

MEANING OF KEY TERMS USED IN THIS CHAPTER

1. **Retirement of a Partner** When a partner does not remain a partner in the firm, it is known as **retirement of a partner**.
2. **Gaining Ratio** The ratio in which the remaining/continuing partners take the retiring partner's profit share is called **gaining ratio**.
3. **New Profit-sharing Ratio** The ratio in which the remaining/continuing partners (*i.e.*, partners other than retiring partner) decide to share future profits and losses, is known as **new profit-sharing ratio**.

CHAPTER SUMMARY

- **Meaning of Retirement of a Partner:** When a partner retires from a partnership firm, it is termed as **retirement of a partner**.
- **How can a Partner Retire:** A partner may retire from the firm:
 - (i) With the consent of all other partners;
 - (ii) In accordance with an express agreement by the partners; or
 - (iii) By giving a written notice to the remaining partners of his intention to retire, in case of '*Partnership at will*'.
- **Adjustments at the Time of Retirement of a Partner:** Accounting problems that arise and settled are: calculation of the new profit-sharing ratio and gaining ratio, revaluation of assets and reassessment of liabilities, treatment of goodwill, accumulated profits, reserves and losses, share of the retiring partner in profits or losses up to the date of retirement.
- **New Profit-sharing Ratio:** The ratio in which the continuing partners, *i.e.*, partners other than the retiring partner decide to share future profits and losses, is known as the **new profit-sharing ratio**.

$$\text{New Profit Share} = \text{Old Profit Share} + \text{Acquired Profit Share}$$
- **Gaining Ratio:** The ratio in which the continuing partners acquire the outgoing (retired or deceased) partner's share is known as the **gaining ratio**.

$$\text{Gain of a Partner} = \text{New Profit Share} - \text{Old Profit Share}$$
- **Accounting Treatment of Goodwill:** When a partner retires, his share of profit is taken by the remaining/continuing partners. *The remaining/continuing partners compensate the retiring partner in the form of goodwill in their gaining ratio.*

The following entry is recorded for this purpose:

Remaining Partners' Capital/Current* A/cs	...Dr.	
To Retiring Partner's Capital/Current* A/c		[In gaining ratio] [Retiring Partner's Share of Goodwill]

5.2 Double Entry Book Keeping—CBSE XII

If goodwill exists in the Balance Sheet, it is written off by passing the following entry:

All Partners' Capital/Current* A/cs	...Dr.	[In old ratio]
To Goodwill A/c		

*In case of Fixed Capitals

When Goodwill exists in the Books

Goodwill existing in the books of account is written off by debiting all the Partners' Capital Accounts including retiring/deceased partner in their old profit-sharing ratio. The Journal entry passed is:

All Partners' Capital (or Current) A/cs	...Dr.	[In Old Profit-sharing Ratio]
To Goodwill A/c		[With Existing Value of Goodwill]

(Existing goodwill written off)

- **Revaluation of Assets and Reassessment of Liabilities:** At the time of retirement of a partner, assets are revalued and liabilities are reassessed; the difference is recorded in the Revaluation Account. The balance in the Revaluation Account is transferred to the Capital Accounts of all the partners (including the outgoing partner) in their old profit-sharing ratio.
- **Adjustment for Reserves and Accumulated Profits/Losses:** If at the time of retirement or death of a partner, there is balance in "Reserve and Accumulated Profits/Losses", then they are transferred to Capital Accounts of all partners in their old ratio.

However, if partners decide to record the net effect of reserves, accumulated profits and losses without affecting their old values, then an adjustment entry is passed through Capital Accounts of gaining partners and sacrificing partners.

- **Amount Due to the Retiring Partner:** The total amount due to a retiring partner may include:
 - (i) Capital on the date of the last Balance Sheet.
 - (ii) Loan by the Partner to the firm.
 - (iii) Interest or salary, if any, payable to him.
 - (iv) Share of profit or loss till the date of retirement.
 - (v) Share in the gain (profit) or loss on revaluation of assets and reassessment of liabilities.
 - (vi) Share in the goodwill of the firm.
 - (vii) Share in the General Reserve or Profit & Loss Account appearing in the Balance Sheet.

Out of the total of (i) to (vii), the amount of Loan to the partner, drawings and interest on drawings till the date of retirement are deducted.

The net amount payable will be settled by paying him through cash/bank or by transferring it to a separate Loan Account.

- **Payment of Dues to the Retiring Partner:** If the question does not specify whether the amount is paid or not, the amount due to the retiring partner is transferred to his Loan Account.
If the question specifies an amount having been paid, balance amount payable, if any, is transferred to his Loan Account.
- **Interest on Unpaid Amount to Retired Partner:** Retired partner is entitled to take interest @ 6% p.a. or share of profit based on his loan amount, as is agreed by the partners.

Solved Questions

Illustration 1.

X, Y and Z are partners sharing profits in the ratio of $4/9 : 1/3 : 2/9$. Y retires and surrenders $1/9$ th from his share in favour of X and the remaining in favour of Z. Calculate new profit-sharing ratio and gaining ratio.

Solution: Y's share of profit = $1/3$

Y surrenders in favour of X = $\frac{1}{9}$; in favour of Z = $\frac{1}{3} - \frac{1}{9} = \frac{3-1}{9} = \frac{2}{9}$

Calculation of New Profit-sharing Ratio and Gaining Ratio

Partners	Old Share (i)	Gaining Share (ii)	New Share (i + ii)
X	$4/9$	$1/9$	$5/9$
Z	$2/9$	$2/9$	$4/9$

Gaining Ratio = $\frac{1}{9} : \frac{2}{9}$ or 1 : 2; New Profit-sharing Ratio = $\frac{5}{9} : \frac{4}{9}$ or 5 : 4.

Illustration 2.

Subhash, Mohan, Usha and Rinku are partners sharing profits in ratio of 3 : 2 : 3 : 2. On the retirement of Usha, goodwill was valued at ₹ 2,40,000. Usha's share of goodwill will be given to her by adjusting it into the Capital Accounts of Subhash, Mohan and Rinku. Give necessary entries for the treatment of goodwill when the new profit-sharing ratio is 3 : 1 : 6.

Solution: JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Rinku's Capital A/c (₹ 2,40,000 × $4/10$)	...Dr.	96,000	
	To Mohan's Capital A/c (₹ 2,40,000 × $1/10$)			24,000
	To Usha's Capital A/c (₹ 2,40,000 × $3/10$)			72,000
	(Goodwill adjusted by debiting gaining partner (Rinku for $4/10$) and crediting sacrificing partners (Mohan for $1/10$ and Usha for $3/10$)) (WN)			

Working Note:

Calculation of Gaining Ratio: Gain of a Partner = New Share – Old Share

Subhash's Gain = $\frac{3}{10} - \frac{3}{10} = 0$; Mohan's Gain = $\frac{1}{10} - \frac{2}{10} = \left(-\frac{1}{10}\right)$ Sacrifice; Rinku's Gain = $\frac{6}{10} - \frac{2}{10} = \frac{4}{10}$.

Thus, Rinku is the only gaining partner. She will compensate not only Usha but also Mohan, the sacrificing partner.

Illustration 3.

X, Y and Z are partners sharing profits in the ratio of 4 : 3 : 2. Y retires on 1st April, 2025 and X and Z decide to share future profits in the ratio of 5 : 3. Then immediately W is admitted for $3/10$ th share of profits half of which was gifted by X and the remaining share was taken by W equally from X and Z. Goodwill of the firm is valued at 1,08,000. W brings in the required amount of goodwill. The profit for the year ended 31st March, 2026 after W's admission was ₹ 50,000. Pass the necessary Journal entries to adjust goodwill and to distribute profits.

