3 Reconstitution of Partnership (Admission of Partner)

Contents

Competency Statement

❑ *The students will be able :*
- *To understand the meaning and different ways of reconstitution.*
- *To understand the meaning and need of admission of partner.*
- *To learn the adjustments required on admission of a partner.*
- *To calculate the new profit sharing ratio and sacrifice ratio.*
- *To know the methods of valuation of goodwill and treatment of goodwill.*
- *To learn the accounting treatment of accumulated profits / loss.*
- *To To make necessary adjustments for revaluation of assets and liabilities.*
- *To learn to adjust the capitals according to new profit sharing ratio.*

3.1 Meaning of Reconstitution of Partnership :

The reconstitution of partnership primarily involves change in the form of partnership. There is change in agreement among the partners which leads to change in the relationship between the partners and change in share of the Profit or Losses of the partners in the firm. The change in the partnership may take the following forms :

3:1:1 Different forms of Reconstitution :

1) Change in Profit - Sharing of existing Partner

The partners of a firm may decide to change their existing profit sharing ratio. If one partner purchases a share of profit from another partner, the old partnership agreement stands terminated and the new agreement comes into force stating the new profit sharing ratio.

2) Admission of a Partner

When the new partner is admitted in the business he brings capital and his share of goodwill. Old partners have to sacrifice their share of profit for new partner. So the partnership agreement changes.

3) Retirement of a Partner

If the partner is retiring from partnership firm his share of profit, upto the date of retirement capital, his share in other reserves of the firm will be paid to him. Old partners will gain the profit and there will be change in the profit sharing ratio.

4) Death of a Partner

Partner is going out of business due to death his legal heir will get the partner's share in the business. Share of Profit of continuing partners will change and old partnership agreement comes to an end.

3.2
Admission of a Partner :

According to section 31 (1) of the Partnership Act 1932, A person can be admitted as a new partner only with the consent of all existing partners unless otherwise agreed upon. New Partner will bring his share of goodwill and capital and enjoy the right to share the future profits.

This chapter covers the accounting treatment of admission of a partner in the existing partnership firm.

3.2.1
Need :

Generally, the new Partner is admitted in the firm to expand the capital base as well as to use the skills of that person to improve the overall performance of the partnership firm.

3.2.2
Capital brought by new partner :

The purpose of admitting new partner is to increase the capital of the partnership firm. The new partner can bring capital in Cash or kind. The new partner will bring the capital as per the terms in Partnership Deed. The accounting treatment for the capital brought in by the new partner is:

3.2.3

Transaction	Journal Entry
When new partner brings cash towards his Capital	Cash/Bank A/c .... Dr. To New Partner's capital A/
When new partner brings certain assets towards his capital	Assets A/c.. Dr. To New Partner's capital A/c

New ratio

As the new partner is admitted in partnership firm the profit sharing ratio of existing partners changes and there is need to calculate new profit sharing ratio including new partner. This ratio is used for writing off goodwill and capital adjustments.

Formula for calculating new ratio

If total profit is 1

1(-) Share of new partner = Balance of 1

New Ratio = Old Ratio × Balance of 1

OR

If Sacrifice ratio of old partners is given along with old ratio the new ratio can be calculated as follows:

New Ratio = Old Ratio - Sacrifice Ratio

3.2.4 Sacrifice Ratio :

When new partner is admitted old partners have to sacrifice their share of profit to give the share of profit to new partner. The ratio in which the old partners sacrifice their share of profit is called as sacrifice ratio. This ratio is used to retain the goodwill in premium method.

Sacrifice ratio = Old Ratio - New Ratio

Change in the Profit sharing ratio due to admission of a partner

Illustrations

1: (Calculation of New ratio)

Mohan and Ganpat are sharing profits and losses in the ratio of 2:3. They admitted Chandrakant for $1/4^{th}$ share in future profit. The new profit sharing ratio of Mohan, Ganpat and Chandrakant will be as under

Formula	=	1 – share of New Partner
	=	1– 1/4
	=	3/4 Remaining Profit
New Ratio	=	Old Ratio × balance of 1
Mohan's New Ratio	=	2/5×3/4 = 6/20
Ganpat's New Ratio	=	3/5× 3/4 = 9/20
Chandrakant's Ratio	=	1/4 i.e. 5/20

New Profit Sharing Ratio will 6:9:5

2: (Calculation of Sacrifice Ratio)

A and **B** are Partners sharing profits in the ratio of 6:4. C is admitted as a partner. The new profit sharing ratio of A, B and C is 10 : 6: 4. Find out the sacrificing ratio.

Sacrifice ratio	=	Old Ratio – New Ratio
A's sacrifice	=	6/10 – 10/20 = 2/20
B's Sacrifice	=	4/10 – 6/20 = 2/20

Sacrifice ratio of A and B = 2/20 : 2/20 or 2:2 = 1 :1

3: (Calculation of Sacrifice Ratio and New Ratio)

Pravin and Navin are partners sharing profits in the ratio of 7:3 They admit Reena for $1/5^{th}$ share of profit which he takes equally from Pravin and Navin. Calculate sacrifice ratio and new profit sharing ratio.

Reena's share	=	1/5
Sacrifice Ratio of P and Q	=	1:1 or 1/2:1/2
Pravin's Sacrifice	=	1/5 × 1/2 = 1/10
Navin's Sacrifice	=	1/5 × 1/2 = 1/10
New Ratio	=	Old Ratio - Sacrifice Ratio
New Share of Pravin	=	7 /10 – 1/10 = 6 / 10
New share of Navin	=	3 / 10 – 1/10 = 2 / 10
Reena's share = $1/5^{th}$ share	=	2/10
Therefore, New Ratio is 6:2:2	=	3:1:1

4: (Calculation of Sacrifice Ratio and New Ratio)

X and **Y** are partners sharing profits in the ratio 7:3. X surrenders 1/7th of his share and Y surrenders 1/3rd of his share in favour of Z, a new partner. Calculate new ratio and sacrificing ratio.

Old Ratio of X and Y = 7:3 or 7/10 : 3 /10

X's Sacrifice = 1/7 × 7/10 = 1/10

Y's Sacrifice = 1/3 × 3/10 = 1/10

Sacrificing ratio of X and Y = 1/10 :1/10 or 1:1

Z's share = X's share + Y's share = 1/10 + 1/10 = 2/10

X's New share = Old ratio – Sacrifice ratio = 7/10 – 1/10 = 6/10

Y's New share = Old ratio – Sacrifice ratio = 3/10 – 1/10 = 2/10

Therefore, New Ratio of X, Y and Z = 6:2:2 = 3:1:1

3.2.5

Meaning of Goodwill :

Goodwill is the benefit, name, fame, reputation, image of a business which ultimately helps the business to earn more profits. It is also because of the honesty, business ethics and hard work done by all the partners in the past years. Good will is calculated on the basis of part performances.

3.2.5.1

There are various methods of valuation of goodwill. For Std 12th following two main methods are included:

1) Average Profit Method

Under this method goodwill is calculated on the average basis of the past number of years of profit. It is assumed that the firm will maintain average profit for next certain years also and so the goodwill is calculated on the basis of certain number of years purchase of average profit.

Goodwill can be calculated as per this method by following these steps

i) Calculation of total profit

Total Profit is calculated by adding the profits of the previous years and deducting the losses, if any.

Eg. Profits / Losses of the past 4 years are as follows:

Year	Amount
2016	1,20,000 (Profit)
2017	80,000 (Profit)
2018	20,000 (Loss)
2019	60,000 (Profit)

The total Profit will be as follows :

Total Profit = 1,20, 000 + 80,000 – 20,000 + 60,000

= ₹ 2, 40,000

ii) Calculation of Average Profit

$$\text{Average Profit} = \frac{\text{Total Profit}}{\text{Number of years}}$$

$$\text{Average Profit} = \frac{2,40,000}{4}$$

Average Profit = ₹ 60,000

iii) Calculation of Goodwill:

Goodwill is valued at certain number of year's purchase of average profit.
Thus Goodwill can be calculated by using the following formula

Goodwill = Average profit × Number of year's purchase

In above example If Goodwill is to be calculated as 2 year's purchase of average profit. then,

Goodwill = 60, 000 × 2

= ₹ 1,20, 000

2) Super Profit Method

Super Profit is the profit which is earned over and above the normal profit. If the firm earns extra profit than the normal standard profit this is because of reputation of the firm. So super profit can be considered as a base for calculation of goodwill. Normal rate of return is considered to calculate the profit normally expected on the capital employed. If the firm earns excess than the normal profit it is super profit.

Calculation of Goodwill by using Super Profit method.

Capital employed :

It is the amount of capital used by the firm to start and run the business activities. It is made of fixed assets other than goodwill plus current assets minus current liabilities.

Normal Rate of return :

It is the rate of return normally earned by the firms in the same industry or it is the profit expected by the investor on the capital employed.

1 : Find the value of Goodwill from the following information by using Super Profit Method.

