. So it can not be distributed between old partners.			
	(ii) If provision for bad debt reserve on debtors is to be kept 10 % : Revaluation A/c...Dr To Bad debt reserve A/c [Being additional bad debt reserve is debited to revaluation account.]		1000	1000
	Note : Provision for bad debt at 10 % (₹ 4000) will be deducted from debtors ₹ 40,000 and debtors at ₹ 36,000 will be shown in the new balance sheet of the firm.			

	(iii) If provision for bad debt reserve is to be kept 5 % on debtors :			
	Bad debt reserve A/c...Dr To revaluation A/c [Being surplus of bad debt reserve is credited to revaluation account.]		1000	1000
	Note : Provision for bad debt reserve at 5 % (₹ 2000) will be deducted from debtors of ₹ 40,000 and remaining debtors ₹ 38,000 will be shown in new balance sheet of new firm.			
	(iv) After writting off bad debt of ₹ 5000, the provision for doubtful debt is to be made at 10 % :			
	(A) Bad debt A/c...Dr To Debtors A/c [Being bad debt written off.]		5000	5000
	(B) Revaluation A/c...Dr Bad debt reserve A/c...Dr To Bad debt A/c [Being bad debt written off against the old balance of bad debt reserve and additional amount of bad debt debited to revaluation account.]		2000 3000	5000
	(C) Revaluation A/c...Dr To Bad debt reserve A/c [Being new provision is made for bad debt reserve on debtors after deducting bad debt.]		3500	3500
	Note : In balance sheet of new firm, ₹ 5000 bad debt will be deducted from debtors of ₹ 40,000 and 10 % new bad debt reserve will be provided on balance of debtors ₹ 35,000 and debtors will be shown at ₹ 31,500 after deducting new bad debt reserve.			
	(v) If all debtors are good : Bad debt reserve A/c...Dr To Revaluation A/c [Being bad debt reserve is credited to revaluation account as it is now not required.]		3000	3000
	Note : As all debtors are good, bad debt reserve is not required and therefore it will be credited to the revaluation account and debtors will be shown at ₹ 40,000 in new balance sheet.			

Particulars / **Investment**	(i) ₹	(ii) ₹	(iii) ₹	(iv) ₹	(v) ₹
Bad debt reserve (old) – Bad debt (new)	3000 –	3000 –	3000 –	3000 5000	3000 –
Surplus of old BDR – New bad debt reserve	3000 Sufficient	3000 4000	3000 2000	(2000)* 3500*	3000 Not required
		(1000)*	1000*	(5500)	3000*
	No accounting effect	Debited to revaluation account	Credited to revaluation account	Debited to revaluation account	Credited to revaluation account

Note : Workers' profit sharing fund is a liability for the firm, which will be shown in the new balance sheet on the liabilities' side after the reconstitution.

7. Change in Capital Accounts and Construction of New Balance Sheet

Illustration 22 : Bhavya and Shlok are partners in a firm sharing profit and loss in the ratio of 3:2. Balance sheet of their firm as on 31-3-2017 is as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Goodwill		1,00,000
Bhavya	4,00,000		Land-Building		3,50,000
Shlok	3,00,000	7,00,000	Machinery		2,00,000
General reserve		90,000	Stock		1,80,000
Workmen's compensation reserve		20,000	Debtors	1,20,000	
Investment reserve		10,000	− Bad debt reserve	10,000	1,10,000
Creditors		1,40,000	Investment		20,000
Bills payable		60,000	Cash-Bank		50,000
			Advertisement campaign expenditure		10,000
		10,20,000			**10,20,000**

They admitted Aayush as a new partner on 1-4-2017 on the following conditions :

(1) Aayush brought ₹ 5,00,000 as his capital and 1,00,000 as his share of goodwill in cash.

(2) Value of land-building is to be increased by ₹ 80,000.

(3) Value of machinery is to be reduced upto ₹ 1,60,000.

(4) Provision for doubtful debt is to be kept 10 % on debtors.

(5) Provision for outstanding repairing expense is to be made ₹ 8000.

(6) New profit and loss sharing ratio of all partners is to be kept at 2:1:2.

From the above particulars, pass journal entries. Prepare Revaluation a/c, Partners' capital a/c, Cash-bank a/c and new balance sheet after admission.

Journal Entries

No.	Particulars	L.F.	Debit (₹)	Credit (₹)
1	General reserve A/c Dr		90,000	
	To Bhavya's capital A/c			54,000
	To Shlok's capital A/c			36,000
	[Being general reserve distributed between old partners in their old profit-loss ratio.]			

No.	Particulars	L.F.	Debit (₹)	Credit (₹)
2	Workmen compensaiton reserve A/c Dr		20,000	
	To Bhavya's capital A/c			12,000
	To Shlok's capital A/c			8000
	[Being workmen compensation reserve distributed between old partners in their old profit-loss sharing ratio.]			
3	Investment reserve A/c Dr		10,000	
	To Bhavya's capital A/c			6000
	To Shlok's capital A/c			4000
	[Being investment reserve distributed between old partners in their old profit-loss sharing ratio.]			
4	Bhavya's capital A/c Dr		60,000	
	Shlok's capital A/c Dr		40,000	
	To Goodwill A/c			1,00,000
	[Being old goodwill written off between old partners in their old profit-loss sharing ratio.]			
5	Bhavya's capital A/c Dr		6000	
	Shlok's capital A/c Dr		4000	
	To Advertisement campaign exp. A/c			10,000
	[Being advertisement campaign expenditure written off between old partners in their old profit-loss sharing ratio.]			
6	Cash A/c Dr		5,00,000	
	To Aayush's capital A/c			5,00,000
	[Being capital brought by Aayush in cash.]			
7	Cash A/c Dr		1,00,000	
	To Premium for goodwill A/c			1,00,000
	[Being share in goodwill brought in cash by Aayush.]			
7	Premium for goodwill A/c Dr		1,00,000	
	To Bhavya's capital A/c			50,000
	To Shlok's capital A/c			50,000
	[Being premium for goodwill distributed between old partners in their sacrificing ratio.]			
9	Revaluation A/c Dr		50,000	
	To Machinery A/c			40,000
	To Bad debt reserve A/c			2000
	To outstanding repairing expense A/c			8000
	[Being decrease in machinery, increase in bad debt reserve and outstanding repairing expense debited to revaluation account.]			

No.	Particulars	L.F.	Debit (₹)	Credit (₹)
10	Land-Building A/c Dr To Revaluation A/c [Being increase in land and building credited to revaluation account.]		80,000	 80,000
11	Revaluation A/c Dr To Bhavya's capital A/c To Shlok's capital A/c [Being profit of revaluation account distributed between old partners in old ratio.]		30,000	 18,000 12,000
	Total		**10,90,000**	**10,90,000**

Dr **Revaluation Account** Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Machinery A/c		40,000	By Land-building A/c	80,000
To Bad debt reserve A/c (New ₹ 12,000 − Old ₹ 10,000)		2000		
To Outstanding repairing expense A/c		8000		
To Profit : Old partners' capital A/c				
Bhavya	18,000			
Shlok	12,000	30,000		
		80,000		**80,000**

Partners' Capital Account

Dr Cr

Particulars	Bhavya(₹)	Shlok(₹)	Aayush(₹)	Particulars	Bhavya(₹)	Shlok(₹)	Aayush(₹)
To Advertisement campaign expenditure A/c	6000	4000	–	By Balance b/d	4,00,000	3,00,000	–
To Goodwill	60,000	40,000	–	By General reserve A/c	54,000	36,000	–
To Balance c/f	4,74,000	3,66,000	5,00,000	By Workmen's compensation reserve A/c	12,000	8000	–
				By Investment fluctuation reserve	6000	4000	–
				By Cash A/c	–	–	5,00,000
				By Premium for goodwill A/c	50,000	50,000	–
				By Revaluation A/c	18,000	12,000	–
	5,40,000	**4,10,000**	**5,00,000**		**5,40,000**	**4,10,000**	**5,00,000**

Dr **Cash-Bank Account** Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	50,000	By Balance c/f	6,50,000
To Aayush's capital A/c	5,00,000		
To Premium for goodwill A/c	1,00,000		
	6,50,000		**6,50,000**

Balance Sheet as on 1-4-2017 After Admission

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Land-Building	3,50,000	
Bhavya	4,74,000		+ Addition	80,000	4,30,000
Shlok	3,66,000		Machinery	2,00,000	
Aayush	5,00,000	13,40,000	− Reduction	40,000	1,60,000
Creditors		1,40,000	Debtors	1,20,000	
Bills payable		60,000	− Bad debt reserve	12,000	1,08,000
Outstanding repairing expense		8000	Stock		1,80,000
			Investment		20,000
			Cash-Bank		6,50,000
		15,48,000			**15,48,000**

Explanation (1) : Sacrificing ratio and distribution of goodwill :

Old ratio of Bhavya and Shlok = 3:2

New ratio of Bhavya, Shlok and Aayush = 2:1:2

Sacrifice = Old share − New share

Bhavya $= \frac{3}{5} - \frac{2}{5} = \frac{1}{5}$, Shlok $= \frac{2}{5} - \frac{1}{5} = \frac{1}{5}$

$\therefore$ Sacrificing ratio = 1:1

Both old partners will receive goodwill equally. (See illustration 2 for explanation of goodwill)

Illustration 23 : Tarana and Jineesha are partners in a firm. Their balance sheet as on 31-3-2017 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Goodwill	14,000
Tarana	1,90,000		Land-Building	1,00,000
Jineesha	1,21,000	3,11,000	Machinery	80,000
Workmens' compensation reserve		12,000	Investment	50,000
Investment fluctuation fund		4000	Debtors	70,000
Provident fund		16,000	Stock	36,000
Bad debt reserve		20,000	Cash	40,000
Creditors		30,000	Research and development expense	8000
Outstanding expense		15,000	Profit-loss A/c	10,000
		4,08,000		**4,08,000**

They admitted Rihan as a new partner on 1-4-2017 on following conditions :

(1) Rihan will bring ₹ 2,00,000 as his capital and ₹ 18,000 for his share of goodwill in cash. Any difference in the amount of goodwill is to be adjusted to his capital account.

(2) New profit-loss sharing ratio will be 4:3:3.

(3) Goodwill is to be valued at ₹ 1,00,000.

(4) Claim accepted for workmen's compensation ₹ 8000.

(5) Jineesha will take over investment at ₹ 48,000.

(6) Accrued interest of ₹ 6000 is not recorded.

(7) Bills payable drawn by creditors for ₹ 10,000 is accepted but not been recorded in the books of accounts.

(8) Book value of land and building is 20 % less then the market value.

(9) Out of insurance premium paid, ₹ 12,000 is to be carried forward to next year.

Prepare revaluation account, partners' capital account, cash account and balance sheet after admission.

Revaluation Account

Dr | Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Old partners' capital A/c (Profit)			By Outstanding interest A/c	6000
Tarana	21,500		By Land-Building A/c	25,000
Jineesha	21,500	43,000	By Prepaid insurance premium	12,000
		43,000		**43,000**

Partners' Capital Account

Dr | Cr

Particulars	Tarana (₹)	Jineesha (₹)	Rihan (₹)	Particulars	Tarana (₹)	Jineesha (₹)	Rihan (₹)
To Investment A/c	–	48,000	–	By Balance b/d	1,90,000	1,21,000	–
To Goodwill A/c	7000	7000	–	By Workmen compensation reserve A/c	2000	2000	–
To Research and development expense A/c	4000	4000	–	By Investment fluctuation fund A/c	1000	1000	–
To Profit-loss A/c	5000	5000	–	By Cash A/c	–	–	2,00,000
To Tarana's capital A/c (Goodwill)	–	–	4000	By Premium for goodwill A/c	6000	12,000	–
To Jineesha's A/c A/c (Goodwill)	–	–	8000	By Rihan's capital A/c (Goodwill)	4000	8000	–
To Balance b/d	2,08,500	1,01,500	1,88,000	By Revaluation A/c	21,500	21,500	–
	2,24,500	**1,65,500**	**2,00,000**		**2,24,500**	**1,65,500**	**2,00,000**

Cash Account

Dr | Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	40,000	By Balance c/d	2,58,000
To Rihan's capital A/c	2,00,000		
To Premium for goodwill A/c	18,000		
	2,58,000		**2,58,000**

Balance Sheet as on 1-4-2017 After Admission

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Land-Building	1,25,000
Tarana	2,08,500		Machinery	80,000
Jineesha	1,01,500		Debtors	70,000
Rihan	1,88,000	4,98,000	Stock	36,000
Provident fund		16,000	Cash	2,58,000
Creditors(30,000 – Bills payable 10,000)		20,000	Outstanding interest	6000
Workmen's compensation reserve		8000	Prepaid insurance premium	12,000
Bad debt reserve		20,000		
Outstanding expense		15,000		
Bills payable		10,000		
		5,87,000		**5,87,000**

Explanation (1) : Sacrificing ratio :

Old profit-loss sharing ratio of Tarana and Jineesha = 1:1

New profit-loss sharing ratio of Tarana, Jineesha and Rihan = 4:3:3

Sacrifice = Old share – New share

Tarana = $\frac{1}{2} - \frac{4}{10} = \frac{1}{10}$; Jineesha = $\frac{1}{2} - \frac{3}{10} = \frac{2}{10}$

∴ Sacrificing ratio = 1:2

∴ Goodwill will distributed to both old partners in 1:2 ratio.

(For explanation of goodwill see illustration no. 2)

(2) : Rihan's share in goodwill :

Share of Rihan in new goodwill = 1,00,000 × $\frac{3}{10}$ = 30,000

Rihan brought ₹ 18,000 in cash and remaining ₹ 12,000 does not bring in cash for goodwill.

Journal entries for goodwill will be as under :

(1) Cash A/c...Dr 18,000

To Premium for goodwill A/c 18,000

(2) Premium for goodwill A/c...Dr 18,000

To Tarana's capital A/c 6000

To Jineesha's capital A/c 12,000

(3) Rihan's capital A/c...Dr 12,000

To Tarana's capital A/c 4000

To Jineesha's capital A/c 8000

(3) : Market value of land-building :

Book value of land-building is ₹ 1,00,000, which is 20 % less than its market value.

Suppose market value ₹ 100

− 20 % ₹ 20

Book value ₹ 80

Book value	Market value	
₹ 80	₹ 100	$= 100 \times \frac{1,00,000}{80}$
₹ 1,00,000	(?)	= 1,25,000

Illustration 24 : Kanha and Kavisha are partners in a firm sharing profit-loss in the ratio of 2:3. Balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Building	1,10,000
Kanha	80,000		Machinery	50,000
Kavisha	1,00,000	1,80,000	Stock	30,000
Contingency reserve		15,000	Debtors	66,000
Workmen's compensation fund		40,000	Bank	14,000
Investment reserve		12,000	Investment	30,000
Creditors		50,000		
Bad debt reserve		3000		
		3,00,000		**3,00,000**

They admitted Palkhi as a new partner on 1-4-2016, on following terms :

(1) Kanha sacrifices $\frac{1}{2}$ of her share and Kavisha sacrifices $\frac{1}{4}$th of her share in favour of Palkhi.

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

(3) Kanha and Kavisha will withdraw 50 % of their share of goodwill.

(4) Depreciation on machinery is to be provided at 10 %.

(5) Bad debt of ₹ 6000 is to be written off and provision for bad debt reserve is to be kept at 15 % on debtors.

(6) Market value of investment is ₹ 15,000.

(7) Claim for workmen's compensation to be accepted ₹ 50,000.

(8) 10 % of creditors are not to be paid.

(9) Palkhi will bring ₹ 1,20,000 as capital and her share of goodwill in cash.

Prepare necessary accounts and balance sheet of new firm.

Ans. :

Dr **Revaluation Account** Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Pro. for workmen's compensation	10,000	By Creditors A/c		5000
To Investment A/c	3000	By Loss transferred to old partners'		
To Machinery A/c	5000	capital A/c		
To Bad debt A/c	3000	Kanha	10,000	
To Bad debt reserve A/c	9000	Kavisha	15,000	25,000
	30,000			**30,000**

Dr **Partners' Capital Account** Cr

Particulars	Kanha (₹)	Kavisha (₹)	Palkhi (₹)	Particulars	Kanha (₹)	Kavisha (₹)	Palkhi (₹)
To Bank A/c (Goodwill)	8000	6000	–	By Balance b/d	80,000	1,00,000	–
To Revaluation A/c	10,000	15,000	–	By Contigency reserve A/c	6000	9000	–
To Balance c/d	84,000	1,00,000	1,20,000	By Bank A/c	–	–	1,20,000
				By Premium for goodwill A/c	16,000	12,000	–
	1,02,000	**1,21,000**	**1,20,000**		**1,02,000**	**1,21,000**	**1,20,000**

Dr **Bank Account** Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	14,000	By Kanha's capital A/c	8000
To Palkhi's capital A/c	1,20,000	By Kavisha's capital A/c	6000
To Premium for goodwill A/c	28,000	By Balance c/d	1,48,000
	1,62,000		**1,62,000**

Balance Sheet as on 1-4-2016 After Admission

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Building		1,10,000
Kanha	84,000		Machinery		45,000
Kavisha	1,00,000		Stock		30,000
Rihan	1,20,000	3,04,000	Debtors	66,000	
Provision of workmen's compensation			– Bad debt	6000	
claim		50,000		60,000	
Creditors		45,000	– Bad debt reserve (15 %)	9000	51,000
			Investment		15,000
			Bank		1,48,000
		3,99,000			**3,99,000**

Explanation (1) Sacrificing ratio :

Old ratio of Kanha and Kavisha = 2:3

Kanha sacrificed $\frac{1}{2}$ of his share.

$\therefore$ Sacrifice of Kanha = $\frac{2}{5} \times \frac{1}{2} = \frac{2}{10}$

Kavisha sacrificed $\frac{1}{4}$th of her share.

$\therefore$ Sacrifice of Kavisha = $\frac{3}{5} \times \frac{1}{4} = \frac{3}{20}$

$\therefore$ Sacrificing ratio of Kanha and Kavisha = $\frac{2}{10} : \frac{3}{20}$ = 4:3 (Making denominator equal)

$\therefore$ Goodwill will be distributed to both the partners in 4:3 ratio.

(2) : Goodwill brought by Palkhi :

Share of Palkhi in new firm = Sacrifice of Kanha + Sacrifice of Kavisha

$$= \frac{2}{10} + \frac{3}{20}$$

$$= \frac{4+3}{20} = \frac{7}{20}$$

Goodwill brought by Palkhi = ₹ 80,000 × $\frac{7}{20}$ = ₹ 28,000

Goodwill brought by Palkhi will be distributed between Kanha and Kavisha in their sacrificing ratio.

Journal :

(1)	Bank A/c...Dr	28,000	
	To premium for goodwill A/c		28,000
(2)	premium for goodwill A/c...Dr	28,000	
	To Kanha's capital A/c		16,000
	To Kavisha's capital A/c		12,000

(3) (1) Claim for workmen's compensation accepted is ₹ 50,000 against the provision for workmen's compensation ₹ 40,000. Therefore additional claim of ₹ 10,000 is debited to the revaluation account. (2) Decrease value of investment is ₹ 15,000 while investment fluctuation reserve is only ₹ 12,000. Therefore additional loss is debited to the revaluation account.

Illustration 25 : Bhavya and Deep are partners sharing profit & loss in the ratio of 5:3. Balance sheet of their firm as on 31-3-2017 was as under :

Balance Sheet

Liabilities			Amt. (₹)	Assets	Amt. (₹)
Provident fund			20,000	Bank	40,000
Creditors			80,000	Debtors	60,000
Workmens' compensation reserve			40,000	Stock	40,000
Capital account :	Bhavya	1,00,000		Building	3,00,000
	Deep	1,30,000	2,30,000	Investment	70,000
Current account :	Bhavya	80,000			
	Deep	60,000	1,40,000		
			5,10,000		**5,10,000**

They admitted Vedang as a new partner on 1-4-2017 on the following conditions :

(1) Vedang will bring his personal furniture of ₹ 50,000 in the firm.

(2) Creditors include ₹ 40,000 payable to Vedang, which is to be transferred to his capital account.

(3) Vedang will share $\frac{1}{5}$ in future profit.

(4) Vedang will bring ₹ 30,000 in cash as goodwill.

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

(6) Credit purchase of ₹ 10,000 was not recorded in creditors account and purchase account. But it is included in closing stock.

(7) Market value of stock of ₹ 30,000 is ₹ 24,000.

(8) Liability for workmen's compensation is ₹ 24,000.

(9) Outstanding interest on investment ₹ 16,000 is unrecorded.

Prepare balance sheet after admission.

Ans. :

Balance Sheet as on 1-4-2017 After Admission

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital account :			Furniture	50,000
Bhavya	1,00,000		Stock	34,000
Deep	1,30,000		Debtors	60,000
Vedang	90,000	3,20,000	Building	3,00,000
Current account :			Current account of Vedang	10,000
Bhavya	1,15,000		Investment	70,000
Deep	81,000	1,96,000	Outstanding interest on investment	16,000
Provident fund		20,000	Bank (₹ 40,000 + ₹ 30,000)	70,000
Workmen's compensation reserve		24,000		
Creditors (₹ 80,000 – ₹ 40,000 Vedang's capital A/c + 10,000 unrecorded)		50,000		
		6,10,000		**6,10,000**

Explanation : (1) **Revaluation Account**

Dr Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
Stock A/c	6000	Outstanding interest on investment	16,000
Creditors A/c	10,000		
	16,000		**16,000**

(2) : **Capital Account**

Dr Cr

Particulars	Bhavya (₹)	Deep (₹)	Vedang (₹)	Particulars	Bhavya (₹)	Deep (₹)	Vedang (₹)
To Balance c/d	1,00,000	1,30,000	90,000	By Balance b/d	1,00,000	1,30,000	–
				By Furniture A/c	–	–	50,000
				By Creditors A/c	–	–	40,000
	1,00,000	**1,30,000**	**90,000**		**1,00,000**	**1,30,000**	**90,000**

(3) : **Partners' Current Account**

Dr Cr

Particulars	Bhavya (₹)	Deep (₹)	Vedang (₹)	Particulars	Bhavya (₹)	Deep (₹)	Vedang (₹)
To Bhavya's current A/c (Goodwill)	–	–	6250	By Balance b/d	80,000	60,000	–
To Deep's current A/c (Goodwill)	–	–	3750	By Premium for goodwill A/c	18,750	11,250	–
To Balance b/d	1,15,000	81,000	–	By Vedang current A/c (Goodwill)	6250	3750	–
				By Workmen's compensation reserve A/c	10,000	6000	–
				By Balance c/d	–	–	10,000
	1,15,000	**81,000**	**10,000**		**1,15,000**	**81,000**	**10,000**

Explanation : New profit-loss sharing ratio of Bhavya and Deep is 5:3. Vedang is admitted with $\frac{1}{5}$th share. As no other information is given, relative ratio of Bhavya and Deep will remain the same i.e. 5:3. So, their sacrificing ratio will also be 5:3. Hence, goodwill will be distributed between old partners in the ratio of 5:3.

Illustration 26 : Shiya and Janki are the partners sharing profit and loss in the ratio of 1:2. They admitted Chandni as a new partner for $\frac{1}{6}$th share. Chandni brought ₹ 25,000 as her capital in cash. The capitals of Shiya and Janki after the adjustments of loss of revaluation A/c, goodwill and reserves are ₹ 60,000 and ₹ 70,000 respectively. They decided to keep the capital of all the partners in their new profit-loss sharing ratio by taking new partners' capital as the base. For this purpose, the amount of actual cash to be paid or brought in by the old partners. New profit-loss sharing ratio is 3:2:1. Prepare the partners' capital accounts.

Ans. : **Partners' Capital Accounts**

Dr Cr

Particulars	Shiya (₹)	Janki (₹)	Chandni (₹)	Particulars	Shiya (₹)	Janki (₹)	Chandni (₹)
To Cash A/c (Diff.)	–	20,000	–	By Balance b/d	60,000	70,000	–
				By Cash A/c	–	–	25,000
To Balance c/d	75,000	50,000	25,000	By Cash A/c(Diff.)	15,000	–	–
	75,000	**70,000**	**25,000**		**75,000**	**70,000**	**25,000**

Explanation (1) : New profit-loss sharing ratio of Shiya, Janki and Chandni = 3:2:1

On the basis of Chandni's capital total capital of new firm :

$\frac{1}{6}$: ₹ 25,000

1 : (?)

= 25,000 × 6

= 1,50,000

Shiya's capital in new firm = 1,50,000 × $\frac{3}{6}$ = ₹ 75,000

Janki's capital in new firm = 1,50,000 × $\frac{2}{6}$ = ₹ 50,000

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

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Goodwill	30,000
Pandit	1,30,000		Building	2,00,000
Pandya	1,20,000	2,50,000	Furniture	40,000
Capital reserve		21,000	Stock	26,000
Workmen's saving A/c		10,000	Debtors	24,000
Workmen's profit sharing fund		12,000	Cash	80,000
10 % loan		50,000		
Creditors		57,000		
		4,00,000		**4,00,000**

They admitted Patel as a new partner as on 1-4-2016 on the following terms :

(1) New profit and loss sharing ratio is to be kept at 3:5:1.

(2) Patel brought ₹ 50,000 as his capital in cash.

(3) Interest on loan is outstanding for last year.

(4) Personal expenses ₹ 8000 of Pandya was debited to the profit and loss account.

(5) Reconstruction's expense of ₹ 12,000 is paid by Pandit.

(6) Goodwill is valued at ₹ 2,70,000.

(7) Capital of Pandit and Pandya in the new firm should be kept in new profit and loss ratio by taking Patel's capital as the base. For this purpose necessary adjustments are to be made in their current account.

Prepare necessary accounts and balance sheet of the new firm.

Dr **Revaluation Account** Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Outstanding interest on loan	5000	By Pandya's capital A/c		8000
To Pandit's capital A/c	12,000	By Partners' capital A/c (Loss)		
		Pandit	6000	
		Pandya	3000	9000
	17,000			**17,000**

Dr **Partners' Capital Accounts** Cr

Particulars	Pandit (₹)	Pandya (₹)	Patel (₹)	Particulars	Pandit (₹)	Pandya (₹)	Patel (₹)
To Goodwill A/c	20,000	10,000	–	By Balance b/d	1,30,000	1,20,000	–
To Revaluation A/c	–	8000	–	By Capital reserve A/c	14,000	7000	–
To Pandit's capital A/c	–	60,000	–	By Cash A/c	–	–	50,000
To Revaluation A/c	6000	3000	–	By Revaluation A/c	12,000	–	–
To Pandit's current A/c	70,000	–	–	By Patel's current A/c	30,000	–	–
To Balance c/d	1,50,000	2,50,000	50,000	By Pandya's capital A/c	60,000	–	–
				By Pandya's current A/c		2,04,000	
	2,46,000	**3,31,000**	**50,000**		**2,46,000**	**3,31,000**	**50,000**

Dr **Cash Account** Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	80,000	By Balance c/d	1,30,000
To Patel's capital A/c	50,000		
	1,30,000		**1,30,000**

Balance Sheet as on 1-4-2016 after admission

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Building	2,00,000
Pandit	1,50,000		Furniture	40,000
Pandya	2,50,000		Stock	26,000
Patel	50,000	4,50,000	Debtors	24,000
Workers' savings A/c		10,000	Cash	1,30,000
Workers' profit sharing fund		12,000	Pandya's current A/c	2,04,000
10 % Loan		50,000	Patel's current A/c	30,000
Creditors		57,000		
Outstanding interest on loan		5000		
Pandit's current A/c		70,000		
		6,54,000		**6,54,000**

Explanation : (1) Sacrificing ratio

Old ratio of Pandit and Pandya = 2:1

New ratio of Pandit, Pandya and Patel = 3:5:1

Sacrifice = Old share − New share

Sacrifice of Pandit = $\frac{2}{3} - \frac{3}{9} = \frac{6-3}{9} = \frac{3}{9}$

Sacrifice of Pandya = $\frac{1}{3} - \frac{5}{9} = \frac{3-5}{9} = -\frac{2}{9}$ (Gain)

(2) Entry for goodwill : Pandya gains, therefore he will also give goodwill to Pandit

Goodwill payable to Pandya = $\frac{2}{9} \times 2{,}70{,}000$ = ₹ 60,000

Goodwill payable to Patel = $\frac{1}{9} \times 2{,}70{,}000$ = ₹ 30,000

Goodwill receivable by Pandit = $\frac{3}{9} \times 2{,}70{,}000$ = ₹ 90,000

Patel does not bring Goodwill in cash.

