

SAMPLE CONTENT



SMART NOTES

SOLUTIONS

to **TEXTBOOK PROBLEMS**

- Chapterwise Flow
- Covers Relevant Board Questions & Solutions from March 2015 to July 2023

BOOK KEEPING &
ACCOUNTANCY

Std. XII • COMMERCE



Target Publications® Pvt. Ltd.

SMART NOTES

SOLUTIONS TO TEXTBOOK PROBLEMS in BOOK KEEPING & ACCOUNTANCY STD. XII (COMMERCE)

MAHARASHTRA STATE BOARD

(As per the latest textbook published by Maharashtra State Bureau of Textbook Production
and Curriculum Research, Pune)

Salient Features:

- ☞ Written as per **Latest Board Paper Pattern**
- ☞ Covers all sums and objectives in the flow of the textbook exercise
- ☞ Solutions to all objective questions in the textbook are covered
- ☞ Each chapter contains:
 - Detailed solutions to all the textbook 'Practical Problems'
 - Working notes to support solutions wherever required
 - Exam-like presentation of solutions for better conceptual clarity
- ☞ Includes Previous Years' Board Questions:
 - Detailed solutions to relevant Board Questions from March 2015 to July 2023

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PREFACE

Smart Notes – Solutions to Textbook Problems in Book-Keeping & Accountancy is a no-frills book curated for today's students to prepare them for their exams. The ultimate objective of this book is to provide students with a compilation of accurate solutions to all the unsolved problems in the textbook in a straight-forward manner.

The book is prepared according to the flow of the exercises given in the textbook at the end of each chapter. The objective questions given in the exercise section of the textbook are covered at the start of the chapter, along with their solutions. This is followed by 'Practice Problems' along with their detailed solutions.

The solutions have been provided exactly as the students are expected to write them in the board exams. All the required working notes supporting the solutions have also been provided. We have given the page number references of the textbook next to each practice problems to help students trace the question back to the textbook easily. The relevant board questions from March 2015 to July 2023 along with their detailed solutions are also covered in each chapter to ensure complete coverage of the chapter.

The journey to create a complete book is strewn with triumphs, failures, and near misses. If you think we've nearly missed something or want to applaud us for our triumphs, we'd love to hear from you.

Please write to us at : mail@targetpublications.org

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Disclaimer

This reference book is transformative work based on latest Textbook of Std. XII Book - Keeping & Accountancy published by the Maharashtra State Bureau of Textbook Production and Curriculum Research, Pune. We the publishers are making this reference book which constitutes as fair use of textual contents which are transformed by adding and elaborating, with a view to simplify the same to enable the students to understand, memorize and reproduce the same in examinations.

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PAPER PATTERN

Q. No.	Questions	Marks per Que.		Marks	
				without option	with option
1.	From the following types of sub questions any 4 will be asked.				
	A. Select the correct option and rewrite the sentence.	1	5	} 20	} 20
	B. Give one word / Phrase / term.	1	5		
	C. State true or false with reasons.	2 ½	5		
	D. Find the odd one	1	5		
	E. Complete the sentences.	1	5		
	F. Answer in one sentence only.	1	5		
	G. Do you agree or disagree with the following statements.	1	5		
	H. Calculate the following.	1	5		
	I. Give Specimen of Bill of Exchange	5	5		
	J. Complete the following table	1	5		
2.	Solve any one from the following Admission of a partner / Retirement of Partner Dissolution of Partnership firm/Bill of Exchange (Any two problems will be asked)		10	10	20
3.	Solve any one from the following Admission of a partner / Retirement of Partner Dissolution of Partnership firm/Bill of Exchange (Any Two remaining problems from Q.2. will be asked)		10	10	20
4.	Solve any one from the following Death of a partner / Issue of shares / Analysis of financial statements / Computer Accounting (Any two problems will be asked)		08	08	16
5.	Solve any one from the following Death of a partner / Issue of shares / Analysis of financial statements / Computer Accounting (Any two remaining problems from Q.4. will be asked)		08	08	16
6.	Problem On ' Not for Profit Concern '		12	12	24
7.	Problem On ' Partnership Final Accounts '		12	12	24
	Total			80	116

Division of Marks as per type of question

Sr.No.	Objectives	Marks	Marks With Option	Percentage
1	Objective	20	20	25%
2	Problems	60	96	75%
	Total	80	116	100%

Unit Wise Weightage

Sr. No.	Unit/sub-units	Marks		Marks	
		Problem	Objective	Problem	Objective
1	Introduction to Partnership and Partnership Final Accounts	12	04	12	04
2	Accounts of 'Not for Profit' Concerns	12	04	12	04
3	Reconstitution of Partnership (Admission of Partner)	20	02	40	02
4	Reconstitution of Partnership (Retirement of Partner)		02		02
5	Dissolution of Partnership Firm		02		02
6	Bills of Exchange		02		02
7	Reconstitution of Partnership (Death of Partner)	16	01	32	01
8	Company Accounts - Issue of Shares		01		01
9	Analysis of Financial Statements		01		01
10	Computer In Accounting		01		01
	Total	60	20	96	20
	Grand Total	80		116	

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Scan the adjacent QR Code to know more about our **"Supplementary Questions Book"** for Std. XII (Comm). Get sufficient practice of all objective questions across all subjects.



Reconstitution of Partnership (Death of Partner)

Objective Type Questions

(A) Select most appropriate answer from the alternatives given below and rewrite the sentences.

- Benefit ratio is the ratio in which _____.
 - the old partner gain on admission of a new partner
 - the Goodwill of a new partner on admission is credited to old partners
 - the continuing partners benefit on retirement or death of a partner
 - all partners are benefited.
- The ratio by which existing partners are benefited: _____.
 - Gain ratio
 - Sacrifice ratio
 - Profit ratio
 - Capital ratio
- Profit and Loss Suspense Account is shown in the new Balance Sheet on _____ side.
 - Debit
 - Credit
 - Asset
 - Liabilities
- Death is a compulsory _____. (Mar'23, 22)
 - Dissolution
 - Admission
 - Retirement
 - Winding up
- The balance on the capital account of a partner, on his death, is transferred to _____ account.
 - Relative's
 - Legal Heir's loan / Executor's loan
 - Partner's Capital
 - Partner's Loan

the continuing partners benefit on retirement or death of a partner

Gain ratio

Asset

Retirement

Legal Heir's loan / Executor's loan

(B) Write the Word / Term / Phrase which can substitute each of the following statements.

- Excess of credit side over debit side of profit and loss adjustment account.
- A person who represents the deceased partner on the death of the Partner.
- Accumulated past profit kept in the form of reserve.
- The Partner who died.
- The proportion in which the continuing partners benefit due to death of partner.

