

14. PARTNERSHIP ACCOUNTS – I**PROBLEM NO: 1****Journal Entries**

Date	Particulars	Dr.	Cr.
	Q's Capital A/c (Refer Working Note) Dr.	800	
	R's Capital A/c Dr.	400	
	To P's Capital A/c		1,200
	(Being the adjustment for goodwill through the Partners' Capital Accounts)		

WORKING NOTE:**Calculation of share of sacrifice/gain:**

	P	Q	R
Old ratio (3:2:1)	3/6	2/6	1/6
New ratio (2:2:1)	2/5	2/5	1/5
	(Sacrifice) 1/10	(Gain) 2/30	(Gain) 1/30
	12,000 x 1/10	12,000 x 2/30	12,000 x 1/30

PROBLEM NO: 2

Valuation of Goodwill		Rs.
(1)	Average Capital Employed	
	Total Assets less Trade receivables as on 31.12.2014	6,25,000
	Add : 1/2 of the amount withdrawn by partners	75,000
		7,00,000
	Less : 1/2 of the profit earned in 2014	(1,00,000)
		6,00,000
(2)	Super Profit :	
	Profit of M/s Vasudevan, Sunderarajan & Agrawal	2,00,000
	Normal profit @ 30% on Rs. 6,00,000	1,80,000
	Super Profit	20,000
(3)	Value of Goodwill	
	5 Years' Purchase of Super profit (Rs. 20,000 × 5) = Rs. 1,00,000	

PROBLEM NO: 3**i) Statement of Affairs of A, B & C****As on 30th June, 2008**

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

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

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

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

Particulars	A (Rs.)	B (Rs.)	C (Rs.)
Capital as on 1st January, 2008	96,000	90,000	84,000
Add: Net profit in the ratio of 2:2:1	14,640	14,640	7,320
Add: Interest on capital @ 5% p.a. for 6 months	2,400	2,250	2,100
	1,13,040	1,06,890	93,420
Less: Drawings	(12,000)	(9000)	(6,000)
Less: Interest on drawings	(600)	(450)	(300)
Capital as on 30th June, 2008	1,00,440	97,440	87,120

PROBLEM NO: 4

- (a) Statement showing distribution of profits between the partners

Particulars	Rs.	Rs.
Assets at the end of the 3rd year		1,60,000
Less: Liabilities at the end of the 3rd year		(40,000)
		1,20,000
Add: Drawings including partnership salary:		
R[30,000 + (1,000 x 12 x 3)]	66,000	
G [22,000 + (1,000 x 12 x 3)]	58,000	1,24,000
		2,44,000
Less: Opening Capital:		
R	50,000	
G	40,000	(90,000)
		1,54,000
Less: Introduction of capital:		
R		(10,000)
Net Profit		1,44,000

Profit and Loss Appropriation Account for 3 years

Particulars	Rs.	Particulars	Rs.
To Partner's Salary		By Net Profit for three years	1,44,000
R (1,000 x 12 x 3)	36,000		

G (1,000 x 12 x 3)	36,000		
To Share of Profit			
R 43,200			
G 28,800	72,000		
	1,44,000		1,44,000

PROBLEM NO: 5**Revaluation Account**

2015			Rs.	2015		Rs.
April 1	To Provision for bad and doubtful debts		550	April 1	By Inventory	2500
	To Furniture and fittings		650	"	By Land and Building	5000
"	To Capital A/cs " Profit on revaluation transferred					
"	Dalal	2520				
	Banerji	2520				
	Mallick	1260	6300			
			7500			7500

Capital Accounts of Partners

Particulars	Dalal	Banerji	Mallick	Mistri	Particulars	Dalal	Banerji	Mallick	Mistri
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Dalal & Banerji	-	-	-	2000	By Balance b/d	12000	12000	5000	-
					By General Reserve	2600	2600	1300	-
To Balance c/d	19120	18120	7560	3000	By Cash	-	-	-	5000
					By Mistr	1000	1000	-	-
					By Outstanding Liabilities	1000	-	-	-
					By Revaluation A/c	2520	2520	1260	-
	19120	18120	7560	5000		19120	18120	7560	5000

