



Collegedunia NCERT Solutions

Step-by-step solutions, alternate methods & exam tips for Class 12 Accountancy

Chapter 3: Reconstitution of a Partnership Firm: Retirement/Death of a Partner

About this Chapter

When a partner retires from or dies during the life of a firm, the partnership is reconstituted. This chapter teaches you how to compute the **new profit-sharing ratio**, the **gaining ratio**, treat **goodwill** on retirement/death, revalue assets and liabilities, distribute reserves and accumulated profits, and settle the deceased/retiring partner's capital account (often by transfer to an Executor's Account or Loan Account). Solutions for 2026-27 follow the latest NCERT (Reprint 2026-27).

Topics covered: New profit ratio • Gaining ratio • Goodwill adjustment • Revaluation A/c • Capital accounts • Executor's A/c

Quick Formula Sheet

Gaining Ratio:

$$\text{Gain} = \text{New share} - \text{Old share}$$

Goodwill (retirement):

Dr. gaining partners' Capital A/c

Cr. retiring partner's Capital A/c

(in gaining ratio, by retiring partner's share of goodwill)

Share of profit (death, time basis):

$$= \frac{\text{Last year's profit}}{\text{Period (months)}} \times \frac{\text{deceased share}}{12}$$

Also see for this chapter: [Revision Notes](#) | [Formula Sheet](#)

Gaining Ratio (retirement)

$$\text{Gain} = \text{New Share} - \text{Old Share}$$

Continuing partners gain the retiring partner's share; goodwill is paid by them in the gaining ratio

New Profit-Sharing Ratio

$$\text{New share} = \text{Old share} + \text{Gain}$$

If no information is given, continuing partners share in the old ratio (NCERT default)

Short Answer Questions

Q3.1 What are the different ways in which a partner can retire from the firm?

SOLUTION

Concept used. Retirement of a partner means a partner ceases to be a partner of the firm while the firm continues with the remaining partners. Under Section 32 of the Indian Partnership Act, 1932, a partner can retire in any of the following three ways.

Step 1. With the consent of all other partners. The partnership deed may be silent on retirement; in that case the retiring partner must obtain the consent of every continuing partner. This is the most common route in practice because most deeds simply require mutual consent.

Step 2. In accordance with an express agreement among the partners. If the partnership deed itself provides for retirement (for example, a clause that a partner above 60 years of age may retire by giving 3 months' written notice), the partner may retire under that clause without seeking fresh consent at the time of retirement.

Step 3. By giving notice in writing. Where the partnership is **at will** (no fixed period, no project-based duration), any partner may retire by giving a written notice of his intention to retire to all the other partners.

Final Answer: A partner can retire (i) with consent of all partners, (ii) under an express clause in the deed, or (iii) by written notice if the partnership is at will.

Quick recall

Gaining Ratio = New Ratio minus Old Ratio. On retirement, the continuing partners gain the outgoing partner's share, so they compensate the outgoing partner by debiting their capital accounts in the gaining ratio.

EXPERT'S SOLUTION : Aarav Sharma, M.Com Accountancy, Delhi University

Quick reading. The Act lists exactly three legal doors out of a partnership. The exam expects you to name all three and mention the section.

Step 1. Door 1: *Mutual consent*. Default route when the deed says nothing.

Step 2. Door 2: *Pre-agreed clause*. Deed itself prescribes the retirement procedure (notice period, age limit, etc.); the partner exits per that clause.

Step 3. Door 3: *Written notice* in a partnership-at-will. No consent needed; date of retirement is the date stated in the notice (or the date of communication if none is stated).

Why this matters. Whichever door is used, the firm must compute the new profit-sharing ratio, the gaining ratio, settle goodwill, revalue assets and liabilities, and pay the retiring partner the amount due.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: Three modes: mutual consent; express agreement; written notice in a partnership-at-will.

Q 3.2 Write the various matters that need adjustments at the time of retirement of a partner.

SOLUTION

Concept used. On retirement, the books and equities of the firm must be updated so that the retiring partner's exit value is fairly computed and the continuing partners begin afresh with restated capitals. The five standard adjustments are listed below.

- Step 1. New profit-sharing ratio and gaining ratio** of the continuing partners are computed. The gaining ratio = new share – old share for each continuing partner.
- Step 2. Treatment of goodwill.** The retiring partner is credited with his share of goodwill; the continuing partners are debited in their gaining ratio. If goodwill already appears in the books, it is first written off among ALL partners in the old ratio.
- Step 3. Revaluation of assets and reassessment of liabilities.** A **Revaluation Account** is prepared. The profit or loss on revaluation is shared among ALL partners (including the retiring partner) in the OLD ratio.
- Step 4. Distribution of reserves and accumulated profits/losses** appearing on the liabilities/assets side of the balance sheet (General Reserve, P&L A/c balance) is made among ALL partners in the OLD ratio.
- Step 5. Settlement of the retiring partner's account.** The total amount standing to his credit is paid either (a) immediately in lump sum, or (b) in instalments with interest, or (c) transferred to his Loan Account.

Final Answer: Adjustments: new ratio + gaining ratio; goodwill; revaluation; reserves & accumulated profits; settlement of capital.

X Common Mistake

A frequent error is to share *Revaluation A/c profit/loss* and *accumulated reserves* in the NEW ratio. These belong to the period before retirement, so they MUST be shared in the OLD ratio among all partners (including the retiring partner). Use the new ratio only for future profits and for gaining-ratio goodwill adjustment.

EXPERT'S SOLUTION : Priya Iyer, M.Com, ICAI Final-cleared

Strategic angle. Think of retirement adjustments as a five-checkpoint checklist that the exam scenario will exercise in some combination. Miss one and the final Balance Sheet won't tally.

Step 1. Checkpoint 1: ratios (new + gaining).

Step 2. Checkpoint 2: goodwill (write off existing; credit retiring partner via gaining ratio).

Step 3. Checkpoint 3: revaluation gain/loss in OLD ratio.

Step 4. Checkpoint 4: reserves & accumulated P&L in OLD ratio.

Step 5. Checkpoint 5: settle the retiring partner (cash / instalments / loan).

Why this matters. Each checkpoint touches a specific ledger: goodwill hits capital accounts; revaluation has its own account; reserves are journalised straight to capitals.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: Five checkpoints: ratios, goodwill, revaluation, reserves, settlement.

Q 3.3 Distinguish between sacrificing ratio and gaining ratio.**SOLUTION**

Concept used. **Sacrificing ratio** arises on *admission* of a partner and equals the share that each old partner gives up to the new partner. **Gaining ratio** arises on *retirement / death* of a partner and equals the share that each continuing partner picks up from the outgoing partner.

Step 1. Meaning. Sacrificing ratio = Old share – New share (positive, since the old partner sacrifices). Gaining ratio = New share – Old share (positive, since the

continuing partner gains).

Step 2. Occasion. Sacrificing ratio is computed at the time of admission. Gaining ratio is computed at the time of retirement or death.

Step 3. Purpose. Sacrificing ratio is used to credit the sacrificing partners with their share of the new partner's goodwill premium. Gaining ratio is used to debit the gaining partners with their share of the retiring/deceased partner's goodwill.

Step 4. Effect on share. Sacrificing partners' share *decreases*; gaining partners' share *increases*.

Step 5. Journal direction. On admission: Dr. Cash/New partner's Capital, Cr. Old partners (sacrificing ratio). On retirement: Dr. Continuing partners (gaining ratio), Cr. Retiring partner.

Final Answer: Sacrificing ratio: Old – New, used on admission. Gaining ratio: New – Old, used on retirement/death.

Quick recall

Gaining Ratio = New Ratio minus Old Ratio. On retirement, the continuing partners gain the outgoing partner's share, so they compensate the outgoing partner by debiting their capital accounts in the gaining ratio.

EXPERT'S SOLUTION : Vivaan Mehta, M.Com, Symbiosis Pune

Quick reading. Same idea, opposite direction. One subtracts new from old, the other subtracts old from new. The sign tells you whether the partner is giving up share or picking up share.

Step 1. Admission \Rightarrow share moves OUT of old partners \Rightarrow sacrificing ratio.

Step 2. Retirement/death \Rightarrow share moves INTO continuing partners \Rightarrow gaining ratio.

Step 3. Both ratios are always positive: just subtract the smaller share from the larger.

Why this matters. Pick the right ratio for the right goodwill journal entry, and the capital accounts will balance.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: Old – New on admission; New – Old on retirement.

Q 3.4 Why does a firm revalue assets and reassess its liabilities on retirement or on the event of death of a partner?

SOLUTION

Concept used. **Revaluation of assets and reassessment of liabilities** brings each asset to its current fair value and each liability to its current settlement value. The resulting profit or loss is shared in the OLD ratio because it arose during the period the outgoing partner was still a partner.

Step 1. Fair share to the outgoing partner. Book values reflect cost less depreciation, not current worth. If a building bought for Rs. 1,00,000 is now worth Rs. 1,50,000, the unrecognised gain of Rs. 50,000 was earned while the outgoing partner was in the firm; he is entitled to his share.

Step 2. Fair start for continuing partners. After revaluation the balance sheet shows realistic values. Future profits/losses will be shared by the continuing partners alone; they should not inherit a hidden loss or windfall that pre-dates them.

Step 3. Liabilities too. An undisclosed legal-damages claim of Rs. 20,000 must be brought on the books as a provision; ignoring it would unfairly enrich the outgoing partner.

Step 4. Old ratio because the gain/loss is historical. The Revaluation A/c profit/loss is shared in the OLD ratio, never in the new ratio or gaining ratio.

Final Answer: To ensure the outgoing partner is paid (and the continuing partners take over) at fair current values; the gain/loss is shared in the OLD ratio.

♥ Why This Matters

Revaluation is the only mechanism by which previously unbooked appreciation (positive or negative) makes its way into the partners' capital accounts. Skip it and the outgoing partner walks away with a wrong settlement.

EXPERT'S SOLUTION : Aanya Kapoor, M.Com, Christ University Bangalore

Structural observation. Two stakeholders: the outgoing partner who wants the highest possible payout; the continuing partners who want a clean opening balance sheet.

Revaluation satisfies both by snapping every line item to current value.

Step 1. Identify which assets are under-valued / over-valued vs current market value.

Step 2. Identify unrecorded liabilities, contingent liabilities now crystallised.

Step 3. Pass entries through Revaluation A/c; close to partners' capitals in OLD ratio.

Step 4. The balance sheet now shows fair values: continuing partners start clean.

Why this matters. Without revaluation, the retiring partner's capital balance reflects historical cost, not the firm's current worth.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: To fairly value the firm at retirement/death; gain/loss split in OLD ratio.

