Illustration 1.

Farhan, Ashish and Samay were partners sharing profits in the ratio of 3 : 2 : 1. Samay retired from the firm on 1st April, 2023 on which date goodwill of the firm was valued at ₹ 2,40,000. Farhan and Ashish decided to share future profits in the ratio of 2 : 3 from that date. Pass the necessary Journal entries raising Goodwill for retiring and sacrificing partner in current value giving effect to it on Samay's retirement.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023				
April 1	Ashish's Capital A/c ...Dr.		64,000	
	To Samay's Capital A/c (5/30 × ₹ 2,40,000)			40,000
	To Farhan's Capital A/c (3/30 × ₹ 2,40,000)			24,000
	(Samay's and Farhan's share in goodwill adjusted)			

Working Note: *Calculation of Gain/(Sacrifice) of each partner:*

	Farhan	Ashish	Samay
I. New Share	2/5	3/5	—
II. Old Share	3/6	2/6	1/6
III. Gain/(Sacrifice) (I – II)	–3/30 (Sacrifice)	8/30 (Gain)	–1/6 or –5/30 (Sacrifice)

Illustration 2.

On 31st March, 2023, the Balance Sheet of M/s *A*, *B* and *C*, sharing profits and losses in proportion to their capitals, stood as follows:

Liabilities		₹	Assets		₹
Creditors		1,08,000	Cash at Bank		80,000
General Reserve		12,000	Debtors	1,00,000	
Capital A/cs:			*Less*: Provision for Doubtful Debts	2,000	98,000
A	4,50,000		Stock		90,000
B	3,00,000		Machinery		2,40,000
C	1,50,000	9,00,000	Land and Building		5,00,000
			Profit & Loss A/c		12,000
		10,20,000			10,20,000

B retired from the firm on 1st April, 2023 and the remaining partners decided to carry on the partnership. Following adjustments of assets and liabilities were agreed before the amount payable to *B* was determined:

(i) Out of the Fire Insurance Premium, ₹ 10,000 be carried forward as unexpired.

(ii) Land and Building be appreciated by 10%.

(iii) Provision for Doubtful Debts be brought up to 5% of Debtors.

(iv) Machinery be decreased by 5%.

(v) Provision of ₹ 15,000 be made for repairs.

(vi) Goodwill of the firm be fixed at ₹ 1,80,000 and *B*'s share thereof be adjusted in the Capital Accounts of *A* and *C* who share the future profits in the proportion of 3/4th and 1/4th respectively.

(vii) *B* be paid ₹ 50,000 in cash and the balance be transferred to his Loan Account.

Prepare Revaluation Account, Capital Accounts of Partners and the Balance Sheet of the firm of *A* and *C*.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts A/c (₹ 5,000 – ₹ 2,000)		3,000	By Unexpired Fire Insurance Premium A/c	10,000
To Machinery A/c		12,000	By Land and Building A/c—Appreciation	50,000
To Provision for Repairs A/c		15,000		
To Gain (Profit) transferred to:				
A's Capital A/c	15,000			
B's Capital A/c	10,000			
C's Capital A/c	5,000	30,000		
		60,000		60,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Profit & Loss A/c	6,000	4,000	2,000	By Balance *b/d*	4,50,000	3,00,000	1,50,000
To *B*'s Capital A/c —Goodwill (Note)	45,000	...	15,000	By General Reserve A/c	6,000	4,000	2,000
To Bank A/c	...	50,000	...	By Revaluation A/c —Gain (Profit)	15,000	10,000	5,000
To *B*'s Loan A/c —Transfer	...	3,20,000	...	By *A*'s Capital A/c (Note)	...	45,000	...
To Balance *c/d*	4,20,000	...	1,40,000	By *C*'s Capital A/c (Note)	...	15,000	...
	4,71,000	3,74,000	1,57,000		4,71,000	3,74,000	1,57,000

BALANCE SHEET OF *A* AND *C* *as at 1st April, 2023*

Liabilities		₹	Assets		₹
Creditors		1,08,000	Cash at Bank		30,000
Provision for Repairs		15,000	Stock		90,000
B's Loan		3,20,000	Debtors	1,00,000	
Capital A/cs:			*Less*: Provision for Doubtful Debts	5,000	95,000
A	4,20,000		Unexpired Fire Insurance Premium		10,000
C	1,40,000	5,60,000	Machinery		2,28,000
			Land and Building	5,00,000	
			Add: Appreciation	50,000	5,50,000
		10,03,000			10,03,000

Note: *B*'s share of goodwill ₹ 60,000 (*i.e.*, ₹ 1,80,000 × 1/3) has been debited to *A* and *C* in their gaining ratio, *i.e.*, 3 : 1 and credited to *B* by means of the following Journal entry:

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	A's Capital A/c (3/4th)	...Dr.		45,000	
	C's Capital A/c (1/4th)	...Dr.		15,000	
	To *B*'s Capital A/c				60,000
	(Share of *B* in goodwill adjusted)				

Illustration 3 (*Payment by Instalments, Instalment includes Interest*).

Following is the Balance Sheet as at 31st March, 2020 of M/s Gopal, Hari and Param who share profits in the ratio of 4 : 2 : 1:

Liabilities		₹	Assets	₹
Capital A/cs:			Goodwill	7,000
Gopal	30,000		Land and Building	20,000
Hari	20,000		Plant and Machinery	26,500
Param	15,000	65,000	Motor Vehicle	13,000
General Reserve		10,500	Stock	15,000
Sundry Creditors		15,000	Sundry Debtors	11,000
Bills Payable		2,000		
		92,500		92,500

Gopal retired on 1st April, 2020 and following terms were agreed upon:

(i) Goodwill of the firm is to be valued at ₹ 21,000.

(ii) The assets and liabilities are to be valued as under:
Stock ₹ 12,000; Sundry Debtors ₹ 10,500; Plant and Machinery ₹ 25,000 and Sundry Creditors ₹ 14,000.

(iii) An unrecorded machinery valued at ₹ 2,600 is to be recorded.

(iv) Hari and Param were to introduce ₹ 20,000 and ₹ 5,000 respectively into the business and ₹ 16,200 were to be paid to Gopal. The balance due to Gopal was to be paid in three annual instalments, two instalments to be of ₹ 11,500 each and balance in last instalments. It will carry interest @ 10% p.a.

Prepare Revaluation Account, Partners' Capital Accounts and Gopal's Loan Account until it is paid.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Stock A/c	3,000	By Plant and Machinery A/c		2,600
To Provision for Doubtful Debts A/c	500	(Unrecorded Machinery)		
To Plant and Machinery A/c	1,500	By Sundry Creditors A/c		1,000
		By Loss on Revaluation transferred to:		
		Gopal's Capital A/c (4/7)	800	
		Hari's Capital A/c (2/7)	400	
		Param's Capital A/c (1/7)	200	1,400
	5,000			5,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Gopal (₹)	Hari (₹)	Param (₹)	Particulars	Gopal (₹)	Hari (₹)	Param (₹)
To Goodwill A/c	4,000	2,000	1,000	By Balance *b/d*	30,000	20,000	15,000
To Gopal's Capital A/c	...	8,000	4,000	By Hari's Capital A/c	8,000	...	...
To Revaluation A/c (Loss)	800	400	200	By Param's Capital A/c	4,000	...	...
To Cash A/c	16,200	...	...	By General Reserve A/c	6,000	3,000	1,500
To Gopal's Loan A/c	27,000	...	...	By Cash A/c	...	20,000	5,000
To Balance *c/d*	...	32,600	16,300				
	48,000	43,000	21,500		48,000	43,000	21,500

