Unit 4&5: RETIREMENT & DEATH OF PARTNER

CH 10D

"Everyone has two eyes. But no one has the same view. The most important quality of successful people is their willingness to change."

CONCEPT OF RETIREMENT

- Whenever a partner retires, the continuing partners gain. So they arrange for the amount to be paid to discharge the claims of the retiring partners.
- On retirement of a partner, it is required to revalue assets and liabilities just as in the case of admission of a partner. If there is revaluation profit/loss, then such profit/loss should be distributed amongst the existing partners including the retiring partner at the existing profit sharing ratio (i.e. Old PSR)
- On the retirement of a partner any undistributed profit or reserve standing at the Balance Sheet is to be credited to the Partners' Capital Accounts in the old profit sharing ratio.

Example 1

A, B & C having PSR 3 : 2 : 1 . B retires and his share is taken by A & C in 2 : 1. Find new ratio.

Example 2

P, Q & R having PSR 4 : 3 : 2 . Q retires & surrenders $1/9^{th}$ of his share in favour of P & remaining in favour of R.

Example 3

X, Y, Z having PSR 4 : 3: 2, Y retires & surrender $1/9^{th}$ from his share in favour of X & remaining in favour of Z.

Example 4
A, B and C are partners sharing profits and losses in the ratio of 1/2, 3/10 & 1/5 respectively. B retires from the firm and A&C decide to share future profits and losses in the ratio of 3:2.

Example 5
A, B and C are partners sharing profits and losses in the ratio of 25:15:9. B retires and it is decided that profit sharing ratio between A&C will be the same as existing between B and C

Example 6
A, B & C are partners sharing profits and losses in the ratio of 1/2 , 3/10 and 1/5 respectively. B retires and his share is taken by A and C in the ratio of 2:1. Then immediately W is admitted for 1/4th share of profit, half of which was gifted by A and remaining share was taken by W equally from A and C.

TREATMENT OF GOODWILL

Old goodwill

Already appearing in B/sheet

Goodwill arising at the time of retirement

Example

X, Y & Z having PSR 2 : 3 : 5. Goodwill appearing in the books ₹ 50,000. X retires & Goodwill valued at ₹ 45,000. Y & Z decided to share equally.

FINAL PAYMENT TO RETIRING PARTNER

The following adjustments are necessary in the Capital A/c:

(i) Transfer of Profit/Loss on Revaluation.

(ii) Transfer of Reserve

(iii) Transfer of Goodwill

After adjustment of the above-mentioned items, the Capital Account balance standing to the credit of the retiring partner represents amount to be paid to him.

Claim of the retiring partner is payable in the following forms:

- Fully in cash
- Fully transferred to loan account to be paid later with some interest on it.
- Partly in cash and partly as loan repayable later with agreed interest.
- An annuity may be paid to the retired partner for life or for agreed no. of years for the life of some dependent.

CONCEPT OF DEATH OF PARTNER

- The problems arising on the death of a partner are similar to those arising on retirement. Assets and liabilities have to be revalued and the resultant profit or loss has to be transferred to the Capital Accounts of all partners including the deceased partner. Goodwill is dealt with exactly in the way already discussed in the case of retirement.
- The only additional point is that as death may occur on any day, the representatives of the deceased partner will be entitled to the partner's share of profit from the beginning of the year to the date of death. After ascertaining the amount due to the deceased partner, it should be credited to his Executor's Account.
- If the death takes place during the accounting period, the Executor of the deceased partner is entitled to have a share of profit upto the date of death based on the profit earned in the immediately preceding year or some other agreed basis.

The balance from Capital A/c of deceased partner is transferred to the Deceased Partner's Executor A/c.

Deceased Partner's Capital A/c

Particulars	Amount	Particulars	Amount
To Drawings A/c		By Balance b/d	
To Interest on Drawing A/c		By Interest on capital	
To Goodwill A/c (Existing G/w written off)		By P&L Suspense A/c (Share of profit)	
To Undistributed losses		By Reserve A/c	
To Revaluation (Loss)		By Revaluation A/c (profit)	
To Deceased Partner's Executor A/c (Bal. Fig.)		By Gaining partner's capital A/c (Share of G/w)	

HOW TO CALCULATE OUTGOING PARTNER'S SHARE IN PROFITS EARNED FROM THE DATE OF LAST BALANCE SHEET TO THE DATE OF DEATH / RETIREMENT

Step (1):
Calculate Profits of firm from the date of last Balance sheet to the date of death/retirement.

i. Time Basis

$$\frac{\text{Previous year's profits Or Avg. profits X No. of days/months from the date of last b/sheet}}{\text{365 days/12 months}}$$

ii. Sales basis

$$\frac{\text{Previous year's profits Or Avg. profits X Sales from the date of last b/sheet}}{\text{Previous years' Sales/Average Sales of past years}}$$

Step (2)
Calculate outgoing partners share in profits.
= Step (1) X Proportion of share of outgoing partner

Accounting Treatment

I) Through P & L suspense A/c

Profit : P & L Suspense A/c Dr.
To Outgoing partner's capital A/c

Loss : Outgoing partner's capital A/c Dr.
To P & L Suspense A/c

Balance of P&L suspense A/c is transferred to the P&L Appropriation A/c at the end of accounting period.

II) Through the Capital A/c of the gaining partner
Gaining partner's capital A/c Dr.
To Outgoing partner's capital A/c

Example
A, B & C are 3 partners having PSR 5:3:2. C died on 30/06/2023. His share of profit is to be calculated on the basis of the previous year profit which was 2,25,000 for FY 2022-23.
Find his share of profits till death.

Example
G, M & D. PSR 3:2:1 D died on 31/5/23. Sales of previous year i.e 2022-23 were ₹ 4,00,000 & profit was ₹ 60,000. Sales from 1st April, 2023 till 31st May, 2023 is 1,00,000. Find his share of profit.

RETIREMENT / DEATH & ADMISSION

Simultaneous retirement/death and admission do not introduce any new principles of accounting.
The principles studied under admission and retirement/death are combined-the combination of the two sets of transactions.
In case there is retirement/death & simultaneous admission we need to check whether the admission is on the same date or after a subsequent period of time.

Retirement/Death & Admission on the different dates:
1) Treatment of Accumulated Profits, Revaluation of Assets & Liabilities: Adjustment of these will be between old partners in old ratio.
2) Effect of Goodwill: Separate entries will be passed since both the events are on different dates.

Retirement/Death & Admission on the same date:
1) Treatment of Accumulated Profits, Revaluation of Assets & Liabilities: Adjustment of these will be between old partners in old ratio.
2) Effect of Goodwill: Single entry will be passed since both the events are on same date.

RIGHT OF OUTGOING PARTNER TO SHARE SUBSEQUENT PROFITS / CALCULATION OF RELIEF u/s 37

Relief is allowed to outgoing partner. The same can be due to Retirement/Death.
Relief is allowed only if:

a) Outgoing partner's balance has not been fully settled
b) Firm does not allow only interest/share of profits on unsettled balance. i.e., partnership deed is silent.

❖ Relief is higher of the following

Unsettled balance X 6% p.a. X Period upto relief date

OR

$$\frac{\text{Profits earned upto relief date X Unsettled balance of outgoing partner}}{\text{Total capital of partners \& unsettled balance.}}$$

Note: Capital of partners should be calculated on the date of death/retirement after all adjustments.

Example

A, B, C having PSR 1 : 1 : 1. C retires on 31.10.2022 Capital of partners after all adjustments stood at ₹ 50,000, ₹ 75,000 & ₹ 1,20,000 respectively. A & B continued to carry on business without settling C's account. Final payment to C is made on 1.02.2023. Profits made during 3 months period amounted to ₹ 28,000. Find Relief u/s 37

JOINT LIFE POLICY

Insurance

- It's a contract between the two parties that if first party suffers any loss, the second party will make such loss good. Thus, the risk of one is assumed by the other.
- Party which transfers such risk is called insured & party which assumes such risk is called insurer.
- Insured pays the amount of premium to insurer in consideration of risk being undertaken by the insurer & in the event of mishappening, insurer provides the lump sum amount to insured in the name of claim.

Types of Insurance

1.	Life Insurance	Life insurance is a contract that offers financial compensation in case of death or disability. In this amount is received generally at the time of death or maturity whichever is earlier.
2.	General Insurance	A general insurance is a contract that offers financial compensation on any loss other than death. It insures everything apart from life. In this amount is received at the time of happening of event

Joint Life Policy (JLP)

It is an insurance policy which is taken out by the partnership firm on the lives of all the partners. The amount of policy is payable by the Insurance Company either on the death or on maturity of policy, whichever is earlier. The firm pays annual premium to the insurer against the policy. The objective of taking such a policy is to minimize the financial hardships to the event of payment of a large sum to the legal representatives of a deceased partner or to the retiring partner.

Instead of life policy taken jointly on the name of all the partners, all the partners may take individual life policies for each of them by paying the premium from the firm

ACCOUNTING TREATMENT OF JOINT LIFE POLICY

METHOD 1: PREMIUM PAID IS TREATED AS EXPENSE (ORDINARY EXPENSE METHOD)

In this case premium is treated as an expense and it is closed every year by transferring to profit and loss account.

