CHAPTER : 4

Reconstitution of Partnership Firm (Retirement and Death of a Partner)

STUDY NOTES

- Reconstitution of partnership will take place due to the retirement or death of a partner. A partner may retire from the partnership firm by withdrawing himself from the partnership. This exit or withdrawal of a partner is known as retirement. At that time the existing or remaining partners can continue their business.
- Section 32 of the Indian Partnership Act 1932 lays down that a partner may retire from the firm
  - ➢ With the consent of all other partners.
  - ➢ In accordance with the express agreement made between the partners and
  - ➢ If the partnership is at will by giving a notice in writing to all other partners of his intention to retire.
- **Amount due to retiring or deceased partner:** In both retirement and death, we are required to determine the sum due to the retiring partner and to the legal representatives of deceased partner after making necessary adjustments in respect of goodwill, revaluation of an assets and liabilities and transfer of accumulated profits and losses. We have to find the following amounts to settle the accounts of Retiring or Deceased partner,
  - ➢ Credit balance of Partner's capital account;
  - ➢ Credit balance of Partner's current account;
  - ➢ Partner's share of goodwill;
  - ➢ Partner's share of accumulated profits (reserves);
  - ➢ Partner's share in the gain of revaluation of assets and liabilities;
  - ➢ Partner's share of profits up to the date of retirement/death;
  - ➢ Interest on Partner's capital up to the date of retirement/death; and
  - ➢ Salary/commission, due to him up to the date of retirement/death.
- **Adjustments to be made at the time of retirement or death of a partner**
  - ➢ Ascertainment of new profit sharing ratio and gaining ratio;
  - ➢ Treatment of goodwill;
  - ➢ Revaluation of assets and liabilities;
  - ➢ Adjustment in respect of unrecorded assets and liabilities;
  - ➢ Distribution of accumulated profits and losses;
  - ➢ Ascertainment of share of profit or loss up to the date of retirement/death;
  - ➢ Adjustment of capital, if required;
  - ➢ Settlement of the amounts due to retired/deceased partner.
- **New profit sharing ratio:**

  If remaining partners are willing to continue the business, they have to calculate the new profit sharing ratio. If they are acquiring the deceased / retiring partner's share in old profit sharing ratio, no necessary to calculate new profit sharing ratio.

  If they are not sharing it in old ratio they have to find out the new profit sharing ratio as follows:

  New ratio = Old share + Share acquired from the retiring/deceased partner

- **Gaining ratio:**

  The ratio in which the continuing partners have acquired the share from the retiring/deceased partner is called the gaining ratio.

  If the continuing partners acquire the share of retiring/deceased partner in their old profit sharing ratio, In that case, the gaining ratio will be the same as old profit sharing ratio.

  When the new profit sharing ratio of the continuing partners is specified, in such a situation, the gaining ratio should be calculated as follow:

  Gaining Ratio = New Ratio – Old Ratio.

- **Treatment of goodwill on retirement and death:**

  - **When old goodwill already appears in the balance sheet, first of all write off it in the old ratio among all partners by following journal entry.**

    All Partner's capital A/c Dr. xxx
    To Goodwill A/c xxx
    (In old ratio)

  - **Thereafter, adjustment of retiring partner's share goodwill will be made through following journal entry.**

    Remaining Partner's Capital A/C Dr. xxx
    (In gaining ratio)
    To Retiring/Deceased Partner's Capital A/c xxx

  - If any existing partner sacrifice on retirement or death, his capital account is also credited.

- **Revaluation Account:**

  Revaluation A/c is prepared in the same way as in the case of admission of a new partner to ascertain profit or loss on revaluation of assets and liabilities.

  Revaluation account is credited with increase in the value of assets, decrease in the value of liabilities and with unrecorded assets if any.

  Revaluation account is debited with increase in the value of liabilities, decrease in the value of assets and with unrecorded liabilities if any.

  Profit and loss on revaluation is transferred among all the partners in old profit sharing ratio.

- **Disposal of the Amount Due to the Retiring Partner**

  This outgoing partners A/c is settled as per the terms of partnership deed.

  - **When the retiring partner is paid full amount either in cash or by cheque.**

    Retiring Partner's Capital A/c Dr. xxx
    To Cash/Bank A/c xxx

  - **When the retiring partner is paid nothing in cash then the whole amount due is transferred to his loan A/c**

    Retiring Partner's Capital A/c Dr. xxx
    To Retiring partner's Loon A/c xxx

  - **When Retiring Partner is partly paid in cash and the remaining amount in treated has Loan.**

    Retiring Partner's Capital A/c Dr. (Total Amount due)
    To Cash Bank A/c (Amount Paid)
    To Retiring Partner's Loan A/c (Amount of Loan)

- **Adjustment of Capitals:**

  At the time of retirement/death, the remaining partners may decide to adjust their capitals in their new profit sharing Ratio. Then the sum of their capitals will be treated as the total capital of the new firm which will be divided in their New Profit Sharing Ratio.

  Excess of Deficiency of capital in the individual capital A/c is calculated.

  Such excess or shortage is adjusted by withdrawal or contribution in cash or transferring to their current A/cs. Following Journal Entries will be passed for the same.

  - **For excess Capital withdrawn by the Partners**

    Partner's Capital A/c Dr.

    To Cash/Bank A/c

  - **For deficiency, cash will be brought in by the partner**

    Cash/Bank A/c Dr.

    To Partner's Capital A/c

- **Death of a partner:**

  In case of death of a partner,

  - The deceased partners claim is transferred to his executor's account.
  - Death of a partner may occur at any time. So, the claim of deceased part shall also include his share or profit or loss, interest on capital drawings if any from the date of the last balance sheet to the date his death.
  - Share of deceased partner in firm's profit or loss is calculated by any one of the two methods given below:

- **On Time Basis.**
- **On Turnover or Sales Basis.**
  - Following journal entry is passed for his share of profit till the death.

