Chapter 4
Admission of a Partner

Accounting For Partnership Firms : Admission of A Partner

1 : (When new partner acquires his share from old partners in the old ratio).

A and B are partners in a firm sharing profits and losses in the ratio 1:2. TI admitted C into the partnership and decided to give him 1/3rd share of the full profits. Find the new ratio of the partners.

Solution :

(i) Calculation of Sacrifice Share :

A’s sacrifice = 1/3 of 1/3 = 1/9

B’s sacrifice = 2/3 of 1/3 = 2/9

Sacrificing Ratio = 1/9 : 2/9 = 1:2

(ii) Calculation of new Profit sharing Ratio :

New share = Old share – Sacrifice share

A’s new share = 1/3 – 1/9 = $\frac{3-1}{9} = \frac{2}{9}$

B’s new share = 2/3 – 2/9 = $\frac{6-2}{9} = \frac{4}{9}$

C’s new share = 1/9 + 2/9 = 3/9

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2 : (When new partner acquires his share from old partners in agreed share) L and M are partners in a firm sharing profits and losses in the ratio of 7:3. They admitted N for 3/7th share which he takes 2/7th from L and 1/7 from M Calculate the new profit sharing

ratio.

Solution

(i) As sacrifice share of old partners are given in the question itself, hence there is no need to calculated it.

(ii) Calculation of New profit sharing ratio :

New share = 7/10 – 2/7 = $\frac{49-20}{70}=\frac{29}{70}$

L's new share = 3/10 – 1/7 = $\frac{21-10}{70}=\frac{11}{70}$

N's new share = 2/7 + 1/7 = 3/7 (given)

New ratio among L, M and N = 29/70 : 11/70 : 3/7 = 29:11:30/70 29 : 11 : 30

Case (iii) When new partner acquires his/her share from old partners in certain ratio.

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3 : X and Y are partners in a firm sharing profit and losses in the ration of 3:2 Z is admitted as partner in the firm for 1/6th share in profits. Z acquires his share from X and Y in the ratio of 2 : 1 Calculate new profit sharing ratio of partners.

Solution :

(i) Calculation of Sacrifice share :

Given sacrificing Ratio = X : Y 2 : 1,

Therefore,

X's sacrifice = 2/3 of 1/6 = 2/18

Y's sacrifice = 1/3 of 1/6 = 1/18

(ii) Calculation of New Profit Sharing Ratio :

New share = Old share - Sacrifice share

X's new share = 3/5 – 2/8 = $\frac{54-10}{90} = \frac{44}{90}$

Y's new share = 2/5 – 1/18 = $\frac{36-5}{90} = \frac{31}{10}$

Z's new share = 2/168 + 1/18 or 1/6 (Given)

New ratio among X, Y and Z = 44/90 : 31/90 : 1/6 = 44 : 31 : 15/19 44 : 31 : 15

Case (iv) When new partner acquires his/her share form old partners as a fraction of their share.

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4 : (When new partner acquire his share form old partners as a fraction of their share).

A and B are partners in a firm sharing profit and losses in the ratio of 5:3. A Surrenders 1/5th of his share, whereas B surrenders 1/3 of his share in favour of C, a new partner. Calculate the new profit sharing ratio.

Solution :

(i) Calculation of sacrifice share

A sacrifices 1/5 of his share i.e. 1/5 of 5/8 = 1/8

B sacrifices 1/3th of his share i.e. 1/3 of 3/8 = 3/24 or 1/8

(ii) Calculation of New profit sharing Ratio

New share = Old share – sacrifice share

A's new share = 5/8 – 1/8 = 4/8

B's new share = 5/8 – 1/8 = 2/8

C's new share = 1/8 + 1/8 = 2/8

New ratio among A, B and C = 4/8 : 2/8 : 2/8 = 4 : 2 : 2/8 = 2:1:1

Case (v) When new partner does not acquire his/her share from all partners.

5 : (When new partner does not acquire his share from all partners) A, B and C are partners sharing profits in the ratio of 3:2:1. They admit D for 1/6 share. C would retain his old share. Calculate new ratio of all partners.

Solution :

(i) Calculation of sacrifice share : (Only A and B sacrifice in ratio of 3 : 2)

(ii) A's sacrifices = 3/5 of 1/6 = 3/30 or 1/10

B's sacrifices = 2/5 of 1/6 = 2/30 or 1/15

C's sacrifices = Nil

(iii) Calculation of New profit sharing Ratio :

New share = Old share – Sacrifice share

A's new share = 3/6 – 1/10 = $\frac{30-6}{60} = \frac{24}{60}$

B's new share = 2/6 – 1/15 = $\frac{30-6}{90} = \frac{24}{90}$

C's new share = 1/6 - 0 = 1/6

D's new share = 1/10 + 1/15 = $\frac{3+2}{30} = \frac{5}{30} = \frac{1}{6}$

New ratio among A, B, C and D

24/60 : 24/90 : 1/6 : 1/6 : 1/6

= $\frac{72:48:30:12:8:5:5}{180}$ = 12 : 8 : 5 : 5

Case (vi) When more than one partner is admitted.

6 : (When more than one partner is admitted simultaneously) : X and Y are partners

sharing profits in the ratio of 3:2. They admit P and Q as new partners. X surrendered 1/3 of his share in favour of P and Y surrendered ¼ of his share in favour of Q. Calculate the new profit sharing ratio of X, Y, P and Q.

Solution :

(i) Calculation of Sacrifice share :

X surrenders 1/3 of his share in favour of P = $\frac{1}{3} \times \frac{3}{5} = \frac{3}{15}$

Y surrenders 1/4 of his share in favour of Q = $\frac{1}{4} \times \frac{2}{5} = \frac{2}{20}$

X's new share = $\frac{3}{5} - \frac{3}{15} = \frac{9-3}{15} = \frac{6}{15}$

Y's new share = $\frac{2}{5} - \frac{2}{20} = \frac{8-2}{20} = \frac{6}{20}$

New profit sharing ratio = X : Y : P : Q = 6/15 : 6/20 : 3/15 : 2/20 = 4 : 3 : 2 : 1

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7 : (All partners sacrifice) : A and B partners sharing profits and losses in the ratio of 3:2. They admit C into partnership for 1/4 share in profits. C's brings Rs. 3,00,000 as capital and Rs. 1,00,000 as goodwill. New profit sharing ratio of the partners shall be 3:3:2. Pass necessary Journal entries.

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c Dr. To Premium for Goodwill A/c To C's Capital A/c (Being the amount of goodwill and capital brought in by new partner C)		4,00,000	1,00,000 3,00,000

	Premium for Goodwill A/c Dr. To Premium for Goodwill A/c To C's Capital A/c (Being the amount of goodwill distributed between A and B in their sacrificing ratio i.e., 9 : 1)		1,00,000	90,000 10,000

8. (Sacrificing ratio is to be calculate) : A and B are partners in a firm sharing profits and losses in the ratio of 3 : 2. C is admitted as a new partner. A Surrenders 1/5 of his share and B 2/5 of his share in favour of C. For purpose of C's admission, goodwill of the is valued at Rs. 75,000 and C brings his share of goodwill in cash which is retained in the firm's books. Journalise the above transactions.

