

## PRACTICAL QUESTIONS

(Question Nos. 1 to 42 are strictly in the serial order of Illustrations)

### Sacrificing and Gaining Ratio:

1. (a) X and Y were partners in a firm sharing profits in the ratio of 5: 3. With effect from 1st April, 2019 they agreed to share profits equally. Calculate the individual partner's gain or sacrifice due to change in ratio.

[Ans. X sacrifices and Y gains  $\frac{1}{8}$ th share.]

- (b) A and B were in partnership sharing profits equally. With effect from 1st April, 2019 they agreed to share profits in the ratio of 4: 3. Calculate the individual partner's gain or sacrifice due to change in ratio.

[Ans. A gains and B sacrifices  $\frac{1}{14}$ th share.]

2. (a) A, B and C were in partnership sharing profits in the ratio of 4: 3: 1. The partners agreed to share future profits in the ratio of 5: 4: 3. Calculate each partner's gain or sacrifice due to change in ratio.

[Ans. A sacrifices  $\frac{2}{24}$ , B sacrifices  $\frac{1}{24}$  and C gains  $\frac{3}{24}$ .]

- (b) Mahesh, Naresh and Om were partners sharing profits in the ratio of 2: 3: 4. With effect from 1st April, 2016 they agreed to share profits in the ratio of 1: 2: 3. Calculate each partner's gain or sacrifice due to change in ratio.

[Ans. Mahesh sacrifices and Om gains  $\frac{1}{18}$ th share.]

### Valuation of Goodwill- Average Profit Method:

3. Calculate Goodwill on the basis of two years' purchase of average profits of last six years. Profits are as follows:

Year	₹	Profit/Loss
1 <sup>st</sup>	60,000	Profit
2 <sup>nd</sup>	40,000	Loss
3 <sup>rd</sup>	30,000	Loss
4 <sup>th</sup>	1,00,000	Profit
5 <sup>th</sup>	1,70,000	Profit
6 <sup>th</sup>	2,20,000	Profit

[Ans. 1,60,000.]

4. X purchased the business of Y from 1st April, 2019. For this purpose goodwill is to be valued at 100 % of the average annual profits of the last four years. The profits shown by Y's business for the last four years were:

Year ended	(₹)	
31 <sup>st</sup> March, 2016	Profit 1,00,000	(after debiting loss of stock by fire ₹ 50,000)

31 <sup>st</sup> March, 2017	Loss	1,50,000	(includes voluntary retirement compensation paid ₹ 80,000)
31 <sup>st</sup> March 2018	Profit	1,50,000	
31 <sup>st</sup> March 2019	Profit	2,00,000	

Verification of books of accounts revealed the following:

- (i) During the year ended 31st March, 2017, a machine got destroyed in accident ₹ 60,000 was written off as loss in Profit & Loss Account.
- (ii) On 1st July 2017, Two Computers costing ₹ 40,000 each were purchased and were debited to Travelling Expenses Account on which depreciation is to be charged @ 10 % p.a. on Straight Line Method.

Calculate the value of goodwill.

[Ans. Goodwill ₹ 1,39,000.]

**Hint.** Profit for the year ended 31st March 2018 ₹ 2,24,000 and for 2019 ₹ 1,92,000.

5. A, B and C are partners in a firm sharing profits and losses in the ratio of 2: 2: 1. They decide to take D into partnership for 1/4th share on 1st April, 2017. For this purpose, goodwill is to be valued at 3 times the average annual profits of the previous four or five years whichever is higher. The agreed profits for goodwill purpose of the past five years are as follows:

	₹
Year ending on 31st March 2013	1,30,000
Year ending on 31st March 2014	1,20,000
Year ending on 31st March 2015	1,50,000
Year ending on 31st March 2016	1,10,000
Year ending on 31st March 2017	2,00,000

Calculate the value of Goodwill.

[Ans. Goodwill ₹ 4,35,000]

6. A, B and C are partners sharing profits and losses equally. They agree to admit D for equal share. For this purpose goodwill is to be valued at 3 year's purchase of average profits of last 5 years which were as follows:

	₹
Year ending on 31st March 2013	60,000 (Profit)
Year ending on 31st March 2014	1,50,000 (Profit)
Year ending on 31st March 2015	20,000 (Loss)
Year ending or 31st March 2016	2,00,000 (Profit)
Year ending on 31st March 2017	1,85,000 (Profit)

On 1st October, 2016 a computer costing ₹ 40,000 was purchased and debited to Office expenses account on which depreciation is to be charged a 25 % p.a. Calculate the value of goodwill.

