

Answers NCERT Solutions For Class 12 Accountancy

<http://freehomedelivery.net/Ch 2 Accounting for Partnership : Basic Concepts>

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TEST YOUR UNDERSTANDING – I

1. Mohan and Shyam are partners in a firm. State whether the claim is valid if the partnership agreement is silent in the following matters:

(i) Mohan is an active partner. He wants a salary of Rs. 10,000 per year;

Answer Invalid

In the absence of partnership agreement, no interest on capital, interest on drawings, salary, commission is to be allowed to partners.

(ii) Shyam had advanced a loan to the firm. He claims interest @ 10% per annum;

Answer Invalid

Interest on partners loan to be allowed @ 6% pa, *WE ARE WITH YOU.....*

(iii) Mohan has contributed Rs. 20,000 and Shyam Rs. 50,000 as capital. Mohan wants equal share in profits.

Answer Valid

Profit and losses are to be shared equally.

(iv) Shyam wants interest on capital to be credited @ 6% per annum.

Answer Invalid

No interest on capital is to be allowed to partners.

2. **State whether the following statements are true or false:**

(i) Valid partnership can be formulated even without a written agreement between the partners;

Answer True

(ii) Each partner carrying on the business is the principal as well as the agent for all the other partners;

Answer True

(iii) Maximum number of partners in a banking firm can be 20;

Answer True

(iv) Methods of settlement of dispute among the partners can't be part of the partnership deed;

Answer False

(v) If the deed is silent, interest at the rate of 6% p.a. would be charged on the drawings made by the partner;

Answer False

(vi) Interest on partner's loan is to be given @ 12% p.a. if the deed is silent about the rate.

Answer False

DO IT YOURSELF

Q.1. Soumya and Bimal are partners in a firm Sharing profits and losses in the ratio of 3:2. The balance in their capital and current accounts as on April 01, 2006 were as under:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

The partnership deed provides that Soumya is to be paid salary @ Rs, 500 per month where as Bimal is to get a commission of Rs. 40,000 for the year. Interest on capital is to be credited at 6% p.a. The drawings of Soumya and Bimal for the year

were Rs. 30,000 and Rs. 10,000 respectively. The net profit of the firm before making these adjustment was Rs, 2,49,000. Interest on Soumya's drawings was Rs. 750 and

Bimal's drawings, Rs. 250. Prepare Profit and Loss Appropriation Account and Partner's Capital and Current Accounts.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

2. Soniya, Charu and Smita started a partnership firm on April 1, 2006. They contributed Rs, 5,00,000, Rs. 4,00,000 and Rs. 3,00,000 respectively as their capitals and decided to share profits and losses in the ratio of 3:2:1. The partnership provides that Soniya is to be paid a salary of Rs. 10,000 per month and Charu a commission of Rs. 50,000. It also provides that interest on capital be allowed @6% p.a. The drawings for the year were Soniya Rs. 60,000,

Charu Rs. 40,000 and Smita Rs. 20,000. Interest on drawings was charged as Rs. 2,700 on Soniya's drawings, Rs. 1,800 on Charu's drawings and Rs. 900 on Smita's drawings. The net amount of profit as per Profit and Loss Account for the year 2006-07 was Rs. 3,56,600.

- (i) Record necessary journal entries.
- (ii) Prepare profit and loss appropriation account
- (iii) Show capital accounts of the partners.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

TEST YOUR UNDERSTANDING – II

1. Raju and Jai commenced business in partnership on April 1, 2006. No partnership agreement was made whether oral or written. They contributed Rs. 4,00,000 and Rs. 1,00,000 respectively as capitals. In addition, Raju advanced Rs. 2,00,000 as loan to the firm on October 1, 2006. Raju met with an accident on July 1, 2006 and could not attend the business up to September 30, 2006. The profit for the year ended March 31, 2007 amounted to Rs. 50,600. Disputes have arisen between them on sharing the profits of the firm.

Raju Claims:

- (i) He should be given interest at 10% p.a. on capital and so also on loan.
- (ii) Profit should be distributed in the proportion of capitals.

Jai Claims:

- (i) Net profit should be shared equally.
- (ii) He should be allowed remuneration of Rs. 1,000 p.a. during the period of Raju's illness.
- (iii) Interest on capital and loan should be given @ 6% p.a.

State the correct position on each issue as per the provisions of the partnership Act. 1932.

Answer Raju's Claims

(i) He cannot claim interest on capital and he is entitled only for 6A interest on loan.

(ii) In absence of any agreement profits are distributed equally

Jai's Claims

(i) It will be accepted.

(ii) He is not entitled for any remuneration.

(iii) No interest on capital is allowed whereas 6% interest for loan should be given.

2. Reena and Raman are partners with capitals of Rs. 3,00,000 and Rs. 1,00,000 respectively. The profit (as per Profit and Loss Account) for the year ended March 31, 2007 was Rs. 1,20,000. Interest on capital is to be allowed at 6% p.a. Raman was entitled to a salary of Rs. 30,000 p.a. The drawings of partners were Rs. 30,000 and 20,000. The interest on drawings to be charged to Reena was Rs. 1,000 and to Raman, Rs. 500.

Assuming that Reena and Raman are equal partners. State their share of profit after necessary appropriations.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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TEST YOUR

UNDERSTANDING -III

1. Rani and Suman are in partnership with capitals of Rs, 80,000 and Rs. 60,000, respectively. During the year 2006-2007, Rani withdrew Rs. 10,000 from her capital and Suman Rs. 15,000. Profits before charging interest on capital was Rs. 50,000. Ravi and Suman shared profits in the ratio of 3:2. Calculate the amounts of interest on their capitals @ 12% p.a. for the year ended March 31, 2007.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

2. Priya and Kajal are partners in a firm, sharing profits and losses in the ratio of 5:3. The balance in their fixed capital accounts, on April 1, 2006 were: Priya, Rs. 6,00,000 and Kajal, Rs. 8,00,000. The profit of the firm for the year ended March 31, 2007 is Rs, 1,26,000. Calculate their shares of profits: (a) when there is no agreement in respect of interest on capital, and (b) when there is an agreement that the interest on capital will be allowed @ 12% p.a.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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1. Govind is a partner in a firm. He withdrew the following amounts during the year 2006-07:

DATE	(Rs.)
April 30, 2006	6,000
June 30, 2006	4,000
Sept. 30, 2006	8,000
Dec. 31, 2006	3,000
Jan. 31, 2007	5,000

he interest on drawings is to be charged @ 6% p.a. The books are closed on March 31, every year.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

2. Ram and Syam are partners sharing profits/losses equally. Ram withdrew Rs. 1,000 p.m. regularly on the first day of every month during the year 2006-07 for personal expenses. If interest on drawings is charged @ 5% p.a. Calculate interest on the drawings of Ram.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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3. Verma and Kaul are partners in a firm. The partnership agreement provides that interest on drawings should be charged @ 6% p.a. Verma withdraws Rs. 2,000 per month starting from April 01, 2006 to March 31, 2007. Kaul withdrew Rs. 3,000 per quarter, starting from April 01, 2006. Calculate interest on

partner's drawings.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

DO IT YOURSELF

Q.1. Gupta and Sarin are partners in a firm sharing profits in the ratio of 3:2. Their fixed capitals are: Gupta 2,00,000, and Sarin 3,00,000. After the accounts for the year are prepared it is discovered that interest on capital @10% p.a. as provided in the partnership agreement, has not been credited in the capital accounts of partners before distribution of profits. Record adjustment entry to rectify the error.

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

2. Krishna, Sandeep and Karim are partners sharing profits in the ratio of 3:2:1. Their fixed capitals are: Krishan Rs. 1,20,000, Sandeep 90,000 and Karim 60,000. For the year 2006-07, interest was credited to them @ 6% p.a. instead of 5% p.a. Record adjustment entry.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

3. Leela, Meera and Neha are partners and have omitted interest on capital @9% p.a. for three years ended March 31, 2007. Their fixed capitals on which interest

was to be allowed throughout were: Leela Rs. 80,000, Meera Rs. 60,000 and Neha Rs. 1,00,000. Their profit sharing ratio during the last three years were:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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SHORT ANSWER TYPE QUESTIONS

Question 1. Define Partnership Deed.

Answer A partnership deed is a agreement among the partners which contains all the terms of the Partnership. It generally contains the details about all the aspects affecting the relationship between the partners including the objective of business, contribution of capital by each partner, ratio in which the profits and the losses will be shared by the partners and entitlement of partners to interest on capital, interest on loan etc.

Question 2. Why it is considered desirable to make the partnership agreement in writing?

Answer As per Partnership Act 1932 it is not necessary that a partnership agreement must be in writing but still it is always suggested that it should be in written form Because today there are very good relationship among the partners

but in future if there may be any dispute regarding any issue, a written partnership agreement will help in avoiding disputes and misunderstandings among the partners.

Question 3. List the items which may be debited or credited in capital accounts of the partners when

- (i) Capitals are fixed
- (ii) Capitals are fluctuating

Answer (i) When capitals are fixed, the following items will be debited or credited in partners capital account

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 4. Why is Profit and Loss Adjustment Account prepared? Explain.

Answer Profit and loss adjustment account is prepared to record those transaction or omissions and errors which were left while preparing the final accounts and they are found after the final accounts have been prepared and the profits distributed among the partners. The omission may be in respect of interest on capital, interest on drawings, interest on partners' loan, partner's

salary, partner's commission or outstanding expenses.

There may also be some changes in the provisions of partnership deed or system of accountings having impact with retrospective effect. All these acts of omission and commission need adjustments for correction of their impact. These omission errors and corrections can be recorded in partners' capital account directly but still it seems convenient to prepare the profit and loss adjustment account.

Question 5. Give two circumstances under which the fixed capitals of partners may change.

Answer Under the fixed capital method the capital of partners may change in the following two circumstances

(i) First, when fresh capital is introduced by the partner with the consent of other partners.

(ii) Second, when a part of capital is withdrawn by the partner with the consent of other partners.

Question 6. If a fixed amount is withdrawn on the first day of every quarter, for what period the interest on total amount withdrawn will be calculated?

Answer When fixed amount of money is withdrawn quarterly, it can be withdrawn either at the beginning or at the end of each quarter, if the amount is withdrawn at the end of each quarter, the interest is calculated on the total money withdrawn during the period of seven and half months .

Question 7. In the absence of partnership deed, specify the rules relating to the following

- (i) Sharing of profits and losses
- (ii) Interest on partner's capital
- (iii) Interest on partner's drawings
- (iv) Interest on partner's loan
- (v) Salary to a partner

Answer :(i)Sharing of Profit and Losses

In the absence of partnership deed profit sharing ratio among the partners will be equal.

(ii) Interest on Partner's Capital

In the absence of partnership deed interest on partners capital will not be given.

(iii) Interest on Partner's Drawings

In the absence of partnership deed no interest will be charged on partners drawings .

(iv) Interest on Partners Loan

In the absence of partnership deed if partner gives any loan to the firm he/she will be entitled to get fixed percentage of interest @6% of annum.

(v) Salary of Partner

In the absence of the partnership deed a partner will be entitled for getting any salary for his work even if the other are non working.

Long Answer Type Questions

Question 1. What is partnership? What are its chief characteristics? Explain.

Answer According to the Section 4 of the Partnership Act, 1932

Partnership is an agreement between two or more persons who have agreed to share profits or losses of a business that will be carried by all or any one of them acting for all.

Person who joined their hands to set up the business are called 'partners' individually and 'firm' collectively and the name under which they carry out their business is termed as 'firm name'.

The following are the important characteristics of partnership

(i) Two or More Persons

In order to form partnership, there should be at least two person coming together for a common goal In other words, the minimum number of partners in a firm can be two. There is however, a limit on their maximum number, if a firm is engaged in the banking business, it can have a maximum of ten partners while in case of any other business, the maximum number of partners can be twenty.

(ii) Partnership Deed

A partnership deed is an agreement among the partners which contains all the terms of the partnership. It generally contains the details about all the aspects affecting the relationship between the partners including the objective of business, contribution of capital by each partner, ratio in which the profits and the losses will be shared by the partners and entitlement of partners to interest on capital, interest on loan, etc.

