3. ADMISSION OF NEW PARTNER

3.1 Accounting issues in case of Admission of New Partner

The accounting issues in case of admission of New Partner are –

1. Change in Profit Sharing Ratio,
2. Treatment of Goodwill on Admission,
3. Capital and Goodwill Contribution by New Partner,
4. Revaluation of Assets and Liabilities, and distribution of such profit / loss,
5. Transfer of Reserves and Accumulated Losses, if any, as per Balance Sheet,
6. Adjustment of Capitals, if any.

3.2 New Profit Sharing Ratio in case of admission of New Partner

The New Partner may acquire his share of profit from the Old Partner(s), in any of the following manner –

1. From the Old Partners in their Old Profit Sharing Ratio,
2. From the Old Partners in a specified Ratio, (i.e. Sacrifice Ratio),
3. From the Old Partners, by surrender of a particular fraction of their shares by the Old Partner(s).

3.3 Journal Entries for treatment of Goodwill on Admission

	Transaction / Issue involved	Journal Entry
1.	Goodwill (Premium) paid privately by New Partner, to the Old Partners	No entry in the Firm's books of account.
2.	Goodwill (Premium) brought in cash / kind by New Partner, and retained in the business	

	Transaction / Issue involved	Journal Entry
(a)	For Capital and Goodwill (Premium) brought in by New Partner (**See Note 1**)	Cash / Bank / Asset A/c Dr. (Total Amt) To New Partner's Capital A/c (Capital + G/w Amt)
(b)	Goodwill (Premium) distributed to Old Partners in Sacrificing Ratio	New Partners' Capital A/c (G/w Share) Dr. To Old Partner's Capital (in Sacrifice Ratio)
3.	Goodwill (Premium) brought in cash by New Partner, and withdrawn by Old Partners	In addition to Entries 2(a) and (b), the following entry will also be passed for withdrawal of G/w amount – Old Partner's Capital A/c Dr. To Cash / Bank A/c (amount withdrawn)
4.	Only part of Goodwill (Premium) brought in by New Partner	In addition to Entry 2(a), the following entry will also be passed – New Partners' Capital A/c Dr. (Full Share of G/w) To Old Partner's Capital (in Sacrifice Ratio)
5.	New Partner is unable to bring in any amount towards Goodwill (Premium)	**(a) Capital Contribution:** Cash / Bank / Asset A/c Dr. (Capital Amt) To New Partner's Capital A/c (Capital Amt) **(b) G/w Adjustment:** New Partners' Capital A/c Dr. (Share of G/w) To Old Partner's Capital (in Sacrifice Ratio)
6.	Old Goodwill, if any, appearing in B/Sheet (**See Note 2**)	Old Partner's Capital (Individually in Old PSR) Dr. To Goodwill A/c

Notes:

1. Instead of crediting the entire amount of Capital + Goodwill to the New Partners' Capital A/c, the amount of Goodwill can be routed through Premium (Goodwill) A/c also.
2. In all cases, the Goodwill appearing in Balance Sheet (if any), should be written off) by debiting Old Partners' Capital A/c in Old Profit Sharing Ratio.

3.4 Journal Entries in connection with Admission of a New Partner

	Transaction / Issue involved	Journal Entry
1.	Recording – (a) increase in value of Assets, and (b) reduction in amount of Liabilities	Assets (Individually) A/c Dr. Liabilities (Individually) A/c Dr. To Revaluation A/c
2.	Recording – (a) decrease in value of Assets, and (b) increase in amount of Liabilities	Revaluation A/c Dr. To Assets (Individually) A/c To Liabilities (Individually) A/c
3.	Recording Unrecorded Assets	Assets (Individually) A/c Dr. To Revaluation A/c
4.	Recording Unrecorded Liabilities	Revaluation A/c Dr. To Liabilities (Individually) A/c
5.	Transfer of Revaluation Gain	Revaluation A/c Dr. To Old Partner's Capital (Individually in Old PSR)
6.	Transfer of Revaluation Loss, if any	Old Partner's Capital (Individually in Old PSR) Dr. To Revaluation A/c
7.	Distribution of Reserves and Surplus as per Balance Sheet	Reserves A/c (Individually) Dr. To Old Partner's Capital (Individually in Old PSR)
8.	Distribution of Accumulated Losses, Deferred Revenue Expenditure, as per B/Sheet	Old Partner's Capital (Individually in Old PSR) Dr. To Accumulated Losses / Deferred Rev.Exp.
10.	Capital Contribution by New Partner	Cash / Bank A/c Dr. To New Partner's Capital A/c

Note: In Entries 1 to 6 above, the Account can also be called as "Profit and Loss Adjustment A/c", instead of the head "Revaluation A/c".

3.5 Revaluation of assets and liabilities on admission

Revaluation of Assets and Liabilities on Admission of Partner

Assets and Liabilities are to be shown in the B/Sheet at **revised amounts**	If the Revalued Amounts are **not** to be shown in the Books of the Firm on admission
1. Prepare Revaluation A/c and ascertain the Profit / Loss on Revaluation. 2. Distribute Profit / Loss on Revaluation, to Old Partners, in Old Profit Sharing Ratio. **See Entries 1 to 6 above.**	1. Prepare Memorandum Revaluation A/c and ascertain the Profit / Loss on Revaluation. 2. Distribute Profit / Loss on Revaluation, to Old Partners, in Old Profit Sharing Ratio. 3. Reverse the Profit / Loss on Revaluation, to all (i.e. Old & New) Partners, in New Profit Sharing Ratio.

Alternatively, the following composite entry may be passed if revalued amounts are not to be shown in books.

(a)	Accounting for Revaluation Gain	New Partner's Capital A/c Dr. (New Partner's Share of Revaluation Gain) To Old Partner's Capital A/c (individually credited in Sacrificing Ratio)
(b)	Accounting for Revaluation Loss	Old Partner's Capital A/c Dr. (individually debited in Sacrificing Ratio) To New Partner's Capital A/c(New Partner's Share of Revaluation Loss)

3.6 Adjustment of Capitals, on Admission of a New Partner

Sometimes, the Partners may agree to adjust their Capital in the new Firm, to be in their profit–sharing ratio. The steps involved in the Adjustment of Capitals are –

1. Compute the Capital Balance of all Partners (Old and New), after all adjustments relating to Goodwill, Revaluation of Assets & Liabilities, Transfer of Reserves & Accumulated Losses, etc.
2. Compute Total Capital of New Firm (if it is not given specifically in the question), as the aggregate of Capital Balances of all Partners.
3. Distribute the above Total Capital in the new Profit Sharing Ratio, to all the Partners. This is called as the Required Capital Balance.
4. Compute the amount to be withdrawn / brought in by each Partner, by comparing his old Capital Balance with Required Capital Balance.

Illustration 1: Computation of New PSR and Sacrifice Ratio on Admission

X and Y share profits in the ratio 5:3. Z is admitted for 1/4th Share in Profits. Compute New PSR and Sacrifice Ratio.

Solution:

Particulars	X	Y	Z
1. Old PSR	5/8	3/8	Nil
2. New PSR	5/8 of 3/4 = 15/32	3/8 of 3/4 = 9/32	(Given) 1/4 = 8/32
3. Sacrifice / (Gain) Ratio	5/8 – 15/32 = 5/32 (i.e. Sacrifice)	3/8 – 9/32 = 3/32 (i.e. Sacrifice)	–8/32 (i.e. **Gain**)

Hence, **New PSR is 15 : 9 : 8**, and **Sacrifice Ratio is 5 : 3** (i.e. Old Ratio itself.)

Illustration 2: Computation of New PSR and Sacrifice Ratio on Admission

X & Y share profits in the ratio 5:3. Z is admitted for 1/5th Share in Profits, which he takes as 1/10th each from X & Y. Compute New PSR and Sacrifice Ratio.

