Chapter 2

Reconstitution of a Partnership Firm – Admission of a Partner

EXERCISE-2.1

1 Marks

1.Singh, Gupta and Khan are partners in a firm sharing profits in 3:2:3 ratio. They admitted Jain as a new partner. Singh surrendered 1/3 of his share in favour of Jain: Gupta surrendered 1/4 of his share in favour of Jain and Khan surrendered 1/5 in favour of Jain. Calculate new profit sharing ratio?

Answer Old profit sharing ratio of Singh, Gupta and Khan = 3 : 2 : 3

Singh's sacrifice = 1/3 of 3/8 = $1/3 \times 3/8 = 3/24$

Gupta's sacrifice = 1/4 of 2/8 = $1/4 \times 2/8 = 2/32$

Khan's sacrifice = 1/5 of 3/8 = $1/5 \times 3/8 = 3/40$

Singh's new share = $3/8 - 3/24 = \frac{9-3}{24} = \frac{6}{24}$

Gupta's new share = $2/8 - 2/32 = \frac{8-2}{32} = \frac{6}{32}$

Khan's new share = $3/8 - 3/40 = \frac{15-3}{40} = \frac{12}{40}$

Jain's share = $3/24 + 2/32 + 3/40 = \frac{60+30+36}{480} = \frac{126}{480}$

Hence, new share of Singh : Gupta : Khan : Jain

$$\frac{6}{24} : \frac{6}{32} : \frac{12}{40} : \frac{126}{480}$$

$$\frac{120 : 90 : 144 : 126}{480}$$

or $120 : 90 : 144 : 126$

or $20 : 15 : 24 : 21$

2.Sandeep and Navdeep are partners in a firm sharing profits in 5:3 ratio. They admit C into the firm and the new profit sharing ratio was agreed at 4:2:1. Calculate the sacrificing ratio?

Answer Sacrifice ratio = Old ratio – New ratio

New profit sharing ratio of Sandeep : Navdeep : C = 4 : 2 : 1

Old profit sharing ratio of Sandeep : Navdeep = 5 : 3

$$\text{Sacrifice of Sandeep} = 5/8 - 4/7 = \frac{35-32}{56} = 35/56$$

$$\text{Sacrifice of Navdeep} = 3/8 - 2/7 = \frac{21-16}{56} = 5/56$$

$$\text{Hence, sacrificing ratio} = \frac{3}{56} : \frac{5}{56} = 3 : 5$$

3.Rao and Swami are partners in a firm sharing profits and losses in 3:2 ratio. They admit Ravi as a new partner for 1/8 share in the profits. The new profit sharing ratio between Rao and Swami is 4:3. Calculate new profit sharing ratio and sacrificing ratio?

Answer $\text{Ravi's share} = \frac{1}{8}$

$$\text{Combine share of Rao and Swami} = 1 - \frac{1}{8} = \frac{7}{8}$$

New ratio between Rao and Swami = 4 : 3

$$\text{Rao's new share} = \frac{7}{8} \times \frac{4}{7} = \frac{28}{56}$$

$$\text{Swami's new share} = \frac{7}{8} \times \frac{3}{7} = \frac{21}{56}$$

New profit sharing ratio of Rao : Swami : Ravi

$$\frac{28}{56} : \frac{21}{56} : \frac{1}{8}$$

or $$\frac{28 : 12 : 7}{56}$$

$$28 : 21 : 7$$

$$4 : 3 : 1$$

$$\text{Rao's sacrifice} = \frac{3}{5} - \frac{4}{8} = \frac{24 - 20}{40} = \frac{4}{40}$$

$$\text{Swami's sacrifice} = \frac{2}{5} - \frac{3}{8} = \frac{16 - 15}{40} = \frac{1}{40}$$

Sacrificing ratio of Rao and Swami = 4 : 1

4.Compute the value of goodwill on the basis of four years' purchase of the average profits based on the last five years? The profits for the last five years were as follows:

Year	Amt. (₹)
2002	40,000
2003	50,000
2004	60,000
2005	50,000
2006	60,000

Answer Goodwill = Average profit × Number of purchase years

Average profit of last 5 years

$$= \frac{40{,}000 + 50{,}000 + 60{,}000 + 50{,}000 + 60{,}000}{5}$$

$$= ₹\,52{,}000$$

Goodwill $= 52{,}000 \times 4 =$ ₹ 2,08,000

5.Capital employed in a business is Rs. 2,00,000. The normal rate of return on capital employed is 15%. During the year 2002 the firm earned a profit of Rs. 48,000. Calculate goodwill on the basis of 3 years purchase of super profit?

Answer Super profit = Actual profit – Estimated profit

Goodwill = Super profit × Number of purchase years

Normal profit = 2,00,000 × 15/100 = ₹ 30,000

Super profit = 48,000 – 30,000

= ₹ 18,000

Goodwill = 18,000 × 3

= ₹ 54,000

6.The books of Ram and Bharat showed that the capital employed on 31.12.2002 was Rs. 5,00,000 and the profits for the last 5 years : 2002 Rs. 40,000; 2003 Rs. 50,000; 2004 Rs. 55,000; 2005 Rs. 70,000 and 2006 Rs. 85,000. Calculate the value of goodwill on the basis of 3 years purchase of the average super profits of the last 5 years assuming that the normal rate of return is 10%?