(iii) Business

One of the important characteristics of a partnership is that it is formed to carry out a legal business. Partnership in case of illegal business is not valid.

(iv) Sharing of Profit

In case of a partnership the partners are suppose to share profit or loss on an agreed ratio or as per the provisions of the Partnership Act, 1932, as per which they will share profit equally.

(v) Liability

In the case of a partnership liability of partners are unlimited. If there is any obligation against the third party the partner will have to pay it out of his personal property.

Question 2. Discuss the main provisions of the Indian Partnership Act, 1932 that are relevant to partnership accounts if there is no partnership deed.

Answer It is always suggested that there must be a partnership deed among the partners before getting into any partnership venture. But sometimes a partnership is started without signing any such document. In this case the rules of partnership will be applicable as per the provisions of the Indian Partnership Act, 1932. The following are the provisions that are relevant to the partnership accounts in absence of partnership deed.

(i) Profit Sharing Ratio When a partnership deed is not made or even if it is made and silent on sharing of profit or losses among the partners of a firm, then according to the Partnership Act 1932, profits and losses are to be shared equally among all the partner of the firm.

(ii) Interest on Capital When there is absence of partnership deed or the partnership deed is silent on the issue related to interest on partner's capital, then according to the Partnership Act 1932, no interest on partners' capital will be provided. However, if they mutually agree on this issue than they are free to give interest on capital out of the profit of the firm.

(iii) Interest on Drawings there is no partnership deed the issue related to interest on drawing will be handled according to the provisions Partnership Act. 1932 According to which no interest on drawing will be charge loan the orders on withdraw in the form of drawings.

(iv) Interest on Partner's Loan When there is no partnership deed among the partners or the partnership deed is silent on interest on partner's loan then according to the Partnership Act, 1932. the partners are entitled for 6% pa interest on the loan forwarded by them to the firm

(v) Salary to Partner When partnership deed is not there or it is silent on the issue related to salary to a partner, then as per the rules of the partnership Act. 1932. no partner will be entitled to any salary.

Question 3. Explain why it is considered better to make a partnership agreement in writing.

Answer As per Partnership Act. 1932, it is not necessary that a partnership agreement must be in writing but still it is always suggested that it should be in written form. Because today there are very good relationship among the partners but in future there may be any dispute regarding any issue a written partnership agreement will help in avoiding disputes and misunderstandings among the partners.

In this way a written partnership deed is more desirable than the oral agreements. A written partnership agreement ensures the smooth functioning of the business of the partnership firm It also helps in settling the disputes among the partners. Moreover a duly signed and registered partnership deed can be used as evidence in the court of law. Therefore, it is desirable to form partnership deed in writing

because of the moths associated with written documents over its oral counterparts.

Question 4. Illustrate how interest on drawings will be calculated under various situations.

Answer When a partner withdraws any amount, either in cash or in any other form, from the firm for his/her personal use, then it is termed as drawings. The interest charged by the firm on the amount of drawings is termed as interest on drawings. The method of calculating interest on drawings depends on the information available for time and frequency of the drawings made by the partner. The following different situations of drawings made illustrate the calculation of interest charged on drawings.

Situation I When all the information regarding amount, date and rate of interest on drawings is given

When a partner withdrew Rs 10,000 on July 01 and interest on drawings is charged at 12% pa and the firm closed its books on December 31 every year then interest on drawings amount to Rs 600.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Situation(II) When information regarding amount, rate of interest on drawings is given

Case I Sometimes amount and rate of interest on drawings (per annum) is given but date is not mentioned

in this case when the details regarding the amount of drawings and rate of interest on drawings (pa) is given but the date of drawings is not given then interest will be charged on average basis and the period of drawings will be taken as 6 months

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Case II Sometimes the amount and rate of interest on drawings is given but the date and per annum rate of interest is not mentioned.

In this case when the date and the rate of interest are given but per annum is not specified, then annual interest is charged.

e.g., If a partner withdrew Rs 10,000 and interest rate is 12%, then the interest on

drawings amounts to Rs.12,000.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Situation III When a fixed amount is withdrawn at regular interval

Case I Sometimes a fixed amount is withdrawn at the beginning of each month and the rate of interest is given then the interest is calculated for 6 5 months.

e.g.. If a partner withdraws Rs1,000 in the beginning of every month and the rate of interest is 12% pa, then the interest on drawings amount to RS 780.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Case II Sometimes a fixed amount is withdrawn at the end of each month and the rate of interest is given then the interest is calculated for 5.5 months.

e.g.. if a partner withdraws Rs 1.000 at the end of each month and rate of interest is 12% pa then the interest on drawings amount to Rs 660.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Case III Sometimes a fixed amount is withdrawn at the mid of each month and the rate of interest is given then the interest is calculated for 6 months.

e.g. if a partner withdraws Rs.1,000 on 15th of every month and the rate of interest is 12% pa then the interest on drawings amount to Rs 720.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Case IV If a fixed amount is withdrawn in the beginning of every quarter then the interest is calculated for 7.5 months.

e.g.. If a partner withdraws Rs.5,000 in the beginning of every quarter and the rate of interest is 12% pa then the interest on drawings amount to Rs 1,800.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Case V If a fixed amount is withdrawn at the end of every quarter, then the interest is calculated for 4.5 months.

e.g., If a partner withdraws Rs. 5,000 at the end of every quarter and the rate of interest is 12% pa then the interest on drawings amounts to Rs. 900

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Situation IV When different amount is at different intervals

When different amount is withdrawn by a partner at different dates then the interest is calculated by product method. The period of drawings is calculated from the date of withdrawal to the last date of the accounting year,

e.g., A partner withdraws Rs. 6,000 on March 01, Rs. 4,000 on June 01, Rs. 5,000 on Aug 30 and Rs. 2,000 on Nov 30 and the rate of interest on drawings is 12% pa. The firm closes its book on December 31.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Question 5. How will you deal with a change in profit sharing ratio among existing partners? Take imaginary figures to illustrate your answer.

Answer Change in the profit sharing ratio occurs only in case of the admission, retirement or death of a partner or sometimes due to the general agreement among the partners in which they may decide to change the profit sharing ratio. There may be number of issues that should be considered during the change in the profit sharing ratio such as goodwill, reserves and accumulated profits, profit or loss on the revaluation of assets and liabilities and adjustment of capital, etc. As far as the issue related to general reserve is concerned it is basically the accumulated profits (if any) and profit (or loss) on revaluation of assets and liabilities and should be distributed in the partner's capital account in partners old profit sharing ratio.

Sometimes the existing partners may decide to change the profit sharing ratio then some partners gain at the cost of other partners. In other words one partner gain and other one sacrifice equal to the gain. In that case the former should compensate the latter. Therefore, the gaining partner's capital account's are debited to the extent of their gain and sacrificing partner's capital accounts are credited to the extent of their sacrifice .The following journal entry is passed

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Example Ram. Mohan and Shyam are partners in a firm sharing profit and loss in 3 2 :1 ratio. They decide to share profit and loss equally in future. On dm: date, the books of the firm showsRs.2.40.000 as general reserve, profit on ^evaluation of Plant and Machinery Rs.60.000. The following adjustment entry is passed through the capital accounts without affecting the books of accounts.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Hence, in the above example. Shyam gains at the cost of Ram. so the Ram needs to be compensated by Shyam with the amount of Rs.50.000. The following adjustment entry is passed.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Numerical Type Problems

1. Triphati and Chauhan are partners in a firm sharing profits and losses in the ratio of 3:2. Their capitals were Rs.60,000 and Rs.40,000 as on January 01, 2005. During the year they earned a profit of Rs. 30,000. According to the partnership deed both the partners are entitled to Rs. 1,000 per month as Salary and 5% interest on their capital. They are also to be charged an interest of 5% on

their drawings, irrespective of the period, which is Rs. 12,000 for Tripathi, Rs. 8,000 for Chauhan. Prepare Partner's Accounts when, capitals are fixed.

Answer In case, Interest on capital ,partners salary and interest on drawings is charged against profit.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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2. Anubha and Kajal are partners of a firm sharing profits and losses in the ratio of 2:1. Their capital, were Rs.90,000 and Rs.60,000. The profit during the year were Rs. 45,000. According to partnership deed, both partners are allowed salary, Rs. 700 per month to Anubha and Rs. 500 per month to Kajal. Interest allowed on capital @ 5%p.a. The drawings at the end of the period were Rs. 8,500 for Anubha and Rs. 6,500 for Kajal. Interest is to be charged @ 5% p.a. on drawings. Prepare partners capital accounts, assuming that the capital account are fluctuating.

Answer. Assuming that partners salary, interest on capital and interest on drawing have already been adjusted in profit and loss account.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

3. Harshad and Dhiman are in partnership since April 01, 2006. No Partnership agreement was made. They contributed Rs. 4,00,000 and 1,00,000 respectively as capital. In addition, Harshad advanced an amount of Rs. 1,00,000 to the firm, on October 01, 2006. Due to long illness, Harshad could not participate in business activities from August 1, to September 30, 2006. The profits for the year ended March 31, 2006 amounted to Rs. 1,80,000. Dispute has arisen between Harshad and Dhiman.

Harshad Claims:

- (i) he should be given interest @ 10% per annum on capital and loan;
- (ii) Profit should be distributed in proportion of capital;

Dhiman Claims:

- (i) Profits should be distributed equally;
- (ii) He should be allowed Rs. 2,000 p.m. as remuneration for the period he managed the business, in the absence of Harshad;
- (iii) Interest on Capital and loan should be allowed @ 6% p.a. You are required to settle the dispute between Harshad and Dhiman. Also prepare Profit and Loss Appropriation Account.

Answer Decisions according to partnership Act, 1932, if there is no agreement .

Decision on Harshads Claim

- (i) Interest on partners capital will not be allowed to partners
- (ii) Profits shall be distributed equally among all the partners

Decision on Dhimans Claim

- (i) Profits should be distributed equally among all the partners, fii) No salary shall be allowed to any partner if there is no agreement regarding remuneration. (iii) Interest shall be allowed on partner's Loan @ 6% pa whereas no interest is allowed on capital.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

4. Aakriti and Bindu entered into partnership for making garment on April 01, 2006 without any Partnership agreement. They introduced Capitals of Rs. 5,00,000 and Rs. 3,00,000 respectively on October 01, 2006. Aakriti Advanced Rs. 20,000 by way of loan to the firm without any agreement as to interest. Profit and Loss account for the year ended March 2007 showed profit of Rs. 43,000. Partners could not agree upon the question of interest and the basis of division of profit.

You are required to divide the profits between them giving reason for your solution.

Answer In the absence of any agreement between partners

- (i) Interest on partners loan is allowed @ 6% pa.
(ii) Interest on capital shall not be allowed.
(iii) Profits are to be distributed equally.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

5. Rakhi and Shikha are partners in a firm, with capitals of Rs. 2,00,000 and Rs. 3,00,000 respectively. The profit of the firm, for the year ended 2006-07 is Rs.

23,200. As per the Partnership agreement, they share the profit in their capital ratio, after allowing a salary of Rs. 5,000 per month to Shikha and interest on Partner's capital at the rate of 10% p.a. During the year Rakhi withdrew Rs. 7,000 and Shikha Rs. 10,000 for their personal use. You are required to prepare Profit and Loss Appropriation Account and Partner's Capital Accounts.

Answer

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

6. Lokesh and Azad are partners sharing profits in the ratio 3:2, with capitals of Rs. 50,000 and 30,000, respectively. Interest on capital is agreed to be paid @ 6% p.a. Azad is allowed a salary of Rs. 2,500 p.a. During 2006, the profits prior to the calculation of interest on capital but after charging Azad's salary amounted to Rs. 12,500. A provision of 5% of profits is to be made in respect of manager's commission. Prepare accounts showing the allocation of profits and partner's capital accounts.

