

## **WHEN ONE/MORE OF THE REMAINING PARTNERS ALSO SACRIFICE:-**

Q21. A, b & C were partners in a firm sharing profits in the ratio of 6:5:4. Their capitals were A – 1, 00,000, B – 80,000 & C – 60,000 respectively. On 1<sup>st</sup> April, 2009, a retired from the firm & the new profit-sharing ratio between B & C was decided as 1:4. On A's retirement, the goodwill of the firm was valued at 1, 80,000. Showing your calculations clearly, Pass the necessary Journal entry for the treatment of goodwill on A's retirement.

Solution – Journal

Date	Particulars	LF	Dr	Cr
	C's Capital A/c ...Dr		96,000	
	To A's Capital A/c			72,000
	To B's Capital A/c			24,000
	(Being Adjustment of A's & B's share of goodwill)			

**Working Note:-**

Calculation of Gaining Ratio:-

Old Ratio – 6:5:4

New Ratio – 1:4

Gaining Ratio = New Ratio – Old Ratio

B's =  $\frac{1}{5} - \frac{5}{15} = -\frac{2}{15}$  (sacrificing partner)

C's =  $\frac{4}{5} - \frac{4}{15} = \frac{8}{15}$  (gaining partner)

Calculation of Retiring Partner's Share of Goodwill:-

A's – 1, 80,000 x  $\frac{6}{15}$  = 72,000

B's – 1, 80,000 x  $\frac{2}{15}$  = 24,000 (in sacrificing ratio)

So, 72,000 + 24,000 = 96,000

## **REVALUATION OF ASSETS & REASSESSMENT OF LIABILITIES:-**

**Q22. Sangeeta, Saroj and Shanti are partners sharing profits and losses in the ratio of 5:3:2. Shanti retired and on the date of her retirement, following adjustments were agreed:**

- a) The value of Furniture is to be increased by 12,000.**
- b) The value of stock to be decreased by 10,000.**
- c) Machinery of the book value of 50,000 is to be reduced by 10%**
- d) A Provision for Doubtful Debts @ 5% is to be created on debtors of book value of 40,000.**
- e) Unrecorded investment worth 10,000.**
- f) An item of 1,000 included in bills payable is not likely to be claimed, hence, should be written back.**

**Pass necessary Journal entries.**

**Solution –**

<b>Dr</b>		<b>Revaluation Account</b>		<b>Cr</b>	
<b>Particulars</b>		<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>	
To Stock A/c		10,000	By Furniture A/c	12,000	
To Machinery A/c		5,000	By Investment A/c	10,000	
To Provision for Doubtful Debts A/c		2,000	by Bills Payable A/c	1,000	
To Profit Transferred to:					
X's Capital	3,000				
Y's Capital	1,800	6,000			
Z's Capital	1,200				
		23,000			23,000

**Journal**



(f)	<b>Bills Payable A/c</b> <span style="float: right;">....Dr</span>  <b>To Revaluation A/c</b>  <b>(Being Decrease In liabilities transferred to Revaluation Account)</b>		<b>1,000</b>	<b>1,000</b>
(g)	<b>Revaluation A/c</b> <span style="float: right;">....Dr</span>  <b>To X's Capital A/c</b>  <b>To Y's Capital A/c</b>  <b>To Z's Capital A/c</b>  <b>(Being Revaluation Profit transferred to Partners' Capital Accounts)</b>		<b>6,000</b>	<b>3,000</b>  <b>1,800</b>  <b>1,200</b>

**Q23. A, B & C were partners, sharing profits and losses in the ratio of 2:2:1. B retired on 31<sup>st</sup> March, 2024. On the date of his retirement, some of the assets and liabilities appeared in the books as follows:**

**Creditors 70,000; Building 1,00,000; Plant & Machinery 40,000; Stock of Raw Material 20,000; Stock of Finished Goods 30,000 & Debtors 20,000.**

**Following was agreed among the partners on B's retirement:**

- a) Building to be appreciated by 20%.**
- b) Plant & Machinery to be reduced by 10%.**
- c) A Provision of 5% on Debtors to be created for Doubtful Debts.**
- d) Stock of Raw Materials to be valued at 18,000 & Finished Goods at 35,000.**
- e) An Old Computer previously written off was sold for 2,000 as scrap.**
- f) Firm had to pay 5,000 to an injured employee.**

