SAMPLE CONTENT

SMART NOTES

Based on Latest Paper Pattern and Textbook

Std. XII

Book Keeping and Accountancy

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SMART NOTES

BOOK-KEEPING & ACCOUNTANCY

S.Y.J.C.

MAHARASHTRA STATE BOARD

(As per the latest textbook published by Maharashtra State Bureau of Textbook Production and Curriculum Research, Pune.)

Salient Features:

- Written as per **Latest Board Paper Pattern**
- Exhaustive coverage of theory
- A variety of Objective Questions covered through Board, Textual and Non textual questions
- Includes all the solved examples and practice sums of textbook
  - Type-wise bifurcation of sums for systematic study
  - Ample sums provided for additional practice
  - 'Higher Order Thinking Sums (HOTS)' provided to challenge students
  - Final answers for all questions provided at the end of the book
- Includes Previous Years' Board Questions:
  - Relevant board questions covered from March 2014 to July 2023
  - Board Question Paper of March 2024
- Q.R. codes provide:
  - Illustrative solved examples for conceptual clarity
  - Solution to Board Question Paper of March 2024
  - Answers to Chapter Assessment

Sample Content

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PREFACE

'Smart Notes Book-Keeping & Accountancy' is a book curated to facilitate learning and instil conceptual understanding within students. This treasure trove of knowledge fosters robust conceptual clarity and inspires confidence within the nimble mind of young learners.

This book is a 'question book' developed with a view to enable students to get enough practice. It covers the theory of each chapter in detail to enable the students to understand each concept of the chapter in greater depth. The book not only covers the problems given in the textbook but also provides ample sums for practice. The additional sums are on par with the sums given in the textbook.

Questions from previous board exams from March 2014 to July 2023 relevant to the current syllabus have been included in each chapter in a separate section to add to the students' confidence. The 'illustrative solved example' provides the students with a deeper understanding of how to solve a problem step by step. 'Higher Order Thinking Sums (HOTS)' gives the students an opportunity to challenge themselves. The 'final solution' for all sums is provided at the end of the book for a quick reference.

The journey to create a complete book is strewn with triumphs, failures and near misses. If you think we've nearly missed something or want to applaud us for our triumphs, we'd love to hear from you.

Please write to us at : **mail@targetpublications.org**

From,
Publisher

Edition: Sixth

Sample Content

Disclaimer

This reference book is transformative work based on latest Textbook of Std. XII Book - Keeping & Accountancy published by the Maharashtra State Bureau of Textbook Production and Curriculum Research, Pune. We the publishers are making this reference book which constitutes as fair use of textual contents which are transformed by adding and elaborating, with a view to simplify the same to enable the students to understand, memorize and reproduce the same in examinations.

This work is purely inspired upon the course work as prescribed by the Maharashtra State Bureau of Textbook Production and Curriculum Research, Pune. Every care has been taken in the publication of this reference book by the Authors while creating the contents. The Authors and the Publishers shall not be responsible for any loss or damages caused to any person on account of errors or omissions which might have crept in or disagreement of any third party on the point of view expressed in the reference book.

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Why to study Book-Keeping & Accoutancy?

Apart from the basic objective of doing well in your exams, there are various reasons for studying Book Keeping & Accountancy (BK):

1. BK is the fundamental subject of commerce. Most courses of commerce have BK as one of the primary subjects.
2. Finance is the core of any business. It is difficult to understand finance without the basic knowledge of accounts.
3. All organizations have to regularly maintain books of accounts and file income tax returns. All these organizations require qualified accountants to finalize their books of accounts.
4. Accounts is required everywhere from household budget to national budget.

How to study from this book ?

1. It is advisable that you begin by reading the theory of the chapter. This will help you understand the basics and aid in solving sums.
2. We have placed illustrative solved examples at specific places in the chapter. These illustrative examples can be downloaded by scanning the QR code beside them. The illustrative examples will give you a good idea about solving a sum.
3. You can then proceed to solve "textbook problems". All problems in the book have been arranged type-wise (as per the adjustments) to help you learn the chapter gradually step-by-step.
4. Solving the "homework problems" will help you gain perfection in solving sums.
5. Finally, gain the required confidence for your exams by solving previously asked board questions.
6. Quickly study all the objectives, which you will now be able to solve or answer easily considering you have fair knowledge of the entire chapter.

   You are now ready to go to the next level ☺

Sample Content

KEY FEATURES

Type-wise bifurcation of sums

This facilitates systematic study and enables the students to understand each concept thoroughly.

QR Codes

i. A number of illustrative examples are incorporated in this book through QR Codes for conceptual clarity.
ii. Solutions to Board Question Paper March 2024
iii. Answers to Chapter Assessment

HOTS

HOTS (Higher Order Thinking Sums) in all the relevant chapters give the students an opportunity to challenge themselves.

Board Questions & Papers

i. A separate section covering the sums asked in previous board exams from March 2014 to July 2023 has been incorporated in all the relevant chapters to give students a fair idea of their preparations.
ii. It also includes Board Question Paper of March 2024

Chapter Assessment

i. Chapter assessment is provided at the end of every chapter for self-evaluation.
ii. The answer key for the assessment is provided in the form of a QR Code.

Sample Content

PAPER PATTERN

Q. No.	Questions	Marks per Que.		Marks without option	Marks with option
1.	**From the following types of sub questions any 4 will be asked.**				
	A. Select the correct option and rewrite the sentence.	1	5		
	B. Give one word / Phrase / term.	1	5		
	C. State true or false with reasons.	2 ½	5		
	D. Find the odd one	1	5		
	E. Complete the sentences.	1	5	20	20
	F. Answer in one sentence only.	1	5		
	G. Do you agree or disagree with the following statements.	1	5		
	H. Calculate the following.	1	5		
	I. Give Specimen of Bill of Exchange	5	5		
	J. Complete the following table	1	5		
2.	**Solve any one from the following** Admission of a partner / Retirement of Partner Dissolution of Partnership firm/Bill of Exchange **(Any two problems will be asked)**		10	10	20
3.	**Solve any one from the following** Admission of a partner / Retirement of Partner Dissolution of Partnership firm/Bill of Exchange **(Any Two remaining problems from Q.2. will be asked)**		10	10	20
4.	**Solve any one from the following** Death of a partner / Issue of shares / Analysis of financial statements / Computer Accounting **(Any two problems will be asked)**		08	08	16
5.	**Solve any one from the following** Death of a partner / Issue of shares / Analysis of financial statements / Computer Accounting **(Any two remaining problems from Q.4. will be asked)**		08	08	16
6.	Problem On **'Not for Profit Concern'**		12	12	24
7.	Problem On **'Partnership Final Accounts'**		12	12	24
	Total			**80**	**116**

Sample Content

Division of Marks as per type of question

Sr.No.	Objectives	Marks	Marks With Option	Percentage
1	Objective	20	20	25%
2	Problems	60	96	75%
	Total	**80**	**116**	**100%**

Unit Wise Weightage

<table>
<tr><th rowspan="2">Sr. No.</th><th rowspan="2">Unit/sub-units</th><th colspan="2">Marks</th><th colspan="2">Marks</th></tr>
<tr><th>Problem</th><th>Objective</th><th>Problem</th><th>Objective</th></tr>
<tr><td>1</td><td>Introduction to Partnership and Partnership Final Accounts</td><td>12</td><td>04</td><td>12</td><td>04</td></tr>
<tr><td>2</td><td>Accounts of ‘Not for Profit’ Concerns</td><td>12</td><td>04</td><td>12</td><td>04</td></tr>
<tr><td>3</td><td>Reconstitution of Partnership (Admission of Partner)</td><td rowspan="4">20</td><td>02</td><td rowspan="4">40</td><td>02</td></tr>
<tr><td>4</td><td>Reconstitution of Partnership (Retirement of Partner)</td><td>02</td><td>02</td></tr>
<tr><td>5</td><td>Dissolution of Partnership Firm</td><td>02</td><td>02</td></tr>
<tr><td>6</td><td>Bills of Exchange</td><td>02</td><td>02</td></tr>
<tr><td>7</td><td>Reconstitution of Partnership (Death of Partner)</td><td rowspan="4">16</td><td>01</td><td rowspan="4">32</td><td>01</td></tr>
<tr><td>8</td><td>Company Accounts - Issue of Shares</td><td>01</td><td>01</td></tr>
<tr><td>9</td><td>Analysis of Financial Statements</td><td>01</td><td>01</td></tr>
<tr><td>10</td><td>Computer In Accounting</td><td>01</td><td>01</td></tr>
<tr><td></td><td>Total</td><td>60</td><td>20</td><td>96</td><td>20</td></tr>
<tr><td></td><td>Grand Total</td><td colspan="2">80</td><td colspan="2">116</td></tr>
</table>

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Note: i. Questions marked with (S) represent solved problems of textbook.

ii. Questions marked with (P) represent practice problems of textbook.

iii. All objective questions from the textbook are represented by (T) mark.

iv. The sums in the textbook are in a certain order. However, in order to enable the students to study the chapter in a systematic step-by-step manner, we have rearranged the sums type-wise on the basis of adjustments. A table for the same is provided at the start of some chapters. Therefore, the order of sums in textbook and this book for some chapters will not match.

Scan the adjacent QR Code to know more about our ***"Supplementary Questions Book"*** for Std. XII (Comm). Get sufficient practice of all objective questions across all subjects.

Sample Content

Sample Content

4 Reconstitution of Partnership (Retirement of Partner)

Sr. No.	Problem Type	Textual problems Section Q. No.	Homework problems Section Q. No.
1.	Goodwill raised and retained in business	Q. 1 to Q. 3	Q. 1, 2
2.	Goodwill raised to the extent of retiring partner's share and then written off	Q. 4, 5	Q. 3 to Q. 6
3.	Goodwill raised and written off	Q. 6, 7	Q. 7, 8
4.	Goodwill already existing in Balance Sheet	Q. 8, 9	Q. 9, 10
5.	Journal Entries	Q. 10, 11	Q. 11, 12
6.	Adjustment of capital	Q. 12	Q. 13
7.	Profit and Loss Suspense A/c		Q. 14

Introduction and Meaning

When one member ceases to be a partner and the remaining partners continue to carry on the business of the firm it is called as Retirement of a Partner. Partner may retire from the business due to old age, misunderstandings amongst the partners, loss in business or want to start new business venture etc.

