Chapter 4 Admission of a Partner

Question 1.

X, Y and Z are partners sharing profits and losses in the ratio of 5 : 3 : 2 . They admit A into partnership and give him 1/5th share of profits. Find the new profit-sharing ratio.

Solution:

Old Ratio between X, Y and Z is 5: 3: 2

A is to be provided 1/5th share of Profits

Assuming combined share of profit for all partners after A's admission be = 1

Accordingly, combined share of X, Y and Z after A's admission = 1 - A's share

$= 1 - \frac{1}{5} = \frac{4}{5}$(combined Share X, Y and Z)

New Ratio= Old Ratio x Combined share of X, Y and Z

X's Share $= \frac{5}{10} \times \frac{4}{5} = \frac{20}{50}$

Y's Share $= \frac{3}{10} \times \frac{4}{5} = \frac{12}{50}$

Z's Share $= \frac{2}{10} \times \frac{4}{5} = \frac{8}{50}$

Therefore, New Profit Sharing Ratio between X, Y, Z and A is $\frac{20}{50} : \frac{12}{50} : \frac{8}{50} : \frac{1}{5}$ or 10:6:4:5

Question 2.

Ravi and Mukesh are sharing profits in the ratio of 7 : 3. They admit Ashok for 3/7th share in the firm which he takes 2/7th from Ravi and 1/7th from Mukesh. Calculate new profit-sharing ratio.

Solution:

Old Ratio between Ravi and Mukesh is $\frac{7}{10} : \frac{3}{10}$

Ashok admitted for $\frac{3}{7}$ share of profit

Sacrifice by Ravi in favour of Ashok $= \frac{2}{7}$

Sacrifice by Mukesh in favour of Ashok $= \frac{1}{7}$

New Ratio =Old Ratio – sacrificing Ratio

Ravi's $= \frac{7}{10} - \frac{2}{7} = \frac{49}{70} - \frac{20}{70} = \frac{29}{70}$

Mukesh's $= \frac{3}{10} - \frac{1}{7} = \frac{21}{70} - \frac{10}{70} = \frac{11}{70}$

New Profit Sharing Ratio $= \frac{29}{70} : \frac{11}{10} : \frac{3}{7}$

$= \frac{29 : 11 : 30}{70}$

= 29:11:30

Question 3.

A and B are partners sharing profits and losses in the proportion of 7 : 5 . They agree to admit C, their manager, into partnership who is to get 1/6th share in the profits. He acquires this share as 1/24th from A and 1/8th from B. Calculate new profit-sharing ratio.

Solution:

Old Ratio between A and B is 7 : 5

C enters for 1/6 share of profit New Ratio =Old Ratio − sacrificing Ratio

Sacrifice by A in favour of C= $\frac{1}{24}$ A's = $\frac{7}{12}-\frac{1}{24}=\frac{14}{24}-\frac{1}{24}=\frac{13}{24}$

Sacrifice by B in favour of C = $\frac{1}{8}$ B's = $\frac{5}{12}-\frac{1}{8}=\frac{10}{24}-\frac{3}{24}=\frac{7}{24}$

New Profit Sharing Ratio= $\frac{13}{24}:\frac{7}{24}:\frac{1}{6}$

$=\frac{13:7:4}{24}$

= 13:7:4

Question 4.

A, B and C were partners in a firm sharing profits in the ratio of 3 : 2 : 1. They admitted D as a new partner for 1/8th share in the profits, which he acquired 1/16th from C. Calculate the new profit-sharing ratio of A, B, C and D.

Solution:

Profit sharing Ratio of A, B and C = 3 : 2 : 1

A's Original Share = $\frac{3}{6}$

D is to acquire $\frac{1}{6}$th share each from B and C

∴ D's share = $\frac{1}{8}$

B's new share = $\frac{2}{6}-\frac{1}{16}=\frac{16}{48}-\frac{3}{48}=\frac{13}{48}$

C's new share = $\frac{1}{6}-\frac{1}{16}=\frac{8}{48}-\frac{3}{48}=\frac{5}{48}$

New Ratio of A,B,C and D = $\frac{3}{6}:\frac{13}{48}:\frac{5}{48}:\frac{1}{8}$

$=\frac{24:13:5:6}{48}$

= 24:13:5:6

Question 5.

Bharati and Astha were partners sharing profits in the ratio of 3 : 2. They admitted Dinkar as a new partner for 1/5th share in the future profits of the firm which he got equally from Bharati and Astha. Calculate the new profit-sharing ratio of Bharati, Astha and Dinkar.

Solution:

Old Ratio between Bharti and Astha = 3 : 2

$$\text{Dinkar} = \frac{1}{5}$$

$$\text{Bharti's sacrifice} = \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$$

$$\text{Astha's sacrifice} = \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$$

$$\text{Bharti's new share} = \frac{3}{5} - \frac{1}{10} = \frac{6}{10} - \frac{1}{10} = \frac{5}{10}$$

$$\text{Astha's new share} = \frac{2}{5} - \frac{1}{10} = \frac{4}{10} - \frac{1}{10} = \frac{3}{10}$$

$$\text{Dinkar's new share} = \frac{1}{5} \times \frac{2}{2} = \frac{2}{10}$$

Bharti : Astha : Dinkar = 5 : 3 : 2

Question 6.

X and Y are partners in a firm sharing profits and losses in the ratio of 3 : 2. Z is admitted as partner with 1/4 share in profit. Z acquires his share from X and Y in the ratio of 2 : 1. Calculate new profit-sharing ratio.

Solution:

Old Profit Sharing Ratio between X and Y = 3:2

Admitted Z for 1/4th Share in Profits

Sacrificing Ratio of X and Y is 2:1

$$\text{Z acquired from X} = \frac{2}{3} \times \frac{1}{4} = \frac{2}{12}$$

$$\text{Z acquired from Y} = \frac{1}{3} \times \frac{1}{4} = \frac{1}{12}$$

New Ratio= Old Ratio − Sacrificing Ratio

$$\text{X's share} = \frac{3}{5} - \frac{2}{12} = \frac{36}{60} - \frac{10}{60} = \frac{26}{60}$$

$$\text{Y's share} = \frac{2}{5} - \frac{1}{12} = \frac{24}{60} - \frac{5}{60} = \frac{19}{60}$$

$$\text{Z's share} = \frac{1}{4} \times \frac{15}{15} = \frac{15}{60}$$

∴ X, Y and Z is NewRatio=26 : 19 : 15

Question 7.

R and S are partners sharing profits in the ratio of 5 : 3. T joins the firm as a new partner. R gives 1/4th of his share and S gives 1/5th of his share to the new partner. Find out new profit-sharing

ratio.

Solution:

Old Ratio between R and S is 5:3

Sacrificing Ratio = Old Ratio × Surrender Ratio

R's Sacrifice = $\frac{5}{8} \times \frac{1}{4} = \frac{5}{32}$

S's Sacrifice = $\frac{3}{8} \times \frac{1}{5} = \frac{3}{40}$

New Ratio = Old Ratio − Sacrificing Ratio

R's = $\frac{5}{8} - \frac{5}{32} = \frac{20-5}{32} = \frac{15}{32}$

S's = $\frac{3}{8} - \frac{3}{40} = \frac{15-3}{40} = \frac{12}{40}$

T's share = R's Sacrifice + S's sacrifice

T's share = $\frac{5}{32} + \frac{3}{40} = \frac{25}{160} + \frac{12}{160} = \frac{37}{160}$

New Profit Sharing Ratio between R, S and T = $\frac{15}{32} : \frac{12}{40} : \frac{37}{160}$

$= \frac{75}{160} : \frac{48}{160} : \frac{37}{160}$

∴ R, S and T would share profits in the ratio of 75 : 48 : 37

Question 8.

Kabir and Farid are partners in a firm sharing profits and losses in the ratio of 7 : 3. Kabir surrenders 2/10th from his share and Farid surrenders 1/10th from his share in favour of Jyoti; the new partner. Calculate new profit-sharing ratio and sacrificing ratio.

Solution:

Old Ratio of Kabir and Farid 7:3

Sacrifice by Kabir in favour of Jyoti = $\frac{2}{10}$

Sacrifice by Farid in favour of Jyoti = $\frac{1}{10}$

Jyoti's Share = $\frac{2}{10} + \frac{1}{10} = \frac{3}{10}$

New Ratio = Old Share - Share Sacrificed

Kabir's Share = $\frac{7}{10} - \frac{2}{10} = \frac{5}{10}$

Farid's Share = $\frac{3}{10} - \frac{1}{10} = \frac{2}{10}$

Kabir, Farid and Jyoti's New Profit Sharing Ratio = 5:2:3

Sacrificing Ratio

Kabir and Farid are sacrificing 2/10 and 1/10 of their share respectively, therefore the sacrificing ratio becomes 2:1.

Question 9.

Find New Profit-sharing Ratio:

(i) R and T are partners in a firm sharing profits in the ratio of 3 : 2. S joins the firm. R surrenders

1/4th of his share and T 1/5th of his share in favour of S.
(ii) A and B are partners. They admit C for 1/4th share. In future , the ratio between A and B would be 2 : 1.
(iii) A and B are partners sharing profits and losses in the ratio of 3 : 2 . They admit C for 1/5th share in the profit. C acquires 1/5th of his share from A and 4/5th share from B.
(iv) X, Y and Z are partners in the ratio of 3 : 2 : 1. W joins the firm as a new partner for 1/6th share in profits. Z would retain his original share.
(v) A and B are equal partners. They admit C and D as partners with 1/5th and 1/6th share respectively.
(vi) A and B are partners sharing profits/losses in the ratio of 3 : 2. C is admitted for 1/4th share. A and B decide to share equally in future.

Solution:

i.

Old Ratio R and T = 3 : 2

Sacrificing Ratio = Old Ratio × Surrender Ratio

$$R's = \frac{3}{5} \times \frac{1}{4} = \frac{3}{20}$$

$$T's = \frac{2}{5} \times \frac{1}{5} = \frac{2}{25}$$

New Ratio= Old Ratio-Sacrificing Ratio

$$R's = \frac{3}{5} - \frac{3}{20} = \frac{12-3}{20} = \frac{9}{20}$$

$$T's = \frac{2}{5} - \frac{2}{25} = \frac{10-2}{25} = \frac{8}{25}$$

S's share= R's Sacrifice+ S's sacrifice

$$S's\ share = \frac{3}{20} + \frac{2}{25} = \frac{15+8}{100} = \frac{23}{100}$$

$$\text{New Profit Sharing Ratio R, T and S} = \frac{9}{20} : \frac{8}{25} : \frac{23}{100}$$

$$= \frac{45:32:23}{100}$$

New Profit Sharing Ratio R, T and S = 45 : 32 : 23

ii.

Old Ratio A and B = 1:1

C admits for 1/4th share of profit

Let the combined share of A,B and C be= 1

Combined share of A and B = 1 – C's Share

$$\text{Combined share of A and B} = 1 - \frac{1}{4} = \frac{3}{4}$$

$$\text{New Ratio} = \text{Combined share of A and B} \times \frac{2}{3}$$

$$\text{A's Share} = \frac{3}{4} \times \frac{2}{3} = \frac{6}{12}$$

$$\text{B's Share} = \frac{3}{4} \times \frac{1}{3} = \frac{3}{12}$$

$$\text{New Profit Sharing Ratio A, B and C} = \frac{6}{12} : \frac{3}{12} : \frac{1}{4}$$

$$\text{New Profit Sharing Ratio A, B and C} = \frac{6:3:3}{12}$$

New Profit Sharing Ratio A, B and C = 2 : 1 : 1

iii.

Old Ratio A and B = 3 : 2

C admits for $\frac{1}{5}$ share of profit

A's sacrifice = C's share $\times \frac{1}{5}$

A's sacrifice $= \frac{1}{5} \times \frac{1}{5} = \frac{1}{25}$

B's sacrifice = C's share $\times \frac{4}{5}$

B's sacrifice $= \frac{1}{5} \times \frac{4}{5} = \frac{4}{25}$

New ratio = Old Ratio - Sacrificing Ratio

A's Share $= \frac{3}{5} - \frac{1}{25} = \frac{15-1}{25} = \frac{14}{25}$

B's Share $= \frac{2}{5} - \frac{4}{25} = \frac{10-4}{25} = \frac{6}{25}$

New Profit Sharing Ratio A, B and C $= \frac{14}{25} : \frac{6}{25} : \frac{1}{5}$

$= \frac{14 : 6 : 5}{25}$

$= 14 : 6 : 5$

iv.

Old Ratio X, Y and Z = 3 : 2 : 1

W admits for $\frac{1}{6}$ share of profit

Let combined share of all partner after W's admission be = 1

Combined share X and Y in the new firm = 1- Z's share -W's Share

$$=1-\frac{1}{6}-\frac{1}{6}=\frac{6-1-1}{6}$$

$$=\frac{4}{6}$$

New Ratio = Old Ratio x Combined share of X and Y

$$\text{X's Share} = \frac{3}{5}\times\frac{4}{6}=\frac{12}{30}$$

$$\text{Y's Share} = \frac{2}{5}\times\frac{4}{6}=\frac{8}{30}$$

$$\text{New Profit Sharing Ratio X, Y, Z and W} = \frac{12}{30}:\frac{8}{30}:\frac{1}{6}:\frac{1}{6}$$

$$=\frac{12:8:5:5}{30}$$

$$=12:8:5:5$$

v.

Old Ratio A and B = 1 : 1

C admits for $\frac{1}{5}$ share

D admits for $\frac{1}{6}$ share

Let the combined share of all partners after C's and D's admission be=1

$\Rightarrow$ Combined share of A and B after C's and D's admission = 1 – C's share – D's Share

$= 1 - \frac{1}{5} - \frac{1}{6} = \frac{30-6-5}{30}$

$= \frac{19}{30}$

New Ratio = Old Ratio x Combined share of A and B

A's Share $= \frac{1}{2} \times \frac{19}{30}$

$= \frac{19}{60}$

B's Share $= \frac{1}{2} \times \frac{19}{30}$

$= \frac{19}{60}$

New Profit Shareing Ratio A, B, C and D = $\frac{19}{60} : \frac{19}{60} : \frac{1}{5} : \frac{1}{6}$

$= \frac{19:19:12:10}{60}$

$= 19:19:12:10$

vi.

Old Ratio of A and B is 3 : 2

C admits for $\frac{1}{4}$ share of profit

Let the combined share of all partners after C's admission be = 1

$\Rightarrow$ Combined share of A and B after C's admission = 1 – C's share

$= 1 - \frac{1}{4}$

$= \frac{3}{4}$

New Ratio of A and B each = Combined share of A and B $\times \frac{1}{2}$

New Ratio of A and B $= \frac{3}{4} \times \frac{1}{2} = \frac{3}{8}$

New profit sharing ratio A, B and C = $\frac{3}{8} : \frac{3}{8} : \frac{1}{4}$

$= \frac{3:3:1}{8}$

$= 3:3:2$

Question 10.

X and Y were partners sharing profits in the ratio of 3 : 2. They admitted P and Q as new partners X surrendered 1/3rd of his share in favour of P and Y surrendered 1/4th of his share in favour of Q. Calculate new profit-sharing ratio of X, Y , P and Q.

Solution:

Old Ratio X and Y = 3:2

Sacrificing Ratio = Old Ratio x Surrender Ratio

$$X's\ Sacrifice = \frac{3}{5} \times \frac{1}{3} = \frac{3}{15}$$

$$Y's\ Sacrifice = \frac{2}{5} \times \frac{1}{4} = \frac{2}{20}$$

New Ratio= Old Ratio – Sacrificing Ratio

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

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

P's share = X's Sacrifice

$$= \frac{3}{15}$$

Q's share= Y's Sacrifice

$$= \frac{2}{20}$$

$$\text{New Profit Sharing Ratio X, Y, P and Q} = \frac{6}{15} : \frac{6}{20} : \frac{3}{15} : \frac{2}{20}$$

$$= \frac{24:18:12:6}{60}$$

$$= 4:3:2:1$$

Question 11.

Rakesh and Suresh are sharing profits in the ratio of 4 : 3 . Zaheer joins and the new ratio among Rakesh, Suresh and Zaheer is 7 : 4 : 3. Find out the sacrificing ratio.

Solution:

Old Ratio Rakesh and Suresh = 4 : 3

New Ratio Rakesh, Suresh and Zaheer = 7 : 4 : 3

Sacrificing Ratio = Old Ratio – New Ratio

$$\text{Rakesh's Share} = \frac{4}{7} - \frac{7}{14}$$

$$= \frac{1}{14}$$

$$\text{Suresh's Share} = \frac{3}{7} - \frac{4}{14}$$

$$= \frac{2}{14}$$

$$\text{Sacrificing Ratio Rakesh and Suresh} = \frac{1}{14} : \frac{2}{14}$$

= 1 : 2

Question 12.

A, B and C are partners sharing profits in the ratio of 4 : 3 : 2. D is admitted for 1/3rd share in future profits. What is the sacrificing ratio ?

Solution:

Old Ratio A, B and C = 4 : 3 : 2

D is admitted for $\frac{1}{3}$ share of profit

Let the combined share of profit of A,B,C and D be = 1

$\Rightarrow$ Combined share of A,B and C after D's admission = 1 – D's share

$= 1 - \frac{1}{3}$

$= \frac{2}{3}$

New Ratio = Old Ratio × Combined share of A and B and C

A's New Share = $\frac{4}{9} \times \frac{2}{3} = \frac{8}{27}$

B's New Share = $\frac{3}{9} \times \frac{2}{3} = \frac{6}{27}$

C's New Share = $\frac{2}{9} \times \frac{2}{3} = \frac{4}{27}$

Sacrificing Ratio= Old Ratio – New Ratio

A's Sacrifice = $\frac{4}{9} - \frac{8}{27} = \frac{12-8}{27} = \frac{4}{27}$

B's Sacrifice = $\frac{3}{9} - \frac{6}{27} = \frac{9-6}{27} = \frac{3}{27}$

C's Sacrifice = $\frac{2}{9} - \frac{4}{27} = \frac{6-4}{27} = \frac{2}{27}$

Sacrificing ratio is = $\frac{4}{27} : \frac{3}{27} : \frac{2}{27}$ or 4 : 3 : 2

Question 13.

A and B are partners sharing profits in the ratio of 3 : 2. C is admitted as a partner. The new profit-sharing ratio among A, B and C is 4 : 3 : 2 . Find out the sacrificing ratio ?

Solution:

Old Ratio A and B = 3 : 2

New RatioA, B and C = 4 : 3 : 2

Sacrificing Ratio = Old Ratio-New Ratio

A's Sacrificing Ratio = $\frac{3}{5} - \frac{4}{9} = \frac{27-20}{45} = \frac{7}{45}$

B's Sacrificing Ratio = $\frac{2}{5} - \frac{3}{9} = \frac{18-15}{45} = \frac{3}{45}$

Sacrificing Ratio A and B = $\frac{7}{45} : \frac{3}{45} = 7 : 3$

Question 14.

A, B, C and D are in partnership sharing profits and losses in the ratio of 36 : 24 : 20 : 20 respectively. E joins the partnership for 20 share and A, B, C and D in future would share profits among themselves as 3/10 : 4/10 : 2/10 : 1/10. Calculate new profit-sharing ratio after admission.

Solution:

Old Ratio A, B, C, and D = 36 : 24 : 20 : 20

E is admitted for $\frac{20}{100}$ share

Let the combined share of all partners profit after E's admission = 1

Combined share of A,B,C and D after E's admission = 1 – E's share

$= 1 - \frac{20}{100} = \frac{80}{100}$

New Ratio = Combined of A,B,C and D × Agreed Share of A,B,C and D

$A's\ New\ Share = \frac{80}{100} \times \frac{3}{10} = \frac{24}{100}$

$B's\ New\ Share = \frac{80}{100} \times \frac{4}{10} = \frac{32}{100}$

$C's\ New\ Share = \frac{80}{100} \times \frac{2}{10} = \frac{16}{100}$

$D's\ New\ Share = \frac{80}{100} \times \frac{1}{10} = \frac{8}{100}$

New Profit Sharing Ratio A, B, C, D and E

$= \frac{24}{100} : \frac{32}{100} : \frac{16}{100} : \frac{8}{100} : \frac{20}{100}$

= 6 : 8 : 4 : 2 : 5

Question 15.

A, B and C are partners sharing profits in the ratio of 2 : 2 : 1. D is admitted as a new partner for 1/6th share. C will retain his original share. Calculate the new profit-sharing ratio and sacrificing ratio.

Solution:

Old Ratio between X and Y are 3:2.

$$\text{X's sacrifice} = \frac{1}{3} \times \frac{3}{5} = \frac{3}{15}$$

$$\text{Y's sacrifice} = \frac{1}{10}$$

$$\text{Sacrificing Ratio} = \frac{3}{15} : \frac{1}{10} \text{ or } 2:1$$

New Ratio = Old share – Share sacrificed

$$\text{X's New Ratio} = \frac{3}{5} - \frac{3}{15} = \frac{6}{15}$$

$$\text{Y's New Ratio} = \frac{2}{5} - \frac{1}{10} = \frac{3}{10}$$

$$\text{Z's New Ratio} = \frac{3}{15} + \frac{1}{10} = \frac{9}{30}$$

$$\text{NewRatio} = \frac{6}{15} : \frac{3}{10} : \frac{9}{30} = \frac{12}{30} : \frac{9}{30} : \frac{9}{30}$$

= 4 : 3 : 3

Question 16.

A, B and C are partners sharing profits in the ratio of 2 : 2 : 1. D is admitted as a new partner for 1/6th share. C will retain his original share. Calculate the new profit-sharing ratio and sacrificing ratio.

Solution:

Old Ratio of A, B and C = 2:2:1

D is admitted for $\frac{1}{6}$th share when C will continue to retain his Original share i.e. $\left(\frac{1}{5}\right)$ of the profits

Remaining Share $= 1 - \frac{1}{6} - \frac{1}{5} = \frac{30-5-6}{30} = \frac{19}{30}$

This remaining share will be shared by A and B in equal ratio i.e. Old Ratio of 2 : 2.

Calculation of New Profit Sharing Ratio

A's $= \frac{19}{30} \times \frac{2}{4} = \frac{38}{120}$

B's $= \frac{19}{30} \times \frac{2}{4} = \frac{3}{120}$

C's $= \frac{1}{5} \times \frac{24}{24} = \frac{24}{120}$

D's $= \frac{1}{6} \times \frac{20}{20} = \frac{20}{120}$

A:B:C:D = 38:38:24:20

= 19:19:12:10

It has been assumed that A and B sacrifice in their old ratio due to lack of available information.

Calculation of Sacrificing Ratio

Sacrificing Ratio = Old Ratio – New Ratio

A's $= \frac{2}{5} - \frac{19}{60} = \frac{24-19}{60} = \frac{5}{60}$

B's $= \frac{2}{5} - \frac{19}{60} = \frac{24-19}{60} = \frac{5}{60}$

A:B= 5:5 or 1:1

Question 17.

A and B are in partnership sharing profits and losses as 3 : 2. C is admitted for 1/4th share. Afterwards D enters for 20 paise in the rupee. Compute profit-sharing ratio of A, B, C and D after D admission.

Solution:

Old Ratio A and B = 3: 2

C is admitted for $\frac{1}{4}$ share of profit

Let the combined share of profit of all partners be 1

⇒ Combined share of A and B after C's admission = 1 – C's share

$= 1 - \frac{1}{4} = \frac{3}{4}$

New Ratio = Old Ratio × Combined share of A and B

A's New Ratio= $\frac{3}{5} \times \frac{3}{4} = \frac{9}{20}$

B's New Ratio= $\frac{2}{5} \times \frac{3}{4} = \frac{6}{20}$

New Profit Sharing Ratio after C's admission A,B and C = $\frac{9}{20} : \frac{6}{20} : \frac{1}{4} = 9:6:5$

New Profit sharing ratio after C's admission will be treated as old ratio to determine the ratio after D's admission.

Old Ratio (i.e. before D's admission) between A, B and C = 9 : 6 : 5

D is admitted for $\frac{20}{100}$ share of profit

Let the combined share of all partners after D's admission = 1

⇒ Combined share of A , Band C after D's admission = 1 – D's share

$= 1 - \frac{20}{100} = \frac{80}{100}$

New Ratio = Old Ratio × Combined share of A, B and C

A's New Share= $\frac{9}{20} \times \frac{80}{100} = \frac{72}{200}$

B's New Share= $\frac{6}{20} \times \frac{80}{100} = \frac{48}{200}$

C's New Share= $\frac{5}{20} \times \frac{80}{100} = \frac{40}{200}$

New Profit Sharing Ratio after D's admission (i.e. between A, B, C, and D)= $\frac{72}{200} : \frac{48}{200} : \frac{40}{200} : \frac{20}{100} = 9:6:5:5$

Question 18.

P and Q are partners sharing profits in the ratio of 3 : 2 . They admit R, a new partner who acquires 1/5th of his share from P and 4/25th share from Q. Calculate New Profit-sharing Ratio and sacrificing ratio.

Solution:

Old Ratio between P and Q = 3 : 2

R acquires $\frac{1}{5}$th of his share from P

and remaining share i.e. $\frac{4}{5}$th of his share from Q.

If $\frac{4}{5}$th share of R $= \frac{4}{25}$

R's share $= \frac{4}{25} \times \frac{5}{4} = \frac{5}{25} = \frac{1}{5}$

P's sacrifice $= \frac{1}{5} \times \frac{1}{5} = \frac{1}{25}$

Q's sacrifice $= \frac{4}{25}$

P's new share $= \frac{3}{5} - \frac{1}{25} = \frac{15-1}{25} = \frac{14}{25}$

Q's new share $= \frac{2}{5} - \frac{4}{25} = \frac{10-4}{25} = \frac{6}{25}$

R's new share $= \frac{1}{5} \times \frac{5}{5} = \frac{5}{25}$

New Profit Sharing Ratio between P, Q and R = 14 : 6 : 5

and Sacrificing Ratio = 1 : 4

Question 19.

A and B are partners sharing profits and losses in the ratio of 2 : 1 . They take C as a partner for 1/5th share. The Goodwill Account appears in the books at its full value ₹ 15,000. C is to pay proportionate amount as premium for goodwill which he pays to A and B privately. Pass necessary entries.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	A's Capital A/c $(15,000 \times \frac{2}{3} = ₹10,000)$ Dr.		10,000	
	B's Capital A/c $(15,000 \times \frac{1}{3} = ₹5,000)$ Dr.		5,000	
	To Goodwill A/c			15,000
	(Being goodwill written-off between A and B in old ratio of 2:1)			

Note:-

The amount brought in by C as Goodwill will not be recorded in the books of the firm as he paid to A and B privately in the old ratio.

Question 20.

A and B are partners sharing profits and losses in the ratio of 2 : 5. They admit C on the condition

that he will bring in ₹ 14,000 as his share of goodwill in cash to be distributed between A and B. C's share in the future profits or losses will be 1/4th. What will be the new profit-sharing ratio and what amount of goodwill brought in by C will be received by A and B.

Solution:

Old Ratio between A and B = 2: 5

C is admitted for $\frac{1}{4}$ share of profit

Let the combined share of profit of A , B and C be 1

$\Rightarrow$ Combined share of A and B after C's admission= 1 – C's share

$= 1 - \frac{1}{4} = \frac{3}{4}$

New Ratio = Old Ratio × Combined share of A and B

A's New Share = $\frac{2}{7} \times \frac{3}{4} = \frac{6}{28}$

B's New Share = $\frac{5}{7} \times \frac{3}{4} = \frac{15}{28}$

New Profit Sharing Ratio A, B and C = $\frac{6}{28} : \frac{15}{28} : \frac{1}{4} = \frac{6:15:7}{28} = 6:15:7$

Distribution of C's share of Goodwill

C's Share of Goodwill = ₹14,000

A's Goodwill = $14,000 \times \frac{2}{7}$ = ₹4,000

B's Goodwill = $14,000 \times \frac{5}{7}$ = ₹10,000

Question 21.

