

## Retirement or Death of a Partner

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

### Working Notes:

#### (1) Valuation of Goodwill:

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

Average Profit = 64,000 ÷ 4 = 16,000

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

B's Share = 48,000 x 2/5 = ₹19,200

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

#### (2) Profit and Loss (Suspense)

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

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

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

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

### SOLUTION : 66.

#### JOURNAL ENTRIES

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

## Retirement or Death of a Partner

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

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

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

### SOLUTION : 67.

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

## Retirement or Death of a Partner

|  |                 |                 |   |  |                 |
|--|-----------------|-----------------|---|--|-----------------|
|  |                 |                 | (Share of Goodwill)                       |  | 90,000          |
|  |                 |                 | By Z's Capital A/c<br>(Share of Goodwill) |  | 30,000          |
|  | <b>2,45,000</b> | <b>3,12,000</b> | <b>1,15,000</b>                           |  | <b>2,45,000</b> |
|  |                 |                 |   |  | <b>3,12,000</b> |
|  |                 |                 |   |  | <b>1,15,000</b> |

### Dr. FS EXECUTOR'S ACCOUNT Cr.

| Particulars | ₹               | Particulars        | ₹               |
|-------------|-----------------|--------------------|-----------------|
| To Bank A/c | <b>3,12,000</b> | By Y's Capital A/c | <b>3,12,000</b> |

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

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

### Working Notes :

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

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

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

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

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

Less : 10% of 13,333            1,333

**12,000**

#### (2) Y's share of Goodwill =

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

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

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

### SOLUTION : 68.

#### JOURNAL

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

## Retirement or Death of a Partner

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

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

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

### Working Notes :

#### (1) Calculation of Interest on Capital:

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

## Retirement or Death of a Partner

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

### (2) Calculation of Goodwill:

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

Less : 25% of 12,000 = ₹3,000  
9,000

Goodwill =  $9,000 \times 3 = ₹27,000$

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

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

### SOLUTION : 69.

#### Working Notes :

#### (1) Valuation of Firm's Goodwill:

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

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

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

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

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

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

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

### SOLUTION : 70.

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

## Retirement or Death of a Partner

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

### Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

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

### Dr. E'S EXECUTOR'S ACCOUNT Cr.

| Particulars                | ₹             | Particulars        | ₹             |
|----------------------------|---------------|--------------------|---------------|
| To E's Executor's Loan A/c | 58,340        | By E's Capital A/c | 28,340        |
|                            |               | By E's Loan A/c    | 30,000        |
|                            | <b>58,340</b> |                    | <b>58,340</b> |

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

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

#### Working Notes :

- (1) Calculation of E's Share in profit for 146 days :  
 $= ₹80,000 \times 146/365 \times 2/10 = ₹6,400$