Answer

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

7. The partnership agreement between Maneesh and Girish provides that:
 (i) Profits will be shared equally;
 (ii) Maneesh will be allowed a salary of Rs. 400 p.m;

- (iii) Girish who manages the sales department will be allowed a commission equal to 10% of the net profits, after allowing Maneesh's salary;
- (iv) 7% interest will be allowed on partner's fixed capital;
- (v) 5% interest will be charged on partner's annual drawings;
- (vi) The fixed capitals of Maneesh and Girish are Rs. 1,00,000 and Rs. 80,000, respectively. Their annual drawings were Rs. 16,000 and 14,000, respectively. The net profit for the year ending March 31, 2006 amounted to Rs. 40,000; Prepare firm's Profit and Loss Appropriation Account.

Answer

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

8. Ram, Raj and George are partners sharing profits in the ratio 5 : 3 : 2. According to the partnership agreement George is to get a minimum amount of Rs. 10,000 as his share of profits every year. The net profit for the year 2006 amounted to Rs. 40,000. Prepare the Profit and Loss Appropriation Account.

Answer

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

9. Amann, Babita and Suresh are partners in a firm. Their profit sharing ratio is 2:2:1. Suresh is guaranteed a minimum amount of Rs. 10,000 as share of profit, every year. Any deficiency on that account shall be met by Babita. The profits for two years ending December 31, 2005 and December 31, 2006 were Rs. 40,000 and Rs. 60,000, respectively. Prepare the Profit and Loss Appropriation Account for the two years.

Answer

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

10. Simmi and Sonu are partners in a firm, sharing profits and losses in the ratio of 3:1. The profit and loss account of the firm for the year ending March 31, 2006 shows a net profit of Rs. 1,50,000. Prepare the Profit and Loss Appropriation Account by taking into consideration the following information:

- (i) Partners capital on April 1, 2005; Simmi, Rs. 30,000; Sonu, Rs. 60,000;
- (ii) Current accounts balances on April 1, 2005; Simmi, Rs. 30,000 (cr.); Sonu, Rs. 15,000 (cr.);
- (iii) Partners drawings during the year amounted to Simmi, Rs. 20,000; Sonu, Rs. 15,000;
- (iv) Interest on capital was allowed @ 5% p.a.;
- (v) Interest on drawing was to be charged @ 6% p.a. at an average of six months;
- (vi) Partners' salaries : Simmi Rs. 12,000 and Sonu Rs. 9,000. Also show the partners' current accounts.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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11. Ramesh and Suresh were partners in a firm sharing profits in the ratio of their capitals contributed on commencement of business which were Rs. 80,000 and Rs. 60,000 respectively. The firm started business on April 1, 2005. According to the partnership agreement, interest on capital and drawings are 12% and 10% p.a., respectively. Ramesh and Suresh are to get a monthly salary of Rs. 2,000 and Rs. 3,000, respectively.

The profits for year ended March 31, 2006 before making above appropriations was Rs. 1,00,300. The drawings of Ramesh and Suresh were Rs. 40,000 and Rs. 50,000, respectively. Interest on drawings amounted to Rs. 2,000 for Ramesh and Rs. 2,500 for Suresh. Prepare Profit and Loss Appropriation Account and partners' capital accounts, assuming that their capitals are fluctuating.

Answer

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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12. Suresh and Vanita were partners in a firm. Their partnership agreement provides that:

- Profits would be shared by Suresh and Vanita in the ratio of 3:2;
- 5% interest is to be allowed on capital;
- Vanita should be paid a monthly salary of Rs. 600.

The following balances are extracted from the books of the firm, on December 31, 2006.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Net profit for the year, before charging interest on capital and after charging

partner's salary was Rs. 9,500. Prepare the Profit and Loss Appropriation Account and the Partner's Current Accounts.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Answer

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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13. Rahul, Rohit and Karan started partnership business on April 1, 2006 with capitals of Rs. 20,00,000, Rs. 18,00,000 and Rs. 16,00,000, respectively. The profit for the year ended March 2007 amounted to Rs. 1,35,000 and the partner's drawings had been Rahul Rs. 50,000, Rohit Rs. 50,000 and Karan Rs. 40,000. The profits are distributed among partner's in the ratio of 3:2:1. Calculate the interest on capital @ 5% p.a

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

14. Sunflower and Pink Rose started partnership business on April 01, 2006 with capitals of Rs. 2,50,000 and Rs. 1,50,000, respectively. On October 01, 2006, they decided that their capitals should be Rs. 2,00,000 each. The necessary adjustments in the capitals are made by introducing or withdrawing cash. Interest on capital is to be allowed @ 10% p.a. Calculate interest on capital as on March 31, 2007.

Answer

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

15. On March 31, 2006 after the close of accounts, the capitals of Mountain, Hill and Rock stood in the books of the firm at Rs. 4,00,000, Rs. 3,00,000 and Rs. 2,00,000, respectively. Subsequently, it was discovered that the interest on capital @ 10% p.a. had been omitted. The profit for the year amounted to Rs. 1,50,000 and the partner's drawings had been Mountain: Rs. 20,000, Hill Rs. 15,000 and Rock Rs. 10,000. Calculate interest on capital.

Answer

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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16. Following is the extract of the Balance Sheet of, Neelkant and Mahdev as on March 31, 2007:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

During the year Mahadev's drawings were Rs. 30,000. Profits during 2007 is Rs. 10,00,000. Calculate interest on capital @ 5% p.a for the year ending March 31, 2007.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

17. Rishi is a partner in a firm. He withdrew the following amounts during the year ended March 31, 2007.

May 01, 2006 Rs. 12,000

July 31, 2006 Rs. 6,000

September 30, 2006 Rs. 9,000

November 30, 2006 Rs. 12,000

January 01, 2007 Rs. 8,000

March 31, 2007 Rs. 7,000

Interest on drawings is charged @ 9% p.a. Calculate interest on drawings

Answer

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

18. The capital accounts of Moli and Golu showed balances of Rs.40,000 and Rs. 20,000 as on April 01, 2006. They shared profits in the ratio of 3:2. They allowed interest on capital @ 10% p.a. and interest on drawings, @ 12 p.a. Golu advanced a loan of Rs. 10,000 to the firm on August 01, 2006.

During the year, Moli withdrew Rs. 1,000 per month at the beginning of every month whereas Golu withdrew Rs. 1,000 per month at the end of every month.

Profit for

the year, before the above mentioned adjustments was Rs.20,950. Calculate interest on drawings show distribution of profits and prepare partner's capital accounts.

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Answer

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

19. Rakesh and Roshan are partners, sharing profits in the ratio of 3:2 with capitals of Rs. 40,000 and Rs. 30,000, respectively. They withdrew from the firm the following amounts, for their personal use:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Interest is to be charged @ 6% p.a. Calculate interest on drawings, assuming that book of accounts are closed on March 31, 2007, every year.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

20. Himanshu withdraws Rs. 2,500 at the end Month of each month. The Partnership deed provides for charging the interest on drawings @ 12% p.a. Calculate interest on Himanshu's drawings for the year ending 31st December, 2006.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

21. Bharam is a partner in a firm. He withdraws Rs. 3,000 at the starting of each month for 12 months. The books of the firm closes on March 31 every year. Calculate interest on drawings if the rate of interest is 10% p.a.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

22. Raj and Neeraj are partners in a firm. Their capitals as on April 01, 2005 were Rs. 2,50,000 and Rs. 1,50,000, respectively. They share profits equally. On July 01, 2005, they decided that their capitals should be Rs. 1,00,000 each. The necessary adjustment in the capitals were made by introducing or withdrawing cash by the partners'. Interest on capital is allowed @ 8% p.a. Compute interest on capital for both the partners for the year ending on March 31, 2006

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

23. Amit and Bhola are partners in a firm. They share profits in the ratio of 3:2. As per their partnership agreement, interest on drawings is to be charged @ 10% p.a. Their drawings during 2006 were Rs. 24,000 and Rs. 16,000, respectively. Calculate interest on drawings based on the assumption that the amounts were withdrawn evenly, throughout the year.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

24. Harish is a partner in a firm. He withdrew the following amounts during the year 2006 :

	Rs.
February 01	4,000
May 01	10,000
June 30	4,000
October 31	12,000
December 31	4,000

Interest on drawings is to be charged @ 7 1/2 % p.a.

Calculate the amount of interest to be charged on Harish's drawings for the year ending December 31, 2006.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

25. Menon and Thomas are partners in a firm. They share profits equally. Their monthly drawings are Rs. 2,000 each. Interest on drawings is to be charged @ 10% p.a. Calculate interest on Menon's drawings for the year 2006, assuming that money is withdrawn: (i) in the beginning of every month, (ii) in the middle of every month, and (iii) at the end of every month.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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26. On March 31, 2003, after the close of books of accounts, the capital accounts of Ram, Shyam and Mohan showed balance of Rs. 24,000 Rs. 18,000 and Rs. 12,000, respectively. It was later discovered that interest on capital @ 5% had been omitted. The profit for the year ended March 31, 2003, amounted to Rs. 36,000 and the partner's drawings had been Ram, Rs. 3,600; Shyam, Rs. 4,500 and Mohan, Rs. 2,700. The profit sharing ratio of Ram, Shyam and Mohan was 3:2:1. Calculate interest on capital.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

27. Amit, Sumit and Samiksha are in partnership sharing profits in the ratio of 3:2:1. Samiksha' share in profit has been guaranteed by Amit and Sumit to be a minimum sum of Rs. 8,000. Profits for the year ended March 31, 2006 was Rs. 36,000. Divide profit among the partners.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

28. Pinki, Deepati and Kaku are partner's sharing profits in the ratio of 5:4:1. Kaku is given a guarantee that his share of profits in any given year would not be less than Rs. 5,000. Deficiency, if any, would be borne by Pinki and Deepti equally. Profits for the year amounted to Rs. 40,000. Record necessary journal entries in the books of the firm showing the distribution of profit.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

29.. Abhay, Siddharth and Kusum are partners in a firm, sharing profits in the ratio of 5:3:2. Kusum is guaranteed a minimum amount of Rs. 10,000 as per share in the profits. Any deficiency arising on that account shall be met by Siddharth. Profits for the years ending March 31, 2006 and 2007 are Rs. 40,000 and 60,000 respectively. Prepare Profit and Loss Appropriation Account.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

30. Radha, Mary and Fatima are partners sharing profits in the ratio of 5:4:1. Fatima is given a guarantee that her share of profit, in any year will not be less

than Rs. 5,000. The profits for the year ending March 31, 2006 amounts to Rs. 35,000. Shortfall if any, in the profits guaranteed to Fatima is to be borne by Radha and Mary in the ratio of 3:2. Record necessary journal entry to show distributioin of profit among partner.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

31.X, Y and Z are in Partnership, sharing profits and losses in the ratio of 3 : 2 : 1, respectively. Z's share in the profit is guaranteed by X and Y to be a minimum of Rs. 8,000. The net profit for the year ended March 31, 2006 was Rs. 30,000. Prepare Profit and Loss Appropriation Account, indicating the amount finally due to each partner.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

32. Arun, Bobby and Chintu are partners in a firm sharing profit in the ratio of 2:2:1. According to the terms of the partnership agreement, Chintu has to get a minimum of Rs. 60,000, irrespective of the profits of the firm. Any deficiency to Chintu on account of such guarantee shall be borne by Arun. Prepare the profit and loss appropriation account showing distribution of profits among partners in case the profits for year 2006 are: (i) Rs. 2,50,000; (ii) 3,60,000.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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33. Ashok, Brijesh and Cheena are partners sharing profits and losses in the ratio of 2 : 2 : 1. Ashok and Brijesh have guaranteed that Cheena share in any year shall be less than Rs. 20,000. The net profit for the year ended March 31, 2006 amounted to Rs. 70,000. Prepare Profit and Loss Appropriation Account .

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

34. Ram, Mohan and Sohan are partners with capitals of Rs. 5,00,000, Rs. 2,50,000

and 2,00,000 respectively. After providing interest on capital @ 10% p.a. the profits are divisible as follows:

Ram $\frac{1}{2}$, Mohan $\frac{1}{3}$ and Sohan $\frac{1}{6}$. But Ram and Mohan have guaranteed that Sohan's share in the profit shall not be less than Rs. 25,000, in any year.