Balance Sheet of M/s Dalal, Banerji, Mallick and Mistri as on 1-4-2015

Liabilities		Rs.	Assets		Rs.
Trade payables		12,850	Land and Buildings		30,000
Outstanding Liabilities		500	Furniture		5850
Capital Accounts of partners :			Inventory		14250
Mr. Dalal	19,120		Trade Receivables	5,500	
Mr. Banerji	18,120		Less: Provision	500	4950
Mr. Mallick	7560		Cash in hand		140
Mr. Mistri	3000	47,800	Cash at Bank		5960
		61,150			61,150

PROBLEM NO: 6

In the Books of M/s A, B and C

Journal Entries

	Rs.	Rs.
Bank A/c Dr.	60,000	
To C's Capital A/c		60,000
(Cash brought in by C for 1/3rd share)		
C's Capital A/c Dr.	15,000	
To A's Capital A/c		7,500
To B's Capital A/c		7,500
(Inferred value of goodwill adjusted in the books through capital accounts)		
A's Capital A/c Dr.	7,500	
Capital A/c Dr.	7,500	
To Bank		15,000
[To keep capital intact by Rs. 1,35,000, excess capital (due to goodwill adjustment) withdrawn]		

WORKING NOTES:

1. Old profit sharing ratio - 1:1
2. New profit sharing ratio - 1:1:1
3. C's share of Capital = Rs. 1,35,000 x 1/3 = Rs. 45,000
4. Goodwill: Rs. 60,000 - Rs. 45,000 = Rs. 15,000 for 1/3rd share.
5. Total Goodwill : Rs. 15,000 x 3 = Rs. 45,000

Partner's Capital Accounts

Dr.				Cr.			
Particulars	A	B	C	Particulars	A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To A & B	-	-	15,000	By Balance b/d	45,000	45,000	-
To Bank	7,500	7,500	-	By Bank	-	-	60,000
To Balance c/d	45,000	45,000	45,000	By C	7,500	7,500	-
	<u>52,500</u>	<u>52,500</u>	<u>60,000</u>		<u>52,500</u>	<u>52,500</u>	<u>60,000</u>

Balance Sheet of M/s A, B & C as on 1-1-2015

Liabilities		Rs.	Assets	Rs.
Capital A/cs:			Sundry Fixed Assets	60,000
A		45,000	Inventory	30,000
B		45,000	Bank	65,000
C		45,000		
Trade Payables		<u>20,000</u>		
		1,55,000		<u>1,55,150</u>

PROBLEM NO: 7

Statement showing Division of Profit for the year ended 31.12.1997

Particulars	Rs.	Rs.
Profit before interest on capital and current Account		16,400
Add: Interest on debit balance of Current A/c (See partners' Current Accounts)		
Best : @ 10% on Rs. 2,000	200	
Watson: @ 10% on Rs. 2,600	260	460
Less: Interest on Fixed Capital		16,860

Taylor: @ 8% on Rs. 8,000	640	
Best : @ 8% on Rs. 8,000	640	
Watson: @ 8% on Rs 4,000	320	1,600
Divisible profit		15,260
Less: Taylor's prior share of profit		500
		14,760
Less: Watson's guaranteed share of profit		3,500
Balance should be shared by Taylor and Best equally		11,260

Partners' Current Accounts

Dr.

Cr.

Particulars	Taylor	Best	Watson	Particulars	Taylor	Best	Watson
To Goodwill A/c (Written off) *	7,200	7,200	3,600	By Balance b/d	3,400	1,200	-----
To Taylor's Capital A/c	-----	2,000	-----	By Goodwill A/c (raised)*	12,000	6,000	-----
To Balance C/d	10,200	-----	-----	By Taylor's Capital A/c	2,000	-----	1,000
				By Balance c/d	-----	2,000	2,600
	17,400	9,200	3,600		17,400	9,200	3,600
To Balance b/d	-----	2,000	2,600	By Balance b/d	10,200	-----	-----
To Interest on Current A/c	-----	200	260	By Interest on Capital A/c	640	640	320
To Drawings A/c	5,000	2,500	1,500	By Share of Profit A/c	6,130	5,630	3,500
To Balance C/d	11,970	1,570	-----	By Balance C/d	-----	-----	540
	16,970	6,270	4,360		16,970	6,270	4,360

* Adjustment for goodwill must be done through the Capital Account of the partners but in this case, it has been done through the Current Account of the partners as per the requirement of the question.