1.	Payment of Premium	Insurance Premium A/c Dr. To Bank A/c
2.	Transfer to P&L A/c	Profit & Loss A/c Dr. To Insurance Premium

METHOD 2: PREMIUM PAID IS TREATED AS ASSET (SURRENDER VALUE METHOD)

In this case insurance premium paid is first debited to life policy account and credited to bank account. At the end of the year the amount in excess of surrender value is treated as a loss and is transferred to Profit and Loss Account.

1.	Payment of Premium	JLP A/c Dr. To Bank A/c
2.	Transfer to P&L A/c	Profit & Loss A/c Dr. To JLP (JLP A/c Balance- its Surrender Value)

METHOD 3: PREMIUM PAID IS TREATED AS ASSET & RESERVE IS MAINTAINED (RESERVE METHOD)

Under this method, premium paid is debited to policy account and credited to bank account. At the end of the year, amount equal to premium is transferred from Profit and Loss Appropriation Account to Policy Reserve Account.

After this, policy account is brought down to its surrender value by debiting the life policy reserve account with amount which exceeds the surrender value of the policy.

1.	Payment of Premium	JLP A/c Dr. To Bank A/c
2.	Creation of Reserve	Profit & Loss Appropriation A/c Dr. To JLP Reserve
3.	Amount in excess of Surrender Value	JLP Reserve A/c Dr. To JLP A/c

Note: In the balance sheet JLP will appear on the Asset side & JLP Reserve will appear on the liability side at surrender value.

Example:

A, B and C shared profits and losses in the ratio of 5:3:2. They took out a joint life Policy in 2021 for ₹1,00,000, a premium of ₹5,000 being paid annually on 1st January. The surrender value of the policy on 31st December of various years was as follows: 2021 Nil; 2022 ₹ 3,000; 2023 ₹ 6,500. Prepare ledger accounts

Case 1: Assuming Ordinary Expense Method.

Case 2: Assuming Surrender Value Method.

Case 3: Assuming Reserve Method.

DEATH OF PARTNER

JOINT LIFE POLICY [POLICY AMOUNT]

Ordinary Expense Method	Asset/Surrender Value Method	JLP & JLP Reserve Method
[JLP is not appearing in Books]	[JLP appearing in Books at Surrender Value]	[Reserve Method]
* Premium charged to P&L A/c every year	* JLP shown as asset at S.V.	* Both maintained at S.V.
* Amount Received (Policy Amount) is credited to Partner's Capital A/c in PSR	* Amount received (net of S.V.) credited to Partner's Capital A/c	* Amount Received is credited to Partner's Capital A/c in PSR

Example:

A, B and C shared profits and losses in the ratio of 3:2:1. C died on 31.03.2023

Policy Amount 1,20,000 & Surrender Value 30,000

Case 1: JLP is not appearing in the books/Ordinary Expense Method

Case 2: JLP is appearing in the books at Surrender Value

Case 3: JLP & JLP Reserve are maintained at Surrender Value

RETIREMENT OF PARTNER

JOINT LIFE POLICY [SURRENDER VALUE]

Ordinary Expense Method	Asset/Surrender Value Method	JLP & JLP Reserve Method
[JLP is not appearing in Books]	[JLP appearing in Books at Surrender Value]	[Reserve Method]
Amount Received (Surrender Value) is credited to Partner's cap. A/c in PSR	No Treatment	Distribute JLP Reserve in their PSR

Example:

A, B and C shared profits and losses in the ratio of 3:2:1. C retired on 31.03.2021
Policy Amount 1,20,000 & Surrender Value 30,000
Case 1: JLP is not appearing in the books/Ordinary Expense Method
Case 2: JLP is appearing in the books at Surrender Value
Case 3: JLP & JLP Reserve are maintained at Surrender Value

DEATH OF PARTNER

Separate/Individual Life Policy

Surrender value not appearing in books
Share in Own Policy
+
Share in Surrender value of Remaining Partner's Policy

Surrender value appearing in books
Share in Own Policy (Remaining Balance)
[i.e. Policy Amount − S.V.]

Example:

A, B and C shared profits and losses in the ratio of 3:2:1. C died on 31.03.2021

	Policy Amount	Surrender Value
A	2,00,000	30,000
B	3,00,000	60,000
C	4,80,000	90,000

Case 1: Surrender Value not appearing in the books
Case 2: Surrender Value appearing in the books

RETIREMENT OF PARTNER

Separate/Individual Life Policy

Surrender value not appearing in books

Share in Surrender value of all Partner's Life Policies

Surrender value appearing in books

NO Treatment

Example:

A, B and C shared profits and losses in the ratio of 3:2:1. C retired on 31.03.2021

	Policy Amount	Surrender Value
A	2,00,000	30,000
B	3,00,000	60,000
C	4,80,000	90,000

Case 1: Surrender Value not appearing in the books

Case 2: Surrender Value appearing in the books

ASSIGNMENT QUESTIONS

Question 1 *(RTP May 2018) / (RTP Nov 2020) / (RTP Nov 2022) (Similar)* *Pg no._____*

On 31st March, 2021, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Accounts :		Land and Building	30,000
P	20,000	Plant and Machinery	20,000
Q	30,000	Inventory of goods	12,000
R	20,000	Sundry debtors	11,000
Sundry Creditors	10,000	Cash and Bank Balances	7,000
	80,000		80,000

On 1st April, 2021, P desired to retire from firm & remaining partners decided to carry on the business. It was agreed to revalue the assets & liabilities on that date on the following basis:

(a) Land and Building be appreciated by 20%.
(b) Plant and Machinery be depreciated by 30%.
(c) Inventory of goods to be valued at ₹ 10,000.
(d) Old credit balances of Sundry creditors, ₹ 2,000 to be written back/off.
(e) Provisions for bad debts should be provided at 5%.
(f) Joint life policy of the partners surrendered and cash obtained ₹ 7,550.
(g) Goodwill of the entire firm is valued at ₹ 14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.
(h) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.
(i) Amount due to Mr. P is to be settled on the following basis: 50% on retirement and the balance 50% within one year.

Prepare

(a) Revaluation account,
(b) The Capital accounts of the partners,
(c) Cash account and
(d) Balance Sheet of the new firm M/s Q & R as on 1.04.2021.

Question 2 *Pg no._____*

A, B and C are partners sharing profits in the ratio of 4:3:1.

Balance sheet as on 31st March, 2023

Liabilities	₹	Assets	₹
Creditors	70,000	Cash in Hand	80,000
Bills Payable	30,000	Cash at bank	20,000
Workmen's Compensation Reserve	20,000	Stock	75,000
General Reserve	80,000	Debtors 1,30,000	
Capital A/cs:		Less: Provision for Doubtful Debts 5,000	1,25,000
A 2,00,000		Joint Life Policy	1,50,000
B 3,00,000		Investments	1,00,000
C 2,00,000	7,00,000	Plant and Machinery	1,20,000
		Building	2,30,000
	9,00,000		9,00,000

On the above date B retires from the firm selling his share of profit to A for ₹ 36,000 and to C for ₹ 45,000 in the ratio of 4:5. For the purpose of B's retirement it was agreed that:

a) Stock is to be appreciated by 20% and Building by 10%.
b) Joint Life Policy is surrendered to the insurance company for ₹ 70,000.
c) Provision for Doubtful Debts is increased to 10%.
d) Investments are sold for ₹ 2,30,000.
e) Claim on account of workmen's compensation is ₹ 12,000.
f) Amount due to B is to be settled on the following basis:
   50% on retirement and the balance 50% within one year.
g) The capital of the newly constituted firm is fixed at ₹ 6,00,000 to be divided among A and C in the profit sharing ratio.

Adjustment is to be made in cash, calculate the new profit sharing ratio and prepare the Revaluation Account and Partners Capital Accounts.

Question 3 *(ICAI Study Material)* Pg no._____

F, G and K were partners in LLP sharing profit and losses at the 2:2:1. K wants to retire on 31-12-2023. Given below the Balance Sheet of the partnership as well as other information:

Balance Sheet as on 31-12-2023

Liabilities	₹	Assets	₹
Capital A/cs		Sundry Fixed assets	1,50,000
F	1,20,000	Inventories	50,000
G	80,000	Bank	50,000
K	60,000	Trade Receivables (Including B/R of 20,000)	70,000
Reserve	10,000		
Trade Payables	50,000		
	3,20,000		3,20,000

F and G agree to share profits and losses at the ratio of 3:2 in future. Value of goodwill is taken to be ₹ 50,000. Sundry Fixed Assets are revalued upward by ₹ 30,000 and Inventories by ₹ 10,000. Bills Receivable dishonoured ₹ 5,000 on 31-12-2023 but not recorded in the books. Dishonour of bill was due to insolvency of the customer. F and G agree to bring sufficient cash to discharge claim of K and to make their capital proportionate. Also they wanted to maintain ₹ 75,000 bank balance for working capital.

Pass necessary journal entries, prepare capital accounts and draft the Balance Sheet of M/s F and G.

