PART – 1
CHAPTER 03
RECONSTITUTION OF A PARTNERSHIP FIRM – ADMISSION OF A PARTNER

Question 1
Identify the various matters that need adjustments at the time of admission of a new partner.

Answer: The various matters that are required to be adjusted during the time of the admission of the new partner are :

- Profit sharing ratio – During the time of the admission of the new partner, the calculation of the new profit sharing ration has to be made.
- The revaluation of the assets and liabilities are made in order to ascertain value of the current time of the assets and the liabilities.
- The valuation of the Goodwill is made and is further adjusted between the old sacrificing partners.
- The accumulated profits, reserves and losses are distributed in the old Profit Sharing Ratio among the old partners.
- Capital of all the partners is adjusted.

Question 2
Why it is necessary to ascertain new profit ratio even for old partners when a new partner is admitted?

Answer: It is necessary to ascertain the new profit sharing ration even for the old partners when the new partner is admitted to the firm because with the admission o fhte new partner in the firm the new profit sharing ratios are introduced as the new partner gains the profit sharing ratio from the old partners of the firm. Thus the old partners sacrifice their share of profit to benefit the new partner and hence there is the reduction of the share of the profit of the old partners which makes it necessary for the partners to determine the new profit sharing ratio post admission.

Question 3
What is sacrificing ratio? Why is it calculated?

Answer: The sacrificing ratio is referred to as the ratio which of the profit or loss sharing among the partners which is calculated during the time of the admission of the new partner. On the account of the admission of the new partner, old partners have to sacrifice their profit or loss sharing ratio in the favour if the new partner. This ratio is referred to as the sacrificing ratio. In other words the ration in which the old partners have decided to sacrifice their existing ratios of profit or loss in order to benefit the admission of the new partner is known as sacrificing ratio.

Question 4
On what occasions sacrificing ratio is used?

Answer: The calculation of the sacrificing ratio is made during the time of the admission of the new partner and it is referred to as the difference between the old and the new share of the profit of the existing partners of the firm. The profit sharing ratio of the partners is calculated between the old partners and new partners. Thus the sacrificing ratio is used when the old partners decide to change the profit-sharing ratio. The second case is when new partners bring goodwill with them; it is transferred among the old partners in sacrificing ratio of the old partners.

Question 5
If some goodwill already exists in the books and the new partner brings in his share of goodwill in cash, how will you deal with existing account of goodwill?

Answer: Goodwill is an intangible asset of the organization and hence is considered to be the most important item of a business. There are various methods for the valuation of the goodwill and many ways of treating them in the book of accounts. The goodwill has to be written off among the old partners in their Profit Sharing Ratio in the cases when the when the value of goodwill already exists in the books.

The journal entry will be
Old partners' capital account. Dr
To Goodwill account

Question 6
Why there is the need for the revaluation of assets and liabilities on the admission of a partner?

Answer: Revaluation of assets and liabilities is done in order to ascertain the increment or the decrement in the value of assets and liabilities for a period of time before the admission to get and maintain the fair dealings. Such adjustments result in either increase in the book values of assets and liabilities or decrease in the book value of assets and liabilities. These adjustments are done with the help of a new account called revaluation account. This is done because the value of assets and liabilities may have been increased or decreased and the corresponding figures in old balance sheet may have been understated or overstated. The profit or loss derived from this account is distributed among the partners.

Question 7

Do you advise that assets and liabilities must be revaluated at the time of admission of a partner? If so,why? Also describe how is this treated in the books of account?

Answer: It is advisable for any organization to revaluate the amount of the assets and the liabilities of the organization during the time of the admission of the new partner in the organization. The admission of the new partner in the organization reconstitutes the partnership of the organization and hence it is advisable for the organization to revaluate the value of the assets and the liabilities of the organization in order to pertain the true value of the business. With the admission of the new partner in the organization if the value of the assets of the organization increases, the amount of the capital of the existing partner increases and in the case of the decrease of the value of the assets of the organization, there will be a decline to the value of the capital of the existing partners. Thus the revaluation account is prepared to determine the profits or losses which arise with such reconstitution of the partnership.

The revaluation is treated in the books of account as follows:
Increase in the value of asset: Asset is debited and revaluation account is credited.
Decrease in the value of asset: Asset is credited and revaluation account is debited.
Increase in the value of liabilities: Liabilities are credited and revaluation account is debited
Decrease in the value of liabilities: Liabilities are debited and revaluation account is credited.
Recording unrecorded liabilities: Revaluation account is debited and unrecorded liabilities is credited.
For transferring credit balance i.e. profit on revaluation: Revaluation Account is debited and old partners' capital account is credited (old PSR)
For transferring debit balance i.e. loss on revaluation: Old partners' capital account is debited and Revaluation Account is credited (old PSR)

Question 8
What is goodwill? What factors affect goodwill?

Answer: Goodwill is a real intangible real asset which is the result of the efforts of all the partners to bring name, reputation and fame for the business. It garners attention of

the customers and the audience and thus creates value for the organization as it raises the earning capacity of any organization. The factors which affect the value of goodwill are as follows:
Time: The amount and the period of time since which the business is in the market impacts and influences the goodwill of the organization. Thus, the business which is old will have considerably more value than compared to the business which is new in the market.
Location: The location of any business is responsible for enhancing the value of the goodwill of the organization. Thus in the cases when the business is located in the favourable position will have a favourable goodwill amount.
Risks involved: The more the risk is involved in any business the lesser will be the amount of the goodwill of the organization.

Monopolistic nature of business: Monopoly renders the assurance of profits and thus it brings tremendous amount of goodwill for the business.
Nature of goods: The nature of the goods that the organization deals with brings stability of the business. Hence the more stable business will create a good value for goodwill than compare to the business which has less stable goods.
Efficient business: The goodwill of any organization depends upon the efficiency of the management of the organization. Thus in the cases when any business has efficient management practices in the organization.
Personal and impersonal factors: The value of the goodwill for any business organization increases as more and more

importance to the impersonal factors is given and it thus decreases as more and more importance to the personal factors is given.

Question 9

Explain various methods of valuation of goodwill.

Answer: The various methods for the valuation of the goodwill are as follows:

(i) Simple profit method: Under the simple profit method, the goodwill is expressed to be the purchase of the certain number of years profit based on the average of a given period. This method involves the following two steps:-

(a) Calculation of the average profit by taking into the consideration of the profit of previous three or four years.

(b) Multiplying the average profit by the calculation of the above (a) by the number of years purchase of profits

Average profit = Total profits for all the years/number of years.

(ii) Weighted average method: As per the weighted average method of the goodwill the profit of the recent year is represented by the highest weights and the profits of the previous year gets lowest weights. The profit of the each year gains some weights. Further the products of the profits and the weights are added which is divided by the total weights in order to calculate the Weighted Average Profits. The formula for calculating goodwill by this method is:

Weighted average profit = Total product of profits / Total weights

Goodwill is calculated by multiplying the weighted average profit and number of years purchase.

(iii) Super profit method: The super profit method is calculated by making the difference between the average profit which is earned by the business and its normal profit. To calculate the value of the goodwill of the organization is dependent upon the normal rate of return; estimated future of the profit or the average profit of the previous few years and the value of the capital employed. Super profit = Average profit - normal profit

To calculate the super profit, the following steps have to be followed:

1. Ascertain or calculate the capital employed or average capital employed.
2. Calculate the normal profit of the organization.
3. Calculate actual maintainable profit of the organization.
4. Calculate the difference between the actual maintainable profit and normal profit.
5. The value of the goodwill is calculated by multiplying super profit and years of purchase.

