BHARATIYA VIDYA BHAVAN'S V M PUBLIC SCHOOL, VADODARA
QUESTION BANK

Question for Practice

Short Answer Questions

1. What are the different ways in which a partner can retire from the firm.
2. Write the various matters that need adjustments at the time of retirement of a partners.
3. Distinguish between sacrificing ratio and gaining ratio .
4. Why do firm revaluate assets and reassess their liabilities on retirement or on the event of death of a partner.
5. Why a retiring/deceased partner is entitled to a share of goodwill of the firm.

Long Answer Questions

1. Explain the modes of payment to a retiring partner.
2. How will you compute the amount payable to a deceased partner?
3. Explain the treatment of goodwill at the time of retirement or on the event of death of a partner?
4. Discuss the various methods of computing the share in profits in the event of death of a partners.

Numerical Questions

1. Aparna, Manisha and Sonia are partners sharing profits in the ratio of 3 : 2 : 1. Manisha retires and goodwill of the firm is valued at Rs. 1,80,000. Aparna and Sonia decided to share future in the ratio of 3 : 2. Pass necessary journalentries.
2. Sangeeta, Saroj and Shanti are partners sharing profits in the ratio of 2 : 3 : 5. Goodwill is appearing in the books at a value of Rs. 60,000. Sangeeta retires and goodwill is valued at Rs. 90,000. Saroj and Shanti decided to share future profits equally. Record necessary journal entries.
3. Himanshu, Gagan and Naman are partners sharing profits and losses in the ratio of 3 : 2 : 1. On March 31, 2007, Naman retires. The various assets and liabilities of the firm on the date were as follows:

Cash Rs. 10,000, Building Rs. 1,00,000, Plant and Machinery Rs. 40,000, Stock Rs. 20,000, Debtors Rs. 20,000 and Investments Rs. 30,000.

The following was agreed upon between the partners on Naman's retirement: (i)
Building to be appreciated by 20%.
(ii) Plant and Machinery to be depreciated by 10%.
(iii) A provision of 5% on debtors to be created for bed and doubtful debts.
(iv) Stock was to be valued at Rs. 18,000 and Investment at Rs. 35,000.
Record the necessary journal entries to the above effect and prepare the revaluation account.

4. Naresh, Raj Kumar and Bishwajeet are equal partners. Raj Kumar decides to retire. On the date of his retirement, the Balance Sheet of the firm showed the following: General Reserves Rs. 36,000 and Profit and Loss Account (Dr.) Rs. 15,000. Pass the necessary journal entries to the above effect.

5. Digvijay, Brijesh and Parakaram were partners in a firm sharing profits in the ratio of 2 : 2 : 1. Their Balance Sheet as on March 31, 2007 was as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	49000	Cash in hand	8000
Reserve Fund	18500	Sundry Debtors	19000
Partners Capitals		Stock	42000
Digvijay 82000		Building	207000
Brijesh 60000		Patents	9000
Parakaram 75500	217500		
	285000		285000

Brijesh retired on March 31, 2007 on the following terms:
(i) Goodwill of the firm was valued at Rs. 70,000 and was not to appear in the books.
(ii) Bad debts amounting to Rs. 2,000 were to be written off.
(iii) Patents were considered as valueless.
Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of Digvijay and Parakaram after Brijesh's retirement.

6. Radha, Sheela and Meena were in partnership sharing profits and losses in the proportion of 3:2:1. On April 1, 2007, Sheela retires from the firm. On that date, their Balance Sheet was as follows:

Liabilities		Assets	
Trade Creditors	3000	Cash in hand	1500
Bills payable	4500	Cash at Bank	7500
Expenses owing	4500	Sundry Debtors	15000
General Reserve	13500	Stock	12000
Partners Capitals		Factory premises	22500
Radha 15000		Machinery	8000
Sheela 15000	45000	Loose Tools	4000
Meena 15000			
	70500		70500

The terms were:

a) Goodwill of the firm was valued at Rs. 13,000.

b) Expenses owing to be brought down to Rs. 3,750.

c) Machinery and Loose Tools are to be valued at 10% less than their book value.

d) Factory premises are to be revalued at Rs. 24,300.

Prepare:

1. Revaluation account
2. Partner's capital accounts and
3. Balance sheet of the firm after retirement of Sheela.

7. Pankaj, Naresh and Saurabh are partners sharing profits in the ratio of 3 : 2 :1. Naresh retired from the firm due to his illness. On that date the Balance Sheet of the firm was as follows:

Books of Pankaj, Naresh and Saurabh

Balance Sheet as on March 31, 2007

Liabilities	₹	Assets	₹
General Reserve	12000	Cash at Bank	7600
Sundry Creditors	15000	Sundry Debtors 6000 less	
Bills payable	12000	Provision For Doubtful debt 400	5600
Outstanding Salary	2200	Stock	9000
Provision for legal Damages	6000	Furniture	41000
Partners Capitals		Factory premises	80000
Pankaj 46000			
Naresh 30000	96000		
Saurabh 20000			
	143200		143200

Additional Information

(i) Premises have appreciated by 20%, stock depreciated by 10% and provision for doubtful debts was to be made 5% on debtors. Further, provision for legal damages is to be made for Rs. 1,200 and furniture to be brought up to Rs. 450.

