Chapter 2: Reconstitution of a Partnership Firm — Admission of a Partner

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Exercise 1.1 — Short & Long Answer Questions

Q1 Identify various matters that need adjustments at the time of admission of a new partner.

At the time of admission of a new partner, the following matters require adjustment: (1) New profit sharing ratio — the incoming partner acquires his share from old partners, so the ratio among all partners must be recalculated. (2) Sacrificing ratio — the ratio in which old partners give up their shares in favour of the new partner. (3) Valuation and adjustment of goodwill — the new partner compensates old partners for their share in super profits. (4) Revaluation of assets and reassessment of liabilities — assets and liabilities are brought to current values through a Revaluation Account. (5) Distribution of accumulated profits and reserves — existing general reserves and undistributed profits are distributed to old partners in their old ratio before the new partner joins. (6) Adjustment of partners' capitals — if agreed, capitals are made proportionate to the new profit sharing ratio.

Q2 Why it is necessary to ascertain new profit sharing ratio even for old partners when a new partner is admitted?

When a new partner is admitted, he acquires his share of profit from the existing (old) partners. As a result, the old partners' individual shares change — each old partner sacrifices a portion of his share in favour of the new partner. The extent of sacrifice differs based on how the new partner acquires his share (in old ratio, equally, or in a specified ratio). Therefore, the new share of each old partner must be computed by deducting their respective sacrifice from their old share. Without ascertaining the new profit sharing ratio, it would be impossible to correctly divide future profits, and the books of the firm would fail to reflect the revised rights of the partners in the reconstituted firm.

Q3 What is sacrificing ratio? Why is it calculated?

Sacrificing ratio is the ratio in which the old partners agree to sacrifice their share of profit in favour of the incoming partner. Each partner's sacrifice equals: Old Share of Profit − New Share of Profit. It is calculated because the new partner, who acquires a share in the firm's future profits, is required to compensate the old partners for the loss of their share in super profits. This compensation — called premium for goodwill — is distributed among the old partners in proportion to their sacrifice. Without the sacrificing ratio, it would not be possible to correctly credit each old partner's capital account with his fair share of the goodwill premium brought in by the new partner.

Q4 On what occasions sacrificing ratio is used?

Sacrificing ratio is used on the following occasions: (1) When a new partner brings goodwill (premium for goodwill) in cash — the amount is credited to the old partners' capital accounts in their sacrificing ratio. (2) When a new partner cannot bring his share of goodwill in cash — his Current Account is debited and the old partners' capital accounts are credited in the sacrificing ratio. (3) When goodwill is to be adjusted without opening a Goodwill Account — a direct entry debiting the new partner's Current Account and crediting the old partners' capital accounts in the sacrificing ratio is passed. In all cases, the sacrificing ratio determines how the goodwill compensation is shared among the partners who forgo their share of profit in favour of the incoming partner.

Q5 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 amount of goodwill?

When goodwill already appears in the books of the firm and the new partner also brings in his share of goodwill (premium) in cash, the existing goodwill must be written off. The existing goodwill is written off by debiting the old partners' capital accounts in their old profit sharing ratio and crediting the Goodwill Account. This is done because, as per Accounting Standard 26, self-generated (internally raised) goodwill should not be retained as an asset in the balance sheet; it must be written off in the same financial year. The new partner's goodwill premium is separately credited to the old partners' capital accounts in their sacrificing ratio. Thus, both adjustments are recorded independently — write-off in old ratio, premium credit in sacrificing ratio.

Q6 Why there is need for the revaluation of assets and liabilities on the admission of a partner?

At the time of admission, assets and liabilities shown in the books may not reflect their current market values — they could be overstated or understated. If a new partner is admitted without revaluation, he would benefit from any unrecorded appreciation or escape the burden of any unrecorded depreciation in assets that occurred before his admission, which would be unfair to the old partners. Revaluation ensures that any gain or loss in value that arose during the tenure of the old partners is shared only among them, in their old profit sharing ratio, before the new partner joins. Unrecorded assets and liabilities are also brought into the books at this stage. A Revaluation Account (Profit and Loss Adjustment Account) is prepared for this purpose, and its balance is transferred to the old partners' capital accounts.

Q7 Do you advise that assets and liabilities must be revalued at the time of admission of a partner? If so, why? Also describe how is this treated in the book of account?

Yes, it is always advisable to revalue assets and liabilities at the time of admission of a new partner. The reason is that assets recorded at historical cost may have appreciated or depreciated since they were first recorded. If revaluation is not carried out, the new partner would share in any gain or loss in asset values that arose before his admission — which would be unjust to the old partners who built up those values.

Treatment in the books of account: A Revaluation Account (also called Profit and Loss Adjustment Account) is prepared. Increases in asset values and decreases in liability values are credited to this account (as gains). Decreases in asset values and increases in liability values are debited (as losses). Unrecorded assets are credited and unrecorded liabilities are debited. If the Revaluation Account shows a credit balance (net gain), it is transferred to the old partners' capital accounts in their old profit sharing ratio by debiting the Revaluation Account and crediting each old partner's capital account. If there is a debit balance (net loss), it is transferred by debiting the old partners' capital accounts in their old ratio and crediting the Revaluation Account. After revaluation, assets and liabilities appear in the new balance sheet at their revised values.

Q8 What is goodwill? What factors affect goodwill?

Goodwill is the monetary value of the advantage a well-established business possesses in terms of its good name, reputation, and wide business connections, which enables it to earn profits in excess of the normal rate of return. It is an intangible asset and represents the present value of a firm's anticipated excess (super) earnings. A firm has goodwill only when it earns super profits; a firm earning only normal profits or running at a loss has no goodwill.

Factors affecting the value of goodwill:
1. Nature of business — firms producing high-value or stable-demand products earn more profits and have higher goodwill.
2. Location — a business centrally located or at a high-traffic site tends to have higher goodwill.
3. Efficiency of management — well-managed firms enjoy high productivity and cost efficiency, leading to higher profits and goodwill.
4. Market situation — monopoly or limited competition enables higher profits and therefore higher goodwill.
5. Special advantages — import licences, assured electricity supply, long-term supply contracts, patents, trademarks, and reputed collaborators all enhance goodwill.

Q9 Explain various methods of valuation of goodwill.

Three main methods are used for the valuation of goodwill of a partnership firm:

1. Average Profits Method: Goodwill is valued at an agreed number of years' purchase of the average profits of the past few years. Average profit = Total profits ÷ Number of years. Goodwill = Average Profit × Number of years' purchase. Where there is an increasing or decreasing trend, a Weighted Average Profits Method is used, assigning higher weights to recent years.

2. Super Profits Method: Super profit is the excess of average profits over normal profits. Normal Profit = Firm's Capital × Normal Rate of Return ÷ 100. Super Profit = Average Profit − Normal Profit. Goodwill = Super Profit × Number of years' purchase. This method is considered more rational because the buyer benefits only from super profits, not total profits.

3. Capitalisation Method: This has two variants — (a) Capitalisation of Average Profits: Capitalised value = Average Profit × 100 ÷ Normal Rate of Return; Goodwill = Capitalised value − Actual Net Assets (total assets excluding goodwill minus outside liabilities). (b) Capitalisation of Super Profits: Goodwill = Super Profit × 100 ÷ Normal Rate of Return. Both variants give the same result.

Q10 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.

When partners agree that capitals should be proportionate to the new profit sharing ratio, the new capital of each partner is worked out as follows:

Step 1 — Use the new partner's capital as the base. Since the new partner contributes capital in proportion to his share, the total capital of the reconstituted firm = New Partner's Capital ÷ New Partner's Share.

Step 2 — Calculate the required capital of each old partner as: (Partner's New Share ÷ 1) × Total Capital of the firm.

Step 3 — Compare the required capital with the adjusted capital (after goodwill, reserves, and revaluation adjustments). A partner whose actual capital is less than the required capital brings in the shortfall in cash; a partner with surplus capital withdraws the excess. Alternatively, surpluses or deficiencies may be transferred to the partners' current accounts.

Example: A and B share profits 2:1; C is admitted for 1/4 share. New ratio is 2:1:1. C brings Rs. 20,000. Total capital = Rs. 20,000 × 4 = Rs. 80,000. Required capitals: A = 2/4 × 80,000 = Rs. 40,000; B = 1/4 × 80,000 = Rs. 20,000; C = Rs. 20,000. If A's adjusted capital is Rs. 45,000, he withdraws Rs. 5,000; if B's adjusted capital is Rs. 15,000, he brings in Rs. 5,000.

Q11 Explain how will you deal with goodwill when new partner is not in a position to bring his share of goodwill in cash.

When the new partner cannot bring his share of goodwill in cash, the adjustment is made through the partners' accounts without any cash inflow for goodwill. Two situations arise:

(a) Goodwill does not exist in the books: The new partner's Current Account is debited with his share of goodwill and the sacrificing partners' capital accounts are credited in their sacrificing ratio. This ensures the old partners are compensated for the share they surrender, while the new partner carries a debit in his current account representing his obligation.

(b) Goodwill exists in the books: First, the existing goodwill is written off by debiting the old partners' capital accounts in their old profit sharing ratio and crediting the Goodwill Account. Then, the new value of goodwill is recorded by debiting the new partner's Current Account and crediting the sacrificing partners' capital accounts in their sacrificing ratio.

If the new partner brings only part of his goodwill in cash, the Bank Account is debited and Premium for Goodwill Account is credited for the amount brought; the new partner's Current Account is debited for the balance not brought; both are then credited to the old partners' capital accounts in the sacrificing ratio.

Q12 Explain various methods for the treatment of goodwill on the admission of a new partner?

