14 Issues in Partnership Accounts

BASIC CONCEPTS	
Partnership Accounting	➢ Partnership is defined as the relationship between persons who have agreed to share the profit or loss of a business carried on by all or any of them acting for all. ➢ Two methods of accounting • Fixed capital method • Fluctuating capital method.
Goodwill	➢ Goodwill is the value of reputation of a firm in respect of profits expected in future over and above the normal rate of profits. ➢ Necessity for valuation of goodwill in a firm arises in the following cases: • When the profit sharing ratio amongst the partners is changed; • When a new partner is admitted; • When a partner retires or dies, and • When the business is dissolved or sold. ➢ Methods for valuation of goodwill: **(1)** Average profit basis : Average Profit = $\frac{\text{Total Profit}}{\text{Number of years}}$ Goodwill = Average Profit x No. of Years' purchased The profits taken into consideration are adjusted with abnormal losses, abnormal gains, errors, return on non-trade investments and errors.

(2) Super profit basis :

Calculate Capital Employed

Assets …….

Less: Liability …….

Capital Employed …....

- Find the normal Rate of Return (NRR)
- Find Normal Profit = Capital Employed x Normal rate of Return
- Find Average Actual Profit
- Find Super Profit = Average Actual Profit - Normal Profit
- Find Goodwill = Super Profit x Number of Years Purchased

(3) Annuity basis :

Goodwill=Super Profit X Annuity Number

(4) Capitalization basis :

$$\textbf{Goodwill} = \frac{\text{Super Profit}}{\text{Normal Rate of Return}}$$

Question 1

A, B and C were partners of a firm sharing profits and losses in the ratio of 3 : 4 : 3. The Balance Sheet of the firm, as at 31st March, 2010 was as under:

Liabilities		₹	*Assets*		₹
Capital Accounts:			Fixed Assets		1,00,000
A	48,000		Current Assets:		
B	64,000		Stock	30,000	
C	48,000	1,60,000	Debtors	60,000	
Reserve		20,000	Cash and Bank	30,000	1,20,000
Creditors		40,000			
		2,20,000			2,20,000

Partner C died on 30th September, 2010. It was agreed between the surviving partners and the legal representatives of C that:

(i) *Goodwill of the firm will be valued at ₹ 60,000.*

(ii) *Fixed Assets will be written down by ₹ 20,000.*

(iii) *In lieu of profits, C should be paid at the rate of 25% per annum on his capital as on 31st March, 2010.*

The profits for the year ended 31st March, 2011, after charging depreciation of ₹ 10,000 (depreciation upto 30th September was agreed to be ₹ 6,000) were ₹ 48,000.

Partners' Drawings Accounts showed balances as under :

A ₹ 18,000 (drawn evenly over the year)

B ₹ 24,000 (drawn evenly over the year)

C (up-to-date of death) ₹ 20,000

On the basis of the above figures, please indicate the entitlement of the legal heirs of C as on 31st March, 2011.

Answer

Computation of entitlement of legal heirs of C

(1) Profits for the half year ended 31st March, 2011

	₹
Profits for the year ended 31st March, 2011 (after depreciation)	48,000
Add : Depreciation	10,000
Profits before depreciation	58,000
Profits for the first half (assumed: evenly spread)	29,000
Less : Depreciation for the first half	(6,000)
Profits for the first half year (after depreciation)	23,000
Profits for the second half (i.e., 1st October, 2010 to 31st March, 2011)	29,000
Less : Depreciation for the second half	(4,000)
Profits for the second half year (after depreciation)	25,000

(2) Capital Accounts of Partners as on 30th September, 2010

	A ₹	B ₹	C ₹		A ₹	B ₹	C ₹
To Fixed Assets				By Balance b/d	48,000	64,000	48,000
(loss on				By Reserve	6,000	8,000	6,000
revaluation)	6,000	8,000	6,000	By A and B			18,000
To C (goodwill adj.)	7,714	10,286					
To Drawings	9,000	12,000	20,000	By P & L Appro-			
To C Executor's A/c			52,000	priation A/c			

To Balance c/d	31,286	41,714	–	(Interest on ₹ 48,000 @ 25% for 6 months)	—	—	6,000
	54,000	72,000	78,000		54,000	72,000	78,000

(3) Application of Section 37 of the Partnership Act

The amount due to the deceased partner carries interest at the mutually agreed upon rate. In the absence of any agreement, the representatives of the deceased partner can receive at their option interest at the rate of 6% per annum or the share of profit earned for the amount due to the deceased partner.

Thus, the representatives of C can opt for

Either,

(i) Interest on ₹ 52,000 for 6 months @ 6% p.a. = ₹ 1,560

Or

(ii) Profit earned out of unsettled capital (in the second half year ended 31st March, 2011)

$$₹\ 25,000 \times \frac{52,000}{31,286 + 41,714 + 52,000} = ₹\ 10,400 \text{ (approx.)}$$

In the above case, it would be rational to assume that the legal heirs would opt for ₹ 10,400.

(4) Amount due to legal heirs of C

	₹
Balance in C's Executor's account	52,000
Amount of profit earned out of unsettled capital [calculated in (3)]	10,400
Amount due	62,400

Question 2

M/s Neptune & Co.'s Balance Sheet as at 31st March, 2011:

Liabilities		*₹*	*Assets*		*₹*
Bank overdraft (State Bank)		*54,000*	*Cash at Bank of India*		*800*
Sundry Creditors		*1,56,000*	*Sundry Debtors*		*2,80,000*
Capital Accounts :			*Stock*		*1,00,000*
Mr. A			*Motor Cars cost as per last B/S*	*1,60,000*	
Balance as per last B/S	*4,02,000*		*Less : Depreciation till date*	*(54,000)*	*1,06,000*
Add : Profits for the year	*95,400*		*Machinery :*		
	4,97,400		*Cost as per last B/S*	*3,00,000*	

Less : Drawings	*(40,000)*	*4,57,400*	*Less : Depreciation till date*	*(1,40,000)*	*1,60,000*
Mr. B			*Land and Building*		*2,40,000*
Balance as per last B/s	*2,00,000*				
Add : Profit for the year	*95,400*				
	2,95,400				
Less : Drawings	*(76,000)*	*2,19,400*			
		8,86,800			*8,86,800*

You have examined the foregoing Draft of the Balance Sheet and have ascertained that the following adjustments are required to be carried out :

(i) *Land and Buildings are shown at cost less ₹ 60,000 being the proceeds of the sale during the year of premises costing ₹ 70,000.*

(ii) *Machinery having a net book value of ₹ 4,300 had been scrapped during the year. The original cost was ₹ 12,300.*

(iii) *₹ 2,000 paid for the License fee for the year ending 30th September, 2011 had been written off.*

(iv) *Debts amounting to ₹ 10,420 were considered to be bad and further debts amounting to ₹ 5,400 were considered doubtful and required 100% provision. Provision for doubtful debts had previously been made for ₹ 10,000.*

(v) *An item in the Inventory was valued at ₹ 37,400, but had a realisable value of ₹ 26,000 only. Scrap Material having a value of ₹ 6,600 had been omitted from the stock valuation.*

(vi) *The cashier had misappropriated ₹ 700.*

(vii) *The cash-book for the year ending 31st March, 2011 included payments amounting to ₹ 6,924, the cheques having been made out, but not dispatched to suppliers until April 2011.*

(viii) *Interest is to be allowed on the Partners' opening Capital Account balances less drawings during the year at 9%.*

You are required to prepare:

(a) *Profit & Loss Adjustment Account for the year.*

(b) *Capital Accounts of the Partners.*

Answer

(a)

M/s Neptune & Co.
Profit and Loss Adjustment Account
for the year ended 31st March, 2011

		₹			₹
To Land & Building (Loss on sale		10,000	By Partner's Capital Accounts :		
To Machinery (Loss on scrapping)		4,300	Mr. A	95,400	
To Provision for Doubtful Debts (Working note)		5,820	Mr. B	95,400	1,90,800
To Stock Adjustment (Fall in the Market value)		11,400	By Prepaid expenses (License fee - 2000 x 6/12)		1,000
To Cash (Misappropriated)		700	By Stock Adjustment (items omitted)		6,600
To Interest on Capital					
Mr. A	32,580				
Mr. B	11,160	43,740			
To Profit transferred to Capital Accounts:					
Mr. A	61,220				
Mr. B	61,220	1,22,440			
		1,98,400			1,98,400

(b)

Partners' Capital Accounts
As on 31st March, 2011

	Mr. A ₹	Mr. B ₹		Mr. A ₹	Mr. B ₹
31.3.2011			*31.3.2010*		
To Drawings	40,000	76,000	By Balance b/d	4,02,000	2,00,000
To Profit & Loss			31.3.2011		
Adjustment Account	95,400	95,400	By Profit & Loss A/c	95,400	95,400
To Balance c/d	4,55,800	1,96,380	By Profit & Loss Adjustment A/c:		
			Interest on capital	32,580	11,160
			Profit for the year	61,220	61,220
	5,91,200	3,67,780		5,91,200	3,67,780

Working Notes:

(1) Provision for doubtful debts charged to profit and loss adjustment account

Provision for Doubtful Debts Accounts

	₹		₹
To Bad Debts	10,420	By Balance b/d	10,000
To Balance c/d (required)	5,400	By Profit & Loss Adjustment A/c	
		(bal.fig.)	5,820
	15,820		15,820

(2) Interest on Capitals

Mr. A ₹ 3,62,000 × 9% p.a. = ₹ 32,580

Mr. B ₹ 1,24,000 × 9% p.a. = ₹ 11,160

Note : Misappropriation by cashier may be debited to cashier also. In that case, ₹ 700 will not be debited to Profit and Loss Adjustment Account and profit transferred to partners will be ₹ 1,23,140. No adjustment should be made for cheques made out but not dispatched to suppliers.

Question 3

Manish, Jatin and Paresh were partners sharing Profits/ Losses in the ratio of Manish 40 percent, Jatin 35 percent, and Paresh 25 percent. The draft Balance Sheet of the partnership as on 31st December, 2011 was as follows :

Liabilities		₹	*Assets*		₹
Sundry Creditors		*30,000*	*Cash in hand and at Bank*		*67,000*
Bills payable		*8,000*	*Stock*		*42,000*
Loan from Jatin		*30,000*	*Sundry Debtors*	*34,000*	
Current Accounts :			*Less : Provision for*		
Manish	*12,000*		*Doubtful Debts*	*(6,000)*	*28,000*
Jatin	*8,000*		*Plant and Machinery*		
Paresh	*6,000*	*26,000*	*(at cost)*	*80,000*	
Capital Accounts :			*Less : Depreciation*	*(28,000)*	*52,000*
Manish	*90,000*		*Premises (at cost)*		*75,000*
Jatin	*50,000*				
Paresh	*30,000*	*1,70,000*			
		2,64,000			*2,64,000*

Jatin retired on 31st December, 2011. Manish and Paresh continued in partnership sharing Profits/ Losses in the ratio of Manish 60 percent and Paresh 40 percent. 50 percent of Jatin's Loan was repaid on 1.1.2012 and it was agreed that of the amount then remaining due to him a sum of ₹ 80,000 should remain as loan to partnership and the balance to be carried forward as ordinary trading liability. The following adjustments were agreed to be made to the above mentioned Balance Sheet:

(i) ₹ 10,000 should be written off from the premises.