## Retirement or Death of a Partner

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

G's Capital (Adjusted) = ₹76,790

F's Capital (Adjusted) = ₹10,970

₹87,760

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

G's Capital = ₹87,760 × 7/8 = ₹76,790

F's Capital = ₹87,760 × 1/8 = ₹10,970

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

### SOLUTION : 71.

#### JOURNAL

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

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

## Retirement or Death of a Partner

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

| Dr.      |                                  | SOMAN'S EXECUTOR'S A/C |          |   |               | Cr. |
|----------|----------------------------------|------------------------|----------|---|---------------|-----|
| Date     | Particulars                      | ₹                      | Date     | Particulars                                 | ₹             |     |
| 2010     |                                  |                        | 2010     |   |               |     |
| July 1   | To Bank A/c                      | 1,775                  | June 30  | By Sohan's Capital A/c                      | 17,400        |     |
| 2011     |                                  |                        |          |   |               |     |
| March 31 | To Balance c/d                   | 16,328                 | 2011     | By Interest A/c                             |               |     |
|          |                                  |                        | March 31 | (17,400 – 1,775)<br>x 6/100 x 9/12          | 703           |     |
|          |                                  | <b>18,103</b>          |          |   | <b>18,103</b> |     |
| 2011     |                                  |                        | 2011     |   |               |     |
| June 30  | To Bank (1/4th of<br>₹15,625     | 3,906                  | April 1  | By Balance b/d                              | 16,328        |     |
|          | <b>Add:</b> Interest (703 + 234) | 937                    | June 30  | By Interest A/c                             |               |     |
|          |                                  | 4,843                  |          | 15,625 x 6/100 x 3/12                       | 234           |     |
| 2012     |                                  |                        | 2012     |   |               |     |
| March 31 | To Balance c/d                   | 12,246                 | March 31 | By Interest A/c                             |               |     |
|          |                                  |                        |          | (15,625 – 3,906) =<br>11,719 x 6/100 x 9/12 | 527           |     |
|          |                                  | <b>17,089</b>          |          |   | <b>17,089</b> |     |
| 2012     |                                  |                        | 2012     |   |               |     |
| June 30  | To Bank (1/4th of<br>₹15,625     | 3,906                  | April 1  | By Balance b/d                              | 12,246        |     |
|          | <b>Add:</b> Interest (527 + 176) | 703                    | June 30  | By Interest A/c                             |               |     |
|          |                                  | 4,609                  |          | 11,719 x 6/100 x 3/12                       | 176           |     |
| 2013     |                                  |                        | 2013     |   |               |     |
| March 31 | To Balance c/d                   | 8,165                  | March 31 | By Interest A/c                             |               |     |
|          |                                  |                        |          | (11,719 – 3,906) =<br>7,813 x 6/100 x 9/12  | 352           |     |
|          |                                  | <b>12,774</b>          |          |   | <b>12,774</b> |     |
| 2013     |                                  |                        | 2013     |   |               |     |
| June 30  | To Bank (1/4th of<br>₹15,625     | 3,906                  | April 1  | By Balance b/d                              |               |     |
|          | <b>Add:</b> Interest (352 + 117) | 469                    | June 30  | By Interest A/c                             |               |     |
|          |                                  | 4,575                  |          | 7,813 x 6/100 x 3/12                        |               |     |
| 2014     |                                  |                        | 2014     |   |               |     |
| March 31 | To Balance c/d                   | 4,083                  | March 31 | By Interest A/c                             |               |     |



## Retirement or Death of a Partner

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

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

### SOLUTION : 72.

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

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

## Retirement or Death of a Partner

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

### Working Notes:

(1) Valuation of Goodwill =

Average Profit = ₹ (17,000 + 15,000 + 23,000 + 25,000) ÷ 4 = ₹20,000

Goodwill at 1½ year's purchase = 20,000 x 1½ = ₹30,000

A's share = 30,000 x 2/10 = ₹6,000

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

## Retirement or Death of a Partner

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

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

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

### SOLUTION : 73.

#### JOURNAL ENTRIES

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

## Retirement or Death of a Partner

|        |   |     |        |  |        |
|--------|---|-----|--------|--|--------|
| May 15 | N's Executor's A/c<br>To Bank A/c<br><b>(Amount paid immediately)</b> | Dr. | 68,400 |  | 68,400 |
|--------|---|-----|--------|--|--------|