**Pass necessary Journal entries to record the above adjustments and prepare the Revaluation Account.**

**Solution –**

<b>Dr</b>		<b>Revaluation Account</b>		<b>Cr</b>	
Particulars	Amount	Particulars	Amount		
To Plant & Machinery	4,000	By Building	20,000		
To Provision for Doubtful Debts	1,000	By Stock of Finished Goods	5,000		
To Stock of Raw Materials	2,000				
To Workmen Compensation Claim	5,000	by Computer	2,000		
To Profit Transferred to:					
A's Capital	6,000				
B's Capital	6,000				
C's Capital	3,000				
	15,000				
	27,000				
					27,000

**Journal**

Date	Particulars	LF	Dr	Cr
	Building A/c ...Dr		20,000	
	Stock of Finish Good A/c ....Dr		5,000	
	Computer A/c ....Dr		2,000	
	To Revaluation A/c			27,000
	(Being Increase in value Assets transferred to Revaluation Account)			
	Revaluation A/c ...Dr		12,000	

	To Plant and Machinery A/c			4,000
	To Provision for Doubtful Debts A/c			1,000
	To Stock of Raw Material A/c			2,000
	To Workmen Compensation Claim A/c			5,000
	(Being Decrease in value of Assets & Increase in Liabilities transferred to Revaluation Account)			
	Revaluation A/c	....Dr	15,000	
	To A's Capital A/c			6,000
	To B's Capital A/c			6,000
	To C's Capital A/c			3,000
	(Being Revaluation Profit transferred to Partner's Capital Account)			

**Q24.** Punit, Ramit & Akshit were partners sharing profits equally. Akshit retired on 1<sup>st</sup> April, 2024. Punit & Ramit decided to continue the business and share profits in the ratio of 3:2. They also decided to give effect to the change in values of assets and liabilities without changing their book values.

The book values and their revised were as follows:

	Book Values	Revised Values
Land	5,50,000	8,50,000
Building	2,50,000	2,10,000
Computer	1,00,000	70,000
Computer software	5,00,000	4,00,000

<b>Sundry Creditors</b>	<b>70,000</b>	<b>60,000</b>
<b>Workmen Compensation Claim</b>	<b>.....</b>	<b>5,000</b>

**Pass an Adjustment entry**

**Solution –Old Ratio – 1:1:1**

**New Ratio – 3:2 & c retired**

**Punit =  $\frac{1}{3} - \frac{3}{5} = -\frac{4}{15}$  (Gain)**

**Ramit =  $\frac{1}{3} - \frac{2}{5} = -\frac{1}{15}$  (Gain)**

**Akshat =  $\frac{1}{3} - \frac{0}{5} = \frac{1}{3}$  (Sacrifice)**

**Sacrificing Ratio of Akshat –  $\frac{1}{3}$**

**= 1, 35,000 x  $\frac{1}{3}$  – 45,000**

**Share of Compensating Amount by Punit & Ramit in sacrificing ratio (4:1)**

**Punit – 45,000 x  $\frac{4}{5}$  – 36,000**

**Ramit – 45,000 x  $\frac{1}{5}$  – 9,000**

### **Journal**

<b>Date</b>	<b>Particulars</b>	<b>L.F</b>	<b>Dr</b>	<b>Cr</b>
	Punit's Capital A/c ...Dr		36,000	
	Ramit's Capital A/c ...Dr		9,000	
	To Akshat's Capital A/c			45,000

	<b>Book Values</b>	<b>Revised Values</b>	
<b>Land</b>	<b>5,50,000</b>	<b>8,50,000</b>	<b>300,000</b>
<b>Building</b>	<b>2,50,000</b>	<b>2,10,000</b>	<b>(40,000)</b>
<b>Computer</b>	<b>1,00,000</b>	<b>70,000</b>	<b>(30,000)</b>
<b>Computer software</b>	<b>5,00,000</b>	<b>4,00,000</b>	<b>(100,000)</b>

Sundry Creditors	70,000	60,000	10,000
Workmen Compensation Claim	.....	5,000	( 5000)
			<u>135000</u>

Old ratio+1: 1: 1

New ratio=3:2

Punit share  $3/5 - 1/3 = 4/15$

Ramit share  $2/5 - 1/3 = 1/15$

Gaining ratio=4:1

Revaluation profit=135000

Akshat share= $135000 \times 1/3 = 45000$

Punit will contribute  $= 45000 \times 4/5 = 36000$

Ramit will contribute  $= 45000 \times 1/5 = 9000$

### TREATMENT OF RESERVE & ACCUMULATED

#### PROFIT/LOSSES:-

Q25. X, Y & Z are partners in a firm sharing profits and losses in the ratio of 3:2:1, Z retired from the firm on 1<sup>st</sup> April, 2024. On the date of Z's retirement, following balances existed in the books of the firm:

General Reserve 1, 80,000

Profit & Loss Account (Dr.) 30,000

Workmen Compensation Reserve 24,000 which was no more required

Employees Provident Fund 20,000

Pass necessary Journal entries for the adjustment of these items on Z's retirement.