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c Dr. To Premium for Goodwill A/c (Being the amount of goodwill and capital brought in by new partner C)		21,000	21,000
	Premium for Goodwill A/c Dr. To Premium for Goodwill A/c To C's Capital A/c (Being the amount of goodwill distributed between A and B in their sacrificing ratio i.e., 3 : 4)		21,000	9,000 12,000

Note: (i) Calculation of sacrifice ratio :

A's sacrifices = 1/5 of his share = 1/5 of 3/5 = 3/25

B's sacrifices = 2/5 of his share = 2/5 of 2/5 = 4/25

Sacrificing ratio between A and B i.e., 3/25 : 4/25 = 3 : 4

(Ii) Calculation of C's share of profit :

C's share of profit = 3/25 + 4/25 = 7/25

(ii) Calculation of C's share profit :

$$75,000 \times \frac{7}{25} = 21,000$$

Treatment of Existing Goodwill shown in the books

If goodwill already shown in the balance sheet, it should be written off by debiting old partners in their old profits sharing ratio.

9 : (Existing goodwill to be written off) : A and B are partners in a firm sharing profits and losses in the ratio of 3 : 2. They admit c into partnership for 1/5 share. C brings Rs. 30,000 as capital and Rs. 10,000 as goodwill. At the time o admission of C, goodwill appears in the balance sheet of A and B at Rs. 3,000. New Profit sharing ratio of partners shall be 5:3:2. Pass necessary entries.

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c Dr. To Premium for Goodwill A/c To C's Capital A/c (Being the amount of goodwill and capital brought in by new partner C)		40,000	30,000 10,000
	Premium for Goodwill A/c Dr. To A's Capital A/c To B's Capital A/c (Being the amount of goodwill distributed between A and B in their sacrificing ratio i.e., 1 : 1)		10,000	5,000 5,000

	A's capital A/c Dr. B's capital A/c Dr. To Goodwill A/c (Being existing goodwill written off between old partners in their old ratio i.e., 3 : 2)	1,800 1,200	 3,000

Notes : Sacrificing ratio = Old ratio – New ratio

A = 3/5 – 5/10 = $\frac{6-5}{10} = \frac{1}{10}$

B = 2/5 – 3/10 = $\frac{4-3}{10} = \frac{1}{10}$

Sacrificing ratio between A and B = 1 : 1 i.e., equal.

Case (ii) Premium brought in kind

10 : (premium brought in kind) : Anubhav and Babita are partners in a firm sharing profits and losses in the ratio of 3:2. On April 1, 2015 they admit Deepak as a new partner for 3/13 share in the profits. Deepak contributed the following assets towards his capital and for his share of goodwill.

Land Rs. 90,000, Machinery Rs. 70,000 stock Rs. 60,000 and debtors Rs. 40,000. On the date of admission of Deepak, the goodwill of the firm was valued at Rs. 5,20,000, which is not appear in the books. Record necessaries journal entries in the books of the firm. Show your calculation clearly.

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2015 April -1	Land A/c Dr. Machinery A/c Dr. Stock A/c Dr. Debtors A/c Dr.		90,000 70,000	

	To Premium for Goodwill A/c $(5,20,000 \times 3/13)$ To Deepak's Capital A/c (Balancing figure) (Being the amount of goodwill and capital brought in kind by new partner)		60,000 40,000	 1,20,000 1,40,000
April - 1	Premium for Goodwill A/c Dr. To Anubhav's Capital A/c To Babita's Capital A/c (Being the amount of goodwill distributed between Anubhav and Babita in their sacrificing ratio i.e., 3 : 2)		1,20,000	72,000 48,000

Note : Here Sacrificing Ratio = Old Ratio i.e., 3 : 2

Case (iii) Amount of goodwill which was brought in by new partner, is withdrawn by old partner :

In this case one additional journal entry may be passed :

Old Partners' Capital A/c Dr.

To Bank/Cash A/c

(Cash withdrawn by old partners)

Case (iv) when the new partner is unable to bring his share of goodwill in cash.

Sometimes the new partner does not bring his share of goodwill in cash. Then his share of goodwill is calculated and adusted by the following Journal entry.

New Parnters' Capital Dr.

To old partners Capital A/cs

(in the sacrificing ratio)

11 : Neeta and Sumita are partners sharing profits and losses in the ratios of 2:1. They

admit Geeta as a partner for 1/4th share. Geeta pays Rs. 50,000 as capital but does not bring any amount for goodwill. The goodwill of the new firm is valued at Rs. 36,000. Give Journal entries.

Solution :

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1.	Cash A/c Dr. To Geeta's Capital A/c (Being the amount of goodwill and capital brought in by new partner)		50,000	50,000
2.	Geeta's Capital A/c Dr. To Neeta's Capital A/c To Sunit's Capital A/c (Being the amount of new Partner's share of goodwill transferred to old Partner's Capital A/c in their sacrificing ratio i.e., 3 : 4)		9,000	6,000 3,000

Working Note :

(1) As nothing is given about sacrifice etc. except the old ratio and the new partners share of profit.

Sacrificing Ratio = Old Ration = 2 : 1

(2) Goodwill of the firm = Rs. 36,000

Geeta's share of profit = 1/4

Geeta's share of Goodwill = Rs. 36,000 = 1/4 Rs. 9,000

Case (v) Partly goodwill brought in by new partner :

12: (Partly premium brought in cash) : Sheetal and Raman share profits equally. They

admit Chiku into partnership. Chiku pays only Rs. 1,000 for premium out of his share of premium of Rs. 1,800 for ¼ share of profit. Goodwill Account appears in the books at Rs. 6,000. All partners have decided that goodwill should not appear in the books of the new fir, Journalise.

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c Dr. To Premium for Goodwill A/c (Being the amount of goodwill brought in cash by new partner)		1,000	10,000
	Premium for Goodwill A/c Dr. Chiku's Capital A/s Dr. To sheetal's Capital A/c To Raman's Capital A/c (Being the amount of goodwill transferred to sacrificing partners in their sacrificing ratio i.e., 1 : 1)		1,000 800	900 900
	Seeta's Capital A/c Dr. Raman's Capital A/c Dr. To Goodwill A/c (Being existing goodwill written off between old partners in their old ratio i.e., equal)		3,000 3,000	6,000

Case (vi) Gain made by an old partner :

13: (Sacrifice/Gain made by an old partner) : Ashok and Ravi were partners in a firm sharing profits and losses in the ratio of 7:3. They admitted Chander as a new partner. The new profit ratio between Ashok, Ravi and Chander will be 2:2:1. Chander brought Rs. 24,000 for his share of goodwill.

Pass necessary journal entries for the treatment of goodwill.

Solution:

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c Dr. To Premium for Goodwill A/c (Being the amount of goodwill brought in by new partner)		24,000	24,000
	Premium for Goodwill A/c Dr. Ravi's Capital A/c Dr. To Ashok's Capital A/c (Being the goodwill credited to Ashok's capital A/c)		24,000 12,000	36,000

Not : Calculation of sacrifice/gain share of partners(s) :

Sacrificing ratio = Old ratio – New ratio

Ashok = 7/10 – 2/5 = $\frac{7-4}{10} = \frac{3}{10}$

Ravi = 3/10 – 2/5 = $\frac{3-4}{10} = \left(-\frac{1}{10}\right)$ grain

Being negative result, it shows gain. Since Ravi is gaining equal to 1/10 in the profits, therefore, he will also compensate Ashok proportionately. For 1/5 share Chander brought Rs. 24,000, therefore, Ravi will compensate Ashok by Rs. 12,000 i.e., $24,000 \times \frac{5}{1} \times \frac{1}{10}$

Case (vii) Hidden Goodwill

14 : A and B are partners with capitals of Rs. 26,000 and Rs. 22,000 respectively. They admit C as partner with 1/4th share in the profits of the firm. C's brings Rs 26, 000 as his

share of capital. Give journal entry to record goodwill on C's admission.