### Note : Valuation of Goodwill :

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

Goodwill = 15,000 x 3 = ₹45,000

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

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

## ADDITIONAL QUESTIONS Calculation of New Profit-Sharing Ratio

### SOLUTION : 74.

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

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

### SOLUTION : 75.

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

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

## Retirement or Death of a Partner

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

### **SOLUTION : 76.**

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

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

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

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

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

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

### **SOLUTION : 77.**

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

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

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

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

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

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

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

### **SOLUTION: 78.**

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

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

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

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

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

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

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

### **SOLUTION : 79.**

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

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

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

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

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

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

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

### **SOLUTION: 80.**

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

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

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

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

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

## Retirement or Death of a Partner

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

Thus, new ratio between A and C = 6/9: 3/9 or 6:3 or 2: 1

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

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

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

$$A's \text{ new share} = 4/9 + 1/6 = (8 + 3)/18 = 11/18$$

$$C's \text{ new share} = 2/9 + 1/6 = (4 + 3)/18 = 7/18$$

Thus, new ratio between A and C = 11/18: 7/18 or 11 : 7

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

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

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

Thus, new ratio between A and C = 7/9 : 2/9 or 7 : 2

## Calculation of Gaining Ratio

### SOLUTION : 81.

Gaining Ratio = New Ratio - Old Ratio

$$\text{Gaining Ratio of Mangli} = 5/8 - 3/9 = (45-24)/72 = 21/72$$

$$\text{Gaining Ratio of Sanvali} = 3/8 - 2/9 = (27 - 16)/72 = 11/72$$

$$\text{Mangli and Sanvali} = 21 : 11$$

### SOLUTION : 82.

Gaining Ratio = New Ratio - Old Ratio

$$\text{Gaining Ratio of A} = 7/12 - 1/3 = (7 - 4)/12 = 3/12$$

$$\text{Gaining Ratio of C} = 5/12 - 1/3 = (5 - 4)/12 = 1/12$$

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

### SOLUTION : 83.

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

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

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

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

$$\text{Hence, A's new share} = 4/9 + 4/27 = (12 + 4)/27 = 16/27$$

$$B's \text{ new share} = 3/9 + 2/27 = (9 + 2)/27 = 11/27$$

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

Gaining Ratio between A and B = 2:1

### SOLUTION : 84.

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

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

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

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

## Retirement or Death of a Partner

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

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

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

Gaining Ratio between A and B = 3:2

## Treatment of Goodwill

### SOLUTION : 85.

#### JOURNAL

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

Gaining Ratio = New Ratio - Old Ratio

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

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

Only O gains on N's retirement.

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

### SOLUTION : 86.

#### JOURNAL

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

Gaining Ratio = New Ratio - Old Ratio

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

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

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

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

### SOLUTION : 87.

Calculation of Gaining Ratio :

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

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

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

## Retirement or Death of a Partner

### JOURNAL

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

#### Working Note: (1)

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

#### SOLUTION : 88.

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

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

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

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

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

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

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

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

### JOURNAL

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

#### SOLUTION : 89.

### JOURNAL

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



## Retirement or Death of a Partner

### Working Notes :

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

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

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

### SOLUTION : 90.

#### JOURNAL

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

### Working Notes :

#### (i) Valuation of Goodwill :

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

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

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

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

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

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

### SOLUTION : 91.

#### JOURNAL

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

### Working Notes :

#### Calculation of New Profit Sharing Ratios :

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

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

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

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

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

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

## Retirement or Death of a Partner

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

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

### SOLUTION : 92.

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

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

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

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

#### Working Notes :

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

This share is debited to K and M in gaining ratio

Gaining Ratio = New Ratio - Old Ratio

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

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



## Retirement or Death of a Partner

|  |   |        |               |            |               |
|--|---|--------|---------------|------------|---------------|
|  | X | 22,400 |               | Motor Vans | 3,400         |
|  | Z | 11,500 | 33,900        | Machinery  | 15,750        |
|  |   |        |               | Buildings  | 24,750        |
|  |   |        | <b>66,925</b> |            | <b>66,925</b> |

### Working Notes :

(1) Calculation of Gaining Ratio :

$$Y \text{ Gains} = 3/5 - 1/2 = (6 - 5)/10 = 1/10$$

$$Z \text{ Gains} = 2/5 - 1/6 = (12 - 5)/30 = 7/30$$

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

$$Y's \text{ share of Goodwill} = ₹9,000 \times 1/3 = ₹3,000$$

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

$$X: ₹3,000 \times 3/10 = ₹900$$

$$Z: ₹3,000 \times 7/10 = ₹2,100$$

### SOLUTION : 94.

#### JOURNAL ENTRY FOR GOODWILL

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

| Dr.                                 |              | REVALUATION ACCOUNT                  |       | Cr.          |  |
|-------------------------------------|--------------|--------------------------------------|-------|--------------|--|
| Particulars                         | ₹            | Particulars                          | ₹     |              |  |
| To Patents A/c                      | 1,000        | By Investments A/c                   | 5,800 |              |  |
| To Plant and Machinery A/c          | 4,800        | By Provident Fund A/c                | 500   |              |  |
| To Provision for Doubtful Debts A/c | 800          | By Loss transferred to Capital A/cs: |       |              |  |
|                                     |              | A                                    | 150   |              |  |
|                                     |              | B                                    | 100   |              |  |
|                                     |              | C                                    | 50    | 300          |  |
|                                     | <b>6,600</b> |                                      |       | <b>6,600</b> |  |