(ii) Goodwill of the firm be valued at Rs. 42,000.

(iii) Rs. 26,000 from Naresh's Capital account be transferred to his loan account and balance be paid through bank; if required, necessary loan may be obtained form Bank.

(iv) New profit sharing ratio of Pankaj and Saurabh is decided to be 5 : 1.

Give the necessary ledger accounts and balance sheet of the firm after Naresh's retirement.

8. Puneet, Pankaj and Pammy are partners in a business sharing profits andlosses in the ratio of 2 : 2 : 1 respectively. Their balance sheet as on March 31,2007 was as follows:

Books of Puneet, Pankaj and Pammy

Balance Sheet as on March 31, 2007

Liabilities		Assets	
General Reserve	50000	Cash at Bank	20000
Sundry Creditors	100000	Sundry Debtors	80000
Partners Capitals		Investment	70000
Puneet 60,000		Furniture	35000
Pankaj 1,00,000		Building	115000
Pammy 40,000	2,00,000		
	350000		350000

Mr. Pammy died on September 30, 2007. The partnership deed provided the following:
(i) The deceased partner will be entitled to his share of profit up to the date of death calculated on the basis of previous year's profit.
(ii) He will be entitled to his share of goodwill of the firm calculated on the basis of 3 years' purchase of average of last 4 years' profit. The profits for the last four financial years are given below: for 2003–04; Rs. 80,000; for 2004–05, Rs. 50,000; for 2005–06, Rs. 40,000; for 2006–07, Rs. 30,000.
The drawings of the deceased partner up to the date of death amounted to Rs. 10,000. Interest on capital is to be allowed at 12% per annum. Surviving partners agreed that Rs. 15,400 should be paid to the executors immediately and the balance in four equal yearly instalments with interest at 12% p.a. on outstanding balance.
Show Mr. Pammy's Capital account, his Executor's account till the settlement of the amount due.
9. Following is the Balance Sheet of Prateek, Rockey and Kushal as on March 31, 2007.

Books of Prateek, Rockey and Kushal
Balance Sheet as on March 31, 2007

Liabilities	₹	Assets	₹
General Reserve	16000	Bills Receivable	16,000
Sundry Creditors	16000	Furniture	22,600
Partners Capitals		Stock	20,400
Prateek 30,000		Sundry Debtors	22000
Rockey 20,000		Cash at Bank	18,000
Kaushal 20,000	70,000	Cash in Hand	3,000
	102000		102000

Rockey died on June 30, 2007. Under the terms of the partnership deed, theexecutors of a deceased partner were entitled to: a) Amount standing to the credit of the Partner's Capital account.
b) Interest on capital at 5% per annum.
c) Share of goodwill on the basis of twice the average of the past three years' profit and
d) Share of profit from the closing date of the last financial year to the date of death on the basis of last year's profit.
Profits for the year ending on March 31, 2005, March 31, 2006 and March 31, 2007 were Rs. 12,000, Rs. 16,000 and Rs. 14,000 respectively. Profits were shared in the ratio of capitals.
Pass the necessary journal entries and draw up Rockey's capital accountto be rendered to his executor.

10. Narang, Suri and Bajaj are partners in a firm sharing profits and losses inproportion of 1 2 , 1 6 and 1 3 respectively. The Balance Sheet on April 1, 2007was as follows:

Books of Suri, Narang and Bajaj
Balance Sheet as on April 1, 2007

Liabilities	₹	Assets		₹
Bills payable	12000	Freehold premises		40000
Sundry Creditors	18000	Machinery		30000
General Reserve	12000	Furniture		12000
Partners Capitals		Stock		22000
Naran 30000		Sundry Debtors	20000	
Suri 20000		less Provision For Doubtful debt	1000	19000
Bajaj 28000	88000	Cash at Bank		7000
	130000			130000

Bajaj retires from the business and the partners agree to the following:

a) Freehold premises and stock are to be appreciated by 20% and 15% respectively.

b) Machinery and furniture are to be depreciated by 10% and 7% respectively.

c) Bad Debts reserve is to be increased to Rs. 1,500.

d) Goodwill is valued at Rs. 21,000 on Bajaj's retirement.

e) The continuing partners have decided to adjust their capitals in their new profit sharing ratio after retirement of Bajaj.

Surplus/deficit, if any, in theircapital accounts will be adjusted through current accounts.

Prepare necessary ledger accounts and draw the Balance Sheet of the reconstituted firm.