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c Dr. To C's capital A/c (Being the amount of goodwill brought in by new partner)		26,000	26,000
	C's Capital A/c Dr. To A's Capital A/c To B's Capital A/c (Being the goodwill credited to sacrificing partners' capital a/cs in their sacrificing ratio i.e., equal)		7,500	3,750 3,750

Note :

(1) Calculation of C's share of goodwill :

Total capital of new firm no basis of C's capital i.e., $26,000 \times \frac{4}{1} = 1,04,000$

Total capital of A and B and C i.e., Rs. 26,000 + Rs. 22,000 + Rs. 26,000 = 74,000

Goodwill of the firm = total capital of new firm – combined capital = 1,04,000 – 74,000 = 30,000

Thus C's share of goodwill = $30,000 \times \frac{1}{4} = 7,500$

(2) In the absence of information, profits will be shared equally.

15 : Following is the Balance Sheet of Shashi and Ashu shari profit as 3 : 2.

Particulars	(Rs.)	Assets	(Rs.)

Creditors General reserve Workmen's compensation fund Capital : Shashi Ashu	18,000 25,000 15,000 15,000 10,000	Debtors 22,000 Less: Provision for DD 1,000 Land and Building Plant and machinery Stock Bank	21,000 18,000 12,000 11,000 21,000
	83,000		83,000

On admission of Tanya for 1/6 th share in the profit it was decided that :

(i) Provision for doubtful debts to be increased by Rs. 1,500.

(ii) Value of land and building to be increased to Rs. 21,000.

(iii) Value of stock to be increased by Rs. 2,500.

(iv) The liability of workmen's compensation fund was determined to be Rs. 12,000.

(v) Tanya brought in as her share of goodwill Rs. 10,000 in cash.

(vi) Tanya was to bring further cash of Rs. 15,000 for her capital.

Prepare Revaluation A/c, Capital A/cs and the Balance Sheet of the new firm

Solution :

Revaluation Account

Particulars	(Rs.)	Assets	(Rs.)
To Provision for D.D. To Capital A/cs : Shashi 3/5 2,400 Ashu 2/5 1,600	1,500 4,000	By Land and Building A/c By Stock	3,000 2,500
	5,500		83,000

Partners' Capital Account

Particulars	Shashi	Ashu	Tanya	Particulars	Shashi	Ashu	Tanya

To Balance e/d	40,200	26,800	15,000	By balance b/d By general reserve By workmen's compersation A/c By Revaluation A/c By Bank A/c By Premium for goodwill	15,000 15,000 1,800 2,400 - 6,000	10,000 10,000 1,200 1,600 - 4,000	- - - - 15,000 -
	40,200	26,800	15,000		40,2000	26,800	15,000

Balance Sheet of the New Firm

Liabilities	(Rs.)	Assets	(Rs.)
Creditors Work compensation fund Capital : Shashi Ashu Tanya	18,000 12,000 40,200 26,800 15,000	Debtors 22,000 Less: Provision for DD 1,000 Land and Building Plant and machinery Stock Bank	19,000 21,000 12,000 13,500 46,000
	1,12,000		1,12,000

16 : A, B and C are partners sharing profits and the ratio of 2:3:5. On 31st March 2015, their Balance Sheet was as follows.

Particulars	(Rs.)	Particulars	(Rs.)
Capital A 36,000 B 44,000 C 52,000	1,32,000 64,000	Cash Bills receivable Furniture Stock	18,000 24,000 28,000 44,000 42,000

Creditors Bill payable Profit and Loss Account	32,000 14,000	Debtors Investments Machinery Goodwill	32,000 34,000 20,000
	2,42,000		2,42,000

They admit D int partnership on the following terms :

(i) Furniture and Machinery to be depreciated by 15%

(ii) Stock is revaluated at Rs. 48,000.

(iii) Goodwill to be valued at Rs. 24,000

(iv) Outstanding rent amount Rs. 1,800.

(v) Prepaid salaries Rs. 800.

(vi) D to being Rs. 32,000 towards his capital for 1/6 th share.

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

Solution :

Particulars	(Rs.)	Particulars	(Rs.)
To Fumiture A/c To Machinery A/c To Outstanding rent A/c	4,200 5,100 1,800	By Stock By Prepaid salaries A/c By Capital A/c (loss) : A 2/10 1,260 B 3/10 1,890 C 5/10 3,150	4,000 800 6,300
	11,100		11,100

Partners' Capital Account

Dr. Cr.

Particulars	A(Rs.)	B(Rs.)	C(Rs.)	D(Rs.)	Particulars	A(Rs.)	B(Rs.)	C(Rs.)	D(Rs.)
To Revaluation A/c	1,260	1,890	3,150	-	By balance c/d	36,000	44,000	52,000	
To Goodwill A/c	4,000	6,000	10,000	-	By P/L A/c	2,800	4,200	7,000	
To A's capital	-	-	-	800	By D's capital A/c	800	1,200	2,000	
To B's capital	-	-	-	1,200	By Cash A/c	-	-		32,000
To C's capital	-	-	-	2,000					
To Balance c/d	34,340	41,510	47,850	28,000					
	39,600	49,400	61,000	32,000		39,600	49,400	61,000	32,000

Balance Sheet of the New Firm

Liabilities	(Rs.)	Assets	(Rs.)
Creditors	18,000	Cash	50,000
Capital		Bill Receivable	24,000
A 34,340		Furniture	23,000
B 41,510		Stock	48,000
C 47,850		Debtors	42,000
D 28,000	1,51,700	Investment	32,000
Creditors	64,000	Machinery	28,900
Bills Payable	32,000	Prepaid salaries	800
Outstanding rent	1,800		
	2,49,500		2,49,500

17 : A, B and C are partners sharing profits and losses in the ratio of 5:3:2. On 31st, March 2015 their Balance sheet was as follows :

Liabilities	(Rs.)	Assets	(Rs.)

Capital **A 36,000** **B 44,000** **C 52,000** **Creditors** **Bills Payable** **General Reserve**	1,32,000 64,000 32,000 14,000	Cash Bill Receivable Stock Debtors Machinery Goodwill	18,000 14,000 44,000 42,000 94,000 20,000
	2,32,000		2,32,000

They decided to admit D into the partnership on the following terms :

(i) Machinery is to be depreciated by 15%.

(ii) Stock is to be revalued at Rs. 48,000.

(iii) Outstanding rent is Rs. 1,900.

(iv) D is to bring Rs. 6,000 as goodwill and sufficient capital for a 2/5th share in the capitals of firm.

Prepare Revaluation A/c, Partner's Capital A/cs, Cash A/c and Balance Sheet of the new firm.

Solution :

Revaluation Account

Dr. Cr.