Working Notes: (1) Valuation of Goodwill

5 years Average profit = (Rs.14,600 + 13,820 + 9,400 + 11,760 + 10,420) / 5 = Rs. 12,000; 4 years' Average profit = (Rs. 14,600 + 13,820 + 9,400 + 11,760)/4 = Rs. 12,355; Therefore, value of goodwill = (Rs. 12,000 x 1.5) = Rs. 18,000.

(2) Total capital of the firm = Rs. 20,000

So, Taylor's share of capital = 2/5 of Rs. 20,000 = Rs. 8,000; Best' share of capital = 2/5 of Rs. 20,000 = Rs. 8,000 and; Watson's share of capital = 1/5 of Rs. 20,000 = Rs. 4,000

PROBLEM NO: 8

Partners' Capital Accounts as on 1.4.2014

Particulars	Anuj	Ayush	Piyush	Particulars	Anuj	Ayush	Piyush
To Anuj		22,950	68,850	By Balance b/d	3,75,000	2,80,000	2,25,000
To Revaluation Loss	37,400	37,400	18,700	By General Reserves	75,200	75,200	37,600
To Bank FD	2,34,000			By Ayush and Piyush	91,800	-	-
To 8% Loan	2,70,600			By Cash (Bal. fig.)	-	8,600	1,28,400
To Balance c/d*		3,03,450	3,03,450				
	5,42,000	3,63,800	3,91,000		5,42,000	3,63,800	3,91,000

Balance Sheet as on 1.4.2014 after Anuj's retirement

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Anuj's Loan	2,70,600	Plant(90% of Rs. 7,87,000)	7,08,300
Creditors(2,16,000+10,000)	2,26,000	Stock (Rs. 1,03,000 less Rs. 6,000)	97,000
Capital Accounts*:		Debtors(95% of Rs. 1,56,000)	1,48,200

Anuj	3,03,450	Bank Balance	1,50,000
Piyush	3,03,450		
	<u>11,03,500</u>		<u>11,03,500</u>

*Total of capital balances should be Rs. 6,06,900 which should be proportioned to individual partners in their profit sharing ratio.

Working Notes:

1. Profit / Loss on revaluation

Revaluation Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Plant	78,700	By Interest on FD	9,000
To Creditors	10,000	By Loss on revaluation	93,500
To Inventory	6,000		
To Provision for doubtful debts	<u>7,800</u>		
	<u>1,02,500</u>		<u>1,02,500</u>

2. Calculation of Goodwill

Goodwill Valuation

	Rs. (Amount)
Profit of year ended	
31.3.2014 (Rs. 3,30,000 less Rs. 93,500)	
31.3.2013	2,36,500
31.3.2012	2,32,000
Total Profits	<u>2,20,000</u>
	<u>6,88,500</u>

Average Profit = $6,88,500/3 = 2,29,500$

Goodwill valued at 1 year purchase amounting Rs. 2,29,500

3. Adjustment for goodwill among partners

Anuj's share of goodwill ($2,29,500 \times 2/5$) = 91,800

Gaining ratio of Ayush and Piyush

Ayush

Piyush

$$\frac{1}{2} - \frac{1}{5}$$

$$\frac{1}{2} - \frac{1}{5}$$

$$\frac{5-4}{10} = \frac{1}{10}$$

$$\frac{5-2}{10} = \frac{3}{10}$$

Gaining Ratio = 1: 3

Entry for adjustment of goodwill

		Rs.	Rs.
Ayush's capital A/c	Dr.	22,950	
Piyush's capital A/c	Dr.	68,850	
To Anuj's capital A/c			91,800

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PROBLEM NO: 9**Revaluation Account**

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

Partners' Capital Accounts

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

Bank Account

	Rs.		Rs.
To Balance b/d	1,52,600	By Atul's Capital A/c	3,84,900
To Balbir's capital A/c	1,80,000	By Balance c/d	67,700
To Chatur's capital A/c	<u>1,20,000</u>		
	<u>4,52,600</u>		<u>4,52,600</u>

