

**Q51. (a) An extract of the Balance Sheet of Murari and Vohra sharing profits & Losses in the ratio of 3:2 was as under:**

Liabilities	Amount	Assets	Amount
General Reserve	30,000	Investments (Market Value 1,14,000)	1,20,000
Contingency Reserve	2,700		
Profit & Loss A/c	18,000	Advertisement Expenditure	6,000
Investment Fluctuation Reserve	9,000	(Deferred Revenue)	
Workmen Compensation Reserve	7,200		
Employees Provident Fund	20,000		

New Partner Krishna was admitted for  $\frac{1}{5}$ <sup>th</sup> share of profits. A claim on account of Workmen Compensation Reserve is estimated for 900. Pass the necessary Journal entries to adjust accumulated profits and losses.

(b) A, B and C were partners sharing profits and losses in the ratio of 6:3:1. They take D into partnership with effect from 1<sup>st</sup> April, 2022. The new profit-sharing ratio between A, B, C and D will be 3:3:3:1. They also decide to record the effect of the following without affecting their book values, by passing an adjustment entry:

General Reserve	1, 50,000
Contingency Reserve	60,000
Profit & Loss A/c (Cr.)	90,000
Advertisement Suspense A/c (Dr.)	1, 20,000

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

**Solution – Journal Entry**

Date	Particulars	L.F.	DR	CR
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(A)	General Reserve A/c	....Dr	30,000	
	Contingency Reserve A/c	.....Dr	2,700	
	Profit & Loss A/c	.....Dr	18,000	
	Investment Fluctuation Reserve A/c	....Dr	9,000	
	Workmen Compensation Reserve A/c	.....Dr	7,200	
	To Investment A/c			6,000
	To Workmen Compensation Claim A/c			900
	To Murari's Capital A/c			36,000
	To Vohra's Capital A/c			24,000
	(Being Paid 3:2 ratio)			

(b) A: B: C – 6:3:1

A: B: C: D – 3:3:3:1

Sacrificing Ratio = Opening Ratio – New Ratio

A =  $6/10 - 3/10 = 3/10$  sacrifice

B =  $3/10 - 3/10 = \text{NIL}$

C =  $1/10 - 3/10 = -2/10$  gain

D =  $0 - 1/10 = -10/10$  gain

A =  $1, 50,000 \times 3/10 = 54,000$  (Cr)

C =  $1, 80,000 \times -2/10 = 36,000$  (Dr)

D =  $0 - 1/10 - 1/10 \times 1, 80,000 = 18,000$  (Dr)

### Journal Entry

Date	Particulars	L.F.	DR	CR
	C's Current A/c	....Dr	36,000	
	D's Current A/c	.....Dr	18,000	

	To A's Current A/c (Being Adjustment entry passed)			54,000
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**Preparation on Revaluation Account and partner's Capital Accounts**

**52. Amit and anil are partners sharing profits and losses in the ration of 2:1, their Balance Sheet as on 31st March, 2024 was as follows:**

Liabilities	₹	Assets	₹
Sundry Creditors	58,000	Cash in Hand	5,000
General Reserve	12,000	Cash at Bank	45,000
Capital A/cs:		Sundry Debtors	60,000
Amit 1,80,000		Stock	40,000
Anil <u>1,50,000</u>	<u>3,30,000</u>	Machinery	1,00,000
		Building	<u>1,50,000</u>
	<u>4,40,000</u>		<u>4,00,000</u>

Ankit is admitted as a partner on the date of the Balance Sheet on the following terms:

- a) Ankit will bring in 1,00,000 as his capital and 60,000 as his share of goodwill for 1/4th share in profits.
- b) Machinery is to be appreciated to 1,20,000 and the value of building is to be appreciated by 10%.
- c) Stock is found overvalued by 4,000
- d) General Reserve will continue to appear in the books of the reconstituted firm as its original value
- e) A provision for Doubtful Debts is to be created at 5% of debtors.
- f) Creditors were unrecorded to the extent of 1,000.

Prepare Revaluation Account and partner's Capital Accounts.