(iv)Capitalisation method: Under the capitalisation method, instead of ordinary profit the super profit is taken into the consideration. This super profit is considered to be the difference between the normal and the average profit. Thus the value of goodwill = Super profit/ Normal rate of returns*100

(v) Siding scale valuation method: The distribution of the profit in this method is related to the super profits which varies from year to year. Thus in order to find the value f the goodwill the super profit of each of the years is multiplied by the corresponding year and the total of the sum profit of the ach year is taken into account.

Question 10

If it is agreed that the capital of all the partners should be proportionate to the new profit sharing ratio, how will you work out the new capital of each partner? Give examples and state how necessary adjustments will be made.

Answer: During the time of the admission of any new partner, it is sometimes decided that the capital of all the partners of the organisation must be made in the proportion of the new incoming partner.

The calculation of the new capital of each partner is reliant upon the below given conditions

1) When the capital of the new partner is given

2) When the total capital of the firm is given

1) When the capital of the new partner is given: In this case the firm's capital is made on the basis of the capital which is brought by the new partner of the organisation. Thus the total capital of the firm is made to be divided by the individual new profit shares in order to determine the new capital of the each of the partner. Adjustments, if any, are posted in the partners' capital account. The new capital calculated is written as balance c/d on the credit side of the old partners capital account. If new capital exceeds the old capital, it is deficit, it is to be brought in by the old partners

and if new capital is less than old capital, it is surplus. The difference is returned to old partners.

2) When the total capital of the firm is given: In this case the old capital of the old partners is calculated after making the adjustments. The total of the capital of the old partners is multiplied by the reciprocal of the total share of old partners. Total Capital of the new firm is multiplied by the new profit sharing ratio individually for all the partners (including the new partner).

Question 11

Explain how will you deal with goodwill when new partner is not in a position to bring his share of goodwill in cash.

Answer: In the cases when the new partner is not in the position to bring his share of goodwill in the cash, the adjustment of the goodwill account is made through the capital account of the old partners. Thus, the new partner’s account, current or capital is debited and the account of the old partners is credited in their sacrificing ratio. The journal entry for the same will be:-

New partners’ capital A/c

To old partners’ capital (sacrifice ratio)

Question 12

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

Answer: The various methods for the valuation of the goodwill are as follows:

- Premium method: This method is adopted in the cases when the newly admitted partner brings along with him/herself the cash which is equal to the amount of the goodwill. There are three manners of using this method :
  (i) When the amount of premium is paid privately which hence does not require the need of passing the journal entry.
  (ii) When the premium is retained by the organization, two journal entries are passed in the books of accounts. Firstly the cash should be debited and capital accounts of the new partner and secondly new partners’ capital account is debited and old partners’ capital accounts should be credited in sacrificing ratio.
  (iii) When the amount of the premium is withdrawn by the old partners of the organization.

- Revaluation method: In the revaluation method the new partner does not bring along with him/herself the share of the cash for the goodwill and hence the old partners will raise the value of the goodwill in the books. Thus the goodwill account will be debited by crediting the Capital account of the old partners in their profit or loss sharing ratio. The new value of the goodwill will appear in the balance sheet of the organization.
- Memorandum method: Under this method, goodwill is firstly raised after which it is written-off among all partners (including the new one) in new profit sharing ratio. The journal entry for the same will require the capital accounts of the all partners to be debited and the goodwill account to be credited.

Question 13
How will you deal with the accumulated profits and losses and reserves on the admission of a new partner?

Answer:
Since the new partner is not liable for any past accumulated profit and losses in the firm, they are all divided among old partners in their old profit sharing ratio.
Accounting treatment for accumulated profits and losses and reserves on the admission of a new partner:
i) Distributing accumulated profits and reserves
Profit and loss A/c
General reserve A/c
Reserve Fund A/c
Workmen's compensation Fund A/c
Contingency reserve A/c
To old partners capital account (in old psr)
ii) Distributing accumulated losses
Old Partners capital account Dr (in Old psr)
To Profit and loss (debit balance)
To deferred advertisement expenses
To preliminary expenses

Question 14
At what figures the value of the assets and liabilities appear in the books of accounts of the firm after revaluation has been due. Show with the help of an imaginary balance sheet.

Answer: When revaluation is done, the balance sheet of the reconstituted firm reflects new revised values. A and B are partners sharing profits in the ratio of 3:2, the balance sheet as on 31st March 2017:

Balance sheet

Liabilities	Amount	Assets	Amount
Creditors Outstanding liabilities Capital :- A 19000 B 14000	28500 3000 33000	Cash Stock Prepaid insurance Debtors 8400 Less :provision 400 Machinery Buildings Furniture	1000 14000 500 8000 18000 14000 9000
Total	64500	Total	64500

C is admitted as a new partner introducing a capital of Rs 16000. The new profit sharing ratio is 5:3:2. Following revaluations are made:-

- Stock to depreciate @5%
- Provision for doubtful debts is to be Rs500
- Furniture to depreciate @10%
- Building is valued at Rs.19000

Solution:

Revaluation Account

Particulars	Amount	Particulars	Amount

To stock To provision for doubtful debts To Furniture TO profit transferred to partners capital account A 1980 B 1320	700 100 900 3300	By building	5000
Total	5000	Total	5000

Balance sheet

Liabilities		Amount	Assets		Amount
Creditors Outstanding liabilities Capital :- A Add : profit on revaluation B Add : profit on revaluation C	 19000 1980 14000 1320	28500 3000 20980 15320 16000	Cash Stock Less : depreciation Prepaid insurance Debtors Less :provision Machinery Buildings Furniture	 14000 700 8400 500	17000 13300 500 7900 18000 19000 9000
Total		83800	Total		83800

Question 15

A and B were partners in a firm sharing profits and losses in the ratio of 3:2. They admit C into the partnership with 1/6 share in the profits. Calculate the new profit sharing ratio?

Answer:	A	:	B
Old Ratio	3	:	2
	Or		
	3/5	:	2/5

C admits for 1/6 share of new profit in new firm.
Let new firm profit = 1
Remaining share of A and B in the new firm = 1 – C's share = 1 – 1/6 = 5/6
New ratio = Old ratio x Remaining share of A and B
A = 3/5 x 5/6 = 3/6
B = 2/5 x 5/6 = 2/6

	A	:	B	:	C	
New ratio	=	3/6 :	2/6 :		1/6	= 3:2:1

Question 16
A, B, C were partners in a firm sharing profits in 3:2:1 ratio. They admitted D for 10% profits. Calculate the new profit sharing ratio?

Answer:	A	:	B	:	C
Old Ratio	3	:	2	:	1
		Or			
	3/6 :	2/6 :	1/6		

D admits for 10/100 share of new profit in new firm.
Let new firm profit = 1
Remaining share of A, B and C in the new firm = 1 – D's share = 1 – 10/100 = 90/100 = 9/10
New ratio = Old ratio x Remaining share of A, B and C
A = 3/6 x 9/10 = 27/60 = 9/20
B = 2/6 x 9/10 = 18/60 = 6/20
C = 1/6 x 9/10 = 9/60 = 3/20

		A :	B :	C :	D
New ratio	=	9/20:	6/20:	3/20:	1/10 (or 2/20)

= 9 : 6 : 3 : 2

Question 17

X and Y are partners sharing profits in 5:3 ratio admitted Z for 1/10 share which he acquired equally for X and Y. Calculate new profit sharing ratio?

Answer: Old ratio = X : Y = 5 : 3 = 5/8 : 3/8
Z admits for 1/10 share of the new firm
X and Y each sacrifice = 1/10 x 1/2 = 1/20
New ratio = Old ratio – Sacrificing ratio
X = 5/8 – 1/20 = (25 – 2)/40 = 23/40
Y = 3/8 – 1/20 = (15 – 2)/40 = 13/40
New ratio = X : Y : Z = 23/40 : 13/40 : 1/10 (or 4/40) = 23 : 13 : 4

Question 18

A, B and C are partners sharing profits in 2:2:1 ratio admitted D for 1/8 share which he acquired entirely from A. Calculate new profit sharing ratio?

