## Downloaded from www.studiestoday.com

## RETIREMENT AND DEATH OF A PARTNER

1. An existing partner may wish to withdraw from a firm for various reasons.
2. The amount due to a retiring partner will be the total of :-
a. His capital in the firm
b. His share in firm's accumulated profits and losses.
c. His share of profit or loss on revaluation of assets and liabilities
d. His share of profits till the date of retirement
e. His remuneration and interest on capital.
f. His share in firm's goodwill.
3. The ratio in which the continuing (remaining) partners have acquired the share from the outgoing partner is called gaining ratio.

GAIN RATIO = NEW RATIO - OLD RATIO
4. Share of goodwill of outgoing partner will be debited to gaining partners in their gaining ratio.
i. When goodwill already appear in the books of firm Old Partners' capital A/c Dr.

To goodwill A/c
(old profit sharing ratio)
ii. Share of retire partner in goodwill

Gaining partners' capital A/c Dr.
To Retiring partner's capital A/c
(Gain Ratio)

## Downloaded from www.studiestoday.com

5. At the retirement of a partner Profit \& Loss on Revaluation of Assets and liabilities and balances of accumulated Profits and losses will be distributed among all partners (including outgoing partner) in their old ratio.
6. The outstanding balance of outgoing partner's capital A/c may be settled by fully or partly payment and (or) transferring into his loan account.
i. When payment is made in lump sum

Retire partner capital A/c Dr.
To Cash/Bank A/c
ii. When payment is made in installment.
(a) Share of retire partner's transfer to his loan account

Retire partner's capital account Dr
To Retire partner's loan account.
(b) When interest on Loan due

Interest $\mathrm{A} / \mathrm{c}$ Dr

To Retire partner's loan A/c
(c) When Installment paid

Retire partner's loan A/c Dr.
To Cash/Bank A/c
TUTORIAL NOTE: As per the Partnership Act 1932 of Sec. 37 when agreement is not made between partners. Following two option available for settlement of amount of retire/ deceased partners.
1.When rate of interest on loan of retire partner not given than @ 6\% interest allowed till final settlement.
2. To get that portion of profit, which has been earned by the firm with the help

## Downloaded from www.studiestoday.com

of amount payable to the executors of the deceased partner.

## 1 AND 3 MARKS QUESTIONS

Q. 1 What is meant by retirement of a partner?

Ans. Retirement of a partner is one of the modes of reconstituting the firm in which old partnership comes to an end and a new partner among the continuing (remaining) partners (i.e., partners other than the outgoing partner) comes into existence.
Q. 2 'How can a partner retire from the firm?

Ans. A partner may retire from the firm;
i) In accordance with the terms of agreement; or
ii) With the consent of all other partners; or
iii) Where the partnership is at will, by giving a notice in writing to all the partners of his intention to retire.
Q. 3 What do you understand by 'Gaining Ratio?

Ans. Gaining Ratio means the ratio by which the share in profit stands increased. It is computed by deducting old ratio from the new ratio.
Q. 4 What do you understand by "Gaining Partner’?

Ans Gaining Partner is a partner whose share in profit stands increased as a result of change in partnership.
Q. 5 Give two circumstances in which gaining ratio is computed.

Ans. Gaining Ratio is computed in the following circumstances: (i) When a partner retires or dies. (ii) When there is a change in profit-sharing ratio.
Q. 6 Why is it necessary to revalue assets and reassess liabilities at the time of retirement of a partner?

## Downloaded from www.studiestoday.com

Ans. At the time of retirement or death of a partner, assets are revalued and liabilities are reassessed so that the profit or loss arising on account of such revaluation up to the date of retirement or death of a partner may be ascertained and adjusted in all partners' capital accounts in their old profit-sharing ratio.
Q. 7 Why is it necessary to distribute Reserves Accumulated, Profits and Losses at the time of retirement or death of a partner?