Journal Entries :

Patel's current A/c...Dr	30,000	
Pandya's capital A/c...Dr	60,000	
To Pandit's capital A/c		90,000

Note : As capital of all partners is to be kept in new profit sharing ratio, by taking Patel's capital as base, goodwill of Patel is debited to his current account.

(3) Capital of partners in new profit-loss sharing ratio

For $\frac{1}{9}$th share of Patel, capital = ₹ 50,000

Total capital of firm 1 = (?)

= 50,000 × 9 = ₹ 4,50,000

Pandit's capital in new firm = $\frac{3}{9} \times 4{,}50{,}000$ = ₹ 1,50,000

Pandya's capital in new firm = $\frac{5}{9} \times 4{,}50{,}000$ = ₹ 2,50,000

Illustration 28 : A and B are partners sharing profit-loss in the ratio of 2:1. The balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Plant-Machinery		80,000
A	80,000		Building		50,000
B	40,000	1,20,000	Stock		17,000
Reserve fund		21,000	Debtors	50,000	
Creditors		75,000	− Bad debt reserve	4000	46,000
Bills payable		10,000	Cash-Bank		33,000
		2,26,000			**2,26,000**

They admitted C as a new partner on 1-4-2016 on following conditions :

(1) A sacrificed $\frac{1}{12}$th share and B sacrificed $\frac{1}{6}$th share from their profit share in favour of C.

(2) C will bring proportionate capital.

(3) C will bring his share of goodwill in cash. Goodwill is valued at ₹ 1,80,000.

(4) Fixed assets are to be depreciated at 10 %.

(5) All debtors are solvent.

(6) Insurance premium of ₹ 3000 is to be carried forward to the next year.

Prepare necessary account and the balance sheet.

Revaluation Account

Dr Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Plant-Machinery A/c	8000	By Bad debt reserve A/c		4000
To Building A/c	5000	By Prepaid insurance premium A/c		3000
		By Loss transferred to old partners capital A/c		
		A	4000	
		B	2000	6000
	13,000			**13,000**

Partners' Capital Accounts

Dr Cr

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Revaluation A/c	4000	2000	–	By Balance b/d	80,000	40,000	–
To Balance c/d	1,05,000	75,000	60,000	By Reserve fund A/c	14,000	7000	–
				By Premium for goodwill A/c	15,000	30,000	–
				By Cash A/c	–	–	60,000
	1,09,000	**77,000**	**60,000**		**1,09,000**	**77,000**	**60,000**

Cash Account

Dr Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	33,000	By Balance c/d	1,38,000
To C's capital A/c	60,000		
To Premium for goodwill A/c	45,000		
	1,38,000		**1,38,000**

Balance Sheet as on 1-4-2016 after admission

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Plant	72,000
A	1,05,000		Building	45,000
B	75,000		Stock	17,000
C	60,000	2,40,000	Debtors	50,000
Creditors		75,000	Cash	1,38,000
Bill payable		10,000	Prepaid insurance premium	3000
		3,25,000		**3,25,000**

Explanation : (1) Sacrificing ratio

Old ratio of A and B = 2:1

A's sacrifice $= \frac{1}{12}$

B's sacrifice $= \frac{1}{6} = \frac{2}{12}$

$\therefore$ Sacrificing ratio = 1:2

(2) Goodwill

C's share = A's sacrifice + B's sacrifice

$$= \frac{1}{12} + \frac{2}{12} = \frac{3}{12} = \frac{1}{4}$$

Goodwill brought by C $= \frac{1}{4} \times 1,80,000$

= ₹ 45,000

C's share of Goodwill ₹ 45,000 is to be distributed between A and B in their sacrificing ratio 1:2. (See illustration 6 for explanation.)

(3) C's capital

A's capital in new firm	₹ 1,05,000
B's capital in new firm	₹ 75,000
Total capital of A and B	₹ 1,80,000

C's share in profit $= \frac{1}{4}$

Total share in profit of A and B $= 1 - \frac{1}{4} = \frac{3}{4}$

A and B's share $\frac{3}{4}$ = Capital ₹ 1,80,000

C's share $\frac{1}{4}$ = (?)

$= 1,80,000 \times \frac{1}{4} \times \frac{4}{3}$

= ₹ 60,000

Illustration 29 : Chandni and Nihar are the partners sharing profit in the ratio of 3:2. Their balance sheet as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Creditors		64,000	Bank		56,000
General reserve		12,000	Debtors	80,000	
Investment fluctuation reserve		6000	− Provision for bad debt	4000	76,000
Workmen profit sharing fund		45,000	Investment		90,000
Capital account : Chandni	1,00,000		Building		60,000
Nihar	80,000	1,80,000	Machinery		25,000
		3,07,000			**3,07,000**

On 1-4-2016, they admitted Payal as a new partner on the following conditions :

(1) Payal brought ₹ 20,000 as goodwill in cash.

(2) Provision for doubtful debt is not required.

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

(4) Market value of building is ₹ 1,00,000.

(5) Market value of investments is ₹ 98,500.

(6) Payal will bring 20 % of total capital of Chandni and Nihar in the new firm as her capital.

(7) New profit sharing ratio is to be kept at 2:2:1.

(8) Chandni and Nihar will maintain their capital in the proportion of their new profit and loss sharing ratio.

Prepare necessary accounts and balance sheet.

Revaluation Account

Dr Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Machinery A/c		2500	By Doubtful debt reserve	4000
To Profit transferred to old partners			By Building A/c	40,000
capital A/c			By Investment A/c	8500
Chandni	30,000			
Nihar	20,000	50,000		
		52,500		**52,500**

Partners' Capital Accounts

Dr | | | | | | | Cr

Particulars	Chandni (₹)	Nihar (₹)	Payal (₹)	Particulars	Chandni (₹)	Nihar (₹)	Payal (₹)
To Bank A/c	26,800	–	–	By Balance b/d	1,00,000	80,000	–
To Balance c/d	1,34,000	1,34,000	53,600	By General reserve A/c	7200	4800	–
				By Investment fluctuation reserve A/c	3600	2400	–
				By Premium for goodwill A/c	20,000	–	–
				By Revaluation A/c	30,000	20,000	–
				By Bank A/c	–	26,800	53,600
	1,60,800	**1,34,000**	**53,600**		**1,60,800**	**1,34,000**	**53,600**

Cash / Bank Account

Dr | | | Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	56,000	By Chandni's capital A/c	26,800
To Premium for goodwill A/c	20,000	By Balance c/d	1,29,600
To Payal's capital A/c	53,600		
To Nihar's capital A/c	26,800		
	1,56,400		**1,56,400**

Balance Sheet as on 1-4-2016 after Admission

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital Account :			Bank	1,29,600
Chandni	1,34,000		Debtors	80,000
Nihar	1,34,000		Investment	98,500
Payal	53,600	3,21,600	Building	1,00,000
Creditors		64,000	Machinery	22,500
Workmen profit sharing fund		45,000		
		4,30,600		**4,30,600**

Explanation : (1) Sacrificing ratio

Old profit-loss sharing ratio of Chandni and Nihar = 3:2

New profit-loss sharing ratio of Chandni, Nihar and Payal = 2:2:1

Sacrifice = Old share – New share

Chandni's sacrifice = $\frac{3}{5} - \frac{2}{5} = \frac{1}{5}$; Nihar's sacrifice = $\frac{2}{5} - \frac{2}{5} = 0$

(2) **Capital of Chandni, Nihar and Payal**

Particulars	Chandni	Nihar
Opening balance	1,00,000	80,000
General reserve	7200	4800
Investment fluctuation reserve	3600	2400
Premium for goodwill	20,000	–
Revaluation profit	30,000	20,000
	1,60,800	**1,07,200**

Payal brought her share of capital, which is 20 % of total capital of Chandni and Nihar.

Chandni's capital = 1,60,800

Nihar's capital = 1,07,200

Total capital of Chandni and Nihar = 2,68,000

∴ Payal's capital = $2,68,000 \times \frac{20}{100}$ = ₹ 53,600

Chandni and Nihar maintained their total capital in their new profit sharing ratio.

Total capital of Chandni and Nihar is ₹ 2,68,000. New profit-loss sharing ratio = 2:2 = 1:1

∴ Chandni's capital = $2,68,000 \times \frac{1}{2}$ = ₹ 1,34,000

Nihar's capital = $2,68,000 \times \frac{1}{2}$ = ₹ 1,34,000

Note : Premium for goodwill is received by Chandni only.

Illustration 30 : Shivani and Niraj are the partners in a firm sharing profit and loss in the ratio of 1:2. Balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital account :			Goodwill	27,000
Shivani	1,00,000		Land-Building	1,50,000
Niraj	1,50,000	2,50,000	Machinery	50,000
Profit-loss A/c		9000	Stock	20,000
General reserve		15,000	Debtors	30,000
Creditors		25,000	Bills receivable	10,000
Bad debt reserve		8000	Cash	20,000
		3,07,000		**3,07,000**

They admitted Vijay as a new partner as on above date for the following terms :

(1) Bad debt reserve is to be kept ₹ 5000 on debtors.

(2) Goodwill is valued at ₹ 36,000.

(3) Value of land and building is to be appreciated by 10 %.

(4) Book value of machinery is 25 % more than its market value.

(5) Value of stock is to be decreased by 10 %.

(6) Vijay will bring 50 % of net assets of new firm as the capital and his share of gooodwill in cash.

(7) Shivani sacrifices $\frac{1}{3}$rd of her share and Niraj sacrifices $\frac{1}{3}$ share for Vijay.

Prepare necessary accounts and balance sheet after admission of a new partner.

Revaluation Account

Dr Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Machinery A/c		10,000	By Bad debt reserve A/c	3000
To Stock A/c		2000	By Land-building A/c	15,000
To Profit transferred to old partners' capital A/c				
Shivani	2000			
Niraj	4000	6000		
		18,000		**18,000**

Partners' Capital Accounts

Dr Cr

Particulars	Shivani (₹)	Niraj (₹)	Vijay (₹)	Particulars	Shivani (₹)	Niraj (₹)	Vijay (₹)
To Goodwill A/c	9000	18,000	–	By Balance b/d	1,00,000	1,50,000	–
To Balance c/d	1,05,000	1,64,000	2,69,000	By Profit-loss A/c	3000	6000	–
				By General reserve A/c	5000	10,000	–
				By Premium for goodwill A/c	4000	12,000	–
				By Revaluation A/c	2000	4000	–
				By Cash A/c	–	–	2,69,000
	1,14,000	**1,82,000**	**2,69,000**		**1,14,000**	**1,82,000**	**2,69,000**

Cash Account

Dr Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	20,000	By Balance c/d	3,05,000
To Premium for goodwill A/c	16,000		
To Vijay's capital A/c	2,69,000		
	3,05,000		**3,05,000**

Balance Sheet as on 1-4-2016 After Admission

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital account :			Land-Building	1,65,000
Shivani	1,05,000		Machinery	40,000
Niraj	1,64,000		Stock	18,000
Vijay	2,69,000	5,38,000	Bills receivable	10,000
Creditors		25,000	Debtors	30,000
Bad debt reserve		5000	Cash	3,05,000
		5,68,000		**5,68,000**

Explanation (1) Sacrificing ratio

Old profit-loss sharing ratio of Shivani and Niraj = 1:2

Shivani sacrificed $\frac{1}{3}$rd of her profit share

$\therefore$ Sacrifice of Shivani $= \frac{1}{3} \times \frac{1}{3} = \frac{1}{9}$

Niraj sacrificed $\frac{1}{3}$rd from his profit share

$\therefore$ Sacrifice of Niraj $= \frac{1}{3}$

$\therefore$ Sacrificing ratio $= \frac{1}{9} : \frac{1}{3} = 1:3$ (See illustration 5 for explanation)

(2) Distribution of goodwill

Share of Vijay = Sacrifice of Shivani + Sacrifice of Niraj

$$= \frac{1}{9} + \frac{1}{3}$$

$$= \frac{1+3}{9}$$

$$= \frac{4}{9}$$

Share of Goodwill of Vijay $= 36{,}000 \times \frac{4}{9}$ = ₹ 16,000

Goodwill of Vijay will be distributed between Shivani and Niraj in their sacrificing ratio 1:3.

(3) Book value of machinery is ₹ 50,000, which is 25 % more from its market value. Therefore if market value of machinery is ₹ 100, its book value is ₹ 125. Determine the market value of machine as under :

Book value	Market value
125	100
50,000	(?)

$$= 100 \times \frac{50{,}000}{125} = ₹\ 40{,}000$$

(4) Capital is brought by Vijay :

Vijay brought 50 % of net asset of new firm as capital

Net assets = Total assets − Total Liabilities

Total assets − Total liabilities is total capital

∴ 50 % of total capital is brought by Vijay as his share of capital in new firm.

Capital of Shivani in new firm	₹ 1,05,000
Capital of Niraj in new firm	₹ 1,64,000
Total capital of Shivani and Niraj in new firm =	₹ 2,69,000

50 % of total capital is brought by Vijay.

∴ Remaining 50 % capital is of Shivani and Niraj

∴ 50 % capital = ₹ 2,69,000 of Shivani and Niraj

50 % capital of Vijay = (?)

= ₹ 2,69,000

EXERCISE

1. Select appropriate alternative for each question :

(1) Balance of general reserve and credit balance of profit and loss account is transferred to .... account at the time of the admission of a new partner.
- (a) capital account of newly admitted partner
- (b) all partners' capital accounts including new partner
- (c) old partners' capital accounts
- (d) revaluation account

(2) Goodwill appearing in the books of the firm at the time of admission of the new partner is recorded as ....
- (a) debited to old partners' capital accounts in their old profit-loss sharing ratio and goodwill account is credited
- (b) credited to all partners' capital accounts including new partner in their new profit-loss sharing ratio and goodwill account is debited.
- (c) admitted partners' capital A/c Cr, Goodwill A/c Dr
- (d) credited to old partners' capital accounts in their old profit-loss sharing ratio and goodwill account debited.

(3) Premium for goodwill brought by the partner is recorded on .... side.
- (a) debit side of old partners' capital accounts in old profit-loss sharing ratio.
- (b) credit side of old partners' capital accounts in their old profit-loss sharing ratio
- (c) debit side of old partners' capital accounts in their sacrificing ratio
- (d) credit side of old partners' capital accounts in their sacrificing ratio

(4) Revaluation account is .... type of account.
- (a) personal
- (b) nominal
- (c) real
- (d) temporary

(5) When new partner brings his share of goodwill in cash, ... account is credited.
- (a) cash
- (b) premium for goodwill
- (c) goodwill
- (d) his capital account

(6) As per accounting standard-26 .... goodwill can not be shown in the books.
- (a) goodwill for which some amount is paid for consideration
- (b) internally generated
- (c) (a) and (b) both
- (d) neither of (a) and (b)

(7) Revaluation account is also known as ....

(a) profit-loss account (b) profit and loss adjustment account

(c) profit and loss appropriation account (d) profit and loss suspense account

(8) When only old profit-loss sharing ratio is given; sacrificing ratio of old partners = ...

(a) equal (b) old ratio

(c) old share – new share (d) can not be calculated

(9) Old partner is also required to give his share in goodwill to other old partner, when ....

(a) his capital is less

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

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

(d) his new share in new profit-loss ratio is equal to old share

(10) Profit or loss of revaluation account is transferred to .... account in .... ratio.

(a) old partners, equal (b) all partners, new profit-loss sharing ratio

(c) old partners, sacrificing ratio (d) old partners, old ratio

2. Answer following questions in one sentence :

(1) How is a new partner admitted in a firm ?

(2) For what purpose a new partner is admitted in a firm ?

(3) State necessary accounting adjustments at the time of the admission of a new partner.

(4) State rights of a new partner.

(5) Why assets and liabilities are revalued at the time of the admission of a new partner ?

(6) Why a new partner is required to give his share in goodwill ?

(7) What is sacrificing ratio ? How it is calculated ?

(8) Explain with reasons the accounting treatment of reserves and accumulated profit and loss appearing in the books of the firm at the time of the admission of a new partner.

(9) When revaluation account is debited and credited ?

(10) State provision for the goodwill as per accounting standard-26.

3. Calculate new profit and loss sharing ratio and sacrificing ratio :

(1) A and B are the partners sharing profit and loss in the ratio of 3:2. They admitted C as a new partner for $\frac{1}{4}$th share in profit.

(2) A and B are the partners sharing profit and loss in the ratio of $\frac{4}{5}$ and $\frac{2}{10}$. They admitted C as a new partner for 20 % profit of the firm.

(3) A and B are the partners in a firm. They admitted C for $\frac{1}{6}$th share as a new partner. After the admission of C, the new profit and loss sharing ratio of A and B will be 2:3.

(4) A and B are partners in a firm sharing profit and loss in the ratio of 2:1. They admitted C as a new partner for $\frac{1}{5}$th share in the profit. C will acquire $\frac{1}{10}$th share from A and $\frac{1}{10}$th share from B.

(5) A, B and C are the partners sharing profit and loss in the ratio of 5:3:2. They admitted D as a new partner. 'A' sacrifices $\frac{1}{20}$th from his share and 'B' sacrifices $\frac{3}{40}$th from his share in favour of D.

(6) A and B are the partners sharing profits in the ratio of 3:2. They admitted C as a new partner for $\frac{1}{10}$th share of profit which he will acquire from A and B in equal proportion.

(7) A, B and C are the partners sharing profit in the ratio of 20 %, 40 % and 40 % respectively. They admitted D as a new partner for $\frac{1}{8}$th share in profit. D is to receive his share from B and C in the ratio of 3:2.

(8) A and B are the partners in a firm. They admitted C as a new partner for $\frac{1}{5}$th share in profit. Out of which C takes $\frac{1}{15}$th share from A and remaining share from B.

(9) A, B and C are the partners sharing profit and loss in the ratio of 4:3:3. They admitted D as a new partner for $\frac{1}{20}$th share of profit, out of which he takes $\frac{1}{40}$th from A and remaining share from B and C equally.

(10) A and B are the partners sharing profit and loss in the ratio of 3:1. They admitted C as a new partner. 'A' sacrifices $\frac{1}{3}$rd of his share and 'B' sacrifices $\frac{1}{4}$th of his share in favour of C.

(11) A and B are the partners sharing profit and loss in the ratio of 5:3. They admitted C as a new partner. A sacrifices 30 % his share and 'B' sacrifices 20 % of his share in favour of C.

(12) X and Y are the partners sharing profit and loss in the ratio of 2:1. They admitted Z as a new partner. 'X' sacrifices $\frac{1}{15}$th from his share and 'Y' sacrifices $\frac{1}{5}$th of his share in favour of Z.

(13) X, Y and Z are the partners sharing profit and loss in the ratio of 2:3:1. They admitted W as a new partner with $\frac{1}{6}$th share. Z will retain his original share in future also.

(14) X and Y are the partners sharing profit and loss in the ratio of 5:4. They admitted Z as a new partner. All the three partners will distribute future profit in equal proportion. (Calculate only sacrificing ratio.)

(15) X, Y and Z are the partners sharing profit and loss in the ratio of 3:2:1. They admitted W as a new partner. Their new profit-loss sharing ratio is to be 4:3:2:3. (Calculate only sacrificing ratio).

4. Pass necessary journals for the following transactions :

(1) A and B are the partners sharing profit and loss in the ratio of 3:2. They admitted C as a new partner for $\frac{1}{5}$th share of profit. C brings ₹ 80,000 as his capital in cash. C gave his share of goodwill personally to A and B. There was a balance of goodwill ₹ 25,000 in the books of firm before C's admission.

(2) A and B are the partners in a firm. C admitted as a new partner for $\frac{1}{4}$th share in profit. C brought ₹ 80,000 as his capital and his proportionate share of goodwill in cash. Goodwill of the firm is valued at ₹ 1,00,000.

(3) A and B are the partners sharing profit and loss in the ratio of 2:3. They admitted C as a new partner. C brought his share in capital and goodwill ₹ 40,000 and ₹ 60,000 in cash respectively. At the time of C's admission the balance of goodwill in balance sheet of the firm was ₹ 30,000. New profit and loss sharing ratio of all the partners is decided at 3:5:2.

(4) P, Q and R are the partners sharing profit and loss in the ratio of 3:2:1. They maintain their capital account by fixed capital method. They admitted S as a new partner. S brought cash ₹ 50,000, Furniture ₹ 40,000 and Motor car ₹ 60,000 as his capital and share of goodwill. Goodwill is valued at ₹ 2,40,000. At the time of S's admission goodwill appeared in the books of the firm at ₹ 90,000. New profit-loss sharing ratio of all the partners is decided at 4:3:2:3. Old partners withdrew 50 % goodwill of their share in cash.

(5) X and Y are the partners sharing profit and loss in the ratio of 1:3. Z admitted as a new partner. Z brought ₹ 65,000 as a capital and ₹ 36,000 as his share of goodwill in cash. After Z's admission, all partners decided to distribute the profit equally in future.

(6) M, N and O are the partners sharing profit and loss in the ratio of 4:3:3. They admitted P as a new partner. P brought ₹ 40,000 as goodwill in cash. New profit sharing ratio of all the partners is decided at 1:1:2:1. Balance of goodwill in old firm was ₹ 50,000.

(7) B and C are the partners. D admitted as a new partner in the firm. D brought ₹ 50,000 as a capital and ₹ 14,000 in cash out of his share in goodwill ₹ 20,000.

(8) A, B and C are the partners sharing profit and loss in the ratio of 3:2:4. They maintain their capital accounts by fixed capital method. They admitted D as a new partner. D brought ₹ 70,000 as capital and ₹ 30,000 as share of goodwill in cash. At the time of admission of D, the balance of goodwill was ₹ 45,000 in the balance sheet of the firm. At the time of admission, goodwill is valued of ₹ 1,80,000. New ratio of A, B, C and D decided at 1:1:1:1.

(9) A and B are the partners sharing profit and loss in the ratio of 3:2. They admitted C as a new partner for $\frac{1}{5}$th share. C brought ₹ 30,000 as capital in cash, but he could not bring his share of goodwill ₹ 10,000 in cash.

(10) P and Q are the partners sharing profit and loss in the equal proportion. They maintain their capital accounts by fixed capital method. They admitted R as a new partner. At the time of R's admission goodwill ₹ 70,000 was appearing in the balance sheet. R brought ₹ 40,000 as his capital in cash. Goodwill is valued at ₹ 1,60,000. New profit sharing ratio of P, Q and R is decided at 5:2:1.

(11) Capital of G and E is ₹ 80,000 and ₹ 60,000 respectively. They admitted B as a new partner for $\frac{1}{4}$th share in profit. B brought ₹ 50,000 as his capital. Calculate goodwill and pass necessary journal entries for goodwill.

(12) R, C and B are the partners sharing profit and loss in the ratio of 3:2:1. Their capital as on 1-4-2016 is ₹ 1,00,000, ₹ 60,000 and ₹ 50,000 respectively. On that date the balance of general reserve was ₹ 90,000. They admitted P as a new partner. P brought ₹ 1,80,000 as his capital. New profit and loss sharing ratio of all the partners is decided to 2:1:1:2. Calculate goodwill and pass necessary journal entries.

(13) X and Y are the partners sharing profit and loss in the ratio of 2:3. They admitted Z as a new partner for $\frac{1}{5}$th share. Goodwill is valued at ₹ 20,000. Balance of goodwill appeared at ₹ 15,000 in the balance sheet. Z brought ₹ 50,000 as his capital and 80 % of his share of goodwill in cash. Old partners withdrew 40 % amount of goodwill in cash which is credited to their capital account. After the admission of Z the profit of the first year of the new firm was ₹ 60,000. Pass necessary journal entries.

5. R and J are the partners sharing profit and loss in the ratio of 2:3. They admitted B as a new partner for $\frac{1}{6}$th share of profit. Following balances appeared in the books of R and J at the time of the admission of B :

General reserve ₹ 7000	Contigency reserve ₹ 5100
Workmen compensation reserve ₹ 6000	Bad debt reserve ₹ 4200
Investment fluctuation reserve ₹ 1900	Advertisement campaign expenditure ₹ 3400
Profit-loss A/c (Debit balance) ₹ 1600	

Pass necessary journal entries.

6. K and R are the partners sharing profit and loss in the ratio of 4:1. They admitted P as a new partner for $\frac{1}{5}$th share. Following balances were appearing in the books of K and R at the time of admission of P.

Investment fluctuation reserve ₹ 2500	Workmen compensation reserve ₹ 7000
Bad debt reserve ₹ 3000	Investment ₹ 20,000
Debtors ₹ 70,000	

Pass necessary journal entries in the following cases :

(1) If market value of investment is as under :
(i) ₹ 19,500 (ii) ₹ 22,000

(2) If following claim of workmen compensation is accepted :
(i) ₹ 6000 (ii) ₹ 8500

(3) If bad debt reserve is to be maintained on debtors :
(i) ₹ 4000 (ii) ₹ 2500
(iii) 10 % bad debt reserve is to be maintained after writting off bad debt ₹ 2000.

7. A and B are the partners sharing profit and loss in equal proportion. They admitted C as a new partner for $\frac{1}{4}$th share. Following balances were appearing in the balance sheet of A and B at the time of the admission of C.

Patents	₹	30,000	Goodwill	₹	20,000
Land-Building	₹	1,80,000	Machinery	₹	60,000
Stock	₹	35,000	Creditors	₹	40,000

On C's admission, they decided that,

(i) Patents are to be written off fully.
(ii) Value of land and building is to be increased by 20 %.
(iii) Value of machinery is to be decreased upto 60 %.
(iv) Stock was overvalued by ₹ 4000 than its cost price.
(v) Creditors of ₹ 6000 are not to be paid.

Pass necessary journal entries and prepare the revaluation account.

8. Aabha and Beena are partners in a firm sharing profit and loss in the ratio of 2:1. Their balance sheet as on 31-3-2017 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital account :			Goodwill		18,000
Aabha	80,000		Land-building		72,000
Beena	60,000	1,40,000	Machinery		40,000
General reserve		18,000	Stock		36,000
Workmen compensation reserve		4500	Debtors	24,000	
Investment fluctuation reserve		1500	− Bad debt reserve	2000	22,000
Creditors		28,000	Investment		8000
Bills payable		12,000	Cash-Bank		2000
			Advertisement campaign expenditure		6000
		2,04,000			**2,04,000**

They admitted Rushil as a new partner from 1-4-2017 on the following conditions :

(1) Rushil will bring ₹ 1,00,000 as his capital and ₹ 24,000 as goodwill in cash.

(2) Value of land and building is to be increased by ₹ 17,000.

(3) Value of machinery is to be decreased upto ₹ 32,000.

(4) Provision for bad debt is to be kept at 10 % on debtors.

(5) Provision for outstanding electricity bill is to be made at ₹ 1100.

(6) New profit sharing ratio of all three partners is to be kept at 2:1:2.

Pass necessary journal entries and prepare revaluation account, partners' capital account, cash-bank account and balance sheet after admission.

9. Aashtha and Aahna are partners in a firm. The balance sheet of the firm as on 31-3-2017 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital account :			Goodwill	8400
Aashtha	76,000		Land-Building	40,000
Aahna	48,400	1,24,400	Machinery	32,000
Workmen compensation fund		4800	Investment	20,000
Investment fluctuation fund		1600	Debtors	25,200
Provident fund		6400	Stock	14,400
Bad debt reserve		8000	Cash	16,000
Creditors		12,000	Advertisement campaign expenditure	3200
Bills payable		6000	Profit-loss A/c	4000
		1,63,200		**1,63,200**

The admitted Sonu as a new partner as on 1-4-2017 on the following condition :

(1) Sonu will bring ₹ 80,000 as her capital and ₹ 7200 as her share of goodwill in cash.

