

14. PARTNERSHIP ACCOUNTS - I**MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC**

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Model – 1 : Basics- Profit sharing Ratio

Model – 2 : Goodwill

Model – 3 : Appropriation of profit to partners

Model – 4 : Admission of a partner

Model – 5 : Retirement of a partner

Model – 6 : Retirement cum admission / Vice-versa

Model – 7 : Death of a partner

Model – 8 : Theory

THEORY**Topics to be covered:**

- Partnership Fundamentals
- Reconstitution of Partnership Firm

PARTNERSHIP FUNDAMENTALS

Meaning: According to Section-4 of the Indian Partnership Act, 1932, the term 'Partnership' is "the relation between two or more persons who have agreed to share the profits of a business carried on by all or any of them acting for all."

Nature: A partnership firm has no separate legal entity apart from the partners constituting it i.e., in the eyes of law partners & the firm are not separate entities. Whereas it follows business entity concept from the Accounting point of view.

Partnership Deed: Where there is neither partnership deed nor express agreement or partnership deed is there but it is silent on any matter, then the relevant provisions of the Indian Partnership Act, 1932, would be applicable as follows:

Salary to a partner	No remuneration for taking part in the conduct of business is to be allowed to any partner [Sec 13(a)].
Sharing of Profits & Losses	Profits & Losses are to be shared equally [Sec 13(b)].
Interest on Capital	No interest is to be allowed on Capital [Sec 13(c)].
Interest on Drawings	No interest is to be charged on Drawings.
Interest on Advance/Loans by a partner	Interest @ 6% p.a. is to be allowed on advances /Loans. [Sec 13(d)]

METHODS OF MAINTAINING CAPITAL A/C'S OF PARTNERS:**1. Fluctuating Capital Method:****Partner's Capital A/c's**

Particulars	Rs.	Particulars	Rs.
To Drawings	XXX	By Balance b/d	XXX
To Interest on Drawings	XXX	By Cash/Bank/Assets A/c (Additional capital)	XXX
To Balance c/d	XXX	By Interest on Capital	XXX
		By Salary	XXX
		By Commission	XXX
		By P & L Appropriation A/c (Share of Profit)	XXX
	XXX		XXX

2. Fixed Capital Method:**Partner's Capital A/c's**

Particulars	Rs.	Particulars	Rs.
To Cash/Bank/Assets A/c (Withdrawal of Capital)	XXX	By Balance b/d	XXX
To Balance c/d	XXX	By Cash/Bank/Assets A/c (Additional Capital)	XXX
	XXX		XXX

Partner's Current A/c's

Particulars	Rs.	Particulars	Rs.
To Balance b/d *	XXX	By Balance b/d *	XXX
To Bank A/c (Drawings)	XXX	By Interest on Capital A/c	XXX
To Interest on Drawings A/c	XXX	By Salary A/c	XXX
To Balance c/d *	XXX	By Commission A/c	XXX
		By P & L Appropriation A/c (Share of profit)	XXX
		By Balance c/d *	XXX
	XXX		XXX

* Only one figure will appear at a time.

Note: Debit balance in Current A/c will be shown on the assets side of the Balance Sheet and credit balance will be shown on liability's side of the Balance Sheet. Same is the case with Capital A/c's also.

Interest on Drawings:

1.	To charge Interest on Drawings:			
	Partner's Capital A/c (In case of fluctuating Capital)	Dr	XXX	
	Partner's Current A/c (In case of Fixed Capital)	(or) Dr	XXX	
	To Interest on Drawings A/c			XXX
2.	To close the Interest on Drawings A/c:			
	Interest on Drawings A/c	Dr	XXX	
	To Profit & Loss Appropriation A/c			XXX

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Interest on Capital:

Profit & loss appropriation account is prepared by a partnership firm to distribute the net profit among the partners in accordance with partnership deed.

Any interest on drawing is added to the net profit and thereafter out of such total profit, interest on partners capital, salaries, commission, rent etc. are distributed as per agreement.

The balance of profit is distributed among the partners at the profit sharing ratio.

Profit & Loss Appropriation A/c for the year ending DD-MM-YYYY

Particulars	Rs.	Particulars	Rs.
To Interest on Capital:		By Profit & Loss A/c	
A XXX		(Net Profit subject to	
B <u>XXX</u>	XXX	appropriations)	XXX
To Salary to Partner	XXX	By Interest on Drawings:	
To Commission to Partner	XXX	A XXX	
To Reserve	XXX	B <u>XXX</u>	XXX
To Profit transferred to:			
*A's Capital A/c XXX			
**(or A's Current A/c)			
*B's Capital A/c <u>XXX</u>	XXX		
**(or B's Current A/c)			
	XXX		XXX

* Under Fluctuating Capital Method

** Under Fixed Capital Method

GOODWILL:

- Meaning of Goodwill:** Goodwill is the value of reputation of a firm in respect of the profits expected in future over and above the normal profits earned by other similar firms belonging to the same industry.
- Need for Valuation of Goodwill:** In case of a partnership firm, the need for valuation of goodwill may arise in the following circumstances:
 - When there is a change in profit sharing ratio amongst the existing partners.
 - When a new partner is admitted.
 - When a partner retires or dies.
 - When the firm is sold.
 - When the firm is amalgamated with another firm.
- Methods of Valuation of Goodwill:**
 - Average Profits Method.
 - Super Profits Method.
 - Capitalisation Method.
 - Annuity Method.

- Average Profit Method:** The Goodwill under this method is ascertained by multiplying the Average Future Maintainable Profit by a certain number of years' purchases. It is based on the assumption that a new business will not be able to earn any profits during the first few years of its operations.

Steps involved under Average Profits Method:

Step 1: Calculate Past profit for each of the relevant years (given) by adding abnormal losses & by deducting abnormal gains and income from Non-trade investments

Step 2: Calculate Total Profits by adding each relevant year's past profit.

Step 3: Calculate Average Profits as under: Average Profits = Total Profit/No. of relevant years.

Step 4: Calculate Average Future Maintainable Profits after making future adjustments (if any)

Step 5: Calculate Goodwill as under: Goodwill = Average Future Maintainable Profits x No. of years' Purchase.

b. **Super Profit Method:** It is based on the assumption that a new business will not be able to earn excess profits (though it may earn normal profits) during the first few years of its operations.

Step 1: Calculate Average Capital Employed as under: = (Opening Capital Employed + Closing Capital Employed)/2 Or Closing Capital Employed – Half of current year's Profits + Half of Current year's Drawings

Note: Capital Employed = All assets (other than goodwill, fictitious assets and non-trade investments) less Outsiders' Liabilities.

Step 2: Calculate Normal Profits as under: Normal Profit = Average Capital Employed × Normal Rate of Return

Note: Normal Rate of Return refers to the rate of return normally earned by an average firm belonging to the same industry.

Step 3: Calculate Average Future Maintainable Profits (according to steps given in Average Method)

Step 4: Calculate Super Profits as under: Super Profits = Average Future Maintainable Profits - Normal Profits.

Step 5: Calculate Goodwill as under: Goodwill = Super Profits × No. of year's Purchase.

c. **Capitalisation of Average Profits:**

Steps involved under Capitalisation of Average Profits:

Step 1: Calculate Average Future Maintainable Profits.

Step 2: Calculate the Capitalised Value of Average Profits as under:

$$\text{Capitalised Value} = \frac{\text{Average Future Maintainable Profits}}{\text{Normal Rate of Return}} \times 100$$

Step 3: Calculate the value of Net Assets as on the date of valuation of goodwill as under: Net Assets = All Assets (other than goodwill, fictitious assets and non-trade investments) at their current values less Outsiders' Liabilities.

Step 4: Calculate Goodwill as under: Goodwill = Capitalised Value (Normal Capital Employed) – Net Assets (Actual Capital Employed).

Alternatively Super profit / N.R.R

d. **Annuity Method:** In the super profit method explained above, time value of money is not considered. Although it was expected that super profit would be earned in five future years, still no devolution was done on the value of money for the time difference. In fact when money will be received in different points of time, its values should be different depending on the rate of interest.

Example on valuation of Goodwill: Lee and Lawson are in equal partnership. They agreed to take Hicks as one-fourth partner. For this it was decided to find out the value of goodwill. M/s lee and Lawson earned profits during 2007-2010 as follows:

Year	Profit (Rs.)
2007	1,20,000
2008	1,25,000
2009	1,30,000
2010	1,50,000

On 31.12.2010 capital employed by M/s Lee and Lawson was Rs.5,00,000. Rate of normal profit is 20%. Goodwill is valued at 3 year's purchases. Find out the value of goodwill under various methods.

Solution:

Average profit:

Year	Profit	Weight	Weighted profit
2007	1,20,000	1	1,20,000
2008	1,25,000	2	2,50,000
2009	1,30,000	3	3,90,000
2010	1,50,000	4	6,00,000
		10	13,60,000

Weighted average profit = Rs.1,36,000

Method (1): Average profit basis:

Goodwill is valued at 3 year's purchases of average profits

Value of goodwill = Rs.1,36,000 X 3 years = Rs.4,08,000

Method (2): Super profit basis:

Average profit 1,36,000

Normal profit (20% on Rs.5,00,000) (1,00,000)

36,000

Goodwill is valued at 3 year's purchases of super profits

Value of goodwill Rs.36,000 X 3 years= 1,08,000

Method (3) Annuity basis:

Assumptions: Interest rate is equivalent to normal profit rate i.e. 20 % p.a.

