# Chapter 5 - 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 × Combined share of X, Y and Z

$$X's = \frac{5}{10} \times \frac{4}{5} = \frac{20}{50}$$
$$Y's = \frac{3}{10} \times \frac{4}{5} = \frac{12}{50}$$
$$Z's = \frac{2}{10} \times \frac{4}{5} = \frac{8}{50}$$

$$\begin{array}{ll} & X : Y : Z : A \\ \text{New Profit Sharing Ratio} = & \frac{20}{50} : \frac{12}{50} : \frac{8}{50} : \frac{1}{5} \\ = & \frac{20:12:8:10}{50} \\ = & 10:6:4:5 \end{array}$$

**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:**

$$\begin{array}{llll} & \text{Ravi} & : & \text{Mukesh} \\ \text{Old Ratio} & \frac{7}{10} & : & \frac{3}{10} \end{array}$$

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

Ravi sacrifices in favour of Ashok = $\frac{2}{7}$

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

New Ratio = Old Ratio − Sacrificing Ratio

$$Ravi's = \frac{7}{10} - \frac{2}{7}$$
$$= \frac{29}{70}$$

$$Mukesh's = \frac{3}{10} - \frac{1}{7}$$
$$= \frac{11}{70}$$

$$\begin{array}{ll} & \text{Ravi} : \text{Mukesh} : \text{Ashok} \\ \text{New Profit Sharing Ratio} = & \frac{29}{70} : \frac{11}{10} : \frac{3}{7} \\ = & \frac{29:11:30}{70} \\ = & 29:11:30 \end{array}$$

**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 *B*. Calculate new profit-sharing ratio.
**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

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

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

$$\text{New Profit Sharing Ratio} = \begin{array}{ccccc} A & : & B & : & C \\ \frac{13}{24} & : & \frac{7}{24} & : & \frac{1}{6} \end{array}$$
$$= \frac{13:7:4}{24}$$
$$= 13:7:4$$

**Question:4**
*A, B* and *C* were partners in a firm sharing profits in the ratio of 3 : 2 : 1. They admitted *D* as a new partner for 1/8th share in the profits, which he acquired 1/16th from *B* and 1/16th from *C*. Calculate the new profit-sharing ratio of *A, B, C* and *D*.
**Solution:**
Profit Sharing Ratio of A, B and C = 3 : 2 : 1

D's share = $\frac{1}{8}$ (acquired $\frac{1}{16}$th share each from B and C)

A's share = $\frac{3}{6}$ (retained original share)

B's new share = $\frac{2}{6} - \frac{1}{16} = \frac{13}{48}$

C's new share = $\frac{1}{6} - \frac{1}{16} = \frac{5}{48}$

New Ratio of A, B, C and D = $\frac{3}{6} : \frac{13}{48} : \frac{5}{48} : \frac{1}{8}$ or 24 : 13 : 5 : 6

**Question:5**
Bharati and Astha were partners sharing profits in the ratio of 3 : 2. They admitted Dinkar as a new partner for 1/5th share in the future profits of the firm which he got equally from Bharati and Astha. Calculate the new profit-sharing ratio of Bharati, Astha and Dinkar.
**Solution:**
Calulation of New Profit Sharing Ratio
Bharti :Astha = 3:2 (Old Ratio)

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

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

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

Bharti's new share = $\frac{3}{5} - \frac{1}{10} = \frac{6-1}{10} = \frac{5}{10}$

Astha's new share = $\frac{2}{5} - \frac{1}{10} = \frac{4-1}{10} = \frac{3}{10}$

Dinkar's new share = $\frac{1}{5} \times \frac{2}{2} = \frac{2}{10}$

Bharti :Astha :Dinkar = 5:3:2 (New Ratio)

**Question:6**
*X* and *Y* are partners in a firm sharing profits and losses in the ratio of 3 : 2. *Z* is admitted as partner with 1/4 share 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 *XandY* is 3 : 2
Z is admitted for $1/4^{th}$ 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 = $\frac{1}{4} = \frac{15}{60}$
$\therefore$ New Ratio = 26 : 19 : 15

**Question:7**
*R* and *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* gives 1/5th of his share to the new partner. Find out new profit-sharing ratio.
**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

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

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

$$T's \text{ share} = R's \text{ sacrifice} + S's \text{ sacrifice} = \frac{5}{32} + \frac{3}{40} = \frac{25+12}{160} = \frac{37}{160}$$

$$\text{New Profit Sharing Ratio} = \overset{R}{\frac{15}{32}} : \overset{S}{\frac{12}{40}} : \overset{T}{\frac{37}{160}} = \frac{75:48:37}{160}$$

∴New Profit Sharing Ratio = 75 : 48 : 37

**Question:8**
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; the new partner. Calculate new profit-sharing ratio and sacrificing ratio.
**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 and 1/10 share respectively, therefore the sacrificing ratio becomes 2 : 1.

**Question:9**
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 firm. *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

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

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

***ii***

$$\begin{array}{lc} & A : B \\ \text{Old Ratio} & 1 : 1 \end{array}$$

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 $= 1 - \text{C's Share}$

$$= 1 - \frac{1}{4}$$
$$= \frac{3}{4}$$

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

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

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

$$\begin{aligned} & \quad\ \ A : B : C \\ \text{New Profit Sharing Ratio} &= \frac{6}{12} : \frac{3}{12} : \frac{1}{4} \\ &= \frac{6:3:3}{12} \\ &= 2:1:1 \end{aligned}$$

***iii***

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

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

$$\text{A's sacrifice} = \text{C's share} \times \frac{1}{5}$$
$$= \frac{1}{5} \times \frac{1}{5}$$
$$= \frac{1}{25}$$

$$\text{B's sacrifice} = \text{C's share} \times \frac{4}{5}$$
$$= \frac{1}{5} \times \frac{4}{5}$$
$$= \frac{4}{25}$$

New Ratio = Old Ratio – Sacrificing Ratio

$$A's = \frac{3}{5} - \frac{1}{25}$$
$$= \frac{14}{25}$$

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

$$\begin{aligned} & \quad\ \ A : B : C \\ \text{New Profit Sharing Ratio} &= \frac{14}{25} : \frac{6}{25} : \frac{1}{5} \\ &= \frac{14:6:5}{25} \\ &= 14:6:5 \end{aligned}$$

***iv***

$$\begin{array}{lccc} & X & : Y & : Z \\ \text{Old Ratio} & 3 & : 2 & : 1 \end{array}$$

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 $= 1 - \text{Z's share} - \text{W's share}$

$$= 1 - \frac{1}{6} - \frac{1}{6}$$
$$= \frac{4}{6}$$

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

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

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

$$\begin{aligned} & \quad X : Y : Z : W \\ \text{New Profit Sharing Ratio} &= \frac{12}{30} : \frac{8}{30} : \frac{1}{6} : \frac{1}{6} \\ &= \frac{12:8:5:5}{30} \\ &= 12:8:5:5 \end{aligned}$$

***v***

$$\begin{array}{lcc} & A & : B \\ \text{Old Ratio} & 1 & : 1 \end{array}$$

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

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

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

Combined share of profit of A and B after C and D's admission $= 1 - \text{C's share} - \text{D's share}$

$$= 1 - \frac{1}{5} - \frac{1}{6}$$
$$= \frac{19}{30}$$

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

$$\text{A's} = \frac{1}{2} \times \frac{19}{30}$$
$$= \frac{19}{60}$$

$$\text{B's} = \frac{1}{2} \times \frac{19}{30}$$
$$= \frac{19}{60}$$

$$\begin{aligned} & \quad A : B : C : D \\ \text{New Profit Sharing Ratio} &= \frac{19}{60} : \frac{19}{60} : \frac{1}{5} : \frac{1}{6} \\ &= \frac{19:19:12:10}{60} \\ &= 19:19:12:10 \end{aligned}$$

***vi***

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

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 $= 1 - \text{C's share}$

$$= 1 - \frac{1}{4}$$
$$= \frac{3}{4}$$

$$\begin{aligned} \text{New Ratio of A and B each} &= \text{Combined share of A and B} \times \frac{1}{2} \\ &= \frac{3}{4} \times \frac{1}{2} \\ &= \frac{3}{8} \text{ each} \end{aligned}$$

$$\begin{array}{lccccc} & A & : & B & : & C \\ \text{New Profit Sharing Ratio} = & \frac{3}{8} & : & \frac{3}{8} & : & \frac{1}{4} \end{array}$$

$$= \frac{3:3:2}{8}$$

$$= 3:3:2$$

**Question:10**
*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*.
**Solution:**

$$\begin{array}{lccc} & X & : & Y \\ \text{Old Ratio} & 3 & : & 2 \end{array}$$

Sacrificing Ratio = Old Ratio × 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 Sacrifiece

$$= \frac{3}{15}$$

Q’s share = Y’s Sacrifice

$$= \frac{2}{20}$$

$$\begin{array}{lccccccc} & X & : & Y & : & P & : & Q \\ \text{New Profit Sharing Ratio} = & \frac{6}{15} & : & \frac{6}{20} & : & \frac{3}{15} & : & \frac{2}{20} \end{array}$$

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

$$= 4:3:2:1$$

**Question:11**
Rakesh and Suresh are sharing 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:**

$$\begin{array}{lccc} & \text{Rakesh} & : & \text{Suresh} \\ \text{Old Ratio} & 4 & : & 3 \end{array}$$

$$\begin{array}{lccccc} & \text{Rakesh} & : & \text{Suresh} & : & \text{Zaheer} \\ \text{New Ratio} & 7 & : & 4 & : & 3 \end{array}$$

Sacrificing Ratio = Old Ratio − Sacrificing Ratio

$$\text{Rakesh's} = \frac{4}{7} - \frac{7}{14} = \frac{1}{14}$$

$$\text{Suresh's} = \frac{3}{7} - \frac{4}{14} = \frac{2}{14}$$

$$\begin{array}{lccc} & \text{Rakesh} & : & \text{Suresh} \\ \text{Sacrificing Ratio} & \frac{1}{14} & : & \frac{2}{14} \\ & 1 & : & 2 \end{array}$$

**Question:12**
*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:**

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

$$\begin{array}{lccccc} & A & : & B & : & C \\ \text{New Ratio} & 4 & : & 3 & : & 2 \end{array}$$

Sacrificing Share = Old Ratio − New Ratio

$$\text{A's} = \frac{3}{5} - \frac{4}{9}$$
$$= \frac{7}{45}$$

$$\text{B's} = \frac{2}{5} - \frac{3}{9}$$
$$= \frac{3}{45}$$

| | A | : | B |
|---|---|---|---|
| Sacrificing Ratio | $\frac{7}{45}$ | : | $\frac{3}{45}$ |
| | 7 | : | 3 |

**Question:13**
*A, B* and *C* are partners sharing profits in the ratio of 4 : 3 : 2. *D* is admitted for 1/3rd share in future profits. 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 shares

$$= 1 - \frac{1}{3}$$
$$= \frac{2}{3}$$

New Ratio = Old Ratio × combined share of A, B and C

$$\text{A's} = \frac{4}{9} \times \frac{2}{3}$$
$$= \frac{8}{27}$$

$$\text{B's} = \frac{3}{9} \times \frac{2}{3}$$
$$= \frac{6}{27}$$

$$\text{C's} = \frac{2}{9} \times \frac{2}{3}$$
$$= \frac{4}{27}$$

Sacrificing Ratio = Old Ratio − New Ratio

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

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

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

| | A | : | B | : | C |
|---|---|---|---|---|---|
| Sacrificing Ratio | $\frac{4}{27}$ | : | $\frac{3}{27}$ | : | $\frac{2}{27}$ |
| | 4 | : | 3 | : | 2 |

**Question:14**
*A, B, C* and *D* are in partnership sharing profits and losses in the ratio of 36 : 24 : 20 : 20 respectively. *E* joins the partnership for 20% share and *A, B, C* and *D* 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 combined share of profit of all partners 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

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

$$B's = \frac{80}{100} \times \frac{4}{10} = \frac{32}{100}$$

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

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

$$\begin{array}{lccccccccc} & A & : & B & : & C & : & D & : & E \\ \text{New Profit Sharing Ratio} = & \frac{24}{100} & : & \frac{32}{100} & : & \frac{16}{100} & : & \frac{8}{100} & : & \frac{20}{100} \\ = & 6 & : & 8 & : & 4 & : & 2 & : & 5 \end{array}$$

**Question:15**
*X* and *Y* are partners sharing profits and losses in the ratio of 3 : 2. They admit *Z* into partnership. *X* gives 1/3rd of 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 is 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 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:16**
*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 Profit 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 $\left(\frac{1}{5}\right)$

$$\text{Remaining Share} = 1 - \frac{1}{6} - \frac{1}{5}$$
$$= \frac{30-5-6}{30} = \frac{19}{30}$$

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

$$\text{A's New Share} = \frac{19}{30} \times \frac{2}{4} = \frac{38}{120}$$

$$\text{B's New Share} = \frac{19}{30} \times \frac{2}{4} = \frac{38}{120}$$

$$\text{C's New Share} = \frac{1}{5} \times \frac{24}{24} = \frac{24}{120}$$

$$\text{D's New Share} = \frac{1}{6} \times \frac{20}{20} = \frac{20}{120}$$

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

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

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

A : B = 5 : 5 or 1 : 1

**Question:17**
*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's 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

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

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

$$\begin{array}{lccccc} & A & : & B & : & C \\ \text{New Profit Sharing Ratio after C's admission} = & \frac{9}{20} & : & \frac{6}{20} & : & \frac{1}{4} \end{array}$$
$$= \frac{9:6:5}{20}$$
$$= 9:6:5$$

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

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

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

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

Combined share of A, B and 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

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

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

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

$$\begin{array}{lccccccc} & A & : & B & : & C & : & D \\ \text{New Profit Sharing Ratio after C's admission} = & \frac{72}{200} & : & \frac{48}{200} & : & \frac{40}{200} & : & \frac{20}{100} \end{array}$$
$$= \frac{72:48:40:40}{200}$$
$$= 9:6:5:5$$

**Question:18**

*P* and *Q* are partners sharing profits in the ratio of 3 : 2. They admit *R* into partnership who acquires 1/5th of his share from *P* and 4/25th share from *Q*. Calculate New Profit-sharing Ratio and Sacrificing Ratio.

**Solution:**

Calulation of New Profit Sharing Ratio

P:Q = 3:2 (Old Ratio)

R acquires $\frac{1}{5}$th of his share from P

And, Remaining $\frac{4}{5}$th $\left(1 - \frac{1}{5}\right)$ of his share from Q.

If $\frac{4}{5}$th share of R = $\frac{4}{25}$

R's share = $\frac{4}{25} \times \frac{5}{4} = \frac{5}{25}$

P's sacrifice = $\frac{1}{5} \times \frac{1}{5} = \frac{1}{25}$

Q's sacrifice = $\frac{4}{25}$

P's new share = $\frac{3}{5} - \frac{1}{25} = \frac{15-1}{25} = \frac{14}{25}$

Q's new share = $\frac{2}{5} - \frac{4}{25} = \frac{10-4}{25} = \frac{6}{25}$

R's new share = $\frac{1}{5} \times \frac{5}{5} = \frac{5}{25}$

P:Q:R = 14:6:5

Sacrificing Ratio = 1:4

**Question:19**

*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. Goodwill Account appears in the books at 15,000. For the purpose of *C*'s admission, goodwill of the firm is valued at 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 Entry**

| Date | Particulars | | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|---|
| | A's Capital A/c | Dr. | | 10,000 | |
| | B's Capital A/c | Dr. | | 5,000 | |

| | | | | |
|---|---|---|---|---|
| | To Goodwill A/c<br>*Goodwillwritten – offbetweenAandBintheoldratioof2:1* | | | 15,000 |

***Note***- Goodwill brought in by 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***

$$\text{A's Capital will be debited by} = 15,000 \times \frac{2}{3} = \text{Rs } 10,000$$

$$\text{B's Capital will be credited by} = 15,000 \times \frac{1}{3} = \text{Rs } 5,000$$

**Question:20**

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

**Solution:**

$$\begin{array}{lc} & A : B \\ \text{Old Ratio} & 2 : 5 \end{array}$$

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

Let the combined share of A, B and C 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

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

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

$$\begin{array}{lc} & A : B : C \\ \text{New Profit Sharing Ratio} = & \frac{6}{28} : \frac{15}{28} : \frac{1}{4} \\ = & \frac{6:15:7}{28} \\ = & 6:15:7 \end{array}$$

<u>Distribution of C's share of Goodwill</u>

C's share of Goodwill = Rs 14,000

$$\text{A will get} = 14,000 \times \frac{2}{7} = \text{Rs}4,000$$

$$\text{B will get} = 14,000 \times \frac{5}{7} = \text{Rs}10,000$$

**Question:21**

*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 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  75,000 and *C* brings in his share of goodwill in cash which is retained in the firm's books. Journalise the above transactions.

**Solution:**

| Date | Particulars | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|
| | Cash A/c Dr.<br>To Premium for Goodwill A/c<br>*CbroughtPremiumforGoodwill* | | 21,000 | <br>21,000 |
| | Premium for Goodwill A/c Dr.<br>To A's Capital A/c<br>To B's Capital A/c<br>(Premium for Goodwill brought by C distributed between A and B in sacrificing ratio i.e. 3:4) | | 21,000 | <br>9,000<br>12,000 |

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

$$\text{A's sacrificing} = \frac{3}{5} \times \frac{1}{5} = \frac{3}{25}$$
$$\text{B's sacrifing} = \frac{2}{5} \times \frac{2}{5} = \frac{4}{25}$$

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

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 $= 75,000 \times \frac{7}{25}$

$= \text{Rs } 21,000$

Distribution of Premium for Goodwill-

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

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

**Question:22**
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 2,000 for 1/4th share of the profits, shares shares of *B* and *C* remain as before.
*b* *B* and *C* are partners sharing profits in the ratio of 3 : 2. *D* is admitted paying a premium of 2,100 for 1/4th share of profits which he acquires 1/6th from *B* and 1/12th from *C*.
**Solution:**
***a***

**Journal**

| Date | Particulars | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|
| | Cash A/c Dr.<br>To Premium for Goodwill A/c<br>*DbroughtPremiumforGoodwill* | | 2,000 | <br>2,000 |
| | Premium for Goodwill A/c Dr.<br>To B's Capital A/c<br>To C's Capital A/c<br>(Premium for Goodwill distributed between B and C in sacrificing ratio i.e. 3:2) | | 2,000 | <br>1,200<br>800 |

**Working Note:**

Distribution of premium for Goodwill-

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

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

***b***

**Journal**

| Date | Particulars | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|
| | Cash A/c Dr.<br>To Premium for Goodwill A/c<br>*Dbroughthisshareofgoodwillincash* | | 2,100 | <br>2,100 |
| | Premium for Goodwill A/c Dr.<br>To B's Capital A/c<br>To C's Capital A/c<br>(Premium for Goodwill brought distributed between B and C in sacrificing Ratio i.e. 2:1) | | 2,100 | <br>1,400<br>700 |

**Working Note:**

***WN1***

$$\begin{array}{lccc} & B & : & C \\ \text{Sacrificing Ratio} & \frac{1}{6} & : & \frac{1}{12} \\ & 2 & : & 1 \end{array}$$

***WN2***

Distribution of Premium for Goodwill-

$$\text{B will get} = 2,100 \times \frac{2}{3}$$
$$= \text{Rs} 1,400$$

$$\text{C will get} = 2,100 \times \frac{1}{3}$$
$$= \text{Rs} 700$$

**Question:23**
*B* and *C* are in partnership sharing profits and losses as 3 : 1. They admit *D* into the firm, *D* pays premium of 15,000 for 1/3rd share of the profits. As between themselves, *B* and *C* agree to share future profits and losses equally. Draft Journal entries showing appropriations of the premium money.
**Solution:**

**Journal**

| Date | Particulars | | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|---|
| | Cash A/c | Dr. | | 15,000 | |
| | To Premium for Goodwill A/c | | | | 15,000 |
| | *Dbroughthisshareofgoodwillincash* | | | | |
| | Premium for Goodwill A/c | Dr. | | 15,000 | |
| | To B's Capital A/c | | | | 15,000 |
| | *PremiumforgoodwilltransferredtoB´sCapital* | | | | |
| | C's Capital A/c | Dr. | | 3,750 | |
| | To B's Capital A/c | | | | 3,750 |
| | *GoodwillchargedfromC´sCapitalAccountduetohisgaininprofitsharing* | | | | |

***WN1***

Calculation of Sacrificing Ratio:

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

$$\text{Combined share of B and C after C's admission} = 1 - \text{C's share}$$
$$= 1 - \frac{1}{3}$$
$$= \frac{2}{3}$$

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

$$\text{Sacrificing Ratio} = \text{Old Ratio} - \text{New Ratio}$$
$$\text{B's} = \frac{3}{4} - \frac{1}{3} = \frac{5}{12} \text{(sacrificing)}$$

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

***WN2***

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*).

$$\text{Goodwill of the firm} = \text{Premium for goodwill brought by D} \times \text{Reciprocal of D's share}$$
$$= 15{,}000 \times \frac{3}{1}$$
$$= \text{Rs } 45{,}000$$

$$\text{C's share of gain in Goodwill} = \text{Goodwill of the firm} \times \text{share of gain}$$
$$= 45{,}000 \times \frac{1}{12}$$
$$= \text{Rs} 3{,}750$$

**Question:24**

*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 25,000 for his share of premium for goodwill. Pass necessary Journal entries for the treatment of goodwill.

**Solution:**

**Journal**

| Date | Particulars | | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|---|
| | Cash A/c | Dr. | | 25,000 | |
| | To Premium for Goodwill A/c | | | | 25,000 |
| | *Cbroughthisshareofgoodwillincash* | | | | |
| | Premium for Goodwill A/c | Dr. | | 25,000 | |
| | To M's Capital A/c | | | | 12,500 |
| | To J's Capital A/c | | | | 12,500 |
| | *C´sshareofGoodwilldistributedinMandJintheirsacrificingRatio* | | | | |

**Working Notes:**

***WN1***

Calculating of Sacrificing Ratio

$$\text{Sarificing Ratio} = \text{Old Ratio} - \text{New Ratio}$$
$$\text{M's} = \frac{3}{5} - \frac{5}{10} = \frac{1}{10}$$

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

$$\begin{array}{lccc} & M & : & J \\ \text{Sacrificing Ratio} & \frac{1}{10} & : & \frac{1}{10} \\ & 1 & : & 1 \end{array}$$

***WN2***

Distribution of R's share of Goodwill-

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

**Question:25**
*A* and *B* are in partnership sharing profits and losses in the ratio of 5 : 3. *C* is admitted as a partner who pays 40,000 as capital and the necessary amount of goodwill which is valued at 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 Amount Rs | Credit Amount Rs |
|---|---|---|---|---|
| | Cash A/c Dr. | | 52,000 | |
| | To C's Capital A/c | | | 40,000 |
| | To Premium for Goodwill A/c | | | 12,000 |
| | *CbroughtCapitalandhisshareofgoodwillincash* | | | |
| | Premium for Goodwill A/c Dr. | | 12,000 | |
| | To A's Capital A/c | | | 6,000 |
| | To B's Capital A/c | | | 6,000 |
| | *C´sshareofGoodwilldistributedinAandB* | | | |

**Working Notes-**

***WN1***

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

***WN2***

Calculation of new profit sharing Ratio

$$\begin{array}{lccc} & A & : & B \\ \text{Old Ratio} & 5 & : & 3 \end{array}$$

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

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

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

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

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

***WN3***

Distribution of C's share of Goodwill (*in Sacrificing Ratio*)

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

**Question:26**
*A* and *B* are partners sharing profits and losses in the ratio of 7 : 5. They admit *C*, their Manager, into partnership who is to get 1/6th share in the business. *C* brings in 10,000 for his capital and 3,600 for the 1/6th share of goodwill which he acquires 1/24th from *A* and 1/8th from *B*. Profits for the first year of the new partnership was 24,000. Pass necessary Journal entries for *C's* admission and apportion the profit between the partners.
**Solution:**

**Journal**

| Date | Particulars | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|
| | Cash A/c Dr. | | 13,600 | |
| | To C's Capital A/c | | | 10,000 |
| | To Premium for Goodwill A/c | | | 3,600 |
| | *Cbroughtcapitalandhisshareofgoodwill* | | | |
| | Premium for Goodwill A/c Dr. | | 3,600 | |
| | To A's Capital A/c | | | 900 |
| | To B's Capital A/c | | | 2,700 |
| | (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 |
| | *ProfitafterC´sadmissiondistributed* | | | |

**Working Note:**

***WN1***

$$\begin{array}{lccc} & A & : & B \\ \text{Sacrificing Ratio} & \frac{1}{24} & : & \frac{1}{8} \\ & 1 & : & 3 \end{array}$$

***WN2***

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

$$\text{A will be get} = 3,600 \times \frac{1}{4} = \text{Rs } 900$$
$$\text{B will be get} = 3,600 \times \frac{3}{4} = \text{Rs } 2,700$$

***WN3***

Calculation of New Profit Sharing Ratio

$$\text{New Ratio} = \text{Old Ratio} - \text{Sacrificing Ratio}$$
$$\text{A's} = \frac{7}{12} - \frac{1}{24} = \frac{13}{24}$$
$$\text{B's} = \frac{5}{12} - \frac{1}{8} = \frac{7}{24}$$

$$\begin{array}{lccccc} & \text{A} & : & \text{B} & : & \text{C} \\ \text{New Profit Sharing Ratio} = & \frac{13}{24} & : & \frac{7}{24} & : & \frac{1}{6} \\ & = 13:7:4 & & & & \end{array}$$

***WN4***

Distribution of Profit earned after C's admission (*in new ratio*)

$$\text{A will get} = 24,000 \times \frac{13}{24} = \text{Rs } 13,000$$
$$\text{B will get} = 24,000 \times \frac{7}{24} = \text{Rs } 7,000$$
$$\text{C will get} = 24,000 \times \frac{4}{24} = \text{Rs } 4,000$$

**Question:27**

*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* decide 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 Amount Rs | Credit Amount Rs |
|---|---|---|---|---|---|
| | Cash A/c | Dr. | | 30,000 | |
| | To Premium for Goodwill A/c | | | | 30,000 |
| | *Xbroughthisshareofgoodwill* | | | | |
| | Premium for Goodwill A/c | Dr. | | 30,000 | |
| | Y's Capital A/c | Dr. | | 7,500 | |
| | To X's Capital A/c | | | | 37,500 |
| | *YandZshareofgainingoodwilltransferredtoX′sCapitalAccount* | | | | |

**Working Notes:**

***WN1***

Calculation of Sacrificing Ratio

$$\text{Sacrificing Ratio} = \text{Old Ratio} - \text{New Ratio}$$
$$\text{X's} = \frac{3}{4} - \frac{1}{3} = \frac{5}{12}$$
$$\text{Y's} = \frac{1}{4} - \frac{1}{3} = \frac{-1}{12}(\text{Gaining})$$

***WN2***

Goodwill of the firm on the basis of Z's share $= 30,000 \times \frac{3}{1}$

$= \text{Rs } 90,000$

$$\text{Y's gain in goodwill} = 90,000 \times \frac{1}{12}$$
$$= \text{Rs } 7,500$$

X will get as a goodwill = Z's share of Goodwill + Y's gain in Goodwill

= 30,000 + 7,500

= Rs 37,500

**Question:28**

Anshul and Parul are partners sharing profits in the ratio of 3 : 2. They admit Payal as partner for 1/4th share in profits on 1st April, 2019. Payal brings 5,00,000 as capital and her share of goodwill by cheque. It was agreed to value goodwill at three years' purchase of average profit of last four years.

| | |
|---|---|
| *Profits for the last four years ended 31st March, were* | |
| 2015-16 | 4,00,000 |
| 2016-17 | 5,00,000 |
| 2017-18 | 6,00,000 |
| 2018-19 | 7,00,000 |

*Additional Information*:

1. Closing Stock for the year ended 31st March, 2018 was overvalued by 50,000.
2. 1,00,000 should be charged annually to cover management cost.

Pass necessary Journal entries on Payal's admission.

