Short Questions for NCERT Accountancy Solutions Class 12 Part 1 Chapter 4

1. What are the different ways in which a partner can retire from the firm?

Here are the different ways:

1. For a partner to retire consent of firm's co-partners is required. A partner can retire if all partners agree with the decision to retire.

2. A partner can express his desire to retire by issuing a notice to the firm in case there is a written agreement.

3. A partner can retire by giving a written notice to all other partners in absence.

2. Write the various matters that need adjustments at the time of retirement of partner/partners.

At the time of retirement of partner/partners, following matters needs adjustment:

1. Determining new gaining ratio of the partners who are remaining in the firm.

2. Determine new ratio of firms remaining partners.

3. Determine goodwill of the firm and ensure its proper accounting treatment

4. Revaluating liabilities and assets of the new firm.

5. Distributing among all the partners the accumulated profits and losses, along with reserves.

6. Retiring partner's settlement

7. Revised calculation of capital accounts of remaining partners and their new and updated profit sharing ratio.

8. Joint life policy treatment.

3. Distinguish between sacrificing ratio and gaining ratio.

Basis of Difference	Sacrificing ratio	Gaining Ratio
1. Meaning	The ratio where a partner of a firm agree to sacrifice the profit share and make it available for new partner.	That ratio in which a partner obtains the profit share from the partner who is leaving the firm.
2. Calculation	Calculated as difference between old and new ratio	Calculated as difference between new and old ratio
3. Time	Calculation done at the admission of a new partner	Calculation done at the retirement/death of a partner.
4. Objective	It is used to determine the profit and loss share that is sacrificed by the current partners at the time of joining of new partner.	It is used to determine profit and loss share that is obtained by the existing partners when a partner retires/becomes deceased
5. Effect	Existing partners profit share is reduced	Continuing partner profit share is increased.

4. Why do firm revaluate assets and reassess their liabilities on retirement or on the event of death of a partner?

As a partner retires or is taken away by death, it becomes critical to determine the liabilities and assets value on the current date to get a fair idea about its true worth. Revaluation becomes essential as liabilities and assets may increase or decrease in value as time passes. It may also happen that certain liabilities and assets had remained unrecorded the last time books are updated. As a partner retires/ death happens, it may have a positive/negative impact on the value of firm's liabilities and assets. Therefore, it is a good idea to revaluate the value so that the true profit/loss can be determined so that it can be share d among partners as per sharing ratio as determined at the time of setting up partnership.

5. Why a retiring/deceased partner is entitled to a share of goodwill of the firm?

A firm earns goodwill by the efforts of the partners and is regarded as one of the most important intangible asset. After a partner retires or is dead, the good work that was done by that partner should be acknowledged and hence a proper compensation should be provided to the partner in form of a part of goodwill of firm.

Long Questions for NCERT Accountancy Solutions Class 12 Part 1 Chapter 4

1. Explain the modes of payment to a retiring partner.

Payment modes are discussed below:

1. When amount due to retiring partner is paid back in a lump sum amount, on the day of retirement, journal entries are as mentioned below

Retiring Partner's Capital A/c Dr.
To Cash/Bank A/c
(Payment made to the retired partner)

2. Amount to be paid to retiring partner can be paid in installments to the loan account, which helps partner earn interest on loan.

Retiring Partner's Capital A/c Dr.
To Retiring Partner's Loan A/c
(Capital account balance of Retiring partner transferred to account to the Loan account of retiring partner).

3. Part Payment: When the retiring partner needs to be paid some amount in cash and some as equal installments, then a certain sum of money is paid on day of retirement and rest of the sum is paid on a monthly basis to partners loan account. Following entries help show this type of transaction.

Retiring Partner's Capital A/c (total due amount payable to partner) Dr.
To Retiring Partner's Loan A/c (amount transferred to loan account)
To Cash A/c (part payment in form of cash)
(Part payment to retiring partner in cash as well as transfer to loan account)

2. How will you compute the amount payable to a deceased partner?

To determine the amount payable to the deceased partner, the legal executor is entitled to calculate that. It is arrived at posting these items in debit and credit side respectively.

Items to be posted on debit side:
1. Credit balance of deceased partner's capital account.
2. Profit share of the partner till his/her death
3. Share of goodwill of the partner.
4. Any gain on revaluation of liabilities and assets
5. Any salary or commission earned, till the date of demise.
6. Share in accumulated reserves and profit account
7. Any interest earned on capital
8. Share in life insurance policy

Items to be posted on credit side:
1. Deceased Partners debit balance from capital account.
2. Total drawings done till death of partner
3. Interest charged on drawings if any till the day of death.
4. Reduction in profit share or loss up to date of death.
5. Share of accumulated loss for the partner and firm

A legal executor balances excess of credit over the debit side of a deceased partner.

Deceased Partner's Capital Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Revaluation A/c (Loss)				Balance b/d		
	Profit and Loss Suspense A/c (Loss share till the date of death)				Profit and Loss Suspense A/c (Share of profit up to the date of the death)		
					Goodwill		
	Accumulated Losses A/c				Reserves and Profits		
	Goodwill A/c (Written off)				Revaluation A/c (gain)		
	Partner Executor's A/c (Balancing Figure)				Joint Life Policy A/c		
					Interest on Capital A/c		
					Salary A/c		
					Commission A/c		

3. Explain the treatment of goodwill at the time of retirement or on the event of death of a partner?

Goodwill is subjected to treatment on these two conditions:

1. When goodwill is present in the books of firm.
2. When goodwill is not present in books of the firm

1. When goodwill is present in books

The first step is to write off the goodwill if it is present in the books and must be distributed among the partners in the firm in the agreed profit sharing ratio. The journal entry will be like:
All Partners' Capital A/c Dr.
To Goodwill A/c
(Goodwill written off among partners)

The next step will be adjusting goodwill using partners' capital account with the share of goodwill of the deceased or retired partner

Remaining Partner's Capital A/c Dr.
To Retiring/Deceased Partner's Capital A/c (partners' capital account debited and retiring/deceased partners account credited)

2. When goodwill is not present in books of the firm

As goodwill is not present in the books of firm, it gets adjusted from the partners' capital account along with the deceased/retired partners share. Following entry is passed:
Remaining Partner's Capital A/c Dr.
To Retiring/Deceased Partner's Capital A/c
(Partners' capital account debited and retiring/deceased partners account credited)

4. Discuss the various methods of computing the share in profits in the event of death of a partner.

In the unlikely event of the death of a partner during the year, the executor is entitled for a profit sharing up to the date of death of the partner. Profit sharing can be calculated by two methods:

1. On Time Basis: In this method, profit earned till the date of partners death is considered for calculation on the basis of last year/year's profit or average profit earned in last few years. It is assumed that profit will remain constant throughout the year and the deceased partner will be eligible for profit share which is proportionate till the date of partner's death.

Share of Deceased Partner in Profit =

$$\text{Previous Year /Average Profit} \times \frac{\text{Time period from date of balance sheet till death}}{\text{12 months / 52 weeks / 365 days}} \times \text{Profit Share of deceased partner}$$

2) **On the sale basis:** Calculation of profit is based on last year's sale as per this method and also it is assumed that net profit of current year is similar to last year's profits.

