CommPass 3

An Essential Companion to BCom (Semester III)

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Contents

Note to Students *iii*

MODULE I: FINANCIAL ACCOUNTING II

Unit 1: Partnership Accounting I MI-3
Unit 2: Partnership Accounting II MI-44
Unit 3: Branch Accounting MI-68
Unit 4: Hire Purchase, Instalment Payment & Lease MI-90
Unit 5: Departmental Accounting MI-99
Unit 6: Accounting for Investments MI-115
Unit 7: Business Acquisition MI-125
Model Question Papers MI-143

MODULE II: INFORMATION TECHNOLOGY AND ITS APPLICATIONS IN BUSINESS

Unit 1: Information Technology and Business MII-3
Unit 2: Data Organization and Database Management System MII-6
Unit 3: Internet and its Applications MII-12
Unit 4: Security and Encryption MII-17
Unit 5: IT Act 2000 and Cybercrimes MII-22
Unit 6: Word Processing MII-27
Unit 7: Preparing Presentations MII-30
Unit 8: Spreadsheet and its Business Applications MII-34
Unit 9: MS-Access: A Database Management System MII-40
Unit 10: Website Designing – HTML MII-44
Model Question Papers MII-47

MODULE III: BUSINESS MATHEMATICS AND STATISTICS

Unit 1: Permutation and Combination MIII-3
Unit 2: Set Theory MIII-13
Unit 3: Binomial Theorem MIII-20
Unit 4: Logarithm MIII-26
Unit 5: Compound Interest MIII-31
Unit 6: Annuities MIII-39
Unit 7: Correlation and Regression MIII-45
Unit 8: Index Numbers MIII-55
Unit 9: Time Series Analysis MIII-63
Unit 10: Probability Theory MIII-69
Model Question Papers MIII-77

MODULE IV: INDIAN FINANCIAL SYSTEM

Unit 1: Financial System and its Components MIV-3
Unit 2A: Money Market MIV-23
Unit 2B: Capital Market MIV-32
Unit 3: Financial Institutions MIV-46
Unit 4: Financial Services MIV-74
Unit 5: Investors' Protection MIV-86
Model Question Papers MIV-101

UNIT 1 PARTNERSHIP ACCOUNTING I

Unit	Total Marks Allotted	Chapters	No. of Questions to be Answered
1	15 marks	Profit & Loss Appropriation	1 question
		Treatment of Goodwill	
		Treatment of Life Policies	
		Admission of Partner	
		Retirement of Partner	
		Retirement-cum-Admission of Partners	
		Change in Profit Sharing Ratio	
		Death of Partner	

Guide to students:

- ***Group:*** There will be two Groups in the question paper – Group A (questions of 10 marks each) and Group B (questions of 15 marks each). Question(s) from Unit 1 will appear in Group B of the question paper.
- ***Number of questions to be set:*** This Unit contains 8 chapters of Partnership Accounting. Questions can be set from any of these chapters. At least one question (maximum two questions) is expected to be set from this Unit. In other words, the question set from Unit 1 may have internal choice.
- ***Number of questions to be answered:*** The total marks allotted to Unit 1 being 15, the students are expected to answer one question of 15 marks from this unit.

Chapter No.	Chapter Name
1	Profit & Loss Appropriation
2	Treatment of Goodwill
3	Treatment of Life Policies
4	Admission of Partner
5	Retirement of Partner
6	Retirement-cum-Admission of Partners
7	Change in Profit Sharing Ratio
8	Death of Partner

Profit & Loss Appropriation 1

Syllabus: *Correction of appropriation items with retrospective effect. Change in constitution of firm.*

Preparation of P/L Appropriation A/c and Partners' Capital A/c – Interest on Capital Interest on Drawings – Partners' Salary

1. Sourav and Anuradha are partners of a firm sharing profits and losses in the ratio 3:2. On Jan. 1, 2017, their capitals were ₹80,000 and ₹60,000 respectively. They agreed that:

(a) 10% of Net Profit is to be transferred to General Reserve.

(b) Interest on Capital is payable @ 5% p.a.

(c) Sourav is to receive salary @ ₹500 p.m.

(d) Anuradha is to receive commission @ 2% on sales. Sales for the year was ₹2,00,000.

(e) Interest on drawings should be provided @ 5% p.a. The drawings were: Sourav – ₹6,000; Anuradha – ₹4,800.

The net profit of the firm on Dec. 31, 2017 was ₹40,000. Prepare Profit and Loss Appropriation Account and Partners' Capital A/c.

[***Ans.*** Divisible profit: Sourav ₹11,562; Anuradha ₹7,708; Closing Capital balance: Sourav ₹83,850; Anuradha ₹62,080]

2. The Partners X and Y decided to appropriate profits of the firm on the following terms:

(a) Interest is payable on capital at 5% per annum.

(b) Both X and Y will get remuneration at ₹2,000 and ₹1,000 per month respectively.

(c) Interest is payable on Loan contributed by X at 6% p.a. (X provided loan of ₹20,000 to the firm on July 1, 2015).

(d) Interest on Drawings of Partners is 4% per annum (Drawings of X and Y during 2015 were ₹6,000 and ₹4,000 respectively).

(e) Profit sharing ratio between X and Y is 3:2.

For the year ending on Dec. 31, 2018 the total net profit of the firm is shown at ₹70,000. On Jan. 1, 2018, the capital balances of X and Y were ₹50,000 and ₹40,000 respectively.
In the firm's book either show Journal entries or prepare Profit & Loss Appropriation Account and Partners' Capital Account.

[***Ans.*** Divisible Profit ₹29,100; Balance of Capital: X ₹87,840 and Y ₹61,560 (without transferring interest on loan of X to his Capital A/c)]

3. M and N are partners in a firm sharing profits and losses as M 3/4th and N 1/4th. The Profit & Loss Account of the firm for the year ended Mar. 31, 2018 shows a net profit of ₹75,000.

You are required to prepare the Profit & Loss Appropriation Account by taking into consideration the under mentioned information:

(a) The Partners' Capital Accounts – M ₹40,000; N ₹30,000. Interest on Capital was to be calculated at 5% p.a.

(b) The Current Accounts of Partners – M ₹15,000 (Cr.); N ₹10,000 (Cr.)

(c) Partners' Drawings amounted to M ₹10,000; N ₹7,500. Interest on drawings was to be charged at 10% p.a. on an average of 6 months.

(d) Partners' Salaries – M ₹6,000; N ₹4,500.

(e) M's Loan A/c ₹25,000 (the loan was provided two years back).

Also show the Partners' Capital A/c and Current A/c.

[***Ans.*** Divisible Profit ₹60,375; Balance of Current Accounts: M ₹59,281 and N ₹23,219]

4. A, B and C are partners of a firm having Capitals of ₹40,000, ₹20,000 and ₹15,000 respectively on Apr. 1, 2017. The partnership deed provides that:

(a) Interest on Capital to be allowed at 6% p.a.

(b) A to get salary at ₹500 p.m.

(c) C to get commission @ 5% on the distributable profit.

(d) Profits to be divided as: upto ₹18,000 as 4:3:2 and above ₹18,000 equally subject to a minimum of ₹15,000 (inclusive of all) to C.

The net profit of the firm for the year ended Mar. 31, 2018 amounted to ₹52,500.
Prepare the Profit & Loss Appropriation Account and the Capital Accounts of the Partners

[***Ans.*** Share of Profit: A ₹14,950, B ₹12,950 and C ₹12,100; Net Divisible Profit ₹40,000]

5. P, Q, R, and S are partners sharing profits and losses in the ratio of 4:3:2:1 and their respective capitals on Dec. 31, 2017 were ₹30,000, ₹45,000, ₹60,000 and ₹45,000. After closing and finalising the accounts, it was found that interest on capital @ 10% per annum was omitted to be recorded. Instead of altering the signed accounts, it was decided to pass a single adjusting entry on Jan. 1, 2018 by crediting or debiting the respective partners' accounts. Show the journal entry.

[***Ans.*** Debit – P's Current A/c ₹4,200, Q's Current A/c ₹900; Credit – R's Current A/c ₹2,400, S's Current A/c ₹2,700]

6. The summarised capital accounts of the partners of M/s NNP & Sons. appear as under:

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

Particulars	Nupur	Neha	Pallavi	Particulars	Nupur	Neha	Pallavi
31.12.17	₹	₹	₹	1.1.17	₹	₹	₹
To Drawings A/c	12,000	12,000	12,000	By Balance b/f	20,000	30,000	40,000
To Balance c/f	23,000	33,000	43,000	By P/L Appropriation A/c	15,000	15,000	15,000
	35,000	45,000	55,000		35,000	45,000	55,000

On Jan. 1, 2018, it is agreed that the following would be effective retrospectively from Jan. 1, 2017:

(a) Nupur shall be entitled to a salary of ₹750 p.m.;

(b) Interest shall be allowed on Partners' Capitals at 5% on the opening balances;

(c) Profit shall be shared in proportion to opening balance in capital accounts; and

(d) Pallavi's share of profit exclusive of interest on capital shall not fall below ₹18,000, the deficit, if any, being contributed by Nupur out his share.

You are required to show entries in the Capital A/c on January, 1, 2015 by a single Journal entry to give effect to the above arrangement.

[***Ans.*** Adjustment for distribution of profit: Neha's Capital A/c ₹3,000 (debit); Pallavi's Capital A/c ₹3,000 (credit); Closing Capital – Nupur ₹23,000, Neha ₹30,000, Pallavi ₹46,000]

7. Accountancy and Management are two partners sharing profits and losses in the ratio 3:2. On Dec. 31, 2017, their Capital Accounts stood at ₹55,000 and ₹45,000 after distribution of net profit of ₹15,000 and due consideration of drawings of the partners for ₹6,000 and ₹4,000 respectively. After closing the books, following discrepancies were discovered:

(a) An item in the inventory was valued at ₹12,800 but had a realisable value of ₹8,300.

(b) ₹2,400 paid for insurance premium for the year ending on Dec. 31, 2017 had been debited to P/LA/c.

(c) Interest on Capital at 5% on partners' capital as at the beginning of the year and interest on drawings of partners at 8% p.a. was left out of consideration.

Ascertain the correct Net Profit of the firm and redistribute the profit by preparing a P/L Appropriation A/c and determine the balance of Partners' Capital A/c.

[***Ans.*** Correct Net Profit ₹11,100; Divisible Profit – Accountancy ₹4,050, Management ₹2,700; Closing Capital – Accountancy ₹52,410, Management ₹43,690]

8. A and B are partners in a firm sharing profits and losses in 3:2 ratio. Their capital accounts as on Dec. 31, 2017 showed balances of ₹35,000 and ₹30,000 respectively. The drawings of A and B during the year 2011 were ₹20,000 (on June 30, 2017) and ₹10,000 (on Jan. 1'2017) respectively. After taking into account the profits of the year 2017 which amounted to ₹20,000, it was subsequently found that the following items have been left out while preparing the final accounts of the year ended 2017.

- The partners were entitled interest on capitals @ 10% p.a.
- The interest on drawings was also to be charged @ 5% p.a.
- A was entitled to a remuneration of ₹5,000 and B was entitled to a commission of 1% on sales. The sales for the entire year comes to ₹1,00,000.

It was decided to make the necessary adjustments to record the above omissions.

(a) Prepare journal (if adjustments are made through P/L Adjustment A/c), P/L Adjustment A/c and Partners' Capital Accounts.

(b) Give single adjustment entry if adjustments are made through capital accounts.

[***Ans.*** (a) Divisible Profit – A ₹4,500, B ₹3,000; Closing Capital – A ₹36,300, B ₹28,700; (b) B's Capital A/c (Dr.) ₹1,300, A's Capital A/c (Cr.) ₹1,300]

9. A, B and C are in partnership sharing profits and losses in the ratio of 2:2:1. C's share is, however, guaranteed by the firm at a fixed minimum of ₹1,00,000. The net profit for the year ended Mar. 31, 2018 is ₹4,50,000.
Show the profit and loss appropriation account indicating the amount finally due to each partner.

[***Ans.*** Divisible Profit – A ₹1,75,000, B ₹1,75,000, C ₹1,00,000]

10. X and Y are partners in a firm sharing profits & losses as 3:2. They decided to admit Z, an employee of that firm into their partnership giving him 1/10th of the net profit and nothing else. Before becoming a partner, Z was getting a salary of ₹1,000 p.m. together with a commission of 4% of the net profit after deducting such salary and commission.

The agreement provided that share of Z's profit as a partner in excess of the amount to which he would have been entitled if he was an employee should be borne by X. The net profit for the year ended Dec. 31, 2017 amounted to ₹2,20,000.

You are required to prepare P/L Appropriation A/c of the firm for the year ended Dec. 31, 2017.

[***Ans.*** Divisible Profit: X ₹1,18,000, Y ₹80,000, Z ₹22,000]

11. Two fellows of IIM's, Ashok and Rahul run a management consultancy firm for last few years. On Jan. 1, 2017, they allow to admit Nitin and decide to share future profits and losses in the ratio of 3:2:1 subject to the following agreement:

(a) Nitin's share of profit is guaranteed to be not less than ₹30,000 p.a.

(b) Nitin gives guarantee to effect that gross fees earned by him for the firm shall not be less than the average gross fees earned by him during preceding four years when he was carrying his own profession alone. The fees earned by him in last four years are ₹40,000, ₹46,000, ₹59,000 and ₹55,000. The profit for the firm for the year ended Dec. 31, 2017 was ₹1,50,000 and gross fees earned by Nitin was ₹32,000. Show P/L Appropriation A/c.

[***Ans.*** Divisible Profit: Ashok ₹82,800, Rahul ₹55,200, Nitin ₹30,000]

12. A, R, K and T are partners in a firm sharing Profits and Losses in the ratio of 5:3:2:2. Their Capital Accounts stood at ₹60,000, ₹30,000, ₹30,000 and ₹20,000 respectively on Jan. 1, 2018. T's share of Profit (excluding interest on capital) is guaranteed by the firm to be not less than ₹16,000 per annum.