Answer Normal profit = 5,00,000 × 10/100 = ₹ 50,000

Average profit of last 5 years

$$= \frac{40{,}000 + 50{,}000 + 55{,}000 + 70{,}000 + 85{,}000}{5}$$

Actual profit = ₹ 60,000

Super profit = 60,000 – 50,000 = ₹ 10,000

Goodwill = 10,000 × 3 = ₹ 30,000

7.Rajan and Rajani are partners in a firm. Their capitals were Rajan Rs. 3,00,000; Rajani Rs. 2,00,000. During the year 2002 the firm earned a profit of Rs. 1,50,000. Calculate the value of goodwill of the firm assuming that the normal rate of return is 20%?

Answer Capital employed = Rajan's capital + Rajani's capital

$= 2,50,000 = 3,00,000 + 2,00,000 = ₹\ 5,00,000$

Capitalised value = Actual profit × 100/ Normal Rate of Return

$$= 1,50,000 \times \frac{100}{20}$$

$= 7,50,000$

Goodwill = Capitalised value – Capital employed

$= 7,50,000 - 5,00,000$

$= 2,50,000$

8.A business has earned average profits of Rs. 1,00,000 during the last few years. Find out the value of goodwill by capitalisation method, given that the assets of the business are Rs. 10,00,000 and its external liabilities are Rs. 1,80,000. The normal rate of return is 10%?

Answer Capital employed = Assets – External liabilities

$= 10,00,000 - 1,80,000 = 8,20,000$

Estimated capital required to earn average profit ₹ 1,00,000 @ Normal return 10%

$$= 1,00,000 \times \frac{100}{10} = ₹\ 10,00,000$$

Goodwill = Estimated capital – Actual capital (Capital employed)

$= 10,00,000 - 8,20,000 = ₹\ 1,80,000$

9. 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 1/5 share of profits. Ghosh is to bring in Rs. 20,000 as capital and Rs. 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

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
a. (i)	Cash A/c Dr		24,000	
	To Ghosh's Capital A/c			20,000
	To Premium for Goodwill A/c			4,000
	(Being captial ₹ 20,000 and goodwill ₹ 4,000 brought by Ghosh)			
(ii)	Premium for Goodwill A/c Dr		4,000	
	To Verma's Capital A/c			2,500
	To Sharma's Capital A/c			1,500
	(Being premium distributed among old partners in shering ratio)			
b. (i)	Cash A/c Dr		24,000	
	To Ghosh's Capital A/c			20,000
	To Premium for Goodwill A/c			4,000
	(Being captial ₹ 20,000 and goodwill ₹ 4,000 brought by Ghosh)			
(ii)	Premium for Goodwill A/c Dr		4,000	
	To Verma's Capital A/c			2,500
	To Sharma's Capital A/c			1,500
	(Being premium distributed among old partners in shering ratio)			
(iii)	Verma's Capital A/c Dr		2,500	
	Sharma's Capital A/c Dr		1,500	
	To Cash A/c			4,000
	(Being share of goodwill withdrawn in full)			
c. (i)	Cash A/c Dr		24,000	
	To Ghosh's Capital A/c			20,000
	To Premium for Goodwill A/c			4,000
	(Being capital ₹ 20,000 and goodwill ₹ 4,000 brought by Ghosh)			
(ii)	Premium for Goodwill A/c Dr		4,000	
	To Verma's Capital A/c			2,500
	To Sharma's Capital A/c			1,500
	(Being premium distributed among old partners in shering ratio)			
(iii)	Verma's Capital A/c Dr		1,250	
	Sharma's Capital A/c Dr		750	
	To Cash A/c			2,000
	(Being 50% of goodwill with drawn)			

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
d. (i)	Cash A/c Dr		20,000	
	To Ghosh's Capital A/c			20,000
	(Being capital ₹ 20,000 paid in cash by Ghosh)			
(ii)	**Note** No entry, treatment or effect will be shown for goodwill paid privately.			

10. A and B are partners in a firm sharing profits and losses in the ratio of 3:2. They decide to admit C into partnership with 1/4 share in profits. C will bring in Rs. 30,000 for capital and the requisite amount of goodwill premium in cash. The goodwill of the firm is valued at Rs, 20,000. The new profit sharing ratio is 2:1:1. A and B withdraw their share of goodwill. Give necessary journal entries?

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Cash A/c Dr		35,000	
	To C's Capital A/c			30,000
	To Premium for Goodwill A/c			5,000
	(Being C admitted and paid capital ₹ 30,000 and premium ₹ 5,000 for 1/4 share)			
(ii)	Premium for Goodwill A/c Dr		5,000	
	To A's Capital A/c			2,000
	To B's Capital A/c			3,000
	(Being premium distributed among old partners in sacrificing ratio *i.e.*, 2 : 3)			
(iii)	A's Capital A/c Dr		2,000	
	B's Capital A/c Dr		3,000	
	To Cash A/c			5,000
	(Being share of goodwill withdrawn in cash)			

Note *Sacrificing ratio = Old ratio – New ratio.*

11.Arti and Bharti are partners in a firm sharing profits in 3:2 ratio, They admitted Sarthi for 1/4 share in the profits of the firm. Sarthi brings Rs. 50,000 for his capital and Rs. 10,000 for his 1/4 share of goodwill. Goodwill already appears in the books of Arti and Bharti at Rs. 5,000. the new profit sharing ratio between Arti, Bharti and Sarthi will be 2:1:1. Record the necessary journal entries in the books of the new firm?

Answer Existing goodwill is to be written off among old partners in old profit sharing ratio.