Solution:

Particulars	X	Y	Z
1. Old PSR	5/8	3/8	Nil
2. New PSR	5/8 – 1/10 = 21/40	3/8 – 1/10 = 11/40	1/10 + 1/10 = 1/5= 8/40
3. Sacrifice / (Gain) Ratio	5/8 – 21/40 = 4/40 (i.e. Sacrifice)	3/8 – 11/40 = 4/40 (i.e. Sacrifice)	–8/40 (i.e. **Gain**)

Hence, **New PSR is 21 : 11 : 8**, and **Sacrifice Ratio is 1 : 1** (**Note:** Sacrifice Ratio need not be specially computed in this question, it is given as 1/10th each by X and Y, so equal sacrifice.)

Illustration 3: Computation of New PSR and Sacrifice Ratio on Admission

X & Y share profits in the ratio 5:3. Z is admitted as Partner to the Firm. X surrenders 1/20th of his share, while Y surrenders 1/24th of his share in favour of Z. Compute New PSR and Sacrifice Ratio.

Solution:

Particulars	X	Y	Z
1. Old PSR	5/8	3/8	Nil
2. New PSR	5/8 – (1/20th of 5/8)= 5/8 – 1/32 = 19/32 = 38/64	3/8 – (1/24th of 3/8)= 3/8 – 1/64 = 23/64	1/32 + 1/64 = 3/64
3. Sacrifice / (Gain) Ratio	5/8 – 38/64 = 2/64 (i.e. Sacrifice)	3/8 – 23/64 = 1/64 (i.e. Sacrifice)	– 3/64 (i.e. **Gain**)

Hence, **New PSR is 38 : 23 : 3**, and **Sacrifice Ratio is 2 : 1.**

Illustration 4: Computation of New PSR and Sacrifice Ratio on Admission

X & Y are equal Partners. Z is admitted to the Firm for 1/4th Share. X and Y agree that the ratio between them would be 2:1. Compute New PSR and Sacrifice Ratio.

Solution:

Particulars	X	Y	Z
1. Old PSR	½	½	Nil
2. New PSR	2/3 of 3/4 = 6/12	1/3 of 3/4 = 3/12	¼ = 3/12
3. Sacrifice / (Gain) Ratio	1/2 – 6/12 = Nil (i.e. No Sacrifice or Gain)	1/2 – 3/12 = 3/12 (i.e. Sacrifice)	– 3/12 (i.e. **Gain**)

Hence, **New PSR is** 6 : 3 : 3 or **2 : 1 : 1**. The sacrifice is entirely made by Y. There is no sacrifice ratio of X,Y.

Illustration 5: Computation of New PSR and Sacrifice Ratio on Admission

A, B and C are Partners sharing in the ratio 3:2:5. They admit D and give him 1/4th share. This share is contributed by them in the ratio 1:1:3. Compute New PSR and Sacrifice Ratio.

Solution: Here, Sacrifice Ratio is given as 1:1:3. Since D is admitted for 1/4th Share, that share will be contributed by A, B, C as 1:1:3. Hence, A's surrender = 1/5 of 1/4th = 1/20. Similarly for B and C, the surrender will 1/20 and 3/20 respectively.

Particulars	A	B	C	D
1. Old PSR	3/10	2/10	5/10	Nil
2. New PSR	3/10 – 1/20 = 5/20	2/10 – 1/20 = 3/20	5/10 – 3/20 = 7/20	Given 1/4th = 5/20

Hence, **New PSR is 5 : 3 : 7 : 5. Sacrifice Ratio** is already given in the question = **1: 1 : 3.**

Illustration 6: Treatment of G/w on Admission – Various Situations

A, B and C are Partners sharing in the ratio 3:2:5. They admit D and give him 1/4th share. This share is contributed by them in the ratio 1:1:3. On D's admission, Goodwill of the Firm is valued at ₹ 16,00,000. As per the Firm's Balance Sheet (before D's admission), the amount of Goodwill is ₹ 1,00,000. D is required to bring in ₹ 5,00,000 as his Capital. Give Journal Entries in the following cases, each situation being independent of the others –

1. **D brings his Capital and share of Goodwill as Equipment ₹ 6,00,000, and the balance in Cash.**
2. **D brings his Capital and share of Goodwill in Cash, and the amount is retained in the business.**
3. **D brings his Capital and share of Goodwill in Cash, and the amount of G/w is withdrawn by the Old Partners.**
4. **D brings his Capital and 40% of his share of Goodwill in Cash.**
5. **D brings only his Capital and is unable to contribute to his share of Goodwill.**

Solution: Here, **New PSR is 5 : 3 : 7 : 5. Sacrifice Ratio** is **1: 1 : 3. [Refer Illus 5 for calculations.]**
Amount to be brought in by D towards his share of Goodwill = 1/4th of ₹ 16,00,000 = ₹ 4,00,000.

Journal Entries

	Particulars		Dr.	Cr.
1 (a)	Equipment A/c	Dr.	6,00,000	
	Cash A/c	Dr.	3,00,000	
	To D's Capital A/c			9,00,000
	(Being Capital and Share of Goodwill, brought in by D)			
1 (b)	D's Capital A/c	Dr.	4,00,000	
	To A's Capital A/c ($1/5^{th}$ of 4,00,000)			80,000
	To B's Capital A/c ($1/5^{th}$ of 4,00,000)			80,000
	To C's Capital A/c ($3/5^{th}$ of 4,00,000)			2,40,000
	(Being G/w Share brought in by D credited to A, B, C in Sacrifice ratio)			
2 (a)	Cash A/c	Dr.	9,00,000	
	To D's Capital A/c			9,00,000
	(Being Capital and Share of Goodwill, brought in by D)			
2 (b)	**For G/w Share credited to Old Partners:** Same entry as 1(b) above.			
3 (a)	**For Capital and G/w brought in:** Same entry as 2(a) above			
3 (b)	**For G/w Share credited to Old Partners:** Same entry as 1(b) above.			
3 (c)	A's Capital A/c ($1/5^{th}$ of 4,00,000)	Dr.	80,000	
	B's Capital A/c ($1/5^{th}$ of 4,00,000)	Dr.	80,000	
	C's Capital A/c ($3/5^{th}$ of 4,00,000)	Dr.	2,40,000	
	To Cash / Bank A/c			4,00,000
	(Being G/w Share brought in by D, now withdrawn by Old Partners)			
4 (a)	Cash A/c	Dr.	6,60,000	
	To D's Capital A/c			6,60,000
	(Being Capital and part Share of Goodwill 40%, brought in by D)			
4 (b)	**For G/w Share credited to Old Partners:** Same entry as 1(b) above. [**Note:** D's Capital A/c will be debited by his entire share of Goodwill, even though he has brought in only 40% of that amount.]			
5 (a)	Cash A/c	Dr.	5,00,000	
	To D's Capital A/c			5,00,000
	(Being Capital Contribution brought in by D)			
5 (b)	**For G/w Share credited to Old Partners:** Same entry as 1(b) above. [**Note:** D's Capital A/c will be debited by his entire share of Goodwill, even though he has not brought in any amount towards G/w.]			

Illustration 7: Hidden or Inferred Goodwill on Admission

A and B are Partners with Capitals of ₹ 1,60,000 and ₹ 1,20,000 respectively. They admit C as a Partner, for $1/4^{th}$ share in profits. C brings in ₹ 1,60,000 as his Share of Capital. Can you infer any Goodwill in this case? What will be the share of Goodwill credited to A and B?