Q 3.5 Why is a retiring/deceased partner entitled to a share of goodwill of the firm?

SOLUTION

Concept used. **Goodwill** is the present value of the firm's expected super-profits, that is, the excess of expected future profits over the normal return on capital. It is a self-generated intangible asset that built up over years through the joint efforts of ALL partners (including the outgoing one).

Step 1. Contribution principle. The retiring/deceased partner contributed his time, capital and reputation to building the firm's goodwill. He should not walk away empty-handed when the continuing partners go on to enjoy the super-profits.

Step 2. No goodwill recorded earlier. Because goodwill is self-generated, accounting standards do not allow it to sit on the books. So at retirement the firm values goodwill afresh.

Step 3. Adjustment journal. The continuing partners debit their capital accounts in the *gaining ratio* and credit the retiring partner's capital with HIS share of goodwill:

Dr. Continuing partners' Capital (gaining ratio)

Cr. Retiring partner's Capital (his share of goodwill)

Step 4. No new asset is raised. Goodwill is NOT brought into the books as an asset; it

is only adjusted through capital accounts.

Final Answer: Because goodwill was jointly built by all partners and the continuing partners will enjoy the future super-profits; the retiring partner is therefore credited with his share via the gaining-ratio adjustment.

📌 Quick recall

Gaining Ratio = New Ratio minus Old Ratio. On retirement, the continuing partners gain the outgoing partner's share, so they compensate the outgoing partner by debiting their capital accounts in the gaining ratio.

EXPERT'S SOLUTION : Karan Joshi, M.Com, Banaras Hindu University

Strategic angle. Frame goodwill as the firm's accumulated *reputation rent*. Every partner planted seeds; only those continuing will keep harvesting. So the leaver gets his slice of the standing value of the crop.

Step 1. Goodwill = capitalised value of super-profits (above normal earnings).

Step 2. Outgoing partner's share = (his old share) × (firm's goodwill).

Step 3. Continuing partners absorb this share in their gaining ratio.

Step 4. Entry: Dr. Continuing partners (gaining ratio); Cr. Retiring partner.

Why this matters. Without this credit, the firm's intangible value would silently transfer from the retiring partner to the continuing partners, which is legally and ethically unsound.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: The retiring partner co-built the goodwill, so he is entitled to his share at retirement; adjusted through capital accounts in the gaining ratio.

[Download the Full Chapter Notes for Retirement / Death of a Partner →](#)

Long Answer Questions

Q3.6 Explain the modes of payment to a retiring partner.

SOLUTION

Concept used. The amount due to a retiring partner is the closing credit balance of his Capital Account after all adjustments (revaluation, reserves, goodwill, share of profit till date of retirement). This sum can be settled in any of the four standard modes below.

Step 1. Lump-sum cash payment. The entire amount is paid immediately:

Dr. Retiring partner's Capital A/c ; Cr. Cash/Bank A/c.

Used when the firm has enough liquidity.

Step 2. Payment in instalments with interest. A part is paid in cash and the balance carries interest at the agreed rate (statutory rate is 6% p.a. if no agreement). The unpaid balance is transferred to the retiring partner's Loan A/c; interest is credited yearly until the balance is cleared.

Step 3. Transfer to Loan A/c (full transfer). The entire balance is treated as a loan from the retiring partner to the firm and repaid as per agreed terms. Interest at 6% p.a. accrues unless otherwise agreed. Journal:

Dr. Retiring partner's Capital A/c ; Cr. Retiring partner's Loan A/c.

Step 4. Payment partly in assets and partly in cash. For example, investments held by the firm may be transferred to the retiring partner at agreed value, and the residual paid in cash.

Final Answer: Four modes: (i) lump-sum cash, (ii) instalments with interest, (iii) transfer to Loan A/c, (iv) part-assets + part-cash.

Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the gaining ratio, 2 marks for the retiring or deceased partner's capital account, 1 mark for the share of profit till date of retirement or death as per Section 37, and 1 mark for the executor's or loan account format.

EXPERT'S SOLUTION : Pranav Reddy, M.Com, Symbiosis

Strategic angle. Treat the four modes as a decision tree based on the firm's liquidity and the partner's needs.

Step 1. Cash-rich firm \Rightarrow pay in lump sum.

Step 2. Cash-strapped firm + partner needs steady income \Rightarrow instalments with interest (6% statutory if silent).

Step 3. Cash-strapped firm + partner content to leave money in \Rightarrow transfer to Loan A/c.

Step 4. Specific asset earmarked \Rightarrow part-asset transfer + cash.

Why this matters. The statutory 6% applies whenever the deed is silent on interest; many problems hinge on whether the deed specifies a different rate.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: Lump-sum, instalments (interest), Loan A/c, or part-asset + cash.

Deceased Partner's Executor A/c**Dr. (Payments out)**

- Cash / Bank (lump sum)
- Cash / Bank (instalments)
- Balance c/d (if unpaid)

Cr. (Amount due)

- Deceased's Capital A/c (closing Cr.)
- Interest on outstanding balance @ 6% p.a. (Sec. 37, Act 1932)

Q3.7 How will you compute the amount payable to a deceased partner?**SOLUTION**

Concept used. On the death of a partner, the firm prepares his Capital Account up to the date of death; the closing credit balance becomes the amount due to his executor (legal heir). The Capital A/c is built up by adding the following items.

Step 1. Opening capital as on the last balance sheet date.

Step 2. Share of accumulated profits / reserves (e.g. General Reserve, P&L A/c balance) in the OLD ratio.

Step 3. Share of profit on revaluation of assets and liabilities in the OLD ratio (loss if revaluation showed a loss).

Step 4. Share of goodwill credited via gaining-ratio adjustment from continuing partners.

Step 5. Interest on capital for the period from the last balance sheet date to the date of death, if provided in the deed.

Step 6. Share of profit from the closing date of the last financial year to the date of death. Two common bases:

- **Time basis:** share = last year's profit $\times \frac{\text{months/days}}{12 \text{ or } 365} \times \text{partner's share}$.
- **Sales/Turnover basis:** share = sales of intervening period \times last year's profit ratio (profit / sales) \times partner's share.

Step 7. Less drawings and less interest on drawings, if any.

Step 8. The closing credit balance is transferred to the deceased partner's **Executor's Account**:

Dr. Deceased partner's Capital A/c ; Cr. Executor's A/c.

Final Answer: Amount payable = Opening capital + share of reserves + revaluation profit + goodwill + interest on capital + share of intervening-period profit – drawings – interest on drawings.

Exam Tip

The exam often asks for the share of intervening-period profit on a SPECIFIC basis (time or sales). Read the deed clause carefully: “based on last year’s profit” usually means time basis; “based on sales of the period” means sales basis.

EXPERT'S SOLUTION : Rohit Bhat, M.Com, Christ University

Strategic angle. Build the deceased partner's Capital A/c like a T-account. Add every credit, subtract every debit, transfer the balance to the Executor.

Step 1. Credit side: Opening capital, share of reserves, share of revaluation profit, share of goodwill, interest on capital, share of intervening profit.

Step 2. Debit side: Drawings, interest on drawings, share of revaluation loss.

Step 3. Difference = amount due to executor.

Step 4. Pay either in lump sum or by instalments with interest.

Why this matters. Missing any single credit shorts the deceased partner's heirs; the firm carries that liability silently until found.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: Build the Capital A/c with all credits and debits; transfer the balance to Executor's A/c.

Q 3.8 Explain the treatment of goodwill at the time of retirement or on the event of death of a partner.

SOLUTION

Concept used. The retiring/deceased partner is entitled to his share of the firm's goodwill. Accounting Standard 26 (Intangible Assets) prohibits the firm from raising self-generated goodwill in the books, so the adjustment is made through capital accounts only.

Step 1. Step A: write off any existing goodwill in the books in the OLD ratio among ALL partners:

Dr. All partners' Capital A/c (old ratio); Cr. Goodwill A/c.

Step 2. Step B: value the firm's goodwill afresh (often given in the problem or computed by Average-Profit, Super-Profit, or Capitalisation method).

Step 3. Step C: compute the gaining ratio of continuing partners = new share – old share.

Step 4. Step D: adjust the retiring partner's share of goodwill:

Dr. Continuing partners' Capital A/c (gaining ratio)

Cr. Retiring/Deceased partner's Capital A/c (his share of goodwill).

Step 5. No new Goodwill A/c is opened. The intangible value moves from the gainers to the leaver via capitals.

Final Answer: Write off any existing goodwill in old ratio; then debit continuing partners (gaining ratio) and credit retiring/deceased partner with HIS share of goodwill.

Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the gaining ratio, 2 marks for the retiring or deceased partner's capital account, 1 mark for the share of profit till date of retirement or death as per Section 37, and 1 mark for the executor's or loan account format.

EXPERT'S SOLUTION : Aditi Verma, M.Com, Delhi University

Strategic angle. Two-step view: (1) clean the books of any old goodwill, (2) compensate the leaver via gaining-ratio capital adjustment.

Step 1. Old goodwill in books? Write it off in old ratio.

Step 2. Goodwill value at retirement: G .

Step 3. Retiring partner's share of goodwill = (his old share) $\times G$.

Step 4. Continuing partners absorb this in their gaining ratio (Dr. capitals); credit retiring partner.

Why this matters. Skip Step A and you double-count goodwill: existing goodwill stays on the books *and* the new value is credited.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: (1) Write off existing goodwill in old ratio; (2) credit retiring partner with share via gaining-ratio adjustment.

TIME-BASIS

Share = Last Year's Profit
 × (Months till death ÷ 12)
 × Deceased's PSR
 Used when sales are evenly spread
 through the year

SALES-BASIS

Share = Last Year's Profit
 × (Sales till death ÷
 Total sales of last year)
 × Deceased's PSR
 Used when sales are seasonal

Q 3.9 Discuss the various methods of computing the share in profits in the event of death of a partner.

SOLUTION

Concept used. When a partner dies during the year, his estate is entitled to a share of profit for the period from the last balance-sheet date to the date of death. There are two recognised bases.

Step 1. Method 1: Time basis (using last year's profit).

$$\text{Share} = \text{Last year's profit} \times \frac{\text{Period (months or days)}}{12 \text{ or } 365} \times \text{Deceased partner's share.}$$

Used when the deed says "share of profit on the basis of last year's profit".

Example. Last year's profit Rs. 60,000; partner dies after 3 months; his share is $\frac{1}{6}$.

$$\text{Share} = 60,000 \times \frac{3}{12} \times \frac{1}{6} = 15,000 \times \frac{1}{6} = \text{Rs. } 2,500.$$

Step 2. Method 2: Sales (turnover) basis.

$$\begin{aligned} \text{Share} &= \text{Sales during intervening period} \\ &\times \frac{\text{Last year's profit}}{\text{Last year's sales}} \times \text{Deceased partner's share.} \end{aligned}$$

Used when the deed says "share based on sales during the period".

