

ANSWERS

1. MULTIPLE CHOICE QUESTIONS

1. (1) **Explanation:** Goodwill = (Average Profit* × 2) – 20% [2(Average Profit)]

$$= (\text{₹ } 9,000 \times 2) - 20\% \text{ of ₹ } 18,000$$

$$= \text{₹ } 18,000 - \text{₹ } 3,600 = \text{₹ } 14,400$$

$$\text{*Average profit} = (\text{₹ } 8,200 + \text{₹ } 9,000 + \text{₹ } 9,800)/3 = \text{₹ } 9,000$$

R's Share of Goodwill = ₹ 14,400 × 2/6 = ₹ 4,800, which is contributed by W and V in their gaining ratio, i.e., 3 : 1. Thus, W will give ₹ 3,600 (i.e., ₹ 4,800 × 3/4) and V will give ₹ 1,200 (i.e., ₹ 4,800 × 1/4).

2. (4) **Explanation:** Interest is payable @ 6% per annum on the amount unpaid to the Executor of the Deceased Partner in the absence of any agreement among partners as is provided in the Indian Partnership Act, 1932.

3. (1) **Explanation:** Deceased partner's share of profit for the year of death is estimated on the following basis:

(i) Time, i.e., on the basis of profits of the past year or years; or

(iii) Turnover or Sales of the partnership firm by applying the rate of net profit of the last year.

4. (4) **Explanation:** Since it is a cumbersome task to prepare Final Accounts at the time of death of a partner as the same can happen anytime during the year. Now, on the date of death of a partner, the business might have earned some profit from the date of last Balance Sheet till date of death. Hence the profit is estimated for the period for which deceased partner was alive during the year, and his/her proportionate profit till the date of his/her death is given by opening Profit and Loss Suspense A/c. Thus, entry passed is:

Profit & Loss Suspense A/c

...Dr.

To Deceased Partner's Capital A/c

5. (3) **Explanation:** After making all adjustments, amount due to deceased partner is transferred to Executor's Account since payment can be paid to a living person and not to deceased person. The executor disburses the amount to legal heirs.

6. (4) **Explanation:** V died on 5th November, 2021, total number of days for which profit is due to him is calculated from 1st April to 5th November which is as follows:

Total Number of days for which V was partner = 30 (April) + 31 (May) + 30 (June) + 31 (July) + 31 (August) + 30 (September) + 31 (October) + 5 (November) = 219 days

Total Estimated Profit for 219 Days = ₹ 2,64,000 × 219/365 = ₹ 1,58,400

V's share of profit = ₹ 1,58,400 × 1/5 = ₹ 31,680.

7. (4) **Explanation:** Share of profit of deceased partner till the date of death may be calculated based on previous year's profit or average profit of past years. It may also be calculated based on Sales or Turnover.

8. (2) **Explanation:** Estimated share of profit of the deceased partner is debited to Profit & Loss Suspense Account, which is later transferred to Profit & Loss Appropriation Account.

9. (3) **Explanation:** Determined profit means profit is not estimated but is determined by preparing the financial statements. In case financial statements have been prepared, profit is distributed through Profit & Loss Appropriation Account.

10. (4) **Explanation:** Amounts, such as share in accumulated losses, drawings, interest on such drawings, Goodwill written off, etc., are debited as these will reduce the capital.

11. (3) **Explanation:** Goodwill appearing in the assets side is written off, which means it is debited to the Capital Accounts of all partners in their old profit-sharing ratio. Interest on Capital is credited to Capital Account. Goodwill appearing in the assets side of the Balance Sheet is written off by debiting Capital Accounts of the partners.

Hence, share of Goodwill appearing in the assets side of the Balance Sheet is not credited but debited to his Capital Account.

- 12. (2) Explanation:** The purpose for which Deceased Partner's Capital Account is prepared is to determine the amount payable to him or receivable from him on retirement. Therefore, loan given by the firm to him and interest thereon is also transferred to Capital Account to determine the amount payable to the Executor.
- 13. (4) Explanation:** The purpose for which Deceased Partner's Capital Account is prepared is to determine the amount payable to him or amount receivable from him. Loan by Partner and interest thereon is added to determine the amount payable or receivable.
- 14. (4) Explanation:** Profit from 1st April, 2021 to 31st August, 2021 on the basis of sales:
 If sales are ₹ 8,00,000 and Profit is ₹ 1,12,000
 Profit % of 2020–21 = ₹ 1,12,000/₹ 8,00,000 × 100 = 14%
 Profit is assumed to be earned uniformly at the same rate.
 If the sales from 1st April, 2021 to 31st August, 2021 is ₹ 4,50,000
 Profit of the firm would be = ₹ 4,50,000 × 14/100 = ₹ 63,000
 P's Share of Profit = ₹ 63,000 × 8/20 = ₹ 25,200.
- 15. (3) Explanation:** Executor of the deceased partner is entitled to claim the following amounts, which are credited to Deceased Partner's Capital Account:
- The amount standing to the credit of his Capital A/c.
 - His share in the value of Goodwill of the firm.
 - Interest on Capital, if provided in the partnership deed.
 - His share of Profit on the Revaluation of assets and reassessment of liabilities.
 - His share of the Undistributed Profits and Reserves.
 - His share of profit up to the date of his Death.
- The following amounts will be debited to Deceased Partner's Capital Account:
- Drawings till the date of death.
 - Interest on drawings, if provided in the partnership deed.
 - His share of Loss on the Revaluation of assets and reassessment of liabilities.
 - His share of Undistributed losses, such as debit balance of Profit and Loss Account, Advertisement Suspense Account, etc.
- 16. (3) Explanation:** Goodwill = Average Profits × Number of years' purchase
 = ₹ 33,000 × 3 = ₹ 99,000
 Average profits = (₹ 39,000 + ₹ 48,000 + ₹ 18,000 + ₹ 24,000 + ₹ 36,000)/5 = 33,000
 J's Share of Goodwill = ₹ 99,000 × 7/15 = ₹ 46,200.
 Estimated Profit till 30th September, 2021 = ₹ 39,000 × 6/12 = ₹ 19,500
 J's Share of Profit = ₹ 19,500 × 7/15 = ₹ 9,100
- 17. (4) Explanation:** Last year's profit/12 = Average profit earned per month in the last year.
 = ₹ 24,000/12 = ₹ 2,000
 R's Share in Profit for the current year = Monthly profit earned by the firm in last year × Months for which R was alive × R's share in profit sharing ratio
 = ₹ 2,000 × 3* × 4/16 = ₹ 1,500.
 *Time for which R is eligible for profits of the firm is 3 months, i.e., from 1st April, 2021 to 30th June, 2021.
- 18. (3) Explanation:**