Particulars	(Rs.)	Particulars	(Rs.)
To Machinery A/c To Outstanding rent A/c	4,200 5,100 1,800	By Stock By Capital A/c (loss) : A 5/10 6,000 B 3/10z 3,600 C 2/10 2,400	4,000 12,000
	16,000		16,000

Partners' Capital Account

Particulars	A(Rs.)	B(Rs.)	C(Rs.)	D(Rs.)	Particulars	A(Rs.)	B(Rs.)	C(Rs.)	D(Rs.)
To Goodwill A/c	10,000	6,000	4,000	-	By balance b/d	36,000	44,000	52,000	
To Revaluation A/c	6,000	3,600	2,400	-	By General reserve	7,000	4,200	2,800	
To Balance c/d	30,000	40,400	49,600	80,000	By Premium	3,000	3,800	1,200	
					By Cash A/c	-	-	-	80,000
	46,000	50,000	56,000	80,000		46,000	50,000	56,000	80,000
					By balance b/d	30,000	40,400	49,600	80,000

Note : Combined capital of A, B and C for 3/5 (1-2/5) = Rs. 1,20,000

Thus total capital of the firm = $1,20,000 \times \frac{5}{3} = Rs.\ 2,00,000$

D's share of capital = $2,20,000 \times \frac{2}{5} = Rs.\ 80,000$

Liabilities	(Rs.)	Assets	(Rs.)
Creditors	64,000	Cash	1,04,000
Bill payable	22,000	Bill Receivable	14,000
Outstanding rent	1,900	Stock	48,000
Capital :		Debtors	42,000
A 30,000		Machinery	79,000
B 40,400			
C 49,600			
D 80,000	2,00,000		
	2,87,900		2,87,900

18 : Following is the Balance Sheet of A, B and C sharing profits and losses in the ratio of 6:5:3 respectively.

Liabilities	(Rs.)	Assets	(Rs.)
Creditors	37,000	Cash	3,700
Bill payable	12,600	Debtors	52,920
General reserve	21,000	Stock	58,800
A's capital	70,000	Furniture	14,700
B's capital	59,800	Land and Building	90,300
C's capital	29,100	Goodwill	10,500
	2,31,000		2,31,000

They agreed to be take D into partnership giving 1/8th share in profits on the following terms:

(a) Furniture to be depreciated by Rs. 1,840 and Stock by 10%

(b) A provision of Rs. 2,640 to be made for an outstanding bill for repairs.

(c) That land and building be brought up to Rs. 1,19,700.

(d) That the goodwill is valued at Rs. 28,140.

(e) That D should bring in Rs. 35,400 as his capital and for his share of goodwill.

(f) After making the above adjustments the capital of old partners be adjusted in proportion to D's Capital by bringing in cash or excess to be paid off.

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

Solution :

Revaluation Account

Particulars	(Rs.)	Particulars	(Rs.)
To Furniture A/c	1,840		
To Stock A/c	5,880		
To Outstanding rent A/c	2,640		
To capital A/cs :		By Land and Building A/c	29,400
A 6/4 8,160			

B 5/14 6,800 C 3/14 4,080	19,040		
	29,400		29,400

Partners' Capital Account

Particulars	A(Rs.)	B(Rs.)	C(Rs.)	D(Rs.)	Particulars	A(Rs.)	B(Rs.)	C(Rs.)	D(Rs.)
To Goodwill A/c	4,500	3,750	2,250	-	By balance b/d	70,800	59,700	29,100	
					By General reserve	9,000	7,500	4,500	
					By revaluation A/c	8,160	6,800	4,080	
					By Premium for goodwill A/c	]1,508	1,256	754	
To Balance c/d	95,646	79,705	47,823	31,882	By Cash A/c	10,678	8,199	11,639	31,882
	1,00,146	81,455	50,073	35,400		100,146	83,455	50,073	35,400
					Balance b/d	95,646	79,705	47,823	31,882

Balance Sheet of the New Firm

Liabilities	(Rs.)	Assets	(Rs.)
Creditors	37,800		
Bills Payable	12,600		
Outstanding repairs	2,640	Cash	69,696
Capital		Debtors	52,920
A 95,646		Stock	52,920
B 79,705		Furniture	12,860
C 47,823		Land Building	1,19,700
D 31,882	2,55,056		
	3,08,096		3,08,096

Note : Calculation of New Profit Sharing Ratio :

1. Share given to D = 1/8, Balance of profit = 1 – 1/8 = 7/8

Hence, A's Share = $\frac{7}{8}\times\frac{6}{4}=\frac{42}{112}$

B's Share = $\frac{7}{8}\times\frac{5}{14}=\frac{35}{112}$

C's Share = $\frac{7}{8}\times\frac{3}{14}=\frac{21}{112}$

A : B : C : D

New Ratio : 41/112 : 35/112 : 21/112 : 1/8 = 42 : 35 : 21 : 14/112 or 6 : 5 : 3 : 2

Capital of D = Rs 35,400 - 35/8 = Rs. 31,882

Total capital of Firm = Rs. $31882\times\frac{16}{2}=255056$

Capital of A = Rs. $255056\times\frac{6}{16}=Rs.95,646$

Capital of B = Rs. $255056\times\frac{5}{16}=Rs.79705$

Capital of C = Rs. $255056\times\frac{3}{16}=Rs.47,823$

2. Calculation of new capital of A, B, and C based on D's Capital for 1/8 share is Rs. 31,882. Thus

Capital of whole firm = $31,882\times\frac{8}{1}=Rs.2,55,056$

Therefore As Capital = $2,55,056\times\frac{6}{16}=Rs.95,646$

B's Capital = $2,55,056 \times \frac{5}{16} = Rs.79,705$

C's Capital = $2,55,056 \times \frac{3}{16} = Rs.47,823$

19 : A and B are parents in a firm sharing profits and losses in the ratio of 3:2. Their balance sheet was as follows on 1st January, 2015 :

Liabilities	(Rs.)	Assets	(Rs.)
Sundry Creditors	15,000	Plant	30,000
Capital		Patents	10,000
A 30,000		Stock	20,000
B 25,000	55,000	Debtors	18,000
General reserve	10,000	Bank	2,000
	80,000		80,000

C is admitted as a partner on the above date on the following terms :

(i) He will pay Rs. 10,000 as goodwill for one-fourth share in the profit of the firm.

(ii) The assets are to be valued as under :

Plant at Rs. 32,000; Stock at Rs. 18,000; Debtors at book figure a provision of 5 percent for bad debts.

(iii) It was found that the creditors included a sum of Rs. 1,400 which was not be paid. But it was also, found that there was a liability for compensation to workers amount in to Rs. 2,000.

(iv) C was to introduce Rs, 20,000 as capital and the capitals of other partners were to be adjusted in the new profit sharing ratio for this purpose, current accounts were to be opened.

Prepare Revaluation Account, Capital Account and Balance Sheet after C's admission.

Solution : A’s share = $\frac{3}{4}\times\frac{3}{5}=\frac{9}{20}$

B’s share = $\frac{3}{4}\times\frac{2}{6}=\frac{6}{20}$

C’s share (given) = 1/4

A : B : C

$\frac{9}{20}:\frac{6}{20}:\frac{1}{4}=\frac{9:6:5}{20}=9:6:5$

(2) New capital of A and B : Based on C’s capital, the total capital f the firm will work out i.e.,

C’s capital for 1/4th share = 20,000

Thus the capital of whole firm = $20,000\times\frac{8}{1}=Rs.80,000$

Therefore, based on their new profit new profit sharing ratio, the capital of A and B will be.

