CHAPTER 4

Accounting for Partnership Firms : Admission of a partner

Meaning:

When a new partner is admitted in a running business due to the requirement of more capital or may be to take advantage of the experience and competence of the newly admitted partner or any other reason, it is called admission of a partner in partnership firm.

According to section 31(1) of Indian partnership Act,1932, "**A new partner can be admitted only with the consent of all the existing partners.**"

At the time of admission of a new partner, following adjustments are required:

1. Calculation of new profit sharing ratio and sacrificing ratio.
2. Accounting treatment of Goodwill.
3. Accounting treatment of accumulated profit.
4. Accounting treatment of revaluation of assets and reassessment of liabilities.
5. Adjustment of capital in new profit sharing ratio.

1. Calculation of new profit sharing ratio.

Following types of problems may arise for the calculation of new profit sharing ratio.

Case (i) **When old ratio is given and share of new partner is given.**

Illustration 1. (When new partner acquires his share from all partners in their old ratio)

A and B are partners in a firm sharing profits and losses in the ratio 1:2.They admitted C into the partnership and

decided to give him 1/3rd share of the future profits. Find the new ratio of the partners. *(CBSE 2003)*

Solution

(i) Calculation of Sacrifice Share:

A's sacrifice = 1/3 of 1/3 = 1/9

B's sacrifice = 2/3 of 1/3 = 2/9

Sacrificing Ration = 1/9 : 2/9 = 1:2

which is equal to old ratio

(ii) Calculation of New Profit sharing Ratio:

New share=Old share- Sacrifice share

A's new share =1/3-1/9=3-1/9=2/9

B's new share =2/3-2/9=6-2/9=4/9

C's new share =1/9+ 2/9 = 3/9

New ratio among A,B and C: 2/9:4/9:3/9=2:4:3 respectively

Note: Unless agreed otherwise, it is presumed that the new partner acquires his share in profits from the old partners in their old profit sharing ratio.

Alternative Method :

Old Ratio = A:B

1:2

Let the profit of the firm = 1

C's share (New Partner) = 1/3

Remaining Profit = 1-1/3 = 2/3

Now this profit 2/3 will be divided between the old partners in their old ratio i.e., 1:2

A's new Profit = 1/3 of 2/3 = 1/3 x2/3 = 2/9

B's new Profit = 2/3 of 2/3 = 2/3x2/3 = 4/9

C's profit = 1/3 or 1/3 x 3/3 = 3/9

Hence the new ratio = 2:4:3

Note- In this case only New Partner's share is given then Sacrificing Ratio = Old Ratio = 1:2 There is no need to calculate it

Case (ii) When new partner acquires his/her share from all partners in agreed share.

Illustration 2. (When new partner acquires his share from all partners in agreed share)

L and M are partners in a firm sharing profits and losses in the ratio of 7: 3. They admitted N for 3/7th share,which he takes 2/7th from L and 1/7 from M. Calculate the new profit sharing ratio.*(CBSE 1999 Compt., 2001, 2003)*

Solution.

(i) As sacrifice share of old partners are given in the question itself, hence there is no need to calculate it.

(ii) Calculation of New profit sharing ratio:

New share=old share-sacrifice share

L's new share =7/10-2/7=49-20/70=29/70

M's new share =3/10-1/7=21-10/70=11/70

N's new share =2/7+1/7=3/7(given)

New ratio among L,M and N =29/70:11/70:3/7 = 29:11:30/70 =29:11:30

Case (iii) When new partner acquires his/her share from all partners in certain ratio.

Illustration 3.

X and Y are partners in a firm sharing profit and losses in the ratio of 3:2.Z is admitted as partner in the firm for 1/6th share in profits. Z acquires his share from X and Y in the ratio of 2:1. Calculate new profit sharing ratio of partners.

(CBSE 2003)

Solution.

(i) Calculation of Sacrifice share:

Given sacrificing Ratio = X:Y = 2:1,

therefore :

X's sacrifice = 2/3of 1/6=2/18

Y's sacrifice =1/3of 1/6 =1/18

(ii) Calculation of New Profit Sharing Ratio:

New share = Old share-Sacrifice share

X's new share =3/5-2/8=54-10/90=44/90

Y's new share =2/5-1/18=36-5/90=31/90

Z's new share =2/18+1/18=3/18or 1/6 (Given)

New ratio among X,Y and Z = 44/90:31/90:1/6=44:31:15/90=44:31:15

Case (iv) When new partner acquires his share from all partners as a fraction of their share.