K'S CAPITAL ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Revaluation A/c (Loss)	50,000	By Balance b/d	5,00,000
To Drawings A/c	50,000	By General Reserve	10,000
To Interest on Drawings A/c	1,500	By U's Capital A/c	18,000
To K's Executor's A/c (Given)	4,76,500	By G's Capital A/c	12,000
		By Interest on Capital A/c	15,000
		By Profit & Loss Suspense A/c (Balancing Figure)	23,000
	5,78,000		5,78,000

Working Notes:

1. K 's Share in Goodwill = Goodwill of the firm $\times K$'s Share
 $= ₹ 1,80,000 \times 1/6 = ₹ 30,000$, which is contributed by U and G in their gaining ratio, i.e., 3 : 2.

Thus,

U 's Contribution = ₹ 18,000 and G 's Contribution = ₹ 12,000.

2. Interest on Capital = ₹ 5,00,000 $\times 9/100 \times 4/12 = ₹ 15,000$
 3. Interest on Drawings = ₹ 50,000 $\times 18/100 \times 2^*/12 = ₹ 1,500$.
 *Interest on Drawings has been calculated for average period, i.e., 2 (i.e., 4/2) months, since nothing is mentioned specifically about date of drawings.
 4. K 's Share in General Reserve = ₹ 60,000 $\times 1/6 = ₹ 10,000$.
 5. K 's Share is Revaluation (Loss) = ₹ 3,00,000 $\times 1/6 = ₹ 50,000$.

19. (1) Explanation:

A'S CAPITAL ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Advertisement Suspense A/c	35,000	By Balance b/d	10,00,000
To Drawings A/c	80,000	By Revaluation A/c	1,50,000
To Interest on Drawings A/c	2,000	By M 's Capital and N 's Capital A/c*	1,12,500
To A's Executor's A/c	12,43,000	By Interest on Capital A/c	40,000
		By Profit & Loss Suspense A/c	57,500
	13,60,000		13,60,000

*Balancing Figure

A 's Share in Goodwill = Goodwill of the firm $\times A$'s Share

₹ 1,12,500 = Goodwill of the firm $\times 3/6$

Goodwill of the Firm = ₹ 2,25,000.

Working Notes:

1. A 's Share in Advertisement Suspense A/c = ₹ 70,000 $\times 3/6 = ₹ 35,000$
 2. A 's Share is Revaluation (Profit) = ₹ 3,00,000 $\times 3/6 = ₹ 1,50,000$
 3. Interest on Capital = ₹ 10,00,000 $\times 6/100 \times 8/12 = ₹ 40,000$
 4. Interest on Drawings = ₹ 80,000 $\times 2.5/100 = ₹ 2,000$.
20. (3) **Explanation:** Unrecorded liability is brought into books of the firm by debiting Revaluation Account and crediting Liability Account, as there is an increase in Liability.
21. (4) **Explanation:** Investment Fluctuation Reserve is appropriation of profit to meet the fall in the value of investments. When Market value of Investment is more than its Book value, the difference between Market value and book value is transferred to Revaluation Account.
 Investment Fluctuation Reserve becomes a free reserve and is distributed among all partners in their profit-sharing ratio.
22. (3) **Explanation:** When claim amount is more than the amount of Workmen Compensation Reserve, excess amount is debited to Revaluation Account because the loss will be borne by all the partners in their old ratio. Therefore, besides transferring ₹ 24,000 to Claim Account from Reserve, further ₹ 24,000 will be transferred to Claim Account by debiting Revaluation Account.
 *Amount transferred to Revaluation Account pertains to the excess of claim over existing Reserve.
23. (2) **Explanation:** At the time of death of a partner unrecorded asset if any are brought into the books of the firm by debiting Asset Account (in this case Investment Account) and crediting Revaluation Account.
24. (3) **Explanation:** Investment Fluctuation Reserve is created out of firm's profits to meet the fall in the market value of investments. In this case, fall in the value of Investment is equal to Investment Fluctuation Reserve and therefore total amount of Investment Fluctuation Reserve will be adjusted to offset fall in the value of Investment and balance in the reserve will be Nil.

25. (2) Explanation:

Dr.		REVALUATION ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Machinery	60,000	By Stock	18,000	
To Provision for Doubtful Debts*	8,000	By Loss (WN)	50,000	
	68,000		68,000	

*Balancing Figure

Working Note:

J's share in loss on Revaluation amounted to ₹ 10,000, and his share in profit is 2/10.

Since J's share of total Revaluation Loss is ₹ 10,000, which is equivalent to 2/10 of total loss, hence, Total Revaluation loss shall be = ₹ 10,000 × 10/2 = ₹ 50,000.

As per Revaluation Account, Provision for Doubtful Debts is the balancing figure on the debit side.

Provision for Doubtful Debts is equal to ₹ 8,000 and it is 5% of Debtors.

Let Book value of Debtors be x

$$5\% \text{ of } x = ₹ 8,000$$

$$x = ₹ 1,60,000$$

Debtors in the new Balance Sheet = ₹ 1,60,000 (Existing Debtors) – ₹ 8,000 (Provision for Doubtful Debts) = ₹ 1,52,000.

- 26. (3) Explanation:** Unless agreed otherwise, gaining ratio of continuing partners is same as their old profit-sharing ratio because it is assumed that the remaining or continuing partners will take the share of deceased partner in their old profit-sharing ratio.

