

PRACTICAL PROBLEMS

- # Journal

(Goodwill credited to Manisha's capital and debited to continuing partners' capitals in the gaining ratio) (3)

- BALANCE SHEET as at 31.12.2007

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

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

- ii) Motor Car is to be decreased by 5%.
- iii) Stock is to be revalued at Rs.17, 500.

- iv) Goodwill is valued at' 2 ½ years purchase of the average profits of last 3 years.

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

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

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

Ans.2 SOLUTION

1.

REVALUATION ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Motor Cars A/C	900	By Loss transferred to	
To Stock A/C	2,500	A's Capital A/c	Rs.1,600
		B's Capital A/c	Rs.800
		C's Capital A/c	1,000
			3400
	3,400		3,400

2.

PARTNERS CAPITAL ACCOUNT

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

3.

4.

BALANCE SHEET OF A AND B

Liabilities	Rs.	Assets	Rs.
Sundry creditors	1,23,000	Building	20,000
Bank Loan	35,500	Motor Card	17,100
Capital A	36,466	Stock	17,500
B <u>28,234</u>	64,700	Investment	1,20,000

Debtors	36,600	
	Patents	12,000
	2,23,200	2,23,200

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

5. BALANCE SHEET AS AT 31.12.07

Liabilities	Rs.	Assets	Rs.
A	Rs. 30,000	Goodwill	18,000
B	Rs. 30,000	Cash	38,000
C	<u>Rs. 25,000</u>	Debtors	43,000
Bills payable	20,000	Less: Bad Debt provision	<u>3,000</u>
Creditors	18,000	Bills Receivable	25,000
Workers Compensation Fund	8,000	Land and Building	60,000
Employees provide4nt Fund	60,000	Plant and Machinery	40,000
General Reserve	30,000		
	2,21,000		2,21,000

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

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

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

iii) To appreciate Land by 15%.

iv) To decrease Plant and Machinery by 10%.

v) Create provision of Rs.;600 on Creditors.

- vi) A sum of Rs.5,000 of Bills Payable was not likely to be claimed.
- vii) The continuing partners decided to show the firm's capital at 1,00,000 which would be in their new profit sharing ratio which is 2:3. Adjustments to be made in cash

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

Ans.3

6. REVALUATION ACCOUNT

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

7. PARTNER'S CAPITAL ACCOUNTS

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

	By Balance b/d	40,000	60,000	-
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8. BALANCE SHEET

9. as at 31.12.07

Liabilities	Rs.	Assets	Rs.
Bills Payable	15,000	Debtors	43,000
Creditors	17,400	Less: Provision	<u>4,000</u>
Employees Provident Fund	60,000	Bills Receivables	25,000
C's Loan	46,116	Land & Buildings	69,000
A's Capital	40000	Plant & Machinery	36,000
B'S Capital	<u>60000</u>	Cash	69,516
	2,38,516		2,38,516

4. Himanshu, Gagan and Naman are partners sharing profits and losses in the ratio of 3:2:1 on March 31, 2007, Naman retires

The various assets and liabilities of the firm on the date were as follows:

Cash Rs. 10,000, Building Rs. 1,00,000, Plant and Machinery Rs. 40,000, Stock Rs. 20,000, Debtors Rs. 20,000 and Investments Rs. 30,000.

The following was agreed upon between the partners on Naman's retirement:

- Building to be appreciated by 20%.
- Plant and Machinery to be depreciated by 10%.
- A provision of 5% on debtors to be created for bad and doubtful debts.
- Stock was to be valued at Rs.18,000 and Investment at Rs. 35,000.

Record the necessary Journal entries to the above effect and prepare the revaluation account.

(Ans. Revaluation A/c = Rs. 18,000)

The terms were:

- Goodwill of the firm was valued at Rs. 13,000.
- Expenses owing to be brought down to Rs. 3,750.
- Machinery and Loose Tools are to be valued at 10% less than their book value.