Dr.		Revaluation A/c		Cr.	
Particular		₹	Particular	₹	
To stock A/c		4,000	By Machinery A/c	20,000	
To provision for Doubtful Debts A/c		3,000	By Building A/c	15,000	
To creditors A/c		1,000			
To Revaluation A/c					
Amit's capital A/c    18,000					

Anil's capital A/c	<u>9,000</u>	<u>27,000</u>		
		<u>35,000</u>		<u>35,000</u>

### Partner's Capital A/c

Particular	Amit	Anil	Ankit	Particular	Amit	Anil	Ankit
To Balance C/d	2,40,000	1,80,000	1,00,000	By Balance B/d	1,80,000	1,50,000	
				By Bank A/c			1,00,000
				By premium for goodwill A/c	40,000	20,000	
				By Revaluation A/c (Gain)	18,000	9,000	

				By Ankit's Current A/c	2,000	1,000	
	<u>2,40,000</u>	<u>1,80,000</u>	<u>1,00,000</u>		<u>2,40,000</u>	<u>1,80,000</u>	<u>1,00,000</u>

### Calculation of Treatment of General Reserve

$$\text{Ankit share in General} = 12000 \times \frac{1}{4} = 3,000$$

Amit & Anil will share Ankit's share in G.R in their sacrificing Ratio 2:1

$$\text{Amit will Get} = 3000 \times \frac{2}{3} = 2,000$$

$$\text{Anil will Get} = 3000 \times \frac{1}{3} = 1,000$$

### Journal

Ankit's capital A/c	Dr.	3,000	
To Amit's capital A/c			20,000
To Anil's capital A/c			1,000
(Being General Reserve Adjusted)			

### Balance Sheet of the New firm as at 1st April

Liabilities	₹	Assets	₹
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Sundry Creditors	59,000	Cash in Hand	5,000
General Reserve	12,000	Cash at Bank	20,500
Capital A/cs:		(45,000+1,00,000+60,000)	
Amit	2,40,000	Sundry Debtors	60,000
Anil	1,80,000		57,000
Ankit	<u>1,00,000</u>	Less P.D.D	<u>3,000</u>
	<u>5,20,000</u>		36,000
		Stock (40,000 - 4,000)	1,20,000
		Machinery	1,65,000
		Building	3,000
		Ankit's current A/c	
	<u>5,91,000</u>		<u>5,91,000</u>

53. vimal and Nirmal are partners in a firm, sharing profits and losses in the ratio of 5:3. they admit kailash into the firm on 1st April, 2024, when their Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Vimla's Capital	32,000	Goodwill	8,000
Nirmal's Capital	34,000	Machinery	38,000
General Resere	8,000	Furniture	5,000
Bank Loan	6,000	Debtors	23,000

Creditores	<u>6,000</u>	Stock	7,000
		Cash	<u>5,000</u>
	<u>86,000</u>		<u>86,000</u>

Terms of Kailash's admission were as follows:

- I. Kailash will bring 30,000 as his share of capital and will be entitle to 1/3rd share in the profits.
- II. Kailash is not to bring goodwill in cash.
- III. Goodwill of the firm is valued on the basis of 2 year's purchase of the average profit of the last three years. Average profit of the last three year's is 6,000.
- IV. Machinery and stock are revalued at 45,000 and 8,000 respectively.

Prepare a Revaluation Account and partners Capital incorporating the above adjustments.

solution:

Dr.		Revaluation A/c		Cr.	
Particular	₹	Particular	₹		
To Revaluation A/c		By Machinery A/c	7,000		
vimal's Capital A/c	500	By Stock A/c	1,000		



Nirmal Capital A/c	<u>3,000</u>	<u>8,000</u>		
		<u>8,000</u>		<u>8,000</u>

Dr. Partner's Capital A/c				Cr.			
particulars	Vimal	Nirmal	Kailash	Particular	Vimal	Nirmal	Kailash
To Goodwill A/c (old Goodwill written off)	5,000	3,000		By Balance B/d	32,000	34,000	
				By Bank A/c			30,000
				By Revaluation A/c (Gain)	5,000	3,000	
To Goodwill A/c (valued goodwill written off)	5,000	3,000		By General Reserve A/c	5,000	3,000	
				By Goodwill A/c	7,500	4,500	
To Balance C/d	<u>39,500</u>	<u>38,500</u>	<u>30,000</u>				
	<u>49,500</u>	<u>44,500</u>	<u>30,000</u>		<u>49,500</u>	<u>44,500</u>	<u>30,000</u>