(2) New profit and loss sharing ratio will be 4:3:3.

(3) Goodwill is to be valued at ₹ 40,000.

(4) The claim of workmen compensaiton is accepted at ₹ 3200.

(5) Aahna will take over investments at ₹ 19,200.

(6) Accrued interest on investment ₹ 2400 is not recorded.

(7) Accepted bills payable of ₹ 2000 which was drawn by creditors is not recorded.

(8) Book value of land-building is 20 % less then its market value.

(9) Out of insurance premium paid, ₹ 4800 is for next year.

Prepare necessary accounts and balance sheet after admission.

10. Vidit and Vishal are partners sharing profit and loss in the ratio of 2:3. The balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Building	66,000
Vidit	48,000		Machinery	30,000
Vishal	60,000	1,08,000	Stock	18,000
Contigency reserve		9000	Debtors	39,600
Workmen compensation reserve		24,000	Bank	8400
Investment reserve		7200	Investment	18,000
Creditors		30,000		
Bad debt reserve		1800		
		1,80,000		**1,80,000**

They admitted Bunty on 1-4-2016 as a new partner on the following terms :

(1) Vidit will sacrifice $\frac{1}{4}$th from his share and Vishal will sacrifice $\frac{1}{8}$th from his share in the favour of Bunty.

(2) Bunty will bring ₹ 72,000 as capital and his share of goodwill in cash.

(3) Goodwill of the firm is valued at ₹ 32,000.

(4) Vidit and Vishal withdrew 50 % of goodwill received by them in cash.

(5) Provision for depreciation on machinery is to be made at 10 %.

(6) Write off ₹ 3600 as bad debt from debtors and provision for bad debt is to be maintained at 15 %.

(7) Market value of investment is ₹ 9000 which is to be recorded in the books.

(8) Claim of workmen compensation is accepted at ₹ 30,000.

(9) 10 % of creditors are now not to be paid.

Prepare necessary account and balance sheet of new firm.

11. Prerna and Piyush are partners in a firm sharing profit and loss in the ratio of their capital. Balance sheet of their firm was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital account :			Building	90,000
Prerna	50,000		Furniture	17,500
Piyush	1,50,000	2,00,000	Machinery	1,07,500
Reserve fund		30,000	Stock	17,500
Creditors		40,000	Debtors	30,000
Outstanding expenses		1500	Cash-Bank	8250
			Accrued income	750
		2,71,500		**2,71,500**

They admitted Poyani as a new partner for $\frac{1}{5}$th share of profit on 31-3-2016 on following terms :

(1) Poyani brought ₹ 62,500 as capital and ₹ 24,000 as her share of goodwill in cash. 60 % amount of goodwill is withdrawn by the old partners.

(2) Market value of stock and machinery is ₹ 20,000 and ₹ 1,20,000 respectively.

(3) Provision for bad debt at 10 % and 2 % discount reserve on debtors is to be made.

(4) Creditors are to be paid ₹ 30,000.

(5) Value of building is to be increased by 15 % and value of furniture is to be increased by 20 %.

(6) Outstanding wages of ₹ 460 is not recorded in the books.

From the above information prepare necessary accounts and new balance sheet of the firm.

12. P and Q are partners sharing profit and loss in the ratio of 3:2. Balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital account :			Land-Building		80,000
P	70,000		Debtors	22,000	
Q	50,000	1,20,000	– Bad debt reserve	2000	20,000
Provident fund		18,000	Stock		36,000
Creditors		22,000	Cash		4000
			Goodwill		20,000
		1,60,000			**1,60,000**

On above date they admitted R as a new partner on the following terms :

(1) R will bring ₹ 60,000 as capital in cash.

(2) Goodwill is valued at ₹ 30,000.

(3) R can not bring his share of goodwill in cash.

(4) Value of land and building is ₹ 90,000.

(5) Bad debt reserve is to be provided at 5 % on debtors.

(6) Value of stock is to be reduced by ₹ 400.

(7) Creditors of ₹ 500 are not to be paid.

(8) New profit and loss sharing ratio of all partners is decided at 5:2:3.

From the above information prepare necessary accounts and balance sheet after admission. Give necessary journal entries for goodwill.

13. A and B are partners in a firm sharing profit and loss in the ratio of 4:1. Balance sheet of their firm on 31-3-2017 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital account :			Land-Building		35,000
A	75,000		Furniture		30,000
B	25,000	1,00,000	Investments		25,000
Current account :			Stock		15,000
A	8000		Debtors	5500	
B	2000	10,000	– Bad debt reserve	500	5000
Workmen accident compensation fund		5000	Bills receivable		2000
Creditors		4000	Cash-Bank		3000
Bills payable		1000	Goodwill		5000
		1,20,000			**1,20,000**

They admitted C as a new partner on above date on the following conditions. They decided to keep their new profit-loss sharing ratio at 3:1:1 :

(1) C will bring ₹ 20,000 as capital for his $\frac{1}{5}$th share of profit and ₹ 5000 as his share of goodwill in cash. Out of goodwill half amount is to be withdrawn by the old partners.

(2) Value of land and building is to be increased by 10 %. While value of furniture and stock is to be decreased by 5 %.

(3) Market value of investment is ₹ 35,000. Which is to be shown in the books.

(4) Provision for doubtfull debt is to be made at 10 % on debtors.

(5) Workmen accident compensation claim is accepted ₹ 1000.

(6) Bank charges ₹ 450 which are paid but not recorded in the books.

Prepare necessary accounts and balance sheet after admission of partners.

14. Rutvi and Princy are partners sharing profit and loss in the ratio of 5:3. The balance sheet of their firm as on 31-3-2017 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Workmen's profit sharing fund		30,000	Bank	60,000
Creditors		1,20,000	Debtors	90,000
Workmen compensation reserve		60,000	Stock	60,000
Current account :			Building	4,50,000
Rutvi	1,50,000		Investments	1,05,000
Princy	1,95,000	3,45,000		
Capital account :				
Rutvi	1,20,000			
Princy	90,000	2,10,000		
		7,65,000		**7,65,000**

They admitted Manan as a partner on 1-4-2017 on the following terms :

(1) Manan will bring his personal furniture of ₹ 75,000 as capital.

(2) Out of creditors ₹ 60,000 are payable to Manan which is to be transferred to his capital account.

(3) Manan will be given $\frac{1}{5}$th share in future.

(4) Manan will bring ₹ 45,000 as goodwill in cash.

(5) Goodwill of firm is valued at ₹ 3,00,000.

(6) Credit purchase of ₹ 15,000 which was not recorded in creditors account and purchase account but it is included in closing stock.

(7) Market value of stock of ₹ 45,000 is ₹ 36,000.

(8) Liability of workmen compensation is ₹ 28,000.

(9) Accrued interest on investment ₹ 24,000 is not recorded.

Prepare new balance sheet after admission.

15. Riya and Gauri are the partners sharing profit and loss in the ratio of 1:2. They admitted Sanju as a new partner for $\frac{1}{5}$th share on 1-4-2017. Sanju brings ₹ 90,000 as capital in cash. After the adjustment of reserves, profit of revaluation and goodwill the capital of Riya and Gauri was ₹ 1,50,000 and ₹ 2,00,000 respectively. Partners decided to maintain new firms' total capital at ₹ 4,50,000 in their new profit and loss ratio. Necessary amount is to be brought or writhdrawn in cash. Prepare partners' capital account.

16. Parshvi and Aneri are the partners sharing profit and loss in the ratio of 2:1. Balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Goodwill	21,000
Parshvi	91,000		Building	1,40,000
Aneri	84,000	1,75,000	Furniture	28,000
Capital reserve		14,700	Stock	18,200
Workmen saving account		7000	Debtors	16,800
Workmen profit sharing fund		8400	Cash	56,000
10 % Loan from bank		35,000		
Creditors		39,900		
		2,80,000		**2,80,000**

On 1-4-2016 they admitted Henshi as a new partner on the following conditions :

(1) New profit and loss sharing ratio is to be kept at 3:4:2.

(2) Henshi brings ₹ 40,000 as capital.

(3) Interest on bank loan is outstanding for one year.

(4) Personal expense of Parshvi paid by the firm is debited to the profit and loss account ₹ 5600.

(5) Reconstruction expense is paid by Aneri ₹ 8400.

(6) Goodwill is valued at ₹ 90,000.

(7) Parshvi and Aneri will maintain their capital in the new firm in their new profit and loss sharing ratio by taking Henshi's capital as base. For this purpose necessary adjustments should be made in partners' current account.

Prepare necessary accounts and balance sheet after admission.

17. Ankita and Esha are the partners sharing profit and loss in the ratio of 2:1. Balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Machinery		64,000
Ankita	64,000		Furniture		40,000
Esha	32,000	96,000	Stock		13,600
General reserve		16,800	Debtors	40,000	
Creditors		60,000	− Bad debt reserve	3200	36,800
Bills payable		8000	Cash-Bank		26,400
		1,80,800			**1,80,800**

They admitted Arpita as a new partner on 1-4-2016 on the following conditions :

(1) Ankita sacrificed $\frac{1}{12}$th from her share and Esha sacrificed $\frac{1}{6}$th from her share in favour of Arpita.

(2) Arpita is to bring proportionate capital.

(3) Arpita is to bring her share of goodwill in cash. Goodwill of the firm is valued at ₹ 90,000.

(4) Fixed assets are to be depreciated by 10 %.

(5) All debtors are good.

(6) Insurance premium of ₹ 2400 out of ₹ 12,000 is to be carried forward to next year.

Prepare necessary accounts and balance sheet.

18. Jaini and Aanya are the partners sharing profit and loss in the ratio of 3:2. The balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Building		42,000
Jaini	70,000		Machinery		17,500
Aanya	56,000	1,26,000	Investment		63,000
General reserve		8400	Debtors	56,000	
Investment reserve		4200	– Bad debt reserve	2800	53,200
Workmen profit sharing fund		31,500	Bank		39,200
Creditors		44,800			
		2,14,900			**2,14,900**

They admitted Priyanka as a partner on 1-4-2016 on the following terms :

(1) Priyanka will bring ₹ 14,000 as goodwill in cash.

(2) Priyanka will bring her capital equal to 20 % of new total capital of Jaini and Aanya.

(3) New profit and loss sharing ratio is to be kept at 2:2:1.

(4) Provision for bad debt is not required.

(5) Machinery is to be reduced by 10 %.

(6) Market value of building is ₹ 70,000.

(7) Market value of investments is ₹ 68,950.

(8) Total capital of the old partners Jaini and Aanya after all adjustments will be maintained in their relative new ratio. For this purpose necessary adjustments will be made through bank.

Prepare necessary accounts and balance sheet.

19. Tapu and Sonu are the partners sharing profit and loss in the ratio of 1:2. The balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital account :			Goodwill	54,000
Tapu	2,00,000		Land-Building	3,00,000
Sonu	3,00,000	5,00,000	Machinery	1,00,000
Profit-loss A/c		48,000	Stock	40,000
Creditors		50,000	Debtors	80,000
Bad debt reserve		16,000	Cash	40,000
		6,14,000		**6,14,000**

They admitted Goli as a new partner on the following terms :

(1) Goodwill is valued at ₹ 54,000.

(2) Bad debt reserve on debtors to be maintained at ₹ 10,000.

(3) Land-building is to be increased by 10 %.

(4) Book value of machinery is 25 % more than its market value.

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

(6) Goli will bring his capital equal to 50 % of net assets of the new firm.

(7) Goli will bring his share of goodwill in cash.

(8) Tapu sacrifices $\frac{1}{3}$rd of his profit share and Sonu sacrifices $\frac{1}{6}$ share for Goli.

Prepare the necessary accounts and balance sheet. Also determine new profit-loss sharing ratio of all the three partners.

20. Meet, Jeet and Neel are the partners sharing profit and loss in the ratio of 3:2:1. The balance sheet of their firm as on 31-3-2017 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital account :			Building	1,00,000
Meet	1,00,000		Machinery	80,000
Jeet	75,000		Investment	60,000
Neel	50,000	2,25,000	Debtors	40,000
General reserve		12,000	Stock	64,000
Investment fluctuation reserve		20,000	Cash	26,000
Workmen compensation reserve		15,000		
Workmen profit sharing fund		35,000		
Workmen saving account		40,000		
Creditors		23,000		
		3,70,000		**3,70,000**

On the above date they admitted Heer as a new partner on the following conditions :

(1) Meet sacrificed $\frac{1}{8}$th share and Neel sacrificed $\frac{1}{24}$th share from their profit in favour of Heer.

(2) Goodwill is valued at ₹ 60,000. Heer will bring her share of goodwill in cash.

(3) Market value of investment is ₹ 52,000, which is to be shown in books.

(4) Claim for workmen compensation is accepted at ₹ 18,000.

(5) Market value of machinery is ₹ 60,000 and market value of building is ₹ 1,26,000 which are to be brought in the books.

(6) Heer will bring ₹ 50,000 as her capital in cash.

(7) Capital of the partners shall be proportionate to their new profit sharing ratio, taking Heer's capital as base. Necessary effect is to be given in cash.

Prepare the necessary account and balance sheet after admission of Heer.

6

Retirement / Death of a Partner

1.	Introduction	7.	Distribution of Reserves and Accumulated Profit-Losses
2.	Circumstances of Retirement of a Partner	8.	Determination of Amount Payable to the Retiring Partner
3.	Important Accounting Aspects and Accounting Treatments	9.	Determination of Amount Payable to the Deceased Partner and Payment to his Executor
4.	Calculation of New Profit and Loss Sharing Ratio and Gaining Ratio	–	Exercise
5.	Accounting Treatment of Goodwill		
6.	Revaluation of Assets and Liabilities		

1. Introduction

Retirement of a partner means retiring as a partner from a firm. As per Indian Partneship Act; 1932, when a partner retires from a firm for any reason or a partner dies, the partnership ends but the firm is not dissolved. Remaining partners can continue the firm and its business. For this purpose necessary accounting treatments of retirement are required to be given in the books of the firm. In this situation a partnership is reconstituted (reconstructed).

2. Circumstances of Retirement of a Partner

The circumstances of retirement of a partner can be divided into two parts :

(A) As per Indian Partnership Act

(B) Voluntary retirement of a partner due to his personal reasons

(A) As per Indian Partnership Act : As per Indian Partnership Act, partner can retire from the firm due to any of following reasons :

(1) Unanimously : Any partner can retire by unanimous consent of all the partners.

(2) By notice : A partner has right to retire from the firm by giving notice to other partners in writing indicating his intention of retirement from the firm.

(3) By contract : Any partner can retire as per the conditions of the partnership deed.

(4) Insolvency of a partner : A partnership of any partner ends from the date from which he is declared insolvent.

(5) Death of a partner : Partnership ends automatically due to the death of a partner.

(6) Expulsion by other partners : Subject to provision in partnership deed, a partner can be expelled by other partners.

(B) Voluntary retirement of a partner due to his personal reasons : A partner can decide to retire from the partnership due to his personal reasons. An active partner is required to give public notice regarding his retirement; otherwise he is responsible for the liabilities towards third parties arising from the activities after his retirement.

3. Important Accounting Aspects and Accounting Treatments

Following accounting aspects and accounting treatments are required to be taken into consideration when on the date of retirement a partner retires or dies and remaining partners decide to continue the business of the firm.

(1) Calculation of new profit-loss sharing ratio and calculation of gaining share of continuing partners.

(2) Valuation of goodwill and its accounting treatment.

(3) Revaluation of assets and liabilities.

(4) Distribution of accumulated reserves and balances of undistributed profits and losses.

(5) Determination of amount payable to the retiring or deceased partner.

(6) Payment of amount due to the retiring or deceased partner.

4. Calculation of New Profit and Loss Sharing Ratio and Gaining Ratio

When a partner retires or dies and the remaining partners continue the business of the firm, the new ratio of continuing partners is decided. The same way, the profit share of the retiring partner is distributed between the continuing partners. Consequently the gaining share of the continuing partners comes into existence. Now let us understand how the new profit sharing ratio and the gaining ratio is calculated.

Calculation of new profit-loss sharing ratio : Due to the retirement of a partner his profit share is distributed among the remaining continuing partners and therefore they are benefited in terms of profit share. Hence it becomes necessary to calculate the new profit-loss sharing ratio of the remaining partners. New share of continuing partners is obtained by adding their gain to their old share.

$\therefore$ New share = Old share + Gain and

Gain = New share − Old share

New profit-loss sharing ratio can be calculated as per the following circumstances :

(1) When gaining ratio or gain is not given, means old ratio is continued

(2) When gaining share of continuing partners is given

(3) When gaining ratio of continuing partners is given

(4) When old and new profit and loss sharing ratios are given

Now let us discuss the calculation of new profit sharing ratio in detail :

(1) **When gaining ratio or gain is not given, means old ratio is continued :** When the ratio in which the retiring partners' share is to be distributed among the continuing partners is not given, it is assumed that the continuing partners will continue to share the profit or loss in their respective old profit and loss sharing ratio. It means their old ratio will become the new ratio. In this situation new ratio of continuing partners becomes their old ratio by eleminating retiring partner's share.

Illustration 1 : M, N and O are the partners sharing profit and loss in the ratio of 4:3:2. Calculate new profit-loss sharing ratio under the following circumstances,

if (i) M retires

(ii) N retires

(iii) O retires

Ans. : Old ratio of M, N and O is 4:3:2.

(i) If M retires new profit and loss sharing ratio between N and O will be 3:2.

(ii) If N retires then new profit and loss sharing ratio of M and O will be 4:2 that is 2:1.

(iii) If O retires then new profit and loss sharing ratio of M and N will be 4:3.

Here the gaining ratio will be the old ratio of partners.

Gain = New share − Old share

When M retires :

	M		N		O
Old ratio :	4	:	3	:	2
New ratio :	Retired	:	3	:	2

N's gain = $\frac{3}{5} - \frac{3}{9} = \frac{27-15}{45} = \frac{12}{45}$

O's gain = $\frac{2}{5} - \frac{2}{9} = \frac{18-10}{45} = \frac{8}{45}$

∴ Gaining ratio of N and O = 12:8 i.e. 3:2.

Similarly when N retire the gaining ratio of M and O will be 2:1 and when O retires the gaining ratio of M and N will be 4:3.

Illustration 2 : M, N and O are the partners sharing profit and loss in the ratio of $\frac{4}{9}$, $\frac{1}{3}$ and $\frac{2}{9}$. Find out the new profit and loss sharing ratio under the following cases :

if (i) M retires

(ii) N retires

(iii) O retires

Ans. : Old profit and loss sharing ratio of M, N and O is $\frac{4}{9} : \frac{1}{3} : \frac{2}{9}$. Taking LCM, the ratio = $\frac{4}{9} : \frac{3}{9} : \frac{2}{9}$ i.e. 4:3:2. The new profit and loss sharing ratio in given circumstances will be as follows (Calculation will be the same as it is in illustration 1).

(i) If M retires then new profit and loss sharing ratio of N and O = 3:2.

(ii) If N retires then new profit and loss sharing ratio of M and O = 4:2 means 2:1.

(iii) If O retires then new profit and loss sharing ratio of M and N = 4:3.

Explanation : In the above illustrations if we calculate gaining ratio of the continuing partners,

Gain = New share − Old share

Under circumstances (i) if M retires,

		M		N		O
	Old ratio	4	:	3	:	2
∴	Old share	$\frac{4}{9}$	:	$\frac{3}{9}$	:	$\frac{2}{9}$

On retirement of M, new ratio of N and O = 3:2

∴ New share of N and O = $\frac{3}{5} : \frac{2}{5}$

$\therefore$ Gain = New share − Old share

N's Gain $= \frac{3}{5} - \frac{3}{9} = \frac{27-15}{45} = \frac{12}{45}$

O's Gain $= \frac{2}{5} - \frac{2}{9} = \frac{18-10}{45} = \frac{8}{45}$

$\therefore$ Gaining ratio of N and O is $\frac{12}{45} : \frac{8}{45}$ means 12:8 or 3:2.

Thus, old ratio of N and O becomes their gaining ratio. Therefore,

Under circumstances (ii), if N retires, gaining ratio of M and O will be their old ratio 4:2 i.e. 2:1.

Under circumstances (iii), if O retires, gaining ratio of M and N will be their old ratio 4:3.

Note : Thus, by observing the above illustration we can say that when old profit and loss sharing ratio of remaining partners is continued even after the retirement of a partner, their gaining ratio also will be the same as old ratio. (Similar situation arises on the admission of a partner. Here gaining ratio is obtained while sacrificing ratio is obtained on admission. See illustration 1, chapter 4.)

(2) When gaining share of the continuing partners is given : When gaining share of continuing partners is given out of the retiring partners' share, new profit and loss sharing ratio will be calculated as under :

New share = Old share + Gain

Illustration 3 : X, Y and Z are the partners sharing profit and loss in the ratio of 3:2:1. Y retires as a partner. X gain $\frac{1}{9}$th share and Z gains $\frac{2}{9}$th share from the profit and loss share of Y. Calculate the new profit and loss sharing ratio of X and Z.

Ans. : Old ratio of X, Y and Z = 3:2:1

X gains $\frac{1}{9}$th share and Z gains $\frac{2}{9}$th share from $\frac{2}{6}$ share of Y.

$\therefore$ Gain of X $= \frac{1}{9}$ and Gain of Z $= \frac{2}{9}$. $\therefore$ Gaining ratio is 1:2.

New share = Old share + Gain

$\therefore$ X's new share $= \frac{3}{6} + \frac{1}{9} = \frac{9}{18} + \frac{2}{18} = \frac{11}{18}$

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

$\therefore$ New profit and loss sharing ratio of X and Z = 11:7

(3) When gaining ratio of the continuing partners is given : When the gaining ratio of continuing partners is given to distribute profit and loss share of the retiring partner, new profit and loss sharing ratio can be calculated as under :

First of all calculate gaining share of continuing partners by distributing retiring partners' share.

Gaining share of continuing partner = Share of the retiring partner ×
gaining share given to the respective partners

e.g. A, B and C are the partners sharing profit and losses in the ratio of 3:2:1. 'A' retires and his share is distributed between B and C in the ratio of 1:4.

A's share $= \frac{3}{6}$

A's $\frac{3}{6}$ share will be distributed by B and C in the ratio of 1:4.

So, B's gain $= \frac{3}{6} \times \frac{1}{5} = \frac{3}{30}$

C' gain $= \frac{3}{6} \times \frac{4}{5} = \frac{12}{30}$

So, gaining ratio of B and C = 1:4

Thereafter new profit and loss sharing ratio of B and C will be calculated as under :

New share = Old share + gain

$\therefore$ B's new share $= \frac{2}{6} + \frac{3}{30} = \frac{10}{30} + \frac{3}{30} = \frac{13}{30}$

C's new share $= \frac{1}{6} + \frac{12}{30} = \frac{5}{30} + \frac{12}{30} = \frac{17}{30}$

$\therefore$ New profit and loss sharing ratio of B and C = 13:17

Illustration 4 : O, B and C are the partners sharing profit and loss in the ratio of 4:5:1. O retires and his share is gained by B and C in the ratio of 1:4. Calculate new profit and loss ratio of B and C.

Ans. : Old ratio of O, B and C = 4:5:1

O's share is $\frac{4}{10}$ which is gained by B and C in the ratio of 1:4.

Gain = Retiring partners' share $\times$ Share of gaining ratio

B's Gain $= \frac{4}{10} \times \frac{1}{5} = \frac{4}{50}$

C's Gain $= \frac{4}{10} \times \frac{4}{5} = \frac{16}{50}$ So, gaining ratio of B and C = 1:4

New share = Old share + Gain

B's new share $= \frac{5}{10} + \frac{4}{50} = \frac{25}{50} + \frac{4}{50} = \frac{29}{50}$

C's new share $= \frac{1}{10} + \frac{16}{50} = \frac{5}{50} + \frac{16}{50} = \frac{21}{50}$

$\therefore$ New profit and loss sharing ratio of B and C = 29:21

Explanation : In the same illustration if B's gain $\frac{4}{50}$ and C's gain $\frac{16}{50}$ is given instead of gaining ratio 1:4, there is no need to calculate the gaining share of the continuing partners and new profit and loss sharing ratio can be calculated directly as under.

New share = Old share + Gain

$\therefore$ B's new share $= \frac{5}{10} + \frac{4}{50} = \frac{25}{50} + \frac{4}{50} = \frac{29}{50}$

C's new share $= \frac{1}{10} + \frac{16}{50} = \frac{5}{50} + \frac{16}{50} = \frac{21}{50}$

$\therefore$ New profit and loss sharing ratio of B and C = 29:21.

Note : Thus observing above, it can be seen that the gaining ratio and the gaining share are two different things. When gaining ratio is given, it is necessary to calculate first gaining share and new share can be calculated thereafter only. While new profit and loss sharing ratio can be directly calculated when the gaining share is given.

Illustration 5 : P, Q and R are the partners sharing profit and loss in the ratio of $\frac{1}{4}$, $\frac{1}{3}$ and $\frac{5}{12}$. Q retires. P and R decided to distribute Q's share in the ratio of 2:1. Calculate profit-loss sharing ratio of P and R.

Ans. : Old ratio of P, Q and R = $\frac{1}{4} : \frac{1}{3} : \frac{5}{12}$

Making LCM equal, the ratio is $\frac{3}{12} : \frac{4}{12} : \frac{5}{12}$.

Q retires and his share $\frac{4}{12}$ is gained by P and R in the ratio of 2:1.

$\therefore$ P's gain = $\frac{4}{12} \times \frac{2}{3} = \frac{8}{36}$

$\therefore$ R's gain = $\frac{4}{12} \times \frac{1}{3} = \frac{4}{36}$

Now, New share = Old share + Gain

$\therefore$ P's new share = $\frac{3}{12} + \frac{8}{36} = \frac{9}{36} + \frac{8}{36} = \frac{17}{36}$

R's new share = $\frac{5}{12} + \frac{4}{36} = \frac{15}{36} + \frac{4}{36} = \frac{19}{36}$

$\therefore$ New profit and loss sharing ratio of P and R = 17:19

Illustration 6 : R, B and I are the partners sharing profit and loss in the ratio of 5:4:3. B retires and $\frac{1}{4}$th share of B is acquired by R and remaining share is acquired by I. Find out new profit and loss sharing ratio of R and I.

Ans. : Old ratio of R, B and I = $\frac{5}{12} : \frac{4}{12} : \frac{3}{12}$

B retires and $\frac{1}{4}$ of his share $\frac{4}{12}$ is acquired by R.

$\therefore$ R's gaining share = $\frac{4}{12} \times \frac{1}{4} = \frac{4}{48} = \frac{1}{12}$

B's $\frac{1}{4}$th share is obtained by R, therefore $\frac{3}{4}$ $\left(1-\frac{1}{4}\right)$ share will be obtained by I.

$\therefore$ I's gain = $\frac{4}{12} \times \frac{3}{4} = \frac{12}{48} = \frac{3}{12}$

$\therefore$ Gain of R and I = $\frac{1}{12}$ and $\frac{3}{12}$

$\therefore$ Gaining ratio is 1:3.

New share = Old share + Gain

$\therefore$ R's new share = $\frac{5}{12} + \frac{1}{12} = \frac{6}{12}$

I's new share = $\frac{3}{12} + \frac{3}{12} = \frac{6}{12}$

$\therefore$ New profit and loss sharing ratio of R and I = $\frac{6}{12} : \frac{6}{12}$ = 1:1

Illustration 7 : M, N and C are the partners sharing profit and loss in the ratio of $\frac{1}{3}$, $\frac{1}{2}$ and $\frac{1}{6}$. C retires and his share is taken up by M. Calculate the new ratio of profit and loss sharing of M and N.