The net profit for the year ended March 31, 2007 is Rs. 2,00,000, before charging interest on capital. You are required to show distribution of profit

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

35. Amit, Babita and Sona form a partnership firm, sharing profits in the ratio of 3 : 2 : 1, subject to the following :

(i) Sona's share in the profits, guaranteed to be not less than Rs. 15,000 in any year.

(ii) Babita gives guarantee to the effect that gross fee earned by her for the firm shall be equal to her average gross fee of the proceeding five years, when she was carrying on profession alone (which is Rs. 25,000). The net profit for the year ended March 31, 2007 is Rs. 75,000. The gross fee earned by Babita for the firm was Rs. 16,000. You are required to show Profit and Loss Appropriation Account (after giving effect to the alone).

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

36. The net profit of X, Y and Z for the year ended March 31, 2006 was Rs. 60,000 and the same was distributed among them in their agreed ratio of 3 : 1 : 1. It was subsequently discovered that the under mentioned transactions were not recorded in the books :

(i) Interest on Capital @ 5% p.a.

(ii) Interest on drawings amounting to X Rs. 700, Y Rs. 500 and Z Rs. 300.

(iii) Partner's Salary : X Rs. 1000, Y Rs. 1500 p.a.

The capital accounts of partners were fixed as : X Rs. 1,00,000, Y Rs. 80,000 and Z Rs. 60,000. Record the adjustment entry.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

37. The firm of Harry, Porter and Ali, who have been sharing profits in the ratio of 2 : 2 : 1, have existed for same years. Ali wants that he should get equal share in the profits with Harry and Porter and he further wishes that the change in the profit sharing ratio should come into effect retrospectively were for the last three year. Harry and Porter have agreement on this account.

The profits for the last three years were:

(Rs.)

2003-04 22,000

2004-05 24,000

2005-06 29,000

Show adjustment of profits by means of a single adjustment journal entry.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

38. Mannu and Shristhi are partners in a firm sharing profit in the ratio of 3 : 2. Following is the balance sheet of the firm as on March 31, 2006.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Profit for the year ended March 31, 2006 was Rs. 5,000 which was divided in the agreed ratio, but interest @ 5% p.a. on capital and @ 6% p.a. on drawings was inadvertently enquired. Adjust interest on drawings on an average basis for 6 months. Give the adjustment entry

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

39. On March 31, 2006 the balance in the capital accounts of Eluin, Monu and Ahmed, after making adjustments for profits, drawing, etc; were Rs. 80,000, Rs. 60,000 and Rs. 40,000 respectively. Subsequently, it was discovered that interest on capital and interest on drawings had been omitted. The partners were entitled to interest on capital @ 5% p.a. The drawings during the year were Eluin Rs. 20,000; Monu, Rs. 15,000 and Ahmed, Rs. 9,000. Interest on drawings

chargeable to partners were Eluin Rs, 500, Monu Rs. 360 and Ahmed Rs. 200. The net profit during the year amounted to Rs. 1,20,00

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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40. Azad and Benny are equal partners. Their capitals are Rs. 40,000 and Rs. 80,000, respectively. After the accounts for the year have been prepared it is discovered that interest at 5% p.a. as provided in the partnership agreement, has not been credited to the capital accounts before distribution of profits. It is decided to make an adjustment entry at the beginning of the next year. Record the necessary journal entry.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

41. Kavita and Pradeep are partners, sharing profits in the ratio of 3 : 2. They employed Chandan as their manager, to whom they paid a salary of Rs. 750 p.m. Chandan deposited Rs. 20,000 on which interest is payable @ 9% p.a. At the end of 2001 (after the division of profit), it was decided that Chandan should be treated as partner w.e.f. Jan. 1., 1998 with 1/6 th share in profits. His deposit being considered as capital carrying interest @ 6% p.a. like capital of other partners. Firm's profits after allowing interest on capital were as follows:

(Rs.)

2001 Profit 59,000

2002 Profit 62,000

2003 Loss (4,000)

2004 Profit 78,000

Record the necessary journal entries to give effect to the above

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

42. Mohan, Vijay and Anil are partners, the balance on their capital accounts being Rs. 30,000, Rs. 25,000 and Rs. 20,000 respectively. In arriving at these figures, the profits for the year ended March 31, 2007 amounting to Rupees 24,000 had been credited to partners in the proportion in which they shared profits. During the year their drawings for Mohan, Vijay and Anil were Rs. 5,000, Rs. 4,000 and Rs. 3,000, respectively. Subsequently, the following omissions were noticed:

- Interest on Capital, at the rate of 10% p.a., was not charged.
- Interest on Drawings: Mohan Rs. 250, Vijay Rs. 200, Anil Rs. 150 was not recorded in the books.

Record necessary corrections through journal entries.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

43. Anju, Manju and Mamta are partners whose fixed capitals were Rs. 10,000, Rs. 8,000 and Rs. 6,000, respectively. As per the partnership agreement, there is a provision for allowing interest on capitals @ 5% p.a. but entries for the same have not been made for the last three years. The profit sharing ratio during these years remained as follows:

Year	Anju	Manju	Mamta
2004	4	3	5
2005	3	2	1
2006	1	1	1

Make necessary and adjustment entry at the beginning of the fourth year i.e. Jan. 2007.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

44. Dinker and Ravinder were partners sharing profits and losses in the ratio of 2:1. The following balances were extracted from the books of account, for the year ended December 31, 2005.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Prepare final accounts for the year ended December 31,2005, with following adjustment:

- Stock on December 31,2005, was Rs. 42,500.
- A Provision is to be made for bad debts at 5% on debtors.
- Rent outstanding was Rs.1,600.
- Wages outstanding were Rs.1,200.
- Interest on capital to be allowed on capital @ 4% per annum and interest on drawings to be charged @ 6% per annum.
- Dinker and Ravinder are entitled to a Salary of Rs.2,000 per annum
- Ravinder is entitled to a commission Rs.1,500.
- Depreciation is to be charged on Building @ 4%, Plant and Machinery, 6%, and furniture and fixture, 5%.
- Outstanding interest on loan amounted to Rs. 350.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Answer

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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NUMERICAL PROBLEMS

10. Singh, Gupta and Khan are partners in a firm sharing profits in 3:2:3 ratio. They admitted Jain as a new partner. Singh surrendered $\frac{1}{3}$ of his share in favour of Jain; Gupta surrendered $\frac{1}{4}$ of his share in favour of Jain and Khan surrendered $\frac{1}{5}$ in favour of Jain. Calculate new profit sharing ratio?

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

11. Sandeep and Navdeep are partners in a firm sharing profits in 5:3 ratio. They admit C into the firm and the new profit sharing ratio was agreed at 4:2:1. Calculate the sacrificing ratio?

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

12. Rao and Swami are partners in a firm sharing profits and losses in 3:2 ratio. They admit Ravi as a new partner for 1/8 share in the profits. The new profit sharing ratio between Rao and Swami is 4:3. Calculate new profit sharing ratio and sacrificing ratio?

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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13. Compute the value of goodwill on the basis of four years' purchase of the average profits based on the last five years? The profits for the last five years were as follows:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

14. Capital employed in a business is Rs. 2,00,000. The normal rate of return on capital employed is 15%. During the year 2002 the firm earned a profit of Rs. 48,000. Calculate goodwill on the basis of 3 years purchase of super profit?

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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15. The books of Ram and Bharat showed that the capital employed on 31.12.2002 was Rs. 5,00,000 and the profits for the last 5 years : 2002 Rs. 40,000; 2003 Rs. 50,000; 2004 Rs. 55,000; 2005 Rs. 70,000 and 2006 Rs. 85,000. Calculate the value of goodwill on the basis of 3 years purchase of the average super profits of the last 5 years assuming that the normal rate of return is 10%?

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

16. Rajan and Rajani are partners in a firm. Their capitals were Rajan Rs. 3,00,000; Rajani Rs. 2,00,000. During the year 2002 the firm earned a profit of Rs. 1,50,000. Calculate the value of goodwill of the firm assuming that the normal rate of return is 20%?

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

17. A business has earned average profits of Rs. 1,00,000 during the last few years. Find out the value of goodwill by capitalisation method, given that the assets of the business are Rs. 10,00,000 and its external liabilities are Rs. 1,80,000. The normal rate of return is 10%?

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

18. Verma and Sharma are partners in a firm sharing profits and losses in the ratio of 5:3. They admitted Ghosh as a new partner for $\frac{1}{5}$ share of profits. Ghosh is to bring in Rs. 20,000 as capital and Rs. 4,000 as his share of goodwill premium. Give the necessary journal entries:

- When the amount of goodwill is retained in the business.
- When the amount of goodwill is fully withdrawn.
- When 50% of the amount of goodwill is withdrawn.
- When goodwill is paid privately

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

19. A and B are partners in a firm sharing profits and losses in the ratio of 3:2. They decide to admit C into partnership with 1/4 share in profits. C will bring in Rs. 30,000 for capital and the requisite amount of goodwill premium in cash. The goodwill of the firm is valued at Rs, 20,000. The new profit sharing ratio is 2:1:1. A and B withdraw their share of goodwill. Give necessary journal entries?

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

20. Arti and Bharti are partners in a firm sharing profits in 3:2 ratio, They admitted Sarthi for 1/4 share in the profits of the firm. Sarthi brings Rs. 50,000 for his capital and Rs. 10,000 for his 1/4 share of goodwill. Goodwill already appears in the books of Arti and Bharti at Rs. 5,000. the new profit sharing ratio between Arti, Bharti and Sarthi will be 2:1:1. Record the necessary journal entries in the books of the new firm?

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

21. X and Y are partners in a firm sharing profits and losses in 4:3 ratio. They admitted Z for 1/8 share. Z brought Rs. 20,000 for his capital and Rs. 7,000 for his 1/8 share of goodwill. Subsequently X, Y and Z decided to show goodwill in their books at Rs. 40,000. Show necessary journal entries in the books of X, Y and Z?

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

22. Aditya and Balan are partners sharing profits and losses in 3:2 ratio. They admitted Christopher for 1/4 share in the profits. The new profit sharing ratio agreed was 2:1:1. Christopher brought Rs. 50,000 for his capital. His share of goodwill was agreed to at Rs. 15,000. Christopher could bring only Rs. 10,000 out of his share of goodwill. Record necessary journal entries in the books of the firm?

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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23. Amar and Samar were partners in a firm sharing profits and losses in 3:1 ratio. They admitted Kanwar for 1/4 share of profits. Kanwar could not bring his share of goodwill premium in cash. The Goodwill of the firm was valued at Rs. 80,000 on Kanwar's admission. Record necessary journal entry for goodwill on Kanwar's admission.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

24. Mohan Lal and Sohan Lal were partners in a firm sharing profits and losses in 3:2 ratio. They admitted Ram Lal for 1/4 share on 1.1.2003. It was agreed that goodwill of the firm will be valued at 3 years purchase of the average profits of last 4 years which were Rs. 50,000 for 2003, Rs. 60,000 for 2004, Rs. 90,000 for 2005 and Rs. 70,000 for 2006. Ram Lal did not bring his share of goodwill premium in cash. Record the necessary journal entries in the books of the firm on Ram Lal's admission when:

- Goodwill already appears in the books at Rs. 2,02,500.
- Goodwill appears in the books at Rs. 2,500.
- Goodwill appears in the books at Rs. 2,05,000.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

25. Rajesh and Mukesh are equal partners in a firm. They admit Hari into partnership and the new profit sharing ratio between Rajesh, Mukesh and Hari is 4:3:2. On Hari's admission goodwill of the firm is valued at Rs. 36,000. Hari is unable to bring his share of goodwill premium in cash. Rajesh, Mukesh and Hari decided not to show goodwill in their balance sheet. Record necessary journal entries for the treatment of goodwill on Hari's admission.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

26. Amar and Akbar are equal partners in a firm. They admitted Anthony as a new partner and the new profit sharing ratio is 4:3:2. Anthony could not bring this share of goodwill Rs. 45,000 in cash. It is decided to do adjustment for goodwill without opening goodwill account. Pass the necessary journal entry for the treatment of goodwill?