- 27. (3) Explanation:** In the question, we have Share of Profit of T as ₹ 1,40,000

If Rate of Profit be R % of Sales

It means, T's Share of Profits = $7/12 \times ₹ 7,50,000 \times R/100$

$$₹ 1,40,000 = 7/12 \times ₹ 7,50,000 \times R/100$$

$$R = ₹ 1,40,000 / ₹ 4,375 = 32\%$$

As the profit is assumed to be earned uniformly at the same rate. Thus,

Profit for year 2020–21 = 32% of Sales

$$₹ 7,04,000 = 32/100 \times \text{Sales}$$

$$\text{Sales for 2020–21} = ₹ 22,00,000.$$

28. (1) Explanation:

Dr.		REVALUATION ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Revaluation A/c (Loss)	1,00,000	By Balance b/d*	10,00,000	
To Drawings	80,000	By M's Capital A/c	18,750	
To Interest on Drawings	4,000	By G's Capital A/c	56,250	
To A's Executor A/c (Balancing figure)	9,88,500	By Interest on Capital	40,000	
		By Profit & Loss Suspense A/c	57,500	
	11,72,500		11,72,500	

*Interest on Capital:

$$\text{Opening Capital} \times 6/100 \times 8/12 = ₹ 40,000$$

$$\text{Opening Capital} = ₹ 10,00,000.$$

Working Notes:

- A's Share in Goodwill = Goodwill of the firm × A's Share
= ₹ 2,25,000 × 2/6 = ₹ 75,000, which is contributed by M and G in their gaining ratio, i.e., 1 : 3.
Thus, M's Contribution is ₹ 18,750 and G's Contribution is ₹ 56,250.
- A's Share in Revaluation Loss = ₹ 3,00,000 × 2/6 = ₹ 1,00,000.
- Interest on Drawings = ₹ 80,000 × 15/100 × 4*/12 = ₹ 4,000.

*It has been calculated on Average Period, i.e., 4 (i.e., 8/2) months.

29. (4) **Explanation:** When Workmen Compensation Claim is more than the Workmen Compensation Reserve, the excess of claim over Workmen Compensation Reserve (In this case, ₹ 35,000 – ₹ 25,000 = ₹ 10,000, which is a loss that is debited to Revaluation Account.
30. (2) **Explanation:** When Market Value of Investment is more than the Book Value, it means Investment is revalued at a value higher than its book value, which is credited to Revaluation Account.
31. (1) **Explanation:** Except in Entry (1), in all cases, Revaluation Account is debited or credited.
32. (4) **Explanation:** Except for entry (4), which affects A's Capital Account since his Drawings Account is transferred to the debit of his Capital Account. Remaining entries (items) have bearing on Capitals of M and G.
33. (4) **Explanation:** The amount that is due to the deceased partner is transferred to Executor's Account to whom amount is paid since it cannot be paid to the deceased person.
34. (4) **Explanation:** Unless different profit-sharing ratio is agreed among continuing partners at the time of Death of a partner, continuing partners acquire profit share from the deceased partner in their old profit-sharing ratio. Hence, Gaining ratio is same as their old profit-sharing ratio.
35. (1) **Explanation:** At the time of death of a partner, valuation of firm's goodwill is estimated afresh. Hence, existing goodwill is written off from the books by debiting all partners in old profit-sharing ratio.
36. (3) **Explanation:** Deceased partner's share of profit may be estimated calculated on the basis of last year's profit (or average of past few years) or on the basis of Sales or Turnover applying net profit rate.
37. (1) **Explanation:** If all debtors are good, Provision for Doubtful Debts is not required and hence is written back. It being a gain (profit) for the firm is credited to Revaluation Account.
38. (2) **Explanation:** Unrecorded Assets are brought in the books at the time of death of a partner by debiting asset account and crediting Revaluation Account.
39. (2) **Explanation:** Investment Fluctuation Reserve, to the extent of fall in the value, is transferred to Investment Account and the balance is distributed among the old partners in their old profit-sharing ratio as it becomes a free reserve.
40. (4) **Explanation:** The balance of Executor's Account is payable to the Legal Heirs of the deceased partner. It being a liability is shown in the liabilities side of the Balance Sheet till the final payment is made.
41. (2) **Explanation:** If claim does not exist against Workmen Compensation Reserve, it is transferred to all Partners' Capital Accounts in their old profit-sharing ratio as it becomes a free reserve.
42. (4) **Explanation:** When the amount of Workmen's Compensation claim is more than the Reserve which is created to meet the same, it is a case of to re-assessment of liability and increase in liability is recorded on the debit side of Revaluation Account as it is a loss to the firm.
43. (4) **Explanation:** When fall in value of investment is more than the Reserve which is created to meet the fluctuations, i.e., loss due to fall in value. As value of investment has decreased beyond the assessment and decrease in Investment is recorded in the debit side of Revaluation Account as it is a loss to the firm.
44. (1) **Explanation:** Total Drawings = ₹ 1,80,000
Interest on Mohan's Drawings = ₹ 1,80,000 \times $\frac{15}{100} \times \frac{4}{12}$ = ₹ 9,000.
*Interest on Mohan's drawings is calculated for average period, i.e., for 4 or 8/2 Months.
45. (3) **Explanation:** When partners decide not to affect the book values of assets and liabilities or do not want to replace the existing values of assets and liabilities with the revised values, Deceased Partner's Capital Account is credited with the net effect of revaluation gain(profit) for his share and Gaining Partners' Capital Accounts are debited in their gaining ratio. It is because of the reason that the deceased partner does not benefit or loose due to change in values of assets and amounts of liabilities.
46. (4) **Explanation:** Revaluation Account being a nominal account, is debited by the losses and expenses and credited by incomes and gains. Thus, increase in the amount of liability or unrecorded liability being a loss for the firm, is debited to the Revaluation Account and credited to Liability Account.
47. (2) **Explanation:** Revaluation Account being a nominal account, is debited by the losses and expenses and credited by incomes and gains. Thus, increase in the value of asset and unrecorded asset being gain (profit) for the firm, is debited to the Asset Account and credited to Revaluation Account.

