Class -12th Accountancy Ch-6 Retirement of Partner-Notes

Question 1:

1. What are the different ways in which a partner can retire from the firm?

ANSWER:

2. The following are the different ways in which a partner can retire from a firm.

3. i. ***With the consent of all other partners***: A partner must take the consent of all the co-partners of the firm before his/her retirement. Thereafter, the partner can retire from the firm if and only if all the partners agree on the decision of his/her retirement.

4. ii) ***With an express agreement by all the partners***: In case of written agreement among the partners a partner may retire from the firm by expressing his/her intention of leaving the firm though a notice to the other partners of the firm.

5. iii) ***By giving a written notice***: If partnership among the partners is at will then a partner may retire by giving notice in writing to all the other partners informing them about his/her intention to retire.

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Question 2:

6. Write the various matters that need adjustments at the time of retirement of partner/partners.

ANSWER:

7. The following are the various matters that need to be adjusted at the time of retirement of partners/partner.

8. 1. Calculation of new gaining ratio of all the remaining partners of the firm.

9. 2. Calculation of new ratio of the remaining partners of the firm.

10. 3. Calculation of goodwill of the new firm and its accounting treatment.

11. 4. Revaluation of assets and liabilities of the new firm.

12. 5. Distribution of accumulated profits and losses and reserves among all the partners (including the retiring partner).
13. 6. Treatment of Joint Life Policy
14. 7. Settlement of the amount due to the retiring partner
15. 8. Adjustment of capital accounts of the remaining partners in their new profit sharing ratio.

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Question 3:

16. Distinguish between sacrificing ratio and gaining ratio.

ANSWER:

Basis of Difference	Sacrificing ratio	Gaining Ratio
1. Meaning	It is the ratio in which old partners agree to sacrifice their share of profit in favour of new partners/partner	It is the ratio in which continuing partner acquires the share of profit from outgoing partner/partner
2. Calculation	Sacrificing Ratio = Old Ratio – New Ratio	Gaining Ratio = New Ratio – Old Ratio
3. Time	It is calculated at the time of admission of new partners/partner.	It is calculated at the time of retirement/death of old partners/partner.
4. Objective	It is calculated to ascertain the share of profit and loss given up by the existing partners in favour of new partners/partner.	It is calculated to ascertain the share of profit and loss acquired by the remaining partners (of the new firm in case of retirement) from the retiring or deceased partner.

5. Effect	It reduces the profit share of the existing partners.	It increases the profit share of the remaining partners.

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Question 4:

17. Why do firm revaluate assets and reassess their liabilities on retirement or on the event of death of a partner?

ANSWER:

18. At the time of retirement or death of a partner, it becomes inevitable to revalue the assets and liabilities of the firm for ascertaining their true and fair values. The revaluation is necessary as the value of assets and liabilities may increase or decrease with the passage of time. Further, it may be possible that there are certain assets and liabilities that remained unrecorded in the books of accounts. The retiring or the deceased partner may be benefited or may bear loss due to change in the values of assets and liabilities. Therefore, the revaluation of the assets and liabilities is necessary in order to ascertain the true profit or loss that is to be divided among all the partners in their old profit sharing ratio.

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Question 5:

19. Why a retiring/deceased partner is entitled to a share of goodwill of the firm?

ANSWER:

20. Goodwill is an intangible asset of a firm that is earned by the efforts of all the partners of the firm. After the retirement or death of a partner, the fruits of the past performance and reputation will be shared only by the remaining partners. Thus the remaining partners should compensate the retiring or the deceased partner by entitling him/her a share of firm's goodwill.

Question 1:

21. Explain the modes of payment to a retiring partner.

ANSWER:

The following are the modes of payment to a retiring partner.

1. If the amount due to the retiring partner is to be paid in lump sum on the day of his/her retirement then the following Journal entry need to be passed.

Retiring Partner's Capital A/c   Dr.

To Cash/Bank A/c

(Retiring partner paid in cash)

2) If the amount due to the retiring partner is to be paid in installments then the balancing figure of his/her capital account is transferred to his/her loan account. In this case, the retiring partner receives equal installments along with the interest on the amount outstanding. The following necessary Journal entry is to be passed.

Retiring Partner's Capital A/c   Dr.