Share of Deceased Partner's Profit = $\frac{\text{Previous Year's Profit}}{\text{Previous Year's Sales}}$ ×Sales counted from the beginning of the current year up to the date of death × Share of deceased partner

Numerical Questions for NCERT Accountancy Solutions Class 12 Part 1 Chapter 4

1. 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 ₹ 1, 80,000. Aparna and Sonia decided to share future in the ratio of 3:2. Pass necessary Journal entries.

Books of Aparna, and Sonia

Journal

Date	Particulars	L.F.	Amount ₹	Amount ₹
	Aparna's Capitals A/c Dr. Sonia's Capital A/c Dr. To Manisha's Capital A/c (Manisha's share of goodwill adjusted to Aparna's and Sonia's Capital Account in their gaining ratio)		18,000 42,000	 60,000

Working Notes:

1. Manisha's share in goodwill:

Total goodwill of the firm × Retiring Partner's Share = $1,80,000 \times \frac{1}{3} = 60,000$

2. Gaining Ratio = New Ratio − Old Ratio

Aparna Gaining share $= \frac{3}{5} - \frac{3}{6} = \frac{18-15}{30} = \frac{3}{30}$

Sonia Gaining Share $= \frac{2}{5} - \frac{1}{6} = \frac{12-5}{30} = \frac{7}{30}$

Gaining Ratio between Aparna and Sonia = 3: 7

3. Aparna's share in goodwill $= 60,000 \times \frac{3}{10} = 18,000$

Sonia's share in goodwill $= 60,000 \times \frac{7}{10} = 42,000$

2. Sangeeta, Saroj and Shanti are partners sharing profits in the ratio of 2:3:5. Goodwill is appearing in the books at a value of ₹ 60,000. Sangeeta retires and goodwill is valued at ₹ 90,000. Saroj and Shanti decided to share future profits equally. Record necessary Journal entries.

Books of Saroj and Shanti

Journal

Date	Particulars		L.F.	Amount ₹	Amount ₹
	Sangeeta's Capital A/c	Dr.		12,000	
	Saroj's Capital A/c	Dr.		18,000	
	Shanti's Capital A/c	Dr.		30,000	
	To Goodwill A/c				60,000
	(Goodwill written off)				
	Saroj's Capital A/c	Dr.		18,000	
	To Sangeeta's Capital A/c				18,000
	(Sangeeta's share of goodwill adjusted to Saroj's Capital Account in her gaining ratio)				

Working Notes:

1. Sangeeta's share of goodwill.

Total goodwill of the firm ´ Retiring Partner's share $= 90,000 \times \frac{2}{10} 18,000$

2. Gaining Ratio = New Ratio – Old Ratio

Saroj's Gaining Share $= \frac{1}{2} - \frac{3}{10} = \frac{10-6}{20} = \frac{4}{20}$

Shanti's Gaining Share $= \frac{1}{2} - \frac{5}{10} = \frac{10-10}{20} = \frac{0}{20}$

3. Himanshu, Gagan and Naman are partners sharing profits and losses in the ratio of 3:2:1. On March 31, 2017, Naman retires.

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

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

(iii) A provision of 5% on debtors to be created for bad and doubtful debts.

(iv) Stock was to be valued at ₹ 18,000 and Investment at ₹ 35,000.

Record the necessary journal entries to the above effect and prepare the Revaluation Account.

Books of Himanshu and Gagan

Journal

Date	Particulars		L.F.	Amount ₹	Amount ₹
	Building A/c	Dr.		20,000	
	Investment A/c	Dr.		5,000	
	To Revaluation A/c	Dr.			25,000
	(Value of Building and Investment increased at the time of Naman's retirement)				
	Revaluation A/c	Dr.		7,000	
	To Plant and Machinery A/c				4,000
	To Provision for Bad and Doubt Debts A/c				1,000
	To Stock A/c				2,000
	(Assets revalued and Provision for Bad and Doubtful Debts made at the time of Naman's retirement)				
	Revaluation A/c	Dr.		18,000	
	To Himanshu's Capital A/c				9,000
	To Gagan's Capital A/c				6,000
	To Naman's Capital A/c				3,000
	(Profit on revaluation transferred to all Partners' Capital Accounts in their old profit sharing ratio)				

Revaluation Account

Dr. Particular		Amount ₹	Particular	Cr. Amount ₹
Plant and Machinery		4,000	Building	20,000
Stock		2,000	Investment	5,000
Provision for Bad and Doubtful Debts		1,000		
Profit transferred to Capital Account:				
Himanshu	9,000			
Gagan	6,000			
Naman	3,000	18,000		
		25,000		25,000

4. Naresh, Raj Kumar and Bishwajeet are equal partners. Raj Kumar decides to retire. On the date of his retirement, the Balance Sheet of the firm showed the following: General Reserve's ₹ 36,000 and Profit and Loss Account (Dr.) ₹ 15,000.

Pass the necessary journal entries to the above effect.

Books of Naresh and Bishwajeet

Journal

Date	Particulars		L.F.	Amount ₹	Amount ₹
	General Reserve A/c	Dr.		36,000	
	To Naresh's Capital A/c				12,000
	To Raj Kumar's Capital A/c				12,000
	To Bishwajeet's Capital A/c				12,000
	(General Reserve distributed among old partner in old ratio)				
	Naresh's Capital A/c	Dr.		5,000	
	Raj Kumar's Capital A/c	Dr.		5,000	
	Bishwajeet's Capital A/c	Dr.		5,000	
	To Profit and Loss A/c				15,000
	(Debit balance of Profit and Loss Account written off)				

5. Digvijay, Brijesh and Parakaram were partners in a firm sharing profits in the ratio of 2:2:1. Their Balance Sheet as on March 31, 2017 was as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	49,000	Cash	8,000
Reserves	18,500	Debtors	19,000
Digvijay's Capital	82,000	Stock	42,000
Brijesh's Capital	60,000	Buildings	2,07,000
Parakaram's Capital	75,500	Patents	9,000
	2,85,000		2,85,000

Brijesh retired on March 31, 2017 on the following terms:

(i) Goodwill of the firm was valued at ₹ 70,000 and was not to appear in the books.

(ii) Bad debts amounting to ₹ 2,000 were to be written off.

(iii) Patents were considered as valueless.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of Digvijay and Parakaram after Brijesh's retirement.

