

PARTNERSHIP ACCOUNTS

ANSWER TO Q.NO.1:

Computation of the value of goodwill:

(i)	Average Profit for three years, ending 30th June; before death:		
	Year ending 30th June, 2014 :	Rs.	Rs.
	1/2 of 2013 profits	33,600	
	1/2 of 2014 profits	37,800	71,400
	Year ending 30th June, 2015 :		
	1/2 of 2014	37,800	
	1/2 of 2015 profits	36,000	73,800
	Year ending 30th June, 2016 :		
	1/2 of 2015	36,000	
	1/2 of 2016 profits	31,200	67,200
	Total		2,12,400
	Average Profit		70,800
(ii)	Average future maintainable profit:		Rs.
	Average profits earned		70,800
	Less : Partner's remuneration	45,000	
	Less : 8% on capital employed	12,480	(57,480)
			13,320
(iii)	Goodwill @ three years' purchase		39,960



Adjustment entries for Goodwill

Journal Entries

Particulars		Dr. (Rs.)	Cr. (Rs.)
Clever's Capital Account	Dr.	7,992	
Dull's Capital Account	Dr.	7,992	
To Wise's Capital Account			15,984
(Adjusted entry passed for share of goodwill of Wise through remaining partner's capital accounts in gaining ratio)			

Working Note:

Partner	New Share		Old Share		Difference
Wise	-	-	$\frac{4}{10}$	=	$\frac{4}{10}$
Clever	$\frac{1}{2}$	-	$\frac{3}{10}$	=	$\frac{2}{10}$
Dull	$\frac{1}{2}$	-	$\frac{3}{10}$	=	$\frac{2}{10}$

ANSWER TO Q.NO.2:

A's Capital Account

2016	Particulars	Rs.	2016	Particulars	Rs.
Dec. 31	To Bank A/C - (Drawings)	8,000	Jan. 1	By Bank A/C	30,000
	To Balance c/d	33,800	Dec. 31	By Profit and Loss app A/c - Interest	1,800
				By Profit and Loss app A/c – (5/8 Profit)	10,000
		<u>41,800</u>			<u>41,800</u>

B's Capital Account

2016	Particulars	Rs.	2016	Particulars	Rs.
	To Cash - (Drawings)	10,000	Jan. 1	By Cash	20,000
	To Balance c/d	23,200	Dec. 31	By Profit and Loss A/c - Salary	6,000
				-Interest	1,200
				By Profit and Loss A/c - (3/8 Profit)	6,000
		<u>33,200</u>			<u>33,200</u>



ANSWER TO Q.NO.3:**Books of Weak, Able & Lazy****Profit and Loss Appropriation Account for the year ended****31st December, 2016**

Particulars	Rs.	Particulars	Rs.
To Weak's Current a/c	7,500	By Net Profit (Adjusted)	55,750
To Able's Current a/c	4,000		
To Lazy's Current a/c (interest on capital)	3,000		
To Profit transferred to:		By Weak's Current a/c	630
Weak's Current a/c	21,400	By Able's Current a/c	520
Able's Current a/c	10,700	By Lazy's Current a/c	400
Lazy's Current a/c	10,700	(Interest on Drawings)	
	<u>57,300</u>		<u>57,300</u>

Working Notes:

	Rs.
Adjusted Profit	
Net Profit as per Profit & Loss A/c	60,000
<i>Add</i> : Drawings by Weak : Life Insurance Premium of Weak charged to Miscellaneous Expenditure A/c of the Firm	750
<i>Add</i> : Drawings by Able : Travelling expenses of Able in connection with pleasure trip to U.K. charged to travelling expenses A/c of the firm	3,000
<i>Less</i> : Repairs to Machinery wrongly capitalized	(10,000)
<i>Add</i> : Depreciation charged @ 20%	2,000
	55,750

Interest on Drawings :

Particulars	Weak	Able	Lazy
Drawings	15,000	10,000	10,000
<i>Add</i> : Rectification adjustments	750	3,000	–
	15,750	13,000	10,000
Interest @ 8% p.a. for 6 months	630	520	400



ANSWER TO Q.NO.5:

There is no partnership deed. Therefore, the following provisions of the Indian Partnership Act are to be applied for settling the dispute.

