Chapter 4 – Admission of a Partner

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

X: Y : Z
Old Ratio 5: 3: 2
A is admitted for 1/5 share of profit

Let the combined share of profit for all partners after A's admission be=1
Combined share of X, Y and Z after A's admission = 1- A's share

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

$= \frac{4}{5}$

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

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

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

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

$$\begin{array}{ll} & X: \quad Y: \quad Z: \quad A \\ \text{New Profit Sharing Ratio} = & \frac{20}{50} : \frac{12}{50} : \frac{8}{50} : \frac{1}{5} \end{array}$$

$= \frac{20 : 12 : 8 : 10}{50}$

$=10:6:4:5$

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

Ravi : Mukesh

Old Ratio $\frac{7}{10} : \frac{3}{10}$

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

Ravi sacrifices in favour of Ashok = $\frac{2}{5}$

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

New Ratio = Old Ratio - sacrificing Ratio

Ravi's = $\frac{7}{10} - \frac{2}{7}$

$= \frac{29}{70}$

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

$= \frac{11}{70}$

Ravi : Mukesh : Ashok

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

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

$= 29 : 11 : 30$

Question 3.

A and B are partners sharing profits and losses in the proportion of 7: 5. They agree to admit C, their Manager, into partnership who is to get 1/6th share in the profits. He acquires this share as 1/24th from A and 1/8th from 8. Calculate new profit-sharing ratio.
(Delhi 2001)

Solution:

A : B

Old Ratio 7:5

C admits for 1/6 share of profit

A sacrifices his share of profit in favour of C= $\frac{1}{24}$

B sacrifices his share of profit in favour of C = $\frac{1}{8}$

New Ratio = Old Ratio - sacrificing Ratio

A's = $\frac{7}{12} - \frac{1}{24}$

$= \frac{13}{24}$

B's = $\frac{5}{12} - \frac{1}{8}$

$= \frac{7}{24}$

Ravi : Mukesh : Ashok

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

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

$= 13 : 7 : 4$

Question 4.

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

Calculate new profit-sharing ratio.

Solution:

Old Profit Sharing Ratio amongst Partners (X and Y) is 3:2

Z is admitted for 1/4th Share in Profits

Sacrificing Ratio of X and Y is 2:1

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

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

New Ratio= Old Ratio-Sacrificing Ratio

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

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

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

$\therefore$ NewRatio = 26 : 19 : 15

Question 5.

X and Y were partners sharing profits in the ratio of 3: 2. They admitted P and Q as new partners. X surrendered 1/3rd of his share in favour of P and Y surrendered 1/4th of his share in favour of Q. Calculate new profit-sharing ratio of X, Y, P and Q. (AI 1998 C, Delhi 2000, 2002 C)

Solution:

X:Y

Old Ratio 3:2

Sacrificing Ratio= Old Ratio x Surrender Ratio

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

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

New Ratio= Old Ratio-Sacrificing Ratio

X's = $\frac{3}{5} - \frac{3}{15}$

$= \frac{6}{15}$

Y's = $\frac{2}{5} - \frac{2}{20}$

$= \frac{6}{20}$

P's share= X's Sacrifice

$= \frac{3}{15}$

Q's share= X's Sacrifice

$= \frac{2}{20}$

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

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

= 4:3:2:1

Question 6.

Rand S are partners sharing profits in the ratio of 5:3. T joins the firm as a new partner. R gives 1/4th of his share and S gives1/5th of his share to the new partner. Find out new profit-sharing ratio.

(Delhi 2007 C)

Solution:

R : S

Old Ratio 5:3

Sacrificing Ratio = Old Ratio × Surrender Ratio

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

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

New Ratio= Old Ratio-Sacrificing Ratio

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

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

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

$$= \frac{5}{32} + \frac{3}{40} = \frac{25+12}{160} = \frac{37}{160}$$

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

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

$\therefore$ New Profit Sharing Ratio = 75 : 48 : 37

Question 7.

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

(CBSE Sample Paper 2015)

Solution:

Calculation of New Ratio

Old Ratio of Kabir and Farid 7 : 3

Kabir sacrifices his share of profit in favour of Jyoti $= \frac{2}{10}$

Farid sacrifices his share of profit in favour of Jyoti $= \frac{1}{10}$

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

New Ratio = Old Share - Share Sacrificed

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

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

New Profit Sharing Ratio = 5 : 2 : 3

Calculation of Sacrificing Ratio

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

Question 8.

Find New Profit-sharing Ratio:

i. R and T are partners in a firm sharing profits in the ratio of 3:2. S joins the R surrenders 1/4th of his share and T 1/5th of his share in favour of S.

ii. A and B are partners. They admit C for 1/4th share. In future, the ratio between A and B would be 2:1.

iii. A and B are partners sharing profits and losses in the ratio of 3: 2. They admit C for 1/5th share in the profit. C acquires 1/5th of his share from A and 4/5th share from B.

iv. X, Y and Z are partners in the ratio of 3:2:1. W joins the firm as a new partner for 1/6th share in profits. Z would retain his original share.

v. A and B are equal partners. They admit C and D as partners with 1/5th and 1/6th share respectively

vi. A and B are partners sharing profits/losses in the ratio of 3: 2. C is admitted for 1/4th share. A and B decide to share equally in future.

Solution:

i. R : T

Old Ratio 3 : 2

Sacrificing Ratio = Old Ratio × Surrender Ratio

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

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

New Ratio = Old Ratio - Sacrificing Ratio

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

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

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

$$= \frac{3}{20} + \frac{2}{25} = \frac{23}{100}$$

$$\begin{array}{ll} & R : T : S \\ \text{New Profit Sharing Ratio} = & \frac{9}{20} : \frac{8}{25} : \frac{23}{100} \\ & = \frac{45 : 32 : 23}{100} \\ & = 45 : 32 : 23 \end{array}$$

ii. A : B

Old Ratio 1:1

C admits for 1/4th share of profit

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

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

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

$=\frac{3}{4}$

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

A's $=\frac{3}{4}\times\frac{2}{3}$

$=\frac{6}{12}$

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

$=\frac{3}{12}$

A : B : C

New Profit Sharing Ratio= $\frac{6}{12}:\frac{3}{12}:\frac{1}{4}$

$=\frac{6:3:3}{12}$

$=2:1:1$

iii. A : B

Old Ratio 3 : 2

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

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

$=\frac{1}{5}\times\frac{1}{5}$

$=\frac{1}{25}$

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

$=\frac{1}{5}\times\frac{4}{5}$

$=\frac{4}{25}$

New ratio = Old Ratio - Sacrificing Ratio

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

$=\frac{14}{25}$

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

$=\frac{6}{25}$

A : B : C

New Profit Sharing Ratio= $\frac{14}{25}:\frac{6}{25}:\frac{1}{5}$

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

$=14:6:5$

iv. X : Y : Z

Old Ratio 3 : 2 : 1

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

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

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

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

$=\frac{4}{6}$

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

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

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

X : Y : Z : W

New Profit Sharing Ratio= $\frac{12}{30}:\frac{8}{30}:\frac{1}{6}:\frac{1}{6}$

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

$=12:8:5:5$

v. A : B

Old Ratio 1 : 1

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

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

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

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

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

$=\frac{19}{30}$

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

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

$=\frac{19}{60}$

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

$=\frac{19}{60}$

A : B : C : D

New Profit Shareing Ratio = $\frac{19}{60}:\frac{19}{60}:\frac{1}{5}:\frac{1}{6}$

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

$=19:19:12:10$

vi. A : B

Old Ratio 3 : 2

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

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

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

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

$= \frac{3}{4}$

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

$= \frac{3}{4} \times \frac{1}{2}$

$= \frac{3}{8}$ each

A : B : C

New profit sharing ratio = $\frac{3}{8} : \frac{3}{8} : \frac{1}{4}$

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

= 3:3:2

Question 9.

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

Solution:

Rakesh : Suresh

Old Ratio 4 : 3

Rakesh : Suresh : Zaheer

New Ratio 7 : 4 : 3

Sacrificing Ratio = Old Ratio–Sacrificing Ratio

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

$= \frac{1}{14}$

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

$= \frac{2}{14}$

Rakesh : Suresh

Sacrificing Ratio $\frac{1}{14} : \frac{2}{14}$

1 : 2

Question 10.

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

Solution:

	A :	B :	C
Old Ratio	4 :	3 :	2

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

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

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

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

$= \frac{2}{3}$

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

A's = $\frac{4}{9}\times\frac{2}{3}$

$= \frac{8}{27}$

B's = $\frac{3}{9}\times\frac{2}{3}$

$= \frac{6}{27}$

C's = $\frac{2}{9}\times\frac{2}{3}$

$= \frac{4}{27}$

Sacrificing Ratio= Old Ratio- New Ratio

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

$= \frac{4}{27}$

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

$= \frac{3}{27}$

C's = $\frac{2}{7}-\frac{4}{27}$

$= \frac{2}{27}$

A : B : C

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

= 4 : 3 : 2

Question 11.

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

Solution:

	A :	B	
Old Ratio	3 :	2	
	A :	B :	C
New Ratio	4 :	3 :	2

Sacrificing Ratio = Old Ratio-New Ratio

A's = $\frac{3}{5}-\frac{4}{9}$

$= \frac{7}{45}$

B's = $\frac{2}{5}-\frac{3}{9}$

$= \frac{3}{45}$

A : B

Sacrificing Ratio $\frac{7}{45} : \frac{3}{45}$

7 : 3

Question 12.

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

Solution:

A : B : C : D

Old Ratio 36 : 24 : 20 : 20

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

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

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

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

$= \frac{80}{100}$

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

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

B's $= \frac{80}{100} \times \frac{3}{10} = \frac{32}{100}$

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

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

A : B : C : D : E

New Profit Sharing Ratio $= \frac{24}{100} : \frac{32}{100} : \frac{16}{100} : \frac{8}{100} : \frac{20}{100}$

= 6 : 8 : 4 : 2 : 5

Question 13.

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

Solution:

A : B

Old Ratio 3 : 2

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

Let the combined share of profit of all partners be =1

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

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

$= \frac{3}{4}$

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

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

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

A : B : C

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

$= \frac{9:6:5}{20}$

=9:6:5

Profit sharing ratio after C's admission will become old ratio to determine the ratio after D's admission

$$\begin{array}{lccc} & A: & B: & C \\ \text{Ratio before D's admission} & 9: & 6: & 5 \end{array}$$

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

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

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

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

$= \frac{80}{100}$

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

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

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

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

$$\begin{array}{lcccc} & A: & B: & C: & D \\ \text{New Profit Sharing Ratio after C's admission} = & \frac{72}{200}: & \frac{48}{200}: & \frac{40}{200}: & \frac{20}{100} \end{array}$$

$= 9:6:5:5$

Question 14.

X and Y partners sharing profits and losses as 3:2. They admit Z into partnership. X gives 1/3rd of his share while Y gives 1/10th from his share while Y gives 1/10th from his share to Z. Calculate new profit-sharing ratio and sacrificing ratio.

Solution:

Old Ratio of X and Y are 3:2.

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

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

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

New Ratio = Old share - share sacrificed

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

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

Z's new share $= \frac{3}{15} + \frac{1}{10} = \frac{9}{30}$

New Ratio $= \frac{6}{15} : \frac{3}{10} : \frac{9}{30}$

$= 4:3:3$

Question 15.

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

Solution:

Calculation of New Sharing Ratio

A:B:C = 2:2:1 (Old Ratio)

D is admitted for $\frac{1}{6}$th share while C will continue to retain his Original share $\left(\frac{1}{5}\right)$

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

$= \frac{30-5-6}{30} = \frac{19}{30}$

This reaming share will be shared by A and B in the ratio of 2:2 (Old Ratio)*

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

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

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

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

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

= 19:19:12:10

*Since nothing is mentioned about the sacrifice made by the existing partners, it is assumed that A and B sacrifice in their old ratio.

Calculation of Sacrificing Ratio

Sacrificing Ratio = Old Ratio - New Ratio

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

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

A:B= 5:5 or 1:1

Question 16.

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

Solution:

Journal

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

Note- Goodwill brought in C is not recorded in the books of the firm as the amount for goodwill is privately paid to A and B.

Working Note:

Goodwill Written - off

A's Capital will be debited by $= 15,000 \times \frac{2}{3}$

$= ₹\ 10,000$

B's Capital will be credited by $= 15,000 \times \frac{1}{3}$

$= ₹\ 5,000$

A : B

Old Ratio 2: 5

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

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

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

$= \frac{3}{4}$

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

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

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

A : B : C

New Profit Sharing Ratio = $\frac{6}{28} : \frac{15}{28} : \frac{1}{4}$

$= \frac{16:15:7}{28}$

=6:15:7

Distribution of C's share of Goodwill

C's Share of Goodwill = Rs. 14,000

A will get = $14,000 \times \frac{2}{7}$

= ₹4,000

B will get = $14,000 \times \frac{5}{7}$

= ₹10,000

Question 17.

A and B are partners sharing profits and losses in the ratio of 2: 5. They admit Con the condition that in Rs.14,000 as his share of goodwill in cash to be distributed between A and B. C's share profits or losses will be 1/4th. What will be the new profit-sharing ratio and what amount brought in by C will be received by A and B?

Solution:

Question 18.

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

Solution:

Journal

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

$$\begin{array}{lccc} & A & : & B \\ \text{Old Ratio} & 3 & : & 2 \end{array}$$

$$\begin{array}{lccccc} & A & : & B & : & C \\ \text{New Ratio} & 5 & : & 3 & : & 2 \end{array}$$

Sacrificing Ratio = Old Ratio- New Ratio

$$A's = \frac{3}{5} - \frac{5}{10} = \frac{1}{10}$$

$$B's = \frac{2}{5} - \frac{5}{10} = \frac{1}{10}$$

$$\begin{array}{lccc} & A & : & B \\ \text{Sacrificing Ratio} = & \frac{1}{10} & : & \frac{1}{10} \end{array}$$

$$= 1:1$$

Distribution of Premium for Goodwill C's share of Goodwill

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

Goodwill Written-off

A will be debited by $3{,}000 \times \frac{3}{5} = ₹1{,}800$

B will be debited by $3{,}000 \times \frac{2}{5} = ₹1{,}200$

Question 19.

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

(Delhi 2003)

Solution:

Journal

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

$$\begin{array}{lccc} & A & : & B \\ \text{Old Ratio} & 3 & : & 2 \end{array}$$

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

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

A : B

$$A's = \frac{3}{5} - \frac{3}{25} = \frac{12}{25}$$

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

$$\begin{array}{lccc} & A & : & B \\ \text{Sacrificing Ratio} & \frac{3}{25} & : & \frac{4}{25} \end{array}$$

$$3:4$$

New Ratio = Old Ratio - Sacrificing Ratio

A's = $\frac{3}{5} - \frac{3}{25} = \frac{12}{25}$

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

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

= $\frac{3}{25} + \frac{4}{25} = \frac{7}{25}$

New Ratio is 12:6:7

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

= ₹21,000

Distribution of Premium for Goodwill

A will get = $21,000 \times \frac{3}{7} =$ ₹9,000

B will get = $21,000 \times \frac{4}{7} =$ ₹12,000

Question 20.

Give Journal entries to record the following arrangements in the books of the firm:

a. B and C are partners sharing profits in the ratio of 3: 2. D is admitted paying a premium (goodwill) of Rs. 2,000 for 1/4th share of the profits, shares of B and C remain as before. No Goodwill Account appears in the books.

b. B and C are partners sharing profits in the ratio of 3: 2. D is admitted paying a premium of Rs. 2,100 for 1/4th share of profits which he acquires 1/6th from B and 1/12th from C. No Goodwill Account appears in the books.

Solution:

Journal

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

Working Note:

Distribution of premium for Goodwill-

B will get = $2,000 \times \frac{3}{5} =$ ₹1,200

C will get = $2,000 \times \frac{2}{5} =$ ₹800

Journal

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

Working Note :

1

Sacrificing Ratio

$$\begin{array}{c} B : C \\ \frac{1}{6} : \frac{1}{12} \\ 2 : 1 \end{array}$$

2

Distribution of Premium for Goodwill-

B will get $= 2,100 \times \frac{2}{3}$

$= ₹1,400$

C will get $= 2,100 \times \frac{1}{3}$

$= ₹700$

Question 21.

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

Solution:

Journal

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

Working Note :

1

Calculation of Sacrificing Ratio:

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

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

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

$= \frac{2}{3}$

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

Sacrificing Ratio = Old Ratio- New Ratio

B's $= \frac{3}{4} - \frac{1}{3} = \frac{5}{12}$ (sacrificing)

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

2

C is gaining in new the firm. Hence, C's gain in goodwill will be debited to his capital and given to B (sacrificing partner).

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

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

$= ₹45,000$

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

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

$= ₹3,750$

Question 22.

M and J are partners in a firm sharing profits in the ratio of 3: 2. They admit R as a new partner. The new profit-sharing ratio between M, J and R will be 5: 3: 2. R brought in Rs. 25,000 for his share of premium for goodwill. Pass necessary Journal entries for the treatment of goodwill. (Delhi 2000)

Solution:

Journal

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

Working Notes :

1

Calculating of Sacrificing Ratio

Sacrificing Ratio = Old Ratio - New Ratio

$M's = \frac{3}{5} - \frac{5}{10} = \frac{1}{10}$

$J's = \frac{2}{5} - \frac{3}{10} = \frac{1}{10}$

M : J

Sacrificing Ratio $\frac{1}{10} : \frac{1}{10}$

1 : 1

2

Distribution of R's share of Goodwill-

M and N each will get $= 25,000 \times \frac{1}{2} = ₹12,500$

Question 23.

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

Give Journal entries and also calculate future profit-sharing ratio of the partners.

Solution:

Journal

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

Working Notes -

1

$$\text{Sacrificing Ratio} \quad \begin{array}{c} A : B \\ \frac{1}{10} : \frac{1}{10} \\ 1 : 1 \end{array}$$

2

Calculation of new profit sharing Ratio

A : B

Old Ratio 5 : 3

New Ratio = Old Ratio - Sacrificing Ratio

$$A's = \frac{5}{8} - \frac{1}{10} = \frac{21}{40}$$

$$B's = \frac{3}{8} - \frac{1}{10} = \frac{11}{40}$$

$$\text{New Profit Sharing Ratio} = \begin{array}{c} A : B : C \\ \frac{21}{40} : \frac{11}{40} : \frac{1}{5} \end{array}$$

$$= \frac{21 : 11 : 8}{40}$$

$$= 21 : 11 : 8$$

3

Distribution of C's share of Goodwill (in sacrificing Ratio)

$$\text{A and B each will get} = 12,000 \times \frac{1}{2} = ₹6,000$$

Question 24.

Anu and Bhagwan were partners in a firm sharing profits in the ratio of 3: 1. Goodwill appeared in the books at Rs.4, 40,000.

Raja was admitted to the partnership. The new profit-sharing ratio among Anu, Bhagwan and Raja was 2:2:1.

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

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

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Anu's Capital A/c	Dr.		3,30,000	
	Bhagwan's Capital A/c	Dr.		1,10,000	
	To Goodwill A/c				4,40,000
	(Being old goodwill written off in old ratio)				
	Cash A/c	Dr.		1,50,000	
	To RajA's Capital A/c				1,00,000
	To Premuim for Goodwill A/c				50,000
	(Being capital and goodwill brought in by raju)				
	Premium for Goodwill A/c	Dr.		50,000	
	Bhagwan's Capital A/c $(\frac{3}{20} \times 2,50,000)$	Dr.		37,500	
	To, Anu's Capital A/c $(\frac{7}{20} \times 2,50,000)$				87,500
	(Being premium for goodwill adjusted)				

Working Notes :

1 Calculation of share in old Goodwill

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

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

2 Calculation of Raja's Share of Goodwill

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

$= 2,50,000 \times \frac{1}{5} = 50,000$

3 Calculation of Sacrificing Ratio

Sacrificing Ratio = Old Share - New Share

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

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

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

Question 25.

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

Solution:

Journal

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

Working Notes :

1

A : B

Sacrificing Ratio $\frac{1}{24} : \frac{1}{8}$

1 : 3

2

Distribution of C's share of Goodwill (in sacrificing ratio)

A will be get = $3{,}600 \times \frac{1}{4} = ₹900$

B will be get = $3{,}600 \times \frac{3}{4} = ₹2{,}700$

3

Calculation of New Profit sharing Ratio

New Ratio = Old Ratio - Sacrificing Ratio

A's = $\frac{7}{12} - \frac{1}{24} = \frac{13}{24}$

B's = $\frac{5}{12} - \frac{1}{8} = \frac{7}{24}$

A : B : C

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

= 13:7:4

4

Distribution of C's share of Goodwill (in New Ratio)

A will be get = $24{,}000 \times \frac{13}{24} = ₹13{,}00$

B will be get = $24{,}000 \times \frac{7}{24} = ₹7{,}000$

C will be get = $24{,}000 \times \frac{4}{24} = ₹4{,}000$

Question 26.

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

Solution:

Journal

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

Working Note :

1

Calculation of Sacrificing Ratio

Sacrificing Ratio = Old Ratio - New Ratio

$X's = \frac{3}{4} - \frac{1}{3} = \frac{5}{12}$

$Y's = \frac{1}{4} - \frac{1}{3} = \frac{-1}{12}$ (Gaining)

2

Goodwill of the firm on the basis of Z's share

$= 30,000 \times \frac{3}{1}$

= ₹90,000

Y's gain in goodwill

$= 90,000 \times \frac{1}{12}$

= ₹7,500

X will get as a goodwill

= Z's share of Goodwill + Y's gain in Goodwill

= 30,000 + 7,500

=₹37,500

Question 27.

X and Y are partners in a firm sharing profits in the ratio of 3:2. On 1st April, 2009, they admit Z as a new partner for 1/4th share in the profits. Z contributed the following assets towards his capital and for his share of goodwill:

Stock Rs.60,000; Debtors Rs.80,000; Land Rs.1,00,000, Plant and Machinery Rs.40,000. On the date of admission of Z, the goodwill of the firm was valued at Rs.6,00,000.