[Ans. Goodwill ₹ 3,66,000.]

**Hint:** Adjusted profit of 2017 will be: ₹ 1,85,000 + 40,000 - Depreciation ₹ 5,000 = ₹ 2,20,000.

7. The profits earned by a firm during the last four years were as follows:

Year ended 31st March	Profits (₹)
2013	80,000
2014	1,00,000
2015	1,10,000
2016	1,50,000

Calculate the value of goodwill on the basis of three year's purchase of weighted average profits. Weights to be used are 1, 2, 3 and 4 respectively to the profits for 2013, 2014, 2015 and 2016.

[Ans. Goodwill ₹ 3,63,000.]

8. Following information is available about the business of a firm:

- (i) Profits: In 2013, ₹ 40,000; In 2014, ₹ 50,000; In 2015, ₹ 60,000, (ii) Non - recurring income of ₹ 1,000 is included in the profits of 2014, (iii) Profits of 2013 have been reduced by ₹ 6,000 because goods were destroyed by fire, (iv) Goods have not been insured but it is thought to insure them in future. The insurance premium is estimated at ₹ 400 per year, (v) Reasonable remuneration of the proprietor of business is ₹ 6,000 per year, but it has not been taken into account for calculation of above mentioned profits, (vi) Profits of 2015 include ₹ 5,000 income on investment. Goodwill is agreed to be valued at two year's purchase of the weighted average profits of the past three years. The appropriate weights to be used are:- 2013:- 1; 2014:- 2; 2015:- 3.

[Ans. Value of Goodwill ₹ 90,200.]

9. Calculate the value of goodwill on the basis of three year's purchase of the weighted average profits of the last five years. Profits to be weighted 1, 2, 3, 4 and 5, the greatest weightage to be given to last year. Profits of the last five years were:

Year ended	(₹)	
31st March, 2015:	Profit 80,000	
31st March, 2016:	Profit 1,05,000	(after considering abnormal loss of ₹ 41,500)
31st March, 2017:	Loss 20,000	(after considering abnormal gain of ₹ 40,000)
31st March, 2018:	Profit 1,80,000	
31st March, 2019:	Profit 2,00,000	

Books of Accounts of the firm revealed that:

- (i) Closing Stock as on 31st March, 2015 was overvalued by ₹ 40,000.  
(ii) Repairs to Machinery ₹ 60,000 were wrongly debited to Machinery Account on 1st July, 2017. Depreciation was charged on Machinery @ 20 % p.a. on diminishing balance method.

[Ans. Value of Goodwill ₹ 3,60,000]

Hint: Weighted Profit for the year ended 31st March 2018 ₹ 5,16,000 and 2019 ₹ 10,51,000.

**Super Profit Method:**

10. A firm earned profits of ₹ 80,000, ₹ 1,00,000, ₹ 1,20,000 and ₹ 1,80,000 during 2010-11, 2011-12, 2012-13 and 2013-14 respectively. The firm has capital investment of ₹ 5,00,000. A fair rate of return on investment is 15 % p.a. Calculate goodwill of the firm based on three years' purchase of average super profits of last four years.

[Ans. Goodwill ₹ 1,35,000]

11. Capital invested in a firm is ₹ 3,00,000. Normal rate of return is 10 %. Average profits of the firm are ₹ 41,000 (after an abnormal loss of ₹ 2,000). Calculate goodwill at five times the super profits.

[Ans. Goodwill ₹ 65,000.]

12. The average net profits expected in the future by ABC firm are ₹ 1,00,000 per year. The average capital employed in the business by the firm is 5,00,000. The rate of interest expected from capital invested in this class of business is 15%. The remuneration of the Partners is estimated to be ₹ 10,000 per annum. Find out the value of Goodwill on the basis of two year's purchase of super profits.

[Ans. ₹ 30,000.]

13. A and B are partners. They admit C for 1/4th share in profits. For this purpose goodwill is to be valued at three year's purchase of super profits.