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

27. Given below is the Balance Sheet of A and B, who are carrying on partnership business on 31.12.2006. A and B share profits and losses in the ratio of 2:1.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

C is admitted as a partner on the date of the balance sheet on the following terms:

- C will bring in Rs. 1,00,000 as his capital and Rs. 60,000 as his share of goodwill for 1/4 share in the profits.
- Plant is to be appreciated to Rs. 1,20,000 and the value of buildings is to be appreciated by 10%.
- Stock is found over valued by Rs. 4,000.

(iv) A provision for bad and doubtful debts is to be created at 5% of debtors.

(v) Creditors were unrecorded to the extent of Rs. 1,000. Pass the necessary journal entries, prepare the revaluation account and partners' capital accounts, and show the Balance Sheet after the admission of C.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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28. Leela and Meeta were partners in a firm sharing profits and losses in the ratio of 5:3. On 1st Jan. 2007 they admitted Om as a new partner. On the date of Om's admission the balance sheet of Leela and Meeta showed a balance of Rs. 16,000 in general reserve and Rs. 24,000 (Cr) in Profit and Loss Account. Record necessary journal entries for the treatment of these items on Om's admission. The new profit sharing ratio between Leela, Meeta and Om was 5:3:2.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

29. Amit and Viney are partners in a firm sharing profits and losses in 3:1 ratio. On 1.1.2007 they admitted Ranjan as a partner. On Ranjan's admission the profit and loss account of Amit and Viney showed a debit balance of Rs. 40,000. Record necessary journal entry for the treatment of the same.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

30. A and B share profits in the proportions of $\frac{3}{4}$ and $\frac{1}{4}$. Their Balance Sheet on Dec. 31, 2006 was as follows

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

On Jan. 1, 2007, C was admitted into partnership on the following terms:

(a) That C pays Rs. 10,000 as his capital.

(b) That C pays Rs. 5,000 for goodwill. Half of this sum is to be withdrawn by A and B.

(c) That stock and fixtures be reduced by 10% and a 5% provision for doubtful debts be created on

Sundry Debtors and Bills Receivable.

(d) That the value of land and buildings be appreciated by 20%.

(e) There being a claim against the firm for damages, a liability to the extent of Rs. 1,000 should be created.

(f) An item of Rs. 650 included in sundry creditors is not likely to be claimed and hence should be written back.

Record the above transactions (journal entries) in the books of the firm assuming that the profit sharing ratio between A and B has not changed. Prepare the new Balance Sheet on the admission of C.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

31. A and B are partners sharing profits and losses in the ratio of 3:1. On 1st Jan. 2007 they admitted C as a new partner for 1/4 share in the profits of the firm. C brings Rs. 20,000 as for his 1/4 share in the profits of the firm. The capitals of A and B after all adjustments in respect of goodwill, revaluation of assets and liabilities, etc. has been worked out at Rs. 50,000 for A and Rs. 12,000 for B. It is agreed that partner's capitals will be according to new profit sharing ratio. Calculate the new capitals of A and B and pass the necessary journal entries assuming that A and B brought in or withdrew the necessary cash as the case may be for making their capitals in proportion to their profit sharing ratio?

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

32. Pinky, Qumar and Roopa partners in a firm sharing profits and losses in the ratio of 3:2:1. S is admitted as a new partner for 1/4 share in the profits of the firm, whichs he gets 1/8 from Pinky, and 1/16 each from Qmar and Roopa. The total capital of the new firm after Seema's admission will be Rs. 2,40,000. Seema is required to bring in cash equal to 1/4 of the total capital of the new firm. The capitals of the old partners also have to be adjusted in proportion of their profit sharing ratio. The capitals of Pinky, Qumar and Roopa after all adjustments in respect of goodwill and revaluation of assets and liabilities have been made are Pinky Rs. 80,000, Qumar Rs. 30,000 and Roopa Rs. 20,000. Calculate the capitals of all the partners and record the necessary journal entries for doing adjustments in respect of capitals according to the agreement between the partners?

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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33. The following was the Balance Sheet of Arun, Bablu and Chetan sharing profits and losses in the ratio of

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

They agreed to take Deepak into partnership and give him a share of 1/8 on the following terms: a) that Deepak should bring in Rs. 4,200 as goodwill and Rs. 7,000 as his Capital; (b) that furniture be depreciated by 12%; (c) that stock be depreciated by 10% (d) that a Reserve of 5% be created for

doubtful debts: (e) that the value of land and buildings having appreciated be brought upto Rs. 31,000 ;(f) that after making the adjustments the capital accounts of the old partners (who continue to share in the same proportion as before) be adjusted on the basis of the proportion of Deepak's Capital to his share in the business, i.e., actual cash to be paid off to, or brought in by the old partners as the case may be. Prepare Cash Account, Profit and Loss Adjustment Account (Revaluation Account) and the Opening Balance Sheet of the new firm.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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34. Azad and Babli are partners in a firm sharing profits and losses in the ratio of 2:1. Chintan is admitted into the firm with $\frac{1}{4}$ share in profits. Chintan will bring in Rs. 30,000 as his capital and the capitals of Azad and Babli are to be adjusted in the profit sharing ratio. The Balance Sheet of Azad and Babli as on December 31, 2006 (before Chintan's admission) was as follows:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

It was agreed that:

- i) Chintan will bring in Rs. 12,000 as his share of goodwill premium.
 - ii) Buildings were valued at Rs. 45,000 and Machinery at Rs. 23,000.
 - iii) A provision for doubtful debts is to be created @ 6% on debtors.
 - iv) The capital accounts of Azad and Babli are to be adjusted by opening current accounts.
- Record necessary journal entries, show necessary ledger accounts and prepare the Balance Sheet after admission.

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

35. Ashish and Dutta were partners in a firm sharing profits in 3:2 ratio. On Jan. 01, 2007 they admitted Vimal for 1/5 share in the profits. The Balance Sheet of Ashish and Dutta as on Jan. 01, 2007 was as follows:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

It was agreed that:

- i) The value of Land and Building be increased by Rs. 15,000.
- ii) The value of plant be increased by 10,000.
- iii) Goodwill of the firm be valued at Rs. 20,000.

iv) Vimal to bring in capital to the extent of 1/5th of the total capital of the new firm.

Record the necessary journal entries and prepare the Balance Sheet of the firm after Vimal's admission.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Question 1. Anita, Jaya and Nisha are partners sharing profits and losses in the ratio of 1:1:1. Jaya retires from the firm. Anita and Nisha decided to share the profit in future in the ratio 4 :3. Calculate the gaining ratio.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 2. Azad, Vijay and Amit are partners sharing profits and losses in the proportion of $\frac{1}{4}, \frac{1}{8}, \frac{10}{16}$ and Calculate the new profit sharing ratio between

continuing partners if (a) Azad retires; (b) Vijay retires; (c) Amit retires.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 3. Calculate the gaining ratio in each of the above situations.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Question 4. Anu, Prabha and Milli are partners. Anu retires. Calculate the future profit sharing ratio of continuing partners and gaining ratio if they agree to acquire her share : (a) in the ratio of 5:3; (b) equally.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 5. Rahul, Robin and Rajesh are partners sharing profits in the ratio of 3 : 2 : 1. Calculate the new profit sharing ratio of the remaining partners if (i) Rahul retires; (ii) Robin retires; (iii) Rajesh retires.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 6. Puja, Priya, Pratistha are partners sharing profits and losses in the ratio of 5 : 3 : 2. Priya retires. Her share is taken by Priya and Pratistha in the ratio of 2 : 1.

Calculate the new profit sharing ratio.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 7. Ashok, Anil and Ajay are partners sharing profits and losses in the ratio of $\frac{1}{2}$, $\frac{3}{10}$ and $\frac{1}{5}$. Anil retires from the firm. Ashok and Ajay decide to share future profits and losses in the ratio of 3 : 2. Calculate the gaining ratio.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000



TEST YOUR UNDERSTANDING I

Choose the correct option in the following questions:

Question 1. Abhishek, Rajat and Vivek are partners sharing profits in the ratio of 5:3:2. If Vivek retires, the New Profit Sharing Ratio between Abhishek and Rajat will be—
(a) 3:2 (b) 5:3 (c) 5:2 (d) None of these

Answer (b) 5 : 3

Question 2. The old profit sharing ratio among Rajender, Satish and Tejpal were 2:2:1. The new profit sharing ratio after Satish's retirement is 3:2. The gaining ratio is

- (a) 3 : 2 (b) 2 : 1
(c) 1 : 1 (d) 2 : 2

Answer (c)

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 3. Anand, Bahadur and Chander are partners. Sharing Profit equally on Chander's retirement, his share is acquired by Anand and Bahadur in the ratio of 3 : 2. The new profit sharing ratio between Anand and Bahadur will be

(a) 8 : 7 (b) 4 : 5 (c) 3 : 2 (d) 2:3

Answer (a)

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 4. In the absence of any information regarding the acquisition of share in profit of the retiring/deceased partner by the remaining partners, it is assumed that they acquire his/her share

(a) old profit sharing ratio (b) new profit sharing ratio (c) equal ratio (d) None of these

Answer (a) Old profit sharing ratio

TEST YOUR UNDERSTANDING II

• Choose the correct option in the following questions

Question 1. On retirement/death of a partner, the retiring/deceased partner's capital account will be credited with

- (a) his/her share of goodwill
- (b) goodwill of the firm
- (c) shares of goodwill of remaining partners
- (d) None of the above

Answer (a) His/Her share of goodwill

Question 2. Gobind, Hari and Pratap are partners. On retirement of Gobind, the goodwill already appears in the Balance Sheet at T 24,000. The goodwill will be written off

- (a) by debiting all partners' capital accounts in their old profit sharing ratio
- (b) by debiting remaining partners' capital accounts in their new profit sharing ratio
- (c) by debiting retiring partners' capital accounts from his share of goodwill

(d) None of the above

Answer (a) By debiting all partners' capital accounts in their old profit sharing ratio

Question 3. Chaman, Raman and Suman are partners sharing profits in the ratio of 5:3:2. Raman retires, the new profit sharing ratio between Chaman and Suman will be 1:1. The goodwill of the firm is valued at Rs. 1,00,000 Raman's share of goodwill will be adjusted

(a) by debiting Chaman's Capital account and Suman's Capital Account with Rs 15,000 each.

(b) by debiting Chaman's Capital account and Suman's Capital Account with Rs. 21,429 and 8,571 respectively.

(c) by debiting only Suman's Capital Account with Rs. 30,000.

(d) by debiting Raman's Capital account with Rs. 30,000.

Answer (c)

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 4. On retirement/death of a partner, the remaining partner(s) who have gained

due to change in profit sharing ratio should compensate the

(a) retiring partners only.

(b) remaining partners (who have sacrificed) as well as retiring partners.

(c) remaining partners only (who have sacrificed).

(d) none of these.

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Answer (b) Remaining partners (who have sacrificed) as well as partners

DO IT YOURSELF II

Question 1. Vijay, Ajay and Mohan are friends. They passed B (Hons) from Delhi University in June, 2013. They decided to business of computer hardware.

On 1st of August, 2013, they introduced the capital of Rs. 50,000, Rs.30,000 and Rs. 20,000 respectively and started the business in partnership at Delhi. The profit sharing ratio decided between there was 4:2:1. The business was running successfully. But on 1st February, 2019, due to certain unavoidable circumstances and family circumstances, Ajay decided to settle in Pune and decided to retire from the partnership on 31st March, 2020; with the consent of partners, Ajay retires as on 31st March, 2020, the position of assets and liabilities are as follows

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

On the date of retirement, the following adjustments were to be made

(1) Firm's goodwill was valued at Rs. 1,48,000.

(2) Assets and Liabilities are to be valued as under; Stock Rs. 72,000; Land and Buildings Rs. 1,35,600; Debtors Rs. 63,000; Machinery Rs.1,50,000; Creditors Rs. 84,000.

