CHAPTER -3 ADMISSION OF A PARTNER

ONE MARK QUESTIONS.

1. Why is it necessary to revalue assets and reassess liabilities of a firm in case of admission of a new partner?

Ans. The assets are revalued and liabilities of a firm are reassess, at the time of admission of a partner because the new partner should; neither benefit nor suffer because change in the value of assets and liabilities as on the date of admission.

2. What are the accumulated profit and accumulated losses?

Ans. The profit accumulated over the years and have not been credited to partners' capital A/c are known as accumulated Profit or undistributed profit, e.g. the General Reserve, Profit and Loss A/c (credit balance).

The losses which have not yet been written off to the debit of Partners' Capital A/c are known as accumulated Losses, e.g. the Profit and Loss A/c appearing on the assets side of Balance Sheet, etc.

3. Explain the treatment of goodwill in the books of a firm on the admission of a new Partner when goodwill already appears in the Balance sheet at its full value and the new partner brings his share of good will in cash.

Ans. By following accounting standard - 10, the existing goodwill (i.e. goodwill appearing in the Balance Sheet) is written off to the old partners' Capital a/c in their old profit sharing ratio.

Old partners' capital A/c Dr.

To Goodwill A/c

[Being the existing g/w written off in the old ratio.]

4. Under what circumstances the premium for goodwill paid by the incoming Partner will not recorded in the books of Accounts?

Ans. When the premium for goodwill is paid by the incoming partner privately, it is not recorded in the books of A/c as it is as a matter outside the business.

5 A and B share profits and losses in the Ratio of 4:3, they admit C with 3/7th share; which he gets 2/7th from A and 1/7 from B. What is the new profit sharing ratio?

Ans. A : = 4/7-2/7 =2/7

B : = 3/7-1/7=2/7

C : =2/7+1/7=3/7

New Profit sharing Ratio is 2:2:3.

6 The capital of A and B are Rs. 50,000 and Rs. 40,000. To Increase the Capital base of the firm to Rs. 1, 50,000, they admit C to join the firm; C is required to pay a sum of Rs. 70,000, what is the amount of premium of goodwill?

Ans. The total capital of the firm is Rs. 90,000. To increase the capital base to Rs. 1, 50,000, C is to bring in Rs. 60,000 (Rs. 1, 50,000 - 9, 00, 00) But he bring in Rs. 70,000. Therefore, the excess of Rs. 10,000 represent premium for goodwill.

7 X, Y and Z are partners sharing in the ratio of 3:2:1. Z retires and his share of 10000 was purchased by X and Y for Rs. 5000 each. Calculate NPSR.

Answer. 2:1

8 Capital employed in a business is Rs 200000. The normal rate of return is 15%. During the year 2015 the firm earned a profit of Rs. 48000. Calculate the value of goodwill at 3 years purchase of the super profits.

Answer. Rs. 54000.

THREE/FOUR MARKS QUESTIONS

1. A & B are partners sharing in the ratio of 3:2. C is admitted. C gets 3/20th from A and 1/20th from B. calculate new and sacrifice ratio

Ans : 9: 7: 4

2. X & Y are partners share profits in the ratio of 5:3. Z the new partner gets 1/5 of X's share and 1/3rd of Y's share. Calculate new ratio.

Ans: 4:2:2

3. P & Q are partners sharing in the ratio of 5:3. They admit R for 1/4th share and agree to share

between them in the ratio of 2:1 in future. Calculate new ratio.

Ans: 2:1:1.

4. A, B and C are partners sharing in the ratio of 7:5:8. D was admitted to 1/4th of the future profits. B sacrificed 1/5th from his profit, while the balance was sacrificed by A and C in the ratio of 3:1. D brings Rs. 120000 as his capital but nothing for goodwill which was valued at Rs. 200000 for the firm. Calculate NPSR and SR and pass necessary journal entry for the treatment of goodwill.

