26th April 2023

Bullet Revisions

24th April

25th April

45 Mins x 2

→ P/ship.

+ 1 S/C → Questions

Questions

→ Thursday

→ Friday.

PARTNERSHIP

IMPORTANT QUESTIONS

Cu and Au were in partnership sharing profits and losses in the ratio 5:3. On 1st April 2020, they decided to admit Ag the partnership on the following terms:

1. Ag will bring ₹ 2,00,000/- as capital for ¼ share.
2. New profit sharing ratio shall be 2:1:1 among Cu, Au and Ag.
3. Cu was entitled to salary of ₹ 2,000/- p.m., it was revised to ₹ 3,000 p.m. from 1st October 2018.
4. Interest on capital was paid at 8% p.a.
5. Capitals as on 31st March 2020 were Cu ₹ 4,00,000 Au ₹ 3,00,000, which had remained unchanged since last four years.
6. Goodwill was to be valued on the basis of 3 years purchase of average adjusted weighted average profits of past 4 years. The profits of previous four years, before charging interest on capital and salary to Cu were as follows:

Year	Profit
2016-17	2,10,000
2017-18	2,60,000
2018-19	2,10,000
2019-20	3,05,000

These profits were subject to following rectification

(a) A machine costing ₹ 40,000 purchased on 1st October, 2018 was wrongly charged to revenue. The machinery was depreciated at 20% p.a. on written down value method

(b) Stock on 31st March 2018 was over valued by ₹ 20,000/-

(c) There was a loss by fire amounting to ₹ 10,000/- in the year 2016-17 which was not considered in trading account but correctly debited in the Profit & Loss a/c for that year.

(d) Debtors as on 31st March 2020 included bad debts of ₹ 5,800/-

7. Ag shall bring his share of goodwill in cash.

You are required to calculate amount of goodwill Ag is supposed to bring and journal entry for the same.

$Cu = \frac{5}{8} - \frac{2}{4} = \frac{5-4}{8} = \frac{1}{8}$

$Au = \frac{3}{8} - \frac{1}{4} = \frac{3-2}{8} = \frac{1}{8}$

S/R = 1:1

7,00,000

Goodwill = Av P × 3.

Avg W/A/P.

R/S Exp

Exp ↑ Profit ↓

C/S of 17-18

Abnormal loss

Goodwill = Avg. Profit × 3.

Weighted Avg Profit

last 4 YRS.

Subjected to Rectification

Profit	2016-17	2017-18	2018-19	2019-20
	2,10,000	2,60,000	2,10,000	305000
less: IOC	(56000)	(56000)	(56000)	(56000)
less: Sal. to CU	(24000)	(24000)	(30000)	(36000)
Machine wrongly charged to P&L	—	—	40,000	—
less: Depn (20%)	—	—	(4000)	(7200)
Over valu of Stock	—	(20000)	20,000	—
Ab. loss	10000	—	—	—
Bad Debts	—	—	—	(5800)
Adj. Profit	140000	160000	180000	200000

	2016-17	2017-18	2018-19	2019-20
Profits	140000	160000	180000	200000
Weights	1	2	3	4
Weighted Profits	$\boxed{1,40,000}$	$\boxed{320000}$	$\boxed{540000}$	$\boxed{800000}$

Weighted Avg. Profit

$$\frac{\Sigma Wx}{\Sigma W}$$

$$= \frac{18,00,000}{10}$$

$$\boxed{= 1,80,000}$$

$$G/W = 180000 \times 3$$

$$\boxed{= 5,40,000}$$

Value of Goodwill = 5,40,000

Share of A.G. = 5,40,000 × $\frac{1}{4}$

$\boxed{= 135000}$

Bank A/c Dr. 135000

To Premium for G/W A/c 135000

Premium for G/W

↓

Sacrificing – AU, CU } S/Ratio

Premium for Goodwill A/c Dr. 135000

To AB Capital A/c 67500

To CU's Capital A/c 67500

Co-Note:

Salary to CU.

2018-19

April 2018 — Sep 2018

2000 × 6 = 12000

+ OCT 2018 — March 2019

3000 × 6 18000

30,000

K, L & M are partners sharing profits and losses in the ratio 5:3:2. Due to illness, L wanted to retire from the firm on 31.3.2020 and admit his son N in his place.

Balance Sheet of K, L and M as on 31.3.2020

Liabilities	₹	₹	Assets	₹
Capital:			Furniture	20,000
K	40,000		Trade receivables	50,000
L	60,000		Inventory in Trade	50,000
M	30,000	1,30,000	Cash and Bank balances	80,000
Reserve		50,000		
Trade payables		20,000		
		2,00,000		2,00,000

On retirement of L assets were revalued: Furniture ₹ 10,000 and Inventory in trade ₹ 30,000. 50% of the amount due to L was paid off in cash and the balance was retained in the firm as capital of N. On admission of the new partner, goodwill was valued at ₹ 50,000. Partners are being paid off their extra balances to make capital proportionate by keeping N's capital as base.

You are required to give:

(i) Necessary journal entries; (ii) balance sheet of M/s K, M and N as on 1.4.2020; (iii) capital accounts of partners.

Dowell & Co. is a partnership firm with partners Mr. A, Mr. B and Mr., C, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2020 is as under:

Liabilities		₹	Assets	₹
Capitals :			Land	10,000
Mr. A	80,000		Buildings	2,00,000
Mr. B	20,000		Plant and Machinery	1,30,000
Mr. C	30,000	1,30,000	Furniture	43,000
Reserves			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
Trade payables		1,70,000		
		6,64,000		6,64,000

It was mutually agreed that Mr. B will retire from partnership and in his place Mr. D will be admitted as a partner with effect from 1st April, 2020. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at ₹ 1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹ 15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ₹ 2 lakhs which will be contributed by Mr. A, Mr. C and Mr. D in their new profit sharing ratio, which is 2:2:1.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

(ii) The amount due to retiring partner shall be transferred to his loan account.

Required:

Prepare

(a) Revaluation account;

(b) Partners' capital accounts;

(c) Bank account; and

(d) Balance sheet of the reconstituted firm as on 1st April, 2020.