Unit 1: Accounting for Partnership Firms (Marks=35)

Content mapping:-

Partnership: features, Partnership Deed. Provisions of the Indian Partnership Act 1932 in the absence of partnership deed. Fixed v/s fluctuating capital accounts. Preparation of Profit and Loss Appropriation account- division of profit among partners, guarantee of profits.Past adjustments (relating to interest on capital, interest on drawing, salary and profit sharing ratio).

- *Goodwill: nature, factors affecting and methods of valuation - average profit, super profit and capitalization.*

Scope: *Interest on partner's loan is to be treated as a charge against profits.*

Accounting for Partnership firms – Reconstitution and Dissolution.

- ***Change in the Profit Sharing Ratio*** *among the existing partners - sacrificing ratio, gaining ratio, accounting for revaluation of assets and reassessment of liabilities and treatment of reserves and accumulated profits. PreparationOf revaluation account and balance sheet.*

- ***Admission of a partner*** *- effect of admission of a partner on change in the profit sharing ratio, treatment of goodwill (as per AS 26),treatment for revaluation of assets and reassessment of liabilities, treatment of reserves and accumulated profits, adjustment of capital accounts and preparation of balance sheet.*

- ***Retirement and death of a partner:*** *effect of retirement / death of a partner on change in profit sharing ratio, treatment of goodwill (as per AS 26), treatment for revaluation of assets and reassessment of liabilities, adjustment of accumulated profits and reserves, adjustment of capital accounts and preparation of balance sheet. Preparation of loan account of the retiring partner. Calculation of deceased partner's share of profit till the date of death. Preparation of deceased partner's capital account, executor's account and preparation of balance sheet.*

Dissolution of a partnership firm: *types of dissolution of a firm. Settlement of accounts - preparation of realization account, and other related accounts: capital accounts of partners and cash/bank a/c (excluding piecemeal Distribution, sale to a company and insolvency of partner(s)).*

Note: (I) *The realized value of each asset must be given at the time of dissolution.*

(ii) In case, the realization expenses are borne by a partner, clear indication should be given regarding the payment thereof.

Accounting for partnership firms- Fundamentals

1. What is meant by Partnership?
2. What is meant by Partnership Deed?
3. Give one difference between P & L A/c and P & L Appropriation A/c.
4. What are the provisions applicable in absence of partnership deed?
5. What is the difference between fixed capital and fluctuating capital account ?
6. Why there is a need of written agreement between the partners?
7.Nirupam and Sanjay were partners in a firm sharing profits in the ratio of 5: 3.Their fixed capitals were Rs. 150000 and 100000 respectively.The partnership deed provides that:
Interest on capital should be allowed @ 12 % p.a.
Nirupam should be allowed a salary of Rs. 20000 p.a.
A commission of 10 % of the net profit should be allowed to Sanjay
Prepare profit and loss appropriation account.

8. X ,Yand Z are partners in a firm. The partnership deed Provides that interest on drawings will be charged @ 6% p.a. During the year ended 31-12-2006 X withdrew Rs. 2500 at the beginning of the every month and Y withdrew Rs.2500 at the end of each month and Z withdrew Rs 1500 at the beginning of each quarter. Calculate interest on the partner' drawings.

9. L, M, and N were partners in a firm. On 1-4-2007 their capital stood at Rs. 25000; Rs.12500 and Rs. 12500 respectively. As per the partnership deed :

(i) N was entitled for a salary of Rs. 2500 p.a.
(ii) Partners were entitled to interest on capital at 5% p.a.
(iii) Profits were to be shared in the ratio of partners' capital.

The net profit for the year 2007-08 of Rs.16500 was divided equally without providing for the above terms. Pass an adjustment entry in journal to rectify the above error.

10. X, Y, and Z are partners sharing profits in the ratio of 5: 4: 1. Z is given a guarantee that his share of profit in any year would benot less than Rs. 10000. Deficiency if any would be borne by X and Y equally. The profits for the year 2008 amounted to Rs. 80000. Pass necessary entries in the books of the firm.

11.Sunny and Pinky started partnership on 01-04-2009 with capital of Rs. 125000 and Rs. 75000, respectively. On 01-10-2009, they decided that their capitals should be Rs. 100000 each. The necessary adjustments in the capitals are made by introducing or withdrawing cash. Interest on capital is to be allowed @ 10 % p.a. Calculate interest on capital as on 31-03-2010.

MARKING SCHEME:

1.	According to sec. 14 of the Indian Partnership Act, 1932, the term 'Partnership' is "therelation between two or more persons who have agreed to share the profits of a businesscarried on by all or by any of them acting for all."	
2.	**Partnership Deed:** 'Partnership Deed' is a written document which contains the terms and conditions of Partnership agreed upon by all the partners.	
3.	P & L A/c includes all charges against profits whereas P & L Appropriation A/c includes all appropriations of profits.	
4.	**In the absence of partnership deed, following rules will be applied for governing the partnership**:- (1) Profit sharing ratio will be equal among all partners. (2) No interest will be given on partners' capitals (3) No interest will be charged on partners' drawings (4) No partner will be entitled to any salary, fees, commission or remuneration. (5) Interest @ 6% p.a. is to be allowed onAdvances/Loans frompartners..	
5.	Following are the differences between Fixed capital method and Fluctuating capital method.	

Basis	Fixed capital method	Fluctuating capital method.
1.No.of Accounts	Each partner has two accounts, capital and current account.	Each partner has only one account, capital account.
2.Change in balance	The capital account remains unchanged unless there is an addition to or withdrawal of capital.	The balance of capital account keeps on changing from time to time.
3.Negative balance	The fixed capital account of a partner can never show a negative balance.	The fluctuating capital account of a partner can show a negative balance.

6.	The three reasons for having a written agreement (partnership deed) are as follows:- (i) In case of dispute it will serve as an evidence in the court of law.	

	(ii) Accounts of partnership firm are regulated by those contents. (iii) It regulates the rights, duties and responsibilities of each partner.				
7.	Dr. P & L Appropriation A/c Cr.				
	To Interest on capital:- -Nirupam 150000 X 12 % -Sanjay 100000 X 12 % To partner's salary Nirupam To Partner's commission -Sanjay (100000-50000) 10 % To partners' capital (divisible profit) -Nirupam 45000 X 5/8 -Sanjay 45000 X 3/8	18000 12000 20000 5000 28125 16875	By P & L A/c (Net profit for the year)	100000	
		100000		*100000*	
8.	Interest on X's drawings :- (2500 X 12) 6.5/12 X 6/100 = 975	Interest on Y's drawings :- (2500 X 12) 5.5/12 X 6/100 = 825			Interest on Z's drawing :- (1500 X 12) 7.5/12 X 6/100=675
9.	M's capital a/c Dr. 2000 To L's capital 1500 To N's capital 500 (For rectifying the past errors.)				
10.	(i) P & L Appropriation a/c Dr. 80000 To X's capital a/c 40000 To Y's capital a/c 32000 To Z's capital a/c 8000 (For distribution of profit) (ii) A's capital a/c Dr. 1000 B's capital a/c Dr. 1000 To C's capital a/c 2000 (For deficiency of C)				
11.	Interest on :- Sunny's capital = 45000 Pinky's capital = 35000				

Essential features of Partnership:
The essential features of partnership are:
1. Association of Two or More Persons: Partnership is an association of two or more persons who have agreed to do business and share profits or losses.
2. Agreement: Partnership comes into existence by an agreement, either written or oral, and not by the status or process of law. The written agreement among the partners is known as **Partnership Deed.**
3. Business: The firm must be engaged in a lawful business. Business includes trade, vocation and profession.
4. Profit-sharing: The agreement between/among the partners must be to share profits or losses. It is not essential that all the partners must share losses also.
5. Business can be carried on by All or Any of the Partners Acting for All: Business of the partnership can be carried on by all the partners or by any of them acting for all the partners. In other words, partners are agents as well as the principals.

Rights of Partners:
1. Every partner has the right to participate in the management of the business.
2. Every partner has the right to be consulted about the affairs of the business.
3. Every partner has the right to inspect the books of accounts and have a copy of it.
4. Every partner has the right to share profits or losses with others in the agreed ratio.
5. A partner has the right not to allow the admission of a new partner.

Profit and Loss Appropriation Account

Meaning: P & L Appropriation Account shows the distribution of Net Profits as per P & L A/c among the partners by way of Interest on Capital, Salary, Commission to partners, Transfer to Reserves.
Purpose: P & L Appropriation is prepared to show the distribution of Net Profit among the partners. The balance in Profit & Loss Appropriation account may be used:
i. To provide for Interest on Capitals of Partners (if Partnership Deed so provides).
ii. To provide for Salary or Commission to partners (if Partnership Deed so provides).
iii. To distribute the profits among the partners in their profit sharing ratio.

Partner's capital Accounts under Fixed and Fluctuating Methods:

Fluctuating Capital Method:
1) Under Fluctuating Capital method, only one account (viz. Capital Account) for each partner is maintained.
2) All the transactions relating to a partner are recorded in his Capital Account.

Fixed Capital Method:

1) Under Fixed Capital method, two accounts (viz. Capital Accountant Current Account) for each partner are maintained.
2) The transactions relating to introduction or withdrawal of Capital are recorded in Capital account.
3) Other transactions like interest on Capital, Drawings, Salary, Commission and Share of Profit/Loss are recorded in Current Account.

Accounting Treatment of Interest on Drawings.
When to charge: Interest on Drawings is to be charged for partners only when partnership agreement provides for the same.
How to calculate interest on drawings:
- **Short Cut Method:**

When a fixed amount is withdrawn at fixed dates for 12 months, the interest on drawings may be calculated with the help of short cut formula as follows:

In the beginning of each month = Total Drawings x (Rate of interest/100) x 6(1/2) /12

At the end of each month = Total Drawings x (Rate of interest/100) x 5(1/2) / 12

During the middle of each month = Total Drawings x (Rate of interest /t100) x 6/ 12

When a fixed amount is withdrawn at fixed dates for 6 months, the interest on drawings may be calculated with the help of short cut formula as follows:

In the beginning of each month = Total Drawings x (Rate of interest/100) x 9/12

At the end of each month = Total Drawings x (Rate of interest/100) x 3 / 12

During the middle of each month = Total Drawings x (Rate of interest /100) x 6/ 12

When a fixed amount is withdrawn at fixed dates for each quarter, the interest will be charged on the whole amount of drawings as follows:

In the beginning of each quarter = Total Drawings x (Rate of interest/100) x 7(1/2)/ 12

At the end of each quarter = Total Drawings x (Rate of interest/100) x 4(1/2) / 12

During the middle of each quarter = Total Drawings x (Rate of interest/100) x 6 / 12

- **Product Method**

1. Calculate the period for which amount withdrawn has been used.
2. Calculate the Product as follows:
Product = Amount of Drawings x Period of Use
3. Calculate the Total Product
4. Calculate the interest on Drawings as follows:

If Period is expressed in a month = Total Product x (Rate of Interest/100) x(1/12)
If Period is expressed in a day = Total Product x (Rate of Interest/100) x(1/365)

Salary or Commission to Partners

- **When to allow: Salary** or Commission to a partner is to be allowed if the partnership agreement provides for the same.
- **How to calculate: Commission** may be allowed as percentage of Net Profit before charging such commission or after charging such commission

I – Commission as % of Net Profit before charging such commission
= Net Profit before Commission x (Rate of Commission/100)

II -- Commission as % of Net Profit after charging such commission
= Net Profit before Commission x (Rate of Commission / 100+ Rate of Commission)

Past Adjustments:
Past Adjustments should be carried out directly through the Capital Accounts of the concerned Partners.