Profit on revaluation

Executor / Legal heir

General Reserve Fund

Deceased partner

Gain / Benefit ratio

(Oct'21)

(C) State whether the following statements are True or False with reasons.

1. A deceased partner is not entitled to Goodwill of the firm.

Ans: False

Reason: Deceased partner is entitled to all the benefits of the firm including goodwill upto the date of his death.

2. A deceased partner is entitled to his share of General Reserve.

Ans: True

Reason: Deceased partner is entitled to all the benefits of the firm including General Reserve upto the date of his death.



3. If Goodwill is written off, a deceased partner's capital account is debited.

Ans: False

Reason: When the goodwill is raised and written off, only the remaining partners' capital account is debited.

4. After the death of partner, entire amount due to deceased partner is paid to legal representative of the deceased partner.

Ans: True

Reason: After the death of partner, the amount due to him is calculated on the basis of his capital balance, share in reserves, goodwill, profit / loss upto the date of death etc. This amount is then paid to legal representative or the nominee of the deceased partner.

5. For recording the profit or loss upto the date of death, Profit and Loss Appropriation Account is operated.

Ans: False

Reason: Profit and Loss Suspense Account is operated for recording profit or loss upto the date of death of a partner.

(D) Complete the sentences.

1. Deceased partner's executor's account is shown on the _____ side of the Balance Sheet. (July 22)

Liability

2. On death of a partner, a ratio in which the continuing partners get more share of profits in future is called as _____ ratio.

Gain

3. Deceased partner's share of profit up to the death is shown on _____ side of Balance Sheet.

Asset

4. Benefit ratio = New Ratio – _____. (July 23)

Old Ratio

5. When Goodwill is raised at its full value and it is written off, _____ account is to be credited.

Goodwill

(E) Answer in one sentence only.

1. What is gain ratio?

Ans: Gain Ratio is a ratio by which surviving or continuing partners are benefited due to death or retirement of a partner.

2. In which ratio is general reserve distributed on death of a partner?

Ans: General reserve is distributed among all the partners in their profit sharing ratio.

3. To whom do you distribute general reserve on death of a partner?

Ans: General reserve is usually distributed among all the partners on death of a partner.

4. How death of a partner is a compulsory retirement?

Ans: When one member ceases to be a partner and the remaining partners continue to carry on the business of the firm it is called as Retirement of a Partner. On account of death, that partner ceases to be a partner in the firm. Hence, death of a partner is a compulsory retirement.

5. To which account Profit is to be transferred upto the date of his death?

Ans: Profit upto the date of the death is to be transferred to deceased partner's capital account. The second effect is given to Profit and Loss Suspense Account.

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Textbook Practical Problems

Q.1. Rajesh, Rakesh and Mahesh were equal partners on 31st March, 2019. Their Balance Sheet was as follows:

[Textbook page no.202, Profit and Loss Adjustment Account,
Partners' Capital Account and Balance Sheet]

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Land and Building	4,00,000
Rajesh	5,00,000	Furniture	3,00,000
Rakesh	2,00,000	Debtors	3,00,000
Mahesh	2,00,000	Stock	1,00,000
Sundry Creditors	90,000	Cash	1,00,000
Bills Payable	60,000		
Bank loan	1,50,000		
	12,00,000		12,00,000

Mr. Rajesh died on 30th June, 2019 and the following adjustment were agreed as:

- Furniture was to be adjusted to its market price of ₹ 3,40,000.
- Land and Building was to be depreciated by 10%.
- Provide R.D.D. 5% on Debtors.
- The profit upto the date of death of Mr. Rajesh is to be calculated on the basis of last year's profit which was ₹ 1,80,000.

Prepare:

- Profit and Loss Adjustment Account
- Partners' Capital Account
- Balance Sheet of the continuing firm

Solution:

In the books of the Partnership Firm,
Profit and Loss Adjustment Account

Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Land and Building A/c		40,000	By Furniture A/c		40,000
To R.D.D. A/c		15,000	By Partners' Capital A/c (Loss)		
			Rajesh	5,000	
			Rakesh	5,000	
			Mahesh	5,000	15,000
		55,000			55,000

Partners' Capital Account

Dr.				Cr.			
Particulars	Rajesh ₹	Rakesh ₹	Mahesh ₹	Particulars	Rajesh ₹	Rakesh ₹	Mahesh ₹
To Profit and Loss Adjustment A/c	5,000	5,000	5,000	By Balance b/d	5,00,000	2,00,000	2,00,000
To Rajesh Executor's Loan A/c	5,10,000	—	—	By Profit and Loss Suspense A/c	15,000	—	—
To Balance c/d	—	1,95,000	1,95,000				
	5,15,000	2,00,000	2,00,000		5,15,000	2,00,000	2,00,000



Balance Sheet as on 30th June, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Land and Building	4,00,000	
<i>Rakesh's</i>	1,95,000		<i>Less: Depreciation</i>	40,000	3,60,000
<i>Mahesh's</i>	1,95,000	3,90,000	Furniture	3,00,000	
Rajesh Executor's Loan A/c		5,10,000	<i>Add: Appreciation</i>	40,000	3,40,000
Sundry Creditors		90,000	Debtors	3,00,000	
Bills Payable		60,000	<i>Less: R.D.D.</i>	15,000	2,85,000
Bank Loan		1,50,000	Stock		1,00,000
			Cash		1,00,000
			Profit and Loss Suspense A/c		15,000
		12,00,000			12,00,000

Working Note:

- i. Calculation of share of Rajesh's Profit
Last year's profit = ₹ 1,80,000

$$\begin{aligned} \text{Rajesh's share of profit} &= \text{Profit} \times \frac{\text{Period upto death}}{12} \times \text{Profit Sharing Ratio} \\ &= 1,80,000 \times \frac{3}{12} \times \frac{1}{3} = ₹ 15,000 \end{aligned}$$

Q.2. Rahul, Rohit and Ramesh are in a business sharing profits and losses in the ratio of 3:2:1 respectively. Their Balance Sheet as on 31st March, 2017 was as follows:

[Textbook page no.202, Capital Account and / or Profit and Loss Adjustment Account and / or Working notes]

Balance Sheet as on 31st March, 2017

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Debtors	1,00,000	
<i>Rahul's</i>		2,20,000	<i>Less: R.D.D</i>	10,000	90,000
<i>Rohit's</i>		2,10,000	Plant and Machinery		85,000
<i>Ramesh's</i>		2,40,000	Investment		3,50,000
Creditors		80,000	Motor lorry		1,00,000
Bills Payable		7,000	Building		80,000
General Reserve		96,000	Bank		1,48,000
		8,53,000			8,53,000

