Reconstitution of partnership

RETIREMENT OR DEATH OF A PARTNER

Very Short Questions.

Q1. In which case the following entries are required :

a) Partner's Capital A/c Dr.
    To Partners loan A/c

b) Stock A/c Dr.
    Building A/c Dr.
    To Revaluation A/c

Q2. Journalise the following :-

(a) Chander, Tara and Ravi were partners in a firm sharing profits in the ratio of 2:1:2 on 15.02.2007 Cander died and the new profit sharing ratio between Tara & Ravi was 4:11. On Chander's death the goodwill of the firm was valued at Rs. 90,000.

Calculate gaining ratio and pan necessary journal entry for the treatment of goodwill on Chander's death without opening goodwill account.

(b) A, B, C and D are partners sharing profits in the ratio of 3:4:3:2. On the retirement of C, the goodwill was valued at Rs. 60,000. A, B and D decided to share future profits equally. Pass the necessary journal entry for the treatment of goodwill, without opening Goodwill Account.

Long Answer Questions.

Q3. A and B are partners sharing profits in the ratio of A 3/6, B 2/6 and transfer to reserve 1/6.

Their Balance Sheet on 31st December 2007 was as follows:

Liabilities	Amount (in Rs.)	Assets	Amount (in Rs.)
Employee's Provident Fund	18000	Goodwill	15,000
Reserve Fund	12000	Plant	90,000
Sundry Creditors	10,000	Patents	4,400
Profit and Loss A/c	24,000	Stock	30,000
Capitals :		Investment	20,000
A 80,000 B 40,000	120,000	Debtors : 20,000 Less:- Provision 400	19,600
		Cash	5,000
	184,000		184,000

B retires on 1st Jan 2008.The terms were:-

(i) Goodwill is to be valued at 50,000.
(ii) Value of patents is to be increased by Rs. 3,000 but plant was found over-valued by Rs 15,000.
(iii) Prevision for doubtful debts should be 5% on Debtors and prevision for discount should also be made on Debtors & creation at 3%.
(iv) Out of insurance which was entirely debited to profit and loss Account Rs 870 be carried forward as unexpired insurance.
(v) Investments were revalue at Rs 16,000. Half of these investments were taken over by B.
(vi) There is a claim for workmen's compensation to the extent of Rs 5,ooo.

B was paid of in full. A borrowed the necessary money from the bank on the security of plant and stock to pay off B. Prepare Revaluation A/C .capital A/c of B/S of A.

Q4. X, Y, and Z were in partnership sharing profits in the ratio of 3: 2: 1 they had taken a Joint life policy of Rs.50,000 , whose surrender value on 1st Jan 2007 was Rs.18,000 . On this date B/S is as follows:-

Liabilities	Amount (Rs.)	Assets	Amount(Rs.)
Provision for Doubtful Debts	1,300	Cash at bank	10,000
Sundry creditors	15000	Debtors	16,000
Capitals:			
X 78,750		Stock	20,300
Y 70,000		Machinery	60,000
Z 61,250	2,10,000	Land and Building	1,20,000
	2,26,300		2,26,300

Z retires on the above date and the new profit sharing ratio between X and Y will be 5:4 following terms were agreed:

1) Land and buildings be reduced by 10%.

2) Out of the Insurance premium paid during the year Rs.5,000 be carried forward as unexpired.

3) There is no need of any provision for doubtful debts.

4) Goodwill of the firm be valued at Rs.36,000 and adjustment in this respect be made without raising a goodwill a/c . The joint life policy was also not to appear in the

Balance sheet.

5) X and Y decided that their Capital will be adjusted in their new profit sharing ratio by bringing in or paying cash to the partners is a/c will be transfered to his loan a/c.

a) Pan necessary journal entries : Prepare the capital accounts and the new balance sheet.

Q5. A, B and C are partners sharing profits and losses in the ratio of 5:3:2. There balance Sheet as at 31st December 2007 was a follows:-

Liabilities	Rs.	Assets	Rs.
Sundry creditors	29,000	Goodwill	24,000
Provision for Doubtful Debts	5,000	Debtors Investments Land and building	80,000 30,000 1,42,000
Capitals:- A 1,40,000 B 90,000 C 76,000	3,06,000	Machinery Patents Cash at bank	50,000 4000 10,000
	3,40,000		3,40,000

Q6. What are the methods of ascertaining the amount of profit to be given to the executors of deceased partner , if the death of a partner occurs on any day during the year .Explain.

Q7. On 31st Dec 2007. The balance sheet of P,Q and R who were partners in a firm was as under.

