

## ANSWERS

### 1. MULTIPLE CHOICE QUESTIONS

1. (3) **Explanation:** Goodwill existing in the assets side of Balance Sheet of the firm is written off by debiting Capital Accounts of all partners in their old profit-sharing ratio.
2. (1) **Explanation:** Partners who have gained profit share on retirement of the retiring partner, compensate the retiring partner for his share of goodwill in their gaining ratio.
3. (3) **Explanation:** Gain (Profit) or Loss on revaluation of assets and revaluation of liabilities is distributed among all partners (including retiring partner) in their old profit-sharing ratio, since it is for the period before retirement. Loss on Revaluation of ₹ 96,000 is distributed among partners as follows:

$$C: 96,000 \times 3/8 = ₹ 36,000$$

$$S: 96,000 \times 4/8 = ₹ 48,000$$

$$K: 96,000 \times 1/8 = ₹ 12,000.$$

4. (3) **Explanation:** A retiring partner continues to be liable to the third party for acts of the firm up to the date of his retirement. However, the retiring partner may be discharged from his liability if it is agreed between him, continuing partners and third party.

5. (2) **Explanation:**

$$M's \text{ Old Profit Share} = 3/6$$

$$M's \text{ Gain} = 2/3 \text{ of } C's \text{ share} = 2/3 \times 1/6 = 2/18$$

$$N's \text{ Old Profit Share} = 2/6$$

$$N's \text{ Gain} = 1/3 \text{ of } C's \text{ share} = 1/3 \times 1/6 = 1/18$$

$$M's \text{ New Profit Share} = M's \text{ Old Profit Share} + M's \text{ Gain}$$

$$= 3/6 + 2/18 = 11/18$$

$$N's \text{ New Profit Share} = N's \text{ Old Profit Share} + N's \text{ Gain}$$

$$= 2/6 + 1/18 = 7/18$$

Hence, New Profit-sharing Ratio between *M* and *N* = 11 : 7.

6. (1) **Explanation:** On *B*'s retirement, *B*'s share is taken by *R* and *C* equally. Thus, their gaining ratio is 1 : 1.
7. (2) **Explanation:** *D*'s profit share = 3/10. it is taken by *S* and *R* in ratio 3 : 2.

$$\text{New Profit Share} = \text{Old Profit Share} + \text{Profit Share Gained}$$

$$\text{Profit Share taken by } S = 3/5 \times 3/10 = 9/50$$

$$S's \text{ New Profit Share} = 4/10 + 9/50 = 29/50$$

$$\text{Profit Share taken by } R = 2/5 \times 3/10 = 6/50$$

$$R's \text{ New Profit Share} = 3/10 + 6/50 = 21/50$$

Thus, New Profit-sharing Ratio of *S* and *R* = 29/50 : 21/50 or 29 : 21.

8. (4) **Explanation:** *C*'s share = 4/12

$$\text{New Profit Share} = \text{Old Profit Share} + \text{Profit Share Gained}$$

$$\text{Profit Share of } C \text{ taken by } M = 4/12 \times ₹ 45,000/₹ 80,000 = 3/16$$

$$M's \text{ New Profit Share} = 5/12 + 3/16 = 29/48$$

$$\text{Profit Share of } C \text{ taken by } G = 4/12 \times ₹ 35,000/₹ 80,000 = 7/48$$

$$G's \text{ New Profit Share} = 3/12 + 7/48 = 19/48$$

Thus, New Profit-sharing Ratio of *M* and *G* = 29/48 : 19/48 or 29 : 19.

9. (4) **Explanation:** *Adjustment Entry for Goodwill:*

$$H's \text{ Capital A/c} \quad \dots \text{Dr.} \quad ₹ 1,20,000$$

$$\quad \text{To } R's \text{ Capital A/c} \quad ₹ 1,20,000$$

(*R*'s share of goodwill adjusted)

**Working Note:** Gain of a Partner = New Profit Share – Old Profit Share

$$S \text{ Profit share Gains} = 1/2 - 3/6 = 0$$

$$H \text{ Profit share Gains} = 1/2 - 1/6 = 2/6$$

Since *H* alone gains on *R*'s retirement, he will compensate to *R* for his Share of goodwill, i.e., ₹ 3,60,000 × 2/6 = ₹ 1,20,000.

10. (1) **Explanation:** General Reserve existing in the Balance Sheet at the time of retirement of a partner is credited to all Partners' Capital Accounts in their old profit-sharing ratio, since General Reserve is set aside out of past profits before the retirement of the partner. Thus, it is credited to all the partners (including retiring partner) in their profit-sharing ratio.

11. (2) **Explanation:** Goodwill existing in the assets side of Balance Sheet is written off by debiting Capital Accounts of all partners including retiring partner in their profit-sharing ratio since current value of goodwill is determined which includes the old value. Therefore, it is written off by debiting all partners' Capital Accounts in their profit-sharing ratio.

12. (3) <b>Explanation:</b> Adjustment Entry for Goodwill:	₹	₹
P's Capital A/c ...Dr.	30,000	
G's Capital A/c ...Dr.	2,10,000	
To K's Capital A/c		60,000
To M's Capital A/c		1,80,000

(Adjustment entry passed for goodwill on retirement of M)

**Working Notes:**

1. *Calculation of Gaining Ratio:*

Gain of a Partner = New Profit Share – Old Profit Share

K's Gain =  $1/3 - 4/10 = (2/30)$  sacrifice

P's Gain =  $1/3 - 3/10 = 1/30$

G's Gain =  $1/3 - 1/10 = 7/30$

Thus, K is sacrificing 2/30th, whereas P and G are gaining in the ratio of 1 : 7. It means not only M is compensated for his share but also K is compensated for the sacrifice made him.