Illustration 4. (When new partner acquires his share from all partners as a fraction of their share)

A and B are partners in a firm sharing profit and losses in the ratio of 5:3. A surrenders 1/5th of his share, whereas B surrenders 1/3 of his share in favour of C, a new partner. Calculate the new profit sharing ratio

.(CBSE 2003, AI 2004)

Solution.

(i) Calculation of sacrifice share

A sacrifices 1/5th of his share i.e., 1/5of 5/8 = 5/40 or 1/8

B sacrifices 1/3th of his share i.e.,1/3of3/8= 3/24 or 1/8

(ii) Calculation of New profit shaing Ratio :

New share =Old share – sacrifice share

A's new share =5/8-1/8=4/8

B's new share = 3/8 -1/8 = 2/8

C's new share = 1/8 + 1/8 = 2/8

New ratio among A, B and C = 4/8:2/8:2/8 = 4:2:2/8 = 2:1:1

Case (v) When new partner does not acquire his/her share from all partners

Illustration 5. (when new partner does not acquire his share from all partners)

A, B and C are partners sharing profits in the ratio of 3:2:1. They admit D for 1/6 share. C would retain his old share. Calculate new ratio of all partners.

(CBSE 2002 Compt.)

Solution.

(i) Calculation of sacrifice share : (Only A and B will sacrifice in ratio of 3:2)

A's sacrifice = 3/5 of 1/6 = 3/30 or 1/10

B's sacrifice = 2/5 of 1/6 = 2/30 or 1/15

C's sacrifice = 0

(ii) Calculation of new profit sharing ratio :

New share = Old share – Sacrifice share

A's new share = 3/6 – 1/10 = 30-6/60 = 24/60

B's new share = 2/6 – 1/15 = 30-6/90 = 24/90

C's new share = 1/6 – 0 = 1/6

D's new share = 1/10 + 1/15 = 3+2/30 = 5/30 = 1/6

New ratio among A, B, C and D

24/60:24/90:1/6:1/6 = 72:48:30:30/180 = 12:8:5:5

Case (vi) When more than one partner is admitted.

Illustration 6. (when more than one partner is admitted simultaneously)

X and Y are partners sharing profits in the ratio of 3:2. They admit P and Q as new partners. X surrendered 1/3 of his share in favour of P and Y surrendered ¼ of his share in favour of Q. Calculate the new profit sharing ratio of X, Y, P and Q.

(CBSE 2002 Compt.)

Solution.

(i) Calculation of sacrifice share : (only A and B will sacrifice in the ratio 3:2)
X surrenders 1/3 of his share in favour of P = 1/3 of 5/3 = 3/15 or 1/5
Y surrenders 1/4 of his share in favour of Q = 1/4 of 2/5 = 2/20 or 1/10

2. **Accounting Treatment of Goodwill.**

At the time of admission of a partner, treatment of Goodwill is necessary to compensate the old partners for their sacrifice. The incoming partner must compensate the existing partners because he is going to acquire the right to share future profits and this share is sacrificed by old partners. If goodwill (Premium) is paid to old partners privately or outside the business by the new partner then no entry is required in the books of the firm.

There may be different situations about the treatment of goodwill at the time of the admission of the new partner :

(i) Goodwill (premium) brought in by the new partner in cash and retained in the business

Illustration 7. (All partners sacrifice)

A and B are partners sharing profits and losses in the ratio of 3:2. They admit C into partnership for ¼ share in profits. C brings ‘ 3,00,000 as capital and ‘ 1,00,000 as goodwill. New profit sharing ratio of the partners shall be 3:3:2. Pass necessary Journal entries.*(CBSE 2003)*

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c Dr.		4,40,000	
	To Premium for Goodwill A/c			1,00,000
	To C's Capital A/c			3,00,000
	(Being the amount of goodwill and capital brought in by new partner C)			
	Premium for Goodwill A/c Dr.		1,00,000	
	To A's capital A/c			90,000
	To B's capital A/c			10,000
	(Being the amount of goodwill distributed between A and B in their sacrificing ratio i.e., 9:1)			

Note : Sacrificing ratio = Old ration - New ratio

A= 3/5-3/8 = 24-15/40 = 9/40

B = 2/5-3/8 = 16-15/40 = 1/40

This sacrificing ratio between A and B i.e., 9:1.