Dr. GOPAL'S LOAN ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2021			2020		
March 31	To Bank A/c	11,500	April 1	By Gopal's Capital A/c	27,000
			2021		
March 31	To Balance *c/d*	18,200	March 31	By Interest A/c (10% on ₹ 27,000)	2,700
		29,700			29,700
2022			2021		
March 31	To Bank A/c	11,500	April 1	By Balance *b/d*	18,200
			2022		
March 31	To Balance *c/d*	8,520	March 31	By Interest A/c (10% on ₹ 18,200)	1,820
		20,020			20,020
2023			2022		
March 31	To Bank A/c	9,372	April 1	By Balance *b/d*	8,520
			2023		
			March 31	By Interest A/c (10% on ₹ 8,520)	852
		9,372			9,372

Illustration 4 (*When Retiring Partner is to be paid through Amount Brought in by Remaining Partners in a manner that their Capitals are Proportionate to New Ratio and also leave desired Cash Balance*).

A, *B* and *C* were equal partners. Their Balance Sheet as at 31st March, 2023 was:

BALANCE SHEET
as at 31st March, 2023

Liabilities		₹	Assets		₹
Bills Payable		20,000	Bank Balance		20,000
Creditors		40,000	Stock		20,000
General Reserve		30,000	Debtors	45,000	
Profit & Loss A/c		6,000	*Less:* Provision for Doubtful Debts	5,000	40,000
Capital A/cs:			Furniture		28,000
A	60,000		Land and Building		1,20,000
B	40,000				
C	32,000	1,32,000			
		2,28,000			2,28,000

B retired on 1st April, 2023. *A* and *C* decided to continue the business as equal partners on the following terms:

(i) Goodwill of the firm was valued at ₹ 57,600.

(ii) The Provision for Doubtful Debts to be maintained @ 10% on Debtors.

(iii) Land and Building to be increased to ₹ 1,32,000.

(iv) Furniture to be reduced by ₹ 8,000.

(v) Rent Outstanding (not provided for as yet) was ₹ 1,500.

Remaining partners decided to bring adequate amount to pay *B* and to maintain a bank balance of ₹ 24,800. They also decided to readjust their capitals as per their new profit-sharing ratio.

Prepare the necessary Ledger Accounts and the Balance Sheet.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Furniture A/c		8,000	By Provision for Doubtful Debts A/c	500
To Outstanding Rent A/c		1,500	By Land and Building A/c	12,000
To Gain (Profit) transferred to:				
A's Capital A/c	1,000			
B's Capital A/c	1,000			
C's Capital A/c	1,000	3,000		
		12,500		12,500

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To *B*'s Capital A/c (Goodwill)	9,600	...	9,600	By Balance *b/d*	60,000	40,000	32,000
To Bank A/c	...	72,200	...	By General Reserve A/c	10,000	10,000	10,000
To Balance *c/d* (WN 1)	87,900	...	87,900	By Profit & Loss A/c	2,000	2,000	2,000
				By *A*'s Capital A/c	...	9,600	...
				By *C*'s Capital A/c	...	9,600	...
				By Revaluation A/c —Gain (Profit)	1,000	1,000	1,000
				By Bank A/c (Balancing Figure)	24,500	...	52,500
	97,500	72,200	97,500		97,500	72,200	97,500

Dr. BANK ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance *b/d*	20,000	By *B*'s Capital A/c	72,200
To *A*'s Capital A/c	24,500	By Balance *c/d*	24,800
To *C*'s Capital A/c	52,500		
	97,000		97,000

BALANCE SHEET OF *A* AND *C*
as at 1st April, 2023

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		1,32,000
A	87,900		Furniture		20,000
C	87,900	1,75,800	Stock		20,000
Creditors		40,000	Debtors	45,000	
Bills Payable		20,000	*Less:* Provision for Doubtful Debts	4,500	40,500
Outstanding Rent		1,500	Bank		24,800
		2,37,300			2,37,300

Working Notes:

1. *Capitals of A and C in the New Firm:*

		₹
Assets will remain as:		
Land and Building		1,32,000
Furniture		20,000
Stock		20,000
Debtors		45,000
Bank (Required)		24,800
		2,41,800
Less: Creditors	40,000	
Bills Payable	20,000	
Outstanding Rent	1,500	
Provision for Doubtful Debts	4,500	66,000
Capital of the new firm		1,75,800

Alternatively, Capital of New Firm may be calculated as follows:	₹
A's Adjusted Capital [₹ 60,000 + ₹ 10,000 + ₹ 2,000 + ₹ 1,000 – ₹ 9,600]	63,400
C's Adjusted Capital [₹ 32,000 + ₹ 10,000 + ₹ 2,000 + ₹ 1,000 – ₹ 9,600]	35,400
Shortage of Cash [₹ 72,200 (B) – ₹ 20,000 (Existing) + ₹ 24,800 (Required)]	77,000
Total Capital of New Firm	1,75,800

A and *C* decide to share future profits in 1 : 1.

Thus, capital of each partner will be ₹ 87,900 (*i.e.*, ₹ 1,75,800 × 1/2).

2. *Calculation of amount to be brought in or paid:*

	A (₹)	C (₹)
(i) New Capital (₹ 1,75,800 in the ratio of 1 : 1)	87,900	87,900
(ii) Adjusted Old Capital	63,400	35,400
(iii) Amount to be brought in (paid) (i – ii)	24,500	52,500

Illustration 5.

Aqsa, Irfan and Zoya are partners sharing profits and losses in the ratio of 4 : 3 : 1. Irfan retired on 1st April, 2022, giving his share of profit to Aqsa and Zoya for ₹ 60,000. ₹ 35,000 being paid by Aqsa and ₹ 25,000 by Zoya. Profit for the year ended 31st March, 2023 was ₹ 32,000. Pass necessary Journal entries for the above transactions and calculate new profit-sharing ratio.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2022					
April 1	Aqsa's Capital A/c	...Dr.		35,000	
	Zoya's Capital A/c	...Dr.		25,000	
	To Irfan's Capital A/c				60,000
	(Irfan's share of goodwill adjusted in Capital Accounts of Aqsa and Zoya in gaining ratio, *i.e.*, 7 : 5)				
	Infan's Capital A/c	...Dr.		60,000	
	To Bank A/c				60,000
	(Share of profit of Infan paid)				
2023					
March 31	Profit & Loss Appropriation A/c	...Dr.		32,000	
	To Aqsa's Capital A/c				23,000
	To Zoya's Capital A/c				9,000
	(Amount of profit distributed between Aqsa and Zoya in their new profit-sharing ratio of 23 : 9)				

Working Note: *Calculation of New Profit-sharing Ratio:*

Irfan sells his share of profit to Aqsa and Zoya for ₹ 35,000 and ₹ 25,000 respectively. Therefore, Gaining Ratio of Aqsa and Zoya = ₹ 35,000 : ₹ 25,000 or 7 : 5.

Profit Share acquired by Aqsa = $\frac{3}{8} \times \frac{7}{12} = \frac{7}{32}$; Profit Share acquired by Zoya = $\frac{3}{8} \times \frac{5}{12} = \frac{5}{32}$;

Aqsa's New Profit Share = $\frac{4}{8} + \frac{7}{32} = \frac{23}{32}$; Zoya's New Profit Share = $\frac{1}{8} + \frac{5}{32} = \frac{9}{32}$

Thus, New Profit-sharing Ratio of Aqsa and Zoya = $\frac{23}{32} : \frac{9}{32}$ = 23 : 9.

