8. PARTNERSHIP ACCOUNTS

Unit 1 : Introduction to Partnership Accounts

Section 1 : True or False

Q.1 (May 2000) (2 Marks)
A partner who devotes more time to a business than other partners is entitled to get a salary.

Q.2 (May 2001) (2 Marks)
Partners can share profits or losses in their Capital ratio, when there is no agreement.

Q.3 (May 2005) (2 Marks)
When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.

Q.4 (Nov 2005) (2 Marks)
The business of partnership firm must be carried on by all the partners.

Q.5 (May 2018) (2 Marks)
When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%.

Q.6 (June 2019) (2 Marks)
Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.

Q.7 (Nov 2019) (2 Marks)
A Partnership firm cannot own any Assets.

Section 2 : Short Notes

Q.1 (Nov 2004, May 1997, Nov 2000) (5 Marks)
Fixed and Fluctuating Capital.

Section 3 : Descriptive Questions

Q.1 (Jan 2021) (5 Marks)
Discuss the rules if there is no Partnership Agreement.

Section 4 : Practical Questions

Q.1 (May 2005) **(8 Marks)**

A, B and C entered into partnership on 1.1.2004 to share profits and losses in the ratio of 5 : 3 : 2. A personally guaranteed that C's share of profit after charging interest on capitals at 5% p.a. would not be less than Rs.30,000 in any year. Capital of A, B and C were Rs.3,20,000, Rs.2,00,000 and Rs.1,60,000 respectively.

Profits for the year ending 31.12.2004 before providing for interest on partners capital was Rs.1,59,000. Show the Profit and Loss Appropriation Account.

Unit 2 : Treatment of Goodwill in Partnership Accounts

Section 1 : True or False

Q.1 (May 2001) (2 Marks)
Goodwill is a fictitious asset.

Q.2 (May 2006) (2 Marks)
Depreciation can be charged on Goodwill by Fixed Installment method.

Section 2 : Practical Questions

Q.1 (June 2022) (5 Marks)
Mr. X gives the following particulars in respect of business carried on by him:

Particulars	Rs.
Capital Invested in business	9,00,000
Market rate of interest on investment	8%
Rate of risk return on capital invested in business	3%
Remuneration per annum from alternative employment of proprietor if he was not engaged in business	36,000

The business earned profits of Rs.2,40,000, Rs.2,16,000 and Rs.3,00,000 in the years 2018, 2019 and 2021 respectively but made a loss of Rs.36,000 in the year 2020.
Compute the value of Goodwill on the basis of 6 years purchase of super profits of the business, calculated on the basis of average profit of last four years

Unit 3 : Admission of a New Partner

Section 1 : True or False

Q.1 (May 2000) (2 Marks)
Goodwill brought in by incoming partner in cash for joining in a partnership firm is taken away by the old partners in their new profit sharing ratio.

Q.2 (May 2001) (2 Marks)
Goodwill is a fictitious asset.

Q.3 (Nov 2020) (2 Marks)
In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio.

Section 2 : Practical Questions

Q.1 (May 1996) (20 Marks)
On 31st March, 1996 the Sheet of M/s P, R and S sharing profit and losses in the ratio of 6: 5: 3, stood as follows:

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	37,800	Cash	3,780
Bills Payable	12,600	Sundry Debtors	52,920
General Reserve	21,000	Stock	58,920
Capital Accounts:		Furniture	14,700
P	70,800	Land & Buildings	90,300
S	29,100	Goodwill	10,500
R	59,700		
	2,31,000		2,31,000

They agree to admit Q into partnership giving him 1/8th share, on 1.4.1996 on the following terms:
1. Furniture be depreciated by Rs.1,840.
2. Stock shall be valued 10% less than the balance sheet value.
3. A provision of Rs.2,640 be made for outstanding repair bill.
4. The value of land and buildings having appreciated be brought up-to Rs.1,19,700.
5. Value of Good will be brought up-to Rs.28,140.
6. Q should bring in cash Rs.29,400 as his capital.

After making the above adjustments, the capital accounts of the old partners be adjusted on the basis of proportion of Q's Capital to his share in the business by bringing in or taking out cash.
You are required to prepare Revaluation Account, Capital Accounts of Partners, Cash Account and Balance Sheet as on 1.4.1996 after Q's admission.

Q.2 (Nov 1997) (15 Marks)

A, B C were in partnership, sharing profits and losses as to A one-half, B one-third and C one- sixth. As from 1st January 1996 they admitted D into Partnership on the following terms:

D to have a one-sixth share which he purchased entirely from A paying A Rs.8,000 for that share of Goodwill. Of this amount, A had withdrawn Rs.6,000 and put the balance in the firm as additional capital. As a condition to admission of D as a partner, D also brought Rs.5,000 capital into the firm. It was further agreed that the investment should be valued at its market value of Rs.3,600 and plant be valued at Rs.5,800.