**Solution:**

**In the books of the Anshul, Parul and Payal**
**Journal**

| Date | Particulars | | L.F. | Debit Amount ( ) | Credit Amount ( ) |
|---|---|---|---|---|---|
| 2019 April 01 | Bank A/c | Dr. | | 8,37,500 | |
| | To Payal's Capital A/c | | | | 5,00,000 |
| | To Premium for Goodwill A/c | | | | 3,37,500 |
| | *Beingcapitalandgoodwillpaidbythenewpartner* | | | | |
| 2019 April 01 | Premium for Goodwill A/c | Dr. | | 3,37,500 | |
| | To Anshul's Capital A/c 3, 37, 500 × 3/5 | | | | 2,02,500 |
| | To Parul's Capital A/c 3, 37, 500 × 2/5 | | | | 1,35,000 |
| | *Beingpremiumforgoodwilladjustedinsacrificingratio* | | | | |

**Working Notes:**

| Particulars | Year | 31st Mar., 2016 | 31st Mar., 2017 | 31st Mar., 2018 | 31st Mar., 2019 |
|---|---|---|---|---|---|
| Profits for the year | | 4,00,000 | 5,00,000 | 6,00,000 | 7,00,000 |
| *Less*: Overvaluation of Closing Stock | | | | 50,000 | |
| *Add*: Overvaluation of Opening Stock | | | | | 50,000 |
| *Less*: Annual Charge for Management Cost | | 1,00,000 | 1,00,000 | 1,00,000 | 1,00,000 |
| Normal Profits | | **3,00,000** | **4,00,000** | **4,50,000** | **6,50,000** |

Average Profits = 4,50,000 Goodwill = Average Profits × No. of years of Purchase = 4, 50, 000 × 3 = 13,50,000

**Question:29**
*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 30,000 as capital and 10,000 as goodwill. At the time of admission of *C*, goodwill appeared in the Balance Sheet of *A* and *B* at 3,000. New profit-sharing ratio of the partners will be 5 : 3 : 2. Pass necessary Journal entries.
**Solution:**

**Journal Entries**

| Date | Particulars | | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|---|
| | A's Capital A/c | Dr. | | 1,800 | |
| | B's Capital A/c | Dr. | | 1,200 | |
| | To Goodwill A/c | | | | 3,000 |
| | *Goodwillwritten – off* | | | | |
| | Cash A/c | Dr. | | 40,000 | |
| | To C's Capital A/c | Dr. | | | 30,000 |
| | To Premium for Goodwill A/c | | | | 10,000 |
| | *Cbroughtcapitalandhisshareofgoodwillincash* | | | | |
| | Premium for Goodwill | Dr. | | 10,000 | |
| | To A's Capital A/c | | | | 5,000 |
| | To B's Capital A/c | | | | 5,000 |
| | *PremiumforGoodwilldistributed* | | | | |

| | A | B | C |
|---|---|---|---|
| Old Ratio | 3 | 2 | |
| New Ratio | 5 | 3 | 2 |

Sacrificing Ratio = Old Ratio – New Ratio

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

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

| | A | : | B |
|---|---|---|---|
| Sacrificing Ratio | $\frac{1}{10}$ | : | $\frac{1}{10}$ |
| | 1 | : | 1 |

**Distribution of Premium for Goodwill** ***C's share of Goodwill***)

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

**Goodwill written-off**

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

$$\text{B will be credited by } 3,000 \times \frac{2}{5} = \text{Rs}\,1,200$$

**Question:30**
Anu and Bhagwan were partners in a firm sharing profits in the ratio of 3 : 1. Goodwill appeared in the books at 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 1,00,000 for his capital and necessary cash for his goodwill premium. Goodwill of the firm was valued at 2,50,000.
Record necessary Journal entries in the books of the firm for the above transactions.
**Solution:**

**Journal**

| Date | Particulars | | L.F. | Debit Amount *Rs* | Credit Amount *Rs* |
|---|---|---|---|---|---|
| | 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 |
| | *Oldgoodwillwrittenoffinoldratio* | | | | |

| | | | | |
|---|---|---|---|---|
| | Cash A/c Dr.<br>To Raja's Capital A/c<br>To Premium for Goodwill A/c<br>*CapitalandgoodwillbroughtinbyRaju* | | 1,50,000 | 1,00,000<br>50,000 |
| | Premium for Goodwill A/c Dr.<br>Bhagwan's Capital A/c $\left(\frac{3}{20} \times 2,50,000\right)$ Dr.<br>To Anu's Capital A/c $\left(\frac{7}{20} \times 2,50,000\right)$<br>*Premiumforgoodwilladjusted* | | 50,000<br>37,500 | 87,500 |

***Working Notes***:

***WN*1** *Calculation of Share in Old Goodwill*

Anu's share $= 4,40,000 \times \frac{3}{4} = 3,30,000$Bhagwan's share $= 4,40,000 \times \frac{1}{4} = 1,10,000$

***WN*2** *Calculation of Raja's Share of Goodwill*

Raja's Share of Goodwill = Firm's Goodwill × Raja's Profit Share $= 2,50,000 \times \frac{1}{5} = 50,000$

***WN*3** *Calculation of Sacrificing Ratio*

*Sacrificing Ratio = Old Share - New ShareAnu's* $= \frac{3}{4} - \frac{2}{5} = \frac{7}{20}$ *(sacrifice)Bhagwan's* $= \frac{1}{4} - \frac{2}{5} = -\frac{3}{20}$ *(gain)*

**Question:31**

*X* and *Y* are partners in a firm sharing profits in the ratio of 3 : 2. On 1st April, 2019, they admit *Z* as a partner for 1/4th share in the profits. *Z* contributed following assets towards his capital and for his share of goodwill:
Stock 60,000; Debtors 80,000; Land 1,00,000, Plant and Machinery 40,000.
On the date of admission of *Z*, the goodwill of the firm was valued at 6,00,000.
Pass necessary Journal entries in the books of the firm on *Z's* admission.

**Solution:**

**Journal**

| Date | Particulars | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|
| 2019 April 1 | Stock A/c Dr.<br>Debtors A/c Dr.<br>Land A/c Dr.<br>Plant and Machinery A/c Dr.<br>To Z's Capital A/c<br>To Premium for Goodwill A/c<br>*ZbroughtassetsforhisshareofgoodwillandCapital* | | 60,000<br>80,000<br>1,00,000<br>40,000 | 1,30,000<br>1,50,000 |
| April 1 | Premium for Goodwill A/c Dr.<br>To X's Capital A/c<br>To Y's Capital A/c<br>*Z´sshareofGoodwilldistributedbetweenXandYinsacrificingratio* | | 1,50,000 | 90,000<br>60,000 |

**Working Notes:**

***WN1***

$$\text{Z's share of Goodwill} = 6,00,000 \times \frac{1}{4} = \text{Rs}1,50,000$$

***WN2***

Distribution of Z's Goodwill

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

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

**Question:32**

*A* and *B* are partners in a business sharing profits and losses in the ratio of 1/3rd and 2/3rd. On 1st April, 2019, their capitals were 8,000 and 10,000 respectively. On that date, they admit *C* in partnership and give him 1/4th share in the future profits. *C* brings 8,000 as his capital and 6,000 as goodwill. The amount of goodwill is 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 Amount | Credit Amount |
|---|---|---|---|---|
| 2019 April 1 | Cash A/c Dr.<br>To C's Capital A/c<br>To Premium for Goodwill A/c<br>*Cbroughtcapitalandhisshareofgoodwill* | | 14,000 | 8,000<br>6,000 |
| April 1 | Premium for Goodwill A/c Dr.<br>To A's Capital A/c<br>To B's Capital A/c<br>*C´sshareofgoodwilldistributedbetweenAandBinsacrificingratioi. e.* 1 : 2 | | 6,000 | 2,000<br>4,000 |

| | | | | | |
|---|---|---|---|---|---|
| | A's Capital A/c Dr. | | | 2,000 | |
| | B's Capital A/c Dr. | | | 4,000 | |
| | To Cash A/c | | | | 6,000 |
| | *AmountofgoodwillwithdrawnbyAandB* | | | | |

**Partners' Capital Accounts**

| Dr. Particulars | A | B | C | Particulars | A | B | Cr. C |
|---|---|---|---|---|---|---|---|
| Cash | 2,000 | 4,000 | | Balance b/d | 8,000 | 10,000 | |
| | | | | Cash | | | 8,000 |
| | | | | Premium for Goodwill | 2,000 | 4,000 | |
| 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

$$\begin{array}{lccc} & A & : & B \\ \text{Old Ratio} & \frac{1}{3} & : & \frac{2}{3} \end{array}$$

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 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 in the new firm

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

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

$$\begin{array}{lccccc} & A & : & B & : & C \\ \text{New Profit Sharing Ratio} = & \frac{3}{12} & : & \frac{6}{12} & : & \frac{1}{4} \end{array}$$
$$= \frac{3:6:3}{12}$$
$$= 1:2:1$$

Distribution of Premium for Goodwill

$$\text{A will get} = \text{Rs } 6,000 \times \frac{1}{3} = \text{Rs } 2,000$$
$$\text{B will get} = \text{Rs } 6,000 \times \frac{2}{3} = \text{Rs } 4,000$$

**Question:33**

*A* and *B* were partners in a firm sharing profits and losses in the ratio of 3 : 2. They admitted *C* as a new partner for 3/7th share in the profit and the new profit-sharing ratio will be 2 : 2 : 3. *C* brought 2,00,000 as his capital and 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.

**Solution:**

**Journal**

| Date | Particulars | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|
| | 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 |
| | *CbroughtcapitalandPremiumforGoodwill* | | | |
| | 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 |
| | *PremiumforGoodwilldistributed* | | | |
| | A's Capital A/c Dr. | | 55,000 | |
| | B's Capital A/c Dr. | | 20,000 | |
| | To Cash A/c | | | 75,000 |
| | *HalfofthegoodwillwithdrawnbyAandB* | | | |

Calculation of Sacrificing Ratio

Sacrificing Ratio = Old Ratio − New Ratio

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

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

$$\begin{array}{lccc} & A & : & B \\ \text{Sacrificing Ratio} = & \frac{11}{35} & : & \frac{4}{35} \end{array}$$
$$= 11:4$$

**Working Notes-**

***WN1***

Distribution of Premium for Goodwill

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

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

***WN2***

Amount of Premium for Goodwill withdrawn

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

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

**Question:34**

*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 30,000 for his capital and 8,000 out of his share of 10,000 for goodwill. Before admission, goodwill appeared in books at 18,000. Give Journal entries to give effect to the above arrangement.

**Solution:**

**Journal**

| Date | Particulars | | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|---|
| | A's Capital A/c | Dr. | | 12,000 | |
| | B's Capital A/c | Dr. | | 6,000 | |
| | To Goodwill A/c | | | | 18,000 |
| | *Goodwillwritten – off* | | | | |
| | Cash A/c | Dr. | | 38,000 | |
| | To C's Capital A/c | | | | 30,000 |
| | To Premium for Goodwill | | | | 8,000 |
| | *CbroughtCapitalandgoodwill* | | | | |
| | 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 | | | | 3,333 |
| | *C'sshareofgoodwilldistributedbetweenAandBinSacrificingRatio* | | | | |

**Working Notes:**

***WN1*** *Writing-off of Goodwill*

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

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

***WN2*** *Distribution of C's share of Goodwill*

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

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

**Question:35**

*A* and *B* are partners sharing profits and losses in the ratio of 3 : 2. They admit *C* as partner in the firm for 1/4th share in profits which he takes 1/6th from *A* and 1/12th from *B*. *C* brings in only 60% of his share of firm's goodwill. Goodwill of the firm has been valued at 1,00,000. Pass necessary journal entries to record this arrangement.

**Solution:**

**Journal**

| Date | Particulars | | L.F. | Debit Amount *Rs* | Credit Amount *Rs* |
|---|---|---|---|---|---|
| | Bank A/c | Dr. | | 15,000 | |
| | To Premium for Goodwill A/c | | | | 15,000 |
| | *Goodwillbroughtincash* | | | | |
| | Premium for Goodwill A/c | Dr. | | 15,000 | |
| | To A's Capital A/c | | | | 10,000 |
| | To B's Capital A/c | | | | 5,000 |
| | Goodwill distributed between A & B in sacrificing ratio | | | | |
| | C's Capital A/c | Dr | | 10,000 | |
| | To A's Capital A/c | | | | 6,667 |
| | To B's Capital A/c | | | | 3,333 |
| | *Goodwilladjusted* | | | | |

***Working Notes:***

***WN1:*** *Calculation of Sacrificing Ratio*

*A's sacrifice* $= \frac{1}{6} \times \frac{2}{2} = \frac{2}{12}$

*B's sacrifice* $= \frac{1}{12}$

$\therefore$ *Sacrificing Ratio between A and B = 2:1*

***WN2:*** *Calculation of share in goodwill of new partner*

*C's share in goodwill = 1,00,000 ×* $\frac{1}{4}$ *= Rs 25,000*
*Goodwill brought in cash Rs 15,000(25, 000 × 60%)*
*Remaining goodwill of Rs 10,000 will be adjusted through C's Capital A/c*

**Question:36**
On the admission of Rao, goodwill of Murty and Shah is valued at  30,000. Rao is to get 1/4th share of profits. Previously Murty and Shah shared profits in the ratio of 3 : 2. Rao is unable to bring amount of goodwill. Give Journal entries in the books of Murty and Shah when:
*a* there is no Goodwill Account and
*b* Goodwill appears in the books at  10,000.
**Solution:**

***WN1***: *Calculation of Rao's share of Goodwill*

Rao's Share of Goodwill = 30,000 × $\frac{1}{4}$ = Rs 7,500

***WN2***: *Adjustment of Rao's share of Goodwill*

Murty will get = 7,500 × $\frac{3}{5}$ = Rs 4,500

Shah will get = 7,500 × $\frac{2}{5}$ = Rs 3,000

*a* Where there is no Goodwill Account

**Journal**

| Date | Particulars | | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|---|
| | Rao's Capital A/c | Dr. | | 7,500 | |
| | To Murty's Capital A/c | | | | 4,500 |
| | To Shah's Capital A/c | | | | 3,000 |
| | *Rao′sshareofgoodwillchargedfromhiscapitalaccountanddistributedbetweenMurtyandShahinsacrificingratioi. e.*, 3:2 | | | | |

*b* Goodwill appears at Rs 10,000

**Journal**

| Date | Particulars | | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|---|
| | Murty's Capital A/c | Dr. | | 6,000 | |
| | Shah's Capital A/c | Dr. | | 4,000 | |
| | To Goodwill A/c | | | | 10,000 |
| | *Goodwillwritten – offatthetimeofRao′sadmissioninoldratio* | | | | |
| | Rao's Capital A/c | Dr. | | 7,500 | |
| | To Murty's Capital A/c | | | | 4,500 |
| | To Shah's Capital A/c | | | | 3,000 |
| | *Rao′sshareofgoodwillchargedfromhisCapitalAccountanddistributedbetweenMurtyandShahinsacrificingratioi. e.*, 3:2 | | | | |

**Question:37**
*A* and *B* are partners sharing profits in the ratio of 3 : 2. Their books show goodwill at  2,000. *C* is admitted as partner for 1/4th share of profits and brings in  10,000 as his capital but is not able to bring in cash for his share of goodwill  3,000. Draft Journal entries.
**Solution:**

**Journal**

| Date | Particulars | | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|---|
| | A's Capital A/c | Dr. | | 1,200 | |
| | B's Capital A/c | Dr. | | 800 | |
| | To Goodwill A/c | | | | 2,000 |
| | *Goodwillwritten – offatthetimeofC′sadmission* | | | | |
| | Cash A/c | Dr. | | 10,000 | |
| | To C's Capital A/c | | | | 10,000 |
| | *CapitalbroughtbyC* | | | | |
| | C's Capital A/c | Dr. | | 3,000 | |
| | To A's Capital A/c | | | | 1,800 |
| | To B's Capital A/c | | | | 1,200 |
| | *C′sshareofcapitalchargedfromhiscapitaldistributedbetweenAandBintheirsacrificingratio* | | | | |

**Working Notes:**

*Writing off of goodwill already in the books JE1*

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

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

**Question:38**

*A*, *B* and *C* are in partnership sharing profits and losses in the ratio of 5 : 4 : 1 respectively. Two new partners *D* and *E* are admitted. The profits are now to be shared in the ratio of 3 : 4 : 2 : 2 : 1 respectively. *D* is to pay 90,000 for his share of Goodwill but *E* has insufficient cash to pay for Goodwill. Both the new partners introduced 1,20,000 each as their capital. You are required to pass necessary Journal entries.

**Solution:**

**Journal**

| Date | Particulars | | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|---|
| | Bank A/c | Dr | | 3,30,000 | |
| | To D's Capital A/c | | | | 1,20,000 |
| | To E's Capital A/c | | | | 1,20,000 |
| | To Premium for Goodwill A/c | | | | 90,000 |
| | *CapitalandGoodwillbroughtincash* | | | | |
| | C's Capital A/c | Dr. | | 36,000 | |
| | E's Capital A/c | Dr. | | 45,000 | |
| | Premium for Goodwill A/c | Dr. | | 90,000 | |
| | To A's Capital A/c | | | | 1,35,000 |
| | To B's Capital A/c | | | | 36,000 |
| | *Goodwilladjusted* | | | | |

***Working Notes:***

***WN1:*** *Calculation of Sacrificing Ratio*

*A :B :C = 5:4:1 (Old Ratio)*

*A :B :C :D :E = 3:4:2:2:1 (New Ratio)*

*Sacrificing (or Gaining) Ratio = Old Ratio - New Ratio*

*A's share* $= \frac{5}{10} - \frac{3}{12} = \frac{30-15}{60} = \frac{15}{60}$ *(Share of sacrifice)*

*B's share* $= \frac{4}{10} - \frac{4}{12} = \frac{24-20}{60} = \frac{4}{60}$ *(Share of sacrifice)*

*C's share* $= \frac{1}{10} - \frac{2}{12} = \frac{6-10}{60} = -\frac{4}{60}$ *(Share of gain)*

***WN2:*** *Adjustment of Goodwill*

D's share in goodwill for $\frac{2}{12}$ th share = 90,000

$\therefore$ Total goodwill of the firm = 90,000 × $\frac{12}{2}$ = Rs 5,40,000

E's share in goodwill = 5,40,000 × $\frac{1}{12}$ = Rs 45,000

C's share in goodwill = 5,40,000 × $\frac{4}{60}$ = Rs 36,000

**Question:39**

Mohan and Sohan were partners in a firm sharing profits and losses in the ratio of 3 : 2. They admitted Ram for 1/4th share on 1st April, 2019. It was agreed that goodwill of the firm will be valued at 3 years' purchase of the average profit of last 4 years ended 31st March, were 50,000 for 2015-16, 60,000 for 2016-17, 90,000 for 2017-18 and 70,000 for 2018-19. Ram did not bring his share of goodwill premium in cash. Record the necessary Journal entries in the books of the firm on Ram's admission when:

*a* Goodwill appears in the books at 2,02,500.
*b* Goodwill appears in the books at 2,500.
*c* Goodwill appears in the books at 2,05,000.

**Solution:**

**Journal**

| Date | Particulars | | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|---|
| 2019 Apr.1 | Mohan's Capital A/c | Dr. | | 1,21,500 | |
| | Sohan's Capital A/c | Dr. | | 81,000 | |
| | To Goodwill A/c | | | | 2,02,500 |
| | *Oldgoodwillwritten – offinoldratio* | | | | |
| | Ram's Capital A/c | Dr. | | 50,625 | |
| | To Mohan's Capital A/c | | | | 30,375 |
| | To Sohan's Capital A/c | | | | 20,250 |
| | *PremiumnotbroughtdebitedtoRamandcreditedtosacrificingpartners* | | | | |
| | Mohan's Capital A/c | Dr. | | 1,500 | |
| | Sohan's Capital A/c | Dr. | | 1,000 | |
| | To Goodwill A/c | | | | 2,500 |
| | *Oldgoodwillwritten – offinoldratio* | | | | |
| | Ram's Capital A/c | Dr. | | 50,625 | |
| | To Mohan's Capital A/c | | | | 30,375 |
| | To Sohan's Capital A/c | | | | 20,250 |
| | *PremiumnotbroughtdebitedtoRamandcreditedtosacrificingpartners* | | | | |
| | Mohan's Capital A/c | Dr. | | 1,23,000 | |
| | Sohan's Capital A/c | Dr. | | 82,000 | |
| | To Goodwill A/c | | | | 2,05,00 |
| | *Oldgoodwillwritten – offinoldratio* | | | | |
| | Ram's Capital A/c | Dr. | | 50,625 | |
| | To Mohan's Capital A/c | | | | 30,375 |
| | To Sohan's Capital A/c | | | | 20,250 |
| | *PremiumnotbroughtdebitedtoRamandcreditedtosacrificingpartners* | | | | |

***Working Notes***:

***WN*1**: *Calculation of Goodwill*

$$\text{Average Profits} = \frac{\text{Total Profits}}{\text{Number of Years}}$$

Goodwill = Average Profits × Number of Years ' Purchase

$$= \frac{50,000+60,000+90,000+70,000}{4}$$

Goodwill = 67,500 × 3 = Rs 2,02,500Ram's share = 2,02,500 × $\frac{1}{4}$ = 50, 625

$$= \frac{2,70,000}{4} = \text{Rs } 67,500$$

***Note***: *Since no information is given about the share of sacrifice, it is assumed that the old partners are sacrificing in their old profit sharing ratio.*

**Question:40**

Madan and Gopal are partners sharing profits in the ratio of 3 : 2. They admit Sooraj for 1/3rd share in profits on 1st April, 2019. They also decide to share future profits equally. Goodwill of the firm was valued at 5,50,000. Goodwill existed in the books of account at 1,00,000, which the partners decide to carry forward.

Sooraj is unable to bring his share of goodwill. Pass the necessary Journal entries on admission of Sooraj, if:

*a* Goodwill is not to be raised and written off; and

*b* Goodwill is to be raised and written off.

**Solution:**

| Particulars | Madan | Gopal |
|---|---|---|
| Old Ratio | 3/5 | 2/5 |
| New Ratio | 1/3 | 1/3 |
| **Gain/Sacrifice** | **3/5− 1/3= 4/15** ***Sacrifice*** | **2/5− 1/3= 1/15** ***Sacrifice*** |
| **Sacrificing Ratio** | **4:1** | |

**Case a) Goodwill is not be raised and written off:**

**In the books of the Madan, Gopal and Sooraj**
**Journal**

| Date | Particulars | L.F. | Debit Amount ( ) | Credit Amount ( ) |
|---|---|---|---|---|
| 2019 April 01 | Sooraj's Capital A/c 4, 50, 000 × 1/3 Dr. | | 1,50,000 | |
| | To Madan's Capital A/c 1, 50, 000 × 4/5 | | | 1,20,000 |
| | To Gopal's Capital A/c 1, 50, 000 × 1/5 | | | 30,000 |
| | *Beingadjustmentforgoodwillnotbroughtbythepartner* | | | |

**Case b) Goodwill is to be raised and written off:**

**In the books of the Madan, Gopal and Sooraj**
**Journal**

| Date | Particulars | L.F. | Debit Amount ( ) | Credit Amount ( ) |
|---|---|---|---|---|
| 2019 | Goodwill A/c Dr. | | 4,50,000 | |
| April 01 | To Madan's Capital A/c 4, 50, 000 × 3/5 | | | 2,70,000 |
| | To Gopal's Capital A/c 4, 50, 000 × 2/5 | | | 1,80,000 |
| | *Beinggoodwillraisedinthebooksofaccounts* | | | |
| 2019 | | | | |
| April 01 | Sooraj's Capital A/c 4, 50, 000 × 1/3 Dr. | | 1,50,000 | |
| | Madan's Capital A/c 4, 50, 000 × 1/3 | | 1,50,000 | |
| | Gopal's Capital A/c 4, 50, 000 × 1/3 | | 1,50,000 | |
| | To Goodwill A/c | | | 4,50,000 |
| | *Beingadjustmentforgoodwillnotbroughtbythepartner* | | | |

**Question:41**

Anil and Sunil are partners in a firm with fixed capitals of 3,20,000 and 2,40,000 respectively. They admitted Charu as a new partner for 1/4th share in the profits of the firm on 1st April, 2012. Charu brought 3,20,000 as her share of capital.

Calculate value of goodwill and record necessary Journal entries.

**Solution:**

**Journal**

| Date | Particulars | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|
| | Bank A/c Dr. | | 3,20,000 | |
| | To Charu's Capital A/c | | | 3,20,000 |
| | *CapitalbroughtinbyCharu* | | | |
| | Charu's Current A/c Dr. | | 1,00,000 | |
| | To Anil's Current A/c | | | 50,000 |
| | To Sunil's Current A/c | | | 50,000 |
| | *Charu' sshareofgoodwilladjustedthroughcurrentaccounts* | | | |

**Working Notes:** Calculation of Hidden Goodwill

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

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

$$4,00,000$$

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

**Question:42**

*A* and *B* are partners in a firm with capital of 60,000 and 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 70,000 as his capital. Calculate amount of goodwill.

**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 = Rs 2, 50,000

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

$$\begin{aligned}\text{Goodwill} &= \text{Capitalised value of the firm} - \text{Actual Capital of the firm}\\ &= 2,80,000 - 2,50,000\\ &= \text{Rs } 30,000\end{aligned}$$

**Question:43**
Bhuwan and Shivam were partners in a firm sharing profits in the ratio of 3 : 2. Their capitals were 50,000 and 75,000 respectively. They admitted Atul on 1st April, 2018 as a new partner for 1/4th share in future profits. Atul brought 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.
**Solution:**
The journal entries are as follows:

**Journal**

| Date 2018 | Particulars | L.F. | Debit Amount *Rs* | Credit Amount *Rs* |
|---|---|---|---|---|
| April 1 | Bank/Cash A/c Dr. | | 75,000 | |
| | To Atul's Capital A/c | | | 75,000 |
| | *forcapitalbroughtonAtul ́sadmission* | | | |
| April 1 | Atul's Capital A/c Dr. | | 25,000 | |
| | To Bhuwan's Capital A/c | | | 15,000 |
| | To Shivam's Capital A/c | | | 10,000 |
| | *forgoodwilldistributedinsacrificingratioof*3 : 2 | | | |

Here, Atul is entered into partnership for $1/4^{th}$ share in future profits. He contributes Rs 75,000 towards 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 × Reciprocal of his share
i.e., = 75,000 × 4 = Rs 3,00,000
However, the total capital as at that date is Rs 2,00,000 *i. e.* 50, 000 + 75, 000 + 75, 000
So, the difference of 1,00,000 is hidden goodwill.
Atul's share in goodwill = $1/4^{th}$ of 1,00,000 = Rs 25,000

***Note***: In this case, as no information is provided for the share sacrificed by the old partners, so it is assumed that the old partners are sacrificing in their old profit share.

**Question:44**
Vinay and Naman are partners sharing profits in the ratio of 4 : 1. Their capitals were 90,000 and 70,000 respectively. They admitted Prateek for 1/3 share in the profits. Prateek brought 1,00,000 as his capital. Calculate the value of firm's goodwill.
**Solution:**
Prateek's Capital = ₹ 1,00,000
Capitalised Value of the firm = (Prateek's Capital × Reciprocal of his share of profits) = ₹ (1,00,000 × 3) = ₹ 3,00,000
Net Worth of the firm = Total Capital of all the Partners (including the new partner) = ₹ (90,000 + 70,000 + 1,00,000) = ₹ 2,60,000
Hidden Goodwill = (Capitalised Value of the firm − Net Worth of the firm) = ₹ (3,00,000 − 2,60,000) = ₹ 40,000
Thus, Value of firm's Goodwill is 40,000.

**Question:45**
*X* and *Y* are partners with capitals of 50,000 each. They admit *Z* as a partner for 1/4th share in the profits of the firm. *Z* brings in 80,000 as his share of capital. The Profit and Loss Account showed a credit balance of 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 Profit +

Z's Capital

= 50,000 + 50,000 + 40,000 + 80,000

= Rs 2,20,000

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

$$\begin{aligned}\text{Goodwill} &= \text{Capitalised value of the firm} - \text{Total Capital after Z's admission}\\ &= 3,20,000 - 2,20,000\\ &= \text{Rs } 1,00,000\end{aligned}$$

**Question:46**
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 brings 5,00,000 as his share of capital. The value of the total assets of the firm was 15,00,000 and outside liabilities were valued at 5,00,000 on that date. Give necessary Journal entry to record goodwill at the time of Ajay's admission. Also show your workings.
**Solution:**

**Journal**

| Date | Particulars | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|
| | 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 |
| | *Ajay ́sshareofgoodwilldistributedamongtheoldpartnersintheirsacrificingratio*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 = $5,00,000 \times \frac{5}{1}$ = Rs 25, 00, 000Net worth of the new firm = Total assets - Outside liabili

**Question:47**

Verma and Sharma are partners in a firm sharing profits and losses in the ratio of 5 : 3. They admitted Ghosh as a new partner for 1/5th share of profits. Ghosh is to bring in 20,000 as capital and 4,000 as his share of goodwill premium. Give the necessary Journal entries:

*a* When the amount of goodwill is retained in the business.
*b* When the amount of goodwill is fully withdrawn.
*c* When 50% of the amount of goodwill is withdrawn.
*d* When goodwill is paid privately.