K's share of profit (including interest on capital and salary) is guaranteed by A at a minimum of ₹26,000 per annum. The profit for the year ended Dec. 31, 2018 amounted to ₹91,000 before salary to K @ ₹1,000 per month and interest on capital @ 5% per annum which under the deed is allowable. Prepare Profit & Loss Appropriation Account for the year ended Dec. 31, 2018.

[***Ans.*** Share of profit: A ₹26,700; R ₹16,800; K ₹12,500; T ₹16,000.]

13. A, B, C and D are four partners sharing profits and losses in 7:5:5:3. The firm earned a net profit of ₹2,00,000 during the year ended on Dec. 31, 2018. Capital A/c balances as on Apr. 1, 2017 were A – ₹90,000 B – ₹50,000, C – ₹30,000 and D – ₹30,000. The partnership deed contains the following clauses for distribution of profit:

(a) Interest calculated @ 15% of net profit to be allowed to partners.

(b) Partner's Salary to A ₹10,000 p.a. and C ₹12,000 p.a.

(c) Special Commission payable to B – ₹8,000.

(d) A gives guarantee to other partners that C's share of divisible profit in excess of ₹20,000 shall be borne by him.

You are required to prepare the Profit & Loss Appropriation Account for the year ended on Mar. 31, 2018.

[***Ans.*** Interest on Capital: A ₹13,500; B ₹7,500; C ₹4,500 and D ₹4,500; Share of Profit: A ₹41,000; C ₹35,000 and D ₹24,000]

14. X and Y were partners with ₹10,000 as capital contributed equally. They shared profits as follows: Salary to X ₹1,000 p.a.; Salary to Y ₹500 p.a.; Remaining Profits as 1:1.

Due to certain circumstances, it became necessary to make the following changes in the shares of X and Y: Salary to X ₹250 p.a.; Salary to Y ₹500 p.a.: Remaining Profits as 1:1.

The above new change was applicable subject to Z being introduced on Jan. 1, 2017 as a partner (without capital) at a salary of ₹750 and one-seventh share in the profit and loss of the firm (after charging interest on capital and salaries) all of which was to be charged to X with the exception of ₹800, the amount of salary Z had formerly received as manager of the firm. X and Y are entitled to interest on capital at 5% p.a. The profit for the year ended Dec. 31, 2017 before charging interest on capital or partners' salary was ₹2,770.

Prepare the P/L Appropriation A/c.

[***Ans.*** Divisible Profit – X ₹300, Y ₹360, Z ₹110]

15. X and Y formed partnership sharing profits as 2:1. The term was to distribute mercantile profit. But cash profit has been calculated all through. Now it is desired to convert cash account into mercantile accounts. The details are:

	Profit as per cash basis	Closing outstanding Incomes	Closing outstanding Expenses
1st Year	₹10,000	₹1,000	₹500
2nd Year	₹12,000	₹3,000	₹1,000
3rd Year	₹18,000	₹2,000	₹800

Pass conversion entry.

[***Ans.*** Profit under Accrual Basis ₹41,200; Share of Extra profit – X ₹800, Y ₹400]

16. Anand and Bharat are in partnership sharing profits and losses in the ratio of 3:2. With effect from Jan. 1, 2015, they decided to share the profits, earned in any year on the following basis:

Up to ₹50,000	Equally
Excess over ₹50,000	Anand: 2/3rd; Bharat: l/3rd

They also decided to ascertain the income on mercantile basis with effect from the accounting year 2015-16. Although profits were shared on the basis of the new agreement, these were ascertained on cash basis only. It was agreed to make the necessary adjustments at the end of 2018. The relevant information is given below:

	2014–15 (₹)	2015–16 (₹)	2016–17 (₹)	2017–18 (₹)
Profits already shared		42,000	46,000	62,000
As on Dec. 31:				
Accrued Income	4,000	7,000	10,000	5,000
Outstanding Expenses	1,000	2,000	2,600	600

You are required to give the necessary entries to correct the partners' accounts showing your workings assuming that books of accounts were duly closed at the end of each year.

[***Ans.*** Profit under Accrual Basis: 14–15 ₹3,000, 15–16 ₹44,000, 16–17 ₹48,400, 17–18 ₹59,000]

17. X, Y and Z are partners in a firm of solicitors since Jan. 1, 2015. They maintain accounts on cash basis and share profits and losses in 5:3:2 ratio after allowing salary to partners - X ₹16,000 p.a., Y ₹10,000 p.a. and Z ₹4,000 p.a. Z's share is guaranteed to a fixed minimum of ₹10,000 including salary. In 2018, partners decided to change the method of accounting in 'mercantile basis' with retrospective effect. Relevant information is as follows:

Year	Profit on cash basis before charging Partners' salary	Outstanding expenses on 31st December	Fees earned but not received on 31st December
2015	₹48,000	₹12,000	₹10,000
2016	₹56,000	₹10,000	₹16,000
2018	₹80,000	₹6,000	₹10,000

Pass a single entry adjusting partners' accounts to give effect to above change.

18. X and Y are in partnership sharing profits and losses as 3:2. As X on account of his advancing years feels that he cannot work as hard as before, the chief clerk of the firm, Z, is admitted as a partner with effect from Jan. 1, 2018 and becomes entitled to 1/10th of the net profit and nothing else; the mutual ratio between X and Y remained unaltered.

Before becoming a partner, Z was getting a salary of ₹500 p.m. together with a commission of 4% of the net profits after deducting his salary and commission. It is provided in the partnership deed that the share of Z's profits as partner in excess of the amount to which he would have been entitled if he had continued as the chief clerk, should be taken out of X's share of profits.

The net profit for the year ended Dec. 31, 2018 amounted to ₹1,10,000.

You are required to prepare Profit and Loss Appropriation Account of the old firm for the year ended Dec. 31, 2018.

[***Ans.*** Share of profit X ₹59,000; Y ₹40,000 and Z ₹11,000]

19. Kalyani and Ranu commenced business on July 1, 2015 as partners with Capitals of ₹1,80,000 and ₹1,20,000 respectively. The Capitals remain fixed and carry interest @ 10% p.a. Profits & Losses are to be shared in proportion to their Capitals.

They appointed Anita as their manager on July 1, 2015 at a salary of ₹9,600 p.a. plus a bonus of 5% of the profits after charging such bonus and interest on capital. Anita had to deposit on July 1, 2015 ₹80,000 as security carrying interest at 12% p.a.

In June, 2018, it was settled that Anita should be treated as partner from the commencement of the business. It was agreed that she would be entitled to one-fifth of the profits and her security deposit would be treated as her Capital carrying interest @ 10% p.a. instead of the 12% she had received. It was further agreed that this new arrangement should not result in Anita's share for any of these years being less than she had already received under the original agreement and terms of her appointment

The profits before charging Anita's bonus and interest on Capital of partners on giving effect to the new arrangements were:

(a) For the year 2015-2016: ₹60,000,

(b) For the year 2016-2017: ₹1,20,000,

(c) For the year 2017-2018: ₹1,60,000,

Show by a single journal entry to give effect to the new arrangements with explanatory computation.

[***Ans.*** Amount due to Anita as Manager: 15–16 ₹20,629, 16–17 ₹23,486, 17–18 ₹25,391; Anita's share of profits: 15–16 ₹8,240, 16–17 ₹20,240, 17–18 ₹28,240, Amount due to Anita as partner: 15–16 ₹16,240, 16–17 ₹28,240, 17–18 ₹36,240]

Treatment of Goodwill 2

Syllabus: *Treatment of goodwill.*

1. Arun and Barun are partners with 3:2 ratio. They admit Kiran for 1/5th share. In the books of the firm, Goodwill Account appears at ₹30,000, whereas at the time of Kiran's admission the agreed value of Goodwill is ₹70,000. Kiran brings ₹80,000 as capital and premium for goodwill. Pass necessary journal entries, if Goodwill Account is to be written-off before Kiran's admission.

[***Hints***: Kiran's share of premium for goodwill ₹14,000; Kiran's Capital contribution ₹66,000]

2. M and N were in partnership business sharing profits and losses in the ratio of 2:1. On Apr. 1, 2018, they agreed to take P into partnership on condition that P will have 1/6th share. The old partners agreed to share profit and losses equally between them in the new firm. P brings ₹8,000 as his share of goodwill.

State how the goodwill premium obtained from P will be distributed between M and N and pass the necessary journal entries in the books of the firm.

[***Hints***: New p.s.r. 5:5:2; In this case, M is the only sacrificing partner. So, the premium for goodwill ₹8,000 brought in by P is due to M only.]

3. A and B are partners having 3:2 profit sharing ratio. C is admitted for 1/5th share. C brings in the following assets towards his capital and required premium for goodwill – Plant ₹15,000, Stock ₹20,000 and Furniture ₹12,500. Value of goodwill at the time of C's admission is ₹20,000. Pass journal entries in the books of the firm.

[***Hints***: New p.s.r. 12:8:5; Goodwill adjustment – A ₹2,400 (Sacrifice), B ₹1,600 (Sacrifice), C ₹4,000 (Gain)]

4. A and B are partners with 2:3 profit sharing ratio. C is admitted with capital contribution of ₹9,000 and ₹4,500 as goodwill premium for $1/4^{th}$ share. The profit sharing ratio between A and B post-admission will be 1:2. C, who had his proprietary business, also brings in his own goodwill to run as a separate unit and the profit sharing ratio for this purpose should be 2:3:5 between A, B and C. The goodwill of C's business is valued at ₹7,200. Pass necessary journal entries.

[***Hints***: New p.s.r. 1:2:1; Distribution of premium for goodwill - A ₹2,700 (Sacrifice), B ₹1,800 (Sacrifice), C ₹4,500 (Gain); Adjustment for goodwill brought in by C – A ₹1,440 (Gain), B ₹2,160 (Gain), C ₹3,600 (Sacrifice)]

5. A and B are partners of a firm sharing profits or losses in the ratio 2: 3. They admit C as a new partner. The new profit or loss sharing ratio is 1:2:2. C brings 60% of his due for goodwill. For this purpose, the goodwill is valued at 3 years purchase of last 5 years' average profits. Net Profits for last 5 years are as under:

2013: ₹40,000; *2014*: ₹35,000; *2015*: ₹25,000; *2016*: ₹38,000 and *2017*: ₹45,000.

Calculate the value of goodwill and show how transactions for goodwill be recorded in the books of the firm without opening a Goodwill Account.

[***Hints***: Value of goodwill ₹1,09,800; Value of goodwill compensated by C = ₹1,09,800 X 60% = ₹65,880; Distribution of premium for goodwill – A ₹13,176 (Sacrifice), B ₹13,176 (Sacrifice), C ₹26,352 (Gain); Value of goodwill not compensated by C = ₹1,09,800 X 40% = ₹43,920; Adjustment for non-payment of goodwill premium – A ₹8,784 (Sacrifice), B ₹8,784 (Sacrifice), C ₹17,568 (Gain)]

6. Gautam and Samir are partners of a firm. They decided to take Mahadeb as a new partner. Mahadeb is to bring premium for goodwill in cash and 1/5th of the combined capital of Gautam and Samir as his capital in cash. The goodwill will be valued on the basis of three years purchase of the average profit of the last 3 years. The result of the firm during the last 3 years was ₹8,000 (Profit); ₹5,000 (Loss); and ₹12,000 (Profit). The balances of Capital Accounts of Gautam and Samir were ₹32,000 and ₹18,000 respectively. Gautam and Samir decided to withdraw 50% of the premium for goodwill brought by Mahadeb. They also decided to share profit and loss at 5:3:2 respectively. Pass entries in the Journal.

[***Hints**:* Capital contribution by Mahadeb = ₹10,000; Value of goodwill ₹15,000; Distribution of premium for goodwill - Samir ₹3,000 (Sacrifice), Mahadeb ₹3,000 (Gain)]

7. A and B are partners with 2:1 profit sharing ratio. On Jan. 1, 2017, they admit X as a partner for 1/4th share who pays ₹60,000 as premium privately. On Jan. 1, 2017, they admit Y as a partner for 1/5th share, who brings in ₹40,000 as premium, which is withdrawn by the existing partners. On Jan. 1, 2017, Z is admitted as another partner for 1/6th share. He pays ₹50,000 as goodwill premium, which is retained in the business. Pass journal entries related to the above transactions.

[***Hints**:* New p.s.r. after X's admission 2:1:1; New p.s.r. after Y's admission 2:1:1:1]

8. P and Q are partners in a firm sharing profits and losses in ratio of 3:2. They admit R as a partner on Jan. 1, 2016 on the basis of his buying 1/5 of P's share and 1/6 of Q's share. On Jan. 1, 2018, they permit R to purchase a further 1/10 of their remaining shares.

(a) Compute sacrificing ratio in each of the occasions.

(b) What is the ultimate share of each partner in the business?

(c) How much did R pay to other partners on each occasion for goodwill, assuming that the goodwill of the firm was ₹30,000 on the first occasion and ₹40,000 on the second?

[***Hints**:* **(a)** Sacrificing ratio (P & Q) on Jan. 1, 2016 9:5; New p.s.r. on Jan. 1, 2016 36:25:14; Sacrificing ratio (P & Q) on Jan. 1, 2018 36:25 **(b)** Ultimate share P: Q: R = 324/750: 225/750: 201/750 = 108: 75: 67 **(c)** Distribution of Premium for Goodwill: On Jan. 1, 2016 - P = ₹3,600 and Q = ₹2,000; On Jan. 1, 2018 - P = ₹480 and Q = ₹333]

9. X and Y are partners with profit sharing ratio 2:1. Their Balance sheet on Mar. 31, 2018 is as follows:

Liabilities		₹	Assets	₹
Partners' Capital A/c:			Fixed Assets	3,40,000
A	4,00,000		Inventories	1,00,000
B	2,00,000	6,00,000	Accounts Receivables	2,80,000
General Reserve		40,000	Bank balance	1,20,000
Sundry Creditors		2,00,000		
		8,40,000		8,40,000

On Apr. 1, 2018, they admit C as new partner with 10% share in profit of the firm. C brings ₹80,000 as Capital. Give necessary journal entries to record the Goodwill by adjusting all partners' capital account.

