1. *X*, *Y* and *Z* are partners in a firm sharing profits in the ratio of 3 : 1 : 2. On 31st March, 2023, their Balance Sheet was:

Liabilities		₹	Assets		₹
Bills Payable		1,20,000	Freehold Premises		4,00,000
Sundry Creditors		2,80,000	Machinery		3,00,000
General Reserve		1,20,000	Furniture		1,20,000
Capital A/cs:			Stock		2,20,000
X	3,00,000		Sundry Debtors	2,00,000	
Y	2,00,000		*Less:* Provision for Doubtful Debts	10,000	1,90,000
Z	2,80,000	7,80,000	Cash		70,000
		13,00,000			13,00,000

Z retired on 1st April, 2023 from the business and the partners agree to the following:

(a) Freehold Premises and Stock are to be appreciated by 20% and 15% respectively.

(b) Machinery and Furniture are to be reduced by 10% and 7% respectively.

(c) Provision for Doubtful Debts is to be increased to ₹ 15,000.

(d) Goodwill of the firm is valued at ₹ 2,10,000 on *Z*'s retirement.

(e) Continuing partners to adjust their capitals in their new profit-sharing ratio after retirement of *Z*. Surplus/deficit, if any, in their Capital Accounts will be adjusted through Current Accounts.

Prepare necessary Ledger Accounts and draw the Balance Sheet of the reconstituted firm.

[**Ans.:** *Gain (Profit) on Revaluation—₹ 69,600; Z's Loan A/c—₹ 4,13,200; Capital Accounts: X—₹ 4,17,300; Y—₹ 1,39,100 (New firm); X's Current A/c : ₹ 75,000 (Dr.); Y's Current A/c: ₹ 75,000 (Cr.); Balance Sheet Total—₹ 14,44,600.*]

2. The Balance Sheet of *X, Y* and *Z* who were sharing profits in ratio of their capitals was as follows as at 31st March, 2023:

Liabilities		₹	Assets		₹
Sundry Creditors		13,800	Cash at Bank		11,000
Capital A/cs:			Sundry Debtors	10,000	
X	45,000		*Less:* Provision for Doubtful Debts	200	9,800
Y	30,000		Stock		16,000
Z	15,000	90,000	Plant and Machinery		17,000
			Land and Building		50,000
		1,03,800			1,03,800

Y retired on 1st April, 2023 on the following terms:

(a) Out of the insurance premium debited to Profit & Loss Account, ₹ 1,500 to be carried forward as Prepaid Insurance.

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

(c) Land and Building to be appreciated by 20%.

(d) A provision of ₹ 4,000 be made in respect of outstanding bills for repairs.

(e) Goodwill of the firm was determined at ₹ 21,600.

Y's share of goodwill be adjusted to that of *X* and *Z* who will share profits in future in the ratio of 3 : 1.

Pass necessary Journal entries and give the Balance Sheet after *Y*'s retirement.

[**Ans.:** *Gain (Profit) on Revaluation—₹ 7,200; Y's Loan—₹ 39,600; Balance Sheet Total—₹ 1,15,000.*]

3. *A*, *B* and *C* are partners sharing profits in the ratio of 5 : 3 : 2. Their Balance Sheet as on 31st March, 2023 is given below:

Liabilities		₹	Assets	₹
Capital A/cs:			Building	18,00,000
A	11,00,000		Investments	4,00,000
B	11,40,000		Stock	6,00,000
C	7,60,000	30,00,000	Debtors	10,00,000
Workmen Compensation Reserve		10,00,000	Cash and Bank	6,00,000
Creditors		2,00,000		
Employees' Provident Fund		2,00,000		
		44,00,000		44,00,000

C retires on 30th June, 2023 and it was mutually agreed that:

(a) Building be valued at ₹ 22,00,000.

(b) Investments to be valued at ₹ 3,00,000.

(c) Stock be taken at ₹ 8,00,000.

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

(e) *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	2019	2020	2021	2022	2023
Profits (₹)	4,00,000	5,00,000	6,00,000	8,00,000	7,00,000

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

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet as at 30th June, 2023.