**Solution:**

**Journal Entries**

| S.No. | Particulars | | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|---|
| Case *a* | | | | | |
| | Cash A/c | Dr. | | 24,000 | |
| | To Ghosh's Capital A/c | | | | 20,000 |
| | To Premium for Goodwill A/c | | | | 4,000 |
| | *CapitalandGoodwillhissharebroughtbyGhosh* | | | | |
| | Premium for Godwill A/c | Dr. | | 4,000 | |
| | To Verma's Capital A/c | | | | 2,500 |
| | To Sharma's Capital A/c | | | | 1,500 |
| | *GoodwillbroughtbyGhoshcreditedtoOldPartnersinSacrificingratio* | | | | |
| Case *b* | Cash A/c | Dr. | | 24,000 | |
| | To Ghosh Capital A/c | | | | 20,000 |
| | To Premium for Goodwill A/c | | | | 4,000 |
| | *CapitalandGoodwillbroughtbyGhoshfor*(1/5 share of profit) | | | | |
| | Premium for Goodwill A/c | Dr. | | 4,000 | |
| | To Verma's Capital A/c | | | | 2,500 |
| | To Sharma's Capital A/c | | | | 1,500 |
| | *GoodwillbroughtbyGhoshcreditedinOldPartnerinSacrificingRatio* | | | | |
| | Verma's Capital A/c | Dr. | | 2,500 | |
| | Sharma's Capital A/c | Dr. | | 1,500 | |
| | To Cash A/c | | | | 4,000 |
| | *AmountofPremiumforGoodwillwithdrawnbyOldPartners* | | | | |
| Case *c* | Cash A/c | Dr. | | 24,000 | |
| | To Ghosh's Capital A/c | | | | 20,000 |
| | To Premium for Goodwill A/c | | | | 4,000 |
| | *CapitalandGoodwillbroughtbyGhoshfor*(1/5 share of profit) | | | | |
| | Premium for Goodwill A/c | Dr. | | 4,000 | |
| | To Verma's Capital A/c | | | | 2,500 |
| | To Sharma's Capital A/c | | | | 1,500 |
| | *PremiumforGoodwillcreditedtoOldPartner′sCapitalAccountinsacrificingratio* | | | | |
| | Verma's Capital A/c | Dr. | | 1,250 | |
| | Sharma's Capital A/c | | | 750 | |
| | To Cash A/c | | | | 2,000 |
| | *HalfoftheamountofpremiumforgoodwillwithdrawnbyOldpartners* | | | | |
| Case *d* | No entry: Goodwill was not brought into firm | | | | |

**Question:48**

Disha and Divya are partners in a firm sharing profits in the ratio of 3 : 2 respectively. The fixed capital of Disha is 4,80,000 and of Divya is 3,00,000. On 1st April, 2019 they admitted Hina as a new partner for 1/5th share in future profits. Hina brought 3,00,000 as her capital. Calculate value of goodwill of the firm and record necessary Journal entries on Hina's admission.

**Solution:**

**Journal**

| Date | Particulars | | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|---|
| 2019 April 1 | Bank A/c | Dr. | | 3,00,000 | |
| | To Hina's Capital A/c | | | | 3,00,000 |
| | *CapitalbroughtinbyHina* | | | | |
| April 1 | Hina's Current A/c | Dr. | | 84,000 | |
| | To Disha's Current A/c | | | | 50,400 |
| | To Divya's Current A/c | | | | 33,600 |
| | *Hina′sShareofGoodwilladjustedthroughcurrentaccounts* | | | | |

**Working Note:**

*Calculation 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*: Adjusted capitals of old partners+Incoming partner's capital $= \underline{10{,}80{,}000}$

$\underline{\underline{4{,}20{,}000}}$

Hina's share of Goodwill:

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

**Question:49**

*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 April, 2019 for 1/3rd share. It was decided that *E, F* and *G* will share future profits equally. *G* brought  50,000 in cash and machinery valued at  70,000 as premium for goodwill.
Pass necessary Journal entries in the books of the firm.

**Solution:**

**Journal**

| Date | Particulars | | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|---|
| 2019 April 1 | Cash A/c | Dr. | | 50,000 | |
| | Machinery A/c | Dr. | | 70,000 | |
| | To Premium for Goodwill A/c | | | | 1,20,000 |
| | *GbroughtcashRs50, 000andMachineryRs70, 000forhisshareofGoodwill* | | | | |
| April 1 | Premium for Goodwill A/c | Dr. | | 1,20,000 | |
| | To E's Capital A/c | | | | 1,20,000 |
| | *GshareofgoodwilltransferredtoE′sCapitalAccount* | | | | |
| April 1 | F's Capital A/c | Dr. | | 30,000 | |
| | To E's Capital A/c | | | | 30,000 |
| | *F′sshareofgainingoodwillchargedfromhiscapitalandtransferredtoE′scapital* | | | | |

**Working Notes:**

***WN1***

$$\begin{array}{ll} & E : F \\ \text{Old Ratio} & = 3 : 1 \\ & E : F : G \\ \text{New Ratio} & = 9 : 1 : 1 \end{array}$$

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

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

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

***WN2***

Calculation of F's share of gain in goodwill

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

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

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

**Question:50**

Mr. *A* commenced business with a capital of  2,50,000 on 1st April, 2013. During the five years ended 31st March, 2018, the following profits and losses were made:
31st March, 2014–Loss  5,000
31st March, 2015–Profit  13,000
31st March, 2016–Profit  17,000
31st March, 2017–Profit  20,000
31st March, 2018–Profit  25,000
During this period he had drawn  40,000 for his personal use. On 1st April, 2018, 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, 2018 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 pass entries to record the transactions relating to admission.

**Solution:**

| | |
|---|---|
| Capital as on April 01, 2013 | 2,50,000 |
| *Less*: Loss in 2014 | 5,000 |
| *Add*: Profit in 2015 | 13,000 |
| *Add*: Profit in 2016 | 17,000 |
| *Add*: Profit in 2017 | 20,000 |
| *Add*: Profit in 2018 | 25,000 |
| | 3,20,000 |
| *Less*: Drawings | 40, 000 |
| A' Capital as on March 31, 2018 | **2,80,000** |

**Calculation of Goodwill**

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

$$\begin{aligned} \text{Goodwill of the firm} &= \text{Average Profit} \times \text{Number of Years purchases} \\ &= 14,000 \times 3 \\ &= \text{Rs } 42,000 \end{aligned}$$

$$\text{B's share of Goodwill} = 42,000 \times \frac{1}{2} = \text{Rs}21,000$$

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

**Journal**

| Date 2018 | Particulars | | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|---|
| April 1 | Cash A/c | Dr. | | 3,01,000 | |

| | | | | |
|---|---|---|---|---|
| | To B's Capital A/c<br>To Premium for Goodwill A/c<br>*Bbroughtcapitalandgoodwill* | | | 2,80,000<br>21,000 |
| April 1 | Premium for Goodwill A/c Dr.<br>To A's Capital A/c<br>*B's shareofgoodwilltransferredtoA's CapitalAccount* | | 21,000 | 21,000 |

**Question:51**
Pass entries in the firm's journal for the following on admission of a partner:
*i* Machinery be reduced by 16,000 and Building be appreciated by 40,000.
*ii* A provision be created for Doubtful Debts @ 5% of Debtors amounting to 80,000.
*iii* Provision for warranty claims be increased by 12,000.

**Solution:**

**Journal**

| Date | Particulars | L.F. | Debit Amount *Rs* | Credit Amount *Rs* |
|---|---|---|---|---|
| *i* | Revaluation A/c Dr.<br>To Machinery A/c<br>*Valueofmachinerydecreased* | | 16,000 | 16,000 |
| | Building A/c Dr.<br>To Revaluation A/c<br>*Valueofbuildingincreased* | | 40,000 | 40,000 |
| *ii* | Revaluation A/c<br>To Provision for Doubtful Debts A/c Dr<br>*Provisioncreatedondebtors* | | 4,000 | 4,000 |
| *iii* | Revaluation A/c Dr.<br>To Provision for Warranty Claims A/c<br>*Liabilityrecorded* | | 12,000 | 12,000 |

**Question:52**
Pass entries in firm's Journal for the following on admission of a partner:
*i* Unrecorded Investments worth 20,000.
*ii* Unrecorded liability towards suppliers for 5,000.
*iii* An item of 1,600 included in Sundry Creditors is not likely to be claimed and hence should be written back.
**Solution:**

**Journal**

| Date | Particulars | L.F. | Debit Amount *Rs* | Credit Amount *Rs* |
|---|---|---|---|---|
| *i* | Investment A/c Dr.<br>To Revaluation A/c<br>*Investmentsrecorded* | | 20,000 | 20,000 |
| *ii* | Revaluation A/c Dr.<br>To Creditors A/c<br>*Liabilityrecorded* | | 5,000 | 5,000 |
| *iii* | Creditors A/c<br>To Revaluation A/c Dr<br>*Liabilitydecreased* | | 1,600 | 1,600 |

**Question:53**
*X* and *Y* are partners in a firm sharing profits in the ratio of 3 : 2. They admitted *Z* as a partner and fixed the new profit-sharing ratio as 3 : 2 : 1. At the time of admission of *Z*, Debtors and Provision for Doubtful Debts appeared at 50,000 and 5,000 respectively all debtors are good. Pass the necessary Journal entries.
**Solution:**

**Journal**

| Date | Particulars | L.F. | Debit Amount *Rs* | Credit Amount *Rs* |
|---|---|---|---|---|
| *i* | Provision for Doubtful Debts A/c Dr.<br>To Revaluation A/c<br>*ProvisiononDebtorsreduced* | | 5,000 | 5,000 |
| *ii* | Revaluation A/c Dr.<br>To X's Capital A/c<br>To Y's Capital A/c<br>*ProfitonRevaluationtransferredtoPartners' CapitalA/c* | | 5,000 | 3,000<br>2,000 |

**Question:54**
*X* and *Y* are partners in a firm sharing profits in the ratio of 3 : 2. They admitted *Z* as a partner for 1/4th share. At the time of admission of *Z*, Stock *BookValue* 1, 00, 000 is to be reduced by 40% and Furniture *BookValue* 60, 000 is to be reduced to 40%. Pass the necessary Journal entries.
**Solution:**

**Journal**

| Date | Particulars | L.F. | Debit Amount *Rs* | Credit Amount *Rs* |
|---|---|---|---|---|
| | Revaluation A/c Dr.<br>To Stock A/c<br>To Furniture A/c<br>*Valueofassetsdecreased* | | 76,000 | 40,000<br>36,000 |
| | X's Capital A/c Dr.<br>Y's Capital A/c Dr.<br>To Revaluation A/c<br>*LossonRevaluationtransferredtoPartners' CapitalA/c* | | 45,600<br>30,400 | 76,000 |

**Question:55**

*X* and *Y* are partners sharing profits in the ratio of 3 : 2. They admitted *Z* as a partner for 1/4th share of profits. At the time of admission of *Z*, Investments appeared at 80,000. Half of the investments to be taken by *X* and *Y* in their profit-sharing ratio at book value. Remaining investments were valued at 50,000. Pass the necessary Journal entries.

**Solution:**

**Journal**

| Date | Particulars | L.F. | Debit Amount *Rs* | Credit Amount *Rs* |
|---|---|---|---|---|
| | X's Capital A/c Dr. | | 24,000 | |
| | Y's Capital A/c Dr. | | 16,000 | |
| | To Investments A/c | | | 40,000 |
| | *HalfoftheinvestmentstakenoverbyXandY* | | | |
| | Investment A/c Dr. | | 10,000 | |
| | To Revaluation A/c | | | 10,000 |
| | *Valueofinvestmentsincreased* | | | |
| | Revaluation A/c Dr. | | 10,000 | |
| | To X's Capital A/c | | | 6,000 |
| | To Y's Capital A/c | | | 4,000 |
| | *ProfitonrevaluationtransferredtoPartners' CapitalA/c* | | | |

**Question:56**

*X* and *Y* are partners in a firm sharing profits in the ratio of 3 : 2. They admitted *Z* as a partner for 1/4th share of profits. At the time of admission of *Z*, Debtors and Provision for Doubtful Debts appeared at 76,000 and 8,000 respectively. 6,000 of the debtors proved bad. A provision of 5% is to be created on Sundry Debtors for doubtful debts. Pass the necessary Journal entries.

**Solution:**

**Journal**

| Date | Particulars | L.F. | Debit Amount *Rs* | Credit Amount *Rs* |
|---|---|---|---|---|
| | Bad Debts A/c Dr. | | 6,000 | |
| | To Debtors A/c | | | 6,000 |
| | *Baddebtsincurred* | | | |
| | Provision for Doubtful Debts A/c Dr | | 6,000 | |
| | To Bad Debts A/c | | | 6,000 |
| | *Baddebtsadjusted* | | | |
| | Revaluation A/c (***WN*** 1) Dr. | | 1,500 | |
| | To Provision for Doubtful Debts A/c | | | 1,500 |
| | *Provisioncreated* | | | |
| | X's Capital A/c Dr. | | 900 | |
| | Y's Capital A/c Dr. | | 600 | |
| | To Revaluation A/c | | | 1,500 |
| | *LossonrevaluationtransferredtoPartners' CapitalA/c* | | | |

***Working Notes***:

***WN***1: *Calculation of Provision for Doubtful Debts*

*Provision to be created* = $(76{,}000 - 6{,}000) \times \frac{5}{100}$ = *Rs 3,500*

*Old Provision = Rs 2,000*

*New Provision to be created = 3,500 - 2,000 = 1,500*

**Question:57**

*X*, *Y* and *Z* are partners sharing profits and losses in the ratio of 6 : 3 : 1. They admitted *W* into partnership with effect from 1st April, 2019. New profit-sharing ratio between *X*, *Y*, *Z* and *W* was agreed to be 3 : 3 : 3 : 1. They also decide to record the effect of the following revaluations without affecting the book values of the assets and liabilities by passing an adjustment entry:

| | *Book Values* | *Revised Values* |
|---|---|---|
| Plant and Machinery | 3,50,000 | 3,40,000 |
| Land and Building | 5,00,000 | 5,50,000 |
| Trade Creditors | 1,00,000 | 90,000 |
| Outstanding Expenses | 85,000 | 1,00,000 |

Pass necessary adjustment entry.

**Solution:**

**Journal**

| Date | Particulars | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|
| 2019 April 1 | Z's Capital A/c Dr. | | 7,000 | |
| | W's Capital A/c Dr. | | 3,500 | |
| | To X's Capital A/c | | | 10,500 |
| | *Adjustmententrymade* | | | |

***Working Notes***:

***WN*** 1: *Gain/Loss on Revaluation*

Gain/Loss = Land & Building + Trade Creditors − Plant & Machinery − Outstanding Expenses
Gain/Loss = 50,000 + 10,000 − 10,000 − 15,000 = 35,000

***WN***2: *Calculation of Sacrifice or Gain*

$X : Y : Z = 6:3:1$ (Old Ratio)
$X : Y : Z : W = 3:3:3:1$ (New Ratio)
Sacrificing (or Gaining) ratio = Old Ratio - New Ratio

X's share = $\frac{6}{10} - \frac{3}{10} = \frac{6-3}{10} = \frac{3}{10}$ (Sacrifice)

Y's share = $\frac{3}{10} - \frac{3}{10} = \frac{3-3}{10} = 0$

Z's share = $\frac{1}{10} - \frac{3}{10} = \frac{1-3}{10} = -\frac{2}{10}$ (Gain)

W's share = $\frac{1}{10}$ (Gain)

***WN* 3**: *Adjustment of Revaluation Profit*

Amount credited in X's Capital A/c = $35,000 \times \frac{3}{10}$ = Rs 10,500

Amount debited in Z's Capital A/c = $35,000 \times \frac{2}{10}$ = Rs 7,000

Amount debited in W's Capital A/c = $35,000 \times \frac{1}{10}$ = Rs 3,500

**Question:58**
At the time of admission of a partner *C*, assets and liabilities of *A* and *B* were revalued as follows:
*a* A Provision for Doubtful Debts @10% was made on Sundry Debtors *SundryDebtors* 50, 000.
*b* Creditors were written back by 5,000.
*c* Building was appreciated by 20% *BookValueofBuilding* 2, 00, 000.
*d* Unrecorded Investments were valued at 15,000.
*e* A Provision of 2,000 was made for an Outstanding Bill for repairs.
*f* Unrecorded Liability towards suppliers was 3,000.
Pass necessary Journal entries.
**Solution:**

**Journal**

| Date | Particulars | | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|---|
| | Creditors A/c | Dr. | | 5,000 | |
| | Building A/c | Dr. | | 40,000 | |
| | Investments A/c | Dr. | | 15,000 | |
| | To Revaluation A/c | | | | 60,000 |
| | *IncreaseinassetsanddecreaseinliabilitiestransferredtoRevaluationAccount* | | | | |
| | Revaluation A/c | Dr. | | 10,000 | |
| | 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 |
| | *Increaseinliabilities, decreaseinassetsandcreationofreservesandprovisionstransferredtoRevaluationAccount* | | | | |
| | Revaluation A/c | Dr. | | 50,000 | |
| | To Old Partners' Capital A/c | | | | 50,000 |
| | *ProfitonRevaluationtransferredtoPartners' Capital* | | | | |

**Question:59**
*X* and *Y* are partners in a firm sharing profits and losses in the ratio of 3 : 2. On 1st April, 2019, they admit *Z* as a partner for 1/5th share in profits. On that date, there was a balance of 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 Amount | Credit Amount |
|---|---|---|---|---|---|
| 2019 April 1 | General Reserve A/c | Dr. | | 1,50,000 | |
| | To X's Capital A/c | | | | 90,000 |
| | To Y's Capital A/c | | | | 60,000 |
| | *AdjustmentofbalanceinGeneralReserveA/cinoldratio* | | | | |
| | X's Capital A/c | Dr. | | 12,000 | |
| | Y's Capital A/c | Dr. | | 8,000 | |
| | To Profit and Loss A/c | | | | 20,000 |
| | Adjustment of debit balance in P&L A/c in old ratio | | | | |

***Working Notes***:

***WN*1** *Calculation of Share of General Reserve*

X's share = $1,50,000 \times \frac{3}{5} = 90,000$Y's share = $1,50,000 \times \frac{2}{5} = 60,000$

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

X's share = $20,000 \times \frac{3}{5} = 12,000$Y's share = $20,000 \times \frac{2}{5} = 8,000$

**Question:60**
*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 2,50,000 and a credit balance of 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 Amount *Rs* | Credit Amount *Rs* |
|---|---|---|---|---|---|
| | 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 |
| | Adjustment of balance in General Reserve A/c and P&L A/c in old ratio | | | |

***Working Notes***:

***WN1*** *Calculation of Share of General Reserve & P&L A/c*

X's share $= 3,00,000 \times \frac{2}{3} = 2,00,000$ Y's share $= 3,00,000 \times \frac{1}{3} = 1,00,000$

**Question:61**

*a* *X*, *Y* and *Z* are partners sharing profits and losses in the ratio of 5 : 3 : 2. They admit *W* as partner for 1/6th share. Following is the extract of the Balance Sheet on the date of admission:

| Liabilities | | Assets | |
|---|---|---|---|
| General Reserve | | Advertisement Suspense | 24,000 |
| Contingency | 36,000 | A/c | |
| Reserve | 6,000 | | |
| Profit and Loss A/c | 18,000 | | |

Pass necessary Journal entries.

*b* *A* and *B* were partners in a firm sharing profit in 4 : 3 ratio. On 1st April, 2019, they admitted *C* as a new partner. On the date of *C*'s admission, the Balance Sheet of *A* and B showed a General Reserve of 84,000 and a debit balance of 8,400 in the 'Profit and Loss Account'. Pass necessary Journal entries for the treatment of these items on *C*'s admission.

*c* Give the Journal entry to distribute 'Workmen Compensation Reserve' of 72,000 at the time of admission of *Z*, when there is no claim against it. The firm has two partners *X* and *Y*.

*d* Give the Journal entry to distribute 'Workmen Compensation Reserve' of 72,000 at the time of admission of *Z*, when there is claim of 48,000 against it. The firm has two partners *X* and *Y* .

*e* Give the Journal entry to distribute 'Investment Fluctuation Reserve' of 24,000 at the time of admission of *Z*, when Investment *MarketValue* 1, 10, 000 appears at 1,20,000. The firm has two partners *X* and *Y*.

*f* Give the Journal entry to distribute 'General Reserve' of 4,800 at the time of admission of *Z*, when 20% of General Reserve is to be transferred to Investment Fluctuation Reserve. The firm has two partners *X* and *Y* .

*g* *A*, *B* and *C* were partners sharing profits and losses in the ratio of 6 : 3 : 1. They decide to take *D* into partnership with effect from 1st April, 2019. The new profit-sharing ratio between *A*, *B*, *C* and *D* will be 3 : 3 : 3 : 1. They also decide to record the effect of the following without affecting their book values, by passing a single adjustment entry:

| | Book Values |
|---|---|
| General Reserve | 1,50,000 |
| Contingency Reserve | 60,000 |
| Profit and Loss A/c *Cr.* | 90,000 |
| Advertisement Suspense A/c *Dr.* | 1,20,000 |

Pass the necessary single adjustment entry, through the Partner's Current Account.

**Solution:**

**Journal**

| Date | Particulars | | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|---|
| 2019 April 1 | General Reserve A/c | Dr. | | 36,000 | |
| | Contingency Reserve A/c | Dr. | | 6,000 | |
| | Profit & Loss A/c | Dr. | | 18,000 | |
| | To X's Capital A/c | | | | 30,000 |
| | To Y's Capital A/c | | | | 18,000 |
| | To Z's Capital A/c | | | | 12,000 |
| | *Reservesdistributed* | | | | |
| | X's Capital A/c | Dr. | | 12,000 | |
| | Y's Capital A/c | Dr. | | 7,200 | |
| | Z's Capital A/c | Dr. | | 4,800 | |
| | To Advertisement Suspense A/c | | | | 24,000 |
| | *AdvertisementSuspensedistributed* | | | | |
| April 1 | General Reserve A/c | Dr. | | 84,000 | |
| | To A's Capital A/c | | | | 48,000 |
| | To B's Capital A/c | | | | 36,000 |
| | *GeneralReservedistributed* | | | | |
| | A's Capital A/c | Dr | | 4,800 | |
| | B's Capital A/c | Dr. | | 3,600 | |
| | To Profit & Loss A/c | | | | 8,400 |
| | Profit & Loss A/c distributed | | | | |
| April 1 | Workmen Compensation Reserve A/c | Dr. | | 72,000 | |
| | To X's Capital A/c | | | | 36,000 |
| | To Y's Capital A/c | | | | 36,000 |
| | *WorkmenCompensationReservedistributed* | | | | |
| April 1 | Workmen Compensation Reserve A/c | Dr. | | 72,000 | |
| | To Workmen Compensation Claim A/c | | | | 48,000 |
| | To X's Capital A/c | | | | 12,000 |
| | To Y's Capital A/c | | | | 12,000 |
| | *SurplusWorkmenCompensationReservedistributed* | | | | |
| April 1 | Investment Fluctuation Reserve A/c | Dr. | | 24,000 | |
| | To Investment A/c | | | | 10,000 |
| | To X's Capital A/c | | | | 7,000 |
| | To Y's Capital A/c | | | | 7,000 |
| | *SurplusInvestmentFluctuationReservedistributed* | | | | |
| April 1 | General Reserve A/c | Dr. | | 4,800 | |
| | To Investment Fluctuation Reserve A/c | | | | 960 |
| | To X's Capital A/c | | | | 1,920 |
| | To Y's Capital A/c | | | | 1,920 |
| | *SurplusGeneralReservedistributed* | | | | |
| April 1 | C's Current A/c | Dr. | | 36,000 | |
| | D's Current A/c | Dr. | | 18,000 | |
| | To A's Current A/c | | | | 54,000 |
| | *Adjustmententrymade* | | | | |

***Working Notes:***

***WN1:*** *Calculation of Sacrifice or Gain*

*A :B :C = 6:3:1 (Old Ratio)*

*A :B :C :D: = 3:3:3:1 (New Ratio)*

*Sacrificing (or Gaining) Ratio = Old Ratio - New Ratio*

*A's share* = $\frac{6}{10} - \frac{3}{10} = \frac{6-3}{10} = \frac{3}{10}$ *(Sacrifice)*

*B's share* = $\frac{3}{10} - \frac{3}{10} = 0$

*C's share* = $\frac{1}{10} - \frac{3}{10} = \frac{1-3}{10} = -\frac{2}{10}$ *(Gain)*

*D's share* = $0 - \frac{1}{10} = -\frac{1}{10}$ *(Gain)*

***WN2:*** *Calculation of Net Effect*

| | |
|---|---|
| General Reserve | 1,50,000 |
| Contingency Reserve | 60,000 |
| Profit and Loss A/c *Cr.* | 90,000 |
| | **3,00,000** |
| *Less*: Advertisement Suspense A/c *Dr.* | 1,20,000 |
| | **1,80,000** |

***WN*** 3: *Adjustment of Net Effect*

*Amount credited in A's Current A/c* = $1{,}80{,}000 \times \frac{3}{10}$ = *Rs 54,000*

*Amount debited in C's Current A/c* = $1{,}80{,}000 \times \frac{2}{10}$ = *Rs 36,000*

*Amount debited in D's Current A/c* = $1{,}80{,}000 \times \frac{1}{10}$ = *Rs 18,000*

**Question:62**

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

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

**Journal**

| Date | Particulars | | L.F. | Debit Amount Rs | Credit Amount Rs |
|---|---|---|---|---|---|
| | Cash A/c | Dr. | | 3,300 | |
| | To W's Capital A/c | | | | 1,800 |
| | To Premium for Goodwill A/c | | | | 1,500 |
| | *Wbroughthisshareofgoodwillandcapitalincash* | | | | |
| | 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 |
| | *PremiumforgoodwilldistributedbetweenX, YandZinsacrificingratio* | | | | |
| | Revaluation A/c | Dr. | | 270 | |
| | To Motors A/c | | | | 250 |
| | To Furniture A/c | | | | 20 |
| | *DecreaseinvalueofMotorsandFurnituretransferredtoRevaluationAccount* | | | | |
| | 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 |
| | *LossonrevaluationtransferredtoCapitalAccount* | | | | |

**Balance Sheet**

*after admission of W*

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

**Working Notes:**

***WN1***

| | X | : | Y | : | Z |
|---|---|---|---|---|---|
| Sacrificing Ratio = | 1 | : | 1 | : | 1 |

***WN2***

Distribution of Premium for Goodwill

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

***WN3***

Distribution of loss Revaluation

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

**Question:63**

*A* and *B* are carrying on business in partnership and sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2019 stood as:

| Liabilities | | | Assets | |
|---|---|---|---|---|
| Creditors | | 11,800 | Cash | 1,500 |
| A's Capital | 51,450 | | Stock | 28,000 |
| B's Capital | 36,750 | 88,200 | Debtors | 19,500 |
| | | | Furniture | 2,500 |
| | | | Machinery | 48,500 |
| | | **1,00,000** | | **1,00,000** |

They admit *C* into partnership on 1st April, 2019 and give him 1/8th share in future profits on the following terms:

*a* Goodwill of the firm be valued at twice the average of the last three years' profits which amounted to  21,000;  24,000 and  25,560.

*b C* is to bring cash for the amount of his share of goodwill.

*c C* is to bring cash  15,000 as his capital.

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

**Solution:**

**Journal**

| Date | Particulars | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|
| 2019 Apr.1 | Cash A/c Dr. | | 20,880 | |
| | To C's Capital A/c | | | 15,000 |
| | To Premium for Goodwill A/c | | | 5,880 |
| | *Cbroughtcapitalandshareofgoodwill* | | | |
| | Premium for Goodwill A/c Dr. | | 5,880 | |
| | To A's Capital A/c | | | 3,528 |
| | To B's Capital A/c | | | 2,352 |
| | *PremiumforGoodwilldistributedbetweenAandBinsacrificingratioi. e.* 3:1 | | | |

**Partners' Capital Account**

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

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

**Balance Sheet**

*after Admission of C*

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

**Calculation of New Profit Sharing Ratio**

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

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

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

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

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

$= \frac{7}{8}$

$\text{New Ratio} = \text{Old Ratio} \times \text{Combined share of X and Y}$

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

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

$$\begin{array}{lc} & A : B : C \\ \text{New Profit Sharing Ratio} = & \frac{21}{40} : \frac{14}{40} : \frac{1}{8} \end{array}$$

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

$= 21:14:5$

**Working Note-**

***WN1***

Calculation of Goodwill

$$\text{Average Profit} = \frac{21,000 + 24,000 + 25,560}{3}$$
$$= \text{Rs } 23,520$$

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

$$= 23,520 \times 2$$
$$= \text{Rs } 47,040$$

$$\text{C's share of Goodwill} = 47,040 \times \frac{1}{8} = \text{Rs } 5,880$$

***WN2***

Distributionof Premium for Goodwill

$$\text{A will get} = 5,880 \times \frac{3}{5}$$
$$= \text{Rs } 3,528$$

$$\text{B will get} = 5,880 \times \frac{2}{5}$$
$$= \text{Rs } 2,352$$

**Question:64**

Following was the Balance Sheet of *A* and *B* who were sharing profits in the ratio of 2 : 1 as at 31st March, 2019:

| Liabilities | | | Assets | |
|---|---|---|---|---|
| Capital A/cs: | | | Building | 25,000 |
| *A* | 15,000 | | Plant and Machinery | 17,500 |
| *B* | 10,000 | 25,000 | Stock | 10,000 |
| Sundry Creditors | | 32,950 | Sundry Debtors | 4,850 |
| | | | Cash in Hand | 600 |
| | | **57,950** | | **57,950** |

They admit *C* into partnership on the following terms:

*a* *C* was to bring 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 Provision for Doubtful Debts was to be created in respect of Sundry Debtor 375.

*d* Building was to be appreciated by 10%.

Pass necessary Journal entries to give effect to the arrangements. Prepare Profit and Loss Adjustment Account *orRevaluationAccount*, Partners' Capital Accounts and Balance Sheet of the new firm.

**Solution:**

**Journal**

| Date | Particulars | | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|---|
| | 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 |
| | *DecreaseinstockandPlantandcreationofReserveforDoubtfulDebttransferredtoProfitandLossAdjustmentAccount* | | | | |
| | Building A/c | Dr. | | 2,500 | |
| | To Profit and Loss Adjustment A/c | | | | 2,500 |
| | *IncreaseinvalueofBuildingoftransferredtoProfitandlossAdjustmentAccounts* | | | | |
| | Profit and Loss Adjustment A/c | | | 750 | |
| | To A's Capital A/c | | | | 500 |
| | To B's Capital A/c | | | | 250 |
| | *ProfitonrevaluationofassetandliabilitiesdistributedbetweenAandBintheiroldratio* | | | | |
| | Cash A/c | Dr. | | 10,500 | |
| | To C's Capital A/c | | | | 7,500 |
| | To Premium for Goodwill A/c | | | | 3,000 |
| | *Cbroughtcapitalandshareofgoodwill* | | | | |
| | Premium for Goodwill A/c | Dr. | | 3,000 | |
| | To A's Capital A/c | | | | 2,000 |
| | To B's Capital A/c | | | | 1,000 |
| | *PremiumforGoodwilldistributedbetweenAandBintheirsacrificingratioi. e*2 : 1 | | | | |

**Profit and Loss Adjustment Account**

Dr. Cr.