48. (3) **Explanation:** New Profit Share = Old Profit Share + Gained Share

Profit Share of S taken by C = $4/12 \times ₹ 60,000 / ₹ 1,00,000 = 1/5$

C's New Profit Share = $5/12 + 1/5 = 37/60$

Profit Share of S taken by R = $4/12 \times ₹ 40,000 / ₹ 1,00,000 = 2/15$

R's New Profit Share = $3/12 + 2/15 = 23/60$

Thus, new profit sharing-ratio of C and R = 37/60 : 23/60 or 37 : 23.

49. (4) **Explanation:**

Gaining Ratio of P and R is 3 : 2. Hence share of A in General Reserve (₹ 60,000, i.e., $3/8 \times ₹ 1,60,000$) will be debited to Capital Accounts of P and R in the ratio of 3 : 2. The Journal entry will be:

P's Capital A/c	...Dr.	₹ 36,000	
R's Capital A/c	...Dr.	₹ 24,000	
To A's Capital A/c			₹ 60,000

(A's share in General Reserve adjusted in Capital Accounts of Gaining Partners in their Gaining Ratio, i.e., 3 : 2)

50. (4) **Explanation:** Debit balance of Profit & Loss Account is debited to all Partners' Current Accounts (if capitals are fixed) in their old profit-sharing ratio at the time of death of a partner because it had been incurred in the period when he was a partner.

51. (2) **Explanation:**

Cash/Bank A/c	...Dr.	₹ 55,000	
To W's Executor's A/c			₹ 55,000

(Deficiency in W's Capital Account met by his executor)

Working Note:

Amount Payable to W after all adjustments for Reserves, Goodwill and Profits	₹ 1,50,000 Cr.
Less: Loan taken by W (₹ 2,00,000 + ₹ 5,000*)	₹ 2,05,000 Dr.
Deficiency of W's Capital A/c to be recovered from his Executor	₹ 55,000 Dr.

*Interest on Loan taken by W = $₹ 2,00,000 \times 10/100 \times 3/12 = ₹ 5,000$.

52. (1) **Explanation:** Amount due to M is ₹ 2,50,000 (Given). Furniture of Book Value of ₹ 50,000 is given at ₹ 50,000, balance (₹ 2,00,000) by issue of Bill Payable. Hence, the Journal entry.

53. (3) **Explanation:**

Amount Payable to P's Executor	₹ 1,80,000
Add: Profit on account of unrecorded Air Conditioner (₹ 10,500 × 2/7)	₹ 3,000
Total Amount Payable	₹ 1,83,000
Less: Amount settled by giving Air Conditioner	₹ 10,500
Amount Paid by Cheque	₹ 1,72,500

54. (4) **Explanation:** Revaluation expenses paid by a partner on behalf of the firm, are payable by the firm to the partner. Thus, Revaluation Account is debited and the Capital Account of the concerned partner is credited by the amount of expenses.

55. (2) **Explanation:** Revaluation expenses incurred and paid by the firm, are debited to Revaluation Account. Thus, Revaluation Account is debited and Cash or Bank Account is credited by the amount of expenses.

56. (2) **Explanation:** Revaluation Account being a nominal account, is debited by the losses and expenses and credited by incomes and gains. As the outstanding legal claim already provided in the books as liability but that is no longer payable, will be credited to Revaluation Account at the time of death of a partner.

57. (1) **Explanation:**

	Particulars	M	T	P
I.	Old Profit Share	4/9	3/9	2/9
II.	Gain/(Sacrifice)	$3/9 \times 4/7^*$	(3/9)	$3/9 \times 3/7^{**}$
III.	New Profit Share (I + II)	40/63	...	23/63

Hence, New profit-sharing ratio = 40/63 : 23/63 or 40 : 23.

*Share taken by M = $₹ 12,000 / ₹ 21,000 = 4/7$.

**Share taken by P = $₹ 9,000 / ₹ 21,000 = 3/7$.

58. (1) Explanation: Increase in value of Building	₹ 44,000
Decrease in value of Furniture	(₹ 16,000)
Gain(Profit) on Revaluation	<u>₹ 28,000</u>

Note: Bill Receivable of ₹ 20,000 was dishonoured, it will be recorded in the books as:

Debtor's A/c	...Dr.	₹ 20,000	
To Bills Receivable A/c			₹ 20,000

Thus, it will not affect Revaluation Account.

59. (3) Explanation: Increase in value of Stock	₹ 20,000
Increase in Provision for Doubtful Debts	(₹ 4,000)
Increase in Value of Building (Balancing Figure)	<u>₹ 20,000</u>
Gain (Profit) on Revaluation	<u>₹ 36,000*</u>

*S's share of Gain for 4/12 share = ₹ 12,000;

Gain (Profit) on Revaluation = ₹ 12,000 × 12/4 = ₹ 36,000

Thus, revised value of Building = ₹ 2,00,000 + ₹ 20,000 = ₹ 2,20,000.

60. (2) **Explanation:**

Bad Debts A/c	...Dr.	₹ 35,000	
To Sundry Debtors A/c			₹ 35,000

(Amount due to Karan and 70% of amount due to Arjun written off)

Revaluation A/c	...Dr.	₹ 55,500	
To Bad Debts A/c			₹ 35,000
To Provision for Doubtful Debts A/c			₹ 20,500

(Bad Debts and Provision for Doubtful Debts met through Revaluation Account)

Note: Total Bad Debts = ₹ 7,000 (Due from Karan) + ₹ 28,000 (i.e., 70% of ₹ 40,000: Due from Arjun) = ₹ 35,000;

Provision for Doubtful Debts = (₹ 4,57,000 – ₹ 35,000 – ₹ 12,000) × 5/100 = ₹ 20,500.

Note: ₹ 12,000 (recoverable from Arjun) is specifically stated to be recoverable on Arjun's insolvency.

