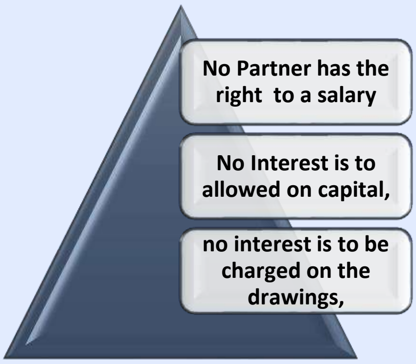
CHAPTER – 8

PARTNERSHIP ACCOUNTS

DEFINITION AND FEATURES OF PARTNERSHIP	As per Section 4 of the Partnership Act, 1932: "Partnership is the relation between persons who have agreed to share the profit of a business carried on by all or any of them acting for all:”
Features of a partnership,	• Existence of an agreement: • Business • Sharing of profit • Mutual agency • Number of Partners • Minimum Partners: 2 • Maximum partners: 50

Limited liability partnership	The LLP will be a separate legal entity, liable to the full extent of its assets, with the liability of the partners being limited to their agreed contribution in the LLP which may be of tangible or intangible nature or both tangible and intangible in nature
Rules in the absence of Partnership Deed	 Interest at the rate of 6%.p.a is to be allowed on a partner's loan to the firm, and Profits and losses are to be shared equally
PROFIT AND LOSS APPROPRIATION	Accordingly, an additional account is prepared and net profit is transferred from the debit side of the profit and loss account to the credit side of this new account which is called Profit and Loss Appropriation Account and before the profit is divided between partners, it is necessary to record the above stated adjustments in this account.
Method of accounting	Fixed capital method and Fluctuating capital method. In fixed capital method, generally initial capital contributions by the partners are credited to partners' capital accounts and all subsequent transactions and events are dealt with through current accounts, unless a decision is taken to change it, initial capital account balance is not changed.

Question1

Define term Partnership. Explain its Features.

Answer:

As per Section 4 of the Partnership Act, 1932:

"Partnership is the relation between persons who have agreed to share the profit of a business carried on by all or any of them acting for all:'

Features of a partnership:

Existence of an agreement: As per section 5 of the Indian Partnership Act, 1932, The relation of partnership arises from contract between parties and not from status as it happens in case of HUF (Hindu Undivided Family). A formal or written agreement is not necessary to create a partnership.

Business: A partnership can exist only in business. Thus, it is not the agreement alone which creates a partnership. A partnership comes into existence only when partners begin to carry on business in accordance with their agreement.

(a) Section 2 of Indian Partnership Act, 1932 only states that business includes every trade, occupation and profession.

Sharing of profit: The persons concerned must agree to share the profits of the business. Because no person is a partner unless he or she has the right to share the profits of the business. Section 4 of Indian Partnership Act, 1932 does not insist upon sharing of losses. Thus, a provision for sharing of loss is not necessary.

Mutual agency: It means that the business is to be carried on by all or any of them acting for all. Thus, if the person carrying on the business acts not only for himself but for others also so that they stand in the positions of principals and agents, they are partners.

Number of Partners: Minimum Partners: Two Maximum Partners: As per Section 464 of the Companies Act, 2013, no association or partnership consisting of more than 100 numbers of persons as may be prescribed shall be formed for the purpose of carrying on any business. Rule 10 of

Companies (incorporation) Rules 2014 specifies the limit as 50. Thus, maximum number of members in a partnership firm are 50.

Question 2

Explain different method of accounting

Answer:

There are two methods of accounting – Fixed capital method and Fluctuating capital method

In fixed capital method, generally initial capital contributions by the partners are credited to partners' capital accounts and all subsequent transactions and events are dealt with through current accounts, Unless a decision is taken to change it, initial capital account balance is not changed.

In fluctuating capital method, no current account is maintained. All such transactions and events are passed through capital accounts. Naturally, capital account balance of the partners fluctuates every time. So in fixed capital method a fixed capital balance is maintained over a period of time while in fluctuating capital method capital account balances fluctuate all the time.

Question 3

Briefly explain the powers of Partners

Answer:

Powers of partners are the following:

- Buying and selling of goods;
- Receiving payments on behalf of the firm and giving valid receipt;
- Drawing cheques and drawing, accepting and endorsing bills of exchange and promissory notes in the name of the firm;
- Borrowing money on behalf of the firm with or without pledging the inventories-in-trade;
- Engaging servants for the business of the firm.

Question 4

Differentiate Fixed and Fluctuating method of accounting

Answer:

In fixed capital method, generally initial capital contributions by the partners are credited to partners' capital accounts and all subsequent transactions and events are dealt with through current accounts, unless a decision is taken to change it, initial capital account balance is not changed.

In fluctuating capital method, no current account is maintained. All such transactions and events are passed through capital accounts. Naturally, capital account balance of the partners fluctuates every time. So, in fixed capital method a fixed capital balance is maintained over a period of time while in fluctuating capital method capital account balances fluctuate all the time.

Question 5

Differentiate partnership and LLP.

Answer:

	Key Elements	Partnerships	LLP
1	Applicable Law	Indian Partnership Act 1932	The Limited Liability
2	Registration	Optional	Compulsory with ROC
3	Creation	Created by an agreement	Created by Law
4	Body Corporate	No	Yes
5	Separate Legal Entity	No	Yes
6	Perpetual Succession	Partnerships do not have perpetual succession	It has perpetual succession and individual partners may
7	Number of Partners	Minimum 2 and Maximum 20	Minimum 2 but no maximum
8	Ownership of Assets	Firm cannot own any assets. The partners own the assets of the	The LLP as an independent entity can own

9	Liability of Partners / Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm	Limited to the extent of their contribution n towards LLP except in case of intentional fraud or
10	Principal Agent Relationship	Partners are the agents of the firm and of each other	Partners are agents of the firm only and not of other partners

Question 6

Give any two reasons in favour of having a partnership deed.

Answer:

i) In case of any dispute or doubt, Partnership deed is the guiding document.

ii) It can specify the duties and powers of each Partner.

Question 7

Define the Profit & loss Appropriation Account

Answer:

The profit and loss appropriation account is an extension of the profit and loss account. The main intention of preparing a profit and loss appropriation account is to show the distribution of profits among the partners.

Question 8

What is meant by Guarantee of Minimum Profit?

Answer:

Guarantee means the surety of a particular amount of profits by one or more partners and in some cases by the firm, where the burden of guarantee is borne by the party providing such a guarantee. In other words, it is a minimum fixed amount for the partner who is given such a guarantee.

Question 9

States the difference between Partnership & Joint Venture.

Joint Venture	Partnership
Specific Venture	Not limited to specific venture
Covertures	Partners
Profit and loss at the end of venture	Profit and loss annually
No firm name	Must have firm name
No need for separate set of books	Separate set of books required
Minor cannot be a co-Venture	Minor can be ad mitted to the benefits of a partnership
Accounting on liquidation basis	Accounting on going Concern basis
May be governed by a MOU	Governed by Partnership Act

Question 10

What are the Rules Applicable in the Absence of Partnership Deed?

Answer:

In the absence of any agreement to the contrary, Rules in the absence of Partnership Deed:

- No partner has the right to a salary,
- No interest is to be allowed on capital,
- No interest is to be charged on the drawings,
- Interest at the rate of 6%.p.a is to be allowed on a partner's loan to the firm, and
- Profits and losses are to be shared equally.

Question 11

Differentiate P&L and P & L Appropriation Account.

Answer:

Basis	Profit and Loss Account	Profit and Loss Appropriation Account
Purpose	P&L account is used to determine Net Profit or Net Loss of an organization for a	P&L appropriation account is used for allocation and distribution of Net Profit

	given	among partners, reserves and dividends
Made by	P&L account is prepared by all types of businesses.	P&L appropriation account is prepared mainly by partnership firms
Balances	Profit and loss account don't have any opening or closing balance as it is prepared for a specific accounting period	Profit and loss appropriation account may have carry forward balance from the previous
Timing	It is prepared after the trading account	It is made after preparation of profit and loss account.
Nature	Items debited are all expenses (charged against profit)	Items debited are all appropriations of profit. (how profit is divided)
Partnership	Preparation of P&L account is not based on a partnership agreement (exception – interest on a loan from partners)	Preparation of P&L account is based on a partnership agreement
Principle	Matching principle is followed i.e., expenses for an accounting period are matched against related inch	Matching principle is not followed while preparing a P&L appropriation account.

Question 12

A and B are partners sharing profits in the ratio of 3:2 with capitals of Rs. 8,00,000 and Rs. 6,00,000 respectively. Interest on capital is agreed @ 5% p.a. B is to be allowed an annual salary of Rs. 60,000 which has not been withdrawn. During 2013-14, the profits of the year prior to calculation of interest on capital but after charging B 's salary amounted to Rs. 2,40,000. A provision of 5% of the profits is to be made in respect of Manager 's commission. Prepare an account showing the appropriation of profit.

Solution:

P&L A/c for the year ended 31st March 2014

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Manager's Commission (3,00,000 X5/100) To Profit tr. To P&L App. A/c	15,000 2,85,000	By Profit (Rs. 2,40,000 + 60,000)	3,00,000
	3,00,000		3,00,000

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To B's Salary To Interest on Capital A 40,000 B 30,000 To Profit tr. To A's capital 93,000 B's capital 62,000	60,000 70,000 1,55,000	By Net Profit transferred from P&L A/c	2,85,000
	2,85,000		2,85,000

Question 13

X and Y are partners in a firm. X is to get a commission of 10% of net profit before charging any commission. Y is to get a commission of 10% on net profit after charging all commission. Net profit for the year ended 31st March 2014 before charging any commission was Rs. 1,10,000. Find the commission of X and Y. Also show the distribution of profit

Solution:

P & L Appropriation A/c

For the year ended

31st March 2014

Particulars	Amount	Particulars	Amount

	(Rs.)		(Rs.)
To X's Commission A/c (1,10,000 X 10/100) To Y's Commission (1,10,000)-11,000) To Net Profit Tr. To Capitals A/c's X 45,000 Y 45,000	11,000 9,000 90,000	By Profit before any commission	1,10,000
	1,10,000		1,10,000

Question 14

A, B and C are partners in a firm sharing profits and losses in the ratio of 2:3:5. Their fixed capitals were 15, 00,000, Rs.30, 00,000 and Rs.60, 00,000 respectively. For the year 2009 interest on capital was credited to them @ 12% instead of 10%. Pass the necessary adjustment entry.

Solution:

Table Showing Adjustment

Particulars	A Rs.	B Rs.	C Rs.	Total Rs.
Interest that should have been credited @ 10%	1,50,000	3,00,000	6,00,000	10,50,00 0
Interest already credited @ 12%	1,80,000	3,60,000	7,20,000	12,60,00
Excess credit in partners account	(30,000)	(60,000)	(1,20,000)	(2,10,000)
By recovering the extra amount paid the share of profits will increase and it will be credited in the ratio	42,000	63,000	1,05,000	2,10,000
Net effect	+12,000	+3,000	-15,000	Nil

Question 15

X and Y are Partners sharing Profit and Loss in the ratio of 2:3 with a capital of Rs. 20,000 and Rs. 10,000 respectively. Show distribution of Profit/losses for the year ended 31st march 2014 by preparing relevant account in each of the alternative cases.

Case 1. If Partnership deed is silent as to the interest on capital and the profit for year ended is Rs. 2,000.

Case 2. If Partnership deed provides for the interest on capital @ 6% p.a. and loss for the year is Rs. 1,500.

Case 3. If Partnership deed provides for interest on capital @ 6% p.a. and trading profit is Rs. 2,100.

Solution:

P & L Appropriation A/c

For the year ended

31stMarch 2014

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Profit transferred to X's Capital 800 Y's Capital 1,200	2,000	By net Profit transferred from P&L A/c	2,000
	2,000		**2000**

Case 2.

P & L Appropriation A/c

For the year ended 31stMarch 2014

Dr. **Cr.**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Loss for the year (Trading loss)	1,500	By loss transferred to X's Capital 600 Y's Capital 900	1,500

	1500		1,500

P & L Appropriation A/c

For the year ended 31stMarch 2014

Dr. **Cr.**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Interest Capital X 1,200 Y 600 To Profit Tr. to Capital X's Capital 120 Y's Capital 180	 1,800 300	By Profit and loss, A/c	2,100
	2100		2100

Question 16

A and B start business on 1st January, 2016, with capitals on 30,000 and 20,000. According to the Partnership Deed, Bis entitled to a salary of 500 per month and interest is to be allowed on capitals at 6% per annum. The remaining profits are to be distributed amongst the partners in the ratio of 5:3. During 2016 the firm earned a profit, before charging salary to Band interest on capital amounting to 25,000. During the year A withdrew 8,000 and B withdrew 10,000 for domestic purposes. Give journal entries relating to division of profit.

Solution:

2016	Particulars		Dr.	Cr.
Dec. 31	Profit and Loss Appropriation Account to B's Capital Account (Salary due to B@ 500 per month)	Dr.	6,000	 6,000

	Profit and Loss Appropriation Account to A's Capital Account To B's Capital Account (Interest due on Capital@ 6% per month)	Dr.	3,000	 1,800 1,200
	Profit and Loss Appropriation Account to A's Capital Account To B's Capital Account (Remaining profit of 16,000 divides between A and Bin the ratio of 5:3	Dr.	16,000	 10,000 6,000
			25000	25000

Question 17

P, Q, and R are partners in a firm sharing profit and loss in the ratio 2:2:1. P and Q have guaranteed that R's profit in any year shall not be less than Rs.20000. The Net profit for the year ended 31st March 2018 was Rs. 60,000. Prepare Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation A/c

Date	Particulars	Amount	Date	Particulars	Amount
31.03.2018	To P's Capital A/c	20,000	31.03.2018	By Net Profit (transferred from P&L A/c)	60,000
	To Q's Capital A/c	20,000			
	To R's Capital A/c	20,000			
		60,000			60,000

Working Notes:

R's 1/5 share of Rs.60000 is less than Rs.20000 (guarantee amount). Hence, he must be paid Rs.20000 and the remaining partners (P and Q) will share the remaining profit of Rs.40000 in their respective profit-sharing ratio (2:2 or 1:1).

Question 18

Arti and Anita are partners in the firm without a partnership deed with a capital of Rs 5,00,000 and Rs. 3,00,000 respectively. Arti wants to share the profits in the ratio of capitals. Whether the claim is valid, state with a reason.

Solution:

In the absence the partnership deed, profits are shared equally between the partners, according to the Indian Partnership Act, 1932. So, the claim of Arti is not valid to share profits in the ratio of capitals.

Question 19

Avi, Bob, and Charles set up a partnership firm on April 1, 2018. They contributed Rs. 50,000, Rs. 30,000 and Rs. 20,000, respectively as their capitals and agreed to share profits and losses in the ratio of 5:3:2. Salary of Avi is Rs. 1,000 per month and Bob, a Commission of Rs. 10,000. Interest on capital at 10% p.a. The drawings for the year were Avi Rs. 10,000, Bob Rs. 5,000 and Charles Rs. 2,000. Interest on drawings of Rs. 1000 was charged on Avi's drawings, Rs. 500 on Bob's drawings and Rs. 200, on Charles's drawings. The net profit as per Profit and Loss Account for the year ending March 31, 2018, was Rs. 36300.

Prepare the Profit and Loss Appropriation Account to show the distribution of profit among the partners.

Solution:

Profit and Loss Appropriation Account

Dr. **Cr.**

Particulars	Amount (Rs.)	Particulars	Amount
Salary to Avi	12,000	Profit and Loss a/c	36,300

Interest on capital:		Interest on drawings:	
Avi	5,000	Avi	1,000
Bob	3,000	Bob	500
Charles	2,000	Charles	200
Commission to Bob	10,000		
The share of profit transferred to Capital accounts:			
Avi	3,000		
Bob	1,800		
Charles	1,200		
Total	38,000	Total	38,000

Unit -2

Treatment of Goodwill in Partnership Accounts

Meaning	Goodwill is the value of reputation of a firm in respect of profits expected in future over and above the normal rate of profits.
Necessity for valuation of goodwill	When the profit- sharing ratio amongst the partners is changed. ➢ When a new partner is admitted ➢ When a partner retires or dies ➢ When the business is dissolved or sold
Methods for valuation of goodwill:	Average profit basis. The profits taken into consideration are adjusted with abnormal losses, abnormal gains, return on non-trade investments and errors. • Super profit basis • Calculate Capital

	• Employed Assets • Less: Liability • Capital Employed .... • Find Normal Profit=Capital Employed X Normal rate of Return.

Question 1

Explain the term goodwill. and necessity for valuation of goodwill in a firm

Answer:

Goodwill is the value of reputation of a firm in respect of profits expected in future over and above the normal rate of profits Goodwill is an intangible asset The necessity for valuation of goodwill in a firm arises in the following cases: When the profit-sharing ratio amongst the partners is changed;

When a new partner is admitted; When a partner retires or dies; and when the business is dissolved or sold.

Question 2

Explain the method for Goodwill Valuation

Answer:

There are three methods for valuation of goodwill Average profit basis, -Simple and Weighted Super profit basis, -Number of Year Purchase, Annuity basis, and Capitalization of Super Profit Capitalization basis- Average Profits

1. **Average Profit Basis**: In this case the average profits of past years are adjusted for any expected change in future. The number of year are decided on the basis of judgement and negotiation. For averaging the past profit, either simple average or weighted average may be employed depending upon the circumstances. If there exists clear increasing or decreasing trend of profits, it is better to give more weight to the profits of the recent years

than those of earlier years. But, if there is no clear trend of profit, it is better to go by simple average.

2. **Super Profit Basis**: In case of super profit method, goodwill is valued on the basis of super profits earned by the firm. Super Profit=Actual Profit-Normal Profit Actual Profit is average profit Normal Profit=Normal rate of Return (NRR) x Capital Employed The rationale for using the super profit is the partner who gains excess earning owing to reconstitution of firm should compensate to partners sacrificing their share in the reconstitution. Super profit means, excess profit that can be earned by a firm over and above the normal profit usually earned by similar firms under similar circumstances. Under this method, the partner who gains in terms of profit sharing ratio has to contribute only for excess profit because normal profit he can earn by joining any partnership firm. Under super profit method, what excess profit a partnership firm can earn is to be determined first.