Following information is provided to you:

	₹
A's Capital	5,00,000
B's Capital	4,00,000
General Reserve	1,50,000
Profit & Loss A/c (Cr.)	30,000
Sundry Assets	12,00,000

The normal rate of return is 15% p.a. Average Profits are ₹ 2,00,000 per year. You are required to calculate C's share of goodwill.

[Ans. C's share of goodwill ₹ 28,500.]

**Hint:** Sundry Assets will be ignored.

14. On 1st April, 2014, a firm had assets of ₹ 1,00,000 excluding stock of ₹ 20,000. Partners' Capital Accounts showed a balance of ₹ 60,000. The current liabilities were ₹ 10,000 and the balance constituted the reserve. If the normal rate of return is 8 %, the "Goodwill" of the firm is valued at ₹ 60,000 at four years purchase of super profit, find the average profit of the firm.

[Ans. Average Profit ₹ 23,800.]

**Hint:** Capital Employed = Total Assets - Current Liabilities

$$= ₹ 1,20,000 - ₹ 10,000 = ₹ 1,10,000$$

15. On April 1st 2015, an existing firm had assets of ₹ 5,00,000 including cash of ₹ 20,000. the firm had a General Reserve of ₹ 90,000, partner's capital accounts showed a balance of ₹ 3,80,000

and creditors amounted to ₹ 30,000. If the normal rate of return is 20% and the goodwill of the firm is valued at ₹ 64,000 at 4 year 's purchase of super profit, find the average profits of the firm.

[Ans. ₹ 1,10,000.]

### Capitalisation Method:

16. The average profits of a firm is ₹ 48,000. The total assets of the firm are ₹ 8,00,000. Value of other liabilities is ₹ 5,00,000. Average rate of return in the same business is 12 %.

Calculate goodwill from capitalisation of average profits method.

[Ans. ₹ 1,00,000.]

**Hint:** Capital Employed = Assets - Liabilities.

17. Anupma, Purnima and Ruchika are partners in a business. Balances in their Capital and Current Accounts as on 31st March, 2019 were:

	Capital Account (₹)	Current Account (₹)
Anupma	6,00,000	60,000 (Dr.)
Purnima	5,00,000	30,000 (Dr.)
Ruchika	5,00,000	10,000 (Cr.)

The firm earned an average profit of ₹ 2,40,000 . If the normal rate of return is 12%, find the value of goodwill by Capitalisation of Average Profit Method.

[Ans. Value of Goodwill ₹ 4,80,000]

18. Calculate the value of goodwill according to capitalisation of Super Profits Method in the previous Q. 16.

[Ans. ₹ 1,00,000]

19. The following information relates to a partnership firm:

(a) Profits/Losses for the last six years:

1st year ₹ 20,000 Profit	4th year ₹ 60,000 Profit
2nd year ₹ 60,000 Profit	5th year ₹ 50,000 Profit
3rd year ₹ 10,000 Loss	6th year ₹ 72,000 Profit

(b) Average Capital Employed is ₹ 2,00,000.

(c) Rate of normal profit is 15%.

Find out the value of goodwill on the basis of:

- (i) Four year's purchase of average profits.
- (ii) Four year's purchase of super profits.
- (iii) Capitalisation of super profits.

[Ans.

- (i) On the basis of average profits ₹ 1,68,000
- (ii) On the basis of super profits ₹ 48,000
- (iii) On the basis of capitalisation of super profits ₹ 80,000.]

**Accounting Treatment of Goodwill when there is change in the profit sharing ratio of existing partners**

20. X and Y were partners sharing profits in the ratio of 2: 1. With effect from 1st April, 2016, they decided to share profits in the ratio of 3: 1. For this purpose the goodwill of the firm is valued at ₹ 1,80,000. Give the necessary journal entry.

[Ans. Debit X by ₹ 15,000 and Credit Y by ₹ 15,000.]

21. A and B are partners sharing profits and losses in the ratio of 3: 1. It was decided that with effect from 1st April, 2015 the profit sharing ratio will be 5: 3 Goodwill is to be valued at 2 year's purchase of average of 3 year's profits. The profits for the years ending 31st March 2013, 2014 and 2015 were ₹ 36,000, ₹ 32,000 and ₹ 40,000 respectively.

Pass the necessary journal entry for the treatment of goodwill.

[Ans. Debit B by ₹ 9,000 and Credit A by ₹ 9,000.]

