

PRACTICE QUESTIONS

Q.1 Fill in the missing information/figures in the following Ledger accounts and Balance of the firm

Revaluation Account

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To stock A/c	_____	By Fixed Assets	_____
To profit transferred to			
P's Capital A/c _____			
Q's Capital A/c _____			
R's Capital A/c _____	_____		_____
	_____		_____

Partner's Capital Account

Dr.				Cr.			
Particulars	P (₹)	Q (₹)	R (₹)	Particulars	P (₹)	Q (₹)	R (₹)
To _____	_____	_____	_____	By balance	_____	_____	_____
To _____	_____	_____	_____	b/d			
To Q's Loan A/c		_____		By _____			
To balance c/d	_____		_____	(Profit)	_____	_____	_____
				By _____		_____	
				By _____		_____	
	_____	_____	_____		_____	_____	_____

Balance sheet of P and R (After Retirement)

As at 31.03.2016

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry creditors	48,000	Cash	43,000
Bills Payables	20,000	Debtors _____	
Q's Loan A/c	_____	Less: provision _____	_____
Capitals:		Stock	54,000
P _____		Fixed assets (tangible)	_____
R _____	_____		
	_____		_____

Hints to answer:

Stock ₹ 6,000, Revaluation Profits Rs. 63,600 (distributed in old ratio 5:4:3)

Q's goodwill share = $72,000 \times \frac{4}{12} = 24,000$ (in gaining ratio of P and R)

Q's Loan A/c = Rs. 1,85,200,

Ps Capital – Rs. 1,86,000

Q's Capital – Rs. 1,11,900

Balance sheet total Rs. 5,51,600.

Q.2 L, M and N were partners in a firm sharing profits in the ratio of 3 : 2 : 1. The firm closes its books on 31st March every year and balance of general reserve as on 31.03.2016 was Rs. 12,000.

N died on 1st Oct. 2016. It was agreed between his executors and the remaining partners that:

- Goodwill be valued at 3 years purchase of the average profits of the previous eight years. The average profits of previous eight years were Rs. 12,000.
- Revaluation profit was Rs. 18,000.
- Profit for the year 2016-2017 be taken as having accrued at the same rate as the previous year which was Rs. 30,000.
- Interest on Capital be provided @ 10% p.a.

Fill in the missing figures in the following accounts:

N's Capital Account

Dr.		Cr.	
Particulars	(₹)	Particulars	Rs.
To _____	_____	By balance b/d	_____
		By _____	_____
		By _____	_____
		By _____	_____
		By _____	_____
		By L's Capital A/c	_____
		By M's Capital A/c	_____

N's Executor's Account

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To cash	4,250	By _____	_____
To Executors Loan A/c	25,000		

Balance is N's opening Capital & interest on Capital

$$29,250 - 13,500 = \text{Rs. } 15,750$$

$$\text{Let N's Capital} = \text{Rs. } x$$

$$\text{Interest on capital} = x \times \frac{10}{1000} \times \frac{6}{12} = \frac{x}{20}$$

$$\text{Rs. } 15,750 = x + \frac{x}{20}$$

$$\text{₹ } 15,750 = \boxed{\text{X}}$$

$$x = 15,750 \times \frac{1}{1.05} = ₹ 15,000$$

N's Capital (opening) = ₹ 15,000

$$\text{Interest on Capital} = 15000 \times \frac{1}{20}$$

Interest N's Capital = ₹ 750

Q.3..

Liabilities	(Rs.)	Amount	Amount
Profit & loss A/c	9,000	Cash	51,300
Capitals :		Bill receivable	10,800
R 80,000		Debtors	35,600
S 50,000		Stock	44,600
T <u>40,000</u>	1,70,000	Furniture	7,000
Bank loan	12,800	Plant &	19,500
Creditors	25,000	Machinery	
	<u>2,16,800</u>	Building	48,000
			<u>2,16,800</u>

S retired from the firm on 1-4-2009 and his share was ascertained on the revaluation of assets as follows:

Stock Rs. 40,000; Furniture Rs. 6,000; Plant and Machinery Rs. 18,000; Building Rs. 60,000; Rs. 1,700 were to be provided for doubtful debts. The goodwill of the firm was valued at Rs. 12,000.

R & T agreed to share future profits in ratio 3 : 2. S was to be paid Rs. 17,680 in cash on retirement and the balance in three equal yearly installments. Prepare Revaluation Account, Partners' Capital Accounts, S's Loan Account and Balance Sheet on 1-4-2009.

[Ans. Profit on Revaluation Rs. 3,200; Capital A/cs : R Rs. 82,480 and T Rs. 40,040; S's Loan Rs. 42,000; Balance Sheet Total Rs. 2,02,320; Gain Ratio 1:1]

Q 4. Practical Question

P, Q and R are partners in a firm whose books are closed on 31st March every year. R died on 24 August 2018 and R's share of profits upto date of death is to be calculated on the basis of the average profits of the last three years. Net Profits of the last three years were Rs. 10,000, Rs. 14,000 and Rs. 13,800. Calculate R's share of Profits and pass journal entry.

