Chapter 3: Reconstitution of Partnership (Admission of Partner)

Question: 1

Answer in one sentence only.
What is meant by Reconstitution of partnership ?

Solution

Reconstitution of partnership refers to a change in the existing relationship of partners due to a change in the existing agreement between them. It may be due to the change in profit sharing ratio, on the eve of admission of a new partner, retirement or death of an existing partner.

Question: 2

Answer in one sentence only.
What is meant by admission of partner?

Solution

When a new partner joins the firm with the consent of all the other partners, then a new agreement needs to be prepared. Such a procedure of admitting a new partner into a partnership firm is termed as admission of partner.

Question: 3

Answer in one sentence only.
What is sacrifice ratio?

Solution

The ratio in which the new partner (who has joined a partnership firm) is given the share by the existing partners of the firm is called sacrificing ratio. So, it is the ratio in which the existing partners sacrifice their share of profit in favour of the new partner. Algebraically, it is expressed as:

Sacrifice ratio = Old ratio – New ratio

Question: 4

Answer in one sentence only.
What does the excess of debits over credits in profit and loss adjustment account indicate?

Solution

The excess of debits over credits in Profit and Loss Adjustment Account indicates the amount of net loss that needs to be shared by the old partners in their old profit sharing ratio. This is done as the new partner is not liable for any losses due to the past activities of the old partners.

Question: 5

Answer in one sentence only.
What is revaluation account?

Solution

Revaluation Account is an account that is opened at the time of admission, retirement and death of a partner. This account records the effect of every increase or decrease in the value of assets and liabilities. The balance of this account (which may be either profit or loss) is transferred to the Old Partners' Capital Accounts, as the new partner has no right over such profits earned prior to his/her admission.

Question: 6

Answer in one sentence only.
In what proportion is general reserve distributed amongst the old partners?

Solution

The amount of general reserve is to be distributed amongst the old partners in their old profit sharing ratio. This reserve belongs to the old partners since it was created out of the profits of the previous years; therefore, the new partners do not receive any share of the general reserve.

Question: 7

Answer in one sentence only.
When is goodwill account raised in the books of the firm?

Solution

Goodwill Account is raised in the books of the firm at the time of admission of a new partner. The incoming partner brings his/her share of goodwill along to compensate the existing partners for the sacrifices made by them in the favour of the new partner.

Question: 8

Answer in one sentence only.
How is sacrifice ratio calculated?

Solution

Sacrificing ratio is the ratio in which the existing partners sacrifice their share of profit in favour of the incoming partner. Algebraically, it is expressed as:

Sacrifice ratio = Old ratio – New ratio

Question: 9

Answer in one sentence only.
Why a new partner is admitted?

Solution

The following are a few reasons for which a new partner is admitted to a partnership firm:

1. For additional capital amount
2. For endowment of knowledge and skills possessed by him/her
3. To enhance a firm's future growth prospects and progress
4. To compete with the other firms
4. To replace the outgoing partner at the time of retirement and death of a partner.

Question: 10

Answer in one sentence only.
When is the ratio of sacrifice to be calculated?

Solution

Sacrificing ratio needs to be calculated at the time of admission of a new partner. It is done to determine the amount of compensation that is to be paid by the new partner to the old partners in exchange for the sacrifice of profit share made by them.

Question: 11

Write the word/term or phrase which can substitute the following statement.
The account which shows change in the values of assets.

Solution

Revaluation or Profit and Loss Adjustment Account

Explanation: The account which shows change in the values of assets is called Revaluation or Profit and Loss Adjustment Account. This account is opened to record the changes in the values of assets and liabilities, so that the new partner is not put to any advantage or disadvantage.

Question: 12

Write the word/term or phrase which can substitute the following statement.
Credit balance on revaluation account.

Solution

Profit on Revaluation Account

Explanation: Credit balance in Revaluation Account is termed as profit on revaluation. Such profits are to be transferred to the capital accounts of old (or existing) partners in their old profit sharing ratio.

Question: 13

Write the word/term or phrase which can substitute the following statement.
The proportion in which old partners make a sacrifice.

Solution

Ratio of Sacrifice

Explanation: The proportion in which the old partners make a sacrifice is regarded as the ratio of sacrifice. It is the amount that is foregone by all the old partners equally or by some of the partners in the agreed share.

Question: 14

Write the word/term or phrase which can substitute the following statement.
Excess actual capital over proportionate capital.

Solution

Surplus Capital

Explanation: Excess of actual capital over proportionate capital is regarded as surplus capital. This surplus capital is either transferred to the current accounts or can be withdrawn by the old partners as per the terms of the partnership agreement.

Question: 15

Write the word/term or phrase which can substitute the following statement.
Name of intangible asset having a value.

Solution

Goodwill

Explanation: An intangible asset is an asset with no physical existence. It cannot be seen, touched or felt. Goodwill is an intangible asset that has a certain value.

Question: 16

Write the word/term or phrase which can substitute the following statement.
Account which is debited when new partner brings cash for his share of goodwill.

Solution

Cash/Bank A/c

Explanation: Cash/Bank A/c is debited when the new partner brings cash for his/her share of goodwill, following the rule "Debit what comes in". This amount of goodwill (premium) is transferred to the capital accounts of sacrificing partners in the sacrificing ratio of the old partners.

Question: 17

Explain various methods for the treatment of goodwill on the admission of a new partner?

Solution

The methods for the treatment of goodwill on the admission of a new partner are given below.

1. Premium Method
2. Revaluation Method

It should be noted that before following any of the below mentioned methods of goodwill, if goodwill already appears in the old books (old Balance Sheet) of the firm, then first of all, this goodwill should be written off among all the old partners in their old profit sharing ratio. The following Journal entry is passed to distribute the goodwill.
Old Partners' Capital A/c Dr.
To Goodwill A/c

(Goodwill written off among the old partners in their old profit sharing ratio)

1. Premium Method- This method is used when a new partner pays his/her share of goodwill in cash. The following are the different situations under this method.

i) When the new partner privately pays his/her share of goodwill to the old partners.
In this case, there is no need to pass any Journal entry in the books of accounts as the goodwill is privately paid.

ii) When the new partner brings his/her share of goodwill in cash and the goodwill is retained in the business.
Accounting Entries

a) For premium or goodwill brought in cash by the new partner

Cash/Bank A/c Dr.
To Premium for Goodwill A/c
(Amount of goodwill brought in by the new partner)

b) For transferring of new partner's goodwill among the old partners, i.e. if goodwill is retained in the business.

Premium for Goodwill A/c Dr.
To Sacrificing Partners' Capital A/c
(Goodwill brought in by the new partner is distributed among the old partners in their sacrificing ratio)

c) If the new partner's share of goodwill is withdrawn by the old partner, then

Sacrificing Partner's Capital A/c Dr.
To Cash A/c

(Amount of goodwill withdrawn by the old partners)

iii) If the new partner partly brings his/her share of goodwill

a) For bringing goodwill in cash
Cash A/c Dr.
To Premium for Goodwill A/c

(Amount of goodwill brought in cash by the new partner)

b) For transferring of goodwill to the old partners
Goodwill A/c Dr.

(With the amount of goodwill brought in by the new partner)
New Partner's Capital A/c Dr.
(With the amount of goodwill **not** brought in by the new partner)

To Sacrificing Partners' Capital A/c
(Goodwill amount of the new partner distributed among the old partners in their sacrificing ratio)

2. Revaluation Method- When the new partner is **not** able to bring goodwill in cash at all.
New Partner's Capital A/c Dr.

(With the whole amount of goodwill that is **not** brought in by the new partner)

To Old Partners' Capital A/c
(Goodwill amount of the new partner distributed among the old partners in their sacrificing ratio)

NOTE: As per the **Para 16 of Accounting Standard 10**, goodwill is recorded in the books only when some consideration in money or money's worth has been paid for it. This practice is mandatory to follow. In case of admission, retirement, death or change in profit sharing ratio among existing partners, Goodwill Account cannot be raised as no consideration is paid for it.

Question: 18

Write the word/term or phrase which can substitute the following statement.
Account which is credited when goodwill is withdrawn by old partners.

Solution

Cash/Bank A/c

Explanation: Cash/Bank A/c is credited when goodwill is withdrawn from the business by the old partners, following the rule "Credit what goes out". The amount brought in by the new partner as goodwill can be either withdrawn by the sacrificing partners fully or partly or can even be retained in the business.

Question: 19

Write the word/term or phrase which can substitute the following statement. Profit and Loss Account appearing on the asset side of a balance sheet.

Solution

Profit & Loss Account (Debit balance) or undistributed losses

Explanation: Profit and Loss Account appearing on the Assets side of a Balance Sheet represents debit balance in the Profit & Loss Account (i.e. undistributed losses). Such losses are to be borne by the old partners in their old profit sharing ratio.