- (i) No interest on capital is payable to any partner. Therefore, Ram is not entitled to interest on capital.
- (ii) No remuneration is payable to any partner. Therefore, Rahim is not entitled to any salary.
- (iii) Interest on loan is payable @ 6% p.a. Therefore, Karim is to get interest @ 6% p.a. on Rs. 2,000 instead of 12%.
- (iv) The profits should be distributed equally.

Profit and Loss Appropriation Account for the year ended.....

Particulars		Rs.	Particulars	Rs.
To Interest on Karim Loan A/c (Rs. 2,000 x 6/100)		120	By Profit and Loss A/c – (Net profit)	45,000
To Reserve A/c – 10% of Rs. (45,000-120)		4,488		
To Share of Profit A/c :				
Ram:	Rs. 13,464			
Rahim:	Rs. 13,464			
Karim:	Rs. 13,464	40,392		
		<u>45,000</u>		<u>45,000</u>



ANSWER TO Q.NO.6:**Journal Entries**

2016	Particulars	Dr. (Rs.)	Cr. (Rs.)
Jan. 1	Bank Account Dr. To Shyam's Capital Account (Being amount brought in by Shyam for capital and goodwill)	35,000	35,000
	Shyam's Capital Account Dr. To Ram's Capital Account To Mohan's Capital Account (Being Shyam's share of goodwill adjusted to existing partners' capital accounts in the profit sacrificing ratio 1:1)	10,000	5,000 5,000
	Revaluation Account Dr. To Plant and Machinery Account To Provisions for Doubtful Debts Account To Trade payables Account (Being recording of the reduction in the value of assets and the liability which had been previously omitted)	5,000	3,000 500 1,500
	Building Account Dr. To Revaluation Account (Being increase in the value of building brought into account)	7,000	7,000
	Revaluation Account Dr. To Ram's Capital Account To Mohan's Capital Account (Being profit on revaluation credited to Ram and Mohan in the old profit sharing ratio)	2,000	1,200 800

Balance Sheet of Ram, Mohan and Shyam as at January 1, 2016

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Trade payables		16,500	Buildings		25,000
Capital Accounts :			Plant and Machinery		12,000
Ram	26,200		Inventories		12,000
Mohan	30,800		Trade receivables	10,000	
Shyam	25,000	82,000	Less : Provision for Doubtful Debts	(500)	9,500
			Bank		40,000
		<u>98,500</u>			<u>98,500</u>



Working Note: Profit sacrificing ratio:

Ram = $\frac{3}{5}$ less $\frac{1}{2} = \frac{1}{10}$

Mohan = $\frac{2}{5}$ less $\frac{3}{10} = \frac{1}{10}$

ANSWER TO Q.NO.7:

Memorandum Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Provision for Bad Debts A/c	500	By Freehold premises A/c	40,000
To Inventory A/c	3,000	By Furniture A/c	5,000
To Plant A/c	5,000	By Office equipment A/c	2,500
To Profit on Revaluation A/c			
A's Capital- $\frac{3}{5}$	23,400		
B's Capital- $\frac{2}{5}$	15,600		
	<u>47,500</u>		<u>47,500</u>
To Freehold premises A/c	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
		Loss on Revaluation A/c	
		A's Capital - $\frac{12}{25}$	18,720
		B's Capital- $\frac{8}{25}$	12,480
		C's Capital- $\frac{5}{25}$	7,800
	<u>47,500</u>		<u>47,500</u>

Partners' Capital Accounts

Particulars	A Rs.	B Rs.	C Rs.	Particulars	A Rs.	B Rs.	C Rs.
To A's Capital A/c	-	-	6,000	By Balance b/d	2,00,000	1,00,000	-
To B's Capital A/c	-	-	4,000	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	-
	<u>2,29,400</u>	<u>1,19,600</u>	<u>60,000</u>		<u>2,29,400</u>	<u>1,19,600</u>	<u>60,000</u>