22. P, Q and R are partners sharing profits equally. They decided that in future R will get 1/7 share in profits. On the day of change, firm's Goodwill is valued at ₹ 42,000. Give Journal Entries arising on account of change in profit sharing ratio.

[Ans. Debit P and Q by ₹ 4,000 each and credit R by ₹ 8,000.]

**Hint:** New Ratios  $\frac{3}{7} : \frac{3}{7} : \frac{1}{7}$ . P and Q gain  $\frac{2}{21}$  each and R sacrifices  $\frac{4}{21}$ .

23. A, B and C were partners sharing profits and losses in the ratio of 7: 3: 2. From 1st April 2015, they decided to share profits and losses in the ratio of 8: 4: 3. Goodwill is to be valued at the average of three year's profits preceding the date of change in profit sharing ratio. The profits for the years ending 31st March 2012, 2013, and 2015 were ₹ 52,000, ₹ 48,000, ₹ 60,000 and ₹ 90,000 respectively. Give the necessary journal entry.

[Ans. Value of Goodwill ₹ 66,000; Debit B by ₹ 1,100 and C by ₹ 2,200; Credit A by ₹ 3,300.]

**Accounting Treatment of Reserves and Accumulated Profits when there is change in the profit sharing ratio of existing partners**

24. A and B are partners in a firm sharing profits in the ratio of 3: 2. They decided to share profits in the ratio of 3: 4 w.e.f., April 1, 2016. On that date there was a credit balance of ₹ 70,000 in their Profit and Loss Account. Pass the necessary journal entry assuming that partners decide to distribute the profits.

[Ans. Credit A's Capital A/c by ₹ 42,000 and B's Capital A/c by ₹ 28,000.]

25. A, B and C are partners sharing profits and losses in the ratio of 1: 2: 3 From April 1, 2016, they decided to share the profits in the ratio of 2: 3: 4. On that date, Profit and Loss Account disclosed a debit balance of ₹ 90,000. Record the necessary journal entry for the distribution of the balance in the Profit and Loss Account.

[Ans. Debit A's Capital A/c by ₹ 15,000, B's Capital A/c by ₹ 30,000 and C's Capital A/c by ₹ 45,000.]

26. A and B sharing profits and losses in the ratio of 2: 3, decide to share future profits and losses equally with effect from 1st April, 2016. An extract of their Balance Sheet as at 31st March, 2016 is as follows:

Liabilities	₹	Assets	₹
Workmen Compensation Reserve	40,000		

Show the accounting treatment under the following alternative cases:

Case

- (i) If there is no other information
- (ii) If a claim on account of workmen's compensation is estimated at ₹ 25,000.
- (iii) If a claim on account of workmen's compensation is estimated at ₹ 40,000.
- (iv) If a claim on account of workmen's compensation is estimated at 50,000.

[Ans. Case

- (i) Cr. A's Capital A/c by ₹ 16,000 and B's Capital A/c by ₹ 24,000
- (ii) Cr. A's Capital A/c by ₹ 6,000 and B's Capital A/c by ₹ 9,000
- (iii) Entire amount of Workmen Compensation Reserve will be Credited to Provision for Workmen Compensation A/c
- (iv) Loss on Revaluation ₹ 10,000; Debit A's Capital A/c by 4,000 and B's Capital A/c by 6,000.

27. A, B and C sharing profits and losses in the ratio of 4: 3: 2, decide to share profits and losses in the ratio of 2: 3: 4 with effect from 1st April, 2016. Followings an extract of their Balance Sheet as at 31st March, 2016:

Liabilities	₹	Assets	₹
Investment Fluctuation Reserve	54,000	Investments (At Cost)	6,00,000

Show the accounting treatment under the following alternative cases:

Case

- (i) If there is no other information.
- (ii) If the market value of Investments is ₹ 6,00,000.
- (iii) If the market value of Investments is ₹ 5,91,000.
- (iv) If the market value of Investments is ₹ 5,28,000.
- (v) If the market value of Investments is ₹ 6,60,000.

[Ans. Case (i) and (ii): Credit A's Capital A/c by ₹ 24,000, B's Capital A/c by ₹ 18,000 and C's Capital A/c by 12,000.

Case (iii): Credit A's Capital A/c by ₹ 20,000, B's Capital A/c by ₹ 15,000 and C's Capital A/c by ₹ 10,000.