2. *Adjustment of Goodwill:*

M's Share of Goodwill on Retirement = ₹ 9,00,000 × 2/10 = ₹ 1,80,000

K's share of Compensation = Goodwill of the firm × his sacrificing share

= ₹ 9,00,000 × 2/30 = ₹ 60,000

Total amount paid by P and = M's share of Goodwill + K's share of Compensation

= ₹ 1,80,000 + ₹ 60,000

= ₹ 2,40,000 in the Gaining ratio of 1 : 7

P will contribute = ₹ 2,40,000 × 1/8 = ₹ 30,000

G will contribute = ₹ 2,40,000 × 7/8 = ₹ 2,10,000.

13. (1) **Explanation:**

Dr.	B'S CAPITAL ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Revaluation A/c (Loss)	30,000	By Balance b/d	70,000
To Bank A/c (Balancing Figure)	62,000	By Reserve	10,000
		By A's Capital	8,000
		By C's Capital (Share in Goodwill)	4,000
	92,000		92,000

**Working Notes:**

1. B's Share in Goodwill = Goodwill of the firm × B's Share

= ₹ 30,000 × 2/5 = ₹ 12,000, which is contributed by A and C in their Gaining Ratio, i.e., 2 : 1.

Thus, A contributes ₹ 8,000 and C contributes ₹ 4,000.

2. B's Share in Reserve = ₹ 25,000 × 2/5 = ₹ 10,000.

3. B's Share in Revaluation Loss = ₹ 75,000 × 2/5 = ₹ 30,000.

14. (2) **Explanation:** Y's Share in Goodwill = Goodwill of the firm  $\times$  Y's Share  
 $= ₹ 1,08,000 \times 1/6 = ₹ 18,000$ , which is contributed by X and Z in Gaining ratio of 1 : 2, i.e., calculated as per

**Working Note.**

Thus, X pays ₹ 6,000 and Z pays ₹ 12,000.

**Working Notes:**

Y's Share =  $2/6$  or  $1/3$ .

Y gifts  $1/2$  of his share to X, means X will get =  $1/2 \times 1/3 = 1/6$ .

But Y will get Goodwill for  $1/6$ th profit share since balance  $1/6$ th profit share has been gifted.

Therefore, Y will get Goodwill of ₹ 18,000 ( $1/6$ th of ₹ 1,08,000)

Remaining share  $1/2$  of Y's share =  $1/6$  (i.e.,  $1/2 \times 1/3$ ) is given to X and Z in the ratio of 1 : 2,

Thus, X gets =  $1/3$  of  $1/6 = 1/18$  and

Z gets =  $2/3$  of  $1/6 = 2/18$

X's Gain =  $1/6 + 1/18 = 4/18$

Z's Gain =  $2/18$

Gaining Ratio of X and Z is 2 : 1.

However, Goodwill will be paid by X and Z in the ratio of 1 : 2 because Goodwill is not paid on gifted profit share.

15. (4) **Explanation:** Goodwill existing in the books of accounts is written off by debiting Capital Accounts of all partners (including retiring partner) in their old profit-sharing ratio. Thus, entry passed is:

X's Capital A/c	...Dr.	₹ 12,000	
Y's Capital A/c	...Dr.	₹ 18,000	
Z's Capital A/c	...Dr.	₹ 30,000	
To Goodwill A/c			₹ 60,000
(Goodwill existing in the books written off in their old profit-sharing ratio)			

16. (3) **Explanation:** Retired partner continues to be liable as partner to outside parties for all the acts done by any of them for the firm if done before the retirement, until public notice is given of the retirement.

17. (2) **Explanation:** Z's Share =  $5/15$  or  $1/3$ , out of which Y takes  $1/5$ th and X takes  $4/5$ th. Thus,

X's Gain =  $4/5 \times 5/15 = 4/15$

Y's Gain =  $1/5 \times 5/15 = 1/15$

New Profit Share of Continuing Partner = Old Profit Share + Profit Share Acquired

X's New Profit Share =  $6/15 + 4/15 = 10/15$

Y's New Profit Share =  $4/15 + 1/15 = 5/15$

Hence, New Profit-sharing Ratio of X and Y = 10 : 5 or 2 : 1.

18. (4) **Explanation:** Amount agreed to be paid to C in full settlement is ₹ 3,22,000 (₹ 52,000 + ₹ 2,70,000)

C's Capital after all adjustments = ₹ 3,22,000 – ₹ 2,92,000

C's Share of Goodwill = ₹ 30,000.

C's share of Goodwill ( $2/10$ ) = ₹ 30,000

Thus, Firm's Goodwill = ₹ 30,000  $\times 10/2 = ₹ 1,50,000$ .

19. (3) **Explanation:** Saroj paid ₹ 1,80,000 for  $1/5$ th share of profit share gained

Thus, Firm's Goodwill = ₹ 1,80,000  $\times 5$

Goodwill of the firm = ₹ 9,00,000.

**Working Note:**

Gain of a Partner = New Profit Share – Old Profit Share

Saroj's Gain =  $1/2 - 3/10 = (10 - 6)/20 = 4/20$  or  $1/5$

Subhash's Gain =  $1/2 - 5/10 = \text{nil}$

As Saroj alone gained on Sangeet's retirement, she only will contribute to the Sangeet for his share of goodwill.

