CHAPTER 4

Retirement of a Partner

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Retirement of a Partner

When a partner ceases to be a partner of the firm (other than because of death), it is known as **retirement of a partner**.

A partner may retire from the firm:

(*i*) if there is an agreement to that effect, or

(*ii*) if all the partners agree to his/her retirement, or

(*iii*) if the partnership is at will, by giving notice in writing to other partners of his or her intention to retire.

It leads to reconstitution of the firm.

2. Revaluation of Assets

Revaluation of Assets means change in the value of assets, *i.e.*, present value being different from the book value of the assets.

3. Reassessment of Liabilities

Reassessment of Liabilities means reassessing the liabilities and determining the change, *i.e.*, whether the liability is more or less than that shown in the books of account.

4. Gaining Ratio

Ratio in which the continuing partners acquire retiring partner's share is called **gaining ratio**.

5. New Profit-sharing Ratio

Ratio in which the continuing partners (*i.e.*, partners other than retiring partner) decide to share future profits and losses, is known as **new profit-sharing ratio**.

6. Profit and Loss Suspense Account

It is the account which is debited to adjust the share of profit of retiring partner between the date of last Balance Sheet and the date of retirement, when profit-sharing ratio of continuing partners does not change.

SUMMARY OF THE CHAPTER

- **Retirement of a Partner:** When a partner ceases to be a partner it is called **'Retirement of a Partner'**.
- **Adjustment on Retirement of a Partner:** At the time of retirement of a partner, few accounting issues arise and are settled, *e.g.*, calculation of the new profit-sharing ratio and the gaining ratio, revaluation of assets and liabilities, treatment of goodwill, accumulated profits, reserves and surplus, share in profits or losses of the outgoing partner up to the date of retirement.

- **New Profit-sharing Ratio:** The ratio in which the continuing partners (*i.e.*, partners other than the retiring one) decide to share the future profits and losses, is known as the **'New Profit-sharing Ratio'**.

  New Share = Old Share + Acquired Share

  Unless agreed otherwise, it is presumed that the continuing partners acquire the retiring partner's share in their old profit-sharing ratio.

- **Gaining Ratio:** The ratio in which the continuing partners acquire the retiring partner's share is known as the **'Gaining Ratio'**.

  Gaining Ratio = New Ratio – Old Ratio

  Gain of a Partner = New Share – Old Share

- **Adjustment with regard to Goodwill:** When a partner retires, his share of profit is taken by the remaining partners. *The remaining partners then compensate the retiring partner in the form of goodwill in their gaining ratio*. The following entry is recorded for this purpose:

  Gaining Partners' Capital/Current A/cs ...Dr. [In gaining ratio]
  To Retiring Partner's Capital/Current A/c [With his share of goodwill]

  If Goodwill Account appears in the old Balance Sheet, it is written off by passing the following entry:

  All Partners' Capital/Current A/cs ...Dr. [In old ratio]
  To Goodwill A/c

- **Hidden Goodwill:** If a firm pays an amount in excess of total amount due to the retiring partner (after making all adjustments), then the excess amount is treated as hidden goodwill or his share of goodwill.

- **Revaluation of Assets and Reassessment of Liabilities:** At the time of retirement of a partner, assets are revalued and liabilities are reassessed; the increase or decrease in value of each asset/liability is recorded in the Revaluation Account. The net balance in the Revaluation Account is transferred to the Capital Accounts of all the partners (including the outgoing partner) in their old profit-sharing ratio.

- **Adjustment for Reserves and Accumulated Profits/Losses:** For the past undistributed profits or reserves, the amount is credited to all the partners in the old profit-sharing ratio.

- *Excess of Workmen Compensation Reserve over the Workmen Compensation Liability is* **credited to all Partners** *in their* **Old Profit-sharing Ratio.**

- *Excess of Investment Fluctuation Reserve over difference between Book Value and Market Value is* **credited to all Partners** *in their* **Old Profit-sharing Ratio**.

- **Adjustments for Reserves and Accumulated Profits/Losses through Single Adjustment Entry:** The net effect may also be adjusted through the following entry:

  (*i*) In Case of Net Profit: Gaining Partners' Capital/Current A/cs ...Dr..
  To Sacrificing Partners' Capital/Current A/c

  (*ii*) In Case of Net Loss: Sacrificing Partners' Capital/Current A/cs ...Dr.
  To Gaining Partners' Capital/Current A/cs

- **Amount Due to a Retiring Partner:** Amount due to a retiring partner includes:

  (*i*) Capital on the date of last Balance Sheet.
  (*ii*) Interest or salary, if any, payable to him.
  (*iii*) Share of profit or loss till the date of retirement.
  (*iv*) Share in the gain (profit) or loss on revaluation of assets and reassessment of liabilities.
  (*v*) Share in the goodwill of the firm.
  (*vi*) Share in the General Reserve or Profit and Loss Account appearing in the Balance Sheet.

  Out of the total of (*i*) to (*vi*), the amount of drawings and interest on drawings till the date of retirement is deducted.

  The net amount payable will be settled by paying him cash or by transferring it to a separate Loan Account.

Solved Questions

Illustration 1 (*Gaining Ratio*).

Abhay, Krishan, Ajay and Danish are partners sharing profits and losses in the ratio of 1/3, 1/6, 1/3 and 1/6 respectively. Ajay retires and Abhay, Krishan and Danish decide to share profits and losses equally in future. Calculate the gaining ratio.

Solution: CALCULATION OF GAINING RATIO

Partners	New Share	Old Share	Gain/(Sacrifice)	Gaining Ratio
Abhay	1/3	1/3	1/3 – 1/3 = 0	Krishan : Danish = 1/6 : 1/6
Krishan	1/3	1/6	1/3 – 1/6 = 1/6 (Gain)	or
Ajay	...	1/3	0 – 1/3 = –1/3 (Sacrifice)	1 : 1
Danish	1/3	1/6	1/3 – 1/6 = 1/6 (Gain)	

Illustration 2.

Yash, Madhu, Neha and Kartik are partners sharing profits in the ratio of 3 : 3 : 2 : 1. Yash retires from the firm. Kartik takes 2/3rd of Yash's share and Neha takes the balance. Madhu's share of profit remains unchanged. Calculate gaining ratio and new profit-sharing ratio.

Solution:

Yash's share of profit is 3/9; Kartik takes 2/3rd of 3/9, *i.e.*, 2/9 and Neha takes 3/9 – 2/9 = 1/9.

Therefore, the gaining ratio of Neha and Kartik = 1 : 2.

New Profit shares of Madhu, Neha and Kartik will be:

Madhu = $\frac{3}{9}$; Neha = $\frac{2}{9}+\frac{1}{9}=\frac{2+1}{9}=\frac{3}{9}$; Kartik = $\frac{1}{9}+\frac{2}{9}=\frac{1+2}{9}=\frac{3}{9}$

Hence, New Profit-sharing Ratio of Madhu, Neha and Kartik will be = $\frac{3}{9}:\frac{3}{9}:\frac{3}{9}$ or 1 : 1 : 1.

Illustration 3.

Arpit, Barun and Binay were partners in a firm sharing profits in the ratio of 3 : 1 : 1. On 31st March, 2020, their Balance Sheet was as follows:

Liabilities		₹	Assets		₹
Creditors		40,000	Bank		31,000
Bills Payable		30,000	Debtors	70,000	
Workmen Compensation Reserve		50,000	*Less:* Provision for Doubtful Debts	2,000	68,000
Capital A/cs:			Stock		80,000
Arpit	1,50,000		Building		2,70,000
Barun	1,00,000		Profit and Loss A/c		20,000
Binay	99,000	3,49,000			
		4,69,000			4,69,000

On 1st April, 2020, Barun retired on the following terms:

(*i*) Building was to be appreciated by 10%.

(*ii*) 10% Provision for Doubtful Debts was to be made on Debtors.

(*iii*) Creditors ₹ 10,000 will not be claimed.
(*iv*) There was an outstanding bill for repair ₹ 2,000.
(*v*) Goodwill of the firm was valued at ₹ 75,000. Barun's share of goodwill is to be adjusted in the accounts of Arpit and Binay.
(*vi*) Barun was to be paid ₹ 20,000 in cash and balance was to be transferred to his Loan Account.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of Arpit and Binay after Barun's retirement.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts A/c (₹ 7,000 – ₹ 2,000)		5,000	By Building A/c	27,000
To Outstanding Repairs A/c		2,000	By Creditors A/c	10,000
To Gain (Profit) on Revaluation trfd. to:				
Arpit's Capital A/c	18,000			
Barun's Capital A/c	6,000			
Binay's Capital A/c	6,000	30,000		
		37,000		37,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Arpit ₹	Barun ₹	Binay ₹	Particulars	Arpit ₹	Barun ₹	Binay ₹
To Profit and Loss A/c	12,000	4,000	4,000	By Balance *b/d*	1,50,000	1,00,000	99,000
To Barun's Capital A/c (Goodwill) (Note 1)	11,250	...	3,750	By Revaluation A/c (Gain)	18,000	6,000	6,000
To Bank A/c	...	20,000	...	By Workmen Com. Reserve A/c	30,000	10,000	10,000
To Barun's Loan A/c	...	1,07,000	...	By Arpit's Capital A/c (Goodwill)	...	11,250	...
To Balance *c/d*	1,74,750	...	1,07,250	By Binay's Capital A/c (Goodwill)	...	3,750	...
	1,98,000	1,31,000	1,15,000		1,98,000	1,31,000	1,15,000

BALANCE SHEET OF THE NEW FIRM *as at 1st April, 2020*

Liabilities		₹	Assets		₹
Creditors		30,000	Bank (₹ 31,000 – ₹ 20,000)		11,000
Bills Payable		30,000	Debtors	70,000	
Outstanding Repairs		2,000	*Less:* Provision for Doubtful Debts	7,000	63,000
Barun's Loan		1,07,000	Stock		80,000
Capital A/cs:			Building		2,97,000
Arpit	1,74,750				
Binay	1,07,250	2,82,000			
		4,51,000			4,51,000

Notes: 1. Barun's Share of Goodwill = ₹ 75,000 × 1/5 = ₹ 15,000, which is contributed by Arpit and Binay in Gaining Ratio, *i.e.*, 3 : 1.