Books of Digvijay and Parakaram

Revaluation Account

Dr. **Cr.**

Particular	Amount ₹	Particular	Amount ₹
Bad Debts	2,000		
Patents	9,000	Loss transferred to Capital Account:	
		Digvijay	4,400
		Brijesh	4,400
		Parakaram	2,200
	11,000		11,000

Partners' Capital Account

Dr. Particularss	Digvijay	Brijesh	Parakaram	Particularss	Digvijay	Brijesh	Cr. Parakaram
Brijesh's Capital A/c	18,667		9,333	Balance b/d	82,000	60,000	75,500
Revaluation (Loss)	4,400	4,400	2,200	Digvijay's Capital A/c		18,667	
Brijesh's Loan		91,000		Parakaram's Capital A/c		9,333	
Balance c/d	66,333		67,667	Reserves	7,400	7,400	3,700
	89,400	95,400	79,200		89,400	95,400	79,200

Balance Sheet as on March 31, 2017

Liabilities	Amount ₹	Assets		Amount ₹
Creditors	49,000	Cash		8,000
Brijesh's Loan	91,000	Debtors	19,000	
		Less: Bad Debts	2,000	17,000
Digvijay's Capital A/c	66,333	Stock		42,000
Parakaram's Capital A/c	67,667	Buildings		2,07,000
	2,74,000			2,74,000

Note: As sufficient balance is not available to pay the amount due to Brijesh, the balance of his Capital Account transferred to his Loan Account.

Working Note:

1. Brijesh's Share of Goodwill

Total goodwill of the firm ´ Retiring Partner's Share $= 70,000 \times \frac{2}{5} = \text{Rs } 28,000$

2. Gaining Ratio = New Ratio – Old Ratio

Digvijay's Share $= \frac{2}{3} - \frac{2}{5} = \frac{10-6}{15} = \frac{4}{15}$

Parakaram's Share $= \frac{1}{3} - \frac{1}{5} = \frac{5-3}{15} = \frac{2}{15}$

Gaining ratio between Digvijay and Parakaram = 4: 2 or 2: 1

6. Radha, Sheela and Meena were in partnership sharing profits and losses in the proportion of 3:2:1. On April 1, 2017, Sheela retires from the firm. On that date, their Balance Sheet was as follows:

Liabilities		Amount ₹	Assets	Amount ₹
Trade Creditors		3,000	Cash-in-Hand	1,500
Bills Payable		4,500	Cash at Bank	7,500
Expenses Owing		4,500	Debtors	15,000
General Reserve		13,500	Stock	12,000
Capitals:			Factory Premises	22,500
Radha	15,000		Machinery	8,000
Sheela	15,000		Losse Tools	4,000
Meena	15,000	45,000		
		70,500		70,500

The terms were:

a) Goodwill of the firm was valued at ₹ 13,500.

b) Expenses owing to be brought down to ₹ 3,750.

c) Machinery and Loose Tools are to be valued at 10% less than their book value.

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

Prepare:

1. Revaluation account

2. Partner's capital accounts and

3. Balance sheet of the firm after retirement of Sheela.

Books of Radha and Meena

Revaluation Account

Dr. Particulars		Amount ₹	Particulars	Cr. Amount ₹
Machinery		800	Expenses Owing	750
Loose Tools		400	Factory Premises	1,800
Profit transferred to Capital Account:				
Meena	675			
Radha	450			
Sheela	225	1,350		
		2,550		2,550

Parters' Capital Account

Dr. Particulars	Radha	Sheela	Meena	Particulars	Radha	Sheela	Cr. Meena
Sheela's Capital A/c	3,375		1,125	Balance b/d	15,000	15,000	15,000
Sheela's Loan A/c		24,450		General Reserve	6,750	4,500	2,250
Balance c/d	19,050		16,350	Revaluation (Profit)	675	450	225
				Radha's Capital A/c		3,375	
				Meena's Capital A/c		1,125	
	22,425	24,450	17,475		22,425	24,450	17,475

Balance Sheet as on April 01, 2017

Liabilities		Amount ₹	Assets		Amount ₹
Trade Creditors		3,000	Cash in Hand		1,500
Bills Payable		4,500	Cash at Bank		7,500
Expenses Owing		3,750	Debtors		15,000
Sheela's Loan		24,450	Stock		12,000
			Factory Premises		24,300
Capitals:			Machinery	8,000	
Radha	19,050		*Less*: 10%	(800)	7,200
Meena	16,350	35,400	Loose Tools	4,000	
			Less: 10%	(400)	3,600

	71,100		71,100

Working Notes:

Working Notes:

1) Sheela's share of goodwill

Total goodwill of the firm × Retiring Partner's share =13,500×26=4, 50013x, 500×26=4,500

2) Gaining Ratio = New Ratio − Old Ratio

Radha's Share $= \frac{3}{4} - \frac{3}{6} = \frac{18-12}{24} = \frac{6}{24}$

Meena's Shares $= \frac{1}{4} - \frac{1}{6} = \frac{6-4}{24} = \frac{2}{6}$

Gaining Ratio between Radha and Meena = 6 : 2 or 3 : 1

7. 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:

Books of Pankaj, Naresh and Saurabh

Balance Sheet as on March 31, 2017

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 Doubtful Debt	400	5,600
Outstanding Salary		2,200			
Provision for Legal Damages		6,000	Stock		9,000
Capitals:			Furniture		41,000
Pankaj	46,000		Premises		80,000
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 ₹ 1,200 and furniture to be brought up to ₹ 45,000.

(ii) Goodwill of the firm be valued at ₹ 42,000.

(iii) ₹ 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.

Revaluation Account

Dr. Particulars		Amount ₹	Particulars	Cr. Amount ₹
Stock		900	Premises	16,000
Provision for Legal Damages		1,200	Provision for Doubtful Debts	100
Profit transferred to Capital:			Furniture	4,000
Pankaj	9,000			
Naresh	6,000			
Saurabh	3,000	18,000		
		20,100		20,100

Partners' Capital Accounts

Dr. Particulars	Pankaj	Naresh	Saurabh	Particulars	Pankaj	Naresh	Cr. Saurabh
Naresh's Capital A/c	14,000			Balance b/d	46,000	30,000	20,000
Naresh's Loan A/c		26,000		General Reserve	6,000	4,000	2,000
Bank		28,000		Revaluation (Profit)	9,000	6,000	3,000
Balance c/d	47,000		25,000	Pankaj's Capital A/c		14,000	
	61,000	54,000	25,000		61,000	54,000	25,000

Bank Account

Particulars	Amount ₹	Particulars	Cr. Amount ₹
Balance b/d	7,600	Naresh's Capital A/c	28,000
Bank Loan (*Balancing Figure*)	20,400		
	28,000		28,000

Balance Sheet as on March 31, 2017

Liabilities		Amount ₹	Assets		Amount ₹
Sundry Creditors		15,000	Debtors	6,000	
Bills Payable		12,000	*Less*: Provision for Doubtful Debts	300	5,700
Bank Loan/overdraft		20,400	Stock		8,100
Outstanding Salaries		2,200	Furniture		45,000
Provision for Legal Damages		7,200	Premises		96,000
Naresh's Loan		26,000			
Capitals:					
Pankaj	47,000				
Saurabh	25,000	72,000			
		1,54,800			1,54,800

8. Puneet, Pankaj and Pammy are partners in a business sharing profits and losses in the ratio of 2:2:1 respectively. Their balance sheet as on March 31, 2017 was as follows:

Books of Puneet, Pankaj and Pammy

Balance Sheet as on March 31, 2017

Liabilities		Amount ₹	Assets	Amount ₹
Sundry Creditors		1,00,000	Cash at Bank	20,000
Capital Accounts:			Stock	30,000
Puneet	60,000		Sundry Debtors	80,000
Pankaj	1,00,000		Investments	70,000
Pammy	40,000	2,00,000	Furniture	35,000
Reserve		50,000	Buildings	1,15,000
		3,50,000		3,50,000

Mr. Pammy died on September 30, 2017. The partnership deed provided the following:

(i) The deceased partner will be entitled to his share of profit up to the date of death calculated on the basis of previous year's profit.

