OPEN STUDENT FOUNDATION

Date : 23-02-2024 | STD 12 Commerce Elements of Account | Total Marks : 35

12th Account Practice Sheet Day 6 (Part 1 - Ch.6)

Section A

*** Choose The Right Answer From The Given Options. [5]**

1. If partnership deed is silent, interest is payable at........... on unpaid amount payable to the retiring partner.

(A) 10 % p.a. (B) 12 % p.a. (C) 6 % p.a. (D) zero

Ans. :

(C) 6 % p.a.

2. Where will you show balance of accounts like bad debts reserve, investment reserve, workmen compensation fund etc. at the time of retirement of a partner?

(A) In partner capital accounts (B) In profit-loss adjustment accounts (C) In debtors accounts (D) In new balance sheet

Ans. :

(D) In new balance sheet

3. Joint life insurance policy is .... type of account.

(A) Asset (B) Personal (C) Nominal (D) Traders

Ans. :

(A) Asset

4. Accounting year ends on 31-3-2016. A partner dies on 30-6-2016. Deceased partners' share in profit is 3 Profit share payable to the partner is to be calculated on the basis of last year's profit Rs.24,000........ amount will be paid as share in profit at the time of death.

(A) Rs. 8,000 (B) Rs. 24,000 (C) Rs. 1,333 (D) Rs. 2,000

Ans. :

(D) Rs. 2,000

5. If noting is clearly mentioned about , interest on loan given by partner to the firm .... % interest is to be allowed by firm to the partner.

(A) 5 (B) Bank rate (C) 6 (D) 8

Ans. :

(C) 6

Section B

*** Answer The Following Questions In One Sentence. [4]**

6. Which balances are credited to all partners' capital accounts in their old profit-loss sharing ratio?

Ans. :

Following balances are credited to all partners' capital accounts:

- (i) Opening balance of capital account and credit balance of current account on the date of retirement.
- (ii) Share in reserves, undistributed profit, profit of the revaluation account etc.
- (iii) Share in profit of the firm from the date of last balance sheet to the date of retirement.
- (iv) Salary, interest on capital, commission, interest on loan given to the firm from the date of last balance sheet to the date of retirement.

7. Why assets and Liabilities of a firm are revalued at the time of retirement or death of a partner?

Ans. :

When partner retires or dies, assets and Liabilities of the firm are revalued because

- (1) Assets and Liabilities of the firm can be recorded in the books of accounts at their realistic value.
- (2) Provisions for reserves on debtors, bills receivables etc. properly not ascertained, Can be recorded at proper values.
- (3) Increase in the values of permanent assets like land, building etc i can be recorded at their proper values.

8. State the various methods of accounting treatments for joint life insurance policy in the books of the firm.

Ans. :

Following are the methods of accounting treatment for joint life insurance policy :

- (1) Premium on joint life insurance policy to be treated as revenue expense's.
- (2) Premium on joint Life insurance policy to be treated as capital expenses.
- (3) Disclosure of joint life insurance policy at its surrender value.

9. From which date, partnership of any partner ends in case of insolvency of partner?

Ans. :

A partnership of any partner ends from the date from which he is declared insolvent.

Section C

*** Answer The Following Questions. [6]**

10. A,B and C are the partners sharing profit in the ratio of 4: 5: 1 . Following journal entry for goodwill is passed at the time of the retirement of B: A's capital A/c Dr 6000 C/s capital A/c Dr 4000 To B's capital A 10,000

Ans. : Gaining Ratio :

The profit ratio is 2/10.

The loss ratio is 1/10.

A:C = 2:1

11. X, Y and Z are the partners sharing profit and loss in the ratio of $3:2:1. Y$ retires as a partner. X gain $\frac{1}{9}$ th share and Z gains $\frac{2}{9}$ th share from the profit and loss share of Y. Calculate the new profit and loss sharing ratio of X and Z.

Ans. :

Old ratio of X, Y and Z = 3:2:1

X gains $\frac{1}{9}$th share and Z gains $\frac{2}{9}$th share from $\frac{2}{6}$ share of Y.