Question: 20

Write the word/term or phrase which can substitute the following statement. Account which is opened to record the gains and losses on revaluation.

Solution

Profit and Loss Adjustment Account

Explanation: Profit and Loss Adjustment Account is opened to record the gains and losses on revaluation of assets and liabilities, so that the new partner is not put to any advantage or disadvantage. Any profit or loss on revaluation is shared or borne by the old partners in their old profit sharing ratio.

Question: 20

Write the word/term or phrase which can substitute the following statement. Change in the relationship between the partners.

Solution

Reconstitution of a partnership

Explanation: Change in the relationship between the partners is regarded as reconstitution of a partnership firm. The reconstitution of partnership firm is said to occur when there exists a change in profit sharing ratio at the time of admission, retirement or death of a partner.

Question: 21

Select the most appropriate answer from the alternative given below and rewrite the sentence.

Account is debited when unrecorded liability is brought into business.

Options

- liability
- revaluation
- capital
- current

Solution

Revaluation Account is debited when unrecorded liability is brought into business.

Explanation: The Revaluation Account is debited when unrecorded liability is brought into business. An unrecorded liability is one which was earlier omitted from the records and is now being considered (i.e. recorded). This leads to increase in the amount of liabilities and so, the Revaluation Account is debited.

Question: 22

Select the most appropriate answer from the alternative given below and rewrite the sentence.

When goodwill is withdrawn by old partners _________________ a/c is credited.

Options

- cash/bank
- capital
- revaluation
- Profit and Loss Adjustment

Solution

When goodwill is withdrawn by old partners **Cash/Bank A/c** is credited.

Explanation: When goodwill is withdrawn by the old partners Cash/Bank A/c is credited. This is because of the rule "Credit what goes out". The amount brought in by the new partner may be withdrawn by the sacrificing partners fully or partly.

Question: 23

Select the most appropriate answer from the alternative given below and rewrite the sentence.

Excess of proportionate capital over actual capital represents __________________.

Options

- surplus capital

- deficit capital
- sacrifice
- equal capital

Solution

Excess of proportionate capital over actual capital represents **deficit capital**.

Explanation: Excess of proportionate capital over actual capital represents deficit capital. This deficit capital must be brought in by the old partners or it is to be transferred to their current accounts.

Question: 24

Select the most appropriate answer from the alternative given below and rewrite the sentence.

The proportion in which old partners make a sacrifice is called __________________ ratio.

Options

- Capital
- gaining
- sacrifice
- new

Solution

The proportion in which old partners make a sacrifice is called **sacrifice** ratio.

Explanation: The proportion in which old partners make a sacrifice is called sacrifice ratio. It is the amount that is foregone by all the old partners equally or by some of the partners in the agreed share.

Question: 25

Select the most appropriate answer from the alternative given below and rewrite the sentence.

Jay, Vijay and Ajay are three partners sharing profits in 3:2:1. They decided to admit Sanjay and give him 1/7th share, new profit sharing ratio of partners will be __________________.

Options

- equal
- 3:2:1:2

- 3:2:1:1
- 2:3:1:2

Solution

Jay, Vijay and Ajay are three partners sharing profits in 3:2:1. They decided to admit Sanjay and give him 1/7th share, new profit sharing ratio of partners will be **3:2:1:1**.

Explanation: It is calculated as follows:-
Let the total share be 1.

Keshav's Sacrifice = $\frac{2}{5} - \frac{1}{3} = \frac{1}{15}$

Madhav's Sacrifice = $\frac{3}{5} - \frac{1}{3} = \frac{4}{15}$

Sacrificing Ratio = 1 : 4

WN 1: Distribution of Profit and Loss A/c (Dr.)

Keshav will get = $15000 \times \frac{2}{5} = \text{Rs.}6000$

Madhav's will get = $15000 \times \frac{3}{5} = \text{Rs.}9000$

WN 2: Distribution of Uddhav's Share of Goodwill

Keshav will get = $80000 \times \frac{1}{5} = \text{Rs.}16000$

Madhav will get = $80000 \times \frac{4}{5} = \text{Rs.}64000$

Question: 26

Select the most appropriate answer from the alternative given below and rewrite the sentence.

Akash, Prakash and Deepak are partners who share profits as 3:2:1. They admit Suraj as a partner and decided to share future profits as 5:3:2:2. The sacrifice ratio will be ___________

Options

- 1:1:0
- 2:1:1
- 0:1:3
- 0:0:2

Solution

Akash, Prakash and Deepak are partners who share profits as 3:2:1. They admit Suraj as a partner and decided to share future profits as 5:3:2:2. The sacrifice ratio will be **1:1:0**.

Explanation: It is calculated as follows:-
Sacrifice ratio = Old ratio − New ratio

$$\text{Akash's sacrifice} = \frac{3}{6} - \frac{5}{12} = \frac{1}{12}$$

$$\text{Prakash's sacrifice} = \frac{2}{6} - \frac{3}{12} = \frac{1}{12}$$

$$\text{Deepak's sacrifice} = \frac{1}{6} - \frac{2}{12} = 0$$

$$\text{Therefore, Sacrificing ratio} = 1:1:0$$

Question: 27

Select the most appropriate answer from the alternative given below and rewrite the sentence.

The ______________ ratio is useful for making adjustment for goodwill among the old partners.

Options

- new
- sacrifice
- old
- Profit and Loss Adjustment

Solution

The **sacrifice** ratio is useful for making adjustment for goodwill among the old partners.

Explanation: Sacrificing ratio is useful for making adjustment of goodwill among the old partners because the amount of goodwill brought in by the new partner is distributed amongst the old partners in their sacrificing ratio. This ratio represents the amount of profits which is foregone by them in favour of the new partner.

Question: 28

Select the most appropriate answer from the alternative given below and rewrite the sentence.

Krishna and Balram, who are equal partners, admit Arjun into partnership for $1/4^{th}$ share, their new profit sharing ratio will be _________________.

Options

- 3:3:1
- equal
- 3:3:2
- 2:2:1

Solution

Krishna and Balram, who are equal partners, admit Arjun into partnership for 1/4th share, their new profit sharing ratio will be **3:3:2**.

Explanation: It is calculated as follows:
Let the total share be 1.

$$\text{Arjun's share} = \frac{1}{4} \text{ or } \frac{2}{8}$$

$$\text{Remaining share} = 1 - \frac{1}{4} = \frac{3}{4}$$

$$\text{Krishna's share} = \frac{3}{4} \times \frac{1}{2} = \frac{3}{8}$$

$$\text{Balram's share} = \frac{3}{4} \times \frac{1}{2} = \frac{3}{8}$$

$$\text{New profit sharing ratio of krishna , Balram and Arjun} = \frac{3}{8} : \frac{3}{8} : \frac{2}{8} \text{ or } 3:3:2.$$

Question: 29

Select the most appropriate answer from the alternative given below and rewrite the sentence.

If any asset is taken over by partner from the firm ____________________ account will be debited.

Options

- capital
- revaluation
- asset
- Profit and Loss Adjustment

Solution

If any asset is taken over by partner from the firm **capital** account will be debited.

Explanation: If any asset is taken over by a partner from the firm, then his/her Capital Account is debited. The capital account of a partner has credit balance, which, on taking over of an asset, gets reduced to the extent of the value of the asset so taken over.

Question: 30

Select the most appropriate answer from the alternative given below and rewrite the sentence.

In case of admission of a partner, the profit or loss on revaluation of assets and liabilities is shared by _________________ partners.

Options

- all
- old
- new
- none of these

Solution

In case of admission of a partner, the profit or loss on revaluation of assets and liabilities is shared by **old**
partners.

Explanation: In case of admission of a partner, the profit or loss on revaluation of assets and liabilities is shared by the old partners in their old profit-sharing ratio. This is because profit on revaluation of assets and liabilities is a gain for the existing partners only and the new partner has no right on such profits earned prior to his/her admission.

Question: 31

Rajesh and Mukesh are equal partners in a firm. They admit Hari into partnership and the new profit sharing ratio between Rajesh, Mukesh and Hari is 4:3:2. On Hari's admission goodwill of the firm is valued at Rs 36,000. Hari is unable to bring his share of goodwill premium in cash. Rajesh, Mukesh and Hari decided not to show goodwill in their balance sheet. Record necessary journal entries for the treatment of goodwill on Hari's admission.