(ii) He will be entitled to his share of goodwill of the firm calculated on the basis of 3 years' purchase of average of last 4 years' profit. The profits for the last four financial years are given below: for 2013–14; ₹ 80,000; for 2014–15, ₹ 50,000; for 2015–16, ₹ 40,000; for 2016–17, ₹ 30,000.

The drawings of the deceased partner up to the date of death amounted to ₹ 10,000. Interest on capital is to be allowed at 12% per annum.

Surviving partners agreed that ₹ 15,400 should be paid to the executors immediately and the balance in four equal yearly instalments with interest at 12% p.a. on outstanding balance.

Show Mr. Pammy's Capital account, his Executor's account till the settlement of the amount due.

Pammy's Capital Account

Dr. Particulars	Amount ₹	Particulars	Cr. Amount ₹
Drawings	10,000	Balance b/d	40,000
Pammy Executor's A/c	75,400	Profit and Loss (Suspense)	3,000
		Puneet's Capital A/c	15,000
		Pankaj's Capital A/c	15,000
		Interest on Capital	2,400
		Reserve	10,000
	85,400		85,400

Pammy's Executor Account

Dr. Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Cr. Amount ₹
2017-18				2017-18			
Sep. 30	Bank		15,400	Sep. 30	Pammy's Capital A/c		75,400
Mar. 31	Balance c/d		63,600	Mar. 31	Interest		3,600
			79,000				79,000
2018-19				2018-19			
Sep. 30	Bank		22,200	April 01	Balance b/d		63,600
	(15,000+3,600+3,600)			Sep. 30	Interest		3,600
Mar. 31	Balance c/d		47,700	Mar. 31	Interest		2,700
			69,900				69,900
2019-20				2019-20			
Sep. 30	Bank		20,400	April 01	Balance b/d		47,700
Mar. 31	Balance c/d		31,800	Sep. 30	Interest		2,700
				Mar. 31	Interest		1,800
			52,200				52,200
2020-21				2020-21			
Sep. 30	Bank		18,600	April 01	Balance b/d		31,800
	(15,000+1,800+1,800)			Sep. 30	Interest		1,800
Mar. 31	Balance c/d		15,900	Mar. 31	Interest		900
			34,500				34,500

2021-22 Sep. 30	Bank (15,000+900+900)		16,800	2021-22 April 01 Sep. 30	Balance b/d Interest		15,900 900
			16,800				16,800

Working Notes:

1) Pammy's Share of Profit

Previous Year's Profit ´ Proportionate Period ´ Share of Deceased Partner $= 30,000 \times \frac{6}{12} \times \frac{1}{5} = \text{Rs } 3,000$

2) Pammy's Share of Goodwill

Goodwill of the firm = Average Profit ´ Numbers of Year's Purchase

Average Profit $= \frac{80,000 + 50,000 + 40,000 + 30,000}{4} = \frac{2,00,000}{4} = \text{Rs } 50,000$

Goodwill of the firm = 50,000 ´ 3 = ₹ 1,50,000

$$\text{Pammy's Share} = 1,50,000 \times \frac{1}{5} = \text{Rs } 30,000$$

3) Gaining Ratio = New Ratio – Old Ratio

Puneet's Share $= \frac{2}{4} - \frac{2}{5} = \frac{10-8}{20} = \frac{2}{20}$

Pankaj's Share $= \frac{2}{4} - \frac{2}{5} = \frac{10-8}{20} = \frac{2}{20}$

Gaining Ratio between Puneet and Pankaj = 2 : 2 or 1 : 1

4) Interest on Capital for 6 months, i.e. from April 1, 2007 to September 30, 2007

Amount of Capital ´ Rate of Interest ´ Period $= 40,000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs } 2,400$

5) Interest Amount

The firm closes its books every year on March 31, while installments to Pammy's Executor are paid on September 30 every year.

Amount outstanding on 30 September = 75,400 – 15,400 = ₹ 60,000

Calculation of Interest

Periods	Amount Outstanding	Yearly Interest	For 6 Months
2017-18	60,000	$60,000\times\frac{12}{100}=7,200$	$7,200\times\frac{6}{12}=3,600$
2018-19	45,000	$45,000\times\frac{12}{100}=5,400$	$5,400\times\frac{6}{12}=2,700$
2019-20	30,000	$30,000\times\frac{12}{100}=3,600$	$3,600\times\frac{6}{12}=1,800$
2020-21	15,000	$15,000\times\frac{12}{100}=1,800$	$1,800\times\frac{6}{12}=900$

9. Following is the Balance Sheet of Prateek, Rockey and Kushal as on March 31, 2017.

Books of Prateek, Rockey and Kushal

Balance Sheet as on March 31, 2017

Liabilities		Amount ₹	Assets	Amount ₹
Sundry Creditors		16,000	Bills Receivable	16,000
General Reserve		16,000	Furniture	22,600
Capital Accounts:			Stock	20,400
Prateek	30,000		Sundry Debtors	22,000
Rockey	20,000		Cash at Bank	18,000
Kushal	20,000	70,000	Cash in Hand	3,000
		1,02,000		1,02,000

Rockey died on June 30, 2017. Under the terms of the partnership deed, the executors of a deceased partner were entitled to:

a) Amount standing to the credit of the Partner's Capital account.

b) Interest on capital at 5% per annum.

c) Share of goodwill on the basis of twice the average of the past three years' profit and

d) Share of profit from the closing date of the last financial year to the date of death on the basis of last year's profit.

Profits for the year ending on March 31, 2015, March 31, 2016 and March 31, 2017 were ₹ 12,000, ₹ 16,000 and ₹ 14,000 respectively. Profits were shared in the ratio of capitals.

Pass the necessary journal entries and draw up Rockey's capital account to be rendered to his executor.