Interest on Partners' Loan to the firm

If there is an agreement as to the rate of Interest on Loan:-
Interest on loan at an agreed Rate of Interest

If there is no agreement as to rateof Interest on Loan:-
Partner is entitled to Interest on Loan @ 6%p.a.

Guarantee of Profit

Meaning: It means assurance to give a minimum amount of Profit to a
Partner. If in any year, the actual Share of Profit of a Guaranteed Partner is less than the Guaranteed Amount, then the deficiency (i.e., excess of Guaranteed Amount over actual share of Profit) is borne by the Guaranteeing Partners in their agreed ratio.

Interest in capital

Interest on capital is always provided on the opening capitals of the partners.
Interest is allowed Only when there is profit in the firm .
Calculation of Opening Capital

Particulars	X	Y	Z
Closing capital	Xxx	Xxx	Xxx
(+)Drawings	Xxx	Xxx	Xxx
(+)Loss during the year	Xxx	Xxx	Xxx
(-)Profits already Credited	Xxx	Xxx	Xxx
(-) additional Capital (if any)	Xxx	Xxx	Xxx
Opening capital	Xxx	Xxx	Xxx

Interest on Capital = Opening Capital X Rate/ 100

Interest on Drawings: =Total Drawings X Rate/100 X Months for interest/12

*When date of withdrawal is not given in the question –6 months interest is charged.

* When unequal /irregular amount is withdrawn on different dates then interest on drawings is charged by using product method in following ways:-

Interest on Drawings = Total of product X Rate/100 X1/12

Some Formats:-

Profit and Loss Appropriation Account

For the year ended…….

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Interest on Capital To partners salaries To Partners commission To Reserve (Transfer from Net profit if required) To Managers commission (To net divisible profit transferred to partners capital a/c(bal. fig)		By net profit (after interest on partners loan By interest on Drawings By net divisible loss transferred to partners capital a/c (bal. fig)	

Partners capital account :- When capital accounts are fixed

Dr Partners capital account Cr

Particulars	A	B	Particulars	A	B
To cash/Bank (withdrawal of capital) To bal c/d			By bal b/d (opening bal) By Cash/bank(additional capital introduced)		

Dr Partners' Current Account Cr.

Particulars	A	B	Particulars	A	B
To bal b/d (in case of debit opening bal) To Drawings To interest on Drawings To profit & Loss appropriation a/c To bal c/d			By bal b/d (in case of credit opening bal) By salaries By interest on capital By profit & loss appropriation a/c By commission		

(b)when Capital account is fluctuating

Dr. Partners capital account cr

Particulars	A	B	Particulars	A	B
To bal b/d To drawings To interest on drawings To profit &loss a/c(loss)			By bal b/d (in case of credit opening bal) By cash /bank (additional capital introduced) By interest on capital By profit &loss appropriation		

To bal c/d			a/c (profit) By salaries By commission		

ONE MARK Questions

1. What is the minimum and maximum number of partners in all partnership?

2. What is the status of partnership from an accounting viewpoint?

Ans. From an accounting viewpoint, partnership is a separate business entity. Fromthe legal viewpoint, a Partnership is not separate from the owners.

3. Give two circumstances in which the fixed capital of partners may change.

Ans. (i) When additional capital is introduced by the partners.
(ii) When a part of the capital is permanently withdrawn by the Partners.

4. If the partner's capital accounts are fixed, where will you record the following items:
(i) Salary to partners (ii) Drawing by a partners (iii) Interest on capital and
(iv) Share of profit earned by a partner?

5. Ramesh, a partner in the firm has advanced a loan of a Rs. 1,00,000 to the firm and has demanded on interest @ 9% per annum to which other partners do not agree. The partnership deed is silent on the matter how will you deal with it?

6. The partnership deed provides that Anjali, the partner will get Rs. 10,000 per month as salary. But the remaining partners object to it. How will this matter be resolved?

7. Give one difference between Profit and Loss A/c and Profit and Loss Appropriation Account.

8. A, B and C were partners in a firm having no partnership agreement. A, B and C ContributedRs. 4,00,000, Rs. 6,00,000 and Rs. 2,00,000 respectively. A and B desire that the profits should be divided in the ratio of capital contribution. C does not agree to this. How will the dispute be settled?

QUESTIONS: 4 &6 Marks

1. A and B are partners sharing profits in the ratio of 3:2 with capitals of Rs. 8,00,000 andRs. 6,00,000 respectively. Interest on capital is agreed @ 5% p.a. B is to be allowed an annual salary of Rs. 60,000 which has not been withdrawn. During 2013-14, the profits of the year prior to calculation of interest on capital but after charging B"s salary amounted to Rs. 2,40,000. A provision of 5% of the profits is to be made in respect of Manager's commission.
Prepare an account showing the appropriation of profit

2. A and B are partners sharing profits in the ratio of 3:2 with capitals of Rs. 10,00,000 andRs. 6,00,000 respectively. Interest on capital is agreed @ 6% p.a. B is to allowed an annual salary of Rs. 50,000. During 2006, the profits of the year prior to calculation of interest on capital but after charging B"s salary amounted to Rs. 2,50,000. A provision of 5% of the profits is to be made in respect of Manager's commission.
Prepare an account showing the appropriation of profit.

3. X and Y are Partners sharing Profit and Loss in the ratio of 2:3 with a capital of Rs. 20,000 and Rs. 10,000 respectively. Show distribution of Profit/losses for the year ended 31st march 2014 by preparing relevant account in each of the alternative cases.
Case 1. If Partnership deed is silent as to the interest on capital and the profit for year

ended is Rs. 2,000.
Case 2. If Partnership deed provides for the interest on capital @ 6% p.a. and loss for the year is Rs. 1,500.
Case 3. If Partnership deed provides for interest on capital @ 6% p.a. and trading profit is Rs. 2,100.
4. X and Y are partners in a firm. X is to get a commission of 10% of net profit before charging any commission. Y is to get a commission of 10% on net profit after charging all commission. Net profit for the year ended 31st March 2014 before charging any commission was Rs. 1,10,000. Find the commission of X and Y. Also show the distribution of profit
5. A, B and C are Partners in a firm sharing Profit and Losses in the ratio 2:3:5. Their fixed capitals were 3,00,000; 6,00,000; and 1,20,000 respectively for the year 2014 interest on capital was credited to them @ 12% instead of 10%. Pass the necessary adjustment entry.
6. X, Y and Z were partners in a firm sharing profit and losses in the ratio of 2:1:2. Their capitals were fixed at Rs. 6,00,000; Rs. 2,00,000 and Rs. 4,00,000 for the year 2014. Interest on capital was credited to them @ 9% instead of 10%p.a. the profit for the year before charging interest was Rs. 5,00,000.
Show your working note clearly and Pass necessary adjustment entry.
(**Ans**. Y‟s current A/c Dr. 400, Z‟s Current A/c Dr. 800, X ‟s current A/c Cr. 1,200)
7. P, Q and R were partners in a firm sharing profit in the ratio of 1:2:2 after division of the profit for the year ended 31st March 2014, their capitals were P Rs. 3,00,000; Q Rs. 3,60,000; R Rs. 4,20,000. During the year, they withdrew Rs. 40,000 each. The profit for the year was Rs. 1,20,000. The partnership deed provided that the interest on capital will be allowed @ 10% while preparing the final accounts. Interest on partners‟ capital was not allowed.
(a) Pass adjustment entry.
(b) You are required to calculate the opening capital of P, Q and R
8. (Value Based Question) Mira, Neera and Pooja are partners in a firm. They ContributedRs. 1,00,000 each as capital three years ago. At that time Pooja agreed to look after the business as Mira and Neera were busy. The profit for the past three years were Rs. 30,000; Rs. 50,000; and Rs. 1,00,000 respectively. While going through the book of accounts Mira noticed that the profit had been distributed in the ratio of 1:1:2. When she enquired from Pooja about this, Pooja answered that since she looked after the business she should get more profit. Mira disagreed and it was decided to distributed profit equally retrospectively for the last three years.
(a) You are required to make necessary correction in the books of accounts of Mira, Neera and Pooja by Passing and adjusting entry.
(b) Identify the value which was not practiced by Pooja while distributing profit.
(Ans. Dr. Pooja's capital Rs. 30,000; Cr. Mira's Capital Rs. 15,000; Cr. Neeraj‟s CapitalRs. 15,000)
(Pooja did not practice the value of honesty and fairness besides ignoring low.)
9. (HOTS) The Partners of a firm distributed the profits for the year ended 31st March 2014. Rs. 1,80,000 in the ratio of 3:2:1 without providing for the followingadjustments:
(i) A and C were entitled to a salary of Rs. 3,000 p.a.
(ii) B was entitled to a commission of Rs. 9,000.

(iii) B and C had guaranteed a minimum profit of Rs. 70,000 p.a. to A.
(iv) Profit was to be shared in the ratio of 3:3:2.
Pass necessary journal entry for the above adjustments in the books of the firm.
(HINT: Dr. A‟s capital Rs. 17,000; Cr. B‟s capital Rs. 6,000; Cr. C‟s capital Rs. 11,000)
10. A, B and C were Partners in a firm sharing profit in the ratio of 2:3:5. A was guaranteed a minimum profit of Rs. 2,00,000. Any deficiency as this account was to be borne by C. The net profit of the firm for the year ended 31st March 2014 was Rs. 9,00,000.
Prepare Profit and Loss Appropriation Account of A, B and C for the year ended 31st March 2014.
(**HINT**: A = Rs. 2,00,000; B = Rs. 2,70,000; C = Rs. 4,30,000)
11. Akbar, Birbal and Chandar are partner in a firm as on 1st April 2014 their capital accounts stood at Rs. 40,000; Rs. 30,000 and Rs. 20,000 respectively. They share Profit and Losses in the proportion of 5:3:2. Partners are entitled to interest on capital @ 10% p.a. and salary to Birbal and chander @ Rs. 200 per month and Rs. 300 per quarter respectively as per the provision of the partnership deed Birbal‟s share of profit (excluding interest as capital but including salary) is guaranteed at a minimum ofRs. 5,000 p.a. Any deficiency arising on that account shall be met by chander. The profit of the firm for the year ended 31st March 2014 amounted to Rs. 20,000.
Prepare P&L Appropriation Account for the year ended on 31st March 2014.
(**HINT**: Deficiency is to be borne by ChanderRs. 380; Akbar Rs. 3,700; BirbalRs. 2,600; ChanderRs. 1,100)
12. Give the answer to the following:
(1) P and Q are partners sharing profits and losses in the ratio of 3:2. On 1st April 2013 their capital balances were Rs. 50,000 and Rs. 40,000 respectively. On 1st July 2009 P brought Rs. 10,000 as his additional capital whereas Q brought Rs. 20,000 as additional capital on 1st October 2013. Interest on capital was provided @ 5% p.a. Calculate the interest on capital of P and Q on 31st March 2014.
(2) A and B are partners sharing profits and losses in the ratio of 2:1. A withdraws Rs. 1,500 at the beginning of each month and B withdrew Rs. 2,000 at the end of each month for 12 months. Interest on drawings was charged @ 6% p.a. calculate the interest on drawings of A and B for the year ended 31st December 2013

GOODWILL: NATURE & VALUATION

Goodwill is the value of benefit or advantage that a business has because of thefactors that help in increasing its profits say because of its location, favourablecontracts, access to supplies and customer loyalty etc.