The treatment of goodwill on admission of a new partner depends on whether he brings the goodwill amount in cash and whether goodwill already exists in the books:

1. New partner brings goodwill in cash (no existing goodwill in books): Bank Account is debited; Premium for Goodwill Account is credited. The premium is then distributed to old partners' capital accounts in the sacrificing ratio by debiting Premium for Goodwill Account. If partners retain the amount, no further entry; if they withdraw, their capital accounts are debited and Bank Account credited.

2. New partner brings goodwill in cash (goodwill exists in books): In addition to the above entries, the existing goodwill is written off by debiting old partners' capital accounts in old ratio and crediting Goodwill Account.

3. New partner does not bring goodwill in cash (no existing goodwill): New partner's Current Account is debited; sacrificing partners' capital accounts are credited in sacrificing ratio.

4. New partner does not bring goodwill in cash (goodwill exists in books): Existing goodwill is written off first (debit old partners in old ratio, credit Goodwill Account), then new partner's Current Account is debited and old partners' capital accounts credited in sacrificing ratio.

5. New partner brings goodwill only partly in cash: Bank Account and the new partner's Current Account are debited for cash and balance respectively; old partners' capital accounts are credited in total (sacrificing ratio).

In all cases, as per AS 26, goodwill raised in books should be written off and not retained as an asset.

Q13 How will you deal with the accumulated profits and losses and reserves on the admission of a new partner?

Accumulated profits, reserves, and losses existing on the date of admission of a new partner belong entirely to the old partners, because they were earned during their tenure before the new partner joined. The new partner has no right to share in them.

Treatment:

(a) Accumulated profits and reserves (e.g., General Reserve, Profit and Loss Account credit balance, Reserve Fund): These are transferred to the old partners' capital accounts (or current accounts) in their old profit sharing ratio by debiting the respective reserve/profit account and crediting each old partner's capital account. Journal entry: General Reserve A/c Dr. / To Old Partners' Capital A/cs (in old ratio).

(b) Accumulated losses (e.g., debit balance in Profit and Loss Account, deferred revenue expenditure): These are charged to the old partners by debiting their capital accounts in the old profit sharing ratio and crediting the Profit and Loss Account (or the relevant account). Journal entry: Old Partners' Capital A/cs Dr. (in old ratio) / To Profit and Loss A/c.

After these adjustments, the opening balance sheet of the reconstituted firm will not show any undistributed profits or accumulated losses, as these have been fully absorbed by the old partners.

Q14 At what figures the value of assets and liabilities appear in the books of the firm after revaluation has been due. Show with the help of an imaginary balance sheet.

After revaluation, assets appear in the books at their revised (revalued) values — increased assets at the higher value, decreased assets at the lower value, and previously unrecorded assets at their agreed value. Similarly, liabilities appear at their reassessed amounts. The Revaluation Account captures all changes: gains (asset increases and liability decreases) on the credit side, losses (asset decreases and liability increases) on the debit side. The net gain or loss is transferred to the old partners' capital accounts in their old ratio.

Illustrative Balance Sheet of a Reconstituted Firm (after admission of C):

Liabilities side — Sundry Creditors: Rs. 21,000 (revised, unrecorded creditors added); Outstanding Electricity: Rs. 200 (newly provided); Capitals — A: Rs. 33,480; B: Rs. 22,320; C: Rs. 15,000. Total: Rs. 92,000.

Assets side — Cash: Rs. 38,000 (including C's contribution); Debtors: Rs. 12,000 less Provision Rs. 600 = Rs. 11,400; Stock: Rs. 13,500 (reduced by 10%); Furniture: Rs. 9,000 (revalued); Plant and Machinery: Rs. 33,000 (appreciated by 10%); Investment: Rs. 1,000 (previously unrecorded). Total: Rs. 92,000.

In summary, each asset and liability in the post-admission balance sheet reflects its current market/revalued figure, not the original historical cost.

Exercise 1.2 — Numerical Questions

Q1 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.

SOLUTION

Given: Old ratio of A : B = 3 : 2. C's share = 1/6.

Step 1 — Find the remaining share for A and B after C's admission.
Remaining share = 1 − C's share = 1 − 1/6 = 5/6

Step 2 — Divide the remaining share between A and B in their old ratio 3:2.
A's new share = (3/5) × (5/6) = 15/30 = 1/2
B's new share = (2/5) × (5/6) = 10/30 = 1/3
C's share = 1/6

Step 3 — Express all shares over a common denominator of 6.
A = 1/2 = 3/6
B = 1/3 = 2/6
C = 1/6

Verification: 3/6 + 2/6 + 1/6 = 6/6 = 1 ✓

New Profit Sharing Ratio of A : B : C = 3 : 2 : 1

Q2 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.

SOLUTION

Given: Old ratio of A : B : C = 3 : 2 : 1. D's share = 10% = 1/10.

Step 1 — Find the remaining share for A, B and C after D's admission.
Remaining share = 1 − 1/10 = 9/10

Step 2 — Divide the remaining share among A, B and C in their old ratio 3:2:1.
Total parts = 3 + 2 + 1 = 6
A's new share = (3/6) × (9/10) = 27/60 = 9/20
B's new share = (2/6) × (9/10) = 18/60 = 3/10 = 6/20
C's new share = (1/6) × (9/10) = 9/60 = 3/20
D's share = 1/10 = 2/20

Step 3 — Express over common denominator 20.

A = 9/20, B = 6/20, C = 3/20, D = 2/20

Verification: 9 + 6 + 3 + 2 = 20 ✓

New Profit Sharing Ratio of A : B : C : D = 9 : 6 : 3 : 2

Q3 X and Y are partners sharing profits in 5:3 ratio. They admitted Z for 1/10 share which he acquired equally from X and Y. Calculate new profit sharing ratio.

SOLUTION

Given: Old ratio of X : Y = 5 : 3. Z's share = 1/10, acquired equally (1/20 each) from X and Y.

Step 1 — Z acquires 1/10 equally, so each of X and Y gives up 1/20.
From X = 1/20; From Y = 1/20

Step 2 — Calculate new shares.
X's old share = 5/8
X's new share = 5/8 − 1/20
Common denominator = 40: 5/8 = 25/40, 1/20 = 2/40
X's new share = 25/40 − 2/40 = 23/40

Y's old share = 3/8
Y's new share = 3/8 − 1/20
3/8 = 15/40
Y's new share = 15/40 − 2/40 = 13/40

Z's share = 1/10 = 4/40

Verification: 23 + 13 + 4 = 40 ✓

New Profit Sharing Ratio of X : Y : Z = 23 : 13 : 4

Q4 A, B and C are partners sharing profits in 2:2:1 ratio. They admitted D for 1/8 share which he acquired entirely from A. Calculate new profit sharing ratio.

SOLUTION

Given: Old ratio of A : B : C = 2 : 2 : 1. D's share = 1/8, acquired entirely from A.

Step 1 — A sacrifices 1/8 of the total profit in favour of D.
A's old share = 2/5
A's new share = 2/5 − 1/8
Common denominator = 40: 2/5 = 16/40, 1/8 = 5/40

A's new share = 16/40 − 5/40 = 11/40

B and C are unaffected.
B's share = 2/5 = 16/40
C's share = 1/5 = 8/40
D's share = 1/8 = 5/40

Verification: 11 + 16 + 8 + 5 = 40 ✓

New Profit Sharing Ratio of A : B : C : D = 11 : 16 : 8 : 5

Q5 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.

SOLUTION

Given: Old ratio of P : Q = 2 : 1. R's share = 1/5, acquired from P and Q in ratio 1:2.

Step 1 — Find how much P and Q each sacrifice.
Total sacrifice = 1/5
Sacrifice ratio of P : Q = 1 : 2
P's sacrifice = (1/3) × (1/5) = 1/15
Q's sacrifice = (2/3) × (1/5) = 2/15

Step 2 — Calculate new shares.
P's old share = 2/3
P's new share = 2/3 − 1/15 = 10/15 − 1/15 = 9/15 = 3/5

Q's old share = 1/3
Q's new share = 1/3 − 2/15 = 5/15 − 2/15 = 3/15 = 1/5

R's share = 1/5

Step 3 — Express over common denominator 5.
P = 3/5, Q = 1/5, R = 1/5

Verification: 3 + 1 + 1 = 5 ✓

New Profit Sharing Ratio of P : Q : R = 3 : 1 : 1

Q6 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.

SOLUTION

Given: Old ratio of A : B : C = 3 : 2 : 2. D's share = 1/5, acquired from A, B and C in ratio 2:2:1.

Step 1 — Find individual sacrifices.
Total sacrifice = 1/5
Total parts in sacrifice ratio = 2 + 2 + 1 = 5
A's sacrifice = (2/5) × (1/5) = 2/25
B's sacrifice = (2/5) × (1/5) = 2/25
C's sacrifice = (1/5) × (1/5) = 1/25

Step 2 — Calculate new shares.
A's old share = 3/7
A's new share = 3/7 − 2/25
Common denominator = 175: 3/7 = 75/175, 2/25 = 14/175
A's new share = 75/175 − 14/175 = 61/175

B's old share = 2/7
B's new share = 2/7 − 2/25
2/7 = 50/175
B's new share = 50/175 − 14/175 = 36/175

C's old share = 2/7
C's new share = 2/7 − 1/25
1/25 = 7/175
C's new share = 50/175 − 7/175 = 43/175

D's share = 1/5 = 35/175

Verification: 61 + 36 + 43 + 35 = 175 ✓

New Profit Sharing Ratio of A : B : C : D = 61 : 36 : 43 : 35

Q7 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.

SOLUTION

Given: Old ratio of A : B = 3 : 2. C's total share = 3/7; he takes 2/7 from A and 1/7 from B.

Step 1 — Calculate new shares.
A's old share = 3/5
A's new share = 3/5 − 2/7
Common denominator = 35: 3/5 = 21/35, 2/7 = 10/35
A's new share = 21/35 − 10/35 = 11/35

B's old share = 2/5
B's new share = 2/5 − 1/7
2/5 = 14/35
B's new share = 14/35 − 5/35 = 9/35

C's share = 3/7 = 15/35

Verification: 11 + 9 + 15 = 35 ✓

New Profit Sharing Ratio of A : B : C = 11 : 9 : 15

Q8 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.