Calculation of super profit: identify the capital employed by the partnership firm; Identify the average profit earned by the partnership firm based on past few years 'figures; Determine normal rate of return prevailing in the locality of similar firms; Apply normal rate of return on capital employed to arrive at normal profit; Deduct normal profit from the average profit of the firm. If the average profit of the firm is more than the normal profit, there exists super profit and goodwill.

3. Capitalization Basis: Under this basis, value of whole business is determined applying normal rate of return. If such value (arrived at by applying normal rate of return) is higher than the capital employed in the business, then the difference is goodwill. The steps to be followed under this method are given below: Determine the normal rate of return. Find out the average profit of the partnership firm for which goodwill is to be determined. Determine the capital employed by the partnership firm for which goodwill is to be determined. Find out normal value of the business by dividing average profit by normal rate of return. Deduct average capital employed from the normal value of the business to arrive at goodwill.

Goodwill = Normal Capital-Actual Capital Normal capital= Average Profit/NRR

Question 3

Explain Accounting treatment of goodwill in case of change in profit sharing ratio. Distinguish between Super profit basis and Capitalisation Basis.

Answer:

In case of change in profit sharing ratio, the value of goodwill should be determined and preferably adjusted through capital accounts of the partners on the basis of profit sacrificing ratio.

Super Profit Basis: In case of average profit basis, goodwill is calculated on the basis of average profit multiplied by certain number of years. Super Profit=Actual Profit-Normal Profit Actual Profit is average profit and Normal Profit= Normal rate of Return (NRR)

Capitalization Basis: Under this basis, value of whole business is determined applying normal rate of return. If such value (arrived at by applying normal rate of return) is higher than the capital employed in the business, then the difference is goodwill.

Question 4

What are the Factor Affecting the value of Goodwill?

Answer:

Factors Affecting the Value of Goodwill:

- **Nature of business**: A firm that deals with good quality products or has stable demand for its product is able to earn more profits and therefore has more value.
- **Location of business**: A business which is located in the main market or at a place where there is more customer traffic tends to earn more profit and also more goodwill.
- **Owner's reputation**: An owner, who has a good personal reputation in the market, is honest and trustworthy attracts more customers to the business and makes more profits and also goodwill.

- **Efficient management**: An organization with efficient management has high productivity and cost efficiency. This gives it increased profits and also high goodwill.
- **Market situation**: The organization having a monopoly right or condition in the market or having limited competition, enables it to earn high profits which in turn leads to higher value of goodwill.
- **Special advantages**: A firm that has special advantages like import licenses, patents, trademarks, copyrights, assured a supply of electricity at low rates, subsidies for being situated in a special economic zone (SEZs), etc. possess a higher value of goodwill.

Question 5

Define the term Hidden goodwill.

Answer:

When the value of goodwill is not given at the time of admission of a new partner, it has to be derived from the arrangement of the capital and the profit sharing ratio and is known as hidden goodwill.

Question 6

How does the nature of business affect the value of goodwill of a firm?

Answer:

The firm that produces high value products and has stabilised demand, will be able to earn more profit and more goodwill.

PRACTICAL CONTENT

Question 7

Calculate the good will from the following information goodwill is valued at three years purchase of average profit of the last six years. Profit and losses of the business in the last six years are as follows,

Particular	Amount
1st year,	Rs, 40,000 (Profit)

2nd year	RS 60000 (profit)
3rd year	Rs 10000 (LOSS)
4th year	Rs 50000 Profit
5th year	Rs 30000 LOSS
6th year	Rs 80000 Profit

Answer:

Valuation of Goodwill Average Profit Method

GOODWILL = (AVERAGE PROFIT) *(NUMBER OF YEARS PURCHASE)

Average Profit = Total Profit – Total Loss/ Total number of years

60,000+ 50,000+ 80,000– 10,000– 30,000/ 6

190,000/ 6 = 95000/ 3

Goodwill = 95000/ 3*3 (year of Purchase)

Goodwill= 95000

Question 8

A firm of A, Band C has a total capital investment of N, 50,000. The firm earned net profits during the last four years as: I- 70,000; II- 80,000; 111- 1,20,000 and IV1,00,000. The reasonable expected return is 15 per cent having regard to the risk involved. Find out the value of goodwill of the business if it is based on 3 years' purchase of the average super profits of the past four years.

Answer:

Average Profit= Sum of profits/no. of years Normal

Profit = NRR x Capital Employed

Super Profit = Average profit- Normal Profit

Particular	Rs.
Total profit earned during four years	3,70,000
Average annual profit B,70,000 : 4	92,500
Normal Profit (15% of 4,50,000)	67,500

Super Profit 92,500- 67,500	25,000
Value of goodwill (being 3 years' purchase of the average super profit: 25,000 X 3 =	75,000

Question 9

Calculate the goodwill by annuity method of super profit from the following facts: Annual maintainable profit after tax is< 65,000. Capital employed is < 4,00,000. Normal rate of return is expected at 12% p.a. Present value of an annuity of `1 for five years is 3.604776.

Annual maintainable profit	65,000
Less: Normal profit based on capital employed and normal rate of return i.e., 12% of< 4,00,000	48,000
Super profit	17,000
The present value of an annuity of< 1 for five years at 12% compound interest is	3.604776

Answer:

The present value of annuity of< 17,000 for five years at 12%

Compound interest= 17,000 x 3.604776 =< 61,281 (Approx.)

Capitalization of Super Profit:

Goodwill = Super Profit / Normal rate of Return (NRR) = <17,000 / 12% = <14,167.

Question 10

The following is the Balance Sheet of Yellow and Green as at 31st December, 2016:

Liabilities		Assets	
Trade payables	20,000	Cash at Bank	10,000
Capital:		Sundry Assets	55,000
Yellow	25,000		
Green	20,000		
	65,000		**65,000**

The partners shared profits and losses in the ratio 3:2. On the above date, Black was admitted as partner on the condition that he would pay 20,000 as Capital. Goodwill was to be valued at 3 years' purchase of the average of four years' profits which were:

2012	9,000	2014	12,000
2013	14,000	2015	13,000

The new profit-sharing ratio is 6:5:5.

Give journal entries and Balance Sheet if goodwill is adjusted through partners' capital accounts.

Solution:

	Particulars		Dr.	Cr.
1.	Bank Account To Black's Capital Account (Amount brought in by Black as capital)	Dr.	20,000	 20000
2.	Black's Capital Account To Yellow's Capital Account to Green's Capital Account (Black's share of goodwill adjusted through old partners' capital accounts in the profit sacrificing ratio 18:7)	Dr.	11,250	 8,100 3,150

Balance Sheet as on..................

Liabilities			Assets	
Trade payables		20,000	Cash at Bank	30,000
Capital:			Sundry Assets	55,000
Yellow	33,100			
Green	23,150			
Black	8,750	65,000		
	85,000	85,000		85,000

Note: Calculation of Profit

Sacrificing Ratio =Old Share – New Share= Share Sacrificed

Yellow =3/5-6/16=18/80

Green = 2/5-5/16 = 7/ 80

Question 11

Harsh, vansh and Dhruv are equal partners. They wanted to change the profit-sharing ratio into 4:3:2. Make the necessary journal entries. Goodwill of the firm is valued at 90,000

Solution:

In this case due to change in profit sharing ratio:

A's gain is = 4/9 less 1/3 =1/9

B's gain is = 1/3 less 1/3 = 0

C's loss is =1/3 less 2/9 =1/9

So, A should compensate C to the extent of 1/9th of goodwill i.e. 90,000 X 1/9 = 10,000

Journal Entries

A's Capital Dr. To C's Capital A/c	10,000	 10,000

Question 12

A, B and C are in partnership sharing profits and losses in the ratio of 4:3:3. They decided to change the profit-sharing ratio to 7:7:6. Goodwill of the firm is valued at 20,000. Calculate the sacrifice I gain by the partners and make the necessary journal entry.

Partner	New Share	Old Share	Difference
A B C	7	4	
	20	10	
	7	3	
	20	10	20
	6	3	0

	20	10	

Thus, B gained 1/20th share white A sacrificed 1/20th share i.e.<20,000 X = <1,000. For C there was no loss no gain.

Solution:

Journal Entry

B,s Capital A/c Dr. To A's Capital A/c (Being goodwill adjusted through partners' capital accounts in sacrificing / gaining ratio)	1,000	1,000

Question 13

Lee and Lawson are in equal partnership. They agreed to take Hicks as one-fourth partner. For this it was decided to find out the value of goodwill. Miss. Lee and Lawson earned profits during 2013- 2016 as follows:

Year	Profits
2013	1,20,000
2014	1,25,000
2015	1,30,000
2016	1,50,000

On 31.12.2016 capital employed by Miss. Lee and Lawson was 5,00,000. Rate of normal profit is 20%. Required

Find out the value of goodwill following various methods

Solution:

'Average Profit:

Year	Profit	Weight	Weighted Profit <
2013	1,20,000	1	1,20,000
2014	1,25,000	2	2,50,000

2015	1,30,000	3	3,90,000
2016	1,50,000	4	6,00,000
		10	13,60,000

Weighted Average Profit= RS 13,60,000 divided by 10= Rs 1,36,000

Method {1}: Average Profit Basis

Assumption: Goodwill is valued at 3year's purchase

Value of Goodwill: RS 1,36,000 x3 = <4,08,000

Method {2}: Super Profit Basis Average profit 1360

LESS – Normal Profit 20 % on < 500,000 (1,00,000) < 36,000

Assumption: Goodwill is valued at 3 years purchase. Value of Goodwill= <36,000 x 3 = 1,08,000 Rs.

Method (3): Annuity Basis Assumptions.

(a) Interest rate is equivalent to normal profit rate i e 20% p.a

(b) Goodwill is valued at 3 year's Purchase Valuation of Goodwill:< 36000 * 2.1065 = < 75,834

Method (4): Capitalisation Basis

Normal Value of business: < 6,80,000

Less: Capital Employed in M/s. Lee and Lawson

Goodwill = (< 5,00,000) Goodwill = (< 1,80,000)

Question 14

The following particulars are available in respect of the business carried on by Rathore You are required to compute the value of goodwill on the basis of 5years' purchase of super profit of the business calculated on the average profits of the last four years.

Particulars	Amount

Capital Invested Trading Results: 2013 Profit 2014 Profit 2015 Loss 2016 Profit Market Rate of interest on investment10% Rate of risk return on capital invested in business2% Remuneration from alternative employment of the proprietor 6,000 (if not engaged in business).per annum	1,50,000 40,000 36,000 6,000 50,000

Solution:

Average maintainable profits:		
Trading profit during	2013	40,000
	2014	36,000
	2015	50,000
		1,26,000
Less: Loss during	2016	(6,000)
Total		1,20,000
Average Profits		30,000
Less: Remuneration for the proprietor		(6,000)
Average maintainable Profit		24,000
Less: Normal Profit (12% on capital employed)		(18,000)
Super Profit		6,000
Goodwill at 5 year's purchase of super Profit		30,000

Question 15

M/s XYZ partnership firm earned net profit during the last four years were Rs, 7,000. Rs, 13,000. Rs, 12,000 and Rs, 8,000. The capital investment made in the firm was Rs, 50,000. N.R.R on capital is 15%.

The remuneration of the partners during the period is Rs, 500 p.a. Good will is valued at 2 Yrs purchase of Average super profit of the above-mentioned years.

Solution:

Valuation of Goodwill

Super Profit Method

Goodwill = (Super Profit) X (Number of Years Purchase)

Where: Super Profit = Average Profit – Normal Profit – Remuneration

Where: Average Profit = $\frac{\text{Total Profit} - \text{Total Loss}}{\text{Total number of Years}}$

$= \frac{7000+13000+12000+8000}{4}$

$= \frac{40000}{4}$

= Rs. 10000

Where Normal Profit = Capital Employed X N.R.R.

Normal Profit = 15,000 X 15%

Normal Profit = Rs. 7500

Where: Remuneration = Rs. 500

Super Profit = 10000 – 7500 – 500

Goodwill = 2000 X 2

Goodwill = Rs. 4000

Question 17

A partnership firm earned net profits during the last 3 years as follows:

Year	Net Profit
2007 – 2008	1,90,000
2008 – 2009	2,20,000

2010 - 2011	2,50,000

The capital employed in the firm throughout the above-mentioned period has been Rs. 4,00,000. Having regard to the risk involved, 15% is considered to be a fair return on the capital. The remuneration of all the partners during this period is estimated to be Rs. 1,00,000 per annum. Calculate the value of goodwill on the basis of

(i) 2 years' purchase of super profits earned on average basis during the above mentioned 3 years and

(ii) By capitalisation method.

Solution:

3 years total profit = 1,90,000 + 2,20,000 + 2,50,000= Rs. 6,60,000

Average Profit = 6,60,000/3 = Rs. 2,20,000(-) Remuneration to partners = Rs. 1,00,000

Actual average profit = Rs. 1,20,000

Capital employed = Rs. 4,00,000

Normal rate of return = 15%

Normal Profit = 4,00,000 X $\frac{15}{100}$ = Rs. 60,000

Super Profit = Actual Average Profit – Normal Profit

= 1,20,000 – 60,000 = Rs. 60,000

(i) Goodwill = Super X Number of Years Purchase

= 60,000 X 2 = Rs. 1,20,000

(ii) Capitalised Value of Goodwill = $\frac{\text{Super Profit}}{\text{Normal Rate of Return}}$ X 100

= $\frac{60,000}{15} \times 100$ = Rs. 4,00,000

Question 18

Capital of the Sharma and Verma is Rs. 2,00,000 and the market rate of interest is 15% Salary to Partners Rs. 12,000 each. The profits to the last three years were Rs. 60,000 Rs. 72,000 and Rs. 84,000. Goodwill is

to be valued at 2 years purchase of the last 3 years average Super profit. Calculate goodwill of the firm.

Solution:

Goodwill = Super Profit X Number of Years Purchase

Normal Profit = Capital employed X $\frac{Normal\ Rate\ Return}{100}$

= 2,00,000 X $\frac{15}{100}$ = Rs. 30,000

Year	Profit before Partner's Salary	-	Partners' Salary	=	Actual Profit after Salary
1	60,000	-	24,000	=	36,000
2	72,000	-	24,000	=	48,000
3	84,000	-	24,000	=	60,000

Average Actual Profit after Salary Partners

= $\frac{36{,}000+48{,}000+60{,}000}{3}$

= $\frac{1{,}44{,}000}{3}$

= Rs. 48,000

Super Profit = Average Actual Profit after Salaries – Normal Profit

= 48,000 – 30,000

= Rs. 18,000

Number of years purchases = 2

: - Goodwill = 18,000 X 2

= Rs. 36,000

Question 19

On 1st April 2016, an existing firm had assets of Rs. 75,000 including cash of Rs. 5,000 its Creditors amounted to Rs. 5,000 on that date of Rs. 10,000 while partners' Capital Account showed a balance of Rs. 60,000.

If Normal Rate of Return is 20% and goodwill of the firm purchase of super profit, find average profit per year of the existing firm.

Solution:

Average Profit = Normal Profit + Super Profit

Capital Employed = Total Assets – Creditors

= 75,000 – 5,000= Rs. 70,000

Normal Profit = Capital Employed X $\frac{\text{Normal Rate of Return}}{100}$

= 70,000 X $\frac{20}{100}$ =Rs. 14,000

Goodwill of the firm = Rs. 24,000

Number of years purchase = 4

Super Profit = $\frac{24,000}{4}$ =Rs. 6,000

Average Profit = Normal Profit + Super Profit

= 14,000 + 6,000 = Rs. 20,000

Question 22

From the following information, calculate value of goodwill of the firm by applying Capitalisation Method.

Solution:

Total Capital of the firm Rs. 16,00,000

Reasonable rate of return 10%

Profit for the year Rs. 2,00,0000

Answer –

Goodwill = Capitalised Value of Profit – Actual Capital

Capitalised Value of Profit = $\frac{\text{Profit} \times 100}{\text{Normal Rate of Return}}$

= $\frac{2,00,000\ X\ 100}{10}$ = Rs. 20,00,000

Total Capital = Rs. 16,00,000

= Rs. 4,00,000

Nov 2019

Question 1

Arup and Swarup were partners. The partnership deed provides inter alia:
That the annual accounts be balanced on 31st December each year:

(i) That the profits be allocated as follows:

Arup: One –half, Swarup: One-third and carried to reserve account: One Sixth.

(ii) That in the event of death of a partner, his executor will be entitled to the following:

- The capital to his credit at the date of death:
- His proportionate share of profit to date of death based on the average profits of the last three completed years and
- His share of goodwill based on three years purchase of the average profits for the three preceding completed years.

Trial Balance as on 31st December 2018

Particulars	Debit ₹	Credit ₹
Arup's Capital		90,000
Swarup's Capital		60,000
Reserve		45,000
Bills receivable	50,000	
Investment	55,000	
Cash	1,10,000	
Trade payables		20,000
Total	2,15,000	2,15,000

The profits for the three years were 2016: ₹ 51,000, 2017: ₹ 39,000 and 2018: ₹ 45,000. Swarup died on 1st May 2019.
Show the calculation of Swarup
(A) Share of profits, (B) Share of Goodwill, (C) Draw up Swarup's Executors Account s would appear in the firm's ledger transferring the amount to the Loan account. [10 marks]

Solution:

Calculation of Swarup's Share of Profits

Particulars	₹
2016 2017 2018	51,000 39,000 45,000
Total Profit	1,35,000
Average Profit 4 Month's Profit Swarup's Share in Profit (2/5 x ₹ 15,000)	45,000 15,000 60,000

Note: Profit sharing ratio between Arup and Swarup = 1/2: 1/3 = 3:2, Therefore, Swarup's share of profit = 2/5.

Particulars	₹
2016 2017 2018	51,000 39,000 45,000
Total Profit for 33 years	**1,35,000**
Average Profit Goodwill-3 Years Purchase of Average Profit Swarup's Share in Goodwill (2/5 X Rs. 1,35,000)	45,000 1,35,000 54,0000

Swarup's Executor A/c

Date	Particulars	₹	Date	Particulars	₹
2019 May 1	To Swarup's Loan A/c	1,38,000	2019 Jan. 1	By Capital A/c By Reserves (2/5 x ₹ 45,000)	60,000 18,000

				By Arup's Capital A/c (Share of Goodwill) By P & L Suspense A/c (Share of Profit)	54,000 6,000
		1,38,000			1,38,000

UNIT 3
ADMISSION OF A NEW PARTNER

Basic	New partners are admitted for the benefit of the partnership firm. New partner is admitted either for increasing the partnership capital or for strengthening the management of the firm.
Revaluation account	When a new partner is admitted into the partnership, assets are revalued and liabilities are reassessed. A Revaluation Account (or Profit and Loss Adjustment Account) is opened for the purpose. This account is debited with all reduction in the value of assets and increase in liabilities and credited with increase in the value of assets and decrease in the value of liabilities. The difference in two sides of the account will show profit or loss. This is transferred to the Capital Accounts of old partners in the old profit-sharing ratio.