[**Ans.:** *Gain (Profit) on Revaluation—₹ 5,00,000; C's Loan—₹ 13,35,000; Partners' Capital Accounts: A—₹ 17,00,000; B—₹ 15,00,000; Balance Sheet Total—₹ 49,35,000.*]

4. *X*, *Y* and *Z* were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. On 1st April, 2023, *Y* retired from the firm. On that date, their Balance Sheet was:

Liabilities		₹	Assets	₹
Trade Creditors		30,000	Cash in Hand	15,000
Bills Payable		45,000	Cash at Bank	75,000
Expenses Owing		45,000	Debtors	1,50,000
General Reserve		1,35,000	Stock	1,20,000
Capital A/cs: *X*	1,50,000		Factory Premises	2,25,000
Y	1,50,000		Machinery	80,000
Z	1,50,000	4,50,000	Loose Tools	40,000
		7,05,000		7,05,000

The terms were:

(a) Goodwill of the firm was valued at ₹ 1,35,000.

(b) Expenses Owing to be brought down to ₹ 37,500.

(c) Machinery and Loose Tools are to be valued @ 10% less than their book value.

(d) Factory Premises are to be revalued at ₹ 2,43,000.

Show Revaluation Account, Partners' Capital Accounts and prepare the Balance Sheet of the firm after the retirement of *Y*.

[**Ans.:** *Gain (Profit) on Revaluation—₹ 13,500; Y's Loan—₹ 2,44,500; Partners' Capital Accounts: X—₹ 1,90,500; Z—*₹ 1,63,500; Balance Sheet Total—₹ 7,11,000.]

5. *X*, *Y* and *Z* are partners sharing profits in the ratio of 4 : 3 : 2. Their Balance Sheet as at 31st March, 2023 stood as follows:

Liabilities		₹	Assets		₹
Creditors		24,140	Cash at Bank		3,300
Capital A/cs:			Sundry Debtors	3,045	
X	12,000		*Less:* Provision for Doubtful Debts	105	2,940
Y	9,000		Stock		4,800
Z	6,000	27,000	Plant and Machinery		5,100
			Land and Building		15,000
			Y's Loan		20,000
		51,140			51,140

Y retired on 1st April, 2023 after giving due notice. Following adjustments in the books of the firm were agreed:

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

(b) Provision for Doubtful Debts is no longer necessary since all the debtors are good.

(c) Stock be appreciated by 20%.

(d) Adjustment be made in the accounts to rectify a mistake previously committed whereby *Y* was credited in excess by ₹ 810, while *X* and *Z* were debited in excess of ₹ 420 and ₹ 390 respectively.

(e) Goodwill of the firm be valued at ₹ 5,400 and *Y*'s share of the same be adjusted to the Capital Accounts of *X* and *Z* who were going to share future profits in the ratio of 2 : 1.

(f) It was decided by *X* and *Z* to settle *Y*'s account immediately on his retirement.

Prepare: (i) Revaluation Account; (ii) Partners' Capital Accounts and (iii) Balance Sheet of the firm after *Y*'s retirement.

[**Ans.:** *Gain (Profit) on Revaluation—₹ 2,565; Amount paid by Y to the firm on his retirement for settlement of his account—₹ 9,155; Partners' Capital A/cs: X—₹ 12,360; Z—₹ 6,360; Balance Sheet Total—₹ 42,860; Rectification Entry: Dr. Y's Capital A/c by ₹ 810; Cr. X's Capital A/c by ₹ 420 and Z's Capital A/c—₹ 390.*]

6. Following is the Balance Sheet of *X*, *Y* and *Z* as at 31st March, 2023. They shared profits in the ratio of 3 : 3 : 2:

Liabilities		₹	Assets		₹
Sundry Creditors		2,50,000	Cash at Bank		50,000
General Reserve		80,000	Bills Receivable		60,000
Partners' Loan A/cs:			Debtors		80,000
X	50,000		*Less:* Provision for Doubtful Debts	4,000	76,000
Y	40,000	90,000	Stock		1,24,000
Capital A/cs:			Fixed Assets		3,00,000
X	1,00,000		Advertisement Suspense A/c		16,000
Y	60,000		Profit & Loss A/c		4,000
Z	50,000	2,10,000			
		6,30,000			6,30,000

On 1st April, 2023, *Y* decided to retire from the firm on the following terms:

(a) Stock is agreed to be valued at ₹ 1,12,000.

(b) Provision for Doubtful Debts to be increased to ₹ 6,000.

(c) Fixed Assets be appreciated by 10%.

(d) Goodwill of the firm, valued at ₹ 80,000 and the amount due to the retiring partners be adjusted in *X*'s and *Z*'s Capital Accounts.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet to give effect to the above.