Goodwill is valued at 3 years purchases. 3 years annuity factor of Re1/- @ 20% rate of interest is 2.1065.

Valuation of goodwill: 36,000 X 2.1065 = Rs.75,834.

Method (4) Capitalization basis:

Normal value of capital employed:

1,36,000 X 100/20	Rs.6,80,000
Capital employed in M/s Lee and Lawson	Rs.(5,00,000)
Goodwill	Rs.1,80,000

Reconstitution of Partnership Firm

Meaning of Reconstitution of a firm: Any change in existing agreement of partnership amounts to reconstitution of a firm. As a result, the existing agreement comes to an end and a new agreement comes into existence and the firm continues.

Occasions when reconstitution of a firm can take place: Reconstitution of the firm can take place on the following occasions:

1. Change in the Profit Sharing Ratio of existing partner. A change in profit sharing ratio basically implies the purchase of profit by one partner from another partner.
2. Admission of a new partner. A partner can be admitted as a new partner only with the consent of all the existing partners unless otherwise agreed upon. A new partner acquires two main rights.
 - a. Right to share the assets of the firm. (Capital)

- b. ii. Right to share the future profits of the firm. (Goodwill)
Ex: Admission of Z as partner in the firm of X and Y.
3. Retirement of an existing partner.
Ex: Continuity of business by X and Y after the retirement of a third partner Z.
4. Death of a partner.
Ex: Continuity of business by X and Y after the death of a third partner Z.

Adjustments required at the time of reconstitution of partnership firm: The various matters that need adjustment at the time of admission change in profit sharing ratio are given below:

1. Adjustment in Profit Sharing Ratio,
2. Adjustment of Goodwill,
3. Adjustment of Profit/Loss arising from the Revaluation of Assets and Liabilities,
4. Adjustment of Accumulated Profits, Reserves and Losses,
5. Adjustment of Capitals (if agreed).

1. **Adjustment of Profit Sharing Ratio:** A change in profit sharing ratio basically implies the purchase of share of profit by one partner from another partner. A change in profit sharing ratio is one of the modes of reconstituting the firm under which old partnership comes to an end and a new one comes into existence.

a. **When partner so decides to change their profit sharing ratio:** Change in profit sharing ratio involves increase and decrease in share of profit of one or more partners.

Sacrificing Partners: The partners whose share have decreased as a result of change are known as sacrificing partners.

Sacrificing Ratio: The ratio in which the partners have agreed to sacrifice their share of profit in favour of other partners, is known as sacrificing ratio. This ratio is calculated by taking out the difference between old profit shares and new profit shares.

Gaining Partners: The partners whose share has increased as a result of change are known as gaining partners.

Gaining Ratio: The ratio, in which the partners have agreed to gain their shares in profit from the other partner or partners, is known as gaining partners. This ratio is calculated by taking out the difference between new profit share and old profit shares.

New Profit Sharing Ratio: The ratio in which all the partners share the future profits and losses is known as the new profit sharing ratio.

New profit sharing Ratio = Old Profit sharing Ratio + Gaining Ratio – Sacrificing Ratio.

b. **When a new partner is admitted:**

New Profit Sharing Ratio: The ratio in which all partners (including incoming partner) share the future profits and losses is known as the new profit sharing ratio.

The determination of new profit sharing ratio depends upon the ratio in which the incoming partner acquires his share from the old partners. An incoming partner may acquire his share:

- i. From the old partners in their old profit sharing ratio Or
- ii. From the old partners in some agreed ratio (other than old profit sharing ratio) Or
- iii. From one or more of old partners (but not from all partners).

Sacrificing Ratio: The ratio in which the old partners have agreed to sacrifice their shares in profit in favour of a new partner is called the sacrificing ratio. This ratio is calculated by taking out the difference between old profit sharing ratio and the new profit sharing ratio.

Note: Unless agreed otherwise it is presumed that the old partners sacrifice in their old profit sharing ratio.

c. When Partner Retires / Dies:

i. **New Profit-Sharing Ratio:** The ratio, in which the continuing partners (i.e., partners other than an outgoing one) decide to share the future profits and losses, is known as new profit sharing ratio.

Note: Unless agreed otherwise, it is presumed that the continuing partners acquire the outgoing partner's share in their old profit sharing ratio so that the continuing partners continue to share the future profits in the old ratio.

ii. **Gaining Ratio:** The ratio in which the continuing partners acquire the outgoing (retired or deceased) partner's share is called as gaining ratio. This ratio is calculated by taking out the difference between new profit sharing ratio and old profit sharing ratio.

Note: Unless agreed otherwise, it is presumed that the continuing partners gain in their old profit sharing ratio.

2. **Adjustment of Good Will:** If the partners of a firm decide to change their Profit Sharing Ratio (as a result of admission or Retirement or Death), the gaining partner (i.e., the partner whose share has increased as a result of change) must compensate the sacrificing partner (i.e., the partner whose share has decreased as a result of change) by paying the proportionate amount of goodwill.

When there is a change in profit sharing ratio the following simplified approach is suggested to make adjustment for goodwill:

Step 1: Write off the existing book value of goodwill (if any) appearing in the books of the firm by passing the following entry.

1.	All Partners' Capital/Current A/cs To Goodwill A/c (Being existing goodwill written off in old ratio)	Dr	XXX	XXX
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Step 2: Give credit for proportionate amount of goodwill to sacrificing partners.

a. In case of Fluctuating Capitals:

1.	Gaining Partner's Capital A/cs To Sacrificing Partner's Capital A/cs (Being the adjustment made for goodwill on change in profit sharing ratio)	Dr	[In gaining ratio] [In sacrificing ratio]
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b. In case of Fixed Capitals:

2.	Gaining Partner's Current A/cs To Sacrificing Partner's Current A/cs (Being the adjustment made for goodwill on change in profit sharing ratio)	Dr	[In gaining ratio] [In sacrificing ratio]
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Note: Unless otherwise stated, the partners' capitals should be assumed to be fluctuating.

Calculation of Hidden or Inferred Goodwill that is when the value of the goodwill of the firm is not specifically given, the value of goodwill has to be inferred on the basis of net worth of the firm.

Particulars	Rs.
A. Net worth (including goodwill) on the basis of capital brought in by incoming partner (Incoming partner's capital × Reciprocal of share of incoming partner)	XXX
B. Less: Net worth (excluding goodwill) of the reconstituted firm (i.e., after taking into consideration the capital brought in by incoming partner)	XXX
C. Value of Goodwill (A-B)	XXX

Note: Net Worth = Sundry Assets - Outsiders' liabilities (or)
= Capitals of Partners + Net Accumulated Profits & Reserves (if any)

3. Adjustment of Profit/Loss arising from the Revaluation of Assets and Liabilities:

1.	For increase in the value of an Asset: Concerned asset A/c To Revaluation A/c	Dr	XXX	XXX
2.	For decrease in the value of an asset: Revaluation A/c To Concerned Asset A/c	Dr	XXX	XXX
3.	For increase in the amount of a liability: Revaluation A/c To Concerned Liability A/c	Dr	XXX	XXX
4.	For decrease in the amount of a liability: Concerned Liability A/c To Revaluation A/c	Dr	XXX	XXX
5.	For recording an unrecorded asset: Unrecorded Asset A/c To Revaluation A/c	Dr	XXX	XXX
6.	For recording an unrecorded liability: Revaluation A/c To Unrecorded Liability A/c	Dr	XXX	XXX
7.	For transfer of Balance in Revaluation A/c: a. If credit side exceeds debit side (Net Gain) Revaluation A/c To Old Partners' Capital A/c's (Individually in Old Ratio)	Dr	XXX	XXX
	b. If debit side exceeds credit side (Net Loss) Old Partners' Capital A/c's To Revaluation A/c	Dr	XXX	XXX

Notes:

- When Revaluation A/c is prepared, the assets and liabilities appear in the Balance Sheet of new firm at their revised figures.
- Memorandum revaluation of Assets & Liabilities:** When the partners decide to record the effect of revaluation of assets and liabilities without affecting the old figures of assets and liabilities, a Memorandum Revaluation A/c is prepared. A Memorandum Revaluation A/c is divided into two parts viz. the first part looks like a Revaluation A/c and the second part contains reversal of entries recorded in the first part. The balance of second part is transferred to the capital A/cs of all partners' (including incoming partner) in new profit sharing ratio.
- When Memorandum Revaluation A/c is prepared, all assets and liabilities appear in the Balance Sheet of the new firm at their old figures.

Note: At the time of retirement of a partner, the assets & liabilities are revalued so that the due share of an outgoing partner in the profit/loss arising from the revaluation of assets and liabilities may be ascertained and adjusted in his Capital A/c. Accounting treatment for this will be similar to admission.

4. Adjustment for Reserves & Accumulated Profits / Losses:

1.	For transfer of Reserves & Accumulated profits: Reserves A/c P & L A/c Workmen Compensation Reserve A/c Joint Life Policy Reserve A/c To Old Partners Capital/Current A/c	Dr Dr Dr Dr	XXX XXX XXX XXX	Individually
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2.	For Transfer of accumulated losses: Old Partners Capital/ Current A/cs Dr To Profit & Loss A/c To Deferred Revenue Expenditure A/c	Individually	XXX XXX
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5. **Adjustment of Capital:** The capitals of the continuing partners may be required to be adjusted in any one of the following 2 ways :

Case - I: When the Total Capital of the New Firm is given:

Step 1: Calculate the adjusted old capitals of continuing partners (i.e. after all other adjustments) (Actual capital)

Step 2: Calculate the new capitals of continuing partners by dividing the total capital in their new profit sharing ratio (Desired capital)

Step 3: Calculate the surplus/ deficiency (Desired – Actual).