Illustration 6.

X, *Y* and *Z* were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 31st March, 2015, their Balance Sheet was as follows:

BALANCE SHEET OF *X*, *Y* AND *Z* *as on 31st March, 2015*

Liabilities		₹	Assets		₹
Creditors		21,000	Land and Building		62,000
Investment Fluctuation Fund		10,000	Motor Vans		20,000
Profit & Loss A/c		40,000	Investments		19,000
Capital A/cs: *X*	50,000		Machinery		12,000
Y	40,000		Stock		15,000
Z	20,000	1,10,000	Debtors	40,000	
			Less: Provision	3,000	37,000
			Cash		16,000
		1,81,000			1,81,000

On the above date, *Y* retired and *X* and *Z* agreed to continue the business on the following terms:

(a) Goodwill of the firm was valued at ₹ 51,000.

(b) There was a claim of ₹ 4,000 for Workmen's Compensation.

(c) Provision for bad debts was to be reduced by ₹ 1,000.

(d) *Y* will be paid ₹ 8,200 in cash and the balance will be transferred in his Loan Account which will be paid in four equal yearly instalments together with interest @ 10% p.a.

(e) The new profit-sharing ratio between *X* and *Z* will be 3 : 2 and their capitals will be in their new profit-sharing ratio. The capital adjustments will be done by opening Current Accounts.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm. *(Delhi 2016)*

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Workmen's Compensation Claim A/c	4,000	By Provision for Doubtful Debts A/c		1,000
		By Loss transferred to:		
		X's Capital A/c	1,500	
		Y's Capital A/c	900	
		Z's Capital A/c	600	3,000
	4,000			4,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To Revaluation A/c (Loss)	1,500	900	600	By Balance *b/d*	50,000	40,000	20,000
To *Y*'s Capital A/c	5,100	...	10,200	By Investment Fluctuation			
To Cash A/c	...	8,200	...	Fund A/c	5,000	3,000	2,000
To *Y*'s Loan A/c	...	61,200	...	By Profit & Loss A/c	20,000	12,000	8,000
To *X*'s Current A/c	15,840	...	...	By *X*'s Capital A/c	...	5,100	...
(Balancing Figure)				By *Z*'s Capital A/c	...	10,200	...
To Balance *c/d* (WN 3)	52,560	...	35,040	By *Z*'s Current A/c	...	...	15,840
				(Balancing Figure)			
	75,000	70,300	45,840		75,000	70,300	45,840

BALANCE SHEET OF RECONSTITUTED FIRM *as at 31st March, 2015*

Liabilities		₹	Assets		₹
Creditors		21,000	Land and Building		62,000
Workmen's Compensation Claim		4,000	Motor Vans		20,000
Y's Loan		61,200	Investments		19,000
Capital A/cs:			Machinery		12,000
X	52,560		Stock		15,000
Z	35,040	87,600	Debtors	40,000	
X's Current A/c		15,840	*Less:* Provision for Doubtful Debts	2,000	38,000
			Cash (₹ 16,000 – ₹ 8,200)		7,800
			Z's Current A/c		15,840
		1,89,640			1,89,640

Working Notes:

1. *Calculation of Gaining Ratio:*

	X	*Z*
I. New Profit Share	3/5	2/5
II. Old Profit Share	5/10	2/10
III. Gain/(Sacrifice) (I – II)	1/10	2/10

2. *Y*'s share of Goodwill = 3/10 of ₹ 51,000, *i.e.*, ₹ 15,300, which will be contributed by *X* and *Z* in their gaining ratio of 1 : 2. Thus, *X* and *Z* will contribute ₹ 5,100 and ₹ 10,200 respectively.

3. *Combined Capital of X and Z:*

	₹	₹
Total Assets:		
Land and Building		62,000
Motor Vans		20,000
Investments		19,000
Machinery		12,000
Stock		15,000
Debtors	40,000	
Less: Provision for Doubtful Debts	2,000	38,000
Cash		7,800
		1,73,800
Less: Liabilities:		
Creditors	21,000	
Workmen's Compensation Claim	4,000	
Y's Loan	61,200	86,200
Combined Capital of *X* and *Z*		87,600

Thus, *X*'s Capital is 3/5th of ₹ 87,600 = ₹ 52,560; *Z*'s Capital is 2/5th of ₹ 87,600 = ₹ 35,040.

Illustration 7 (*Profit-sharing Ratio of remaining partners does not change*).

A, *B* and *C* are partners, sharing profits and losses in the ratio of 2 : 2 : 1. *C* retires on 30th June, 2022. The Balance Sheet of the firm as at 31st March, 2022 stood as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Land and Building	10,00,000
A	6,00,000		Investments	1,25,000
B	6,00,000		Stock	2,50,000
C	4,00,000	16,00,000	Sundry Debtors	4,00,000
General Reserve		4,00,000	Cash in Hand	1,00,000
Sundry Creditors		1,00,000	Cash at Bank	2,25,000
		21,00,000		21,00,000

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

(i) Land and Building be valued at ₹ 12,00,000.

(ii) Investments to be valued at ₹ 1,00,000.

(iii) Stock be taken at ₹ 3,00,000.

(iv) Goodwill be valued at two years' purchase of the average profit of the past five years.

(v) *C*'s share of profits up to the date of retirement be calculated on the basis of average profit of the preceding three years.

The profits of the preceding five years ended 31st March, were as under:

Year	2018	2019	2020	2021	2022
Profits (₹)	2,00,000	2,35,000	3,00,000	2,75,000	3,25,000

(vi) Amount payable to *C* to be transferred to his Loan Account carrying interest @ 10% p.a.

You are required to prepare Revaluation Account, Partners' Capital Accounts, and the Balance Sheet as at 30th June, 2022.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Investments A/c		25,000	By Land and Building A/c	2,00,000
To Gain (Profit) transferred to Partners' Capital A/cs:			By Stock A/c	50,000
A	90,000			
B	90,000			
C	45,000	2,25,000		
		2,50,000		2,50,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To *C*'s Capital A/c	53,400	53,400	...	By Balance *b/d*	6,00,000	6,00,000	4,00,000
To *C*'s Loan A/c	...	...	6,46,800	By *A*'s Capital A/c (WN 1)	...	...	53,400
To Balance *c/d*	7,96,600	7,96,600	...	By *B*'s Capital A/c (WN 1)	...	...	53,400
				By General Reserve A/c	1,60,000	1,60,000	80,000
				By Revaluation A/c —Gain (Profit)	90,000	90,000	45,000
				By Profit & Loss Suspense A/c (WN 3)	...	...	15,000
	8,50,000	8,50,000	6,46,800		8,50,000	8,50,000	6,46,800

BALANCE SHEET OF *A* AND *B* *as at 30th June, 2022*

Liabilities		₹	Assets	₹
Capital A/cs:			Land and Building	12,00,000
A	7,96,600		Investments	1,00,000
B	7,96,600	15,93,200	Stock	3,00,000
10% *C*'s Loan		6,46,800	Sundry Debtors	4,00,000
Sundry Creditors		1,00,000	Cash at Bank	2,25,000
			Cash in Hand	1,00,000
			Profit & Loss Suspense A/c	15,000
		23,40,000		23,40,000

Working Notes:

1. *Valuation and Adjustment of Goodwill:*

$$\text{Average Profit} = \frac{₹\ 2,00,000 + ₹\ 2,35,000 + ₹\ 3,00,000 + ₹\ 2,75,000 + ₹\ 3,25,000}{5} = ₹\ 2,67,000$$

$$\text{Goodwill} = \text{No. of Years' Purchase} \times \text{Average Profit}$$

$$= 2 \times ₹\ 2,67,000 = ₹\ 5,34,000$$

C's Share of Goodwill = ₹ 5,34,000 × 1/5 = ₹ 1,06,800, which will be contributed by *A* and *B* in their gaining ratio, *i.e.*, equally.