[**Ans.:** *Gain (Profit) on Revaluation—₹ 16,000; Y's Loan A/c—₹ 1,58,500; Partners' Capital Accounts: X—₹ 1,10,500; Z—₹ 57,000; Balance Sheet Total—₹ 6,26,000.*]

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

Liabilities		₹	Assets		₹
Creditors		42,000	Land and Building		1,24,000
Investment Fluctuation Fund		20,000	Motor Vans		40,000
Profit & Loss Account		80,000	Investments		38,000
Capitals A/cs:			Machinery		24,000
J	1,00,000		Stock		30,000
H	80,000		Debtors	80,000	
K	40,000	2,20,000	*Less:* Provision	6,000	74,000
			Cash		32,000
		3,62,000			3,62,000

On the above date, *H* retired and *J* and *K* agreed to continue the business on the following terms:

(i) Goodwill of the firm was valued at ₹ 1,02,000.

(ii) There was a claim of ₹ 8,000 for workmen's compensation.

(iii) Provision for bad debts was to be reduced by ₹ 2,000.

(iv) *H* will be paid ₹ 14,000 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.

(v) The new profit-sharing ratio between *J* and *K* 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 Balance Sheet of the new firm. (*AI 2016*)

[**Ans.:** *Loss on Revaluation—₹ 6,000; H's Loan A/c—₹ 1,24,800; Partners' Capital Accounts: J—₹ 1,05,120; K—₹ 70,080; J's Current A/c—₹ 31,680 (Cr.); K's Current A/c—₹ 31,680 (Dr.); Balance Sheet Total—₹ 3,81,680.*]

8. Om, Ram and Shanti are partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. Ram retires from the firm. Calculate new profit-sharing ratio of Om and Shanti in the following circumstances:

(a) If Ram gives his share to Om and Shanti in the original ratio of Om and Shanti.

(b) If Ram gives his share to Om and Shanti in equal proportion.

(c) If Ram gives his share to Om and Shanti in the ratio of 3 : 1.

(d) If Ram gives his share to Om only.

[**Ans.:** *New Profit-sharing Ratio—(a) 2 : 1; (b) 11 : 7; (c) 25 : 11; (d) 7 : 2.*]

9. Hanny, Pammy and Sunny are partners sharing profits in the ratio of 3 : 2 : 1. Goodwill is appearing in the books at a value of ₹ 60,000. Pammy retires and at the time of Pammy's retirement, goodwill is valued at ₹ 84,000. Hanny and Sunny decided to share future profits in the ratio of 2 : 1. Record the necessary Journal entries. (*NCERT*)

[**Ans.:** *Gaining Ratio = 1 : 1; (i) Dr. Hanny's Capital A/c by ₹ 30,000, Pammy's Capital A/c by ₹ 20,000 and Sunny's Capital A/c by ₹ 10,000; Cr. Goodwill A/c by ₹ 60,000. (ii) Dr. Hanny's Capital A/c and Sunny's Capital A/c by ₹ 14,000 each; Cr. Pammy's Capital A/c by ₹ 28,000.*]

10. *X, Y* and *Z* were partners in a firm sharing profits in the ratio of 2 : 2 : 1. Their Balance Sheet as at 31st March, 2023 was:

Liabilities		₹	Assets	₹
Creditors		49,000	Cash	8,000
Reserve		18,500	Debtors	19,000
Capitals:			Stock	42,000
X	82,000		Building	2,07,000
Y	60,000		Patents	9,000
Z	75,500	2,17,500		
		2,85,000		2,85,000

Y retired on 1st April, 2023 on the following terms:

(a) Goodwill of the firm was valued at ₹ 70,000 and was not to appear in the books.

(b) Bad Debts of ₹ 2,000 were to be written off.

(c) Patents were considered as valueless.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of *X* and *Z* after *Y*'s retirement.

[**Ans.:** *Loss on Revaluation—₹ 11,000; X's Capital A/c—₹ 66,333; Z's Capital A/c—₹ 67,667; Y's Loan—₹ 91,000; Balance Sheet Total—₹ 2,74,000.*]

11. Pankaj, Naresh and Saurabh are partners sharing profits in the ratio of 3 : 2 : 1. On 1st April 2022, Naresh retired and on that date, Balance Sheet of the firm was as follows:

Liabilities		₹	Assets		₹
General Reserve		12,000	Bank		7,600
Sundry Creditors		15,000	Debtors	6,000	
Bills Payable		12,000	*Less:* Provision for Doubtful Debts	400	5,600
Outstanding Salary		2,200	Stock		9,000
Provision for Legal Damages		6,000	Furniture		41,000
Capital A/cs:			Premises		80,000
Pankaj	46,000				
Naresh	30,000				
Saurabh	20,000	96,000			
		1,43,200			1,43,200

Additional Information:

(a) Premises have appreciated by 20%, stock depreciated by 10% and provision for doubtful debts was to be made 5% on debtors. Further, provision for legal damages is to be made for ₹ 1,200 and furniture to be brought up to ₹ 45,000.