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

## Retirement or Death of a Partner

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

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

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

### SOLUTION : 95.

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

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

## Retirement or Death of a Partner

|                |               |               |               |  |               |               |
|----------------|---------------|---------------|---------------|--|---------------|---------------|
| To Balance c/d | 54,800        | 32,200        | —             |  |               |               |
|                | <b>80,000</b> | <b>70,000</b> | <b>96,000</b> |  | <b>80,000</b> | <b>70,000</b> |
|                |               |               |               |  | <b>96,000</b> |               |

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

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

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

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

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

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

### SOLUTION : 96.

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

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

## Retirement or Death of a Partner

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

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

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

#### Working Note :

Gaining Ratio 2:1.

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

### SOLUTION : 97.

#### Dr. REVALUATION ACCOUNT Cr.

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

#### Dr. PARTNER'S CAPITAL ACCOUNTS Cr.

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

## Retirement or Death of a Partner

|  |        |        |        |  |        |        |        |
|--|--------|--------|--------|--|--------|--------|--------|
|  | 83,600 | 58,400 | 41,800 |  | 83,600 | 58,400 | 41,800 |
|--|--------|--------|--------|--|--------|--------|--------|

### BALANCE SHEET as at 01.04.2014

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

### Dr. S's LOAN ACCOUNT Cr.

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

### SOLUTION : 98.

### Dr. REVALUATION ACCOUNT Cr.

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



## Retirement or Death of a Partner

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

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

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

### SOLUTION : 99.

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

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

## Retirement or Death of a Partner

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

### BALANCE SHEET as at 31st March, 2017

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

#### Working Notes :

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

#### (2) Adjustment of Capitals :

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

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

## Retirement or Death of a Partner

### SOLUTION : 100.

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

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

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

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

## Retirement or Death of a Partner

### Working Notes :

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

### Working Notes :

Gaining Ratio = New Ratio - Old Ratio

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

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

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

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

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

### SOLUTION : 101.

#### JOURNAL ENTRIES

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

## Retirement or Death of a Partner

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

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

### BALANCE SHEET OF B

as at.....

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

#### Working Note:

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

### SOLUTION : 102.

#### JOURNAL ENTRIES

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

## Retirement or Death of a Partner

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

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

## Retirement or Death of a Partner

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

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

#### Working Note:

Calculation of Gaining Ratio : New Ratio – Old Ratio

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

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

Only C gains 2/6th share.

### SOLUTION : 103.

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

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

## Retirement or Death of a Partner

|  |               |               |               |                                  |               |               |               |
|--|---------------|---------------|---------------|----------------------------------|---------------|---------------|---------------|
|  |               |               |               | A/c<br>(Goodwill)<br>By Cash A/c | 1,600         | 24,000        |               |
|  | <b>31,728</b> | <b>51,328</b> | <b>36,328</b> |                                  | <b>31,728</b> | <b>51,328</b> | <b>36,328</b> |

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

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

### SOLUTION : 104.

#### JOURNAL ENTRIES

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



## Retirement or Death of a Partner

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

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

### NEW BALANCE SHEET as at 31st March, 2017

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

## Retirement or Death of a Partner

|   |        |                 |  |                 |
|---|--------|-----------------|--|-----------------|
| A | 68,200 |                 |  |                 |
| C | 40,800 | 1,09,000        |  |                 |
|   |        | <b>1,73,400</b> |  | <b>1,73,400</b> |

### Working Note:

Calculation of Gaining Ratio :

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

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

Therefore, Gaining Ratio = 7:8

### SOLUTION : 105.

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

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

### Working Notes :

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

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

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

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

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

X's existing Capital 30,000

Y's existing Capital 30,000

**Total Capital Required** **60,000**

## Retirement or Death of a Partner

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

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

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

Therefore adjustment of Surplus/deficit in their current accounts.

|                               | X                      | Y                       |
|-------------------------------|------------------------|-------------------------|
|                               | ₹                      | ₹                       |
| Capital Required              | 45,000                 | 15,000                  |
| <b>Less: Existing Capital</b> | <b>30,000</b>          | <b>30,000</b>           |
|                               | <b>(Deficit)15,000</b> | <b>15,000 (Surplus)</b> |