- Goodwill of the firm = ₹ 3,000 × 10/3 = ₹ 10,000.

$$\text{Gain of a Partner} = \text{New Profit Share} - \text{Old Profit Share}$$

Rajesh's Gain =  $\frac{3}{5} - \frac{4}{10} = \frac{2}{10}$

Nishant's Gain =  $\frac{2}{5} - \frac{3}{10} = \frac{1}{10}$

If Nishant gave ₹ 1,000 for 1/3rd profit share, then Pramod's share of Goodwill is ₹ 3,000.

- | REVALUATION ACCOUNT                 |        |                                  |        |
|-------------------------------------|--------|----------------------------------|--------|
| Dr.                                 |        |                                  | Cr.    |
| Particulars                         | ₹      | Particulars                      | ₹      |
| To Machinery A/c                    | 60,000 | By Stock A/c (Balancing Figure)* | 18,000 |
| To Provision for Doubtful Debts A/c | 8,000  | By Loss on Revaluation (WN)      | 50,000 |
|                                     | 68,000 |                                  | 68,000 |
|                                     |        |                                  |        |

**Working Note:** Sangeeta's share, i.e.,  $2/10$  in loss on Revaluation comes to ₹ 10,000. Thus, Total Revaluation loss was ₹ 50,000.

- Hence, Net amount credited to Naman's Capital Account is ₹ 6,000 (i.e., ₹ 10,000 – ₹ 4,000).

- 24. (2) Explanation:** Investment Fluctuation Reserve is appropriated from Firm's Profit to meet the fall in the book value of investments. When fall in the value of Investment is less than Investment Fluctuation Reserve, amount equal to fall in value is adjusted from Investment Fluctuation Reserve and balance is distributed among all partners by crediting their Capital Accounts in their profit-sharing ratio.

**25. (2) Explanation:** At the time of retirement there may be some unrecorded asset which is brought into the books of the firm by debiting Unrecorded Asset Account and crediting Revaluation Account as it is an increase in an Asset.

- 26. (4) Explanation:** At the time of retirement there may be some unrecorded asset which is brought into the books of the firm by debiting Unrecorded Asset Account and crediting Revaluation Account, as it is an increase in the asset. Since it is taken by the retiring partner, his capital account is debited with the agreed value and Unrecorded Asset Account is credited as it is a gain (profit) for the firm. The Journal entry passed will be:

To Revaluation A/c

- | R'S CAPITAL ACCOUNT                   |        |  |        |
|---------------------------------------|--------|--|--------|
| Dr.                                   |        |  | Cr.    |
| Particulars                           | ₹      | Particulars                            | ₹      |
| To Revaluation A/c (Unrecorded Asset) | 2,800  | By Balance b/d                         | 35,000 |
| To R's Loan A/c*                      | 45,880 | By Reserve A/c                         | 6,000  |
|                                       |        | By Revaluation A/c                     | 2,880  |
|                                       |        | By M's Capital A/c                     | 3,200  |
|                                       |        | By F's Capital A/c (Share in Goodwill) | 1,600  |
|                                       | 48,680 |  | 48,680 |
|                                       |        |  |        |

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**Working Notes:**

1.  $R$ 's Share in Goodwill = Goodwill of the firm  $\times M$ 's Share  
 $= ₹ 12,000 \times 2/5 = ₹ 4,800$ , which is contributed by  $M$  and  $F$  in their gaining ratio of 2 : 1. Thus,  $M$  contributes ₹ 3,200 and  $C$  contributes ₹ 1,600.
2.  $R$ 's Share in Reserve = ₹ 15,000  $\times 2/5 = ₹ 6,000$ .
3.  $R$ 's Share is Revaluation Profit = ₹ 7,200  $\times 2/5 = ₹ 2,880$ .

**28. (2) Explanation:**

M'S CAPITAL ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Revaluation A/c	30,000	By Balance b/d	2,50,000
To Bank A/c	1,25,000	By Reserve	15,000
To M's Loan	2,00,000	By N's and O's Capital A/cs (Share in Goodwill)	90,000
		(Balancing Figure)	
	3,55,000		3,55,000

$M$ 's share (2/10) of Goodwill = ₹ 90,000

It means Goodwill of the Firm = ₹ 90,000  $\times 10/2 = ₹ 4,50,000$ .

**Working Notes:**

1.  $M$ 's Share in Reserve = ₹ 75,000  $\times 2/10 = ₹ 15,000$ .
  2.  $M$ 's Share is Revaluation Loss = ₹ 1,50,000  $\times 2/10 = ₹ 30,000$ .
29. (3) **Explanation:** When one or more partners leaves the firm and the remaining partners continue as partners in the firm, it is known as retirement of a partner. In other words, retirement of a partner means the retiring partner does not remain a partner of the firm but the firm continues.
  30. (1) **Explanation:** When partners' capital accounts are maintained as per Fixed Capital Accounts Method, adjustments may be made in the current account of retiring partner and its closing balance is transferred to his Capital Account. Alternatively, Current Account balance is transferred to Capital Account and adjustments are made in Capital Account, which is later either paid or transferred to his Loan Account.
  31. (4) **Explanation:** Unless agreed otherwise, Gaining Ratio of Continuing Partners is same as their old profit-sharing ratio because it is assumed that the Remaining partners will acquire the share of retiring partner in their old profit-sharing ratio.
  32. (4) **Explanation:** If the firm has agreed to settle the retiring partner's account by paying him a lump sum amount, then the amount paid to him in excess of what is due to him, based on the balance in his capital account after making necessary adjustments in respect of accumulated profits and losses and revaluation of assets and liabilities, etc., shall be as Goodwill (known as hidden goodwill).
  33. (4) **Explanation:** In case of retirement of partner during the year, Retiring partner's share of profit is estimated on the basis of the following two basis:
    - (i) Time; or
    - (ii) Turnover or Sales of the partnership firm.
  34. (4) **Explanation:** In case the firm is not in a position to make payment immediately to the retiring partner, the amount due is transferred to the retiring Partner's Loan Account. When the amount is paid it is debited to this account.
  35. (1) **Explanation:** Provision was made against doubtful debtors. If the debtors are good, it means provision for Doubtful Debts is not required. Hence, it will be written back and credited to Revaluation Account.
  36. (1) **Explanation:** Revaluation is an adjustment made to the recorded value of an asset to bring it to its current market value.
  37. (2) **Explanation:** Reassessment of liabilities, at the time of retirement, is made to determine the increase or decrease in the amount of liabilities, so that they are accounted in the books at their correct amounts.