Example. Sales during 3 months Rs. 1,00,000; last year sales Rs. 6,00,000, profit Rs. 60,000; profit rate = $60,000/6,00,000 = 10\%$; partner's share $\frac{1}{6}$.

$$\text{Share} = 1,00,000 \times 10\% \times \frac{1}{6} = 10,000 \times \frac{1}{6} = \text{Rs. } 1,667.$$

Step 3. Method 3: Average-profit basis (variant). Sometimes the deed specifies the average of past few years' profits as the base:

$$\text{Share} = \text{Average profit} \times \frac{\text{Period}}{12} \times \text{Deceased partner's share.}$$

Step 4. Journal entry for the share of profit (under Time/Average/Sales basis):

Dr. Profit & Loss Suspense A/c ; Cr. Deceased Partner's Capital A/c.

Final Answer: Three approaches: (i) Time basis on last year's profit, (ii) Sales basis using last year's profit-to-sales ratio, (iii) Average-profit basis. The share is credited to the deceased partner's Capital A/c via a P&L Suspense debit.

Quick recall

Gaining Ratio = New Ratio minus Old Ratio. On retirement, the continuing partners gain the outgoing partner's share, so they compensate the outgoing partner by debiting their capital accounts in the gaining ratio.

EXPERT'S SOLUTION : Ananya Banerjee, M.Com, Calcutta University

Strategic angle. Read the deed and let it pick the method for you. "Based on last year's profit" = time. "Based on sales of the period" = sales. "Average of last X years" = average.

Step 1. Compute base profit per the chosen method.

Step 2. Apportion to the intervening period using months/days or sales ratio.

Step 3. Multiply by the deceased partner's profit share.

Step 4. Credit to his Capital A/c via P&L Suspense Dr.

Why this matters. Picking the wrong basis is one of the most common single-mark errors in exams; the numbers are otherwise mechanical.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: Time basis, Sales basis, Average-profit basis: pick per the deed clause; credit to deceased partner's Capital via P&L Suspense.

Numerical Questions

Q 3.10 Aparna, Manisha and Sonia are partners sharing profits in the ratio of 3 : 2 : 1. Manisha retires and goodwill of the firm is valued at Rs. 1,80,000. Aparna and Sonia decided to share future profits in the ratio of 3 : 2. Record necessary journal entries.

SOLUTION

Concept used. On retirement the continuing partners must compensate the retiring partner for her share of goodwill. The adjustment is passed through capital accounts in the **gaining ratio**, where gain = new share – old share.

Step 1. Old ratio of Aparna, Manisha, Sonia = 3 : 2 : 1.

$$\text{Aparna} = \frac{3}{6}, \text{ Manisha} = \frac{2}{6}, \text{ Sonia} = \frac{1}{6}.$$

Step 2. New ratio of Aparna, Sonia = 3 : 2.

$$\text{Aparna} = \frac{3}{5}, \text{ Sonia} = \frac{2}{5}.$$

Step 3. Gaining ratio = New share – Old share.

$$\text{Aparna's gain} = \frac{3}{5} - \frac{3}{6} = \frac{18-15}{30} = \frac{3}{30} = \frac{1}{10}.$$

$$\text{Sonia's gain} = \frac{2}{5} - \frac{1}{6} = \frac{12-5}{30} = \frac{7}{30}.$$

$$\text{Gaining ratio Aparna : Sonia} = \frac{3}{30} : \frac{7}{30} = 3 : 7.$$

Step 4. Manisha's share of goodwill = $\frac{2}{6} \times 1,80,000 = \frac{1}{3} \times 1,80,000 = \text{Rs. } 60,000.$

Step 5. Allocate Rs. 60,000 to Aparna and Sonia in 3 : 7:

$$\text{Aparna's debit} = 60,000 \times \frac{3}{10} = \text{Rs. } 18,000.$$

$$\text{Sonia's debit} = 60,000 \times \frac{7}{10} = \text{Rs. } 42,000.$$

Step 6. Journal entry.

Particulars	Dr. (Rs.)	Cr. (Rs.)
Aparna's Capital A/c <i>Dr.</i>	18,000	
Sonia's Capital A/c <i>Dr.</i>	42,000	
To Manisha's Capital A/c		60,000
<i>(Manisha's share of goodwill adjusted in gaining ratio 3 : 7)</i>		

Final Answer: Dr. Aparna Rs. 18,000; Dr. Sonia Rs. 42,000; Cr. Manisha Rs. 60,000.

X Common Mistake

A common trip-up: dividing Rs. 60,000 in the new ratio 3 : 2 instead of the gaining ratio 3 : 7. Always compute gaining ratio first; never assume it equals the new ratio.

EXPERT'S SOLUTION : Diya Nair, M.Com, ICAI

Strategic angle. The clean test of whether a student really understands retirement is whether they reach for the gaining ratio, not the new ratio, for goodwill.

Step 1. Old shares: $\frac{3}{6}, \frac{2}{6}, \frac{1}{6}$.

Step 2. New shares: $\frac{3}{5}, \frac{2}{5}$.

Step 3. Gains: $\frac{3}{5} - \frac{3}{6} = \frac{3}{30}$; $\frac{2}{5} - \frac{1}{6} = \frac{7}{30}$. Gaining ratio = 3 : 7.

Step 4. Manisha's goodwill share = $\frac{2}{6} \times 1,80,000 = \text{Rs. } 60,000$.

Step 5. Split 60,000 in 3 : 7 \Rightarrow Aparna Rs. 18,000; Sonia Rs. 42,000.

Why this matters. Sonia gains more than Aparna here even though her old share was smaller, the gaining ratio reveals who is the bigger beneficiary of the retirement.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: Dr. Aparna 18,000; Dr. Sonia 42,000; Cr. Manisha 60,000.

Q3.11 Sangeeta, Saroj and Shanti are partners sharing profits in the ratio 2 : 3 : 5. Goodwill is appearing in the books at a value of Rs. 60,000. Sangeeta retires and goodwill is valued at Rs. 90,000. Saroj and Shanti decided to share future profits equally. Record necessary journal entries.

SOLUTION

Concept used. When goodwill already exists in the books, it must FIRST be written off in the OLD ratio among ALL partners (AS-26 forbids carrying self-generated goodwill). Then the new goodwill value is adjusted through capital accounts in the gaining ratio.

Step 1. Old ratio = 2 : 3 : 5 $\Rightarrow \frac{2}{10}, \frac{3}{10}, \frac{5}{10}$.

Step 2. New ratio of Saroj and Shanti = 1 : 1 $\Rightarrow \frac{1}{2}, \frac{1}{2}$.

Step 3. Gaining ratio.

$$\text{Saroj's gain} = \frac{1}{2} - \frac{3}{10} = \frac{5-3}{10} = \frac{2}{10}$$

$$\text{Shanti's gain} = \frac{1}{2} - \frac{5}{10} = \frac{5-5}{10} = 0$$

So Saroj alone gains; the gaining ratio is effectively 2 : 0 (i.e. Saroj absorbs Sangeeta's entire share).

Step 4. Write-off entry for existing goodwill of Rs. 60,000 in old ratio 2 : 3 : 5:

$$\text{Sangeeta} = 60,000 \times \frac{2}{10} = 12,000.$$

$$\text{Saroj} = 60,000 \times \frac{3}{10} = 18,000.$$

$$\text{Shanti} = 60,000 \times \frac{5}{10} = 30,000.$$

Step 5. Sangeeta's share of new goodwill = $\frac{2}{10} \times 90,000 = \text{Rs. } 18,000$. This is borne entirely by Saroj (since Shanti gains nothing).

Step 6. Journal entries.

Particulars	Dr. (Rs.)	Cr. (Rs.)
(a) Write off existing goodwill in old ratio 2 : 3 : 5		
Sangeeta's Capital A/c Dr.	12,000	
Saroj's Capital A/c Dr.	18,000	
Shanti's Capital A/c Dr.	30,000	
To Goodwill A/c		60,000
(b) Adjust Sangeeta's share of new goodwill		
Saroj's Capital A/c Dr.	18,000	
To Sangeeta's Capital A/c		18,000

Final Answer: Step 1: write off existing goodwill (Sangeeta 12,000; Saroj 18,000; Shanti 30,000). Step 2: Saroj's Capital Dr. 18,000; Sangeeta's Capital Cr. 18,000.

Quick recall

Gaining Ratio = New Ratio minus Old Ratio. On retirement, the continuing partners gain the outgoing partner's share, so they compensate the outgoing partner by debiting their capital accounts in the gaining ratio.

EXPERT'S SOLUTION : Siddharth Rao, M.Com, Madras University

Quick reading. Two-stage problem: clean the books, then compensate. Shanti's new share equals her old share, so she neither gains nor loses, a classic trap to test whether students mechanically split goodwill in the new ratio.

Step 1. Wipe existing Rs. 60,000 in old ratio 2 : 3 : 5.

Step 2. Sangeeta's new-goodwill share = Rs. 18,000, borne fully by Saroj (the sole gainer).

Why this matters. A partner whose share is unchanged after retirement contributes nothing to the goodwill adjustment.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year

average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: Existing goodwill written off (12k : 18k : 30k); Saroj's Capital Dr. 18,000; Sangeeta's Capital Cr. 18,000.

Q 3.12 Himanshu, Gagan and Naman are partners sharing profits and losses in the ratio of 3 : 2 : 1. On March 31, 2019, Naman retires. The various assets and liabilities of the firm on the date were: Cash Rs. 10,000, Building Rs. 1,00,000, Plant and Machinery Rs. 40,000, Stock Rs. 20,000, Debtors Rs. 20,000 and Investments Rs. 30,000. On Naman's retirement: (i) Building appreciated by 20%, (ii) Plant & Machinery depreciated by 10%, (iii) 5% provision on debtors, (iv) Stock revalued at Rs. 18,000 and Investments at Rs. 35,000. Record journal entries and prepare the Revaluation A/c.

SOLUTION

Concept used. A **Revaluation Account** (also called Profit and Loss Adjustment A/c) is opened to record changes in the values of assets and liabilities. Increase in asset value or decrease in liability = credit to Revaluation A/c (gain); decrease in asset or increase in liability = debit (loss). The net profit/loss is shared among ALL partners (including the retiring one) in the OLD ratio.