To Retiring Partner's Loan A/c

(Retiring partner capital account transferred to the

retiring partner's loan account @ -------- % p.a.).

3) If the amount due to the retiring partner is to be paid partly in cash and partly in equal installments then a certain amount is paid in cash to the retiring partner on the date of the retirement and the rest amount due to him/her is transferred to his/her loan account. The following necessary Journal entry is to be passed.

Retiring Partner's Capital A/c (with the total amount due to the retiring partner) Dr.

To Retiring Partner's Loan A/c (with the amount transferred to the partner's loan account)

To Cash A/c (with the amount paid in cash immediately on the date of the retirement)

(Retiring partner partly paid in cash and balance transferred to the partner's loan account)

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Question 3:

22. Explain the treatment of goodwill at the time of retirement or on the event of death of a partner?

ANSWER:

At the time of retirement or at the event of death of a partner, the goodwill is adjusted among the partners in gaining ratio with the share of goodwill of the retiring or the deceased partner. As per Para 16 of Accounting Standard 10, it is mandatory to record goodwill in the books only when consideration in money or money's worth has been paid for it.

In case of retirement and death of a partner, goodwill account cannot be raised. There are namely two probable situations on which the treatment of goodwill rests.

1. If ***goodwill already appears*** in the books of the firm.
2. If ***no goodwill appears*** in the books of the firm.

Situation 1: If goodwill <u>already appears</u> in the books of the firm.

Step 1: Write off the existing goodwill

If goodwill already appears in the old balance sheet of the firm (if mentioned in the question), then first of all, this goodwill should be written off and should be distributed among all the partners of the firm including the retiring or the deceased partner in their old profit sharing ratio. The following Journal entry is passed to write off the old/existing goodwill.

All Partners' Capital A/c Dr.

To Goodwill A/c

(Goodwill written of among all the partners in their old ratio)

Step 2: Adjusting goodwill through partner's capital account.

After writing off the old goodwill, the goodwill need to be adjusted through the partner's capital account with the share of the goodwill of the retiring or the deceased partner. The following Journal entry is passed.

Remaining Partner's Capital A/c Dr.

To Retiring/Deceased Partner's Capital A/c

(Gaining Partner's Capital A/c is debited in their gaining share and retiring/deceased partner's capital account in credited for their share of goodwill)

Situation 2: If <u>no goodwill appears</u> in the books of the firm.

As no goodwill appears in the books of the firm, so the goodwill is adjusted through the partner's capital account with the share of the goodwill of the retiring or the deceased partner. The following Journal entry is passed.

Remaining Partner's Capital A/c Dr.

To Retiring/Deceased Partner's Capital A/c

(Gaining partner's capital account is debited in their gaining

share and retiring/deceased partner's capital account in

credited for their share of goodwill)

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Question 1:

23. Aparna, Manisha and Sonia are partners sharing profits in the ratio of 3:2:1. Manisha retires and goodwill of the firm is valued at Rs 1,80,000. Aparna and Sonia decided to share future in the ratio of 3:2. Pass necessary Journal entries.

ANSWER:

Books of Aparna, and Sonia

Journal

Date	**Particulars**	**L.F.**	**Amount Rs**	**Amount Rs**
	Aparna's Capitals A/c Dr.		18,000	
	Sonia's Capital A/c Dr.		42,000	
	To Manisha's Capital A/c			60,000
	(Manisha's share of goodwill adjusted to Aparna's and Sonia's Capital Account in their gaining ratio)			

24. **Working Notes**:

25. 1. Manisha's share in goodwill:

26. Total goodwill of the firm × Retiring Partner's Share =

27. 2. Gaining Ratio = New Ratio − Old Ratio

28. Aparna Gaining share

29.

30. Gaining Ratio between Aparna and Sonia = 3 : 7

31. 3. Aparna's share in goodwill

32. Sonia's share in goodwill

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Question 2:

33. Sangeeta, Saroj and Shanti are partners sharing profits in the ratio of 2:3:5. Goodwill is appearing in the books at a value of Rs 60,000. Sangeeta retires and goodwill is valued at Rs 90,000. Saroj and Shanti decided to share future profits equally. Record necessary Journal entries.