Liabilities	Rs.	Assets	Rs.
Sundry creditors Reserve fund Capital:- P 15,000 Q 10,000 R 10,000	25,000 20,000 35,000	Building Investment Debtors Bill Receivable Stock Cash	26,000 15,000 15,000 6,000 12,000 6,000
	80,000		80,000

The partnership dead provides that the profit be shared in the ratio of 2:1:1 and that in the event of death of any partner, his executors will be entitled to be paid out :

a) The capital to his credit at the date of last Balance sheet.

b) His proportion of Reserve at the date of last Balance sheet;
c) Retired on the above date as per the following condition:-

(i) Goodwill of the firm is to be valued at three years Purchase of the average profits of the last five years which were Rs.20,000; Rs.12,000;Rs.30,000;Rs6,000(loss) and Rs.34,000 respectively.

(ii) Machinery is to be reduced to Rs.40,000 of patents are valueless.

(iii) There is no need of any provision for doubtful debts .

(iv) An unclaimed liability of Rs.2,000 is to be written off.

(v) Out of the total insurance premium paid Rs.1,000 be treated as pre paid .

(vi) Investment are revalued at Rs.16,000 and these are taken by C at this value .

Entire Sum payable to C is to be brought in by A and B in such a way so as to Make their capitals proportionate to their new profit sharing ratio which is 2:1.

Prepare Revolution Account .Capital A/c and the opening Balance sheet of A and B

(c) His proportion of profits to the date of death based on the average profits of the last three completed years, plus 10% and.

(d) By way of goodwill, his proportion of the total profits for the three preceding years.
(e)
(f) The net profit for the last three years were:-

2005	-Rs.16,000
2006	– Rs16,000
2007	–Rs15,400

R died on 1st April 2008.He had withdrawn Rs. 5,000 to the date of his death .The investments were sold at par and Rs. Executors were paid off.

Prepare partners capitals Accounts, Rs Executors Accounts and Balance sheet of the surviving partners P and Q.

Testing of Knowledge

Q8. Enumerate the items for which the representatives of decreased partners are entitled to receive.

Q9. Ramesh wants to retire from the firm .The profits on Revaluation on that date were Rs.12,000. Mohan and Rahul want to share this in their new profit sharing ratio 3:2. Ramesh wants this to be shared equally. How are the Profis to be shared? Give reasons.

Q10. From the following particulars.
Calculate the new profit –sharing ratio of the partners:-

(a) A , B and C are partners in a firm sharing profits and losses in the ratio of 5:3:2 B retires from firm and his share was taken up by A and C in the ratio of 2:1.

(b) P , Q and R were partners sharing profits in the ratio of 5:4:1. P retires from the firm.

RETIREMENT AND DEATH OF PARTNER

(Solution)

Ans 1. (a) Partner's capital A/C Dr
To partner's loan A/C
(This entry is required when the amount due is transferred to retiring partner's loan A/C)

(b) Stock A/C ………..Dr
Building A/C……..Dr
To Revaluation A/C
(This entry is required when the stock and building are appericiated)

	Chandra	Tara	Ravi
Existing Ratio	2/5	1/5	2/5
New Profit Sharing Ratio	-	4/15	11/15
Gaining Ratio	-	4/11 - 1/5 = 1/15	11/15 – 2/5 = 5/15

Ans 2. (a)

Gaining Ration = 1:5

Goodwill of 90000 X 2/5 = 18000 X 2
Chander = 36000

Tara Capital A/C ………..Dr
Ravi Capital A/c…………Dr

To chander capital A/C 36000
(being the tara and ravi are debited in the gaining ratio)

(b)	A	B	C	D
Existing Ratio	3/12	4/12	3/12	2/12
New Ratio	1/3	1/3	-	1/3
Gaining Ration	11/12	0	-	2/12

Gaining Ration between A & D is 1:2

Goodwill of the firm 60000

(Retire's and C share = 60000 X 3/12
= 15000

Therefore entry will be	Dr	Cr
A capital A/C ……….Dr	5000	
D capital A/C………..Dr	10000	
To C Capital A/C		15000

Ans 3. Revaluation

Particulars	Amount	Particulars	Amount
To Plant	15000	By Patents	3000
To Provision	600	By unexpired Insurance	870
For doubtful debt		By Provision on creditors	300
To Provision For discount on	570	By loss on revaluation A capital A/C	12600

debtors		B capital A/C	8400
To claim on workmen's	5000		
To investment	4000		
	25170		25170

Particulars	A	B	Particulars	A	B
To capital A/C	20000		By balance b/d	80000	40000
To loss A/C revaluation	12600	8400	By reserve fund	7200	4800
				14400	9600
To goodwill	9000	6000	By profit & loss A/C		
To investment		8000			
To balance	60000		By A capital A/c		20000
To B's loan		52000			
	101600	74400		101600	74400