38. (2) **Explanation:** Investment Fluctuation Reserve, to the extent of fall in the book value, is transferred to Investment Account and the balance is distributed among all partners in their old profit-sharing ratio as it becomes a free reserve.
39. (4) **Explanation:** The balance of the retiring Partner's Loan Account is shown in the liabilities side of the Balance Sheet till the final payment is made to him/her.
40. (2) **Explanation:** Workmen Compensation Reserve, to the extent of claim, is a liability and is transferred to Workmen Compensation Claim Account. Balance is distributed among all partners in their old profit-sharing ratio as it becomes a free reserve.
41. (4) **Explanation:** When the amount of Workmen's Compensation claim exceeds the amount of Workmen Compensation Reserve, it means liability is more than the reserve. The excess claim amount is debited to Revaluation Account being a loss and credited to Workmen Compensation Claim Account.
42. (4) **Explanation:** When fall in value of investment exceeds the reserve amount which is created to meet loss due to fall in value, it is a loss for the firm. Hence, the amount is debited to Revaluation Account and credited to Investment Account.

43. (1) **Explanation:** Old profit-sharing ratio between Sudha : Ranjan : Monty is 3 : 2 : 1.

Sudha's profit share (3/6) is taken by Rajan and Monty in ratio 2 : 3.

Hence, Ranjan's New Profit Share = Old Profit Share + [Share taken from Sudha's profit share]

$$= 2/6 + [3/6 \times 2/5]$$

$$= 2/6 + 6/30 = 16/30$$

Monty's New Profit share = Old Profit Share + [Share taken from Sudha's profit share]

$$= 1/6 + [3/6 \times 3/5]$$

$$= 1/6 + [9/30] = 14/30$$

New Profit-sharing Ratio between Ranjan and Monty = 16 : 14 or 8 : 7.

44. (1) **Explanation:**

Bad Debts A/c	...Dr.	₹ 7,000	
To Sundry Debtors A/c			₹ 7,000
(Amount due to Manan and 80% of amount due to Hanuma written off)			
Provision for Doubtful Debts A/c	...Dr.	₹ 10,000	
To Bad Debts A/c			7,000
To Revaluation A/c			3,000

(Bad Debts transferred to Provision for Doubtful Debts Account and excess balance

of Provision for Doubtful Debts transferred to Revaluation Account)

**Note:** Total Bad Debts = ₹ 2,000 (Due from Manan) + ₹ 5,000 (i.e., .80 of ₹ 6,250: Due from Hanuma) = ₹ 7,000;

Provision for Doubtful Debts = (₹ 2,58,250 – ₹ 7,000 – ₹ 1,250) × 5/100 = ₹ 12,500.

45. (1) **Explanation:**

Particulars	Rohit (₹)	Vijay(₹)
New Capital (₹ 13,12,500 in the ratio 3 : 2)	7,87,500	5,25,000
Existing Capital after all adjustments	6,87,750	3,20,250
Amount to be brought (+)/Paid off (–)	(+) 99,750	(+) 2,04,750

46. (3) **Explanation:**

Particulars	Manish (₹)	Ishan (₹)
New Capital (₹ 10,08,000* in the ratio 3 : 1)	7,56,000	2,52,000
Existing Capital after all adjustments	6,87,750	3,20,250
Amount to be brought (+)/Paid off (–)	(+) 68,250	(–) 68,250

\*Total Capital of Reconstituted Firm = ₹ 6,87,750 + ₹ 3,20,250 = ₹ 10,08,000.

47. (2) **Explanation:** Total Capital of the Reconstituted Firm:

₹

Capital A/cs of Continuing Partners:

Amar	4,87,750
Arth	4,20,250
Shortage of Cash [₹ 4,92,000 (Paid to Alok) – ₹ 52,000 (Cash and Bank Balance Available) + ₹ 10,000 (Amount of Cash and Bank to be maintained)]	4,50,000
Total Capital of the Reconstituted Firm	13,58,000

Particulars	Amar (₹)	Arth (₹)
I. New Capital (₹ 13,58,000 in the ratio 3 : 2)	8,14,800	5,43,200
II. Existing Capital after all adjustments	4,87,750	4,20,250
III. Amount to be brought (I – II)	(+) 3,27,050	(+) 1,22,950

48. (1) **Explanation:**

Particulars	Daksh (₹)	Yash (₹)
New Capital (₹ 5,60,000* in the ratio 4:3)	3,20,000	2,40,000
Existing Capital after all adjustments	1,95,100	1,68,100
Amount to be brought (+)/Paid off (–)	(+) 1,24,900	(+) 71,900

\*Total Capital of Reconstituted Firm = ₹ 1,95,100 + ₹ 1,96,800 + ₹ 1,68,100 = ₹ 5,60,000.

49. (2) **Explanation:** Retiring Partner is compensated for foregoing his profit share in favour of all or some of the partners continuing as partners. The compensation is paid by the continuing partners in their gaining ratio.

