Q4. If it is agreed that the capital of all the partnersbe proportionate to the new profit sharing ratio, how will you work out the new capital of each partner? Give examples and state how necessary adjustments will be made.
Solution: In case a new partner is admitted to the firm, it may be agreed that the capital of all partners should be proportionate to the new profit-sharing ratio. In such cases, the working of new capital of each partner is based on two of the following cases:
1.Capital of the new partner is given
2.Total capital of the firm is given

1. When the capital of the new partner is given
In this situation, the calculation of the new capital of all partners involves the following steps:

Step 1: Calculate the total capital of the new firm on the basis of capital of the new partner
Step 2: Divide the total capital of the firm by the individual share of profits of partners to ascertain new capital of each partner
Step 3: Ascertain partner's capital balance (credit-debit) after posting all adjustments
Step 4: The new balance as ascertained in Step 2 is written on the credit side of the Partner's Capital Account.
Step 5: Calculate Surplus or Deficit. If the new capital (Step 2) exceeds the old capital (Step 3), then it is termed 'Deficit' and the difference amount is to be brought in by the old partners. If the new capital is lesser than old capital, then it is termed 'Surplus' and the difference amount is returned to the old partners.

Example:
L and M are partners sharing profit and loss equally. They agree to admit N for share in profit. N brings Rs 25,000 as capital. The old capitals of L and M are Rs 30,000 and Rs 20,000, respectively, at the time admission of N.

Step 1: The total capital of the new firm on the basis of N's Capital

Step 1: The total capital of the new firm on the basis of N's Capital $N = 25,000 \times \frac{3}{1} = Rs\ 75,000$

Step 2:

$L's\ new\ capital = 75,000 \times \frac{1}{3} = Rs\ 25,000$

$M's\ new\ capital = 75,000 \times \frac{1}{3} = Rs\ 25,000$

Step 3:

	L	M
New Capital	25,000	25,000
Less: Existing Capital	(30,000)	(20,000)
Surplus (Deficit)	5,000	(5,000)

2. When the total capital of the new firm is given: When the capital of the new partner is not mentioned, his/her capital is ascertained on the proportionate basis of total capital of the firm. The capital ascertained is to be brought in by the new partner in form of his/her portion of capital. To ascertain the proportionate capital of

the new partner, the following steps are to be followed:

Step 1: Ascertain the total old capital of the old partners after making all adjustments
Step 2: Multiply the total of old partner's capital (Step 1) with reciprocal of total share of old partners to ascertain the total capital of the new firm

Total Capital of New Firm = Total Capital of the Old Partners × Reciprocal of the Combined New Share of the Old Partners

Step 3: Calculate new capital of each partner on the basis of total capital. This is done by multiplying the Total Capital by the new profit-sharing ratio individually for all partners including the new partner.
Example:

A and B are partners in a firm sharing profit and loss equally. They agree to admit C for share in profit and decided to share future profit and loss equally. A's capital is 4,00,000 and B's capital is 3,00,000. C brings sufficient capital for his share in profit.

Step 1: Calculation of Total Capital of Old Partners (after all adjustments)
The total capital of the old partners = Rs. 4,00,000 + Rs. 3,00,000 = Rs. 7,00,000
Step 2: Calculation of Total Capital of New Firm
Total Capital of New Firm = Total Capital of the Old Partners × Reciprocal of the Combined New Share of the Old Partners

$$\text{Total Capital of New Firm} = 7,00,000 \times \frac{3}{2} = \text{Rs } 10,50,000$$

Step 3: Calculation of New Capital of Each Partner

$$\text{A's New Capital} = 10,50,000 \times \frac{1}{3} = \text{Rs } 3,50,000$$

$$\text{B's New Capital} = 10,50,000 \times \frac{1}{3} = \text{Rs } 3,50,000$$

$$\text{C's Capital} = 10,50,000 \times \frac{1}{3} = \text{Rs } 3,50,000$$

********** END **********