Retirement of Partner is one of the modes of reconstitution of partnership. The new partnership business will continue with the remaining partners and the retiring partner will get the amount payable to him. The amount payable is derived after considering net balance of Capital and Current Account, his share of Profit or Loss on revaluation of assets and liabilities, his share of accumulated profit, goodwill etc.

A partner may retire :

1. By giving notice to remaining partners in the case of partnership at will
2. In accordance with the agreement by the partners
3. With the consent of all partners.

New and Gain Ratio

New ratio is the ratio in which the continuing partners decide to share the future profits and losses of the firm.

[Note: Please scan the given QR code *in Quill - The Padhai App* to go through the Illustrative Example of calculation of new ratio.**]**

Gain ratio is the ratio in which the continuing partners acquire the retiring partner's share. It is normally used to write off goodwill created or raised to the extent of retiring partner's share.

Gain ratio = New ratio – Old ratio

[Note: Please scan the given QR code *in Quill - The Padhai App* to go through the Illustrative Example of calculation of gain ratio.**]**

Note : If the old ratio and the new ratio is of the continuing partners is same, then their gain ratio is also same as their profit sharing ratio.

[Note: Please scan the given QR code *in Quill - The Padhai App* to go through the Illustrative Example of calculation of gain ratio if old ratio and new ratio is same.**]**

Sample Content

Treatment of Goodwill

Sr. No.	Transaction	Journal Entry
1	When goodwill of the entire firm is raised and retained in the business.	Goodwill A/c Dr. To All Partner's Capital A/c (old profit sharing ratio) Goodwill will appear in new Balance Sheet.
2	When goodwill of entire firm is raised and then written off	When goodwill is raised Goodwill A/c Dr. To All Partners' Capital A/c (Old Profit sharing ratio) When goodwill is written off Continuing Partner's Capital A/c Dr. (New profit sharing ratio) To Goodwill A/c Goodwill will not appear in New Balance Sheet.
3	When goodwill is raised to the extent of retiring partner's share and retained in business.	Goodwill A/c Dr. To Retiring Partners' Capital A/c Goodwill will appear in New Balance Sheet to that extent.
4	When goodwill is raised to the extent of retiring partner's share and then written off	Goodwill A/c Dr. To Retiring Partner's Capital A/c Continuing Partner's Capital A/c Dr. To Goodwill A/c (Gain ratio) Goodwill will not appear in New Balance Sheet
5	In case goodwill already appears in the old Balance Sheet.	The difference in goodwill amount (Current valuation of goodwill – Value of goodwill in Balance Sheet) can be shown either in Profit and Loss adjustment account/ Revaluation A/c in Old Ratio or in Partner's Capital / Current Account.

Transfer of Reserve Fund or General Reserve / Accumulated Profit or Loss

On Retirement of a partner any reserve, accumulated profit / loss is transferred to All Partners' Capital or Current A/c in their profit sharing ratio. Alternatively, share of only retiring partner can be transferred to his Capital / Current A/c. This is based on the instructions given in the problem.

1. If any type of reserve / accumulated profit is transferred, the entry will be :
   All types of Reserves / Accumulated profits A/c Dr.
   To Partner's Capital / Current A/c
   (Being balance transfer to all partners including retiring partner in their profit sharing ratio)

2. If any accumulated loss appearing on asset side of the Balance Sheet is transferred to all partners in their profit sharing ratio, the entry will be:
   All Partners Capital / Current A/c Dr.
   To Profit and Loss A/c
   (Being accumulated loss debited to all Partner's Capital / Current A/c)

Revaluation of Assets and re-assessment of liabilities

Similar to admission of a partner, assets and liabilities are revalued at the time of retirement of a partner as well. The benefit as well as the loss of revaluation will have to be enjoyed / suffered by all the partners including retiring partner. To show the changes in the value of assets and liabilities, Revaluation Account is opened. After recording all the effects of revaluation of assets and liabilities, the balance appearing in the account is transferred to Partners' Capital Account in their existing profit sharing ratio.

Sample Content

[**Note :** *The journal entries on revaluation of assets and liabilities on retirement of a partner are exactly similar to the journal entries on revaluation of assets and liabilities at the time of admission of a partner. Please refer to previous topic for the same.*]

Adjustment of Capital

On retirement of a partner, continuing partners may decide to adjust their capital in the new profit sharing ratio. In such cases, they may have to bring in or withdraw some amount. In order to find out, the amount to be brought in or withdrawn, following steps are to be undertaken :

1. The total capital of the firm is divided among the partners in their new profit sharing ratio.
2. New capital balance is then compared with the latest capital balance of each partner.
3. Surplus or deficit in individual Capital A/c is calculated.
4. Such surplus may be withdrawn by the partner. Alternatively it can be transferred to Current A/c or Loan A/c. Similarly if there is any deficit, it may be brought in by the partner or transferred to Current A/c or Loan A/c.

Sr. No.	Transaction	Journal Entry
1	If surplus is paid back to continuing partners	Continuing Partners Capital A/c Dr. To Cash / Bank A/c
2	If surplus on capital account is not paid but transferred to Loan Account or Current Account.	Continuing Partners Capital A/c Dr. To Continuing Partner's Current / Loan A/c
3	If continuing partner brings cash towards his deficiency in the capital account	Cash / Bank A/c Dr. To Continuing Partner's Capital A/c
4	If deficit is transferred to Loan Account or Current Account	Continuing Partners Current / Loan A/c Dr. To Continuing Partners Capital A/c

[Note: Please scan the given QR code *in Quill - The Padhai App* to go through the Illustrative Example of capital is in new ratio.]

Ascertainment of Retiring Partner's share of profit on retirement

A partner may retire on any day during the year from the firm. It is necessary to calculate the share of profit / loss of the retiring partner prior to his retirement. This profit or loss is calculated on the basis of the estimated profit which can be last year's profit or average profit of last number of years or any other method as determined. Profit for the current year upto the date of retirement (i.e. From 1st day to date of retirement of the partner) is calculated. On the basis of this profit, proportionate share of retiring partner's profit is transferred to his Current / Capital A/c. Following are the journal entries drafted in the books of the firm :

1. Transfer of profit to Retiring Partners' Capital / Current A/c
   Profit and Loss Suspense A/c Dr.
   To Retiring Partners' Capital / Current A/c
2. Transfer of loss to Retiring Partners' Capital / Current A/c
   Retiring Partners' Capital / Current A/c Dr.
   To Profit and Loss Suspense A/c

Total payable amount to retiring partner

There are different ways by which total amount payable to retiring partner is paid or recorded in the books of accounts. Below is the accounting treatment of various ways :

Sr. No.	Transaction	Journal Entry
1	Lumpsum: The entire amount payable to retiring partner is paid in one installment at a time.	Retiring Partner's Capital A/c Dr. To Cash / Bank A/c

Sample Content

2 (A)	Installment: The amount due to retiring partner is transferred to Loan A/c.	Retiring Partner's Capital A/c Dr. To Retiring Partner's Loan A/c.
2 (B)	When interest is charged on Loan Account.	Interest A/c Dr. To Retiring Partner's Loan A/c
2 (C)	When interest paid in cash.	Retiring Partner's Loan A/c Dr. To Bank A/c
3.	If the total amount due to retiring Partner is transferred to loan account.	Retiring Partner's Capital A/c Dr. To Retiring Partner's Loan A/c
4.	If amount due to retiring partner is partly paid in cash and balance due transferred to Loan Account.	Retiring Partner's Capital A/c Dr. To Cash/ Bank A/c To Retiring Partner's Loan A/c

In order to solve a sum of retirement of partner, you may follow the following steps :

1. Bring down the balances of Partners' Capital and Cash / Bank Account.
2. Transfer the balance of accumulated profits / losses given in balance sheet to the Partners' Capital / Current Account unless specific instruction is given in question.
3. Calculate gain ratio if goodwill is to be raised to the extent of retiring Partner's share and written off. Calculate gain ratio only if new ratio and old ratio is different. Otherwise the new ratio is the gain ratio.
4. Start giving effects to adjustments. Do remember that adjustments are to be given two effects. So give two effects simultaneously.
5. Close Profit and Loss Adjustment A/c. Transfer profit / loss to Partners' Capital / Current Account.
6. Calculate new capital required if adjustment of capital is asked in question. Adjust the balance capital through Cash / Bank Account. In such case, write "To balance c/d" as required figure and amount to be brought / withdrawn to adjust the capital will be balancing figure.
7. Close Partners' Capital Account.
8. Close Cash Account.
9. Bring down Balance Sheet items of old Balance Sheet which are untouched at the same value. The Balance Sheet should tally.

[Note: Please scan the given QR code *in Quill - The Padhai App* to go through the Illustrative Example Retirement of partner.**]**

Textual Problems

Goodwill raised and retained in business

Q.1. Given below is a Balance Sheet of Raja, Rani and Pradhan who were partners in a firm sharing profits and losses in the ratio 5:3:2. Their Balance Sheet as on 31st March, 2019 was as follows: (S)

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	11,200	Cash	7,600
Bank Overdraft	9,700	Debtors	18,000
Reserve Fund	15,000	Stock	17,500
Capital A/c:		Machinery	30,000
Raja	42,000	Land	70,000
Rani	37,000	Furniture	5,000
Pradhan	33,200		
	1,48,100		**1,48,100**

On 1st April, 2019 Pradhan retired on the following terms:

i. Goodwill of the firm will be raised in the Books at ₹ 20,000.
ii. Stock be reduced by 10 % and Furniture by 5% and Machinery by 11%.
iii. R.B.D.D. be maintained at 5% on Debtors.
iv. ₹ 200 to be written off from Creditors.
v. Out of the amount due to Pradhan ₹ 5,000 to be paid by cash and remaining amount to be transferred to his loan account.

Prepare Profit and Loss Adjustment Account, Partners' Capital Account, Balance Sheet of new firm.