Answer: Old ratio = A : B : C = 2 : 2 : 1 = 2/5 : 2/5 : 1/5

D admits for 1/8 share in new firm which he takes from A

New ratio = Old ratio – Sacrificing ratio

A = 2/5 – 1/8 = (16-5)/40 = 11/40

New ratio = A : B : C : D = 11/40 : 2/5 (or 16/40) : 1/5 (or 8/40) : 1/8 (or 5/40)

= 11 : 16 : 8 : 5

Question 19

P and Q are partners sharing profits in 2:1 ratio. They admitted R into partnership giving him 1/5 share which he acquired from P and Q in 1:2 ratio. Calculate new profit sharing ratio?

Answer: Old ratio = P : Q = 2 : 1 = 2/3 : 1/3

R admits for 1/5 share in the new firm which he takes 1/3 from P and 2/3 from Q

P's sacrifice = 1/5 x 1/3 = 1/15

Q's sacrifice = 1/5 x 2/3 = 2/15

New ratio = Old ratio – Sacrificing ratio

P = 2/3 – 1/15 = (10 – 1)/15 = 9/15 = 3/5

Q = 1/3 – 2/15 = (5 – 2)/15 = 3/15 = 1/5

New ratio = P : Q : R = 3/5 : 1/5 : 1/5 = 3 : 1 : 1

Question 20

A, B and C are partners sharing profits in 3:2:2 ratio. They admitted D as a new partner for 1/5 share which he acquired from A, B and C in 2:2:1 ratio respectively. Calculate new profit sharing ratio?

Answer: Old ratio = A : B : C = 3 : 2 : 2 = 3/7 : 2/7 : 2/7

D admits for 1/5 share in new firm which he takes 1/5 in the ratio 2 : 2: 1 from A, B and C

A’s sacrifice = 1/5 x 2/5 = 2/25

B’s sacrifice = 1/5 x 2/5 = 2/25

C’s sacrifice = 1/5 x 1/5 = 1/25

New ratio = Old ratio – Sacrificing ratio

A = 3/7 – 2/25 = 61/175

B = 2/7 – 2/25 = 36/175

C = 2/7 – 1/25 = 43/175

New ratio = A : B : C : D = 61/175 : 36/175 : 43/175 : 1/5 = 61 : 36 : 43 : 35

Question 21

A and B were partners in a firm sharing profits in 3:2 ratio. They admitted C for 3/7 share which he took 2/7 from A and 1/7 from B. Calculate new profit sharing ratio?

Answer: Old ratio = A : B = 3 : 2 = 3/5 : 2/5

C admits for 3/7 share in the new firm

A’s sacrifice = 2/7

B’s sacrifice = 1/7

New ratio = Old ratio – Sacrificing ratio

A = 3/5 – 2/7 = 11/35

B = 2/5 – 1/7 = 9/35

New ratio = A : B : C = 11/35 : 9/35 : 3/7 = 11 : 9 : 15

Question 22

A, B and C were partners in a firm sharing profits in 3:3:2 ratio. They admitted D as a new partner for 4/7 profit. D acquired his share 2/7 from A. 1/7 from B and 1/7 from C. Calculate new profit sharing ratio?

Answer: Old ratio = A : B : C = 3 : 3 : 2 = 3/8 : 3/8 : 2/8

D admits for 4/7 share of profit in new firm

New ratio = Old ratio – Sacrificing ratio

A = 3/8 – 2/7 = 5/56

B = 3/8 – 1/7 = 13/56

C = 2/8 – 1/7 = 6/56

New ratio = A : B : C : D = 5/56 : 13/56 : 6/56 : 4/7 = 5 : 13 : 6 : 32

Question 23

Radha and Rukmani are partners in a firm sharing profits in 3:2 ratio. They admitted Gopi as a new partner. Radha surrendered 1/3 of her share in favour of Gopi and Rukmani surrendered 1/4 of her share in favour of Gopi. Calculate new profit sharing ratio?

Answer: Old ratio = Radha : Rukmani = 3 : 2 = 3/5 : 2/5

Radha surrendered in favour of Gopi = 1/3 of her share

Rukmani surrendered in favour of Gopi = 1/4 of her share

Sacrificing ratio = Old ratio x Surender’s ratio

Radha = 3/5 x 1/3 = 1/5

Rukmani = 2/5 x 1/4 = 1/10

New ratio = Old ratio – Sacrificing ratio

Radha = 3/5 – 1/5 = 2/5

Rukmani = 2/5 – 1/10 = 3/10

Gopi’s share = Radha sacrificing ratio + Rukmani sacrificing ratio = 1/5 + 1/10 = 3/10

New ratio = Radha : Rukmani : Gopi = 2/5 (or 4/10) : 3/10 : 3/10 = 4 : 3 : 3

Question 24

Singh, Gupta and Khan are partners in a firm sharing profits in 3:2:3 ratio. They admitted Jain as a new partner. Singh surrendered 1/3 of his share in favour of Jain: Gupta surrendered 1/4 of his share in favour of Jain and Khan surrendered 1/5 in favour of Jain. Calculate new profit sharing ratio?

Answer: Old ratio = Singh : Gupta : Khan = 3 : 2 : 3 = 3/8 : 2/8 : 3/8

Singh surrender = 1/3 of his share

Gupta surrender = 1/4 of his share

Khan surrender = 1/5 of his share

Sacrificing ratio = Old ratio x Surrender ratio

Singh = 3/8 x 1/3 = 3/24

Gupta = 2/8 x 1/4 = 2/32

Khan = 3/8 x 1/5 = 3/40

New ratio = Old ratio – Sacrificing ratio

Singh = 3/8 – 3/24 = 6/24

Gupta = 2/8 – 2/32 = 6/32

Khan = 3/8 – 3/40 = 12/40

Jain share = Sacrificing ratio of other partners = 3/24 + 2/32 + 3/40 = 21/80

New ratio = Singh : Gupta : Khan : Jain = 6/24 : 6/32 : 12/40 : 21/80 = 20 : 15 : 24 : 21

Question 25

Sandeep and Navdeep are partners in a firm sharing profits in 5:3 ratio. They admit C into the firm and the new profit sharing ratio was agreed at 4:2:1. Calculate the sacrificing ratio?

Answer: Old ratio = Sandeep : Navdeep = 5 : 3 = 5/8 : 3/8

New ratio = Sandeep : Navdeep : C = 4 : 2 : 1 = 4/7 : 2/7 : 1/7

Sacrificing ratio = Old ratio – New ratio

Sandeep = 5/8 – 4/7 = 3/56

Navdeep = 3/8 – 2/7 = 5/56

Sacrificicng ratio = Sandeep : Navdeep = 3/56 : 5/56 = 3 : 5

Question 26

Rao and Swami are partners in a firm sharing profits and losses in 3:2 ratio. They admit Ravi as a new partner for 1/8 share in the profits. The new profit sharing ratio between Rao and Swami is 4:3. Calculate new profit sharing ratio and sacrificing ratio?

Answer: Old ratio = Rao : Swami = 3 : 2

Ravi admits for 1/8 share of profit in the new firm

Let the new firm profit = 1

Combined share of Rao and Swami in new firm = 1 – Ravi's share = 1 – 1/8 = 7/8

New ratio = Combined share x Proportion in combined share

Rao = 7/8 x 4/7 = 28/56

Swami = 7/8 x 3/7 = 21/56

New ratio = Rao : Swami : Ravi = 28/56 : 21/56 : 1/8 = 4 : 3 : 1

Sacrificing ratio = Old ratio – New ratio

Rao = 3/5 – 4/8 = 4/40

Swami = 2/5 – 3/8 = 1/40
Sacrificing ratio = Rao : Swami = 4/40 : 1/40 = 4 : 1

Question 27
Compute the value of goodwill on the basis of four years' purchase of the average profits based on the last five years? The profits for the last five years were as follows:

	Rs
2013	40,000
2014	50,000
2015	60,000
2016	50,000
2017	60,000

Answer: Average profit = Sum of given years profit/Number of given years

Year	Profit
2013	40000
2014	50000
2015	60000
2016	50000
2017	60000
Sum of 5 years of profit	260000

Average profit = 260000/5 = 52000
Goodwill = Average profit x Number of year's purchase = 52000 x 4 = 208000

Question 28

Capital employed in a business is Rs. 2,00,000. The normal rate of return on capital employed is 15%. During the year 2015 the firm earned a profit of Rs. 48,000. Calculate goodwill on the basis of 3 years purchase of super profit?

