Chapter 3

Retirement or Death of a Partner

RETIREMENT AND DEATH OF A PARTNER

Meaning of Retirement of a Partner

Retirement of a partner is one of the modes of reconstituting the firm in which old partnership comes to an end and a new partner among the continuing (remaining) partners (i.e., partners other than the outgoing partner) comes into existence.

A partner may retire from the firm:

(i) in accordance with the terms of agreement; or

(ii) with the consent of all other partners; or

(iii) where the partnership is at will, by giving a notice in writing to all the partners of his intention to retire.

'Gaining Ratio'

Gaining Ratio means the ratio by which the share in profit stands increased. It is computed by deducting old ratio from the new ratio.

Gaining Partner is a partner whose share in profit stands increased as a result of change in partnership.

Gaining Ratio is computed in the following circumstances:

(i) when a partner retires or dies.

(ii) when there is a change in profit sharing ratio.

Revaluation of Assets and Reassessment of Liabilities

At the time of retirement or death of a partner, assets are revalued and liabilities are reassessed so that the profit or loss arising on account of such revaluation upto the date of retirement or death of a partner may be ascertained and adjusted in all partners' capital accounts in their old profit sharing ratio.

Reserves, accumulated profits and losses existing in the books of account as on the date of retirement or death are transferred to the Capital Accounts (or Current Accounts) of all the partners (including outgoing or deceased partner) in their old profit sharing ratio so that the due share of an outgoing partner in reserves, accumulated profits/losses gets adjusted in his Capital or Current Account.

Adjustments Required on the Retirement or Death of a Partner

At the time of the retirement or death of a partner, adjustments are made for the following:

(i) Adjustment in regard to goodwill.

(ii) Adjustment in regard to revaluation of assets and reassessment of liabilities.

(iii) Adjustment in regard to undistributed profits.

(iv) Adjustment in regard to the Joint Life Policy and individual policies.

Few Importan Questions with Regard to Retirement

Q.1. X wants to retire from the firm. The profit on revaluation of assets on the date of retirement is ` 10,000. X is of the view that it be distributed among all the partners in their profit sharing ratio whereas Y and Z are of the view that this profit be divided between Y and Z in new profit sharing ratio. Who is correct in this case?

Ans. X is correct because according to the Partnership Act, a retiring partner is entitled to share the profit upto the date of his retirement. Since the profit on revaluation arises before a partner retires, he is entitled to the profit.

Q.2. How is goodwill adjusted in the books of a firm when a partner retires from partnership?

Ans. When a partner retires (or dies), his share of profit is taken over by the remaining partners. The remaining partners then compensate the retiring or deceased partner in the form of goodwill in their gaining ratio. The following entry is recorded for this purpose:

Remaining Partners' Capital A/c ...Dr.
[Gaining Ratio]

To Retiring/Deceased Partner's Capital A/c
[With his share of goodwill]

If Goodwill (or Premium) account already appears in the old Balance Sheet, it should be written off by recording the following entry:

All Partners' Capital/Current A/c ...Dr.
[Old Ratio]

To Goodwill (or Premium) A/c

Q.3. X, Y and Z are partners sharing profits and losses in the ratio of 3: 2:1. Z retires and the following Journal entry is passed in respect of Goodwill:

Y's Capital A/c	...Dr.	20,000	
To X's Capital A/c			10,000
To Z's Capital A/c			10,000

The value of goodwill is ` 60,000. What is the new profit sharing ratio between X and Y?

Ans. Without calculating the gaining ratio, the amount to be adjusted in respect of goodwill can be calculated directly with the help of following statement:

Statement Showing the Required Adjustment for Goodwill

Particulars	**X (`)**	**V (`)**	**Z (`)**
Right of goodwill before retirement (3:2:1)	30,000	20,000	10,000
(Old Ratio) Right of goodwill after retirement (Balancing Figure) (New Ratio)	20,000	40,000	–
Net Adjustment	(-) 10,000	(+) 20,000	(-) 10,000

The new ratio between X and Y is 1: 2.

Q.4. State the ratio in which profit or loss on revaluation will be shared by the partners when a partner retires.

Ans. Profit or loss on revaluation of assets/liabilities will be shared by the partners (including the retiring partner) in their old profit sharing ratio.

Q.5. How is the account of retiring partner settled?

Ans. The retiring partner account is settled either by making payment in cash or by promising the retiring partner to pay in installments along with interest or by making payment partly in call and partly transferring to his loan account. The following Journal entry is passed:

Retiring Partner's Capital A/c ...Dr.

To Cash*
[If paid in cash]

Or

To Retiring Partner's Loan
[If transferred to loan]

Q.6. What is Joint Life Policy?

Ans. Joint Life Policy is an insurance policy taken on the lives of the partners jointly. Premium of the policy is paid by the firm.

Q.7. What is the objective of taking a Joint Life Policy by a partnership firm?

Ans. A partnership firm takes a Joint Life Policy with the objective of receiving sufficient amount in cash and thereby enabling itself to pay the amount payable to the retiring partner or to the representatives of the deceased partner, without adversely affecting the financial position and working of the business.

Q.8. When does the Joint Life Policy become due?

Ans. Joint Life Policy becomes due for payment by the Insurance Company either on the death of any partner or on its maturity, whichever is earlier. The policy may also be surrendered before its maturity.

Q.9. What is Surrender Value?

Ans. Surrender Value is the value of the insurance policy that the insurance company pays on the surrender of a policy before the date of its maturity.

Q.10. How is the share of profit of a deceased partner calculated from the date of last balance sheet to the date of death?

Ans. If a partner dies on any date after the date of balance sheet; then his share of profit is calculated from the beginning of the year to the date of death on the basis of average profits or last year's profit. It is calculated on either of the following two bases:

(i) On the Basis of Time: In this method, it is assumed that the profits had accrued uniformly in the previous year. On the basis of time, deceased partner's share in the profits till the date of death is calculated as follows:

Share of Deceased Partner

= Average Profits × Proportion of Deceased Partner

(ii) On the Basis of Sales: Deceased partner's share in profit till the date of death shall be:

= Sales for the period* × Proportion of Deceased Partner

*Period = from the beginning of the year to the date of death.

Q.11. How is amount payable to the representative of a deceased partner calculated?

Ans. In the case of death of a partner, the legal representatives of a deceased partner are entitled to the following:

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

(ii) His share in the goodwill of the firm.

(iii) His share of profit on the revaluation assets and reassessment of liabilities.

(iv) His share of reserves and accumulated profits.

(v) His share of profits earned from the date of last balance sheet of the date of death.