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

Liabilities		Assets	Rs.
Capital A/cs :		Land and Buildings	9,00,000
Balbir	5,93,880	Furniture	1,65,000
Chatur	3,95,920	Stock	2,86,000
10% Loan from Atul	3,95,920	Trade Debtors 1,80,000	
Trade Creditors	2,10,000	Less: Provision for doubtful	1,71,000
		Debts <u>(9,000)</u>	67,700
Provision for Compensation	5,000		
	<u>15,89,700</u>		<u>15,89,700</u>

PROBLEM NO: 10

		Rs.	Rs.
1. B's Capital A/c	Dr.	49,500	
C's Capital A/c	Dr.	18,000	
To A's Capital A/c			67,500
Share of revaluation profit Rs. 67,500 including good will due to A borne by B and C at the gaining ratio 11 : 4)			
2. A's Capital A/c	Dr.	1,17,500	
To A's Loan A/c			58,750
To Bank A/c			58,750
(Settlement of A's claim on his retirement by payment of 50% in case and transferring the balance to his Loan A/c).			
3. Bank A/c	Dr.	73,500	
To A's Capital A/c			60,333
To A's Capital A/c			13,417
(Cash brought in by the continuing partners).			

WORKING NOTES:**1. Revaluation Profit**

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

A's Share Rs. $1,35,000 \times 5/10 = \text{Rs. } 67,500$.

2. Gaining Ratio

B : $2/3 - 3/10 = 11/30$

C : $1/3 - 2/10 = 4/30$

Gaining Ratio : B : C
 11 : 4

3. Total Capital

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

PROBLEM NO: 11**1. Journal Entries**

			Rs.	Rs.
1.	Land and Building To Revaluation A/c	Dr.	2,00,000	2,00,000
2.	Revaluation A/c To Plants and Machinery	Dr.	46,500	46,500

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

2.

Capital Accounts of partners

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

WORKING NOTES:

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

Pathak : Quereshi : Ranjeet

Pathak : Ranjeet

Old Ratio 7/15 : 5/15 : 3/15 New Ratio 7/10 : 3/10

Gain of Pathak New Ratio - Old Ratio

$$\frac{7}{10} - \frac{7}{15}$$

$$\frac{(105 - 70)}{150}$$

$$\frac{35}{150}$$

Gain of Ranjeet $\frac{3}{10} - \frac{3}{15} = \frac{(45 - 30)}{150} = \frac{15}{150}$

Gaining Ratio = 35 : 15 = 7 : 3

(iii)

Liabilities	Amount	Assets	Amount
Sundry Creditors	6,00,000	Cash and Bank	17,84,000
Capital Accounts:		Sundry Debtors	4,00,000
Avinash	27,50,000	Stock	8,00,000
Chinmoy Ltd.	17,50,000	Furniture	2,66,000
Ghanashyam	15,00,000	Plant	8,50,000
		Land & Building	<u>25,00,000</u>
	<u>66,00,000</u>		<u>66,00,000</u>

WORKING NOTES:**(Rs. in thousands)****1. Adjustment of goodwill on retirement**Value of Goodwill = $(450 + 250 + 600 + 700) \times \frac{3}{4}$ = 1,500Share of Basuda Ltd. = $1,500 \times \frac{4}{15}$ = 400

Adjustment through partner's Capital Account.

Avinash: $\frac{1}{4} \times 400$ = 100 (Dr.)Basuda Ltd.: $\frac{4}{15} \times 1500$ = 400 (Cr.)Chinmoy Ltd. : $\frac{3}{4} \times 400$ = 300 (Dr.)**2. Closing balances of capital accounts****A** adjusted old Capital of Continuing partners 4,500**B** total Capital of New Firm = Adjusted Old Ratio + Incoming Partner's Capital. $X = 4,500 + 25\% \text{ of } X$ $(\frac{3}{4})X$ = 4,500 $X = 4,500 \times \frac{4}{3}$ = 6,000**C** New Capital of Partners: Avinash = $\text{Rs. } 6,000 \times \frac{11}{24}$ = Rs. 2,750Chinmoy = $\text{Rs. } 6,000 \times \frac{7}{24}$ = Rs. 1,750Ghanashyam = $\text{Rs. } 6,000 \times \frac{6}{24}$ = Rs. 1,500**3. Adjustment of goodwill on admission:**