Year	Amount (₹)
2014	80,000 (Profit)
2015	95,000 (Profit)
2016	1,10,000 (Profit)
2017	40,000 (Loss)
2018	85,000 (Profit)

i) Capital employed is ₹ 3, 50, 000

ii) Normal Rate of Return is 12%

iii) Goodwill is to be valued at two year's purchase of super profit.

i) Calculation of Average Profit

$$\text{Average Profit} = \frac{\text{Total Profit}}{\text{Number of years}}$$

$$= \frac{80{,}000 + 95{,}000 + 1{,}10{,}000 - 40{,}000 + 85{,}000}{5}$$

$$= ₹\ \frac{3{,}30{,}000}{5}$$

$$= ₹\ 66{,}000$$

ii) Calculation of Normal Profit

$$\text{Normal Profit} = \frac{\text{Capital employed} \times \text{NRR}}{\text{Number of years}}$$

$$= ₹\ \frac{3{,}50{,}000 \times 12}{100}$$

$$= ₹\ 42{,}000$$

ii) Calculation of Super Profit

Super Profit = Average Profit – Normal Profit

= 66,000 – 42,000

= ₹ 24,000

iii) Calculation of Goodwill

Goodwill = Super Profit × No. of year's purchases

= 24,000 × 2

= ₹ 48,000

3.2.5.2 Treatment of Goodwill

Unlike other assets Goodwill is treated separately at the time of reconstitution of the firm. There are two methods of recording Goodwill in the books of accounts while admitting new partner in the firm.

(A) Premium Method

Under this method new partner brings his share of goodwill in cash or kind. It may be retained in the business or may be withdrawn by the old partners.

Sr. No	Transactions	Journal Entry
1	When new partner brings his share of goodwill in cash and it is retained in the business.	(a) Cash / Bank / A/c ....Dr. To Goodwill A/c (Being goodwill brought in by new partner) (b) Goodwill A/c ....Dr. To Old Partners' Capital / Current A/c **(Sacrifice Ratio)** (Being goodwill distributed among old partners)
2	When new partner brings his share of goodwill in cash and it is withdrawn by old partners.	(a) Cash / Bank / A/c............................ ....Dr. To Goodwill A/c (Being goodwill brought in by new partner) (b) Goodwill A/c.. Dr. To Old Partners' Capital / Current A/c **(Sacrifice Ratio)** (Being goodwill distributed among old partners) (c) Old Partner's Capital / Current A/c. Dr. (Actual withdrawn) To Cash / Bank A/c (Being goodwill withdrawn by old partners)
3	When new partner brings his share of goodwill in cash and it is paid to old partners privately	In this case no entry is required to be passed the books of the firm.

(B) Valuation Method:

Under this method new partner does not bring his share of goodwill. So old partners measure the goodwill of the firm and then it is raised in the books of the firm at the time of admission of new partner.

Sr. No.	Transcation	Journal Entry
1	When new partner does not bring his share of goodwill in cash and it is raised in the books of the firm.	(a) Goodwill A/c...Dr. To Old Partners' Capital / Current A/c **(Old Ratio)** (Being goodwill raised in the books of the firm) ● Goodwill will appear in the New balance sheet on asset side.
2	When goodwill is raised and written off.	(a) Goodwill A/c...Dr. To Old Partners' Capital / Current A/c **(Old Ratio)** (Being goodwill raised in the books) (b) All Partners Capital A/c ....Dr. **(New Ratio)** To Goodwill A/c (Being goodwill written off) ● Goodwill will not appear in the New Balance sheet
3	When goodwill already appears in the books of the firm (In balance sheet) ● If goodwill already appears in the Balance sheet and new partner brings goodwill in cash	In such cases, if the goodwill is revalued, the difference between revalued value of goodwill and its books value is transferred to Old partners' capital/ current A/c or Revaluation A/c ● Then it is desirable to write off the goodwill appearing in the books among old partners in their old profit sharing ratio.

3.2.6 Revaluation of Assets and Liabilities

Meaning

The value of assets shown in Balance Sheet may be different than market value. So the increase or decrease in the value at the time of admission of new partner belongs to old partners. The new partner has no right over such past profits Also he should not suffer due to losses on revaluation of assets.

Same way there may be unrecorded Asset or unrecorded Liability at the time of admission. It should be shown in the books before admitting the new partner. Such adjustment of values of assets and liabilities is called as 'Revaluation of Assets and Liabilities'.

At the time of reconstitution of the firm, assets and liabilities of the firm are revalued. The change made in the value of assets and liabilities are recorded in 'Revaluation Account' or 'Profit and Loss Adjustment Account'. After recording the increase or decrease in asset and liabilities the gain or loss on revaluation is transferred to old partners' Capital / Current accounts in their old profit sharing ratio. Revaluation Account / Profit and Loss Adjustment account is a Nominal Account.

Sr. No.	Transaction	Journal Entry
1.	Increasing the value of asset and Decreasing the value of liability	Asset A/c ....Dr. Liability A/c ....Dr. To Revaluation A/c / P & L Adjustment A/c (Being the value of asset increased and value of liability decreased)
2	Decreasing the value of asset and Increasing the value of liability	Revaluation A/c / P & L Adjustment A/c..........................Dr. To Asset A/c To Liability A/c (Being the value of asset decreased and value of liability increased)
3.	Recording the unrecorded asset in the books of accounts	Asset A/c ....Dr. To Revaluation A/c (Being, unrecorded asset brought in the books of accounts)
4.	Creating new liability in the books	Revaluation A/c ....Dr. To New Liability A/c (Being unrecorded liability brought in the books of accounts)
5.	Transfer of Profit on Revaluation to old partner's Capital/Current A/c	Revaluation A/c ....Dr. To Old Partner's Capital/Current A/c (Being profit on revaluation credited to partners' capital/ current A/c)
6.	Transfer of Loss on Revaluation to old partners' Capitals/ Current A/c	Old Partners' Capital/ Current A/c ....Dr. To Revaluation A/c (Being loss on revaluation transferred to partners' capital / current A/c)

Dr. Specimen of Revaluation / Profit & Loss Adjustment Account Cr.

Particular	Amt (₹)	Paritcular	Amt (₹)
To Asset A/c (Decrease-- in Asset)	xxx	By Asset A/c (Increase in Asset)	xxx
To Liability (Increase in Liability)	xxx	By Liability (Decrease in Liability)	xxx
To Old Partners' Capital / Current A/c (Profit on Revaluation transferred)	xxx	By Old Partner's Capital / Current A/c (Loss on Revaluation transferred)	
	xxx		xxx

3.2.7 Adjustment of accumulated profit and Losses

Accumulated profit is the profit earned by the old partners before admitting the new partner that may be in the form of undistributed profit, Reserve Fund, General Reserve, Workmen Compensation Fund, Joint Policy Reserve etc.

These reserves are on the Liability side of Balance Sheet therefore transferred on credit side of partner's Capital / Current A/c.

Any type of Reserve / Accumulated profits A/c ....Dr.

To Partners' Capital / Current A/c

(Being reserve / accumulated profits transferred to partners)

Accumulated Loss is the loss sustained by the old partners before admitting the new partner & it is undistributed loss. It appears on the Assets side of Balance-sheet therefore transferred on the debit side of Partners Capital/Current A/c e.g. Profit Loss A/c (Debit Balance) Preliminary Expenses

Partner's Capital / Current A/c ....Dr.

To Accumulated loss

(Being accumulated loss transferred to partners)

3.2.8 Adjustment of Capitals

Sometimes capitals of all partners are to be adjusted in the new profit sharing ratio after the admission of new partner. The capitals of the partners may be adjusted in any one of the following ways.

(1) Capitals of old partners may be adjusted on the basis of the capital of the new partner

In this case, capital of the new partner is taken as base to find out the total capital. The total capital can be calculated as follows : -

Total Capital = New partner's capital × Reciprocal of his PSR (Profit sharing ratio)

e.g. 'Z' is admitted in the firm with $1/5^{th}$ share of the profits of the firm. 'Z' contributes ₹ 50,000 as his capital. 'X' and 'Y' the other two partners were sharing profits in the ratio of 2:3.

Then the required capital of X and Y should be calculated as follows.:

Calculation of New profit sharing ratio:

X' s Share of Profits = 2/5 × (1– 1/5) = 2/5 × 4/5 = 8/ 25

Y' s Share of Profits = 3/5 × (1– 1/5) = 3/5 × 4/5 = 12/ 25

Z' s Share of Profits = 1/5 = 5 / 25

So new ratio is 8:12:5

Calculation of New Capital :

If Z' Capital / Share is ₹ 50,000, then the total capital of the firm has to be ₹ 50,000 × 5/1 = ₹ 2,50,000

X's share should be ₹ 2,50,000 × 8/25 = ₹ 80,000

Y's share should be ₹ 2,50,000 × 12/25 = ₹ 1,20,000

(2) Capitals of the new partner may be determined on the basis of the total capital of the old partners: In this case, new partner is required to bring his share of capital in proportion to total capital of old partner's. It is calculated as follows:

eg. After making all adjustments as regards goodwill reserve, accumulated profits / loss, revaluation profit / loss etc. the capitals of 'P' and 'Q' are ₹ 60,000 and ₹ 48,000. The profits and losses are shared by P and Q in the ratio of 3:2 respectively. R is admitted and is to be given 1/4th share of profits. He has to bring in capital representing his share, which is explained as under.

R gets 1/4th share, so 3/4th share is left for P and Q. Therefore the combined capital of P and Q is 1,08,000 represents 3/4th share. Thus total capital should be ₹ 108000 × 4/3 = 1, 44,000. Therefore R should bring ₹ 36,000 i.e. ₹ 1,44,000 × 1/4

Proportionate capitals of the partners are recorded in capital accounts. The difference is adjusted normally through Cash / Bank / Current / Loan account. Difference between the actual capital and proportionate capital can be shown by passing following entries.

1) An entry for surplus capital

Concerned Partner's Capital A/c ....Dr.