Illustration 8. (Sacrificing ratio is to be calculated)

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 1/5 of his share and B 2/5 of his share in favour of C. For purpose of C's admission, goodwill of the firm is valued at ‘ 75,000 and C brings his share ofgoodwill in cash which is retained in the firm's books. Journalise the above transactions.

(CBSE 2003)

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c Dr.		21,000	
	To Premium for Goodwill A/c			21,000
	(Being the amount of goodwill and capital brought in by new partner C)			
	Premium for Goodwill A/c Dr.		21,000	
	To A's capital A/c			9,000
	To B's capital A/c			12,000
	(Being the amount of goodwill distributed between A and B in their sacrificing ratio i.e., 3:4)			

Note :(i) Calculation of sacrificing ratio :

A's sacrifice, 1/5 of his share = 1/5 of 3/5 = 3/25

B's sacrifice, 2/5 of his share = 2/5 of 2/5 = 4/25

Sacrificing ratio between A and B i.e., 3/25:4/25 = 3:4

(ii) Calculation of C's share of profit :

C's share of profit = 3/25+4/25 = 7/25

(iii) Calculation of C's share of goodwill :

75,000 x 7/25 = 21,000

Treatment of Existing Goodwill shown in the books

If goodwill already shown in the balance sheet, it should be written off by debiting old partners in their old profit sharing ratio.

Illustration 9. (Existing goodwill to be written off)

A and B are partners in a firm sharing profits and losses in the ratio of 3:2. They admit C into partnership for 1/5 share. C brings ₹30,000 as capital and ₹10,000 as goodwill. At the time of admission of C, goodwill appears in the balance sheet of A and B at ₹ 3,000. New profit sharing ratio of partners shall be 5:3:2. Pass necessary entries.

(CBSE 2003)

Journal

Date	**Particulars**	**L.F.**	**Debit ₹**	**Credit ₹**
	Bank A/c Dr.		40,000	
	To Premium for Goodwill A/c			30,000
	To C's Capital A/c			10,000
	(Being the amount of goodwill and capital brought in by new partner C)			
	Premium for Goodwill A/c Dr.		10,000	
	To A's capital A/c			5,000
	To B's capital A/c			5,000
	(Being the amount of goodwill distributed between A and B in their sacrificing ratio i.e., 1:1)			
	A's capital A/c Dr.			
	B's capital A/c Dr.			
	To Goodwill A/c		1,800	
	(Being existing goodwill written off between		1,200	
	old partners in their old ratio i.e., 3:2)			3,000

Notes : Sacrificing ratio = Old ratio – New ratio

A = 3/5 – 5/10 = 6-5/10 = 1/10

B = 2/5 – 3/10 = 4-3/10 = 1/10

Sacrificing ratio between A and B 1:1 i.e., equal.

Case (ii) Premiumbrought in kind:

Illustration 10. (premium brought in kind)

Anubhav and Babita are partners in a firm sharing profits and losses in the ratio of 3:2. On April 1,2003 they admit

Deepak as a new partner for 3/13 share in the profits. Deepak contributed the following assets towards his capital

and for his share of goodwill :

Land ₹ 90,000, machinery ₹ 70,000, stock ₹ 60,000 and debtors ₹ 40,000. On the date of admission of Deepak, the goodwill of the firm was valued at ₹5,20,000, which is not appear in the books. Record necessaries journal entries in the books of the firm. Show your calculations clearly.

(NCERT, CBSE 2004 Compl)

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Land A/c Dr.		90,000	
	Machinery A/c Dr.		70,000	
	Stock A/c Dr.		40,000	
	Debtors A/c Dr.		60,000	
	To Premium for Goodwill A/c(5,20,000x3/13)			1,20,000
	To Deepak's Capital A/c (Balancing figure)			1,40,000
	(Being the amount of goodwill and capital brought in kind by new partner)			
	Premium for Goodwill A/c Dr.		1,20,000	
	To Anubhav's capital A/c			72,000
	To Babita's capital A/c			48,000
	(Being the amount of goodwill distributed between Anubhav and Babita in their sacrificing ratio i.e. 3:2)			

Note : Here Sacrificing Ratio = Old Ratio i.e., 3:2

Case (iii) Amount of goodwill which was brought in by new partner, is withdrawn by old partners:

In this case one additional Journal entry may be passed :

Old Partners' Capital A/c Dr.