2. *Calculation of C's Share of Profit:*

(a) Average profit (last three years) $= \frac{₹\ 3,00,000 + ₹\ 2,75,000 + ₹\ 3,25,000}{3} = ₹\ 3,00,000.$

(b) Profit (from 1st April, 2022 to 30th June, 2022) $= ₹\ 3,00,000 \times \frac{3}{12} = ₹\ 75,000.$

(c) *C*'s Share of Profit $= ₹\ 75,000 \times \frac{1}{5} = ₹\ 15,000.$

3. *Journal entry for C's share of Profit:*

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2022					
June 30	Profit & Loss Suspense A/c	...Dr.		15,000	
	To *C*'s Capital A/c				15,000
	(*C*'s share of profit credited)				

Illustration 8.

Rajesh, Sudhir and Anil were partners sharing profits in the ratio of 5 : 3 : 2. Anil retired from partnership on 1st August, 2023. Balance Sheet as at 31st March, 2023 was as follows:

BALANCE SHEET *as at 31st March, 2023*

Liabilities		₹	Assets	₹
Capital A/cs:			Land	1,00,000
Rajesh	90,000		Building	50,000
Sudhir	80,000		Stock	75,000
Anil	70,000	2,40,000	Loan to Anil	75,000
Workmen Compensation Reserve		50,000	Cash in Hand	20,000
Sundry Creditors		1,00,000	Cash at Bank	80,000
Expenses Payable		10,000		
		4,00,000		4,00,000

Anil retired on the following terms:

(i) Building was to be valued at ₹ 40,000.

(ii) An unrecorded liability for damages claim of ₹ 5,000 is to be recorded.

(iii) Anil's share of profit or loss from the beginning to the date of retirement was to be determined on the basis of last year's profit or loss. The firm had incurred a loss of ₹ 60,000 in the last year.

(iv) Amount due to or receivable from Anil will be immediately transacted.

Prepare Revaluation Account and Anil's Capital Account on his retirement.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Building A/c	10,000	By Loss transferred to:	
To Liability for Damages Claim A/c	5,000	Rajesh's Capital A/c	7,500
		Sudhir's Capital A/c	4,500
		Anil's Capital A/c	3,000
	15,000		15,000

Dr. ANIL'S CAPITAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Loan to Anil A/c	75,000	By Balance *b/d*	70,000
To Revaluation A/c (Loss)	3,000	By Workmen Compensation Reserve A/c	10,000
To Profit & Loss Suspense A/c (WN 3) (Share of Loss)	4,000	By Bank A/c (Balancing Figure)	2,000
	82,000		82,000

Working Notes:

1. Anil's Share of Loss = ₹ 60,000 × 4/12 × 2/10 = ₹ 4,000.
2. In the absence of information of rate of interst on Loan to Anil, interest thereon is not calculated.
3. *Journal entry for Anil's Share of loss from 1st April, 2023 to 31st July, 2023:*

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023 Aug. 1	Anil's Capital A/c ...Dr.		4,000	
	To Profit & Loss Suspense A/c			4,000
	(Anil's share of loss debited)			

Illustration 9 (*Adjustment of Profit Share of Retiring Partner when Profit-sharing Ratio of Remaining Partners changes*).

Pawan, Pramod and Jatin are partners sharing profits in the ratio of 5 : 3 : 2. Jatin retired from the firm on 1st July, 2023. Balance Sheet of the firm as on 31st March, 2023 was as follows:

BALANCE SHEET *as at 31st March, 2023*

Liabilities		₹	Assets	₹
Capital A/cs:			Land	2,00,000
Pawan	3,00,000		Building	2,00,000
Pramod	2,50,000		Computers	50,000
Jatin	1,50,000	7,00,000	Furniture	50,000
Investments Fluctuation Reserve		30,000	Investments	1,00,000
Sundry Creditors		1,20,000	Stock	2,50,000
Bills Payable		50,000	Cash in Hand	10,000
			Cash at Bank	40,000
		9,00,000		9,00,000

Jatin retired and following was agreed:

(i) Land is to be valued at ₹ 2,50,000.
(ii) Building is to be reduced by ₹ 20,000.
(iii) Unrecorded furniture of ₹ 10,000 was to be recorded.

(iv) Stock to be increased to ₹ 2,70,000.
(v) Market value of the investments is ₹ 1,00,000.
(vi) Goodwill as on the date of retirement is determined at ₹ 1,20,000.
(vii) Jatin's share of profit or loss from the beginning of the year till the date of retirement is to be determined on the basis of past three years' average profit, which was ₹ 2,40,000.

Pawan and Pramod decided to share profits in future in the ratio of 3 : 2.

Pass the Journal entries giving effect to the above.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
July 1	Land A/c	...Dr.		50,000	
	Furniture A/c	...Dr.		10,000	
	Stock A/c	...Dr.		20,000	
	To Revaluation A/c				80,000
	(Increase in values of assets and unrecorded furniture recorded)				
	Revaluation A/c	...Dr.		20,000	
	To Building A/c				20,000
	(Decrease in value of Building recorded)				
	Revaluation A/c	...Dr.		60,000	
	To Pawan's Capital A/c				30,000
	To Pramod's Capital A/c				18,000
	To Jatin's Capital A/c				12,000
	(Gain on revaluation transferred to Partners' Capital Accounts in their old profit-sharing ratio)				
	Investments Fluctuation Reserve A/c	...Dr.		30,000	
	To Pawan's Capital A/c				15,000
	To Pramod's Capital A/c				9,000
	To Jatin's Capital A/c				6,000
	(Investments Fluctuation Reserve transferred to Partners' Capital Accounts in their old profit-sharing ratio)				
	Pawan's Capital A/c	...Dr.		12,000	
	Pramod's Capital A/c	...Dr.		12,000	
	To Jatin's Capital A/c				24,000
	(Jatin's share of goodwill debited to Gaining Partners in their gaining ratio)				
	*Profit & Loss Suspense A/c (₹ 2,40,000 × 3/12 × 2/10)	...Dr.		12,000	
	To Jatin's Capital A/c				12,000
	(Jatin's share of profit from the beginning of the year up to the date of retirement credited)				
	*Pawan's Capital A/c	...Dr.		6,000	
	Pramod's Capital A/c	...Dr.		6,000	
	To Profit & Loss Suspense A/c				12,000
	(Balance of Profit & Loss Suspense A/c transferred to continuing partners in their gaining ratio)				
	**Alternatively: Following Single Entry may be passed instead of passing above two entries:*				

	Pawan's Capital A/c ...Dr. Pramod's Capital A/c ...Dr. To Jatin's Capital A/c (Jatin's share of profit debited to continuing partners in their gaining ratio)		6,000 6,000	 12,000
	Jatin's Capital A/c ...Dr. To Jatin's Loan A/c (Amount due to Jatin transferred to his Loan Account)		2,04,000	 2,04,000

Working Note: *Calculation of Gaining Ratio:*

	Pawan	Pramod
I. New Profit Share	3/5	2/5
II. Old Profit Share	5/10	3/10
III. Gain (I – II)	1/10	1/10

Thus, Gaining Ratio = 1 : 1.