50. (1) **Explanation:** New Profit-sharing Ratio – Old Profit-sharing Ratio is the formula for determining Gaining Ratio.

51. (3) **Explanation:** Accumulated profits are credited to all the partners before reconstitution of the firm in their old profit-sharing ratio because the profits were earned before the retirement of the partner.

52. (3) **Explanation:** Accumulated losses are debited to all the partners before reconstitution of the firm in their old profit-sharing ratio because they were incurred before the retirement of the partner.

53. (2) **Explanation:** Debit balance of ₹ 12,000 in the Profit & Loss Account is transferred to the debit of the Capital Accounts of Hari, Ram and Sharma equally because (1) the loss is for the periods before the retirement of Hari, and (2) Profit-sharing Ratio is not given means profits and losses are shared equally.

54. (3) **Explanation:** C's share of Goodwill = ₹ 9,000, which is contributed by A and B in their gaining ratio, i.e., 5 : 4. Thus,

A's Contribution = ₹ 9,000 × 5/9 = ₹ 5,000;

B's Contribution = ₹ 9,000 × 4/9 = ₹ 4,000.

**Note:** Unless agreed otherwise, gaining ratio of continuing partners will be same as their old profit-sharing ratio.

55. (3) **Explanation:** Firm's Goodwill = ₹ 30,000

B's share of Goodwill = ₹ 30,000 × 2/5 = ₹ 12,000, which is contributed by A and C in their gaining ratio, i.e., 2 : 1. Thus,

A's Contribution = ₹ 12,000 × 2/3 = ₹ 8,000;

C's Contribution = ₹ 12,000 × 1/3 = ₹ 4,000.

**Note:** Unless agreed otherwise, gaining ratio of continuing partners will be same as their old profit-sharing ratio.

56. (1) **Explanation:**

	₹	₹
Balance of capital account		2,01,000
Less: Investment taken over	58,000	
Transfer to Loan	1,23,000	1,81,000
Debtors taken (Let Total Debtors = ₹ 100, Debtors Taken 20% = ₹ 20)		20,000
Total Debtors = ₹ 20,000 × ₹ 100/₹ 20 = ₹ 1,00,000.		



57. (2) **Explanation:** Amount Transferred to B's Loan A/c = ₹ 50,000

(Balance in Capital A/c) + ₹ 6,000 (General Reserve: ₹ 15,000 × 2/5) + ₹ 12,000 (Goodwill: ₹ 30,000 × 2/5) + ₹ 2,820 (Revaluation Profit: ₹ 7,050 × 2/5) = ₹ 70,820.

58. (2) **Explanation:** Amount due to Mohan = ₹ 1,50,000 + ₹ 1,25,500 + ₹ 4,000 + ₹ 62,500 (50% of goodwill) + ₹ 12,500 (50% of profit on revaluation) = ₹ 3,54,500.

59. (3) **Explanation:** Calculation of total Capital of new firm after Bimal's retirement:

Total Capital of New Firm = ₹ 1,31,600 (Amit) + ₹ 67,600 (Chand) = ₹ 1,99,200

Calculation of actual cash to be paid or brought:

Particulars	Amit (₹)	Chand (₹)
(a) New capital (₹ 1,99,200 in the ratio of 2 : 1)	1,32,800	66,400
(b) Adjusted old Capital	1,31,600	67,600
Amount to be brought/(Paid) [a – b]	1,200	(1,200)

60. (3) **Explanation:** Total Capital of the new firm = ₹ 4,80,000

A's Capital for 5/8 share should be (₹ 4,80,000 × 5/8) = ₹ 3,00,000

However, his existing Capital = ₹ 2,00,000

Hence, amount to be brought by A = ₹ 1,00,000

C's Capital for 3/8 share should be (₹ 4,80,000 × 3/8) = ₹ 1,80,000

However, his existing Capital is = ₹ 1,00,000

Hence, amount to be brought by C = ₹ 80,000

B's balance of ₹ 1,50,000 is to be paid.

61. (2) **Explanation:** Total Capital of new firm (Given) = ₹ 56,000

Particulars	Pihu (₹)	Nita (₹)
(a) Divide total capital of ₹ 56,000 in 5 : 3	35,000	21,000
(b) Adjusted Capitals of Pihu and Nita	39,300	18,300
Cash to be brought/(paid) [a – b]	(4,300)	2,700

## 2. CASE STUDY BASED MCQS

1. A. 4. **Explanation:** Gain of a Partner = New Profit Share – Old Profit Share

A's Gain =  $\frac{3}{5} - \frac{1}{3} = \frac{4}{15}$

C's Gain =  $\frac{2}{5} - \frac{1}{3} = \frac{1}{15}$

Hence, Gaining Ratio = 4/15: 1/15 or 4 : 1.

B. 2. **Explanation:**

Dr.		REVALUATION ACCOUNT		Cr.	
Particulars	₹	Particulars		₹	
To Machinery A/c	18,000	By Building A/c		15,000	
To Workmen Compensation Claim A/c	10,000	By Stock A/c		11,500	
		By Loss transferred to Capital A/cs:			
		A	500		
		B	500		
		C	500		1,500
	28,000				28,000

C. 1. **Explanation:** Total Profit = ₹ 50,000 + ₹ 40,000 + ₹ 80,000 + ₹ 70,000 = ₹ 2,40,000

Average Profit = Total Profits/Number of years

= ₹ 2,40,000/4 = ₹ 60,000

Firm's Goodwill = Average Profits × No of Years' Purchase

= ₹ 60,000 × 3 = ₹ 1,80,000.