### Calculation of New Profit Sharing Ratio

Old profit sharing Ratio of vimal & Nirmal in 5:3

Kailash admitted for  $\frac{1}{3}^{\text{rd}}$  Share

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

$$\text{Vimal's new share} = \frac{2}{3} \times \frac{5}{8} = \frac{10}{24}$$

$$\text{Nirmal's new share} = \frac{2}{3} \times \frac{3}{8} = \frac{6}{24}$$

**New Profit Sharing Ratio of After making base equal**

$$\frac{10}{24} : \frac{6}{24} : \frac{1}{3} \times \frac{8}{8} = 10: 6: 8$$

$$= 5:3:4$$

**Calculation of the Goodwill of the firm**

**Goodwill of the firm**

= Avg. profit of cost three years x 2 year purchase

= 6,000 x 2

= ₹ 12,000

**For Raising the Goodwill**

Goodwill A/c	Dr.	12,000	
To vimal's capital A/c			7,500
To Nirmal's capital A/c			4,500
(Being Goodwill raised in 5 : 3)			

**For writing off the Goodwill**

Vimal's capital A/c	Dr.	5,000	
Nirmal's capital A/c	Dr.	3,000	
Kailash current A/c	Dr.	4,000	
To Goodwill A/c			12,000

(Being Goodwill written off in new ratio 5:3:7)

**PREPARATION OF CAPITAL ACCOUNTS AND BALANCE SHEET:-**

**Q54.** X, Y and Z are equal partners with capitals of 15,000; 17,500 and 20,000 respectively. They agree to admit W into equal partnership upon payment in cash 15,000 for 1/4<sup>th</sup> share of the goodwill and 18,000 as his capital, both sums to remain in the business. The liabilities of the old firm were 30,000 and the assets, apart from cash, consist of Motors 12,000, Furniture 4,000, stock 26,500 and Debtors 37,800. The Motors and Furniture were revalued at 9,500 and 3,800 respectively. Pass Journal entries to give effect to the above arrangement and also show Balance Sheet of the new firm.

**Solution –**

**Revaluation a/c**

Particulars		Particulars	
<b>Moter</b>	<b>2500</b>	<b>By revaluation a/c</b>	
<b>12000-9500</b>		<b>X    900</b>	
<b>Furniture</b>		<b>Y    900</b>	
<b>4000-3800</b>	<b>200</b>	<b>Z    900</b>	<b>2700</b>
	<b>2700</b>		<b>2700</b>

**Journal Entry**

Date	Particulars	L.F.	DR	CR
	Cash A/c To W's Capital A/c	....Dr	33,000	18,000

	To Premium for Goodwill A/c (Being C's brought his share of goodwill and capital in cash)			15,000
	Premium for Goodwill A/c .....Dr To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Being A's share of Goodwill transferred in their sacrificing ratio)		15,000  5,000 5,000 5,000	
	Revaluation A/c .....Dr To Motor A/c To Furniture A/c (Being decreased in value assets transferred to Revaluation A/c)		2,700  2,500 200	
	X's Capital A/c .....Dr Y's Capital A/c .....Dr Z's Capital A/c .....Dr To Revaluation A/c (Being loss of Revaluation of transferred to old partners' capital A/c)		900 900 900 2,700	

## Working Notes:-

### Opening balance sheet

Liabilities		Amount	Assets	Amount
Liabilities		30,000	Motor	12,000
X's capital	15,000		Furniture	4,000
Y's Capital	17,500		Stock	26,500
Z's Capital	<u>20,000</u>	52,520	Debtors	37,800
			Cash balance	2,200
		82,500		82,500

### Partner capital a/c

particulars	x	y	Z	w	particulars	x	y	z	w
To revaluation a/c	900	900	900	900	Bybalance	15000	17500	20000	
					By Cash				18000
					By premium of goodwill	5000	5000	5000	
To balance c/d	19100	21600	24100	18000					

	20,000	22500	25000	18000		20,000	22500	25000	18000

Balance sheet of the new firm

Liabilities		Amount	Assets		Amount
Liabilities		30,000	Moter		9500
			Furniture		3800
Capital			Stock		26500
X	19100		Debtors		37800
Y	21600		Cash(2200+15000+18000)		35200
Z	24100				
W	18000	82800			
		112800			112800

Old ratio of X: Y: Z = 1:1:1

W is admitted for 1/4 share

Let total profit – 1

Remaining profit after W admission –  $1 - \frac{1}{4} = \frac{3}{4}$

$X - \frac{3}{4} \times \frac{1}{3} = \frac{3}{12}$

$Y - \frac{3}{4} \times \frac{1}{3} = \frac{3}{12}$

$Z - \frac{3}{4} \times \frac{1}{3} = \frac{3}{12}$

$W - \frac{1}{4} \times \frac{3}{3} = \frac{3}{12}$

Therefore share of X, Y, Z and W = 3:3:3:3 = 1:1:1:1

Sacrificing ratio = Old ratio – New ratio

$X = \frac{1}{3} - \frac{1}{4} = \frac{1}{12}$

$Y = \frac{1}{3} - \frac{1}{4} = \frac{1}{12}$

$Z = \frac{1}{3} - \frac{1}{4} = \frac{1}{12}$

**Q55. Following was the Balance Sheet of A & B, who was sharing profits in the ratio of 2:1 as at 31<sup>st</sup> March, 2024:**