	Whenever a new partner is admitted, any reserve etc. lying in the Balance Sheet should be transferred to the Capital Accounts of the old partners in the old profit-sharing ratio.

Question 1

State the two financial rights acquired by a new Partner?

Answer:

New partner is admitted to the partnership if it provided in the partnership deed or all the existing partners agree to admit the new partner. Section 31 of the Indian Partnership Act 1932 Provides that a person may be admitted as a new partner into a partnership firm with the consent of all the Partners.

Question 2

Give the name of the compensation which is paid by a new Partner to sacrificing Partners for sacrificing their share of profits.

Answer:

When a partner joins the firm, he gets the following two rights along with others:

- Right to share future profit of the firm and
- Right to share the assets of the firm.

Question 3

Enumeration the matters that need adjustment at the time of admission of a new Partner.

Answer:

The matter that needs adjustment of the time of admission of a new partner is:

- Adjustment in profit sharing ratio and
- Adjustment of capital Adjustment for goodwill
- Adjustment of Profit / Loss arising from the Revolution of Assets and Reassessment of Liabilities.
- Adjustment of accumulated profits, reserves and losses.
-

Question 4

Give two circumstances in which sacrificing Ratio may be applied.

Answer:

Circumstances in which sacrificing Ratio may be applied are:

- At the time of admission of a new partner for distributing goodwill brought in by the new partner.
- For adjustment goodwill in case of change in Profit - sharing ratio of existing partners.

Question 5

Why is it necessary to revalue assets and reassess liabilities of a firm in case of admission of a new partner?

Answer:

The assets are revalued and liabilities of a firm are reassessing, at the time of admission of a partner because the new partner should; neither benefit nor suffer because change in the value of assets and liabilities as on the date of admission.

Question 6

What are the accumulated profit and accumulated losses?

Answer:

The profit accumulated over the years and have not been credited to partners' capital A/c are known as accumulated Profit or undistributed profit, e.g. the General Reserve, Profit and Loss A/c (credit balance). The losses which have not yet been written off to the debit of Partners' Capital A/c are known as accumulated Losses, e.g. the Profit and Loss A/c appearing on the assets side of Balance Sheet, etc.

Question 7

Explain the treatment of goodwill in the books of a firm on the admission of a new Partner when goodwill already appears in the Balance sheet at its full value and the new partner brings his share of good will in cash.

Answer:

By following accounting standard - 10, the existing goodwill (i.e. goodwill appearing in the Balance Sheet) is written off to the old partners' Capital a/c in their old profit sharing ratio.

Old partners' capital A/c Dr.....

To Goodwill A/c

[in old Ratio] [Being the existing g/w written off in the old ratio.]

Question 8

Under what circumstances the premium for goodwill paid by the incoming Partner will not recorded in the books of Accounts?

Answer:

When the premium for goodwill is paid by the incoming partner privately, it is not recorded in the books of A/c as it is as a matter outside the business.

Question 9

Distinguish between New Profit - sharing ratio and sacrificing ratio?

Answer:

New Profit-sharing Ratio	Sacrificing Ratio
It is related to all the Partners	It is related to old partners only
It is the ratio in which all the Partners (including New) will share Profit in future.	It is the ratio in which old Partners have sacrificed their share in favour of new Partner or when profit Sharing Ratio is Changed
New Profit-sharing Ratio = = Old Ratio - Sacrificing Ratio	Sacrificing Ratio = Old Ratio - New Ratio

PRACTICE QUESTION

Question 10

Dinesh, Yasmine and Faria are partners in a firm, sharing profits and losses in 11:7:2 respectively. The Balance Sheet of the firm as on 31st Dec 2001 was as follows:

Liabilities	Amount	Assets	Amount
Creditors	800	Factory	7350
Public deposits	1190	Plant and machinery	1800
Reserve fund	900	Furniture	2600
Capital a/c		Stock	1450
Dinesh	5100	Debtors 1500 Less: PBD 300	1200
Yasmine	3000		
Faria	5000	Cash in hand	1590
	15900		15900

On the same date, Annie is admitted as a partner for one-sixth share in the profits with Capital of Rs. 4,500 and necessary amount for his share of goodwill on the following terms: -

a. Furniture of Rs. 2,400 was to be taken over by Dinesh, Yasmine and Faria equally.

b. A Liability of Rs. 1,670 is created against Bills discounted.

c. Goodwill of the firm is to be valued at 2.5 years' purchase of average profits of 2 years. The profits are as under: 2000: - Rs. 2,000 and 2001 - Rs. 6,000.

d. Drawings of Dinesh, Yasmine, and Faria were Rs. 2,750; Rs. 1,750; and Rs. 500 Respectively.

e. Machinery and Public Deposits are revalued to Rs. 2,000 and Rs. 1,000 respectively. Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new Firm

Solution:

Revaluation Account

Particular	Amount	Particular	Amount
To Bills Discounted A/c	1670	By Public deposits A/c	190
		By Machinery A/c	200
		By Loss transferred to Dinesh's capital A/c 704	
		Yasmine's capital A/c 448 Faria's Capital A/c 128	1280
	1670		1670

Partners' Capital account

Particulars	D	Y	F	A	Particulars	D	Y	F	A
To revaluation	704	448	128		By balance b/d	5100	3000	5000	
To Furniture	800	800	800		By reserve	495	315	90	

To Drawing	2750	1750	500		By Premium	917	583	167	4500
To balance c/d	2258	900	3829	4500					

Question 11

Liabilities	=T	Assets	T
Trade Payables	50,000	Freehold premises	2,00,000
Capital Accounts:		Plant	40,000
A	2,00,000	Furniture	20,000
B	1,00,000	Office equipment	25,000
		Inventories	30,000
		Trade receivables	25,000
		Bank	
	3,50,000		3,50,000

On 7.4.2076 they admit C on the following terms:

1. **C will bring< 50,000 as a capital and< 70,000 for goodwill for 7/5 share;**
2. **Provision for doubtful debts is to be made on Trade receivables @ 2% Inventory to be written down by 70%.**
3. **Freehold premises is to be revalued at <2,40,000, Plant at <35,000 furniture <25,000 and office equipment <27,500.**
4. **Partners agreed that the values of the assets and liabilities remain the same and, as such, there should not be any change in their book values as a result of the above mentioned adjustments.**

You are required to make necessary adjustment in the Capital Accounts of the partners and show the Balance Sheet of the New Firm.

Solution:

Memorandum Revaluation Account

Particulars	<	Particulars	<
To Provision for Bad Debts	500	By Freehold premises A/c By Furniture A/c	40,000 5,000
To Inventory Account	3,000	By Office equipment A/c	2,500
To Plant A/c	5,000		
To Profit on Revaluation A's Capital -315 B's Capital - 215	 23400 15,600		
	47,500		47,500
To Freehold premises	40,000	By Provision for Bad Debts A/c	500
To Furniture A/c	5,000	By Inventory A/c	3,000
To Office equipment A/c	2,500	By Plant A/c	5,000
		By Loss on Revaluation A/c A's Capital -12125 B's Capital- 8I25 C's Capital-5I25	 18,720 12,480 7,800
	47,500		47,500

Partners Capital Account

Particulars	A <	B <	C <	Particulars	A <	B <	C <
To A's Capital A/c			6,000	By Balance b/d	2,00,000	1,00,000	
To B's Capital A/c			4000	By Bank A/c			60,000
To Loss on revaluation A/c	18,720	12,480	7,800	By C's Capital A/c	6,000	4,000	
To Balance c/d	2,10,680	1,07,120	42,200	By Profit on revaluation A/c	23,400	15,600	
	2,29,400	1,19,600	60,000		2,29,400	1,19,600	60,000

Balance Sheet as at 1.4.2016

Liabilities	Amount	Assets	Amount
Trade Payables	50,000	Freehold	2,00,000
Capital Accounts:		premises Plant	40,000

A	2,10,680	Furniture	20,000
B	1,07,120	Office equipment	25,000
C	42,200	Inventories	30,000
		Trade	25,000
		receivables Bank	70,000
	4,10,000		4,10,000

Question 12

Karan and Tarun are partners sharing profit and losses in the ratio of 2 :1. Their Balance Sheet was as follows: Balance Sheet of Karan and Tarun as on December 31,2006.

Liabilities	Amount	Assets	Amount
Creditor	10,000	Building	20,000
Bills Payable	7,000	Debtors	26,000
Capitals	70,000	Investments	15,000
Karan -40,000		Machinery	13,000
Tarun – 30,000		Stock	6,000
	87,000		87000

Nikhil is admitted as a partner and assets are revalued and liabilities reassessed as follows:

i. **Create a Provision for doubtful debt on debtors at Rs.800.**
ii. **Building and investment are appreciated by 10%**
iii. **Machinery is deprecated at 5%**
iv. **Creditors were overestimated by Rs.500.**

Make journal entries and Prepare revaluation account before the admission of Nikhil.

Solution:

Journal Entries

Date	Particular	L.f	Dr	Cr
1.	Revaluation A/c Dr. To Provision for Doubtful Debts [Provision made for doubtful debts]		800	800
2.	Building A/c Dr. Investment A/c Dr. To Revaluation A/c [Increase in the value of Building & Investment)		2000 1500	3500
3.	Revaluation A/c Dr. To Machinery A/c [Decrease in the value of machinery]		650	650
4.	Creditors A/c Dr. To Revaluation A/c (decrease in Creditors)		500	500

Balance Sheet

Particular	Amount	Particular	Amount
Provision for Doubtful debts	850	Building	2000
Machinery	650	Investment	1500
Profit Transferred to Karan Capital 1700		Creditors	500
Taron's capital 850	2550		
	4000		4000

Question 13

A and B are partners in a firm, sharing profits and losses in the ratio of 3:2. The Balance Sheet of A and Bas on 1.1.2016 was as follows:

Liabilities	Amount	Assets		Amount
Trade payables	17,000	Building		26,000
		Furniture		5,800

Bank overdraft	9,000	Inventories		21,400
Capital accounts:		Trade receivables	35,000	
A	44,000	Less: Provision	(200)	34,800
B	36,000	Investment		2,500
		Cash		15,500
	1,06,000			1,06,000

'C' was admitted to the firm on the above date on the following terms:

1. **C is admitted for 1/6 share in the future profits and to introduce a capital of 25,000.**
2. **The new profit-sharing ratio of A, Band C will be 3:2:1 respectively.**
3. **'C' is unable to bring in cash for his share of goodwill, they decide to calculate goodwill on the basis of C's share in the profits and the capital contribution made by him to the firm.**
4. **Furniture is to be written down by 870 and Inventory to be depreciated by 5%.**
5. **A provision is required for trade receivables@ 5% for bad debts.**
6. **A provision would also be made for outstanding wages fort 1,560.**
7. **The value of buildings having appreciated be brought uptot29,200.**
8. **The value of investments is increased by 450.**
9. **It is found that the trade payables included a sum of 1,400, which is not to be paid off.**

Prepare the following:

Revaluation account, Partners' capital accounts.

Solution:

Revaluation Account

Particulars	Amount	Particulars	Amount
To Furniture To Inventory To Provision for doubtful debts (<1,750 - <200) To Outstanding wages	870 1,070 1,550 1,560	By Building By Trade payables By Investment	3,200 1,400 450

	5,050		5050

PARTNERS' CAPITAL ACCOUNT

	A <	B <	C <		A <	B <	C <
To A To B To Balance c/d	 48,500	 39,000	4,500 3,000 17,500	By balance c/d By Cash A/c By C (Working note 2)	44,000 - 4,500	36,000 - 3,000	- 25,000 -
					48,500	39,000	25,000

Working Notes:

Calculation of goodwill:

C's Contribution of <25,000 consists of only 1/6th of Capital. Therefore, Total Capital of firm should be <25,000 X 6 = <1,50,000

But Combined Capital of A, Band C amounts <44,000 + 36,000 + 25,000 = <1,05,000

Thus, the hidden goodwill is <45,000 (<1,50,000 - <1,05,000). Goodwill will be shared by A & B in their sacrificing ratio.

Calculation of Sacrificing ratio.

Partners	New share	Old share	Sacrifice	Gain
A	$\frac{3}{6}$	$\frac{3}{5}$	$\frac{3}{30}$	
B	$\frac{2}{6}$	$\frac{2}{5}$	$\frac{2}{30}$	
C	$\frac{1}{6}$			$\frac{1}{6}$

Therefore, A will get= <45,000 X 30 = <4,500;

B will get - <45,000 X 2 <3,000 and

C will be debited on account of goodwill = <45,000 X $\frac{30}{6}$ = <7,500

Question 14

A and B are partners of X & Co. sharing profits and losses in 3:2 ratio between themselves. On 31st March, 2016, the balance sheet of the firm was as follows: Balance Sheet of X & Co. as at 31.3.2016

Liabilities		T	Assets	T
Capital accounts:			Plant and machinery	70,000
A	37,000	65,000	Furniture and fittings	5,000
B	28,000		Inventories	15,000
			Trade receivables	20,000
			Cash in hand	10,000
Trade payables		5,000		

X agrees to join the business on the following conditions as and from 1.4.2016:

He will introduce 25,000 as his capital and pay 75,000 to the partners as premium for goodwill for7/3rd share of the future profits of the firm.

A revaluation of assets of the firm will be made by reducing the value of

- **plant and machinery to 75,000,**
- **Inventory by 70%,**
- **furniture and fitting by 7,000 and**
- **by making a provision of bad and doubtful debts at USO on trade receivables.**

Prepare profit and loss adjustment account, capital accounts of partners including the incoming partner X assuming that the relative ratios of the old partners will be in equal proportion after admission.

Solution:

Profit And Loss Adjustment Account

2016 April 1	0		0
To Plant and machinery A/c To Inventory A/c	5,000 1,500	By Partners' Capital accounts A (3/5) B (2/5)	4,950 3,300
To Furniture and fitting A/c To Provision for bad and doubtful debts	1,000 750		
	8250		8250

Partners' Capital Accounts

Particulars	A	B	X	Particulars	A	B	X
To Profit & loss Adjustment a/c	4,950	3,300		By Balance b/d	37,000	28,000	
				By Cash A/c			40,000
To A's & B's capital A/c s			15,000	X's capital A/c [W. N. (ii)]	12,000	3,000	
To Balance c/d	44,050	27,700	25,000				
	49,000	31,000	40,000		49,000	31,000	40,000

Working Notes

New profit-sharing ratio:

On admission of X who will be entitled to 1/3rd share of the future profits of the firm. A and B would share the remaining 213rd share in equal proportion i.e.1:1. A: 2/3 x 1/2 = 1/3 B: 2/3 x 1/2 = 1/3 X:1/3

A, Band X would share profits and losses in equal ratio.

Adjustment of goodwill:

X pays 15,000 as premium for goodwill for 1/3rd share of the future profits. Thus, total value of goodwill is 15,000 x 3 i.e., N5,000 Sacrificing ratio: A: 3/5 - 1/3 = 4/15 A:2/5- 1/3=1/15 Hence, sacrificing ratio is 4:1

Adjustment of X's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

A: 15,000 x 4/5 = 12,000

B: 15,000 x 1/5 = 3,000

Question 15

Annie and Bittu are in partnership sharing profits and losses equally. The Balance Sheet Mi s. Annie and bittu as on 31.12.2016, was as follows

Liabilities	Amount	Assets	Amount
Capital		Sundry Fixed Assets	60,000
Annie	45,000	Inventories	30,000
Bittu	45,000	Bank	20,000
Trade payables	20,000		
	1,10,000		1,10,000

On 1.1.2017 they agreed to take Cheenu as 113rd partner to increase the capital base to1,35,000. C agrees to pay 60,000. Show the necessary journal entries and prepare partners' capital accounts.

Solution:

In the Books of M/s. A, Band C

Journal Entries

Particulars	Dr.	Cr.
Bank A/c Dr.	60,000	
To Cheenu's Capital A/c		60,000
(Cash brought in by Cheenu for 1/3rd share)	15,000	

Cheenu's Capital A/c Dr.		7,500
To Annie's Capital A/c		7,500
To Bittu's Capital A/c	7,500	
	7,500	
Annie's Capital A/c Dr. Bittu's Capital A/c Dr. To Bank A/c (Amount of goodwill due to Annie and Bittu withdrawn)		15,000

Workings:

Old Profit-Sharing Ratio:1: 1

New Profit-Sharing Ratio: 1:1:1

Cheenu's share of capital 1,35,000 x 1/3 = 45,000

Goodwill 60,000- 45,000

= 15,000 for 1/3rd share.

Total Goodwill: 15,000 x 3 = 45,000.

Partners' Capital A/C

Particulars	**Annie**	**Bittu**	**Cheenu**	**Particulars**	**Annie**	**Bittu**	**Cheenu**
To Annie			7,500	By Balance b/d	45,000	45,000	
To Bittu			7,500	By Bank			60,000
To Bank	7,500	7,500		By Cheenu	7,500	7,500	
To Balance c/d	45,000	45,000	45,000				
	52,500	52,500	60,000		52,500	52,500	60,000

Question 16

X and Y were partners sharing profits in the ratio of 5:4 respectively. On 1st April, 2012 they admitted Z as a new partner; all the partners agreeing to share future profits equally. On the date of admission of

the new partner, there was a goodwill account in the old firm's ledger showing a balance of Rs 18,000. The current value of firm's goodwill was placed at Rs 36,000. Z paid Rs 50,000 by way of his capital. He also paid an appropriate amount for his share of goodwill. X and Y wrote off the goodwill account before Z's admission.

Pass the necessary journal entries.