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Stock | 500 | | |
| Plant and Machinery | 875 | Building | 2,500 |
| Reserve for Doubtful Debts | 375 | | |
| Profit transferred to | | | |
| A Capital | 500 | | |
| B Capital | 250 | | |
| | **2,500** | | **2,500** |

**Partners' Capital Accounts**

Dr. Cr.

| Particulars | A | B | C | Particulars | A | B | C |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 15,000 | 10,000 | |
| | | | | Cash | | | 7,500 |
| | | | | Premium for Goodwill | 2,000 | 1,000 | |
| Balance c/d | 17,500 | 11,250 | 7,500 | Profit and Loss Adjustment (*Profit*) | 500 | 250 | |
| | **17,500** | **11,250** | **7,500** | | **17,500** | **11,250** | **7,500** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | |

**Balance Sheet**

*as on March 31, 2016 after admission of C*

| Liabilities | | Amount | Assets | | Amounts |
|---|---|---|---|---|---|
| Capital Accounts: | | | Building $25,000+2,500$ | | 27,500 |
| A | 17,500 | | Plant and Machinery $17,500-875$ | | 16,625 |
| B | 11,250 | | Stock $10,000-500$ | | 9,500 |
| C | 7,500 | 36,250 | | | |
| Sundry Creditors | | 32,950 | Sundry Debtors | 4,850 | |
| | | | *Less*: Provision for D. Debts | 375 | 4,475 |
| | | | Cash in Hand $600+10,500$ | | 11,100 |
| | | **69,200** | | | **69,200** |

**Working Notes:**

***WN1***

$$\begin{array}{ll} & A : B \\ \text{Sacrificing Ratio} = & 2 : 1 \end{array}$$

***WN2***

Distribution of Premium for Goodwill (*in sacrificing ratio*)

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

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

***WN3***

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

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

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

**Question:65**

Given below is the Balance Sheet of *A* and *B*, who are carrying on partnership business on 31st March, 2019. *A* and *B* share profits and losses in the ratio of 2 : 1.

**BALANCE SHEET OF A AND B**

*as at 31st March, 2019*

| Liabilities | | | Assets | |
|---|---|---|---|---|
| Bills Payable | | 10,000 | Cash in Hand | 10,000 |
| Creditors | | 58,000 | Cash at Bank | 40,000 |
| Outstanding Expenses | | 2,000 | Sundry Debtors | 60,000 |
| Capital A/cs: | | | Stock | 40,000 |
| *A* | 1,80,000 | | Plant | 1,00,000 |
| *B* | 1,50,000 | 3,30,000 | Building | 1,50,000 |
| | | **4,00,000** | | **4,00,000** |

*C* is admitted as a partner on 1st April, 2019 on the following terms:

*a C* will bring 1,00,000 as his capital and 60,000 as his share of goodwill for 1/4th share in the profits.

*b* Plant is to be appreciated to 1,20,000 and the value of building is to be appreciated by 10%.

*c* Stock is found overvalued by 4,000.

*d* A provision for doubtful debts is to be created at 5% of sundry debtors.

*e* Creditors were unrecorded to the extent of 1,000.

Pass the necessary Journal entries, prepare the Revaluation Account and Partners' Capital Accounts, and show the Balance Sheet after the admission of *C*.

**Solution:**

**Journal**

| Date | Particulars | | L.F. | Amount | Amount |
|---|---|---|---|---|---|
| 2019 Mar 31 | Bank A/c | Dr. | | 1,60,000 | |
| | To C's Capital A/c | | | | 1,00,000 |
| | To Premium for Goodwill A/c | | | | 60,000 |
| | *CapitalandpremiumforgoodwillbroughtbyCfor1/4share* | | | | |
| | Premium for Goodwill A/c | Dr. | | 60,000 | |
| | To A's Capital A/c | | | | 40,000 |
| | To B's Capital A/c | | | | 20,000 |
| | *PremiumforGoodwillbroughttransferredtooldpartners´capitalaccountintheirsacrificingratio* | | | | |
| | Plant A/c | Dr. | | 20,000 | |
| | Building A/c | Dr. | | 15,000 | |
| | To Revaluation A/c | | | | 35,000 |
| | *Increaseinvalueofassets* | | | | |
| | Revaluation A/c | Dr. | | 8,000 | |
| | To Stock | | | | 4,000 |
| | To Provision for Doubtful Debts A/c | | | | 3,000 |
| | To Creditors A/c *Unrecorded* | | | | 1,000 |
| | *Assetsandliabilitiesrevalued* | | | | |
| | Revaluation A/c | Dr. | | 27,000 | |
| | To A's Capital A/c | | | | 18,000 |
| | To B's Capital A/c | | | | 9,000 |
| | *Profitonrevaluationtransferredtooldpartners* | | | | |

**Revaluation Account**

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

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Stock | 4,000 | Plant | 20,000 |

| | | | | |
|---|---|---|---|---|
| Provision for Doubtful Debts | | 3,000 | Building | 15,000 |
| Creditors *Unrecorded* | | 1,000 | | |
| Revaluation Profit | | | | |
| A's Capital | 18,000 | | | |
| B's Capital | 9,000 | 27,000 | | |
| | | **35,000** | | **35,000** |

**Partners' Capital Account**

Dr. Cr.

| Particulars | A | B | C | Particulars | A | B | C |
|---|---|---|---|---|---|---|---|
| Balance c/d | 2,38,000 | 1,79,000 | 1,00,000 | Balance b/d | 1,80,000 | 1,50,000 | |
| | | | | Bank | | | 1,00,000 |
| | | | | Premium for Goodwill | 40,000 | 20,000 | |
| | | | | Revaluation | 18,000 | 9,000 | |
| | **2,38,000** | **1,79,000** | **1,00,000** | | **2,38,000** | **1,79,000** | **1,00,000** |

**Balance Sheet**
**as on March 31, 2019**

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Bills Payable | | 10,000 | Cash in Hand | | 10,000 |
| Creditors | | 59,000 | Cash at Bank | | 2,00,000 |
| Outstanding Expenses | | 2,000 | Sundry Debtors | 60,000 | |
| | | | *Less*: Provision for Doubtful Debt | 3,000 | 57,000 |
| Capital: | | | | | |
| A | 2,38,000 | | Stock | | 36,000 |
| B | 1,79,000 | | Plant | | 1,20,000 |
| C | 1,00,000 | 5,17,000 | Building | | 1,65,000 |
| | | **5,88,000** | | | **5,88,000** |

***Note**: Since no information is given about the share of sacrifice, it is assumed that the old partners are sacrificing in their old profit sharing ratio.*

**Question:66**

Balance Sheet of *J* and *K* who share profits in the ratio of 3 : 2 is as follows:

**BALANCE SHEET**
*as at 31st March, 2019*

| 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 | 2,50,000 | | |
| | | **3,50,000** | | **3,50,000** |

*M* joins the firm from 1st April, 2019 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 profit-sharing ratios of the partners.

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

*c* If *M* acquires his share of profit in the ratio of 3 : 1 from 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 Amount | Credit Amount |
|---|---|---|---|---|---|
| 2019 Apr.1 | 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 |
| | *Mbroughtcapitalandhisofgoodwillincash* | | | | |
| Apr.1 | Premium for Goodwill A/c | Dr. | | 1,00,000 | |
| | To J's Capital A/c | | | | 60,000 |
| | To K's Capital A/c | | | | 40,000 |
| | *PremiumforGoodwilldistributedbetweenJandKintheirSacrificingRatio* | | | | |
| Apr.1 | Reserve A/c | Dr. | | 1,00,000 | |
| | To J's Capital A/c | | | | 60,000 |
| | To K's Capital A/c | | | | 40,000 |
| | *ReservedistributionbetweenMandJintheiroldratio* | | | | |

**Partners' Capital Accounts**

Dr. Cr.

| Particulars | J | K | M | Particulars | J | K | M |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 1,50,000 | 1,00,000 | |
| | | | | Cash | | | 3,00,000 |
| | | | | Premium for Goodwill | 60,000 | 40,000 | |
| Balance c/d | 2,70,000 | 1,80,000 | 3,00,000 | Reserve | 60,000 | 40,000 | |
| | **2,70,000** | **1,80,000** | **3,00,000** | | **2,70,000** | **1,80,000** | **3,00,000** |

**Balance Sheet**
*as on April 01, 2019 after M's admission*

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|

| | | | |
|---|---|---|---|
| | | Cash $2,00,000+4,00,000$ | 6,00,000 |
| J's Capital | 2,70,000 | Other Assets | 1,50,000 |
| K's Capital | 1,80,000 | | |
| M's Capital | 3,00,000 | | |
| | **7,50,000** | | **7,50,000** |

Calculation of Future *New* Profit Sharing Ratio

$$\begin{array}{lcc} & M & : & J \\ \text{Old Ratio} & 3 & : & 2 \end{array}$$

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

Let the combined share of all partners after admission of M be = 1

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

$$\text{New Ratio} = \text{Old Ratio} \times \text{Combined share of J and K}$$

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

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

$$\text{New Profit Sharing Ratio} = \begin{array}{ccccc} J & : & K & : & M \\ \frac{3}{10} & : & \frac{2}{10} & : & \frac{1}{2} \end{array}$$

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

**Working Notes-**

***WN1***

Distribution of Premium for Goodwill (*in sacrificing ratio*)

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

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

***WN2***

Distribution of General Reserve (*in old ratio*)

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

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

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

**Journal**

| **Date** | **Particulars** | | **L.F.** | **Debit Amount** | **Credit Amount** |
|---|---|---|---|---|---|
| 2019 April 1 | Reserve A/c | Dr. | | 1,00,000 | |
| | To J's Capital A/c | | | | 60,000 |
| | To K's Capital A/c | | | | 40,000 |
| | *ReservedistributedbetweenJandKinoldratio* | | | | |
| April 1 | 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 |
| | *Mbroughtcapitalandhisshareofgoodwill* | | | | |
| April 1 | 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 |
| | *PremiumforGoodwilldistributedbetweenJandKinsacrificingRaitoi. e*1 : 1 | | | | |

**Partners' Capital Accounts**

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

| **Particulars** | **J** | **K** | **M** | **Particulars** | **J** | **K** | **M** |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 1,50,000 | 1,00,000 | |
| | | | | Cash | | | 3,00,000 |
| | | | | Premium for Goodwill | 50,000 | 50,000 | |
| Balance c/d | 2,60,000 | 1,90,000 | 3,00,000 | Reserve | 60,000 | 40,000 | |
| | **2,60,000** | **1,90,000** | **3,00,000** | | **2,60,000** | **1,90,000** | **3,00,000** |

**Balance Sheet**

*as on April 01, 2019 after M's admission*

| **Liabilities** | **Amount** | **Assets** | **Amount** |
|---|---|---|---|
| J's Capital | 2,60,000 | Cash $2,00,000+4,00,000$ | 6,00,000 |
| K's Capital | 1,90,000 | Others Assets | 1,50,000 |
| M's Capital | 3,00,000 | | |
| | **7,50,000** | | **7,50,000** |

Calculation of future *new* profit sharing ratio

$$\begin{array}{lcc} & J & : & K \\ \text{Old Ratio} & 3 & : & 2 \end{array}$$

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

J and K each will sacrifice in favour of $M = \frac{1}{2} \times \frac{1}{2} = \frac{1}{4}$

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

$$\text{J's} \quad = \frac{3}{5} - \frac{1}{4} = \frac{7}{20}$$

$$\text{K's} \quad = \frac{2}{5} - \frac{1}{4} = \frac{3}{20}$$

$$\begin{array}{lccccc} & J & : & K & : & M \\ \text{New Profit Sharing Ratio} = & \frac{7}{20} & : & \frac{3}{20} & : & \frac{1}{2} \end{array}$$

$$= \frac{7:3:10}{20}$$

$$\begin{array}{lccc} & J & : & K \\ \text{Sacrificing Ratio} = & \frac{1}{4} & : & \frac{1}{4} = 1:1 \end{array}$$

**Working Notes:**

***WN1***
Distribution of Premium for Goodwill (*in Sacrificing ratio*)

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

***WN2***
Distribution of General Reserve (*in old ratio*)

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

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

***c*** If M acquires his share of profit in the ratio of 3:1 from the original partners

**Journal**

| Date | Particulars | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|
| 2019 Apr.1 | Reserve A/c Dr. | | 1,00,000 | |
| | To J's Capital A/c | | | 60,000 |
| | *ReservedistributedbetweenJandKatthetimeofM's admission* | | | |
| April 1 | 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 |
| | *MbroughtCapitalhisshareofGoodwill* | | | |
| April 1 | 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 |
| | *PremiumforGoodwilldistributedbetweenJandKintheirsacrificingratioi.e3:1* | | | |

**Partners' Capital Accounts**

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

| Particulars | J | K | M | Particulars | J | K | M |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 1,50,000 | 1,00,000 | |
| | | | | Cash | | | 3,00,000 |
| | | | | Premium for Goodwill | 75,000 | 25,000 | |
| | | | | Reserve | 60,000 | 40,000 | |
| Balance c/d | 2,85,000 | 1,65,000 | 3,00,000 | | | | |
| | **2,85,000** | **1,65,000** | **3,00,000** | | **2,85,000** | **1,65,000** | **3,00,000** |

**Balance Sheet**
*as on April 01, 2019 after M's admission*

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| J's Capital | 2,85,000 | Cash $2,00,000 + 4,00,000$ | 6,00,000 |
| K's Capital | 1,65,000 | Other Assets | 1,50,000 |
| M's Capital | 3,00,000 | | |
| | **7,50,000** | | **7,50,000** |

Calculation of Future *New* Profit Sharing Ratio

$$\begin{array}{lc} & J : K \\ \text{Old Ratio} & 3 : 2 \end{array}$$

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

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

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

New Ratio = Old Ratio − Sacrificing Ratio

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

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

$$\begin{array}{lccccc} & J & : & K & : & M \\ \text{New Profit Sharing Ratio} = & \frac{9}{40} & : & \frac{11}{40} & : & \frac{1}{2} \end{array}$$

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

**Working Notes:**

***WN1***

Distribution of Premium for Goodwill (*in sacrificing ratio*)

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

$$\text{K will get} = 1,00,000 \times \frac{1}{4} = \text{Rs } 25,000$$

***WN2***

Distribution of Reserve *inoldratio*

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

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

**Question:67**

The Balance Sheet of Madhu and Vidhi who are sharing profits in the ratio of 2 : 3 as at 31st March, 2016 is given below:

| Liabilities | | Assets | | |
|---|---|---|---|---|
| Madhu's Capital | 5,20,000 | Land and Building | | 3,00,000 |
| Vidhi's Capital | 3,00,000 | Machinery | | 2,80,000 |
| General Reserve | 30,000 | Stock | | 80,000 |
| Bills Payable | 1,50,000 | Debtors | 3,00,000 | |
| | | *Less*: Provision | 10,000 | 2,90,000 |
| | | Bank | | 50,000 |
| | 10,00,000 | | | 10,00<br>,000 |

Madhu and Vidhi decided to admit Gayatri as a new partner from 1st April, 2016 and their new profit-sharing ratio will be 2 : 3 : 5. Gayatri brought  4,00,000 as her capital and her share of goodwill premium in cash.

*a* Goodwill of the firm was valued at  3,00,000.

*b* Land and Building was found undervalued by  26,000.

*c* Provision for doubtful debts was to be made equal to 5% of the debtors.

*d* There was a claim of  6,000 on account of workmen compensation.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.

**Solution:**

**Revaluation Account**

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

| Particulars | | Amount Rs | Particulars | Amount Rs |
|---|---|---|---|---|
| Provision for Doubtful Debts | | 5,000 | Land &Building | 26,000 |
| Claim against Workmen Compensation | | 6,000 | | |
| Revaluation Profit | | | | |
| Madhu's Capital | 6,000 | | | |
| Vidhi's Capital | 9,000 | 15,000 | | |
| | | **26,000** | | **26,000** |

**Partners' Capital Account**

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

| Particulars | Madhu | Vidhi | Gayatri | Particulars | Madhu | Vidhi | Gayatri |
|---|---|---|---|---|---|---|---|
| Balance c/d | 5,98,000 | 4,17,000 | 4,00,000 | Balance b/d | 5,20,000 | 3,00,000 | |
| | | | | Bank | | | 4,00,000 |
| | | | | General Reserve | 12,000 | 18,000 | |
| | | | | Premium for Goodwill | 60,000 | 90,000 | |
| | | | | Revaluation | 6,000 | 9,000 | |
| | **5,98,000** | **4,17,000** | **4,00,000** | | **5,98,000** | **4,17,000** | **4,00,000** |

**Balance Sheet**
**as on March 31, 2016**

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Bills Payable | | 1,50,000 | Bank 50, 000 + 4, 00, 000 + 1, 50, 000 | | 6,00,000 |
| Claim for Workmen Compensation | | 6,000 | Sundry Debtors | 3,00,000 | |
| Capital: | | | *Less*: Provision for Doubtful Debt | 15,000 | 2,85,000 |
| Madhu | 5,98,000 | | Stock | | 80,000 |
| Vidhi | 4,17,000 | | Machinery | | 2,80,000 |
| Gayatri | 4,00,000 | 14,15,000 | Land &Building | | 3,26,000 |
| | | **15,71,000** | | | **15,71,000** |

***Working Notes***:

***WN*1**: *Calculation of Gayatri's Share of Goodwill*

Gayatri's share $= 3,00,000 \times \frac{5}{10} = 1,50,000$ (to be shared in 2:3)

***WN*1**: *Calculation of Sacrificing Ratio*

Sacrificing Ratio = Old Ratio – New Ratio

Madhu = $\frac{2}{5}-\frac{2}{10}=\frac{2}{10}$

Vidhi = $\frac{3}{5}-\frac{3}{10}=-\frac{3}{10}$

**Question:68**

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, 2019 was:

| Liabilities | | | Assets | |
|---|---|---|---|---|
| Sundry Creditors | | 12,435 | Cash in Hand | 710 |
| Capital A/cs: | | | 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, 2019, they admitted Shanker into partnership for 1/3rd share in future profits on the following terms:

*a* Shanker is to bring in   30,000 as his capital and   20,000 as goodwill which 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.
*e* Unaccounted Accrued Income of   2,400 to be provided for. A debtor, whose dues of   4,800 were written off as bad debts, paid 50% in full settlement.
*f* Outstanding Rent amounted to   4,800.
Show Profit and Loss Adjustment Account *RevaluationAccount*, Capital Accounts of Partners and opening Balance Sheet of the new firm.

**Solution:**

**Profit and Loss Adjustment Account**

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

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| Stock | | 1,800 | Building | 15,000 |
| Furniture | | 440 | Accrued Income | 2,400 |
| Provision for Doubtful Debts | | 275 | Bad Debts Recovered | 2,400 |
| Outstanding Rent | | 4,800 | | |
| Profit transferred to | | | | |
| Shyamlal Capital | 4,994 | | | |
| Sanjay Capital | 7,491 | 12,485 | | |
| | | **19,800** | | **19,800** |

**Partners' Capital Account**

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

| Particulars | Shyamlal | Sanjay | Shanker | Particulars | Shyamlal | Sanjay | Shanker |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 34,050 | 34,050 | |
| | | | | Cash A/c | | | 30,000 |
| | | | | Premiumf or Goodwill | 8,000 | 12,000 | |
| Balance c/d | 47,044 | 53,541 | 30,000 | Revaluation | 4,994 | 7,491 | |
| | **47,044** | **53,541** | **30,000** | | **47,044** | **53,541** | **30,000** |

**Balance Sheet**

*as on April 01, 2019 after Shanker's admission*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Sundry Creditors | | 12,435 | Cash in Hand 710 + 50, 000 + 2, 400 | | 53,110 |
| Capital A/cs: | | | Cash at Bank | | 11,925 |
| Shyamlal | 47,044 | | Sundry Debtors | 5,500 | |
| Sanjay | 53,541 | | *Less*: Provision for D. Debts | 275 | 5,225 |
| Shanker | 30,000 | 1,30,585 | Stock 18, 000– 1, 800 | | 16,200 |
| Outstanding Rent | | 4,800 | Building 40, 000 + 15, 000 | | 55,000 |
| | | | Furniture 4, 400– 440 | | 3,960 |
| | | | Accrued Income | | 2,400 |
| | | **1,47,820** | | | **1,47,820** |

**Working Notes:**

| | Shyam Lal | : | Sanjay |
|---|---|---|---|
| Sacrificing Ratio = | 2 | : | 3 |

***WN1***

Distribution of Premium for Goodwill (*in sacrificing ratio*)

Shyamlal will get = $20,000\times\frac{2}{5}$ = Rs 8, 000Sanjay will get = $20,000\times\frac{3}{5}$ = Rs 12, 000

***WN2***

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

Shyam lal will get $=12,485\times\frac{2}{5}=$ Rs 4, 994

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

**Question:69**

*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, 2019 is as follows:

| Liabilities | | | Assets | |
|---|---|---|---|---|
| Capital A/cs: | | | 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 partner on 1st April, 2019 for equal share. His capital is to be   50,000.
Following adjustments are agreed on *D*'s admission:
*a* Out of the Creditors, a sum of   10,000 is due to *D*, it will be adjusted against his capital.
*b* Advertisement Expenses of   1,200 are to be carried forward as Prepaid Expenses.
*c* Expenses debited in the Profit and Loss Account includes a sum of   2,000 paid for *B*'s personal expenses.
*d* A Bill of Exchange of   4,000, which was previously discounted with the bank, was dishonoured on 31st March, 2019 but entry was not passed for dishonour.
*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 | Amount | Particulars | | Amount |
|---|---|---|---|---|
| Provision for doubtful Debts | 1,700 | Prepaid Advt. Expense | | 1,200 |
| A's Capital (*Rev. Exp.*) | 2,100 | B's Capital (*Personal Exp.*) | | 2,000 |
| | | Loss transferred to | | |
| | | A Capital | 300 | |
| | | B Capital | 200 | |
| | | C Capital | 100 | 600 |
| | **3,800** | | | **3,800** |

**Partners' Capital Accounts**

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

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

**Balance Sheet**
*as on April 01,2019 after D's admission*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Capital Accounts: | | | 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 | |
| Creditors | 30,000 | | *Add*: B/R dishonor | 4,000 | |
| *Less*: D's Capital | 10,000 | 20,000 | *Less*: 5% Provision for D Debts | 1, 700 | 32,300 |
| Bill Payable | | 10,000 | | | |
| | | | Bills Receivable | | 20,000 |
| | | | Bank 10, 000 + 40, 000 – 4, 000 | | 46,000 |
| | | **2,39,500** | | | **2,39,500** |

**WN1:** Distribution of Loss on Revaluation

*A's Capital will be debited by* = $600 \times \frac{3}{6}$ = *Rs 300 B's Capital will be debited by* = $600 \times \frac{2}{6}$ = *Rs 200 C's Capital will be debited by* = $600 \times \frac{1}{6}$ = *Rs 100*

**Question:70**

On 31st March, 2017, the Balance Sheet of Abhir and Divya, who were sharing profits in the ratio of 3 : 1 was as follows:

BALANCE SHEET OF ABHIR AND DIVYA *as on 31st March, 2017*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Creditors | | 2,20,000 | Cash at Bank | | 1,40,000 |
| Employees' Provident Fund | | 1,00,000 | Debtors | 6,50,000 | |
| Investment Fluctuation Fund | | 1,00,000 | *Less*: Provision for Bad Debts | 50,000 | 6.00,000 |
| General Reserve | | 1,20,000 | Stock | | 3,00,000 |
| Capitals: | | | Investments *Marketvalue* 4, 40, 000 | | 5,00,000 |
| Abhir | 6,00,000 | | | | |
| Divya | 4,00,000 | 10,00,000 | | | |
| | | **15,40,000** | | | **15,40,000** |

They decided to admit Vibhor on 1st April, 2017 for 1/5th share.
*a* Vibhor shall bring   80,000 as his share of goodwill premium.
*b* Stock was overvalued by   20,000.
*c* A debtor whose dues of   5,000 were written off as bad debts, paid   4,000 in full settlement.
*d* Two months' salary @   6,000 per month was outstanding.

*e* Vibhor was to bring in Capital to the extent of 1/5th of the total capital of the new firm.
Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.
**Solution:**

**In the books of Abhir, Divya and Vibhor**

**Dr.** **Revaluation A/c** **Cr.**

| Particulars | Amount | Particulars | | Amount |
|---|---|---|---|---|
| To Stock A/c | 20,000 | By Cash A/c | | 4,000 |
| To Outstanding Salary A/c $6,000 \times 2$ | 12,000 | **By Loss on Revaluation transferred to:** | | **28,000** |
| | | Abhir's Capital A/c | 21,000 | |
| | | Divya's Capital A/c | 7,000 | |
| | **32,000** | | | **32,000** |

**Dr.** **Partner's Capital A/c** **Cr.**

| Particulars | Abhir ( ) | Divya ( ) | Vibhor ( ) | Particulars | Abhir ( ) | Divya ( ) | Vibhor ( ) |
|---|---|---|---|---|---|---|---|
| To Revaluation A/c *Loss* | 21,000 | 7,000 | | By balance b/d | 6,00,000 | 4,00,000 | |
| | | | | By Bank A/c *WN*2 | | | 3,03,000 |
| To balance c/d | 7,59,000 | 4,53,000 | 3,03,000 | By Premium for Goodwill A/c | 60,000 | 20,000 | |
| | | | | By Investment Fluctuation Fund A/c $1,00,000 - 40,000$ | 30,000 | 10,000 | |
| | | | | By General Reserve A/c | 90,000 | 30,000 | |
| | **7,80,000** | **4,60,000** | **3,03,000** | | **7,80,000** | **4,60,000** | **3,03,000** |

**Working Notes:**

**1. Calculation of New profit-sharing ratio**

| | | |
|---|---|---|
| Vibhor's Share of Profits | = | **1/5** |
| Remaining Profits | = | 1 − 1/5 = 4/5 |
| Abhir's New Share of Profits | = | 3/5 × 4/5 = 12/25 |
| Divya's New Share of Profits | = | 2/5 × 4/5 = 8/25 |
| **Abhir : Divya : Vibhor** | **=** | **12 : 8 : 5** |

**2. Calculation of Vibhor's Capital**

Total Adjusted Capital of the Old Partners = Abhir's Capital + Divya's Capital= $7,59,000 + 4,53,000 =$ 12,12,000

Combined New Share of the Old Partners = 12/25 + 8/25 = 20/25

Total Capital of the firm = *AdjustedCapitaloftheOldPartners* × *ReciprocalofCombinedNewShareoftheOldPartners*
= $12,12,000 \times 25/20 =$ 15,15,000
**Vibhor's Capital** = Total Capital of the firm × His Profit share
= $15,15,000 \times 1/5 =$ **3,03,000**

**Balance Sheet**
**as at 31st March, 2018**

| Liabilities | | Amount ( ) | Assets | | Amount ( ) |
|---|---|---|---|---|---|
| Capitals: | | | Cash at Bank | | 5,27,000 |
| Abhir | 7,59,000 | | $1,40,000 + 4,000 + 3,03,000 + 80,000$ | | |
| Divya | 4,53,000 | | Debtors | 6,50,000 | |
| Vibhor | 3,03,000 | 15,15,000 | *Less:* Provision for Bad Debts | 50,00 | 6,00,000 |
| Employee's Provident Fund | | 1,00,000 | Stock | | 2,80,000 |
| Creditors | | 2,20,000 | Investments | | 4,40,000 |
| Outstanding Salary | | 12,000 | | | |
| | | **18,47,000** | | | **18,47,000** |

**Question:71**

*X* and *Y* share profits in the ratio of 5 : 3. Their Balance Sheet as at 31st March, 2019 was:

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Creditors | | 15,000 | Cash at Bank | | 5,000 |
| Employees' Provident Fund | | 10,000 | Sundry Debtors | 20,000 | |
| Workmen Compensation Reserve | | 5,800 | *Less*: Provision for Doubtful Debts | 600 | 19,400 |
| Capital A/cs: | | | Stock | | 25,000 |
| *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 1st April, 2019. *Z* brings 20,000 as his capital and 12,000 for goodwill in cash. *Z* acquires his share from *X*. Following revaluations are also made:
*a* Employees' Provident Fund liability is to be increased by 5,000.
*b* All Debtors are good.
*c* Stock includes 3,000 for obsolete items.
*d* Creditors are to be paid 1,000 more.
*e* Fixed Assets are to be revalued at 70,000.
Prepare Journal entries, necessary accounts and new Balance Sheet. Also, calculate new profit-sharing ratio.
**Solution:**

**Revaluation Account**

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

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Stock | 3,000 | Provision for D. Debts | 600 |
| Creditors | 1,000 | | |
| Fixed Assets | 10,000 | Loss transferred to | |
| Provident Fund | 5,000 | X Capital | 11,500 |
| | | Y Capital | 6,900 |

| | | | |
|---|---|---|---|
| | 19,000 | | 19,000 |

**Partners' Capital Accounts**

Dr. Cr.