    Profit and loss suspense A/c Dr xxx

    To Deceased partner's capital A/c xxx

QUESTION BANK

MULTIPLE CHOICE QUESTIONS

1. A and B were partners sharing profits and losses in the ratio of 3:2. On April 1st 2021, they decided to admit C for 1/5th share in the profits. They had a reserve of ₹ 50,000 which they wanted to show in their new balance sheet. C agreed and the necessary adjustments were made in the books. On October 1st 2021, A met with an accident and died. B and C decided to admit A's daughter F in their partnership, who agreed to bring ₹ 2,00,000 as capital. Calculate A's share in the reserve on the date of her death.

   (a) 24,000 (b) 12,000
   (c) 25,000 (d) 10,000

2. On retirement of a partner balance sheet shows book value of land and building ₹ 20,00,000. It is decided to depreciate Land and building at 15 % p.a. Market price of Land and building is ₹ 25,00,000. At what price land and building will be shown in the new balance sheet prepared after retirement of a partner?

   (a) 25,00,000 (b) 20,00,000 (c) 17,00,000 (d) 21,25,000

3. Poonam, Dhamu and Aditya were partners sharing profits and losses in the ratio of 8 : 6 : 2. Dhamu retires and gives her share of profit to Poonam for ₹ 7,200 and Aditya for ₹ 6,000. The gaining ratio of Poonam and Aditya will be__________.

   (a) 2:1 (b) 4:1 (c) 4:5 (d) 6:5

4. A, B and C are the partners sharing profits and losses in the ratio of 10 : 6 : 4. C retired and his capital balance after adjustments regarding Reserves, Accumulated profits / losses and gain/loss on revaluation was 3,50,000. C was paid 4,00,000 in full settlement. Afterwards D was admitted for $\frac{1}{4}$ th share. What amount D will bring as goodwill premium?
   (a) 50,000 (b) 2,50,000
   (c) 62,500 (d) Nil
5. Motu, Patlu and Chingum are partners sharing profit in ratio of 3 : 2 : 1. Motu retires from the firm and it is decided that profit sharing ratio between Patlu and Chingum will be same as existing between Motu and Patlu. What will be the gaining ratio?
   (a) 3:2 (b) 2:1 (c) 8:7 (d) 7:8
6. Pick the odd one out:
   (a) Reserve fund (b) Employee Provident Fund
   (c) Investment Fluctuation Fund (d) Workmen Compensation Fund
7. P, Q and R are partners sharing profits in the ratio of 8:5:3. P retires. Q takes 3/16th share from P and R takes $\frac{5}{16}$ th share from P. What will be the new profit sharing ratio?
   (a) 1:1 (b) 10:6 (c) 9:7 (d) 5:3
8. H, P and S were partners in a firm sharing profits in the ratio of 4: 3: 3. On August 1, 2021, P died. His 20 % share was acquired by H and remaining by S. The gain of S on death of P is ____.
   (a) $\frac{3}{50}$ (b) $\frac{12}{50}$ (c) $\frac{4}{50}$ (d) $\frac{10}{50}$
9. In case of death of a partner, claim of deceased partner is transferred to __________.
   (a) his executors account (b) his capital account
   (c) firm's charity account (d) bank account
10. X, Y and Z are partners sharing profits and losses in the ratio of 4 : 3 : 2. Y retires and surrenders $\frac{1}{9}$ th of his share in favour of X and the remaining in favour of Z. The new profit sharing ratio will be:
    (a) 1:8 (b) 13:14 (c) 8:1 (d) 14:13
11. At the time of death of a partner, an increase in value of assets will be __________.
    (a) Debited to revaluation A/c (b) Credited to revaluation A/c
    (c) No effect to revaluation A/c (d) Credited to asset A/c
12. Alok, Bhaskar and Chetan are partners sharing in the ratio 3:2:1, what will be new ratio if Alok retires?
    (a) 3:1 (b) 2:1 (c) 1:1 (d) 1:2
13. On retirement or death of a partner, gaining ratio is used to distribute ______________.
    (a) Goodwill (b) Revaluation Profit or Loss
    (c) Profit and Loss Account (Credit Balance) (d) Both (b) and (c)
14. X, Y and Z are partners in a firm. Y retires and his claim including his capital and his share of goodwill is ₹1,20,000. He is paid partly in cash and partly in kind. A vehicle at ₹ 80,000 shown in the books of the firm and the balance in cash is given to him to settle his account. The amount of cash to be paid to Y will be:
    (a) ₹ 80,000 (b) ₹ 60,000 (c) ₹ 40,000(d) ₹ 30,000
15. At the time of retirement of a partner, share of retiring partner's goodwill will be credited to:
    (a) Remaining Partner's Capital Account (s)
    (b) Retiring Partner's Capital Account (s)
    (c) Both Sacrificing and Gaining Partner's Capital Account (s)
    (d) Gaining Partner's Capital Account (s)

16. Aarav, Banta and Chunmun are partners sharing in the ratio 3:2:1. Aarav retires and his share is taken over by the remaining partners as: Banta takes $\frac{2}{6}$ th from Aarav. Chunmun takes $\frac{1}{6}$ th from Aarav. What will be their new ratio?