A and B are partners in a firm sharing profits and losses in the ratio of 3 : 2. A new partner C is admitted. A surrenders 1/5th of his share and B surrenders 2/5th of his share and B surrenders 2/5th of his share in favour of C. For this purpose of C's admission, goodwill of the firm is valued at ₹ 75,000 and C brings in his share of goodwill in cash which is retained in the firm's books. Journalise the above transactions.

Solution:

Journal

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

Old Ratio A and B = 3: 2

$$\text{A's sacrifice} = \frac{3}{5} \times \frac{1}{5} = \frac{3}{25}$$

$$\text{B's sacrifice} = \frac{2}{5} \times \frac{2}{5} = \frac{4}{25}$$

Sacrificing Ratio A and B = 3 : 4

New Ratio = Old Ratio – Sacrificing Ratio

$$\text{A's New Share} = \frac{3}{5} - \frac{3}{25} = \frac{15-3}{25} = \frac{12}{25}$$

$$\text{B's New Share} = \frac{2}{5} - \frac{4}{25} = \frac{10-4}{25} = \frac{6}{25}$$

C's share = A's sacrifice + B's sacrifice

$$\text{C's share} = \frac{3}{25} + \frac{4}{25} = \frac{7}{25}$$

New Ratio is 12:6:7

$$\text{C's will bring Premium for Goodwill} = 75{,}000 \times \frac{7}{25}$$

= `21,000

Distribution of Premium for Goodwill

$$\text{A's Goodwill} = 21{,}000 \times \frac{3}{7} = ₹9{,}000$$

$$\text{B's Goodwill} = 21{,}000 \times \frac{4}{7} = ₹12{,}000$$

Question 22.

Give Journal entries to record the following arrangements in the books of the firm:
(a) B and C are partners sharing profits in the ratio of 3 : 2. D is admitted paying a premium (goodwill) of ₹ 2,000 for 1/4th share of the profits, shares shares of B and C remain as before.

(b) B and C are partners sharing profits in the ratio of 3 : 2. D is admitted paying a premium of ₹ 2,100 for 1/4th share of profits which he acquires 1/6th from B and 1/12th from C.

Solution:

(a)

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Cash A/c	Dr.		2,000	
	To Premium for Goodwill A/c				2,000
	(Being premium for goodwill brought in by D)				
	Premium for Goodwill A/c	Dr.		2,000	
	To B's Capital A/c				1,200
	To C's Capital A/c				800
	(Being premium for goodwill distributed between B and C in sacrificing ratio i.e. 3:2)				

Working Note:

Distribution of premium for Goodwill

$$\text{B's Goodwill} = 2,000 \times \frac{3}{5} = ₹1,200$$

$$\text{C's Goodwill} = 2,000 \times \frac{2}{5} = ₹800$$

(b)

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Cash A/c	Dr.		2,100	
	To Premium for Goodwill A/c				2,100
	(Being premium for goodwill brought by D in cash)				
	Premium for Goodwill A/c	Dr.		2,100	
	To B's Capital A/c				1,400
	To C's Capital A/c				700
	(Being premium for goodwill distributed between B and C in sacrificing ratio i.e. 2:1)				

Working Note:

1.

$$\text{Sacrificing Ratio B and C} = \frac{1}{6} : \frac{1}{12} = \frac{2}{12} : \frac{1}{12} = 2:1$$

2.

Distribution of Premium for Goodwill-

$$\text{B's Goodwill} = 2,100 \times \frac{2}{3} = ₹1,400$$

$$\text{C's Goodwill} = 2,100 \times \frac{1}{3} = ₹700$$

Question 23.

B and C are in Partnership sharing profits and losses as 3 : 1. They admit D into the firm, D paying a premium of ₹ 15,000 for 1/3rd share of the profits. As between themselves, B and C agree to share the future profits and losses equally. Draft journal entries showing appropriations of the premium money.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Cash A/c Dr.		15,000	
	To Premium for Goodwill A/c			15,000
	(Being D brought his share of Goodwill in cash)			
	Premium for Goodwill A/c Dr.		15,000	
	To B's Capital A/c			15,000
	(Being premium for goodwill transferred to B's Capital)			
	C's Capital A/c Dr.		3,750	
	To B's Capital A/c			3,750
	(Being goodwill charged from C's Capital Account due to his gain in profit sharing)			

Working Notes:

1.

Calculation of Sacrificing Ratio:

Let combined share of all partners after D's admission be=1

Combined share of B and C's admission = 1 – C's share

$= 1 - \frac{1}{3} = \frac{2}{3}$

B and C's share of profit after D's admission will be $= \frac{2}{3} \times \frac{1}{2} = \frac{1}{3}$ each

Sacrificing Ratio = Old Ratio – New Ratio

B's New Share $= \frac{3}{4} - \frac{1}{3} = \frac{9-4}{12} = \frac{5}{12}$ (sacrifice)

C's New Share $= \frac{1}{4} - \frac{1}{3} = \frac{3-4}{12} = \frac{-1}{12}$ (Gain)

2.

C is gaining in the new firm.

Hence, C's Gain in goodwill will be debited to his capital and given to the sacrificing partner B.

Goodwill of the firm= Premium for goodwill brought by D × Reciprocal of D's share

$= 15,000 \times \frac{3}{1} =$ ₹45,000

C's Share of Gain in Goodwill = Gooodwill of the firm × Share of gain

$= 45,000 \times \frac{1}{12} =$ ₹3,750

Question 24.

M and J are partners in a firm sharing profits in the ratio of 3 : 2. They admit R as a new partner. The

new profit-sharing ratio between M, J and R will be 5 : 3 : 2. R brought in ₹ 25,000 for his share of premium for goodwill. Pass necessary journal entries for the treatment of goodwill.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Cash A/c Dr.		25,000	
	To Premium for Goodwill A/c			25,000
	(Being R brought his share of Goodwill in cash)			
	Premium for Goodwill A/c Dr.		25,000	
	To M's Capital A/c			12,500
	To J's Capital A/c			12,500
	(Being C's share of Goodwill distributed in M and J in their sacrificing Ratio)			

Working Notes:

1.

Calculation of Sacrificing Ratio

Sacrificing Ratio = Old Ratio – New Ratio

$$\text{M's Sacrificing Ratio} = \frac{3}{5} - \frac{5}{10} = \frac{6-5}{10} = \frac{1}{10}$$

$$\text{J's Sacrificing Ratio} = \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$$

$$\text{Sacrificing Ratio of M and J} = \frac{1}{10} : \frac{1}{10} = 1:1$$

2.

Distribution of R's share of Goodwill

$$\text{M's Goodwill} = 25,000 \times \frac{1}{2} = ₹12,500$$

$$\text{J's Goodwill} = 25,000 \times \frac{1}{2} = ₹12,500$$

Question 25.

A and B are in partnership sharing profitsand losses in the ratio of 5 : 3. C is admitted as a partner who pays ₹ 40,000 as capital and the necessary amount of goodwill which is valued at ₹ 60,000 for the firm. His share of profits will be 1/5th which he takes 1/10th from A and 1/10th from B.
Give journal entries and also calculate future profit-sharing ratio of the partners.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Cash A/c Dr.		52,000	
	To C's Capital A/c			40,000
	To Premium for Goodwill A/c			12,000
	(Being capital and share of goodwill brought in by C in cash)			
	Premium for Goodwill A/c Dr.		12,000	
	To A's Capital A/c			6,000
	To, B's Capital A/c			6,000
	(Being C's share of goodwill distributed between A and B)			

Working Notes:

1.

$$\text{Sacrificing Ratio A and B} = \frac{1}{10} : \frac{1}{10} = 1 : 1$$

2.

Old Ratio A and B = 5 : 3

New Ratio = Old Ratio – Sacrificing Ratio

$$\text{A's New Share} = \frac{5}{8} - \frac{1}{10} = \frac{25-4}{40} = \frac{21}{40}$$

$$\text{B's New Share} = \frac{3}{8} - \frac{1}{10} = \frac{15-4}{40} = \frac{11}{40}$$

$$\text{New Profit Sharing Ratio A, B and C} = \frac{21}{40} : \frac{11}{40} : \frac{1}{5} = \frac{21:11:8}{40} = 21:11:8$$

3.

Distribution of C's share of Goodwill (sacrifice Ratio)

$$\text{A's Goodwill} = 12,000 \times \frac{1}{2} = ₹6,000$$

$$\text{B's Goodwill} = 12,000 \times \frac{1}{2} = ₹6,000$$

Question 26.

A and B are partners sharing profits and losses in the proportion of 7 : 5. They agree to admit C, their Manager, into partnership who is to get 1/6th share in the business. C brings in ₹ 10,000 for his capital and ₹ 3,600 for the 1/6th share of goodwill which he acquires 1/24th from A and 1/8th from B. Their profits for the first year of the new partnership amount to ₹ 24,000. Pass necessary journal entries in connection with C's admission and apportion the profits between the partners.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Cash A/c Dr.		13,600	
	To C's Capital A/c			10,000
	To Premium for Goodwill A/c			3,600
	(Being capital and share of goodwill brought in by C)			
	Premium for Goodwill A/c Dr.		3,600	
	To A's Capital A/c			900
	To B's Capital A/c			2,700
	(Being C's share of goodwill transferred to A and B in their sacrificing ratio i.e. 3:1)			
	Profit and Loss Appropriation A/c Dr.		24,000	
	To A's Capital A/c			13,000
	To, B's Capital A/c			7,000
	To, C's Capital A/c			4,000
	(Being Profit after C's admission distributed)			

Working Notes:

1.

$$\text{Sacrificing Ratio A and B} = \frac{1}{24} : \frac{1}{8} = \frac{1}{24} : \frac{3}{24} = 1 : 3$$

2.

Distribution of C's share of Goodwill in sacrifice ratio

$$\text{A's Goodwill} = 3,600 \times \frac{1}{4} = ₹900$$

$$\text{B's Goodwill} = 3,600 \times \frac{3}{4} = ₹2,700$$

3.

New Ratio = Old Ratio – Sacrificing Ratio

$$\text{A's New Share} = \frac{7}{12} - \frac{1}{24} = \frac{14-1}{24} = \frac{13}{24}$$

$$\text{B's New Share} = \frac{5}{12} - \frac{1}{8} = \frac{10-3}{24} = \frac{7}{24}$$

$$\text{New Profit Sharing Ratio A, B and C} = \frac{13}{24} : \frac{7}{24} : \frac{1}{6} = \frac{13:7:4}{24} = 13:7:4$$

4.

Distribution of Profit's earned in New Ratio

$$\text{A's Goodwill} = 24,000 \times \frac{13}{24} = ₹13,000$$

$$\text{B's Goodwill} = 24,000 \times \frac{7}{24} = ₹7,000$$

$$\text{C's Goodwill} = 24,000 \times \frac{4}{24} = ₹4,000$$

Question 27.

X and Y are partners sharing profits in the ratio of 3 : 1. Z is admitted as a partner for which he pays ₹ 30,000 for goodwill in cash. X, Y and Z decided to share the future profits in equal proportion. You are required to pass a single journal entry to give effect to the above arrangement.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Cash A/c	Dr.		30,000	
	To Premium for Goodwill A/c				30,000
	(Being X brought his share of goodwill)				
	Premium for Goodwill A/c	Dr.		30,000	
	Y's Capital A/c	Dr.		7,500	
	To X's Capital A/c				37,500
	(Being Z share of gain and goodwill transferred to X's Capital Account)				

Working Notes:

1.

$$\text{Sacrificing Ratio} = \text{Old Ratio} - \text{New Ratio}$$

$$\text{X's Sacrificing Ratio} = \frac{3}{4} - \frac{1}{3} = \frac{9-4}{12} = \frac{5}{12}(\text{Sacrifice})$$

$$\text{Y's Sacrificing Ratio} = \frac{1}{4} - \frac{1}{3} = \frac{3-4}{12} = \frac{-1}{12}(\text{Gain})$$

2.

$$\text{Goodwill of the firm on the basis of Z's share} = 30,000 \times \frac{3}{1} = \text{`}90,000$$

$$\text{Y's gain} = 90,000 \times \frac{1}{12} = ₹7,500$$

X's will get Z's share of goodwill + Y's share of gain
i.e. 30,000 + 7,500 = Rs.37, 500

Question 28.

A and B are partners in a firm sharing profits and losses in the ratio of 3 : 2. They admit C into partnership for 1/5th share. C brings in ₹ 30,000 as capital and ₹ 10,000 as goodwill. At the time of admission of C, goodwill appears in the Balance Sheet of A and B at ₹ 3,000. The new profit-sharing ratio of the partners will be 5 : 3 : 2. Pass necessary journal entries.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	A's Capital A/c	Dr.		1,800	
	B's Capital A/c	Dr.		1,200	
	To Goodwill A/c				3,000
	(Being Goodwill written-off)				
	Cash A/c	Dr.		40,000	
	To C's Capital A/c				30,000
	To Premium for Goodwill A/c				10,000
	(Being C brought capital and his share of goodwill in cash)				
	Premium for Goodwill	Dr.		10,000	
	To A's Capital A/c				5,000
	To B's Capital A/c				5,000
	(Being Premium of Goodwill distributed)				

Old Ratio A and B = 3: 2

New Ratio A, B and C = 5: 3: 2

Sacrificing Ratio = Old Ratio – New Ratio

$$\text{A's Sacrificing Ratio} = \frac{3}{5} - \frac{5}{10} = \frac{6-5}{10} = \frac{1}{10}$$

$$\text{B's Sacrificing Ratio} = \frac{2}{5} - \frac{5}{10} = \frac{4-5}{10} = \frac{1}{10}$$

$$\text{Sacrificing Ratio A and B} = \frac{1}{10} : \frac{1}{10} = 1:1$$

Distribution of Premium for Goodwill C's share of Goodwill

$$\text{A and B each will get} = 10{,}000 \times \frac{1}{2} = ₹5{,}000 \text{ each}$$

Goodwill Written-off

$$\text{A's Debited by } 3{,}000 \times \frac{3}{5} = ₹1{,}800$$

$$\text{B's Debited by } 3{,}000 \times \frac{2}{5} = ₹1{,}200$$

Question 29.

Anu and Bhagwan were partners in a firm sharing profits in the ratio of 3 : 1. Goodwill appeared in the books at ₹ 4,40,000. Raja was admitted to the partnership. The new profit-sharing ratio among Anu, Bhagwan and Raja was 2 : 2 : 1.

Raja brought ₹ 1,00,000 for his capital and necessary cash for his goodwill premium. The goodwill of the firm was valued at ₹ 2,50,000.

Record necessary journal entries in the books of the firm for the above transactions.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Anu's Capital A/c	Dr.		3,30,000	
	Bhagwan's Capital A/c	Dr.		1,10,000	
	To Goodwill A/c				4,40,000
	(Being old goodwill written off in old ratio)				
	Cash A/c	Dr.		1,50,000	
	To Raja's Capital A/c				1,00,000
	To Premium for Goodwill A/c				50,000
	(Being capital and goodwill brought in by raju)				
	Premium for Goodwill A/c	Dr.		50,000	
	Bhagwan's Capital A/c	Dr.		37,500	
	To, Anu's Capital A/c				87,500
	(Being premium for goodwill adjusted)				

Working Notes:

1.

Calculation of share in old Goodwill

$$\text{Anu's share} = 4,40,000 \times \frac{3}{4} = 3,30,000$$

$$\text{Bhagwan's share} = 4,40,000 \times \frac{1}{4} = 1,10,000$$

2.

Calculation of Raja's Share of Goodwill

Raja's Share of Goodwill = Firm's Goodwill × Raja's Profit Share

$$\text{Raja's Share of Goodwill} = 2,50,000 \times \frac{1}{5} = 50,000$$

3.

Calculation of Sacrificing Ratio

Sacrificing Ratio = Old Share - New Share

Raja's Share of Goodwill = Firm's Goodwill Raja's Profit Share

$$\text{Anu's Share} = \frac{3}{4} - \frac{2}{5} = \frac{7}{20}(\text{sacrifice})$$

$$\text{Bhagwan's Share} = \frac{1}{4} - \frac{2}{5} = \frac{3}{20}(\text{gain})$$

$$\text{Anu's Share of Goodwill} = \frac{3}{20} \times 2,50,000 = ₹37,500$$

$$\text{Bhagwan's Share of Goodwill} = \frac{7}{20} \times 2,50,000 = ₹87,500$$

Question 30.

X and Y are partners in a firm sharing profits in the ratio of 3 : 2. On 1st April, 2018, they admit Z as a new partner for 1/4th share in the profits. Z contributed following assets towards his capital and for his share of goodwill:

Stock ₹ 60,000; Debtors ₹ 80,000; Land ₹ 1,00,000; Plant and Machinery; ₹ 40,000. On the date of admission of Z, the goodwill of the firm was valued at ₹ 6,00,000. Pass necessary journal entries in the books of the firm on Z's admission.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Stock A/c	Dr.		60,000	
	Debtors A/c	Dr.		80,000	
	Land A/c	Dr.		1,00,000	
	Plant and Machinery A/c	Dr.		40,000	
	To Z's Capital A/c				1,30,000
	To Premium for Goodwill A/c				1,50,000
	(Being Z brought assets for his share of goodwill and Capital)				
	Premium for Goodwill A/c	Dr.		1,50,000	
	To X's Capital A/c				90,000
	To Y's Capital A/c				60,000
	(Being Z's share of goodwill distributed between X and Y in sacrificing ratio)				

Working Notes:

1.

$$Z's\ share\ of\ Goodwill = 6,00,000 \times \frac{1}{4} = ₹1,50,000$$

2.

Distribution of Z's Goodwill

$$X's\ Goodwill = 1,50,000 \times \frac{3}{5} = ₹90,000$$

$$Y's\ Goodwill = 1,50,000 \times \frac{2}{5} = ₹60,000$$

Question 31.

A and B are partners in a business sharing profits and losses in the ratio of 1/3rd and 2/3rd. On 1st April, 2018, their capitals are ₹ 8,000 and ₹ 10,000 respectively. On that date, they admit C in partnership and give him 1/4th share in the future profits. C brings in ₹ 8,000 as his capital and ₹ 6,000 as goodwill. The amount of goodwill is immediately withdrawn by the old partners in cash. Draft the journal entries and show the Capital Accounts of all the Partners. Calculate proportion in which partners would share profits and losses in future.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Cash A/c	Dr.		14,000	
	To C's Capital A/c				8,000
	To Premium for Goodwill A/c				6,000
	(Being C brought capital and his share of goodwill)				
	Premium for Goodwill A/c	Dr.		6,000	
	To A's Capital A/c				2,000
	To B's Capital A/c				4,000
	(Being C's share of goodwill distributed between A and B in sacrificing ratio i.e. 1:2)				
	A's Capital A/c	Dr.		2,000	
	B's Capital A/c	Dr.		4,000	
	To Cash A/c				6,000
	(Being amount of goodwill withdrawn by A and B)				

Partner's Capital Accounts

Dr Cr

Particulars	A	B	C	Particulars	A	B	C
To Cash A/c	2,000	4,000		By Balance b/d	8,000	10,000	
To Balance c/d	8,000	10,000	8,000	By Cash A/c			8,000
				By Premium for Goodwill A/c	2,000	4,000	
	10,000	14,000	8,000		10,000	14,000	8,000

Calculation of New Ratio

Old Ratio A and B = $\frac{1}{3}:\frac{2}{3}$

C is admitted for $\frac{1}{4}$ share of profit

Let combined share of all partners after C's admission be=1

Combined share of A and B after C admission = 1- C's share

$= 1-\frac{1}{4}=\frac{3}{4}$

New Ratio = Old Ratio x Combined Share of A and B in the new firm

A's New Ratio = $\frac{1}{3}\times\frac{3}{4}=\frac{3}{12}$

B's New Ratio = $\frac{2}{3}\times\frac{3}{4}=\frac{6}{12}$

New Profit Sharing Ratio A, B and C= $\frac{3}{12}:\frac{6}{12}:\frac{1}{4}=\frac{3:6:3}{12}=1:2:1$

Distribution of Premium for Goodwill

A's Goodwill $= 6,000\times\frac{1}{3}=₹2,000$

B's Goodwill $= 6,000\times\frac{2}{3}=₹4,000$

Question 32.

A and B were partners in a firm sharing profits and losses in the ratio of 3 : 2. They admitted C as a new partner for 3/7th share in the profit and the new profit-sharing ratio will be 2 : 2 : 3. C brought ₹ 2,00,000 as his capital and ₹ 1,50,000 as premium for goodwill. Half of their share of premium was withdrawn by A and B from the firm. Calculate sacrificing ratio and pass necessary journal entries for the above transactions in the books of the firm.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Cash A/c	Dr.		3,50,000	
	To C's Capital A/c				2,00,000
	To Premium for Goodwill A/c				1,50,000
	(Being C brought capital and Premium for goodwill)				
	Premium for Goodwill A/c	Dr.		1,50,000	
	To A's Capital A/c				1,10,000
	To B's Capital A/c				40,000
	(Being premium for Goodwill distributed)				
	A's Capital A/c	Dr.		55,000	
	B's Capital A/c	Dr.		20,000	
	To Cash A/c				75,000
	(Being half of the goodwill withdrawn by A and B)				

Calculation of Sacrificing Ratio

Sacrificing Ratio = Old Ratio - New Ratio

$$\text{A's Sacrificing Ratio} = \frac{3}{5} - \frac{2}{7} = \frac{21-10}{35} = \frac{11}{35}$$

$$\text{B's Sacrificing Ratio} = \frac{2}{5} - \frac{2}{7} = \frac{14-10}{35} = \frac{4}{35}$$

$$\text{Sacrificing Ratio} = \frac{11}{35} : \frac{4}{35} = 11:4$$

Working Notes:

1.

Distribution of Premium for Goodwill

$$\text{A's Goodwill} = 1,50,000 \times \frac{11}{15} = ₹1,10,000$$

$$\text{B's Goodwill} = 1,50,000 \times \frac{4}{15} = ₹40,000$$

2.

Amount of Premium for Goodwill withdrawn

$$\text{A's will withdrawn} = 1,10,000 \times \frac{1}{2} = ₹55,000$$

$$\text{B's will withdrawn} = 40,000 \times \frac{1}{2} = ₹20,000$$

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Question 33.

A and B are partners sharing profits in the ratio of 2 : 1. They admit C for 1/4th share in profits C brings in ₹ 30,000 for his capital and ₹ 8,000 out of his share ₹ 10,000 for goodwill. Before admission, goodwill appeared in books at ₹ 18,000. Give journal entries to give effect to the above arrangements.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	A's Capital A/c	Dr.		12,000	
	B's Capital A/c	Dr.		6,000	
	To Goodwill A/c				18,000
	(Being goodwill written-off)				
	Cash A/c	Dr.		38,000	
	To C's Capital A/c				30,000
	To Premium for Goodwill A/c				8,000
	(Being C brought capital and goodwill)				
	Premium for Goodwill A/c	Dr.		8,000	
	C's Capital A/c	Dr.		2,000	
	To A's Capital A/c				6,667
	To B's Capital A/c				3,333
	(Being C's share of goodwill distributed between A and B in sacrificing Ratio)				

Working Notes:

1.

Goodwill Written off

$$\text{A's Capital A/c will be debited by} = 18,000 \times \frac{2}{3} = ₹12,000$$

$$\text{B's Capital A/c will be debited by} = 18,000 \times \frac{1}{3} = ₹6,000$$

2.

Distribution of C's share of Goodwill

$$\text{A's Goodwill} = 10,000 \times \frac{2}{3} = ₹6,667$$

$$\text{B's Goodwill} = 10,000 \times \frac{1}{3} = ₹3,333$$

Question 34.

A and B are partners sharing profits in the ratio of 3 : 2 . They admit C into the firm for 1/4th share in profits which he takes 1/6th from A and 1/12th from B. C brings in only 60% of his share of firm's goodwill. Goodwill of the firm has been valued at ₹ 1,00,000. Pass necessary journal entries to record this arrangement.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Bank A/c	Dr.		15,000	
	To Premium for Goodwill A/c				15,000
	(Being goodwill brought in cash)				
	Premium for Goodwill A/c	Dr.		15,000	
	To A's Capital A/c				10,000
	To B's Capital A/c				5,000
	(Being goodwill distributed between A and B in sacrificing ratio)				
	C's Capital A/c	Dr.		10,000	
	To A's capital A/c				6,667
	To B's Capital A/c				3,333
	(Being goodwill adjusted)				

Working Note:

1.

Calculation of Sacrificing Ratio

$$\text{A's sacrifice Ratio} = \frac{1}{6} \times \frac{2}{2} = \frac{2}{12}$$

$$\text{B's sacrifice Ratio} = \frac{1}{12}$$

$$\therefore \text{ Sacrificing Ratio} = 2:1$$

2.

Calculation of share in goodwill of new partner

$$\text{C's share in goodwill} = 1,00,000 \times \frac{1}{4} = ₹25,000$$

Goodwill brought in cash is 60% of ₹25,000, i.e. 15,000

Remaing goodwill adjusted through C's Capital Account.

Question 35.

On the admission of Rao, it was agreed that the goodwill of Murty and Shah should be valued at ₹ 30,000. Rao is to get 1/4th share of profits. Previously Murty and Shah shared profits in the ratio of 3 : 2. Rao cannot bring in any cash. Give journal entries in the books of Murty and Shah when:

(a) there is no Goodwill Account and

(b) Goodwill appears in the books at ₹ 10,000.

Solution:

A) Where there is no Goodwill Account

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Rao's Capital A/c Dr.		7,500	
	To Murty's Capital A/c			4,500
	To Shah's Capital A/c			3,000
	(Being Rao's share of goodwill charged from his capital account and distributed between Murty and Shah in sacrificing ratio i.e. 3:2)			

B) When Goodwill appears at 10,000

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Murty's Capital A/c Dr.		6,000	
	Shah's Capital A/c Dr.		4,000	
	To Goodwill A/c			10,000
	(Being goodwill written-off at the time of Rao's admission in old ratio)			
	Rao's Capital A/c Dr.		7,500	
	To Murty's Capital A/c			4,500
	To Shah's Capital A/c			3,000
	(Being Rao's share of goodwill charged from his capital Account and distributed between Murty and Shah in sacrificing ratio i.e.,3:2)			

Working Notes:

1.

Calculation of Rao's share of Goodwill

$$\text{Rao's Share of Goodwill} = 30,000 \times \frac{1}{4} = ₹7,500$$

2.

Adjustment of Rao's share of Goodwill

$$\text{Murty's Capital A/c} = 7,500 \times \frac{3}{5} = ₹4,500$$

$$\text{Shah's Capital A/c} = 7,500 \times \frac{2}{5} = ₹3,000$$

Question 36.

A and B are partners sharing profits in the ratio of 3 : 2. Their books show goodwill at ₹ 2,000. C is admitted with 1/4th share of profits and brings in ₹ 10,000 as his capital but is not able to bring in cash for his share of goodwill ₹ 3,000. Draft journal entries.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	A's Capital A/c	Dr.		1,200	
	B's Capital A/c	Dr.		800	
	To Goodwill A/c				2,000
	(Being goodwill written-off at the time of C's admission)				
	Cash A/c	Dr.		10,000	
	To C's Capital A/c				10,000
	(Being Capital brought by C)				
	C's Capital A/c	Dr.		3,000	
	To A's Capital A/c				1,800
	To B's Capital A/c				1,200
	(Being C's share of capital charged from his capital distributed between A and B in their sacrificing ratio)				

Working Notes:

Writing off of goodwill appearing in the books:

$$\text{Debit A's A/c} = 3000 \times \frac{3}{5} = ₹1,200$$

$$\text{Debit B's A/c} = 3000 \times \frac{2}{5} = ₹800$$

Question 37.

A, B and C are in partnership sharing profits and losses in the ratio of 5 : 4 : 1 respectively. Two new partners D and E are admitted. The profits are now to be shared in the ratio of 3 : 4 : 2 : 2 : 1 respectively. D is to pay ₹ 90,000 for his share of Goodwill but E has insufficient cash to pay for Goodwill. Both the new partners introduced ₹ 1,20,000 each as their capital. You are required to pass necessary journal entries.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Bank A/c	Dr.		3,30,000	
	To D's Capital A/c				1,20,000
	To E's Capital A/c				1,20,000
	To Premium for Goodwill A/c				90,000
	(Being capital and goodwill brought in cash)				
	C's Capital A/c	Dr.		36,000	
	E's Capital A/c	Dr.		45,000	
	Premium for goodwill A/c	Dr.		90,000	
	To A's Capital A/c				1,35,000
	To B's Capital A/c				36,000
	(Being goodwill adjusted)				

Working Notes:

1.