Books of Prateek and Kushal

Journal

Date	Particulars		L.F.	Amount ₹	Amount ₹
2017					
June 30	Interest on Capital A/c	Dr.		250	
	Profit and Loss (Suspense) A/c	Dr.		1,000	
	General Reserve A/c	Dr.		4,571	
	To Rockey's Capital A/c				5,821
	(Share of profit, interest on capital and share of General Reserve credited to Rockey's Capital Account)				
June 30	Prateek's Capital A/c	Dr.		4,800	
	Kushal's Capital A/c	Dr.		3,200	
	To Rockey's Capital A/c				8,000
	(Rockey's share of goodwill adjusted to Prateek's and Kushal's Capital Account in their gaining ratio, 3:2)				
June 30	Rockey's Capital A/c	Dr.		33,821	
	To Rockey Executor's A/c				33,821
	(Balance of Rockey's Capital Account transferred to his Executor's Account)				

Rockey's Capital Account

Dr. Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Cr. Amount ₹
2017				2017			
April 1	Rockey's Executor A/c		33,821	April 1	Balance b/d		20,000
					Interest on Capital		250
					Profit and Loss (Suspense) A/c		1,000
					General Reserve		4,571
					Prateek's Capital		4,800
					Kushal's Capital		3,200
			33,821				33,821

Working Notes:

1. Rockey's Share of Profit = Previous year's profit × Proportionate Period × Share of Deceased Partner

$$= 14,000 \times \frac{3}{12} \times \frac{2}{7} = \text{Rs } 1,000$$

2. Rockey's Share of Goodwill

Goodwill of a firm = Average profit × Numbers of year's Purchase

$$\text{Average Profit} = \frac{12,000 + 16,000 + 14,000}{3} = \frac{42,000}{3} = \text{Rs } 14,000$$

Goodwill of a firm = 14,000 × 2 = ₹ 28,000

$$\text{Rockey's Share} = 28,000 \times \frac{2}{7} = \text{Rs } 8,000$$

3. Gaining Ratio = New Ratio − Old Ratio

$$\text{Prateek's Share} = \frac{3}{5} - \frac{3}{7} = \frac{21-15}{35} = \frac{9}{35}$$

$$\text{Kushal's Share} = \frac{2}{5} - \frac{2}{7} = \frac{14-10}{35} = \frac{4}{35}$$

Gaining Ratio between Prateek and Kushal = 9:4 or 3:2

4. Interest on Capital for 3 months i.e. from April 1, 2017 to June 30, 2017

Amount of × Rate of Interest × Period $= 20,000 \times \frac{5}{100} \times \frac{3}{12} = \text{Rs } 250$

10. Narang, Suri and Bajaj are partners in a firm sharing profits and losses in proportion of 1/2 , 1/6 and 1/3 respectively. The Balance Sheet on April 1, 2015 was as follows:

Books of Suri, Narang and Bajaj

Balance Sheet as on April 1, 2015

Liabilities		Amount ₹	Assets		Amount ₹
Bills Payable		12,000	Freehold Premises		40,000
Sundry Creditors		18,000	Machinery		30,000
Reserves		12,000	Furniture		12,000
Capital Accounts:			Stock		22,000
Narang	30,000		Sundry Debtors	20,000	
Suri	20,000		*Less:* Reserve	1,000	19,000
Bajaj	28,000	88,000	for Bad Debt		
			Cash		7,000
		1,30,000			1,30,000

Bajaj retires from the business and the partners agree to the following:
a) Freehold premises and stock are to be appreciated by 20% and 15% respectively.
b) Machinery and furniture are to be depreciated by 10% and 7% respectively.
c) Bad Debts reserve is to be increased to ₹ 1,500.
d) Goodwill is valued at ₹ 21,000 on Bajaj's retirement.
e) The continuing partners have decided to adjust their capitals in their new profit sharing ratio after retirement of Bajaj. Surplus/deficit, if any, in their capital accounts will be adjusted through current accounts.
Prepare necessary ledger accounts and draw the Balance Sheet of the reconstituted firm.

Revaluation Account

Dr. Particulars		Amount ₹	Particulars	Cr. Amount ₹
Machinery		3,000	Freehold Properties	8,000
Furniture		840	Stock	3,300
Reserve for Bad debts		500		
Capitals:				
Narang	3,480			
Suri	1,160			
Bajaj	2,320	6,960		
		11,300		11,300

Partners' Capital Account

Dr. Particulars	Narang	Suri	Bajaj	Particulars	Narang	Suri	Cr. Bajaj
Bajaj's Capital A/c	5,250	1,750		Balance b/d	30,000	30,000	28,000
Bajaj's Loan			41,320	Reserves	6,000	2,000	4,000
				Revaluation (Profit)	3,480	1,160	2,320
Balance c/d	34,230	31,410		Narang's Capital A/c			5,250
				Suri's Capital A/c			1,750
	39,480	33,160	41,320		39,480	33,160	41,320
Suri's Current A/c		15,000		Balance b/d	34,230	31,410	
				Narang's Current A/c	15,000		
Balance c/d	49,230	16,410					
	49,230	31,410			49,230	31,410	

Balance Sheet as on April 01, 2015

Liabilities		Amount ₹	Assets		Amount ₹
Bills Payable		12,000	Free hold Premises		48,000
Sundry Creditors		18,000	Machinery		27,000
Bajaj's Loan		41,320	Furniture		11,160
Suri's Current		15,000	Stock		25,300
Capital Account:			Sundry Debtors	20,000	
Narang	49,230		*Less*: Reserve for Bad Debt	1,500	18,500
Suri	16,410	65,640	Cash		7,000
			Narang's Current Account		15,000
		1,51,960			1,51,960

Working Notes:

1. Bajaj Share in Goodwill = Total Goodwill of the firm ´ Retiring Partner's Share = $21,000 \times \frac{1}{3} = \text{Rs } 7,000$

2. Gaining Ratio = New Ratio – Old Ratio

$$\text{Narang's Gaining Share} = \frac{3}{4} - \frac{3}{6} = \frac{9-6}{12} = \frac{3}{12}$$

$$\text{Suri's Gaining Share} = \frac{1}{4} - \frac{1}{6} = \frac{3-2}{12} = \frac{1}{12}$$

Gaining Ratio between Narang and Suri = 3:1

3. Calculation of New Capitals of the existing partners.

Balance in Narang's Capital	=	34,230
Balance in Suri's Capital	=	31,410
Total Capital of the New firm after revaluation of assets and liabilities and adjustment of Goodwill and Reserves	=	₹ 65,640

Based on new profit sharing ratio of 3:1

$$\text{Narang's Capital} = 65,640 \times \frac{3}{4} = \text{Rs } 49,230$$

$$\text{Suri's Capital} = 65,640 \times \frac{1}{4} = \text{Rs } 16,410$$

NOTE:

i. In the given Question Suri's Capital is ₹ 30,000 instead of ₹ 20,000.

ii. Due to insufficient balance in Bajaj's Capital Account, the amount due to Bajaj is transferred to his Loan Account.

11. The Balance Sheet of Rajesh, Pramod and Nishant who were sharing profits in proportion to their capitals stood as on March 31, 2015:

Books of Rajesh, Pramod and Nishant

Balance Sheet as on March 31, 2015

Liabilities		**Amount ₹**	**Assets**		**Amount ₹**
Bills Payable		6,250	Factory Building		12,000
Sundry Creditors		10,000	Debtors	10,500	
Reserve Fund		2,750	*Less:* Reserve	500	10,000
Capital Accounts:			Bills Receivable		7,000
Rajesh	20,000		Stock		15,500
Pramod	15,000		Plant and Machinery		11,500
Nishant	15,000	50,000	Bank Balance		13,000
		69,000			69,000

Pramod retired on the date of Balance Sheet and the following adjustments were made:

a) Stock was valued at 10% less than the book value.

b) Factory buildings were appreciated by 12%.

c) Reserve for doubtful debts be created up to 5%.

d) Reserve for legal charges to be made at ₹ 265.

e) The goodwill of the firm be fixed at ₹ 10,000.

f) The capital of the new firm be fixed at ₹ 30,000. The continuing partners decide to keep their capitals in the new profit sharing ratio of 3:2.