Question 4 *(ICAI Study Material)* Pg no._____

A, B & C were in partnership sharing profits in the proportions of 5:4:3. The balance sheet of the firm as on 31st March, 2023 was as under:

Liabilities		₹	Assets	₹
Capital Accounts:			Fixtures	8,200
A	1,35,930		Inventories	1,57,300
B	95,120		Trade receivables	93,500
C	61,170	2,92,220	Cash in hand	74,910
Trade payables		41,690		
		3,33,910		3,33,910

A had been suffering from ill-health and gave notice that he wished to retire. An agreement was, therefore, entered into as on 31st March, 2023, the terms of which were as follows:

a) The profit and loss account for the year ended 31st March, 2023 which showed a net profit of ₹48,000 was to be re-opened. B was to be credited with ₹4,000 as bonus, in consideration of the extra work which had devolved upon him during the year. The profit sharing was to be revised from 1st April, 2022, as 3:4:4.
b) Goodwill was to be valued at two years' purchase of the average profits of the preceding five years. The fixtures were to be valued by an independent valuer. The valuations arising out of the above agreement were goodwill ₹56,800 and fixtures ₹10,980. A provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book values.

B and C agreed, as between themselves, to continue the business, sharing profits in the ratio of 3:2 and decided to retain the fixtures on the books at the revised value, & to increase the provision for doubtful debts to 6%.

Pass the journal entries necessary to give effect to the above arrangements and to draw up the capital account of the partners after carrying out all adjusting entries as stated above.

Question 5

Pg no._____

P, Q and R were carrying on a business in partnership, sharing profits and losses in the ratio of 5 : 3 : 2 respectively. The firm earned a profit of ₹ 3,60,000 for the accounting year ended 31st March, 2020 on which date the firm's Balance Sheet stood as follows:

Balance Sheet as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital Accounts :		Freehold Land and Building	8,00,000
P	7,00,000	Machinery	3,50,000
Q	5,70,000	Furniture & Fixtures	1,02,000
R	4,30,000	Stock	2,98,800
Outstanding Expenses	4,900	Debtors	1,60,000
Creditors	79,400	Cash at Bank	73,500
	17,84,300		17,84,300

P died on 31st August, 2020. According to firm's partnership deed, in case of death of a partner:-

(a) Assets and Liabilities have to be revalued by an independent valuer.
(b) Goodwill is to be calculated at two years' purchase of average profits for the last three completed accounting years and the deceased partner's capital account is to be credited with his share of goodwill.
(c) The share of the deceased partner in the profits for the period between end of the previous accounting year and the date of death is to be calculated on the basis of the previous accounting year's profits. Post death of P, Q & R will share profit in the ratio of 3 : 2.

Profits for the accounting years 2017-2018 and 2018-2019 were as follows :-

For the year ended 31st March, 2018 2,90,000 .
For the year ended 31st March, 2019 3,40,000

Drawings by P from 1st April, 2020 to the date of his death totalled ₹ 46,000.

On revaluation, Freehold Land and Building was appreciated by ₹ 1,00,000; Machinery was depreciated by ₹ 10,000 and a Provision for Bad Debts was created @ 5% on Debtors as on 31st March, 2020. P's sole heir was given ₹ 5,00,000 immediately and the balance along with interest @ 12% per annum was paid to him on 31st March, 2021.

Prepare Revaluation Account, P's Capital Account and P's Heir Account, giving important working notes.

Question 6 *(ICAI Study Material)* *Pg no._____*

B and N were partners. The partnership deed provides inter alia:

(i) That the accounts be balanced on 31st December each year.

(ii) That the profits be divided as follows: B: One-half; N: One-third; and carried to Reserve Account: One-sixth

(iii) That in the event of death of a partner, his executor will be entitled to the following:

(a) the capital to his credit at the date of death; (b) his proportion of profit to date of death based on the average profits of the last three completed years; (c) his share of goodwill based on three years' purchases of the average profits for the three preceding completed years.

Trial Balance on 31st December, 2022

Particulars	Dr.	Cr.
B's Capital		90,000
N's Capital		60,000
Reserve		30,000
Bills receivable	50,000	
Investments	40,000	
Cash	1,10,000	
Trade payables		20,000
Total	2,00,000	2,00,000

The profits for the three years were 2020: ₹ 42,000; 2021: ₹ 39,000 and 2022: ₹ 45,000. N died on 1st May, 2023.

Show the calculation of N (i) Share of Profits; (ii) Share of Goodwill; (iii) Draw up N's Executors Account as would appear in the firms' ledger transferring the amount to the Loan Account

Question 7 *(ICAI Study Material)* *Pg no._____*

M/s X and Co. is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June 2023, was as under:

Balance Sheet of X and Co. as on 30.06.2023

Liabilities		₹	Assets	₹
Capital Accounts:			Land	1,00,000
A	1,04,000		Building	2,00,000
B	76,000		Plant and Machinery	3,80,000
C	1,40,000	3,20,000	Investments	22,000
Long Term Loan		4,00,000	Inventories	1,16,000
Bank Overdraft		44,000	Trade receivables	1,39,000
Trade payables		1,93,000		
		9,57,000		9,57,000

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2023. For this purpose, the following adjustments are to be made:

(a) Goodwill of the firm is to be valued at ₹2 lakhs due to the firm's locational advantage 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 valued at 90% and 85% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹25,000. Trade receivables are considered good only upto 90% of balance sheet figure. Balance be considered bad.

(c) In the reconstituted firm, the total capital will be ₹3 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.
(d) The amount due to retiring partner shall be transferred to his loan account.
Prepare Revaluation Account and Partners' Capital Accounts.

Question 8

Pg no._____

P, Q and R were partners sharing profits and losses in the ratio of 2 : 2 : 1. R wants to retire from partnership on 31-3-2021 and S wants to join the partnership on the same date, to which both P & Q agreed. The Balance Sheet of the partnership firm as on 31-03-2021 and other information were as detailed below:

Balance Sheets as on 31-03-2021

Liabilities	₹	Assets	₹
Partner's Capital A/c		Fixed Assets	6,00,000
P	4,80,000	Stock in Hand	2,00,000
Q	3,20,000	Sundry Debtors	2,80,000
R	2,40,000	Cash at Bank	1,60,000
General Reserve	40,000	Cash in Hand	40,000
Sundry Creditors	2,00,000		
	12,80,000		12,80,000

P, Q and S agrees to share profits and losses in equal ratio in future. Value of goodwill is taken to be ₹ 1,80,000. Fixed Assets are revalued upwards by ₹ 1,20,000 and Stock by ₹ 40,000. A debtor from whom ₹ 20,000 was due, become insolvent. No amount will be received from him in future and same is not recorded in the books and balance sheet as above. Claim of R will be settled in full. P, Q and S agree to make their capital proportionate to their new profit sharing ratio. Balance amount receivable from / payable to partners will be paid to partners / brought in by partners immediately.
All these transactions viz., claim of R and amount receivable / payable to partners will be routed through bank only. New partners also want to maintain ₹ 3,20,000 bank balance for working capital requirement. However they don't want to show goodwill in the books of accounts
Prepare:
a) Revaluation Account
b) Capital Accounts of Partners and
c) Balance Sheet of the Firm as newly constituted.

Question 9

Pg no._____

E, F and G were partners sharing Profits and Losses in the ratio of 5:3:2 respectively. On 31st March, 2021 Balance Sheet of the firm stood as follows:

Liabilities	₹	Assets	₹
Capital A/cs		Buildings	55,000
E 50,000		Furniture	25,000
F 40,000		Stock	42,000
G 28,000	1,18,000	Debtors	20,000
Creditors	33,500	Cash at Bank	11,200
Outstanding Expenses	1,700		
	1,53,200		1,53,200

On 31st March, 2021, E decided to retire and F and G decided to continue as equal partners. Other terms of retirement were as follows:

a) Building be appreciated by 20%.
b) Furniture be depreciated by 10%
c) A provision of 5% be created for bad debts on debtors.
d) Goodwill be valued at two years' purchase of profit for the latest accounting year. The firm's Profit for the year ended 31st March, 2021 was ₹25,000. No goodwill account is to be raised in the books of accounts.
e) Fresh capital be introduced by F and G to the extent of ₹10,000 and ₹35,000 respectively.
f) Out of sum payable to retiring partner E, a sum of ₹45,000 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% per annum. The loan is to be paid off by 31st March, 2023.

One month after E's retirement, F and G agreed to admit E's son H as a partner with one-forth share in Profits/Losses. E agreed that the balance in his loan account be converted into H's Capital. E also agreed to forgo one month's interest on his loan.
It was also agreed that H will bring in, his share of goodwill through book adjustment, valued at the price on the date of E's retirement. No goodwill account is to be raised in the books.
Prepare Revaluation Account & Partners' Capital Accounts.

Question 10

Pg no._____

The Balance Sheet of Amitabh, Abhishek and Amrish as at 31.12.2020 stood as follows:

Liabilities		₹	Assets		₹
Capital Accounts :			Land & Buildings		74,000
Amitabh	60,000		Investments		10,000
Abhishek	40,000		Goodwill		37,800
Amrish	40,000	1,40,000	Life Policy (at surrender value):		
Creditors		25,800	Amitabh		2,500
General Reserve		8,000	Abhishek		2,500
Investment Fluctuation Reserve		2,400	Amrish		1,000
			Stock		20,000
			Debtors	20,000	
			Less: Provision for doubtful debts	(1,600)	18,400
			Cash & bank balance		10,000
		1,76,200			1,76,200

Amrish died on 31 March, 2021, due to this reason,following adjustments were agreed upon:
(a) Land and Buildings be appreciated by 50%.
(b) Investment be valued at 6% less than the cost.
(c) All debtors (except 20% which are considered as doubtful) were good.
(d) Stock to be reduced to 94%.
(e) Goodwill to be valued at 1 year's purchase of the average profits of the past five years.
(f) Amrish's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceding the year of death.