[***Hints**:* Value of goodwill ₹80,000; New p.s.r. 6:3:1; Adjustment for non-payment of goodwill premium–A ₹5,333 (Sacrifice), B ₹2,667 (Sacrifice), C ₹8,000 (Gain)]

10. P, Q, R and S are partners sharing profit and losses in the ratio of 2:2:1:1. On Apr. 1, 2018, P and S retired from the business, whereas Q and R decided to continue the business with the same share of profit as before. Goodwill of the firm is valued at 2 years' purchase of average profit of last three years. Profits of the last three years were: *2016–17*: ₹18,600; *2015–16*: ₹19,200; 2014–15: ₹17,100. Goodwill Account is already appearing in the books at ₹22,500. Show necessary entries to adjust the Goodwill in the books of the firm.

[***Hints**:* Value of goodwill ₹36,600; Goodwill adjustment – P ₹12,200 (Sacrifice), Q ₹12,200 (Gain), R ₹6,100 (Gain), S ₹6,100 (Sacrifice)]

11. A, B and C are the partners in a firm, sharing profit and losses in the ratio of 4:3:2. In an agreement, A retires from business on Jan. 1, 2018. For the purpose of retirement, the goodwill of the firm is valued at ₹36,000. B paid ₹4,000 and C paid ₹12,000 to A for purchase of their share of profits for the future. Show necessary entries in the books of the firm for the treatment of goodwill.

[***Hints**:* Goodwill adjustment – A ₹16,000 (Sacrifice), B ₹4,000 (Gain) and C ₹12,000 (Gain)]

12. Sachin, Dhoni and Kohli are partners with a profit sharing ratio of 3:2:1. In an agreement, Sachin retired from the business and his son Arjun joined. After the retirement of Sachin, it was agreed among the partners to share future profits equally. The goodwill was valued at ₹60,000. However, the firm decided to treat the goodwill according to the accounting regulation. Pass journal entries regarding the treatment of goodwill.

[***Hints**:* New p.s.r. 1:1:1; Goodwill adjustment – Sachin ₹30,000 (Sacrifice), Dhoni ₹ Nil, Kohli ₹10,000 (Gain) and Arjun ₹20,000 (Gain)]

13. A, B and C are partners sharing profit and losses in the ratio of 2:1:1. In an agreement, it was decided that the future profit sharing ratio between Y and Z shall be the same as existing between X and Y. The goodwill of the firm has been valued at ₹1,40,000. Goodwill A/c is already appearing in the Balance sheet at ₹84,000. Show the necessary journal entries.

[***Hints**:* New p.s.r. 4:2:1; Goodwill adjustment – A ₹10,000 (Gain), B ₹5,000 (Gain) and C ₹15,000 (Sacrifice)]

14. A, B and C are partners sharing profits as 4:3:2. For any change in partnership, goodwill is to be valued at 2 ½ times the average profits for 4 years, but no Goodwill Account is to be raised. The profits are:

2014 : ₹1,00,000 2016 : ₹1,12,000

2015 : ₹1,20,000 2017 : ₹1,72,000

On Dec. 31, 2017, B and C each acquires from A an additional l/9th share in the firm. On Jan. 1, 2018, A's son P is admitted as a partner. His share is to be 1/7th of which a proportion calculated to produce ₹11,000 p.a. on the basis of profit, is gifted to him by his father; balance is to be purchased from B and C in proportion to their share immediately prior to P's admission.

You are required to:

(a) Determine the value of goodwill.

(b) Show the necessary journal entries.

(c) Compute ultimate profit sharing ratio.

[***Hints**:* **(a)** Value of goodwill ₹3,15,000; New p.s.r. 2:4:3 **(b)** Amount to be compensated by B and C to A ₹35,000; Amount to be compensated by P to B and C ₹17,500 **(c)** Ultimate p.s.r. 17: 48: 39: 18]

15. X, Y and Z are partners sharing profits in the ratio of 3:2:1. The firm closes its books on March 31st every year. The profit of the firm for last four years was as under:

2016–17 ₹84,000; 2015–16 ₹72,000; 2014–15 ₹(24,000); 2013–14 ₹36,000.

Suddenly, X died on Sep. 30, 2017 in a road accident. The estimated profit up to the date of death of deceased partner is ₹60,000. Y and Z decided to share future profits in their old ratio. Pass necessary journal entries regarding treatment of goodwill if goodwill is to be valued on the basis three years' purchase of average profit of last four financial years.

[***Hints**:* New p.s.r. 2:1; Value of goodwill ₹1,26,000; Goodwill adjustment – X ₹63,000 (Sacrifice), Y ₹42,000 (Gain), Z ₹21,000 (Gain)]

Treatment of Life Policies 3

Syllabus: *Treatment of Life Policy.*

1. X and Y are partners in a firm sharing profits and losses equally. The firm had taken individual life policies in the name of the partners worth ₹2,00,000 and ₹2,50,000 respectively. The premiums on such policies were paid by the firm. A new partner, Z was admitted Apr. 1, 2018, and it was decided to share the future profits/losses equally among all the partners. On the date of admission, the surrender value of the life policies were ₹80,000 and ₹1,00,000 respectively. Pass journal entries in the books of the firm given that the life policy accounts were not appearing in the Balance Sheet.

   [***Hints***: The surrender values of the life policies of X and Y are to be accounted for either by 'just raising them in the books' or by 'raising and writing them off' or by 'capital adjustment']

2. A, B and C were partners in a firm sharing profits and losses in the ratio of 6:5:1. The firm had taken life policies in the name of the partners individually for ₹12,00,000, ₹7,50,000 and ₹4,50,000 respectively. The premiums on such policies were charged to the firm's Profit & Loss Account. A retired on Mar. 31, 2018, while B and C decided to share the future profits/losses equally. On that date, the surrender value of each life policy is 12% of the sums assured. Pass journal entries in the books of the firm if the life policy accounts appear in the Balance Sheet at their surrender values.

   [***Hint***: No journal entry is required to be passed]

3. X, Y and Z are partners in a firm sharing profits and losses in the ratio of 5:3:2. The firm had taken individual life policies in the name of the partners for ₹4,00,000, ₹3,00,000 and ₹2,00,000 respectively. The premiums on such policies were borne by the firm. Y retired on Apr. 1, 2018, while X and Z decided to share future profits and losses equally. On that date, the surrender value of each life policy is 25% of the sum assured. Pass journal entries in the books of the firm if the life policy accounts do not appear in the Balance Sheet and the firm intends to reflect Individual Life Policies Account in the books.

   [***Hints***: Aggregate of Surrender values ₹2,25,000; The surrender values of the life policies of all the partners are to be accounted for by raising the Individual Life Policies Accounts in the books]

4. M, N and O were partners in a firm sharing profits and losses in the ratio of 3:2:1. The firm had taken life policies in the name of the partners individually for ₹2,50,000, ₹1,50,000 and ₹1,00,000 respectively. The premiums on such policies were charged to the firm's Profit & Loss Account. N retired on Mar. 31, 2018, while M and O decided to share future profits equally. On that date, the surrender value of each life policy is 20% of the sum assured. Pass journal entries in the books of the firm if the life policy accounts appear in the Balance Sheet and the firm desires not to reflect Individual Life Policies Account in the books.

   [***Hints***: Aggregate of Surrender values ₹1,00,000; The surrender values of the life policies of all the partners are to be accounted for either by 'raising and writing them off' or by 'capital adjustment']

5. Ajoy, Bijoy and Sanjoy shared profits and losses equally. Their firm took separate life insurance policies of the partners for ₹1,00,000, ₹70,000 and ₹60,000 respectively and on these policies paid ₹6,000, ₹4,000 and ₹3,000 annually on the first day of every year by way of premia. On Apr. 1, 2017, the firm paid the premia for the year 2017–18. Sanjoy died on July 31, 2017. The firm received the sum assured on Sanjoy's policy from insurance company. On that date, surrender values of Ajoy's and Bjoy's policies were 1/5th of the sum assured. Journalise the above transactions in the books of the firm for the year 2017–18, assuming that the firm treated the premium paid as business expense.

   [***Hints***: Sanjoy's life policy will mature, and the firm will receive the sum assured of ₹60,000; The surrender values of the life policies of the other surviving partners (viz. Ajoy and Bijoy) are to be accounted for either by 'just raising them in the books' or by 'raising and writing them off' or by 'capital adjustment']

6. D, L and F are partners sharing profits and losses in the ratio of 3:2:1. The firm had taken out policies on the lives of the partners: D ₹1,00,000, L ₹80,000 and F ₹70,000. The premiums were treated as expense of the firm and debited to Profit & Loss A/c. On Feb. 1, 2018, D died. The surrender values in all cases were 40% of the policy amounts. Pass journal entries relating to the death of the partner, assuming that the firm has decided not to open any Life Policy Account in the books of the firm.

[***Hints***: D's life policy will mature, and the firm will receive ₹1,00,000; The surrender values of the life policies of the other surviving partners are to be accounted for either by 'just raising them in the books' or by 'raising and writing them off' or by 'capital adjustment']

7. A and B are partners in a firm sharing profits and losses as 2:1. Z comes in for 1/4th share. The firm has a joint life policy of ₹10,00,000 not shown in the books, the premium for which is charged to Profit & Loss Account. The surrender value of the policy on the date of Z's admission is ₹7,80,000 and it is agreed to raise a life policy account in the books of the firm. Give journal entries to record the above transaction.

[***Hint***: Surrender value of the JLP ₹7,80,000 is to be accounted for in the books of the firm]

8. S, M and G were in partnership sharing profits and losses in the ratio of 4:2:1. They had taken out a life policy on their joint lives for ₹8,40,000, charging the premium to Profit & Loss Account as and when paid. The surrender value of the policy on Mar. 31, 2018 was ₹2,00,000. On June 1, 2018, they admitted A as a partner with a new profit sharing ratio of 4:3:2:1. As regards the life policy, it was decided that no account was to be raised in the books and necessary adjustments of the partners' shares be effected through their capital accounts. The present surrender value of the policy was to be taken at last surrender value with an addition of 25% thereof. Pass journal entries in respect of the joint life policy in the books of the firm.

[***Hint***: Surrender value of the JLP ₹2,50,000 is to be accounted for in the books of the firm]

9. T and M are partners in a firm sharing profits and losses in the ratio of 3:2. The firm has taken a joint life policy on the lives of T and M. The premium of this policy is treated as a business expense. On June 1, 2018, W joins the firm as a new partner for 20 paise in a rupee. On that date, the surrender value of the joint life policy was ₹2,60,000 whereas its Policy Value was ₹8,20,000. It was decided to record the joint life policy as a business asset but not to reflect it in the Balance Sheet. Pass journal entries to record the above transaction.

[***Hints***: New p.s.r. 12:8:5; Surrender value of the JLP ₹2,60,000 is to be accounted for in the books of the firm]

10. E, F and G were partners sharing profits and losses in the ratio of 3:2:1. The firm closes its books on Mar.31 every year. The firm has a joint life policy taken in the name of all the partners, the sum assured by which is ₹15,00,000. The Balance Sheet prepared on Mar. 31,2018 reflected the Joint Life Policy at ₹3,60,000. On Apr. 1, 2018, G retired, when the surrender value was ₹4,50,000. The partnership deed provided that – 'In the event of retirement, Life Policy is to be shown at surrender value'. You are required to pass journal entries reflecting the transaction regarding the life policy.

[***Hints***: Surrender value of the JLP is to be accounted for in the books of the firm; JLP A/c will appear in the post-retirement Balance Sheet at ₹4,50,000]

11. J, K and F are partners in a firm sharing profits and losses as 2:3:2. On Mar. 31, 2018, F retired from the firm while the remaining partners decided to carry on. The firm had a joint life policy of ₹9,00,000, but it was not reflected in the books. On F's retirement, the joint life policy was surrendered and ₹7,00,000 was obtained in cash. Pass necessary journal entries.

[***Hints***: Surrender value of the JLP is to be accounted for in the books of the firm]

12. Amar, Akbar and Anthony were carrying on a business in partnership, sharing profits and losses in the ratio of 2:2:1 respectively. They took a joint life policy for ₹1,20,000 on Apr. 1, 2014. The annual premium of ₹5,000 was payable on May 1 every year. The last premium was paid on May 1, 2017. Akbar died on June 10, 2017 and the policy was received on July 31, 2017.

The surrender values of the policy as on Mar. 31 in different years were as follows:

2015 – Nil; 2016 – ₹1,000; 2017 – ₹1,600.

Prepare Joint Life Policy account for the entire period assuming that the JLP was maintained at its surrender value and the accounts were closed on Mar. 31 every year.

[***Hints*****:** Net Gain on maturity of JLP ₹1,13,400]

13. M, N and O were partners in a firm sharing profits and losses as 5:3:2 respectively. N died on Mar. 31, 2018 when the surrender value of the policy was ₹6,20,000. The firm had a Joint Life Policy (not included in the Balance Sheet) in the names of the partners for an insured value of ₹15,00,000. The premium paid in the policy was debited to Profit & Loss Account of the firm. On Apr. 30, the death claim for the policy was realised in full. Pass necessary journal entries in the books of the firm.

[***Hints***: Maturity proceeds ₹15,00,000]

14. P, Q and R were partners in a firm sharing profits and losses as 4:2:1 respectively. Q expired on May 31, 2018 when the surrender value of the policy was ₹8,50,000. The firm had a Joint Assurance Policy of ₹12,50,000. The book value of the policy on the date of death was ₹8,00,000. On June 20, the death claim for the policy was realised in full and legal heir of Q was paid. Pass necessary journal entries in the books of the firm.

[***Hints***: Net Gain on maturity of JLP ₹4,50,000]

15. X, Y and Z were partners sharing profits and losses as 1/2, 1/3 and 1/6 respectively. Z expired on Jan. 15, 2018. The firm has a joint life policy of ₹7,20,000. The joint life policy was reflected in the books at ₹7,00,000 with a corresponding joint life policy reserve of the same amount. The insurance company admitted a claim of ₹7,56,000 including bonus. Pass necessary journal entries in the event of the death of the deceased partner, Z.