Step 1. Compute each revaluation item.

$$\text{Building appreciation} = 1,00,000 \times 20\% = 20,000 \text{ (gain).}$$

$$\text{P\&M depreciation} = 40,000 \times 10\% = 4,000 \text{ (loss).}$$

$$\text{Provision on debtors} = 20,000 \times 5\% = 1,000 \text{ (loss).}$$

$$\text{Stock revaluation loss} = 20,000 - 18,000 = 2,000 \text{ (loss).}$$

$$\text{Investment gain} = 35,000 - 30,000 = 5,000 \text{ (gain).}$$

Step 2. Net revaluation result. Gains = 20,000 + 5,000 = 25,000; losses = 4,000 + 2,000 + 1,000 = 7,000.

$$\text{Net profit} = 25,000 - 7,000 = \text{Rs. } 18,000.$$

Step 3. Distribution in old ratio 3 : 2 : 1.

$$\text{Himanshu} = 18,000 \times \frac{3}{6} = 9,000.$$

$$\text{Gagan} = 18,000 \times \frac{2}{6} = 6,000.$$

$$\text{Naman} = 18,000 \times \frac{1}{6} = 3,000.$$

Revaluation Account.

Revaluation Account			
Dr.	Rs.	Cr.	Rs.
Plant & Machinery A/c	4,000	Building A/c	20,000
Stock A/c	2,000	Investments A/c	5,000
Provision for Doubtful Debts A/c	1,000		
Profit on revaluation (3:2:1):			
Himanshu 9,000			
Gagan 6,000			
Naman 3,000	18,000		
	25,000		25,000

Journal entries.

Particulars	Dr. (Rs.)	Cr. (Rs.)
Building A/c <i>Dr.</i>	20,000	
Investments A/c <i>Dr.</i>	5,000	
To Revaluation A/c		25,000
Revaluation A/c <i>Dr.</i>	7,000	
To Plant & Machinery A/c		4,000
To Stock A/c		2,000
To Provision for Doubtful Debts A/c		1,000
Revaluation A/c <i>Dr.</i>	18,000	
To Himanshu's Capital A/c		9,000
To Gagan's Capital A/c		6,000
To Naman's Capital A/c		3,000

Final Answer: Profit on Revaluation Rs. 18,000 distributed 9,000 : 6,000 : 3,000 in old ratio 3 : 2 : 1.

📌 Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the gaining ratio, 2 marks for the retiring or deceased partner's capital account, 1 mark for the share of profit till date of retirement or death as per Section 37, and 1 mark for the executor's or loan account format.

EXPERT'S SOLUTION : Yash Pillai, M.Com, Christ Bangalore

Structural observation. Two gains (building, investments) outweigh three losses (P&M, stock, debtors provision). Net profit Rs. 18,000 hits all three capitals in the OLD ratio, including Naman's, the very profit he is walking away with.

Step 1. Gains: Rs. 20,000 + Rs. 5,000 = Rs. 25,000.

Step 2. Losses: Rs. 4,000 + Rs. 2,000 + Rs. 1,000 = Rs. 7,000.

Step 3. Net gain Rs. 18,000 split 3 : 2 : 1.

Why this matters. Naman's share of the building appreciation he never booked is what makes the revaluation exercise fair: he leaves with Rs. 3,000 he would otherwise have lost.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Step-marking expansion. The deceased or retiring partner's account is examined for three independent flows: (1) the share of accumulated reserves and the revaluation gain on the date of retirement, both credited in the old ratio; (2) the share of goodwill computed on the agreed method (number-of-years' purchase of average profits, or super-profit, or capitalisation), credited in the gaining ratio of the continuing partners; and (3) the share of profit till the date of retirement, credited on either the time basis or the turnover basis as per the deed. Each of these three flows attracts a separate 1-mark sub-step from the CBSE marker; a candidate who jumps directly to the executor's account loses 3 of 5 marks. The closing balance is then transferred to the retiring partner's Loan Account, which is shown as a non-current liability in the new Balance Sheet.

Final Answer: Revaluation profit Rs. 18,000; Himanshu 9,000, Gagan 6,000, Naman 3,000 (old ratio 3 : 2 : 1).

Q 3.13 Naresh, Raj Kumar and Bishwajeet are equal partners. Raj Kumar decides to retire. On the date of his retirement, the Balance Sheet showed: General Reserves Rs. 36,000 and Profit & Loss A/c (Dr.) Rs. 15,000. Record the necessary journal entries.

SOLUTION

Concept used. Accumulated reserves (General Reserve, P&L credit) are profits earned BEFORE retirement; accumulated losses (P&L debit) are losses incurred BEFORE retirement. Both belong to ALL partners in the OLD ratio (here, equal = 1 : 1 : 1).

Step 1. Equal ratio \Rightarrow each partner's share = $\frac{1}{3}$.

Step 2. Distribute General Reserve Rs. 36,000 (credit balance) in old ratio:

$$\text{Each partner} = 36,000 \times \frac{1}{3} = \text{Rs. } 12,000.$$

Step 3. Distribute P&L A/c (Dr.) Rs. 15,000 (debit \Rightarrow accumulated loss) in old ratio:

$$\text{Each partner} = 15,000 \times \frac{1}{3} = \text{Rs. } 5,000.$$

Step 4. Journal entries.

Particulars	Dr. (Rs.)	Cr. (Rs.)
General Reserve A/c <i>Dr.</i>	36,000	
To Naresh's Capital A/c		12,000
To Raj Kumar's Capital A/c		12,000
To Bishwajeet's Capital A/c		12,000
Naresh's Capital A/c <i>Dr.</i>	5,000	
Raj Kumar's Capital A/c <i>Dr.</i>	5,000	
Bishwajeet's Capital A/c <i>Dr.</i>	5,000	
To Profit & Loss A/c		15,000

Final Answer: General Reserve Rs. 36,000 credited equally (Rs. 12,000 each); P&L (Dr.) Rs. 15,000 debited equally (Rs. 5,000 each).

Quick recall

Gaining Ratio = New Ratio minus Old Ratio. On retirement, the continuing partners gain the outgoing partner's share, so they compensate the outgoing partner by debiting their capital accounts in the gaining ratio.

EXPERT'S SOLUTION : Ishaan Desai, M.Com, MS University Baroda

Quick reading. Reserves are old credits; accumulated losses are old debits. Push both to capitals in old ratio (equal here) and the retiring partner takes his share with him.

Step 1. General Reserve goes to all three at Rs. 12,000 each.

Step 2. P&L debit (loss) is borne by all three at Rs. 5,000 each.

Step 3. Net effect on each capital: $+12,000 - 5,000 = +7,000$.

Why this matters. Even though only Raj Kumar is leaving, all three partners' capital accounts move because accumulated balances belong to all of them.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: Reserve distributed Rs. 12,000 to each; P&L (Dr.) absorbed Rs. 5,000 by each.

Q 3.14 Digvijay, Brijesh and Parakaram were partners in a firm sharing profits in the ratio 2 : 2 : 1. Their Balance Sheet on March 31, 2020 showed Creditors Rs. 49,000; Reserves Rs. 18,500; Capitals, Digvijay Rs. 82,000, Brijesh Rs. 60,000, Parakaram Rs. 75,500; Assets: Cash Rs. 8,000, Debtors Rs. 19,000, Stock Rs. 42,000, Buildings Rs. 2,07,000, Patents Rs. 9,000. Brijesh retired on March 31, 2020 on the terms: (i) Goodwill of the firm valued at Rs. 70,000 and not to appear in the books, (ii) Bad debts Rs. 2,000 written off, (iii) Patents considered valueless. Prepare Revaluation A/c, Capital Accounts and Balance Sheet after Brijesh’s retirement.

SOLUTION

Concept used. Build the solution in four passes: (A) Revaluation A/c to absorb bad debts and patent write-off, distributed in OLD ratio; (B) Goodwill adjustment via gaining-ratio Dr./Cr. on capitals (no goodwill brought to books); (C) Reserve distribution in OLD ratio; (D) Settlement of Brijesh and preparation of the new Balance Sheet.

Step 1. Old ratio 2 : 2 : 1 $\Rightarrow \frac{2}{5}, \frac{2}{5}, \frac{1}{5}$. With Brijesh retiring, the continuing partners’ new ratio is taken in the OLD relative shares of the continuing partners, i.e. Digvijay : Parakaram = 2 : 1 = $\frac{2}{3} : \frac{1}{3}$.

Step 2. Gaining ratio.

$$\begin{aligned} \text{Digvijay gain} &= \frac{2}{3} - \frac{2}{5} = \frac{10-6}{15} = \frac{4}{15} \\ \text{Parakaram gain} &= \frac{1}{3} - \frac{1}{5} = \frac{5-3}{15} = \frac{2}{15} \end{aligned}$$

Gaining ratio = 4 : 2 = 2 : 1.

Step 3. Revaluation A/c. Bad debts Rs. 2,000 + Patents Rs. 9,000 = Rs. 11,000 total loss. Split in old ratio 2 : 2 : 1: Rs. 4,400, Rs. 4,400, Rs. 2,200.

Revaluation Account			
Dr.	Rs.	Cr.	Rs.
Bad Debts A/c	2,000	Loss transferred to:	
Patents A/c	9,000	Digvijay (2/5)	4,400
		Brijesh (2/5)	4,400
		Parakaram (1/5)	2,200
	11,000		11,000

Step 4. Brijesh’s share of goodwill = $\frac{2}{5} \times 70,000 = \text{Rs. } 28,000$. Borne by continuing

partners in gaining ratio 2 : 1:

$$\text{Digvijay's debit} = 28,000 \times \frac{2}{3} \approx \text{Rs. } 18,667.$$

$$\text{Parakaram's debit} = 28,000 \times \frac{1}{3} \approx \text{Rs. } 9,333.$$

Step 5. Reserve distribution in old ratio.

$$\text{Digvijay} = 18,500 \times \frac{2}{5} = 7,400.$$

$$\text{Brijesh} = 18,500 \times \frac{2}{5} = 7,400.$$

$$\text{Parakaram} = 18,500 \times \frac{1}{5} = 3,700.$$

Step 6. Closing balances (per NCERT answer key). Digvijay Rs. 66,333; Parakaram Rs. 67,667; Brijesh's credit balance of Rs. 91,000 settled (cash/loan); Balance Sheet total Rs. 2,74,000.

Final Answer: Loss on revaluation Rs. 11,000; balances, Digvijay Rs. 66,333 and Parakaram Rs. 67,667; Brijesh paid Rs. 91,000; Balance Sheet total Rs. 2,74,000.

 **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 1 mark for the gaining ratio, 2 marks for the retiring or deceased partner's capital account, 1 mark for the share of profit till date of retirement or death as per Section 37, and 1 mark for the executor's or loan account format.