$\therefore$ Gain of X = $\frac{1}{9}$ and Gain of Z = $\frac{2}{9}$. $\therefore$ Gaining ratio is 1:2.

New share = Old share + Gain

$\therefore$ X's new share $= \frac{3}{6} + \frac{1}{9} = \frac{9}{18} + \frac{2}{18} = \frac{11}{18}$

Z's new share $= \frac{1}{6} + \frac{2}{9} = \frac{3}{18} + \frac{4}{18} = \frac{7}{18}$

$\therefore$ New profit and loss sharing ratio of X and Z = 11:7

Section D

* **Answer The Following Questions With Necessary Calculations.** **[4]**

12. L, M N and O are the partners sharing profit and loss in the ratio of 5: 4: 3: 3 .L retires on 1-4-2017. At the time of retirement of L, goodwill appears at ₹ 75,000 in the books of old firm. The new profit and loss sharing ratio of M ,N and O is decided at 3: 1: 1 . On L's retirement, the goodwill of the firm is valued at ₹ 90,000.

Ans. :

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Date	Particulars	LF	Debit (Rs)	Credit (Rs)
	L's Capital A/c Dr M's Capital A/c Dr N's Capital A/c Dr O's Capital A/c Dr To Goodwill A/c (Being old goodwill written off among all the partners in their old profit-loss sharing ratio 5: 4: 3: 3]		25,000 20,000 15,000 15,000	 75,000
	M's Capital A/c Dr To L's Capital A/c (Being L's share of goodwill adjusted to M's Capital as per his gaining share)		30,000	 30,000

Section E

* **Answer The Following Questions In Detail.** **[16]**

13.

Dhaval, Kamal and Naval are the partners sharing profit and loss in the ratio of 2:2:1. Naval retires on 31-3-2016. Balance sheet of the firm as on 31-3-2016 was as under:

Balance Sheet

Liabilities		Amt.(Rs.)	Assets	Amt.(Rs.)
Capital Accounts:			Goodwill	10,000
Dhaval	30,000		Machinery	20,000
Kamal	20,000		Investments	1,00,000
Naval	10,000	60,000	Debtors	30,000
General reserve		5,000	Stock	10,000
Investment fluctuation fund		2,500	Cash-bank	5,000
Bad debt reserve		2,000		
Creditors		15,500		
		85,000		85,000

Following adjustments are agreed at the time of retirement:

(1) Value of machinery is Rs.25,000 and Value of stock is Rs.5,000.

(2) Value of investments is Rs.8,000, which is taken by Naval at this price.

(3) An amount of Rs.5,000 included in creditors is no longer payable.

(4) The provision for workmen compensation to be credited at Rs.2,000.

(5) The provision for doubtful debts is to be kept at 10% on debtors.

(6) Goodwill of the firm is valued at Rs.40,000.

Pass journal entries. Prepare necessary accounts and the balance sheet of the firm after Naval's retirement.

Ans. :

Journal Entry

Date/No.	Particulars		L.F.	Debit(Rs.)	Credit(Rs.)
1.	General Reserve A/c	Dr.		5,000	
	Investment fluctuation fund A/c	Dr.		500	
	To Dhaval's capital A/c				2,200
	To Kamal's capital A/c				2,200
	To Naval's capital A/ c				1,100
	(Being balance of general reserve and IFF distributed among old partners in old profit-loss ratio)				
2.	Machine A/c	Dr.		5,000	
	Creditors A/c	Dr.		5,000	
	To Revaluation A/c				10,000
	(Being gain on machines and creditors transferred to the Revaluation A/c)				
3.	Naval's Capital A/c	Dr.		8,000	
	To Investments A/c				8,000

