

Settlement of Amount Due to Retiring partner

4 Marks Question

1. Sita, Geeta and Rita were partners sharing profits in the ratio of 2:2:1 respectively. Following was their balance sheet as at 31st March, 2013.

Balance Sheet
as at 31st March, 2013

Liabilities	Amt (₹)	Assets	Amt (₹)
Capitals A/cs			
Sita	1,20,000	Cash	41,000
Geeta	80,000	Stock	60,000
Rita	1,00,000	Debtors	44,000
Creditors	60,000	Building	2,00,000
Bills Payable	40,000	Plant	80,000
Profit and Loss A/c	25,000		
	4,25,000		4,25,000

On the above date Sita retired and following were agreed

(i) Stock was valued at Rs. 59,000; debtors Rs. 40,000; building Rs. 2,10,000; plant Rs. 70,000 and creditors Rs. 50,000.

(ii) Amount due to Sita will be transferred to Sita's loan account. Prepare revaluation account and Sita's capital account. (Compartment 2014)

Particulars	Amt (₹)	Particulars	Amt (₹)
To Stock A/c	1,000	By Building A/c	10,000
To Debtors A/c	4,000	By Creditors A/c	10,000
To Plant A/c	10,000		
To Profit on Revaluation Transferred to			
Sita's Capital A/c	2,000		
Geeta's Capital A/c	2,000		
Rita Capital A/c	1,000		
	5,000		
	20,000		20,000

Dr		Sita's Capital Account		Cr	
Particulars	Amt (₹)	Particulars	Amt (₹)		
To Sita's Loan A/c	1,32,000	By Balance b/d	1,20,000		
		By Profit and Loss A/c	10,000		
		By Revaluation A/c (Profit)	2,000		
	1,32,000		1,32,000		

Working Note

$$\text{Share in profit and loss} = 25,000 \times \frac{2}{5} = ₹10,000$$

6 Marks Questions

2. Following is the balance sheet of X, Y and Z as on 31st March, 2008. They shared profits in the ratio of 3 : 3 : 2

Balance Sheet
as at 31st March, 2008

Liabilities		Amt (₹)	Assets		Amt (₹)
Sundry Creditors		2,50,000	Cash at Bank		50,000
General Reserve		80,000	Bills Receivable		60,000
Partners' Loan A/cs			Debtors	80,000	
X	50,000		(-) Provision for Doubtful Debts	(4,000)	76,000
Y	40,000	90,000	Stock		1,24,000
Capital A/cs			Fixed Assets		3,00,000
X	1,00,000		Advertisement Suspense A/c		16,000
Y	60,000		Profit and Loss A/c		4,000
Z	50,000	2,10,000			
		6,30,000			6,30,000

On 1st April, 2008, Y decided to retire from the firm on the following terms

- (i) Stock to be depreciated by Rs. 12,000.
- (ii) Advertisement suspense account to be written-off.
- (iii) Fixed assets to be appreciated by 10%.
- (iv) Provision for doubtful debts to be increased to Rs. 6,000.
- (v) Goodwill of the firm valued at Rs. 80,000 and the amount due to the retiring partner be adjusted in X's and Z's capital account.

Prepare revaluation account, partners' capital account and the balance sheet to give effect to the above. (All India 2009)



Ans. Dr		Revaluation Account		Cr
Particulars	Amt (₹)	Particulars	Amt (₹)	
To Stock A/c	12,000	By Fixed Assets A/c	30,000	
To Provision for Doubtful Debts A/c	2,000			
To Profit Transferred to				
X's Capital A/c	6,000			
Y's Capital A/c	6,000			
Z's Capital A/c	4,000			
	16,000			
	30,000		30,000	

Dr		Partners' Capital Account						Cr
Particulars	X	Y	Z	Particulars	X	Y	Z	
To Profit and Loss A/c	1,500	1,500	1,000	By Balance b/d	1,00,000	60,000	50,000	
To Advertisement Suspense A/c	6,000	6,000	4,000	By General Reserve A/c	30,000	30,000	20,000	
To Y's Capital A/c	18,000	—	12,000	By X's Capital A/c	—	18,000	—	
To Y's Loan A/c	—	1,18,500	—	By Z's Capital A/c	—	12,000	—	
To Balance c/d	1,10,500	—	57,000	By Revaluation A/c (Profit)	6,000	6,000	4,000	
	1,36,000	1,26,000	74,000		1,36,000	1,26,000	74,000	

Balance Sheet
as at 1st April, 2008

Liabilities	Amt (₹)		Assets	Amt (₹)
Creditors	2,50,000		Stock	1,12,000
X's Loan A/c	50,000		Fixed Assets	3,30,000
Y's Loan A/c (40,000 + 1,18,500)	1,58,500		Debtors	80,000
Capital A/cs			(-) Provision For Doubtful Debts	(6,000)
X	1,10,500		Cash at Bank	50,000
Z	57,000	1,67,500	Bills Receivable	60,000
		6,26,000		6,26,000

Working Note

Calculation of Y's Share of Goodwill

Firm's goodwill = ₹ 80,000

$$Y's \text{ share of goodwill} = 80,000 \times \frac{3}{8} = ₹ 30,000$$

To be contributed by X and Z in their gaining ratio i.e. 3 : 2.

$$X = 30,000 \times \frac{3}{5} = ₹ 18,000$$

$$Z = 30,000 \times \frac{2}{5} = ₹ 12,000$$



3. R, S and T were partners in a firm sharing profits in 2 : 2 : 1 ratio. On 1st April, 2004, their balance sheet was as follows

Balance Sheet
as at 1st April, 2004

Liabilities	Amt (₹)	Assets	Amt (₹)
Bank Loan	12,800	Cash	51,300
Sundry Creditors	25,000	Bills Receivable	10,800
Capital A/cs		Debtors	35,600
R	80,000	Stock	44,600
S	50,000	Furniture	7,000
T	40,000	Plant and Machinery	19,500
Profit and Loss A/c	9,000	Building	48,000
	2,16,800		2,16,800

S retired from the firm on 1st April, 2004 and his share was ascertained on the revaluation of assets as follows; stock Rs. 40,000, furniture Rs. 6,000, plant and machinery Rs. 18,000, building Rs. 40,000; Rs. 1,700 were to be provided for doubtful debts. The goodwill of the firm was valued at Rs. 12,000.