(ii) Plant and Machinery was revalued at ₹ 58,000.

(iii) Provision for doubtful debts to be increased by ₹ 1,200

(iv) ₹ 5,000 due to creditors for expenses had been omitted from the books of account.

(v) ₹ 4,000 to be written off on stocks.

(vi) Provide ₹ 1,200 for professional charges in connection with revaluation.

As per the deed of partnership, in the event of the retirement of a partner, goodwill was to be valued at an amount equal to one year's purchase of the average profits of the preceding three years on the date of retirement. Before determining the said average profits a notional amount of ₹ 80,000 should be charged for remuneration to partners. The necessary profits before charging such remuneration were:

Year ending 30.12.2009	*₹ 1,44,000*
Year ending 31.12.2010	*₹ 1,68,000*
Year ending 31.12.2011	*₹ 1,88,200 (As per draft accounts)*

It was agreed that, for the purpose of valuing goodwill, the amount of profit for the year 2011 be recomputed after charging the loss on revaluation in respect of premises and stock, the unprovided expenses (except professional expenses) and increase in the provision for doubtful debts. The continuing partners decided to eliminate goodwill account from their books.

You are required to prepare:

(i) Revaluation Account:

(ii) Capital Accounts (merging current accounts therein):

(iii) Jatin's Accounts showing balance due to him; and

(iv) Balance Sheet of Manish and Paresh as at 1st January, 2012.

Answer

(i) Revaluation Account

	₹			₹
To Premises	10,000	By Plant and Machinery		6,000
To Provision for Doubtful Debts	1,200	By Loss on revaluation transferred		
To Outstanding Expenses	5,000	to Capital Accounts:		
To Stocks	4,000	Manish (40%)	6,160	
To Provision for Professional Charges	1,200	Jatin (35%)	5,390	
		Paresh (25%)	3,850	15,400
	21,400			21,400

(ii) Capital Accounts of Partners

	Manish ₹	Jatin ₹	Paresh ₹		Manish ₹	Jatin ₹	Paresh ₹
To Revaluation A/c (loss)	6,160	5,390	3,850	By Balance b/d	90,000	50,000	30,000
To Goodwill (written off in new Profit sharing ratio)	48,000	–	32,000	By Current A/c	12,000	8,000	6,000
To Personal A/c (Balance transferred)		80,610	–	By Goodwill (old profit sharing)	32,000	28,000	20,000
To Balance c/d	79,840		20,150				
	1,34,000	86,000	56,000		1,34,000	86,000	56,000

(iii) Jatin's Personal Account

	₹		₹
To Bank Account (50% of old loan)	15,000	By Capital Accounts (Balance transferred)	80,610
ToLoan Account (transferred)	80,000	By Loan Account (old loan)	30,000
To Balance c/d	15,610		
	1,10,610		1,10,610

(iv) Balance Sheet of Manish and Paresh as on 1st January, 2012

Liabilities		₹	*Assets*		₹
Capital Accounts			Fixed Assets		
Manish	79,840		Plant and Machinery	86,000	

Paresh	20,150	99,990	Less: Depreciation	(28,000)	58,000
Jatin's Loan A/c		80,000	Premises	75,000	
Current Liabilities			Less: Written off	(10,000)	65,000
and Provisions			Current Assets		
Bills Payable	8,000		Cash in hand & at Bank		
Sundry Creditors	35,000		(67,000–15,000)		52,000
(30,000+5,000)			Sundry Debtors	34,000	
Jatin's dues	15,610		Less: Provision for		
Provision for			doubtful debts	(7,200)	26,800
Professional charges	1,200	59,810	Stock in trade		38,000
		2,39,800			2,39,800

Working Notes :

(1) Profit for the Year ending 31st December, 2011

		₹
As per draft accounts		1,88,200
Less: Premises written off	10,000	
Provision for Doubtful debts	1,200	
Outstanding Expenses	5,000	
Stock	4,000	(20,200)
		1,68,000

(2) Valuation of Goodwill

Profit for the year ending 31st Dec.2011 (adjusted)	1,68,000
Profit for the year ending 31st Dec. 2010	1,68,000
Profit for the year ending 31st Dec. 2009	1,44,000
	4,80,000
Average Profits before partners' salaries	1,60,000
Less: Partners' Salaries (notional)	(80,000)
Super Profit and Goodwill (one year's purchase)	80,000

Question 4

Ram, Rahim and Robert are partners, sharing Profits and Losses in the ratio of 5 : 3 : 2. It was decided that Robert would retire on 31.3.2011 and in his place Richard would be admitted as a partner with new profit sharing ratio between Ram, Rahim and Richard at 3 : 2 : 1.

Balance Sheet of Ram, Rahim and Robert as at 31.3.2011:

Liabilities	₹	Assets	₹
Capital Accounts:		Cash in hand	20,000
Ram	1,00,000	Cash in Bank	1,00,000
Rahim	1,50,000	Sundry Debtors	5,00,000
Robert	2,00,000	Stock in Trade	2,00,000
General Reserve	2,00,000	Plant & Machinery	3,00,000
Sundry Creditors	8,00,000	Land & Building	5,30,000
Loan from Richard	2,00,000		
	16,50,000		16,50,000

Retirement of Robert and admission of Richard is on the following terms:

(a) *Plant & Machinery to be depreciated by ₹ 30,000.*

(b) *Land and Building to be valued at ₹ 6,00,000.*

(c) *Stock to be valued at 95% of book value.*

(d) *Provision for doubtful debts @ 10% to be provided on debtors.*

(e) *General Reserve to be apportioned amongst Ram, Rahim and Robert.*

(f) *The firm's goodwill to be valued at 2 years purchase of the average profits of the last 3 years. The relevant figures are:*

Year ended 31.3.2008	–	Profit ₹ 50,000
Year ended 31.3.2009	–	Profit ₹ 60,000
Year ended 31.3.2010	–	Profit ₹ 55,000

(g) *Out of the amount due to Robert ₹ 2,00,000 would be retained as loan by the firm and the balance will be settled immediately.*

(h) *Richard's capital should be equal to 50% of the combined capital of Ram and Rahim.*

Prepare:

(i) *Capital accounts of the partners; and*

(ii) *Balance Sheet of the reconstituted firm.*

Answer

Partners' Capital Accounts

Dr.	*Ram*	*Rahim*	*Robert*	*Richard*		*Ram*	*Rahim*	*Robert*	*Richard* *Cr.*
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c (W.N.1)	10,000	6,000	4,000	–	By Balance b/d	1,00,000	1,50,000	2,00,000	–
To Loan from Robert A/c			2,00,000		By General reserve	1,00,000	60,000	40,000	–
To Bank			58,000		By Goodwill (W.N. 2)	55,000	33,000	22,000	–
To Balance c/d	2,45,000	2,37,000	–	–					
	2,55,000	2,43,000	2,62,000	–		2,55,000	2,43,000	2,62,000	–
To Goodwill[*]	55,000	36,667	–	18,333	By Balance b/d	2,45,000	2,37,000	–	–
					By Loan A/c – transfer	–	–	–	2,00,000
To Balance c/d	1,90,000	2,00,333	–	1,95,167	By Bank	–	–	–	13,500
	2,45,000	2,37,000	–	2,13,500		2,45,000	2,37,000	–	2,13,500

Balance Sheet as at 31.3.2011
after the admission of Richard

Liabilities	₹	*Assets*	₹
Capital Accounts:		Land and Building	6,00,000
Ram	1,90,000	Plant and Machinery	2,70,000
Rahim	2,00,333	Stock	1,90,000
Richard	1,95,167	Debtors	4,50,000
Sundry Creditors	8,00,000	Cash at Bank (W.N. 3)	55,500
Loan from Robert	2,00,000	Cash in hand	20,000
	15,85,500		15,85,500

Working Notes:

(1) **Revaluation Account**

	₹			₹
To Plant and Machinery	30,000	By Land and Building		70,000

[*] As per para 36 of AS 10, 'Accounting for Fixed Assets', goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it. Therefore, the goodwill raised at the time of retirement of Robert is to be written off in new ratio among remaining partners including new partner – Richard.

To	Stock	10,000	By	Partners Capital A/cs:		
To	Provision for doubtful debts.	50,000		Ram	10,000	
				Rahim	6,000	
				Robert	4,000	20,000
		90,000				90,000

(2) **Calculation of Goodwill:**

Profit for the year ended 31.3.2008	50,000
Profit for the year ended 31.3.2009	60,000
Profit for the year ended 31.3.2010	55,000
	1,65,000

$$\text{Average profit} = \frac{1,65,000}{3} = ₹\ 55,000$$

Goodwill = ₹ 55,000 × 2 years = ₹ 1,10,000.

(3) **Bank Account**

		₹			₹
To	Balance b/d	1,00,000	By	Robert's Capital A/c	58,000
To	Richard's Capital A/c	13,500	By	Balance c/d	55,500
		1,13,500			1,13,500

Question 5

The following was the Balance Sheet of 'A' and 'B', who were sharing profits and losses in the ratio of 2:1 on 31.12.2011:

Liabilities	₹	*Assets*	₹
Capital Accounts		*Plant and machinery*	*12,00,000*
A	*10,00,000*	*Building*	*9,00,000*
B	*5,00,000*	*Sundry debtors*	*3,00,000*
Reserves	*9,00,000*	*Stock*	*4,00,000*
Sundry creditors	*4,00,000*	*Cash*	*1,00,000*
Bills payable	*1,00,000*		
	29,00,000		*29,00,000*

They agreed to admit 'C' into the partnership on the following terms:

(i) The goodwill of the firm was fixed at ₹ 1,05,000.

(ii) That the value of stock and plant and machinery were to be reduced by 10%.

(iii) That a provision of 5% was to be created for doubtful debts.

(iv) That the building account was to be appreciated by 20%.

(v) There was an unrecorded liability of ₹ 10,000.

(vi) Investments worth ₹ 20,000 (Not mentioned in the Balance Sheet) were taken into account.

(vii) That the value of reserve, the values of liabilities and the values of assets other than cash are not to be altered.

(viii) 'C' was to be given one-fourth share in the profit and was to bring capital equal to his share of profit after all adjustments.

Prepare Memorandum Revaluation Account, Capital account of the partners and the Balance Sheet of the newly reconstituted firm.