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

**Balance Sheet**
*as on March 31, 2019 after Z's admission*

| Particulars | | Amount | Assets | Amount |
|---|---|---|---|---|
| Creditors $15,000+1,000$ | | 16,000 | Land and Building | 5,000 |
| Provident Fund $10,000+5,000$ | | 15,000 | Sundry Debtors | 20,000 |
| Capital A/cs: | | | 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**

***WN1***: ***Distribution of Revaluation Loss***

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

$$\text{Y's Capital Account will be credited by} = 18,400\times\frac{3}{8} = \text{Rs}6,900$$

***WN2***: ***Distribution Accumulated Loss***

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

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

***WN3***: ***Distribution of Workmen's Compensation Fund***

$$\text{X's Capital Account will be credited} = 5,800\times\frac{5}{8} = \text{Rs } 3,625$$

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

***WN4***: Z's premium for goodwill will be transferred to X's Capital Account because Z receives his entire share from X.

***WN5***: ***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 Y is $\frac{3}{8}$

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

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

**Question:72**

*X* and *Y* are partners in a firm sharing profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2019 was as follows:

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Outstanding Rent | | 13,000 | Cash | | 10,000 |
| Creditors | | 20,000 | Sundry Debtors | 80,000 | |
| Workmen Compensation Reserve | | 5,600 | *Less* : Provision for Doubtful Debts | 4,000 | 76,000 |
| Capital A/cs: *X* | 50,000 | | Stock | | 20,000 |
| *Y* | 60,000 | 1,10,000 | Profit and Loss A/c | | 4,000 |
| | | | Machinery | | 38,600 |
| | | 1,48,600 | | | 1,48,600 |

On 1st April, 2019, they admitted Z as a partner for 1/6th share on the following terms:

*i* Z brings in 40,000 as his share of Capital but he is unable to bring any amount for Goodwill.
*ii* Claim on account of Workmen Compensation is 3,000.
*iii* To write off Bad Debts amounted to 6,000.
*iv* Creditors are to be paid 2,000 more.
*v* There being a claim against the firm for damages, liabilities to the extent of 2,000 should be created.
*vi* Outstanding rent be brought down to 11,200.

*vii* Goodwill is valued at $1\frac{1}{2}$ years' purchase of the average profits of last 3 years, *less* 12,000. Profits for the last 3 years amounted to 10,000; 20,000 and 30,000.
Pass Journal entries, prepare Partners' Capital Accounts and opening Balance Sheet.

**Solution:**

**Journal**

| Date | Particulars | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|

| Date | Particulars | | L.F. | Dr. | Cr. |
|---|---|---|---|---|---|
| 2019 April 1 | Revaluation A/c | Dr. | | 2,000 | |
| | To Provision for Doubtful Debts A/c | | | | 2,000 |
| | *Provisionondebtorsincreased* | | | | |
| April 1 | Revaluation A/c | Dr. | | 2,000 | |
| | To Creditors A/c | | | | 2,000 |
| | *Creditorsincreased* | | | | |
| April 1 | Revaluation A/c | Dr. | | 2,000 | |
| | To Claim for Damages A/c | | | | 2,000 |
| | *Liabilityincreased* | | | | |
| April 1 | Outstanding Rent A/c | Dr. | | 1,800 | |
| | To Revaluation A/c | | | | 1,800 |
| | *Liabilitydecreased* | | | | |
| April 1 | X's Capital A/c | Dr | | 2,520 | |
| | Y's Capital A/c | Dr | | 1,680 | |
| | To Revaluation A/c | | | | 4,200 |
| | *LossonrevaluationtransferredtoPartners' CapitalA/c* | | | | |
| April 1 | Workmen Compensation Reserve A/c | Dr. | | 5,600 | |
| | To Workmen Compensation Claim A/c | | | | 3,000 |
| | To X's Capital A/c | | | | 1,560 |
| | To Y's Capital A/c | | | | 1,040 |
| | *SurplusWorkmenCompensationReservedistributed* | | | | |
| April 1 | Bank A/c | Dr | | 40,000 | |
| | To Z's Capital A/c | | | | 40,000 |
| | *Capitalbroughtincash* | | | | |
| April 1 | Z's Current A/c | Dr. | | 3,000 | |
| | To X's Capital A/c | | | | 1,800 |
| | To Y's Capital A/c | | | | 1,200 |
| | *Goodwilladjustedintheratio3:2* | | | | |

**Partners' Capital Accounts**

Dr. Cr.

| Particulars | X | Y | Z | Particulars | X | Y | Z |
|---|---|---|---|---|---|---|---|
| Profit & Loss A/c | 2,400 | 1,600 | | Balance b/d | 50,000 | 60,000 | |
| Revaluation A/c | 2,520 | 1,680 | | Bank A/c | | | 40,000 |
| Balance c/d | 48,440 | 58,960 | 40,000 | Workmen Compensation Reserve | 1,560 | 1,040 | |
| | | | | Z's Current A/c | 1,800 | 1,200 | |
| | 53,360 | 62,240 | 40,000 | | 53,360 | 62,240 | 40,000 |

**Balance sheet**

*as on 1st April, 2019 after Z's admission*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Outstanding Rent | | 11,200 | Cash | | 50,000 |
| Workmen Compensation Claim | | 3,000 | Stock | | 20,000 |
| Creditors | | 22,000 | Machinery | | 38,600 |
| Claim for Damages | | 2,000 | Z 's Current A/c | | 3,000 |
| Capital | | | Debtors | 80,000 | |
| X | 48,440 | | *Less* : Provision for D.D. | 6,000 | 74,000 |
| Y | 58,960 | | | | |
| Z | 40,000 | 1,47,400 | | | |
| | | 1,85,600 | | | 1,85,600 |

***Working Notes***:

***WN***1: *Calculation of Goodwill*

*Average Profit* = $\frac{10,000+20,000+30,000}{3} = \frac{60,000}{3}$ = *Rs 20,000*

*Goodwill = Average Profits × Number of years' purchase*

*= (20,000 × 1.5) - 12,000 = 30,000 - 12,000 = Rs 18,000*

***WN*** 2: *Calculation of Z's share of goodwill*

*Z's share of goodwill* = $18,000 \times \frac{1}{6}$ = *Rs 3,000*

**Question:73**

Rajesh and Ravi are partners sharing profits in the ratio of 3 : 2. Their Balance Sheet at 31st March, 2019 stood as:

**BALANCE SHEET *as at 31st March, 2019***

| Liabilities | | | Assets | | |
|---|---|---|---|---|---|
| Creditors | | 38,500 | Cash | | 2,000 |
| Outstanding Rent | | 4,000 | Stock | | 15,000 |
| Capital A/cs: | | | Prepaid Insurance | | 1,500 |
| Rajesh | 29,000 | | Debtors | 9,400 | |
| Ravi | 15,000 | | *Less* : Provision for Doubtful Debts | 400 | 9,000 |
| | | | Machinery | | 19,000 |
| | | | 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 decrease by 5%;
*b* Provision for Doubtful Debts is to be 500;
*c* Furniture to decrease by 10%;
*d* Building is valued at 40,000.

Show necessary Ledger Accounts and Balance Sheet of new firm.

**Solution:**

**Revaluation Account**

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

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| Stock | | 750 | Building | 5,000 |
| Provision for D. Debts | 500 | | | |
| *Less*: Old Provision | 400 | 100 | | |
| Furniture | | 500 | | |
| Profit on Revaluation transferred to | | | | |
| Rajesh Capital | | 2,190 | | |
| Ravi Capital | | 1,460 | | |
| | | **5,000** | | **5,000** |

**Partners' Capital Accounts**

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

| Particulars | Rajesh | Ravi | Raman | Particulars | Rajesh | Ravi | Raman |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 29,000 | 15,000 | |
| | | | | Revaluation | 2,190 | 1,460 | |
| Balance c/d (before and just went of Goodwill) | 31,190 | 16,460 | 16,000 | Cash | | | 16,000 |
| | **31,190** | **16,460** | **16,000** | | **31,190** | **16,460** | **16,000** |
| Rajesh's Capital | | | 1,635 | Balance c/d | 31,190 | 16,460 | 16,000 |
| Raman's Capital | | | 1,635 | Raman's Capital | 1,635 | 1,635 | |
| 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, 2019 after Raman's admission*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Creditors | | 38,500 | Cash 2, 000 + 16, 000 | | 18,000 |
| Outstanding Rent | | 4,000 | Stock 15, 000– 750 | | 14,250 |
| Capital A/cs: | | | Prepaid Insurance | | 1,500 |
| Rajesh | 32,825 | | Debtors | 9,400 | |
| Ravi | 18,095 | | *Less*: Provision for D. 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-**

***WN1*** Calculation of Sacrificing Ratio

$$\text{Old Ratio} = \begin{array}{ccc} \text{Rajesh} & : & \text{Ravi} \\ 3 & : & 2 \end{array}$$

$$\text{New Ratio} = \begin{array}{ccccc} \text{Rajesh} & : & \text{Ravi} & : & \text{Raman} \\ 5 & : & 3 & : & 2 \end{array}$$

Sacrificing Ratio = Old Ratio – New Ratio

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

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

$$\text{Sacrificing Ratio} = \begin{array}{ccc} \text{Rajesh} & : & \text{Ravi} \\ \frac{1}{10} & : & \frac{1}{10} \end{array} = 1:1$$

***WN2*** Calculation of Goodwill

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

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

$$\text{Goodwill of the firm} = \text{Capitalised value of the firm} - \text{Actual capital of all partners before adjustment of goodwill}$$
$$= 80,000 - 63,650$$
$$= \text{Rs } 16,350$$

Raman's share of Goodwill $= 16,350 \times \frac{2}{10}$

$= \text{Rs } 3,270$

***WN3*** Adjustment of Raman's share of goodwill

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

**Journal**

| Particulars | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Raman's Capital A/c Dr. | | 3,270 | |
| To Rajesh's Capital A/c | | | 1,635 |
| To Ravi's Capital A/c | | | 1,635 |
| *Raman's share of goodwill adjusted* | | | |

***WN4*** Distribution of Profit on Revaluation (*in old ratio*)

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

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

**Question:74**

*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, 2019 on which date the Balance Sheet of the firm was:

| Liabilities | | | Assets | |
|---|---|---|---|---|
| Capital A/cs: | | | Building | 50,000 |
| *A* | 60,000 | | Plant and Machinery | 30,000 |
| *B* | 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 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 2018-19.
*d* Depreciation on Building of 3,000 had been omitted for the year 2018-19.
*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* An expense of 1,200 for insurance premium was debited in the Profit and Loss Account of 2018-19 but 600 of this are related to the period after 31st March, 2019.

**Solution:**

**Revaluation Account**

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

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Stock $(2,000-400)$ | 1,600 | | |
| Bank *charges* | 200 | Prepaid Insurance | 600 |
| Building | 3,000 | | |
| Creditors | 800 | Loss transferred to | |
| | | A Capital | 3,000 |
| | | B Capital | 2,000 |
| | **5,600** | | **5,600** |

**Partners' Capital Accounts**

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

| Particulars | A | B | C | Particulars | A | B | C |
|---|---|---|---|---|---|---|---|
| Revaluation | 3,000 | 2,000 | | Balance b/d | 60,000 | 40,000 | |
| | | | | Bank | | | 30,000 |
| | | | | Premium for Goodwill | 6,000 | 4,000 | |
| Balance c/d | 63,000 | 42,000 | 30,000 | | | | |
| | **66,000** | **44,000** | **30,000** | | **66,000** | **44,000** | **30,000** |

**Balance Sheet**

*as on April 01, 2019 after C's admission*

| Liabilities | | Amount | Assets | Amount |
|---|---|---|---|---|
| Capital A/cs: | | | Building $(50,000-3,000)$ | 47,000 |
| A | 63,000 | | Plant and Machinery | 30,000 |
| B | 42,000 | | Stock $(20,000-1,600)$ | 18,400 |
| C | 30,000 | 1,35,000 | 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 | Amount | Particulars | Amount |
|---|---|---|---|
| Balance b/d | 10,000 | Revaluation *(Bank charges)* | 200 |
| C's Capital | 30,000 | | |
| Premium for Goodwill | 10,000 | Balance c/d | 49,800 |
| | **50,000** | | **50,000** |

**Working Notes:**

***WN1*** *Sacrificing Ratio*
Old Ratio *(A and B)* 3 : 2
Sacrificing Ratio = 3 : 2

***WN2*** *Distribution of Premium for Goodwill*

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

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

**Question:75**

Divya, Yasmin and Fatima are partners in a firm, sharing profits and losses in 11 : 7 : 2 respectively. The Balance Sheet of the firm on 31st March, 2018 was as follows:

BALANCE SHEET *as at 31st March, 2018*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Sundry Creditors | | 70,000 | Factory Building | | 7,35,000 |
| Public Deposits | | 1,19,000 | Plant and Machinery | | 1,80,000 |
| Reserve Fund | | 90,000 | Furniture | | 2,60,000 |
| Outstanding Expenses | | 10,000 | Stock | | 1,45,000 |
| Capital A/cs: | | | Debtors | 1,50,000 | |
| Divya | 5,10,000 | | *Less*: Provision | 30, 000 | 1,20,000 |
| Yasmin | 3,00,000 | | Cash at Bank | | 1,59,000 |
| Fatima | 5,00,000 | 13,10,000 | | | |
| | | **15,99,000** | | | **15,99,000** |

On 1st April, 2018, Aditya is admitted as a partner for one-fifth share in the profits with a capital of  4,50,000 and necessary amount for his share of goodwill on the following terms:
*a* Furniture of  2,40,000 were to be taken over Divya, Yasmin and Fatima equally.
*b* A creditor of  7,000 not recorded in books to be taken into account.
*c* Goodwill of the firm is to be valued at 2.5 years' purchase of average profits of last two years. The profit of the last three years were:
2015-16 –  6,00,000; 2016-17 –  2,00,000; 2017-18 –  6,00,000.
*d* At time of Aditya's admission. Yasmin also brought in  50,000 as fresh capital.
*e* Plant and Machinery is re-valued to  2,00,000 and expenses outstanding were brought down to  9,000.
Prepare Revaluation Account, Partners Capital Account and the Balance Sheet of the reconstituted firm.

**Solution:**

**In the books of Divya, Yasmin, Fatima and Aditya**

**Dr.** **Revaluation A/c** **Cr.**

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| To Sundry Creditors A/c | | 7,000 | By Plant and Machinery A/c | 20,000 |
| To Profit Transferred to: | | | By Outstanding Expenses A/c | 1,000 |
| Divya's Capital A/c | 7,700 | | | |
| Yasmin's Capital A/c | 4,900 | | | |
| Fatima's Capital A/c | 1,400 | 14,000 | | |
| | | **21,000** | | **21,000** |

**Dr.** **Partner's Capital A/c** **Cr.**

| Particulars | Divya | Yasmin | Fatima | Aditya | Particulars | Divya | Yasmin | Fatima | Aditya |
|---|---|---|---|---|---|---|---|---|---|
| To Furniture A/c | 80,000 | 80,000 | 80,000 | | By balance b/d | 5,10,000 | 3,00,000 | 5,00,000 | |
| | | | | | By Bank A/c | | 50,000 | | 4,50,000 |
| To balance c/d | 5,97,200 | 3,76,400 | 4,50,400 | 4,50,000 | By Premium for Goodwill A/c | 1,10,000 | 70,000 | 20,000 | |
| | | | | | By Reserve Fund A/c | 49,500 | 31,500 | 9,000 | |
| | | | | | By Revaluation A/c | 7,700 | 4,900 | 1,400 | |
| | **6,77,200** | **4,56,400** | **5,30,400** | **4,50,000** | | **6,77,200** | **4,56,400** | **5,30,400** | **4,50,000** |

**Working Notes:**

**Calculation of Goodwill brought in by Aditya**

| | | |
|---|---|---|
| Average Profits | = | (Normal profits from 31st March, 2017 to 31st March, 2018)/2 |
| | = | $2,00,000 + 6,00,000/2 =$ 4,00,000 |
| Goodwill | = | Average Profits × No. of years of Purchase |
| | = | $4,00,000 \times 2.5 =$ 10,00,000 |
| **Goodwill brought in by Aditya** | = | $10,00,000 \times 1/5 =$ **2,00,000** |

**Balance Sheet**
**as at 31st March, 2019**

| Liabilities | | Amount ( ) | Assets | | Amount ( ) |
|---|---|---|---|---|---|
| Capitals: | | | Factory Building | | 7,35,000 |
| Divya | 5,97,200 | | Plant and Machinery | | 2,00,000 |
| Yasmin | 3,76,400 | | Furniture | | 20,000 |
| Fatima | 4,50,400 | | Stock | | 1,45,000 |
| Aditya | 4,50,000 | 18,74,000 | Debtors | 1,50,000 | |
| Sundry Creditors | | 77,000 | *Less:* Provision | 30, 000 | 1,20,000 |
| Public Deposits | | 1,19,000 | Cash at Bank | | 8,59,000 |
| Outstanding Expenses | | 9,000 | $1,59,000 + 2,00,000 + 50,000 + 4,50,000$ | | |
| | | **20,79,000** | | | **20,79,000** |

**Question:76**

*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, 2019 on which date, the Balance Sheet of the firm was:

| 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 liability of 4,000, which has been decided by the court at 3,200.
*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 the new firm.
**Solution:**

**Revaluation Account**

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

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Bad Debts | 2,000 | Stock | 2,000 |
| Provision for Doubtful Debts $4,000 \times 50$ | 2,000 | Creditors $4,000 - 3,200$ | 800 |
| | | Loss transferred to | |
| | | A Capital | 720 |
| | | B Capital | 480 |
| | **4,000** | | **4,000** |

**Partners' Capital Accounts**

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

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

**Balance Sheet**
*as on April 01, 2019 after C's admission*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Capital A/cs: | | | Building | | 50,000 |
| A | 58,280 | | Plan and Machinery | | 30,000 |
| B | 45,520 | | Stock $18,000 \times 100/90$ | | 20,000 |
| C | 25,000 | 1,28,800 | Debtors | 22,000 | |
| Creditors $20,000 - 800$ | | 19,200 | *Less*: Bad Debts | 2,000 | |
| Outstanding Expenses | | 5,000 | *Less*: Prov. for D. Debts | 2,000 | 18,000 |
| | | | Bank $5,000 + 30,000$ | | 35,000 |
| | | **1,53,000** | | | **1,53,000** |

**Working Notes**

***WN1***

$$\begin{array}{lccc} & A & : & B \\ \text{Old Ratio} & \frac{1}{2} & : & \frac{1}{3} = 3:2 \\ \text{Sacrificing Ratio} = & 3 & : & 2 \end{array}$$

***WN2***
Distribution of Reserve

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

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

***WN3***
Distribution of Premium for Goodwill

$$\text{A will get} = 5,000 \times \frac{3}{5} = \text{Rs } 3,000$$

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

**Question:77**
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 at 31st March, 2019***

| Liabilities | | | Assets | |
|---|---|---|---|---|
| Capital A/cs: | | | 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, 2019, 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* Values of the fixed assets of the firm will be increased by 10% before the admission of *D*.
*c* Mohan, an old customer whose account was written off as bad debts, has promised to pay 3,000 in full settlement of his dues.
*d* 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 | Amount | Particulars | | Amount |
|---|---|---|---|---|
| | | <u>Fixed Assets</u>: | | |
| | | Furniture | $95,000 \times 10\%$ | 9,500 |
| Profit transferred to | | Business Premises | $2,05,000 \times 10\%$ | 20,500 |

| | | | |
|---|---|---|---|
| A Capital | 15,000 | | |
| B Capital | 10,000 | | |
| C Capital | 5,000 | | |
| | **30,000** | | **30,000** |

**Partners' Capital Accounts**

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

| Particulars | A | B | C | D | Particulars | A | B | C | D |
|---|---|---|---|---|---|---|---|---|---|
| A's Capital *Goodwill* | | | 7,500 | | Balance b/d | 1,20,000 | 1,20,000 | 1,20,000 | |
| B's Capital *Goodwill* | | | 2,500 | | Revaluation (*Profit*) | 15,000 | 10,000 | 5,000 | |
| | | | | | Cash | | | | 1,20,000 |
| Balance c/d | 1,65,000 | 1,40,000 | 1,15,000 | 1,20,000 | Premium for Goodwill | 22,500 | 7,500 | | |
| | | | | | C's Capital (*Goodwill*) | 7,500 | 2,500 | | |
| | **1,65,000** | **1,40,000** | **1,25,000** | **1,20,000** | | **1,65,000** | **1,40,000** | **1,25,000** | **1,20,000** |

**Balance Sheet**

*as on April 1, 2019, after D's admission*

| Liabilities | | Amount | Assets | Amount |
|---|---|---|---|---|
| Capital A/cs: | | | Furniture $95,000 + 9,500$ | 1,04,500 |
| A | 1,65,000 | | Business Premises $2,05,000 + 20,500$ | 2,25,500 |
| B | 1,40,000 | | Stock-in-Trade | 40,000 |
| C | 1,15,000 | | Debtors | 28,000 |
| D | 1,20,000 | 5,40,000 | Cash at Bank | 15,000 |
| Sundry Creditors | | 20,000 | Cash in hand $4,200 + 1,50,000$ | 1,54,200 |
| Outstanding salaries and wages | | 7,200 | | |
| | | **5,67,200** | | **5,67,200** |

**Working Note:**

***WN1*** Calculation of Sacrificing Ratio

$$\begin{array}{lccccccc} & A & : & B & : & C & & \\ \text{Old Ratio} & 3 & : & 2 & : & 1 & & \\ & A & : & B & : & C & : & D \\ \text{New Ratio} & 1 & : & 1 & : & 1 & : & 1 \end{array}$$

Sacrificing Ratio = Old Ratio − New Ratio

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

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

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

$$\begin{array}{lccc} & A & : & B \\ \text{Sacrificing Ratio} & \frac{6}{24} & : & \frac{2}{24} = 3:1 \end{array}$$

***WN2*** Calculation of C's gain in goodwill

$$\text{Goodwill of the firm} = \text{D's Goodwill} \times \frac{4}{1}$$

$$= 30,000 \times \frac{4}{1} = \text{Rs}\,1,20,000$$

$$\text{C's gain in goodwill} = 1,20,000 \times \frac{2}{24} = \text{Rs}\,10,000$$

***WN3*** Amount of Goodwill to be distributed between A and B (*Sacrificing Partners*)

Premium for Goodwill = Rs 30,000

$$\text{A will get} = 30,000 \times \frac{3}{4} = \text{Rs } 22,500$$

$$\text{B will get} = 30,000 \times \frac{1}{4} = \text{Rs } 7,500$$

Distribution of C's gain in Goodwill

$$\text{A will get} = 10,000 \times \frac{3}{4} = \text{Rs } 7,500$$

$$\text{B will get} = 10,000 \times \frac{1}{4} = \text{Rs } 2,500$$

***WN4*** Journal Entries for D's Capital and distribution of goodwill

| Particulars | | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|
| Cash A/c | Dr. | | 1,50,000 | |
| To D's Capital A/c | | | | 1,20,000 |
| To Premium for Goodwill A/c | | | | 30,000 |
| *DbroughtCapitalandshareofCapital* | | | | |
| Premium for Goodwill | Dr. | | 30,000 | |
| C's Capital A/c | Dr. | | 10,000 | |
| To A's Capital A/c | | | | 30,000 |
| To B's Capital | | | | 10,000 |
| *GaingoodwilldistributedbetweenAandBinsacrificingratioi. e.* 3 : 1 | | | | |

**Question:78**

*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, 2019:

| Liabilities | | | Assets | |
|---|---|---|---|---|
| Capital A/cs: | | | Building | 35,000 |
| *A* | 50,000 | | Machinery | 25,000 |
| *B* | 30,000 | 80,000 | Stock | 15,000 |
| Creditors | | 20,000 | Debtors | 15,000 |
| | | | Investments | 5,000 |
| | | | Bank | 5,000 |
| | | **1,00,000** | | **1,00,000** |

*C* is admitted as a partner on 1st April, 2019 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 passed 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, Partner's Capital Accounts and new Balance Sheet.

**Solution:**

**Revaluation Account**

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

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Bad Debts | 3,000 | A's Capital A/c | 300 |
| Provision for Doubtful Debts | 1,200 | Loss transferred to | |
| Investment $5,000 - 4,900$ | 100 | A Capital | 2,400 |
| | | B Capital | 1,600 |
| | **4,300** | | **4,300** |

**Partners' Capital Accounts**

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

| Particulars | A | B | C | Particulars | A | B | C |
|---|---|---|---|---|---|---|---|
| Revaluation | 2,400 | 1,600 | | Balance b/d | 50,000 | 30,000 | |
| Revaluation | 300 | | | Bank | | | 20,000 |
| | | | | Premium for Goodwill | 3,000 | 2,000 | |
| 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, 2019 after C's admission*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Capital A/cs: | | | Buildings | | 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 | *Less*: 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 | Amount | Particulars | Amount |
|---|---|---|---|
| Balance b/d | 5,000 | | |
| C's Capital | 20,000 | | |
| Premium for Goodwill | 5,000 | | |
| Investments | 4,900 | Balance c/d | 34,900 |
| | **34,900** | | **34,900** |

**Working Notes:**

***WN1***

| | A | : | B |
|---|---|---|---|
| Old Ratio | 3 | : | 2 |
| Sacrificing Ratio | 3 | : | 2 |

***WN2***

Distribution of Premium for Goodwill

$$\text{A will get} = 5{,}000 \times \frac{3}{5} = \text{Rs}\,3{,}000$$

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

***WN3***

Sale of Investments

| | | | |
|---|---|---|---|
| Bank A/c | Dr. | 4,900 | |
| Revaluation A/c | Dr. | 100 | |
| To Investment | | | 5,000 |

***WN4***

Bad debt Recovered

A's Capital A/c Dr. 300
To Revaluation A/c 300

**Question:79**
*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, 2019 is:

| Liabilities | | | Assets | |
|---|---|---|---|---|
| Capital A/cs: | | | Land and Building | 1,25,000 |
| *X* | 1,50,000 | | 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, 2019 on the following terms:
*a* 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* *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. Particulars | Amount | Particulars | Cr. Amount |
|---|---|---|---|
| Stock | 10,000 | Land and Building | 25,000 |
| Furniture | 500 | $1,25,000 \times 20$ | |
| Provision for D. Debts | 4,000 | | |
| Profit transferred to | | | |
| X Capital | 7,875 | | |
| Y Capital | 2,625 | | |
| | **25,000** | | **25,000** |

**Partners' Capital Accounts**

| Dr. Particulars | X | Y | Z | Particulars | X | Y | Cr. Z |
|---|---|---|---|---|---|---|---|
| X's Capital | | | 15,000 | Balance b/d | 1,50,000 | 80,000 | |
| Y's Capital | | | 5,000 | Workmen's Compensation Fund | 15,000 | 5,000 | |
| | | | | Revaluation (*Profit*) | 7,875 | 2,625 | |
| Balance c/d | 1,87,875 | 92,625 | 30,000 | Cash | | | 50,000 |
| | | | | Z's Capital | 15,000 | 5,000 | |
| | **1,87,875** | **92,625** | **50,000** | | **1,87,875** | **92,625** | **50,000** |

**Balance Sheet**
*as on April 01, 2019 after Z's admission*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Capital A/cs: | | | Land and Building $1,25,000 + 25,000$ | | 1,50,000 |
| X | 1,87,875 | | | | |
| Y | 92,625 | | Office Furniture $5,000 - 500$ | | 4,500 |
| Z | 30,000 | 3,10,500 | Stock $1,00,000 - 10,000$ | | 90,000 |
| Sundry Creditors | | 1,50,000 | Sundry Debtors | 80,000 | |
| Bills Payable | | 37,500 | *Less*: 5% Provision for D. Debts | 4,000 | 76,000 |
| | | | 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:**

***WN1*: *Sacrificing Ratio***

| | X : Y |
|---|---|
| Old Ratio | 3 : 1 |
| Sacrificing Ratio | 3 : 1 |

***WN2*: *Calculation of Partners' Share of Goodwill***
Goodwill of the firm = 1, 00,000

$$\text{Z's share of Goodwill} = 1,00,000 \times \frac{1}{5} = \text{Rs } 20,000$$

$$\text{X will entitled to} = 20,000 \times \frac{3}{4} = \text{Rs } 15,000$$

$$\text{Y will entitled to} = 20,000 \times \frac{1}{4} = \text{Rs } 5,000$$

**Journal**

| Date | Particulars | | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|---|
| | Z's Capital A/c | Dr. | | 20,000 | |
| | To X's Capital A/c | | | | 15,000 |
| | To Y's Capital A/c | | | | 5,000 |
| | *Z' sshareofgoodwillchangedfromhisCapitalAccount* | | | | |
| | Workmen's Compensation Fund A/c | | | 20,000 | |
| | To X's Capital A/c | | | | 15,000 |
| | To Y's Capital | | | | 5,000 |

| | | | | |
|---|---|---|---|---|
| | *Workmen' sCompensationFunddistributed* | | | |

**Question:80**

Deepika and Rajshree are partners in a firm sharing profits and losses in the ratio of 3 : 2. On 31st March, 2019 their Balance Sheet was:

| 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 | 28,000 | |
| Deepika | 48,000 | | *Less*: Provision for Doubtful Debts | 800 | |
| Rajshree | 40,000 | 88,000 | Plant and Machinery | | 48,000 |
| | | | Land and Building | | 50,000 |
| | | | Furniture | | 10,000 |
| | | **1,73,000** | | | **1,73,000** |

On 1st April, 2019 the partners 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 Provision 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 decide to show this liability in the books of account of the reconstituted firm.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of Deepika, Rajshree and Anshu.