Prepare Revaluation A/c, Partners' Capital A/c and Balance Sheet of new firm.

[Ans. Loss on Revaluation Rs. 20,000; Capital of A Rs. 7,80,000 and C Rs. 3,37,000; Total of Balance Sheet Rs. 17,40,000]

Q.5. A, B, and C partners sharing profits in 4 : 3 : 2. Their Balance Sheet as under:

Liabilities		Assets	
Capitals :		Land & Building	1,20,000
(₹)		Stock	32,000
A	50,000	Debtors	25,000
B	40,000	Less : Provision	500
C	26,000	Bank	3,500
Creditors			
	1,16,000		
	64,000		
	1,80,000		1,80,000

B retired on this date on the following terms.

1. Land & Building appreciated by 15%.
2. Create provision for doubtful debts @ 5% on debtors. (Hi) Stock be reduce to Rs. 28,000.
3. Liability for damages Rs. 650.
4. Goodwill of the firm was Rs. 45,000 and new profit sharing ratio was agreed as 5:3.
5. B was paid Rs. 3,100 and balance in 3 equal instalments with interest @ 5% p.a. Prepare Revaluation A/c, Partners' Capital A/c and Balance Sheet of new firm and B's loan A/c till the date of his final payment.

[Ans. Profit on Revaluation Rs. 12,600; For Goodwill: Dr. A Rs. 8,125 and C Rs. 6,875; Capital A/cs: A Rs. 47,475 and C Rs. 21,925; Bank Balance Rs. 400; Balance Sheet Rs. 1,90,000)

Q.6. B, C and D are partners, sharing profits in the ratio 2:2:1:1. B and D died in an accident and A and C decided to share future profits equally. Goodwill of the firm is valued at Rs. 60,000. Pass necessary journal entry. -

[Ans. Gaining ratio of A and C is 1:2, Dr. A Rs. 10,000, C Rs. 20,000 and Cr. B Rs. 20,000, D Rs. 10,000]

Q.7. Mohan Sohan and Hari were partners in a firm sharing profits in 2:2:1 ratio firm closes its books on 31st March every year. Mohan died on 24-8-2017. Mohan's death, the goodwill of the firm was valued Rs. 75,000. The partnership deed provided that on the death of a partner, his share in the profits of firm in the year of his death will be calculated on the basis of last year's profits. The profit of the firm for the year ended 31-3-2017 was Rs. 2,00,000. Calculate Mohan's share of profit till the time of his death and pass the necessary journal entries for the treatment of goodwill and his share of profit.

[Ans. Profit share Rs. 32,000, (i) Dr. Hari Rs. 20,000, Sohan Rs. 10,000 and Cr. Mohan Rs. 30,000, (ii) Dr. P&L Suspense and Cr. Mohan Rs. 32,000]

Q.29. A, B and C were partners in a firm sharing profits in the ratio of 5:3:2. On 31st March, 2017, their Balance sheet was as under:

Liabilities		Amount	Assets	Amount
Creditors		17,000	Buildings	20,000
General Reserve		10,000	Machinery	30,000
A's capital A/c	30,000		Stock	10,000
B's capital A/c	25,000		Patents	6,000
C's capital A/c	15,000	70,000	Debtors	8,000
			Cash	13,000
		87,000		87,000

A died on 1st October, 2017. It was agreed between his executors and the remaining partners that: (a) Goodwill to be valued at 2 years' purchase of the average profits of the previous five years, which were, 2012: Rs. 15000; 2013, 113,000; 2014 : Rs. 12,000 and 2015: 15,000 and 2016: Rs. 20,000. Patents be valued at Rs. 8,000; Machinery at Rs. 28,000; Buildings at Rs. 30,000.

- (c) Profits for the year 2017-18 be taken as having accrued at the same rate as that of the previous year.
- (d) Interest on capital be provided at 10% p.a.
- (e) A sum of Rs. 11,500 was to be paid to his executors immediately. Prepare A's Capital A/c and his

Executor's Account at the time of his death.

\Ans: Balance of A's Executor's Account Rs. 50,000 and A's Capital Rs. 61,500:
Goodwill share of Rs. 15,000(3:2), Profit share Rs. 5,000]

Q.9. A, B and C were partners in a firm sharing profits in the ratio of 3 : 2 :1. The Balance Sheet as on 31.3.2016

Liabilities	Amount	(?) Assets	Amount
Creditors	4,000	Building	20,000
Reserves	6,000	Plant & Machinery	16,000
Capitals :		Stock	5,100
A 24,000		Debtors	6,000
B 12,000		Cash at Bank	6,900
C <u>8,000</u>	44,000		
	54,000		54,000

A died on 30-9-2016. Under the partnership agreement, the executors of a deceased partner were entitled to:

- (a) Amount standing to the credit of partner's Capital A/c.
- (b) Interest on capital @ 12% p.a.
- (c) Share of goodwill on the basis of four years' purchase of last three years average profit.
- (d) Interest on drawings @ 8% p.a. A had been with drawing Rs. 500 in the beginning of every month.
- (e) Share of profit from the closing of the last financial year to the date of death on the basis of the last year's profit. Profits for the year 2014, 2015 and 2016 were Rs. 8,000, Rs. 12,000 and Rs. 7,000 respectively. Prepare A's Capital A/c to be rendered to his executors.