The Balance Sheet of the old firm on 31.12.1995 was as following:

Cash at Bank Rs.8,000; Debtors Rs.12,000; Stock Rs.10,000; Investments at Cost Rs.6,000; Furniture Rs.2,000 Plant Rs.7,000 Creditors Rs.21,000; Capital: A Rs.12,000; B Rs.8,000 and C Rs.4,000. The profits for the year 1996 were Rs.12,000 and the drawings were: A Rs.6,000, B Rs.6,000, C Rs.3,000 and D Rs.3,000.

You are required to journalise the opening adjustments, prepare the opening Balance Sheet of the new firm as on 1st January, 1996 and five the capital account of each partner as on 31st December, 1996.

Q.3 (Nov 1998) (15 Marks)

A and B are Partners of X & Co. sharing profits and loses in 3: 2 ratio between themselves. On 31st March, 1998, the Balance Sheet of the firm was as follows:

Balance Sheet of X & Co. as at 31. 3.1998

Liabilities		Rs.	Assets	Rs.
Capital Accounts:			Plant And Machinery	20,000
A	37,000		Furniture and Fitting	5,000
B	28,000	65,000	Stock	15,000
Sundry Creditors		5,000	Sundry Debtors	20,000
			Cash on Hand	10,000
		70,000		70,000

X agrees to join the business on the following conditions as and firm 1.4. 1998.

[a] He will introduce Rs.25,000 as his capital and pay ^15,000 at the partners as premium for Goodwill for 1 /3rd share of the future profits of the firm.

[b] A revaluation of assets of the firm will be made by reducing the value of Plant and Machinery to Rs.15,000, Stock by 10% Furniture and Fittings by Rs.1,000 and by making a provision of bad and doubtful debts at Rs.750 on Sundry debtors.

You are asked to prepare Profit and Loss Adjustment Account, Capital accounts of partners including the incoming partner X, Balance Sheet of the firm after admission of X and also find out the new profit sharing ratio assuming that the relative ratios of the old partners will be in equal proportion after admission.

Q.4 (Nov 2000) (15 Marks)

Hari and Ram were in partnership, sharing profits and losses equally. On 1st January, 1999, Suraj was admitted into partnership on the following terms:

Suraj is to have one- sixth share in the profits/losses, which he has got from Hari, paying him Rs.40,000 for that share as goodwill. Out of this amount Hari is to withdraw Rs.30,000 and the balance amount is to remain in the firm. It was further agreed that the value of investments should be reduced Rs.18,000 and plant to be valued at Rs.29,000. Creditors were to be reduced to Rs.3,000 as one of the creditors has closed his business and gone. Suraj is to bring in proportionate capital on his admission. The Balance sheet is at 31st December, 1998 was as follows:

Liabilities		Rs.	Assets	Rs.
Creditors:		1,05,000	Cash at Bank	40,000
Capitals:			Book Debts	60,000
Hari	60,000		Stock	50,000
Ram	60,000	1,20,000	Investments	30,000
			Furniture	10,000
			Plant	35,000
		2,25,000		2,25,000

The profits for the year ended 31st December 1999 were Rs.60,000 and the drawings were: Hari Rs.15,000; Ram Rs.22,500 and Suraj Rs.7,500

Journalise the entries on Suraj's admission and give the Capital Accounts and the Balance Sheet as at 31st December 1999.

Q.5 (Nov 2001) (15 Marks)

The Balance Sheet of A & B, a partnership firm, as at 31st March, 2001 is as follows:

Liabilities		Rs.	Assets	Rs.
Capital Account:			Goodwill	14,000
A	26,400		Land and Building	14,400
B	33,600	60,000	Furniture	2,200
Contingency Reserve		6,000	Stock	26,000
Sundry Creditors		9,000	Sundry Debtors	6,400
			Cash at Bank	12,000
		75,000		75,000

A & B share profits and losses as 1 : 2. They agree to admit C (who is also in business on his own) as a third partner from 1.4.2001:

The Assets are revalued as under:

Goodwill – Rs.18,000; Land and Building Rs.30,000; Furniture Rs.6,000, C bring the followings assets into the partnership - Goodwill Rs.6 000; Furniture Rs.2,800, Stocks Rs.13,600.

Profits in the new firm are to be shared equally by the three partners and the Capital Account are to be so adjusted as to be equal. For this purpose, additional cash should be brought in by the partner or partners concerned

Prepare the necessary accounts and the opening Balance Sheet of new firm, showing the amount fo cash, if any, which each partner may have to provide.