Answer: Capital employed = 200000

Actual profit = 48000

Normal rate of return = 15%

Normal profit = Capital employed x (Normal rate of return/100) = 200000 x 5/100 = 30000

Super profit = Actual profit – Normal profit = 48000 = 30000 = 18000

Goodwill = Super profit x Number of years purchase = 18000 x 3 = Rs.54000

Question 29

The books of Ram and Bharat showed that the capital employed on 31.12.2016 was Rs. 5,00,000 and the profits for the last 5 years : 2015 Rs. 40,000; 2014 Rs. 50,000; 2013 Rs. 55,000; 2012 Rs. 70,000 and 2011 Rs. 85,000. Calculate the value of goodwill on the basis of 3 years purchase of the average super profits of the last 5 years assuming that the normal rate of return is 10%?

Answer: Average actual profit = Sum of given years profit/Number of given years

Year	Profit
2015	40000
2014	50000
2013	55000

2012	70000
2011	85000
Sum of 5 years of profit	300000

Average actual profit = 300000/5 = 60000
Normal profit = Capital employed x (Normal rate of return/100) = 500000 x 10/100 = 50000
Average super profit = Average actual profit – Normal profit = 60000 – 50000 = 10000
Goodwill = Average super profit x Number of years purchase = 10000 x 3 = Rs.30000

Question 30
Rajan and Rajani are partners in a firm. Their capitals were Rajan Rs. 3,00,000; Rajani Rs. 2,00,000. During the year 2015 the firm earned a profit of Rs. 1,50,000. Calculate the value of goodwill of the firm assuming that the normal rate of return is 20%?
Answer: Rajan’s capital = 300000
Rajni’s capital = 200000
Total capital employed = 500000
Normal rate of return = 20%
Capitalised value = Actual profit x 100/Normal rate of return = 150000 x 100/20 = 750000
Goodwill = Capitalised value – Capital employed = 750000 – 500000 = 250000

Question 31

A business has earned average profits of Rs. 1,00,000 during the last few years. Find out the value of goodwill by capitalisation method, given that the assets of the business are Rs. 10,00,000 and its external liabilities are Rs. 1,80,000. The normal rate of return is 10%?

Answer:

Capital employed = Assets – External Liabilities

= 100000 – 180000

= 820000

Capitalised value = Actual profit x 100/Normal rate of return

= 100000 x 100/10

= 1000000

Goodwill = Capitalised value – Capital employed

= 1000000 – 820000

= Rs.180000

Question 32

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

a) When the amount of goodwill is retained in the business.

b) When the amount of goodwill is fully withdrawn.

c) When 50% of the amount of goodwill is withdrawn.

d) When goodwill is paid privately.
Answer:

Journal Entries

S. No.	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
Case (a)	Cash A/c Dr To Ghosh's Capital A/c To Premium of Goodwill A/c (Capital and goodwill of his share brought by Ghosh)		24000	 20000 4000
	Premium of Goodwill A/c Dr To Verma's Capital A/c To Sharma's Capital A/c (Goodwill brought by Ghosh credited to old partners in sacrificing ratio)		4000	 2500 1500
Case (b)	Cash A/c Dr To Ghosh's Capital A/c To Premium of Goodwill A/c		24000	 20000 4000

	(Capital and goodwill of his share brought by Ghosh for 1/5 share of profit)			
	Premium of Goodwill A/c Dr To Verma's Capital A/c To Sharma's Capital A/c (Goodwill brought by Ghosh credited to old partners in sacrificing ratio)		4000	 2500 1500
	Verma's Capital A/c Dr Sharma's Capital A/c Dr To Cash A/c (Amount of premium of goodwill withdrawn by old partners)		2500 1500	 4000
Case (c)	Cash A/c Dr To Ghosh's Capital A/c To Premium of Goodwill A/c (Capital and goodwill of his share brought by Ghosh for 1/5 share of profit)		24000	 20000 4000

	Premium of Goodwill A/c Dr To Verma's Capital A/c To Sharma's Capital A/c (Goodwill brought by Ghosh credited to old partners in sacrificing ratio)		 4000	 2500 1500
	Verma's Capital A/c Dr Sharma's Capital A/c Dr To Cash A/c (Half of the amount of premium of goodwill withdrawn by old partners)		1250 750	 2000
Case (d)	No entry (Goodwill was not bought into firm)			

Question 33

A and B are partners in a firm sharing profits and losses in the ratio of 3:2. They decide to admit C into partnership with 1/4 share in profits. C will bring in Rs. 30,000 for capital and the requisite amount of goodwill premium in cash. The goodwill of the firm is valued at Rs, 20,000. The new profit sharing ratio is 2:1:1. A and B withdraw their share of goodwill. Give necessary journal entries?

Answer:

Journal Entries

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
	Cash A/c Dr		35000	
	To C's Capital A/c			30000
	To Premium of Goodwill A/c			5000
	(Capital and goodwill share brought by C)			
	Premium of Goodwill A/c Dr		5000	
	To A's Capital A/c			2000
	To B's Capital A/c			3000
	(Goodwill brought by C credited to A & B in 2:3 sacrificing ratio)			
	A's Capital A/c Dr		2000	
	B's Capital A/c Dr		3000	
	To Cash A/c			5000
	(Amount of premium of goodwill withdrawn by old partners)			

Sacrificing ratio = Old ratio – New ratio

A = 3/5 – 2/4 = 2/20

B = 2/5 – 1/4 = 3/20
Sacrificing ratio = A : B = 2/20 : 3/20 = 2 : 3
Goodwill of the firm = 20000
C's share of goodwill = 20000 x 1/4 = 5000
A will receive = 5000 x 2/5 = 2000
B will receive = 5000 x 3/5 = 3000

Question 33
Arti and Bharti are partners in a firm sharing profits in 3:2 ratio, They admitted Sarthi for 1/4 share in the profits of the firm. Sarthi brings Rs. 50,000 for his capital and Rs. 10,000 for his 1/4 share of goodwill. Goodwill already appears in the books of Arti and Bharti at Rs. 5,000. the new profit sharing ratio between Arti, Bharti and Sarthi will be 2:1:1. Record the necessary journal entries in the books of the new firm?
Answer:

Journal Entries

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
	Arti's Capital A/c Dr Bharti's Capital A/c Dr To Goodwill A/c (Goodwill written off)		3000 2000	 5000
	Cash A/c Dr To Sarthi's Capital A/c To Premium of Goodwill A/c		60000	 50000 10000

	(Amount of capital and share of goodwill bought by Sarthi) Premium of Goodwill A/c Dr To Arti's Capital A/c To Bharti's Capital A/c (Premium of goodwill credited to Arti's and Bharti's capital account)		10000	4000 6000

Old ratio = Arti : Bharti = 3 : 2
Sarthi admitted for ¼ share in new firm
New ratio = Arti : Bharti : Sarthi = 2 : 1 : 1
Sacrificing ratio = Old ratio – New ratio
Arti = 3/5 – 2/4 = 2/20
Bharti = 2/5 – 1/4 = 3/20
Arti will receive = 10000 x 2/5 = 4000
Bharti will receieve = 10000 x 3/5 = 6000