Answer

Memorandum Revaluation Account

		₹			₹
To	Stock	40,000	By	Building	1,80,000
To	Plant & machinery	1,20,000	By	Investments	20,000
To	Provision for doubtful debts	15,000			
To	Unrecorded liability	10,000			
To	Profit transferred to Partners' Capital A/cs (in old ratio)				
	A = 10,000				
	B = 5,000	15,000			
		2,00,000			2,00,000
To	Building	1,80,000	By	Stock	40,000
To	Investments	20,000	By	Plant & machinery	1,20,000
			By	Provision for doubtful debts	15,000
			By	Unrecorded liability	10,000
			By	Loss transferred to Partners' Capital A/cs (in new ratio)	
				A = 7,500	
				B = 3,750	
				C = 3,750	15,000
		2,00,000			2,00,000

Partners' Capital Accounts

	A	B	C		A	B	C
To Memorandum Revaluation	7,500	3,750	3,750	By Balance b/d	10,00,000	5,00,000	-
To Reserve Fund	4,50,000	2,25,000	2,25,000	By Reserve	6,00,000	3,00,000	-
To A (W.N.3)	-	-	17,500	By C (W.N.3)	17,500	8,750	-
To B (W.N.3)	-	-	8,750	By Memorandum Revaluation A/c	10,000	5,000	
To Balance c/d (Refer W.N.2)	11,70,000	5,85,000	5,85,000	By Cash (Bal. Fig.)			8,40,000
	16,27,500	8,13,750	8,40,000		16,27,500	8,13,750	8,40,000

Balance Sheet of newly reconstituted firm as on 31.12.2011

Liabilities	₹	*Assets*	₹
Capital Accounts		Plant & Machinery	12,00,000
A	11,70,000	Building	9,00,000
B	5,85,000	Sundry Debtors	3,00,000
C	5,85,000	Stock	4,00,000
Reserve Fund	9,00,000	Cash (1,00,000 + 8,40,000)	9,40,000
Sundry Creditors	4,00,000		
Bills Payable	1,00,000		
	37,40,000		37,40,000

Working Notes:

1. **Calculation of new profit and loss sharing ratio**

   C will get 1/4th share in the new profit sharing ratio.

   Therefore, remaining share will be 1-1/4 =3/4

   Share of A will be 3/4 x 2/3 = 2/4 i.e. 1/2

   Share of B will be 3/4 x 1/3 = 1/4

   New ratio will be

   A : B : C

   1/2 : 1/4 : 1/4

   2 : 1: 1

2. Calculation of closing capital of C

Closing capitals of A & B after all adjustments are:

A = ₹ 11,70,000

B = ₹ 5,85,000

Since B's capital is less than A's capital, therefore B's capital is taken as base.

Hence, C's closing capital should be ₹ 5,85,000 (23,40,000 x ¼) i.e. at par with B (as per new profit and loss sharing ratio)

3. Adjustment entry for goodwill*

Partners	*Goodwill as per old ratio*	*Goodwill as per new ratio*	*Effect*	
A	70,000	52,500	+ 17,500	-
B	35,000	26,250	+ 8,750	-
C	-	26,250	-	-26,250
	1,05,000	1,05,000	26,250	26,250

Adjustment entry will be:

C's Capital A/c	Dr.	26,250	
To A's Capital A/c			17,500
To B's Capital A/c			8,750

Question 6

P, Q, R are three doctors who are running a Polyclinic. Their capital on 31st March, 2009 was ₹ 1,00,000 each. They agreed to admit X, Y and Z as partners w.e.f. 1st April 2009. The terms for sharing profits & losses were as follows:

(a) 70% of the visiting fee is to go to the specialist concerned.

(b) 50% of the chamber fee will be payable to the individual specialist.

(c) 40% of operation fee and fee for pathological reports, X-rays and ECG will accrue in favour of the doctor concerned.

(d) Balance of profit or loss is shared equally.

(e) All the partners are entitled for 6% interest on capital employed.

They further agreed that:

(i) X, Y and Z brought in ₹ 20,000 each as goodwill. Goodwill is shared by the existing partners equally.

* As per para 36 of AS 10, 'Accounting for fixed Assets,' goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it. Therefore, the goodwill raised at the time of admission of C is to be written off in new ratio among all partners including new partner, C.

(ii) *X, Y and Z brought in ₹ 50,000 each as capital. Each of the original partners also contributed ₹ 50,000 by way of capital.*

The receipts for the year after admission of new partners were:

Name of doctors	Particulars	Visiting Fees (₹)	Chambers Fees (₹)	Fees for reports, operation etc. (₹)
P	General Physician	1,50,000	2,00,000	-
Q	Gynecologist	25,000	1,75,000	1,00,000
R	Cardiologist	-	1,00,000	75,000
X	Child Specialist	1,00,000	1,50,000	-
Y	Pathologist	-	-	1,00,000
Z	Radiologist	-	40,000	2,00,000
	Total	2,75,000	6,65,000	4,75,000

Expenses for the year were as follows:

Particulars	₹
Medicines, injections and other consumables	1,00,000
Printing and stationery	5,000
Telephone expenses	5,000
Rent	42,000
Power and light	10,000
Nurses salary	20,000
Attendants wages	20,000
Total	2,02,000
Depreciation:	
X-Ray machines	15,000
ECG equipments	5,000
Furniture	5,000
Surgical equipments	5,000
Total Depreciation	30,000

You are requested to:

(i) *Pass necessary journal entries on admission of partners.*

(ii) *Prepare the Profit and Loss Account of the polyclinic for the year ended 31st March, 2010.*

(iii) *Prepare capital accounts of all the partners at the end of the financial year 2009-10. Also show the distribution of profit among partners.*

Answer

(i) Journal Entries (on admission of partners)

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
1st April, 2009	X's capital A/c	Dr.	20,000	
	Y's capital A/c	Dr.	20,000	
	Z's capital A/c	Dr.	20,000	
	To P's capital A/c			20,000
	To Q's capital A/c			20,000
	To R's capital A/c			20,000
	(Being goodwill adjusted through capital accounts)			
	Bank A/c	Dr.	2,10,000	
	To X's capital A/c (20,000 + 50,000)			70,000
	To Y's capital A/c (20,000 + 50,000)			70,000
	To Z's capital A/c (20,000 + 50,000)			70,000
	(Being goodwill and capital brought in by new partners)			
	Bank A/c	Dr.	1,50,000	
	To P's capital A/c			50,000
	To Q's capital A/c			50,000
	To R's capital A/c			50,000
	(Being capital brought in by existing partners)			

(ii) Profit & Loss Account

for the year ended 31st March, 2010

Particulars	(₹)	Particulars	(₹)
To Medicines, injections and other consumables	1,00,000	By Visiting fee	2,75,000
To Printing and stationery	5,000	By Chamber fee	6,65,000
To Telephone expenses	5,000	By Fee for report, operation etc.	4,75,000
To Rent	42,000		
To Power and light	10,000		
To Nurses salary	20,000		

To Attendants wages	20,000		
To Depreciation			
X-ray machine 15,000			
ECG equipment 5,000			
Furniture 5,000			
Surgical equipment 5,000	30,000		
To Balance c/d	11,83,000		
	14,15,000		14,15,000
To Interest on capital (W.N.3)	39,600	By Balance b/d	11,83,000
To Fee payable to partners	7,15,000		
To Net profit transferred to partners' capital accounts	4,28,400		
	11,83,000		11,83,000

(iii) **Partners' Capital Accounts for the year ended 31st March, 2010**

Debit side

Particulars	P	Q	R	X	Y	Z
	₹	₹	₹	₹	₹	₹
To P, Q & R A/cs (Goodwill)	-	-	-	20,000	20,000	20,000
To Balance c/d	4,56,600	3,96,600	3,31,600	2,69,400	1,64,400	2,24,400
	4,56,600	3,96,600	3,31,600	2,89,400	1,84,400	2,44,400

Credit side

Particulars	P ₹	Q ₹	R ₹	X ₹	Y ₹	Z ₹
By Balance b/d	1,00,000	1,00,000	1,00,000	-	-	-
By X, Y & Z A/cs (Goodwill)	20,000	20,000	20,000	-	-	-
By Bank	50,000	50,000	50,000	70,000	70,000	70,000
By Interest on capital (W.N.3)	10,200	10,200	10,200	3,000	3,000	3,000
By Fee (share) (W.N.1)	2,05,000	1,45,000	80,000	1,45,000	40,000	1,00,000

By Profit (share) (W.N.2)	71,400	71,400	71,400	71,400	71,400	71,400
	4,56,600	3,96,600	3,31,600	2,89,400	1,84,400	2,44,400

Working Notes:

1. **Statement showing distribution of fee among partners**

Partner Name	*Visiting fees (70%) (₹.)*	*Chamber fees (50%) (₹)*	*Operations fees (40%) (₹)*	*Total (₹)*
P	1,05,000	1,00,000	-	2,05,000
Q	17,500	87,500	40,000	1,45,000
R	-	50,000	30,000	80,000
X	70,000	75,000	-	1,45,000
Y	-	-	40,000	40,000
Z	-	20,000	80,000	1,00,000
	1,92,500	3,32,500	1,90,000	7,15,000

2. **Statement showing distribution of profit among partners**

	₹
Profits as per profit and loss account	11,43,400
Less: Fee payable to partners	(7,15,000)
Profit to be divided equally among partners	4,28,400

Share of each partner in remaining profit = ₹ 4,28,400/6 = ₹71,400.

3. **Interest on capital employed**

	P ₹	Q ₹	R ₹	X ₹	Y ₹	Z ₹
Opening balance	1,00,000	1,00,000	1,00,000	-	-	-
Add: Premium for goodwill shared equally by old partners	20,000	20,000	20,000	-	-	-
Add: Capital brought in cash	50,000	50,000	50,000	50,000	50,000	50,000
	1,70,000	1,70,000	1,70,000	50,000	50,000	50,000
Interest @ 6%	10,200	10,200	10,200	3,000	3,000	3,000

Total interest = ₹ 39,600.

Note: It is assumed that amount of premium for goodwill brought in by new partners X, Y and Z has not been withdrawn by old partners P, Q and R and it is still kept in the business.

Question 7

The Balance Sheet of Amitabh, Abhishek and Amrish as at 31.12.2008 stood as follows:

Liabilities		Amount	Assets		Amount
		₹			₹
Capital:			Land & Buildings		74,000
Amitabh	60,000		Investments		10,000
Abhishek	40,000		Advertisement suspense		37,800
Amrish	40,000	1,40,000	Life Policy (at surrender value):		
Creditors		25,800	Amitabh		2,500
General Reserve		8,000	Abhishek		2,500
Investment Fluctuation Reserve		2,400	Amrish		1,000
			Stock		20,000
			Debtors	20,000	
			Less: Provision for doubtful debts	(1,600)	18,400
			Cash & bank balance		10,000
		1,76,200			1,76,200

Amrish died on 31 March, 2009, due to this reason the following adjustments were agreed upon:

(i) Land and Buildings be appreciated by 50%.

(ii) Investment be valued at 6% less than the cost.

(iii) All debtors (except 20% which are considered as doubtful) were good.

(vi) Stock to be reduced to 94%.

(v) Goodwill to be valued at 1 year's purchase of the average profits of the past five years.