Q.6 (Nov 2004) (15 Marks)

The Balance Sheet of X & Y, a partnership firm, as at 31st March, 2004 is as follows:

Liabilities		Rs.	Assets	Rs.
Capital Account:			Goodwill	14,000
X	26,400		Land & Building	14,400
Y	33,600	60,000	Furniture	2,200
General Reserve		6,000	Stock	26,000
Sundry Creditors		9,000	Sundry Debtors	6,400
			Cash at Bank	12.000
		75,000		75,000

X & Y share profits and losses as 1 : 2. They agree to admit Z (who is also in business on his own) as a third partner from 1.4.2004. The Assets are revalued as under:
Goodwill – Rs.18,000, Land and Building Rs.30,000, Furniture Rs.6,000. Z brings the following assets into the partnership — Goodwill Rs.6,000, Furniture Rs.2,800, Stock Rs.13,600.

Profit in the new firm are to be shared equally by three partners and the Capital Accounts are to be so adjusted as to be equal. For this purpose, additional cash should be brought in by the partner or partners concerned.'
Prepare the necessary accounts and the opening Balance Sheet of new firm, showing the amounts of cash, if any, which each partner may have to Provide.

Q.7 (Nov 2006) (15 Marks)

The following is the Balance Sheet of A, B and C sharing Profits and Losses in the proportion of 6/14, 5/14 and 3/14 respectively :

Liabilities	Rs.	Assets	Rs.
Creditors	37,800	Cash	3,780
Bills Payable	12,600	Debtors	52,920
General Reserve	21,000	Stock	58,800
Capital Accounts :		Furniture	14,700
A	70,800	Land and Building	90,300
B	59,700	Goodwill	10,500
C	29.100		
	2,31,000		2,31,000

They agreed to take D into partnership and give him 1/8th share on the following terms :

[i] That furniture be depreciated by Rs.1,840.
[ii] That stock be depreciated by 10%.
[iii] That a provision of Rs.2,640 be made for outstanding repair bills.
[iv] That the value of land and building, having appreciated, be brought upto Rs.1,19,700.

[v] That the value of goodwill be brought up to Rs.28,140.
[vi] That D should bring in Rs.29,400 as his capital.
[vii] That after making the above adjustments the Capital accounts of old partners be adjusted on the basis of the proportion of D's capital to his share in the business and actual cash to be paid off or brought in by the old partners, as the case may be.

Prepare Revaluation Account, Partners' Capital Accounts and the balance Sheet of the new firm.

Q.8 (Nov 2006) (15 Marks)

On 31st March, 2006, the Balance Sheet of P, Q and Ft sharing profit and losses in proportion to their Capital stood as below:

Liabilities	Rs.	Assets	Rs.
Capital Account:		Land and Building	30,000
Mr. P	20,000	Plant and Machinery	20,000
Mr. Q	30,000	Stock of goods	12,000
Mr. R	20,000	Sundry debtors	11,000
Sundry Creditors	10,000	Cash and Bank Balances	7,000
	80,000		80,000

On 1st April, 2006, P desired to retire from the firm and remaining partners to carry on the business. It was agreed to revalue the assets and liabilities on
that date on the following basis:
[i] Land and Building be appreciated by 20%.
[ii] Plant and Machinery by depreciated by 30%.
[iii] Stock of goods to be valued at ?10,000.
[iv] Old credit balances of Sundry creditors, ?2,000 to be written back.
[v] Provisions for bad debts should be provided at 5%.
[vi] Joint life policy of the partners surrendered and cash obtained ?7,550.
[vii] Goodwill of the entire firm is valued at ?14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally, No goodwill account being raised,
[viii] The total capita! of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio,
[ix] Amount due to Mr. P is to be settled on the following basis: 50% on retirement and the balance 50% within one year,

Prepare (a) Revaluation Account, (b) The Capital accounts of the partners, (i) Cash account and (d) Balance Sheet of the new firm M/s Q and R as on in 01.04.2006.

Q.9 (Nov 2018) (15 Marks)

Dinesh, Ramesh and Naresh are partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Their Balance Sheet as on 31st March, 2018 is as below:

Liabilities	Rs.	Assets	Rs.
Trade Payables	22,500	Land & Buildings	37,000
Outstanding Liabilities	2,200	Furniture & Fixtures	7,200
General Reserve	7,800	Closing Stock	12,600
Capital Accounts:		Trade Receivables	10,700

Dinesh	15,000		Cash in Hand	2,800
Ramesh	15,000		Cash at Bank	2,200
Naresh	10,000	40,000		
		72,500		72,500

The partners have agreed to take Suresh as a partner with effect from 1st April, 2018 on the following terms:

[i] Suresh shall bring Rs.8,000 towards his capital.
[ii] The value of stock to be increased to Rs.14,000 and Furniture & Fixtures to be depreciated by 10%.
[iii] Reserve for bad and doubtful debts should be provided at 5% of the Trade Receivables.
[iv] The value of Land & Buildings to be increased by Rs.5,600 and the value of the goodwill be fixed at Rs.18,000.
[v] The new profit sharing ratio shall be divided equally among the partners.