Answer. NPSR 4:4:7:5 AND SR 3:1:1

1. CASH A/C DR 120000
   TO D'S CAPITAL AC 120000
2. D'S CURRENT A/C DR 50000
   TO A'S CAPITAL 30000
   TO B'S CAPITAL 10000
   TO C'SCAPITAL 10000

SIX/EIGHT MARKS QUESTIONS

1.Neeraj and Prasun are partners in a firm sharing profits in the ratio of 3:2. On 1st April 2012 they admitted Zulfi as a partner in the firm.The Balance Sheet of Neeraj and Prasun on that date stood as follows:

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Creditors	210000	Cash	140000
Workmen compensation fund	250000	Debtors	160000
General reserve	160000	Stock	120000
Capitals:		Machinery	100000
Neeraj	100000	Building	280000
Prasun	80000		
	800000		800000

It was agreed that :

1. The value of building and stock be appreciated to 380000 and 160000 respectively
2. The liability on account of workmen compensation fund was determined at Rs. 230000
3. Zulfi brought Rs. 100000 as his share of goodwill
4. Zulfi was to bring further cash to make his capital equal to 20% of the combined capital on Neeraj and Parsun.
5. The new profit sharing ratio was determined at 2/5, 2/5, 1/5 respectively.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm.

Answer:

Revaluation Account

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Profit trans to Capitals:		By building	100000
Neeraj	84000	By Stock	40000
Prasun	56000		
	140000		140000

PARTNER'S CAPITAL ACCOUNT

Particulars	Neeraj	Prasun	Zulfi	Particulars	Neeraj	Prasun	Zulfi
To bal	392000	208000	120000	By bal	100000	80000	
				By G.R.	96000	64000	
				By WCF	12000	8000	
				By Reval	84000	56000	
				By Prem	100000		
				By cash			120000
	392000	208000	120000		392000	208000	120000

BALANCE SHEET

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Creditors	210000	Cash	360000
Workmen compensation fund	230000	Debtors	160000
Capitals:		Stock	160000
Neeraj	392000	Machinery	100000
Prasun	208000	Building	380000

Zulfi	120000		
	1140000		1140000

2. Tanu and Kanu are partners sharing profits in the ratio of 2 : 3. On 31st March, 2014 their Balance Sheet was :

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals A/cs Tanu : 30,000 Kanu : 40,000 General Reserve Creditors Bills Payable	 70,000 14,000 66,000 15,000	Goodwill Machinery Stock Debtors Cash	20,000 90,000 14,000 38,000 3,000
	1,65,000		1,65,000

They decided to admit Manu into the partnership for on the following terms :

a) Stock is to be revalued at Rs. 18,000.
b) Machinery is to be depreciated by 15%.
c) It is found that the creditors included a sum of Rs. 12,000 which was not to be paid.
d) Outstanding rent is Rs. 1,900.
e) Manu is to bring in Rs. 36,000 as his capital and share of goodwill Rs. 10,000 for his 1/6th share in the profits of the firm.

Prepare the Revaluation Account and Partners' Capital Accounts.

Answer: Revaluation A/c

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Machinery Outstanding Rent A/c Cap A/c (profit) Tanu : 240 Kanu : 360	13,500 1,900 600	Stock Creditors	4,000 12,000
	16,000		16,000

Partner's Capital A/c

Particulars	Tanu	Kanu	Manu	Particulars	Tanu	Kanu	Manu
Goodwill A/c (Old)	8,000	12,000	--	Balance b/d	30,000	40,000	--
Balance c/d	31,840	42,760	36,000	General Reserve A/c	5,600	8,400	--
				Revaluation A/c	240	360	--
				Cash A/c	--	--	36,000
				Premium A/c	4,000	6,000	
	39,840	54,760	36,000		39,840	54,760	36,000

3. X and Y are partners as they share profits in the proportion of 3:1 their balance sheet as at 31.03.15 as follows.

BALANCE SHEET as at 31.03.15

Liabilities	Rs.	Assets	Rs.
Capital Account		Land	1,65,000
X	1,76,000	Furniture	24,200
Y	1,45,200	Stock	1,32,000
Creditors	91,300	Debtors	35,200
		Bills Receivable	28,600
		Cash	27,500
	4,12,500		4,12,500

On the same date, Z is admitted into partnership for 1/5th share on the following terms

i. Goodwill is to be valued at 3½ years purchase of average profits of last for year which was Rs. 20,000 Rs. 17,000 Rs. 9,000 (Loss) respectively.

ii. Stock is fund to be overvalued by Rs. 2,000 Furniture is reduced and Land to be appreciated by 10% each, a provision for Bad Debts @ 12% is to be created on Debtors and a Provision of Discount of Creditors @ 4% is to be created.

iii. A liability to the extent of Rs. 1,500 should be created for a claim against the firm for damages.

iv. An item of Rs. 1,000 included in Creditors is not likely to be claimed, and hence it should be written off.

Prepare Revaluation Account, Partners: Capital Accounts and Balance Sheet of the new firm if Z is to contribute proportionate capital and goodwill. The capital of partners is to be in profit sharing ratio by opening current Accounts.