(a) 2:1 (b) 3:1 (c) 3:2 (d) 1:1

17. Partner's executor account is opened at the time of ___________ of partner.

(a) Retirement
(b) Admission
(c) Death
(d) None of the above

18. A and B were partners. They shared profits as A – ½ and B – $\frac{1}{3}$ and carried to reserve $\frac{1}{6}$. B died. The balance of reserve on the date of death was ₹ 30,000. B's share of reserve will be:

(a) ₹ 10,000 (b) ₹ 8,000 (c) ₹ 12,000 (d) ₹ 9,000

19. Rex, Tex and Flex are partners in a firm in the ratio of 5:3:2. As per their partnership agreement, the share of deceased partner is to be calculated on the basis of profits and turnover of previous accounting year. Tex died on 31st December 2020. Turnover till the date of death was ₹18, 00,000. Their profits and turnover for the year 2019-20 amounted to ₹4,00,000 and ₹20,00,000 respectively. How much amount will be given to his executors as his share of profits till the date of death?

(a) ₹ 1,80,000 (b) ₹ 1,58,000 (c) ₹ 3,60,000 (d) ₹ 1,08,000

20. If goodwill is already appearing in the books of accounts at the time of retirement, then it should be written off in _____________ among _____________ partners.

(a) New Ratio, existing
(b) Gaining Ratio, existing
(c) Sacrificing Ratio, all
(d) Old Ratio, all

21. A, B and C were partners in a firm. On 31st March, 2021, C retired. The amount payable to C ₹4,00,000 was transferred to his loan account. C agreed to receive interest on this amount as per the provisions of The Partnership Act 1932. On 30th September, 2021 full amount with interest is paid to C by A and B. State the amount of interest paid to C.

(a) 40,000 (b) 20,000 (c) 24,000 (d) 12,000

22. As per Section 37 of the Indian Partnership Act, 1932, interest at _______% is payable to the retiring partner if full or part of his dues remain unpaid.

(a) 9% p.a. (b) 12% p.a. (c) 6% p.a. (d) 7 % p.a.

23. G, H and P are partners. On retirement of G, the goodwill already appears in the Balance Sheet at ₹24,000. The goodwill will be written off

(a) by debiting all partners' capital accounts in their old profit sharing ratio.
(b) by debiting remaining partners' capital accounts in their new profit sharing ratio.
(c) by debiting retiring partners' capital accounts from his share of goodwill.
(d) None of these.

24. Anil, Bansri and Chaitali are partners in 4:4:1. Bansri wants to retire from the firm. The profit on revaluation on the date was ₹36,000. New ratio of Anil and Chaitali is 5:3. Profit on revaluation will be distributed as:

(a) Anil ₹16,000; Bansri ₹16,000;Chaitali ₹4,000
(b) Anil ₹12,000; Bansri ₹16,000;Chaitali ₹8,000
(c) Anil ₹18,000; Chaitali ₹18,000
(d) Anil ₹22,500; Chaitali ₹13,500

25. ___________ values are shown in the new balance sheet prepared after the retirement of a partner (subsequent to preparation of revaluation account)

(a) Historical (b) Realisable (c) Market (d) Revalued

26. A, B and C were partners in a firm sharing profits in the ratio of 4: 3: 3. On August 1, 2021, B died. His 20% share was acquired by A and remaining by C. The new ratio between A and C would be __________.

(a) 27:23 (b) 22:23 (c) 23:27 (d) 23:21

27. On retirement of a partner, debtors of ₹ 34,000 were shown in the Balance sheet. Out of this ₹ 4,000 became bad. One debtor became insolvent. 70% were recovered from him out of ₹ 10,000. Full amount is expected from the balance debtors. On account of this item, loss in revaluation account will be:

(a) ₹ 10,200 (b) ₹ 3,000 (c) ₹ 7,000 (d) ₹ 4,000

28. If at the time of retirement, there is some unrecorded asset, it will be________ to________ A/c.

(a) Debited, Revaluation (b) Credited, Revaluation
(c) Debited, Goodwill (d) Credited, Partners' Capital

29. A, B, C and D were partners sharing profits in the ratio of 1 : 2 : 3 : 4. D retired and his share was acquired by A and B equally. D's share of Goodwill was valued at ₹ 48,000. What journal entry will be passed for share of goodwill of D?

(a) A's Capital A/c Dr ₹24,000
B's Capital A/c Dr ₹24,000
To D's Capital a/c ₹48,000

(b) A's Capital A/c Dr ₹9,600
B's Capital A/c Dr ₹9,600
To D's Capital a/c ₹19,200

(c) D's Capital A/c Dr ₹48,000
To A's Capital A/c ₹24,000
To B's Capital a/c ₹24,000

(d) D's Capital A/c Dr ₹19,200
To A's Capital A/c ₹9,600
To B's Capital a/c ₹9,600

30. Retiring partner is compensated for parting with the firm's future profits in favour of remaining partners. The remaining partners contribute to such compensation amount in:

(a) Gaining Ratio (b) Sacrificing Ratio
(c) Capital Ratio (d) Profit Sharing Ratio

31. A, B and C are partners sharing profits in the ratio 2:2:1. On retirement of B, goodwill was valued as ₹30,000. Find the contribution of A and C to compensate B.