Solution:

1. C's Capital = ₹ 1,60,000 for ¼th Share. So, Total Capital of New Firm = ₹ 1,60,000×4 = ₹ 6,40,000
2. Total of A, B, C Capital = ₹ 1,60,000 + ₹ 1,20,000 + ₹ 1,60,000 = ₹ 4,40,000.
3. So, Goodwill of the Firm = ₹ 6,40,000 – ₹ 4,40,000 = ₹ **2,00,000**.
4. C's Share of Goodwill = ₹ 2,00,000 × $1/4^{th}$ = ₹ **50,000.**
5. In the absence of any agreement, profits are divided equally. So, sacrifice ratio will also be equal to 1:1. So, the Goodwill brought in by C ₹ 50,000, will be credited to A and B equally, i.e. ₹ 25,000 each.

Illustration 8: Admission – Goodwill, Tfr of Reserves & Losses, Revaluation of Assets, etc.

The following is the Balance Sheet of Krishna and Balram, who are sharing profits in the ratio 3:2

Liabilities		₹	Assets		₹
Capital Accounts: Krishna	15,000		Land and Buildings		18,000
Balram	10,000	25,000	Plant and Machinery		12,000
General Reserve		30,000	Stock		11,000
Workmen's Compensation Reserve		15,000	Debtors	22,000	
Creditors		10,000	Less: Provision for Doubtful Debts	1,000	21,000
Employees' Provident Fund		8,000	Bank		21,000
			Advertisement Expenditure		5,000
Total		88,000	Total		88,000

On admission of Subhadra for 1/6th share in the profits, it was decided that –

1. **Value of Land and Buildings be increased by ₹ 3,000.**
2. **Value of Stock be increased by ₹ 2,500.**
3. **Provision of Doubtful Debts be increased by ₹ 1,500.**
4. **Liability of Workmen's Compensation Reserve was determined to be ₹ 12,000.**
5. **Subhadra was to bring in further cash of ₹ 15,000 as her capital.**
6. **Subhadra brought in her share of Goodwill ₹ 10,000 in cash.**

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

Solution:

1. Revaluation Account

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts A/c		1,500	By Land and Buildings A/c	3,000
To Profit on Revaluation transferred to:			By Stock A/c	2,500
Krishna's Capital A/c	2,400			
Balram's Capital A/c	1,600	4,000		
Total		**5,500**	**Total**	**5,500**

2. Partners' Capital Accounts

Particulars	K	B	S	Particulars	K	B	S
To K & B (G/w)	–	–	10,000	By balance b/d	15,000	10,000	–
To Advertisement Expenditure A/c	3,000	2,000	–	By General Reserve A/c	18,000	12,000	–
				By Revaluation A/c	2,400	1,600	–
To balance c/d	40,200	26,800	15,000	By Workmen's Compensation Reserve A/c	1,800	1,200	–
				By Bank A/c (Cap + G/w)	–	–	25,000
				By Subhadra Capital (G/w)	6,000	4,000	–
Total	**43,200**	**28,800**	**15,000**	**Total**	**43,200**	**28,800**	**15,000**

Note:

1. Provident Fund is an Outside Liability (and not a Reserve). Therefore, it will **not** be adjusted.
2. Workmen's Compensation Reserve is a Specific Reserve created for payment of compensation in case of an accident. It appears in the Balance Sheet as ₹ 15,000 whereas the liability for Workmen Compensation is ₹ 12,000. Hence, the excess Reserve is ₹ 3,000 transferred to the Old Partners' Capital Accounts in the old ratio, i.e. 3:2.
3. Advertisement Expenditure is Deferred Revenue Expenditure, and transferred directly to the Old Partners Capital A/c, in the Old Ratio, as it is an accumulated loss.

3. Balance Sheet of the new Firm (after admission)

Liabilities			₹	Assets		₹
Capital A/cs:	Krishna	40,200		Land and Buildings (18,000 + 3,000)		21,000
	Balram	26,800		Plant and Machinery		12,000
	Subhadra	15,000	82,000	Stock (11,000 + 2,500)		13,500
Workmen's Compensation Reserve			12,000	Debtors	22,500	
Creditors			10,000	**Less:** Provision for Doubtful Debts	2,500	19,500
Provident Fund			8,000	Bank		46,000
Total			**1,12,000**	**Total**		**1,12,000**

Illustration 9: Admission – Adjustment of Capital as per PSR

X and Y are in Partnership sharing profits and losses in the ratio of 3:2. The Capitals of X and Y remaining after adjustments are ₹80,000 and ₹ 60,000 respectively. They admit Z as a Partner on his contribution of ₹ 35,000 as Capital for 1/5th share of profits to be acquired equally from both X and Y. The Capital Accounts of the Old Partners are to be adjusted on the basis of the proportion of Z's Capital to his Share in the business. Calculate the amount of actual cash to be paid off or brought in by the old Partners for the purpose.

Solution: **1. Computation of New PSR and Sacrifice Ratio**

Particulars	X	Y	Z
1. Old PSR	3/5	2/5	–
2. New PSR	3/5 – 1/10 = 5/10	2/5 – 1/10 = 3/10	1/5, acquired equally from X and Y, i.e. 1/10 from each X and Y.

Hence, **New PSR is 5 : 3 : 2. Sacrifice Ratio** is already given in the question = **1: 1.**

2. Adjustment of Capitals

Since Z's Capital is ₹ 35,000 for 1/5th Share, Total Capital of New Firm = 35,000 ÷ 1/5th = ₹ **1,75,000.**

Particulars	X	Y	Z	Total
1. Reqd Capital in New PSR 5:3:2	87,500	52,500	35,000	1,75,000
2. Capital Balance after adjustments	80,000	60,000	35,000	1,75,000
3. Adjustment required	7,500 to be withdrawn	7,500 to be introduced now.	–	–

Illustration 10: Admission – Comprehensive Illustration

A & B are Partners in a Firm sharing profits and losses in the ratio of 7:3. Their Balance Sheet as on 31st March is –

Liabilities			₹	Assets		₹
Capital Accounts: A		**50,000**		**Furniture**		**30,000**
	B	**40,000**	**90,000**	**Stock–in–trade**		**50,000**
Reserves			**10,000**	**Sundry Debtors**	**46,000**	
Sundry Creditors			**40,000**	**Less: Provision for Doubtful Debts**	**2,000**	**44,000**
Bank Overdraft			**20,000**	**Cash in Hand**		**36,000**
Total			**1,60,000**	**Total**		**1,60,000**

On 1st April, C joins the Firm as Partner for 1/4th share of the future profits on the following terms and conditions:

1. **Goodwill is valued at ₹ 40,000 and C is to bring in the necessary amount in cash as premium for goodwill.**
2. **20% of the Reserve is to remain as a Provision against Bad and Doubtful Debts.**
3. **Stock–in–Trade is to be reduced by 40% and Furniture is to be reduced to 40%.**
4. **A is to pay off the Bank Overdraft.**
5. **C is to introduce ₹ 30,000 as his Share of Capital to which amount other Partners' capital shall have to be adjusted.**

Show the necessary Journal Entries to carry out the above transactions. Also show the necessary Ledger Accounts, and prepare the amended Balance Sheet of the Firm immediately after C's admission as Partner.

Solution: **1. Computation of New PSR and Sacrifice Ratio**

Particulars	A	B	C
1. Old PSR	7/10	3/10	Nil
2. New PSR	7/10 of 3/4 = 21/40	3/10 of 3/4 = 9/40	(Given) 1/4 = 10/40
3. Sacrifice / (Gain) Ratio	7/10 – 21/40 = 7/40 (i.e. Sacrifice)	3/10 – 9/40 = 3/40 (i.e. Sacrifice)	–10/40 (i.e. **Gain**)

Hence, **New PSR is 21 : 9 : 10**, and **Sacrifice Ratio is 7 : 3** (i.e. Old Ratio itself.)