2. Liability does not exist against Workmen Compensation Reserve. Therefore, it is distributed among the partners in their old profit-sharing ratio.

Illustration 4.

On 31st March, 2019, the Balance Sheet of Ashwin, Bijon and Nitish sharing profits and losses in proportion to their capitals, stood as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Land and Building	2,00,000
Ashwin	2,00,000		Machinery	3,00,000
Bijon	3,00,000		Closing Stock	1,00,000
Nitish	2,00,000	7,00,000	Sundry Debtors	1,00,000
Sundry Creditors		1,00,000	Cash at Bank	1,00,000
		8,00,000		8,00,000

On 1st April, 2019, Ashwin retired and the remaining partners decided to carry on the firm. It was agreed to revalue the assets and reassess the liabilities on that date as follows:

(*i*) Land and Building be written up by ₹ 60,000.

(*ii*) Machinery be reduced by 20%.

(*iii*) Closing Stock to be written down to ₹ 75,000.

(*iv*) Provision for Doubtful Debts be made at 5%.

(*v*) An amount of ₹ 20,000 included in creditors is no longer a liability.

(*vi*) Scrap lying in the factory was sold for ₹ 80,000. (Ignore GST)

(*vii*) Goodwill of the firm be valued at ₹ 1,40,000 and Ashwin's share of the Goodwill be adjusted in the accounts of Bijon and Nitish who will share future profits equally.

(*viii*) Total Capital of the firm is to be the same as before the retirement. Individual Capitals of the remaining partners to be in their profit-sharing ratio.

(*ix*) Amount due to Ashwin is to be settled on the following basis:

50% on retirement and the balance 50% within one year.

Prepare Revaluation Account, Capital Accounts of Partners, Bank Account and Balance Sheet after Ashwin's retirement.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Machinery A/c		60,000	By Land and Building A/c	60,000
To Closing Stock A/c		25,000	By Creditors A/c	20,000
To Provision for Doubtful Debts A/c		5,000	By Bank A/c (Scrap sale)	80,000
To Gain (Profit) on Revaluation transferred to Capital A/cs:				
Ashwin (2/7)	20,000			
Bijon (3/7)	30,000			
Nitish (2/7)	20,000	70,000		
		1,60,000		1,60,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Ashwin ₹	Bijon ₹	Nitish ₹	Particulars	Ashwin ₹	Bijon ₹	Nitish ₹
To Ashwin's Capital A/c* (Goodwill)	...	10,000	30,000	By Balance *b/d*	2,00,000	3,00,000	2,00,000
				By Revaluation A/c	20,000	30,000	20,000
To Bank A/c (50% of amount due paid)	1,30,000	...	...	By Bijon's Capital A/c* (Goodwill)	10,000	...	...
				By Nitish's Capital A/c* (Goodwill)	30,000	...	...
To Ashwin's Loan A/c (Balance trfd.)	1,30,000	...	...	By Bank A/c (Balancing Figure)	...	30,000	1,60,000
To Balance *c/d* (WN 2)	...	3,50,000	3,50,000				
	2,60,000	3,60,000	3,80,000		2,60,000	3,60,000	3,80,000

*Ashwin's Share of Goodwill ₹ 40,000 (*i.e.*, ₹ 1,40,000 × 2/7) is adjusted between Bijon and Nitish in Gaining Ratio of 1 : 3 (WN 1).

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,00,000	By Ashwin's Capital A/c	1,30,000
To Revaluation A/c (Scrap sale)	80,000	By Balance *c/d*	2,40,000
To Bijon's Capital A/c	30,000		
To Nitish's Capital A/c	1,60,000		
	3,70,000		3,70,000

BALANCE SHEET OF BIJON AND NITISH
as at 1st April, 2019

Liabilities		₹	Assets		₹
Bijon's Capital	3,50,000		Land and Building		2,60,000
Nitish's Capital	3,50,000	7,00,000	Machinery		2,40,000
Ashwin's Loan		1,30,000	Stock		75,000
Creditors		80,000	Debtors	1,00,000	
			Less: Provision for Doubtful Debts	5,000	95,000
			Cash at Bank		2,40,000
		9,10,000			9,10,000

Working Notes:

1. *Calculation of Gaining Ratio:* Gain/(Sacrifice) = New Share – Old Share

   Bijon's Gain = $\frac{1}{2} - \frac{3}{7} = \frac{1}{14}$ Nitish's Gain = $\frac{1}{2} - \frac{2}{7} = \frac{3}{14}$

   Thus, Gaining Ratio of Bijon and Nitish = 1 : 3.

2. Total Capital of the new firm = ₹ 7,00,000

   Thus, Bijon's Capital ₹ 3,50,000 (*i.e.*, 1/2 of ₹ 7,00,000) and Nitish's Capital ₹ 3,50,000 (*i.e.*, 1/2 of ₹ 7,00,000).

Illustration 5.

A, *B* and *C* are in partnership sharing profits and losses in the ratio of 3 : 2 : 1. Their Balance Sheet as at 31st March, 2017 stood as follows:

Liabilities		₹	Assets		₹
Capital A/cs:			Machinery at cost	50,000	
A	40,000		*Less:* Provision for Depreciation	8,000	42,000
B	60,000		Furniture		1,000
C	20,000	1,20,000	Sundry Debtors	80,000	
Reserve		30,000	*Less:* Provision for Doubtful Debts	3,000	77,000
Sundry Creditors		60,000	Stock		50,000
			Cash at Bank		40,000
		2,10,000			2,10,000

On 30th June, 2017, *B* retired and *A* and *C* continued in partnership, sharing profits and losses in the ratio of 3 : 2. They agreed to the following adjustments in the books of account to decide *B*'s Share:

(*i*) Machinery to be revalued at ₹ 45,000.

(*ii*) Stock to be reduced by ₹ 1,000.

(*iii*) Furniture to be reduced to 60%.

(*iv*) Provision for Doubtful Debts to be maintained at 5%.

(*v*) Provision of ₹ 300 to be made for Outstanding Expenses.

(*vi*) Goodwill of the firm to be valued at ₹ 24,000 and *B*'s share of the same was to be adjusted into the accounts of *A* and *C*.

(*vii*) The profits up to the date of retirement from the date of last Balance Sheet was estimated at ₹ 18,000. All the partners are to be credited with their respective share of profit earned till the date of retirement of *B*.

(*viii*) *B* was to be paid off in full. *A* and *C* were to bring sufficient amount so as to make their capitals in proportion to the new profit-sharing ratio, subject to the condition that a cash balance of ₹ 20,000 was to be maintained as working capital. Before making this adjustment the cash balance was ₹ 58,000 on 30th June, 2017.

Pass necessary Journal entries to give effect to the above arrangements and prepare Partners' Capital Accounts as on 30th June, 2017.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2017	*A*'s Capital A/c	...Dr.		2,400	
June 30	*C*'s Capital A/c	...Dr.		5,600	
	To *B*'s Capital A/c				8,000
	(Being *B*'s share of goodwill adjusted in the Capital Accounts of *A* and *C* in the gaining ratio of 3 : 7) (WN 1 and 2)				

	Revaluation A/c ...Dr.		2,700	
	To Stock A/c			1,000
	To Provision for Doubtful Debts A/c			1,000
	To Furniture A/c			400
	To Provision for Outstanding Expenses A/c			300
	(Being the decrease in assets and increase in liabilities)			
	Machinery A/c ...Dr.		3,000	
	To Revaluation A/c			3,000
	(Being the increase in the value of machinery)			
	Revaluation A/c ...Dr.		300	
	To *A*'s Capital A/c			150
	To *B*'s Capital A/c			100
	To *C*'s Capital A/c			50
	(Being the gain (profit) on revaluation divided in the old ratio)			
	Reserve A/c ...Dr.		30,000	
	To *A*'s Capital A/c			15,000
	To *B*'s Capital A/c			10,000
	To *C*'s Capital A/c			5,000
	(Being the transfer of Reserve to the Partners' Capital Accounts in the old ratio)			
	Profit and Loss Suspense A/c ...Dr.		18,000	
	To *A*'s Capital A/c			9,000
	To *B*'s Capital A/c			6,000
	To *C*'s Capital A/c			3,000
	(Being the estimated profit till the date of retirement transferred to the Capital Accounts in the old ratio)			
	Bank A/c ...Dr.		46,100	
	To *A*'s Capital A/c			16,430
	To *C*'s Capital A/c			29,670
	(Being the cash brought in by *A* and *C* as per agreement) (WN 3)			
	B's Capital A/c ...Dr.		84,100	
	To Bank A/c			84,100
	(Being the payment made to *B* on his retirement)			