(a) 20,000 and 10,000 (b) 8,000 and 4,000
(c) They will not contribute anything (d) 4,000 and 8,000

32. As per section ________ of the Indian Partnership Act, a retiring partner becomes entitled to profits after retirement if his dues remain unpaid

(a) Section 73 (b) Section 26 (c) Section 4 (d) Section 37

33. Bharat, Prashant and Lalji sharing profits in the ratio 4:3:2. Bharat retires, Prashant and Lalji decided to share profit in future in the ratio of 5:3. Gaining ratio will be ___________

(a) 13:21 (b) 11:21 (c) 21:11 (d) 11:11

34. Gaining ratio = ____________ less ___________.

(a) New ratio, old ratio (b) New ratio, sacrificing ratio
(c) Old ratio, sacrificing ratio (d) Old ratio, new ratio

35. Akash, Badal and Chaya are partners in the ratio of 1:1:1. Chaya retires. She surrenders $\frac{3}{5}$ th of her share in favour of Akash and $\frac{2}{5}$ th in favour of Badal. New ratio between Akash and Badal would be__________

(a) 2:3 (b) 3:2 (c) 8:7 (d) 7:8

36. At the time of retirement, amount remaining in Investment Fluctuation Reserve after meeting the fall in value of Investment is:

(a) Credited in Sacrificing Ratio (b) Credited in New Profit Sharing Ratio
(c) Credited in Old Profit Sharing Ratio (d) Credited in Gaining Ratio

37. A, B and C were partners in a firm sharing pro¬fits and losses in the ratio of 2:2:1 respectively with the capital balance of ₹50,000 for A and B each, for C ₹ 25,000. B declared to retire from the firm and balance in reserve on the date was ₹ 15,000. If goodwill of the firm was valued as ₹ 30,000 and profit on revaluation was ₹ 7,050 then what amount will be transferred to the loan account of B?

(a) 60,820
(b) 50,820
(c) 70,820
(d) 30,820

38. An account operated to ascertain the loss or gain on revaluation of assets and liabilities at the time of death of a Partner is called

(a) Realisation Account
(b) Executors Account
(c) Revaluation Account
(d) Deceased Partners capital account

39. Deep, Tasha and Honey are partners sharing profits in the ratio 3:2:1. Tasha retires and his share was acquired by deep and honey in the ratio 2:1. New ratio between Deep and Honey would be__________

(a) 5:13
(b) 3:1
(c) 13:5
(d) 1:3

40. What journal entry will you pass for recording deceased partner's share in profit of the firm at the time of death of a partner?

(a) Profit and Loss Supense A/c Dr. To Deceased Partner's Capital A/c
(b) Profit and loss A/c Dr. To To Deceased Partner's Capital A/c
(c) Profit and loss appropriation A/c Dr. To To Deceased Partner's Capital A/c
(d) Deceased Partner's Capital A/c Dr. To Revaluation A/c

41. S, M and N are partners sharing profits in the ratio of 4;3:2. M retires and the goodwill of the firm is valued at ₹36,000. M's share of goodwill would be __________.

(a) 24,000
(b) 36,000
(c) 18,000
(d) 12,000

42. In the event of retirement or death of a partner, employee provident fund appeared in the balance sheet will be shown in ____________.

(a) Liability side of balance sheet
(b) Asset account (Dr)
(c) Capital account (Cr)
(d) Asset side of balance sheet

43. A, B and C are partners in a firm sharing profits and losses in the ratio of 2:2:1. On March, 31, 2021 C died. Accounts are closed on December 31st every year. The sales for the year ending 31/12/2020 was ₹6,00,000 and the profits were ₹60,000. The sales for the period for the period January 1, 2021 to March 31st 2021 were ₹2,00,000. The share of deceased Partner in the current year's profit on the basis of sales is __________

(a) ₹20,000
(b) ₹ 8,000
(c) ₹ 3,000
(d) ₹ 4,000

44. Ankur, Bosky and Chirag are partners sharing profits in the ratio of $\frac{1}{2}$, $\frac{3}{10}$ and $\frac{1}{5}$ respectively. Bosky retires and his share is taken by Anklur and Chirag in the ratio of 2:1. What will be new profit sharing ratio of Ankur and Chirag?

(a) 7:3
(b) 3:7
(c) 4:5
(d) 7:1

45. Chaman, Raman and Suman are partners sharing profits in the ratio of 5:3:2. Raman retires. The new profit sharing ratio between Chaman and Suman will be 1:1. The goodwill of the firm is valued at ₹ 1,00,000 Raman's share of goodwill will be adjusted ________________.

(a) by debiting Chaman's Capital account and Suman's Capital Account with ₹15,000 each.
(b) by debiting Chaman's Capital account and Suman's Capital Account with ₹ 21,429 and 8,571 respectively.
(c) by debiting only Suman's Capital Account with ₹ 30,000.
(d) by debiting Raman's Capital account with ₹ 30,000.

46. Pick the odd one out:

(a) Debit balance of partner's current account
(b) Interest on capital of partners
(c) Interest on drawings of partner
(d) Drawings by partners

47. A, B and C are partners sharing profits and losses in the ratio of 3:2:1. C retires on a decided date and Goodwill of the firm is to be valued at ₹ 60,000. The amount payable to retiring partner on account of goodwill is:

(a) 30,000 (b) 20,000

(c) 10,000 (d) 40,000

48. If the adjustments in the value of assets and liabilities at the time of retirement of a partner show a profit, it should be credited to capital account of ________ ___.

(a) The remaining partners in their old profit sharing ratio.

(b) All the old partners in their profit sharing ratio

(c) The remaining partners in their new profit sharing ratio.

(d) Gaining partners in new ratio

49. A, B and C were partners sharing profits and losses in the ratio of 2:2:1. Books are closed on 31st March every year. C died on 30th September, 2021. Under the Partnership deed the executors of the deceased partner are entitled to his share of profit to the date of death calculated on the basis of last year's profit. Profit for the year ended 31st March, 2021 was ₹ 2,14,000. C's share of profit will be

(a) ₹28,000 (b) ₹ 21,400

(c) ₹28,800 (d) ₹48,000

50. X, Y and Z are partner in $\frac{7}{20} : \frac{2}{5} : \frac{1}{4}$ ratio. Y retires and surrenders $\frac{3}{20}$ from his share to X and remaining in favour of Z. What will be gaining ratio?