Solution

Books of Rajesh, Mukesh and Hari **Journal**				

Date	Particulars		L.F.	Amount Rs	Amount Rs
	Hari's Capital A/c	Dr.		8,000	
	To Rajesh's Capital A/c				2,000
	To Mukesh's Capital A/c				6,000
	(Adjustment of Hari's share of goodwill)				

Working Notes:

1) Goodwill of a firm = 36,000
Hari's share in goodwill
= Goodwill of firm × admitting Partner Share
= 36,000 x 2/9 = 8,000

2) Sacrificing Ratio = Old Ratio − New Ratio

$$\text{Rajesh's} = \frac{1}{2} - \frac{4}{9} = \frac{9-8}{18} = \frac{1}{18}$$

$$\text{Mukes's} = \frac{1}{2} - \frac{3}{9} = \frac{9-6}{18} = \frac{3}{18}$$

Sacrificing Ratio between Rajesh and Mukesh 1:3.

Question: 32

State 'True' or 'False'
When goodwill is paid privately, no entry in the books of account is required.

Options

- True
- False

Solution

True

Explanation: Goodwill/Premium paid outside the business does not have any link with the business; so, no entry is recorded in the books of accounts.

Question: 33

State 'True' or 'False'
The goodwill brought in by a new partner is shared by the old partners.

Options

- True
- False

Solution

True

Explanation: Goodwill brought in by a new partner is shared by the old partners in their sacrificing ratio. At the time of admission, the new partner acquires the right to share future profits; so, in exchange, he/she should compensate the sacrificing partners. Such compensation is known as premium for goodwill.

Question: 34

State 'True' or 'False'

The goodwill brought in by the new partner is shared by all partners.

Options

- True
- False

Solution

False

Explanation: Goodwill brought in by the new partner is shared only by the old partners in their sacrificing ratio. The new partner has no right on goodwill brought in by him.

Question: 35

State 'True' or 'False'

Profit on revaluation account is distributed between the old partners on admission of a partner.

Options

- True
- False

Solution

True

Explanation: Revaluation Account is prepared to record the effect of changes in the values of assets and liabilities prior to the admission of a new partner. If there is any profit on such revaluation, then it belongs to the existing partners only, since the new partner has no right on such profit arising out of revaluation.

Question: 36

State 'True' or 'False'

The new partner must pay his share of goodwill in cash only.

Options

- True
- False

Solution

False

Explanation: The new partner can pay his share of goodwill either in cash or kind. Besides this, the amount can also be paid privately (i.e. outside the business).

Question: 37

State 'True' or 'False'
A new partner is admitted in the firm for getting additional capital and skill.

Options

- True
- False

Solution

True

Explanation: There can be many reasons for admitting a new partner in a firm. For example, if the firm is short of capital, then a new partner can be admitted with the approval of all the partners. The new partner brings his or her share of capital, besides the skills possessed by him.

Question: 38

State 'True' or 'False'

The credit balance of revaluation account means loss on revaluation account.

Options

- True
- False

Solution

True

Explanation: The credit balance in the Revaluation Account represents the losses on revaluation of assets and liabilities. Such losses occur when the decrease in the value of assets and increase in the value of liabilities is more than the increase in the value of assets and decrease in the value of liabilities.

Question: 39

State 'True' or 'False'

If the goodwill account raised up, goodwill account is debited.

Options

- True
- False

Solution

False

Explanation: If the goodwill account is raised, then goodwill or premium account is credited, whereas, cash/ bank account is debited if the amount is brought in cash.

Question: 40

State 'True' or 'False'

When goodwill is written off, goodwill amount is debited.

Options

- True
- False

Solution

False

Explanation: If old (or existing) goodwill appears in the books of a firm, then at first, it is written off by debiting the Old Partners’ Capital Accounts in their old profit sharing ratio and crediting the Goodwill Account.

Question: 41

State 'True' or 'False'
On admission of a partner, the amount of goodwill brought in cash is credited to goodwill account.

Options

- True
- False

Solution

True

Explanation: As per Accounting Standard 26 issued by The Institute of Chartered Accountants of India (ICAI), if any partner brings in a certain amount of goodwill in cash, then cash/bank account is debited and goodwill account is credited. Such premium is distributed among the sacrificing partners in their sacrificing ratio.

Question: 42

The Balance Sheet of Rajkumar and Rajendra Kumar as on 31^{st} March 2012 is set out below, they share profits and losses in the ratio of 2:1.

Balance Sheet as on 31^{st} March, 2012

Liabilities	**Amount (Rs)**	**Assets**	**Amount (Rs)**
Capital A/c's - Rajkumar	200000	Buildings	100000
Rajendra Kumar	150000	Furniture	30000
General Reserve	120000	Stock	60000
Creditors	80000	Debtors	300000
		Cash	30000
		Profit and Loss A/c	30000
	550000		**550000**

They agreed to admit Dhiraj Kumar on 1^{st} April, 2012 as a partner into the firm on the following terms on.

(1) Dhiraj Kumar to bring Rs 60,000 as capital and Rs 45,000 as a goodwill, which is to be retained in the business. He will be entitled to $1/4^{th}$ share of profit of the firm.

(2) 50% of General Reserve is to remain as Reserve for doubtful debts.

(3) Furniture is to be depreciated by 5%.

(4) Stock is to be revalued at Rs 65,000/-

(5) Creditors of Rs 5,000 are not likely to claim and hence should be written off.

(6) Rent of Rs 2,000 due but not received has not been recorded in the books.

Pass the necessary journal entries in the books of new firm and prepare Balance Sheet of the new firm.

Solution

Journal Entry

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
	Revaluation A/c Dr. To Furniture A/c (Being Furniture depreciated by 5%)		1500	1500
	Stock A/c Dr. To Revaluation A/c (Being stock appreciated)		5000	5000
	Creditors A/c Dr. To Revaluation A/c (Being creditors written off)		5000	5000
	Accrued Rent A/c Dr. To Revaluation A/c (Being due but not received)		2000	2000
	Revaluation A/c Dr. To Rajkumar's capital A/c To Rajendra Kumar's Capital A/c (Being Profit of revaluation distributed among existing partners in the ratio 2:1)		10500	7000 3500
	Cash A/c Dr. To Dhirajkumar's Capital A/c To Goodwill A/c (Being Dhirajkumar brought his share of capital and goodwill)		105000	60000 45000
	Goodwill A/c Dr. To Rajkumar's Capital A/c To Rajendra Kumar's Capital A/c (Being Goodwill distributed among sacrificing partner in their sacrificing ratio old profit sharing i.e. 2:1to compensate for their sacrifice)		45000	30000 15000
	Rajkumar's Capital A/c Dr. Rajendra Kumar's Capital A/c Dr.		20000 10000	30000

	To Profit and loss A/c (Being Profit and Loss (Dr.) distributed among existing partners in their old profit sharing ratio 2:1)			
	General Reserve A/c Dr. To Rajkumar's Capital A/c To Rajendra Kumar's Capital A/c (Being General Reserve distributed among existing partners in their old profit sharing ratio 2:1)		60000	40000 20000

Balance Sheet

as on April 01, 2012 after DhirajKumar's admission

Liabilities		**Amount (Rs)**	**Assets**		**Amount (Rs)**
Capital A/cs:			Stock		65000
Rajkumar	257000	495500	Cash		135000
Rajendra kumar	178500		Furniture	30000	28500
Dhirajkumar	6000		Less : 5% Depreciation	(1500)	
Creditors	80000	75000	Debtors	300000	240000
Less : Creditors written -off	(5000)		Less : 50% Reserve for Doubtful Debts	(60000)	
			Accrued Rent		2000
			Building		100000
		570500			**570500**

Working Notes :

Calculation of Profit Sharing Ratio

Old Ratio = Rajkumar : Rajendra = 2 : 1

$$\text{Dhirajkumar's Share} = \frac{1}{4}$$

Let the total share of firm = 1

$$\text{Remaining Share of firm} = 1 - \frac{1}{4} = \frac{3}{4}$$

$$\text{Rajkumar's New Share} = \frac{3}{4} \times \frac{2}{3} = \frac{6}{12}$$

$$\text{Rajendera kumar's New share} = \frac{3}{4} \times \frac{1}{3} = \frac{3}{12}$$

$$\text{New Profit sharing Ratio} = \frac{6}{12} : \frac{3}{12} : \frac{1}{4} = \frac{6:3:3}{12} = 2:1:1.$$

Sacrificing Ratio = old ratio - New Ratio

$$\text{Rajkumar's sacrifice } \frac{2}{3} - \frac{2}{4} = \frac{2}{12}$$

$$\text{Rajendera kumar's sacrifice} = \frac{1}{3} - \frac{1}{4} = \frac{1}{12}$$

Sacrificing Ratio = 2:1.