(3) Vijay to bring Rs. 1,20,000 and Mohan Rs. 30,000 as additional capital.

(4) Ajay was to be paid Rs. 97,200 in cash and the balance of his Capital Account to be transferred to his Loan Account Work out the amount



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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Do it yourself III

Question 1. The Balance Sheet of A, B and C who were sharing the profits in proportion to their capitals stood as on March 31, 2007.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

B retired on the date of Balance Sheet and the following adjustments were to be made

- Stock was depreciated by 10%.
- Factory building was appreciated by 12%.
- Provision for doubtful debts to be created up to 5%.
- Provision for legal charges to be made at Rs. 265.
- The goodwill of the firm to be fixed at Rs. 10,000.
- The capital of the new firm to be fixed at Rs. 30,000. The continuing partners decide to keep their capitals in the new profit sharing ratio of 3:2.

Work out the final balances in capital accounts of the firm and the amount to be brought in and/or withdrawn by A and C to make their capitals proportionate to their new profit sharing ratio.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 2. R, S and M were carrying on business in partnership sharing profits in the ratio of 3 : 2 : 1 respectively. On March 31, 2011, Balance Sheet of the firm stood as follows

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Shyam retired on the above mentioned date on the following terms

- Buildings to be appreciated by ₹ 8,800.
- Provision for doubtful debts to be made @ 5% on debtors.
- Goodwill of the firm to be valued at ₹ 9,000.
- Rs.5,000 to be paid to S immediately and the balance due to him to be treated as a loan carrying interest @ 6% per annum.

Prepare the balance sheet of the reconstituted firm.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Do it Yourself IV

Question 1. On December 31, 2007, the Balance Sheet of Pinki, Qureshi and Rakesh

showed as under

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

The partnership deed provides that the profit be shared in the ratio of 2:1:1 and that in the event of death of a partner, his executors be entitled to be paid out

(a) The capital of his credit at the date of last Balance Sheet.

(b) His proportion of reserves at the date of last Balance Sheet.

(c) His proportion of profits to the date of death based on the average profits of the last three completed years, plus 10%.

(d) By way of goodwill, his proportion of the total profits for the three preceding years.

The net profit for the last three years were

	Rs.
2005	16,000
2006	16,000
2007	15,400

Rakesh died on April 1, 2007. He had withdrawn Rs. 5,000 to the date of his death. The investment were sold at par and R's Executors were paid off. Prepare Rakesh's Capital Account that of his executors.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Short Answer Type Questions

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

Answer A partner can retire from the firm in three different ways. They are as follow

- (i) Retirement Through Mutual Consent A partnership firm take its shape through mutual consent of partners in the same way. A partner may retire if all the partners agree on the decision of his/her retirement.
- (ii) When There is a Provision in Partnership Deed When there is a provision for the retirement of a partner in the partnership deed in that case partner may retire from the firm by expressing his/her intention of leaving the firm though a notice to the other partners of the firm.
- (iii) Retirement Through Written Notice In case when partnership among the partners is at will, then a partner may retire by giving notice in writing to all the other partners informing them about his/her intention to retire.

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

Answer The following are the various matters that need to be adjusted at the time of retirement of partners/partner

- (i) Revaluation of assets and liabilities of the new firm.
- (ii) Calculation of goodwill of the new firm and its accounting treatment.
- (iii) Calculation of new ratio of the remaining partners of the firm.
- (iv) Computation of new gaining ratio among rest of the partners.
- (v) Distribution of accumulated profits and losses and reserves among all the partners (including the retiring partner).
- (vi) Treatment of Joint Life Policy.
- (vii) Disposal of the amount due to the retiring partner
- (viii) Adjustment of capital accounts of the remaining partners in their new profit sharing ratio.

Question 3. Distinguish between sacrificing ratio and gaining ratio.**Answer** Difference between Sacrificing and Gaining Ratio

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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

Answer At the time of retirement or death of a partner, it becomes inevitable to revalue the assets and liabilities of the firm for ascertaining their true and fair values. The revaluation is necessary as the value of assets and liabilities may increase or decrease with the passage of time. Further, it may be possible that there are certain assets and liabilities that remained unrecorded in the books of accounts. The retiring or the deceased partner may be benefitted or may bear loss due to change in the values of assets and liabilities. Therefore, the revaluation of the assets and liabilities is necessary in order to ascertain the true profit or loss that is to be divided among all the partners in their old profit sharing ratio.

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

Answer Goodwill is an intangible asset of a firm that is earned by the efforts of all the partners of the firm. After the retirement or death of a partner, the fruits of the past performance and reputation will be shared only by the remaining partners. Thus, the remaining partners should compensate the retiring or the deceased partner by entitling him/her a share of firm's goodwill.

Long Answer Type Questions**Question 1. Explain the modes of payment to a retiring partner.**

Answer Payment to a retiring partner can be made in the following ways

(i) Lump Sum Payment : A lump sum payment can be made to the retiring partner in full settlement. In that case, the following Journal entry will be passed

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

(ii) Opening the Loan Account Sometimes the amount due to the retiring partner is paid in instalments then the balancing figure of his/her capital account is transferred to his/her loan account, in this case, the retiring partner receives equal instalments along with the interest on the amount outstanding. In that case the following journal entries will be passed for transferring the amount paid to him/her in retiring partner's loan account.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

(iii) Some Payment in Cash and Some in Instalment Sometimes the amount due to the retiring partner is paid partly in cash and partly in equal instalments in that case a certain amount is paid in cash to the retiring partner and the rest amount due to him/her is transferred to his/her loan account. The following necessary journal entry is to be passed.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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

Answer In case of a death, the legal executor of the deceased partner is entitled for a claim which includes his share of profit or loss, interest on capital, interest on drawings In that case for computing

the amount payable is calculated by preparing the deceased partner's capital account as follows

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Note: In the above capital account, the legal executor will be entitled for the balancing figure that is the excess of the credit side over the debit side of the deceased partner's capital account.

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

Answer At the time of retirement or is the event of death of a partner, the goodwill of the firm is adjusted among the partners in their gaining ratio with the share of goodwill of the retiring or the deceased partner. At the time of retirement or on the event of death of a partner, goodwill account is not opened hence only two situations are left for treating the goodwill first when goodwill account is already there in the book or it appear in the books and second when the amount of goodwill is not appearing in the books.

The treatment of goodwill will be as follows in the above two situations

First Situation When Goodwill Already Appears in the Books of the Firm

Step 1 Write-off the Existing Goodwill When goodwill account already exist in the book of the firm or mentioned in the book first of all, it will be written off and should be distributed among all the partners of the firm including the retiring or the deceased partner in their old profit sharing ratio. In

that case, the journal entry will be as follows

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Step 2 Adjusting Goodwill Through Partners' Capital Account

After writing off the old goodwill, the amount of goodwill now needs to be adjusted through the partner's capital account with the share of the goodwill of the retiring or the deceased partner. The following journal entry is passed.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Second Situation When No Goodwill Appears in the Books of the Firm

In second case, when no goodwill appears in the books of the firm, the amount of goodwill will be adjusted through the partner's capital account with the share of the goodwill of the retiring or the deceased partner. The following journal entry is passed

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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

Answer Computation of profit will be different in case of death of a partner as compare to the retirement. The reason is that in case of retirement everything is pre-planned but in case of death nothing is planned. In case of death, the share of profit can be calculated by one of the two methods.

(i) On the Basis of Time

In this method, profit upto the date of the death of the partner is calculated on the basis of time passed till the death of the partner from the beginning of the year on the bases of the last year's/years' profit or average profit of last few years.

The assumption in this method is that the profit will be uniform throughout the current year. The share of the deceased partner profit will be calculated as follows

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Example A, B, C and D are equal partners. The profit of the firm for the years 2009, 2010 and 2011 are ₹ 5,00,000, ₹ 7,00,000 and ₹ 9,00,000 respectively. C dies on June 30, 2012. The share of C in the firm's profit will be calculated on the basis of average profit of last three years. Firm closes its books every year on December 31.

In this case, C's share in the profits will be calculated for four months. i.e., from January 1, 2012

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

(ii) On the Basis of Sale

In this method, profit up to the date of the death of the partner is calculated on the basis of sales affected till the date of the death of the partner from the beginning of the year. The assumption in this method is that the net profit margin for current year will be same as the previous year. The share of the deceased partner profit will be calculated as follows

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Example A, B and C are equal partners. The last year's sales and profit were ₹ 40,00,000 and ₹ 4,00,000. C died on June, 2012. Sales of the current year till the date of C's death amounts to ₹ 15,00,000. Firm closes its books on December 31 every year.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Numerical Questions

Question 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 Rs. 1,80,000. Aparna and Sonia decided to share future profits in the ratio of 3 : 2. Pass necessary journal entries.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 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 Rs. 60,000. Sangeeta retires and goodwill is valued at Rs. 90,000. Saroj and Shanti decided to share future profits equally. Record necessary journal entries.

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 3. Himanshu, Gagan and Naman are partners sharing profits and losses in the ratio of 3 : 2 : 1 On March 31, 2007, Naman retires. The various assets and liabilities of the firm on the date were as follows Cash Rs.10,000, Building Rs. 1,00,000, Plant and Machinery Rs. 40,000, Stock Rs. 20,000, Debtors Rs. 20,000 and Investments Rs. 30,000.

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

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

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

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Question 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 Reserves Rs.36,000 and Profit and Loss Account (Dr) Rs. 15,000.

Pass the necessary journal entries to the above effect.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 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, 2007 was as follows

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Brijesh retired on March 31, 2007 on the following terms

- Goodwill of the firm was valued at ₹ 70,000 and was not to appear in the books.
- Bad debts amounting to ₹ 2,000 were to be written off.
- Patents were considered as valueless.

Prepare revaluation account, partners' capital accounts and the balance sheet of Digvijay and Parakaram after Brijesh's retirement

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Note: If no information is given, the amount due to Brijesh (the balance of his capital account) is transferred to his loan account.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

6. Radha, Sheela and Meena were in partnership sharing profits and losses in the proportion of 3:2:1. On April 1, 2007, Sheela retires from the firm. On that date, their Balance Sheet was as follows:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

The terms were

(a) Goodwill of the Firm was valued at ₹ 13,000.

(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. Partners' capital accounts

3. Balance sheet of the firm after retirement of Sheela

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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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:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Additional Information

(i) Premises have appreciated by 20%, stock depreciated by 10% and provision for

doubtful debts was to be made 5% on debtors. Further, provision for legal damages is to be made for Rs. 1,200 and furniture to be brought up to Rs. 45,000.

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

(iii) Rs. 26,000 from Naresh's Capital account be transferred to his loan account and balance be paid through bank; if required, necessary loan may be obtained from Bank.

(iv) New profit sharing ratio of Pankaj and Saurabh is decided to be 5 :1.

Give the necessary ledger accounts the balance sheet of the firm after Naresh's retirement.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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, 2007 was as follows:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Mr. Pammy died on September 30, 2007. 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 2003-04; Rs. 80,000; for 2004-05, Rs. 50,000; for 2005-06, Rs. 40,000; for 2006-07, Rs. 30,000.

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

Surviving partners agreed that Rs. 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

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

(v) Calculation of Instalments Amount Due to Pammy's Executor after paying some amount in cash was Rs.60,000 (= 75,400 -15,400) divided in 4 equal instalments (i.e., 60,000/4 = Rs. 15,000 each).

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 9. Following is the Balance Sheet of Prateek, Rocky and Kushal as on March 31, 2007.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Rockey died on June 30, 2007. 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.
- (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, 2005, March 31, 2006 and March 31, 2007 were Rs. 12,000, Rs. 16,000 and Rs.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.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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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, 2007 was as follows:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Bajaj retires from the business and the partners agree to the following

- Freehold premises and stock are to be appreciated by 20% and 15% respectively.
- Machinery and furniture are to be depreciated by 10% and 7% respectively.
- Bad Debts reserve is to be increased to Rs. 1,500.
- Goodwill is valued at Rs. 21,000 on Bajaj's retirement.
- 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.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

11. The Balance Sheet of Rajesh, Pramod and Nishant who were sharing profits in proportion to their capitals stood as on March 31, 2007:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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

- Stock was valued at 10% less than the book value.
- Factory buildings were appreciated by 12%.
- Reserve for doubtful debts be created up to 5%.
- Reserve for legal charges to be made at Rs. 265.
- The goodwill of the firm be fixed at Rs. 10,000.
- The capital of the new firm be fixed at Rs. 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.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Note (i) According to point (f) of the question the capital of remaining partner's should be Rs. 18,000 and Rs. 12,000 respectively as the firm's capital is fixed at Rs. 30,000 and their share of profit is 3 : 2.