Record necessary Journal entries in the books of the firm on Z's admission.

Solution:

Journal

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

Working Notes :

1

$$\text{Z's share of Goodwill} = 60{,}000 \times \frac{1}{4} = ₹1,50,000$$

2

Distribution of Z's Goodwill

$$\text{X will get} = 1{,}50{,}000 \times \frac{3}{5} = ₹90,000$$

$$\text{Y will get} = 1{,}50{,}000 \times \frac{2}{5} = ₹60,000$$

Question 28.

A and B are partners in a business sharing profits and losses in the ratio of 1/3rd and 2/3rd. On 1st April, 2012, their capitals are Rs.8,000 and Rs. 10,000 respectively. On that date, they admit C in partnership and give him 1/4th share in the future profits. C brings in Rs.8,000 as his capital and Rs.6,000 as goodwill. The amount of goodwill is immediately withdrawn by the old partners in cash. Draft the Journal entries and show the Capital Accounts of all the Partners. Calculate proportion in which partners would share profits and losses in future.

Solution:

Journal

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

Partner's Capital Accounts

Dr. Cr.

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

Calculation of New (Future) Ratio

$$\text{Old Ratio} \quad \overset{A:B}{\frac{1}{3}:\frac{2}{3}}$$

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

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

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

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

$= \frac{3}{4}$

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

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

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

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

$= \frac{3:6:3}{12}$

= 1:2:1

Distribution of Premium for Goodwill

A will get = $6,000 \times \frac{1}{3}$ = ₹2,000

B will get = $6,000 \times \frac{2}{3}$ = ₹4,000

Question 29.

A and B were partners in a firm sharing profits and losses in the ratio of 3: 2. They admitted C as new partner for 3/7th share in the profit and the new profit-sharing ratio will be 2:2:3. C brought Rs.2,00,000 as his capital and Rs.1,50,000 as premium for goodwill. Half of their share of premium was withdrawn by A and B from the firm. Calculate sacrificing ratio and pass necessary Journal entries for the above transactions in the books of the firm. (Delhi 2009)

Solution:

Journal

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

Calculation of Sacrificing Ratio

Sacrificing Ratio = Old Ratio - New Ratio

$$A's = \frac{3}{5} - \frac{2}{7} = \frac{11}{35}$$

$$B's = \frac{2}{5} - \frac{2}{7} = \frac{4}{35}$$

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

$$= 11:4$$

Working Notes -

1

Distribution of Premium for Goodwill

$$\text{A will get} = 1{,}50{,}000 \times \frac{11}{15} = ₹1,10,000$$

$$\text{B will get} = 1{,}50{,}000 \times \frac{4}{15} = ₹40,000$$

2

Amount of Premium for Goodwill withdrawn

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

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

Question 30.

X and Y are partners sharing profits and losses equally. They admit Z for 1/4th share by payingRs. 5,000 out of his share of Rs.9,000 of goodwill. Goodwill already appears at Rs.30,000.

Give Journal entries to record the above transactions.

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	X's Capital A/c	Dr.		15,000	
	Y's Capital A/c	Dr.		15,000	
	To Goodwill A/c				30,000
	(Being goodwill written-off)				
	Cash A/c	Dr.		5,000	
	To Premium for Goodwill A/c				5,000
	(Being Z brought Rs 5000 in cash out of his share of goodwill)				
	Z's Capital A/c	Dr.		5,000	
	Premium for Goodwill A/c	Dr.		4,000	
	To X's Capital A/c				4,500
	To Y's Capital A/c				4,500
	(Being Z's share of goodwill distributed between X and Y in sacrificing Ratio)				

Working Notes :

1: Writing of Old Goodwill

X and Y each capital accounts will be debited by $= 30{,}000 \times \frac{1}{2} = ₹15{,}000$

2 : Distribution of Z's share of Goodwill

X and Y will sacrifice in the old ratio (i.e. 1:1) as new ratio of the firm is not given.

X and Y will get $= 9{,}000 \times \frac{1}{2} = ₹4{,}500$ each

Question 31.

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

Solution:

Journal

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

Working Notes :

1 Writing- off of Goodwill

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

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

2 Distribution of C's share of Goodwill

A will get $= 10,000 \times \frac{2}{3} = ₹6,667$

B will get $= 10,000 \times \frac{1}{3} = ₹3,333$

Question 32.

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

Solution:

Journal

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

Working Notes :

Writing off of goodwill already in the books (JE 1)

A's Account will be debited with $= 3000 \times \frac{3}{5} = ₹1,200$

B's Account will be debited with $= 3000 \times \frac{2}{5} = ₹800$

Question 33.

On the admission of Rao, it was agreed that the goodwill of Murty and Shah should be valued at Rs.30,000. Rao is to get 1/4th share of profits. Previously Murty and Shah shared profits in the ratio of 2. Rao cannot bring in any cash. Give Journal entries when in the books of Murty and Shah: (a) there is no Goodwill Account and (b) Goodwill appears at Rs.10,000.

Solution:

1 Calculation of Rao's share of Goodwill

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

2 Adjustment of Rao's share of Goodwill

$$\text{Murty will get} = 7{,}500 \times \frac{3}{5} = ₹4{,}500$$

$$\text{Shah will get} = 7{,}500 \times \frac{2}{5} = ₹3{,}000$$

a. Where there is no Goodwill Account

Journal

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

b. Goodwill appears at 10,000

Journal

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

Question 34.

Anil and Sunil are partners in a firm with fixed capitals of Rs.3,20,000 and Rs.2,40,000 respectively. They admitted Charu as a new partner for 1/4th share in the profits of the firm on 1st April 2015.Charu brought Rs.3,20,000 as her share of capital. Calculate value of goodwill and record necessary Journal entries.

(AI 2013 C)

Solution:

Journal

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

Working Notes :

Calculation of Hidden Goodwill

Total capital of the firm on the basis of Charu's Capital = $3{,}20{,}00 \times \frac{4}{1} = 12,80,000$

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

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

Question 35.

Bhuwan and Shivam were partners in a firm sharing profits in the ratio of 3:2. Their capitals were Rs.50,000 and Rs.75,000 respectively. They admitted Atul on 1st April, 2013 as a new partner for 1/4th share in the future profits. Atul brought Rs.75,000 as his capital. Calculate the value of goodwill of the firm and record necessary Journal entries for the above transactions on Atul's admission.

(Foreign 2014)

Solution:

The Journal entries are as follows :

Journal

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

Here, Atul's entered into partnership for 1/4th share in future profits.
He contributes ₹75,000 towoards his share of capital.
Taking Atul's capital as the base, we can calculate the firm's capital as;
Firm's Capital = New Partner's Capital x Reciprocal of his share i.e., = 75,000 x 4
= ₹3,00,000
However, the total capital as at that date is ₹2,00,000 (i.e. 50,000+75,000)
So, the difference of 1, 00,000 is hidden goodwill.
Atul's share in goodwill - 1/4th of 1,00,000 = ₹25,000

Question 36.

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

(AI 2008 C)

Solution:

Actual Capital of the firm after admission of C
= A's Capital + B's Capital + C's Capital
= 60,000 + 1,20,000 + 70,000
= ₹2,50,000

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

Goodwill = Capitalised value of the firm - Actual Capital of the firm
= 2,80,000 - 2,50,000
= ₹30,000

Question 37.

X and Y are partners with capital of Rs.50,000 each. They admit Z as a partner with 1/4th share in the profits of the firm. Z brings in Rs.80,000 as his share of capital. The Profit and Loss Account showed a credit balance of Rs.40,000 as on date of admission of Z.

Give necessary Journal entries to record the goodwill.

Solution:

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

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

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

Question 38.

Asin and Shreyas are partners in a firm. They admit Ajay as a new partner with 1/5th share in the profits of the firm. Ajay bring Rs.5,00,000 as his share of capital. The value of the total assets of the firm was Rs.15,00,000 and outside liabilities were valued at

Rs.5,00,000 on that date. Give necessary Journal entry to record goodwill at the time of Ajay's admission. Also show your workings.

(AI 2013)

Solution:

Journal

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

Working Notes:

Calculation of Goodwill brought in by Ajay
Value of firm's goodwill = Capitalised value of the firm - Net worth
Capitalised value of the firm = Share of Ajay's capital Reciprocal of Ajay's share

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

Net worth of the new firm = Total assets - Outside liabilities + Ajay's capital
= 15,00,000 - 5,00,000 + 5,00,000 = ₹15,00,000
Value of firm's goodwill = Capitalised value of firm - Net worth of the new firm
= 25,00,000 - 15,00,000 = ₹10,00,000

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

Question 39.

Disha and Divya are partners in a firm sharing profits in the ratio of 3: 2 respectively. The fixed capital of Disha is Rs.4,80,000 and Rs.3,00,000. On 1.4.2015 they admitted Hina as a new partner for 1/5th share in future profits. Hina brought Rs.3, 00,000 as her capital. Calculate value of goodwill of the firm and record necessary Journal entries on Hina's admission. (Delhi 2013 C)

Solution:

Journal

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

Working Note :

Calculatation of Hidden Goodwill

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

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

4,20,000

Hina's share of Goodwill :

$4,20,000 \times \frac{1}{5} = 84,000$

Question 40.

E and F were partners in a firm sharing profits in the ratio of 3:1. They admitted G as a new partner on 1st March, 2015 for 1/3rd share. It was decided that E, F and G will share future profits equally G brought Rs.50,000 in cash and machinery worth Rs.70,000 for his share of profit as premium of goodwill

Pass necessary Journal entries in the books of the firm.

Solution:

Journal

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

Working Notes :

1.

E:F

Old Ratio 3 : 1

E:F:G

New Ratio = 9: 1: 1

Sacrificing Ratio = Old Ratio - New Ratio

E's = $\frac{3}{4} - \frac{1}{3} = \frac{5}{12}$

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

2

Calculation of F's share of gain in Goodwill

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

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

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

Question 41.

X and Y are partners in a firm sharing profits and losses in the ratio of 3: 2. They admit Z as a new partner for 1/5th share. The goodwill of the firm is valued at Rs.10,000. Goodwill already appears in the books at Rs.5,000. Z brings in 60% of his share of goodwill and Rs.40,000 as his capital in cash. The amount of goodwill brought in cash is withdrawn by the concerned partners to the extent of 30% of what is credited to them. The profits for the first year of new partnership amounted to Rs.20,000. Give necessary Journal entries to adjust goodwill and to distribute profits.

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	X's Capital A/c	Dr.		3,000	
	Y's Capital A/c	Dr.		2,000	
	To Goodwill A/c				5,000
	(Being goodwill written off at the time of Z's admission)				
	Cash A/c	Dr.		41,200	
	To Z's Capital A/c				40,000
	To Premium for Goodwill A/c				1,200
	(Being Z brought capital and 60% of the share of his goodwill in cash)				
	Premium for Goodwill A/c	Dr.		1,200	
	Z's Capital A/c	Dr.		800	
	To X's Capital A/c				1,200
	To Y's Capital A/c				800
	(Being Z's share of goodwill adjusted in X and Y is capital account in sacrificing ratio)				
	X's Capital A/c	Dr.		216	
	Y's Capital A/c	Dr.		144	
	To Cash A/c				360
	(Being 30% of the amount of goodwill which was brought in cash withdrawn)				
	Profit and Loss Appropriation A/c	Dr.		20,000	
	To X's Capital A/c				9,600
	To Y's Capital A/c				6,400
	To Z's Capital A/c				4,000
	(Being Profit after admission of Z distributed in the new ratio)				

Working Notes:

1 : Calculation of New Profit Sharing Ratio

X :Y

Old Ratio 5:2

Z is admitted for $\frac{1}{5}$ share

Let the total profit of the firm be re 1

So the remaining profit after Z's admission = 1 + Z's share $= 1 - \frac{1}{5} = \frac{4}{5}$

New Ratio = Old Ratio x Combined capital of X and Y after admission of Z

New Ratio of X = $\frac{3}{5} \times \frac{4}{5} = \frac{12}{25}$

New Ratio of Y = $\frac{2}{5} \times \frac{4}{5} = \frac{8}{25}$

X:Y:Z

New Profit Sharing Ratio = $\frac{12}{25} : \frac{8}{25} : \frac{1}{5}$

$= \frac{12:8:5}{25}$

2 Written-off of goodwill already appearing in the books

X's Capital Account will be debited = $5{,}000 \times \frac{3}{5} =$ ₹3, 000

Y's Capital Account will be debited = $5{,}000 \times \frac{2}{5} =$ ₹2, 000

3 Calculation of Z's share of Goodwill

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

Amount of goodwill brought in cash by Z = $2{,}000 \times \frac{60}{100} =$ ₹1, 200

Distribution of Z's share of Goodwill

Amount of goodwill charged from Z's Capital Account = $2{,}000 \times \frac{60}{100} = ₹800$

X will get for goodwill $= 2{,}000 \times \frac{3}{5} = ₹1{,}200$

Y will get for goodwill $= 2{,}000 \times \frac{2}{5} = ₹800$

4 Amount of goodwill withdrawn by X and Y

Goodwill withdrawn in cash = Amount of goodwill brought in cash x Partner's share x 30%

Withdrawn by X $= 1{,}200 \times \frac{3}{5} \times \frac{30}{100} = ₹216$

Withdrawn by Y $= 1{,}200 \times \frac{2}{5} \times \frac{30}{100} = ₹144$

5 Distribution of Profit earned after Z's admission (in New Ratio)

X will get $= 20{,}000 \times \frac{12}{25} = ₹9{,}600$

Y will get $= 20{,}000 \times \frac{8}{25} = ₹6{,}400$

Z will get $= 20{,}000 \times \frac{5}{24} = ₹4{,}000$

Question 42.

Solution:

Mr. A commenced business with a capital of ₹ 2, 50,000 on 1stapril, 2011. During the five years ended 31st March, 2016, the following profits and losses were made.

31st March 2012	Loss ₹5,000
31st March 2013	Profit ₹13,000
31st March 2014	Profit ₹17,000
31st March 2015	Profit ₹20,000
31st March 2016	Profit ₹25,000

During this period he had drawn ₹40,000 for his personal use. On 1st April, 2016, he admitted B into partnership on the following terms: B to bring for his half share in the business, capital equal to A's Capital on 31st March, 2016 and to pay for the one-half share of goodwill of the business, on the basis of three times the average profit of the last five years. Prepare the statement showing what amount B should invest to become a partner and made entries to record the transactions pertaining to admission.

Capital as on April 01,2011	2,50,000
Less: Loss in 2012	(5,000)
Add: Profit in 2013	13,000
Add: Profit in 2014	17,000
Add: Profit in 2015	20,000
Add: Profit in 2016	25,000
	3,20,000
Less: Drawings	(40,000)
A's Capital as on March 31,2016	**2,80,000**

Calculation of Goodwill

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

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

=14,000 × 3

= ₹42,000

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

B's Capital = A's Capital as on March 31,2016 = ₹2,80,000

Journal

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

Question 43.

X and Y are partners in a firm sharing profits and losses in the ratio of 3:2. On 1st April, 2016, they admit Z as a new partner for 1/5th share in profits. On that date, there was a balance of Rs.1,50,000 in General Reserve and a debit balance of `20,000 in the Profit and Loss Account of the firm. Pass necessary Journal entries regarding adjustment of reserve and accumulated profit/loss.

Solution:

Journal

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

Working Notes :

1 Calculation of Share of General Reserve

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

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

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

$$\text{X's share} = 20,000 \times \frac{3}{5} = 12,000$$

$$\text{Y's share} = 20,000 \times \frac{2}{5} = 8,000$$

Question 44.

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

Solution:

Journal

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

Working Notes

WN 1 Calculation of Share of General Reserve & P & L A/c

$$\text{X's share} = 3,00,000 \times \frac{2}{3} = 2,00,000$$

$$\text{Y's share} = 3,00,000 \times \frac{1}{3} = 1,00,000$$

Question 45.

A and B is partners sharing profits and losses in the ratio of 3/4: 1/4. They agree to admit C in to business. C is to get 1/4th share of the future profits. At the time of C's admission, there was a General Reserve of Rs.4,000 appearing in the Balance Sheet of A and B. Revaluation of assets and liabilities resulted in gain of Rs.2,000. Pass necessary Journal entries on C's admission.

Solution:

Journal

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

Working Notes

A's Capital Account will be credited by= $(4{,}000+2{,}000) \times \frac{3}{4}$ =₹4,500

B's Capital Account will be credited by= $(4{,}000+2{,}000) \times \frac{1}{4}$ =₹1,500

Question 46.

At the time of admission of a new partner, the assets and liabilities were revalued. The following revaluations were made:

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

b. Creditors were written back by Rs.5,000.

c. Building was appreciated by 20% (Book value of Building Rs.2,00,000).

d. Unrecorded Investments were worth Rs.15,000.

e. A Reserve of Rs.2,000 were made for an Outstanding Bill for repairs.

f. Unrecorded Liability towards suppliers was Rs.3,000.

g. Value of Stock and Machinery to be reduced by 10% (Book Value of: Stock Rs. 1,00,000; Machinery Rs.2,00,000).

Pass necessary Journal entries.

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Creditors A/c	Dr.		5,000	
	Building A/c	Dr.		40,000	
	Investments A/c	Dr.		15,000	
	To Revaluation A/c				60,000
	(Being increase in assets and decrease in liabilities transferred to Revaluation Account)				
	Revaluation A/c	Dr.		40,000	
	To Provision for Doubtful Debts A/c				5,000
	To Reserve for outstanding Repairs Bill A/c				2,000
	To Creditors A/c				3,000
	To Stock A/c				10,000
	To Machinery A/c				20,000
	(Being increase in liabilities, decrease in assets and certain of reserves and provisions transferred to Revaluation Account)				
	Revaluation A/c	Dr.		20,000	
	To Partner's Capital A/c				20,000
	(Being profit on Revaluation transferred to Partner's Capital)				

Question 47.

A and B are partners sharing profits in equal proportion. Following is the Balance Sheet of the of the firm as at 31st March, 2016

Balance Sheet(after change in Profit Sharing Ratio)

Liabilities		₹	Assets		₹
Creditors		40,000	Cash in Hand		2,000
Salaries Outstanding		14,000	Cash in Bank		10,000
A's Capital	50,000		Sundry Debtors	42,000	
B's Capital	45,000	95,000	Less: Provision for Doubtful Debts	4,000	38,000
			Bill Receivable		17,000
			Stock		20,000
			Investments		20,000
			Furniture		5,000
			Building		37,000
		1,49,000			1,49,000

Before C joins the firm as a partner, it was decided that the provision for doubtful debts be raised to ₹6,500 and the furniture be valued at ₹4,500. The value of the Building has been mutually arrived at ₹45,000. Personal investments of A worth ₹4,300 be treated as firm's investments. A claim of ₹1,200 by an ex-employee has been admitted and the same be provided.
Pass Journal entries; prepare Revaluation Account and Balance Sheet after giving effect to the above.

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Revaluation A/c	Dr.		4,200	
	To Provision for Doubtful Debts A/c				2,500
	To Furniture A/c				500
	To Outstanding Employees Compensation A/c				1,200
	(Being decrease in assets, increase in liabilities and provision transferred to Revaluation Account)				
	Building A/c	Dr.		8,000	
	To Revaluation A/c				8,000
	(Being increase in value of building transferred to Revaluation Account)				
	Revaluation A/c	Dr.		3,800	
	To A's Capital A/c				1,900
	To B's Capital A/c				1,900
	(Being profit from Revaluation Account, transferred to A and B's Capital Account in their old i.e. 1:1)				
	Investment A/c	Dr.		4,300	
	To A's Capital A/c				4,300
	(Being A introduced capital in the form of personal investment)				

Partner's Capital Accounts

Dr. Cr.

Particulars	A	B	Particulars	A	B
			By Balance b/d	50,000	45,000
			By Revaluation A/c(Profit)	1,900	1,900
			By Investments A/c	4,300	
To Balance c/d	56,200	46,900			
	56,200	46,900		56,200	46,900

Balance Sheet
(after Revaluation)

Liabilities		₹	Assets		₹
Creditors		40,000	Cash in Hand		2,000
Salaries Outstanding		14,000	Cash in Bank		10,000
Outstanding Employee's Compensation		1,200			
A's Capital	56,200		Sundry Debtors	42,000	
B's Capital	46,900	1,03,100	Less: Provision for Doubtful Debts		35,500
			Bill Receivable		17,000
			Stock		20,000
			Investments	20,000	
			Add: A's Personal Investment	4,300	24,300
			Furniture (5,000-500)		4,500
			Building (37,000+8000)		45,000
		1,58,300			1,58,300

Question 48.

Mukesh and Rajesh are sharing profits in the ratio of 2:1. Their capitals are Rs. 5,000 and Rs.4,000 respectively. They admit Somesh to a 1/3rd share in the profits of the firm on his bringing in Rs.1,000 for goodwill and Rs. 4,000 as capital. Somesh brings in the necessary amount.

Assuming that there are no creditors of the firm, give (a) Journal entries to record the above in the books of the firm and (b) the initial Balance Sheet of the new firm.

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Cash A/c	Dr.		5,000	
	To Somesh Capital A/c				4,000
	To Premium for Goodwill A/c				1,000
	(Being Somesh brought capital and share of goodwill in cash)				
	Premium for Goodwill A/c	Dr.		1,000	
	To Mukesh's Capital A/c				667
	To Rajesh's Capital A/c				333
	(Being Somesh's goodwill transferred to Mukesh and Ramesh's capital accounts in their sacrificing ratio i.e. 2:1)				

Balance Sheet
(after admission of Somesh)

Liabilities		₹	Assets	₹
Capital :			Sundry Assets	14,000
Mukesh (5,000+667)		5,667	(Balance Figure)	
Rajesh (4,000+333)		4,333		
Somesh	4,000	4,000		
		14,000		14,000

Working Notes :

1

Mukesh : RAjesh

Sacrificing Ratio = 2:1

2 Distribution of Premium for Goodwill

Mukesh will get = $1,000 \times \frac{2}{3}$ = ₹667

Suresh will get = $1,000 \times \frac{1}{3}$ = ₹ 333

Question 49.