Working Notes :

WN 1- Distribution of General Reserve

$$\text{Rajkumar will get} = 60000 \times \frac{2}{3} = \text{Rs.}40000$$

$$\text{Rajendera kumar will get} = 60000 \times \frac{1}{3} = \text{Rs. }20000$$

WN 2 - Distribution of Profit and Loss A/c

$$\text{Rajkumar will give} = 30000 \times \frac{2}{3} = \text{Rs}20000$$

$$\text{Rajendera kumar will give} = 30000 \times \frac{1}{3} = \text{Rs}10000$$

WN 3 - Distribution of Dhiraj Kumar's share of Goodwill

$$\text{Rajkumar will get} = 45000 \times \frac{2}{3} = \text{Rs. }30000$$

$$\text{Rajendera kumar will get} = 45000 \times \frac{1}{3} = \text{Rs}15000$$

Profit and Loss Adjustment Account

Dr. **Cr.**

Particulars		Amount (Rs)	Particulars	Amount (Rs)
Furniture		1500	Stock	5000
Profit transferred to :			Creditors	5000
Rajkumar’s Capital	7000	10500	Accrued Rent	2000
Rajendra Kumar’s Capital	3500			
		12000		**12000**

WN 5 - Cash Account

Dr Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Balance b/d	30000	Balanced c/d	135000
Dhirajkumar’s Capital A/c	60000		
Goodwill A/c	45000		
	135000		**135000**

Question: 43

Suresh and Ramesh are partners in a business sharing Balance sheet as on 31^{st} March, 2013 is as follows:

Balance Sheet as on 31^{st} March, 2013

Liabilities	Amount (Rs)	Amount (Rs)	Assets	Amount (Rs)	Amount (Rs)
Capital A/c’s			Building		30000
Suresh	50000	74000	Machinery		10000
Ramesh	24000		Furniture		9500
Creditors		57000	Debtors	40000	39000
Bills Payable		20000	(-) R.D.D	1000	
Reserve fund		9000	Stock		30000
			Bills Receivable		7600
			Cash at Bank		33900
		160000			**160000**

They admitted Kailash on 1^{st} April, 2013 as a partner on the following terms:

1) Kailash will bring Rs 30,000 as his capital for $1/4^{th}$ share in future profit and Rs 12,000 as goodwill which will be withdrawn by old partners.

2) Stock and Machinery to be depreciated by 10%.

3) R.D.D. is to be maintained at 5% on debtors.

4) Building to be appreciated by 20% and furniture is revalued at Rs 10,000.

Prepare Profit and Loss Adjustment Account, Partner's Capital Accounts and Balance Sheet of the New firm.

Solution

Profit and Loss Adjustment Account
Dr. Cr.

Particulars		Amount (Rs)	Particulars	Amount (Rs)
Stock		3000	Building	6000
Machinery		1000	Furniture	500
Reserve for Doubtful Debts (R.D.D)		1000		
Profit transferred to:				
Suresh's Capital	750	1500		
Ramesh's Capital	750			
		6500		**6500**

Partners' Capital Accounts
Dr. **Cr.**

Particulars	Suresh	Ramesh	Kailash	Particulars	Suresh	Ramesh	Kailash
Cash (Goodwill withdrawn)	6000	6000		Balance b/d	50000	24000	
Balance c/d	55250	29250	30000	Reserve Fund	4500	4500	
				Profit and Loss Adjustment (Profit)	750	750	
				Cash			30000
				Premium for Goodwill	6000	6000	
	61250	**35250**	**30000**		**61250**	**35250**	**30000**

Balance Sheet
as on April 01, 2013 after Kailash's admission

Liabilities		Amount Rs	Assets	Amount Rs
Creditors		57000	Building	36000
Capital			Furniture	10000

Suresh	55250	114500	Bills Receivable		7600
Ramesh	29250		Sundry Debtors	40000	38000
Kailash	30000		Less : Reserve for Doubtful Debts	(2000)	
Bills Payable		20000	Machinery	10000	9000
			Less : Depreciation	(1000)	
			Stock	30000	27000
			Less : Depreciation	(3000)	
			Cash at Bank		63900
		191500			**191500**

Working Notes:

Calculation of New Profit Sharing Ratio

Old Ratio = Suresh : Ramesh
= 1 : 1

Kailash's Share = $\frac{1}{4}$

Let the total share of firm = 1

Remaining share of firm = $1 - \frac{1}{4} = \frac{3}{4}$

Suresh's New share = $\frac{3}{4} \times \frac{1}{2} = \frac{3}{8}$

Ramesh's New share = $\frac{3}{4} \times \frac{1}{2} = \frac{3}{8}$

New Profit Sharing Ratio = $\frac{3}{8} : \frac{3}{8} : \frac{1}{4} = \frac{3:3:2}{8}$

Sacrificing Ratio = Old Ratio - New Ratio

Suresh's Sacrifice = $\frac{1}{2} - \frac{3}{8} = \frac{1}{8}$

Ramesh's Sacrifice = $\frac{1}{2} - \frac{3}{8} = \frac{1}{8}$

Sacrificing Ratio = 1:1

WN 1: Distribution of Reserve Fund

Suresh will get = $9000 \times \frac{1}{2} = \text{Rs}4500$

Ramesh will get = $9000 \times \frac{1}{2} = \text{Rs}.4500$

WN 2: Distribution of Dhiraj Kumar's share of Goodwill

Suresh will get = $12000 \times \frac{1}{2} = \text{Rs}.6000$

Ramesh will get = $12000 \times \frac{1}{2} = \text{Rs}.\ 6000$

WN 3: Cash Account

Cash Account

Dr. **Cr.**

Particulars	**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Balance b/d	33900	Capital A/cs:		
Kailash's Capital A/c	30000	Suresh	6000	12000
Premium for goodwill A/c	12000	Ramesh	6000	
		Balance c/d		63900
	75900			**75900**

Question: 44

Snehal and Meenal are equal partners in a business. Their Balance sheet is as follows :

Balance Sheet as on 31st March, 2012

Liabilities	**Amount (Rs)**	**Amount (Rs)**	**Assets**	**Amount (Rs)**	**Amount (Rs)**
Capital A/c's			Premises		20500
Snehal	80000	125000	Investments		10500
Meenal	45000		Equipments		5000
Creditors		26000	Bills Receivable		18000

Bank Loan (Taken on 1.1.2012)		40000	Debtors	110000	99000
			(-) R.D.D	11000	
			Profit and Loss A/c		6600
			Bank		31400
		191000			**191000**

They agreed to admit Kamal on 1st April, 2012 on the following terms.

1) He should bring 50,000 towards his capital for 1/4th share in future profit.

2) Goodwill A/c be raised in the books of the firm Rs 40,000/-

3) R.D.D to be maintained at 5% on debtors.

4) Premises to be valued at Rs 30,000 and Equipments to be written off fully.

5) Interest at the rate of 15% p.a. is due on bank loan.

6) Creditors allowed a discount of Rs 1100/- and they were paid off immediately.

Pass necessary journal entries to record the above scheme of admission.

Solution

Journal Entry

Date	**Particulars**	**L.F.**	**Debit Amount Rs.**	**Credit Amount Rs.**
	Reserve for Doubtful Debts A/c Dr To Profit and Loss Adjustment A/c (Being Reserve for Doubtful Debts maintained @ 5%)		5500	5500
	Premises A/c Dr To Profit and Loss Adjustment A/c (Being Premises Appreciated by Rs 9,500)		9500	9500
	Creditors A/c Dr. To Profit and Loss Adjustment A/c (Being Creditors paid off)		1100	1100
	Profit and Loss Adjustment A/c Dr. To Equipment A/c (Being Equipments written off)		5000	5000
	Profit and Loss Adjustment A/c Dr. To Outstanding Interest on Loan (Being Interest on Bank Loan outstanding for 3 months @ 15% per annum)		1500	1500
	Profit and Loss Adjustment A/c Dr. To Snehal’s Capital A/c		9600	4800

	To Meenal's Capital A/c (Being Profit on Profit and Loss Adjustment A/c, distributed among existing partners in the equal ratio)			4800
	Snehal's Capital A/c Dr. Meenal's Capital A/c Dr. To Profit and Loss A/c (Being Profit and Loss (Dr.) A/c transferred to existing Partner's Capital A/c in the equal ratio)		3300 3300	6600
	Cash A/c Dr. To Kamal's Capital A/c (Being Kamal brought his share of Capital in Cash)		50000	50000
	Goodwill A/c Dr. To Snehal's Capital A/c To Meenal's Capital A/c (Being Goodwill A/c is to be raised in the book of the firm)		40000	20000 20000

Working Notes:

Calculation of New Profit Sharing Ratio

Old Ratio = Snehal : Meenal = 1 : 1

Kamal's Share = 1/4

Let the total share of firm = 1

Remaining share of firm = $1 - \frac{1}{4} = \frac{3}{4}$

Snehal's New Share = $\frac{3}{4} \times \frac{1}{2} = \frac{3}{8}$

Meenal's New Share = $\frac{3}{4} \times \frac{1}{2} = \frac{3}{8}$

New Profit Sharing Ratio = $\frac{3}{8} : \frac{3}{8} : \frac{1}{4} = \frac{3:3:2}{8}$