Goodwill of the firm = 1,500

Total Share of Ghanashyam = $1,500 \times \frac{1}{4}$ = 375.Goodwill to be brought in share purchased in by Ghanashyam = $375 \times \frac{1}{2}$ = 187.5Amount to be Brought in by Ghanashyam = $750 + 187.5$ = 937.50**(a)** Gift by Avinash = $\frac{1}{2} \times 375$ = 187.5

(included in the gift of 750 – See W.N. (ii))

(b) Purchase From Avinash and Chinmoy Ltd. = 187.5

(2:1 Ratio)

Thus, Adjustment of goodwill purchased through Capital Accounts.

Avinash: 187.5 = 125 (Cr.)

Chinmoy Ltd.: 187.5 = 62.5 (Cr.)

Ghanashyam: 375 = 187.5 (Dr.)

4. Amount Brought in by partners

Particulars	Avinash	Basuda	Chinmoy	Ghana-shyam	Particulars	Avinash	Basuda	Chinmoy	Ghana-shyam
To Basuda Ltd.	100	-	300	-	By balance bld	2,700	1,200	600	-
To Ghanashyam	750	-	-	-	By Avinash and chinmoy Ltd.	-	400	-	-
To Avinash and Chinmoy Ltd.	-	-	-	187.5	By Bank A/c	400	-	1,200	-
To Cash & bank	-	1,600	-	-	By Cash & Bank (b.f)	375	-	187.5	937.5
To balance C/d	2,750	-	1,750	1,500	By Avinash	-	-	-	750
	—	—	—	—	By Ghanashyam	125	-	62.5	-
	<u>3,600</u>	<u>1,600</u>	<u>2,050</u>	<u>1,687.5</u>		<u>3,600</u>	<u>1,600</u>	<u>2,050</u>	<u>1,687.5</u>

5. CASH AND BANK

Particulars	Amount (Rs.)
Amount given	284
Amount brought in by partners	<u>3,100</u>
	3,384
Less: payment to basuda Ltd.	<u>(1,600)</u>
	1748
Net increase = 1,500 (equivalent to the value of goodwill)	

PROBLEM NO: 13

Trading and Profit and Loss A/c
For the year ended 31st March, 2015

	Rs.		Rs.	
Sales				1,20,000
Less: Cost of goods sold:				
Opening Stock		15,500		
Purchase		<u>84,000</u>		
		<u>99,500</u>		
Less: Closing stock		<u>(18,550)</u>		(80,950)
Gross Profit				<u>39,050</u>
	Half year to 30 th September 2014		Half year to 31 st March 2015	
	Rs.	Rs.	Rs.	Rs.
Gross profit allocated on time basis		19,525		19,525
Less: Expenses				
Salaries (W.N.1)	6,750		<u>5,250</u>	
Travelling expenses	400		<u>400</u>	
Office maintenance	600		<u>600</u>	
Conveyance	250		<u>250</u>	
Trade expenses (W.N.2)	625		625	
Rent and rates (W.N.3)	1200		1,200	
Bad debts	500		400	
Provision for doubtful debts	-		270	
Depreciation:				
Plant and machinery	1,100		1,100	
Motor vehicles	1,500		1,500	

Interest on loan (WN-4)	-	(12,925)		(13,233)
		6,600		6,292
Appropriation of profits:				
Remaining profits				
A and B (2:1)	4,400		3,775	
B and C (3:2)	2,200	6,600	2,517	6,292

Partner's Capital Accounts

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

Balance Sheet

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

Working Notes:

	Particulars	(Rs.)	(Rs.)
1. Salaries			
	Total as per trial balance		18,000
	Less: Partner's Drawings- A	2,000	
	B	3,000	
	C	1,000	(1,000)
			12,000
	Less: C's Salary upto 30.09.2014		1,500
			10,500
		Upto	Upto
		30.09.2014	31.03.2015
	Allocation on time basis	5,250	5,250
	Add: C's salary upto 30.09.2014	1,500	0
		6,750	5,250
2. Trade Expenses			
	Total as per trial balance		1,000
	Add: Accrual		250
	Allocation: on time basis (50:50)	625	625