Question 34
X and Y are partners in a firm sharing profits and losses in 4:3 ratio. They admitted Z for 1/8 share. Z brought Rs. 20,000 for his capital and Rs. 7,000 for his 1/8 share of goodwill. Subsequently X, Y and Z decided to show goodwill in their books at Rs. 40,000. Show necessary journal entries in the books of X, Y and Z?
Answer:

Journal Entries

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
	Cash A/c Dr		27000	
	To Z's Capital A/c			20000
	To Premium of Goodwill A/c			7000
	(Amount of capital and share of goodwill bought by Z)			
	Premium of Goodwill A/c Dr		7000	
	To X's Capital A/c			4000
	To Y's Capital A/c			3000
	(Premium of goodwill credited to old partners in sacrificing ratio)			
	Goodwill Rs.40000 cannot be raised. Acc. to AS - 10, Goodwill can be shown in the book if money and money value is paid for it. Here no money or money value has been paid for goodwill)			

Question 35

Aditya and Balan are partners sharing profits and losses in 3:2 ratio. They admitted Christopher for 1/4 share in the profits. The new profit sharing ratio agreed was 2:1:1. Christopher brought Rs. 50,000 for his capital. His share of goodwill was agreed to at Rs. 15,000. Christopher could bring only Rs. 10,000 out of his share of goodwill. Record necessary journal entries in the books of the firm?

Answer:

Journal Entries

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
	Cash A/c Dr		60000	
	To Christopher's Capital A/c			50000
	To Premium of Goodwill A/c			10000
	(Amount of capital and share of goodwill bought by Christopher)			
	Premium of Goodwill A/c Dr		10000	
	Christoher's Capital A/c Dr		5000	
	To Aditya's Capital A/c			6000
	To Balam's Capital A/c			9000

	(Christopher's Premium of goodwill credited to old partners in sacrificing ratio)			

Sacrificing ratio = Old ratio – New ratio
Aditya = 3/5 – 2/4 = 2/20
Balam = 2/5 – 1/4 = 3/20
Sacrificing ratio = 2/20 : 3/20 = 2 : 3

Question 36
Amar and Samar were partners in a firm sharing profits and losses in 3:1 ratio. They admitted Kanwar for 1/4 share of profits. Kanwar could not bring his share of goodwill premium in cash. The Goodwill of the firm was valued at Rs. 80,000 on Kanwar's admission. Record necessary journal entry for goodwill on Kanwar's admission.
Answer: Old ratio = Amar : Samar = 3 : 1
Kanwar admitted for 1/4 share of profit

Journal Entries

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
	Kanwar's Capital A/c Dr To Amar's Capital A/c To Samar's Capital A/c (Kanwar's share of goodwill charged from his		20000	 15000 5000

	capital account by Amar and Samar in their sacrificing ratio)			

New firms goodwill = Rs.80000
Kanwar' share of goodwill = 80000 x 1/4 = 20000
Kanwar's goodwill will be taken by Amar and Samar in their sacrificing ratio here.
Sacrificing ratio will be equal to the old ratio because new and sacrificing ratio is not given.
If sacrificing ratio and new ratio is not given, it is assumed that old partners sacrificed in their old ratio.

Question 37
Mohan Lal and Sohan Lal were partners in a firm sharing profits and losses in 3:2 ratio. They admitted Ram Lal for 1/4 share on 1.1.2013. It was agreed that goodwill of the firm will be valued at 3 years purchase of the average profits of last 4 years which were Rs. 50,000 for 2013, Rs. 60,000 for 2014, Rs. 90,000 for 2015 and
Rs. 70,000 for 2016. Ram Lal did not bring his share of goodwill premium in cash. Record the necessary journal entries in the books of the firm on Ram Lal's admission when:
a) Goodwill already appears in the books at Rs. 2,02,500.
b) Goodwill appears in the books at Rs. 2,500.
c) Goodwill appears in the books at Rs. 2,05,000.
Answer:

Year	Profit

2013	50000
2014	60000
2015	90000
2016	70000
Sum of 4 years of profit	270000

Average profit = 270000/4 = 67500
Goodwill = Average profit x No. of years purchase = 67500 x = 202500
Ram Lal entered into the firm for 1/4 share of profit
Ram Lal's share of goodwill = 202500 x 1/4 = 50625
Here, sacrificing ratio of Mohan Lal and Sohan Lal will be equal to old ratio because new and sacrificing ratio is not given.
Mohan Lal will get = Ramlal's share of goodwill x 3/5 = 50625 x 3/5 = 30375
Sohan Lal will get = Ramlal's share of goodwill x 1/5 = 50625 x 1/5 = 20250

Journal Entries

S. No.	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
Cas e (a)	Mohan Lal's Capital A/c Dr Sohan Lal's Capital A/c Dr To Goodwill A/c (Goodwill appeared in the old firm written off)		121500 81000	 202500

	Ramlal's Capital A/c Dr To Mohan Lal's Capital A/c To Sohan Lal's Capital A/c (Ramlal's share of goodwill charged from his account and distributed between Mohan Lal and Sohan Lal in sacrificing ratio)		50625	 30375 20250
Case (b)	Mohan Lal's Capital A/c Dr Sohan Lal's Capital A/c Dr To Goodwill A/c (Goodwill already appeared in the books of firm written off in old ratio)		1500 1000	 2500
	Ramlal's Capital A/c Dr To Mohan Lal's Capital A/c To Sohan Lal's Capital A/c (Ramlal's share of goodwill charged from his account and distributed between Mohan Lal and Sohan Lal in sacrificing ratio)		50625	 30375 20250
Case	Mohan Lal's Capital A/c Dr		123000	

(c)	Sohan Lal's Capital A/c Dr To Goodwill A/c (Goodwill already appeared in the books of firm written off in old ratio) Ramlal's Capital A/c Dr To Mohan Lal's Capital A/c To Sohan Lal's Capital A/c (Ramlal's share of goodwill charged from his account and distributed between Mohan Lal and Sohan Lal in sacrificing ratio)		82000 50625	 205000 30375 20250

Question 38

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.

Answer:

Journal Entries

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
	Hari's Capital A/c Dr To Rajesh's Capital A/c To Mukesh's Capital A/c (adjustment of Hari's share of goodwill)		8000	 2000 6000

Working Notes:

1. Goodwill of the firm = 36000

Hari's share in goodwill = Goodwill of firm x admitted partner share = 36000 x 2/9 = 8000

2. Sacrificing ratio = Old ratio – New ratio

Rajesh = 1/2 – 4/9 = 1/18

Mukesh = 1/2 – 3/9 = 3/18

Sacrificing ratio between Rajesh and Mukesh = 1 : 3

Question 39

Amar and Akbar are equal partners in a firm. They admitted Anthony as a new partner and the new profit sharing ratio is 4:3:2. Anthony could not bring this share of goodwill Rs 45,000 in cash. It is decided to do adjustment for goodwill without opening goodwill account. Pass the necessary journal entry for the treatment of goodwill?

Answer:

Journal Entries

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
	Anthony's Capital A/c Dr To Amar's Capital A/c To Akbar's Capital A/c (Adjustment of Anthony's share of goodwill)		8000	 2000 6000

Working Notes:
1. Sacrificing ratio = Old ratio – New ratio
Amar = 1/2 – 4/9 = 1/18
Akbar = 1/2 – 3/9 = 3/18
Sacrificing ratio between Amar and Akbar = 1 : 3

Question 40

Given below is the Balance Sheet of A and B, who are carrying on partnership business on 31.12.2016. A and B share profits and losses in the ratio of 2:1.