On 1st October, 2017 Ramesh died and the partnership deed provided that:

- R.D.D. was maintained at 5% on Debtors.
- Plant and Machinery and Investment were valued at ₹ 80,000 and ₹ 4,10,000 respectively.
- Of the creditors an item of ₹ 6,000 was no longer a liability and hence was properly adjusted.
- Profit for 2017-18 was estimated at ₹ 1,20,000 and Ramesh's share in it up to the date of his death was given to him.
- Goodwill of the Firm was valued at two times the average profit of the last five years which were:
2012-13 : ₹ 1,80,000, 2013-14 : ₹ 2,00,000, 2014-15 : ₹ 2,50,000, 2015-16 : ₹ 1,50,000, 2016-17 : ₹ 1,20,000
Ramesh's share in it was to be given to him
- Salary ₹ 5,000 p.m. was payable to him
- Interest on capital at 5% was payable and on drawings ₹ 2,000 was charged.
- Drawings made by Ramesh's up to September 2017 were ₹ 5,000 p.m.

Prepare: Ramesh's Capital Account showing the amount payable to his executors. Give working of profit and goodwill.



Solution:

**In the books of the Partnership Firm,
Ramesh's Capital Account**

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Drawings A/c	30,000	By Balance b/d	2,40,000
To Interest on Drawings A/c	2,000	By General Reserve A/c	16,000
To Ramesh's Executor's Loan A/c	3,41,000	By Goodwill A/c	60,000
		By Profit and Loss Suspense A/c	10,000
		By Salary A/c	30,000
		By Interest on Capital A/c	6,000
		By Profit and Loss Adjustment A/c	11,000
	3,73,000		3,73,000

Working Notes:

i. Calculation of Goodwill

Total profit = 1,80,000 + 2,00,000 + 2,50,000 + 1,50,000 + 1,20,000 = ₹ 9,00,000

Average profit = $\frac{\text{Total profit}}{\text{Number of years}} = \frac{9,00,000}{5} = ₹ 1,80,000$

Goodwill = Average profit × Number of year's purchase
= 1,80,000 × 2 = ₹ 3,60,000

Ramesh's share of Goodwill = Goodwill × Profit Sharing Ratio of Ramesh
= 3,60,000 × $\frac{1}{6}$ = ₹ 60,000

ii. Calculation of Ramesh's share of profit

Profit for the year = ₹ 1,20,000

Ramesh's Share of Profit = Profit × $\frac{\text{Period upto death}}{12}$ × Profit Sharing Ratio
= 1,20,000 × $\frac{6}{12}$ × $\frac{1}{6}$ = ₹ 10,000

Profit and Loss Adjustment Account

Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Plant and Machinery A/c		5,000	By R.D.D. A/c		5,000
To Partners' Capital A/c (Profit)			By Investment A/c		60,000
Rahul's	33,000		By Creditors A/c		6,000
Rohit's	22,000				
Ramesh's	11,000	66,000			
		71,000			71,000

Q.3. Ram, Madhav and Keshav are partners sharing profit and losses in the ratio 5:3:2 respectively. Their Balance Sheet as on 31st March, 2018 was as follows:

[Textbook page no.203, Capital Account and / or Profit and Loss Adjustment Account and / or Working notes]

Balance Sheet as on 31st March, 2018

Liabilities	Amount ₹	Assets	Amount ₹
General Reserve	25,000	Goodwill	50,000
Creditors	1,00,000	Loose Tools	50,000
Unpaid Rent	25,000	Debtors	1,50,000



Capital A/c:		Live Stock	1,00,000
<i>Ram</i>	1,00,000	Cash	25,000
<i>Madhav</i>	75,000		
<i>Keshav</i>	50,000		
	3,75,000		3,75,000

Keshav died on 31st July, 2018 and the following adjustments were agreed by as per partnership deed:

- Creditors have increased by ₹ 10,000.
- Goodwill is to be calculated at 2 years purchase of average profits of 5 year.
- The profits of the preceding 5 years were
2013-14 : ₹ 90,000, 2014-15 : ₹ 1,00,000, 2015-16 : ₹ 60,000, 2016-17 : ₹ 50,000, 2017-18 : ₹ 50,000 (Loss)
Keshav's share in it was to be given to him.
- Loose Tools and Live stock were valued at ₹ 80,000 and ₹ 1,20,000 respectively.
- R.D.D. was maintained at ₹ 10,000.
- Commission ₹ 2,000 p.m. was payable to Keshav. Profit for 2018 -19 was estimated at ₹ 45,000. Keshav's share in it up to the date of his death was given to him.

Prepare Revaluation A/c , Keshav's Capital Account showing the amount payable to his executors.

Solution:

Revaluation Account

Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Creditors A/c		10,000	By Loose Tools A/c		30,000
To R.D.D. A/c		10,000	By Live Stock A/c		20,000
To Partner's Capital A/c (Profit on revaluation)					
<i>Ram</i>	15,000				
<i>Madhav</i>	9,000				
<i>Keshav</i>	6,000	30,000			
		50,000			50,000

Keshav's Capital A/c

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Keshav's Executor's Loan A/c	82,000	By Balance b/d	50,000
		By General Reserve A/c	5,000
		By Goodwill A/c	10,000
		By Commission A/c	8,000
		By Profit and Loss Suspense A/c	3,000
		By Profit and Loss Adjustment A/c	6,000
	82,000		82,000

Working Notes:

- Calculation of Goodwill
Total profit = 90,000 + 1,00,000 + 60,000 + 50,000 – 50,000 = ₹ 2,50,000
Average profit = $\frac{\text{Total profit}}{\text{Number of years}} = \frac{2,50,000}{5} = ₹ 50,000$
Goodwill = Average Profit × Number of year's purchase = 50,000 × 2 = ₹ 1,00,000
∴ Increase in Goodwill = 1,00,000 – 50,000 = 50,000
∴ Keshav's share in increased Goodwill = 50,000 × $\frac{2}{10} = ₹ 10,000$



- ii. Calculation of Keshav's share of profit
Profit for the year = ₹ 45,000

$$\begin{aligned} \text{Keshav's share of profit} &= \text{Profit} \times \frac{\text{Period upto death}}{12} \times \text{Profit Sharing Ratio} \\ &= 45,000 \times \frac{4}{12} \times \frac{2}{10} = ₹ 3,000 \end{aligned}$$

[Note: The answer given in textbook for Keshav's Executor's Loan Account is ₹ 92,000. However as per our calculation it is ₹ 82,000]