The profits of the last five years are as follows:

Year	₹
2016	23,000
2017	28,000
2018	18,000
2019	16,000

2020	20,000
	1,05,000

The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of ₹1,000 is payable every year on 1st August. Prepare the Balance Sheet of the firm.

Question 11 *(ICAI Study Material)* *Pg no._____*

The following was the Balance Sheet of Om & Co. in which X, Y, Z were partners sharing profits and losses in the ratio of 1:2:2 as on 31.3.2023. Mr. Z died on 31st December, 2023. His account has to be settled under the following terms.

Balance Sheet of Om & Co. as on 31.3.2023

Liabilities		₹	Assets	₹
Capital Accounts:			Building	1,20,000
X	40,000		Computers	80,000
Y	80,000		Inventories	20,000
Z	80,000	2,00,000	Trade receivables	20,000
Trade payables		20,000	Cash at bank	50,000
Bank loan		50,000	Investments	10,000
General reserve		30,000		
		3,00,000		3,00,000

Goodwill is to be calculated at the rate of two years purchase on the basis of average of three years' profits and losses. The profits and losses for the three years were detailed as below:

Year Ending	Profit/Loss
31.3.2023	30,000
31.3.2022	20,000
31.3.2021	(10,000) Loss

Profit for the period from 1.4.2023 to 31.12.2023 shall be ascertained proportionately on the basis of average profits and losses of the preceding three years. During the year ending on 31.3.2023 a car costing ₹40,000 was purchased on 1.4.2022 and debited to traveling expenses account on which depreciation is to be calculated at 20% p.a. at written down value method. This asset is to be brought into account at the depreciated value.

Other values of assets were agreed as follows: Inventory at ₹16,000, building at ₹1,40,000, computers at ₹50,000; investments at ₹6,000. Trade receivables were considered good.

Required:

a) Calculate goodwill and Z's share in the profits of the firm for the period 1.4.2023 to 31.12.2023.

b) Prepare revaluation account assuming that other items of assets and liabilities remained the same.

c) Prepare partners' capital accounts and balance sheet of the firm Om & Co. as on 31.12.2023.

Question 12 *Pg no._____*

X, Y, Z were partners in a firm sharing Profit & Loss in ratio of 2 : 1 : 1.

The firm took a joint life policy on the lives of all the partners of assured value of ₹ 2,00,000.

The firm also took separate life policies of partners as follows:

	Assured values
X	1,50,000
Y	2,00,000
Z	3,00,000

The premium paid for separate life policies was debited to Profit & Loss A/c. Surrender value of all policies is 50%.
You are required to calculate the share of life policies which X's executors will get in even of X's death?

Question 13 *(ICAI Study Material)* *Pg no._____*

The partnership agreement of a firm consisting of three partners - A, B and C (who share profits in proportion of ½, ¼ and ¼ and whose fixed capitals are ₹10,000; ₹6,000 and ₹4,000 respectively) provides as follows:

(a) That partners be allowed interest at 10 per cent per annum on their fixed capitals, but no interest be allowed on undrawn profits or charged on drawings.
(b) That upon the death of a partner, the goodwill of the firm be valued at two years' purchase of the average net profits (after charging interest on capital) for the three years to 31st December preceding the death of a partner.
(c) That an insurance policy of ₹10,000 each to be taken in individual names of each partner, the premium is to be charged against the profit of the firm.
(d) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals etc. calculated upon 31st December following his death.
(e) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.
(f) That the partnership books be closed annually on 31st December.

A died on 30th September 2023, the amount standing to the credit of his current account on 31st December, 2022 was ₹450 and from that date to the date of death he had withdrawn ₹3,000 from the business.
An unrecorded liability of ₹2,000 was discovered on 30th September, 2023. It was decided to record it and be immediately paid off.
The trading result of the firm (before charging interest on capital) had been as follows: 2020 Profit ₹9,640; 2021 Profit ₹6,720; 2022 Profit ₹7,640; 2023 Profit ₹3,670.
Assuming the surrender value of the policy to be 20 percent of the sum assured.
Prepare an account showing the amount due to A's legal representative as on 31st December, 2023.

Question 14 *(ICAI Study Material)* *Pg no._____*

a) Peter, Paul and Prince were partners sharing profits and losses in the ratio 2:1:1. It was provided in the partnership deed that in the event of retirement /death of a partner he/his legal representatives would be paid:
b) The balance in the capital Account
c) His share of goodwill of the firm valued at two years purchase of normal average profits (after charging interest on fixed capital) for the last three years to 31st December preceding the retirement or death.
d) His share of profits from the beginning of the accounting year to the date of retirement or death, which shall be taken on proportionate basis of profits of the previous year as increased by 25%
e) Interest on fixed capital at 10% p.a. though payable to the partners will not be payable in the year of death or retirement.
f) All the asset are to be revalued on the date of retirement or death and the profit and loss be debited/ credited to the Capital Accounts in the profit sharing ratio.

Peter died on 30th September, 2022. The books of Account are closed on calendar year basis from 1st January to 31st December.

The balance in the Fixed Capital Accounts as on 1st January, 2022 were Peter ₹ 10,000, Paul ₹ 5,000 and Prince ₹ 5,000. The balance in the Current Account as on 1st January, 2022 were Peter ₹ 20,000, Paul ₹ 10,000 and Prince ₹ 7,000. Drawings of Peter till 30th September, 2022 were ₹ 10,000. The profits of the firm before charging interest on capital for the calendar years 2019, 2020 and 2021 were ₹ 1,00,000, ₹ 1,20,000 and ₹ 1,50,000 respectively.
The profits include the following abnormal items of credit:

	2019	2020	2021
Profit on sale of assets	5,000	7,000	10,000
Insurance claim received	3,000	-	12,000

The firm has taken out a Joint Life Policy for ₹1,00,000. Besides the partners had severally insured their lives for ₹ 50,000 each, the premium in respect thereof being charged to the Profit and Loss account. The surrender value of the Policies were 30% of the face/policy value. On 30th June, 2022 the firm received notice from the insurance company that the insurance premium in respect of fire policy had been undercharged to the extent of ₹ 6,000 in the year 2021 and the firm has to pay immediately. The revaluation of the assets indicates an upward revision in value of assets to the extent of ₹ 20,000.
Prepare an account showing the amount due to Peter's Legal representatives as on 30th September, 2022 along with necessary workings.

Question 15 *(CA Foundation July 2021) (10 Marks)* *Pg no._____*

It was provided under the Partnership Agreement between Ram, Laxman and Bharat that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:

(a) Goodwill is to be valued at 3 year's purchase of simple average profits of last 4 completed years.

(b) Outstanding amount due to the representative of a deceased partner shall be paid in 4 equal half yearly installments commencing 6 months after the death plus interest @ 5% p.a. on the outstanding dues.

They shared profit and loss in the ratio 9:4:3.
Ram died on 30th September 2020 and Partner's Capital account balances on that date were: Ram - ₹ 21,600, Laxman - ₹ 12,800 and Bharat - ₹ 7,200. Ram's current account on 30th September, 2020 after crediting his share of profit to that date, however showed a debit balance of ₹ 1,920.
Firm profits were for the year ended
- 31st March, 2017 ₹ 70,400
- 31st March, 2018 ₹ 56,320
- 31st March, 2019 ₹ 48,160
- 31st March, 2020 ₹ 17,408

Show Ram's Capital Account and Executor's Account (of Ram) till full payment is made to Ram's Executor.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1) C, D and E are partners sharing profits and losses in the proportion of 1/2, 1/3 and 1/6. D retired and the new profit sharing ratio between C and E is 3:2 and the Reserve of ₹ 12,000 is divided among the partners in the ratio:
   (a) ₹ 2,000: ₹ 4,000: ₹ 6,000.
   (b) ₹ 5,000: ₹ 5,000: ₹ 2,000.
   (c) ₹ 6,000: ₹ 4,000: ₹ 2,000.

2) A, B and C takes a Joint Life Policy, after five years B retires from the firm. Old profit sharing ratio is 2:2:1. After retirement A and C decides to share profits equally. They had taken a Joint Life Policy of ₹2,50,000 with the surrender value ₹ 50,000. What will be the treatment in the partner's capital account on receiving the JLP amount if joint life policy premium is fully charged to revenue as and when paid?
   (a) ₹ 50,000 credited to all the partners in old ratio.
   (b) ₹2,50,000 credited to all the partners in old ratio.
   (c) ₹2,00,000 credited to all the partners in old ratio.