Balance Sheet as at 1.4.2016

Liabilities	Rs.	Assets	Rs.
Trade payables	50,000	Freehold premises	2,00,000
Capital A/c :		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 receivables	25,000
		Bank	70,000
	<u>4,10,000</u>		<u>4,10,000</u>

ANSWER TO Q.NO.8:
(a) Calculation of Effective Capital

A		B	
Rs.1,00,000 invested for 3 months i.e., Rs. 3,00,000 invested for 1 month	3,00,000	Rs. 60,000 invested for 6 months i.e. Rs. 3,60,000 invested for 1 month	3,60,000
Rs.1,10,000 invested for 3 months i.e. Rs. 3,30,000 invested for 1 month.	3,30,000	Rs. 90,000 invested for 6 months i.e., Rs. 5,40,000 invested for 1 month	5,40,000
Rs.1,15,000 invested for 3 month i.e., Rs. 3,45,000 invested for 1 month.	3,45,000		
Rs. 75,000 invested for 3 months, i.e., Rs. 2,25,000 invested for 1 month.	2,25,000		
	<u>12,00,000</u>		<u>9,00,000</u>

(b) Calculation of Interest on Capital

$$A = \text{Rs. } 12,00,000 \times \frac{12}{100} \times \frac{1}{12} = \text{Rs. } 12,000$$

$$B = \text{Rs. } 9,00,000 \times \frac{12}{100} \times \frac{1}{12} = \text{Rs. } 9,000$$

(c) Calculation of Interest on Drawings

$$A = \text{Rs. } 12,000 \times \frac{10}{100} \times \frac{5.5}{12} = \text{Rs. } 550$$

$$B = \text{Rs. } 1,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs. } 50$$

$$\text{Rs. } 5,000 \times \frac{10}{100} \times \frac{3}{12} = \text{Rs. } 125$$



ANSWER TO Q.NO.9.**Revaluation Account**

2016	Particulars		Rs.	2016	Particulars	Rs.
April 1	To Provision for bad and doubtful debts		550	April 1	By Inventory in trade	2,500
	To Furniture and fittings		650		By Land and Building	5,000
	To Capital A/cs: (Profit on revaluation transferred)					
	Dalal	2,520				
	Banerji	2,520				
	Mallick	1,260	6,300			
			<u>7,500</u>			<u>7,500</u>

Partners' Capital Accounts

Particulars	Dalal	Banerji	Mallick	Mistri	Particulars	Dalal	Banerji	Mallick	Mistri
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Dalal	–	–	–	1,000	By Balance b/d	12,000	12,000	5,000	–
To Banerji	–	–	–	1,000	By General Reserve	2,600	2,600	1,300	–
To Balance c/d	19,120	18,120	7,560	3,000	By Cash	–	–	–	5,000
					By Mistri	1,000	1,000	–	–
					By Outstanding Liabilities	1,000	–	–	–
					By Revaluation A/c	2,520	2,520	1,260	–
	<u>19,120</u>	<u>18,120</u>	<u>7,560</u>	<u>5,000</u>		<u>19,120</u>	<u>18,120</u>	<u>7,560</u>	<u>5,000</u>



Working Note:**Calculation of sacrificing ratio**

Partners	New share	Old share	Sacrifice	Gain
Dalal	$\frac{5}{15}$	$\frac{2}{5}$	$-\frac{1}{15}$	—
Banerji	$\frac{5}{15}$	$\frac{2}{5}$	$-\frac{1}{15}$	—
Mallick	$\frac{3}{15}$	$\frac{1}{5}$	No gain No loss	—
Mistri	$\frac{2}{15}$	—	—	$\frac{2}{15}$

Sacrifice by Mr. Dalal and Mr. Banerji = $Rs.15,000 \times \frac{1}{15} = Rs.1,000$ each