Q.4. Virendra, Devendra and Narendra were partners sharing profit and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2019 was as follows:

[Textbook page no.204, Capital Account and / or Profit and Loss Adjustment Account and / or Working notes]

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Assets	Amount ₹
Bank Loan	25,000	Furniture	50,000
Creditors	20,000	Land and Building	50,000
Bills Payable	5,000	Motor Car	20,000
Reserve Fund	30,000	Sundry Debtors	50,000
Capital A/c:		Bills Receivable	20,000
Virendra	90,000	Investments	50,000
Devendra	60,000	Cash at Bank	20,000
Narendra	30,000		
	2,60,000		2,60,000

Mr. Virendra died on 31st August, 2019 and the Partnership deed provided that, in the event of the death of Mr. Virendra, his executors be entitled to be paid out:

- The capital to his credit at the date of death.
- His proportion of Reserve at the date of last Balance sheet.
- His proportion of profits to date of death based on the average profits of the last four years.
- His share of Goodwill should be calculated at two years purchase of the profits of the last four years.
Profits were as follows:
2016 : ₹ 40,000, 2017 : ₹ 60,000, 2018 : ₹ 70,000, 2019 : ₹ 30,000
- Mr. Virendra's has drawn ₹ 3,000 p.m. till the date of death. There is no increase and decrease in the value of assets and liabilities.

Prepare Mr. Virendra's Executor's Account.

Solution:

Virendra's Capital Account

Dr.	Particulars	Amount ₹	Cr.	Particulars	Amount ₹
	To Drawings A/c	15,000		By Balance b/d	90,000
	To Virendra's Executor's Loan A/c	1,50,417		By Reserve Fund A/c	15,000
				By Goodwill A/c	50,000
				By Profit and Loss Suspense A/c	10,417
		1,65,417			1,65,417

Working Notes:

- Calculation of Goodwill
Total profit = 40,000 + 60,000 + 70,000 + 30,000 = ₹ 2,00,000
Average Profit = $\frac{\text{Total profit}}{\text{Number of years}} = \frac{2,00,000}{4} = ₹ 50,000$



$$\begin{aligned} \text{Goodwill} &= \text{Average Profit} \times \text{Number of year's purchase} \\ &= 50,000 \times 2 = ₹ 1,00,000 \end{aligned}$$

$$\text{Virendra's share in Goodwill} = 1,00,000 \times \frac{3}{6} = ₹ 50,000$$

- ii. Calculation of Virendra's share of profit
Average Profit = ₹ 50,000

$$\begin{aligned} \text{Virendra's share of profit} &= \text{Profit} \times \frac{\text{Period upto death}}{12} \times \text{Profit Sharing Ratio} \\ &= 50,000 \times \frac{5}{12} \times \frac{3}{6} = ₹ 10,417 \end{aligned}$$

Q.5. The Balance Sheet of Sohan, Rohan and Mohan who were sharing profits and losses in the ratio of 3:2:1 is as follows:

[Textbook page no.204, Capital Account and / or Profit and Loss Adjustment Account and / or Working notes]

Balance Sheet as on 31st March 2019

Liabilities	Amount ₹	Assets	Amount ₹
Bank Overdraft	18,000	Bank	48,000
Creditors	85,000	Debtors	30,000
Bills payable	40,000	Land and Building	40,000
Bank Loan	1,50,000	Machinery	80,000
General Reserve	27,000	Investments	40,000
Capital A/c:		Computers	40,000
Sohan	20,000	Stock	90,000
Rohan	20,000	Patents	12,000
Mohan	20,000		
	3,80,000		3,80,000

Mr. Rohan died on 1st October, 2019 and the following adjustments were made:

- Goodwill of the firm is valued at ₹ 30,000.
- Land and Building and Machinery were found to be undervalued by 20%.
- Investments are valued at ₹ 60,000.
- Stock to be undervalued by ₹ 5,000 and a provision of 10% on Debtors was required.
- Patents were value less.
- Mr. Rohan was entitled to share in profits up to the date of death and it was decided that he may be allowed to retain his drawings as his share of profit. Rohan's drawings till date of death was ₹ 25,000.

Prepare Partners' Capital Account.

Solution:

Partners' Capital Account

Dr.				Cr.			
Particulars	Sohan ₹	Rohan ₹	Mohan ₹	Particulars	Sohan ₹	Rohan ₹	Mohan ₹
To Drawings A/c	—	25,000	—	By Balance b/d	20,000	20,000	20,000
To Rohan's Executor's				By General Reserve A/c	13,500	9,000	4,500
Loan A/c	—	49,000	—	By Goodwill A/c	15,000	10,000	5,000
To Balance c/d	63,500	—	34,500	By Profit and Loss			
				Suspense A/c	—	25,000	—
				By Profit and Loss			
				Adjustment A/c	15,000	10,000	5,000
	63,500	74,000	34,500		63,500	74,000	34,500



Working Notes:

i. Roshan's share of profit = Drawings during the year = ₹ 25,000

ii.

Profit and Loss Adjustment Account

Dr.

Cr.

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Stock A/c		5,000	By Land and Building A/c		10,000
To R.D.D. A/c		3,000	By Machinery A/c		20,000
To Patents A/c		12,000	By Investment A/c		20,000
To Partners' Capital A/c (Profit)					
Sohan	15,000				
Rohan	10,000				
Mohan	5,000	30,000			
		50,000			50,000

Board Problems

Q.1. Shanti, Samadhan and Sangharsh were sharing profits and losses in the ratio of 7 : 5 : 4. Their Balance Sheet as on 31st March, 2013:

Balance Sheet as on 31st March, 2013

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Furniture	17,000
Shanti	23,000	Machinery	18,000
Samadhan	15,000	Building	16,000
Sangharsh	12,000	Cash	37,000
Bills Payable	4,000		
Creditors	8,000		
Loan	10,000		
General Reserve	16,000		
	88,000		88,000

Sangharsh died on 30th June, 2013, and the following adjustments were agreed as per deed:

- Furniture, Machinery and Building are to be revalued at ₹ 16,700, ₹ 16,200 and ₹ 30,100 respectively.
- Sangharsh's share in goodwill to be valued from firm's goodwill which was valued at two times of the average profit of last three years. Profits of last three years ₹ 30,000, ₹ 25,000, ₹ 20,000.
- His profit upto the date of death is to be calculated on the basis of last years' profit.
- Sangharsh was entitled to get a salary of ₹ 800/- per month.
- Interest on capital at 10% to be allowed.
- Sangharsh's drawings upto date of death were ₹ 600 per month.

Prepare:

- Sangharsh's Capital Account showing amount payable to his executor;
- Give working of share of goodwill and profit.