(vi) Interest on capital provided in the partnership agreement.

(vii) His share of the proceeds of Joint Life Policy.

The following amounts will be debited to his account:

(i) His share in the reduction in the value of goodwill, if any.

(ii) His share of loss on revaluation of assets and reassessment of liabilities.

(iii) His drawings.

(iv) Interest on drawings, if provided in the partnership deed.

(v) His share of loss from the date of last balance sheet to the date of death.

The balance in the capital account is transferred to his Executor's Account.

Q.12. Can an outgoing partner or Legal Representative of Deceased Partner share in the subsequent profits?

Or

What will happen if deceased or retired partner's dues are not settled immediately?

Ans. As per the provisions of Section 37 of the Partnership Act, 1932, if full or part amount of outgoing partner still remains to be paid then:

(i) He will be entitled to interest or share in profit or nothing as has been mutually agreed among partners.

(ii) If nothing is agreed among the partners, then outgoing partner or his representatives have the choice to get either of the following till final settlement:

(a) Interest @ 6% per annum on the balance amount.

(b) Share in the profit earned proportionate to their amount outstanding to total capital.

Normally, he will opt for the better of (a) or (b).

Very Short Questions

Q.1. In which case, the following entries are required:

(a) Partner's Capital A/c Dr.
    To Partner's Loan A/c

(b) Stock A/c Dr.
    Building A/c Dr.
    To Revaluation A/c

Q.2. Journalise the following:

(a) Chander, Tara and Ravi were partners in a firm sharing profits in the ratio of 2 : 1 : 2. On 15.02.2007, Cander died and the new profit sharing ratio between Tara and Ravi was 4 : 11. On Chander's death, the goodwill of the firm was valued at ` 90,000.

Calculate gaining ratio and pass necessary journal entry for the treatment of goodwill on Chander's death without opening goodwill account.

(b) A, B, C and D are partners sharing profits in the ratio of 3 : 4 : 3 : 2. On the retirement of C, the goodwill was valued at ` 60,000. A, B and D decided to share future profits equally.

Pass the necessary journal entry for the treatment of goodwill, without opening Goodwill Account.

Illustrations

Illustration 1: The following is the Balance sheet of A, B and C who are equal partners, as on 31st December, 2001. C decided to retire from the firm. A and B agreed to continue to remain equal partners for future.

Balance Sheet
(as on 31st December, 2001)

Liabilities	Amount	Assets		Amount
Capital A	30,000	Cash		2,500
Capital B	20,000	Stock		17,750
Capital C	15,000	Debtors	16,400	
Reserves	4,500	Less: Reserve	1,400	15,000
Creditors	5,500	Machinery		18,750
		Building		21,000
	75,000			**75,000**

The following adjustments have been made for retirement:

(i) Stock reduced to ` 15,000 and Machinery increased to ` 20,000.

(ii) C's share of Goodwill ` 6,000 is adjusted in the accounts.

(iii) B paid cash ` 10,000 to C; and the balance amount due to him is transferred to C's loan account.

Prepare Revaluation Account, Capital Accounts of Partner's and the Balance Sheet of the firm after C's retirement.

Solution:

Dr. Revaluation Account Cr.

Particulars	Amount	Particulars	Amount
To Stock	2,750	By Machinery	1,250
		By Partner's Capital Accounts (Revaluation Loss)	1,500
	2,750		**2,750**

Dr. Cash Account Cr.

Particulars	Amount	Particulars	Amount
To Balance b/d	2,500	By C's Capital A/c	10,000
To B's Capital A/c	10,000		
	12,500		**12,500**

Dr. Capital Account Cr.

Particulars	A	B	C	Particulars	A	B	C
To Revaluation A/c	500	500	500	By Balance b/d	30,000	20,000	15,000
To C's Cap - gw	3,000	3,000	10,000	By Cap A - gw	1,500	1,500	3,000
To B's Capital	28,000	28,000	12,000	By Cap B - gw	-	10,000	3,000
To C's Loan A/c	-	-	-	By Reserves	-	-	1,500
To Bal c/d				By C's Cap			
	31,500	**31,500**	**22,500**		**31,500**	**31,500**	**22,500**

Balance Sheet

Liabilities	Amount	Assets		Amount
A's Capital	28,000	Cash in Hand		2,500
B's Capital	28,000	Stock		15,000
C's Loan Account	12,000	Debtors	16,400	
Creditors	5,500	Less: Reserve	1,400	15,000
		Machinery		20,000
		Building		21,000
	73,500			**73,500**

Illustration 2: Following is the Balance Sheet of A, B and C sharing profits and losses in the ratio 2 : 1 : 1, as on 31st December, 2001.

Balance Sheet

Liabilities	Amount	Assets	Amount
A's Capital	25,000	Machinery	20,000
B's Capital	25,000	Buildings	31,600
C's Capital	15,500	Furniture	6,300
Creditors	4,500	Debtors	6,400
		Stock	5,700
	70,000		**70,000**

A has decided to retire from the firm. Following revaluations and adjustments are made for retirement.

(i) Machinery are revalued at ` 30,000 and A took over half of the machinery at the revised value.

(ii) An unrecorded typewriter given to Mr. A for ` 1,000.

(iii) Creditors include ` 1,500 due to Mrs. A which is taken over by Mr. A.

(iv) Goodwill of the firm is valued at ` 14,000.

(v) Balance in A's capital account is to be transferred to his loan account.

Pass Journal Entries; prepare Ledger and the Balance Sheet of the firm after A's retirement.

Solution:

Dr. Revaluation Account Cr.

Particulars		Amount	Particulars	Amount
To Capital A/c (Revaluation Profit)			By Machinery A/c	10,000
A	5,500		By A's Capital A/c – Unrecorded Asset	1,000
B	2,750			
C	2,750			
		11,000		
		11,000		**11,000**

Dr. **Capital Accounts** **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To A's Capital - gw	-	3,500	3,500	By Balance c/d	25,000	25,000	15,500
To Machinery A/c	15,000	24,250	14,750	By B's Capital - gw	3,500	2,750	2,750
To Revaluation A/c - unrecorded asset	1,000			By C's Capital - gw	3,500		
To A's Loan A/c	23,000			By Creditors - A	1,500		
To Balance c/d				By Revaluation A/c	5,500		
	39,000	**27,750**	**18,250**		**39,000**	**27,750**	**18,250**

Balance Sheet

Liabilities	Amount	Assets	Amount
B's Capital	24,250	Machinery	15,000
C's Capital	14,750	Buildings	31,600
A's Loan Account	23,000	Furniture	6,300
Creditors (4,500 — 1,500)	3,000	Debtors	6,400
		Stock	5,700
	65,000		**65,000**

Illustration 3: The following is the Balance Sheet of A, B and C as on 31st December, 2001. B has decided to retire from the firm.