A’s share of capital = $80,000\times\frac{9}{20}=Rs.36,000$

B’s share of capital = $80,000\times\frac{6}{20}=Rs.24,000$

Solution:

Revaluation Account

Particulars	(Rs.)	Particulars	(Rs.)
To Stock A/c To provision for Doubtful Debts A/c To Outstanding liability A/c	2,000 900 2,000	By Plant A/c By Creditors A/c By Capital A/c (loss) : A 3/5 900 B 2/5 600	2,000 1,400 1,500
	4,900		4,900

Capital Account

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A(Rs.)	B (Rs.)	C (Rs.)
To Revaluation A/c	900	600		By balance b/d	30,000	25,000	-
To Balance e/d	41,100	32,400	20,000	By general reserve	6,000	4,000	-
				By Bank A/c	-	-	20,000
				By Premium	6,000	4,000	-
	42,000	33,000	20,000		42,000	33,000	20,000
				By balance b/d	41,100	32,400	20,000
To Current A/c	5,100	8,400	-		41,000	32,400	20,000
To Balance c/d	36,000	24,000	20,000				
	41,100	32,400	20,000				

Partner's Current Account

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A(Rs.)	B (Rs.)	C (Rs.)
To balance c/d	5,100	8,400	-	By Capital A/c	5,100	8,400	-

Balance Sheet

(after C/s admission) As on 1st Jan, 2015

Liabilities	(Rs.)	Assets	(Rs.)
Sundry Creditors	13,600	Plant	32,000
Outstanding liability	2,000	Patents	10,000
Capital A/cs :		Stock	18,000
A 36,000		Debtors 18,000	
B 24,000		Less : Provision for D. D. (900)	17,000
C 20,000	80,000	Bank	32,000
Current A/cs : R			
A 5,100			
B - 8,400	13,500		

	1,09,100		1,09,100

Note : (1) Calculation of new profit sharing ratio

Share given to C = 1/4; Balance of Profit = 1 – 1/4 = 3/4

Adjustment of capital on basis of old partners' calculation of proportionate capital of New Partners'.

20 : Sahaj & Nimish are partners in a firm. They share profits & losses in ratio of 2:1 . Since both of them are specially abled sometimes they find it difficult to run a business so admitted Gauri a common friend decided to help them 'Therefore, they admitted her into partnership for 1/3 share. She brought her share of goodwill in cash & proportionate capital. At the time her admission Balance Sheet of Sahaj & Nimish was as under.

Liabilities	(Rs.)	Assets	(Rs.
Capital A/c Sahay 1,20,0000 Nimish 80,000	2,00,000	Machinery Furniture	1,20 80,0
General Reserve	30,000	Stock	50,0
Creditors	30,000	Sundry Debtors	30,0
Employees Provident Fund	40,000	Cash	20,0
	3,00,000		3,00

It was decided to :

(a) Reduce the value of stock by Rs. 5,000

(b) Depreciate furniture by 10% and appreciate machinery by 5%.

(c) Rs. 3,000 of the debtors proved bad. A provision of 5% was to be created on Sundry Debtors for doubtful debts.

(d) Goodwill of the firm was valued at Rs. 45,000

Prepare Revaluation Account, Partner's Capital Accounts and Balance Sheet of

reconstituted firm. Identify the values conveyed.

Solution :

Revaluation Account

Particulars	(Rs.)	Particulars	(Rs.)
To Stock A/c To Furniture To Sundry Debtors To provision for bad debts $(30,000 - 3000) \times \frac{5}{100}$	5,000 8,000 3,000 1350	By Machinery A/c By Loss transferred to Sahay's capital A/c 7,567 Nimish's capital A/c 5783	6,000 11,350
	17,350		17,350

Partner's capital Account

Particulars	(Rs.) Sahay	(Rs.) Nimish	(Rs.) Gauri	Particulars	(Rs.) Sahay	(Rs.) Nimish	(Rs.) Gauri
To Revaluation A/c To balance c/d	7,567 1,42,433	3783 91,217	- 1,16825	By Capital A/c By General Reserve By Premium A/c By Bank A/c	1,20,000 20,000 10,000	80,000 10,000 5,000	- - 1,16,825
	1,50,000	95,000	1,16825		1,50,000	95,000	1,16825

Balance Sheet of New Firm

Liabilities	(Rs.)	Assets	(Rs.)
Capital A/c Sahay 1,42,000 Nimish 91,217 Gauri 1,16,825 Creditors Employees provident Fund	 3,50,475 30,000 40,000	Machinery Furniture Stock Sundry Debtors 30,000 Less : Bad debts 3,000 Less : Provision 1,350	1,26,000 72,000 45,000 25,650 20,000

		Cash Bank	1,31,825
	4,20,475		4,20,475

Values conveyed : Friendship, Sympathy.

21 : Anthony and Boni were partners in a firm sharing profit in ratio o 5 : 3. There Balance sheet as on 31-3-2015 was as follows:

Liabilities	(Rs.)	Assets	(Rs.)
Bank overdraft Creditors General reserve Capital Accounts: Anothony 1,50,000 Boni 1,00,000	60,000 50,000 48,000 2,50,000	Cash Debtors 100,000 Less: Provision 2,000 Bills Receivables Stock Building Land	20,000 98,000 38,000 40,000 1,50,000 62,000
	4,08,000		4,08,000

On 01.04.2015, they admitted Heena into partnership for 1/4th share in full profits of the firm. Assets and liabilities were revealed. Goodwill of the firm valued at Rs. 80,000.

Fill in the missing information/figure in the following ledger accounts and B ance Sheet.

Revaluation Account

Particulars	(Rs.)	Particulars	(Rs.)
To provision for bad debts A/c To Stock A/c To Profit transferred to __________ __________	3,000 2,000 -	By Land A/c	

Partner's Capital Account

Particulars	Anthony	Boni	Heena	Particulars	Anthony	Boni	Heena
To balance c/d	-	-	80,000	By Balance A/c By Gen. Reserve By Rev. A/c By Premium A/c for Goodwill By	- - - - -	- - - - -	- - - - -

Balance Sheet

As at 01.04.2015

Liabilities	(Rs.)	Assets	(Rs.)
Bank Overdraft Creditors Capital A/c Anthony - Boni - Heena 80,000	60,000 50,000 -	 Cash Debtors Bill Receivable Stock Building Land	- - 38,000 - 1,50,000 68,200
	-		-

Solution :

Revaluation Account

Particulars	(Rs.)	Particulars	(Rs.)
To provision for bad debts A/c To Stock A/c To Profit transferred to Anthony's Capital A/c 750 Bonis Capital A/c 450	3,000 2,000 1,200	By Land A/c	6,200
	6,200		6,200

Revaluation Account

Particulars	Anthony	Boni	Heena	Particulars	Anthony	Boni	Heena
				By Balance A/c	1,50,000	1,00,000	-
				By Gen. Reserve	30,000	18,000	-
To balance c/d	193,250	1,25,950	80,000	By Rev. A/c	750	450	-
				By Premium A/c for Goodwill	12,500	7,500	-
				By Cash A/c	-	-	80,000
	1,93,250	1,25,950	80,000		1,93,250	1,25,950	80,000

Balance Sheet

As at 01.04.2015

Liabilities	(Rs.)	Assets	(Rs.)
Bank Overdraft	60,000	Cash	1,20,000
Creditors	50,000	Debtors 1,00,000	
Capital A/cs		Less: Provision 5,000	95,000
Anthony 1,93,250		Bill Receivable	38,000
Boni 1,25,950		Stock	38,000
Heena 80,000		Building	1,50,000
	3,99,200	Land	68,200
	5,09,200		5,09,200