(vi) Amrish's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceeding the year of death.

The profits of the last five years are as follows:

Year	*₹*
2004	*23,000*
2005	*28,000*
2006	*18,000*
2007	*16,000*
2008	*20,000*
	1,05,000

The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of ₹1,000 is payable every year on 1st August.

Give the necessary Journal Entries in the books of account and prepare the Balance Sheet of the reconstituted firm.

Answer

Journal Entries

Particulars			*Amount*	*Amount*
1.	Insurance Company's A/c	Dr.	10,000	
	To Life Policy A/c			10,000
	(Being the policy on the life of Amrish matured on his death)			
2.	Life Policy A/c	Dr.	9,000	
	To Amitabh's Capital A/c			3,000
	To Abhishek's Capital A/c			3,000
	To Amrish's Capital A/c			3,000
	(Being the transfer of balance in life policy account to all partners' capital accounts)			
3.	Amitabh's Capital A/c	Dr.	12,600	
	Abhishek's Capital A/c	Dr.	12,600	
	Amrish's Capital A/c	Dr.	12,600	
	To Advertisement suspense A/c			37,800
	(Being Advertisement suspense standing in the books written off fully)			
4.	Land & Buildings A/c	Dr.	37,000	
	To Revaluation A/c			37,000
	(Being an increase in the value of assets recorded)			
5.	Investment Fluctuation Reserve A/c	Dr.	600	
	To Investment A/c			600

	(Being reduction in the cost of investment adjusted through Investment Fluctuation Reserve)			
6.	Revaluation A/c	Dr.	3,600	
	To Stock A/c			1,200
	To Provision for Doubtful Debts A/c			2,400
	(Being the fall in value of assets recorded)			
7.	Amitabh's Capital A/c	Dr.	3,500	
	Abhishek's Capital A/c	Dr.	3,500	
	To Amrish's Capital A/c			7,000
	(Being the share of Amrish's revalued goodwill adjusted through capital accounts of the remaining partners)			
8.	Profit & Loss Suspense Account	Dr.	1,500	
	To Amrish's Capital A/c			1,500
	(Being Amrish's Share of profit to date of death credited to his account)			
9.	Revaluation A/c	Dr.	33,400	
	To Amitabh's Capital A/c			11,133
	To Abhishek's Capital A/c			11,133
	To Amrish's Capital A/c			11,134•
	(Being the transfer of profit on revaluation)			
10.	General Reserve A/c	Dr.	8,000	
	Investment Fluctuation Reserve A/c (₹ 2,400 - ₹ 600)	Dr.	1,800	
	To Amitabh's Capital A/c			3,267
	To Abhishek's Capital A/c			3,267
	To Amrish's Capital A/c			3,266
	(Being the transfer of accumulated profits to capital accounts)			
11.	Amrish's Capital A/c	Dr.	53,300	
	To Amrish's Executor's A/c			53,300
	(Being the transfer of Amrish's Capital A/c to his Executor's A/c)			

Balance Sheet
as at 31st March, 2009

Liabilities	*Amount*	*Assets*		*Amount*
Amithabh's Capital Account	61,300	Land & Building		1,11,000
Abhishek's Capital Account	41,300	Life Policy: Amitabh	2,500	

• Rounded off.

Amrish's Executor's Account	53,300	Abhishek	2,500	5,000
Sundry Creditors	25,800	Investments		9,400
		Stock		18,800
		Debtors	20,000	
		Less: Provisions	(4,000)	16,000
		Insurance Company		10,000
		Cash & Bank Balance		10,000
		Profit and loss Suspense A/c		1,500
	1,81,700			1,81,700

Working Notes:

(i) Calculation of Amrish's Share of Profit

Total profit for last three years	₹ 18,000 + ₹ 16,000 + ₹ 20,000= ₹ 54,000
Average profit 54,000/3	= ₹ 18,000
Profit for 3 months = 18,000 x 3/12	= ₹ 4,500
Amrish's share of Profit = 4,500 x 1/3	= ₹ 1,500

(ii) Calculation of Goodwill

Total profits for last five years	₹ 1,05,000
Average profit 1,05,000/5	= ₹ 21,000
Goodwill at one year's purchase	₹ 21,000 x 1 =₹ 21,000

Question 8

A, B and C run a business sharing profits and losses in proportion of 2:2:1. On 1st January, 2008 their respective capitals were ₹ 96,000, ₹ 90,000 and ₹ 84,000. On 30th June, 2008 the following was the position:

	₹
Creditors	*30,000*
Furniture	*9,000*
Book debts	*1,80,000*
Stock	*90,000*
Cash in hand and at bank	*36,000*

The drawings of the partners respectively were ₹ 12,000, ₹ 9,000 and ₹ 6,000 during the half-year. Each partner is entitled to an interest at the rate of 5% p.a. on capital. Interest on drawings was calculated as ₹ 600 for A, ₹ 450 in case of B and ₹ 300 in case of C.

You are required to prepare:

(i) *A statement of affair as on 30th June, 2008.*

(ii) *Calculate the profits for the half-year ending on 30th June, 2008 and allocate the same amongst the partners. Also calculate capital of each partner as on 30th June, 2008.*

Answer

(i) Statement of Affairs of A, B & C

As on 30th June, 2008

Liabilities	₹	*Assets*	₹
Capital (Bal. Fig.)	2,85,000	Furniture	9,000
Creditors	30,000	Stock	90,000
		Book debts	1,80,000
		Cash in hand and at bank	36,000
	3,15,000		3,15,000

(ii) Statement showing Profit and Loss of partners A, B and C for six months ending on 30th June, 2008

Particulars	₹
Capital as on 30th June, 2008	2,85,000
Add: Drawings of A, B and C (₹ 12,000 + ₹ 9,000 + ₹ 6,000)	27,000
Add: Interest on drawings of A, B and C (₹ 600 + ₹ 450 + ₹ 300)	1,350
	3,13,350
Less: Interest on capital of A, B and C (₹ 2,400+₹ 2,250+₹ 2,100)	(6,750)
	3,06,600
Less: Capital as on 1st January, 2008 of A, B and C (₹ 96,000 + ₹ 90,000 + ₹ 84,000)	(2,70,000)
Net Profit	36,600

Statement showing allocation of profits and other adjustments in the capital accounts of A, B and C

Particulars	*A (₹)*	*B (₹)*	*C (₹.)*
Capital as on 1st January, 2008	96,000	90,000	84,000
Add: Net profit in the ratio of 2:2:1	14,640	14,640	7,320
Add: Interest on capital @ 5% p.a. for 6 months	2,400	2,250	2,100
	1,13,040	1,06,890	93,420
Less: Drawings	(12,000)	(9,000)	(6,000)

Less: Interest on drawings	(600)	(450)	(300)
Capital as on 30th June, 2008	1,00,440	97,440	87,120

Question 9

'A' and 'B' are partners sharing Profits and Losses in the ratio of 3:1. Their capitals were ₹ 3,00,000 and ₹ 2,00,000 respectively. As from 1st April, 2009, it was agreed to change the profit sharing ratio to 3:2. According to the partnership deed, goodwill should be valued at two years' purchase of the average of three years' profits. The profits of the previous three years ending 31st March were:

2007- ₹ 1,50,000; 2008 - ₹ 2,50,000 and 2009 - ₹ 2,00,000. Pass the necessary journal entry to give effect to the above arrangement in the capital accounts of the partners.

Answer

Journal Entry

	₹	₹
B's Capital A/c Dr.	60,000	
To A's Capital A/c		60,000
(Being the adjusting entry for goodwill, passed due to change in profit and loss sharing ratio, through capital accounts of partners)		

Working Notes:

1. **Calculation of Goodwill**

	₹.
Profit for the year 2007	1,50,000
Profit for the year 2008	2,50,000
Profit for the year 2009	2,00,000
Total profit of 3 years	6,00,000

Average Profit = $\frac{6,00,000}{3}$ = ₹ 2,00,000

Goodwill = ₹2,00,000 × 2 = ₹4,00,000

2. **Effect of change in Profit Sharing Ratio**

Old ratio of A and B = 3 : 1

New ratio of A and B = 3 : 2

Gaining Ratio = New Ratio – Old Ratio

For A = $\frac{3}{5}$ - $\frac{3}{4}$ = $\frac{12-15}{20}$ = $\frac{3}{20}$ i.e. A loses by $\frac{3}{20}$

For B = $\frac{2}{5}$ - $\frac{1}{4}$ = $\frac{8-5}{20}$ = $\frac{3}{20}$ i.e. B gains by $\frac{3}{20}$

3. Amount of compensation payable by B to A

$\frac{3}{20} \times$ ₹ $4,00,000 =$ ₹ $60,000$

Question 10

Good, Better and Best are in partnership sharing profits and losses in the ratio 3:2:4. Their capital account balances as on 31st March, 2012 are as follows:

	₹
Good	*1,70,000 (Cr)*
Better	*1,10,000 (Cr)*
Best	*1,22,000 (Cr)*

Following further information provided:

(1) *₹ 22,240 is to be transferred to General Reserve.*

(2) *Good, Better and Best are paid monthly salary in cash amounting ₹ 2,400, ₹ 1,600 and ₹ 1,800 respectively.*

(3) *Partners are allowed interest on their closing capital balance @ 6% p.a. and are charged interest on drawings @ 8% p.a.*

(4) *Good and Best are entitled to commission @ 8% and 10% respectively of the net profit before making any appropriation.*

(5) *Better is entitled to commission @ 15% of the net profit before charging Interest on Drawings but after making all other appropriations.*

(6) *During the year Good withdraw ₹ 2,000 at the beginning of every month, Better ₹ 1,750 at the end of every month and Best ₹ 1,250 at the middle of every month.*

(7) *Firm's Accountant is entitled to a salary of ₹ 2,000 per month and a commission of 12% of net profit after charging such commission.*

The Net Profit of the firm for the year ended on 31st March, 2012 before providing for any of the above adjustments was ₹ 2,76,000.