(a) $\frac{3}{20} : \frac{5}{20}$ (b) $\frac{4}{20} : \frac{5}{20}$

(c) $\frac{5}{20} : \frac{3}{20}$ (d) $\frac{1}{20} : \frac{1}{20}$

51. H, L and B are partners sharing profits in the ratio of 3:2:1. If L retires the new profit sharing ratio between H and B will be __________.

(a) 3:2 (b) 3:1 (c) 5:3 (d) 1:1

52. _____ is to be prepared when assets and liabilities are shown in new balance sheet at old figures.

(a) Revaluation account (b) Memorandum revaluation account

(c) Realisation account (d) Profit and loss suspense account.

53. Naveen, Suresh and Tarun are partners sharing profits and losses in the ratio of 5:3:2. Suresh retires from the firm and his share was required by Naveen and Tarun in the ratio 2:1. What will be the new ratio?

(a) 5:1 (b) 3:7 (c) 3:5 (d) 7:3

54. After retirement of a partner, if the retiring partner is not paid full amount due to him or her immediately, his or her balance is transferred to his or her__________

(a) Suspense account (b) Capital account

(c) Loan account (d) Bank account

55. C, D and E are partners sharing profits and losses in the proportion of $\frac{1}{2}, \frac{1}{2}$ and $\frac{1}{6}$. D retired and the new profit sharing ratio between C and E is 3:2, The Reserve of ₹ 12,000 is divided among the partners in the ratio:

(a) 2,000: 4,000: 6,000 (b) 5,000:5,000: 2,000

(c) 6,000: 4,000: 2,000 (d) 2,000: 5,000: 5000

56. On death of a Partner, the remaining partner(s) who have gained due to change in profit sharing ratio should compensate the

(a) Deceased partner only

(b) Remaining partners (who have sacrificed) as well as deceased partner

(c) Remaining partners only (who have sacrificed)

(d) None of the above

57. R, G and K were partners in a firm sharing profit and loss in the ratio of 8:7:5. On 1st November 2021, K died. K's share of profits till the date of her death was calculated at ₹ 9,000. What will be journal entry for the same?

(a) Profit and Loss Suspense A/c Dr. 9,000
    To K's Capital A/c 9,000

(b) Profit and Loss A/c Dr. 9,000
    To K's Capital A/c 9,000

(c) Profit and Loss Appropriation A/c Dr. 9,000
    To K's Capital A/c 9,000

(d) Revaluation A/c Dr. 9,000
    To K's Capital A/c 9,000

58. Ram, Rita and Rekha are partners in $\frac{7}{20} : \frac{8}{20} : \frac{1}{4}$ ratios. Rita retires. What will be new ratio?

(a) 7:5
(b) 6:5
(c) 8:5
(d) 5:7

59. Anuj, Boby and Chirayu are equal partners in a firm. Their books of accounts are closed on 31st March every year. Anuj died on 30th June 2021. The share of profit of deceased partner till his death is to be calculated on the basis of average profit of last five years. The net profit for the last five years from 2016-17 to 2020-21 were ₹ 14000, ₹18,000, ₹16,000, ₹10000 loss and ₹16,000 respectively. What will be the share of profit of Anuj till his death?

(a) 900
(b) 600
(c) 300
(d) 500

60. K, B and C were partners sharing profits in the ratio 5:3:2. K died on 31st May 2021. The sales and profit for the year ending 31st December, 2020 were 8,00,000 and 1,60,000 respectively. The sales up to 31st May 2021 amounted to ₹1,50,000. What will be share of profit of K till his death and what journal entry will be passed?

(a) Profit and Loss Suspense A/c Dr. 15,000
    To K's Capital A/c 15,000

(b) Profit and Loss A/c Dr. 15,000
    To K's Capital A/c 15,000

(c) Profit and Loss Appropriation A/c Dr. 15,000
    To K's Capital A/c 15,000

(d) Revaluation A/c Dr. 15,000
    To K's Capital A/c 15,000

61. X, Y and Z are partners sharing profits and losses in the ratio of $\frac{1}{2} : \frac{1}{8} : \frac{3}{8}$. Z retire and surrenders $\frac{4}{9}$ th of his share in favour of X and the remaining in favour of Y. What will be the new profit sharing ratio?

(a) 1:1
(b) 1:3
(c) 4:5
(d) 2:1

62. Sunita, Mosam and Sitara are partners in 2:7:1 ratio. Sunita retires and the new ratio between Mosam and Sitara is fixed at 2:3. Goodwill is valued ₹ 1,50,000. What will be the Journal entry for goodwill?

(a) Sitara A/c debit ₹75,000; Mosam A/c credit ₹45,000; Sunita A/c credit ₹30,000.
(b) Sitara A/c debit ₹75,000; Mosam A/c debit ₹75,000; Sunita A/c credit ₹1,50,000.
(c) Sitara A/c debit ₹15,000; Mosam A/c debit ₹15,000; Sunita A/c credit ₹30,000.
(d) Mosam A/c debit ₹75,000; Sitara A/c credit ₹45,000; Sunita A/c credit ₹30,000.

63. Which account is opened to transfer deceased partner's share of profit to his capital account

(a) P&L Adjustment account
(b) P&L Appropriation account
(c) P&L Suspense account
(d) None of the above

64. Alka, Balka and Chalka are partners in 4 : 4 : 3 ratios. Chalka retires from the firm. Her capital was ₹ 70,000 and share in reserves and profit from revaluation was ₹ 50,000. However the Continuing partners agreed to pay him ₹ 1,60,000 on her retirement. What entry will be passed for goodwill?