(b) Goodwill of the firm be valued at ₹ 42,000.

(c) ₹ 26,000 from Naresh's Capital Account be transferred to his Loan Account and balance be paid through bank: if required, necessary loan may be obtained from bank.

(d) New profit-sharing ratio of Pankaj and Saurabh is decided to be 5 : 1.

Give the necessary Ledger Accounts and Balance Sheet of the firm after Naresh's retirement.

(*NCERT, Modified*)

[**Ans.:** *Gain (Profit) on Revaluation—₹ 18,000; Balances of Capital Accounts of Pankaj—₹ 47,000 and of Saurabh—₹ 25,000; Total Amount at credit in Naresh's Capital—₹ 54,000; Payment to Naresh—₹ 28,000; Bank Loan—₹ 20,400; Balance Sheet Total—₹ 1,54,800.*]

[**Hint:**

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	7,600	By Naresh's Capital A/c	28,000
To Bank Loan A/c (Balancing Figure)	20,400		
	28,000		28,000

]

12. Leena, Madan and Naresh were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 3. On 31st March, 2015, their Balance Sheet was as follows:

BALANCE SHEET *as at 31st March, 2015*

Liabilities		₹	Assets	₹
Trade Creditors		1,60,000	Land and Building	10,00,000
Bank Overdraft		44,000	Machinery	5,00,000
Long-term Debts		4,00,000	Furniture	7,00,000
Employees' Provident Fund		76,000	Investments	2,00,000
Capitals:			Closing Stock	8,00,000
Leena	12,50,000		Sundry Debtors	4,00,000
Madan	8,00,000		Bank	80,000
Naresh	10,50,000	31,00,000	Deferred Advertisement Expenditure	1,00,000
		37,80,000		37,80,000

On 31st March, 2015, Madan retired from the firm and the remaining partners decided to carry on the business. It was decided to revalue assets and liabilities as under:

(i) Land and Building be appreciated by ₹ 2,40,000 and Machinery be depreciated by 10%.

(ii) 50% of Investments were taken over by the retiring partner at book value.

(iii) An old customer Mohit whose account was written off as bad debt had promised to pay ₹ 7,000 in settlement of his full debt of ₹ 10,000.

(iv) Provision for Doubtful Debts was to be made at 5% on debtors.

(v) Closing Stock will be valued at market price which is ₹ 1,00,000 less than the book value.

(vi) Goodwill of the firm be valued at ₹ 5,60,000 and Madan's share of goodwill be adjusted in the accounts of Leena and Naresh. Leena and Naresh decided to share future profits and losses in the ratio of 3 : 2.

(vii) The total capital of the new firm will be ₹ 32,00,000 which will be in the proportion of the profit-sharing ratio of Leena and Naresh.

(viii) Amount due to Madan was settled by accepting a Bill of Exchange in his favour payable after 4 months.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the firm after Madan's retirement. (*AI 2016 C*)

[**Ans.:** *Gain (Profit) on Revaluation—₹ 70,000; Bills Payable A/c—₹ 8,51,429; Capital Accounts: Leena—₹ 19,20,000; Naresh—₹ 12,80,000; Cash brought by: Leena—₹ 8,54,571; Naresh—₹ 2,26,858; Balance Sheet Total—₹ 47,31,429.*]

Note: Adjustment No. (iii), an old customer Mohit whose account was written off as bad debt has promised to pay ₹ 7,000, is not to be treated as debtors. If this promise was in writing, it could be treated as debtors and revaluation profit would have increased by ₹ 7,000. However, amount of Provision for Doubtful Debts would have increased by ₹ 350. Thus, net increase in revaluation profit would be ₹ 6,650.

There is another view that promise to pay be recognised as income (Bad Debts Recovered) and debtors be increased by ₹ 7,000. As a result, Provision for Doubtful Debts will increase by ₹ 350.

When Mohit is considered as debtor (Adjustment iii), Answer will be as follows:

Gain (Profit) on Revaluation: ₹ 76,650; Partners' Capital Accounts: Leena's Capital A/c—₹ 19,20,000; Naresh's Capital A/c—₹ 12,80,000. Balance Sheet Total—₹ 47,33,329. Bills Payable (Madan)—₹ 8,53,329.