To Bank/Cash A/c

(Cash withdrawn by old partners)

Case (iv) when the new partner is unable to bring his share of goodwill in cash

Sometimes the new partner does not bring his share of goodwill in cash. Then his share of goodwill is calculated and adjusted by the following Journal entry.

Now Partners' Capital A/c Dr. To old partners Capital A/cs (in the sacrificing ratio).

Illustration 11 :

Neeta and Sumita are partners sharing profits and losses in the sates 2:1. They admit Geeta as a partner for 1/4th Share. Geeta pays Rs.50,000 as capital but does not bring any amount for goodwill. The goodwill of the new firm is valued at ₹36,000. Give Journal entries.

(CBSE 1997, 2003)

Solution

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Cash A/c Dr.		50,000	
	To Geeta's Capital A/c			50,000
	Being the amount of Capital brought in cash by the new partner)			
2.	Geeta's Capital A/c Dr.		9,000	
	To Neeta's Capital A/c			6,000
	To Sunita's Capital A/c			3,000
	Being the amount of new Partner's share of goodwill transferred to old Partner's Capital A/c in their sacrificing ratio i.e.2:1)			

Working Note :

(1) As nothing is given about sacrifice etc. except the old ratio and the new partners share of profit

Sacrificing Ratio = Old Ratio = 2:1

(2) Goodwill of the firm = Rs.36,000

Geeta's share of profit = 1/4

Geeta's share of Goodwill = Rs.36,000x1/4 = Rs.9,000

Case (v) Partly goodwill brought in by new partner :

Illustration 12. (Partly premium brought in cash)

Sheetal and Raman share profits equally. They admit Chinki into partnership. Chinki pays only ‘ 1,000 for premium out of his share of premium of ‘ 1,800 for 1/4 share of profit. Goodwill Account appears in the books at ‘ 6,000. All partners have decided that goodwill should not appear in the books of the new firm. Journalise.

(CBSE 1997, 2003)

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Bank A/c	Dr.		1,000	
	To Premium for Goodwill A/c				1,000
	(Being the amount of goodwill brought in cash by new partner)				
	Premium for Goodwill A/c	Dr.		1,000	
	Chinki's capital A/c	Dr.		800	
	To Sheetal's capital A/c				900
	To Raman's capital A/c				900
	(Being Chinki's share of goodwill transferred to sacrificing partners in their sacrificing ratio i.e., 1:1)				
	Sheetal's capital A/c	Dr.		3,000	
	Raman's capital A/c	Dr.		3,000	
	To Goodwill A/c				6,000
	(Being existing goodwill written off between old partners in their old ration i.e., equal)				

Case (vi) Gain made by an old partner :

Illustration 13. (Sacrifice/Gain made by a partner)

Ashok and Ravi were partners in a firm sharing profits and losses in the ratio of 7:3. They admitted Chander as a new partner. The new profit ratio between Ashok,Ravi and Chander will be 2:2:1. Chander brought ' 24,000 for his share of his goodwill. Pass necessary journal entries for the treatment of goodwill.

(CBSE 2000)

Solution :

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Bank A/c	Dr.		24,000	
	To Premium for Goodwill A/c				24,000
	(Being the amount of goodwill brought in by new partner)				
	Premium for Goodwill A/c	Dr.		24,000	
	Ravi's capital A/c	Dr.		12,000	
	To Ashok's capital A/c				36,000
	(Being the goodwill credited to Ashok's capital A/c)				

Note : Calculation of sacrifice/gain share of partners(s) :

Sacrificing ration = Old ratio-New ratio

Ashok = 7/10 – 2/5 = 7-4/10 = 3/10 sacrifice

Ravi = 3/10 – 2/5 = 3-4/10 = (-1/10) gain

Being negative result, it shows gain. Since Ravi is gaining equal to 1/10 in the profits, therefore, he will also compensate Ashok proportionately. For 1/5 share Chander brought ₹ 24,000, therefore, Ravi will compensate Ashok by ₹ 12,000 i.e., 24,000 x 5/1 x 1/10.

Case (vii) Hidden Goodwill

Illustration 14.