Hence, it is a good debt. Provision for Doubtful Debts will not be made on it.

61. (1) **Explanation:** Last Year's Profit = ₹ 18,40,000

Abnormal Gain (Capital Gain on sale of shares) = ₹ 80,000; Abnormal Loss (Loss of Goods by Fire) = ₹ 60,000

Adjusted Normal Profit = ₹ 18,40,000 – ₹ 80,000 + ₹ 60,000 = ₹ 18,20,000

Expected Profit of Current Year = ₹ 18,20,000 + 10% of ₹ 18,20,000

= ₹ 18,20,000 + ₹ 1,82,000

= ₹ 20,02,000

Firm's Estimated Profit for 6 months (from 1st April, 2021 to 30th September, 2021)

= ₹ 20,02,000 × 6/12

= ₹ 10,01,000

B's Share of Profit = ₹ 10,01,000 × 4/10 = ₹ 4,00,400.

62. (1) **Explanation:** Last Year's Profit = ₹ 7,84,000

Firm's Estimated Profit for 10.5 months (from 1st April, 2021 to 15th February, 2022)

= ₹ 7,84,000 × 10.5/12 = ₹ 6,86,000

K's share of Profit = ₹ 6,86,000 × 3/10 = ₹ 2,05,800.

63. (3) **Explanation:** Last Year's Profit = ₹ 4,96,000

Firm's Estimated Profit for 146 days (from 1st April, 2021 to 24th August, 2021)

= ₹ 4,96,000 × 146/365 = ₹ 1,98,400

L's share of Profit = ₹ 1,98,400 × 3/10 = ₹ 59,520.

64. (4) Explanation:

Net Sales for 2020–21 = ₹ 4,80,000 – ₹ 60,000 = ₹ 4,20,000

Expected Sales for 2021–22 = ₹ 4,20,000 + 20% of ₹ 4,20,000 = ₹ 5,04,000

Expected Profit for 2021–22 = 12% + 1% = 13%

Expected Profit for 2021–22 till the date of C's death = ₹ 5,04,000 × 13/100 × 4/12 = ₹ 21,840

C's Share of Estimated Profit = ₹ 21,840 × 3/12 = ₹ 5,460.

65. (2) Explanation: Total Drawings = ₹ 1,20,000

Interest on B's Drawings = ₹ 1,20,000 × 12/100 × 3*/12 = ₹ 3,600.

*Interest on B's drawings is calculated for average period, i.e., for 3 Months.

66. (1) Explanation: Gaining Ratio of B and A is 3 : 2. R's share in Goodwill will be debited to their Capital Accounts in the Gaining Ratio. Hence, the Journal entry is:

B's Capital A/c	...Dr.	₹ 66,000
A's Capital A/c	...Dr.	₹ 44,000
To R's Capital A/c		₹ 1,10,000

(Adjusted R's share of goodwill by debiting Gaining Partners in their Gaining ratio, i.e., 3 : 2)

67. (1) Explanation: It is a case of hidden goodwill, which is ₹ 1,50,000 – ₹ 1,14,450 = ₹ 35,550.

68. (4) Explanation: Calculation of total capital of new firm after Madan's death:	₹	₹
(a) Adjusted Old Capital of Mohan (Before Adjustment for Profit Share)	1,73,200	
(b) Less: Adjustment for Profit Share Payable to Madan (₹ 50,000 × 3/5)	30,000	1,43,200
(c) Adjusted Old Capital of Raman (Before Adjustment for Profit Share)	1,22,400	
(d) Less: Adjustment for Profit Share payable to Madan (₹ 50,000 × 2/5)	20,000	1,02,400
(e) Amount payable to Madan's Executors	1,86,400	
(f) Add: Profit Share of Madan	50,000	2,36,400
(g) Balance required after Madan's Death		20,000
		5,02,000
Less: Existing Cash Balance		20,000
Total Capital of new firm after Madan's Death		4,82,000

Calculation of Actual Cash to be paid or brought in:

Particulars	Mohan (₹)	Raman (₹)
(a) New Capital (₹ 4,82,000 in the ratio of 3 : 2)	2,89,200	1,92,800
(b) Adjusted Old Capital	1,43,200	1,02,400
(c) Amount to be brought [(a) – (b)]	1,46,000	90,400

69. (2) Explanation:

Total capital of the new firm = ₹ 3,20,000

X's capital for 5/8 share should be (₹ 3,20,000 × 5/8) = ₹ 2,00,000

However, his existing capital is = ₹ 2,00,000

Hence, Z will neither bring nor will be paid on Z's Death.

Y's capital for 3/8 share should be (₹ 3,20,000 × 3/8) = ₹ 1,20,000

However, his existing capital is = ₹ 1,50,000

Hence, amount to be paid to Y is = ₹ 30,000

Z's balance of ₹ 1,00,000 is to be paid.

70. (2) Explanation: Calculation of total capital of new firm after Madan's death:	₹	₹
(a) Adjusted Old Capital of Mohan (Before Adjustment for Profit Share)	1,73,200	
(b) Add: Adjustment for Share in Loss from Madan (₹ 50,000 × 3/5)	30,000	2,03,200
(c) Adjusted Old Capital of Raman (Before Adjustment for Profit Share)	1,22,400	
(d) Add: Adjustment for Share of Loss from Madan (₹ 50,000 × 2/5)	20,000	1,42,400
(e) Amount payable to Madan's Executors	1,86,400	
(f) Less: Loss Share of Madan	50,000	1,36,400
(g) Add: Balance required after Madan's Death		20,000
		5,02,000
Less: Existing Cash Balance		20,000
Total capital of new firm after Madan's Death		4,82,000

Calculation of Actual Cash to be paid or brought in:

Particulars	Mohan (₹)	Raman (₹)
(a) New Capital (₹ 4,82,000 in the ratio of 3 : 2)	2,89,200	1,92,800
(b) Adjusted Old Capital	2,03,200	1,42,400
(c) Amount to be brought [(a) – (b)]	86,000	50,400