**Solution –****Journal**

Date	Particulars	L.F	Dr	Cr
2024				
Mar	General Reserve A/c ...Dr		1,80,000	
31	Workmen Compensation Reserve A/c ....Dr		24,000	
	To X's Capital A/c			1,02,000
	To Y's Capital A/c			68,000
	To Z's Capital A/c			34,000
	(Being Accumulated profits distributed among partners in old ratio)			
	X's Capital A/c ...Dr		15,000	
	Y's Capital A/c ...Dr		10,000	
	Z's Capital A/c ....Dr		5,000	
	To Profit & Loss A/c			30,000
	(Being Debit balance in Profit & Loss A/c distributed among partners in old ratio)			

**Working Note:-**

**Calculation of Share in Credit Balance of Reserve:-**

**Total Credit Balance of = General Reserve + Workmen Compensation Fund**

**Reserve = 1, 80,000 + 24,000 = 2, 04,000**

**X' Share - 2, 04,000 x 3/6 = 1, 02,000**

**Y' Share – 2, 04,000 x 2/6 = 68,000**

**Z's Share – 2, 04,000 x 1/6 = 34,000**

**Calculation of share in Debit Balance of Profit & Loss A/c:-**

X's Share –  $30,000 \times \frac{3}{6} = 15,000$

Y's Share –  $30,000 \times \frac{2}{6} = 10,000$

Z's Share –  $30,000 \times \frac{1}{6} = 5,000$

**Q26. Asha, Naveen & Shalini were partners in a firm sharing profit in the ratio of 5:3:2. Goodwill appeared in their books at a value of 80,000 and General Reserve at 40,000. Naveen decided to retire from the firm. On the date of his retirement, goodwill of the firm was valued at 1, 20,000. The new profit-sharing ratio decided among Asha & Shalini is 2:3**  
**Record necessary journal entries**

**Solution –**

**Journal**

Date	Particulars	L.F	Dr	Cr
	Asha's Capital A/c ...Dr		40,000	
	Naveen's Capital A/c ....Dr		24,000	
	Shalini's Capital A/c ....Dr		16,000	
	To Goodwill A/c			80,000
	(Being Existing goodwill written off amongst existing partners in old ratio)			
	General Reserve A/c ...Dr		40,000	20,000
	To Asha's Capital A/c			12000
	To Naveen's Capital A/c			8000
	To Shalini's Capital A/c			
	(Being General Reserve distributed among all partners in old ratio)			

	Shalini's Capital A/c	....Dr	48,000	
	To Asha's Capital A/c			12,000
	To Naveen's Capital A/c			36,000
	(Being Goodwill adjusted by debiting gaining partner & crediting sacrificing partner & retiring partner)			

### Working Note:-

#### Calculation of Gaining Ratio:-

Gaining ratio = New Share – Old Shares

Asha's =  $\frac{2}{5} - \frac{5}{10} = -\frac{1}{10}$  (sacrificing partner)

Shalini's =  $\frac{3}{5} - \frac{2}{10} = \frac{4}{10}$  (Gaining partner)

So, Both Asha & Naveen are compensated by Shalini in the ratio of 1:3

Asha's = 1, 20,000 x  $\frac{1}{10}$  = 12,000

Naveen's – 1, 20,000 x  $\frac{3}{10}$  = 36,000

Q-27 x,y and z were equal partner in a firm on 31<sup>st</sup> march 2024 their balance sheet as follow

Liabilities		Amount	Assets	Amount
Creditors		77000	Bank	47000
General reserve		26000	Debtors	23000
Workmen compensation reserve		32000	Stock	110000
Capital a/c			Investment	17000
X	60,000		Furniture	10000
Y	40,000		Machinery	35000
Z	20,000	120,000	Profit and loss	11000
				2000

	2,55,000	Advertisement suspense a/c	2,55,000
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On the above date Z retire from the firm and x and y decided to share future profit in the ratio of 3:2 partner decide to show accumulated profit losses and reserve in the balance sheet of the reconstituted firm of their original values.

Pass a adjustment entry for the accumulated profit loss and reserve.