A and B are partners with capitals of ₹ 26,000 and ₹ 22,000 respectively. They admit C as partner with 1/4th share in the profits of the firm. C brings ₹ 26,000 as his share of capital. Give journal entry to record goodwill on C's admission.

(CBSE 2001 Compt.)

Journal

Date	**Particulars**	**L.F.**	**Debit ₹**	**Credit ₹**
	Bank A/c Dr.		26,000	
	To C's capital A/c			26,000
	(Being the amount of goodwill brought in by new partner)			
	C's capital A/c Dr.		7,500	
	To A's capital A/c			3,750
	To B's capital A/c			3,750
	(Being the goodwill credited to sacrificing partners' capital a/cs in their sacrificing ratio i.e., equal)			

Notes :(1) Calculation of C's share of goodwill :

Total capital of new firm on basis of C's capital i.e., 26,000 x 4/1	1,04,000
Total capital of A and B and C i.e., ₹26,000 + ₹ 22,000 + ₹ 26,000	(74,000)
Goodwill of the firm	30,000
Thus C's share of goodwill = 30,000 x 1/4 =	₹ 7,500

(2) In the absence of information, profits will be shared equally.

3. Accounting treatment of Accumulated Profits.

Accumulated profits and reserves are distributed to partners in their old profit sharing ratio.

If old partners are not interested to distribute, these accumulated profits are adjusted in the same manner

as goodwill and the following adjusting entry will be passed.

New Partner's capital A/c Dr. (New share)

To old partners' capital A/c (Sacrificing ratio)

4. Accounting treatment for revaluation of assets and re -assessment of liabilities :

The assets and liabilities are generally revalued at the time of admission of a new partner. Revaluation Account is prepared for this purpose in the same way as in case of change in profit sharing ratio. This account is debited with all losses and credited with all gains. Balance of Revaluation Account is transferred to old partners in their old ratio.

Illustration 15.

Following is the Balance Sheet of Shashi and Ashu sharing profit as 3:2.

Liabilities	₹	Assets		₹
Creditors	18,000	Debtors	22,000	
General reserve	25,000	Less provision for D. D.	1,000	21,000
Workmens compensation fund	15,000	Land and Building		18,000
Capital : Shashi	15,000	Plant and machinery		12,000
Ashu	10,000	Stock		11,000
		Bank		21,000
	83,000			83,000

On admission of Tanya for 1/6th share in the profit it was decided that:

(i) Provision for doubtful debts to be increased by ₹ 1,500.

(ii) Value of land and building to be increased to ₹ 21,000.

(iii) Value of stock to be increased by ₹ 2,500.

(iv) The liability of workmen's compensation fund was determined to be ₹ 12,000.

(v) Tanya brought in as her share of goodwill ₹ 10,000 in cash.

(vi) Tanya was to bring further cash of ₹ 15,000 for her capital.

Prepare Revaluation A/c, Capital A/c and the Balance Sheet of the new firm. ***(CBSE 2001)***

Solution :

Revaluation Account

Particulars		₹	Particulars	₹
To Provision for D. D.		1,500	By Land and Building A/c	3,000
To Capital A/cs :			By Stock	2,500
Shashi 3/5	2,400			
Ashu 2/5	1,600			
		4,000		
		5,500		5,500

Partners' Capital Account

Particulars	Sashi	Ashu	Tanya	Particulars	Shashi	Ashu	Tanya
To balance c/d	40,200	26,800	15,000	By balance b/d	15,000	10,000	–
				By general reserve	15,000	10,000	–
				By workmen's compensation A/c	1,800	1,200	–
				By Revaluation A/c	2,400	1,600	–
				By Bank A/c	–	–	15,000
				By Premium for goodwill	6,000	4,000	–
	40,200	26,800	15,000		40,200	26,800	15,000

Balance Sheet of the New Firm

Liabilities		₹	Assets		₹
Creditors		18,000	Debtors	22,000	
Workmen compensation fund		12,000	Less provision for D. D.	2,500	19,500
Capital :	Shashi	40,200	Land and Building		21,000
	Ashu	26,800	Plant and machinery		12,000
	Tanya	15,000	Stock		13,500
			Bank		46,000
		1,12,000			1,12,000

Illustration 16. : A, B and are partners sharing profits and losses in the ratio of 2:3:5. On 31st March 2001, their Balance Sheet was as follows

Liabilities			₹	Assets	₹
Capital				Cash	18,000
	A	36,000		Bills receivable	24,000
	B	44,000		Furniture	28,000
	C	52,000	1,32,000	Stock	44,000
Creditors			64,000	Debtors	42,000
Bill Payable			32,000	Investments	32,000
Profit and Loss Account			14,000	Machinery	34,000
				Goodwill	20,000
			2,42,000		2,42,000

They admit D into partnership on the following terms:

(i) Furniture and Machinery to be depreciated by 15%.