**They admit C into partnership on 1<sup>st</sup> April, 2022 on the following terms:**

- Pass necessary Journal entries to give effect to the arrangements. Prepare Profit & Loss Adjustment Account (or Revaluation Account), Partners Capital Accounts and Balance Sheet of the new firm.**

Date	Particulars	L.F	DR	CR
	Profit and Loss Adjustment A/c                  ....Dr		1,750	
	To Stock A/c			500

	<p>To Plant and Machinery A/c</p> <p>To Reserve for Doubtful Debts A/c</p> <p>(Being Decrease in stock and Plant and creation of Reserve for Doubtful Debts transferred to Profit and Loss adjustment Account)</p>			<p>875</p> <p>375</p>
	<p>Building A/c .....Dr</p> <p>To Profit and Loss Adjustment A/c</p> <p>(Being Increase in value of Building of transferred to Profit and Loss adjustment A/c)</p>		2,500	2,500
	<p>Profit and Loss Adjustment A/c .....Dr</p> <p>To A's Capital A/c</p> <p>To B's Capital A/c</p> <p>(Being Profit on revaluation of asset and liabilities distributed between A &amp; B in their old ratio)</p>		750	<p>500</p> <p>250</p>
	<p>Cash A/c .....Dr</p> <p>To C's Capital A/c</p> <p>To Premium for Goodwill A/c</p> <p>(Being C brought capital and share of goodwill)</p>		10,500	<p>7,500</p> <p>3,000</p>
	<p>Premium for Goodwill A/c .....Dr</p> <p>To A's Capital A/c</p> <p>To B's Capital A/c</p>		3,000	<p>2,000</p> <p>1,000</p>



	(Being Premium for Goodwill distributed between A & B in their sacrificing ratio 2:1)			
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Dr		Profit and Loss Adjustment Account		Cr	
Particulars		Amount	Particulars	Amount	
Stock		500	Building	2,500	
Plant and Machinery		875			
Reserve for Doubtful Debts		375			
Profit Transferred to					
A Capital	500	750			
B Capital	250				
		2,500		2,500	

Dr				Partners Capital Account				Cr			
Particulars	A	B	C	Particulars	A	B	C				
Balance c/d				Balance b/d	15,000	10,000					
				Cash							7,500
				Premium for Goodwill	2,000	1,000					
				Profit and Loss	500	250					
				Adjustment (Profit)							
	17,500	11,250	7,500		17,500	11,250	7,500				

#### Balance Sheet As on March 31, 2021

Particulars	Amount	Particulars	Amount
Capital Accounts:		Building (25,000 + 2,500)	27,500

A	17,500		Plant & Machinery (17,500 – 875)	16,625
B	11,250		Stock (10,000 – 500)	9,500
C	<u>7,500</u>	36,250	Sundry Debtors	4,850
Sundry Creditors		32,950	Less: Provision for DD	375
			Cash in Hand (600 + 10,500)	<u>11,100</u>
		69,200		69,200

### Working Note:-

Sacrificing ratio- A: B – 2:1

Distribution of Premium for Goodwill (in sacrificing ratio)

A -  $3,000 \times \frac{2}{3}$  - 2,000

B –  $3,000 \times \frac{1}{3}$  - 1,000

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

A -  $750 \times \frac{2}{3}$  - 500

B –  $750 \times \frac{1}{3}$  - 250

**Q56. A & B are carrying on business in partnership and sharing profits and losses in the ratio of 3:2. Their Balance Sheet as at 31<sup>st</sup> March, 2024 stood as:**

Liabilities	Amount	Assets	Amount
Creditors	11,800	Cash	1,500
General Reserve	20,000	Stock	28,000
A Capital	51,450	Debtors	19,500
B Capital	<u>36,750</u>	Furniture	2,500
	88,200	Machinery	48,500
		Goodwill	20,000
	<u>1,20,000</u>		<u>1,20,000</u>

The admit C into partnership on 1<sup>st</sup> April, 2024 and give him  $\frac{1}{8}$ <sup>th</sup> share in future profits on the following terms:

- a) Goodwill of the firm is valued at twice the average of the last three years profits which amounted to 21,000; 24,000 and 25,560.
- b) C is to bring cash for the amount of his share of goodwill.
- c) C is to bring cash 15,000 as his capital.