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Arti's Capital A/c	Dr		3,000	
	Bharti's Capital A/c	Dr		2,000	
	To Goodwill A/c				5,000
	(Being good will written off among old partners in old ratio)				
(ii)	Cash A/c	Dr		60,000	
	To Sarthi's Capital A/c				50,000
	To Premium for Goodwill A/c				10,000
	(Being capital ₹ 50,000 and premium ₹ 10,000 paid by Sarthi in cash)				
(iii)	Premium for Goodwill A/c	Dr		10,000	
	To Arti's Capital A/c				4,000
	To Bharti's Capital A/c				6,000
	(Being premium distributed among old partners in sacrificing ratio)				

12.X and Y are partners in a firm sharing profits and losses in 4:3 ratio. They admitted Z for 1/8 share. Z brought Rs. 20,000 for his capital and Rs. 7,000 for his 1/8 share of goodwill. Subsequently X, Y and Z decided to show goodwill in their books at Rs. 40,000. Show necessary journal entries in the books of X, Y and Z?

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Cash A/c	Dr		27,000	
	To Z's Capital A/c				20,000
	To Premium for Goodwill A/c				7,000
	(Being ₹ 20,000 capital and ₹ 7,000 premium paid by Z in cash for 1/8 share)				
(ii)	Premium for Goodwill A/c	Dr		7,000	
	To X' s Capital A/c				4,000
	To Y's Capital A/c				3,000
	(Being premium distributed in sacrificing ratio)				

Note *If no information is provided, then old ratio becomes sacrificing ratio.*

13.Aditya and Balan are partners sharing profits and losses in 3:2 ratio. They admitted Christopher for 1/4 share in the profits. The new profit sharing ratio agreed was 2:1:1. Christopher brought Rs. 50,000 for his capital. His share of goodwill was agreed to at Rs. 15,000. Christopher could bring only Rs. 10,000 out of his share of goodwill. Record necessary journal entries in the books of the firm?

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Cash A/c	Dr		60,000	
	To Christopher's Capital A/c				50,000
	To Premium for Goodwill A/c				10,000
	(Being cash ₹ 50,000 capital and ₹ 10,000 as premium paid by Christopher)				
(ii)	Premium for Goodwill A/c	Dr		10,000	
	Christopher's Capital A/c	Dr		5,000	
	To Aditya's Capital A/c				6,000
	To Balan's Capital A/c				9,000
	(Being premium ₹ 10,000 and remaining ₹ 5,000 unpaid adjusted from new partner's capital and distributed in sacrificing ratio)				

Note *In case new partner does not give his full share of goodwill in cash, the balance will be adjusted from his capital account.*

14 .Amar and Samar were partners in a firm sharing profits and losses in 3:1 ratio. They admitted Kanwar for 1/4 share of profits. Kanwar could not bring his share of goodwill premium in cash. The Goodwill of the firm was valued at Rs. 80,000 on Kanwar's admission. Record necessary journal entry for goodwill on Kanwar's admission.

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Kanwar's Capital A/c Dr		20,000	
	To Amar's Capital A/c			15,000
	To Samar's Captial A/c			5,000
	(Being 1/4 share of goodwill of Kanwar not paid in cash adjusted from his capital and distributed in sacrificing ratio among old partners)			

Working Note Goodwill of firm =₹ 80,000

Kanwar's profit share ratio = 1/4

Kanwar's sharing of goodwill $= 80{,}000 \times \frac{1}{4} =$ ₹ 20,000

Note *Old ratio will be considered as sacrificing ratio.*

EXERCISE-2.2

2 Marks

1.Mohan Lal and Sohan Lal were partners in a firm sharing profits and losses in 3:2 ratio. They admitted Ram Lal for 1/4 share on 1.1.2003. It was agreed that goodwill of the firm will be valued at 3 years purchase of the average profits of last 4 years which were Rs. 50,000 for 2003, Rs. 60,000 for 2004, Rs. 90,000 for 2005 and Rs. 70,000 for 2006. Ram Lal did not bring his share of goodwill premium in cash. Record the necessary journal entries in the books of the firm on Ram Lal's admission when:

a) Goodwill already appears in the books at Rs. 2,02,500.

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

c) Goodwill appears in the books at Rs. 2,05,000.

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
a. (i)	Mohan Lal's Capital A/c	Dr		1,21,500	
	Sohan Lal's Capital A/c	Dr		81,000	
	To Goodwill A/c				2,02,500
	(Being existing goodwill written off among old partners in old ratio)				
(ii)	Ram Lal's Capital A/c	Dr		50,625	
	To Mohan Lal's Capital A/c				30,375
	To Sohan Lal's Capital A/c				20,250
	(Being share of goodwill of new partner not paid in cash adjusted from his capital and distributed among old partners in sacrificing ratio)				
b. (i)	Mohan Lal's Capital A/c	Dr		1,500	
	Sohan Lal's Capital A/c	Dr		1,000	
	To Goodwill A/c				2,500
	(Being existing goodwill written off among old partners in old ratio)				

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(ii)	Ram Lal's Capital A/c	Dr		50,625	
	To Mohan Lal's Capital A/c				30,375
	To Sohan Lal's Capital A/c				20,250
	(Being share of goodwill of new partner not paid in cash adjusted from his capital and distributed among old partners in sacrificing ratio)				
c. (i)	Mohan Lal's Capital A/c	Dr		1,23,000	
	Sohan Lal's Capital A/c	Dr		82,000	
	To Goodwill A/c				2,05,000
	(Being existing goodwill written off among old partners in old profit sharing ratio)				
(ii)	Ram Lal's Capital A/c	Dr		50,625	
	To Mohan Lal's Capital A/c				30,375
	To Sohan Lal's Capital A/c				20,250
	(Being share of goodwill of new partner not paid in cash adjusted from his capital and distributed among old partners in sacrificing ratio)				