Ans. Reserves, accumulated profits and losses existing in the books of account as on the date of retirement or death are transferred to the Capital Accounts (or Current Accounts) of all the partners (including outgoing or deceased partner) in their old profit-sharing ratio so that the due share of an outgoing partner in reserves, accumulated profits/losses gets adjusted in his Capital or Current Account.
Q. 8 What are the adjustments required on the retirement or death of a partner?

Ans. At the time of the retirement or death of a partner, adjustments are made for the following:
(i) Adjustment in regard to goodwill.
(ii) Adjustment in regard to revaluation of assets and reassessment of liabilities.
(iii) Adjustment in regard to undistributed profits.
(iv) Adjustment in regard to the Joint Life Policy and individual policies.
Q. $9 \quad \mathrm{X}$ wants to retire from the firm. The profit on revaluation of assets on the date of retirement is Rs. 10,000 . X is of the view that it be distributed among all the partners in their profit-sharing ratio whereas Y and Z are of the view that this profit be divided between Y and Z in new profit-sharing ratio. Who is correct in this case?

## Downloaded from www.studiestoday.com

Ans. $\quad \mathrm{X}$ is correct because according to the Partnership Act a retiring partner is entitled to share the profit up to the date of his retirement. Since the profit on revaluation arises before a partner retires, he is entitled to the profit.
Q. 10 How is goodwill adjusted in the books of a firm -when a partner retires from partnership?

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

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

To Retiring/Deceased Partner's Capital A/c [With his share of goodwill] If goodwill (or Premium) account already appears in the old Balance Sheet, it should be written off by recording the following entry:

All Partners' Capital/Current A/c ...Dr.
[Old Ratio]
To Goodwill (or Premium) A/c
Q. $11 \quad \mathrm{X}, \mathrm{Y}$ and Z are partners sharing profits and losses in the ratio of $3: 2: 1$. Z retires and the following Journal entry is passed in respect of Goodwill:

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

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

## Downloaded from www.studiestoday.com

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

STATEMENT SHOWING THE REQUIRED ADJUSTMENT FOR GOODWILL

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

The new ratio between $X$ and $Y$ is $1: 2$.
Q. 12 State the ratio in which profit or loss on revaluation will be shared by the partners when a partner retires.

Ans. Profit or loss on revaluation of assets/liabilities will be shared by the partners (including the retiring partner) hi their old profit-sharing ratio.
Q. 13 How is the account of retiring partner settled?

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

Retiring Partner's Capital A/c ...Dr.
To Cash* [If paid in cash]Or
To Retiring Partner's Loan
[If transferred to loan]

## Downloaded from www.studiestoday.com

14.Aparna, Manisha and Sonia are partners sharing profits in the ratio of 3:2:1. Manisha retires and goodwill of the firm is valued at Rs. 1,80,000. Aparna and Sonia decided to share future in the ratio of 3:2. Pass necessary Journal entries.

## Journal

Aparna's Capital A/c
Dr.
18,000
Sonia's Capital A/c
Dr.
42,000
To Manisha's Capital A/c
60,000
(Goodwill credited to Manisha's capital and debited to continuing partners' capitals in the gaining ratio)
(3)
15. Give the journal entry to distribute the Workmen's Compensation Reserve of Rs. 60000 at the time of retirement of Sajjan. The firm has three partners viz. Rajat Sajjan and Kavita:
a) When there is no claim against the Workmen's Compensation Reserve .
b) When there is a liability of RS. 24000 against Workmen's Compensation Reserve.
c) When there is a liability of Rs 75000 against Workmen's Compensation Reserve.

JOURNAL:
a) Workmen's Compensation Reserve Dr ..... 60000
To Rajat ..... 20000
To Sajjan ..... 20000
To Kavita ..... 20000
b) Workmen's Compensation Reserve Dr ..... 36000
To Rajat ..... 12000

## Downloaded from www.studiestoday.com

To Sajjan ..... 12000
To Kavita ..... 12000
c) Revaluation Dr. ..... 15000
To Workmen's Compensation Reserve ..... 15000
16.P, $Q$ and $R$ are partners sharing in the ratio of $3: 2: 1$. The partnership deed provides that in the event of the death of any partner, profit of the previous year will be the basis of calculation of share of profit till the date of death of the deceased partner. The profit for the year ending 31-3-2016 was RS. 48000. Q died. Pass necessary journal entry to record the deceased partner's share of profits:
a) If the continuing partners decide to acquire the deceased partner's share equally
b) If the continuing partners decide to share future profits in the ratio of 3:1

JOURNAL:
a) P Dr 2000 .