Ans. : Old sharing ratio of M, N and C = $\frac{1}{3} : \frac{1}{2} : \frac{1}{6}$

$= \frac{2}{6} : \frac{3}{6} : \frac{1}{6}$

C retires and his $\frac{1}{6}$ share is taken by M.

$\therefore$ M's Gain = $\frac{1}{6}$ and N's Gain = zero

New share = Old share + Gain

$\therefore$ M's new share = $\frac{2}{6} + \frac{1}{6} = \frac{3}{6}$

N's new share = $\frac{3}{6} + 0 = \frac{3}{6}$

$\therefore$ New profit and loss sharing ratio of M and N = 3:3 means 1:1

Illustration 8 : S, E, B and I are the partners sharing profits in the ratio of 4:3:2:1. B and I retires. B's share is acquired by S and I's share is acquired by E. Find out the new profit and loss sharing of S and E.

Ans. : Old ratio of S, E, B and I = $\frac{4}{10} : \frac{3}{10} : \frac{2}{10} : \frac{1}{10}$

B's share $\frac{2}{10}$ is acquired by S. So, S's gain = $\frac{2}{10}$

I's share $\frac{1}{10}$ is acquired by E. So, E's gain = $\frac{1}{10}$ $\therefore$ Gaining ratio is 2:1.

New share = Old share + Gain

$\therefore$ S's new share = $\frac{4}{10} + \frac{2}{10} = \frac{6}{10}$

E's new share = $\frac{3}{10} + \frac{1}{10} = \frac{4}{10}$

$\therefore$ New share of profit and loss sharing ratio = $\frac{6}{10} : \frac{4}{10}$

= 6:4 means 3:2

(4) When old and new profit and loss sharing ratios are given :

Gain = New share − Old share

Illustration 9 : U, P and A are the partners sharing profits and losses in the ratio of 4:3:2. U retires and P and A decide to share the future profit and loss in the ratio of 2:1. Calculate the gaining ratio of P and A.

Ans. : Old sharing ratio of U, P and A = 4:3:2

U retires.

New sharing ratio of P and A = 2:1

Gain = New share − Old share

$\therefore$ P's new share = $\frac{2}{3} - \frac{3}{9} = \frac{6-3}{9} = \frac{3}{9}$

A's new share = $\frac{1}{3} - \frac{2}{9} = \frac{3-2}{9} = \frac{1}{9}$

$\therefore$ Gaining ratio of P and A = 3:1

5. Accounting Treatment of Goodwill

On the death or retirement of a partner the continuing partners receive profit and loss share of the retiring or deceased partner. To compensate this gain in profit, continuing partners give the retiring partner, his share in firm's goodwill. Deceased or retiring partner is also entitled to receive his share in the firm's goodwill because the goodwill was earned by the firm when he was a partner.

As per the Accounting Standard-26, only that goodwill for which consideration is paid, can be recorded in the books of accounts. Internally generated goodwill can not be recorded in the books of accounts. At the time of the retirement of a partner also the goodwill of the firm is valued by internal assessment only, therefore no goodwill can be shown in the balance sheet of the firm as an asset. Therefore retiring or deceased partner will be given his share in the firm's goodwill by the continuing partners in their gaining ratio by making necessary adjustments only in capital accounts of the partners. Old goodwill (if any) appearing in the old balance sheet should be written off by debiting all the partners' capital accounts in their old profit sharing ratio, because the old partnership is dissolved.

Considering above, the accounting treatment of goodwill on death or retirement of a partner will be given as under :

(1) Old goodwill if any, appearing in the balance sheet of the old firm, it will be written off in old profit-loss sharing ratio among all the partners including the deceased or retiring partner. For which following journal entry is passeed.

All partners' capital/current A/c ...Dr

To goodwill A/c

(Being old goodwill written off among all the partners in their old profit-loss sharing ratio.)

(2) Retiring or deceased partner is given his share in goodwill in their gaining ratio :

Continuing partners' capital/current A/c ...Dr

To retiring/deceased partners' capital A/c

(Being goodwill given by the continuing partners to the retiring/deceased partner in their gaining ratio.)

Illustration 10 : I, C, W and A are the partners sharing profit and loss in the ratio of 4:3:2:1. I retired from 1-4-2016. Balance sheet of the firm shows goodwill at ₹ 20,000 at the time of the retirement of I. New profit-loss sharing ratio of C, W and A was decided at 2:2:1. Goodwill of the firm valued at ₹ 60,000 at the time of retirement of I. Write journal entry for goodwill.

Ans. :

Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1-4-2016	I's capital A/c	Dr		8000	
	C's capital A/c	Dr		6000	
	W's capital A/c	Dr		4000	
	A's capital A/c	Dr		2000	
	To Goodwill A/c				20,000
	[Being existing goodwill written off in old ratio.]				
1-4-2016	C's capital A/c	Dr		6000	
	W's capital A/c	Dr		12,000	
	A's capital A/c	Dr		6000	
	To I's capital A/c				24,000
	[Being I's share of goodwill adjusted to C's, W's and A's capital account in their gaining ratio.]				

Explanation (1) : Gaining ratio :

Old profit and loss sharing ratio of I, C, W and A = 4:3:2:1

New profit and loss sharing ratio of C, W and A = 2:2:1

Gain = New share − Old share

C's gain = $\frac{2}{5} - \frac{3}{10} = \frac{1}{10}$

W's gain = $\frac{2}{5} - \frac{2}{10} = \frac{2}{10}$

A's gain = $\frac{1}{5} - \frac{1}{10} = \frac{1}{10}$

∴ Gaining ratio of C, W and A = 1:2:1

(2) : I's share in goodwill = $60{,}000 \times \frac{4}{10}$ = ₹ 24,000

I's share of goodwill will be given by C, W and A in their gaining ratio, 1:2:1.

Goodwill given by C = ₹ $24{,}000 \times \frac{1}{4}$ = ₹ 6000

Goodwill given by W = ₹ $24{,}000 \times \frac{2}{4}$ = ₹ 12,000

Goodwill given by A = ₹ $24{,}000 \times \frac{1}{4}$ = ₹ 6000

Illustration 11 : A, M, T and S are the partners of the firm sharing profit and loss in the ratio of 5:4:3:2. M retires as partner. At the time of the retirement of M, his share in firm's goodwill is ₹ 35,000. After retirement of M, partner A, T and S decided to share the future profit and loss in the ratio of 2:3:2. Pass the journal entry of goodwill.

Ans. :

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	T's capital A/c Dr		26,250	
	S's capital A/c Dr		17,500	
	To A's capital A/c			8750
	To M's capital A/c			35,000
	[Being A's and M's share of goodwill debited to T's and S's capital account in their gaining ratio.]			

Calculation 1 : Gaining ratio :

Old profit and loss sharing ratio of A, M, T and S = 5:4:3:2

New profit and loss sharing ratio of A, T and S = 2:3:2

Gain = New share − Old share

A's gain = $\frac{2}{7} - \frac{5}{14} = -\frac{1}{14}$ (Sacrifice)

T's gain = $\frac{3}{7} - \frac{3}{14} = \frac{6-3}{14} = \frac{3}{14}$

S's gain = $\frac{2}{7} - \frac{2}{14} = \frac{2}{14}$

Retiring partner M's share of goodwill = ₹ 35,000

A sacrifice his $\frac{1}{14}$ share out of his profit, therefore A will receive goodwill by the amount of his sacrifice.

Goodwill receivable by A :

Goodwill receivable by M for $\frac{4}{14}$th share = ₹ 35,000

Goodwill receivable by M for $\frac{1}{14}$th share = (?)

$$₹\ 35{,}000 \times \frac{1}{14} \times \frac{14}{4} = ₹\ 8750$$

Goodwill receivable by M and A ₹ 35,000 and ₹ 8750 respectively. Total amount = ₹ 43,750.

T and S will give in their gaining ratio

T's gain = $\frac{3}{14}$

S's gain = $\frac{2}{14}$

∴ Gaining ratio of T and S = 3:2

Goodwill payable by T = ₹ 43,750 × $\frac{3}{5}$ = ₹ 26,250

Goodwill payable by S = ₹ 43,750 × $\frac{2}{5}$ = ₹ 17,500

Illustration 12 : B, R and T are the partners sharing profit and loss in ther ratio of 3:2:1. B retires. B's capital after distributing profit of revaluation account and accumulated reserves and profit-loss is ₹ 1,20,000. R and T decided to pay ₹ 1,50,000 as final settlement including goodwill to B. R and T will distribute future profit and loss in the ratio of 3:2. Write necessary journal entries for goodwill.

Ans. :

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
–	R's capital A/c Dr		16,000	
	T's capital A/c Dr		14,000	
	To B's capital A/c			30,000
	[Being goodwill given to B by his share in goodwill by R and T in their gaining ratio.]			

Explanation (1) : Total amount payable to B in final settlement of his account = ₹ 1,50,000

Less : Capital of B except goodwill = ₹ 1,20,000

Goodwill payable to B = ₹ 30,000

(2) : Gaining ratio :

Old ratio of B, R and T = 3:2:1

New ratio of R and T = 3:2

Gain = New share – Old share

$$\text{R's Gain} = \frac{3}{5} - \frac{2}{6} = \frac{18-10}{30} = \frac{8}{30}$$

$$\text{T's Gain} = \frac{2}{5} - \frac{1}{6} = \frac{12-5}{30} = \frac{7}{30}$$

∴ Gaining ratio of R and T = 8:7

6. Revaluation of Assets and Liabilities

Fixed assets are not shown at their market value in the books of the firm. Therefore there is difference between their book value and the market value. Some assets, liabilities and necessary provisions may not have been shown in the books. All profits and losses of the firm till the date of the retirement or death of a partner must be distributed among all the partners in their old profit-loss sharing ratio so that any partner may not get undue advantage or loss. Therefore, assets and liabilities are revalued at the time of the retirement or death of a partner and net increase or decrease in them is transferred to the revaluation account. Net profit or net loss of revaluation account is distributed among all the partners in their old profit-loss sharing ratio. Revaluation account is prepared in the same manner as it is prepared in the earlier chapter no. 5, in which

- Increase in assets and decrease in liabilities and provisions is credited to the revaluation account.
- Decrease in assets and increase in liabilities and provisions is debited to the revaluation account.
- Net profit or loss of revaluation account is distributed among all the partners in their old profit sharing ratio in their capital/current A/c.
- Assets and liabilities will be shown in the new balance sheet at their new values.

Memorandum Revaluation Account : Partners may also decide to show all the assets and liabilities at the same value in the new balance sheet after retirement. Memorandum revaluation account is prepared in such case. Memorandum revaluation account is prepared in the same manner as it is prepared in the previous chapter no. 5. Net increase or decrease in assets and liabilities are recorded in the first part of memorandum revaluation account in the same manner as they are shown in the revaluation account and net profit or net loss is distributed among all the partners in their old profit-loss sharing ratio. In the second part of the memorandum revaluation account all entries of the first part are reversed and therefore net profit of first part will become net loss and net loss of first part will become net profit of the second part which is distributed among the continuing partners except the retiring partners in their new profit-loss sharing ratio. All assets except cash and all liabilities will be shown in new balance sheet at their old values when memorandum revaluation account is prepared. **(Not expected in examination.)**

7. Distribution of Reserves and Accumulated Profit-Losses

Balances of reserves, undistributed profit or loss and balances of deferred revenue expenditure on the date of retirement or death are distributed among all the partners including retiring or deceased partners in their old profit-loss sharing ratio. Same journal entries in this respect as shown in previous chapter no. 5 "Admission of a Partner" are recorded at the time of the retirement or death of a partner.

8. Determination of Amount Payable to the Retiring Partner

Amount payable to the retiring partner is decided by preparing his capital account :

(1) Following amounts are credited to the retiring partners' capital account :

(i) Opening balance of capital account and credit balance of current account on the date of retirement.

(ii) Share in profit of revaluation account

(iii) Share in reserves and undistributed profit

(iv) Share in new value of goodwill

(v) Share in profit of the firm from the date of last balance sheet to the date of retirement.

(vi) Salary, commission, interest on capital, interest on loan given to the firm from the date of last balance sheet to the date of retirement. (If rate of interest on the partners' loan is not given; interest is payable on the partner's loan at the rate of 6 % p.a. till the date of retirement.)

(2) Following balances reduce capital, therefore they are debited to his capital account :

(i) Debit balance of current account

(ii) Drawings

(iii) Interest on drawings till the date of retirement

(iv) Share in undistributed loss and defferred revenue expenditure (fictitious assets)

(v) Share in old goodwill appearing in the books of the firm

(vi) Share in loss of revaluation account

(vii) Loan given by the firm to the retiring partner

The balance obtained by closing the retiring partners' capital account is the amount payable to the retiring partner. The amount payable to the retiring partner is paid in cash fully or partly and balance of the unpaid amount is transferred to his loan account, for which of the following entry is passed.

Retiring partners' capital A/c...Dr

To cash A/c

To retiring partners' loan A/c

Interest payable to retiring partners' loan account : Unpaid amount out of the total amount payable to the retiring partner is transferred to his loan account. If the rate of interest payable on such loan is not mentioned in the partnership deed, the interest is payable at the rate of 6 % per annum as per Indian Partnership Act, 1932.

Illustration 13 : The balance sheet of X, Y and Z is given below as on 31-3-2016.

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital Accounts :			Goodwill		40,000
X	2,00,000		Land-Building		1,99,000
Y	1,20,000		Machinery		1,80,000
Z	1,00,000	4,20,000	Stock		50,000
General reserve		40,000	Debtors	70,000	
Partners' loan :			− Bad debt reserve	5000	65,000
Y	20,000		Bank balance		30,000
Z	30,000	50,000	Advertisement campaign expenditure		16,000
Creditors		80,000	Profit-loss A/c		20,000
Workmen compensation reserve		10,000			
		6,00,000			**6,00,000**

X, Y and Z are the partners of the firm sharing profit and loss in the ratio of 3:3:2. Y retires on 1-4-2016 on the following terms :

(1) Land and Building is to be valued at ₹ 2,20,000.

(2) Value of machinery is to be reduced by ₹ 30,000.

(3) The provision for doubtful debts is to be kept at 10 %.

(4) Liability for workmen compensation is accepted at ₹ 15,000.

(5) Goodwill of the firm is valued at ₹ 1,60,000. Y's share in goodwill is to be adjusted through the capital acccount of X and Z.

(6) The new ratio of profit and loss sharing of X and Z is decided at 1:1. From the above information pass necessary journal entries and prepare revaluation account, partners' capital account and balance sheet after the retirement of Y.

Ans. :

Journal Entries

No.	Particulars		L.F.	Debit (₹)	Credit (₹)
1.	General reserve A/c	Dr		40,000	
	To X's capital A/c				15,000
	To Y's capital A/c				15,000
	To Z's capital A/c				10,000
	[Being balance of general reserve is distributed to all partners' capital accounts in their old profit sharing ratio.]				
2.	Revaluation A/c	Dr		5000	
	Workmen compensation reserve A/c	Dr		10,000	
	To Workmen compensation claim A/c				15,000
	[Being amount of workmen compensation reserve and access of claim over the reserve debited to the revaluation account.]				
3.	X's capital A/c	Dr		15,000	
	Y's capital A/c	Dr		15,000	
	Z's capital A/c	Dr		10,000	
	To Goodwill A/c				40,000
	[Being old goodwill written off in old profit-loss sharing ratio.]				
	Total carry forward			95,000	95,000

No.	Particulars	L.F.	Debit (₹)	Credit (₹)
	Total bring forward		95,000	95,000
4.	X's capital A/c Dr Y's capital A/c Dr Z's capital A/c Dr To Advertisement campaign expenditure A/c [Being balance of advertisement campaign expenditure is distributed to all partners' capital account in their old profit sharing ratio.]		6000 6000 4000	 16,000
5.	X's capital A/c Dr Y's capital A/c Dr Z's capital A/c Dr To Profit and loss A/c [Being debit balance of profit and loss account distributed to all partners' capital account in their old ratio.]		7500 7500 5000	 20,000
6.	Revaluation A/c Dr To Machinery A/c To Bad debt reserve A/c [Being decrease in machinery and increase in bad debt reserve transferred to revaluation A/c.]		32,000	 30,000 2000
7.	Land-Building A/c Dr To Revaluation A/c [Being increase in land and building transferred to revaluation A/c.]		21,000	 21,000
8.	X's capital A/c Dr Y's capital A/c Dr Z's capital A/c Dr To Revaluation A/c [Being loss of revaluation A/c distributed to all partners' capital accounts in their old profit sharing ratio.]		6000 6000 4000	 16,000
9.	X's capital A/c Dr Z's capital A/c Dr To Y's capital A/c [Being Y's share in goodwill adjusted through capital accounts of X and Z in their gaining ratio.]		20,000 40,000	 60,000
10.	Y's loan A/c Dr To Y's capital A/c [Being Y's loan transferred to his capital A/c.]		20,000	 20,000
	Total carry forward		2,80,000	2,80,000

No.	Particulars	L.F.	Debit (₹)	Credit (₹)
	Total bring forward		2,80,000	2,80,000
11.	Y's capital A/c Dr		1,80,500	
	To Y's loan A/c			1,80,500
	[Being amount due to Y transferred to his loan account.]			
	Total		**4,60,500**	**4,60,500**

Revaluation Account

Dr Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Machinery A/c	30,000	By Land-Building A/c		21,000
To Bad debt reserve A/c	2000	By Partners' capital A/c : loss		
(New ₹ 7000 – Old ₹ 5000)		X	6000	
To Workmen compensation claim A/c	5000	Y	6000	
		Z	4000	16,000
	37,000			**37,000**

Partners' Capital Accounts

Dr Cr

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Adv. campaign expenditure A/c	6000	6000	4000	By Balance b/d	2,00,000	1,20,000	1,00,000
To Profit-loss A/c	7500	7500	5000	By General reserve A/c	15,000	15,000	10,000
To Goodwill A/c (old)	15,000	15,000	10,000	By Y's loan A/c	–	20,000	–
To Y's capital A/c (New goodwill)	20,000	–	40,000	By X's capital A/c (New goodwill)	–	20,000	–
To Revaluation A/c	6000	6000	4000	By Z's capital A/c (New goodwill)	–	40,000	–
To Y's loan A/c	–	1,80,500	–				
To Balance c/d	1,60,500	–	47,000				
	2,15,000	**2,15,000**	**1,10,000**		**2,15,000**	**2,15,000**	**1,10,000**

Balance Sheet as on 1-4-2016 After Retirement

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital Accounts :			Land-Building		2,20,000
X	1,60,500		Machinery		1,50,000
Y	47,000	2,07,500	Stock		50,000
Partner Z's loan		30,000	Debtors	70,000	
Partner Y's loan		1,80,500	− Bad debt reserve	7000	63,000
Provision for workmen compensation claim		15,000	Bank balance		30,000
Creditors		80,000			
		5,13,000			**5,13,000**

Explanation : (1) Gaining ratio of continuing ratio

Old profit-loss sharing ratio of X, Y and Z = 3:3:2

New profit-loss sharing ratio of X and Z = 1:1

Gain = New share − Old share

X's Gain = $\frac{1}{2} - \frac{3}{8} = \frac{4-3}{8} = \frac{1}{8}$

Z's Gain = $\frac{1}{2} - \frac{2}{8} = \frac{4-2}{8} = \frac{2}{8}$

$\therefore$ Gaining ratio of X and Z = 1:2

(2) Share of goodwill of Y which is contributed by X and Z in their gaining ratio of 1:2

Y's share of goodwill = ₹ 1,60,000 × $\frac{3}{8}$ = ₹ 60,000

X and Z will give ₹ 60,000 for goodwill to Y in their gaining ratio 1:2.

Goodwill payable by X = ₹ 60,000 × $\frac{1}{3}$ = ₹ 20,000

Goodwill payable by Y = ₹ 60,000 × $\frac{2}{3}$ = ₹ 40,000

Journal Entry

No.	Particulars	L.F.	Debit (₹)	Credit (₹)
−	X's Capital A/c Dr		20,000	
	Z's Capital A/c Dr		40,000	
	To Y's Capital A/c			60,000

Note : (1) Old goodwill ₹ 40,000 is written off by debiting capital accounts of X, Y and Z in their old profit and loss sharing ratio. (2) The balance of workmen compensation reserve is ₹ 10,000. But accepted claim of workmen compensation is ₹ 15,000. Therefore, additional ₹ 5000 is debited to revaluation account as provision for workmen compensation claim.

Workmen compensation reserve A/c Dr...	10,000	
Revaluation A/c Dr...	5000	
To Workmen compensation claim A/c		15,000

(3) Amount paid to Y is not mentioned in the question, hence the total amount payable to Y is transferred to Y's loan account.

Illustration 14 : Ajay, Alpa and Amay are the partners of the firm sharing profit and loss in the ratio of 50 %, 30 % and 20 % respectively. The balance sheet of the firm as on 31-3-2017 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital Accounts :			Goodwill		50,000
Ajay	60,000		Other fixed assets		1,00,000
Alpa	50,000		Investments		60,000
Amay	80,000	1,90,000	Debtors	70,000	
Investment fluctuation fund		20,000	− Bad debt reserve	6000	64,000
Workmen compensation reserve		30,000	Stock		20,000
Creditors		40,000	Cash		16,000
Provident fund		60,000	Profit-loss A/c		30,000
		3,40,000			**3,40,000**

Ajay retires on 1-4-2017 on the following terms :

(1) The claim of workmen compensation is accepted at ₹ 20,000.

(2) The market value of investment is ₹ 45,000.

(3) Bad debts on debtors ₹ 2000 is to be written off and the provision for doubtful debts is to be kept at 5 %

(4) Fixed assets to be appreciated by 20 %.

(5) The book value of stock is over valued by ₹ 600 compared to its cost. The cost of stock is to be recorded.

(6) The value of goodwill of the firm is ₹ 1,00,000.

(7) Ajay is to be paid ₹ 10,000 in cash.

(8) The new profit and loss sharing ratio of Alpa and Amay is 1:4.

Prepare revaluation account, capital accounts of partners and the balance sheet after the retirement of Ajay.

Ans. :

Revaluation Account

Dr Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Stock A/c		600	By Bad debt reserve A/c	
To Partners' capital A/c (Profit)			(₹ 6000 − Bad debts ₹ 2000 −	
Ajay	10,000		New bad debt reserve ₹ 3400)	600
Alpa	6000		By Fixed assets A/c	20,000
Amay	4000	20,000		
		20,600		**20,600**

Partners' Capital Accounts

Dr Cr

Particulars	Ajay (₹)	Alpa (₹)	Amay(₹)	Particulars	Ajay (₹)	Alpa (₹)	Amay(₹)
To Goodwill A/c	25,000	15,000	10,000	By Balance b/d	60,000	50,000	80,000
To Profit-loss A/c	15,000	9000	6000	By Workmen comp.			
To Ajay's capital				reserve A/c	5000	3000	2000
A/c (goodwill)	–	–	50,000	By Investment			
To Alpa's capital				fluctuation			
A/c (goodwill)	–	–	10,000	fund A/c	2500	1500	1000
To Cash A/c	10,000	–	–	By Amay's capital			
To Ajay's loan A/c	77,500	–	–	A/c (goodwill)	50,000	10,000	–
To Balance c/d	–	46,500	11,000	By Revaluation A/c	10,000	6000	4000
	1,27,500	**70,500**	**87,000**		**1,27,500**	**70,500**	**87,000**

Balance Sheet as on 1-4-2017 After Retirement

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital Accounts :			Fixed assets		1,20,000
Alpa	46,500		Investments		45,000
Amay	11,000	57,500	Debtors	70,000	
Ajay's loan		77,500	– Bad debt	2000	
Workmen compensation claim		20,000		68,000	
Creditors		40,000	– Bad debt reserve (5 %)	3400	64,600
Provident fund		60,000	Stock		19,400
			Cash (₹ 16,000 - ₹ 10,000 payment to Ajay)		6000
		2,55,000			**2,55,000**

Explanation (1) : Gaining ratio :

Old profit and loss sharing ratio of Ajay, Alpa and Amay = 5:3:2

New profit and loss sharing ratio of Alpa and Amay = 1:4

Gain = New share – Old share

$$\text{Alpa's gain} = \frac{1}{5} - \frac{3}{10} = \frac{2-3}{10} = -\frac{1}{10} \text{ (Sacrifice)}$$

$$\text{Amay's gain} = \frac{4}{5} - \frac{2}{10} = \frac{8-2}{10} = \frac{6}{10}$$

(2) : Calculation of goodwill :

Ajay is retiring, so goodwill receivable by him = $\frac{5}{10} \times 1,00,000 = 50,000$

Alpa's sacrifice $\frac{1}{10}$ share, therefore amount of goodwill receivable by her = $\frac{1}{10} \times 1,00,000$ = ₹ 10,000

Amay is gaining, so goodwill contributed by him = $\frac{6}{10} \times 1,00,000$ = ₹ 60,000

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
–	Amay's capital A/c Dr		60,000	
	To Ajay's capital A/c			50,000
	To Alpa's capital A/c			10,000

Explanation : Retiring partner Ajay as well as Alpa from the continuing partners sacrifice their profit share and therefore they receive goodwill by their sacrifice while Amay gains, therefore he will give goodwill by his gain.

Note : (1) Decrease in the value of investment is ₹ 15,000 while there is investment fluctuation fund against it and it is ₹ 20,000. Therefore the balance of investment fluctuation fund after writting off the decrease in investments ₹ 15,000 is ₹ 5000, which is credited to all the partners' capital accounts in their old profit and loss sharing ratio. For this following journal entry is passed :

Investment fluctuation fund A/c Dr...	20,000	
To Investments A/c		15,000
To Ajay's capital A/c		2500
To Alpa's capital A/c		1500
To Amay's capital A/c		1000

(2) Claim of workmen compensation accepted is ₹ 20,000 against the workmen compensation reserve of ₹ 30,000 and balance of reserve ₹ 10,000 is distributed among all the partners in their old profit and loss sharing ratio.

Workmen compensation reserve A/c Dr...	30,000	
To workmen compensation claim A/c		20,000
To Ajay's capital A/c		5000
To Alpa's capital A/c		3000
To Amay's capital A/c		2000

Illustration 15 : Gopi, Krishna and Ram are the partners of a firm sharing profit-loss in the ratio of $\frac{1}{2}$, $\frac{1}{3}$ and $\frac{1}{6}$. The balance sheet of the firm as on 31-3-2017 is as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital Accounts :			Goodwill	1500
Gopi	30,000		Trademark	18,000
Krishna	20,000		Machinery	60,000
Ram	30,000	80,000	Investments (Market value ₹ 15,000)	40,000
Current Accounts :			Stock	12,000
Gopi	8,000		Debtors	26,000
Ram	10,000	18,000	Cash in bank	3000
Contingency reserve		12,000	Current account of Krishna	4500
Workmen compensation fund		9000		
Investment fluctuation fund		15,000		
Creditors		23,000		
Bad debt reserve		8000		
		1,65,000		**1,65,000**

Ram retires on 1-4-2017 on the following terms :

(1) The value of machinery is to be increased by 10 %.

(2) The value of trademark is to be reduced upto 40 %.

(3) Bad debt reserve on debtors is to be kept at 15 %.

(4) Discounted bills receivable of ₹ 1300 which is dishonoured on due date, 31-3-2017. No amount is received from the debtors.

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

(6) The new profit-loss sharing ratio of Gopi and Krishna is 2:1.

Prepare revaluation account, partners' current account, capital account and balance sheet after the retirement of Ram.