ANSWER:

Books of Saroj and Shanti

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs
	Sangeeta's Capital A/c Dr.		12,000	
	Saroj's Capital A/c Dr.		18,000	
	Shanti's Capital A/c Dr.		30,000	
	To Goodwill A/c			60,000
	(Goodwill written off)			
	Saroj's Capital A/c Dr.		18,000	
	To Sangeeta's Capital A/c			18,000
	(Sangeeta's share of goodwill adjusted to Saroj's Capital			
	Account in her gaining ratio)			

Working Notes:

1. Sangeeta's share of goodwill.

Total goodwill of the firm × Retiring Partner's share $= 90,000 \times \frac{2}{10} 18,000$

2. Gaining Ratio = New Ratio – Old Ratio

Saroj's Gaining Share $= \frac{1}{2} - \frac{3}{10} = \frac{10-6}{20} = \frac{4}{20}$

Shanti's Gaining Share $= \frac{1}{2} - \frac{5}{10} = \frac{10-10}{20} = \frac{0}{20}$

Question 3:

34. Himanshu, Gagan and Naman are partners sharing profits and losses in the ratio of 3:2:1. On March 31, 2017, Naman retires.
35. The various assets and liabilities of the firm on the date were as follows:
36. Cash Rs 10,000, Building Rs 1,00,000, Plant and Machinery Rs 40,000, Stock Rs 20,000, Debtors Rs 20,000 and Investments Rs 30,000.
37. The following was agreed upon between the partners on Naman's retirement:
38. (i) 39. Building to be appreciated by 20%.
40. (ii) 41. Plant and Machinery to be depreciated by 10%.
42. (iii) 43. A provision of 5% on debtors to be created for bad and doubtful debts.
44. (iv) 45. Stock was to be valued at Rs 18,000 and Investment at Rs 35,000.
46. Record the necessary journal entries to the above effect and prepare the Revaluation Account.

ANSWER:

Books of Himanshu and Gagan

Journal

Date	Particulars		L.F.	Amount Rs	Amount Rs
	Building A/c	Dr.		20,000	
	Investment A/c	Dr.		5,000	
	To Revaluation A/c	Dr.			25,000

	(Value of Building and Investment increased at the time of Naman's retirement)			
	Revaluation A/c Dr.		7,000	
	To Plant and Machinery A/c			4,000
	To Provision for Bad and Doubt Debts A/c			1,000
	To Stock A/c			2,000
	(Assets revalued and Provision for Bad and Doubtful Debts made at the time of Naman's retirement)	L		
	Revaluation A/c Dr.		18,000	
	To Himanshu's Capital A/c			9,000
	To Gagan's Capital A/c			6,000
	To Naman's Capital A/c			3,000
	(Profit on revaluation transferred to all Partners' Capital Accounts in their old profit sharing ratio)			

Revaluation Account

Dr. **Cr.**

Particular	**Amount Rs**	**Particular**	**Amount Rs**
Plant and Machinery	4,000	Building	20,000

Stock		2,000	Investment	5,000
Provision for Bad and Doubtful Debts		1,000		
Profit transferred to Capital Account:				
Himanshu	9,000			
Gagan	6,000			
Naman	3,000	18,000		
		25,000		25,000

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Question 4:

47. Naresh, Raj Kumar and Bishwajeet are equal partners. Raj Kumar decides to retire. On the date of his retirement, the Balance Sheet of the firm showed the following: General Reserves Rs 36,000 and Profit and Loss Account (Dr.) Rs 15,000.

48. Pass the necessary journal entries to the above effect.

ANSWER:

Books of Naresh and Bishwajeet

Journal

Date	Particulars		L.F.	Amount Rs	Amount Rs
	General Reserve A/c	Dr.		36,000	
	To Naresh's Capital A/c				12,000
	To Raj Kumar's Capital A/c				12,000
	To Bishwajeet's Capital A/c				12,000
	(General Reserve distributed among old partner in old ratio)				
	Naresh's Capital A/c	Dr.		5,000	
	Raj Kumar's Capital A/c	Dr.		5,000	
	Bishwajeet's Capital A/c	Dr.		5,000	
	To Profit and Loss A/c				15,000
	(Debit balance of Profit and Loss Account written off)				

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Question 5:

Digvijay, Brijesh and Parakaram were partners in a firm sharing profits in the ratio of 2:2:1. Their Balance Sheet as on March 31, 2017 was as follows:

Liabilities	Amount Rs	Assets	Amount Rs
Creditors	49,000	Cash	8,000
Reserves	18,500	Debtors	19,000
Digvijay's Capital	82,000	Stock	42,000
Brijesh's Capital	60,000	Buildings	2,07,000
Parakaram's Capital	75,500	Patents	9,000
	2,85,000		2,85,000

Brijesh retired on March 31, 2017 on the following terms:

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

(ii) Bad debts amounting to Rs 2,000 were to be written off.