To Cash / Bank / Current A/c

2) An entry for deficit capital

Cash / Bank / Current A/c ....Dr.

To Concerned Partner's Capital A/c

Illustrations

1: (Journal Entries)

The Balance Sheet of Sujata and Pournima who shared profits equally was as follows:

Dr. **Balance Sheet as on 31st March 2018** **Cr.**

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capitals			Land & Building		60,000
Sujata	1,00,000		Plant & Machinery		70,000
Pournima	1,40,000	2,40,000	Furniture		24,000
			Sundry Debtor		26,000
Creditors		34,000	Stock		40,000
Bills Payable		26,000	Cash		80,000
		3,00,000			**3,00,000**

On 1st April 2018, Aparna joins the firm as a third partner for 1/5th share of future profits on the following terms and condition :

a) Goodwill is valued at ₹ 2,00,000, Aparna is to bring her share of goodwill in cash.
b) Aparna is to bring in ₹ 1,00,000 as capital.
c) A provision of 10% is to be created on sundry debtors
d) Land and Building is to be valued at ₹ 80,000
e) Stocks Plant and Machinery is to be reduced by 20%

Draft the journal entries to record the above arrangement and give the opening balance sheet of the new firm.

In the Books of Sujata, Pournima, Aparna

JOURNAL

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 April 1st	Cash A/c .... Dr.		1,40,000	
	To Aparna's Capital A/c			1,00,000
	To Goodwill A/c			40,000
	(Being cash brought in by Aparna as her share of capital and goodwill)			
April 1st	Goodwill A/c .... Dr.		40,000	
	To Sujata's capital A/c			20,000
	To Pournima's capital A/c			20,000
	(Being the amount of goodwill distributed among partners in sacrifice ratio)			
April 1st	Revaluation A/c .... Dr.		24,600	
	To RDD A/c			2,600
	To Stock A/c			8,000
	To Plant & Machinery A/c			14,000
	(Being decrease in value of Debtors, Stock, Plant and Machinery recorded in revaluation accounts)			
April 1st	Land & Building A/c .... Dr.		20,000	
	To Revaluation A/c			20,000
	(Being increase in value of Land and Building recorded in revaluation accounts)			
April 1st	Sujata's capital A/c		2,300	
	Aparna's capital A/c		2,300	
	To Revaluation A/c			4,600
	(Being loss on revaluation transferred to partners capital account)			

BALANCE SHEET AS ON 1st APRIL 2018

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Creditors		34,000	Cash in hand		2,20,000
Bills Payable		26,000	Sundry Debtors	26,000	
Capitals			Less : Provision	2,600	23,400
Sujata	1,17,700		Stock	40,000	
Pournima	1,57,700		Less: - Decrease	8,000	32,000
Aparna	1,00,000	3,75,400	Furniture		24,000
			Land & Building	60,000	
			Add: - Appreciation	20,000	80,000
			Plant and Machinery	70,000	
			Less: - Depreciation	14,000	56,000
		4,35,400			**4,35,400**

Working Note : -

1) **Cash in hand**

(In old balance sheet) 80000 + 140000 (capital and goodwill brought in)

= 220000

2) **Revaluation Account**

Dr. **Revaluation Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To R.D.D. A/c	2,600	By Land & Building A/c.	20,000
To Stock	8,000	By Sujata's Capital A/c.	2,300
To Plant & Machinary	14,000	By Pournima's Capital A/c.	2,300
		(Revolution Loss)	
	24,600		**24,600**

2: **Padma and Kumud share profits and losses in the ratio 3:2 in partnership firm. Their Balance Sheet as on 31st March 2019 was as under:**

Balance Sheet As on 31st March, 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		37,500	Bank		22,500
Bills payable		30,000	Bills Receivable		11,400
Bank loans		48,000	Debtors	62,400	
General reserve		7,500	Less: R. D. D	2,400	60,000
Capitals :			Stock		36,000
Padma	45,000		Furniture		14,100
Kumud	36,000	81,000	Machinery		15,000
			Building		45,000
		2,04,000			**2,04,000**

On 1.04.2019 they admitted Asha on the following terms : -

1) For 1/2 Share in profits in future, Asha should bring ₹30,000 for capital and ₹ 15,000 for goodwill in cash.
2) Half of amount of goodwill is withdrawn by old partners.
3) The Stock is to depreciated by 10% and Machinery by 5%
4) RDD is to be maintained at ₹ 3,000
5) Furniture should be appreciated to ₹16,050 and Building be aprreciated by 20%

Pass the necessary Journal entries in the books of the firm.

Solutions : - **Journal Entries in the Books of the Firm**

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
1.4.2019	General reserve A/c.. Dr.		7,500	
	To Padma's capital A/c			4,500
	To Kumud's capital A/c			3,000
	(Being general reserve distributed among old partners)			
	Profit & Loss Adjustment A/c............................. Dr.		4,950	
	To Stock A/c			3,600
	To Machinery A/c			750
	To RDD A/c			600
	(Being decrease in the value of assets and RDD increased)			
	Furniture A/c .... Dr.		1,950	
	Building A/c .... Dr.		9,000	
	To Profit & Loss Adjustment A/c			10,950
	(Being appreciation in the value of assets)			
	Profit & Loss Adjustment A/c........................... Dr.		6,000	
	To Padma's Capital A/c			3,600
	To Kumud's Capital A/c			2,400
	(Being Profit on Revaluation distributed in Profit sharing ratio)			
	Bank A/c Dr.		30,000	
	To Asha's capital A/c			30,000
	(Being cash brought in by Asha as capital)			
	Bank A/c .... Dr.		15,000	
	To Goodwill's A/c			15,000
	(Being cash brought in by Asha as goodwill)			
	Goodwill A/c... Dr.		15,000	
	To Padma's capital A/c			9,000
	To Kumud's capital A/c			6,000
	(Being goodwill distributed in sacrifice ratio)			
	Padma's capital A/c.. Dr.		4,500	
	Kumud's capital A/c .... Dr.		3,000	
	To Bank A/c			7,500
	(Being half the amount of goodwill withdrawn by old partners)			

Working Notes: -

In the Books of firm

Profit and loss adjustment A/c

Dr. **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Stock Ac		3,600	By Furniture A/c By	1,950
To Machinery A/c		750	By Building A/c	9,000
To RDD A/c		600		
To Profit on Revaluation transferred to Partners a Capital A/c				
Padma	3,600			
Kumud	2,400	6,000		
		10,950		10,950

Dr. **Goodwill A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Padma 's capital A/c	9,000	By Bank A/c	15,000
To Kumud's capital A/c	6,000		
	15,000		15,000

3: **Anand and Rohit are partners sharing profits and losses in the ratio of 4:1. Their Balance Sheet as on 31 st March 2018 was as follows:**

Balance Sheet As on 31st March, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals :		Goodwill	90,000
Anand	1,35,000	Equipments	45,000
Rohit	75,000	Stock	54,000
Reserve Fund	90,000	Debtors	1,20,000
Creditors	54,000	Cash	51,000
Bills Payable	6,000		
	3,60,000		**3,60,000**

They agreed to Admit Nachiket on the following terms :

1 The Goodwill is to be written off after admission of Nachiket.

2 1/4th of equipments to be written off.

3 Stock is undervalued by 10% and it is to be adjusted properly.

4 Debtors of ₹ 1,800 are not recoverable.

5 Nachiket will introduce ₹ 1,20,000 for 2/5th share of firm

6 Anand withdrew ₹ 60,000 from business.

Prepare Revaluation A/c & Pass Journal entries of Goodwill

Solution :

Dr. **Revaluation Account** **Cr.**

Particular	Amount (₹)	Particulars		Amount (₹)
To Equipment	11,250	By Stock		6,000
To Bad debts	1,800	By Revaluation Loss		7,050
		Transferred to Capital A/c		
		Anand	5,640	
		Rohit	1,410	
	13,050			**13,050**

Journal

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
	Anand's capital A/c ....Dr.		72000	
	Rohit's capital A/c ....Dr.		18000	
	To Goodwill A/c			90,000
	(Being Goodwill written off after admission of partner)			

4: The following is the Balance Sheet of Makarand and Mahesh sharing profits in the ratio of 3:2

Balance Sheet As on 31st March 2019

Liabilities	Amt (₹)	Assets		Amt (₹)
Capital Account		Building		72,000
Makrand	95,000	Plant and Machinery		60,000
Mahesh	1,00,000	Debtors	42,000	
Sundry Creditors	4,000	Less: R.D.D.	2,000	40,000
Bills Payable	3,000	Bank		20,000
		Furniture		10,000
	2,02,000			**2,02,000**

On 1st April 2019 Mangesh is admitted for 1/2 share on the following terms:

1 He Paid ₹1,00,000 as his capital and ₹ 40,000 as his share of goodwill by RTGS.

2 Plant and Machinery revalued at ₹ 48,000.

3. Building taken by Makarand ₹ 1,00,000.

4. RDD to be increased up to ₹ 4,000.

5 The old partners decided to retain half of the amount of goodwill in the business.

6 The old partners decided to sacrifice equally.

Prepare Partner's Capital Account Only

Solution:

Dr. **Partner's Capital Account** **Cr.**

Particular	Makarand (₹)	Mahesh (₹)	Mangesh (₹)	Particulars	Makarand (₹)	Mahesh (₹)	Mangesh (₹)
To Building	1,00,000			By Balance b/d	95,000	1,00,000	
To Bank	10,000	10,000		By Bank A/c			1,00,000
To Balance C/d	13,400	1,15,600	1,00,000	By Goodwill A/c	20,000	20,000	
				By Revaluation A/c (Profit)	8,400	5,600	
	1,23,400	**1,25,600**	**1,00,000**		**1,23,400**	**1,25,600**	**1,00,000**