Illustration 10 (*Adjustment of Loss Share of Retiring Partner when Profit-sharing Ratio of Remaining Partners changes*).

Paras, Atul and Saurab are partners sharing profits in the ratio of 1 : 1 : 3. Saurab retired from the firm on 1st January, 2023. Balance Sheet of the firm as on 31st March, 2022 was as follows:

BALANCE SHEET *as at 31st March, 2022*

Liabilities		₹	Assets	₹
Capital A/cs:			Land	2,00,000
Paras	3,00,000		Building	2,00,000
Atul	2,50,000		Computers	50,000
Saurab	1,50,000	7,00,000	Furniture	50,000
Workmen Compensation Reserve		12,000	Stock	3,50,000
Sundry Creditors		1,38,000	Cash in Hand	10,000
Bills Payable		50,000	Cash in Bank	40,000
		9,00,000		9,00,000

Saurab retired and following was agreed:

(i) Land is to be valued at ₹ 2,50,000.

(ii) Building is to be reduced by ₹ 20,000.

(iii) Unrecorded furniture of ₹ 10,000 was to be recorded.

(iv) Stock to be increased by ₹ 20,000.

(v) There is no claim against Workmen Compensation Reserve.

(vi) Goodwill as on the date of retirement is determined at ₹ 1,80,000.

(vii) Saurab's share of profit or loss from the beginning of the year till the date of retirement is to be determined on the basis of last year's profit. The firm incurred loss of ₹ 1,20,000 in the previous year.

Paras and Atul decided to share future profits in the ratio of 3 : 2.

Pass the Journal entries giving effect to the above.

Solution:

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Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
Jan. 1	Land A/c	...Dr.		50,000	
	Furniture A/c	...Dr.		10,000	
	Stock A/c	...Dr.		20,000	
	To Revaluation A/c				80,000
	(Increase in values of assets and unrecorded furniture recorded)				
	Revaluation A/c	...Dr.		20,000	
	To Building A/c				20,000
	(Decrease in value of Building recorded)				
	Revaluation A/c	...Dr.		60,000	
	To Paras's Capital A/c				12,000
	To Atul's Capital A/c				12,000
	To Saurab's Capital A/c				36,000
	(Gain on revaluation transferred to Partners' Capital Accounts in their old profit-sharing ratio)				
	Workmen Compensation Reserve A/c	...Dr.		12,000	
	To Paras's Capital A/c				2,400
	To Atul's Capital A/c				2,400
	To Saurab's Capital A/c				7,200
	(Workmen Compensation Reserve transferred to Partners' Capital Accounts in their old profit-sharing ratio)				
	Paras's Capital A/c	...Dr.		72,000	
	Atul's Capital A/c	...Dr.		36,000	
	To Saurab's Capital A/c				1,08,000
	(Saurab's share of goodwill debited to Gaining Partners in gaining ratio)				
	*Saurab's Capital A/c (₹ 1,20,000 × 9/12 × 3/5)	...Dr.		54,000	
	To Profit & Loss Suspense A/c				54,000
	(Jatin's share of loss from the beginning of the year up to the date of retirement debited)				
	*Profit & Loss Suspense A/c	...Dr.		54,000	
	To Paras's Capital A/c				36,000
	To Atul's Capital A/c				18,000
	(Balance of Profit & Loss Suspense A/c transferred to continuing partners in their gaining ratio)				
	**Alternatively, Following Single Entry may be passed instead of passing above two entries:*				
	Saurab's Capital A/c	...Dr.		54,000	
	To Paras's Capital A/c				36,000
	To Atul's Capital A/c				18,000
	(Saurab's share of loss credited to continuing partners in their gaining ratio)				
	Saurab's Capital A/c	...Dr.		2,47,200	
	To Saurab's Loan A/c				2,47,200
	(Amount due to Saurab transferred to his Loan Account)				

Working Note: *Calculation of Gaining Ratio:*

	Paras	Atul
I. New Profit Share	3/5	2/5
II. Old Profit Share	1/5	1/5
III. Gain (I – II)	2/5	1/5

Thus, Gaining Ratio = 2/5 : 1/5 = 2 : 1.

Illustration 11 (*When one of the Remaining Partners also Sacrifices besides the Retiring Partner*).

X, *Y* and *Z* were partners in a firm sharing profits in the ratio of 3 : 2 : 1. *Z* retired and the new profit-sharing ratio between *X* and *Y* was 1 : 2. On *Z*'s retirement, goodwill of the firm was valued at ₹ 30,000. Pass necessary Journal entry for goodwill without opening the Goodwill Account.

Solution:

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Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Y's Capital A/c	...Dr.		10,000	
	To *X*'s Capital A/c				5,000
	To *Z*'s Capital A/c				5,000
	(Compensation of *Y* to *Z* for his share in goodwill and to *X* for the sacrifice made by him on *Z*'s retirement) (WN)				

Working Note:

Gain of a Partner = New Profit Share – Old Profit Share

$$X = \frac{1}{3} - \frac{3}{6} = \frac{2-3}{6} = \frac{-1}{6} \text{ (Sacrifice)}; \quad Y = \frac{2}{3} - \frac{2}{6} = \frac{4-2}{6} = \frac{2}{6} \text{ (Gain)}.$$

Thus, *Y* is the only gaining partner. He will compensate not only *Z* but also *X*, the sacrificing partner.

Goodwill of the firm = ₹ 30,000

$\frac{2}{5} - \frac{5}{10} = \frac{4-5}{10} = -\frac{1}{10}$

Z's Share of Goodwill = ₹ 30,000 × = ₹ 5,000

Y to compensate *X* to the extent of the sacrifice made by him, *i.e.*, ₹ 30,000 × 1/6 = ₹ 5,000.

Illustration 12.

Alia, Karan and Shilpa were partners in a firm sharing profits in the ratio of 5 : 3 : 2. Goodwill appeared in their books at a value of ₹ 60,000 and General Reserve at ₹ 20,000. Karan decided to retire from the firm. On the date of his retirement, goodwill of the firm was valued at ₹ 2,40,000. The new profit-sharing ratio decided among Alia and Shilpa was 2 : 3. Record necessary Journal entries on Karan's retirement. (*Delhi 2015 C*)

Solution:

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Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Alia's Capital A/c	...Dr.		30,000	
	Karan's Capital A/c	...Dr.		18,000	
	Shilpa's Capital A/c	...Dr.		12,000	
	To Goodwill A/c				60,000
	(Existing goodwill written off in old ratio)				
	General Reserve A/c	...Dr.		20,000	
	To Alia's Capital A/c				10,000
	To Karan's Capital A/c				6,000
	To Shilpa's Capital A/c				4,000
	(General Reserve distributed among all the partners in their old ratio, *i.e.*, 5 : 3 : 2)				
	Shilpa's Capital A/c	...Dr.		96,000	
	To Alia's Capital A/c				24,000
	To Karan's Capital A/c				72,000
	(Goodwill adjusted by debiting gaining partner (Shilpa) and crediting sacrificing partner (Alia) and retiring partner (Karan))				

Working Notes:

1. *Calculation of Gaining Ratio:* Gain of a Partner = New Profit Share – Old Profit Share

   Alia's Gain = $\frac{2}{5}-\frac{5}{10}=\frac{4-5}{10}=-\frac{1}{10}$ (Sacrifice);

   Shilpa's Gain = $\frac{3}{5}-\frac{2}{10}=\frac{6-2}{10}=\frac{4}{10}$.