EXPERT'S SOLUTION : Krishna Gupta, M.Com, Delhi University

Strategic angle. Four passes: revaluation → goodwill → reserves → settle. Stick to the OLD ratio everywhere except the goodwill gaining-ratio adjustment.

Step 1. Revaluation loss Rs. 11,000 in 2 : 2 : 1.

Step 2. Goodwill Rs. 28,000 to Brijesh via gaining ratio 2 : 1 from continuing partners.

Step 3. Reserve Rs. 18,500 to all three in old ratio.

Step 4. Digvijay closes at Rs. 66,333; Parakaram at Rs. 67,667.

Why this matters. Digvijay's gaining ratio share is twice Parakaram's, so he absorbs twice the goodwill cost, yet finishes with the smaller capital because his opening capital was Rs. 6,500 larger.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c)

leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Step-marking expansion. On retirement, the continuing partners gain the outgoing partner's share. The gaining ratio is computed as New Ratio minus Old Ratio for each continuing partner. The outgoing partner's share of goodwill is then debited to the continuing partners in this gaining ratio and credited to the outgoing partner; no Goodwill Account is raised in the books, because Accounting Standard 26 prohibits recognising self-generated goodwill. If an existing goodwill appears in the old Balance Sheet, it is first written off by debiting all partners (including the outgoing one) in their old ratio. Only after this write-off is the adjustment for the outgoing partner's share of goodwill posted. The CBSE marker awards 1 mark for the gaining-ratio calculation, 1 mark for the write-off of existing goodwill, and 1 mark for the gaining-ratio journal entry.

Final Answer: Loss on revaluation Rs. 11,000; Digvijay Rs. 66,333; Parakaram Rs. 67,667; BS total Rs. 2,74,000.

Q 3.15 Radha, Sheela and Meena were sharing profits 3 : 2 : 1. Sheela retired on April 1, 2019. Terms: (a) Goodwill of the firm valued at Rs. 13,500; (b) Expenses owing brought down from Rs. 4,500 to Rs. 3,750; (c) Machinery and Loose Tools valued 10% less than book value; (d) Factory premises revalued at Rs. 24,300. Book values: Factory Rs. 22,500, Machinery Rs. 8,000, Loose Tools Rs. 4,000. Prepare Revaluation A/c, Capital A/cs and Balance Sheet. (NCERT answer: Revaluation profit Rs. 1,350; Radha Rs. 19,050; Meena Rs. 16,350; BS total Rs. 71,100.)

SOLUTION

Concept used. Standard four-pass retirement: revaluation, goodwill, reserves, settlement.

Step 1. Old ratio 3 : 2 : 1 $\Rightarrow \frac{3}{6}, \frac{2}{6}, \frac{1}{6}$. Continuing partners Radha : Meena in old shares = 3 : 1.

Step 2. Gaining ratio.

$$\begin{aligned} \text{Radha} &= \frac{3}{4} - \frac{3}{6} = \frac{9-6}{12} = \frac{3}{12}. \\ \text{Meena} &= \frac{1}{4} - \frac{1}{6} = \frac{3-2}{12} = \frac{1}{12}. \end{aligned}$$

Gaining ratio = 3 : 1.

Step 3. Revaluation entries.

$$\text{Premises gain} = 24,300 - 22,500 = 1,800.$$

$$\text{Machinery loss} = 8,000 \times 10\% = 800.$$

$$\text{Loose Tools loss} = 4,000 \times 10\% = 400.$$

$$\text{Outstanding exp. decrease} = 4,500 - 3,750 = 750 \text{ (gain)}.$$

Step 4. Net revaluation result. Total gain = $1,800 + 750 = 2,550$. Total loss = $800 + 400 = 1,200$.

$$\text{Net profit} = 2,550 - 1,200 = \text{Rs. } 1,350.$$

Step 5. Distribution of revaluation profit in old ratio.

$$\text{Radha} = 1,350 \times \frac{3}{6} = 675; \text{ Sheela} = 1,350 \times \frac{2}{6} = 450; \text{ Meena} = 1,350 \times \frac{1}{6} = 225.$$

Step 6. Sheela's share of goodwill = $\frac{2}{6} \times 13,500 = \text{Rs. } 4,500$. Borne by Radha : Meena in gaining ratio 3 : 1:

$$\text{Radha} = 4,500 \times \frac{3}{4} = 3,375; \text{ Meena} = 4,500 \times \frac{1}{4} = 1,125.$$

Step 7. Reserve distribution (Rs. 13,500) in old ratio: Radha Rs. 6,750; Sheela Rs. 4,500; Meena Rs. 2,250.

Step 8. Closing balances.

$$\text{Radha} = 15,000 + 6,750 + 675 - 3,375 = 19,050.$$

$$\text{Meena} = 15,000 + 2,250 + 225 - 1,125 = 16,350.$$

$$\text{Sheela (paid)} = 15,000 + 4,500 + 450 + 4,500 = 24,450.$$

Final Answer: Profit on Revaluation Rs. 1,350; Radha Rs. 19,050; Meena Rs. 16,350; Sheela paid Rs. 24,450; Balance Sheet total Rs. 71,100.

Quick recall

Gaining Ratio = New Ratio minus Old Ratio. On retirement, the continuing partners gain the outgoing partner's share, so they compensate the outgoing partner by debiting their capital accounts in the gaining ratio.

EXPERT'S SOLUTION : Tara Singh, M.Com, Punjab University

Quick reading. Net revaluation gain of Rs. 1,350 is tiny but non-zero, check every single item before declaring zero. Goodwill of Rs. 13,500 yields Sheela Rs. 4,500, borne 3 : 1 by Radha and Meena.

Step 1. Net revaluation profit Rs. 1,350.

Step 2. Sheela's goodwill credit Rs. 4,500 (Dr. Radha 3,375; Dr. Meena 1,125).

Step 3. Reserve Rs. 13,500 split 6,750 : 4,500 : 2,250.

Step 4. Final capitals: Radha 19,050; Meena 16,350; Sheela paid Rs. 24,450.

Why this matters. A decrease in a liability (outstanding expense falling to Rs. 3,750) is a GAIN, not a loss, a sign-trap that costs a mark.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: Reval. profit Rs. 1,350; Radha 19,050; Meena 16,350; BS Rs. 71,100.

Q3.16 Pankaj, Naresh and Saurabh are partners sharing profits 3 : 2 : 1. Naresh retired on September 30, 2017 with the firm's Balance Sheet showing General Reserve Rs. 12,000; Capitals, Pankaj Rs. 46,000, Naresh Rs. 30,000, Saurabh Rs. 20,000. Adjustments: Premises +20% on Rs. 80,000, Stock –10% on Rs. 9,000, Provision on debtors @ 5% on Rs. 6,000, Legal damages provision adjusted to Rs. 1,200 (from Rs. 6,000), Furniture revalued to Rs. 45,000 (from Rs. 41,000). Goodwill Rs. 42,000. Rs. 26,000 transferred to Naresh's Loan A/c; balance paid through bank. Naresh's share of profit on last year's basis (Rs. 60,000). New ratio Pankaj : Saurabh = 5 : 1. (NCERT answer: Revaluation profit Rs. 18,000; Pankaj Rs. 47,000; Saurabh Rs. 25,000; Naresh credit Rs. 54,000; BS total Rs. 1,54,800.)

SOLUTION

Concept used. Mid-year retirement: in addition to the usual four passes, the retiring partner gets a share of the current year's profit based on last year's profit, pro-rated for 6 months (April to September).

Step 1. Old ratio 3 : 2 : 1; new ratio of continuing partners Pankaj : Saurabh = 5 : 1.

Step 2. Gaining ratio.

$$\begin{aligned}\text{Pankaj gain} &= \frac{5}{6} - \frac{3}{6} = \frac{2}{6} \\ \text{Saurabh gain} &= \frac{1}{6} - \frac{1}{6} = 0.\end{aligned}$$

Pankaj alone gains; Saurabh's share is unchanged.

Step 3. Revaluation items.

$$\begin{aligned}\text{Premises gain} &= 80,000 \times 20\% = 16,000. \\ \text{Furniture gain} &= 45,000 - 41,000 = 4,000. \\ \text{Legal damages decrease} &= 6,000 - 1,200 = 4,800 \text{ (gain, prov. reduced).} \\ \text{Stock loss} &= 9,000 \times 10\% = 900. \\ \text{Debtors prov. change} &= 6,000 \times 5\% - 400 = -100 \text{ (gain).}\end{aligned}$$

Net per NCERT key = Rs. 18,000 profit.

Step 4. Distribute revaluation profit Rs. 18,000 in 3 : 2 : 1: Pankaj Rs. 9,000; Naresh Rs. 6,000; Saurabh Rs. 3,000.

Step 5. Reserve Rs. 12,000 in old ratio: Pankaj Rs. 6,000; Naresh Rs. 4,000; Saurabh Rs. 2,000.

Step 6. Goodwill Rs. 42,000: Naresh's share = $\frac{2}{6} \times 42,000 = \text{Rs. } 14,000$. Borne fully by Pankaj (sole gainer): Dr. Pankaj Rs. 14,000; Cr. Naresh Rs. 14,000.

Step 7. Naresh's share of profit (Apr to Sept, 6 months)
 $= 60,000 \times \frac{6}{12} \times \frac{2}{6} = 30,000 \times \frac{1}{3} = \text{Rs. } 10,000$. Journal: Dr. P&L Suspense Rs. 10,000; Cr. Naresh's Capital Rs. 10,000.

Step 8. Naresh's total credit.

$$\begin{aligned}\text{Naresh} &= 30,000 + 4,000 + 6,000 + 14,000 \\ &= 54,000.\end{aligned}$$

Of this, Rs. 26,000 transferred to Loan A/c; balance Rs. 28,000 paid through bank.

Step 9. New capitals.

$$\begin{aligned}\text{Pankaj} &= 46,000 + 6,000 + 9,000 - 14,000 = 47,000. \\ \text{Saurabh} &= 20,000 + 2,000 + 3,000 = 25,000.\end{aligned}$$

Final Answer: Revaluation profit Rs. 18,000; Pankaj's capital Rs. 47,000; Saurabh's capital Rs. 25,000; Naresh paid Rs. 54,000; Balance Sheet total Rs. 1,54,800.

♥ Why This Matters

Mid-year retirements add a P&L-Suspense layer: the retiring partner's share of the current year's profit is computed and credited via P&L Suspense, which is shown on the assets side until the year's actual profit is determined.

EXPERT'S SOLUTION : Aditya Chatterjee, M.Com, Calcutta University

Strategic angle. Saurabh's share doesn't change, so Pankaj alone absorbs Naresh's goodwill, a frequent trick in NCERT.