3) A, B and C takes a Joint Life Policy, after five years, B retires from the firm. Old profit sharing ratio is 2:2:1. After retirement A and C decides to share profits equally. They had taken a Joint Life Policy of ₹2,50,000 with the surrender value ₹ 50,000. What will be the treatment in the partner's capital account on receiving the JLP amount if joint life policy is maintained at the surrender value?
   (a) ₹ 50,000 credited to all the partners in old ratio.
   (b) ₹2,50,000 credited to all the partners in old ratio.
   (c) No treatment is required.

4) A, B and C are partners sharing profits in the ratio 2:2:1. On retirement of B, goodwill was valued as ₹ 30,000. Find the contribution of A and C to compensate B.
   (a) ₹ 20,000 and ₹ 10,000.
   (b) ₹ 8,000 and ₹ 4,000.
   (c) They will not contribute anything.

5) A, B and C were partners in a firm sharing profits and losses in the ratio of 2:2:1 respectively with the capital balance of ₹ 50,000 for A and B, for C ₹ 25,000. B declared to retire from the firm and balance in reserve on the date was ₹ 15,000. If goodwill of the firm was valued as ₹ 30,000 and profit on revaluation was ₹ 7,050 then what amount will be transferred to the loan account of B.
   (a) ₹ 70,820.
   (b) ₹ 50,820.
   (c) ₹ 25,820.

6) A, B and C are partners sharing profits and losses in the ratio of 3:2:1. C retires on a decided date and Goodwill of the firm is to be valued at ₹ 60,000. Find the amount payable to retiring partner on account of goodwill.
   (a) ₹ 30,000.
   (b) ₹ 20,000.
   (c) ₹ 10,000.

7) A, B and C were partners sharing profits and losses in the ratio of 3:2:1. A retired and Goodwill of the firm is to be valued at ₹ 24,000. What will be the treatment for goodwill?
   (a) Credited to Revaluation Account at ₹ 24,000.
   (b) Adjusted through partners' capital accounts in gaining/sacrificing ratio.
   (c) Only A's capital account credited with ₹ 12,000.

8) Balances of A, B and C sharing profits and losses in proportionate to their capitals, stood as A - ₹2,00,000; B - ₹3,00,000 and C - ₹2,00,000. A desired to retire from the firm, B and C share the future profits equally, Goodwill of the entire firm be valued at ₹1,40,000 and no Goodwill account being raised.
   (a) Credit Partner's Capital Account with old profit sharing ratio for ₹1,40,000.
   (b) Credit Partner's Capital Account with new profit sharing ratio for ₹1,40,000.
   (c) Credit A's Account with ₹ 40,000 and debit B's Capital Account with ₹ 10,000 and C's Capital Account with ₹ 30,000.

9) In the absence of proper agreement, representative of the deceased partner is entitled to the Dead partner's share in
   (a) Profits till date, goodwill, joint life policy, share in revalued assets and liabilities.
   (b) Capital, goodwill, joint life policy, interest on capital, share in revalued assets and liabilities.
   (c) Capital, profits till date, goodwill, joint life policy, share in revalued assets and liabilities.

10) A, B and C are the partners sharing profits and losses in the ratio 2:1:1. Firm has a joint life policy of ₹1,20,000 and in the balance sheet it is appearing at the surrender value i.e. ₹ 20,000. On the death of A, how this JLP will be shared among the partners.
   (a) ₹ 50,000: ₹ 25,000: ₹ 25,000.
   (b) ₹ 60,000: ₹ 30,000: ₹ 30,000.
   (c) ₹ 40,000: ₹ 35,000: ₹ 25,000.

11) R, J and D are the partners sharing profits in the ratio 7:5:4. D died on 30th June 2022. It was decided to value the goodwill on the basis of three year's purchase of last five years average profits. If the profits are ₹ 29,600; ₹ 28,700; ₹ 28,900; ₹ 24,000 and ₹ 26,800. What will be D's share of goodwill?
   (a) ₹ 20,700.
   (b) ₹ 27,600.
   (c) ₹ 82,800.

12) R, J and D are the partners sharing profits in the ratio 7:5:4. D died on 30th June 2022 and profits for the accounting year 2021-2022 were ₹ 24,000. How much share in profits for the period 1st April 2022 to 30th June 2022 will be credited to D's Account.
   (a) ₹ 6,000.
   (b) ₹ 1,500.
   (c) ₹ 2,000.

13) Revaluation account is prepared at the time of
   (a) Admission and Retirement of a partner
   (b) Death of a partner
   (c) All of the above

14) If three partners A, B & C are sharing profits as 5:3:2, then on the death of a partner A, how much B & C will pay to A's executer on account of goodwill. Goodwill is to be calculated on the basis of 2 years purchase of last 3 years average profits. Profits for last three years are: ₹ 3,29,000; ₹ 3,46,000 and ₹ 4,05,000.
(a) ₹ 2,16,000 & ₹ 1,42,000.
(b) ₹ 2,44,000 & ₹ 2,16,000.
(c) ₹ 2,16,000 & ₹ 1,44,000.

ANSWERS MCQs

1 (c) 2 (a) 3 (c) 4 (b) 5 (a) 6 (c) 7 (b) 8 (c) 9 (c) 10 (a) 11 (a) 12 (b) 13 (c) 14 (c)

TRUE / FALSE

State with reasons, whether the following statements are true or false:

1) Business of a partnership has to be closed if any one partner retires.
2) At the time of retirement of a partner no special treatment is required for any reserves appearing in the Balance Sheet.
3) After retirement of a partner, profit sharing ratio of continuing partners remains the same.
4) If any partner wants to retire from the business, he must retire on 1st day of the accounting year.
5) Retiring partner has to forego his share of goodwill in the firm.
6) If a partner retires in between the accounting year then he is not entitled to any profit from the date of beginning of the year till his date of retirement.
7) If the firm has taken any joint life policy then it is to be surrendered at the time of retirement of a partner.
8) Any joint life policy reserve appearing in the Balance Sheet is credited to all the partners in their old profit sharing ratio.
9) No revaluation account is necessary on retirement of a partner.
10) Profit on revaluation is credited to continuing partners, retiring partner is not entitled to any profit on revaluation.
11) Business of partnership comes to an end on death of a partner. *(July 2021)*
12) Legal heir of a deceased partner automatically becomes partner in the firm.
13) A revaluation account is opened in the books of accounts on death of a partner.
14) Any reserve appearing in the balance sheet on the date of death of a partner is transferred to all partners capital account in their profit sharing ratio.
15) Legal heirs of a deceased partner are entitled to his capital account balance only.
16) It is not necessary to adjust goodwill on death of a partner.
17) On death of a partner continuing partners can agree to change their capital contribution and profit sharing ratio.
18) On death of a partner, the firm gets surrender value of the joint life policy.
19) Only legal heirs of deceased partner are entitled to amount received from joint life policy
20) If a partner retires then other partners have a gain in their profit sharing ratio.
21) The objective of taking a joint life policy by the partnership firm is to secure the lives of the existing partners of the firm.
22) At the time of retirement of a partner, firm gets policy amount from the insurance company against the Joint Life Policy taken jointly for all the partners.
23) Retiring or outgoing partner is liable for obligations incurred before and after his retirement

24) A joint venture is a partnership under the Partnership Act.
25) If individual life policies are taken in the name of partners and premium is paid from the firm, then retiring partner is entitled to surrender value of his policy only.

Solution

1) False: Business of a partnership is not closed if any one partner retires, remaining partners continue to carry on the business.
2) False: At the time of retirement of a partner all the reserves appearing in the balance sheet are transferred to all the partners in their profit sharing ratio.
3) False: After retirement of a partner, profit sharing ratio of continuing partners does not remain the same.
4) False: A partner can retire on any day as per his wish.
5) False: Retiring partner is entitled to his share of goodwill in the firm.
6) False: If a partner retires in between the accounting year then he is certainly entitled to the profit from the date of beginning of the year till his date of retirement.
7) True: The firm is eligible for the surrender value on the JLP taken on the partners at the time of their retirement.
8) True: JLP reserve is distributed to the partners in their profit sharing ratio.
9) False: Revaluation account is necessary on retirement of a partner.
10) False: Profit on revaluation is credited to all the partners in their profit sharing ratio.
11) False: Surviving partners continue to carry on the business.
12) False: Legal heirs of deceased partners are entitled to dues of the deceased partner.
13) True: To find out the actual values of the assets and liabilities, revaluation account is prepared.
14) True: Reserves belong to the partners in the same manner the capital contributed by them. Hence it is distributed to them through the capital account.
15) False: Legal heirs of a deceased partner are entitled to all the dues of deceased partner.
16) False: It is very much necessary to adjust goodwill on death of a partner.
17) True- Yes, it can be continued in the earlier share or in new share- in either case it leads to computing a new profit sharing ratio
18) False: On death of a partner the firm gets full value of sum assured of the joint life policy.
19) False: All the partners are entitled to amount received from joint life policy
20) True: If a partner retires the share of his profit or loss will be shared by other partners in their profit sharing ratio.
21) False: The object of taking a joint life policy is to reduce the financial pressure for the payment of a large sum to the legal representative of a deceased partner at the time of death of a partner.
22) False: At the time of retirement of a partner, firm gets surrender value from the insurance company against the Joint Life Policy taken jointly for all the partners.
23) False: Retiring or outgoing partner is liable for obligations incurred before his retirement
24) False- Joint Venture is only a kind of temporary trading relationship between the co-venturers to carry out a commercial venture. Therefore, it is not a partnership
25) False: If individual life policies are taken in the name of partners and premium is paid from the firm, then retiring partner is entitled to surrender value of all the partners policies.