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

Adjustment o A's share of Goodwill

Value of goodwill

Net entry for Goodwill

B's Capital account Dr. Rs.4,000

C's Capital account Dr. Rs 6,000

To A's Capital account Rs. 10,000

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

PROBLEM NO: 14

			Rs.	Rs.
			Dr.	Dr.
1.	Building Account Dr. To Revaluation Account (Being building appreciated)		11,000	11,000
2.	Revaluation Account Dr. To Furniture Account To Provision for Doubtful Debts Account (Being furniture depreciated by 10% and Provision for doubtful debts created @ 5% on Debtors)		3,500	2,500 1,000
3.	Revaluation Account Dr. To E's Capital Account To F's Capital Account To G's Capital Account (Being profit on revaluation transferred to capital accounts of partners)		7,500	3,750 2,250 1,500
4.	F's Capital Account Dr. G's Capital Account Dr. To E's Capital Account (Being adjustment for E's share of goodwill)		10,000 15,000	25,000
5.	Bank Account Dr. To F's Capital Account To G's Capital Account (Being fresh capital introduced by F and G)		45,000	10,000 35,000
6.	E's Capital Account Dr. To Bank Account To E's Loan Account (Being settlement of E's capital on his retirement)		78,750	45,000 33,750
7.	E's Loan Account Dr. To H's Capital Account (Transfer of E's Loan Account H's Capital Account)		33,750	33,750

8.	H's Capital Account To F's Capital Account To G's Capital Account (Being adjustment entry passed for H's share of goodwill)	Dr.	12,500	6,250 6,250
----	--	-----	--------	----------------

Partner's Capital Accounts

	E Rs.	F Rs.	G Rs.	H Rs.		E Rs.	F Rs.	G Rs.	H Rs.
To E (Goodwill)		10,000	15,000		By Balance b/d	50,000	40,000	28,000	
To Bank	45,000				By Revaluation A/c	3,750	2,250	1,500	
To E's Loan A/c	33,750				By F (Goodwill)	10,000			
To Balance c/d		42,250	49,500		By G (Goodwill)	15,000			
					By Bank (fresh capital)		10,000	35,000	
	<u>78,750</u>	<u>52,250</u>	<u>64,500</u>			<u>78,750</u>	<u>52,250</u>	<u>64,500</u>	
To F (Goodwill)				6,250	By Balance b/d		42,250	49,500	
To G (Goodwill)				6,250	By E's Loan A/c				33,750
To Balance c/d		<u>48,500</u>	<u>55,750</u>	<u>21,250</u>	By H (goodwill)		<u>6,250</u>	<u>6,250</u>	
		<u>48,500</u>	<u>55,750</u>	<u>33,750</u>			<u>48,500</u>	<u>55,750</u>	<u>33,750</u>

WORKING NOTES:

1. Calculation of gaining ratio

Partners	New ratio	Old ratio	Gain	Sacrifice
E		$\frac{5}{10}$		$\frac{5}{10}$
F	$\frac{1}{2}$	$\frac{3}{10}$	$\frac{1}{2} - \frac{3}{10} = \frac{2}{10}$	
G	$\frac{1}{2}$	$\frac{2}{10}$	$\frac{1}{2} - \frac{2}{10} = \frac{3}{10}$	

Hence, ratio of gain between F and G = 2:3

2. Value of total goodwill of the firm = Rs. 25,000 x 2 = Rs. 50,000

$$\text{E's share} = \text{Rs. } 50,000 \times \frac{5}{10} = \text{Rs. } 25,000$$

$$\text{F will bear} = \text{Rs. } 25,000 \times \frac{2}{15} = \text{Rs. } 10,000$$

$$\text{G will bear} = \text{Rs. } 25,000 \times \frac{3}{5} = \text{Rs. } 15,000$$

3. H's share of goodwill = Rs. 50,000 x $\frac{1}{4}$ = Rs. 12,500

F and G share equal profits. Therefore, their sacrificing ratio will also be equal

Hence, each of them will be credited with Rs. 6,250

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PROBLEM NO: 15

In the books of the Firm
Revaluation Account

Dr.