Step 4: Adjust the surplus by paying off or by transfer to the credit of Current A/c and adjust the deficiency by asking the concerned partner to bring in the necessary amount or by transfer to the debit of his Current A/c.

Note: Unless agreed otherwise, any surplus or deficiency should be adjusted in cash and not by transferring it to Current A/c.

Case - II: When the Total Capital of the New Firm is not given:

Step 1: Calculate the adjusted old capitals of continuing partners after all other adjustments.

Step 2: Total capital of the new firm = Aggregate of adjusted old capitals of continuing partners then, the steps 2 to 4 as given in the above should be taken.

Disposal of the amount due to the Retiring/Deceased Partner: In the absence of an agreement in this regard, the outgoing partner at his option is entitled to receive either interest @ 6% p.a. till the amount is paid off or a share of the profit which has been earned by using the amount due to him. [Sec.37]

Application of Section 37 of Indian Partnership act, 1932:

For e.g.: A, B & C were partners sharing profits and losses in the ratio of 2:2:1. C retired on 1st July, 2003 on which date the capitals of A, B and C after all necessary adjustments stood at Rs.73,875, Rs.63,875 and Rs.42,250 respectively. A and B continued to carry on the business for six months without settling the A/cs of C. During the period of six months from 01.07.2003, a profit of Rs.20,500 is earned by the use of the firm's property. State which of the two options available under section 37 of the Indian Partnership Act, 1932 should be exercised by C.

Solution:

a. Share in the subsequent profits attributable to the use of his property:

$$= \frac{\text{Rs. } 42,250}{\text{Rs. } 1,80,000} \times 20,500 = \text{Rs. } 4,812$$

b. Interest @ 6% p.a. on the use of his property = $\text{Rs. } 42,250 \times \frac{6}{12} \times \frac{6}{100} = \text{Rs. } 1,267.50$

C should exercise option

a. Since the amount payable to him under this option is more as compared to the amount payable to him under option.

b. Accounting entries

Accounting Entries

1.	When the amt. due is paid off immediately: Outgoing Partner's Capital A/c To Cash A/c (or) Bank A/c	Dr	XXX	XXX
2.	When the amt. due is paid in installments: (a) On transfer of amount due to Loan A/c: Outgoing Partner's Capital A/c To Outgoing Partner's Loan A/c (b) On making due the interest on loan: Interest A/c To Outgoing Partner's Loan A/c (c) On making payment of installment: Outgoing Partner's Loan A/c To Bank A/c (or) Cash A/c	Dr	XXX	XXX
		Dr	XXX	XXX
		Dr	XXX	XXX

Joint Life Policy: Joint Life Policy is an assurance policy covering the lives of the partners jointly. The main objective behind taking out a joint life policy is to make provision for payment of the amount due to the deceased partner. Joint Life Policy becomes due on the expiry of the term of the policy or on the death of any partner (covered under the policy) which ever is earlier. The sum for which insurance policy is taken is called "Sum Assured". A periodic amount payable to the insurance company for obtaining the joint life policy is called 'Premium'. The premium paid may be treated either as an expense or as an investment.

Individual Life Policy: Individual life policy is an assurance policy covering the life of a partner individually. If the firm had insured the partners' lives severally and charged the premium to Profit & Loss A/c, a retiring partner is entitled to claim his share in the surrender values of unexpired individual life policies of all the partners as on the date of retirement whereas the executors of a deceased partner are entitled to claim a share.

1. In the money received from the insurance company in respect of matured policy and
2. In the surrender value of unexpired individual life policies of other partners.

PROBLEMS FOR CLASSROOM DISCUSSION**PARTNERSHIP FUNDAMENTALS**

Problem 1: Change in Profit Sharing Ratio: 'A' and 'B' are partners sharing Profits and Losses in the ratio of 3:1. Their capitals were Rs.3,00,000 and Rs.2,00,000 respectively. As from 1st April, 2009, it was agreed to change the profit sharing ratio to 3:2. According to the partnership deed, goodwill should be valued at two years' purchase of the average of three years' profits. The profits of the previous three years ending 31st March were: 2007-Rs.1,50,000; 2008-Rs.2,50,000 and 2009-Rs.2,00,000. Pass the necessary journal entry to give effect to the above arrangement in the capital accounts of the partners. (PM)

(Solve problem no. 1 of assignment problems as rework)

Note: _____

Problem 2: Adjustment of Goodwill: Wise, Clever and Dull were trading in partnership sharing profits and losses 4:3:3 respectively.

The accounts of the firm are made up to 31st December every year.

The partnership provided, inter alia, that:

On the death of a partner the goodwill was to be valued at three years' purchase of average profits of the three years upto the date of the death after deducting interest @ 8 per cent on capital employed and a fair remuneration of each partner. The profits are assumed to be earned evenly throughout the year.

On 30th June, 2014, Wise died and it was agreed on his death to adjust goodwill in the capital accounts without showing any amount of goodwill in the Balance Sheet.

It was agreed for the purpose of valuation of goodwill that the fair remuneration for work done by each partner would be Rs.15,000 per annum and that the capital employed would be Rs. 1,56,000. Clever and Dull were to continue the partnership, sharing profits and losses equally after the death of Wise.

The following were the amounts of profits of earlier years before charging interest on capital employed.

Year	Amount
2011	67,200
2012	75,600
2013	72,000
2014	62,400

You are requested to compute the value of goodwill and show the adjustment thereof in the books of the firm.

(SM) (Ans: Good will Rs.39,960 Avg profit - 70,800 Super profit - 13,320)

(Solve problem no. 2 of assignment problems as rework)

Note: _____

Problem 3: Preparation of P&L adjustment a/c & Capital a/c: M/s Neptune & Co's. Balance sheet as at 31st March, 2011:

Liabilities	Rs.	Assets	Rs.
Bank O.D. (SBI)	54,000	Cash at Bank of India	800
Sundry Creditors	1,56,000	Sundry Debtors	2,80,000
Capital A/c's:		Stock	1,00,000
Mr. A:		Motor Cars cost as per last B/S:	
Balance as per last B/S	4,02,000		1,60,000
Add: Profit for the year	<u>95,400</u>	Less: Dep. till date	<u>54,000</u>
	4,97,400	Machinery:	
Less: Drawings	<u>40,000</u>	Cost as per last B/S	3,00,000
	4,57,400	Less: Dep. Till date	<u>1,40,000</u>
Mr. B:		Land & Buildings	2,40,000
Balance as per last B/S	2,00,000		
Add: Profit for the year	<u>95,400</u>		
	2,95,400		
Less: Drawings	<u>76,000</u>		
	2,19,400		
	8,86,800		8,86,800

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

- Land & Buildings are shown at cost less Rs.60,000 being the proceeds of the sale during the year of premises costing Rs.70,000.
- Machinery having a net book value of Rs.4,300 had been scrapped during the year. The original cost was Rs.12,300.

3. Rs.2,000 paid for the License fees for the year ending 30th Sept., 2011 has been written off.
4. Debts amounting to Rs.10,420 were considered to be bad and further debts amounting to Rs.5,400 were considered doubtful and required 100% provision. Provision for doubtful debts had previously been made for Rs.10,000.
5. An item in the Inventory was valued at Rs.37,400, but had a realisable value of Rs.26,000 only. Scrap Material, having a value of Rs.6,600 has been omitted from the stock valuation.
6. The cashier had misappropriated Rs.700.
7. The cash-book for the year ending 31st March, 2011 included payments amounting to Rs.6,924, the cheques having been made out, but not dispatched to suppliers until April, 2011.
8. Interest is to be allowed on the Partners' opening Capital A/c balances less drawings during the year at 9%.

You are required to prepare:

1. P & L Adjustment A/c for the year
2. Capital A/c's of the Partners.

(PM)

(Ans.: Profit transferred to Cap a/c of A-61,220 Cap a/c of B-61,220)
(Solve problem no 3 of assignment problems as rework)

Note: _____

Problem 4: (PRINTED SOLUTION AVAILABLE) Preparation of P&L appropriation a/c:

X, Y & Z are in partnership. Y and Z are entitled to 15% commission on net profit to be shared equally for the special service rendered by them to the partnership. However, all the partners are entitled to 8% interest on fixed capital of Rs. 5,00,000 each. The business is run at the premises of Mr. X who is further entitled to get a monthly rent of Rs. 2,000 to be adjusted against his current account. They share profits and losses equally. Net profit during the year 2014 was Rs. 7,00,000.

During the year they were discussing to change the profit sharing ratio because X could not attend to business work. Finally they decided to increase interest on capital to 12% p.a. with effect from 1-10-2014 and to change the profit sharing ratio to 1:2:2 with effect from the same date and Y and Z would not get any commission. Prepare Profit and Loss Appropriation Account. (SM) (Ans: P & L a/c apportion to Current a/c's balances X-1,37,550; Y-1,62,350; Z-1,62,350)

(Solve problem no 4 of assignment problems as rework)

Note: _____

Problem 5: Preparation P&L appropriation a/c: Good, Better and Best are in partnership sharing profits and losses in the ratio 3:2:4. Their capital account balances as on 31st March, 2012 are as follows:

	Rs.
Good	1,70,000 (Cr)
Better	1,10,000 (Cr)
Best	1,22,000 (Cr)

Following further information provided:

1. Rs.22,240 is to be transferred to General Reserve.
2. Good, Better and Best are paid monthly salary in cash amounting Rs.2,400, Rs.1,600 and Rs.1,800 respectively.