[July 17]

Solution:

**In the books of the Firm,
Sangharsh's Capital Account**

Dr.

Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Drawings A/c	1,800	By Balance b/d	12,000
To Sangharsh's Executor's Loan A/c	33,650	By General Reserve A/c	4,000
		By Goodwill A/c	12,500
		By Profit and Loss Suspense A/c	1,250



		By Salary A/c	2,400
		By Interest on Capital A/c	300
		By Profit & Loss Adjustment A/c	3,000
	35,450		35,450

Working of share of Goodwill and Profit:

i. Working of share of Goodwill

$$\text{Total profit} = 30,000 + 25,000 + 20,000 = ₹ 75,000$$

$$\text{Average profit} = \frac{\text{Total Profit}}{\text{Number of years}}$$

$$= \frac{75,000}{3} = ₹ 25,000$$

$$\text{Goodwill} = \text{Average profit} \times \text{Number of years of purchase} = 25,000 \times 2 = ₹ 50,000$$

$$\text{Sangharsh's share in goodwill} = \text{Goodwill} \times \text{Profit Sharing Ratio of Sangharsh}$$

$$= 50,000 \times \frac{4}{16} = ₹ 12,500$$

ii. Working of share of profit of Sangharsh

$$\text{Share of profit} = \text{Last year's profit} \times \frac{\text{Period upto death}}{12} \times \text{Profit Sharing Ratio}$$

$$= 20,000 \times \frac{3}{12} \times \frac{4}{16} = ₹ 1,250$$

Working Notes:

i. **Profit and Loss Adjustment Account**

Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Furniture A/c		300	Building A/c		14,100
To Machinery A/c		1,800			
To Partners' Capital A/c (Profit)					
<i>Shanti</i>	5,250				
<i>Samadhan</i>	3,750				
<i>Sangharsh</i>	3,000	12,000			
		14,100			14,100

Q.2. Ashish, Satish and Manish were partners in a business sharing profits and losses in the ratio of 3 : 1 : 1 respectively. Their Balance Sheet as on 31st March, 2016 was as follows:

Balance Sheet as on 31st March, 2016

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Plant and Machinery	70,000
<i>Ashish</i>	80,000	Stock	50,000
<i>Satish</i>	60,000	Debtors	40,000
<i>Manish</i>	50,000	Cash	60,000
Creditors	10,000		
Reserve fund	20,000		
	2,20,000		2,20,000

Manish died on 1st October, 2016 and the partnership deed provided that:

- The deceased partner to be given his share of profit upto the date of death on the basis of the profit of the previous year.
- His share of goodwill will be calculated on the basis of two years' purchase of average profit of the last four years.



The net profits for the last four years were:

First year: ₹ 1,40,000, Second year: ₹ 1,10,000, Third year: ₹ 90,000, Fourth year: ₹ 60,000.

- iii. Plant and Machinery to be valued at ₹ 80,000. Reserve for doubtful debts of ₹ 4,000 to be created.
- iv. The drawings of Manish upto the date of death amounted to ₹ 40,000.
- v. Interest on capital is to be allowed at 10% p.a. and interest on drawings is charged at 6% p.a.

Prepare:

- i. Profit and Loss Adjustment Account
- ii. Manish's Capital Account
- iii. Working of Manish's share in profit and goodwill

[Mar 18]

Solution:

**In the books of the Firm,
Profit and Loss Adjustment Account**

Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To R.D.D. A/c		4,000	By Plant and Machinery A/c		10,000
To Partners' Capital A/c (Profit)					
<i>Ashish's</i>	3,600				
<i>Satish's</i>	1,200				
<i>Manish's</i>	1,200	6,000			
		10,000			10,000

Manish's Capital Account

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Drawings A/c	40,000	By Balance b/d	50,000
To Interest on Drawings A/c (40,000 × 6% × 6/12)	1,200	By Reserve Fund (20,000 × 1/5)	4,000
To Manish's Executor's Loan A/c	62,500	By Interest on Capital (50,000 × 10% × 6/12)	2,500
		By Profit & Loss Adjustment A/c	1,200
		By Goodwill A/c	40,000
		By Profit & Loss Suspense A/c	6,000
	1,03,700		1,03,700

Working Notes:

- i. Manish's share of Goodwill:

Total profit = 1,40,000 + 1,10,000 + 90,000 + 60,000 = ₹ 4,00,000

Average profit = $\frac{\text{Total profit}}{\text{Number of years}} = \frac{4,00,000}{4} = ₹ 1,00,000$

Goodwill of Firm = Average profit × Number of years purchase = 1,00,000 × 2 = ₹ 2,00,000

Manish's Share of Goodwill = Goodwill of the firm × Manish's share = 2,00,000 × $\frac{1}{5}$ = ₹ 40,000

- ii. Manish's share of profit:

Previous year's profit = ₹ 60,000; Manish's share = $\frac{1}{5}$

Manish's share of profit = Last year's profit × $\frac{\text{Period upto death}}{12}$ × Profit Sharing Ratio

= 60,000 × $\frac{6}{12}$ × $\frac{1}{5}$ = ₹ 6,000



Q.3. Following is the financial position of Sunil, Anil and Vishal, who were equal partners:
Balance Sheet as on 31st March, 2016

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Goodwill	12,000
<i>Sunil</i>	24,000	Machinery	32,000
<i>Anil</i>	18,000	Stock	22,000
<i>Vishal</i>	16,000	Debtors	18,000
Creditors	12,000	Bank	16,000
Reserve fund	18,000		
Profit and loss	12,000		
	1,00,000		1,00,000

On 1st October, 2016 Vishal died and following adjustments were made:

- Goodwill of the firm was appreciated by ₹ 7,200. However, only Vishal's share in the appreciated value was raised in the books.
- R. D. D. was maintained at 5% on Debtors.
- Reserve fund of Sunil and Anil kept in the business.
- Stock is valued at ₹ 20,000 and Machinery at ₹ 29,800.
- Vishal was to be given his share in the profit upto the date of death. The estimated profit based on the previous year's profit ₹ 24,000.
- Amount due to Vishal was transferred to his Executor's Loan Account.

Prepare:

- Profit and Loss Adjustment Account.
- Balance sheet of Sunil and Anil.