HOMEWORK QUESTIONS

Question 1 *(ICAI Study Material)* Pg no.______

On 31st March, 2023, the balance sheet of M/s Ram, Rahul and Rohit sharing profits and losses in proportion to their capital, stood as follows:

Liabilities		₹	Assets	₹
Capital Accounts:			Land & building	2,00,000
Ram	3,00,000		Machinery	2,00,000
Rahul	2,00,000		Closing stock	1,00,000
Rohit	1,00,000	6,00,000	Sundry debtors	2,00,000
Sundry creditors		2,00,000	Cash and bank balances	1,00,000
		8,00,000		8,00,000

On 31st March, 2023, Ram desired to retire from the firm and the remaining partners decided to carry on. It was agreed to revalue the assets and liabilities on that date on the following basis:

1. Land and buildings be appreciated by 30%.
2. Machinery be depreciated by 20%.
3. Closing stock to be valued at ₹ 80,000.
4. Provision for bad debts be made at 5%.
5. Old credit balances of sundry creditors ₹ 10,000 be written off.
6. Joint life policy of the partners surrendered and cash obtained ₹ 60,000.
7. Goodwill of the entire firm be valued at ₹1,80,000 and Ram's share of the goodwill be adjusted in the accounts of Rahul and Rohit who share the future profits equally. No goodwill account being raised.
8. The total capital of the firm is to be the same as before retirement. Individual capital be in their profit sharing ratio.
9. Amount due to Ram is to be settled on the following basis:50% on retirement and the balance 50% within one year

Prepare revaluation account, capital account of partners: Rahul & Rohit, loan account of Ram, cash account and balance sheet as on 1.4.2023 of M/s Rahul and Rohit.

Question 2 *(ICAI Study Material)* Pg no.______

Aarav, Nirav and Purav are partners in LLP sharing profits and losses in the ratio of 3:2:1 Their Balance Sheet as on 31st March 2023 was as follows:

BALANCE SHEET as on 31st March 2023

Liabilities		₹	Assets	₹
Capital Accounts:			Building	50,000
Aarav	80,000		Machinery	67,500
Nirav	50,000		Debtors	65,000
Purav	35,000	1,65,000	Stock	80,000
General Reserve		60,000	Bank	12,500
Trade Creditors		50,000		
		2,75,000		2,75,000

Purav retired from the business on 1st April 2023 on the following terms:

1. Goodwill was to be valued at 2 years purchase of average profit of past 3 years.
   31st March 2021 ₹ 41,000 31st March 2022 ₹ 50,000 31st March 2023 ₹ 55,000
2. Goodwill was not to be raised in the books of accounts.
3. Provision for Doubtful Debts to be created on debtors at 5%.
4. Machinery is to be depreciated by 10% and stock is revalued at ₹ 71,000.

5. Building to be appreciated by 20%.
6. Aarav and Nirav to bring in additional capital of ₹ 35,000 and ₹25,000 respectively.
7. Balance payable to Purav must be paid immediately.

You are required to prepare:

1. Revaluation account
2. Partners capital accounts
3. Bank Account
4. Balance Sheet after retirement.

Question 3 *(ICAI Study Material)* Pg no._____

Satyam Shivam & Sundaram are partners of M/s. Great Stationers sharing profits and losses in the ratio of 1:1:2. On 31st March 2023 their Balance Sheet was as under:

Liabilities		₹	Assets	₹
Capital Accounts:			Building	2,50,000
Satyam	1,95,000		Plant	1,60,000
Shivam	1,48,000		Investments	85,000
Sundaram	1,12,000	4,55,000	Stock	45,280
General Reserve		80,000	Trade Receivables	68,000
Loan from Satyam		94,000	Bank	95,720
Trade Creditors		75,000		
		7,04,000		7,04,000

On 1st April 2023 Shivam retired on the following terms:

1. Goodwill is to be revalued at ₹ 1,20,000 but the same will not appear as an asset in the books of the reconstituted firm.
2. Buildings is to be appreciated by 20% and Plant is to be depreciated by 10 %
3. Investments are to be taken over by the Satyam in full settlement of his loan
4. Provision of 5% is to be made on Trade receivables to cover doubtful debts.
5. In the reconstituted firm, the total capital will be ₹ 3,00,000/- which will be contributed by Satyam and Sundaram in their new profit sharing ratio, which is 2:3.
6. The amount due to retiring partner shall be transferred to his loan account.

Pass Journal entries & prepare Balance Sheet.

Question 4 *(CA Foundation May 2018) (10 Marks) / (RTP Nov 2023)* Pg no._____

A, B & C are partners sharing profits in ratio of 3:2:1. Their Balance Sheet as at 31st March, 2021

Liabilities		Amount	Assets		Amount
Capital Accounts			Building		10,00,000
A	8,00,000		Furniture		2,40,000
B	4,20,000		Office equipments		2,80,000
C	4,00,000	16,20,000	Stock		2,50,000
Sundry Creditors		3,70,000	Sundry debtors	3,00,000	
General Reserves		3,60,000	Less: Provision for Doubtful debts	(30,000)	2,70,000
			Joint life policy		1,60,000
			Cash at Bank		1,50,000
		23,50,000			23,50,000

B retired on 1st April, 2021 subject to the following conditions:

(i) Office Equipments revalued at ₹ 3,27,000.

(ii) Building revalued at ₹ 15,00,000. Furniture is written down by ₹ 40,000 and Stock is reduced to ₹ 2,00,000 .

(iii) Provision for Doubtful Debts is to be created @ 5% on Debtors.
(iv) Joint Life Policy will appear in the Balance Sheet at surrender value after B's retirement. The surrender value is ₹ 1,50,000
(v) Goodwill was to be valued at 3 years purchase of average 4 years profit which were:
2017 90,000 2018 1,40,000 2019 1,20,000 2020 1,30,000
(vi) Amount due to B is to be transferred to his Loan Account.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet immediately after B's retirement.

Question 5 *(ICAI Study Material)* Pg no._____

A and B are partners in a business sharing profit and losses as A-3/5th and B-2/5th. Their balance sheet as on 1st January, 2023 is given below:

Liabilities		₹	Assets	₹
Capital Accounts:			Plant and Machinery	20,000
A	20,000		Inventories	16,000
B	15,000	35,000	Trade receivables	15,000
Reserve Account		15,000	Balance at Bank	6,000
Trade payables		7,500	Cash in hand	500
		57,500		57,500

B retires from the business owing to illness and A takes it over. The following revaluation was made:
(1) The goodwill of the firm is valued at ₹25,000.
(2) Depreciate Plant & Machinery by 7.5% and Inventories by 15%.
(3) Doubtful debts provision is raised against trade receivables at 5% and a discount reserve against trade payables at 2%.

Required: Journalize the above transactions in the books of the firm and close the Partners' Accounts as on 1st January 2023. Give also the opening Balance Sheet of A.

Question 6 *(CA Foundation June 2022) (10 Marks)* Pg no._____

X, Y and Z are partners sharing profits and losses in the ratio of 1:2:3. Their Balance Sheet as on 31st March,2021 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Building	2,50,000
X	1,75,000	Machinery	3,37,500
Y	2,50,000	Debtors	3,25,000
Z	4,00,000	Stock	4,00,000
General Reserve	3,00,000	Bank	62,500
Trade Creditors	2,50,000		
Total	13,75,000	Total	13,75,000

Z retired from business on 1st April,2021 on the following terms:

a) Building to be appreciated by 25%.
b) X and Y to bring in additional capital of ₹ 5,00,000 each.
c) Machinery to be depreciated by 10%.
d) Stock is revalued at ₹ 3,72,250.
e) Provision for Doubtful Debts to be created at 4%.
f) Goodwill was to be valued at 3 years' purchase of average profits of past 3 years. The profits of past 3 years were ₹ 2,75,000, ₹ 2,50,000 and ₹ 1,95,000 respectively.
g) Goodwill was not to be raised in the Books of Accounts.
h) Balance payable to Z was to be paid immediately.

Prepare Revaluation Account, Bank Account and Partners' Capital Accounts after giving effect to Z's retirement, Also show the valuation of Goodwill and pass a Journal Entry for adjustment of Goodwill.

Question 7 *(ICAI Study Material)* Pg no._____

A,B,C were in partnership sharing profits and losses in the ratio of 3:2:1. The balance sheet of the firm as on 31.3.2023 was as under:

Liabilities		₹	Assets	₹
Capital Accounts:			Fixtures	30,000
A	1,50,000		Stock	1,70,000
B	1,00,000		Sundry debtors	90,000
C	50,000	3,00,000	Cash	50,000
Sundry creditors		40,000		
		3,40,000		3,40,000

A, on account of ill-health, gave notice that he wished to retire from the firm. A retirement agreement was, therefore, entered as on 31.3.2023, the terms of which were as follows:

(a) The profit and loss account for the year ended 31.3.2023, which showed a net profit of ₹ 42,000 was to be re-opened. B was to be credited with ₹ 6,000 as bonus, in consideration of the extra work, which had devolved upon him during the year. The profit sharing basis was to be revised and the revised ratio is to be 2:3:1 as and from 1st April 2022.