5.4 Double Entry Book Keeping—CBSE XII

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2025	X's Capital A/c ...Dr.		19,500	
April 1	Z's Capital A/c ...Dr.		16,500	
	To Y's Capital A/c (Y's share of goodwill adjusted in the Capital Accounts of gaining partners in their gaining ratio, i.e., 13 : 11)			36,000
	Bank A/c (₹ 1,08,000 × 3/20) ...Dr.		16,200	
	To Premium for Goodwill A/c (Amount of goodwill brought in by W for purchased share of profit, i.e., 3/20)			16,200
	Premium for Goodwill A/c ...Dr.		16,200	
	To X's Capital A/c			8,100
	To Z's Capital A/c			8,100
	(Goodwill credited to sacrificing partners in their sacrificing ratio, i.e., 1 : 1)			
2026	Profit & Loss Appropriation A/c ...Dr.		50,000	
March 31	To X's Capital A/c			20,000
	To Z's Capital A/c			15,000
	To W's Capital A/c			15,000
	(Profit credited to all partners in their new profit-sharing ratio, i.e., 4 : 3 : 3)			

Working Notes:

1. Calculation of Gaining Ratio of X and Z:

$$X's \text{ Gain} = \frac{5}{8} - \frac{4}{9} = \frac{13}{72}; \quad Z's \text{ Gain} = \frac{3}{8} - \frac{2}{9} = \frac{11}{72}$$

$$\text{Hence, Gaining Ratio of X and Z} = \frac{13}{72} : \frac{11}{72} = 13 : 11.$$

2. Calculation of New Ratio of X, Z and W:

	X	Z
A. New Share after Y's retirement:	5/8	3/8

B. Gifted by X = $\frac{1}{2}$ of $\frac{3}{10} = \frac{3}{20}$

C. Share acquired by W (other than gift):

From X = $\frac{1}{2}$ of $\frac{3}{20} = \frac{3}{40}$

From Z = $\frac{1}{2}$ of $\frac{3}{20} = \frac{3}{40}$

D. New Share of X (after W's admission) = $\frac{5}{8} - \frac{3}{20} - \frac{3}{40} = \frac{25-6-3}{40} = \frac{16}{40}$

New Share of Z (after W's admission) = $\frac{3}{8} - \frac{3}{40} = \frac{15-3}{40} = \frac{12}{40}$
W's Share = $\frac{3}{10}$

New Ratio of X, Z and W = $\frac{16}{40} : \frac{12}{40} : \frac{3}{10} = 16 : 12 : 12$ or $4 : 3 : 3$.

Illustration 4.

- (a) Give the Journal entry to distribute 'Workmen Compensation Reserve' of ₹ 70,000 at the time of retirement of Neeti, when there is a claim of ₹ 25,000 against it. The firm has three partners Raveena, Neeti and Rajat. (Delhi 2013)
- (b) Give the Journal entry to distribute 'Workmen Compensation Reserve' of 60,000 at the time of retirement of Sajjan, when there is no claim against it. The firm has three partners Rajat, Sajjan and Kavita. (AI 2013)
- (c) Give the Journal entry to distribute 'Investment Fluctuation Reserve' of ₹ 4,000 at the time of retirement of Z, when investments (market value ₹ 19,000) appears at ₹ 20,000. The firm has three partners X, Y, and Z. (CBSE 2013)

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Workmen Compensation Reserve A/c ...Dr.		70,000	
	To Raveena's Capital A/c			15,000
	To Neeti's Capital A/c			15,000
	To Rajat's Capital A/c			15,000
	To Workmen Compensation Claim A/c			25,000
	(Workmen Compensation Reserve after adjusting claim credited to Partners' Capital Accounts in their old ratio)			
(b)	Workmen Compensation Reserve A/c ...Dr.		60,000	
	To Rajat's Capital A/c			20,000
	To Sajjan's Capital A/c			20,000
	To Kavita's Capital A/c			20,000
	(Workmen Compensation Reserve transferred to Partners' Capital Accounts in their old ratio)			
(c)	Investment Fluctuation Reserve A/c ...Dr.		4,000	
	To X's Capital A/c			1,000
	To Y's Capital A/c			1,000
	To Z's Capital A/c			1,000
	To Investments A/c			1,000
	(Value of Investments brought down to market value and surplus Investment Fluctuation Reserve transferred to Partners' Capital Accounts in their old profit-sharing ratio)			

Illustration 5 (Treatment of Goodwill and Revaluation of Assets and Reassessment of Liabilities; Amount due to Retiring Partner be Treated as Loan).

A, B and C share profits and losses in the ratio of 3 : 2 : 1. Their Balance Sheet as at 31st March, 2026 was as follows:

Liabilities	₹	Assets	₹
Creditors	60,000	Cash	36,000
Bills Payable	32,000	Debtors	50,000
General Reserve	24,000	Less: Provision for Doubtful Debts	7,000
Capital A/cs:		Stock	36,000
A	80,000	Furniture	60,000
B	80,000	Machinery	1,40,000
C	60,000	Goodwill	21,000
	2,20,000		
	3,36,000		3,36,000

5.6 Double Entry Book Keeping—CBSE XII

B retires on 1st April, 2026 on the following terms:

- Provision for Doubtful Debts be raised by ₹ 2,000.
- Outstanding Claim for Damages of ₹ 2,200 be provided.
- Creditors be reduced by ₹ 12,000.
- Goodwill of the firm be valued at ₹ 45,000. Goodwill not to appear in books.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of A and C.

(AI 1999 C, Delhi 2002 C, Modified)

Solution:

REVALUATION ACCOUNT			
Dr.	₹	Cr.	₹
Particulars		Particulars	
To Provision for Doubtful Debts A/c	2,000	By Creditors A/c	12,000
To Outstanding Claim for Damages A/c	2,200		
To Gain (Profit) on Revaluation transferred to:			
A's Capital A/c	3,900		
B's Capital A/c	2,600		
C's Capital A/c	1,300		
	7,800		
	12,000		12,000

PARTNERS' CAPITAL ACCOUNTS							
Dr.				Cr.			
Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Goodwill A/c (Note 1)	10,500	7,000	3,500	By Balance b/d	80,000	80,000	60,000
To B's Capital A/c	11,250	...	3,750	By General Reserve A/c	12,000	8,000	4,000
To B's Loan A/c	...	98,600	...	By Revaluation A/c—Gain	3,900	2,600	1,300
To Balance c/d	74,150	...	58,050	By A's Capital A/c	...	11,250	...
				By C's Capital A/c	...	3,750	...
	95,900	1,05,600	65,300		95,900	1,05,600	65,300

BALANCE SHEET OF A AND C as at 1st April, 2026

Liabilities	₹	Assets	₹
Bills Payable	32,000	Cash	36,000
Creditors	48,000	Stock	36,000
Outstanding Claim for Damages	2,200	Debtors	50,000
B's Loan A/c	98,600	Less: Provision for Doubtful Debts	9,000
Capital A/cs:		Furniture	60,000
A	74,150	Machinery	1,40,000
C	58,050		
	3,13,000		3,13,000

- Notes:**
- The existing goodwill is written off in the old ratio.
 - B's share of Goodwill = ₹ 45,000 × 2/6 = ₹ 15,000 will be contributed by A and C in their gaining ratio, i.e., 3 : 1. Thus,
 A's contribution for B's Goodwill = ₹ 15,000 × 3/4 = ₹ 11,250 and
 C's contribution for B's Goodwill = ₹ 15,000 × 1/4 = ₹ 3,750.