1 Mark Questions

1. **What do you understand by admission of a new Partner?**
   Ans. When a new person becomes a partner in the firm, it is known as admission of a new partner. On admission of a new partners, an admission of a new partner, old partnership comes to an end new partnership comes into existence.
2. **State the two financial rights acquired by a new Partner?**
   Ans. New partner is admitted to the partnership if it provided in the partnership deed or all the existing partners agree to admitting the new partner. Section 31 of the Indian Partnership Act Provides that a person may be admitted as a new partner into a partnership firm with the consent of all the Partners.
3. **Give the name of the compensation which is paid by a new Partner to sacrificing Partners for sacrificing their share of profits.**
   Ans. When a partner joins the firm, he gets the following two rights along with others:
   i. Right to share future profit of the firm and
   ii. Right to share in the assets of the firm.
4. **Why a new Partners brings capital into the firm?**
   Ans. The share of future profits which the incoming partner receives is equal to the sacrifice of profit by an existing partner of a partners of the firm. The compensation he pays against this sacrificing is called goodwill or premium.
5. **Enumeration the matters that need adjustment at the time of admission of a new Partner.**
   Ans. The matter that need adjustment of the time of admission of a new partner are :
   i. Adjustment in profit sharing ratio and adjustment of capital
   ii. Adjustment for goodwill
   iii. Adjustment of Profit / Loss arising from the Revolution of Assets and Reassessment of Liabilities.
   iv. Adjustment of accumulated profits, reserves and losses
6. **What is meant by the new profit - sharing Ratio in case of admission of a Partner?**
   Ans. The ratio in which all partners including the incoming partner will share the profit

and losses in future is known as new profit sharing ratio.

7. **What is meant by the sacrificing Ratio in case of admission of a Partner?**
   Ans. The ratio in which the old partners have agreed to sacrifice their share in profit in favour of an incoming partner is called sacrificing ratio. The formula is:
   Sacrificing Ratio = Old Ratio - New Ratio
8. **Give two circumstances in which sacrificing Ratio may be applied.**
   Ans. Circumstances in which sacrificing Ratio may be applied are :
   i. At the time of admission of a new partner for distributing goodwill brought in by the new partner.
   ii. For adjustment goodwill in case of change in Profit - sharing ratio of existing partners.
9. **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.
10. **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.
11. **Why is the General reserve distributed among the old Partners before a new Partner is admitted?**
    Ans. General Reserve represents accumulated profits relating to the period prior to the admission of a new partner. It belongs to the old partners and therefore distributed among old partners.
12. **What entry is recorded to distribute General Reserve on the profit and loss A/c balance give in Liability sidke of Balance sheet?**
    Ans.

General Reserve A/c	Dr......	
Profit & Loss A/c	Dr	
To Old partners capital A/c		[Old Ratio]

13. **Explain the accounting entries of 'goodwill' when at the time of admission the new Partner brings in his share of goodwill in cash.**

Ans.

i) For bringing Goodwill in cash	
Cash Bank A/c	Dr. ……..
To Premium for Goodwill A/c	[with share of goodwill]

ii) For distributing the share on new partner's goodwill	
Premium for goodwill A/c Dr.…	
To sacrificing Partners Capital A/c	[in sacrificed ratio]
(In case of calculating capital) or	
To Sacrificing Partners Current A/c	[in sacrificing Ratio]
(In case of Fixed capital)	

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

15. **What is hidden goodwill?**

Ans. If the value of goodwill is not given, it has to be inferred on the basis of the net worth of business. Hidden goodwill is the excess of desired total capital of the firm over the actual combined capital of all partners in other ward, the hidden goodwill refers to the difference between the total required capital and the actual capital.

16. **Under what circumstances the premium for goodwill paid by the incoming Partner will not recorded in the book of A/C?**

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.

17. **Sate the ratio in which the old Partners share the amount of cash brought in by the new Partner as premium for goodwill.**
    Ans. The old partners share the amount in sacrificing ratio, i.e. old Ratio - New Ratio.
18. **State two differences between Revolution A/c and Memorandum Revolution A/c.**
    Ans. Distinction Between Revolution Account and Memorandum Revolution A/c:

Basis Account	Revolution Account	Memorandum Revolution
Purpose effect	it is prepared to record the effect of Revolution of assets and liabilities are to be appear at their revalued figures	it is prepared to record the of revolution of assets and liabilities when the assets and liabilities are to appear at their old figures.
Parts	it is not divided into two parts	it is divided into two parts.

19. **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?**
20. **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 - 9,00,000) But he bring in Rs. 70,000. Therefore, the excess of Rs. 10,000 represent premium for goodwill.
21. **Distinguish between New Profit - sharing ratio and sacrificing ratio?**
    Ans. Distinction between New Profit - Sharing ratio and sacrificing ratio:

	New Profit Sharing Ratio		**Sacrificing Ratio**
1)	It is related to all the Partners (including new)	1)	It is related to old partners only
2)	It is the ratio in which the all partner (including new) will share profit in future.	2)	It is the ratio in which old partners have sacrificed their share in favour of new Partner or when profit sharing Ratio is changed.
3)	New Profit sharing Ratio = Old Ratio - Sacrificing Ratio	3)	Sacrificing Ratio = Old Ratio - New Ratio

Accountancy Admission of a Partner

Short Answer

1. **At the time of change in profit sharing ratio among the existing partners, where will you record an unrecorded liability?**
   Ans. Revaluation Account-Debit side
2. **Anand, Bhutan! and Chadha sharing profits in ratio of 3:2:1. On 1st April 2007, they decided to share profits equal. Name the partners who is gaining on consequence of such change.**
   Ans. Chadha.
3. **Give two characteristics of goodwill.**
   Ans.
   1. it is an intangible asset having a definite value.
   2. It helps in earning more profit.
4. **Name any two factors attesting goodwill of a partnership firm.**
   Ans. (i) Favourable location (ii) Time period
5. **In a partnership firm assets are Rs.5, 00,000 and liabilities are Rs. 2, 00,000. The normal profit rate is 15%. State the amount of normal profits.**
   Ans.Rs.45,000
6. **State the amount of goodwill, if goodwill is to be valued on the basis of 2 years‘ purchase of last year‘s profit. Profit of the last year was Rs.20, 000.**
   Ans.Rs.40,000
7. **Where will you record ‘increase in machinery’ in case of change in profit sharing ratio among the existing partners?**
   Ans. Revaluation Account- Credit Side.
8. **Name two methods for valuation of goodwill in case of partnership firm.**
   Ans. (i) Average Profit Method (ii) Super Profit Method
9. **Give formula for calculating goodwill under ‘super profit method’.**
   Ans. Goodwill = Super Profit x Number of Years’ Purchase.
10. **Pass the journal entry for increase in the value of assets or decrease in the value of liabilities in the Revaluation A/c?**

Ans.

Assets A/	Dr. (with the amount of increase)
Liabilities A/c	Dr. (with the amount of decrease)
To Revaluation A/c	(with the total amount of gain)

(Being revaluation of assets and liabilities)

11. **P, Q and R are partners in a firm sharing profits in the ratio of 2:2:1 on 1.4.2007 the partners decided to share future profits in the ratio of 3:2:1 on that day balance sheet of the firm shows General Reserve of Rs 50,000. Pass entry for distribution of reserve.**

Ans.

General Reserve			A/c	Dr.	50,000	
To P's	Capital	A/c				30,000
To Q's	Capital	A/c				20,000
To R's	Capital	A/c				10,000
(Being distribution of reserve)						

12. **"The gaining partner's should compensate to sacrificing partner's with the amount of gain." Journalise this statement.**

Ans.

Gaining Partner's Capital A/c	Dr
To Sacrificing Partner's Capital A/c	

(Being compensation given by gaining partner to sacrificing partner)

13. **What are the two main rights acquired by the incoming new partner in a partnership firm?**

Ans. The two main rights are:

i. Right to share the assets of the firm.
ii. Right to share the future profits of the firm.