The outstanding liabilities include Rs.700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books. Prepare (i) Revaluation Account, (ii) Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Suresh.

Q.10 (Dec 2021) **(10 Marks)**

A and B are partners, sharing profits and losses in the proportion of 3/4th and 1/4th As at 31st March, 2021, following is the Balance Sheet of A and B:

Balance Sheet as at 31st March, 2021

Liabilities		Rs.	Assets	Rs.
Capital accounts:			Cash in hand	1,15,000
A	2,85,000		Cash at bank	1,10,000
B	1,55,000	4,40,000	Sundry debtors	1,60,000
Creditors		3,75,000	Stock	2,00,000
General reserve		60,000	Bills receivable	30,000
			Land and building	2,50,000
			Office furniture	10,000
		8,75,000		8,75,000

They agreed to take C into Partnership on 1st April, 2021 on the following terms:

[i] Goodwill is to be valued at Rs.2,00,000. C is unable to bring cash for his share of goodwill. So, it was decided that due credit for goodwill be given to A and B for their sacrifice in favour of C through C's current account.
[ii] C pays Rs.1,40,000 as his capital for 1/S*1 share in the future profits.
[iii] Stock and Furniture be reduced by 10%.
[iv] A provision @ 5% for doubtful debts be created on debtors.
[v] Land and building be appreciated by 20%.
[vi] Capital Accounts of the partners be readjusted on the basis of their profit-sharing arrangement and any excess or deficiency is to ha transferred to their Current Accounts.

Prepare Revaluation Account and Partners Capital Accounts.

Unit 4 : Retirement of a Partner

Section 1 : True or False

Q.1 (May 2001) **(2 Marks)**

If a partner retires, then other partners have a gain in their profit sharing ratio.

Section 2 : Practical Questions

Q.1 (Nov 1996) **(20 Marks)**

Dowell & Co. is a partnership firm with partners Mr. A, Mr. B and Mr. C, sharing profits and losses in the ratio of 10:6:4. The Balance Sheet of the firm as at 31st March, 1996 is as under:

Liabilities		Rs.	Assets	Rs.
Capital:			Land	10,000
Mr. A	80,000		Buildings	2,00,000
Mr. B	20,000		Plant and Machinery	1,30,000
Mr. C	30,000	1,30,000	Furniture	43,000
Reserves (Unappropriated Profit)		20,000	Investments	12,000
Long Term Debt		3,00,000	Stock	1,30,000
Bank Overdraft		44,000	Debtors	1,39,000
Trade Creditors		1,70,000		
Total		6,64,000	Total	6,64,000

It was mutually agreed that Mr. B will retire from partnership, and in his place Mr. D will be admitted as a partner with effect from 1st April, 1996. For this purpose, the following adjustments are to be made:

[i] Goodwill is to be valued at Rs.1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

[ii] Buildings and Plant and Machinery are to be depreciated by 5 percent and 20 percent respectively. Investments are to be taken over by the retiring partner at Rs.15,000. Provision of 20 percent is to be made on debtors to cover doubtful debts.

[iii] In the reconstituted firm, the total capital will be 12 lakhs which will be contributed by Mr. A, Mr. C and Mr. D in their new profit sharing ratio, which is 2:2:1.

[iv] The surplus funds, if any, will be used for repaying the Bank Overdraft,

[v] The amount due to the retiring partner shall be transferred to his loan account.

You are to prepare:

(a) Revaluation A/c;

(b) Partner's Capital Accounts;

(c) Bank Account; and

(d) Balance Sheet of the reconstituted firm as on 1st April, 1996.

Q.2 (May 1997) (15 Marks)

On 31st March, 1997 the Balance Sheet of M/s Ram, Hah & Mohan sharing profits and losses in the ratio of 2:3:2, stood as follows:

Liabilities		Rs.	Assets	Rs.
Capital Accounts:			Land and Buildings	10,00,000
Ram	10,00,000		Machinery	17,00,000
Hari	15,00,000		Closing Stock	5,00,000
Mohan	10,00,000	35,00,000	Sundry Debtors	6,00,000
Sundry Creditors		5,00,000	Cash and Bank Balances	2,00,000
		40,00,000		40,00,000

On 31st March, 1997 Hari desired to retire from the firm and the remaining partners decided to carry on. It was agreed to revalue the Assets and Liabilities on that date on the following basis:

1. Land & Buildings be appreciated by 30%.
2. Machinery be depreciated by 20%.
3. Closing Stock to be valued at Rs.4,50,000.
4. Provision for bad debts be made at 5%.
5. Old credit balances of Sundry Creditors Rs.50,000 be written back.
6. Joint Life Policy of the partners surrendered and cash obtained Rs.3,50,000.
7. Goodwill of the entire firm be valued at Rs.6,30,000 and Hari's share of the Goodwill be adjusted in the accounts of Ram and Mohan who share the future profits & losses in the ratio of 3:2. No Goodwill Account being raised.
8. The total capital of the firm is to be the same as before retirement. Individual capital be in their profit sharing ratio.
9. Amount due to Hari is to be settled on the following basis: 50% on retirement and the balance 50% within one year.