Balance Sheet of A and B as on December 31, 2016

Liabilites	Amount (Rs)	Assets	Amount (Rs)
Bills Payable	10,000	Cash in Hand	10,000
Creditors	58,000	Cash at Bank	40,000
Outstanding	2,000	Sundry Debtors	60,000

Expenses			Stock	40,000
Capitals:			Plant	1,00,000
A	1,80,000		Buildings	1,50,000
B	1,50,000	3,30,000		
		4,00,000		4,00,000

C is admitted as a partner on the date of the balance sheet on the following terms:

(i) C will bring in Rs 1,00,000 as his capital and Rs 60,000 as his share of goodwill for 1/4 share in the profits.
(ii) Plant is to be appreciated to Rs 1,20,000 and the value of buildings is to be appreciated by 10%.
(iii) Stock is found over valued by Rs 4,000.
(iv) A provision for bad and doubtful debts is to be created at 5% of debtors.
(v) Creditors were unrecorded to the extent of Rs 1,000.

Pass the necessary journal entries, prepare the revaluation account and partners' capital accounts, and show the Balance Sheet after the admission of C.

Answer:

Journal Entries

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
2006				

Dec -31	Bank A/c Dr To C's Capital A/c To Premium for Goodwill A/c (Capital and premium for goodwill brought by c for 1/4th share)		160000	 100000 60000
	Premium for Goodwill A/c Dr To A's Capital A/c To B's Capital A/c (Premium for Goodwill brought by C transferred to old partner's capital account in their sacrificing ratio 3 : 1)		60000	 40000 20000
	Plant A/c Dr Building A/c Dr To Revaluation A/c (Value of assets increased)		20000 15000	 35000
	Revaluation A/c Dr To Stock A/c To Provision for Doubtful Debts A/c To Creditors A/c		8000	 4000 3000 1000

	(Unrecorded assets and liabilities revalued)			
	Revaluation A/c Dr To A's Capital A/c To B's Capital A/c (Profit on revaluation transferred to old partners capital account)		27000	 18000 9000

Revaluation A/c			
Particular	Amount	Particular	Amount
Stock	4000	Plant	20000
provision for Doubtful Debts	3000	Building	15000
Creditors (Unrecorded)	1000		
Profit trf to:			
A's Capital A/c 18000			
B's Capital A/c 9000	27000		
	35000		35000

Partner's Capital A/c							
Particular	A	B	C	Particular	A	B	C
Balance c/d	238000	179000	100000	Balance b/d	180000	150000	

				Bank			100000
				Premium of Goodwill	40000	20000	
				Revaluation	18000	9000	
	238000	179000	100000		238000	179000	100000

Balance Sheet as on Dec 31, 2006			
Particular	Amount	Particular	Amount
Bills Payable	10000	Cash in hand	10000
Creditors	59000	Cash at bank	200000
O/s Expenses	2000	Sundry Debtors 60000	
Capital:		(-) Prov for Bad Debts 3000	57000
A 238000		Stock	36000
B 179000		Plant	120000
C 100000	517000	Building	165000
	588000		588000

Working Notes:

Sacrificing ratio = Old ratio – New ratio

A = 2/3 – 2/4 = 2/12

B = 1/3 – 1/4 = 1/12
Sacrificing ratio between A and B = 2 : 1

Question 41
Leela and Meeta were partners in a firm sharing profits and losses in the ratio of 5:3. On Is Jan. 2017 they admitted Om as a new partner. On the date of Om's admission the balance sheet of Leela and Meeta showed a balance of Rs 16,000 in general reserve and Rs 24,000 (Cr) in Profit and Loss Account. Record necessary journal entries for the treatment of these items on Om's admission. The new profit sharing ratio between Leela, Meeta and Om was 5:3:2.
Answer:

Journal Entries

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
2007 Jan-01	General Reserve A/c Dr Profit and Loss A/c Dr To Leela's Capital A/c To Meeta's Capital A/c (General reserve and balance in P/L credited to old partners capital account in their old ratio i.e. 5 : 3)		16000 24000	 25000 15000

Questions 42

Amit and Viney are partners in a firm sharing profits and losses in 3:1 ratio. On 1.1.2017 they admitted Ranjan as a partner. On Ranjan's admission the profit and loss account of Amit and Viney showed a debit balance of Rs 40,000. Record necessary journal entry for the treatment of the same.

Answer:

Journal Entries

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
2007 Jan-01	Amit's Capital A/c Dr Viney's Capital A/c Dr To Profit and Loss A/c (Debit balance in profit and loss account written off)		30000 10000	 40000

Question 43

A and B share profits in the proportions of 3/4 and 1/4. Their Balance Sheet on Dec. 31, 2016 was as follows:

Balance Sheet of A and B as on December 31, 2016

Liabilites	Amount (Rs)	Assets	Amount (Rs)

Sundry creditors	41,500	Cash at Bank	26,500
Reserve fund	4,000	Bills Receivable	3,000
Capital Accounts		Debtors	16,000
A	30,000	Stock	20,000
B	16,000	Fixtures	1,000
		Land & Building	25,000
	91,500		91,500

On Jan. 1,2017, C was admitted into partnership on the following terms:

(a) That C pays Rs 10,000 as his capital.
(b) That C pays Rs 5,000 for goodwill. Half of this sum is to be withdrawn by A and B.
(c) That stock and fixtures be reduced by 10% and a 5%, provision for doubtful debts be created on Sundry Debtors and Bills Receivable.
(d) That the value of land and buildings be appreciated by 20%.
(e) There being a claim against the firm for damages, a liability to the extent of Rs 1,000 should be created.
(f) An item of Rs 650 included in sundry creditors is not likely to be claimed and hence should be written back.

Record the above transactions (journal entries) in the books of the firm assuming that the profit sharing ratio between A and B has not changed. Prepare the new Balance Sheet on the admission of C.

Answer:

Journal Entries

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
2007 Jan-01	Bank A/c Dr		15000	
	To C's Capital A/c			10000
	To Premium for Goodwill A/c			5000
	(Capital and premium for goodwill brought by C for 1/5th share)			
	Premium for Goodwill A/c Dr		5000	
	To A's Capital A/c			3750
	To B's Capital A/c			1250
	(Premium for Goodwill brought by C transferred to old partner's capital account in their sacrificing ratio 3 : 1)			
	A's Capital A/c		1875	
	B's Capital A/c		625	
	To Bank A/c			2500

	(Half of amount withdrawn by old partners)		
	Revaluation A/c Dr To Stock A/c To Fixture A/c To Provision for Doubtful Debts on Debtor A/c To Provision for Doubtful Debts on B/R A/c To Claim for Damages A/c (Assets and liabilities are revalued)	4050	 2000 100 800 150 1000
	Land and Building A/c Dr Sundry Creditors A/c Dr To Revaluation A/c (Assets and liabilities are revalued)	5000 650	 5650
	Revaluation A/c Dr To A's Capital A/c To B's Capital A/c (Profit on revaluation transferred to old partner's capital account)	1600	 1200 400
	Reserve Fund A/c Dr To A's Capital A/c To B's Capital A/c	4000	 3000 1000

	(Reserve fund distributed among old partners)			

Balance Sheet as on Jan 1, 2007			
Particular	Amount	Particular	Amount
Sundry Creditors	40850	Cash at bank	39000
Claim for Damages	1000	Bills Receivables 3000	
Capital:		(-) Prov. For B/R 150	2850
A 36075		Debtors 16000	
B 18025		(-) Prov. 800	15200
C 10000	64100	Stock	18000
		Fixtures	900
		Land and Building	30000
	105950		105950

Working Notes:

1.

Partner's Capital A/c							
Particular	A	B	C	Particular	A	B	C
Bank	1875	625		Balance b/d	30000	16000	

Balance c/d	36075	18025	10000	Bank			10000
				Premium of Goodwill	3750	1250	
				Revaluation	1200	400	
				Reserve Fund	3000	1000	
	37950	18650	10000		37950	18650	10000

2.