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

Prepare :

1. Revaluation account.
2. Partner's capital accounts and
3. Balance Sheet of the firm after retirement of Sheela.

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

Balance sheet as on March 31st 2013

Liabilities	Amount	Assets	Amount
General Reserve	12,000	Bank	7,600
Sundry Creditors	15,000	Debtors 6,000	
Bills Payable	12,000	Less: Provision for D.debts 4,00	5,600
Outstanding Salary	2,200	Stock	9,000
Provision for legal damages	6,000	Furniture	41,000
Capitals		Premises	80,000
Pankaj 46,000			
Naresh 30,000			
Saurabh 20,000	96,000		
	1,43,200		1,43,200

Additional Information:

- (i) Premises have appreciated by 20% ,Stock depreciated by 10% and provision for doubtful debts was to be made 5% on debtors. Further, provision for legal damages is to be made for Rs. 1,200 and furniture to be brought up to Rs. 45,000.
- (ii) Goodwill of the firm be valued at RS. 42,000.

- (iii) Rs.26,000 from Naresh's Capital Account be transferred to his loan account and balance be paid through bank; if required, necessary loan may be obtained from bank.
- (iv) New profit sharing ratio of Pankaj and Saurabh is decided to be 5:1.

Give the necessary ledger accounts and Balance Sheet of the firm after Naresh's retirement.

(Ans. Revaluation A/c – Rs. 18,000; Balance Sheet – 1,54,000)

6. Find out missing figures of the following financial statements of Partnership firm.
(Chapter-5-Retirement/Death of a Partner)

Revaluation Account			
Particulars	AmountRs. s.	Particulars	AmountRs. .
To Provision for Doubtful Debts A/c	10,000	By Computer Account	24,000
To warranty Claim A/c	(a)	By Land and Building	1,00,000
To Provision for outstanding Repairs A/c	30,000		
To Profit transferred to :			
A's Capital A/c (b)			
B's Capital A/c (c)			
C's Capital A/c (d)	(e)		
	1,24,000		1,24,000

Partners' Capital Accounts							
Particulars	A	B	C	Particulars	A	B	C
To B's Capital (i)	(i)	Nil	(j)	By Balance B/d (f)	(f)	(g)	(h)
(Goodwill)				By capital a/cs:			
To Bank	Nil	1,00,000	Nil	A		90,000	
To B's Loan A/c	Nil	6,40,000	Nil	C		30,000	
To Bal C/d	8,40,000	Nil	2,80,000	By Revaluation A/c	30,000	20,000	10,000
					9,30,000	7,40,000	3,10,000

Balance Sheet after retirement			
Liabilities	AmountRs. Rs.	Assets	AmountRs. s.
Creditors	2,16,000	Cash at Bank	56,000

Provision for outstanding repairs	(m)	Debtors	2,00,000
Warranty claim	24,000	Less: Provision for Bad Debts	(l)
B's Loan	6,40,000	(k)	
Capital A/cs		Stock	1,80,000
A	8,40,000	Computer	24,000
C	2,80,000	Machinery	4,80,000
	11,20,000	Land and Building	
		10,00,000	
		Less : Appreciation	11,00,000
		1,00,000	
	20,30,000		20,30,000

Ans. (a) 24,000 (b)30,000 (c)20,000 (d)10,000 (e)60,000 (f)9,00,000 (g)6,00,000
(h)3,00,000 (i)90,000(j)30,000(k) 10,000(l)1,90,000(m)30,000.

DEATH OF A PARTNER

1. A,B and C were partners in a firm. C died on 28th Feb 2014. His share of profit from the closure of the last accounting year till the date of death was to be calculated on the basis of the average profit of three complete years before death, profit for 2011 2012 and 2013 were Rs. 1400 and Rs. 1600 and Rs. 1800 respectively.

Calculate C's share of profit till his death.

Ans:- Average profit = $14,000 + 16,000 + 18,000$

3

$$= 48,000 / 3 = 16000$$

Estimate profit till the date of death = $16,000 \times \frac{2}{12} = 2666.66$

C's share of estimated profit = $2666.66 \times \frac{1}{3} = 888.8$

2. If profit till the date of death are to be ascertained A B and sharing profit in the ratio of 2:2:1

B died on 31st March 2014, Accounting are closing on December sales for the year 2013 amounted to Rs. 9,00,000 , sales of Rs. 3,00,000 amounted between the period from 1 Jan 2014 to 31 March 2014. The profit for the year 2013 amounted to Rs. 90,000.