Characteristics of Goodwill:

1. It is an intangible asset and not a fictitious asset.
2. It can't have an existence separate from that of an enterprise.

Need for valuation of Goodwill:

The need for valuation of goodwill arises in the following circumstances:
i. When there is a change in the profit-sharing ratio.
ii. When a new partner is admitted.

iii. When a person retires or dies,
iv. When partnership firm is sold as a going concern.

Classification of Goodwill

i. Purchased Goodwill: It is the Goodwill that is acquired by making payment.
For example, when a business is purchased, the excess of purchase consideration
Of its net assets (i.e., assets - liabilities) is the Purchased Goodwill.
ii. Self-generated Goodwill: It is an internally generated goodwill which arises
From a number of factors that a running business possesses due to which it is able
to earn higher profit.

Methods of Valuation of Goodwill

Simple Average Profit Method -
Goodwill = Average Profit X No. of Years' Purchase
Average profit = Total profit+ abnormal losses- abnormal gains- normal expenses
Abnormal gain= profit on sale assets,income on investment etc.
Abnormal loss=Exceptional losses like loss by fire/flood etc.
Normal expenses= salary,remuneration, rent, commission, insurance premium etc.
Super Profit Method – Super Profit is the profit earned by the business that is in
Excess of the normal profit.
Goodwill = Super Profit X NO. Of Years' Purchase
Capitalisation Method
Under Capitalisation Method, capitalized value of the business is determined by
Capitalizingaverage profit on the basis of the normal rate return. Out of the value so
determined.
Value of net assets is deducted; the balance amount is the value of goodwill.
Capitalisation ofaverage profit= average profitX 100 / Normal rate of return
Goodwill = Capitalised Value – Net Assets
Net Assets of the firm = Total assets (excluding fictitious assets and goodwill)-total liabilities.
Capitalisation of Super Profit ;Under this method, super profit is capitalized on the basis of
normal rate of return.
Goodwill = Super Profit X 100 / Normal rate of return

ONE MARK QUESTIONS

1. Define Goodwill.
2. State any four factors which influence the valuation of goodwill of a partnership firm.
3. Why is Goodwill considered as an Intangible Assets but not a fictitious Assets?
Ans. It is not a fictitious Assets because it has a realizable value. It is an intangibleassets
because it cannot be seen and touched.
4. State any four reasons for valuation of Goodwill in relation to a partnership firm.

THREE MARKS QUESTIONS

5..A business has earned average profit of Rs. 4,00,000 during the last few years and the
normal rate of return in similar business is 10%. Find out the value of goodwill by

(i) Capitalisation of Super Profit
(ii) Super profit method if the goodwill is valued at 3years‟ purchase of superprofits.
The assets of the business were Rs. 40,00,000 and its external liabilities Rs.7,20,000.
6. Capital of the firm Sharma and Verma is Rs. 4,00,000 and the market rate of interest is 15%. Annual salary to partners is Rs. 24000 each. The profit for the last three years wereRs. 1,20,000, Rs. 1,44,000 and Rs. 1,68,000. Goodwill is to be valued at 2 years‟ purchase of last 3 years average super profit. Calculate the Goowill of the firm.
7. On Ist Jan 2014 an existing firm has Asset of Rs. 1,50,000 including cash of Rs. 10,000. Its creditors amounted to Rs. 10,000 on that date. The firm had a Reserve of Rs. 20,000 while Partner's Capital Accounts showed a balance of Rs. 1,20,000. If Normal Rate of Return is 20% and goodwill of the firm is valued at Rs. 4,8000 at four Years purchase of super profit, find the average profit per year of the existing firm.
8. Calculate value of goodwill on the basis of three year purchase of average profit of the preceding five years which were as follows:

Years ended 31.3.2014	Rs. 4,00,000
Years ended 31.3.2013	Rs.7,50,000
Years ended 31.3.2012	Rs.9,00,000
Years ended 31.3.2011	Rs. 2,00,000 (loss)
Years ended 31.3.2010	Rs. 6,50,000
Years ended 31.3.2009	Rs. 5,00,000

ANS. 1.-Goodwill is the value of benefit or advantage that a business has because of the factors that help in increasing its profits say because of its location, favourable contracts, access to supplies and customer loyalty etc.
ANS. 2. -Factors affecting the Value of Goodwill
i. Efficient Management
ii. Location
iii. Favourable Contracts
iv. Quality
v. Market Situation
ANS. 3.-It is not a fictitious Assets because it has a realizable value. It is an intangible assets because it cannot be seen and touched.
ANS. 4.-The need for valuation of goodwill arises in the following circumstances:
i. When there is a change in the profit-sharing ratio.
ii. When a new partner is admitted.
iii. When a person retires or dies,
iv. When partnership firm is sold as a going concern
Ans.5(i) GOODWILL = SUPER PROFIT X 100/ NORMAL RATE OF RETURN
=(AVERAGE PROFIT – NORMAL PROFIT)100/RATE
= (400000-(4000000-7200000))X100/10
=Rs 720000
GOODWILL = SUPER PROFIT X NO OF YEAR'S PURCHASES =72000X3 =Rs216000
Ans 6. AVERAGE PROFIT=(120000+144000+168000-(48000X3))/3=96000
NORMAL PROFIT = 400000X15/100=60000

GOODWILL = AVERAGE SUPER PROFIT X NO OF YEARS PURCHASES
= (96000-60000) X 2=Rs. 72,000
ANS 7. CAPITAL EMPLOYED =ASSETS – LIABILITIES =150000-10000=140000
NORMAL PROFIT=140000X20/100=28000
GOODWILL =48000
SUPER PROFIT X 4= 48000
SUPER PROFT = 12000
AVERAGE PROFIT –NORMAL PROFIT =12000
AP-28000=12000
AVERAGE PROFIT = RS. 40000
Ans 8.AVERAGE PROFIT = (400000+750000+900000-200000+650000)/5= 500000
GOODWILL =500000 X 3 = 1500000

Change in the profit sharing ratio among the existing partner

Modes of reconstitution of a partner firm:

i. Change in the profit sharing ratio of existing partner.
ii. Admission of a new partner.
iii. Retirement of a existing partner
iv. Death of a partner.

When one or more partner acquires an interest in the business from anotherpartner(s), it said to be change in the profit sharing ratio in a partnership firm.

A change in the profit ratio among the existing partner means it is a reconstitution of the firm without the admission of a new partner, requirement or the death of a partner .

Therefore, the aggregate amount of gain by the one or more partner is equal to the aggregate amount of sacrifice made by the other partner.Adjustment required at the time of change in profit sharing ratio:

Determination of sacrificing ratio and gaining ratio.
Sacrificing share = old share – New share
(Gaining share if answer is negative)

Accounting treatment at the time of change of ratio:-

Goodwill (if any) appearing in the books must be written off by dividing it to all (old) partners capitalaccounts in their old profit-sharing ratio and by crediting the goodwill account

- Accounting treatment of accumulated profit and reserves; At the time of change in the profit sharing ratio , if any reserves or accumulated profit/loss existing in the books of the firm, they are transferred to partners capital/current account in their old profit sharing ratio.
- Revaluation of asset and reassessment of liabilities.
- At the time of change in the profit sharing ratio , the asset are revalued and the liabilities are reassessed since the realisable or actual value of asset and the liabilities may be different from those shown in balance sheet.
- Revaluation of asset and reassessment of liabilities belong to period prior to change in their old profit sharing ratio. Hence, any gain or loss on revaluation must be shared in their old profit sharing ratio by the old partners.

Two alternatives are available for the purposes
1) When revised values are to be recorded in the books of accounts
An account titled revaluation account or the profit and the loss adjustment account is opened for this purpose
2) When the values are not to be recorded in the books of account
(Adjustment of profits/loss on revaluation of asset and reassessment of liabilities through the capital account only.)
If the partner decides to record the net effect of revaluation of asset and liabilities without affecting the old amount of asset and liabilities, a single adjusting entry involving the capital accounts of gaining partner and sacrificing partner is passed.
In this regard, we take the following steps
Step 1. Calculating of the net effect of revaluation
(+)Increase in the values of asset …
(-)Decrease in the amount of asset. …
(+)Decrease in values of liabilities. (…)
(-)Increase in amount of liabilities (…)
Net effect of revaluation …
Step 2. To find share of gain/sacrifice by the partner
Their new share …
Their old share …
Difference …
Step 3.Calculation of proportionate amount of net effect of revaluation.
For gaining partner
Proportion amount of the net effect of revaluation = shared gained x net effect of revaluation for sacrificing partner
Proportion amount of net effect of revaluation = shared sacrificed x net effect ofrevaluation
Step 4. Pass the following journal entries
For profit on revaluation
Gaining partner(s) capital A/c Dr
To sacrificing partner(s) capital A/c
For net loss on revaluation
Sacrificing partner(s) capital A/c Dr
To gaining partner(s) capital A/c
Three marks questions
Q1.) Anita, Asha, Amrit are partners sharing profit in the ratio of 3:2:1 respectively. Form 1 January, 2014, they decide to share profit in the ratio 1:1:1. The partnership deed provided that in the event of any change in profit sharing ratio, the goodwill should be valued at three years purchase of the average of five years, profits. The profit and losses of the preceding five years are
Profit
2009 Rs 1, 20,0002010 RS 3, 00,0002011 Rs 3, 40,000
2012 Rs 3, 80,000
Loss2013 Rs 1,40,000

Give Single Journal Entry
Hint – Amrit capital A/c Dr 1, 00,000
To Anita‟s capital A/c 1, 00,000
Q2.)Akansha, Amit and Shalu are partner sharing profits in the ratio of 5:3:2. On 1 April 2014 they decided to share the profits in the ratio of 2:2:1. On that date, following balance were appearing in the balance sheet.
Profit and loss (Cr) Rs 1 5,000General reserve Rs 5, 000
Deferred revenue expenditure Rs 1, 000
Pass single journal entry.