[July 19]

Solution:

**In the books of the Firm,
Profit and Loss Adjustment Account**

Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To R.D.D. A/c		900	By Partners' Capital A/c (Loss)		
To Stock A/c		2,000	<i>Sunil</i>	1,700	
To Machinery A/c		2,200	<i>Anil</i>	1,700	
			<i>Vishal</i>	1,700	5,100
		5,100			5,100

Balance Sheet as on 1st October, 2016

Dr.			Cr.		
Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Partner's Capital A/c			Goodwill	12,000	
<i>Sunil</i>	26,300		<i>Add: Appreciation</i>	2,400	14,400
<i>Anil</i>	20,300	46,600	Machinery	32,000	
Vishal's Executor's Loan		30,700	<i>Less: Depreciation</i>	2,200	29,800
Reserve Fund	18,000		Stock	22,000	
<i>Less: Vishal's Share</i>	6,000	12,000	<i>Less: Written off</i>	2,000	20,000
Creditors		12,000	Debtors	18,000	
			<i>Less: R.D.D. 5%</i>	900	17,100
			Profit and Loss Suspense A/c		4,000
			Bank Balance		16,000
		1,01,300			1,01,300



Working Notes:

i. **Partners' Capital Account**

Dr.				Cr.			
Particulars	Sunil ₹	Anil ₹	Vishal ₹	Particulars	Sunil ₹	Anil ₹	Vishal ₹
To Profit and Loss Adjustment A/c	1,700	1,700	1,700	By Balance b/d	24,000	18,000	16,000
To Vishal's Executor's Loan A/c	–	–	30,700	By Reserve Fund			6,000
To Balance c/d	26,300	20,300	–	By Profit and Loss A/c	4,000	4,000	4,000
				By Goodwill A/c			2,400
				By Profit and Loss Suspense A/c	–	–	4,000
	28,000	22,000	32,400		28,000	22,000	32,400

ii. Calculation of Vishal's share of Goodwill

$$\text{Goodwill of firm} = ₹ 7,200; \text{Vishal share} = \frac{1}{3}$$

$$\text{Vishal's share of Goodwill} = 7,200 \times \frac{1}{3} = ₹ 2,400$$

iii. Calculation of Vishal's share of profit

Previous year's profit = ₹ 24,000

$$\text{Vishal's share of profit} = \text{Previous year's profit} \times \frac{\text{Period upto death}}{12} \times \text{Profit Sharing Ratio}$$

$$= 24,000 \times \frac{6}{12} \times \frac{1}{3} = ₹ 4,000$$

Q.4. Sachin, Deepak and Gopal were partners sharing profits and losses in the ratio 3:2:1 respectively. Their balance sheet as on 31st March, 2020 is as under:

Balance Sheet as on 31st March, 2020

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Bank	7,000
Sachin	15,000	Investment	9,000
Deepak	10,000	Debtors	8,000
Gopal	5,000	Less: R.D.D.	1,000
Creditors	4,000	Motor Car	10,000
Bank Loan	10,000	Machinery	20,000
Bills payable	9,000		
	53,000		53,000

Gopal died on 30th June, 2020 and the following adjustments were made:

- Gopal's share of goodwill is to be calculated at 2 years purchase of average profit of last 5 years.
- Gopal's share of profit up to his death to be calculated on the basis of average profit of last 2 years.
- Five years' profits were – I year ₹ 3,000, II year ₹ 5,500, III year ₹ 3,500, IV year ₹ 6,000, V year ₹ 12,000 respectively.
- All debtors were good.
- Assets were revalued as: Machinery ₹ 22,000, Motor Car ₹ 9,000, Investment ₹ 8,500.

Prepare:

- Profit and Loss Adjustment Account
- Gopal's Capital Account
- Calculate Gopal's share of goodwill
- Calculate Gopal's share on profit up to the date of his death.

[Oct 21]



Solution:

**In the books of the Firm,
Profit and Loss Adjustment Account**

Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Investments A/c		500	By Machinery A/c		2,000
To Motor Car A/c		1,000	By R.D.D. A/c		1,000
To Partners' Capital A/c (Profit)					
<i>Sachin</i>	750				
<i>Deepak</i>	500				
<i>Gopal</i>	250	1,500			
		3,000			3,000

Gopal's Capital Account

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Gopal's Executor's Loan A/c	7,625	By Balance b/d	5,000
		By Profit & Loss Suspense A/c	375
		By Goodwill A/c	2,000
		By Profit & Loss Adjustment A/c	250
	7,625		7,625

Working of Gopal's share in Goodwill and profit:

i. Gopal's share in Goodwill:

$$\text{Total Profit} = 3,000 + 5,500 + 3,500 + 6,000 + 12,000 = ₹ 30,000$$

$$\text{Average profit} = \frac{\text{Total profit}}{\text{Number of years of profit}} = \frac{30,000}{5} = ₹ 6,000$$

$$\text{Goodwill} = \text{Average profit} \times \text{Number of years of purchase} = 6,000 \times 2 = ₹ 12,000$$

$$\text{Gopal's share in Goodwill} = \text{Goodwill} \times \text{Gopal's Share} = 12,000 \times \frac{1}{6} = ₹ 2,000$$

ii. Paresh's share in profit:

$$\text{Total profit} = 6,000 + 12,000 = ₹ 18,000$$

$$\text{Average profit for last two years} = \frac{\text{Total profit}}{\text{Number of years}} = \frac{18,000}{2} = ₹ 9,000$$

$$\text{Gopal's share of profit} = \text{Average profit} \times \frac{\text{Period up to death}}{12} \times \text{Gopal's share}$$

$$\text{Gopal's share of profit} = 9,000 \times \frac{3}{12} \times \frac{1}{6} = ₹ 375$$

Q.5. Anil, Sunil and Mohit were partners sharing profits and losses in the proportion of their capital. Their Balance Sheet as on 31st March, 2019 was as follows:

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Assets	Amount ₹
Capital A/c:		Land and Building	80,000
<i>Anil</i>	60,000	Motor Lorry	40,000
<i>Sunil</i>	40,000	Debtors	32,000
<i>Mohit</i>	20,000	Less: R.D.D.	- 4,000
Creditors	50,000	Furniture	36,000
Outstanding Salary	6,000	Bank	28,000
Reserve Fund	36,000		
	2,12,000		2,12,000



Mohit died on 1st August, 2019 and the following adjustments were made:

- i. Assets to be revalued as under:

Land and Building	₹ 88,000
Motor Lorry	₹ 36,000
Furniture	₹ 34,000
- ii. All debtors were good.
- iii. Goodwill of the firm valued at two times the average profit of last 4 years' profit.
- iv. Mohit's share of profit to be calculated on the basis of average profit of the last three years.
- v. Profit for four years 1st year ₹ 12,000, 2nd year ₹ 24,000, 3rd year ₹ 14,000, 4th year ₹ 22,000.

Prepare:

- i. Mohit's capital account showing amount payable to his executor.
- ii. Give working note of Mohit's share of goodwill and profit up to the date of his death.