(iii) Patents were considered as valueless.

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

ANSWER:

Books of Digvijay and Parakaram

Revaluation Account

Dr. **Cr.**

Particular	Amount Rs	Particular	Amount Rs
Bad Debts	2,000		
Patents	9,000	Loss transferred to Capital Account:	
		Digvijay	4,400
		Brijesh	4,400
		Parakaram	2,200
	11,000		11,000

Partners' Capital Account

Dr. **Cr.**

Particularss	Digvijay	Brijesh	Parakaram	Particularss	Digvijay	Brijesh	Parakaram
Brijesh's Capital A/c	18,667		9,333	Balance b/d	82,000	60,000	75,500
Revaluation (Loss)	4,400	4,400	2,200	Digvijay's Capital A/c		18,667	
Brijesh's Loan		91,000		Parakaram's Capital A/c		9,333	
Balance c/d	66,333		67,667	Reserves	7,400	7,400	3,700

	89,400	95,400	79,200		89,400	95,400	79,200

Balance Sheet as on March 31, 2017

Liabilities	Amount Rs	Assets		Amount Rs
Creditors	49,000	Cash		8,000
Brijesh's Loan	91,000	Debtors	19,000	
		Less: Bad Debts	2,000	17,000
Digvijay's Capital A/c	66,333	Stock		42,000
Parakaram's Capital A/c	67,667	Buildings		2,07,000
	2,74,000			2,74,000

Note: As sufficient balance is not available to pay the amount due to Brijesh, the balance of his Capital Account transferred to his Loan Account.

Working Note:

1. Brijesh's Share of Goodwill

Total goodwill of the firm × Retiring Partner's Share $= 70,000 \times \frac{2}{5} = \text{Rs } 28,000$

2. Gaining Ratio = New Ratio – Old Ratio

Digvijay's Share $=\frac{2}{3}-\frac{2}{5}=\frac{10-6}{15}=\frac{4}{15}$

Parakaram's Share $=\frac{1}{3}-\frac{1}{5}=\frac{5-3}{15}=\frac{2}{15}$

Gaining ratio between Digvijay and Parakaram = 4 : 2 or 2 : 1

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Question 6:

Radha, Sheela and Meena were in partnership sharing profits and losses in the proportion of 3:2:1. On April 1, 2017, Sheela retires from the firm. On that date, their Balance Sheet was as follows:

Liabilities		Amount Rs	Assets	Amount Rs
Trade Creditors		3,000	Cash-in-Hand	1,500
Bills Payable		4,500	Cash at Bank	7,500
Expenses Owing		4,500	Debtors	15,000
General Reserve		13,500	Stock	12,000
Capitals:			Factory Premises	22,500
Radha	15,000		Machinery	8,000

Sheela	15,000		Losse Tools	4,000
Meena	15,000	45,000		
		70,500		70,500

The terms were:

a) Goodwill of the firm was valued at Rs 13,500.

b) Expenses owing to be brought down to Rs 3,750.

c) Machinery and Loose Tools are to be valued at 10% less than their book value.

d) Factory premises are to be revalued at Rs 24,300.