Calculation of Sacrificing Ratio

Old ratio (A: B: C) = 5: 4: 1

New ratio (A: B: C: D: E) = 3: 4: 2: 2: 1

Sacrificing (or Gaining) Ratio = Old Ratio - New Ratio

$$\text{A's Share} = \frac{5}{10} - \frac{3}{12} = \frac{30}{60} - \frac{15}{60} = \frac{15}{60}\text{(Sacrifice)}$$

$$\text{B's Share} = \frac{4}{10} - \frac{4}{12} = \frac{24}{60} - \frac{20}{60} = \frac{4}{60}\text{(Sacrifice)}$$

$$\text{C's Share} = \frac{1}{10} - \frac{2}{12} = \frac{6}{60} - \frac{10}{60} = -\frac{4}{60}\text{(Gain)}$$

2.

Adjustment of Goodwill

$$\text{D's share in goodwill } \left(\frac{2}{12}\text{th share}\right) = 90,000$$

$$\therefore \text{Total goodwill of the firm} = 90,000 \times \frac{12}{2} = ₹5,40,000$$

$$\text{C's Goodwill} = 5,40,000 \times \frac{4}{60} = ₹36,000$$

$$\text{E's Goodwill} = 5,40,000 \times \frac{1}{12} = ₹45,000$$

Question 38.

Mohan and Sohan were partners in a firm sharing profits and losses in the ratio of 3 : 2. They admitted Ram for 1/4th share on 1st April, 2018. It was agreed that goodwill of the firm will be

valued at 3 years purchase of the average profit of last 4 years which were ₹ 50,000 for 2014-15, ₹ 60,000 for 2015-16, ₹ 90,000 for 2016-17 and ₹ 70,000 for 2017-18. Ram did not bring his share of goodwill premium in cash. Record the necessary journal entries in the books of the firm on Ram's admission when:

(a) Goodwill appears in the books at ₹ 2,02,500.

(b) Goodwill appears in the books at ₹ 2,500.

(c) Goodwill appears in the books at ₹ 2,02,000.

Solution:

Journal

Date	Particulars		L.F.	Debit (Rs.)	Credit (Rs.)
(a)	Mohan's Capital A/c	Dr.		1,21,500	
	Sohan's Capital A/c	Dr.		81,000	
	To Goodwill A/c				2,02,500
	(Being old goodwill written-off in old ratio)				
	Ram's Capital A/c	Dr.		50,625	
	To Mohan's Capital A/c				30,375
	To Sohan's Capital A/c				20,250
	(Being premium not brought debited to Ram and credited to sacrificing partners)				
(b)	Mohan's Capital A/c	Dr.		1,500	
	Sohan's Capital A/c	Dr.		1,000	
	To Goodwill A/c				2,500
	(Being old goodwill written-off in old ratio)				

	Ram's Capital A/c To Mohan's Capital A/c To Sohan's Capital A/c (Being premium not brought debited to Ram and credited to sacrificing partners)	Dr.		50,625	 30,375 20,250
(c)	Mohan's Capital A/c Sohan's Capital A/c To Goodwill A/c (Being old goodwill written-off in old ratio)	Dr. Dr.		1,23,000 82,000	 2,02,500
	Ram's Capital A/c To Mohan's Capital A/c To Sohan's Capital A/c (Being premium not brought debited to Ram and credited to sacrificing partners)	Dr.		50,625	 30,375 20,250

Working Notes:
WN1: *Calculation of Goodwill*

Goodwill = Average Profits x Number of Years' Purchase

$$\text{Average Profits} = \frac{\text{Total Profits}}{\text{Number of Years}}$$

$$= \frac{50,000 + 60,000 + 90,000 + 70,000}{4}$$

$$= \frac{2,70,000}{4} = ₹67,500$$

Goodwill = 67,500 x 3 = ₹2,02,500

$$\text{Ram's share} = 2,02,500 \times \frac{1}{4} = 50,625$$

Note: *Since no information is given about the share of sacrifice, it is assumed that the old partners are sacrificing in their old profit sharing ratio.*

Question 39.

Anil and Sunil are partners in a firm with fixed capitals of ₹ 3,20,000 and ₹ 2,40,000 respectively. They admitted Charu as a new partner for 1/4th share in the profits of the firm on 1st April, 2012. Charu brought ₹ 3,20,000 as her share of capital.
Calculate value of goodwill and record necessary journal entries.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Bank A/c	Dr.		3,20,000	
	To Charu's Capital A/c				3,20,000
	(Being capital brought in by Charu)				
	Charu's Current A/c	Dr.		1,00,000	
	To Anil's Capital A/c				50,000
	To Sunil's Capital A/c				50,000
	(Being Charu's share of goodwill adjusted through current accounts)				

Working Notes:

Calculation of Hidden Goodwill

$$\text{Total capital of the firm on the basis of Charu's Capital} = 3,20,000 \times \frac{4}{1} = 12,80,000$$

$$\text{Less : Adjusted capitals of Old Partners + Incoming Partner's Capital} = \frac{(8,80,000)}{4,00,000}$$

$$\therefore \text{Charu's share of Goodwill} = 4,00,000 \times \frac{1}{4} = ₹1,00,000$$

Question 40.

A and B are partners in a firm with capital of ₹ 60,000 and ₹ 1,20,000 respectively. They decide to admit C into the partnership for 1/4th share in the future profits. C is to bring in a sum of ₹ 70,000 as his capital. Calculate amount of goodwill.

Solution:

Actual Capital of the firm after admission of C

= A's Capital + B's Capital + C's Capital

= 60,000 + 1,20,000 + 70,000

= ₹2,50,000

$$\text{Capitalised value of the firm on the basis of C's share} = 70,000 \times \frac{4}{1} = ₹2,80,000$$

Goodwill = Capitalised value of the firm - Actual Capital of the firm

Goodwill = 2,80,000 - 2,50,000

Goodwill = ₹30,000

Question 41.

Bhuwan and Shivam were partners in a firm sharing profits in the ratio of 3 : 2. Their capitals were ₹ 50,000 and ₹ 75,000 respectively. They admitted Atul on 1st April, 2018 as a new partner for 1/4th share in the future profits. Atul brought ₹ 75,000 as his capital. Calculate the value of goodwill of the firm and record necessary journal entries for the above transactions on Atul's admission.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Bank/ Cash A/c	Dr.		75,000	
	To Atul's Capital A/c				75,000
	(Being capital brought in)				
	Atul's Capital A/c	Dr.		25,000	
	To Bhuwan's Capital A/c				15,000
	To Shivam's Capital A/c				10,000
	(Being goodwill distributed in sacrificing ratio of 3:2)				

Atul's share in profits: 1/4th share in future profits.
Capital contribution ₹75,000
Fixing Atul's capital as the base;
Firm's Capital = New Partner's Capital x Reciprocal of his share i.e. = 75,000 x 4
= ₹3,00,000
However, the total capital as at that date is ₹2,00,000 (i.e. 50,000+75,000+75,000)
∴ Difference (Hidden Goodwill) : 1,00,000.

Atul's share in goodwill: 1/4th of 1,00,000 = ₹25,000

Question 42.
X and Y are partners with capitals of ₹ 50,000 each. They admit Z as a partner with 1/4th share in the profits of the firm. Z brings in ₹ 80,000 as his share of capital. The Profit and Loss Account showed a credit balance of ₹ 40,000 as on date of admission of Z. Give necessary journal entries to record the goodwill.

Solution:

Total Capital of the firm after Z's admission .
= X's Capital + Y's Capital + undistributed Profits + Z's Capital
= 50,000 + 50,000 +40,000 + 80,000
= ₹2,20,000

Capitalised value of the firm on the basis of Z's share = $80,000 \times \frac{4}{1}$ = ₹3,20,000

Goodwill = Capitalised value of the firm - Total Capital after Z's admission
Goodwill = 3,20,000 - 2,20,000
Goodwill = ₹1,00,000

Question 43.
Asin and Shreyas are partners in a firm. They admit Ajay as a new partner with 1/5th share in the profits of the firm. Ajay brings ₹ 5,00,000 as his share of capital. The value of the total assets of the firm was ₹ 15,00,000 and outside liabilities were valued at ₹ 5,00,000 on that date. Give necessary journal entry to record goodwill at the time of Ajay's admission. Also show your workings.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Ajay's Capital A/c	Dr.		2,00,000	
	To Asin's Capital A/c				1,00,000
	To Shreya's Capital A/c				1,00,000
	(Being Ajay's share of goodwill distributed among the old partners in their sacrificing ratio 1:1)				

Working Notes:

Calculation of Goodwill brought in by Ajay

Value of firm's goodwill = Capitalised value of firm - Net worth of the new firm

= 25,00,000 - 15,00,000 = ₹10,00,000

Ajay's share of goodwill = $10,00,000 \times \frac{1}{5} = ₹2,00,000$

Capitalised value of the firm = Share of Ajay's capital Reciprocal of Ajay's share

$= 5,00,000 \times \frac{5}{1} = ₹25,00,000$

Net worth of the new firm = Total assets - Outside liabilities + Ajay's capital

= 15,00,000 - 5,00,000 + 5,00,000 = ₹15,00,000

Question 44.

Verma and Sharma are partners in a firm sharing profits and losses in the ratio of 5 : 3. They admitted Ghosh as a new partner for 1/5th share of profits. Ghosh is to bring in ₹ 20,000 as capital and ₹ 4,000 as his share of goodwill premium. Give the necessary journal entries:

(a) When the amount of goodwill is retained in the business.

(b) When the amount of goodwill is fully withdrawn.

(c) When 50% of the amount of goodwill is withdrawn.

(d) When goodwill is paid privately.

Solution:

Journal Entries

S.No.	Particulars	L.F.	Debit Rs.	Credit Rs.
Case (a)	Cash A/c Dr. To Ghosh's Capital A/c To Premium for Goodwill A/c (Capital and Goodwill his share brought by Ghosh)		24,000	 20,000 4,000
	Premium for Godwill A/c Dr. To Verma's Capital A/c To Sharma's Capital A/c (Goodwill brought by Ghosh credited to Old Partners in Sacrificing ratio)		4,000	 2,500 1,500
Case (b)	Cash A/c Dr. To Ghosh Capital A/c To Premium for Goodwill A/c (Capital and Goodwill brought by Ghosh for (1/5) share of profit)		24,000	 20,000 4,000
	Premium for Goodwill A/c Dr. To Verma's Capital A/c To Sharma's Capital A/c (Goodwill brought by Ghosh credited in Old Partner in Sacrificing Ratio)		4,000	 2,500 1,500
	Verma's Capital A/c Dr. Sharma's Capital A/c Dr. To Cash A/c (Amount of Premium for Goodwill withdrawn by Old Partners)		2,500 1,500	 4,000
Case (c)	Cash A/c Dr. To Ghosh's Capital A/c To Premium for Goodwill A/c (Capital and Goodwill brought by Ghosh for (1/5) share of profit)		24,000	 20,000 4,000
	Premium for Goodwill A/c Dr. To Verma's Capital A/c To Sharma's Capital A/c (Premium for Goodwill credited to Old Partner's Capital Account in sacrificing ratio)		4,000	 2,500 1,500
	Verma's Capital A/c Dr. Sharma's Capital A/c To Cash A/c (Half of the amount of premium for goodwill withdrawn by Old partners)		1,250 750	 2,000
Case (d)	No entry: Goodwill was not brought into firm			

Question 45.

Disha and Divya are partners in a firm sharing profits in the ratio of 3 : 2 respectively. The fixed

capital of Disha is ₹ 4,80,000 and of Divya is ₹ 3,00,000. On 1st April, 2018 they admitted Hina as a new partner for 1/5th share in future profits. Hina brought ₹ 3,00,000 as her capital. Calculate value of goodwill of the firm and record necessary journal entries on Hina's admission.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Bank A/c	Dr.		3,00,000	
	To Hina's Capital A/c				3,00,000
	(Being capital brought in by Hina)				
	Hina's Current A/c	Dr.		84,000	
	To Disha's Current A/c				50,400
	To Divya's Current A/c				33,600
	(Being Hina's Share of goodwill adjusted through current accounts)				

Working Notes:

Calculatation of Hidden Goodwill

Total Capital of the firm on basis of Hina's capital $\left(3,00,000 \times \frac{5}{1}\right)$ = 15,00,000

Less : Adjustment capital of old partners + Incoming partners capital = 10,80,000

4,20,000

Hina's share of Goodwill = $4,20,000 \times \frac{1}{5} = 84,000$

Question 46.

E and F were partners in a firm sharing profits in the ratio of 3 : 1. They admitted G as a new partner on 1st April, 2018 for 1/3rd share. It was decided that E, F and G will share future profits equally. G brought ₹ 50,000 in cash and machinery worth ₹ 70,000 for his share of profit as premium of goodwill. Pass necessary journal entries in the books of the firm.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Cash A/c	Dr.		50,000	
	Machinery A/c	Dr.		70,000	
	To Premium for Goodwill A/c				1,20,000
	(Being cash Rs.50,000 and Machinery Rs. 70,000 brought in by G for his share of Goodwill)				
	Premium for Goodwill A/c	Dr.		1,20,000	
	To E's Capital A/c				1,20,000
	(Being G share of goodwill transferred to E's Capital Account)				
	F's Capital A/c	Dr.		30,000	
	To E's Capital A/c				30,000
	(Being F's share of gain in goodwill charged from his capital and transferred to E's capital)				

Working Notes:

1.

Old Ratio E and F = 3 : 1

New Ratio E, F and G = 9:1:1

Sacrificing Ratio = Old Ratio - New Ratio

$$E's = \frac{3}{4} - \frac{1}{3} = \frac{9-4}{12} = \frac{5}{12} (Sacrifice)$$

$$F's = \frac{1}{4} - \frac{1}{3} = \frac{3-4}{12} = \frac{-1}{12} (Gain)$$

2.

F's share of gain in Goodwill

G's share of Goodwill = 50,000 + 70,000 = ₹1,20,000

$$\text{Goodwill of the firm on the basis of G's share} = 1,20,000 \times \frac{3}{1} = ₹3,60,000$$

$$\text{F's share of Goodwill} = 3,60,000 \times \frac{1}{12} = ₹30,000$$

Question 47.

Mr. A commenced business with a capital of ₹ 2,50,000 on 1st April, 2013. During the five years ended 31st March, 2018, the following profits and losses were made:

31st March, 2014, Loss – ₹ 5,000

31st March, 2015, Profit – ₹ 13,000

31st March, 2016, Profit – ₹ 17,000

31st March, 2017, Profit – ₹ 20,000

31st March, 2018, Profit – ₹ 25,000

During this period he had drawn ₹ 40,000 for his personal use. On 1st April, 2018, he admitted B into partnership on the following terms:

B to bring for his half share in the business, capital equal to A's Capital on 31st March, 2018 and to pay for the one-half share of goodwill of the business, on the basis of three times the average profit

of the last five years. Prepare the statement showing what amount B should invest to become a partner and pass entries to record the transactions relating to admission.

Solution:

Goodwill of the firm = Average Profit × Number of Years purchases

$= 14,000^* \times 3 = ₹42,000$

$$*\text{Average Profit} = \frac{(-5,000)+13,000+17,000+20,000+25,000}{5} = ₹14,000$$

$$\text{B's share of Goodwill} = 42,000 \times \frac{1}{2} = ₹21,000$$

Capital as on April 01, 2013	2,50,000
Less: Loss in 2014	(5,000)
Add: Profit in 2015	13,000
Add: Profit in 2016	17,000
Add: Profit in 2017	20,000
Add: Profit in 2018	25,000
	3,20,000
Less: Drawings	(40,000)
A's Capital as on March 31,2018	**2,80,000**

B's Capital = A's Capital as on March 31,2018 = ₹2,80,000

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Cash A/c	Dr.		3,01,000	
	To B's Capital A/c	Dr.			2,80,000
	To Premium for Goodwill A/c				21,000
	(Being capital and goodwill brought in)				
	Premium for Goodwill A/c	Dr.		21,000	
	To A's Capital A/c				21,000
	(Being B's share of goodwill transferred to A's capital Accounts)				

Question 48.

Pass entries in the firm's journal for the following on admission of a partner:

(i) Machinery be depreciated by ₹ 16,000 and Building be appreciated by ₹ 40,000.

(ii) A provision be created for Doubtful Debts @ 5% of Debtors amounting to ₹ 80,000.

(iii) Provision for warranty claims be increased by ₹ 12,000.

Solution:

Journal

Sr. No.	Particulars		L.F.	Debit Rs.	Credit Rs.
(i)	Revaluation A/c	Dr.		16,000	
	To Machinery A/c				16,000
	(Being value of machinery decreased)				
(ii)	Building A/c	Dr.		40,000	
	To Revaluation A/c				40,000
	(Being value of building increased)				
(iii)	Revaluation A/c	Dr.		4,000	
	To Provision for doubtful Debts A/c				4,000
	(Being provision created on debtors)				
(iv)	Revaluation A/c	Dr.		12,000	
	To provision for warranty claims A/c				12,000
	(Being liability recorded)				

Question 49.

Pass entries in the firm's journal for the following on admission of a partner:
(i) Unrecorded Investments worth ₹ 20,000.
(ii) Unrecorded liability towards suppliers for ₹ 5,000.
(iii) An item of ₹ 1,600 included in Sundry Creditors is not likely to be claimed and hence should be written back.

Solution:

Journal

Sr. No.	Particulars		L.F.	Debit Rs.	Credit Rs.
(i)	Investment A/c	Dr.		20,000	
	To Revaluation A/c				20,000
	(Being investments recorded)				
(ii)	Revaluation A/c	Dr.		5,000	
	To Creditors A/c				5,000
	(Being liability recorded)				
(iii)	Creditors A/c	Dr.		1,600	
	To Revaluation A/c				1,600
	(Being liability decreased)				

Question 50.

X and Y are partners in a firm sharing profits in the ratio of 3 : 2. They admitted Z as a new partner and fixed the new profit-sharing ratio as 3 : 2 : 1. At the time of admission of Z, Debtors and Provision for Doubtful Debts appeared at ₹ 50,000 and ₹ 5,000 respectively all debtors are good. Pass the necessary journal entries.

Solution:

Journal

Sr. No.	Particulars		L.F.	Debit Rs.	Credit Rs.
(a)	Provision for doubtful debts A/c	Dr.		5,000	
	To Revaluation A/c				5,000
	(Being provision on debtors reduced)				
(b)	Revaluation A/c	Dr.		5,000	
	To X's Capital A/c				3,000
	To Y's Capital A/c				2,000
	(Being profit on revaluation transferred to partners' capital A/c)				

Question 51.

X and Y are partners in a firm sharing profits in the ratio of 3 : 2. They admitted Z as a new partner for 1/4th share. At the time of admission of Z, Stock (Book Value ₹ 1,00,000) is to be reduced by 40% and Furniture (Book Value ₹ 60,000) is to be reduced to 40%. Pass the necessary journal entries.

Solution:

Journal

Sr. No.	Particulars		L.F.	Debit Rs.	Credit Rs.
(i)	Revaluation A/c	Dr.		76,000	
	To Stock A/c				40,000
	To Furniture A/c				36,000
	(Being value of assets decreased)				
(ii)	X's Capital A/c	Dr.		45,600	
	Y's Capital A/c	Dr.		30,400	
	To Revaluation A/c				76,000
	(Being loss on revaluation transferred to partners capital A/c)				

Question 52.

X and Y are partners sharing profits in the ratio of 3 : 2. They admitted Z as a new partner for 1/4th share of profits. At the time of admission of Z Investments appeared at ₹ 80,000. Half of the investments to be taken over by X and Y in their profit-sharing ratio at book value. Remaining investments were valued at ₹ 50,000. Pass the necessary journal entries.

Solution:

Journal

Sr. No.	Particulars		L.F.	Debit Rs.	Credit Rs.
(i)	X's Capital A/c	Dr.		24,000	
	Y's Capital A/c	Dr.		16,000	
	To Investment A/c				40,000
	(Being half of the investment taken over by X and Y)				
(ii)	Investment A/c	Dr.		10,000	
	To Revaluation A/c				10,000
	(Being value of investment increased)				
(iii)	Revaluation A/c	Dr.		10,000	
	To X's Capital A/c				6,000
	To Y's Capital A/c				4,000
	(Being profit on revaluation transferred to partners capital A/c)				

Question 53.

X and Y are partners sharing profits in the ratio of 3 : 2. They admitted Z as a new partner for 1/4th share of profits. At the time of admission of Z Debtors and Provision for Doubtful Debts appeared at ₹ 76,000 and ₹ 8,000 respectively. ₹ 6,000 of the debtors proved bad. A provision of 5% is to be created on Sundry Debtors for doubtful debts. Pass the necessary journal entries.

Solution:

Journal

Sr. No.	Particulars		L.F.	Debit Rs.	Credit Rs.
(i)	Bad Debts A/c	Dr.		6,000	
	To Debtors A/c				6,000
	(Being bad debts incurred)				
(ii)	Provision for doubtful debts A/c	Dr.		6,000	
	To Bad Debts A/c				6,000
	(Being bad debts adjusted)				
(iii)	Revaluation A/c	Dr.		1,500	
	To Provision for doubtful debts A/c				1,500
	(Being provision created)				
(iv)	X's Capital A/c	Dr.		900	
	Y's Capital A/c	Dr.		600	
	To Revaluation A/c				1,500
	(Being loss on revaluation transferred to partners' capital A/c)				

Working Notes:

1.

Calculation of provision for Doubtful Debts

$$\text{Provision to be created} = (76,000 - 6,000) \times \frac{5}{100} = ₹3,500$$

$$\text{Old Provision} = ₹2,000$$

$$\text{New Provision (to be created)} = 3,500 - 2,000 = 1,500$$

Question 54.

X, Y and Z are partners sharing profits ands losses in the ratio of 6 : 3 : 1. They decide to take W into partnership with effect from 1st April, 2018. The new profit-sharing ratio between X, Y, Z and W will be 3 : 3 : 3 : 1. They also decide to record the effect of the following revaluations without affecting the book values of the assets and liabilities by passing a single adjustment entry:

	Book Value(₹)	*Revised Value*(₹)
Plant and Machinery	3,50,000	3,40,000
Land and Building	5,00,000	5,50,000
Trade Creditors	1,00,000	90,000
Outstanding Expenses	85,000	1,00,000

Pass necessary adjustment entry.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Z's Capital A/c	Dr.		7,000	
	W's Capital A/c	Dr.		3,500	
	To X's Capital A/c				10,500
	(Being adjustment entry made)				

Working Notes:
1.

Revaluation Account

Dr. Cr.

Particular		Rs.	Particular	Rs.
To Plant and Machinery A/c		10,000	By Land and Building A/c	50,000
To Outstanding Expenses A/c		15,000	By Trade Creditors A/c	10,000
To Profit t/f to:				
X's Capital A/c	21,000			
Y's Capital A/c	10,500			
Z's Capital A/c	3,500	35,000		
		60,000		**60,000**

2. Calculation of Sacrificing or gain

Old Ratio X : Y : Z = 6 : 3 : 1

New Ratio X : Y : Z : W = 3 : 3 : 3 : 1

Sacrificing (or Gaining) Ratio = Old Ratio - New Ratio

$$X's = \frac{6}{10} - \frac{3}{10} = \frac{3}{10}(\text{Sacrifice})$$

$$Y's = \frac{3}{10} - \frac{3}{10} = \text{Nil}$$

$$Z's = \frac{1}{10} - \frac{3}{10} = -\frac{2}{10}(\text{Gain})$$

$$W's = \frac{1}{10}(\text{Gain})$$

3. Adjustment of Revaluation Profit

$$\text{Credited in X's capital Account} = 35,000 \times \frac{3}{10} = ₹10,500$$

$$\text{Debited in Z's capital Account} = 35,000 \times \frac{2}{10} = ₹7,000$$

$$\text{Debited in W's capital Account} = 35,000 \times \frac{1}{10} = ₹3,500$$

Question 55.

At the time of admission of a new partner C the assets and liabilities of A and B were revalued as follows:

(a) A Provision for Doubtful Debts @10% was made on Sundry Debtors (Sundry Debtors ₹ 50,000).

(b) Creditors were written back by ₹ 5,000.

(c) Building was appreciated by 20% (Book Value of Building ₹ 2,00,000).
(d) Unrecorded Investments were worth ₹ 15,000.
(e) A Provision of ₹ 2,000 was made for an Outstanding Bill for repairs.
(f) Unrecorded Liability towards suppliers was ₹ 3,000.
Pass necessary journal entries.

Solution:

Journal

Sr. No.	Particulars		L.F.	Debit Rs.	Credit Rs.
(i)	Creditors A/c	Dr.		5,000	
	Building A/c	Dr.		40,000	
	Investment A/c	Dr.		15,000	
	To Revaluation A/c				60,000
	(Being increase in assets and decrease in liabilities transferred to revaluation account)				
(ii)	Revaluation A/c	Dr.		10,000	
	To Provision for doubtful debts A/c				5,000
	To Reserve for outstanding Repair Bill A/c				2,000
	To Creditors A/c				3,000
	(Being increase in liabilities, decrease in assets and reserves and provision created transferred to revaluation account)				
(iii)	Revaluation A/c	Dr.		50,000	
	To old partners capital A/c				50,000
	(Being profit on revaluation transferred to partners' capital)				

Question 56.

X and Y are partners in a firm sharing profits and losses in the ratio of 3 : 2. On 1st April, 2018, they admit Z as a new partner for 1/5th share in profits . On that date, there was a balance of ₹ 1,50,000 in General Reserve and a debit balance of ₹ 20,000 in the Profit and Loss Account of the firm. Pass necessary journal entries regarding adjustment of reserve and accumulated profit/loss.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	General Reserve A/c	Dr.		1,50,000	
	To X's Capital A/c				90,000
	To Y's Capital A/c				60,000
	(Being balance in General Reserves adjusted in old ratio)				
	X's Capital A/c	Dr.		12,000	
	Y's Capital A/c	Dr.		8,000	
	To Profit and Loss A/c				20,000
	(Being debit balance in PandL A/c adjusted in old ratio)				

Working Notes:

1.

Calculation of Share of General Reserve

$$X's\ share = 1,50,000 \times \frac{3}{5} = 90,000$$

$$Y's\ share = 1,50,000 \times \frac{2}{5} = 60,000$$

2 Calculation of Share of Debit Balance in P&L A/c

$$Debit\ X's\ A/c\ by = 20,000 \times \frac{3}{5} = 12,000$$

$$Debit\ Y's\ A/c\ by = 20,000 \times \frac{2}{5} = 8,000$$

Question 57.

X and Y were partners in a firm sharing profits and losses in the ratio of 2 : 1. Z was admitted for 1/3rd share in the profits. On the date of Z's admission, the Balance Sheet of X and Y showed General Reserve of ₹ 2,50,000 and a credit balance of ₹ 50,000 in Profit and Loss Account. Pass necessary journal entries on the treatment of these items on Z's admission.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	General Reserve A/c	Dr.		2,50,000	
	Profit and Loss A/c	Dr.		50,000	
	To X's Capital A/c				2,00,000
	To Y's Capital A/c				1,00,000
	(Being General Reserve A/c and balance in PandL adjusted in old ratio)				

Working Note:

Calculation of Share of General Reserve & Profit & Loss A / c

$$\text{Share of X} = 3,00,000 \times \frac{2}{3} = 2,00,000$$

$$\text{Share of Y} = 3,00,000 \times \frac{1}{3} = 1,00,000$$

Question 58.

(a) X, Y and Z are partners sharing profits and losses in the ratio of 5 : 3 : 2. They decide to admit W for 1/6th share. Following is th extract of the Balance Sheet on the date of admission:

Liabilities	₹	Assets	₹
General Reserve	36,000	Advertisement Suspense A/c	24,000
Contingency Reserve	6,000		
Profit and Loss A/c	18,000		

(b) A and B were partners in a firm sharing profit in 4 : 3 ratio. On 1st April, 2018, they admitted C as a new partner. On the date of C's admission, the Balance Sheet of A and B showed a General Reserve of ₹ 84,000 and a debit balance of ₹ 8,400 in the Profit and Loss Account Pas necessary journal entries for the treatment of these items on C's admission.