You are required to prepare Profit and Loss Appropriation Account for the year ended on 31st March, 2012

Answer

Profit and Loss Appropriation Account

	Particulars		₹		Particulars		₹
To	General reserve		22,240	By	Net Profit (See W.N.1)		2,25,000
To	Salaries to partners			By	Interest on drawings (W.N.3)		2,410
	Good	28,800			Good	1,040	
	Better	19,200			Better	770	
	Best	21,600	69,600		Best	600	
To	Interest on Capital						
	Good	10,200					
	Better	6,600					
	Best	7,320	24,120				
To	Commission to partners						
	Good	18,000					
	Better (W.N.4)	10,281					
	Best	22,500	50,781				
To	Partners' Capital A/cs (profit)						
	Good	20,223					
	Better	13,482					
	Best	26,964	60,669				
			2,27,410				2,27,410

Working Notes:

1. **Profit and Loss Account**

	Particulars	₹		Particulars	₹
To	Salary (Firm's Accountant)	24,000	By	Profit	2,76,000
To	Commission (Firm's Accountant) (W.N.2)	27,000			
To	Net Profit transferred to P&L Appropriation A/c	2,25,000			
		2,76,000			2,76,000

2. **Commission of Firm's Accountant**

$$= \frac{\text{Profit after salary of firm's accountant}}{(100+12)\%} \times 12\% = \frac{(2,76,000 - 24,000)}{(100+12)\%} \times 12\% = ₹\ 27,000$$

3. **Interest on Drawings**

		₹
Good (at the beginning of every month)	(₹2,000 x 6.5 x 8%)	1,040
Better (at the end of every month)	(₹1,750 x 5.5 x 8%)	770
Best (at the middle of every month)	(₹1,250 x 6 x 8%)	600
		2,410

4. **Commission of Better**

Commission of Better = [Net profit for appropriation (excluding interest on drawings) - General reserve – Interest on capital - Salaries to partners – Commission to Good and Best] x 15%

Commission to Better = ₹ [2,25,000 – 22,240 – 24,120 – 69,600– 18,000 – 22,500] x 15%

= ₹ 68,540 x 15% = ₹ 10,281

Question 11

X, Y and Z are partners sharing profits an losses in the ratio of 4:3:2 respectively. On 31st March, 2012 Y retires and X and Z decide to share profits and losses in the ratio of 5:3. Then immediately, W is admitted for 3/10th shares in profits, 2/3rd of which was given by X and rest was taken by W from Z. Goodwill of the firm is valued at ₹ 2,16,000. W brings required amount of goodwill.

Give necessary Journal Entries to adjust goodwill on retirement of Y and admission of W if they do not want to raise goodwill in the books of accounts.

Answer

Journal Entries

Date	*Particulars*	*L.F.*	*Dr. (₹)*	*Cr.(₹)*
31.3.12	X's capital A/c Dr.		39,000	
	Z's capital A/c Dr.		33,000	
	To Y's capital A/c (3/9 x ₹ 2,16,000)			72,000
	(Being Y's share of goodwill adjusted in the capital accounts of gaining partners in their gaining ratio 13:11 – Refer Working Note.)			
	Cash A/c Dr.		64,800	
	To W's capital A/c (3/10 x ₹ 2,16,000)			64,800
	(Being the amount of goodwill brought in by W)			

	W's capital A/c Dr.		64,800	
	To X's capital A/c			43,200
	To Z's capital A/c			21,600
	(Being the goodwill credited to sacrificing partners in their sacrificing ratio 2:1)			

Working Note:

Calculation of gaining ratio of X and Z

Gaining ratio = New ratio – Old ratio

For X = 5/8-4/9 = 13/72

Z = 3/8-2/9 = 11/72

Gaining ratio = 13:11

Question 12

A and B are in partnership sharing profits and losses in the ratio of 3:2. The capitals of A and B are ₹ 80,000 and ₹ 60,000 respectively. They admit C as a partner who contributes ₹ 35,000 as capital for 1/5th share of profits to be acquired equally from both A & B. The capital accounts of old partners are to be adjusted on the basis of the proportion of C's capital to his share in the business. Calculate the amount of actual cash to be paid off or brought in by the old partners for the purpose and pass the necessary journal entries.

Answer

Share of profit taken from A and B each= 1/5 x 1/2 = 1/10 each

Calculation of New Profit Sharing Ratio

	A	B
Existing ratio	3/5	2/5
Less: Share of profit transferred to C	(1/10)	(1/10)
New share	5/10	3/10

New profit sharing ratio of A:B:C = 5/10 : 3/10 : 2/10

Calculation of Total Capital of the Reconstituted Firm

Capital brought in by C for 1/5th share = ₹ 35,000

Total Capital = ₹ 35,000 x (5/1) = ₹ 1,75,000

Calculation of Actual Cash to be paid or brought in by old partners

	A (₹)	B (₹)	C (₹)
New capital of ₹ 1,75,000 distributed in the ratio 5:3:2	87,500	52,500	35,000
Less: Adjusted old capital of A & B	(80,000)	(60,000)	-
Cash brought in	7,500		35,000
Cash to be paid			(7,500)

Journal Entries

Particulars		*L.F.*	*Dr. Amount* ₹	*Cr. Amount* ₹
Cash A/c	Dr.		7,500	
To A's Capital A/c				7,500
(Being the shortage of capital brought in cash by A)				
B's Capital A/c	Dr.		7,500	
To Cash A/c				7,500
(Being the excess capital withdrawn by B)				

Note: Entries for cash brought in and paid off only, have been passed.

Question 13

Arun and Varun were partners sharing profits in the ratio of 13 : 11 respectively. On 1st April, 2012 they admitted Tarun as a new partner on the following conditions:

(i) All partners would share profits equally in the new firm.

(ii) Tarun would bring in ₹ 52,000 as his capital and ₹ 36,000 as his share of goodwill. No goodwill account appeared in the books of the firm at the time of Tarun's admission and it was decided not to open any goodwill account. Adjustment for Tarun's goodwill being made through capital accounts.

Pass journal entries to record all the transactions on Tarun's admission.

Clearly show the calculation of ratio of sacrifice.

Answer

Journal Entries on Tarun's admission

Year 2012			*Dr.* ₹	*Cr.* ₹
1st April	Bank A/c	Dr.	88,000	
	To Tarun's Capital A/c (52,000 + 36,000)			88,000

	(Being amount brought by Tarun towards his capital and share of goodwill)			
	Tarun's Capital A/c	Dr.	36,000	
	To Arun's Capital A/c			22,500
	To Varun's Capital A/c			13,500
	(Being Tarun's share of goodwill in the firm ₹ 36,000, has been credited to the old partners in the sacrificing ratio 5:3)			

Working Note:

Calculation of Sacrificing Ratio

	Old Ratio	*New Ratio*	*Sacrificing Ratio (Old – new)*
Arun	13/24	1/3	(13/24 – 1/3) = 5/24
Varun	11/24	1/3	(11/24 – 1/3) = 3/24
Tarun	--	1/3	--

Therefore, sacrificing ratio is 5:3.

Question 14

Atul, Balbir and Chatur were carrying on a business in partnership sharing profits in the ratio of 5 : 3 : 2 respectively. On 31st March, 2012 their Balance Sheet stood as follows:

Liabilities	*₹*	*Assets*	*₹*	*₹*
Atul's Capital	*6,25,000*	*Goodwill*		*80,000*
Balbir's Capital	*3,75,000*	*Land and Buildings*		*7,00,000*
Chatur's Capital	*2,50,000*	*Furniture*		*1,65,000*
General Reserve	*1,00,000*	*Stock*		*2,86,000*
Trade Creditors	*2,10,000*	*Trade Debtors*	*1,80,000*	
		Less: Provision for Doubtful Debts	*(3,600)*	*1,76,400*
		Cash at Bank		*1,52,600*
Total	*15,60,000*	*Total*		*15,60,000*

Atul retired on the above mentioned date and partners agreed that :

(i) The current value of goodwill be taken to be equal to the book value of the asset.

(ii) Land and Buildings be considered worth ₹ 9,00,000.

(iii) The provision for bad debts on trade debtors be raised to 5%.

(iv) Provision be made for compensation of ₹ 5,000 to an ex-employee.

(v) Half of the amount due to Atul be paid immediately in cash and the balance be treated as 10% loan, repayable within 3 years.

In order to facilitate cash payment to Atul, Balbir and Chatur brought in ₹ 3,00,000 in the ratio of 3 : 2 respectively.

Prepare Revaluation Account, the Capital Accounts of all the partners and Bank Account. Also draw the Initial Balance Sheet of Balbir and Chatur, immediately after Atul's retirement after writing off goodwill.

Answer

Revaluation Account

		₹		₹
To	Provision for doubtful debts [(5% of 1,80,000) – 3,600]	5,400	By Land and Buildings	2,00,000
To	Provision for compensation	5,000		
To	Partners' Capital Accounts (Profit)			
	Atul 94,800			
	Balbir 56,880			
	Chatur 37,920	1,89,600		
		2,00,000		2,00,000

Partners' Capital Accounts

	Particulars	Atul	Balbir	Chatur		Particulars	Atul	Balbir	Chatur
		₹	₹	₹			₹	₹	₹
To	Goodwill (5:3:2)	40,000	24,000	16,000	By	Balance b/d	6,25,000	3,75,000	2,50,000
To	Cash A/c	3,84,900			By	General Reserve	50,000	30,000	20,000
To	10% Loan	3,84,900			By	Revaluation A/c	94,800	56,880	37,920
To	Atul's Capital A/c	-	24,000	16,000	By	Balbir's & Chatur's Capital Accounts	40,000		
To	Balance c/d		5,93,880	3,95,920	By	Cash A/c		1,80,000	1,20,000
		8,09,800	6,41,880	4,27,920			8,09,800	6,41,880	4,27,920

Bank Account

		₹			₹
To	Balance b/d	1,52,600	By	Atul's Capital A/c	3,84,900

To	Balbir's capital A/c	1,80,000	By	Balance c/d	67,700
To	Chatur's capital A/c	1,20,000			
		4,52,600			4,52,600

Balance Sheet of Balbir and Chatur
as at 31.03.2012 (after Atul's retirement)

Liabilities	₹	*Assets*		₹
Capital Accounts:		Land and Buildings		9,00,000
Balbir	5,93,880	Furniture		1,65,000
Chatur	3,95,920	Stock		2,86,000
10% Loan from Atul	3,84,900	Trade Debtors	1,80,000	
Trade Creditors	2,10,000	*Less*: Provision for doubtful debts	(9,000)	1,71,000
Provision for Compensation	5,000	Cash at Bank		67,700
	15,89,700			15,89,700

Question *15*

P, Q and R were carrying on a business in partnership, sharing profits and losses in the ratio of 5 : 3 : 2 respectively. The firm earned a profit of ₹ 3,60,000 for the accounting year ended 31st March, 2012 on which date the firm's Balance Sheet stood as follows:

Balance Sheet as at 31st March, 2012

Liabilities	₹	*Assets*	₹
P's Capital	*7,00,000*	*Freehold Land and Building*	*8,00,000*
Q's Capital	*5,70,000*	*Machinery*	*3,50,000*
R's Capital	*4,30,000*	*Furniture & Fixtures*	*1,02,000*
Creditors	*79,400*	*Stock*	*2,98,800*
Outstanding Expenses	*4,900*	*Debtors*	*1,60,000*
		Cash at Bank	*73,500*
Total	*17,84,300*	*Total*	*17,84,300*

P died on 31st August, 2012. According to firm's partnership deed, in case of death of a partner:-

(i) Assets and Liabilities have to be revalued by an independent valuer.

(ii) Goodwill is to be calculated at two years' purchase of average profits for the last three completed accounting years and the deceased partner's capital account is to be credited with his share of goodwill.

(iii) The share of the deceased partner in the profits for the period between end of the previous accounting year and the date of death is to be calculated on the basis of the previous accounting year's profits. Post death of P, Q & R will share profit in the ratio of 3 : 2.