SOLUTION

Given: Old ratio of A : B : C = 3 : 3 : 2. D's share = 4/7; taken 2/7 from A, 1/7 from B, 1/7 from C.

Step 1 — Calculate new shares.
A's old share = 3/8
A's new share = 3/8 − 2/7
Common denominator = 56: 3/8 = 21/56, 2/7 = 16/56
A's new share = 21/56 − 16/56 = 5/56

B's old share = 3/8
B's new share = 3/8 − 1/7
3/8 = 21/56, 1/7 = 8/56

B's new share = 21/56 − 8/56 = 13/56

C's old share = 2/8 = 1/4
C's new share = 1/4 − 1/7
1/4 = 14/56
C's new share = 14/56 − 8/56 = 6/56

D's share = 4/7 = 32/56

Verification: 5 + 13 + 6 + 32 = 56 ✓

New Profit Sharing Ratio of A : B : C : D = 5 : 13 : 6 : 32

Q9 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.

SOLUTION

Given: Old ratio of Radha : Rukmani = 3 : 2.
Radha surrenders 1/3 of her share; Rukmani surrenders 1/4 of her share — both in favour of Gopi.

Step 1 — Find each partner's sacrifice.
Radha's old share = 3/5
Radha's sacrifice = (1/3) × (3/5) = 3/15 = 1/5

Rukmani's old share = 2/5
Rukmani's sacrifice = (1/4) × (2/5) = 2/20 = 1/10

Step 2 — Calculate new shares.
Radha's new share = 3/5 − 1/5 = 2/5
Rukmani's new share = 2/5 − 1/10 = 4/10 − 1/10 = 3/10
Gopi's share = 1/5 + 1/10 = 2/10 + 1/10 = 3/10

Step 3 — Express over common denominator 10.
Radha = 2/5 = 4/10
Rukmani = 3/10
Gopi = 3/10

Verification: 4 + 3 + 3 = 10 ✓

New Profit Sharing Ratio of Radha : Rukmani : Gopi = 4 : 3 : 3

Q10 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.

SOLUTION

Given: Old ratio of Singh : Gupta : Khan = 3 : 2 : 3.
Singh surrenders 1/3 of his share; Gupta surrenders 1/4; Khan surrenders 1/5 — all in favour of Jain.

Step 1 — Find each partner's sacrifice.
Singh's old share = 3/8
Singh's sacrifice = (1/3) × (3/8) = 3/24 = 1/8

Gupta's old share = 2/8 = 1/4
Gupta's sacrifice = (1/4) × (1/4) = 1/16

Khan's old share = 3/8
Khan's sacrifice = (1/5) × (3/8) = 3/40

Step 2 — Calculate new shares.
Singh's new share = 3/8 − 1/8 = 2/8 = 1/4

Gupta's new share = 1/4 − 1/16 = 4/16 − 1/16 = 3/16

Khan's new share = 3/8 − 3/40
Common denominator = 40: 3/8 = 15/40
Khan's new share = 15/40 − 3/40 = 12/40 = 3/10

Jain's share = 1/8 + 1/16 + 3/40
Common denominator = 80: 1/8 = 10/80, 1/16 = 5/80, 3/40 = 6/80
Jain's share = 10/80 + 5/80 + 6/80 = 21/80

Step 3 — Express over common denominator 80.
Singh = 1/4 = 20/80
Gupta = 3/16 = 15/80
Khan = 3/10 = 24/80
Jain = 21/80

Verification: 20 + 15 + 24 + 21 = 80 ✓

New Profit Sharing Ratio of Singh : Gupta : Khan : Jain = 20 : 15 : 24 : 21

Q11 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.

SOLUTION

Given: Old ratio (Sandeep : Navdeep) = 5:3. New ratio (Sandeep : Navdeep : C) = 4:2:1.

Step 1: Express old and new ratios as fractions (total 8 and 7 parts respectively).
Sandeep's old share = 5/8; Navdeep's old share = 3/8.
Sandeep's new share = 4/7; Navdeep's new share = 2/7.

Step 2: Sacrificing ratio = Old share - New share.
Sandeep's sacrifice = 5/8 - 4/7 = 35/56 - 32/56 = 3/56.
Navdeep's sacrifice = 3/8 - 2/7 = 21/56 - 16/56 = 5/56.

Step 3: Sacrificing ratio = 3/56 : 5/56 = 3:5.

VERIFICATION (Python): Sandeep = 5/8 - 4/7 = 3/56; Navdeep = 3/8 - 2/7 = 5/56. Ratio = 3:5. Matches textbook hint.

Q12 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.

SOLUTION

Given: Old ratio (Rao : Swami) = 3:2. Ravi's share = 1/8. New ratio Rao : Swami = 4:3 (between themselves).

Step 1: Find Rao and Swami's combined share after Ravi's admission.
Ravi gets 1/8, so remaining share = 1 - 1/8 = 7/8.

Step 2: Divide 7/8 in ratio 4:3.
Rao's new share = 4/7 × 7/8 = 4/8 = 1/2.
Swami's new share = 3/7 × 7/8 = 3/8.
Ravi's share = 1/8.

New profit sharing ratio: Rao : Swami : Ravi = 4/8 : 3/8 : 1/8 = 4:3:1.

Step 3: Sacrificing ratio = Old share - New share.
Rao's sacrifice = 3/5 - 4/8 = 24/40 - 20/40 = 4/40 = 1/10.
Swami's sacrifice = 2/5 - 3/8 = 16/40 - 15/40 = 1/40.

Sacrificing ratio = 1/10 : 1/40 = 4:1.

VERIFICATION: Rao = 3/5 - 1/2 = 1/10; Swami = 2/5 - 3/8 = 1/40. Ratio = 4:1. Matches textbook hint.

Q13 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:
2015: Rs. 40,000; 2016: Rs. 50,000; 2017: Rs. 60,000; 2018: Rs. 50,000; 2019: Rs. 60,000.

SOLUTION

Given: Profits for five years — 2015: Rs. 40,000; 2016: Rs. 50,000; 2017: Rs. 60,000; 2018: Rs. 50,000; 2019: Rs. 60,000.
Number of years' purchase = 4.

Step 1: Calculate total profits.
Total = 40,000 + 50,000 + 60,000 + 50,000 + 60,000 = Rs. 2,60,000.

Step 2: Calculate average profit.
Average profit = Total profits / Number of years = 2,60,000 / 5 = Rs. 52,000.

Step 3: Calculate goodwill.
Goodwill = Average profit × Number of years' purchase = 52,000 × 4 = Rs. 2,08,000.

VERIFICATION: 52,000 × 4 = 2,08,000. Matches textbook hint Rs. 2,08,000.

Q14 Firm's Capital in a business is Rs. 2,00,000. The normal rate of return on firm's capital 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.

SOLUTION

Given: Firm's Capital = Rs. 2,00,000; Normal rate of return = 15%; Actual profit = Rs. 48,000; Years' purchase = 3.

Step 1: Calculate normal profit.
Normal Profit = Capital × Normal rate = 2,00,000 × 15/100 = Rs. 30,000.

Step 2: Calculate super profit.
Super Profit = Actual Profit - Normal Profit = 48,000 - 30,000 = Rs. 18,000.

Step 3: Calculate goodwill.
Goodwill = Super Profit × Years' purchase = 18,000 × 3 = Rs. 54,000.

VERIFICATION: Normal profit = 2,00,000 × 0.15 = 30,000; Super profit = 48,000 - 30,000 = 18,000; Goodwill = 18,000 × 3 = 54,000. Matches textbook hint Rs. 54,000.

Q15 The books of Ram and Bharat showed that the firm's capital 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%.

SOLUTION

Given: Firm's Capital = Rs. 5,00,000; Normal rate = 10%; Years' purchase = 3.
Profits: 2011 = Rs. 85,000; 2012 = Rs. 70,000; 2013 = Rs. 55,000; 2014 = Rs. 50,000; 2015 = Rs. 40,000.

Step 1: Calculate average profit.
Total profits = 85,000 + 70,000 + 55,000 + 50,000 + 40,000 = Rs. 3,00,000.
Average profit = 3,00,000 / 5 = Rs. 60,000.

Step 2: Calculate normal profit.
Normal Profit = 5,00,000 × 10/100 = Rs. 50,000.

Step 3: Calculate average super profit.
Average Super Profit = Average Profit - Normal Profit = 60,000 - 50,000 = Rs. 10,000.

Step 4: Calculate goodwill.
Goodwill = Average Super Profit × Years' purchase = 10,000 × 3 = Rs. 30,000.

VERIFICATION: Total = 3,00,000; Avg = 60,000; Normal = 50,000; Super = 10,000; Goodwill = 30,000. Matches textbook hint Rs. 30,000.

Q16 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 by capitalisation method assuming that the normal rate of return is 20%.

SOLUTION

Given: Rajan's Capital = Rs. 3,00,000; Rajani's Capital = Rs. 2,00,000; Profit = Rs. 1,50,000; Normal rate = 20%.

Step 1: Calculate actual capital employed.
Capital Employed = Rajan's Capital + Rajani's Capital = 3,00,000 + 2,00,000 = Rs. 5,00,000.

Step 2: Calculate capitalised value of the firm (based on actual profits).
Capitalised Value = Actual Profit / Normal Rate × 100 = 1,50,000 / 20 × 100 = Rs. 7,50,000.

Step 3: Calculate goodwill.
Goodwill = Capitalised Value - Capital Employed = 7,50,000 - 5,00,000 = Rs. 2,50,000.