2. CASE STUDY BASED MCQS

1. A. 3. **Reason:** Gain of a Partner = New Profit Share – Old Profit Share
A's Gain = $5/8 - 1/3 = 7/24$; C's Gain = $3/8 - 1/3 = 1/24$
Hence, Gaining Ratio = $7/24 : 1/24$ or 7 : 1.
- B. 4. **Reason:** Gain (Profit) on revaluation is ₹ 36,000 and B's share is ₹ 12,000, profit-sharing ratio being equal. Revaluation profit is determined by preparing Revaluation Account as follows:

Dr.		REVALUATION ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Ovens A/c	4,000	By Utensils A/c	30,000		
To Gain transferred to Capital A/cs:		By Inventories A/c	10,000		
A	12,000				
B	12,000				
C	12,000				
	36,000				
	40,000				40,000

- C. 2. **Reason:** Total Profit = ₹ 50,000 + ₹ 40,000 + ₹ 80,000 + ₹ 90,000 – ₹ 42,000 = ₹ 2,18,000

$$\begin{aligned}\text{Average Profit} &= \text{Total Profits/Number of years} \\ &= ₹ 2,18,000/5 = ₹ 43,600\end{aligned}$$

$$\begin{aligned}\text{Firm's Goodwill} &= \text{Average Profit} \times \text{No. of Years' Purchase} \\ &= ₹ 43,600 \times 3 = ₹ 1,30,800\end{aligned}$$

$$B's \text{ Share of Goodwill} = ₹ 1,30,800 \times 1/3 = ₹ 43,600.$$

- D. 2. **Reason:** Profit-sharing Ratio of the Continuing Partners has changed from equal to 5 : 3. Hence, B's Share of Profit will be debited to Continuing Partners' Capital Accounts in their Gaining Ratio, i.e., 7 : 1, which is calculated as follows:

	A	B	C
Old Profit-sharing Ratio	1/3	1/3	1/3
New Profit-sharing Ratio	5/8	...	3/8
Gaining Ratio	7/24	...	1/24
or	7	:	1

Profit Share of B:

$$₹ 90,000 - ₹ 42,000 = ₹ 48,000/2 = ₹ 24,000; \text{ Profit for 3 Months} = ₹ 24,000 \times 3/12 = ₹ 6,000$$

$$B's \text{ Share in profit up to the Date of Death} = ₹ 6,000/3 = ₹ 2,000$$

Thus, Journal entry will be:

A's Capital A/c	...Dr.	₹ 1,750	
C's Capital A/c	...Dr.	₹ 250	
To B's Capital A/c			₹ 2,000

(B's share of Profit adjusted in continuing Partners' Capital Accounts in their gaining ratio, i.e., 7 : 1)

E. 1. Reason:

Dr.		B'S CAPITAL ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Profit & Loss A/c	14,000	By Balance b/d	2,00,000	
To B's Executor's A/c (Balancing Figure)	2,47,600	By A's Capital A/c (Goodwill)	38,150	
		By C's Capital A/c (Goodwill)	5,450	
		By Revaluation A/c (Gain)	12,000	
		By Workmen Compensation Reserve A/c	4,000	
		By A's Capital A/c	1,750	
		By C's Capital A/c	250	
	2,61,600		2,61,600	

Working Notes:

1. B's Share of Goodwill = ₹ 1,30,800 × 1/3 = ₹ 43,600, which is contributed by A & C in their gaining ratio of 7 : 1.
2. B's Share of Profit = ₹ 24,000 × 3/12 × 1/3 = ₹ 2,000.
3. Revaluation Gain = ₹ 12,000.
2. A. 2. **Reason:** Unless agreed otherwise, deceased partner's profit share is taken by continuing partners in their old profit-sharing ratio. It means that the profit-sharing ratio between continuing partners will not change. Thus, new profit-sharing ratio of A and P is 6 : 4 or 3 : 2.
- B. 3. **Reason:** Total Profit = ₹ 2,20,000 + (₹ 26,000 + ₹ 30,000) + ₹ 40,000 + ₹ 60,000 + ₹ 80,000 = ₹ 4,56,000
Average Profit = Total Profits/Number of years
= ₹ 4,56,000/5 = ₹ 91,200
Firm's Goodwill = Average Profits × No of years' purchase
= ₹ 91,200 × 3 = ₹ 2,73,600
L's share of Goodwill = ₹ 2,73,600 × 5/15 = ₹ 91,200, which is contributed by A and P in their gaining ratio, i.e., 3 : 2. Thus,
A's Contribution = ₹ 91,200 × 3/5 = ₹ 54,720;
P's Contribution = ₹ 91,200 × 2/5 = ₹ 36,480.
- C. 4. **Reason:** L's share of Profit = ₹ 94,000* × 5/15 × 4.5/12 = ₹ 11,750.
*Average Profit = [₹ 2,20,000 + (₹ 26,000 + ₹ 30,000) + ₹ 40,000 + ₹ 60,000]/4 = ₹ 94,000.
- D. 3. **Reason:** Amount due to L is ₹ 11,22,950 determined by preparing L's Capital Account as follows:

Dr.		L'S CAPITAL ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To L's Executor's A/c (Balancing Figure)	11,22,950	By Balance b/d	10,00,000	
		By General Reserve A/c (WN 2)	20,000	
		By A's Capital A/c (WN 1)	54,720	
		By P's Capital A/c (WN 1)	36,480	
		By Profit & Loss Suspense A/c	11,750	
	11,22,950		11,22,950	

Working Notes:

1. L's share of Goodwill = ₹ 2,73,600 × 5/15 = ₹ 91,200, which is contributed by A and P in their gaining ratio, i.e., 3 : 2. Thus,
A's Contribution = ₹ 91,200 × 3/5 = ₹ 54,720;
P's Contribution = ₹ 91,200 × 2/5 = ₹ 36,480.
2. L's Share in General Reserve = ₹ 60,000 × 5/15 = ₹ 20,000.
3. A. 4. **Reason:** Old Profit-sharing Ratio of P, Q and R = 7 : 8 : 5
New Profit-sharing Ratio of P and R = 3 : 2
P's Gain = 3/5 – 7/20 = 5/20
R's Gain = 2/5 – 5/20 = 3/20
Gaining Ratio = 5 : 3.