Ans. :

Dr **Revaluation Account** Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Investments A/c	10,000	By Machinery A/c		6000
To Trademark	10,800	By Bad debt reserve A/c		
To Bank A/c	1300	(₹ 8000 – ₹ 3900)		4100
(Dishonoured bills receivable)		By Partners' current A/c (Loss) :		
		Gopi	6000	
		Krishn	4000	
		Ram	2000	12,000
	22,100			**22,100**

Current Accounts of Partners

Dr Cr

Particulars	Gopi (₹)	Krishna(₹)	Ram (₹)	Particulars	Gopi (₹)	Krishna(₹)	Ram (₹)
To Balance b/d	–	4500	–	By Balance b/d	8000	–	10,000
To Goodwill	750	500	250	By Contingency reserve A/c	6000	4000	2000
To Ram's A/c (goodwill)	10,000	–	–	By Workmen compenstion fund	4500	3000	1500
To Revaluation A/c	6000	4000	2000				
To Ram's capital A/c	–	–	21,250	By Gopi's A/c (goodwill)	–	–	10,000
To Balance c/f	1750	–	–	By Balance c/f	–	2000	–
	18,500	**9000**	**23,500**		**18,500**	**9000**	**23,500**

Dr **Capital Accounts of Partners** Cr

Particulars	Gopi (₹)	Krishna(₹)	Ram (₹)	Particulars	Gopi (₹)	Krishna(₹)	Ram (₹)
To Ram's loan A/c	–	–	51,250	By Balance b/d	30,000	20,000	30,000
To Balance c/f	30,000	20,000	–	By Ram's current A/c	–	–	21,250
	30,000	**20,000**	**51,250**		**30,000**	**20,000**	**51,250**

Balance Sheet as on 1-4-2017 After Retirement

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital Accounts :			Trademark (18,000 – 10,800)		7200
Gopi	30,000		Machinery		66,000
Krishna	20,000	50,000	Debtors	26,000	
Current account of Gopi		1750	– Bad debt reserve	3900	22,100
Ram's loan A/c		51,250	Investments		15,000
Creditors		23,000	(40,000 – (15,000 + 10,000))		
			Stock		12,000
			Cash in bank (₹ 3000 – ₹ 1300)		1700
			Current account of Krishna		2000
		1,26,000			**1,26,000**

Explanation (1) : Gaining ratio :

Old profit-loss sharing ratio of Gopi, Krishna and Ram = $\frac{1}{2} : \frac{1}{3} : \frac{1}{6} = \frac{3}{6} : \frac{2}{6} : \frac{1}{6}$ = 3:2:1

New profit-loss sharing ratio of Gopi and Krishna = 2:1

Gain = New share – Old share

Gopi's gain = $\frac{2}{3} - \frac{3}{6} = \frac{4-3}{6} = \frac{1}{6}$; Krishna's gain = $\frac{1}{3} - \frac{2}{6} = \frac{2-2}{6} = 0$

(2) : Calculation of goodwill and its effect :

Goodwill receivable by Ram = $\frac{1}{6} \times 60{,}000$ = ₹ 10,000

Krishna's gain is zero therefore goodwill of Ram is given by Gopi only.

Journal Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
–	Gopi's current A/c Dr		10,000	
	To Ram's current A/c			10,000

Note : (1) Loss of investments is ₹ 25,000. While balance of investment fluctuation reserve is ₹ 15,000. Therefore additional loss of ₹ 10,000 is debited at revaluation account.

Investment fluctuation reserve A/c Dr...	15,000	
Revaluation A/c Dr...	10,000	
To Investments A/c		25,000

(2) Dishonored bills receivable :

(i) Bill receivables A/c Dr...	1300	
To Bank A/c		1300
(ii) Debtors A/c Dr...	1300	
To Bills receivables A/c		1300
(iii) Revaluation A/c Dr...	1300	
To Debtors A/c		1300

or

Revaluation A/c Dr...	1300	
To Bank A/c		1300

(3) Trademark is to be reduced upto 40 % means, from 100 % ··············· to 40 %

Complete amount means, reduce upto 60 %.

9800 ··············· 10,800 ··············· 7200

∴ 18,000's 60 % = ₹ 10,800 is to be reduced.

Illustration 16 : A, B and C are the partners of the firm sharing profit and loss in equal proportion. A retires as on 1-4-2014 after adjustment of goodwill, revaluation profit and reserves, balance of A's capital is ₹ 90,000. Amount due to A is to be paid in three equal annual instalments together with interest at 10 % p.a. Prepare A's loan account till it is finally paid. Financial year ends on 31st March.

Ans. :

A's Loan Account

Dr Cr

Date	Particulars	Amt. (₹)	Date	Particulars	Amt. (₹)
31-3-15	To Bank A/c(30,000 + 9000)	39,000	1-4-14	By A's capital A/c	90,000
"	To Balance c/f	60,000	31-3-15	By Interest A/c	9000
		99,000			**99,000**
31-3-16	To Bank A/c(30,000 + 6000)	36,000	1-4-15	By Balance b/d	60,000
"	To Balance c/f	30,000	31-3-16	By Interest A/c	6000
		66,000			**66,000**
31-3-17	To Bank A/c(30,000 + 3000)	33,000	1-4-16	By Balance b/d	30,000
			31-3-17	By Interest A/c	3000
		33,000			**33,000**

- **Adjustment of capitals (i) When the total capital of the new firm is given**

Illustration 17 : P, V and R are the partners of the firm sharing profit and loss in the ratio of 5:3:2. R retires after the adjustment of profit of revaluation, reserves and goodwill, partners capital stood ₹ 50,000, ₹ 70,000 and ₹ 80,000 respectively. The entire capital of the firm as newly constituted is fixed ₹ 1,40,000 between P and V in their new profit-loss sharing ratio 3:2. Calculate the actual cash to be paid or to be brought in by the continuing partners. Pass the necessary journal entries with working notes and also prepare capital accounts of partners.

Ans. : Explanation (1) : Total new capital of P and V = ₹ 1,40,000, in proportion of 3:2,

P's new capital $= ₹\ 1,40,000 \times \frac{3}{5}$

$= ₹\ 84,000$

V's new capital $= ₹\ 1,40,000 \times \frac{2}{5}$

$= ₹\ 56,000$

(2) Calculation of the amount of cash to be paid or to be brought in :

	P (₹)	V (₹)
New capital	84,000	56,000
Less : Actual capital after adjustment	50,000	70,000
Capital to be brought in (paid off)	34,000	(14,000)
	Capital brought	Capital paid

₹ 34,000 cash to be brought by P. ₹ 14,000 additional cash withdrawn by V as capital.

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
–	Cash A/c Dr		34,000	
	To P's capital A/c			34,000
	[Being necessary capital brought by P.]			
–	V's capital A/c Dr		14,000	
	To Cash A/c			14,000
	[Being additional capital withdrawn by V.]			

Capital Accounts of Partners

Dr Cr

Particulars	P (₹)	V (₹)	R (₹)	Particulars	P (₹)	V (₹)	R (₹)
To R's loan A/c	–	–	80,000	By Balance b/d	50,000	70,000	80,000
To Cash A/c	–	14,000	–	By Cash A/c	34,000	–	–
To Balance c/f	84,000	56,000	–				
	84,000	**70,000**	**80,000**		**84,000**	**70,000**	**80,000**

(ii) When the total capital of the new firm is not given and the amount paid to the retiring partner is to be brought in by the remaining partners :

Illustration 18 : A, B and C are the partners sharing profit and loss in the ratio of 4:3:2 respectively. 'A' retired on 1-4-2017. The capital of A, B and C after all the adjustment of the revaluation of profit, reserves and goodwill were at ₹ 30,000, ₹ 80,000 and ₹ 90,000 respectively. All partners decide that A is to be paid amount due to him in cash which is to be brought in by B and C in such a way as to make their capitals proportionate to their new profit-loss sharing ratio. All necessary adjustments are to be made in cash. Give journal entries and prepare partners' capital account.

Ans. : Explanation (1) : Capital of new firm :

Old profit-loss sharing ratio of A, B and C = 4:3:2

After retirement of A, the new ratio of B and C = 3:2

Total capital of new firm :	B's capital	=	₹ 80,000
	C's capital	=	₹ 90,000
	Additional capital (Payable to A)	=	₹ 30,000
	Total capital of new firm	=	₹ 2,00,000

B's share in total capital of new firm = $2,00,000 \times \frac{3}{5}$ = ₹ 1,20,000 (New ratio)

C's share in total capital of new firm = ₹ $2,00,000 \times \frac{2}{5}$ = ₹ 80,000 (New ratio)

(2) Calculation of cash to be paid or brought in

	B (₹)	C (₹)
Capital required after adjustments	1,20,000	80,000
Less : Actual capital after adjustment	80,000	90,000
Cash to be brought in (paid off)	40,000	(10,000)
	Capital brought	Capital returned

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
–	A's capital A/c Dr		30,000	
	To cash A/c			30,000
	[Being amount due to A paid off.]			
–	Cash A/c Dr		40,000	
	To B's capital A/c			40,000
	[Being additional capital brought by B.]			
–	C's capital A/c Dr		10,000	
	To cash A/c			10,000
	[Being additional capital of C paid off.]			

Dr **Capital Accounts of Partners** Cr

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Cash A/c	30,000	–	–	By Balance b/d	30,000	80,000	90,000
To Cash A/c	–	–	10,000	By Cash A/c	–	40,000	–
To Balance c/f	–	1,20,000	80,000				
	30,000	**1,20,000**	**90,000**		**30,000**	**1,20,000**	**90,000**

(iii) The retiring partner is to be paid in cash and an amount brought in by the remaining partner in cash in such a way that minimum cash is to be maintained :

Illustration 19 : A, B and C are the partners sharing profit and loss in the ratio of 5:3:1. 'A' retires on 1-4-2017. The capital of A, B and C after all adjustments regarding loss of revaluation account, reserves and goodwill stood at ₹ 60,000, ₹ 50,000 and ₹ 70,000 respectively. On that day balance of cash was ₹ 30,000. Partners decided as under :

(A) Amount due to A is to be paid in cash.

(B) The amount of cash to be paid or to be brought in by the remaining partners in such a way so as to make their capitals proportionate to their new profit-loss sharing ratio and minimum cash balance ₹ 20,000 is to be maintained.

Give journal entries with necessary calculation and prepare partners' capital account and cash account :

Ans. : Explanation (1) : Capital of B and C in new firm

Old profit and loss sharing ratio of A, B and C = 5:3:1

After the retirement of A, new profit and loss sharing ratio of B and C = 3:1

Share of cash to be brought in by B and C :

To make payment to A	=	₹ 60,000
Less : Available cash for payment to A	=	₹ 10,000
(₹ 30,000 – ₹ 20,000 cash to be maintained)		
Cash brought in by B and C		₹ 50,000

Total capital of new firm of B and C :

B's capital =	₹	50,000
+ C's capital =	₹	70,000
+ Additional capital =	₹	50,000
Total capital of B and C =	₹	1,70,000

(Necessary cash balance to maintain minimum cash balance and to pay dhes of 'A')

B's capital in new profit and loss sharing ratio = ₹ 1,70,000 × $\frac{3}{4}$ = ₹ 1,27,500 (As per new ratio)

C's capital in new profit and loss sharing ratio = ₹ 1,70,000 × $\frac{1}{4}$ = ₹ 42,500 (As per new ratio)

(2) : Cash to be brought in or paid off to B and C :

	B (₹)	C (₹)
New capital	1,27,500	42,500
Less : Capital after adjustment	50,000	70,000
Cash to be brought in as capital (or paid off)	77,500	(27,500)
	Capital brought	Capital paid

Journal Entries

Date/No.	Particulars	L.F.	Debit (₹)	Credit (₹)
1	A's capital A/c Dr		60,000	
	To Cash A/c			60,000
	[Being the due amount paid to A.]			
2	Cash A/c Dr		77,500	
	To B's capital A/c			77,500
	[Being required cash brought in by B as his capital.]			
3	C's capital A/c Dr		27,500	
	To Cash A/c			27,500
	[Being additional capital paid off to C.]			

Capital Accounts of Partners

Dr Cr

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Cash A/c	60,000	–	–	By Balance b/d	60,000	50,000	70,000
To Cash A/c	–	–	27,500	By Cash A/c	–	77,500	–
To Balance c/f	–	1,27,500	42,500				
	60,000	**1,27,500**	**70,000**		**60,000**	**1,27,500**	**70,000**

Cash Account

Dr Cr

Date	Particulars	Amt. (₹)	Date	Particulars	Amt. (₹)
1-4-17	To Balance b/d	30,000	1-4-17	By A's capital A/c	60,000
1-4-17	To B's capital A/c	77,500	1-4-17	By C's capital A/c	27,500
			1-4-17	By Balance c/f	20,000
		1,07,500			**1,07,500**

Illustration 20 : Karan, Fenil and Farshid are partners in a firm sharing profit and loss in the ratio of their capitals. Balance sheet of the firm as on 31-3-2017 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Creditors		16,000	Goodwill		40,000
Workmen compensation reserve		12,000	Land-Building		2,00,000
Employee's profit sharing fund		30,000	Patents		60,000
Provident fund		45,000	Machinery		80,000
Capital Accounts :			Debtors	35,000	
Karan	2,00,000		– Bad debt reserve	5000	30,000
Fenil	1,20,000		Stock		53,000
Farshid	80,000	4,00,000	Bank		40,000
		5,03,000			**5,03,000**

Farshid retires on the above date. Partners decided the following terms of retirement :

(1) The new profit-loss sharing ratio of Karan and Fenil is to be kept at 2:3.

(2) Goodwill of the firm is to be valued at ₹ 80,000.

(3) Paid ₹ 60,000 for patents during current year which is for total 4 years.

(4) Machinery is to be depreciated by 10 %.

(5) Bad debt on debtors is to be written off ₹ 3000.

(6) ₹ 20,000 is to be paid to Farshid.

(7) Market value of stock is ₹ 54,000.

(8) New firm's total capital will be equal to total capital of old firm. The entire capital of the new firm is to be kept in new profit and loss sharing ratio of Karan and Fenil. All necessary adjustments are to be made through bank.

Prepare (i) Revaluation account (ii) Capital accounts of partners (iii) Bank account (iv) Balance Sheet after retirement of Farshid.

Ans. :

Revaluation Account

Dr Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Patent A/c	15,000	By Bad debt reserve A/c		2000
To Machinery A/c	8000	(₹ 5000 – ₹ 3000 bad debt)		
		By Stock A/c		1000
		By Partners' capital A/c (Loss) :		
		Karan	10,000	
		Fenil	6000	
		Farshid	4000	20,000
	23,000			**23,000**

Capital Accounts of Partners

Dr Cr

Particulars	Karan (₹)	Fenil (₹)	Farshid (₹)	Particulars	Karan (₹)	Fenil (₹)	Farshid (₹)
To Goodwill A/c	20,000	12,000	8000	By Balance b/d	2,00,000	1,20,000	80,000
To Karan's capital A/c	–	8000	–	By Workmen compensation fund	6000	3600	2400
To Farshid's capital A/c (goodwill)	–	16,000	–	By Fenil's capital A/c (goodwill)	8000	–	16,000
To Bank A/c	–	–	20,000	By Bank A/c	–	1,58,400	–
To Revaluation A/c	10,000	6000	4000				
To Farshid's loan A/c	–	–	66,400				
To Bank A/c	24,000	–	–				
To Balance c/f	1,60,000	2,40,000	–				
	2,14,000	**2,82,000**	**98,400**		**2,14,000**	**2,82,000**	**98,400**

Bank Account

Dr Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	40,000	By Farshid A/c	20,000
To Fenil's capital A/c	1,58,400	By Karan A/c	24,000
		By balance c/f	1,54,400
	1,98,400		**1,98,400**

Balance Sheet as on 1-4-2017 After Retirement

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Creditors		16,000	Patents	45,000
Employee's profit sharing fund		30,000	Machinery	72,000
Provident fund		45,000	Debtors	32,000
Farshid's loan A/c		66,400	Stock	54,000
Capital Accounts :			Bank	1,54,400
Karan	1,60,000		Land-Building	2,00,000
Fenil	2,40,000	4,00,000		
		5,57,400		**5,57,400**

Explanation : (1) Distribution of goodwill

Old ratio of Karan, Fenil and Farshid = 5:3:2; New ratio of Karan and Fenil = 2:3

Gain = New share − Old share

Karan's gain $= \frac{2}{5} - \frac{5}{10} = -\frac{1}{10}$ (Sacrifice)

Fenil's gain $= \frac{3}{5} - \frac{3}{10} = \frac{3}{10}$

∴ Goodwill payable by Fenil = ₹ 80,000 $\times \frac{3}{10}$ = ₹ 24,000

Karan also sacrifices his share, so he will also receive goodwill which is given by Fenil.

Goodwill receivable by Karan $= \frac{1}{10} \times$ 80,000 = ₹ 8000

Goodwill receivable by Farshid $= \frac{2}{10} \times$ 80,000 = ₹ 16,000

Journal Entries : Fenil's capital A/c...Dr		24,000	
	To Karan's capital A/c		8000
	To Farshid's capital A/c		16,000

(2) Distribution of capital of new firm

New firm's total capital of ₹ 4,00,000 is same as old firm's total capital which is distributed between Karan and Fenil in their new profit and loss sharing ratio, 2:3.

∴ New capital of Karan = 4,00,000 $\times \frac{2}{5}$ = 1,60,000; New capital of Fenil = 4,00,000 $\times \frac{3}{5}$ = 2,40,000

Illustration 21 : L, M and N are partners of a firm. They share their profit and loss 40 %, 30 % and 30 % respectively. Balance sheet of the firm as on 31 March, 2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Creditors		60,000	Cash	13,000
Investment fluctuation reserve		15,000	Stock	32,000
Bad debt reserve		10,000	Debtors	80,000
Capital Accounts :			Investments	60,000
L	1,80,000		Building	2,20,000
M	1,00,000		Furniture	30,000
N	90,000	3,70,000	Advertisement campaign expenditure	20,000
		4,55,000		**4,55,000**

M retires on 1-4-2016. Terms of retirement were as under :

(1) M's share is to be distributed between L and N in the ratio of 3:2.

(2) Bad debt of ₹ 8000 is to be written off and provision for bad debt is to be kept at 10 % and provision for discount reserve is to be kept at 5 % on debtors.

(3) Market value of investment is ₹ 50,000.

(4) Market value of building is ₹ 2,50,000.

(5) Write off ₹ 1560 from furniture.

(6) The capital of L and N is to be kept in their new profit and loss sharing ratio and all necessary adjustments to be made through their current account.

(7) The value of goodwill of the firm is ₹ 50,000.

(8) N accepts creditors of ₹ 5500 to pay.

Prepare necessary accounts and prepare balance sheet after retirement also :

Ans. :

Revaluation Account

Dr | | | | Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Bad debt reserve A/c		5200	By Building A/c	30,000
(₹ 10,000 – bad debt ₹ 8000 –				
New bad debt reserve ₹ 7200)				
To Discount reserve on debtors A/c		3240		
To Furniture A/c		1560		
To Partners' capital A/c (Profit) :				
L	8000			
M	6000			
N	6000	20,000		
		30,000		**30,000**

Capital Accounts of Partners

Dr | | | | Cr

Particulars	L (₹)	M (₹)	N (₹)	Particulars	L (₹)	M (₹)	N (₹)
To Advertisement campaign exp.	8000	6000	6000	By Balance b/d	1,80,000	1,00,000	90,000
To M's capital A/c (goodwill)	9000	–	6000	By Investment fluctuation reserve A/c	2000	1500	1500
To M's loan A/c	–	1,16,500	–	By Revaluation A/c	8000	6000	6000
To Current A/c	19,880	–	–	By L's capital A/c (goodwill)	–	9000	–
To Balance c/f	1,53,120	–	1,10,880	By N's capital A/c (goodwill)	–	6000	–
				By Creditors A/c	–	–	5500
				By Current A/c	–	–	19,880
	1,90,000	**1,22,500**	**1,22,880**		**1,90,000**	**1,22,500**	**1,22,880**

Balance Sheet as on 1-4-2016 After Retirement

Liabilities		Amt. (₹)	Assets		Amt. (₹)
M's loan		1,16,500	N's current A/c		19,880
L's current A/c		19,880	Debtors	80,000	
Capital Accounts :			– Bad debt	8000	
L	1,53,120			72,000	
N	1,10,880	2,64,000	– Bad debt reserve	7200	
Creditors (₹ 60,000 – ₹ 5500)		54,500		64,800	
			– Discount reserve	3240	61,560
			Stock		32,000
			Investments		50,000
			Building		2,50,000
			Furniture		28,440
			Cash		13,000
		4,54,880			**4,54,880**

Explanation : (1) Distribution of goodwill

Old ratio of L, M and N = 4:3:3

Share of M to be distributed between L and N in ratio of 3:2.

∴ Gaining ratio of L and N = 3:2

M's share of goodwill = $50,000 \times \frac{3}{10}$ = ₹ 15,000

M's goodwill ₹ 15,000 is to be given by L and N in their gaining ratio 3:2.

Journal Entries :

L's capital A/c...Dr	9000	
N's capital A/c...Dr	6000	
To M's capital A/c...Dr		15,000

(2) New profit and loss sharing ratio of L and N

Old profit and loss sharing ratio of L, M and N = 4:3:3

Share of M $\frac{3}{10}$, which is gained by L and N in the ratio of 3:2.

∴ L's gain = $\frac{3}{10} \times \frac{3}{5} = \frac{9}{50}$

N's gain = $\frac{3}{10} \times \frac{2}{5} = \frac{6}{50}$

New share = Old share + Gain

∴ Share of L = $\frac{4}{10} + \frac{9}{50} = \frac{20+9}{50} = \frac{29}{50}$

Share of N = $\frac{3}{10} + \frac{6}{50} = \frac{15+6}{50} = \frac{21}{50}$

∴ New ratio = 29:21

(3) Adjustment of total capital of new firm according to new profit sharing ratio of L and N

Capital of L (₹ 1,90,000 – ₹ 17,000)	= ₹	1,73,000
Capital of N (₹ 1,03,000 – ₹ 12,000)	= ₹	91,000
Total capital of new firm	= ₹	2,64,000

Total capital to be distributed in the new profit-loss sharing ratio = 29:21

∴ New capital of L = 2,64,000 × $\frac{29}{50}$ = ₹ 1,53,120

New capital of N = 2,64,000 × $\frac{21}{50}$ = ₹ 1,10,880

Illustration 22 : P, Q and R are partners in a firm sharing profit and loss equally. Balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital Accounts :			Trademark		5400
P	9000		Land-Building		10,000
Q	6000		X Ltd.'s share		1500
R	6000	21,000	Stock		3000
General reserve		1200	Debtors	3000	
Investment fluctuation fund		360	– Bad debt reserve	240	2760
Creditors		4600	Cash-Bank		1500
			Profit-loss A/c		3000
		27,160			**27,160**

R retired on 31 March 2016, following terms were decided at the time of retirement :

(1) Goodwill is to be valued at 3 times the average profit of last five years.

(2) Value of land and building is ₹ 15,000.

(3) Market value of X Ltd.'s share is ₹ 1200.

(4) All debtors are good.

(5) A provision of ₹ 2000 for outstanding salary is to be made.

(6) Last four years profit of the firm was as under :

2011-12	₹ 6000
2012-13	₹ 2000
2013-14	₹ 3000
2014-15	₹ 2000

(7) Share of R will be gained by P.

(8) Amount due to R is to be paid in cash which is brought in by P and Q in such a way as to make their capitals in proportionate to their new profit and loss sharing ratio.

Prepare necessary accounts and new balance sheet.

Ans. :

Revaluation Account

Dr | Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Outstanding salary A/c		2000	By Bad debt reserve A/c	240
To Partners' capital A/c (Profit) :			By Land-building A/c	5000
P	1080			
Q	1080			
R	1080	3240		
		5240		**5240**

Capital Accounts of Partners

Dr | Cr

Particulars	P (₹)	Q (₹)	R (₹)	Particulars	P (₹)	Q (₹)	R (₹)
To Profit and loss A/c	1000	1000	1000	By Balance b/d	9000	6000	6000
To R's capital A/c	2000	–	–	By General reserve A/c	400	400	400
To Cash-bank A/c	–	–	8500	By Investment fluctuation fund	20	20	20
To Balance b/d	15,000	7500	–	By P's Capital A/c (goodwill)	–	–	2000
				By Revaluation A/c	1080	1080	1080
				By Cash-bank A/c	7500	1000	–
	18,000	**8500**	**9500**		**18,000**	**8500**	**9500**

Cash-Bank Account

Dr | Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	1500	By R's capital A/c	8500
To P's capital A/c	7500	By Balance c/d	1500
To Q's capital A/c	1000		
	10,000		**10,000**

Balance Sheet as on 1-4-2016 After Retirement

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital Accounts :			Land-Building	15,000
P	15,000		X Ltd.'s share	1200
Q	7500	22,500	Stock	3000
Creditors		4600	Debtors	3000
Outstanding salary		2000	Cash-bank	1500
			Trademark	5400
		29,100		**29,100**

Explanation : (1) Valuation and distribution of goodwill

Average profit $= \frac{6000 + 2000 + 3000 + 2000 - 3000}{5} =$ ₹ 2000

Goodwill = ₹ 2000 × 3 = ₹ 6000

R's share in goodwill = $6000 \times \frac{1}{3}$ = ₹ 2000

∴ R's share of profit is to be transferred to P.

∴ P gives goodwill to R.

Journal Entries :

P's capital A/c...Dr	2000	
To R's capital A/c...Dr		2000

(2) New profit-loss sharing ratio

Old sharing ratio of P, Q and R = 1:1:1

R retires and his share is gained by P.

New share = Old share + Gain

∴ P's share $= \frac{1}{3} + \frac{1}{3} = \frac{2}{3}$

Q's share $= \frac{1}{3} + 0 = \frac{1}{3}$

∴ New profit-loss sharing ratio = 2:1

(3) New capital of P and Q

	P's capital (₹ 10,500 – ₹ 3000)	= ₹ 7500
+	Q's capital (₹ 7500 – ₹ 1000)	= ₹ 6500
+	Paid to R (Additional capital)	= ₹ 8500
	Total capital of new firm	= ₹ 22,500

∴ New capital of P = $22,500 \times \frac{2}{3}$ = ₹ 15,000

New capital of Q = $22,500 \times \frac{1}{3}$ = ₹ 7500

Illustration 23 : E, F and G are partners sharing profit and loss in the ratio of 4:3:3. E retires on 31-3-2015. Balance sheet of the firm on that day was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital Accounts :			Goodwill	1000
E	8000		Land-building	6000
F	5000		Furniture	4000
G	2000	15,000	Stock	6600
General reserve		2000	Debtors	9000
Creditors		8000	Cash	400
Bills payable		2000		
		27,000		**27,000**

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.

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

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

$= ₹\ 70{,}000$

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

$= ₹\ 1{,}40{,}000$

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

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

$= ₹\ 17{,}500$

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			
”	To B's executor's loan A/c	1,00,000	”	By Capital's Interest A/c	1500
				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
			30-6-16	By Interest A/c ($₹ 1,00,000 \times \frac{6}{100} \times \frac{3}{12}$)	1500
31-3-17	To Balance c/f	52,250	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 $= 40,000 \times 3$

$=$ ₹ 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.

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.

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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 profit or Loss of the realisation account is allocated between the partners therefor it is type of Nominal A/C. (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 accounts 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		78,000	
	To Realisation A/c			78,000
	[Being at the time of dissolution partner taken machines for ₹ 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		20,000	
	To Cash/Bank A/c			20,000
	[Being dissolution expense paid.]			

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

(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		10,000	
	To Realisation A/c			10,000
	[Being amount received for bad debts.]			

(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	Bills payable A/c Dr		30,000	
	To Realization A/c			30,000
	[Being Bill Payable Account closed]			
2	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.]				

(14) On due payment of ₹ 35,000, unrecorded furniture of ₹ 20,000 given to Mahesh. The remaining amount is paid in cash.

Ans. : **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c Dr		15,000	
	To Cash / Bank A/c			15,000
	[Being creditor, Mahesh of ₹ 35,000 is given unrecorded furniture of ₹ 20,000 and remaining amount of ₹ 15,000 paid in cash.]			

(15) One partner accepts to pay loan of his wife ₹ 40,000.

Ans. : **Journal Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Smt.`s loan A/c Dr		40,000	
	To Realization A/c			40,000
	(Being stm. `s loan A/c closed)			
2	Realization A/c Dr		40,000	
	To Respective partners' capital A/c			40,000
	[Being partner has accepted to pay his wife's loan.]			