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

**Solution – Journal Entry**

Date	Particulars	L.F.	DR	CR
2024 April 1	Cash A/c .....Dr To C's Capital A/c To Premium for Goodwill A/c (Being c brought capital and share of goodwill)		20,880	15,000 5,880
	Premium for Goodwill A/c .....Dr To A's Capital A/c To B's Capital A/c (Being Premium for Goodwill distributed between A & B in sacrificing ratio 3:2)		5,880	3,528 2,352

Dr Partners Capital Account				Cr			
Particulars	A	B	C	Particulars	A	B	C
				Balance b/d	51,450	36,750	
				Cash			15,000
Balance c/d	54,978	39,102	15,000	Premium for Goodwill	3,528	2,352	
	54,978	39,102	15,000		54,978	39,102	15,000

### Balance Sheet

Particulars	Amount	Particulars	Amount
Capital Accounts:		Cash (1,500 + 20,880)	22,380
A       54,978		Stock	28,000
B       39,102		Debtors	19,500
C <u>15,000</u>	1,09,080	Furniture	2,500
Creditors	11,800	Machinery	48,500
	69,200		69,200

#### Calculation of New Profit Sharing Ratio:-

Old ratio – A: B – 3:2

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

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

Combined share of A & B after C's admission –  $1 - C's\ share = 1 - \frac{1}{8} = \frac{7}{8}$

New ratio = old ratio x combined share of X and Y

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

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

New profit sharing ratio – X: Y: Z – 21:14:5

#### Working Note:-

##### Calculation of goodwill:-

Average profit -  $\frac{21,000 + 25,000 + 25,560}{3} = 23,520$

Goodwill – Average profit x no of purchase years

Goodwill –  $23,520 \times 2 = 47,040$

C's of goodwill –  $47,070 \times \frac{1}{8} = 5,880$

##### Distribution of premium of goodwill:-

A =  $5,880 \times \frac{3}{5} = 3,528$

B =  $5,880 \times \frac{2}{5} = 2,352$

**Q57. Balance Sheet of J and K who share profits in the ratio of 3:2 is as follows:**

**Balance Sheet As at 31<sup>st</sup> March, 2024**

Liabilities		Amount	Assets		Amount
Reserve		1,00,000	Cash		2,00,000
A	1,50,000		Other Assets		1,50,000
B	1,00,000	2,50,000			
		3,50,000			3,50,000

M joins the firm from 1<sup>st</sup> April, 2024 for half share in the future profits. He is to pay 1, 00,000 as goodwill and 3, 00,000 for capital. Draft the Journal entries and prepare Balance Sheet in each of the following cases:

- If M gets his share of profits in the profit-sharing ratio of the old partners.
- If M gets his share of profits in equal proportion from the old partners.
- If M gets his share of profits in the ratio of 3:1 from the old partners, determine the future profit-sharing ratio of the partners in each case.

**Solution –**

a) If M gets his share of profits in the profit-sharing ratio of the old partners

### Journal Entry

Date	Particulars	L.F.	DR	CR
2024 April 1	Cash A/c .....Dr  To m's Capital A/c  To Premium for Goodwill A/c  (Being M brought capital and his of goodwill in cash)		4,00,000	3,00,000 1,00,000
April 1	Premium for Goodwill A/c .....Dr  To J's Capital A/c  To K's Capital A/c  (Being Premium for Goodwill distributed between J & K in their sacrificing ratio)		1,00,000	60,000 40,000
April 1	Reserve A/c .....Dr  To J's Capital A/c  To K's Capital A/c  (Being Reserve distribution between M and J in their old ratio)		1,00,000	60,000 40,000

Dr

### Partners Capital Account

Cr

Particulars	J	K	M	Particulars	J	K	M
				Balance b/d	1,50,000	1,00,000	
				Cash			3,00,000

				Premium for Goodwill Reserve	60,000	40,000	
Balance c/d	2,70,000	1,80,000	3,00,000		60,000	40,000	
	2,70,000	1,80,000	3,00,000		2,70,000	1,80,000	3,00,000

**Balance Sheet**  
**As on March 31, 2024**

Particulars	Amount	Particulars	Amount
J's Capital	2,70,000	Cash (2,00,000 + 4,00,000)	6,00,000
K's Capital	1,80,000	Other Assets	1,50,000
M's Capital	3,00,000		
	7,50,000		7,50,000