Balance Sheet of M/s. Dalal, Banerji, Mallick and Mistri as on 1-4-2016

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Trade payables		12,850	Land and Buildings		30,000
Outstanding Liabilities		500	Furniture		5,850
Capital Accounts of Partners :			Inventory of goods		14,250
Mr. Dalal	19,120		Trade receivables	5,500	
Mr. Banerji	18,120		Less : Provisions	(550)	4,950
Mr. Mallick	7,560		Cash in hand		140
Mr. Mistri	3,000	47,800	Cash at Bank		5,960
		<u>61,150</u>			<u>61,150</u>



ANSWER TO Q.NO.10:

Profit and Loss Appropriation Account for the year ended March 31, 2017

Particulars	Rs.	Particulars	Rs.
To Salary to X	360,000	By Profit and Loss A/c (Net profit)	14,48,000
To Interest on Capital A/c		By Interest on Drawings A/c	
X 1,60,000		X 22,000	
Y 1,28,000	288,000	Y 18,000	40,000
To profit transferred to Capital A/c			
X (2/3) 5,60,000			
Y (1/3) 2,80,000	840,000		
	<u>1,488,000</u>		<u>1,488,000</u>

Partner's Capital Accounts

Particulars	X	Y	Particulars	X	Y
To Drawing A/c	4,80,000	4,80,000	By Balance b/d	20,00,000	16,00,000
To Interest on Drawings A/c	22,000	18,000	By Salary A/c	3,60,000	1,28,000
To Balance c/d	25,78,000	1,510,000	By Interest on Capital A/c	1,60,000	
			By Profit and Loss App A/c	5,60,000	2,80,000
	<u>30,80,000</u>	<u>20,08,000</u>		<u>30,80,000</u>	<u>2,008,000</u>

Working Notes:

1. X's Share of Profit

$$= 2,80,000 \times \frac{3}{1} \times \frac{2}{3} = 5,60,000$$

2. Interest on Drawings

$$X = 4,80,000 \times \frac{11}{2} \times \frac{1}{12} \times \frac{10}{100} = 22,000$$

$$Y = 4,80,000 \times \frac{9}{2} \times \frac{1}{12} \times \frac{10}{100} = 18,000$$

3. Y's Interest on Capital

$$= 2,88,000 - 1,60,000 = 128,000$$

4. Net profit = Salary + Interest on capital + profit transferred to capital accounts – interest on drawings



ANSWER TO Q.NO.11:

Journal Entry

Particulars	Dr. (Rs.)	Cr. (Rs.)
C's Capital A/c [Rs.10,000 x 1/4] Dr.	2,500	
To A's Capital A/c		1,250
To B's Capital A/c		1,250
(Being the share of C in the hidden goodwill adjusted through capital accounts by crediting sacrificing partners in their sacrificing ratio)		

Note: Hidden Goodwill = $\left(8,000 \times \frac{4}{1}\right) - (\text{Rs. } 7,000 + \text{Rs. } 7,000 + 8,000) = \text{Rs. } 10,000$

ANSWER TO Q.NO.12:

Revaluation Account

	Rs.		Rs.
To Furniture	870	By Building	3,200
To Inventory	1,070	By Trade payables	1,400
To Provision for doubtful debts (Rs.1,750 - Rs.200)	1,550	By Investment	450
To Outstanding wages	1,560		
	<u>5,050</u>		<u>5,050</u>

Partners' Capital Accounts

	A	B	C		A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To A	–	–	4,500	By Balance b/d	44,000	36,000	–
To B	–	–	3,000	By Cash A/c	–	–	25,000
To Balance c/d	48,500	39,000	17,500	By C (working note 2)	4,500	3,000	–
	<u>48,500</u>	<u>39,000</u>	<u>25,000</u>		<u>48,500</u>	<u>39,000</u>	<u>25,000</u>

Working Notes:

1. Calculation of goodwill:

C's contribution of Rs.25,000 consists of only 1/6th of capital.

Therefore, total capital of firm should be Rs.25,000 x 6 = Rs.1,50,000

But combined capital of A, B and C amounts Rs.44,000 + 36,000 + 25,000 = Rs.1,05,000

Thus, the hidden goodwill is Rs.45,000 (Rs.1,50,000- Rs.1,05,000).