Q.2. Given below is the Balance Sheet of Vaishali, Madhuri, and Manasi who were sharing profit and losses in the ratio 3:3:3: (S)

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Creditors		10,500	Cash		19,500
Bank Overdraft		5,000	Debtors	16,000	
General Reserve		12,000	*Less : R.D.D.*	2,000	14,000
Capital A/c:			Furniture		15,000
Vaishali		28,700	Machinery		40,000
Madhuri		31,800	Motor car		25,000
Manasi		30,000	Profit and loss A/c		4,500
		1,18,000			**1,18,000**

Vaishali retired on 1st April, 2019 from the firm on the following terms:

i. Furniture be valued ₹ 14,000, Machinery at ₹ 38,000 and Motor car ₹ 23,800.
ii. R.D.D. be maintained at 5% on Debtors.
iii. Goodwill of the firm be valued at ₹ 15,000. However only Vaishali's share in it is to be raised in the Books.
iv. A part payment of ₹ 10,000 be made to Vaishali and the balance be transferred to her Loan Account.

Prepare: Profit and Loss Adjustment Account, Partners' Capital Account, Balance Sheet of new firm.

Q.3. The Balance Sheet of Mr. Mama, Mr. Kaka and Mr. Baba who shared profit and losses as 4:3:3 respectively is as under: (P)

Balance Sheet as on 31st March, 2018

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Suppliers		7,000	Cash		4,500
Loan		5,000	Sundry Debtors	5,000	
General Reserve		6,250	*Less: R.D.D.*	500	4,500
Capital A/c:			Live Stock		12,500
Mama		20,000	Motor Car		4,000
Kaka		15,000	Furniture		17,500
Baba		12,250	Plant		22,500
		65,500			**65,500**

Kaka retires on 1st April, 2018 on the following terms:

i. The share of Kaka in Goodwill of the firm is valued at ₹ 2,700.
ii. Furniture to be depreciated by 10% and Motor Car by 12.5%.
iii. Live Stock to be appreciated by 10% and Plant by 20%.
iv. A provision of ₹ 2,000 to be made for a claim of compensation.
v. R.D.D. is no longer necessary.
vi. The amount payable to Kaka should be transferred to his Loan A/c.

Prepare: Profit and Loss Adjustment Account, Capital Account of Partners, Balance Sheet of the new firm.

Sample content

Goodwill raised to the extent of retiring partner's share and then written off

Q.4. The Balance Sheet of Shyam Traders, Pune is as follows, partners share profit and losses as 5:2:3: (S)

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Plant and Machinery		32,000
Rambha		36,000	Building		40,000
Menka		32,000	Stock		20, 400
Urvashi		17,600	Debtors	16,800	
Creditors		20,000	*Less: R.D.D.*	800	16,000
Bill Payable		1,200	Bank		12,400
General Reserve		14,000			
		1,20,800			**1,20,800**

Menka retired from the business on 1st April, 2019 on the following terms. The assets were revalued as under:

i. Stock at ₹ 28,000.

ii. Building is appreciated by 10%.

iii. R.D.D. is to be increased upto ₹ 1,000.

iv. Plant and Machinery is to be depreciated by 10%.

v. The Goodwill of retiring partner is valued at ₹ 8,000 and the remaining partners decided that Goodwill be written back in their new profit sharing ratio which will be 5:3.

vi. Amount due to Menka is to be transferred to her Loan Account.

Prepare: Profit and Loss Adjustment Account, Capital Account of partners, Balance Sheet of new firm.

Q.5. Kale, Gore and Pandhare were partners sharing profit and losses in the ratio 3:3:2. Their Balance sheet as on 31st March, 2018 is as follows : (S)

Balance Sheet as on 31st March, 2018

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Building	10,000
Kale	11,000	Plant and Machinery	10,700
Gore	15,000	Live Stock	10,000
Pandhare	8,000	Debtors	5,000
Creditors	8,900	Stock	6,600
Bills Payable	2,000	Bank	6,600
Reserve Fund	4,000		
	48,900		**48,900**

On 1st April, 2018 Mr. Pandhare retired from the firm on the following terms:

i. Assets to be revalued as Stock ₹ 6,300, Plant and Machinery ₹ 10,000, Live Stock ₹10,200

ii. Goodwill of the firm is to be valued at ₹4,000, however only Pandhare's share in it is to be raised in the books and written off immediately.

iii. R.D.D. to be maintained at 10 % on debtors.

iv. ₹ 100 to be written off from Creditors.

v. The amount payable to Mr. Pandhare to be transferred to his loan account.

Prepare: Profit and Loss Adjustment Account, Partners Capital Account, Balance Sheet of new firm.

Sample content

Goodwill raised and written off

Q.6. The Balance Sheet of Ram, Shyam and Ghanshyam sharing profits and losses 3:2:1 respectively and their position on 31.03.2019 was as follows: **(P)**

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Bank	54,000
Ram	1,20,000	Debtors	90,000
Shyam	90,000	Building	60,000
Ghanshyam	60,000	Investment	1,50,000
Creditors	22,000		
Bills Payable	12,000		
Loan	50,000		
	3,54,000		**3,54,000**

Ghanshyam retired on 1st April, 2019 on the following terms:

i. Building and Investment to be appreciated by 5% and 10% respectively.
ii. Provision for Doubtful Debts to be created at 5% on Debtors.
iii. The provision of ₹ 3,000 be made in respect of Outstanding Salary.
iv. Goodwill of the firm is valued at ₹ 90,000 and partners decide that goodwill should be written back.
v. The amount payable to the retiring partner be transferred to his Loan A/c.

Prepare: Profit and Loss Adjustment Account, Partners Capital Account, Balance Sheet of new firm.

Q.7. Shah, Lodha and Dhole were partners sharing profits and losses in the ratio of 4:3:3. Their Balance Sheet as on 31st March, 2019 is a given below: **(P)**

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Sundry Creditors		20,000	Cash		9,000
Bills Payable		4,000	Sundry Debtors	10,000	
Capital A/c:			*Less: R.D.D.*	1,000	9,000
Shah		45,000	Furniture		25,000
Lodha		35,000	Computers		43,000
Dhole		27,000	Vehicles		45,000
		1,31,000			**1,31,000**

On 1st April, 2019, Mr. Lodha retired from the firm on the following terms:

i. Goodwill is to be valued at an average Profits and Losses of the last five years which were as follows:

Years	Profit/Loss
2015	₹ 35,000
2016	₹ 20,000
2017	₹ 30,000
2018	₹ 20,000
2019	₹ 25,000

ii. Computers to be depreciated by 10%.
iii. Furniture to be revalued at ₹ 27,500.
iv. Vehicles appreciated by 20%.
v. R.D.D. was no longer necessary.
vi. Shah and Dhole will share the future profits and losses in the ratio of 2:1.
vii. It was decided that goodwill should not appear in the books of a new firm and amount payable to Lodha is to be transferred to his Loan A/c.

Prepare: Profit and Loss Adjustment Account, Partners Capital Account, Balance sheet of new firm.

Sample Content

Goodwill already existing in Balance Sheet

Q.8. Following is the Balance Sheet of Anil, Sunil and Suresh who were sharing profit and losses equally: (S)

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Creditors		20,300	Bank		8,400
Bills Payable		10,600	Debtors	18,000	
General Reserve		13,500	*Less: R.D.D.*	900	17,100
Capital A/c:			Computer		17,500
Anil		43,600	Land and Building		70,000
Sunil		35,000	Machinery		10,000
Suresh		32,000	Furniture		20,000
			Goodwill		12,000
		1,55,000			**1,55,000**

On 1st April, 2019 Suresh retired from the firm on the following terms:

i. Land and Building be appreciated by 10% and Computer be reduced by ₹ 1,900.
ii. Debtors were all good and R.D.D. was no longer required.
iii. Machinery be revalued at ₹ 9,400.
iv. Goodwill of the firm be valued at ₹ 16,500.
v. Furniture was sold at ₹ 21,800 and part payment of ₹ 15,000 was made to Suresh by R.T.G.S. and balance was transferred to his Loan Account.

Prepare: Profit and Loss Adjustment Account, Partners Capital Account, Balance Sheet of Anil and Sunil.

Q.9. The Balance Sheet of the Anu, Renu and Dinu is as follows; the partners are sharing profits and losses in the proportion of 2:2:1 respectively. (P)

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Creditors		8,000	Bank		5,000
Bills Payable		2,000	Debtors	20,000	
General Reserve		5,000	*Less: R.D.D.*	1,000	19,000
Capital A/c:			Furniture		15,000
Anu		40,000	Machinery		4,000
Renu		30,000	Free hold Property		27,000
Dinu		15,000	Goodwill		30,000
		1,00,000			**1,00,000**

Dinu retires from the firm on 1st April, 2019 on the following terms:

i. The assets are to be revalued as freehold property ₹ 30,000, Machinery ₹ 5,000, Furniture ₹ 12,000, All debtors are good.
ii. Goodwill of the firm be valued at thrice the average profit for preceding five years. Profits of the firm for the years:

2014-15	₹ 14,500	2015-16	₹ 10,500	2016-17	₹ 10,000
2017-18	₹ 16,000	2018-19	₹ 10,000		

iii. Dinu should be paid ₹ 3,000 by cheque.
iv. The balance of Dinu's Capital A/c should be kept in the business as loan.

Prepare: Profit and Loss Adjustment Account, Capital Accounts of partners, Balance Sheet of the new firm.

Sample Content

Journal Entries

Q.10. Given below is the Balance Sheet of Jaya, Maya and Mamta, who were sharing profit and losses as 3:3:2. (S)

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	34,400	Bank	21,600
Bills Payable	9,200	Plant and Machinery	34,800
Capital A/c:		Debtors	50,000
Jaya	48,000	Live Stock	25,200
Maya	52,000	Equipments	16,000
Mamta	36,000	Investment	48,000
General Reserve	16,000		
	1,95,600		**1,95,600**

On 1st April, 2019 Mamta retired from the firm on the following terms:

i. Assets to be revalued as under:
Live Stock ₹ 24,000; Plant and Machinery ₹ 32,000, Equipments ₹ 16,800.

ii. An item of ₹ 400 from Creditors is no longer a liability and hence should be properly adjusted.

iii. Mr. Ram, our customer may or may not be able to pay his debts of ₹ 2,000.

iv. The amount due to Mamta be transferred to her Loan Account.

Pass necessary Journal Entries in the books of the firm.