Calculation of Future (New Profit Sharing Ratio)

Old Ratio – M: J – 3:2

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

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

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

New ratio = Old ratio – Combined share of B and C

J –  $\frac{3}{5} \times \frac{1}{2} = \frac{3}{10}$

K –  $\frac{2}{5} \times \frac{1}{2} = \frac{2}{10}$

New profit sharing ratio = J: K: M – 3:2:5

Distribution of premium for Goodwill (in sacrificing ratio)

J – 1, 00,000 X 3/5 – 60,000

K – 1, 00,000 X 2/5 – 40,000

Distribution of General Reserve (in old ratio)

J – 1, 00,000 X 3/5 – 60,000

K – 1, 00,000 X 2/5 – 40,000

**b) If M gets his share of profits in equal proportion from the old partners.**

**Journal Entry**

Date	Particulars	L.F.	DR	CR
2024 April 1	Reserve A/c .....Dr  To J's Capital A/c  To K's Capital A/c  (Being Reserve distribution between J & K in old ratio)		1,00,000	  60,000  40,000
April 1	Cash A/c .....Dr  To M's Capital A/c  To J's Premium for Goodwill A/c  (Being M brought capital and his share of goodwill)		4,00,000	  3,00,000  1,00,000
April 1	Premium for Goodwill A/c .....Dr  To J's Capital A/c  To K's Capital A/c  (Being Premium for Goodwill distributed between J & K in sacrificing ratio 1:1)		1,00,000	  50,000  50,000

**Dr**

**Partners' Capital Account**

**Cr**



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

### Balance Sheet

As on April 01, 2024 after M's admission

Particulars	Amount	Particulars	Amount
J's Capital	2,60,000	Cash (2,00,000 + 4,00,000)	6,00,000
K's Capital	1,90,000	Other Assets	1,50,000
M's Capital	3,00,000		
	<u>7,50,000</u>		<u>7,50,000</u>

### Calculation of Future (New Profit Sharing Ratio)

Old Ratio – J: K – 3:2

M is admitted for 1/2 share of profit

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

**New ratio = Old ratio – Sacrificing Ratio**

$$J = 3/5 - 1/4 = 7/20$$

$$K = 2/5 - 1/4 = 3/20$$

New profit sharing ratio = J: K: M = 7:3:10

Sacrificing ratio = J: K = 1:1

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

$$J = 1,00,000 \times 1/2 = 50,000$$

$$K = 1,00,000 \times 1/2 = 50,000$$

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

$$J = 1,00,000 \times 3/5 = 60,000$$

$$K = 1,00,000 \times 2/5 = 40,000$$

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

**Journal Entry**

Date	Particulars	L.F.	DR	CR
2024 April 1	Reserve A/c .....Dr  To J's Capital A/c  (Being Reserve distributed between J and K at the time of M's admission)		1,00,000	60,000

April 1	Cash A/c To M's Capital A/c To Premium for Goodwill A/c (Being M brought capital his share of goodwill)	....Dr	4,00,000	3,00,000 1,00,000
April 1	Premium for Goodwill A/c To J's Capital A/c To K's Capital A/c (Being Premium for Goodwill distributed between J & K in their sacrificing ratio 3:1)	....Dr	1,00,000	75,000 25,000

Dr				Cr			
Partners Capital Account							
Particulars	J	K	M	Particulars	J	K	M
Balance c/d	2,85,000	1,65,000	3,00,000	Balance b/d	1,50,000	1,00,000	3,00,000
				Cash			
				Premium for Goodwill	75,000	25,000	
				Reserve	60,000	40,000	
	2,85,000	1,65,000	3,00,000		2,85,000	1,65,000	3,00,000

**Balance Sheet**  
**As on March 31, 2024**

Particulars	Amount	Particulars	Amount
J's Capital	2,85,000	Cash (2,00,000 + 4,00,000)	6,00,000

K's Capital	1,65,000	Other Assets	1,50,000
M's Capital	3,00,000		
	7,50,000		7,50,000

### Calculation of Future (New Profit Sharing Ratio)

Old Ratio – J: K – 3:2

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

J's sacrificing ratio =  $\frac{1}{2} \times \frac{3}{4} = \frac{2}{8}$

K's sacrificing ratio =  $\frac{1}{2} \times \frac{1}{4} = \frac{1}{8}$

**New ratio = Old ratio – Sacrificing Ratio**

J –  $\frac{3}{5} - \frac{3}{8} = \frac{9}{40}$

K –  $\frac{2}{5} - \frac{1}{8} = \frac{11}{40}$

New profit sharing ratio = J: K: M – 9:11:20

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

J – 1, 00,000 X  $\frac{3}{4} = 75,000$

K – 1, 00,000 X  $\frac{1}{4} = 25,000$

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

J – 1, 00,000 X  $\frac{3}{5} = 60,000$

K – 1, 00,000 X  $\frac{2}{5} = 40,000$

**Q58.** Given below is the Balance Sheet of A & B on 31<sup>st</sup> March, 2024, who is carrying on partnership business. A & B share profits and losses in the ratio of 2:1.