Prepare Revaluation Account, Capital Accounts of Partners, Cash Account and Balance Sheet as on 1-4-1997 of M/s Ram & Mohan.

Q.3 (May 1998) (15 Marks)

A, B and C were in partnership sharing profits in the proportions of 5 :4 :3. The Balance Sheet of the firm as on 31st March, 1998 was as under:

Liabilities		Rs.	Assets	Rs.
Capital:	A	1,35,930	Goodwill	40,000
	B	95,120	Fixtures	8,200
	C	61,170	Stock	1,57,300
Sundry Creditors		41,690	Sundry Debtors	93,500
			Cash	34,910
		3,33,910		3,33,910

A had been suffering from ill-health and gave notice that he wished to retire. An agreement was, therefore, entered into as on 31st March, 1998, the terms of which were as follows:

[i] The Profit and Loss Account for the year ended 31st March, 1998 which showed a net profit of Rs.48,000 was to be re-opened. B was to be credited with Rs.4,000 as bonus, in consideration of the extra work which had devolved upon him during the year. The profit-sharing ratio was to be revised as from 1st April, 1998 to 3 : 4 : 4.

[ii] Goodwill was to be valued at two years purchase of the average profits of the preceding five years. The Fixtures were to be valued by an independent valuer. A provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book values.

The valuations arising out of the above agreement were Goodwill Rs.56,800 and Fixtures Rs.10,980.

B and C agreed, as between themselves, to continue the business, sharing profits in the ratio of 3 :2 and decided to eliminate Goodwill from the balance Sheet, to retain the Fixtures on the books at the revised value, and to increase the provision for doubtful debts to 6%.

You are squired to submit the journal entries necessary to give effect to the above arrangements and to draw up the capital account of the partners after carrying out all adjusting entries as stated above.

Q.3 (May 1999) (15 Marks)

K, L and M are partners sharing Profits and Losses in the ratio 5:3:2. Due to illness, L wanted to retire from the firm on 31.3.99 and admit his son N in his place.

Balance Sheet of K, L and M as on 31.3.99

Liabilities		Rs.	Assets	Rs.
Capital:			Goodwill	30,000
K	40,000		Furniture	20,000
L	60,000		Sundry Debtors	50,000
M	30,000	1,30,000	Stock in Trade	50,000
Reserve		50,000	Cash and Bank Balances	50,000
Sundry Creditors		20,000		
		2,00,000		2,00,000

On retirement of 'L' assets were revalued:

Goodwill Rs.50,000, Furniture Rs.10,000, Stock in Trade Rs.30,000.

50% of the amount due to 'L' was paid off in cash and the balance was retained in the firm as capital of N.

On admission of the new partner, goodwill has been written off.

M is paid off his extra balance to make capital proportionate.

Pass necessary Journal Entries and prepare Balance Sheet of M/s K, M, N as on 01.04.99. Show necessary workings.

Q.4 (May 2002) (20 Marks)

M/s X and Co. is a partnership firm with the partners A, B and C sharing Profits and Losses in the ratio of 3 : 2 : 5. The Balance Sheet of the firm as on 30th June 2001 was as under:

Balance Sheet of X and Co. as on 30-6-2001

Liabilities	Rs.	Assets	Rs.
A's Capital A/c	1,04,000	Land	1,00,000
B's Capital A/c	76,000	Building	2,00,000

C's Capital A/c	1,40,000	Plant and Machinery	3,80,000
Long term Loan	4,00,000	Investments	22,000
Bank overdraft A/c	44,000	Stock	1,16,000
Trade Creditors	1,93,000	Sundry Debtors	1,39,000
	9,57,000		9,57,000

It was mutually agreed that B will retire from Partnership and in his place D will be admitted as a partner with effect from 1st July, 2001. For this purpose, the following adjustments are to be made:

[a] Goodwill of the firm is to be valued at Rs.2 lakh due to the firm's locational advantage but the same will not appear as an asset in the books of the reconstituted firm.