[***Hints***: Net Gain on maturity of JLP ₹56,000]

Admission of Partner 4

Syllabus: *Admission (revaluation of assets & liabilities (with/without alteration of books), treatment of reserve and adjustment relating to capital; treatment of joint life policy).*

1. Basic Problem – Preparation of Journal, Partners' Capital A/c & Balance Sheet –Premium for goodwill brought in by new partner – Revaluation of Assets and Liabilities – Distribution of reserve between old partners

Atanu and Rasul were partners in a firm sharing profits and losses in the ratio 3:2. Following is their Balance Sheet as on Dec. 31, 2017:

Liabilities	₹	₹	Assets	₹	₹
Capital:			Building		50,000
Atanu	40,000		Furniture		15,000
Rasul	20,000	60,000	Stock		20,000
Reserve		29,800	Bills Receivable		5,000
Creditors		6,200	Debtors		7,500
Bills Payable		4,000	Cash in hand		2,500
		1,00,000			1,00,000

Pahari is to be admitted as a partner with effect from Jan. 1, 2018 on the following terms:

(a) Pahari will bring in ₹15,000 as capital and ₹12,000 as premium for Goodwill.

(b) Pahari will be entitled to 1/6th share in the profits of the firm.

(c) Building and Furniture will be revalued at ₹56,000 and ₹12,000 respectively.

(d) A provision for bad debts is to be raised against debtors at 10%.

(e) The claim of a creditor for ₹2,300 is to be paid at ₹2,000.

You are required to:

1. Pass the journal entries at the time of admission;
2. Prepare the Partners' Capital account; and
3. Draft the Balance Sheet of the new firm.

[***Ans.*** Profit on Revaluation ₹2,550; Total of Balance Sheet ₹1,29,250]

2. Anik and Babul were carrying on business in partnership sharing profits and losses in the ratio of 3:2. On March 31, 2018, their Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Anik's capital	30,200	Land & Buildings	40,000
Babul's capital	35,400	Furniture	10,600
Bank Loan	20,000	Stock	38,500
Sundry Creditors	20,800	Sundry Debtors	19,000
Bills payable	10,000	Cash	20,300
Workman Compensation Fund	12,000		
	1,28,400		1,28,400

On Apr. 1, 2018, Charu was admitted to partnership on the following conditions:

(a) Charu would be entitled to one-third share in profits.

(b) Charu would bring ₹30,000 as capital. He would not be able to bring his share of goodwill ₹10,000 in cash and so an appropriate amount of goodwill would be raised in the books for immediate writing off.

(c) The book value of land and buildings would be increased by ₹10,000, that of furniture would be reduced to ₹10,000 and stock would be reduced by 10%.

(d) A provision for bad debts @ 5% on sundry debtors would be created.

(e) The actual liability of workman compensation fund is estimated at ₹2,000.

(f) Bank loan would be paid off.

Prepare (i) Revaluation Account; (ii) Partners' Capital Accounts and (iii) Balance Sheet of the new firm.

[***Ans.*** New p.s.r. 6:4:5; Profit on Revaluation ₹4,600; Total of Balance Sheet ₹1,43,000]

3. Preparation of Journal & drafting of Balance Sheet – Revaluation of Assets and liabilities – Ascertainment of capital brought in by incoming partner

Ram and Hari are partners of a firm sharing profits and losses as Ram 2/3rd and Hari 1/3rd. Their Balance Sheet as on Dec. 31, 2017 is given below:

Liabilities	₹	₹	Assets	₹	₹
Sundry Creditors		30,000	Plant		50,000
Capital Accounts:			Stock		20,000
Ram	50,000		Sundry Debtors		40,000
Hari	40,000	90,000	Bank		10,000
		1,20,000			1,20,000

Madhav now wants to join them. It is agreed that there should be revaluation of the assets of the firm before the new partner joins the firm. Plant should be depreciated at 10%. Stock should be reduced to ₹17,000. A Bad Debt Reserve of 2½ % is to be raised against Sundry Debtors. Madhav pays ₹12,000 to the firm as premium for goodwill. The amount is to retain in the business as working capital. He is to introduce capital equal to 50% of the combined capital of the two partners after the adjustments consequent upon the revaluation of assets and after appropriation of the goodwill premium. He should be allowed 1/3rd share of the future profits of the firm.

You are required to give Journal entries recording the above transactions and also draft the Opening Balance Sheet of the new firm.

[***Ans.*** Loss on Revaluation ₹9,000; Capital contributed by Madhav ₹46,500; Total of Balance Sheet ₹1,69,500]

4. Preparation of necessary accounts and drafting of Balance Sheet – Revaluation of Assets and liabilities –Treatment of premium for goodwill – Ascertainment of capital balance of existing partners based on incoming partner

A and B are partners in a firm sharing profits and losses in the ratio of 3:2. Their Balance Sheet on Dec. 31, 2017 stands as under:

Liabilities		₹	Assets		₹
Creditors		70,000	Cash		8,000
Capital Accounts:			Debtors	44,000	
A	80,000		*Less*: Provision for Doubtful Debts	4,000	40,000
B	40,000	1,20,000	Stock		36,000
			Machinery		40,000
			Land and Building		66,000
		1,90,000			1,90,000

On Jan. 1, 2018, they agreed to take C as a partner on the following conditions:

(a) The goodwill of the firm shall be valued at ₹47,500 and C shall pay his share of goodwill in cash.

(b) C shall contribute ₹30,000 as his share of Capital.

(c) Land and Building shall be valued at ₹84,000. Machinery shall be depreciated by ₹10,000. Provision for doubtful debts shall be raised to ₹6,000 and another provision shall be made for a probable liability for damages amounting to ₹2,600.

(d) The new profit and loss sharing ratio between A, B and C will be 9:6:4.

(e) The capital shall be adjusted (without disturbing the ultimate total capital) so as to correspond with the new ratio, the excess or deficit being transferred to their respective current accounts.

Prepare Revaluation Account, Partners' Capital Accounts and the opening Balance Sheet of the new firm.

[***Ans.*** Loss on Revaluation ₹3,400; Amount transferred from A's Capital A/c to Current A/c ₹10,640; Amount transferred from B's Current A/c to Capital A/c ₹6,240; Amount transferred from C's Current A/c to Capital A/c ₹4,400; Total of Balance Sheet ₹2,46,640]

5. Unalteration of value of assets – Preparation of Memorandum Revaluation A/c, Partners' Capital A/c and drafting of Balance Sheet

S and R are equal partners They took into partnership B who brings ₹5,000 as Capital. The old partners decided to alter the value of the assets and liabilities according to current valuation, but that would not be recorded permanently in the books of accounts of the firm. The new profit and loss sharing ratio is: S – 4/9th, R – 4/9th and B – 1/9th.

The Balance Sheet of the firm before B's admission was as follows:

Liabilities	₹	₹	**Assets**	₹	₹
Creditors		6,000	Bank		2,000
Capital A/c:			Stock		5,000
S	12,000		Debtors		9,000
R	8,000	20,000	Furniture		10,000
		26,000			26,000

Following revalued figures are available on B's admission on Jan. 1, 2018:

Furniture ₹9,000; Debtors ₹8,500; Stock ₹6,000; Creditors ₹6,400.

Prepare (i) Memorandum Revaluation Account, (ii) Partners' Capital Account, and (iii) Revised Balance Sheet of the firm.

[***Ans.*** Loss on Revaluation ₹900; Total of Balance Sheet ₹31,000]

6. Memorandum Revoluation A/c – Admission of two Partners – Partners' Capital A/c & Balance Sheet

A and B were partners of a firm sharing profits and losses in the ratio 2 : 1. The Balance Sheet of the firm as on Mar. 31, 2018 was as under:

Liabilities	₹	**Assets**	₹
Capital Accounts:		Plant and Machinery	5,00,000
A	8,00,000	Building	9,00,000
B	4,00,000	Sundry Debtors	2,50,000
Reserves	5,25,000	Stock	3,00,000
Sundry Creditors	2,75,000	Cash	1,50,000
Bills Payable	1,00,000		
	21,00,000		21,00,000

They agreed to admit P and Q into the partnership on the following terms:

a. The firm's goodwill to be valued at 2 years purchase of the weighted average of the profits of the last 3 years. The relevant figures are:

Year ended 31.3.2015 – Profit ₹ 37,000

Year ended 31.3.2016 – Profit ₹ 40,000

Year ended 31.3.2017 – Profit ₹ 45,000

b. The value of the stock and plant & Machinery were to be reduced by 10%.

c. Building was to be valued at ₹ 10,11,000.

d. There was an unrecorded liability of ₹ 10,000.

e. A, B, P & Q agreed to share profits and losses in the ratio 3 : 2 : 1 : 1.

f. The value of reserve, the values of liabilities and the values of assets other than cash were not to be altered.

g. P and Q were to bring Capitals equal to their shares of profit considering B's Capital as base after all adjustments.

You are required to prepare:

(1) Memorandum Revaluation Account, (2) Partners' Capital Account and (3) The Balance Sheet of the newly constructed firm.

[***Ans.*** Profit on Revaluation ₹21,000; Value of goodwill ₹84,000; Cash brought in by P and Q ₹3,05,000 each; Total of Balance Sheet ₹27,10,000]

7. The following is the Balance Sheet of A and B as at March 31, 2018. C is admitted as a partner on that date when the position of A and B are as under:

Liabilities	₹	Assets	₹
A's Capital	10,000	Land and Building	8,000
B's Capital	8,000	Plant and Machinery	10,000
Creditors	12,000	Stock of goods	12,000
General reserve	16,000	Debtors	11,000
Workmen's Compensation Fund	4,000	Cash & Bank balance	9,000
	50,000		50,000

A and B shared profits in the proportion of 3:2. The following terms of admission are agreed upon:

(a) Revaluation of Assets: Land and Building ₹18,000 and Stock of Goods ₹16,000;

(b) The liability of Workmen Compensation Fund is determined at ₹2,000;

(c) C brought in as his share of goodwill ₹10,000 in cash;

(d) C was to bring a further cash as would make his capital equal to 20% of combined capital of partners A and B after above revaluation and adjustments are carried out;

(e) The future profit sharing proportions are: A – 2/5th, B – 2/5th and C – l/5th.

Prepare the new Balance Sheet of the firm and the Capital Account of the partners.

[***Ans.*** Profit on Revaluation ₹14,000; Capital brought in by C ₹12,000; Total of Balance Sheet ₹27,10,000]

8. Preparation of Partners' capital account & drafting of Balance Sheet – Revaluation of Assets and liabilities – Treatment of premium for goodwill – Adjustment of Workmen's Compensation Fund – Ascertainment of incoming partner's Capital based on existing Partners' Capital

X and Y are in a partnership sharing profits and losses in 3:2 ratio. Z was admitted as the new partner. Before admitting Z into the partnership the Balance Sheet of X and Y was as under:

Balance Sheet as on 31.12.2017

Liabilities	₹	Assets	₹
X's Capital	15,000	Land and Building	12,000
Y's Capital	12,000	Plant and Machinery	15,000
Sundry Creditors	18,000	Stock	18,000
General Reserve	24,000	Sundry Debtors	16,000
Workmen's Compensation Fund	6,000	Cash	14,000
	75,000		75,000

On 1st January, 2018, Z was admitted to partnership on the following conditions:

(a) The future profit sharing ratio will be: X– 2/5th, Y–2/5th and Z–1/5th.

(b) Revaluation of assets – Land and Building ₹27,000 and Stock ₹24,000.

(c) The actual liability of Workmen's Compensation Fund is estimated at ₹3,000.

(d) Z brought in ₹15,000 as his share of Goodwill in cash.

(e) Z would bring further cash as would be necessary so as to make his capital equal to 20% of combined capital of partners X and Y after above revaluation and adjustments are carried out.

Prepare Revaluation Account, Partners' Capital Account and Balance Sheet of the firm after the admission of the new partner.

[***Ans.*** Profit on Revaluation ₹21,000; Cash brought in by Z ₹18,000; Total of Balance Sheet ₹1,29,000]

9. Preparation of Revaluation A/c, Partners' Capital A/c and drafting of Balance Sheet – Revaluation of Assets & Liabilities – Adjustment of partners' capital for non-payment of premium for goodwill – Treatment of JLP & Workmen's Compensation Fund

Ranu and Mili are partners in a firm, sharing Profits & Losses in the ratio of 2/3 and 1/3. The Balance Sheet of the firm on Dec. 31, 2017 was as follows:

Liabilities	₹	₹	Assets	₹	₹
Creditors		7,000	Goodwill		4,980
Investment Provision		2,000	Investment		25,000
General Reserve		10,500	Stock		15,000
Workmen's Compensation Fund		6,000	Debtors	20,000	
Capital Accounts:			*Less*: Provision for doubtful debts	2,500	17,500
Ranu	30,000		Bills Receivable		12,500
Mili	24,500	54,500	Bank		5,020
		80,000			80,000

On the above date, Manisha is admitted for 2/5th share in the Profits or Losses of the firm. The following revaluations were made at the time of admission:

(a) Manisha is required to bring in ₹50,000 as capital.

(b) Her goodwill was calculated at ₹12,000; however, she did not bring any money as premium for goodwill. The firm decided not to show goodwill account in the books.

(c) Ranu and Mili had purchased machinery on hire purchase system for ₹15,000 of which only ₹500 is to be paid. Both Machinery & Unpaid Liability did not appear in the Balance Sheet.

(d) There was a Joint Life Policy on the lives of Ranu and Mili for ₹75,000. Surrender value of the policy on the date of admission amounted to ₹12,000.

(e) Accrued incomes not appearing in the books were ₹500.

(f) Market value of investments is ₹23,900.

(g) Claim on account of compensation is estimated at ₹750.

(h) Sikha an old customer, whose account was written off as bad, had promised to pay ₹1,750 in settlement for her full claim and it was decided to record such due in the books.

(i) Provision for doubtful debts is required at ₹3,000.

Prepare Revaluation A/c, Partners' Capital Account and Opening Balance Sheet after admission of Manisha.