Bank A/c			
Particular	Amount	Particular	Amount
Banlance b/d	26500	A's Capital A/c	1875
C's Capital A/c	10000	B's Capital A/c	625
Premium for Goodwill	5000	Balance c/d	39000
	41500		41500

3. Sacrificing ratio = Old ratio – New ratio

A = 3/4 – 3/5 = 3/20

B = 1/4 – 1/5 = 1/20

Sacrificing ratio of A & B = 3 : 1

Question 44

A and B are partners sharing profits and losses in the ratio of 3:1. On Ist Jan. 2017 they admitted C as a new partner for 1/4 share in the profits of the firm. C brings Rs 20,000 as for his 1/4 share in the profits of the firm. The capitals of A and B after all adjustments in respect of goodwill, revaluation of assets and liabilities, etc. has been worked out at Rs 50,000 for A and Rs 12,000 for B. It is agreed that partner's capitals will be according to new profit sharing ratio. Calculate the new capitals of A and B and pass the necessary journal entries assuming that A and B brought in or withdrew the necessary cash as the case may be for making their capitals in proportion to their profit sharing ratio?

Answer:

Journal Entries

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
2007 Jan-01	A's Capital A/c Dr		5000	
	To Cash A/c			5000
	(Excess capital withdrawn by A)			
	Cash A/c Dr		3000	
	To B's Capital A/c			3000
	(Capital bought in by B to make in proportion to the profit sharing)			

Working Notes:
1. Calculation of new profit sharing ratio
C's share = ¼
Remaining share = 1 – 1/4 = 3/4
A's new share = 3/4 x 3/4 = 9/16
B's new share = 1/4 x 3/4 = 3/16
C's share = 1/4 x 4/4 = 4/16
New profit sharing ratio of A, B and C = 9 : 3 : 4

2. New capital of A & B
C brings Rs.20000 for $1/4^{th}$ share of profit in the new firm
Thus, total capital of the firm on the basis of C's share = 20000 x 4/1 = 80000
A's Capital = 9/16 x 80000 = 45000
Thus, A will withdraw = 50000 – 45000 = 5000
B's Capital = 3/16 x 80000 = 15000
Thus, B will bring = 15000 – 12000 = 3000

Question 45
Pinky, Qumar and Roopa partners in a firm sharing profits and losses in the ratio of 3:2:1. S is admitted as a new partner for 1/4 share in the profits of the firm, whichs he gets 1/8 from Pinky, and 1/16 each from Qmar and Roopa. The total capital of the new firm after Seema's admission will be Rs 2,40,000. Seema is required to bring in cash equal to 1/4 of the total capital of the new firm. The capitals of the old partners also have to be adjusted in proportion of their profit sharing ratio. The capitals of Pinky, Qumar and Roopa after all adjustments in respect of goodwill and revaluation of

assets and liabilities have been made are Pinky Rs 80,000, Qumar Rs 30,000 and Roopa Rs 20,000. Calculate the capitals of all the partners and record the necessary journal entries for doing adjustments in respect of capitals according to the agreement between the partners?

Answer: Calculation of new profit sharing ratio = Old ratio – Sacrificing ratio

Pinky = 3/6 – 1/8 = 9/24

Qumar = 2/6 – 1/16 = 13/48

Roopa = 1/6 – 1/16 = 5/48

New profit sharing ratio between pinky, Qumar, Roopa and Seema = 9/24 : 13/48 : 5/48 : 1/4

= 18 : 13 : 5 : 12

Required capital of all partners in the new firm

Pinky = 240000 x 18/48 = 90000

Qumar = 240000 x 13/48 = 65000

Roopa = 240000 x 5/48 = 25000

Seema = 240000 x 12/48 = 60000

Amount to be bought by each partner in the new firm

Pinky = 90000 – 80000 = 10000

Qumar = 65000 – 30000 = 25000

Roopa = 25000 – 20000 = 5000

Seema = 60000

Journal Entries

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
	Bank A/c Dr		60000	

	To Seema's Capital A/c (Seema bring her share of capital for 1/4th share of profit)			60000
	Bank A/c Dr To Pinky's Capital A/c To Qumar's Capital A/c To Roopa's Capital A/c (Amount brought by Pinky, Qumar and Roopa to make capital equal to their proportion)		50000	 10000 35000 5000

Question 46

The following was the Balance Sheet of Arun, Bablu and Chetan sharing profits and losses in the ratio of $\frac{6}{14} : \frac{5}{14} : \frac{3}{14}$ respectively.

Liabilites		Amount (Rs)	Assets	Amount (Rs)
Creditors		9,000	Land and Buildings	24,000
Bills Payable		3,000	Furniture	3,500
Capital Accounts			Stock	14,000
Arun	19,000		Debtors	12,600

Bablu	16,000		Cash	900
Chetan	8,000	43,000		
		55,000		55,000

They agreed to take Deepak into partnership and give him a share of 1/8 on the following terms:

(a) that Deepak should bring in Rs 4,200 as goodwill and Rs 7,000 as his Capital;

(b) that furniture be depreciated by 12%;

(c) that stock be depreciated by 10% ;

(d) that a Reserve of 5% be created for doubtful debts;

(e) that the value of land and buildings having appreciated be brought upto Rs 31,000;

(f) that after making the adjustments the capital accounts of the old partners (who continue to share in the same proportion as before) be adjusted on the basis of the proportion of Deepak's Capital to his share in the business, i.e., actual cash to be paid off to, or brought in by the old partners as the case may be.

Prepare Cash Account, Profit and Loss Adjustment Account (Revaluation Account) and the Opening Balance Sheet of the new firm.

Answer:

Revaluation A/c			
Particular	Amount	Particular	Amount
Furniture	420	Land and Building	7000

Stock	1400		
Reserve for Bad debts	630		
Profit on Revaluation trf to:			
Arun's Capital A/c 1950			
Bablu's Capital A/c 1625			
Chetan's Capital A/c 975	4550		
	7000		7000

Cash A/c			
Particular	Amount	Particular	Amount
Banlance b/d	900	Arun's Capital A/c	1750
Chetan's Capital A/c	625	Bablu's Capital A/c	1625
Deepak's Capital A/c	7000	Balance c/d	9350
Premium for Goodwill	4200		
	12725		12725

Balance Sheet			
Particular	Amount	Particular	Amount
Creditors	9000	Land and Building	31000

Bills Payable	3000	Furniture	3080
Capital:		Stock	12600
Arun 21000		Debtors 12600	
Bablu 17500		(-) Reserve 630	11970
Chetan 10500		Cash	9350
Deepak 7000	56000		
	68000		68000

Working Notes:

1.

Partner's Capital A/c									
Particular	Arun	Bablu	Chetan	Deepak	Particular	Arun	Bablu	Chetan	Deepak
Bank	1750	1625			Balance b/d	19000	16000	8000	
Balance c/d	21000	17500	10500	7000	Cash				7000
					Premium of Goodwill	1800	1500	900	
					Revaluation	1950	1625	975	
					Bank			625	

	22750	19125	10500	7000		22750	19125	10500	7000

2. Calculation of new profit sharing ratio:
Deepak share = 1/8
Remaining share = 1 – 1/8 = 7/8
Arun share = 6/14 x 7/8 = 42/112
Bablu share = 5/14 x 7/8 = 35/112
Chetan share = 3/14 x 7/8 = 21/112
New ratio = 42/112 : 35/112 : 21/112 : 1/8 = 6 : 5 : 3 : 2
Calculation of capital in new firm
Deepak bring for 1/8th share = Rs.7000
Total capital = 7000 x 8/1 = 56000
Arun = 56000 x 6/16 = 21000
Bablu = 56000 x 5/16 = 17500
Chetan = 56000 x 3/16 = 10500

Question 47

Azad and Babli are partners in a firm sharing profits and losses in the ratio of 2:1. Chintan is admitted into the firm with 1/4 share in profits. Chintan will bring in Rs 30,000 as his capital and the capitals of Azad and Babli are to be adjusted in the profit sharing ratio. The Balance Sheet of Azad and Babli as on December 31, 2016 (before Chintan's admission) was as follows:

Balance Sheet of A and B as on 31.12.2016

Liabilites	Amount (Rs)	Assets	Amount (Rs)

Creditors		8,000	Cash in hand	2,000
Bills payable		4,000	Cash at bank	10,000
General reserve		6,000	Sundry debtors	8,000
Capital accounts:			Stock	10,000
Azad	50,000		Funiture	5,000
Babli	32,000	82,000	Machinery	25,000
			Buildings	40,000
		1,00,000		1,00,000

It was agreed that:
i) Chintan will bring in Rs 12,000 as his share of goodwill premium.
ii) Buildings were valued at Rs 45,000 and Machinery at Rs 23,000.
iii) A provision for doubtful debts is to be created @ 6% on debtors.
iv) The capital accounts of Azad and Babli are to be adjusted by opening current accounts.