**Solution**

**Journal**

Date	Particulars	Amount	Amount
	X capital a/c Dr.	12000	
	Y capital a/c Dr.	3000	
	To z capital a/c		15000

**Working note**

**Calculation of net effect**

General reserve		26000
Workmen compensation		<u>32000</u>
Reserve		58000
Less p/l a/c	11000	<u>(13000)</u>
Advertisement	2000	
Suspense a/c		
Net accumulated profit		45000

**Gain/sacrificing ratio**

Old ratio 1:1:1

Z retire

New profit sharing ratio

3:2

Gaining ratio= new ratio-old ratio

x  $3/5 - 1/3 = 4/15$

y  $2/5 - 1/3 = 1/15$

gaining ratio=4:1

accumulated profit=45000x  $1/3$ =15000

x will contribute=  $15000 \times 4/5$ =12000

y will contribute=  $15000 \times 1/5$ =3000

## **REPARATION OF THE CAPITAL ACCOUNTS AND BALANCE SHEET:-**

Q28. Partnership Deed of C & D, who is equal partners, has a clause that any partner may retire from the firm on the following terms by giving a six-month notice in Writing:

The retiring partner shall be paid-

- The amount standing to the credit of his Capital Account and Current Account.
  - His share of profit to the date of retirement, calculated on the basis of the average profit of the three preceding completed years.
  - Half the amount of the goodwill of the firm calculated at  $1 \frac{1}{2}$  times the average profit the three preceding complete years.
- C gave a notice on 31<sup>st</sup> March, 2023 to retire on 30<sup>th</sup> September, 2023, when the balance of his Capital Account was 6,000 and his Current Account (Dr) 500. Profit for the

three preceding completed years ended 31<sup>st</sup> March, were:  
2021- 2,800; 2022-2,201 & 2023-1,600.

Determine the amount due to C as per the partnership agreement.

Solution –

Dr		C's Current Account		Cr	
Particulars	Amount	Partnership		Amount	
Balance b/d	500	Profit & Loss Suspense		550	
C's Capital A/c	1,700	A/c			
		D's Current A/c		1,650	
	2,200			2,200	

Dr		C's Capital Account		Cr	
Particulars	Amount	Partnership		Amount	
C's Loan A/c	7,700	Balance b/d		6,000	
		C's Current A/c		1,700	
	7,700			7,700	

#### Working Note:-

Calculation of Profit (from April 01, 2023 to Sep. 30, 2023)

Average Profit = Total Profit of past given years/Number of years

Average profit =  $2,800 + 2,200 + 1,600 / 3 = 2,200$

C's Share of Profit (last 6 months) = Average profit x C's Share x 6/12

=  $2,200 \times 1/2 \times 6/12 = 550$

Calculation of Goodwill:-

Goodwill = Average Profit x 1.5

= 2,200 x 1.5 = 3,300

C's share = 3,300 x 1/2 = 1,650

Q-29 Alfa Beta Gama are in partnership sharing profit in the ratio 5:3:2 their balance sheet on 1<sup>st</sup> April 2024 the day Beta decided to retire from firm was as follow

Alfa capital	300,000	Building	250,000
Beta capital	200,000	Machinery	150,000
Gama capital	200,000	Investment	250,000
General reserve	100,000	Debtors	100,000
Sundry creditors	100,000	Stock	50,000
		Cash at bank	100,000
	900,000		900,000

The terms of retirement were:

(i) Beta takes goodwill from Alfa for ₹ 30,000 and from Gama for 40,000 for foregoing his share of profits.

(ii) Stock to be appreciated by 20% and building by 50,000.

( iii) Investments were sold for ₹2,70,000.

(iv) Beta is paid by bank draft.

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

### Revaluation a/c

<b>To profit</b>	<b>80,000</b>	<b>By stock</b>	<b>10,000</b>
<b>Alfa 40,000</b>		<b>By building</b>	<b>50,000</b>
<b>Beta 24000</b>		<b>By investment</b>	<b>20,000</b>
<b>Gama 16000</b>			
	<b>80,000</b>		<b>80,000</b>

### Partners capital a/c

	alfa	beta	gama		alfa	beta	Gama
<b>To beta capital a/c</b>	<b>30,000</b>		<b>40,000</b>	<b>By balance c/d</b>	<b>300,000</b>	<b>200,000</b>	<b>200,000</b>
<b>To bank a/c</b>		<b>324000</b>		<b>By revaluation profit a/c</b>	<b>40,000</b>	<b>24000</b>	<b>16000</b>
<b>To balance c/d</b>	<b>3,60,000</b>		<b>1,96000</b>	<b>By general reserve</b>	<b>50,000</b>	<b>30,000</b>	<b>20,000</b>
				<b>By alfa capital</b>		<b>30,000</b>	
				<b>By gama capital</b>		<b>40,000</b>	
	<b>390,000</b>	<b>324000</b>	<b>236000</b>		<b>390,000</b>	<b>324000</b>	<b>236000</b>