(ii) Stock is revaluated at ₹ 48,000.

(iii) Goodwill to be valued at ₹ 24,000.

(iv) Outstanding rent amount to ₹ 1,800.

(v) Prepaid salaries ₹ 800.

(vi) D to bring ₹ 32,000. Towards his capital for 1/6th share.

Prepare Revaluation Account, Partners Capital Accounts and Balance Sheet of the new firm

(CBSE 2001)

Solution :

Revaluation Account

Particulars	₹	Particulars		₹
To furniture A/c	4,200	By Stock A/c		4,000
To Machinery A/c	5,100	By Prepaid salaries A/c		800
To Outstanding rent A/c	1,800	By Capital A/c (loss) :		
		A 2/10	1,260	
		B 3/10	1,890	
		C 5/10	3,150	6,300
	11,100			11,100

Partners' Capital Account

Particulars	A (₹)	B (₹)	C (₹)	D (₹)	Particulars	A (₹)	B (₹)	C (₹)	D (₹)
To Revaluation A/c	1,260	1,890	3,150	–	By balance c/d	36,000	44,000	52,000	–
ToGoodwill A/c	4,000	6,000	10,000	–	By P/L A/c	2,800	4,200	7,000	–
To A's capital	–	–	–	8,00	By D's	–	–	–	
To B's capital	–	–	–	1,000	capital	8,000	1,200	2,000	–
To C's capital	–	–	–	2,000					
To Balance C/d	34,340	41,510	47,850	28,000	ByCashA/c				32,000
	39,600	49,400	61,000	32,000		39,600	49,900	61,000	32,000

Balance Sheet of New Firm

Liabilities			₹	Assets	₹
Capital :				Cash	50,000
	A	34,340		Bill Receivable	24,000
	B	41,510		Furniture	23,800
	C	47,850		Stock	48,000
	D	28,000	1,51,700	Debtors	42,000
Creditors			64,000	Investment	32,000
Bills Payable			32,000	Machinery	28,900
Outstanding rent			1,800	Prepaid salaries	800
			2,49,500		2,49,500

5. Adjustment of capital in new profit sharing ratio

Illustration 17 A, B and C are partners sharing profits and losses in the ratio of 5:3:2 On March 31st, 1998 their Balance Sheet was as follows :

Liabilities			₹	Assets	₹
Capital :				Cash	18,000
	A	36,000		Bill receivable	14,000
	B	44,000		Stock	44,000
	C	52,000	1,32,000	Debtors	42,000
Creditors			64,000	Machinery	94,000
Bills Payable			32,000	Goodwill	20,000
General Reserve			14,000		
			2,32,000		2,32,000

They decided to admit D into the partnership on the following terms:

(i) Machinery is to be depreciated by 15 %.

(ii) Stock is to be revalued at ₹ 48,000.

(iii) A, B and C have a joint life policy whose surrender value is ₹ 12,000.

(iv) Outstanding rent is ₹ 1,900.

(v) D is to bring ₹ 6,000 as goodwill and sufficient capital for a 2/5th share in the capitals of firm.

Prepare Revaluation A/c, Partner's Capital A/c, Cash A/c and Balance Sheet of the new firm.

(CBSE 2001 Compt.)