[b] Buildings and Plant and Machinery are to be valued at 90% and 85% of the respective Balance Sheet values. Investments are to be taken over by the retiring partner at Rs.25,000. Sundry Debtors are considered good only 90% of Balance Sheet figure. Balance to be considered bad.

[c] In the reconstituted firm, the total Capital will be Rs.3 lakh, which will be contributed by A, C and D in their new profit sharing ratio, which is 3 : 4 : 3.

[d] The surplus funds, if any, will be used for repaying bank overdraft.

[e] The amount due to retiring partner shall be transferred to his Loan Account. You are required to prepare (1) Revaluation Account (2) Partner's Capital Account (3) Bank Account and (4) Balance Sheet of the reconstituted firm as on 1st July, 2001.

Q.5 (Nov 2002) (20 Marks)

A, B, C were in partnership sharing profits and losses in the ratio of 3:2:1. The Balance Sheet of the firm as on 31-3-2002 was as under:

Liabilities		Rs.	Assets	Rs.
Capital Accounts:			Goodwill	40,000
A	1,50,000		Fixtures	30,000
B	1,00,000		Stock	1,70,000
C	50,000	3,00,000	Sundry Debtors	90,000
Sundry Creditors		40,000	Cash	10,000
		3,40,000		3,40,000

A on account of ill health, gave notice that he wished to retire from the firm. A retirement agreement was, therefore, entered into as on 31.3.2002, the terms of which were as follows:

[a] The Profit and Loss account for the year ended 31.3.2002, which showed a net profit of Rs.42,000 was to be re-opened. B was to be credited with Rs.6,000 as bonus, in consideration of the extra work, which had devolved upon him during the year. The profit sharing basis was to be revised and the revised ratio to be 2:3:1 as and from 1st April, 2001.

[b] Goodwill was to be valued at two years' purchase of the average profits of five years. Profits for these five years ending on 31st March were as under:

	Rs.
31.03.1998	15,000
31.03.1999	23,000
31.03.2000	25,000

31.03.2001	35,000
31.03.2002	42,000

[c] Fixtures are to be valued at Rs.39,800 and a provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book value.

[d] That the amount payable to A shall be paid by B.

B and C agreed, as between themselves, to continue the business, sharing profits and losses in the ratio of 3:1 and decided to eliminate goodwill from Balance Sheet, to retain fixtures in the books at the revised value and "increase the provision for doubtful debts to 6%. Total capital of the firm will be Rs.3 lakhs as before to be maintained in the new ratio as between B and C.

You are required to give the necessary entries to give effect to the above arrangements. Prepare Capital Account of Partners, Cash Account and Balance Sheet of B and C after giving effect to the above arrangements on the retirement of A.

Q.6 (Nov 2005) (5 Marks)

A, B and C are partners in a firm sharing profits and losses in the ratio of 4 :3 :2. B decides to retire from the firm. Calculate the new profit sharing ratio of A and C in the following circumstances:

(i) If B gives his share to A and C in the original ratios of A and C.

(ii) If B gives his share to A and C in equal proportion,

(iii) If B gives his share to A and C in the ratio of 3:1.

(iv) If B gives his share to A only.

Q.7 (May 2018) (10 Marks)

A, B and C are partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as at 31st March, 2018 stood as:

Liabilities		Rs.	Assets		Rs.
Capital Accounts			Building		10,00,000
A	8,00,000		Furniture		2,40,000
B	4,20,000		Office equipment's		2,80,000
C	4,00,000	16,20,000	Stock		2,50,000
Sundry Creditors		3,70,000	Sundry debtors	3,00,000	
General Reserves		3,60,000	Less: Provision for Doubtful debts	30,000	2,70,000
			Joint life policy		1,60,000
			Cash at Bank		1,50,000
		23,50,000			23,50,000

B retired on 1st April, 2018 subject to the following conditions:

[i] Office Equipment's revalued at Rs.3,27,000.

[ii] Building revalued at Rs.15,00,000. Furniture is written down by Rs.40,000 and Stock is reduced to Rs.2,00,000.

[iii] Provision for Doubtful Debts is to be created @ 5% on Debtors.

[iv] Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is Rs.1,50,000.

[v] Goodwill was to be valued at 3 years purchase of average 4 years profit which were :

Year	Rs.
2014	90,000
2015	1,40,000
2016	1,20,000
2017	1,30,000

[vi] Amount due to B is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after B's retirement.

Q.8 (Nov 2020) (10 Marks)

M/s. TB is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June, 2020 was as under:

Balance Sheet of Ms. TB as on 30-6-2020

Liabilities	Rs.	Assets	Rs.
A's Capital A/c	1,24,000	Land	1,20,000
B's Capital A/c	96,000	Building	2,20,000
C's Capital A/c	1,60,000	Plant & Machinery	4,00,000
Long Term Loan	4,20,600	Investments	42,000
Bank Overdraft	64,000	Inventories	1,36,000
Trade Payables	2,13,000	Trade Receivables	1,59,000
	10,77,000		10,77,000

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2020. For this purpose, following adjustments are to be made:

[a] Goodwill of the firm is to be valued at Rs.3 lakhs due to the firm's location advantage but the same will not appear as an asset in the books of the reconstituted firm.