- D. 3. **Explanation:** Goodwill will be debited to Capital Accounts of A and C in their gaining ratio, i.e., 4 : 1 and credited to B's Capital Account. Thus, Capital Accounts of A and C will be debited by ₹ 48,000 and ₹ 12,000 respectively and B's Capital Account will be credited by ₹ 60,000.

E. 2. **Explanation:**

PARTNERS CAPITAL ACCOUNTS							
Dr.							Cr.
Particulars	A	B	C	Particulars	A	B	C
To Advertisement Suspense A/c	14,000	14,000	14,000	By Balance b/d	90,000	90,000	90,000
To Revaluation A/c (Revaluation loss)	500	500	500	By A's Capital A/c	...	48,000	...
To B's Capital A/c	48,000	...	12,000	By C's Capital A/c	...	12,000	...
To B's Loan A/c (Bal. Fig.)	...	1,35,500	...	By Cash/Bank A/c (Bal. Fig.)	1,34,500	...	44,500
To Balance c/d (WN)	1,62,000	...	1,08,000				
	2,24,500	1,50,000	1,34,500		2,24,500	1,50,000	1,34,500

**Working Note:**

Total Capital of the firm before retirement of B = ₹ 2,70,000, which will be the capital of reconstituted firm in profit-sharing ratio of A and C. Thus,

A's Capital in reconstituted firm = ₹ 2,70,000 × 3/5 = ₹ 1,62,000;

C's Capital in reconstituted firm = ₹ 2,70,000 × 2/5 = ₹ 1,08,000.

2. A. 2. **Explanation:** Unless agreed otherwise, Gaining Ratio of remaining or continuing partners is same as their old profit-sharing ratio. Thus, Gaining Ratio of Ajay and Ashish is 6 : 4 or 3 : 2.

- B. 4. **Explanation:** Total Profit = (₹ 1,26,000 + ₹ 30,000) + ₹ 1,74,000 = ₹ 3,30,000

Average Profit = Total Profits/Number of years

= ₹ 3,30,000/2 = ₹ 1,65,000

Firm's Goodwill = Average Profits × No of years' purchase

= ₹ 1,65,000 × 2 = ₹ 3,30,000

Akash's share of Goodwill = ₹ 3,30,000 × 5/15 = ₹ 1,10,000.

- C. 4. **Explanation:** Akash's Share of Goodwill ₹ 1,10,000 will be debited to Ajay and Ashish Capital Accounts in their Gaining Ratio, i.e., 3 : 2.

D. 3. **Explanation:**

AKASH'S CAPITAL ACCOUNT							
Dr.							Cr.
Particulars	₹			Particulars		₹	
To Drawings A/c	50,000			By Balance b/d		10,00,000	
To Investment A/c	4,500			By General Reserve A/c (WN 2)		20,000	
To Akash's Loan A/c (Bal. Fig.)	10,77,000			By Revaluation A/c (WN 3)		1,500	
				By Ajay's Capital A/c (WN 1)		66,000	
				By Ashish's Capital A/c (WN 1)		44,000	
	11,31,500					11,31,500	

**Working Notes:**

1. Akash's Share in Goodwill = Goodwill of the firm × Akash's Share of Profit = ₹ 3,30,000 × 5/15 = ₹ 1,10,000, which is contributed by Ajay and Ashish in their Gaining ratio, i.e., 3 : 2. Thus, Ajay contributes ₹ 66,000 and Ashish contributes ₹ 44,000.

2. Akash's Share in General Reserve = ₹ 60,000 × 5/15 = ₹ 20,000.

3. Akash's Share in Revaluation (Gain) = ₹ 4,500\* × 5/15 = ₹ 1,500.

\*As unrecorded investments were taken by the retiring partner, the entries passed would be as follows:

Investment A/c	...Dr.	₹ 4,500	
To Revaluation A/c			₹ 4,500
Akash's Capital A/c	...Dr.	₹ 4,500	
To Investment A/c			₹ 4,500

3. A. 4. **Explanation:** Old Profit-sharing Ratio of *B*, *G* and *M* = 7 : 8 : 5

Gaining Ratio of *B* and *G* = ₹ 27,000 : ₹ 36,000 or 3 : 4

New Profit Share of Continuing Partner = Old Profit Share + Profit Share Acquired

*B*'s New Profit Share =  $7/20 + (3/7 \times 5/20) = 7/20 + 3/28 = 64/140$

*G*'s New Profit Share =  $8/20 + (4/7 \times 5/20) = 8/20 + 1/7 = 76/140$

New profit-sharing ratio = 64/140 : 76/140 or 16 : 19.

B. 3. **Explanation:**

REVALUATION ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Motor Vehicles A/c	20,000	By Investment A/c	50,000
To Provision for Doubtful Debts A/c	12,000	By Stock A/c	12,000
To Profit transferred to Capital A/cs:		By Furniture A/c	10,000
<i>B</i>	14,000		
<i>G</i>	16,000		
<i>M</i>	10,000		
	40,000		
	72,000		72,000

C. 2. **Explanation:** *B*'s Share (5/20) of Goodwill = ₹ 27,000 + ₹ 36,000 = ₹ 63,000

Firm's Goodwill = ₹ 63,000 × 20/5 = ₹ 2,52,000.