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.12.97	To Plant A/c	2,000	31.12.97	By Premises A/c	30,000
	To Stock A/c	8,200			
	To Provision for doubtful debts A/c	3,000			

	To Partners' Current A/cs:			
	(A---Rs 8,400; B---Rs. 5,600; C---Rs. 2,800)	16,800		
		30,000		30,000

Partner's Capital Accounts

Dr.

Cr.

Particulars	A	B	C	D	Particulars	A	B	C	D
To Goodwill A/c	18,000	12,000	----	12,000	By Balance b/d	85,000	65,000	35,000	----
To C Loan A/c	----	----	42,000	----	By Goodwill A/c	21,000	14,000	7,000	----
To Bank A/c	21,000	----	----	----	By Bank A/c	----	----	----	79,000
To Balance c/d	67,000	67,000	----	67,000					
	1,06,000	79,000	42,000	79,000		1,06,000	79,000	42,000	79,000

Partner's Current Accounts

Dr.

Cr.

Particulars	A	B	C	D	Particulars	A	B	C	D
To Balance b/d	----	2,509	----	----	By Balance b/d	3,714	----	4,678	----
To C Loan A/c	----	----	7,478	----	By Revaluation A/c	8,400	5,600	2,800	----
To Bank A/c	9,023	----	----	----	By Bank A/c	----	----	----	3,091
To Balance c/d	3,091	3,091	----	3,091					
	12,114	5,600	7,478	3,091		12,114	5,600	5,600	3,091

C Loan Account

Dr.

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.12.97	To Vehicles A/c	3,900	31.12.97	By Balance b/d	28,000
31.12.97	To Bank A/c (balancing figure)	53,578	31.12.97	By C Capital A/c	42,000
31.12.97	To Balance c/d	20,000	31.12.97	By C Current A/c	7,478
		77,478			77,478

Bank Account

Dr.

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.12.97	To D Capital A/c	79,000	31.12.97	By Balance b/d	4,200
31.12.97	To D Current A/c	3,091	31.12.97	By C Loan A/c	53,578
31.12.97	To Balance c/d	5,710	31.12.97	By A Capital A/c	21,000
			31.12.97	By A Current A/c	9,023
		87,801			87,801

Balance Sheet of the New Firm as at 1.1.1998

Dr.

Cr.

Liabilities	Rs.	Assets	Rs.
Capital A/cs:		Premises	1,20,000
(A --Rs. 67,000; B -- Rs 67,000; D--Rs.67,000)	2,01,000	Plant	35,000
Current A/cs:		Vehicles	11,100
(A – Rs 3,091; B – Rs. 3,091)	9,273	Fixtures	2,000
Loan ---C	20,000	Stock	54,179
Creditors	19,036	Debtors	34,000
Bank overdraft	5,710	Less: Provision for Bad Debts	3,000
		Cash	760
	2,55,019		2,55,019

Tutorial Note: Revaluation profit will increase partner's permanent capital in the firm. Therefore, such profit is credited to Partners' Capital Account but in this problem, it has been agreed by the partners to adjust it in the Current Account.

PROBLEM NO:16

	Rs.
(a) Profit after Depreciation	40,500
Add : Depreciation	9,500
Profit before Depreciation	50,000
(b) Profit for the 1st half (assumed : evenly spread)	25,000
Less : Depreciation with respect to 1st half	(5,000)
Post Depreciation profit	20,000
(c) Profit for the 2nd half	25,000
Less : Depreciation for the 2nd half	(4,500)
2nd half profit after Depreciation	20,500
(d) Profit and Loss Appropriation A/c (for the first half)	
Dr.	Cr.
	Rs.
To Interest on Mohan's Capital (30,000 × 25% for 6 months)	3,750
To Rohan	8,125
To Sohan	8,125
	<u>16,250</u>
	<u>20,000</u>
	By Profit
	20,000
	<u>20,000</u>