[b] Building and Plant & Machinery are to be valued at 95% and 80% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ^ 46,000. Trade receivables are considered good only upto 85% of the balance sheet figure.
Balance to be considered bad.

[c] In the reconstituted firm, the total capital will be Rs.4 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.

[d] The amount due to retiring partner shall be transferred to his loan account.

You are required to prepare Revaluation Account and Partners' Capital Accounts after reconstitution, along with working notes.

Q.9 (July 2021) (5 Marks)

(i) Attempt the following:

Rama, Krishna and Raghu shared profits and losses in the ratio of 5: 3: 2. They took out a Joint Life Policy in 2017 for Rs.50,000, a premium of Rs.3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:

2017 – Rs. Nil
2018 – Rs.900
2019 – Rs.2,000
2020 – Rs.3,600

Rama retired or 15th April, 2021 and the policy was surrendered. You are required to prepare Joint Life Policy Account from 2017 to 2021 (assuming the Policy Account is maintained at surrendered value basis).

Q.10 (June 2022) (5 Marks)

X , Y and Z are partners sharing profits and losses in the ratio of 1:2:3. Their Balance Sheet as on 31st March , 2021 was as follows:

Liabilities	Rs.	Assets	Rs.
Capitals:		Building	2,50,000
X	1,75,000	Machinery	3,37,500
Y	2,50,000	Debtors	3,25,000
Z	4,00,000	Stock	4,00,000
General Reserve	3,00,000	Bank	62,500
Trade Creditors	2,50,000		
Total	13,75,000	Total	13,75,000

Z retired from business on 1st April, 2021 on the following terms:

[i] Building to be appreciated by 25%.
[ii] X and Y to bring in additional capital of Rs.5,00,000 each.
[iii] Machinery to be depreciated by 10%.
[iv] Stock is revalued at Rs.3,72,250.
[v] Provision for Doubtful Debts to be created at 4%.
[vi] Goodwill was to be valued at 3 Years' purchase of average profits of past 3 years. The profits of past 3 years were Rs.2,75,000, Rs.2,50,000 and Rs.1,95,000 respectively.
[vii] Goodwill was not to be raised in the Books of Accounts.
[viii] Balance payable to Z was to be paid immediately.

Prepare Revaluation Account, Bank Account and Partners' Capital Accounts after giving effect to Z's retirement. Also show the valuation of Goodwill and pass a Journal Entry for adjustment of Goodwill.

Unit 5 : Death of a Partner

Section 1 : True or False

Q.1 (May 2005) (2 Marks)
The accounting procedure in case of retirement of partner and dissolution of the partnership firm are same.

Q.2 (July 2021) (2 Marks)
Business of partnership comes to an end on death of a partner.

Section 2 : Practical Questions

Q.1 (May 2000) (15 Marks)
The following was the Balance Sheet of Om & Co. in which X, Y and Z were partners sharing profits and losses in the ratio of 1:2:2 as on 31-3-1999. Mr. Z died on 31st December, 1999. His account has to be settled under the following terms:

Balance Sheet of Om & Co. as on 31-3-1999

Liabilities		Rs.	Assets	Rs.
Sundry Creditors		20,000	Goodwill	30,000
Bank Loan		50,000	Building	1,20,000
General Reserve		30,000	Computers	80,000
Capital Accounts:			Stock	20,000
X	40,000		Sundry Debtors	20,000
Y	80,000		Cash at Bank	20,000
Z	80,000	2,00,000	Investments	10,000
		3,00,000		3,00,000

Goodwill is to be calculated at the rate of two years purchase on the basis of average of last three years' profits and losses. The profits and losses for the three years were as detailed below:

Year ending on	Profit/Loss
31-3-1999	30,000
31-3-1998	20,000
31-3-1997	(10,000) Loss

Profit for the period from 1-4-1999 to 31-12-1999 shall be ascertained proportionately on the basis of average profits and losses of the preceding three years.
During the year ending on 31-3-1999 a car costing Rs.40,000 was purchased on 1-4-1998 and debited to travelling expenses account on which depreciation is to be calculated at 20% p.a. This asset is to be brought into account at the depreciated value.
Other values of assets were agreed as follows:
Stock at Rs.16,000; Building at Rs.1,40,000; Computers at Rs.50,000; Investments at Rs.6,000. Sundry Debtors were considered good. You are asked to prepare partners' Capital Accounts and Balance Sheet of the firm Om & Co. as on 31-12-1999 assuming that other items of assets and liabilities remained the same.