Solution:

Date	Particulars		Dr.	Cr.
2012 Apr. 1	X's Capital Account Dr. Y's Capital Account Dr. To goodwill Account (Goodwill account written off)		10,000 8,000	 18,000
Apr. 1	Bank Dr. To Z's Capital Account (Payment by Z of Rs. 50,000 as capital and of Rs. 12,000 for his 1/3 share of total goodwill Of Rs. 36,000)		62,000	 62,000
Apr. 1	Z's Capital Account Dr. To X's Capital Account To Y's Capital Account (Adjustment for Z's share of goodwill)		12,000	 8,000 4,000

Question 18

The following was the Balance Sheet of A, B and C sharing profits and losses in the proportion of 6/14, 5/14 and 3/14 respectively:

Liabilities	Amount	Assets	Amount
Creditors	56,700	Land and Buildings	1,51,200
Bills Payable	48,900	Furniture	52,050

General Reserve	21,000	Stock	88,200
Capital Accounts:		Debtors	79,380
A - 1,19,700 B- 1,00,000 C – 50,400	2,70,900	Cash at Bank	26,670
	3,97,500		3,97,500

They agreed to take D into partnership and give 1/8th share of profits on the following terms:

(1) That D brings in Rs 48,000 as his capital.

(2) That furniture be written down by Rs 2,760 and stock be depreciated by 10%.

(3) That provision of Rs 3,960 be made for outstanding repair bills.

(4) That the value of land and buildings be written up to Rs 1,95,300.

(5) That the value of goodwill be fixed at Rs 28,000 and an adjustment entry be passed for D's share of goodwill.

That the capitals of A, B and C be adjusted on the basis of D's capital by opening current accounts. Give the necessary journal entries, and the balance sheet of the firm as newly constituted.

Solution:

	Particulars		Dr.	Cr.
	Revaluation Account A/c Dr. To Furniture Account To Provision against Stock To Provisions for Repairs (The fall in the value of assets and the creation of liability in respect of repairs)		15,540	 2,760 8,820 3,960
	Land and Buildings Account a/c Dr. To Revaluation Account (The increase in the value of land and buildings)		44,100	 44,100

	Revaluation Account To A's Capital Account To B's Capital Account To C's Capital Account (The transfer of Profit on revaluation to the old partners in the old ratio.)		28,560	12,240 10,200 6,120
	General Reserve Account To A's Capital Account To B's Capital Account To C's Capital Account (The transfer of general reserve to old partners in the old ratio).		21,000	9,000 7,500 4,500
	Bank To D's Capital Account (The amount brought in by D as capital.)		48,000	48,000
	D's Capital Account To A's Capital Account To B's Capital Account To C's Capital Account (Adjustment entry for D's share of goodwill.)		3,500	1,500 1,250 750
	A's Capital A/c B's Capital A/c To A's Current Account To B's Current Account (The transfer of respective surpluses to current accounts of partners)		8,940 8,500	8940 8500
	C's Current A/c To C's Capital Account (The deficiency of C's Capital as against the required amount transferred to his current A/c)		4500	4500

The student is advised to prepare Capital accounts of Partners

Balance Sheet Of M/S A,B,C And D As On……

Liabilities	Amount	Assets	Amount
Current Liabilities		Fixed Assets	
Creditors	56,700	Land and Buildings	1,95,300
Bills Payables	48,900	Furniture	49,290
Provision for Repairs	3,960	Current Assets: Rs. Stock 88,200 Less: Provision 8,820	79,380
Capital Rs. A 1,33,500 B 1,11,250 C 66,750 D 44,500	3,56,000	Debtors	79,380
Current Accounts- A 8,940 B 8,500	17,440	Cash at Bank C's Current Account	74,670 4,980
Total	4,83,000		4,83,000

Notes:

1 The Profit – sharing ratio of various partners is calculated as follows:

D gets 1/8 share, hence what is left is 1 - 1/8 or 7/8

A's share is 7/8 X 6/14 or 6/16, B's share is 7/8 X 5/14 = 5/16 and

C's share is 7/8 X 3/14 = 3/16

2. D's capital after adjustment for goodwill = Rs. 48,000 – Rs. 3,500 = Rs. 44,500

The total capital of the firm on the basis of D's capital is Rs. 44,500 X 16/2 or Rs. 3,56,000

A's Capital ought, therefore, to be Rs. 3,56,000 X 6/16 or Rs. 1,33,500;

B's capital ought, therefore to be Rs. 3,56,000 X 5/16 or Rs. 1,11,250;

C's capital ought therefore, to be Rs. 3,56,000 X 3/16 or Rs. 66,750

Question19

The balance sheet of a partnership firm of X and Y, who were sharing profits in the ratio of 5: 3 respectively, as on 31st March, 2012 was as follows:

Liabilities	Amount	Assets	Amount
X's Capital	2,05,000	Land and Building	1,90,000
Y's Capital	1,65,000	Plant and Machinery	85,000
Profit and Loss Appropriation A/c	56,000	Furniture	54,740
Trade Creditors	27,400	Stock	72,630
		Debtors	30,000
		Cash at Bank	21,030
	4,53,400		4,53,400

On the above date, Z was admitted on the following terms:

(i) Z would get 1/5th share in the profits.
(ii) Z would pay Rs 1, 20,000 as capital and Rs 16,000 for his share of goodwill.
(iii) Machinery would be depreciated by 10% and building would to be appreciated by 30%.
(iv) A provision for bad debts @ 5% on debtors would be created.
(v) An unrecorded liability amounting to Rs 3,000 for repairs to building would be recorded in the books of account.
(vi) Immediately after Z's admission, goodwill account would be written off. Thereafter, the capital accounts of the old partners would be adjusted through the necessary current accounts in such a manner that the capital accounts of all the partners would be in their profit showing ratio.

Prepare revaluation account, capital accounts and the initial balance sheet of the new firm.

Solution:

Dr.	Revaluation Account

Cr.			
To Plant and Machinery To Provision for Bad Debts Account To Outstanding Repairs to Building Account To X's Capital Account (5/8th of Profit) To Y's Capital A/c (3/8th of Profit)	8,500 1,500 3,000 27,500 16,500	By Land and Building	57,000
	57,000		57,000

Partners Capital Account

Particulars	A	B	X	Particulars	A	B	X
To X's Capital A/c			10,000	By Balance b/d	2,05,000	1,65,000	
To Y's Current A/c			6,000	By Profit and loss Appropriation A/c	35,000	21,000	
To Y's Current A/c		28,500		By Revaluation A/c	27,500	16,500	
To Balance c/d	3,00,000	1,80,000	1,20,000	By Bank			1,36,000
				By Z's Capital A/c	10,000	6,000	
				By X's Current A/c	22,500		
					3,00,000	2,08,500	1,36,000
				By Balance b/d	3,00,000	1,80,000	1,20,000

Balance Sheet Of X, Y And Z As On 31st March, 2010

Liabilities	Amount	Assets	Amount
X's Capital A/c	3,00,000	Land and Building	247000

Y's Capital A/c	1,80,000	Plant and machinery	76500
Z's Capital A/c	1,20,000	Furniture	54740
Y's Current Account	28,500	Stock	72630
Trade Creditors	27,400	Debtors	30,000
Outstanding Repairs to Building A/c	3000	Less: Provision for Bad Debts Account	(1500)
		Cash at Bank	48470
		X's Current Account	22500
	4,53,400		4,53,400

Question 20

Him and Raj shared profits in the ratio of 5:3. Jolly was admitted as a partner. Him surrendered 1/5 of his share and Raj 1/3 of his share in favour of Jolly. Calculate the new profit-sharing ratio.

Solution:

Him surrenders 1/5 of his share, i.e., = 1/5 of 5/8 = 1/8

Raj surrenders 1/3 of his share, i.e., = 1/3 of 3/8 = 1/8

So, sacrificing ratio of Him and Raj is 1/8: 1/8 or equal.

Him's new share = 5/8 – 1/8 = 4/8 and

Raj's new share = 3/8 – 1/8 = 2/8

Jolly's New share = 1/8 + 1/8 = 2/8

New profit sharing ratio of Him's, Raj's and Jolly's is = 4/8: 2/8 : 2/8 or 4 : 2 : 2 or 2: 1:1.

Question 21

Tanaya and Sumit are partners in a firm sharing profit in the ratio 5: 3. They admitted Gauri as a new partner for 1/4th share in the profit. Gauri brings Rs. 30,000 for her share of goodwill and Rs.1,20,000 for

capital. Make journal entries in the books of the firm after the admission of Gauri. The new profit sharing ratio will be 2: 1: 1.

Solution:

Journal Entries

Date	Particulars		Dr.	Cr.
1.	Bank A/c Dr. To Goodwill A/c To Gauri's Capital A/c (Cash brought by Gauri for her share of goodwill and Capital)		1,50,000	 30,000 1,20,000
	Goodwill A/c Dr. To Tanaya's Capital A/c To Sumit's Capital A/c (Goodwill transferred to existing partners Capital account in their profit-sharing ratio)		30,000	 15,000 15,000

May 2018

Same as Nov 2019

Dinesh, Ramesh and Naresh are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2018 is as below:

Liabilities	Amount	Assets	Amount
Trade payables	22,500	Land & Buildings	37,000
Outstanding	2,200	Furniture & Closing Stock	7,200 12,600
General Reserve	7,800	Trade Receivables	10,700
Capital		Cash in hand	2,800
Accounts		Cash at Bank	2,200
Dinesh 15,000			

Ramesh 15,000 Naresh 10,000	40,000		
	72,500		72,500

The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following items:
(i) Suresh shall bring ` 8,000 towards his capital.
(ii) The value of stock to be increased to ` 14,000 and Furniture & Fixtures to be depreciated by 10%.
(iii) Reserve for bad and doubtful debts should be provided at 5% of the Trade Receivables.
(iv) The value of Land & Buildings to be increased by ` 5,600 and the value of the goodwill be fixed at ` 18,000.
(v) The new profit-sharing ratio shall be divided equally among the partners
The outstanding liabilities include ` 700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Suresh.
Solution:

(a) **Revaluation Account**

2018				**2018**		
April 1	To Provision for bad and doubtful To Furniture a/c To Capital A/c (Profit revaluation transferred) Dinesh Ramesh Naresh	 2,872.50 1,915.00 957.52	535 720 5,745	April 1	By Inventory in trade By Land and building	1,400 5,600
			7,000			7,000

Partner's Capital Account

Particulars	Dinesh	Ramesh	Naresh	Suresh	Particulars	Dinesh	Ramesh	Naresh	Suresh
To Dinesh & Ramesh			1,500	4,500	By Balance b/d	15,000	15,000	10,000	
To Balance c/d	26,972.50	21,015	10,757.50	3,500	By General Reserve	3,900	2,600	1,300	8,000
					By Cash	4,500	1,500		
					By Naresh & Suresh	700			
					By Outstanding Liabilities	2,872.50	1,915	957.50	
					By Revaluation A/c				
	26,972.5	21,015	12,257.50	8,000		26,972.50	21,015	12,257.50	8,000

Working Note:

Calculation of Sacrificing Ratio

Partners	New Share	Old Share	Sacrifice	Gain
Dinesh	¼	3/6	6/24	
Ramesh	¼	2/6	2/24	
Naresh	¼	1/6		2/24
Suresh	¼			6/24

Entry for Goodwill Adjustment

Naresh (2/24 of `18,000)	Dr.		1,500	
Suresh (6/24 of `18,000)	Dr.		4,500	
To Dinesh (6/24 od `18,000)				4,500
To Ramesh (2/24 of `18,000)				1,500

Balance Sheet of M/s. Dinesh, Ramesh, Naresh and Suresh as on 1-4-2018

Liabilities	`	`	Assets	`	`

Trade payables Outstanding Liabilities (2,200- Capital Accounts of Partners: Mr. Dinesh Mr. Ramesh Mr. Naresh Mr. Suresh	 26,972.50 21,015.00 10,757.50 3,500.00	22,500 1,500 62,245	Land and Furniture Inventory of good Trade receivables Less: Provisions Cash in hand Cash at Bank (2,200+8,000)	 10,700 (535)	42,600 6,480 14,000 10,165 2,800 10,200
		86,245			86,245

Trading and P&L A/c for the year ended 31st March 2018

Particulars	`	Particulars	`
To Cost of Goods Sold To Gross Profit c/d	22,00,000 23,00,000	By Sales	45,00,000
 To Salaries A/c	45,00,000 12,00,000	 By Gross Profit	45,00,000 23,00,000

Working Note:

Calculation of sacrificing ratio

Partners	New Share	Old Share	Sacrifice	Gain
Dinesh	¼	3/6	6/24	
Ramesh	¼	2/6	2/24	
Naresh	¼	1/6		2/24
Suresh	¼			6/24

Naresh (2/24 of `18,000)	Dr.		1,500	
Suresh (6/24 of `18,000)	Dr.		4,500	4,500
To Dinesh (6/24 od `18,000)				1,500
To Ramesh (2/24 of `18,000)				

Balance Sheet of M/s. Dinesh, Ramesh, Naresh and Suresh as on 1-4-2018

Liabilities	`	`	Assets	`	`

Trade payables		22,500	Land and		42,600
Outstanding Liabilities (3700-2200)		1,500	Furniture		6,480
			Inventory of good		14,000
Capital Accounts of Partners:			Trade receivables	10,700	
			Less: Provisions	(535)	10,165
Mr. Dinesh	26,972.50		Cash in hand		2,800
Mr. Ramesh	21,015.00		Cash at Bank		10,200
Mr. Naresh	10,757.50	62,245	(2,200+8,000)		
Mr. Suresh	3,500.00				
		86,245			86,245

Trading and P&L A/c for the year ended 31st March 2018

Particulars	`	Particulars	`
To Cost of Goods Sold	22,00,000	By Sales	45,00,000
To Gross Profit c/d	23,00,000		
	45,00,000		45,00,000
To Salaries A/c	12,00,000	By Gross Profit	23,00,000
To General Expenses	6,00,000	By Other Income	45,000
To Selling Expenses (1% of 45,00,000)	45,000		
To Commission to Manager (on Net Profit before charging such commission)	1,00,000		
To Net Profit	4,00,000		
	23,45,000		23,45,000

Nov 2019

Question 1

Dinesh, Ramesh and Naresh are partners in a firm sharing profits and losses in the ratio of 3: 2: 1. Their Balance Sheet as on 31st March, 2018 is as below:

Solution:

Liabilities	`	Assets	`
Trade Payables	22,500	Land & Buildings	37,000
Outstanding Liabilities	2,200	Furniture & Fixtures	7,200
General Reserve	7,800	Closing stock	12,600
Capital Accounts:		Trade Receivables	10,700
Dinesh 15,000		Cash in Hand	2,800
Ramesh 15,000	40,000	Cash at Bank	2,200
Naresh 10,000			
	72,500		72,500

Same as May 2018

The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following terms:

i. Suresh shall bring 8,000 towards his capital.

ii. The value of stock to be increased to 14,000 and Furniture & Fixtures to be depreciated by 10%.

iii. Reserve for bad and doubtful debts should be provided at 5% of the Trade Receivables.

iv. The value of Land & Buildings to be increased by 5,600 and the value of the goodwill be fixed at 18,000.

v. The new profit-sharing ratio shall be divided equally among the partners.

The outstanding liabilities include 700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Suresh. (15 marks)

Revaluation Account

2018			₹	2018		₹

April 1	To Provision for bad and doubtful debts		535	April 1	By Inventory in trade	1,400
	To furniture and fittings		720			
	To Capital A/cs: (Profit on revaluation transferred)				By Land and building	5,600
	Dinesh	2,872.50				
	Ramesh	1,915.00				
	Naresh	957.50	5,745			
			7,000			7,000

Partner's Capital A/c

Particulars	Dinesh	Ramesh	Naresh	Suresh	Particulars	Dinesh	Ramesh	Naresh	Suresh
To Dinesh & Ramesh			1,500	4,500	By Balance b/d	15,000	15,000	10,000	
To Balance b/d	26,972.50	21,015	10,757.50	10,757.50	By General Reserve	3,900	2,600	1,300	
					By Cash				8,000
					By Naresh & Suresh	4,500	1,500		
					By Outstanding liabilities (Ram)	700			
					By Revaluation A/c	2,872.50	1,915	957.50	
	26,972.50	21,015	12,257.50	8,000		26,972.50	21,015	12,257.50	8,000

Working Note:

Calculation of sacrificing ratio

Partners	New Share	Old Share	Sacrifice	Gain

Dinesh	¼	3/6	6/24	
Ramesh	¼	2/6	2/24	
Naresh	¼	1/6		2/24
Suresh	¼			6/24

Entry for Goodwill adjustment

Naresh (2/24 of `18,000)	Dr.		1,500	
Suresh (6/24 of `18,000)	Dr.		4,500	
To Dinesh (6/24 od `18,000)				4,500
To Ramesh (2/24 of `18,000)				1,500

Balance Sheet of M/s. Dinesh, Ramesh, Naresh and Suresh as on 1-04-2018

Liabilities	`	`	Assets	`	`
Trade payables		22,500	Land and		42,600
Outstanding		1,500	Buildings		6,480
Liabilities (2,200-700)			Furniture		14,000
Capital Accounts			Inventory of good	10,700	
of Partners:			Trade receivables	(535)	
Mr. Dinesh	26,972.50		Less: Provisions		10,165
Mr. Ramesh	21,015.00		Cash in hand		2,800
Mr. Naresh	10,757.50	62,245	Cash at Bank		10,200
Mr. Suresh	3,500.00		(2,200+8,000)		
		86,245			86,245

UNIT 4

RETIREMENT OF A PARTNER

Introduction	A partner may retire from the partnership firm because of old age, illness, etc. Generally, the business of the partnership firm may not come to an end when one of the partners retires.
The calculation of gaining ratio	When the new ratio is given, gaining ratio is calculated by deducting their new share of profits from the old share. When the new profit-sharing ratio is not given and the remaining partners share the future profits in the same ratio as before, the gaining ratio would be the old profit-sharing ratio.
Adjustment in Retirement.	On retirement of a partner, it is required to revalue assets and liabilities just as in the case of admission of a partner. If there is revaluation profit/loss, then such profit/loss should be distributed amongst the existing partners including the retiring partner at the existing profit-sharing ratio. On the retirement of a partner any undistributed profit or reserve standing at the Balance Sheet is to be credited to the Partners' Capital Accounts in the old profit-sharing ratio. Following adjustments are necessary in the Capital A/c of a retiring partner at the time of final payment. Transfer of reserve, Transfer of goodwill, Transfer of profit/loss on revaluation

JOINT LIFE POLICY	There are three methods for treating premium paid on Joint Life Policy: firstly, it can be shown as an expense; alternatively, it can be shown as an asset to the extent of surrender value and the balance as an expense. Thirdly, a joint Life Policy reserve can be created; On retirement of a partner, the surrender value of the Joint Life Policy is to be raised in the books of accounts if it is not shown already as an asset. If the surrender value is more than the value of joint Life Policy shown in the Balance Sheet, only the excess amount should be transferred to revaluation account.