(c) Give the journal entries to distribute Workmen Compensation Reserve of ₹ 72,000 at the time of admission of Z, when there is no claim against it. The firm has two partners X and Y.

(d) Give the journal entries to distribute Workmen Compensation Reserve of ₹ 72,000 at the time of admission of Z, when there is claim of ₹ 48,000 against it. The firm has two partners X and Y.

(e) Give the journal entry to distribute Investment Fluctuation Reserve of ₹ 24,000 at the time of admission of Z, when Investment (Market Value ₹ 1,10,000) appears at ₹ 1,20,000. The firm has two partners X and Y.

(f) Give the journal entry to distribute General Reserve of ₹ 4,800 at the time of admission of Z, when 20% of General Reserve is to be transferred to Investment Fluctuation Reserve. The firm has two partners X and Y.

(g) A, B and C were partners sharing profits and losses in the ratio of 6 : 3 : 1. They decide to take D into partnership with effect from 1st April, 2018. The new profit-sharing ratio between A, B, C and D will be 3 : 3 : 3 : 1. They also decide to record the effect of the following without affecting their book values, by passing a single adjustment entry:

	Book Value (₹)
General Reserve	1,50,000
Contingency Reserve	60,000
Profit and Loss A/c (Cr.)	90,000
Advertisement Suspense A/c (Dr.)	1,20,000

Pass the necessary single adjustment entry, through the Partner's Current Account.

Solution:

Journal

Sr. No.	Particulars		L.F.	Debit Rs.	Credit Rs.
(a)	General Reserve A/c	Dr.		36,000	
	Contingency Reserve A/c	Dr.		6,000	
	Profit and Loss A/c	Dr.		18,000	
	To X's Capital A/c				30,000
	To Y's Capital A/c				18,000
	To Z's Capital A/c				12,000
	(Being reserves distributed)				
	X's Capital A/c	Dr.		12,000	
	Y's Capital A/c	Dr.		7,200	
	Z's Capital A/c	Dr.		4,800	
	To Advertisement Suspense A/c				24,000
	(Being advertisement suspense distributed)				
(b)	General Reserve A/c	Dr.		84,000	
	To A's capital A/c				48,000
	To B's Capital A/c				36,000
	(Being general reserve distributed)				

	A's capital A/c	Dr.		4,800	
	B's Capital A/c	Dr.		3,600	
	To Profit and Loss A/c				8,400
	(Being profit and loss a/c distributed)				
(c)	Workman Compensation Reserve A/c	Dr.		72,000	
	To X's Capital A/c				36,000
	To Y's Capital A/c				36,000
	(Being workman compensation reserve distributed)				
(d)	Workman Compensation Reserve A/c	Dr.		72,000	
	To Workman Compensation Claim A/c				48,000
	To X's Capital A/c				12,000
	To Y's Capital A/c				12,000
	(Being surplus workmen compensation reserve distributed)				
(e)	Investment Fluctuation Reserve A/c	Dr.		24,000	
	To Investment A/c				10,000
	To X's Capital A/c				7,000
	To Y's Capital A/c				7,000
	(Being surplus investment fluctuation reserve distributed)				
(f)	General Reserve A/c	Dr.		4,800	
	To Investment Fluctuation Reserve A/c				960
	To X's Capital A/c				1,920
	To Y's Capital A/c				1,920
	(Being surplus general reserve distribution)				
(g)	C's Current A/c	Dr.		36,000	
	D's Current A/c	Dr.		18,000	
	To A's Current A/c				54,000
	(Being adjustment entry made)				

Working :

1. Calculation of Sacrifice or Gain

Old Ratio (A, B and C) = 6 : 3 : 1

New Ratio (A, B, C and D) = 3 : 3 : 3 : 1

Sacrificing (or Gaining Ratio) = Old Ratio - New Ratio

$$A's = \frac{6}{10} - \frac{3}{10} = \frac{3}{10}(Sacrifice)$$

$$B's = \frac{3}{10} - \frac{3}{10} = Nil$$

$$C's = \frac{1}{10} - \frac{3}{10} = -\frac{2}{10}(Gain)$$

$$D's = 0 - \frac{1}{10} = -\frac{1}{10}(Gain)$$

2. Calculation and Adjustment of Net Effect

General Reserve	1,50,000
Contingency Reserve	60,000
Profit and Loss A/c (Cr.)	90,000
	3,00,000
Less: Advertisement Suspense A/c (Dr.)	(1,20,000)
Net Effect	**1,80,000**

Adjustment

$$\text{Credit A's Current Account} = 1,80,000 \times \frac{3}{10} = ₹54,000$$

$$\text{Debit C's Current Account} = 1,80,000 \times \frac{2}{10} = ₹36,000$$

$$\text{Debit D's Current Account} = 1,80,000 \times \frac{1}{10} = ₹18,000$$

Question 59.

A and B, carrying on business in partnership and sharing profits and losses in the ratio of 3 : 2, require a partner, when their Balance Sheet stood as:

Liabilities		₹	Assets	₹
Creditors		11,800	Cash	1,500
A's Capital	51,450		Stock	28,000
B's Capital	36,750	88,200	Debtors	19,500
			Furniture	2,500
			Machinery	48,500
		1,00,000		**1,00,000**

They admit C into partnership and give him 1/8th share in the future profits on the following terms:
(a) Goodwill of the firm be valued at twice the average of the last three years profits which amounted to ₹ 21,000; ₹ 24,000 and ₹ 25,560.
(b) C is to bring in cash for the amount of his share of goodwill.
(c) C is to bring in cash ₹ 15,000 as his capital.
Pass journal entries recording these transactions, draw out the Balance Sheet of the new firm and state new profit-sharing ratio.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	General Reserve A/c	Dr.		4,000	
	Revaluation A/c	Dr.		2,000	
	To A's Capital A/c				4,500
	To B's Capital A/c				1,500
	(Being profit on Revaluation and General Reserve distributed between A and B in old ratio)				

Working Note:

$$\text{Credit A's Capital A/c} = (4{,}000+2{,}000) \times \frac{3}{4} = ₹4{,}500$$

$$\text{Credit B's Capital A/c} = (4{,}000+2{,}000) \times \frac{1}{4} = ₹1{,}500$$

Question 60.

X, Y and Z are equal partners with capitals of ₹ 1,500; ₹ 1,750 and ₹ 2,000 respectively. They agree to admit W into equal partnership upon payment in cash ₹ 1,500 for 1/4th share of the goodwill and ₹ 1,800 as his capital, both sums to remain in the business. The liabilities of the old firm amounted to ₹ 3,000 and the assets, apart from cash, consist of Motors ₹ 1,200, Furniture ₹ 400, Stock ₹ 2,650 and Debtors ₹ 3,780. The Motors and Furniture were revalued at ₹ 9450 and ₹ 380 respectively.
Pass journal entries to give effect to the above arrangement and also show Balance Sheet of the

new firm.

Solution:

Balance Sheet

(before admission of W)

Liabilities		Rs.	Assets	Rs.
			Motors	1,200
Capital :			Furniture	400
X	1,500		Stock	2,650
Y	1,750		Debtors	3,780
Z	2,000	5,250	Cash (Balancing Fig.)	220
Other Liabilities		3,000		
		8,250		**8,250**

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Cash A/c	Dr.		3,300	
	To W's Capital A/c				1,800
	To Premium for Goodwill A/c				1,500
	(Being goodwill and capital brought in by W in cash)				
	Premium for Goodwill A/c	Dr.		1,500	
	To X's Capital A/c				500
	To Y's Capital A/c				500
	To Z's Capital A/c				500
	(Being premium for goodwill distributed between X,Y and Z in sacrificing ratio)				
	Revaluation A/c	Dr.		270	
	To Motors A/c				250
	To Furniture A/c				20
	(Being decrease in value of Motors and Furniture transferred to Revaluation Account)				
	X's Capital A/c	Dr.		90	
	Y's Capital A/c	Dr.		90	
	Z's Capital A/c	Dr.		90	
	To Revaluation A/c				270
	(Being loss on revaluation transferred to Capital Account)				

Balance Sheet

(after admission of W)

Liabilities	Rs.	Assets	Rs.
		Motors (1,200 - 250)	950
Capital :		Furniture (400 -20)	380
X (1,500 - 90+500)	1,910	Stock	2,650
Y (1,750 - 90+500)	2,160	Debtors	3,780
Z (2,000 - 90+500)	2,410	Cash (220+3,300)	3,520
W	1,800		
Other Liabilities	3,000		
	11,280		**11,280**

Working Notes :

1.

Sacrificing Ratio X, Y and Z= 1:1:1

2.

Distribution of Premium for Goodwill

$$X's \text{ will get} = 1,500 \times \frac{1}{5} = ₹300$$

$$Y's \text{ will get} = 1,500 \times \frac{1}{5} = ₹300$$

$$Z's \text{ will get} = 1,500 \times \frac{1}{5} = ₹300$$

3.

Distribution of loss Revaluation (Old Ratio)

$$X's \text{ will get} = 270 \times \frac{1}{3} = ₹90$$

$$Y's \text{ will get} = 270 \times \frac{1}{3} = ₹90$$

$$Z's \text{ will get} = 270 \times \frac{1}{3} = ₹90$$

Question 61.

Following was the Balance Sheet of A and B who were sharing profits in the ratio of 2 : 1 as at 31st March, 2018:

Liabilities		₹	Assets	₹
Capital A/cs:			Building	25,000
A	15,000		Plant and Machinery	17,500
B	10,000	25,000	Stock	10,000
Sundry Creditors		32,950	Sundry Debtors	4,850
			Cash in Hand	600
		57,950		**57,950**

They agree to admit C into the partnership on the following terms:
(a) C was to bring in ₹ 7,500 as his capital and ₹ 3,000 as goodwill for 1/4th share in the firm.
(b) Values of the Stock and Plant and Machinery were to be reduced by 5%.
(c) A Provision for Doubtful Debts was to be created in respect of Sundry Debtor ₹ 375.
(d) Building Account was to be appreciated by 10%.
Pass necessary journal entries to give effect to the arrangements. Prepare Profit and Loss Adjustment Account (or Revaluation Account), Capital Accounts and Balance Sheet of the new firm.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Profit and Loss Adjustment A/c	Dr.		1,750	
	To Stock A/c				500
	To Plant and Machinery A/c				875
	To Reserve for doubtful debts A/c				375
	(Being decrease in stock and Plant and Reserve for Doubtful Debt so created transferred to Profit and Loss Adjustment Account)				
	Building A/c	Dr.		2,500	
	To Profit and Loss Adjustment A/c				2,500
	(Being increase in value of Building transferred to Profit and Loss Adjustment Account)				
	Profit and Loss Adjustment A/c	Dr.		750	
	To A's Capital A/c				500
	To B's Capital A/c				250
	(Being profit on revaluation of asset and liabilities distributed between A and B in their old ratio)				
	Cash A/c	Dr.		10,500	
	To C's Capital A/c				7,500
	To premium for Goodwill A/c				3,000
	(Being C brought capital and his share of goodwill)				
	Premium for Goodwill A/c	Dr.		3,000	
	To A's Capital A/c				2,000
	To B's Capital A/c				1,000
	(Being premium for goodwill distributed between A and B in their sacrificing ratio i.e. 2:1)				

Profit and Loss Adjustment Account

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Stock A/c	500	By Building A/c	2,500
To Plant and Machinery A/c	875		
To Reserve for Doubtful Debts A/c	375		
To Profit transferred to			
A's Capital A/c	500		
B's Capital A/c	250		
	2,500		2,500

Partners Capital Accounts

Dr. Particulars	A	B	C	Cr. Particulars	A	B	C
To Balance c/d	17,500	11,250	7,500	By Balance b/d	15,000	10,000	
				By Cash A/c			7,500
				By Premium for Goodwill A/c	2,000	1,000	
				By Profit and Loss Adjustment A/c (Profit)	500	250	
	17,500	11,250	7,500		17,500	11,250	7,500

Balance Sheet

as on March 31,2018 after C's admission

Liabilities		Rs.	Assets		Rs.
			Building (25,000+2,500)		27,500
Capital:			Plant and Machinery (17,500 - 875)		16,625
A	17,500		Stock (10,000 - 500)		9,500
B	11,250		Sundry Debtors	4,850	
C	7,500	36,250	Less: Provision for Doubtful Debt	(375)	4,475
Sundry Creditors		32,950	Cash in Hand (600 + 10,500)		11,100
		69,200			69,200

Working Notes :

1

Sacrificing Ratio A and B = 2:1

2.

Distribution of Premium for Goodwill (in sacrificing ratio)

$$A's\ Goodwill = 3,000 \times \frac{2}{3} = ₹2,000$$

$$B's\ Goodwill = 3,000 \times \frac{1}{3} = ₹1,000$$

3.

Distribution of Profit from Profit and Loss Adjustment Account (in old ratio)

$$A's = 750 \times \frac{2}{3} = ₹500$$

$$B's = 750 \times \frac{1}{3} = ₹250$$

Question 62.

Given below is the Balance Sheet of A and B, who are carrying on partnership business on 31st March, 2018. A and B share profits and losses in the ratio of 2 : 1.

BALANCE SHEET OF A AND B

as at 31st March, 2018

Liabilities		₹	Assets	₹
Bills Payable		10,000	Cash in Hand	10,000
Creditors		58,000	Cash at Bank	40,000
Outstanding Expenses		2,000	Sundry Debtors	60,000
Capital A/cs:			Stock	40,000
A	1,80,000		Plant	1,00,000
B	1,50,000	3,30,000	Building	1,50,000
		4,00,000		**4,00,000**

C is admitted as a partner on the date of the Balance Sheet on the following terms:

(a) C will bring in ₹ 1,00,000 as his capital and ₹ 60,000 as his share of goodwill for 1/4th share in the profits.

(b) Plant is to be appreciated to ₹ 1,20,000 and the value of building is to be appreciated by 10%.

(c) Stock is found overvalued by ₹ 4,000.

(d) A Provision for doubtful debts is to be created at 5% of Sundry Debtors.

(e) Creditors were unrecorded to the extent of ₹ 1,000.

Pass the necessary journal entries, prepare the Revaluation Account and Partners Capital Accounts, and show the Balance Sheet after the admission of C.

Solution:

Journal

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
2018					
Mar 31	Bank A/c	Dr.		1,60,000	
	To C's Capital A/c				1,00,000
	To Premium for Goodwill A/c				60,000
	(Capital and premium for goodwill brought by C for 1/4 share)				
	Premium for Goodwill A/c	Dr.		60,000	
	To A's Capital A/c				40,000
	To B's Capital A/c				20,000
	(Premium for Goodwill brought transferred to old partners' capital account in their sacrificing ratio)				
	Plant A/c	Dr.		20,000	
	Building A/c	Dr.		15,000	
	To Revaluation A/c				35,000
	(Increase in value of assets)				
	Revaluation A/c	Dr.		8,000	
	To Stock				4,000
	To Provision for Doubtful Debts A/c				3,000
	To Creditors A/c (Unrecorded)				1,000
	(Assets and liabilities revalued)				
	Revaluation A/c	Dr.		27,000	
	To A's Capital A/c				18,000
	To B's Capital A/c				9,000
	(Profit on revaluation transferred to old partners)				

Revaluation Account

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
Stock		4,000	Plant	20,000
Provision for Doubtful Debts		3,000	Building	15,000
Creditors (Unrecorded)		1,000		
Revaluation Profit				
A's Capital	18,000			
B's Capital	9,000	27,000		
		35,000		35,000

Partners' Capital Account

Dr. Cr.

Particulars	A	B	C	Particulars	A	B	C
Balance c/d	2,38,000	1,79,000	1,00,000	Balance b/d	1,80,000	1,50,000	
				Bank			1,00,000
				Premium for Goodwill	40,000	20,000	
				Revaluation	18,000	9,000	
	2,38,000	1,79,000	1,00,000		2,38,000	1,79,000	1,00,000

Balance Sheet
as on March 31, 2018

Liabilities		Rs.	Assets		Rs.
Bills Payable		10,000	Cash in Hand		10,000
Creditors		59,000	Cash at Bank		2,00,000
Outstanding Expenses		2,000	Sundry Debtors	60,000	
			Less: Provision for Doubtful		
Capital:			Debt	3,000	57,000
A	2,38,000		Stock		36,000
B	1,79,000		Plant		1,20,000
C	1,00,000	5,17,000	Building		1,65,000
		5,88,000			5,88,000

***Note**: Since no information is given about the share of sacrifice, it is assumed that the old partners are sacrificing in their old profit sharing ratio.*

Question 63.

Balance Sheet of J and K who share profits in the ratio of 3 : 2 is as follows:

BALANCE SHEET
as at 31st March, 2018

Liabilities		₹	Assets	₹
Reserve		1,00,000	Cash	2,00,000
J's Capital	1,50,000		Other Assets	1,50,000
K's Capital	1,00,000	2,50,000		
		3,50,000		**3,50,000**

M joins the firm from 1st April, 2018 for a half share in the future profits. He is to pay ₹ 1,00,000 for goodwill and ₹ 3,00,000 for capital. Draft the journal entries and prepare Balance Sheet in each of the following cases:

(a) If M acquires his share of profit from the firm in the profit – sharing ratios of the partners.

(b) If M acquires his share of profits from the firm in equal proportions from the original partners.

(c) If M acquires his share of profit in the ratio of 3 : 1 from the original partners, ascertain the future profit-sharing ratio of the partners in each case.

Solution:

a. If M acquires his share of profit from the firm in the original ratio.

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Cash A/c Dr.		4,00,000	
	To M's Capital A/c			3,00,000
	To Premium for Goodwill A/c			1,00,000
	(Being capital and goodwill brought in by M in cash)			
	Premium for Goodwill A/c Dr.		1,00,000	
	To J's Capital A/c			60,000
	To K's Capital A/c			40,000
	(Being premium for goodwill distributed between J and K in their Sacrificing Ratio)			
	Reserve A/c Dr.		1,00,000	
	To J's Capital A/c			60,000
	To K's Capital A/c			40,000
	(Being reserve distributed between J and K in their old ratio)			

Partners Capital Accounts

Dr. **Cr.**

Particulars	J	K	M	Particulars	J	K	M
To Balance c/d	2,70,000	1,80,000	3,00,000	By Balance b/d	1,50,000	1,00,000	
				By Cash A/c			3,00,000
				By Premium for Goodwill A/c	60,000	40,000	
				By Reserve A/c	60,000	40,000	
	2,70,000	1,80,000	3,00,000		2,70,000	1,80,000	3,00,000

Balance Sheet

as on April 01,2018 after M's admission

Liabilities	Rs.	Assets	Rs.
J's Capital	2,70,000	Cash (2,00,000+4,00,000)	6,00,000
K's Capital	1,80,000	Other Assets	1,50,000
M's Capital	3,00,000		
	7,50,000		**7,50,000**

New Profit Sharing Ratio

Old Ratio (J and K) =3:2

M is admitted for $\frac{1}{2}$ share of profit

Let combined sharing of all partners after admission of M be = 1

Combined share of J and K after M's admission = 1 – M's share

$= 1-\frac{1}{2}=\frac{1}{2}$

New Ratio = Old Ratio x Combined share of J and K

J's New Share $=\frac{3}{5}\times\frac{1}{2}=\frac{3}{10}$

K's New Share $=\frac{2}{5}\times\frac{1}{2}=\frac{2}{10}$

New Profit Sharing Ratio J, K and M= $\frac{3}{10}:\frac{2}{10}:\frac{1}{2}=\frac{3:2:5}{10}=3:2:5$

Working Notes :

1.

Distribution of Premium for Goodwill (in sacrificing ratio)

J's Share = $1,00,000\times\frac{3}{5}=₹60,000$

K's Share = $1,00,000\times\frac{2}{5}=₹40,000$

2.

Distribution of General Reserve (in old ratio)

J's Share = $1,00,000\times\frac{3}{5}=₹60,000$

K's Share = $1,00,000\times\frac{2}{5}=₹40,000$

b. If M acquires his share of profit from the firm in equal proportions from the original partners.

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Reserve A/c	Dr.		1,00,000	
	To J's Capital A/c				60,000
	To K's Capital A/c				40,000
	(Being reserve distributed between J and K in old ratio)				
	Cash A/c	Dr.		4,00,000	
	To M's Capital A/c				3,00,000
	To Premium for Goodwill A/c				1,00,000
	(Being M brought capital and his share of goodwill)				
	Premium for Goodwill A/c	Dr.		1,00,000	
	To J's capital A/c				50,000
	To K's capital A/c				50,000
	(Being premium for goodwill distributed between J and K in their sacrificing ratio i.e.1:1)				

Partner's Capital Accounts

Dr. Cr.

Particulars	J	K	M	Particulars	J	K	M
To Balance c/d	2,60,000	1,90,000	3,00,000	By Balance b/d	1,50,000	1,00,000	
				By Cash A/c			3,00,000
				By Premium for Goodwill A/c	50,000	50,000	
				By Reserve A/c	60,000	40,000	
	2,60,000	**1,90,000**	**3,00,000**		**2,60,000**	**1,90,000**	**3,00,000**

Balance Sheet

as on April 01,2018 after M's admission

Liabilities	Rs.	Assets	Rs.
J's Capital	2,60,000	Cash(2,00,000+4,00,000)	6,00,000
K's Capital	1,90,000	Other Assets	1,50,000
M's Capital	3,00,000		
	7,50,000		7,50,000

New profit shareing Ratio

Old Ratio (J and K) = 3 : 2

M is admittrd for $\frac{1}{2}$ share of Profit

J's Sacrificing Ratio = $\frac{1}{2} \times \frac{3}{4} = \frac{3}{8}$

K's Sacrificing Ratio = $\frac{1}{2} \times \frac{1}{4} = \frac{1}{8}$

New Ratio = Old Ratio – Sacrificing Ratio

J's New Share= $\frac{3}{5} - \frac{3}{8} = \frac{9}{40}$

K's New Share= $\frac{2}{5} - \frac{1}{8} = \frac{11}{40}$

New Profit Sharing Ratio J, K and M = $\frac{9}{40} : \frac{11}{40} : \frac{1}{2} = \frac{9:11:20}{40} = 9:11:20$

Working Notes :

1.

Distribuion of Premium for Goodwill (In Sacrificing ratio)

J's Share = $1,00,000 \times \frac{3}{4} = 75,000$

K's Share = $1,00,000 \times \frac{1}{4} = 25,000$

2.

Distribution of Reserve (in old ratio)

J's Share = $1,00,000 \times \frac{3}{5} = 60,000$

K's Share = $1,00,000 \times \frac{2}{5} = 40,000$

Question 64.

The Balance Sheet of Madhu and Vidhi who are sharing profits in the ratio of 2 : 3 as at 31st March, 2016 is given below:

Liabilities	₹	Assets		₹
Madhu's Capital	5,20,000	Land and Building		3,00,000
Vidhi's Capital	3,00,000	Machinery		2,80,000
General Reserve	30,000	Stock		80,000
Bills Payable	1,50,000	Debtors	3,00,000	
		Less : Provision	10,000	2,90,000
		Bank		50,000
	10,00,000			10,00,000

Madhu and Vidhi decided to admit Gayatri as a new partner from 1st April, 2016 and their new profit-sharing ratio will be 2 : 3 : 5. Gayatri brought ₹ 4,00,000 as her capital and her share of goodwill premium in cash.

(a) Goodwill of the firm was valued at ₹ 3,00,000.

(b) Land and Building was found undervalued by ₹ 26,000.

(c) Provision for doubtful debts was to be made equal to 5% of the debtors.

(d) There was a claim of ₹ 6,000 on account of workmen compensation.

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

Solution:

Revaluation Account

Dr. **Cr.**

Particulars		Rs.	Particulars	Rs.
Provision for Doubtful Debts		5,000	Land and Building	26,000
Claim against Workmen Compensation		6,000		
Revaluation Profit				
Madhu's Capital	6,000			
Vidhi's Capital	9,000	15,000		
		35,000		35,000

Partners' Capital Account

Dr. Cr.

Particulars	Madhu	Vidhi	Gayatri	Particulars	Madhu	Vidhi	Gayatri
Balance c/d	5,98,000	4,17,000	4,00,000	Balance b/d	5,20,000	3,00,000	
				Bank			4,00,000
				General Reserve	12,000	18,000	
				Premium for Goodwill	60,000	90,000	
				Revaluation	6,000	9,000	
	5,98,000	**4,17,000**	**4,00,000**		**5,98,000**	**4,17,000**	**4,00,000**

Balance Sheet
as on March 31, 2016

Liabilities		Rs.	Assets		Rs.
Bills Payable		1,50,000	Bank (50,000 + 4,00,000 + 1,50,000)		6,00,000
Claim for Workmen Compensation		6,000	Sundry Debtors	3,00,000	
Capital:			*Less*: Provision for Doubtful Debt	15,000	2,85,000
Madhu	5,98,000		Stock		80,000
Vidhi	4,17,000		Machinery		2,80,000
Gayatri	4,00,000	14,15,000	Land and Building		3,26,000
		15,71,000			15,71,000

Working Notes:

***WN*1**: *Calculation of Gayatri's Share of Goodwill*

$$\text{Gayatri's share} = 3,00,000 \times \frac{5}{10} = 1,50,000 \text{ (to be shared in 2:3)}$$

***WN*1**: *Calculation of Sacrificing Ratio*

Sacrificing Ratio = Old Ratio - New Ratio

$$\text{Madhu} = \frac{2}{5} - \frac{2}{10} = \frac{2}{10}$$

$$\text{Vidhi} = \frac{3}{5} - \frac{3}{10} = -\frac{3}{10}$$

Question 65.

Shyamlal and Sanjay were in partnership business sharing profits and losses in the ratio of 2 : 3 respectively. Their Balance Sheet as at 31st March, 2018 was:

Liabilities		₹	Assets	₹
Sundry Creditors		12,435	Cash in Hand	710
Capital A/cs:			Cash at Bank	11,925
Shyamlal	34,050		Sundry Debtors	5,500
Sanjay	34,050	68,100	Stock	18,000
			Furniture	4,400
			Building	40,000
		80,535		**80,535**

On 1st April, 2018, they admitted Shanker into partnership for 1/3rd share in the future profits on the following terms:

(a) Shanker is to bring in ₹ 30,000 as his capital and ₹ 20,000 as goodwill which is to remain in the business.

(b) Stock and Furniture are to be reduced in value by 10%.

(c) Building is to be appreciated by ₹ 15,000.

(d) Provision of 5% is to be made on Sundry Debtors for Doubtful Debts.

(e) Unaccounted Accrued Income of ₹ 2,400 to be provided for. A debtor, whose dues of ₹ 4,800 were written off as bad debts, paid 50% in full settlement.

(f) Outstanding Rent amounted to ₹ 4,800.

Show Profit and Loss Adjustment Account (Revaluation Account), Capital Accounts of Partners and opening Balance Sheet of the new firm.

Solution:

Profit and Loss Adjustment Account

Dr. **Cr.**

Particulars		Rs.	Particulars	Rs.
To Stock A/c		1,800	By Building A/c	15,000
To Furniture A/c		440	By Accrued Income A/c	2,400
To Provision for Doubtful Debts A/c		275	By Debts Recovered A/c	2,400
To Outstanding Rent A/c		4,800		
To Profit transferred to:				
Shyamlal Capital A/c	4,994			
Sanjay Capital A/c	7,491	12,485		
		19,800		19,800

Partners Capital Accounts

Dr. Cr.