Illustration 6.

Jyoti, Ruchi and Yogesh were sharing profits and losses in proportion to their capitals. Their Balance Sheet as at 31st March, 2026 was:

Liabilities	₹	Assets	₹
Capital A/cs:		Building	1,00,000
Jyoti	80,000	Machinery	48,000
Ruchi	60,000	Stock	18,000
Yogesh	40,000	Debtors	20,000
Sundry Creditors	21,600	Less: Provision for Doubtful Debts	400
		Bank	8,000
		Cash	8,000
	2,01,600		2,01,600

Ruchi retired on 1st April, 2026. They agreed to the following adjustments in the books of accounts to decide Ruchi's share:

- Building to be appreciated by 20%.
- The Provision for Doubtful Debts to be increased to 5% on Debtors.
- Out of total insurance premium paid, ₹ 3,000 to be treated as Prepaid Insurance. This amount was earlier debited to the Profit & Loss Account.
- Machinery to be reduced by 20%.
- Goodwill of the firm is valued at ₹ 72,000. Ruchi's share to be adjusted in the accounts of Jyoti and Yogesh.
- Jyoti and Yogesh also decide that the total capital of the firm after Ruchi's retirement be ₹ 1,80,000 in their profit-sharing ratio, *i.e.*, actual cash to be brought in or paid to a partner as the case may be.

You are required to prepare Revaluation Account, Capital Accounts of all Partners and the Balance Sheet of Jyoti and Yogesh.

Solution:

In the Books of Firm
REVALUATION ACCOUNT

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Provision for Doubtful Debts A/c (₹ 1,000 – ₹ 400)	600	By Building A/c	20,000
To Machinery A/c	9,600	By Prepaid Insurance A/c	3,000
To Gain (Profit) transferred to:			
Jyoti's Capital A/c	5,689		
Ruchi's Capital A/c	4,267		
Yogesh's Capital A/c	2,844		
	12,800		
	23,000		23,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	Jyoti ₹	Ruchi ₹	Yogesh ₹	Particulars	Jyoti ₹	Ruchi ₹	Yogesh ₹
To Ruchi's Capital A/c —Goodwill (WN 1)	16,000	...	8,000	By Balance b/d	80,000	60,000	40,000
To Bank A/c	...	88,267	...	By Revaluation A/c —Gain (Profit)	5,689	4,267	2,844
To Balance c/d (WN 2)	1,20,000	...	60,000	By Jyoti's Capital A/c	...	16,000	...
				By Yogesh's Capital A/c	...	8,000	...
				By Bank A/c (Bal. Fig.)	50,311	...	25,156
	1,36,000	88,267	68,000		1,36,000	88,267	68,000

5.8 Double Entry Book Keeping—CBSE XII

BALANCE SHEET OF JYOTI AND YOGESH as at 1st April, 2026

Liabilities	₹	Assets	₹
Capital A/cs:		Building	1,20,000
Jyoti	1,20,000	Machinery	38,400
Yogesh	60,000	Prepaid Insurance	3,000
Sundry Creditors	21,600	Debtors	20,000
		Less: Provision for Doubtful Debts	1,000
		Stock	18,000
		Bank (WN 3)	3,200
	2,01,600		2,01,600

Working Notes:

- Ruchi's share of goodwill = ₹ 72,000 × 3/9 = ₹ 24,000, which is contributed by Jyoti and Yogesh in their gaining ratio of 2 : 1 as: Jyoti: ₹ 24,000 × 2/3 = ₹ 16,000; Yogesh: ₹ 24,000 × 1/3 = ₹ 8,000.
- Capital of Jyoti and Yogesh in New Firm:**
Total capital of the firm after Ruchi's retirement will be ₹ 1,80,000. It will be shared by Jyoti and Yogesh in the ratio of 4 : 2, i.e., 2 : 1. Therefore, capital of Jyoti will be ₹ 1,20,000 (i.e., ₹ 1,80,000 × 2/3) and that of Yogesh will be ₹ 60,000 (i.e., ₹ 1,80,000 × 1/3).

Dr.		BANK ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d (₹ 8,000 + ₹ 8,000)	16,000	By Ruchi's Capital A/c	88,267		
To Jyoti's Capital A/c	50,311	By Balance c/d	3,200		
To Yogesh's Capital A/c	25,156				
	91,467				91,467

Illustration 7.

A, B and C are partners sharing profits in the ratio of 4 : 3 : 1. Their Balance Sheet as at 31st March, 2026 is:

Liabilities	₹	Assets	₹
Creditors	70,000	Cash in Hand	80,000
Bills Payable	30,000	Cash at Bank	20,000
Workmen Compensation Reserve	20,000	Stock	75,000
General Reserve	80,000	Debtors	1,30,000
Capital A/cs:		Less: Provision for Doubtful Debts	5,000
A	2,00,000	Motor Car	1,50,000
B	3,00,000	Investments	1,00,000
C	2,00,000	Plant and Machinery	1,20,000
	7,00,000	Building	2,30,000
	9,00,000		9,00,000

On 1st April, 2026, B retires from the firm selling his share of profit to A for ₹ 36,000 and to C for ₹ 45,000 in the ratio of 4 : 5. For the purpose of B's retirement, it was agreed that:

- Stock is to be appreciated by 20% and Building by 10%.
- Motor Car is to be valued at ₹ 70,000.

- (iii) Provision for Doubtful Debts is increased to 10%.
 (iv) Investments are sold for ₹ 2,30,000.
 (v) Claim on account of Workmen Compensation is ₹ 12,000.
 (vi) Amount due to B is to be settled on the following basis:
 50% on retirement and the balance 50% within one year.
 (vii) The capital of the newly constituted firm is fixed at ₹ 6,00,000 to be divided among A and C in the profit-sharing ratio. Adjustment is to be made in cash.

Calculate new profit-sharing ratio and prepare Revaluation Account and Partners' Capital Accounts.

Solution:

- (i) *Calculation of New Profit-sharing Ratio:*

B's share is $\frac{3}{8}$ which he is surrendering in favour of A and C in the ratio of 4 : 5.

Therefore A will get $\frac{4}{9}$ of $\frac{3}{8} = \frac{1}{6}$ and C will get $\frac{5}{9}$ of $\frac{3}{8} = \frac{5}{24}$.

Total share of A in the new firm will be: $\frac{4}{8} + \frac{1}{6} = \frac{16}{24}$ or $\frac{2}{3}$.

Total share of C in the new firm will be: $\frac{1}{8} + \frac{5}{24} = \frac{8}{24}$ or $\frac{1}{3}$.

New Profit-sharing Ratio = 2 : 1.

