

6

PARTNERSHIP ACCOUNTS (III)

Retirement and Death of a Partner

Problem No. 1

	Particulars	L.F	Debit Rs.	Credit Rs.
a.	Goodwill Account To Fahad's Capital a/c To Husnain's Capital a/c To Asad's Capital a/c Goodwill raised at full value and credited to the all partners capital account		40,000	20,000 12,000 8,000
b.	Goodwill Account To Fahad's Capital a/c To Husnain's Capital a/c To Asad's Capital a/c Goodwill raised at full value and credited to the all partners capital account		40,000	20,000 12,000 8,000
	Fahad's Capital a/c Husnain's Capital a/c To Goodwill account Goodwill written off among the remaining partners		25,000 15,000	40,000
c.	Goodwill Account To Asad's Capital a/c Asad's Share of goodwill raised and credited to the Asad's Capital		8,000	8,000
d.	Goodwill Account To Asad's Capital a/c Asad's Share of goodwill credited to the Asad's Capital		8,000	8,000

Fahad's Capital a/c	5,000	
Husnain's Capital a/c	3,000	
To Goodwill a/c		8,000
Asad's share of goodwill written off among the remaining partners in their gaining ratios.		

Problem No. 2

Particulars	L.F	Debit	Credit
		Rs.	Rs.
Reserve Fund Account		12,000	
To C's Capital a/c			6,000
To D's Capital a/c			4,000
To E's Capital a/c			2,000
Reserve fund credited to all partners capital accounts			
Goodwill Account		18,000	
To C's Capital a/c			9,000
To D's Capital a/c			6,000
To E's Capital a/c			3,000
Goodwill transferred to the all partners capital accounts			
Profit and loss adjustment a/c		6,650	
To Plant and machinery			3,500
To Motor Vans			1,200
To Reserve for doubtful debts			1,950
Decrease in the value of above assets recorded			
Stock a/c		5,000	
Factor Buildings a/c		4,500	
To profit and loss adjustments a/c			9,500
Increase in the value of above assets recorded			

Profit and loss adjustments a/c	2,850	
To C's Capital a/c		1,425
To D's Capital a/c		950
To E's Capital a/c		475
Being the transferred of profit on adjustments		
D's Capital a/c	40,950	
To D's Loan a/c		40,950
D's Capital transferred to his loan account		

Revaluation Account

To Motor Vans	1,200	Stock	5,000
To Reserve For doubtful a/c	1,950	By Factory & building a/c	4,500
To C's Capital a/c	1,425		
To D's Capital a/c	950		
To E's Capital a/c	475		
	2,850		
	9,500		9,500

Capital Accounts

	A	B	C		A	B	C
To Balance c/d	56,425	--	30,475	By Balance b/d	40,000	30,000	25,000
To Transfer to Loan a/c	--	40,950	--	By Reserve	6,000	4,000	2,000
				By Goodwill	9,000	5,000	3,000
				By Profit	1,425	950	475
	56,425	40,950	30,475		56,425	40,950	30,475

Goodwill Account

	Rs.		Rs.
To C's Capital	9,000	By Balance	18,000
To D's Capital	6,000		
To E's Capital	3,000		
	18,000		18,000

Balance Sheet of C, D and E
As at 31st December, 2005

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Sundry Creditors	19,000	Goodwill	18,000
Bills Payable	5,000	Cash at bank	2,500
D's Loan a/c	40,950	Sundry Debtors	16,000
Capital C	56,425	Less Reserve	2,450
E	30,475	Stock	30,000
		Motor Vans	6,800
		Plant and Machinery	31,500
		Factory Building	49,500
	151,850		151,850

Problem No. 3**Journal Entries**

Particulars	L.F	Debit	Credit
		Rs.	Rs.
Goodwill a/c		18,000	
To A's Capital a/c			7,200
To B's Capital a/c			5,400
To C's Capital a/c			5,400
Goodwill transferred to the all partners capital accounts			
Profit and Loss Adjustment a/c		14,000	
To Machinery a/c			10,000
To Reserve for doubtful debts			3,000
To Fixtures			1,000
Decrease in the value of above assets recorded			
Stock a/c		5,000	
To Profit and Loss adjustment a/c			5,000
Increase in the value of stock recorded			

A's Capital a/c	3,600	
B's Capital a/c	2,700	
C's Capital a/c	2,700	
To Profit and Loss Adjustment a/c		9,000
Loss on revaluation transferred to profit and loss adjustments account		
Ci Capital Account	17700	
To Ci Loan Account		17700
Ci Capital Transferred to Loss a/c		

Profit and Loss Adjustment Account

	Rs.		Rs.
To Plant and Machinery	10,000	By Stock a/c	5,000
To Reserve for doubtful debts	3,000	By A's Capital	3,600
To Fixtures	1,000	By B's Capital	2,700
		By C's Capital	2,700
	14,000		14,000

