Retirement Based Questions.

Example 1. A, B and C are three partners sharing profits in the ratio of 4:3:2 respectively. On Dec.31, 2019, C retires from the firm and his Capital is Rs.20,500 Cr. balance. On this date

1) The goodwill of the firm is valued at Rs 36,000.
2) There is Profit Loss Balance of Rs. 45,000.
3) There is revaluation of assets and liabilities as follows.
   (a) The Land and Building has appreciated by Rs.15,000;
   (b) Plant and Machinery has depreciated by 10,000,
   (c) One Debtor A/c earlier written of informs that he will pay the firm Rs.5,000
   (d) There is an unrecorded typewriter of Rs. 3,000 and
   (e) An unrecorded liability for credit purchase of goods for Rs. 4,000.

The Partners have decided to pay C Rs.10,500 immediately and remaining balance is converted into his Loan. The Loan is to be paid in 3 equal quarterly instalments plus interest @10% per annum. The first loan instalment will be payable in March. 31, 2020.

Assuming that A and B agree to share future profits in the ratio of 1:1 respectively.

1) Show calculation of gaining ratio and C's share in goodwill
2) Pass necessary journal entries to record above transactions and to credit retiring partner with his share.
3) (a) Prepare Revaluation Account and (b) Retiring partner Capital account.

Solution.

1. **Calculation of Gaining Ratio**

Gaining Ratio (G.R) = New Ratio – Old Ratio

Share Gain by A = 1/2 – 4/9 = 9/18 – 8/18 = **1/18**

Share Gain by B = 1/2 – 3/9 = 9/18 – 6/18 = **3/18**

So, the Gaining ratio of A and B is **1:3**.

C's Share in Profit = 45, 000 × 2/9 = Rs. 10,000

C's Share in Goodwill = 36, 000 × 2/9 = Rs. 8,000

2. **Journal Entries to record the transactions**

Date	**Particulars**	**Debit**	**Credit**
Dec. 31	A's Capital A/c	2,000	
	B's Capital A/c	6,000	
	To C's Capital A/c		8,000
	Being Goodwill Adjusted in G.R.		
Dec. 31	Profit and Loss A/c	45,000	
	To A's Capital A/c		20,000
	To C's Capital A/c		13,000
	To C's Capital A/c		10,000
	Being Accumulated Profit written off		
Dec. 31	Revaluation Account Dr	14,000	

	To Plant & Machinery A/c		20,000
	To Creditor A/c		4,000
Dec. 31	Land & Building A/c	15,000	
	Debtor A/c	5,000	
	Typewriter A/c	3,000	
	To Revaluation A/c		23,000
	(Being increase in assets cr. to Rev a/c		
Dec. 31	Revaluation Profit A/c	9,000	
	To A's Capital A/c		4,000
	To B's Capital A/c		3,000
	To C's Capital A/c		2,000
	Being Rev. profit distributed in 4:3:2		
Dec. 31	C's Capital A/c	40,500	
	To Cash A/c		10,500
	To C's Loan A/c		30,000
	Being cash paid & Bal. Conv. in loan		

3. (a)

Revaluation Account

Particular	₹	Particulars	₹
To Plant and Machinery	10,000	By Land & Building	15,000
To Creditors	4,000	By Debtor	5,000
To Rev. Profit transferred to		By typewriter	3,000
A's Capital A/c	4,000		
B's Capital A/c	3,000		
C's Capital A/c	2,000		
	23,000		**23,000**

3. (b) **C's Capital Account**

Particular	₹	Particulars	₹
To Cash	10,500	By Balance b/d	20,500
To C's Laon A/c	30,000	By Profit & Loss	10,000
		By Revaluation	2,000
		By A's Capital	2,000
		By B's Capital	6,000
	40,500		**40,500**

Example 2.

A, B and C are partners in a firm sharing P/L in the ratio of 2:3:1 respectively. C retires from the firm on Mar. 31, 2020, subject to the following conditions.

(a) Goodwill of the firm is valued and to be shown in the book at Rs. 24,000.

(b) Machinery to be depreciated by 20% and Furniture by 10%

(c) Stock Price has appreciated by 25% and building by 20% and

(d) Provision for doubtful debts to be raised to Rs. 2,500.

The Balance Sheet of the firm as on Mar. 31, 2020 was as follows.

Liabilities	₹	Assets	₹
Provision for Doubtful Debt	1,000	Land	30,000
Creditors	50,000	Building	70,000
Bank Loan	30,000	Machinery	80,000
General Reserve	32,000	Furniture	20,000
A's Capital	60,000	Debtors	36,000
B's Capital	80,000	Stock	50,000
C's Capital	50,000	Cash	17,000
	3,03,000		**3,03,000**

Prepare necessary accounts (Rev. A/c; Partners' Cap. A/c) a and Balance Sheet of the firm.

Solution. **Revaluation A/c**

Particular	₹	Particulars	₹
To Machinery	16,000	By Building	14,000
To Furniture	2,000	By Stock	12,500
To Provision for D/D	1,500	By typewriter	3,000
To Rev. Profit transferred to			
A's Capital A/c	3,333		
B's Capital A/c	5,000		
C's Capital A/c	1,667		
	29,500		**29,500**

Partners' Capital Account

Particulars	A	B	C	Particulars	A	B	C
To C's Loan			61,000	By Bal. B/d	60,000	80,000	50,000
To Balance c/d	82,000	1,13,000		By Gen. Reserve	10,667	16,000	5,333
				By Goodwill	8,000	12,000	4,000
				By Revaluation	3,333	5,000	1,667
	82,000	**1,13,000**	**61,000**		**82,000**	**1,13,000**	**61,000**

Balance Sheet as on Mar. 31,2020

Liabilities	₹	Assets	₹
Provision for D/Debts 1,000		Goodwill	24,000
Add: Increase in DD- 1,500	2,500	Land	30,000
Creditors	50,000	Building (70,000+14,000)	84,000
Bank Loan	30,000	Machinery (80,000 -16,000)	64,000
C's Loan	61,000	Typewriter	3,000
A's Capital	1,13,000	Furniture (20,000 - 2,000)	18,000
B's Capital	82,000	Debtors	36,000
		Stock (50,000 + 12,500)	62,500
		Cash	17,000
	338,500		**3,35,500**

Assignment:

P, Q and R, are partners sharing P/L in the ratio of 50%, 30% and 20% respectively. Due to illness Q wants to retire on March 31, 2020 and admit his Son in Law T in his place. The balance sheet of the firm is as follows on this date.

Liabilities	₹	Assets	₹
P's Capital	40,000	Goodwill	30,000
Q's Capital	60,000	Furniture	40,000
R's Capital	30,000	Stock	50,000
General Reserve	40,000	Debtors	50,000
Creditors	**30,000**	Cash	30,000
	2,00,000		**2,00,000**

On Q Retirement the assets were revalued- Goodwill, Rs. 50,000; Furniture- Rs. 30,000 and Stock Rs. 30,000.

Half of amount due or payable Q was paid off in cash and the remaining balance is treated as capital of T- the son in law of Q.

On admission of T, the Goodwill of the firm is written of. The partners capital is to be in their profit-sharing ratio. R is to be paid off to make his capital proportionate to others partners' capital.

Required:

1). Pass necessary journal entries.

2). Partners' Capital account

3). Balance sheet.

4) Working Notes to support above A/Cs and Balance Sheet.