Working Note

$$\text{Average profit} = \frac{50{,}000 + 60{,}000 + 90{,}000 + 70{,}000}{4} = \frac{2{,}70{,}000}{4} = ₹\ 67{,}500$$

$$\text{Goodwill of firm} = 67{,}500 \times 3 = ₹\ 2{,}02{,}500$$

$$\text{Share of new partner} = 2{,}02{,}500 \times \frac{1}{4} = ₹\ 50{,}625$$

2.Rajesh and Mukesh are equal partners in a firm. They admit Hari into partnership and the new profit sharing ratio between Rajesh, Mukesh and Hari is 4:3:2. On Hari's admission goodwill of the firm is valued at Rs. 36,000. Hari is unable to bring his share of goodwill premium in cash. Rajesh, Mukesh and Hari decided not to show goodwill in their balance sheet. Record necessary journal entries for the treatment of goodwill on Hari's admission.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Hari's Capital A/c Dr		8,000	
	To Rajesh's Capital A/c			2,000
	To Mukesh's Capital A/c			6,000
	(Being 2/9 share of goodwill of new partner adjusted from his capital and distributed among old partners in sacrificing ratio)			

Working Note

$$\text{Goodwill of firm} = ₹\ 36{,}000$$

$$\text{Hari's share of profit} = \frac{2}{9}$$

$$\text{Hari's share of goodwill} = 36{,}000 \times \frac{2}{9} = ₹\ 8{,}000$$

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

$$\text{Rajesh} = 1/2 - 4/9 = \frac{9-8}{18} = 1/18$$

$$\text{Mukesh} = 1/2 - 3/9 = \frac{9-6}{18} = 3/18$$

Sacrifice of Rajesh and Mukesh = 1 : 3

3 .Amar and Akbar are equal partners in a firm. They admitted Anthony as a new partner and the new profit sharing ratio is 4:3:2. Anthony could not bring this share of goodwill Rs. 45,000 in cash. It is decided to do adjustment for goodwill without opening goodwill account. Pass the necessary journal entry for the treatment of goodwill?

Journal Entry

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Anthony's Capital A/c	Dr		45,000	
	To Amar's Capital A/c				11,250
	To Akbar's Capital A/c				33,750
	(Being Anthony's share of goodwill not paid in cash adjusted among old partners in sacrificing ratio)				

Note *Sacrificing ratio = Old ratio – New ratio*

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Bills Payable		10,000	Cash in Hand		10,000
Creditors	58,000		Cash at Bank		2,00,000
(+) Provision	1,000	59,000	Sundry Debtors	60,000	
Outstanding Expenses		2,000	(–) Provision for Doubtful Debts	(3,000)	57,000
Capital			Stock	40,000	
A	2,38,000		(–) Depreciation	(4,000)	36,000
B	1,79,000		Plant	1,00,000	
C	1,00,000	5,17,000	(+) Appreciation	20,000	1,20,000
			Building	1,50,000	
			(+) Appreciation	15,000	1,65,000
		5,88,000			5,88,000

4 .Leela and Meeta were partners in a firm sharing profits and losses in the ratio of 5:3. On Is Jan. 2007 they admitted Om as a new partner. On the date of Om's admission the balance sheet of Leela and Meeta showed a balance of Rs. 16,000 in general reserve and Rs. 24,000 (Cr) in Profit and Loss Account. Record necessary journal entries for the treatment of these items on Om's admission. The new profit sharing ratio between Leela, Meeta and Om was 5:3:2.

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	General Reserve A/c	Dr		16,000	
	To Leela's Capital A/c				10,000
	To Meeta's Capital A/c				6,000
	(Being general reserve written off among old partners in old profit sharing ratio)				
(ii)	Profit and Loss A/c	Dr		24,000	
	To Leela's Capital A/c				15,000
	To Meeta's Capital A/c				9,000
	(Being profit and loss account credit balance written off among old partners in old profit sharing ratio)				

Note *One single compound entry can be passed in place of above two entries.*

5. Amit and Viney are partners in a firm sharing profits and losses in 3:1 ratio. On 1.1.2007 they admitted Ranjan as a partner. On Ranjan's admission the profit and loss account of Amit and Viney showed a debit balance of Rs. 40,000. Record necessary journal entry for the treatment of the same.

Journal Entry

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Amit's Capital A/c	Dr		30,000	
	Vinay's Capital A/c	Dr		10,000	
	To Profit and Loss A/c				40,000
	(Being debit balance of profit and loss account transferred to capital account of old partners)				

6.A and B share profits in the proportions of 3/4 and 1/4 . Their Balance Sheet on Dec. 31, 2006 was as follows

Balance Sheet of A and B

as on December 31, 2006

Liabiliti s	Amt. (₹)	Assets	Amt. (₹)
Sundry Creditors	41,500	Cash at Bank	26,500
Reserve Fund	4,000	Bills Receivable	3,000
Capital Accounts		Debtors	16,000
A	30,000	Stock	20,000
B	16,000	Fixtures	1,000
		Land and Building	25,000
	91,500		91,500

On Jan. 1,2007, C was admitted into partnership on the following terms:

(a) That C pays Rs. 10,000 as his capital.

(b) That C pays Rs. 5,000 for goodwill. Half of this sum is to be withdrawn by A and B.

(c) That stock and fixtures be reduced by 10% and a 5%, provision for doubtful debts be created on Sundry Debtors and Bills Receivable.

(d) That the value of land and buildings be appreciated by 20%.

(e) There being a claim against the firm for damages, a liability to the extent of Rs. 1,000 should be created.

(f) An item of Rs. 650 included in sundry creditors is not likely to be claimed and hence should be written back.