Capital Accounts

	A	B	C		A	B	C
To Profit and Loss Adjustments	3,600	2,700	2,700	By Balance b/d	20,000	15,000	15,000
To Balance c/d	23,600	17,700	--	By Goodwill	7,200	5,400	5,400
To Transferred to Loan a/c	--	--	17,700				
	27,200	20,400	20,400		27,200	20,400	20,400

Balance Sheet of A, B and C
As at 31st December, 2005

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Sundry Creditors	30,500	Cash at Bank	3,500
Capital:		Debtors	35,000
A	23,600	Less Reserve	3,000
B	17,700	Fixtures	1,000
C	17,700	Machinery	15,000
		Stock	20,000
		Goodwill	18,000
	89,500		89,500

Problem No. 4**Profit and Loss Adjustment Account**

To Stock	2,000	By Building a/c	12,500
To Machinery	3,000		
To Reserve for bad debts	2,000		
To Profit transferred to Capital a/c	5,500		
Ahmad	2,750		
Aleem	1,650		
Ali	1,100		
Total:	12,500	Total:	12,500

Ali Capital Account

To Balance due	31,300	By Balance b/d	20,000
		By Reserve Fund	3,000
		By Goodwill	7,200
		By Profit	1,100
Total:	31,300	Total:	31,300

Problem No. 5**Journal**

Particulars	L/F	Rs.	R.s
Goodwill Account		1,000	
To Old's Capital Account			500
To Young's Capital Account			500
Goodwill raised in the books			
Revaluation Account		826	
To Stock			500
To Reserve for Doubtful Debts			326
Decrease in assets recorded			
Old's Capital Account		413	
Young's Capital Account		413	
To Revaluation Account			824
Loss on Revaluation transferred to partners			
Old's Capital Account		2,000	
To Old Loan Account			2,000
Rs. 2,000 Revaluation as loan on mortgage			
Old's Capital Account		3,087	
To Bills Payable Account			3,087
A bill given to old			

Balance Sheet of Young
As at 31st December, 2005

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Sundry Creditors	7,000	Bank Balance	100
Bills Payable	3,087	Sundry Debtors	8,150
Old's Loan	2,000	Less Reserve for	326
Young Capital	4,087	Bad debts	
		Stock	2,750
		Machinery	1,500
		Freehold	3,000
		Goodwill	1,000
Total:	16,174	Total:	16,174

Problem No. 6**Karim's Capital Account**

Particulars	Rs.	Particulars	Rs.
To Cash (Drawings)	5,000	By Balance b/d	20,000
		By Goodwill a/c	12,000
		By Profit & Loss	1,000
To Balance c/d	28,750	By Interest on Capital	750
Total:	33,750	Total:	33,750

Calculations:

Calculation of Goodwill

$$\begin{aligned} \text{Average Profit} &= \frac{15,000 + 12,000 + 9,000}{3} = 12,000 \\ \text{Goodwill} &= 12,000 \times 3 = 36,000 \\ \text{Karim's share} &= \frac{36,000 \times 3}{9} = 12,000 \end{aligned}$$

Profit and Loss: Average Profit for three year Rs. 12,000.

$$\text{Profit upto 31st March} = \frac{12,000 \times 3}{12} = 3,000$$

$$\text{Karim's share} = \frac{3,000 \times 3}{9} = 1,000$$

Problem No. 7**M/S Capital Account**

Date	Particulars	Rs.	Date	Particulars	Rs.
2005 Mar. 31	To Drawings	1,800	2005 Mar. 31	By Balance b/d	24,000
	To Balance due	46,133		By Profit for 3 months	1,233
				By Interest	300
				By Share of Policy Money	12,000
				By Share of Goodwill	10,400
	Total:	47,933		Total:	47,933

Problem No. 8**Smith's Capital Account**

Particulars	Rs.	Particulars	Rs.
To Balance due to Smith's Executive	12,800	By Capital at date of death	6,000
		By Reserve 2/5	1,200
		By Profit	560
		By Goodwill	5,040
Total:	12,800	Total:	12,800

Problem No. 9**Journal Entries**

Date	Particulars	L.F	Debit Rs.	Credit Rs.
2006 Feb. 21	Interest a/c To B's Capital a/c Interest on Capital		60	60
	Reserve Fund A/c To B's Capital a/c Share of reserve fund		1,000	1,000
	Profit & Loss a/c To B's Capital a/c Share of profit for the period		53,333	53,333
	Goodwill a/c To B's Capital a/c Share of goodwill		5,866.67	5,866.67
	Cash a/c To Investments Investments sold		16,200	16,200
	B's Capital a/c To Cash a/c Cash paid to B		13,460	13,460

B's Capital Account

	Rs.		Rs.
To Cash a/c	13,460	By Balance b/d	6,000
		By Reserve Fund	1,000
		By Interest	60
		By Profit and Loss a/c	533.33
		By Goodwill	5,866.67
	13,460		13,460