[Mar 22]

Solution:

Mohit's Capital Account

Dr.	Amount ₹	Cr.	Amount ₹
To Mohit's Executors Loan A/c	34,111	By Balance b/d	20,000
		By Reserve	6,000
		By Profit and Loss Adjustment A/c	1,000
		By Goodwill A/c	6,000
		By Profit and Loss Suspense A/c	1,111
	34,111		34,111

Working Notes:

- i. Calculation of Mohit's share of Goodwill:

$$\begin{aligned} \text{Total profit} &= 12,000 + 24,000 + 14,000 + 22,000 \\ &= ₹ 72,000 \end{aligned}$$

$$\text{Average profit} = \frac{\text{Total profit}}{\text{Number of years}} = \frac{72,000}{4} = ₹ 18,000$$

$$\begin{aligned} \text{Goodwill of the Firm} &= \text{Average profit} \times \text{Number of years purchase} \\ &= 18,000 \times 2 \\ &= ₹ 36,000 \end{aligned}$$

$$\begin{aligned} \text{Mohit's share of Goodwill} &= \text{Goodwill of the firm} \times \text{Mohit's share} \\ &= 36,000 \times \frac{1}{6} \\ &= ₹ 6,000 \end{aligned}$$

- ii. Calculation of share of profit due to Mohit

$$\text{Total profit} = 22,000 + 14,000 + 24,000 = ₹ 60,000$$

$$\text{Average profit} = \frac{\text{Total profit}}{\text{Number of years}} = \frac{60,000}{3} = ₹ 20,000$$

$$\begin{aligned} \text{Mohit's share of profit} &= \text{Average profit} \times \frac{\text{Period upto death}}{12} \times \text{Mohit's share of profit} \\ &= 20,000 \times \frac{4}{12} \times \frac{1}{6} \\ &= ₹ 1,111 \end{aligned}$$



iii. Calculation of profit / loss on revaluation

Profit and Loss Adjustment Account

Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Motor Lorry A/c		4,000	By Building A/c		8,000
To Furniture A/c		2,000	By R.D.D. A/c		4,000
To Partners' Capital A/c (Profit)					
<i>Anil</i>	3,000				
<i>Sunil</i>	2,000				
<i>Mohit</i>	1,000	6,000			
		12,000			12,000

Q.6. Rekha, Urmila and Mamta were partners sharing Profit and Losses in Ratio 2 : 2 : 1 respectively. Their Balance sheet as on 31st March 2019 was as follows:

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Assets	Amount ₹
Capital Accounts:		Plant and Machinery	25,000
<i>Rekha</i>	20,000	Stock of Goods	25,000
<i>Urmila</i>	20,000	Debtors	11,000
<i>Mamta</i>	10,000	(-) R. D. D.	1,250
General Reserve	5,000	Investments	5,000
Creditors	5,000	Cash	250
Bills payable	3,000		
Bank loan	2,000		
	65,000		65,000

Adjustments:

Mamta died on 1st October, 2019 and the adjustments were agreed as per deed which are as follows:

- Plant and Machinery to be valued at ₹ 30,000 and all debtors were good.
- Stock of goods to be reduced by ₹ 1,500.
- The drawings of Mamta upto the date of her death amounted to ₹ 200 per month.
- Interest on Capital was to be allowed at 10% p.a.
- The deceased partner's share of Goodwill is to be valued at 2 years' purchase of average profit of last 3 years.
The profits of last three years were:
2016 – 17 ₹ 7,500
2017 – 18 ₹ 8,500
2018 – 19 ₹ 6,500
- The deceased partner's share of Profit upto the date of her death should be based on average profit of last 2 years.

Prepare:

- Mamta's Capital A/c showing the balance payable to her Executor's Loan A/c.
- Give working note for share of Goodwill and profit upto her date of death.

[July 22]



Solution:

**In the books of the Firm,
Profit and Loss Adjustment A/c**

Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Stock of Goods A/c		1,500	By Plant and Machinery A/c		5,000
To Partners' Capital A/c (Profit)			By. R.D.D. A/c		1,250
<i>Rekha</i>	1,900				
<i>Urmila</i>	1,900				
<i>Mamta</i>	950	4,750			
		6,250			6,250

Mamta's Capital Account

Dr.		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹
To Drawings A/c	1,200	By Balance b/d	10,000
To <i>Mamta's</i> Executors Loan A/c	15,000	By General Reserve A/c	1,000
		By Profit and Loss Adjustment A/c (Profit)	950
		By Interest on Capital A/c	500
		By Goodwill A/c	3,000
		By Profit and Loss Suspense A/c	750
	16,200		16,200

Working Notes:

i. Calculation of Goodwill:

$$\text{Total profit} = 7,500 + 8,500 + 6,500 = ₹ 22,500$$

$$\text{Average profit} = \frac{\text{Total profit}}{\text{Number of years}} = \frac{22,500}{3} = ₹ 7,500$$

$$\text{Goodwill of the Firm} = \text{Average Profit} \times \text{Number of years purchase} = ₹ 7,500 \times 2 = ₹ 15,000$$

$$\text{Share of Goodwill to Mamta} = \text{Goodwill of the firm} \times \text{Her share} = ₹ 15,000 \times \frac{1}{5} = ₹ 3,000$$

ii. Calculation of share of the profit of Mamta

$$\text{Total profit} = 8,500 + 6,500 = ₹ 15,000$$

$$\text{Average profit} = \frac{\text{Total profit}}{\text{Number of years}} = \frac{15,000}{2} = ₹ 7,500$$

$$\text{Share of profit to Mamta} = \text{Average profit} \times \frac{\text{Period upto death}}{12} \times \text{Profit Sharing Ratio}$$

$$= 7,500 \times \frac{1}{5} \times \frac{6}{12} = ₹ 750$$

iii. Calculation of Interest on capital

Mamta's capital is ₹ 10,000. Interest on capital is 10% for 6 months.

$$\text{Interest on capital} = 10,000 \times \frac{10}{100} \times \frac{6}{12} = 500$$



Q.7. Arun, Varun and Karun were partners in a business sharing profits and losses in the ratio of 2 : 2: 1 respectively. Their Balance sheet as on 31st March, 2019 was as under :

Balance Sheet as on 31st March, 2019

Liabilities	Amount ₹	Assets	Amount ₹
Capital Accounts:		Land and Building	27,900
<i>Arun</i>	20,000	Investment	15,000
<i>Varun</i>	20,000	Furniture	8,000
<i>Karun</i>	10,000	Debtors	10,400
Creditors	16,000	Less : R. D. D.	400
Bank Loan	4,000	Bank	4,100
		Goodwill	5,000
	70,000		70,000

On 1st July, 2019 Karun died and the following adjustments were made:

- All the debtors were considered as good.
- Bank Loan were paid off.
- Furniture was depreciated by ₹ 550.
- Investments were sold out in the Market at 10% profit.
- Goodwill of the firm was valued at ₹ 7,500. It was to be raised in the books.
- Karun was entitled to get his share in the profit up to the date of his death. Profit for 2019-2020 was estimated at ₹ 5,000.
- The amount due to Karun's Executor was paid by NEFT.