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To *B*'s Capital A/c (WN1) (Goodwill)	2,400	...	5,600	By Balance *b/d*	40,000	60,000	20,000
				By *A*'s Capital A/c (WN 1)	...	2,400	...
To Bank A/c (Balancing Figure)	...	84,100	...	By *C*'s Capital A/c (WN 1)	...	5,600	...
				By Revaluation A/c	150	100	50
To Balance *c/d*	78,180	...	52,120	By Reserve A/c	15,000	10,000	5,000
				By Profit and Loss Suspense A/c	9,000	6,000	3,000
				By Bank A/c (WN 3)	16,430	...	29,670
	80,580	84,100	57,720		80,580	84,100	57,720

Working Notes:

1. *Adjustment of Goodwill:*

   B's Share of Goodwill = ₹ 24,000 × 2/6 = ₹ 8,000, which is contributed by *A* and *C* in their Gaining Ratio of 3 : 7.

   A's contribution = ₹ 8,000 × 3/10 = ₹ **2,400**.

   C's contribution = ₹ 8,000 × 7/10 = ₹ **5,600**.

2. *Computation of Gaining Ratio:*

   Gain = New Share – Old Share

   A's Gain = 3/5 – 3/6 = 3/30; *C*'s Gain = 2/5 – 1/6 = 7/30

   Gaining Ratio = 3/30 : 7/30 or **3 : 7**

3. *Cash to be brought in by A and C*:

	₹
Amount payable to *B*	84,100
Add: Amount to be retained as Working Capital	20,000
	1,04,100
Less: Cash already available	58,000
Cash to be brought in by *A* and *C*	46,100

   Adjusted Old Capital of *A* ₹ (40,000 + 150 + 15,000 + 9,000 – 2,400) = ₹ 61,750.

   Adjusted Old Capital of *C* ₹ (20,000 + 50 + 5,000 + 3,000 – 5,600) = ₹ 22,450.

   Total Capital of the New Firm (₹ 46,100 + ₹ 61,750 + ₹ 22,450) = ₹ 1,30,300.

   A will bring (₹ 1,30,300 × 3/5 – ₹ 61,750) = ₹ 78,180 – ₹ 61,750 = ₹ **16,430**.

   C will bring (₹ 1,30,300 × 2/5 – ₹ 22,450) = ₹ 52,120 – ₹ 22,450 = ₹ **29,670**.

Illustration 6.

A, *B* and *C* were equal partners. Their Balance Sheet as at 31st March, 2018 is given below:

BALANCE SHEET *as at 31st March, 2018*

Liabilities		₹	Assets		₹
Bills Payable		20,000	Bank		20,000
Creditors		40,000	Stock		20,000
General Reserve		30,000	Furniture		28,000
Profit and Loss A/c		6,000	Debtors	45,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	5,000	40,000
A	60,000		Land and Building		1,20,000
B	40,000				
C	32,000	1,32,000			
		2,28,000			2,28,000

B retired on 1st April, 2018. *A* and *C* decided to continue the business as equal partners on the following terms:

(*i*) Goodwill of the firm was valued at ₹ 57,600.

(*ii*) Provision for Doubtful Debts to be maintained @ 10% on Debtors.

(*iii*) Land and Building to be increased to ₹ 1,32,000.

(*iv*) Furniture to be reduced by ₹ 8,000.

(*v*) Rent Outstanding (not provided for as yet) was ₹ 1,500.

The remaining partners decided to bring sufficient cash in the business to pay off *B* and to maintain a bank balance of ₹ 24,800. They also decided to readjust their capitals as per their new profit-sharing ratio.

Prepare necessary Ledger Accounts and Balance Sheet. (*ISC 2001, Modified*)

Solution:

In the Books of the Firm

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Furniture A/c		8,000	By Provision for Doubtful Debts A/c	500
To Outstanding Rent A/c		1,500	By Land and Building A/c	12,000
To Gain (Profit) on Revaluation transferred to:				
A's Capital A/c	1,000			
B's Capital A/c	1,000			
C's Capital A/c	1,000	3,000		
		12,500		12,500

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* ₹	*B* ₹	*C* ₹	Particulars	*A* ₹	*B* ₹	*C* ₹
To *B*'s Capital A/c	9,600	...	9,600	By Balance *b/d*	60,000	40,000	32,000
To Bank A/c	...	72,200	...	By General Reserve A/c	10,000	10,000	10,000
To Balance *c/d* (WN)	87,900	...	87,900	By Profit and Loss A/c	2,000	2,000	2,000
				By *A*'s Capital A/c	...	9,600	...
				By *C*'s Capital A/c	...	9,600	...
				By Revaluation A/c —Gain	1,000	1,000	1,000
				By Bank A/c (Bal. Fig.)	24,500	...	52,500
	97,500	72,200	97,500		97,500	72,200	97,500

Dr. BANK ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2017			2017		
April 1	To Balance *b/d*	20,000	April 1	By *B*'s Capital A/c	72,200
April 1	To *A*'s Capital A/c	24,500	April 1	By Balance *c/d*	24,800
April 1	To *C*'s Capital A/c	52,500			
		97,000			97,000

BALANCE SHEET OF *A* AND *C*

as at 1st April, 2018

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		1,32,000
A	87,900		Furniture		20,000
C	87,900	1,75,800	Stock		20,000
Creditors		40,000	Debtors	45,000	
Bills Payable		20,000	*Less:* Provision for Doubtful Debts	4,500	40,500
Outstanding Rent		1,500	Bank		24,800
		2,37,300			2,37,300

Working Note:

Calculation of Capitals of A and C in the new firm:

(*i*) Amount payable to *B* = ₹ 72,200. Required Cash in Hand = ₹ 24,800. Cash already in Hand = ₹ 20,000. Thus, the amount to be brought in by *A* and *C* (shortage of cash) = ₹ 77,000 (*i.e.*, ₹ 72,200 + ₹ 24,800 – ₹ 20,000).

(*ii*) *Capitals of A and C before capital brought in:*

A—₹ (60,000 + 10,000 + 2,000 + 1,000 – 9,600) = ₹ 63,400

C—₹ (32,000 + 10,000 + 2,000 + 1,000 – 9,600) = ₹ 35,400

Total Capital of *A* and *C* is ₹ [63,400 + 35,400 + 77,000 (Shortage of cash)] = ₹ 1,75,800

Therefore, Capital of each partner is ½ of ₹ 1,75,800 = ₹ 87,900.

Illustration 7.

A, *B* and *C* are partners in a trading firm sharing profits in the ratio of 3 : 2 : 1. Their Balance Sheet as at 31st March, 2018 stood as follows:

Liabilities		₹	Assets		₹
Sundry Creditors		12,500	Cash at Bank		1,500
General Reserve		18,000	Sundry Debtors	15,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	1,500	13,500
A	40,000		Stock		12,500
B	21,000		Investment		8,000
C	20,000	81,000	Office Equipments		14,000
			Furniture		12,000
			Building		50,000
		1,11,500			1,11,500

B retired on 1st April, 2018 subject to the following conditions:

(*i*) A typewriter purchased on 1st October, 2017 for ₹ 2,000 debited to Office Expenses Account is to be brought into account charging depreciation @ 10% p.a.

(*ii*) Building revalued at ₹ 75,000. Furniture is to written-down by ₹ 2,000 and stock is reduced to ₹ 10,000.

(*iii*) Provision for Doubtful Debts is to be calculated @ 5% on Sundry Debtors.

(*iv*) Goodwill of the firm is to be valued at ₹ 18,000.

(*v*) Market value of Investment is ₹ 7,500.

(*vi*) Amount due to *B* to be transferred to his Loan Account.