3. Partners are allowed interest on their closing capital balance @ 6% p.a. and are charged interest on drawings @ 8% p.a.
4. Good and Best are entitled to commission @ 8% and 10% respectively of the net profit before making any appropriation.
5. Better is entitled to commission @ 15% of the net profit before charging Interest on Drawings but after making all other appropriations.
6. During the year Good withdraw Rs.2,000 at the beginning of every month, Better Rs.1,750 at the end of every month and Best Rs.1,250 at the middle of every month.
7. Firm's Accountant is entitled to a salary of Rs.2,000 per month and a commission of 12% of net profit after charging such commission.

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

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

(Ans.: Total of profit and loss appropriation A/c-2,27,410, net profit-2,25,000. Share of profits to Good-20,223 Better-13,482 Best-26,964. Commission to Better-10,281 to firm's accountant-27,000. Interest on drawings Good-1,040 Better-770 Best-600. Interest on capitals Good-10,200 Better-6,600 Best-7,320)

Note: _____

RECONSTITUTION OF PARTNERSHIP FIRM – ADMISSION

Problem 6: (PRINTED SOLUTION AVAILABLE) Basic level: The Balance Sheet of Amit, Bhushan and Charan, who share profits and losses as 3 : 2 : 1 respectively, as on 01.04.2013 is as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital Accounts:		Machinery	1,50,000
Amit	1,80,000	Furniture	1,50,000
Bhushan	1,60,000	Debtors	80,000
Charan	1,40,000	Less: Provision for doubtful Debts	<u>4,000</u>
Current Accounts: Bhushan	16,000	Stock	2,10,000
Creditors	1,20,000	Cash	20,000
		Current Account: Charan	<u>10,000</u>
	6,16,000		6,16,000

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

1. The profit and loss sharing ratio among the old partners will be equal.
2. Dev brings in Rs. 1,50,000 as capital but is unable to bring the required amount of premium for goodwill.
3. The goodwill of the firm is valued at Rs. 60,000.
4. Assets and liabilities are to be valued as follows:
Machinery Rs. 2,06,000 : Furniture Rs. 1,28,000 : Provision for doubtful debts @ 10% on debtors.
5. Necessary adjustments regarding goodwill and Profit / loss on revaluation are to be made through the Partner's Current Accounts.

6. It is decided that the revalued figures of assets and liabilities will not appear in the Balance Sheet of the new firm.
7. Capital Accounts of the old partners in the new firm should be proportionate to the new profit and loss sharing ratio, taking Dev's Capital as base. The existing partners will not bring cash for further capital. The necessary adjustments are to be made through the partner's Current Account.

Prepare Partner's Capital & Current Account, and the Balance Sheet of the new firm after admission. (PM) (Ans: Balance sheet Total Rs.8,71,000)

(Solve problem no 5 of assignment problems as rework)

Note: _____

Problem 7: Adjustment to capitals: Laurel and Hardy are partners of the firm LH & Co., from 01.04.2011. Initially both of them contributed Rs.1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5 : 4. After the accounts for the year ended 31.03.2015 were finalized, the partners decided to share profits and losses equally with effect from 01.04.2011.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31 st March	2012 Rs.	2013 Rs.	2014 Rs.	2015 Rs.
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31 st March)	30,000	20,000	36,000	24,000
Incomes not taken into account (as at 31 st March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 01.04.2015. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.03.2015 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

Balance Sheet of LH & Co., as at 31.03.2015

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Plant and Machinery	60,000
Laurel	2,11,500	Cash on hand	10,000
Hardy	1,51,500	Cash at bank	5,000
Sundry creditors	2,27,000	Stock in trade	3,10,000
		Sundry debtors	2,05,000
	5,90,000		5,90,000

You are prepare required to prepare:

- Profit and Loss Adjustment account:
- Capital accounts of the partners; and
- Balance Sheet of the firm after the admission of Chaplin (RTP – May - 2015)

(Ans: (i) loss under Laurel-22,000 & Hardy-22,000; (ii) Partners capital a/c closing balances Laurel- Rs.1,29,500; Hardy Rs.1,89,500; Chaplin Rs.63,800

(iii) Balance sheet total Rs.7,19,800)

(Solve problem no 6 & 7 of assignment problems as rework)

Note: _____

Problem 8: Advanced level: P, Q, R are three doctors who are running a Polyclinic. Their capital on 31st March, 2009 was Rs.1,00,000 each. They agreed to admit X, Y and Z as partners w.e.f. 1st April 2009. The terms for sharing profits & losses were as follows:

- 70% of the visiting fee is to go to the specialist concerned.
- 50% of the chamber fee will be payable to the individual specialist.
- 40% of operation fee and fee for pathological reports, X-rays and ECG will accrue in favour of the doctor concerned.
- Balance of profit or loss is shared equally.
- All the partners are entitled for 6% interest on capital employed.

They further agreed that:

- X, Y and Z brought in Rs.20,000 each as goodwill. Goodwill is shared by the existing partners equally.
- X, Y and Z brought in Rs.50,000 each as capital. Each of the original partners also contributed Rs.50,000 by way of capital.

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

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

Expenses for the year were as follows:

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

You are requested to:

- Pass necessary journal entries on admission of partners.
- Prepare the Profit and Loss Account of the polyclinic for the year ended 31st March, 2010.

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

(PM) (Ans: Net Profit transferred to partners capital accounts is Rs.4,28,400)

Note: _____

RECONSTITUTION OF PARTNERSHIP FIRM – RETIREMENT

Problem 9: On 31st December 2013, the Balance Sheet of A, B, and C who were sharing profits and losses in proportion to their capital stood as follows:

Liabilities	Rs.	Assets	Rs.
Creditors	20,000	Cash at bank	16,000
Employees' provident fund	1,600	Debtors	20,000
		Less : Provision	<u>400</u>
A's capital A/c	72,000	Inventory	18,000
B's capital A/c	48,000	Machinery	48,000
C's capital A/c	24,000	Land & building	1,00,000
Contingency reserve	30,000		
Workmen compensation reserve	6,000		
	2,01,600		2,01,600

B retires and the following adjustments of the assets and liabilities have been agreed upon before the ascertainment of the amount payable to B:

1. Out of the amount of insurance which was debited entirely to Profit and Loss Account, Rs. 2,000 to be carried forward as an unexpired insurance.
2. Land and building to be appreciated by 10%.
3. Provision for doubtful debts to be brought up to 5% on debtors.
4. Machinery to be depreciated by 5%.
5. Provision of Rs. 3,000 to be made in respect of an outstanding bill of repairs.
6. Goodwill of the entire firm be fixed at Rs. 36,000 and B's share of the same be adjusted into the accounts of A and C who are going to share future profits in the proportion of 3/4 and 1/4 respectively. (No Goodwill account being raised).
7. The entire capital of the firm as newly constituted be fixed at Rs. 1,20,000 between A and C in the proportion of 3/4 and 1/4 after passing entries in their accounts for adjustments i.e. actual cash to be paid off or to be brought in by the continuing partners as the case may be.
8. B to be paid Rs. 6,000 in cash and the balance to be transferred to his loan account. Prepare Revaluation Account, Capital Accounts of the partners and the Balance Sheet of the firm of A and C after retirement.

(MTP-Sep-14) (Ans: Balance Sheet total Rs.2,12,600)

(Solve problem no 8 and 9 of assignment problems as rework)

Note: _____

Problem 10: On 31st March, 2014, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	Rs.	Assets	Rs.
Capital Account:		Land and Building	60,000
Mr. P	40,000	Plant and Machinery	40,000
Mr. Q	60,000	Inventory of goods	24,000

Mr. R	40,000	Sundry debtors	22,000
Sundry Creditors	20,000	Cash and Bank Balances	14,000
	1,60,000		1,60,000

On 1st April, 2014, Mr.P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

1. Land and Building be appreciated by 20%.
2. Plant and Machinery be depreciated by 30%.
3. Inventory of goods to be valued at Rs. 20,000.
4. Old credit balances of Sundry creditors, Rs. 4,000 to be written back.
5. Provisions for bad debts should be provided at 5%.
6. Joint life policy of the partners surrendered and cash obtained Rs. 15,100.
7. Goodwill of the entire firm is valued at Rs. 28,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.
8. The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.
9. Amount due to Mr. P is to be settled on the following basis:
50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Q & R as on 1.04.2014. **(MTP – Sep - 15)**

(Ans: Balance sheet Total Rs.1,82,000)

(Solve problem no 10 of assignment problems as rework)

Note: _____

Problem 11: (PRINTED SOLUTION AVAILABLE) The following is the Balance Sheet A, B & C who were partners as on 31-3-2003:

Balance Sheet as at 31-3-2003

Liabilities		Rs.	Assets		Rs.
Capital A/cs:			Plant & Machinery		49,000
A	33,600		Furniture & fittings		4,800
B	25,200		Stock in Trade		22,800
C	<u>12,000</u>	70,800	Sundry Debtors		21,600
Sundry Creditors		12,000	Cash in Hand		1,000
15% Mortgage Loan		16,600	Cash at Bank		200
		99,400			99,400