Q.11. Rohan, Rohit and Sachin are partners in a firm sharing profit and losses in the proportion 3:1:1 respectively. Their Balance Sheet as on 31st March, 2018 is as shown below: (P)

Balance Sheet as on 31st March, 2018

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	40,000	Bank	12,500
General Reserve	50,000	Debtors	60,000
Bills Payable	25,000	Live Stock	50,000
Capital A/c:		Building	75,000
Rohan	1,25,000	Plant and Machinery	35,000
Rohit	1,00,000	Motor Truck	1,00,000
Sachin	50,000	Goodwill	57,500
	3,90,000		**3,90,000**

On 1st April, 2018 Sachin retired and the following adjustments have been agreed upon:

i. Goodwill was revalued at ₹ 50,000.

ii. Assets and Liabilities were revalued as follows:
Debtors ₹ 50,000; Live Stock, ₹ 45,000; Building ₹ 1,25,000; Plant and Machinery ₹ 30,000; Motor Truck ₹ 95,000 and Creditors ₹ 30,000.

iii. Rohan and Rohit contributed additional capital through Net Banking of ₹ 50,000 and ₹ 25,000 respectively.

iv. Balance of Sachin's Capital Account is transferred to his Loan Account.

Give Journal entries in the books of new firm.

Sample Content

Adjustment of capital

Q.12. Following is the Balance Sheet of the firm of Nana, Nani and Sona who share profits and losses in the ratio of their capital: **(S)**

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Machinery		20,000
Nana		50,000	Building		55,000
Nani		20,000	Stock		12,000
Sona		30,000	Debtors	12,000	
Creditors		10,000	*Less: R.D.D.*	1,000	11,000
Bills Payable		5,000	Cash		17,000
		1,15,000			**1,15,000**

Sona retires from the business on 1st April, 2019 and the following adjustments were agreed.

i. Stock is to be valued at 92% of its book value.
ii. R.D.D. is to be maintained at 10% on debtors.
iii. The value of Building is to be appreciated by 20%.
iv. The Goodwill of the firm be fixed at ₹ 12,000. Sona's share in the same be adjusted in the accounts of continuing partners in Gain Ratio.
v. The entire capital of the new firm be fixed at ₹ 1,60,000 between Nana and Nani in their new profit sharing ratio which is fixed at 3 : 1 making adjustment in Cash.
vi. Amount payable to Sona paid in cash.

Prepare: Revaluation Account, Partnership Capital Account, Balance Sheet as on 1st April, 2019.

Board Problems

Q.1. Given below is the Balance Sheet of Vaishali, Madhuri and Shobha, who were sharing profits and losses in the ratio of 3 : 3 : 2.

Balance Sheet as on 31st March, 2012

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	34,800	Cash	21,600
Bills Payable	8,800	Machinery	34,800
Capital A/c:		Debtors	50,000
Vaishali	48,000	Stock	25,200
Madhuri	52,000	Furniture	16,000
Shobha	36,000	Buildings	48,000
Reserve Fund	16,000		
	1,95,600		**1,95,600**

On 1st April, 2012 Shobha retired from the firm on the following terms :

i. Assets be revalued as under: Stock ₹ 24,000, Machinery ₹ 32,000, Furniture ₹ 16,800.
ii. R.D.D. be maintained at 4% on debtors.
iii. An item of ₹ 400 from creditors is no longer a liability and hence should be properly adjusted.
iv. The amount due to Shobha be transferred to her loan account.

Pass necessary Journal Entries in the books of the firm. **[Mar 15]**

Q.2. Following is the Balance Sheet of the firm of Sonu, Monu and Piyu who share profits and losses in the ratio of their capital:

Balance Sheet as on 31st March, 2013

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Plant and Machinery		20,000
Sonu		50,000	Land and Building		55,000
Monu		20,000	Stock		12,000
Piyu		30,000	Debtors	12,000	
Creditors		15,000	*Less: R.D.D.*	1,000	11,000
			Cash		17,000
		1,15,000			**1,15,000**

Piyu retires from the business on 31st March, 2013 and the following adjustments were agreed:

i. The stock is to be valued at 92% of its book value.

ii. R.D.D. is to be maintained at 10% on debtors.

iii. The value of Land and Building is to be appreciated by 20%.

iv. The goodwill of the firm be fixed at ₹ 12,000.
Piyu's share in the same be adjusted in the account of continuing partners in gain ratio.

v. The entire capital of the new firm be fixed at ₹ 1,60,000 between Sonu and Monu in their new profit sharing ratio which is fixed at 3 : 1 by making adjustment for difference in cash and amount payable to Piyu paid in cash.
Prepare: Profit and Loss Adjustment Account, Partners' Capital Accounts and Balance Sheet after retirement of Piyu. **[Oct 15]**

Q.3. The balance sheet of Anand Traders, Wardha is as follows; partners share profits and losses as 5 : 2 : 3:

Balance Sheet as on 31st March, 2013

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Plant and Machinery		32,000
Sunil		36,000	Factory Building		40,000
Pankaj		32,000	Stock		20,400
Paresh		17,600	Debtors	16,800	
Creditors		21,200	*Less: R.D.D*	800	16,000
General Reserve		14,000	Cash		12,400
		1,20,800			**1,20,800**

Pankaj retired from the business on 1st April, 2013 on the following terms :

i. The assets were revalued as under:
   a. Stock ₹ 28,000.
   b. Factory building is appreciated by 10%.
   c. Reserve for doubtful debts is to be increased up to ₹ 1,000.
   d. Plant and machinery is to be depreciated by 10%.

ii. The goodwill of the retiring partner is valued at ₹ 8,000 and the remaining partners decided that goodwill be written back in their new profit sharing ratio which will be 5 : 3.

iii. Amount due to Pankaj is to be transferred to his loan account.

Prepare :

i. Profit and loss adjustment account

ii. Capital account of partners

iii. Balance sheet of new firm. **[Mar 16]**

Sample Content

Q.4. Anita, Sunita and Kavita were partners sharing profits and losses in the ratio 3:3:2. Their Balance Sheet as on 31st March 2013 is as below:

Balance Sheet as on 31st March, 2013

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Building	10,000
Anita	11,000	Machinery	10,700
Sunita	15,000	Furniture	10,000
Kavita	8,000	Debtors	5,000
Creditors	10,900	Stock	6,600
Reserve fund	4,000	Cash	6,600
	48,900		**48,900**

On 1st April, 2013, Mrs. Kavita retired from the firm on the following terms:

i. Goodwill of the firm is to be valued at ₹ 4,000, however, only Kavita's share in it is to be raised in the books and written off immediately.

ii. Assets to be revalued as under: Stock ₹ 6,300; Machinery ₹ 10,000; Furniture ₹ 10,200.

iii. R.D.D. to be maintained at 10% on debtors.

iv ₹ 100 to be written off from creditors.

v. The amount payable to Mrs. Kavita is to be transferred to her loan account.

You are required to prepare Profit and Loss Adjustment Account, Partner's Capital Account and Balance Sheet of new firm as on 01.04.2013. **[July 16]**

Q.5. Following is the balance sheet of Sharmila, Urmila and Pramila, who shared profits and losses in the ratio of 5 : 3 : 2 respectively:

Balance Sheet as on 31st March, 2013

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Land and Buildings	2,50,000
Sharmila	2,00,000	Plant and Machinery	70,000
Urmila	1,50,000	Furniture	20,000
Pramila	1,00,000	Sundry debtors	90,000
Reserve fund	50,000	Stock	56,500
Sundry creditors	42,800	Bills receivable	7,400
Bills payable	6,000	Cash in hand	3,700
		Cash at bank	51,200
	5,48,800		**5,48,800**

Pramila retired on 31st March, 2013 on the following terms:

i. Goodwill of the firm was valued at ₹ 60,000. It was decided that 'goodwill' should be raised to the extent of Pramila's share only, and to be written off immediately.

ii. Land and Building to be appreciated by ₹ 20,000. Stock is revalued at ₹ 58,500. Furniture is to be depreciated by 10%.

iii. Amount payable to Pramila is to be transferred to her loan account.

Give Journal Entries in the books of the firm. **[Mar 17]**

Sample Content

Q.6. The Balance Sheet of Samarth Traders is as follows; The partners share profits and losses as 5: 2: 3:

Balance Sheet as on 31st March, 2016

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Plant and Machinery		16,000
Prakash		18,000	Building		20,000
Dinakar		16,000	Stock		10,200
Rajan		8,800	Debtors	8,400	
Creditors		10,600	*Less : R.D.D.*	400	8,000
General reserve		7,000	Cash in hand		6,200
		60,400			**60,400**

Dinakar retired from the business on 1st April, 2016 on the following terms :

i. The assets are revalued as under :
   Stock at ₹ 14,000.
   Building is appreciated by 10%.
   Reserve for doubtful debts is to be increased upto ₹ 500.
   Plant and machinery is to be depreciated by 10%.

ii. The goodwill of the retiring partner is valued at ₹ 4,000 and the remaining partners decided that goodwill be written back in their new profit sharing ratio which will be 5: 3.

iii. Dinakar is to be paid ₹ 2,220 in cash on his retirement and the balance is to be transferred to his loan account.

Prepare:

i. Profit and Loss Adjustment Account

ii. Capital Account of partners.

iii. Balance Sheet of new firm **[July 18]**

Q.7. Following is the Balance Sheet of Dhirshree, Sonam and Simran who were sharing profit and losses in the proportion of their capitals:

Balance Sheet as on 31st March, 2016

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Plant and machinery		60,000
Dhirshree		1,50,000	Land and building		1,65,000
Sonam		60,000	Stock		36,000
Simran		90,000	Debtors	36,000	
Sundry creditors		45,000	Less : R.D.D.	3,000	33,000
			Bank balance		51,000
		3,45,000			**3,45,000**

Simran retired from the business on 31st March, 2016 and the following adjustments were agreed to:

i. The stock is to be valued at 92% of its book value.

ii. R.D.D. is to be maintained at 10% on Sundry Debtors.

iii. The value of Land and Building be appreciated by 20%.

iv. The goodwill of the firm be fixed at ₹ 36,000 and Simran's share in the same be adjusted in the accounts of continuing partners in the gain ratio.

v. The entire capital of the new firm be fixed at ₹ 4,80,000 between Dhirshree and Soman in the proportion to their new profit sharing ratio which is fixed as 3 : 1 by making adjustment for difference in cash.