(ii) To match the answer of total of Balance sheet given in the question the difference of remaining partner's capital (surplus or deficit) is to be adjusted with cash deposit or withdraw. In this situation the Balance sheet will change as given below

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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12. Following is the Balance Sheet of Jain, Gupta and Malik as on March 31, 2002.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

The partners have been sharing profits in the ratio of 5:3:2. Malik decides to retire from business on April 1, 2002 and his share in the business is to be calculated as per the following terms of revaluation of assets and liabilities : Stock, Rs.20,000; Office furniture, Rs.14,250; Plant and Machinery Rs.23,530; Land and Building Rs.20,000.

A provision of Rs.1,700 to be created for doubtful debts. The goodwill of the firm is valued at Rs.9,000.

The continuing partners agreed to pay Rs.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.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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13. Arti, Bharti and Seema are partners sharing profits in the proportion of 3:2:1 and their Balance Sheet as on March 31, 2003 stood as follows :

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Bharti died on June 12, 2003 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 Rs.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 :

2001 – Rs.8,200

2002 – Rs.9,000

2003 – Rs.9,800

The investments were sold for Rs.16,200 and her executors were paid out. Pass the necessary journal entries and write the account of the executors of Bharti.

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

14. Nithya, Sathya and Mithya were partners sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet as on December 31, 2002 was as follows :

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Mithya dies on May 1, 2002. The agreement between the executors of Mithya and the partners stated that :

(a) Goodwill of the firm be valued at 2.1/2 times the average profits of last four years. The profits of four years were : in 1998, Rs.13,000; in 1999, Rs.12,000; in 2000, Rs.16,000; and in 2001, Rs.15,000.

(b) The patents are to be valued at Rs.8,000, Machinery at Rs.25,000 and Premises at Rs.25,000.

(c) The share of profit of Mithya should be calculated on the basis of the profit

of 2002.

(d) Rs.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 May 1, 2002 after giving effect to the adjustments

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Question 1. Dissolution of a partnership is different from dissolution of a firm.

Answer True

In dissolution of partnership, business continues whereas in dissolution of firm, the business is closed.

Question 2. A partnership is dissolved when there is a death of a partner.

Answer True

As a new partnership deed is to be made.

Question 3. A firm is dissolved when all partners give consent to it.

Answer True

As all partners agree to it.

Question 4: A firm is compulsorily dissolved when a partner decide to retire.

Answer False

The remaining partners may continue the business hence, it not necessary to dissolve the firm.

Question 5. Dissolution of a firm necessarily involves dissolution of partnership.

Answer True

When firm does not exist then partners have no business to do.

Question 6. A firm is compulsorily dissolved when all partners or when all except one partner become involent.

Answer True

As the partner becomes incompetent to sign the contract.

Question 7. Court can order a firm to be dissolved when a partner becomes insane.

Answer True

The court can order for dissolution when any partner files a suit for it.

Question 8. Dissolution of partnership can not take place without intervention of the court.

Answer False

Partnership can be dissolved with the consent of the partners also.

TEST YOUR UNDERSTANDING -II

• Tick the correct answer

Question 1. On dissolution of a firm, bank overdraft is transferred to

- (a) cash account (b) bank account
(c) realisation account (d) partner's capital account

Answer (c) Realisation account

Question 2. On dissolution of a firm, partner's loan account is transferred to

- (a) realisation account (b) partner's capital account (c) partner's current account (d) None of these

Answer (d) None of these

Question 3. After transferring liabilities like creditors and bills payables in the realisation account, in the absence of any information regarding their payment, such liabilities are treated as

- (a) never paid (b) fully paid (c) partly paid (d) None of these

Answer (b) Fully paid

Question 5. Unrecorded assets when taken over by a partner are shown in

- (a) debit of realisation account
(b) debit of bank account
(c) credit of realisation account
(d) credit of bank account

Answer (c) Credit of realisation account

Question 6. Unrecorded liabilities when paid are shown in

- (a) debit of realisation account
(b) debit of bank account
(c) credit of realisation account
(d) credit of bank account

Answer (a) Debit of realisation account

Question 7. The accumulated profits reserves are transferred to

- (a) realisation account (b) partners' capital account
(c) bank account (d) None of these

Answer (b) Partners' capital account

Question 8. On dissolution of the firm, partner's capital accounts are closed through

- (a) realisation account (b) drawings account
(c) bank account (d) loan account

Answer (c) Bank account

TEST YOUR UNDERSTANDING – III

• Fill in the correct word(s)

1. All assets (except cash/bank and fictitious assets) are transferred to the ———— (Debit/Credit) side of ———— Account (Realisation/Capital).

Answer: Answer Debit, Realisation

2. All ----- (internal/external) liabilities are transferred to the ----- (Debit/Credit) side of -----account (Bank/Realisation).

Answer External, Credit, Realisation

3. Accumulated losses are transferred to ----- (Current/Capital Accounts) in ----- (equal ratio/profit sharing ratio).

Answer Capital account, Profit sharing ratio

4. If a liability is assumed by a partner, such Partner's Capital Account is ----- (debited/credited)..

Answer Credited

5. If a partner takes over an asset, such (Partner's Capital Account) is ----- (debited/credited).

Answer Debited

6. No entry is required when a ----- (partner/creditor) accepts a fixed asset in payment of his dues.

Answer Creditor

7. When creditor accepts an asset whose value is more than the amount due to him, he will ----- (pay/not pay) the excess amount which will be credited ----- Account.

Answer Pay, Realisation

8. When the firm has agreed to pay the partner a fixed amount for realisation work irrespective of the actual amount spent, such fixed amount is debited to (Realisation/Capital) Account and Credited to (Capital/Bank) Account.

Answer Realisation, Capital

9. Partner's loan is ----- (recorded/not recorded) in the (Realisation Account).

Answer Not recorded

10. Partner's current accounts are transferred to respective ----- Partners' (Loan/Capital) Accounts.

Answer Capital

DO IT YOURSELF

Question 1. For closure of assets accounts.

Answer

Realisation A/c Dr
To Assets A/c

Question 2. For closure of liabilities accounts.

Answer

Liabilities A/c Dr
To Realisation A/c

Question 3. For sale of assets.

Answer

Bank A/c Dr
To Realisation A/c

Question 4. For settlement of a creditor by transfer of fixed assets to him.

Answer No entry

Question 5. For expenses of realisation when actual expenses are paid by the partner on behalf of the firm.

Answer

Realisation A/c Dr
To Partner's Capital A/c

Question 6. When a partner discharges the liability of the firm.

Answer

Realisation A/c Dr
To Partner's Capital A/c

Question 7. For payment of partner's loan.

Answer Partner's Loan A/c Dr

To Bank A/c

Question 8. For settlement of capital accounts.

Answer

Partner's Capital A/c Dr
To Bank A/c

SHORT ANSWER TYPE QUESTIONS

Question 1. State the difference between dissolution of Partnership and Dissolution of Partnership firm.

Answer The difference between the Dissolution' of Partnership and Dissolution of Partnership Firm is as follows.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 2. State the accounting treatment for**(i) Unrecorded assets (ii) Unrecorded liabilities.**

Answer (i) Accounting Treatment for Unrecorded Assets Unrecorded asset is an asset, which have not been shown in the books of account or which has been written off in the books of accounts, but the asset is still available in physical condition. Sometimes it is sold outside for cash and sometimes it is taken away by the partner. The accounting treatment for unrecorded asset will be there according to the situation.

(a) When the unrecorded asset is sold for cash the following Journal Entry will be there

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

(b) When the unrecorded asset is taken over by any partner the following Journal Entry will be there

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

(ii) Accounting Treatment for Unrecorded Liabilities Unrecorded liabilities are those liabilities, which have not been shown in the books of account. But at the time of dissolution they are required to be paid off. The following Journal Entry will be there as per situation.

(a) When the unrecorded liability is paid off the following Journal Entry will be there

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

(b) When the unrecorded liability is taken over by a partner. The following Journal Entry will be there

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 3. On dissolution, how will you deal with partner's loan if it appears on the

(a) assets side of the balance sheet,

(b) liabilities side of balance sheet.

Answer (a) When loan amount is shown in the assets side of the balance sheet, it indicate that the loan has been granted by the firm to the partner. In that case, at the time of dissolution the amount of loan will be transferred to the concerned partner's capital account. The following Journal Entry will be passed

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

(b) When the amount of loan appears in the liabilities side of the balance sheet, it indicates that the respective partner or partners have given loan to the firm. In this case, partner's loan will be paid off after paying all the external liabilities first. Here, it is worth mentioning that the partner's loan will not be transferred to the realisation account, in fact, it will be paid in cash. The following accounting entry will be passed in this regard

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 4. Distinguish between Firm's Debts and Partner's Private Debts.

Answer The difference between Firm's Debts and Partner's Private Debts is as follows

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 5. State the order of settlement of accounts on dissolution.

Answer In case of dissolution of a firm, the firm ceases to conduct business and has to settle its accounts. For this purpose, it disposes off all its assets for satisfying all the claims against it. In this context, it should be noted that, subject to agreement among the partners, the following rules as provided in Section 48 of the Partnership Act, 1932 shall apply. As per those rules, the following order of settlement will be followed.

(i) Treatment of Losses

Note Losses, including deficiencies of capital, shall be paid

- First out of profits,
- Next out of capital of partners, and
- Lastly, if necessary, by the partners individually in their profits sharing ratio.

(ii) Application of Assets The assets of the firm, including any sum contributed by the partners to make up deficiencies of capital, shall be applied in the following manner and order

- In paying the debts of the firm to the third parties;
- In paying each partner proportionately what is due to him/her from the firm for advances as distinguished from capital (i.e., partner's loan);
- In paying to each partner proportionately what is due to him on account of capital; and
- The residue, if any, shall be divided among the partners in their profit sharing ratio.

Question 6. On what account Realisation Account differs from Revaluation Account?

Answer There is the following difference between Realisation Account and Revaluation Account

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

LONG ANSWER TYPE QUESTIONS

Question 1. Explain the process of dissolution of partnership firm.

Answer Dissolution means breaking of relationship among the partners. As per Section 39 of the Indian Partnership Act 1932, the dissolution of firm implies that not only partnership is dissolved but the firm loses its existence, i.e., after dissolution the firm does not remain in business.

Dissolution of partnership firm implies discontinuation of the business of the partnership firm. Dissolution involves winding up of business, disposal of assets and paying off the liabilities and distribution of any surplus or borne of loss by the partners of the firm. As per the Partnership Act 1932, a partnership firm may be dissolved in the following manners.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

(i) Dissolution by Agreement As a firm is formed with the consent of all partners with a mutual agreement. Dissolution can also be there with the help of agreement. It happens in following two ways.

A firm may be dissolved

- (a) When all the partners agree to dissolve the firm.
- (b) When there is any term related to dissolution of firm in the partnership agreement.

(ii) Compulsory Dissolution A firm may be dissolved compulsorily in the following condition

- (a) In case, all the partners or all except one partner become insolvent or insane.
- (b) If the business becomes illegal.
- (c) Where all the partners except one decide to retire from the firm.
- (d) Where all the partners except one die.

(iii) Dissolution by Notice When partnership is at will then the partnership firm may be dissolved, if any partner give notice in writing to all the other partners expressing his/her intention to dissolve the firm.