B. 3. **Reason:** Revaluation Loss is ₹ 13,000 determined by preparing Revaluation Account as follows:

Dr.		REVALUATION ACCOUNT		Cr.
Particulars	₹	Particulars		₹
To Motor Vehicles A/c	18,000	By Stock A/c		15,000
To Furniture A/c	10,000	By Loss transferred to:		
		<i>P</i>	4,550	
		<i>Q</i>	5,200	
		<i>R</i>	3,250	13,000
	28,000			28,000

C. 2. **Reason:** Total Profit = ₹ 90,000 + (– ₹ 60,000) + ₹ 80,000 + ₹ 60,000 + ₹ 40,000 = ₹ 2,10,000

Average Profit = Total Profits/Number of years

$$= ₹ 2,10,000/5 = ₹ 42,000$$

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

$$= ₹ 42,000 \times 3 = ₹ 1,26,000$$

Q's share of Goodwill = ₹ 1,26,000 × 8/20 = ₹ 50,400, which is contributed by *P* and *R* in their gaining ratio, i.e., 5 : 3. Thus,

$$P's \text{ Contribution} = ₹ 50,400 \times 5/8 = ₹ 31,500;$$

$$R's \text{ Contribution} = ₹ 50,400 \times 3/8 = ₹ 18,900.$$

D. 2. **Reason:** Total Profit = ₹ 90,000 + (– ₹ 60,000) + ₹ 80,000 + ₹ 60,000 = ₹ 1,70,000

$$\text{Average Profit} = ₹ 1,70,000/4 = ₹ 42,500$$

$$Q's \text{ share of Profit} = ₹ 42,500 \times 8/20 \times 3/12 = ₹ 4,250.$$

E. 2. **Reason:** Amount that will be transferred to *Q*'s Executor's Account will be ₹ 2,75,450 determined by preparing *Q*'s Capital Account as follows:

Dr.		Q'S CAPITAL ACCOUNT		Cr.
Particulars	₹	Particulars		₹
To Profit & Loss A/c	24,000	By Balance b/d		2,10,000
To Revaluation A/c	5,200	By General Reserve A/c		24,000
To <i>Q</i> 's Executor's A/c (Balancing Figure)	2,75,450	By <i>P</i> 's Capital A/c—Goodwill (WN 1)		31,500
		By <i>R</i> 's Capital A/c—Goodwill (WN 1)		18,900
		By Investment Fluctuation Reserve A/c		16,000
		By <i>A</i> 's Capital A/c (WN 2)		2,656
		By <i>C</i> 's Capital A/c (WN 2)		1,594
	3,04,650			3,04,650

Working Notes:

1. *Q*'s share of Goodwill = ₹ 1,26,000 × 8/20 = ₹ 50,400, which is contributed by *P* and *R* in their gaining ratio, i.e., 5 : 3. Thus,

$$P's \text{ Contribution} = ₹ 50,400 \times 5/8 = ₹ 31,500;$$

$$R's \text{ Contribution} = ₹ 50,400 \times 3/8 = ₹ 18,900.$$

2. Total Profit = ₹ 90,000 + (– ₹ 60,000) + ₹ 80,000 + ₹ 60,000 = ₹ 1,70,000

$$\text{Average Profit} = ₹ 1,70,000/4 = ₹ 42,500$$

Q's share of Profit = ₹ 42,500 × 8/20 × 3/12 = ₹ 4,250, which is adjusted in gaining ratio of *P* and *R*.

3. SEQUENCE BASED MCQS

1. 1. **Explanation:** The correct order or sequence for passing the adjustment entry is:
 - B. Calculate the Net Effect of Reserves, Accumulated Profits and Losses because an adjustment (single) entry is to be passed for the net effect. It means existing values of the accounts are to be carried forward in the Balance Sheet.
 - D. Calculate Sacrificed/(Gained) Profit Share of each Partner. It is the next step as the net amount is to be credited to Sacrificing (Deceased) Partner's Capital Account and debited to Gaining Partners' Capital Accounts.
 - C. Calculate share of Gaining Partners and Sacrificing Partners in the Net Effect of Reserves, Accumulated Profits and Losses on the basis of Sacrificing and Gaining Ratio.
 - A. Pass single adjustment entry by adjusting Partners' Capital/Current A/cs.
2. 4. **Explanation:** The correct order or sequence in the above case is:
 - D. Calculate the Net Effect of Revaluation of Assets and Reassessment of Liabilities by debiting Revaluation Account with expenses and losses and credit it with gains and incomes. Net balance is either gain (profit) or loss.
 - A. Calculate Sacrificed/(Gained) Profit Share of each Partner. It is required to compensate the sacrificing partner (Deceased Partner) and other partners by paying Goodwill.
 - B. Calculate Proportionate amount of Net Effect of Revaluation of Assets and Reassessment of Liabilities for each partner (including Deceased Partner) based on their profit-sharing ratio.
 - C. Pass single adjustment entry by adjusting Partners' Capital/Current A/cs
3. 2. **Explanation:** The correct order or sequence for adjusting Capitals of the Continuing Partners is:
 - B. Ascertain Adjusted Capital (after all adjustments) of continuing partners because it is the capital of respective partner in the books.
 - D. Calculate Proportionate Capital of continuing partners on the basis of total capital of the new firm and new profit-sharing ratio. Total Capital of the firm is agreed and capital of each partner is to be determined applying the profit-sharing ratio of the continuing partners.
 - A. Determine Surplus Capital or Deficit Capital by comparing Present Adjusted Capital and Proportionate Capital by deducting Capital as per books and capital as determined in Step (D).
 - 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.
 - C. Ascertain total capital of New firm as sum of adjusted capitals of continuing partners, which is the total capital of the reconstituted firm.
 - A. Calculate capitals of each of the continuing partners by dividing total capital of reconstituted 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 option or sequence is:
 - C. Compute New Profit-sharing Ratio because capitals of Continuing Partners in the reconstituted firm is to be in the new profit-sharing ratio.
 - B. Determine adjusted total capital of Continuing Partners.
 - A. Calculate new capital of each continuing partner by multiplying total capital of all partners after 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.
 - E. Pass necessary Journal entry for adjusting the Surplus Capital/Deficit Capital.