R Dr 2000
To Q 4000
b) P/L Suspense $\operatorname{Dr} 4000$

To Q 4000

Or
c) $\mathrm{P} \mathrm{Dr} \quad 3000$.

R Dr 1000
To Q 4000

## Downloaded from www.studiestoday.com

17. $\mathrm{X} Y$ and Z are partners sharing in the ratio of $4: 3: 2$. X retires and his share is taken up by Y and Z in the ratio of $2: 1$. Find out the new ratio and the gaining ratio

Y's new share $3 / 9+(4 / 9 * 2 / 3)$
Z's New Share $2 / 9+\left(4 / 9^{*} 1 / 3\right)$
NPSR 17:10
GR $2: 1$
18. $\mathrm{X}, \mathrm{Y}$ and Z are partners sharing profits in the ratio of $5: 3: 2$. Y retires selling his share to X and Z for Rs. 30000. Rs 20000 being paid by X and Rs. 10000 paid by Z. The profit for the year after Y's retirement is Rs. 49000. X and Z bring necessary amount in cash and $Y$ is paid off. Pass necessary journal entries to:
a) Record the sale of Y's share to X and Z
b) Distribute the profit between X and Z .

JOURNAL:

Cash A/c Dr. 30000
To X 20000
To Z 10000

Y 30000
To Cash 30000

P/l App Dr. 49000
To X
34300

## Downloaded from www.studiestoday.com

19.Amit, Balan and Chander were partners in a firm sharing in the ratio of $1 / 2,1 / 3$ and $1 / 6$ respectively. Chander retired on 1-4-2015. The Balance Sheet of the firmon the date of Chander's retirement was as follows:

Balance Sheet of Amit, Balan And Chander as on 1-4-2014
$\left.\begin{array}{|l|l|l|l|}\hline \text { Liabilities } & \text { Rs } & \text { Assets } & \text { Rs } \\ \hline \text { Sundry creditors } & 12600 & \text { Bank } & 4100 \\ \hline \text { Provident fund } & 3000 & \begin{array}{l}\text { Debtors: } \\ \text { Less Prov }\end{array} & 1000\end{array}\right] 29000$

It was agreed:
a) Goodwill will be valued at Rs. 27000
b) Depreciation of $10 \%$ was to be provided on machinery
c) Patents were to reduced by $20 \%$
d) Liability on account of Provident Fund was estimated at rs. 2400
e) Chander took over investment for Rs. 15800
f) Amit and Balan decided to adjust their capitals in proportion of their profit sharing ratio by opening current accounts.

SOLUTION:

## REVALUATION ACCOUNT

| Particulars | Amount | Particulars | Amount |
| :--- | :--- | :--- | :--- |
| To Machinery | 4800 | By Provident fund | 600 |
| To Patents | 1000 | By investment | 5800 |
| TO Profit |  |  |  |

## Downloaded from www.studiestoday.com

| Amit | 300 |  |  |
| :--- | :--- | :--- | :--- |
| Balan | 200 |  |  |
| Chander | 100 |  |  |
|  | 6400 |  | 6400 |

## PATNER'S CAPITAL ACCOUNT

| Particulars | Amit | Balan | Chande <br> r | Particulars | Amit | Balan | Chande <br> r |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| To Chander | 2700 | 1800 |  | By Bal | 40000 | 36500 | 20000 |
| To Inv |  |  | 15800 | By GR | 4500 | 300 | 1500 |
| To Chander' <br> Loan |  |  | 10300 | By Amit |  |  | 2700 |
| To Balan's <br> current a/c |  | 5900 |  | By Balan |  |  | 1800 |
| To Bal c/d | 48000 | 32000 |  | By Reval | 300 | 200 | 100 |
|  |  |  |  | By Aimt's <br> Current a/c | 5900 |  |  |
|  | 50700 | 39700 | 26100 |  | 50700 | 39700 | 26100 |