**Solution:**

**Revaluation Account**

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

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| Reserve for D. Debts | 4,000 | | Plant and Machinery | 12,000 |
| *Less*: Old Reserve | 800 | 3,200 | $60,000 - 48,000$ | |
| Furniture $10,000 \times 10\%$ | | 1,000 | Stock $40,000 - 32,000$ | 8,000 |
| Outstanding salary | | 8,000 | | |
| Profit transferred to | | | Land and Building | 10,000 |
| Deepika Capital | | 10,680 | $50,000 \times 20$ | |
| Rajshree Capital | | 7,120 | | |
| | | **30,000** | | **30,000** |

**Partners' Capital Accounts**

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

| Particulars | Deepika | Rajshree | Anshu | Particulars | Deepika | Rajshree | Anshu |
|---|---|---|---|---|---|---|---|
| Balance c/d *beforeadjustmentofGoodwill* | 58,680 | 47,120 | 32,000 | Balance b/d | 48,000 | 40,000 | |
| | | | | Revaluation | 10,680 | 7,120 | |
| | | | | Cash | | | 32,000 |
| | **58,680** | **47,120** | **32,000** | | **58,680** | **47,120** | **32,000** |
| Deepika | | | 2,220 | Balance b/d | 58,680 | 47,120 | 32,000 |
| Rajshree | | | 2,220 | Anshu's Capital *Goodwill* | 2,220 | 2,220 | |
| Balance c/d | 60,900 | 49,340 | 27,560 | | | | |
| | **60,900** | **49,340** | **32,000** | | **60,900** | **49,340** | **32,000** |

**Balance Sheet**

*as on March 31, 2019 after Anshu's admission*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| 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/cs: | | | Sundry Debtors | 28,800 | |
| Deepika | 60,900 | | *Less*: reserve for D. 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** |

**Working Notes**

***WN1***: ***<u>Calculation of Sacrificing Ratio</u>***

| | Deepika | : | Rajshree | | |
|---|---|---|---|---|---|
| Old Ratio | 3 | : | 2 | | |
| | Deepika | : | Rajshree | : | Anshu |
| New Ratio | 5 | : | 3 | : | 2 |

Sacrificing Ratio = Old Ratio − New Ratio

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 |

***WN2*: *Valuation of Goodwill***

Capitalised value on the basis of Anshu's share $= 32,000 \times \frac{10}{2} = \text{Rs}1,60,000$

Actual Capital of all partners before adjustment of Goodwill = 58,680 + 47,120 + 32,000
= Rs 1,37,800
Goodwill = Capitalised value − Actual Capital of all partners before adjustment of Goodwill
= 1,60,000 − 1,37,800
= Rs 22,200

Anshu's share of Goodwill $= 22,200 \times \frac{2}{10} = \text{Rs } 4,440$

Deepika and Rajshree each will entitle for Goodwill $= 4,440 \times \frac{1}{2} = \text{Rs } 2,220$

**Question:81**

Atul and Amit are partners sharing profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2019 is as follows:

| Liabilities | | Amount | Assets | Amount |
|---|---|---|---|---|
| Capital A/cs: | | | Plant and Machinery | 1,80,000 |
| Atul | 1,00,000 | | Furniture | 30,000 |
| Amit | 1,00,000 | 2,00,000 | Computer | 10,000 |
| Current A/cs: | | | Stock | 40,000 |
| Atul | 70,000 | | Debtors | 50,000 |
| Amit | 50,000 | 1,20,000 | Bills Receivable | 10,000 |
| Creditors | | 40,000 | Cash | 10,000 |
| Bills Payable | | 10,000 | Bank | 40,000 |
| | | **3,70,000** | | **3,70,000** |

Abhay is admitted as a partner for 1/4th share on 1st April, 2019 on the following terms:
*a* Abhay is to bring 65,000 as capital after adjusting amount due to him included in creditors and his share of Goodwill.
*b* 10,000 included in creditors is payable to Abhay which is to be transferred to his Capital Account.
*c* Furniture is to reduced by 3,000 and Plant and Machinery is to be increased to 1,98,000.
*d* Stock is overvalued by 4,000.
*e* A Provision for Doubtful Debts is to be created @ 5%.
*f* Goodwill is to be valued at 2 years' purchase of average profit for four years. Profits of four years ended 31st March were as follows: 2018-19 – 25,000, 2017-18 – 10,000, 2016-17 – 2,500, and 2015-16 – 2,500.
Pass the Journal entries for the above arrangement.

**Solution:**

**In the books of the Atul, Amit and Abhay**
**Journal**

| Date | Particulars | | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|---|
| 2019 | | | | | |
| April 01 | Creditors A/c | Dr. | | 10,000 | |
| | To Abhay's Capital A/c | | | | 10,000 |
| | *BeingamountduetoAbhaytransferredtohisCapitalA/c* | | | | |
| | Cash A/c | Dr. | | 60,000 | |
| | To Abhay's Capital A/c | | | | 55,000 |
| | To Premium for Goodwill A/c *WN*1 | | | | 5,000 |
| | *BeingCapitalandgoodwillpaidbythenewpartner* | | | | |
| | Premium for Goodwill A/c | Dr. | | 5,000 | |
| | To Atul's Capital A/c | | | | 3,000 |
| | To Amit's Capital A/c | | | | 2,000 |
| | *Beingpremiumforgoodwilladjustedin*3:2 | | | | |
| | Revaluation A/c | Dr. | | 9,500 | |
| | To Furniture A/c | | | | 3,000 |
| | To Stock A/c | | | | 4,000 |
| | To Provision for Doubtful Debts A/c | | | | 2,500 |
| | *Beingassetsrevaluedandliabilitiesreassessed* | | | | |
| | Plant & Machinery A/c | Dr. | | 18,000 | |
| | To Revaluation A/c | | | | 18,000 |
| | Being appreciation in plant & machinery provided for | | | | |
| | Revaluation A/c *WN*2 | Dr. | | 8,500 | |
| | To Atul's Capital A/c | | | | 5,100 |
| | To Amit's Capital A/c | | | | 3,400 |
| | *Beingrevaluationprofittransferredtopartner′scapitalA/c* | | | | |

**Working Notes:**

**1. Calculation of Goodwill brought in by Abhay:**

| | | |
|---|---|---|
| Average Profits | = | (Normal profits from 31st March, 2016 to 31st March, 2019)/2 |
| | = | 25,000 + 10,000 + 2,500 + 2,500/4= **10,000** |
| Goodwill | = | Average Profits × No. of years of Purchase |
| | = | 10,000 × 2 = 20,000 |
| **Goodwill brought in by Abhay** | = | 20,000 × 1/4 = **5,000** |

**2. Calculation of Revaluation Profit/Loss:**

Debit side total = 3,000 + 4,000 + 2,500 = 9,500 Credit side total= 18,000 **Gain on Revaluation = 18,000– 9,500 = 8,500**

**Question:82**

Yogesh and Naresh are partners sharing profits in the ratio of 3 : 2. They admit Ramesh for 1/3rd share on 1st April, 2019 and also decide to share future profits equally. Balance Sheet of the firm as at 31st March, 2019 was as follows:

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Capital A/cs: | | | Land | | 4,00,000 |
| Yogesh | 5,00,000 | | Building | | 4,00,000 |
| Naresh | 5,00,000 | 10,00,000 | Furniture | | 50,000 |
| Current A/cs: | | | Computers | | 1,00,000 |
| Yogesh | 1,10,000 | | Stock | | 1,50,000 |
| Naresh | 90,000 | 2,00,000 | Sundry Debtors | 2,10,000 | |
| Employees' Provident Fund | | 25,000 | *Less*: Provision for Doubtful Debts | 10,000 | 2,00,000 |
| Workmen Compensation Reserve | | 1,00,000 | Cash | | 10,000 |
| Sundry Creditors | | 75,000 | Bank | | 70,000 |
| Expenses Payable | | 10,000 | Advertisement Suspense | | 30,000 |
| | | **14,10,000** | | | **14,10,000** |

They admitted Ramesh on the following terms:
*a* He will bring  5,00,000 as his capital.
*b* His share of goodwill is valued at  1,00,000 but he is unable to bring cash for his share of goodwill. It is agreed to debit the amount to his Current Account.
*c* Value of Land and Building is to be appreciated by  40,000 each.
*d* Value of Furniture to be reduced to  40,000.
*e* Provision for Doubtful Debts to be increased to 10%.
*f* A liability for damages of  10,000 is to be created.
Pass the Journal entries on admission of Ramesh and prepare Revaluation Account.
**Solution:**

**In the books of the Yogesh, Naresh and Ramesh**
**Journal**

| Date | Particulars | | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|---|
| 2019 April 01 | Cash A/c | Dr. | | 5,00,000 | |
| | To Ramesh's Capital A/c | | | | 5,00,000 |
| | *BeingCapitalbroughtinbythenewpartner* | | | | |
| | Ramesh's Current A/c | Dr. | | 1,00,000 | |
| | To Yogesh's Current A/c $1,00,000 \times 4/5$ | | | | 80,000 |
| | To Naresh's Current A/c $1,00,000 \times 1/5$ | | | | 20,000 |
| | *Beingpremiumforgoodwilladjustedin*4 : 1 | | | | |
| | Revaluation A/c | Dr. | | 31,000 | |
| | To Provision for Doubtful Debts A/c | | | | 11,000 |
| | To Liability for damages A/c | | | | 10,000 |
| | To Furniture A/c | | | | 10,000 |
| | *Beingassetsrevaluedandliabilitiesreassessed* | | | | |
| | Land A/c | Dr. | | 40,000 | |
| | Building A/c | Dr. | | 40,000 | |
| | To Revaluation A/c | | | | 80,000 |
| | *Beingappreciationinlandandbuildingprovidedfor* | | | | |
| | Revaluation A/c *WN*2 | Dr. | | 49,000 | |
| | To Yogesh's Current A/c | | | | 29,400 |
| | To Naresh's Current A/c | | | | 19,600 |
| | *Beingrevaluationprofittransferredtopartner´scurrentA/c* | | | | |
| | Workmen Compensation Reserve A/c | Dr. | | 1,00,000 | |
| | To Yogesh's Current A/c | | | | 60,000 |
| | To Naresh's Current A/c | | | | 40,000 |
| | *Beingworkmencompensationreservedistributed* | | | | |
| | Yogesh's Current A/c | Dr. | | 18,000 | |
| | Naresh's Current A/c | Dr. | | 12,000 | |
| | To Advertisement Suspense A/c | | | | 30,000 |
| | *Beingaccumulatedlosswrittenoff* | | | | |

**Working Notes:**

**1. Calculation of new profit-sharing ratio:**

| Particulars | Yogesh | Gopal |
|---|---|---|
| Old Ratio | 3/5 | 2/5 |
| New Ratio | 1/3 | 1/3 |
| **Gain/Sacrifice** | **$3/5 - 1/3 = 4/15$ *Sacrifice*** | **$2/5 - 1/3 = 1/15$ *Sacrifice*** |
| **Sacrificing Ratio** | **4:1** | |

**2. Calculation of Revaluation Profit/Loss:**
Debit side total= $11,000 + 10,000 + 10,000 =$ 31,000
Credit side total = 80,000

**Gain on Revaluation= $80,000 - 31,000 =$ 49,000**

**Dr.** **Revaluation A/c** **Cr.**

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| To Provision for Doubtful debt A/c | | 11,000 | By Land A/c | 40,000 |
| To Liability for Damages A/c | | 10,000 | By Building A/c | 40,000 |
| To Furniture A/c | | 10,000 | | |
| To Profit transferred to: | | | | |
| Yogesh's Current A/c | 29,400 | | | |
| Naresh's Current A/c | 19,600 | 49,000 | | |
| | | **80,000** | | **80,000** |

**Question:83**

Balance Sheet of Ram and Shyam who shares profits in the ratio of their capitals as at 31st March, 2019 is:

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

On 1st April, 2019, they admitted Arjun into partnership on the following terms:
*a* Arjun to bring 20,000 as capital and 6,600 for goodwill, which is to be left in the business and he is to receive 1/4th share of the profits.
*b* Provision for Doubtful Debts is to be 2% on Debtors.
*c* Value of Stock to be written down by 5% .
*d* Freehold Premises are to be taken at a value of 22,400; Plant and Machinery 11,800; Fixtures and Fittings 1,540 and Vehicles 800.
You are required to make necessary adjustments entries in the firm, give Balance Sheet of the new firm as at 1st April, 2019 and also determine the ratio in which the partners will share profits, there being no change in the ratio of Ram and Shyam.

**Solution:**

**Revaluation Account**

| Dr. Particulars | Amount | Particulars | Cr. Amount |
|---|---|---|---|
| Reserve for D. Debts 27, 500 × 2 | 550 | Free hold Premises 22, 400– 20, 000 | 2,400 |
| Stock | 705 | Loss transferred to | |
| Plant and Machinery 13, 500– 11, 800 | 1,700 | Ram's Current A/c | 717 |
| Fixture and Fittings | 210 | Shyam's Current A/c | 598 |
| Vehicles | 550 | | |
| | **3,715** | | **3,715** |

**Partners' Capital Accounts**

| Dr. Particulars | Ram | Shyam | Arjun | Particulars | Ram | Shyam | Cr. Arjun |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 30,000 | 25,000 | |
| Balance c/d | 30,000 | 25,000 | 20,000 | Cash | | | 20,000 |
| | **30,000** | **25,000** | **20,000** | | **30,000** | **25,000** | **20,000** |

**Partners' Current Accounts**

| Dr. Particulars | Ram | Shyam | Arjun | Particulars | Ram | Shyam | Cr. Arjun |
|---|---|---|---|---|---|---|---|
| Revaluation | 717 | 598 | | Balance b/d | 2,000 | 1,800 | |
| | | | | Premium for Goodwill | 3,600 | 3,000 | |
| Balance c/d | 4,883 | 4,202 | | | | | |
| | **5,600** | **4,800** | | | **5,600** | **4,800** | |

**Balance Sheet**
as on 1st April, 2019

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Creditors | | 19,000 | Freehold Premises | | 22,400 |
| Bills Payable | | 16,000 | Plant and Machinery | | 11,800 |
| Capital A/cs: | | | Fixture and Fittings | | 1,540 |
| Ram | 30,000 | | Vehicles | | 800 |
| Shyam | 25,000 | | Stock 14, 100– 705 | | 13,395 |
| Arjun | 20,000 | 75,000 | Bills Receivables | | 13,060 |
| | | | Debtors | 27,500 | |
| Current A/cs: | | | *Less*: 2% Reserve for D. Debts | 550 | 26,950 |
| Ram | 4,883 | | Bank | | 1,590 |
| Shyam | 4,202 | 9,085 | Cash 950 + 20, 000 + 6, 600 | | 27,550 |
| | | **1,19,085** | | | **1,19,085** |

**Journal**

| Particulars | | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|
| Cash A/c | Dr. | | 26,600 | |
| To Arjun's Capital | | | | 20,000 |
| To Premium for Goodwill | | | | 6,600 |
| *ArjunbroughtCapitalandshareofgoodwill* | | | | |
| Premium for Goodwill A/c | Dr. | | 6,600 | |
| To Ram's Current A/c | | | | 3,600 |
| To Shyam's Current A?C | | | | 3,000 |
| *PremiumforGoodwilltransferredtopartnerscurrentaccountinsacrificingratioi. e.* 6 : 5 | | | | |

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

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

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

Combined share of Ram and Shyam after Arjun's admission $=1\ -\text{Arjun's share}$

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

$=\frac{3}{4}$

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

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

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

$$\begin{array}{lccccc} & \text{Ram} & : & \text{Shyam} & : & \text{Arjun} \\ \text{New Profit sharing Ratio} & \frac{18}{44} & : & \frac{15}{44} & : & \frac{1}{4} \end{array}$$

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

**Working Notes**

***WN1*** *Distribution of Premium for Goodwill*

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

$$\text{Shyam will get} = 6,600\times\frac{5}{11}=\text{Rs}\,3,000$$

***WN2*** *Distribution of Loss on Revaluation*

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

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

**Question:84**

Following is the Balance Sheet of *X* and *Y* as at 31st March, 2019 who are partners in a firm sharing profits and losses in the ratio of 3 : 2 respectively:

| **Liabilities** | | **Amount** | **Assets** | | **Amount** |
|---|---|---|---|---|---|
| Creditors | | 45,000 | Cash at Bank | | 15,000 |
| General Reserve | | 36,000 | Debtors | 60,000 | |
| Capital A/cs: | | | *Less*: Provision for Doubtful Debts | 2,400 | 57,600 |
| *X* | 1,80,000 | | Patents | | 44,400 |
| *Y* | 90,000 | 2,70,000 | Investments | | 24,000 |
| Current A/cs: | | | Fixed Assets | | 2,16,000 |
| *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, 2019 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 profit 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.** **Cr.**

| **Particulars** | **Amount** | **Particulars** | **Amount** |
|---|---|---|---|
| Prov. for D. Debts | 600 | Accrued Income | 4,500 |
| Outstanding Rent | 15,000 | Loss transferred to | |
| Investments | 6,000 | X's Current A/c | 10,260 |
| | | Y's Current A/c | 6,840 |
| | **21,600** | | **21,600** |

**Partners' Capital Accounts**

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

| **Particulars** | **X** | **Y** | **Z** | **Particulars** | **X** | **Y** | **Z** |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 1,80,000 | 90,000 | |
| Balance c/d | 1,80,000 | 90,000 | 60,000 | Bank | | | 60,000 |
| | **1,80,000** | **90,000** | **60,000** | | **1,80,000** | **90,000** | **60,000** |

**Partners' Current Accounts**

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

| **Particulars** | **X** | **Y** | **Z** | **Particulars** | **X** | **Y** | **Z** |
|---|---|---|---|---|---|---|---|
| Revaluation | 10,260 | 6,840 | | Balance b/d | 30,000 | 6,000 | |
| Goodwill | 18,000 | 12,000 | | General Reserve | 21,600 | 14,400 | |
| Bank | 12,600 | 5,400 | | Premium for Goodwill | 25,200 | 10,800 | |
| Investments | 18,000 | | | | | | |
| Balance c/d | 17,940 | 6,960 | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 76,800 | 31,200 | | | 76,800 | 31,200 | |
| | | | | | | | |

**Balance Sheet**
as on 1st April, 2019

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Capital A/cs: | | | Patents | | 44,400 |
| 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/cs: | | | *Less*: 5% Reserve for D. Debts | 3,000 | 57,000 |
| X | 17,940 | | | | |
| Y | 6,960 | 24,900 | | | |
| Creditors | | 45,000 | | | |
| | | **4,14,900** | | | **4,14,900** |

**Journal**

| Particulars | | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|
| Bank A/c | Dr. | | 96,000 | |
| To Z's Capital | | | | 60,000 |
| To Premium for Goodwill | | | | 36,000 |
| *ZbroughtCapitalandshareofgoodwill* | | | | |
| Premium for Goodwill A/c | Dr. | | 36,000 | |
| To X's Current A/c | | | | 25,200 |
| To Y's Current A/c | | | | 10,800 |
| *PremiumforGoodwilltransferredtopartnerscurrentaccountinsacrificingratioi. e.* 7 : 3 | | | | |
| X's Current A/c | Dr. | | 12,600 | |
| Y's Current A/c | Dr. | | 5,400 | |
| To BankA/c | | | | 18,000 |
| *Halfofgoodwillwithdrawnbypartners* | | | | |

***Working Notes***:

***WN1*** *Calculation of Z's Share of Premium for Goodwill*

Average Profits = $\frac{90,000+78,000+75,000}{3}$ = Rs 81,000Firm's Goodwil = 81,000 × 2 = Rs 1,62,000Z's share = 1,62,000 × $\frac{2}{9}$ = Rs 36,000Rs 36,000 will be distributed between X and Y in sacrificing ratio.

***WN2*** *Calculation of Sacrificing Ratio*

Sacrificing Ratio = Old Ratio - New RatioX'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

***WN3*** *Calculation of Share of Premium of Goodwill*

*X's share = 36,000 × $\frac{7}{10}$ = Rs 25,200Y's share = 36,000 × $\frac{3}{10}$ = Rs 10,800*

***WN4*** *Distribution of Loss on Revaluation*

*X's share = 17,100 × $\frac{3}{5}$ = Rs 10,260Y's share = 17,100 × $\frac{2}{5}$ = Rs 6,840*

**Question:85**
*X* and *Y* are partners sharing profits equally. Their Balance Sheet as on 31st March, 2019 is given below:

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Capital A/cs: | | | 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/cs: | | | Stock | | 75,000 |
| *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 |
| | | **5,00,000** | | | **5,00,000** |

*Z* is admitted as a new partner for 1/4th share under the following terms:
*a Z* is to introduce 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 7,500 which was not to be paid. But it was also found that there was a liability for Compensation to Workmen amounting to 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 Account Method is to be converted into Fluctuating Capital Account Method.
*f* Bills of 20,000 accepted from creditors were not recorded in the books.
*g X* provides 50,000 loan to the business carrying interest @ 10% p.a.
You are required to prepare Revaluation Account, Partners' Capital Accounts, Bank Account and the Balance Sheet of the new firm.
**Solution:**

**Revaluation Account**

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

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Reserve for D. Debts | 2,500 | Creditors | 7,500 |
| Liability for WCF | 10,000 | Loss transferred to | |
| | | X's Current A/c | 2,500 |
| | | Y's Current A/c | 2,500 |

| | | | |
|---|---|---|---|
| | **12,500** | | **12,500** |

**Partners' Current Accounts**

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

| Particulars | X | Y | Particulars | X | Y |
|---|---|---|---|---|---|
| Revaluation A/c | 2,500 | 2,500 | Balance b/d | 40,000 | 30,000 |
| Balance c/d | 37,500 | 27,500 | | | |
| | **40,000** | **30,000** | | **40,000** | **30,000** |

**Partners' Capital Accounts**

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

| Particulars | X | Y | Z | Particulars | X | Y | Z |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 1,50,000 | 1,00,000 | |
| | | | | Current A/c | 37,500 | 27,500 | |
| Balance c/d | 1,87,500 | 1,27,500 | 1,25,000 | Bank | | | 1,25,000 |
| | **1,87,500** | **1,27,500** | **1,25,000** | | **1,87,500** | **1,27,500** | **1,25,000** |

**Balance Sheet**
as on 1st April, 2019

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| 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/cs: | | | 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 D. Debts | 7,500 | 67,500 |
| | | **6,72,500** | | | **6,72,500** |

**Question:86**

*X* and *Y* are partners sharing profits in the ratio of 2 : 1. Their Balance Sheet as at 31st March, 2019 was:

| 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 | Printer | 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* Printer is to be reduced *depreciated* by 20% and Fixed Assets by 10%.
*e* An unrecorded stock of Stationery on 31st March, 2019 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 Amount | Credit Amount |
|---|---|---|---|---|---|
| 2019 April 1 | Revaluation A/c | Dr. | | 14,700 | |
| | To Typewriter A/c | | | | 1,000 |
| | To Fixed Assets A/c | | | | 13,700 |
| | *DecreaseinvalueoftypewriterandfixedassetstransferredtoRevaluationAccount* | | | | |
| April 1 | Stationery A/c | Dr. | | 1,000 | |
| | Investment A/c | Dr. | | 2,000 | |
| | To Revaluation A/c | | | | 3,000 |
| | *IncreaseinstationeryandinvestmenttransferredtoRevaluationAccount* | | | | |
| April 1 | X's Capital A/c | Dr. | | 7,800 | |
| | Y's Capital A/c | Dr. | | 3,900 | |
| | To Revaluation A/c | | | | 11,700 |
| | *RevaluationlosstransferredtoXandÝ sCapitalAccountintheiroldratio* | | | | |
| April 1 | Reserve Fund A/c | Dr. | | 18,000 | |
| | To X's Capital A/c | | | | 12,000 |
| | To Y's Capital A/c | | | | 6,000 |
| | *ReserveFunddistributed* | | | | |

| | | | | | |
|---|---|---|---|---|---|
| April 1 | Cash A/c | Dr. | | 55,000 | |
| | To Z's Capital A/c | | | | 40,000 |
| | To Premium for Goodwill A/c | | | | 15,000 |
| | *Zbroughtcapitalandshareofgoodwill* | | | | |
| April 1 | Premium for Goodwill A/c | Dr. | | 15,000 | |
| | To X's Capital A/c | | | | 10,000 |
| | To Y's Capital A/c | | | | 5,000 |
| | *PremiumforGoodwilldistributedbetweenXandYintheirsacrificingratioi. e*2 : 1 | | | | |
| April 1 | X's Capital A/c | Dr. | | 5,000 | |
| | Y's Capital A/c | Dr. | | 2,500 | |
| | To Cash | | | | 7,500 |
| | *HalfofthePremiumforGoodwillwithdrawnbyXandY* | | | | |
| April 1 | X's Capital A/c | Dr. | | 10,000 | |
| | To Investments A/c | | | | 10,000 |
| | *XtookovertheInvestment* | | | | |
| April 1 | Cash A/c | Dr. | | 4,800 | |
| | To X's Capital A/c | | | | 4,800 |
| | *X broughtcashtomakeupdeficiencyincapital* | | | | |
| April 1 | Y's Capital A/c | Dr. | | 26,600 | |
| | To Cash A/c | | | | 26,600 |
| | *Ywithdrewexcesscapitalafteralladjustments* | | | | |

**Cash/Bank Account**

Dr. Cr.

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Balance b/d | 5,000 | X's Capital (*Goodwill*) | 5,000 |
| Z's Capital | 40,000 | Y's Capital (*Goodwill*) | 2,500 |
| Premium for Goodwill | 15,000 | Y's Capital | 26,600 |
| X's Capital | 5,800 | Balance c/d | 31,700 |
| | **65,800** | | **65,800** |

**Revaluation Account**

Dr. Cr.

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Typewriter $5,000 \times 20$ | 1,000 | Investment | 2,000 |
| Fixed Assets $1,37,000 \times 10$ | 13,700 | Stationery | 1,000 |
| | | Loss transferred to | |
| | | X Capital | 7,800 |
| | | Y Capital | 3,900 |
| | **14,700** | | **14,700** |

**Partners' Capital Accounts**

Dr. Cr.

| Particulars | X | Y | Z | Particulars | X | Y | Z |
|---|---|---|---|---|---|---|---|
| Revaluation | 7,800 | 3,900 | | Balance b/d | 75,000 | 62,000 | |
| Investment | 10,000 | | | Reserve Fund | 12,000 | 6,000 | |
| Cash (*withdraw of goodwill*) | 5,000 | 2,500 | | Cash | | | 40,000 |
| Balance c/d | 74,200 | 66,600 | 40,000 | Premium for Goodwill | 10,000 | 5,000 | |
| | **97,000** | **73,000** | **40,000** | | **97,000** | **73,000** | **40,000** |
| Cash | | 26,600 | | Balance b/d | 74,200 | 66,600 | 40,000 |
| Balance c/d adjusted | 80,000 | 40,000 | 40,000 | Cash | 5,800 | | |
| | **80,000** | **66,600** | **40,000** | | **80,000** | **66,600** | **40,000** |

**Balance Sheet**

*as on March 31, 2019 after Z's admission*

| Liabilities | | Amount | Assets | Amount |
|---|---|---|---|---|
| Sundry Creditors | | 25,000 | Cash | 31,700 |
| Capital A/cs: | | | 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:**

***WN1: <u>Sacrificing Ratio</u>***

| | X | Y |
|---|---|---|
| Old ratio | 2 : | 1 |
| Sacrificing Ratio | 2 : | 1 |

***WN2**: **Distribution of Revaluation Loss***

$$\text{Revaluation loss transferred to X's Capital} = 11,700 \times \frac{2}{3} = \text{Rs } 7,800$$

$$\text{Revaluation loss transferred to Y's Capital} = 11,700 \times \frac{1}{3} = \text{Rs } 3,900$$

***WN3**: **Distribution of Premium for Goodwill***

$$\text{X will get} = 15,000 \times \frac{2}{3} = \text{Rs } 10,000$$

$$\text{Y will get} = 15,000 \times \frac{1}{3} = \text{Rs } 5,000$$

***WN4**: **Adjustment of Capital***

Total Capital of the firm on the basis of Z's share $= 40,000 \times \frac{4}{1} = \text{Rs } 1,60,000$

| | | |
|---|---|---|
| Total Capital of the firm | = | 1,60,000 |
| *Less*: Z's Capital | = | 40,000 |
| Combined Capital of X and Y | = | 1,20,000 |

$$\text{X's share of Capital} = 1,20,000 \times \frac{2}{3} = \text{Rs } 80,000$$

$$\text{Y's share of Capital} = 1,20,000 \times \frac{1}{3} = \text{Rs } 40,000$$

**Question:87**

*A* and *B* are in partnership sharing profits and losses in the proportion of 2/3rd and 1/3rd respectively. Their Balance Sheet as at 31st March, 2019 was: Cash  1,000; Sundry Debtors  15,000; Stock  22,000; Plant and Machinery  4,000; Sundry Creditors  2,000; Bank Overdraft  15,000; *A*'s Capital  15,000; *B*'s Capital  10,000.