Prepare:

i. Profit and Loss Adjustment Account.

ii. Partners' Capital Accounts.

iii. Balance Sheet after retirement of Simran. **[Mar 19]**

Sample Content

Q.8. The Balance Sheet of Mac, Paul and Sam is as follows:

Balance Sheet as on 31st March, 2016

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Cash	12,000
Mac	32,000	Debtors	16,000
Paul	18,000	Stock	10,000
Sam	16,000		
Creditors	18,400	Plant and Machinery	50,000
Bills payable	3,600		
	88,000		**88,000**

Sam retires from the business on the above date on the following terms:

i. Stock to be depreciated by 6% and Plant and Machinery by 10%.

ii. Provision for doubtful debts to be created at 5% on debtors.

iii. Provision of ₹ 1,600 to be made for outstanding rent.

iv. Goodwill of the firm is raised to the extent of retiring partner's share of ₹ 18,000 and remaining partners decided that goodwill should not appear in the books of accounts.

v. Their profit sharing ratio is 2 : 2 : 1.

vi. The amount payable to the retiring partner be transferred to his loan account.

Prepare:

i. Profit and Loss Adjustment Account

ii. Partners' Capital Accounts.

iii. Balance Sheet of Mac and Paul. **[Mar 20]**

Q.9. Given below is the Balance sheet of Geeta, Yogita and Pranita who were sharing profits and losses equally:

Balance Sheet as on 31st March, 2018

Liabilities	Amount ₹	Assets		Amount ₹
Creditors	10,500	Motor Car		25,000
Bank overdraft	5,000	Machinery		40,000
General Reserve	12,000	Furniture		15,000
Capital A/c:		Debtors:	16,000	
Geeta	28,700	Less: R.D.D.	2,000	14,000
Yogita	31,800	Cash		24,000
Pranita	30,000			
	1,18,000			**1,18,000**

Geeta retired on 1st April, 2018 from the firm on the following terms:

i. Furniture be valued ₹ 14,000, Machinery at ₹ 38,000, and motor car ₹ 23,800.

ii Goodwill of the firm be valued at ₹ 15,000. However only Geeta's share in it is to be raised in the books.

Iii. R.D.D. be maintained at 5% on debtors.

Prepare:

i. Revaluation Account

ii. Partners' Capital Account

iii. Balance sheet of new firm **[Oct 21]**

Sample Content

Q.10. Ajay, Vijay and Sanjay were partners sharing profits and losses in the ratio of 3 : 3 : 2. Their Balance Sheet as on 31st March, 2020 is as follows:

Balance Sheet as on 31st March, 2020

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	32,700	Bank	19,800
Reserve fund	12,000	Stock	19,800
Capital A/c:		Debtors	15,000
Ajay	33,000	Live Stock	30,000
Vijay	45,000	Plant and Machinery	62,100
Sanjay	24,000		
	1,46,700		**1,46,700**

On 1st April, 2020 Sanjay retired from the firm on the following terms:

i. R.D.D. is to be maintained at 10% on debtors.
ii. ₹ 300 to be written off from creditors.
iii. Goodwill of the firm is to be valued at ₹ 12,000, however, only Sanjay's share in it is to be raised in the book and written off immediately.
iv. Assets to be revalued as: Stock ₹ 18,900, Plant and Machinery ₹ 60,000, Live Stock ₹ 30,600.
v. The amount payable to Sanjay to be transferred to his loan account after retirement:

Prepare:

i. Revaluation Account.
ii. Partners' Capital Account
iii. Balance Sheet of the New firm. **[Mar 22]**

Q.11. The Balance sheet of Sohan, Mohan and Rohan is as follows, the partners are sharing profits and losses in the proportion of 2 : 2 : 1 respectively:

Balance sheet as on 31st March, 2020

Liabilities	Amount ₹	Assets		Amount ₹
Creditors	30,000	Bank		15,000
General Reserve	15,000	Debtors	60,000	
Capital A/c:		(–) R. D. D.	3,000	57,000
Sohan	1,20,000	Furniture		45,000
Mohan	90,000	Machinery		12,000
Rohan	45,000	Freehold property		81,000
		Goodwill		90,000
	3,00,000			**3,00,000**

Rohan retires from the firm on 1st April, 2020 on the following terms:

i. The assets are to be revalued as: Freehold property ₹ 90,000, Machinery ₹ 15,000, Furniture ₹ 36,000. All debtors are good.
ii. Goodwill of the firm to be valued at thrice the average profit for proceeding five years.
Profits of the firm for 5 years were:
2015 – 16 ₹ 3,000
2016 – 17 ₹ 31,500
2017 – 18 ₹ 30,000
2018 – 19 ₹ 48,000
2019 – 20 ₹ 30,000
iii. The balance of Rohan's Capital Account should be kept in the business as loan.

Prepare:

i. Profit and Loss Adjustment Account
ii. Capital Accounts of Partners
iii. Balance sheet of the new firm **[July 22]**

Sample Content

Q.12. Given below is the Balance sheet of Amar, Akbar and Anthony who were sharing profits and losses equally:

Balance Sheet as on 31st March, 2020

Liabilities	Amount ₹	Assets		Amount ₹
Creditors	31,000	Cash		39,000
General Reserve	24,000	Debtors	32,000	
Capital A/c:		Less : R. D. D.	4,000	28,000
Amar	57,400	Furniture		30,000
Akbar	63,600	Machinery		80,000
Anthony	60,000	Motor Car		50,000
		Profit and Loss A/c		9,000
	2,36,000			**2,36,000**

Amar retired on 1st April, 2020 from the firm on the following terms:

i. Furniture to be valued at ₹ 28,000, Machinery ₹ 76,000 and Motor car ₹ 47,600.
ii. R.D.D. to be maintained at 5% on debtors.
iii. Goodwill of the firm is to be valued at ₹ 30,000. However, only Amar's share is to be raised in the books.
iv. A part payment of ₹ 20,000 to be made to Amar and the balance to be transferred to his Loan Account.

Prepare:
i. Profit and Loss Adjustment A/c
ii. Partners' Capital Account
iii. Balance Sheet of the New firm. **[Mar 23]**

Q.13. The Balance Sheet of Kiran, Suraj and Dhiraj sharing profit and losses 3 : 2 : 1 respectively. Their Balance Sheet as on 31st March, 2020 was as follows:

Balance Sheet as on 31st March, 2020

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Bank	1,08,000
Kiran	2,40,000	Debtors	1,80,000
Suraj	1,80,000	Building	1,20,000
Dhiraj	1,20,000	Investment	3,00,000
Creditors	44,000		
Bills payable	24,000		
Loan	1,00,000		
	7,08,000		**7,08,000**

Dhiraj has taken retirement of 1st April, 2020 on the following terms:

i. Building and investment to be appreciated by 5% and 10% respectively.
ii. Provision for doubtful debts to be created at 5% on debtors.
iii. The provision of ₹ 6,000 to be made in respect of outstanding salary.
iv. Goodwill of the firm is valued at ₹ 1,80,000 and partner (Dhiraj) decided that his share of goodwill should be written back immediately.
v. The amount payable to the retiring partner is to be transferred to his loan account.

Prepare:
i. Profit and Loss Adjustment Account
ii. Partners' Capital Account
iii. Balance Sheet of the New firm. **[July 23]**

Sample Content

Homework Problems

Goodwill raised and retained in business

Q.1. Sunil, Nitish, Sapna were partners in a firm sharing profits and losses in the proportion of 1/2, 1/3 and 1/6 respectively. Their Balance Sheet as on 31st March, 2019 was as follows:

Balance Sheet as on 31.03.2019

Liabilities	Amount ₹	Assets	Amount ₹
Bills Payable	30,000	Machinery	40,000
Capital A/c:		Furniture	5,000
Sunil	80,000	Sundry Assets	60,000
Nitish	50,000	Stock	30,000
Sapna	30,000	Debtors	32,000
		Bank	23,000
	1,90,000		**1,90,000**

Sapna decided to retire on 1st April, 2019 on following terms:

i. Goodwill of the firm will be valued at ₹ 30,000.

ii. Furniture was taken over by Sanil for ₹ 4,700/-.

iii. Make a provision for unpaid expenses ₹ 1,700/-.

iv. Out of the amount due to Sapna, ₹ 7,500/- to be paid by cheque and remaining amount to be transferred to her loan account.

Prepare Profit and Loss Adjustment A/c, Partners' Capital A/c and Balance Sheet.

Q.2. Below is the Balance Sheet of a firm as on 31st March, 2019.

Balance Sheet as on 31.03.2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Land and Building		1,20,000
Ram	60,000		Furniture		20,000
Lakshman	60,000		Investments		1,06,000
Bharat	60,000	1,80,000	Stock		36,000
Profit and Loss A/c		1,40,000	Debtors		55,000
Creditors		50,000	Bank		33,000
		3,70,000			**3,70,000**

Bharat retired from the firm on 1st April, 2019. The following was agreed upon:

i. Partners were sharing profits in the ratio of their capitals.

ii. Goodwill to be raised in full extent to ₹ 1,20,000.

iii. Land and Building to be depreciated by 20%.

iv. Investments to be brought down to their market value of ₹ 1,00,000.

v. Stock of ₹ 6,000 to be written off.

vi. New Ratio is to be 2:1.

vii. Bharat's final due to be settled through his loan account.

Prepare Profit and Loss Adjustment A/c, Partners' Capital A/c and Balance Sheet.

Sample Content

Goodwill raised to the extent of retiring partner's share and then written off

Q.3. The Balance Sheet of Paul, Suni and Minu is as follows:

Balance Sheet as on 31.03.2020

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Plant and Machinery	25,000
Paul	16,000	Stock	5,000
Suni	9,000	Debtors	8,000
Minu	8,000	Cash	6,000
Creditors	9,200		
Bills Payable	1,800		
	44,000		**44,000**

Minu retires from the business on 1st April, 2020 on the following terms:-

i. Stock and Plant and Machinery to be depreciated by 6% and 10% respectively.

ii. Provision for doubtful debts to be created at 5% on Debtors.

iii. Provision of ₹ 800/- to be made in respect of outstanding rent.

iv. Goodwill of the firm is raised to the extent of retiring partners' share ₹ 9,000/- and remaining partners decided that goodwill should not appear in the books of accounts.

v. Their profit sharing ratio is 2:2:1.

vi. The amount payable to the retiring partner be transferred to her loan account.