X, Y and Z are equal partners with capitals of Rs.1,500; Rs.1,750 and Rs.2,000 respectively. They agree to 'admit W into equal partnership upon payment in cash of Rs.1,500 for 1/4th share of the goodwill and Rs.1,800 as his capital, both sums to remain in the business. The liabilities of the old firm amounted to Rs. 3,000 and the assets, apart from cash, consist of Motors Rs. 1,200, Furniture Rs.400, Stock Rs.2,650 and Debtors 3,780. The Motors and Furniture were revalued at Rs.950 and Rs.380 respectively.

Draft Journal entries to give effect to the above arrangement and also show Balance Sheet of the new firm.

Solution:

Balance Sheet
(before admission of W)

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

Journal

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

Balance Sheet
(after admission of W)

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

Working Notes :

1

X:Y:Z

Sacrificing Ratio = 1:1:1

2

Distribution of Premium for Goodwill

X Y and Z each will get = $1,500 \times \frac{1}{5} =$ ₹300

3

Distribution of loss Revaluation

X,Y and Z each will get 270 $\times \frac{1}{3} =$ ₹90(Old Ratio)

Question 50.

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

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

They admit C into partnership and give him 1/8th share in the future profits on the following terms:

a. Goodwill of the entire firm be valued at twice the average of the last three years' profits amounted to₹21,000; ₹24,000 and ₹25,560.
b. C is to bring in cash for the amount of his share of goodwill.
c. C is to bring in cash ₹15,000 as his capital.

Give Journal entries recording these transactions, draw out the Balance Sheet of the new firm and new profit-sharing ratio.

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Cash A/c	Dr.		20,880	
	To C's Capital A/c				15,000
	To Premium for Goodwill A/c				5,880
	(Being C brought capital and share of goodwill)				
	Premium for Goodwill A/c	Dr.		5,880	
	To A's Capital A/c				3,528
	To B's Capital A/c				2,352
	(Being premium for goodwill distributed between A and B in sacrificing ratio i.e., 3:1)				

Partner's Capital Accounts

Dr. Cr.

Particulars	A	B	C	Particulars	A	B	C
To Balance c/d	54,978	39,102	15,000	By Balance b/d	51,450	36,750	
				By Cash A/c			15,000
				By Premium for Goodwill A/c	3,528	2,352	
	54,978	39,102	15,000		54,978	39,102	15,000

Balance Sheet
(after admission of C)

Liabilities		₹	Assets	₹
			Cash (1,500+ 20,880)	22,380
Capital :			Stock	28,000
A	54,978		Debtors	19,500
B	39,102		Furniture	2,500
C	15,000	1,09,080	Machinery	48,500
Creditors		11,800		
		1,20,880		**1,20,880**

Calculation of New Profit Sharing Ratio

A:B

Old Ratio 3:2

C is admitted for $\frac{1}{8}$ share of profit

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

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

$= 1 - \frac{1}{8}$

$= \frac{7}{8}$

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

$A's = \frac{3}{5} \times \frac{7}{8} = \frac{21}{40}$

$B's = \frac{2}{5} \times \frac{7}{8} = \frac{14}{40}$

A:B:C

New Profit Sharing Ratio = $\frac{21}{40} : \frac{14}{40} : \frac{1}{8}$

$= \frac{21:14:5}{40}$

= 21:14:5

Working Notes:

1

Calculation of Goodwill

Average Profit = $\frac{21{,}000+24{,}000+25{,}560}{3}$

= ₹23,520

Goodwill of the firm = Average Profit x Number of Years purchase

= 23,520 x 2

= ₹47,040

C's share of Goodwill = 47,040 x $\frac{1}{8}$ = ₹5,880

2

Distribution of Premium for Goodwill

A will get = $5{,}880 \times \frac{3}{5}$

=₹3,528

B will get = $5{,}880 \times \frac{2}{5}$

= ₹2,352

Question 51.

Following was the Balance Sheet of A and B who were sharing profits in the ratio of 2:1 as at 31st March, 2016:

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

They agree to admit C into the partnership on the following terms:

a. C was to bring in ₹7,500 as his capital and ₹3,000 as goodwill for 1/4th share in the firm.
b. Values of the Stock and Plant and Machinery were to be reduced by 5%.
c. A reserve was to be created in respect of Sundry Debtors ₹375.
d. Building Account was to be appreciated by 10%.

Pass necessary Journal entries to give effect to the arrangements. Prepare Profit and Loss Adjustment Account (or Revaluation Account), Capital Accounts and Balance Sheet of the new firm.

Solution:

Journal

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

Profit and Loss Adjustment Accounts

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

Partner's Capital Accounts

Dr. Particulars	A	B	C	Particulars	A	B	Cr. C
				By Balance b/d	15,000	10,000	
To Balance c/d	17,500	11,250	7500	By Cash A/c			7,500
				By Premium for Goodwill A/c	2,000	1,000	
				By Profit and Loss A/c	500	250	
				By Adjustment A/c(Profit)			
	17,500	11,250	7,500		17,500	11,250	7,500

Balance Sheet
as on March 31,2016 after admission of C

Liabilities		₹	Assets		₹
			Building (25,000+2,500)		27,500
Capital Accounts:			Plant and Machinery (17,500 - 875)		16,625
A	17,500		Stock (10,000-500)		9,500
B	11,250		Sundry Debtors	4850	
C	7,500	36,250	Less: Provision for D. Debts	375	4,475
Sundry Creditors		32,950	Cash in Hand (600+10,500)		11,100
		69,200			69,200

Working Notes :

1

A:B

Sacrificing Ratio = 2:1

2

Distribution of Premium for Goodwill (in sacrificing ratio)

A will get = $3{,}000 \times \frac{2}{3} = ₹2{,}000$

B will get = $3{,}000 \times \frac{1}{3} = ₹1{,}000$

3

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

A will get = $750 \times \frac{2}{3} = ₹500$

B will get = $750 \times \frac{1}{3} = ₹250$

Question 52.

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

Balance Sheet as at 31st March,2016

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

M joins the firm from 1st April, 2016 for a half share in the future profits. He is to pay ₹1, 00,000 for goodwill and ₹3, 00,000 for capital. Draft the Journal entries and prepare Balance Sheet in each of the following cases:

a. If M acquires his share of profit from the firm in the original ratios of the partners.
b. If M acquires his share of profits from in equal proportions from the original partner.
c. If M acquires his share of profit in the ratio of 3: 1 from the original partners, ascertain the original partners, ascertain the future profit-sharing ratio of the partners in each case.

Solution:

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

Journal

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

Partner's Capital Accounts

Dr. Cr.

Particulars	J	K	M	Particulars	J	K	M
				By Balance b/d	1,00,000	1,50,000	
				By Cash A/c			3,00,000
				By Premium for Goodwill A/c	60,000	40,000	
To Balance c/d	2,20,000	2,30,000	3,00,000	By Reserve A/c	60,000	40,000	
	2,20,000	2,30,000	3,00,000		2,20,000	2,30,000	3,00,000

Balance Sheet
as on April 01,2016 after M's admission

Liabilities	₹	Assets	₹
J's Capital	2,20,000	Cash (2,00,000+4,00,000)	6,00,000
K's Capital	2,30,000	Other Assets	1,50,000
M's Capital	3,00,000		
	7,50,000		7,50,000

Calculation of Future (New) Profit Sharing Ratio

M:J

Old Ratio 3:2

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

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

Combined share of J and K after M's admission = 1 - M's share= $1 - \frac{1}{2} = \frac{1}{2}$

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

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

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

$$\begin{array}{l} \text{J: K: M} \end{array}$$

New Profit Sharing Ratio = $\frac{3}{10} : \frac{2}{10} : \frac{1}{2}$

$= \frac{3:2:5}{10}$

Working Notes :

1

Distribution of Premium for Goodwill (in sacrificing ratio)

J will get = $1,00,000 \times \frac{3}{5} = ₹60,000$

K will get = $1,00,000 \times \frac{2}{5} = ₹40,000$

2

Distribution of General Reserve (in old ratio)

J will get = $1,00,000 \times \frac{3}{5} = ₹60,000$

K will get = $1,00,000 \times \frac{2}{5} = ₹40,000$

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

Journal

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

Partner's Capital Accounts

Dr. **Cr.**

Particulars	J	K	M	Particulars	J	K	M
				By Balance b/d	1,00,000	1,50,000	
				By Cash A/c			3,00,000
				By Premium for Goodwill A/c	50,000	50,000	
To Balance c/d	2,10,000	2,40,000	3,00,000	By Reserve A/c	60,000	40,000	
	2,10,000	**2,40,000**	**3,00,000**		**2,10,000**	**2,40,000**	**3,00,000**

Balance Sheet
as on April 01,2016 after M's admission

Liabilities	₹	Assets	₹
J's Capital	2,35,000	Cash(2,00,000+4,00,000)	6,00,000
K's Capital	2,15,000	Other Assets	1,50,000
M's Capital	3,00,000		
	7,50,000		7,50,000

Calculation of Future (New) Profit Sharing Ratio

J:K

Old Ratio 3:2

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

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

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

New Ratio = Old Ratio - Sacrificing Ratio

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

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

$$\text{New Profit Sharing Ratio} = \overset{J:K:M}{\frac{9}{40} : \frac{11}{40} : \frac{1}{2}}$$

$$= \frac{9:11:20}{40}$$

Working Notes:

WN 1

Distribution of Premium for Goodwill (in sacrificing ratio)

J and K each will get = $1,00,000 \times \frac{1}{2} = ₹50,000$

WN 2

Distribution of Reserve (in old ratio)

J will get = $1,00,000 \times \frac{3}{5} = ₹60,000$

K will get = $1,00,000 \times \frac{2}{5} = ₹40,000$

C. if M acquires his share of profit in the ratio of 3:1 from the original partners.

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Reserve A/c	Dr.		1,00,000	
	To J's Capital A/c				60,000
	(Being reserve distributed between J and Kti,e of M's admission)				
	Cash A/c	Dr.		4,00,000	
	To M's Capital A/c				3,00,000
	To Premium for Goodwill A/c				1,00,000
	(Being M brought capital share of goodwill)				
	Premium for Goodwill A/c	Dr.		1,00,000	
	To J's capital A/c				75,000
	To K's capital A/c				25,000
	(Being premium for goodwill distributed between J and K in their sacrificing ratio i.e.3:1)				

Partner's Capital Accounts

Dr. **Cr.**

Particulars	J	K	M	Particulars	J	K	M
				By Balance b/d	1,00,000	1,50,000	
				By Cash A/c			3,00,000
				By Premium for Goodwill A/c	75,000	25,000	
To Balance c/d	2,10,000	2,15,000	3,00,000	By Reserve A/c	60,000	40,000	
	2,35,000	**2,15,000**	**3,00,000**		**2,35,000**	**2,15,000**	**3,00,000**

Balance Sheet
as on April 01,2016 after M's admission

Liabilities	₹	Assets	₹
J's Capital	2,35,000	Cash(2,00,000+4,00,000)	6,00,000
K's Capital	2,15,000	Other Assets	1,50,000
M's Capital	3,00,000		
	7,50,000		**7,50,000**

Calcualtion of Future(New) profit shareing Ratio

J : K

Old Ratio 3 : 2

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

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

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

New Ratio = Old Ratio - Sacrificing Ratio

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

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

J : K : M

New Profit Shareing Ratio $= \frac{9}{40} : \frac{11}{40} : \frac{1}{2}$

$= \frac{9:11:20}{40}$

Working Note

WN 1

Distribuion of Premium for Goodwill (In Sacrificing ratio)

J Will get $= 1{,}00{,}000 \times \frac{3}{4} = 75{,}000$

K Will get $= 1{,}00{,}000 \times \frac{1}{4} = 25{,}000$

WN 2

Distribution of Reserve (in old ratio)

J will get $= 1{,}00{,}000 \times \frac{3}{5} = 60{,}000$

K will get $= 1{,}00{,}000 \times \frac{2}{5} = 40{,}000$

Note: There is misprint in the textbook and the capitals of the partners J and K should be 1,00,000 and 1,50,000 respectively.

Question 53.

Shyamlal and Sanjay were in partnership business sharing profits and losses in the ratio of 2:3 respectively. Their Balance Sheet as at 31st March, 2016 was:

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

On 1st April, 2016, they admitted Shankar into partnership for 1/3rd share in the future profits on the following terms:

a. Shankar is to bring in ₹30,000 as his capital and ₹20,000 as goodwill, which sum is to remain in the business.
b. Stock and Furniture are to be reduced in value by 10%.
c. Building is to be appreciated by ₹15,000.
d. Provision of 5% is to be made on Sundry Debtors for Doubtful Debts.

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

Solution:

Profit and Loss Adjustment Account

Dr. Cr.

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

Partner's Capital Accounts

Dr. Cr.

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

Balance sheet As on April 01,2016 after Shanker's admission

Liabilities		₹	Assets		₹
Sundry Creditors		12,435	Cash in Hand(710+50,000)		50,710
			Cash at Bank		11,925
Capital A/c's:			Sundry Debtors	5,500	5,500
Shyamlal	47,044		Less: Provision for D. Debts	275	5,225
Sanjay	53,541		Stock(18,000-1,800)		18,000
Shanker	30,000	1,30,585	Building(40,000+1,800)		55,000
			Furniture(4,400-440)		3,960
		1,43,020			1,43,020

Working Notes :

Shyamlal : Sanjay

Sacrificing Ratio = 2 : 3

1

Distributed of Premium for Goodwill (in Sacrificing ratio)

Syamlal will get $= 10{,}000 \times \frac{2}{5} = 4{,}000$

Sanjay will get $= 10{,}000 \times \frac{3}{5} = 6{,}000$

2

Distribution of Premium for Goodwill (in sacrificing ratio)

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

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

A, B and C are partners sharing profits and losses in the ratio of 3:2:1 respectively. Their balance sheet as at 31st March, 2016 is as follows :

Liabilities		₹	Assets	₹
Capital A/c's			Land and Building	50,000
A	60,000		Plant and Machinery	40,000
B	60,000		Furniture	30,000
C	40,000	1,60,000	Stock	20,000
Creditors		30,000	Debtors	30,000
Bills payable		10,000	Bills Receivable	20,000
			Bank	10,000
		2,00,000		2,00,000

D is admitted as a new partner on 1st April, 2016 for an equal share and is to pay ₹50,000 as capital

Following are the adjustments required on D's admission:

a. Out of the Creditors, a sum of ₹10,000 is due to D which will be transferred to his capital.
b. Advertisement Expenses of ₹1,200 are to be carried forward to next accounting period.
c. Expenses debited in the Profit and Loss Account includes a sum of ₹2,000 paid for B's personal expo
d. A Bill of Exchange of ₹4,000, which was previously discounted with the banker, was dishonoured on 31st March, 2016 but no entry has been passed for that.
e. A Provision for Doubtful Debts @ 5% is to be created against Debtors.
f. Expenses on Revaluation amounted to ₹2,100 is paid by A.

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

Question 54.

A, B and C are partners sharing profits and losses in the ratio of 3:2:1 respectively. Their balance sheet as at 31st March, 2016 is as follows :

Liabilities		₹	Assets	₹
Capital A/c's			Land and Building	50,000
A	60,000		Plant and Machinery	40,000
B	60,000		Furniture	30,000
C	40,000	1,60,000	Stock	20,000
Creditors		30,000	Debtors	30,000
Bills payable		10,000	Bills Receivable	20,000
			Bank	10,000
		2,00,000		2,00,000

D is admitted as a new partner on 1st April, 2016 for an equal share and is to pay ₹50,000 as capital
Following are the adjustments required on D's admission:

a. Out of the Creditors, a sum of ₹10,000 is due to D which will be transferred to his capital.
b. Advertisement Expenses of ₹1,200 are to be carried forward to next accounting period.
c. Expenses debited in the Profit and Loss Account includes a sum of ₹2,000 paid for B's personal expo
d. A Bill of Exchange of ₹4,000, which was previously discounted with the banker, was dishonoured on 31st March, 2016 but no entry has been passed for that.
e. A Provision for Doubtful Debts @ 5% is to be created against Debtors.
f. Expenses on Revaluation amounted to ₹2,100 is paid by A.

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

Solution:

Revaluation Account

Dr. Cr.

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

Partner's Capital Accounts

Dr. Cr.

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

Balance Sheet
as on April 01,2016 after D's admission

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

Working Notes :

Distribution of Loss on Revaluation

A's Capital will be debited by $= 600 \times \frac{3}{6} =$ ₹300

A's Capital will be debited by $= 600 \times \frac{2}{6} =$ ₹200

A's Capital will be debited by $= 600 \times \frac{1}{6} =$ ₹100

Question 55.

The Balance Sheet of A and B as at 31st March, 2016

Liabilities		₹	Assets	₹
Capital A/c's			Freehold Property	20,000
A	60,000		Furniture	6,000
B	30,000	90,000	Stock	12,000
General Reserve		24,000	Debtors	80,000
Creditors		16,000	Cash	12,000
		1,30,000		1,30,000

A and B share profits and losses in the ratio of 2: 1. They agree to admit P into the firm with effect from 1st April, 2016 subject to the following terms and conditions:
(a) P will bring in ₹21,000 of which ₹9,000 will be treated as his share of goodwill to be retained in the business.
(b) P will be entitled to 1/4th share of profits of the firm.
(c) A Reserve for Doubtful Debts is to be created @ 3% of the Debtors.
(d) Furniture is to be depreciated by 5%.
(e) Stock is to be revaluing at ₹10,500.
Prepare Revaluation Account, Capital Accounts and Opening Balance Sheet of the new firm.

Solution:

Revaluation Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Reserve for D. Debts A/c (80,000×3%)	1,700	By Loss transferred to:	
To Furniture A/c (6,000 × 5%)	2,100	A Capital A/c	2,800
To Stock A/c (12,000-10,500)	1,500	B Capital A/c	1,400
	4,200		4,200

Partner's Capital Accounts

Dr. Cr.

Particulars	A	B	P	Particulars	A	B	P
To Revaluation A/c	2,800	1,400		By Balance/d	60,000	30,000	
				By Cash A/c(21,000-9,000)			12,000
To Balance c/d	79,200	39,600	12,000	By Premium for Goodwill A/c	6,000	3,000	
				By General Reserve A/c	16,000	8,000	
	82,000	41,000	12,000		82,000	41,000	12,000

Balance Sheet
as on April 01,2016 after P's admission

Liabilities		₹	Assets		₹
Capital A/c's			Freehold Property		20,000
A	79,200		Furniture(6,000-300)		5,700
B	39,600		Stock (12,000-1,500)		10,200
P	12,000	1,30,800	Debtors	80,000	
Creditors		16,000	Less: 3% Reserve for Doubtful Debts	2,400	77,600
			Cash (12,000 + 21,000)		33,000
		1,46,800			1,46,800

Working Notes :

1 Distribution of Loss on Revaluation

A will get $= 9,000 \times \frac{1}{3} =$ ₹3,000

B will get $= 9,000 \times \frac{2}{6} =$ ₹3,000

2 Distribution of Loss on Revaluation

A's Capital Account will be debited by $= 4,200 \times \frac{2}{3} =$ ₹2, 800

B's Capital Account will be debited by $= 4,200 \times \frac{1}{3} =$ ₹1, 400

Question 56.

A and B are partners in a firm sharing profits and losses in the ratio of 2:1 respectively. On 31st March, 2016, their Balance sheet stood as follows:

Liabilities	₹	Assets	₹
A's Capital	1,60,000	Buildings	80,000
B's Capital	1,20,000	Furniture	24,000
General Reserve	96,000	Stock	48,000
Creditors	64,000	Debtors	2,40,000
		Cash at Bank	48,000
	4,40,000		4,40,000

It was decided to admit C into the firm with effect from 1st April, 2016 subject to the following terms and conditions:

a. C will bring in ₹84,000 of which ₹36,000 will be treated as his share of goodwill to be retired in the business.
b. C will be entitled to 1/4th share of the profits.
c. ₹9,000 is to be provided for Doubtful Debts.
d. Depreciation on Furniture is to be provided @ 5%.
e. Stock is to be revalued at ₹42,000.

You are required to prepare necessary Ledger Accounts and Balance Sheet of the firm after the admission of C from the above information.

Solution:

Revaluation Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Provision for Doubtful Debts A/c	9,000	By Loss transferred to:	
To Furniture A/c (24,000 × 5%)	1,200	A Capital A/c	10,800
To Stock A/c	6,000	B Capital A/c	5,400
	16,200		16,200

Partner's Capital Accounts

Dr. Cr.

Particulars	A	B	C	Particulars	A	B	C
To Revaluation A/c	10,800	5,400		By Balance b/d	1,60,000	1,20,000	
				By General Reserve A/c(2:1)	64,000	32,000	
To Balance c/d	2,37,200	1,58,600	48,000	By Bank A/c(84,000-36,000)			48,000
				By Premium for Goodwill A/c	24,000	12,000	
	2,48,000	1,64,000	48,000		2,48,000	1,64,000	48,000

Balance Sheet
as on April 01,2016 after C's admission

Liabilities		Rs.	Assets		Rs.
Capital A/c's:			Building		80,000
A	2,37,200		Furniture (24,000-1,200)		22,800
B	1,58,600		Stock (48,000-6,000)		
C	48,000		Debtors	2,40,000	
		2,09,500	Less: Prov. For D. Debts	9,000	2,31,000
Creditors		64,000	Cash at Bank (48,000+84,000)		1,32,000
		5,07,800			5,07,800

Working Notes:

1. A : B

Sacrificing Ratio = 2 : 1

Distribution of Premium for Goodwill (in sacrifcing ratio)

$$\text{A will get} = 36,000 \times \frac{2}{3} = ₹24,000$$

$$\text{B will get} = 36,000 \times \frac{1}{3} = ₹12,000$$

2 Distribution of Revaluation Loss

$$\text{A's Capital Accounts will be debited by} = 16,200 \times \frac{2}{3} = ₹10,800$$

$$\text{B's Capital Account will debited by} = 16,200 \times \frac{1}{3} = ₹5,400$$

Question 57.