On 1st April, 2019 they admitted *C* into partnership on the following terms:

*a C* to purchase one-quarter of the goodwill for  3,000 and provide  10,000 as capital. *C* brings in necessary cash for goodwill and capital.

*b* Profits 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  500 are to be provided for estimated Bad Debts. Stock is to be taken at a valuation of  24,940.

*d* By bringing in 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 the opening Balance Sheet of the new firm.

**Solution:**

**Revaluation Account**

Dr. Cr.

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Plant and Machinery 4,000 × 10 | 400 | Stock 24,940 – 22,000 | 2,940 |
| Provision for Bad Debts | 500 | | |
| Profit transferred to | | | |
| A Capital | 1,360 | | |
| B Capital | 680 | | |
| | **2,940** | | **2,940** |

**Partners' Capital Accounts**

Dr. Cr.

| Particulars | A | B | C | Particulars | A | B | C |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 15,000 | 10,000 | |
| | | | | Cash | | | 10,000 |
| | | | | Premium for Goodwill | 2,000 | 1,000 | |
| Balance c/d | 18,360 | 11,680 | 10,000 | Revaluation | 1,360 | 680 | |
| | **18,360** | **11,680** | **10,000** | | **18,360** | **11,680** | **10,000** |
| Cash | | 1,680 | | Balance c/d | 18,360 | 11,680 | 10,000 |
| Balance c/d (*Adjusted*) | 20,000 | 10,000 | 10,000 | Cash | 1,640 | | |
| | **20,000** | **11,680** | **10,000** | | **20,000** | **11,680** | **10,000** |

**Balance Sheet**

*as on April 01, 2019 after C's admission*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Sundry Creditors | | 2,000 | Cash | | 13,960 |
| Bank Overdraft | | 15,000 | Sundry Debtors | 15,000 | |
| Capital A/cs: | | | *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. Cr.

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Balance b/d | 1,000 | B's Capital | 1,680 |
| C's Capital | 10,000 | | |
| Premium for Goodwill | 3,000 | | |
| A's Capital | 1,640 | Balance c/d | 13,960 |
| | **15,640** | | **15,640** |

**Working Notes**

***WN1**: **Sacrificing Ratio***

$$\begin{array}{lccc} & A & : & B \\ \text{Old Ratio} & 2 & : & 1 \end{array}$$

$$\begin{array}{lccccc} & A & : & B & : & C \\ \text{New Ratio} & \frac{1}{2} & : & \frac{1}{4} & : & \frac{1}{4} = 2:1:1 \end{array}$$

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

$$A \quad = \frac{2}{3} - \frac{2}{4} = \frac{8-6}{12} = \frac{2}{12}$$

$$B \quad = \frac{1}{3} - \frac{1}{4} = \frac{4-3}{12} = \frac{1}{12}$$

$$\begin{array}{lccc} & A & : & B \\ \text{Sacrificing Ratio} & 2 & : & 1 \end{array}$$

***WN2*: *Distribution of Premium for Goodwill***

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

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

***WN3*: *Distribution of Revaluation Profit***

$$\text{A's share} = 2,040 \times \frac{2}{3} = \text{Rs } 1,360$$

$$\text{B's share} = 2,040 \times \frac{1}{3} = \text{Rs } 680$$

***WN4*: *Adjustment of Capitals*** (*in new ratio*)

$$\text{Total capital of the firm} \quad = 10,000 \times \frac{4}{1} = 40,000$$

$$\text{A's share of capital} \quad = 40,000 \times \frac{2}{4} = 20,000$$

$$\text{B and C each share of capital} = 40,000 \times \frac{1}{4} = \text{Rs}\,10,000$$

**Question:88**

*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 profits. *C* was to bring 60,000 for his capital. The Balance Sheet of *A* and *B* as at 1st April, 2019, the date on which *C* was admitted, was:

| Liabilities | | | Assets | | |
|---|---|---|---|---|---|
| Capital A/cs: | | | Land and Building | | 40,000 |
| *A* | 50,000 | | Plant ad 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 | 34,000 |
| | | | 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 of 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.** **Cr.**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Plant and Machinery $70,000 - 60,000$ | 10,000 | Land and Building $65,000 - 40,000$ | 25,000 |
| Profit transferred to | | Provision for Doubtful Debts | 400 |
| A Capital | 12,450 | Creditors | 1,200 |
| B Capital | 4,150 | | |
| | **26,600** | | **26,600** |

**Partners' Capital Accounts**

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

| Particulars | A | B | C | Particulars | A | B | C |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 50,000 | 80,000 | |
| | | | | General Reserve | 7,500 | 2,500 | |
| | | | | Revaluation (*Profit*) | 12,450 | 4,150 | |
| | | | | Cash | | | 60,000 |
| Balance c/d | 74,450 | 88,150 | 60,000 | C's Current A/c | 4,500 | 1,500 | |
| | **74,450** | **88,150** | **60,000** | | **74,450** | **88,150** | **60,000** |
| B's Current A/c | | 43,150 | | Balance b/d | 74,450 | 88,150 | 60,000 |
| Balance c/d (*Adjusted*) | 1,35,000 | 45,000 | 60,000 | 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, 2019 after C's admission*

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Creditors $70,000 - 1,200$ | 68,800 | Land and Building | 65,000 |

| | | | | | |
|---|---|---|---|---|---|
| Capital A/cs: | | | 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 | 600 | 34,400 |
| B's Current A/c | | 43,150 | Investments | | 26,000 |
| | | | Cash | | 70,000 |
| | | | A's Current A/c | | 60,550 |
| | | | C's Current A/c | | 6,000 |
| | | **3,51,950** | | | **3,51,950** |

**Working Notes:**

***WN1***

| | A | : | B |
|---|---|---|---|
| Old Ratio | 3 | : | 1 |
| Sacrificing Ratio | 3 | : | 1 |

***WN2***

$$\text{C's share of Goodwill} = 24,000 \times \frac{1}{4} = \text{Rs}\,6,000$$

$$\text{A will get} = 6,000 \times \frac{3}{4} = \text{Rs}\,4,500$$

$$\text{B will get} = 6,000 \times \frac{1}{4} = \text{Rs}\,1,500$$

As C has not brought his share of goodwill in cash, hence, his share shall be debited to his current account.

***WN3*** *Distribution of Revaluation Profit*

$$\text{A will get} = 16,600 \times \frac{3}{4} = \text{Rs}\,12,450$$

$$\text{B will get} = 16,600 \times \frac{1}{4} = \text{Rs}\,4,150$$

***WN4*** *Adjustment of Capital*

| | | | | |
|---|---|---|---|---|
| Total Capital of the firm after C's admission | = | 60,000 × 4 | = | 2,40,000 |
| *Less*: C's Capital | | | = | 60,000 |
| Combined Capital of A and B | | | = | 1, 80,000 |

$$\text{A's proportionate Capital} = 1,80,000 \times \frac{3}{4} = \text{Rs } 1,35,000$$

$$\text{B's proportionate Capital} = 1,80,000 \times \frac{1}{4} = \text{Rs } 45,000$$

***WN5***

**Cash Account**

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

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Balance b/d | 10,000 | Balance c/d | 70,000 |
| C's Capital | 60,000 | (*Balancing Figure*) | |
| | **70,000** | | **70,000** |

**Question:89**

The Balance Sheet of *X*, *Y* and *Z* who share profits and losses in the ratio of 3 : 2 : 1, as on 1st April, 2019 is as follows:

| 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 |
| Current A/cs: | | | Investments | 36,500 |
| *X* | 4,000 | | Bills Receivable | 17,000 |
| *Z* | 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 valued 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 earlier but now dishonoured.

*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 | Amount | Particulars | | Amount |
|---|---|---|---|---|
| Stock | 27,400 | Land and Building | | 35,000 |
| Furniture | 16,000 | Plant and Machinery | | 6,750 |
| Investments | 7,300 | Loss transferred to: | | |
| | | X | 4,475 | |
| | | Y | 2,983 | |
| | | Z | 1,492 | 8,950 |

| | | | |
|---|---|---|---|
| | **50,700** | | **50,700** |

**Partners' Current Account**

| Dr. | | | | | | | Cr. |
|---|---|---|---|---|---|---|---|
| **Particulars** | **X** | **Y** | **Z** | **Particulars** | **X** | **Y** | **Z** |
| Balance b/d | | 7,000 | | Balance b/d | 4,000 | | 6,000 |
| Revaluation (*Loss*) | 4,475 | 2,983 | 1,492 | General Reserve | 7,500 | 5,000 | 2,500 |
| | | | | Profit and Loss A/c | 3,500 | 2,333 | 1,167 |
| Balance c/d | 100,525 | 47,350 | 83,175 | Premium for Goodwill | 15,000 | | |
| | | | | 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** |
| Current A/c | 75,000 | 50,000 | 75,000 | | Balance b/d | 1,75,000 | 1,50,000 | 1,25,000 | |
| | | | | | Cash A/c | | | | 50,000 |
| Balance c/d | 1,00,000 | 1,00,000 | 50,000 | 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 Notes***:
***WN*1** *Calculation of Sacrificing Ratio*

*Old Ratio = 3 : 2 : 1New Ratio = 2 : 2 : 1 : 1Sacrificing Ratio = Old Ratio - New Ratio*$X = \frac{3}{6} - \frac{2}{6} = \frac{1}{6}$ $Y = \frac{2}{6} - \frac{2}{6} =$ *Nil*$Z = \frac{1}{6} - \frac{1}{6} =$ *NilHere, only X has sacrificed.*

***WN*2** *Distribution of Goodwill*

*W's Share of Goodwill* $= 90,000 \times \frac{1}{6} =$ *Rs 15,000As only X has sacrificed his share, therefore, he will get Rs 15,000*

***WN*3** *Adjustment of Capital*

*Total Capital of the firm = W's Capital × Reciprocal of his share* $= 50,000 \times \frac{6}{1} =$ *Rs 3,00,000New Profit Sharing Ratio = 2 : 2 : 1 : 1X's New Capital* $= 3,00,000 \times \frac{2}{6} =$ *Rs 1,00,000*

**Question:90**
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 1/4th 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 ROHIT** *as at* 1st *April,* 2013

| **Liabilities** | | | **Assets** | | |
|---|---|---|---|---|---|
| Capital A/cs: | | | Land and Building | | 3,50,000 |
| Shikhar | 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 were 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. | | | | Cr. |
|---|---|---|---|---|
| **Particulars** | | **Amount Rs** | **Particulars** | **Amount Rs** |
| Machinery | | 45,000 | Land and Building | 70,000 |
| 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 Accounts**

| Dr. | | | | | | | Cr. |
|---|---|---|---|---|---|---|---|
| **Particulars** | **Shikhar** | **Rohit** | **Kavi** | **Particulars** | **Shikhar** | **Rohit** | **Kavi** |
| | | | | Balance b/d | 8,00,000 | 3,50,000 | |
| Balance c/d | 9,40,000 | 4,10,000 | 4,30,000 | General Reserve | 70,000 | 30,000 | |
| | | | | Workmen's Compensation Fund | 35,000 | 15,000 | |
| | | | | Cash A/c | | | 4,30,000 |
| | | | | Premium for Goodwill | 17,500 | 7,500 | |
| | | | | Revaluation A/c *Profit* | 17,500 | 7,500 | |
| | **9,40,000** | **4,10,000** | **4,30,000** | | **9,40,000** | **4,10,000** | **4,30,000** |
| Cash A/c | 37,000 | 23,000 | | Balance b/d | 9,40,000 | 4,10,000 | 4,30,000 |
| 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 April 01, 2013 after Kavi's admission*

| Liabilities | | Amount Rs | Assets | | Amount Rs |
|---|---|---|---|---|---|
| Liability for Workmen's Compensation | | 50,000 | Land and Building | | 4,20,000 |
| Creditors | | 1,50,000 | Machinery | 4,50,000 | |
| Capitals: | | | *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** |

**Calculation of Profit Sharing Ratio:**

$$\text{Shikhar:Rohit}$$
$$\text{Old Ratio} = 3 : 2$$
$$\text{Kavi's share} = \frac{1}{4}$$
$$\textit{Let the total share of the firm} = 1$$
$$\text{Remaining share of the firm} = 1 - \frac{1}{4} = \frac{3}{4}$$
$$\text{Shikhar's New Share} = \frac{7}{10} \times \frac{3}{4} = \frac{21}{40}$$
$$\text{Rohit's New Share} = \frac{3}{10} \times \frac{3}{4} = \frac{9}{40}$$
$$\text{New Profit Sharing Ratio} = \frac{21}{40} : \frac{9}{40} : \frac{1}{4}$$
$$\frac{21 : 9 : 10}{40}$$
$$\text{Sacrificing Ratio} = \text{Old Ratio} - \text{New Ratio}$$
$$\text{Shikhar's Sacrifice} = \frac{7}{10} - \frac{21}{40} = \frac{7}{40}$$
$$\text{Rohit's Sacrifice} = \frac{3}{10} - \frac{9}{40} = \frac{3}{40}$$
$$\text{Sacrificing Ratio} = 7:3$$

***WN*1**: **Distribution of Goodwill brought in by Kavi:**

$$\text{Shikhar will get} = 25{,}000 \times \frac{7}{10} = \text{Rs } 17{,}500$$
$$\text{Rohit will get} = 25{,}000 \times \frac{3}{10} = \text{Rs } 7{,}500$$

***WN*2**: **Distribution of Workmen's Compensation Fund**

$$\text{Shikhar will get} = 50{,}000 \times \frac{7}{10} = \text{Rs } 35{,}000$$
$$\text{Rohit will get} = 50{,}000 \times \frac{3}{10} = \text{Rs } 15{,}000$$

***WN*3**: **Distribution of General Reserve:**

$$\text{Shikhar will get} = 1{,}00{,}000 \times \frac{7}{10} = \text{Rs } 70{,}000$$
$$\text{Rohit will get} = 1{,}00{,}000 \times \frac{3}{10} = \text{Rs } 30{,}000$$

***WN*4**: **Adjustment of Capital:**

$$\text{Total Capital of the Firm} = \text{Capital brought in by Kavi} \times \text{Reciprocal of her share}$$
$$\text{Capital brought in by Kavi} = \text{Rs } 4{,}30{,}000$$
$$\text{Total Capital of the Firm} = 4{,}30{,}000 \times \frac{4}{1} = \text{Rs } 17{,}20{,}000$$
$$\text{Shikahr's New Capital} = 17{,}20{,}000 \times \frac{21}{40} = \text{Rs } 9{,}03{,}000$$
$$\text{Rohit's New Capital} = 17{,}20{,}000 \times \frac{9}{40} = \text{Rs } 3{,}87{,}000$$

**Question:91**

Raghu and Rishu are partners sharing profits in the ratio 3 : 2. Their Balance Sheet as at 31st March, 2009 was as follows:

**BALANCE SHEET OF RAGHU AND RISHU**

***as at 31st March, 2009***

| Liabilities | | | Assets | | |
|---|---|---|---|---|---|
| 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  50,000 as his share of capital.

*b* Goodwill of the firm is valued at  42,000 and Rishabh will bring his share of goodwill in cash.

*c* Buildings were appreciated by 20%.

*d* All Debtors were good.

*e* There was a liability of  10,800 included in Creditors which was not likely to arise.

*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 any excess or deficiency will be made by withdrawing or bringing in cash by the concerned partners as the case may be.

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

**Solution:**

**Revaluation Account**

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

| Particulars | Amount Rs | Particulars | Amount Rs |
|---|---|---|---|
| Profit on Revaluation transferred to- | | Building | 19,600 |

| | | | | |
|---|---|---|---|---|
| Raghu's Capital A/c | 22,440 | | Provision for Doubtful Debts *Old* | 7,000 |
| Rishu's Capital A/c | 14,960 | 37,400 | Liability for Creditors | 10,800 |
| | | **37,400** | | **37,400** |

**Partners' Capital Account**

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

| Particulars | Raghu | Rishu | Rishabh | Particulars | Raghu | Rishu | Rishabh |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 1,19,000 | 1,12,000 | |
| Cash A/c (*Bal. Fig.*) | 48,040 | 84,860 | | Cash A/c | | | 50,000 |
| Balance c/d | 1,00,000 | 50,000 | 50,000 | Investment Fluctuation Fund | 2,400 | 1,600 | |
| | | | | Premium for Goodwill | 4,200 | 6,300 | |
| | | | | 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 31, 2009*

| Liabilities | | Amount Rs | Assets | Amount Rs |
|---|---|---|---|---|
| Creditors | 86,000 | | Cash (***WN4***) | 4,600 |
| *Less*: Liability | 10, 800 | 75,200 | Debtors | 42,000 |
| Employees Provident Fund | | 10,000 | Investments | 21,000 |
| Capital A/cs: | | | 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 Notes*:**

***WN 1****Calculation of Sacrificing Ratio*
Old Ratio = 3 : 2
New Ratio = 2 : 1 : 1
Sacrificing Ratio = Old ratio – New Ratio

$$\text{Raghu's Share} = \frac{3}{5} - \frac{2}{4} = \frac{12-10}{20} = \frac{2}{20}$$

$$\text{Rishu's Share} = \frac{2}{5} - \frac{1}{4} = \frac{8-5}{20} = \frac{3}{20}$$

$\therefore$ Sacrificing Ratio = 2 : 3

***WN 2****Share of Rishabh's Share of Goodwill*
Value of Firm's Goodwill = 42,000

$$\text{Rishabh's Share of Goodwill} = 42,000 \times \frac{1}{4} = 10,500$$

***WN 3****Adjustment of Capital*
Total Capital of New Firm = Rishabh's Capital × Reciprocal of Rishabh's Share
Capital of Rishabh = Rs 50,000

$$\text{Total Capital of New Firm} = 50,000 \times \frac{4}{1} = \text{Rs } 2,00,000$$

$$\text{Raghu's New Capital} = 2,00,000 \times \frac{2}{4} = \text{Rs } 1,00,000$$

$$\text{Rishu's New Capital} = 2,00,000 \times \frac{1}{4} = \text{Rs } 50,000$$

***WN 4*** *Cash Account*

**Cash Account**

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

| Particulars | Amount Rs | Particulars | Amount Rs |
|---|---|---|---|
| Balance b/d | 77,000 | Raghu's Capital | 48,040 |
| Rishabh's Capital | 50,000 | Rishu's Capital | 84,860 |
| Premium for Goodwill | 10,500 | Balance c/d | 4,600 |
| | **1,37,500** | | **1,37,500** |

**Question:92**
Following is the Balance Sheet of Abha and Binay as at 31st March, 2014:

| Liabilities | | | Assets | | |
|---|---|---|---|---|---|
| Creditors | | 13,000 | Bank | | 15,000 |
| Employees Provident Fund | | 8,000 | Debtors | 22,000 | |
| Workmen Compensation Fund | | 15,000 | *Less* : Provision for Doubtful Debts | 1,000 | 21,000 |
| Capital A/cs: | | | Stock | | 10,000 |
| Abha | 55,000 | | Plant and Machinery | | 60,000 |
| Binay | 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 1/4th 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 | Amount Rs | Particulars | | Amount Rs |
|---|---|---|---|---|
| Bad debts | 500 | Stock | | 500 |
| Plant and Machinery | 28,000 | Loss on Revaluation | | |
| | | Abha's Capital A/c | 14,000 | |
| | | Binay's Capital A/c | 14,000 | 28,000 |

| | | | |
|---|---|---|---|
| | 28,500 | | 28,500 |

**Partners' Capital Accounts**

| Dr. | | | | | | | | Cr. |
|---|---|---|---|---|---|---|---|---|
| **Particulars** | **Abha** | **Binay** | **Chitra** | **Particulars** | **Abha** | **Binay** | **Chitra** | |
| Revaluation | 14,000 | 14,000 | | Balance b/d | 55,000 | 30,000 | | |
| Goodwill | 5,000 | 5,000 | | Bank | | | 18,000 | |
| Profit and Loss | 2,500 | 2,500 | | Premium for Goodwill | 2,500 | 2,500 | | |
| Stock | 4,000 | 4,000 | | WCF | 7,500 | 7,500 | | |
| Balance c/d | 39,500 | 14,500 | 18,000 | | | | | |
| | **65,000** | **40,000** | **18,000** | | **65,000** | **40,000** | **18,000** | |
| Bank | 12,500 | | | Balance c/d | 39,500 | 14,500 | 18,000 | |
| Balance c/d (*adjusted*) | 27,000 | 27,000 | 18,000 | Bank | | 12,500 | | |
| | **39,500** | **27,000** | **18,000** | | **39,500** | **27,000** | **18,000** | |

***Working Notes*:**

***WN1*** *Calculation of Chitra's Capital*

Chitra's Capital = Total Adjusted Capital of Abha and Binay × Reciprocal of Combined Profit Share × Chitra's Profit ShareAbha's Adjusted Capital = 55, 000 + 2, 500 + 7, 500 - 14, 000 - 5, 000 - 2, 500 - 4, 0

***WN2*** *Calculation of New Capital*

*New Capital = Total Adjusted Capital × Respective Partner's Profit ShareAbha's New Capital =* $\left(39,500 + 14,500\right) \times \frac{1}{2}$ *= Rs 27, 000Binay's New Capital =* $\left(39,500 + 14,500\right) \times \frac{1}{2}$ *= Rs 27, 000*

***WN3*** *Calculation of Chitra's Share of Goodwill*

*Chitra's Share = Firm's Goodwill × Chitra's Profit Share* $= 20,000 \times \frac{1}{4}$ *= Rs 5, 000Rs 5, 000 will be shared between Abha and Binay in sacrificing ratio 1 : 1*

**Question:93**

Sarthak and Vansh are partners sharing profits in the ratio of 2 : 1. Since both of them are specially abled sometimes they find it difficult to run the business on their own. Mansi, a common friend, decides to help them. Therefore, they admit her into partnership for 1/3rd share in profits. She brings 60,000 for goodwill and proportionate capital. At the time of admission of Mansi, the Balance Sheet of Sarthak and Vansh was as under:

| **Liabilities** | | **Amount** | **Assets** | | **Amount** |
|---|---|---|---|---|---|
| Capital A/cs: | | | Plant | | 66,000 |
| Sarthak | 70,000 | | Furniture | | 30,000 |
| Vansh | 60,000 | 1,30,000 | Investments | | 40,000 |
| General Reserve | | 18,000 | Stock | | 46,000 |
| Bank Loan | | 18,000 | Debtors | 38,000 | |
| Creditors | | 72,000 | *Less*: Provision for Bad Debts | 4,000 | 34,000 |
| | | | Cash | | 22,000 |
| | | **2,38,000** | | | **2,38,000** |

It was decided to:
*a* Reduce the value of Stock by 10,000.
*b* Plant is to be valued at 80,000.
*c* An amount of 3,000 included in Creditors was not payable.
*d* Half of the investments were taken over by Sarthak and remaining were valued at 25,000.
Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of reconstituted firm.

**Solution:**

**In the books of Sarthak, Vansh and Mansi**

**Revaluation A/c**

| Dr. | | | | Cr. |
|---|---|---|---|---|
| **Particulars** | | **Amount ( )** | **Particulars** | **Amount ( )** |
| To Stock A/c | | 10,000 | By Plant A/c | 14,000 |
| | | | By Creditors A/c | 3,000 |
| To Profit transferred to | | | By Investments A/c | 5,000 |
| Sarthak's Capital A/c | 8,000 | | | |
| Vansh's Capital A/c | 4,000 | 12,000 | | |
| | | **22,000** | | **22,000** |

**Partner's Capital A/c**

| Dr. | | | | | | | Cr. |
|---|---|---|---|---|---|---|---|
| **Particulars** | **Sarthak ( )** | **Vansh ( )** | **Mansi ( )** | **Particulars** | **Sarthak ( )** | **Vansh ( )** | **Mansi ( )** |
| To Investments A/c | 20,000 | | | By balance b/d | 70,000 | 60,000 | |
| | | | | By Bank A/c *WN2* | | | 1,00,000 |
| To balance c/d | 1,10,000 | 90,000 | 1,00,000 | By Premium for Goodwill A/c | 40,000 | 20,000 | |
| | | | | By General Reserve A/c | 12,000 | 6,000 | |
| | | | | By Revaluation A/c *Profit* | 8,000 | 4,000 | |
| | **1,30,000** | **90,000** | **1,00,000** | | **1,30,000** | **90,000** | **1,00,000** |

**Working Notes:**

**1. Calculation of New profit-sharing ratio**

| | | |
|---|---|---|
| Mansi's Share of Profits | = | **1/3** |
| Remaining Profits | = | 1– 1/3 = 2/3 |
| Sarthak's New Share of Profits | = | 2/3 × 2/3 = 4/9 |
| Vansh's New Share of Profits | = | 2/3 × 1/3 = 2/9 |
| **Sarthak : Vansh : Mansi** | **=** | **4 : 2 : 3** |

2. **Calculation of Mansi's Capital**

Total Adjusted Capital of the Old Partners = Sarthak's Capital + Vansh's Capital = $1,10,000 + 90,000 =$ 2,00,00

Combined New Share of the Old Partners = 4/9 + 2/9 = 6/9 or 2/3

Total Capital of the new firm = *AdjustedCapitaloftheOldPartners* × *ReciprocalofCombinedNewShareoftheOldPartners*
= (2,00,000 × 3/2) = 3,00,000

**Mansi's Capital** = ***TotalCapitalofthenewfirm* × *HisShareofProfits***
**= 3, 00, 000 × 1/3 = 1,00,000**

**Balance Sheet**
**as at ……………**

| Liabilities | | Amount ( ) | Assets | | Amount ( ) |
|---|---|---|---|---|---|
| Capitals A/cs: | | | Plant | | 80,000 |
| Sarthak | 1,10,000 | | Furniture | | 30,000 |
| Vansh | 90,000 | | Debtors | 38,000 | |
| Mansi | 1,00,000 | 3,00,000 | *Less:* Provision for Bad debts | 4,000 | 34,000 |
| Bank Loan | | 18,000 | Investments | | 25,000 |
| Creditors | | 69,000 | Stock | | 36,000 |
| | | | Cash<br>22, 000 + 60, 000 + 1, 00, 000 | | 1,82,000 |
| | | **3,87,000** | | | **3,87,000** |

**Question:94**

*A*, *B* and *C* are partners sharing profits and losses in the ratio of 2 : 3 : 5. On 31st March, 2019, their Balance Sheet was:

| Liabilities | | Amount | Assets | Amount |
|---|---|---|---|---|
| Creditors | | 64,000 | Cash | 18,000 |
| Bills Payable | | 22,000 | Bills Receivable | 14,000 |
| General Reserve | | 14,000 | Stock | 44,000 |
| Capital A/cs: | | | Debtors | 42,000 |
| *A* | 36,000 | | Machinery | 94,000 |
| *B* | 44,000 | | Goodwill | 20,000 |
| *C* | 52,000 | 1,32,000 | | |
| | | **2,32,000** | | **2,32,000** |

They admit *D* into partnership on the following terms:
*a* Machinery is to be depreciated by 15%.
*b* Stock is to be revalued at 48,000.
*c* It is found that the Creditors included a sum of 12,000 which was not to be paid.
*d* Outstanding Rent is 1,900.
*e* *D* is to bring in 6,000 as goodwill and sufficient capital for 2/5th share.
*f* The partners decided to use 10% of the profits every year in providing drinking water in schools, where required.
Prepare Revaluation Account, Partners' Capital Accounts, Cash Account and Balance Sheet of the new firm.
**Solution:**

**In the books of A, B, C and D**
**Dr. Revaluation A/c Cr.**

| Particulars | Amount ( ) | Particulars | Amount ( ) |
|---|---|---|---|
| To Machinery A/c | 14,100 | By Stock A/c | 4,000 |
| To Outstanding Rent A/c | 1,900 | By Creditors A/c | 12,000 |
| | **16,000** | | **16,000** |

**Dr. Partner's Capital A/c 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 | |
| | | | | | By Bank A/c *WN*2 | | | | 88,000 |
| To balance c/d | 36,000 | 44,000 | 52,000 | 88,000 | By Premium for Goodwill A/c | 1,200 | 1,800 | 3,000 | |
| | | | | | By General Reserve A/c | 2,800 | 4,200 | 7,000 | |
| | **40,000** | **50,000** | **62,000** | **88,000** | | **40,000** | **50,000** | **62,000** | **88,000** |

**Working Notes:**

1. **Calculation of New profit-sharing ratio**

D's Share of Profits = **2/5**
Remaining Profits = 1− 2/5 = 3/5
A's New Share of Profits = 3/5 × 2/10 = 6/50
B's New Share of Profits = 3/5 × 3/10 = 9/50
C's New Share of Profits = 3/5 × 5/10 = 15/50
**A : B : C : D = 6 : 9 : 15 : 20**

2. **Calculation of D's Capital**

Total Adjusted Capital of the Old Partners = A's Capital + B's Capital + C's Capital = $36,000 + 44,000 + 52,000 =$ 1,32,000 Combined New Share of the Old Partners = 6/50 + 9/50 + 15/50 = 30/50 or 3/5

Total Capital of the new firm = *AdjustedCapitaloftheOldPartners* × *ReciprocalofCombinedNewShareoftheOldPartners*
= (1,32,000 × 5/3) = 2,20,000
**D's Capital** = ***TotalCapitalofthenewfirm* × *HisShareofProfits***
**= 2, 20, 000 × 2/5 = 88,000**

**Balance Sheet**
**as at 31st March, 2020**

| Liabilities | Amount ( ) | Assets | Amount ( ) |
|---|---|---|---|
| Capitals A/cs: | | Cash 18, 000 + 88, 000 + 6, 000 | 1,12,000 |

| | | | | | |
|---|---|---|---|---|---|
| A | 36,000 | | Bills Receivable | | 14,000 |
| B | 44,000 | | Stock | | 48,000 |
| C | 52,000 | | Debtors | | 42,000 |
| D | 88,000 | 2,20,000 | Machinery | 94,000 | |
| Creditors | | 52,000 | *Less:* Depreciation | 14,100 | 79,900 |
| Bills Payable | | 22,000 | | | |
| Outstanding Rent | | 1,900 | | | |
| | | **2,95,900** | | | **2,95,900** |

**Question:95**

*A* and *B* are partners in a firm sharing profits in the ratio of 3 : 2. They decide to admit *C* as a new partner *w.e.f.* 1st April, 2019. In future, profits will be shared equally. The Balance Sheet of *A* and *B* as at 1st April, 2019 and the terms of admission are:

**BALANCE SHEET OF *A* AND *B***

| Liabilities | | Amount | Assets | Amount |
|---|---|---|---|---|
| Sundry Creditors | | 60,000 | Cash in Bank | 40,000 |
| Outstanding Expenses | | 15,000 | Sundry Debtors | 36,000 |
| Capital A/cs: | | | Stock | 84,000 |
| *A* | 3,00,000 | | Furniture and Fittings | 65,000 |
| *B* | 3,00,000 | 6,00,000 | Plant and Machinery | 4,50,000 |
| | | **6,75,000** | | **6,75,000** |

*a* Capital of the firm is fixed at   6,00,000 to be contributed by partners in the profit-sharing ratio. The difference will be adjusted in cash.
*b* *C* to bring in his share of capital and goodwill in cash. Goodwill of the firm is to be valued on the basis of two years' purchases of super profit. The average net profits expected in the future by the firm 90,000 per year. The normal rate of return on capital in similar business is 10%.
*c* The partners agreed to help maintain the plants and keep the area clean.
Calculate goodwill and prepare Partners' Capital Accounts and Bank Account.

