Chapter 3 Admission of a partner

Question 1

A and B are partners sharing profits in the ratio of 3:2. They admit C into the company for 1/4th share in profit which he takes 1/6th from A and 1/12th from B. However, C brings ₹50,000 as goodwill out of his share of ₹90,000. No goodwill account appears in the books of the company. Pass necessary journal entries to record this arrangement.

Solution:

Journal					
Date	**Particulars**		**L.F**	**Dr. (₹)**	**Cr. (₹)**
	Bank Account	Dr.		50,000	
	To Premium for Goodwill A/c (A part of his share of goodwill/premium brought in by C)				50,000
	Premium for Goodwill A/c C's Current A/c	Dr. Dr.		50,000 40,000	
	To A's Capital A/c				60,000
	To B's Capital A/c (Goodwill/premium credited to A and B in their sacrificing ratio, i.e, 2:1)				30,000

Question 2

A and B are partners sharing profits equally. They admit C into partnership, C paying only ₹60,000 for premium out of his share of a premium of ₹1,80,000 for a 1/4th share of profit. Goodwill account appears in the book at ₹3,00,000. Give the necessary journal entries.

Solution:

Journal Entry					
Date	**Particulars**		**L.F**	**Dr. (₹)**	**Cr. (₹)**
	A's Capital A/c	Dr.		1,50,000	

	B’s Capital A/c	Dr.		1,50,000	
	To Goodwill A/c (The existing goodwill is written off)				3,00,000
	Bank A/c	Dr.		60,000	
	To Premium for Goodwill A/c (A part of his share of goodwill/premium brought in by C)				60,000
	The premium for Goodwill A/c	Dr.		60,000	
	C’s Current A/c	Dr.		48,000	
	To A’s Capital A/c				54,000
	To B’s Capital A/c (The goodwill/premium credited to old partners in their sacrificing ratio i.e 1:1)				54,000

Question 3

X and Y are partners in a company. Their profit sharing ratio is 5:3. They admit Z into a partnership for 1/4th share. As between themselves, A and B decide to share profits equally in the future. C brings in ₹1,20,000 as his capital and ₹60,000 as premium. Calculate the sacrificing ratio and record the necessary journal entries on the assumption that the amount of premium brought in by C is retained in the business.

Solution:

Journal					
Date	**Particulars**		**L.F**	**Dr. (₹)**	**Cr. (₹)**
	Bank A/c	Dr.		1,80,000	
	To Z’s Capital A/c				1,20,000
	To Premium for Goodwill A/c (The amount of goodwill/premium brought in cash)				60,000
	The premium for Goodwill A/c	Dr.		60,000	
	To X’s Capital A/c				60,000

	(Full amount of goodwill /premium transferred to X's Capital A/c, as he alone has sacrificed				

Calculation of new profit sharing ratio: C takes a 1/4th share out of 1.

Thus, the remaining profit is 3/4; This is divided equally between A and B

X's new share = 3/4 x 1/2 = 3/8

Y's new share = 3/4 x 1/2 = 3/8

Sacrificed made by X = 5/8 – 3/8 =2/8

Sacrificed made by Y = 3/8 – 3/8 =0

Hence, X alone has sacrificed and as such he alone will be entitled to the full amount of goodwill premium brought in by Z.

Question 4

Balance Sheet of P and Q who share profits and losses in the ratio of 5:3 as at 31st March, 2018 was a follows.

Liabilities	₹	Assets	₹
Capital Accounts:		Land & Building	3,00,000
P Q Profit & Loss A/c Workmen Compensation Reserve Sundry Creditors	2,50,000 1,50,000 1,30,000 60,000 50,000	Machinery Stock Debtors Cash Advertisement Expenditure (Deferred Revenue)	2,00,000 70,000 30,000 10,000 30,000
	6,40,000		6,40,000

They admit R as a partner for 1/3 rd share in the profits of the firm which he acquires from P and Q in the ratio of 3:1. R brings in ₹4,00,000 as his capital. Ascertain the amount of goodwill and pass journal entries on the admission of R.

Solution:

Journal					
Date	**Particulars**		**L.F**	**Dr. (₹)**	**Cr. (₹)**
2018	Profit and Loss A/c	Dr.		1,30,000	

1st April	Workmen Compensation Reserve A/c	Dr.		60,000	
	To P's Capital A/c				1,18,750
	To Q's Capital A/c (Transfer of accumulated profits to old partners in their old profit sharing ratio)				71,250
	P's Capital A/c	Dr.		18,750	
	Q's Capital A/c	Dr.		11,250	
	To Advertisement Expenditure A/c (Transfer of accumulated loss to old partners in their old profit sharing ratio)				30,000
	Bank A/c	Dr.		4,00,000	
	To R's Capital A/c (Amount brought in by R as his capital)				4,00,000
	R's Current A/c	Dr.		80,000	
	To P's Capital A/c				60,000
	To Q's Capital A/c (R's share of goodwill credited to P and Q in their sacrificing ratio 3:1)				20,000

Working Note:

Calculation of hidden goodwill

Total of Capital of the new firm on the basis of R's capital: ₹4,00,000 x 3/1		12,00,000
Less: Net worth of new firm:		
Adjusted capital of P		
(₹2,50,000 + ₹1,18,750 – ₹18,750)	3,50,000	

Adjusted capital of Q		
(₹1,50,000 + ₹71,250 – ₹11,250)	2,10,000	
Capital of R	4,00,000	9,60,000
Value of the firm's goodwill		2,40,000
R's share of goodwill = ₹2,40,000 x 1/3 = ₹ 80,000		