X and Y share profits in the ratio of 5:3. Their Balance Sheet as at 31st March,2016 was:

Liabilities		₹	Assets		₹
Creditors		15,000	Sundry Debtors	20,000	
Employee's Provident Fund		10,000	Less: Provision for Doubtful Debts	600	19,400
Workmen Compensation Reserve		5,800	Stock		25,000
Capital A/c's:			Land and Building		5,000
X	70,000		Fixed Assets		80,000
Y	31,000	1,01,000	Profit and Loss A/c		2,400
		1,31,800			1,31,800

They admit Z into partnership with 1/8th share in profits on this date. Z brings ₹20,000 as his capital and 12,000 for goodwill in cash. Z acquires his share entirely from X. Following revaluations are also made:

a. Employee's Provident Fund is to be increased by ₹5,000.
b. All Debtors are good. Therefore, no provision is required on Debtors.
c. Stock includes ₹3,000 for obsolete items.
d. Creditors are to be paid ₹1,000 more.
e. Fixed Assets are to be revealed at ₹70,000.

Prepare Journal entries, necessary accounts and new Balance Sheet. Also, calculate new profit-sharing ratio

Solution:

Revaluation Account

Dr. Cr.

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

Partner's Capital Accounts

Dr. Cr.

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

Balance Sheet
as on April 01,2016 after C's admission

Liabilities		₹	Assets	₹
Creditors (15,000+1,000)		16,000	Land and Building	5,000
Provident Fund (10,000+5,000)			Sundry Debtors	20,000
Capital A/c s:			Stock (25,000-3,000)	22,000
X	72,625		Fixed Assets (80,000-10,000)	70,000
Y	25,375		Cash	32,000
Z	20,000	1,18,000		
		1,49,000		1,49,000

Working Notes

1. Distribution of Revaluation Loss

X's Capital Accounts will be debited by= $18,400 \times \frac{5}{8} = ₹\,11,500$

Y's Capital Account will debited by $= 18,400 \times \frac{3}{8} = ₹\,6,900$

2. Distribution of Accumulated Loss

X's Capital Accounts will be debited by= $2,400 \times \frac{5}{8} = ₹\,1,500$

Y's Capital Account will credited by $= 2,400 \times \frac{3}{8} = ₹\,900$

3. Distribution of Workmen's Comensation Fund

X's Capital Accounts will be credited by= $5,800 \times \frac{5}{8} = ₹3,625$

Y's Capital Account will credited by $= 5,800 \times \frac{3}{8} = ₹\,2,175$

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

5. Calculation of New profit sharing Ratio

Old Profit Sharing Ratio between X and Y is 5:3

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

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

New Share of X is $\frac{3}{8}$

New Share of Z is $\frac{1}{8}$

$\therefore$ New Profit Sharing Ratio is $4:3:1$

Question 58.

M and N are partners in a firm sharing profits and losses in the ratio of 5:3. On 31st March, 2016, their Balance Sheet was:

Balance Sheet on M and N

Liabilities		₹	Assets	₹
Sundry Creditors		4,000	Stock	8,000
Bills Payable		2,000	Sundry Debtors	7,200
Capital A/c's:			Cash at Bank	500
M	12,000		Cash in Hand	300
N	10,000	22,000	Machinery	12,000
		28,000		28,000

On 1st April, 2016, the partners decide to admit R as a partner on the following terms:

a. New profit-sharing ratio of M, N and R will be 7:5:4 respectively.
b. R shall bring in ₹8,000 as his capital and ₹4,000 for his share of goodwill.
c. M and N will draw half of the goodwill in cash.
d. Machinery is to be valued at ₹15,000; Stock at ₹10,000 and a Provision for Doubtful Debt of `1,000 are to be credited.
e. There is a liability is not included in the creditors. Partners decided to show this liability in the books of accounts of the new firm.

Prepare Revaluation Account, Partners Capital Accounts and Balance Sheet of M, N and R.

Solution:

Revaluation Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Provision for Doubtful Debts A/c	1,000	By Machinery A/c	3,000
To Outstanding Salaries A/c	2,000	By Stock A/c	2,000
To Profit transferred to:			
To M Capital A/c	1,250		
To Capital A/c	750		
	5,000		5,000

Partner's Capital Accounts

Dr. Cr.

Particulars	M	N	R	Particulars	M	N	R
To Cash A/c	1,500	500		By Balance b/d	12,000	10,000	
				By Cash A/c			8,000
To Balance c/d	14,750	11,250	8,000	By Premium for Goodwill A/c	3,000	1,000	
				By Revaluation A/c (Profit)	1,250	750	
	16,250	11,750	8,000		16,250	11,750	8,000

Balance Sheet
as on March 31, 2016 after R's Retirement

Liabilities		₹	Assets		₹
Outstanding Salaries		2,000	Machinery (12,000+3,000)		15,000
Creditors		4,000	Stock (8,000+2,000)		10,000
Bills Payable		2,000	Sundry Debtors	7,200	
Capital A/c's:			Less: Provision for D. Debts	1,000	6,200
M	14,750		Cash at Bank		500
N	11,250		Cash in hand (300+12,000-2,000)		10,300
R	8,000	34,000			
		42,000			42,000

Working Notes

1 Calculation of Sacrificing Ratio

$$\begin{aligned} & \quad M:N \\ & \text{Old Ratio} = 5:3 \\ & \quad M:N:R \\ & \text{New Ratio} = 7:5:4 \end{aligned}$$

Sacrificing Ratio = Old Ratio − New Ratio

$$M's = \frac{5}{8} - \frac{7}{16} = \frac{3}{16}$$

$$N's = \frac{3}{8} - \frac{5}{16} = \frac{1}{16}$$

$$\begin{aligned} & \qquad\qquad M:N \\ & \text{Sacrificing Ratio} = \frac{3}{16} : \frac{1}{16} \\ & \qquad\qquad = 3:1 \end{aligned}$$

2 Distribution of Premium for Goodwill

$$M \text{ will get} = 4,000 \times \frac{3}{4} = ₹3,000$$

$$N \text{ will get} = 4,000 \times \frac{1}{4} = ₹1,000$$

3 Withdrawn of Premium for Goodwill

$$M \text{ will withdrawn} = 3,000 \times \frac{1}{2} = ₹1,500$$

$$N \text{ will withdrawn} = 1,000 \times \frac{1}{2} = ₹500$$

Question 59.

A and B are in partnership sharing profits and losses in the ratio of 3:2.0n 1st April, 2016, they admitted C into partnership. He paid ₹50,000 as his capital but no amount was brought towards goodwill which was valued at ₹40,000 for the firm. He acquired 1/5th share in the profits, equally from both partners It was also decided that:

a. Land and Building be written off by ₹20,000.
b. Stock is written down by ₹3,200.
c. A Provision of ₹ 1,000 are created for Doubtful Debts.
d. An amount of ₹1,200 included in Sundry Creditors, be written back as it is no longer payable.

The Balance Sheet of A and B as at 31st March, 2016 was:

Balance Sheet as at 31st March,2016

Liabilities		₹	Assets	₹
Capital A/c s:			Goodwill	10,000
A	86,000		Land and Building	60,000
B	64,000	1,50,000	Plant and Machinery	70,000
General Reserve		20,000	Stock	36,000
Sundry creditors		31,200	Sundry Debtors	20,000
			Cash at Bank	4,000
			Cash in Hand	1,200
		2,01,200		2,01,200

Prepare Revaluation Account, Partner's Capital Accounts and Balance Sheet of the new firm.

Solution:

Revaluation Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Land and Building A/c	20,000	By Sundry Creditors A/c	1,200
To Stock A/c	3,200	By Loss transferred to:	
To Provision for Doubtful Debts A/c	1,000	A Capital A/c	13,800
		B Capital A/c	9,200
	24,200		24,200

Partner's Capital Accounts

Dr. Cr.

Particulars	A	B	C	Particulars	A	B	C
To A's Capital A/c			4,000	By Balance b/d	86,000	64,000	
To B's Capital A/c			4,000	By General Reserve A/c	12,000	8,000	
To Revaluation A/c	13,800	9,200		By Cash A/c			50,000
To Goodwill A/c	6,000	4,000		By C's Capital A/c	4,000	4,000	
To Balance c/d	82,200	62,800	42,000				
	1,02,000	76,000	50,000		1,02,000	76,000	50,000

Balance Sheet

as on 01,2016 (after C's admission)

Liabilities		₹	Assets		₹
Capital A/c:s			Land and building (60,000-20,000)		40,000
A	82,200		Plant and Machinery		70,000
B	62,800		Sundry Debtors	20,000	
C	42,000	1,87,000	Less: Provision for D. Debts	1,000	19,000
Sundry Creditors (31,200-1,200)		30,000	Stock (36,000-3,200)		32,800
			Cash at Bank		4,000
			Cash in Hand (1,200+50,000)		51,200
		2,17,000			2,17,000

Working Notes:

WN1: Calculation of C's share of Goodwill

$$\text{C's share of Goodwill} = \text{Goodwill of the firm} \times \frac{1}{5}$$

$$= 40,000 \times \frac{1}{5}$$

$$= ₹8,000$$

$$\text{A will get} = 8,000 \times \frac{1}{2} = ₹\,4,000$$

$$\text{B will get} = 8,000 \times \frac{1}{2} = ₹\,4,000$$

Particulars		Debit ₹	Credit ₹
C's Capital A/c	Dr.	8,000	
To A's Capital A/c			4,000
To B's Capital A/c			4,000
(Being C's share of goodwill charge from his capital)			

WN2 : Distribution of General Reserve (in old ratio)

A will get = $20,000 \times \frac{3}{5} =$ ₹ 12,000

B will get $20,000 \times \frac{2}{5} =$ ₹ 8,000

WN3: Writting-off of Goodwill

A's Capital Account will be debited with ₹ 6,000 $\left(\text{i.e. } 10,000 \times \frac{3}{5}\right)$

B's Capital Account will be debited with ₹ 4,000 $\left(\text{i.e. } 10,000 \times \frac{2}{5}\right)$

Question 60.

Balance Sheet of Ram and Shyam who share profits in proportion to their capitals as at 31st March, 2016 .

Balance sheet

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

On 1st April, 2016, they admitted Arjun into partnership on the following terms:

a. Arjun to bring in ₹7,20,000 as capital and ₹6,600 for goodwill, which is to be left in the business he is to receive 1/4th share of the profits.
b. Reserve to be raised equal to 2% on Debtors as Provision for Doubtful Debts.
c. Value of Stock to be written down by 5%.
d. Freehold Premises are to be taken at valuation of ₹22,400; Plant and Machinery ₹11,800; Fixtures and Fittings ₹1,540 and Vehicles ₹800.

You are required to make necessary adjusting entries in the firm, give Balance Sheet of the new firm as at 1st April, 2016 and also give the proportions in which the partners will share profits, there being no change in the proportions of Ram and Shyam.

Solution:

Revaluation Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Reserve for D. Debts A/c (27,500×2%)	550	By Free hold Premises A/c (22,400-20,000)	2,400
To Stock A/c	750	By Loss transferred to:	
To Plant and Machinery A/c (13,500-11,800)	1700	Ram's Current A/c	717
To Fixture and Fittings A/c	210	Shyam's Current A/c	598
To Vehicles A/c	550		
	3,715		3,715

Partners' Capital Account

Dr. Cr.

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

Partners' Capital Account

Dr. Cr.

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

Balance Sheet

Liabilities		₹	Assets		₹
Creditors		19,000	Freehold Premises		22,400
Bills Payable		16,000	Plant and Machinery		11,800
Capital A/c s:			Fixture and Fittings		1,540
Ram	30,000		Vehicles		800
Shyam	25,000		Stock (14,100-750)		13,395
Arjun	20,000	75,000	Bills Receivables		13,060
Capital A/c s:			Debtors	27,500	
Ram	4,883		Less:2 % Reserve for D. Debts	550	26,950
Shaym	4,202	9,085	Bank		1.590
			Cash (950+20,000+6,000)		27,550
		1,19,085			1,19,085

Journal

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

Ram : Shyam
Capital 30,000 : 25,000
Ratio 6 : 5

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

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

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

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

$= \frac{3}{4}$

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

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

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

Ram : Shaym : Arjun

New Profit sharing Ratio $\frac{18}{44} : \frac{15}{44} : \frac{1}{4}$

$= \frac{18:15:11}{44}$

Working Notes

1 Distribution of Premium for Goodwill

Ram will get= $6,600\times\frac{6}{11}=$ ₹3,600

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

2 Distribution of Loss on Revaltion

Ram's Capital Account will be debited by = $1,315\times\frac{6}{11}=$ ₹717 (approx.)

Shyam's Capital Account will be debited by = $1,315\times\frac{5}{11}=$ ₹598 (approx.)

Question 61.

Following is the Balance Sheet of X and Y as at 31st March, 2016 who are partners in a firm sharing profits and losses in the ratio of 3:2 respectively:

Liabilities		₹	Assets		₹
Creditors		45,000	Cash at Bank		15,000
General Reserve		36,000	Debtors	60,000	60,000
Capital A/c s:			Less: Provision for Doubtful Debts	2,400	57,600
X	1,80,000		Patents		44,400
Y	90,00	2,70,000	Investments		24,000
Current A/c s:			Fixed Assets		2,16,00
X	30,000		Goodwill		30,000
Y	6,000	36,000			
		3,87,000			3,87,000

Z is admitted as a new partner on 1st April, 2016 on the following terms:

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

You are required to pass Journal entries, prepare Revaluation Account, Partners' Capital and Current Accounts, and the Balance Sheet of the new firm.

Solution:

Revaluation Account

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

Partners' Capital Account

Dr. Particulars	X	Y	Z	Particulars	X	Y	Cr. Z
To Balance c/d	1,80,000	90,000	60,000	By Balance b/d	1,80,000	90,000	
				By Bank A/c			60,000
	1,80,000	**90,000**	**60,000**		**1,80,000**	**90,000**	**60,000**

Partners' Current Account

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

Balance Sheet

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

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Bank A/c	Dr.		96,000	
	To Z's Capital A/c				60,000
	To Premium for Goodwill A/c				36,000
	(Being Z brought capital and share of goodwill)				
	Premium for Goodwill A/c	Dr.		36,00	
	To X's Current A/c				25,200
	To Y's Current A/c				10,800
	(Being Premium for goodwill transferred to partners current account in sacrificing ratio i.e., 7:3				
	X's Current A/c	Dr.		12,600	
	Y's Current A/c	Dr.		5,400	
	To Bank A/c				18,000
	(Being half of goodwill withdrawn by partners)				

Working Notes.

1 Calculation of Z's share of premium for Goodwill

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

Firm's Goodwil= 81,000 x 2 = ₹1,62,000

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

₹36, 000 will be distributed betweeen X and Y in sacrificing ratio.

2 Calculation of Sacrificing Ratio

Sacrificing Ratio= Old Ratio - New Ratio

X's sacrifice= $\frac{3}{5} - \frac{4}{9} = \frac{7}{45}$

Y's sacrifice= $\frac{2}{5} - \frac{3}{9} = \frac{3}{45}$

Sacrificing Ratio = 7 : 3

3 Calculation of share of Premium of Goodwill

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

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

4 Distribution of Loss on Revaluation

X's share = 17,000 x $\frac{3}{5}$ = ₹10, 260

Y's share = 17,000 x $\frac{5}{5}$ = ₹6,840

Question 62.

X and Y are partners sharing profit and losses equally. Their Balance sheet as on 31st march ,2016 is given below:

Balance sheet

Liabilities		Rs.	Assets		Rs.
Capital A/c s:			Land and Building		1,50,000
X	1,50,000		Plant and Machinery		1,00,000
Y	1,00,000	2,50,000	Furniture and Fittings		25,000
Current A/c s:			Stock		
X	40,000		Debtors	75,000	
Y	30,000	70,000	Less: Provision for Doubtful Debts	5,000	70,000
Creditors		1,30,000	Bills Receivable		30,000
Bills Payable		50,000	Bank		50,000
		3,87,000			**3,87,000**

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

a. **Z is to introduceRs.1,25,000 as capital.**
b. **Goodwill of the firm was valued at nil.**
c. **It is found that the creditors included a sum of Rs.7,500 which was not to be paid. But it was found that there was a liability for Compensation to Workmen amounting to Rs.10,000.**
d. **Provision for doubtful debts is to be created @ 10% on debtors.**
e. **In regard to the Partners' Capital Accounts, present fixed capital method is to be converted in fluctuating capital method.**
f. **Bills of Rs.20,000 accepted from creditors were not recorded in the books.**
g. **X provides Rs.50,000 loan to the business carrying interest @ 10% p.a.**

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

Solution:

Revaluation Account

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Reserve for Doubtful Debts A/c	2,500	By Creditors A/c	7,500
To Liability for WCF A/c	10,000	By Loss transferred to:	
		X's Current A/c	2,500
		Y's Current A/c	2,500
	12,500		1;2,500

Partners' Current Account

Dr. Particulars	X	Y	Particulars	X	Cr. Y
To Revaluation A/c	2,500	2,500	By Balance b/d	40,000	30,000
To Balance c/d	37,500	27,500			
	40,000	30,000		40,000	30,000

Partners' Capital Account

Dr. Particulars	X	Y	Z	Particulars	X	Y	Cr. Z
				By Balance b/d	1,50,000	1,00,000	
To Balance c/d	1,87,500	1,27,500	1,25,000	By Current A/c	37,500	27,500	
				By Bank A/c			1,25,00
	1,87,500	1,27,500	1,25,000		1,87,500	1,27,500	1,25,000

Balance Sheet

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

Question 63.

Rajesh and Ravi are partners sharing profits in the ratio of 3: 2. Their Balance Sheet at 31st March, 2016 stood as:

Balance Sheet

Liabilities		₹	Assets		₹
Creditors		38,500	Cash		2,000
Outstanding Rent		4,000	Stock		15,000
Capital A/c s:			Prepaid Insurance		1,500
Rajesh A/c	29,000		Debtors	9,400	
Ravi A/c	15,000	44,000	Less: Provision for Doubtful Debts	400	9,000
		1,30,000	Machinery		19,000
		50,000	Building		35,000
			Furniture		5,000
		86,500			86,500

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

a. Stock to depreciate by 5%;
b. Provision for Doubtful Debts is to be ₹500;
c. Furniture to depreciate by 10%;
d. Building is valued at ₹40,000. Show necessary Ledger Accounts and Balance Sheet of new firm.

Solution:

Revaluation Account

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

Partners' Capital Account

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

Balance Sheet
As on March 31,2016 after Raman's admission

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

Working Notes:

1 Calculation of Sacrificing Ratio

Old Ratio= Rajesh : Ravi
3 : 2

New Ratio= Rajesh : Ravi : Raman
5 : 3 : 2

Sacrificing Ratio = Old Ratio - New Raio

Rajesh $= \frac{3}{5} - \frac{5}{10} = \frac{1}{10}$

Ravi $= \frac{2}{5} - \frac{3}{10} = \frac{1}{10}$

Rajesh: Ravi

Sacrificing Ratio= $\frac{1}{10} : \frac{1}{10} = 1:1$

2 Calculation of Goodwill

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

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

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

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

3 Adjusment of Raman's share of goodwill

Rajesh and Ravi each Capital Account will be credited by = $3,270 \times \frac{1}{2} =$ 1,635

Journal

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

4 Distribution of profit on Revaluation (in old ratio)

Rajesh will get = $3,650 \times \frac{3}{5} =$ ₹2, 190

Ravi will get = $3,650 \times \frac{2}{5} =$ ₹1,460

Question 64.

Following is the Balance Sheet of A and B (who share profits in the ratio of 3 : 2) as at 31st March, 2016:

Balance sheet

Liabilities		₹	Assets	₹
Sundry Creditors		15,000	Building	18,000
Capital A/c s:			Machinery	15,000
A A/c	20,000		Stock	12,000
B A/c	25,000	45,000	Debtors	10,000
			Bank	5,000
		60,000		60,000

On 1st April, 2016, C was admitted on the following terms:

a. C is to pay ₹25,000 as his capital and ₹10,000 as his share of goodwill for 1/5th share of profits.
b. The new profit-sharing ratio will be 5:3:2.
c. The assets are to be revalued as Building ₹5,000; Machinery ₹12,000; Stock ₹12,000; Debtors (because of doubtful debts) ₹9,500.
d. It was found that there was a liability for ₹1,500 for goods received but not recorded in books.

Give Journal entries to record the above. Also, give the Ledger Accounts and Balance Sheet after C's admission.