D. 2. **Explanation:**

PARTNERS' CAPITAL ACCOUNTS							
Dr.							Cr.
Particulars	<i>B</i>	<i>G</i>	<i>M</i>	Particulars	<i>B</i>	<i>G</i>	<i>M</i>
To <i>M</i> 's Capital A/c	27,000	36,000	...	By Balance b/d	2,20,000	1,90,000	1,60,000
To Revaluation A/c (unrecorded furniture)	...	...	10,000	By Investment Fluctuation			
To <i>M</i> 's Loan A/c	...	...	2,38,000	Reserve A/c	21,000	24,000	15,000
To Balance c/d	2,28,000	1,94,000	...	By Revaluation A/c (profit)	14,000	16,000	10,000
				By <i>B</i> 's Capital A/c	...	...	27,000
				By <i>G</i> 's Capital A/c	...	...	36,000
	2,55,000	2,30,000	2,48,000		2,55,000	2,30,000	2,48,000

#### Working Notes:

1. *M* sold his share to *B* and *G*. The consideration of ₹ 27,000 + ₹ 36,000 will be credited to his Capital Account and the respective amount will be debited to *B*'s Capital Account and *G*'s Capital Account.
2. Investment Fluctuation Reserve is credited to all Partners' Capital Accounts in their old profit-sharing ratio.
3. Unrecorded furniture taken over by the retiring partner is debited to his capital account.

### 3. SEQUENCE BASED MCQS

1. 1. **Explanation:** Entries are passed in the following order:

- A. Calculate Net Effect of Reserves, Accumulated Profits and Losses because an entry is to be passed for the net amount.
- B. Calculate Sacrificed/(Gained) Profit Share of each Partner because Sacrificing Partner and Gaining Partner Capital/Current Accounts are to be debited/credited for the net amount.
- C. Calculate share of Gaining Partners and Sacrificing Partners in the Net Effect of Reserves, Accumulated Profits and Losses as amount is to be debited/credited to Partners' Capital/Current Accounts in their Sacrificing/Gaining Ratio.
- D. Pass single adjustment entry by adjusting Partners' Capital/Current A/cs.

2. 3. **Explanation:** The correct order or sequence is:
- D. Calculate Net Effect of Revaluation of Assets and Reassessment of Liabilities by crediting/debiting Revaluation Account for change in values of assets and liabilities at the time of retirement.
  - A. Calculate Sacrificed/(Gained) Profit Share of each Partner because their Capital/Current Accounts of partners are to be debited/credited.
  - B. Calculate proportionate amount of Net Effect of Revaluation of Assets and Reassessment of Liabilities for each partner.
  - C. Pass single adjustment entry by adjusting Partners' Capital/Current A/cs.
3. 4. **Explanation:** The correct order or sequence is:
- B. Ascertain Adjusted Capital (after all adjustments) of continuing partners because it is the total capital of the firm to determine the capital.
  - D. Calculate Proportionate Capital of continuing partners on the basis of total capital of the new firm and new profit-sharing ratio.
  - A. Determine Surplus Capital or Deficit Capital by comparing Present Adjusted Capital and Proportionate Capital to determine the amount to be brought or withdrawn by each partner.
  - C. Adjust Surplus Capital or Deficit Capital either in cash or through respective partner's Current Account.
4. 2. **Explanation:** The correct order or sequence is:
- D. Compute Adjusted Capitals (after all adjustments) of continuing partners, which is the total capital of the firm.
  - C. Capital of new firm is determined by totaling capitals of each partner *i.e.*, sum of adjusted capitals of continuing partners.
  - A. Calculate new capitals of continuing partners by dividing total capital of new firm in their new profit-sharing ratio.
  - E. Determine Surplus Capital or Deficit Capital of each continuing partner by comparing his new capital with adjusted capital.
  - B. Pass necessary Journal entry for adjusting the Surplus Capital/Deficit Capital.
5. 3. **Explanation:** The correct order or sequence is:
- C. Compute New Profit-sharing Ratio after retirement of a partner.
  - B. Determine adjusted capitals of each of the continuing partners
  - A. Calculate new capital of each continuing partner by multiplying total capital of all partners before adjustment with his new profit share.
  - D. Find Surplus Capital or Deficit Capital of each continuing partner by comparing his new capital with adjusted capital as partners with surplus capital are to be refunded and partners with deficient capital are to bring capital.
  - E. Pass necessary Journal entry for adjusting the Surplus Capital/Deficit Capital

#### 4. MATCHING QUESTIONS

1. 2. **Explanation:**
- A. Goodwill appearing the Balance Sheet is written off in the old profit-sharing ratio at the time of retirement of a partner. **[List II (I)]**
  - B. Debit Balance of Profit & Loss Account is written off in old profit-sharing ratio it being loss for the period before retirement. **[List II (I)]**
  - C. Goodwill valued by Super Profits method on Retirement is borne by the gaining partners in their Gaining Ratio. **[List II (II)]**
  - D. Profit post retirement is distributed among continuing partners in their new profit-sharing ratio. **[List II (III)]**
2. 3. **Explanation:**
- A. Workmen Compensation Reserve is fully exhausted. Hence amount to be credited to N's Capital Account is nil. **[List II, Option (III)]**
  - B. Market value of the Investment is more than the book value, Total Investment Fluctuation Reserve becomes free reserve and distributed among partners. Thus, B's share is 1/3rd of ₹ 60,000 *i.e.*, ₹ 20,000. **[List II, Option (I)]**

- C. Workmen Compensation Claim is nil, hence total Workmen Compensation Reserve becomes free reserve and is distributed among partners. Thus, B's share is 1/3rd of ₹ 90,000, i.e., 30,000 **[List II, Option (II)]**
- D. Investment Fluctuation Reserve is adjusted to the extent of ₹ 30,000. Thus, ₹ 30,000 will be distributed among partners. Z's profit share is 1/3rd. Therefore, his Capital Account will be credited by ₹ 30,000. **[List II, Option (IV)]**