Question 1

Calculation of gaining ratio. Final payment of a retiring partner

Answer:

(a)On retirement of a partner, the continuing partners will gain in terms of profit-sharing ratio. For example, if A, Band C were sharing profits and losses in the ratio of 5:3: 2 and B retires, then A and C have to decide at which ratio they will share profits and losses in future. If it is decided that the continuing partners will share profits and losses in future at the ratio of 3:2, then A gains 1/10th [(3/5) -(5/10)] and C gains 2/10 [(2/5) -(2/10)]. So, the gaining ratio between A and C is 1:2. If A and C decide to continue at the ratio 5:2, this indicates that they are dividing the gained share in the previous profit-sharing ratio.

(b) The following adjustments are necessary in the Capital A/c:

(i) Transfer of reserve,

ii) Transfer of goodwill,

(iii)Transfer of profit/loss on revaluation.

After adjustment of these items, the Capital Account balance standing to the credit of the retiring partner represents amount to be paid to him. The continuing partners may discharge the whole claim at the time of retirement.

Question 2

What is joint life policy? What is the Accounting Treatment for the premium paid?

Answer:

A partnership firm may decide to take a Joint Life Insurance Policy on the lives of all partners. The firm pays the premium and the amount of policy is payable to the firm on the death of any partner or on the maturity of policy whichever is earlier. The objective of taking such a policy is to minimize the financial hardships to the event of payment of a large sum to the legal representatives of a deceased partner or to the retiring partner.

The accounting treatment for the premium paid and the Joint Life Policy may be on any of the following ways:

When premium paid is treated as an expense: When premium is treated as an expense then it is closed every year by transferring to profit and loss account. In this case complete amount received from the insurance company either on a surrender of policy or on the death of the partner becomes a gain.

When premium paid is treated as an asset: In this case insurance premium paid is first debited to life policy account and credited to bank account. At the end of the year the amount in excess of surrender value is treated as a loss and is transferred to Profit and Loss Account. In this case the amount received from the insurance company in excess of the surrender value results in a gain at the time of receipt of such amount which is transferred to Capital Accounts of the partners in the profit-sharing ratio.

Creation of Joint Policy Reserve Account: Under this method, premium paid is debited to policy account and credited to bank account. At the end of the year, amount equal to premium is transferred from Profit and Loss Appropriation Account to Policy Reserve Account. After this, policy account is brought down to its surrender value by debiting the life policy reserve account with amount which exceeds the surrender value of the policy. Thus, in this method, policy account appears on the assets side and policy reserve account appears on the liabilities side of the Balance Sheet until it is realized. Both these accounts appear in the Balance Sheet at the surrender value of the policy. This method is different from the method discussed in (2) above only in respect of reserve account. On the death of a partner Joint Life Policy Reserve Account is transferred to Joint Life Policy Account and then the balance is transferred to Partners' Capital Accounts.

Question 3

What are the ways in which a partner can retire?

Answer:

1. With the consent of all the other partners,

2. In accordance with an express agreement among the partners,

3. By giving a written notice of intention to retire to all the other partners where partnership is at will.

Question 4

States the Adjustment list need to be done due to retirement.

Answer:

When a partner retires, the following adjustments must be made:

1. Adjustment of accumulated reserves and undistributed profit and losses.

2. Revaluation of assets and liabilities.

3. Adjustment for goodwill of the firm.

4. Calculation of new profit and loss sharing ratio.

Calculation of the amount due to retiring partner and the mode of payment.

Question 5

How Calculation of new ratio is done at the time of retirement of Partner

Answer:

When somebody left the firm, his share which left to the firm is gain to remaining partners. After retirement of someone, if the new profit-sharing ratio is not given, then it has to be understood that they will continue old ratio. The new profit sharing ratio of the remaining partners is determined in the following way: Suppose, three partners A,B and C are sharing profits and losses in the ratio of 2:3:1, as there is no fresh or new agreement between A and B, the new profit sharing ratio between A and B will be 2:3 by eliminating the share of C

In the above calculation, gaining ratio of A and B will be:

A= 2/5-2/6 = 1/15 B = 3/5-3/6 = 1/10

Thus, gaining ratio is calculated by deducting old ratio from new ratio i.e.

Gaining ratio = New profit-sharing ratio - old profit-sharing ratio.

Question 6

A and Bare partners in a business sharing profit and losses as A-3/5th and B-2/5th. Their balance sheet as on 1st January, 2015 is given below:

Liabilities	`	`	Assets	`
Capital			Plant and	
Accounts A B	20,000		Machinery	20,000
Reserve Account	15,000	35,000	Inventories	16,000
Trade payables		15,000	Trade receivables	15,000
		7,500	Balance at Bank	6,000
			Cash in hand	500
		57500		57500

B retires from the business owing to illness and A takes it over. The following revaluation was made: The goodwill of the firm is valued at 25,000. Depreciate Plant & Machinery by 7.5% and Inventories by 15 %. Doubtful debts provision is raised against trade receivables at 5% and a discount reserve against trade payables at 2%. Required:

Journalize the above transactions in the books of the firm and close the Partners' Accounts as on 1st January 2015. Give also the opening Balance Sheet of A.

Solution:

Date	Particulars		Dr.	Cr.
Jan 1.	A's Capital Account To B's Capital Account (The amount of share of goodwill adjusted on B's retirement)	Dr.	10,000	 10,000
	Reserve Account Dr. To A's Capital Account to B's Capital Account (Transfer of reserve to A's Capital Account and B's Capital Account in the profit-sharing ratio)		15,000	 9,000 6,000
	Profit and Loss Adjustment Account Dr. To Plant and Machinery Account To Inventory Account To Provision for Doubtful Debts Account (Reduction in the values, assets and creation of provision for doubtful debts as per agreement with B)		4,650	 1,500 2,400 750
	Reserve for Discount on Trade payables A/c To Profit and Loss Adjustment Account (Creation of reserve for discount on trade payables at 2%)	Dr.	150	 150
	A's Capital Account Dr. B's Capital Account Dr. To Profit and Loss Adjustment Account (Transfer of loss on revaluation of assets and liabilities to Capital Accounts of A and Bin the profit		2,700 1,800	 4,500
	B's Capital Account To B's Loan Account	Dr.	29,200	 29,200

	(Transfer of B's Capital Account to his Loan A/c)			

Balance sheet of A as on 1st January 2015

Liabilities			Assets		
A's Capital Account B's Loan Account Trade payables Less: Reserve for Discount	 7,500 (150)	16,300 29,200 7,350	Plant and Machinery Inventories Trade receivables Less: Prov. for Bad Debts Balance at Bank Cash	 15,000 (750)	18,500 13,600 14,250 6,000 500
		52,850			52,850

Question 7

A, B and C are three partners sharing profits in the ratio of 5: 4: 3 respectively. C retires and the goodwill of the firm is valued at Rs 60,000. Assuming that A and B agree to share future profits in the ratio of 7: 5 respectively, pass an adjustment entry to credit retiring partner with his share of goodwill. Show calculations clearly.

Solution:

	A's Capital Account ... Dr. B's Capital Account ... Dr. To C's Capital Account (Credit given to retiring Partner's capital account for his share of goodwill, the amount being)		10,000 5,000	 15,000

Working Notes:

Value of firm's goodwill = Rs. 60,000

C's share of goodwill = Rs. 60,000 $\times \frac{3}{12}$ = Rs. 15,000

A's gain on C's retirement = 7/12 – 5/12 = 2/12

B's gain on C's retirement = 5/12 – 4/12 = 1/12

Ratio of gain between A and B = 2:1

Hence, A's Capital account will be debited with Rs. 15,000 X 2/3 = Rs. 10,000 and

B's capital account will be debited with = Rs. 15,000 X 1/3 = Rs. 5,000

Question 8

P, Q are R were partners sharing profits in the ratio of 5: 3: 2 respectively. On 31st March, 2010 their balance sheet stood as follows:

Balance Sheet as at 31st March, 2012

Liabilities	Rs. '000	Assets	Rs. '000
P's Capital	500	Machinery	430
Q's Capital	300	Furniture	164
R's Capital	200	Stock	351
Sunday Trade Creditors	156	Debtors	235
Bank Overdraft	24		
	1,180		1,180

Q retired as on the abovementioned date. It was agreed that: ADVERTISEMENTS:

(i)The firm's goodwill was worth Rs 250 thousand and Q was entitled to the credit for his share of goodwill

(ii)P and R would continue to be partners but would share profits in future in the ratio of 7: 3 respectively, and

(iii) The amount due to Q would be paid immediately and for this purpose P and R would bring in cash in such a manner that the total

capital of the reconstituted firm was Rs 1,000 thousand and the capital accounts of the partners were in their new profit-sharing ratio.

Assuming that all the above-mentioned conditions were fulfilled pass journal entries in the boobs of the firm for all the transactions. Also, prepare the capital accounts of all the partners.

Solution:

Particular	P Rs. 000	Q Rs. 000	R Rs. 000	Particulars	P Rs. 000	Q Rs. 000	R Rs. 000
To Q's Capital A/c goodwill	50		25	By Balance b/d	500	300	200
				By P's Capital A/c – goodwill		50	
To Bank Settlement		375		By R's Capital A/c – goodwill		25	
To Balance c/d	700		30	By Bank - Fresh Capital	250		125
					750	375	325

Working Notes:

(i) New Profit-sharing ratio between P and R = 7:3 or 7/10: 3/10

Old profit-sharing ratio among P, Q and R = 5:3:2 or 5/10: 3/10: 2/10

P's gain = 7/10 – 5/10 = 2/10

R's gain = 3/10 – 2/10 = 1/10

Ratio of gain between p and R= 2/10: 1/10 or 2:1

Q's share of goodwill = Rs. 250 thousand X 3/10 = Rs. 75,000

Amount to be borne by P = Rs. 75,000X 2/3 = Rs. 50,000

Amount to be borne by R = Rs. 75,000 X 1/3 = Rs. 25,000

(ii) Total capital of the reconstituted firm = Rs. 1,000 thousand

Required balance of P's Capital Account = Rs. 1,000 X 7/10 = Rs. 700 thousand

Required balance of R's Capital Amount = Rs. 1,000 thousand X 3/10 = Rs. 300 thousand

Amount to be brought in by P= Rs. (50 thousand + 700 thousand – 500 thousand) = Rs. 250 thousand

Amount to be brought in by R = Rs. (25 thousand + 300 thousand – 200 thousand) = Rs. 125 thousand

Question 9

The Balance Sheet of A, B and C on 31st March, 2011 was as follows:

Creditors	Rs.	Rs. 25,000	Sundry Assets	Rs. 1,35,000
Capitals:				
A	60,000			
B	40,000			
C	10,000	1,10,000		
		1,35,000		1,35,000

On March 31, 2011 A retired. Under the terms of the partnership deed, he was entitled to receive for the year succeeding his retirement one-half of the share of profits which he was receiving at the time of his retirement as a consideration for leaving his capital in the firm as a loan.

On 1st April, 2011 D was admitted a partner and he paid into the firm Rs 30,000 of which Rs 10,000 was for goodwill to be retained in the firm. D was to receive one-fourth share of net profits remaining after charging A's proportion as stated above. All the partners were entitled to interest at the rate of 10% per annum. The profit for the year ended 31st March, 2012 was Rs 49,000.

Prepare the Profit and Loss Appropriation Account showing the distribution of the profit.

Solution:

Dr. Profit and Loss Appropriation Account Cr.

2012		Rs.	2012		Rs.
Mar. 31	To Interest on A's Loan	6,000	Mar.31	By Net Profit	49,000
	To Interest on Capital: B 10% on Rs. 45,000 4,500 C 10% on Rs. 15,000 1,500 D 10% on Rs. 20,000 2,000	8,000			
	To A's Loan A/c: 1/7th of Rs. 35,000 (Rs. 49,000 – Rs. 6,000- Rs. 8,000)	5,000			
	To Profit transferred to: B (3/8) 11,250 C (3/8) 11,250 D (1/4) 7,500	30,000			
		49,000			49,000

Notes:

(1) Since the problem is silent regarding the profit-sharing ratio, A. B and C must have been equal partners. After retirement, therefore. A is entitled to half of 1/3 or 1/6 share of profits.

(2) It is assumed that /i's share is a charge against profits. Hence, his share is 1/7 of profits after charging interest but before charging A's share. (3) D gets 1/4 share leaving 3/4 for B and C who are equal partners. Hence, both B and C get 3/8 share of profits each.

Note:

If A's share is to be treated as an appropriation of profits, he will get 1/6 of Rs 35,000 or Rs 5,833.

Question 10

L, M and N were partners sharing profits and losses in the ratio of 2 : 2 : 1 respectively. On 1st April, 2012 L retired when his capital account showed a credit balance of Rs 8,00,000. In the ledger, goodwill account appeared at Rs 1,00,000 but the partners agreed that the fair value of firm's goodwill on the abovementioned date was Rs 4,75,000. Apart from capital of Rs 8,00,000, the retiring partner's share of goodwill

was also to be paid. Assuming that M and N continue to share profits in ratio of 2: 1 respectively and L's capital account is immediately settled in cash, pass journal entries for all the transactions relating to partner's retirement.

Date	Particulars		Dr.	Cr.
2012 Apr. 1	L's Capital Account Dr. M's Capital Account Dr. N's Capital Account Dr. To Goodwill Account Book value of goodwill written off debiting all the partners in profit sharing ratio		40,000 40,000 20,000	 1,00,000
Apr. 1	M's Capital Account Dr. N's Capital Account Dr. To L's Capital Account Credit to retiring partner for his share Of firm's total goodwill, debiting the Remaining partners in the ratio of gain		1,26,667 63,333	 1,90,000
Apr. 1	L's Capital Account Dr. TO Bank Settlement of L's Capital account by payment of cash		9,50,000	 9,50,000

Alternate

Solution:

Journal

Date	Particulars		Dr.	Cr.
2012 Apr. 1	M's Capital Account Dr. N's Capital Account Dr. To L's Capital Account		1,00,000 50,000	 1,50,000

	Credit to retiring partner for his share of goodwill Determined after taking into account for the book value of goodwill, the amount being debited to the remaining partners in their ratio of gain			
Apr. 1	L's Capital Account Dr. TO Bank Settlement of L's capital account by payment of cash		9,50,000	9,50,000

Question 11

C, d and e were partners sharing profits in the proportions of 1/2: 1/3:1/6 respectively. The balance sheet of the firm on 31st March, 2012 was as follows:

Liabilities			**Assets**		
Sundry Creditors		190	Cash at Bank	1000	
Bills Payable		50	Debtors	160	25
Reserve		120	Less: Provision for Bad Debts	5	155
Capital Accounts-	Rs.				
C	400				
D	300		Stock		250
E	250	950	Furniture		80
			Plant and Machinery		350
			Factory Buildings		450
		1,310			1,310

D retired on that date subject to the following conditions:

(1) The goodwill of the firm to be valued at Rs 180 thousand and d be given credit for his share of goodwill.

(2) Plant to be depreciated by 10% and furniture by15%.

(3) Stock to be appreciated by 20% and Buildings by10%.

(4) The Provision for Bad Debts to be increased by Rs 20 thousand; and

(5) Liability for workmen's compensation to the extent of Rs 16 thousand to be brought into account. It was agreed that c and e will share profits in future in the ratio of C 3/5 and e 2/5.

Pass journal entries, prepare revaluation account, capital accounts and balance sheet

(1) when the change in the values is to be recorded in the books, and

Date	Particulars		Dr.	Cr.
2012 Mar. 31	Reserve Dr. To C's Capital Account To D's Capital Account To E's Capital Account Being the transfer of Reserve to Partners.		Rs. In thousand 120	Rs. In thousand 60 40 20
Mar 31	C's Capital Account Dr. E's Capital Account Dr. To D's Capital Account Being the credit given to D for his share of goodwill, the debit being given to the remaining partners C and E in the ratio of gain i.e. 3:7 respectively		18 42	 60
Mar 31	Revaluation Account Dr. To Plant To Furniture To Provision for Bad Debts To Provision against Workmen's Compensation Being the decrease in the value of the assets and increase in a liability.		83	 35 12 20 16
Mar 31.	Stock Dr. Factory Buildings Dr. To Revaluation Account		50 45	 95

	Being the appreciation in the value of assets, brought into books.			
Mar. 31	Revaluation Account Dr. To C's Capital Account To D's Capital Account To E's Capital Account Being the appreciation in the value of assets, brought into books.		12	 6 4 2
Mar 31	D's Capital Account Dr. To D's Loan Account Being the transfer of the sum due to B on his retirement to his loss Account.		404	 404

(2) when the assets and liabilities are to continue to appear at their old figures. Case I—Changes to be brought into books.

Solution:

Dr. Capital Accounts Cr.

Particulars	C	D	E	Particulars	C	D	E
To D's Capital A/c To D's Loan A/c (transfer) To Balance c/d	18 448	 404	42 230	By Balance b/d By Reserve By C's Capital A/c By E's Capital A/c By Revaluation A/c	400 60 6	300 40 18 42 4	250 20 2
	466	404	272		466	404	272
				By Balance b/d	446	-	232

Dr. Revaluation Account Cr.

2012		Rs.	2010		Rs.

Mar. 31	To Plant To Furniture To Provision for Bad Debts To Provision against Workmen's Compensation To Profit transferred to: Rs. 1000 C's Capital (1/2) 6 D's Capital (1/3) 4 E's Capital (1/6) 2	1000 35 12 20 16 12	Mar.31	By Stock By Factory Buildings	1000 50 45
		95			95

Balance Sheet of M/s C and E as on March 31, 2012

Liabilities		Assets	
Current Liabilities: Sundry Creditors Bill Payable Provision Against Workmen's Competition D's Loss Account Capital: Rs. 1000 C 448 E 230	 190 50 16 404 678	Current Assets: Cash at Bank Debtors 1660 Less: Provision for Bad Debts 25 Stock Fixed Assets: Furniture Plant & Machinery Factory Buildings	25 135 300 68 315 495
	1,338	Total	1,338

Working notes:

D's share of goodwill = Rs. 180 thousand X $\frac{1}{3}$ = Rs. 60 thousand

C's gain = $\frac{3}{5} - \frac{1}{2} = \frac{6-5}{10} = \frac{1}{10}$

E's gain = $\frac{2}{5} - \frac{1}{6} = \frac{12-5}{30} = \frac{7}{30}$

Ratio of gain between C and E = $\frac{1}{10}:\frac{7}{30}$or 3:7

Hence, the amount of goodwill borne by C = Rs. 60 thousand X $\frac{3}{10}$= Rs. 18 thousand

And the amount borne by E = Rs. 60 thousand X $\frac{7}{10}$= Rs. 42 thousand

Case II – Changes in assets and liabilities not to be brought into books.