2. As Alia and Karan are the sacrificing partners, both of them will be compensated by Shilpa in their sacrificing ratio, *i.e.*, 1 : 3.

   Alia's Sacrifice for $\frac{1}{10}$th share = ₹ 2,40,000 × $\frac{1}{10}$ = ₹ 24,000;

   Karan's Sacrifice for $\frac{3}{10}$th share = ₹ 2,40,000 × $\frac{3}{10}$ = ₹ 72,000.

Illustration 13 *(Amount is to be paid in Semi-annual Instalments).*

P, *Q* and *R* were in partnership sharing profits and losses in the ratio of 2 : 3 : 1. *Q* retired from the firm. After all the adjustments, his Capital Account shows a credit balance of ₹ 2,20,000 as on 1st April, 2020. '*Q*' is to be paid ₹ 60,000 by cheque immediately and balance in four equal semi-annual instalments along with interest @ 10% p.a. on the unpaid amount. Prepare *Q's* Loan Account till he is paid the amount due to him. The firm closes its books on 31st March every year.

Solution:

Dr. Q'S LOAN ACCOUNT *Cr.*

Date		Particulars	₹	Date		Particulars	₹
2020				2020			
Sept.	30	To Bank A/c (₹ 40,000 + ₹ 8,000)	48,000	April	1	By *Q's* Capital A/c	1,60,000
2021				Sept.	30	By Interest A/c	8,000
March	31	To Bank A/c (₹ 40,000 + ₹ 6,000)	46,000			(₹ 1,60,000 × 10/100 × 6/12)	
March	31	To Balance *c/d*	80,000	2021			
				March	31	By Interest A/c	6,000
						(₹ 1,20,000 × 10/100 × 6/12)	
			1,74,000				1,74,000
2021				2021			
Sept.	30	To Bank A/c (₹ 40,000 + ₹ 4,000)	44,000	April	1	By Balance *b/d*	80,000
2022				Sept.	30	By Interest A/c	4,000
March	31	To Bank A/c (₹ 40,000 + ₹ 2,000)	42,000			(₹ 80,000 × 10/100 × 6/12)	
				2022			
				March	31	By Interest A/c	2,000
						(₹ 40,000 × 10/100 × 6/12)	
			86,000				86,000

Illustration 14 (*Adjustment of Capital through Current Accounts*).

L, *M* and *N* were partners in a firm sharing profits in the ratio of 2 : 1 : 1. On 1st April, 2013, their Balance Sheet was as follows:

Liabilities		₹	Assets		₹
Capital A/cs:			Land		8,00,000
L	6,00,000		Building		6,00,000
M	4,80,000		Furniture		2,40,000
N	4,80,000	15,60,000	Debtors	4,00,000	
General Reserve		4,40,000	*Less:* Provision	20,000	3,80,000
Workmen Compensation Fund		3,60,000	Stock		4,40,000
Creditors		2,40,000	Cash		1,40,000
		26,00,000			26,00,000

On the above date *N* retired. The following was agreed:

(i) Goodwill of the firm was valued at ₹ 6,00,000.

(ii) Land was to be appreciated by 40% and Building was to be depreciated by ₹ 1,00,000.

(iii) Furniture was to be depreciated by ₹ 30,000.

(iv) The liabilities for Workmen's Compensation Fund were determined at ₹ 1,60,000.

(v) Amount payable to *N* was transferred to his Loan Account.

(vi) Capital of *L* and *M* were to be adjusted in their new profit-sharing ratio and for this purpose Current Account of the partners will be opened.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm. (*AI 2014*)

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Building A/c		1,00,000	By Land A/c (₹ 8,00,000 × 40/100)	3,20,000
To Furniture A/c		30,000		
To Gain (Profit) transferred to:				
L's Capital A/c (2/4)	95,000			
M's Capital A/c (1/4)	47,500			
N's Capital (1/4)	47,500	1,90,000		
		3,20,000		3,20,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*L* (₹)	*M* (₹)	*N* (₹)	Particulars	*L* (₹)	*M* (₹)	*N* (₹)
To *N*'s Capital A/c (Goodwill)	1,00,000	50,000	...	By Balance *b/d*	6,00,000	4,80,000	4,80,000
To *N*'s Loan A/c	...	...	8,37,500	By *L*'s Capital A/c	...	...	1,00,000
To *M*'s Current A/c (Bal. Fig.)	...	1,20,000	...	By *M*'s Capital A/c	...	...	50,000
To Balance *c/d* (WN)	10,35,000	5,17,500	...	By General Reserve A/c	2,20,000	1,10,000	1,10,000
				By Workmen Compensation Fund A/c	1,00,000	50,000	50,000
				By Revaluation A/c (Gain (Profit))	95,000	47,500	47,500
				By *L*'s Current A/c (Bal. Fig.)	1,20,000	...	...
	11,35,000	6,87,500	8,37,500		11,35,000	6,87,500	8,37,500

BALANCE SHEET OF *L* AND *M*
as at 1st April, 2013

Liabilities		₹	Assets		₹
Capital A/cs:			Land		11,20,000
L	10,35,000		Building		5,00,000
M	5,17,500	15,52,500	Furniture		2,10,000
N's Loan		8,37,500	Debtors	4,00,000	
Workmen Compensation Claim		1,60,000	*Less:* Provision	20,000	3,80,000
Creditors		2,40,000	Stock		4,40,000
M's Current A/c		1,20,000	*L*'s Current A/c		1,20,000
			Cash		1,40,000
		29,10,000			29,10,000

Working Note:

- Old Ratio = 2 : 1 : 1
- New Ratio of *L* and *M* = 2 : 1

L's Capital before Adjustment = ₹ 6,00,000 + ₹ 2,20,000 + ₹ 1,00,000 + ₹ 95,000 – ₹ 1,00,000 = ₹ 9,15,000;

M's Capital before Adjustment = ₹ 4,80,000 + ₹ 1,10,000 + ₹ 50,000 + ₹ 47,500 – ₹ 50,000 = ₹ 6,37,500;

Total Capital of the New Firm = ₹ 9,15,000 + ₹ 6,37,500 = ₹ 15,52,500;

L's Capital in New Firm = ₹ 15,52,500 × 2/3 = ₹ 10,35,000;

M's Capital in New Firm = ₹ 15,52,500 × 1/3 = ₹ 5,17,500.

Illustration 15 *(Annual Instalments Payable at the end of the Financial Year).*

X, *Y* and *Z* were in partnership sharing profits and losses equally. '*Y*' retired from the firm. After adjustments, his Capital Account shows a credit balance of ₹ 75,000 as on 1st April, 2020. *Y* was paid ₹ 15,000 immediately on retirement and the balance amount is to be paid in three equal annual instalments along with interest @ 5% p.a. Pass the Journal entry and prepare *Y*'s Loan Account until he is paid the entire amount due to him. The firm closes its books on 31st March every year.