(a) No entry

(b)

Alaka's Capital A/c Dr.	20,000	
Balka's Capital A/c Dr.	20,000	
To Chalka's capital A/c		40,000

(c)

Alaka's Capital A/c Dr.	80,000	
Balka's Capital A/c Dr.	80,000	
To Chalka's capital A/c		1,60,000

(d)

Chalka's Capital A/c Dr.	40,000	
To Alaka's Capital A/c		20,000
To Balka's Capital A/c		20,000

65. Gaining Ratio is calculated by subtracting ____________ from ____________.

(a) Sacrificed profit share, new profit share of the partner
(b) Sacrificed profit share, old profit share of the partner
(c) New profit share, old profit share of the partner
(d) Old profit share, new profit share of the partner

66. K, U and A were in Partnership firm. On October 1,2021, K died. Amount payable to him on that date amounted to ₹ 1,05,000. ₹ 5000 was paid immediately and balance was paid in 4 equal annual installments along with interest at 12% p.a. starting from 1st October 2022. Calculate the interest due as on 31st March, 2022. Financial year was followed as accounting year by the firm.

(a) ₹ 2,500 (b) ₹3,000
(c) ₹4,500 (d) ₹ 3,750

67. On death of a partner his share in profit is debited to Profit and loss suspense account. The amount of Profit and Loss Suspense account is closed by transferring ______________

(a) the account to Gaining Partners' Capital Account in their gaining ratio.
(b) the account to Gaining Partners' Capital Account in their new ratio
(c) the account to new partners' Capital Account in their new ratio
(d) the account to Gaining Partners' Capital Account in their old ratio

68. Sudha, Shivani and Sandhya were partners in a firm sharing profits and losses in the ratio3:2:1. The profit of the firm year ending on 31st December, 2021 was ₹1,80,000. Shivani died on 31st March, 2022. What will be the share of profit of shivani till her death?

(a) 12,000 (b) 15,000
(c) 45,000 (d) 60,000

69. Raju, Ganga and Kishor were partners in a firm sharing profit and loss in the ratio of 8:7:5. On 1st November, 2021, Kishor died. Kishor's share of loss till the date of his death was calculated at ₹ 10,000. What will be the journal entry for the same on the death of Kishor?

(a)

Kishor's Capital A/c Dr.	10,000	
To Profit and Loss Suspense A/c		10,000

(b)

Profit and Loss suspense A/c Dr.	10,000	
To Kishor's Capital A/c		10,000

(c)

Profit and Loss Appropriation A/c Dr.	10,000	
To Kishor's Capital A/c		10,000

(d)

Revaluation A/c Dr.	10,000	
To Kishor's Capital A/c		10,000

70. X,Y and Z were partners in a firm sharing profits in ratio of 3:2:1 X retired and his share is acquired by Y and Z in the ratio 4: 5. On X's retirement his share in goodwill of the firm was valued at ₹ 27,000. What will be journal for the same?

(a) Y's capital Dr.	24,000	
Z's capital Dr.	30,000	
To X's capital		54,000
(b) Y's capital Dr.	15,000	
Z's capital Dr.	12,000	
To X's capital		27000
(c) Y's capital Dr.	12,000	
Z's capital Dr.	15,000	
To X's capital		27,000
(d) X's capitals a/c Dr.	27,000	
To Y's capitals		12,000
To Z's capitals		15,000

INPUT-TEXT BASED MCQs

Read the following text and answer the following questions (71 to 75) on the basis of the same:

A, B and C are equal partners in a firm. Their Balance Sheet on 31st December, 2021 are as follows:

Liabilities		Amount	Assets	Amount
		₹		₹
B/P		10,000	Machinery	20,000
Creditors		18,000	Furniture	1,000
Reserve Funds		3,000	Debtors	20,000
Capital:			Stock	10,000
	₹		BIR	10,000
A	10,000			
B	8,000			
C	12,000	30,000		
		61,000		61,000

C retired on 1st January, 2022 and revaluation of assets are as follow: Machinery ₹ 25,000 Furniture ₹800, Debtors ₹19,000, Stock ₹9,800, Goodwill ₹6,000.

71. Debit side of Revaluation Account shows the amount of assets are as:
(a) ₹6,400 (b) ₹1,500 (c) ₹1,400 (d) ₹5,200

72. Total of credit side of Revaluation Account will be:
(a) ₹5,000 (b) ₹2,500
(c) ₹3,000 (d) ₹6,000

73. Total transferred amount of credit side into Partners' Capital Account:
(a) ₹2,400 (b) ₹3,600 (c) ₹2,700 (d) ₹3,000

74. Reduction in the value of machinery due to revaluation:
(a) ₹5,000 (b) ₹8,000
(c) ₹20,000 (d) None of these

75. Reduction in value of furniture due to revaluation:
(a) ₹200 (b) ₹ 800 (c) ₹600 (d) ₹1,000

Read the following text and answer the following questions (76 to 79) on the basis of the same:

A, B and C are partners sharing profits in the ratio of 4 : 3 : 3. On C's retirement the value of firm's goodwill was agreed at ? 30,000. A and B agreed to share profits and losses in future in the ratio of 7 and 3 respectively. Answer the following questions.