Dr.		REVALUATION ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Provision for Doubtful Debts A/c	8,000	By Stock A/c	15,000		
To Motor Car A/c (₹ 1,50,000 – ₹ 70,000)	80,000	By Building A/c	23,000		
To Gain (Profit) transferred to:		By Investments A/c	1,30,000		
A's Capital A/c	40,000	(₹ 2,30,000 – ₹ 1,00,000)			
B's Capital A/c	30,000				
C's Capital A/c	10,000				
	80,000				
	1,68,000				1,68,000

Dr.		PARTNERS' CAPITAL ACCOUNTS						Cr.	
Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)		
To B's Capital A/c (WN 1)	36,000	...	45,000	By Balance b/d	2,00,000	3,00,000	2,00,000		
To Cash A/c (50% of dues)	...	2,22,000	...	By General Reserve A/c	40,000	30,000	10,000		
To B's Loan A/c	...	2,22,000	...	By A's Capital A/c	...	36,000	...		
To Balance c/d	4,00,000	...	2,00,000	By C's Capital A/c	...	45,000	...		
				By Revaluation A/c	40,000	30,000	10,000		
				—Gain (Profit)					
				By Workmen Compensation Reserve A/c (WN 3)	4,000	3,000	1,000		
				By Bank A/c (WN 2)	1,52,000	...	24,000		
	4,36,000	4,44,000	2,45,000		4,36,000	4,44,000	2,45,000		

Working Notes:

1. B sold his share to A and C in the ratio of 4 : 5. The consideration of ₹ 36,000 + ₹ 45,000 will be credited to his Capital Account and the respective amount will be debited to A's Capital Account and C's Capital Account.

5.10 Double Entry Book Keeping—CBSE XII

2. Total Capital of the new firm is ₹ 6,00,000. New Profit-Sharing Ratio is 2 : 1.

A's Share of Capital = ₹ 6,00,000 × 2/3 = ₹ 4,00,000

C's Share of Capital = ₹ 6,00,000 × 1/3 = ₹ 2,00,000

After all adjustments, A's Capital is (₹ 2,00,000 + ₹ 40,000 + ₹ 40,000 + ₹ 4,000 - ₹ 36,000) = ₹ 2,48,000.
Therefore, A will bring in (₹ 4,00,000 - ₹ 2,48,000) = ₹ 1,52,000.

After all adjustments, C's Capital is (₹ 2,00,000 + ₹ 10,000 + ₹ 10,000 + ₹ 1,000 - ₹ 45,000) = ₹ 1,76,000.
Therefore, C will bring in (₹ 2,00,000 - ₹ 1,76,000) = ₹ 24,000.

3. Balance of Workmen Compensation Reserve (₹ 20,000 - ₹ 12,000 = ₹ 8,000) is credited to Partners' Capital Accounts in their old profit-sharing ratio.

Illustration 8. (Admission-cum-Retirement: Workmen Compensation Reserve).

X, Y and Z are partners sharing profits and losses in the ratio of 5 : 3 : 2. On 1st April, 2026, R is admitted into the partnership for 1/5th share in profits and brings ₹ 1,00,000 as his capital. On the same date Z retires from the firm. On that date, balance in Workmen Compensation Reserve is valued at ₹ 35,000. Claim for workmen compensation was valued at ₹ 25,000. Give necessary Journal entries.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	Workmen Compensation Reserve A/c To Workmen Compensation Claim A/c (Reserve equivalent to claim is transferred to Workmen Compensation Claim Account)	...Dr.	25,000	25,000
April 1	Workmen Compensation Reserve A/c To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Balance of workmen compensation reserve in excess distributed among old partners in old ratio)	...Dr.	10,000	5,000 3,000 2,000
April 1	Bank A/c To R's Capital A/c (Capital brought in by R for 1/5th share)	...Dr.	1,00,000	1,00,000

Illustration 9. (Admission-cum-Retirement: Investment Fluctuation Reserve).

A, B and C are partners sharing profits in the ratio of 5 : 3 : 2. A, by agreement, retires and D joins the firm on the basis of one third share of profit on 1st April, 2026 bringing ₹ 50,000 towards capital. An extract of their Balance Sheet as at 31st March, 2026 is as follows:

Liabilities	₹	Assets	₹
Investments Fluctuation Reserve	3,750	Investment (at Cost)	50,000

Pass Journal entries if market value of Investment is ₹ 55,000.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	Investments Fluctuation Reserve A/c To A's Capital A/c To B's Capital A/c To C's Capital A/c (Transfer of Investments Fluctuation Reserve to Partners' Capital Accounts in their old profit-sharing ratio)	...Dr.	3,750	1,875 1,125 750

Investment A/c	...Dr.	5,000	
To Revaluation A/c (Value of Investment brought up to market value)			5,000
Revaluation A/c	...Dr.	5,000	
To A's Capital A/c			2,500
To B's Capital A/c			1,500
To C's Capital A/c			1,000
(Transfer of gain (profit) on revaluation)			
Bank A/c	...Dr.	50,000	
To D's Capital A/c (Capital brought in by D)			50,000

Illustration 10. (Admission-cum-Retirement: Distribution of Profits).

Harsh, Rajneesh and Nikhil were partners sharing profits in the ratio of 6 : 4 : 5. On 1st April, 2025, Nikhil retires from the firm and on the same date Deepanshu is admitted into partnership for 2/9th share in profits. Harsh, Rajneesh and Deepanshu decided to share future profits in the ratio 4 : 3 : 2. They earned profit of ₹ 9,00,000 for the year ended 31st March, 2026. Pass necessary Journal entry.

Solution:**In the Books of Harsh, Rajneesh and Deepanshu**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	Profit & Loss Appropriation A/c	...Dr.	9,00,000	
	To Harsh's Capital A/c			4,00,000
	To Rajneesh's Capital A/c			3,00,000
	To Deepanshu's Capital A/c			2,00,000
	(Profit for the year distributed among partners including new partner in the ratio of 4 : 3 : 2)			

Illustration 11. (Admission-cum-Retirement: Treatment of Existing Goodwill).

A, B and C were partners sharing profit equally. On 31st March, 2026, D was admitted into the firm for 1/6th share in profits and on the same date B retires from the firm. On that date, goodwill appears in the books at ₹ 30,000. Pass necessary Journal entry.

Solution:**In the Books of A, B, C and D**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 Mar 31	A's Capital A/c	...Dr.	10,000	
	B's Capital A/c	...Dr.	10,000	
	C's Capital A/c	...Dr.	10,000	
	To Goodwill A/c			30,000
	(Existing goodwill appearing in the books written off by debiting old partners in old ratio)			

5.12 Double Entry Book Keeping—CBSE XII

Illustration 12. (Admission-cum-Retirement: Distribution of Profit).

P, *Q* and *R* were partners sharing profits in the ratio of 3 : 2 : 1. On 1st April, 2025, *R* retires selling his share of profit for ₹ 96,000. On the same date, *S* is admitted into the partnership for 25% share in profits. *P*, *Q* and *S* decided to share future profits in the ratio of 2 : 1 : 1. The profit for the year ended 31st March, 2026 was ₹ 48,000. Partners decided to donate woollen clothes, blankets and Medical Van for flood affected area of Jammu and Kashmir.