Prepare: Profit and Loss Adjustment A/c, Partners' Capital A/c, Balance Sheet of Paul and Suni.

Q.4. The Balance Sheet of 'Triveni Traders' is as follows; Partners share profits and losses as 5/10, 2/10, 3/10:

Balance Sheet as on 31.03.2020

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Plant and Machinery		20,000
Nayna		25,000	Factory Building		35,000
Neena		20,000	Stock		18,000
Dolly		15,000	Debtors	20,000	
Creditors		20,000	*Less: R.D.D.*	1,000	19,000
General Reserve		20,000	Cash		8,000
		1,00,000			**1,00,000**

Neena retired from the business on 1th April, 2020 on the following terms:-

i. The assets are revalued as under:

  a. Stock at ₹ 19,650/-.

  b. Factory Building is appreciated by 5%.

  c. Reserve for doubtful debts is to be at 8% of Debtors.

  d. Plant and Machinery is to be depreciated by 4%.

ii. The goodwill of the retiring partner is valued at ₹ 10,000/- and remaining partners decided that goodwill be written back in their new Profit sharing ratio which will be 5: 3

iii. Amount payable to Neena is to be transferred to her loan account.

Prepare: Profit and Loss Adjustment Account, Capital account of partners, Balance Sheet of new firm

Sample Content

Q.5. Shailesh, Anil and Das were partners sharing profits and losses in the ratio at 3: 3: 2. Their Balance Sheet as on 31.03.2020 is as below:

Balance Sheet as on 31st March, 2020

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Building	1,00,000
Shailesh	75,000	Machinery	75,000
Anil	75,000	Furniture	45,000
Das	75,000	Debtors	60,000
Bills Payable	45,000	Stock	40,000
Creditors	20,000	Cash	30,000
Reserve Fund	60,000		
	3,50,000		**3,50,000**

On 1st April, 2020 Mr. Das retired from the firm on following terms:

i. Shailesh and Anil's share in reserve fund should be continued in new firm.

ii. Goodwill of the firm is to be valued at ₹ 1,00,000. Das's share in it is to raised in the Books and written off immediately.

iii. Assets and Liabilities to be revalued as under: Building to be appreciated by 10%, Furniture to be depreciated by 8%, Maintain 5% R.D.D. on debtors and Stock to be revalued at ₹ 40,600.

iv. The amount Payable to Mr. Das is to be transferred to his loan account.

Prepare: Profit and Loss adjustment A/c, Partners capital a/c and Balance Sheet of New firm on 01.04.2020

Q.6. Sathe, Deshpande and Madlani were partners sharing profits and losses in the ratio of 5: 2: 3. Their Balance Sheet was as follows:

Balance Sheet as on 31st March, 2020

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Plant and Machinery		50,000
Sathe		70,000	Building		1,00,000
Deshpande		80,000	Motor Van		20,000
Madlani		50,000	Stock		30,000
Creditors		25,000	Debtors	36,000	
Bills Payable		12,000	*Less: R. D. D.*	2,000	34,000
Reserve Fund		25,000	Cash		28,000
		2,62,000			**2,62,000**

Deshpande retired on 1st April, 2020 on the following terms:

i. Plant to be depreciated by 10% and Motor Van by 20%.

ii. Stock to be appreciated by 10% and Building by 20%.

iii. R. D. D. is no longer necessary.

iv. Provision is to be made for ₹ 8,000 being compensation to worker.

v. The goodwill of the firm to be valued at ₹ 40,000 and Deshpande's share in it should be raised.

vi. Both the remaining partners decided to write off goodwill.

vii. Amount payable to Shri. Deshpande to be kept as his Loan.

Prepare: Profit and Loss Adjustment Account, Partners' Capital Accounts, New Balance Sheet.

Sample Content

Goodwill raised and written off

Q.7. The following is the Balance Sheet of Prakash, Diwakar and Rajan who shared Profits and Losses in the ratio of 2/8, 3/8, 3/8.

Balance Sheet as on 31st March, 2020

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Plant and Machinery		84,000
Prakash		80,000	Stock		56,000
Diwakar		75,000	Debtors	18,000	
Rajan		60,000	*Less : R. D. D.*	2,000	16,000
Creditors		42,000	Land and Building		1,00,000
			Cash		1,000
		2,57,000			**2,57,000**

Mr. Rajan retired on 1st April, 2020 from the firm on the following terms:

i. Plant and Machinery to be depreciated by 20%.
ii. Stock to be revalued at ₹ 61,000.
iii. Land and Building appreciated by 10%.
iv. Provision for doubtful debts was no longer necessary.
v. Goodwill of the firm is to be raised at an average profit and losses of the five years, which were as follows:

Profit	₹ 80,000	Profit	₹ 70,000	Loss	₹ 20,000
Profit	₹ 30,000	Profit	₹ 40,000		

vi. Mr. Prakash and Diwakar will share the future profit and losses in the ratio of 3: 1.
vii. Goodwill should be written off in new ratio.
viii. Amount payable to Rajan should be transferred to his loan account.

Prepare Profit and Loss Adjustment A/c, Partners' Capital A/c and Balance Sheet of new firm.

Q.8. The following is the balance sheet of Mahesh, Mohit and Nitin who shared profits and losses in the ratio 4:3:3:

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Plant and Machinery		1,80,000
Mahesh		2,40,000	Furniture		80,000
Mohit		1,80,000	Building		2,50,000
Nitin		1,80,000	Stock		40,000
General Reserve		10,000	Debtors	37,500	
			Less: R.D.D.	2,500	35,000
Creditors		20,000	Cash		45,000
		6,30,000			**6,30,000**

Nitin retired on 1st April, 2019 from the firm on the following terms:

i. The Goodwill to be valued at ₹ 15,000.
ii. Plant and Machinery to be depreciated by 10% and furniture by 5%.
iii. Stocks to be appreciated by 10% and Building by 20%.
iv. Provision for doubtful debts were no longer necessary.
v. Mahesh and Nitin will share the future profits and losses in the ratio 3:2. They decided that goodwill should not appear in the books of accounts.
vi. The amount payable to Nitin shall be transferred to his loan account.

Prepare Profit and Loss Adjustment A/c, Partners Capital A/c and Balance sheet of new firm.

Sample content

Goodwill already existing in Balance Sheet

Q.9. Pai, Amba and Manoj are partners in a firm sharing Profit and Losses in the proportion to their capitals. Their Balance Sheet as on 31.03.2019 is as follows:

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Stock		12,000
Pai		30,000	Debtors		20,000
Amba		30,000	Plant		13,000
Manoj		15,000	Building		20,000
Creditors		7,000	Motor Van		31,000
Outstanding Expenses		15,000	Goodwill		18,000
Profit and Loss A/c		20,000	Cash		3,000
		1,17,000			**1,17,000**

On 1st April, 2019 Pai retired and the following adjustments have been agreed upon:

i. Goodwill was revalued at ₹ 15,000.

ii. Assets and Liabilities were revalued as under Debtors ₹ 17,000, Stock at 90% of book value, Building ₹ 35,000, Plant ₹ 11,500, Motor Van ₹ 29,500, Outstanding expenses ₹ 18,000.

iii. Amba and Manoj contributed additional capital of ₹ 20,000 and ₹ 10,000 respectively.

iv. Balance due to Mr. Pai is transferred to his loan account after paying him ₹ 1,000/-.

Prepare: Profit and Loss adjustment A/c, Partners' Capital A/c's and Balance Sheet of new firm.

Q.10. Leena , Purva and Alia were partners in a firm sharing profits and losses in the proportion of 2:1:2 respectively. Their Balance Sheet as on 31st March, 2019 is as under:

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Goodwill		45,000
Leena	2,00,000		Land and Building		2,00,000
Purva	1,00,000		Machinery		1,60,000
Alia	2,00,000	5,00,000	Profit and Loss		20,000
General reserve		25,000	Stocks		40,000
Creditors		15,000	Debtors		27,500
Bills Payable		7,500	Cash		55,000
		5,47,500			**5,47,500**

Alia retired from the business on 1st April, 2019 on the following terms:

i. R.D.D. to be maintained at 5%.

ii. Goodwill was revalued at ₹ 27,000.

iii. Land and building was appreciated by 20%.

iv. Machinery and stocks were reduced by 10% and 5% respectively.

v. Make provision for legal expenses ₹ 5,000.

vi. Amount payable to Alia would be transferred to her loan account

Prepare Profit and Loss adjustment A/c, Partners' Capital A/c and Balance Sheet.

Sample Content

Journal Entries

Q.11. Wadia, Oza and Jagdish were partners in a firm sharing profits and losses in the proportion of 5: 3: 2 respectively. Their Balance Sheet as on 31st March, 2019 is as under:

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Goodwill		21,000
Wadia		30,000	Land and Building		20,000
Oza		25,000	Machinery		10,000
Jagdish		20,000	Motor Van		25,000
Creditors		9,000	Stock		12,000
Bills Payable		2,500	Debtors		14,000
General Reserve		20,000	Cash		4,500
		1,06,500			**1,06,500**

On 1st April, 2019, Mr. Jagdish retired from the business on the following terms:

i. Assets and Liabilities were revalued as follows - Goodwill ₹ 11,000 Land and Building ₹ 30,000, Machinery ₹ 8,000, Motor Van ₹ 20,000, Creditors ₹ 7,000, Stock ₹ 10,000, Debtors ₹ 12,000

ii. Wadia and Oza contributed additional capital of ₹ 20,000 and ₹ 15,000 respectively.

iii. Balance of Jagdish capital account has been fully paid in cash.

Prepare: Profit and Loss Adjustment A/c, Partners' Capital Account, New Balance Sheet. Also give journal entries in the books of new firm.