Pass journal entries and prepare the balance sheet of the reconstituted firm after transferring the balance in Pramod's Capital account to his loan account.

Journal

Date	Particulars		L.F.	Amount ₹	Amount ₹
2015					
Mar. 31	Revaluation A/c	Dr.		1,840	
	To Stock A/c				1,550
	To Reserve for Doubtful Debts A/c				25
	To Reserve for Legal Charges A/c				265
	(Assets and Liabilities are revalued)				
Mar. 31	Factory Building A/c	Dr.		1,440	
	To Revaluation A/c				1,440
	(Factory Building appreciated)				
Mar. 31	Rajesh's Capital A/c	Dr.		160	
	Pramod's Capital A/c	Dr.		120	
	Nishant's Capital A/c	Dr.		120	
	To Revaluation A/c				400
	(Loss on Revaluation adjusted to Partners' Capital Account)				
Mar. 31	Rajesh's Capital A/c	Dr.		2,000	
	Nishant's Capital A/c	Dr.		1,000	
	To Pramod Capital's A/c				3,000
	(Pramod's share of goodwill adjusted to Rajesh's and Nishant's Capital Account in their gaining ratio)				
Mar. 31	Reserve Fund A/c	Dr.		2,750	
	To Rajesh's Capital A/c				1,100
	To Pramod's Capital A/c				825
	To Nishant's Capital A/c				825
	(Reserve Fund distributed all the partners)				
Mar. 31	Pramod's Capital A/c	Dr.		18,705	
	To Pramod's Loan A/c				18,705
	(Pramod's Capital transferred to his Loan Account)				
Mar. 31	Rajesh's Capital A/c	Dr.		940	
	Nishant's Capital A/c	Dr.		2,705	
	To Rajesh's Current A/c				940
	To Nishant's Current A/c				2,705

	(Excess in Capital Account is transferred to Current Account)			

Parters' Capital Account

Dr. Particulars	Rajesh	Pramod	Nishant	Particulars	Rajesh	Pramod	Nishant Cr.
Revaluation (Loss)	160	120	120	Balance b/d	20,000	15,000	15,000
Pramod's Capital A/c	2,000		1,000	Reserve Fund	1,100	825	825
Pramod's Loan A/c		18,705		Rajesh's Capital A/c		2,000	
Rajesh's Current A/c	940			Nishant's Capital A/c		1,000	
Nishant's Current A/c			2,705				
Balance c/d	18,000		12,000				
	21,100	18,825	15,825		21,100	18,825	15,825

Balance Sheet as on March 31, 2015

Liabilities		Amount ₹	Assets		Amount ₹
Bills Payable		6,250	Plant and Machinery		11,500
Sundry Creditors		10,000	Debtors	10,500	
Reserve for Legal Charges		265	*Less*: Reserve	(525)	9,975
Pramod's Loan		18,705	Bills Receivable		7,000
Current Account:			Stock	15,500	
Rajesh	940		*Less*: 10% Depreciation	(1,550)	13,950
Nishant	2,705	3,645			
Capital Account:			Factory Building	12,000	13,440
Rajesh	18,000		*Add*: 12% Appreciation	1,440	
Nishant	12,000	30,000	Bank Balance		13,000
		68,865			68,865

Working Notes:

1) Pramod's share of goodwill = Total goodwill of the firm × Retiring Partner's Share = $10,000 \times \frac{3}{10} = \text{Rs } 3,000$

2) Gaining Ratio = New Ratio − Old Ratio

$$\text{Rajesh's Gaining Share} = \frac{3}{5} - \frac{4}{10} = \frac{6-4}{10} = \frac{2}{10}$$

$$\text{Nishant Gaining Share} = \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$$

Gaining Ratio between Rajesh and Nishant = 2:1

NOTE: In the above solution, in order to adjust the capital of remaining partners in the new firm according to their new profit sharing ratio, the surplus or the deficit of Capital Account is transferred to their Current Account. But, in order to match the answer with that of given in the book, the surplus or the deficit amount of the Partners' Capital Account, will either be withdrawn or brought in by the old partners. This treatment will be shown in the Partners' Capital itself and no need to transfer the surplus or deficit capital balance to their Current Accounts. The following Journal entry is passed to record the withdrawal of surplus capital by the partners.

If existing partners withdraw their excess capital

Journal entry

Rajesh's Capital A/c	Dr.	940	
Nishant's Capital A/c	Dr.	2,705	
To Bank A/c			3,645
(Surplus Capital withdrawn)			

Balance Sheet as on March 31, 2015

Liabilities		Amount ₹	Assets		Amount ₹
Bills Payable		6,250	Plant and Machinery		11,500
Sundry Creditors		10,000	Debtors	10,500	
Reserve for Legal Charges		265	*Less*: Reserve	(525)	9,975
Pramod's Loan		18,705	Bills Receivable		7,000
Capital:			Stock	15,500	
Rajesh	18,000		*Less*: 10% Depreciation	(1,550)	13,950
Nishant	12,000	30,000			
			Factory Building	12,000	
			Add: 12% Appreciation	1,440	13,440
			Bank Balance		9,355
		65,220			65,220

12. Following is the Balance Sheet of Jain, Gupta and Malik as on March 31, 2016.

Books of Jain, Gupta and Malik
Balance Sheet as on March 31, 2016

Liabilities		Amount ₹	Assets	Amount ₹
Sundry Creditors		19,800	Land and Building	26,000
Telephone Bills Outstanding		300	Bonds	14,370
Accounts Payable		8,950	Cash	5,500
Accumulated Profits		16,750	Bills Receivable	23,450
			Sundry Debtors	26,700
Capitals :			Stock	18,100
Jain	40,000		Office Furniture	18,250
Gupta	60,000		Plants and Machinery	20,230
Malik	20,000	1,20,000	Computers	13,200
		1,65,800		1,65,800

The partners have been sharing profits in the ratio of 5:3:2. Malik decides to retire from business on April 1, 2016 and his share in the business is to be calculated as per the following terms of revaluation of liabilities and assets : Stock, ₹ 20,000; Office furniture, ₹ 14,250; Plant and Machinery ₹ 23,530; Land and Building ₹ 20,000.
A provision of ₹ 1,700 to be created for doubtful debts. The goodwill of the firm is valued at ₹ 9,000.
The continuing partners agreed to pay ₹ 16,500 as cash on retirement of Malik, to be contributed by continuing partners in the ratio of 3:2. The balance in the capital account of Malik will be treated as loan.
Prepare Revaluation account, capital accounts, and Balance Sheet of the reconstituted firm.