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

BALANCE SHEET as at 31.12.2007

| Riabilities | Amount Rs. |  | Assets |
| :--- | ---: | :--- | ---: |
| Amount |  |  |  |
| 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 |
|  | $\mathbf{2 , 3 0 , 0 0 0}$ |  | $\mathbf{2 , 3 0 , 0 0 0}$ |

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

## Downloaded from www.studiestoday.com

i) $20 \%$ of the General Reserve is to remain as a reserve for bad and doubtful debts.
ii) Motor)r Car is to be decreased by $5 \%$.
iii) Stock is to be revalued at Rs.17, 500.
iv) Goodwill is valued at' $2 \frac{1}{2}$ years purchase of the average profits of last 3 years.

Profits were; 2001: Rs.11,000; 200l: 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. SOLUTION

## REVALUATION ACCOUNT

| Particulars | Rs.Particulars |  |  | Rs. |
| :---: | :---: | :---: | :---: | :---: |
| To Motor Cars A/C | 900By Loss transferred to |  |  |  |
| To Stock A/C | 2,500A'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 |  |  |  |  |

## PARTNERS CAPITAL ACCOUNT

| Particulars | ARs. | 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 | $40,00030,00020,000$ |
| To Revaluation A/c (Loss)1,600800 1,000 | By General Res. A/c6,4003,2004,000 |  |  |  |  |
| To Bank A/c | - | $-35,500$ | By A's Capital A/c | - | $-8,334$ |
| To Balance c/d | $36,46628,234$ | - | By B's Capital A/c | - | $-4,166$ |

## Downloaded from www.studiestoday.com

| $46,40033,200 ~ 36,500$ | $46,40033,20036,500$ |  |  |
| ---: | :--- | :--- | :--- |
|  | By Balance b/d | $36,46628,234$ | - |

1. 

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

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

BALANCE SHEET AS AT 31.12.07


## Downloaded from www.studiestoday.com

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.

## 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 | $\mathbf{1 4 , 6 0 0}$ |
| $r$ |  |  |  |

Particulars ARs. BRs. CRs. Particulars A Rs. B Rs. C Rs.

## Downloaded from www.studiestoday.com

| To Goodwill A/c | 6,000 | 6,000 | 6,000 | By Balance b/d | 30,00030,00025,000 |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| To C's Capital A/c | 2,250 | 9,000 | - | By General Reserve 10,00010,00010,000 |  |  |
| To C's Loan A/c | - | $-46,116$ | By Workmen A/c | 2,667 | 2,667 | 2,666 |
|  |  |  | Compensation Fund |  |  |  |
| To Balance c/d | $\mathbf{4 0 , 0 0 0 6 0 , 0 0 0}$ | - | By Revalu A/c (profit)3,2003,2003,200 |  |  |  |
|  |  | By A's Capital A/c | - | $-2,250$ |  |  |
|  |  | By B's Capital A/c | - | $-9,000$ |  |  |
|  |  | By Cash A/c (Deficiency)2,38329,133 - |  |  |  |  |

BALANCE SHEET as at 31.12.07

| Liabilities | Rs. | Assets | Rs. |  |
| :--- | ---: | :--- | ---: | ---: |
| Bills Payable | 15,000 | Debtors | 43,000 |  |
| Creditors | 17,400 | Less: Provision | $\underline{4,000}$ | 39,000 |
| Employees Provident Fund |  | 60,000 | Bills Receivables |  |
| 25,000 |  |  |  |  |
| C's Loan | 46,116 | Land \& Buildings | 69,000 |  |
| A's Capital | 40000 |  | Plant \& Machinery | 36,000 |
| B'S Capital | $\underline{60000} \mathbf{1 , 0 0 , 0 0 0}$ | Cash | 69,516 |  |
|  | $\mathbf{2 , 3 8 , 5 1 6}$ |  | $\mathbf{2 , 3 8 , 5 1 6}$ |  |

22.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:
(i) Building to be appreciated by $20 \%$.
(ii) Plant and Machinery to be depreciated by $10 \%$.