(*vii*) *A* and *C* will share profits and losses in the ratio of 2 : 1 and their capitals are to be adjusted in the profit-sharing ratio.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet immediately after *B*'s retirement.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Stock A/c		2,500	By Office Equipments A/c (WN 1)	1,900
To Furniture A/c		2,000	By Building A/c	25,000
To Investment A/c		500	By Provision for Doubtful Debts A/c	750
To Gain (Profit) transferred to:			(₹ 1,500 – 5% of ₹ 15,000)	
A's Capital A/c	11,325			
B's Capital A/c	7,550			
C's Capital A/c	3,775	22,650		
		27,650		27,650

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* ₹	*B* ₹	*C* ₹	Particulars	*A* ₹	*B* ₹	*C* ₹
To *B's* Capital A/c (WN 3)	3,000	...	3,000	By Balance *b/d*	40,000	21,000	20,000
To *B's* Loan A/c	...	40,550	...	By General Reserve A/c	9,000	6,000	3,000
To Bank A/c (WN 2)	3,258	...	...	By *A's* Capital A/c (WN 3)	...	3,000	...
To Balance *c/d* (WN 2)	54,067	...	27,033	By *C's* Capital A/c (WN 3)	...	3,000	...
				By Revaluation A/c (Profit)	11,325	7,550	3,775
				By Bank A/c (WN 2)	...	...	3,258
	60,325	40,550	30,033		60,325	40,550	30,033

BALANCE SHEET *as at 1st April, 2018 (After B's Retirement)*

Liabilities		₹	Assets		₹
Sundry Creditors		12,500	Cash at Bank		1,500
Loan—*B*		40,550	Sundry Debtors	15,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	750	14,250
A	54,067		Stock		10,000
C	27,033	81,100	Investments		7,500
			Office Equipments (₹ 14,000 + ₹ 1,900)		15,900
			Furniture		10,000
			Building		75,000
		1,34,150			1,34,150

Working Notes:

1. The typewriter purchased was wrongly debited to Office Expense Account, but should have been debited to Office Equipments Account. In effect, depreciation for 6 months (from 1st October, 2017 and 31st March, 2018) has not been provided. Therefore, ₹ 2,000 – ₹ 100 (depreciation for 6 months) = ₹ 1,900 should be debited (added) to Office Equipments Account and also credited to Revaluation Account.
2. *Ascertainment of required Closing Capital:*

	₹
Adjusted capitals of *A* and *C* after *B's* retirement are:	
A (₹ 40,000 + ₹ 9,000 + ₹ 11,325 – ₹ 3,000)	57,325
C (₹ 20,000 + ₹ 3,000 + ₹ 3,775 – ₹ 3,000)	23,775
Total capital of the new firm	81,100

Thus, ₹ 81,100 will be shared by *A* and *C* in their new ratio, *i.e.*, 2 : 1

A's New Capital = ₹ 54,067; and *C's* New Capital = ₹ 27,033.

In effect, A will withdraw ₹ 3,258 (*i.e.*, ₹ 57,325 – ₹ 54,067) and *C* will bring ₹ 3,258 (*i.e.*, ₹ 27,033 – ₹ 23,775).

3. *Adjustment of Goodwill:*

(*i*) *Calculation of Gaining Ratio:*

Gain of a Partner = New Share – Old Share

$$A\text{'s Gain} = \frac{2}{3} - \frac{3}{6} = \frac{4-3}{6} = \frac{1}{6}\,;\ C\text{'s Gain} = \frac{1}{3} - \frac{1}{6} = \frac{2-1}{6} = \frac{1}{6}\,;$$

$$\text{Gaining Ratio of } A \text{ and } C = \frac{1}{6} : \frac{1}{6} = 1:1.$$

(*ii*) Firm's Goodwill = ₹ 18,000

B's Share of Goodwill = ₹ 18,000 × 2/6 = ₹ 6,000, which is to be contributed by *A* and *C* in their gaining ratio, *i.e.*, 1 : 1.

Thus, *A's* Contribution= ₹ 6,000 × 1/2 = ₹ 3,000; and *C's* Contribution = ₹ 6,000 × 1/2 = ₹ 3,000.

Illustration 8.

Kushal, Kumar and Kavita were partners in a firm sharing profits in the ratio of 3 : 1 : 1. On 1st April, 2018, their Balance Sheet was as follows:

BALANCE SHEET OF KUSHAL, KUMAR AND KAVITA
as at 1st April, 2018

Liabilities		₹	Assets		₹
Creditors		1,20,000	Cash		70,000
Bills Payable		1,80,000	Debtors	2,00,000	
General Reserve		1,20,000	*Less:* Provision for doubtful debts	10,000	1,90,000
Capital A/cs:			Stock		2,20,000
Kushal	3,00,000		Furniture		1,20,000
Kumar	2,80,000		Building		3,00,000
Kavita	3,00,000	8,80,000	Land		4,00,000
		13,00,000			13,00,000

On the above date Kavita retired and the following was agreed:

(*i*) Goodwill of the firm was valued at ₹ 40,000.

(*ii*) Land was to be appreciated by 30% and building was to be depreciated by ₹ 1,00,000.

(*iii*) Value of furniture was to be reduced by ₹ 20,000.

(*iv*) Provision for Doubtful Debts is to be increased to ₹ 15,000.

(*v*) 10% of the amount payable to Kavita was paid in cash and the balance was transferred to her Loan Account.

(*vi*) It is decided by Kushal and Kumar that General Reserve is to appear in the books of the new firm at ₹ 80,000.

(*vii*) Capitals of Kushal and Kumar will be in proportion to their new profit-sharing ratio. The surplus/deficit, if any in their Capital Accounts will be adjusted through Current Accounts.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of Kushal and Kumar after Kavita's retirement.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Building A/c	1,00,000	By Land A/c		1,20,000
To Furniture A/c	20,000	By Loss transferred to:		
To Provision for Doubtful Debts A/c	5,000	Kushal's Capital A/c	3,000	
		Kumar's Capital A/c	1,000	
		Kavita's Capital A/c	1,000	5,000
	1,25,000			1,25,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	Kushal ₹	Kumar ₹	Kavita ₹	Particulars	Kushal ₹	Kumar ₹	Kavita ₹
To Revaluation A/c (Loss)	3,000	1,000	1,000	By Balance *b/d*	3,00,000	2,80,000	3,00,000
To Kavita's Capital A/c (Goodwill)	6,000	2,000	...	By General Reserve A/c*	12,000	4,000	24,000
To Cash A/c (10%)	...	...	33,100	By Kushal's Capital A/c (Goodwill)	...	...	6,000
To Kavita's Loan A/c (90%)	...	...	2,97,900	By Kumar's Capital A/c (Goodwill)	...	...	2,000
To Kumar's Current A/c (Bal. Fig.)	...	1,35,000	...	By Kushal's Current A/c (Bal. Fig.)	1,35,000	...	...
To Balance *c/d* (WN 1) (Adjusted Capital)	4,38,000	1,46,000	...				
	4,47,000	2,84,000	3,32,000		4,47,000	2,84,000	3,32,000

*Excess General Reserve = Existing General Reserve – Required in new firm = ₹ 1,20,000 – ₹ 80,000 = ₹ 40,000. Out of ₹ 40,000, Kavita's share in General Reserve ₹ 24,000 (*i.e.*, ₹ 1,20,000 × ₹ 1/5) is credited to her Capital Account, remaining ₹ 16,000 is distributed between Kushal and Kumar in the ratio of 3 : 1.

BALANCE SHEET OF THE RECONSTITUTED FIRM
as at 1st April, 2018

Liabilities		₹	Assets		₹
Creditors		1,20,000	Cash (WN 2)		36,900
Bills Payable		1,80,000	Debtors	2,00,000	
Kavita's Loan A/c		2,97,900	*Less:* Provision for Doubtful Debts	15,000	1,85,000
General Reserve		80,000	Stock		2,20,000
Capital A/cs:			Furniture		1,00,000
Kushal	4,38,000		Building		2,00,000
Kumar	1,46,000	5,84,000	Land		5,20,000
Kumar's Current A/c		1,35,000	Kushal's Current A/c		1,35,000
		13,96,900			13,96,900

Working Notes:

1. *Calculation of Adjusted Capital of Remaining Partners in the New Firm:*

	₹
Kushal's Capital before adjustment [₹ 3,00,000 + ₹ 12,000 – ₹ 3,000 – ₹ 6,000]	3,03,000
Kumar's Capital before adjustment [₹ 2,80,000 + ₹ 4,000 – ₹ 1,000 – ₹ 2,000]	2,81,000
Total Capital	5,84,000

$$\text{Adjusted Capital of Kushal} = ₹\ 5{,}84{,}000 \times \frac{3}{4} = ₹\ 4{,}38{,}000;$$

$$\text{Adjusted Capital of Kumar} = ₹\ 5{,}84{,}000 \times \frac{1}{4} = ₹\ 1{,}46{,}000.$$

2. *Dr.* CASH ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	70,000	By Kavita's Capital A/c	33,100
		By Balance *c/d*	36,900
	70,000		70,000

Illustration 9.

On 1st April, 2016, *P* retired from active partnership and his share of the following was ascertained:

	₹
Goodwill	20,000
Interest on Capital	500
Salary	1,500
Drawings	20,000
Interest on Drawings	2,000
Share of Profit	25,000
Capital	75,000

The amount due to *P* was to be retained in the firm as a loan bearing interest @ 10% p.a. and was to be paid to *P* by annual instalments of ₹ 50,000 each, interest being calculated @ 10% p.a. on the unpaid balances. The first instalment was paid on 31st March, 2017.

You are required to prepare *P*'s Capital Account and also *P*'s Loan Account until the payment of the whole amount due to him was made.