Ans. A's Executors A/c '45120, Goodwill share = Rs 18,000

Q.10 A, B and C were partners in a firm sharing profits in the ratio of 3:3:2 The Balance Sheet as on 31-03-2017

Liabilities	Amount	Assets	Amount
Creditors	12,000	Plant & Machinery	30,000
General Reserve	8,000	Furniture & Fixtures	10,000
A's Capital A/c	30,000	Stock	20,000
B's Capital A/c	30,000	Debtors	16,000
C's Capital A/c	20,000	Investments	10,000
		Bank A/c	14,000
	1,00,000		1,00,000

on 1st April 2017. 'B' retired from the firm and at the same time 'D' was admitted as a new partner. It was agreed that:

- (1) B's share of profit will be transferred to D.
- (2) Goodwill of the firm was calculated on the basis of 2 years' profits of previous year. Profits were Rs. 24,000.

- (3) That D will bring his share of goodwill and capital in cash and capital of the firm will be Rs. 50,000 more than the capital before reconstitution which will be shared by the new firm in new profit sharing ratio. Adjustment will be done by bringing or with drawing the cash.
- (4) B will be paid immediately.
- (5) Investment was sold for Rs. 12,000.
- (6) 'Z' a debtor was declared insolvent. Amount of Rs. 2000 from him was irrecoverable. Further a provision for 5% on debtors for bad debts is required to be made.
- (7) Stock was found over valued by Rs. 900. Prepare revaluation A/c partners' capital A/c and Balance sheet after reconstitution.

Ans. Revaluation loss : Rs. 1600

Capital of A = 48750

C = 32500

D = 48750

Amount to be paid to B Rs. 41400

Cash balance = 69600

Balance sheet total = Rs. 142000

Illustration 11: (Preparation of balance sheet of the reconstituted firm) Vijay, Vivek and Vinay are partners in a firm sharing profits in 2:2:1 ratio, On 31.3.2015 Vivek retires from the firm. On the date of Vivek's retirement the balance sheet of the firm was as follows:

Balance Sheet of Vijay, Vivek and Vinay

Liabilities	Rs.	Assets	Rs.
Creditors	54,000	Bank	55,200
Bills Payable	24,000	Debtor	12,000
Outstanding Rent	4,400	Less: Provision for	
Provision for Legal Claim	12,000	Doubtful	<u>800</u>
Capitals:			11,200
Vijay	92,000	Stock	18,000
Vivek	60,000	Furniture	8,000
Vinay	<u>40,000</u>	Premises	1,94,000
	1,92,000		
	<u>2,86,400</u>		<u>2,86,400</u>

On Vivek's retirement it was agreed that:

- i. Premises will be appreciated by 5% and furniture will be appreciated by Rs. 2,000. Stock will be depreciated by 10%
 - ii. Provision for bad debts was to be made at 5% on debtors and provision for legal damages to be made for Rs.14,400.
 - iii. Goodwill of the firm is valued at ₹ 48000
 - iv. Amount due to Vivek is to be settled on the following basis
- Case1. ₹50,000 from Vivek Capital A/c will be transferred to his loan A/c and the balance will be paid by cheque.
- or
- Case 2: - Transfer to Vivek loan A/c and Vijay and Vinay decided to adjust their capital in new Profit sharing Ratio by withdrawing or bringng cash.
- or
- Case 3. Transfer to Vivek loan A/c and New firm capital is fixed 1,20,000 in new profit sharing Ratio.

- Q.6 Amount due to outgoing partner is shown on the balance sheet as his:-
- | | |
|--------------|-----------|
| A) Liability | B) Assets |
| C) Capital | D) Loan |
- Q. 7 Retiring partner is compensated for parting with the firm's future profits in favour of remaining partner's. The remaining partner's contribute to such compensation amount in:-
- | | |
|----------------------|-------------------------|
| A) Gaining Ratio | B) Capital Ratio |
| C) Sacrificing Ratio | D) Profit sharing Ratio |

Fill in the Blanks :-

- Q.8 Intangible asset which are not shown in the Balance Sheet results in an in the outgoing proprietorship.
- Q.9 Goodwill may be if all the partner's are agreed, that it should not remain in the books.
- Q.10 The payment made to the retiring partner in installment is known as