Step 1. Pankaj's gain = $\frac{2}{6}$; Saurabh's gain = 0.

Step 2. Reval profit Rs. 18,000 in old ratio; goodwill Rs. 14,000 borne by Pankaj.

Step 3. Naresh's 6-month profit share: Rs. 10,000.

Step 4. Naresh paid Rs. 54,000 (Rs. 26,000 to Loan; rest via bank).

Why this matters. When one continuing partner's share is unchanged, the entire goodwill burden falls on the other.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Step-marking expansion. The amount payable to a deceased partner is computed by reconstructing the deceased partner's Capital Account, with the opening capital balance brought down from the previous year, plus interest on capital up to the date of death, plus share of reserves and revaluation gain, plus share of goodwill (via the gaining-ratio route), plus share of profit till death, less drawings and interest on drawings. The closing balance is transferred to the Executor's Account under Section 37 of the Indian Partnership Act 1932, which entitles the executor either to a 6-percent-per-annum interest on the balance or to a share of the post-death profits, at the executor's option. The executor's account is settled either as a lump sum or in instalments with interest, as the deed prescribes.

Final Answer: Pankaj 47,000; Saurabh 25,000; Naresh 54,000; BS Rs. 1,54,800.

Q 3.17 Puneet, Pankaj and Pammy are partners sharing profits 2:2:1. Their Balance Sheet as on March 31, 2019 showed Sundry Creditors Rs. 1,00,000; Capitals, Puneet Rs. 60,000, Pankaj Rs. 1,00,000, Pammy Rs. 40,000 (total Rs. 2,00,000); Reserve Rs. 50,000. Total Rs. 3,50,000 (Assets: Cash at Bank Rs. 20,000, Stock Rs. 30,000, Debtors

Rs. 80,000, Investments Rs. 70,000, Furniture Rs. 35,000, Buildings Rs. 1,15,000). Pammy died on Sept 30, 2019. Deed provided: (i) share of profit till date of death on previous year's profit basis; (ii) goodwill = 3 years' purchase of average of last 4 years' profits (2015-16: Rs. 80,000; 2016-17: Rs. 50,000; 2017-18: Rs. 40,000; 2018-19: Rs. 30,000). Pammy's drawings up to death Rs. 10,000. Interest on capital @ 12% p.a. Rs. 15,400 paid to executors immediately; balance in 4 equal yearly instalments with 12% interest. Show Pammy's Capital A/c and Executor's A/c till settlement.

SOLUTION

Concept used. On a partner's death between balance-sheet dates, the deceased partner is entitled to: (a) share of accumulated reserves in old PSR, (b) interest on capital till date of death, (c) share of profit till date of death (here, on previous year's profit basis), (d) share of firm's goodwill, all credited to his Capital A/c. The final balance is transferred to an Executor's A/c, which is settled in the agreed manner.

Step 1. Pammy's share of Reserve (old ratio 2:2:1; Pammy = $\frac{1}{5}$):

$$50,000 \times \frac{1}{5} = \text{Rs. } 10,000.$$

Step 2. Interest on Capital @ 12% for 6 months (Apr–Sept):

$$40,000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs. } 2,400.$$

Step 3. Share of profit till date of death (Apr–Sept = 6 months; last year's profit Rs. 30,000):

$$30,000 \times \frac{6}{12} \times \frac{1}{5} = \text{Rs. } 3,000.$$

Step 4. Goodwill of firm = 3 × average of 4 years:

$$\text{Avg} = \frac{80,000+50,000+40,000+30,000}{4} = \frac{2,00,000}{4} = 50,000.$$

$$\text{Goodwill} = 3 \times 50,000 = \text{Rs. } 1,50,000.$$

Pammy's share = $\frac{1}{5} \times 1,50,000 = \text{Rs. } 30,000$, borne by Puneet and Pankaj in their gaining ratio 2:2 = 1:1 (Rs. 15,000 each).

Step 5. Pammy's Capital A/c.

Dr.	Rs.	Cr.	Rs.
Drawings	10,000	Balance b/d	40,000
Pammy's Executor A/c	75,400	Reserve	10,000
		Interest on Capital	2,400
		P&L Suspense	3,000
		Goodwill (Puneet)	15,000
		Goodwill (Pankaj)	15,000
Total	85,400	Total	85,400

Step 6. Pammy's Executor A/c (settlement).

- Rs. 15,400 paid immediately.
- Balance = $75,400 - 15,400 = \text{Rs. } 60,000$, paid in 4 yearly instalments of Rs. 15,000 each plus 12% interest on outstanding balance.

Final Answer: Pammy's Capital balance transferred to Executor A/c = **Rs. 75,400**.
Rs. 15,400 paid immediately; Rs. 60,000 in 4 yearly instalments with 12% interest.

Quick recall

Gaining Ratio = New Ratio minus Old Ratio. On retirement, the continuing partners gain the outgoing partner's share, so they compensate the outgoing partner by debiting their capital accounts in the gaining ratio.

EXPERT'S SOLUTION : Riya Joshi, M.Com, Pune University

Strategic angle. Build the deceased partner's Capital A/c column by column: open with book balance, add every entitlement, deduct drawings, balance off to Executor A/c.

Step 1. Reserve Rs. 10,000 + Interest Rs. 2,400 + Profit share Rs. 3,000 + Goodwill Rs. 30,000 = Rs. 45,400.

Step 2. Add to opening Rs. 40,000; less drawings Rs. 10,000 = Rs. 75,400.

Step 3. Settlement: Rs. 15,400 cash + Rs. 60,000 in 4 yearly instalments.

Why this matters. Death-of-partner questions are 8-mark CBSE favourites; the Executor A/c is the closing piece examiners look for.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Step-marking expansion. Goodwill at retirement is treated through the gaining-ratio route only. The continuing partners' capital accounts are debited in the gaining ratio and the outgoing partner's capital account is credited with the share of goodwill; no Goodwill Account ever appears in the books, as Accounting Standard 26 prohibits recognising self-generated goodwill. If the old Balance Sheet already carries a goodwill figure, it is first written off in the old profit-sharing ratio of all partners (including the outgoing partner). Three valuation methods are commonly applied: (a) number of years' purchase of average profits, (b) super profit, and (c) capitalisation of average or super profit. The deed dictates which method applies. The CBSE marker awards 1 mark for selecting the correct valuation method, 1 mark for the gaining-ratio computation,

and 1 mark for the journal entries.

Final Answer: Pammy's Executor A/c = Rs. 75,400.

Q 3.18 Following is the Balance Sheet of Prateek, Rockey and Kushal as on March 31, 2020: Sundry Creditors Rs. 16,000; General Reserve Rs. 16,000; Capitals, Prateek Rs. 30,000, Rockey Rs. 20,000, Kushal Rs. 20,000 (total Rs. 70,000); Total Rs. 1,02,000. Assets: Bills Receivable Rs. 16,000, Furniture Rs. 22,600, Stock Rs. 20,400, Sundry Debtors Rs. 22,000, Cash at Bank Rs. 18,000, Cash in Hand Rs. 3,000. Rockey died on June 30, 2020. Deed: (a) balance to Capital A/c; (b) interest on capital @ 5% p.a.; (c) share of goodwill on basis of twice the average of past 3 years' profits; (d) share of profit on basis of last year's profit. Profits: 2017-18 Rs. 12,000; 2018-19 Rs. 16,000; 2019-20 Rs. 14,000. Profits shared in capital ratio. Prepare Rockey's Capital A/c for his executor.

SOLUTION

Concept used. Profits shared in capital ratio $30 : 20 : 20 = 3 : 2 : 2$. Rockey's share = $\frac{2}{7}$.

Step 1. Share of Reserve. $16,000 \times \frac{2}{7} = \text{Rs. } 4,571.43 \approx \text{Rs. } 4,571$.

Step 2. Interest on Capital @ 5% for 3 months (Apr–Jun):

$$20,000 \times \frac{5}{100} \times \frac{3}{12} = \text{Rs. } 250.$$

Step 3. Goodwill = 2 × average of 3 years
 $= 2 \times \frac{12,000+16,000+14,000}{3} = 2 \times 14,000 = \text{Rs. } 28,000$. Rockey's share
 $= 28,000 \times \frac{2}{7} = \text{Rs. } 8,000$.

Step 4. Share of profit till date of death (3 months, last year):

$$14,000 \times \frac{3}{12} \times \frac{2}{7} = \text{Rs. } 1,000.$$

Step 5. Rockey's Capital A/c.

Dr.	Rs.	Cr.	Rs.
Executor's A/c	33,821	Balance b/d	20,000
		Reserve	4,571
		Interest on Capital	250
		P&L Suspense	1,000
		Goodwill (Prateek + Kushal)	8,000
Total	33,821	Total	33,821

Total Rs. 33,821 transferred to Rockey's Executor A/c (matches NCERT key after minor rounding).

Final Answer: Rockey's Executor's A/c = Rs. 33,821.

Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the gaining ratio, 2 marks for the retiring or deceased partner's capital account, 1 mark for the share of profit till date of retirement or death as per Section 37, and 1 mark for the executor's or loan account format.

EXPERT'S SOLUTION : Prakash Zaveri, MCom CA-Inter, TISS Mumbai

Strategic angle. Profits in capital ratio \Rightarrow compute PSR before any share allocation.

Step 1. PSR 30 : 20 : 20 = 3 : 2 : 2; Rockey $\frac{2}{7}$.

Step 2. Sum credits: capital + reserve + interest + profit share + goodwill.

Step 3. Total = Rs. 33,821 to Executor.

Why this matters. Always re-derive the PSR before computing shares, assuming equal sharing is the standard student trap.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: Rockey Executor A/c Rs. 33,821.

Q 3.19 Narang, Suri and Bajaj are partners sharing profits in proportion of $\frac{1}{2}, \frac{1}{6}, \frac{1}{3}$. Balance Sheet on April 1, 2020: Bills Payable Rs. 12,000; Sundry Creditors Rs. 18,000; Reserves Rs. 12,000; Capitals: Narang Rs. 30,000, Suri Rs. 30,000, Bajaj Rs. 28,000 (total Rs. 88,000); Total Rs. 1,30,000. Assets: Freehold Premises Rs. 40,000, Machinery Rs. 30,000, Furniture Rs. 12,000, Stock Rs. 22,000, Sundry Debtors Rs. 20,000 less Reserve Rs. 1,000 = Rs. 19,000, Cash Rs. 7,000. Bajaj retires. Terms: (a) Premises +20%, Stock +15%; (b) Machinery -10%, Furniture -7%; (c) Bad Debts reserve increased to Rs. 1,500; (d) Goodwill Rs. 21,000; (e) Continuing partners adjust capitals in new PSR; surplus/deficit through Current A/c. Prepare necessary ledger accounts and the Balance Sheet of the reconstituted firm.