### Balance Sheet of A & B as at 31<sup>st</sup> March, 2024

Liabilities	Amount	Assets	Amount
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/c:		Stock	40,000

A	1,80,000		Plant	1,00,000
B	1,50,000	3,30,000	Building	1,50,000
		4,00,000		4,00,000

C is admitted as a partner on 1<sup>st</sup> April, 2024 on the following terms:

- C will bring 1, 00,000 as his capital and 60,000 as his share of goodwill for 1/4<sup>th</sup> share in the profits.
- Plant is to be appreciated to 1, 20,000 and the value of building is to be appreciated by 10%.
- Stock is found overvalued by 4,000.
- A provision for doubtful debts is to be created at 5% of sundry debtors.
- Creditors were unrecorded to the extent of 1,000.

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

### Solution – Journal Entry

Date	Particulars	L.F.	DR	CR
2024 Mar 31	Bank A/c .....Dr  To C's Capital A/c To Premium for Goodwill A/c (Being Capital and Premium for goodwill brought by C for 1/4 share)		1,60,000	1,00,000 60,000
	Premium for Goodwill A/c .....Dr  To A's Capital A/c To B's Capital A/c		60,000	40,000 20,000

	(Being Premium for Goodwill brought transferred to old partners' capital account in their sacrificing ratio)			
	Plant A/c .....Dr Building A/c .....Dr To Revaluation A/c (Being Increase in value of assets)		20,000 15,000	35,000
	Revaluation A/c .....Dr To Stock A/c To Provision for Doubtful Debts A/c To Creditors A/c (Unrecorded) (Being Assets and Liabilities revalued)		8,000	4,000 3,000 1,000
	Revaluation A/c .....Dr To A's Capital A/c To B's Capital A/c (Being Profit on revaluation transferred to old partners)		27,000	18,000 9,000

**Dr Revaluation Account Cr**

Particulars	Amount	Particulars	Amount
Stock	4,000	Plant	20,000
Provision for Doubtful Debts	3,000	Building	15,000
Creditors	1,000		

Revaluation Profit				
A's Capital	18,000			
B's Capital	<u>9,000</u>	27,000		
		35,000		35,000

Dr Partners Capital Account				Cr			
Particulars	A	B	C	Particulars	A	B	C
Balance c/d	2,38,000	1,79,000	1,00,000	Balance b/d	1,80,000	1,50,000	
				Bank			1,00,000
				Premium for Goodwill	40,000	20,000	
				Revaluation	18,000	9,000	
	<u>2,38,000</u>	<u>1,79,000</u>	<u>1,00,000</u>		<u>2,38,000</u>	<u>1,79,000</u>	<u>1,00,000</u>

### Balance Sheet

Particulars	Amount	Particulars	Amount
Bills Payable	10,000	Cash in Hand	10,000
Creditors	59,000	Cash at Bank	2,00,000
Outstanding Expenses	2,000	Sundry Debtors	60,000
Capital Accounts:		Less: Provision for DD <u>3,000</u>	57,000
A 2,38,000		Stock	36,000

B	1,79,000		Plant	1,20,000
C	<u>1,00,000</u>	5,17,000	Machinery	1,65,000
		<u>5,88,000</u>		<u>5,88,000</u>

**Q59. Balance Sheet of Madhu and Vidhi, who are sharing profits in the ratio of 2:3 as at 31<sup>st</sup> March, 2016 is given below:**

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

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

- Goodwill of the firm was valued at 3, 00,000.
- Land and Building was found undervalued by 26,000.
- Provision for Doubtful Debts was to be made equal to 5% of the debtors.
- There was a claim of 6,000 on account of workmen compensation.