Working Note:

Dr. **Revaluation Account** **Cr.**

Particulars		Amt (₹)	Particulars	Amt (₹)
To Plant & Machinery		12,000	By Building	28,000
To RDD		2,000	(Taken by Makarand)	
To Revaluation Profit transferred to Partners Capital A/c				
Makarand	8,400			
Mahesh	5,600	14,000		
		28,000		**28,000**

5: The following is the Balance Sheet of Madhuri and Manisha sharing Profit and Losses in the ratio of 3:2 as on 31 March, 2019

Balance Sheet As on 31st March 2019

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital Account		Building		72,000
Madhuri	80,000	Plant and Machinery		60,000
Manisha	1,00,000	Stock		48,000
Sundry Creditors	60,000	Debtors	42,000	
Bills Payable	10,000	Less : R.D.D.	2,000	40,000
		Bank		20,000
		Furniture		10,000
	2,50,000			**2,50,000**

On 01/04/2019 Mohini is admitted on the following terms:

1 She is to pay ₹ 1,00,000 as her capital and ₹ 40,000 as her share of Goodwill.

2 The new profit sharing ratio is to be 5:3:2

3. The assets are to be revalued as under:

Building ₹ 1,00,000, Plant and Machinery ₹ 48,000

4. RDD to be increased up to ₹ 4,000.

5 The old partners decided to retain half of the amount of goodwill in the business.

6 Sundry creditors should be revalued at ₹ 66,000

Give Revaluation Account, Capitals Accounts and Balance Sheet of New firm,

Solution :

In the books of Partnership firm

Dr. **Revaluation Account** **Cr.**

Particular	Amount (₹)	Particular	Amount (₹)
To Plant and Machinery	12,000	By Building A/c	28,000
To RDD A/c	2,000		
To Sundry Creditors A/c	6,000		
To Profit on Revaluation transferred to Capital A/c			
Madhuri	4,800		
Manisha	3,200		
	28,000		**28,000**

Dr. **Partner's Capital Account** **Cr.**

Particular	Madhuri (₹)	Manisha (₹)	Mohini (₹)	Particulars	Madhuri (₹)	Manisha (₹)	Mohini (₹)
To Bank	10,000	10,000		By Balance b/d	80,000	1,00,000	
To Balance c/d	94,800	1,13,200	1,00,000	By Bank A/c			1,00,000
				By Goodwill A/c	20,000	20,000	
				By Revaluation A/c (Profit)	4,800	3,200	
	1,04,800	**1,23,200**	**1,00,000**		**1,04,800**	**1,23,200**	**1,00,000**

Balance Sheet of Madhuri, Manisha & Mohini as on 1st April, 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital Account			Building	72,000	
Madhuri		94,800	Add: Appreciation	28,000	1,00,000
Manisha		1,13,200	Plant & Machinary	60,000	
Mohini		1,00,000	Less Depreciation	12,000	48,000
Sundry Creditor		66,000	Furniture		10,000
Bills Payable		10,000	Sundry Debtors	42,000	
			Less: R.D.D.	4,000	38,000
			Stock		48,000
			Bank		1,40,000
		3,84,000			**3,84,000**

Note: Goodwill brought in by Mohini transfered to Old Partners Capital A/c in their Sacrific Ratio which is 1:1

6 : Sameer and Nisha were partners sharing profits and losses in the ratio of 3/4 and 1/4 showed the following Balance sheet on 31st March, 2018

Balance Sheet as on 31st March 2018

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital			Stock		90,000
Sameer	1,50,000		Fixtures		60,000
Nisha	1,62,000	3,12,000	Debtors	1,50,000	
General Reserve		48,000	Less: R.D.D.	15,000	1,35,000
Creditors		90,000	Bills Receivable		90,000
			Cash in hand		75,000
		4,50,000			**4,50,000**

They admit Poonam for 1/5th share on 1st April 2018, on the following terms :

1 Poonam introduced ₹ 1,20,000 as her capital.

2 Poonam would pay cash for Goodwill which would be based on 4 year's purchase of past profits of last 5 years.

3. Assets were revalued as under :

Fixtures at ₹ 45,000, Bill Receivable ₹ 1,20,000, Stock at ₹ 60,000 Debtors at book value less a provision of 20%

4. Bill payable of ₹ 15,000 have been omitted from books.

Profits for the last five years were as under :

I ₹ 60,000

II ₹ 45,000

III ₹ 75,000

IV ₹ 30,000

V ₹ 45,000

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

Solution :

In the books of Partnership firm

Dr. **Revaluation Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Fixtures A/c	15,000	By Bill Receivable A/c		30,000
To Stocks A/c	30,000	By Revaluation Loss		
To Provision on Debtors A/c	15,000	transferred to		
To Bills Payable A/c	15,000	Sameer	33,750	
		Nisha	11,250	45,000
	75,000			**75,000**

Dr. **Partner's Capital Account** **Cr.**

Particulars	Sameer (₹)	Nisha (₹)	Poonam (₹)	Particulars	Sameer (₹)	Nisha (₹)	Poonam (₹)
To Revaluation A/c (Loss)	33,750	11,250		By Balance b/d	1,50,000	1,62,000	
To Balance c/d	1,82,850	1,72,950	1,20,000	By General Reserve A/c	36,000	12,000	
				By Cash A/c			1,20,000
				By Goodwill A/c	30,600	10,200	
	2,16,600	**1,84,200**	**1,20,000**		**2,16,600**	**1,84,200**	**1,20,000**

Balance Sheet As on 1st April, 2018

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Creditors		90,000	Cash		2,35,800
Bill Payable		15,000	Debtors	1,50,000	
Capitals			Less : Provision	30,000	1,20,000
Sameer's capital		1,82,850	Bills Receivable	90,000	
Nisha's capital		1,72,950	Add: - Increase	30,000	1,20,000
Poonam's capital		1,20,000	Stock	90,000	
			Less: Depreciation	30,000	60,000
			Fixture	60,000	
			Less: Depreciation	15,000	45,000
		5,80,800			**5,80,800**

Working Note :

i) Calculation of Goodwill and Poonam's share there of

Total Profit	₹ 2,55,000	
Average Profit	₹ 51,000	
Goodwill	₹ 51,000 × 4	= ₹ 2,04,000
Poonam's Share	₹ 2,04,000 × 1/5	= ₹ 40,800

Treatment of Goodwill

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1.4.2019	Cash A/c Dr.		1,60,800	
	To Poonam's capital A/c			1,20,000
	To Goodwill A/c			40,800
	(Being cash brought by Poonam as her share of capital and goodwill)			
1.4.2019	Goodwill A/c Dr.		40,800	
	To Sameer's capital A/c			30.600
	To Nisha's capital A/c			10,200
	(Being amount of goodwill distributed among partners in their sacrificing ratio)			

7 : The Balances sheet of Bhavesh and Chandra who share profit and losses in the ratio of 3:1 as at 31st March 2018 was as under :

Balance Sheet As on 31st March, 2018

Liabilities	Amt (₹)	Assets		Amt (₹)
Creditors	20,000	Bank		20,000
Workmen's Compensation Reserve	30,000	Debtors	13,000	
General Reserve	24,000	Less : Provision	1,000	12,000
Bhavesh's Capital	32,000	Bills Receivable		10,000
Chandra's Capital	28,000	Stock		20,000
		Land & Building		30,000
		Goodwill		42,000
	1,34,000			**1,34,000**

Alia was admitted on 1.4.2018 for 1/5th share on the following terms :

1 Alia shall bring ₹ 20,000 for her share of goodwill and necessary amount for her share of capital in cash.

2 Anju, an old customer whose account was written off as bad, has paid ₹ 400 in cash in full settlement of his dues.

3. The market value of Land and Building be taken as ₹ 40,000.

4. Workmen's Compensation Reserve is to be increased by ₹ 10,000.

5. Unaccounted Accrued Incomes of ₹ 200 to be accounted for.

6. The capitals of all partners are to be in new profit sharing ratio taking old partners total capital as base after adjustment. Actual cash is to be paid off or brought in by the partners for adjusting their capital accounts.