76. What is the Gaining ration of A and B?

(a) 4:5 (b) 6:7 (c) Only A will gain (d) Only B will gain

77. What is the amount of B's share of Goodwill?

(a) 9,000 (b) 10,000 (c) 8,000 (d) None of these

78. On retirement or death of a partner, gaining ratio is used to distribute ______________.

(a) Goodwill (b) Revaluation Profit or Loss

(c) Profit and Loss Account (Credit Balance) (d) Both (b) and (c)

79. At the time of retirement of a partner, share of retiring partner's goodwill will be credited to:

(a) Remaining Partner's Capital Account(s)

(b) Retiring Partner's Capital Account(s)

(c) Both Sacrificing and Gaining Partner's Capital Account(s)

(d) Gaining Partner's Capital Account(s)

ANSWERS

Multiple Choice Questions

1. (a)	**2.** (c)	**3.** (d)	**4.** (c)	**5.** (c)	**6.** (b)	**7.** (a)	**8.** (b)	**9.** (a)	**10.** (b)
11. (b)	**12.** (b)	**13.** (a)	**14.** (c)	**15.** (b)	**16.** (a)	**17.** (c)	**18.** (c)	**19.** (d)	**20.** (d)
21. (d)	**22.** (c)	**23.** (a)	**24.** (a)	**25.** (d)	**26.** (c)	**27.** (c)	**28.** (b)	**29.** (a)	**30.** (a)
31. (b)	**32.** (d)	**33.** (c)	**34.** (a)	**35.** (c)	**36.** (c)	**37.** (c)	**38.** (c)	**39.** (c)	**40.** (a)
41. (d)	**42.** (a)	**43.** (d)	**44.** (a)	**45.** (c)	**46.** (b)	**47.** (c)	**48.** (b)	**49.** (b)	**50.** (a)
51. (b)	**52.** (b)	**53.** (d)	**54.** (c)	**55.** (c)	**56.** (b)	**57.** (a)	**58.** (a)	**59.** (a)	**60.** (a)
61. (d)	**62.** (a)	**63.** (c)	**64.** (b)	**65.** (c)	**66.** (c)	**67.** (a)	**68.** (b)	**69.** (a)	**70.** (c)

Input-Text Based MCQs

71. (c)	**72.** (a)	**73.** (b)	**74.** (a)	**75.** (a)	**76.** (c)	**77.** (a)	**78.** (a)	**79.** (b)

HINTS TO SOME SELECTED QUESTIONS

1. New ratio of A = $\frac{4}{5} \times \frac{3}{5} = \frac{12}{25}$; B = $\frac{4}{5} \times \frac{2}{5} = \frac{8}{25}$; C = $\frac{1}{5} \times \frac{5}{5} = \frac{5}{25}$; So, new ratio is 12:8:5. Share in reserve = 50,000 × $\frac{12}{25}$ = 24,000.

2. 20,00,000 less depreciation at 15 % ₹ 3,00,000 = 17,00,000. Market price of asset is not considered for depreciation.

3. Gaining ratio = 7,200 : 6,000 = 6:5.

4. Goodwill share of C = 4,00,000 – 3,50,000 = 50,000 Firm's Goodwill = 50,000 × $\frac{20}{4}$ = 2,50,000 ; D's share in Goodwill = 2,50,000 × ¼ = 62,500.

5. Ratio between M and P = 3 : 2. So the new ratio between P and C will also be 3 : 2; Gain = new share – old share; P's gain = $\frac{3}{5} - \frac{2}{6} = \frac{8}{30}$; C's gain = $\frac{2}{5} - \frac{1}{6} = \frac{7}{30}$. Gaining ratio will be 8:7.

6. Employee Provident Fund is liability and shown in balance sheet after retirement or death of a partner.

7. New share = old share + acquired share; Q = $\frac{5}{16} + \frac{3}{16} = \frac{8}{16}$; R = $\frac{3}{16} + \frac{5}{16} = \frac{8}{16}$; New ratio = 8 : 8 or 1 : 1.

8. S's Gain $= \frac{3}{10} \times \frac{80}{100} = \frac{12}{50}$. As 20% share acquired by H so remaining 80% share is acquired by S.

10. Surrender to X $= \frac{3}{9} \times \frac{3}{9} = \frac{3}{81}$; surrender to Z $= \frac{3}{9} \times \frac{8}{9} = \frac{24}{81}$; New share = old share + acquired share; X = $\frac{4}{9} + \frac{3}{81} = \frac{39}{81}$; Z $= \frac{2}{9} + \frac{24}{81} = \frac{42}{81}$; New ratio = 39 : 42 Or 13: 14

12. In the absence of any information regarding profit sharing ratio in which the remaining partners acquire the share of retiring/deceased partner, it is assumed that they will acquire it in the old profit sharing ratio and so new ratio will be their old ratio only,

14. 1, 20,000 – 80,000 vehicle = 40,000

16. Banta's New Share = Banta's old share + Banta's gain $= \frac{2}{6} + \frac{2}{6} = \frac{4}{6}$

Chunmun's New Share = Chunmun's old share + Chunmun's gain $= \frac{1}{6} + \frac{1}{6} = \frac{2}{6}$

So the new share $= \frac{4}{6} : \frac{2}{6} = 2:1$.

18. B = 30,000 $\times \frac{2}{5}$ = 12,000 as ratio between A and B = 3:2

19. Share in profit = 18,00,000 $\times \frac{4,00,000}{20,00,000} \times \frac{3}{10}$ = 1,08,000.

21. As per the Provisions of the Partnership Act, 1932, interest at 6 % p.a becomes payable on the amount due to retiring partner. 4,00,000 $\times \frac{6}{100} \times \frac{6}{12}$ = 12,000.

22. On retirement or death of a partner, profit or loss on revaluation account is distributed among all partners in old ratio.

26. A's Gain $= \frac{3}{10} \times \frac{20}{100} = \frac{3}{50}$; A's new share = A's old share + A's Gain $= \frac{4}{10} + \frac{3}{50} = \frac{23}{50}$; C's Gain $= \frac{3}{10} \times \frac{80}{100} = \frac{12}{50}$; C's new share = C's old share + C's Gain $= \frac{3}{10} + \frac{12}{50} = \frac{27}{50}$; New Profit sharing Ratio of A and C is 23: 27

27. Bad debt 4,000 + 3,000 further bad debt.

29. On retirement goodwill share is distributed among gaining partners in gaining ratio.

31. Gaining ratio of A and C is 2:1. Share of goodwill = 30,000 $\times \frac{2}{5}$ = 12,000 will be shared by A and C in gaining ratio.