14. **A and B are partners, sharing profits in the ratio of 3:2. C admits for 1/5 share . State the sacrificing ratio.**

Ans. Sacrificing Ratio - 3:2.

15. **How should the goodwill of the firm be distributed when the sacrificing ratio of any of the existing partner is negative (i.e. he is gaining)**

Ans. In this case the partner with a negative sacrificing ratio, i.e. the gaining partner to the extent of his gain should compensate to the sacrificing partner to the extent of his gain.

16. **In case of admission of a partner, in which ratio profits or loss on revaluation of assets and reassessment of liabilities shall be divided?**

    Ans. Old ratio.

17. **Give journal entry for distribution of 'Accumulated Profits* in case of admission of a partner.**

    Ans.

Accumulated Profit	A/c	Dr.
To Old Partners Capital		A/c

(Being distribution of accumulated profits among old partners)

18. **At the time of admission of partner where will you record 'unrecorded investment'?**

    Ans. Revaluation Account- Credit side.

19. **The goodwill of a partnership is valued at Rs. 20,000. State the amount required by a new partner, if he is coming for 1/5 share in profits.**

    Ans. Rs. 4,000.

20. **What journal entries should be passed when the new partner brings his share of goodwill in kind?**

    And.

Assets A/c	Dr
To Premium for goodwill	A/c

Premium for goodwill A/c	Dr	-
To Sacrificing Partner's Capital A/c		

21. **What journal entries will be passed when the new partner is unable to bring his share of goodwill in cash?**

    Ans.

New Partner's Capital A/c	-	-
To Sacrificing Partners' Capital A/c		

22. **In case of admission of a new partner, goodwill was already appearing in the books of the firm. Give journal entry for its treatment**

Ans.

Old Partners* Capital A/c	Dr.
To Goodwill A/c	-
(Being old goodwill written off among old partners)	

23. **At the time of admission of a new partner, workmen's compensation reserve in appearing in the Balance sheet as Rs 1,000. Give journal entry if workmen's compensation at the time of admission is estimated at Rs 1,200.**

Ans:

Revaluation A/c	200	
To Workmen's Compensation	Reserve A/c	200
(Being workmen's compensation estimated at Rs. 1,200)		

24. **Q21. Give journal entry for recording deceased partner's share in profit from the closure of last balance sheet till the date of his death.**

Ans.

Profit & Loss Suspense Account	Dr.
To Deceased Partner's Capital Account	
(Being share of profit to deceased partners	

25. **Define gaining ratio.**

Ans. Gaining ratio is the ratio in which remaining/continuing partners acquire the share of the outgoing partner(s).

26. **Give two circumstances in which gaining ratio can be applied.**

Ans. (i) Retirement of a partner (ii) Death of a partner.

27. **At the time of retirement of a partner give journal entry for writing off the existing goodwill.**

Ans.

All Partners Capital (including retiring) A/c	Dr.
To Goodwill A/c	
(Being old goodwill written off among all partners in, old ratio)	

2-3 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.

6-8 marks Questions

Dinesh, Yasmine and Faria are partners in a firm, sharing profits and losses in 11:7:2 respectively. The Balance Sheet of the firm as on 31st Dec 2001 was as follows:

Liabilities	Rs.	Assets			Rs.
Sundry Creditors	800	Factory			7,350
Public Deposits	1,190	Plant & Machinery			1,800
Reserve fund	900	Furniture			2,600
Capital A/c		Stock			1,450
Dinesh	5,100	Debtors		Rs.	
		1,500			
Yasmine	3,000	Less: bad debts Rs.	300		1,200
		provisions			
Faria	5,000	Cash in hand			1,590

	15,900		15,900

On the same date, Annie is admitted as a partner for one-sixth share in the profits with Capital of Rs. 4,500 and necessary amount for his share of goodwill on the following terms:-

Ans. Books of Dinesh, Yamine, Farte and Anie

REVALUATION ACCOUNT

Particulars	Rs.	Assets		Rs
To Bills Discounted A/c	1670	By Public deposits A/c	190	
		By Machinery A/c		200
		By Loss transferred to	704	
		Yasmine's Capital A/c	448	
		Faria's Capital A/c	128	
	1670			1670

PARTNERS' CAPITAL ACCOUNTS

Dr.									Cr.
Particulars Rs.	Dinesh Rs.	Yasmine Rs.	Faria Rs.	Annie Rs.	Particulars	Dinesh Rs.	Yasmine Rs.	.Faria Rs.	Annie Rs
To Revaluation					By Balance b/d	5100	3000	5000	--
A/c (Loss)	704	448	128		By Reserve A/c	495	315	90	--
To Furniture A/c	800	800	800		By Cash A/c	--	--	--	4500
To Drawings	2750	1750	500		By Premium	917	583	167	--

A/c					A/c				
To Balance c/d	2258	900	3829	4500					

BALANCE SHEET

AS at 31.12.2001

Liabilities		Rs.	Assets		Rs.
Sundry Creditors		800	Cash in Hand		2757
Public Deposits		1000	Factory Buildings		7350
Capitals:			Machinery		2000
Dinesh	2258		Furniture		200
Yashmine	900		Stock		1450
Faria	3829		Debtors	1500	
Annie	4500	11487	Less:Provision	300	1200
Bills Discounted		1670			
		14957			14957

a. Furniture of Rs. 2,400 was to be taken over by Dinesh, Yasmine and Faria equally.
b. A Liability of Rs. 1,670 is created against Bills discounted.
c. Goodwill of the firm is to be valued at 2.5 years' purchase of average profits of 2 years. The profits are as under:
   2000:- Rs. 2,000 and 2001 - Rs. 6,000.
d. Drawings of Dinesh, Yasmine, and Faria were Rs. 2,750; Rs. 1,750; and Rs. 500 Respectively.
e. Machinery and Public Deposits are revalued to Rs. 2,000 and Rs. 1,000 respectively.

   Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm.
f. **X and Y are partners as they share profits in the proportion of 3:1 their balance sheet as at 31.03.07 as follows.**

BALANCE SHEET

Liabilities	Rs.	Assets	Rs.
Capital Account		Land	1,65,000
X	1,76,000	Furniture	24,500
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

- **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.**
- **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.**
- **A liability to the extent of Rs. 1,500 should be created for a claim against the firm for damages.**
- **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.
Ans.2
BOOK OF X, Y AND Z
REVALUATION ACCOUNT

Dr.				Cr.

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	3612
To claim against damages A/c		1500	creditors A/c	
To profit transferred to				
X's capital A/c	8266			
Y's	2742	10968		
		21112		**21112**

PARTNER'S CAPITAL ACCOUNT

Dr.							Cr.
Particulars	X Rs.	Y Rs.	Z Rs.	Particulars	X Rs.	Y Rs.	Z Rs.
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	8,226	2,742	-
				Profit			
				By premium	5,775	1,9925	-
				By Cash a/c	-	-	84,967
				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 31.3.07

Liabilities		Rs.	Assets		Rs.
Claim against damages		1,500	Cash		1,20,167

Creditors	Rs.91,300		Land		1,81,500
Less	Rs.1,000		Furniture		27,780
	90,300		Stock		1,30,000
Less Prov.	3,612	86,688	Debtors	35,200	
Capital			Less provision	4,224	30,976
X	Rs.2,54,901		Bill receivable		28,600
Y	Rs.84,967		X,s current		64,900
Z	Rs.84,967	4,27,835			
Current A/c(Y)		64,900			
		5,77,923			**5,77,923**