Balance Sheet

Liabilities	Amount	Assets	Amount
A's Capital	40,000	Land	30,000
B's Capital	25,000	Buildings	33,000
C's Capital	20,000	Stock	10,300
Creditors	6,600	Debtors	15,700
Loan	3,400	Cash	6,000
	95,000		**95,000**

The following arrangements have been made as part of the retirement plan.

(i) Their old profit sharing ratio of 2 : 1 : 1 will change as 2 : 1 after B's retirement.

(ii) Land and Building to be appreciated to ` 35,000 and ` 36,000 respectively.

(iii) Stock to be reduced to ` 9,500.

(iv) The goodwill of the firm is estimated to be worth ` 18,000.

(v) Lives of partners have been jointly insured for ` 60,000 which is now surrendered for ` 18,000. The entire amount of the policy has been paid to C in part settlement of the amount due to him.

Prepare Revaluation Account, Necessary Ledger Accounts and the Balance Sheet of the firm immediately after B's retirement.

Solution:

Dr. Revaluation Account Cr.

Particulars		Amount	Particulars	Amount
To Stock		800	Land	5,000
To Capital A/c			Buildings	3000
A	3,600			
B	1,800			
C	1,800	7,200		
		8,000		**8,000**

Dr. Cash Accounts Cr.

Particulars	Amount	Particulars	Amount
To Balance b/d	6,000	By B's Capital A/c	18,000
To JLP	18,000	By Balance c/d	6,000
	24,000		**24,000**

Dr. Capital Accounts Cr.

Particulars	A	B	C	Particulars	A	B	C
To B's Cap - gw	3,000	-	1,500	By Balance b/d	40,000	25,000	20,000
To Cash	49,600	18,000	24,800	By A's Cap - gw	-	3,000	-
To B's Loan A/c	-	17,800	-	By B's Cap - gw	-	1,500	-
To Balance c/d	-	-	-	By JLP	9,000	4,500	4,500
				By Revaluation A/c	3,600	1,800	1,800
	52,600	**35,800**	**26,300**		**52,600**	**35,800**	**26,300**

Balance Sheet

Liabilities	Amount	Assets	Amount
A's Capital	49,600	Land	35,000
B's Capital	24,800	Buildings	36,000
C's Loan Account	17,800	Stock	9,500
Creditors	6,600	Debtors	15,700
Loan	3,400	Cash	6,000
	1,02,200		**1,02,200**

Illustration 4: A, B and C sharing profits and losses in the ratio 2 : 1 : 1 had their Balance Sheet as on 31st December, 2001 as follows:

Balance Sheet

Liabilities	Amount	Assets	Amount
A's Capital	35,000	Land	33,000
B's Capital	25,000	Buildings	25,000
C's Capital	18,500	Machinery	17,500
Reserves	6,500	Furniture	4,100
		Cash at Bank	5,400
	85,000		**85,000**

A has decided to retire on that date subject to the following arrangements:

(i) B and C shall share future profits and losses equally.

(ii) The values of Land, Buildings and Machinery are estimated to be worth ` 5,000, ` 3,000 and ` 1,000 more than their respective book values.

(iii) A's share of goodwill is estimated at ` 3,000.

(iv) They have decided the future capital shall be ` 1,00,000 to be shared by B and C in the new profit sharing ratio. The amount due to A has to be paid off immediately.

Prepare Revaluation Account, Capital Accounts of Partners, Cash Account and the new Balance Sheet.

Solution:

Dr. **Revaluation Account** **Cr.**

Particulars		Amount	Particulars	Amount
To Capital A/c:			By Land	5,000
A	4,500		By Buildings	3,000
B	2,250		By Machinery	1,000
C	2,250	9,000		
		9,000		**9,000**

Dr. **Cash Accounts** **Cr.**

Particulars	Amount	Particulars	Amount
To Balance b/d	5,400	By A's Capital	45,750
To B's Capital	22,625	By Balance c/d	11,400
To C's Capital	29,125		
	57,150		**57,150**

Dr. **Capital Accounts** **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Cash A/c	45,750	1,500	1,500	By Balance b/d	35,000	25,000	18,500
To A's Cap - gw		50,000	50,000	By Reserves	3,250	1,625	1,625
To Balance c/d				By B's Cap - gw	1,500	-	-
				By C's Cap - gw	1,500	2,250	2,250
				By Revaluation A/c	4,500	22,625	29,125
				By Cash A/c			
	45,750	**51,500**	**51,500**		**45,750**	**51,500**	**51,500**

Balance Sheet

Liabilities	Amount	Assets	Amount
B's Capital	50,000	Land	38,000
C's Capital	50,000	Buildings	28,000
		Machinery	18,500
		Furniture	4,100
		Cash	11,400
	1,00,000		**1,00,000**

Illustration 5: The following Balance Sheet shows the financial position of A, B and C as on 31st December, 2001. C has decided to retire from the firm on the conditions listed below.

Balance Sheet

Liabilities	Amount	Assets	Amount
A's Capital	30,000	Land	30,000
B's Capital	25,000	Buildings	22,000
C's Capital	20,000	Furniture	4,500
Creditors	5,200	Stock	6,200
P & L Account	4,800	Debtors	10,250
		Investment	8,500
		Cash	3,550
	85,000		**85,000**

(i) The old profit sharing ratio of 2 : 1 : 1 shall change as 1 : 1.

(ii) The goodwill of the firm is valued at ` 18,000; C's share shall be adjusted in capital accounts without raising goodwill.

(iii) Land should be appreciated by 20% and buildings to be depreciated by ` 2,000.

Prepare Revaluation Account, Capital Accounts of Partner's and the Balance Sheet immediately after C's retirement.

Solution:

Dr. Revaluation Account Cr.

Particulars	Amount	Particulars	Amount
To Building	2,000	By Land	6,000
To Capital Accounts	4,000		
	6,000		**6,000**

Dr. Capital Accounts Cr.