Record necessary journal entries, show necessary ledger accounts and prepare the Balance Sheet after admission.

Answer:

Journal Entries

Date	Particulars	L.F	Debit Amount Rs.	Credit Amount Rs.

2006 Dec-31	Bank A/c Dr To Chintan's Capital A/c To Premium of Goodwill A/c (Chintan brought capital and premium of goodwill for 1/4th share of profit)		42000	 30000 12000
	Premium of Goodwill A/c Dr To Azad's Capital A/c To Babli's Capital A/c (Goodwill brought by Chintan transferred to old partners capital account in their sacrificing ratio, 2:1)		12000	 8000 4000
	General Reserve A/c Dr To Azad's Capital A/c To Babli's Capital A/c (General reserve distributed between old partners)		6000	 4000 2000
	Building A/c Dr To Revaluation A/c (Increase in value of building adjusted)		5000	 5000

	Revaluation A/c Dr To Machinery A/c To Provision for Doubtful Debts A/c (Decrease in value of machinery adjusted and prov. for doubtful debt created)		2480	 2000 480
	Revaluation A/c Dr To Azad's Capital A/c To Babli's Capital A/c (Profit on revaluation transferred to Azad and Babli's capital account)		2520	 1680 840
	Azad's Capital A/c Dr To Azad's Current A/c (Excess of capital transferred to current account)		3680	 3680
	Babli's Capital A/c Dr To Babli's Current A/c (Excess of capital transferred to current account)		8840	 8840

Revaluation A/c			
Particular	Amount	Particular	Amount
Machinery	2000	Building	5000
Prov. For Doubtful Debts	480		
Profit trf to:			
Azad's Capital A/c 1680			
Babli's Capital A/c 840	2520		
	5000		5000

Partner's Capital A/c							
Particular	Arun	Bablu	Chetan	Particular	Arun	Bablu	Chetan
Current A/c	3680	8840		Balance b/d	50000	32000	
Balance c/d	60000	30000	30000	Bank			30000
				Premium of Goodwill	8000	4000	
				General Reserve	4000	2000	
				Revaluation	1680	840	
	63680	38840	30000		63680	38840	30000

Balance Sheet			
Particular	Amount	Particular	Amount
Creditors	8000	Cash in hand	2000
Bills Payable	4000	Cash at bank	52000
Current A/c:		Sundry Debtor 8000	
Azad 3680		(-) Provision 480	7520
Babli 8840	12520	Stock	10000
Capital A/c:		Furniture	5000
Azad 60000		Machinery	23000
Babli 30000		Building	45000
Chintan 30000	120000		
	144520		144520

Working Notes:

1. Calculation of new profit sharing ratio

Chintan share = 1/4

Remaining share = 1 – 1/4 = 3/4

Azad = 2/3 x 3/4 = 6/12

Babli = 1/3 x 3/4 = 3/12

New ratio = 6/12 : 3/12 : 1/4 = 2 : 1 : 1

2. New capital of Azad and Babli

Chintan brings Rs.30000 for $1/4^{th}$ share of profit

Total capital = 30000 x 4/1 = 120000

Azad’s capital = 120000 x 2/4 = 60000
Babli’s capital = 120000 x 1/4 = 30000

Question 48

Ashish and Dutta were partners in a firm sharing profits in 3:2 ratio. On Jan. 01, 2015 they admitted Vimal for 1/5 share in the profits. The Balance Sheet of Ashish and Dutta as on Jan. 01, 2016 was as follows:

Balance Sheet of A and B as on 1.1.2016

Liabilites	Amount Rs	Assets		Amount Rs
Creditors	15,000	Land & Building		35,000
Bills Payable	10,000	Plant		45,000
Ashish Capital	80,000	Debtors	22,000	
Dutta’s Capital	35,000	*Less* : Provision	2,000	20,000
		Stock		35,000
		Cash		5,000
	1,40,000			1,40,000

It was agreed that:
i) The value of Land and Building be increased by Rs 15,000.
ii) The value of plant be increased by 10,000.
iii) Goodwill of the firm be valued at Rs 20,000.

iv) Vimal to bring in capital to the extent of 1/5th of the total capital of the new firm.

Record the necessary journal entries and prepare the Balance Sheet of the firm after Vimal's admission.

Answer:

Journal Entries

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
2007 Jan-01	Land and Building A/c Dr		15000	
	Plant A/c Dr		10000	
	To Revaluation A/c			25000
	(Increase in value of assets)			
	Revaluation A/c Dr		25000	
	To Ashish's Capital A/c			15000
	To Dutta's Capital A/c			10000
	(Profit on revaluation transferred to partner's capital account)			
	Cash A/c Dr		36000	
	To Vimal's Capital A/c			36000
	(Capital brought by Vimal)			

	Vimal's Current A/c Dr To Ashish's Capital A/c To Dutta's Capital A/c (Vimal's share of goodwill adjusted through his current account)		4000	 2400 1600

Balance Sheet as on Jan 1 2007			
Particular	Amount	Particular	Amount
Creditors	15000	Land and Building	50000
Bills Payable	10000	Plant	55000
Ashish Capital A/c	97400	Sundry Debtor 22000	
Dutta's Capital A/c	46600	(-) Provision 2000	20000
Chintan's Capital A/c	36000	Stock	35000
		Cash	41000
		Vimal's Current A/c	4000
	205000		205000

Working Notes:

1.

Partner's Capital A/c							
Particular	Ashish	Dutta	Vimal	Particular	Arun	Bablu	Chetan

Balance c/d	97400	46600	36000	Balance b/d	80000	35000	
				Revaluation	15000	10000	
				Cash			36000
				Vimal's Current A/c	2400	1600	
	97400	46600	36000		97400	46600	36000

2.

Vimal's Current A/c			
Particular	Amount	Particular	Amount
Ashish's Capital A/c	2400	Balance c/d	4000
Dutta's Capital A/c	1600		
	4000		4000

3. Calculation of new profit sharing ratio
Vimal's share = 1/5
Remaining share = 1 – 1/5 = 4/5
Ashish's share = 3/5 x 4/5 = 12/25
Dutta's share = 2/5 x 4/5 = 8/25
New ratio = 12/25 : 8/25 : 1/5 = 12 : 8 : 5

4. Sacrificing ratio = Old ratio – New ratio
Ashish = 3/5 – 12/25 = 3/25
Dutta =2/5 – 8/25 = 2/25

Sacrificing ratio = 3 : 2

5. Capital of new firm on basis of old partners adjusted capital
Total adjusted capital of old partners = Ashish + Dutta = 97400 + 46600 = 144000
Remaining share of Ashish and Dutta = 4/5
Capital of new firm = 144000 x 5/4 = 180000
Vimal’s share in new firm’s capital = 180000 x 1/5 = 36000