Prepare:

1. Revaluation account

2. Partner's capital accounts and

3. Balance sheet of the firm after retirement of Sheela.

ANSWER:

Books of Radha and Meena

Revaluation Account

Dr. **Cr.**

Particulars	Amount Rs	Particulars	Amount Rs
Machinery	800	Expenses Owing	750

Loose Tools		400	Factory Premises	1,800
Profit transferred to Capital Account:				
Meena	675			
Radha	450			
Sheela	225	1,350		
		2,550		2,550

Parters' Capital Account

Dr. **Cr.**

Particulars	Radha	Sheela	Meena	Particulars	Radha	Sheela	Meena
Sheela's Capital A/c	3,375		1,125	Balance b/d	15,000	15,000	15,000
Sheela's Loan A/c		24,450		General Reserve	6,750	4,500	2,250
Balance c/d	19,050		16,350	Revaluation (Profit)	675	450	225
				Radha's Capital A/c		3,375	
				Meena's Capital A/c		1,125	
	22,425	24,450	17,475		22,425	24,450	17,475

Balance Sheet as on April 01, 2017

Liabilities		Amount Rs	Assets		Amount Rs
Trade Creditors		3,000	Cash in Hand		1,500
Bills Payable		4,500	Cash at Bank		7,500
Expenses Owing		3,750	Debtors		15,000
Sheela's Loan		24,450	Stock		12,000
			Factory Premises		24,300
Capitals:			Machinery	8,000	
Radha	19,050		*Less*: 10%	(800)	7,200
Meena	16,350	35,400	Loose Tools	4,000	
			Less: 10%	(400)	3,600
		71,100			71,100

49. **Working Notes:**

50. 1) Sheela's share of goodwill

51. Total goodwill of the firm × Retiring Partner's share =13,500×26=4,50013,500×26=4,500

52. 2) Gaining Ratio = New Ratio − Old Ratio

53. Radha's Share $=\frac{3}{4}-\frac{3}{6}=\frac{18-12}{24}=\frac{6}{24}$

54. Meena's Shares $=\frac{1}{4}-\frac{1}{6}=\frac{6-4}{24}=\frac{2}{6}$

55. Gaining Ratio between Radha and Meena = 6 : 2 or 3 : 1

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Question 7:

Pankaj, Naresh and Saurabh are partners sharing profits in the ratio of 3:2:1. Naresh retired from the firm due to his illness. On that date the Balance Sheet of the firm was as follows:

BOOKS OF PANKAJ, NARESH AND SAURABH

BALANCE SHEET AS ON MARCH 31, 2017

LIABILITIES		AMOUNT RS	ASSETS		AMOUNT RS
General Reserve		12,000	Bank		7,600
Sundry Creditors		15,000	Debtors	6,000	
Bills Payable		12,000	**LESS:** Provision for Doubtful Debt	400	5,600
Outstanding Salary		2,200			
Provision for Legal Damages		6,000	Stock		9,000
Capitals:			Furniture		41,000
Pankaj	46,000		Premises		80,000
Naresh	30,000				
Saurabh	20,000	96,000			
		1,43,200			1,43,200

ADDITIONAL INFORMATION

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

(ii) Goodwill of the firm be valued at Rs 42,000.

(iii) Rs 26,000 from Naresh's Capital account be transferred to his loan account and balance be paid through bank; if required, necessary loan may be obtained from Bank.

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

Give the necessary ledger accounts and balance sheet of the firm after Naresh's retirement.

ANSWER:

REVALUATION ACCOUNT

DR. CR.

PARTICULARS		AMOUNT RS	PARTICULARS	AMOUNT RS
Stock		900	Premises	16,000
Provision for Legal Damages		1,200	Provision for Doubtful Debts	100
Profit transferred to Capital:			Furniture	4,000
Pankaj	9,000			
Naresh	6,000			
Saurabh	3,000	18,000		
		20,100		20,100

PARTERS’ CAPITAL ACCOUNTS

DR. CR.

PARTICULARS	PANKAJ	NARESH	SAURABH	PARTICULARS	PANKAJ	NARESH	SAURABH
Naresh’s Capital A/c	14,000			Balance b/d	46,000	30,000	20,000
Naresh’s Loan A/c		26,000		General Reserve	6,000	4,000	2,000
Bank		28,000		Revaluation (Profit)	9,000	6,000	3,000
Balance c/d	47,000		25,000	Pankaj’s Capital A/c		14,000	
	61,000	54,000	25,000		61,000	54,000	25,000

BANK ACCOUNT

DR. CR.