(b) Goodwill was to be valued at two years' purchase of the simple average profits of five years. Profits for these five years ending on 31st March were as under:

31.3.2019	15,000
31.3.2020	23,000
31.3.2021	25,000
31.3.2022	35,000
31.3.2023	42,000

(c) Fixtures are to be valued at ₹ 39,800 and a provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book value.

(d) That the amount payable to A shall be paid by B.

B and C agreed, as between themselves, to continue the business, sharing profits and losses in the ratio of 3:1 and decided to retain fixtures in the books at the revised value and increase the provision for doubtful debts to 6 %. Total capital of the firm will be ₹3 lakhs as before to be maintained in the new ratio as between B and C.

You are required to give the necessary entries to give effect to the above arrangements. Prepare capital accounts of partners, cash account and balance sheet of B and C.

Question 8 *(ICAI Study Material) / (RTP Nov 2019) / (RTP Nov 2021) (Similar)* Pg no._____

The following is the Balance Sheet of M/s. ABC LLP as at 31st December, 2022.

Balance Sheet as at 31st December, 2022

Liabilities		₹	Assets		₹
Capital Accounts:			Machinery		5,000
A	4,100		Furniture		2,800
B	4,100		Fixture		2,100
C	4,500	12,700	Inventories		950
General Reserve		1,500	Trade receivables	4,500	
Trade payables		2,350	Less: Provision	(300)	4,200
			Cash		1,500
		16,550			16,550

C died on 3rd January, 2023 and the following agreement was to be put into effect.
(a) Assets were to be revalued: Machinery to ₹ 5,850; Furniture to ₹ 2,300; Inventory to ₹ 750.
(b) Goodwill was valued at ₹ 3,000 and was to be credited with his share, without using a Goodwill Account
(c) ₹ 1,000 was to be paid away to the executors of the dead partner on 5th January, 2023.
Required to show:
(i) The Journal Entry for Goodwill adjustment.
(ii) The Revaluation Account and Capital Accounts of the partners.
(iii) Which account would be debited and which account credited if the provision for doubtful debts in the Balance Sheet was to be found unnecessary to maintain at the death of C.

Question 9 *(CA Foundation Nov 2019) (10 Marks)* *Pg no._____*

Arup and Swarup were partners. The partnership deed provides inter alia:
b) That the annual accounts be balanced on 31st December each year;
c) That the profits be allocated as follows:
   Arup: One-half; Swarup: One-third and Carried to reserve account: One Sixth;
d) That in the event of death of a partner, his executor will be entitled to the following:
   1) The capital to his credit at the date of death;
   2) His proportionate share of profit to date of death based on the average profits of the last three completed years; and
   3) His Share of goodwill based on three years' purchase of the average profits for the three preceding completed years

Trial Balance as on 31st December 2020

Particulars	Debit (₹)	Credit (₹)
Arup's Capital		90,000
Swarup's Capital		60,000
Reserve		45,000
Bills receivable	50,000	
Investment	55,000	
Cash	1,10,000	
Trade payables		20,000
Total	2,15,000	2,15,000

The profits for the three year were 2018: ₹ 51,000; 2019: ₹ 39,000 and 2020. ₹ 45,000. Swarup died on 1st May 2021.
Show the calculation of Swarup (A) Share of profits; (B) Share of Goodwill; (C) Draw up Swarup's Executors Account as would appear in the firms' ledger transferring the amount to the Loan account.

Question 10 *(ICAI Study Material)* *Pg no._____*

The Balance Sheet of Seed, Plant and Flower as at 31st December, 2021 was as under:

Liabilities		₹	Assets	₹
Capital Accounts:			Fixed Assets	40,000
Seed	25,000		Debtors	10,000
Plant	15,000		Bills Receivable	4,000
Flower	15,000	55,000	Inventories	16,000
General Reserve		5,000	Cash at Bank	10,000
Trade payables		20,000		
		80,000		80,000

The profit sharing ratio was: Seed 5/10, Plant 3/10 and Flower 2/10. On 1st May, 2022 Plant died. It was agreed that:

(a) Goodwill should be valued at 3 years purchase of the average profits for 4 years. The profits were:
   2018 ₹ 10,000   2019 ₹ 13,000   2020 ₹ 12,000   2021 ₹ 15,000
(b) The deceased partner to be given share of profits upto the date of death on the basis of previous year.
(c) Fixed Assets were to be depreciated by 10%. A bill for ₹ 1,000 was found to be worthless. These are not to affect goodwill.
(d) A sum of ₹ 7,750 was to be paid immediately, the balance was to remain as a loan with the firm at 9% p.a. as interest.

Seed & Flower agreed to share profits & losses in future in the ratio of 3: 2. Give necessary journal entries.

Question 11 *(ICAI Study Material) / (RTP Nov 2018) / (RTP May 2022) (Similar)* Pg no._____

Dowell LLP 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, 2023 is as under:

Liabilities	₹	Assets	₹
Capitals		Land	10,000
A 80,000		Buildings	2,00,000
B 20,000		Plant and machinery	1,30,000
C 30,000	1,30,000	Furniture	43,000
Reserves (un-appropriated profit)	20,000	Investments	12,000
Long Term Debt	3,00,000	Inventories	1,30,000
Bank Overdraft	44,000	Trade receivables	1,39,000
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, 2023. 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, 2023

Question 12 *(CA Foundation Nov 2020) (10 Marks)* Pg no._____

M/s. TB is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June, 2020 was as under:

Balance Sheet of M/s. TB as on 30-6-2020

Liabilities		₹	Assets	₹
Capital Accounts:			Land	1,20,000
A	1,24,000		Building	2,20,000
B	96,000		Plant and Machinery	4,00,000
C	1,60,000	3,80,000	Investments	42,000
Long Term Loan		4,20,000	Inventories	1,36,000
Bank Overdraft		64,000	Trade receivables	1,59,000
Trade payables		2,13,000		
		10,77,000		10,77,000

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

(a) Goodwill of the firm is to be valued at ₹ 3 lakhs due to the firm's location advantage but the same will not appear as an asset in the books of the reconstituted firm.

(b) Building and Plant & Machinery are to be valued at 95% and 80% of the respective balance sheet values. Investments are to be taken over by the retiring partner at ₹ 46,000. Trade receivables are considered good only upto 85% of the balance sheet figure. Balance to be considered bad.

(c) In the reconstituted firm, the total capital will be ₹ 4 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.

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

You are required to prepare Revaluation Account and Partners' Capital Accounts after reconstitution, along with working notes.

Question 13 *(ICAI Study Material)* Pg no._____

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 31.3.2023 and admit his son N in his place.

Liabilities		₹	Assets	₹
Capital Accounts:			Furniture	20,000
K	40,000		Trade receivables	50,000
L	60,000		Inventories	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:

a) Necessary journal entries;

b) Balance sheet of M/s K, M and N as on 1.4.2023;

c) Capital accounts of partners.

Question 14 Pg no._____

X, Y & Z were in partnership sharing profits and losses equally and following financial year for accounting. Z died on 30th September, 2020. As per the accounts drawn upto 30th

September, 2020 the capital account balances were X: 30,000 (Cr.), Y:40,000 (Cr.), Z: 50,000 (Cr.) respectively. Z's legal representative would be paid their dues on 1st April, 2021. In the meanwhile, X & Y continued the business and earned a profit of ₹ 40,000 for the half year ended 31.03.2021. Partnership deed did not contain any clause for payment of Interest on deceased partner's dues. Suggest the amount that legal heirs of the deceased partner should settle for as per Section 37 of the Partnership Act, 1932.

Question 15 *(ICAI Study Material)* *Pg no._____*

Red, White and Black shared profits and losses in the ratio of 5:3:2. They took out a joint life Policy in 2018 for ₹50,000, a premium of ₹3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows: 2018 nil; 2019 ₹ 900; 2020 ₹ 2,000; 2021 ₹ 3,600. Black retires on 15th April, 2022.
Prepare ledger accounts assuming no Joint Life Policy Account is maintained.

Question 16 *(ICAI Study Material)* *Pg no._____*

Red, White and Black shared profits and losses in the ratio of 5: 3: 2. They took out a Joint Life Policy in 2018 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows: 2018 nil; 2019 ₹ 900: 2020 ₹ 2,000; 2021 ₹ 3,600. Black retires on 15th April, 2022.
Prepare ledger accounts assuming Joint Life Policy Account is maintained on surrender value basis.