VERIFICATION: Capitalised value = 1,50,000 / 0.20 = 7,50,000; Goodwill = 7,50,000 - 5,00,000 = 2,50,000. Matches textbook hint Rs. 2,50,000.

Q17 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%.

SOLUTION

Given: Average Profit = Rs. 1,00,000; Assets = Rs. 10,00,000; External Liabilities = Rs. 1,80,000; Normal rate = 10%.

This question uses the Capitalisation of Super Profit method.

Step 1: Calculate capital employed (Net Assets).
Capital Employed = Assets - External Liabilities = 10,00,000 - 1,80,000 = Rs. 8,20,000.

Step 2: Calculate normal profit.
Normal Profit = Capital Employed × Normal Rate = 8,20,000 × 10/100 = Rs. 82,000.

Step 3: Calculate super profit.
Super Profit = Average Profit - Normal Profit = 1,00,000 - 82,000 = Rs. 18,000.

Step 4: Capitalise super profit.
Goodwill = Super Profit / Normal Rate × 100 = 18,000 / 10 × 100 = Rs. 1,80,000.

VERIFICATION: Capital = 8,20,000; Normal profit = 82,000; Super profit = 18,000; Goodwill = 18,000/0.10 = 1,80,000. Matches textbook hint Rs. 1,80,000.

Q18 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.

SOLUTION

Given: Old ratio Verma : Sharma = 5:3. Ghosh's share = 1/5.
Ghosh's capital contribution = Rs. 20,000; Goodwill premium = Rs. 4,000.
Sacrificing ratio (old partners sacrifice in old ratio 5:3) = 5:3.

Distribution of goodwill premium:
Verma's share = 5/8 × 4,000 = Rs. 2,500.
Sharma's share = 3/8 × 4,000 = Rs. 1,500.

VERIFICATION: 2,500 + 1,500 = 4,000. Correct.

--- (a) Goodwill retained in business ---

Journal Entries:

Dr. Particulars	Rs.	Cr. Particulars	Rs.
Cash/Bank A/c Dr	24,000	Ghosh's Capital A/c	20,000
		Premium for Goodwill A/c	4,000
(Being capital and goodwill brought in by Ghosh)			
Premium for Goodwill A/c Dr	4,000	Verma's Capital A/c	2,500

Dr. Particulars	Rs.	Cr. Particulars	Rs.
		Sharma's Capital A/c	1,500
(Being premium distributed among old partners in sacrificing ratio 5:3)			

--- (b) Goodwill fully withdrawn by old partners ---

Dr. Particulars	Rs.	Cr. Particulars	Rs.
Cash/Bank A/c Dr	24,000	Ghosh's Capital A/c	20,000
		Premium for Goodwill A/c	4,000
(Being capital and goodwill brought in)			
Premium for Goodwill A/c Dr	4,000	Verma's Capital A/c	2,500
		Sharma's Capital A/c	1,500
(Being premium transferred to old partners' capitals)			
Verma's Capital A/c Dr	2,500	Cash/Bank A/c	4,000
Sharma's Capital A/c Dr	1,500		
(Being goodwill amount fully withdrawn by old partners)			

--- (c) 50% of goodwill withdrawn ---

Dr. Particulars	Rs.	Cr. Particulars	Rs.
Cash/Bank A/c Dr	24,000	Ghosh's Capital A/c	20,000
		Premium for Goodwill A/c	4,000

Dr. Particulars	Rs.	Cr. Particulars	Rs.
(Being capital and goodwill brought in)			
Premium for Goodwill A/c Dr	4,000	Verma's Capital A/c	2,500
		Sharma's Capital A/c	1,500
(Being premium transferred to old partners' capitals)			
Verma's Capital A/c Dr	1,250	Cash/Bank A/c	2,000
Sharma's Capital A/c Dr	750		
(Being 50% of goodwill withdrawn: Verma 1,250; Sharma 750)			

--- (d) Goodwill paid privately (not through firm's books) ---

Dr. Particulars	Rs.	Cr. Particulars	Rs.
Cash/Bank A/c Dr	20,000	Ghosh's Capital A/c	20,000
(Being only capital brought in; goodwill paid privately — no entry in firm's books)			

Note: When goodwill is paid privately, Ghosh pays Rs. 4,000 directly to Verma (Rs. 2,500) and Sharma (Rs. 1,500) outside the firm. No journal entry is required in the firm's books for this goodwill amount.

Q19 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.

SOLUTION

Given: Old ratio A:B = 3:2. C's share = 1/4. Goodwill of firm = Rs. 20,000.
New ratio A:B:C = 2:1:1. C brings Rs. 30,000 capital + goodwill premium.

Step 1: Calculate C's share of goodwill premium.
C's share of goodwill = 1/4 × 20,000 = Rs. 5,000.

Step 2: Calculate sacrificing ratio.
A's old share = 3/5; A's new share = 2/4 = 1/2.
B's old share = 2/5; B's new share = 1/4.

A's sacrifice = 3/5 - 1/2 = 6/10 - 5/10 = 1/10.
B's sacrifice = 2/5 - 1/4 = 8/20 - 5/20 = 3/20.

Sacrificing ratio = 1/10 : 3/20 = 2/20 : 3/20 = 2:3.

VERIFICATION: A sacrifice = 1/10 = 2/20; B sacrifice = 3/20. Ratio = 2:3. Correct.

Step 3: Distribute goodwill premium in sacrificing ratio 2:3.
A's share = 2/5 × 5,000 = Rs. 2,000.
B's share = 3/5 × 5,000 = Rs. 3,000.

VERIFICATION: 2,000 + 3,000 = 5,000. Correct.

Journal Entries:

Dr. Particulars	Rs.	Cr. Particulars	Rs.
Cash/Bank A/c Dr	35,000	C's Capital A/c	30,000
		Premium for Goodwill A/c	5,000
(Being capital Rs. 30,000 and goodwill premium Rs. 5,000 brought in by C)			
Premium for Goodwill A/c Dr	5,000	A's Capital A/c	2,000
		B's Capital A/c	3,000
(Being goodwill distributed in sacrificing ratio 2:3)			
A's Capital A/c Dr	2,000	Cash/Bank A/c	5,000
B's Capital A/c Dr	3,000		
(Being goodwill amount withdrawn by A and B)			

Q20 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.

SOLUTION

Given: Old ratio Arti:Bharti = 3:2. Sarthi admitted for 1/4 share.
Sarthi brings capital Rs. 50,000 + goodwill premium Rs. 10,000.
Existing goodwill in books = Rs. 5,000 (must be written off in old ratio).
New ratio: Arti:Bharti:Sarthi = 2:1:1.

Step 1: Write off existing goodwill in old ratio 3:2.
Arti's share = 3/5 × 5,000 = Rs. 3,000 (debit).
Bharti's share = 2/5 × 5,000 = Rs. 2,000 (debit).

Step 2: Calculate sacrificing ratio.
Arti's old share = 3/5; Arti's new share = 2/4 = 1/2.
Bharti's old share = 2/5; Bharti's new share = 1/4.

Arti's sacrifice = 3/5 - 1/2 = 6/10 - 5/10 = 1/10.
Bharti's sacrifice = 2/5 - 1/4 = 8/20 - 5/20 = 3/20.

Sacrificing ratio = 1/10 : 3/20 = 2:3.

VERIFICATION: Arti = 1/10 = 2/20; Bharti = 3/20. Ratio = 2:3. Correct.

Step 3: Distribute Sarthi's goodwill premium Rs. 10,000 in sacrificing ratio 2:3.
Arti gets = 2/5 × 10,000 = Rs. 4,000.
Bharti gets = 3/5 × 10,000 = Rs. 6,000.

VERIFICATION: 4,000 + 6,000 = 10,000. Correct.

Journal Entries:

Dr. Particulars	Rs.	Cr. Particulars	Rs.
Arti's Capital A/c Dr	3,000	Goodwill A/c	5,000
Bharti's Capital A/c Dr	2,000		
(Being existing goodwill written off in old profit sharing ratio 3:2)			

Dr. Particulars	Rs.	Cr. Particulars	Rs.
Cash/Bank A/c Dr	60,000	Sarthi's Capital A/c	50,000
		Premium for Goodwill A/c	10,000
(Being capital Rs. 50,000 and goodwill premium Rs. 10,000 brought in by Sarthi)			
Premium for Goodwill A/c Dr	10,000	Arti's Capital A/c	4,000
		Bharti's Capital A/c	6,000
(Being goodwill premium distributed in sacrificing ratio 2:3)			

Q21 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. Goodwill already appears in the books at Rs. 40,000. Show necessary journal entries in the books of X, Y and Z?

SOLUTION

Working Notes:

1. New Profit Sharing Ratio:
   Old ratio X:Y = 4:3. Z gets 1/8; X and Y sacrifice in old ratio 4:3.
   X new = 4/7 × 7/8 = 4/8 = 1/2; Y new = 3/7 × 7/8 = 3/8; Z = 1/8
   New ratio X:Y:Z = 4:3:1 (multiply through by 8 to get 4:3:1).

2. Sacrificing Ratio:
   X sacrifices = 4/7 - 4/8 = 32/56 - 28/56 = 4/56; Y sacrifices = 3/7 - 3/8 = 24/56 - 21/56 = 3/56
   Sacrificing ratio X:Y = 4:3.

3. Treatment of Goodwill:
   Step A — Write off existing goodwill (Rs. 40,000) in old ratio 4:3:
   X's share = 4/7 × 40,000 = Rs. 22,857; Y's share = 3/7 × 40,000 = Rs. 17,143.
   Step B — Distribute Z's premium (Rs. 7,000) to X and Y in sacrificing ratio 4:3:

X gets = 4/7 × 7,000 = Rs. 4,000; Y gets = 3/7 × 7,000 = Rs. 3,000.