Calculate deceased partner's share in the Profit of the firm.

Solution:- % of profit to sale for the year 2013 = $\frac{3,00,000}{9,00,000} \times 100 = 33.33\%$

Profit up to death 33.33% of 3,00,000 i.e. 1,00,000

B's share $1,00,000 \times \frac{2}{5} = 40,000$

Or

$$\text{X } 3,00,000 = 30,000$$

1 mark question

3. A B and C are partners sharing profit and losses in the ratio 2:2:1 . C died on 31st March 2014 profit and sales for the calendar year 2013 were Rs. 3,00,000 and Rs. 30,00,000 respectively. Sales during Jan to March 2014 were 4,50,000. Calculate share and profit of C up to date of death.
Hint:- C's share 9,000.
4. D P and G were partner in a firm sharing profit and losses in the ratio of 5:3:2 . P died on 31May 2013 his share of profit from the closure of the last accounting year to the date of death , was to be calculated on the basis of the average of three completed years of profit, before death, profit for the years ended 31stdec 2010,2011,2012 were Rs. 51,000 Rs. 45,000 and 39,000 respectively.
Calculate P's share of profit.
Hint:- Rs. 5,625

(4 Or 3Marks)

5. P R and S are in partnership sharing profit 4:3:1, respectively. It provided in the partnership deed that on the death of any partner his share of goodwill is to be valued at (one third) of the net profit credit to the account during the last four completed years. R died on 1st Jan 2014.The firm profit for the four years were as:-
2010 Rs. 2, 40,000 2014 Rs. 1, 60,000 2012 Rs. 80,000 2013 Rs. 1, 20,000.
(a) Determine the amount that should be Credited to R in respective of his share of goodwill
(b) Pass Journal entry without goodwill A/C for its adjustment.
6. A, B and C are partners sharing profits and losses in the ratio of 5:4:1. The profit for the year ending 31, March, 2010 was Rs. 1, 00,000. B died on 30th June 2010. Calculate C's share of profit till the date of death and pass necessary journal entry.

Profit and Loss suspense a/c – Dr	10,000	
B's Capital Account		10,000
(Being B's share of profit transferred to his capital account)		

$$\text{C's share of profit} = 1, 00,000 \times \frac{4}{10} \times \frac{3}{12} = 10,000$$

7. X, Y and Z are partners in a firm sharing profits and losses in the ratio of 5:4:1. The Partnership agreement provides that the share of profit of the deceased partner will be worked out on the basis of sales. The sales for the year 2009-10 was Rs. 8,00,000 and the sales from April 1, 2010 to June 30, 2010 was Rs. 1,50,000. The profit for the year ended 31st March 2010 amounted to Rs. 1,00,000. Y died on 30th June 2010. Calculate his share of profit and pass necessary journal entry.

Profit and Loss suspense a/c – Dr	7500	
Y's Capital Account		7500
(Being Y's share of profit transferred to his capital account)		

Sales for the year 2009-10 Rs. 8, 00,000 Profit for the year 2009-10 Rs. 1,00,000

Sales from April 1, 2010 to 30th June 2010 Rs. 1,50,000 Profit upto 30th June 2010 = ?

C's share of profit = $1,00,000 / 8,00,000 \times 1,50,000 = 18750 \times 4/10 = \text{Rs. } 7500$.

8. Ram, Mohan and Sohan were partners sharing profits and losses in the ratio of 5:3:2. On 31st March, 2006 their Balance Sheet was as under:

Liabilities	Amount Rs.	Assets	Amount Rs.
Capitals		Leasehold	1,25,000
Ram	1,50,000	Patents	30,000
Mohan	1,25,000	Machinery	1,50,000
Sohan	75,000	Stock	1,90,000
Workmen's Compensation Reserve	30,000	Cash at Bank	40,000
Creditors	1,55,000		
	5,35,000		5,35,000

Sohan died on 1st August, 2006. It was agreed that :

- Goodwill of the firm is to be valued at Rs. 1,75,000.
- Machinery be valued at Rs. 1,40,000; Patents at Rs. 40,000; Leasehold at Rs. 1,50,000 on this date.
- For the purpose of calculating Sohan's share in the profits of 2006-07, the profits should be taken to have accrued on the same scale as in 2005-06, which were Rs. 75,000.