Record the above transactions (journal entries) in the books of the firm assuming that the profit sharing ratio between A and B has not changed. Prepare the new Balance Sheet on the admission of C.

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Reserve Fund A/c	Dr		4,000	
	To A's Capital A/c				3,000
	To B's Capital A/c				1,000
	(Being transfer of reserve fund to old partners in old ratio)				
(ii)	Revaluation A/c	Dr		4,050	
	To Stock A/c				2,000
	To Fixture A/c				100
	To Provision for Doubtful Debts A/c				800
	To Liability for Damages A/c				1,000
	To Bills Receivable A/c				150
	(Being reduction of assets and provisions and liability adjusted)				
(iii)	Land and Building A/c	Dr		5,000	
	Sundry Creditor's A/c	Dr		650	
	To Revaluation A/c				5,650
	(Being increase in value of land and building and creditors adjusted)				
(iv)	Revaluation A/c	Dr		1,600	
	To A's Capital A/c				1,200
	To B's Capital A/c				400
	(Being profit on revaluation credited to old partners in old ratio)				
(v)	Bank A/c	Dr		15,000	
	To C's Capital A/c				10,000
	To Premium A/c				5,000
	(Being capital ₹ 10,000 and goodwill ₹ 5,000 paid in cash by new partner)				
(vi)	Premium A/c	Dr		5,000	
	To A's Capital A/c				3,750
	To B's Capital A/c				1,250
	(Being goodwill distributed among old partners in sacrificing ratio)				
(vii)	A's Capital A/c	Dr		1,875	
	B's Capital A/c	Dr		625	
	To Bank A/c				2,500
	(Being half the amount of goodwill withdrawn in cash)				

Revaluation Account

Dr | | | Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Stock		2,000	By Land and Building	5,000
To Fixture		100	By Sundry Creditors	650
To Provision for Doubtful Debts		800		
To Provision on Bills Receivable		150		
To Liability for Damage		1,000		
To Profit on Revaluation Account Transfered to				
A's Capital A/c	1,200			
B's Capital A/c	400	1,600		
		5,650		5.650

Balance Sheet

Liabilities	Amt. (₹)	Assets		Amt. (₹)
Creditors	15,000	Land and Building		50,000
Bills Payable	10,000	Plant		55,000
Capital Accounts		Sundry Debtors	22,000	
Ashish	97,400	(−) Provision	(2000)	20,000
Dutta	46,600	Stock		35,000
Vimal	36,000	Cash		41,000
		Vimal's Current A/c		4,000
	2,05,000			2,05,000

Balance Sheet of A, B and C
as on 31 December, 2006

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Sundry Creditors		40,850	Cash at Bank		39,000
Liability for Damage		1,000	Bills Receivable	3,000	
Capital Account			(−) Provision	(150)	2,850
A	36,075		Debtors	16,000	
B	18,025		(−) Provision	(800)	15,200
C	10,000	64,100	Stock		18,000
			Fixtures		900
			Land and Building		30,000
		1,05,950			1,05,950

Working Note

Dr **Cash at Bank Account** Cr

Liabilities	Amt. (₹)	Assets	Amt. (₹)
To Balance b/d	26,500	By A's Capital	1,875
To C's Capital	10,000	By B's Capital	625
To Premium	5,000	By Balance c/d	39,000
	41,500		41,500

Note *Write off's and revaluation is to be done before entry of admission otherwise new partner becomes entitled for share in such items.*

7. A and B are partners sharing profits and losses in the ratio of 3:1. On Ist Jan. 2007 they admitted C as a new partner for 1/4 share in the profits of the firm. C brings Rs. 20,000 as for his 1/4 share in the profits of the firm. The capitals of A and B after all adjustments in respect of goodwill, revaluation of assets and liabilities, etc. has been worked out at Rs. 50,000 for A and Rs. 12,000 for B. It is agreed that partner's capitals will be according to new profit sharing ratio. Calculate the new capitals of A and B and pass the necessary journal entries assuming that A and B brought in or withdrew the necessary cash as the case may be for making their capitals in proportion to their profit sharing ratio?

Answer New profit sharing ratio and total capital of firm will be calculated on basis of new partners share in profit and his capital.

Total share = 1

C's share = 1/4

Remaining share of A and B = 1 − 1/4 = 3/4

A's new share = 3/4 × 3/4 = 9/16

B's new share = 3/4 × 1/4 = 3/16

C's new share = 1/4 × 4/4 = 4/16

Thus, new profit sharing ratio = 9/16 : 3/16 : 4/16 or 9 : 3 : 4

C' s capital = ₹ 20,000

His share = 1/4

Hence, capital of firm = 20,000 × 4/1 = ₹ 80,000

and Capital of A = 80,000 × 9/16 = ₹ 45,000

B = 80,000 × 3/16 = ₹ 15,000

C = 80,000 × 4/16 = ₹ 20,000

A's capital after all adjustments = ₹ 50,000 (given in question)

A's capital required = ₹ 45,0000

Therefore, he withdraws = ₹ 5,000

B's capital after all adjustments = ₹ 12,000

B's capital required = ₹ 15,000

Therefore, he deposits = ₹ 3,000

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	A's Capital A/c Dr To Cash A/c (Being excess capital withdrawn)		5,000	 5,000
(ii)	Cash A/c Dr To B's Capital A/c (Being deficiency in capital deposited in cash)		3,000	 3,000

EXERCISE-2.3

4 Marks

1.Pinky, Qumar and Roopa partners in a firm sharing profits and losses in the ratio of 3:2:1. S is admitted as a new partner for 1/4 share in the profits of the firm, whichs he gets 1/8 from Pinky, and 1/16 each from Qmar and Roopa. The total capital of the new firm after Seema's admission will be Rs. 2,40,000.Seema is required to bring in cash equal to 1/4 of the total capital of the new firm. The capitals of the old partners also have to be adjusted in proportion of their profit sharing ratio. The capitals of Pinky, Qumar and Roopa after all adjustments in respect of goodwill and revaluation of assets and liabilities have been made are Pinky Rs. 80,000, Qumar Rs. 30,000 and Roopa Rs. 20,000. Calculate the capitals of all the partners and record the necessary journal entries for doing adjustments in respect of capitals according to the agreement between the partners?