Particulars	Shyamlal	Sanjay	Shankar	Particulars	Shyamlal	Sanjay	Shankar
To Balance c/d	47,044	53,541	30,000	By Balance b/d	34,050	34,050	
				By Cash A/c			30,000
				By Premium for Goodwill A/c	8,000	12,000	
				By Revaluation A/c	4,994	7,491	
	47,044	53,541	30,000		47,044	53,541	30,000

Balance sheet as on April 01,2018

after Shanker's admission

Liabilities		Rs.	Assets		Rs.
Sundry Creditors		12,435	Cash in Hand(710+50,000 + 2,400)		53,110
Outstanding Rent		4,800	Cash at Bank		11,925
Capital			Sundry Debtors	5,500	
Shyamlal	47,044		Less: Provision for D. Debts	275	5,225
Sanjay	53,541		Stock (18,000 - 1,800)		16,200
Shanker	30,000	1,30,585	Building(40,000+15,000)		55,000
			Furniture(4,400 - 440)		3,960
			Accrued Income		2,400
		1,47,820			1,47,820

Working Notes :

Sacrificing Ratio Shyamlal and Sanjay = 2 : 3

Premium for Goodwill is to be distributed in Sacrificing ratio.

$$\text{Shyamlal Premium for Goodwill} = 10,000 \times \frac{2}{5} = 4,000$$

$$\text{Sanjay Premium for Goodwill} = 10,000 \times \frac{3}{5} = 6,000$$

2.

Distribution of Profit from Profit & Loss Adjustment A/c in old ratio

$$\text{Shyamlal Profit} = 12,485 \times \frac{2}{5} = ₹4,994$$

$$\text{Sanjay Profit} = 12,485 \times \frac{3}{5} = ₹7,491$$

Question 66.

A, B, C are partners sharing profits and losses in the ratio of 3 : 2 : 1 respectively. Their Balance Sheet as at 31st March, 2108 is as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Land and Building	50,000
A	60,000		Plant and Machinery	40,000
B	60,000		Furniture	30,000
C	40,000	1,60,000	Stock	20,000
Creditors		30,000	Debtors	30,000
Bills Payable		10,000	Bills Receivable	20,000
			Bank	10,000
		2,00,000		**2,00,000**

D is admitted as a new partner on 1st April, 2018 for an equal share and is to pay ₹ 50,000 as capital.

Following are the adjustments required on D's admission:

(a) Out of the Creditors, a sum of ₹ 10,000 is due to D which will be transferred to his capital Account.

(b) Advertisement Expenses of ₹ 1,200 are to be carried forward to next accounting period as Prepaid Expenses.

(c) Expenses debited in the Profit and Loss Account includes a sum of ₹ 2,000 paid for B's personal expenses.

(d) A Bill of Exchange of ₹ 4,000, which was previously discounted with the banker, was dishonoured on 31st March, 2018 but no entry has been passed for that.

(e) A Provision for Doubtful Debts @ 5% is to be created against Debtors.

(f) Expenses on Revaluation amounted to ₹ 2,100 is paid by A.

Prepare necessary Ledger Accounts and Balance Sheet after D's admission.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars		Rs.
To Provision for doubtful Debts A/c	1,700	By Prepaid Advt. Expenses A/c		1,200
To A's Capital A/c	2,100	By B's Capital A/c (Expenses)		2,000
		By Loss transferred to:		
		A Capital A/c	300	
		B Capital A/c	200	
		C Capital A/c	100	600
	3,800			3,800

Partners Capital Accounts

Dr. **Cr.**

Particulars	A	B	C	D	Particulars	A	B	C	D
To Revaluation A/c (Personal Exp.)		2,000			By Balance b/d	60,000	60,000	40,000	
To Revaluation A/c (Loss)	300	200	100		By Creditors A/c				10,000
To Balance c/d	61,800	57,800	39,900	50,000	By Cash A/c				40,000
					By Revaluation A/c (Expenses)	2,100			
	62,100	60,000	40,000	50,000		62,100	60,000	40,000	50,000

Balance Sheet

as on April 01,2018 after D's admission

Liabilities		Rs.	Assets		Rs.
Capital			Land and Building		50,000
A	61,800		Plant and Machinery		40,000
B	57,800		Furniture		30,000
C	39,900		Prepaid Advt. Exp.		1,200
D	50,000	2,09,500	Stock		20,000
			Debtors	30,000	
Bill Payable		10,000	Add : B/R dishonored	4,000	
Creditors	30,000		Less : 5% Provision for Doubtful debts	(1,700)	32,300
Less :D's Capital	(10,000)	20,000	Bills Receivable		20,000
			Bank (10,000 + 40,000 - 4,000)		46,000
		2,39,500			2,39,500

Working Note :

Distribution of Loss on Revaluation:

$$\text{Debit A's Capital A/c} = 600 \times \frac{3}{6} = ₹300$$

$$\text{Debit B's Capital A/c} = 600 \times \frac{2}{6} = ₹200$$

$$\text{Debit C's Capital A/c} = 600 \times \frac{1}{6} = ₹100$$

Question 67.

X and Y share profits in the ratio of 5 : 3. Their Balance Sheet as at 31st March, 2018 was:

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		15,000	Cash at Bank		5,000
Employees' Provident Fund		10,000	Sundry Debtors	20,000	
Workmen Compensation Reserve		5,800	*Less*: Provision for D. Debts	600	19,400
Capital A/cs:			Stock		25,000
X	70,000		Fixed Assets		80,000
Y	31,000	1,01,000	Profit and Loss A/c		2,400
		1,31,800			**1,31,800**

Z is admitted as a new partner on 1st April, 2018 on the following terms:
(a) Provision for doubtful debts is to be maintained at 5% on Debtors.
(b) Outstanding rent amounted to ₹ 15,000.
(c) An accrued income of ₹ 4,500 does not appear in the books of the firm. It is now to be recorded.
(d) X takes over the Investments at an agreed value of ₹ 18,000.
(e) New Profit-sharing Ratio of partners will be 4 : 3 : 2.
(f) Z will bring in ₹ 60,000 as his capital by cheque.
(g) Z is to pay an amount equal to his share in firm's goodwill valued at twice the average profits of the last three years which were ₹ 90,000; ₹ 78,000 and ₹ 75,000 respectively.
(h) Half of the amount of the goodwill is to be withdrawn by X and Y.
You are required to pass journal entries, prepare Revaluation Account, Partners Capital and Current Accounts and the Balance Sheet of the new firm.
They admit Z into partnership with 1/8th share in profits on this date. Z brings ₹ 20,000 as his capital and ₹ 12,000 for goodwill in cash. Z acquires his share entirely from X. Following revaluations are also made:
(a) Employees Provident Fund liability is to be increased by ₹ 5,000.
(b) All Debtors are good. Therefore, no provision is required on Debtors.
(c) Stock includes ₹ 3,000 for obsolete items.
(d) Creditors are to be paid ₹ 1,000 more.
(e) Fixed Assets are to be revalued at ₹ 70,000.
Prepare journal entries, necessary accounts and new Balance Sheet. Also, calculate new profit-sharing ratio.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Stock A/c	3,000	By Provision for Doubtful Debts A/c	600
To Creditors A/c	1,000	By Loss transferred to:	
To Fixed Assets A/c	10,000	X Capital A/c	11,500
To Provident Fund A/c	5,000	Y Capital A/c	6,900
	19,000		19,000

Partner's Capital Accounts

Dr. **Cr.**

Particulars	X	Y	Z	Particulars	X	Y	Z
To Revaluation A/c (Loss)	11,500	6,900		By Balance b/d	70,000	31,000	
				By Workmen's Compensation Fund			
To Profit and Loss A/c	1,500	900		A/c	3,625	2,175	
To Balance c/d	72,625	25,375	20,000	By Cash A/c			20,000
				By Premium for Goodwill A/c	12,000		
	85,625	33,175	20,000		85,625	33,175	20,000

Balance Sheet

as on April 01,2018 after Z's admission

Liabilities		Rs.	Assets	Rs.
Creditors (15,000+1,000)		16,000	Cash at Bank	5,000
Provident Fund (10,000+5,000)		15,000	Sundry Debtors	20,000
Capital			Stock (25,000 - 3,000)	22,000
X	72,625		Fixed Assets (80,000 - 10,000)	70,000
Y	25,375		Cash	32,000
Z	20,000	1,18,000		
		1,49,000		1,49,000

Working Notes

1.

Distribution of Revaluation Loss

$$\text{Debit X's Capital A/c} = 18,400 \times \frac{5}{8} = ₹11,500$$

$$\text{Debit Y's Capital A/c} = 18,400 \times \frac{3}{8} = ₹6,900$$

2.

Distribution of Accumulated Loss

$$\text{Debit X's Capital A/c} = 2,400 \times \frac{5}{8} = ₹1,500$$

$$\text{Debit Y's Capital A/c} = 2,400 \times \frac{3}{8} = ₹900$$

3.

Distribution of Workmen's Comensation Fund

$$\text{X's Capital A/c will be credited} = 5,800 \times \frac{5}{8} = ₹3,625$$

$$\text{Y's Capital A/c will be credited} = 5,800 \times \frac{3}{8} = ₹2,175$$

4.

Z's premium for goodwill will be transferred to X's Capital Account because Z receives his entire share from X.

5.

Calculation of New profit sharing Ratio

Old Profit Sharing Ratio (X and Y) is 5:3

$$\text{Z acquired } \frac{1}{8}\text{th Share from X}$$

$$\text{New Share of X} = \frac{5}{8} - \frac{1}{8} = \frac{4}{8}$$

$$\text{New Share of Y} = \frac{3}{8}$$

$$\text{New Share of Z} = \frac{1}{8}$$

$$\therefore \text{New Profit Sharing Ratio is} = 4:3:1$$

Question 68.

Balance Sheet of Ram and Shyam who shares profits in proportion to their capitals as at 31st March, 2018 is:

Liabilities		₹	Assets	₹
Capital A/cs:			Freehold Premises	20,000
Ram	30,000		Plant and Machinery	13,500
Shyam	25,000	55,000	Fixtures and Fittings	1,750
Current A/cs:			Vehicles	1,350
Ram	2,000		Stock	14,100
Shyam	1,800	3,800	Bills Receivable	13,060
Creditors		19,000	Debtors	27,500
Bills Payable		16,000	Bank	1,590
			Cash	950
		93.800		**93,800**

On 1st April, 2018 they admitted Arjun into partnership on the following terms:
(a) Arjun to bring in ₹ 20,000 as capital and ₹ 6,600 for goodwill, which is to be left in the business and he is to receive 1/4th share of the profits.
(b) Provision for Doubtful Debts is to be 2% on Debtors.
(c) Value of Stock to be written down by 5%.
(d) Freehold Premises are to be taken at valuation of ₹ 22,400; Plant and Machinery ₹ 11,800; Fixtures and Fittings ₹ 1,540 and Vehicles ₹ 800.
You are required to make necessary adjustments entries in the firm, give Balance Sheet of the new firm as at 1st April, 2018 and also give's the proportions in which the partners will share profits , there being no change in the proportions of Ram and Shyam.

Solution:

Revaluation Account

Dr. Cr.

Particular	Rs.	Particular	Rs.
To Reserve for D. Debts A/c (27,500×2%)	550	By Free hold Premises A/c (22,400-20,000)	2,400
To Stock A/c	705	By Loss transferred to:	
To Plant and Machinery A/c (13,500-11,800)	1,700	Ram's Current A/c	717
To Fixture and Fittings A/c	210	Shyam's Current A/c	598
To Vehicles A/c	550		
	3,715		**3,715**

Partners Capital Account

Dr. Cr.

Particular	Ram	Shyam	Arjun	Particular	Ram	Shyam	Arjun
To Balance c/d	30,000	25,000	20,000	By Balance b/d	30,000	25,000	
				By Cash A/c			20,000
	30,000	25,000	20,000		30,000	25,000	20,000

Partners' Current Account

Dr. Cr.

Particular	Ram	Shyam	Arjun	Particular	Ram	Shyam	Arjun
To Revaluation A/c	717	598		By Balance b/d	2,000	1,800	
To Balance c/d	4,883	4,202		By Premium for Goodwill A/c	3,600	3,000	
	5,600	**4,800**	**Nil**		**5,600**	**4,800**	**Nil**

Balance Sheet

Dr. Cr.

Liabilities		Rs.	Assets		Rs.
Creditors		19,000	Freehold Premises		22,400
Bills Payable		16,000	Plant and Machinery		11,800
Capital			Fixture and Fittings		1,540
Ram	30,000		Vehicles		800
Shyam	25,000		Stock (14,100-750)		13,395
Arjun	20,000	75,000	Bills Receivables		13,060
Capital			Debtors	27,500	
Ram	4,883		*Less*: Reserve for D. Debts	(550)	26,950
Shaym	4,202	9,085	Bank		1,590
			Cash (950+20,000+6,000)		27,550
		1,19,085			**1,19,085**

Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Cash A/c Dr.		26,600	
	To Arjun's Capital A/c			20,000
	To Premium for Goodwill A/c			6,600
	(Being capital and goodwill brought in by Arjun)			
	Premium for Goodwill A/c Dr.		6,600	
	To Ram's Current A/c			3,600
	To Shaym's Current A/c			3,000
	(Being Premium for goodwill transferred to partners current account in sacrificing ratio i.e. 6:5)			

Capital brought in by Ram and Shyam are 30,000 and 25,000 respectively

PSR (Ram and Shyam) = 6 : 5

Arjun admited for $\frac{1}{4}$ Share of profit

Let the combined share of all partners after Arjun's admission be =1

Combined share of Ram and Shyam after Arjun's admission = 1 – Arjun's share

$= 1 - \frac{1}{4} = \frac{3}{4}$

New Ratio = Old Ratio – Combined share of Ram and Shyam

Ram's New Share $= \frac{6}{11} \times \frac{3}{4} = \frac{18}{44}$

Shyam's New Share $= \frac{5}{11} \times \frac{3}{4} = \frac{15}{44}$

New Profit sharing Ratio Ram, Shaym and Arjun is $= \frac{18}{44} : \frac{15}{44} : \frac{1}{4} = \frac{18:15:11}{44} = 18:15:11$

Working Notes

1.

Distribution of Premium for Goodwill

Ram's $= 6,600 \times \frac{6}{11} = ₹3,600$

Shaym's $= 6,600 \times \frac{5}{11} = ₹3,000$

2.

Distribution of Loss on Revaluation

Debit Ram's Capital A/c $= 1,315 \times \frac{6}{11} = ₹717$ (approx.)

Debit Shyam's Capital A/c $= 1,315 \times \frac{5}{11} = ₹598$ (approx.)

Question 69.

X and Y are partners in a firm sharing profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2018 was as follows:

Liabilities		₹	Assets		₹
Outstanding Rent		13,000	Cash		10,000
Creditors		20,000	Sundry Debtors	80,000	
			Less : Provision for D.D.	4,000	76,000
Workmen Compensation Reserve		5,600			
Capital A/cs:					
X	50,000		Stock		20,000
Y	60,000	1,10,000	Profit and Loss A/c		4,000
			Machinery		38,600
		1,48,600			1,48,600

On 1st April, 2018 , they admitted Z as a partner for 1/6th share on the following terms:
(i) Z brings in ₹ 40,000 as his share of Capital but he is unable to bring any amount for Goodwill.
(ii) Claim on account of Workmen Compensation is ₹ 3,000.
(iii) To write off Bad Debts amounted to ₹ 6,000.
(iv) Creditors are to be paid ₹ 2,000 more.
(v) There being a claim against the firm for damages, liabilities to the extent of ₹ 2,000 should be created.
(vi) Outstanding rent be brought down to ₹ 11,200.
(vii) Goodwill is valued at $1\frac{1}{2}$ years purchase of the average profits of last 3 years, less ₹ 12,000.
Profits for the last 3 years amounted to ₹ 10,000 ; ₹ 20,000 and ₹ 30,000.
Pass journal entries, prepare Capital Accounts and opening Balance Sheet.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Revaluation A/c	Dr.		2,000	
	To Provision for Doubtful Debts A/c				2,000
	(Being provision on debtors increased)				
	Revaluation A/c	Dr.		2,000	
	To Creditors A/c				2,000
	(Being creditors increased)				
	Revaluation A/c	Dr.		2,000	
	To Claim for Damages A/c				2,000
	(Being liability increased)				
	Outstanding Rent A/c	Dr.		1,800	
	To Revaluation A/c				1,800
	(Being liability decreased)				
	X's Capital A/c	Dr.		2,520	
	Y's Capital A/c	Dr.		1,680	
	To Revaluation A/c				4,200
	(Being loss on revaluation transferred to partners' capital A/c)				
	Workmen Compensation Reserve A/c	Dr.		5,600	
	To Workmen Compensation claim A/c				3,000
	To X's Capital A/c				1,560
	To Y's Capital A/c				1,040
	(Being surplus workmen compensation reserve distributed)				
	Bank A/c	Dr.		40,000	
	To Z's Capital A/c				40,000
	(Being capital brought in cash)				
	Z's Current A/c	Dr.		3,000	
	To X's Capital A/c				1,800
	To Y's capital A/c				1,200
	(Being goodwill adjusted in the ratio 3:2)				

Partners' Capital Account

Dr. Cr.

Particular	X	Y	Z	Particular	X	Y	Z
To Profit and Loss A/c	2,400	1,600		By Balance b/d	50,000	60,000	
To Revaluation A/c	2,520	1,680		By Bank A/c			40,000
				By Workmen			
To Balance c/d	48,440	58,960	40,000	Compensation Reserve A/c	1,560	1,040	
				By Z's Current A/c	1,800	1,200	
	53,360	**62,240**	**40,000**		**53,360**	**62,240**	**40,000**

Balance sheet

as on 1st April 2018 after Z's admission

Liabilities		Rs.	Assets		Rs.
Outstanding Rent		11,200	Cash		50,000
Workmen Compensation Claim		3,000	Stock		20,000
Creditors		22,000	Machinery		38,600
Claim for Damages		2,000	Z's Current A/c		3,000
Capital			Debtors	80,000	
X	48,440		Less: Provision for D. Debts.	(6,000)	74,000
Y	58,960				
Z	40,000	1,47,400			
		1,85,600			**1,85,600**

Working Notes:

1.

Calculation of Goodwill

$$\text{Goodwill} = \text{Average Profit} \times \text{Number of year's purchase}$$

$$= (20,000 \times 1.5) - 12,000$$

$$= 30,000 - 12,000$$

$$= ₹18,000$$

$$\text{Average Profit} = \frac{10,000 + 20,000 + 30,000}{3} = \frac{60,000}{3} = ₹20,000$$

2.

Calculation of Z's Share of goodwill

$$\text{Z's Share} = 18,000 \times \frac{1}{6} = ₹3,000$$

Question 70.

Following is the Balance Sheet of X and Y as at 31st March, 2018 who are partners in a firm sharing profits and losses in the ratio of 3 : 2 respectively:

Liabilities		Amount Rs	Assets		Amount Rs
Creditors		45,000	Cash at bank		15,000
General Reserve		36,000			
Capital A/cs:			Debtors	60,000	
X	1,80,000		*Less*: Provision for Doubtful Debts	2,400	57,600
Y	90,000	2,70,000			
			Patents		44,400
Current A/cs:			Investments		24,000
X	30,000		Fixed Assets		2,16,000
Y	6,000		Goodwill		30,000
		36,000			
		3,87,000			**3,87,000**

Z is admitted as a new partner on 1st April, 2018 on the following terms:

(a) Provision for doubtful debts is to be maintained at 5% on Debtors.
(b) Outstanding rent amounted to ₹ 15,000.
(c) An accrued income of ₹ 4,500 does not appear in the books of the firm. It is now to be recorded.
(d) X takes over the Investments at an agreed value of ₹ 18,000.
(e) New Profit-sharing Ratio of partners will be 4 : 3 : 2.
(f) Z will bring in ₹ 60,000 as his capital by cheque.
(g) Z is to pay an amount equal to his share in firm's goodwill valued at twice the average profits of the last three years which were ₹ 90,000 ; ₹ 78,000 and ₹ 75,000 respectively.
(h) Half of the amount of the goodwill is to be withdrawn by X and Y.
You are required to pass journal entries, prepare Revaluation Account, Partners Capital and Current Accounts and the Balance Sheet of the new firm.

Solution:

Revaluation Account

Dr. Cr.

Particular	Rs.	Particular	Rs.
To Prov. For D. Debts A/c	600	By Accrued Income A/c	4,500
To Outstanding Rent A/c	15,000	By Loss transferred to:	
To Investment A/c	6,000	X's Current A/c	10,260
		Y's Current A/c	6,840
	21,600		**21,600**

Partners Capital Account

Dr. Cr.

Particular	X	Y	Z	Particular	X	Y	Z
To Balance c/d	1,80,000	90,000	60,000	By Balance b/d	1,80,000	90,000	
				By Bank A/c			60,000
	1,80,000	**90,000**	**60,000**		**1,80,000**	**90,000**	**60,000**

Partners' Current Account

Dr. Cr.

Particular	X	Y	Z	Particular	X	Y	Z
To Revaluation A/c	10,260	6,840		By Balance b/d	30,000	6,000	
				By General Reserve A/c	21,600	14,400	
To Goodwill A/c	18,000	12,000		By Premium for Goodwill A/c	25,200	10,800	
To Bank A/c	12,600	5,400					
To Investment A/c	18,000						
To Balance c/d	17,940	6,960					
	76,800	**31,200**	**Nil**		**76,800**	**31,200**	**Nil**

Balance Sheet

Dr. Cr.

Liabilities		Rs.	Assets		Rs.
Capital			Patents		44,400
X	1,80,000		Fixed Assets		2,16,000
Y	90,000		Accrued Income		4,500
			Cash at Bank(15,000+96,000-		
Z	60,000	3,30,000	18,000)		93,000
Outstanding rent		15,000	Debtors	60,000	
Current			Less:5% Reserve for D. Debts	(3,000)	57,000
X	17,940				
Y	6,960	24,900			
Creditors		45,000			
		4,14,900			**4,14,900**

Journal				
Date	**Particulars**	**L.F.**	**Dr. Rs.**	**Cr. Rs.**
	Bank A/c Dr.		96,000	
	To Z's Capital A/c			60,000
	To Premium for Goodwill A/c			36,000
	(Being Z brought capital and share of goodwill)			
	Premium for Goodwill A/c Dr.		36,000	
	To X's Current A/c			25,200
	To Y's Current A/c			10,800
	(Being Premium for goodwill transferred to partners current account in sacrificing ratio i. e 7:3			
	X's Current A/c Dr.		12,600	
	Y's Current A/c Dr.		5,400	
	To Bank A/c			18,000
	(Being half of goodwill withdrawn by partners)			

Working Notes :

1.

Calculation of Z's share for Goodwill

$$\text{Average Profit} = \frac{90,000+78,000+75,000}{3} = ₹81,000$$

$$\text{Firm's Goodwill} = 81,000 \times 2 = ₹1,62,000$$

$$\text{Z's share Goodwill} = 1,62,000 \times \frac{2}{9} = ₹36,000$$

`36,000 will be shared by X and Y in sacrificing ratio.

2.

Sacrificing Ratio

Sacrificing Ratio= Old Ratio – New Ratio

$$\text{X's Sacrifice Ratio} = \frac{3}{5} - \frac{4}{9} = \frac{27-20}{45} = \frac{7}{45}$$

$$\text{Y's Sacrifice Ratio} = \frac{2}{5} - \frac{3}{9} = \frac{18-15}{45} = \frac{3}{45}$$

$$\text{Sacrificing Ratio X and Y} = \frac{7}{45} : \frac{3}{45} = 7:3$$

3.

Share of Premium of Goodwill

$$X's = 36,000 \times \frac{7}{10} = ₹25,200$$

$$Y's = 36,000 \times \frac{3}{10} = ₹10,800$$

4.

Distribution of Loss on Revaluation

$$X's = 17,100 \times \frac{3}{5} = ₹10,260$$

$$Y's = 17,100 \times \frac{5}{5} = ₹6,840$$

Question 71.

X and Y are partners sharing profits and losses equally. Their Balance Sheet as on 31st March, 2018 is given below:

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		1,50,000
X	1,50,000		Plant and Machinery		1,00,000
Y	1,00,000	2,50,000	Furniture and Fittings		25,000
Current A/cs:			Stock		75,000
X	40,000		Debtors	75,000	
Y	30,000	70,000	*Less*: 5% Reserve for D. Debts	5,000	70,000
Creditors		1,30,000	Bill Receivalbe		30,000
Bill Payable		50,000	Bank		50,000
		5,00,000			**5,00,000**

Z is admitted as a new partner for 1/4th share under the following terms:

(a) Z is to introduce ₹ 1,25,000 as capital.

(b) Goodwill of the firm was valued at nil.

(c) It is found that the creditors included a sum of ₹ 7,500 which was not to be paid. But it was also found that there was a liability for compensation to Workmen amounting to ₹ 10,000.

(d) Provision for Doubtful Debts is to be created @ 10% on debtors.

(e) In regard to the Partners Capital Accounts present fixed capital method is to be converted into fluctuating capital method.

(f) Bills of ₹ 20,000 accepted from creditors were not recorded in the books.

(g) X provides ₹ 50,000 loan to the business carrying interest @ 10% p.a.

You are required to prepare Revaluation Account, Partners Capital Accounts, Bank Account and the Balance Sheet of the new firm.

Solution:

Revaluation Account

Dr. Cr.

Particular	Rs.	Particular	Rs.
To Reserve for D. Debts A/c	2,500	By Creditors A/c	7,500
To Liability for WCF A/c	10,000	By Loss transferred to:	
		X's Current A/c	2,500
		Y's Current A/c	2,500
	12,500		**12,500**

Partners' Current Account

Dr. Cr.

Particular	X	Y	Particular	X	Y
To Revaluation A/c	2,500	2,500	By Balance b/d	40,000	30,000
To Balance c/d	37,500	27,500			
	40,000	**30,000**		**40,000**	**30,000**

Partners' Capital Account

Dr. Cr.

Particular	X	Y	Z	Particular	X	Y	Z
To Balance c/d	1,87,500	1,27,500	1,25,000	By Balance b/d	1,50,000	1,00,000	
				By Current A/c	37,500	27,500	
				By Bank A/c			1,25,000
	1,87,500	**1,27,500**	**1,25,000**		**1,87,500**	**1,27,500**	**1,25,000**

Balance Sheet

Dr. Cr.

Liabilities		Rs.	Assets		Rs.
Creditors		1,02,500	Land and Building		1,50,000
(1,30,000-7,500-20,000)			Plant and Machinery		1,00,000
Bills Payable		70,000	Fixture and Fittings		25,000
(50,000+20,000)			Stock		75,000
Capital A/c s:			Bills Receivables		30,000
X	1,87,500		Bank (50,000+1,25,000+50,000)		2,25,000
Y	1,27,500		Debtors	75,000	
Z	1,25,000	4,40,000	Less: 10% Reserve for D. Debts	(7,500)	67,500
X's Loan		50,000			
Liability for WCF		10,000			
		6,72,500			**6,72,500**

Question 72.

Rajesh and Ravi are partners sharing profits in the ratio of 3: 2. Their Balance Sheet at 31st March, 2018 stood as:

BALANCE SHEET
as at 31st March, 2018

Liabilities		₹	Assets		₹
Creditors		38,500	Cash		2,000
Outstanding Rent		4,000	Stock		15,000
Capital A/cs:			Prepaid Insurance		1,500
			Debtors	9,400	
			Less : Provision for D.D.	400	9,000
Rajesh	29,000				
Ravi	15,000	44,000			
			Machinery		19,000
			Building		35,000
			Furniture		5,000
		86,500			**86,500**

Raman is admitted as a new partner introducing a capital of ₹ 16,000. The new profit-sharing ratio is decided as 5 : 3 : 2. Raman is unable to bring in any cash for goodwill. So it is decided to value the goodwill on the basis of Raman's share in the profits and the capital contributed by him. Following revaluation s are made:

(a) Stock to depreciate by 5% ;

(b) Provision for Doubtful Debts is to be ₹ 500;

(c) Furniture to depreciate by 10% ;

(d) Building is valued at ₹ 40,000.