Particulars	A	B	C	Particulars	A	B	C
To C's Cap - g/w	-	4,500	26,700	By Balance b/d	30,000	25,000	20,000
To C's Loan	34,400	-	-	By P&L A/c	2,400	1,200	1,200
To Balance c/d		22,700		By B's Cap - gw	2,000	1,000	4,500
				By Revaluation A/c			1,000
	34,400	**27,200**	**26,700**		**34,400**	**27,200**	**26,700**

Balance Sheet

Liabilities	Amount	Assets	Amount
A's Capital A/c	34,400	Land	36,000
B's Capital A/c	22,700	Buildings	20,000
Loan Account of C	26,700	Furniture	4,500
Creditors	5,200	Stock	6,200
		Debtors	10,250
		Investment	8,550
		Cash	3,550
	89,000		**89,000**

Illustration 6: A, B and C had the following financial position on 31st December, 2001. B decided to retire on that date.

Balance Sheet

Liabilities	Amount	Assets	Amount
Capital A	25,000	Machinery	17,700
Capital B	19,500	Buildings	23,000
Capital C	18,000	Land	19,600
General Reserve	1,500	Petty Cash	500
Creditors	6,000	Office Equipment	5,700
		Cash at Bank	3,500
	70,000		**70,000**

The following arrangements have been made for retirement.

(i) The value of buildings to be reduced to ` 20,000 and machinery to ` 17,100.

(ii) The old profit division arrangement of equal sharing has been changed to 2 : 1 between A and C.

(iii) Goodwill of the firm is estimated to be worth ` 21,000; B's share thereof should be adjusted through capital accounts.

(iv) The total capital of the firm after retirement has been decided to be ` 75,000 to be shared by A and C in their new profit sharing ratio.

(v) Amount due to B is paid off immediately.

Prepare Revaluation Account, Capital Accounts of Partner's and the Balance Sheet of A and C after B's retirement.

Solution:

Dr. Revaluation Account Cr.

Particulars	Amount	Particulars	Amount
To Buildings	3,000	By Capital Accounts (Revaluation loss)	3,600
To Machinery	600		
	3,600		**3,600**

Dr. Bank Account Cr.

Particulars	Amount	Particulars	Amount
To Balance b/d	3,500	By B's Capital A/c	25,800
To A's Capital	32,700	By Balance c/d	18,100
To B's Capital	7,700		
	43,900		**43,900**

Dr. Capital Account Cr.

Particulars	A	B	C	Particulars	A	B	C
To Revaluation	1,200	1,200	1,200	By Balance b/d	25,000	19,500	18,000
To B's Cap - g/w	7,000		25,000	By Reserves	500	500	500
To Balance b/d	50,000			By A's Cap - g/w	32,700	7000	7,700
				By Cash A/c			
	58,200	**25,800**	**26,200**		**58,200**	**27,000**	**26,200**

Balance Sheet

Liabilities	Amount	Assets	Amount
A's Capital	50,000	Machinery	17,100
B's Capital	25,000	Buildings	20,000
Creditors	6,000	Land	19,600
		Office	5,700
		Equipment	18,100
		Cash at Bank	500
		Petty Cash	
	81,000		**81,000**

Illustration 7: The following Balance Sheet shows the financial position of A, B and C sharing profits and losses in the ratio 3:2:1, as on 31st December, 2001.

Balance Sheet

Liabilities	Amount	Assets	Amount
Capital A	25,000	Buildings	25,500
Capital B	21,000	Machinery	16,800
Capital C	12,400	Debtors	8,900
Reserves	1,600	Joint Life Policy	4,500
		Cash	4,300
	60,000		**60,000**

A has decided to retire on the following conditions:

(i) Buildings and Machinery to be revalued at 10% less.

(ii) Debtors include an amount of ` 400 known to be bad; reserve of ` 370 to be maintained.

(iii) Joint life policy was surrendered for ` 6,500.

(iv) B and C invested an additional capital of ` 30,000 in such a way that their new balances would be in the new profit sharing ratio; A's capital balance is paid off.

Pass necessary journal entries, open ledger accounts and prepare the new Balance Sheet of the firm.

Solution:

Dr. **Revaluation Account** **Cr.**

Particulars	Amount	Particulars	Amount
To Buildings	2,550	By Capital A/c - Loss	5,000
To Machinery	1,680		
To Debtors	400		
To Reserve for Bad Debt	370		
	5,000		**5,000**

Dr. **Cash Account** Cr.

Particulars	Amount	Particulars	Amount
To Balance b/d	4,300	By A's Capital	24,300
To JLP	6,500	By Balance c/d	16,500
To B's Capital	10,700		
To C's Capital	19,300		
	40,800		**40,800**

Dr. **Capital Account** Cr.

Particulars	A	B	C	Particulars	A	B	C
To Revaluation	2,500	1,250	1,250	By Balance b/d	25,000	21,000	12,400
To Cash	24,300	31,350	31,350	By Reserves	800	400	400
To Balance c/d				By Joint Life Policy	1,000	500	500
				By Cash A/c		10,700	19,300
	26,800	**32,600**	**32,600**		**26,800**	**32,600**	**32,600**

Balance Sheet

Liabilities	Amount	Assets		Amount
Capital B	31,350	Cash		16,500
Capital C	31,350	Buildings		22,950
		Machinery		15,120
		Debtors	8,500	
		Less: Reserve	370	8,130
	63,700			**63,700**

Short Question

Q.1. Distinguish between Sacrificing Ratio and Gaining Ratio.

Ans.

Basis	Sacrificing Ratio	Gaining Ratio
(i) Meaning	Proportion in which old partners sacrifice their share in favour of new partner.	Proportion in which continuing partner gain the share of outgoing partner on his retirement.
(ii) Occasion	Sacrificing ratio is calculated at the time of admission of new partner.	Gaining ratio is calculated at the time of retirement or death of a partner.
(iii) Formula	Sacrificing ratio = Old ratio – New ratio	Gaining ratio = New ratio – Old ratio

Q.2. Kamal, Kishore and Kunal are partners in a firm sharing profits equally. Kishore retires from the firm. Kamal and Kunal decide to share the profits in future in the ratio 4 : 3. Calculate the Gaining Ratio.

Ans. Gaining Ratio = New ratio – Old ratio

Kamal's Gain = 4/7 – 1/3 = 5/21

Kunal's Gain = 3/7 – 1/3 = 2/21

Gaining Ratio = 5 : 2

Q.3. P, Q and R are partners sharing profits in the ratio of 7 : 2 : 1. P retires and the new profit sharing ratio between Q and R is 2 : 1. State the Gaining Ratio.

Ans. Old ratio = P Q R

7 : 2 : 1

New ratio = Q R

2 : 1

Gaining Ratio = New ratio – Old ratio

Q's gain = 2/3 – 2/10 = 14/30

R's gain = 1/3 – 1/10 = 7/30

Gaining Ratio = 14 : 7 or 2 : 1

Q.4. A, B and C are partners in a firm sharing profits in the ratio of 2 : 2 : 1. B retires and his share is acquired by A and C equally. Calculate new profit sharing ratio of A and C.