Solution:

Dr. *P*'S CAPITAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Drawings A/c	20,000	By Balance *b/d*	75,000
To Interest on Drawings A/c	2,000	By Partners' Capital (Continuing) A/cs (Goodwill)	20,000
To *P*'s Loan A/c —Transfer	1,00,000	By Interest on Capital A/c	500
		By Partner's Salary A/c	1,500
		By Profit and Loss Appropriation A/c (Share of Profit)	25,000
	1,22,000		1,22,000

Dr. *P*'S LOAN ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2016 March 31	To Balance *c/d*	1,00,000	2016 March 31	By *P*'s Capital A/c	1,00,000
2017 March 31	To Bank A/c	50,000	2016 April 1	By Balance *b/d*	1,00,000
March 31	To Balance *c/d*	60,000	2017 March 31	By Interest A/c @ 10% p.a.	10,000
		1,10,000			1,10,000
2018 March 31	To Bank A/c	50,000	2017 April 1	By Balance *b/d*	60,000
March 31	To Balance *c/d*	16,000	2018 March 31	By Interest A/c @ 10% p.a.	6,000
		66,000			66,000
2019 March 31	To Bank A/c	17,600	2018 April 1	By Balance *b/d*	16,000
			2019 March 31	By Interest A/c @ 10% p.a.	1,600
		17,600			17,600

Illustration 10.

D, *R* and *L* were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. The draft Balance Sheet as at 31st March, 2018 was as follows:

Liabilities		₹	Assets		₹
Capital A/cs:			Building		12,000
D	24,000		Plant and Equipment		18,800
R	12,000		Stock		9,200
L	6,000	42,000	Debtors	12,400	
Current A/cs:			*Less:* Provision for Doubtful Debts	1,200	11,200
D	1,920		Balance at Bank		16,120
R	1,680				
L	1,120	4,720			
Loan—*D*		5,000			
Creditors		15,600			
		67,320			67,320

D retired on 1st April, 2018 and *R* and *L* continued in partnership, sharing profits and losses in the ratio of 2 : 1. *D*'s loan was repaid on 1st April, 2018 and it was agreed that the remaining balance due to him, other than of the Current Account, shall remain as loan to the partnership.

For the purpose of *D*'s retirement, it was agreed that:

(*i*) Building be revalued at ₹ 24,000 and the Plant and Equipment at ₹ 15,800.

(*ii*) Provision for Doubtful Debts was to be increased by ₹ 400.

(*iii*) A creditor of ₹ 500 was not to be paid.

(*iv*) ₹ 1,200 was to be written off from stock for damaged items included therein.

(*v*) ₹ 4,240 payable as legal charges is to be accounted.

(*vi*) Goodwill of the firm to be valued at ₹ 14,400 and *D*'s share of the same be adjusted into the accounts of *R* and *L*.

You are required to prepare Revaluation Account, Capital and Current Accounts of the partners (assuming all adjustments are to be made through the Current Accounts) and the Balance Sheet of *R* and *L* as at 1st April, 2018.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Plant and Equipment A/c		3,000	By Building A/c	12,000
To Provision for Doubtful Debts A/c		400	By Creditors A/c	500
To Stock A/c		1,200		
To Outstanding Legal Charges A/c		4,240		
To Gain (Profit) on Revaluation trfd. to:				
D' Current A/c (3/6)	1,830			
R' Current A/c (2/6)	1,220			
L' Current A/c (1/6)	610	3,660		
		12,500		12,500

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*D* ₹	*R* ₹	*L* ₹	Particulars	*D* ₹	*R* ₹	*L* ₹
To *D*'s Loan A/c	24,000	...	...	By Balance *b/d*	24,000	12,000	6,000
To Balance *c/d*	...	12,000	6,000				
	24,000	12,000	6,000		24,000	12,000	6,000
				By Balance *b/d*	...	12,000	6,000

Dr. PARTNERS' CURRENT ACCOUNTS *Cr.*

Particulars	*D* ₹	*R* ₹	*L* ₹	Particulars	*D* ₹	*R* ₹	*L* ₹
To *D*'s Current A/c (Goodwill: WN 1 & 2)	...	4,800	2,400	By Balance *b/d*	1,920	1,680	1,120
				By Revaluation A/c	1,830	1,220	610
To Bank A/c	10,950	...	...	By *R*'s Current A/c	4,800	...	...
				By *L*'s Current A/c	2,400	...	...
				By Balance *c/d*	...	1,900	670
	10,950	4,800	2,400		10,950	4,800	2,400

BALANCE SHEET OF *R* AND *L as at 1st April, 2018*

Liabilities		₹	Assets		₹
Capital A/cs:			Building		24,000
R	12,000		Plant and Equipment		15,800
L	6,000	18,000	Stock		8,000
D's Loan		24,000	Debtors	12,400	
Creditors		15,100	*Less:* Provision for Doubtful Debts	1,600	10,800
Outstanding Legal Charges		4,240	Balance at Bank (WN 3)		170
			Current A/cs:		
			R	1,900	
			L	670	2,570
		61,340			61,340

Working Notes:

1. *Adjustment of Goodwill:*

   D's Share of Goodwill = ₹ 14,400 × 3/6 = ₹ 7,200.

   D's Share of Goodwill is to be adjusted against the Current Accounts of *R* and *L* in their Gaining Ratio of 2 : 1.

   R = ₹ 7,200 × 2/3 = ₹ 4,800; *L* = ₹ 7,200 × 1/3 = ₹ 2,400.

2. *Computation of Gaining Ratio:*

   Gain = New Share – Old Share

   $R = \frac{2}{3} - \frac{2}{6} = \frac{4-2}{6} = \frac{2}{6}$ (Gain); $L = \frac{1}{3} - \frac{1}{6} = \frac{2-1}{6} = \frac{1}{6}$ (Gain); Gaining Ratio $= \frac{2}{6} : \frac{1}{6}$ or 2 : 1.

3. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	16,120	By *D*'s Loan A/c	5,000
		By *D*'s Current A/c	10,950
		By Balance *c/d*	170
	16,120		16,120

Illustration 11 (*Wigh GST*).

A, *B* and *C* are partners sharing profits in the ratio of 4 : 3 : 1. Their Balance Sheet as at 31st March, 2018 is given below:

Liabilities		₹	Assets		₹
Creditors		1,40,000	Cash in Hand		20,000
Bills Payable		30,000	Cash at Bank		1,50,000
Workmen Compensation Reserve		20,000	Stock		75,000
General Reserve		80,000	Debtors	1,30,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	5,000	1,25,000
A	2,00,000		Car		2,50,000
B	3,00,000		Plant and Machinery		1,20,000
C	2,00,000	7,00,000	Building		2,30,000
		9,70,000			9,70,000

On 1st April, 2018, *B* retired from the firm selling his share of profit to *A* for ₹ 36,000 and to *C* for ₹ 45,000. For the purpose of *B*'s retirement, it was agreed that:

(*i*) Stock is to be appreciated by 20% and Building by 10%.

(*ii*) Provision for Doubtful Debts is increased to 10%.

(*iii*) Claim on account of Workmen Compensation is ₹ 12,000.

(*iv*) Revaluation Expenses were ₹ 5,000 plus CGST and SGST @ 9% each and were paid.

(*v*) Car was valued at ₹ 3,05,000 and was given to *B* in part settlement of his dues. CGST and SGST were charged @ 9% each.

(*vi*) Amount due to *B* is to be settled on the following basis:
50% on retirement and the balance 50% within one year.

(*vii*) Capital of the newly constituted firm is fixed at ₹ 6,00,000 to be divided between *A* and *C* in new profit-sharing ratio. Adjustment is to be made in cash.

Calculate New Profit-sharing Ratio and prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm.

Solution:

Calculation of New Profit-sharing Ratio:

B's share is 3/8 which he is surrendering in favour of *A* and *C* in the ratio of ₹ 36,000: ₹ 45,000 or 4 : 5.

Therefore *A* will get 4/9 of 3/8 = 1/6 and *C* will get 5/9 of 3/8 = 5/24.

Total share of *A* in the new firm will be: 4/8 + 1/6 = 16/24 or 2/3.

Total share of *C* in the new firm will be: 1/8 + 5/24 = 8/24 or 1/3.

New Profit-sharing Ratio of *A* and *C* = 2 : 1.

Dr. REVALUATION ACCOUNT Cr.

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts A/c		8,000	By Stock A/c	15,000
To Cash A/c		5,000	By Building A/c	23,000
(Revaluation Expenses)			By *B*'s Capital A/c	55,000
To Gain (Profit) transferred to:			(Gain on Car)	
A's Capital A/c	40,000			
B's Capital A/c	30,000			
C's Capital A/c	10,000	80,000		
		93,000		93,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	*A* ₹	*B* ₹	*C* ₹	Particulars	*A* ₹	*B* ₹	*C* ₹
To *B*'s Capital A/c (WN 1)	36,000	...	45,000	By Balance *b/d*	2,00,000	3,00,000	2,00,000
				By General Reserve A/c	40,000	30,000	10,000
To Car A/c	...	2,50,000	...	By *A*'s Capital A/c (WN 1)	...	36,000	...
To Revaluation A/c		55,000					
To Output CGST A/c		27,450		By *C*'s Capital A/c (WN 1)	...	45,000	...
To Output SGST A/c		27,450					
To Bank A/c	...	42,050*	...	By Revaluation A/c	40,000	30,000	10,000
To *B*'s Loan A/c	...	42,050*	...	By Workmen Compensation Reserve A/c	4,000	3,000	1,000
To Balance *c/d* (WN 2)	4,00,000	...	2,00,000	By Bank A/c (Bal. Fig.)	1,52,000	...	24,000
	4,36,000	4,44,000	2,45,000		4,36,000	4,44,000	2,45,000

*50% of ₹ 84,100, *i.e.*, Amount due to *B*.