Answer New profit sharing ratio of

$$\text{Pinky} = 3/6 - 1/8 = \frac{12-3}{24} = \frac{9}{24}$$

$$\text{Qumar} = 2/6 - 1/16 = \frac{16-3}{48} = \frac{13}{48}$$

$$\text{Roopa} = 1/6 - 1/16 = \frac{8-3}{48} = \frac{5}{48}$$

$$\text{Hence, new ratio} = \frac{9}{24} : \frac{13}{48} : \frac{5}{48} : \frac{1}{4}$$

or $$\frac{18}{48} : \frac{13}{48} : \frac{5}{48} : \frac{12}{48}$$

or $$8 : 13 : 5 : 12$$

$$\text{Capital} = ₹\ 2{,}40{,}000$$

Each partner's new capital

$$\text{Pinky} = 2{,}40{,}000 \times \frac{18}{48} = ₹\ 90{,}000$$

$$\text{Qumar} = 2{,}40{,}000 \times \frac{13}{48} = ₹\ 65{,}000$$

$$\text{Roopa} = 2{,}40{,}000 \times \frac{5}{48} = ₹\ 25{,}000$$

$$\text{Seema} = 2{,}40{,}000 \times \frac{12}{48} = ₹\ 60{,}000$$

Adjustment in cash if any

Partner	Actual Capital After All Adjustments	New Capital Required	Difference Excess/Short
Pinky	₹ 80,000	₹ 90,000	₹ 10,000 short
Qumar	₹ 30,000	₹ 65,000	₹ 35,000 short
Roopa	₹ 20,000	₹ 25,000	₹ 5,000 short
Seema		₹ 60,000	₹ 60,000 (his share)

Journal Entry

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Cash A/c Dr		1,10,000	
	To Pinki's Capital A/c			10,000
	To Qumar's Capital A/c			35,000
	To Roopa's Capital A/c			5,000
	To Seema's Capital A/c			60,000
	(Being capital ₹ 60,000 paid by Seema and adjustment of deficiency paid by existing partners)			

Alternatively

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr		60,000	
	To Seema's Capital A/c			60,000
	(Being Seema bring her share of capital for 1/4 share of profit)			
(ii)	Bank A/c Dr		50,000	
	To Pinky's Capital A/c			10,000
	To Qumar's Capital A/c			35,000
	To Roopa's Capital A/c			5,000
	(Being amount brought by Pinky, Qumar and Roopa to move capital equal to their proportion)			

2.The following was the Balance Sheet of Arun, Bablu and Chetan sharing profits and losses in the ratio of

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Creditors		9,000	Land and Buildings	24,000
Bills Payable		3,000	Furniture	3,500
Capital Accounts			Stock	14,000
Arun	19,000		Debtors	12,600
Bablu	16,000		Cash	900
Chetan	8,000	43,000		
		55,000		55,000

They agreed to take Deepak into partnership and give him a share of 1/8 on the following terms: a) that Deepak should bring in Rs. 4,200 as goodwill and Rs. 7,000 as his Capital; (b) that furniture be depreciated by 12%; (c) that stock be depreciated by 10% (d) that a Reserve of 5% be created for doubtful debts: (e) that the value of land and buildings having appreciated be brought upto Rs. 31,000 ;(f) that after making the adjustments the capital accounts of the old partners (who continue to share in the same proportion as before) be adjusted on the basis of the proportion of Deepak's Capital to his share in the business, i.e., actual cash to be paid off to, or brought in by the old partners as the case may be. Prepare Cash Account, Profit and Loss Adjustment Account (Revaluation Account) and the Opening Balance Sheet of the new firm.

Dr **Revaluation Account** Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Furniture		420	By Land and Building	7,000
To Stock		1,400		
To Reserve for Bad Debt		630		
To Profit on Revaluation Transferred to				
Arun	1,950			
Bablu	1,625			
Chetan	975	4,550		
		7,000		7,000

Dr **Partner's Capital Account** Cr

Particulars	Arun	Bablu	Chetan	Deepak	Particulars	Arun	Bablu	Cheran	Deepak
To Bank (Balancing Figure)	1,750	1,625			By Balance b/d	19,000	16,000	8,000	
To Balance c/d	21,000	17,500	10,500	7,000	By Bank				7,000
					By Goodwill	1,800	1,500	900	
					By Profit on Revaluation	1,950	1,625	975	
					By Bank (Blancing Figure)			625	–
	22,750	19,125	10,500	7,000		22,750	19,125	10,500	7,000
					By Balance b/d	21,000	17,500	10,500	7,000

Note *Firstly, calculate total capital of firm through Deepak's capital and his share in profit. Then, calculate capital of each partner as per new profit sharing ratio. Finally, use this capital as balance c/d in capital account and close the accounts. The difference, if any, will be cash withdrawn or deposit by the partner.*

Dr **Cash Account** Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	900	By Arun's Capital	1,750
To Deepak's Capital	7,000	By Bablu's Capital	1,625
To Goodwill	4,200	By Balance c/d	9,350
To Chetan's Capital	625		
	12,725		12,725