Show necessary Ledger Accounts and Balance Sheet of new firm.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars		Rs.	Particulars	Rs.
To Stock A/c		750	By Building A/c	5,000
To Provision for Doubtful Debts A/c	500			
Less: Old Provision	(400)	100		
To Furniture A/c		500		
To Profit on Revaluation transferred to :				
Rajesh Capital A/c		2,190		
Ravi Capital A/c		1,460		
		5,000		**5,000**

Partners Capital Account

Dr. **Cr.**

Particulars	Rajesh	Ravi	Raman	Particulars	Rajesh	Ravi	Raman
To Balance c/d (before and just went of goodwill)	31,190	16,460	16,000	By Balance b/d	1,50,000	1,00,000	
				By Revaluation A/c	2,190	1,460	
				By Cash A/c			16,000
	31,190	**16,460**	**16,000**		**31,190**	**16,460**	**16,000**
To Rajesh's Capital A/c			1,635	By Balance c/d	31,190	16,460	16,000
To Raman's Capital A/c			1,635	By Raman Capital A/c	1,635	1,635	
To Balance c/d	32,825	18,095	12,730				
	32,825	**18,095**	**16,000**		**32,825**	**18,095**	**16,000**

Balance Sheet
As on 31st March 2018 after Raman's admission

Liabilities		Rs.	Assets		Rs.
Creditors		38,500	Cash (2,000+ 16,000)		18,000
Outstanding Rent		4,000	Stock (15,000-750)		14,250
Capital			Prepaid Insurance		1,500
Rajesh	32,825		Debtors	9,400	
Ravi	18,095		Less: Provision for Doubtful Debts	(500)	8,900
Raman	12,730	63,650	Machinery		19,000
			Building (35,000+ 5,000)		40,000
			Furniture (5,000- 500)		4,500
		1,06,150			**1,06,150**

Working Notes:

1.

Old Ratio (Rajesh and Ravi)= 3:2

New Ratio (Rajesh, Ravi and Raman)= 5:3:2

Sacrificing Ratio = Old Ratio – New Raio

$$\text{Rajesh's Sacrificing Ratio} = \frac{3}{5} - \frac{5}{10} = \frac{6-5}{10} = \frac{1}{10}$$

$$\text{Ravi's Sacrificing Ratio} = \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$$

$$\text{Sacrificing Ratio Rajesh and Ravi} = \frac{1}{10} : \frac{1}{10} = 1:1$$

2.

Calculation of Goodwill

Actual Capital of all Partners before adjustment of goodwill
= Rajesh Capital + Ravi's Capital + Raman Capital
= 31,190 + 16,460+16,000
= Rs.63,650

Capitalised Value on the basis of Raman's share= $16,000 \times \frac{10}{2} = ₹80,000$

Goodwill of the firm
=Capitalised value of the firm - actual capital of all partners befor adjustment of goodwill
= 80,000 - 63,650
= ₹16,350

Raman's Share of Goodwill = $16,350 \times \frac{2}{10} = ₹3,270$

3.

Adjusment of Raman's share of goodwill

Rajesh's Capital A/c will be credited = $3,270 \times \frac{1}{2} = 1,635$

Ravi's Capital A/c will be credited = $3,270 \times \frac{1}{2} = 1,635$

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Raman Capital A/c	Dr.		3,270	
	To Rajesh's Capital A/c				1,635
	To Ravi's Capital A/c				1,635
	(Being Raman's share of goodwill adjusted)				

4.

Distribution of profit on Revaluation (Old Ratio)

Rajesh's profit on Revaluation= $3,650 \times \frac{3}{5} = ₹2,190$

Ravi's profit on Revaluation= $3,650 \times \frac{2}{5} = ₹1,460$

Question 73.

A and B are partners in a firm sharing profits in the ratio of 3 : 2. They admit C as a partner on 1st April, 2018 on which date the Balance Sheet of the firm was:

Liabilities		₹	Assets	₹
Capital A/cs:			Building	50,000
A	60,000		Plant and Machinery	30,000
B	40,000	1,00,000	Stock	20,000
Creditors		20,000	Debtors	10,000
			Bank	10,000
		1,20,000		**1,20,000**

You are required to prepare the Revaluation Account, Partners Capital Accounts and Balance Sheet of the new firm after considering the following:

(a) C brings in ₹ 30,000 as capital for 1/4th share. He also brings ₹ 10,000 for his share of goodwill.

(b) Part of the Stock which had been included at cost of ₹ 2,000 had been badly damaged in storage and could only expect to realise ₹ 400.

(c) Bank Charges had been overlooked and amounted to ₹ 200 for the year 2017-18.

(d) Depreciation on Building of ₹ 3,000 had been omitted for the year 2017-18.

(e) A credit for goods for ₹ 800 had been omitted from both purchases and creditors although the goods had been correctly included in Stock.

(f) An expense of ₹ 1,200 for insurance premium was debited in the Profit and Loss Account of 2017-18 but ₹ 600 of this are related to the period after 31st March, 2018.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Stock A/c(2,000 - 400)	1,600	By Prepaid Insurance A/c	600
To Bank A/c(Charges)	200	By Loss transferred to:	
To Building A/c	3,000	A's Capital A/c	3,000
To Creditors A/c	800	B's Capital A/c	2,000
	5,600		**5,600**

Partners Capital Account

Dr. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Revaluation A/ c	3,000	2,000		By Balance b/d	60,000	40,000	
To Balance c/d	63,000	42,000	30,000	By Bank A/c			30,000
				By Premium for Goodwill A/c	6,000	4,000	
	66,000	**44,000**	**30,000**		**66,000**	**44,000**	**30,000**

Balance Sheet

as on April 01,2018 after C's admission

Liabilities		Rs.	Assets	Rs.
Capital			Building (50,000 - 3,000)	47,000
A	63,000		Plant and Machinery	30,000
B	42,000		Stock	18,400
C	30,000	1,35,000	Debtors	10,000
Creditors (20,000+800)		20,800	Bank	49,800
			Prepaid Insurance	600
		1,55,800		**1,55,800**

Bank Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	10,000	By Revaluation A/c (Bank Charges)	200
To C's Capital A/c	30,000	By Balance c/d	49,800
To Premium for Goodwill A/c	10,000		
	50,000		**50,000**

Working Notes:

1 .

Sacrificing Ratio

Old Ratio A and B = 3:2

Sacrificing Ratio = 3:2

2.

Distribuation of Premium for Goodwill

$$A's = 10,000 \times \frac{3}{5} = ₹6,000$$

$$B's = 10,000 \times \frac{2}{5} = ₹4,000$$

Question 74.

A and B are partners in a firm. The net profit of the firm is divided as follows: 1/2 to A, 1/3 to B and 1/6 carried to a Reserve. They admit C as a partner on 1st April, 2018 on which date, the Balance Sheet of the firm was:

Liabilities		₹	Assets	₹
Capital A/cs:			Building	50,000
A	50,000		Plant and Machinery	30,000
B	40,000	90,000	Stock	18,000
Reserve		10,000	Debtors	22,000
Creditors		20,000	Bank	5,000
Outstanding Expenses		5,000		
		1,25,000		1,25,000

Following are the required adjustments on admission of C:
(a) C brings in ₹ 25,000 towards his capital.
(b) C also brings in ₹ 5,000 for 1/5 th share of goodwill.
(c) Stock is undervalued by 10%.
(d) Creditors include a contingent liability of ₹ 4,000, which has been decided by the court at ₹ 3,200.
(e) In regard to the Debtors , the following Debts proved Bad or Doubtful
₹ 2,000 due from X bad to the full extent.
₹ 4,000 due from insolvent, estate expected to pay only 50%.
You are required to prepare Revaluation Account, Partners Capital Accounts and Balance Sheet of the new firm.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Bad Debts A/c	2,000	By Stock A/c	2,000
To Provision for Doubtful Debts A/c (4,000× 50%)	2,000	By Creditors A/c (4,000- 3,200)	800
		By Loss transferred to:	
		A's Capital A/c	720
		B's Capital A/c	480
	4,000		**4,000**

Partners' Capital Account

Dr. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Revaluation A/c	720	480		By Balance b/d	50,000	40,000	
To Balance c/d	58,280	45,520	25,000	By Reserve A/c	6,000	4,000	
				By Bank A/c			25,000
				By Premium for Goodwill A/c	3,000	2,000	
	59,000	**46,000**	**25,000**		**59,000**	**46,000**	**25,000**

Balance Sheet
As on 1st April 2018 after C's admission

Liabilities		Rs.	Assets		Rs.
Capital			Building		50,000
A	58,280		Plant and Machinery		30,000
B	45,520		Stock (18,000×100/90)		20,000
C	25,000	1,28,800	Debtors	22,000	
Creditors (20,000- 800)		19,200	Less: Bad Debts	(2,000)	
Outstanding Expense		5,000	Less: Provision for D. Debts	(2,000)	18,000
			Bank (5,000 + 30,000)		35,000
		1,53,000			**1,53,000**

Working Notes:

1.

Old Ratio A and B $= \frac{1}{2} : \frac{1}{3} = 3:2$

Sacrificing Ratio (A and B) = 3:2

2.

Distribution of Reserve

A's Reserve = $10,000 \times \frac{3}{5} = ₹6,000$

B's Reserve = $10,000 \times \frac{2}{5} = ₹4,000$

3.

Distribution of premium for Goodwill

A's premium for Goodwill = $5,000 \times \frac{3}{5} = ₹3,000$

B's premium for Goodwill = $5,000 \times \frac{2}{5} = ₹2,000$

Question 75.

Following is the Balance Sheet of the firm, Ashirvad, owned by A, B and C who share profits and losses of the business in the ratio of 3 : 2 : 1.

BALANCE SHEET as at 31st March, 2018

Liabilities		₹	Assets	₹
Capital A/cs:			Furniture	95,000
A	1,20,000		Business Premises	2,05,000
B	1,20,000		Stock-in-Trade	40,000
C	1,20,000	3,60,000	Debtors	28,000
Sundry Creditors		20,000	Cash at Bank	15,000
Outstanding Salaries and wages		7,200	Cash in Hand	4,200
		3,87,200		**3,87,200**

On 1st April, 2018, they admit D as a partner on the following conditions:
(a) D will bring in ₹ 1,20,000 as his capital and also ₹ 30,000 as goodwill premium for a quarter of the share in the future profits/losses of the firm.
(b) The values of the fixed assets of the firm will be increased by 10% before the admission of D.
(c) Mohan, an old customer whose account was written off as bad debts , has promised to pay ₹ 3,000 in full settlement of his dues.
(d) The future profits and losses of the firm will be shared equally by all the partners.
Pass the necessary journal entries and Prepare Revaluation Account, Partners Capital Accounts and opening Balance Sheet of the new firm.
Note: There will be no entry for the promise made by Mohan, since it is an event and not a transaction. There is another view, ₹ 3,000 is to be considered as bad debts recovered. In this situation result will be as follows:
Gain(Profit) on Revaluation – ₹ 36,000; Capital A/c's: A – ₹ 1,66,000; B – ₹ 1,42,000; C – ₹ 1,16,000; D – ₹ 1,20,000; Balance Sheet Total – ₹ 5,72,000.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Profit transferred to:		By Fixed Assets:	
A's Capital A/c	15,000	Furniture A/c (95,000×10%)	9,500
B's Capital A/c	10,000	Business Premises A/c	20,500
C's Capital A/c	5,000	(2,05,000×10%)	
	30,000		**30,000**

Partners' Capital Account

Dr. **Cr.**

Particulars	A	B	C	D	Particulars	A	B	C	D
To A's Capital A/c (Goodwill)			7,500		By Balance b/d	1,20,000	1,20,000	1,20,000	
To B's Capital A/c (Goodwill)			2,500		By Revaluation A/c (Profit)	15,000	10,000	5,000	
To Balance c/d	1,65,000	1,40,000	1,15,000	1,20,000	By Cash A/c				1,20,000
					By Premium for Goodwill A/c	22,500	7,500		
					By C's Capital A/c (Goodwill)	7,500	2,500		
	1,65,000	1,40,000	1,25,000	1,20,000		1,65,000	1,40,000	1,25,000	1,20,000

Balance Sheet
as on 1st April 2018 after D's admission

Liabilities		Rs.	Assets	Rs.
Capital A/c s:			Furniture (95,000+ 9,500)	1,04,500
A	1,65,000		Business Premises (2,05,000+20,500)	2,25,500
B	1,40,000		Stock-in-trade	40,000
C	1,15,000		Debtors	28,000
D	1,20,000	5,40,000	Cash at Bank	15,000
Sundry Creditors		20,000	Cash in hand (4,200+1,50,000)	1,54,200
Outstanding salaries and wages		7,200		
		5,67,200		**5,67,200**

Working Notes:

1.

Old Ratio A, B and C = 3 : 2 : 1

New Ratio A, B, C and D = 1 : 1 : 1 : 1

Sacarificing = Old Ratio – New Ratio

$$\text{A's Share} = \frac{3}{6} - \frac{1}{4} = \frac{12-6}{24} = \frac{6}{24}\text{(Sacarifice)}$$

$$\text{B's Share} = \frac{2}{6} - \frac{1}{4} = \frac{8-6}{24} = \frac{2}{24}\text{(Sacarifice)}$$

$$\text{C's Share} = \frac{1}{6} - \frac{1}{4} = \frac{4-6}{24} = \frac{-2}{24}\text{(Gaining)}$$

$$\text{Sacrificing Ratio A and B} = \frac{6}{24} : \frac{2}{24} = 3:1$$

2.

$$\text{Goodwill of the firm} = \text{D's Goodwill} \times \frac{4}{1}$$

$$= 30,000 \times \frac{4}{1} = `1,20,000$$

$$\text{C's gain in Goodwill} = 1,20,000 \times \frac{2}{24} = ₹10,000$$

3.

Amount of Goodwill to be distributed between A and B (Sacrificing Partners)

Premium for Goodwill = ₹30,000

$$\text{A's Premium for Goodwill} = 30,000 \times \frac{3}{4} = ₹22,500$$

$$\text{B's Premium for Goodwill} = 30,000 \times \frac{1}{4} = ₹7,500$$

Distribution C's gain in Goodwill

$$\text{A's gain in Goodwill} = 10,000 \times \frac{3}{4} = ₹7,500$$

$$\text{B's gain in Goodwill} = 10,000 \times \frac{1}{4} = ₹2,500$$

4. Journal Entries for Capital brought in by D and distribution of Goodwill

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Cash A/c	Dr.		1,50,000	
	To D's Capital A/c				1,20,000
	To Premium for Goodwill A/c				30,000
	(Being D brought capital and share of capital)				
	Premium for Goodwill A/c	Dr.		30,000	
	C's Capital A/c	Dr.		10,000	
	To A's Capital A/c				30,000
	To B's Capital A/c				10,000
	(Being gain goodwill distributed between A and B in sacrificing ratio i.e 3:1)				

Question 76.

A and B are partners in a firm sharing profits and losses in the ratio of 3 : 2. Following is their Balance Sheet as at 31st March, 2018:

Liabilities		₹	Assets	₹
Capital A/cs:			Building	35,000
A	50,000		Machinery	25,000
B	30,000	80,000	Stock	15,000
Creditors		20,000	Debtors	15,000
			Investments	5,000
			Bank	5,000
		1,00,000		**1,00,000**

C is admitted as a partner on 1st April, 2018 on the following terms:
(a) C is to pay ₹ 20,000 as capital for 1/4th share. He also pays ₹ 5,000 as premium for goodwill.
(b) Debtors amounted to ₹ 3,000 is to be written off as bad and a Provision of 10% is created against Doubtful Debts on the remaining amount.
(c) No entry has been passed in respect of a debt of ₹ 300 recovered by A from a customer, which was previously written off as bad in previous year. The amount is to be paid by A.
(d) Investments are taken over by B at their market value of ₹ 4,900 against cash payment.
You are required to prepare Revaluation Account, Partner's Capital Accounts and new Balance Sheet.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Bad Debts A/c	3,000	By A's Capital A/c	300
To Provision for Doubtful Debts A/c	1,200	By Loss transferred to:	
To Investment A/c (5,000-4,900)	100	A Capital A/c	2,400
		B Capital A/c	1,600
	4,300		**4,300**

Partners Capital Account

Dr. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Revaluation A/c	2,400	1,600		By Balance b/d	50,000	30,000	
To Revaluation A/c	300			By Bank A/c			20,000
				By Premium for Goodwill			
To Balance c/d	50,300	30,400	20,000	A/c	3,000	2,000	
	53,000	**32,000**	**20,000**		**53,000**	**32,000**	**20,000**

Balance Sheet
As on 1ST April 2018 after C's admission

Liabilities		Rs.	Assets		Rs.
Capital			Building		35,000
A	50,300		Machinery		25,000
B	30,400		Stock		15,000
C	20,000	1,00,700	Debtors	15,000	
Creditors		20,000	Bad Debts	3,000	
				12,000	
			Less: 10% Provision for Doubtful Debts	(1,200)	10,800
			Bank		34,900
		1,20,700			**1,20,700**

Bank Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	5,000	By Balance c/d	34,900
To C's Capital A/c	20,000		
To Premium for Goodwill A/c	5,000		
To Investment A/c	4,900		
	34,900		34,900

Working Notes:

1.

Old Ratio (A and B) = 3 : 2

Sacrificing Ratio (A and B) = 3 : 2

2.

Distribuation of Premium for Goodwill

$$\text{A's Premium for Goodwill} = 5,000 \times \frac{3}{5} = ₹3,000$$

$$\text{B's Premium for Goodwill} = 5,000 \times \frac{2}{5} = ₹2,000$$

3.			
Sale of Investment			
Bank A/c	Dr.	4,900	
Revaluation A/c	Dr.	100	
To Investment A/c			5,000

4.			
Bad debt recovered			
A's Capital A/c	Dr.	300	
To Revaluation A/c			300

Question 77.

X and Y are partners sharing profits and losses in the ratio of 3/4 and 1/4. Their Balance Sheet as at

31st March, 2018 is:

Liabilities		₹	Assets	₹
Capital A/cs:			Land and Building	1,25,000
X	1,50,000		Furniture	5,000
Y	80,000	2,30,000	Stock	1,00,000
Workmen Compensation Reserve		20,000	Sundry Debtors	80,000
Sundry Creditors		1,50,000	Bills Receivable	15,000
Bills Payable		37,500	Cash at Bank	1,00,000
			Cash in Hand	12,500
		4,37,500		**4,37,500**

They admit Z into partnership on 1st April, 2018 on the following terms:
(a) Goodwill is to be valued at ₹ 1,00,000.
(b) Stock and Furniture to be reduced by 10%.
(c) A Provision for Doubtful Debts is to be created @ 5% on Sundry Debtors.
(d) The value of Land and Building is to be appreciated by 20%.
(e) Z pays ₹ 50,000 as his capital for 1/5th share in the future profits.
You are required to show Revaluation Account, Partners Capital Accounts and Balance Sheet of the new firm.
Note: Z's Share of Goodwill ₹ 20,000 (i.e, ₹ 1,00,000 x 1/5) can be adjusted through Z's Current A/c. In that situation, Partners Capital A/cs: X – ₹ 1,87,875; Y – ₹ 92,625; Z – ₹ 50,000; Z's Current A/c (Dr.) – ₹ 20,000; Balance Sheet Total – ₹ 5,18,000.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Stock A/c	10,000	By Land and Building A/c (1,25,000× 20%)	25,000
To Furniture A/c	500		
To Provision for Doubtful Debts A/c	4,000		
To Profit transferred to:			
X Capital A/c	7,875		
Y Capital A/c	2,625		
	25,000		25,000

Partners Capital Account

Dr. **Cr.**

Particulars	X	Y	Z	Particulars	X	Y	Z
To X's Capital A/c			15,000	By Balance b/d	1,50,000	80,000	
				By Workmen's Compensation Fund			
To Y's Capital A/c			5,000	A/c	15,000	5,000	
To Balance c/d	1,87,875	92,625	30,000	By Revaluation A/c (Profit)	7,875	2,625	
				By Cash A/c			50,000
				By Z's Capital A/c	15,000	5,000	
	1,87,875	**92,625**	**50,000**		**1,87,875**	**92,625**	**50,000**

Balance Sheet
as on 1st April, 2018 after Z's admission

Liabilities		Rs.	Assets		Rs.
Capital			Land and Building (1,25,000+25,000)		1,50,000
X	1,87,875		office Furniture (5,000-500)		4,500
Y	92,625		Stock (1,00,000-10,000)		90,000
Z	30,000	3,10,500	Sundry Debtors	80,000	
			Less: 5% Provision for Doubtful		
Sundry Creditors		1,50,000	Debts	(4,000)	76,000
Bills Payable		37,500	Cash at Bank		1,00,000
			Cash in Hand (12,500 + 50,000)		62,500
			Bills Receivable		15,000
		4,98,000			**4,98,000**

Working Notes:

1.

Old Ratio (X and Y) = 3 : 1

Sacrificing Ratio (X and Y) = 3 : 1

2.

Goodwill of the firm = 1,00,000

Z's Share of Goodwill $= 1,00,000 \times \frac{1}{5} =$ ₹20,000

Z's Share of Goodwill distribution of premium for Goodwill

X's premium for Goodwill $= 20,000 \times \frac{3}{4} =$ ₹15,000

Y's premium for Goodwill $= 20,000 \times \frac{1}{4} =$ ₹5,000

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Z's Capital A/c	Dr.		20,000	
	To X's Capital A/c				15,000
	To Y's Capital A/c				5,000
	(Being Z's share of goodwill changes from his capital account)				
	Workmen Compensation Fund A/c	Dr.		20,000	
	To X's Capital A/c				15,000
	To Y's Capital A/c				5,000
	(Being workmen compensation fund distributed)				

Question 78.

Deepika and Rajshree are partners in a firm sharing profits and losses in the ratio of 3 : 2 . On 31st March,2018 their Balance Sheet was:

Liabilities		₹	Assets		₹
Sundry Creditors		16,000	Cash in Hand		1,200
Public Deposits		61,000	Cash at Bank		2,800
Bank Overdraft		6,000	Stock		32,000
Outstanding Liabilities		2,000	Prepaid Insurance		1,000
Capital A/cs:			Sundry Debtors	28,000	
			Less : Provision for D.D.	800	28,000
Deepika	48,000				
Rajshree	40,000	88,000	Plant and Machinery		48,000
			Land and Building		50,000
			Furniture		10,000
		1,73,000			1,73,000

On the above date, the partners decided to admit Anshu as a partner on the following terms:
(a) The new profit-sharing ratio of Deepika, Rajshree and Anshu will be 5 : 3 : 2 respectively.
(b) Anshu shall bring in ₹ 32,000 as his capital.
(c) Anshu is unable to bring in any cash for his share of goodwill. Partners therefore, decide to calculate the goodwill on the basis of Anshu's share in the profits and the capital contribution made by her to the firm.
(d) Plant and Machinery is to be valued at ₹ 60,000, Stock at ₹ 40,000 and the Provision for Doubtful Debts is to be maintained at ₹ 4,000. Value of Land and Building has appreciated by 20%. Furniture has been depreciated by 10%.
(e) There is and additional liability of ₹ 8,000 being outstanding salary payable to employees of the firm. This liability is not included in the outstanding liabilities, stated in the above Balance Sheet. Partners decide to show this liability in the books of account of the reconstituted firm.
Prepare Revaluation Account, Partners Capital Accounts and Balance Sheet of Deepika, Rajshree and Anshu.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars		Rs.	Particulars	Rs.
			By Plant and Machinery A/c (60,000 - 48,000)	12,000
To Reserve for Doubtful Debts A/c	4,000		By Stock A/c (40,00-32,000)	8,000
Less: Old Reserve	(800)	3,200	By Land and Building A/c (50,000×20%)	10,000
To Furniture A/c (10,000× 10%)		1,000		
To Outstanding salary A/c		8,000		
To Profit transferred to:				
Deepika Capital A/c		10,680		
Rajshree Capital A/c		7,120		
		30,000		**30,000**

Partners' Capital Account

Dr. **Cr.**

Particulars	Deepika	Rajshree	Anshu	Particulars	Deepika	Rajshree	Anshu
				By Balance b/d	48,000	40,000	
To Balance c/d(before goodwill)	58,680	47,120	32,000	By Revaluation A/c	10,680	7,120	
				By Cash A/c			32,000
	58,680	**47,120**	**32,000**		**58,680**	**47,120**	**32,000**
To Deepika'sCapital A/c			2,220	By Balance c/d	58,680	47,120	32,000
				By Anshu's Capital			
To Rajshree'sCapital A/c			2,220	A/c	2,220	2,220	
To Balance c/d	60,900	49,340	27,560				
	60,900	**49,340**	**32,000**		**60,900**	**49,340**	**32,000**

Balance Sheet

as on 31st March after Anshu's admission

Liabilities		Rs.	Assets		Rs.
Outstanding Salaries		8,000	Cash in Hand		1,200
Sundry Creditors		16,000	Cash at Bank		28,800
Public Deposits		61,000	Stock		40,000
Outstanding Liabilities		2,000	Prepaid insurance		1,000
Capital A/c s:			Sundry Debtors	28,800	
Deepika	60,900		Less: Reserve for Doubtful Debts	(4,000)	24,800
Rajshree	49,340		Plant and Machinery		60,000
Anshu	27,560	1,37,800	Land and Building		60,000
			Furniture		9,000
		2,24,800			**2,24,800**

Working Notes :

1.

Old Ratio (Deepika and Rajshree) = 3 :2

New Ratio (Deepika, Rajshree and Anshu)= 5:3:2

Sacrificing Ratio = Old Ratio - New Raio

Deepika's $= \frac{3}{5} - \frac{5}{10} = \frac{6-5}{10} = \frac{1}{10}$

Rajshree's $= \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$

Sacrificing Ratio(Deepika and Rajshree) = 1 : 1

2.

Capitalised value on the basis of Anshu's Share = 32,000 $\times \frac{10}{2}$ = ₹1,60,000

Actual Capital of partners before adjustment of goodwill = 58,680 + 47,120+ 32,000 = ₹1,37,800

Goodwill = Capitalised value - Actual capital of all partners before adjustment of Goodwill =1,60,000-1,37,800=₹22,200

Anshu's Share of Goodwill = 22,200 $\times \frac{2}{10}$ = ₹4,440

Deepika and Rajshree each will entitle for Goodwill = 4,440 $\times \frac{1}{2}$ = ₹2,220

Question 79.