Six **marks questions**

Q1). X, Y & Z are partners sharing profit and losses in the ratio of 7:5:4. Their balance sheet as at 31st March 2014 stood as:

LIABILITIES	AMOUNT	ASSETS	AMOUNT (RS)
CAPITAL:X	420000	SUNDRY ASSETS	1400000
Y	300000		
Z	240000		
GENERAL RESERVE	130000		
P&LA/C	50000		
CREDITORS	260000		
	1400000		1400000

Partners decided that with effect from 1st April 2014 that will share profit and loss in the ratio of 3:2:1 for this purpose goodwill of the firm was valued at Rs. 3,00,000. The partners neither want to record the goodwill nor want to distribute the general reserve and profit. Pass a Single Journal Entry to record the change and prepare the revised Balance Sheet.
ANS.1. – Amrit capital A/c(600000 X 1/3) Dr 1, 00,000
To Anita‟s capital A/c 1, 00,000
W.NOTES=
(i) S/R=O/R-N/R

ANITA	ASHA	AMRIT
3/6-1/3	2/6-1/3	1/6-1/3
1/6	NIL	-1/6
SACRIFICE		GAIN

(ii) GOODWILL =(120000+300000+340000+380000-140000)X 3/5=600000
ANS.2. AMIT'S CAPITAL A/C (21000 X 1/10) DR. 2100
TO AKANSHA'S CAPITAL A/C
W.NOTES:
(i) S/R= O/R- N/R

AKANSHA	AMIT	SHALU
5/10-2/5	3/10-2/5	2/10-1/5
1/10(SACRIFICE)	1/10(GAIN)	NIL

(ii) AMOUNT TO BE ADJUSTED:

PROFIT AND LOSS A/C(CR.) 15000
GENERAL RESERVE = 5000
DEFERRED REVENUE EXPENDITURE =1000
21000

ANS.3. X'S CAPITAL A/C (480000 X 3/48)DR. 30000
Y'S CAPITLA A/C (480000 X 1/48)DR. 10000
TO Z' S CAPITAL A/C 40000

BALANCE SHEET

LIABILITIES	AMOUNT	ASSETS	AMOUNT (RS)
CAPITAL:X(420000-30000)	390000	SUNDRY ASSETS	1400000
Y(300000-10000)	290000		
Z(240000+40000)	280000		
GENERAL RESERVE	130000		
P&LA/C	50000		
CREDITORS	260000		
	1400000		1400000

W.NOTES:
(i) S/R= O/R-N/R

7/16-3/6	5/16-2/6	4/16-1/6
-3/48	-1/48	4/48
GAIN	GAIN	SACRIFICE

AMOUNT TO BE ADJUSTED :
GENERAL RESERVE =130000
P&LA/C =50000
GOODWILL =300000
480000

ADMISSION OF PARTNER

Admission of Partner:

Meaning:-

According to the provisions of Partnership Act 1932 unless it is otherwise provided in the partnership deed a new partner can be admitted only when the existing partners unanimously agree for it.

Sacrificing Ratio:

Sacrificing ratio is the ratio in which the old partners agree to sacrifice their shares of profit in favour of the new partner.

Sacrificing Ratio = Old Ratio – New Ratio

NEW RATIO=OLD RATIO-SACRIFICE.

Accounting Treatment of Goodwill as per Accounting Standard 26:

Goodwill should be recorded in the books only when consideration in money or money's worth has been paid for it, i.e. goodwill is purchased.. Goodwill, should not be raised in the books of the firm. If any partner brings any premium over and above his capital contribution at the time of his admission, such premium should be distributed among the existing partners in their sacrificing ratios.

Calculation of Hidden Goodwill:

When the value of the goodwill of the firm is not specifically given, the value of goodwill has to be valued on the basis of the Net Worth of the firm as follows:

Net Worth (including goodwill) on the basis of capital brought in by Incoming Partner (Incoming Partner's Capital x Reciprocal of Share Incoming Partner)

Less: Net Worth (excluding goodwill) of the reconstituted firm (including Incoming Partner's Capital)

Value of Goodwill (A-B)

Net Worth = Sundry Assets – Outsiders' liabilities

Or = Capitals of Partners + Net accumulated Profits & Reserves (if any)

Revaluation of Assets and Reassessment of liabilities

It is debited by decrease in the value of assets and increase in the amount of liabilities and credited by the increase in the value of assets or decrease in the amount of liabilities.

Particulars	Amount	Particulars	Amount
(ALL LOSSES)	-	**(ALL PROFITS)**	-
To Decrease in the value of assets		By increase in the value of Assets	
To increase in the value of Liabilities	-	By Decrease in the value of Liabilities	-
To increase in the provisions	-	By Decrease in the provisions	-
To unrecorded Liabilities	-	By Unrecorded Assets	-
To Profit on revaluation transferred to	-	By Loss on revaluation transferred to	-
Old Partners Capital A/cs (in old ratio)	---------- - ----------	Old Partners Capital A/cs (in old ratio)	---------- - ----------

Accounting treatment of Reserves and Accumulated Profits/losses:

Before the admission of a new partner, there is balance in Reserve, Accumulated Profits/Losses and fictitious assets in the Balance Sheet, are transferred to Old Partner's Capital Accounts in their old profit-sharing ratio.

ADMISSION OF PARTNERSHIP: practical problems

Q1.Arti and Bharti are partners in a firm sharing profits in 3 : 2 ratio. They admitted Sarthi as a new partner and the new profit sharing ratio will be 2:1:1. Sarthi brought Rs. 10,000 for her share of goodwill. Goodwill already appeared in the books of Arti and Bharti at Rs. 5,000.

Pass necessary journal entries in the books of the new firm for the above transactions.

Q2. A and B are partner in a firm sharing profit in 2:1 ratio. They admit C as a new partner and new ratio between A,B and C becomes 1:1:1.C brings Rs 100000 as capital and Rs 25000 as Goodwill out of his total share of goodwill of Rs 30000. Pass necessary Journal entry

Q3.A and B are partners in a firm sharing profits in the ratio of 3:2. They admit C into partnership for 1/5th share of profits in the firm. The goodwill of the firm is valued at Rs. 1,00,000. He is unable to bring in his share of goodwill. What will be the journal entries?

Q 4.P and Q were partners sharing profits in the ratio of 3:2. Their balance sheet on March 31st 2014 are as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	20000	CASH	14800
Bills Payable	17000	debtors 20500	
Bank overdraft	3000	less: provision for b/d300	20200
			20200
Reserve	15000	stock	20000
P"s Capital	70000	plant	40000
Q"s Capital	60000	building	70000
		Motor vehicle	20000
	185000		185000

They agreed to admit Mishra for 1/4th share from 1.4.2014 subject to the following terms:

(a) P to bring in capital equal to 1/4th of the total capital of P and Q after all adjustments including premium for goodwill.

(b) Buildings to be appreciated by Rs. 14,000 and stock to be depreciated by Rs. 6,000.

(c) Provision for Bad debts on Debtors to be raised to Rs. 1,000.

(d) A provision be made for Rs. 1,800 for outstanding legal charges.

(e) P"s share of goodwill/premium was calculated at Rs. 10,000.

Prepare Revaluation Account, Partners Capital Accounts and the Balance Sheet of the new firm on R"s admission.

Q5. X and Y were partners in a firm sharing profits in 3 : 1 ratio. They admitted Z as a new partner for 1/4 share in the profits. Z was to bring Rs. 20,000 as his capital and the capitals of X and Y were to be adjusted on the basis of Z's capital in the profit sharing

ratio. The Balance Sheet of X and Y on 31.3.2006 was as follows :

Balance Sheet of X and Y on 31.3.2006

Liabilities	Amount	Assets	Amount
Creditors 1	18,000	Cash	5,000
Bills Payable	10,000	Debtors	16,000
General Reserve	12,000	Stock	13,000
Capitals :		Machinery	21,000
X 25,000		Building	20,000
Y 10,000	35,000		
75,000		75,000	

Other terms of agreement on Z's admission were as follows :

(i) Z will bring Rs. 6,000 for his share of goodwill.

(ii) Building will be valued at Rs. 25,000 and machinery at Rs. 19,000.

(iii) A provision at 5% on debtors will be created for bad debts.

(iv) Capital Accounts of X and Y were adjusted by opening Current Accounts.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of X,Yand Z. 8

Q6..A and B are partners in a firm sharing profits in 2 : 1 ratio. They admitted C for 1/4th share in profits. C was to bring Rs. 30,000 as capital and capitals of A and B were to be adjusted in the profit sharing ratio on the basis of C's capital. The Balance Sheet of A and B as on March 31, 2006 (before C's admission) was as under :

Liabilities	Amount	Assets	Amount
Rs.		Rs.	
Creditors	20,000	Cash	2,000
Bills Payable	19,000	Debtors	50,000
General Reserve	6,000	Stock	10,000
Capitals :	82,000	Machinery	25,000
A 50,000		Building	40,000
B 32,000			
1,27,000		1,27,000	

Other terms of agreement were as under:

(i) C will bring Rs. 12,000 for his share of goodwill.

(ii) Building was valued at Rs. 45,000 and Machinery at Rs. 23,000.

(iii) A provision of bad debts was created @ 6% on debtors.

(iv) Capital Accounts of A and B were adjusted by opening Current Accounts.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of A, Band C.

Q.7 X and Y were partners in a firm sharing profits in the ratio of 3 : 2. On 31. 2. 2005 their balance sheet was as follows:

Liabilities	Amount	Assets	Amounts
	Rs.		Rs.
Sundry Creditors	50,000	Land and Building	1,00,000
Bills payable	20,000	Machinery	80,000
Reserve	10,000	Stock	1,00,000

Outstanding Expenses		10,000	Bills Receivable		5,000
Capital account	X	1,80,000	Debtors		40,000
	Y	70,000	Cash		15,000
		3,40,000			3,40,000

On the above date Z was admitted as a new partner in a firm for ¼ share in the profits on the following terms:

Z will bring Rs. 1,20,000 for his capital and Rs. 20,000 for his share as premium for goodwill.

Machinery was to be depreciated by 10% and Land and building was to be appreciated by Rs. 30,000.

Stock was overvalued by Rs. 20,000.

A provision of 5% was to be created for doubtful debts.

Salary outstanding was Rs. 5,000.

Capital of all partners to be adjusted in new profit sharing ratio; Current Accounts to be opened for this purpose.

Prepare Revaluation Account, Partner's capital Accounts and the Balance sheet of the new firm.

ANS.1.

S/R =OLD RATIO-NEW RATIO

ANITAs =3/5-2/4=2/20

Bhartis =2/5-1/4=3/20

S.R=2;3 (2 MARKS)

1CASH A/C DR 10,000

TO PREMIUM A/C 10,000

2 PREMIUM A/C DR.10,000

TO ARTI'S CAPITAL A/C 4,000

TO BHARTI'S CAPITAL A/C 6,000

3. ARTI'S CAPITAL A/C DR 3,000

BHARTI'S CAPITAL A/C DR 2,000

TO GOODWILL A/C 5,000 (2MARKS)

ANS.2

(i)BANK A/C DR. 125000

TO PREMIUM A/C 100000

TO C'S CAPITAL A/C 25000

(ii) PREMIUM A/C DR. 25000

C'S CURRENT A/C DR. 5000

TO A'S CAPITAL A/C 30000

W.NOTES :

S/R=O/R-N/R

2/3-1/3	1/3-1/3
1/3	NIL

S/R=1:0

Solution: Goodwill of the firm = Rs 1,00,000

C"s share of goodwill = 1,00,000 X 1/5 = Rs. 20,000

C"s Capital A/c .DR. 20000

To A"s Capital A/c 12000

To B"s Capital A/c 8000

Ans.5.