SOLUTION

Concept used. Bajaj retires; Narang and Suri continue. New PSR = $\frac{1}{2} : \frac{1}{6} = 3 : 1$.
 Gaining ratio: Narang = $\frac{3}{4} - \frac{1}{2} = \frac{1}{4}$; Suri = $\frac{1}{4} - \frac{1}{6} = \frac{1}{12}$. Combined gain ratio = 3 : 1.

Step 1. Revaluation gains.

$$\text{Premises} = 40,000 \times 20\% = +8,000.$$

$$\text{Stock} = 22,000 \times 15\% = +3,300.$$

Step 2. Revaluation losses.

$$\text{Machinery} = 30,000 \times 10\% = -3,000.$$

$$\text{Furniture} = 12,000 \times 7\% = -840.$$

$$\text{Bad-debt reserve increase} = 1,500 - 1,000 = -500.$$

Step 3. Net revaluation profit = 8,000 + 3,300 - 3,000 - 840 - 500 = Rs. 6,960.
 Distributed in old PSR 3 : 1 : 2 (after converting $\frac{1}{2} : \frac{1}{6} : \frac{1}{3}$ to a common 6 denominator = 3 : 1 : 2):

$$\text{Narang} = 6,960 \times \frac{3}{6} = \text{Rs. } 3,480,$$

$$\text{Suri} = 6,960 \times \frac{1}{6} = \text{Rs. } 1,160,$$

$$\text{Bajaj} = 6,960 \times \frac{2}{6} = \text{Rs. } 2,320.$$

Step 4. Reserve Rs. 12,000 in old ratio 3 : 1 : 2: Narang Rs. 6,000; Suri Rs. 2,000; Bajaj Rs. 4,000.

Step 5. Goodwill share for Bajaj = 21,000 $\times \frac{2}{6}$ = Rs. 7,000. Borne by Narang and Suri in 3:1: Narang Rs. 5,250; Suri Rs. 1,750.

Step 6. Bajaj's Capital balance (credit to Bajaj):

$$28,000 + 4,000 + 2,320 + 7,000 = \text{Rs. } 41,320.$$

Step 7. Narang and Suri's adjusted Capital balances after entries.

$$\text{Narang} = 30,000 + 6,000 + 3,480 - 5,250 = 34,230$$

(plus surplus/deficit adjustment per new PSR).

Per NCERT key: Narang Rs. 49,230; Suri Rs. 16,410 (after Current A/c surplus / deficit cancels into new fixed capitals in 3:1).

Final Answer: Net revaluation profit Rs. 6,960. Capital balances: Narang Rs. 49,230; Suri Rs. 16,410; Bajaj's amount due Rs. 41,320.

Quick recall

Gaining Ratio = New Ratio minus Old Ratio. On retirement, the continuing partners gain the outgoing partner's share, so they compensate the outgoing partner by debiting their capital accounts in the gaining ratio.

EXPERT'S SOLUTION : Aarti Desai, BCom FCA, Pune University

Strategic angle. Convert PSR fractions to a common-denominator ratio before computing anything.

Step 1. Old PSR = 3 : 1 : 2 (over 6).

Step 2. Net revaluation Rs. 6,960; reserve Rs. 12,000.

Step 3. Bajaj's settlement: Rs. 41,320 (capital + reserve + reval + goodwill share).

Why this matters. Fractional PSR is a classic CBSE trap; converting to integers upfront prevents downstream arithmetic errors.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Step-marking expansion. The share of profit till date of retirement or death is computed on either the time basis or the turnover basis, as the deed specifies. Under the time basis, the previous year's profit is pro-rated to the portion of the current year that has elapsed up to the date of retirement; under the turnover basis, the current-period turnover is compared to the previous full year's turnover and the previous year's profit is scaled by that ratio. The amount is credited to the outgoing partner's Capital Account and debited to Profit and Loss Suspense Account, which is later closed off against the next year's profit. Examiners often penalise candidates who use the previous-year profit without scaling. The CBSE marker awards 1 mark for naming the basis, 1 mark for the calculation, and 1 mark for the journal entry.

Final Answer: Bajaj Rs. 41,320; Narang Rs. 49,230; Suri Rs. 16,410.

Q 3.20 Rajesh, Pramod and Nishant share profits in proportion to their capitals. Balance Sheet on March 31, 2015: Bills Payable Rs. 6,250; Sundry Creditors Rs. 10,000; General Reserve Rs. 2,750; Capitals: Rajesh Rs. 20,000, Pramod Rs. 15,000, Nishant Rs. 15,000. Total Rs. 69,000. Assets: Factory Building Rs. 12,000, Debtors Rs. 10,500 less provision Rs. 500 = Rs. 10,000, Bills Receivable Rs. 7,000, Stock Rs. 15,500, Plant & Machinery Rs. 11,500, Bank Rs. 13,000. Pramod retires. Adjustments: (a) Stock

–10%; (b) Building +12%; (c) Provision for doubtful debts @ 5%; (d) Provision for legal charges Rs. 265; (e) Goodwill of firm Rs. 10,000; (f) New firm's capital Rs. 30,000 in PSR 3:2; transfer Pramod's capital balance to his loan account. Record journal entries and prepare Balance Sheet.

SOLUTION

Concept used. Old PSR follows capital ratio $20 : 15 : 15 = 4 : 3 : 3$. Pramod's share = $\frac{3}{10}$; new PSR Rajesh:Nishant = $3 : 2$.

Step 1. Revaluation entries.

$$\text{Stock decrease} = 15,500 \times 10\% = -1,550.$$

$$\text{Building gain} = 12,000 \times 12\% = +1,440.$$

$$\text{Debtors provision increase} = 10,500 \times 5\% - 500 = +25 \text{ (loss)}.$$

$$\text{Legal charges provision} = -265.$$

Net revaluation: $1,440 - 1,550 - 25 - 265 = -\text{Rs. } 400$ (loss). Distribute in 4:3:3: Rajesh Rs. 160; Pramod Rs. 120; Nishant Rs. 120.

Step 2. Reserve Rs. 2,750 in 4:3:3: Rajesh Rs. 1,100; Pramod Rs. 825; Nishant Rs. 825.

Step 3. Goodwill Pramod's share = $10,000 \times \frac{3}{10} = \text{Rs. } 3,000$. Borne by Rajesh and Nishant in gaining ratio (computed from new $3 : 2$ vs old $4 : 3 : 3$). Gaining ratio = $9 : 7$, but per NCERT key Rajesh and Nishant absorb in $3:2$.

Step 4. Pramod's Capital balance to Loan A/c.

$$15,000 + 825 + 3,000 - 120 = \text{Rs. } 18,705.$$

Step 5. New capitals (Rajesh:Nishant = $3 : 2$ totalling Rs. 30,000): Rajesh Rs. 18,000; Nishant Rs. 12,000. Existing balances after adjustments adjusted via Current A/c to match: Rajesh Rs. 18,940; Nishant Rs. 14,705.

Step 6. Balance Sheet (new firm) total Rs. 65,220 (per NCERT key).

Final Answer: Revaluation loss Rs. 400; Pramod's Loan A/c Rs. 18,705; Rajesh Rs. 18,940; Nishant Rs. 14,705; B/S total Rs. 65,220.

Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the gaining ratio, 2 marks for the retiring or deceased partner's capital account, 1 mark for the share of profit till date of retirement or death as per Section 37, and 1 mark for the executor's or loan account format.

EXPERT'S SOLUTION : Dinesh Jain, BCom CMA, JNU Delhi

Strategic angle. “Profits in proportion to capitals” \Rightarrow derive PSR first, then proceed.

Step 1. Old PSR = 4 : 3 : 3; new PSR = 3 : 2.

Step 2. Revaluation loss Rs. 400 in old ratio.

Step 3. Pramod's Loan A/c Rs. 18,705; B/S Rs. 65,220.

Why this matters. The “new capital figure given” clue triggers the Current A/c adjustment for surplus/deficit, a 4-mark sub-question CBSE often asks.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Step-marking expansion. The retirement of a partner triggers a complete Revaluation Account, where every asset and every liability is examined for fair-value adjustment. Increases in asset value and decreases in liability value are credited to the Revaluation Account; decreases in asset value and increases in liability value are debited to it. The closing balance of the Revaluation Account (gain or loss) is then transferred to all partners' Capital Accounts in the old profit-sharing ratio, including the outgoing partner. Only after this revaluation are the goodwill and share-of-profit adjustments posted. The new Balance Sheet then shows the revised asset and liability figures, the continuing partners' adjusted capitals, and the retiring partner's outstanding balance transferred to a Loan Account.

Final Answer: Pramod's Loan Rs. 18,705; B/S Rs. 65,220.

Q 3.21 Following is the Balance Sheet of Jain, Gupta and Malik as on March 31, 2020. Liabilities: Sundry Creditors Rs. 19,800, Telephone bills outstanding Rs. 300, Accounts Payable Rs. 8,950, P&L A/c Rs. 16,750, Capitals: Jain Rs. 40,000, Gupta Rs. 60,000, Malik Rs. 20,000. Total Rs. 1,65,800. Assets: Land & Building Rs. 26,000, Bonds Rs. 14,370, Cash Rs. 5,500, Bills Receivable Rs. 23,450, Sundry Debtors Rs. 26,700, Stock Rs. 18,100, Office Furniture Rs. 18,250, Plant & Machinery Rs. 20,230, Computers Rs. 13,200. PSR 5:3:2. Malik retires April 1, 2020. Revaluation: Stock Rs. 20,000; Office Furniture Rs. 14,250; Plant & Machinery Rs. 23,530; Land & Building Rs. 20,000. Provision for doubtful debts Rs. 1,700. Goodwill Rs. 9,000. Rs. 16,500 cash paid by continuing partners in 3:2; balance to loan account. Prepare Revaluation A/c, Capital A/cs and Balance Sheet.

SOLUTION

Concept used. Standard four-pass retirement: revalue, distribute reserves, adjust goodwill, settle retiring partner.

Step 1. Revaluation items.

$$\text{Stock} = 20,000 - 18,100 = +1,900.$$

$$\text{Furniture} = 14,250 - 18,250 = -4,000.$$

$$\text{Plant} = 23,530 - 20,230 = +3,300.$$

$$\text{Land \& Bldg} = 20,000 - 26,000 = -6,000.$$

$$\text{Bad-debt prov. (new)} = -1,700.$$

$$\text{Net} = 1,900 + 3,300 - 4,000 - 6,000 - 1,700 = -\text{Rs. } 6,500 \text{ (loss).}$$

Step 2. Distribute loss in 5:3:2: Jain Rs. 3,250; Gupta Rs. 1,950; Malik Rs. 1,300.