Prepare Sohan's Capital Account and Revaluation Account.

(6)

Revaluation Account

Particulars	AmtRs.	Particulars	AmtRs.
Machinery	10,000	Leasehold	25000
Capital Accounts		Patents	10,000
Ram	12500		
Mohan	7500		
Sohan	5000		
	35000		35000

Sohan's capital Account

Particulars	Rs.	Particulars	Rs.
		By Balance b/d	75000
To Sohan's Executor's account	1,26,000	By Revaluation a/c	5000
		By Ram's Capital a/c	21875
		By Mohan's capital a/c	13125
		By P & L Suspense A/c	13125
		By Workmen's Compensation a/c	6000
	1,26,000		1,26,000

Working Note :

a) Total Goodwill of the firm = 1,75,000

Sohan's share of goodwill = $1,75,000 \times \frac{2}{10} = 35000$ (to be divided in the ratio of 5:3 i.e gaining ratio)

b) Sohan's share of profit = $75000 \times \frac{4}{12} \times \frac{2}{10} = \text{Rs. } 5000$

9. Following is the Balance sheet of P , Q and R as on 31st December 2010 sharing profits in the ratio of 5:3:2.

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Cash	13000
P	30000	Debtors	8000
Q	25000	Machinery	30000
R	15000	Stock	10000
Creditors	7000	Patents	6000
Reserve Fund	10000	Building	20000
	87000		87000

P died on 1st July 2011 on the following terms-

- i) Patents are to be valued at Rs. 8000, Machinery at Rs. 28000 and Building at Rs. 30,000.
- ii) Interest on Capital is to be provided at 10% p.a.
- iii) Goodwill of the firm is valued at 2 years purchase of the average profits of the last five years which were-

2006 Rs. 15,000 2007 – Rs. 13000 2008 – Rs. 12,000
 2009 15,000 and 2010 -Rs. 20,000

- iv) Profit for the year 2011 has been accrued on the same scale as in 2010.
- v) P's Executor is to be paid Rs. 11,500 and balance transferred to his loan account.

Prepare Revaluation Account, P's Capital account and P's executors account. Also pass necessary journal entries.

Revaluation Account

Particulars	Rs.	Particulars	Rs.
Machinery	2000	Patents	2000
Capital Accounts-		Buildings	10000
P	5000		
Q	3000		
R	2000		
	12000		12000

P's Capital Account

Particulars	Rs.	Particulars	Rs.
To P's Executors a/c	61500	By Balance b/d	30000
		By Reserve fund	5000
		By Q's Capital a/c	9000
		By R's Capital a/c	6000
		By Revaluation a/c	5000
		By Interest on capital	1500
	61500		61500

P's Executor's account

Particulars	Rs.	Particulars	Rs.
To Bank/cash a/c	11500	By P's Capital a/c	61500
To P's Executor's Loan a/c	50000		
	61500		61500

Working Note :

- a) Interest on Capital : $30,000 \times 10/100 \times 6/12 = \text{Rs. } 1500$
- b) Reserve fund = $10,000 \times 5/10 = \text{Rs. } 5000$
- c) P's Share of profits = $20,000 \times 5/10 \times 6/12 = \text{Rs. } 5000$.(for 6 months)
- d) Total Goodwill of the firm =

Average profits = $75000/5 = \text{Rs. } 15000$

Goodwill = $15000 \times 2 = 30,000$

P's share of Goodwill = $30,000 \times 5/10 = 15000$ (to be divided in Gaining ratio 3:2)