Journal Entries

Date	Particulars		Dr. (000)	Cr. (000)
2012 Mar. 31	C's Capital Account E's Capital Account To D's Capital Account Credit to D of his share of the reserve, other partners Capital accounts being debited in the ration in which They gain on D's retirement	Dr. Dr.	12 28	 40
	C's Capital Account E's Capital Account To D's Capital Account Credit given to D for his share of goodwill, the amount Being charged to the remaining partners in the ratio of gain.	Dr. Dr.	18 42	 60
	Memorandum Revaluation Account To C's Capital Account To D's Capital Account To E's Capital Account The Profit on revaluation of assets and liabilities Transferred to C,D and E in the old ratio.	Dr.	12	 6 4 2
	C's Capital Account E's Capital Account To Memorandum Revaluation Account	Dr. Dr.	702 408	 110

	The profit on revaluation written back so that assets and liabilities can be maintained at their old figures.			
	D's Capital Account To D's Loan Account Transfer of D's Capital to D's Loan on his retirement	Dr.	404	 404

Memorandum Revaluation Account

Dr. **Cr.**

2012 Mar. 31		**Rs. In thousand**			**Rs. In thousand**
2012 Mar. 31	To Decrease in the Value of: Plant Furniture Debtors To increase in liability: Workmen's Compensation To Profit transferred to: Rs. In thousand C's Capital Account 6 D's Capital Account 4 E's Capital Account 2	 35 12 20 16 12	2012 Mar. 31	By Increase in the Value of: Stock Freehold Buildings	 50 45
		95			95
	To Reversal of entries on the credit Side	95		By Reversal of entries On the debit Side By Loss transferred to Rs. In thousand C's Capital A/c,	83 12

				3/5 7.2 E's Capital A/c, 2/5 4.8	
		95			95

Dr. Capital Accounts Cr.

Particulars	C	D	E	Particulars	C	D	E
	Rs. in thousand	Rs. in thousand	Rs. in thousand		Rs. in thousand	Rs. in thousand	Rs. in thousand
To D's Capital A/c To D's Capital A/c To Memorandum Revaluation A/c To D's Loan A/c To Balance c/d	12 18 7.2 - 368.8	- - - 404 -	28 42 4.8 - 177.2	By Balance B/d By C's Capital A/c By E's Capital A/c By C's Capital A/c By E's Capital A/c By Memorandum Revaluation A/c	400 6	300 12 28 18 42 4	250 2
	406	404	252		406	404	252
				By Balance b/d	368.8		177.2

Balance Sheet of M/s. C and E as on March 31, 2012

Liabilities	Rs. in thousand	Assets	Rs. in thousand
Sundry Creditors	190	Cash at Bank	1075
Bill Payable	50	Debtors 160	
D's Loan	404	Less: Provision for bad debts 5	155
Reserve	120	Stock	80
Capital Account- C 368.8 E 177.2	546		
	1,310		1,310

MAY 2018

Question 1

When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.

Answer:

True: When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act.

UNIT 5

DEATH OF A PARTNER

INTRODUCTION	Business of a partnership firm may not come to an end due to death of a partner as it is known as Reconstitution of Partnership. Other partners shall continue to run the business of the firm. The problems arising on the death of a partner are similar to those arising on retirement. Assets and liabilities have to be revalued and the resultant profit or loss has to be transferred to the capital accounts of all partners including the deceased partner.
AMOUNT PAYABLE TO LEGAL REPRESENTATIVES OF DEAD PARTNER	When The Partner Dies the Amount Payable to Him/her Is Paid to His/her Legal Representatives. The amount standing to the credit to the capital account of the deceased partner Interest on capital, if provided in the partnership deed up to the date of death: Share of goodwill of the firm; hare of undistributed profit or reserve. Share of profit on the revaluation of assets and liabilities; Share of profit up to the date of death; Share of Joint Life Policy.
TREATMENT OF ILP	In case of death of a partner, the firm would get the joint policy value. The only additional point is that as death may occur on any day, the representatives of the deceased partner will be entitled to the partner's share of profit from the beginning of the year to the date of death. After ascertaining the amount due to the deceased partner, it should be credited to his Executor's Account.
SHARE OF DECEASED PARTNER.	If the death takes place during the accounting period, the Executor of the deceased partner is entitled to have a share of profit up to the date of death based on the profit earned in the immediately preceding year or some other agreed basis. For this purpose, the deceased partners' Capital Accounts is credited and Profit & Loss Suspense Account is debited.

Question 1

Gives the list of the Amount payable to Legal Representatives of dead partner

Answer:

Amount payable to Legal Representatives of Dead Partner

When the partner dies the amount payable to him/her is paid to his/her legal representatives. The representatives are entitled to the followings:

The amount standing to the credit to the capital account of the deceased partner Interest on capital, if provided in the partnership deed up to the date of death: Share of goodwill of the firm; Share of undistributed profit or reserves; Share of profit on the revaluation of assets and liabilities; Share of profit up to the date of death; Share of Joint Life Policy.

Question 2

Explain the method of calculation of profit up to the date of death of partner

Answer:

If the death of a partner occurs during the year, the representatives of the deceased partner are entitled to his/her share of profits earned till the date of his/her death. Such profit is ascertained by any of the following methods:

- Time Basis
- Turnover or Sales Basis

Time Basis:

In this case, it is assumed that profit has been earned uniformly throughout the year. For example: The total profit of previous year is 2,25,000 and a partner dies three months after the close of previous year, the profit of three months is 31,250 i.e. 1,25,000 x 3/12, if the deceased partner took 2/10 share of profit, his/her share of profit till the date of death is 6,250i.e. 31,250 x 2/10

Turnover or Sales Basis

In this method, we have to take into consideration the profit and the total sales of the last year. Thereafter the profit up to the date of death is estimated on the basis of the sale of the last year. Profit is assumed to be earned uniformly at the same rate. Legal representatives: Drawings Interest on drawings Share of loss on the revaluation of assets and liabilities; Share of loss that have occurred till the date of his/her death.

Question 3

Differentiate between Retirement and Death of Partner.

Answer:

The basic distinction between retirement and death of a partner relates to finalization of amount payable the executor of the deceased partner. Although revaluation of goodwill is done in the same way as it has been done in case of retirement in addition, the executor of the deceased partner is entitled to share of profit up to the death of partner.

Question 4

Explain the Treatment of Joint life policy at the time of death of partner

Answer:

Treatment of joint life policy will also be same as in the case of retirement. However, in case of death of a partner, the firm would get the joint policy value. The only additional point is that as death may occur on any day, the representatives of the deceased partner will be entitled to the partner's share of profit from the beginning of the year to the date of death. After ascertaining the amount due to the deceased partner, it should be credited to his Executor's Account.

PRACTICAL CONTENT

Question 5

The Balance Sheet of Seed, Plant and Flower as at 31st December, 2011 was as under:

Liabilities		`	Assets	`
Trade payables		20,000	Fixed Assets	40,000

General Reserve			Debtors	10,000
Capital:			Bills Receivable	4,000
Seed	25,000		Inventories	16,000
Plant	15,000		Cash at Bank	10,000
Flower	15,000			
	80,000			80,000

The profit-sharing ratio was: Seed 5/10, Plant 3/10 and Flower 2/10. On 1st May, 2009 Plant died. It was agreed that:

Goodwill should be valued at 3 years purchase of the average profits for 4 years. The profits were:

2007 ` 10,000 2009 ` 12,000

2008 ` 13,000 2010 ` 15,000

The deceased partner to be given share of profits upto the date of death on the basis of the previous year.

Fixed Assets were to be depreciated by 10%. A bill for ` 1,000 was found to be worthless. These are not to affect goodwill.

A sum of ` 7,750 was to be paid immediately, the balance was to remain as a loan with the firm at 9% p.a. as interest

Seed and Flower agreed to share profits and losses in future in the ratio of 3 : 2. Give necessary journal entries.

Solution:

Journal Entries

2011	Particular		Dr.	Cr.
May 1	General Reserve Account To Seed's Capital Account To Plant's Capital Account To Flower's Capital Account (General Reserve transferred to Capital	Dr.	5,000	 2,500 1,500 1,000

	Account on the death of Plant)			
	Seed's Capital Account Flower's Capital Account To Plant's Capital Account (Adjustment for goodwill on the death of Plant on the basis of gaming ratio)(Value = 3 X (10,000 + 13,000 + 12,000 + 15,000)/ 4	Dr. Dr.	3,750 7,500	 11,250
	Revaluation Account To Fixed Assets Account To Bills Receivable Account (Depreciation of fixed assets @ 10% and writing off of one bill for ` 1,000 on Plant's death)	Dr.	5,000	 4,000 1,000
	Seed's Capital Account Plant's Capital Account Flower's Capital Account To Revaluation Account (Loss on Revaluation transferred to capital accounts)	Dr. Dr.	2,500 1,500 1,000	 5,000
	Profit and Loss Suspense Account To Plant's Capital Account (Plant's share of four month's profits based on the year 2010)	Dr.	1,500	 1,500
	Plant's Capital Account To Plant's Executor's Account (Amount standing to the credit of Plant's Capital Account transferred to the credit of his Executor's Account)	Dr.	27,750	 27,750
	Plant's Executor's Account To Bank Account (Amount paid to Plant's Executors)	Dr.	7,750	 7,750

Question 6

The following is the Balance Sheet of M/s. ABC Bros as at 31st December, 2010. Balance Sheet as at 31st December, 2010

Liabilities		`	Assets		`
Capital	A	4,100	Machinery		5,000
	B	4,100	Furniture		2,800
	C	4,500	Fixture		
General Reserve		1,500	Cash		2,100
Trade payables		2,350	Inventories		1,500
			Trade receivables	4,500	
			Less: Provision for DD	300	950
					4,200
		16550			16550

Solution:

Date	Particulars		Dr.	Cr.
Jan 3 2011	A's Capital A/c B's Capital A/c To C's Capital A/c (Being the required adjustment for goodwill through the partner's Capital Accounts)	Dr. Dr.	500 500	 1,000

Revaluation Account

Dr. Particulars	`	Particulars	`
To Furniture A/c (` 2,800 - 2,300)	500	By Machinery A/c (` 5,850 - 5,000)	850
To Inventory A/c (950 - 750)	200		
To Partners' Capital A/cs	150		
(A - ` 50, B - ` 50, C - ` 50)			
	850		850

Partners' Capital Accounts

Particulars	C	D	E	Particulars	C	D	E
To C (Goodwill)	500	500	-	By Balance b/d	4,100	4,100	4,500
To Cash A/c	-	-	1,000	By General	500	500	500
To Executors	-	-	5,050	Reserve A/c	50	50	50
A/c To Balance	4,150	4,150	-	By Revaluation A/c			500
C/d				(Profit)	-		500
				By A (Goodwill)	-	-	
				By B (Goodwill)			
	4,650	4,650	6,050		4,650	4,650	6,050

Provision for Doubtful Debts Account is a credit balance. To close, this account is to be debited. It becomes a gain for the partners. Therefore, either Partners' Capital Accounts (including A) or Revaluation Account is to be credited.

Working Note: Statement showing the Required Adjustment for Goodwill

Particulars	A	B	C
Right of goodwill before death	1/3	1/3	1/3
Right of goodwill after death	1/2	1/2	-
Gain / (Sacrifice)	(+) 1/6	(+) 1/6	(-) 1/3

Profit sharing ratio is equal before or after the death of C because nothing has been mentioned in respect of profit-sharing ratio.

Question 7

The following was the Balance Sheet of Om & Co. in which X, Y, Z were partners sharing profits and losses in the ratio of 7:2:2 as on 3 7.3.2076. Mr. Z died on 3 7st December, 20 76. His account has to be settled under the following terms.

Balance Sheet of Om & Co. as on 31.3.2016

Liabilities	`	Assets		`
Trade payables		20,000	Goodwill	30,000
Bank loan		50,000	Building	7,20,000
General reserve		30,000	Computers	80,000
Capital			Inventories	20,000
X	40,000		Trade receivables	20,000
y	80,000		Cash at bank	20,000
z	80,000	2,00,000	Investments	70,000
		3,00,000		3,00,000

Goodwill is to be calculated at the rate of two years purchase on the basis of average of three years' profits and losses. The profits and losses for the three years were detailed as below:

Year ending on	profit/loss
3 7.3.2076	30,000
31.3.2075	20,000
31.3.2074	{70,000) Loss

Profit for the period from 7.4.2076 to 3 7. 72.20 7 6 shall be ascertained proportionately on the basis of average profits and losses of the preceding three years.

During the year ending on 37.3.2076 a car costing 40,000 was purchased on 7.4.2075 and debited to traveling 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.

Other values of assets were agreed as follows:

Inventory at 16,000, building at 1,40,000, computers at 10,000; investments at 6,000. Trade receivables were considered good. Required:

Calculate goodwill and Z's share in the profits of the firm for the period 1.4.2016 to 31.12.2016. Prepare revaluation account assuming that other items of assets and liabilities remained the same.

Prepare partners' capital accounts and balance sheet of the firm Om & Co. ason 31.12.2016 Calculation of goodwill and Z's share of profit.

Solution:

(a)	Adjusted profit for the year ended 31.3.2016: Profit (Given) Add: Cost of car wrongly written off Less: Depreciation for theyear2015-16 (20% on 40, 000)	 40,000 (8,000)	30,000 32,000
(b)	Average of last three year's profits and losses Year ended on 31.3.2014 31.3.2015 31.3.2016	Profit/Loss	62,000
	Average profit (72,000/3) Goodwill at 2 years' purchase 24,000 X 2 = 48,000 Z's share of profits from the period 1.4.2016 to 31.12.2016 24,000 X 9/12 X 2/5 = 7,200	(10,000) 20,00 60,00 72,00 24,000	

Revaluation account

To Inventory account	4,000	By Building account		20,000
To Computers account	30,000	By Loss transferred to.		
To Investments account	4,000	X	3,600	
		Y	7,200	
		Z	7.200	18,000
	38,000			38,000

Partners Capital Account

Particulars	X	Y	Z	Particulars	X	Y	Z
To Revaluation A/c	3,600	7,200	7,200	By Balance b/d	40,000	80,000	80,000
To Z's			1,12,000	By General	6,000	12,000	12,000

Executor's Ale				reserve			
To Goodwill A/c	6,000	12,000	12,000	By X and Y			19,200
To Z	6,400	12,800		By Car A/c	6,400	12,800	12,800
To Balance c/d	36,400	72,800		By Profit and Loss suspense A/c			7,200
	52,400	1,04,80 0	1,31,200		52,400	1,04,80 0	1,31,20 0

Balance Sheet of Om & Co. as 31.12.2016

Liabilities		Assets	
Trade payables	20,000	Building	1,40,000
Bank loan	50,000	Car	32,000
Capital accounts:		Inventories	16,000
X	36,400	Computers	50,000
y	72,800	Investments	6,000
Z's Executor's account	1,12,000	Trade receivables	20,000
		Cash at bank	20,000
		Profit and Loss suspense Account	7,200
	2,91,200		2,91,200

Working Note:

Partner	Old Share	New Share	Gain	Sacrifice
X	1 5	1 3	2 15	
y	2 - 5	2 - 3	2 15	
z	2 5			2 5

Goodwill calculated at the time of death of partner Z 48,000

Adjusting entry:

X's Capital Account	Dr.	6,400
Y's Capital Account	Dr.	12,800
To Z's Capital Account		19,200

(Adjustment for goodwill on the death of Z on the basis of gaining ratio)

Question 9

Band N were partners. The partnership deed provides inter alia: That the accounts be balanced on 31st December each year.

That the profits be divided as follows: 8: One-half; N: One-third; and carried to Reserve Account: One-sixth That in the event of death of a partner, his executor will be entitled to the following:

The capital to his credit at the date of death; (b) his proportion of profit to date of death based on the average profits of the last three completed years; (c) his share of goodwill based on three years' purchases of the average profits for the three preceding completed years.

Trial Balance on 31st December, 2015

Particulars	Dr. ()	Cr. ()
B's Capital		90,000
N's Capital		60,000
Reserve		30,000
Bills receivable	50,000	
Investments	40,000	
Cash	1,10,000	
Trade payables		20,000
Total	2,00,000	2,00,000

The profits for the three years were 2013: 42,000;2014: 39,000 and 2015: 45,000.

N died on 1st May, 2016. Show the calculation of N

i) Share of Profits;

(ii)Share of Good will;

(iii) Draw up N's Executors Account as would appear in the firms' ledger transferring the amount to the Loan Account

Solution:

(i)	Ascertainment of N's Share of Profit		(ii)	Ascertainment of Value of Goodwill	
	2013 2014 2015	42,000 39,000 45,000		2013 2014 2015	42,000 39,000 45,000
	Total Profit Average Profit 4 months' Profit	1,26,000 42,000 14,000		Total Profit for 3 years Average Profit Goodwill - 3 years	1,26,000 42,000
				Purchase of Average Profit	1,26,000
	N's Share in Profit (2/Sth* of 14,000)	5,600		N's Share of goodwill (2/5 of 1,26,000)	50,400

N's Executors Account

2016			2016		
May 1	To N's Loan A/c	1,28,000	Jan. 1	By Capital A/c By Reserves (2/5th of no,000)	60,000
			May 1	By B's Capital A/c (Share of goodwill)	12,000
			May 1	By P/L Suspense A/c (Share of Profit)	50,400
			May 1		5,600
		1,28,000			1,28,000

Question 10

Monika, Sonika and Manisha were partners in a firm sharing profits in the ratio of 2:2:1 On 31st March, 2013 their balance sheet was as under

Liabilities			Assets	
Capital A/Cs			Fixed Assets	3,60,000
Monika	1,80,000		Stock	60,000
Sonika	1,50,000		Debtors	1,20,000
Manisha	90,000	4,20,000	Cash	2,70,000
Reserve Fund		1,50,000		
Creditors		2,40,000		
		8,10,000		8,10,000

Sonika died on 30th June, 2013. It was agreed between her executors and the remaining partners that

(i) Goodwill of the firm be valued at 3 years' purchase of average profits for the last four years. The average profits were Rs.2,00,000.