3. **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

Liabilities	Rs.	Assets	Rs.
Capital Account		Cash	90,000
Rashmi	1,35,000	Machinery	1,20,000
Pooja	1,25,000	Furniture	10,000
Creditors	30,000	Stock	50,000
Bills Payable	10,000	Debtors	30,000
	3,00,000		3,00,000

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: 3

REVALUATION ACCOUNTS

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Stock	5000	Rashmi	10000
To Furniture	1000	Pooja	5000
To Machinery	6000		
To Debtors	3000		
	15000		**15000**

CAPITAL ACCOUNTS OF PARTNERS

Particulars	Rashmi Rs.	Pooja Rs.	Santosh Rs.	Particulars Rs.	Rashmi Rs.	Pooja Rs.
To Revaluation	A/c10000	5000	--	By Balance b/d	115000	115000
To Adv Susp.	A/c2000	1000	--	By Cash A/c	--	--
To Adv Susp.	C/d145000	130000	--	By Premium a/c	20000	10000

To Balance				By Reserve	16000	8000
				By Work com.Res	6000	3000
	157000	136000	--		157000	136000
To Balance	c/d145000	130000	137500	To Balance c/d	145000	130000
				By Cash	--	--
				1/2of(Rs.145000)+Rs.130000	--	--
	145000	130000	137500		145000	130000

BALANCE SHEET OF A, B & C AS AT

Dr.				Cr.
Liabilities	Rs.	Assets		Rs.
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	
	452500			452500

4. **A, B and C are equal partners in a firm, their Balance Sheet as on 31st March 2002 was as follows:**

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	27,000	Goodwill	1,17,000
Employees Provident Fund	6,000	Building	1,25,000
Bills Payable	45,000	Machinery	72,000
General Reserve	18,000	Furniture	24,000

Capitals:		Stock	1,14,000
A	2,17,000	Bad Debts	1,02,000
B	1,66,000	Cash	12,000
C	90,000	Advertisement Suspense A/c	3,000
	5,69,000		5,69,000

On that date they agree to take D as equal partner on the following terms:

a. D should bring in Rs. 1, 60,000 as his capital and goodwill. His share of goodwill is valued at Rs. 60,000.

b. Goodwill appearing in the books must be written off.

c. Provision for loss on stock and provision for doubtful debts is to be made at 10% and 5% respectively.

d. The value of building is to taken Rs. 2,00,000.

e The total capital of the new firm has been fixed has been fixed at Rs. 4,00,000 and the partners capital accounts are to be adjusted in the profit sharing ratio. Any excess is to be transferred to current account and any deficit is to be brought in cash.

Required : Revaluation Account, Partners Capital Accounts, and the Balance Sheet of the new firm.

Ans. REVALUATION ACCOUNT

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Stock	11400	By land & building	75000
To provision for doubtful debtors	5100		
A's Capital A/c (1/3)	19500		

B's Capital A/c (1/3)	19500		
C's Capital A/c (1/3)	19500		
	75000		**75000**

CAPITAL ACCOUNTS OF PARTNERS

Particulars	Rashmi Rs.	Pooja Rs.	Santosh Rs.	Particulars Rs.	Rashmi Rs.	Pooja Rs.	Santosh Rs.
To Adver.				By Balance c/d	217000	166000	90000
Sus. A/c	1000	1000	1000	By Revaluation	19500	19500	19500
to goodwill	39000	39000	39000	By General Res	6000	6000	6000
To Current A/c	122500	71500	--	By Premium A/c	20000	20000	20000
To Balance c/d	100000	100000	100000	By Current A/c	--	--	4500
	262500	211500	140000		262500	211500	140000

BALANCE SHEET OF M/S A, B & C as at 31st march 20x2

Dr.				Cr
Liabilities	Rs.	Assets		Rs.
Sundry creditors	27000	Cash at bank		172000
Employees' Provident Fund	6000	Debtors	102000	
Bills Payable	45000	Less : Provision	5100	96900
A's Capital	100000	Mr. X		--
B's Capital	100000	Stock		102600

C's Capital	100000	Furniture & Fixtures		24000
D's Capital	100000	Plant & Machinery		72000
A's Current A/c	122500	Land & Building		200000
B's Current A/c	71500	C's Current A/c		4500
	672000			**672000**

5. **A, B and C were partners in a firm sharing profits equally: Their Balance Sheet on.31.12.2007 stood as:**

BALANCE SHEET AS AT 31.12.07

Liabilities		Rs.	Assets		Rs.
A	Rs.30,000		Goodwill		18,000
B	Rs.30,000		Cash		38,000
C	Rs.25,000	85,000	Debtors	43,000	
Bills payable		20,000	Less:Bad Debt Provision	3,000	40,000
Creditors		18,000	Bills Receivable		25,000
Workers Compensation Fund		8,000	Land and Building		60,000
Employees provident Fund		60,000	Plant and Machinary		40,000
General Reserve		30,000			
		2,21,000			**2,21,000**

It was mutually agreed that C will retire from partnership and for this purpose following terms were agreed upon.

i) Goodwill to be valued on 3 years‘ purchase of average profit of last 4 years which were 2004 : Rs.50,000 (loss); 2005 : Rs. 21,000; 2006: Rs.52,000; 2007 : Rs.22,000.

ii) The Provision for Doubtful Debt was raised to Rs. 4,000.

iii) To appreciate Land by 15%.

iv) To decrease Plant and Machinery by 10%.

v) Create provision of Rs;600 on Creditors.

vi) A sum of Rs.5,000 of Bills Payable was not likely to be claimed.

vii) The continuing partners decided to show the firm‘s capital at 1,00,000 which would be in their new profit sharing ratio which is 2:3. Adjustments to be made in cash
Ans. Make necessary accounts and prepare the Balance Sheet of the new partners.
REVALUATION ACCOUNT

Particulars		Rs.	Particulars	Rs.
To Provision for Debts A/c		1,000	By Land A/c	9,000
To Plant & Machinery A/c		4,000	By Provision on Creditors A/c	600
To Profit transferred to			By Bills Payable A/c	5,000
A,s Capital A/c	Rs. 3,200			
B,s Capital A/c	Rs 3,200			
C,s Capital A/c	Rs 3,200	9,600		

PARTNER‘S CAPITAL ACCOUNTS

Particulars	ARs.	B Rs.	C Rs.	Particulars	A Rs.	B Rs.	C Rs.
To Goodwill A/c	6,000	6,000	6,000	By Balance b/d	30,000	30,000	25,000
To C,s Capital	2,250	9,000		By General Reserve	10,000	10,000	10,000
To C,s Loan A/c	-	-	46,116	By Worksmen A/c	2,667	2,667	2,666
				Compensation Fund			
To Balance c/d	40,000	60,000		By Revalu A/c (profit)	3,200	3,200	3,200

				By A‘s Capital A/c	-	-	2,250
				By B‘s Capital A/c	-	-	9,000
				By Cash A/c (Deficiency)	2,383	29,133	-
	48,250	75,000	52,116		48,250	75,000	52,116
				By Balance b/d	40,000	60,000	-

BALANCE SHEET

Liabilities		Rs.	Assets		Rs.
Bills Payable		15,000	Debtors	Rs. 43,000	
Creditors		17,400	Less: Provision	Rs. 4,000	39,000
Employees Provident Fund		60,000	Bills Receivables		25,000
C‘s Loan		46,116	Land & Buildings		69,000
A‘s Capital	40000		Plant & Machinery		36,000
B‘S Capital	60000	1,00,000	Cash		69,516
		2,38,516			2,38,516