Pass Journal entries to (i) record the sale of *R*'s share to *P* and *Q* and (ii) distribute the profit between *P*, *Q* and *S*.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2025 April 1	S's Capital/Current A/c ...Dr. To Q's Capital/Current A/c To R's Capital/Current A/c (Adjustment made of Goodwill by debiting the gaining partner and crediting sacrificing partners)		1,44,000	48,000 96,000
2026 March 31	Profit & Loss Appropriation A/c ...Dr. To P's Capital/Current A/c To Q's Capital/Current A/c To S's Capital/Current A/c (Profit distributed between the partners in new ratio)		48,000	24,000 12,000 12,000

Working Notes:

1. Calculation of Sacrifice/(Gain) Share:

	<i>P</i>	<i>Q</i>	<i>R</i>	<i>S</i>
Old Share	3/6	2/6	1/6	...
New Share	2/4	1/4	...	1/4
	<u>NIL</u>	<u>1/12 Sacrifice</u>	<u>2/12 Sacrifice</u>	<u>-3/12 Gain</u>

2. Calculation of Share of Goodwill:

	₹
<i>R</i> 's Share of Goodwill for 1/6th Share	= 96,000
Goodwill of the firm = ₹ 96,000 × 6/1	= 5,76,000
<i>Q</i> 's Sacrificing Share = ₹ 5,76,000 × 1/12	= 48,000
<i>R</i> 's Sacrificing Share = ₹ 5,76,000 × 2/12	= 96,000
<i>S</i> 's Gaining Share = ₹ 5,76,000 × 3/12	= 1,44,000

Illustration 13. (Admission-cum-Retirement: Revaluation of Assets).

Ram and Shyam are partners sharing profits and losses in the ratio of 3 : 2. They are doing the business of recycling the old furniture and refurbishing them for resale. On 1st April, 2026, Shiv is admitted for 1/2 share in profits and brings ₹ 2,00,000 for his share of capital and ₹ 60,000 for his share of goodwill. On the same date, Shyam retires from the firm. Ram and Shiv decided to share future profits equally. For this purpose assets were revalued from ₹ 10,00,000 to ₹ 9,00,000. Ram and Shiv decided to open a charitable dispensary to provide free medical facilities to poor and needy people of flood affected victims of Bihar.

Journalise.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	Revaluation A/c ...Dr. To Assets A/c (Decrease in value of assets)		1,00,000	1,00,000
April 1	Ram's Capital A/c ...Dr. Shyam's Capital A/c ...Dr. To Revaluation A/c (Revaluation loss distributed among old partners in their old ratio)		60,000 40,000	1,00,000
April 1	Bank A/c ...Dr. To Shiv's Capital A/c To Premium for Goodwill A/c (Amount brought in by Shiv)		2,60,000	2,00,000 60,000
April 1	Premium for Goodwill A/c ...Dr. To Ram's Capital A/c (₹ 60,000 × 1/5) To Shyam's Capital A/c (₹ 60,000 × 4/5) (Sacrificing partners compensated with share of goodwill)		60,000	12,000 48,000

Working Note:

Calculation of Gaining/Sacrificing Share:	Ram	Shyam	Shiv
New Share	1/2	...	1/2
Old Share	3/5	2/5	...
	<u>-1/10</u>	<u>-2/5 or -4/10</u>	<u>1/2 or 5/10</u>
	Sacrifice	Sacrifice	Gain

Illustration 14.

M, N and O are partners in a firm sharing profits in the ratio of 4 : 3 : 2. N retires and it is decided that N's share of goodwill be adjusted in the accounts of M and O. Fill in the missing figures in the following Journal entry. Also calculate the value of firm's goodwill.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	M's Capital A/c ...Dr. O's Capital A/c ...Dr. To N's Capital A/c (N's share of goodwill debited to the account of gaining partners in their gaining ratio)		? 10,000	?

BALANCE SHEET OF X AND Y as at 1st April, 2026

Liabilities	₹	Assets	₹
Sundry Creditors	?	Cash at Bank	1,500
Workmen Compensation Claim	3,000	Debtors	40,000
Employees' Provident Fund	6,000	Less: Provision for Doubtful Debts	2,400
Bills Payable	2,125	Stock	37,650
Z's Loan	2,125	Patents	8,000
X's Capital	65,300	Plant and Machinery	?
Y's Capital	30,200		
	95,500		
	1,29,750		1,29,750

Solution:

REVALUATION ACCOUNT			
Dr.	₹	Cr.	₹
To Patents A/c	2,000	By Investments A/c	2,600
To Plant and Machinery A/c	5,000	By Loss transferred to:	
To Provision for Doubtful Debts A/c	400	X's Capital A/c	2,400
		Y's Capital A/c	1,600
		Z's Capital A/c	800
	7,400		4,800
			7,400

PARTNERS' CAPITAL ACCOUNTS							
Dr.	X	Y	Z	Cr.	X	Y	Z
	₹	₹	₹		₹	₹	₹
To Goodwill A/c	3,000	2,000	1,000	By Balance b/d	68,000	32,000	21,000
To Z's Capital A/c (Goodwill)	3,000	2,000		By Workmen Compensation Reserve	4,500	3,000	1,500
To Revaluation A/c (Loss)	2,400	1,600	800	By Investments Fluctuation Reserve	3,000	2,000	1,000
To Advertisement Expenditure A/c	1,800	1,200	600	By X's Capital A/c (Goodwill)			3,000
To Investments A/c			17,600	By Y's Capital A/c (Goodwill)			2,000
To Bank A/c			4,250				
To Z's Loan A/c			2,125				
To Bills Payable A/c			2,125				
To Balance c/d	65,300	30,200					
	75,500	37,000	28,500		75,500	37,000	28,500

5.16 Double Entry Book Keeping—CBSE XII

BALANCE SHEET OF X AND Y as at 1st April, 2026

Liabilities	₹	Assets	₹
Sundry Creditors (Balancing Figure)	21,000	Cash at Bank	1,500
Workmen Compensation Claim	3,000	Debtors	40,000
Employees' Provident Fund	6,000	Less: Provision for Doubtful Debts	2,400
Bills Payable	2,125	Stock	37,650
Z's Loan	2,125	Patents	8,000
X's Capital	65,300	Plant and Machinery (Balancing Figure)	45,000
Y's Capital	30,200		
	<u>95,500</u>		
	1,29,750		1,29,750

Illustration 16.

Complete the following Accounts and Balance Sheet:

Dr. REVALUATION ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Plant A/c	?	By Building A/c	1,00,000
To Furniture A/c	6,000		
To Provision for Doubtful Debts A/c	?		
To Partners' Capital A/cs (Gain):			
A (₹ 39,000 × 3/6)	19,500		
B (₹ 39,000 × 2/6)	13,000		
C (₹ 39,000 × 1/6)	6,500		
	<u>39,000</u>		
	?		?

Dr. BANK ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Balance b/d	35,000	By C's Capital A/c	?
To A's Capital A/c	?	By Balance c/d	1,00,000
To B's Capital A/c	?		
	<u>4,61,500</u>		<u>4,61,500</u>

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.							
Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To Bank A/c			3,61,500	By Balance b/d	4,50,000	3,50,000	2,50,000
To C's Capital A/c (Goodwill)	36,000	24,000		By Reserves and Surplus	75,000	50,000	25,000
To Balance c/d	8,24,400	5,99,600		By Profit & Loss A/c	60,000	40,000	20,000
				By A's Capital A/c			?
				By B's Capital A/c			?
				By Revaluation A/c	?	?	?
				By Bank A/c	2,55,900	1,70,600	
	<u>8,60,400</u>	<u>6,23,600</u>	<u>3,61,500</u>		<u>8,60,400</u>	<u>6,23,600</u>	<u>3,61,500</u>

BALANCE SHEET OF A AND B (NEW FIRM) as at 1st April, 2026

Liabilities	₹	Assets	₹
Capital A/cs:		Building (₹ 5,00,000 + ₹ 1,00,000)	6,00,000
A	8,24,400	Plant (₹ 4,00,000 – ₹ 40,000)	3,60,000
B	5,99,600	Furniture (₹ 40,000 – ₹ 6,000)	34,000
Creditors	2,05,000	Stock	2,50,000
		Debtors	3,00,000
		Less: Provision for Doubtful Debts	15,000
		Bank	1,00,000
	16,29,000		16,29,000