Q.12. Balance Sheet of Bhavika, Mayuri and Preeti is as follows :

Balance Sheet as on 31st March, 2020

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Furniture		40,000
Bhavika		50,000	Building		50,000
Mayuri		50,000	Debtors	22,000	
Preeti		50,000	*Less : R.D.D.*	2,000	20,000
Sundry Creditors		20,000	Stock		30,000
			Cash		30,000
		1,70,000			**1,70,000**

Preeti retired from the business on 1st April, 2020 and below are the details :

i. Furniture is to be revalued at ₹ 38,000.

ii. The value of Building is ₹ 60,000.

iii. R.D.D. on Debtors is to be maintained at 5% and Stock is to be revalued to ₹ 33,100.

iv. Goodwill of the firm is valued at ₹ 30,000.

v. Partners share their profits and losses in the ratio of their capitals. The balance of Preeti is to be transferred to her Loan Account.

Pass Journal Entries.

Sample Content

Adjustment of capital

Q.13. Following is the Balance Sheet of Suhas, Suyash and Rupesh who were sharing profits and losses in proportion of their capital:

Balance Sheet as on 31st March, 2020

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Land and Building		50,000
Suhas		40,000	Plant and Machinery		17,000
Suyash		30,000	Stock		16,000
Rupesh		20,000	Debtors	10,000	
			Less: R.D.D	200	9,800
Creditors		13,800	Cash		11,000
		1,03,800			**1,03,800**

Suyash retires from the business on 1st April, 2020 and the following adjustments were agreed to:

i. The Goodwill of the firm be fixed at ₹ 10,800 and Suyash's share in the same be adjusted in the accounts of continuing partners who are going to share the future profits and losses in ratio 2:1.
ii. The entire capital of new firm be fixed at ₹ 1,20,000 between Suhas and Rupesh in proportion to their new profit and loss sharing by making adjustments in cash.
iii. Stock is to be valued at 94% of it book value.
iv. Reserve for Doubtful Debts is to be maintained at 5% on debtors.
v. A provision of ₹ 1,540 be made in respect of outstanding bill for repairs.
vi. The value of Land and Building be appreciated by 20%
vii. Amount due to Suyash be transferred to his Loan A/c

Prepare: Profit and Loss Adjustment A/c, Partners' Capital A/c and Balance Sheet after retirement of Suyash.

Profit and Loss Suspense A/c

Q.14. Santosh, Mahesh and Laxman are three partners who share profit and losses equally. Given below is their Balance Sheet:

Balance Sheet as on 30th September, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Building		50,000
Santosh		50,000	Furniture		40,000
Mahesh		50,000	Stock		25,000
Laxman		50,000	Debtors		45,000
Creditors		40,000	Cash		40,000
Bills Payable		10,000			
		2,00,000			**2,00,000**

Santosh retired from business and given below are the terms :

i. Furniture be valued ₹ 38,000, Building at ₹ 60,000 and Stock at ₹ 26,750
ii. R.D.D. be maintained at 5% on Debtors
iii. Goodwill of the firm be valued at ₹ 30,000.
iv. The financial year of firm is from 1st April to 31st March. Santosh is entitled to profit upto the date of retirement. The profit of the firm in previous year was ₹ 60,000 and on that basis Santosh was to be given his share of profits.
v. Amount due to Santosh is to be transferred to his loan account.

Prepare Profit and Loss Adjustment Account , Partners Capital A/c, Balance Sheet of new firm.

Sample Content

HOTS Problems

Q.1. Suresh, Ramesh and Umesh are partners sharing profit and losses in the ratio 2 : 2 : 1 respectively. Their Balance Sheet as on 31st March, 2019 was as follows:

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Goodwill		30,000
Suresh		30,000	Freehold Property		27,000
Ramesh		30,000	Investments		4,000
Umesh		15,000	Closing Stock		15,000
Reserve fund		10,000	Sundry Debtors	20,000	
Sundry Creditors		15,000	*Less: R.D.D.*	(1,000)	19,000
Bills Payable		10,000	Bills Receivable		11,000
			Cash		4,000
		1,10,000			**1,10,000**

Umesh retires from partnership firm on 1st April, 2019 on the following terms:

i. Assets are valued as: Freehold Property ₹ 30,000, Investment ₹ 5,000, Closing Stock ₹ 14,000.

ii. R.D.D. be made upto 10% on Debtors.

iii. Goodwill of firm is to be valued at thrice the average profit of preceding years. Profits were:

Year	Profits (₹)
2014-15	6,000
2015-16	20,000
2016-17	15,000
2017-18	9,000
2018-19	10,000

iv. Out of Creditors, ₹ 1,500 are not likely to claim. Hence, it should be written off.

v. Bills Receivable of book value ₹ 6,000 is taken over by Suresh at 60% of its book value.

vi. ₹ 3,000 is paid to Umesh in cash and balance of his Capital A/c is transferred to his Loan A/c.

Prepare: Profit and Loss Adjustment Account, Partner's Capital Account, Balance Sheet after retirement of Umesh.

Q.2. Given below is the Balance Sheet of A, B and C who were sharing profits and losses in the ratio of 3 : 3 : 2.

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Cash		54,000
A	1,20,000		Debtors		1,25,000
B	1,30,000		Stock		63,000
C	90,000	3,40,000	Machinery		87,000
Creditors		87,000	Furniture		40,000
Bills Payable		22,000	Building		1,20,000
Reserve fund		40,000			
		4,89,000			**4,89,000**

On 1st April, 2019, C retired from the firm and the following decisions were taken:

i. The Assets to be valued as under:
Machinery ₹ 80,000 and Furniture ₹ 42,000.

ii. Stock was found overvalued by 5%.

iii. R.D.D. to be maintained at 4% on Debtors.

Sample Content

iv. An item of ₹ 1,000 from Creditors is no longer a liability and hence should be properly adjusted.
v. Bills Payable is taken over by B at 10% discount
vi. A and B share in Reserve Fund should be continued in new firm.
vii. Goodwill of the firm is valued at twice the average profit of last 3 years which were as follows: ₹ 18,000; ₹ 20,000; ₹ 22,000, However only C's share in it is to be raised in the books and written off from books immediately.
viii. The entire capital of firm be fixed at ₹ 2,40,000 between A and B in proportion of their new Profit and Loss sharing ratio. Adjustment to be done in cash.
ix. Amount Payable to C be transferred to his loan Account.

Prepare: Profit and Loss adjustment Account, Partner's Capital Account and Balance sheet of New firm.

Objective Type Questions

(A) Select most appropriate answer from the alternatives given below and rewrite the sentences.

1. Gain ratio = ________ Ratio less Old Ratio. **(T)**
 a. New b. Equal
 c. Capital d. Sacrifice

 New

2. A proportion in which the continuing partners get the share of retiring partner is known as _______. **(July 22)**
 a. Old Ratio b. New Ratio
 c. Gain Ratio d. Capital Ratio

 Gain Ratio

3. New Ratio = Old Ratio + ________ Ratio. **(T)**
 a. Gain b. Capital
 c. Sacrifice d. Current

 Gain

4. Apte, Bhate and Chitale are sharing 1/2, 3/10, and 1/5. If Apte retires, their new ratio will be ________. **(T)**
 a. 5 : 2 b. 3 : 2
 c. 5 : 3 d. 2 : 5

 3 : 2

5. Rishi, Ratna and Ruchira are sharing profits and looses $\frac{1}{2}, \frac{3}{10}$ and $\frac{1}{5}$, if Rishi retires then their new ratio will be _______. **(July 23)**
 a. 5 : 2 b. 3 : 2
 c. 5 : 3 d. 2 : 5

 3 : 2

6. When goodwill raised to the extent of retiring partner's share is written off, it is written off in ________ ratio.
 a. New b. Old
 c. Gain d. Sacrifice

 Gain

7. When goodwill of the entire firm is raised and is then written off, it is written off in ________ ratio.
 a. New b. Old
 c. Gain d. Sacrifice

 New

8. The profit or loss from revaluation on retirement of partner is shared by ________. **(T)**
 a. the remaining partners b. all the partners
 c. only retiring partner d. bank

 all the partners

Sample Content

9. Decrease in the value of assets should be ________ to Profit and Loss Adjustment Account. **(T) (Mar'22)**
   a. Debited b. Credited
   c. Added d. Equal

   Debited

10. If surplus on adjustment of capital is paid back to partner, Partner's Capital / Current Account is ________.
   a. Debited b. Credited
   c. Added d. Equal

   Debited

11 When the retiring partner's share of profit is transferred, ________ account is debited.
   a. Profit and Loss Adjustment b. Partners' Capital
   c. Profit and Loss Suspense d. Partners' Current

   Profit and Loss Suspense

12 The balance of the capital account of retired partner is transferred to his ________ account if it is not paid. **(T) (Oct'21)**
   a. Loan b. Personal
   c. Current d. Son's

   Loan

(B) Write the Word / Term / Phrase which can substitute each of the following statements.

1. The ratio in which the continuing partners decide to share the profits and losses post retirement of a partner.	New ratio
2. The ratio in which the continuing partners are benefited due to Retirement of a Partner. **(T)**	Gain ratio
3. The ratio which is obtained by deducting Old Ratio from New Ratio. **(T) (Mar'23)**	Gain ratio
4. Ratio in which adjustment in goodwill is done if it already exists in Balance Sheet.	Old ratio
5. Money value of business reputation earned by the firm over a number of years. **(T)**	Goodwill
6. Credit balance of Profit and Loss Adjustment Account. **(T)**	Profit on revaluation
7. Debit balance of Revaluation Account. **(T)**	Loss on revaluation
8. Partner's Account where loss or profit on revaluation is transferred. **(T)**	Capital / Current Account
9. Account which is debited while recording profit due to retiring partner.	Profit and Loss Suspense A/c
10. Account to be credited when the entire amount payable to retiring partner is paid in one instalment.	Cash / Bank A/c

(C) State whether the following statements are True or False with reasons.

1. Retiring partner is called an outgoing partner. (T)

Ans. True

Reason: Retiring partner is the one who ceases to be a partner in the firm. Hence, it is called as an outgoing partner.

2. On retirement of a partner, sacrifice ratio is considered. (T)

Ans. False

Reason: On retirement of a partner, gain ratio is considered. On admission of a partner, sacrifice ratio is considered.

Sample Content

3. Gain ratio means New ratio minus old ratio. (T)

Ans. True

Reason: Gain ratio is the ratio in which continuing partners are benefitted out of retirement of a partner and it is calculated as New ratio minus Old ratio.