[***Ans.*** New p.s.r. 2:1:2; Profit on Revaluation ₹29,150; Total of Balance Sheet ₹1,52,670]

10. Journal Entries and Balance Sheet – Calculation of new p.s.r – Premium for goodwill – Adjustment of partners' capital

Rain and Storm are partners in a firm sharing profits and losses as 3:2. Their Balance Sheet on Dec. 31, 2017 stands as under:

Liabilities	₹	₹	Assets	₹	₹
Creditors		35,000	Cash		4,000
Capital Accounts:			Debtors	22,000	
Rain	40,000		*Less*: Provision for bad debts	2,000	20,000
Storm	20,000	60,000	Stock		18,000
			Machinery		20,000
			Land & Building		33,000
		95,000			95,000

On Jan. 1, 2018 they agreed to take Dust as a partner on the following conditions:

(a) The goodwill of the firm shall be valued at ₹23,750 and Dust shall pay his share of goodwill in cash.

(b) Dust shall contribute ₹15,000 as his share of capital.

(c) Land & Building shall be valued at ₹42,000. Machinery shall be depreciated by ₹5,000. Provision for Bad Debt shall be raised to ₹3,000 and another provision shall be made for probable liability for damages ₹1,300.

(d) The Profit and Loss sharing shall be so adjusted that between Rain and Storm the former ratio is maintained. While between Storm and Dust there shall be the same ratio as between Rain and Storm.

(e) The capital shall be adjusted (without disturbing the ultimate total capital) so as to correspond with the new ratio, the excess or deficit being transferred to their respective Current Accounts.

Show Journal entries to give effect to above arrangements and prepare opening Balance Sheet of new firm.

[***Ans.*** New p.s.r. 9:6:4; Profit on Revaluation ₹1,700; Balance of Capital Accounts – Rain ₹38,700, Storm ₹25,800, Dust ₹17,200; Total of Balance Sheet ₹1,23,320]

11. Journal Entries, Capital and Current A/c & Balance Sheet – Sundry assets brought in by new partner – Adjustment of Partners' Capital through Current Account

The Balance Sheet of A and B, a partnership firm, as on Mar. 31, 2018 is given below:

Liabilities	₹	₹	Assets	₹	₹
Capital Accounts:			**Fixed Assets:**		
A	12,000		Land & Building	14,400	
B	24,000	36,000	Plant and Machinery	12,000	
Current Accounts:			Furniture	1,200	27,600
A	14,400		**Current Assets:**		
B	9,600	24,000	Stock in Trade	25,200	
Sundry Creditors		6,000	Sundry Debtors	4,200	29,400
Bank Overdraft		3,000	C - Loan Account		12,000
		69,000			69,000

(a) A and B share profits and losses as 1:2. The partners agree to admit C as a third partner from Apr. 1, 2018.

(b) The assets are revalued as under:

Plant and Machinery ₹18,000; Land & Building ₹30,000; Furniture & Fixture ₹6,000.

(c) C brings in the following assets into the partnership:

Plant and Machinery ₹6,000; Furniture ₹1,800; Stock-in-Trade ₹13,800.

(d) Profits in the firm are to be shared equally by the three partners and the Capital of each partner should be fixed at ₹50,000 and Current Accounts are to be so adjusted as to be equal of each partner based on the Partners' Current A/c having minimum credit balance. For this purpose, additional cash should be brought in by partner or partners concerned.

Draft the necessary Journal entries and prepare the Capital and Current Accounts of the three partners and the Opening Balance Sheet of the new firm showing the amount of Cash, if any, which each partner may have to provide.

[***Ans.*** Profit on Revaluation ₹26,400; Amount transferred from Partners' Current A/c to Partners' Capital A/c A ₹38,000, B ₹26,000, C ₹28,400; Cash brought in by A ₹16,000 and B ₹29,600; Total of Balance Sheet ₹1,59,600]

12. Maintenance of General Reserve at book value – Adjustment of partners' capital through partners' current account

X & Y share profits & losses in the ratio of 5:3. They admit Z as a new partner with l/5th share in future profits. He pays ₹80,000 as capital but does not contribute anything towards goodwill which is valued at ₹60,000. The capitals of the partners are fixed. All adjustments are to be made through partners' current accounts except introduction of capital by new partner. Their Balance Sheet as on Mar. 31, 2018 is as follows:

Balance Sheet as on Mar. 31, 2018

Liabilities	₹	₹	Assets	₹	₹
Capital A/c:			Plant and Machinery		50,000
X	80,000		Investments		31,000
Y	60,000	1,40,000	Sundry Debtors		60,000
Current A/c:			Stock-in-Trade		90,000
X	5,000		Bank		30,000
Y	6,000	11,000			
General Reserve		60,000			
Sundry Creditors		50,000			
		2,61,000			2,61,000

Additional Information:

1. Plant and Machinery is valued at ₹46,000 and stock at ₹96,000.
2. One Creditor for ₹6,000 is dead and nothing is likely to be paid on this account.
3. The Capital accounts are to be proportionately adjusted on the basis of Z's capital and his share of profit, through Current accounts. Any deficit, if any, should be brought in by the partners themselves.
4. Partners decide to maintain the General Reserve in the books of the firm.

Prepare Revaluation account, Bank account, Capital and Current accounts and Balance Sheet of the new firm.

[***Ans.*** New p.s.r. 5:3:2; Profit on Revaluation ₹8,000; Cash brought in by X ₹95,000, Y ₹42,000 and Z ₹24,000; Total of Balance Sheet ₹5,04,000]

Retirement of Partner 5

Syllabus: *Retirement (revaluation of assets & liabilities (with/without alteration of books), treatment of reserve and adjustment relating to capital; treatment of joint life policy).*

1. A, B and C are partners in a firm sharing profits and losses in the ratio of 4:3:2. B decides to retire from the firm. Calculate the new profit sharing ratio of A and C in the following circumstances:

(a) If B gives his share to A and C in the original ratios of A and C.

(b) If B gives his share to A and C in equal proportion,

(c) If B gives his share to A and C in the ratio of 3:1.

(d) If B gives his share to A only.

[***Ans.*** New p.s.r. (a) 2:1 (b) 11:7 (c) 25:11 (d) 7:2]

2. X, Y & Z are partners sharing profits and losses in the ratio of 5:3:2 respectively. The Balance Sheet of their firm as on Mar. 31, 2018 was as follows:

Liabilities		₹	Assets		₹
Capital Accounts:			Land and Building		80,000
X	50,000		Furniture		2,000
Y	30,000		Stock		10,000
Z	20,000	1,00,000	Debtors	25,000	
General Reserve		20,000	Less: Provision	2,000	23,000
			Bank		5,000
		1,20,000			1,20,000

Y retires on that date subject to the following conditions:

(a) The Goodwill of the firm is to be valued at ₹20,000.

(b) Furniture is to be depreciated by 10% and Land & Building to be appreciated by 10%.

(c) Provision for Doubtful Debts is to be increased to ₹3,000.

(d) Amount due to Y is to be transferred to his Loan Account.

X & Y agreed to continue the business and share the future profits & losses in the ratio of 3:2 respectively. Changes in the value of assets (except Goodwill) and liabilities are to be recorded in the books.

Show Revaluation Account, Partner's Capital Accounts and the newly constructed Balance Sheet of the Firm.

[***Ans.*** Profit on Revaluation ₹6,800; Amount transferred to Y's Loan A/c ₹44,040; Total of Balance Sheet ₹1,26,800]

3. Iman, Sriman and Mamon are partners sharing profits & losses in the ratio 5:3:2 respectively. The Balance Sheet of their firm as on Mar. 31, 2018 was as follows:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	80,000
Iman	50,000	Furniture	2,000
Sriman	30,000	Stock	10,000

Liabilities	₹	Assets		₹
Mamon	20,000	Debtors	25,000	
General Reserve	20,000	Less: Provision	2,000	23,000
Sundry Creditors	10,000	Bank		15,000
	1,30,000			1,30,000

Mamon retires on Apr. 1, 2018 subject to the following conditions:

(a) Furniture is to be depreciated by 10% and Land & Building is to be appreciated by 10%.

(b) Provision for doubtful debts is to be increased to ₹3,000.

(c) A provision of ₹4,000 is to be made in respect of repairs.

(e) Amount due to Mamon is to be transferred to his Loan Account.

Show the Revaluation Account, Capital Accounts of the Partners and the Balance Sheet on Apr. 1, 2018 after retirement.

[***Ans.*** Profit on Revaluation ₹2,800; Amount transferred to Mamon's Loan A/c ₹24,560; Total of Balance Sheet ₹1,36,800]

4. Good, Better, and Best are partners of a firm sharing profits in the ratio of 3:2:1. Their Balance Sheet as on Mar. 31, 2018 was under:

Liabilities		₹	Assets		₹
Creditors		12,000	Cash		900
Bills Payable		5,500	Debtors	5,000	
Capital Accounts:			Less: Provision	400	4,600
Good	36,000		Stock		5,000
Better	24,000		Furniture		10,000
Best	12,000	72,000	Machinery		25,000
Reserve		6,000	Building		50,000
		95,500			95,500

On Apr. 1, 2018, Good decided to retire on the following conditions:

(a) Goodwill of the firm is to be valued at ₹12,000 but no goodwill account is to be raised in the books.

(b) Furniture and Machinery are to be depreciated by 20% and 10% respectively.

(c) Value of Stock and Building are to be appreciated by 10% and 20% respectively.

(d) Provision on debtors is to be maintained at ₹300.

(e) Better and Best will bring in cash of ₹5,000 and ₹3,000 respectively to pay a part of dues to Good and the balance is to be transferred to his Loan Account.

Show Revaluation Account, Partner's Capital Account and the Balance Sheet after retirement.

[***Ans.*** Profit on Revaluation ₹6,100; Amount transferred to Good's Loan A/c ₹40,050; Total of Balance Sheet ₹1,01,600]

5. Passing of journal entries, Partners' Capital A/c' and Balance Sheet – Revaluation of assets and liabilities – Treatment of goodwill

A, B, and C are partners of a firm sharing profits and losses in the ratio of 5:3:2 respectively. The Balance Sheet of the firm as on 31.12.2017 was as follows:

Balance Sheet as on 31.12.2017

Liabilities		₹	Assets		₹
Capital Accounts:			Land and Buildings		1,60,000
A	1,00,000		Furniture		4,000
B	60,000		Stock		6,000
C	40,000		Debtors	50,000	
		2,00,000	*Less*: Provision	4,000	46,000
General Reserve		40,000	Bank		24,000
		2,40,000			2,40,000

'B' retires on 31.12.2017 subject to the following conditions:

(i) Furniture to be depreciated by 10% and Land and Buildings to be appreciated by 10%.

(ii) Provision for Doubtful Debts is to be increased to ₹6,000.

(iii) The goodwill of the firm is to be valued at ₹40,000.

(iv) Of the amount outstanding to 'B', ₹20,000 will be paid immediately and the balance amount due to 'B' will be transferred to a separate Loan A/c. of 'B'.

A and C agreed to continue the business and share the future profits and losses in the ratio of 3:2 respectively. Changes in the value of assets and liabilities are to be recorded in the books.

Show Revaluation A/c. and Partners' Capital A/c. Prepare the Balance Sheet after retirement of 'B'.

[***Ans.*** Profit on Revaluation ₹13,600; Amount transferred to B's Loan A/c ₹68,080; Total of Balance Sheet ₹2,33,600]

6. Treatment of Goodwill, Revaluation of Assets, Adjustment of Partners' Capital

A, B and C are three partners in a firm sharing profits and losses in proportion to their capitals. The Balance Sheet of A, B and C stood as follows on 31st March, 2018:

Liabilities		₹	Assets		₹
Capital Accounts:			Building		60,000
A	60,000		Machinery		25,000
B	20,000		Stock		20,000
C	40,000	1,20,000	Debtors	10,000	
Creditors		12,000	*Less*: Provision	200	9,800
			Bank		17,200
		1,32,000			1,32,000

C retires on 31st March, 2018 and it was agreed that:

(a) Provision for bad debts be created at 5% on debtors.

(b) Building be appreciated by 25%.

(c) Provision of ₹4,500 be made in respect of outstanding bill for repairs.

(d) Goodwill of the firm be fixed at ₹24,000 and C's share of the same be adjusted into the accounts of A and B. The new profit sharing ratio will be 3 : 1 in between A and B respectively.

(e) Total Capital of the firm be fixed at ₹60,000 after C's retirement. A and B are to contribute or withdraw cash in order to maintain their Capital in profit sharing ratio.

(f) Total amount due to C be transferred to his Loan A/c.

Prepare Profit and Loss Adjustment Account, Partners' Capital Accounts and also the Balance Sheet after C's retirement.

[***Ans.*** Profit on Revaluation ₹10,200; Amount transferred to C's Loan A/c ₹51,400; Total of Balance Sheet ₹1,29,500]

7. Preparation of Revaluation A/c, Partners' Capital A/c, and Balance Sheet – Revaluation of assets and liabilities – Adjustment for goodwill – Ascertainment of amount brought in by continuing partners to payoff retiring partner

X, Y, and Z are partners sharing profits and losses in the ratio of 3:2:1 respectively. The Balance Sheet of their firm as on 31.12.2017 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Cash at Bank	3,500
X	45,000	Debtors	30,000
Y	35,000	Stock	25,000
Z	25,000	Plant	40,000
Reserve	15,000	Building	50,000
Profit & Loss A/c	12,000	Furniture	4,000
Creditiors	20,500		
	1,52,500		1,52,500

Z retires on 31.12.2017 subject to the following conditions:

(a) Goodwill of the firm is to be valued at ₹36,000;

(b) Building is to be appreciated by 20%;

(c) Plant and Furniture are to be depreciated by 10% and 15% respectively;

(d) Provision is to be made for doubtful debts at 5%; and

(e) X and Y are to bring in cash, in their profit – sharing ratio to pay off Z's dues on retirement and leave a sum of ₹10,000 as working capital.

(f) X and Y are sharing profit and losses in the ratio of 2:1.

Prepare Revaluation Account, Partners' Capital Account and Balance Sheet as on 1.1.2016.