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

Solution :

Dr. **Revaluation Account** **Cr.**

Particulars		Amt (₹)	Particulars	Amt (₹)
To Workmen Compensation Reserve A/c		10,000	By Accrued Income A/c	200
To Profit transferred to Capital A/c			By Land and Building A/c	10,000
Bhavesh	450		By Bad Debts Recovered A/c	400
Chandra	150	600		
		10,600		10,600

Dr. **Partner's Capital Account** **Cr.**

Particulars	Bhavesh (₹)	Chandra (₹)	Alia (₹)	Particulars	Bhavesh (₹)	Chandra (₹)	Alia (₹)
To Goodwill A/c	31,500	10,500		By Balance b/d	32,000	28,000	
To Cash A/c		13,000		By General Reserve A/c	18,000	6,000	
To Balance c/d	46,950	15,650	15,650	By Revaluation A/c (Profit)	450	150	
				By Goodwill A/c	15,000	5,000	
				By Cash A/c	13,000		15,650
	78,450	**39,150**	**15,650**		**78,450**	**39,150**	**15,650**

Balance Sheet As on 1 .4. 2018

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Creditors		20,000	Cash		36,050
Workmen's Compensation Reserve	30,000		Bank		20,000
Add: Increase	10,000	40,000	Debtors	13,000	
Capitals :			Less: Provision	1,000	12,000
Bhavesh		46,950	Bills Receivable		10,000
Chandra		15,650	Stock		20,000
Alia's Capital		15,650	Accrued income		200
			Land & Building	30,000	40,000
			Add: Appreciation	10,000	
		1,38,250			**1,38,250**

Working Note :

Calculation of proportionate Capital

Bhavesh's capital after adjustment .... ₹ 33,950

Chandra's capital after adjustment .... ₹ 28,650

Total capital of Bhavesh and Chandra for 4/5 share .... ₹ 62,600

Total Capital of the firm should be .... ₹ 62,600 × 5/4 = 78,250

New profit sharing ratio of Bhavesh Chandra and Alia is 3:1:1

Bhavesh's new Capital = ₹ 78,250 × 3/5

= ₹ 46,950

Chandra's new Capital = ₹ 78,250 × 1/5

= ₹ 15,650

Alia's new Capital = ₹ 78,250 × 1/5

= ₹ 15,650

Treatment of Goodwill

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1.4.2018	Cash A/c.. Dr. To Goodwill A/c (Being cash brought by Alia as her share of goodwill)		20,000	20,000
1.4.2018	Goodwill A/c.. Dr. To Bhavesh's Capital A/c To Chandra's Capital A/c (Being amount of goodwill distributed among scarifying partners in sacrificing ratio)		20,000	15,000 5,000
1.4.2018	Bhavesh's Capital A/c .... Dr. Chandra's Capital A/c .... Dr. To Goodwill A/c (Being old goodwill written off from the books)		31,500 10,500	42,000

8 : The Balances sheet of Adil and Sameer who share profits in the ratio of 2:1 as on 31st March, 2018

Balance Sheet As on 31st March 2018

Liabilities	Amt (₹)	Assets	Amt (₹)
Capitals:		Land & Building	75,000
Adil	90,000	Investment	1,08,000
Sameer	48,600	Debtors	39,000
Investment Fluctuation Reserve	15,000	Goodwill	12,000
General Reserve	12,000	Profit and Loss A/c	12,000
Sundry Creditors	63,000	Advertisement Suspense	12,000
Bills Payable	60,000	Cash	30,600
	2,88,600		**2,88,600**

On 1.4.2018 Raju was admitted into partnership on the following terms :

1 Raju pays ₹ 30,000 as his capital for 1/4th share.

2 Raju pays ₹ 15,000 for Goodwill. Half of the sum is to be withdrawn by Adil and Sameer.

3. RDD is created @ 10%.

4. The value of land and building is appreciated by ₹ 30,000.

5. Investments were reduced by ₹ 22,500.

6. Sundry creditors are to be valued at ₹ 62,250.

7. Capitals of Adil and Sameer to be adjusted taking Raju's capital as the base. Adjustment of capitals is to be made through cash.

Prepare Revaluation Account, Partner's Capital Account and Balance Sheet of the New Firm as on 1st April, 2018

Solution :

Dr. **Revaluation Account** **Cr.**

Particulars		Amt (₹)	Particulars	Amt (₹)
To Provision to Doubtful Debts A/c		3,900	By Land and Building A/c	30,000
To Investment A/c (22500-15000)		7,500	By Creditors A/c	750
To Profit transferred to				
Adil's Capital A/c	12,900			
Sameer's Capital A/c	6,450	19,350		
		30,750		30,750

Dr. **Partner's Capital Account** **Cr.**

Particulars	Adil (₹)	Sameer (₹)	Raju (₹)	Particulars	Adil (₹)	Sameer (₹)	Raju (₹)
To Goodwill A/c	8,000	4,000		By Balance b/d	90,000	48,600	
ToAdvertisement Suspens A/c	8,000	4,000		By Revaluation A/c (Profit)	12,900	6,450	
To Cash A/c	5,000	2,500		By Cash A/c)			30,000
To Profit and Loss A/c	8,000	4,000		By Goodwill A/c	10,000	5,000	
To Cash A/c (Surplus)	31,900	19,550		By General Reserve A/c	8,000	4,000	
To Balance c/d	60,000	30,000	30,000				
	1,20,900	**64,050**	**30,000**		**1,20,900**	**64,050**	**30,000**

Balance Sheet As on 1 .4. 2018

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Bill Payable		60,000	Cash		16,650
Sundry Creditors		62,250	Debtors	39,000	
			Less : Provision	3,900	35,100
Capital :			Investments		85,500
Adil	60,000		Land & Building		1,05,000
Sameer	30,000				
Raju	30,000	1,20,000			
		2,42,250			**2,42,250**

Note :

At the time of the admission it is desirable that the amount of goodwill which is already appearing in the books should always be written off among old partners in their old profit sharing ratio, when the new partner brings in cash for goodwill.

Working Note :

Raju's Share = 1/4
Remaining share = 1- 1/4 = 3/4
Adil's new share = $2/3 \times 3/4 = 2/4$
Sameer's new share = $1/3 \times 3/4 = 1/4$
New ratio = 2: 1:1
Calculation of new Capital of Partners.

2) Investment fluctuation reserve will be used at the time of reduction in the value of investments.

9: The following is the Balance Sheet of the firm Triveni Traders as on 31st March 2019 Narmada and Godavari are the partners of the firm who share profits and losses in the ratio of 3:2 respectively.

Balance Sheet As on 31st March 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	49,600	Cash at bank	4,000
Capitals:		Building	20,000
Narmada	28,000	Machinery	28,000
Godavari	28,000	Furniture	1,200
		Stock	16,400
		Debtors	36,000
	1,05,600		**1,05,600**

They take Kaveri into partnership on 1.4.2019 the terms being:

1 Kaveri shall pay ₹ 4,000 as her share of Goodwill, the amount to be retained in business.

2 She shall bring in ₹ 12,000 as capital for 1/4 the share in the future profits.

3. The firm's assets were to be revalued as under:
Building ₹ 24,000, Machinery and Furniture to be reduced by 10%, a Provision of 5% on Debtors is to be made for doubtful debts; Stock is to be taken at a value of ₹ 20,000.

4. The excess of capital of Narmada and Godavari over their due proportion of sharing profits of the new firm is to be transferred to their respective loan account.

Prepare Profit and Loss Adjustment Account, Capital Account of Partners and New Balance sheet.

Soluation :

Dr. Profit and Loss Adjustment A/c Cr.

Particulars	Amt ₹	Amt ₹	Particulars	Amt ₹	Amt ₹
To Machinery A/c		2,800	By Building A/c		4,000
To Furniture A/c		120	By Stock A/c		3,600
To R. D. D. A/c		1,800			
To Profit on Revaluation transferred to Capital A/c					
Narmada	1728				
Godavari	1152	2,880			
		7,600			**7,600**

Dr. **Partners Capital Account** **Cr.**

Particulars	Narmada (₹)	Godavari (₹)	Kaveri (₹)	Particulars	Narmada (₹)	Godavari (₹)	Kaveri (₹)
To Loan A/c	10,528	16,352		By Balance b/d	28,000	28,000	
To Balance c/d	21,600	14,400	12,000	By Goodwill A/c	2,400	1,600	
				By Bank A/c			12,000
				By P & L Adj. A/c (Profit)	1,728	1,152	
	32,128	**30,752**	**12,000**		**32,128**	**30,752**	**12,000**

Balance Sheet as on 1.4. 2019

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Capital A/c :			Building	20,000	
Narmada		21,600	Add: Appreciation	4,000	24,000
Godavari		14,400	Machinery	28,000	
Kaveri		12,000	Less : Depreciation	2,800	25,200
Loan A/c :			Furniture	1,200	
Narmada		10,528	Less: Depreciation	120	1,080
Godavari		16,352	Stock	16,400	
Creditors		49,600	Add: Appreciation	3,600	20,000
			Debtors	36,000	
			Less R. D.D	1,800	34,200
			Cash at Bank		20,000
		1,24,480			**1,24,480**

10 : Kabir and Reshma are partners in a firm sharing profits and losses in the ratio of 4:1. Their Balance Sheet as on 31st March, 2019 is as follows.