In the books of Jain and Gupta

Revaluation Account

Dr. Cr.

Particulars	Amount ₹	Particulars		Amount ₹
Office Furniture	4,000	Stock		1,900
Land and Building	6,000	Plant and Machinery		3,300
Provision for Doubtful Debts	1,700	Loss transferred to		
		Jain's Capital A/c	3,250	
		Gupta's Capital A/c	1,950	
		Malik's Capital A/c	1,300	6,500
	11,700			11,700

Partners' Capital Account

Dr. **Cr.**

Particulars	Jain	Gupta	Malik	Particulars	Jain	Gupta	Malik
Revaluation (Loss)	3,250	1,950	1,300	Balance b/d	40,000	60,000	20,000
Malik's Capital	1,125	675		Accumulated Profits	8,375	5,025	3,350
Cash			16,500	Jain's Capital A/c			1,125
Malik's Loan			7,350	Gupta's Capital A/c			675
Balance c/d	53,900	69,000		Cash	9,900	6,600	
	58,275	71,625	25,150		58,275	71,625	25,150

Balance Sheet

Liabilities		Amount ₹	Assets		Amount ₹
Sundry Creditors		19,800	Stock (18,100 + 1,900)		20,000
Telephone Bills Outstanding		300	Bonds		14,370
Accounts Payable		8,950	Cash		5,500
Malik's Loan		7,350	Bills Receivable		23,450
			Sundry Debtors	26,700	
Partners' Capital:			*Less*: Provision for Bad Debts	1,700	25,000
Jain	53,900		Land and Building (26,000 – 6,000)		20,000
Gupta	69,000	1,22,900	Office Furniture (18,250 – 4,000)		14,250
			Plant and Machinery (20,230 + 3,300)		23,530
			Computers		13,200
		1,59,300			1,59,300

Working Note:

1) Malik's share of goodwill = Total Goodwill × Retiring Partner Share = $9{,}000 \times \frac{2}{10} = 1{,}800$

2) Gaining Ratio = New Ratio – Old Ratio

$$\text{Jain's Gaining share} = \frac{5}{8} - \frac{5}{10} = \frac{50-40}{80} = \frac{10}{80}$$

$$\text{Gupta Gaining Share} = \frac{3}{8} - \frac{3}{10} = \frac{30-24}{80} = \frac{6}{80}$$

Gaining Ratio between Jain and Gupta = 10:6 or 5:3

13. Arti, Bharti and Seema are partners sharing profits in the proportion of 3:2:1 and their Balance Sheet as on March 31, 2016 stood as follows:

Books of Arti, Bharti and Seema

Balance Sheet as on March 31, 2016

Liabilities		Amount ₹	Assets	Amount ₹
Bills Payable		12,000	Buildings	21,000
Creditors		14,000	Cash in Hand	12,000
General Reserve		12,000	Bank	13,700
Capitals:			Debtors	12,000
Arti 20,000			Bills Receivable	4,300
Bharti	12,000		Stock	1,750
Seema	8,000	40,000	Investment	13,250
		78,000		78,000

Bharti died on June 12, 2016 and according to the deed of the said partnership, her executors are entitled to be paid as under:
(a) The capital to her credit at the time of her death and interest thereon @ 10% per annum.
(b) Her proportionate share of reserve fund.
(c) Her share of profits for the intervening period will be based on the sales during that period, which were calculated as ₹ 1, 00,000. The rate of profit during past three years had been 10% on sales.
(d) Goodwill according to her share of profit to be calculated by taking twice the amount of the average profit of the last three years less 20%. The profits of the previous years were:
2013 – ₹ 8,200
2014 – ₹ 9,000
2015 – ₹ 9,800
The investments were sold for ₹ 16,200 and her executors were paid out. Pass the necessary journal entries and write the account of the executors of Bharti.

Books of Arti and Seema

Journal

Date	Particulars		L.F.	Amount ₹	Amount ₹
2016					
June 12	Interest on Capital A/c	Dr.		240	
	General Reserve A/c	Dr.		4,000	
	Profit and Loss (Suspense) A/c	Dr.		3,333	
	To Bharti's Capital A/c				7,573
	(Profit, interest and general reserve are in credited to Bharti's Capital account)				
June 12	Arti's Capital A/c	Dr.		3,600	
	Seema's Capital A/c	Dr.		1,200	
	To Bharti's Capital A/c				4,800
	(Bharti's share of goodwill adjusted to Arti's and Seema's Capital Account in their gaining ratio, 3:1)				
June 12	Bharti's Capital A/c	Dr.		24,373	
	To Bharti's Executor's A/c				24,373
	(Bharti's capital account is transferred to her executor's account)				
June 12	Bank A/c	Dr.		16,200	
	To Investment A/c				13,250
	To Profit on Sale of Investment				2,950
	(Investment sold)				
June 12	Bharti's Executor A/c	Dr.		24,373	
	To Bank A/c				24,373
	(Bharti Executor paid)				

Bharti's Capital Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2016				2016			
June 12	Bharti's Executor's A/c		24,373	Mar. 31	Balance b/d		12,000
				June 12	Interest on Capital		240
					Profit and Loss (Suspense)		3,333
					General Reserve		4,000
					Arti's Capital A/c		3,600
					Seema's Capital A/c		1,200
			24,373				24,373

Bharti's Executor's Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2016				2016			
June 12	Bank		24,373	June 12	Bharti's Capital A/c		24,373
			24,373				24,373

Working Notes:

1. Bharti's share of profit = Profit is 10% of sales

Sales during the last year for that period were ₹ 1, 00,000

If sales are ₹ 1, 00,000, then the profit is ₹ 10,000

$$\text{Bharti's share} = 10,000 \times \frac{2}{6} = \text{Rs } 3,333$$

2. Bharti's Share of Goodwill

Goodwill of the firm = Average Profit × Number of Years Purchase

$$\text{Average Profit} = \frac{8,200+9,000+9,800}{3} = \text{Rs } 9,000$$

Or, 9,000 − 20% of 9,000 = 9,000 − 1,800 = ₹ 7,200

Goodwill of the firm = 7,200 × 2 = ₹ 14,400

$$\text{Bharti's share} = 14,400 \times \frac{2}{6} = \text{Rs } 4,800$$

3. Gaining Ratio = New Ratio − Old Ratio

$$\text{Arti's Gaining Share} = \frac{3}{4} - \frac{3}{6} = \frac{9-6}{12} = \frac{3}{12}$$

$$\text{Seema's Gaining Share} = \frac{1}{4} - \frac{1}{6} = \frac{3-2}{12} = \frac{1}{12}$$

Gaining ratio between Arti and Seema = 3:1

4. Interest on Capital for 73 days, i.e. from April 1, 2016 to June 12, 2016

Interest on capital = Amount of Capital × Ratio of Interest × Period $= 12,000 \times \frac{10}{100} \times \frac{73}{365} = \text{Rs } 240$