Profits for the accounting years 2009-2010 and 2010-2011 were as follows :-

	₹
For the year ended 31st March, 2010	*2,90,000*
For the year ended 31st March, 2011	*3,40,000*

Drawings by P from 1st April, 2012 to the date of his death totalled ₹ 46,000.

On revaluation, Freehold Land and Building was appreciated by ₹ 1,00,000; Machinery was depreciated by ₹ 10,000 and a Provision for Bad Debts was created @ 5% on Debtors as on 31st March, 2012. P's sole heir was given ₹ 5,00,000 immediately and the balance along with interest @ 12% per annum was paid to him on 31st March, 2013.

Prepare Revaluation Account, P's Capital Account and P's Heir Account, giving important working notes.

Answer

Revaluation Account

Particulars	₹	₹	*Particulars*	₹
To Machinery		10,000	By Freehold Land & Building	1,00,000
To Provision for doubtful debts(5% of 1,60,000)		8,000		
To Capital accounts:				
P	41,000			
Q	24,600			
R (Profit transferred)	16,400	82,000		
		1,00,000		1,00,000

P's Capital Account

Particulars	₹	*Particulars*	₹
To Drawings	46,000	By Balance b/d	7,00,000
To P's heir (Balance transferred)	11,00,000	By Q's capital A/c	1,98,000
		By R's capital A/c	1,32,000
		By Profit and Loss Suspense A/c	75,000
		By Revaluation A/c	41,000
	11,46,000		11,46,000

P's Heir Account

Date	Particulars	₹	Date	Particulars	₹
31.08.2012	To Bank A/c	5,00,000	31.08.2012	By P's Capital A/c	11,00,000
31.03.2013	To Bank A/c	6,42,000	31.03.2013	By Interest A/c $\left(6,00,000 \times 12\% \times \frac{7}{12}\right)$	42,000
		11,42,000			11,42,000

Working Notes:

1. **Calculation of gaining ratio of Partners Q and R**

	New share	Old share	Gaining share	Sacrificing share
P		5/10		5/10
Q	3/5	3/10	$\frac{3}{5} - \frac{3}{10} = \frac{6-3}{10} = \frac{3}{10}$	
R	2/5	2/10	$\frac{2}{5} - \frac{2}{10} = \frac{4-2}{10} = \frac{2}{10}$	

2. **Calculation of Goodwill**

	₹
2009-10	2,90,000
2010-11	3,40,000
2011-12	3,60,000
	9,90,000

Average Profit = 9,90,000/3 = ₹ 3,30,000

Goodwill = 3,30,000 x 2 = ₹ 6,60,000

Share of P in goodwill = $6,60,000 \times \frac{5}{10}$ = ₹ 3,30,000

Adjustment for P's share of goodwill through Q's and R's capital accounts (in their gaining ratio 3:2) :

Q's capital A/c (3,30,000 x 3/5)	₹ 1,98,000
R' s capital A/c (3,30,000 x 2/5)	₹ 1,32,000

3. **Share of P in Profits for the period between 1.4.2012 to 31.8.2012 i.e. till the date of death**

1st April, 2012 to 31st August, 2012 = 5 months

Profit for year 2011-12 = ₹ 3,60,000

Estimated profit for 5 months $= 3{,}60{,}000 \times \frac{5}{12} =$ ₹ 1,50,000

Share of P $= 1{,}50{,}000 \times \frac{5}{10} =$ ₹ 75,000

Question 16

Pathak, Quereshi and Ranjeet were partners sharing profits in the ratio of 7 : 5 : 3 respectively. On 31st March, 2013 Quereshi retired when the firm's Balance Sheet was as follows :

Liabilities	₹	Assets		₹
Capital Accounts :		Land and Building		10,00,000
Pathak	8,50,000	Plant and Machinery		4,65,000
Quereshi	6,20,000	Furniture, Fixture and Fittings		2,30,100
Ranjeet	3,70,000	Stock		1,82,200
General Reserve	2,25,000	Trade Debtors	2,00,000	
Trade Creditors	1,13,000	Less : Provision for Bad Debts	(6,000)	1,94,000
		Cash at Bank		1,06,700
Total	21,78,000	**Total**		21,78,000

It was agreed that :

(i) Land & Building be appreciated by 20%.

(ii) Plant & Machinery be depreciated by 10%.

(iii) Provision for Bad Debts be made equal to 4% of Trade Debtors.

(iv) Outstanding repairs bill amounting to ₹ 1,500 be recorded in the books of account.

(v) Goodwill of the firm be valued at ₹ 3,00,000 and Quereshi's capital account be credited with his share of goodwill without raising goodwill account.

(vi) Half of the amount due to Quereshi be immediately paid to him by means of a cheque and the balance be treated as a loan bearing interest @ 12% per annum.

After Quereshi's retirement, Pathak and Ranjeet admitted Swamy as a new partner with effect from 1st April, 2013. Pathak, Ranjeet and Swamy agreed to share profits in the ratio of 2 : 1 : 1 respectively. Swamy brought patents valued at ₹ 20,000 and ₹ 3,80,000 in cash including payment for his share of goodwill as valued by the old firm. The entire amount of ₹ 4,00,000 was credited to Swamy's Capital Account. Adjustments were made in the capital accounts for Swamy's share of goodwill.

You are required to :

(a) Pass journal entries for all the above transactions without any narration, and

(b) Prepare the capital account of all the partners.

Answer

(a) **Journal Entries**

31st March, 2013

			₹	₹
1	Land and Building	Dr.	2,00,000	
	To Revaluation A/c			2,00,000
2.	Revaluation A/c	Dr.	46,500	
	To Plants and Machinery			46,500
3	Revaluation A/c	Dr	3,500	
	To Provision for bad debts			2,000
	[(₹ 2,00,000 x 4%) - ₹ 6000]			
	To Provision for Outstanding repair bills			1,500
4	Pathak's Capital A/c	Dr.	70,000	
	Ranjeet's Capital A/c	Dr.	30,000	
	To Quereshi's Capital A/c			1,00,000
5	Revaluation A/c	Dr.	1,50,000	
	To Pathak's Capital A/c			70,000
	To Quereshi's Capital A/c			50,000
	To Ranjeet's Capital A/c			30,000
6	General reserve A/c	Dr.	2,25,000	
	To Pathak's Capital A/c			1,05,000
	To Quereshi's Capital A/c			75,000
	To Ranjeet's Capital A/c			45,000
7	Quereshi's Capital A/c	Dr.	8,45,000	
	To Bank A/c			4,22,500
	To Quereshi's Loan A/c			4,22,500
8	Patents	Dr.	20,000	
	Cash A/c	Dr.	3,80,000	
	To Swamy's Capital A/c			4,00,000
9	Swamy's Capital A/c (₹ 3,00,000/4)	Dr.	75,000	
	To Pathak's Capital A/c			60,000
	To Ranjeet's Capital A/c			15,000

(b) **Capital Accounts of partners**

	Amount					*Amount*			
	Pathak	*Quereshi*	*Ranjeet*	*Swamy*		*Pathak*	*Quereshi*	*Ranjeet*	*Swamy*
31.3.13					31.3.13				
To Quereshi	70,000		30,000		By Bal. b/d	8,50,000	6,20,000	3,70,000	
					By general reserve	1,05,000	75,000	45,000	
To Bank A/c		4,22,500			By Pathak & Ranjeet		1,00,000		
To Loan A/c		4,22,500			By Revaluation A/c	70,000	50,000	30,000	
To Bal. c/d	9,55,000		4,15,000						
	10,25,000	8,45,000	4,45,000			10,25,000	8,45,000	4,45,000	
1.4.13					1.4.13				
To Pathak				60,000	By Bal. b/d	9,55,000		4,15,000	
To Ranjeet				15,000	By Patents				20,000
To Bal. c/d	10,15,000		4,30,000	3,25,000	By Cash				3,80,000
					By Swamy	60,000		15,000	
	10,15,000		4,30,000	4,00,000		10,15,000		4,30,000	4,00,000

Working Notes:

1. Calculation of Gaining ratio after retirement of Quereshi on 31st March, 2013

	Pathak :	Quereshi :	Ranjeet		Pathak :	Ranjeet
Old Ratio	7/15 :	5/15 :	3/15	New Ratio	7/10 :	3/10

Gain of Pathak   *New Ratio - Old Ratio*

7/10 - 7 / 15

(105 – 70) / 150

35 / 150

Gain of Ranjeet 3/10 – 3/15 = (45 – 30)/150 = 15/150

Gaining Ratio = 35 : 15 = 7 : 3

2. Calculation of Sacrificing ratio of Pathak and Ranjeet at time of admission of Swamy

1st April, 2013   7:3 (ratio between old partners)

New ratio 2:1:1

$$\frac{2}{4}-\frac{7}{10} \qquad \frac{1}{4}-\frac{3}{10}$$

$$\frac{10-14}{20} \qquad \frac{5-6}{20}$$

$$=\frac{4}{20} \qquad \frac{1}{20}$$

Sacrificing ratio   4 : 1

Question 17

The Balance Sheet of Amit, Bhushan and Charan, who share profits and losses as 3 : 2 : 1 respectively, as on 01.04.2013 is as follows:

Liabilities	*Amount (₹)*	*Assets*		*Amount (₹)*
Capital Accounts: Amit	*1,80,000*	*Machinery*		*1,50,000*
Bhushan	*1,60,000*	*Furniture*		*1,50,000*
Charan	*1,40,000*	*Debtors*	*80,000*	
Current Accounts: Bhushan	*16,000*	*Less: Provision for doubtful Debts*	*4,000*	*76,000*
Creditors	*1,20,000*	*Stock*		*2,10,000*
		Cash		*20,000*

	-	*Current Account:* Charan		10,000
	6,16,000			6,16,000

Dev is admitted as a partner on the above date for $\frac{1}{5}$th share in the profit and loss. Following are agreed upon:

(1) The profit and loss sharing ratio among the old partners will be equal.

(2) Dev brings in ₹ 1,50,000 as capital but is unable to bring the required amount of premium for goodwill.

(3) The goodwill of the firm is valued at ₹ 60,000.

(4) Assets and liabilities are to be valued as follows:

Machinery ₹ 2,06,000 : Furniture ₹ 1,28,000 : Provision for doubtful debts @ 10% on debtors.

(5) Necessary adjustments regarding goodwill and Profit / loss on revaluation are to made through the Partner's Current Accounts.

(6) It is decided that the revalued figures of assets and liabilities will not appear in the Balance Sheet of the new firm.

(7) Capital Accounts of the old partners in the new firm should be proportionate to the new profit and loss sharing ratio, taking Dev's Capital as base. The existing partners will not bring cash for further capital. The necessary adjustments are to be made through the partner's Current Account.

Prepare Partner's Capital & Current Account, and the Balance Sheet of the new firm after admission.