11. The Balance Sheet of Rajesh, Pramod and Nishant who were sharing profits in proportion to their capitals stood as on March 31, 2007:

Books of Rajesh, Pramod and Nishant

Balance Sheet as on March 31, 2007

Liabilities	₹	Assets	₹
Bills payable	6250	Freehold Building	12000
Sundry Creditors	10000	Sundry Debtors 10500 less	
General Reserve	2750	Reserve 500	10000
Partners Capitals		Bills Receivable	7000
Rajesh 20000		Stock	15500
Pramod 15000		Cash at Bank	13000
Nishant 15000	50000	Plant and Machinery	11500
	69000		69000

Pramod retired on the date of Balance Sheet and the following adjustments were made: a) Stock was valued at 10% less than the book value.

b) Factory buildings were appreciated by 12%.

c) Reserve for doubtful debts be created up to 5%.

d) Reserve for legal charges to be made at Rs. 265.

e) The goodwill of the firm be fixed at Rs. 10,000.

f) The capital of the new firm be fixed at Rs. 30,000. The continuing partners decide to keep their capitals in the new profit sharing ratio of 3 : 2.

Pass journal entries and prepare the balance sheet of the reconstituted firm after transferring the balance in Pramod's Capital account to his loan account.

12. Following is the Balance Sheet of Jain, Gupta and Malik as on March 31, 2002.

Books of Jain, Gupta and Malik

Balance Sheet as on March 31, 2002

Liabilities	₹	Assets	₹
Sundry Creditors	11980	Land and Building	26000
Telephone bills	300	Bonds	14370
Outstanding Accounts payable	8950	Cash at Bank	5500
Accumulated Profits	16750	Bills Receivable	23450
Partners Capitals		Sundry Debtors	26700
Jain 40000		Stock	18100
Gupta 60000		Office Furniture	18250
Malik 20000	120000	Plant and Machinery	20230
		Computers	13200
	165800		165800

The partners have been sharing profits in the ratio of 5:3:2. Malik decides to retire from business on April 1, 2002 and his share in the business is to be calculated as per the following terms of revaluation of assets and liabilities : Stock, Rs.20,000; Office furniture, Rs.14,250; Plant and Machinery Rs.23,530; Land and Building Rs.20,000.

A provision of Rs.1,700 to be created for doubtful debts. The goodwill of the firm is valued at Rs.9,000.

The continuing partners agreed to pay Rs.16,500 as cash on retirement of Malik, to be contributed by continuing partners in the ratio of 3:2. The balance in the capital account of Malik will be treated as loan.

Prepare Revaluation account, capital accounts, and Balance Sheet of the reconstituted firm.

13. Arti, Bharti and Seema are partners sharing profits in the proportion of 3:2:1 and their Balance Sheet as on March 31, 2003 stood as follows :

Books of Arti, Bharti and Seema

Balance Sheet as on March 31, 2003

Liabilities			Assets	
Bills payable		12000	Building	21000
Sundry Creditors		14000	Cash in Hand	12000
General Reserve		12000	Bank	13700
Partners Capitals			Sundry Debtors	12000
Aarti	20000		Bills Receivable	4300
Bharti	12000		Stock	1750
Seema	8000	40000	Investment	13250
		78000		78000

Bharti died on June 12, 2003 and according to the deed of the said partnership, her executors are entitled to be paid as under : (a) The capital to her credit at the time of her death and interest thereon @10% per annum.

(b) Her proportionate share of reserve fund.

(c) Her share of profits for the intervening period will be based on the sales during that period, which were calculated as Rs.1,00,000.

The rate of profit during past three years had been 10% on sales.

(d) Goodwill according to her share of profit to be calculated by taking twice the amount of the average profit of the last three years less 20%. The profits of the previous years were :

2001 – Rs.8,200 2002 – Rs.9,000 2003 – Rs.9,800

The investments were sold for Rs.16,200 and her executors were paid out. Pass the necessary journal entries and write the account of the executors of Bharti.

14. Nithya, Sathya and Mithya were partners sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet as on December 31, 2002 was as follows :

Books of Nithya, Sathya and Mithya

Balance Sheet at December 31, 2002

Liabilities		₹	Assets	₹
Sundry Creditors		14000	Investment	10000
Reserve Fund		6000	Goodwill	5000
Partners Capitals			Premises	20000
Nithya	30000		Patents	6000
Sathya	30000		Machinery	30000
Mithya	20000	80000	Stock	8000
			Sundry Debtors	8000
			Bank	
		100000		100000

Mithya dies on May 1, 2002. The agreement between the executors of Mithyaand the partners stated that :

(a) Goodwill of the firm be valued at 2.5 times the average profits of last four years. The profits of four years were : in 1998, Rs.13,000; in 1999, Rs.12,000; in 2000, Rs.16,000; and in 2001, Rs.15,000.

(b) The patents are to be valued at Rs.8,000, Machinery at Rs.25,000 and Premises at Rs.25,000.

(c) The share of profit of Mithya should be calculated on the basis of the profit of 2002.

(d) Rs.4,200 should be paid immediately and the balance should be paid in 4 equal half-yearly instalments carrying interest @ 10%. Record the necessary journal entries to give effect to the above and write the executor's account till the amount is fully paid. Also prepare the Balance Sheet of Nithya and Sathya as it would appear on May 1, 2002 after giving effect to the adjustments.