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Creditors		9,000	Land and Buildings		31,000
Bills Payable		3,000	Furniture		3,080
Capital Accounts			Stock		12,600
Arun	21,000		Debtors	12,600	
Bablu	17,500		(–) Reserve	(630)	11,970
Chetan	10,500		Cash in Hand		9,350
Deepak	7,000	56,000			
		68,000			68,000

Let total profit be 1.

$$\text{Deepak's share} = \frac{1}{8}$$

$$\text{Remaining profit} = 1 - \frac{1}{8} = \frac{7}{8}$$

$$\text{Arun's new share} = \frac{7}{8} \times \frac{6}{14} = \frac{6}{16}$$

$$\text{Bablu's new share} = \frac{7}{8} \times \frac{5}{14} = \frac{5}{16}$$

$$\text{Chetan's new share} = \frac{7}{8} \times \frac{3}{14} = \frac{3}{16}$$

$$\text{Deepak's share} = \frac{1}{8} \times \frac{2}{2} = \frac{2}{16}$$

$\therefore$ New profit sharing ratio = 6 : 5 : 3 : 2

Total capital of the new firm = 7,000 × 8/1 = ₹ 56,000

Arun's capital = 56,000 × 6/16 = ₹ 21,000

Bablu's capital = 56,000 × 5/16 = ₹ 17,500

Chetan's capital = 56,000 × 3/16 = ₹10,500

Deepak's capital = ₹ 7,000

3.Azad and Babli are partners in a firm sharing profits and losses in the ratio of 2:1. Chintan is admitted into the firm with 1/4 share in profits. Chintan will bring in Rs. 30,000 as his capital and the capitals of Azad and Babli are to be adjusted in the profit sharing ratio. The Balance Sheet of Azad and Babli as on December 31, 2006 (before Chintan's admission) was as follows:

Balance Sheet of A and B

as on 31.12.2006

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Creditors		8,000	Cash in Hand	2,000
Bills Payable		4,000	Cash at Bank	10,000
General Reserve		6,000	Sundry Debtors	8,000
Capital Accounts			Stock	10,000
Azad	50,000		Furniture	5,000
Babli	32,000	82,000	Machinery	25,000
			Buildings	40,000
		1,00,000		1,00,000

It was agreed that:

i) Chintan will bring in Rs. 12,000 as his share of goodwill premium.

ii) Buildings were valued at Rs. 45,000 and Machinery at Rs. 23,000.

iii) A provision for doubtful debts is to be created @ 6% on debtors.

iv) The capital accounts of Azad and Babli are to be adjusted by opening current accounts.

Record necessary journal entries, show necessary ledger accounts and prepare the Balance Sheet after admission.

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	General Reserve A/c	Dr		6,000	
	To Azad's Capital A/c				4,000
	To Babli's Capital A/c				2,000
	(Being general reserve written off among old partners in old ratio)				
(ii)	Revaluation A/c	Dr		2,480	
	To Machinery A/c				2,000
	To Provision for Doubtful Debts A/c				480
	(Being decrease in value of asset and provision created for doubtful debts)				
(iii)	Building A/c	Dr		5,000	
	To Revaluation A/c				5,000
	(Being increase in value of building)				
(iv)	Revaluation A/c	Dr		2,520	
	To Azad's Capital A/c				1,680
	To Babli's Capital A/c				840
	(Being profit on revaluation distributed among old partners)				
(v)	Cash A/c	Dr		42,000	
	To Chintan's Capital A/c				30,000
	To Premium A/c				12,000
	(Being amount of capital and goodwill brought in by Chintan)				
(vi)	Premium A/c	Dr		12,000	
	To Azad's Capital A/c				8,000
	To Babli's Capital A/c				4,000
	(Being premium distributed among old partners in sacrificing ratio)				
(vii)	Azad's Capital A/c	Dr		3,680	
	To Azad's Current A/c				3,680
	(Being excess of capital transferred for partners' current account)				
(viii)	Babli's Capital A/c	Dr		8,840	
	To Babli's Current A/c				8,840
	(Being excess of capital transferred to partners' current account)				

Dr **Revaluation Account** Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Machinery		2,000	By Building	5,000
To Provision for Doubtful Debts		480		
To Transfer of Profit on Revaluation Account				
Azad	1,680			
Babli	840	2,520		
		5,000		5000

Dr **Partners' Capital Account** Cr

Particulars	Azad	Babli	Chintan	Particulars	Azad	Babli	Chintan
To Current A/c	3,680	8,840	–	By Balance b/d	50,000	32,000	
To Balance c/d	60,000	30,000	30,000	By General Reserve	4,000	2,000	
				By Profit on Revaluation	1,680	840	
				By Cash			30,000
				By Premium	8,000	4,000	
	63,680	38,840	30,000		63,680	38,840	30,000

Balance Sheet of Azad, Babli and Chintan

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Sundry Creditors		8,000	Cash in Hand		44,000
Bills Payable		4,000	Cash at Bank		10,000
Partners's Current Account			Sundry Debtors	8,000	
Azad	3,680		(–) Provision for		7,520
Babli	8,840	12,520	Doubtful Debts	(840)	
Capitals			Stock		10,000
Azad	60,000		Furniture		5,000
Babli	30,000		Machinery		23,000
Chintan	30,000	1,20,000	Building		45,000
		1,44,520			1,44,520

Note *Calculate new profit sharing ratio. Then, calculate full capital of firm on basis of new partners, capital and finally new capital of existing partners.*

$$\text{Capital of Chintan} = 30{,}000$$

$$\text{His share} = \frac{1}{4}$$

$$\text{Total capital of the firm} = 30{,}000 \times \frac{4}{1} = 1{,}20{,}000$$