2. Journal Entries

	Particulars		Dr.	Cr.
1.	Reserve A/c	Dr.	10,000	
	To Provision for Doubtful Debts A/c			2,000
	To A's Capital A/c			5,600
	To B's Capital A/c			2,400
	(Being 20% of Reserve retained as Provision for Doubtful Debts, and the balance credited to A and B in Old Ratio of 7 : 3)			
2.	Revaluation A/c	Dr.	38,000	
	To Stock A/c			20,000
	To Furniture A/c			18,000
	(Being the decrease in value of assets)			
3.	A's Capital A/c	Dr.	26,600	
	B's Capital A/c	Dr.	11,400	
	To Revaluation A/c			38,000
	(Being the loss on revaluation debited to A and B in Old Ratio of 7 : 3)			
4.	Bank Overdraft A/c	Dr.	20,000	
	To A's Capital A/c			20,000
	(Being the Bank Overdraft paid off by A credited to his Capital Account)			
5.	Cash A/c	Dr.	40,000	
	To C's Capital A/c			40,000
	(Being the amount introduced by C as his Capital and G/w 1/4th of ₹ 40,000)			
6.	C's Capital A/c	Dr.	10,000	
	To A's Capital A/c			7,000
	To B's Capital A/c			3,000
	(Being Goodwill brought in by C credited to A and B in Sacrifice Ratio of 7 : 3)			
7.	Cash A/c	Dr.	7,000	
	To A's Capital A/c **(WN 4)**			7,000
	(Being deficit capital brought in by A to adjust capital in new profit–sharing ratio)			
8.	B's Capital A/c	Dr.	7,000	
	To Cash A/c **(WN 4)**			7,000
	(Being surplus capital withdrawn by B to adjust capital in new profit–sharing ratio)			

3. Partners' Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
To A & B (G/w)	–	–	10,000	By balance b/d	50,000	40,000	–
To Revaluation Loss	26,600	11,400	–	By Reserve A/c	5,600	2,400	–
				By Bank Overdraft A/c	20,000	–	–
To balance c/d (before Captl Adjt)	56,000	34,000	30,000	By Cash A/c (Cap + G/w)	–	–	40,000
				By C's Capital (G/w)	7,000	3,000	–
Total	**82,600**	**45,400**	**40,000**	**Total**	**82,600**	**45,400**	**40,000**
To Cash (Cap Adjt)	–	7,000	–	By balance b/d	56,000	34,000	30,000
To balance c/d	63,000	27,000	30,000	By Cash (Capital Adjt)	7,000	–	–
Total	**82,600**	**45,400**	**40,000**	**Total**	**82,600**	**45,400**	**40,000**

4. Adjustment of Capitals

Since C's Capital is ₹ 30,000 for 1/4th Share, Total Capital of New Firm = 30,000 ÷ 1/4th = ₹ **1,20,000.**

Particulars	A	B	C	Total
1. Reqd Capital in New PSR 21 : 9 : 10	63,000	27,000	30,000	1,20,000
2. Capital Balance after adjustments (WN 3)	56,000	34,000	30,000	1,20,000
3. Adjustment required	7,000 to be introduced now.	7,000 to be withdrawn.	–	–

5. Cash Account

Particulars	₹	Particulars	₹
To balance b/d	36,000	By B's Capital A/c (withdrawn)	7,000
To C's Capital A/c (Cap + Goodwill)	40,000	By balance c/d	76,000
To A's Capital A/c (introduced now)	7,000		
Total	**83,000**	**Total**	**83,000**

6. Balance Sheet as on 1st April (after C's Admission)

Liabilities		₹	Assets		₹
Capital Accounts			Furniture	30,000	
A	63,000		Less: Depreciation	18,000	12,000
B	27,000		Stock		30,000
C	30,000	1,20,000	Sundry Debtors	46,000	
Sundry Creditors		40,000	**Less:** Provision for Doubtful Debts	4,000	42,000
			Cash in Hand		76,000
Total		**1,60,000**	**Total**		**1,60,000**

Illustration 11: Admission – Goodwill, Revaluation of Assets, General Reserve transfer **N 97**

Raju and Sanju are partners sharing Profit and Losses in the ratio 3: 2. Their Balance Sheet as at 31st August was:

Capital and Liabilities		₹	Properties and Assets	₹
Capital Accounts:			**Non–Current Assets:**	
– **Raju**	**60,000**		**Goodwill**	**15,000**
– **Sanju**	**72,000**	**1,32,000**	**Land and Buildings**	**75,000**
General Reserve		**6,000**	**Investments**	**20,000**
Current Liabilities:			**Current Assets:**	
Creditors		**8,000**	**Debtors**	**30,000**
			Cash on Hand	**6,000**
Total		**1,46,000**	Total	**1,46,000**

They agreed to admit Tinu as Partner with effect from 1st September, on the following terms –

1. **The New Profit Sharing Ratio will be 2: 1: 1.**
2. **The following amounts of Revaluation have been agreed upon: Goodwill – ₹ 24,000, Land and Buildings – ₹ 85,000, Investments – ₹ 15,000, Creditors – ₹ 9,000.**
3. **The Revalued Amount of Goodwill shall be written off in the Partners Capital Accounts.**
4. **Tinu shall bring in ₹ 40,000 in all as his Capital and his proportionate share of revalued amount of Goodwill of the Firm.**

Show the Journal Entries and prepare the Capital Accounts of the Partners. Also draw up the Balance Sheet of the new Firm.

Solution:

1. Journal Entries

S.No.	Particulars	Dr. (₹)	Cr. (₹)
1.	Revaluation A/c Dr.	6,000	
	To Investments		5,000
	To Creditors		1,000
	(Being decrease in value of assets and increase in the amount of liabilities recorded)		

S.No.	Particulars		Dr. (₹)	Cr. (₹)
2.	Land and Buildings	Dr.	10,000	
	Goodwill	Dr.	9,000	
	To Revaluation A/c			19,000
	(Being appreciation in the value of assets upon Revaluation)			
3.	Revaluation A/c	Dr.	13,000	
	To Raju's Capital A/c			7,800
	To Sanju's Capital A/c			5,200
	(Being transfer of Gain on Revaluation to the Partners in the P & L ratio 3:2)			
4.	General Reserve	Dr.	6,000	
	To Raju's Capital A/c			3,600
	To Sanju's Capital A/c			2,400
	(Being transfer of balance in General Reserve in the ratio 3:2)			
5.	Cash	Dr.	40,000	
	To Tinu's Capital A/c			40,000
	(Being Cash brought in by Tinu as her share of Capital)			
6.	Raju's Capital A/c	Dr.	12,000	
	Sanju's Capital A/c	Dr.	6,000	
	Tinu's Capital A/c	Dr.	6,000	
	To Goodwill A/c			24,000
	(Being Goodwill (revised amount after revaluation) written off in New PSR)			

2. Revaluation Account

Particulars			₹	Particulars		₹
To Investments	(20,000 – 15,000)		5,000	By Land and Buildings	(85,000 – 75,000)	10,000
To Creditors	(9,000 – 8,000)		1,000	By Goodwill	(24,000 – 15,000)	9,000
To Raju Capital A/c	3/5th	7,800				
To Sanju Capital A/c	2/5th	5,200	13,000			
Total			**19,000**	**Total**		**19,000**

3. Capital Accounts of Partners

Particulars	Raju	Sanju	Tinu	Particulars	Raju	Sanju	Tinu
To Goodwill w/off (in New Ratio 2:1:1)	12,000	6,000	6,000	By balance b/d – given	60,000	72,000	–
				By Revaluation A/c	7,800	5,200	–
To balance c/d	59,400	73,600	34,000	By Cash –Cap. Contribution	–	–	40,000
				By General Reserve – tfr	3,600	2,400	–
Total	**71,400**	**79,600**	**40,000**	**Total**	**71,400**	**79,600**	**40,000**

Note: Profit on Revaluation and General Reserve are transferred to existing Partners in the Old Ratio of 3: 2.