Case (iv): Loss on Revaluation ₹ 18,000. Debit A's Capital A/c by ₹ 8,000, B's Capital A/c by ₹ 6,000 and C's Capital A/c by ₹ 4,000.

Case (v): Entire amount of Investment Fluctuation Reserve credited to partner's capital accounts in 4: 3: 2 and profit on revaluation ₹ 60,000 also credited to partner's capital accounts in 4: 3: 2.

28. A and B are partners in a firm sharing profits in the ratio of 3: 2. On March 31, 2016, their balance Sheet showed a general reserve of ₹ 54,000. On that date they decided to admit C as a new partner. The new profit sharing ratio between A, B and C will be 4: 3: 2. Record the necessary journal entry in the books of the firm under the following circumstances:
- (i) When they want to transfer the general reserve in their capital accounts
  - (ii) When they don't want to transfer general reserve in their capital accounts and prefer to record an adjustment entry for the same.

**[Ans.**

- (i) Dr. General Reserve by ₹ 54,000  
Cr. A's Capital A/c by ₹ 32,400  
Cr. B's Capital A/c by ₹ 21,600
- (ii) Dr. C's Capital A/c by ₹ 12,000  
Cr. A's Capital A/c by ₹ 8,400  
Cr. B's Capital Ac by ₹ 3,600]

29. A, B and C are partners sharing profits equally. From 1st April, 2017, they decided to share profits in the ratio of 3: 4: 5. On that date, Profit and Loss Account showed a credit balance of ₹ 90,000. Partners do not want to distribute the Profit and Loss Account balance but prefer to record the change by an adjustment entry. You are required to give the adjusting entry.

**[Ans. Debit C and Credit A by ₹ 7,500.]**

30. X, Y and Z were sharing profits and losses in the ratio of 5: 3: 2. They decided to share future profits and losses in the ratio of 2: 3: 5 with effect from 1.4.2017. They decided to record the effect of the following, without effecting their book values:-
- (i) Profit and Loss Account ₹ 24,000
  - (ii) Advertisement Suspense Account ₹ 12,000

Pass the necessary adjusting entry.

**[Ans. Debit Z by ₹ 3,600 and Credit X by ₹ 3,600.]**

31. (A). A, B, C and D are partners in a firm sharing profits and losses in the ratio of 2: 2: 1: 1. They decided to share future profits and losses in the ratio of 3: 2: 2: 3. For this purpose goodwill of the firm valued at ₹ 1,50,000. There was also a reserve of ₹ 60,000 in the books of the firm. Find out sacrifice ratio and gaining ratio and pass necessary journal entry assuming that reserve is not to be distributed.

**[Ans. Debit C by ₹ 7,000 and D by ₹ 28,000: Credit A by ₹ 7,000 and B by ₹ 28,000.]**

31. (B). Arun and Varun were in partnership sharing profits in the ratio of 2: 3. With effect from 1st May 2016 they agreed to share profits in the ratio of 1: 2. For this purpose the goodwill of the firm is to be valued at two year's purchase of the average profits of last three years, which were ₹ 1,50,000, ₹ 1,40,000 and ₹ 2,20,000 respectively. Reserves appear in the books at ₹

1,10,000. Partners do not want to distribute the reserves. You are required to give effect to the change by passing a single journal entry.

[Ans. Debit Varun and Credit Arun by ₹ 30,000.]

32. X, Y and Z are partners sharing profits and losses in the ratio of 7: 5: 4. Their balance sheet as at 31st March 2016 stood as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Sundry Assets	6,00,000
X	2,00,000		
Y	150,000		
Z	1,20,000		
General reserve	75,000		
Profit & loss A/c (profits)	15,000		
Creditors	40,000		
	6,00,000		6,00,000

Partners decided that with effect from 1st April 2016, they will share profits and losses in the ratio of 3: 2: 1. For this purpose goodwill of the firm was valued at ₹ 1,50,000. The partners do not want to distribute the general reserve and profits.

Pass a single journal entry to record the change and prepare a revised balance sheet.

[Ans. Debit X by ₹ 15,000 and Y by ₹ 5,000; Credit Z by ₹ 20,000. Total of Balance Sheet 6,00,000.]