Revaluation Account

Particulars	₹	Particulars		₹
To Machinery A/c	14,100	By Stock A/c		4,000
To Outstanding Rent	1,900	By Capital A/c (Loss) :		
		A 5/10	6,000	
		B 3/10	3,600	
		C 2/10	2,400	12,000
	16,000			16,000

Partners' Capital Account

Particulars	A (₹)	B (₹)	C (₹)	D (₹)	Particulars	A (₹)	B (₹)	C (₹)	D (₹)
To Goodwill A/c	10,000	6,000	4,000	–	By Balance b/d	36,000	44,000	52,000	–
ToRevaluation	6,000	3,600	2,400	–	By General reserve	7,000	4,200	2,800	–
A/c	36,000	44,000	52,000	–	By Joint life policy	6,000	3,600	2,400	–
To Balance c/d					By Premium				
	52,000	53,600	58,400	–	for goodwill	3,000	1,800	1,200	–
	36,000	44,000	52,000	88,000	By Balance	36,000	44,000	52,000	–
To Balance c/d					b/d	–	–	–	–
	36,000	44,000	52,000	88,000	By cash A/c	36,000	44,000	52,000	88,000

Note : Combined capital of A, B and C for 3/5 (1-2/5) = 1,32,000

Thus total capital of the firm = 1,32,000x5/3 = ₹ 2,20,000

D's share of capital = 2,20,000x2/5 = ₹ 88,000

Balance Sheet of the New Firm

Liabilities			₹	Assets	₹
Creditors			64,000	Cash	1,12,000
Bill Payable			22,000	Bills receivable	14,000
Outstanding rent			1,900	Stock	48,000
Capital				Debtors	42,000
	A	36,000		Machinery	79,000
	B	44,000		Joint Life Policy	12,000
	C	52,000			
	D	88,000	2,20,000		
			3,07,900		3,07,900

Illustration 18 : Following is the Balance Sheet of A, B and C sharing profits and losses in the ratio of 6:5:3 respectively

Liabilities	₹	Assets	₹
Creditors	37,800	Cash	3,780
Bill Payable	12,600	Debtors	52,920
General reserve	21,000	Stock	58,800
A's capital	70,800	Furniture	14,700
B's capital	59,700	Land and Building	90,300
C's capital	29,100	Goodwill	10,500
	2,31,000		2,31,000

They agreed to take into partnership giving 1/0th share in profits on the following terms :

(a) Furniture to be depreciated by ₹ 1,840 Stock by 10%

(b) A provision of ₹ 2,640 to be made for an outstanding bill for repairs.

(c) That land and building be brought up to ₹ 1,19,700.

(d) That the goodwill is valued at ₹ 28,140.

(e) That D should bring in ₹ 35,400 as his capital

(f) After making the above adjustments the capital of old partners be adjusted in proportion to D's Capital by bringing in cash or excess to be paid off.

D's Capital by bringing in cash or excess to be paid off.

Prepare Revaluation Account, Capital Account of Partners and balance Sheet of new firm.

(CBSE 1997 Compt.)

Solution :

Revaluation Account

Particulars			₹	Particulars	₹
To furniture A/c			1,840	By Land and Building A/c	29,400
To stock A/c			5,880		
To O/S repairs A/c			2,640		
To capital A/cs :					
A	6/14	8,160			
B	5/14	6,800			
C	3/14	4,080	19,040		
			29,400		29,400

Partners' Capital Account

Particulars	A (₹)	B (₹)	C (₹)	D (₹)	Particulars	A (₹)	B (₹)	C (₹)	D (₹)
To Goodwill	4,500	3,750	2,250	–	By Balance b/d	70,800	59,700	29,100	–
To A's capital	–	–	–	1,508	By General	9,000	7,500	4,500	–
To B's capital	–	–	–	1,256	reserve	8,160	6,800	4,080	–
To C's capital	–	–	–	754	By rev-	–	–	–	35,400
To Balance c/d	84,968	71,506	38,184	31,882	-aluation A/c	1,508	1,256	754	–
	89,468	75,256	38,434	35,400	By cash A/c	89,468	75,256	38,434	35,400
To balance c/d	95,646	79,705	47,823	31,882	By D's Capital				
					By balance b/d	84,968	71,506	36,184	31,382
					By cash A/c	10,678	8,199	11,639	–
	95,646	79,705	47,823	31,882		95,646	79,705	47,823	31,882

Balance Sheet of the New Firm

Liabilities			₹	Assets	₹
Creditors			37,800	Cash	69,696
Bills Payable			12,600	Debtors	52,920
Outstanding repairs			2,640	Stock	12,860
Capital				Furniture	12,860
	A	95,646			
	B	79,705			
	C	47,823			

D 31,882			
	2,55,056		3,08,096
	3,08,096		3,08,096

Notes : Calculation of New Profit Sharing Ratio :

1. Share given to D=1/8, Balance of profit = 1-1/8=7/8. Hence,

   A's Share = 7/8x6/14=42/112

   B's Share = 7/8x5/14 = 35/112

   C's Share = 7/8x3/14 = 21/112

   A B C D

   New Ratio : 42/112 : 35/112 : 21/112 : 1/8 = 42 : 35 : 21 : 14/112 or 6 : 5 : 3 : 2.