Sacrificing Ratio = Old Ratio - New Ratio

Snehal's Sacrifice = $\frac{1}{2} - \frac{3}{8} = \frac{1}{8}$

Meenal's Sacrifice = $\frac{1}{2} - \frac{3}{8} = \frac{1}{8}$

Sacrificing Ratio = 1 : 1

WN 1: Distribution of Profit and Loss A/c

Snehal will give = $6600 \times \frac{1}{2} = \text{Rs}3300$

Meenal will give = $6600 \times \frac{1}{2} = \text{Rs}3300$

WN 2: Distribution of Kamal's Share of Goodwill

Snehal will get = $40000 \times \frac{1}{2} = \text{Rs.}20000$

Meenal will get = $40000 \times \frac{1}{2} = \text{Rs}20000$

WN 3 : Profit and Loss Adjustment Account

Profit and Loss Adjustment Account

Dr. **Cr.**

Particulars		**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Equipments		5000	Reserve for Doubtful Debts	5500
Outstanding Interest on Loan		1500	Premises	9500
Profit transferred to:			Creditors	1100
Snehal's Capital (9600×1/2)	4800	9600		
Meenal's Capital (9600×1/2)	4800			
		16100		**16100**

Question: 45

Following is the balance sheet of Harish and Girish

Balance Sheet as on 31st March, 2010

Liabilities	**Amount (Rs)**	**Amount (Rs)**	**Assets**	**Amount (Rs)**	**Amount (Rs)**

Creditors		38000	Cash in Hand		37000
Bills Payable		46,000	Stock		21000
Profit and Loss A/c		16,000	Debtors	46000	40000
Capital A/c's			(-)R.D.D	6000	
Harish	100000	240000	Equipments		12000
Girish	140000		Furniture		25000
			Plant		85000
			Building		120000
		340000			**340000**

They admitted Shirish on 1st April 2010 on the following conditions:

1) For his 1/3rd share in the future profits Shirish brings Rs 2,00,000 as his Capital.

2) It is decided to raise goodwill by Rs 90,000 and write it off fully after Shirish's admission.

3) Equipments and plant to be depreciated by 20% and10% respectively and Building to be appreciated by 15%.

4) Bills Payable were retired for Rs 35,000

5) All debtors are considered good.

6) Furniture of the book value Rs 12,000 was taken over by Harish at 40% of the book value.

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

Solution

Profit and Loss Adjustment Account

Dr. Cr.

Particulars		Amount (Rs)	Particulars	Amount (Rs)
Plant		8500	Bills Payable	11000
Equipment		2400	Reserve for Doubtful Debts	6000
Furniture		7200	Building	18000
Profit transferred to :				
Harish's Capital	8450	16900		
Girish;s Capital	8450			
		35000		**35000**

Partners' Capital Accounts

Dr. Cr.

Particulars	Harish	Girish	Shirish	Particulars	Harish	Girish	Shirish
Plant	4800			Balance b/d	100000	140000	
Goodwill (Written off)	30000	30000	30000	Profit and loss A/c	8000	8000	
Balance c/d	126650	171450	170000	Profit and Loss Adjustment (Profit)	8450	8450	
				Cash			200000
				Premium for Goodwill	45000	45000	
	161050	**201450**	**200000**		**161050**	**201450**	**200000**

Balance Sheet

as on April 01,2012 after shirish's admission

Liabilities		Amount (Rs)	Assets		Amount (Rs)
Creditors		38000	Stock		21000
Capital			Debtors		46000
Harish	126650		Equipment	12000	
Girish	171450	468100	Less : 20% Depreciation	2400	9600
Shirish	170000		Plant	85000	
			Less : 10% Depreciation	8500	76500
			Furniture	25000	
			Less : Taken by Harish	12000	13000
			Building		138000
			Cash		202000
		506100			**506100**

Working Notes:

Calculation of Profit Sharing Ratio

Old Ratio = Harish : Girish = 1 : 1

Shirish's Share = $\frac{1}{3}$

Let the total share of firm = 1

Remaining share of firm = $1 - \frac{1}{3} = \frac{2}{3}$

Harish's New Share = $\frac{2}{3} \times \frac{1}{2} = \frac{2}{6}$

Girish's New Share = $\frac{2}{3} \times \frac{1}{2} = \frac{2}{6}$

New Profit Sharing Ratio of Harish , Girish and Shirish

= $\frac{2}{6} : \frac{2}{6} : \frac{1}{3} = \frac{2:2:2}{6}$

Sacrificing Ratio = Old Ratio - New Ratio

Harish's Sacrifice = $\frac{1}{2} - \frac{1}{3} = \frac{1}{6}$

Girish's Sacrifice = $\frac{1}{2} - \frac{1}{3} = \frac{1}{6}$

Sacrificing Ratio = 1 : 1

WN 1: Distribution of Profit and Loss A/c

Harish will give = $16000 \times \frac{1}{2} = \text{Rs}8000$

Girish will give = $16000 \times \frac{1}{2} = \text{Rs}8000$

WN 2: Distribution of Shirish's Share of Goodwill

Harish will get = $90000 \times \frac{1}{2} = \text{Rs}.45000$

Girish will get = $90000 \times \frac{1}{2} = \text{Rs}45000$

WN 3: Writing off Goodwill

Harish's Capital Account will be debited = $90000 \times \frac{1}{3} = \text{Rs}30000$

Girish's Capital Account will be debited = $90000 \times \frac{1}{3} = \text{Rs}30000$

Shirish's Capital Account will be debited = $90000 \times \frac{1}{3} = \text{Rs}30000$

WN 4 :

Loss of Furniture taken by Harish

= $\text{Rs}12000 - \text{Rs}4800\left(\text{Rs}12000 \times \frac{40}{100}\right)$

= Rs 7200

WN 5 : Cash Account

Dr. **Cash Account** Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Balance b/d	37000	Goodwill Written off	90000
Premium for Goodwill	90000	Bills Payable	35000

Shirish's Capital A/c	200000	Balance c/d	202000
	327000		**327000**

Question: 46

From the following Trial Balance of M/s Kale and Gore, you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2013 and Balance Sheet on that date. They share profits and losses in their capital ratio.

Trial Balance as on 31st March, 2013

Debit Balance	**Amount Rs**	**Credit Balance**	**Amount Rs**
Opening stock	28,000	Capital A/c	
Purchases	1,16,400	Kale	80000
Trade Expenses	2,400	Gore	40000
Royalties	6,200	Sundry Creditors	54000
Wages and Salaries	14,800	Sales	212000
Advertisement	8,200	Reserve for Doubtful Debts	1800
Salaries	11,000	Bills payable	36000
Plant and Machinery	44,000		
Freehold Property	36,000		
Office Rent	4000		
Motor Van	63000		
Bills Receivable	16000		
Sundry Debtors	60000		
Cash in hand	10000		
Bad debts	1000		
General expenses	2,800		
	423800		423800

Adjustments:

1) Closing stock was valued at cost Rs 76,000 while its market price was Rs 80,000.

2) Uninsured goods worth Rs 10,000 were stolen.

3) Goods worth Rs 10,000 were sold and delivered on 31st March 2013, but on entry is passed sales book.

4) Depreciate Plant and Machinery at 10% and Motor van at 15% p.a.

5) Bills Receivable includes a dishonoured bill of Rs 4,000.

6) Create a reserve for doubtful debts at 5% on Debtors.

Solution

Trading Account

for the year ended March 31,2013

Dr. Cr.

Particulars		**Amount (Rs)**	**Particulars**		**Amount (Rs)**
Opening Stock		28000	Sales	212000	222000
Purchases	116400	106400	Add: Additional Sale	10000	
Less : Goods Stolen	(10000)		Closing Stock		76000
Wages and Salaries		14800			
Trade Expenses		2400			
Royalties		6200			
Gross Profit (Balancing Figure)		140200			
		298000			**298000**

Profit and Loss Account
for the year ended March 31, 2013

Dr. Cr.