**Accounting for Revaluation of Assets and Liabilities when there is change in the profit sharing ratio of existing partners.**

33. A, B & C were partners in a firm sharing profits & losses in the ratio of 2: 2: 1. On March 31, 2018, their Balance Sheet was as follows:

**BALANCE SHEET**

as at March 31, 2018

Liabilities		Assets	
Capitals:		Land & Building	3,00,000
A		Stock	1,60,000
2,00,000		Debtors	80,000
B		Cash at Bank	10,000
1,50,000	4,40,000		
C			
90,000	40,000		
General Reserve	70,000		
Creditors			
	5,50,000		5,50,000

From April 1, 2018, they decided to share future profits in the ratio of 1: 2: 3. For this purpose the following were agreed upon:

(i) Goodwill of the firm was valued at ₹ 4,50,000.

- (ii) Land & Building will be appreciated by 20%.
- (iii) Capitals of the partners will be in proportion to their new profit sharing ratio. For this purpose Current Accounts will be opened.

Pass necessary Journal entries for the above transactions in the books of the firm.

[Ans.

	A(₹)	B(₹)	C(₹)
Existing Capital	3,45,000	1,80,000	(-)25,000
Required Capital	90,000	2,70,000	2,70,000
Transferred to Current Accounts	(Cr.) 2,55,000	(Cr.) 40,000	(Dr.) 2,95,000]

34. A, B and C are partners in a firm sharing profits in the ratio of 3: 2: 1. Their Balance Sheet as at 31st March, 2017 is as under:

Liabilities	₹	Assets	₹
Sundry Creditors	2,00,000	Premises	3,00,000
General Reserve	1,20,000	Machinery	1,80,000
Capitals:		Stock	1,20,000
A		Debtors	2,50,000
3,00,000		Bank	20,000
B	5,50,000		
1,50,000			
C			
1,00,000			
	8,70,000		8,70,000

From 1st April, 2017, the partners agreed to share future profits in the ratio of 4: 3: 3 and make the following adjustments:

- (i) Premises will be appreciated by 10% and stock by ₹ 10,000.
- (ii) A provision for doubtful debts is to be made on debtors @ 4%.
- (iii) Sundry Creditors be reduced by ₹ 15,000.
- (iv) Machinery will be depreciated by 5%.
- (v) Goodwill of the firm is valued at ₹ 48,000.

Prepare Revaluation Account, Partner's Capital Accounts and Balance Sheet of the reconstituted firm.

[Ans. Profit on Revaluation ₹ 36,000; Balance of Capital Accounts: A ₹ 3,82,800, B ₹ 2,03,600 and C ₹ 1,19,600; Balance Sheet Total ₹ 8,91,000.]

**Hint:** A Sacrifices  $\frac{3}{30}$ , B Sacrifices  $\frac{1}{30}$  and C gains  $\frac{4}{30}$ th share.

35. S, T, U and V were partners in a firm sharing profits in the ratio of 4: 3: 2: 1. On 1-4-2016 their Balance Sheet was as follows:

BALANCE SHEET OF S, T, U AND V

as at 1-4.-2016

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Fixed Assets	4,40,000
S                    2,00,000		Current Assets	2,00,000
T                    1,50,000			
U                    1,00,000			
V                    50,000	5,00,000		
Sundry Creditors	80,000		
Workmen Compensation Reserve	60,000		
	6,40,000		6,40,000

From the above date partners decided to share the future profits in 3: 1: 2: 4 ratio. For this purpose the goodwill of the firm was valued at ₹ 90,000. The partners also agreed for the following:

- (i) The claim for workmen compensation has been estimated at ₹ 70,000.
- (ii) To adjust the capitals of the partners according to new profit sharing ratio by opening partners current accounts.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.

[Ans. Loss on Revaluation ₹ 10,000;

Capital A/cs: S ₹ 1,47,000, T ₹ 49,000, U ₹ 98,000; V ₹ 1,96,000;

Current A/cs: S (Cr.) ₹ 58,000; T (Cr.) 1,16,000; V (Dr) ₹ 1,74,000; B/S Total ₹ 8,14,000]

36. P and R were partners sharing profits in the ratio of 1: 3: 2. Following was their Balance Sheet as at 31st March, 2018:

Liabilities	₹	Assets	₹
Sundry Creditors	2,80,000	Land and Building	5,00,000
Outstanding Expenses	15,000	Investments	
Workmen Compensation Reserve	60,000	(Market Value ₹ 1,10,000)	1,25,000
Investment Fluctuation Reserve	45,000	Stock	2,20,000
Capital Accounts:		Sundry Debtors	3,20,000
P		Bank Balance	1,60,000
2,00,000		Advertisement Suspense	75,000
Q	10,00,000		
5,00,000			
R			
3,00,000			
	14,00,000		14,00,000

On 1st April, 2018 they decided to share future profits in the ratio of 4: 6: 5. It was agreed that:

- (i) Claim for Workmen Compensation has been estimated at ₹ 1,00,000.
- (ii) A motor cycle valued at ₹ 30,000 was unrecorded and is now to be recorded in the books.