4. Balance Sheet of the Firm as at 1st September (after admission of Tinu)

Capital and Liabilities		₹	Properties and Assets	₹
Capital Accounts of Partners –			**Non–Current Assets:**	
– Raju	59,400		**Fixed Assets:** Land and Buildings	85,000
– Sanju	73,600		**Investments**	15,000
– Tinu	34,000	1,67,000	**Current Assets:**	
			Debtors	30,000
Current Liabilities: Creditors		9,000	Cash (OB ₹ 6,000 + Tinu ₹ 40,000)	46,000
Total		**1,76,000**	**Total**	**1,76,000**

Illustration 12: Admission – Goodwill, Revaluation and Capital Adjustment **M 14**

The Balance Sheet of Amit, Bhushan and Charan, who share Profits and Losses as 3:2:1, as on 1st April is as follows:

Liabilities	₹	Assets		₹
Capital Accounts: Amit	**1,80,000**	**Machinery**		**1,50,000**
Bhushan	**1,60,000**	**Furniture**		**1,50,000**
Charan	**1,40,000**	**Debtors**	**80,000**	
Current Accounts : Bhushan	**16,000**	**Less: Provision for Doubtful Debts**	**4,000**	**76,000**
Creditors	**1,20,000**	**Stock**		**2,10,000**
		Cash		**20,000**
		Current Accounts: Charan		**10,000**
Total	**6,16,000**	**Total**		**6,16,000**

Dev is admitted as a Partner on the above date for 1/5th Share in the Profit and Loss. Following are agreed upon:

(1) The Profit and Loss sharing ratio among the Old Partners will be equal.

(2) Dev brings in ₹ 1,50,000 as Capital, but is unable to bring the required amount of premium for Goodwill.

(3) The Goodwill of the Firm is valued at ₹ 60,000.

(4) Assets and liabilities are to be valued as follows:

Machinery ₹ 2,06,000: Furniture ₹ 1,28,000: Provision for Doubtful Debts @ 10% on Debtors.

(5) Necessary adjustments regarding Goodwill and Profit / Loss on Revaluation are to made through the Partner's Current Accounts.

(6) It is decided that the revalued figures of Assets and Liabilities will not appear in the Balance Sheet of the New Firm.

(7) Capital Accounts of the Old Partners in the New Firm should be proportionate to the new profit and loss sharing Ratio, taking Dev's Capital as base. The Existing Partners will not bring cash for further capital. The necessary adjustments are to be made through the Partner's Current Accounts.

Prepare Partner's Capital & Current Account, and the Balance Sheet of the New Firm after admission.

Solution:

1. **Computation of Profit Sharing Ratio:** Let Total Profit be 1.

So, **Dev's Share** = $\frac{1}{5}$. So Balance Share = $1 - \frac{1}{5} = \frac{4}{5}$

Amit's Share = $\frac{1}{3} \times \frac{4}{5} = \frac{4}{15}$, Bhushan's Share = $\frac{1}{3} \times \frac{4}{5} = \frac{4}{15}$, Charan's Share = $\frac{1}{3} \times \frac{4}{5} = \frac{4}{15}$

$$A: B: C: D = \frac{4}{15} : \frac{4}{15} : \frac{4}{15} : \frac{3}{15} = \mathbf{4 : 4 : 4 : 3}$$

2. **Computation of Capital Balance**

Capital brought in by D = ₹ 1,50,000 for 1/5th Share. So, Total Capital of the Firm = ₹ 1,50,000 × 5/1 = ₹ **7,50,000**

	Particulars and Profit Share	**A** (4/15)	**B** (4/15)	**C** (4/15)	**D** (3/15)
	Capital to be maintained (₹ 7,50,000 in 4:4:4:3)	2,00,000	2,00,000	2,00,000	1,50,000
Less:	Existing Capital	1,80,000	1,60,000	1,40,000	–
	Additional Capital to be recorded	**20,000**	**40,000**	**60,000**	–

3. **Memorandum Revaluation A/c**

Particulars		₹	Particulars	₹
To Furniture (1,50,000 – 1,28,000)		22,000	By Machinery (2,06,000 – 1,50,000)	56,000
To Provision for Doubtful Debts (80,000×10%– existing)		4,000		
To Capital A/c (3:2:1)				
A	15,000			
B	10,000			
C	5,000	30,000		
Total		**56,000**	**Total**	**56,000**

Particulars	₹	Particulars		₹
To Machinery	56,000	By Furniture		22,000
		By Provision for Doubtful Debts		4,000
		By Capital A/c (4:4:4:3) A	8,000	
		B	8,000	
		C	8,000	
		D	6,000	30,000
Total	**56,000**	**Total**		**56,000**

4. **Partners' Capital A/c**

Particulars	A	B	C	D	Particulars	A	B	C	D
To balance c/d	2,00,000	2,00,000	2,00,000	1,50,000	By balance b/d	1,80,000	1,60,000	1,40,000	–
					By Bank A/c	–	–	–	1,50,000
					By Current A/c (bal.fig)(WN 2)	20,000	40,000	60,000	–
	2,00,000	**2,00,000**	**2,00,000**	**2,00,000**		**2,00,000**	**2,00,000**	**2,00,000**	**2,00,000**

5. **Partners' Current A/c**

Particulars	A	B	C	D	Particulars	A	B	C	D
To balance b/d	–	–	10,000	–	By balance b/d	–	16,000	–	–
To Memorandum Revaluation A/c	8,000	8,000	8,000	6,000	By Memorandum Revaluation A/c	15,000	10,000	5,000	–
To Goodwill A/c	16,000	16,000	16,000	12,000	By Goodwill A/c	30,000	20,000	10,000	–
To Capital A/c	20,000	40,000	60,000	–					
To balance c/d **(bal. fig)**	**1,000**	–	–	–	By balance c/d **(bal. fig)**	–	**18,000**	**79,000**	**18,000**
	45,000	**64,000**	**94,000**	**18,000**		**45,000**	**64,000**	**94,000**	**18,000**

Note: Goodwill ₹ 60,000 is raised in Old Ratio and written–off in New Ratio.

6. **Balance Sheet of New Firm as on 1st April**

Capital and Liabilities	₹	Assets		₹
Owners' Funds: Capital A/cs		**Non–Current Assets:** Machinery		1,50,000
Amit	2,00,000	Furniture		1,50,000
Bhushan	2,00,000	**Current A/cs of Partners:**		
Charan	2,00,000	Bhushan	18,000	
Dev	1,50,000	Charan	79,000	
Current A/c: Amit	1,000	Dev	18,000	1,15,000
Current Liabilities:		**Current Assets:**		
Creditors	1,20,000	Stock		2,10,000
		Debtors 80,000 Less Provision (4,000)		76,000
		Cash & Bank (20,000 + 1,50,000)		1,70,000
Total	**8,71,000**	**Total**		**8,71,000**

Illustration 13: Admission – Goodwill, Revaluation Proportionate Capital, Joint Life Policy N 93

Gondu, Hari and Inder are Partners sharing Profits and Losses in the ratio of 2 : 3 : 1. The Partners maintain their accounts on the Cash Basis and their Balance Sheet as on 31st March on which date Janaki is admitted as a Partner, is as follows –