Goodwill will be shared by A & B in their sacrificing ratio.



2. 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 = Rs.45,000 \times $\frac{3}{30}$ = Rs.4,500;

B will get = Rs.45,000 \times $\frac{2}{30}$ = Rs.3,000; and

C will be debited on account of goodwill = Rs.45,000 \times $\frac{1}{6}$ = Rs.7,500

ANSWER TO Q.NO.13:

Journal Entries

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
31.3.2015	K's Capital A/c L's Capital A/c M's Capital A/c To Goodwill A/c (Being old goodwill of balance sheet written off)	Dr. Dr. Dr.	15,000 9,000 6,000 30,000
	Profit and Loss Adjustment A/c To Furniture A/c To Inventory in Trade A/c (Being revaluation of Furniture and inventory in trade recorded)	Dr.	30,000 10,000 20,000
	K's Capital A/c L's Capital A/c M's Capital A/c To Profit and Loss Adjustment A/c (Being net revaluation loss debited to capital accounts of K, L and M in the ratio 5 : 3 : 2)	Dr. Dr. Dr.	15,000 9,000 6,000 30,000



Reserve A/c To K's Capital A/c To L's Capital A/c To M's Capital A/c (Being reserve transferred to capital accounts, K, L and M)	Dr.	50,000	25,000 15,000 10,000
L's Capital A/c To Cash A/c To N's Capital A/c (Being 50% of the amount due to L was paid off in cash and balance was retained in the firm as capital of N)	Dr.	72,000	36,000 36,000
N's Capital A/c To L's Capital A/c (Being adjusting entry for goodwill passed in gaining/sacrificing ratio)	Dr.	15,000	15,000
M's Capital A/c To Bank A/c (Being amount paid to M to make his capital proportionate)	Dr.	14,000	14,000

Working Note:

1. Calculation for adjustment of Amount of Goodwill

Partner	Old Share	New Share	Gain	Sacrifice
K	$\frac{5}{10}$	$\frac{5}{10}$	–	–
L	$\frac{3}{10}$	–	–	$\frac{3}{10}$
M	$\frac{2}{10}$	$\frac{2}{10}$	–	–
N	–	$\frac{3}{10}$	$\frac{3}{10}$	–

2. Calculation of excess capital paid off to M to make capital proportionate.

Partner	Capital Balance	Capital Ratio (After all Adjustments)	P/L Ratio	Excess Capital Paid Off
K	35,000	5	5	–
N	21,000	3	3	–
M	28,000	4	2	$\frac{28,000}{4} \times 2 = 14,000$



Partners' Capital Accounts

Particulars	K	L	M	N	Particulars	K	L	M	N
To Goodwill	15,000	9,000	6,000	-	By Bal b/d	40,000	60,000	30,000	-
To Profit and Loss Adjustment	15,000	9,000	6,000	-	By Reserve	25,000	15,000	10,000	-
To Cash A/c	-	36,000	-	-	By L's Capital A/c	-	-	-	36,000
To N's Capital	-	36,000	-	-	By N's Capital A/c	-	15,000	-	-
To L's Capital	-	-	-	15,000					
To Bank A/c (B/F)	-	-	14,000	-					
To Balance c/d	35,000	-	14,000	21,000					
	65,000	90,000	40,000	36,000		65,000	90,000	40,000	36,000

Balance Sheet of M/s K, M & N

as on 1st April, 2015

Liabilities	Rs.	Rs.	Assets	Rs.
Capital Accounts:			Furniture	10,000
K	35,000		Trade receivables	50,000
M	14,000		Inventory in Trade	30,000
N	21,000	70,000		
Trade payables		20,000		
		90,000		90,000

ANSWER TO Q.NO.14:

Journal Entries

	Particulars	Rs.	Rs.
1.	B's Capital A/c C's Capital A/c To A's Capital A/c (Share of revaluation profit Rs. 67,500 including good will due to A borne by B and C at the gaining ratio 11 : 4)	Dr. Dr.	49,500 18,000 67,500