Solution:

REVALUATION ACCOUNT			
Dr.	₹	Cr.	₹
To Plant A/c	40,000	By Building A/c	1,00,000
To Furniture A/c	6,000		
To Provision for Doubtful Debts A/c	15,000		
To Partners' Capital A/cs (Gain):			
A (₹ 39,000 × 3/6)	19,500		
B (₹ 39,000 × 2/6)	13,000		
C (₹ 39,000 × 1/6)	6,500		
	39,000		
	1,00,000		1,00,000

BANK ACCOUNT			
Dr.	₹	Cr.	₹
To Balance b/d	35,000	By C's Capital A/c	3,61,500
To A's Capital A/c	2,55,900	By Balance c/d	1,00,000
To B's Capital A/c	1,70,600		
	4,61,500		4,61,500

PARTNERS' CAPITAL ACCOUNTS							
Dr.	A (₹)	B (₹)	C (₹)	Cr.	A (₹)	B (₹)	C (₹)
To Bank A/c			3,61,500	By Balance b/d	4,50,000	3,50,000	2,50,000
To C's Capital A/c (Goodwill)	36,000	24,000		By Reserves and Surplus	75,000	50,000	25,000
To Balance c/d	8,24,400	5,99,600		By Profit & Loss A/c	60,000	40,000	20,000
				By A's Capital A/c			36,000
				By B's Capital A/c			24,000
				By Revaluation A/c	19,500	13,000	6,500
				By Bank A/c	2,55,900	1,70,600	
	8,60,400	6,23,600	3,61,500		8,60,400	6,23,600	3,61,500

BALANCE SHEET OF A AND B (NEW FIRM) as at 1st April, 2026

Liabilities	₹	Assets	₹
Capital A/cs:		Building (₹ 5,00,000 + ₹ 1,00,000)	6,00,000
A	8,24,400	Plant (₹ 4,00,000 – ₹ 40,000)	3,60,000
B	5,99,600	Furniture (₹ 40,000 – ₹ 6,000)	34,000
Creditors	2,05,000	Stock	2,50,000
		Debtors	3,00,000
		Less: Provision for Doubtful Debts	15,000
		Bank	1,00,000
	16,29,000		16,29,000

5.18 Double Entry Book Keeping—CBSE XII

Illustration 17 (Treatment of Goodwill and Revaluation of Assets and Reassessment of Liabilities; Amount due to Retiring Partner be Treated as Loan).

X, Y and Z were partners sharing profits and losses in the ratio of 1/2 : 1/3 : 1/6 respectively. Balance Sheet of the firm as at 31st March, 2026 stood as follows:

Liabilities	₹	Assets	₹
Creditors	9,500	Cash at Bank	1,250
Bills Payable	2,500	Debtors	8,000
General Reserve	6,000	Less: Provision for Doubtful Debts	250
Capital A/cs:		Stock	12,500
X	20,000	Delivery Vans	4,000
Y	15,000	Machinery	17,500
Z	12,500	Building	22,500
	47,500		65,500
	65,500		65,500

Y retired on 1st April, 2026 subject to the following terms:

- Goodwill of the firm be valued at ₹ 9,000 and Y's share of the goodwill be adjusted in the accounts of X and Z.
- Machinery to be decreased by 10% and Delivery Vans by 15%.
- Stock to be appreciated by 20% and Building by 10%.
- Provision for Doubtful Debts to be increased by ₹ 975.
- Provision for Workmen Compensation to the extent of ₹ 825, to be created.

It was agreed that X and Z will share profits in future in the ratio of 3 : 2 respectively.

Prepare Revaluation Account, Capital Accounts of Partners and Balance Sheet of the New Firm.

Solution:

Dr.				REVALUATION ACCOUNT				Cr.			
Particulars	₹			Particulars	₹						
To Provision for Doubtful Debts A/c	975			By Stock A/c	2,500						
To Machinery A/c	1,750			By Building A/c	2,250						
To Delivery Vans A/c	600										
To Provision for Workmen Compensation A/c	825										
To Gain (Profit) on Revaluation transferred to:											
X's Capital A/c	300										
Y's Capital A/c	200										
Z's Capital A/c	100		600								
	4,750				4,750						

Dr.				PARTNERS' CAPITAL ACCOUNTS				Cr.			
Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)				
To Y's Capital A/c (Note 2)	900	...	2,100	By Balance b/d	20,000	15,000	12,500				
To Y's Loan A/c (Note 1)	...	20,200	...	By Revaluation A/c	300	200	100				
To Balance c/d	22,400	...	11,500	— Gain (Profit)							
				By X's Capital A/c (Note 2)	...	900	...				
				By Z's Capital A/c (Note 2)	...	2,100	...				
				By General Reserve A/c	3,000	2,000	1,000				
	23,300	20,200	13,600		23,300	20,200	13,600				

BALANCE SHEET OF X AND Z as at 1st April, 2026

Liabilities	₹	Assets	₹
Bills Payable	2,500	Cash at Bank	1,250
Creditors	9,500	Stock	15,000
Provision for Workmen Compensation	825	Debtors	8,000
Y's Loan A/c	20,200	Less: Provision for Doubtful Debts	1,225
Capital A/cs:		Delivery Vans	3,400
X	22,400	Machinery	15,750
Z	11,500	Building	24,750
	66,925		66,925

Notes: 1. The question is silent in respect of payment to Y. Therefore, the amount due to Y has been transferred to his Loan Account.

2. Y's share of goodwill = ₹ 9,000 × $\frac{1}{3}$ = ₹ 3,000, which is to be contributed by X and Z in their gaining ratio, i.e., 3 : 7. Thus, X and Z will be debited by ₹ 900 and ₹ 2,100 respectively.

3. Calculation of Gaining Ratio:

$$X's \text{ Gain} = \frac{3}{5} - \frac{1}{2} = \frac{6-5}{10} = \frac{1}{10} \text{ or } \frac{3}{30};$$

$$Z's \text{ Gain} = \frac{2}{5} - \frac{1}{6} = \frac{12-5}{30} = \frac{7}{30}. \text{ Thus, Gaining Ratio of X and Z} = 3 : 7.$$

Illustration 18.

A, B and C are partners in a firm sharing profits in the ratio of 3 : 2 : 1. On 31st March, 2026, the Balance Sheet of the firm stood as:

BALANCE SHEET

Liabilities	₹	Assets	₹
Creditors	1,35,900	Cash	47,000
Capital A/cs:		Debtors	80,000
A	1,50,000	Stock	1,16,900
B	1,00,000	Building	2,30,000
C	1,00,000	Profit & Loss A/c	12,000
	4,85,900		4,85,900

B retired on the above mentioned date on the following terms:

- Building to be appreciated by ₹ 70,000.
- Provision for Doubtful Debts to be made @ 5% on Debtors.
- Goodwill of the firm is valued at ₹ 1,80,000 and adjustment in this respect to be made in the continuing partners' Capital Accounts without raising the Goodwill Account.
- ₹ 30,000 to be paid to B immediately and the balance in his Capital Account to be transferred to his Loan Account.

Prepare Revaluation Account, Partners' Capital Accounts, Cash Account and the Balance Sheet of the firm after B's retirement.