Note : During formation of question paper : (1) In question paper for preparation of journal entries and realization maximum 10 adjustments should be given. (2) In question paper for preparation of journal entries, necessary accounts and balance sheet maximum 5 adjustments should be given.

Illustration 2 : Tushar and Dipak are partners sharing profit-loss in the proportion of 4:2. The balance sheet of their firm as on 31-3-2016 is as follows :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital Accounts :			Land-building		67,000
Tushar	68,000		Machinery		70,000
Dipak	49,000	1,17,000	Stock		22,000
General reserve		6000	Debtors	16,000	
Creditors		80,000	– Bad debt reserve	1000	15,000
Tushar's loan		42,000	Cash balance		71,000
		2,45,000			**2,45,000**

Firm is dissolved on 31-3-2016. You are provided the following information :

(1) Realised ₹ 93,000 from land-building.

(2) Tushar took machinery at ₹ 76,000.

(3) Realised ₹ 12,000 from stock.

(4) ₹ 15,000 recovered from debtors.

(5) Dissolution expense is ₹ 10,000.

Write necessary journal entries in the books of firm and prepare necessary accounts also.

Ans. :

Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1	Realisation A/c	Dr		1,75,000	
	To Land-building A/c				67,000
	To Machinery A/c				70,000
	To Stock A/c				22,000
	To Debtors A/c				16,000
	[Being all assets accounts are closed and transferred them to realisation account.]				
2	Creditors A/c	Dr		80,000	
	Bad debt reserve A/c	Dr		1000	
	To Realisation A/c				81,000
	[Being liability account and provision account are closed and transferred them to realisation account.]				
3	General reserve A/c	Dr		6000	
	To Tushar's capital A/c				4000
	To Dipak's capital A/c				2000
	[Being genral reserve distributed to partners in their profit and loss sharing ratio.]				
4	Cash/bank A/c	Dr		1,20,000	
	To Realisation A/c				1,20,000
	[Being amount realised from assets. (Land-building 93,000 + Stock 12,000 + debtors 15,000)]				
5	Turhar's capital A/c	Dr		76,000	
	To Realisation A/c				76,000
	[Being machinery has taken by Tushar, transferred to his capital A/c.]				
6	Realisation A/c	Dr		80,000	
	To Bank/Cash A/c				80,000
	[Being ₹ 80,000 paid to creditors.]				

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
7	Realisation A/c	Dr		10,000	
	To Cash/Bank A/c				10,000
	[Being dissolution expense paid.]				
8	Tushar's loan A/c	Dr		42,000	
	To Cash/Bank A/c				42,000
	[Being Tushar's loan returned to him.]				
9	Realisation A/c	Dr		12,000	
	To Tushar's capital A/c				8000
	To Dipak's capital A/c				4000
	[Being profit of realisation account is distributed between partners in their profit and loss sharing ratio.]				
10	Tushar's capital A/c	Dr		4000	
	Dipak's capital A/c	Dr		55,000	
	To Cash/Bank A/c				59,000
	[Being final payment is made.]				

Realisation Account

Dr Cr

Particulars		Amt. (₹)	Particulars		Amt. (₹)
To Sundry Assets A/c :			**By Sundry Liabilities A/c :**		
Land-building	67,000		Creditors	80,000	
Machinery	70,000		Bad debt reserve	1000	81,000
Stock	22,000		**By Cash A/c :**		
Debtors	16,000	1,75,000	Land-building	93,000	
To Cash A/c :			Stock	12,000	
To Creditors		80,000	Debtors	15,000	1,20,000
To Dissolution expense		10,000	By Tushar's capital A/c (Machinery)		76,000
To Capital A/c (Profit) :					
Tushar	8000				
Dipak	4000	12,000			
		2,77,000			**2,77,000**

Tushar's Loan Account

Dr Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Cash A/c	42,000	By Balance b/d	42,000
	42,000		**42,000**

Partners' Capital Account

Dr Cr

Particulars	Tushar(₹)	Dipak(₹)	Particulars	Tushar(₹)	Dipak(₹)
To Realisation A/c			By Balance b/d	68,000	49,000
(machinery)	76,000	–	By General reserve	4000	2000
To Cash/Bank A/c	4000	55,000	By Realisation A/c (Profit)	8000	4000
	80,000	**55,000**		**80,000**	**55,000**

Cash / Bank Account

Dr Cr

Particulars		Amt. (₹)	Particulars		Amt. (₹)
To Balance b/d		71,000	**By Realisation A/c :**		
To Realisation A/c :			Creditors	80,000	
Land-building	93,000		Dissoluation expense	10,000	90,000
Debtors	15,000		By Tushar's loan A/c		42,000
Stock	12,000	1,20,000	**By Capital A/c :**		
			Tushar	4000	
			Dipak	55,000	59,000
		1,91,000			**1,91,000**

Second method for the preparation of realisation account :

It is a time consuming process to dispose off all the assets and the payment of liabilities after the dissolution of a partnership firm. In this method assets and liabilities are not transferred to realisation account. But accounts of assets and liabilities remain unaffected. Accounts of respective assets and liabilities are opened in this method.

Consequently (i) amount realised from the respective asset is debited to cash/bank account and credited to respective asset account. Any difference of respective asset account (profit or loss) is transferred to realisation account. (ii) amount paid for the respective liabilities is credited to cash/bank account and debited to respective liability account. Any difference of respective liability account (profit or loss) is transferred to the realisation account.

Dissolution expense is debited to the realisation account. At last realisation account is to be closed and the difference of realisation account is transferred to the partners capital accounts in their profit-loss sharing ratio.

Illustration 3 : Jhanavi, Yesha and Jvallit are partners sharing profit-loss in the proportion of 5:3:2. The firm was dissolved on 31-3-2016. On that firm has follows status :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Sundry assets	1,48,000
Jhanavi	50,000		Cash balance	2000
Yesha	30,000			
Jvallit	20,000	1,00,000		
Sundry liabilities		50,000		
		1,50,000		**1,50,000**

(1) ₹ 1,58,000 realised from sundry assets. (2) Liability is paid at 10 % discount. (3) The firm has paid government taxes of last two years of ₹ 3000. This was not recorded in the books. (4) Dissolution expense incurred ₹ 2000.

Prepare realisation account under second method

Note : This second method of realisation account is not expected theoretically and practically for exam. This is given for information purpose.

Ans. : **Realisation Account**

Dr Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Cash A/c :			By Sundry assets A/c	10,000
Government taxes		3000	By Sundry creditors A/c	5000
Dissolution expenses		2000		
To Capital A/c :				
Jhanavi	5000			
yesha	3000			
Jvallit	2000	10,000		
		15,000		**15,000**

Sundry Assets Account

Dr Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	1,48,000	By Cash A/c	1,58,000
To Realisation A/c (Profit)	10,000		
	1,58,000		**1,58,000**

Sundry Liabilities Account

Dr Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Cash A/c	45,000	By Balance b/d	50,000
To Realisation A/c	5000		
	50,000		**50,000**

Cash Account

Dr | | | Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Balance b/d	2000	By Sundry liabilities A/c		45,000
To Sundry assets A/c	1,58,000	**By Realisation A/c :**		
		Government taxes	3000	
		Dissolution expense	2000	5000
		By Capital A/c :		
		Jhanavi	55,000	
		Yesha	33,000	
		Jvallit	22,000	1,10,000
	1,60,000			**1,60,000**

Partners' Capital Accounts

Dr | | | Cr

Particulars	Jhanavi(₹)	Yesha (₹)	Jvallit(₹)	Particulars	Jhanavi(₹)	Yesha (₹)	Jvallit(₹)
To Cash A/c	55,000	33,000	22,000	By Balance b/d	50,000	30,000	20,000
				By Realisation A/c	5000	3000	2000
	55,000	**33,000**	**22,000**		**55,000**	**33,000**	**22,000**

Explanation :

(1) Sundry assets account and sundry liabilities account will not be transferred to the realisation account. Their accounts will be opened and balances will be written.

(2) Realisation of sundry assets of ₹ 1,58,000 is debited to cash account, credited to sundry assets account. The balance of sundry assets account ₹ 10,000 is profit, which credited to realisation account and debited to sundry assets account. Finally sundry assets account will be closed.

(3) ₹ 45,000 paid for sundry liabilities. This amount is debited to sundry liabilities account and credited to cash account. The balance of sundry liabilities account of ₹ 5000 is profit debited to sundry liabilities account and credited to realisation account. Finally, sundry liabilities will be closed.

(4) Government taxes and dissolution expense are debited to the realisation account and credited to the cash account, as they are not recorded in the books.

(5) The closing balance of realisation account ₹ 10,000 (profit) is debited to realisation account and credited to partners capital account in their profit-loss sharing ratio. Finally realisation account will be closed.

(6) The closing balance of partners' capital account is respectively ₹ 55,000; ₹ 33,000 and ₹ 22,000 are debited to their capital accounts and credited to cash account. At last all accounts are closed.

Illustration 4 : Vrushita, Dhyana and Sapana are partners sharing profit-loss in equal proportion. On 31-3-2017 partners have decided to dissolve the firm. Balance sheet of that day is given.

Balance Sheet as on 31-3-2017

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Goodwill	4000
Vrushita	56,000		Building	60,000
Dhyana	40,000		Furniture	20,000
Sapana	20,000	1,16,000	Debtors	40,000
Loan of Dhyana		8000	Stock	6000
Creditors		20,000	Cash balance	6000
Bills payable		16,000	Profit and loss A/c (Debit balance)	24,000
		1,60,000		**1,60,000**

Disposal of assets and liabilities is as follows :

(1) Vrushita has taken building for ₹ 52,000 and accepted to pay for bills payable.

(2) Sapana has taken stock for ₹ 8000.

(3) Realised ₹ 16,000 for furniture.

(4) ₹ 36,000 collected from debtors.

(5) Dissolution expense incurred ₹ 6000.

(6) Paid for unrecorded stationery bill of ₹ 2000.

(7) Bad debts of ₹ 4000 was written off in past, out of which ₹ 2000 received.

(8) No value is realised for goodwill.

As per partnership act, deficit of any partners' capital is to be paid immediately in cash by the partners'. Prepare necessary accounts for dissolution accounts.

Ans. :

Realisation Account

Dr Cr

Particulars		Amt. (₹)	Particulars		Amt. (₹)
To Sundry Assets :			**By Sundry Liabilities :**		
Goodwill	4000		Creditors	20,000	
Building	60,000		Bills payable	16,000	36,000
Furniture	20,000		By Vrushita's capital A/c (building)		52,000
Debtors	40,000		By Sapana's capital A/c (Stock)		8000
Stock	6000	1,30,000	**By Cash A/c :**		
To Cash A/c :			Furniture	16,000	
Stationery bill	2000		Debtors	36,000	
Dissolution expense	6000		Bad debt return	2000	54,000
Creditors	20,000	28,000	By Partners' capital A/c (Loss)		
To Vrushita's capital A/c (Bills payable)		16,000	Vrushita	8000	
			Dhyana	8000	
			Sapana	8000	24,000
		1,74,000			**1,74,000**

Dhyana's Loan Account

Dr Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Cash A/c	8000	By Balance b/d	8000
	8000		**8000**

Dr **Partners' Capital Accounts** Cr

Particulars	**Vrushita (₹)**	**Dhyana (₹)**	**Sapana (₹)**	**Particulars**	**Vrushita (₹)**	**Dhyana (₹)**	**Sapana (₹)**
To Profit-loss A/c				By Balance b/d	56,000	40,000	20,000
(Loss)	8000	8000	8000	By Realisation A/c (Bills payable)	16,000	–	–
To Realisation A/c (building)	52,000	–	–	By Cash A/c (Deficit)	–	–	4000
To Realisation A/c (Stock)	–	–	8000				
To Realisation A/c (Loss)	8000	8000	8000				
Cash A/c	4000	24,000	–				
	72,000	**40,000**	**24,000**		**72,000**	**40,000**	**24,000**

Dr **Cash Account** Cr

Particulars	**Amt. (₹)**	**Particulars**		**Amt. (₹)**
To Balance b/d	6000	**By Realisation A/c :**		
To Realisation A/c :		Stationary bill	2000	
Furniture A/c	16,000	Dissolution expense	6000	8000
Debtors A/c	36,000	**By Realisation A/c :**		
Realisation A/c (Bad debt return)	2000	Creditors A/c		20,000
To Sapana's capital A/c	4000	Dhyana's loan		8000
		By Vrushita's capital A/c		4000
		By Dhyana's capital A/c		24,000
	64,000			**64,000**

Illustration 5 : Kaushal, Krina and Krupansh are partners sharing profit-loss in the proportion of 5:3:2.

The balance sheet of firm as on 30-9-2016 was as follows :

Balance Sheet

Liabilities		**Amt. (₹)**	**Assets**		**Amt. (₹)**
Capital :			Cash		20,000
Kaushal	50,000		Krupansh's current A/c		20,000
Krina	30,000		Machinery		30,000
Krupansh	20,000	1,00,000	Investments		50,000
Current Accounts :			Goodwill		20,000
Kaushal	20,000		Stock		10,000
Krina	10,000	30,000	Debtors	1,20,000	
Profit and loss A/c		1,00,000	– Bad debt reserve	20,000	1,00,000
Investment fluctuation fund		10,000	Land-building	2,20,000	
Kaushal's loan		50,000	– Depreciation fund	20,000	2,00,000
Creditors		2,00,000	Motor car	1,30,000	
Bills payable		60,000	– Depreciation fund	30,000	1,00,000
		5,50,000			**5,50,000**

Partners have decided to dissolve the firm on the date of balance sheet :

(1) Dissolution expense was ₹ 20,000.

(2) Creditors are paid at 10 % discount.

(3) Unexpected expense paid ₹ 10,000.

(4) ₹ 20,000 received from bad debts which was written off two years back.

(5) Investments have taken by Kaushal for ₹ 60,000.

(6) Realisation of assets : Land-building ₹ 2,20,000
Motor car ₹ 80,000

(7) Stock realised at book-value, nothing is realised from goodwill.

(8) Full amount of debtors and machines is received.

Prepare necessary accounts.

Ans. :

Realisation Account

Dr | Cr

Particulars		Amt. (₹)	Particulars		Amt. (₹)
To Sundry Assets :			**By Sundry Liabilities :**		
Goodwill	20,000		Creditors	2,00,000	
Land-building	2,20,000		Bills payable	60,000	2,60,000
Motor car	1,30,000		**By Reserves and Provisions :**		
Machinery	30,000		Bad debt reserve	20,000	
Investments	50,000		Land-building	20,000	
Debtors	1,20,000		Motor car	30,000	70,000
Stock	10,000	5,80,000	**By Cash A/c :**		
To Cash A/c :			Land-building	2,20,000	
Creditors	1,80,000		Motor car	80,000	
Bills payable	60,000		Machinery	30,000	
Unexpected expense	10,000		Debtors	1,20,000	
Dissolution expense	20,000	2,70,000	Stock	10,000	4,60,000
To Partners' Current A/c (Profit)			**By Cash A/c :**		
Kaushal	10,000		Bad debt return		20,000
Krina	6000		By Kaushal's current A/c		
Krupansh	4000	20,000	(investments)		60,000
		8,70,000			**8,70,000**

Kaushal's Loan Account

Dr | Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Cash A/c	50,000	By Balance b/d	50,000
	50,000		**50,000**

Partners' Current Accounts

Dr | Cr

Particulars	Kaushal (₹)	Krina (₹)	Krupansh (₹)	Particulars	Kaushal (₹)	Krina (₹)	Krupansh (₹)
To Balance b/d	–	–	20,000	By Balance b/d	20,000	10,000	–
To Realisation A/c (investments)	60,000	–	–	By Profit and loss A/c	50,000	30,000	20,000
To Partners' capital A/c	25,000	49,000	6000	By Investment fluctuation fund	5000	3000	2000
				By Realisation A/c	10,000	6000	4000
	85,000	**49,000**	**26,000**		**85,000**	**49,000**	**26,000**

Partners' Capital Accounts

Dr | Cr

Particulars	Kaushal (₹)	Krina (₹)	Krupansh (₹)	Particulars	Kaushal (₹)	Krina (₹)	Krupansh (₹)
To Cash A/c	75,000	79,000	26,000	By Balance b/d	50,000	30,000	20,000
				By Partners' current A/c	25,000	49,000	6000
	75,000	**79,000**	**26,000**		**75,000**	**79,000**	**26,000**

Cash Account

Dr | Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Balance b/d	20,000	**By Realisation A/c :**		
To Realisation A/c :		By Creditors		1,80,000
To Land-building	2,20,000	By Bills payable		60,000
To Motor car	80,000	By Unexpected expense		10,000
To Machinery	30,000	By Dissoulation expense		20,000
To Debtors	1,20,000	By Kaushal's loan A/c		50,000
To Stock	10,000	**By Capital A/c :**		
To Bad debt return	20,000	Kaushal	75,000	
		Krina	79,000	
		Krupansh	26,000	1,80,000
	5,00,000			**5,00,000**

Explanation :

(1) Provisions for assets (like depreciation fund and bad debt reserve) are closed by crediting them in realisation account. There will not be any other accounting entry of them.

(2) Kaushal has taken over Investments for ₹ 60,000. Thus, his current account is debited and realisation account is credited.

(3) Unexpected expense, dissolution are expenses of business. These are losses. Thus, they are debited to realisation account and credited to cash account.

(4) Bad debts return is recovery of bad debts written off. It is considered as profit. Thus, recorded at credit side of realisation account.

Illustration 6 : Abhishek, Anil and Rajesh are partners sharing profit-loss in the proportion of 2:3:1. They have decided to dissolve firm on 30-6-2016. On this date balance sheet is as follow, showing status of the firm.

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Machinery		2,00,000
Abhishek	2,00,000		Patent (Untangible assets)		2,00,000
Anil	3,00,000		Leasehold property		1,50,000
Rajesh	1,00,000	6,00,000	Stock		1,90,000
General reserve		60,000	Investments		2,00,000
Smt. Anil's loan		1,00,000	Debtors	1,60,000	
Prime bank's loan		2,00,000	− Bad debt reserve	10,000	1,50,000
Provision for leasehold property		60,000	Cash balance		1,50,000
Investment fluctuation fund		30,000	Profit and loss account (loss)		60,000
Creditors		2,50,000			
		13,00,000			**13,00,000**

Disposal of assets and liabilities is as follow :

(1) Abhishek has taken investments for ₹ 1,80,000.

(2) Anil has accepted to pay loan of his wife.

(3) ₹ 1,50,000 are recovered from debtors.

(4) Manhar has paid ₹ 10,000 for bad debts which was written off earlier.

(5) Remaining assets are sold for ₹ 10,80,000.

(6) Rajesh has accepted creditors of ₹ 1,00,000 for ₹ 80,000. Remaining creditors are paid ₹ 1,00,000 and accounts are settled.

(7) ₹ 20,000 are realised for unrecorded machine.

(8) Unrecorded liability of ₹ 30,000 is paid.

(9) Dissolution expense incurred ₹ 60,000. Prepare necessary accounts.

Ans. : **Realisation Account**

Dr | Cr

Particulars		Amt. (₹)	Particulars		Amt. (₹)
To Sundry Assets A/c :			**By Sundry Liabilities A/c :**		
Machinery	2,00,000		Smt. Anil's loan	1,00,000	
Patent	2,00,000		Prime bank's loan	2,00,000	
Leasehold property	1,50,000		Creditors	2,50,000	5,50,000
Stock	1,90,000		**By Reserve's and Provisions :**		
Investments	2,00,000		Leasehold property	60,000	
Debtors	1,60,000	11,00,000	Bad debt reserve	10,000	70,000
To Anil's capital A/c			By Abhishek's capital A/c		
(Smt. Anil's loan)		1,00,000	(investments)		1,80,000
To Rajesh A/c (Creditors)		80,000	**By Cash A/c :**		
To Cash A/c :			Debtors	1,50,000	
Dissolution expense	60,000		Sundry assets	10,80,000	
Creditors	1,00,000		Unrecorded asset (machine)	20,000	
Prime bank's loan	2,00,000		Bad debt recovered	10,000	12,60,000
Unrecorded liability	30,000	3,90,000			
To Partners' Capital A/c : (Profit)					
Abhishek	1,30,000				
Anil	1,95,000				
Rajesh	65,000	3,90,000			
		20,60,000			**20,60,000**

Cash Account

Dr | Cr

Particulars		Amt. (₹)	Particulars		Amt. (₹)
To Balance b/d		1,50,000	**By Realisation A/c :**		
To Realisation A/c :			Dissolution expense	60,000	
Debtors	1,50,000		Creditors	1,00,000	
Bad debt return	10,000		Unrecorded liability	30,000	
Assets	10,80,000		Prime bank's loan	2,00,000	3,90,000
Unrecorded assets	20,000	12,60,000	**By Partners' Capital A/c :**		
			Abhishek	1,60,000	
			Anil	6,10,000	
			Rajesh	2,50,000	10,20,000
		14,10,000			**14,10,000**

Partners' Capital Accounts

Dr | Cr

Particulars	Abhishek (₹)	Anil (₹)	Rajesh (₹)	Particulars	Abhishek (₹)	Anil (₹)	Rajesh (₹)
To Profit and loss A/c (2:3:1)	20,000	30,000	10,000	By Balance b/d	2,00,000	3,00,000	1,00,000
To Realisation A/c(investments)	1,80,000	–	–	By General reserve	20,000	30,000	10,000
To Cash A/c (return)	1,60,000	6,10,000	2,50,000	By Investment fluctuation fund	10,000	15,000	5000
				By Realisation A/c (Smt Anil's loan)	–	1,00,000	–
				By Realisation A/c (Creditors)	–	–	80,000
				By Realisation A/c Profit (2:3:1)	1,30,000	1,95,000	65,000
	3,60,000	**6,40,000**	**2,60,000**		**3,60,000**	**6,40,000**	**2,60,000**

- **Illustrations of balancing figures :**

When opening balance is not provided : Sometimes at the time of dissolution, balance sheet is not provided in the question. In this situation non-available information is to be ascertained. Thus to find out non-available information, it is required to prepare balance on the date of dissolution.

In brief, if balance sheet is not available on the date of dissolution, firstly, prepare balance sheet and than solve the problem.

Illustration 7 : Dipak, Parag and Pranay are partners sharing profit-loss in the proportion of $\frac{1}{2} : \frac{1}{3} : \frac{1}{6}$. They have decided to dissolve the firm on 31-5-2016. On that day, balance sheet was not prepared. But you are provided the following information.

(1) Total assets of the firm are ₹ 20,00,000. Out of which 40 % are current assets, where cash balance of ₹ 1,00,000 included.

(2) Liabilities are $\frac{3}{4}$ of total current assets, in which employee provident fund of ₹ 2,00,000 is not included. At the time of dissolution of the firm, disposal of assets and liabilities was as follows.

(i) 120 % of fixed assets are realised while 80 % of current assets are realised.

(ii) 100 % provident fund paid.

(iii) Other liabilities are paid at 10 % discount.

(iv) Dissolution expense was ₹ 1,00,000.

The total capital of the firm is reported in the profit-loss sharing ratio of partners. Prepare necessary accounts.

Ans. : From the given details, first of all balance sheet will be prepared. The profit-loss sharing ratio for Dipak, Parag and Pranay is $\frac{1}{2} : \frac{1}{3} : \frac{1}{6}$ respectively. By using lowest common factor, the proportion of profit and loss will be 3:2:1.

Ans. :

Balance Sheet Before Dissolution of the Firm

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Current assets	7,00,000
Dipak	6,00,000		Cash balance	1,00,000
Parag	4,00,000		Fixed assets	12,00,000
Pranay	2,00,000	12,00,000		
Employees provident fund		2,00,000		
Liabilities		6,00,000		
		20,00,000		**20,00,000**

Explanation :

(1) **Total Assets ₹ 20,00,000**

↓

Current assets 40 % ₹ 8,00,000 | Fixed assets (?) 60 % ₹ 12,00,000

↓

Cash balance ₹ 1,00,000 | Other current assets (?) ₹ 7,00,000

(2) Liabilities = Current assets $\frac{3}{4}$

$\therefore$ ₹ 8,00,000 $\times \frac{3}{4}$ = ₹ 6,00,000

(3) **Profit and loss sharing ratio :**

	Dipak		**Parag**		**Pranay**
	$\frac{1}{2}$		$\frac{1}{3}$		$\frac{1}{6}$
$\therefore$	$\frac{3}{6}$		$\frac{2}{6}$		$\frac{1}{6}$
$\therefore$	3	:	2	:	1

(4)

	Total assets	₹ 20,00,000
–	Total liabilities	₹ 8,00,000
	Total capital	₹ 12,00,000

Total Capital ₹ 12,00,000

↓

Dipak	Parag	Pranay
3	2	1
₹ 6,00,000	₹ 4,00,000	₹ 2,00,000

Realisation Account

Dr | | | Cr

Particulars		Amt. (₹)	Particulars		Amt. (₹)
To Sundry Assets			**By Sundry Liabilities**		
To Fixed assets		12,00,000	By Employee provident fund		2,00,000
To Current assets		7,00,000	By Sundry liabilities		6,00,000
To Cash A/c :			**By Cash A/c :**		
To Provident fund		2,00,000	By Fixed assets		14,40,000
To Sundry liabilities		5,40,000	By Current assets		5,60,000
To Dissolution expense		1,00,000			
To Partners' Capital A/c : (Profit)					
Dipak	30,000				
Parag	20,000				
Pranay	10,000	60,000			
		28,00,000			**28,00,000**

Cash Account

Dr | | | Cr

Particulars		Amt. (₹)	Particulars		Amt. (₹)
To Balance b/d		1,00,000	**By Realisation A/c :**		
To Realisation A/c :			Provident fund	2,00,000	
Fixed assets		14,40,000	Sundry liabilities	5,40,000	7,40,000
Current assets		5,60,000	**By Realisation A/c :**		
			Dissolution expense		1,00,000
			Partners' capital A/c :		
			Dipak	6,30,000	
			Parag	4,20,000	
			Pranay	2,10,000	12,60,000
		21,00,000			**21,00,000**

Partners' Capital Accounts

Dr Cr

Particulars	Dipak(₹)	Parag(₹)	Pranay(₹)	Particulars	Dipak (₹)	Parag (₹)	Pranay(₹)
To Cash A/c	6,30,000	4,20,000	2,10,000	By Balance b/d	6,00,000	4,00,000	2,00,000
				By Realisation A/c (Profit)	30,000	20,000	10,000
	6,30,000	**4,20,000**	**2,10,000**		**6,30,000**	**4,20,000**	**2,10,000**

Illustration 8 : Arjun, Vaishali and Jalpa are partners sharing profit-loss in the ratio of 4:3:3. They have decided to dissolve the firm on 31-3-2016. On this date their information is as follow. Firm was lose making, thus it was dissolved.

(1) The capital of Arjun, Vaishali and Jalpa were ₹ 3,00,000, ₹ 2,00,000 and ₹ 1,00,000 respectively.

(2) Machinery ₹ 10,000; Debtors ₹ 2,80,000; Bills receivable ₹ 50,000; Stock ₹ 4,50,000; Sundry Creditors ₹ 3,00,000 and Bills payable ₹ 40,000.

At the time of dissolution :

(i) Vaishali has accepted collection at 20 % discount and to pay creditors.

(ii) Arjun has accepted stock at 10 % discount and to pay bills payable.

(iii) Jalpa has taken bills receivable for ₹ 35,000 and machinery at 10 % depreciated value.

Prepare necessary accounts.

Ans. : **Balance Sheet of the Firm Before Dissolution**

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Capital :		Machinery	10,000
Arjun	3,00,000	Debtors	2,80,000
Vaishali	2,00,000	Bills receivable	50,000
Jalpa	1,00,000	Stock	4,50,000
Sundry creditors	3,00,000	Profit and Loss Account (?)	1,50,000
Bills payable	40,000		
	9,40,000		**9,40,000**

Note : Total of liabilities side is ₹ 9,40,000. The difference is of ₹ 1,50,000 appeared at assets side. This is debit balance of profit and loss account. The firm is loss making.