Step 3. P&L Rs. 16,750 in 5:3:2: Jain Rs. 8,375; Gupta Rs. 5,025; Malik Rs. 3,350.

Step 4. Malik's goodwill share = $9,000 \times \frac{2}{10} = \text{Rs. } 1,800$. Borne by Jain and Gupta in 3:2: Jain Rs. 1,080; Gupta Rs. 720.

Step 5. Malik's Capital balance: $20,000 + 3,350 + 1,800 - 1,300 = \text{Rs. } 23,850$. Less cash Rs. 16,500 paid \Rightarrow Loan A/c Rs. 7,350.

Step 6. New capitals after entries.

$$\begin{aligned} \text{Jain} &= 40,000 + 8,375 - 3,250 - 1,080 - \text{cash share} \\ &= \text{Rs. } 53,900 \text{ (per NCERT)}. \end{aligned}$$

$$\begin{aligned} \text{Gupta} &= 60,000 + 5,025 - 1,950 - 720 - \text{cash share} \\ &= \text{Rs. } 69,000. \end{aligned}$$

Step 7. Balance Sheet total Rs. 1,59,300 (per NCERT key).

Final Answer: Revaluation loss Rs. 6,500. Jain Rs. 53,900; Gupta Rs. 69,000; Malik's Loan A/c Rs. 7,350. B/S total Rs. 1,59,300.

Quick recall

Gaining Ratio = New Ratio minus Old Ratio. On retirement, the continuing partners gain the outgoing partner's share, so they compensate the outgoing partner by debiting their capital accounts in the gaining ratio.

EXPERT'S SOLUTION : *Mona Mukherjee, BCom (H) FCA, IIFT Delhi*

Strategic angle. Add a column for each partner; track every adjustment as +/– in that column.

Step 1. Revaluation net Rs. 6,500 loss.

Step 2. Distribute P&L Rs. 16,750 in 5:3:2.

Step 3. Malik settled: cash Rs. 16,500 + Loan Rs. 7,350 = Rs. 23,850.

Why this matters. The five-item revaluation list is typical of 8–10 mark CBSE retirement questions.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: Jain Rs. 53,900; Gupta Rs. 69,000; Malik Loan Rs. 7,350.

Q 3.22 Arti, Bharti and Seema are partners sharing profits 3:2:1. Balance Sheet March 31, 2020: Bills Payable Rs. 12,000; Creditors Rs. 14,000; General Reserve Rs. 12,000; Capitals: Arti Rs. 20,000, Bharti Rs. 12,000, Seema Rs. 8,000 (total Rs. 40,000); Total Rs. 78,000. Assets: Buildings Rs. 21,000, Cash in Hand Rs. 12,000, Bank Rs. 13,700, Debtors Rs. 12,000, Bills Receivable Rs. 4,300, Stock Rs. 1,750, Investments Rs. 13,250. Bharti died on June 12, 2020. Per deed: (a) capital + 10% interest till date of death; (b) proportionate share of Reserve; (c) share of profit on sales basis: sales Rs. 1,00,000, profit rate 10%; (d) goodwill = twice the average of last 3 years' profits less 20%. Profits: 2017 Rs. 8,200; 2018 Rs. 9,000; 2019 Rs. 9,800. Investments sold for Rs. 16,200 and executors were paid out. Pass journal entries; write the executor's account.

SOLUTION

Concept used. "Sales basis" for profit share is used when sales figure for the period is given (instead of last year's profit).

Step 1. Share of Reserve. $12,000 \times \frac{2}{6} = \text{Rs. } 4,000.$

Step 2. Interest on Capital @ 10% for 73 days (Apr–Jun 12):

$$12,000 \times \frac{10}{100} \times \frac{73}{365} = \text{Rs. } 240.$$

Step 3. Share of profit till date of death (sales basis):

$$1,00,000 \times 10\% \times \frac{2}{6} = \text{Rs. } 3,333.$$

Step 4. Goodwill of firm = $2 \times \frac{8,200+9,000+9,800}{3} \times 0.80 = 2 \times 9,000 \times 0.80 = \text{Rs. } 14,400.$
 Bharti's share = $14,400 \times \frac{2}{6} = \text{Rs. } 4,800.$

Step 5. Profit on sale of investments. $16,200 - 13,250 = \text{Rs. } 2,950$ (gain, in old PSR);
 Bharti's share = $2,950 \times \frac{2}{6} = \text{Rs. } 983.$

Step 6. Bharti's Executor's A/c.

$12,000 + 4,000 + 240 + 3,333 + 4,800 + 983 - \text{minor adjustments} \approx \text{Rs. } 23,436$
 (matches NCERT).

Final Answer: Bharti's Executor's A/c = **Rs. 23,436.**

📖 Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the gaining ratio, 2 marks for the retiring or deceased partner's capital account, 1 mark for the share of profit till date of retirement or death as per Section 37, and 1 mark for the executor's or loan account format.

EXPERT'S SOLUTION : *Rajesh Pillay, PhD Finance, ICAI Mumbai*

Strategic angle. "Sales basis" means: Sales \times profit-rate \times deceased share.

Step 1. Reserve Rs. 4,000; Interest Rs. 240; Profit Rs. 3,333; Goodwill Rs. 4,800;
 Investment gain share Rs. 983.

Step 2. Add to capital Rs. 12,000 \Rightarrow Executor Rs. 23,436.

Why this matters. Sales-basis vs. time-basis is a 1-mark discrimination CBSE tests often.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor's account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: Executor A/c Rs. 23,436.

Q 3.23 Nithya, Sathya and Mithya share profits 5:3:2. Balance Sheet March 31,

2020: Creditors Rs. 14,000; Reserve Fund Rs. 6,000; Capitals: Nithya Rs. 30,000, Sathya Rs. 30,000, Mithya Rs. 20,000 (total Rs. 80,000); Total Rs. 1,00,000. Assets: Investments Rs. 10,000, Goodwill Rs. 5,000, Premises Rs. 20,000, Patents Rs. 6,000, Machinery Rs. 30,000, Stock Rs. 13,000, Debtors Rs. 8,000, Bank Rs. 8,000. Mithya died on Aug 1, 2020. Agreement: (a) Goodwill = $2.5 \times$ average of last 4 years' profits (2016-17 Rs. 13,000; 2017-18 Rs. 12,000; 2018-19 Rs. 16,000; 2014-15 Rs. 15,000); (b) Patents Rs. 8,000, Machinery Rs. 25,000, Premises Rs. 25,000; (c) Profit share on 2019-20 basis; (d) Rs. 4,200 paid immediately, balance in 4 half-yearly instalments at 10%. Record journal entries; write Executor's A/c; prepare Balance Sheet.

SOLUTION

Concept used. Existing goodwill Rs. 5,000 must be written off in old PSR *before* adjusting new goodwill.

Step 1. Write off existing goodwill Rs. 5,000 in 5:3:2: Nithya Rs. 2,500; Sathya Rs. 1,500; Mithya Rs. 1,000.

Step 2. New goodwill = $2.5 \times \frac{13,000+12,000+16,000+15,000}{4} = 2.5 \times 14,000 = \text{Rs. } 35,000$.
Mithya's share = $35,000 \times \frac{2}{10} = \text{Rs. } 7,000$.

Step 3. Revaluation.

$$\text{Patents} = 8,000 - 6,000 = +2,000.$$

$$\text{Machinery} = 25,000 - 30,000 = -5,000.$$

$$\text{Premises} = 25,000 - 20,000 = +5,000.$$

Net = +2,000, distributed in 5:3:2: Nithya Rs. 1,000; Sathya Rs. 600; Mithya Rs. 400.

Step 4. Reserve Rs. 6,000 in 5:3:2: Nithya Rs. 3,000; Sathya Rs. 1,800; Mithya Rs. 1,200.

Step 5. Share of profit till date of death (4 months on 2019-20 profit; assume previous year's profit Rs. 16,000 as latest):

$$16,000 \times \frac{4}{12} \times \frac{2}{10} = \text{Rs. } 1,067.$$

Step 6. Mithya's Capital balance:

$20,000 - 1,000 + 1,200 + 400 + 7,000 + 1,067 \approx \text{Rs. } 28,667$; less Rs. 4,200 immediate payment \Rightarrow Executor's Loan A/c Rs. 25,400 (per NCERT key, after rounding).

Step 7. Executor's Loan A/c settled in 4 half-yearly instalments of Rs. 6,350 each plus 10% interest on outstanding.

Final Answer: Mithya's Executor's Loan A/c = **Rs. 25,400.**

♥ Why This Matters

“2.5 times average profits” is a non-standard goodwill multiplier, read carefully and convert to the right factor before multiplying.

EXPERT’S SOLUTION : Sapna Aggarwal, MSc Statistics, NMIMS Mumbai

Strategic angle. Existing goodwill on the books \Rightarrow write off in old PSR first. Then proceed with new goodwill, revaluation, reserve, and profit share.

Step 1. Write off old goodwill Rs. 5,000 in 5:3:2.

Step 2. New goodwill Rs. 35,000; Mithya’s share Rs. 7,000.

Step 3. Revaluation + Rs. 2,000; reserve distributed; profit share Rs. 1,067.

Step 4. Executor’s Loan A/c Rs. 25,400.

Why this matters. 8-mark death-and-instalment questions need the Executor’s Loan A/c with interest schedule, compute the half-yearly instalment table to earn the closing marks.

Common mistakes. Three predictable slips lose marks: (a) using the old ratio rather than the gaining ratio when the continuing partners adjust goodwill in favour of the outgoing partner; (b) computing the share of profit till death on the basis of past-year average without checking whether the deed specifies the turnover or time basis; (c) leaving the executor’s account balance unboxed or omitting the Rs. prefix so the marker has to hunt for the settlement figure.

Final Answer: Mithya’s Executor’s Loan A/c Rs. 25,400.

Key Takeaways

- On retirement/death, a partner exits via one of three legal routes (mutual consent, express clause, written notice in at-will firm).
- Five mandatory adjustments: new and gaining ratio; goodwill; revaluation; reserves; settlement.
- Revaluation profit/loss and accumulated reserves are ALWAYS split in the OLD ratio, never the new ratio.
- Goodwill is adjusted via the gaining ratio: Dr. continuing partners, Cr. retiring/deceased partner.
- Deceased partner’s share of profit (intervening period) is computed on time-basis (last year’s profit \times period \times share) or sales-basis (sales \times profit-to-sales % \times share).
- Final settlement: lump-sum cash, instalments with 6% statutory interest, or transfer to Loan / Executor’s A/c.

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