Solution

BOOK OF X, Y AND Z

REVALUATION ACCOUNT

Particulars	Amount	Particulars	Amount
To Stock A/c	2000	By land A/c	16500
To furniture A/c	2420	By creditors A/c	1000
To Provision for bad debts A/c	4224	By provision of discount on creditors A/c	3612
To claim against damages A/c	1500		
To profit transferred to			
X's capital A/c 8266			
Y's capital A/c 2742	10968		
	21112		**21112**

PARTNER'S CAPITAL ACCOUNT

Dr. Cr

Particulars	X Rs.	Y Rs.	Z Rs.	Particulars	X Rs.	Y Rs.	Z Rs.
To Y's Current A/c	-	64,900	-	By Balance b/d	1,76,000	1,45,200	-
To Balance	2,54,901	84,967	84,967	By revaluation(Profit)	8,226	2,742	-
				By premium a/c	5,775	1,925	-
				By Cash a/c	-	-	84,96

							7
				By X's current	64,900	-	-
	2,54,901	**1,49,867**	**84,967**		**2,54,901**	**1,49,867**	**84,967**

BALANCE SHEET as at 31.03.15

Liabilities	Rs.	Assets Rs.	Rs.
Claim against damages	1,500	Cash	1,20,167
Creditors 91,300		Land	1,81,500
Less 1,000		Furniture	21,780
90,300		Stock	1,30,000
Less Prov. 3,612	86,688	Debtors 35,200 Less provision. 4,224	30,976
Capital			
X 2,54,901		Bills receivables	28,600
Y 84,967		X's current a/c	64,900
Z 84,967	4,24,835	Current A/c (Y)	64,900
	5,77,923		5,77,923

4. Rashmi and Pooja are partners in a firm. They share profits and losses in the ratio of 2:1. They admit Santosh into partnership firm on the condition that she will bring Rs. 30,000 for Goodwill and will bring such an amount that her capital will be 1/3 of the total capital of the new firm. Santosh will be given 1/3 share in future profits. At the time of admission of Santosh, the Balance Sheet of Rashmi and Pooja was as under:

Balance sheet as at 31 March,2015

Liabilities	Rs.	Assets	Rs.
Capital Account:		Cash	90,000
Rashmi	1,15,000	Machinery	1,20,000
Pooja	1,15,000	Furniture	10,000
Reserve	24,000	Stock	50,000

Work com. Reserve	9,000	Debtors	30,000
Creditors	30,000	Adv. Suspense. A/c	3,000
Bills Payable	10,000		
	3,03,000		3,03,000

It was decided to:

a. Revalue stock at Rs. 45,000.

b. Depreciated furniture by 10% and machinery by 5%.

c. Make provision of Rs. 3,000 on sundry debtors for doubtful debts.

Prepare Revaluation Account, Partners: Capital Accounts and Balance Sheet of the new firm. Give full workings.

Ans.

REVALUATION ACCOUNTS

Dr. Cr.

Particulars	₹.	Particulars	₹.
To Stock	5000	By Loss on Revaluation distributed	
To Furniture	1000	Rashmi	10000
To Machinery	6000	Pooja	5000
To Debtors	3000		
	15000		**15000**

CAPITAL ACCOUNTS OF PARTNERS

Particulars	Rashmi	Pooja	Santosh	Particulars	Rashmi	Pooja	Santosh
To Revaluation A/c	10000	5000	--	By Balance b/d	115000	115000	--
To AdvSusp. A/c	2000	1000	--	By Cash A/c	--	--	--
To Balance C/d	45000	130000	--	By Premium a/c	20000	10000	--
				By Reserve	160	800	--

					00	0	
				By Work com. Res.	6000	3000	-
	157000	**136000**	**-**		**157000**	**136000**	**-**
To Balance c/f	145000	130000	137500	To Balance c/d	145000	130000	-
				By Cash A/c	--	--	137500
				½ of(Rs.145000+ 130000)			
	145000	**130000**	**137500**		**145000**	**130000**	**1**

BALANCE SHEET OF A, B & C

Liabilities	₹	Assets		₹
Creditors	30000	Cash 257500		
Bills Payable	10000	Machinery		114000
Rashmi's Capital	145000	Furniture		9000
Pooja's capital	130000	Stock		45000
Santosh's capital	137500	Debtors	30000	
		Less : Provision	3000	27000
	452500			