X and Y are partners sharing profits in the ratio of 2 : 1. Their Balance Sheet as at 31st March, 2018 was:

Liabilities		₹	Assets	₹
Sundry Creditors		25,000	Cash/Bank	5,000
General Reserve		18,000	Sundry Debtors	15,000
Capital A/cs:			Stock	10,000
X	75,000		Investments	8,000
Y	62,000	1,37,000	Typewriter	5,000
			Fixed Assets	1,37,000
		1,80,000		**1,80,000**

They admit Z into partnership on the same date on the following terms;
(a) Z brings in ₹ 40,000 as his capital and he is given 1/4th share in profits.
(b) Z brings in ₹ 15,000 for goodwill, half of which is withdrawn by old partners.
(c) Investments are valued at ₹ 10,000. X takes over Investments at this value.
(d) Typewriter is to be depreciated by 20% and Fixed Assets by 10%.
(e) An unrecorded stock of Stationery on 31st March, 2018 is ₹ 1,000.
(f) By bringing in r withdrawing cash, the Capitals of X and Y are to be made proportionate to that of Z on their profit-sharing basis.
Pass journal entries, prepare Revaluation Account, Capital Accounts and new Balance Sheet of the firm.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Revaluation A/c	Dr.		14,700	
	To Typewriter A/c				1,000
	To Fixed Assets A/c				13,700
	(Being decrease in value of typewriter and fixed assets transferred to revaluation account)				
	Stationery A/c	Dr.		1,000	
	Investment A/c	Dr.		2,000	
	To Revaluation A/c				3,000
	(Being increase in stationary and investment transferred to revaluation account)				
	X's Capital A/c	Dr.		7,800	
	Y's Capital A/c	Dr.		3,900	
	To Revaluation A/c				11,700
	(Being revaluation loss transferred to X and Y 's capital account in their old ratio)				
	Reserve Fund A/c	Dr.		18,000	
	To X's Capital A/c				12,000
	To Y's Capital A/c				6,000
	(Being reserve fund distributed)				
	Cash A/c	Dr.		55,000	
	To Z's Capital A/c				40,000
	To Premium for Goodwill A/c				15,000
	(Being Z brought capital and share of goodwill)				
	Premium for Goodwill A/c	Dr.		15,000	
	To X's Capital A/c				10,000
	To Y's Capital A/c				5,000
	(Being premium for goodwill distributed between X and Y in their sacrificing ratio i. e. 2: 1)				
	X's Capital A/c	Dr.		5,000	
	Y's Capital A/c	Dr.		2,500	
	To Cash A/c				7,500
	(Being half of the premium for goodwill withdrawn by X and Y)				
	X's Capital A/c	Dr.		10,000	
	To Investment A/c				10,000
	(Being X took over the investment)				
	Cash A/c	Dr.		4,800	
	To X's Capital A/c				4,800
	(Being X brought cash to make up deficiency in capital)				
	Y's Capital A/c	Dr.		26,600	
	To Cash A/c				26,600
	(Being Y withdrew excess capital after adjustment)				

Cash/Bank Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	5,000	By X's Capital A/c (Goodwill)	5,000
To Z's Capital A/c	40,000	By Y's Capital A/c (Goodwill)	2,500
To Premium for Goodwill A/c	15,000	By Y's Capital A/c	26,600
To X's Capital A/c	5,800	By Balance c/d	31,700
	65,800		**65,800**

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Typewriter A/c (5,000 ×20%)	1,000	By Investment A/c	2,000
To Fixed assets A/c (1,37,000 ×10%)	13,700	By Stationery A/c	1,000
		By Loss transferred to:	
		X Capital A/c	7,800
		Y Capital A/c	3,900
	14,700		**14,700**

Partners' Capital Account

Dr. **Cr.**

Particulars	X	Y	Z	Particulars	X	Y	Z
To Revaluation A/c	7,800	3,900		By Balance b/d	75,000	62,000	
To Investment A/c	10,000			By Reserve Fund A/c	12,000	6,000	
To Cash A/c	5,000	2,500		By Cash A/c			40,000
To Balance c/d	74,200	66,600	40,000	By Premium for Goodwill A/c	10,000	5,000	
	97,000	**73,000**	**40,000**		**97,000**	**73,000**	**40,000**
To Cash A/c		26,600		By Balance b/d	74,200	66,600	40,000
To Balance c/d (adjusted)	80,000	40,000	40,000	By Cash A/c	5,800		
	80,000	**66,600**	**40,000**		**80,000**	**66,600**	**40,000**

Balance Sheet

as on 31st March 2018 after Z's admission

Liabilities		Rs.	Assets	Rs.
Sundry Creditors		25,000	Cash	31,700
Capital			Sundry Debtors	15,000
X	80,000		Stock	10,000
Y	40,000		Typewriter (5,000 - 20%)	4,000
Z	40,000	1,60,000	Fixed Assets (1,37,000 - 10%)	1,23,300
			Stationery	1,000
		1,85,000		**1,85,000**

Working Notes:

1.

Sacrificing Ratio

Old Ratio (X and Y) = 2 : 1

Sacrificing Ratio (X and Y) = 2 : 1

2.

Distribution of Revaluation Loss

$$X's\ Capial\ A/c = 11,700 \times \frac{2}{3} = ₹7,800$$

$$Y's\ Capial\ A/c = 11,700 \times \frac{1}{3} = ₹3,900$$

3.

Distribution of Premium for Goodwill

$$X\ Premium\ for\ Goodwill = 15,000 \times \frac{2}{3} = ₹10,000$$

$$Y\ Premium\ for\ Goodwill = 15,000 \times \frac{1}{3} = ₹5,000$$

4.

Adjustment of Capital

$$Total\ capital\ of\ the\ firm\ on\ the\ basis\ of\ Z's\ share = 40,000 \times \frac{4}{1} = ₹1,60,000$$

Combined capital of X and Y = Total Capital of the firm – Z's capital

= 1,60,000 – 40,000

= 1,20,000

$$X's\ Capital\ A/c = 1,20,000 \times \frac{2}{3} = ₹80,000$$

$$Y's\ Capital\ A/c = 1,20,000 \times \frac{1}{3} = ₹40,000$$

Question 80.

A and B are in partnership sharing profits and losses in the proportion of 2/3rd and 1/3rd respectively. Their Balance Sheet as at 31st March, 2018 was: Cash ₹ 1,000; Sundry Debtors ₹

15,000; Stock ₹ 22,000; Plant and Machinery ₹ 4,000; Sundry Creditors ₹ 2,000; Bank Overdraft ₹ 15,000; A's Capital ₹ 15,000; B's Capital ₹ 10,000.

On 1st April, 2018 they admitted into partnership on the following terms:

(a) C to purchase one-quarter of the goodwill for ₹ 3,000 and provide ₹ 10,000 as capital. C brings in necessary cash for goodwill and capital.

(b) Profits and Losses are to be shared in the proportion of one-half to A, one-quarter to B and one quarter to C.

(c) Plant and Machinery is to be reduced by 10% and ₹ 500 are to be provided for estimated Bad Debts. Stock is to be taken at a valuation of ₹ 24,940.

(d) By bringing in or withdrawing cash the capitals of A and B are to be made proportionate to that of C on their profit-sharing basis.

Prepare necessary Ledger Accounts in the books of the firm relating to the above arrangement and submit the opening Balance Sheet of the new firm.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Plant and Machinery A/c (4,000×10%)	400	By Stock A/c (24,940 -22,000)	2,940
To Provision for Bad Debts A/c	500		
To Profit transferred to:			
A Capital A/c	1,360		
B Capital A/c	680		
	2,940		**2,940**

Partners' Capital Account

Dr. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Balance c/d	18,360	11,680	10,000	By Balance b/d	15,000	10,000	
				By Cash A/c			10,000
				By Premium for Goodwill A/c	2,000	1,000	
				By Revaluation A/c	1,360	680	
	18,360	**11,680**	**10,000**		**18,360**	**11,680**	**10,000**
To Cash A/c		1,680		By Balance b/d	18,360	11,680	10,000
To Balance c/d	20,000	10,000	10,000	By Cash A/c	1,640		
	20,000	**11,680**	**10,000**		**20,000**	**11,680**	**10,000**

Balance Sheet

as on 1st April 2018 after C's admission

Liabilities		Rs.	Assets		Rs.
Sundry Creditors		2,000	Cash		13,960
Bank Overdraft		15,000	Sundry Debtors	15,000	
Capital			Less: Prov. for Bad Debts	(500)	14,500
A	20,000		Stock		24,940
B	10,000		Plant and Machinery		3,600
C	10,000	40,000			
		57,000			**57,000**

Cash Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,000	By B's Capital A/c	1,680
To C's Capital A/c	10,000	By Balance c/d	13,960
To Premium for Goodwill A/c	3,000		
To A's Capital A/c	1,640		
	15,640		**15,640**

Working Notes :

1.

Old Ratio (A and B) = 2 : 1

New Ratio (A, B and C) $\frac{1}{2} : \frac{1}{4} : \frac{1}{4} = \frac{2:1:1}{4} = 2:1:1$

Sacrificing Ratio = Old Ratio - New Ratio

A's Sacrificing Ratio = $\frac{2}{3} - \frac{2}{4} = \frac{8-6}{12} = \frac{2}{12}$

B's Sacrificing Ratio = $\frac{1}{3} - \frac{1}{4} = \frac{4-3}{12} = \frac{1}{12}$

Sacrificing Ratio 2 : 1

2.

Distribution of premium for Goodwill

A's premium for Goodwill = $3,000 \times \frac{2}{3} = ₹2,000$

B's premium for Goodwill = $3,000 \times \frac{1}{3} = ₹1,000$

3.

Distribution of Revaluation profit

$$A's = 2,040 \times \frac{2}{3} = ₹1,360$$

$$B's = 2,040 \times \frac{1}{3} = ₹680$$

4.

Adjustment of Capitals (New Ratio)

$$\text{Total Capital of the firm} = 10,000 \times \frac{4}{1} = ₹40,000$$

$$A's \text{ share Of capital} = 40,000 \times \frac{2}{4} = ₹20,000$$

$$B's \text{ Capital} = 40,000 \times \frac{1}{4} = ₹10,000$$

$$C's \text{ Capital} = 40,000 \times \frac{1}{4} = ₹10,000$$

Question 81.

A and B were partners in a firm sharing profits in 3 : 1 ratio. They admitted C as a partner for 1/4th share in the future profit. C was to bring ₹ 60,000 for his capital. The Balance Sheet of A and B as at 1st April, 2018, the date on which C was admitted, was:

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		40,000
A	50,000		Plant ad Machinery		70,000
B	80,000	1,30,000	Stock		30,000
General Reserve		10,000	Debtors	35,000	
Creditors		70,000	*Less*: Prov. for Doubtful Debts	1,000	34,000
			Investments		26,000
			Cash		10,000
		2,10,000			**2,10,000**

The other terms agreed upon were:

(a) Goodwill of the firm was valued at ₹ 24,000.

(b) Land and Building were valued at ₹ 65,000 and Plant and Machinery at ₹ 60,000.

(c) Provision for Doubtful Debts was found in excess by ₹ 400.

(d) A liability of ₹ 1,200 included in Sundry Creditors was not likely to arise.

(e) The capitals of the partners be adjusted on the basis of C's contribution of capital to the firm.

(f) Excess of shortfall, if any, be transferred to Current Accounts.

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

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Plant and Machinery A/c (70,000-60,000)	10,000	By Land and Building A/c (65,000-40,000)	25,000
To Profit transferred to:		By Provision for D. Debts A/c	400
A Capital A/c	12,450	By Creditors A/c	1,200
B Capital A/c	4,150		
	26,600		**26,600**

Partners' Capital Account

Dr. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Balance c/d	74,450	88,150	60,000	By Balance b/d	50,000	80,000	
				By General Reserve A/c	7,500	2,500	
				By Revaluation A/c	12,450	4,150	
				By Cash A/c			60,000
				By Premium for Goodwill A/c	4,500	1,500	
	74,450	**88,150**	**60,000**		**74,450**	**88,150**	**60,000**
To B's Current A/c		43,150		By Balance b/d	74,450	88,150	60,000
To Balance c/d	1,35,000	45,000	60,000	By A's Current A/c	60,550		
	1,35,000	**88,150**	**60,000**		**1,35,000**	**88,150**	**60,000**

Balance Sheet

as on 1st April 2018 after C's admission

Liabilities		Rs.	Assets		Rs.
Creditors (70,000-1,200)		68,800	Land and Building		65,000
Capital			Plant and Machinery		60,000
A	1,35,000		Stock		30,000
B	45,000		Debtors	35,000	
C	60,000	2,40,000	Less: Prov. For Doubtful Debts	600	34,400
B's Current A/c		43,150	Debts		
			Investments		26,000
			Cash		76,000
			A's Current A/c		60,550
		3,51,950			**3,51,950**

Working Note :

1.

Sacrificing Ratio

Old Ratio (A and B) = 3 : 1

Sacrificing Ratio 3 :1

2.

$$C's\ Goodwill = 24,000 \times \frac{1}{4} = ₹6,000$$

$$A's\ Goodwill = 6,000 \times \frac{3}{4} = ₹4,500$$

$$B's\ Goodwill = 6,000 \times \frac{1}{4} = ₹1,500$$

3 :

Distribution of Revaluation Profit

$$A's\ Revaluation\ Profit = 16,600 \times \frac{3}{4} = 12,450$$

$$B's\ Revaluation\ Profit = 16,600 \times \frac{1}{4} = 4,150$$

4.

Adjusted Capital

Total Capital of the firm after C's admission = 60,000 x 4 = 2, 40, 000

Combined Capital Of A and B = Total Capital of the firm after C's admission – C's Capital

Combined Capital Of A and B = 2,40,000 – 60,000

Combined Capital Of A and B = 1,80,000

$$A's\ Capital = 1,80,000 \times \frac{3}{4} = ₹1,35,000$$

$$B's\ Capital = 1,80,000 \times \frac{1}{4} = ₹45,000$$

5.

Cash Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	10,000	By Balance c/d	76,000
To C 's Capital A/c	60,000		
To Premium for Goodwill A/c	6,000		
	76,000		**76,000**

Question 82.

The Balance Sheet of X, Y and Z who share profits and losses in the ratio of 3 : 2 : 1, as o 1st April, 2018 is as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Y's Current Account	7,000
X	1,75,000		Land and Building	1,75,000
Y	1,50,000		Plant and Machinery	67,500
Z	1,25,000	4,50,000	Furniture	80,000
Current A/cs:			Investments	36,500
X	4,000		Bills Receivable	17,000
Z	6,000	10,000	Sundry Debtors	43,500
General Reserve		15,000	Stock	1,37,000
Profit and Loss A/c		7,000	Bank	43,500
Creditors		80,000		
Bills Payable		45,000		
		6,07,000		**6,07,000**

On the above date, W is admitted as a partner on the following terms:
(a) W will bring ₹ 50,000 as his capital and get 1/6th share in the profits.
(b) He will bring necessary amount for his share of goodwill premium. Goodwill of the firm is valued at ₹ 90,000.
(c) New profit-sharing ratio will be 2 : 2 : 1 : 1.
(d) A liability of ₹ 7,004 will be created against bills receivable discounted earlier but now dishonored.
(e) The value of stock, furniture and investments is reduced by 20%, whereas the value of Land and Building and Plant and Machinery will be appreciated by 20% and 10% respectively.
(f) Capital Accounts of the partners will be adjusted on the basis of W's Capital through their Current Accounts.
Prepare Revaluation Account, Partners Current Accounts and Capitals Accounts.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars		Rs.
To Stock A/c	27,400	By Land and Building A/c		35,000
To Furniture A/c	16,000	By Plant and machinery A/c		6,750
To Investment A/c	7,300	By Loss transferred to:		
		X's Capital A/c	4,475	
		Y's Capital A/c	2,983	
		Z's Capital A/c	1,492	8,950
	50,700			**50,700**

Partners' Current Account

Dr. **Cr.**

Particulars	X	Y	Z	Particulars	X	Y	Z
To Balance b/d		7,000		By Balance b/d	4,000		6,000
To Revaluation A/c (loss)	4,475	2,983	1,492	By General Reserve A/c	7,500	5,000	2,500
To Balance c/d	1,00,525	47,350	83,175	By Profit and loss A/c	3,500	2,333	1,167
				By Premium for Goodwill A/c	15,000		
				By Capital A/c	75,000	50,000	75,000
	1,05,000	**57,333**	**84,667**		**1,05,000**	**57,333**	**84,667**

Partners Capital Account

Dr. **Cr.**

Particulars	X	Y	Z	W	Particulars	X	Y	Z	W
To Current A/c	75,000	50,000	75,000		By Balance b/d	1,75,000	1,50,000	1,25,000	
To Balance c/d	1,00,000	1,00,000	50,000	50,000	By Cash A/c				50,000
	1,75,000	**1,50,000**	**1,25,000**	**50,000**		**1,75,000**	**1,50,000**	**1,25,000**	**50,000**

Working Notes :

1.

Old Ratio (X,Y and Z)= 3: 2: 1

New Ratio (X, Y, Z, and W)= 2: 2 : 1 : 1

Sacrificing Ratio = Old Ratio - New Ratio

$$X's = \frac{3}{6} - \frac{2}{6} = \frac{1}{6}(\text{Sacrificing})$$

$$Y's = \frac{2}{6} - \frac{2}{6} = 0$$

$$Z's = \frac{1}{6} - \frac{1}{6} = 0$$

2.

Distribution of Goodwill

W's share of Goodwill $= 90,000 \times \frac{1}{6} = ₹15,000$

X's will get $= ₹15,000$

3.

Adjustment of Capital

Total Capital of the firm = W's Capital x Reciprocal of his share

$= 50,000 \times \frac{6}{1} = 3,00,000$

New profit shareing Ratio (X, Y, Z and W)= 2: 2: 1 :1

$X's = 3,00,000 \times \frac{2}{6} = ₹1,00,000$

$Y's = 3,00,000 \times \frac{2}{6} = ₹1,00,000$

$Z's = 3,00,000 \times \frac{1}{6} = ₹50,000$

$W's = 3,00,000 \times \frac{1}{6} = ₹50,000$

Question 83.

Shikhar and Rohit were partners in a firm sharing profits int he ratio of 7 : 3. On 1st April, 2013, they admitted Kavi as a new partner for 1/4th share in profits of the firm. Kavi brought ₹ 4,30,000 as his capital and ₹ 25,000 for his share of goodwill premium. The Balance Sheet of Shikhar and Rohit as on 1st April, 2013 was as follows:

Balance Sheet of Shikhar and Rohit

as at April 01, 2013

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		3,50,000
Shikhar	8,00,000		Machinery		4,50,000
Rohit	3,50,000	11,50,000	Debtors	2,20,000	
General Reserve		1,00,000	*Less*: Prov. for Doubtful Debts	20,000	2,00,000
Workmen's Compensation Fund		1,00,000	Stock		3,50,000
Creditors		1,50,000	Cash		1,50,000
		15,00,000			**15,00,000**

It was agreed that:

(a) the value of Land and Building will be appreciated by 20%.
(b) the value of Machinery will be depreciated by 10%.
(c) the liabilities of Workmen's Compensation Fund were determined at ₹ 50,000.
(d) capitals of Shikhar and Rohit will be adjusted on the basis of Kavi's capital and actual cash to be brought in or to be paid off as the case may be.
Prepare Revaluation Account, Partners Capital Accounts and Balance Sheet of the new firm.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars		Rs.	Particulars	Rs.
To Machinery A/c		45,000	By Land and Building A/c	70,000
To Profit transferred to:				
Shikhar's Capital A/c	17,500			
Rohit's Capital A/c	7,500	25,000		
		70,000		**70,000**

Partners Capital Account

Dr. **Cr.**

Particulars	Shiker	Rohit	Kavi	Particulars	Shiker	Rohit	Kavi
				By Balance b/d	8,00,000	3,50,000	
To Balance c/d	9,40,000	4,10,000	4,30,000	By General Reserve A/c	70,000	30,000	
				By Workmen's Compensation fund A/c	35,000	15,000	
				By Cash A/c			4,30,000
				By Premium for Goodwill A/c	17,500	7,500	
				By Revaluation A/c	17,500	7,500	
	9,40,000	**4,10,000**	**4,30,000**		**9,40,000**	**4,10,000**	**4,30,000**
To Cash A/c	37,000	23,000		By Balance b/d	9,40,000	4,10,000	4,30,000
To Balance c/d	9,03,000	3,87,000	4,30,000				
	9,40,000	**4,10,000**	**4,30,000**		**9,40,000**	**4,10,000**	**4,30,000**

Balance Sheet

as on 1st April 2013 after Kavi's admission

Liabilities		Rs.	Assets		Rs.
Liability for Workmen's Compensation		50,000	Land and Building		4,20,000
Creditors		1,50,000	Machinery	4,50,000	
Capital			Less: Depreciation @ 10%	(45,000)	4,05,000
Shikhar	9,03,000		Debtors	2,20,000	
Rohit	3,87,000		Less: Provision	(20,000)	2,00,000
Kavi	4,30,000	17,20,000	Stock		3,50,000
			Cash		5,45,000
		19,20,000			**19,20,000**

Calucualtion of Profit Sharing Ratio

Old Ratio (Shrikhar and Rohit) = 3 : 2

Kavi's Share = $\frac{1}{4}$

Let the total share of the firm = 1

Remaining share of the firm = $1-\frac{1}{4}=\frac{3}{4}$

Shikhar's New Ratio = $\frac{7}{10}\times\frac{3}{4}=\frac{21}{40}$

Rohit's New Ratio = $\frac{3}{10}\times\frac{3}{4}=\frac{9}{40}$

New Profit Sharing Ratio (Shrikhar and Rohit)= $\frac{21}{40}:\frac{9}{40}:\frac{1}{4}=\frac{21:9:10}{40}=21:9:1$

Sacrificing Ratio = Old Ratio - New Ratio

Shikhar's Sacrifice = $\frac{7}{10}-\frac{21}{40}=\frac{28-21}{40}=\frac{7}{40}$

Rohit's Sacrifice = $\frac{3}{10}-\frac{9}{40}=\frac{12-9}{40}=\frac{3}{40}$

Sacrificing Ratio = 7 : 3

Working Notes

1.

Distribution of Goodwill brought in by kavi

$$\text{Shrikhar's Goodwill} = 25,000 \times \frac{7}{10} = ₹17,500$$

$$\text{Rohit's Goodwill} = 25,000 \times \frac{3}{10} = ₹7,500$$

2.

Distribution of Workmen's Compenstion fund

$$\text{Shrikhar's Share} = 50,000 \times \frac{7}{10} = ₹35,000$$

$$\text{Rohit's Share} = 50,000 \times \frac{3}{10} = ₹15,000$$

3.

Distribution of General Reserve

$$\text{Shrikhar's} = 1,00,000 \times \frac{7}{10} = ₹70,000$$

$$\text{Rohit's} = 1,00,000 \times \frac{3}{10} = ₹30,000$$

4: Adjustment of Capital

Total Capital of the Firm = Capital brought in by Kavi x Reciprocal of her share

Capital brought in by Kavi = 4,30,000

$$\text{Total Capital of the Firm} = 4,30,000 \times \frac{4}{1} = ₹17,20,000$$

$$\text{Shrikhar's Share New Capital} = 17,20,000 \times \frac{21}{40} = ₹9,03,000$$

$$\text{Rohit's Share New Capital} = 17,20,000 \times \frac{9}{40} = ₹3,87,000$$

Question 84.

Raghu and Rishu are partners sharing profits in the ratio 3 : 2. Their Balance Sheet as at 31st March, 2009 was as follows:

BALANCE SHEET OF RAGHU AND RISHU
as at 31st March,2009

Liabilities		₹	Assets		₹
Creditors		86,000	Cash in Hand		77,000
Employees' Provident Fund		10,000	Debtors	42,000	
Investments Fluctuation Reserve		4,000	*Less*: Provision for D. Debts	7,000	35,000
Capital A/cs:			Investments		21,000
Raghu	1,19,000		Buildings		98,000
Rishu	1,12,000	2,31,000	Plant and Machinery		1,00,000
		3,31,000			**3,31,000**

Z is admitted as a new partner on 1st April, 2018 on the following terms:
(a) Provision for doubtful debts is to be maintained at 5% on Debtors.
(b) Outstanding rent amounted to ₹ 15,000.
(c) An accrued income of ₹ 4,500 does not appear in the books of the firm. It is now to be recorded.
(d) X takes over the Investments at an agreed value of ₹ 18,000.
(e) New Profit-sharing Ratio of partners will be 4 : 3 : 2.
(f) Z will bring in ₹ 60,000 as his capital by cheque.
(g) Z is to pay an amount equal to his share in firm's goodwill valued at twice the average profits of the last three years which were ₹ 90,000 ; ₹ 78,000 and ₹ 75,000 respectively.
(h) Half of the amount of the goodwill is to be withdrawn by X and Y.
You are required to pass journal entries, prepare Revaluation Account, Partners Capital and Current Accounts and the Balance Sheet of the new firm.
Rishabh was admitted on that date for 1/4th share of profit on the following terms:
(a) Rishabh will bring ₹ 50,000 as his share of capital.
(b) Goodwill of the firm is valued at ₹ 42,000 and Rishabh will bring his share of goodwill in cash.
(c) Buildings were appreciated by 20%.
(d) All Debtors were good.
(e) There was a liability of ₹ 10,800 included in Creditors which was not likely to arise.
(f) New profit-sharing ratio will be 2 : 1 : 1.
(g) Capital of Raghu and Rishu will be adjusted on the basis of Rishabh's share of capital and any excess or deficiency will be made by withdrawing or bringing in cash by the concerned partners as the case may be.
Prepare Revaluation Account, Partners Capital Accounts and Balance Sheet of the new firm.
Solution:

Revaluation Account

Dr. **Cr.**

Particulars		Rs.	Particulars	Rs.
To Profit transferred to:			By Building A/c	19,600
Raghu's Capital A/c	22,440		By Provision for Doubtful Debts A/c	7,000
Rishu's Capital A/c	14,960	37,400	By Liability for Creditors A/c	10,800
		37,400		**37,400**

Partners Capital Account

Dr. **Cr.**

Particulars	Raghu	Rishu	Rishabh	Particulars	Raghu	Rishu	Rishabh
				By Balance b/d	1,19,000	1,12,000	
To Cash A/c	48,040	84,860		By Cash A/c			50,000
				By Investment Fluctuation			
To Balance c/d	1,00,000	50,000	50,000	Fund A/c	2,400	1,600	
				By Premium for Goodwill A/c	4,200	6,300	
				By Revaluation A/c (Profit)	22,440	14,960	
	1,48,040	**1,34,860**	**50,000**		**1,48,040**	**1,34,860**	**50,000**

Balance Sheet
as on 31st March 2009

Liabilities		Rs.	Assets	Rs.
Creditors	86,00		Cash	4,600
Less: Liability	(10,800)	75,200	Debtors	42,000
Employees Provident Fund		10,000	Investment	21,000
Capital			Buildings (98,000+19,600)	1,17,600
Raghu	1,00,000		Plant and Machinery	1,00,000
Rishu	50,000			
Rishabh	50,000	2,00,000		
		2,85,200		**2,85,200**

Working Note :

1.

Calculation of sacrificing Ratio

Old Ratio (Raghu's and Rishi's) = 3 : 2

New Ratio (Raghu's, Rishi's and Rishabh's) = 2 : 1 : 1

Sacrificing Ratio = Old Ratio – New Ratio

$$\text{Raghu's Share} = \frac{3}{5} - \frac{2}{4} = \frac{12}{20} - \frac{10}{20} = \frac{2}{20}$$

$$\text{Rishi's Share} = \frac{2}{5} - \frac{1}{4} = \frac{8}{20} - \frac{5}{20} = \frac{3}{20}$$

∴ Sacrificing Ratio (Raghu's and Rishi's) = 2 : 3

2.

Share of Rishabh's Share of Goodwill

Value of firm's Goodwill = 42,000

$$\text{Rishabh's Goodwill} = 42{,}000 \times \frac{1}{4} = ₹10{,}500$$

3.

Adjustment of Capital

Total Capital of New Firm = Rishabh's Capital x Reciprocal of Rishabh's Share

capital of Rishabh= 50,000

$$\text{Total Capital of New Firm} = 50{,}000 \times \frac{4}{1} = ₹2{,}00{,}000$$

$$\text{Raghu's New Share Capital} = 2{,}00{,}000 \times \frac{2}{4} = ₹1{,}00{,}000$$

$$\text{Rishu's New share Capital} = 2{,}00{,}000 \times \frac{1}{4} = ₹50{,}000$$

4.

Cash Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	77,000	By Raghu's Capital A/c	48,040
To Rishabh's Capital A/c	50,000	By Rishu's Capital A/c	84,860
To Premium for Goodwill A/c	10,500	By Balance c/d	4,600
	1,37,500		**1,37,500**

Question 85.

Following is the Balance Sheet of Abha and Binay as at 31st March, 2014:

Liabilities		₹	Assets		₹
Creditors		13,000	Bank		15,000
Empolyees Provident Fund		8,000	Debtors	22,000	
Workmen Compensation Fund		15,000	*Less* : Provision for D.D.	1,000	21,000
Capital A/cs:			Stock		10,000
Abha	55,000		Plant and Machinery		60,000
Binay	30,000	85,000	Goodwill		10,000
			Profit and Loss		5,000
		1,21,000			**1,21,000**

Chitra was admitted as a partner for 1/4th share in the profits of the firm. It was decided that:
(a) Bad Debts amounted to ₹ 1,500 will be written off.
(b) Stock worth ₹ 8,000 was taken over by Abha and Binay at Book Value in their profit-sharing ratio. The remaining stock was valued at ₹ 2,500.
(c) Plant and Machinery and Goodwill were valued at ₹ 32,000 and ₹ 20,000 respectively.
(d) Chitra brought her share of goodwill in cash.
(e) Chitra will bring proportionate capital and the capitals of Abha and Binay will be adjusted in their profit-sharing ratio by bringing in or paying off cash as the case may be.
Prepare Revaluation Account and Partners Capital Accounts.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars		Rs.
To Bad Debts A/c	500	By Stock A/c		500
To Plant and Machinery A/c	28,000	By Loss on Revaluation A/c		
		Abhy's Capital A/c	14,000	
		BInay's Capital A/c	14,000	28,000
	28,500			**28,500**

Partners Capital Account

Dr. **Cr.**

Particulars	Abha	Binay	Chitra	Particulars	Abha	Binay	Chitra
To Revaluation A/c	14,000	14,000		By Balance b/d	55,000	30,000	
To Goodwill A/c	5,000	5,000		By Bank A/c			18,000
				By Premium for Goodwill			
To Profit and Loss A/c	2,500	2,500		A/c	2,500	2,500	
To Stock A/c	4,000	4,000		By WCF A/c	7,500	7,500	
To Balance c/d	39,500	14,500	18,000				
	65,000	**40,000**	**18,000**		**65,000**	**40,000**	**18,000**
To Bank A/c	12,500			By Balance c/d	39,500	14,500	18,000
To Balance c/d (adjustment)	27,000	27,000	18,000	By Bank A/c		12,500	
	39,500	**27,000**	**18,000**		**39,500**	**27,000**	**18,000**

Working Note:

1.