4. When goodwill for entire firm is raised and then written off, the continuing Partners' Capital Account is debited in old ratio.

Ans. False

Reason: When goodwill for entire firm is raised and then written off, the continuing Partners' Capital Account is debited in new ratio.

5. On retirement of a partner, remaining partners will share the goodwill in their profit sharing ratio. (T)

Ans. False

Reason: On retirement of a partner, remaining partners will share the goodwill in their gain ratio.

6. Retiring partner is not entitled to share in general reserve and accumulated profit. (T) (Mar'23, July 22)

Ans. False

Reason: Retiring partner is entitled to general reserve, accumulated profit, profit upto the date of retirement, profit / loss made on revaluation of assets and liabilities etc as he has worked upto the date of retirement and these amounts are the result of his efforts as well.

7. Profit / loss on revaluation of assets and liabilities is to be borne by continuing partners only.

Ans. False

Reason: Profit / loss on revaluation of assets and liabilities is to be borne by all the partners.

8. Retiring partner's share in profit up to the date of his retirement will be debited to Profit and Loss Suspense Account. (T)

Ans. True

Reason: The amount due to retiring partner on account of profit upto the date of retirement is debited to Profit and Loss Suspense Account and is credited to Retiring Partner's Capital / Current A/c.

(D) Find the odd one.

1. Profit / loss on revaluation of assets, Share in goodwill, Share in profit till the date of retirment, Share in profit after the date of retirement.

Ans. Share in profit after the date of retirement – Others are due to retiring partner.

2. Lumpsum payment, Transfer to loan account, Partly paid in cash and balance transferred to loan account, Transfer to son's account

Ans. Transfer to son's account – Others are valid mode of payment to retiring partner.

(E) Complete the sentences.

1.	Retirement of a partner is one of the modes of ________ of partnership.	reconstitution
2.	New Ratio (less) ________ = Gain ratio **(T)**	Old ratio
3.	Retiring Partner's share of goodwill is ________ to remaining partner's capital account. **(T)**	Debited
4.	Revaluation A/c is also known as ________ account. **(T) (July 23, 22)**	Profit and loss adjustment
5.	On retirement, the balance at a current Account of a partner is transferred to his ________ account. **(T)**	Capital
6.	A proportion in which the continuing partners get the share of retiring partner is known as ________ ratio. **(T)**	Gain

Sample Content

(F) Answer in one sentence only.

1. What is meant by Retirement of a Partner ? (T)

Ans: When one member ceases to be a partner and the remaining partners continue to carry on the business of the firm it is called as Retirement of a Partner.

2. How can a partner retire ?

Ans: A partner may retire:
– By giving notice to remaining partners in case of partnership at will.
– In accordance with the agreement by the partners.
– With the consent of all partners.

3. What is New Ratio ? (T)

Ans: The ratio in which the continuing partners decide to share the future profits and losses in known as New Profit Sharing Ratio.

4. What is Benefit Ratio ? (T)

Ans: The ratio in which continuing partners acquire the retiring partner's share is called as Benefit Ratio.

5. How is Gain Ratio calculated ? (T)

Ans: The difference of New Ratio and Old Ratio is the Gain Ratio.
Gain ratio = New ratio – Old ratio

6. How is the amount due to the retiring partner settled ? (T)

Ans: Amount due to retiring partner is settled by way of lumpsum payment, transfer to loan account or by way of part payment and part transfer to loan account.

7. Why is retiring partner's capital account credited with goodwill ? (T)

Ans: Goodwill is the money value of business reputation earned by the firm over the number of years. This goodwill is the result of efforts of retiring partner as well and hence he is credited with his proportionate share of goodwill earned.

(G) Calculate the following.

1. Existing profit sharing ratio of X, Y and Z is 3 : 2 : 1. Z retires and his share is acquired by X and Y in the ratio of 1 : 2. Find the new profit sharing ratio.

Ans. Old ratio between X, Y and Z = X : Y : Z = 3 : 2 : 1.
Z retires from the firm. His share is 1/6. Z's share is acquired by X and Y in 1 : 2 ratio.

X's gain = $\frac{1}{6}\times\frac{1}{3} = \frac{1}{18}$

Y's gain = $\frac{1}{6}\times\frac{2}{3} = \frac{2}{18}$

X's new share = $\frac{3}{6}+\frac{1}{18} = \frac{9+1}{18} = \frac{10}{18}$

Y's new share = $\frac{2}{6}+\frac{2}{18} = \frac{6+2}{18} = \frac{8}{18}$

New profit sharing ratio between X and Y is 10 : 8 i.e. 5 : 4.

2. A, B and C are partners sharing profits in proportion of $\frac{1}{2}$, $\frac{1}{3}$ and $\frac{1}{6}$. If A retires, what will be the new profit sharing ratio? (Oct'21)

Ans. A, B and C are partners sharing profits in proportion of $\frac{1}{2}$, $\frac{1}{3}$ and $\frac{1}{6}$

Or alternatively = $\frac{3}{6}$, $\frac{2}{6}$ and $\frac{1}{6}$ or 3:2:1

Share of B and C after retirement of A = 2:1

3. Existing profit sharing ratio of P, Q, and R is 1 : 2 : 1. Q retired and the new profit sharing ratio of P and R is 2 : 1. Find their gain ratio.

Ans. Old ratio of P, Q and R is 1 : 2 : 1.
New ratio of P and R is 2 : 1.

Sample Content

Gain Ratio = New Ratio – Old Ratio

P's share = $\frac{2}{3}-\frac{1}{4}=\frac{8-3}{12}=\frac{5}{12}$

R's share = $\frac{1}{3}-\frac{1}{4}=\frac{4-3}{12}=\frac{1}{12}$

Gain ratio of P and R = 5 : 1.

4. **Adjusted capital is ₹ 1,00,000. The profit sharing ratio between X and Y is 3 : 2. The current capital of X and Y is ₹ 40,000 and ₹ 75,000 respectively. Find the amount of capital to be brought or withdrawn so that the capital of partners is in their profit sharing ratio.**

Ans. Total capital of firm = ₹ 1,00,000

This capital is to be in profit sharing ratio of X and Y i.e. 3 : 2.

The share of capital of partners will be as below :

X's share in capital = ₹ 1,00,000 × $\frac{3}{5}$ = ₹ 60,000

Y's share in capital = ₹ 1,00,000 × $\frac{2}{5}$ = ₹ 40,000

Amount to be brought in or withdrawn by partners:

Particulars	X	Y
Current capital	₹ 40,000	₹ 75,000
Required new capital	₹ 60,000	₹ 40,000
Amount to be withdrawn	–	₹ 35,000
Amount to be brought	₹ 20,000	–

X is supposed to bring in ₹ 20,000 whereas Y has to withdraw ₹ 35,000.

(H) Complete the table.

1.

Old Ratio	New Ratio	Gain Ratio	
1/2	2/3	?	1/6

2.

Existing capital	Adjusted capital	Money to be brought in	
₹ 50,000	?	₹ 25,000	₹ 75,000

3.

Existing capital	Adjusted capital	Amount to be withdrawn	
?	₹ 25,000	₹ 5,000	₹ 30,000

CHAPTER ASSESSMENT

Time: 1 hour **Marks: 20**

Q.1. State whether the following statements are True or False with reasons. **[3]**

i. On retirement of a partner, sacrifice ratio is considered.

ii. Gain ratio means new ratio minus old ratio.

iii. On retirement of a partner, remaining partners will share the goodwill in their profit sharing ratio.

Q.2. Answer in one sentence **[3]**

i. What is meant by Retirement of a Partner?

ii. How can a partner retire?

iii. Why is retiring partner's capital account credited with goodwill?

Sample Content

Q.3. Calculate the following. **[4]**

i. Existing profit sharing ratio of X, Y and Z is 3 : 2 : 1. Z retires and his share is acquired by X and Y in the ratio of 1 : 2. Find the new profit sharing ratio.

ii. Adjusted capital is ₹ 1,00,000. The profit sharing ratio between X and Y is 3 : 2. The current capital of X and Y is ₹ 40,000 and ₹ 75,000 respectively. Find the amount of capital to be brought or withdrawn so that the capital of partners is in their profit sharing ratio.

Q.4. The Balance Sheet of 'Triveni Traders' is as follows; Partners share profits and losses as 5/10, 2/10, 3/10: **[10]**

Balance Sheet as on 31st March, 2020

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Plant and Machinery		20,000
Nayna		25,000	Factory Building		35,000
Neena		20,000	Stock		18,000
Dolly		15,000	Debtors	20,000	
Creditors		20,000	*Less: R.D.D.*	1,000	19,000
General Reserve		20,000	Cash		8,000
		1,00,000			**1,00,000**

Neena retired from the business on 1th April, 2020 on the following terms:

i. The assets are revalued as under:
   a. Stock at ₹ 19,650/-.
   b. Factory Building is appreciated by 5%.
   c. Reserve for doubtful debts is to be at 8% of Debtors.
   d. Plant and Machinery is to be depreciated by 4%.

ii. The goodwill of the retiring partner is valued at ₹ 10,000/- and remaining partners decided that goodwill be written back in their new Profit sharing ratio which will be 5: 3

iii. Amount payable to Neena is to be transferred to her loan account.

Prepare: Profit and Loss Adjustment Account, Capital account of partners, Balance Sheet of new firm.

Sample Content

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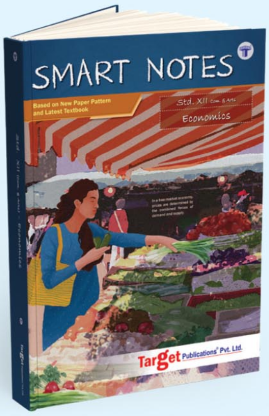

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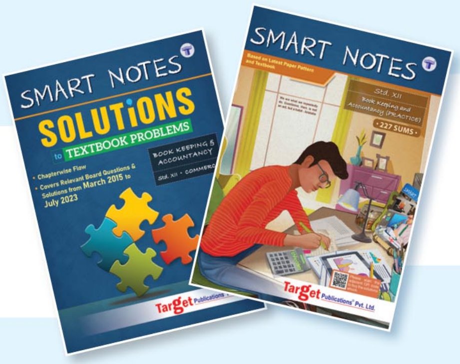

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