Ans. A's gaining share = 2/5 × 1/2 = 1/5

A's new share = 2/5 + 1/5 = 3/5

C's gaining share = 2/5 × 1/2 = 1/5

C's new share = 1/5 + 1/5 = 2/5

New ratio of A and C = 3 : 2

Q.5. X, Y and Z are partners sharing profits in the ratio of 4/9, 1/3 and 2/9. X retires and surrenders 2/3rd of his share in favour of Y and remaining in favour of Z. Calculate new profit sharing ratio and gaining ratio.

Ans. Y's gaining share = 4/9 × 2/3 = 8/27

Z's gaining share = 4/9 – 8/27 = 4/27

Y's new share = Old share + gain

= 1/3 + 8/27 = 17/27

Z's new share = 2/9 + 4/27 = 10/27

New Ratio = 17 : 10

Gaining ratio = 8/27 : 4/27 or 2 : 1

Q.6. X, Y and Z have been sharing profits and losses in the ratio of 3 : 2 : 1. Z retires. His share is taken over by X and Y in the ratio of 2 : 1. Calculate the new profit sharing ratio.

Ans. Old Ratio = 3 : 2 : 1

Z retired

X's gaining = 1/6 × 2/3 = 2/18

X's New share = 3/6 + 2/18 = 11/18

Y's Gaining = 1/6 × 1/3 = 1/18

Y's new share = 2/6 + 1/18 = 7/18

New Ratio = 11/18, 7/18 or 11 : 7

Q.7. P, Q and R were partners in a firm sharing profits in 4 : 5 : 6 ratio. On 28-02-2008 Q retired and his share of profits was taken over by P and R in 1 : 2 ratio. Calculate the new profit sharing ratio of P and R.

Ans. Old ratio = P Q R

= 4 : 5 : 6

Q retired

P's gaining = 1/3 × 5/15 = 1/9

P's new share = 4/15 + 1/9 = 17/45

R's gaining share = 2/3 × 5/15 = 2/9

R's new share = 6/15 + 2/9 = 28/45

New Ratio = 17 : 28

Q.8. Mayank, Harshit and Rohit were partners in a firm sharing profits in the ratio of 5 : 3 : 2. Harshit retired and goodwill is valued at ` 60,000. Mayank and Rohit decided to share future profits in the ratio 2 : 3. Pass necessary journal entry for treatment of goodwill.

Ans.

Rohit's capital A/C	Dr.	24,000	
To Mayank's capital A/c			6,000
To Harshit's capital A/c			18,000

(Being Adjustment entry for treatment of goodwill in gaining ratio.)

Q.9. Ramesh, Naresh and Suresh were partners in a firm sharing profits in the ratio of 5 : 3 : 2. Naresh retired and the new profit sharing ratio between Ramesh and Suresh was 2 : 3. On Naresh's retirement, the goodwill of the firm was valued at ` 1,20,000. Pass necessary journal entry for the treatment.

Ans.

Suresh's Capital A/c	Dr.	48,000	
To Ramesh's Capital A/c			12,000
To Naresh's Capital A/c			36,000

(Being goodwill adjusted among the gaining partner in gaining ratio.)

Q.10. L, M and O were partners in a firm sharing profits in the ratio of 1 : 3 : 2. L retired and the new profit sharing ratio between M and O was 1 : 2. On L's retirement, the goodwill of the firm was valued ` 1,20,000. Pass necessary journal entry for the treatment of goodwill.

Ans. O's Capital A/c	Dr.	40,000	
To C's Capital A/c			20,000
To M's Capital A/c			20,000

(Being adjustment of goodwill in gaining partners in their gaining ratio.)

Q.11. State the journal entry for treatment of deceased partner's share of profit for his life period in the year of death.

Ans. Profit and Loss Suspense A/c Dr.

To Deceased Partner's Capital A/c

Q.12. X, Y and Z were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. The profit of the firm for the year ended 31^{st} March, 2007 was ` 3,00,000. Y dies on 1^{st} July, 2007. Calculate Y's share of profit up to date of death assuming that profits in the year 2007-2008 have been accured on the same scale as in the year 2006-07 and pass necessary journal entry.

Ans. Total profit for the year ended 31^{st} March, 2007 = ` 3,00,000

Y's share of profit up to date of death = 3,00,000 × 2/6 × 3/12

= 25,000

Profit and Loss Suspense A/c	Dr.	25,000	
To Y's Capital A/c			25,000

(Being Y's share of profit transferred to Y's Capital A/c)

Q.13. A, B and C were partners in a firm sharing profits in 3 : 2 : 1 ratio. The firm closes its books on 31^{st} March, every year. B died on 12-06-2007. On B's death the goodwill of the firm was valued at ` 60,000. On B's death, his share in the profit of the firm till the time of his death was to be calculated on the basis of previous years which was ` 1,50,000. Calculate B's share in the profit of the firm. Pass necessary journal entries for the treatment of goodwill and B's share of profit at the time of his death.

Ans. Profit and Loss Suspense A/c	Dr.	10,000	
To B's Capital A/c			10,000

(Being B's share of profit transferred to B's Capital A/c)

A's Capital A/c	Dr.	15,000	
C's Capital A/c	Dr.	5,000	
To B's Capital A/c			20,000

(Being B's share of goodwill transferred to B's Capital A/c and debited to remaining Partner's Capital A/c in their gaining ratio.)

B's share of profit = Number of days from 1 April, to 12th June 2007

= 73 days

B's share of profit = 1,50,000 × 1/3 × 73/365

= ` 10,000

Q.14. A, B and C were partners in a firm sharing profits in the ratio of 2:2:1. C dies on 31st July, 2007. Sales during the previous year upto 31st March, 2007 were ` 6,00,000 and profits were ` 1,50,000. Sales for the current year upto 31st July, were ` 2,50,000. Calculate C's share of profits upto the date of his death and pass necessary journal entry.

Ans. Profit & Loss Suspense A/c	Dr.	12,500	
To C's Capital A/c			12,500

RETIREMENT/DEATH OF PARTNER

Solved Problems

Q.1 The balance sheet of X, Y, Z who were sharing profits in proportion of capital as follows:

Particulars	**Amount**	**Particulars**		**Amount**
Sundry Creditors	1,000	Cash at Bank		15,600
Capitals:	25,000	Debtors	5,000	
X	20,000	*Less:* Provision	100	4,900
Y	15,000	Stock		10,000
Z	67,000			
P/M	11,500			
Furniture	25,000			
	67,000			**67,000**

Y retires and the following adjustment of the assets and liabilities has been made before the ascertainment of the amount payable by the firm to Y:

(i) That the stock be depreciated by 5%.