(iv) Dissolution by Court A court may order for dissolution if a suit is filed by a partner, as per Section 44 of Indian Partnership Act, 1932. The court may order to dissolve a partnership in following conditions

- (a) A partner becomes insane.
- (b) A partner commits breach of agreement wilfully.
- (c) When a partner's conduct affects the business.
- (d) When a partner transfers his interest to a third party.
- (e) If business cannot be continued.
- (f) If a partner becomes incapable of doing business.
- (g) If court thinks dissolution to be just and equitable on any ground.

Besides these, above mentioned circumstances, a partnership firm may be dissolved if the court at any stage finds dissolution of the firm to be justified and inevitable.

Question 2. What is a Realisation Account?

Answer On dissolution of a firm, all the books of account are closed, all assets are sold and all liabilities are paid off. In order to record the sale of assets and discharge of liabilities, a nominal account is opened named realisation account. The main purpose to open realisation account is to ascertain the profit or loss due to the realisation of assets and liabilities. Realisation profit (if credit side > debit side) or realisation loss (if debit side > credit side) are transferred to the partner's capital account in their profit sharing ratio.

Concisely, following are the important objectives of preparing realisation account

- (i) To close all the books of account.
- (ii) To record transactions relating to the sale of assets and discharge of liabilities.
- (iii) To determine profit or loss due to the realisation of assets and liabilities.

Features of Realisation Account

- (i) In realisation account, sale of assets is recorded at their realised value.
- (ii) Payment to liabilities (creditors) is recorded at their settlement value.
- (iii) After all the transactions have been recorded, there will be balance, which may be profit or loss.
- (iv) Profit arises in two situations
 - (a) When assets are realised at more than their book value.
 - (b) When liabilities are settled at less than their book value.
- (v) If the two conditions are vice versa, the net result will be loss.
- (vi) The net profit or loss on realisation is to be transferred to the partner's capital accounts in their profit sharing ratio.

The format for realisation account is as follows

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 3. Reproduce the format of Realisation Account.

Answer

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Question 4. How deficiency of creditors is paid off?

Answer When a firm gets into the situation of dissolution, first of all the amount received from the sale of firm's assets are utilised to pay the creditors. After that, if the sale receipts of assets fall short, then partners' private assets are used for settling the dues of the firm's creditors. Even if some portion of the amount due to creditors is left unpaid, then there arises deficiency of creditors. This deficiency is handled in the following two ways

- (i) In first case, deficiency is transferred to the Deficiency Account.
- (ii) In second case, the deficiency is transferred to the partner's capital account.

In first case, a separate account is prepared for the firm's creditors. Then in ' order to ascertain the firm's cash balance accruing from the sale of the firm's assets and partners' private assets, cash account is prepared. After ascertaining the cash availability with the firm, the creditors and the external liabilities are paid proportionately (partially). The remaining unpaid creditors or the deficiency is transferred to the Deficiency Account.

In the second case, the creditors are paid by the cash available with the firm including the partners' individual contribution. The deficiency or unpaid creditors amount .is transferred to the partner's capital account. Thus, the deficiency of the creditors is borne by all the partners in their profit sharing ratio. If any partner becomes insolvent and is unable to bear the deficiency, then this will be regarded as a capital loss to the firm.

' If the partnership deed is silent, about such capital loss in the fact of insolvency of a partner, the deficiency on the insolvent partner's capital ' account must be borne by the other solvent partners, in proportion to their capital. In that case, we should apply Garner vs Murray decision in solving problems in partnership.

NUMERICAL QUESTIONS

1. Journalise the following transactions regarding realisation expenses :

[a] Realisation expenses amounted to Rs.2,500.

[b] Realisation expenses amounting to Rs.3,000 were paid by Ashok, one of the partners.

[c] Realisation expenses Rs.2,300 borne by Tarun, personally.

[d] Amit, a partner was appointed to realise the assets, at a cost of Rs.4,000. The actual amount of realisation amounted to Rs.3,000.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

2. Record necessary journal entries in the following cases:

[a] Creditors worth Rs.85,000 accepted Rs.40,000 as cash and Investment worth Rs.43,000, in full settlement of their claim.

[b] Creditors were Rs.16,000. They accepted Machinery valued at Rs.18,000 in settlement of their claim.

[c] Creditors were Rs.90,000. They accepted Buildings valued Rs.1,20,000 and paid

cash to the firm Rs.30,000.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

3. There was an old computer which was written-off in the books of accounts in the pervious year. The same has been taken over by a partner Nitin for Rs.3,000. Journalise the transaction, supposing. That the firm has been dissolved.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

4. What journal entries will be recorded for the following transactions on the dissolution of a firm:

[a] Payment of unrecorded liabilities of Rs.3,200.

[b] Stock worth Rs.7,500 is taken by a partner Rohit.

[c] Profit on Realisation amounting to Rs.18,000 is to be distributed between the partners Ashish and Tarun in the ratio of 5:7.

[d] An unrecorded asset realised Rs.5,500.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

5. Give journal entries for the following transactions :

1. To record the realisation of various assets and liabilities,
2. A Firm has a Stock of Rs. 1,60,000. Aziz, a partner took over 50% of the Stock at a discount of 20%,
3. Remaining Stock was sold at a profit of 30% on cost,
4. Land and Building (book value Rs. 1,60,000) sold for Rs. 3,00,000 through a broker who charged 2% commission on the deal,
5. Plant and Machinery (book value Rs. 60,000) was handed over to a Creditor at an agreed valuation of 10% less than the book value,
6. Investment whose face value was Rs. 4,000 was realised at 50%

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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6. How will you deal with the realisation expenses of the firm of Rashim and Bindiya in the following cases:

1. Realisation expenses amounts to Rs. 1,00,000,
2. Realisation expenses amounting to Rs. 30,000 are paid by Rashim, a partner.
3. Realisation expenses are to be borne by Rashim for which he will be paid Rs. 70,000 as remuneration for completing the dissolution process. The

actual expenses incurred by Rashim were Rs. 1,20,000.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

7. The book value of assets (other than cash and bank) transferred to Realisation Account is Rs. 1,00,000. 50% of the assets are taken over by a partner Atul, at a discount of 20%; 40% of the remaining assets are sold at a profit of 30% on cost; 5% of the balance being obsolete, realised nothing and remaining assets are handed over to a Creditor, in full settlement of his claim. You are required to record the journal entries for realisation of assets.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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8. Record necessary journal entries to record the following unrecorded assets and liabilities in the books of Paras and Priya:

1. There was an old furniture in the firm which had been written-off completely in the books. This was sold for Rs. 3,000,
2. Ashish, an old customer whose account for Rs. 1,000 was written-off as bad in the previous year, paid 60% of the amount,
3. Paras agreed to takeover the firm's goodwill (not recorded in the books of the firm), at a valuation of Rs. 30,000,
4. There was an old typewriter which had been written-off completely from the books. It was estimated to realize Rs. 400. It was taken away by Priya at an estimated price less

25%,

5. There were 100 shares of Rs. 10 each in Star Limited acquired at a cost of Rs. 2,000 which had been written-off completely from the books. These shares are valued @ Rs. 6 each and divided among the partners in their profit sharing ratio.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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9. All partners wishes to dissolve the firm. Yastin, a partner wants that her loan of Rs. 2,00,000 must be paid off before the payment of capitals to the partners. But, Amart, another partner wants that the capitals must be paid before the payment of Yastin's loan. You are required to settle the conflict giving reasons.

Answer According to Section 48 of Partnership Act 1932, there is a sequence of preferences given which tells the priority of payment at time of dissolution. In the above condition, the loans and advances of partner's i.e., Rs.2,00,000 will be paid before and payment of capital is always done at last

10. What journal entries would be recorded for the following transactions on the dissolution of a firm after various assets (other than cash) on the third party liabilities have been transferred to Realisation account.

1. Arti took over the Stock worth Rs. 80,000 at Rs. 68,000.
2. There was unrecorded Bike of Rs. 40,000 which was taken over By Mr. Karim.
3. The firm paid Rs. 40,000 as compensation to employees.
4. Sundry creditors amounting to Rs. 36,000 were settled at a discount of 15%.
5. Loss on realisation Rs. 42,000 was to be distributed between Arti and Karim in the

ratio of 3:4.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

11. Rose and Lily shared profits in the ratio of 2:3. Their Balance Sheet on March 31, 2006 was as follows:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Rose and Lily decided to dissolve the firm on the above date. Assets (except bills receivables) realised Rs. 4,84,000. Bills receivable were taken over by Rose at X 30,000. Creditors agreed to take Rs 38,000. Cost of realisation was Rs 2400. There was a Motor Cycle in the firm which was brought out of the firm's money, was not shown in the books of the firm. It was now sold for Rs 10,000. There was a contingent liability in respect of outstanding electric bill of Rs 5,000. Bill receivable taken over by Rose at Rs 33,000.

Show realisation account, partners' capital account, loan account and cash account.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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12. Shilpa, Meena and Nanda decided to dissolve their partnership on March 31, 2006. Their profit sharing ratio was 3:2:1 and their Balance Sheet was as under:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

The stock of value of Rs. 41,660 are taken over by Shilpa for Rs. 35,000 and she agreed to discharge bank loan. The remaining stock was sold at Rs. 14,000 and debtors amounting to Rs. 10,000 realised Rs. 8,000. land is sold for Rs. 1,10,000. The remaining debtors realised 50% at their book value. Cost of realisation amounted to Rs. 1,200. There was a typewriter not recorded in the books worth Rs. 6,000 which were taken over by one of the Creditors at this value. Prepare Realisation Account

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

13. Surjit and Rahi were sharing profits (losses) in the ratio of 3:2, their Balance Sheet as on March 31, 2004 is as follows:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

The firm was dissolved on March 31, 2006 on the following terms:

1. Surjit agreed to take the investments at Rs. 8,000 and to pay Mrs. Surojit's loan.

2. Other assets were realised as follows:

Stock	Rs.5,000
Debtors	Rs. 18,500
Furniture	Rs. 4,500
Plant	Rs. 25,000

3. Expenses on realisation amounted to Rs. 1,600.

4. Creditors agreed to accept Rs. 37,000 as a final settlement. You are required to prepare Realisation account, Partner's Capital account and Bank account

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

14. Rita, Geeta and Ashish were partners in a firm sharing profits/losses in the ratio of 3:2:1. On March 31, 2006 their balance sheet was as follows:

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

On the date of above mentioned date the firm was dissolved:

1. Rita was appointed to realise the assets. Rita was to receive 5% commission on the rate of assets (except cash) and was to bear all expenses of realisation,
2. Assets were realised as follows:

Rs.

Debtors 30,000

Stock 26,000

Plant 42,750

3. Investments were realised at 85% of the book value,

4. Expenses of realisation amounted to Rs. 4,100,

5. Firm had to pay Rs. 7,200 for outstanding salary not provided for earlier,

6. Contingent liability in respect of bills discounted with the bank was also materialised and paid off Rs. 9,800, Prepare Realisation account, Capital Accounts of Partner's and Cash Account.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

15. Anup and Sumit are equal partners in a firm. They decided to dissolve the partnership on December 31, 2006. When the balance sheet is as under :

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

The Assets were realised as follows :

Rs.

Lease hold land	72,000
Furniture	22,500
Stock	40,500
Plant	48,000
Sundry Debtors	10,5000

The Creditors were paid Rs. 25,500 in full settlement. Expenses of realisation amount to Rs. 2,500. Prepare Realisation Account, Bank Account, Partners Capital Accounts to close the books of the firm.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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16. Ashu and Harish are partners sharing profit and losses as 3:2. They decided to dissolve the firm on December 31, 2006. Their balance sheet on the above date was:

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Ashu is to take over the building at Rs. 95,000 and Machinery and Furniture is take over by Harish at value of Rs. 80,000. Ashu agreed to pay Creditor and Harish agreed to meet Bank overdraft. Stock and Investments are taken by both partner in profit sharing ratio. Debtors realised for Rs. 46,000, expenses of realisation amounted to Rs. 3,000. Prepare necessary ledger account.

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

Items	Soumya (₹)	Bimal (₹)
Capital Accounts	3,00,000	2,00,000
Current Accounts (Cr)	1,00,000	80,000

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