Answer

In the books of Firm

Partners' Capital Accounts

	Amit	Bhushan	Charan	Dev		Amit	Bhushan	Charan	Dev
To Balance c/d (Working Note 1)	2,00,000	2,00,000	2,00,000	1,50,000	By Balance b/d	1,80,000	1,60,000	1,40,000	
					By Bank A/c	-	-	-	1,50,000
					By Partners' Current A/cs (bal. fig)	20,000	40,000	60,000	
	2,00,000	2,00,000	2,00,000	1,50,000		2,00,000	2,00,000	2,00,000	1,50,000

Partners' Current Accounts

	Amit	Bhushan	Charan	Dev		Amit	Bhushan	Charan	Dev
To Balance b/d	-	-	10,000	-	By Balance b/d	-	16,000	-	-
To Memorandum Revaluation A/c	8,000	8,000	8,000	6,000	By Memorandum Revaluation	15,000	10,000	5,000	-
To Amit and Bhushan (Goodwill adjustment)	-	-	6,000	12,000	By Dev and Charan (Goodwill adjustment)	14,000	4,000	-	-
To Partners Capital A/cs	20,000	40,000	60,000	-	By Balance c/d	-	18,000	79,000	18,000
To Balance c/d	1,000	-	-						
	29,000	48,000	84,000	18,000		29,000	48,000	84,000	18,000

Balance Sheet of new firm

After Dev's Admission

Liabilities	₹	Assets		₹
Capital Accounts: A/cs		Machinery		1,50,000
Amit 2,00,000		Furniture		1,50,000
Bhushan 2,00,000		Stock		2,10,000
Charan 2,00,000		Debtors	80,000	
Dev 1,50,000	7,50,000	*Less:* Provision for doubtful debts	4,000	76,000
Current Account: Amit	1,000	Cash		1,70,000
Creditors	1,20,000	Current Accounts:		
		Bhushan	18,000	
		Charan	79,000	
		Dev	18,000	
				1,15,000
	8,71,000			8,71,000

Working Notes:

1. Dev. joins the business for 1/5th share and brings ₹ 1,50,000 as capital. Thus, total capital of new firm will be ₹ 7,50,000 (1,50,000 × 5). Total capital of Amit, Bhushan & Charan will be ₹ 6,00,000 (7,50,000 – 1,50,000) which will be shared by them equally i.e. 2,00,000 each.

2. **Calculation of New profit sharing ratio**

Amit	Bhushan	Charan	Dev
$\frac{4}{5}\times\frac{1}{3}$	$\frac{4}{5}\times\frac{1}{3}$	$\frac{4}{5}\times\frac{1}{3}$	$\frac{1}{5}$
$\frac{4}{15}$	$\frac{4}{15}$	$\frac{4}{15}$	$\frac{3}{15}$
4:4:4:3			

3. **Adjustment of Goodwill**

Sacrificing/gaining ratios of old partners

Amit	Bhushan	Charan	Dev
$\frac{4}{15}-\frac{3}{6}$	$\frac{4}{15}-\frac{2}{6}$	$\frac{4}{15}-\frac{1}{6}$	$\frac{1}{5}$
$\frac{24-45}{90}$	$\frac{24-30}{90}$	$\frac{24-15}{90}$	

$\frac{21}{90}$ Sacrifice	$\frac{6}{90}$ Sacrifice	$\frac{9}{90}$ Gain	$\frac{18}{90}$ Gain

Entry for adjustment for goodwill of ₹ 60,000

Charan	Dr.	6,000	
Dev	Dr.	12,000	
To Amit			14,000
To Bhushan			4,000

(Being goodwill adjusted in partners sacrificing/gaining ratios)

4. **Memorandum Revaluation A/c**

	Amount ₹		*Amount* ₹
To Furniture	22,000	By Machinery	56,000
To Provision for doubtful debts	4,000		
To Partners' Current A/cs:			
Amit 15,000			
Bhushan 10,000			
Charan 5,000	30,000		
	56,000		56,000
To Machinery	56,000	By Furniture	22,000
		By Provision for doubtful debts	4,000
		By Partners' Current A/cs:	
		Amit 8,000	
		Bhushan 8,000	
		Charan 8,000	
		Dev 6,000	30,000
	56,000		56,000

Question 18

A and B who carry on partnership business in the name of M/s. AB Ltd., closes their firm's account as on 31st March each year.

Their partnership agreement provides:

(i) Profit Loss sharing, A : 2/3 and B : 1/3.

(ii) On retirement or admission of Partner:

(a) *If the change takes place during any accounting year, such partner's share of profits or losses for the period up to retirement or from admission, is to be arrived at by apportionment on a time basis except otherwise stated for specific item(s).*

(b) *No account for Goodwill is to be maintained in the firm's books.*

(c) *Any balance due to an outgoing partner is to carry interest @ 9% p.a. from the date of his retirement to the date of payment.*

The Trial Balance of the firm as on March 31st, 2015 was as follows:

Particulars	Amount in (₹)	Amount in (₹)
Capital Account		
A	-	24,000
B	-	12,000
C – Cash brought in on 30-09-2014	-	9,000
Plant and machinery at cost	22,000	-
Depreciation provision up to 31-03-2014	-	4,400
Motor car at cost	30,000	-
Depreciation provision up to 31-03-2014	-	6,000
Purchases	84,000	-
Stock as on 31st March 2014	15,500	-
Salaries	18,000	-
Debtors	5,400	-
Sales	-	1,20,000
Travelling expenses	800	
Office Maintenance	1,200	
Conveyance	500	
Trade Expenses	1,000	
Creditors	-	10,100
Rent and Rates	3,000	-
Bad Debts	900	-
Cash in hand and at Bank	3,200	-
	1,85,500	1,85,500

'A' retired from the firm on 30th September, 2014 and on the same day 'C' an employee of the firm was admitted as partner. Further Profits or Losses shall be shared - B : 3/5 and C : 2/5.

Necessary Accounting Entries adjustments were pending up to 31-03-2015. You are given the following further information:

(i) The value of firm's goodwill as on 30th September, 2014 was agreed to ₹ 15,000.

(ii) The stock as on 31st March, 2015 was valued at ₹ 18,550.

(iii) Partners' drawings which are included in Salaries : A - ₹ 2,000, B - ₹ 3,000 and C - ₹ 1,000.

(iv) Salaries also includes ₹ 1,500 paid to C prior to his being admitted as a partner.

(v) Bad-debts of ₹ 500 related to the period upto 30th September, 2014.

(vi) As on 31st March, 2015 rent paid in advance amounted to ₹ 600 and trade expenses accrued amounted to ₹ 250.

(vii) Provision is to be made for depreciation on Plant and Machinery and on Motor car at the rate of 10% p.a. on cost.

(viii) A bad-debts provision, specifically attributable to the second half of the year, is to be made @ 5% on debtors as on March 31st 2015.

(ix) Amount payable to A on retirement remained unpaid till March 31st 2015.

You are required to prepare:

(a) The Trading and Profit & Loss Account for the year ended March 31st 2015.

(b) Partners' Capital Account for the year ended March 31st 2015.

(c) The Balance Sheet as on that date.

Answer

Trading and Profit and Loss A/c

for the year ended 31st March, 2015

	₹	₹
Sales		1,20,000
Less: Cost of goods sold:		
Opening Stock	15,500	
Purchases	84,000	
	99,500	
Less: Closing stock	(18,550)	(80,950)
Gross Profit		39,050

	Half year to 30th September 2014		Half year to 31st March 2015	
	₹	₹	₹	₹
Gross profit allocated on time basis		19,525		19,525
Less: Expenses				
Salaries (W.N. 1)	6,750		5,250	
Travelling expenses	400		400	
Office maintenance	600		600	
Conveyance	250		250	
Trade expenses (W.N.2)	625		625	
Rent and rates (W.N. 3)	1,200		1,200	
Bad debts	500		400	
Provision for doubtful debts	-		270	
Depreciation:				
Plant and machinery	1,100		1,100	
Motor vehicles	1,500		1,500	
Interest on loan (W.N. 4)	-	(12,925)	1,638	(13,233)
		6,600		6,292
Appropriation of profits:				
Remaining profits				
A and B (2:1)	4,400			
	2,200	6,600	3,775	
B and C (3:2)			2,517	6,292

Partners' Capital Accounts

	A	B	C		A	B	C
	₹	₹	₹		₹	₹	₹
To A (goodwill)		4,000	6,000	By Balance b/d	24,000	12,000	-
To Drawings	2,000	3,000	1,000	By Cash	-	-	9,000
To Transfer to loan a/c	36,400	-	-	By B (Goodwill)	4,000	-	-
				By C (Goodwill)	6,000	-	-
To Balance c/d	-	10,975	4,517	By Profit	4,400	5,975	2,517
	38,400	17,975	11,517		38,400	17,975	11,517

Balance Sheet as on 31st March, 2015

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Capital A/c		Plant & Machinery	
B 10,975		*Less:* Depreciation	
C 4,517	15,492	(22,000 – 6,600)	15,400
A's Loan 36,400		Motor Car	
Interest 1,638	38,038	*Less:* Depreciation	
		(30,000 – 9,000)	21,000
Current Liabilities		Current Assets:	
Creditors	10,100	Stock	18,550
Out-standing Trade expenses	250	Debtors (*Less:* Provision (5,400-270)	5,130
		Prepaid Rent	600
		Balance at bank	3,200
Total	63,880		63,880

Working Notes:

		₹	₹
1.	**Salaries**		
	Total as per trial balance		18,000
	Less: Partners' Drawings - A	2,000	
	B	3,000	
	C	1,000	(6,000)
			12,000
	Less: C's Salary upto 30.09.2014		1,500
			10,500
	Allocation on time basis	Upto 30.09.2014	Upto 31.03.2015
		5,250	5,250
	Add: C's salary upto 30.09.2014	1,500	0
		6,750	5,250
2.	**Trade Expenses**		
	Total as per trial balance		1,000
	Add: Accrual		250
			1,250

	Allocation: on time basis (50 : 50)	625	625
3.	**Rent and rates**		
	Total as per trial balance		3,000
	Less: Rent paid in advance		(600)
			2,400
	Allocation: on time basis (50 : 50)	1,200	1,200
4.	**Interest on loan account of 'A'**		
	Balance in Capital a/c as per trial balance		24,000
	Less: Drawings		(2,000)
	Add: Share of Goodwill	10,000	
	Share in Profit	4,400	14,400
			36,400
	Interest payable @9% p.a. from 01.10.2014 to 31.03.2015 (6 months)		
	36,400 x 6/12 x 9/100 =		1,638

Adjustment of A's share of Goodwill

Value of goodwill ₹ 15,000

Net entry for Goodwill

B's Capital account Dr. ₹ 4,000

C's Capital account Dr. ₹ 6,000

To A's Capital account ₹ 10,000

(A's share in goodwill adjusted to existing partners in their gaining ratio)

Question 19

Ms. Naina, Ms. Radha and Ms. Khushi were partners in a firm sharing profits and losses in the ratio of 4:3:2. Balance Sheet of the firm as on 31-03-2014 was as follows:

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Capital Accounts		*Plant & Machinery*	*4,26,000*
Naina	*3,00,000*	*Stock*	*1,85,800*
Radha	*2,25,000*	*Debtors*	*1,30,500*
Khushi	*1,50,000*	*Bank Balance*	*92,700*
Current Accounts:			
Naina	*25,000*		
Radha	*12,500*		

Khushi	*18,750*		
Creditors	*1,03,750*		
	8,35,000		*8,35,000*

On 1st April 2014, Ms. Naina retired. On her retirement goodwill is valued at ₹ 1,80,000. Ms. Radha and Ms. Khushi do not wish to raise Goodwill account in the books.