New profit sharing ratio

$$\text{Chintan's share} = \frac{1}{4}$$

$$\text{Remaining profit} = 1 - \frac{1}{4} = \frac{3}{4}$$

$$\text{Azad's new share} = \frac{3}{4} \times \frac{2}{3} = \frac{6}{12}$$

$$\text{Babli's new share} = \frac{3}{4} \times \frac{1}{3} = \frac{3}{12}$$

$$\text{Chintan's share} = \frac{1}{4} \times \frac{3}{3} = \frac{3}{12}$$

$$\text{New profit sharing ratio} = \frac{6}{12} : \frac{3}{12} : \frac{3}{12};\ 2:1:1$$

or

$$\text{Azad's capital} = 1{,}20{,}000 \times \frac{2}{4} = 60{,}000$$

$$\text{Babli's capital} = 1{,}20{,}000 \times \frac{1}{4} = 30{,}000$$

$$\text{Chintan's capital} = 1{,}20{,}000 \times \frac{1}{4} = 30{,}000$$

5. Ashish and Dutta were partners in a firm sharing profits in 3:2 ratio. On Jan. 01, 2007 they admitted Vimal for 1/5 share in the profits. The Balance Sheet of
Ashish and Dutta as on Jan. 01, 2007 was as follows:

Balance Sheet of A and B
as on 1.1.2007

Liabilities	Amt. (₹)	Assets		Amt. (₹)
Creditors	15,000	Land and Building		35,000
Bills Payable	10,000	Plant		45,000
Ashish's Capital	80,000	Debtors	22,000	
Dutta's Capital	35,000	(–) Provision	(2,000)	20,000
		Stock		35,000
		Cash		5,000
	1,40,000			1,40,000

It was agreed that:
i) The value of Land and Building be increased by Rs. 15,000.
ii) The value of plant be increased by 10,000.
iii) Goodwill of the firm be valued at Rs. 20,000.
iv) Vimal to bring in capital to the extent of 1/5th of the total capital of the new firm.
Record the necessary journal entries and prepare the Balance Sheet of the firm

after Vimal's admission.

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Land and Building A/c	Dr		15,000	
	Plant A/c	Dr		10,000	
	To Revaluation A/c				25,000
	(Being increase in value of assets)				
(ii)	Revaluation A/c	Dr		25,000	
	To Ashish's Capital A/c				15,000
	To Dutta's Capital A/c				10,000
	(Being profit on revaluation transferred to old partners' capital in old ratio)				
(iii)	Cash A/c	Dr		36,000	
	To Vimal's Capital A/c				36,000
	(Being 1/5 share in capital contributed by new partner)				
(iv)	Vimal's Current A/c	Dr		4,000	
	To Ashish's Capital A/c				2,400
	To Dutta's Capital A/c				1,600
	(Being Vimal's share fo goodwill adjusted through his current account)				

Note *Here, goodwill has been ajdusted through current account because Vimal has not brought his share of goodwill and he is to bring capital is proportion to total capital of the new firm after adjustment.*

Dr **Revaluation Account** Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Ashish's Capital	15,000	By Land and Building	15,000
		By Plant	10,000
To Dutta's Capital (Profit Transfer)	10,000		
	25,000		25,000

Dr **Partners' Capital Account** Cr

Particulars	Ashish	Dutta	Vimal	Particulars	Ashish	Dutta	Vimal
To Balance c/d	97,400	46,600	36,000	By Balance b/d	80,000	35,000	
				By Profit Transfer from Revaluation	15,000	10,000	
				By Cash			36,000
				By Vimal's Current A/c	2,400	1,600	
	97,400	46,600	36,000		97,400	46,600	36,000

Balance Sheet

Liabilities	Amt. (₹)	Assets		Amt. (₹)
Creditors	15,000	Land and Building		50,000
Bills Payable	10,000	Plant		55,000
Capital Accounts		Sundry Debtors	22,000	
Ashish	97,400	(−) Provision	(2000)	20,000
Dutta	46,600	Stock		35,000
Vimal	36,000	Cash		41,000
		Vimal's Current A/c		4,000
	2,05,000			2,05,000

Calculation of new profit sharing ratio

$$\text{Vimal's share} = \frac{1}{5}$$

$$\text{Remaining share of the firm} = 1 - \frac{1}{5} = \frac{4}{5}$$

$$\text{Ashish's share} = \frac{4}{5} \times \frac{3}{5} = \frac{12}{25}$$

$$\text{Dutta's share} = \frac{4}{5} \times \frac{2}{5} = \frac{8}{25}$$

$$\text{Vimal's share} = \frac{1}{5} \times \frac{5}{5} = \frac{5}{25}$$

$$\text{New profit sharing ratio} = 12 : 8 : 5$$

Capital of new firm on the basis of old partners adjusted capital

Total adjusted capital of old partners

$$\text{Ashish's capital} = 97{,}400$$

$$\text{Dutta's capital} = \frac{46{,}600}{1{,}44{,}000}$$

Remaining share of Ashish and Dutta (old partners) in the new firm

$$= \frac{4}{5}$$

$$\text{Capital of the new firm} = 1{,}44{,}000 \times \frac{5}{4} = 1{,}80{,}000$$

$$\text{Vimal's share in the capital of the new firm} = 1{,}80{,}000 \times \frac{1}{5} = 36{,}000$$

Note *Goodwill has been adjusted through current account because Vimal has not brought his share of goodwill.*

Sacrificing ratio = Old ratio – New Ratio.