They share profits and losses in the ratio of 2:2:1. On 1st April, 2003 C retired from the firm and claimed his share of secret reserve/profit arising out of the following:

- a. During the year ended 31-3-2003 purchases of Machinery at a cost of Rs.10,000 was charged to Purchases A/c, the erection charges of Rs.600 being charged to machinery Repairs A/c. (Depreciation is to be charged at 10% p.a.)
- b. Rs.600 received from Mr. X on 30-3-2003 towards rent of the property sublet was credited to his Personal A/c instead of to Rent A/c so as to reduce his debit balance from Rs.1,000 to Rs.400 debit on 31-3-2003.
- c. Interest on mortgage loan was paid in advance up to 31-5-2003 and the whole amount was charged to Interest A/c during the year ended 31-3-2003. After rectifying the above errors, it was mutually decided as under:

- i) The goodwill of the firm be valued at five times the average profits of the last three years. Such profits should be correct profits and not the book profits. The book profits for the last three financial years were: 2000-2001: Rs.18,380; 2001-2002: Rs.32,000; 2002-2003: Rs.7,471;
- ii) Plant & Machinery to be depreciated by 10% and provision for bad and doubtful debts be made at 5% on Sundry debtors.
- iii) The goodwill should not appear in the books.
- iv) There is a liability for Rs.501 for bills discounted. This has to be Accounted for.
- v) C should be paid half of his dues in cash which shall be brought in by A and B in their profit sharing proportion and the other half shall be left in the business as C's Loan fetching an interest of 18% p.a.

Prepare Profit & Loss A/c, Revaluation A/c, Capital A/cs of the partners and the Balance Sheet of A and B after C's retirement. (May - 2002, 2015)

(Ans.: Goodwill Rs.114895, Total of Balance sheet Rs.103468)

Note: _____

Problem 12: Advanced level: Manish, Jatin and Paresh were partners sharing Profits/ Losses in the ratio of Manish 40 percent, Jatin 35 percent, and Paresh 25 percent. The draft Balance Sheet of the partnership as on 31st December, 2011 was as follows:

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

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

1. Rs. 10,000 should be written off from the premises.
2. Plant and Machinery was revalued at Rs. 58,000.
3. Provision for doubtful debts to be increased by Rs. 1,200
4. Rs. 5,000 due to creditors for expenses had been omitted from the books of account.
5. Rs. 4,000 to be written off on stocks.
6. Provide Rs. 1,200 for professional charges in connection with revaluation.

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

Year ending 30.12.2009 Rs. 1,44,000 ; Year ending 31.12.2010 Rs. 1,68,000

Year ending 31.12.2011 Rs. 1,88,200 (As per draft accounts)

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

You are required to prepare:

1. Revaluation Account:
2. Capital Accounts (merging current accounts therein):
3. Jatin's Accounts showing balance due to him; and
4. Balance Sheet of Manish and Paresh as at 1st January, 2012. (PM)

*(Ans: Capital Account credit balance M - Rs.79,840, J - Nil, P - 20,150,
Balance Sheet total Rs.2,39,800)*

Note: _____

RECONSTITUTION OF PARTNERSHIP FIRM **ADMISSION - CUM - RETIREMENT**

Problem 13: Glad and Happy, who make up their accounts to 30th September in each year, carried on business in partnership under the firm name of Feelings.

Their partnership agreement provided:

1. Profits and losses should be shared Glad - two-third and Happy - one-third.
2. Interest on capital accounts should be allowed at the rate of 6% per annum but no interest should be allowed or charged on current accounts.
3. On the retirement or admission of a partner:
 - a. If the change takes place during any accounting year, such partner's share of profits or losses for the period up to retirement or from admission is to be arrived at by apportionment on a time basis except where otherwise agreed.
 - b. No account for goodwill is to be maintained in the firm's books, any adjusting entries for transactions between the partners being made in their capital accounts.
 - c. Any balance due to an outgoing partner is to carry interest at 8% per annum from the date of his retirement to the date of payment.

Glad retired from the firm on 31st March 2014 and, on the same day, Happy took into partnership Joy, an employee of the firm. It was agreed that the terms of the previous partnership agreement should apply in all respects except that, as from the date, profits or losses are to be shared: Happy - three-fifth, Joy - two-fifth.

The trial balance extracted from the books of the firm as on 30th September 2014 was as follows:

Particulars	Rs.	Rs.
Capital Accounts – 30th September 2013		
Glad	-	8,000
Happy	-	6,000

Current Accounts – 30th September 2013		
Glad	-	2,400
Happy	-	1,600
Joy – Cash introduced 31st March, 2014	-	3,000
Plant and machinery at cost	14,000	-
Plant and machinery: Provision for depreciation -30 th Sept., 2013	-	2,800
Motor vehicles at cost	6,200	-
Motor vehicles: provision for depreciation – 30th September 2013	-	3,400
Purchases	62,000	-
Inventory – 30th September 2013	12,400	-
Wages	14,600	-
Salaries	10,800	-
Debtors	4,600	-
Sales	-	96,000
Trade expenses	1,600	-
Creditors	-	6,200
Rent and rates	1,400	-
Bad debts	600	-
Balance at bank	1,200	-
	1,29,400	1,29,400

You are given the following further information:

- The value of the firm's goodwill as on 31st March 2014 was agreed to be Rs.12,000.
- On 31st March, 2014, Joy had paid Glad Rs.5,000 on account of the balance due to him on retirement. But no entry had been made in the books in respect of this payment. The balance due to Glad after taking into account this payment remained unpaid as on 30th September, 2014.
- Glad on retirement had taken over one of the firm's motor vehicles and it was agreed that he should be charged for it at its written down value on the date of his retirement. The vehicle had cost Rs.1,400 and up to 30th September, 2013 depreciation of Rs.625 had been provided on it.
- The stock as on 30th September 2014 was valued at Rs.14,200.
- Partners' drawings which are included in salaries were as follows:
Glad Rs.1,800; Happy Rs.2,400; Joy Rs.900.
- Salaries also included Rs.1,200 paid to Joy prior to his being admitted as a partner and which is to be charged against the half-year profits of the firm ended on 31st March, 2014.
- Professional charges of Rs.250 included in trade expenses are specifically attributable to the second half of the year.
- The whole of the charge of Rs.600 for bad debts related to the period upto 31st March, 2014.
- A bad debts provision specifically, attributable to the second half of the year of 5% of the total debtors is to be made as on 30th September 2014.
- As on 30th September 2014, rent paid in advance amounted to Rs.400 and trade expenses accrued amounted to Rs.180.
- Provision is to be made for depreciation on plant and machinery and on motor vehicles at the rates of 10% and 25% per annum respectively, calculated on cost.

You are required to prepare:

- The Trading and profit and loss account for the year ended 30th September 2014.

2. Partner's capital and current accounts for the year ended 30th September 2014; and

3. The balance sheet as on that date. (RTP May -2013, SM)

(Ans: Gross Profit 21,200, Total Of Capitals Accounts Glad- 16,000, Happy-6,000, Joy-8,000, Partners Current Accounts Glad-4,900, Happy-5,745, Joy-1,930; Balance sheet total Rs.24,415)

(Solve problem no 11 and 12 of assignment problems as rework)

Note: _____

Problem 14: (PRINTED SOLUTION AVAILABLE) Ms. Naina, Ms. Radha and Ms. Khushi were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. Balance Sheet of the firm as on 31.03.2014 was as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital Accounts:		Plant and Machinery	4,26,000
Naina	3,00,000	Stock	1,85,800
Radha	2,25,000	Debtors	1,30,500
Khushi	1,50,000	Bank Balance	92,700
Current Accounts:			
Naina	25,000		
Radha	12,500		
Khushi	18,750		
Creditors	1,03,750		
	8,35,000		8,35,000

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

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

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

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

1. Payment to creditors Rs.7,75,000
2. Received from debtors Rs.11,25,000
3. Expenses paid Rs.11,250
4. Asmita's salary paid Rs.8,000
5. Partners Drawing:

Ms. Radha	Rs.50,000
Ms. Khushi	Rs.41,250
Ms. Asmita	Rs.11,250
6. First intallment with interest paid to Ms. Naina on 1st Oct., 2014.
7. Plant & Machinery sold at Rs.9,000 on 3rd April, 2014 (Cost Rs.10,000 & Book value Rs.7,000)
8. Balances as on 31st March, 2015 Debtors Rs1,50,000 Creditors for purchases Rs.1,25,000, Creditors for expenses Rs.10,000 and Stock Rs.1,71,250
9. Depreciation is to be written off on Plant & Machinery Rs.30,350:
10. Second installment with interest paid to Ms. Naina on 1st April, 2015.

You are required to prepare:

1. Ms. Naina's loan account,
 2. Partners' capital account,
 3. Partners current account,
 4. Bank Account and
 5. Balance Sheet as on 31st March, 2015 in the books of the firm. (Nov-15)
- (Solve problem no 13, 14 & 15 of assignment problems as rework)

Note: _____

RECONSTITUTION OF PARTNERSHIP FIRM – DEATH

Problem 15: (PRINTED SOLUTION AVAILABLE) Basic level: A, B and C were partners of a firm sharing profits and losses in the ratio of 3:4:3. The Balance Sheet of the firm, as at 31st March, 2010 was as under:

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Fixed assets	1,00,000
A	48,000	Current assets:	
B	64,000	Stock	30,000
C	48,000	Debtors	60,000
Reserve	20,000	Cash and bank	30,000
Creditors	40,000		
	2,20,000		2,20,000

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

1. Goodwill of the firm will be taken at Rs.60,000.
2. Fixed Assets will be written down by Rs.20,000.
3. In lieu of profits, C should be paid at the rate of 25% per annum on his capital as on 31st March, 2010.