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

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

### SOLUTION : 106.

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

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

## Retirement or Death of a Partner

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

### OPENING BALANCE SHEET as at 1st April. 2014

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

#### Working Notes :

(i) Gaining Ratio = New Ratio - Old Ratio

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

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

Therefore, Gaining Ratio = 5:1

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

|                              |        |
|------------------------------|--------|
| Amount required to pay off C | ₹      |
|                              | 62,000 |

|                            |          |
|----------------------------|----------|
| Add: Existing Capital of A | 1,09,000 |
|----------------------------|----------|

|                            |                 |
|----------------------------|-----------------|
| Add: Existing Capital of B | 75,000          |
|                            | <b>2,46,000</b> |

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

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

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

**Amount to be brought in by A and B :**

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

### SOLUTION : 107.

#### JOURNAL ENTRIES

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

## Retirement or Death of a Partner

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

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

## Retirement or Death of a Partner

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

### OPENING BALANCE SHEET as at 31st March, 2017

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

#### Working Notes :

(i) Gaining Ratio = New Ratio – Old Ratio

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

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

∴ Gaining Ratio = 8 : 7

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

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

### SOLUTION : 108.

#### JOURNAL

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

## Retirement or Death of a Partner

|   |  |  |        |
|---|--|--|--------|
| To Bank A/c<br>(Payment made to retiring partner) |  |  | 26,667 |
|---|--|--|--------|

## Death of a Partner

### SOLUTION : 109.

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

#### Working Notes :

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

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

(ii) Calculation of Share of Profit:

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

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

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

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

### SOLUTION : 110.

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

#### Working Notes :

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

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

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

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

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

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

## Retirement or Death of a Partner

### SOLUTION : 111.

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

#### Working Notes :

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

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

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

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

### SOLUTION : 112.

Aman's share of profit:

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

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

#### JOURNAL ENTRIES

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

### SOLUTION : 113.

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



## Retirement or Death of a Partner

|       |        |               |  |               |
|-------|--------|---------------|--|---------------|
| Ram   | 12,500 |               |  |               |
| Mohan | 7,500  |               |  |               |
| Sohan | 5,000  | 25,000        |  |               |
|       |        | <b>35,000</b> |  | <b>35,000</b> |

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

**Notes :**

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

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

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

Profit for 2016-17     ₹75,000

Profit for 4 months =  $75,000 \times 4/12 = 25,000$

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

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

**SOLUTION : 114.**

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

## Retirement or Death of a Partner

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

### Working Notes :

- (1) Profit sharing Ratio between Risha and Nisha :  $1/2 : 1/3 = 3 : 2$   
 (2) Nisha's share of Profit from 1st January 2017 to 31st May, 2017:  
 Average Profit = ₹  $(4,200 + 3,900 + 4,500) \div 3 = ₹4,200$   
 Nisha's Share =  $4,200 \times 5/12 \times 2/5 = ₹700$   
 (3) Nisha's share of Goodwill :  
 Average Profit = 4,200  
 Goodwill on three year's purchase =  $4,200 \times 3 = 12,600$   
 Nisha's share =  $12,600 \times 2/5 = ₹5,040$ .

### SOLUTION : 115.

#### (i) Valuation of Goodwill:

Total Profits for the last 5 years  
 =  $10,000 + 30,000 + 43,000 - 6,000 - 4,000 = 73,000$   
 Total Profits for valuation of Goodwill =  $73,000$  less 10% =  $65,700$   
 Average Profits =  $65,700 \div 5 = ₹13,140$   
 X's share of Profit =  $13,140 \times 5/10 = ₹6,570$   
 X's share of Goodwill =  $6,570 \times 2 \text{ years} = ₹13,140$

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

Average Profits of the previous 3 years =  $43,000 - 6,000 - 4,000 = ₹11,000$   
 $11,000 + 10\% \text{ of } 11,000 = ₹12,100$   
 Profits for 5 months =  $12,100 \times 5/12 = ₹5,042$   
 X's share =  $5,042 \div 2 = 2,521$

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

### SOLUTION: 116.

#### Valuation of Goodwill:

Average Profits = ₹  $(20,000 + 30,000 - 15,000 - 5,000 + 45,000) \div 5 = ₹15,000$   
 Total Goodwill =  $15,000 \times 1.5 \text{ year's} = ₹22,500$   
 Net Goodwill =  $22,500 - 4,500$  (5% of Book Debts) = ₹18,000  
 C's share =  $18,000 \times 40/100 = ₹7,200$ .