**3. 4. Explanation:**

- A. Unrecorded Liability is recorded in the debit side of Revaluation Account, Liability Account being credited and Revaluation Account being debited. **[List II, Option (I)]**
- B. Bad Debts Recovered are transferred to the credit of Revaluation Account, it being a gain (profit). **[List II, Option (II)]**
- C. Unrecorded asset taken by partner is debited to Partner's Capital Account and credited to Revaluation Account. **[List II, Option (IV)]**
- D. Expenses on revaluation of assets are debited to Revaluation Account, being an expense. **[List II, Option (III)]**

**4. 2. Explanation:**

- A. When there is no claim against Workmen Compensation Reserve, the amount of Reserve is appropriated among all partners in their old profit-sharing ratio. **[List II, Option (II)]**
- B. When amount of claim is more than the Workmen Compensation Reserve, the amount of Reserve is transferred to Workmen Compensation Claim A/c and excess of claim over reserve is debited to Revaluation A/c. **[List II, Option (III)]**
- C. When amount of claim is equal to the Workmen Compensation Reserve, amount of Reserve is transferred to Workmen Compensation Claim A/c. **[List II, Option (IV)]**
- D. When amount of claim is less than the Workmen Compensation Reserve, amount of Reserve to the extent of claim is transferred to Workmen Compensation Claim A/c and Excess balance is appropriated among all partners in their old profit-sharing ratio. **[List II, Option (I)]**

**5. 1. Explanation:**

- A. When Market Value of Investment is equal to its Book Value, the amount of reserve is appropriated among all partners in their old profit-sharing ratio. **[List II, Option (III)]**
- B. When Market Value of Investment is higher than its Book Value, the amount of reserve is distributed among all partners in their old profit-sharing ratio and also increase in the value of Investment is credited to Revaluation Account, which is distributed among all partners in their old profit-sharing ratio. **[List II, Option (I)]**
- C. When fall in Value of Investments is equal to Investment Fluctuation Reserve, the amount of reserve is adjusted against the fall in the book value of investment. **[List II, Option (IV)]**
- D. When Fall in Value of Investment is less than Investment Fluctuation Reserve, the amount of reserve to the extent of fall in value is adjusted and balance is appropriated among all partners in their old profit-sharing ratio. **[List II, Option (V)]**
- E. When fall in Value of Investments is more than Investment Fluctuation Reserve, the amount of reserve is adjusted against the fall in value of investments and excess of fall in value of investments is debited to Revaluation Account, which is distributed among all partners in their old ratio. **[List II, Option (II)]**

## **5. COMBINATION WITH SINGLE ANSWER QUESTIONS**

- 1. 2. **Explanation:** At the time of retirement of a partner except for realisation of assets all other adjustments are made.
- 2. 3. **Explanation:** At the time of retirement of a partner, sacrificing ratio and net worth of the firm are not computed because sacrificing ratio of the retiring partner is known and net worth is not relevant for retirement.

3. 1. **Explanation:** Liabilities assumed by the Retiring Partner, Share in reserves and accumulated profits and share of goodwill are credited to Retiring Partner's Capital Account. Entries at serial (A) and (C) are debited to his Capital Account.
4. 2. **Explanation:** Assets taken over by the Retiring Partner, drawings by him and share in undistributed losses are debited to Retiring Partner's Capital Account. Entry (item) at serial (A) is credited to his Capital Account while entry (item) at (E) is neither debited or credited, it being depreciation on fixed assets.
5. 2. **Explanation:** Gain (Profit) on Revaluation Account, Profit & Loss Account (Cr.) and Contingency Reserve are credited to continuing Partners' Capital Accounts at the time of retirement of a partner since they are for the period before the retirement of the partner.
6. 3. **Explanation:** All entries (items) except Accumulated Depreciation are debited to all Partners' (including Retiring Partner) Capital Accounts in their profit-sharing ratio at the time of retirement of a partner. Accumulated depreciation provided till date on the fixed assets of the firm.
7. 1. **Explanation:** Profit & Loss Account (Cr.), Workmen Compensation Reserve and Investment Fluctuation Reserve are credited to all Partners' (including Retiring Partner) Capital Accounts at the time of retirement of a partner because Profit & Loss Account (Cr.) is undistributed profit while other two entries (items) are in the nature of free reserves.
8. 2. **Explanation:**
  - (A) Increase in Provision for Doubtful Debts—it is debited to Revaluation Account.
  - (B) Acceptance Received from Debtors—It is not accounted in Revaluation Account.
  - (C) Providing Outstanding Expenses—It is debited to Revaluation Account.
  - (D) Bad Debts Recovered—it is credited to Revaluation Account.
  - (E) Undervaluation of Plant and Machinery—it is credited to Revaluation Account.
9. 4. **Explanation:**
  - (A) Bad Debts over and above Provision for Doubtful Debts—It is debited to Revaluation A/c.
  - (B) Fall in value of Investment more than Investment Fluctuation Reserve—It is debited to Revaluation A/c.
  - (C) Revaluation Expenses paid—It is debited to Revaluation A/c.
  - (D) Acceptance given to Creditors—It is not accounted in Revaluation A/c.
  - (E) Workmen Compensation Claim in excess of Workmen Compensation Reserve—It is debited to Revaluation A/c.
10. 1. **Explanation:**
  - (A) Provision for Doubtful Debts Written Back—it is credited to Revaluation Account.
  - (B) Bad Debts Recovered—it is credited to Revaluation Account.
  - (C) Providing for Warranties—It is debited to Revaluation Account.
  - (D) Creditors no longer Payable—it is credited to Revaluation Account.
  - (E) Overvaluation of Plant—it is debited to Revaluation Account.