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

Partners' Drawings Accounts showed balances as under:

A	Rs.18,000 (drawn evenly over the year)
B	Rs.24,000 (drawn evenly over the year)
C	(up-to-date of death) Rs.20,000

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

(Ans: Amount Due on legal heirs of C is Rs.62,400)

(Solve problem no 16 of assignment problems as rework)

Note: _____

Problem 16: The Balance Sheet of Amitabh, Abhishek & Amrish as at 31.12.2008 stood as follows:

Liabilities	Amount	Amount	Assets	Amount	Amount
Capital:			Land & Buildings		74,000
Amitabh	60,000		Investments		10,000
Abhishek	40,000		Goodwill		37,800
Amrish	<u>40,000</u>	1,40,000	Life Policy (at surrender value):		

Creditors		25,800	Amitabh		2,500
General Reserve		8,000	Abhishek		2,500
Investment Fluctuation Reserve		2,400	Amrish		1,000
			Stock		20,000
			Debtors	20,000	
			Less: Provision for doubtful debts	(1,600)	18,400
			Cash & bank balance		10,000
		1,76,200			1,76,200

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

1. Land and Buildings be appreciated by 50%.
2. Investment be valued at 6% less than the cost.
3. All debtors (except 20% which are considered as doubtful) were good.
4. Stock to be reduced to 94%
5. Goodwill to be valued at 1 year's purchase of the average profits of the past five years.
6. Amrish's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceding the year of death.

The profits of the last five years are as follows:

Year	Rs.
2004	23,000
2005	28,000
2006	18,000
2007	16,000
2008	<u>20,000</u>
	1,05,000

The life policies have been shown at their Surrender values representing 10% of the sum assured in each case. The annual premium of Rs. 1,000 is payable every year on 1st August. Give the necessary Journal Entries in the books of account and prepare the Balance Sheet of the reconstituted firm.

(PM) (Ans: Balance Sheet total Rs.1,81,700)

(Solve problem no 17 of assignment problems as rework)

Note: _____

RECONSTITUTION OF PARTNERSHIP FIRM **ADMISSION-CUM-DEATH / RETIREMENT:**

Problem 17: (PRINTED SOLUTION AVAILABLE) The following is the B/S of A, B & C as on 31.12.96, sharing profits in the ratio 4 : 3 : 1.

<i>Liabilities</i>		Rs.	<i>Assets</i>		Rs.
Capital A/cs			Property & Assets		2,28,000
	A 1,00,000		Joint Survivorship		32,000
	B 70,000		Bank		50,000
	C <u>20,000</u>	1,90,000			
Creditors		1,20,000			
		3,10,000			3,10,000

On 1.1.97, D was admitted as a partner, entitling him to 1/5th share of the profit. D paid Rs.30,000 on A/c of capital and also Rs.20,000 as his share of Goodwill (the latter sum to remain in the business.) On 30.6.97, A died. The joint survivorship policy realised Rs.50,000. The share of the deceased partner in the goodwill of the firm was determined at Rs.36,000. The P&L A/c for the period ending 30.6.97 disclosed a profit of Rs.45,000. The surviving partners carried on the business, profit-sharing ratio remains unchanged. Net profit for the period from 1.7.97 to 31.12.97 amounted to Rs.33,000.

Drawings of the partners were:	A	B	C	D
For 6 months up to 30.6.1997 (Rs.)	13,000	10,000	4,000	7,500
For 6 months up to 31.12.1997 (Rs.)	Nil	8,000	5,000	7,000

A sum of Rs.50,000 was advanced by B as loan to facilitate payment in full on 1.12.97 of the deceased partner's share. Show the Partners' Capital A/cs & draft the B/S as on 31.12.97. The Balances of 'Property and Assets, and 'Creditors' as on 31.12.1997 were Rs.2,37,000 and Rs.1,17,000 respectively.

Note: _____

ASSIGNMENT PROBLEMS

Problem 1: Change in profit Sharing Ratio: P, Q and R are partners sharing profits and losses in the ratio of 3:2:1. The goodwill of the firm is valued at Rs. 12,000. They have decided to change the profit-sharing ratio to 2:2:1. Pass necessary Journal Entries. (SM)

Problem 2: Adjustment of Goodwill: Vasudevan, Sunderarajan and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2014 was as follows:

Balance Sheet of M/s Vasudevan, Sunderarajan & Agrawal

Liabilities	Amount	Assets	Amount
Capital A/c's:		Sundry fixed assets	5,00,000
Vasudevan	85,000	Inventory	1,00,000
Sunderarajan	3,15,000	Trade receivables	50,000
Agrawal	2,25,000	Bank	5,000
Trade payables	30,000		
	6,55,000		6,55,000

The partnership earned profit Rs. 2,00,000 in 2014 and the partners withdrew Rs. 1,50,000 during the year. Normal rate of return 30%.

Find out the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose calculate super profit using average capital employed. (SM) (Ans: Goodwill Rs.1,00,000)

Problem 3: Preparation of P&L adjustment a/c & Capital a/c: A, B and C run a business sharing profits and losses in proportion of 2:2:1. On 1st January, 2008 their respective capitals were Rs.96,000, Rs.90,000 and Rs.84,000. On 30th June, 2008 the following was the position:

Particulars	Rs.
Creditors	30,000
Furniture	9,000
Book debts	1,80,000
Stock	90,000
Cash in hand and at bank	36,000

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

You are required to prepare:

1. A statement of affair as on 30th June, 2008.
2. Calculate the profits for the half-year ending on 30th June, 2008 and allocate the same amongst the partners. Also calculate capital of each partner as on 30th June, 2008.

(PM)

(Ans: Total of statement of affairs 3,15,000. Net profit is 36,600, capital as on 30th June 2008- A-1,00,440 B-97,440 C-87,120)

Problem 4: Preparation of P&L appropriation a/c: R and G are partners sharing profits and losses in the ratio of 3:2 after allowing Rs. 1,000 p.m. salary for each partner. However, the accounts have not been prepared for the last three years. From the following details, you are required to calculate the distribution of profits between the partners in total for the three years.

Particulars	Rs.
Assets as at the end of 3rd year	1,60,000
Liabilities as at the end of 3rd year	40,000
Drawings for three years in addition to Salaries:	
R	30,000
G	22,000
Capital on commencement:	
R	50,000
G	40,000
Introduction of fresh capital during three years	
R	10,000

(RTP-Nov-14) (Ans: Net profit Rs.1,44,000 & Profit & Loss appropriation a/c Rs.72,000)

Problem 5: Messers Dalal, Banerji and Mallick is a firm sharing profits and losses in the ratio 2:2:1. Their Balance Sheet as on 31st March, 2013 is as below:

Liabilities	Amount	Assets	Amount
Trade Payables	12,850	Land and Buildings	25,000
Outstanding liabilities	1,500	Furniture	6,500
General reserve	6,500	Inventory	11,750
Capital Account :		Trade Receivable	5,500
Mr. Dalal 12,000		Cash in hand	140
Mr. Banerji 12,000		Cash at bank	960
Mr. Mallick <u>5,000</u>	29,000		
	49,850		49,850

The partners have agreed to take Mr. Mistri as a partner with effect from 1st April, 2013 on the following terms:

1. Mr. Mistri shall bring 5,000 towards his capital.
2. The value of Inventory should be increased by Rs. 2,500 and Furniture should be depreciated by 10%.
3. Provision for bad and doubtful debts should be made at 10% of the trade receivables.

4. The value of land and buildings should be enhanced by 20% and the value of the goodwill be fixed at Rs. 15,000.
5. The value of the goodwill be fixed at Rs. 15,000.
6. General Reserve will be transferred to the partner's Capital Accounts.
7. The new profit sharing ratio shall be : Mr. Dalal 5/15, Mr. Banerji 5/15, Mr. Mallick 3/15 and Mr. Mistri 2/15.
8. The goodwill account shall be written back to the Partner's accounts in accordance with the new profit sharing proportion.

The outstanding liabilities include Rs. 1,000 due to Mr. Sen which has been paid by Mr. Dalal.

Necessary entries were not made in the books.

Prepare (i) Revaluation Account, and (ii) The Capital Accounts of the partners, and (iii) the Balance Sheet of the firm as newly constituted (Journal entries are not required) **(SM)**
(Ans.: Total of Balance Sheet Rs.61,150)

Problem 6: A and B are in partnership sharing profits and losses equally. The Balance Sheet of M/s A and B as on 31-12-14 was as follows

Liabilities	Rs.	Assets	Rs.
Capital A/cs :		Sundry Fixed Assets	60,000
A	45,000	Inventory	30,000
B	45,000	Bank	20,000
Trade Payables	20,000		
	1,10,000		1,10,000

On 1-1-15 they agreed to take C as 1/3rd partner to increase the capital base to Rs. 1,35,000. C agrees to pay Rs. 60,000. Show the necessary journal entries, Partners' Capital A/cs and Balance Sheet as on 1-1-15. **(SM)** (Ans: Balance sheet total Rs.1,55,000)

Problem 7: Taylor and Best were in partnership sharing profits and losses in the ratio 2/3 and 1/3 respectively. The partnership deed provided:

1. Interest @ 8% p.a. is to be allowed on fixed capital A/cs. No interest is to be allowed on current A/cs but 10% p.a. is to be charged on any debit balance at the commencement of the year.
2. Goodwill is to be valued at 1.5 times the average annual profits of the previous four or five years' whichever is lower.