(ii) That the provision for doubtful debts be increased to 5% on debtors.

(iii) That a provision of ` 750 be made in respect of outstanding legal charges.

(iv) That the land and building be appreciated by 20%.

(v) That the goodwill of the entire firm be fixed at ` 16,200 and Y's share of the same be adjusted into the account of X and Z (No goodwill account is to be raised).

(vi) That X and Z decide to share future profits of the firm in equal proportions.

(vii) That the entire capital of the new firm at ` 48,000 between X and Z in equal proportion. For the purpose, actual cash is to be brought in or paid off.

You are required to prepare the revolution account; partner's capital account and bank account and revised balance sheet after Y's retirement. Also indicate the gaining rates.

Solution:

Dr. Revaluation Account Cr.

Particulars		**`**	**Particulars**	**`**
To Stock A/c		500	By Land and Building	5,000
To Provision for Doubtful Debts A/c		150		
To Outstanding Legal Charges		750		
To Profit Transferred to Capital A/c				
X	1,500			
Y	1,200			
Z	900	3,600		
		5,000		**5,000**

Dr. Partner's Capital Accounts Cr.

Particulars	**A `**	**B `**	**C `**	**Particulars**	**A `**	**B `**	**C `**
To Y's Cap A/c	1,350	—	1,050	By Balance b/d	25,000	25,000	15,000
To Y's Loan A/c	-	2,600	-	By Rev. A/c	1,500	1,250	900
To Balance c/d	25,150	-	11,850	By X's Cap A/c (g/w)	-	1,350	-
				By X's Cap A/c (g/w)	-	4,050	-
	26,500	**26,600**	**15,900**		**26,500**	**26,600**	**15,900**
To Bank A/c	1,150	-	-	By Balance b/d	25,150	-	11,850
To Balance c/d	24,000	-	24,000	By Bank	-	-	12,150
	25,150	**-**	**24,000**		**25,150**	**24,000**	**25,150**

Dr. **Bank Account** **Cr.**

To Balance b/d	15,600	By X's Cap A/c	1,150
To Z's Capital A/c	12,150	By Balance c/d	26,600
	27,750		**27,750**

Balance Sheet of the New Firm

Liabilities		`	Assets	`
Sundry Creditors		7,000	Cash at Bank	26,600
Outstanding Legal Charges		750	Sundry Debtors (5000 – 250)	4,750
Y's Loan		26,600	Stock	9,500
Capital:			Plan & Machinery	11,500
X	24,000		Land & Building	30,000
Z	24,000	48,000		
		83,250		**83,250**

Q.2. The Balance Sheet of A, B and C on 31st December, 2007 was as under:

Balance Sheet
as at 31.12.2007

Liabilities	Amount	Assets	Amount
A's Capital	400,00	Buildings	20,000
B's Capital	30,000	Motor Car	18,000
C's Capital	20,000	Stock	20,000
General Reserve	17,000	Investments	1,20,000
Sundry Creditors	1,23,000	Debtors	40,000
		Patents	12,000
	2,30,000		**2,30,000**

The partners share profits in the ratio of 8 : 4 : 5. C retires from the firm on the same date subject to the following terms and conditions:

(i) 20% of the General Reserve is to remain' as a reserve for bad and doubtful debts.

(ii) Motor Car is to be decreased by 5%.

(iii) Stock is to be revalued at ` 17,500.

(iv) Goodwill is valued at 2½ years purchase of the average profits of last 3 years.

Profits were; 2001: ` 11,000; 2002: ` 16,000 and 2003: ` 24,000.

C was paid in July. A and B borrowed the necessary amount from the Bank on the security of Motor Car and stock to pay off C.

Prepare Revaluation Account, Capital Accounts and Balance Sheet of A and B.

Solution:

Dr. Revaluation Account Cr.

Particulars	`	**Particulars**		`
To Motor Cars A/c	900	By Loss Transferred to		
To Stock A/c	2,500	A's Capital A/c	1,600	
		B's Capital A/c	800	
		C's Capital A/c	1,000	3,400
	3,400			**3,400**

Dr. Partner's Capital Account Cr.

Particulars	**A `**	**B `**	**C `**	**Particulars**	**A `**	**B `**	**C `**
To C's Capital A/c	8,334	4,166	-	By Balance b/d	40,000	30,000	20,000
To Revaluation A/c (Loss)	1,600	800	1,000	By General Reserve A/c	6,400	3,200	4,000
To Bank A/c	-	-	35,500	By A's Capital A/c	-	-	8,334
Balance c/d	36,466	28,234	-	By B's Capital A/c	-	-	4,166
	46,400	**33,200**	**36,500**		**46,400**	**33,200**	**36,500**

Balance Sheet of A and B

Liabilities		`	**Assets**	`
Sundry Creditors		1,23,000	Building	20,000
Bank Loan		35,500	Motor Car	17,100
Capital:			Stock	17,500
A	36,466		Investment	1,20,000
B	28,234	64,700	Debtors	36,600
			Patents	12,000
		2,23,200		**2,23,200**

Q.3. A, B and C were partners in a firm sharing profits equally. Their Balance Sheet on 31.12.2007 stood as:

Balance Sheet as at 31.12.07

Liabilities		`	**Assets**		`
A	30,000		Goodwill		18,000
B	30,000		Cash		38,000
C	25,000	85,000	Debtors	43,000	
Bills Payable		20,000	*Less:* Bad Debt Provision	3,000	40,000
Creditors		18,000	Bills Receivable		25,000
Workers Compensation Fund		8,000	Land and Building		60,000
Employees Provident Fund		60,000	Plant and Machinery		40,000
General Reserve		30,000			
		2,21,000			**2,21,000**

It was mutually agreed that C will retire from partnership and for this purpose following terms were agreed upon.

(i) Goodwill to be valued on 3 years' purchase of average profit of last 4 years which were 2004: ` 50,000 (loss); 2005: ` 21,000; 2006: ` 52,000; 2007: ` 22,000.

(ii) The Provision for Doubtful Debt was raised to ` 4,000.

(iii) To appreciate Land by 15%.

(iv) To decrease Plant and Machinery by 10%.

(v) Create provision of ` 600 on Creditors.

(vi) A sum of ` 5,000 of Bills Payable was not likely to be claimed.