Capital and Liabilities	₹	Properties and Assets		₹
Capital Account:		**Non–Current Assets:**	**Furniture**	**15,000**
– **Hari**	**40,000**		**Motor Car**	**25,000**
– **Inder**	**32,000**	**Current Assets:**	**Cash at Bank**	**9,500**
– **Gondu (Dr. Balance)**	**(20,000)**		**Cash in Hand**	**2,500**
Total	**52,000**	**Total**		**52,000**

Janaki is given 1/4th Share in the Profits and Losses of the Firm, and the Profits and Loss Sharing Ratio as between the other Partners remains as before. The following adjustments were to be made prior to Janaki's admission –

1. **Gondu, Hari and Inder have a Joint Life Policy of ₹ 50,000, the premium for which has been charged to Profit and Loss Account. The Surrender Value of the policy as on 31st March (date of admission) was ₹ 18,000. It is agreed to raise a Joint Life Policy Account in the Books of the Firm at its Surrender Value.**
2. **Goodwill of the Firm is to be valued at 2 years' purchase of Weighted Average Profit of last 3 years (Profits for the last three financial years were: ₹ 27,000, ₹ 30,000 and ₹ 33,000). It is agreed among Existing Partners, that Inder is interested in the Goodwill of the Firm only upto a value of ₹ 42,000.**
3. **Motor Car is taken over by Hari at ₹ 28,000.**
4. **Furniture is revalued at ₹ 18,000.**
5. **Fees billed but not realised ₹ 15,000 are to be brought into account.**
6. **Expenses incurred but not paid ₹ 4,500 are provided for.**
7. **Janaki is to bring Proportionate Capital. Capital of Gondu, Hari and Inder as among themselves are also to be adjusted in Profit Sharing Ratio. Janaki is also to be credited with ₹ 10,000 for having agreed to amalgamate her separate practice as Chartered Accountant with this Firm.**

Pass necessary Journal Entries, and prepare the Balance Sheet of the Firm after Janaki's admission.

Solution:

1. Computation of New PSR

Since Janaki's Share = 1/4th, Balance 3/4th to be shared by Gondu, Hari and Inder in the ratio 2:3:1

	Gondu	Hari	Inder	Janaki	Total
New Ratio	$\frac{2}{6} \times \frac{3}{4} = \frac{2}{8}$	$\frac{3}{6} \times \frac{3}{4} = \frac{3}{8}$	$\frac{1}{6} \times \frac{3}{4} = \frac{1}{8}$	$\frac{1}{4} = \frac{2}{8}$	2:3:1:2

2. Computation of Goodwill

Year	Profit	Weights	Weighted Profits
1	₹ 27,000	1	₹ 27,000
2	₹ 30,000	2	₹ 60,000
3	₹ 33,000	3	₹ 99,000
Total		**6**	**₹ 1,86,000**
Weighted Average Profit		₹ 1,86,000 ÷ 6	₹ 31,000
Goodwill at 2 years purchase		**₹ 31,000 × 2**	**₹ 62,000**

3. Distribution of Goodwill to be credited to Gondu, Hari and Inder

Particulars	Gondu	Hari	Inder	Total
First – ₹ 42,000 to be distributed among all the Partners in the ratio of 2:3:1	14,000	21,000	7,000	42,000
Balance – ₹ 20,000 to be distributed between Gondu and Hari in the ratio of 2:3	8,000	12,000	–	20,000
Total	**22,000**	**33,000**	**7,000**	**62,000**

4. Journal Entries in the books of the Firm

S.No.	Particulars		Dr. (₹)	Cr. (₹)
1.	Joint Life Policy A/c	Dr.	18,000	
	To Gondu Capital A/c (₹ 18,000 × 2/6)			6,000
	To Hari Capital A/c (₹ 18,000 × 3/6)			9,000
	To Inder Capital A/c (₹ 18,000 × 1/6)			3,000
	(Being Surrender Value of Joint Life Policy brought into books of account)			
2.	Goodwill A/c	Dr.	62,000	
	To Gondu Capital A/c			22,000
	To Hari Capital A/c			33,000
	To Inder Capital A/c			7,000
	(Being Goodwill raised in the books on Janaki's Admission) **(WN 2)**			
3.	Motor Car A/c	Dr.	3,000	
	Furniture A/c	Dr.	3,000	
	Fees Receivable A/c	Dr.	15,000	
	To Revaluation A/c			21,000
	(Being appreciation in the value of assets on revaluation)			

S.No.	Particulars		Dr. (₹)	Cr. (₹)
4.	Revaluation A/c	Dr.	4,500	
	To Outstanding Expenses A/c			4,500
	(Being expenses incurred but not provided for)			
5.	Revaluation A/c	Dr.	16,500	
	To Gondu Capital A/c (₹ 16,500 × 2/6)			5,500
	To Hari Capital A/c (₹ 16,500 × 2/6)			8,250
	To Inder Capital A/c (₹ 16,500 × 1/6)			2,750
	(Being profit on Revaluation transferred to Existing Partners in old PSR)			
6.	Hari Capital A/c	Dr.	28,000	
	To Motor Car A/c			28,000
	(Being Motor Car taken over by Hari at agreed value)			
7.	Goodwill A/c	Dr.	10,000	
	To Janaki's Capital A/c			10,000
	(Being personal Goodwill brought in by Janaki) **(WN 5)**			
8.	Gondu Capital A/c	Dr.	18,000	
	Hari Capital A/c	Dr.	27,000	
	Inder Capital A/c	Dr.	9,000	
	Janaki Capital A/c	Dr.	18,000	
	To Goodwill A/c			72,000
	(Being Goodwill written off in the Books in New PSR 2:3:1:2 as per AS–10)			
9.	Bank A/c	Dr.	30,167	
	To Janaki Capital A/c			30,167
	(Being money brought in by Janaki as her share of Capital)			
10.	Bank A/c	Dr.	26,667	
	To Gondu Capital A/c			26,667
	(Being money brought in by Gondu to make his Capital proportionate to New PSR) **(WN 5)**			
11.	Hari Capital A/c	Dr.	2,000	
	Inder Capital A/c	Dr.	24,667	
	To Bank A/c			26,667
	(Being amount paid to Hari and Inder, to make their Capitals proportionate to the New PSR) **(WN 5)**			

Note: Journal Entries No. 9, 10, 11 are written above, only after computing Total Capital **(WN 6)** and completing Partners' Capital Account **(WN 5)**.

5. Partners' Capital A/c

Particulars	Gondu	Hari	Inder	Janaki	Particulars	Gondu	Hari	Inder	Janaki
To balance b/d	20,000	–	–		By bal. b/d	–	40,000	32,000	–
To Motor Car **(JE 6)**	–	28,000	–		By Jt. Life Policy **(JE 1)**	6,000	9,000	3,000	–
To Goodwill **(JE 8)**	18,000	27,000	9,000	18,000	By G/w**(JE 2)**	22,000	33,000	7,000	–
					By G/w**(JE 7)**	–	–	–	10,000
To balance c/d	–	35,250	35,750	–	By Revluation A/c **(JE 5)**	5,500	8,250	2,750	–
(Stage 1 balance)					By bal.c/d	4,500	–	–	8,000
Total	**38,000**	**90,250**	**44,750**	**18,000**	**Total**	**38,000**	**90,250**	**44,750**	**18,000**
To balance b/d	4,500	–	–	8,000	By bal.b/d	–	35,250	35,750	–
To Bank **(bal. fig.)**	–	**2,000**	**24,667**	–	By Bank **(bal. fig.)**	**26,667**	–	–	**30,167**
To balance c/d **(WN 6)**	22,167	33,250	11,083	22,167					
Total	**26,667**	**35,250**	**35,750**	**30,167**	**Total**	**26,667**	**35,250**	**35,750**	**30,167**

