

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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| 5 | Reconstitution of Partnership (Death of Partner) | 177 |
| 6 | Dissolution of Partnership Firm | 197 |
| 7 | Bills of Exchange | 240 |
| 8 | Company Accounts - Issue of Shares | 282 |
| 9 | Analysis of Financial Statements | 309 |
| 10 | Computer In Accounting | 327 |

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. | | Cr. | |
|-------------------------------|---------------|-----------------------------------|---------------|
| Particulars | Amount ₹ | Particulars | 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

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

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

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

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