PARTICULARS	AMOUNT RS	PARTICULARS	AMOUNT RS
Balance b/d	7,600	Naresh’s Capital A/c	28,000
Bank Loan (**BALANCING FIGURE**)	20,400		

	28,000		28,000

BALANCE SHEET AS ON MARCH 31, 2017

LIABILITIES		AMOUNT RS	ASSETS		AMOUNT RS
Sundry Creditors		15,000	Debtors	6,000	
Bills Payable		12,000	**LESS**: Provision for Doubtful Debts	300	5,700
Bank Loan/overdraft		20,400	Stock		8,100
Outstanding Salaries		2,200	Furniture		45,000
Provision for Legal Damages		7,200	Premises		96,000
Naresh's Loan		26,000			
Capitals:					
Pankaj	47,000				
Saurabh	25,000	72,000			
		1,54,800			1,54,800

56.

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Question 11:

The Balance Sheet of Rajesh, Pramod and Nishant who were sharing profits in proportion to their capitals stood as on March 31, 2015:

Books of Rajesh, Pramod and Nishant

Balance Sheet as on March 31, 2015

Liabilities		Amount Rs	Assets		Amount Rs
Bills Payable		6,250	Factory Building		12,000
Sundry Creditors		10,000	Debtors	10,500	
Reserve Fund		2,750	*Less:* Reserve	500	10,000
Capital Accounts:			Bills Receivable		7,000
Rajesh	20,000		Stock		15,500
Pramod	15,000		Plant and Machinery		11,500
Nishant	15,000	50,000	Bank Balance		13,000
		69,000			69,000

Pramod retired on the date of Balance Sheet and the following adjustments were made:

a) Stock was valued at 10% less than the book value.

b) Factory buildings were appreciated by 12%.

c) Reserve for doubtful debts be created up to 5%.

d) Reserve for legal charges to be made at Rs 265.

e) The goodwill of the firm be fixed at Rs 10,000.

f) The capital of the new firm be fixed at Rs 30,000. The continuing partners decide to keep their capitals in the new profit sharing ratio of 3:2.

Pass journal entries and prepare the balance sheet of the reconstituted firm after transferring the balance in Pramod's Capital account to his loan account.

ANSWER:

57.

Journal

Date	**Particulars**	**L.F.**	**Amount Rs**	**Amount Rs**
2015 Mar. 31	Revaluation A/c Dr.		1,840	
	To Stock A/c			1,550
	To Reserve for Doubtful Debts A/c			25

	To Reserve for Legal Charges A/c			265
	(Assets and Liabilities are revalued)			
Mar. 31	Factory Building A/c Dr.		1,440	
	To Revaluation A/c			1,440
	(Factory Building appreciated)			
Mar. 31	Rajesh's Capital A/c Dr.		160	
	Pramod's Capital A/c Dr.		120	
	Nishant's Capital A/c Dr.		120	
	To Revaluation A/c			400
	(Loss on Revaluation adjusted to Partners' Capital Account)			
Mar. 31	Rajesh's Capital A/c Dr.		2,000	
	Nishant's Capital A/c Dr.		1,000	
	To Pramod Capital's A/c			3,000
	(Pramod's share of goodwill adjusted to Rajesh's and Nishant's Capital Account in their gaining ratio)			
Mar. 31	Reserve Fund A/c Dr.		2,750	
	To Rajesh's Capital A/c			1,100
	To Pramod's Capital A/c			825
	To Nishant's Capital A/c			825

	(Reserve Fund distributed all the partners)			
Mar. 31	Pramod's Capital A/c Dr.		18,705	
	To Pramod's Loan A/c			18,705
	(Pramod's Capital transferred to his Loan Account)			
Mar. 31	Rajesh's Capital A/c Dr.		940	
	Nishant's Capital A/c Dr.		2,705	
	To Rajesh's Current A/c			940
	To Nishant's Current A/c			2,705
	(Excess in Capital Account is transferred to Current Account)			

Parters' Capital Account

Dr. **Cr.**

Particulars	Rajesh	Pramod	Nishant	Particulars	Rajesh	Pramod	Nishant
Revaluation (Loss)	160	120	120	Balance b/d	20,000	15,000	15,000
Pramod's Capital A/c	2,000		1,000	Reserve Fund	1,100	825	825
Pramod's Loan A/c		18,705		Rajesh's Capital A/c		2,000	