(ii) Interest on capital be provided at 12% per annum.

(iii) Her share in the profits up to the date of death will be calculated on the basis of average profits for the last 4 years.

Prepare Sonika's capital as on 30th June, 2013.

Solution:

Date	Particulars	Amt (Rs.)	Date	Particulars	Amt (Rs.)
	To Sonika's Executor A/c	5,15,000		By Balance b/d	1,50,000
				By Reserve Fund $(1,50,000 \times \frac{2}{5})$	60,000
				By Interest on Capital A/c $(1,50,0000 \times \frac{12}{100} \times \frac{3}{12})$	45,000
				By Profit and Loss Suspense A/c (profit)	20,000
				By Monika's Capital A/c	1,60,000
				By Manisha's	80,000
		5,15,000			5,15,000

Working Notes:

(i) Calculation of Sonika's Share of Goodwill

Average profit of last 4 years = 2,00,000

Firm's goodwill = 2,00,000 X 3 = 6,00,000

Sonika's share = 6,00,000 X $\frac{2}{5}$ = 2,40,000

Gaining ratio of Monika and Manisha = 2:1

Monika will contribute = 2,40,000 X $\frac{2}{3}$ = 1,60,000

Manisha will contribute = 2,40,000 X $\frac{1}{3}$= 80,000

(ii) Calculation of Sonika's Share of Profit

Average Profit = 2,00,000

Profit for 3 months = 2,00,000 X $\frac{3}{12}$ = 50,000

Sonika's share of profit = 50,000 X $\frac{2}{5}$ = 20,000

Question 11

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

Solution:

Date	Particulars	LF	Amt (Dr.)	Amt (Cr.)
	A's Capital A/c Dr.		15,000	

	C's Capital A/c Dr. To B's Capital A/c (Being amount of goodwill adjusted in gaining ratio)		5,000	20,000
	Profit and loss Suspense A/c Dr. To B's Capital A/c (Being B's share of Profit transferred to his capital account)		10,000	10,000

Question 12

P, Q and R were partners in a firm sharing profits in 2: 2: 1 ratio. The firm closes its book on 31st March every year. P died three months after the last accounts were prepared. On that date, the goodwill of the firm was valued at Rs. 90,000. On the death of a partner his share of profits in the year of death was to be calculated on the basis of the average profits of the last four years. The profit of last four years were –

Particulars	Amt (Rs.)
Year ended 31^{st} March, 2007	2,00,000
Year ended 31^{st} March, 2006	1,80,000
Year ended 31^{st} March, 2005	2,10,000
Year ended 31^{st} March, 2004	(loss) 1,70,000

Pass necessary journal entries for the treatment of goodwill and P's share of profit on his death. Show clearly the calculations of P's share of profit.

Solution:

Journal

Date	Particulars	LF	Amt (Dr.)	Amt (Cr.)
	Q's Capital A/c Dr. R's Capital A/c Dr. To P's Capital A/c		24,000 12,000	 36,000

	(Being amount of goodwill adjusted in gaining ratio)			
	Profit and loss Suspense A/c Dr. To P's Capital A/c (Being B's share of profit transferred to his capital account)		10,500	10,500

Working Note:

(i) **Calculation of P's Share of Goodwill**

Firm's goodwill = Rs. 90,000

P's share of goodwill = 90,000 X 2/5 =Rs. 36,000, to be contributed by Q and R in their gaining ratio i.e., 2:1

(ii) **Calculation of P's Share of Profit**

Last 4 years total profit = 2,00,000 + 1,80,000 + 2,10,000 – 1,70,000 =Rs. 4,20,000

Average profit = $\frac{4,20,000}{4}$ = Rs. 1,05,000

P'share of profit = $1,05,000 \times \frac{2}{5} \times \frac{3}{12}$ = Rs.10,500

Question 13

Hari, Mohan and Sohan were partners in a firm sharing profits in 2: 2: 1 ratio. The firm closes its books on 31st March every year. Mohan died on 24th August, 2007. On Mohan's death, the goodwill of the firm was valued at Rs. 75,000, The partnership deed provided that on the death of a partner his share in the profit of the firm in the year of his death will be calculated on the basis of last years profit. The profit of the firm for the year ended 31st March, 2007 was Rs. 2,00,000. Calculate Mohan's share of profit till the time of his death and pass the necessary journal entries for the treatment of goodwill and his share of profit.

Solution:

Date	Particulars	LF	Amt (Dr.)	Amt (Cr.)
	Hari's Capital A/c Dr. Sohan's Capital A/c Dr. To Mohan's Capital A/c (Being Mohan's amount of goodwill adjusted in gaining ratio)		20,000 10,000	 30,000
	Profit and Loss Suspense A/c Dr. To Mohan's Capital A/c (Being Mohan's share of Profit transferred to his Capital account)		32,000	 32,000

Working Note:

(i) **Calculation of Mohan's Share of Goodwill**

Firm's goodwill = Rs. 75,000

Mohan's share of goodwill = 75,000 X $\frac{2}{5}$ = Rs. 30,000, to be contributed by Hari and Sohan in their gaining ratio. i.e 2:1

(ii) **Calculation of Mohan's Share of profit**

Number of days Mohan Worked = April + May + June+ July + August

= 30 + 31 + 30 + 31+24 = 146 days

Last year's profit = Rs. 2,00,000

Mohan's Share of Profit = 2,00,000 X $\frac{2}{5} \times \frac{146}{365}$ = Rs. 32,000

Question14

The balance sheet of Radha, Sohan and Madan, who were sharing profits in the ratio of 4: 3: 1 respectively, as on 31st March, 2012 was as follows:

Liabilities			Assets	
General Reserve		65,000	Cash	39,000
Bills Payable		25,000	Stock	88,000
Loan		29,000	Debtors	61,000
Capital A/Cs			Machinery	2,23,000
Radha	1,50,000		Madan's Loan	33,000
Sohan	1,00,000			
Madan	75,000	3,25,000		
		4,44,000		4,44,000

Madan died on 1st September, 2012. The partnership deed provided for the following on the death of a partner

(i) Goodwill of the firm to be valued at two years' purchase of average profits for the last three years which were Rs. 64,000.

(ii) Madan's share of profit till the date of his death was to be calculated on the basis of sales. Sales for the year ended 31st March, 2012 amounted to Rs. 1,50,000 and that from 1st April to 1st September, 2012 Rs. 90,000. The profit for the year ended 31st March, 2012 was Rs. 50,000.

(iii) Interest on capital was to be provided @10% per annum

Prepare Madan's capital account to be rendered to his executor. Also identify the value being highlighted in the question.

Solution:

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

Particulars	Amt (Rs.)	Particulars	Amt (Rs.)
To Madan's Loan A/c	33,000	By Balance b/d	75,000
To Madan's Executor A/c	73,000	By General Reserve Ac	8,125

		By Radha's Capital A/c	9,143
		By Sohan's Capital A/c	6,857
		By Profit and Loss Suspense A/c	3,750
		By Interest on Capital A/c	3,125
	1,06,000		1,06,000

Working Note

(i) Calculation of Madan's Share of Goodwill

Average Profits of last 3 years = 64,000

Firm's goodwill = 64,000 X 2 = Rs. 1,28,000

Madan's share of goodwill = 1,28,000 X 1/8 = 16,000

Gaining ratio of Radha and Sohan = 4:3

Radha will contribute = 16,000 X $\frac{4}{7}$ = Rs. 9,143

Sohan will Contribute = 16,000 X $\frac{3}{7}$ = Rs. 6,857

(ii) Calculation of Madan's Share of Profit from 1st April, 2012 to 1st September, 2012 (5 months)

Sales for the year ending on 31st March, 2012 = 1,50,000

Profit for the year ending on 31st March, 2012 = 50,000

% of Profits on sales = $\frac{50,000}{1,50,000}$ X 100 = $33\frac{1}{3}$ %

Sales from 1st April, 2012 to 1st September, 2012 = 90,000

Firm's profit = 90,000 X$\frac{33\frac{1}{3}}{100}$ = Rs. 3v 0,000

Madan's share of Profit = 30,000 X $\frac{1}{8}$ = Rs. 3,750

(iii) Interest on Capital = 75,000 $\times$ $\frac{10}{100}$ $\times$ $\frac{5}{12}$ = Rs. 3,125

Note: The balance of Madan's capital account will be transferred to Madan's executor account. Donation to MatriChhaya will be made from the executor's account.

Values being highlighted in the question are (Any one)

(i) Social responsibility the deceased partner showed responsibility and care towards underprivileged sections of the society.
(ii) Women empowerment Donations to MatriChhaya is an endeavour towards women empowerment
(iii) Doing your best, the deceased Partner did his best by donating his property for the betterment of the society and upliftment of poor. He set a great example for the society to follow.

Question 15

The balance sheet of Sadhna, Mohit and Rohit who were sharing profits in the ratio of 1: 2: 3 as on 31st March, 2012 was as follows:

Liabilities		Amt (Rs.)	Assets	Amt (Rs.)
General Reserve		60,000	Cash	36,000
Bills Payable		20,000	Stock	85,000
Loan		24,00	Investments	58,000
Capital A/Cs			Land and Buildings	2,20,000
Sadhna	75,000		Rohit's Loan	30,000
Mohit	1,00,000			
Rohit	1,50,000	3,25,000		
		4,29,000		4,29,000

Rohit died on 1st September, 2012. The partnership deed provided for the following on the death of a partner

(i) Goodwill of the firm to be valued at two years' purchase of average profits for the last three years.

(ii) Rohit's share of profit or loss till the date of death was to be calculated on the basis of sales. Sales for the year ended 31st March,

2012 amounted to Rs. 6,00,000 and that from 1st April to 1st September, 2012 to Rs. 3,50,000. The profit for the year ended 31st March, 2012 was calculated as Rs. 1,50,000.

(iii) Interest on capital was to be provided @ 8% per annum

(iv) The average profits of the last three years were Rs.72,000

(v) According to Rohit's will, the executors should donate his share to 'MatriChhaya an orphanage for girls'.

Prepare Rohit's capital account to be rendered to his executor. Also identify the value being highlighted in the question.

Solution:

Rohit's Capital Account

Particulars	Amt	Particulars	Amt
To Rohit's Loan A/c	30,000	By Balance b/d	1,50,000
To Rohit's Executor A/c	2,70,750	By General Reserve A/c	30,000
		By Sadhna Capital A/c	24,000
		By Mohit's Capital A/c	48,000
		By Interest on Capital A/c	5,000
		By Profit and Loss Suspense A/c	43,750
	3,00,750		3,00750

Working Notes:

(i) Calculation of Rohit's Share of goodwill

Firm's Goodwill = Average Profits of Last 3 Years X 2 years Purchase

= 72,000 X 2 = Rs. 1,44,000

Rohit's share = 1,44,000 X $\frac{3}{6}$ = Rs. 72,000

Gaining ratio of Sadhna and Mohit = 1:2

Sadhna will Contribute =72,000 X $\frac{1}{3}$ = Rs. 24,000

Mohit will Contribute = 72,000X $\frac{2}{3}$ = Rs. 48,000

(ii) Interest on Capital = 1,50,000 X $\frac{8}{100} \times \frac{5}{12}$ = Rs. 5,000

(iii) Calculation of Rohit's Share of Profit for 5 Months

Sale for the year ended 31st March, 2012 = 6,00,000

Profit for the year ended 31st March, 2012 = 1,50,000

% of Profit on sales = $\frac{1,50,000}{6,00,000}$ X 100 = 25%

Sales from 1st April, 2012 to 1stSeptember, 2012 = Rs. 3,50,000

Profit (3,50,000 × $\frac{25}{100}$ = Rs. 87,500

Rohit's share = 87,500 X $\frac{3}{6}$ = Rs. 43,750

NOTE The balance in Rohit's capital account is transferred to Rohit's executions account. Donation to MatriChhaya will be given through the executor's account.

Values being highlighted in the question are (Any one)

(i) Social responsibility Rohit showed responsibility and care towards underprivileged sections of the society.

(ii) Women empowerment Donation to MatriChhaya is an endeavour towards women empowerment.

(iii) Doing your best Rohit did his best by donating his property for the betterment of the society and upliftment of poor. He has set a great example for the society to follow.

Question 16

Shiv, Ashok and Vinod were partners in a firm sharing profits in the ratio of 2:2:1. On 31st December, 2008 their balance sheet was as follows:

Liabilities		Amt	Assets	Amt
Creditors		40,000	Cash	12,000
Bills Payable		10,000	Bank	27,000
General Reserve		12,000	Stock	63,000
Capital A/Cs			Debtors	90,000
Shiv	2,00,000		Building	1,00,000
Ashok	1,50,000		Land	1,50,000
Vinod	1,00,000	4,50,000	Profit and Loss A/c	70,000
		5,12,000		5,12,000

Ashok died on 31st March, 2009. The partnership deed provided for the following on death of a partner.

(i) Goodwill of the firm was to be valued at 2 years' purchase of the average profits of the firm for the last 5 years. The total profits of file firm for the last 5 years were Rs. 3,60,000.

(ii) Ashok's share of profit or loss till the date of his death was to be calculated on the basis of the profit or loss for the year ending 31st December,2008.

You are required to calculate the following

(i) Goodwill of the firm and Ashok's share of goodwill at the time of his death.

(ii) Ashok's share in the profit and loss of the firm till date of his death.

Prepare Ashok's capital account at the time of his death to be presented to his executors.

Solution:

Ashok's Capital Account

Particulars	Amt	Particulars	Amt
To Profit and Loss A/c	28,000	By Balance b/d	1,50,000
To Profit and Loss Suspense A/c(Loss)	7,000	By General Reserve A/c	4,800
To Ashok's Executor's A/c	1,77,400	By Shiv's Capital A/c	38,400
		By Vinod's Capital A/c	19,200
	2,12,400		2,12,400

(i) **Calculation of Ashok's Share of Goodwill**

5 Years total Profit = Rs. 3,60,000 Average profit = $\frac{3,60,000}{5}$ = Rs. 72,000

Goodwill = Average Profit X Number of Years Purchase = 72,000 X 2 = Rs. 1,44,000

Ashok's share of goodwill = 1,44,000 X $\frac{2}{5}$ = Rs. 57,600, to be contributed by Shiv and Vinod in their gaining ratio i.e 2:1

(ii) **Calculation of Ashok's Share of Profit**

Ashok's share of Profit (Dr.) -70,000 $\times \frac{2}{5} \times \frac{3}{12}$= Rs. 7,000

Question 17

Ramesh, Suresh and Dinesh were partners in a firm sharing profits in the ratio of 3:3:4. Their capitals were Rs. 5,00,000; Rs. 4,00,000 and Rs. 5,00,000 respectively. The firm closes its books on 31st March every year. On 31st March, 2006, Ramesh died. The executor of the deceased partners according to the agreement was entitled for the following:

(i) Interest on capital from the first day of the accounting year till the date of his death @ 9% per annum. Prepare Ashok's capital account at the time of his death to be presented to his executors.

(ii) His share of goodwill — The goodwill of the firm on Ramesh's death was valued at Rs. 1,80,000.

(iii) His share of profits — The profit of the firm for the year ended 31 st March, 2006 was Rs. 1,20,000. Ramesh's executor was paid the sum due in two annual instalments with interest @ 10% per annum. Prepare Ramesh's capital account as on 31st March, 2006 to be presented to his executor

Solution:

Particulars	Amt	Particulars	Amt
To Ramesh's Executor Loan A/c	6,35,000	By Balance b/d	5,00,000
		By Interest on Capital A/c (WNii)	45,000
		By Suresh's Capital A/c (WNii)	23,143
		By Dinesh's Capital A/c (WNii)	30,857
		By Profit and Loss Suspense A/c (WNii)	36,000
	6,35,000		6,35,000

Ramesh's Executor's Loan Account

Date	Particulars	Amt	Date	Particulars	Amt
2006 Mar 31	To Balance c/d	6,35,000	2006 Mar 31	By Ramesh's Capital A/c	6,35,000
		6,35,000			6,35,000
2007 Mar 31	To Bank A/c (3,17,500 + 63,500) (WNii)	3,81,000	2006 Apr 1	By Balance b/d	6,35,000
	To Balance c/d	3,17,500	2007 Mar 31	By Interest A/c	63,500
		6,98,500			6,98,500
Mar 31	To Bank A/c	3,49,250	2007		

	(3,17,500+31,750)		Apr 1 2008 Mar 31	By Balance b/d By Interest A/c	3,17,500 31,750
		3,49,250			3,49,250

Question 18

Babul and Vinay were partners. The partnership deed provided for

(i) Profits to be divided as Babul 1/2, Vinay 1/3 and l/6th to be transferred to reserves.

(ii) The accounts are closed on 31st March each year.

(iii) In the event of the death of a partner, the executors will be entitled to the following

(a) Capital to be credited on the date of the death.

(b) Interest on capital at 12% per annum.

(c) Proportion of profits to the date of death based on the average profits credited for the last 3 years.

(d) Share of goodwill based on three years' purchase of the average profits of the preceding 3 years.

The following information is provided to you Babul's capital Rs. 90,000; Vinay's capital Rs. 60,000; reserves Rs. 30,000; cash Rs. 1,10,000; investment Rs. 70,000.

Prepare Vinay's account to be presented to his executor, as he died on 30th April, 2007. The profits for the three preceding years were Rs. 48,000, Rs. 42,000 and Rs. 45,000.