Particulars		**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Advertisement		8200	Gross Profit	148800
Salaries		11000		
Depreciation on:				
Plant and Machinery	4400	13850		
Motor Van	9450			
Office Rent		4000		
Bad-Debts	1000	2900		
Add: New Reserve for Doubtful Debts	3700			
Less : Old Reserve for Doubtful Debts	(1800)			

General Expenses		2800		
Loss of Goods		10000		
Net Profit (Balancing Figure)				
Kale	58300	87450		
Gore	29150			
		148800		**148800**

Balance Sheet
as on March 31, 2013

Liabilities		**Amount (Rs)**	**Assets**		**Amount (Rs)**
Capital of Kale	80000	138300	**Fixed Assets**		
Add : Net Profit	58300		Motor Van	63000	53550
Capital of Gore	40000	69150	Less : 15% Depreciation	(9450)	
Add : Net Profit	29150		Plant and Machinery	44000	39600
Current Liabilities			Less : 10% Depreciation	(4400)	
Creditors		54000	Freehold Property		36000
Bills Payable		36000	**Current Assets**		
			Closing Stock		76000
			Debtors	60000	70300
			Add : Additional	10000	
			Add : B/R Dishonor	4000	
			Less : Reserve for Doubtful Debts	(3700)	
			Bills Receivable (16,000-4,000)		12000
			Cash in Hand		10000
		297450			**297450**

Question: 47

Raj and Dev are partners sharing profits and losses 3:2 respectively. Their position on 31st March, 2011

Balance Sheet as on 31st March, 2011

Liabilities	**Amount (Rs)**	**Assets**		**Amount (Rs)**
Capital A/c’s		Buildings		100000

Raj	100000	175000	Furniture		10000
Dev	75000		Stock		31000
Creditors		10000	Debtors	50000	49000
Bills Payable		5000	(-) R.D.D	1000	
General Reserve		15000	Bank Balance		15000
		205000			**205000**

On 1st April, 2011 they admitted Manoj on following terms:

1) Manoj should bring in cash Rs 1,00,000 as a capital for 1/5th share in future profit and Rs 25,000 as goodwill.

2) Building should be revalued for Rs 1,25,000.

3) Depreciate furniture at 12 ½ % p.a. and stock at 10% p.a.

4) R.D.D. should be maintained as it is.

5) The Capital accounts of partners should be adjusted in their new profit sharing ratio through bank account.

Prepare, Profit and Loss Adjustment Account, Capital Accounts, Balance Sheet of new firm and show how you have calculated new ratio and new capital.

Solution

Profit and Loss Adjustment Account

Dr. Cr.

Particulars		**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Furniture		1250	Building	25000
Stock		3100		
Profit transferred to:				
Raj's Capital	12390	20650		
Dev's Capital	8260			
		25000		**25000**

Partners' Capital Accounts

Dr. Cr.

Particulars	**Raj**	**Dev**	**Manoj**	**Particulars**	**Raj**	**Dev**	**Manoj**
Balance c/d	136390	99260	100000	Balance b/d	100000	75000	
				General Reserve	9000	6000	

				Profit and Loss Adjustment (Profit)	12390	8260	
				Cash			100000
				Premium for Goodwill	15000	10000	
	136390	**99260**	**100000**		**136390**	**99260**	**100000**
Balance c/d	240000	160000	100000	Balance b/d	136390	99260	100000
				Bank	103610	60740	
	240000	**160000**	**100000**		**240000**	**160000**	**100000**

Balance Sheet
as on April 01, 2011 after Manoj's admission

Liabilities		**Amount (Rs)**	**Assets**		**Amount (Rs)**
Creditors		10000	Building		125000
Bills Payable		5000	Furniture	10000	8750
Capital :			Less : Depreciation @ 12.5%	1250	
Raj	240000	500000	Stock	31000	27900
Dev	160000		Less : Depreciation @ 10%	3100	
Manoj	100000		Debtors	50000	49000
			Less : Reserve for Doubtful Debts	1000	
			Cash (100000 - 25000)		125000
			Bank		179350
		515000			**515000**

Working Notes:
Calculation of Profit Sharing Ratio:

Old Ratio = Raj : Dev = 3 : 2

Manoj's Share = 1/5

Let the total share of firm = 1

Remaining share of the firm = $1 - \frac{1}{5} = \frac{4}{5}$

Raj's New Share = $\frac{4}{5} - \frac{3}{5} = \frac{12}{25}$

Dev's New Share = $\frac{4}{5} - \frac{2}{5} = \frac{8}{12}$

New profit sharing ratio of Raj , Dev and Manoj = $\frac{12}{25} : \frac{8}{25} : \frac{1}{5} = \frac{12:8:5}{25}$

Sacrificing Ratio = Old Ratio - New Ratio

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

Dev's Sacrifice = $\frac{2}{5} - \frac{8}{25} = \frac{2}{25}$

Sacrificing Ratio of Raj and Dev = 3:2

WN 1: Adjustment of Capital

Total capital of the New firm
= Share of Capital brought in by Manoj × Reciprocal of Manoj's Share Manoj's Capital = Rs 100000

Total Capital of the New firm = $100000 \times \frac{5}{1} = \text{Rs}500000$

Raj's Capital = $500000 \times \frac{12}{25} = \text{Rs}240000$

Dev's Capital = $500000 \times \frac{8}{25} = \text{Rs}160000$

Manoj's Capital = $500000 \times \frac{5}{25} = \text{RS}100000$

WN 2: Distribution of General Reserve

Raj will get =$15000 \times \frac{3}{5} = \text{Rs}9000$

Dev will get = $15000 \times \frac{2}{5} = \text{Rs}6000$

WN 3: Distribution of Manoj's Share of Goodwill

Raj will get =$25000 \times \frac{3}{5} = \text{Rs}15000$

Dev will get = $25000 \times \frac{2}{5} = \text{Rs}10000$

WN 4: Bank Account

Bank Account

Dr. **Cr.**

<table>
<tr><th colspan="2">Particulars</th><th>Amount (Rs)</th><th>Particulars</th><th>Amount (Rs)</th></tr>
<tr><td colspan="2">Balance b/d</td><td>15000</td><td>Balance c/d</td><td>179350</td></tr>
<tr><td colspan="2">Capital A/c:</td><td></td><td rowspan="3"></td><td></td></tr>
<tr><td>Raj</td><td>103610</td><td rowspan="2">167350</td><td></td></tr>
<tr><td>Dev</td><td>60740</td><td></td></tr>
<tr><td colspan="2"></td><td>179350</td><td></td><td>179350</td></tr>
</table>

Question: 48

Following is the Balance Sheet of Dhiraj and Niraj who shared profits and losses equally.

Balance Sheet as on 31st March, 2013

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital A/c's		Plant and Machinery	45000
Dhiraj	125000	Land and Building	84000
Niraj	35000	Patents	3400
Creditors	86200	Stock	47800
Bills Payable	28,000	Furniture	10600
General Reserve	6800	Debtors	80000
		Cash	10200
	281000		**281000**

On 1st April, 2013 they agreed to admit Suraj on the following terms and conditions:

1) Suraj to bring for 1/3rd share in future profit in cash Rs 90,000 towards his capital.

2) The firms goodwill should be raised to Rs 90,000 and it is to be written off after Suraj admission in new profit ratio.

3) Plant and Machinery was found undervalued by 10% and Land and Building was found overvalued by 20%.

4) Stock to be increased by Rs 2,200 and furniture to be reduced to Rs 10,000/-

5) Out of creditors Rs 1,200 is no more payable.

6) The Capital A/c to be adjusted in new profit sharing ratio by opening the current accounts.

Prepare Revaluation A/c, Capital A/c and New Balance Sheet.

Solution

Profit and Loss Adjustment Account

Dr. Cr.

<table>
<tr><th>Particulars</th><th>Amount (Rs)</th><th colspan="2">Particulars</th><th>Amount (Rs)</th></tr>
<tr><td>Land and Building</td><td>14000</td><td colspan="2">Plant and Machinery</td><td>5000</td></tr>
<tr><td>Furniture</td><td>600</td><td colspan="2">Stock</td><td>2200</td></tr>
<tr><td rowspan="4"></td><td></td><td colspan="2">Creditors</td><td>1200</td></tr>
<tr><td></td><td colspan="2">Loss transferred to:</td><td></td></tr>
<tr><td></td><td>Dhiraj’s Capital</td><td>3100</td><td rowspan="2">6200</td></tr>
<tr><td></td><td>Niraj’s Capital</td><td>3100</td></tr>
<tr><td></td><td>14600</td><td colspan="2"></td><td>14600</td></tr>
</table>

Partners' Capital Accounts

Dr. Cr.