2. Calculation of new capital of A, B, and C based on D's Capital for 1/8 share is ₹ 31,882. Thus

   Capital of whole firm = 31,882 x 8/1 = ₹ 2,55,056. Therefore

   A's Capital = 2,55,056x6/16= 95,646

   B's Capital = 2,55,056x5/16 = 79,705

   C's Capital = 2,55,056 x 3/16 = 47,823

Illustration 19 : A and B are parents in a firm sharing profits and losses in the ratio of 3:2. Their balance sheet was as follows on 1st January, 1993 :

Liabilities	**₹**	**Assets**	**₹**
Sundry creditors	15,000	Plant	30,000
Capital		Patents	10,000
A 30,000		Stock	20,000
B 25,000	55,000	Debtors	18,000
General reserve	10,000	Bank	2,000
	80,000		80,000

C is admitted as a partner on the above date on the following terms :

(i) He will pay ₹ 10,000 as goodwill for one-fourth share in the profit of the firm.

(ii) The assets are to be valued as under :

Plant at 32,000; Stock at ₹ 18,000; Debtors at book figure less a provision of 5 percet for bad debts.

(iii) It was found that the creditors included a sum of ₹ 1,400 which was not to be paid. But it was also found that there was a liability for compensation to workers amountint to ₹ 2,000.

(iv) C was to introduce ₹ 20,000 as capital and the capitals of other partners were to be adjusted in the new profit sharing ratio For this Purpose, current accounts were to be opened.

Give Revaluation Account, Capital Account and Balance Sheet after C's admission.

(CBSE 1994)

Solution :

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

Particulars	₹	Particulars			₹
To stock A/c	2,000	By plant A/c			2,000
To provision for D. D. A/c	900	By creditors A/c			1,400
To outstanding liability A/c	2,000	By capital A/c (loss) :			
		A	3/5	900	
		B	2/5	600	1,500
	4,900				4,900

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

Particulars	A	B	C	Particulars	A	B	C
To Revaluation A/c	900	600	–	By Balance b/d	30,000	25,000	–
To Balance c/d	41,100	32,400	20,000	By General Reserve	6,000	4,000	–
				By Bank A/c	–	–	20,000
				By Premium	6,000	4,000	–
	42,000	33,000	20,000		42,000	33,000	20,000
To Current A/c	5,100	8,400	–				
To Balance c/d	36,000	24,000	20,000	By balance b/d	41,100	32,400	20,000
	41,100	32,400	20,000		41,100	32,400	20,000

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

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To balance c/d	5,100	8,400	–	By capital A/cs	5,100	8,400	–

Balance Sheet (after C's admission)

Liabilities			₹	Assets		₹
Sundry Creditors			13,600	Plant		32,000
Outstanding liability			2,000	Patents		10,000
Capital A/cs :				Stock		18,000
	A	36,000		Debtors	18,000	
	B	24,000		Less : provision for D. D. (900)		17,100
	C	20,000	80,000	Bank		32,000
Current A/cs :						
	A	5,100				
	B	8,400	13,500			
			1,09,100			1,09,100

Notes : (1) Calculation of new profit sharing ration :

Share given to C=1/4; Balance of Profit = 1-1/4 = 3/4

A' share = 3/4x3/5 = 9/20 A : B : C
B' share = 3/4x2/5= 6/20 9/20 : 6/20 : 1/4
C's share (given) = 1/4 or 9:6:5/20 = 9:6:5

(2) New capital of A and B : Based on C's capital, the total capital of the firm will work out i.e.,

C's capital for 1/4th share = 20,000

Thus the capital of whole firm = 20,000x4/1 = ₹ 80,000

Therefore, based on their new profit new profit sharing ratio, the capital of A and B will be.

A's share of capital = 80,000 x 9/20 = ₹ 36,000

B's share of capital = 80,000 x 6/20 = ₹ 24,000