Solution:

Revaluation Account

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Machinery A/c	3,000	By Building A/c	7,000
To Provision for Doubtful Debts A/c	500		
To Creditors A/c	1,500		
To Profit transferred to:			
A Capital A/c	1,200		
B Capital A/c	800		
	7,000		7,000

Partners' Capital Account

Dr. Particulars	A	B	C	Particulars	A	B	Cr. C
				By Balance b/d	20,000	25,000	
				By Revaluation A/c(profit)	1,200	800	
To Balance c/d	26,200	30,800	25,000	By Bank A/c			25,000
				By Premium for Goodwill A/c	5,000	5,000	
	26,200	30,800	25,000		26,200	30,800	25,000

Balance Sheet
As on April 01,2016 after C's admission

Liabilities		Rs.	Assets		Rs.
Sundry Creditors(15,000+1,500)		16,500	Building (18,000 + 7,000)		25,000
Capital A/c s:			Machinery(15,000 - 3,000)		12,000
A	26,200		Stock		12,000
B	30,800		Debtors	10,000	
C	25,000	82,000	Less: Provision for Doubtful Debts	500	9,500
			Bank (5,000 + 35,000)		40,000
		98,500			98,500

Working Notes:

1 Calculation of Sacrificing Ratio

Old Ratio= $\begin{matrix} A & : & B \\ 3 & : & 2 \end{matrix}$

New Ratio= $\begin{matrix} A & : & B & : & C \\ 5 & : & 3 & : & 2 \end{matrix}$

Sacrificing Ratio = Old Ratio - New Raio

A's$=\frac{3}{5}-\frac{5}{10}=\frac{1}{10}$

B's $=\frac{2}{5}-\frac{3}{10}=\frac{1}{10}$

Sacrificing Ratio= $\begin{matrix} A : B \\ \frac{1}{10}:\frac{1}{10} \end{matrix} = 1:1$

2 Distribution on profit for Goodwill

A and B each will get = 10,000 $\times\frac{1}{2}=$ ₹5,000 (in Sacrificing ratio)

3 Distribution of Revaluation Profit (in Old ratio)

A will get = 2,000$\times\frac{3}{5}=$ ₹1,200

B will get = 2,000$\times\frac{2}{5}=$₹800

Question 65.

A and B are partners in a firm sharing profits in the ratio of 3:2. They admit C as a partner on 1st April, 2016 on which date the Balance Sheet of the firm was:

Balance sheet

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

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

a. C brings in ₹30,000 as capital for 1/4th share. He also brings ₹10,000 for his share of goodwill.
b. Part of the Stock which had been included at cost of ₹2,000 had been badly damaged in storage and could only expect to realise `400.
c. Bank charges had been overlooked and amounted to ₹200 for the year 2015-16.
d. Depreciation on Building of ₹3,000 had been omitted for the year 2015-16.
e. A credit for goods for ₹800 had been omitted from both purchases and creditors although the goods had been correctly included in Stock.
f. A charge of ₹1,200 for insurance premium was debited in the Profit and Loss Account of 2015-16 but `600 of this applied to the period after 31st March, 2016.

Solution:

Revaluation Account

Dr. Cr.

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

Partners' Capital Account

Dr. Cr.

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

Balance Sheet
As on April 01,2016 after C's admission

Liabilities		Rs.	Assets	Rs.
Capital A/c s:			Building (50,000 - 3,000)	47,000
A	63,000		Plant and Machinery	30,000
B	42,000		Stock	18,400
C	30,000	1,35,00	Debtors	10,000
Creditors (20,000+800)		20,800	Bank	49,800
			Prepaid Insurance	600
		1,55,800		**1,55,800**

Bank Account

Dr. Cr.

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

Working Note:

1 Sacrificing Ratio

Old Ratio (A and B) 3:2

Sacrificing Ratio= 3:2

2 Distribuation of Premium for Goodwill

A will get $= 10,000 \times \frac{3}{5} =$ ₹6,000

B will get $= 10,000 \times \frac{2}{5} =$ ₹4,000

Question 66.

A and B are partners in a firm. The net profit of the firm is divided as follows: 1/2 to A, 1/3 to B and 1/6 carried to a Reserve. They admit C as a partner on 1st April, 2016 on which date, the Balance Sheet of the firm was:

Balance sheet

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

Following are the required adjustments on admission of C:

a. C brings in ₹25,000 towards his capital.
b. C also brings in ₹5,000 for 1/5th share of goodwill.
c. Stock is undervalued by 10%.
d. Creditors include a contingent liability of ₹4,000, which has been decided by the court at₹ 3,206.
e. In regard to the Debtors, the following Debts proved Bad or Doubtful-

2,000 due from X-bad to the full extent;
₹4,000 due from Y- insolvent, estate expected to pay only 50%.
You are required to prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of new firm.

Solution:

Revaluation Account

Dr. | Cr.

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

Partners' Capital Account

Dr. | Cr.

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

Balance Sheet
As on April 01,2016 after C's admission

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

Working Notes:

1

A : B

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

Sacrificing Ratio = 3:2

2 Distribution of Reserve

A Wiil get = 10,000 $\times \frac{3}{5}$ = ₹6,000

B will get = 10,000 $\times \frac{2}{5}$ = ₹4,000

3

Distribution of premium for Goodwill

A Wiil get = 5,000 $\times \frac{3}{5}$ = ₹3,000

B will get = 5,000 $\times \frac{2}{5}$ = ₹2,000

Question 67.

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

Balance Sheet
As on April 01,2016 after C's admission

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

On 1st April, 2016, they admit D as a partner on the following conditions:

a. D will bring in ₹1,20,000 as his capital and also ₹30,000 as goodwill premium for a quarter of the share in the future profits/losses of the firm.
b. The values of the fixed assets of the firm will be increased by 10% before the admission of D.
c. The future profits and losses of the firm will be shared equally by all the partners.

Pass the necessary Journal entries and prepare Revaluation Account, Partners' Capital Accounts and opening Balance Sheet of the new firm.

Solution:

Revaluation Account

Dr. Cr.

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

Partners' Capital Account

Dr. Cr.

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

Balance Sheet
As on April 01,2016 after C's admission

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

Working Note:

1 Calculation of Sacrificing Ratio

A : B : C

Old Ratio 3 : 2 : 1

A : B : C : D

New Ratio 1 : 1 : 1 : 1

Sacarificing = Old Ratio - New Ratio

$A = \frac{3}{6} - \frac{1}{4} = \frac{6}{24}$

$B = \frac{2}{6} - \frac{1}{4} = \frac{2}{24}$

$C = \frac{1}{6} - \frac{1}{4} = \frac{-2}{24}$ (Gaining)

A : B

Sacrificing Ratio $\frac{6}{24} : \frac{2}{24} = 3 : 1$

2 Calculation of C's gain Goodwill

Goodwill of the firm = D's Goodwill $\times \frac{4}{1}$

$= 30,000 \times \frac{4}{1} =$ ₹ $1,20,000$

C's gain in Goodwill = $1,20,000 \times \frac{2}{24} =$ ₹ $10,000$

3 Amount of Goodwill to be distributed between A and B (Sacrificing Partners)

Premium for Goodwill = ₹ 30,000

A Will get $= 30,000 \times \frac{3}{4} =$ ₹ $22,500$

B Will get $= 30,000 \times \frac{1}{4} =$ ₹ $7,500$

Distribution C's gain in Goodwill

A Will get $= 10,000 \times \frac{3}{4} =$ ₹ $7,500$

B Will get $= 10,000 \times \frac{1}{4} =$ ₹ $2,500$

4 Journal Entries for D's Capital and distribution of Goodwill

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Cash A/c	Dr.		1,50,000	
	To D's Capital A/c				1,20,000
	To Premium for Goodwill A/c				30,000
	(Being D brought capital and share of capital)				
	Premium for Goodwill A/c	Dr.		30,000	
	C's Capital A/c	Dr.		10,000	
	To A's Capital A/c				30,000
	To B's Capital A/c				10,000
	(Being gain goodwill distributed between A and B in sacrificing ratio i.e 3:1)				

Question 68.

A and B are partners in a firm sharing profits and losses in the ratio of 3: 2. Following is their Balance Sheet as at 31st March, 2016:

Balance sheet

Liabilities		₹	Assets	₹
Capital A/c			Building	35,000
A	50,000		Machinery	25,000
B	30,000	80,000	Stock	15,00
Reserve		20,000	Debtors	15,000
Creditors			Investment	5,000
			Bank	5,000
		1,00,000		1,00,000

C is admitted as a partner on 1st April, 2016 on the following terms:

a. C is to pay ₹20,000 as capital for 1/4th share. He also pays ₹5,000 as premium for goodwill.
b. Debtors amounted to `3,000 is to be written off as bad and a Provision of 10% is created against Doubtful Debts on the remaining amount.
c. No entry has been made in respect of a debt of ₹300 recovered by A from a customer, which was previously written off as bad in previous year. The amount is to be paid by A.
d. Investments are taken over by B at their market value of ₹4,900 against cash payment.

You are required to prepare Revaluation Account, Partners' Capital Accounts and new Balance Sheet.

Solution:

Revaluation Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Bad Debts A/c	3,000	By A's Capital A/c	300
To Provision for Doubtful Debts A/c	1,200	By Loss transferred to:	
To Investment A/c (5,000-4,900)	100	A Capital A/c	2,400
		B Capital A/c	1,600
	4,300		**4,300**

Partners' Capital Account

Dr. Cr.

Particulars	A	B	C	Particulars	A	B	C
To Revaluation A/c	2,400	1,600		By Balance b/d	50,000	30,000	
				By Bank A/c			20,000
To Revaluation A/c	300			By Premium for Goodwill A/c	3,000	2,000	
To Balance c/d	50,300	30,400	20,000				
	53,000	**32,000**	**20,000**		**53,000**	**32,000**	**20,000**

Balance Sheet
As on April 01,2016 after C's admission

Liabilities		Rs.	Assets		Rs.
Capital A/c s:			Building		35,000
A	50,300		Machinery		25,000
B	30,400		Stock		15,000
C	20,000	1,00,700	Debtors	15,000	
Creditors (20,000+800)		20,000	Bad Debts	3,000	
				12,000	
			Less: 10% Provision for Doubtful Debts	1,200	10,800
			Bank		34,900
		1,20,700			**1,20,700**

Bank Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d	5,000		
To C's Capital A/c	20,000	By Balance c/d	34,900
To Premium for Goodwill A/c	5,000		
To Investment A/c	4,900		
	34,900		34,900

Working Note:

1

	A : B
Old Ratio	3 : 2
Sacrificing Ratio	3 : 2

2 Distribuation of Premium for Goodwill

$$A \text{ will get} = 5{,}000 \times \frac{3}{5} = ₹3{,}000$$

$$B \text{ will get} = 5{,}000 \times \frac{2}{5} = ₹2{,}000$$

3

Sale of Investment

Bank A/c	Dr.	4,900	
Revaluation A/c	Dr.	100	
To Investment A/c			5,000

4

Bad debt recovered

A's Capital A/c	Dr	300	
To Revaluation A/c			300

Question 69.

X and Y are partners sharing profits and losses in the ratio of 3/4 and 1/4. Their Balance Sheet as at 31st March, 2016 is:

Balance sheet

Liabilities		₹	Assets	₹
Capital A/cs			Land and Building	1,25,000
X	1,50,000		Office Furniture	5,000
Y	80,000	2,30,000	Stock	1,00,000
Workmen Compensation Reserve		20,000	Sundry Debtors	80,000
Sundry Creditors		1,50,000	Bills Receivable	15,000
Bills Payable		37,500	Cash at Bank	1,00,000
			Cash in Hand	12,500
		4,37,500		4,37,500

They admit Z into partnership on 1st April, 201 6 on the following terms:

a. The goodwill is to be valued at ₹1,00,000.
b. Stock and Furniture to be reduced by 10%.
c. A Provision for Doubtful Debts is to be created @ 5% on Sundry Debtors.
d. The value of Land and Building is to be appreciated by 20%.
e. No compensation is payable to workmen.
f. Z pays ₹50,000 as his capital for 1/5th share in the future profits.

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

Solution:

Revaluation Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Stock A/c	10,000	By Land and Building A/c (1,25,000× 20%)	25,000
To Furniture A/c	500		
Provision for Doubtful Debts A/c	4,000		
To Profit transferred to:			
X Capital A/C	7,875		
Y Capital A/c	2,625		
	25,000		**25,000**

Partners' Capital Account

Dr. Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
To X's Capital A/c			15,000	Balance b/d	1,50,000	80,000	
To Y's Capital A/c			5,000	By Workmen's Compensation Fund A/c	15,000	5,000	
				By Revaluation A/c (Profit)	7,875	2,625	
Balance c/d	1,87,875	92,625	30,000	By Cash A/c			50,000
				By Z's Capital A/c		5,000	
	1,87,875	**92,625**	**50,000**		**1,87,875**	**92,625**	**50,000**

Balance Sheet
as on April 01,2016 after Z's admission

Liabilities		Rs.	Assets		Rs.
Capital A/c s:			Land and Building (1,25,000+25,000)		1,50,000
X	1,87,875		Office Furniture (5,000-500)		4,500
Y	92,625		Stock (1,00,000-10,000)		90,000
Z	30,000	3,10,500	Sundry Debtors	80,000	
Sundry Creditors		1,50,000	Less: 5% Provision for Doubtful Debts	4,000	76,000
Bills Payable		37,500	Cash at Bank		1,00,000
			Cash in Hand (12,500 + 50,000)		62,500
			Bills Receivable		15,000
		4,98,000			**4,98,000**

Working Notes:

1 Sacrificing Ratio

	X : Y
Old Ratio	3 : 1

Sacrificing Ratio = 3 : 1

2 Distribution of premium for Goodwill

Goodwill of the firm =1,00,000

Z's Share of Goodwill $= 1,00,000 \times \frac{1}{5} =$ ₹20,000

X Wiil entitled to= $20,000 \times \frac{3}{4} =$ ₹15,000

Y Wiil entitled to= $20,000 \times \frac{1}{4} =$ ₹5,000

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Z's Capital A/c	Dr.		20,000	
	To X's Capital A/c				15,000
	To Y's Capital A/c				5,000
	(Being z's share of goodwill changes from his capital account)				
	Workmen Compensation Fund A/c	Dr.		20,000	
	To X's Capital A/c				15,000
	To Y's Capital A/c				5,000
	(Being workmen compensation fund distributed)				

Question 70.

Deepika and Rajshree are partners in a firm sharing profits and losses in the ratio of 3: 2. On 31st March, 2016 their Balance Sheet was:

Balance sheet

Liabilities		₹	Assets		₹
Sundry Creditors		16,000	Cash in Hand		1,200
Public Deposits		61,000	Cash at Bank		2,800
Bank Overdraft		6,000	Stock		32,000
Outstanding Liabilities		2,000	Prepaid Insurance		1,000
Capital A/cs:			Sundry Debtors	28,800	
Deepika	48,000		Less: Reserve for Doubtful Debts	800	28,000
Rajshree	40,000	88,000	Plant and Machinery		48,000
			Land and Building		50,000
			Furniture		10,00
		1,73,000			1,73,000

On the above date, the partners decided to admit Anshu as a partner on the following terms:

a. The new profit-sharing ratio of Deepika, Rajshree and Anshu will be 5:3:2 respectively.
b. Anshu shall bring in ₹32,000 as his capital.
c. Anshu is unable to bring in any cash for his share of goodwill. Partners, therefore, decide to calculate the goodwill on the basis of Anshu's share in the profits and the capital contribution made by her to the firm.
d. Plant and Machinery is to be valued at ₹60,000, Stock at ₹40,000 and the Reserve for Doubtful Debts is to be maintained at 4,000. Value of Land and Building has appreciated by 20%. Furniture has been depreciated by 10%.
e. There is an additional liability of₹ 8,000 being outstanding salary payable to employees of the firm. This liability is not included in the outstanding liabilities, stated in the above Balance Sheet. Partners decider to show this liability in the books of accounts of the reconstituted firm.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of Deepika, Rajshree and Anshu.

Solution:

Revaluation Account

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Provision for D. Debts A/c	4,000		By Plant and Machinery A/c (60,000 - 48,000)	12,000
Less: Old Reserve A/c	800	3,200	By Stock A/c(40,00-32,000)	8,000
To Furniture A/c(10,000× 10%)		1,000	By Land and Building A/c (50,000×20%)	10,000
To Outstanding salary A/c		8,000		
To Profit on Revaluation transferred to:				
Deepika Capital A/c		10,680		
Rajshree Capital A/c		7,120		
		30,000		**30,000**

Partners' Capital Account

Dr. Cr.

Particulars	Deepika	Rajshree	Anshu	Particulars	Deepika	Rajshree	Anshu
				By Balance b/d	48,000	40,000	
To Balance c/d(before and just went of goodwill)	58,680	47,120	32,000	By Revaluation A/c	10,680	7,120	
				By Cash A/c			32,000
	58,680	**47,120**	**32,000**		**58,680**	**47,120**	**32,000**
To Deepika's Capital A/c			2,220	By Balance c/d	58,680	47,120	32,000
To Rajshree's Capital A/c			2,220	By Anshu's Capital A/c	2,220	2,220	
To Balance c/d	60,900	49,340	27,560				
	60,900	**49,340**	**27,560**		**60,900**	**49,340**	**27,560**

Balance Sheet
As on March 31,2016 after Anshu's admission

Liabilities		Rs.	Assets		Rs.
Outstanding Salaries		8,000	Cash in Hand		1,200
Sundry Creditors		16,000	Cash at Bank		28,800
Public Deposits		61,000	Stock		40,000
Outstanding Liabilities		2,000	Prepaid insurance		1,000
Capital A/c s:			Sundry Debtors	28,800	
Deepika	60,900		Less: Reserve for Doubtful Debts	4,000	24,800
Rajshree	49,340		Plant and Machinery		60,000
Anshu	27,560	1,37,800	Land and Building		60,000
			Furniture		9,000
		2,24,800			**2,24,800**

WorkingNotes :

1 Calculation of Sacrificing Ratio

Old Ratio= Deepika : Rajshree
3 : 2

New Ratio= Deepika : Rajshreee : Anshu
5 : 3 : 2

Sacrificing Ratio = Old Ratio - New Raio

Deepika $= \frac{3}{5} - \frac{5}{10} = \frac{1}{10}$

Rajshree$= \frac{2}{5} - \frac{3}{10} = \frac{1}{10}$

Deepika : Rajshree
Sacrificing Ratio = 1 : 1

2 Valuation of Goodwill

Capitalised value on the basis of Anshu's Share = 32,000 $\times \frac{10}{2}$ = ₹1,60,000

Actual Capital of partners before adjustment of goodwill = 58,680 + 47,120+ 32,000 = ₹1,37,800

Goodwill = Capitalised value- Actual capital of all partners before adjustment of Goodwill =1,60,000-1,37,800= ₹22,200

Anshu's Share of Goodwill = 22,200 $\times \frac{2}{10}$ = ₹4, 440

Deepika and Rajshree each will entitle for Goodwill = 4,440 $\times \frac{1}{2}$ = ₹2, 220

Question 71.

X and Y are partners sharing profits and losses in the ratio of 5: 3. Their Balance Sheet as at 31st March 2016.

Balance Sheet

Liabilities		Rs.	Assets		Rs.
Capital A/c's			Furniture		40,000
X	40,000		Patents		10,000
Y	50,000	90,000	Sundry Debtors	44,000	
General Reserve		14,000	Less: Provision for Doubtful Debts	5,000	39,000
Sundry Creditors		30,000	Stock		20,000
			Cash at Bank		22,000
			Cash in Hand		3,000
		1,34,000			**1,34,000**

On 1st April, 2016, they take Z into the partnership on the following terms:

a. **Z brings in Rs.25,000 as his capital but cannot bring in Rs.3,600 as his share of goodwill.**
b. **Patents are written off from the books.**
c. **General Reserve will appear in the books of the new firm at its original figure.**
d. **A Provision for Doubtful Debts is to be maintained @ 5% on Sundry Debtors.**
e. **The new profit-sharing ratio of X, Y and Z is 2:4:1.**

Solution:

Revaluation Account

Dr. Particulars	Rs.	Particulars		Cr. Rs.
To Patents A/c	10,000	By Provision for Doubtful Debts A/c	5,000	
		Less: New Provision	2,220	2,800
		By Loss transferred to:		
		X Capital A/c		4,500
		Y Capital A/c		2,700
	10,000			**10,000**

Partners' Capital Account

Dr. Particulars	X	Y	Z	Particulars	X	Y	Cr. Z
To X's Capital A/c (General reserve)		2,750	2,000	By Balance b/d	40,000	50,000	
To X's Capital A/c (Goodwill)		4,950	3,600	Y's Capital A/c (General Reserve)	2,750		
To Revolution A/c	4,500	2,700		Z's Capital A/c (General Reserve	2,000		
To Balance c/d	48,800	39,600	19,400	By Cash A/c			25,000
				Y's(General Reserve)	4,950		
				Z's(Capital (General Reserve A/c	3,600		
	53,300	**50,000**	**25,000**		**53,300**	**50,000**	**25,000**

Balance Sheet
As on April 01,2016 after Z's admission

Liabilities		Rs.	Assets		Rs.
Capital A/c s:			Furniture		40,000
X	48,800		Sundry Debtors	44,000	
Y	39,600		Less: 5% Provision for Doubtful Debts	2,200	41,800
Z	19,400	1,07,800	Stock		20,000
General Reserve		14,000	Cash at Bank		22,000
Sundry Creditors		30,000	Cash in Hand (3,000+ 25,000)		28,000
		1,51,800			**1,51,800**

Working Note:

1

Calaculation of Sacrificing Ratio

Sacrificing Ratio = Old Ratio- New Ratio

$$X's = \frac{5}{8} - \frac{2}{7} = \frac{35-16}{56} = \frac{19}{56}$$

$$Y's = \frac{3}{8} - \frac{4}{7} = \frac{21-32}{56} = \frac{-11}{56}\text{(Gaining)}$$

2

Calculation Goodwill of the firm= Z's share of Goodwill $\times \frac{7}{1}$

$$= 3,600 \times \frac{7}{1} = ₹25,200$$

$$Y's \text{ gain in Goodwill} = 25,200 \times \frac{11}{56} = ₹4,950$$

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Z's Capital A/c	Dr.		3,600	
	Y's Capital A/c	Dr.		4,950	
	To X's Capital A/c				8,550
	(Being adjustment of goodwill made)				

3

Adjustment for General Reserve

X's Capital Accouny will be Credited by $= 14{,}000\frac{19}{56} = 4{,}750$ (Sacrificing)

Y's Capital Accouny will be Credited by $= 14{,}000\frac{11}{56} = 2{,}750$ (Gaining)

Z's Capital Accouny will be Credited by $= 14{,}000\frac{1}{7} = 2{,}000$

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Y's Capital A/c	Dr.		2,750	
	Z's Capital A/c	Dr.		2,000	
	To X's Capital A/c				4,750
	(Being general and reserve adjusted among partners in sacrificing and gaining ratio)				

Question 72.