REVALUATION ACCOUNT

DR CR

PARTICULAR	AMOUNT(RS)	PARTICULAR	AMOUNT(RS)
MACHINE	2,000	BUILDING	5,000
PRO.FOR B.D.D	800		
PARTNERS CAPITAL;			
X-1650			
Y -550	2200		
	5,000		5,000

CAPITAL ADJUSTMENT;

Z BRINGS 20,000 FOR 1//4 SHARE

THEREFORE TOTAL CAPITAL=20,000X4=80,000

LESS; X CAPITAL 20,000

COMBINED CAPITAL 60,000

X CAPITAL=60,000X3/4=45,000

Y CAPITAL=60,000X1/4=15,000

PARTNER'S CAPITAL A/C

PARTICULAR	X	Y	Z		PARTICULAR	X	Y	Z
					BALANCE B/D	25,000	10,000	
					CASH			20,000
					GEN,RES.	9,000	3,000	
					REVALUATION	1650	550	
current a/c	4850	50			PREMIUM	4,500	1,500	
BALANCE C/D	45,000	15,000	20,000					
	45,000	15,050	20,000			45,000	15050	20,000

BALANCESHEET

LIABILITIES	AMOUNT	ASSETS	AMOUNT
CREDITORS	18,000	CASH	31,000
B/P	10,000	DEBTORS;16,000	
CAPITAL;		PRO;800	15,200

X;45,000		STOCK	13,000
Y;15,000		BUILDING	25,000
Z;20,000	80,000	MACHINERY;21,000	
CURRENT A/C;		LESS;2,000	19,000
X;4850			
Y;50	50		4,850
	1,08,050		1,08,050

(2+3+3=8 MARKS)

ANS.7.

REVLUATION A/C

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
MACHINE	8,000	BUILDING	30,000
PRO.FOR B.D.D	2000		
STOCK	20,000	PARTNERS CAPITAL;	
OUT.SALARY	5,000	X;3000	
		Y;2000	
			5,000
	30,000		30,000

CAPITAL ADJUSTMENT;

Z BRINGS 120,000 FOR 1//4 SHARE

THEREFORE TOTAL CAPITAL=120,000X4=480,000

LESS; X CAPITAL 120,000

COMBINED CAPITAL 3 60,000

X CAPITAL=360,000X3/5=216,000

Y CAPITAL=360,000X2/5=144,000

PARTNERS

CAPITAL A/C

PARTICULAR	X	Y	Z	PARTICULAR	X	Y	Z
REVALUATION	3000	2000		BALANCE B/D	1,80,000	70,000	
				CASH			1,20,000
				GEN,RES.	6,000	4,000	
				REVALUATION	3300	2200	
				PREMIUM	12,000	8,000	
BALANCE C/D	2,16,000	1,44,000	1,20,000		21000	64000	
	2,19,000	1,46,000	1,20,000		2,19,000	1,46,000	1,20,000

BALANCE SHEET

LIABILITIES	AMOUNT	ASSETS	AMOUNT
CREDITORS	50,000	CASH	1,55,000
BOD	20,000	DEBTORS;40000	
CAPITAL;		PRO;2000	38,000
X;216000		STOCK	80,000
Y;144000		BUILDING	1,30,000
Z;120000	4,80,000	MACHINERY	72,000
OUT.EXP.	15000	B/R	5,000
		CURRENT A/C;X	21,000
		Y	64,000
	5,65,000		5,65,000

(2+3+3=8 MARKS)

PRACTICAL PROBLEMS: **(3 MARKS)**

Q1. A, B and C were partners in a firm sharing profits in 3:2:1. They admitted D for 10% profits. Calculate the new profit sharing ratio. (Ans: 9:6:3:2).

Q 2.X and Y are partners sharing profits in 5:3 ratio admitted Z for 1/10th share which he acquired equally for X and Y. Calculate new profit sharing ratio.(Ans. 23:13:4).

Q3. Radha and Rukmani are partners in a firm sharing profits in 3:2 ratio. They admitted Gopi as a new partner.Radha surrendered 1/3rd of her share in favour of Gopi and Rukmani surrendered 1/4th of her share in favour of Gopi. Calculate new profit sharing ratio.(Ans. 4:3:3)

Q4. X and Y are partners in a firm sharing profits and losses in 4:3 ratio. They admitted Z for 1/8th share. Z brought Rs. 20,000 for his capital and Rs. 7,000 for his 1/8th share of goodwill. Show necessary journal entries in the books of X, Y and Z.(Ans. 4:3)

Q5. Leela and Meeta were partners in a firm sharing profits and losses in the ratio of 5:3. On 1st January, 2014 they admitted Om as a new partner. On the date of Om‟s admission, the Balance Sheet of Leela and Meeta showed a balance of Rs. 16,000 in general reserve and Rs. 24,000 (Cr.) in Profit and Loss Account. Record necessary Journal entries for the treatment of these items on Om‟s admission. The new profit sharing ratio between Leela, Meeta and Om was 5:3:2.

Q 6. Amit and Viney are partners in a firm sharing profits and losses in 3:1 ratio. On 1.1.2014 they admitted Ranjan as a partner. On Ranjan‟s admission, the Profit and Loss Account of Amit and Vinay showed a debit balance of Rs. 40,000. Record necessary Journal entry for the treatment of the same.

Retirement& Death of a Partner

Meaning of Retirement of a Partner:
Retirement of a partner is one of the modes of reconstituting the firm under which an old partnership comes to an end and a new one between the continuing partners '(I.e., partners other than the outgoing partner) comes into existence. However, the firm continues its business.
New Share = Old share + Gaining share.
Gaining ratio of remaining partners:
Gaining ratio is the ratio in which the continuing partners have acquired the share from the retiring/ deceased partner.
Gaining ratio = New ratio – Old Ratio
Adjustment of Goodwill:
If goodwill already appears in the books, it will be written off by debiting all partner's capital account in their old profit sharing ratio.
All Partners' Capital A/c Dr.
To Goodwill A/c
Give credit for outgoing partners' (i.e. retiring/deceased partner) share of goodwill to outgoing partner. Following entry is passed.:
Continuing Partners' Capital/ Current A/c …. Dr. [In gainingratio]
To Outgoing Partner's Capital/Current A/c
Revaluation of Assets and Liabilities:
Revaluation of Assets and Liabilities: At the time of retirement/death of a partner, there may be some assets which may not have been shown at their current values.
Adjustment of Accumulated Profits and Losses
The reserves (Accumulated profits) or losses belong to all the partners and should be transferred to capital account of all partners on retirement.
Computation of amount due to retiring partner
Retiring partner/deceased partner may be paid in one lump sum or instalments with interest.
Adjustment of Capital Accounts of the remaining partners in New Profit-sharing Ratio;
Calculation of Amount due to retiring partner
The amount due to a retiring partner will be **(A-B)**;
A;
His capital in the firm.
His share in firm's undistributed profits.
His share of profit on revaluation of assets and liabilities.
His share of profit till the date of retirement (if any).
His salary or interest on capital if any till the date of retirement.
His share in firm's goodwill.
His share in JLP.
B;
His drawing and interest on drawing till the date of retirement.

His share in firm's undistributed losses.
His share of loss on revaluation of assets and liabilities.

Death of partner

At the time of retirement/death of a partner, the remaining partner may decide to keep Their capital contributions in their profit sharing ratio.
Calculation of share of profit upto Date of Death
Following are the ways to find deceased partners share of profit:-
1-On the basis of time or On the basis of last year profitor average profit
Formula:
Deceased partner's share of the profit=
(Previousyear's of profit or Average profit **X**Time till death/12 or 365)**X** Deceased partner's profit sharing ratio
3- On the basis of turnover (or sales)
Formula:
Deceased partner's share of profit =
Last Year profit/ Last year sale **X** sale till death **X** Deceased profit sharing ratio.
Accounting Treatment of goodwill;
Remaining partners capital a/c Dr.
To Deceased partners capital a/c
(G/w contributed in gaining ratio)
Ascertainment of the amount due to the Deceased Partner;
The share of the deceased partner can be ascertained by preparing his capital account.

Dr. Deceased Partner's Capital A/c Cr.

	Rs.		Rs.
To undistributed losses	-	By Balance B/D	-
To revaluation A/c	-	By Interest on capital A/c	-
To Goodwill A/c written off	-	By salary and commission A/c	-
To Drawing A/c	-	By undistributed profits	-
To intrest on Drawing A/c	-	By Revaluation A/c	-
To P/L suspense A/c	-	By Gaining partner/s capital	-
To Deceased partner's	-	A/c	-
Executor's A/c		By joint life policy A/c	-
		By P/L suspense A/c	
	-		-

Settlement of deceased Partners Executors A/c;
The amount due to executor of deceased partner is either paid off immediately, with or without interest as per agreement.
If amount is paid in cash

Deceased partner's executor's A/c Dr.
To Cash / Bank A/c
When the settlement is made in installments –
For interest due-
Interest on deceased partner's executor's A/c Dr.
To Deceased partner's executor's A/c
For payment of installment with interest
Deceased partner's executor's A/c Dr.
To cash/ bank A/c

ONE MARK QUESTIONS

1. What is meant by retirement of a partner?
2. Define gaining ratio.
3. How is gaining ratio calculated?
4. When is Partner's Executors Account prepared?
5. Why is gaining ratio calculated?
6. A, B and C are partners sharing profits in the ratio of 3:2:1. B retires and the new profit sharing ratio between A and C is 3:1. State the gaining ratio.
7. State the need for treatment of Goodwill on retirement of a partner.
8. Write the various matters that need adjustments at the time of retirement of a partner.

PRACTICAL PROBLEMS:

Q1. A, B and C were partners in a firm sharing profits in proportion of their capitals. On 31.3.2006 their Balance Sheet was as follows :

Balance Sheet of A, B and C as on 31.3.2006

Liabilities	Amount Rs.		Assets	Amount Rs.
Creditors		16,000	Building	1,40,000
Reserve		12,000	Machinery	60,000
Capitals :			Stock	8,000
A	40,000		Debtors	12,000
B	60,000		Cash	8,000
C	1,00,000	2,00,000		
		2,28,000		2,28,000

B died on 30.6.2006. Under the partnership agreement the executors of a deceased partner were entitled to :
(i) Amount standing to the credit of partner's capital account.
(ii) Interest on capital at 12% per annum.
(iii) Share of goodwill. The goodwill of the firm on B's death was valued at Rs. 2,40,000.
(iv) Share of profit from the closing of last financial year to the date of death on the basis of last year's profit. Profit for the year ended 31.3.2006 was Rs. 15,000.
Prepare B's Capital Account to be rendered to his executors. 6

Q2.Vijay, Vivek and Vinay were partners in a firm sharing profits in 2 : 2 : 1 ratio. On

31.3.2006 Vivek retired from the firm. Qn the date of Vivek's retirement the Balance Sheet of the firm was as follows :

Balance Sheet of Vijay, Vivek and Vinay as on 31.3.2006

Liabilities	Amount Rs.	Assets	Amount Rs.
Creditors	54,000	Bank	55,200
Bills Payable	24,000	Debtors 12,000	
Outstanding Rent	4,400	Less Provision for doubtful debts 800	11,200
Provision for legal claims	12,000	Stock	18,000
Capitals :		Furniture	8,000
Vijay 92,000		Premises	1,94,000
Vivek 60,000			
Vinay 40,000	1,92,000		
2,86,400			2,86,400

On Vivek's retirement it was agreed that :

(i) Premises will be appreciated by 5% and furniture will be appreciated by Rs. 2,000. Stock will be depreciated by 10%.