Missing Value Questions

13 (Adjustment of Goodwill on retirement of a Partner). John, Gomes and Lucy are partners sharing profits in the ratio of 3 : 2 : 1. Gomes retires and John and Lucy decide to share the future profits in the ratio of 3 : 2. Goodwill of the firm is valued at ₹ 1,50,000. Fill in the missing figures in the following Journal entries:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	John's Capital A/c	...Dr.		?	
	Gomes's Capital A/c	...Dr.		?	
	Lucy's Capital A/c	...Dr.		?	
	To Goodwill A/c				60,000
	(Existing goodwill written off)				
	John's Capital A/c	...Dr.		?	
	Lucy's Capital A/c	...Dr.		?	
	To Gomes's Capital A/c				?
	(Gomes's share of goodwill adjusted by debiting gaining partners John and Lucy in their gaining ratio)				

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	John's Capital A/c	...Dr.		**30,000**	
	Gomes's Capital A/c	...Dr.		**20,000**	
	Lucy's Capital A/c	...Dr.		**10,000**	
	To Goodwill A/c				60,000
	(Existing goodwill written off)				
	John's Capital A/c	...Dr.		**15,000**	
	Lucy's Capital A/c	...Dr.		**35,000**	
	To Gomes's Capital A/c				**50,000**
	(Gomes's share of goodwill adjusted by debiting gaining partners John and Lucy in their gaining ratio)				

Working Notes:

1. *Calculation of Gaining Ratio:*
   John's Gain (New Profit Share – Old Profit Share) = 3/5 – 3/6 = 3/30
   Lucy's Gain (New Profit Share – Old Profit Share) = 2/5 – 1/6 = 7/30
   Gaining Ratio between John and Lucy = 3/30 : 7/30 = 3 : 7.
2. Gomes's Share of Goodwill = ₹ 1,50,000 × 2/6 = ₹ 50,000.

14 (Hidden Goodwill on Retirement of a Partner). *X*, *Y* and *Z* are partners in a firm sharing profits and losses in the ratio of 1 : 2 : 3. *Z* retires and his Capital Account after making all adjustments of reserve and gain (profit) on revaluation exists at ₹ 3,60,000. *X* and *Y* agreed to pay him ₹ 4,50,000 in full settlement of his claim. *X* and *Y* decided to share future profits in the ratio of 1 : 3. Calculate the missing values in the following Journal entry:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	X's Capital A/c	...Dr.		?	
	Y's Capital A/c	...Dr.		?	
	To *Z*'s Capital A/c				?
	(*Z*'s share of goodwill credited to *Z* and debited to the gaining partners in their gaining ratio)				

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	X's Capital A/c	...Dr.		**15,000**	
	Y's Capital A/c	...Dr.		**75,000**	
	To *Z*'s Capital A/c				**90,000**
	(*Z*'s share of goodwill credited to *Z* and debited to the gaining partners in their gaining ratio)				

Working Notes:

1. *Calculation of Hidden Goodwill:*

	₹
Amount agreed to be paid to *Z* in full settlement of his claim	4,50,000
Less: *Z*'s Capital (after all adjustments)	3,60,000
Hidden Goodwill (for *Z*'s Share)	90,000

2. *Calculation of Gaining Ratio:*

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

X's Gain $= \frac{1}{4} - \frac{1}{6} = \frac{3-2}{12} = \frac{1}{12}$; Y's Gain $= \frac{3}{4} - \frac{2}{6} = \frac{9-4}{12} = \frac{5}{12}$;

Gaining Ratio of X and Y = 1/12 : 5/12 = 1 : 5.

15 **(Adjustment of Accumulated Loss on Retirement of a Partner).** *X*, *Y* and *Z* are partners in a firm sharing profits in the ratio of 2 : 3 : 4. On 1st April, 2022, *X* retired and on that date, there was a debit balance of ₹ 1,80,000 in the Profit & Loss Account. *Y* and *Z* decided to share future profits equally. Find the missing values in the following Journal entry:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022				
April 1	*X*'s Capital A/c ...Dr.		?	
	Y's Capital A/c ...Dr.		?	
	Z's Capital A/c ...Dr.		?	
	To Profit & Loss A/c			?
	(Accumulated losses distributed among all the partners)			

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022				
April 1	*X*'s Capital A/c ...Dr.		**40,000**	
	Y's Capital A/c ...Dr.		**60,000**	
	Z's Capital A/c ...Dr.		**80,000**	
	To Profit & Loss A/c			**1,80,000**
	(Accumulated losses distributed among all the partners)			