Solution:

Particulars	Amt	Particulars	Amt
To Vinay's Executor's A/c	1,28,100	By Balance b/d	60,000

		By Interest on Capital A/c (WN i)	600
		By Profit and Loss Suspense A/c (WN ii)	1,500
		By Babul's Capital A/c (WN iii)	54,000
		By Reserve (30,000 X 2/5)	12,000
	1,28,100		1,28,100

Working Notes:

(i) Calculation of Interest on Vinay's Capital

Interest on Vinay's capital = $60,000 \times \frac{2}{5} \times \frac{1}{12}$ = Rs. 600

(ii) Calculation of Vinay's Share of Profit

Last 3 years total Profit = 48,000 + 42,000 + 45,000 = Rs. 1,35,000

Average Profit = $\frac{1,35,000}{3}$ = Rs. 45,000

Vinay's share of profit = $45,000 \times \frac{2}{5} \times \frac{1}{12}$ = Rs. 1,500

(iii) Calculation of Vinay's Share of goodwill

Firm's Goodwill = Average Profit X Number of Years Purchase

= 45,000 X 3 = Rs. 1,35,000

Vinay's share of goodwill = 1,35,000 zx 2/5 = Rs. 54,000, to be contributed by Babul

Question 19

G, E and F were partners in a firm sharing profits in the ratio of 7 :2: 1. The balance sheet of the firm as on 31st March, 2011 was as follows:

E died on 24th August, 2011. Partnership deed provides for the settlement of claims on the death of a partner in addition to his capital as under.

(i) The share of profit of deceased partner to be computed up to the date of death 'on the basis of average profits of the past three years which was? 80,000.

(ii) His share in profit/loss on revaluation of assets and re-assessment of liabilities which were as follows Land and building were revalued at Rs. 94,000. Machinery at Rs. 38,000 and stock at Rs. 5,000. A provision of 2.5% was to be created on debtors for doubtful debts.

(iii) The net amount payable to E's executors was transferred to his loan account, to be paid later on. Prepare revaluation account, partners' capital account, E's executor account and balance sheet of 'G' and 'F' who decided to continue the business keeping their capital balances in their new profit-sharing ratio. Any surplus or deficit to be transferred to current account of the partners.

Solution:

Revaluation Account

Particulars	Amt	Particulars	Amt
To Machinery A/c	2,000	By Land and building A/c	34,000
To Stock A/c	2,000		
To Provision for Doubtful Debts A/c	300		
To Profit transferred to			
G's Capital A/c 20,790			
E's Capital A/c 5,940			
F's Capital A/c 2,970	29,700		
	34,000		34,000

Partner's Capital Account

Particulars	X	Y	Z	Particulars	X	Y	Z
To Goodwill A/c	28,000	8,000	4,000	By Balance b/d	70,000	20,000	10,000
To E's Executor's A/c	-	28,340	-	By general Reserve A/c	14,000	4,000	2,000
To Balance c/d	76,790	-	10,970	By Revaluation A/c (Profit)	20,790	5,940	2,970
				By Profit and Loss Suspense A/c (Profit)	-	6,400	-
	1,04,790	36,340	14,970		1,04,790	36,340	14,970

Balance Sheet

As at 31st March, 2011

Liabilities	Amt	Assets	Amt
Capital A/Cs		Land and Building	94,000
G 76,790		Machinery	38,000
F 10,970	87,790	Stock	5,000
Creditors	14,000	Debtors 12,000	
E's Executor's Loan A/c	58,340	(-) Provision for (300) Doubtful Debts	11,700
		Stock	5,000
		By Profit & Loss suspense A/c	6,400
	1,60,100		1,60,100

Past Examination Questions

May 2019

Question 1

Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally. Zoya died on 30th June 2018. The Balance Sheet of Firm as at 31st March 2018 stood as.

Liabilities	Amt	Assets	Amt
Creditors	20,000	Land and Building	1,50,000
General Reserve	12,000	Investments	65,000
Capital Accounts:		Stock in trade	15,000
Monika	1,00,000	Trade receivable 35,000 Less: Provision for doubtful debt 2,000	33000
Yedhant	75,000	Cash in hand	7,000
Zoya	75,000	Cash at bank	7,000
	2,82,000		2,82,000

In order to arrive at the balance due to Zaya, it was mutually agreed that:

1. **Land and Building be valued at 1,75,000**
2. **Debtors were all good, no provision is required.**
3. **Stock is valued at rs.13,500. Goodwill will be valued at one Year's purchase of the average profit of the past five years." Zoya's share of goodwill be adjusted in the account of Monika and Yedhant.**
4. **Zoya's share of profit from 1st April 2018, to the date of death he calculated on the basis of average profit of preceding three years.**

The profit of the preceding five years ended 31st March were:

2018 2017 2016 2015 2014

25,000 20,000 22,500 35,000 28,750

You are required to prepare:

- **Revaluation account**
- **Capital accounts of the partner and**
- **Balance sheet of the Firm as at 1st July 2018.**

Solution:

Revaluation A/c

Particulars	Rs.	Particulars	Rs.
Stock	1,500	Lands Building	25,000
Profits transferred		Profit's on for Doubtful Debts	2,000
Monika's capital A/c 8,500			
Yedant's capital A/c 8,500			
Zoya's capital A/c 8,500	25,500		
	27,000		27,000

Partners Capital account

Particulars	Monika	Yedhant	Zoya	Particulars	Monika	Yedhant	Zoya
Zoya's Capital	4,375	4,375	98,125	Balance b/d	1,00,000	75,000	75,000
Zoya's A/c balance c/d	1,08,125	83,125		General Reserve	4,000	4,000	4,000
				Revaluation	8,500	8,500	8,500
				Monika's			8,750
				Yedant's A/c			8,750
				Profit and Loss Suspense			1875
	1,12,500	87,500	98,125		1,12,500	87,500	98,125

Profit & Loss Adjustment = [(25,000 + 20,000 + 22500/3) × 3/12 × 1/3 = 1875

Balance Sheet of Firms as on 1.7.2018

Particulars	₹	Particulars	₹
Monika	1,08,125	Land & building	1,75,000

Yedhant	83,125	Investment	65,000
Zoya Executors	98,125	Stock	13,500
Creditors	20,000	Trade receivable	35,000
		Profit & Loss Adjustment	1,875
		Cash in hand	7,000
		Cash at bank	12,000
	3,09,375		3,09,375

Calculation of goodwill and Zoy's share

Average of last five year's profit and losses for the ended on 31th March

31.3.2014	28,750
31.4.2015	35,000
31.3.2016	22,500
31.3.2017	20,000
31.3.2018	25,000
Total	1,31,250
Average profit	26,250

Goodwill at 1 year purchase = ₹26,250 × 1 = ₹26,250

Zoya's Share of Goodwill = ₹26,250 × 1/3

= ₹8,750

Which is contributed by Monika and Yedhant in their gaining Ratio

Monika = ₹8,750 × ½ = ₹4375

Yedhant = ₹8,750 × ½ = ₹4375

DEC 2020

Question 2

M/s TB is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3: 2: 5: The balance sheet of the firm as on 30th June was as under:

Balance Sheet of M/s TB as on 30-6-2020

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)

A`s Capital A/c	1,24,000	Land	1,20,000
B`s Capital A/c	96,000	Building	2,20,000
C`s Capital A/c	1,60,000	Plant & Machinery	4,00,000
Long Term Loan	4,20,000	Investment	42,000
Bank Overdraft	64,000	Inventories	1,36,000
Trade Payable	2,13,000	Trade Receivable	1,59,000
	10,77,000		10,77,000

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July 2020 For this purpose, following adjustment are to be made:

a) **Goodwill of the firm is to value at Rs. 3 Lakh due to the firm`s location advantage but the same will not appear as an asset in the books of the reconstituted firm**
b) **Building and Plant & Machinery are to be valued at 95% and 80% of the respective balance sheet value. Investment is to be taken over by the retiring partner at Rs. 46,000. Trade receivables are considered good only up to 85% of the balance sheet figure balance to be considered bad.**
c) **In the reconstituted firms the total capital will be Rs. 4 Lakhs, which will be contributed by A, C and D in their new profits sharing ratio, which is 3: 4: 3**
d) **The amount due to retiring partner shall be transferred to his loan account**

You are required to prepare Revolution Account and Partners' Capital Account after reconstitution, along with working notes

Solution:

In the books of partnership firms S

Revolution a/c

Particulars	Amt Rs.	Particular	Amt Rs
To Building	11000	by Investment	4000
To plant & machinery	80,000	by partner capital	110850
To Bed debts	23850	A- 33255 B- 22170 C- 55425	
	114850		114850

Partner`s capital A/C

Particular	(A)	(B)	(C)	(D)	Parti cular	(A)	(B)	(C)	(D)
To Revaluation (loss)	33255	22170	55425	-	By bal. b/d	124000	96000	160000	-
To B cap.	-	-	-	60000	By D Cap.	-	60000	30000	-
To c Cap.	-	-	-	30000					
To invt	-	46000	-	-	By Bank (B/f)	29255	-	25425	210000
To B" Loan (b/f)	-	87830		-					
To bal. c/d.	120000	-	160000	120000			156000		
	153255	156000	215425	210000		153255		215425	210000

Working

1} Calculation of gain /sacrifice

Old Ratio of A: B: C = 3: 2: 5

New Ratio of A: B: C = 3:4: 3

Gain = New - old

$$A = \frac{3}{10} - \frac{3}{10} = 0$$

B $= 0 - \frac{2}{10} = -\frac{2}{10}$ (sacrifice)

C $= \frac{4}{10} - = \frac{-5}{10} = \frac{4-5}{10} = \frac{-1}{10}$ (sacrifice)

D $= \frac{3}{10} - 0 = \frac{3}{10}$ (gain)

Goodwill Entry

(300000 × 3/10) D Capital A/C Dr. 90000
(300000 × 2/10) To b capital 60000
(300000 ×1/10) To c capital 30000
2} Closing Capital of the firm Rs.400000
A. Capital = 400000 × 3/10 = 120000
C. capital = 400000× 4/10 = 160000
D. Capital = 400000 ×3/10 = 120000

JAN 2021

Question 3
Floating Charges
Answer:
Floting Charge: A general charge on some of all assets of an enterprise which are not attached to specific assets and are given as security against a debt.

Question 4
The partnership deed of a firm consisting of 3 partners –P, Q and R (Profit sharing ratio being 2:1:1) and whose fixed capital are Rs. 30,000 Rs. 12,000 and Rs. 8,000 respectively provides as follows.

I. **The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on be allowed on undrawn profits or charged on drawing**
II. **That upon the date of a partner the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on**

capital) for the three years to 31st December preceding the date of a partner.

III. That an insurance policy of Rs 25,000 each was taken in individual names of each partner. The premium was charge against the profits of the firms. The surrender value of the policy was 20% of the sum assured

IV. Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals etc. calculated Up to 31st December following his death

V. That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death

VI. That the partnership book to be closed annually on 31st December

P died on 30th September, 2020 the amount standing to the credit to his current account as on 31st December. 2019 was Rs. 5,000 and from that date to the date of death he had withdrawn Rs. 30,000 from the business an unrecorded liability of Rs. 6000 was discovered on 30th September 2020 and it was decided to record it and immediately pay it off.

The trading result of the firm (before charging interest on capital) had been as follows:

2017 :	Profit Rs. 29,340
2018 :	Profit Rs. 26,470
2019 :	Loss Rs. 8,320
2020 :	Profit Rs. 13,470

You are required to prepare an account showing amount due to P`s legal heir as on 31st December, 2020

Note: Impact unrecorded liability not to be given in earlier years.

Solution:

P's Capital A/c

Dr. Cr.

Date	Particulars	J	Amou	Date	Particulars	J	Amoun

		F	nt Rs.			F	t Rs.
2020				2020			
Sep 30	To Current A/c (30,000 – 5,000)		25,000	Jan 1	By Balance b/d		30,000
Dec 31	To Profit and Loss Adj. (Unrecorded Liability)		3,000	Dec 31	By Profit and Loss, A/c: By Interest on capital A/c (30,000 × 8%)		2,400
Dec 31	To Balance Transferred to P's Executor's A/c		38,465	Dec 31	Share of Profit		4,735
					By Q & R (Goodwill) (W.N.1)		11,830
					By life Insurance policy A/c (W.N.2)		17,500
			66,465				**66,465**

Working Notes 1: Calculation of Goodwill.

Calculation of Interest on capitals:

Year	Profits before Interest on capital Rs.	Interest on capital of partners Rs.	Profits after Interest on capital Rs.
2017	Profit 29,340	4,000	Profit 25,340
2018	Profit 26,470	4,000	Profit 22,470
2019	Loss 8,320	4,000	Loss 12,320
Total	47,490	12,000	35,490

Average profits = Rs. 35,490 / 3 = Rs. 11,830
Firm's Goodwill = 2 years purchase of profits after interest on capital
= Rs. 11,830 × 2 years = Rs. 23,660
P's share of goodwill = Rs. 23,660 × 2/4 = Rs. 11,830

Working note 2: Calculations of P'S share in joint life policy

Particulars	Amount Rs.
P's Policy value	25,000
Surrender value of Q and R policies = (Rs. 25,00 + Rs. 25,000) X 20%	10,000
Total joint Life policy realized amount	35,000

P's share in joint life policy = Rs. 9,740 × 2/4 = Rs. 4,735	17500

Working note 3: Calculation of P's share of profit during the year 2020

2020 Profit of the year before interest on capital	13,470
(-) Partners Interest on capital	(4,000)
Profit of the year after interest on capital	9,470
P's share of profits Rs. 9,740 × 2/4 = Rs. 4,735	4,375

Working note 4: Calculations of P's shares of profits/loss on revaluations

Entry:
Revaluation A/c Dr. 6,000
To Liability A/c 6,000
i.e., Revaluation account shows a loss of Rs. 6,000

P's share in loss of revaluation = Rs. 6000 × 2/4 = Rs. 3,000

Question 5

Discus the rules if there is no partnership Agreement.

Solution:

If there is no Partnership Deed or, if there is one, it may be silent on a particular point in that case the relevant sections of the Partnership Act will apply as given below.

Items Absent in The Partnership Deed	Rule Applicable as Per the Partnership Act
1. Sharing of profits & Losses	Profits & Losses are to be shared equally.
2. Interest on capital	No interest is to be allowed on capital
3. Interest on Drawings	No interest is to be charged on Drawings
4. Interest on Advance/loans taken from a partner	interest @ 6% p.a. is to be allowed on Advances / Loans
5. Remuneration to a partner (Salary or commission etc.)	No remuneration is to be allowed to nay partner for taking part in the conduct of business.

Note: Unless otherwise stated, interest on partners capital and remuneration to partners are allowed only if the partnership firm earns profit.

JULY 2021

Question 6

State with reason, whether the following statements are true or false:

Business of partnership comes to an end on death of a partner

Answer:

False: Business of partnership will not come to an end on death of a partner. Surviving partners continue to carry on the business.

Question 7

Attempt any one of the following two sub-parts i.e. either (i) or (ii):

1. **Rama, Krishna and Raghu shared profits and losses in the ration of 5: 3: 2. They took out a Joint Life Policy in 2017 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:**
   2017 - Nil
   2018 - ₹ 900
   2019 - ₹ 2,000
   2020 - ₹ 3,600

Rama retired on 15th April, 2020 and the policy was surrendered. You are required to prepare Joint Life Policy Account from 2017 to 2021 (assuming the Policy Account is maintained at surrendered value basis).

Answer:

Joint Life is Policy is maintained on Surrender value basis

Books of Rama, Krishna and Raghu

Dr. Joint Life Policy Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
10.6.2017	To Bank A/c	3,000	31.12.2017	By Profit & Loss A/c	3,000
		3,000			3,000
10.6.2018	To Bank A/c	3,000	31.12.2018	By Profit & Loss A/c	2,100
				By Balance c/d	900
		3,000			3,000
01.01.2019	To Balance b/d	900	31.12.2019	By Profit & Loss A/c	1,900

10.6.2019	To Bank A/c	3000		By Balance c/d	2,000
		3,900			3,900
01.01.2020	To Balanced b/d	2,000	31.12.2020	By Profit & Loss A/c	1,400
10.6.2020	To Bank A/c	3,000		By Balance c/d	3,600
		5,000			5,000
01.01.2021	To Balanced b/d	3,600	15.04.2021	By Bank	3,600
		3,600			3,600

Question 8

It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:

1. **Goodwill is to he valued at 3 year's purchase of simple average profits of last 4 completed years**
2. **Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly instalments commencing 6 months after death plus interest @ 5% p.a. on the outstanding dues.**

They shared profit and loss in the ratio 9: 4: 3.

Ram died on 30th September 2020 and Partner's Capital account balances on that were: Ram - ₹ 21,600, Laxman - ₹ 12,800 and Bharat - ₹ 7,200.

Ram's current account on 30th September, 2020 after crediting his share of profit to that date, however showed a debit balance of ₹ 1,920.

Firm profits were for the year ended

- 31st March, 2017	- ₹ 70,400
- 31st March, 2018	- ₹ 56,320
- 31st March, 2019	- ₹ 48,160
- 31st March, 2020	- ₹ 17,408

Show Ram's Capital Account and Executor's Account (of Ram) till full payment is made to Ram's Executor.

Answer:

Calculation of Goodwill:

Simple average Profit = $\frac{70,400+56,320+48,160+17,408}{4} = \frac{1,92,288}{4} = 48,072$

Goodwill = 48,072 × 3 = 1,44,216

Ram's Share = $1,44,216 \times \frac{9}{16}$ = 81,122

Dr. **Ram's Current A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	1,920	By Laxman and Bharat Capitals (Goodwill)	81,122
To Ram's Capital A/c	79,202		
	81,122		81,122

Dr. **Ram's Current A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
		By Balance b/d	21,600
		By Ram's Current A/c	79,202
To Ram's Executors (Transferred)	1,00,802		
	1,00,802		1,00,802

Dr. **Ram's Executors A/c** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2021 Mar 31	To Bank A/c (25,200 + 2,520)	27,720	2020 Sep 30	By Ram's Capital A/c	1,00,802
	To Balance b/d	75,602	2021 Mar 31	By Interest A/c (1,00,802 × 5/100×6/12)	2,520
		1,03,322			1,03,322
2021 Sep 30	To Bank A/c (25,200 + 1,260)	27,090	2021 Apr 01	By balance b/d	75,602
2022 Mar 31	To Bank A/c (25,200 + 1,260)	26,460	Sep 30	By Interest A/c (75,602 × 5% × 6/12)	1,890

	To Balance c/d	25,020	2022 Mar 31	By Interest A/c (75,602 + 1,890- 27,090× 5%× 6/12)	1,260
		78,752			78,752
2022 Sep 30	To Bank A/c	25.,832	2022 Apr 1	By Balance b/d	25,202
			Sep 30	By Interest A/c (25,202 × 5%× 6/12)	630
		25,832			25,832