The partners agreed to take Watson into partnership as on 1.1.1997 and he introduced Rs.5,000 into the business. It was agreed that fixed capital of the business should be Rs.20,000 contributed by the partners in their profit sharing ratio, any surplus or deficiency being transferred to their current A/cs. Taylor was to be entitled to a prior share of the profits of Rs.500 and the balance was to be shared –Taylor 2/5; Best 2/5 and Watson 1/5. In addition, it was agreed that Watson's share of the profits should not be less than Rs.3,500 p.a.

Agreed profits for goodwill purposes of the past five years are as follows: 1992: Rs.10,420; 1993: Rs.11,760; 1994: Rs.9,400; 1995: Rs.13,820; 1996: Rs.14,600;

No A/c for goodwill is maintained in the books. Adjusting entries for the transactions between the partners being made in their current A/cs.

Partners A/cs as on 31.12.1996 were as follows:

Fixed Capital: Taylor: Rs.10,000; Best: Rs.6,000; **Current A/c:** Taylor: Rs.3,400 (Cr.); Best: Rs.1,200 (Cr.);

The draft A/cs for the year ended 31.12.1997 before taking into A/c interest on partners' A/cs, show a profit of Rs.16,400. Partners' drawings during the year are: Taylor: Rs.5,000; Best: Rs.2,500 and Watson: Rs.1,500; *You are required to prepare* (a) A statement showing the division of profit for the year ended 31.12.1997; and (b) The partner's Current A/cs for the year ended 31.12.1997 recording therein the entries necessary upon Watson's admission as a partner.

(Ans.: Taylors Profit Rs.6130, Best Profit Rs.5630, Watson profit Rs.3,500)

Note: _____

Problem 8: Anuj, Ayush & Piyush are in partnership sharing profits & losses in the ratio 2:2:1. Their Balance sheet as on 31.03.2014. is as follows.

Liabilities		Rs.	Assets		Rs.
Capital Account:			Fixed Assets:		
Anuj	3,75,000		Plant		7,87,000
Ayush	2,80,000		Current Assets:		
Piyush	<u>2,25,000</u>	8,80,000	Stock		1,03,000
General Reserve		1,88,000	Debtors		1,56,000
Creditors		2,16,000	Bank F.D		2,25,000
			Bank balance		13,000
		12,84,000			12,84,000

Anuj decided to retire with effect from 01.04.2014

The remaining Partners agreed to share profits and losses equally in future. The following adjustments were agreed to be made upon retirement of Anuj:

1. Goodwill was to be valued at 1 year purchase of the average profits of the preceding three years on the date of retirement.

The Average profits of the past 3 years were as follows:

Year ended	Rs.
31.03.2014	3,30,000 (as per draft accounts)
31.03.2013	2,32,000
31.03.2012	2,20,000

The partners decided not to rise Goodwill A/c in the books.

2. The Assets were revalued as follows

Plant to be depreciated by 10%;

Creditors amounting to Rs. 10,000 were omitted to be recorded;

Rs.6000 is to be written off from stock;

Provision for doubtful debts to be created @ 5% of the debtors;

Interest accrued on F.D amounting to Rs.9,000 was omitted to be recorded.

The above adjustments were to be made from the profit for the year ended 31.03.2014 before calculation of goodwill

3. Anuj agreed to takeover the bank F.D including interest accrued thereon in part payment of his dues and the balance would remain as a loan carrying interest of 8% p.a.
4. Ayush and Piyush agreed to bring insufficient cash to make their Capital proportionate and maintain a Bank balance Rs.1,50,000.

You are required to prepare:

1. Capital accounts of partners as on 01.04.2014 giving effect to the above adjustments.
2. Balance sheet as on 01.04.2014 after Anuj's retirement. (Nov - 14)

(Ans.: Balance sheet total Rs.11,03,500)

Problem 9: Atul, Balbir and Chatur were carrying on a business in partnership sharing profits in the ratio of 5 : 3 : 2 respectively. On 31st March, 2012 their Balance Sheet stood as follows:

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

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

1. The current value of goodwill be taken to be equal to the book value of the asset.
2. Land and Buildings be considered worth Rs. 9,00,000
3. The provision for bad debts on trade debtors be raised to 5%.
4. Provision be made for compensation of Rs. 5,000 to an ex-employee.
5. Half of the amount due to Atul be paid immediately in cash and the balance be treated as 10% loan, repayable within 3 years.

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

Prepare Revaluation Account, the Capital Accounts of all the partners and Bank Account.

Also draw the Initial Balance Sheet of Balbir and Chatur, immediately after Atul's retirement after writing off goodwill. (PM) (Ans: Balance sheet Total Rs.15,89,700)

Problem 10: A, B and C are in partnership sharing profits and losses at the ratio of 5 : 3 : 2. The balance sheet of the firm on 31.12.2014 was as follows:

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Capital A/cs:		Sundry Fixed Assets	80,000
A	50,000	Inventories	50,000
B	40,000	Trade receivables	30,000
C	30,000	Joint Life Policy	20,000
Bank Loan	40,000	Bank	10,000
Trade payables	30,000		
	1,90,000		1,90,000

On 1.1.2015, A wants to retire, B and C agreed to continue at 2:1. Joint Life Policy was taken on 1.1.2009 for Rs. 1,00,000 and its surrender value as on 31.12.2014 was Rs.25,000. For the purpose of A's retirement goodwill was raised for Rs. 1,00,000. Sundry Fixed Assets was revalued for Rs.1,10,000. But B and C did not prefer to show such increase in assets in the Balance Sheet. Also they agreed to bring necessary cash to discharge 50% of the A's claim, to make the bank balance Rs. 25,000 and to make their capital proportionate.

Prepare necessary journal entries.

(SM)

Problem 11: Pathak, Quereshi and Ranjeet were partners sharing profits in the ratio of 7:5:3 respectively. On 31st March, 2013 Quereshi retired when the firm's Balance Sheet was as follows:

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

It was agreed that:

1. Land & Building be appreciated by 20%.
2. Plant & Machinery be depreciated by 10%.
3. Provision for Bad Debts be made equal to 4% of Trade Debtors.
4. Outstanding repairs bill amounting to Rs. 1,500 be recorded in the books of account.
5. Goodwill of the firm be valued at Rs. 3,00,000 and Quereshi's capital account be credited with his share of goodwill without raising goodwill account.
6. Half of the amount due to Quereshi be immediately paid to him by means of a cheque and the balance be treated as a loan bearing interest @ 12% per annum.

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

You are required to:

1. Pass journal entries for all the above transactions without any narration, and
 2. Prepare the capital account of all the partners. (PM)
- (Ans: Capital A/c Credit Balance P – Rs.10,15,000, Q – Nil, R – Rs.4,30,000, S- Rs.3,25,000)

Problem 12: Avinash, Basuda Ltd. and Chinmoy Ltd. were in partnership sharing profits and losses in the ratio of 9 : 4 : 2. Basuda Ltd. retired from the partnership on 31st March, 2011, when the firm's balance sheet was as under

Liabilities	Rs.in 000's	Assets	Rs.in 000's
Capital Accounts:		Plant	850
Avinash 2,700		Land and Building	2,500
Basuda Ltd 1,200		Furniture	266
Chinmoy Ltd 600	4,500	Stock	800
Creditors	600	Debtors	400
		Cash at Bank	284
	5,100		5,100

Basuda Ltd.'s share in goodwill and capital was acquired by Avinash and Chinmoy Ltd. in the ratio of 1 : 3, the continuing partners bringing in the necessary finance to pay off Basuda Ltd.

The partnership deed provides that on retirement or admission of a partner, the goodwill of the firm is to be valued at three times the average annual profits of the firm for the four years ended on the date of retirement or admission. The profits of the firm during the four years ended 31st March, 2011 in thousands of rupees were:

Year	Rs. in 000's
2007-08	450
2008-09	250
2009-10	600
2010-11	700

The deed further provided that goodwill account is not to appear in the books of accounts at all. The continuing partners agreed that with effect from 1st April, 2011, Ghanashyam, son of Avinash is to be admitted as a partner with 25% share of profit. Avinash gifts to ghanashyam, by transfer from his capital account, an amount sufficient to cover up 12.5% of capital and goodwill requirement. The balance 12.5% of capital and goodwill requirement is purchased by Ghanashyam from Avinash and Chinmoy Ltd. in the ratio of 2 : 1.

The firm asks you to:

- Prepare a statement showing the continuing partners' shares;
- Pass journal entries including for bank transactions; and
- Prepare the balance sheet of the firm after Ghanashyam's admission **(PM)**
(Ans.: New ratio 11:7:6; Total of Balance Sheet Rs.66,00,000)

Problem 13: A and B who carry on partnership business in the name of M/S. AB Ltd. Closes their firm's account as on 31st march each year.