Q.2 (June 2019) (10 Marks)

Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally. Zoya died on 30th June 2018. The Balance Sheet of Firm as at 31st March 2018 stood as.

Liabilities	Rs.	Assets	Rs.	Rs.
Creditors	20,000	Land and Building		1,50,000
General Reserve	12,000	Investments		65,000
Capital Accounts:		Stock in trade		15,000
Monika	1,00,000	Trade receivables	35,000	
Yedhant	75,000	Less: Provision for		
Zoya	75,000	doubtful debt	2,000	33,000
		Cash in hand		7,000
		Cash at bank.		12,000
	2,82,000			2,82,000

In order to arrive at the balance due to Zoya, it was mutually agreed that:

[i] Land and Building be valued at Rs.1,75,000

[ii] Debtors were all good, no provision is required

[iii] Stock is valued at Rs.13,500

[iv] Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Monika and Yedhant.

[v] Zoya's share of profit from 1st April 2018, to the date of death be calculated on the basis of average profit of preceding three years.

[vi] The profit of the preceding five years ended 31st March were:

2018	2017	2016	2015	2014
25,000	20,000	22,500	35,000	28,750

You are required to prepare :

(1) Revaluation account

(2) Capital accounts of the partners and

(3) Balance sheet of the Firm as 1st July 2018.

Q.3 (Nov 2019) (10 Marks)

Arup and Swamp were partners. The partnership deed provides inter alia:

[i] That the annual accounts be balanced on 31sl December each year;

[ii] That the profits be allocated as follows:

Arup: One-half; Swarup: One-third and Carried to reserve account: One Sixth;

[iii] That in the event of death of a partner, his executor will be entitled to the following:

1. The capital to his credit at the date of death;
2. His proportionate share of profit to date of death based on the average profits of the last three completed years; and
3. His Share of goodwill based on three years' purchase of the average profits for the three preceding completed years.

Trial Balance as on 31st December 2018

Particulars	Dr. (Rs.)	Cr. (Rs.)
Arup's Capital		90,000

Swarup's Capital		60,000
Reserve		45,000
Bills receivable	50,000	
Investment	55,000	
Cash	1,10,000	
Trade payables		20,000
Total	2,15,000	2,15,000

The profits for the three year were 2016: Rs.51,000; 2017: Rs.39,000 and 2018: Rs.45,000. Swarup died on 1st May 2019.

Show the calculation of Swarup (A) Share of profits; (B) Share of Goodwill; (C) Draw up Swarup's Executors Account as would appear in the firm's ledger transferring the amount to the Loan account.

Q.4 (Jan 2021) (10 Marks)

The partnership deed of a firm consisting of 3 partners - P, Q and R (profit sharing ratio being 2:1:1) and whose fixed capitals are Rs.30,000, Rs.12,000 and Rs.8,000 respectively provides as follows:

[i] The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.

[ii] That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.

[iii] That an insurance policy of Rs.25,000 each was taken in individuals names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.

[iv] Upon the death of a partner, he is to be credited with his snare 01 me profits, interest on capitals, etc. calculated upto 31st December following his death.

[v] That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.

[vi] That the partnership books to be closed annually on 31st December. P died on 30th September, 2020. The amount standing to the credit of his current account as on 31st December, 2019 was Rs.5,000 and from that date to the date of death he had withdrawn Rs.30,000 from the business.

An unrecorded liability of Rs.6,000 was discovered on 30th September, 2020 and it was decided to record it and immediately pay it off.

The trading results of the firm (before charging interest on capital) had been as follows:

2017 : Profit Rs.29,340
2018 : Profit Rs.26,470
2019 : Loss Rs.8,320
2020 : Profit Rs.13,470

You are required to prepare an account showing , amount due to P's legal hair as on 31st December, 2020

Note: Impact for unrecorded liability not to be given in earlier years.

Q.5 (July 2021) (10 Marks)

It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:

[i] Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed years.

[ii] Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly installments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.

They shared profit and loss in the ratio 9:4:3.

Ram died on 30th September 2020 and Partner's Capital account balances on that date were : Ram – Rs.21,600, Laxman - Rs.12,800 and Bharat - Rs.7,200. Ram's current account on 30th September, 2020 after crediting his share of profit to that date, however showed a debit balance of Rs.1,920.

Firm profits were for the year ended

- 31st March, 2017 - Rs.70,400
- 31st March, 2018 - Rs.56,320
- 31st March, 2019 - Rs.48,160
- 31st March, 2020 - Rs.17,408

Show Ram's Capital Account and Executor's Account (of Ram) till full payment is made to Ram's Executor.