4. MATCHING QUESTIONS

1. 4. **Explanation:**

- A. Provision for Doubtful Debts, when all debtors are good means Provision for Doubtful Debts is not required. It being a gain is transferred to the credit of Revaluation Account. **[List II, Entry (II)]**
- B. Bad Debts Recovered is a gain (profit) and hence, is transferred to the credit of Revaluation Account. **[List II, Entry (II)]**
- C. Unrecorded asset taken by partner is debited to Partner's Capital Account and credited to Revaluation Account. **[List II, Entry (IV)]**
- D. Unrecorded Liability at the time of Death of a partner is debited to Revaluation Account. **[List II, Entry (I)]**
- E. Fixed Asset overvalued is written back and is a loss. It is debited to Revaluation Account. **[List II, Entry (I)]**

2. 2. **Explanation:**

- A. Gain (Profit) on Revaluation Account is shared by all the partners in their old profit-sharing ratio. **[List II, Entry (I)]**
- B. Estimated Share of Profit of Deceased Partner, if Profit-sharing Ratio of continuing partners changes it shared in their Gaining Ratio. **[List II, Entry (II)]**
- C. Estimated Share of Loss of Deceased Partner, if Profit-sharing Ratio of continuing partners changes is credited to Continuing Partners in their Gaining Ratio. **[List II, Entry (II)]**
- D. Profit or loss of the reconstituted firm is shared by the Continuing Partners in their new profit-sharing ratio. **[List II, Entry (III)]**

3. 1. **Explanation:**

- A. Undervaluation of Building is credited to Revaluation Account. **[List II, Entry (II)]**
- B. Sale Proceeds of Completely written off Printer is credited to Revaluation Account. **[List II, Entry (II)]**
- C. Bad Debts over and above Provision for Doubtful Debts is a loss and thus is debited to is Revaluation Account. **[List II, Entry (I)]**
- D. Accrued Income to be recorded is credited to Revaluation Account. **[List II, Entry (II)]**
- E. Acceptance received from Debtors is not recorded. **[List II, Entry (IV)]**

4. 2. **Explanation:**

- A. When there is no information about Workmen Claim, the amount of Reserve is appropriated among all partners in their old profit-sharing ratio. **[List II, Entry (II)]**
- B. When amount of claim is more than the 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, Entry (III)]**
- C. When amount of claim is equal to the reserve, the amount of reserve is transferred to Workmen Compensation Claim Account. **[List II, Entry (IV)]**
- D. When amount of claim is less than the reserve, the 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, Entry (I)]**

5. 1. **Explanation::**

- A. When there is no information about Market Value of Investment, the reserve is appropriated among all partners in their old profit-sharing ratio. **[List II, Entry (III)]**
- B. When Market Value of Investment is higher than its Book Value , the reserve is distributed among all partners in their old profit-sharing ratio and 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, Entry (I)]**

- C. When Fall in Value of Investments is equal to Investment Fluctuation Reserve, the amount of reserve is adjusted against the fall in value of investment. **[List II, Entry (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, Entry (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 profit-sharing ratio. **[List II, Entry (II)]**

5. COMBINATION WITH SINGLE ANSWER QUESTIONS

1. 4. **Explanation:** At the time of death of a partner all the adjustments except settlement of liabilities and closing the asset accounts are made.
2. 3. **Explanation:** At the time of death of a partner, Computation of Amount transferred to Deceased Partner's Loan Account and net worth of the firm are not computed.
3. 1. **Explanation:** Loan advanced to firm and Interest thereon, share of reserves and accumulated profits and share of goodwill are credited to Deceased Partner's Capital Account. Entries at serial (A) and (C) are debited to Deceased Partner's Capital Account.
4. 4. **Explanation:** Assets taken over by the Executor of Deceased Partner, Share of Loss till the date of death, drawings by him are debited to Partner's Capital Account. Accumulated Depreciation is neither debited nor credited to Deceased Partner's Capital Account. Share of Goodwill is credited to his account.
5. 2. **Explanation:** Gain (Profit) on Revaluation Account, Adjustment of Net effect (*i.e.*, Negative) of Reserves, Accumulated Profits & Losses and Contingency Reserve are credited to continuing Partners' Capital Accounts at the time of death of a partner. While Share in Goodwill is credited to Deceased Partner's Capital Account and Employees Provident Fund is an outside liability.
6. 3. **Explanation:** All other items except Profit & Loss Account (Cr.) and Accumulated Depreciation are debited to all Partners' Capital Accounts at the time of death of a partner. Profit & Loss Account (Cr.) is credited to his account and Accumulated Depreciation is neither debited nor credited to his account.
7. 3. **Explanation:** Estimated Profit share till the date of death, Goodwill Account and Advertisement Suspense Account are not credited to all Partners' Capital Accounts at the time of death of a partner. While reserves (Contingency Reserve and Investment Fluctuation Reserve) are credited.
8. 2. **Explanation:** Provision for Doubtful Debts, if all debtors are good is credited to Revaluation Account.
Acceptance Received from Debtors—It is not accounted in Revaluation Account.
Provision for Outstanding Expenses—It is debited to Revaluation Account.
Accrued income provided for—It is credited to Revaluation Account.
Undervaluation of Plant and Machinery—It is credited to Revaluation Account.
9. 2. **Explanation:** Provision for Doubtful Debts written back—It is credited to Revaluation Account.
Bad Debts Recovered—It is credited to Revaluation Account.
Make Provision for Warranties—It is debited to Revaluation Account.
Creditors no longer payable—It is credited to Revaluation Account.
Overvaluation of Plant—It is debited to Revaluation Account.