Ms. Naina drew her balance of current account on 2nd April, 2014 and it is agreed to pay balance of her capital account over a period of two years by half yearly installments with interest at 10% per annum.

On 1st Oct. 2014 Ms. Asmita (Daughter of Radha) admitted as a partner. Ms. Radha surrendered one third of her share of profit and loss in favour of Asmita and also transferred one third of her capital to Ms. Asmita. Ms. Asmita was manager in the firm with annual salary of ₹ 16,000, prior to admission as a partner.

The other bank transactions during the financial year 2014-15 were as follows:

		(₹)
(1)	Payment to creditors	7,75,000
(2)	Received from debtors	11,25,000
(3)	Expenses paid	11,250
(4)	Asmita's salary paid	8,000
(5)	Partners' Drawing :	
	Ms. Radha	50,000
	Ms. Khushi	41,250
	Ms. Asmita	11,250

(6) First installment with interest paid to Ms. Naina on 1st Oct, 2014.

(7) Plant & Machinery sold at ₹ 9,000 on 3rd April, 2014 (Cost ₹ 10,000 & Book value ₹ 7,000).

(8) Balances as on 31st March, 2015: Debtors ₹ 1,50,000, Creditors for purchases ₹ 1,25,000, Creditors for expenses ₹ 10,000 and Stock ₹ 1,71,250.

(9) Depreciation is to be written off on Plant & Machinery ₹ 30,350.

(10) Second installment with interest paid to Ms. Naina on 1st April, 2015.

You are required to prepare:

(a) Ms. Naina's loan account,

(b) Partners' capital accounts,

(c) Partners' current accounts,

(d) Bank Account, and

(e) Balance Sheet as on 31st March, 2015 in the books of the firm.

Answer

(a) Naina's Loan A/c

		₹			₹
1.10.2014	To Bank [95,000(3,80,000/4) + 19,000)]	1,14,000	1.4.2014	By Capital A/c	3,80,000
			30.9.2014	By Interest – For 6 months on 3,80,000	19,000
31.3.2015	To Balance c/d	2,99,250	31.3.2015	By Interest –For 6 months on ₹ 2,85,000 @ 10% p.a	14,250
		4,13,250			4,13,250
				By Balance b/d	2,99,250

(b) Partners' Capital Accounts

Particulars	*Naina*	*Radha*	*Khushi*	*Asmita*	*Particulars*	*Naina*	*Radha*	*Khushi*	*Asmita*
	₹	₹	₹	₹		₹	₹	₹	₹
To Naina		48,000	32,000		By Balance b/d	3,00,000	2,25,000	1,50,000	-
To Asmita Capital A/c		59,000			By Radha and Khushi	80,000	-	-	-
To Naina's Loan a/c	3,80,000	-	-	-	By Radha capital a/c	-	-	-	59,000
To Balance c/d		1,18,000	1,18,000	59,000			-	-	-
	3,80,000	2,25,000	1,50,000	59,000		3,80,000	2,25,000	1,50,000	59,000

(c) Partners' Current Accounts

Particulars	*Naina*	*Radha*	*Khushi*	*Asmita*	*Particulars*	*Naina*	*Radha*	*Khushi*	*Asmita*
	₹	₹	₹	₹		₹	₹	₹	₹
To Drawings		50,000	41,250	11,250	By Balance b/d	25,000	12,500	18,750	
To Bank A/c	25,000								
To Bal. c/d		82,850	74,640	14,110	By P&L Account upto:				
					Sept. 30, 2014		69,630	46,420	
					March 31, 2015		50,720	50,720	25,360
	25,000	1,32,850	1,15,890	25,360		25,000	1,32,850	1,15,890	25,360

(d) **Bank Account**

	₹		₹
To Balance b/d	92,700	By Naina's Current Account	25,000
To Sundry Debtors	11,25,000	By Sundry Creditors	7,75,000
To Sale of Machine	9,000	By Sundry Expenses	11,250
		By Asmita's Salary	8,000
		By Naina's Loan Account	1,14,000
		By Drawings:	
		Naina	50,000
		Radha	41,250
		Khushi	11,250
		By balance c/d	1,90,950
	12,26,700		12,26,700

(e) **Balance Sheet of firm as on March 31, 2015**

Liabilities	₹	₹	*Assets*	₹	₹
Creditors : Trade	1,25,000		Machinery	4,26,000	
Expenses	10,000	1,35,000	Less: Sold	(7,000)	
Naina's Loan Account		2,99,250	Depreciation	(30,350)	3,88,650
Partners' Capital Accounts:			Current Assets:		
Radha	1,18,000		Stock in trade	1,71,250	
Khushi	1,18,000		Debtors	1,50,000	
Asmita	59,000	2,95,000	Bank Balance	1,90,950	5,12,200
Partners' Current Accounts:					
Radha	82,850				
Khushi	74,640				
Asmita	14,110	1,71,600			
		9,00,850			9,00,850

Working Notes:

(1) Calculation of Sales

Debtors Account

	₹		₹
To Bal. b/d	1,30,500	By Cash	11,25,000
To Sales (bal. fig.)	11,44,500	By Bal. c/d	1,50,000
	12,75,000		12,75,000

Calculation of Purchases

Creditors Account

	₹		₹
To Cash A/c	7,75,000	By Bal. b/d	1,03,750
To Bal. c/d	1,25,000	By Purchase (bal. fig.)	7,96,250
	9,00,000		9,00,000

*All Sales and purchases are considered to be on credit basis.

(2) Computation of Profits for the year ended March 31, 2015

Trading and Profit and Loss Account for the year ended March 31, 2015

	₹		₹
To Opening Stock	1,85,800	By Sales	11,44,500
To Purchases	7,96,250	By Closing Stock	1,71,250
To Gross Profit c/d	3,33,700		
	13,15,750		13,15,750

	Apr 1 to Sept. 30 (₹)	*Oct 1 to Mar. 31* (₹)		*Apr 1 to Sept. 30* (₹)	*Oct 1 to Mar. 31* (₹)
To Sundry Expenses (11,250 +10,000)	10,625	10,625	By Gross Profit b/d	1,66,850	1,66,850
To Depreciation on Machinery	15,175	15,175	By Profit on Sale of Machine	2,000	-
To Interest on Naina's Loan	19,000	14,250			
To Salary- Asmita	8,000				

To Profit transferred to					
Radha	69,630	50,720			
Khushi	46,420	50,720			
Asmita	-	25,360			
	1,68,850	1,66,850		1,68,850	1,66,850

3. Adjustment of goodwill at the time of retirement of Naina

		₹	₹
Radha	Dr.		48,000
Khushi	Dr.		32,000
To Naina	(₹ 1,80,000 x 4/9)		80,000

(Naina's share of goodwill adjusted among Radha and Khushi in their gaining ratio of 3:2)

4. New profit sharing ratio after admission of Asmita will be 2:2:1.

Profits for the half year ended on 30.9.2014 will be distributed among Radha and Khushi in the ratio of 3:2 and profits for the half year ended on 31.3.2015 will be distributed among Radha, Khushi and Asmita in the ratio of 2:2:1.

Exercises

1. *X, Y Ltd. and Z Ltd. are partners of X & Co. The partnership deed provided that :*

   (a) The working partner Mr. X is to be remunerated at 15% of the net profits after charging his remuneration, but before charging interest on capital and provision for taxation;

   (b) Interest is to be provided on capital at 15% per annum;

   (c) Balance profits after making provision for taxation, is to be shared in the ratio of 1 : 2 : 2 by the three partners.

   During the year ended 31st March, 2011 :

   (i) the net profit before tax and before making any payment to partners amounted to ₹ 6,90,000;

   (ii) interest on capitals at 15% per annum amounted to :

   (iii) ₹ 60,000 for X; ₹ 1,50,000 for Y Ltd. and ₹ 1,80,000 for Z Ltd. The capitals have remained unchanged during the year;

   Provision for tax is to be at 40% of "total income" of the firm. The total income has been computed at ₹ 1,95,000.

   You are asked by :

   (a) the firm to pass closing entries in relation to the above;

(b) *Y Ltd. to pass journal entries in its books pertaining to its income from the firm and show the investment in partnership account as it would appear in its ledger;*

(c) *Z Ltd. to show, how the above information will appear in its financial statements for the year;*

(d) *Shri X to show the working, if any, in relation to the above.*

(Hints: Investment in partnership with Shri X and Z Ltd. ₹ 12,02,800)

2. *Avinash, Basuda Ltd. and Chinmoy Ltd. were in partnership sharing profits and losses in the ratio of 9 : 4 : 2. Basuda Ltd. retired from the partnership on 31st March, 2011, when the firm's balance sheet was as under*

				₹ in thousand
Sundry creditors		600	Cash and bank	284
Capital accounts :			Sundry debtors	400
Avinash	2,700		Stock	800
Basuda Ltd.	1,200		Furniture	266
Chinmoy Ltd.	600	4,500	Plant	850
			Land and building	2,500
		5,100		5,100

Basuda Ltd.'s share in goodwill and capital was acquired by Avinash and Chinmoy Ltd. in the ratio of 1 : 3, the continuing partners bringing in the necessary finance to pay off Basuda Ltd. The partnership deed provides that on retirement or admission of a partner, the goodwill of the firm is to be valued at three times the average annual profits of the firm for the four years ended on the date of retirement or admission. The profits of the firm during the four years ended 31st March, 2011 in thousands of rupees were:

	₹ in thousand
2007-2008	450
2008-2009	250
2009-2010	600
2010-2011	700

The deed further provided that goodwill account is not to appear in the books of accounts at all. The continuing partners agreed that with effect from 1st April, 2011, Ghanashyam, son of Avinash is to be admitted as a partner with 25% share of profit.

Avinash gifts to Ghanashyam, by transfer from his capital account, an amount sufficient to cover up 12.5% of capital and goodwill requirement. The balance 12.5% of capital and goodwill requirement is purchased by Ghanashyam from Avinash and Chinmoy Ltd. in the ratio of 2 : 1.

The firm asks you to:

(i) *Prepare a statement showing the continuing partners' shares;*

(ii) *Pass journal entries including for bank transactions; and*

(iii) *Prepare the balance sheet of the firm after Ghanashyam's admission*

(Hints: New ratio 11:7:6; Total of Balance Sheet ₹66,00,000)