(ii) Provision for bad debts was to be made at 5% on debtors and provision for legal damages to be made for Rs. 14,400.

(iii) Goodwill of the firm was valued at Rs. 48,000.

(iv) Rs. 50,000 from Vivek's Capital Account will be transferred to his loan account and the balance will be paid by cheque.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of Vijay and Vinay after Vivek's retirement. 8

Q3.Following is the Balance Sheet of P, K and B as on 31.3.2006. They shared profits in the ratio of their capitals.

Liabilities	Amount Rs.	Assets	Amount Rs.
Creditors	4,600	Building	23,000
Reserve	5,400	Machinery	13,000
Capitals :		Stock	4,700
P 24,000		Debtors	6,500
K 12,000		Cash	6,400
B 8,000	44,000		
54,000			54,000

P died on 30.6.2006. Under the terms of partnership the executors of a deceased partner were entitled to :

(i) Amount standing to the credit of the Partner's Capital Account.

(ii) Interest on capital at 12% per annum.

(iii) Share of goodwill of the firm which was valued at Rs. 36,000 on P's death.

(iv) Share of profit from the closing of last financial year to the date of death on the basis of last year's profit. Profit for the year ended 31.3.2006 was Rs. 7,000.
Prepare P's Capital Account to be rendered to his executors.

Q4.P, Q and R were partners in a firm sharing profits in the ratio of 3 : 2 : 1. On 31.3.2006 Q retired from the firm. On the date of Q's retirement the Balance Sheet of the firm was as follows :

Liabilities	Amount	Assets		Amount
Creditors	27,000	Bank		27,600
Bills Payable	12,000	Debtors	6,000	
Outstanding Rent	2,200	Less Provision for doubtful debts	400	5,600
Provision for legal claims	6,000	Stock		9,000
Capitals :		Furniture		4,100
P 46,000		Premises		96,900
Q 30,000				
R 20,000	96,000			
	1,43,200			1,43,200

On Q's retirement it was agreed that :
(i) Premises will be appreciated by 2% and furniture will be appreciated by Rs. 1,700. Stock will be depreciated by 10%.
(ii) 5% provision for doubtful debts was to be made on debtors and Rs. 7,200 for legal damages.
(iii) Goodwill of the firm was valued at Rs. 24,000.
(iv) Rs. 20,000 from Q's Capital Account will be transferred to his loan account and the balance will be paid to him by cheque.
Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of P and R after Q's retirement. 8

Q.5

X, Y & Z were partners sharing profits in the ratio 3 : 2 : 1. On 31st March, 2008, their Balance Sheet stood as under :

Liabilities		Rs.	Assets	Rs.
Capitals :	Rs.		Cash at bank	70,000
X :	75,000		Investments	50,000
Y :	70,000		Patents	15,000
Z :	50,000	1,95,000	Stock	25,000
Creditors		72,000	Debtors	20,000
General Reserve		24,000	Buildings	75,000
			Machinery	36,000
		2,91,000		**2,91,000**

Z died on May 31st 2008. It was agreed that :

(a) Goodwill was valued at 3 years' purchase of the average profits of the last five years, which were, 2003: Rs. 40,000; 2004: Rs. 40,000; 2005: Rs. 30,000; 2006: Rs. 40,000 and 2007: Rs. 50,000.

(b) Machinery was valued at Rs. 70,000, Patents at Rs. 20,000 and Buildings at Rs. 66,000.

(c) For the purpose of calculating Z's share of profits till the date of death, it was agreed that the same be calculated based on the average profits for the last 2 years.

(d) The executor of the deceased partner is to be paid the entire amount due by means of a cheque.

Prepare Z's Capital Account to be rendered to the executor and also a Journal entry for the settlement of the amount due to Z's executors. **6**

Q.6,

A, B, C and D are partners sharing profits in the ratio of 3 : 3 : 2 : 2 respectively. D retires and A, B and C decide to share the future profits in the ratio of 3 : 2 : 1. Goodwill of the firm is valued at ₹ 6,00,000. Goodwill already appears in the books at ₹ 4,50,000. The profits for the first year after D's retirement amount to ₹ 12,00,000. Give the necessary Journal entries to record Goodwill and to distribute the profits. Show your calculations clearly.

Q.7..P, Q and R were partners in a firm sharing profits in the ratio of 5:4:3. Their capitals wereRs. 40,000, Rs. 50,000 and Rs. 1,00,000 respectively. State the ratio in which the goodwill of the firm amounting to Rs. 1,20,000 will be adjusted on the retirement of R.

8. Ram, Mohan and Sohan were partners in a firm sharing profits in the ratio of 4:3:2. Mohan retired, his share was taken over equally by Ram and Sohan. In which ratio will the profit or loss on revaluation of assets and liabilities on the retirement of Mohan be transferred to the capital account of the partners?

9. A, B and C are partners sharing profits in the ratio of 3:2:1. B retires and the new profit sharing ratio between A and C is 3:1. State the gaining ratio.

10. State any two deductions that may have to be made from the amount payable to the legal representatives of a deceased partner.

11. What are the different ways in which a partner can retire from the firm?

12. Distinguish between Sacrificing Ratio and Gaining ratio.

13. (a) X, Y and Z are partners in a firm sharing profits in the ratio of 3 : 2 : 1. On April 1st 2009, Y retires from the firm. X and Z agree that the capital of the new firm shall be fixed at Rs. 2,10,000 in the profit sharing ratio. The capital accounts of X and Z after all adjustments on the date of retirement showed balances of Rs. 1,45,000 and Rs. 63,000 respectively. State the amount of actual cash to be brought in or to be paid off to the partners. *3*

(b) A, B and C are partners in a firm whose books are closed on March 31st each year. B died on 30th June 2009 and according to the agreement, the share of profits of a deceased partner up to the date of the death is to be calculated on the basis of the average profits for the last five years. The net profits for the last 5 years have been : 2005, Rs. 14,000; 2006, Rs. 18,000; 2007, Rs. 16,000; 2008, Rs. 10,000 (loss) and 2009, Rs. 16,000. Calculate B's share of the profits upto the date of death and pass necessary journal entry. *3*

Ans1 . B's Executors A/c – 1,38,525
Interest on capital – 1800
Goodwill – A's cap. A/c Dr. 20,571
C's cap. A/c Dr. 51,429
P/L Suspense A/c - 1125
Reserver – 3600

Ans2. Revaluation Loss – 4300 (Vijay 1720, Vivek -1720, Vinak – 860)
Capital A/c (vijay – 77480, Vinay – 32740)
Vivek loan A/c 50,000 , Amount paid to Vivek -27480
Total of Balance sheet – 2.69,020

Ans3.P's Executors A/c – 48,256

Ans4.Revaluation loss – 4,362 (P – 2,181, Q 1,454, R – 727)
P's loan A/c – 20,000, Amount paid to P by Cheque – 16,546
Capital Balance P- 37,189 , R- 17,273
Balance sheet Total – 1,29,492
Bank Balance – 11,054

PARTNERSHIP:DISSOLUTIONOFFIRM

(Theory: 1 or 3 marks)

Q.1. What is meant by dissolution of Firm ?
Q.2. State the circumstances when the court may order for the dissolution of the firm.
Q.3.State the circumstances under which a firm may be dissolved.
Q.4. State the difference between dissolution of partnership and dissolution of partnership firm.
Q.5. State the order of settlement for liabilities in case of dissolution of a firm.
Q.6. On dissolution, how will you deal with partners loan, if it appears on the (a)Assets side of the balance sheet and (b)Liabilities side of the balance sheet.
Q.7. What is a realisation account.
Q.8. What is the difference between 'realisation account'and 'revaluation account'.
Q. 9. In case of dissolution of a firm, how you will deal with debit balance of current account of a partner?
Q. 10. In case of dissolution of a firm, how you will deal with debit balance of capital account of a partner?
Q. 11. What the journal entry will be made if, a partner X paid the realization expense and the same expense borne by another partner Y?

The important steps to settle the accounts on dissolution of a firm

(a) All the assets of last balance sheet will be transferred to realization account.
(except – cash & bank balance, deferred advertisement account ,P/L account (Dr.), P/L Suspense account, Capital (Dr. balance) & Current Account (Dr. balance)

(b) All the External liabilities of last balance sheet will be transferred to realization account.
(except – Partner's loan account, capital & current account, general reserve & P/L account.)

@ Cash/Bank balance will be used to open cash/bank account.
@ Current account will be closed by transferring to capital account.
@ The balance of P/L account, General reserve, deferred advertisement account & P/L Suspense account will be closed by transferring to capital account of partners in their profit sharing ratio.
@ Partner's Loan account will be opened & to be closed before to settle capital account of partners.
NOW, you will find that, there will be (maximum) four account existed – Realization account, Capital accounts, Cash/Bank account and Partner's Loan account.

Items of Balance Sheet and closing the same by transferring to Realization Account and Capital Account

Liabilities	Amount	Assets	Amount
Creditors Outstanding expenses Provision for doubtful debts Mrs. Deep's Loan Workmen compensation fund Investment fluctuation fund Provident Fund Bank overdraft	*Realization Account*	***Cash*** Building Plant Stock Debtors Investment Goodwill	*Realization Account*
Prabhat's Loan Prabhat's Current A/c General reserve Capital Accounts : Deep Prabhat	*Capital Account*	Deep's Current A/c P/L Suspense A/c	*Capital Account*

(c) The Assets {shown in balance sheet "recorded" & not shown in balance sheet "un-recorded"} be dispose off in the following ways:

@ Sold & realized – "Cash/Bank A/c Dr.; To Realization A/c" === with realized value
@ Taken by a partner – "Partner's Capital A/c Dr.; To Realization A/c" === with agreed value
@ Taken by a creditor – "NO Entry will be made" but the agreed value of taken asset will be reduced the claim of creditor. (e.g. a Creditor of ₹ 20,000 taken an Investment of ₹ 6,000 at ₹ 5,500. There will be no entry made for payment of creditor of ₹ 5,500 but the balance of creditor ₹ 14,500 (20,000 – 5,500) has to pay in cash. – "Realization A/c Dr. 14,500; To Cash A/c 14,500"
@ If there is no any information about to realize money from a particular asset than it is assumed that no any money has been realized from such asset.