[***Ans.*** Profit on Revaluation ₹3,900; Amount brought in by X ₹28,433 and Y ₹14,217; Final payment to Z ₹36,150; Total of Balance Sheet ₹1,62,900]

8. Treatment of Goodwill – Revaluation of Assets – Adjustment of Partners' Capital – Maintenance of minimum bank balance

On 31st December, 2014, the Balance Sheet of the partnership business of A, B and C sharing profits and losses in ratio of 1:1:1 stands as follows:

Balance Sheet as on 31st December, 2017

Liabilities		₹	Assets	₹
Capital Accounts:			Land and Buildings	70,000
A	40,000		Plants and Machinery	60,000
B	50,000		Furniture	10,000
C	60,000	1,50,000	Stock	21,000
General Reserves		24,000	Sundry Debtors	40,000
Sundry Creditors		20,000	Bank	8,000
Bills Payable		15,000		
		2,09,000		2,09,000

A retires from the business on 31.12.2017 as per the following terms conditions and B and C will continue the business sharing profits and losses in the new ratio of 3:2.

(a) Depreciation is to be written off at 15% on Machinery and 10% of on Furniture.

(b) The value of Building is to be increased to be 90,000 and the value of stock is to be increased by 7,000.

(c) A provision of ₹2,000 is to be created for Bad and Doubtful Debts.

(d) Goodwill of the firm is valued at ₹45,000.

(e) B and C have to adjust theirs capitals in their new profit sharing ratio and bring in Cash to pay of A and leave ₹20,000 in Bank for working capital.

(f) The goodwill account is to be closed after retirement of A.

Prepare Revaluation Account, Partners' Capital Account and Balance Sheet of a new firm.

[***Ans.*** Profit on Revaluation ₹15,000; Amount brought in by B ₹69,600 and C ₹10,400; Final payment to A ₹68,000; Total of Balance Sheet ₹2,36,000]

9. A, B and C are partners in a firm, sharing profits and losses as 3:2:1 respectively. The Balance Sheet of the firm as on March 31, 2018 was as follows:

Liabilities	₹	₹	Assets	₹	₹
Sundry Creditors		10,000	Building		60,000
Bills payable		4,000	Machinery		25,000
General Reserve		18,000	Furniture		15,000
Capital Accounts:			Stock		20,000
A	48,000		Debtors	15,000	
B	32,000		Less: Prov. for Doubtful debts	500	14,500
C	26,000	1,06,000	Cash in hand		3,500
		1,38,000			1,38,000

B retired from the business on the same date and A and C continued in partnership sharing profits and losses in the ratio of 3:1 subjects to the following adjustments:

(a) Goodwill valued at ₹18,000 is not to be raised in the book.

(b) Building to be appreciated by ₹10,000 and Stock to be appreciated by 5%.

(c) Machinery and Furniture to be depreciated by 10%.

(d) The Provision for Doubtful Debts to be raised to ₹1,000.

(e) A provision for ₹600 to be made for outstanding expenses.

(f) A Typewriter costing ₹3,600 was purchased on Oct. 1, 2011 but not recorded in the book.

(g) A and C are to bring in cash in their profit sharing ratio to pay-off B's dues on retirement and leave a sum of ₹7,500 as working capital.

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

[***Ans.*** Profit on Revaluation ₹9,500; Amount brought in by A ₹38,375 and C ₹12,792; Final payment to B ₹47,167; Total of Balance Sheet ₹1,52,100]

10. Preparation of Revaluation A/c, Partners' Capital A/c and Balance Sheet – Retirement of partner during the year – Preparation of retiring partner's Loan A/c – Adjustment of Partners' Capital A/c

Prakash, Akash, and Bikash were partners of a firm sharing profits and losses in the ratio 4:3:3. Their Balance Sheet on Mar. 31, 2013 is as follows:

Liabilities	₹	₹	Assets	₹	₹
Capital Accounts:			Land		2,80,000
Prakash	2,30,000		Building		1,00,000
Akash	1,20,000		Plant & Machinery		1,80,000
Bikash	1,50,000	5,00,000	Furniture		70,000

Liabilities	₹	₹	Assets	₹	₹
Reserve		2,05,000	Stock		40,000
Sundry Creditors		50,000	Debtors		30,000
			Misc. Expenditure		10,000
			Cash at Bank		40,000
			Cash in Hand		5,000
		7,55,000			7,55,000

On Dec. 31, 2013 Akash retired on the basis of the following terms:

(1) The goodwill of the firm is to be valued at ₹1,25,000.

(2) Land is to be appreciated by 20%.

(3) Building, Plant & Machinery, and Furniture are to be depreciated by 10%.

(4) Stock is to be revalued at ₹50,000.

(5) 5% Provision for Doubtful Debt is to be made on Debtors.

(6) Advertisement Suspense is to be written off fully.

(7) The amount payable to Akash is to be paid in 5 equal instalments with interest at 10% p.a.; the first instalment is being payable on Dec. 31, 2013.

(8) After Akash's retirement Prakash & Bikash will share profit or loss equally and also make their capital equal. The goodwill cannot be shown in books of accounts of the firm. Its average annual profit for the last five years was ₹1,50,000.

Required to prepare: (a) Revaluation A/c; (b) Partners' Capital A/c; (c) Akash's Loan A/c upto Dec. 31, 2017 and (d) Balance Sheet of Prakash & Bikash immediately after Akash's retirement.

[***Ans.*** Profit on Revaluation ₹29,500; Amount transferred to Akash's Loan A/c ₹2,58,600; Amount withdrawn by Prakash ₹63,100; Amount brought in by Bikash ₹63,100; Total of Balance Sheet ₹7,34,500]

11. Preparation of Journal, Partners' Capital A/c and Balance Sheet – Retirement of more than one partner – Treatment of Hidden Goodwill

Morning, Day, and Night carry on business in partnership sharing the Profits and Losses in the proportion of 25%, 25% and 50% respectively. Their Balance Sheet as on Mar. 31, 2018 was as under:

Liabilities	₹	₹	Assets	₹	₹
Sundry Creditors		1,20,000	Bank		1,00,000
General Reserves		80,000	Sunday Debtors		75,00,000
Partners' Capital:			Inventories		10,00,000
Morning	24,00,000		Investments at cost (Market Value ₹15,00,000)		10,00,000
Day	24,00,000				
Night	50,00,000	98,00,000	Fixed Assets W.D.V.		4,00,000
		1,00,00,000			1,00,00,000

On Apr. 1, 2018, Morning and Day retired and Night continued the business. Night paid ₹36,00,000 to Morning and ₹36,00,000 to Day in full and final to discharge them of their claim in the partnership. This amount was brought in by Night for the purpose of payment to the retiring partners. None of the assets and liabilities is to be revalued. You are asked to:

- Pass accounting entries in relation to the above in the books of business Unit;
- Prepare Partners' Capital A/c; and

- Prepare the Balance Sheet of the business Unit after the above transactions are recorded.

[***Ans.*** Final payment to Morning ₹36,00,000 and Day ₹36,00,000; Total of Balance Sheet ₹100,00,000]

12. X, Y and Z are partners sharing profits and losses equally. On Dec. 1, 2017 Z retired from the partnership firm. The capitals of the partners, after all necessary adjustments stood at ₹45,000, ₹75,000 and ₹50,000 respectively.

X and Y continued to carry on the business without settling the accounts of Z. Final payment to Z is made on Mar. 1, 2018. The partnership firm made profit amounting to ₹30,000 during the period from Dec. 1, 2017 to Feb. 29, 2018.

What are the rights of Z to share subsequent profit as per the provisions of Section-37 of the Indian Partnership Act?

[***Ans.*** Amount of Claim (under Profit option) ₹8,824]

Retirement-Cum-Admission of Partners 6

Syllabus: *Retirement cum admission (revaluation of assets & liabilities (with/without alteration of books), treatment of reserve and adjustment relating to capital; treatment of joint life policy).*

1. Preparation of Revaluation A/c, Partners' Capital A/c, and Balance Sheet – Treatment of goodwill – Revaluation of assets and liabilities

Sun, Earth, and Mars are partners sharing profits and losses in the ratio of 5:3:2 respectively. The Balance Sheet of their firm as on Dec. 31, 2017 was as follows:

Liabilities	₹	₹	Assets	₹	₹
Capital Accounts:			Building		80,000
Sun	50,000		Furniture		2,000
Earth	30,000		Stock		10,000
Mars	20,000	1,00,000	Debtors	25,000	
General Reserve		20,000	*Less*: Provision for Doubtful Debts	2,000	23,000
			Bank		5,000
		1,20,000			1,20,000

Earth retires on that date subject to the following conditions:

(a) His son, Moon will be admitted as a partner into the firm for 1/5th share. In this regard, he has to bring in ₹40,000 as his capital.

(b) The Goodwill of the firm is to be valued at ₹20,000.

(c) Furniture is to be depreciated to 90% and Building to be increased by 10%.

(d) Provision for Doubtful Debts is to be increased by ₹1,000.

(e) Amount due to Earth is to be transferred to his Loan Account.

Sun, Mars, and Moon agreed to continue the business and share the future profits & losses in the ratio of 2:2:1 respectively.

Show Revaluation Account, Partners' Capital Accounts, and the Balance Sheet of the newly constituted Firm.

[***Ans.*** Profit on Revaluation ₹6,800; Total of Balance Sheet ₹1,66,800]

2. A, B and C are partners sharing profits and losses equally. Their Balance Sheet on Mar. 31, 2018 was as under:

Liabilities	₹	Assets	₹
Partners' Capital: A	3,00,000	Land & Building	3,00,000
B	3,00,000	Plant & Machinery	6,00,000
C	6,00,000	Furniture	1,50,000
Partners' Current: A	1,50,000	Stock	3,00,000
B	2,25,000	Debtors	3,00,000
C	75,000	Bank	4,50,000
Creditors	4,50,000		
	21,00,000		21,00,000

On Apr. 1, 2018, A retired and it was agreed that he should be paid all his dues. For this purpose, Goodwill is to be valued at 3 years purchase of past 4 years profits which amounted to ₹3,00,000, ₹3,30,000, ₹4,20,000 and ₹3,90,000 respectively. In order to meet A's obligation, a bank loan was arranged on Apr. 1, 2018 for ₹6,00,000 by pledging Land & Building as security.

Further, it was agreed between B and C, that D, a loyal manager should be admitted as partner, who should bring in ₹3,00,000 as his capital over and above his share of Goodwill in cash to serve as working capital. B and C agree to forego 1/3rd of their share of profits to D.
Pass necessary journal entries and prepare Partners' Capital A/c and the Balance Sheet of the firm after D's admission.

[***Ans.*** New p.s.r. 1:1:1; Value of goodwill ₹10,80,000; Bank balance as on Apr. 1, 2018 ₹9,00,000]

3. Revaluation of assets – Treatment of goodwill – Personal assets brought in by new partners

Pathak, Quereshi and Ranjeet were partners sharing profits in the ratio of 7:5:3 respectively. On Mar. 31, 2018, Quereshi retired when the firm's Balance Sheet was as follows:

Liabilities	₹	**Assets**	₹	₹
Capital Accounts:		Land & Building		10,00,000
Pathak	8,50,000	Plant & Machinery		4,65,000
Quereshi	6,20,000	Furniture, Fixtures & Fittings		2,30,100
Ranjeet	3,70,000	Stock		1,82,200
General Reserve	2,25,000	Trade Debtors	2,00,000	
Trade Creditors	1,13,000	*Less*: Provision for Bad Debts	6,000	1,94,000
		Cash at Bank		1,06,700
	21,78,000			21,78,000

It was agreed that:

(a) Land & Buliding be appreciated by 20%.

(b) Plant & Machinery be depreciated by 10%.

(c) Provision for Bad Debts be made equal to 4% of Trade Debtors.

(d) Outstanding repairs bill amounting to ₹1,500 be recorded in the books of account.

(e) Goodwill of the firm be valued at ₹3,00,000 and Quereshi's capital account be credited with his share of goodwill without raising goodwill account.

(f) Half of the amount due to Quereshi be immediately paid to him by means of a cheque and the balance be treated as a loan bearing interest @ 12% per annum.

After Quereshi's retirement, Pathak and Ranjeet admitted Swamy as a new partner with effect from Apr. 1, 2018. Pathak, Ranjeet and Swamy agreed to share profits in the ratio of 2:1:1 respectively. Swamy brought patents valued at ₹20,000 and ₹3,80,000 in cash including payment for his share of goodwill as valued by the old firm. The entire amount of ₹4,00,000 was credited to Swamy's Capital Account. Adjustments were made in the capital account for Swamy's share of goodwill.

You are required to:

(a) Pass journal entries for all the above transactions (without any narration); and

(b) Prepare the capital account of all the partners.

[***Ans.*** Profit on Revaluation ₹1,50,000; Amount transferred to Quereshi's Loan A/c ₹4,22,500; Closing balances of Partners' Capital: Pathak ₹10,15,000, Ranjeet ₹4,30,000, Swamy ₹3,25,000]

4. A, B and C are partners with 3:2:1 profit sharing ratio. Following is the firm's Balance Sheet as at Mar. 31, 2018:

Liabilities	₹	Assets	₹
Partners' Capital: A	65,000	Fixed Assets	10,000
B	38,000	Debtors	61,400
C	28,000	Other Current Assets	1,48,000
Reserve Fund	38,400		
Creditors	50,000		
	2,19,400		2,19,400

C desires to retire from the firm on Apr. 1, 2018. As per the terms of agreement, Fixed Assets is to be valued at ₹50,000, Debtors at ₹41,400 and Other Current Assets at ₹1,50,000. The amount payable to the retiring partner is, for the present, to be treated as loan with 5% interest. On the same day, D is admitted as a partner on payment of ₹32,000. Future profits and losses are to be shared as 4:3:2 among A, B and D. No alteration is to be made in the book values of assets other than cash brought in by D and General Reserve.

Pass journal entries and draw up the Balance Sheet as at Apr. 1, 2018 after D's admission.