(e) Capital Account as on 1-7-2014							
	Rohan	Sohan	Mohan		Rohan	Sohan	Mohan
To Revaluation Loss of Fixed Assets	4,000	4,000	2,000	By Balance b/d	50,000	40,000	30,000
To Drawings	4,125	4,125	1,750	By Reserves			
To Mohan	5,000	5,000	-	By Rohan & Sohan (goodwill adj.)	4,000	4,000	2,000
To Executor's A/c	-	-	42,000	By Profit and Loss Appn. A/c	-	-	10,000
To Balance c/d	49,000	39,000	-		8,125	8,125	3,750
	<u>62,125</u>	<u>52,125</u>	<u>45,750</u>		<u>62,125</u>	<u>52,125</u>	<u>45,750</u>

(f) Application of Section 37 of the Partnership Act
Either

(i) Interest of 42,000 × 6/100 × 6/12 = Rs. 1,260

Or

(ii) Profit earned out of unsettled capital

$20,500 \times 42000 / (49,000 + 39,000 + 42,000) = \text{Rs. } 6,623$

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(g) In the absence of specific agreement amongst partners on the above subject matter, the representatives of the deceased partner can receive at their option, interest at the rate of 6% p.a. or the share of profit earned for the amount due to the deceased partner.

In the above case, it would be rational to assume that the representatives would opt for Rs. 6,623.

(h) Profit and Loss Appropriation A/c for the second half

Dr.

Cr.

		Rs.		Rs.
To Executors A/c		6,623	By Net Profit	20,500
To Rohan				
To Sohan	6,938	<u>13,877</u>		
	<u>6,939</u>	<u>20,500</u>		<u>20,500</u>

(i) Capital Accounts as on 31-12-2014

Dr.

Cr.

Particulars	Rohan	Sohan	Particulars	Rohan	Sohan
To Drawings	5,000	5,000	By Balance b/d	49,000	39,000
To Balance c/d	50,938	40,939	By Profit & Loss Appn. A/c	6,938	6,939
	<u>55,938</u>	<u>45,939</u>		<u>55,938</u>	<u>45,939</u>

(j) Executors Account

Dr.

Cr.

Particulars	Rohan	Particulars	Sohan
To Bank	48,623	By Mohan's Capital A/c	42,000
		By Profit & Loss Appn. A/c	6,623
	<u>48,623</u>		<u>48,623</u>

(k) Balance Sheet as on 31-12-2014

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Accounts			Fixed Assets	1,00,000	
Rohan	50,938		Less : Written down	<u>(10,000)</u>	
Sohan	<u>40,939</u>	91,877		90,000	
Trade Payables		35,000	Less : Depreciation	<u>(9,500)</u>	80,500
			Trade Receivables		19,000
			Inventory		23,000
			Cash and Bank		4,377
		<u>1,26,877</u>			<u>1,26,877</u>

PROBLEM NO: 17

Revaluation Account

Dr.

Cr.

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

P's Capital Account

Dr.

Cr.

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

P's Heir Account

Dr.

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.08.2012	To Bank A/c	5,00,000	31.08.2012	By P's Capital A/c	11,00,000
31.03.2013	To Bank A/c	6,42,000	31.03.2013	By Interest A/c (6,00,000x12%x(7/12))	42,000
		11,42,000			11,42,000

WORKING NOTES:

1. Calculation of gaining ratio of Partners Q and R

	New Share	Old share	Gaining share	Sacrificing share
P		5/10		5/10
Q	3/5	3/10	$3/5 - 3/10 = 6 - 3/10 = 3/10$	
R	2/5	2/10	$2/5 - 2/10 = 4 - 2/10 = 2/10$	

2. Calculation of Goodwill

	Rs.
2009-10	2,90,000
2010-11	3,40,000
2011-12	3,60,000
	<u>9,90,000</u>

Average Profit = $9,90,000/3 = \text{Rs. } 3,30,000$ Goodwill = $3,30,000 \times 2 = \text{Rs. } 6,60,000$ Share of P in goodwill = $6,60,000 \times 5/10 = \text{Rs. } 3,30,000$

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

Q's capital A/c ($3,30,000 \times 3/5$)	Rs. 1,98,000
R's capital A/c ($3,30,000 \times 2/5$)	Rs. 1,32,000

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

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

Profit for year 2011-12 = Rs. 3,60,000

Estimated profit for 5 months = $3,60,000 \times 5/12 = \text{Rs. } 1,50,000$ Share of P = $1,50,000 \times 5/10 = \text{Rs. } 75,000$ **THE END**