Prepare:

- Profit and Loss Adjustment A/c.
- Partners' Capital Account
- Balance sheet of New Firm.

[Mar 23]

Solution:

**In the books of the Firm,
Revaluation Account**

Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Furniture A/c		550	By R.D.D. A/c		400
To Partners' Capital A/c (Profit)			By Investments A/c		1,500
<i>Arun</i>	540				
<i>Varun</i>	540				
<i>Karun</i>	270	1,350			
		1,900			1,900

Partners' Capital Account

Dr.				Cr.			
Particulars	Arun ₹	Varun ₹	Karun ₹	Particulars	Arun ₹	Varun ₹	Karun ₹
To Karun's Executor's Loan A/c			11,020	By Balance b/d	20,000	20,000	10,000
To Balance c/d	21,540	21,540		By Revaluation A/c (Profit)	540	540	270
				By Goodwill A/c	1,000	1,000	500
				By Profit and Loss Suspense A/c			250
	21,540	21,540	11,020		21,540	21,540	11,020



Balance Sheet as on 1st July, 2019

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital A/c:			Land and Building		27,900
Arun	21,540		Debtors		10,400
Varun	21,540	43,080	Furniture	8,000	
Creditors		16,000	<i>Less: Depreciation</i>	550	7,450
			Bank		5,580
			Investment	15,000	
			<i>Add: Appreciation</i>	1,500	
			<i>Less: Sold</i>	16,500	–
			Goodwill	5,000	
			<i>Add: Appreciation</i>	2,500	7,500
			Profit and Loss Suspense A/c		250
		59,080			59,080

Working Notes:

- i. Calculation of Karun's share in the profit till the date of his death. Karun died on 1st July, 2019. Profit for 2019-20 is estimated at ₹ 5,000

$$\text{Karun's share in it for 3 months is } ₹ 5,000 \times \frac{3}{12} \times \frac{1}{5} = ₹ 250$$

- ii. Karun's Executors loan account was fully paid; hence it is not transferred to liability side.

Q.8. Jay, Ajay and Vijay were partners sharing profit and losses in the ratio 2 : 2 : 1 respectively. Their balance sheet as on 31st March, 2020 was as follows:

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Account		Building	40,000
Jay	40,000	Furniture	30,000
Ajay	50,000	Debtors	30,000
Vijay	30,000	Bank	80,000
General reserve	20,000		
Creditors	30,000		
Bills payable	10,000		
	1,80,000		1,80,000

Vijay died on 1st July, 2020.

- Building was revalued to ₹ 60,000 and reserve for doubtful debts is to be created at ₹ 5,000 on debtors.
- Furniture was to be revalued to ₹ 35,000.
- The drawing of Vijay upto the date of his death amounted to ₹ 12,000.
- Interest on drawing of ₹ 1,000 is to be charged.
- Vijay's share of goodwill should be calculated at 2 years of the average profit for the last 5 years which were: I year ₹ 60,000; II year ₹ 50,000; III year ₹ 80,000; IV year ₹ 1,00,000 and V year ₹ 1,20,000.
- The deceased partner's share of profit upto his death to be calculated on the basis of average profit of last two years (IV and V years).



Prepare:

- i. Working of Vijay's share of profit.
- ii. Working of Vijay's share of goodwill.
- iii. Revaluation Account.

[July 23]

Solution:

**In the books of the Firm,
Profit and Loss Adjustment A/c**

Dr.			Cr.		
Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To R.D.D A/c		5,000	By Building A/c		20,000
To Partners' Capital A/c (Profit)			By Furniture A/c		5,000
<i>Jay</i>	8,000				
<i>Ajay</i>	8,000				
<i>Vijay</i>	4,000	20,000			
		25,000			25,000

Working Notes:

- i. Calculation of Goodwill:

$$\text{Total profit} = 60,000 + 50,000 + 80,000 + 1,00,000 + 1,20,000 = ₹ 4,10,000$$

$$\text{Average profit} = \frac{\text{Total profit}}{\text{Number of years}} = \frac{4,10,000}{5} = ₹ 82,000$$

$$\text{Goodwill of the Firm} = \text{Average Profit} \times \text{Number of years purchase}$$

$$= ₹ 82,000 \times 2 = ₹ 1,64,000$$

$$\text{Share of Goodwill to Vijay} = \text{Goodwill of the firm} \times \text{His share}$$

$$= ₹ 1,64,000 \times \frac{1}{5} = ₹ 32,800$$

- ii. Calculation of share of the profit of Vijay

$$\text{Total profit} = 1,00,000 + 1,20,000 = ₹ 2,20,000$$

$$\text{Average profit} = \frac{\text{Total profit}}{\text{Number of years}} = \frac{2,20,000}{2} = ₹ 1,10,000$$

$$\text{Share of profit to Vijay} = \text{Average profit} \times \frac{\text{Period upto death}}{12} \times \text{Profit Sharing Ratio}$$

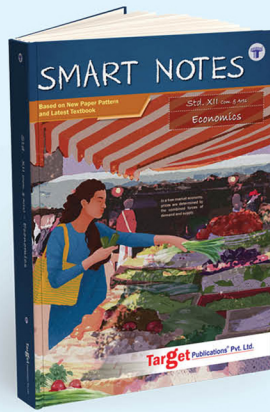
$$= 1,10,000 \times \frac{3}{12} \times \frac{1}{5} = ₹ 5,500$$



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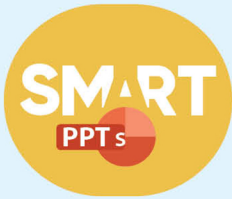
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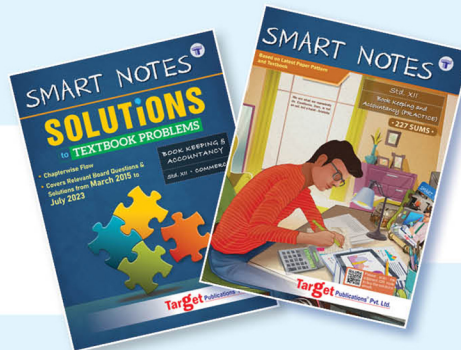


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