5.20 Double Entry Book Keeping—CBSE XII

Solution:

Dr. REVALUATION ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Provision for Doubtful Debts A/c	4,000	By Building A/c	70,000
To Gain (Profit) transferred to:			
A's Capital A/c	33,000		
B's Capital A/c	22,000		
C's Capital A/c	11,000		
	66,000		
	70,000		70,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.							
Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To B's Capital A/c (Note)	45,000	...	15,000	By Balance b/d	1,50,000	1,00,000	1,00,000
To Profit & Loss A/c	6,000	4,000	2,000	By Revaluation A/c	33,000	22,000	11,000
To Cash A/c	...	30,000	...	— Gain (Profit)			
To B's Loan A/c	...	1,48,000	...	By A's Capital A/c (Note)	...	45,000	...
To Balance c/d	1,32,000	...	94,000	By C's Capital A/c (Note)	...	15,000	...
	1,83,000	1,82,000	1,11,000		1,83,000	1,82,000	1,11,000

Dr. CASH ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Balance b/d	47,000	By B's Capital A/c	30,000
		By Balance c/d	17,000
	47,000		47,000

BALANCE SHEET OF A AND C as at 1st April, 2026

Liabilities	₹	Assets	₹
Creditors	1,35,900	Cash	17,000
B's Loan A/c	1,48,000	Stock	1,16,900
Capital A/cs:		Debtors	80,000
A	1,32,000	Less: Provision for Doubtful Debts	4,000
C	94,000	Building	3,00,000
	5,09,900		5,09,900

Note: B's share of goodwill ₹ 60,000 (i.e., ₹ 1,80,000 × 1/3) has been debited to Capital Accounts of A and C in their gaining ratio, i.e., 3 : 1 and credited to B's Capital Account.

Illustration 19.

Complete the following Accounts and Balance Sheet:

Dr. REVALUATION ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Provision for Doubtful Debts A/c	5,000	By Computer A/c	12,000
To Warranty Claim A/c	?	By Land and Building A/c	50,000
To Provision for Outstanding Repairs A/c	15,000		
To Gain (Profit) transferred to:			
A's Capital A/c	?		
B's Capital A/c	?		
C's Capital A/c	?		
	62,000		62,000

Dr.		PARTNERS' CAPITAL ACCOUNTS						Cr.
Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹	
To B's Capital A/c —Goodwill	?		?	By Balance b/d	?	?	?	
To Bank A/c		50,000		By Capital A/cs:				
To B's Loan A/c—Trsf.		3,20,000		A		45,000		
To Balance c/d	4,20,000		1,40,000	C		15,000		
	4,65,000	3,70,000	1,55,000	By Revaluation A/c —Gain (Profit)	15,000	10,000	5,000	
					4,65,000	3,70,000	1,55,000	
				By Balance b/d	4,20,000		1,40,000	

BALANCE SHEET as at 1st April, 2026

Liabilities	₹	Assets	₹
Creditors A/c	1,08,000	Cash at Bank	28,000
Provision for Outstanding Repairs	?	Debtors	1,00,000
Warranty Claim	12,000	Less: Provision for Doubtful Debts?	?
B's Loan	3,20,000	Stock	90,000
Capital A/cs:		Computer	12,000
A	4,20,000	Machinery	2,40,000
C	1,40,000	Land and Building	5,00,000
	5,60,000	Add: Appreciation	50,000
	10,15,000		5,50,000
			10,15,000

Solution:

Dr.		REVALUATION ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Provision for Doubtful Debts A/c	5,000	By Computer A/c	12,000	
To Warranty Claim A/c	12,000	By Land and Building A/c	50,000	
To Provision for Outstanding Repairs A/c	15,000			
To Gain (Profit) transferred to:				
A's Capital A/c	15,000			
B's Capital A/c	10,000			
C's Capital A/c	5,000			
	30,000			
	62,000			62,000

Dr.		PARTNERS' CAPITAL ACCOUNTS						Cr.
Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)	
To B's Capital A/c —Goodwill	45,000		15,000	By Balance b/d	4,50,000	3,00,000	1,50,000	
To Bank A/c		50,000		By Capital A/cs:				
To B's Loan A/c—Trsf.		3,20,000		A		45,000		
To Balance c/d	4,20,000		1,40,000	C		15,000		
	4,65,000	3,70,000	1,55,000	By Revaluation A/c —Gain (Profit)	15,000	10,000	5,000	
					4,65,000	3,70,000	1,55,000	
				By Balance b/d	4,20,000		1,40,000	

5.22 Double Entry Book Keeping—CBSE XII

BALANCE SHEET as at 1st April, 2026

Liabilities	₹	Assets	₹
Creditors	1,08,000	Cash at Bank	28,000
Provision for Outstanding Repairs	15,000	Debtors	1,00,000
Warranty Claim	12,000	Less: Provision for Doubtful Debts	5,000
B's Loan	3,20,000	Stock	90,000
Capital A/cs:		Computer	12,000
A	4,20,000	Machinery	2,40,000
C	1,40,000	Land and Building	5,00,000
	5,60,000	Add: Appreciation	50,000
	10,15,000		10,15,000

Unsolved Questions

- A, B and C are partners in a firm sharing profits in the ratio of 5 : 3 : 2 respectively. B retires and his share is taken up by A and C in the ratio of 2 : 1. Then immediately, D is admitted for 25% share of profits, half of which was gifted by A and remaining share was taken by D equally from A and C. Calculate new profit-sharing ratio after D's admission. **[Ans.: New Ratio—41 : 19 : 20.]**
- A, B and C are partners sharing profits in the ratio of 4 : 3 : 2. B retires and goodwill of the firm is valued at ₹ 10,800. No goodwill appears as yet in the books of the firm. A and C decide to share future profits in the ratio of 5 : 3. Pass Journal entries. **[Ans.: Dr. A's Capital A/c by ₹ 1,950 and Cr. C's Capital A/c by ₹ 1,650; Cr. B's Capital A/c by ₹ 3,600.]**
- Ravi, Mukesh, Naresh and Yogesh are partners in a firm sharing profits in the ratio of 2 : 2 : 1 : 1. On Mukesh's retirement, the goodwill of the firm is valued at ₹ 90,000. Ravi, Naresh and Yogesh decided to share the future profits equally. Pass necessary Journal entry for the treatment of goodwill. No goodwill is to be shown in the books of the firm. **[Ans.: Dr. Naresh and Yogesh by ₹ 15,000 each; Cr. Mukesh by ₹ 30,000; Gaining Ratio 1 : 1.]**
[Hint: Gaining Ratio, i.e., Ravi = $\frac{1}{3} - \frac{2}{6} = 0$; Naresh = $\frac{1}{3} - \frac{1}{6} = \frac{1}{6}$; Yogesh = $\frac{1}{3} - \frac{1}{6} = \frac{1}{6}$. Hence, Naresh and Yogesh gain in the ratio of 1 : 1.]
- X, Y and Z were partners in a firm sharing profits in the ratio of $\frac{1}{5} : \frac{2}{5} : \frac{2}{5}$. On 15th April, 2026, X retires and the new profit-sharing ratio of Y and Z was 3 : 2. On X's retirement the goodwill of the firm was valued at ₹ 60,000. Calculate the gaining ratio and pass necessary Journal entry on X's retirement for the treatment of goodwill. **[Ans.: Dr. Y's Capital A/c and Cr. X's Capital A/c by ₹ 12,000.]**
[Hint: Only Y is gaining. He will be debited for the entire share of X in goodwill, i.e., $\frac{1}{5}$ of ₹ 60,000 = ₹ 12,000.]
- X, Y and Z are partners in a firm sharing profits and losses equally. The Balance Sheet of the firm as at 31st March, 2026 stood as follows:

Liabilities	₹	Assets	₹
Creditors	10,900	Cash in Hand and Cash at Bank	8,600
General Reserve	6,000	Debtors	20,000
Employees' Provident Fund	2,000	Stock	10,000
Capital A/cs:		Investments (At cost)	5,000
X	30,000	Freehold Property	40,000
Y	20,000	Trademarks	2,000
Z	20,000	Goodwill	3,300
	70,000		88,900
	88,900		88,900

Z retires on 1st April, 2026 subject to the following adjustments:

- Freehold Property be valued at ₹ 58,000.
- Investments be valued at ₹ 4,700 and Stock be valued at ₹ 9,400.