## Retirement or Death of a Partner

### JOURNAL ENTRY

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

### SOLUTION : 117.

#### (i) Valuation of Goodwill:

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

Seth's share of goodwill based upon his share of profit = 1,26,000 x 2/5 = ₹50,400

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

Average Profit of 3 years = 1,26,000 ÷ 3 = ₹42,000

Profits upto the date of death = 42,000 x 4/12 = ₹14,000

Seth's share = 14,000 x 2/5 = ₹5,600.

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

### SOLUTION: 118.

#### (i) Valuation of Goodwill:

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

Average Profit = 75,000 ÷ 5 = ₹15,000.

Hence, Goodwill at 2 year's purchase = 15,000 x 2 = ₹30,000.

C's share of Goodwill = 30,000 x 2/10 = ₹6,000.

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

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

20,000 x 6/12 x 2/10 = ₹2,000.

#### (iii)

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

## Retirement or Death of a Partner

|  |               |               |
|--|---------------|---------------|
|  | <b>12,000</b> | <b>12,000</b> |
|--|---------------|---------------|

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

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

### SOLUTION: 119.

(i) Valuation of Goodwill:

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

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

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

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

= 20,000 x 6/12 x 2/5 = ₹4,000

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

## Retirement or Death of a Partner

### SOLUTION : 120.

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

### JOURNAL ENTRY

| Date | Particulars   | L.F. | Dr.(₹) | Cr.(₹) |
|------|---|------|--------|--------|
|      | Z's Executor's A/c <span style="float: right;">Dr.</span> |      | 80,250 |        |
|      | To Bank A/c<br>(Amount paid to Z's executor)              |      |        | 80,250 |

### Working Notes :

(i)

| Dr.                        |               | REVALUATION ACCOUNT |        | Cr.           |  |
|----------------------------|---------------|---------------------|--------|---------------|--|
| Particulars                | ₹             | Particulars         | ₹      |               |  |
| To Buildings               | 9,000         | By Machinery        | 34,000 |               |  |
| To Profit Transferred to : |               | By Patents          | 5,000  |               |  |
| X's Capital A/c            | 15,000        |                     |        |               |  |
| Y's Capital A/c            | 10,000        |                     |        |               |  |
| Z's Capital A/c            | 5,000         |                     |        |               |  |
|                            | <b>30,000</b> |                     |        |               |  |
|                            | <b>39,000</b> |                     |        | <b>39,000</b> |  |

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

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

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

### SOLUTION : 121.

### JOURNAL

| Date | Particulars  | L.F. | Dr.(₹) | Cr.(₹) |
|------|--|------|--------|--------|
| 2015 | General Reserve A/c <span style="float: right;">Dr.</span>     |      | 10,000 |        |
| June | To N's Capital A/c   |      |        | 10,000 |
| 12   | (A's share of general reserve transferred to this Capital A/c) |      |        |        |

## Retirement or Death of a Partner

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

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

### Working Notes :

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

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

Goodwill = ₹90,000 x 2 = ₹1,80,000

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

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

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

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

### SOLUTION : 122.

#### Working Notes:

(1) Valuation of Firm's Goodwill :

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

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

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

## Retirement or Death of a Partner

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

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

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

### SOLUTION : 123.

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

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

## Retirement or Death of a Partner

### Working Notes:

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

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

### (2) Valuation of Goodwill:

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

### SOLUTION : 124.

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

### Working Notes :

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

### SOLUTION : 125.

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



## Retirement or Death of a Partner

### Working Notes :

(1) Share in Goodwill:

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

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

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

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

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

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

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

### SOLUTION : 126.

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

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

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

## Retirement or Death of a Partner

|                         |                 |                 |
|-------------------------|-----------------|-----------------|
| Representative Loan A/c | 50,000          |                 |
|                         | <b>1,10,080</b> | <b>1,10,080</b> |

### Working Notes :

(1) Krishna's share of goodwill:

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

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

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

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

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

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

= 36,000 x 6/12 = ₹18,000

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

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

69,600 x 10/100 x 6/12 = ₹3,480.