### Balance sheet

<b>Alfa capital</b>	<b>36,000</b>	<b>Building</b>	<b>300,000</b>
<b>Gama capital</b>	<b>196000</b>	<b>Machinery</b>	<b>150,000</b>
<b>Sundry creditors</b>	<b>100,000</b>	<b>Debtors</b>	<b>100,000</b>
		<b>Stock</b>	<b>60,000</b>
		<b>Cash at bank</b>	<b>46000</b>
		<b>(100,000+270,000-</b>	
	<b>656000</b>	<b>324000)</b>	<b>656000</b>

**Q30. Kanika, Disha and Kabir were partners sharing profits in the ratio of 2:1:1. On 31<sup>st</sup> March, 2016, their Balance Sheet was as under:**

<b>Liabilities</b>	<b>Amount</b>	<b>Assets</b>	<b>Amount</b>
<b>Trade Creditors</b>	<b>53,000</b>	<b>Bank</b>	<b>60,000</b>
<b>Employees Provident Fund</b>	<b>47,000</b>	<b>Debtors</b>	<b>60,000</b>
<b>Kanika's Capital</b>	<b>2,00,000</b>	<b>Stock</b>	<b>1,00,000</b>

Disha's Capital	1,00,000	Fixed Assets	2,40,000
Kabir's Capital	80,000	Profit & Loss A/c	20,000
	4,80,000		4,80,000

Kanika retired on 1<sup>st</sup> April, 2016. For this purpose, the following adjustments were agreed upon:

- Goodwill of the firm was valued at 2 years purchase of average profits of three completed years preceding the date of retirement. The profits for the years: 2013-14 were 1, 00,000 & for 2014-15 were 1, 30,000
- Fixed Assets were to be increased to 3,00,000
- Stock was to be valued at 120%
- The amount payable to Kanika was transferred to her Loan Account.

Prepare Revaluation Account, Capital Accounts of the partners and the Balance Sheet of the reconstituted firm.

Solution –

Dr		Revaluation Account		Cr	
Particulars		Amount		Particulars	Amount
Revaluation Profit				Fixed Assets	60,000
Kanika's Capital	40,000			Stock	20,000
Disha' Capital	20,000				
Kabir's Capital	20,000	80,000			
		80,000			80,000

Dr                      Partners' Capital Accounts                      Cr

Particulars	Kanika	Disha	Kabir	Particulars	Kanika	Disha	Kabir
Profit & Loss A/c	10,000	5,000	5,000	Balance b/d	2,00,000	1,00,000	80,000
Kanika's Capital A/c		35,000	35,000	Disha's Capital A/c	35,000		
Kanika's Loan A/c	3,00,000			Kabir's Capital A/c	35,000		
Balance c/d				Revaluation			
		80,000	60,000		40,000	20,000	20,000
	3,10,000	1,20,000	1,00,000		3,10,000	1,20,000	1,00,000

### Balance Sheet

As on March 31, 2016

Liabilities	Amount	Assets	Amount
Employees Provident Fund	47,000	Bank	60,000
Trade Creditors	53,000	Sundry Debtors	60,000
Kanika's Loan A/c	3,00,000	Stock	1,20,000
Capital A/c:		Fixed Assets	3,00,000
Disha 80,000			
Kabir 60,000	1,40,000		
	5,40,000		5,40,000

### Working Note:-

Calculation of Goodwill:-

Average Profits = Total Profit Number of Years =

$$\frac{1,00,000 + 1,30,000 - 20,000}{3}$$

3

$$= \frac{2,10,000}{3} = 70,000$$

**Goodwill = Average Profits x Number of Years Purchase**

**Goodwill = 70,000 x 2 = 1,40,000**

**Gaining ratio=**

**Old ratio= 2:1:1**

**New ratio=1:1**

**New- old ratio=**

**Disha =  $1/2 - 1/4 = 1/4$**

**Kabir =  $1/2 - 1/4 = 1/4$**

**Gaining share = 1:1**

**Kanika's share = 1,40,000 x  $2/4$  = 70,000**

**Disha share = 70,000 x  $1/2$  = 35,000**

**Kabir share = 70,000 x  $1/2$  = 35,000**