Rajesh's Current A/c	940			Nishant's Capital A/c		1,000	
Nishant's Current A/c			2,705				
Balance c/d	18,000		12,000				
	21,100	18,825	15,825		21,100	18,825	15,825

Balance Sheet as on March 31, 2015

Liabilities		Amount Rs	Assets		Amount Rs
Bills Payable		6,250	Plant and Machinery		11,500
Sundry Creditors		10,000	Debtors	10,500	
Reserve for Legal Charges		265	*Less*: Reserve	(525)	9,975
Pramod's Loan		18,705	Bills Receivable		7,000
Current Account:			Stock	15,500	
Rajesh	940		*Less*: 10% Depreciation	(1,550)	13,950
Nishant	2,705	3,645			
Capital Account:			Factory Building	12,000	13,440
Rajesh	18,000		*Add*: 12% Appreciation	1,440	
Nishant	12,000	30,000	Bank Balance		13,000
		68,865			68,865

58. **Working Notes:**

59. 1) Pramod’s share of goodwill = Total goodwill of the firm × Retiring Partner’s Share

= $10,000 \times \frac{3}{10} = \text{Rs } 3,000$

60. 2) Gaining Ratio = New Ratio − Old Ratio

61. $\text{Rajesh's Gaining Share} = \frac{3}{5} - \frac{4}{10} = \frac{6-4}{10} = \frac{2}{10}$

62. $\text{Nishant Gaining Share} = \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$

63. Gaining Ratio between Rajesh and Nishant = 2:1

64. **NOTE**: In the above solution, in order to adjust the capital of remaining partners in the new firm according to their new profit sharing ratio, the surplus or the deficit of Capital Account is transferred to their Current Account. But, in order to match the answer with that of given in the book, the surplus or the deficit amount of the Partners' Capital Account, will either be withdrawn or brought in by the old partners. This treatment will be shown in the Partners’ Capital itself and no need to transfer the surplus or deficit capital balance to their Current Accounts. The following Journal entry is passed to record the withdrawal of surplus capital by the partners.

65. If existing partners withdraw their excess capital

Journal entry

Rajesh’s Capital A/c Dr.	940	
Nishant’s Capital A/c Dr.	2,705	
To Bank A/c		3,645
(Surplus Capital withdrawn)		

Balance Sheet as on March 31, 2015

Liabilities	Amount	Assets	Amount

		Rs			Rs
Bills Payable		6,250	Plant and Machinery		11,500
Sundry Creditors		10,000	Debtors	10,500	
Reserve for Legal Charges		265	*Less*: Reserve	(525)	9,975
Pramod’s Loan		18,705	Bills Receivable		7,000
Capital:			Stock	15,500	
Rajesh	18,000		*Less*: 10% Depreciation	(1,550)	13,950
Nishant	12,000	30,000			
			Factory Building	12,000	
			Add: 12% Appreciation	1,440	13,440
			Bank Balance		9,355
		65,220			65,220

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Question 12:

66. Following is the Balance Sheet of Jain, Gupta and Malik as on March 31, 2016.

67.

68. BOOKS OF JAIN, GUPTA AND MALIK

69. BALANCE SHEET AS ON MARCH 31, 2016

70.

71. LIABILITIES	72. AMOUNT 73. RS	74. ASSETS	75. AMOUNT 76. RS
77. Sundry Creditors	78. 19,800	79. Land and Building	80. 26,000
81. Telephone Bills Outstanding	82. 300	83. Bonds	84. 14,370
85. Accounts Payable	86. 8,950	87. Cash	88. 5,500
89. Accumulated Profits	90. 16,750	91. Bills Receivable	92. 23,450
93.	94.	95. Sundry Debtors	96. 26,700
97. Capitals :	98.	99. Stock	100. 18,100
01. Jain 102. 40,000	103.	104. Office Furniture	105. 18,250
06. Gupta 107. 60,000	108.	109. Plants and Machinery	110. 20,230
11. Malik 112. 20,000	113. 1,20,000	114. Computers	115. 13,200
116.	117. 1,65,800	118.	119. 1,65,800
120.	121.	122.	123.

124.

125. The partners have been sharing profits in the ratio of 5:3:2. Malik decides to retire from business on April 1, 2016 and his share in the business is to be calculated as per the following terms of revaluation of assets and liabilities : Stock, Rs 20,000; Office furniture, Rs 14,250; Plant and Machinery Rs 23,530; Land and Building Rs 20,000.