Chitra's Capital = Total Adjusted Capital of Abha and Binay × Reciprocal of Combined Profit Share × Chira's Profit Share.

Abha's Adjusted Capital = 55,000+2,500+ 7,500 - 14,000 - 5,000 - 2,500 - 4,000 = Rs.39,5000

Binay's Adjusted Capital = 30,000 + 2,500 +7,500 - 14,000 - 5,000 - 2,500 - 4,000 = Rs.14,500

$$\text{Chitra's Capital} = (39,500 + 14,500) \times \frac{4}{3} \times \frac{1}{4} = ₹18,000$$

2.

Calculation of New Capital

New capital = Total Adjusted capital × Respective partners's Profit share

$$\text{Abhy's} = (39,500 + 14,500) \times \frac{1}{2} = ₹27,000$$

$$\text{Binay's} = (39,500 + 14,500) \times \frac{1}{2} = ₹27,000$$

3.

Calculation of Chitra's Share of Goodwill

Chitra's Share = Firm's Goodwill × Chitra's Profit Share

$$= 20,000 \times \frac{1}{4} = ₹5,000$$

5,000 will be shared by Abhay and Binay in sacrificing ratio 1 : 1

Question 86.

M and N were partners in a firm sharing profits in the ratio of 3 : 2 : 1. Their Balance Sheet on 31st March, 2015 was as follows:

Liabilities		₹	Assets	₹
Creditors		1,68,000	Bank	34,000
General Reserve		42,000	Debtors	46,000
Capital's A/cs:				
L	1,20,000		Stock	2,20,000
M	80,000		Investments	60,000
N	40,000	2,40,000	Furniture	20,000
			Machinery	70,000
		4,50,000		**4,50,000**

On the above date, O was admitted as a new partner and it was decided that:
(i) The new profit-sharing ratio between L, M, N and O will be 2 : 2 : 1 : 1.
(ii) Goodwill of the firm was valued at ₹ 1,80,000 and O brought his share of goodwill premium in cash.
(iii) The market value of investments was ₹ 36,000.
(iv) Machinery will be reduced to ₹ 58,000.
(v) A creditor of ₹ 6,000 was not likely to claim the amount and hence was to be written off.
(vi) O will bring proportionate capital so as to give him 1/6th share in the profits of the firm.
Prepare Revaluation Account, Partners Capital Accounts and the Balance Sheet of the new firm.

Solution:

Revaluation Account

Dr. Cr.

Particular	Rs.	Particular		Rs.
To Investment A/c	24,000	By Creditors A/c		6,000
To Machinery A/c	12,000	By Loss on Revaluation		
		L's Capital A/c	15,000	
		M's Capital A/c	10,000	
		N's Capital A/c	5,000	30,000
	36,000			**36,000**

Partners Capital Account

Dr. Cr.

Particular	X	Y	Z	O	Particular	X	Y	Z	O
To Revaluation A/c	15,000	10,000	5,000		Balance b/d	1,20,000	80,000	40,000	
Balance c/d	1,56,000	84,000	42,000	56,400	By Gen. Reserve A/c	21,000	14,000	7,000	
					By P. for Goodwill A/c	30,000			
					By Cash A/c				56,400
	1,71,000	94,000	47,000	56,400		1,71,000	94,000	47,000	56,400

Balance sheet

as on 31st March 2015

Liabilities		Rs.	Assets	Rs.
Creditors		1,62,000	Bank (34,000+56,400+30,000)	1,20,400
Capitals:			Debtors	46,000
L	1,56,000		Stock	2,20,000
M	84,000		Investments	36,000
N	42,000		Furniture	20,000
O	56,400	3,38,400	Machinery	58,000
		5,00,400		**5,00,400**

Working Notes:

1.

Sacrificing Ratio = Old Ratio - New Ratio

$$\text{L's Sacrificing Ratio} = \frac{3}{6} - \frac{2}{6} = \frac{3-2}{6} = \frac{1}{6}$$

$$\text{M's Sacrificing Ratio} = \frac{2}{6} - \frac{2}{6} = \frac{2-2}{6} = \text{Nil}$$

$$\text{N's Sacrificing Ratio} = \frac{1}{6} - \frac{1}{6} = \frac{1-1}{6} = \text{Nil}$$

2.

$$\text{O's Share of Goodwill} = 1,80,000 \times \frac{1}{6} = ₹30,000$$

₹30,000 will be credited to L's Capital A/c ,as he is only sacrificing partner

3.

Calculation of O's Proportionate Capital

O's Proportionate Capital

= Total Adjusted Capital x O's Profit Share x Reciprocal of Combined New Share of Old Partners

$$= 2,82,000 \times \frac{1}{6} \times \frac{6}{5} = ₹56,400$$

Total Adjusted Capital =Ajusted Old Capital of L + Ajusted Old Capital of M+ Ajusted Old Capital of N

= 1,56,000 + 84,000 +,42,000 = ₹2,82,000

Ajusted Old Capital of L = 1,20,000 + 21,000 + 30,000 - 15,000 = ₹1,56,000

Ajusted Old Capital of M = 80,000 + 14,000 - 10,000 = ₹84,000

Ajusted Old Capital of N = 40,000 + 7,000 -5,000 = ₹42,000

Question 87.

A and B are partners in a firm sharing profits and losses in the ratio 3 : 1. They admit C for 1/4th share on 31st March, 2014 when their Balance Sheet was as follows:

Liabilities		₹	Assets		₹
Employees Provident Fund		17,000	Cash		6,100
Workmen Compensation Reserve		6,000	Stock		15,000
Investments Fluctuation Reserve		4,100	Debtors	50,000	
			Less : Provision for D.D.	2,000	48,000
Capital A/cs:					
			Investments		
A	54,000		Goodwill		7,000
B	35,000	89,000			40,000
		1,16,100			1,16,100

The following adjustments were agreed upon:
(a) C brings ₹ 16,000 as goodwill and proportionate capital.
(b) Bad Debts amounted to ₹ 3,000.
(c) Market value of Investments is ₹ 4,500.
(d) Liability on account of workmen compensation reserve amounted to ₹ 2,000.
Prepare Revaluation Account and Partners Capital Accounts.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars		Rs.
To Bad Debts A/c	1,000	By Loss on Revaluation :		
		A's Capital A/c	750	
		B's Capital A/c	250	1,000
	1,000			**1,000**

Partners' Capital Account

Dr. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Revaluation A/c	750	250		By Balance b/d	54,000	35,000	
To Goodwill A/c	30,000	10,000		By Bank A/c			23,200
				By Premium for Goodwill			
To Balance c/d	39,450	30,150	23,200	A/c	12,000	4,000	
				By WCF A/c	3,000	1,000	
				By IFF A/c	1,200	400	
	70,200	**40,400**	**23,200**		**70,200**	**40,400**	**23,200**

Working Notes:

1. Calculation of C's Capital

A's Adjusted Capital = 54,000 + 12,000 + 3,000 + 1,200 - 750 - 30,000 = Rs.39,450

B's Adjusted Capital = 35,000 + 4,000 + 1,000 + 400 - 250 -10,000 = Rs.30,150

C's Capital = Total Adjusted Capital of A and B ×Reciprocal of Combined Profit Share × C's Profit Share

$$\text{C's Capital} = (39,450 + 30,150) \times \frac{4}{3} \times \frac{1}{4} = ₹23,200$$

Notes:

1. Premium for Goodwill Rs.16,000à Distributed between A and B in sacrificing ratio i.e. 3 : 1.
2. Excess WCF of Rs.4,000à Shared in old ratio among old partners.
3. Excess IFF of Rs.1,600à Shared in old ratio among old partners.

Question 88.

Pradeep and Dhanraj were partners in a firm sharing profits in the ratio of 3 : 1. Their Balance Sheet on 31st March, 2018 was:

Liabilities		₹	Assets		₹
Creditors		30,000	Cash		4,000
Bills Payable		1,000	Debtors	50,000	
Reserve Fund		16,000	*Less* : Provision for D.D.	5,000	45,000
Outstanding Salary		3,000	Stock		30,000
Capital A/cs:			Bils Receivable		10,000
Pradeep	60,000		Patents		1,000
Dhanraj	20,000	80,000	Machinery		40,000
		1,30,000			1,30,000

They admitted Leander as a new partner on this date. New profit-sharing ratio is agreed as 3 : 2 : 3. Leander brings in proportionate capital after the following adjustments:

(a) Leander brings ₹ 16,000 as his share fo goodwill.

(b) Provisions for Doubtful Debts is to be reduced by ₹ 2,000.

(c) There is an old Typewriter valued at ₹ 2,400. It does not appear in the books of the firm. It is now to be recorded.

(d) Patents are valueless.

Prepare Revaluation Account, Capital Accounts and opening Balance Sheet of Pradeep, Dhanraj and Leander.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Patents A/c	1,000	By Provision for Doubtful Debts A/c	2,000
To Profit transferred to:		By Typewriter A/c	2,400
Pradeep Capital A/c	2,550		
Dhanraj Capital A/c	850		
	4,400		**4,400**

Partners' Capital Account

Dr. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Balance c/d	90,550	24,850		By Balance b/d	60,000	20,000	
				By Reserve Fund A/c	12,000	4,000	
				By Revaluation A/c	2,550	850	
				By Premium for Goodwill A/c	16,000		
	90,550	**24,850**			**90,550**	**24,850**	
To Balance c/d	90,550	24,850	69,240	By Balance b/d	90,550	24,850	
				By Cash A/c			69,240
	90,550	**24,850**	**69,240**		**90,550**	**24,850**	**69,240**

Balance Sheet

as on 31st March 2018 after Leander's admission

Liabilities		Rs.	Assets		Rs.
Creditors		30,000	Debtors	50,000	
Bills Receivable		1,000	Less: Prov. for Doubtful Debts	(3,000)	47,000
Outstanding Salary		3,000	Stock		30,000
Capital			Bills Receivable		10,000
Pradeep	90,550		Machinery		40,000
Dhanraj	24,850		Typewriter		2,400
Leander	69,240	1,84,640	Cash		89,240
		2,18,640			**2,18,640**

Working Notes :

1.

Old Ratio (Pradeep and Dhanraj) = 3 : 1

New Ratio (Pradeep, Dhanraj and Leander) = 3 : 2 :3

Sacrificing Ratio = Old Ratio – New Ratio

$$\text{Pradeep's Ratio} = \frac{3}{4} - \frac{3}{8} = \frac{6-3}{8} = \frac{3}{8}$$

$$\text{Dhanraj's Ratio} = \frac{1}{4} - \frac{2}{8} = \frac{2-2}{8} = \text{Nil}$$

It is only Pradeep Sacrificing Ratio.

The amount for goodwill brought by leander will be taken by Pradeep alone.

2.

Distribution of Revaluation Profit

Pradeep's Share Profit= $3,400 \times \frac{3}{4} = ₹2,550$

Dhanraj's Share Profit= $3,400 \times \frac{1}{4} = ₹850$

3.

Distribution of Resrve Fund

Pradeep's Resrve Fund = $16,000 \times \frac{3}{4} = ₹12,000$

Dhanraj's Resrve Fund= $16,000 \times \frac{1}{4} = ₹4,000$

4

Combined capital of predeep and Dhanraj after all ajustment = 90,550 +24,850 =1,15,4000

Combined Share of Profit of Predeep and Dhanraj = 1 – Leander Share = $1 - \frac{3}{8} = \frac{5}{8}$

Total capital of the Firm on the Basis of combined capital of Pradeep and Dhanraj

$= 1,15,400 \times \frac{8}{5} = ₹1,84,640$

Leander Capital = $1,84,640 \times \frac{3}{8} = ₹69,240$

5

Cash Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	4,000	By Balance c/d	89,240
To Leander 's Capital A/c	69,240		
To Premium for Goodwill A/c	16,000		
	89,240		**89,240**

Question 89.

Mohan and Sohan are in partnership sharing profits in the proportion of 3/5th and 2/5th respectively. Their Balance Sheet as at 31st March, 2018 was:

Liabilities		₹	Assets		₹
Mohan's Capital	2,000		Plant		650
Sohan's Capital	1,000	3,000	Cash		650
Creditors		400	Debtors	1,000	
			Less: Provision for D.D	400	600
			Stock		1,500
		3,400			**3,400**

They decide to admit Rohan to a 1/3rd share upon the terms that he is to pay into the business ₹ 1,000 as Goodwill and sufficient Capital to give him a 1/3rd share of the total capital of the new firm. It was agreed that the Provision for Doubtful Debts be reduced to ₹ 100 and the Stock be revalued at ₹ 2,000 and that the Plant be reduced to ₹ 500. You are required to record the above in the Ledger of the firm and show Balance Sheet of the new partnership.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Plant A/c	150	By Reserve for Doubtful Debts A/c (400-100)	300
To Profit transferred to:		By Stock A/c	500
Mohan Capital A/c	390		
Sohan Capital A/c	260		
	800		**800**

Partners Capital Account

Dr. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Balance c/d	2,990	1,660		By Balance b/d	2,000	1,000	
				By Revaluation A/c	390	260	
				By Premium for Goodwill A/c	600	400	
	2,990	**1,660**			**2,990**	**1,660**	
				By Balance b/d	2,990	1,660	
To Balance c/d	2,990	1,660	2,325	By Cash A/c			2,325
	2,990	**1,660**	**2,325**		**2,990**	**1,660**	**2,325**

Balance Sheet
as on 31st March 2018 after Rohan's admission

Liabilities		Rs.	Assets		Rs.
Capital			Cash		3,975
Mohan	2,990		Debtors	1,000	
Sohan	1,660		Less: Reserve for D. Debts	(100)	900
Rohan	2,325	6,975	Stock		2,000
Creditors		400	Plant		500
		7,375			**7,375**

Working Notes :

1.

Old Ratio (Mohan and Sohan) = 3 : 2

Sacrificing Ratio= 3 : 2

2.

Distribution of Premium for Goodwill

Mohan 's = $1,000 \times \frac{3}{5} = ₹600$

Sohan's = $1,000 \times \frac{2}{5} = ₹400$

3.

Distribution of Revaluation Profit

Mohan's = $650 \times \frac{3}{5} = ₹390$

Sohan's = $650 \times \frac{2}{5} = ₹290$

4.

Calculation of Rohan's Capital

Combined capital of Mohan's and Sohan's after all ajustment = 2,990 +1,660 = 4,650

Total capital of the Firm on the Basis of combined capital of Mohan and Sohan= $4,650 \times \frac{3}{2} = 6,975$

Rohan Capital = $6,975 \times \frac{1}{3} = ₹2,325$

5.

Cash Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	650	By Balance c/d	3,975
To Rohan 's Capital A/c	2,325		
To Premium for Goodwill A/c	1,000		
	3,975		**3,975**

Question 90.

Following is the Balance Sheet of X and Y as at 31st March, 2018. Z is admitted as a partner on that date when the position of X and Y was:

Liabilities		₹	Assets	₹
X's Capital	10,000		Cash in Hand	9,000
Y's Capital	8,000	18,000	Debtors	11,000
Creditors		12,000	Stock	12,000
General Reserve		16,000	Building	8,000
Workmen Compensation Reserve		4,000	Machinery	10,000
		50,000		**50,000**

X and Y share profits in the proportion of 3 : 2. The following terms of admission are agreed upon:

(a) Revaluation of assets: Building ₹ 18,000; Stock ₹ 16,000.

(b) The liability on Workmen Compensation Reserve is determined at ₹ 2,000.

(c) Z brought as his share of goodwill ₹ 10,000 in cash.

(d) Z was to bring in further cash as would make his capital equal to 20% of the combined capital of X and after above revaluation and adjustments are carried out.

(e) The further profit-sharing proportions were: X – 2/5th, Y – 2/5th and Z – 1/5th.

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

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Profit transferred to:		By Building A/c (18,000- 8,000)	10,000
X Capital A/c	8,400	By Stock A/c (16,000 - 12,000)	4,000
Y Capital A/c	5,600		
	14,000		**14,000**

Partners Capital Account

Dr. **Cr.**

Particulars	X	Y	Z	Particulars	X	Y	Z
				By Balance b/d	10,000	8,000	
To Balance c/d	39,200	20,800		By General Reserve A/c	9,600	6,400	
				By Workmen's Compensation Fund A/c	1,200	800	
				By Revaluation A/c (Profit)	8,400	5,600	
				By Premium for Goodwill A/c	10,000		
	39,200	**20,800**			**39,200**	**20,800**	
To Balance c/d	39,200	20,800	12,000	By Balance b/d	39,200	20,800	
				By Cash A/c			12,000
	39,200	**20,800**	**12,000**		**39,200**	**20,800**	**12,000**

Balance Sheet
As on 31ST March 2018 after Z's admission

Liabilities		Rs.	Assets	Rs.
Capital A/c s:			Cash in Hand	31,000
X	39,200		Debtors	11,000
Y	20,800		Stock	16,000
Z	12,000	72,000	Building	18,000
Creditors		12,000	Machinery	10,000
Outstanding W.C. C.		2,000		
		86,000		**86,000**

Working Note

1.

Old Ratio X and Y = 3 : 2

New Ratio X, Y and Z = 2 : 2 : 1

Sacrificing Ratio = Old Ratio - New Ratio

X's Sacrificing Ratio= $\frac{3}{5}-\frac{2}{5}=\frac{1}{5}$

Y's Sacrificing Ratio= $\frac{2}{5}-\frac{2}{5}=$ Nil

Only X is Sacrificing ratio=$\frac{1}{5}$

Therefore, amount of Premium of Goodwill will be taken only by X.

2. Treatment of Workmen Compensation Fund

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Workmen's Compensation Fund A/c	Dr.		4,000	
	To Outstanding Workmen's Compensation Claim A/c				2,000
	To X's Capital A/c				1,200
	To Y's Capital A/c				800
	(Being outstanding workmen's compensation charges from the fund and remaining fund transferred to partner's capital in their old ratio)				

3.

Calculation of Z's Capital

Combined capital of X and Y after all Adjustment = 39,200 + 20,800 = 60,000

$$\text{Z's Share Capital} = 60,000 \times \frac{20}{100} = ₹12,000$$

4. Calculation of Cash Balance

Cash Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	9,000	By Balance c/d	31,000
To Z's Capital A/c	12,000		
To Premium for Goodwill A/c	10,000		
	31,000		**31,000**

Question 91.

A and B are partners sharing profits in the ratio of 3 : 2. They admit C as a new partner from 1st April, 2018. They have decided to share future profits in the ratio of 4 : 3 : 3. The Balance Sheet as at 31st March, 2018 is given below:

Liabilities		₹
A's Capital	1,76,000	
B's Capital	2,54,000	4,30,000
Workmen Compensation Reserve		20,000
Investments Fluctuation Reserve		10,000
Employee's Provident Fund		34,000
C's Loan		3,00,000
		7,94,000

Assets		₹
Goodwill		34,00
Land and Building		60,000
Investment (Market value ₹ 45,000)		50,000
Debtors	1,00,000	
Less: Provision for D.D	10,000	90,000
Stock		3,00,000
Bank Balance		2,50,000
Advertising Suspense A/c		10,000
		7,94,000

Terms of C's admission are as follows:
(i) C contributes proportionate capital and 60% of his share of goodwill in cash.
(ii) Goodwill is to be valued at 2 years purchase of super profit of last three completed years. Profits for the years ended 31st March were: 2016 – ₹ 4,80,000; 2017 – ₹ 9,30,000; 2018 – ₹ 13,80,000. The normal profit is ₹ 5, 30,000 with same amount of capital invested in similar industry.
(iii) Land and Building was found undervalued by ₹ 1,00,000.
(iv) Stock was found undervalued by ₹ 31,000.
(v) Provision for Doubtful Debts is to be made equal to 5% of the debtors.
(vi) Claim on account of Workmen Compensation is ₹ 11,000. Prepare Revaluation Account, Partners Capital Accounts and Balance Sheet.

Solution:

Revaluation Account

Dr. Cr.

Particular		Rs.	Particular	Rs.
To Stock A/c		31,000	By Land and Building A/c	1,00,000
To Profit transferred to:			By Provision for Doubtful Debts A/c	5,000
A's Capital A/c	44,400			
B's Capital A/c	29,600	74,000		
		1,05,000		**1,05,000**

Partners Capital Account

Dr. Cr.

Particular	A	B	C	Particular	A	B	C
To Goodwill A/c	20,400	13,600		By Balance b/d	1,76,000	2,54,000	
To Advertisement A/c	6,000	4,000		By Bank A/c			
To Suspense A/c				By P. for Goodwill A/c	96,000	48,000	3,06,000
To Balance c/d	3,62,400	3,51,600	3,06,000	By C's current A/c	64,000	32,000	
				By Revaluation A/c	44,400	29,600	
				By I.F.R. A/c	3,000	2,000	
				By W.C.R. A/c	5,400	3,600	
	3,88,800	3,69,200	3,06,000		3,88,800	3,69,200	3,06,000

Bank Account

Dr. Cr.

Particular	Rs.	Particular	Rs.
To Balance b/d	2,50,000	By Balance c/d	7,00,000
To C's Capital A/c	3,06,000		
To Premium for Goodwill A/c	1,44,000		
	7,00,000		**7,00,000**

Balance sheet

as on 1st April ,2018 after C's admission

Liabilities		Rs.	Assets		Rs.
Workmen Compensation Reserve		11,000	Land and Building		1,60,000
Employees Provident Fund		34,000	Bank A/c		7,00,000
C's Loan		3,00,000	Investment		45,000
Capital			Stock		2,69,000
A	3,62,400		C's Current A/c		96,000
B	3,51,600		Debtors	1,00,000	
C	3,06,000	10,20,000	Less: Provision for D. Debts	(5,000)	95,000
		13,65,000			**13,65,000**

Working Notes:

1.

Old Ratio A and B = 3:2

New Ratio A,B and C = 4: 3:3

Sacrificing Ratio = Old Ratio - New Ratio

$$\text{A's share Sacrificing Ratio} = \frac{3}{5} - \frac{4}{10} = \frac{6}{10} - \frac{4}{10} = \frac{2}{10}$$

$$\text{B's share Sacrificing Ratio} = \frac{2}{5} - \frac{3}{10} = \frac{4}{10} - \frac{3}{10} = \frac{1}{10}$$

Sacrificing Ratio A and B = 2 : 1

2. Calculation of Goodwill

$$\text{Average Profit} = \frac{\text{Total Profit of past years given}}{\text{Number of Years}}$$

$$= \frac{27,90,000}{3} = ₹9,30,000$$

$$\text{Normal Profit} = \text{Capital Emloyed} \times \frac{\text{Normal Rate of Return}}{100}$$

$= ₹5,30,000$

Super Profit = Average Profit - Normal Profit

= 9,30,000 - 5,30,000 = ₹4,00,000

Goodwill = Super Profit × No. of Years Purchase

= 4,00,000 × 2 = Rs.8,00,000

$$\text{C's share of Goodwill} = 8,00,000 \times \frac{3}{10} = ₹2,40,000$$

$$\text{Goodwill brought in Bank A/c} = 2,40,000 \times \frac{60}{100} = ₹1,44,000$$

3.

Calculation of C's Capital

$$\text{Combined Capital A and B's Capital for } \frac{7}{10}\text{th} = 3,62,400 + 3,51,600 = ₹7,14,000$$

$$\text{So, C's Capital} = 7,14,000 \times \frac{10}{7} \times \frac{3}{10} = ₹3,06,000$$

Question 92.

Kalpana and Kanika were partners in a firm sharing profits in the ratio of 3 : 2. On 1st April, 2018, they admitted Karuna as a new partner for 1/5th share in the profits of the firm. The Balance Sheet of the Kalpana and Kanika as on 1st April, 2018 was as follows:

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		2,10,000
Kalpana	4,80,000		Plant		2,70,000
Kanika	2,10,000	6,90,000	Stock		2,10,000
General Reserve		60,000	Debtors	1,32,000	
Workmen's Compensation Fund		1,00,000	*Less*: Prov	12,000	1,20,000
Creditors		90,000	Cash		26,000
					1,30,000
		9,40,000			**9,40,000**

It was agreed that;

(a) the value of Land and Building will be appreciated by 20%.

(b) the value of plant be increased by ₹ 60,000.

(c) Karuna will bring ₹ 80,000 for her share of goodwill premium.

(d) the liabilities of Workmen's Compensation Fund were determined at ₹ 60,000.

(e) Karuna will bring in cash as capital to the extent of 1/5th share of the total capital of the new firm.

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

Solution:

Revaluation Account

Dr. **Cr.**

Particulars		Rs.	Particulars	Rs.
To Revaluation Profit :			By Land and Building A/c	42,000
Kalpana's Capital A/c	61,200		By Plant A/c	60,000
Kanika's Capital A/c	40,800	1,02,000		
		1,02,000		**1,02,000**

Partners' Capital Account

Dr. **Cr.**

Particulars	Kalpana	Kanika	Karuna	Particulars	Kalpana	Kanika	Karuna
To Balance c/d	6,49,200	3,22,800	2,43,000	By Balance b/d	4,80,000	2,10,000	
				By Cash A/c			2,43,000
				By General Reserve A/c	36,000	24,000	
				By W.C.F. A/c	24,000	16,000	
				By Revaluation A/c	61,200	40,800	
				By Premium for Goodwill A/c	48,000	32,000	
	6,49,200	**3,22,800**	**2,43,000**		**6,49,200**	**3,22,800**	**2,43,000**

Balance Sheet

as on 1st April 2018 after Karuna's admission

Liabilities		Rs.	Assets		Rs.
Creditors		90,000	Cash in Hand		4,53,000
Capital			Debtors	1,32,000	
Kalpana	6,49,200		Less: Provision for debts	(12,000)	1,20,000
Kanika	3,22,800		Stock		2,10,000
Karuna	2,43,000	12,15,000	Land and Building		2,52,000
Liability for Workmen Compensation		60,000	Plant		3,30,000
		13,65,000			**13,65,000**

Working Notes :

1.

Karuna's share = $\frac{1}{5}$ th

Let the total share of the firm be 1

Remaining share = $1-\frac{1}{5}=\frac{4}{5}$

This remaining share will be share among old partners in their old ratio=3:2

Kalpana's New Share = $\frac{4}{5}\times\frac{3}{5}=\frac{12}{25}$

Kanika's New Share = $\frac{4}{5}\times\frac{2}{5}=\frac{8}{25}$

New Ratio = 12 : 8: 5

Calculation Sacrificing Ratio

Sacrificing Ratio = Old Ratio – New Ratio

Kalpana Sacrificing Ratio= $\frac{3}{5}-\frac{12}{25}=\frac{15-12}{25}=\frac{3}{25}$

Kanika Sacrificing Ratio= $\frac{2}{5}-\frac{8}{25}=\frac{10-8}{25}=\frac{3}{25}$

Sacrificing Ratio (Kalpana and Kanika) = 3 : 2

2.

Adjusted Capital of Kalpana = `6,49,200

Adjusted Capital of Karuna = `3,22,800

Total Adjusted Capital =6,49,200 + 3,22,800 = 9,72,000

Karuna's Capital = Adjusted capital of Kalpana and Kanika x Karuna's share x Reciprocal of the Firm's Share

Karuna's Capital = $9,72,000\times\frac{1}{5}\times\frac{5}{4}=$ ₹2, 43, 000