Solution:

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Date		Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020						
April	1	*Y*'s Capital A/c	...Dr.		75,000	
		To Bank A/c				15,000
		To *Y*'s Loan A/c				60,000
		(Amount due to *Y* on retirement paid in part and balance transferred to his Loan A/c)				

Dr. Y'S LOAN ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2021			2020		
March 31	To Bank A/c (₹ 20,000 + ₹ 3,000)	23,000	April 1	By *Y's* Capital A/c	60,000
March 31	To Balance *c/d*	40,000	2021		
			March 31	By Interest A/c (₹ 60,000 × 5/100)	3,000
		63,000			63,000
2022			2021		
March 31	To Bank A/c (₹ 20,000 + ₹ 2,000)	22,000	April 1	By Balance *b/d*	40,000
March 31	To Balance *c/d*	20,000	2022		
			March 31	By Interest A/c (₹ 40,000 × 5/100)	2,000
		42,000			42,000
2023			2022		
March 31	To Bank A/c (₹ 20,000 + ₹ 1,000)	21,000	April 1	By Balance *b/d*	20,000
			2023		
			March 31	By Interest A/c (₹ 20,000 × 5/100)	1,000
		21,000			21,000

Illustration 16.

Anita, Gaurav and Sonu were partners in a firm sharing profits and losses in proportion to their capitals. Their Balance Sheet as at 31st March, 2019 was as follows:

BALANCE SHEET OF ANITA, GAURAV AND SONU *as at 31st March, 2019*

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		5,00,000
Anita	2,00,000		Investments		1,20,000
Gaurav	2,00,000		Debtors	1,50,000	
Sonu	1,00,000	5,00,000	*Less:* Provision for Doubtful Debts	10,000	1,40,000
Investment Fluctuation Fund		40,000	Stock		1,00,000
General Reserve		30,000	Cash at Bank		1,70,000
Creditors		4,60,000			
		10,30,000			10,30,000

On the above date, Anita retired from the firm and the remaining partners decided to carry on the business. It was agreed to revalue the assets and reassess the liabilities as follows:

(i) Goodwill of the firm was valued at ₹ 3,00,000 and Anita's share of goodwill was adjusted in the capital accounts of the remaining partners, Gaurav and Sonu.

(ii) Land and Building was to be brought up to 120% of its book value.

(iii) Bad debts amounted to ₹ 20,000. A provision for doubtful debts was to be maintained at 10% on debtors.

(iv) Market value of investments was ₹ 1,10,000.

(v) ₹ 1,00,000 was paid immediately by cheque to Anita out of the amount due and the balance was to be transferred to her loan account which was to be paid in two equal annual instalments along with interest @ 10% p.a.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm on Anita's retirement. (*CBSE 2020*)

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Bad Debts* A/c		10,000	By Land and Building A/c	1,00,000
To Provision for Doubtful Debts A/c		13,000		
[10/100 (₹ 1,50,000 – ₹ 20,000)]				
To Gain transferred to:				
Anita's Capital A/c	30,800			
Gaurav's Capital A/c	30,800			
Sonu's Capital A/c	15,400	77,000		
		1,00,000		1,00,000

*Out of Bad Debts of ₹ 20,000, ₹ 10,000 is adjusted from existing Provision for Doubtful Debts and balance ₹ 10,000 is debited to Revaluation Account.

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Anita ₹	Gaurav ₹	Sonu ₹	Particulars	Anita ₹	Gaurav ₹	Sonu ₹
To Anita's Capital A/c	...	80,000	40,000	By Balance *b/d*	2,00,000	2,00,000	1,00,000
To Bank A/c	1,00,000	...	...	By General Reserve A/c	12,000	12,000	6,000
To Anita's Loan A/c	2,74,800	...	...	By Revaluation A/c	30,800	30,800	15,400
To Balance *c/d*	...	1,74,800	87,400	By Gaurav's Capital A/c (WN 1)	80,000	...	...
				By Sonu's Capital A/c (WN 1)	40,000	...	...
				By Investment Fluctuation Fund A/c (WN 2)	12,000	12,000	6,000
	3,74,800	2,54,800	1,27,400		3,74,800	2,54,800	1,27,400

BALANCE SHEET OF RECONSTITUTED FIRM *as at 31st March, 2019*

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		6,00,000
Gaurav	1,74,800		Investments		1,10,000
Sonu	87,400	2,62,200	Debtors	1,30,000	
Anita's Loan		2,74,800	*Less:* Provision for Doubtful Debts	13,000	1,17,000
Sundry Creditors		4,60,000	Stock		1,00,000
			Cash (₹ 1,70,000 – ₹ 1,00,000)		70,000
		9,97,000			9,97,000

Working Notes:

1. Anita's share of goodwill ₹ 1,20,000 (₹ 3,00,000 × 2/5) to be adjusted between Gaurav and Sonu in their gaining ratio of 2 : 1.
2. Fall in the book value of investments ₹ 10,000 (₹ 1,20,000 – ₹ 1,10,000) is met through Investment Fluctuation Fund and balance of Investment Fluctuation Fund ₹ 30,000 (₹ 40,000 – ₹ 10,000) is distributed among the partners in their profit-sharing ratio, *i.e.*, 2 : 2 : 1.

Illustration 17.

M, *N* and *G* were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31st March, 2016, their Balance Sheet was as under:

BALANCE SHEET OF *M*, *N* AND *G as on 31st March, 2016*

Liabilities		₹	Assets		₹
Creditors		55,000	Cash		40,000
General Reserve		30,000	Debtors	45,000	
Capital A/cs:			*Less:* Provision	5,000	40,000
M	1,50,000		Stock		50,000
N	1,25,000		Machinery		1,50,000
G	75,000	3,50,000	Patents		30,000
			Building		1,00,000
			Profit & Loss A/c		25,000
		4,35,000			4,35,000

M retired on the above date and it was agreed that:

(i) Debtors of ₹ 2,000 will be written off as bad debts and a provision of 5% on debtors for bad and doubtful debts will be maintained.

(ii) Patents will be completely written off and stock, machinery and building will be depreciated by 5%.

(iii) An unrecorded creditor of ₹ 10,000 will be taken into account.

(iv) *N* and *G* will share the future profits in the ratio of 2 : 3.

(v) Goodwill of the firm on *M*'s retirement was valued at ₹ 3,00,000.

Pass necessary Journal entries for the above transactions in the books of the firm on *M*'s retirement. (*Delhi 2017*)

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2016					
March 31	General Reserve A/c	...Dr.		30,000	
	To *M*'s Capital A/c				15,000
	To *N*'s Capital A/c				9,000
	To *G*'s Capital A/c				6,000
	(General Reserve distributed among partners)				
	M's Capital A/c	...Dr.		12,500	
	N's Capital A/c	...Dr.		7,500	
	G's Capital A/c	...Dr.		5,000	
	To Profit & Loss A/c				25,000
	(Accumulated losses divided among partners)				
	Bad Debts A/c	...Dr.		2,000	
	To Debtors A/c				2,000
	(Debtors of ₹ 2,000 written off)				
	Provision for Doubtful Debts A/c	...Dr.		2,000	
	To Bad Debts A/c				2,000
	(Bad debts met from provision for bad and doubtful debts)				