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



**Solution –**

<b>Dr</b>		<b>Revaluation Account</b>		<b>Cr</b>	
<b>Particulars</b>		<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>	
Provision for Doubtful Debts (15000-5000)		5,000	Land & Building	26,000	
Claim against Workmen Compensation		6,000			
Revaluation Profit					
Madhu's Capital		6,000			
Vidhi's Capital		9,000			
		15,000			
		26,000		26,000	

<b>Dr</b>				<b>Partners' Capital Account</b>				<b>Cr</b>			
<b>Particulars</b>	<b>Madhu</b>	<b>Vidhi</b>	<b>Gayatri</b>	<b>Particulars</b>	<b>A</b>	<b>B</b>	<b>C</b>				
Balance c/d	5,98,000	4,17,000	4,00,000	Balance b/d	5,20,000	3,00,000					
				Bank						4,00,000	
				General Reserve	12,000	18,000					
				Premium for Goodwill	60,000	90,000					

				Revaluation	6,000	9,000	
	2,38,000	1,79,000	1,00,000		2,38,000	4,17,000	4,00,000

**Balance Sheet**  
**As on March 31, 2024**

Particulars	Amount	Particulars	Amount
Bills Payable	1,50,000	Bank (50,000 + 4,00,000 + 1,50,000)	6,00,000
Claim for workmen Compensation	6,000	Sundry Debtors	3,00,000
Capital Accounts:		Less: Provision for DD	15,000
Madhu   5,98,000		Stock	2,85,000
Vidhi    4,17,000		Machinery	80,000
Gayatri <u>4,00,000</u>		Land & Building	2,80,000
	14,15,000		3,26,000
	<u>15,71,000</u>		<u>15,71,000</u>

**Working Note:**

Calculation of Gayatri's share of Goodwill

Gayatri share – 3, 00,000 x 5/10 – 1, 50,000 to be share in 2:3

Calculation of sacrificing ratio

Sacrificing ratio = old ratio – New Ratio

Madhu =  $2/5 - 2/10 = 2/10$

Vidhi =  $3/5 - 3/10 = 3/10$

**Q60. A, B and C are partners sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as at 31<sup>st</sup> March, 2024 is as follows:**

Liabilities		Amount	Assets		Amount
Capitals A/c:			Land and Building		50,000
A	60,000		Plant and Machinery		40,000
B	60,000		Furniture		30,000
C	40,000	1,60,000	Stock		20,000
Creditors		30,000	Debtors		30,000
Bills Payable		10,000	Bills Receivable		20,000
			Bank		10,000
		2,00,000			2,00,000

**D is admitted as a partner on 1<sup>st</sup> April, 2024. His capital is to be 50,000. Following adjustments are agreed on D's admission:**

- Out of the Creditors, 10,000 are due to D, it will be adjusted against his capital.**
- Advertisement Expenses of 1,200 are to be carried forward as Prepaid Expenses.**
- Expenses debited in the Profit & Loss Account includes 2,000 paid for B's personal expenses.**
- A bill of Exchange of 4,000, which was previously discounted with the bank, was dishonoured on 31<sup>st</sup> March, 2022 but entry was not passed for dishonor.**
- Provision for Doubtful Debts @ 5% is to be created against Debtors.**

**Prepare necessary Ledger Accounts and Balance Sheet after D's admission.**

### Solution –

Dr		Revaluation Account		Cr	
Particulars	Amount	Particulars		Amount	
Provision for Doubtful Debts	1,700	Prepaid Advertisement Expenses		1,200	
30,000 + 4000 = 34000 x 5%					
A's Capital	2,100	B's Capital		2,000	
		Loss transferred to			
		A capital	300		
		B capital	200		
		C capital	100		
					600
	3,800				3,800

[illegible]

	62,100	60,000	40,000	50,000		62,100	60,000	40,000	50,000
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**Balance Sheet**  
**As on March 31, 2024**

Particulars		Amount	Particulars		Amount
Capital Accounts:			Land and Building		50,000
A	61,800		Plant and Machinery		40,000
B	57,800		Furniture		30,000
C	39,900		Prepaid Advt Expenses		1,200
D	50,000	2,09,500	Stock		20,000
creditors	30,000		Debtors		30,000
Less: D's Capita	10,000	20,000	Add: B/R dishonor		4,000
Bill Payable		10,000	Less: 5% Provision for DD		(1,700)
			Bills Receivable		20,000
			Bank		46,000
		2,39,500			2,39,500

**Working Note:-**

A's Capital =  $600 \times \frac{3}{6} = 300$

$$B's \text{ Capital} = 600 \times \frac{2}{6} = 200$$

$$C's \text{ Capital} = 600 \times \frac{1}{6} = 100$$

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