BALANCE SHEET *as at*
1st April, 2018 (After *B*'s Retirement)

Liabilities		₹	Assets		₹
Creditors		1,40,000	Cash in Hand		14,100
Bills Payable		30,000	Cash at Bank		2,83,950
Output CGST		27,450	Input CGST		450
Output SGST		27,450	Input SGST		450
Workmen Compensation Claim		12,000	Stock		90,000
B's Loan		42,050	Debtor	1,30,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	13,000	1,17,000
A	4,00,000		Plant and Machinery		1,20,000
C	2,00,000	6,00,000	Building		2,53,000
		8,78,950			8,78,950

Working Notes:

1. *B* sold his share to *A* and *C* in the ratio of 4 : 5. The consideration of ₹ 36,000 and ₹ 45,000 will be credited to *B*'s Capital Account and the respective amount will be debited to *A*'s and *C*'s Capital Accounts respectively.

2. Total Capital of the New Firm is ₹ 6,00,000. New Profit-sharing Ratio is 2 : 1.

   A's Share of Capital = ₹ 6,00,000 × 2/3 = ₹ 4,00,000

   C's Share of Capital = ₹ 6,00,000 × 1/3 = ₹ 2,00,000

   After all adjustments, *A*'s Capital will be ₹ (2,00,000 + 40,000 + 40,000 + 4,000 – 36,000) = ₹ 2,48,000. Therefore, *A* will bring in (₹ 4,00,000 – ₹ 2,48,000) = ₹ 1,52,000.

   After all adjustments, *C*'s Capital will be ₹ (2,00,000 + 10,000 + 10,000 + 1,000 – 45,000) = ₹ 1,76,000. Therefore, *C* will bring in (₹ 2,00,000 – ₹ 1,76,000) = ₹ 24,000.

3. *Journal entry for Car given to B will be:*

		₹	₹
B's Capital A/c	...Dr.	3,59,900	
To Car A/c			2,50,000
To Revaluation A/c			55,000
To Output CGST A/c			27,450
To Output SGST A/c			27,450
(Being Car given to *B* at ₹ 3,05,000 plus CGST and SGST)			

4. *Journal entry for Revaluation Expenses:*

		₹	₹
Revaluation A/c	...Dr.	5,000	
Input CGST A/c	...Dr.	450	
Input SGST A/c	...Dr.	450	
To Cash A/c			5,900
(Being Revaluation Expenses plus CGST an SGST paid)			

5. *Cash in Hand:*

	₹	₹
Opening Balance		20,000
Less: Revaluation Expenses	5,000	
Input CGST	450	
Input SGST	450	5,900
		14,100

6. *Cash at Bank:*

	₹
Opening Balance	1,50,000
Add: Amount Brought by:	
A	1,52,000
C	24,000
	3,26,000
Less: Paid to *B*	42,050
	2,83,950

Master Questions

Illustration 12.

The Balance Sheet of Hari, Sonu and Zubin who were sharing profits in the ratio of 5 : 3 : 2 as at 31st March, 2019 is as below:

Liabilities		₹	Assets	₹
Creditors		50,000	Cash at Bank	40,000
Employees' Provident Fund		10,000	Sundry Debtors	1,00,000
Profit and Loss A/c		85,000	Stock	80,000
Workmen Compensation Reserve		10,000	Fixed Assets (Tangible)	60,000
Capital A/cs:			Goodwill	5,000
Hari	40,000		Advertisement Suspense A/c	5,000
Sonu	62,000			
Zubin	33,000	1,35,000		
		2,90,000		2,90,000

Hari retired on 1st April, 2019 and Sonu and Zubin decided to share profits in future in the ratio of 2 : 3 respectively.

The other terms on retirement were as follows:

(i) Goodwill of the firm is to be valued at ₹ 80,000.

(ii) Fixed Assets (Tangible) are to be reduced to ₹ 57,500.

(iii) Make a Provision for Doubtful Debts at 5% on Sundry Debtors.

(iv) A claim, included in Creditors for ₹ 10,000, is settled at ₹ 8,000.

The amount to be paid to Hari by Sonu and Zubin in such a way that their capitals are proportionate to their profit-sharing ratio and leave a balance of ₹ 15,000 in the Bank Account.

Prepare Revaluation Account and Partners' Capital Accounts.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Fixed Assets A/c	2,500	By Creditors A/c		2,000
To Provision for Doubtful Debts A/c	5,000	By Loss on Revaluation transferred to:		
		Hari's Capital A/c	2,750	
		Sonu's Capital A/c	1,650	
		Zubin's Capital A/c	1,100	5,500
	7,500			7,500

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Hari (₹)	Sonu (₹)	Zubin (₹)	Particulars	Hari (₹)	Sonu (₹)	Zubin (₹)
To Revaluation A/c (Loss)	2,750	1,650	1,100	By Balance *b/d*	40,000	62,000	33,000
To Hari's Capital A/c	...	8,000	32,000	By Workmen Compensation Reserve A/c	5,000	3,000	2,000
To Goodwill A/c	2,500	1,500	1,000	By Sonu's Capital A/c	8,000	...	...
To Advertisement Suspense A/c	2,500	1,500	1,000	By Zubin's Capital A/c	32,000	...	...
To Bank A/c	1,19,750	...	...	By Profit and Loss A/c	42,500	25,500	17,000
To Balance *c/d* (WN 3)	...	79,000	1,18,500	By Bank A/c (Balancing Figure)	...	1,150	1,01,600
	1,27,500	91,650	1,53,600		1,27,500	91,650	1,53,600

Working Notes:

1. **Gain/Sacrifice** = New Share – Old Share

   Sonu's Gain = $\frac{2}{5}-\frac{3}{10}=\frac{1}{10}$; Zubin's Gain = $\frac{3}{5}-\frac{2}{10}=\frac{4}{10}$

   Gaining Ratio = 1 : 4.

2. Hari's Share of Goodwill = ₹ 80,000 × $\frac{5}{10}$ = ₹ 40,000 to be contributed by Sonu and Zubin in their gaining ratio.

3. **Total Capital of the New Firm** = Adjusted Capital of All Partners – Cash Available for Payment

   Hari's Adjusted Capital = ₹ 40,000 + ₹ 5,000 + ₹ 8,000 + ₹ 32,000 + ₹ 42,500 – ₹ 2,750 – ₹ 2,500 – ₹ 2,500
   = ₹ 1,19,750.

   Sonu's Adjusted Capital = ₹ 62,000 + ₹ 3,000 + ₹ 25,500 – ₹ 1,650 – ₹ 1,500 – ₹ 1,500 – ₹ 8,000
   = ₹ 77,850.

   Zubin's Adjusted Capital = ₹ 33,000 + ₹ 2,000 + ₹ 17,000 – ₹ 1,100 – ₹ 32,000 – ₹ 1,000 – ₹ 1,000
   = ₹ 16,900.

   Cash Available for Payment = ₹ 40,000 – ₹ 8,000 – ₹ 15,000 = ₹ 17,000

   Total Capital of New Firm = ₹ 1,19,750 + ₹ 77,850 + ₹ 16,900 – ₹ 17,000 = ₹ 1,97,500

   Sonu's New Capital = ₹ 1,97,500 × $\frac{2}{5}$ = ₹ 79,000

   Zubin's New Capital = ₹ 1,97,500 × $\frac{3}{5}$ = ₹ 1,18,500.

4. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	40,000	By Creditors A/c	8,000
To Sonu's Capital A/c	1,150	By Hari's Capital A/c	1,19,750
To Zubin's Capital A/c	1,01,600	By Balance *c/d*	15,000
	1,42,750		1,42,750

Illustration 13.

Ansh, Vansh and Dev are in partnership sharing profits and losses in the ratio of 3 : 2 : 1.

BALANCE SHEET OF Ansh, Vansh AND Dev *as at 31st March, 2019*

Liabilities		₹	Assets		₹
Capital A/cs:			Machinery at cost	50,000	
Ansh	80,000		*Less:* Provision for Depreciation	8,000	42,000
Vansh	60,000		Furniture		1,000
Dev	40,000	1,80,000	Sundry Debtors	80,000	
Reserve		24,000	*Less:* Provision for Doubtful Debts	3,000	77,000
Workmen Compensation Reserve		6,000	Stock		50,000
Sundry Creditors		60,000	Cash at Bank		1,00,000
		2,70,000			2,70,000

On 30th June, 2019, Vansh retired and Ansh and Dev continued in partnership, sharing profits and losses in the ratio of 3 : 2. It was agreed that the following adjustments were to be made in the Balance Sheet as at 30th June, 2019:

(i) Machinery was to be revalued at ₹ 45,000.

(ii) Stock was to be reduced by 2%.

(iii) Furniture was to be reduced to ₹ 600.
(iv) Provision for Doubtful Debts to be increased by ₹ 1,000.
(v) A Provision of ₹ 300 was to be created for Outstanding Expenses.