Balance Sheet as on 31st March 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capitals :					
Kabir		1,05,000	Goodwill		66,000
Reshma		75,000	Sundry Debtors	30,000	
General Reserve		30,000	Less: RDD	3,000	27,000
Profit and Loss A/c		6,000	Land and Building		1,00,000
Creditors for goods		48,000	Bank		83,000
Creditors for expenses		12,000			
		2,76,000			**2,76,000**

On 1 April 2019 Suvarna is admitted in the partnership on the following terms :

1 Suvarna to bring for 20% share in future Profits ₹ 45,000.

2 Goodwill of the firm is valued at ₹ 75,000.

3. RDD is no longer required.

4. Rent receivable ₹ 4,500 to be adjusted in the books.

5. Capital Accounts of partners to be adjusted in new profit sharing ratio by opening Current Account **Prepare : 1) Profit and Loss Adjustment Account 2) Partner's Capital A/c and 3) New Balance Sheet.**

Solution :

Dr. **Profit and Loss Adjustment A/c** **Cr.**

Particulars	Amt (₹)	Amt (₹)	Particulars	Amt (₹)	Amt (₹)
To Revaluation Profit			By R.D.D.		3,000
Transferred to Capital A/c:			By Rent Receivable		4,500
Kabir	6,000				
Reshma	1,500	7,500			
		7,500			**7,500**

Dr. **Partner's Capital Account** **Cr.**

Particulars	Kabir (₹)	Reshma (₹)	Suvarna (₹)	Particulars	Kabir (₹)	Reshma (₹)	Suvarna (₹)
To Balance c/d	1,44,000	36,000	45,000	By Balance b/d	1,05,000	75,000	
To Current A/c	3,000	49,500		By General Reserve A/c	24,000	6,000	
				By Profit and Loss A/c	4,800	1200	
				By Bank			45,000
				By Goodwill A/c	7200	1,800	
				By P and L Adj A/c (Profit)	6000	1,500	
	1,47,000	**85,500**	**45,000**		**1,47,000**	**85,500**	**45,000**

Balance Sheet as on 1.4. 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c		Goodwill	75,000
Kabir	1,44,000	Sundry Debtors	30,000
Reshma	36,000	Land and Building	1,00,000
Suvarna	45,000	Bank	1,28,000
Current A/c		Rent Receivable	4500
Kabir	3,000		
Reshma	49,500		
Creditors for goods	48,000		
Creditors for expenses	12,000		
	3,37,500		**3,37,500**

11: Tara, Chandra and Surya are partners in a firm of Accountants sharing profits and losses in the ratio of 2:3:1. Their Balance Sheet as on 31 st March 2018 on which date Akash is admitted as a partner as follows.

Balance Sheet As on 31st March 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Chandra's Capital	1,05,000	Furniture	30,000
Surya's Capital	66,000	Motor Car	60,000
		Cash	54,000
		Tara's Capital	27,000
	1,71,000		**1,71,000**

Akash is given 1/4th share of the profits and losses in the firm and the profit and loss sharing ratio among other partners to remain same as before. The following adjustments are to be made prior to Akash's admission:

1 The Motor Car is taken over by Chandra at a value of ₹ 75,000.

2 The Furniture is revalued at ₹ 54,000.

3. Goodwill account is raised in the books at ₹ 1,50,000.

4. Unrecorded debtors are ₹ 33,000.

5. Expenses incurred but not paid ₹ 9,000 are to be provided for.

6. Akash brings in ₹ 60,000 in cash as his capital contribution.

Pass necessary journal entries and prepare Balance Sheet of the firm after Akash's admission.

Solution :

Dr. **Journal** **Cr.**

Date	Particular	LF	Amt (₹)	Amt (₹)
1	Goodwill A/c. Dr.		1,50,000	
	To Tara's Capital A/c			50,000
	To Chandra's Capital A/c			75,000
	To Surya's Capital A/c			25,000
	(Being goodwill raised in the books)			
2	Motor Car A/c Dr.		15,000	
	Furniture A/c Dr.		24,000	
	Debtor A/c (unrecorded) Dr.		33,000	
	To Revaluation A/c			72,000
	(Being recording of unrecorded assets and appreciation of assets)			
3	Revaluation A/c Dr.		9,000	
	To Outstanding Expenses A/c			9,000
	(Being recording of outstanding expenses)			
4	Chandra's capital A/c Dr.		75,000	
	To Motor Car A/c			75,000
	(Being acquisition of Motor Car by Chandra)			
5	Cash A/c Dr.		60,000	
	To Akash's Capital A/c			60,000
	(Being cash brought in by Akash)			
6	Revaluation A/c Dr.		63,000	
	To Tara's Capital A/c			21,000
	To Chandra's Capital A/c			31,500
	To Surya's Capital A/c			10,500
	(Being distribution of revaluation profits done)			

Balance Sheet As on 31st March, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts :		Goodwill	1,50,000
Tara	44,000	Furniture	54,000
Chandra	1,36,500	Debtors	33,000
Surya	1,01,500	Cash	1,14,000
Akash	60,000		
Outstanding Expenses	9,000		
	3,51,000		**3,51,000**

12 : Pravin and Deepak were partners in a firm sharing profits in the ratio of 3:1. Their Balance Sheet as on 31 st March, 2019 on which date Sandeep is admitted as a partner is as follows.

Balance Sheet as on 31st March 2019

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Creditors		60,000	Debtor	1,00,000	
Bills Payable		2,000	Less: Provisions	10,000	90,000
Reserve Fund		32,000	Stock		60,000
Outstanding Salary		6,000	Bills Receivable		20,000
Capital Account:			Patents		2,000
Pravin	1,20,000		Machinery		80,000
Deepak	40,000	1,60,000	Cash		8,000
		2,60,000			**2,60,000**

They admitted Sandeep as a new partner on 1st Apri 2019. New Profit sharing ratio is agreed 3:2:3, Sandeep brings ₹ 96,000 as capital

Adjustments :

1 Sandeep paid ₹ 32,000 as his share of goodwill privately to the partners.

2. Provision for doubtful debts is to be reduced by ₹ 4,000.

3 Unrecorded Computer valued at ₹ 4,800 not appearing in the books of the firm. It is now to be recorded.

4 Patents are useless.

Prepare : Revaluation Account, Capital A/cs and New Balance Sheet.

Solutions :

Dr. **Revaluation Account** **Cr.**

Particulars		Amt (₹)	Particulars	Amt (₹)
To Patents A/c		2,000	By Provision for doubtful Debts A/c	4,000
To Profit transferred to Capital A/c :			By Computer A/c (unrecorded)	4,800
Pravin	5100			
Deepak	1700	6800		
		8,800		**8,800**

Dr. **Pravin's Capital Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance c/d	1,49,100	ByBalance b/d	1,20,000
		By Reserve Fund	24,000
		By Revaluation A/c	5100
	1,49,100		**1,49,100**

Dr. **Deepak's Capital Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance c/d	49,700	By Balance b/d	40,000
		By Reserve Fund	8,000
		By Revaluation A/c	1700
	49,700		**49,700**

Dr. **Sandeep's Capital Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance c/d	96,000	By Bank A/c	96,000
	96,000		**96,000**

Balance Sheet as on 1st April 2019

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		60,000	Debtors	1,00,000	
Bills payable		2,000	Less: RDD	6,000	94,000
Outstanding Salary		6,000	Stock		60,000
Capital A/c :			Bills Receivable		20,000
Praveen		1,49,100	Machinery		80,000
Deepak		49,700	Computer		4,800
Sandeep		96,000	Cash		1,04,000
		3,62,800			**3,62,800**

13: Radha And Vikas were in partnership sharing profits & losses in proportion of 3:2 respectively. Their Balance Sheet as on 31 st March 2019 stood as follows.

Balance Sheet As on 31st March 2019

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt. (₹)	Amt. (₹)
Capital A/cs :			Premises		2,80,000
Radha	2,00,000		Furniture and Fixture		22,800
Vikas	1,20,000	3,20,000	Stock		54,000
Current A/cs. :			Debtors		18,200
Radha	2,400		Cash at bank		2,200
Vikas	2,800	5,200			
Loan from Balu		40,000			
Creditors		12,000			
		3,77,200			**3,77,200**

On 1st April 2019 Om was admitted to the firm on the following terms.

1 Premises were to be valued at ₹ 3,40,000 and Furniture and Fixtures at ₹ 20,800. A provision for bad debts of ₹ 2,000 was to be made. Stock should be revalued at ₹ 58,000.

2. Om Should bring in ₹ 80,000 as Capital and ₹ 20,000 as his share of goodwill and it was retained in the business and he should be given one-fourth share in the future profits.

3 The loan from Balu was repaid through NEFT.

Prepare Profit and Loss Adjustment Account, Partners Current Accounts and Balance sheet of the New firm.

Solution :

Dr. Profit and Loss Adjustment Account Cr.

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Furniture A/c		2,000	By Premises A/c	60,000
To R.D.D A/c		2,000	By Stock A/c	4,000
To Profit on Revaluation				
transferred to Current A/c :				
Radha	36,000			
Vikas	24,000	60,000		
		64,000		**64,000**

Dr. Partner's Current Account Cr.

Paritculars	Radha (₹)	Vikas (₹)	Particulars	Radha (₹)	Vikas (₹)
To Balance c/d	50,400	34,800	By Balance b/d	2400	2800
			By Goodwill A/c	12,000	8000
			By P & L Adj. A/c (Profit)	36,000	24,000
	50,400	**34,800**		**50,400**	**34,800**

New Balance Sheet as on 1st April, 2019

Liabilities	Amt.(₹)	Amt.(₹)	Assets	Amt.(₹)	Amt.(₹)
Capital A/c :			Premises	2,80,000	
Radha	2,00,000		Add Appreciation	60,000	3,40,000
Vikas	1,20,000		Furniture and Fixtures	22,800	
Om	80,000	4,00,000	Less : Depreciation	2,000	20,800
Current A/c :			Stock	54,000	
Radha		50,400	Add : Appreciation	4,000	58,000
Vikas		34,800	Debtors	18,200	
Creditors		12,000	Less : R.D.D	2,000	16,200
			Cash at bank		62,200
		4,97,200			**4,97,200**

14 : Mr. Sahil & Mrs. Vanita were in Partnership sharing profits & losses in the proportion of 3:1 respectively. Their Balance Sheet as on 31 st March 2019 of their business was as follows.