Journal

SN	Particulars	LF	AmtRs.	AmtRs.
1	Revaluation a/c ----Dr To Machinery a/c (Being machinery revalued)		2000	2000
2	Patents a/c --Dr Building a/c - Dr To Revaluation a/c (Being Assets revalued)		2000 10000	12000
3	Revaluation a/c --- Dr To P's Capital a/c To Q's Capital a/c To R's Capital a/c (Being Revaluation profit distributed)		10000	5000 3000 2000
4	Reserve fund a/c --Dr To P's Capital a/c (Being reserve distributed)		5000	5000
5	Q's Capital a/c ---Dr R's Capital a/c ---Dr To P's capital a/c (Being deceased partner 's account credited by his share of goodwill)		9000 6000	15000

	contributed by the gaining partners)			
6	Interest on capital a/c – Dr To P's Capital a/c (Being Interest on capital provided to the deceased partner)		1500	1500
7	P's Capital a/c ---Dr To P's executor's a/c (Being P's balance due transferred to his executor's a/c)		61500	61500
8	P's executor's a/c --Dr To Cash a/c To P's executor's loan a/c (Being amount paid to the executor and balance transferred to his loan account)		61500	11500 50000

10. X, Y and Z are partners sharing profits and losses in the ratio of 2:2:1 respectively. Their Balance Sheet as on 31st march 2007 was as follows—

Balance Sheet as on 31/03/10

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	1,00,000	Cash at bank	20,000
Capital Accounts		Stock	30,000
X	60,000	Sundry Debtors	80,000
Y	1,00,000	Investments	70,000
Z	40,000	Furniture	35,000
General Reserve	50,000	Buildings	1,15,000
	3,50,000		3,50,000

Z died on 30th September 2007 and the following was provided—

- “Z” will be entitled to his share of profit upto the date of death based on last year's profit.
- Z's share of Goodwill will be calculated on the basis of 3 years purchase of average profits of last four years . The profits of the last four years was as follows—

Year I – 80,000, Year II –Rs. 50,000 Year III – Rs. 40,000 and Year IV –Rs. 30,000
- Interest on Capital was provided at 12% p.a.
- Drawings of the deceased partner upto the date of death was Rs. 10,000.
- Rs. 15,400 should be paid immediately to the executor of the deceased partner and the balance in four equal yearly installments with interest at 12% on remaining balance.

Prepare Z's capital account and Z's executors account till the account is finally closed.

Z's Capital Account

Particulars	Rs.	Particulars	Rs.
To Drawings	10,000	To Balance b/d	40,000
To Z's Executor's a/c	75,400	To General Reserve	10,000
		To Profit & Loss Suspense a/c	3,000
		To Interest on capital	2400
		To X's Capital a/c	15,000
		To Y's capital a/c	15,000
	85400		85400

Z's Executor's Account

Date	Particulars	Rs.	Date	Particulars	Rs.
30/09/07	Bank a/c	15400	30/09/07	Z's Capital a/c	75400
			31/03/08	Interest on Loan (on Rs. 60,000 @ 12% for 6 months)	3600
31/03/08	Balance c/d	63600			
		79000			79000
30/09/08	Bank a/c (15000 + 7200)	22,200	1/04/08	Balance b/d	63600
			30/09/08	Interest on Loan (On Rs. 60,000 @ 12% for 6 months)	3600
31/03/09	Balance c/d	47,700			
			31/03/09	Interest on Loan (on Rs. 45000 @ 12% for 6 months)	2700
		69900			69900
30/09/09	Bank a/c (15000 + 5400)	20,400	1/04/09	Balance b/d	47,700
			30/09/09	Interest on loan (on Rs. 45000 @ 12% for 6 months)	2700
31/03/10	Balance c/d	31800			

			31/03/10	Interest on loan (on Rs. 30,000@12% for 6 months)	1800
		52200			52200
30/09/10	Bank a/c(15000 + 3600)	18600	1/4/10	Balance b/d	31800
31/03/11	Balance c/d	15900	30/09/10	Interest on loan(on Rs. 30,000 @12% for 6 months)	1800
			31/03/11	Interest on Loan(on Rs. 15000 @12% for 6 months)	900
		34500			34500
30/09/11	Bank a/c (15000+1800)	16800	1/04/11	Balance b/d	15900
			30/09/11	Interest on loan(on Rs. 15000 @12% for 6 months)	900
		16800			