Their partnership agreement provides:

- Profits and losses sharing, A - two-third and B - one-third.
- On the retirement or admission of a partner
 - If the change takes place during any accounting year, such partner's share of profits or losses for the period up to retirement or from admission is to be arrived at by apportionment on a time basis except otherwise stated for specific item(s).
 - No account for goodwill is to be maintained in the firm's books.
 - Any balance due to an outgoing partner is to carry interest at 9% per annum from the date of his retirement to the date of payment.

The trial balance of the firm as on March 31st,2015 was as follows:

Particulars	Rs.	Rs.
Capital Account:		
A	-	24,000
B	-	12,000
C – cash brought in on 30th September 2014	-	9,000
Plant and machinery at cost	22,000	-
Plant and machinery: Provision for depreciation -31 st march 2014	-	4,400
Motor car at cost	30,000	-
Motor car: provision for depreciation – 31 st march 2014	-	6,000
Purchases	84,000	-
Stock – 31 st march 2014	15,500	-
Salaries	18000	-
Debtors	5,400	-
Sales	-	1,20,000

Travelling expenses	800	-
Office maintenance	1,200	-
Conveyances	500	-
Trade expenses	1,000	-
Creditors	-	10,100
Rent and rates	3000	-
Bad debts	900	-
Cash in hand and at bank	3,200	-
	1,85,500	1,85,500

'A' retired from the firm on 30th September, 2014 and on the same day 'C' an employee of the firm was admitted as a partner. Further Profits or losses shall be shared –B: 3/5 and C: 2/5. Necessary accounting entries adjustments were pending up to 31-03-2015. You are given the following further information:

- The value of the firm's goodwill as on 30th September, 2014 was agreed to be Rs.15,000.
- The stock as on 31st March, 2015 was valued at Rs.18,550.
- Partners' drawings which are included in salaries :
A-Rs.2,000; B-Rs.3,000; C-Rs.1,000.
- Salaries also included Rs.1,500 paid to C prior to his being admitted as a partner.
- Bad-debts of Rs.500 related to the period up to 30th September,2014.
- As on 31st March, 2015, rent paid in advance amounted to Rs.600 and trade expenses accrued amounted to Rs.250.
- Provision is to be made for depreciation on plant and machinery and on motor car at the rate of 10% p.a. on cost.
- A bad-debts provision, specifically, attributable to the second half of the year is to be made @ 5% on debtors as on March 31st 2015.
- Amount payable to A on retirement remained unpaid till March 31st 2015.

You are required to prepare:

- The Trading and profit and loss account for the year ended March 31st 2015.
- Partner's capital and current accounts for the year ended March 31st 2015; and
- The balance sheet as on that date.

(M15)

Problem 14: E, F and G were partners Sharing Profits and Losses in the ratio of 5 : 3 : 2 respectively. On 31st March, 2009 Balance Sheet of the firm stood as follows:

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital Accounts:		Buildings	55,000
E 50,000		Furniture	25,000
F 40,000		Stock	42,000
G <u>28,000</u>	1,18,000	Debtors	20,000
Creditors	33,500	Cash at Bank	11,200
Outstanding Expenses	1,700		
	<u>1,53,200</u>		<u>1,53,200</u>

On 31st March, 2009, E decided to retire and F and G decided to continue as equal partners. Other terms of retirement were as follows:

- Buildings be appreciated by 20%

- b) Furniture be depreciated by 10%
- c) A provision of 5% be created for bad debts on debtors.
- d) Goodwill be valued at two years' purchase of profits for the latest accounting year. The firm's Profit for the year ended 31st March, 2009 was Rs.25,000. No goodwill account is to be raised in the books of accounts.
- e) Fresh capital be introduced by F and G to the extent of Rs.10,000 and Rs.35,000 respectively.
- f) Out of sum payable to retiring partner E, a sum of Rs.45,000 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% per annum. The loan is to be paid off by 31st march 2011. One month after E's retirement, F and G agreed to Admit E's son H as a partner with one – forth share in profits/ losses. E agreed that the balance in his loan account be converted into H's Capital. E also agreed to forgo one month's interest on his loan.

It was also agreed that H will bring in his share of goodwill through book adjustment, valued at the price on the date of E's retirement. No goodwill account is to be raised in the books.

You are requested to pass necessary Journal Entries to give effect to above transactions and prepare Partner's Capital Accounts. **(N09, N13)**

(Ans: Total of partners capital Account E- nil , F- 48,500 G-55,750, H-33,750)

Problem 15: A, B and C are in partnership sharing profits & losses in the ratio 3:2:1 respectively. The Balance Sheet of the partnership firm as on 31.12.1997 is as under:

Liabilities		Rs.	Assets		Rs.
Capital A/cs:			Premises		90,000
A	85,000		Plant		37,000
B	65,000		Vehicles		15,000
C	<u>35,000</u>	1,85,000	Fixtures		2,000
Current A/cs:			Stock		62,379
A	3,714		Debtors		34,980
B	(2,509)		Cash		760
C	<u>4,678</u>	5,883			
Loan C		28,000			
Sundry Creditors		19,036			
Bank Overdraft		4,200			
		2,42,119			2,42,119

C decides to retire from the business as on the above date and D is admitted as a partner on that date. The following matters are agreed:

- Assets revalued as: Premises - Rs.1,20,000; Plant - Rs.35,000; Stock - Rs.54,179.
- A provision of Rs.3,000 is to be created against debtors.
- Goodwill is to be recorded in the books on the day C retires at Rs.42,000. The partners in the new firm do not wish to maintain a Goodwill A/c so that amount is to be written-off against the New partners' Capital A/cs.
- A & B are to share profit in the same ratio as before, D is to have the same share of profits as B.
- C is to take a car at its book value of Rs.3,900 in part payment, and the balance of all he is owed by the firm in cash except Rs.20,000 which he is willing to leave as a Loan A/c.
- The partners in the new firm are to start on an equal footing so far as Capital and Current A/cs are concerned. D is to contribute cash to bring his Capital & Current A/cs to the same amount as the original partner from the old firm who has the lower investment in the business. The original partner in the old firm who has the higher investment will draw out cash so that his Capital & Current A/c balances equal those of his new partners.

Revaluation profit (or) loss is to be adjusted in the Partners' Current A/c. Prepare necessary Ledger Accounts to record the above transactions and to prepare the Balance Sheet of the new firm as at 1.1.98.

(May - 2008, Nov - 2005 Similar Problem)

(Ans.: Total of Balance Sheet is Rs.2,55,019)

Problem 16: Rohan, Sohan and Mohan were partners sharing profits and losses in the ratio of 2:2:1. Their Balance Sheet as on 1-1-2014 stood as follows:

Liabilities	Rs.	Rs.	Assets	Rs.
Capital Accounts:			Fixed Assets	1,00,000
Rohan	50,000		Stock	25,000
Sohan	40,000		Debtors	35,000
Mohan	<u>30,000</u>	1,20,000	Cash and bank	10,000
Reserves		10,000		
Creditors		40,000		
		1,70,000		1,70,000

On 1st July, 2014 Mohan died. His representatives agreed that:

1. Goodwill of the firm be valued at Rs.50,000;
2. Fixed Assets be written down by Rs.10,000; and
3. In lieu of profits, Mohan should be paid at the rate of 25% per annum on his capital as on 1-1-2014.

Current years (2014) profit after charging depreciation of Rs.9,500 (Rs.5,000 related to the 1st half) was Rs.40,500. The year-end figures of Stock, Debtors and Creditors and Cash and Bank Balances were respectively Rs.23,000, Rs.19,000, Rs.35,000 and Rs.4,377. The particulars regarding their drawings are given below:

Particulars	Upto 1.7.2014 Rs.	After 1.7.2014 Rs.
Rohan	4,125	5,000
Sohan	4,125	5,000
Mohan	1,750	

Prepare the balance sheet of the firm as on 31st December, 2014 assuming, that final settlement to Mohan's executors was made on 31st December, 2014. (SM)

(Ans: Balance sheet total Rs.1,26,877)

Problem 17: P, Q and R were carrying on a business in partnership, sharing profits and losses in the ratio of 5 : 3 : 2 respectively. The firm earned a profit of Rs. 3,60,000 for the accounting year ended 31st March, 2012 on which date the firm's Balance Sheet stood as follows:

Balance Sheet as at 31st March, 2012

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

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

1. Assets and Liabilities have to be revalued by an independent valuer.
2. Goodwill is to be calculated at two years' purchase of average profits for the last three completed accounting years and the deceased partner's capital account is to be credited with his share of goodwill.
3. The share of the deceased partner in the profits for the period between end of the previous accounting year and the date of death is to be calculated on the basis of the previous accounting year's profits. Post death of P, Q & R will share profit in the ratio of 3 : 2.

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

	Rs.
For the year ended 31 st March, 2010	2,90,000
For the year ended 31 st March, 2011	3,40,000

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

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

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

(Ans.; Balance transfer to P's Heir A/c – Rs.11,00,000, Balance Sheet total Rs.17,84,300)

ABC ANALYSIS

	A Category	B Category	C Category
Class Room Problems	2, 3, 4, 6, 9, 10, 11, 12, 16, 17	1, 5, 7, 14, 15	8, 13
Assignment Problems	5, 7, 8, 9, 11, 12, 13, 14, 15, 16, 17	2, 3, 4, 10	1, 6

Verified by: Hari narayana Sir,
Satish Sir,
Executed by: Rajasekhar Sir.

THE END