Question 17 *(CA Foundation July 2021) (5 Marks)* *Pg no._____*

Rama, Krishna and Raghu shared profits and losses in the ratio of 5:3:2. They took out a Joint Life Policy in 2017 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows:
2017 Nil 2018 ₹ 900 2019 ₹ 2,000 2020 ₹ 3,600
Rama retired on 15th April, 2021 and the policy was surrendered.
You are required to prepare Joint Life Policy Account from 2017 to 2021 (assuming the Policy Account is maintained at surrendered value basis)

Question 18 *(CA Foundation May 2019) (10 Marks)* *Pg no._____*

Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally. Zoya died on 30th June 2021. The Balance Sheet of Firm as at 31st March 2021 stood as

Liabilities	Amount	Assets		Amount
Creditors	20,000	Land and Building		1,50,000
General Reserve	12,000	Investments		65,000
Capital Accounts:		Stock in trade		15,000
Monika	1,00,000	Trade receivables	35,000	
Yedhant	75,000	Less: Prov. for doubtful debt	(2,000)	33,000
Zoya	75,000	Cash in hand		7,000
		Cash at bank		12,000
	2,82,000			2,82,000

In order to arrive at the balance due to Zoya, it was mutually agreed that:
(i) Land and Building be valued at ₹ 1,75,000
(ii) Debtors were all good, no provision is required
(iii) Stock is valued at ₹ 13,500
(iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Monika and Yedhant.

(v) Zoya's share of profit from 1st April 2021, to the date of death be calculated on the basis of average profit of preceding three years.

(vi) The profit of the preceding five years ended 31st March were:

2021	2020	2019	2018	2017
25,000	20,000	22,500	35,000	28,750

You are required to prepare:

(1) Revaluation account

(2) Capital accounts of the partners and

(3) Balance sheet of the Firm as at 1st July 2021.

Question 19 *(MTP Oct 2019)* Pg no._____

A, B and C are partners in a firm sharing profits and losses as 8:5:3. Their balance sheet as at 31st December, 2020 was as follows:

	Amount		Amount
Sundry creditors	1,50,000	Cash	40,000
General reserve	80,000	Bills receivable	50,000
Partners' loan accounts:		Sundry debtors	60,000
A	40,000	Stock	1,20,000
B	30,000	Fixed assets	2,80,000
Partners' capital accounts:			
A	1,00,000		
B	80,000		
C	70,000		
	5,50,000		5,50,000

From 1st January, 2021 they agreed to alter profit-sharing ratio as 5:6:5. It is also decided that:

(a) the fixed assets should be valued at ₹ 3,31,000;

(b) a provision of 5% on sundry debtors to be made for doubtful debts;

(c) the goodwill of the firm at this date be valued at three years' purchase of the average net profits of the last five years before charging insurance premium; and

(d) the stock be reduced to ₹ 1,12,000.

There is a joint life insurance policy for ₹ 2,00,000 for which an annual premium of ₹ 10,000 is paid, the premium being charged to profit and loss account. The surrender value of the policy on 31st December, 2020 was ₹ 78,000.

The net profits of the firm for the last five years were ₹ 14,000, ₹ 17,000, ₹ 20,000, ₹ 22,000 and ₹ 27,000. Goodwill and the surrender value of the joint life policy was not to appear in the books. Pass journal entries necessary to adjust the capital accounts of the partners and prepare the revised balance sheet.

Question 20 *(ICAI Study Material)* Pg no._____

A, B and C are in partnership sharing profits and losses at the ratio of 5:3:2. The balance sheet of the firm on 31.12.2022 was as follows:

Liabilities		₹	Assets	₹
Capital Accounts:			Sundry Fixed Assets	80,000
A	50,000		Inventories	50,000
B	40,000		Trade receivables	30,000
C	30,000	1,20,000	Joint Life Policy	20,000
Bank Loan		40,000	Bank	10,000
Trade payables		30,000		
		1,90,000		1,90,000

On 1.1.2023, A wants to retire, B and C agreed to continue at 2:1. Joint Life Policy was taken on 1.1.2018 for ₹ 1,00,000 and its surrender value as on 31.12.2022 was ₹ 25,000. For the purpose of A's retirement goodwill was raised for ₹ 1,00,000. Sundry Fixed Assets was revalued for ₹ 1,10,000. But B and C did not prefer to show such increase in assets in the Balance Sheet. Also they agreed to bring necessary cash to discharge 50% of the A's claim, to make the bank balance ₹25,000 and to make their capital proportionate.
Pass necessary journal entries

Question 21 *(ICAI Study Material)* *Pg no._____*

Diya Riya & Kiya are partners of M/s. DRK Fabrics sharing profits and losses in the ratio of 2:1:2. On 31st March 2023 their Balance Sheet was as under:

Liabilities		₹	Assets	₹
Capital Accounts:			Land & Building	1,65,000
Diya	1,50,000		Furniture	75,000
Riya	1,80,000		Joint Life Policy	60,000
Kiya	70,000	4,00,000	Inventory	88,740
General Reserve		1,40,000	Trade Receivables	96,750
Trade Payables		60,000	Bank	1,14,510
		6,00,000		6,00,000

Kiya died on 30th September, 2023. The partnership deed provides as follows:
(a) That partners be allowed interest at 12% p.a. on their capitals, but no interest be charged on drawings.
(b) That upon the death of a partner, the goodwill of the firm be valued at one years' purchase of the average net profits (after charging interest on capital) for the four years to 31st March preceding the death of a partner.
The profits of the firm before charging interest on capitals were

2019-20	1,62,000	2020-21	1,99,000
2021-22	1,87,000	2022-23	1,96,000

Average capital during preceding four years may be assumed as ₹ 3,00,000
(c) Profits till the date of death to be ascertained on the basis of average profit of previous four years
(d) Upon the death of a partner, she is to be credited with her share of the profits, interest on capitals etc. calculated till the date of death

After the death of Kiya
1. ₹ 2,00,000 was received from insurance company against Joint life Policy.
2. Land & Building was appreciated by 20%, Furniture to be depreciated by 10%, inventory to be revalued at ₹ 80,000. Bad debts amounted ₹ 1760.
3. Amount payable to Kiya was paid in cash.

You are required to prepare
1. Revaluation A/c
2. Partners' Capital A/c
3. Balance Sheet as on 30th September 2023, assuming other Assets and liabilities remaining the same.

Question 22 *(CA Foundation Jan 2021) (10 Marks)* *Pg no._____*

The partnership deed of a firm consisting of 3 partners - P, Q and R (profit sharing ratio being 2:1:1) and whose fixed capitals are ₹ 30,000, ₹ 12,000 and ₹ 8,000 respectively provides as follows:

(i) The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.
(ii) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.
(iii) That an insurance policy of ₹ 25,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.
(iv) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated upto 31st December following his death.
(v) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.
(vi) That the partnership books to be closed annually on 31st December.

P died on 30th September, 2020. The amount standing to the credit of his current account as on 31st December, 2019 was ₹ 5,000 and from that date to the date of death he had withdrawn₹ 30,000 from the business.
An unrecorded liability of ₹ 6,000 was discovered on 30th September, 2020 and it was decided to record it and immediately pay it off.
The trading results of the firm (before charging interest on capital) had been as follows:
2017 Profit ₹ 29,340
2018 Profit ₹ 26,470
2019 Loss ₹ 8,320
2020 Profit ₹ 13,470
You are required to prepare an account showing amount due to P's legal heir as on 31st December, 2020.
Note: Impact for unrecorded liability not to be given in earlier years.

Question 23 *(CA Foundation June 2023) (20 Marks)* *Pg no._____*

A, B and C were trading in partnership sharing profits and losses in the proportion of 4:3:3. The balances in the books of the firm as on 31st December, 2022 subject to final adjustment were as under:

	Debit	Credit
	Amount ₹	Amount ₹
Capital Accounts		
- A		2,25,000
- B		1,12,500
- C		1,35,000
Current Account		
- A	36,000	
- B	54,000	
- C	54,000	
Land and Building	1,80,000	
Furniture and Fixtures	33,750	
Stock	2,81,250	
Debtors	45,000	
Bank Account	90,000	
Profit for the year before charging interest		2,34,000
Creditors		67,500
Total	7,74,000	7,74,000

Goodwill may be recorded separately, instead of through Revaluation Account. C died on 30th June, 2022. The Partnership deed provided that:

a) Interest was credited on Capital Account of Partners as @ 12% per annum on the balance at the beginning of the year.
b) On the death of partner
    (i) Goodwill was to be valued at three years purchase of average annual profits of three years up to the death, after deducting interest on capital employed at 10%p.a. and a fair remuneration for each of the partners.
    (ii) Fixed assets were to be valued by an independent valuer and all other assets and liabilities to be taken at book value, and
c) Whenever necessary, profit or loss should be apportioned on a time basis. You ascertain that:
    (i) Profit for three years, before charging partners' interest were:

2019	₹ 2,52,000
2020	₹ 2,83,500
2021	₹ 2,70,000

    (ii) The independent valuation on the date of death revealed:

Land and Building	₹ 2,25,000
Furniture and Fixtures	₹ 22,500

    (iii) For valuation of goodwill a fair remuneration for each of the partners would be ₹ 56,250 per annum and that the capital employed in the business to be taken as ₹ 5,85,000 throughout.

It was agreed between the partners that:

a. Goodwill was not be shown as an asset of the firm as on 31st December, 2022. Therefore, adjustment for goodwill was to be made in Capital Accounts.
b. The amount due to C's Estate was to remain as loan with the firm carrying interest at 12% p.a.
c. A and B would share profits equally from the date of death of C.
d. Depreciation on revised value of assets would be ignored.

You are required to prepare:

1. Partners' Capital Account and Current Account; and
2. Balance Sheet of the firm as on 31st December, 2022.

Working should be done correct to the nearest rupee.