6. Computation of Proportionate Capital of Partners

Combined Capital of Gondu, Hari, Inder (Existing Partners) – as per Stage 1 balance derived in Partners' Capital Account (Refer **WN 5**) = ₹ 35,250 + ₹ 35,750 – ₹ 4,500 =	₹ 66,500
Share of Gondu, Hari and Inder in the new firm after deducting Janaki's 1/4th Share	3/4th
Total Capital of the Firm after Janaki's admission = ₹ 66,500 ÷ 3/4th	**₹ 88,667**

Apportionment of Capital in Profit Sharing Ratio i.e. Proportionate Capital of Partners

Gondu	Hari	Inder	Janaki
2:	3 :	1 :	2
₹ 22,167	**₹ 33,250**	**₹ 11,083**	**₹ 22,167**

7. Balance Sheet of the Firm as on 31st March (after Janaki's admission)

Capital and Liabilities	₹	Properties and Assets	₹
Capital Account:		**Non–Current Assets:**	
Gondu	22,167	Furniture	18,000
Hari	33,250	Investments in Joint Life Policy	18,000
Inder	11,083	**Current Assets:**	
Janaki	22,167	Fees Receivable	15,000
Current Liabilities:		Cash at Bank (9,500 + 30,167)	39,667
Outstanding Expenses	4,500	Cash in Hand	2,500
Total	**93,167**	**Total**	**93,167**

Note: Cash at Bank = Given 9,500 + 30,167 + 26,667 – 26,667 **(JE 9, 10, 11)** = **₹ 39,667.**

Illustration 14: Admission – Memorandum Revaluation, G/w Adjustment, etc. **N 07**

The following was the Balance Sheet of 'A' and 'B', who were sharing Profits & Losses in the ratio of 2:1 on 31st December –

Capital and Liabilities	₹	Properties and Assets		₹
Capital Accounts: A	10,00,000	Non–Current Assets:	Plant and Machinery	12,00,000
B	5,00,000		Building	9,00,000
Reserve Fund	9,00,000	Current Assets:	Stock	4,00,000
Current Liabilities: Sundry Creditors	4,00,000		Sundry Debtors	3,00,000
Bills Payable	1,00,000		Cash	1,00,000
Total	29,00,000	Total		29,00,000

They agreed to admit 'C' into the Partnership on the following terms:

1. **The Goodwill of the Firm was fixed at ₹ 1,05,000.**
2. **That the value of Stock and Plant and Machinery were to be reduced by 10%.**
3. **That a Provision of 5% was to be created for Doubtful Debts.**
4. **That the Building Account was to be appreciated by 20%.**
5. **There was an unrecorded Liability of ₹ 10,000.**
6. **Investments worth ₹ 20,000 (Not mentioned in the Balance Sheet) were taken into account.**
7. **That the value of Reserve Fund, the values of Liabilities and the values of Assets other than Cash are not to be altered.**
8. **'C' was to be given one–fourth share in the Profit and was to bring Capital equal to his share of Profit after all adjustments.**

Prepare Memorandum Revaluation A/c, Capital Account of Partners and the Balance Sheet of the Newly Reconstituted Firm.

Solution:

1. Computation of New PSR

Since, C's Share = 1/4th, Balance 3/4th is to be shared by A & B in existing ratio 2:1. So, New PSR will be as under –

	A	B	C	Total
New Ratio	$\frac{2}{3} \times \frac{3}{4} = \frac{2}{4}$	$\frac{1}{3} \times \frac{3}{4} = \frac{1}{4}$	$\frac{1}{4}$	2:1:1

2. Memorandum Revaluation Account

Particulars	₹	Particulars	₹
To Stock (4,00,000 × 10%)	40,000	By Building (9,00,000 ×20%)	1,80,000
To Plant & Machinery (12,00,000 × 10%)	1,20,000	By Investments (not entered)	20,000
To Provn for Doubtful Debts(3,00,000 × 5%)	15,000		
To Liability (Unrecorded)	10,000		
To Capital A/c (2:1) (Old PSR) **(bal. fig.)**			
– A 10,000			
– B 5,000	**15,000**		
Total	**2,00,000**	**Total**	**2,00,000**
To Building (9,00,000 × 20%)	1,80,000	By Stock (4,00,000 × 10%)	40,000
To Investments	20,000	By Plant & Machinery (12,00,000 × 10%)	1,20,000
		By Provn for Doubtful Debts (3,00,000 × 5%)	15,000
		By Liability (Unrecorded)	10,000
		By Capital A/c (2:1:1) (New PSR) **(bal. fig.)**	
		– A 7,500	
		– B 3,750	
		– C 3,750	**15,000**
Total	**2,00,000**	**Total**	**2,00,000**

3. Partners' Capital Account

Particulars	A	B	C	Particulars	A	B	C
To Goodwill (2:1:1)	52,500	26,250	26,250	By balance b/d	10,00,000	5,00,000	–
To Memo. Revaln	7,500	3,750	3,750	By Reserve (2:1)	6,00,000	3,00,000	–
To Reserve (2:1:1) (See **Note 1** below)	4,50,000	2,25,000	2,25,000	By Goodwill (2:1)	70,000	35,000	–
				By Memo. Revaln	10,000	5,000	–
To balance c/d **(Stage 1 balance)**	**11,70,000**	**5,85,000**	–	By balance c/d **(Stage 1 balance)**	–	–	**2,55,000**
Total	**16,80,000**	**8,40,000**	**2,55,000**	**Total**	**16,80,000**	**8,40,000**	**2,55,000**
To Stage 1 bal.b/d	–	–	2,55,000	By Stage 1 bal. b/d	11,70,000	5,85,000	–
To bal. c/d **(Note 2)**	11,70,000	5,85,000	5,85,000	By Cash **(bal. fig.)**	–	–	**8,40,000**
Total	**11,70,000**	**5,85,000**	**8,40,000**	**Total**	**11,70,000**	**5,85,000**	**8,40,000**

Note 1: Since Question specifically states that Value of Reserve Fund is **not** to be altered, it is re–instated / written back, by debiting all Partners' A/c in New PSR. Alternatively, the net effect of crediting A and B and reversing Reserve Fund may be adjusted in the Partners' Capital A/c in **Sacrifice Ratio**.

Note 2: Capitals of Partners after Admission:

(a) Combined Capital of A and B (Existing Partners) as per Stage 1 balance derived in Partners' Capital Account = ₹ 11,70,000 + ₹ 5,85,000 =	₹ 17,55,000
(b) Share of A and B in the new Firm after deducting C's 1/4th Share	3/4th
(c) **Total Capital of the Firm after C's admission = ₹ 17,55,000 ÷ 3/4th**	**₹ 23,40,000**
(d) Hence, Capital to be contributed Partner C = (c – a)	**₹ 5,85,000**

4. Balance Sheet of the Firm as on 31st December (after C's admission)

Capital and Liabilities		₹	Properties and Assets		₹
Capital Accounts:	A	11,70,000	**Non–Current Assets:**	Plant & Machinery	12,00,000
	B	5,85,000		Building	9,00,000
	C	5,85,000	**Current Assets:**		
Reserve Fund		9,00,000		Stock	4,00,000
Current Liabilities:	Creditors	4,00,000		Debtors	3,00,000
	Bills Payable	1,00,000		Cash (1,00,000 + C's Contrib. 8,40,000)	9,40,000
Total		**37,40,000**	**Total**		**37,40,000**

Illustration 15: Accounting For Partnership Firms- Death **M 19**

Monika, Yedhant and Zoya are in partnership, sharing profits and losses equally, Zoya died on 30th June 2018. The Balance Sheet of Firm as at 31st March 2018 stood as.