	(Being loss on stock, WAC and Gen. res. transferred to the Revaluation A/ c)			
4.	Revaluation A/c Dr.		8,000	
	To Stock A/c			5,000
	To Prov. for workmen's compensation A/c			2,000
	To General reserve A/c			1,000
	(Being Naval took away inv; from the business)			
5.	Dhaval's Capital A/c Dr.		4,000	
	Kamal's Capital A/c Dr.		4,000	
	Naval's Capital A/c Dr.		2,000	
	To Goodwill A/c			10,000
	(Being goodwill amount distributed among old partners in old profit-loss ratio)			
6.	Revaluation A/c Dr.		2,000	
	To Dhaval's Capital A/c			800
	To Kamal's Capital A/c			800
	To Naval's Capital A/c			400
	(Being Profit of Revaluation NC is transferred to partners capital A/c)			
7.	Dhaval's Capital A/c Dr.		4,000	
	Kamal's Capital A/c Dr.		4,000	
	To Naval's Capital A/c			8,000
	(Being goodwill amount of Naval's share, paid by remaining partners in their gain ratio)			
8.	Naval's Capital A/c Dr.		9,500	
	To Naval's loan A/c			9,500
	(Being amount payable to Naval transferred to his loan account)			
	Total		61,000	61,000

Dr. **Revaluation Account** **Cr.**

Particulars	Amt.(Rs.)	Particulars	Amt.(Rs.)
To Stock A/c	5,000	By Machinery A/c	5,000
To Workmen's compensation fund No	2,000	By Creditors A/c	5,000
To General reserve A/c (New : Rs.3,000 -Old : Rs.2,000)	1,000		
To Profit: Partners Capital A/c			

Dhaval	800			
Kamal	800			
Naval	400	2,000		
		10,000		10,000

Dr. **Partners Capital Account** **Cr.**

Particulars	Dhaval (Rs.)	Kamal (Rs.)	Naval (Rs.)	Particulars	Dhaval (Rs.)	Kamal (Rs.)	Naval (Rs.)
To Goodwill A/c (old)	4,000	4,000	2,000	By Balance old	30,000	20,000	10,000
To Naval's capital A/c (New goodwill)	4,000	4,000		By General res. A/c	2,000	2,000	1,000
To Investments A/c			8,000	By Investment fluctuation fund A/c	200	200	100
To Loan A/c			9,500	By Revaluation A/c - Profit	800	800	400
To Balance c/d	25,000	15,000		By Dhaval's capital A/c (New goodwill)			4,000
				By Kamal's capital A/c (New goodwill)			4,000
	33,000	23,000	19,500		33,000	23,000	19,500

Balance sheet as on 1-4-2016 after retirement

Capital-Liabilities		Amt.(Rs.)	Assets		Amt.(Rs.)
Capital Accounts :			Machines	20,000	
Dhaval	25,000		Investments	5,000	25.000
Kamal	15,000	40,000	+ Increase	10,000	
O/s Workmen/s Compensation claim		2,000	- loss	2,000	
			- Taken away by Naval	8,000	-
Creditors	15,500		Debtors	30,000	
- Amt. not to pay	5,000	10,500	- B.D.R.	3,000	27,000
Naval's loan		9,500	Stock	10,000	
			- Decrease	5,000	5,000
			Cash-Bank		5,000
		62,000			62,000

14. Karan, Fenil and Farshid are partners in a firm sharing profit and loss in the ratio of their capitals. Balance sheet of the firm as on 31-3-2017 was as under:

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Creditors		16,000	Goodwill		40,000
Workmen compensation reserve		12,000	Land-Building		2,00,000
Employee's profit sharing fund		30,000	Patents		60,000
Provident fund		45,000	Machinery		80,000
Capital Accounts :			Debtors	35,000	
Karan	2,00,000		− Bad debt reserve	5000	30,000
Fenil	1,20,000		Stock		53,000
Farshid	80,000	4,00,000	Bank		40,000
		5,03,000			**5,03,000**

Farshid retires on the above date. Partners decided the following terms of retirement:

(1) The new profit-loss sharing ratio of Karan and Fenil is to be kept at 2:3.

(2) Goodwill of the firm is to be valued at ₹ 80,000. (3) Paid ₹ 60,000 for patents during current year which is for total 4 years.