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

127. The continuing partners agreed to pay Rs 16,500 as cash on retirement of Malik, to be contributed by continuing partners in the ratio of 3:2. The balance in the capital account of Malik will be treated as loan.

128. Prepare Revaluation account, capital accounts, and Balance Sheet of the reconstituted firm.

ANSWER:

129. IN THE BOOKS OF JAIN AND GUPTA

130.

131. REVALUATION ACCOUNT

132. DR. 133. CR.

134. PARTICULARS	135. AMOUNT 136. RS	137. PARTICULARS		138. AMOUNT 139. RS
140. Office Furniture	141. 4,000	142. Stock		143. 1,900
144. Land and Building	145. 6,000	146. Plant and Machinery		147. 3,300
148. Provision for Doubtful Debts	149. 1,700	150. Loss transferred to		151.
152.	153.	154. Jain's Capital A/c	155. 3,250	156.
157.	158.	159. Gupta's Capital A/c	160. 1,950	161.
162.	163.	164. Malik's Capital A/c	165. 1,300	166. 6,500
167.	168. 11,700	169.		170. 11,700
171.	172.	173.		174.

175.

176. PARTNERS’ CAPITAL ACCOUNT

177. DR. 178. CR.

179. PARTICULARS	180. JAIN	181. GUPTA	182. MALIK	183. PARTICULARS	184. JAIN	185. GUPTA	186. MALIK
187. Revaluation (Loss)	188. 3,250	189. 1,950	190. 1,300	191. Balance b/d	192. 40,000	193. 60,000	194. 20,000
195. Malik’s Capital	196. 1,125	197. 675	198.	199. Accumulated Profits	200. 8,375	201. 5,025	202. 3,350
203. Cash	204.	205.	206. 16,500	207. Jain’s Capital A/c	208.	209.	210. 1,125
211. Malik’s Loan	212.	213.	214. 7,350	215. Gupta’s Capital A/c	216.	217.	218. 675
219. Balance c/d	220. 53,900	221. 69,000	222.	223. Cash	224. 9,900	225. 6,600	226.
227.	228. 58,	229. 71,625	230. 25,150	231.	232. 58,	233. 71,625	234. 25,150

	27 5				27 5		
235.	236.	237.	238.	239.	240.	241.	242.

243.

244.

245. BALANCE SHEET

246. LIABILITIES	247. AMOUNT 248. RS	249. ASSETS	250. AMOUNT 251. RS
252. Sundry Creditors	253. 19,800	254. Stock (18,100 + 1,900)	255. 20,000
256. Telephone Bills Outstanding	257. 300	258. Bonds	259. 14,370
260. Accounts Payable	261. 8,950	262. Cash	263. 5,500
264. Malik's Loan	265. 7,350	266. Bills Receivable	267. 23,450
268.	269.	270. Sundry Debtors 271. 26,700	272.
273. Partners' Capital:	274.	275. **LESS**: Provision for Bad Debts 276. 1,700	277. 25,000
278. Jain 279. 53,900	280.	281. Land and Building (26,000 – 6,000)	282. 20,000
283. Gupta 284. 69,000	285. 1,22,900	286. Office Furniture (18,250 – 4,000)	287. 14,250

288.	289.	290. Plant and Machinery (20,230 + 3,300)	291. 23,530
292.	293.	294. Computers	295. 13,200
296.	297. 1,59,300	298.	299. 1,59,300
300.	301.	302.	303.

304.

305. WORKING NOTE:

306.

307. 1) Malik's share of goodwill = Total Goodwill × Retiring Partner Share

= $9,000 \times \frac{2}{10} = 1,800$

308.

309. 2) Gaining Ratio = New Ratio – Old Ratio

310. $\text{Jain's Gaining share} = \frac{5}{8} - \frac{5}{10} = \frac{50-40}{80} = \frac{10}{80}$

311. $\text{Gupta Gaining Share} = \frac{3}{8} - \frac{3}{10} = \frac{30-24}{80} = \frac{6}{80}$

312. Gaining Ratio between Jain and Gupta = 10:6 or 5:3