33. Gaining ratio = New ratio – old ratio; Prashant $= \frac{5}{8} - \frac{3}{9} = \frac{21}{72}$; Lalaji $= \frac{3}{8} - \frac{2}{9} = \frac{11}{72}$.

35. New share = old share + acquired share; A $= \frac{1}{3} + \frac{3}{15} (\frac{3}{5} \times \frac{1}{3}) = \frac{8}{15}$; B $= \frac{1}{3} + \frac{2}{15} (\frac{2}{5} \times \frac{1}{3}) = \frac{7}{15}$. New ratio = 8:7

37. Capital of B ₹50,000 + share in reserve ₹ 6,000 (15,000 $\times \frac{2}{5}$) + share of goodwill ₹ 12,000 (30,000 $\times \frac{2}{5}$) + share in revaluation profit ₹2,820 (7050 $\times \frac{2}{5}$) = 70,820.

39. Share acquired by Deep $= \frac{2}{6} \times \frac{2}{3} = \frac{4}{18}$ Share acquired by Honey $= \frac{2}{6} \times \frac{1}{3} = \frac{2}{18}$; Deep's new Share = Deep 's old share + Deep's gain $= \frac{3}{6} + \frac{4}{18} = \frac{13}{18}$; Honey's new Share = Honey's old share + Honey's gain $= \frac{1}{6} + \frac{2}{18} = \frac{5}{18}$; New Ratio = 13:5

41. M's share of goodwill = 36,000 $\times \frac{3}{9}$ = 12,000.

43. Profit for 3 months = 2,00,000 $\times \frac{10}{100}$ = 20,000. Share of C in profit = 20,000 $\times \frac{1}{5}$ = 4,000.

44. Gain to Ankur = $\frac{3}{10} \times \frac{2}{3} = \frac{6}{30}$; Gain to Chirag = $\frac{3}{10} \times \frac{1}{3} = \frac{3}{30}$. New share = old share + Gain; Ankur = ½ + $\frac{6}{30} = \frac{21}{30}$; Chirag = $\frac{1}{5} + \frac{3}{30} = \frac{9}{30}$. New ratio = 21:9 or 7: 3.

45. Share of Raman = 1, 00,000 × $\frac{3}{10}$ = 30,000. Gain of Chaman = ½ − $\frac{5}{10}$ = Nil; gain of Suman = ½ − $\frac{2}{10} = \frac{3}{10}$; Gaining partner will be debited.

46. Out of given items only interest on capital of partner is credited to partner's current all other items are debited to partner's current account.

47. $\frac{1}{6}$ × 60,000 = 10,000

49. 2,14,000 × $\frac{6}{12} \times \frac{1}{5}$ = 21400

50. Surrender to X = $\frac{3}{20}$. Surrender to Z = $\frac{2}{5} - \frac{3}{20} = \frac{5}{20}$. Gaining ratio = $\frac{3}{20} : \frac{5}{20}$.

51. If nothing is mentioned regarding new ratio or gain of existing partners, then the new ratio of remaining partners will be same as their old ratio.

53. Share acquired by Naveen = $\frac{3}{10} \times \frac{2}{3} = \frac{6}{30} = \frac{2}{10}$; Share acquired by Tarun = $\frac{3}{10} \times \frac{1}{3} = \frac{3}{30} = \frac{1}{10}$; New share of Continuing Partner = Old Share + Acquired share; Naveen = $\frac{5}{10} + \frac{2}{10} = \frac{7}{10}$; New Share of Tarun = $\frac{2}{10} + \frac{1}{10} = \frac{3}{10}$; New ratio= 7 : 3.

55. On retirement reserves appearing in the balance sheet is divided among all partners in old ratio.

58. When any partner retires and no information available for new or gaining ratio, existing partners share profit in their old ratio.

59. Average profit = (14,000 + 18,000 + 16,000 – 10,000 + 16,000) 5 = 10, 800 ; share of Anuj in profit for 3 months = 10800 × $\frac{3}{12} \times \frac{1}{3}$ = 900.

60. Percentage of profit on sales = $\frac{1,60,000}{8,00,000}$ × 100 = 20% ; estimated profit for 5 months = 1,50,000 × 20% = 30,000; K's share in profit = 30000 × $\frac{5}{10}$ = 15000.

61. Gain of X = $\frac{4}{9} \times \frac{3}{8} = \frac{12}{72}$; Gain of Y = $\frac{3}{8} - \frac{12}{72} = \frac{15}{72}$. New ratio = old share + gain. X = $\frac{1}{2} + \frac{12}{72} = \frac{48}{72}$. Y = $\frac{1}{8} + \frac{15}{72} = \frac{24}{72}$. New ratio = 48 : 24 or 2:1

62. Share of Sunita = 1,50,000 × $\frac{2}{10}$ = 30,000; Gaining ratio = New share – Old share. Mosam = $\frac{2}{5} - \frac{7}{10} = -\frac{3}{10}$. (sacrifice) Sitara = $\frac{3}{5} - \frac{1}{10} = \frac{5}{10}$ (gain).

64. Hidden goodwill = 1,60,000 – 1,40,000 = 40,000; Gaining ratio remains same as old ratio as no information is given.

66. Interest = 75,000 × $\frac{12}{100} \times \frac{6}{12}$ = 4,500.

68. Share in profit = 1,80,000 × $\frac{3}{12} \times \frac{2}{6}$ = 15,000

70. Gaining ratio is 4: 5.share of retiring partner in the goodwill is debited among gaining partners in gaining ratio. Y = 27,000 × $\frac{4}{9}$ = 12,000 and Z = 27,000 × $\frac{5}{9}$ = 15,000.

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