14. Nithya, Sathya and Mithya were partners sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet as on March 31, 2015 was as follows:

Books of Nithya, Sathya and Mithya

Balance Sheet at March 31, 2015

Liabilities		Amount ₹	Assets	Amount ₹
Creditors		14,000	Investments	10,000
Reserve Fund		6,000	Goodwill	5,000
Capitals:			Premises	20,000
Nithya	30,000		Patents	6,000
Sathya	30,000		Machinery	30,000
Mithya	20,000	80,000	Stock	13,000
			Debtors	8,000
			Bank	8,000
		1,00,000		1,00,000

Mithya dies on August 1, 2015. The agreement between the executors of Mithya and the partners stated that:

(a) Goodwill of the firm be valued at $2\frac{1}{2}$ times the average profits of last four years. The profits of four years were : in 2011-12, ₹ 13,000; in 2012-13, ₹ 12,000; in 2013-14, ₹ 16,000; and in 2014-15, ₹ 15,000.
(b) The patents are to be valued at ₹ 8,000, Machinery at ₹ 25,000 and Premises at ₹ 25,000.
(c) The share of profit of Mithya should be calculated on the basis of the profit of 2014-15.
(d) ₹ 4,200 should be paid immediately and the balance should be paid in 4 equal half-yearly instalments carrying interest @ 10%.
Record the necessary journal entries to give effect to the above and write the executor's account till the amount is fully paid. Also prepare the Balance Sheet of Nithya and Sathya as it would appear on August 1, 2015 after giving effect to the adjustments.

Books of Nithya and Sathya

Journal

Date	Particulars		L.F.	Amount ₹	Amount ₹
2015					
Aug. 1	Nithya's Capital A/c	Dr.		2,500	
	Sathya's Capital A/c	Dr.		1,500	
	Mithya's Capital A/c	Dr.		1,000	
	To Goodwill A/c				5,000
	(Goodwill written off among all the partners)				
Aug. 1	Patents A/c	Dr.		2,000	
	Premises A/c	Dr.		5,000	
	To Revaluation A/c				7,000
	(Increase in the value of patents and premises)				
Aug. 1	Revaluation A/c	Dr.		5,000	
	To Machinery A/c				5,000
	(Decrease in the value of machinery)				
Aug. 1	Revaluation A/c	Dr.		2,000	
	To Nithya's Capital A/c				1,000
	To Sathya's Capital A/c				600
	To Mithya's Capital A/c				400

	(Profit on revaluation of liabilities and assets transferred to Partners' Capital Account)				
Aug. 1	Reserve Fund A/c	Dr.		6,000	
	To Nithya's Capital A/c				3,000
	To Sathya's Capital A/c				1,800
	To Mithya's Capital A/c				1,200
	(Reserve Fund transferred to Partners' Capital Account)				
Aug. 1	Nithya's Capital A/c	Dr.		4,375	
	Sathya's Capital A/c	Dr.		2,625	
	To Mithya's Capital A/c				7,000
	(Mithya's share of goodwill adjusted to Nithya's and Sathya's Capital Account in their gaining ratio, 5:3)				
Aug. 1	Profit and Loss A/c (Suspense)	Dr.		1,000	
	To Mithya's Capital A/c				1,000
	(Profit till date of death credited to Mithya's Capital Account)				
Aug. 1	Mithya's Capital A/c	Dr.		28,600	
	To Mithya Executors A/c				28,600
	(Mithya's Capital Account transferred to her executor account)				
Aug. 1	Mithya Executor's A/c	Dr.		4,200	
	To Cash A/c				4,200
	(Cash paid to Mithya's executor)				

Mithya Executor's Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2015				2015			
Aug. 1	Bank		4,200	Aug. 1	Mithya's Capital A/c		28,600
2016				2016			
Jan. 31	Bank (6,100 + 1220)		7,320	Jan. 31	Interest (24,400×10100×612)(24,400×10100×612)		1,220
Mar. 31	Balance c/d		18,605	Mar. 31	Interest (18,300×10100×212)(18,300×10100×212)		305
			30,125				30,125
2016				2016			
July 31	Bank (6,100 + 305 + 610)		7,015	April 01	Balance b/d		18,605
				July 31	Interest (18,300×10100×412)(18,300×10100×412)		610
2017				2017			
Jan. 31	Bank (6,100 + 610)		6,710	Jan. 31	Interest (12,200×10100×612)(12,200×10100×612)		610
Mar. 31	Balance c/d		6202	Mar. 31	Interest (6,100×10100×212)(6,100×10100×212)		102
			19,927				19,927
2017				2017			
July 31	Bank (6,100 + 102 + 203)		6,405	April 01	Balance b/d		6,202
				July 31	Interest (6,100×10100×412)(6,100×10100×412)		203
			6,405				6,405

Balance Sheet

As on August 31, 2015

Liabilities		Amount ₹	Assets	Amount ₹
Creditors		14,000	Investments	10,000
Mithya's Executor's Loan A/c		24,400	Premises	25,000
Partners' Capital A/c			Machinery	25,000
Nithya	27,125		Stock	13,000
Sathya	28,275	55,400	Debtors	8,000
			Patents	8,000
			Bank (8,000 – 4,200)	3,800
			Profit and Loss (Suspense)	1,000
		93,800		93,800

Working Notes:

1.

Partners' Capital Accounts

Dr. **Cr.**

Particulars	Nithya	Sathya	Mithya	Particulars	Nithya	Sathya	Mithya
Goodwill	2,500	1,500	1,000	Balance b/d	30,000	30,000	20,000
Mithya's Capital A/c	4,375	2,625		Revaluation A/c	1,000	600	400
Mithya's Executor's A/c			28,600	Reserve Fund	3,000	1,800	1,200
Balance c/d	27,125	28,275		Profit and Loss A/c (Suspense)			1,000
				Nithya's Capital A/c			4,375
				Sathya's Capital A/c			2,625
	34,000	32,400	29,600		34,000	32,400	29,600

2. Mithya's Share of Profit:

Previous year's profit × Proportionate Period × Share of Profit $= 15,000 \times \frac{4}{12} \times \frac{2}{10} = \text{Rs } 1,000$

3. Mithya's share of Goodwill

Goodwill of a firm = Average Profit × Number of Year's Purchase

$$\text{Average Profit} = \frac{13,000 + 12,000 + 16,000 + 15,000}{4} = \text{Rs } 14,000$$

$$\text{Goodwill of the firm} = 14{,}000 \times 2\frac{1}{2} = \text{Rs } 35{,}000$$

$$\text{Mithya's share of goodwill} = 35{,}000 \times \frac{2}{10} = \text{Rs } 7{,}000$$

4. Gaining Ratio = New Ratio – Old Ratio

$$\text{Nithya's Gaining share} = \frac{5}{8} - \frac{5}{10} = \frac{25-20}{40} = \frac{5}{40}$$

$$\text{Sathya's Gaining share} = \frac{3}{8} - \frac{3}{10} = \frac{15-12}{40} = \frac{3}{40}$$

Gaining Ratio between Nithya and Sathya = 5:3