- (iii) Outstanding expenses were not payable anymore.
- (iv) Value of stock be increased to ₹ 2,90,000.
- (v) A provision for doubtful debts be created @ 5% on Sundry Debtors.
- (vi) Goodwill is valued at ₹ 1,00,000.
- (vii) The work of reconstitution was assigned to firm's auditors. They were paid ₹ 20,000 for this work.

Pass journal entries and prepare Revaluation Account.

[Ans. Gain on Revaluation ₹ 39,000.]

37. A, B and C are partners sharing profits and losses in the ratio of 2: 2: 1. From 1st April, 2019 they decided to share future profits and losses equally.

Following balances appeared in their books:

	₹
Profit and Loss A/c (Cr.)	20,000
Advertisement Suspense A/c (Dr.)	15,000
Workmen Compensation Reserve	60,000

It was agreed that:

- (i) Goodwill should be valued at two year's purchase of super profits. Firm's average profits. Firm's average profits are ₹ 75,000. Capital invested in the business is ₹ 6,00,000 and normal rate of return is 10%.
- (ii) Furniture (book value of ₹ 50,000) be reduced to ₹ 30,000.
- (iii) Computers (book value of ₹ 40,000) be reduced by ₹ 10,000.
- (iv) Claim on account of Workmen's Compensation amounted to ₹ 50,000.
- (v) Investments (book value of ₹ 30,000) were revalued at ₹ 25,000.

Pass necessary journal entries for the above.

[Ans. Adjustment for Goodwill: Dr. C by ₹ 4,000 and Cr. A and B by ₹ 2,000 each; Revaluation Loss ₹ 35,000.]

38. X and Y are partners sharing profits and losses in the ratio of 4: 3. Their e Sheet as at 31st March, 2016 stood as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	28,000	Cash	20,000
Reserve	42,000	Sundry Debtors	1,20,000
Capital Accounts		Stock	1,40,000
X	2,40,000	Fixed Assets	1,50,000
Y	1,20,000		
	3,60,000		
	4,30,000		4,30,000

They decided that with effect from 1st April, 2016, they will share profits and losses in the ratio of 2: 1. For this purpose they decided that:

- (i) Fixed assets are to be depreciated by 10%.
- (ii) A provision of 6% be made on debtors for doubtful debts.
- (iii) Stock be valued at ₹ 1,90,000.
- (iv) An amount of ₹ 3,700 included in creditors is not likely to be claimed.

Partners decided to record the revised values in the books. However, they do not want to disturb the reserves. You are required to prepare journal entries, capital accounts of the partners and the revised balance sheet.

[Ans. Profit on Revaluation ₹ 31,500; Adjustment for Reserve Dr. X by ₹ 4,000 and Cr. Y by ₹ 4,000; Capitals X ₹ 2,54,000 and Y ₹ 1,37,500; Balance Sheet Total 4,57,800.]

39. P, Q and R are in partnership sharing profits and losses in the ratio of 5: 4: 3. On 31st March 2019, their balance sheet was as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	50,000	Cash at Bank	40,000
Outstanding Expenses	5,000	Sundry Debtors	2,10,000
General Reserve	75,000	Stock	3,00,000
Capital Accounts:		Furniture	60,000
P                    4,00,000		Plant & Machinery	4,20,000
Q                    3,00,000			
R                    2,00,000	9,00,000		
	10,30,000		10,30,000

It was decided that with effect from 1st April 2019, the profit sharing ratio will be 4: 3: 2. For this purpose the following revaluations were made:

- (i) Furniture be taken at 80% of its value.
- (ii) Stock be appreciated by 20%.
- (iii) Plant & Machinery be valued at ₹ 4,00,000.
- (iv) Create provision for doubtful debts for ₹ 10,000 on debtors.
- (v) Outstanding expenses be increased by ₹ 3,000.