Realisation Account

Dr | Cr

Particulars		Amt. (₹)	Particulars		Amt. (₹)
To Sundry Assets A/c :			**By Sundry Liabilities :**		
Machinery	10,000		Creditors	3,00,000	
Debtors	2,80,000		Bills payable	40,000	3,40,000
Bills receivable	50,000		**By Vaishali's Capital A/c :**		
Stock	4,50,000	7,90,000	Debtors		2,24,000
To Vaishali's Capital A/c :			**By Arjun's Capital A/c :**		
Creditors		3,00,000	Stock		4,05,000
To Arjun's capital : Bills payable		40,000	**By Jalpa's Capital A/c :**		
			Bills receivable	35,000	
			Machinery	9000	44,000
			By Partners' Captial A/c (Loss) :		
			Arjun	46,800	
			Vaishali	35,100	
			Jalpa	35,100	1,17,000
		11,30,000			**11,30,000**

Partners' Capital Accounts

Dr | Cr

Particulars	Arjun (₹)	Vaishali (₹)	Jalpa (₹)	Particulars	Arjun (₹)	Vaishali (₹)	Jalpa (₹)
To Profit & loss A/c	60,000	45,000	45,000	By Balance b/d	3,00,000	2,00,000	1,00,000
To Realisation A/c	4,05,000	2,24,000	44,000	By Realisation A/c	40,000	3,00,000	–
To Realisation A/c (Loss)	46,800	35,100	35,100	By Cash A/c (Deficit)	1,71,800	–	24,100
To Cash A/c (Payment)	–	1,95,900	–				
	5,11,800	**5,00,000**	**1,24,100**		**5,11,800**	**5,00,000**	**1,24,100**

Cash Account

Dr | Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Arjun's capital A/c	1,71,800	By Vaishali's capital A/c	1,95,900
To Jalpa's capital A/c	24,100		
	1,95,900		**1,95,900**

Illustration 9 : Total assets of firm of Amar and Akbar is ₹ 6,00,000. In which cash is included of ₹ 40,000. Net assets of the firm are ₹ 4,00,000. The proportion of capital and general reserve is 4:1. The capital of Amar is excess to capital of Akbar by ₹ 80,000. The realisation account loss is ₹ 80,000. Firm is dissolved. Prepare dissolution account.

Ans. : **Balance Sheet**

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Cash	40,000
Amar	2,00,000		Other assets	5,60,000
Akbar	1,20,000	3,20,000		
General reserve		80,000		
Liabilities		2,00,000		
		6,00,000		**6,00,000**

Net assets means surplus available after deduction of total liabilities from total assets.

∴ Net assets = Total assets − Total liabilities

Liabilities = Total assets − Net assets

= 6,00,000 − 4,00,000

= 2,00,000

Total of assets side = Total of liabilities side (Total of both sides of balance sheet are equal.)

6,00,000 = Capital + Reserve + Liabilities (2,00,000)

6,00,000 − 2,00,000 = Capital + Reserve

Capital + Reserve = 4,00,000

The proportion of capital and reserve is 4:1.

So, Reserve = $4{,}00{,}000 \times \frac{1}{5}$

= ₹ 80,000

Capital = $4{,}00{,}000 \times \frac{4}{5}$

= ₹ 3,20,000 is total capital.

Assume capital of Akbar is X.

∴ Amar's capital = X + 80,000.

Total capital = Amar's capital + Akbar's capital (X + X + 80,000)

3,20,000 = 2X + 80,000

∴ 3,20,000 − 80,000 = 2X

= 2,40,000 = 2X

∴ X = 1,20,000

Akbar's capital = 1,20,000

Amar's capital = 1,20,000 + 80,000

= 2,00,000

Realisation Account

Dr | Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Sundry assets A/c	5,60,000	By Liabilities A/c		2,00,000
To Cash A/c (Liabilities)	2,00,000	By Cash A/c (Assets realisation)		4,80,000
		By Partners' capital A/c : (Loss)		
		Amar	40,000	
		Akbar	40,000	80,000
	7,60,000			**7,60,000**

Partners' Capital Accounts

Dr | Cr

Particulars	Amar (₹)	Akbar(₹)	Particulars	Amar (₹)	Akbar(₹)
To Realisation A/c (Loss)	40,000	40,000	By Balance b/d	2,00,000	1,20,000
To Cash A/c	2,00,000	1,20,000	By General reserve	40,000	40,000
	2,40,000	**1,60,000**		**2,40,000**	**1,60,000**

Cash Account

Dr | Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	40,000	By Realisation A/c	2,00,000
To Realisation A/c	4,80,000	By Amar's capital A/c	2,00,000
		By Akbar's capital A/c	1,20,000
	5,20,000		**5,20,000**

EXERCISE

1. Select appropriate option for each question :

(1) How many methods are there for dissolution of a partnership firm ?

(a) One (b) Three

(c) Two (d) Four

(2) Which of the following account is opened to incorporate the accounting effect of assets and liabilities of the partnership firm at the time of dissolution ?

(a) Profit and loss accout (b) Profit and loss appropriation account

(c) Revaluation account (d) Realisation account

(3) What is the type of realisation account ?

(a) Balance sheet (b) personal

(c) Real (d) Nominal

(4) Which is the first payment made from the realisation of assets, at the time of the dissolution of a firm :

(a) Dissolution expense (b) Loan of partner's wife

(c) Liabilities towards third parties (d) Partners' loan

(5) Which of the following amount will be written at the credit side of realisation account, when there is balance of debtors ₹ 24,500 and bad debt reserve of ₹ 2500 in the balance sheet at the time of the dissolution of a firm ?

(a) ₹ 24,500 (b) ₹ 2500

(c) ₹ 22,000 (d) ₹ 27,000

(6) To which account credit balance of general reserve, workmen accident compensation fund, credit balance of profit and loss account is transferred at the time of the dissolution of a firm ?

(a) Realisation A/c (b) Cash A/c

(c) Profit and loss A/c (d) Partners' capital A/c

2. Give answer in one line for the following questions :

(1) Explain the meaning of dissolution of partnership.

(2) What is the dissolution of a partnership firm ?

(3) What is voluntary dissolution ?

(4) Who has to bear dissolution expense, at the time of dissolution of a firm ?

(5) How would you deal with the providend fund balance shown in the balance sheet at the time of dissolution ?

(6) How would you deal with bad debts return, which is written off earlier ?

(7) Explain the meaning of realisation account.

(8) Describe the methods of dissolution of a partnership firm.

3. Answer the following questions is brief :

(1) Which accounts are prepared to close the books at the time of dissolution of a partnership firm ? Describe it.

(2) In which circumstances court can pass the order for dissolution of a firm ? Explain.

(3) Write short note : Realisation account

(4) How would you deal with the following balances disclosed in the balance sheet at the time of the dissolution of a partnership firm ? Explain.

(i) General reserve (ii) Investment fluctuation fund

(iii) Workmen accident compensation fund (iv) Providend fund

(v) Debit balance of Profit and loss A/c (vi) Depreciation fund

(5) Describe the legal provisions pertaining to loss of dissolution of a partnership firm.

(6) Explain the normal procedure of partnership firm dissolution.

4. Answer the following questions as required :

(1) How would you undertake accounting disposal of realisation of asset and payment of liability which are not recorded in the balance sheet at the time of the dissolution of a firm ? Explain.

(2) Give accounting treatments for goodwill of different circumstances when firm goes for dissolution.

(3) Explain in brief, legal provisions of accounting settlement for partnership firm dissolution.

(4) Explain methods of dissolution without the interference of court.

(5) Total assets are ₹ 1,50,000 of firm A and B where cash of ₹ 10,000 is included. Net assets of the firm are ₹ 1,00,000. The ratio of capital and reserve is 4:1. The capital of A is more then of B by ₹ 20,000. Loss of realisation account is ₹ 20,000. Firm is dissolved. Prepare opening balance sheet and ascertain opening capital of A and B.

(6) Prepare realisation account from question no. 5.

(7) Total asets of the firm at the time of dissolution is ₹ 2,00,000. Out of which 40 % are current assets (including cash ₹ 10,000). 120 % realised for fixed assets. While 80 % are realised of current asset. Pass journal entries.

5. Pass journal entries for the following transactions of firm in the case of firm's dissolution :

(1) At the time of dissolution the book value of goodwill is ₹ 56,000. No amount is realised.

(2) In the balance sheet land-building ₹ 8,00,000 and investments of ₹ 2,00,000 are disclosed. Respectively ₹ 9,00,000 and ₹ 1,50,000 are realised from them.

(3) Total assets of the firm are ₹ 2,00,000 out of which 40 % of are current assets (including cash of ₹ 10,000). Book value is realised.

(4) Goodwill is not disclosed in the book. But ₹ 50,000 are realised during dissolution.

(5) The value of laptop is ₹ 35,000. One partner has taken it for ₹ 25,000.

(6) A partner has accepted to pay loan of his Smt. ₹ 40,000, which was given to the firm.

(7) Income tax liability is now payable ₹ 30,000 it is not recorded in the book.

(8) After making payment of all liabilities and loan of partners of firm, surplus of assets is ₹ 1,20,000. The profit and loss sharing ratio of partners A, B and C are 5:3:2.

(9) Machine is disclosed in the book at the time of dissolution for ₹ 2,00,000. Book value is realised.

(10) One partner has accepted responsibility to undertake dissolution procedure. In the return of it, decided to pay remuneration of ₹ 20,000. On account of expense firm has paid him ₹ 12,000.

(11) There are debtors of ₹ 1,20,000 and creditors of ₹ 60,000 at the time of dissolution of firm. One partner has taken debtors at 20 % than book value less and accepted to pay creditors.

(12) The profit-loss sharing ratio between partners R, B and I is 3:2:1. Undertake the disposal of the following balances : (1) General reserve ₹ 18,000 (2) Debit balance of profit and loss A/c ₹ 12,000 (3) Workmen accident compensation fund ₹ 18,000.

6. Pass journal entries for the following transactions, when realisation account is prepared :

(1) Book value of machine is ₹ 50,000, which is taken over by partner Darshan for ₹ 55,000.

(2) Partner Bimal has accepted to pay bills payable of ₹ 15,000.

(3) Past bad debts was written off ₹ 11,000 out of which ₹ 6000 are recovered.

(4) Book value of sundry assets is ₹ 2,70,000 and realised ₹ 2,27,000.

(5) Sundry creditors ₹ 60,000, paid at 25 % discount.

(6) Unrecorded tax paid ₹ 5000.

(7) Dissolution expense paid ₹ 5000.

(8) Goodwill is not disclosed in the books. But ₹ 20,000 realised from sale of it, at the time of dissolution.

7. Naresh and Shaivil are partners sharing profit-loss in the proportion of 2:3. On 30-9-2016, they have decided to dissolve the firm. On this date their capital was ₹ 6,00,000 and ₹ 4,00,000 respectively. Total liabilities of the firm are ₹ 6,00,000. The balance of accumulated debit balance of profit and loss account is ₹ 1,00,000 and cash balance is ₹ 1,00,000. 50 % are realised from asets of firm. Dissolution expense is ₹ 1,00,000.

Prepare necessary accounts to close books of the firm.

8. On 1-1-2015, Tarakbhai, Jethalal and Popatlal are commenced partnership firm to share profit-loss in the proportion of 5:3:2. Their capital on that date was ₹ 5,00,000; ₹ 3,00,000 and ₹ 2,00,000. On 31-12-2016, they have decided to dissolve the firm. On this date the status of the firm was as follows :

Building	₹ 5,00,000	Machinery	₹ 3,00,000
Debtors	₹ 4,00,000	Bills receivable	₹ 1,00,000
Stock	₹ 2,00,000	Creditors	₹ 6,00,000
Bills payable	₹ 1,00,000	Cash balance	₹ 1,00,000

Debit balance of profit and loss A/c ₹ 1,00,000

Since firm was loss making, it is dissolved and the disposal of assets and liabilities are as follows :

(1) Tarakbhai has taken over building at 20 % more than book value against which accepted to pay to the creditors.

(2) Jethalal has taken machines at 10 % less and stock at 10 % more than book value. He has accepted to pay bills payable.

(3) Popatlal has taken debtors at 20 % less than book value.

Note : (1) Bills receivable becomes valueless.

(2) Outstanding government tax paid ₹ 80,000.

(3) Dissolution expense of firm ₹ 30,000.

You are asked to prepare realisation account, partners capital accounts and cash account.

9. Binal, Dharmistha and Mahesh are partners sharing profit-loss in the ratio of 4:3:2. Firm dissolved on 30-9-2016. On that day the status of the firm was as follows :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Sundry assets	14,80,000
Bimal	4,80,000		Cash balance	20,000
Dharmistha	3,60,000			
Mahesh	2,40,000	10,80,000		
Creditors		4,20,000		
		15,00,000		**15,00,000**

(1) ₹ 13,90,000 realised from sundry assets.

(2) Creditors are paid ₹ 3,70,000 as a final settlement.

(3) Dissolution expense paid ₹ 20,000.

(4) ₹ 30,000 paid for unrecorded taxes.

Prepare necessary accounts.

10. Satyam, Shivam and Sundaram are partners sharing profit-loss in the proportion of $\frac{1}{2} : \frac{1}{3} : \frac{1}{6}$.

The balance sheet of their firm as on 31-12-2016 is as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Land-building		2,50,000
Satyam	50,000		Machinery		1,50,000
Shivam	50,000		Investments		1,00,000
Sundaram	50,000	1,50,000	Patents		5000
General reserve		60,000	Goodwill		25,000
Investment fluctuation fund		50,000	Debtors	30,000	
Provident fund		1,00,000	– Bad debt reserve	5000	25,000
Creditors		2,00,000	Stock		15,000
Current Accounts :			Cash		5000
Satyam	5000				
Shivam	10,000	15,000			
		5,75,000			**5,75,000**

The firm was dissolved on 1st January, 2017. Disposal of assets and liabilities was done as under :

(1) Sale of land and building ₹ 4,00,000; machinery ₹ 1,00,000; investments ₹ 50,000 and stock ₹ 5000.

(2) From debtors ₹ 15,000 are received write off remaining.

(3) Out of total creditors, a creditor of 10 % was given unrecorded investments of ₹ 10,000 and remaining amount paid in cash. Remaining creditors are paid at 10 % discount.

(4) Unrecorded expense of stationery ₹ 6000 paid to Arihant Stationery Mart. No amount is realised for goodwill and patent.

(5) A remuneration of ₹ 15,000 was decided to pay to Shivam to perform dissolution procedure. Actual dissolution expense ₹ 6000 paid by Shivam.

Prepare necessary accounts to close books of the firm.

●

Answers

Exercise 1

1. Select appropriate option for each question :

(1) (c) (2) (a) (3) (b) (4) (b) (5) (c) (6) (a) (7) (d)

(8) (d) (9) (a) (10) (b)

3. (1) Interest on drawings ₹ 660

(2) Amruta's commission ₹ 7176, Divisible profit ₹ 44,850, Total received amount ₹ 52,026 (₹ 7176 commission + divisible profit ₹ 44,850)

(3) Divisible profit of the firm ₹ 1,35,000 (45,000 + 30,000 + 60,000), Commission of manager ₹ 13,500

(4) New profit and loss sharing ratio 15:10:9, Divisible profit : Rajkumar ₹ 30,000, Kaushik ₹ 20,000 and Sharma ₹ 18,000

(5) New profit and loss sharing ratio 4:1:2

Divisible profit - Mehta ₹ 50,000; Pandya ₹ 12,500 and Bajpai ₹ 25,000

(6) Rectification of error :

Sanket's capital/current A/c...Dr	16,875	
To Sheela's capital/current A/c		5625
To Surbhi's capital/current A/c		11,250

(7) Rectification of error :

Rahim's capital/current A/c...Dr	600	
To Ram's capital/current A/c		600

(8) Rectification of error :

Lata's capital/current A/c...Dr	900	
To Gita's capital/current A/c		600
To Pravina's capital/current A/c		300

(9) Distribution of profit : Mukesh ₹ 35,000, Dhaval ₹ 27,500 and Vinod ₹ 27,500

(10) Opening capital ₹ 74,700, Interest on capital ₹ 4482

(11) Receivable amount : 'A' ₹ 66,750 (₹ 60,000 profit + ₹ 6750 interest on capital)
'B' ₹ 80,250 (₹ 60,000 profit + ₹ 20,250 interest on capital)

8. Commission to Chirag ₹ 2500, Divisible profit ₹ 47,500, Share of each partner in profit Harpal ₹ 23,750 and Chirag ₹ 23,750, Closing balance of capital : Harpal ₹ 86,600, Chirag ₹ 1,17,800

9. Commission to Hiral ₹ 30,000, Divisible profit ₹ 3,00,000

Share in divisible profit : Bhadresh ₹ 1,80,000, Hiral ₹ 1,20,000

Closing balance of capital accounts : Bhadresh ₹ 2,40,000, Hiral ₹ 1,80,000

Closing balance of current accounts : Bhadresh ₹ 2,39,040 (credit), Hiral ₹ 95,760 (credit)

10. To general reserve A/c ₹ 18,000, Divisible profit ₹ 48,000

Share in divisible profit : Sharda ₹ 20,000, Jamna ₹ 16,000, Ganesh ₹ 12,000

Closing balance of capital accounts : Sharda ₹ 1,04,000, Jamna ₹ 66,400, Ganesh ₹ 31,080

11. Divisible profit ₹ 4500, Share in divisible profit : Isha ₹ 1800, Saraswati ₹ 1800, Laxmi ₹ 900

Closing balance of capital accounts : Isha ₹ 40,000, Saraswati ₹ 40,000, Laxmi ₹ 32,000

Closing balance of current accounts : Isha ₹ 6400 (credit), Saraswati ₹ 5620 (credit), Laxmi ₹ 8640 (debit)

12. Commission of Prerna ₹ 9000, Divisible profit ₹ 90,000

Share in divisible profit : Prerna ₹ 40,500 (₹ 22,500 + ₹ 18,000)
Paras ₹ 31,500 (₹ 13,500 + ₹ 18,000)
Jayshree ₹ 18,000 (₹ 9000 + ₹ 9000)

Closing balance of partners' capital accounts : Prerna ₹ 1,20,000, Paras ₹ 1,20,000, Jayshree ₹ 60,000

Excess capital ₹ 70,650 of Prerna and ₹ 21,000 of Jayshree will be withdrawn by them. While Paras will introduce capital deficit ₹ 1200.

Exercise 2

1. Select appropriate option for each question :

(1) (b) (2) (d) (3) (a) (4) (b) (5) (b) (6) (b) (7) (c)
(8) (d) (9) (c) (10) (c)

5.

Bad debts return	– Credit side of profit and loss account
Depreciation of factory building	– Debit side of trading account
Labour and salary	– Debit side of trading account
Investments of provident fund	– Asset side of balance sheet
Bills payable	– Capital and liability side of balance sheet
Goods withdrawn for personal use	– Will be deducted from purchase of trading account
Goods return credit	– Credit side of trading account, will be deducted from sales
Goods return debit	– Debit side of trading account, will be deducted from purchase
Loan to firm given by partner	– Capital and liability side of balance sheet
Interest on investments of provident fund	– Capital and liability side of balance sheet will be added provident fund account

6. (1) **Closing stock of stationery :**

Treatment : (1) Debit side of profit and loss A/c deducted from stationery expenses.
(2) Balance sheet, on asset side as closing stock of stationery.

(2) **Credit sales, not recorded :**

Treatment : (1) Credit side of trading A/c, added to sales
(2) Balance sheet, on asset side, added to debtors

(3) **Commission to partner on net profit :**

Treatment : (1) Debit side of profit and loss appropriation A/c
(2) Credit side of partners' capital/current A/c

(4) **Goods taken by partner for his personal use :**

Treatment : (1) Debit side of trading A/c; deducted from purchase

(2) Debit side of partners' capital/current A/c

(5) **Interest on debit balance of partners' current A/c :**

Treatment : (1) Debit side of partners' current A/c

(2) Credit side of profit and loss appropriation A/c

(6) **Some amount is written off from lease hold asset :**

Treatment : (1) Debit side of profit and loss A/c, lease hold asset written off

(2) Deducted from lease hold asset on asset side of balance sheet

(7) **Income due but not received :**

Treatment : (1) Credit side of profit and loss A/c, added to respective income

(2) Balance sheet on asset side

(8) **Prepaid expenses :**

Treatment : (1) Debit side of trading / profit and loss A/c, deducted from expenses

(2) Balance sheet, on asset side

(9) **Provision for discount reserve on debtors :**

Treatment : (1) Debit side of profit and loss A/c

(2) Balance sheet on asset side, deducted from debtors

7. Adjustment entry :

(1)	Closing stock A/c ...Dr	32,000	
	To trading A/c		32,000
	[Being adjustment entry passed for closing stock.]		
(2)	Salary A/c ...Dr	1000	
	To outstanding salary A/c		1000
	[Being adjustment entry passed for outstanding salary.]		
(3)	Interest A/c ...Dr	1250	
	To Mahendra's loan A/c		1250
	[Being adjustment entry for interest due is passed.]		
(4)	Interest A/c ...Dr	500	
	To interest received in advance A/c		500
	[Being adjustment entry for interest received in advance is passed.]		
(5)	Depreciation A/c ...Dr	26,667	
	To building A/c		26,667
	[Being depreciation provided on building.]		

(6) Stationery stock A/c ...Dr 250

To stationery expense A/c 250

[Being adjustment entry passed for stationery stock.]

(7) (i) Bad debts A/c ...Dr 4500

To debtors A/c 4500

[Being written off bad debts.]

(ii) Profit-loss A/c ...Dr 4550

To bad debt reserve A/c 4550

[Being provision for bad debt reserve.]

(8) Drawings A/c ...Dr 5000

To purchase A/c 5000

[Being partner withdrawn goods for his personal use.]

(9) Insurance Co. A/c ...Dr 2400

Loss due to fire A/c ...Dr 600

To purchase A/c 3000

[Being 80 % amount of goods destroyed, insurance Co. admitted claim and adjustment entry for loss is passed.]

8. Net profit, transferred to profit-loss appropriation A/c ₹ 68,750

Divisible profit : Brahamma ₹ 35,850, Vishnu ₹ 23,900

Balance of partners' Capital Account : Brahamma ₹ 90,850, Vishnu ₹ 67,900

Total of balance sheet ₹ 2,44,000

9. Gross profit ₹ 94,000, Net profit ₹ 65,200

Divisible profit : Parthiv ₹ 31,228, Priya ₹ 31,228

Balance of partners' Capital Account: Parthiv ₹ 52,084, Priya ₹ 45,116

Total of balance sheet ₹ 1,47,200

10. Divisible profit : Luv ₹ 29,328, Kush ₹ 17,472

Balance of current accounts of partners' : Luv ₹ 1328, Kush ₹ 22,672

Total of balance sheet ₹ 3,89,600 or 3,97,600, (alternative effect of Bad Debt reserve)

11. Revised gross profit ₹ 57,800, Net loss ₹ 6540

Divisible loss : Salim ₹ 3270, Shabana ₹ 3270

Balance of current accounts of partners' : Salim ₹ 32,730 (Credit), Shabana ₹ 13,270 (Debit)

Total of balance sheet ₹ 4,06,530

12. Gross profit ₹ 3,18,400, Net profit ₹ 1,26,400

Divisible profit : Dhara ₹ 67,440, Mira ₹ 44,960

Balance of capital accounts of partners' : Dhara ₹ 1,87,440 and Mira ₹ 1,46,960

Total of balance sheet ₹ 3,76,000

13. Revised gross profit ₹ 25,000, Net profit ₹ 17,700
Divisible profit : Harsha ₹ 4000, Chhaya ₹ 4000
Balance of current accounts of partners' : (Dr.) Harsha ₹ 7250, (Dr.) Chhaya ₹ 700,
Total of balance sheet ₹ 72,250

14. Gross profit ₹ 41,400, Net loss and Net Divisible loss ₹ 13,000
Balance of current accounts of partners' : Dharma ₹ 31,500 (debit), Karma ₹ 3000 (credit)
Total of balance sheet ₹ 3,78,300

15. Gross profit ₹ 41,150, Net profit ₹ 30,270
Divisible profit : Harsha ₹ 15,135, Yesha ₹ 15,135
Balance of capital accounts of partners' : Harsha ₹ 45,135, Yesha ₹ 27,635
Total of balance sheet ₹ 1,11,170

16. Gross profit ₹ 1,50,400, Net Divisible profit ₹ 88,550, Net profit ₹ 96,050
Divisible profit : Neela ₹ 59,033, Sheela ₹ 29,517
Balance of capital accounts of partners' : Neela ₹ 67,917, Sheela ₹ 1,44,133
Total of balance sheet ₹ 3,41,100

17. Gross profit ₹ 71,500, Net loss ₹ 800
Divisible loss : Man ₹ 400, Mohan ₹ 400
Balance of current accounts of partners' : Man ₹ 11,400 (debit), Mohan ₹ 7100 (credit)
Total of balance sheet ₹ 5,58,200

18. Gross profit ₹ 68,040, Net profit ₹ 32,978
Balance of capital account of partners : Sant ₹ 93,267, Mahant ₹ 49,711
Divisible profit : Sant ₹ 15,467, Mahant ₹ 10,311
Total of balance sheet ₹ 2,03,044

19. Gross profit ₹ 1,55,400, Net profit ₹ 80,140
Divisible profit : Jaya ₹ 25,830, Prafulla ₹ 25,830
Balance of current accounts of partners' : Jaya ₹ 15,690, Prafulla ₹ 23,650,
Total of balance sheet ₹ 3,48,490

Exercise 3

1. **Select appropriate option for each question :**
(1) (b) (2) (d) (3) (b) (4) (b) (5) (b) (6) (a) (7) (c)

4. Average profit ₹ 1,48,000; Goodwill ₹ 5,92,000

5. Average profit ₹ 37,500; Goodwill ₹ 1,87,500

6. Weighted average profit ₹ 91,000

7. Weighted average profit ₹ 89,666.67 or 89,667; Goodwill ₹ 2,69,000

8. Capital employed ₹ 3,50,000; Expected profit ₹ 35,000
Average profit ₹ 80,000; Super profit ₹ 45,000; Goodwill ₹ 1,35,000

9. Expected profit ₹ 40,000; Weighted average profit ₹ 1,06,667; Super profit ₹ 66,667, Goodwill ₹ 1,33,333

10. Capital employed ₹ 4,30,000; Weighted average profit ₹ 72,667

Capitalised profit ₹ 7,26,670; Goodwill ₹ 2,96,670

11. Average profit ₹ 1,40,000; Super profit ₹ 32,000; Goodwill ₹ 2,66,667

12. Average profit ₹ 1,20,000; Super profit ₹ 24,000; Goodwill ₹ 48,000

Exercise 4

1. **Select appropriate option for each question :**

(1) (b) (2) (a) (3) (a) (4) (c) (5) (d) (6) (c) (7) (c)

(8) (a) (9) (c) (10) (b)

4. Sacrifice of Akbar $\frac{1}{10}$, Gain of Amar $\frac{1}{10}$

5. Sacrifice of Krupa $\frac{1}{30}$, Gain of Karishma $\frac{1}{30}$, No sacrifice or Gain to komal

6. Sacrifice of Rahul $\frac{2}{30}$, Gain of Sachin $\frac{9}{30}$, Sacrifice of Rohit $\frac{7}{30}$

7. Gain of Deepak $\frac{7}{30}$, Sacrifice of Pratik $\frac{9}{30}$, Gain of Nilesh $\frac{2}{30}$

8. Gain of Hasu $\frac{4}{60}$, Sacrifice of Raju $\frac{1}{60}$, Sacrifice of Sanju $\frac{3}{60}$

9. By formula of sacrifice : Sacrifice of Pravin $\frac{3}{9}$, Gain of Mahendra $\frac{1}{9}$, Gain of Arvind $\frac{2}{9}$

By formula of gain : Pravin $-\frac{3}{9}$, Mahendra $\frac{1}{9}$, Arvind $\frac{2}{9}$

10. Total of revaluation account ₹ 1,42,000; Profit of revaluation A/c ₹ 72,000

(Rajesh ₹ 24,000, Pushpa ₹ 36,000, Pratibha ₹ 12,000)

11. Total of revaluation A/c ₹ 28,000; Profit of revaluation A/c ₹ 7600

(Manju ₹ 3,800, Prabha ₹ 2,280, Meena ₹ 1,520)

Current A/c Balances Cr. Manju ₹ 13,800, Prabha ₹ 22,280, Meena ₹ 10,520)

Total of balance sheet ₹ 3,44,500

12.