[***Ans.*** Profit on Revaluation ₹22,000; Total of Balance Sheet ₹2,51,400]

5. Pradip and Parimal are equal partners. Pradip, by agreement, retires and Gopal joins the firm on the basis of 1/3rd share of profits on Apr. 1, 2018. The balances of the books as on Mar. 31, 2018 were:

	Dr. (₹)	Cr. (₹)
Goodwill	10,000	–
Fixed Assets at Cost	1,20,000	–
Current Assets:		–
Stock	60,000	–
Debtors	40,000	–
Bank Balance	8,000	–
Creditors	–	20,000
Provision for Depreciation	–	12,000
Capital Accounts:	–	
Pradip	–	1,04,000
Parimal	–	1,02,000
	2,38,000	2,38,000

Goodwill valued at ₹30,000 and it was agreed to be written up accordingly before admission of Gopal as partner. Sufficient money is to be introduced so as to enable Pradip to be paid off and leave ₹5,000 cash at Bank; Parimal and Gopal are to provide such sum as to make their Capitals proportionate to their share of profits. Assuming the agreement was carried out, show the Journal entries required and prepare the Balance Sheet after admission of Gopal. All working should form part of your answer.

[***Ans.*** Final payment to Pradeep ₹1,14,000; Amount brought in by Parimal ₹36,667 and Gopal ₹74,333; Total of Balance Sheet ₹2,13,000]

6. Durga and Kali were working in partnership sharing profits equally. On Mar. 31, 2018, Durga decided to retire and in her place it was decided that Lakshmi, her daughter, would be admitted as partner from Apr. 1, 2018 and her share in profits will be one-third.

Balance Sheet of the firm as on Mar. 31, 2018

Liabilities		₹	Assets	₹
Sundry creditors		22,050	Goodwill	22,500
Partners' Capital:			Land & Building	60,075
Durga	81,450		Motor Car	18,000
Kali	72,000	1,53,450	Furniture	13,950
			Sundry Debtors	36,225
			Cash	24,750
		1,75,500		1,75,500

It was further decided as follows:

(a) The goodwill should be raised to ₹30,000.

(b) The Motor Car would be taken over by Durga at its Book Value.

(c) The value of Land and Building would be increased by ₹12,420.

(d) Kali and Lakshmi would introduce sufficient Capital to pay off Durga and to leave thereafter a sum of ₹11,025 as working Capital in a manner that the Capitals of the new partners will be in proportion to their profit sharing ratio.

(e) The Capital payable by Lakshmi was to be gifted to her by her mother.

(f) The new partners decided not to show Goodwill as an asset.

The partners introduced the Capital on Apr. 1, 2018. Show the account of the partners, the Cash Account and the Balance Sheet.

[***Ans.*** Capital balance of Capital Accounts – Kali ₹74,430 and Lakshmi ₹37,215; Lakshmi's capital paid by Durga ₹47,215; Balance of Cash Account ₹11,025; Total of Balance Sheet ₹1,33,695]

7. Asima, Chandrani and Chaitali, all engineers are equal partners in Ladies Own Ltd. On Dec. 31, 2016, Asima retired due to old age and on the next day, her daughter Rupa, also an engineer, joined the firm. The new profit sharing ratio was decided as Chandrani 2/5, Chaitali 2/5, Rupa 1/5.

Balance Sheet as at Dec. 31, 2016

Liabilities	₹	₹	Assets	₹	₹
			Furniture		10,000
Partner's Capital:			Books		5,000
Asima	20,000		Joint Life Policy		19,000
Chandrani	20,000		Cash		8,000
Chaitali	19,000	59,000	Equipments		20,000
Creditors		2,500			
Outstanding Expenses		500			
		62,000			62,000

You have been given the following information:

(a) Upto Dec. 31, 2016, the accounts were prepared on cash basis, but on and from Jan. 1, 2017, it was decided to change the method to accrual basis and on that day, Asima was credited with ₹7,500 as her share of accrued fees, the other two partners were also credited with their share in equal ratio.

(b) Asima was also credited with ₹7,000 as her share of goodwill. But it was decided not to open goodwill account.

(c) On revaluation, the value of Furniture increased by ₹3,000, Books by ₹2,000 and Equipments by ₹7,000.

(d) Asima agreed to take over the Joint Life Policy at its book value.

(e) Rupa contributed ₹6,000 in cash as her share of goodwill.

(f) The balance in Asima's Capital account after all adjustments should be treated as Rupa's Capital contribution. It was further decided that the Capital account balance of Chandrani and Chaitali should be so adjusted so as to make Capital of all three partners equal to profit sharing ratio keeping Rupa's Capital fixed and for that purpose any deficiency should be brought in cash or any surplus to be transferred to Current Account.

(g) The following were the transactions during the year ending on Dec. 31, 2017 after Rupa's admission:

Consultancy fees for supervision works in different organisations amounting to ₹59,600 (net) were deposited in bank after the following payments - (i) Salaries ₹16,000; (ii) Rent ₹13,000; (iii) Miscellaneous Expenses ₹7,200; (iv) Drawings: Chandrani ₹6,000, Chaitali ₹4,000 and Rupa ₹3,600. On Dec. 31, 2017, fees accrued ₹14000 and rent was outstanding ₹1,000. Two Motor Cars of Chandrani and Chaitali were taken over by the firm at ₹30,000 and ₹25,000 respectively. Depreciation is to be charged on Furniture, Books, Equipments and Motor Car @ 10% p.a.

You are required to prepare (i) Revaluation Account and Balance Sheet on Jan. 1, 2017, (ii) Balance Sheet as on Dec. 31, 2016 (iii) Profit & Loss Account for the year ended on Dec. 31, 2017 and (iv) Balance Sheet as on Dec. 31, 2017.

[***Ans.*** Profit on Revaluation ₹12,000; Total of Balance Sheet on Jan. 1, 2017 ₹1,00,500; Divisible Profit of 2017 ₹56,750; Total of Balance Sheet on Dec. 31, 2017 ₹1,99,150]

Change in Profit Sharing Ratio 7

Syllabus: *Change in P/S ratio (revaluation of assets & liabilities (with/without alteration of books), treatment of reserve and adjustment relating to capital; treatment of joint life policy).*

1. Jadeja, Ashwin and Kohli are partners in a firm sharing profits and losses in the ratio of 3:2:1. Following is their Balance Sheet as on Mar. 31, 2018:

Liabilities	₹	₹	Assets	₹	₹
Capital:			Building		50,000
Jadeja	40,000		Furniture		15,000
Ashwin	10,000		Stock		20,000
Kohli	10,000	60,000	Bills Receivable		5,000
General Reserve		21,000	Debtors		7,500
Creditors		15,200	Cash in hand		2,500
Bills Payable		3,800			
		1,00,000			1,00,000

They decided to change the mutual profit sharing ratio among them to 4:2:1with effect from Apr. 1, 2018 on the following terms:

(a) Building will be revalued at ₹56,000.

(b) A Provision for Bad and Doubtful Debts is to be raised against debtors at 10%.

(c) The claim of a creditor for ₹2,300 is to be paid at ₹2,150.

(d) General Reserve is to be maintained in the books.

Prepare (i) Revaluation Account; (ii) Partners' Capital Accounts and (iii) Balance Sheet of the firm after change in profit sharing ratio.

[***Ans.*** Profit on Revaluation ₹5,400; Total of Balance Sheet ₹1,05,250]

2. Preparation of Revaluation A/c, Partners' Capital A/c & Balance Sheet – Revaluation of assets and liabilities – Treatment of goodwill – Adjustment of Partners' Capital

X, Y, and Z are partners sharing profits and losses in the ratio of 5:3:2 respectively. The Balance Sheet of their firm as on Dec. 31, 2017 was as follows:

Liabilities	₹	₹	Assets	₹	₹
Capital Accounts:			Land and Building		80,000
X	50,000		Furniture		2,000
Y	30,000		Stock		10,000
Z	20,000	1,00,000	Debtors	25,000	
General Reserve		30,000	*Less*: Provision for Doubtful Debts	2,000	23,000
			Bank		15,000
		1,30,000			1,30,000

On Jan. 1, 2018 they decided to change their profit sharing ratio to 4:2:1 on the following terms.

(a) The Goodwill of the firm is to be valued at ₹35,000.

(b) Furniture is to be depreciated by 10% and Land & Building to be appreciated by 10%.

(c) Provision for Doubtful Debts is to be increased to ₹3,000.

(d) The partners decided to maintain their capital accounts in new profit sharing ratio without changing the ultimate total capital after all adjustments. For this purpose any deficit or surplus in capital balance is to be brought in or withdrawn by the partner(s).

Show Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the newly constituted firm.

[***Ans.*** Profit on Revaluation ₹6,800; Adjusted capital balance: ₹1,36,800; Capital brought in by X ₹12,271 and Capital withdrawn by Y and Z ₹2,454 and ₹9,817 respectively; Total of Balance Sheet ₹1,36,800]

3. Preparation of Journal, Partners' Capital A/c and Balance Sheet – Revaluation of assets & liabilities – Valuation & Treatment Of Goodwill – Treatment of JLP

A, B, and C are partners in a firm sharing profits and losses in the ratio of 3:2:1. The Balance Sheet as on Mar. 31, 2018 was as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	3,00,000	Cash	80,000
General Reserve	2,40,000	Bills Receivable	1,80,000
Partners' Capital A/c:		Sundry Debtors	3,60,000
A	4,20,000	Stock	2,40,000
B	2,80,000	Fixed Assets	5,20,000
C	1,40,000		
	13,80,000		13,80,000

From Apr. 1, 2018 they agreed to alter their profit sharing ratio as 4:6:5. It is also decided that:

(a) The Fixed Assets to be valued at ₹6,42,000.

(b) The Stock be reduced to ₹2,20,000.

(c) A provision of 5% on Sundry Debtors is to be made for doubtful debts.

(d) The Goodwill of the firm at this date is valued at three years' purchase of the average net profits of the last five years before charging insurance premium.

There is a joint life insurance policy for ₹4,00,000 for which an annual premium of ₹20,000 is paid, the premium being charged to Profit and Loss account. The surrender value of the policy on Mar. 31, 2018 was ₹1,62,000.

The net profits of the firm for the last five years were ₹32,000, ₹40,000, ₹50,000, ₹46,000, and ₹52,000. Goodwill and surrender value of the joint life policy are not to appear in the books.

Draft journal entries necessary to adjust the change in profit-sharing ratio of the partners, prepare Partners' Capital A/c and draft the Balance Sheet after giving effect to the above.

[***Ans.*** Profit on Revaluation ₹84,000; Value of goodwill ₹1,92 ,000; Closing balances Capital Accounts A: ₹6,64,600, B: ₹3,64,400 and C: ₹1,35,000 respectively; Total of Balance Sheet ₹14,64,000]

4. Revaluation of assets and liabilities – Unalteration of value of assets and Liabilities – Maintenance of Reserve at book value – Adjustment of Partners' Capital A/c

The following is the Balance Sheet of X, Y, and Z on Dec. 31, 2017:

Liabilities	₹	₹	Assets	₹	₹
Capital Accounts:			Land & Building		20,000
X	20,000		Plant & Machinery		8,000
Y	10,000		Stock		11,000
Z	6,000	36,000	Sundry Debtors		6,200
General Reserve		10,000	Bills Receivable		4,000
Sundry Creditors		5,000	Cash at Bank		1,800
		51,000			51,000

On Jan. 1, 2018, the assets of the firm were revalued as under:

Land & Building ₹29,000; Stock ₹10,000; Sundry Debtors ₹5,400; Plant & Machinery ₹7,000.

The Goodwill of the firm is valued at ₹30,000. The partners agree that from Jan. 1, 2018 they will share profits in the ratio of 3:2:1 instead of their former ratio of 2:2:1. They do not, however, want to alter the book values of the assets but record the change by passing a single journal entry through capital accounts.

Pass the Journal entry with necessary working notes.

[***Ans.*** Profit on Revaluation ₹6,200]

5. X, Y, and Z are in partnership sharing profits and losses equally. Their accounts are made up to Mar. 31, 2018. They have decided that from Apr. 1, 2018, the profit sharing ratio is to become X – 2/5th; Y – 2/5th and Z – 1/5th. Their Balance Sheet on Mar. 31, 2018 change in profit sharing is as under:

Liabilities		₹	Assets		₹
Capitals:	X	33,000	Land & Building		50,000
	Y	23,000	Furniture & Fittings		20,000
	Z	24,000	Stock		10,000
Reserve		15,000	Debtors	18,000	
Creditors		5,000	*Less*: Provision	3,000	15,000
			Cash		5,000
		1,00,000			1,00,000

The share of profit among partners needs the following changes:

(a) Land and Building to be valued at ₹64,000;

(b) Furniture is to be reduced to 18,000;

(c) Stock to be increased by ₹3,000;

(d) The total capital of the partners will be ₹1,50,000; which will be shared by them in their new profit-sharing ratio; the surplus or deficit will be adjusted by bringing necessary cash or withdrawn from the business.

You are required to prepare Revaluation A/c, Partners' Capital A/c and the Balance Sheet.

[***Ans.*** Profit on Revaluation ₹15,000; Capital brought in by X ₹17,000 and Y ₹27,000; Capital withdrawn by Z ₹4,000; Total of Balance Sheet ₹1,55,000]

6. X, Y, and Z are partners in a firm sharing profits and losses in the ratio of 3:2:1 respectively. Their Balance Sheet as on Mar. 31, 2018 was as follows:

Liabilities	₹	₹	Assets	₹	₹
Capital Accounts:			Land & Building		2,70,000
X		2,10,000	Inventories		1,30,000
Y		1,40,000	Sundry Debtors	2,00,000	
Z		70,000	*Less*: Provision	20,000	1,80,000
Reserve		1,20,000	Bills Receivable		80,000
Sundry Creditors		1,50,000	Cash		30,000
		6,90,000			6,90,000

From Apr. 1, 2018, they agreed to alter their profit sharing ratio as 4:6:5. It is also decided that:

(a) The goodwill of the firm will be valued at two years' purchase of the average net profits of the last three years before charging insurance premium. The net profits of the firm for the last three years were ₹30,000; ₹26,000; and ₹28,000.

(b) The Land & Building to be increased to ₹3,41,000.