Journal Entries in the books of X, Y and Z:

Entry No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c Dr.	27,000	
	To Z's Capital A/c		20,000
	To Premium for Goodwill A/c		7,000
	(Z brings capital and goodwill premium in cash)		
2	Premium for Goodwill A/c Dr.	7,000	
	To X's Capital A/c		4,000
	To Y's Capital A/c		3,000
	(Goodwill premium distributed in sacrificing ratio 4:3)		
3	X's Capital A/c Dr.	22,857	
	Y's Capital A/c Dr.	17,143	
	To Goodwill A/c		40,000
	(Existing goodwill written off in old ratio 4:3)		

Q22 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.

SOLUTION

Working Notes:

1. Sacrificing Ratio:

Old ratio Aditya:Balan = 3:2. New ratio = 2:1:1 (total 4 parts).

Aditya sacrifice = 3/5 - 2/4 = 12/20 - 10/20 = 2/20 = 1/10

Balan sacrifice = 2/5 - 1/4 = 8/20 - 5/20 = 3/20

Sacrificing ratio Aditya:Balan = (1/10):(3/20) = 2:3.

2. Distribution of Goodwill (Rs. 15,000) in sacrificing ratio 2:3:
   Aditya gets = 2/5 × 15,000 = Rs. 6,000
   Balan gets = 3/5 × 15,000 = Rs. 9,000

3. Christopher's Goodwill Deficit:
   Agreed goodwill Rs. 15,000; brought Rs. 10,000; deficit = Rs. 5,000.
   Deficit debited to Christopher's Capital A/c.

Journal Entries:

Entry No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c Dr.	60,000	
	To Christopher's Capital A/c		50,000
	To Premium for Goodwill A/c		10,000
	(Christopher brings capital and partial goodwill)		

2	Christopher's Capital A/c Dr.	5,000	
	To Premium for Goodwill A/c		5,000
	(Deficit goodwill Rs. 5,000 adjusted from Christopher's capital)		

3	Premium for Goodwill A/c Dr.	15,000	
	To Aditya's Capital A/c		6,000
	To Balan's Capital A/c		9,000
	(Total premium Rs. 15,000 distributed in sacrificing ratio 2:3)		

Q23 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.

SOLUTION

Working Notes:

Kanwar's share of goodwill = 1/4 × Rs. 80,000 = Rs. 20,000.
Since Kanwar cannot bring goodwill in cash, his Capital A/c is debited and old partners
are credited in their sacrificing ratio = old ratio = Amar:Samar = 3:1.

Amar gets = 3/4 × 20,000 = Rs. 15,000
Samar gets = 1/4 × 20,000 = Rs. 5,000

Journal Entry:

Particulars		Dr. (Rs.)	Cr. (Rs.)
Kanwar's Capital A/c	Dr.	20,000	
To Amar's Capital A/c			15,000
To Samar's Capital A/c			5,000

(Kanwar's share of goodwill Rs. 20,000 adjusted, distributed in sacrificing ratio 3:1)

Q24 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.

SOLUTION

Working Notes:

1. Valuation of Goodwill:
   Total profits = 50,000 + 60,000 + 90,000 + 70,000 = Rs. 2,70,000
   Average profit = 2,70,000 / 4 = Rs. 67,500
   Goodwill = 3 × Rs. 67,500 = Rs. 2,02,500

2. Ram Lal's share of goodwill = 1/4 × Rs. 2,02,500 = Rs. 50,625
   (Since he cannot bring goodwill in cash, his Capital A/c is debited.)

3. Distribution of goodwill to Mohan Lal and Sohan Lal in sacrificing ratio = old ratio 3:2:
   Mohan Lal gets = 3/5 × 50,625 = Rs. 30,375
   Sohan Lal gets = 2/5 × 50,625 = Rs. 20,250

Note on existing goodwill: Existing goodwill in books is first written off in old ratio 3:2
before recording Ram Lal's goodwill adjustment.

(a) When existing goodwill = Rs. 2,02,500 (equal to firm goodwill):

Entry No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1	Mohan Lal's Capital A/c	Dr.	1,21,500	
	Sohan Lal's Capital A/c	Dr.	81,000	

Entry No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
	To Goodwill A/c		2,02,500
	(Existing goodwill written off in old ratio 3:2)		

2	Ram Lal's Capital A/c Dr.	50,625	
	To Mohan Lal's Capital A/c		30,375
	To Sohan Lal's Capital A/c		20,250
	(Ram Lal's goodwill share adjusted since he cannot bring it in cash)		

–

(b) When existing goodwill = Rs. 2,500 (less than firm goodwill Rs. 2,02,500):

–

Entry No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Mohan Lal's Capital A/c Dr.	1,500	
	Sohan Lal's Capital A/c Dr.	1,000	
	To Goodwill A/c		2,500
	(Existing goodwill Rs. 2,500 written off in old ratio 3:2)		

2	Ram Lal's Capital A/c Dr.	50,625	
	To Mohan Lal's Capital A/c		30,375
	To Sohan Lal's Capital A/c		20,250
	(Ram Lal's goodwill share adjusted)		

–

(c) When existing goodwill = Rs. 2,05,000 (more than firm goodwill Rs. 2,02,500):

—

Entry No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Mohan Lal's Capital A/c Dr.	1,23,000	
	Sohan Lal's Capital A/c Dr.	82,000	
	To Goodwill A/c		2,05,000
	(Existing goodwill Rs. 2,05,000 written off in old ratio 3:2)		
2	Ram Lal's Capital A/c Dr.	50,625	
	To Mohan Lal's Capital A/c		30,375
	To Sohan Lal's Capital A/c		20,250
	(Ram Lal's goodwill share adjusted)		

Q25 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

Working Notes:

1. Hari's share in new firm = 2/9.
   Hari's goodwill = 2/9 × Rs. 36,000 = Rs. 8,000.
2. Sacrificing Ratio:
   Old ratio Rajesh:Mukesh = 1:1 (equal partners, each 1/2).
   New ratio Rajesh:Mukesh = 4/9 and 3/9.
   Rajesh sacrifice = 1/2 - 4/9 = 9/18 - 8/18 = 1/18
   Mukesh sacrifice = 1/2 - 3/9 = 9/18 - 6/18 = 3/18
   Sacrificing ratio Rajesh:Mukesh = 1:3.
3. Goodwill not to be shown in balance sheet — no Goodwill A/c is opened.

Hari's Capital A/c is debited and old partners credited in sacrificing ratio 1:3:
Rajesh gets = 1/4 × 8,000 = Rs. 2,000
Mukesh gets = 3/4 × 8,000 = Rs. 6,000

Journal Entry:

Particulars		Dr. (Rs.)	Cr. (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

(Hari's share of goodwill Rs. 8,000 adjusted without opening Goodwill A/c, in sacrificing ratio 1:3)

Q26 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.

SOLUTION

Working Notes:

1. Sacrificing Ratio:
   Old ratio Amar:Akbar = 1:1 (equal). New ratio Amar:Akbar:Anthony = 4:3:2.
   Amar sacrifice = 1/2 - 4/9 = 9/18 - 8/18 = 1/18
   Akbar sacrifice = 1/2 - 3/9 = 9/18 - 6/18 = 3/18
   Sacrificing ratio Amar:Akbar = 1:3.
2. Anthony's goodwill Rs. 45,000 is distributed in sacrificing ratio 1:3 without opening Goodwill A/c (adjustment through Capital A/c):
   Amar gets = 1/4 × 45,000 = Rs. 11,250
   Akbar gets = 3/4 × 45,000 = Rs. 33,750

Journal Entry:

Particulars		Dr. (Rs.)	Cr. (Rs.)
Anthony's Capital A/c	Dr.	45,000	

Particulars	Dr. (Rs.)	Cr. (Rs.)
To Amar's Capital A/c		11,250
To Akbar's Capital A/c		33,750

(Anthony's goodwill share Rs. 45,000 adjusted without opening Goodwill A/c, distributed in sacrificing ratio 1:3)

Q27 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. 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. (Ans: Gain of Revaluation Rs. 27,000. Balance Sheet Rs. 5,88,000.)

SOLUTION

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

Liabilities	Rs.	Assets	Rs.
Bills Payable	10,000	Cash in Hand	10,000
Creditors	58,000	Cash at Bank	40,000
Outstanding Expenses	2,000	Sundry Debtors	60,000
Capital: A	1,80,000	Stock	40,000
Capital: B	1,50,000	Plant	1,00,000
		Buildings	1,50,000
Total	4,00,000	Total	4,00,000

Working Notes:

1. Revaluation of Assets and Liabilities:

Plant appreciation = 1,20,000 - 1,00,000 = Rs. 20,000 (gain)
Buildings appreciation = 10% × 1,50,000 = Rs. 15,000 (gain)
Stock overvalued = Rs. 4,000 (loss)
Provision for bad debts = 5% × 60,000 = Rs. 3,000 (loss)
Unrecorded creditors = Rs. 1,000 (loss)
Net gain on revaluation = (20,000 + 15,000) - (4,000 + 3,000 + 1,000) = 35,000 - 8,000 = Rs. 27,000
[Verified: matches textbook Ans Rs. 27,000]

Distribution in old ratio A:B = 2:1:
A gets = 2/3 × 27,000 = Rs. 18,000; B gets = 1/3 × 27,000 = Rs. 9,000

2. Goodwill: C brings Rs. 60,000. Sacrificing ratio = old ratio A:B = 2:1.
A gets = 2/3 × 60,000 = Rs. 40,000; B gets = 1/3 × 60,000 = Rs. 20,000

—— Journal Entries ——

Entry No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c Dr.	1,60,000	
	To C's Capital A/c		1,00,000
	To Premium for Goodwill A/c		60,000
	(C brings capital and goodwill)		

2	Premium for Goodwill A/c Dr.	60,000	
	To A's Capital A/c		40,000
	To B's Capital A/c		20,000
	(Goodwill distributed in sacrificing ratio 2:1)		

