Concept no.6

Treatment of Reserves and Accumulated Profits/Losses

If at the time of retirement there is any balance of General Reserve, Reserve Fund or any undistributed amount of P & L A/c appearing in the Balance Sheet, it belongs to all the partners and should be transferred to the capital accounts of all partner's in their old profit sharing ratio. Following entries are passed for this purpose :

- **For distributing Reserves and Accumulated Profits :**

  General Reserves A/c.....Dr.
  Reserve Fund A/c.....Dr.
  Profit & Loss A/c (Credit balance).....Dr.
  To All Partner's Capital A/cs or Current A/c
  (in old ratio)

- **For distributing accumulated losses :**

  All Partner's Capital A/cs or Current A/cs.....Dr.
  To Profit & Loss A/c (Debit balance)
  (in old ratio)

- **For distributing surplus of Specific Reserves :**

  Workmen's Compensation Reserve A/c.....Dr.
  Investment Fluctuation Reserve A/c.....Dr.
  To To All Partner's Capital A/cs or Current A/cs
  (in old ratio)

COMMERCE RAMA

ELITE COMMERCE MINDS
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Concept no.6

Questions

Q.13). A, B. C and D are partners sharing profits in the ratio of 4 : 3 : 2 : 2. C retires and the remaining partners decided to share future profits in 5 : 3 : 2. On the date of C's retirement there was a debit balance of ₹30,800 in the profit and loss account. Show the necessary journal entry for the treatment of profit and loss account balance.

[Ans. Capital accounts of all partners will be debited by ₹30,800 in old ratio.]

COMMERCE RAMA

Concept no.6

Questions

Q.14). A, B and C are partners sharing profits and losses in the ratio of 2 : 2 : 1 .A retires and the new ratio between B and C is agreed at 3 : 2. Give journal entries on A's retirement in the following case :

Investment Fluctuation Reserve appears in the books at ₹40,000, when Investments (market value ₹ 1,00,000) appear at ₹85,000.

[Ans. (i) Investment Fluctuation Reserve of ₹40,000 will be credited to A, B and C in 2 : 2 : 1.

(ii) Debit Investments and Credit Revaluation A/c by ₹ 15,000.

(iii) Revaluation Profit of ₹ 15,000 will be credited to A, B and C in 2 : 2 : 1.]

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Concept no.6

Questions

Q.15). 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.

[Ans. Dr. Workmen Compensation Reserve a/c of ₹70,000 ; Cr. Liability for Workmen Compensation Claim a/c by 25,000 Raveena's, Need's & Rajat's Capital A/c each by ₹15,000.]

COMMERCE RAMA

Concept no.6

Questions

Q.16). A, B and C are partners sharing profits in the ratio of 5 : 3 : 2. C retires and A and B agree to share future profits in the ratio of 6 : 4. Goodwill is to be taken at two year's purchase of the average profits of the last 5 years, which were ₹ 10,000; . ₹25,000; ₹ 15,000 (loss); ₹36,000 and ₹44,000 respectively.

At the date of C's retirement, following balances appeared in the books of the firm:

	₹
General Reserve	1,20,000
Profit & Loss Account (Dr.)	30,000
C's Capital	2,00,000

You are required to record necessary journal entries in the books of the firm and prepare C's Capital Account on his retirement.

[Ans. Amount due to C transferred to his Loan A/c ₹2,26,000.]

END OF CONCEPT.NO-6

ELITE COMMERCE MINDS

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Concept no.

7 Revaluation Account, Partners' Capital Accounts & B/s