(c) The Inventories to be reduced by ₹20,000.

(d) Provision for doubtful debt to be made on debtors for ₹29,000.

There is a joint life insurance policy for ₹4,00,000 for which an annual premium of ₹20,000 is paid, the premium being charged to Profit and Loss Account. The surrender value of the policy on Mar. 31, 2018 was ₹81,000. It is decided that the reserve account will not be altered and JLP will not be reflected in the books.

You are required to draft the necessary journal entries to give the above effect and prepare the Balance Sheet.

[***Ans.*** Profit on Revaluation ₹42,000; Closing balances of Partners' Capital Accounts A: ₹3,03,300, B: ₹1,34,200 and C: ₹27,500; Total of Balance Sheet ₹7,32,000]

Death of Partner

8

Syllabus: *Death of a partner.*

1. Aman, Raman and Suman were partners sharing profits in the ratio of 3:2:1 respectively. The profits and sales for the year ended Mar. 31, 2017 were ₹6,00,000 and ₹20,00,000 respectively. Aman died on Nov. 30, 2017. Calculate the share of deceased partner in the profits for the period from Apr. 1, 2017 to Nov. 30, 2017, if the same is calculated:

   (a) On the basis of sales which were ₹16,00,000 from Apr. 1, 2017 to Nov. 30, 2017; and

   (b) On the basis of time.

   [***Ans.*** Case (a) Share of profit of Aman ₹2,40,000; Case (b) Share of profit of Aman ₹2,00,000]

2. Gabbar, Samba & Kalia are partners of a firm sharing profits and losses in the ratio of 2:2:1 respectively. Their Balance Sheet as on Mar. 31, 2018 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Building	4,80,000
– Gabbar	5,00,000	Plant	3,20,000
– Samba	4,00,000	Stock	1,85,000
– Kalia	3,00,000	Debtors	1,78,000
Reserves	1,25,000	Bills Receivable	87,000
Creditors	85,000	Bank	1,60,000
	14,10,000		14,10,000

   Kalia died on July 1, 2018. The partnership deed provided *inter alia* that in the event of death, the legal representatives of the deceased partner would be entitled to:

   (a) Balance in deceased partners' capital account;

   (b) Interest on capital @ 5% upto the date of death;

   (c) Share of profits upto the date of death, based on the average profit of last three years; profits for the years 2015–16, 2016–17 and 2017–18 were ₹1,50,000, ₹1,70,000 and ₹2,20,000 respectively.

   (d) Share in any undistributed profits and losses;

   (e) Share of goodwill valued on the basis of twice the average of the past three years' profits.

   Ascertain the amount payable to the legal representative of Kalia, given that Kalia was entitled to a salary of ₹12,000 p.m. and his drawings upto the date of death amounted to ₹45,000.

   [***Ans.*** Kalia's share of profit ₹9,000; Kalia's share of goodwill ₹72,000; Total amount payable to Kalia's legal representative ₹4,00,750]

3. X, Y and Z carried on business in partnership sharing profits and losses in the proportion of 1/2, 1/3 and 1/6 respectively. The partnership deed provided that on the death of a partner, his executors be paid as under:

   (a) The amount lying to the credit of his capital account on the date of death, *less* drawings made during the period;

   (b) His share of profit till the date of death be taken as the average of the last three years' profits;

   (c) Goodwill be valued on the basis of two years' purchase of average of profits of the last three years;

(d) Interest on capital at 6% p.a.

X died on June 30, 2018. Prepare X's Capital A/c considering the following details:

(i) X withdrew ₹14,000 during the period Apr. 1, 2018 to June 30, 2018.

(ii) The firm had insured the partners' lives severally: X for ₹20,000, Y for ₹15,000 and Z for ₹10,000. The surrender value on June 30, 2018 amounted to one-half of the sum assured in each case. The premiums were charged to Profit and Loss Account.

(iii) Annual profits of the last three completed years were ₹14,960, ₹16,000 and ₹18,000.

(iv) Balance of Capital accounts on 1.4.2018 were: X ₹40,000; Y ₹30,000; Z ₹20,000.

[***Ans.*** X's share of profit ₹2,040; X's share of goodwill ₹16,320; X's share in maturity value of own life policy ₹10,000; X's share in surrender values of Y's and Z's policies ₹6,250; Amount due to X's legal representative ₹61,210]

4. The following is the Balance Sheet of Bee, Cee & Dee as on Mar. 31, 2018 who are partners of a firm sharing profits and losses in the ratio of 3:2:1 respectively:

Liabilities	₹	Assets	₹
Capital A/c:		Building	6,80,000
– Bee	3,00,000	Plant & Machinery	1,49,500
– Cee	2,80,000	Stock	32,600
– Dee	1,00,000	Debtors	13,100
Current A/c:		Cash in Hand	16,800
– Bee	65,000	Advertisement Suspense	20,000
– Dee	42,000	Current A/c:	
Reserve Fund	75,000	– Cee	18,000
Creditors	68,000		
	9,30,000		9,30,000

Cee died on May 15, 2018. As per the partnership deed, his legal representatives are entitled to:

(a) Balance in capital and current account;

(b) Interest on capital @ 12% upto the date of death;

(c) Share of profits upto the date of death, based on the average profit of last five years; Average profits of last five years being ₹2,40,000.

(d) Share in any undistributed profits and losses;

(e) Share of goodwill valued on the basis of three years' purchase of the average of last five years.

(f) The firm had taken insurance policies on the lives of the partners, premium being charged to firm's profits every year. The policy amount and surrender value on May 15, 2012 being:

	Bee	Cee	Dee
Surrender Value	₹70,000	₹80,000	₹30,000
Policy Value	₹2,50,000	₹3,20,000	₹1,60,000

Ascertain the amount payable to the legal representative of Cee, given that Cee was entitled to a remuneration of ₹20,000 p.m. or part thereof.

[***Ans.*** Cee's share of profit ₹10,000; Cee's share of goodwill ₹2,40,000; Cee's share in maturity value of own life policy ₹1,06,667; Cee's share in surrender values of Bee's and Dee's policies ₹33,333; Amount due to Cee's legal representative ₹7,21,200]

5. A, B and C were in partnership sharing profits and losses in the ratio of 5:4:3 respectively. A died on Dec. 31, 2017, on which date the Balance Sheet of the firm was as under:

Liabilities	₹	Assets	₹	₹
Capital Accounts:		Premises	40,000	
A	42,500	*Less*: Provision for Depreciation	4,000	36,000
B	30,000	Plant	46,000	
C	22,500	*Less*: Provision for Depreciation	13,500	32,500
Current Accounts:		Stock		27,000
A	4,250	Debtors	21,000	
B	6,500	*Less*: Provision for Doubtful Debts	3,750	17,250
C	5,750			
Loan: A	20,000	Bank		40,000
Creditors	21,250			
	1,52,750			1,52,750

B and C decided to carry on the business sharing profits and losses in the ratio of 7:5 respectively. The following adjustments were to be made on Dec. 31, 2017:

(a) Plant, stock and debtors were valued at ₹34,500, ₹24,300 and ₹16,850 respectively.

(b) Valuer's charge of ₹700 was to be provided for.

(c) Goodwill was to be valued as equal to 3 years' purchase of super profits. The required return was 25% on partners' capital, current and loan accounts, and was to be set against weighted average profits of the last three years. Profits were: 2017: ₹52,000; 2016: ₹46,000; 2015: ₹45,250.

Adjustments for goodwill were to be made in and out of the capital accounts.

₹25,000 was repaid to A's executors on Jan. 1, 2018, the balance owing to be a loan to the partnership.

(d) The surviving partners decide to maintain their capital accounts under fluctuating method.

Prepare necessary ledger accounts and the Balance Sheet on Jan. 1, 2018.

[***Ans.*** Revaluation loss ₹1,800; Value of Goodwill ₹48,000; Amount transferred to A's loan ₹61,000; Balance Sheet total ₹1,26,650]

6. Preparation of Revaluation A/c, Partners' Capital A/c & Balance Sheet – Accounting for Individual Life Policies – Adjustment for Goodwill –Revaluation of assets and liabilities

Firm ABC consisted of 3 partners A, B, and C, sharing profits and losses in the ratio of 5:3:2 respectively. A died on Dec. 5, 2017. Profit & Loss Account for the period upto date of death and Balance Sheet as on that date were prepared. The Balance Sheet as on that date was as below:

Liabilities	₹	₹	Assets	₹	₹
Capital Accounts:			Goodwill		60,000
A	1,20,000		Plant		3,50,000
B	1,60,000		Furniture		60,000
C	1,20,000	4,00,000	Stock		90,000
Loan from A		50,000	Debtors		1,50,000
General Reserve		70,000	Bank		30,000
Creditors		2,20,000			
		7,40,000			7,40,000

In addition to the assets shown above, the firm had three life policies in the name of each partner, for insured value of ₹2,00,000 each, the premium of which were charged to Profit & Loss Account.

On the death of partner A, it was agreed that:

(a) Value of goodwill of the firm is ₹2,10,000;

(b) Plant and Furniture are to be revalued at ₹ 4,50,000 and ₹70,000 respectively;

(c) Debtors are subject to a provision for bad debts at 10%;

(d) Provision for Taxation to be created for ₹15,000.

The death-claim for the policy in the name of A was to be realized in full and the surrender values of the other two policies were ₹75,000 each. The business was continued by B and C, henceforth sharing profits and losses equally. The net balance due to A is transferred to a loan account carrying 8% interest, which will be paid off later. Life Policy Account is not to be shown in the books of the new firm.

Show Revaluation Account, Partners' Capital Account and the Balance Sheet of the firm after A's death.

[***Ans.*** Profit on Revaluation ₹80,000; Amount transferred to A's 8% Loan A/c ₹4,95,000; Closing balances of B's and C's Capital Accounts ₹1,75,000 and ₹70,000 respectively; Total of Balance Sheet ₹9,75,000]

7. Death of a partner – Rectification of Error – Adjustment for Goodwill – Revaluation of Assets – Partners' Capital A/c and Balance Sheet

The following was the Balance Sheet of Om & Co. in which X, Y, and Z were partners sharing profits and losses in the ratio of 1:2:2 as on Mar. 31, 2017.

Liabilities	₹	Assets	₹
Sundry Creditors	30,000	Goodwill	45,000
Bank Loan	75,000	Building	1,80,000
General Reserve	45,000	Computers	1,20,000
Capital Accounts:		Investments	15,000
X	60,000	Stock	30,000
Y	1,20,000	Sundry Debtors	30,000
Z	1,20,000	Bank	30,000
	4,50,000		4,50,000

Z died on Dec. 31, 2017. His account has to be settled under the following terms:

(a) Goodwill is to be calculated at the rate of 2 years' purchase on the basis of average of last 3 years' profits and losses. The profits and losses for the last 3 years were as detailed below:

Year ending on	Mar. 31, 2017	Mar. 31, 2016	Mar. 31, 2015
Profit/ (Loss)	₹45,000	₹30,000	₹(15,000)

(b) Profit for the period from Apr. 1, 2017 to Dec. 31, 2017 shall be ascertained proportionately on the basis of average profits and losses of the preceding 3 years.

(c) During the year ending on Mar. 31, 2017, a car costing ₹60,000 was purchased on Apr. 1, 2016 and debited to Travelling Expenses account on which depreciation is to be calculated at 20% p.a. This asset is to be brought into account at the depreciated value.

(d) Values of other assets were agreed as follows:

Stock at ₹24,000; Building at ₹2,10,000; Computers at ₹75,000; Investments at ₹9,000; Sundry Debtors were considered good.

You are asked to prepare Partners' Capital Accounts and Balance Sheet of Om & Co. as on Dec. 31, 2017 assuming that the values of other items of assets and liabilities remained the same.

[***Ans.*** Correct profit of 2016–17 ₹93,000; Value of goodwill ₹72,000; Z's share of profit between 1.4.17 & 31.12.17 ₹10,800; Profit on Revaluation ₹21,000; Amount transferred to Z's Executor's A/c ₹1,68,000; Closing balances of X's and Y's Capital Accounts ₹54,600 and ₹1,09,200 respectively; Total of Balance Sheet ₹4,36,800]

8. Preparation of Profit & Loss Appropriation A/c, Cash & Bank A/c, Executor's A/c and Partners' Capital Accounts – Treatment of goodwill – Settlement of deceased partners share – Application of Sec – 37

Ramu, Shamu, and Raju were partners sharing profits and losses in the ratio of 3:2:2. Their Balance Sheet as on Jan. 1, 2017 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Fixed assets	80,000
Ramu	30,000	Stock	15,000
Shamu	20,000	Debtors	12,000
Raju	20,000	Cash & bank	1,951
Reserves	14,000		
Creditors	24,951		
	1,08,951		1,08,951

On Oct. 1, 2017, Ramu died. His heirs agreed that:

(i) Goodwill of the firm be valued at 2 years' purchase of average profit of past three years. Profits for the year 2014, 2015 and 2016 were ₹30,000, ₹40,000 and ₹47,600 respectively.

(ii) Fixed assets be revalued at ₹1,01,000.

(iii) Profit to be shared, earned in subsequent period after death of Ramu till settlement of his executors' claim.

Ramu's heirs account was settled on Dec. 31, 2017 by bringing in required cash by remaining partners in equal proportion leaving cash balance of ₹1,234. Each partner had drawn @ ₹1,000 per month for personal use.

Profit for the current year after charging depreciation of ₹9,000 (₹6,000 for first three quarters and ₹3,000 for last quarter) was ₹46,600 earned evenly through-out the year.

You are requested to prepare Profit & Loss Appropriation A/c, Partners' Capital Accounts, Ramu's Executor's A/c and Cash & Bank A/c for the year ended on Dec. 31, 2017 assuming remaining partners decided not to retain goodwill in the books.

[***Ans.*** Profit on Revaluation ₹21,000; Value of Goodwill ₹84,266; 'Profit after depreciation' for pre-expiry period ₹35,700; 'Profit after depreciation' for post-expiry period ₹10,900; Claim of Ramu's legal heirs u/s 37 of Partnership Act ₹4,813]