3	Plant A/c Dr.	20,000	
	Buildings A/c Dr.	15,000	
	To Revaluation A/c		35,000
	(Assets appreciated)		

4	Revaluation A/c Dr.	8,000	
	To Stock A/c		4,000
	To Provision for Doubtful Debts A/c		3,000
	To Creditors A/c		1,000
	(Assets reduced and liability raised)		

5	Revaluation A/c Dr.	27,000	
	To A's Capital A/c		18,000
	To B's Capital A/c		9,000
	(Revaluation gain transferred in ratio 2:1)		

—— Revaluation Account ——

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Stock A/c (overvalued)	4,000	By Plant A/c	20,000
To Provision for Bad Debts	3,000	By Buildings A/c	15,000
To Creditors A/c	1,000		
To Profit transferred:			
A's Capital A/c	18,000		
B's Capital A/c	9,000		
Total	35,000	Total	35,000

—— Partners' Capital Accounts ——

Dr. Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Cr. Particulars	A (Rs.)	B (Rs.)	C (Rs.)
To Balance c/d	2,38,000	1,79,000	1,00,000	By Balance b/d	1,80,000	1,50,000	—

Dr. Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Cr. Particulars	A (Rs.)	B (Rs.)	C (Rs.)
				By Revaluation A/c	18,000	9,000	—
				By Premium for Goodwill	40,000	20,000	—
				By Bank A/c	—	—	1,00,000
Total	2,38,000	1,79,000	1,00,000	Total	2,38,000	1,79,000	1,00,000

—— Balance Sheet of A, B and C after C's Admission ——

Liabilities	Rs.	Assets	Rs.	
Bills Payable	10,000	Cash in Hand	10,000	
Creditors (58,000 + 1,000)	59,000	Cash at Bank (40,000 + 1,60,000)	2,00,000	
Outstanding Expenses	2,000	Sundry Debtors 60,000		
Capital: A	2,38,000	Less: Provision 3,000	57,000	
Capital: B	1,79,000	Stock (40,000 - 4,000)	36,000	
Capital: C	1,00,000	Plant	1,20,000	
		Buildings (1,50,000 + 15,000)	1,65,000	
Total	5,88,000	Total	5,88,000	

[Balance Sheet total Rs. 5,88,000 — verified against NCERT Ans]

Q28 Leela and Meeta were partners in a firm sharing profits and losses in the ratio of 5:3. In April 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.

SOLUTION

Working Notes:

On admission of a new partner, existing reserves and accumulated profits belong only
to the old partners (Leela and Meeta) and must be transferred to their Capital A/cs
in the OLD ratio (5:3) before Om's admission.

Old ratio Leela:Meeta = 5:3.

1. General Reserve (Rs. 16,000):
   Leela gets = 5/8 × 16,000 = Rs. 10,000
   Meeta gets = 3/8 × 16,000 = Rs. 6,000

2. Profit and Loss A/c balance (Cr.) Rs. 24,000 (accumulated profit):
   Leela gets = 5/8 × 24,000 = Rs. 15,000
   Meeta gets = 3/8 × 24,000 = Rs. 9,000

Journal Entries:

Entry No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	General Reserve A/c Dr.	16,000	
	To Leela's Capital A/c		10,000
	To Meeta's Capital A/c		6,000
	(General Reserve transferred to old partners in ratio 5:3)		

2	Profit and Loss A/c Dr.	24,000	
	To Leela's Capital A/c		15,000
	To Meeta's Capital A/c		9,000

2	Profit and Loss A/c Dr.	24,000	
	(Accumulated profit transferred to old partners in ratio 5:3)		

Q29 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.

SOLUTION

Working Notes:

A debit balance in the Profit and Loss A/c means an accumulated LOSS.
On admission of a new partner, this loss must be borne only by the old partners in their old ratio (Amit:Viney = 3:1) before Ranjan joins.

Amit bears = 3/4 × 40,000 = Rs. 30,000
Viney bears = 1/4 × 40,000 = Rs. 10,000

Journal Entry:

Particulars		Dr. (Rs.)	Cr. (Rs.)
Amit's Capital A/c	Dr.	30,000	
Viney's Capital A/c	Dr.	10,000	
To Profit and Loss A/c			40,000

(Accumulated loss of Rs. 40,000 written off to old partners' capitals in ratio 3:1)

Q30 A and B share profits in the proportions of 3/4 and 1/4. Their Balance Sheet on March 31, 2016 was as follows. On April 1, 2017, C was admitted into partnership on the following terms: (a) C pays Rs. 10,000 as his capital. (b) C pays Rs. 5,000 for goodwill. Half of this sum is to be withdrawn by A and B. (c) Stock and fixtures be reduced by 10% and a 5% provision for doubtful debts be created on Sundry Debtors and Bills Receivable. (d) 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. (Ans: Gain on Revaluation Rs. 1,600. Balance Sheet Total Rs. 1,05,950.)

SOLUTION

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

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	41,500	Cash at Bank	26,500
Reserve Fund	4,000	Bills Receivable	3,000
Capital: A	30,000	Debtors	16,000
Capital: B	16,000	Stock	20,000
		Fixtures	1,000
		Land & Building	25,000
Total	91,500	Total	91,500

Working Notes:

1. Revaluation of Assets and Liabilities:
   Stock reduced 10% = 10% × 20,000 = Rs. 2,000 (loss)
   Fixtures reduced 10% = 10% × 1,000 = Rs. 100 (loss)
   Provision on Debtors 5% = 5% × 16,000 = Rs. 800 (loss)
   Provision on Bills Receivable 5% = 5% × 3,000 = Rs. 150 (loss)
   Land & Buildings gain = 20% × 25,000 = Rs. 5,000 (gain)
   Creditors written back = Rs. 650 (gain — reduces liability)

Claim for damages = Rs. 1,000 (loss — creates new liability)

Net gain = (5,000 + 650) - (2,000 + 100 + 800 + 150 + 1,000) = 5,650 - 4,050 = Rs. 1,600

[Verified: matches textbook Ans Rs. 1,600]

Distribution in old ratio A:B = 3:1:

A gets = 3/4 × 1,600 = Rs. 1,200; B gets = 1/4 × 1,600 = Rs. 400

2. Reserve Fund (Rs. 4,000) distributed in old ratio 3:1:

A gets Rs. 3,000; B gets Rs. 1,000

3. Goodwill: C pays Rs. 5,000; half (Rs. 2,500) to be withdrawn by A and B.

Sacrificing ratio = old ratio A:B = 3:1.

A gets = 3/4 × 5,000 = Rs. 3,750 (but withdraws 3/4 × 2,500 = Rs. 1,875)

B gets = 1/4 × 5,000 = Rs. 1,250 (but withdraws 1/4 × 2,500 = Rs. 625)

—— Journal Entries ——

Entry No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Reserve Fund A/c Dr.	4,000	
	To A's Capital A/c		3,000
	To B's Capital A/c		1,000
	(Reserve Fund transferred in ratio 3:1)		

2	Bank A/c Dr.	15,000	
	To C's Capital A/c		10,000
	To Premium for Goodwill A/c		5,000
	(C brings capital and goodwill)		

3	Premium for Goodwill A/c Dr.	5,000	
	To A's Capital A/c		3,750
	To B's Capital A/c		1,250
	(Goodwill distributed in sacrificing ratio 3:1)		

4	A's Capital A/c	Dr.	1,875	
	B's Capital A/c	Dr.	625	
	To Bank A/c			2,500
	(Half goodwill amount withdrawn by A and B in ratio 3:1)			

5	Revaluation A/c	Dr.	4,050	
	To Stock A/c			2,000
	To Fixtures A/c			100
	To Provision for Doubtful Debts (Debtors)			800
	To Provision for Doubtful Debts (B/R)			150
	To Damages Claim Liability A/c			1,000
	(Assets reduced and liability created)			

6	Land & Buildings A/c	Dr.	5,000	
	Creditors A/c	Dr.	650	
	To Revaluation A/c			5,650
	(Asset appreciated and creditor written back)			

7	Revaluation A/c	Dr.	1,600	
	To A's Capital A/c			1,200
	To B's Capital A/c			400
	(Revaluation gain distributed in ratio 3:1)			

—— Capital Accounts (Summary) ——

Particulars	A (Rs.)	B (Rs.)	C (Rs.)
Opening balance	30,000	16,000	—

Particulars	A (Rs.)	B (Rs.)	C (Rs.)
Add: Reserve Fund	3,000	1,000	—
Add: Revaluation gain	1,200	400	—
Add: Goodwill premium	3,750	1,250	—
Less: Goodwill withdrawn	(1,875)	(625)	—
Capital brought in	—	—	10,000
Closing balance	36,075	18,025	10,000

—— Balance Sheet after C's Admission ——

Liabilities	Rs.	Assets	Rs.
Sundry Creditors (41,500 - 650)	40,850	Cash at Bank (26,500 + 15,000 - 2,500)	39,000
Damages Claim	1,000	Bills Receivable 3,000	
Capital: A	36,075	Less: Provision 150	2,850
Capital: B	18,025	Debtors 16,000	
Capital: C	10,000	Less: Provision 800	15,200
		Stock (20,000 - 2,000)	18,000
		Fixtures (1,000 - 100)	900
		Land & Building (25,000 + 5,000)	30,000
Total	1,05,950	Total	1,05,950

[Balance Sheet total Rs. 1,05,950 — verified against NCERT Ans]

Q31 A and B are partners sharing profits and losses in the ratio of 3:1. On 1st April 2017 they admitted C as a new partner for 1/4 share in the profits of the firm. C brings Rs. 20,000 as his capital for 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. have been worked out at Rs. 50,000 for A and Rs. 12,000 for B. It is agreed that partners' 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.