(vii) The continuing partners decided to show the firm's capital at 1,00,000 which would be in their new profit sharing ratio which is 2 : 3. Adjustments to be made in cash.

Make necessary accounts and prepare the Balance Sheet of the new partners.

Solution:

Dr. Revaluation Account Cr.

Particulars		`	Particulars	`
To Provision for Debts A/c		1,000	By Land A/c	9,000
To Plant & Machinery A/c		4,000	By Provision on Creditors A/c	600
To Profit Transferred to:			By Bills Payable A/c	5,000
A's Capital A/c	3,200			
B's Capital A/c	3,200			
C's Capital A/c	3,200	9,600		
		14,600		**14,600**

Dr. Partner's Capital Account Cr.

Particulars	A (`)	B (`)	C (`)	Particulars	A (`)	B (`)	C (`)
To Goodwill A/c	6,000	6,000	6,000	By Balance b/d	30,000	30,000	25,000
To C's Capital A/c	2,250	9,000	-	By General Reserve	10,000	10,000	10,000
To C's Loan A/c	-	-	46,116	By Workers A/c Compensation Fund	2,667	2,667	2,666
To Balance c/d	40,000	60,000	-	By Revaluation A/c (profit)	3,200	3,200	3,200
				By A's Capital A/c	-	-	2,250
				By B's Capital A/c	-	-	9,000
				By Cash A/c (Deficiency)	2,383	29,133	-
	48,250	**75,000**	**52,116**		**48,250**	**75,000**	**52,116**
				By Balance b/d	40,000	60,000	-

Balance Sheet as at 31.12.07

Liabilities		`	Assets		`
Bills Payable		15,000	Debtors	43,000	
Creditors		17,400	*Less:* Provision	4,000	39,000
Employees Provident Fund		60,000	Bills Receivables		25,000
C's Loan	46,116		Land & Buildings		69,000
A's Capital	40,000		Plant & Machinery		36,000
B'a Capital	60,000	1,00,000	Cash		69,516
		2,38,516			**2,38,516**

Q.4. A, B and C were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 31st March, 2005, their Balance Sheet was as under:

Liabilities		`	**Assets**	`
Creditors		7,000	Buildings	20,000
Reserve		10,000	Machinery	30,000
Accounts:			Stock	10,000
A	30,000		Patents	6,000
B	25,000		Debtors	8,000
C	15,000	70,000	Cash	13,000
		87,000		**87,000**

A died on 1st October, 2005. It was agreed between his executors and the remaining partners that:

(i) Goodwill be valued at 2 years' purchase of the average profits of the previous five years, which were 2001: ` 15,000; 2002: ` 13,000; 2003: ` 12,000; 2004: ` 15,000 and 2005: ` 20,000.

(ii) Patents be valued at ` 8,000; Machinery at ` 28,000; Buildings at ` 30,000.

(iii) Profit for the year 2005-06 is taken as having accrued at the same rate as the previous year.

(iv) Interest on capital be provided at 10% p.a.

(v) A sum of ` 11,500 was to be paid to his executors immediately.

Prepare A's Capital Account and his executors' account at the time of his death.

Solution:

Dr. **A's Capital A/c** **Cr.**

Particulars	`	**Particulars**	`
To Executor's A/c	61,500	By Balance b/d	30,000
		By Reserves	5,000
		By B's Capital A/c	9,000
		By C's Capital A/c	6,000
		By Revaluation A/c	5,000
		By Profit & Loss Suspense A/c	5,000
		By Interest on Capital A/c	1,500
	61,500		**61,500**

Dr. **A's Executors Account** **Cr.**

Particulars	`	Particulars	`
To Balance c/d	61,500	By A's Capital A/c	61,500
	61,500		**61,500**
		By Balance b/d	61,500

Q.5. A, B and C were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 31st March, 2005, their Balance Sheet was as under:

Liabilities		`	Assets	`
Reserves		10,000	Buildings	20,000
Creditors		7,000	Machinery	30,000
A's Capital	30,000		Stock	10,000
B's Capital	25,000		Patents	6,000
C's Capital	15,000	70,000	Cash	21,000
		87,000		**87,000**

C died on 1st October, 2005. It was agreed between his executors and the remaining partners that:

(i) Goodwill be valued at 2 years' purchase of the average profits of the previous five years, which were 2001: ` 15,000; 2002: ` 13,000; 2003: 2004: ` 12,000; ` 15,000 and 2005: ` 20,000.

(ii) Patents be valued at ` 8,000; Machinery at ` 28,000; Buildings at ` 30.

(iii) Profit for the year 2005-06 be taken as having accrued at the same rate previous year.

(iv) Interest on capital be provided at 10% p.a.

(v) A sum of ` 7,750 was paid to his executors immediately.

Prepare C's Capital Account and his executors account at the time of his death.

Solution:

Dr. **C's Capital Account** **Cr.**

Particulars	`	Particulars	`
To C's Executors A/c	27,750	By Balance b/d	15,000
		By Reserves	2,000
		By Revaluation A/c	2,000
		By P & L Suspense A/c	2,000
		By Interest on Capital	750

		By A's Capital A/c	3,750
		By B's Capital A/c	2,250
	27,750		**27,750**

Dr. **C's Executors Account** **Cr.**

Particulars	`	Particulars	`
To Cash A/c	7,750	By C's Capital A/c	27,750
To Executor's Loan A/c or Bal c/d	20,000		
	27,750		**27,750**

Q.6. Anil, Jatin and Ramesh were sharing profit in the ratio of 2 : 1 : 1. Their Balance Sheet as at 31.12.2001 stood as follows:

Balance Sheet as at 31.12. 2001

Liabilities	`	Assets		`
Creditors	24,400	Cash		1,00,000
Bank Loan	10,000	Debtors	20,000	
Profit and Loss A/c	18,000	*Less:* Provision	1,600	18,400
Bills Payable	2,000	Stock		10,000
Anil's Capital	50,000	Land & Building		20,000
Jatin's Capital	40,000	Investment		14,000
Ramesh's Capital	40,000	Goodwill		22,000
	1,84,400			**1,84,400**

Ramesh died on 31st March, 2002. The following adjustments were agreed upon:

(a) Building be appreciated by ` 2,000.

(b) Investments be valued at 10% less than the book value.

(c) All debtors (except 20% which are considered as doubtful) were good.

(d) Stock be increased by 10%.

(e) Goodwill be valued at 2 years' purchase of the average profit of the past five years.

(f) Ramesh's share of profit to the death be calculated on the basis of the profit of the preceding year. Profit for the years 1997, 1998, 1999 and 2000 were ` 26,000, ` 22,000, ` 20,000 and ` 24,000 respectively.