- (c) A Provision of 5% be made for Doubtful Debts.
 (d) Trademarks are valueless.
 (e) An item of ₹ 1,200 included in Creditors is not likely to be claimed.
 (f) Goodwill be valued at one year's purchase of the average profit of the past three years, viz., 2023–2024: ₹ 12,000; 2024–2025: ₹ 10,000 and 2025–2026: ₹ 9,500.

Pass Journal entries, give Capital Accounts and the Balance Sheet of the remaining partners.

[Ans.: Gain (Profit) on Revaluation—₹ 15,300; Z's Loan A/c—₹ 29,500; Capitals: X—₹ 34,250; Y—₹ 24,250; Balance Sheet Total—₹ 99,700.]

6. The Balance Sheet of M, N and O who are sharing profits and losses in the ratio of 1/2, 1/3 and 1/6 respectively as at 31st March, 2026 was:

Liabilities	₹	Assets	₹
Bills Payable	6,400	Cash in Hand	150
Sundry Creditors	12,500	Cash at Bank	25,500
Profit & Loss A/c	4,500	Bills Receivable	5,400
Capital A/cs:		Book Debts	17,800
M	40,000	Stock	22,300
N	25,000	Furniture	3,500
O	20,000	Plant and Machinery	9,750
	85,000	Building	24,000
	<u>1,08,400</u>		<u>1,08,400</u>

M retires from business on 1st April, 2026 and his share in the firm is to be ascertained on revaluation of assets as follows:

Stock ₹ 20,000; Furniture ₹ 3,000; Plant and Machinery ₹ 9,000; Building ₹ 20,000 and ₹ 850 is to be provided for Doubtful Debts.

The goodwill of the firm is agreed to be valued at ₹ 6,000 and adjustment in this respect was to be made in the continuing Partners' Capital Accounts without raising Goodwill Account.

M is to be paid ₹ 11,050 in cash on retirement and balance in three equal yearly instalments with interest @ 5% p.a.

Pass Journal entries and give the Loan Account of M till it is finally closed. (Foreign 1994, AI 2002 C, Modified)

[Ans.: Loss on Revaluation—₹ 8,400; M's Loan A/c—₹ 30,000.]

7. The Balance Sheet of A, B and C who were sharing the results in proportion to their capitals as at 31st March, 2026 is:

Liabilities	₹	Assets	₹
Bills Payable	1,000	Bank Balance	2,750
Sundry Creditors	2,450	Debtors	2,500
Capital A/cs:		Less: Provision for Doubtful Debts	50
A	10,000	Stock	4,000
B	7,500	Plant and Machinery	4,250
C	5,000	Factory Building	12,500
	22,500		
	<u>25,950</u>		<u>25,950</u>

B retired on the following day and the adjustments made as follows:

- (a) Stock was reduced by 6%.
 (b) Factory Building was appreciated by 20%.

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- (c) Provision for Doubtful Debts was created up to 5%.
 (d) Provision for Legal charges to be made ₹ 385.
 (e) Goodwill of the firm be fixed at ₹ 5,400 and B's share be adjusted into the accounts of A and C.
 (f) The capital of the new firm be fixed at ₹ 14,000 in the profit-sharing ratio.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of A and C transferring B's Capital Account to his Loan Account.

[Ans.: Gain (Profit) on Revaluation—₹ 1,800; Balances: A's Capital A/c—₹ 9,333;
 C's Capital A/c—₹ 4,667; B's Loan A/c—₹ 9,900;
 Cash at Bank—₹ 2,350; Balance Sheet Total—₹ 27,735.]

8. The Balance Sheet of A, B and C who were sharing profits in proportion to their capitals, stood as at 31st March, 2026:

Liabilities	₹	Assets	₹
Creditors	27,600	Cash at Bank	22,000
Capital A/cs:		Debtors	20,000
A	80,000	Less: Provision for Doubtful Debts	400
B	60,000	Stock	32,000
C	40,000	Machinery	34,000
	1,80,000	Building	1,00,000
	2,07,600		2,07,600

B retired on 1st April, 2026 and the following was agreed upon:

- (a) Stock be reduced by 6%.
 (b) Provision for Doubtful Debts to be brought up to 5% on Debtors.
 (c) Building be appreciated by 20%.
 (d) Provision of ₹ 3,080 be made in respect of Outstanding Legal Charges.
 (e) Goodwill of the entire firm be valued at ₹ 43,200 and B's share of it be adjusted into the accounts of A and C who are going to share future profits in the ratio of 5 : 3.
 (f) That the entire capital of the firm as newly constituted to be fixed at ₹ 1,12,000 between A and C in the ratio of 5 : 3 (actual cash to be brought in or paid off as the case may be).

You are required to prepare Revaluation Account, Capital Accounts of Partners and the Balance Sheet of the firm after B's retirement.

[Ans.: Gain (Profit) on Revaluation—₹ 14,400; Amount brought in by C—₹ 5,400;
 Amount paid to A—₹ 8,600; Balance Sheet Total—₹ 2,21,880.]

9. Vijay, Vivek and Vinay were partners in a firm sharing profits in 2 : 2 : 1 ratio. On 31st March, 2026, Vivek retired from the firm. On the date of Vivek's retirement the Balance Sheet of the firm was:

Liabilities	₹	Assets	₹
Creditors	54,000	Bank	55,200
Bills Payable	24,000	Debtors	12,000
Outstanding Rent	4,400	Less: Provision for Doubtful Debts	800
Provision for Legal Claims	12,000	Stock	18,000
Capital A/cs:		Furniture	8,000
Vijay	92,000	Premises	1,94,000
Vivek	60,000		
Vinay	40,000		
	1,92,000		
	2,86,400		2,86,400

On Vivek's retirement it was agreed that:

- (a) Premises will be appreciated by 5% and Furniture will be appreciated by ₹ 2,000. Stock will be reduced by 10%.
- (b) Provision for Doubtful Debts was to be made at 5% on Debtors and Provision for Legal Damages to be increased up to ₹ 14,400.
- (c) Goodwill of the firm was valued at ₹ 48,000.
- (d) ₹ 50,000 from Vivek's Capital Account will be transferred to his Loan Account and the Balance be paid by cheque.

Prepare Revaluation Account, Partner's Capital Accounts and the Balance Sheet after Vivek's retirement.

[Ans.: Gaining Ratio—2 : 1; Revaluation Profit—₹ 7,700; Partners' Capital A/cs:
Vijay—₹ 82,280, Vinay—₹ 35,140, Payment to Vivek—₹ 32,280;
Total of Balance Sheet—₹ 2,64,220.]

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