Particulars	Dhiraj	Niraj	Suraj	Particulars	Dhiraj	Niraj	Suraj
Goodwill (Written off)	30000	30000	30000	Balance b/d	125000	35000	
Profit and Loss Adjustment (Loss)	3100	3100		General Reserve	3400	3400	
Current A/c	50300			Premium for Goodwill	45000	45000	
Balance c/d	90000	50300	60000	Cash			90000
	173400	**83400**	**90000**		**173400**	**83400**	**90000**
Balance b/d	90000	90000	90000	Balance b/d	90000	50300	60000
				Current A/c		39700	30000
	90000	**90000**	**90000**		**90000**	**90000**	**90000**

Balance Sheet
as on April 01, 2013 after Suraj's admission

Liabilities		Amount (Rs)	Assets		Amount (Rs)
Capital A/c:			Plant and Machinery		50000
Dhiraj	90000		Land and Building		70000
Niraj	90000		Patents		3400
Suraj	90000		Stock		50000
A's Current A/c		50300	Furniture	10600	10000
Bills Payable		28000	Less : Depreciation	600	
Creditors	86200		Debtors		80000
Less : Not Payable	1200		Cash (Rs 10200 + Rs 90000)		100200
			Current A/c:		
			Niraj	39700	69700
			Dhiraj	39700	
		433300			**433300**

Working Notes:
Calculation of New Profit Sharing Ratio

Old Ratio = Dhiraj : Niraj = 1 : 1

Manoj's Share = 1/3

Let the total share of firm = 1

Remaining share of the firm = $1-\frac{1}{3}=\frac{2}{3}$

Old -Profit Sharing Ratio = 1 : 1

Calculation of New Profit Sharing Ratio :

Dhiraj's New Share = $\frac{2}{3}-\frac{1}{2}=\frac{2}{6}$

Niraj's New Share = $\frac{2}{3}-\frac{1}{2}=\frac{2}{6}$

New profit sharing ratio of Dhiraj , Niraj and Suraj = $\frac{2}{6}:\frac{2}{6}:\frac{1}{3}$ = 1 : 1 : 1

Sacrificing Ratio = Old Ratio - New Ratio

Dhiraj's Sacrifice = $\frac{1}{2}-\frac{1}{3}=\frac{1}{6}$

Niraj's Sacrifice = $\frac{1}{2}-\frac{1}{3}=\frac{1}{6}$

Sacrificing Ratio Dhiraj's and Niraj's = 1:1

WN 1: Calculation of Plant and Machinery Undercasted

Plant and Machinery Undercast = $\frac{45000}{90} \times 10 = 5000$

WN 2: Calculation of Land and Building Overcasted

Land and building Overvalued = $\frac{84000}{120} \times 20 = \text{Rs}14000$

WN 3: Distribution of General Reserve

Dhiraj will get =$6800 \times \frac{1}{2} = \text{Rs}3400$

Niraj will get = $6800 \times \frac{1}{2} = \text{Rs}3400$

WN 4: Distribution of Suraj's Share of Goodwill

Dhiraj will get =$90000 \times \frac{1}{2} = \text{Rs}45000$

cwill get = $90000 \times \frac{1}{2} = \text{Rs}45000$

WN 5 : Writing off Goodwill

Dhiraj's Capital Account will be debited = $90000 \times \frac{1}{3} = \text{Rs}30000$

Niraj's Capital Account will be debited = $90000 \times \frac{1}{3} = \text{Rs}30000$

Suraj's Capital Account will be debited = $90000 \times \frac{1}{3} = \text{Rs}30000$

WN 6: Calculation of New Capital

Total Capital of the Firm

= Share of Capital brought in by Suraj × Reciprocal of Suraj's share suraj's capital = Rs 90000

Total Capital of the firm = $90000 \times \frac{3}{1} = \text{Rs. } 270000$

Dhiraj's New Capital = Rs $270000 \times \frac{1}{3} = \text{Rs } 90000$

Niraj's New Capital = Rs. $270000 \times \frac{1}{3} = \text{Rs } \ 90000$j's New Capital = Rs. $270000 \times \frac{1}{3} = \text{Rs}90000$

Question: 49

Vaibhav and Vilas were partners sharing profit and losses in the ratio of 2: 3 respectively. Their Balance Sheet as on 31st March 2012 was as follows.

Balance Sheet as on 31st March 2012

Liabilities	Amount(Rs)	Assets	Amount(Rs)
Capital A/c's		Land and Building	25000
Vaibhav	50000	Plant	30000
Vilas	50000	Furniture	2000
Creditors	70000	Stock	50000
		Debtors	58000
		Cash	5000
	170000		**170000**

They agreed to admit Vivek as a partner on 1st April 2012 on the following terms:

1) Vivek will have 1/4th share in future profits for which he shall bring Rs 25,000 as his capital and Rs 20,000 as his share of goodwill.

2) Land & Building are valued at Rs 30,000 and while stock is valued at Rs 55,000.

3) Plant is taken over by Vilas 10% discount.

4) Depreciate furniture by 10%.

5) Provision for bad and doubtful debts is to be maintained at 5% on debtors.

6) The capital account of all the partners to be adjusted in their new profit sharing ratio and excess amount to be transferred to their loan account.

Prepare Profit and Loss Adjustment Account, Partner's Capital Accounts and Balance Sheet of New Firm.

Solution

Profit and Loss Adjustment Account

Dr. **Cr.**

Particulars		Amount (Rs)	Particulars	Amount (Rs)
Plant		3000	Land & Building	5000
Furniture		200	Stock	5000
Provision for Bad and Doubtful Debts		2900		
Profit transferred to:				
Vaibhav	1560	3900		
Vilas	2340			
		10000		**10000**

Partners' Capital Account

Dr. Cr.

Particulars	Vaibhav	Vilas	Vivek	Particulars	Vaibhav	Vilas	Vivek
To Plant A/c	-	27000	-	By Balance b/d	50000	50000	-
To Partner's Loan A/c	29560	-	-	By Cash A/c	-	-	25000
To Balance C/d	30000	45000	25000	By Goodwill A/c	8000	12000	-
				By Profit & Loss Adjustment A/c	1560	7660	
				By Partner's Loan A/c [Deficit Transferred]	-	7660	-
	59560	**72000**	**25000**		**59560**	**72000**	**25000**

Balance Sheet as on 1st April, 2012

Liabilities	Amount	Amount	Assets	Amount	Amount
Partners' Capital A/c			Land & Building	25000	
Vaibhav	30000		(+) Appreciation	5000	30000
Vilas	45000		Plant	30000	
Vivek	25000	100000	(-) Discount @ 10%	-3000	

Loan from Vaibhav		29560		27000	
Creditors		70000	(-) Plant taken over by Vilas	27000	NIL
			Furniture	2000	
			(-) Depreciation @ 10%	-200	1800
			Debtors	58000	
			(-) Less Provision for bad and Doubtful debts @ 5%	-2900	55100
			Stock	50000	
			(+) Increase in Value	5000	55000
			Cash		50000
			Loan to Vilas		7660
		199560			**199560**

Working Notes:

Calculation of New Profit Sharing Ratio

Old Ratio = Vaibhav : Vilas = 2 : 3

Vivek's Share = 1/4

Let the total share of firm = 1

Remaining share of the firm = $1 - \frac{1}{4} = \frac{3}{4}$

Vaibhav's New Share = $\frac{3}{4} - \frac{2}{5} = \frac{6}{20}$

Vilas's New Share = $\frac{3}{4} - \frac{3}{5} = \frac{9}{20}$

New profit sharing ratio of Vaibhav ,Vilas and Vivek = $\frac{6}{20} : \frac{9}{20} : \frac{1}{4} = \frac{6:9:5}{20}$

Sacrificing Ratio = Old Ratio - New Ratio

Vaibhav's Sacrifice = $\frac{2}{5} - \frac{6}{20} = \frac{2}{20}$

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

Sacrificing Ratio of Raj and Dev = 2 : 3

WN 1: Distribution of Vivek's Share of Goodwill

Vaibhav will get = $20000 \times \frac{2}{5} = \text{Rs}8000$

Vilas will get = $20000 \times \frac{3}{5} = \text{Rs}12000$

WN 2: Calculation of Adjustment of Capital

New capital of the firm
= Capital brought in by Vivek × Reciprocal of Share of Vivek Capital of Vivek = Rs 25000

New Capital of the firm = $25000 \times \frac{4}{1} = \text{Rs}100000$

Vaibhav's New Capital = $100000 \times \frac{6}{12} = \text{Rs}30000$

Vilas's New Capital = $100000 \times \frac{9}{12} = \text{Rs}45000$

Vivek's New Capital = $100000 \times \frac{5}{12} = \text{RS}25000$

Question: 50

Manoj and Rahul are equal partners in a business. Their Balance sheet as on 31st March, 2013 stood as under:

Balance Sheet as on 31st March, 2013

Liabilities	Amount(Rs)	Asset		Amount(Rs)
Sundry Creditors	180000	Cash at Bank		120000
General Reserve	36000	Debtors	62000	60000
Capitals-		(-)R.D.D	2000	
Manoj	90000	Bills receivable		24000
Rahul	60000	Building		114000
		Machinery		48000
	366000			**366000**

They decided to admit Amit on 1st April, 2013 on the following terms:

1) The Machinery and Building be depreciated by 10%

2) Reserve for doubtful debts to be increased to Rs 5,000.

3) Bills receivable are taken over by Manoj at a discount of 5%.

4) The amount of creditors paid at a discount of 10%.

5) The Capital Accounts of all the partners be adjusted in current account of partners.

6) Amit should bring Rs 80,000 as capital for his 1/4th in future profits and goodwill account be opened in the books of the firm at Rs 40,000.