## Downloaded from www.studiestoday.com

## Downloaded from www.studiestoday.com

(iii) A provision of $5 \%$ on debtors to be created for bad and doubtful debts.
(iv) 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)
23.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 $31^{\text {st }} 2013$

| 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 <br> Outstanding Salary <br> Provision for legal <br> damages <br> Capitals | 2,200 |
| Pankaj 46,000 | 6,000 | Stock |  |
| Naresh 30,000 | 96,000 | Furniture | 5,600 |
| Saurabh 20,000 |  | Premises | 9,000 |
|  | $1,43,200$ |  | 41,000 |

Additional Information:

## Downloaded from www.studiestoday.com

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

| Revaluation Account |  |  |  |
| :--- | ---: | :--- | ---: |
| Particualrs | Amount <br> Rs. | Particulars | AmountR <br> s. |
| To Provision for Doubtful Debts <br> 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 <br> Repairs A/c | 30,000 |  |  |
| To Profit transferred to : |  |  |  |
| A's Capital A/c <br> (b) |  |  |  |
| B's Capital A/c | (c) | (d) | (e) |
| C's Capital A/c | $\mathbf{1 , 2 4 , 0 0 0}$ |  | $\mathbf{1 , 2 4 , 0 0 0}$ |
|  |  |  |  |


| Partners' Capital Accounts |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Particulars | A | B | C | Particulars | A | B | C |
| To B's Capital | (i) | Nil | (j) | By Balance B/d | (f) | (g) | (h) |
| (Goodwill) |  |  |  | By capital a/cs: |  |  |  |
| To Bank | Nil | 1,00,0 | Nil | A |  | 90,000 |  |

## Downloaded from www.studiestoday.com

|  |  | 00 |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To B's Loan $\mathrm{A} / \mathrm{c}$ | Nil | $\begin{array}{r} 6,40,0 \\ 00 \\ \hline \end{array}$ | Nil | C |  | 30,000 |  |
| To Bal C/d | $\begin{array}{r} 8,40,0 \\ 00 \\ \hline \end{array}$ | Nil | $\begin{array}{r} 2,80,00 \\ 0 \\ \hline \end{array}$ | By Revaluation A/c | 30,000 | 20,000 | 10,000 |
|  |  |  |  |  | $\begin{array}{r} 9,30,00 \\ 0 \end{array}$ | $\begin{array}{r} 7,40,0 \\ 00 \end{array}$ | $\begin{array}{r} \hline 3,10,0 \\ 00 \end{array}$ |


| Balance Sheet after retirement |  |  |  |
| :--- | ---: | :--- | ---: |
| Liabilities | Amount <br> Rs. | Assets | Amount <br> Rs. |
| Creditors | $2,16,000$ | Cash at Bank | 56,000 |
| Provision for outstanding <br> repairs | $(\mathrm{m})$ | Debtors |  |
| Warranty claim | 24,000 | Less: Provision for Bad Debts <br> (k) | $(\mathrm{l})$ |
| B's Loan | $6,40,000$ | Stock | $1,80,000$ |
| Capital A/cs |  | Computer | 24,000 |
| A |  | Machinery | $4,80,000$ |
| C | $11,20,00$ | Land and Building <br> $10,00,000$ | $11,00,00$ <br> $2,80,000$ |
|  | Less : Appreciation <br> $1,00,000$ |  |  |
|  | $\mathbf{2 0 , 3 0 , 0}$ |  | $\mathbf{2 0 , 3 0 , 0 0}$ |

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.
25. Ajay, Vijay and Naresh were partners sharing profits in the proportions of $1 / 2,1 / 3$ and $1 / 6$ respectively. The balance sheet of the firm on $31^{\text {st }}$ March 1998 was as follows