(d) The external liabilities, i.e. creditors, outstanding expense, bank loan, partner's Mrs./Mr./Brother/Sister loan, BP etc. {shown in balance sheet "recorded" & not shown in balance sheet "un-recorded"} be settled in the following ways:

@ @ Paid off – "Realization A/c Dr.; To Cash/Bank A/c" === with agreed value
@ A partner agree to pay off – "Realization A/c Dr.; To Partner's Capital A/c" = with agreed value
@ If there is no any information about to settle a particular external liability than it has to pay by cash/bank – "Realization A/c Dr.; To Cash/Bank A/c" === with agreed/book value

(e) Find the balance of Realization account and be transferred to capital account in their sharing ratio.
(f) Paid off the partner's loan account (if any).
(g) Find the balance of cash/bank account.
(h) Find the balance of capital account; (if any partner has it debit balance than he/she has to bring necessary cash to compensate his/her deficit capital)
(i) NOW, there will be the balance of capitals and balance of cash/bank become equal; the last entry will be passed as – "Partners Capital Accounts Dr.; To Cash/Bank A/c"

Q.12. Deep and prabhat were partners in a firm sharing profits in the ratio of 3:2 their balance sheet on 28.2.2015 was as follow :

Liabilities		Amount	Assets	Amount
Creditors		25,000	Building	1,00,000
Outstanding expenses		5000	Plant	40,000
Capital Accounts :			Stock	30,000
Deep	90,000		Debtors	45,000
Prabhat	1,20,000	2,10,000	Cash	25000
		2,40,000		240000

On the above date the firm was dissolved. Stock was taken over by deep at a discount of 10%. Prabhat took over debtors for ₹ 40000 plant was sold for ₹ 30000 and building realised ₹ 80000 prabhat agreed to pay the creditors. Deep paid outstanding expenses. Expenses of realisation amounted to Rs 7500
Prepare realisation account, cash account and capital account to close the books of the firm

Q.13. shilpa, meena and nanda decided to dissolve their partnership on march 31,2015 their profit sharing ratio was 3:2:1 and their balance sheet was as under :

Liabilities	Amount	Assets	amount
Capitals		Land	81000
Shilpa	80000	Stock	56760
Meena	40000	Debtors	18600
Bank loan	20000	Nanda's capital	23000
Creditors	37000	Cash	10840
Provision for doubtful debts	1200		
General reserve	12000		
	190200		190200

The stock of value ₹41,660 are taken over by shilpa for ₹ 35,000 and she agreed to discharge bank loan .the remaining stock was sold at ₹ 14000 and debtors accounting to ₹ 10,000 realised ₹ 8,000 land is sold for ₹ 1,10,000 the remaining debtors realised 50% at their books value. Cost of realisation amounted to ₹ 12,000 their was a typewriter not recorded in books worth ₹ 6000 which were taken over by one of the creditors at this value. Prepare realisation account.

Q.14. sourav and utkarsh are equal partners in a firm they decided to dissolve the partnership on December 31,2014 when the balance sheet is as under :

Liabilities		Amount	Particulars	amount
Sundry creditors		27000	Cash on Bank	11000
Reserve fund		10000	Sundry Debtors	12000
Loan		40000	Plants	47000
Capital			Stock	42000
Sourav	60000		Leasehold land	60000
Utkarsh	60000	120000	Furniture	25000
		197000		197000

The assets were realised as under :

Leasehold Land	72000
Furniture	22500
Stock	40500
Plant	48000
Sundry Debtors	10500

The creditors were paid ₹ 25500 in full settlement. Expenses of realisation amount to ₹ 2500 prepare Realisation Account, Bank Account, partners Capital Accounts to close the books of the firm.

Q.15. Ashu and Harish are partners sharing profit and losses as 3:2 they decided to dissolve the firm on December 31,2014. Their balance sheet on the above date was :

Liabilities		Amount	Assets	Amount
Capitals :			Building	80000
Ashu	108000		Machinery	70000
Harish	54000	162000	Furniture	14000
Creditors		88000	Stock	20000
Bank Overdraft		50000	Investments	60000
			Debtors	48000
			Cash in hand	8000
		3,00,000		3,00,000

Ashu is to take over the building at ₹ 95000 and machinery and Furniture is taken over by Harish at value of ₹ 80000 Ashu agreed to pay creditors and Harish agreed to meet Bank overdraft. Stock and Investments are taken by both partners in profit sharing ratio. Debtors Realised for ₹ 46000 expenses of Realisation amounted to ₹ 3000.Prepare necessary ledger account.

Q.16. Sanjay, Tarun and Vineet shared profit in the ratio of 3:2:1 on December 31,2014 their balance sheet was as follow :

Liabilities		Amount	Assets	Amount
Capitals :			Plant	90000
Sanjay	100000		Debtors	60000
Tarun	100000		Furniture	32000
Vineet	70000	270000	Stock	60000
Creditors		80000	Investments	70000
Bills payable		30000	Bills receivable	36000
			Cash in Hand	32000
		380000		380000

On this date the firm was dissolved. Sanjay was appointed to realise the assets. Sanjay was to receive 6% commission on the sale of asset and was to bear all expenses of realisation.
Sanjay realised the assets as follow : plant ₹72000, debtors ₹ 54000, furniture ₹ 18000, Stock 90% of the book value, investments ₹ 76000, and bills received ₹ 31000. Expenses of realisation amounted to ₹ 4500.
Prepare Realisation account, capital accounts and cash accounts.

Q.17. the following is the balance sheet of Tanu and Manu, who shared profit and losses in the ratio of 5:3 on December 31, 2014 .

Liabilities		Amount	Assets	Amount
Sundry creditors		62000	Cash on Bank	16000
Bills payable		32000	Sundry Debtors	55000
Bank Loan		50000	Stock	75000
Reserve Fund		16000	Motor Cars	90000
Capital :			Machinery	45000
Tanu	110000		Investment	70000
Manu	90000	200000	Fixtures	9000
		360000		360000

On the above date the firm is dissolved and the following agreement was made :
Tanu agree to pay the bank loan and took away the sundry debtors. sundry creditors accepts stock and paid ₹ 10000 to the firm. Machinery is taken over by manu for ₹ 40000 and agreed to pay of bills payable at a discount of 5%. Motor car was taken over by Tanu for ₹ 60000. Investment realised ₹ 76000 and fixtures ₹ 4000. The expenses of dissolution amounted to ₹ 2200.
Prepare realisation account, bank account and Partners Capital Accounts.

Q18Journalise the following transactions in connection with the dissolution of partnership firm of walia and kalia.

i. Realization expenses paid ₹1,000
ii. Realization expenses paid by walia ₹1,000
iii. Walia was asked to took into the dissolution of firm for which he was allowed a commission of ₹1,000
iv. Realisation expenses are to be born by for which he will be paid ₹1,000.the actual expenses incurred by walia were ₹1,200
v. Walia to get ₹1,000 for dissolution work. But the actual expenses ₹1,200 paid from the firm.

Q 19.X and Y sharing profits in the ratio of 2:2:1 agreed upon dissolution of their partnership on 31st march , 2015 on which date their balance sheet was as under.

Liabilities		Amount	Assets		Amount
Capitals	X	40,000	Fixed assets		50,000
	Y	30,000	Joint life policy		10,000
Reserve fund		10,000	(at surrender value		
J l p reserve		10,000	Debtors	10,000	
Creditors		18,500	-provision	-500	9,500
Salary o/s		2,000	Stock		8,000
Provident fund		10,000	Investment		7,500
			Z's capital		2,000
			Bank		33,500
		1,20,500			1,20,500

Investment were taken over by x at ₹6,000 creditors of ₹10,000 were taken over by y who agreed to settle account with them at ₹ 9,900 remaining creditors were paid at ₹7,500.joint life policy was surrendered and fixed assets realised ₹70,000 stock and debtors realised ₹70,000 and ₹ 9,000 respectively.One customer where a/c was written off as bad, now paid ₹2,000 which is not included in ₹9,000 above there was one unrecorded assets handed over to an un-recorded liability of ₹5,000 in full settlement of claim of ₹2,500 and remaining half was sold in the market which was realised ₹200 less. Y took over the responsibility of completing dissolution . He is granted a commission of ₹1600 actual realization expenses is ₹1100
Dissolution was completed and final payment were made on 31st July,2015
You are required to prepare ledger accounts in the books of the firm.

SOLUTIONS FOR DISSOLUTION OF PARTNERSHIP

ANS.(1): Dissolution of firm means closure of partnership between all the partners of the firm.
According to section 39 of the partnership Act 1932 the dissolution of partnership between all the partners of a firm is called the dissolution of firm.

ANS.(2):
(1) When a partners become insane
(2) When a partner becomes permanently incapable of performing his duties as a partner.
(3) Admission of a new partner
(4) Retirement of a partner
(5) Death of partner
(6) Insolvency of partner
(7) Completion of the venture, if partnership is formed for that.

ANS.(3): There are different ways in which firm can be dissolved.
(1) Dissolution by agreement. Firm may be dissolved with the consent of all partners.
(2) Compulsory dissolution. As stated in the above questions
(3) On the happening of certain contingencies.
  a. Expiry of the period for which it was formed.
  b. Completion of the venture for which it was formed.
  c. On the becoming one partner insolvent
(4) Dissolution by notice.
(5) By order of court.

ANS.(4): Distinction between dissolution of partnership and dissolution of firm :

Basis	Dissolution of partnership	Dissolution of firm
1. Continuity of business	1. The business continue	1. The business is closed.
2. Treatment for assets and liabilities	2. Assets are Liabilities are revalued if desired	2. Assets and liabilities are to be sold and paid off.

3. Court	3. It is dissolved by mutual agreement	3. It can be dissolved by the intervention of court.
4. Relationship	4. The relationship among partners changes.	4. The relationship among partners comes to an end.
5. Books	5. The books are not closed because business continues	5. The books are closed because business is closed.

ANS(5): In the absence of any specific agreement between the partners as to the mode of settlement of account after dissolution of the partnership firm. The provision of sec.48,49 and 55 shall apply. These are as follow:

1. Losses including deficiencies of capital share be paid first out of profits, next out of capital and lastly is required by the partners individually in the proportion to which they were entitled to share profits.
2. The assets of the firm, including any sums contributed by the partners to make up deficiency of capital shall be applied in the following manner and order :
    a. In paying the debts of the firm to third parties.
    b. In paying to each partners loan what is due to him from the firm for advances as distinguished from capital.
    c. The residue, if any, would be divided among the partners in the proportion, in which they were entitled to share profits.

ANS(6):

(a) Partner Loan Appearing on the assets side of the balance sheet : this loan is an assets to the dissolution firm so it is transferred to the debit of realisation account as other assets are transferred and cash realised against this is credited to realisation account.

(b) Partner Loan appearing on the Liability side of the balance sheet : this as per sec 48 of the Indian Partnership Act 1932 will be paid off after paying debts of the firm to the third parties.

So partners Loan appearing on assets side is transferred to realisation account but partners loan appearing on the liability side is not transferred to realisation account.

ANS(7): Realisation account is an account prepared at the time of dissolution of firm, to record the assets and liabilities at balance value to record sale/disposal or realisation of various assets and payment of liabilities, find out net or loss on realisation of assets and payment / disposal of liabilities.