Balance Sheet as on 31st March. 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals :		Building	90,000
Sahil	90,000	Stock	60,000
Vanita	75,000	Debtors	46,500
Sundry Creditors	31,500	Cash	6,000
General Reserve	6,000		
	2,02,500		**2,02,500**

Dinesh is admitted as a partner in the firm on the following terms :

1 He shall have 1/4 the share in profits of the firm.

2. Dinesh shall bring in cash ₹ 60,000 as his capital and ₹ 30,000 as his share of goodwill.

3 Building overvalued by ₹12,000 and the stock is undervalued by 20% in the books, these assest are to be adjusted at their proper values.

4. Provided Reserve for Doubtful Debts ₹ 1,200 on Debtors.

You are required to prepare Revaluation A/c. Capital accounts of partners and Balance Sheet of the firm after admission of Dinesh.

Solution :

In the Books of Partnership firm

Dr. **Revaluation Account** **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Building		12,000	By Stock A/c	15,000
To R.D.D		1,200		
To Profit on Revaluation transferred to Capital A/c				
Sahil	1350			
Vikas	450	1,800		
		15,000		**15,000**

Dr. **Partner's Capital Accounts** **Cr.**

Particulars	Sahil (₹)	Vanita (₹)	Dinesh (₹)	Particulars	Sahil (₹)	Vanita (₹)	Dinesh (₹)
To Balance c/d	1,18,350	84,450	60,000	By Balance b/d	90,000	75,000	
				By General Reserve A/c	4,500	1,500	
				By Cash A/c			60,000
				By Goodwill A/c	22,500	7,500	
				By Revaluation A/c (Profit)	1,350	450	
	1,18,350	**84,450**	**60,000**		**1,18,350**	**84,450**	**60,000**

M/s. Sahil, Vanita and Dinesh

Balance Sheet as on 1.4. 2019

Liabilities	Amt (₹)	Amt (₹)	Assets	Amt (₹)	Amt (₹)
Capital A/c			Building	90,000	
Sahil	1,18,350		Less : Depreciation	12,000	78,000
Vanita	84,450		Stock	60,000	
Vikas	60,000	2,62,800	Add : Appreciation	15,000	75,000
Sundry Creditors		31,500	Debtors	46,500	
			Less : R.D.D	1,200	45,300
			Cash at Bank		96,000
		2,94,300			**2,94,300**

EXERCISE - 3

Q.1 Objetive type questions.

(A) Select appropriate alternatives from those given below and rewrite the sentences.

1. Anuj and Eeshan are two partners sharing profits and losses in the ratio of 3:2. They decided to admit Aaroh for 1/5th share, the new profit sharing ratio will be ....
   (a) 12:8:5 (b) 4:3:1 (c) 12:8:1 (d) 12:3:1

2. Excess of proportionate capital over actual capital represents.......................
   (a) Equal capital (b) Surplus Capital (c) Deficit Capital (d) Gain

3. ....is credited when unrecorded asset is brought into business.
   (a) Revaluation Account (b) Balance Sheet (c) Trading Account
   (d) Partners capital Account.

4. When goodwill is withdrawn by the partner ....account is credited.
   (a)Revaluation (b) Cash / Bank (c) Current (d) Profit and Loss Adjustment

5. If asset is taken over by the partner ....account is debited.
   (a) Revaluation (b) Capital (c) Asset (d) Balance Sheet

(B) Write a word/ phrase / term which can substitute each of the following statements.

1 Method under which calculation of goodwill is done on the basis of extra profit earned above the normal profit.

2 An account opened to adjust the value of assets and liabilities at the time of admission of a partner.

3 Reputation of business measured in terms of money.

4 The ratio in which general reserve is distributed to the old partners.

5 Name the method of the treatment of goodwill where new partner will bring his share of goodwill in cash.

6 The proportion in which old partners make a sacrifice.

7 Capital employed × NRR /100 =

8 An Account which is debited when the partner takes over the asset.

9 Profit and Loss account balance appearing on liability side of Balance Sheet.

10 Old ratio - New ratio =

(C) State True or False with reasons

1 New Partner can bring capital in cash or kind.

2 When goodwill is paid privately to the partners it is not recorded in the books.

3 Gain ratio is calculated at the time of admission of partner.

4 Revaluation profit is distributed among all partners including new partner.

5 Change in relationship between the partners is called as Reconstitution of partnership.

6 New partner always brings his share of goodwill in cash .

7 When the goodwill is written off goodwill account is debited.

8 New ratio minus old ratio is equal to sacrifice ratio.

9 Usually when a new partner is admitted in the firm there will be an increase in the capital of the firm.

10 Cash/ Bank Account is credited when goodwill is withdrawn by the old partners.

(D) Find the Odd one.

1. General reserve, Creditors, Machinery, Capital
2. Decrease in Furniture, Patents written off, Increase in Bills Payable, RDD written off.
3. Super profit method, Valuation method, Average profit method, Fluctuating capital method.

(E) Calculate the following

1. A and B are partners in a firm sharing profits and losses in the ratio of 1:1. C is admitted. A surrenders $1/4^{th}$ share and B surrenders $1/5^{th}$ of his share in favour of C. Calculate the new profit sharing ratio.
2. Anika and Radhika are partners sharing profits in the ratio of 5:1. They decide to admit Sanika in the firm for 1/5th share. calculate the sacrifice ratio of Anika and Radhika
3. Pramod and Vinod are partners sharing profits and losses in the ratio 3:2. After admission of Ramesh the new ratio of Pramod, Vinod and Ramesh is 4:3:2. Find out the sacrifice ratio.

(F) Answer in one sentence.

1 What is Revaluation Account?

2 What is meant by Reconstitution of partnership?

3 Why is new partner admitted?

4 What is sacrifice ratio?

5 What do you mean by raising the goodwill at the time of admission of a new partner?

6 What is super profit method of calculation of goodwill?

7 When is the ratio of sacrifice calculated for distribution of goodwill?

8 What is the treatment of accumulated profits at the time of admission of a partner?

9 State the ratio in which old partner's capital A/c will be credited for goodwill when the new partner does not bring his share of goodwill in cash.

10. What does the excess of debit over credits in Profits and Loss Adjustment account indicate?

(G) Complete the table

1. $\boxed{} = \dfrac{\text{Total profit}}{\text{Number of years.}}$

2. Normal Profit = $\boxed{} \times \dfrac{\text{NRR}}{100}$

3. Stock shown in Balance Sheet → Stock undervalued by 20% → Cost of Stock

Stock shown in Balance Sheet	Stock undervalued by 20%	Cost of Stock
₹ 1,60,000		

Practical Problems

1. Vikram and Pradnya share profits and losses in the ratio 2:3 respectively. Their balance sheet as on 31st March 2018 was as under.

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	1,05,000	Cash	7,500
Capitals :		Land & Building	37,500
Vikram	75,000	Plant	45,000
Pradnya	75,000	Furniture	3,000
		Stock	75,000
		Debtors	87,000
	2,55,000		**2,55,000**

They agreed to admit Avani as a partner on 1st April 2018 on the following terms:

1 Avani shall have 1/4th share in future profits.

2. He shall bring ₹ 37,500 as his capital and ₹ 30,000 as his share of goodwill.

3. Land and building to be valued at ₹ 45,000 and furniture to be depreciated by 10%.

4. Provision for bad and doubtful debts is to be maintained at 5% on the Sundry Debtors.

5. Stocks to be valued ₹ 82, 500.

The capital A/c of all partners to be adjusted in their new profit and loss ratio and excess amount be transferred to their loan accounts.

Prepare Profit and Loss Adjustment Account, Capital Accounts and New Balance Sheet.

(Ans: (Revaluation Profit 10,350, Capital Balance - Vikram 45,000, Pradnya 67,500, Avani 37,500, Balance Sheet Total - 3,32,850)

2. Amalendu and Sameer share profits and losses in the ratio 3:2 respectively Their balance sheet as on 31st March 2017 was as under.

Balance Sheet as on 31st March, 2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	10,000	Cash at bank	12,000
Amlendu capital	60,000	Sundry debtors	24,000
Sameer capital	40,000	Land & Building	50,000
General reserve	20,000	Stock	16,000
		Plant and machinery	20,000
		Furniture & fixture	8,000
	1,30,000		**1,30,000**

On 1st April 2017 they admit Paresh into partnership. The term being that:

1 He shall pay ₹ 16,000 as his share of Goodwill 50% amount of Goodwill shall be withdrawn by the old partners.

2 He shall have to bring in ₹ 20,000 as his Capital for 1/4 share in future profits.

3. For the purpose of Paresh's admission it was agreed that the asssets would be revalued as follows.

A) Land and Building is to be valued at ₹ 60,000

B) Plant and Machinery to be valued at ₹16,000

C) Stock valued at ₹ 20,000 and Furniture and Fixtures at ₹ 4,000

D) A Provision of 5% on Debtors would be made for Doubtful Debts.

Pass The necessary Journal Entries in the Books of a New Firm.

3. Vasu and Viraj Share Profits and Losses in the Ratio of 3:2 respectively Their Balance Sheet as on 31st March 2019 was as under

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	45,000	Cash at bank	750
General Reserve	30,000	Sundry debtors	66,750
Capital :		Stock	25,500
Vasu	1,08,000	Investment	36,000
Viraj	72,000	Plant	90,000
		Building	36,000
	2,55,000		**2,55,000**

They admit Hari into Partnership on 1.4. 2019 the terms being that :

1 He shall have to bring in ₹ 60,000 as his Capital for 1/4 share in future profits

2 Value of Goodwill of the Firm is to be fixed at The average profits for the last three years. The Profit were.

2016-17 ₹ 48,000,

2017-18 ₹ 81,000

2018-19 ₹ 73,500

Hari is unable to bring the value of the Goodwill in cash. It is decided to raise the Goodwill in the books of accounts.