Liabilities	Amount ₹	Assets		Amount ₹
Creditors	20,000	Land and Building		1,50,000
General Reserve	12,000	Investment		65,000
Capital Accounts		Stock in trade		15,000
Monika	1,00,000	Trade receivable	35,000	
Yedhant	75,000	Less: Provision for doubtful debt	2,000	33,000
Zoya	75,000	Cash in hand		7,000
		Cash at bank		12,000
	2,82,000			2,82,000

In order to arrive at the balance due to Zoya, it was mutually agreed that.

(i) Land and Building be valued at ₹ 1,75,000

(ii) Debtors were all good, no provision is required

(iii) Stock is valued at ₹ 13,500

(iv) Goodwill will be valued at one Year's purchase of the average profit of the past five years. Zoya's share of goodwill be adjusted in the account of Monika and Yedhant.

(v) Zoya's share of profit from 1st April 2018, to the date of death be calculated on the basis of average profit of preceding three years.

(vi) The profit of the preceding five years ended 31st March were:

2018	2017	2016	2015	2014
25,000	20,000	22,500	35,000	28,750

You are required to prepare:

(1) Revaluation account

(2) Capital accounts of the partner and

(3) Balance sheet of the Firm as at 1st July 2018.

Solution:

1. Revaluation Account

Particulars	₹	Particulars	₹
To Stock (15,000 – 13,500)	1,500	By Land & Building (1,75,000-1,50,000)	25,000
To Capital Accounts – Profit(Old PSR)		By Provision for Doubtful Debts	2,000
Monika (20,000 x 1/3)	8,500		
Yedanth (20,000 x 1 /3)	8,500		
Zoya (20,000 x 1/3)	8,500		
Total	**27,000**	**Total**	**27,000**

2. Partners' Capital Account

Details	Monika	Yedhanth	Zoya	Details	Monika	Yedhanth	Zoya
				By balance b/d	1,00,000	75,000	75,000
				By Gen. Reserve.(1:1:1)	4,000	4,000	4,000
To Zoya A/c (G/w) **(Note 1)**	4,375	4,375	-	By Monica & Yedanth A/c (Goodwill)**(Note 1)**			8,750
To Zoya's Executor A/c			1,03,438	By Revaluation	8,500	8,500	8,500
To bal. c/d	1,08,125	83,125		By P & L Suspense A/c **(Note 2)**			7,188
Total	**1,12,500**	**87,500**	**1,03,438**	**Total**	**1,12,500**	**87,500**	**1,03,438**

Note:

1. Goodwill of Firm $= 1 \times$ Average of Last 5 Years Profit $= 1\times \dfrac{(25{,}000+20{,}000+22{,}500+35{,}000+28{,}750)}{5 \text{ years}} =$ ₹26,250.

   Share of Goodwill of Zoya = ₹ 26,250 ÷ 3 = 8,750

This is adjusted by debiting the gaining Partners – Yedanth and Monica by ₹4,375 each and crediting Zoya by ₹ 8,750

2. Computation of Profit and Loss Suspense for 3 Months= = $\frac{(22,500+35,000+28,750)}{3\text{ years}} \times \frac{3}{12} \times 1/3$ = ₹ 7,187.5.

3. Balance Sheet of the Firm as at 01.07.2018 (after death)

Capital and Liabilities		**₹**	**Properties and Assets**	**₹**
Partner's Capital A/c			**Non–Current Assets:**	
– Monica	1,08,125		Land and Building	1,75,000
– Yedanth	83,125	1,91,250	Investments	65,000
			Current Assets	
Non–Current Liabilities:			Stock in Trade	13,500
Zoya's Executor A/c		1,03,438	Trade Receivable	35,000
Current Liabilities:			Cash at Bank	12,000
Sundry Creditors		20,000	Cash in Hand	7,000
			Profit & Loss Suspense	7,188
Total		**3,14,688**	**Total**	**3,14,688**

Illustration 16: Partnership Accounts – Admission **N 18**

Dinesh, Ramesh and Naresh are Partners in a Firm sharing Profits and Losses in the ratio of 3 : 2 : 1. Their Balance Sheet as on 31st March 2018 is as below:

Liabilities		**₹**	**Assets**	**₹**
Trade Payables		**22,500**	**Land & Buildings**	**37,000**
Outstanding Liabilities		**2,200**	**Furniture and Fixtures**	**7,200**
General Reserve		**7,800**	**Closing Stock**	**12,600**
Capital Accounts:			**Trade Receivables**	**10,700**
Dinesh	**15,000**		**Cash in Hand**	**2,800**
Ramesh	**15,000**		**Cash at Bank**	**2,200**
Naresh	**10,000**	**40,000**		
Total		**72,500**	**Total**	**72,500**

The Partners have agreed to take Suresh as a Partner with effect from 1st April 2018 on the following terms:

(i) Suresh shall bring ₹ 8,000 towards his Capital.

(ii) The Value of Stock to be increased to ₹ 14,000 and Furniture & Fixtures to be depreciated by 10%.

(iii) Reserve for Bad and Doubtful Debts should be provided at 5% of the Trade Receivables.

(iv) The Value of Land & Buildings to be increase by ₹ 5,600 and the Value of the Goodwill be fixed at ₹ 18,000.

(v) The New Profit Sharing Ratio shall be divided equally among the Partners.

The Outstanding Liabilities include ₹ 700 due to Ram which has been paid by Dinesh. Necessary Entries were not made in the books. Prepare (i) Revaluation A/c, (ii) Capital A/c of the Partners, (iii) Balance Sheet of the Firm after admission of Suresh.

Solution:

1. Revaluation Account

Particulars			**₹**	**Particulars**		**₹**
To Furniture & Fixtures	(7,200 × 10%)		720	By Closing Stock	(14,000 – 12,600)	1,400
To Reserve for Bad Debts	(10,700 × 5%)		535	By Land and Buildings		5,600
To Dinesh Capital A/c	3/6th	2,873				
To Ramesh Capital A/c	2/6th	1,915				
To Naresh Capital A/c	1/6th	957	**5,745**			
Total			**7,000**	**Total**		**7,000**

2. Capital Accounts of Partners

Particulars	Dinesh	Ramesh	Naresh	Suresh	Particulars	Dinesh	Ramesh	Naresh	Suresh
To Goodwill w/off (in New Ratio 1:1:1:1)	4,500	4,500	4,500	4,500	By bal b/d	15,000	15,000	10,000	–
					By Revaluation	2,873	1,915	957	–
					By Cash –Cap.	–	–	–	8,000
					By Liabilities	700	–	–	–
To bal c/d					By Goodwill – raised in 3:2:1	9,000	6,000	3,000	–
(Bal. fig.)	26,973	21,015	10,757	3,500	By Gen. Res.	3,900	2,600	1,300	–
Total	**31,473**	**25,515**	**15,257**	**8,000**	**Total**	**31,473**	**25,515**	**15,257**	**8,000**

Note: Profit on Revaluation and General Reserve are transferred to existing Partners in the Old Ratio of 3:2:1.

3. Balance Sheet of the Firm as at 1st April 2018 (after admission of Suresh)

Capital and Liabilities		₹	Properties and Assets		₹
Capital Accounts of Partners –			**Non Current Assets:**		
– Dinesh	26,973		Land and Buildings (37,000 + 5,600)		42,600
– Ramesh	21,015		Furniture & Fixtures (7,200 – 10%)		6,480
– Naresh	10,757		**Current Assets:**		
– Suresh	3,500	62,245	Trade Receivables	10,700	
Current Liabilities:			**Less:** Reserve for Bad Debts	(535)	10,165
Trade Payables		22,500	Closing Stock		14,000
Liabilities (2,200 – 700)		1,500	Cash (OB ₹ 2,800 + Suresh ₹ 8,000)		10,800
			Bank		2,200
Total		**86,245**	**Total**		**86,245**