	Provision for Doubtful Debts A/c ...Dr.		850	
	To Revaluation A/c (WN 1)			850
	(Excess provision for bad and doubtful debts transferred to Revaluation Account)			
	Revaluation A/c ...Dr.		45,000	
	To Patents A/c			30,000
	To Stock A/c			2,500
	To Machinery A/c			7,500
	To Building A/c			5,000
	(Decrease in value of assets recorded)			
	Revaluation A/c ...Dr.		10,000	
	To Creditor's A/c			10,000
	(Unrecorded creditor recorded)			
	M's Capital A/c ...Dr.		27,075	
	N's Capital A/c ...Dr.		16,245	
	G's Capital A/c ...Dr.		10,830	
	To Revaluation A/c (WN 2)			54,150
	(Loss on revaluation transferred to Partners' Capital Accounts in their old ratio)			
	N's Capital A/c (₹ 1,50,000 × 1/5) ...Dr.		30,000	
	G's Capital A/c (₹ 1,50,000 × 4/5) ...Dr.		1,20,000	
	To *M*'s Capital A/c (WN 3)			1,50,000
	(*M*'s share of goodwill adjusted)			
	M's Capital A/c ...Dr.		2,75,425	
	To *M*'s Loan A/c (WN 4)			2,75,425
	(Amount due to *M* transferred to his Loan Account)			

Working Notes:

1. *Dr.* PROVISION FOR DOUBTFUL DEBTS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bad Debts A/c	2,000	By Balance *b/d*	5,000
To Revaluation A/c (Balancing Figure)	850		
To Balance *c/d* (Required) [5% (₹ 45,000 – ₹ 2,000)]	2,150		
	5,000		5,000

2. *Dr.* REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Patents A/c	30,000	By Provision for Doubtful Debts A/c (WN 1)		850
To Stock A/c	2,500	By Loss on Revaluation transferred to:		
To Machinery A/c	7,500	*M*'s Capital A/c	27,075	
To Building A/c	5,000	*N*'s Capital A/c	16,245	
To Creditor's A/c	10,000	*G*'s Capital A/c	10,830	54,150
	55,000			55,000

3. *Adjustment of Goodwill:*

N's Gain = 2/5 (New Profit Share) – 3/10 (Old Profit Share) = 1/10; *G*'s Gain = 3/5 – 2/10 = 4/10. Gaining Ratio = 1 : 4;
M's Share of Goodwill = ₹ 3,00,000 × 5/10 = ₹ 1,50,000, which is contributed by *N* and *G* in their gaining ratio, *i.e.*, 1 : 4.

4. *Dr.* *M*'S CAPITAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Profit & Loss A/c	12,500	By Balance *b/d*	1,50,000
To Revaluation A/c (Loss)	27,075	By General Reserve A/c	15,000
To *M*'s Loan A/c (Balancing Figure)	2,75,425	By *N*'s Capital A/c	30,000
		By *G*'s Capital A/c	1,20,000
	3,15,000		3,15,000

Illustration 18.

Mohan, Vinay and Nitya were partners in a firm sharing profits and losses in the proportion of 1/2, 1/3 and 1/6 respectively. On 31st March, 2018, their Balance Sheet was as follows:

BALANCE SHEET OF MOHAN, VINAY AND NITYA

as at 31st March, 2018

Liabilities		₹	Assets		₹
Creditors		48,000	Cash at Bank		31,000
Employees' Provident Fund		1,70,000	Bills Receivable		54,000
Contingency Reserve		30,000	Book Debts	63,000	
Capitals:			*Less:* Provision for Doubtful Debts	2,000	61,000
Mohan	1,20,000		Plant and Machinery		1,20,000
Vinay	1,00,000		Land and Building		2,92,000
Nitya	90,000	3,10,000			
		5,58,000			5,58,000

Mohan retired on the above date and it was agreed that:

(i) Plant and Machinery will be depreciated by 5%.

(ii) An old computer previously written off was sold for ₹ 4,000.

(iii) Bad debts amounting to ₹ 3,000 will be written off and a provision of 5% on debtors for bad and doubtful debts will be maintained.

(iv) Goodwill of the firm was valued at ₹ 1,80,000 and Mohan's share of the same was credited in his account by debiting Vinay's and Nitya's Accounts.

(v) The capital of the new firm was to be fixed at ₹ 90,000 and necessary adjustments were to be made by bringing in or paying off cash as the case may be.

(vi) Vinay and Nitya will share future profits in the ratio of 3 : 2.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm. *(Delhi 2019)*

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Plant and Machinery A/c		6,000	By Bank A/c (Computer)		4,000
To Provision for Doubtful Debts:			By Loss transferred to Partners' Capital A/cs:		
Bad Debts	1,000		Mohan	3,000	
Provision for Doubtful Debts	3,000	4,000	Vinay	2,000	
			Nitya	1,000	6,000
		10,000			10,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Mohan ₹	Vinay ₹	Nitya ₹	Particulars	Mohan ₹	Vinay ₹	Nitya ₹
To Mohan's Capital A/c	...	48,000	42,000	By Balance *c/d*	1,20,000	1,00,000	90,000
To Revaluation A/c (Loss)	3,000	2,000	1,000	By Contingency Reserve A/c	15,000	10,000	5,000
To Mohan's Loan A/c	2,22,000	...	...	By Vinay's Capital A/c	48,000	...	...
To Bank A/c (Bal. Fig.)	...	6,000	16,000	By Nitya's Capital A/c	42,000	...	...
To Balance *c/d* (WN 3)	...	54,000	36,000				
	2,25,000	1,10,000	95,000		2,25,000	1,10,000	95,000

BALANCE SHEET OF THE RECONSTITUTED FIRM

as at 31st March, 2018

Liabilities	₹	Assets		₹
Creditors	48,000	Cash at Bank		13,000
Employees' Provident Fund	1,70,000	(₹ 31,000 + ₹ 4,000 – ₹ 6,000 – ₹ 16,000)		
Mohan's Loan A/c	2,22,000	Bills Receivable		54,000
Vinay's Capital A/c	54,000	Book Debts	63,000	
Nitya's Capital A/c	36,000	*Less:* Bad Debts	3,000	
		Provision for Doubtful Debts	3,000	57,000
		Plant and Machinery		1,14,000
		Land and Building		2,92,000
	5,30,000			5,30,000

Working Notes:

1. *Calculation of Gaining Ratio (Gain of a Partner = New Profit Share – Old Profit Share):*

Vinay's Gain = $\frac{3}{5}-\frac{1}{3}=\frac{9-5}{15}=\frac{4}{15}$; Nitya's Gain = $\frac{2}{5}-\frac{1}{6}=\frac{12-5}{30}=\frac{7}{30}$

Gaining Ratio of Vinay and Nitya = 4/15 : 7/30 = 8 : 7.

2. Mohan's share of Goodwill = ₹ 1,80,000 × 1/2 = ₹ 90,000, which is contributed by Vinay and Nitya in their gaining ratio, *i.e.*, 8 : 7. Thus,

   Vinay's contribution = ₹ 90,000 × 8/15 = ₹ 48,000

   Nitya's contribution = ₹ 90,000 × 7/15 = ₹ 42,000.

3. *Calculation of Vinay's Capital and Nitya's Capital in New Firm:*

   Total capital of new firm = ₹ 90,000, which is contributed by Vinay and Nitya in their new profit-sharing ratio, *i.e.*, 3 : 2. Thus,

   Vinay's capital in new firm = ₹ 90,000 × 3/5 = ₹ 54,000

   Nitya's capital in new firm = ₹ 90,000 × 2/5 = ₹ 36,000.