SOLUTION

Working Notes:

1. New Profit Sharing Ratio:
   C gets 1/4. Remaining 3/4 shared by A and B in old ratio 3:1.
   A new = 3/4 × 3/4 = 9/16; B new = 3/4 × 1/4 = 3/16; C = 4/16 = 1/4
   New ratio A:B:C = 9:3:4.

2. Total Capital of New Firm:
   C brings Rs. 20,000 for 1/4 share.
   Total capital = Rs. 20,000 × 4 = Rs. 80,000.

3. Required Capitals in New Ratio 9:3:4 (total 16 parts):
   A = 9/16 × 80,000 = Rs. 45,000
   B = 3/16 × 80,000 = Rs. 15,000
   C = 4/16 × 80,000 = Rs. 20,000

4. Comparison with adjusted capitals:
   A: Required Rs. 45,000, Actual Rs. 50,000 → Excess Rs. 5,000 → A withdraws Rs. 5,000
   B: Required Rs. 15,000, Actual Rs. 12,000 → Deficit Rs. 3,000 → B brings in Rs. 3,000

Journal Entries:

Entry No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c Dr.	20,000	
	To C's Capital A/c		20,000

Entry No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
	(C brings capital for 1/4 share)		

2	A's Capital A/c Dr.	5,000	
	To Bank A/c		5,000
	(A withdraws excess capital Rs. 5,000 to bring capital to Rs. 45,000)		

3	Bank A/c Dr.	3,000	
	To B's Capital A/c		3,000
	(B brings in Rs. 3,000 to raise capital to Rs. 15,000)		

Final Capital Balances: A = Rs. 45,000 | B = Rs. 15,000 | C = Rs. 20,000

Q32 Pinky, Qumar and Roopa are partners in a firm sharing profits and losses in the ratio of 3:2:1. S (Seema) is admitted as a new partner for 1/4 share in the profits of the firm, which she gets 1/8 from Pinky and 1/16 each from Qumar 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 to 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.

SOLUTION

Working Notes:

1. New Profit Sharing Ratio:
Old ratio Pinky:Qumar:Roopa = 3:2:1 (i.e. 3/6 : 2/6 : 1/6).
Seema gets: 1/8 from Pinky + 1/16 from Qumar + 1/16 from Roopa = 1/8 + 1/8 = 1/4.
Pinky new = 3/6 - 1/8 = 4/8 - 1/8 = 3/8
Qumar new = 2/6 - 1/16 = 8/24 - 3/48... let us use LCD 48:

Pinky = 3/6 - 1/8 = 24/48 - 6/48 = 18/48
Qumar = 2/6 - 1/16 = 16/48 - 3/48 = 13/48
Roopa = 1/6 - 1/16 = 8/48 - 3/48 = 5/48
Seema = 1/4 = 12/48
New ratio P:Q:R:S = 18:13:5:12 (total = 48).

2. Seema brings 1/4 × 2,40,000 = Rs. 60,000.

3. Required Capitals (in new ratio, total Rs. 2,40,000):
Pinky = 18/48 × 2,40,000 = Rs. 90,000
Qumar = 13/48 × 2,40,000 = Rs. 65,000
Roopa = 5/48 × 2,40,000 = Rs. 25,000
Seema = 12/48 × 2,40,000 = Rs. 60,000

4. Comparison with current adjusted capitals:
Pinky: Required Rs. 90,000, Actual Rs. 80,000 → Deficit Rs. 10,000 → brings in Rs. 10,000
Qumar: Required Rs. 65,000, Actual Rs. 30,000 → Deficit Rs. 35,000 → brings in Rs. 35,000
Roopa: Required Rs. 25,000, Actual Rs. 20,000 → Deficit Rs. 5,000 → brings in Rs. 5,000
Seema: brings Rs. 60,000 (no adjustment needed; her capital equals requirement)

Journal Entries:

Entry No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c Dr.	60,000	
	To Seema's Capital A/c		60,000
	(Seema brings 1/4 of total capital)		

2	Bank A/c Dr.	10,000	
	To Pinky's Capital A/c		10,000
	(Pinky brings in deficit capital Rs. 10,000)		

3	Bank A/c Dr.	35,000	
	To Qumar's Capital A/c		35,000
	(Qumar brings in deficit capital Rs. 35,000)		

4	Bank A/c Dr.	5,000	
	To Roopa's Capital A/c		5,000
	(Roopa brings in deficit capital Rs. 5,000)		

Final Capital Balances: Pinky Rs. 90,000 | Qumar Rs. 65,000 | Roopa Rs. 25,000 | Seema Rs. 60,000
Total = Rs. 2,40,000 [verified]

Q33 The following was the Balance Sheet of Arun, Bablu and Chetan sharing profits and losses in the ratio of 6:5:3 respectively. They agreed to take Deepak into partnership and give him a share of 1/8 on the following terms: (a) Deepak should bring in Rs. 4,200 as goodwill and Rs. 7,000 as his Capital; (b) furniture be depreciated by 12%; (c) stock be depreciated by 10%; (d) a Reserve of 5% be created for doubtful debts; (e) land and buildings having appreciated be brought up to Rs. 31,000; (f) after making the adjustments the capital accounts of the old partners be adjusted on the basis of the proportion of Deepak's Capital to his share in the business. Prepare Cash Account, Profit and Loss Adjustment Account (Revaluation Account) and the Opening Balance Sheet of the new firm. (Ans: Gain on revaluation Rs. 4,550. Balance Sheet Total Rs. 68,000.)

SOLUTION

Balance Sheet of Arun, Bablu and Chetan:

Liabilities	Rs.	Assets	Rs.
Capital: Arun	19,000	Land and Buildings	24,000
Capital: Bablu	16,000	Furniture	3,500
Capital: Chetan	8,000	Stock	14,000
Creditors	9,000	Debtors	12,600

Liabilities	Rs.	Assets	Rs.
Bills Payable	3,000	Cash	900
Total	55,000	Total	55,000

Old profit sharing ratio Arun:Bablu:Chetan = 6:5:3.

Working Notes:

1. Revaluation (Profit and Loss Adjustment A/c):
Furniture depreciation = 12% × 3,500 = Rs. 420 (loss)
Stock depreciation = 10% × 14,000 = Rs. 1,400 (loss)
Reserve for doubtful debts = 5% × 12,600 = Rs. 630 (loss)
Land & Buildings appreciated to Rs. 31,000 (from Rs. 24,000) → gain = Rs. 7,000
Net gain = 7,000 - (420 + 1,400 + 630) = 7,000 - 2,450 = Rs. 4,550
[Verified: matches textbook Ans Rs. 4,550]

Distribution in old ratio 6:5:3 (total 14):
Arun = 6/14 × 4,550 = Rs. 1,950; Bablu = 5/14 × 4,550 = Rs. 1,625; Chetan = 3/14 × 4,550 = Rs. 975

2. Goodwill: Deepak brings Rs. 4,200 for 1/8 share.
Distribute Rs. 4,200 in old ratio 6:5:3:
Arun = 6/14 × 4,200 = Rs. 1,800; Bablu = 5/14 × 4,200 = Rs. 1,500; Chetan = 3/14 × 4,200 = Rs. 900

3. Capital Adjustment (term f):
Deepak's capital Rs. 7,000 is for 1/8 share.
Total capital of new firm = 7,000 / (1/8) = Rs. 56,000.
Old partners hold 7/8 of firm = 56,000 - 7,000 = Rs. 49,000.
Required capitals in old ratio 6:5:3:
Arun = 6/14 × 49,000 = Rs. 21,000; Bablu = 5/14 × 49,000 = Rs. 17,500; Chetan = 3/14 × 49,000 = Rs. 10,500

Capitals after revaluation and goodwill:
Arun = 19,000 + 1,950 + 1,800 = Rs. 22,750
Bablu = 16,000 + 1,625 + 1,500 = Rs. 19,125
Chetan = 8,000 + 975 + 900 = Rs. 9,875

Adjustments required:

Arun: Required 21,000 vs Actual 22,750 → Excess Rs. 1,750 → Arun withdraws Rs. 1,750

Bablu: Required 17,500 vs Actual 19,125 → Excess Rs. 1,625 → Bablu withdraws Rs. 1,625

Chetan: Required 10,500 vs Actual 9,875 → Deficit Rs. 625 → Chetan brings in Rs. 625

—— Revaluation (Profit & Loss Adjustment) Account ——

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Furniture A/c	420	By Land & Buildings A/c	7,000
To Stock A/c	1,400		
To Reserve for Doubtful Debts	630		
To Gain transferred:			
Arun's Capital A/c	1,950		
Bablu's Capital A/c	1,625		
Chetan's Capital A/c	975		
Total	7,000	Total	7,000

—— Cash Account ——

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To Balance b/d	900	By Arun's Capital (withdrawal)	1,750
To Deepak's Capital	7,000	By Bablu's Capital (withdrawal)	1,625
To Deepak's Goodwill	4,200	By Balance c/d	9,350
To Chetan's Capital (brought in)	625		
Total	12,725	Total	12,725

—— Partners' Capital Accounts ——

Particulars	Arun (Rs.)	Bablu (Rs.)	Chetan (Rs.)	Deepak (Rs.)
Opening balance	19,000	16,000	8,000	—

Particulars	Arun (Rs.)	Bablu (Rs.)	Chetan (Rs.)	Deepak (Rs.)
Add: Revaluation gain	1,950	1,625	975	—
Add: Goodwill share	1,800	1,500	900	—
Add: Cash brought in	—	—	625	7,000
Less: Cash withdrawn	(1,750)	(1,625)	—	—
Closing balance	21,000	17,500	10,500	7,000

—— Opening Balance Sheet of New Firm ——

Liabilities	Rs.	Assets	Rs.
Capital: Arun	21,000	Land and Buildings	31,000
Capital: Bablu	17,500	Furniture (3,500 - 420)	3,080
Capital: Chetan	10,500	Stock (14,000 - 1,400)	12,600
Capital: Deepak	7,000	Debtors 12,600	
Creditors	9,000	Less: Reserve 630	11,970
Bills Payable	3,000	Cash	9,350
Total	68,000	Total	68,000

[Balance Sheet total Rs. 68,000 — verified against NCERT Ans]

Q34 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. The Balance Sheet of Azad and Babli as on March 31, 2016 was as given. 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) 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. (Ans: Gain on Revaluation Rs. 2,520. Balance Sheet Rs. 1,44,520.)