Prepare Revaluation Account, Partner's Capital Account, Ramesh's Executors Account and Balance Sheet immediately after Ramesh's death assuming that ` 18,425 be paid immediately to his executors and balance to be left to the Ramesh's Executors Account.

Solution:

Dr. Revaluation Account Cr.

Particulars	`	**Particulars**		`
To Investment A/c	1,400	By Building A/c		2,000
To Provision for Doubtful Debt A/c	2,400	By Stock A/c		1,000
		By Loss Transferred to:		
		Anil's Capital A/c	400	
		Jatin's Capital A/c	200	
		Ramesh's Capital A/c	200	800
	3,800			**3,800**

Partners' Capital Accounts

Particulars	**Anil** `	**Jatin** `	**Ramesh** `	**Particulars**	**Anil** `	**Jatin** `	**Ramesh** `
To Goodwill A/c	11,000	5,500	5,500	By Balance b/d	50,000	40,000	40,000
To Ramesh Capital A/c	7,333	3,667	-	By Profit and Loss A/c	9,000	4,500	4,500
To Revaluation A/c (Loss)	400	200	200	By Profit & Loss Susp A/c	-	-	1,125
To Ramesh's Executors A/c	-	-	50,925				
To Balance c/d	40,267	35,133	-	By Anil's Capital A/c	-	-	7,333
				By Jatin's Capital A/c	-	-	3,667
	59,000	**41,500**	**56,625**		**59,000**	**41,500**	**56,625**
				By Balance b/d	40,267	35,133	-

Ramesh's Executors A/c

Date	**Particulars**	`	**Date**	**Particulars**	`
2002			2002		
Mar. 31	To Cash A/c	18,425	Mar. 31	By Ramesh's Capital A/c	50,925
Dec. 31	To Balance A/c	32,500			
		50,925			**50,925**
			2003		
			Jan.1	By Balance b/d	32,500

Balance Sheet

Liabilities	`	Assets		`
Bank Loan	10, 000	Cash		81,575
Creditors	20,400	Debtors	20,000	
Bills Payable	2,000	*Less:* Provision	4,000	16,000
Ramesh's Executor's Loan A/c	32,500	Stock		11,000
Anil's Capital	40,267	Land and Building		22,000
Jatin's Capital	35,133	Investments		12,600
Profit and Loss Suspense A/c	1,125			
	1,44,300			**1,44,300**

Exercise

Q.1. A and B are partners sharing profits in the ratio of A 3/6, B 2/6 and transfer to reserve 1/6.

Their Balance Sheet on 31st December, 2007 was as follows:

Liabilities		Amt (in `)	Assets		Amt (in `)
Employee's Provident Fund		18000	Goodwill		15,000
Reserve Fund		12,000	Plant		90,000
Sundry Creditors		10,000	Patents		4,400
Profit and Loss A/c		24,000	Stock		30,000
Capitals:			Investment		20,000
A	80,000		Debtors:	20,000	
B	40,000	120,000	*Less:* Provision	400	19,600
			Cash		5,000
		184,000			184,000

B retires on 1st January, 2008. The terms were:

(i) Goodwill is to be valued at 50,000.

(ii) Value of patents is to be increased by ` 3,000 but plant was found over-valued by ` 15,000.

(iii) Provision for doubtful debts should be 5% on Debtors and provision for discount should also be made on Debtors and creditors at 3%.

(iv) Out of insurance which was entirely debited to Profit and Loss Account ` 870 be carried forward as unexpired insurance.

(v) Investments were revalue at ` 16,000. Half of these investments were taken over by B.

(vi) There is a claim for workmen's compensation to the extent of ` 5,000.

(vii) B was paid of in full. A borrowed the necessary money from the bank on the security of plant and stock to pay off B.

Prepare Revaluation A/c, Capital A/c and Balance Sheet of A.

Q.2. X, Y, and Z were in partnership sharing profits in the ratio of 3 : 2 : 1. They had taken a Joint life policy of ` 50,000, whose surrender value on 1st January, 2007 was ` 18,000. On this date, Balance Sheet is as follows:

Liabilities		Amt (in `)	Assets	Amt (in `)
Provision for Doubtful Debts		1,300	Cash at bank	10,000
Sundry Creditors		15000	Debtors	16,000
Capitals:			Stock	20,300
X	78,750		Machinery	60,000
Y	70,000		Land and Building	1,20,000
Z	61,250	2,10,000		
		2,26,3000		2,26,300

Z retires on the above date and the new profit sharing ratio between X and Y will be 5 : 4. Following terms were agreed:

(i) Land and buildings be reduced by 10%.

(ii) Out of the Insurance premium paid during the year, ` 5,000 be carried forward as unexpired.

(iii) There is no need of any provision for doubtful debts.

(iv) Goodwill of the firm be valued at ` 36,000 and adjustment in this respect be made without raising a Goodwill A/c . The joint life policy was also not to appear in the Balance sheet.

(v) X and Y decided that their Capital will be adjusted in their new profit sharing ratio by bringing in or paying cash to the Partner's A/c will be transfered to his Loan A/c.

Pass necessary journal entries. Prepare the capital accounts and the new balance sheet.

Q.3. A, B and C are partners sharing profits and losses in the ratio of 5 : 3 : 2. Their Balance Sheet as at 31st December, 2007 was a follows:

Liabilities		`	Assets	`
Sundry Creditors		29,000	Goodwill	24,000
Provision for Doubtful Debts		5,000	Debtors	80,000
Capitals:			Investments	30,000
A	1,40,000		Land and Building	1,42,000
B	90,000		Machinery	50,000
C	76,000	3,06,000	Patents	4000
			Cash at bank	10,000
		3,40,000		3,40,000

Q.4. What are the methods of ascertaining the amount of profit to be given to the executors of deceased partner, if the death of a partner occurs on any day during the year. Explain.

Testing of Knowledge

Q.1. Enumerate the items for which the representatives of decreased partners are entitled to receive.

Q.2. Ramesh wants to retire from the firm-the profits on Revaluation on that date were ` 12,000. Mohan and Rahul want to share this in their new profit sharing ratio 3 : 2.

Ramesh wants this to be shared equally. How are the Profis to be shared? Give reasons.

Q.3. From the following particulars calculate the new profit sharing ratio of the partners:

(a) A, B and C are partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. B retires from firm and his share was taken up by A and C in the ratio of 2 : 1.

(b) P, Q and R were partners sharing profits in the ratio of 5 : 4 : 1. P retires from the firm.

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