3. Reserve for Doubtful Debts is to be created at ₹ 1,500.

4. Closing Stock is valued at ₹ 22, 500

5. Plant and Building is to be depreciated by 5%.

Prepare Profit and Loss Adjustment A/c, Capital Accounts of Partners And Balance Sheet of the New Firm.

(Ans : Revaluation Loss 10,800, Capital balances - Vasu 1,60,020, Viraj 1,06,680, Hari 60,000, Balance sheet total - 3,71,700)

4. **Mr. Deep & Mr. Karan were in Partnership sharing Profits & Losses in the proportion of 3:1 respectively. Their Balance Sheet On 31st March 2018 Stood as follows.**

Balance Sheet as on 31st March, 2018

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Sundry Creditors		40,000	Cash		40,000
Bill Payable		10,000	Sundry debtors		32,000
Bank Overdraft		11,000	Land & Building		16,000
Capital A/c:			Stock		20,000
Deep	60,000		Plant and machinery		30,000
Karan	20,000	80,000	Furniture		11,000
General Reserve		8,000			
		1,49,000			**1,49,000**

They admit Shubham into Partnership on 1 April, 2018 The term being that :

1. He shall have to bring in ₹ 20,000 as his capital for 1/5 Share in future profits & 10,000 as his share of Goodwill.
2. A Provision for 5% doubtful debts to be created on Sundry Debtors.
3. Furniture to be depreciated by 20%
4. Stock should be appreciated by 5% and Building be appreciated by 20%
5. Capital A/c of all partners be adjusted in their new profit sharing ratio through cash account.

Prepare Profit and Loss Adjustment A/c , Partner's capital A/c, Balance sheet of new firm.

(Ans : Revaluation Profit - 400, Cash transferred to Deep 13800, to Karan 4,600, Balance Sheet total 1,61,000)

5. **Mr. Kishor & Mr. Lal were in partnership sharing profits & losses in the proportion of 3/4 and 1/4 respectively.**

Balance Sheet as On 31 March 2018

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		1,20,000	Land and Building		75,000
General Reserve		12,000	Furniture		6,000
Capital A/c:			Stock		60,000
Kishor	90,000		Debtors		60,000
Lal	48,000	1,38,000	Bills Receivable		39,000
			Cash at Bank		30,000
		2,70,000			**2,70,000**

They decided to admit Ram on 1 April 2018 on following terms:

1. He should be given 1/5th share in profit and for that he brought in ₹ 60,000 as capital through RTGS.
2. Goodwill should be raised at ₹ 60,000
3. Appreciate Land and Building by 20%

4. Furniture and Stock are to be depreciated by 10%
5. The Capitals of all partners should be adjusted in their new profit sharing ratio through Bank A/c.

   Pass necessary Journal Entries in the books of the Partnership firm and a Balance sheet of new firm.

6. Vrushali and Leena are equal partners in the business. Their Balance sheet as on 31 March 2018 stood as under.

Balance Sheet as on 31 March 2018

Liabilities	Amt. (₹)	Amt. (₹)	Assets	Amt. (₹)	Amt. (₹)
Sundry Creditors_	90,000	90,000	Cash in Bank		62,000
Capitals :			Debtors	31,000	
Vrushali	45,000	75,000	Less: R.D.D	1,000	30,000
Leena	30,000		Building		55,000
General Reserves		18,000	Machinery		24,000
			Bills Receivable		12,000
		1,83,000			**1,83,000**

They decided to admit Aparna on 1st April 2018 on the following terms:

1. The Machinery and Building be depreciated by 10%. Reserve for Doubtful Debts to be increased by ₹ 5,000
2. Bills Receivable are taken over by Vrushali at the discount of 10%
3. Aparna should bring ₹ 60,000 as capital for her 1/4 th share in future profits.
4. The capital accounts of all the partners be adjusted in proportion in the new profit sharing ratio by opening current accounts of the partners.

   Prepare Profit and Loss Adjustment A/c, Partner's capital A/c, Balance sheet of new firm.

   (Ans : Revaluation loss - 14,100, Current A/c Vrushali 53,850, Leena 58,050, Balance Sheet 3,30,000)

7. The balance sheet of Medha and Radha who share profit and loss in the ratio 3:1 is as follows :

Balance Sheet as on 31 March 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	80,000	Cash	78,000
Bills Payable	20,000	Sundry debtors	64,000
Bank overdraft	20,000	Stock	40,000
Capital A/c :		Plant & Machinery	60,000
Medha	1,20,000	Furniture	22,000
Radha	40,000	Land and Building	32,000
General reserve	16,000		
	2,96,000		**2,96,000**

They decided to admit krutika on 1st April 2018 on the following terms:

1. Krutika is taken as partner on 1st April 2018 she will pay 40,000 as her capital for 1/5 share in future profits and ₹ 2,500 as goodwill
2. A 5% provision for bad and doubtful debt be created on debtors.
3. Furniture be depreciated by 20%.
4. Stocks be appreciated by 5% and plant & machinery by 2%
5. The Capital accounts of all partners be adjusted in their new profit sharing ratio by adjusting amount through current account.
6. The new profit sharing ratio will be 3/5 1/5 1/5 respectively.

   You are required to prepare profit and loss adjustment A/c, Partner's capital A/c, Balance Sheet of the new firm.

   (Ans: Revaluation Loss 4,400, Current A/c Medha 10,575, Radha 3,525, Balance Sheet 3,34,100)

8. The Balance Sheet of Sahil and Nikhil who share profits in the ratio of 3:2 as on 31st March, 2017

Balance Sheet as on 31st March 2017

Liabilities	Amt. (₹)	Amt. (₹)	Assets	Amt. (₹)	Amt. (₹)
Creditors		60,000	Furniture		60,000
Capitals:			Building		72,000
Sahil	80,000		Debtors		40,000
Nikhil	1,00,000	1,80,000	Closing Stock		48,000
			Cash in Hand		20,000
		2,40,000			**2,40,000**

Varad admitted on 1St April 2017 on the following terms :

1. Varad was to pay 1,00,000 for his share of capital.
2. He was also to pay 40,000 as his share of goodwill.
3. The new profit sharing ratio was 3:2:3
4. Old partners decided to revalue the assets as follows:

   Building 1,00,000, Furniture- 48,000, Debtors - 38,000 (in view of likely bad debts)
5. It was found that there was a liability for 3,000 for goods in March 2017 but recorded on 2nd April 2017 .

   You are required to prepare :

   a) Profit and Loss adjustment accounts

   b) Capital accounts of the partners

   c) Balance sheet after the admission of Varad.

   (Ans : Revaluation Profit ₹ 11,000 Capital A/c Sahil ₹ 1,10,600, Nikhil ₹ 1,20,400, Varad ₹ 1,00,000, Balance sheet ₹ 3,94,000)

9. **Mr. Amit and Baban share profits and losses in the ratio 2:3 respectively. Their balance sheet as on 31st March 2018 was as under.**

Balance Sheet as On 31st March 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	1,40,000	Cash	110,000
Capital :		Land and Building	50,000
Amit	100,000	Plant	60,000
Baban	100,000	Furniture	4,000
		Stock	100,000
		Debtors	16,000
	3,40,000		**3,40,000**

They agreed decided to admit Kamal on 1st April 2018 on following terms:

1. Kamal shall have 1/4th share in future profits.
2. They agreed to admit Kamal as a partner on 1st April 2018 on the following terms:
3. She shall bring 50,000 as her capital and 40,000 as her share of goodwill.
4. Land and building to be valued at 60,000 and furniture to be depreciated by 10%
5. Provision for bad and doubtful debts is tobe maintained at 5% on the sundry debtors.
6. Stocks to be valued 1,10,000

The capital A/c of all partners to be adjusted in their new profit and loss ratio and excess amount be transferred to their loan accounts.

Prepare profit and loss adjustment A/c, Capital A/cs, and New Balance Sheet

(Ans : Revaluation Profit 18,800, Loan A/c Amit 63,520, Baban 45,280, Balance Sheet total 4,48,800)

10. **The following is the Balance Sheet of Om and Jay on 31st March 2018, they share profits and losses in the ratio 3:2**

Balance Sheet as On 31st March 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	30,000	Cash	3,000
Capital A/c		Building	15,000
Om	21,000	Machinery	21,000
Jay	21,000	Furniture	900
Current A/c		Stock	12,300
Om	3,750	Debtors	27,000
Jay	3,450		
	79,200		**79,200**

They take Jagdish into partnership on 1st April 2018 the terms being

1. Jagdish should pay 3,000 as his share of Goodwill. 50% of goodwill withdrawn by partners in cash.
2. He should bring 9,000 as capital for 1/4th share in future profits.
3. Building to be valued at 18,000, Machinery and Furniture to be reduced by 10%
4. A Provision of 5% on debtors to be made for doubtful debts.
5. Stock is to be taken at the value of 15,000.

Prepare profit and loss A/c, Partner's Current A/c, Balance Sheet of the new firm.

(Ans : Revaluation Profit ₹ 2,160, Current A/c Om ₹ 5,946, Jay ₹ 4,914, Balance Sheet total ₹ 91,860)

Activity :

1. Find out the reasons for the revaluation of assets and liabilities at the time of admission of a partner.
2. Visit any Bank and enquire about procedure for changes in the signatories of Partnership due to Admission of a Partner.