Following is the Balance Sheet of Abha and Binay as at 31st March, 2014:

Balance sheet

Liabilities		₹	Assets		₹
Creditors		13,000	Bank		15,000
Employees' Provident Fund		8,000	Debtors	22,000	
Workmen's Compensation Fund		15,000	Less: Provision for Doubtful Debts	1,000	21,000
Capital A/cs:			Stock		10,000
Deepika	55,000		Plant and Machinery		60,000
Rajshree	30,000	85,000	Goodwill		10,000
			Profit and Loss		5,000
		1,21,000			1,21,000

Chitra was admitted as a partner for 1/4 share in the profits of the firm. It was decided that:

a. Bad Debts amounted to ₹1,500 will be written off.
b. Stock worth ₹8,000 was taken over by Abha and Binay at Book Value in their profit-sharing ratio. The remaining stock was valued at ₹2,500.
c. Plant and Machinery and Goodwill were valued at ₹32,000 and ₹20,000 respectively.
d. Chitra brought her share of goodwill in cash.
e. Chitra will bring proportionate capital and the capitals of Abha and Binay will be adjusted in their profit-sharing ratio by bringing in or paying off cash as the case may be.

Prepare Revaluation Account and Partners' Capital Accounts.

Solution:

Revaluation Account

Dr. Cr.

Particulars	Rs.	Particulars		Rs.
To Bad Debts A/c	500	By Stock A/c		500
To Plant and Machinery A/c	28,000	By Loss on Revaluation A/c		
		Abhy's Capital A/c	14,000	
		BInay's Capital A/c	14,000	28,000
	28,500			28,500

Partners' Capital Account

Dr. Cr.

Particulars	Abha	Binay	Chitra	Particulars	Abha	Binay	Chitra
To Revaluation A/c	14,000	14,000		By Balance b/d	55,000	30,000	
To Goodwill A/c	5,000	5,000		By Bank A/c			18,000
To Profit and Loss A/c	2,500	2,500		By Premium for Goodwill A/c	2,500	2,500	
To Stock A/c	4,000	4,000		By WCF A/c	7,500	7,500	
To Balance c/d	39,500	14,500	18,000				
	65,000	40,000	18,000		65,000	40,000	18,000
To Bank A/c	12,500			By Balance c/d	39,500	14,500	18,000
To Balnace c/d (adjustment)	27,000	27,000	18,000	By Bank A/c		12,500	
	39,500	27,000	18,000		39,500	27,000	18,000

Working Note:
1 Calculation of Chitra's Capital
Chitra's Capital = Toatal Adjusted Capital of Abha and BInay × Reciprocal of Combined Profit Share × Chira's Profit Share.
Abha's Adjusted Capital = 55,000+2,500+ 7,500 - 14,000 - 5,000 - 2,500 - 4,000 =₹39,5000
Binay's Adjusted Capital = 30,000 + 2,500 +7,500 - 14,000 - 5,000 - 2,500 - 4,000 = ₹14,500

$$\text{Chitra's Capital} = (39{,}500 + 14{,}500) \times \frac{4}{3} \times \frac{1}{4} = ₹18,000$$

2 Calculation of New Capital
New capital = Total Adjusted capital × Respective partners's Profit share

$$\text{Abhy's New Capital} = (39{,}500 + 14{,}500) \times \frac{1}{2} = ₹27,000$$

$$\text{Binay's New Capital} = (39{,}500 + 14{,}500) \times \frac{1}{2} = ₹27,000$$

3 Calcualtion of Chitra's Share of Goodwill
Chitra's Share = Firm's Goodwill × Chitra's Profit Share

$$= 20{,}000 \times \frac{1}{4} = ₹5,000$$

5,000 will be shared between abhay and binay in sacrificing ratio 1 : 1

Question 73.

Amrit and Baldev were carrying on business in partnership sharing profits in the ratio of 3: 2 respectively. Their Balance Sheet as at 31st March, 2016 was:

Balance sheet

Liabilities	₹	Assets		₹
Amrit's Capital	50,000	Land and Building		25,000
Baldev's Capital	25,000	Furniture		10,000
Creditors	16,000	Stock		46,000
Bills Payable	14,000	Debtors	20,000	
		Less: Provision for Doubtful Debts	600	19,400
		Cash at Bank		4,600
	1,05,000			1,05,000

Chetan is admitted into parstnership on the following terms:

a. New profit-sharing ratio of Amit, Baldev and Chetan will be: 5 : 3 : 2.
b. Land and Building is to be appreciated by₹ 5,000; Furniture is to be depreciated by 10%, Provision for Doubtful Debts is to be increased by ₹300 and Outstanding Expenses of ₹200 are to be recorded.
c. Chetan will bring ₹20,000 as his capital and ₹6,000 as his share of goodwill.
d. The capitals of all the partners will be in their profit-sharing ratio;

Amrit and Baldev making the necessary adjustments in cash. Prepare

a. Revaluation Account;
b. Partners' Capital Accounts;
c. Bank Account and
d. Balance Sheet immediately after recording the above-mentioned transactions.

Solution:

Revaluation Account

Dr. Particulars		Rs.	Particulars		Cr. Rs.
To Bad Debts A/c		500	By Stock A/c		500
To Plant and Machinery A/c		28,000	By Loss on Revaluation A/c		
			Abhy's Capital A/c	14,000	
			BInay's Capital A/c	14,000	28,000
		28,500			**28,500**

Partners' Capital Account

Dr. Particulars	Abha	Binay	Chitra	Particulars	Abha	Binay	Cr. Chitra
To Revaluation A/c	14,000	14,000		By Balance b/d	55,000	30,000	
To Goodwill A/c	5,000	5,000		By Bank A/c			18,000
To Profit and Loss A/c	2,500	2,500		By Premium for Goodwill A/c	2,500	2,500	
To Stock A/c	4,000	4,000		By WCF A/c	7,500	7,500	
To Balance c/d	39,500	14,500	18,000				
	65,000	**40,000**	**18,000**		**65,000**	**40,000**	**18,000**
To Bank A/c	12,500			By Balance c/d	39,500	14,500	18,000
To Balnace c/d (adjustment)	27,000	27,000	18,000	By Bank A/c		12,500	
	39,500	**27,000**	**18,000**		**39,500**	**27,000**	**18,000**

Balance Sheet
As on March 31,2016 after Chetan's admission

Liabilities		Rs.	Assets		Rs.
Capital A/c s:			Land and Building (25,000+5,000)		30,000
Amrit	50,000		Furniture (10,000- 1,000)		9,000
Baldev	30,000		Stock		46,000
Chetan	20,000	1,00,000	Debtors	20,000	
Creditors		16,000	Less: Provision for Doubtful Debts	900	19,100
Bills Payable		14,000	Cash at Bank		26,100
Outstanding Expenses		200			
		1,30,200			**1,30,200**

Bank Account

Dr. Date	Particulars	₹	Date	Particulars	Cr. ₹
2016			2016		
Mar 31	To Balance b/d	4,600	Mar 01	By Amrit's Capital A/c	5,100
	To Chetan's Capital A/c	20,000	Apr 01	By Balance c/d	26,100
	To Premium for Goodwill A/c	6,000			
	To Baldev Capital A/c	600			
	31,200				**31,200**

Working Notes:

1 Calculation of Sacrificing Ratio

Sacrificing Ratio = Old Ratio - New Raio

Amrit's$=\frac{3}{5}-\frac{5}{10}=\frac{1}{10}$

Baldev's$=\frac{2}{5}-\frac{3}{10}=\frac{1}{10}$

Amrit : Baldev

Sacrificing Ratio = $\frac{1}{10}:\frac{1}{10}=1:1$

2 Distribution of Premium for Goodwill

Amrit's and Baldev each will get = 6,000 $\times\frac{1}{2}=$ ₹3,000

3 Total Capital of the firm after chetan's admission = 20,000 $\times\frac{10}{2}=$ ₹1,00,000

Proporationate Capital:

A = 1,00,000 $\times\frac{5}{10}=$ ₹50,000

B = 1,00,000 $\times\frac{3}{10}=$ ₹30,000

C = 1,00,000 $\times\frac{2}{10}=$ ₹20,000

Question 74.

X and Y are partners sharing profits in the ratio of 2: 1. Their Balance Sheet as at 31st March, 2016 was;

Balance sheet

Liabilities		₹	Assets	₹
Sundry Creditors		25,000	Cash/Bank	5,000
General Reserve		18,000	Sundry Debtors	15,000
Capital A/cs			Stock	10,000
X	75,000		Investments	8,000
Y	62,000	1,37,000	Typewriter	5,000
			Fixed Assets	1,37,000
		1,80,000		1,80,000

They admit Z into partnership on the same date on the following terms:

a. Z brings in ₹40,000 as his capital and he is given 1/4th share in profits.
b. Z brings in ₹15,000 for goodwill, half of which is withdrawn by old partners.
c. Investments are valued at ₹10,000. X takes over Investments at this value.
d. Typewriter is to be depreciated by 20% and Fixed Assets by 10%.
e. An unrecorded stock of Stationery on 31st March, 2016 is ₹1,000.
f. By bringing in or withdrawing cash, the Capitals of X and Y are to be made proportionate to that of Z on their profit-sharing basis.

Pass Journal entries, prepare Revaluation Account, Capital Accounts and new Balance Sheet of the firm,

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Revaluation A/c	Dr.		14,700	
	To Typewriter A/c				1,000
	To Fixed Assets A/c				13,700
	(Being decrease in value of typewriter and fixed assets transferred to revaluation account)				
	Stationery A/c	Dr.		1,000	
	Investment A/c			2,000	
	To Revaluation A/c				3,000
	(Being increase in stationary and investment transferred to revaluation account)				
	X's Capital A/c	Dr.		7,800	
	Y's Capital A/c	Dr.		3,900	
	To Revaluation A/c				11,700
	(Being revaluation loss transferred to X and Y 's capital account in their old ratio)				
	Reserve Fund A/c	Dr.		18,000	
	To X's Capital A/c				12,000
	To Y's Capital A/c				6,000
	(Being reserve fund distributed)				
	Cash A/c	Dr.		55,000	
	To Z's Capital A/c				40,000
	To Premium for Goodwill A/c				15,000
	(Being Z brought capital and share of goodwill)				

	Premium for Goodwill A/c To X's Capital A/c To Y's Capital A/c (Being premium for goodwill distributed between X and Y in their sacrificing ratio i . e 2: 1)		15,000	 10,000 5,000
	X's Capital A/c Dr. Y's Capital A/c Dr. To Cash A/c (Being half of the premium for goodwill withdrawn by X and Y)		5,000 2,500	 7,500
	X's Capital A/c Dr. To Investment A/c (Being X took over the investment)		10,000	 10,000
	Cash A/c Dr. To X's Capital A/c (Being X brought cash to make up deficiency in capital)		4,800	 4,800
	Y's Capital A/c Dr. To Cash A/c (Being Y withdrew excess capital after adjustment)		26,600	 26,600

Cash/Bank Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d	5,000	By X's Capital A/c (Goodwill)	5,000
To Z's Capital A/c	40,000	By Y's Capital A/c (Goodwill)	2,500
To Premium for Goodwill A/c	15,000	By Z's Capital A/c	26,600
To X's Capital A/c	5,800	By Balance c/d	31,700
	65,800		65,800

Revaluation Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Typewriter A/c (5,000 ×20%)	1,000	By Investment A/c	2,000
To Fixed assets A/c (1,37,000 ×10%)	13,700	By Stationery A/c	1,000
		By Loss transferred to:	
		X Capital A/c	7,800
		Y Capital A/c	3,900
	14,700		14,700

Partners' Capital Account

Dr. Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
To Revaluation A/c	7,800	3,900		By Balance b/d	75,000	62,000	
To Investment A/c	10,000			By Reserve Fund A/c	12,000	6,000	
To Cash A/c	5,000	2,500		By Cash A/c			40,000
To Balance c/d	74,200	66,600	40,000	By Premium for Goodwill A/c	10,000	5,000	
	97,000	73,000	40,000		97,000	73,000	40,000
To Cash A/c		26,600		By Balance b/d	74,200	66,600	40,000
To Balance c/d (adjusted)	80,000	40,000	40,000	By Cash A/c	5,800		
	80,000	66,600	40,000		80,000	66,600	40,000

Balance Sheet
As on March 31,2016 after Z's admission

Liabilities		₹	Assets	₹
Sundry Creditors		25,000	Cash	31,700
Capital A/c s:			Sundry Debtors	15,000
X	80,000		Stock	10,000
Y	40,000		Typewriter(5,000- 1,000)	4,000
Z	40,000	1,60,000	Fixed Assets (1,37,000 - 13,700)	1,23,300
			Stationery	1,000
		1,85,000		**1,85,000**

Working Notes:

1 Sacrificing Ratio

	X	Y
Old Ratio	2	1
Sacrificing Ratio	2	1

2 Distribustion of Revaluation Loss

Revaluaation loss transferred to X's Capial $= 11,700 \times \frac{2}{3} =$ ₹7,800

Revaluaation loss transferred to Y's Capial $= 11,700 \times \frac{1}{3} =$ ₹3,900

3 Distribution of Premium for Goodwill

X will get $= 15,000 \times \frac{2}{3} =$ ₹10,000

Y will get $= 15,000 \times \frac{1}{3} =$ ₹5,000

4 Adjustment of Capital

Total capital of the firm on the basis of Z's share$= 40,000 \times \frac{4}{1} =$ ₹1,60,000

Total Capital of the firm = 1,60,000
Less: Z's capital = 40,000
Combined capital of X and Y =1,20,000

X's share of Capital $= 1,20,000 \times \frac{2}{3} =$ ₹80,000

Y's share of Capital $= 1,20,000 \times \frac{1}{3} =$ ₹40,000

Question 75.

A, 8 and C are partners sharing profits and losses in the ratio of 2: 3: 5. On 31st March, 2016, their' Balance Sheet was:

Balance sheet

Liabilities		₹	Assets	₹
Creditors		64,000	Cash at Bank	18,000
Employees' Provident Fund		32,000	Bills Receivable	24,000
Profit and Loss A/c		14,000	Furniture	28,000
Capital A/cs			Stock	44,000
A	36,000		Debtors	42,000
B	44,000		Investments	32,000
C	52,000	1,32,000	Machinery	34,000
			Goodwill	20,000
		2,42,000		2,42,000

They admit D into partnership on the following terms:

a. Furniture, Investments and Machinery to be depreciated by 15%.
b. Stock is revalued at ₹48,000.
c. Goodwill to be valued at ₹24,000.
d. Employees' Provident Fund is to be increased by ₹1,800.
e. Prepaid Salaries 800.
f. D to bring in ₹36,000 towards capital for 1/6th share and Partners to readjust their Capital Accounts on the basis of their profit-sharing ratio.
g. D is not in a position to bring in any amount for his share of firm's goodwill. The partners decide that the necessary adjustments should be made through D's Current Account.

Prepare Revaluation Account, Partners' Capital Accounts, Bank Account and Balance Sheet of the new firm

Solution:

Revaluation Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Employee provident fund A/c	1,800	By Stock A/c (48,000 - 44,000)	4,000
To Furniture A/c (28,000 × 15%)	4,200	By Prepaid salaries A/c	800
To Machinery A/c (34,000 × 15%)	5,100	By Loss transferred to:	
To Investment A/c (32,000 × 15%)	4,800	A's Capital A/c	2,220
		B's Capital A/c	3,330
		C's Capital A/c	5,550
	15,900		15,900

Partners' Capital Account

Dr. Cr.

Particulars	A	B	C	D	Particulars	A	B	C	D
To Goodwill A/c	4,000	6,000	10,000		By Balance b/d	36,000	44,000	52,000	
To Revaluation A/c (loss)	2,220	3,330	5,550		By Profit and Loss A/c	2,800	4,200	7,000	
To Balance c/d	33,380	40,070	45,450	36,000	By Bank A/c				36,000
					By D's Current A/c	800	1,200	2,000	
	39,600	49,400	61,000	36,000		39,600	49,400	61,000	36,000
To Balance c/d (adjusted)	36,000	54,000	90,000	36,000	By Balance b/d	33,380	40,070	45,450	36,000
					By Bank A/c	2,620	13,930	44,550	
	36,000	54,000	90,000	36,000		36,000	54,000	90,000	36,000

Balance Sheet
As on March 31,2016 after D's admission

Liabilities		Rs.	Assets	Rs.
Capital A/c s:			Cash at Bank	1,15,100
A	36,000		Bills Receivable	24,000
B	54,000		Furniture(28,00- 4,200)	23,800
C	90,000		Stock	48,000
D	36,000	2,16,000	Debtors	42,000
Sundry Creditors		64,000	Investment(32,000 - 4,8000	27,200
Employee Provident Fund		33,800	Machinery (34,000 - 5,100)	28,900
			D's Current	4,000
			Prepaid Salaries	800
		3,13,800		3,13,800

Bank Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d	18,000		
To D 's Capital A/c	36,000		
To A 's Capital A/c	2,620		
To B 's Capital A/c	13,930		
To C 's Capital A/c	44,550	By Balance c/d	1,15,100
	1,15,100		**1,15,100**

Working note :

A : B : C

Old Ratio 2 : 3 : 5

Sacrificing Ratio 2 : 3: 5

1 : Distributiom of Revalution Loss

A's Share of Loss $= 11{,}000 \times \frac{2}{10} =$ ₹2, 220

B's Share of Loss $= 11{,}000 \times \frac{3}{10} =$ ₹3, 330

C's Share of Loss $= 11{,}000 \times \frac{2}{10} =$ ₹5, 550

2 : Writting – off of Goodwill

partners capital accout will be debented as

A's Share of Loss $= 20{,}000 \times \frac{2}{10} =$ ₹4, 000

B's Share of Loss $= 20{,}000 \times \frac{3}{10} =$ ₹6, 000

C's Share of Loss $= 20{,}000 \times \frac{2}{10} =$ ₹10, 000

3.: Distribution of Profi and Loss (Profit)

A's Share of Loss $=14,000 \times \frac{2}{10} = ₹2,800$

B's Share of Loss $=14,000 \times \frac{3}{10} = ₹4,200$

C's Share of Loss $=14,000 \times \frac{2}{10} = ₹7,000$

4: Calculation of D's share of Goodwill

goodwill of the new firm = 24,000

D's share of Goodwill $= 24,000 \times \frac{1}{6} = ₹4,000$

5: treatment of D's Goodwill

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	D's Capital A/c Dr.		4,000	
	To A's Capital A/c			800
	To B's Capital A/c			1,200
	To C's Capital A/c			2,000
	(Being d 's share of goodwill charges from his current account)			

6 : Adjustment of Capital

Total capital of the firm after D's admission $= 36,000 \times \frac{6}{1} = 2,16,000$

Less : D's Capital $= 36,000$

Combined Capital of A, B and C $= 1,80,000$

A's Proportionate Capital $= 1,80,000 \times \frac{2}{10} = 36,000$

B's Proportionate Capital $= 1,80,000 \times \frac{3}{10} = 54,000$

C's Proportionate Capital $= 1,80,000 \times \frac{5}{10} = 90,000$

Question 76.

A and B are in partnership sharing profits and losses in the proportion of 2/3rd and 1/3rd respectively. Their at 31st March, 2016 was: Cash Rs. 1,000; Sundry DebtorsRs.15,000; Stock Rs.22,000; Plant and Rs.4,000; Sundry Creditors Rs.2,000; Bank Overdraft Rs.15,000; A's Capital Rs.15,000; B's Capital Rs.10,000

On 1st April 2016, they admitted C into partnership on the following terms:

a. C to purchase one-quarter of the goodwill for Rs.3,000 and provide Rs.10,000 as capital. C brings in necessary cash for goodwill and capital.

b. Profit and losses are to be shared in the proportion of one-half to A, one-quarter to B and one quarter to C.

c. Plant and Machinery is to be reduced by 10% and Rs.500 are to be provided for estimated Bad Debts. Stock is to be taken at a valuation of Rs.24,940.

d. By bringing or withdrawing cash the capitals of A and B are to be made proportionate to that of C on their profit-sharing basis.

Prepare necessary Ledger Accounts in the books of the firm relating to the above arrangement and submit Balance Sheet of the new firm.

Solution:

Revaluation Account

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Plant and Machinery A/c (4,000×10%)	400	By Stock A/c (24,940 -22,000)	2,940
To Provision for Bad Debts A/c	500		
To Profit transferred to:			
A Capital A/c	1,360		
B Capital A/c	680		
	2,940		**2,940**

Partners' Capital Account

Dr. Particulars	A	B	C	Particulars	A	B	Cr. C
				By Balance b/d	15,000	10,000	
				By Cash A/c			10,000
To Balance c/d	18,360	11,680	10,000	By Premium for Goodwill A/c	2,000	1,000	
				By Revaluation A/c	1,360	680	
	18,360	**11,680**	**10,000**		**18,360**	**11,680**	**10,000**
To Cash A/c		1,680		By Balance b/d	18,360	11,680	10,000
To Balance c/d	20,000	10,000	10,000	By Cash	1,640		
	20,000	**11,680**	**10,000**		**20,000**	**11,680**	**10,000**

Balance Sheet
as on April 01,2016 after C's admission

Liabilities		Rs.	Assets		Rs.
Sundry Creditors		2,000	Cash		13,960
Bank Overdraft		15,000	Sundry Debtors	15,000	
Capital A/c s:			Less: Prov. for Bad Debts	500	14,500
A	20,000		Stock		24,940
B	10,000		Plant and Machinery		3,600
C	10,000	40,000			
		57,000			**57,000**

Cash Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Balance b/d	1,000	By B 's Capital A/c	1,680
To C 's Capital A/c	10,000		
To Premium for Goodwill A/c	3,000		
To A's Capital A/c	1,640		
		By Balance c/d	13,960
	15,640		15,640

Working Note :

1 : Sacreificing Ratio

A : B

Old Ratio 2 : 1

A : B : C

New Ratio $\frac{1}{2} : \frac{1}{4} : \frac{1}{4} = 2 : 1 : 1$

Sacrificing Ratio = Old Ratio - New Ratio

$A = \frac{2}{3} - \frac{2}{4} = \frac{8-6}{12} = \frac{2}{12}$

$B = \frac{1}{3} - \frac{1}{4} = \frac{4-3}{12} = \frac{1}{12}$

Sacrificing Ratio 2 : 1

2 : Distribution of premium for Goodwill

A will get $= 3{,}000 \times \frac{2}{3} =$ ₹ 2,000

B will get $= 3{,}000 \times \frac{1}{3} =$ ₹ 1, 000

3 :Distribution of Revaluation profit

A's Share $= 2{,}040 \times \frac{2}{3} =$ ₹ 1, 360

B's Share $= 2{,}040 \times \frac{1}{3} =$ ₹ 680

4 : Adjustment of Capitals (in new ratio)

Total Capital of the firm $= 10{,}000 \times \frac{4}{1} =$ ₹ 40, 000

A's share Of capital $= 40{,}000 \times \frac{2}{4} =$ ₹ 20, 000

B and C each share of Capital $= 40{,}000 \times \frac{1}{4} =$ ₹ 10, 000

Question 77.