Prepare Profit and Loss Adjustments A/c, Partner's Capital A/c and Balance sheet of the firm at Rs 4,000/-

Solution

Profit and Loss Adjustment Account

Dr. Cr.

Particulars	**Amount(Rs)**	**Particulars**	**Amount(Rs)**
Machinery	4800	Creditors	18000
Building	11,400	Loss transferred to:	
Reserve for doubtful Debts	3000	Manoj's Capital	1200
Bills Receivable	1200	Rahul's Capital	1200
	20400		**20400**

Partners' Capital Accounts

Dr. **Cr.**

Particulars	**Manoj**	**Rahul**	**Amit**	**Particulars**	**Manoj**	**Rahul**	**Amit**
Bills Receivable	22800			Balance b/d	90000	60000	
Profit and Loss Adjustment (Loss)	1200	1200		General Reserve	18000	18000	
Balance c/d	104000	96800	80000	Cash			80000
				Premium for Goodwill	20000	20000	
	128000	**98000**	**80000**		**128000**	**98000**	**80000**
Balance b/d	120000	120000	120000	Balance b/d	104000	96800	80000

				Current A/c	16000	23200	
	120000	**120000**	**80000**		**120000**	**120000**	**80000**

Balance Sheet

as on April 01, 2013 after Amit's admission

Liabilities		**Amount(Rs)**	**Assets**		**Amount(Rs)**
Capital A/c			Cash at Bank		78000
Manoj	120000		Debtors	62000	
Rahul	120000	320000	Less : Reserve for Doubtful Debts	5000	57000
Amit	80000		Building	114000	
			Less : Depreciation @ 10%	11400	102600
			Machinery	48000	
			Less : Depreciation @ 10%	4800	43200
			Current A/c's		
			Manoj	16000	
			Rahul	23200	39200
		320000			**320000**

Working Notes:

Calculation of Profit Sharing Ratio

Old Ratio = Manoj : Rahul = 1 : 1

Amit's Share = 1/4

Let the total share of firm = 1

Remaining share of the firm = $1 - \frac{1}{4} = \frac{3}{4}$

Manoj's New Share = $\frac{1}{2} \times \frac{3}{4} = \frac{3}{8}$

Dev's New Share = $\frac{1}{2} \times \frac{3}{4} = \frac{3}{8}$

New profit sharing ratio of Manoj , Rahul and Amit = $\frac{3}{8} : \frac{3}{8} : \frac{1}{4} = \frac{3:3:2}{8}$

Sacrificing Ratio = Old Ratio - New Ratio

Manoj's Sacrifice = $\frac{1}{2} - \frac{3}{8} = \frac{1}{8}$

Rahul's Sacrifice = $\frac{1}{2} - \frac{3}{8} = \frac{1}{8}$

Sacrificing Ratio of Raj and Dev = 1 : 1

WN 2: Distribution of General Reserve

Manoj will get $= 36000 \times \frac{1}{2} = \text{Rs}18000$

Rahul will get = $36000 \times \frac{1}{2} = \text{Rs}18000$

WN 3: Distribution of Manoj's Share of Goodwill

Manoj will get $= 40000 \times \frac{1}{2} = \text{Rs}20000$

Rahul will get = $40000 \times \frac{1}{2} = \text{Rs}20000$

WN 4: Adjustment of Capital

Total capital of the New firm

= Share of Capital brought in by Amit × $\frac{4}{1}$ Amit's Capital = Rs 80000

Total Capital of the firm = $80000 \times \frac{4}{1} = \text{Rs}320000$

Manoj's New Capital = $320000 \times \frac{3}{8} = \text{Rs}120000$

Rahul's New Capital = $320000 \times \frac{3}{8} = \text{Rs}120000$

Amit's New Capital = $320000 \times \frac{2}{8} = \text{RS}80000$

WN 5 : Cash Account

WN 5 : Cash Account

Cash Account

Dr. **Cr.**

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Balance b/d	120000	Creditors	162000
Amit's Capital A/c	80000	Balance c/d	78000
Goodwill	40000		
	240000		**240000**

Question: 51

The Balance Sheet of Ramakant and Shyamkant who shared the profits in the ratio of 2:1 is as under

Balance Sheet as on 31st March, 2012

Liabilities		Amount(Rs)	Assets		Amount(Rs)
Capitals:			Leasehold Property		20000
Ramakant	134000	254000	Live Stock		6600
Shyamkant	120000		Loose Tools		90200
Creditors		51000	Stock		84800
Rent Outstanding		10000	Debtors	48000	46000
Reserve Fund		7200	(-) R.D.D	2000	
Current A/c			Bank		75400
Ramakant		2800	Current A/c		
			Shyamkant		2000
		325000			**325000**

On 1st April, 2012 Umakant was admitted as 1/4th partner on the following terms:

1) He brings equipments of Rs 80,000 as his capital.

2) Firm’s goodwill is valued at Rs 1,44,000 and Umakant agreed to bring his share in firm’s goodwill by cheque.

3) R.D.D. should be maintained at 7.5% on debtors.

4) Increase live stock by Rs 2,600 and write off loose tools by 20%.

5) Outstanding rent paid Rs 9,040 in full settlement.

Pass necessary journal entries to record the above scheme of admission.

Solution

Journal Entry

Date	Particulars	L.F	Debit Amount	Credit Amount

			Rs	Rs
	Profit and Loss Adjustment A/c Dr To Reserve for Doubtful Debts A/c (Being Reserve for Doubtful Debt is maintained @ 7.5% on Debtors)		1600	1600
	Loose tools A/c Dr To Profit and loss Adjustment A/c (Being Loose Tools written off by 20%)		18040	18040
	Stock A/c Dr. To Profit and Loss Adjustment A/c (Being Stock increased by Rs 2,600)		2600	2600
	Outstanding Rent A/c Dr To Profit and Loss Adjustment A/c (Being Outstanding Rent Paid)		9040	9040
	Profit and Loss Adjustment A/c Dr. To Ramakant's Current A/c To Shyamkant's Current A/c (Being Loss on Profit and Loss Adjustment A/c transferred to existing Partner's Current Accounts)		16080	10720 5360
	Reserve Fund Dr. To Rajkumar's Current A/c To Shyamkant's Current A/c (Being Reserve fund transferred to existing Partner's Current Account)		7200	4800 2400
	Bank A/c Dr To Goodwill A/c (Benig Goodwill brought in by Umakant by cheque)		36,000	36,000
	Goodwill A/c Dr. To Ramakant's Current A/c To Shyamkant's Current A/c (Being Goodwill distributed among existing Partner's in their sacrificing ratio i.e. 2:1)		36000	24000 12000
	Equipment A/c Dr To Umakant's Capital A/c (Being Umakant brought his share of Capital in kind i.e. Equipment)		80000	80000

Working Notes:

Calculation of Profit Sharing Ratio

Old Ratio = Ramakant : Shyamkant = 2 : 1
Umakant's Share = 1/4

Let the Total share of firm = 1

Remaining share of the firm = $1-\frac{1}{4}=\frac{3}{4}$

Ramakant's New share = $\frac{3}{4}\times\frac{2}{3}=\frac{6}{12}$

Shyamkant's New Share = $\frac{3}{4}\times\frac{1}{3}=\frac{3}{12}$

New profit Sharing Ratio of Ramakant , Shyamkant and Umakant = $\frac{6}{12}:\frac{3}{12}:\frac{1}{4}=\frac{2:1:1}{12}$

Sacrificing Ratio = Old Ratio - New Ratio

Ramakant's Sacrifice = $\frac{2}{3}-\frac{6}{12}=\frac{2}{12}$

Shyamkant's Sacrifice = $\frac{1}{3}-\frac{3}{12}=\frac{1}{12}$

Sacrificing Ratio of Ramakant and Shyamkant = 2 : 1

WN 2 : Distribution of Reserve Fund

Ramakant will get = $7200\times\frac{2}{3}=\mathrm{Rs}4800$

Shyamkant will get =$7200\times\frac{1}{3}=\mathrm{Rs}2400$

WN 3 : Distribution of Umakant's Share of Goodwill

Ramakant will get = $36000\times\frac{2}{3}=\mathrm{Rs}24000$

Shyamkant will get = $36000\times\frac{1}{3}=\mathrm{Rs}12000$

WN 4 : Profit and Loss Adjustment Account

Profit and Loss Adjustment Account

Dr. Cr.

Particulars	**Amount(Rs)**	**Particulars**	**Amount(Rs)**
Reserve for Doubtful Debts	1600	Stock	2600

Loose Tools	18040	Outstanding Rent		960
		Loss transferred to:		
		Ramamkant’s Current A/c	10720	16080
		Shyamkant’s Current A/c	5360	
	19640			**19640**