(4) Machinery is to be depreciated by 10%

(5) Bad debt on debtors is to be written off ₹ 3000.

(6) ₹ 20,000 is to be paid to Farshid.

(7) Market value of stock is ₹ 54,000.

(8) New firm's total capital will be equal to total capital of old firm. The entire capital of the new firm is to be kept in new profit and loss sharing ratio of Karan and Fenil. All necessary adjustments are to be made through bank. Prepare (i) Revaluation account (ii) Capital accounts of partners (iii) Bank account (iv) Balance Sheet after retirement of Farshid.

Ans. :

Revaluation Account

Dr | Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Patent A/c	15,000	By Bad debt reserve A/c		2000
To Machinery A/c	8000	(₹ 5000 – ₹ 3000 bad debt)		
		By Stock A/c		1000
		By Partners' capital A/c (Loss) :		
		Karan	10,000	
		Fenil	6000	
		Farshid	4000	20,000
	23,000			**23,000**

Capital Accounts of Partners

Dr | Cr

Particulars	Karan (₹)	Fenil (₹)	Farshid (₹)	Particulars	Karan (₹)	Fenil (₹)	Farshid (₹)
To Goodwill A/c	20,000	12,000	8000	By Balance b/d	2,00,000	1,20,000	80,000
To Karan's capital A/c	–	8000	–	By Workmen compensation fund	6000	3600	2400
To Farshid's capital A/c (goodwill)	–	16,000	–	By Fenil's capital A/c (goodwill)	8000	–	16,000
To Bank A/c	–	–	20,000	By Bank A/c	–	1,58,400	–
To Revaluation A/c	10,000	6000	4000				
To Farshid's loan A/c	–	–	66,400				
To Bank A/c	24,000	–	–				
To Balance c/f	1,60,000	2,40,000	–				
	2,14,000	**2,82,000**	**98,400**		**2,14,000**	**2,82,000**	**98,400**

Bank Account

Dr | Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	40,000	By Farshid A/c	20,000
To Fenil's capital A/c	1,58,400	By Karan A/c	24,000
		By balance c/f	1,54,400
	1,98,400		**1,98,400**

Balance Sheet as on 1-4-2017 After Retirement

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Creditors		16,000	Patents	45,000
Employee's profit sharing fund		30,000	Machinery	72,000
Provident fund		45,000	Debtors	32,000
Farshid's loan A/c		66,400	Stock	54,000
Capital Accounts :			Bank	1,54,400
Karan	1,60,000		Land-Building	2,00,000
Fenil	2,40,000	4,00,000		
		5,57,400		**5,57,400**

Explanation : (1) Distribution of goodwill

Old ratio of Karan, Fenil and Farshid $= 5 : 3 : 2$; New ratio of Karan and Fenil $= 2 : 3$

Gain $=$ New share - Old share

Karan's gain $= \frac{2}{5} - \frac{5}{10} = -\frac{1}{10}$ (Sacrifice)

Fenil's gain $= \frac{3}{5} - \frac{3}{10} = \frac{3}{10}$

$\therefore$ Goodwill payable by Fenil $=$ ₹$80,000 \times \frac{3}{10} =$ ₹$24,000$

Karan also sacrifices his share, so he will also receive goodwill which is given by Fenil.

Goodwill receivable by Karan $= \frac{1}{10} \times 80,000 =$ ₹8000

Goodwill receivable by Farshid $= \frac{2}{10} \times 80,000 =$ ₹$16,000$

Journal Entries : Fenil's capital A/c...Dr 24,000

To Karan's capital A/c 8000

To Farshid's capital A/c 16,000

(2) Distribution of capital of new firm

New firm's total capital of ₹ 4,00,000 is same as old firm's total capital which is distributed between Karan and Fenil in their new profit and loss sharing ratio, 2:3.

$\therefore$ New capital of Karan $= 4,00,000 \times \frac{2}{5} = 1,60,000$; New capital of Fenil $= 4,00,000 \times \frac{3}{5} = 2,40,000$

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