SOLUTION

Balance Sheet of Azad and Babli as at March 31, 2016:

Liabilities	Rs.	Assets	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: Azad	50,000	Stock	10,000
Capital: Babli	32,000	Furniture	5,000
		Machinery	25,000
		Buildings	40,000
Total	1,00,000	Total	1,00,000

Working Notes:

1. Revaluation:

Buildings gain = 45,000 - 40,000 = Rs. 5,000 (gain)
Machinery loss = 25,000 - 23,000 = Rs. 2,000 (loss)
Provision for doubtful debts = 6% × 8,000 = Rs. 480 (loss)
Net gain = 5,000 - (2,000 + 480) = 5,000 - 2,480 = Rs. 2,520
[Verified: matches textbook Ans Rs. 2,520]

Distribution in old ratio Azad:Babli = 2:1:
Azad = 2/3 × 2,520 = Rs. 1,680; Babli = 1/3 × 2,520 = Rs. 840

2. General Reserve (Rs. 6,000) distributed in old ratio 2:1:
Azad = 2/3 × 6,000 = Rs. 4,000; Babli = 1/3 × 6,000 = Rs. 2,000

3. Goodwill: Chintan brings Rs. 12,000.
New ratio: Chintan gets 1/4; Azad and Babli continue in 2:1 → new ratio 2:1:1 (Azad:Babli:Chintan).
Sacrificing ratio = old ratio = Azad:Babli = 2:1.
Azad gets = 2/3 × 12,000 = Rs. 8,000; Babli gets = 1/3 × 12,000 = Rs. 4,000

4. Capital Adjustment (Current Accounts):
New ratio Azad:Babli:Chintan = 2:1:1 (total 4 parts).
Chintan brings Rs. 30,000 for 1/4 → total capital = 30,000 × 4 = Rs. 1,20,000.
Required: Azad = 2/4 × 1,20,000 = Rs. 60,000; Babli = 1/4 × 1,20,000 = Rs. 30,000; Chintan = Rs. 30,000.

Capitals after all adjustments:
Azad = 50,000 + 4,000 + 1,680 + 8,000 = Rs. 63,680
Babli = 32,000 + 2,000 + 840 + 4,000 = Rs. 38,840

Adjustment via Current A/c:
Azad: Required 60,000 vs Actual 63,680 → excess Rs. 3,680 → Azad's Current A/c Dr. 3,680
Babli: Required 30,000 vs Actual 38,840 → excess Rs. 8,840 → Babli's Current A/c Dr. 8,840

—— Journal Entries ——

Entry No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1	General Reserve A/c	Dr.	6,000	
	To Azad's Capital A/c			4,000
	To Babli's Capital A/c			2,000
	(General reserve transferred in ratio 2:1)			

2	Bank A/c	Dr.	42,000	
	To Chintan's Capital A/c			30,000
	To Premium for Goodwill A/c			12,000

2	Bank A/c Dr.	42,000	
	(Chintan brings capital and goodwill)		

3	Premium for Goodwill A/c Dr.	12,000	
	To Azad's Capital A/c		8,000
	To Babli's Capital A/c		4,000
	(Goodwill distributed in sacrificing ratio 2:1)		

4	Buildings A/c Dr.	5,000	
	To Revaluation A/c		5,000
	(Buildings appreciated)		

5	Revaluation A/c Dr.	2,480	
	To Machinery A/c		2,000
	To Provision for Doubtful Debts A/c		480
	(Machinery reduced and provision created)		

6	Revaluation A/c Dr.	2,520	
	To Azad's Capital A/c		1,680
	To Babli's Capital A/c		840
	(Revaluation gain transferred in ratio 2:1)		

7	Azad's Capital A/c Dr.	3,680	
	To Azad's Current A/c		3,680
	(Excess capital transferred to Azad's Current A/c)		

8	Babli's Capital A/c Dr.	8,840	
	To Babli's Current A/c		8,840

8	Babli's Capital A/c Dr.	8,840	
	(Excess capital transferred to Babli's Current A/c)		

—— Partners' Capital Accounts ——

Particulars	Azad (Rs.)	Babli (Rs.)	Chintan (Rs.)
Opening balance	50,000	32,000	—
Add: General Reserve	4,000	2,000	—
Add: Revaluation gain	1,680	840	—
Add: Goodwill	8,000	4,000	—
Add: Bank (brought in)	—	—	30,000
Less: Transfer to Current A/c	(3,680)	(8,840)	—
Closing balance	60,000	30,000	30,000

—— Balance Sheet after Chintan's Admission ——

Liabilities	Rs.	Assets	Rs.
Creditors	8,000	Cash in hand	2,000
Bills payable	4,000	Cash at bank (10,000 + 42,000)	52,000
Capital: Azad	60,000	Sundry Debtors 8,000	
Capital: Babli	30,000	Less: Provision 480	7,520
Capital: Chintan	30,000	Stock	10,000
Current A/c: Azad	3,680	Furniture	5,000
Current A/c: Babli	8,840	Machinery	23,000
		Buildings	45,000
Total	1,44,520	Total	1,44,520

[Balance Sheet total Rs. 1,44,520 — verified against NCERT Ans]

Q35 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 March 31, 2016 was as given. 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 Rs. 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. (Ans: Gain on Revaluation Rs. 25,000. Balance Sheet Total Rs. 2,05,000.)

SOLUTION

Balance Sheet of Ashish and Dutta as at March 31, 2016:

Liabilities	Rs.	Assets	Rs.
Capital: Ashish	80,000	Land & Building	35,000
Capital: Dutta	35,000	Plant	45,000
Creditors	15,000	Debtors 22,000	
Bills Payable	10,000	Less: Provision 2,000	20,000
		Stock	35,000
		Cash	5,000
Total	1,40,000	Total	1,40,000

Working Notes:

1. Revaluation:
   Land & Building gain = Rs. 15,000
   Plant gain = Rs. 10,000
   Net gain = Rs. 25,000
   [Verified: matches textbook Ans Rs. 25,000]

   Distribution in old ratio Ashish:Dutta = 3:2:
   Ashish = 3/5 × 25,000 = Rs. 15,000; Dutta = 2/5 × 25,000 = Rs. 10,000

2. Treatment of Goodwill (Rs. 20,000):
   Vimal gets 1/5 share; Vimal's goodwill = 1/5 × 20,000 = Rs. 4,000.
   Since Vimal does not bring goodwill in cash separately, his Capital A/c is

debited

and old partners credited in sacrificing ratio = old ratio 3:2:

Ashish gets = 3/5 × 4,000 = Rs. 2,400; Dutta gets = 2/5 × 4,000 = Rs. 1,600

(Goodwill NOT raised in books, consistent with NCERT Ans Rs. 2,05,000.)

3. Capitals after revaluation and goodwill adjustment:

Ashish = 80,000 + 15,000 + 2,400 = Rs. 97,400

Dutta = 35,000 + 10,000 + 1,600 = Rs. 46,600

Total old partners = Rs. 1,44,000

4. Vimal's Capital:

Vimal gets 1/5; old partners together have 4/5.

4/5 × Total = Rs. 1,44,000 → Total capital = Rs. 1,44,000 × 5/4 = Rs. 1,80,000

Vimal's required capital = 1/5 × 1,80,000 = Rs. 36,000

Vimal's Capital A/c after goodwill debit = 36,000 (net).

Vimal brings cash = Rs. 36,000 + Rs. 4,000 (goodwill) = Rs. 40,000.

—— Journal Entries ——

Entry No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Land & Building A/c Dr.	15,000	
	Plant A/c Dr.	10,000	
	To Revaluation A/c		25,000
	(Assets appreciated)		

2	Revaluation A/c Dr.	25,000	
	To Ashish's Capital A/c		15,000
	To Dutta's Capital A/c		10,000
	(Revaluation gain transferred in ratio 3:2)		

3	Bank A/c Dr.	40,000	
	To Vimal's Capital A/c		36,000
	To Premium for Goodwill A/c		4,000

3	Bank A/c Dr.	40,000	
	(Vimal brings capital Rs. 36,000 + goodwill Rs. 4,000)		

4	Premium for Goodwill A/c Dr.	4,000	
	To Ashish's Capital A/c		2,400
	To Dutta's Capital A/c		1,600
	(Goodwill distributed in sacrificing ratio 3:2)		

—— Partners' Capital Accounts ——

Particulars	Ashish (Rs.)	Dutta (Rs.)	Vimal (Rs.)
Opening balance	80,000	35,000	—
Add: Revaluation gain	15,000	10,000	—
Add: Goodwill premium	2,400	1,600	—
Add: Bank (Vimal brings)	—	—	36,000
Closing balance	97,400	46,600	36,000

—— Balance Sheet after Vimal's Admission ——

Liabilities	Rs.	Assets	Rs.
Capital: Ashish	97,400	Land & Building (35,000 + 15,000)	50,000
Capital: Dutta	46,600	Plant (45,000 + 10,000)	55,000
Capital: Vimal	36,000	Debtors 22,000	
Creditors	15,000	Less: Provision 2,000	20,000
Bills Payable	10,000	Stock	35,000
		Cash (5,000 + 40,000)	45,000
Total	2,05,000	Total	2,05,000

[Balance Sheet total Rs. 2,05,000 — verified against NCERT Ans]