**Solution:**

**In the books of A, B and C**

**Dr. Partner's Capital A/c Cr.**

| Particulars | A ( ) | B ( ) | C ( ) | Particulars | A ( ) | B ( ) | C ( ) |
|---|---|---|---|---|---|---|---|
| To Bank A/c | 1,16,000 | 1,04,000 | | By balance b/d | 3,00,000 | 3,00,000 | |
| | | | | By Bank A/c | | | 2,00,000 |
| To balance c/d 6, 00, 000/3 | 2,00,000 | 2,00,000 | 2,00,000 | By Premium for Goodwill A/c | 16,000 | 4,000 | |
| | **3,16,000** | **3,04,000** | **2,00,000** | | **3,16,000** | **3,04,000** | **2,00,000** |

**Working Notes:**

1. **Calculation of Sacrificing Ratio**

| **Particulars** | **A** | **B** |
|---|---|---|
| Old Ratio | 3/5 | 2/5 |
| New Ratio | 1/3 | 1/3 |
| **Gain/Sacrifice** | **3/5– 1/3 = 4/15 *Sacrifice*** | **2/5– 1/3 = 1/15 *Sacrifice*** |
| **Sacrificing Ratio** | **4:1** | |

**2. Calculation of Goodwill brought in by C**

| | | |
|---|---|---|
| Average Net Profits | = | 90,000 |
| Capital Employed | = | 6,00,000 |
| Normal Profits | = | *CapitalEmployed* × *Normalrateofreturn*/100 = 6, 00, 000 × 10/100 = 60,000 |
| Super Profits | = | Average Net Profits – Normal Profits= 90, 000– 60, 000 = 30,000 |
| Goodwill | = | Super Profits × No. of years of Purchase = 30, 000 × 2 = 60,000 |
| **C's Share of Goodwill** | **=** | **60, 000 × 1/3 = 20,000** |

**Dr. Bank A/c Cr.**

| Date | Particulars | Amount ( ) | Date | Particulars | Amount ( ) |
|---|---|---|---|---|---|
| 2019 | | | 2019 | | |
| April 01 | To balance b/d | 40,000 | March 31 | By A's Capital A/c | 1,16,000 |
| April 01 | To C's Capital A/c | 2,00,000 | March 31 | By B's Capital A/c | 1,04,000 |
| April 01 | To Premium for Goodwill A/c | 20,000 | March 31 | By balance c/d | 40,000 |
| | | **2,60,000** | | | **2,60,000** |

**Question:96**

*L*, *M* and *N* were partners in a firm sharing profits in the ratio of 3 : 2 : 1. Their Balance Sheet on 31st March, 2015 was as follows:

| Liabilities | | | Assets | |
|---|---|---|---|---|
| Creditors | | 1,68,000 | Bank | 34,000 |
| General Reserve | | 42,000 | Debtors | 46,000 |
| Capital's A/cs: L | 1,20,000 | | Stock | 2,20,000 |
| M | 80,000 | | Investments | 60,000 |
| N | 40,000 | 2,40,000 | Furniture | 20,000 |
| | | | Machinery | 70,000 |
| | | **4,50,000** | | **4,50,000** |

On the above date, *O* was admitted as a new partner and it was decided that:
*i* The new profit-sharing ratio between *L, M, N* and *O* will be 2 : 2 : 1 : 1.
*ii* Goodwill of the firm was valued at   1,80,000 and *O* brought his share of goodwill premium in cash.
*iii* The market value of investments was   36,000.
*iv* Machinery will be reduced to   58,000.

*v* A creditor of 6,000 was not likely to claim the amount and hence was to be written off.
*vi* *O* will bring proportionate capital so as to give him 1/6th share in the profits of the firm.
Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm.
**Solution:**

**Revaluation Account**

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

| Particulars | Amount Rs | Particulars | | Amount Rs |
|---|---|---|---|---|
| Investments | 24,000 | Creditors | | 6,000 |
| Machinery | 12,000 | Loss on Revaluation | | |
| | | L's Capital A/c | 15,000 | |
| | | M's Capital A/c | 10,000 | |
| | | N's Capital A/c | 5,000 | 30,000 |
| | **36,000** | | | **36,000** |

**Partners' Capital Account**

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

| Particulars | L | M | N | O | Particulars | L | M | N | O |
|---|---|---|---|---|---|---|---|---|---|
| Reval. A/c | 15,000 | 10,000 | 5,000 | | Balance b/d | 1,20,000 | 80,000 | 40,000 | |
| Balance c/d | 1,56,000 | 84,000 | 42,000 | 56,400 | Gen. Reserve | 21,000 | 14,000 | 7,000 | |
| | | | | | Premium for G/w | 30,000 | | | |
| | | | | | Cash A/c | | | | 56,400 |
| | **1,71,000** | **94,000** | **47,000** | **56,400** | | **1,71,000** | **94,000** | **47,000** | **56,400** |

**Balance Sheet**
*as on March 31, 2015*

| Liabilities | | Amount *Rs* | Assets | Amount *Rs* |
|---|---|---|---|---|
| Creditors | | 1,62,000 | Bank 34, 000 + 56, 400 + 30, 000 | 1,20,400 |
| Capitals: | | | Debtors | 46,000 |
| L | 1,56,000 | | Stock | 2,20,000 |
| M | 84,000 | | Investments | 36,000 |
| N | 42,000 | | Furniture | 20,000 |
| O | 56,400 | 3,38,400 | Machinery | 58,000 |
| | | **5,00,400** | | **5,00,400** |

***Working Notes***:

***WN*1**: *Calculation of Sacrificing Ratio*

Sacrificing Ratio = Old Ratio − New Ratio

$$\text{L's} = \frac{3}{6} - \frac{2}{6} = \frac{1}{6}$$

$$\text{M's} = \frac{2}{6} - \frac{2}{6} = Nil$$

$$\text{N's} = \frac{1}{6} - \frac{1}{6} = Nil$$

***WN*2**: *Adjustment of Goodwill*

$$\text{O's Share of Goodwill} = 1{,}80{,}000 \times \frac{1}{6} = \text{Rs } 30{,}000$$

Rs 30,000 will be credited to L's Capital A/c, as he is the only sacrificing partner.

***WN*3** *Calculation of O's Proportionate Capital*

Adjusted Old Capital of L = 1,20,000 + 21,000 + 30,000 − 15, 000 = Rs 1,56,000
Adjusted Old Capital of M = 80,000 + 14,000 − 10, 000 = Rs 84,000
Adjusted Old Capital of N = 40,000 + 7,000 − 5, 000 = Rs 42,000
Total Adjusted Capital = 1,56,000 + 84,000 + 42,000 = Rs 2,82,000
O's Proportionate Capital = Total Adjusted Capital × O's Profit Share
× Reciprocal of Combined New Share of Old Partners

$$= 2{,}82{,}000 \times \frac{1}{6} \times \frac{6}{5} = \text{Rs } 56{,}400$$

**Question:97**
*A* and *B* are partners in a firm sharing profits and losses in the ratio 3 : 1. They admit *C* for 1/4th share on 31st March, 2014 when their Balance Sheet was as follows:

| Liabilities | | | Assets | | |
|---|---|---|---|---|---|
| Employees Provident Fund | | 17,000 | Cash | | 6,100 |
| Workmen Compensation Reserve | | 6,000 | Stock | | 15,000 |
| Investment Fluctuation Reserve | | 4,100 | Debtors | 50,000 | |
| Capital's A/cs: | | | *Less* : Provision for Doubtful Debts | 2,000 | 48,000 |
| *A* | 54,000 | | | | |
| *B* | 35,000 | 89,000 | Investments | | 7,000 |
| | | | 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 Account and Partners' Capital Accounts.
**Solution:**

**Revaluation Account**

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

| Particulars | Amount | Particulars | | Amount |
|---|---|---|---|---|
| Bad debts | 1,000 | | | |
| | | Loss on Revaluation | | |
| | | A's Capital A/c | 750 | |
| | | B's Capital A/c | 250 | 1,000 |
| | 1,000 | | | 1,000 |

**Partners' Capital Accounts**

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

| Particulars | A | B | C | Particulars | A | B | C |
|---|---|---|---|---|---|---|---|
| Revaluation | 750 | 250 | | Balance b/d | 54,000 | 35,000 | |
| Goodwill | 30,000 | 10,000 | | Bank | | | 23,200 |
| | | | | Premium for Goodwill | 12,000 | 4,000 | |
| | | | | WCF | 3,000 | 1,000 | |
| Balance c/d | 39,450 | 30,150 | 23,200 | IFF | 1,200 | 400 | |
| | **70,200** | **40,400** | **23,200** | | **70,200** | **40,400** | **23,200** |

***Working Notes*:**

***WN1*** *Calculation of C's Capital*

*C*'s Capital = Total Adjusted Capital of *A* and *B* × Reciprocal of Combined Profit Share × *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

***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:98**
Mohan and Sohan are in partnership sharing profits in the proportion of 3/5th and 2/5th respectively. Their Balance Sheet as at 31st March, 2019 was:

| Liabilities | | | Assets | | |
|---|---|---|---|---|---|
| Mohan's Capital | 2,000 | | Plant | | 650 |
| Sohan's Capital | 1,000 | 3,000 | Cash | | 650 |
| Creditors | | 400 | Debtors | 1,000 | |
| | | | *Less*: Provision for Doubtful Debts | 400 | 600 |
| | | | Stock | | 1,500 |
| | | **3,400** | | | **3,400** |

They 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 Provision 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 | Amount | Particulars | Amount |
|---|---|---|---|
| Plant 650– 500 | 150 | Reserve for Doubtful Debts 400– 100 | 300 |
| Profit transferred to | | Stock | 500 |
| Mohan Capital | 390 | | |
| Sohan Capital | 260 | | |
| | **800** | | **800** |

**Partners' Capital Accounts**

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

| Particulars | Mohan | Sohan | Rohan | Particulars | Mohan | Sohan | Rohan |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 2,000 | 1,000 | |
| Balance c/d (*after adjustments*) | 2,990 | 1,660 | | Revaluation | 390 | 260 | |
| | | | | Premium for Goodwill | 600 | 400 | |
| | **2,990** | **1,660** | | | **2,990** | **1,660** | |
| | | | | Balance b/d | 2,990 | 1,660 | |
| Balance c/d | 2,990 | 1,660 | 2,325 | Cash | | | 2,325 |
| | **2,990** | **1,660** | **2,325** | | **2,990** | **1,660** | **2,325** |

**Balance Sheet**
*as on March 31, 2019 after Rohan's admission*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Capital A/cs: | | | 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 Notes**

***WN1***

| | Mohan | : | Sohan |
|---|---|---|---|
| Old Ratio | 3 | : | 2 |
| Sacrificing Ratio | 3 | : | 2 |

***WN2***

Distribution of Premium for Goodwill

$$\text{Mohan will get} = 1,000 \times \frac{3}{5} = \text{Rs } 600$$

$$\text{Sohan will get} = 1,000 \times \frac{2}{5} = \text{Rs } 400$$

***WN3***

Distribution of Revaluation Profit

$$\text{Mohan's share} = 650 \times \frac{3}{5} = \text{Rs } 390$$

$$\text{Sohan's share} = 650 \times \frac{2}{5} = \text{Rs } 260$$

***WN4***

Calculation Rohan's Capital

Combined Capital of Mohan and Sohan after all adjustments = 2,990 + 1,660 = Rs 4,650

Total Capital of the firm on the basis of combined capital of Mohan and Sohan $= 4,650 \times \frac{3}{2} = 6,975$

$$\text{Rohan's Capital} = 6,975 \times \frac{1}{3} = \text{Rs } 2,325$$

***WN5***

**Cash Account**

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

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Balance b/d<br>Rohan's Capital<br>Premium for Goodwill | 650<br>2,325<br>1,000 | Balance c/d | 3,975 |
| | **3,975** | | **3,975** |

**Question:99**

Pradeep and Dhanraj were partners in a firm sharing profits in the ratio of 3 : 1. Their Balance Sheet on 31st March, 2019 was:

| 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 |
| Dhanraj | 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 : 2 : 3. Leander brings in proportionate capital after the following adjustments:

*a* Leander brings 16,000 as his share of goodwill.

*b* Provisions for Doubtful Debts is to be reduced by 2,000.

*c* There is an old Printer 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 | Amount | Particulars | Amount |
|---|---|---|---|
| Patents | 1,000 | Provision for Doubtful Debts | 2,000 |
| Profit on transferred to | | Typewriter | 2,400 |
| Pradeep Capital | 2,550 | | |
| Dhanraj Capital | 850 | | |
| | **4,400** | | **4,400** |

**Partners' Capital Accounts**

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

| Particulars | Pradeep | Dhanraj | Leander | Particulars | Pradeep | Dhanraj | Leander |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 60,000 | 20,000 | |
| Balance c/d (*after adjustments*) | 90,550 | 24,850 | | Reserve Fund | 12,000 | 4,000 | |
| | | | | Revaluation | 2,550 | 850 | |
| | | | | Premium for Goodwill | 16,000 | | |
| | **90,550** | **24,850** | | | **90,550** | **24,850** | |
| | | | | Balance c/d | 90,550 | 24,850 | |
| | | | | Cash | | | 69,240 |
| Balance c/d | 90,550 | 24,850 | 69,240 | | | | |
| | **90,550** | **24,850** | **69,240** | | **90,550** | **24,850** | **69,240** |

**Balance Sheet**

*as on March 31, 2019 after Leander's admission*

| Liabilities | Amount | Assets | | Amount |
|---|---|---|---|---|
| Creditors | 30,000 | Debtors | 50,000 | |
| Bills Receivable | 1,000 | *Less*: Prov. for D. Debts | 3,000 | 47,000 |
| Outstanding Salary | 3,000 | Stock | | 30,000 |

| | | | | |
|---|---|---|---|---|
| Capital A/cs: | | | 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** |

**Working Notes**

***WN1***

| | Pradeep | : | Dhanraj | | |
|---|---|---|---|---|---|
| Old Ratio | 3 | : | 1 | | |

| | Pradeep | : | Dhanraj | : | Leander |
|---|---|---|---|---|---|
| New Ratio | 3 | : | 2 | : | 3 |

Sacrificing Ratio = Old Ratio − New Ratio

$$\text{Pradeep} = \frac{3}{4} - \frac{3}{8} = \frac{3}{8}$$

$$\text{Dhanraj} = \frac{1}{4} - \frac{2}{8} = \frac{0}{8}$$

Leander acquires his share of profit from Pradeep only. Therefore, amount for goodwill brought by Leander will be taken by Pradeep alone.

***WN2***

Distribution of Revaluation Profit

$$\text{Pradeep's share} = 3,400 \times \frac{3}{4} = \text{Rs } 2,550$$

$$\text{Dhanraj's share} = 3,400 \times \frac{1}{4} = \text{Rs } 850$$

***WN3***

Distribution of Reserve Fund

$$\text{Pradeep's share} = 16,000 \times \frac{3}{4} = \text{Rs } 12,000$$

$$\text{Dhanraj's share} = 16,000 \times \frac{1}{4} = \text{Rs } 4,000$$

***WN4***

Calculation of Leander's Capital

Combined Capital of Pradeep and Dhanraj after all adjustments = 90,550 + 24,850 = 1, 15,400

Combined share of profit of Pradeep 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

$$= 1,15,400 \times \frac{8}{5} = \text{Rs}\,1,84,640$$

$$\text{Leander's Capital} = 1,84,640 \times \frac{3}{8} = \text{Rs}\,69,240$$

***WN5***

**Cash Account**

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

| **Particulars** | **Amount** | **Particulars** | **Amount** |
|---|---|---|---|
| Balance b/d | 4,000 | | |
| Leander's Capital | 69,240 | | |
| Premium for Goodwill | 16,000 | Balance c/d | 89,240 |
| | **89,240** | | **89,240** |

**Question:100**

Following is the Balance Sheet of *X* and *Y* as at 31st March, 2019. *Z* is admitted as a partner on that date when the position of *X* and *Y* was:

| **Liabilities** | | | **Assets** | |
|---|---|---|---|---|
| *X*'s Capital | 10,000 | | Cash in Hand | 9,000 |
| *Y*'s Capital | 8,000 | 18,000 | 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:

*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 of *X* and *Y* after above revaluation and adjustments are carried out.

*e* The further profit-sharing proportions were: *X*–2/5th, *Y*–2/5th and *Z*–1/5th.

Prepare new Balance Sheet of the firm and Capital Accounts of the Partners.

**Solution:**

**Revaluation Account**

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

| **Particulars** | **Amount** | **Particulars** | **Amount** |
|---|---|---|---|
| Profit transferred to | | Building 18, 000– 8, 000 | 10,000 |
| X Capital | 8,400 | Stock 16, 000– 12, 000 | 4,000 |
| Y Capital | 5,600 | | |
| | **14,000** | | **14,000** |

**Partners' Capital Accounts**

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

| Particulars | X | Y | Z | Particulars | X | Y | Z |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 10,000 | 8,000 | |
| | | | | General Reserve | 9,600 | 6,400 | |
| | | | | Workmen's Compensation Fund | 1,200 | 800 | |
| Balance c/d | 39,200 | 20,800 | | Revaluation (*Profit*) | 8,400 | 5,600 | |
| | | | | Premium for Goodwill | 10,000 | | |
| | **39,200** | **20,800** | | | **39,200** | **20,800** | |
| | | | | Balance b/d | 39,200 | 20,800 | |
| | | | | Cash | | | 12,000 |
| Balance c/d | 39,200 | 20,800 | 12,000 | | | | |
| | **39,200** | **20,800** | **12,000** | | **39,200** | **20,800** | **12,000** |

**Balance Sheet**

*as on March 31, 2019 after Z's admission*

| Liabilities | | Amount | Assets | Amount |
|---|---|---|---|---|
| Capital A/cs: | | | 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 Compensation Claim | | 2,000 | | |
| | | **86,000** | | **86,000** |

**Working Notes**

***WN1***: ***Sacrificing Ratio***

| | X | : | Y | : | Z |
|---|---|---|---|---|---|
| Old Ratio | 3 | : | 2 | | |
| 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 for Goodwill will be taken by X only.

***WN2***: ***Treatment of Workmen Compensation Fund***

| Particulars | | L.F. | Debit Amount | Credit Amount |
|---|---|---|---|---|
| Workmen's Compensation Fund A/c | Dr. | | 4,000 | |
| To Outstanding Workmen's Compensation Claim A/c | | | | 2,000 |
| To X's Capital A/c | Dr. | | | 1,200 |
| To Y's Capital A/c | | | | 800 |
| *OutstandingWorkmen´sCompensationchargedfromthefundandremainingfundtransferredtopartner´scapitalintheiroldratio* | | | | |

***WN3***: ***Calculation of Z's Capital***

Combined Capital of X and Y after all adjustments = 39,200 + 20,800 = Rs 60,000

Z's Capital $= 60,000 \times \frac{20}{100} = \text{Rs}\,12,000$

***WN4***: ***Calculation of Cash Balance***

**Cash Account**

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

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Balance b/d | 9,000 | | |
| Z's Capital | 12,000 | | |
| Premium for Goodwill | 10,000 | Balance c/d | 31,000 |
| | **31,000** | | **31,000** |

**Question:101**

Kalpana and Kanika were partners in a firm sharing profits in the ratio of 3 : 2. On 1st April, 2019, they 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, 2019 was as follows:

**BALANCE SHEET OF KALPANA AND KANIKA *as on 1st April, 2019***

| Liabilities | | | Assets | | |
|---|---|---|---|---|---|
| Capital A/cs: | | | 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 | | 26,000 |
| | | | | | 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 60,000.
*c* Karuna will bring 80,000 for her share of goodwill premium.
*d* the liabilities of Workmen's Compensation Fund were determined at 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 | | Amount | Particulars | Amount |
|---|---|---|---|---|
| Revaluation Profit | | | Land and Building A/c | 42,000 |
| Kalpana's Capital A/c | 61,200 | | Plant A/c | 60,000 |
| Kanika's Capital A/c | 40,800 | 1,02,000 | | |
| | | **1,02,000** | | **1,02,000** |

**Partners' Capital Accounts**

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

| Particulars | Kalpana | Kanika | Karuna | Particulars | Kalpana | Kanika | Karuna |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/d | 4,80,000 | 2,10,000 | |
| | | | | Cash | | | 2,43,000 |
| Balance c/d | 6,49,200 | 3,22,800 | 2,43,000 | General Reserve | 36,000 | 24,000 | |
| | | | | Workmen Compensation Fund | 24,000 | 16,000 | |
| | | | | Revaluation A/c | 61,200 | 40,800 | |
| | | | | Premium for Goodwill | 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 April 01, 2019 after Karuna's admission*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Creditors | | 90,000 | Cash in Hand | | 4,53,000 |
| Capitals: | | | 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 Compensation | | 60,000 | Plant | | 3,30,000 |
| | | **13,65,000** | | | **13,65,000** |

***Working Notes***:

***WN1*** **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 shared 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 $= \frac{4}{5} \times \frac{2}{5} = \frac{8}{25}$
New Ratio = 12 : 8 : 5

**Calculation of Sacrificing Ratio**

**Sacrificing Ratio = Old Ratio – New Ratio**
Kalpana $= \frac{3}{5} - \frac{12}{25} = \frac{3}{25}$ Kanika $= \frac{2}{5} - \frac{8}{25} = \frac{2}{25}$
Sacrificing Ratio = 3 : 2

***WN2*** **Calculate of Karuna's Capital**
Adjusted Capital of Kalpana = 6,49,200
Adjusted Capital of Kanika = 3,22,800
Total Adjusted Capital = 9,72,000 6, 49, 200 + 3, 22, 800
Karuna's Capital = Adjusted Capital of Kalpana and Kanika × Karuna's Share × Reciprocal of the Firm's share

$$\text{Karuna's Capital} = 9{,}72{,}000 \times \frac{1}{5} \times \frac{5}{4} = \text{Rs } 2,43,000$$

**Question:102**
*A* and *B* are partners sharing profits in the ratio of 3 : 2. They admit *C* as a new partner from 1st April, 2019. They have decided to share future profits in the ratio of 4 : 3 : 3. The Balance Sheet as at 31st March, 2019 is given below:

| Liabilities | | | Assets | | |
|---|---|---|---|---|---|
| *A*'s Capital | 1,76,000 | | Goodwill | | 34,000 |
| *B*'s Capital | 2,54,000 | 4,30,000 | Land and Building | | 60,000 |
| Workmen Compensation Reserve | | 20,000 | Investment (Market value 45,000**)** | | 50,000 |
| Investments Fluctuation Reserve | | 10,000 | Debtors | 1,00,000 | |
| Employee's Provident Fund | | 34,000 | *Less*: Provision for Doubtful Debts | 10,000 | 90,000 |
| *C*'s Loan | | 3,00,000 | Stock | | 3,00,000 |
| | | | Bank Balance | | 2,50,000 |
| | | | Advertising Suspense A/c | | 10,000 |

| | | | |
|---|---|---|---|
| | 7,94,000 | | 7,94,000 |
| | | | |

Terms of *C*'s admission are as follows:
*i C* contributes proportionate capital and 60% of his share of goodwill in cash.
*ii* Goodwill is to be valued at 2 years' purchase of super profit of last three completed years. Profits for the years ended 31st March were:
2017 – 4,80,000; 2018 – 9,30,000; 2019 – 13,80,000.
The normal profit is 5,30,000 with same amount of capital invested in similar industry.
*iii* Land and Building was found undervalued by 1,00,000.
*iv* Stock was found overvalued by 31,000.
*v* Provision for Doubtful Debts is to be made equal to 5% of the debtors.
*vi* Claim on account of Workmen Compensation is 11,000.
Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet.
**Solution:**

**Revaluation Account**

Dr. Cr.

| Particulars | | Amount | Particulars | Amount |
|---|---|---|---|---|
| Stock | | 31,000 | Land & Building | 1,00,000 |
| Profit transferred to: | | | Provision for Doubtful Debts | 5,000 |
| A's Capital A/c | 44,400 | | | |
| B's Capital A/c | 29,600 | 74,000 | | |
| | | 1,05,000 | | 1,05,000 |

**Partners' Capital Accounts**

Dr. Cr.

| Particulars | A | B | C | Particulars | A | B | C |
|---|---|---|---|---|---|---|---|
| Goodwill | 20,400 | 13,600 | | Balance b/d | 1,76,000 | 2,54,000 | |
| Advertisement Suspense A/c | 6,000 | 4,000 | | Bank A/c | | | 3,06,000 |
| Balance c/d | 3,62,400 | 3,51,600 | 3,06,000 | Premium for Goodwill A/c | 96,000 | 48,000 | |
| | | | | C's Current A/c | 64,000 | 32,000 | |
| | | | | Revaluation A/c | 44,400 | 29,600 | |
| | | | | IFR | 3,000 | 2,000 | |
| | | | | WCR | 5,400 | 3,600 | |
| | 3,88,800 | 3,69,200 | 3,06,000 | | 3,88,800 | 3,69,200 | 3,06,000 |

**Bank Account**

Dr. Cr.

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| Balance b/d | 2,50,000 | Balance c/d | 7,00,000 |
| C's Capital | 3,06,000 | | |
| Premium for Goodwill | 1,44,000 | | |
| | 7,00,000 | | 7,00,000 |

**Balance Sheet**

*as on 1st April, 2019 after C's admission*

| Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| Workmen Compensation Reserve | | 11,000 | Land & Building | | 1,60,000 |
| Employees Provident Fund | | 34,000 | Bank A/c | | 7,00,000 |
| C 's Loan | | 3,00,000 | Investment | | 45,000 |
| Capital | | | Stock | | 2,69,000 |
| A | 3,62,400 | | C 's Current A/c | | 96,000 |
| B | 3,51,600 | | Debtors | 1,00,000 | |
| C | 3,06,000 | 10,20,000 | *Less* : Provision for Doubtful Debts | 5,000 | 95,000 |
| | | 13,65,000 | | | 13,65,000 |

***Working Notes:***

***WN*1**: *Calculation of Sacrifice or Gain*

*A :B = 3:2 (Old Ratio)*
*A :B :C = 4:3 :3 (New Ratio)*
*Sacrificing (or Gaining) Ratio = Old Ratio - New Ratio*

A's share $= \frac{3}{5} - \frac{4}{10} = \frac{6-4}{10} = \frac{2}{10}$

B's share $= \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$

*A:B = 2:1*

***WN:2*** *Calculation of Goodwill*

*Goodwill = Super Profit × No. of Years' Purchase*
*= 4,00,000 × 2 = Rs 8,00,000*

C's share of Goodwill $=8,00,000 \times \frac{3}{10}$ = Rs 2,40,000

Goodwill brought in cash $= 2,40,000 \times \frac{60}{100}$ = Rs 1,44,000

Average Profit $= \frac{\text{Total Profits of past years given}}{\text{Number of Years}}$

$= \frac{27,90,000}{3}$ = Rs 9,30,000

Normal Profit = Capital Employed $\times \frac{\text{Normal Rate of Return}}{100}$
*= Rs 5,30,000*

*Super Profit = Average Profit - Normal Profit*
*= 9,30,000 - 5,30,000 = Rs 4,00,000*

***WN:3*** *Calculation of C's Capital*

*Combined Capital A and B's Capital for $\frac{7}{10}$th = 3,62,400 + 3,51,600 = Rs 7,14,000*

*So, C's Capital = $7,14,000 \times \frac{10}{7} \times \frac{3}{10}$ = Rs 3,06,000*