A and B were partners in a firm sharing profits in 3 : 1 ratio. They admitted C as a partner for 1/4th share in the future profit. C was to bring- 60,000 for his capital. The Balance Sheet of A and B at 1st April, 2016, the date on which C was admitted, was:

Balance sheet

Liabilities		₹	Assets		₹
Capital A/cs			Land and Building		40,000
A	50,00		Plant and Machinery		70,000
B	80,000	1,30,000	Stock		30,000
General Reserve		10,000	Debtors	35,000	
Creditors		70,000	Less: Provision for Doubtful Debts	1,000	
			Investments		26,000
			Cash		10,000
		2,10,000			2,10,000

The other terms agreed upon were:

a. Goodwill of the firm was valued at ₹24,000.
b. Land and Building were valued at ₹65,000 and Plant and Machinery at ₹60,000.
c. Provision for Doubtful Debts was found in excess by ₹400.
d. A liability of ₹1,200 included in Sundry Creditors was not likely to arise.
e. The capitals of the partners be adjusted on the basis of C's contribution of capital to the firm.
f. Excess or shortfall, if any, be transferred to Current Accounts.

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

Solution:

Revaluation Account

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Plant and Machinery A/c (70,000-60,000)	10,000	By Land and Building A/c (65,000-40,000)	25,000
To Profit transferred to:		By Provision for D. Debts A/c	400
A Capital A/c	12,450	By Creditors A/c	1,200
B Capital A/c	4,150		
	26,600		**26,600**

Partners' Capital Account

Dr. Particulars	A	B	C	Particulars	A	B	Cr. C
				By Balance b/d	50,000	80,000	
				By General Reserve A/c	7,500	2,500	
				By Revaluation A/c	12,450	4,150	
				By Cash A/c			60,000
To Balance c/d	74,450	88,150	60,000	By Premium for Goodwill A/c	4,500	1,500	
	74,450	**88,150**	**60,000**		**74,450**	**88,150**	**60,000**
To B's Current A/c		43,150		By Balance b/d	74,450	88,150	60,000
To Balance c/d	1,35,000	45,000	60,000	By A's Current A/c	60,550		
	1,35,000	**88,150**	**60,000**		**1,35,000**	**88,150**	**60,000**

Balance Sheet
as on April 01,2016 after C's admission

Liabilities		Rs.	Assets		Rs.
Creditors (70,000-1,200)		68,800	Land and Building		65,000
Capital A/c s:			Plant and Machinery		60,000
A	1,35,000		Stock		30,000
B	45,000		Debtors	35,000	
C	60,000	2,40,000	Less: Prov. For Doubtful Debts Debts	600	34,400
			Investment		26,000
			Cash		76,000
			A's Current A/c		60,550
		3,51,950			**3,51,950**

Working Note :

1 : Sacreificing Ratio

A : B

Old Ratio 3 : 1

Sacreificing Ratio 3 : 1

2 :

C's share of Goodwill $= 24{,}000 \times \frac{1}{4} = ₹6{,}000$

A will get $= 6{,}000 \times \frac{3}{4} = ₹4{,}500$

B will get $= 6{,}000 \times \frac{1}{4} = ₹1{,}500$

3 :

Distribution of Revaluation Profit

A Will get $= 16{,}600 \times \frac{3}{4} = 12{,}450$

A Will get$= 16{,}600 \times \frac{1}{4} = 4{,}150$

4 : Agdustment of Capital

Total Capital of the firm after $= 60{,}000 \times 4$ =2,40,000

C's Admission

Less : C's Capital = 60,000

Combined CApital Of A and B =1,80,000

A's proportionate Capital $= 1{,}80{,}000 \times \frac{3}{4} = ₹1{,}35{,}000$

B's proportionate Capital $= 1{,}80{,}000 \times \frac{1}{4} = ₹45{,}000$

5:

Cash Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d	10,000		
To C 's Capital A/c	60,000		
To Premium for Goodwill A/c	6,000	By Balance c/d	76,000
	76,000		76,000

Question 78.

A and B are partners in a firm sharing profits and losses in the ratio 3 : 1. They admit C for $1/4^{th}$ share on 31st March, 2014 when their Balance Sheet was as follows:

Balance sheet

Liabilities	₹	Assets		₹
Employees' Provident Fund	17,000	Cash		6,000
Workmen Compensation Reserve	6,000	Stock		15,000
Investment Fluctuation Reserve	4,100	Debtors	50,000	
Capital A/cs:		Less: Provision for Doubtful Debts	2,000	48,000
A	54,000	Investments		7,000
B	35,000	Goodwill		40,000
	1,16,100			1,16,100

The following adjustments were agreed upon:

a. C brings in 16,000 as goodwill and proportionate capital.
b. Bad debts amounted to ₹ 3,000.
c. Market value of investment is ₹4,500.
d. Liability on account of workmen compensation reserve amounted to ₹2,000.

Prepare Revaluation A/c and Partners' Capital Accounts.

Solution:

Revaluation Account

Dr. Cr.

Particulars	Rs.	Particulars		Rs.
To Bad Debts A/c	1,000	By Loss on Revaluation :		
		A's Capital A/c	750	
		B's Capital A/c	250	1,000
	1,000			1,000

Partners' Capital Account

Dr. Cr.

Particulars	A	B	C	Particulars	A	B	C
To Revaluation A/c	750	250		By Balance b/d	54,000	35,000	
To Goodwill A/c	30,000	10,000		By Bank A/c			23,200
				By Premium for Goodwill A/c	12,000	4,000	
To Balance c/d	39,450	30,150	23,200	By WCF A/c	3,000	1,000	
				By IFF A/c	1,200	400	
	70,200	40,400	23,200		70,200	40,400	23,200

Working Notes:

1 Calculation of C's Capital

C's Capital = Total Adjusted Capital of A and B x Reciprocal of Combined Profit Share x C's Profit Share

A's Adjusted Capital = 54,000 + 12,000 + 3,000 + 1,200 - 750 - 30,000 = Rs.39,450

B's Adjusted Capital = 35,000 + 4,000 + 1,000 + 400 - 250 -10,000 = Rs.30,150

$$\text{C's Capital} = (39,450 + 30,150) \times \frac{4}{3} \times \frac{1}{4} = ₹23,200$$

Notes:

1. Premium for Goodwill Rs.16,000 will be distributed between A and B in sacrificing ratio i.e. 3: 1.
2. Excess WCF of Rs.4,000 will be shared in old ratio among old partners.
3. Excess IFF of Rs.1,600 will be shared in old ratio among old partners.

Question 79.

The Balance Sheet of X, Y and Z who share profits and losses in the ratio of 3 : 2 : 1, as on 1st April, 2016 is as follows:

Balance sheet

Liabilities		₹	Assets	₹
Capital A/cs			Y's Current Account	7,000
X	1,75,000		Land and Building	1,75,000
Y	1,50,000		Plant and Machinery	67,500
Z	1,25,000	4,50,000	Furniture	80,000
Capital A/cs			Investment	36,500
X	4,000		Bills Receivable	17,000
Y	6,000	10,000	Sundry Debtors	43,500
General Reserve		15,000	Stock	1,37,000
Profit and Loss A/c		7,000	Bank	43,500
Creditors		80,000		
Bills Payable		45,000		
		6,07,000		6,07,000

On the above date, W is admitted as a partner on the following terms:

a. W will bring ₹50,000 as his capital and get 1/6th share in the profits.
b. He will bring necessary amount for his share of goodwill premium. Goodwill of the firm is value at ₹90,000.
c. New profit-sharing ratio will be 2:2:1:1.
d. A liability of ₹7,004 will be created against bills receivable discounted.
e. The value of stock, furniture and investments is reduced by 20%, whereas the value of Land and Building and Plant and Machinery will be appreciated by 20% and 10% respectively.
f. Capital Accounts of the partners will be adjusted on the basis of W's Capital through their Current Accounts.

Prepare Revaluation Account, Partners' Current Accounts and Capital Accounts.

Solution:

Revaluation Account

Dr. Cr.

Particulars	Rs.	Particulars		Rs.
To Stock A/c	27,400	By Land and Building A/c		35,000
To Furniture A/c	16,000	By Plant and machinery A/c		6,750
To Investment A/c	7,300	By Loss transferred to:		
To Liability against Bills A/c		X's Capital A/c	7,977	
To Receivable discounted A/c	7,004	Y's Capital A/c	5,318	
		Z's Capital A/c	2,659	15,954
	57,704			57,704

Partners' Capital Account

Dr. Cr.

Particulars	A	B	C	Particulars	A	B	C
To Balance b/d		7,000		By Balance b/d	4,000		6,000
To Revaluation A/c (loss)	7,977	5,318	2,659	By General Reserve A/c	7,500	5,000	2,500
				By Profit and loss A/c	3,500	2,333	1,167
To Balance c/d	97,023	45,015	82,008	By Premium for Goodwill A/c	15,000		
				By Capital A/c	75,000	50,000	75,000
	1,05,000	57,333	84,667		1,05,000	57,333	84,667

Partners' Capital Account

Dr. Cr.

Particulars	X	Y	Z	W	Particulars	X	Y	Z	W
To Current A/c	75,000	50,000	75,000		By Balance b/d	1,75,000	1,50,000	1,25,000	
To Balance c/d	1,00,000	1,00,000	50,000	50,000	By Cash A/c				50,000
	1,75,000	1,50,000	1,25,000	50,000		1,75,000	1,50,000	1,25,000	50,000

Working Note :

1 Calcualtion of Sacrificing RAtio

Old RAtio = 3: 2: 1

New Ratio = 2: 2 : 1 : 1

Sacrificing Ratio = Old Ratio - New Ratio

X = $\frac{3}{6} - \frac{2}{6} = \frac{1}{6}$

Y = $\frac{2}{6} - \frac{2}{6}$ = Nil

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

Here, only X has sacrificed.

2: DIstribution of Gooddwill

W's share of Goodwill = $90{,}000 \times \frac{1}{6}$ = ₹15, 000

Aso only X has sacrificed his share , threrefor, he will get = ₹15,000

3 : Adjustment of CApital

Total Capital of the firm = W's Capital x Reciprocal of his share

= $50{,}000 \times \frac{6}{1}$ = 3, 00, 000

New profit shareing Ratio = 2: 2: 1 :1

X's New Capital = $3{,}00{,}000 \times \frac{2}{6}$ = ₹1, 00, 000

Y's New Capital = $3{,}00{,}000 \times \frac{2}{6}$ = ₹1, 00, 000

Z's New Capital = $3{,}00{,}000 \times \frac{1}{6}$ = ₹50, 000

W's New Capital = $3{,}00{,}000 \times \frac{1}{6}$ = ₹50, 000

Question 80.

Pradeep and Dhanraj were partners in a firm sharing profits in the ratio of 3:1. Their Balance Sheet on 31st March, 2016 was:

Balance sheet

Liabilities		₹	Assets		₹
Creditors		30,000	Cash		4,000
Bills Payable		1,000	Debtors	50,000	
Reserve Fund		16,000	Less: Provision for Doubtful Debts	5,000	45,000
Outstanding Salary		3,000	Stock		30,000
Capital A/cs			Bills Receivable		10,000
Pradeep	60,000		Patents		1,000
Dhanrai	20,000	80,000	Machinery		40,000
		1,30,000			1,30,000

They admitted Leander as a new partner on this date. New Profit-Sharing ratio is agreed as 3:3:2
Leander brings in proportionate capital after the following adjustments:

a. Leander brings₹16,000 as his share of goodwill.
b. Provision for Doubtful Debts is to be reduced by ₹ 2,000.
c. There is an Old Typewriter valued at ₹2,400. It does not appear in the books of the firm. It is now to be recorded.
d. Patents are valueless.

Prepare Revaluation Account, Capital Accounts and opening Balance Sheet of Pradeep, Dhanraj and Leander.

Solution:

Revaluation Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Patents A/c	1,000	By Provision for Doubtful Debts A/c	2,000
To Profit transferred to:		By Typewriter A/c	2,400
Pradeep Capital A/c	2,550		
Dhanraj Capital A/c	850		
	4,400		4,400

Partners' Capital Account

Dr. Cr.

Particulars	A	B	C	Particulars	A	B	C
				By Balance b/d	60,000	20,000	
To Balance c/d (after adjustment)	90,550	24,850		By Reserve Fund A/c	12,000	4,000	
				By Revaluation A/c	2,550	850	
				By Premium for Goodwill A/c	16,000		
	90,550	24,850			90,550	24,850	
				By Balance b/d	90,550	24,850	
To Balance c/d	90,550	24,850	69,240	By Cash A/c			69,240
	90,550	24,850	69,240		90,550	24,850	69,240

Balance Sheet
As on March 31,2016 after Leander's admission

Liabilities		Rs.	Assets		Rs.
Creditors		30,000	Debtors	50,000	
Bills Receivable		1,000	Less: Prov. for Doubtful Debts	3,000	47,000
Outstanding Salary		3,000	Stock		30,000
Capital A/c s:			Bills Receivable		10,000
Pradeep	90,550		Machinery		40,000
Dhanraj	24,850		Typewriter		2,400
Leander	69,240	1,84,640	Cash		89,240
		2,18,640			2,18,640

1

Pradeep : Dhanraj

Old Ratio 3 : 1

Predeep : Dhanraj : Leander

New Ratio 3 : 2 : 1

Sacrificing Ratio = Old Ratio - New Ratio

Pradeep $= \frac{3}{4} - \frac{3}{8} = \frac{3}{8}$

Dhanraj $= \frac{1}{4} - \frac{2}{8} = \frac{0}{8}$

Leander acquires his share of profit from pradeep only.

Therefore, amount for goodwill brought by leader will be taken by predeep alone.

2

Distribution of Revaluation Profit

Pradeep's Share $= 3{,}400 \times \frac{3}{4} = ₹2{,}550$

Dhanraj's Share $= 3{,}400 \times \frac{1}{4} = ₹850$

3

Distribution of Resrve Fund

Pradeep's Share $= 16{,}000 \times \frac{3}{4} = ₹12{,}000$

Dhanraj's Share $= 16{,}000 \times \frac{1}{4} = ₹4{,}000$

4

Calculation of Leander's Capital

Combined capital of predeep and Dhanraj after all ajustment = 90,550 +24,850 =1,15,4000

Combined Share of Profit of Predeep and Dhanraj = 1 - leander Share = $1 - \frac{3}{8} = \frac{5}{8}$

Total capital of the Firm on the Basis of combined capital of Pradeep and Dhanraj

$= 1{,}15{,}400 \times \frac{8}{5} = ₹1{,}84{,}640$

leander Capital $= 1{,}84{,}640 \times \frac{3}{8} = ₹69{,}240$

5

Cash Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	4,000		
To Leander 's Capital A/c	69,240		
To Premium for Goodwill A/c	16,000	By Balance c/d	89,240
	89,240		**89,240**

Question 81.

Mohan and Sohan are in partnership sharing profits in the proportion of $3/5^{th}$ and $2/5^{th}$ respectively. Their Balance Sheet as at 31st March, 2016 was:

Balance sheet

Liabilities	₹	Assets		₹
Mohan's Capital	2,000	Plant		650
Sohan's Capital	1,000	Cash		650
Creditors	400	Debtors	1,000	
		Less: Reserve for Doubtful Debts	400	600
		Stock		1,500
	3,400			3,400

They decide to admit Rohan to a 1/3rd share upon the terms that he is to pay into the business ₹1,000 as Goodwill and sufficient Capital to give him a 1/3rd share of the total capital of the new firm. It was agreed that the Reserve for Doubtful Debts be reduced to ₹100 and the Stock be revalued at ₹2,000 and that the Plant be reduced to 500.

You are required to record the above in the Ledger of the firm and show Balance Sheet of the new partnership.

Solution:

Revaluation Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Plant A/c	150	By Reserve for Doubtful Debts A/c (400- 100)	300
To Profit transferred to:		By Stock A/c	500
Mohan Capital A/c	390		
Sohan Capital A/c	260		
	800		800

Partners' Capital Account

Dr. Cr.

Particulars	A	B	C	Particulars	A	B	C
				By Balance b/d	2,000	1,000	
				By Revaluation A/c	390	260	
To Balance c/d (after adjustment)	2,990	1,660		By Premium for Goodwill A/c	600	4000	
	2,990	1,660			2,990	1,660	
				By Balance b/d	2,990	1,660	
To Balance c/d	2,990	1,660	2,325	By Cash A/c			2,325
	2,990	1,660	2,325		2,990	1,660	2,325

Balance Sheet
as on March 31,2016 after Rohan's admission

Liabilities		Rs.	Assets		Rs.
Capital A/c s:			Cash		3,975
Mohan	2,990		Debtors	1,000	
Sohan	1,660		Less: Reserve for D. Debts	100	900
Rohan	2,325	6,975	Stock		2,000
Creditors		400	Plant		500
		7,375			7,375

Working Note

1

	Mohan	Sohan
Old Ratio	3 :	2
Sacrificing Ratio	3 :	2

2

Distribution of Premium for Goodwill

Mohan will get = $1,000 \times \frac{3}{5} =$ ₹600

Sohan will get = $1,000 \times \frac{2}{5} =$ ₹ 400

3

Distribution of Revaluation Profit

Mohan's Share = $650 \times \frac{3}{5} =$ ₹390

Sohan's Share = $650 \times \frac{2}{5} =$ ₹290

4

Calculation of Rohan's Capital

Combined capital of predeep and Dhanraj after all ajustment = 2,990 +1,660 = 4,650

Total capital of the Firm on the Basis of combined capital of Mohan and Sohan= $4,650 \times \frac{3}{2} = 6,975$

Rohan Capital = $6,975 \times \frac{1}{3} =$ ₹2, 325

5

Cash Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Balance b/d	650		
To Rohan 's Capital A/c	2,325		
To Premium for Goodwill A/c	1,000	By Balance c/d	3,975
	3,975		3,975

Question 82.

Following is the Balance Sheet of X and Y as at 31st March, 2016, Z is admitted as a partner at that date when the position of X and Y was:

Balance sheet

Liabilities	₹	Assets	₹
X's Capital A/c	10,000	Cash in Hand	9,000
Y's Capital A/c	8,000	Debtors	11,000
Creditors	12,000	Stock	12,000
General Reserve	16,000	Building	8,000
Workmen Compensation Reserve	4,000	Machinery	10,000
	50,000		50,000

X and Y share profits in the proportion of 3:2.

The following terms of admission are agreed upon' Prepare new Balance Sheet of the firm and Capital Accounts of the Partners. '

a. Revaluation of assets: Building ₹18,000; Stock ₹ 16,000.
b. The liability on Workmen Compensation Reserve is determined at ₹ 2,000.
c. Z brought in as his share of goodwill ₹10,000 in cash.
d. Z was to bring in further cash as would make his capital equal to 20% of the combined capital X and Y after above revaluation and adjustments are carried out.
e. The future profit-sharing proportions were: X-2/5th, Y-2/5th and Z-1/5th.

Prepare new Balance Sheet of the firm and Capital Account of the Partners.

Solution:

Revaluation Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Profit transferred to:		By Building A/c (18,000- 8,000)	10,000
X Capital A/c	8,400	By Stock A/c (16,000 - 12,000)	4,000
Y Capital A/c	5,600		
	14,000		**14,000**

Partners' Capital Account

Dr. Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
				By Balance b/d	10,000	8,000	
To Balance c/d	39,200	20,800		By General Reserve A/c	9,600	6,400	
				By Workmen's Compensation Fund A/c	1,200	800	
				By Revaluation A/c (Profit)	8,400	5,600	
				By Premium for Goodwill A/c	10,000		
	39,200	**20,800**			**39,200**	**20,800**	
				By Balance b/d	39,200	20,800	
To Balance c/d	39,200	20,800	12,000	By Cash A/c			12,000
	39,200	**20,800**	**12,000**		**39,200**	**20,800**	**12,000**

Balance Sheet
As on March 31,2016 after Z's admission

Liabilities		₹	Assets	₹
Capital A/c s:			Cash in Hand	31,000
X	39,200		Debtors	11,000
Y	20,800		Stock	16,000
Z	12,000	72,000	Building	18,000
Creditors		12,000	Machinery	10,000
Outstanding Workmen's Compenstion Claim		2,000		
		86,000		**86,000**

Working Note

1 : Sacrificing Ratio

	X : Y
Old Ratio	3 : 2
	X : Y : Z
New Ratio	2 : 2 : 1

Sacrificing Ratio = Old Ratio - New Ratio

X's $= \frac{3}{5} - \frac{2}{5} = \frac{1}{5}$

Y's $= \frac{2}{5} - \frac{2}{5} = 0$

Only X is Sacrificing 1/5 portion of profit in favour of Z.