Balance sheet as on $31^{\text {st }}$ March 1998
Liabilities

| Amount | Assets | Amount |
| :--- | :--- | :--- |

## Downloaded from www.studiestoday.com

|  | Rs. |  | Rs. |
| :---: | :--- | :--- | :--- |
| Sundry Creditors <br> a/c | 17000 | Cash at Bank | 10000 |
| Provident fund | 13000 | Debtors 40000 <br> Less Provision 1000 | 39000 |
| Reserve Fund <br> Ajay <br> Vijay <br> Naresh | 18000 | Stock | 15000 |
|  | 30000 | Investment | 16000 |
|  | 20000 | Patents |  |

Naresh retired on the above date on the following terms.
1.Goodwill of the firm was valued at Rs. 42,000 but it was not to remain in the books of the new firm.
2.Value of the patents was to be reduced by $20 \%$ and that of plant and machinery by 10\%
3.Naresh took over the investments at a value of Rs 17800
4.Provision for doubtful debts was to be raised to $6 \%$.

Liability on account of provident fund was only Rs 12,600
Show the journal entries for the treatment of goodwill, Prepare Revaluation a/c, Capital a/c of the partners and the balance sheet of Ajay and Vijay after Naresh's retirement.

## SOLUTION

Journal

| Date | Particulars | LF | Amount Rs | Amount Rs. |
| :---: | :---: | :---: | :---: | :---: |
| 1. | Goodwill a/c <br> Dr. <br> To Ajay's Capital a/c <br> To Vijay's Capital a/c <br> To Naresh's Capital a/c <br> (Being goodwill raised at its present value) |  | 42000 | $\begin{array}{r} 21000 \\ 14000 \\ 7000 \end{array}$ |
| 2. | Ajay's Capital a/c $\quad$ Dr <br> Vijay's Capital a/c <br> Dr <br> To Goodwill a/c <br> (Being goodwill written <br> off in new ratio 3:2) |  | $\begin{aligned} & 25200 \\ & 16800 \end{aligned}$ | 42000 |

Revaluation account

| Particulars | Amount | Particulars | Amount |
| :--- | :--- | :--- | :--- |
|  | Rs |  | Rs. |
| To Patents | 1600 | By Investment | 1800 |

Downloaded from www.studiestoday.com

| To Plant \& Machinery | 5000 | By Loss on Revaluation  <br> trfd to capital a/c  <br> Ajay 3100 <br> Vijay 2067 <br> Naresh 1033 |  |
| :--- | :--- | :--- | :--- |
| To Provision for <br> doubtful debts | 1400 | 8000 |  |

Partner's Capital account

| Particulars | Ajay <br> Rs. | Vijay <br> Rs. | Nares <br> h <br> Rs. | Particulars | Ajay <br> Rs. | Vijay Rs. | Nares <br> h <br> Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| To Revaluation a/c | 3100 | 2067 | 1033 | By balance b/d | 40000 | 30000 | 20000 |
| To Goodwill a/c | 25200 | 16800 | 17800 | By General Reserve | 9000 | 6000 | 3000 |
| To balance c/d | 41900 | 31266 |  | By Provident Fund a/c | 200 | 133 | 67 |
| To Naresh's Loan a/c |  |  | 11234 | By Goodwill a/c | 21000 | 14000 | 7000 |
|  | 70200 | 50133 | 30067 |  | 70200 | 50133 | 30067 |

Balance Sheet(After Naresh's death)

| Liabilities | Amount | Assets | Amount |
| :--- | :--- | :--- | :--- |

Downloaded from www.studiestoday.com

|  | Rs. |  | Rs. |
| :--- | :--- | :--- | :--- |
| Sundry creditors | 17000 | Cash at bank | 10000 |
| Provident Fund | 12600 | Debtors <br> Less Provision for <br> Naresh's loan | 11234 |
| Capitals <br> Ajay 41900 <br> Vijay 31266 | 73166 | Stock |  |
|  |  | Patents | 37600 |