2.	A's Capital A/c To A's Loan A/c To Bank A/c (Settlement of A's claim on his retirement by payment of 50% in case and transferring the balance to his Loan A/c).	Dr.	1,17,500	58,750 58,750
3.	Bank A/c To B's Capital A/c To A's Capital A/c (Cash brought in by the continuing partners).	Dr.	73,750	60,333 13,417

Working Notes:

1. Revaluation Profit	Rs.
Goodwill	1,00,000
Sundry Fixed Assets	30,000
Joint Life Policy	5,000
	<u>1,35,000</u>

A's Share Rs. 1,35,000 × 5/10 = Rs. 67,500.

2. Gaining Ratio

B : 2/3 – 3/10 = 11/30

C : 1/3 – 2/10 = 4/30

Gaining Ratio : B : C

11 : 4

3. Total Capital

		Rs.
Assets as per Balance Sheet		1,90,000
Additional Bank Balance		15,000
		2,05,000
Less : Bank Loan	40,000	
Sundry Creditors	30,000	
A's Loan	58,750	(1,28,750)
		76,250
B's Share		50,833
C's Share		25,417



ANSWER TO Q.NO.15:

Joint Life Policy Premium Account

	Particulars	Rs.		Particulars	Rs.
10th June, 2011	To Bank Account	3,000	31st Dec., 2011	By Profit and Loss A/c	3,000
10th June, 2012	To Bank Account	3,000	31st Dec., 2012	By Profit and Loss A/c	3,000
10th June, 2013	To Bank Account	3,000	31st Dec., 2013	By Profit and Loss A/c	3,000
10th June, 2014	To Bank Account	3,000	31st Dec., 2014	By Profit and Loss A/c	3,000

Profit and Loss Account

	Particulars	Rs.		Particulars	Rs.
31st Dec., 2011	To Joint Life Policy Premium Account	3,000			
31st Dec., 2012	To Joint Life Policy Premium Account	3,000			
31st Dec., 2013	To Joint Life Policy Premium Account	3,000			
31st Dec., 2014	To Joint Life Policy Premium Account	3,000			

Joint Life Policy Account

	Particulars	Rs.		Particulars	Rs.
15th April, 2015	To Capital A/cs: (Transfer)		15th April, 2015	By Bank Account	3,600
	Red 5/10	1,800			
	White 3/10	1,080			
	Black 2/10	720			
		<u>3,600</u>			<u>3,600</u>



ANSWER TO Q.NO.16:**Journal Entries**

	Particulars		Rs.	Rs.
(1)	F's Capital A/c To K's Capital A/c (Being the adjustment for goodwill on K's retirement) - Refer W.N.	Dr.	10,000	10,000
(2)	Reserve A/c To F's Capital A/c To G's Capital A/c To K's Capital A/c (Transfer of Reserve to Partners' Capital A/cs on K's retirement)	Dr.	10,000	4,000 4,000 2,000
(3)	Sundry Fixed Assets A/c Inventory A/c To Profit and Loss Adjustment A/c (Increase in the value of Sundry Fixed Assets and inventory recorded)	Dr. Dr.	30,000 10,000	40,000
(4)	Profit and Loss Adjustment A/c To Trade Receivable A/c (Loss arising out of dishonoured bill recorded)	Dr.	5,000	5,000
(5)	Profit and Loss Adjustment A/c To F's Capital A/c To G's Capital A/c To K's Capital A/c (Profit on revaluation transferred to Partners' Capital A/cs on K's retirement)	Dr.	35,000	14,000 14,000 7,000
(6)	Bank A/c To F's Capital A/c To G's Capital A/c (Cash brought in by F and G as per agreement)	Dr.	1,04,000	70,000 34,000
(7)	K's Capital A/c To Bank A/c (Payment made to K on retirement)	Dr.	79,000	79,000



Working Note:

Adjusting entry for goodwill

Partner	Old Share	New Share	Gain	Sacrifice
F	$\frac{2}{5}$	$\frac{3}{5}$	$\frac{1}{5}$	–
G	$\frac{2}{5}$	$\frac{2}{5}$	–	–
K	$\frac{1}{5}$	–	–	$\frac{1}{5}$

Working Note:

Adjusting entry:

Particulars		Rs.	Rs.
F's Capital A/c (50,000 x 1/5)	Dr.	10,000	
To K's Capital A/c			10,000

Balance Sheet
(after K's retirement)

Liabilities	Rs.	Assets	Rs.
Capital A/cs:		Sundry Fixed Assets	1,80,000
F	1,98,000	Inventories	60,000
G	1,32,000	Trade receivables	65,000
Trade payables	50,000	Bank	75,000
	3,80,000		3,80,000

Partners' Capital Accounts

Particulars	F	G	K	Particulars	F	G	K
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To K's Capital A/c	10,000	–	–	By Balance b/d	1,20,000	80,000	60,000
To Balance c/d	1,28,000	98,000	79,000	By F's Capital A/c	–	–	10,000
				By P & L Adj. A/c	14,000	14,000	7,000
				By Reserve	4,000	4,000	2,000
	1,38,000	98,000	79,000		1,38,000	98,000	79,000
To Bank	–	–	79,000	By Balance b/d	1,28,000	98,000	79,000
To Balance c/d	1,98,000	1,32,000	–	By Bank	70,000	34,000	–
	1,98,000	1,32,000	79,000		1,98,000	1,32,000	79,000



Working Notes:

1. Total Capital	Rs.
Sundry Fixed Assets (Rs. 1,50,000 + Rs. 30,000)	1,80,000
Inventory (Rs. 50,000 + Rs. 10,000)	60,000
Trade receivables (Including Bill Receivable of Rs. 15,000)	65,000
Bank	75,000
	3,80,000
Less: Sundry Creditors	(50,000)
	3,30,000
F's share ($3,30,000 \times 3/5$)	1,98,000
G's share ($3,30,000 \times 2/5$)	1,32,000

2. Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	50,000	By K's Capital A/c	79,000
To F's Capital A/c	70,000	By Balance c/d	75,000
To G's Capital A/c	34,000		
	<u>1,54,000</u>		<u>1,54,000</u>

ANSWER TO Q.NO.17:**Revaluation Account**

2015	Particulars	Rs.	2015	Particulars		Rs.
July 1	To Building	20,000	July 1	By Investments		3,000
	To Plant and Machinery	57,000		By Partners' Capital A/cs		
	To Bad Debts	13,900		A (3/10)	26,370	
				B (2/10)	17,580	
				C (5/10)	43,950	87,900
		<u>90,900</u>				<u>90,900</u>



Partners' Capital Accounts

Particulars	A Rs.	B Rs.	C Rs.	D Rs.	Particulars	A Rs.	B Rs.	C Rs.	D Rs.
To Rev	26,370	17,580	43,950	–	By bal	1,04,000	76,000	1,40,000	-
To B's and C's Capital A/cs	–	–	–	60,000	By D's Capital A/c (W.N.1)	–	40,000	20,000	–
To Investments A/c	–	25,000	–	–	By Bank A/c	12,370	–	3,950	1,50,000
To B's Loan A/c	–	73,420	–	–					
To Balance c/d (W.N. 2)	90,000	–	1,20,000	90,000					
	<u>1,16,370</u>	<u>1,16,000</u>	<u>1,63,950</u>	<u>1,50,000</u>		<u>1,16,370</u>	<u>1,16,000</u>	<u>1,63,950</u>	<u>1,50,000</u>
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>	<u>00</u>	<u>0</u>	<u>00</u>

Working Notes:

1. Adjustment of goodwill

Goodwill of the firm is valued at Rs. 2 lakhs

Sacrificing ratio:

A	3/10-3/10	0
B	2/10-0	2/10
C	5/10-4/10	1/10

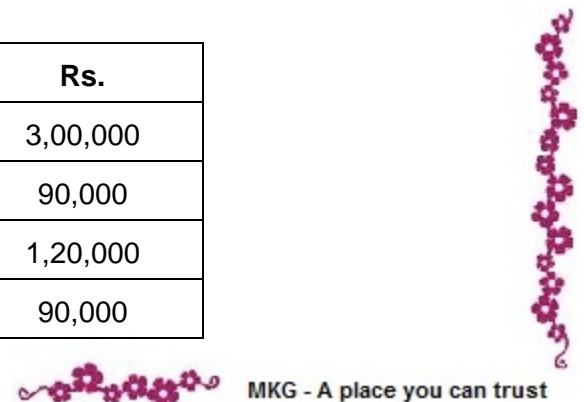
Hence, sacrificing ratio of B and C is 2:1. A has not sacrificed any share in profits after retirement of B and admission of D in his place. Adjustment of D's share of goodwill through existing partners' capital accounts in the profit sacrificing ratio:

$$B : \text{Rs. } 60,000 \times \frac{2}{3} = 40,000$$

$$C : \text{Rs. } 60,000 \times \frac{1}{3} = 20,000$$

2. Capital of partners in the reconstituted firm :

	Rs.
Total capital of the reconstituted firm (given)	3,00,000
A (3/10)	90,000
B (4/10)	1,20,000
C (3/10)	90,000



ANSWER TO Q.NO.18:

(i) Journal Entry in the books of the firm

Date	Particulars	Rs.	Rs.
Jan 3	A's Capital A/c Dr.	500	1,000
2016	B's Capital A/c Dr.	500	
	To C's Capital A/c (Being the required adjustment for goodwill through the partner's capital accounts)		

(ii) Revaluation Account

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

Partners Capital Accounts

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

(iii) 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 C) 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.

ANSWER TO Q.NO.19:

A's Capital Account

2016	Particulars	Rs.	2016	Particulars	Rs.
Sep. 30	To Current A/c (3,000 - 450)	2,550	Jan. 1	By Balance b/d	10,000
Dec. 31	To Profit and Loss Adjt. (Unrecorded Liability)	1,000	Dec. 31	By Profit and Loss A/c :	
	To Balance Transferred to A's Executor's A/c	18,525		Interest on Capital	1,000
				Share of Profit	835
				B & C (Goodwill)	3,240
				Insurance Policies A/c	7,000
		<u>22,075</u>			<u>22,075</u>



Working Notes:

(i) Valuation of Goodwill				
	Year	Profit before Interest on fixed capital	Interest	Profit after interest
		Rs.	Rs.	Rs.
	2013	9,640	2,000	7,640
	2014	6,720	2,000	4,720
	2015	(-) 640	2,000	(-) 2,640
		15,720	6,000	9,720

		Rs.
	Average	3,240
	Goodwill at two years purchase of average net profits	6,480
	Share of A in the goodwill	3,240
(ii)	Profit on Separate Life Policy	
	A's policy	10,000
	B and C's policy @ 20%	4,000
		14,000
	Share of A (1/2)	7,000
(iii)	Share in profit for 2016	
	Profit for the year	3,670
	Less : Interest on capitals	(2,000)
		1,670
	A's share in profit (1/2)	835

(iv) As unrecorded liability of Rs.2,000 has been charged to Capital Accounts through Profit and Loss Adjustment Account, no further adjustment in current year's profit is required.

(v) Profits for 2013, 2014 and 2015 have not been adjusted (for valuing goodwill) for unrecorded liability for want of precise information.



ANSWER TO Q.NO.20:

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

* Profit sharing ratio between B and N = 1/2; 1/3; = 3: 2, Therefore N's share of Profit = 2/5

N's Executors Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2016			2016		
May 1	To N's Loan A/c	1,28,000	Jan. 1	By Capital A/c	60,000
			May 1	By Reserves (2/5th of Rs.30,000)	12,000
			May 1	By B's Capital A/c (Share of goodwill)	50,400
			May 1	By P/L Suspense A/c (Share of Profit)	5,600
		<u>1,28,000</u>			<u>1,28,000</u>