S was to be paid Rs. 18,080 in cash on retirement and the balance in three equal yearly instalments.

Prepare revaluation account, partners' capital account, S's loan account and balance sheet on 1st April, 2004. (All India 2008)

Ans. Dr Revaluation Account Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Stock A/c	4,600	By Loss Transferred to	
To Furniture A/c	1,000	R's Capital A/c	6,720
To Plant and Machinery A/c	1,500	S's Capital A/c	6,720
To Building A/c	8,000	T's Capital A/c	3,360
To Provision for Doubtful Debts A/c	1,700		16,800
	16,800		16,800

Dr Partners' Capital Account Cr

Particulars	R	S	T	Particulars	R	S	T
To Revaluation A/c (Loss)	6,720	6,720	3,360	By Balance b/d	80,000	50,000	40,000
To S's Capital A/c	3,200	—	1,600	By Profit and Loss A/c	3,600	3,600	1,800
To Cash A/c	—	18,080	—	By R's Capital A/c	—	3,200	—
To S's Loan A/c	—	33,600	—	By T's Capital A/c	—	1,600	—
To Balance c/d	73,680	—	36,840				
	83,600	58,400	41,800		83,600	58,400	41,800

Dr		S's Loan Account				Cr
Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)	
2005 Mar 31	To Cash A/c To Balance c/d	11,200 22,400	2004 Apr 1	By S's Capital A/c	33,600	
		33,600			33,600	
2006 Mar 31	To Cash A/c	11,200	2005 Apr 1	By Balance b/d	22,400	
Mar 31	To Balance c/d	11,200			22,400	
		22,400			22,400	
2007 Mar 31	To Cash A/c	11,200	2006 Apr 1	By Balance b/d	11,200	
		11,200			11,200	

Working Note

Calculation of S's Share of Goodwill

Firm's goodwill = ₹ 12,000

S's share of goodwill = $12,000 \times \frac{2}{5} = ₹ 4,800$, to be contributed by R and T in their gaining ratio, i.e. 2 : 1.

4. The balance sheet of A, B and C who were sharing profits and losses in the ratio of 1/2, 1/3 and 1/6 respectively, was as follows on 1st April, 2004

Balance Sheet
as at 1st April, 2004

Liabilities		Amt (₹)	Assets		Amt (₹)
Bills Payable		6,400	Cash		25,650
Sundry Creditors		12,500	Bills Receivable		5,400
Capital A/cs			Debtors		17,800
A	40,000		Stock		22,300
B	25,000		Furniture		3,500
C	20,000	85,000	Plant and Machinery		9,750
Profit and Loss A/c		4,500	Building		24,000
		1,08,400			1,08,400

A retired from the business on 1st April, 2004 and his share in the firm was to be ascertained on the revaluation of the assets as follows Stock Rs. 20,000; furniture Rs. 3,000; plant and machinery Rs. 9,000; building Rs. 20,000; Rs. 850 was to be provided for doubtful debts. The goodwill of the firm was valued at Rs. 6,000. A was to paid Rs. 11,500 in cash on retirement and the balance in three equal yearly instalments with interest at 9% per annum. Prepare revaluation account, partners' capital account and As loan account on the date of his retirement. (Delhi



2008)

Ans. Dr

Revaluation Account

Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Stock A/c	2,300	By Loss Transferred to	
To Furniture A/c	500	A's Capital A/c	4,200
To Plant and Machinery A/c	750	B's Capital A/c	2,800
To Building A/c	4,000	C's Capital A/c	1,400
To Provision for Doubtful Debts A/c	850		8,400
	8,400		8,400

Dr

Partners' Capital Account

Cr

Particulars	A	B	C	Particulars	A	B	C
To A's Capital A/c	—	2,000	1,000	By Balance b/d	40,000	25,000	20,000
To Revaluation A/c (Loss)	4,200	2,800	1,400	By Profit and Loss A/c	2,250	1,500	750
To Cash A/c	11,500	—	—	By B's Capital A/c	2,000	—	—
To A's Loan A/c	29,550	—	—	By C's Capital A/c	1,000	—	—
To Balance c/d	—	21,700	18,350				
	45,250	26,500	20,750		45,250	26,500	20,750

Dr

A's Loan Account

Cr

Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)
2005			2004		
Mar 31	To Bank A/c (9,850 + 2,660)	12,510	Apr 1	By A's Capital A/c	29,550
Mar 31	To Balance c/d	19,700	2005		
		32,210	Mar 31	By Interest (29,550 × 9%)	2,660
					32,210
2006			2005		
Mar 31	To Bank A/c (9,850 + 1,773)	11,623	Apr 1	By Balance b/d	19,700
Mar 31	To Balance c/d	9,850	2006		
		21,473	Mar 31	By Interest A/c (19,700 × 9%)	1,773
					21,473
2007			2006		
Mar 31	To Bank A/c (9,850 + 887)	10,737	Apr 1	By Balance b/d	9,850
		10,737	2007		
			Mar 31	By Interest A/c (9,850 × 9%)	887
					10,737

Working Note

$$\text{Amount of each equal instalment without interest} = \frac{29,550}{3} = ₹ 9,850$$