Therefore, amount of Premium of Goodwill will be aken by X only

2 : Treatment of Workmen Companion Fund

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Workmen's Companion Fund A/c	Dr.		4,000	
	To Outstanding Workmen's Companion Claim A/c				2,000
	To X's Capital A/c				1,200
	To Y's Capital A/c				800
	(Being outstanding workmen's companion charges from the fund and remaining fund transferred to partner's capital in their old ratio)				

3: Calculation of Z's Capital

Combined capital of X and Y after all Adjustment = 39,200 + 20,800 = 60,000

$$\text{Z's Capital} = 60,000 \times \frac{20}{100} = ₹12,000$$

4 : Calculation of Cash Balance

Cash Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d	9,000		
To Z's Capital A/c	12,000		
To Premium for Goodwill A/c	10,000	By Balance c/d	31,000
	31,000		31,000

Question 83.

X and Y are partners in a firm. They share profits and losses as X-3/5th and Y-2/5. Their Balance Sheet as on 1st April, 2016 is given below:

Balance sheet

Liabilities		₹	Assets		₹
Creditors		2,60,000	Land and Building		3,00,000
Bills Payable		2,40,000	Plant and Machinery		4,00,000
Capital A/c s:			Patents		1,60,000
X	7,00,000		Stock		2,50,000
Y	3,50,000	10,50,000	Debtors	3,00,000	
			Less: Provision for Doubtful Debts	6,000	2,94,000
			Cash at Bank		1,46,000
		15,50,000			15,50,000

They agree to admit Z into partnership on the following basis:

a. Z will pay ₹3,00,000 as capital and Capital Accounts of other partners to be adjusted in their n profit-sharing ratio on the basis of Z's Capital.
b. Goodwill of the firm is valued at ₹2,50,000. Z fails to bring his share of goodwill.
c. Plant and Machinery is to be depreciated by 15%, stock by ₹40,000, land and buildings are to be appreciated by ₹1,60,000. Prepare necessary ledger accounts.
d. New profit-sharing ratio will be 5:3:2.

Solution:

Revaluation Account

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Plant and Machinery A/c	60,000	By Land and Building A/c	1,60,000
To Stock A/c	40,000		
To Profit transferred to:			
X Capital A/c	36,000		
Y Capital A/c	24,000		
	1,60,000		**1,60,000**

Partners' Capital Account

Dr. Particulars	X	Y	Z	Particulars	X	Y	Cr. Z
				By Balance b/d	7,00,000	3,50,000	
To Balance c/d	7,61,000	3,99,000	3,00,000	By Revaluation A/c	36,000	24,000	
				By Bank A/c			3,00,000
				By Z's Current A/c	25,000	25,000	
	7,61,000	**3,99,000**	**3,00,000**		**7,61,000**	**3,99,000**	**3,00,000**
To Bank A/c	11,000			By Balance b/d	7,61,000	3,99,000	3,00,000
To Balance c/d (Adjusted)	7,50,000	4,50,000	3,00,000	By Bank A/c		51,000	
	7,61,000	**4,50,000**	**3,00,000**		**7,61,000**	**4,50,000**	**3,00,000**

Balance Sheet
As on March 31,2016 after Z's admission

Liabilities		Rs.	Assets		Rs.
Creditors		2,60,000	Land and Building		4,60,000
Capital A/c s:			Plant and Machinery		3,40,000
X	7,50,000		Patents		1,60,000
Y	4,50,000		Debtors	3,00,000	
Z	3,00,000	15,00,000	Less: Prov. For Doubtful Debts	6,000	2,94,000
Bills Payable		2,40,000	Stock		2,10,000
			Cash at Bank		4,86,000
			Z's Current A/c		50,000
		20,00,000			**20,00,000**

Working Notes:

1: Calculation of scarificing Ratio

Old Ratio = 3 : 2

New RAtio = 5 : 3 :2

Sacrifcing Ratio= Old Ratio - New Ratio

$X = \frac{3}{5} - \frac{5}{10} = \frac{1}{10}$

$Y = \frac{2}{5} - \frac{3}{10} = \frac{1}{10}$

Sacrificing Ratio = 1 : 1

2 : Distribution of Goodwill

Z's share of Goodwill $= 2,50,000 \times \frac{2}{10} =$ ₹50,000

= ₹50,000 will be distributed between X and Y in 1 : 1

Since, Z could not bring his share of goodwill in cash, it is adjusted throught his currebt account.

3 : Adjustment of Capital

Total Capital of the firm = Z's Capital × Reciprocal of his share

$= 3,00,000 \times \frac{10}{3} =$ ₹15,00,000

New Profit Shareing Ratio = 5: 3 : 2

X's New Capital $= 15,00,000 \times \frac{5}{10} =$ ₹7,50,000

Ys New Capital $= 15,00,000 \times \frac{3}{10} =$ ₹4,50,000

Z's New Capital $= 15,00,000 \times \frac{2}{10} =$ ₹3,00,000

4:

Bank Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Balance b/d	1,46,000	By X's Capital A/c	11,000
To Z's Capital A/c	3,00,000		
To Y's Capital A/c	51,000	By Balance c/d (balancing Figure)	4,86,000
	4,97,000		4,97,000

Question 84.

Jain and Gupta were partners in a firm sharing profits and losses in the ratio of 4 : 3. The following is the Balance Sheet of the firm as at 31st March, 2016:

BALANCE SHEET OF JAIN AND GUPTA as at 31st March, 2016

Liabilities		Rs.	Assets		Rs.
Sundry Creditors		20,000	Cash		14,800
Bills Payable		3,000	Debtors	20,500	
Bank Overdraft		17,000	Less: Provision for Doubtful Debts	300	20,200
Capital A/cs:			Stock		20,000
Jain	70,000		Plant		40,000
Gupta	60,000	1,30,000	Building		75,000
		1,70,000			**1,75,000**

They agreed to admit Mishra as partner with effect from 1st April, 2016 with 1/4th share in profits on the following terms:

a. **Mishra will bring in capital to the extent of 1/4th of the total capital of the new firm after all adjustments have been made.**
b. **Building is to be appreciated by Rs.7,14,000 and Plant to be depreciated by Rs.7,000.**
c. **The provision for doubtful debts on Debtors is to be raised to Rs.1,000.**
d. **Mishra will bring in Rs. 21,000 as his share of goodwill.**

Prepare Revaluation Account, Partners' Capital. Accounts and Balance Sheet of the firm immediately after Mishra's admission.

Solution:

Revaluation Account

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Plant A/c	7,000	By Building A/c	14,000
To Provision for D. Debts A/c (1,000- 300)	700		
To Profit transferred to:			
Jain Capital A/c	3,600		
Gupta Capital A/c	2,700		
	14,000		**14,000**

Partners' Capital Account

Dr. Particulars	Jain	Gupta	Mishra	Particulars	Jain	Gupta	Cr. Mishra
				By Balance b/d	70,000	60,000	
To Balance c/d	85,600	71,700		By Revaluation A/c	3,600	2,700	
				By Premium for Goodwill A/c	12,000	9,000	
	85,600	**71,700**			**85,600**	**71,700**	
				By Balance b/d	85,600	71,700	
To Balance c/d	85,600	71,700	52,433	By Cash A/c			52,433
	85,600	**71,700**	**52,433**		**85,600**	**71,700**	**52,433**

Balance Sheet
as on April 01,2016 after Mishra's admission

Liabilities		Rs.	Assets		Rs.
Sundry Creditors		20,000	Cash		88,233
Bills Payable		3,000	Debtors	20,500	
Bank Overdraft		17,000	Less: Prov. For Doubtful Debts	1,000	19,500
Capital A/c s:			Stock		20,000
Jain	85,600		Plant (40,000 - 7,000)		33,000
Gupta	71,700		Building (75,000 + 14,000)		89,000
Mishra	52,433	2,09,733			
		2,49,733			**2,49,733**

Working Notes:

1

	jain : Gupta
Old Ratio	4 : 3
Sacrifcing Ratio	4 : 3

2

Distribution of Revaluation Profit

Jain's Share = 6,300 $\times \frac{4}{7}$ = ₹3,600

Gupta's Share = 6,300 $\times \frac{3}{7}$ = ₹2,700

3

Calculation of Mishra's Capital

Combined Capital of Jain and Gupta after all adjustment = 85,600 + 71,700 = 1,57,300

Combuined share of jain and Gupta = 1- Mishra's Share = $1-\frac{1}{4} = \frac{3}{4}$

Total Capital of the firm = 1,57,300 $\times \frac{4}{3}$ = ₹2,09,734

Mishra's Capital = 2,09,734 $\times \frac{1}{4}$ = ₹52,433

4:

Cash Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	14,800		
To Mishra's Capital A/c	52,433		
To Premium for Goodwill A/c	21,000	By Balance c/d	88,233
	88,233		**88,233**

Question 85.

Shikhar and Rohit were partners in a firm sharing profits in the ratio of 7 : 3. On 1st April, 2013, they admitted Kavi as a new partner for 1/4 share in profits of the firm. Kavi brought ₹4,30,000 as his capital and ₹25,000 for his share of goodwill premium. The Balance Sheet of Shikhar and Rohit as on 1st April, 2013 was as follows

BALANCE SHEET OF SHIKHAR AND ROHI
as at 1st April ,2013

Liabilities		₹	Assets		₹
Capital A/c s:			Land and Building		3,50,000
Shikar	8,00,000		Machinery		4,50,000
Rohit	3,50,000	11,50,000	Debtors	2,20,000	
General Reserve		1,00,000	Less: Provision	20,000	2,00,000
Workmen's Compensation Fund		1,00,000	Stock		3,50,000
Creditors		1,50,000	Cash		1,50,000
		15,00,000			15,00,000

It was agreed that

a. The value of Land and Building will be appreciated by 20%.
b. The value of Machinery will be depreciated by 10%.
c. The liabilities of Workmen's Compensation Fund was determined at ₹50,000.
d. capitals of Shikhar and Rohit will be adjusted on the basis of Kavi's capital and actual cash to be brought in or to be paid off as the case may be-

Prepare Revaluation Account Partners' Capital Accounts and Balance Sheet of the new firm.

Solution:

Revaluation Account

Dr. Particulars		Rs.	Particulars	Cr. Rs.
To Machinery A/c		45,000	By Land and Building A/c	70,000
To Profit transferred to:				
Shikhar's Capital A/c	17,500			
Rohit"S Capital A/c	7,500	25,000		
		70,000		70,000

Partners' Capital Account

Dr. Particulars	Jain	Gupta	Mishra	Particulars	Jain	Gupta	Cr. Mishra
				By Balance b/d	8,00,000	3,50,000	
To Balance c/d	9,40,000	4,10,000	4,30,000	By General Reserve A/c	70,000	30,000	
				By Workmen's Compensation fund A/c	35,000	15,000	
				By Cash A/c			4,30,000
				By Premium for Goodwill A/c	17,500	7,500	
				By Revaluation A/c	17,500	7,500	
	9,40,000	4,10,000	4,30,000		9,40,000	4,10,000	4,30,000
To Cash A/c	37,000	23,000		By Balance b/d	9,40,000	4,10,000	4,30,000
To Balance c/d	9,03,000	3,87,000	4,30,000				
	9,40,000	4,10,000	4,30,000		9,40,000	4,10,000	4,30,000

Balance Sheet
As on March 31,2016 after Mishra's admission

Liabilities		Rs.	Assets		Rs.
Liability for Workmen's Compenstion		50,000	Land and Building		4,20,000
Creditors		1,50,000	Machinery	4,50,000	
Capital A/c s:			Less: Depreciation @ 10%	45,000	4,05,000
Shikhar	9,03,000		Debtors	2,20,000	
Rohit	3,87,000		Less: Provision	20,000	2,00,000
Kavi	4,30,000	17,20,000	Stock		3,50,000
			Cash		5,45,000
		19,20,000			19,20,000

Calucualtion of Profit Sharing Ratio

Shrikhar : Rohit

Old Ratio = 3 : 2

Kavi's Share = $\frac{1}{4}$

Let the total share of the firm = 1

Remaining share of the firm = $1-\frac{1}{4}=\frac{3}{4}$

Shikhar's New Share = $\frac{7}{10}\times\frac{3}{4}=\frac{21}{40}$

Rohit's New Share = $\frac{3}{10}\times\frac{3}{4}=\frac{9}{40}$

New Profit Sharing Ratio = $\frac{21}{40}:\frac{9}{40}:\frac{1}{4}$

$=\frac{21:9:10}{40}$

Sacrificing Ratio = Old Ratio - New Ratio

Shikhar's Sacrifice = $\frac{7}{10}-\frac{21}{40}=\frac{7}{40}$

Rohit's Sacrifice = $\frac{3}{10}-\frac{9}{40}=\frac{3}{40}$

Sacrificing Ratio = 7 : 3

Working Notes

1 : Distribution of Goodwill brought in by kavi

Shrikhar will get = $25{,}000\times\frac{7}{10}=$ ₹17,500

Rohit will get = $25{,}000\times\frac{3}{10}=$ ₹7,500

2 : Distribution of Workmen's Compenstion fund

Shrikhar will get = $50{,}000\times\frac{7}{10}=$ ₹35,000

Rohit will get = $50{,}000\times\frac{3}{10}=$ ₹15,000

3 : Distribution of General Reserve

Shrikhar will get = $1{,}00{,}000\times\frac{7}{10}=$ ₹70,000

Rohit will get = $1{,}00{,}000\times\frac{3}{10}=$ ₹30,000

4 : Adjustment of Capital

Total Capital of the Firm = Capital brought in bty kavi x Reciprocal of her share

Capital brought in by Kavi = 4,30,000

Total Capital of the Firm = $4{,}30{,}000\times\frac{4}{1}=$ ₹17,20,000

Shrikhar's New Capital = $17{,}20{,}000\times\frac{21}{40}=$ ₹9,03,000

Rohit's New Capital = $17{,}20{,}000\times\frac{9}{40}=$ ₹3,87,000

Question 86.

Kalpana and Kanika were partners in a firm sharing profits in the ratio of 3 : 2. On 1st April admitted Karuna as a new partner for 1/5th share in the profits of the firm. The Balance Sheet of Kalpana and Kanika as on 1st April, 2013 was as follows:

BALANCE SHEET of Kalpana and Kanika
as on 1st April, 2013

Liabilities		Rs.	Assets		Rs.
Capital A/c s:			Land and Building		2,10,000
Kalpana	4,80,000		Plant		2,70,000
Kanika	2,10,000	6,90,000	Stock		2,10,000
General Reserve		60,000	Debtors	1,32,000	
Workmen's Compensation Fund		1,00,000	Less: Provision	12,000	1,20,000
Creditors		90,000	Cash		1,30,000
		9,40,000			**9,40,000**

It was agreed that

a. **The value of Land and Building will be appreciated by 20%.**
b. **The value of plant be increased by Rs.60,000.**
c. **Karuna will bring Rs.80,000 for her share of goodwill premium.**
d. **The liabilities of Workmen's Compensation Fund were determined at Rs.60,000.**
e. **Karuna will bring in cash as capital to the extent of 1/5th share of the total capital of the new firm.**

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

Solution:

Revaluation Account

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Revaluation Profit :			By Land and Building A/c	42,000
Kalpana's Capital A/c	61,200		By Plant A/c	60,000
Kanika's Capital A/c	40,800	1,02,000		
		1,02,000		**1,02,000**

Partners' Capital Account

Dr. Cr.

Particulars	Kalpana	Kanika	karuna	Particulars	Kalpana	Kanika	karuna
				By Balance b/d	4,80,000	2,10,000	
				By Cash A/c			2,43,000
To Balance c/d	6,49,200	3,22,800	2,43,000	By General Reserve A/c	36,000	24,000	
				By Workmen's Compensation fund A/c	24,000	16,000	
				By Revaluation A/c	61,200	40,800	
				By Premium for Goodwill A/c	48,000	32,000	
	6,49,200	**3,22,800**	**2,43,000**		**6,49,200**	**3,22,800**	**2,43,000**

Balance Sheet
as on March 01,2012 after Karuna's admission

Liabilities		Rs.	Assets		Rs.
Creditors		90,000	Cash in Hand		4,53,000
Capital A/c s:			Debtors	1,32,000	
Kalpana	6,49,200		Less: Provision for debtors	12,000	1,20,000
Kanika	3,22,800		Stock		2,10,000
Karuna	2,43,000	12,15,000	Land and Building		2,52,000
Liability for Workmen Compenstion		60,000	Plant		3,30,000
		13,65,000			**13,65,000**

Working Note :

1: Calculation of New Share

Karuna is admitted for 1/5th share

Let the total share of the firm be 1

Remaining share = $1-\frac{1}{5}=\frac{4}{5}$

This remaining share will be share among old partners in their old ratio i. e 3:2

Kalpana's Share = $\frac{4}{5}\times\frac{3}{5}=\frac{12}{25}$

Kanika's Share = $\frac{4}{5}\times\frac{3}{5}=\frac{8}{25}$

New Ratio = 12 : 8 : 5

Calculation Sacrificing Ratio

Sacrificing Ratio = Old Ratio - New Ratio

Kalpana = $\frac{3}{5}-\frac{12}{25}=\frac{3}{25}$

Kanika = $\frac{2}{5}-\frac{8}{25}=\frac{3}{25}$

Sacrificing Ratio = 3 : 2

2 : Calcualate of Karuna's Capital

Adjusted Capital of Kalpana = ₹6,49,200

Adjusted Capital of Karuna = ₹3,22,800

Total Adjusted Capital = 9,72,000 (6,49,200 + 3,22,800)

Karuna's Capital = Adjusted capital of Kalpana and Kanika $\times$ Karuna's share $\times$ Reciprocal of the Firm's Share

Karuna's Capital = $9{,}72{,}000\times\frac{1}{5}\times\frac{5}{4}$ = ₹2, 43, 000

Question 87.

Raghu and Rishu are partners sharing profits in the ratio 3: 2. Their Balance Sheet as at 31st March, 2009.

BALANCE SHEET OF RAGHU AND RISHU as at 31st March, 2009

Liabilities		Rs.	Assets		Rs.
Creditors		86,000	Cash in Hand		77,000
Employees Provident Fund		10,000	Debtors	42,000	
Investments Fluctuation Reserve		4,000	Less: Provision for Doubtful Debts	7,000	35,000
Capital A/cs:			Investments		21,000
Raghu	1,19,000		Buildings		98,000
Rishu	1,12,000	2,31,000	Plant and Machinery		1,00,000
		3,31,000			**3,31,000**

Rishabh was admitted on that date for 1/4th share of profit on the following terms:

a. **Rishabh will bring** Rs.**50,000 as his share of capital.**
b. **Goodwill of the firm is valued at** Rs.**42,000 and Rishabh will bring his share of goodwill in cash,:**
c. **Buildings were appreciated by 20%.**
d. **There was a liability of 10,800 included in Creditors which was not likely to arise.**
e. **All Debtors were good.**
f. **New profit-sharing ratio will be 2 :1 : 1.**
g. **Capital of Raghu and Rishu will be adjusted on the basis of Rishabh's share of capital and an excess or deficiency will be made by withdrawing or bringing in cash by the concerned panne as the case may be.**

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

Solution:

Revaluation Account

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Profit on Revaluation transferred to:			By Building A/c	19,600
Raghu's Capital A/c	22,440		By Provision for Doubtful Debts A/c (old)	7,000
Rishu's Capital A/c	14,960	37,400	By Liability for Creditors A/c	10,800
		37,400		**37,400**

Partners' Capital Account

Dr. Cr.

Particulars	Raghu	Rishu	Rishabh	Particulars	Raghu	Rishu	Rishabh
				By Balance b/d	1,19,000	1,12,000	
To Cash A/c (Bal .Fig.)	48,040	84,860		By Cash A/c			50,000
To Balance c/d	1,00,000	50,000	50,000	By Investment Fluctuation Fund A/c	2,400	1,600	
				By Premium for Goodwill A/c	4,200	6,300	
				By Revaluation A/c (Profit)	22,440	14,960	
	1,48,040	**1,34,860**	**50,000**		**1,48,040**	**1,34,860**	**50,000**

Balance Sheet
as on March 01,2009

Liabilities		Rs.	Assets	Rs.
Creditors	86,00		Cash (WN 4)	4,600
Less: Liability	10,800	75,200	Debtors	42,000
Employees Provident Fund			Investment	21,000
Capital A/c s:			Buildings (98,000+19,600)	1,17,600
Raghu	1,00,000		Plant and Machinery	1,00,000
Rishu	50,000			
Rishabh	50,000	2,00,000		
		2,85,200		**2,85,200**

Working Note :

1 : Calculation of scarificing Ratio

Old Ratio = 3 : 2

New Ratio = 2 : 1 : 1

Sacrificing Ratio = Old Ratio - New Ratio

Raghu's Share = $\frac{3}{5} - \frac{2}{4} = \frac{12-10}{20} = \frac{2}{20}$

Rishi's Share = $\frac{2}{5} - \frac{1}{4} = \frac{8-5}{20} = \frac{3}{20}$

$\therefore$ Sacrificing Ratio = 2 : 3

2 Share of Rishabh's Share of Goodwill

Value of firm's Goodwill = 42,000

Rishabh's Share of Goodwill = $42{,}000 \times \frac{1}{4} =$ ₹10, 500

3: Adjustment of Capital

Total CApital of New Firm = Rishabh's Capital x Reciprocal of Rishabh's Share

capital of Rishabh= 50,000

Total Capital of New Firm = $50{,}000 \times \frac{4}{1} =$ ₹2, 00, 000

Raghu's New Capital = $2{,}00{,}000 \times \frac{1}{4} =$ ₹1, 00, 000

Rishu's New Capital = $2{,}00{,}000 \times \frac{1}{4} =$ ₹50, 000

4 : Cash Account

Cash Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d	77,000	By Raghu's Capital A/c	48,040
To Rishabh's Capital A/c	50,000	By Rishu's Capital A/c	84,860
To Premium for Goodwill A/c	10,500	By Balance c/d	4,600
	1,37,500		**1,37,500**