(i)	Alay's capital A/c ...Dr	12,000	
	Sanket's capital A/c ...Dr	6000	
	To profit-loss A/c		18,000
(ii)	Reserve fund A/c ...Dr	27,000	
	Workmen accident compensation fund A/c ...Dr (₹ 21,000 − ₹ 6000)	15,000	
	To Alay's capital A/c		28,000
	To Sanket's capital A/c		14,000

13. Total revaluation A/c ₹ 57,500; Loss of revaluation A/c ₹ 39,000

(Sajan ₹ 24,375, Nirmi ₹ 14,625)

Balances of Capital A/c sajan :- ₹ 1,35,625 , Nirmi :- ₹ 83,375

Total of balance sheet ₹ 3,39,500

14. Closing balance of capital : Dattu ₹ 94,000; Daya ₹ 45,500; Tarak ₹ 47,000

Total of balance sheet ₹ 3,07,000

Exercise 5

1. **Select appropriate option for each question :**

(1) (c) (2) (a) (3) (d) (4) (b) (5) (b) (6) (b) (7) (b)

(8) (b) (9) (b) (10) (d)

3.

	New profit-loss sharing ratio	Sacrificing ratio
(1)	9 : 6 : 5	3 : 2
(2)	16 : 4 : 5	4 : 1
(3)	2 : 3 : 1	Sacrifice of A only = $\frac{1}{6}$
(4)	17 : 7 : 6	1 : 1
(5)	18 : 9 : 8 : 5	A and B, 2 : 3
(6)	11 : 7 : 2	1 : 1
(7)	8 : 13 : 14 : 5	B and C, 3 : 2
(8)	13 : 11 : 6	1 : 2
(9)	30 : 23 : 23 : 4	2 : 1 : 1
(10)	8 : 3 : 5	4 : 1
(11)	35 : 24 : 21	5 : 2
(12)	9 : 4 : 2	1 : 1
(13)	8 : 12 : 5 : 5	X and Y, 2 : 3
(14)	–	2 : 1
(15)	–	2 : 1

4. **(1)** (i)

A's capital A/c ...Dr	15,000	
B's capital A/c ...Dr	10,000	
To goodwill A/c		25,000
[Being old goodwill written off among old partners in their old profit-loss sharing ratio.]		

(ii) C gives his share in goodwill to A and B privately, therefore no entry will be passed in the books of the firm.

(2) (i)

Cash A/c ...Dr	1,05,000	
To C's capital A/c		80,000
To premium of goodwill A/c		25,000
[Being C brought his share in capital and goodwill in cash.]		

			Dr	Cr
	(ii)	Premium for goodwill A/c ...Dr	25,000	
		To A's capital A/c		12,500
		To B's capital A/c		12,500
		[Being premium for goodwill distributed to A and B in their sacrificing ratio.]		
(3)	(i)	A's capital A/c ...Dr	12,000	
		B's capital A/c ...Dr	18,000	
		To Goodwill A/c		30,000
		[Being old goodwill written off between old partners A and B in their old profit-loss sharing ratio.]		
	(ii)	Cash A/c ...Dr	1,00,000	
		To C's capital A/c		60,000
		To premium for goodwill A/c		40,000
		[Being C brought his share in goodwill and capital in cash.]		
	(iii)	Premium for goodwill A/c ...Dr	40,000	
		To A's capital A/c		20,000
		To B's capital A/c		20,000
		[Being premium for goodwill distributed to old partners A and B in their sacrificing ratio.]		
(4)	(i)	P's current A/c ...Dr	45,000	
		Q's current A/c ...Dr	30,000	
		R's current A/c ...Dr	15,000	
		To goodwill A/c		90,000
		[Being old goodwill written off among old partners in their old profit-loss sharing ratio by debiting their current accounts.]		
	(ii)	Cash A/c ...Dr	50,000	
		Furniture A/c ...Dr	40,000	
		Motorcar A/c ...Dr	60,000	
		To S's capital A/c		90,000
		To premium for goodwill A/c		60,000
		[Being S brought cash, furniture and motor car for his share in goodwill and capital.]		
	(iii)	Premium for goodwill A/c ...Dr	60,000	
		To P's current A/c		40,000
		To Q's current A/c		20,000
		[Being premium for goodwill distributed to old partners P and Q in their sacrificing ratio.]		

			Dr.	Cr.
	(iv)	P's current A/c ...Dr	20,000	
		Q's current A/c ...Dr	10,000	
		To cash A/c		30,000
		[Being 50 % of goodwill received by P and Q withdrawn in cash.]		
(5)	(i)	Cash A/c ...Dr	1,01,000	
		To Z's capital A/c		65,000
		To premium for goodwill A/c		36,000
		[Being cash brought by Z for his share in goodwill and capital.]		
	(ii)	Premium for goodwill A/c ...Dr	36,000	
		X's capital A/c ...Dr	9000	
		To Y's capital A/c		45,000
		[Being premium for goodwill and amount of X's gain in goodwill distributed to Y.]		
(6)	(i)	M's capital A/c ...Dr	20,000	
		N's capital A/c ...Dr	15,000	
		O's capital A/c ...Dr	15,000	
		To goodwill A/c		50,000
		[Being old goodwill written off among old partners in their old profit-loss sharing ratio.]		
	(ii)	Cash A/c ...Dr	40,000	
		To premium for goodwill A/c		40,000
		[Being premium for goodwill brought in cash by P.]		
	(iii)	Premium for goodwill A/c ...Dr	40,000	
		O's capital A/c ...Dr	20,000	
		To M's capital A/c		40,000
		To N's capital A/c		20,000
		[Being premium for goodwill and amount of goodwill by O's gain distributed to M and N in their sacrificing ratio.]		
(7)	(i)	Cash A/c ...Dr	64,000	
		To D's capital A/c		50,000
		To premium for goodwill A/c		14,000
		[Being cash brought ₹ 14,000 by D for his share in goodwill and capital.]		

	(ii)	Premium for goodwill A/c ...Dr	14,000	
		D's capital A/c ...Dr	6000	
		To B's capital A/c		10,000
		To C's capital A/c		10,000
		[Being premium for goodwill brought in cash and not brought in cash by D distributed to B and C in their sacrificing ratio.]		
(8)	(i)	A's current A/c ...Dr	15,000	
		B's current A/c ...Dr	10,000	
		C's current A/c ...Dr	20,000	
		To goodwill A/c		45,000
		[Being old goodwill written off among old partners in their old profit-loss sharing ratio.]		
	(ii)	Cash A/c ...Dr	1,00,000	
		To D's capital A/c		70,000
		To premium for goodwill A/c		30,000
		[Being capital and premium for goodwill brought in cash ₹ 30,000 by D.]		
	(iii)	Premium for goodwill A/c ...Dr	30,000	
		D's current A/c ...Dr	15,000	
		B's current A/c ...Dr	5000	
		To A's current A/c		15,000
		To C's current A/c		35,000
		[Being goodwill brought in cash by D and goodwill of B's gain distributed to A and C in their sacrificing ratio.]		
(9)	(i)	Cash A/c ...Dr	30,000	
		To C's capital A/c		30,000
		[Being capital brought by C in cash.]		
	(ii)	C's capital A/c ...Dr	10,000	
		To A's capital A/c		6000
		To B's capital A/c		4000
		[Being Cs share in goodwill debited to his capital account and distributed to A and B in their sacrificing ratio.]		
(10)	(i)	P's current A/c ...Dr	35,000	
		Q's current A/c ...Dr	35,000	
		To goodwill A/c		70,000
		[Being old goodwill written off among old partners in their old profit-loss sharing ratio.]		

(ii)	Cash A/c ...Dr	40,000	
	To R's capital A/c		40,000
	[Being capital brought by R in cash.]		
(iii)	R's current A/c ...Dr	20,000	
	P's current A/c ...Dr	20,000	
	To Q's current A/c		40,000
	[Being R's share in goodwill and goodwill of P's gain debited to their current accounts and credited to Q's current A/c.]		

(11) Value of goodwill ₹ 10,000, B's share in goodwill ₹ 2500

(i)	B's capital A/c ...Dr	2500	
	To G's capital A/c		1250
	To E's capital A/c		1250
	[Being B's share in goodwill debited to his account and distrbuited to G and E in their sacrificing ratio.]		
(ii)	Cash A/c ...Dr	50,000	
	To B's capital A/c		50,000
	[Being capital brought in cash by B.]		

(12) Valuation of goodwill ₹ 60,000, R and C's sacrificing ratio 1:1

(i)	General reserve A/c ...Dr	90,000	
	To R's capital A/c		45,000
	To C's capital A/c		30,000
	To B's capital A/c		15,000
	[Being balance of general reserve distributed among old partners in their old profit sharing ratio.]		
(ii)	Cash A/c ...Dr	1,80,000	
	To P's capital A/c		1,80,000
	[Being capital brought by P in cash.]		
(iii)	P's capital A/c ...Dr	20,000	
	To R's capital A/c		10,000
	To C's capital A/c		10,000
	[Being P's share in goodwill distributed to R and C in their sacrificing ratio.]		

(13) New profit-loss sharing ratio of X, Y and Z, 8 : 12 : 5

(i)	X's capital A/c ...Dr	6000	
	Y's capital A/c ...Dr	9000	
	To Goodwill A/c		15,000
	[Being old goodwill written off between old partners in their old profit-loss sharing ratio.]		

	(ii)	Cash A/c ...Dr	53,200	
		To Z's capital A/c		50,000
		To premium for goodwill A/c		3200
		[Being capital and ₹ 3200 for goodwill brought by Z in cash.]		
	(iii)	Premium for goodwill A/c ...Dr	3200	
		Z's capital A/c ...Dr	800	
		To X's capital A/c		1600
		To Y's capital A/c		2400
		[Being goodwill brought in cash and not brought by Z distributed to X and Y in their sacrificing ratio.]		
	(iv)	X's capital A/c ...Dr	640	
		Y's capital A/c ...Dr	960	
		To cash A/c		1600
		[Being goodwill withdrawn in cash]		
	(v)	Profit-loss A/c ...Dr	60,000	
		To X's capital A/c		19,200
		To Y's capital A/c		28,800
		To Z's capital A/c		12,000
		[Being profit after Z's admission distributed among all three partners in their new profit-loss sharing ratio.]		
5.	(i)	General reserve A/c ...Dr	7000	
		Workmen compensation reserve A/c ...Dr	6000	
		Investment fluctuation reserve A/c ...Dr	1900	
		Contingency reserve A/c ...Dr	5100	
		To R's capital A/c		8000
		To J's capital A/c		12,000
		[Being balances of reserves distributed to old partners in their old profit-loss sharing ratio.]		
	(ii)	R's capital A/c ...Dr	2000	
		J's capital A/c ...Dr	3000	
		To profit-loss A/c		1600
		To advertisement campaign expenses A/c		3400
		[Being balances of loss and fictitious assets written off between old partners in their old profit-loss sharing ratio.]		
6.	(1) (i)	If market value of investment is ₹ 19,500		
		Investment fluctuation reserve A/c ...Dr	2500	
		To investment A/c		500
		To K's capital A/c		1600
		To R's capital A/c		400
	(ii)	If market value of investment is ₹ 22,000,		
		(a) Investment A/c ...Dr	2000	
		To Revaluation A/c		2000

(b)	Investment fluctuation reserve A/c ...Dr	2500	
	To K's capital A/c		2000
	To R's capital A/c		500
(2) (i)	If claim of workmen compensation is accepted at ₹ 6000,		
	Workmen compensation reserve A/c ...Dr	7000	
	To provision for workmen compensation A/c		6000
	To K's capital A/c		800
	To R's capital A/c		200
(ii)	If claim of workmen compensation accepted at ₹ 8500,		
	Workmen compensation reserve A/c ...Dr	7000	
	Revaluation A/c ...Dr	1500	
	To provision for workmen compensation A/c		8500
(3) (i)	If ₹ 4000 bad debt reserve on debtors is required,		
	Revaluation A/c ...Dr	1000	
	To Bad debt reserve A/c		1000
(ii)	If ₹ 2500 bad debt reserve on debtors is required,		
	Bad debt reserve A/c ...Dr	500	
	To Revaluation A/c		500
(iii)	If 10 % bad debt reserve is required after writting off ₹ 2000,		
(a)	Bad debt A/c ...Dr	2000	
	To debtors A/c		2000
(b)	Bad debt reserve A/c ...Dr	2000	
	To Bad debt A/c		2000
(c)	Revaluation A/c ...Dr	5800	
	To Bad debt reserve A/c		5800
7. (i)	Revaluation A/c ...Dr	58,000	
	To patent A/c		30,000
	To machinery A/c		24,000
	To stock A/c		4000
(ii)	Land-building A/c ...Dr	36,000	
	Creditors A/c ...Dr	6000	
	To Revaluation A/c		42,000
(iii)	A's capital A/c ...Dr	8000	
	B's capital A/c ...Dr	8000	
	To Revaluation A/c		16,000

Loss of revaluation A/c ₹ 16,000.

8. Profit of revaluation A/c ₹ 7500; Sacrificing ratio of Abha and Bina 2 : 1.

Closing capital : Abha ₹ 1,01,000; Bina ₹ 70,500; Rushil ₹ 1,00,000

Closing cash balance ₹ 1,26,000; Total of balance sheet ₹ 3,12,600

9. Profit of revaluation A/c ₹ 17,200

Sacrificing ratio of Aastha and Aahna 1 : 2.

Entry for goodwill :

(i) Cash A/c ...Dr	7200	
To premium for goodwill A/c		7200
(ii) Premium for goodwill A/c ...Dr	7200	
To Aastha's capital A/c		2400
To Aahna's capital A/c		4800
(iii) Sonu's capital A/c ...Dr	4800	
To Aastha's capital A/c		1600
To Aahna's capital A/c		3200

Closing capital : Aastha ₹ 82,000; Aahna ₹ 39,200; Sonu ₹ 75,200

Closing cash balance ₹ 1,03,200; Total of balance sheet ₹ 2,32,000 or 2,24,000 (alternative effect of bad debt reserve)

10. Loss of revaluation A/c ₹ 15,000; Sacrificing ratio of Vidit and Vishal = 2 : 1

Banti's share in goodwill = ₹ 12,000

Closing capital : Vidit ₹ 49,600; Vishal ₹ 58,400; Banti ₹ 72,000

Closing bank balance ₹ 86,400; Total of balance sheet ₹ 2,37,000

11. Profit of revaluation A/c ₹ 38,000

Closing capital : Prerna ₹ 69,400; Piyush ₹ 2,08,200; Poyani ₹ 62,500

Closing cash and bank balance ₹ 80,350; Total of balance sheet ₹ 3,72,060

12. Profit of revaluation A/c ₹ 11,000; Sacrificing ratio of P and Q 1 : 2

Entry for goodwill :

(i) R's capital A/c ...Dr	9000	
To P's capital A/c		3000
To Q's capital A/c		6000

Closing balance of capital A/c : P : ₹ 67,600; Q : ₹ 52,400; R : ₹ 51,000

Closing cash balance ₹ 64,000; Total of balance sheet ₹ 2,10,500

13. Profit of revaluation A/c ₹ 10,750

Balance of capital A/c : A : ₹ 75,000; B : ₹ 25,000; C : ₹ 20,000

Balance of current A/c : A : ₹ 18,300(cr.); B : ₹ 3950(cr.)

Closing cash and bank balance ₹ 25,050; Total of balance sheet ₹ 1,48,250

14. Profit or loss of revaluation A/c : Zero

Balance of capital A/c : Rutvi : ₹ 1,20,000; Princy : ₹ 90,000; Manan : ₹ 1,35,000

Balance of current A/c : Rutvi : ₹ 2,07,500(cr.); Princy : ₹ 2,29,500(cr.); Manan : ₹ 15,000 (Debit)

Closing bank balance : ₹ 1,05,000; Total of balance sheet ₹ 9,15,000

15. Closing capital : Riya : ₹ 1,20,000; Gauri : ₹ 2,40,000; Sanju : ₹ 90,000

New profit-loss sharing ratio = 4 : 8 : 3

Riya will withdraw additional capital ₹ 30,000, Gauri will bring required capital ₹ 40,000.

16. Loss of revaluation A/c : ₹ 6300

Partners' capital : Parshvi : ₹ 60,000; Aneri : ₹ 80,000; Hency : ₹ 40,000

Sacrifice of Parshvi = $\frac{9}{27}$, Gain of Aneri = $\frac{3}{27}$

Hency does not bring goodwill in cash. Journal entry for goodwill.

Aneri's capital A/c ...Dr	10,000	
Hency's current A/c ...Dr	20,000	
To Parshvi's capital A/c		30,000

Old goodwill debited to Parshvi and Aneri in their old profit-loss sharing ratio.

Balance of current A/c : Parshvi ₹ 47,000 (Credit); Aneri ₹ 1800 (Debit) Hency ₹ 20,000 (Debit)

Debit balance of current accounts will be shown on assets side of balance sheet and credit balance on liabilities side.

Hency does not bring her share of goodwill in cash which will be debited to her current account and threfore her capital will not reduce and capital of Parshvi and Aneri will be decided on the basis of Henci's capital ₹ 40,000 in new profit-loss sharing ratio. Total of balance sheet ₹ 3,20,800

17. Loss of revaluation A/c ₹ 4800

Balance of capital A/c : Esha : ₹ 51,000; Ankita : ₹ 79,500; Arpita : ₹ 43,500

Sacrificing ratio of Ankita and Esha = 1 : 2

Closing cash and bank balance ₹ 92,400; Total of balance sheet ₹ 2,42,000

18. Profit of revaluation A/c ₹ 35,000

Closing capital : Jaini : ₹ 93,800; Anya : ₹ 93,800; Priyanka : ₹ 37,520

Premium for goodwill will be credited to Jaini's capital account only. Jaini will withdraw ₹ 18,760. Anya will bring ₹ 18,760. Total of balance sheet ₹ 3,01,420

19. Profit of revaluation A/c ₹ 12,000; Sacrificing ratio of Tapu and Sonu = 2:3;

Closing capital : Tapu : ₹ 2,08,000; Sonu : ₹ 3,13,000; Goli's capital ₹ 5,21,000; Cash : ₹ 5,76,000

Total of balance sheet ₹ 10,92,000; New profit-loss sharing ratio = 4 : 9 : 5

20. Profit of revaluation A/c ₹ 3000; Sacrificing ratio of Meet and Neel = 3:1

Closing balance of capital : Meet : ₹ 1,12,500; Jeet : ₹ 1,00,000; Neel : ₹ 37,500; Heer : ₹ 50,000

Capital withdrawn by Meet ₹ 8500 and Neel ₹ 19,500. Capital brought by Jeet ₹ 16,000.

Closing cash balance ₹ 74,000; Total of balance sheet ₹ 4,16,000

Exercise 6

1. Select appropriate option for each question :

(1) (a) (2) (b) (3) (c) (4) (b) (5) (c) (6) (c) (7) (c)
(8) (d) (9) (d) (10) (a)

3.

	New profit-loss sharing ratio	Gaining ratio
(1)	5 : 3	5 : 3
(2) (a)	2 : 1	2 : 1
(b)	3 : 1	3 : 1
(c)	3 : 2	3 : 2
(3)	11 : 9	3 : 1
(4)	13 : 17	1 : 4
(5)	1 : 1	2 : 1
(6)	3 : 7	C's gain $\frac{5}{10}$
(7)	8 : 7 : 5	R and S, 1 : 1
(8)	M and O, 7 : 5	M and O, 2 : 3
(9)	17 : 8	A and C, 3 : 2
(10)	B and C, 2 : 3	1 : 4
(11)	7 : 5	1 : 1
(12)	7 : 3	3 : 2
(13)	A, B and D , 8 : 9 : 3	B and D, 3 : 1

4.

(1)	Akruti's capital A/c ...Dr	3750	
	Prakruti's capital A/c ...Dr	2250	
	To Sanskruti's capital A/c		6000
(2) (i)	X's capital A/c ...Dr	14,000	
	Y's capital A/c ...Dr	14,000	
	Z's capital A/c ...Dr	14,000	
	To Goodwill A/c		42,000
(ii)	Y's capital A/c ...Dr	20,000	
	Z's capital A/c ...Dr	20,000	
	To X's capital A/c		40,000
(3) (i)	L's capital A/c ...Dr	25,000	
	M's capital A/c ...Dr	20,000	
	N's capital A/c ...Dr	15,000	
	O's capital A/c ...Dr	15,000	
	To Goodwill A/c		75,000

	(ii) M's capital A/c ...Dr	30,000	
	To L's capital A/c		30,000
(4)	A's capital A/c ...Dr	26,667	
	To B's capital A/c		20,000
	To C's capital A/c		6667
(5)	(i) B's capital A/c ...Dr	8000	
	R's capital A/c ...Dr	6000	
	T's capital A/c ...Dr	2000	
	S's capital A/c ...Dr	4000	
	To Goodwill A/c		20,000
	(ii) T's capital A/c ...Dr	18,000	
	S's capital A/c ...Dr	12,000	
	To B's capital A/c		24,000
	To R's capital A/c		6000
(6)	M's capital A/c ...Dr	20,000	
	L's capital A/c ...Dr	40,000	
	To U's capital A/c		60,000

5. Profit of revaluation A/c ₹ 2000; Naval's loan ₹ 9500

Closing balance of capital A/c : Dhaval : ₹ 25,000; Kamal : ₹ 15,000

Total of balance sheet ₹ 62,000

6. Profit of revaluation A/c ₹ 18,000; Rohit's loan ₹ 2,46,000

Closing balance of capital A/c : Mohit : ₹ 48,000; Virat : ₹ 68,000

Bank balance : ₹ 43,000; Total of balance sheet ₹ 4,37,000

7. Loss of revaluation A/c ₹ 6000; Siddhi's loan ₹ 31,800

Balance of capital A/c : Vijay : ₹ 93,000; Laxmi : ₹ 47,200

Cash balance : ₹ 24,000; Total of balance sheet ₹ 2,77,000

Journal entry for goodwill :

Laxmi's capital A/c ...Dr	18,000	
To Vijay's capital A/c		6000
To Siddhi's capital A/c		12,000

8. Profit of revaluation A/c ₹ 500

Balance of fixed capital account : Jaya ₹ 2,00,000; Mamta : ₹ 1,00,000

Balance of current account : Jaya : ₹ 22,200; Mamta : ₹ 34,250

Smruti's loan : ₹ 74,050; Total of balance sheet ₹ 5,34,500

Journal entry of goodwill :

(i)	Jaya's current A/c ...Dr	12,000	
	Mamta's current A/c ...Dr	15,000	
	Smruti's current A/c ...Dr	3000	
	To Goodwill A/c		30,000
(ii)	Jaya's current A/c ...Dr	20,000	
	To Smruti's current A/c		20,000

9. Loss of revaluation A/c ₹ 18,000; Radha's loan ₹ 75,000

Balance of capital A/c : Madhav ₹ 91,000; Gopi : ₹ 39,000

Total of balance sheet ₹ 3,00,000

First instalment on Radha's loan ₹ 45,000 (₹ 37,500 loan + ₹ 7500 interest)

Second instalment on Radha's loan ₹ 41,250 (₹ 37,500 loan + ₹ 3750 interest)

10. Loss of revaluation A/c ₹ 21,000; Jyoti's loan : ₹ 1,77,000

Balance of capital A/c : Deep ₹ 1,75,000; Gita : ₹ 1,75,000

Balance of current account of Deep = ₹ 92,000 (Debit)

Balance of current accounts of Gita = ₹ 92,000 (Debit)

Gain ratio of Deep and Gita = 1 : 1; Total of balance sheet ₹ 6,22,000

11. Profit of revaluation A/c ₹ 12,600; Sun's loan : ₹ 2,34,200

Balance of capital A/c : Moon ₹ 3,30,333; Star : ₹ 66,067

Moon will bring ₹ 1,78,133. Star will withdraw ₹ 1,78,133.

Closing balance of bank = ₹ 1,15,600

Journal entry of goodwill :

Moon's capital A/c ...Dr	30,000	
To Star's capital A/c		10,000
To Sun's capital A/c		20,000

Total of balance sheet ₹ 6,40,600

12. Profit of revaluation A/c ₹ 6000; I's loan : ₹ 81,200

Balance of capital A/c : E : ₹ 58,000; M : ₹ 42,000

E will withdraw ₹ 22,000, M will bring ₹ 7200.

Cash balance = ₹ 7200; Total of balance sheet ₹ 2,81,200

New profit-loss sharing ratio of E and M = 29 : 21

13. Profit of revaluation A/c ₹ 13,000

New profit-loss sharing ratio of L and B = 21 : 19

Closing capital : L : ₹ 24,675; B : ₹ 22,325

Cash paid to W ₹ 22,500; Cash brought by L ₹ 10,675; Cash brought B ₹ 11,825

Total of balance sheet ₹ 70,000

14. Profit of revaluation ₹ 12,000; Paid to Keshav : ₹ 19,000

Closing capital : Chirag : ₹ 54,000; Jigar : ₹ 36,000

Cash brought : Chirag ₹ 18,600; Jigar ₹ 12,400

Total of balance sheet ₹ 1,36,000

15. Loss of revaluation A/c ₹ 600; E's loan ₹ 5960

F and G each will bring ₹ 3300.

Closing balance of capital : F : ₹ 7020; G : ₹ 4020

Total of balance sheet ₹ 27,000

16. Vimal's loan A/c ₹ 79,200

17. T's executor's loan A/c ₹ 1,76,975

18. Realisation A/c profit 18,000 Balance of executor's A/c

₹ 1,45,000; Balance of V's executor's A/c ₹ 1,00,000

First instalment ₹ 60,000 (₹ 50,000 + ₹ 10,000 interest)

Second instalment ₹ 55,000 (₹ 50,000 + ₹ 5000 interest)

19. Balance of M's executor ₹ 21,850

First instalment ₹ 12,400 (₹ 10,000 + ₹ 1800 interest + ₹ 600)

Second instalment ₹ 11,200 (₹ 10,000 + ₹ 900 interest + ₹ 300)

Exercise 7

1. **Select appropriate option for each question :**

(1) (c) (2) (d) (3) (d) (4) (a) (5) (b) (6) (d)

4. (6) A's capital ₹ 50,000; B's capital ₹ 30,000

7. Assets excluding cash ₹ 14,00,000; loss of realisation account ₹ 8,00,000

(To Naresh ₹ 3,20,000, To Shaival ₹ 4,80,000)

Total of opening balance sheet ₹ 16,00,000

8. Total of opening balance sheet ₹ 17,00,000; Loss of profit and loss account including of ₹ 1,00,000;

Loss of realisation account ₹ 2,00,000

9. Total of realisation account ₹ 19,00,000; Loss of realisation account ₹ 90,000;

Binal A/c ₹ 40,000; Dharmishtha A/c ₹ 30,000 and Mahesh A/c ₹ 20,000

10. Total of realisation account ₹ 8,75,000 and Profit ₹ 7,000,

Transfer to partners' capital account from current account : Satyam ₹ 63,500; Shivam ₹ 64,000; Sundaram ₹ 19,500

Payment to partners : Satyam ₹ 1,13,500; Shivam ₹ 1,14,000 and Sundram ₹ 69,500,

Total of cash account ₹ 5,75,000

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