The partnership agreement provided that on the retirement of a partner, goodwill was to be valued at ₹ 24,000 and Vansh's share of the same was to be adjusted into the accounts of Ansh and Dev. The profits up to the date of retirement from the date of last Balance Sheet was estimated at ₹ 45,000. All the partners are to be credited with their respective share of profit earned till the date of retirement of Vansh.

Vansh was to be paid in full. Ansh and Dev were to bring sufficient amount so as to make their capitals in proportion to the new profit-sharing ratio, subject to the condition that a cash balance of ₹ 30,000 was to be maintained as working capital. Before making this adjustment the cash balance was ₹ 68,000 on 30th June, 2019.

Pass necessary Journal entries to give effect to the above arrangements and prepare Partners' Capital Accounts as on 30th June, 2019.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019	Ansh's Capital A/c	...Dr.		2,400	
June 30	Dev's Capital A/c	...Dr.		5,600	
	To Vansh's Capital A/c				8,000
	(Being Vansh's share of goodwill adjusted in the Capital Accounts of Ansh and Dev in the gaining ratio of 3 : 7) (WN 1 and 2)				
	Revaluation A/c	...Dr.		2,700	
	To Stock A/c				1,000
	To Provision for Doubtful Debts A/c				1,000
	To Furniture A/c				400
	To Provision for Outstanding Expenses A/c				300
	(Being the decrease in assets and increase in liabilities)				
	Machinery A/c	...Dr.		3,000	
	To Revaluation A/c				3,000
	(Being the increase in the value of machinery)				
	Revaluation A/c	...Dr.		300	
	To Ansh's Capital A/c				150
	To Vansh's Capital A/c				100
	To Dev's Capital A/c				50
	(Being the gain (profit) on revaluation divided in the old ratio)				
	Reserve A/c	...Dr.		24,000	
	Workmen Compensation Reserve A/c	...Dr.		6,000	
	To Ansh's Capital A/c				15,000
	To Vansh's Capital A/c				10,000
	To Dev's Capital A/c				5,000
	(Being the transfer of free Reserves to the Partners' Capital Accounts in the old ratio)				
	Profit and Loss Suspense A/c	...Dr.		45,000	
	To Ansh's Capital A/c				22,500
	To Vansh's Capital A/c				15,000
	To Dev's Capital A/c				7,500
	(Being the estimated profit till the date of retirement transferred to the Capital Accounts in the old ratio)				
	Bank A/c	...Dr.		55,100	
	To Ansh's Capital A/c				15,130
	To Dev's Capital A/c				39,970
	(Being the cash brought in by Ansh and Dev as per agreement) (WN 3)				
	Vansh's Capital A/c	...Dr.		93,100	
	To Bank A/c				93,100
	(Being the payment made to Vansh on his retirement)				

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Ansh ₹	Vansh ₹	Dev ₹	Particulars	Ansh ₹	Vansh ₹	Dev ₹
To Vansh's Capital A/c (WN1) (Goodwill)	2,400	...	5,600	By Balance *b/d*	80,000	60,000	40,000
To Bank A/c (Balancing Figure)	...	93,100	...	By Ansh's Capital A/c (WN 1)	...	2,400	...
To Balance *c/d* (WN 3)	1,30,380	...	86,920	By Dev's Capital A/c (WN 1)	...	5,600	...
				By Revaluation A/c (Gain)	150	100	50
				By Reserve A/c	12,000	8,000	4,000
				By Workmen Compensation Reserve	3,000	2,000	1,000
				By Profit and Loss Suspense A/c	22,500	15,000	7,500
				By Bank A/c (Bal. Fig.)	15,130	...	39,970
	1,32,780	93,100	92,520		1,32,780	93,100	92,520

Working Notes:

1. *Adjustment of Goodwill:*

   Vansh's Share of Goodwill = ₹ 24,000 × 2/6 = ₹ 8,000, which is contributed by Ansh and Dev in their Gaining Ratio of 3 : 7.

   Ansh's contribution = ₹ 8,000 × 3/10 = ₹ **2,400**; Dev's contribution = ₹ 8,000 × 7/10 = ₹ **5,600**.

2. *Computation of Gaining Ratio (Gain = New Share – Old Share):*

   Ansh's Gain = 3/5 – 3/6 = 3/30; Dev's Gain = 2/5 – 1/6 = 7/30

   Gaining Ratio = 3/30 : 7/30 or **3 : 7**.

3. *Cash to be brought in by Ansh and Dev:*

	₹
Amount payable to Vansh	93,100
Add: Amount to be retained as Working Capital	30,000
	1,23,100
Less: Cash already available	68,000
Cash to be brought in by Ansh and Dev	55,100

   Adjusted Old Capital of Ansh = ₹ (80,000 + 150 + 12,000 + 3,000 + 22,500 – 2,400) = ₹ 1,15,250.

   Adjusted Old Capital of Dev = ₹ (40,000 + 50 + 4,000 + 1,000 + 7,500 – 5,600) = ₹ 46,950.

   Total Capital of the New Firm = ₹ 55,100 + ₹ 1,15,250 + ₹ 46,950 = ₹ 2,17,300.

   Ansh's Capital in New Firm = ₹ 2,17,300 × 3/5 = ₹ 1,30,380;

   Dev's Capital in New Firm = ₹ 2,17,300 × 2/5 = ₹ 86,920.

Unsolved Questions

1. *A, B* and *C* are partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Their Balance Sheet as at 31st March, 2018 is as under:

Liabilities		₹	Assets		₹
Creditors		30,000	Cash in Hand		18,000
Bills Payable		16,000	Debtors	25,000	
General Reserve		12,000	*Less:* Provision for Doubtful Debts	3,000	22,000
Capital A/cs:			Stock		18,000
A	40,000		Furniture		30,000
B	40,000		Machinery		70,000
C	30,000	1,10,000	Goodwill		10,000
		1,68,000			1,68,000

B retires on 1st April, 2018 on the following terms:

(*i*) Provision for Doubtful Debts be raised by ₹ 1,000.

(*ii*) Stock to be depreciated by 10% and Furniture by 5%.

(*iii*) There is an outstanding claim of damages of ₹ 1,100 and it is to be provided for.

(*iv*) Creditors will be written back by ₹ 6,000.

(*v*) Goodwill of the firm is valued at ₹ 22,000.

(*vi*) *B* is paid in full with the cash brought in by *A* and *C* in such a manner that their capitals are in proportion to their profit-sharing ratio and Cash in Hand remains at ₹ 10,000.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of *A* and *C*.

2. Balance Sheet of *X*, *Y* and *Z* who were sharing profits in the ratio of 4 : 3 : 2 stood as follows as at 31st March, 2018:

Liabilities		₹	Assets		₹
Sundry Creditors		82,800	Cash at Bank		66,000
Capital A/cs:			Sundry Debtors	60,900	
X	2,40,000		*Less:* Provision for Doubtful Debts	2,100	58,800
Y	1,80,000		Stock		96,000
Z	1,20,000	5,40,000	Plant and Machinery		1,02,000
			Land and Building		3,00,000
		6,22,800			6,22,800

Y having given notice to retire from the firm, the following adjustments in the books of the firm were agreed upon:

(*i*) That Land and Building be appreciated by 10%.

(*ii*) Provision for Doubtful Debts is no longer necessary.

(*iii*) Stock be appreciated by 20%.

(*iv*) Adjustment be made in the accounts to rectify a mistake previously made whereby *Y* was credited in excess by ₹ 16,200 while *X* and *Z* were debited in excess by ₹ 8,400 and by ₹ 7,800 respectively.

(*v*) Goodwill of the firm be fixed at ₹ 1,08,000 and *Y's* share of the same be adjusted to the Capital Accounts of *X* and *Z* who are going to share future profits in the ratio of 2 : 1.

(*vi*) The entire capital of the firm, as newly constituted, will be readjusted by bringing in or paying cash so that the future capitals of *X* and *Z* be in the ratio of 2 : 1.

Prepare Revaluation Account, Capital Accounts of Partners, and Balance Sheet of the new firm showing *Y's* balance as loan.

[**Hint:** For Rectification: Dr. *Y's* Capital A/c—₹ 16,200 and Cr. *X's* Capital A/c—₹ 8,400 and *Z's* Capital A/c—₹ 7,800.]

3. *P*, *Q* and *R* were partners sharing profits and losses in the ratio of 4 : 3 : 3. The Balance Sheet of the firm as at 31st March, 2015 stood as follows:

Liabilities		₹	Assets	₹
Creditors		10,000	Cash and Bank	20,000
Capital A/cs: *P*	30,000		Debtors	15,000
Q	15,000		Stock	17,000
R	15,000	60,000	Fixed Assets	52,000
Employees' Provident Fund		20,000	Drawings: *R*	6,000
Reserves		10,000		
Workmen Compensation Reserve		10,000		
		1,10,000		1,10,000

R retired on the above date and following terms and conditions were agreed upon:

(*i*) Fixed Assets are to be depreciated by ₹ 2,000 and Provision for Doubtful Debts is to be created ₹ 1,000.

(*ii*) A Liability of ₹ 4,000 for Workmen Compensation is to be created.

(*iii*) Goodwill of the firm is valued at ₹ 50,000.

(*iv*) New profit-sharing ratio of *P* and *Q* is 2 : 1.