ANS(8): Difference between Realisation account and revaluation account.

Basis	Revaluation account	Realisation account
*Time of preparation	It is prepared when there is reconstitution of partnership i.e. new partner.	It prepared when there is dissolution of firm.
*Contents	It records the increase or decrease in the value of assets and Liabilities of the firm.	It records sale/disposal of various assets and disposal of liabilities of the firm.
*Objectives	Its aim is to ascertain net profit or loss on revaluation of assets and liabilities.	Its aim is to find out profit or loss on realisation of assets and payment of liabilities.

ANS(9): Debit balance of current account of a partner will be closed by transferring to the debit of capital account of such partner?

ANS(10): The partner who has debit balance of capital account will brought in cash up to the deficit capital.

ANS(11): "Y's Capital A/c Dr.; To X's Capital A/c"

ANS(12):**REALIZATION ACCOUNT**

Particulars	Amount	Particulars		Amount
Building	100000	Creditors		25000
Plant	40000	Outstanding Expenses		5000
Stock	30000	Deep's capital account		27000
Debtors	45000	Prabhat's capital account		40000
Prabhat's capital	25000	Cash		110000
Deep's capital	5000	Realisation Loss T/F to		
cash	7000	Deep's Capital	27300	
		Prabhat's capital	18200	45500

	252500			252500

PARTNER'S CAPITAL ACCOUNT

Particulars	Deep	Prabhat	Particulars	Deep	Prabhat
To realisation a/c	27000	40000	By balance b/d	90000	120000
To realisation A/c	27300	18200	By Realisation A/c	5000	25000
To cash	40700	86800			
	95000	145000		95000	145000

CASH ACCOUNT

Particulars	Amount	Particulars	Amount
To Balance b/d	25000	By realisation A/c	7500
	110000	Deep's capital a/c	40700
		Prabhat's capital a/c	86800
	135000		135000

ANS(13): **REALIZATION ACCOUNT**

Particulars		Rs	Particulars	Rs
To Land		81000	By Bank Loan	20000
To Stock		56760	By Creditors	37000
To Debtors		18600	By Provision for doubtful debts	1200
To Shilpa capital (bank loan)		20000	By Shilpa capital(stock)	35000
ToCash (expenses)		1200	By Bank(stock)	14000
To Cash(creditors)		31000	By Bank (debtors)	8000
To Profit on realisation			By Bank(land)	110000
Shilpa	10470		By Bank(debtors)	4300
Meena	6980			
Nanda	3490	20940		
		229500		229500

CAPITAL ACCOUNT

Particulars	Shilpa	Meena	Nanda	Particular	Shilpa	meena	Nanda
Balance b/d			23000	Balance b/d	80000	40000	
				General reserve	6000	4000	2000
Realisation a/c	35000			Realisation(Bank)	20000		
				Profit on	10470	6980	3490
Cash	81470	50980		Realisation			
				Cash (Nanda)			17510
	116470	50980	23000		116470	50980	23000

CASH ACCOUNT

Particulars	Rs	Particulars	Rs
Balance b/d	10840	Realisation expenses	1200
Realisation (stock)	14000	Realisation (Cr.)	31000
Realisation (Debtors)	8000	Shilpa Capital	81470
Realisation (Land)	110000	Meena Capital	50980
Realisation (Debtors)	4300		
Nanda Capital	17510		
	164650		164650

ANS(14): REALISATION ACCOUNT

Particulars	Rs	Particulars		Rs
Debtors	12000	Sundry creditors		27000
Plant	47000	Loan		40000
Stock	42000	Bank		
Leasehold Land	60000	Leasehold Land	72000	
Furniture	25000	Furniture	22500	
Cash Creditors	25500	Stock 40500		

Cash (Expenses)		2500	Plant	48000	
Cash (Loan)		40000	Debtors	10500	193500
Profit on realisation					
Sourav	3250				
Utkarsh	3250	6500			
		260500			260500

PARTNER'S CAPITAL ACCOUNTS

Particulars	Sourav	Utkarsh	Particulars	Sourav	Utkarsh
Bank	68250	68250	Balance b/d	60000	60000
			Reserve Fund	5000	5000
			Profit on realisation	3250	3250
	68250	68250		68250	68250

BANK ACCOUNT

Particulars		Rs	Particulars		Rs
Balance b/d		11000	Realisation (Cr)		25500
Realisation (assets)		193500	Realisation (Exp.)		2500
			Realisation (loan)		40000
			Sourav capital	68250	
			Utkarsh capital	68250	136500
		204500			204500

ANS (15): **Realisation Account**

Particulars		Rs	Particulars		Rs
Building		80000	Creditors		88000
Machinery		70000	Bank overdraft		50000
Furniture		14000	Ashu Capital (building)		95000
Stock		20000	Harish Capital (mach. & furniture)		80000
Investment		60000	Bank (Debtors)		46000
Debtors		48000	Ashu Capital	48000	
Ashu Capital (Crs.)		88000	Harish Capital	32000	80000
Harish Capital (B.O.)		50000			
Cash (Expenses)		3000			
Profit on Realisation					
Ashu	3600				
Harish	2400	6000			
		439000			439000

Cash Account

Particulars	Rs	Particulars	Rs
Balance b/d	8000	Realisation (Exp.)	3000
Realisation (debtors)	46000	Ashu Capital	56600
Harish Capital	5600		
	59600		59600

Partner's Capital Account

Particulars	Ashu	Harish	Particulars	Ashu	Harish
Realisation (Building)	95000		Balance b/d	108000	54000
Realisation (machinery)		80000	Realisation (Crs)	88000	
			Realisation (B.O.)		50000
Realisation (stock & investment)	48000	32000	Profit on realisation	3600	2500
			Bank		5600
Bank	56000				
	199600	112000		199600	112000

ANS(16): Realisation Account

Particulars	**Rs**	**Particulars**	**Rs**

Plant	90000	Creditors	80000
Debtors	60000	Bills payable	30000
Furniture	32000	Bank :	
Stock	60000	Plant 72000	
Investment	70000	Debtors 54000	
Bills receivable	36000	Furniture 18000	
Sanjay capital	18300	Stock 54000	
Cash creditors	80000	Investment 76000	
Cash (B/P)	30000	B/R 31000	305000
		Loss of Realisation	
		Sanjay	
		Tarun	
		Vineet	61300
	476300		**476300**

Capital account

Particulars	Sanjay	Tarun	Vineet	Particulars	Sanjay	Tarun	Vineet
Loss on realisation	30650	20434	10216	Balance b/d	100000	100000	70000
				Realisation (expenses)	18300		
Bank	87650	79566	59784				
	118300	100000	70000		118300	100000	70000

Cash account

Particulars	Rs	Particulars	Rs
Balance b/d	32000	Realisation (Creditors)	80000
		Sanjay Capital 87650	
Realisation (S. Assets)	305000	Tarun Capital 79566	
		Vineet Capital 59784	227000
	337000		337000

ANS(17): **Realisation account**

Particulars	Rs	Particulars	Rs
Sundry Debtors	55000	Sundry Creditors	62000
Stock	75000	Bills Payable	32000
Motor Cars	90000	Bills Loan	50000
Machinery	45000	Tanu Capital (Debtors)	55000
Investment	70000	Bank	10000
Ixtures	9000	Manu Capital (machinery)	40000
Tanu Capital	50000	Tanu Capital (Motor Cars)	60000
Manu capital	30400	Bank :	
Bank (Expenses)	2200	Investment 76000	
		Fixtures 4000	80000
		Loss on Realisation :	
		Tanu 23500	
		Manu 14000	37600
	426600		426600

Partner's Capital Account

Particulars	Tanu	Manu	Particulars	Tanu	Manu
Realisation	55000		Balance b/d	110000	90000
Realisation (Car)	60000	40000	Reserve Fund	10000	6000
Loss on Realisation	23500	14100	Realisation (Loan)	50000	
Bank	31500	72300	Realisation (B/P)		30400
	170000	126400		170000	126400

Bank Account

Particulars	Rs	Particulars		Rs
Balance b/d	16000	Realisation (expenses)		2200
Realisation	10000	Tanu capital	31500	
Realisation (Investment)	76000	Manu capital	72300	103800
Realisation (Fixtures)	4000			
	106000			106000

ANS(18): JOURNAL ENTRIES

Date	Particulars		DR. (Rs.)	Cr.(Rs.)
	i. Realisation a/c	Dr.	1,000	
	To bank			1,000
	(being realization expenses paid)			
	ii. Realisation a/c	Dr.	1,000	
	To walia's capital			1,000
	(being realisation expenses paid by walia)			
	iii. Realisation a/c	Dr.	1,000	
	To walia's capital			1,000
	(being commission allowed to walia for lookin dissolution affairs)			
	iv. Realisation a/c	Dr.	1,000	
	To walia's capital			1,000
	(realisation expenses to be paid to walia)			
	v. Walia's capital a/c	Dr.	1,200	
	To bank			1,200
	(dissolution expenses paid by firm)			

Note :- actual expenses paid by walia will not be recorded in case (4)but are recorded in case (5) because Expenses are paid by the firms.

ANS(19): **Realisation A/C**

Particulars		Amount	Particulars		Amount
To fixed assets		50,000	By provision for bad-debts		500
To joint life policy		10,000	By provident fund		10,000
To debtors		10,000	By JLP reserve		10,000
To stock		8,000	By creditors		18,500
To Y's capital (creditors)		9,900	By salary o/s		2,000
To bank		19,500	By X's capital a/c		6,000
Creditors	7,500		(investment)		
Salary O/s	2,000		By bank a/c		97,500
Prov. fund	10,000		Fixed assets	70,000	
To Y's capital		1,600	Stock	7,000	
(realization expense)			Debtors	9,000	
To capital a/c			Debtors (recovered)	200	
To profit on realization		28,000	Unrecorded assets	1,300	
X2/5	11,200		10,000		
Y 2/5	11,200				
Z 1/5	5,600				
		1,45,000			1,45,000

PARTNER'S CAPITAL A/C

Particulars	X	Y	Z	Particulars	X	Y	Z
To balance b/d	-	-	2,000	By balance b/d	40,000	30,000	-
To realization a/c	6,000	-	-	By reserve	4,000	4,000	2,000
To bank	49,200	56,700	5,600	By realization	-	9,900	-
				By realization	-	1,600	-

				By realization	11,200	11,200	5,600
	55,200	56,700	7,600		55,200	56,700	7,600

BANK A/C

Particulars	Amount	Particulars	Amount
To Balance b/d To Realization a/c (assets Realised)	33,500 97,500	By Realization (liabilities) By X's capital By Y's capital By Z's capital	19,500 49,200 56,700 5,600
	1,31,000		1,31,000

Do Your Self

(From NCERT Text Book)

Accounting for Dissolution of a Firm:

1. Page No.: 252 & 253 – Q. No. 01 to 06 (Short Ans. Theory); Q. No. 01, 02, 04 & 05 (Numerical)
2. Page No.: 254 to 260 – Q. No. 06 to 20
3. **Refer** the CBSE Sample paper for 2015 Exam and CBSE Question papers of last five years.