Liabilities	Amount	Assets	amount
Capitals A/c A	60000	Plant	
		Patents	7400
B's loan	52000		
Sundry creditors 10000 Less: 300 Provision = 9700	9700	Stock	
		Investment	8000
Employee provident fund	18000	Debtors 19000 Less 570 18430	18430
		Unexpired insurance	870
		Bank (75000+30000)	105000
	139700		139700

Journal entries

1. prepaid insurance A/c	5000	
previous for doubtful A/c	1300	
to revolution A/c (being the increase include of assets)		6300
2. revolution A/c	12000	
to land and building A/C		12000
3. X capital A/C	2850	
Y capital A/C	1900	
Z capital A/C	950	
To revolution A/C		5700
4. X capital A/C	1000	
Y capital A/C	2000	
To Z capital A/C		3000
5. Z capital 's A/C	69300	
To Z's loan A/C		69300
6. bank A/C	2100	
Tex capital A/C		2100
	2100	
7. Y capital A/C		2100
To bank A/C		

Partner's capitals

Practical	X	Y	Z
To Z capital A/C	2000	4000	—
To Z capital A/C	1000	2000	—
To revolution	2850	1900	950
To balance A/C	72900	62100	69300
	78750	70000	70250
To Z's loan	—	—	69300
To bank A/C		2100	
To balance A/C	75000	60000	
	75000	62100	69300

Practical	X	Y	Z
By balance A/C	78750	70000	61250
By X capital A/C			4000
By Y capital A/C			200
By X capital A/C			1000
By Y capital			2000
	78750	70000	70250

By balance A/C	72900	62100	6900
By balance A/C	2100	___	____
	75000	62100	69300

BALANCE SHEETS

LIABILITIES	AMT.	ASSETS	AMT.
Sunday creditors	15000	Cash at bank	10000
Z's loan	69300	Debtors	1600
Capital A/C X 75000 Y 60000	135000	Stock Prepaid insurance	20300 5000
		Machinery	6000
		Land and buildings	108000
	219300		219300

Ans.5. Revaluation A/C

To machinery	10,000	By provision	5000
To patents	40,000	By unclaimed utility	2000
To investments	14,000	By prepaid insurance	1000
		By loss on revolution A B C	 10,000 6,000 4,000
	28,000		28,000

Partner's capitals A/C

	A	B	C		A	B	C
To loss on revolution	10,000	6000	4000	By balanced	140000	90000	76000
To goodwill	12000	7200	4800	By a capital	____	____	9000
To investment	______	______	16000	B capital	____	____	1800
To c's capital	19000	1800	______	By cash A/C	55000	7000	____
To balance c/d	164000	82000	62000				
To c'd loan							
	195000	97000	86800		195000	97000	86800

BALANCE SHEETS

LIABILITIES	AMT.	ASSETS	AMT.
capital a/c A 164000 B 82000	246000	Cash Debtors (land and building) Machinery Prepaid insurance premium	10000 80000 142000 40000 1000
Sundry creditors 29000 Less 2000 For unclaimed	27000		
	273000		273000

Partner's Capital A/c

Particulars		Amount		Particulars		Amount	
	P	Q	R		P	Q	R
To R	7900	3950	-	By	15000	10000	10000

Capital				balance b/d			
To Drawing	-	-	5000	By Reserve	10000	5000	5000
To Balancce c/d	17100	11050	22936	By Profit & pays suspense A/c	-	-	1036
				By P Capital A/c			7900
				By Q Capital A/c			3950
	25000	15000	22936		25000	15000	22936

Balance Sheet

Liabilities	Amount	Assets	Amount
Capital A/c P 17100 Q 11050 28150 Sundry Creditors B's Loan (Remaining balance) (to be paid to R)	 28150 25000 7936 61086	Buildings Debtors B/R Stock Profit & Loss Suspense A/c Cash	26000 15000 6000 12000 1086 1000 61086

Ans. 9. Profit to be shared equally because at the time when Ramesh Retire the profit on revaluation is divided in old ratio but not in the new ratio.

Ans. 10.

	A	B	C
Old Ratio	5/10	3/10	2/10
Acquiring Ratio By A and B	2/10	--	1/10
	7/10		3/10
B Retires			

His Share was taken
By A and B in ratio 2:1

A = 3/10 x 2/3 = 2/10 B = 3/10 x 1/3 = 1/10

Therefore New ratio = 7:3

Ans B.

	P	Q	R
Old Share ratio	5/10	4/10	1/10
P retires	--	4/10	1/10

Therefore New Ratio 4:1.