Partners agreed that altered values are not to be recorded in the books and they also do not want to distribute the general reserve.

You are required to post a single journal entry to give effect to the above. Also prepare the revised Balance Sheet.

[Ans. Profit on Revaluation ₹ 15,000. Adjustment for Revaluation and General Reserve Debit P by ₹ 2,500 and Credit R by ₹ 2,500 Balance Sheet Total ₹ 10,30,000.]

40. L, M and N are partners sharing profits and losses in equal proportion. On 31st March 2016, their balance sheet was as follows:

Liabilities	₹	Assets	₹
Creditors	58,000	Cash	8,000
Reserve and Surplus	42,000	Debtors	
Capital Accounts:		75,000	
L		Less: Provision for	72,000
2,00,000		Doubtful debts	1,80,000
M	3,80,000	3,000	2,20,000
1,00,000		Stock	
N		Fixed Assets	
80,000			
	4,80,000		4,80,000

The partners decided that with effect from 1<sup>st</sup> April 2016, they will share profits and losses in the ratio of 4: 2: 1. For this purpose goodwill is to be valued at 2 year's purchase of the average profits of the last four years, which were:

	₹
Year ending 31st March 2013	20,000 (Loss)
Year ending 31st March 2014	48,000 (Profit)
Year ending 31st March 2015	60,000 (Profit)
Year ending 31st March 2016	80,000 (Profit)

They further agreed that:

- (i) Provision for doubtful debts be increased by ₹ 2,000.
- (ii) Stock be appreciated by 20% and fixed assets be depreciated by 10%.
- (iii) Creditors be taken at ₹ 49,000.

Partners do not desire to record the revised values of assets and liabilities in the books. They also desire to leave the reserve and surplus undisturbed

You are required to give effect to the change in profit sharing ratio by passing a single journal entry. Also prepare the revised balance sheet

[Ans. Value of Goodwill ₹ 84,000, Profit on Revaluation ₹ 21,000; Adjustment entry: Debit L by ₹ 35,000 and Credit M and N by ₹ 7,000 and ₹ 28,000 respectively. Total of Balance Sheet ₹ 4,80,000.0.]

41. Amit, Archit and Akshat are partners in a firm in the ratio of 3: 2: 1. On 1st April, 2019 they decided to share the profits in future in the ratio of 7: 5: 4. On this date General Reserve is ₹ 38,000 and profit on revaluation of assets and liabilities being ₹ 34,000. It was decided that adjustment should be made without altering the figures in the Balance Sheet. Make adjustment by one single journal entry.

[Ans. Akshat's Capital A/c                      Dr. 6,000  
    To Amit's Capital A/c                      4,500

To Archit's Capital A/c                      1,500]

42. Anshu, Anju and Anupma are partners in a firm sharing profit in the ratio of 2: 2: 1. Their Balance Sheet as at March 31, 2019 was as follows:

BALANCE SHEET

as at March 31, 2019

Liabilities	₹	Assets	₹
Creditors	65,000	Land	2,00,000
Bills Payable	7,000	Building	80,000
General Reserve	48,000	Plant	1,60,000
Capital		Stock	2,10,000
Anshu		Debtors	50,000
2,40,000		Cash	20,000
Anju	6,00,000		
2,00,000			
Anupma			
1,60,000			
	7,20,000		7,20,000

Anshu, Anju and Anupma decided to share the profit equally, w.e.f. April 1, 2019. For this purpose it was agreed that:

- (i) The goodwill of the firm should be valued at ₹ 60,000.
- (ii) Land should be revalued at ₹ 3,00,000 and building and plant should be depreciated by 5%. Stock be valued at ₹ 2,25,000.
- (iii) Creditors amounting to ₹ 2,000 were not likely to be claimed and hence should be written off. You are required to:
  - (a) Record the necessary journal entries to give effect to the above agreement, without opening revaluation account;
  - (b) Prepare the capital accounts of the partners; and
  - (c) Prepare the balance sheet of the firm after reconstitution.

Partners decide that General Reserve is to be transferred to Capital Accounts whereas revised values of assets and liabilities are not to be recorded in the books.

[Ans. Capitals: Anshu ₹ 2,70,200; Anju ₹ 2,30,200 and Anupma ₹ 1,47,600. Balance Sheet Total ₹ 7,20,000.