(*v*) Final balance payable to *R* is to be treated as loan carrying interest @10% p.a.

(*vi*) Final balance of *R* is to be settled in three equal annual instalments *plus* interest and the first instalment is payable on 31st March, 2016.

Pass Journal entries relating to *R*'s retirement. Also, show Balance Sheet of *P* and *Q* as at 1st April, 2015 and *R*'s Loan Account for 2015–16, 2016–17 and 2017–18.

4. Manoj, Naveen and Deepak were partners sharing profits in the ratio of 3 : 2 : 1. On 1st April, 2017, Naveen retired. On that date Balance Sheet was as follows:

Liabilities		₹	Assets	₹
General Reserve		6,000	Plant	30,000
Expenses Owing		2,000	Patents	3,000
Bills Payable		5,000	Debtors	9,500
Creditors		10,000	Stock	11,000
Capital A/cs: Manoj	12,000		Cash	500
Naveen	10,000			
Deepak	9,000	31,000		
		54,000		54,000

The terms were:

(*i*) Goodwill of the firm be valued at ₹ 12,000 and Naveen's share of goodwill be adjusted in the accounts of Manoj and Deepak who will share the future profits and losses in the ratio of 3 : 2.

(*ii*) Expenses owing are to be brought down to ₹ 1,500; Plant is to be valued at 10% less and Patents at ₹ 4,000.

(*iii*) The total capital of the new firm will be fixed at ₹ 25,000 to be contributed by partners in the profit-sharing ratio.

Prepare necessary Ledger Accounts to record the above and prepare Balance Sheet after Naveen's retirement.

5. Following is the Balance Sheet of *A*, *B* and *C* as at 31st March, 2018, who have agreed to share profits and losses in proportion of their capitals:

Liabilities		₹	Assets		₹
Sundry Creditors		2,00,000	Cash at Bank		4,10,000
Employees' Provident Fund		1,40,000	Closing Stock		4,00,000
Profit and Loss A/c		1,00,000	Sundry Debtors	4,40,000	
General Reserve		80,000	*Less:* Provision for Doubtful Debts	40,000	4,00,000
Investment Fluctuation Reserve		60,000	Land and Building		8,00,000
Workmen Compensation Reserve		60,000	Machinery		12,00,000
Capital A/cs:			Investment (Market Value ₹ 2,70,000)		2,00,000
A	8,00,000		Advertisement Expenditure		30,000
B	12,00,000				
C	8,00,000	28,00,000			
		34,40,000			34,40,000

On 1st April, 2018, *A* retired from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and reassess the liabilities on that date, on the following basis:

(*i*) Land and Building to be appreciated by 30%.

(*ii*) Machinery be brought down by 30%.

(*iii*) There were Bad Debts of ₹ 60,000.

(*iv*) The claim on account of Workmen Compensation Reserve was determined at ₹ 32,000.

(*v*) Goodwill of the firm was valued at ₹ 5,60,000 and *A*'s share of Goodwill was adjusted against the Capital Accounts of the continuing partners *B* and *C* who have decided to share future profits in the ratio of 3 : 4 respectively.

(*vi*) Continuing partners decided to record the effect of reserves (after adjusting claim on account of Workmen Compensation Reserve) and accumulated profits/losses without effecting their book values.

(*vii*) Capital of the new firm in total will be the same as before the retirement of *A* and will be in the new profit-sharing ratio of the continuing partners.

(*viii*) Amount due to *A* be settled by paying ₹ 2,00,000 immediately and balance by transferring to her Loan Account which will be paid later.

Prepare Revaluation Account, Capital Accounts of Partners and Balance Sheet of the firm after Kusum's retirement.

6. The Balance Sheet *A*, *B* and *C* who were sharing profits in the ratio of 3 : 1 : 2 respectively stood as follows on 31st March, 2017:

Liabilities		₹	Assets		₹
Bills Payable		1,20,000	Cash		70,000
Sundry Creditors		1,80,000	Stock		2,20,000
General Reserve		1,80,000	Sundry Debtors	2,00,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	10,000	1,90,000
A	3,00,000		Building		4,00,000
B	3,00,000		Machinery		3,00,000
C	2,80,000	8,80,000	Furniture		1,20,000
			Advertisement Suspense A/c		60,000
		13,60,000			13,60,000

On 1st April, 2017, *C* retires from the firm and the partners agree to the following terms:

(*i*) Building and Stock are to be appreciated by 20% and 15% respectively.

(*ii*) Machinery and Furniture are to be reduced by 10% and 7% respectively.

(*iii*) Provision for Doubtful Debts to be increased to ₹ 15,000.

(*iv*) A computer previously written off is sold for ₹ 5,000 *plus* CGST and SGST @ 9% each.

(*v*) A provision of ₹ 5,000 be made in respect of outstanding legal charges.

(*vi*) Goodwill of the firm is valued at ₹ 2,10,000.

(*vii*) The continuing partners have decided to adjust their capitals in their New Profit-sharing Ratio after retirement of *C*. Surplus/deficit, if any, in their Capital Accounts will be adjusted through Current Accounts.

Prepare necessary Ledger Accounts and the Balance Sheet of the reconstituted firm.

7. Vijay, Kriti and Reeti are partners sharing profit and loss in the ratio of 2 : 2 : 1. Reeti retired on 30th June, 2019. Balance Sheet of the firm as at 31st March, 2019 stood as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Building	20,00,000
Vijay	12,00,000		Investments	2,50,000
Kriti	12,00,000		Stock	5,00,000
Reeti	8,00,000	32,00,000	Sundry Debtors	8,00,000
General Reserve		8,00,000	Cash in Hand	2,00,000
Sundry Creditors		2,00,000	Cash at Bank	4,50,000
		42,00,000		42,00,000

To determine the amount due to Reeti, it was mutually agreed that:

(i) Building to be appreciated by ₹ 4,00,000.

(ii) Investments to be valued at ₹ 2,00,000.

(iii) Stock be taken at ₹ 6,00,000.

(iv) Goodwill be valued at two years' purchase of the average profit of the past five years.

(v) Reeti's share of profit up to the date of retirement be calculated on the basis of average profit of the preceding three years.

The profits of the preceding five years ending 31st March, were as under:

Year	2015	2016	2017	2018	2019
Profit (₹)	4,00,000	4,70,000	6,00,000	5,50,000	6,50,000

(vi) Amount payable to Reeti to be transferred to her Loan Account carrying interest @ 8% p.a.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet as at 30th June, 2019.

GUIDE TO ANSWERS

1. Gain (Profit) on Revaluation—₹ 600; Existing Goodwill written off: Dr. *A*—₹ 5,000; *B*—₹ 3,333 and *C*—₹ 1,667 in Old Ratio of 3 : 2 : 1; Cr. Goodwill—₹ 10,000; Gaining Ratio 3 : 1. For Goodwill: Dr. *A*—₹ 5,500 and *C*—₹ 1,833; Cr. *B*—₹ 7,333; Balance of Capital A/cs after adjustments: *A*—₹ 35,800; *B*—₹ 48,200 and *C*—₹ 28,600; Capitals Rearranged: *A*—₹ 78,450 and *C*—₹ 26,150; Cash brought in by *A*—₹ 42,650 and cash withdrawn by *C*—₹ 2,450; Cash Balance—₹ 10,000 (₹ 18,000 + ₹ 42,650 – ₹ 2,450 – ₹ 48,200); Balance Sheet Total—₹ 1,45,700.

2. Gain Profit) on Revaluation—₹ 51,300; *Y*'s Loan A/c—₹ 2,16,900; Cash brought in by *X*—₹ 2,400 and Cash withdrawn by *Z*—₹ 2,400. New Capitals: *X*—₹ 2,49,600; *Z*—₹ 1,24,800. Balance Sheet Total—₹ 6,74,100.

3. Loss on Revaluation—₹ 3,000; *R*'s loan—₹ 27,900; *P*'s Capital—₹ 21,867; *Q*'s Capital—₹ 17,233; Balance Sheet Total as at 1st April, 2015—₹ 1,01,000.

4. Loss on Revaluation—₹ 1,500; Naveen's Loan—₹ 15,500; Capitals: Manoj—₹ 15,000; Deepak—₹ 10,000; Cash—₹ 1,950 paid by Manoj and ₹ 3,050 by Deepak; Cash Balance—₹ 5,500; Balance Sheet Total—₹ 57,000.

5. Loss on Revaluation—₹ 70,000; Capital Account Balances: *B*—₹ 12,00,000; *C*—₹ 16,00,000; *A*'s Loan A/c—₹ 8,08,000; Balance Sheet Total—₹ 42,48,000.

6. Gain on Revaluation—₹ 69,600; *C*'s Loan—₹ 4,13,200; Capital Account Balances: *A*—₹ 4,92,300; *B*—₹ 1,64,100; Balance Sheet Total—₹ 15,25,500.

7. Gain (Profit) on Revaluation—₹ 4,50,000. Reeti's Loan A/c—₹ 12,93,600. Capital A/c Balances: Vijay—₹ 15,93,200 and Kriti—₹ 15,93,200. Balance Sheet Total—₹ 46,80,000.

[**Hint:** Reeti's Share of Profit till the date of retirement—₹ 30,000.]