BOOK-1

CHAPTER-3.

RECONSTITUTION OF A PARTNERSHIP FIRM ADMISSION OF A PARTNER

Section A: One Mark Questions

I. Fill In The Blanks:

1. _______ ratio is used to distribute accumulated profits and losses at the time of admission of a new partner.
2. Profit or loss on revaluation is shared among the old partners in ____ ratio
3. Old ratio – New ratio = ________
4. Accumulated losses are transferred to the capital accounts of the old partners at the time of admission in their ____ ratio.
5. General reserve is to be transferred to ______ accounts at the time of admission of a new partner.
6. Goodwill brought in by new partner in cash is to be distributed among old partners in _______ ratio.
7. If the amount brought by new partner is more than his share in capital, the excess is known as _____.
8. _______ Account is debited for the increase in the value of an asset.
9. Unrecorded asset is to be credited to ______ account.
10. A and B are partners sharing profits & losses equally with capitals of ₹45,000 each. C is admitted for 1/3rd share and he brings in ₹60, 000 as his capital. Hidden Goodwill is ₹_____.
11. Due to change in profit sharing ratio, some partners will gain in future profits while others will ______.
12. Goodwill is an _______ asset.
13. ______ account is credited for cash brought in by new partner for his share of goodwill.
14. _____ ratio is required for sharing future profits and also for adjustment of capitals.

II. Multiple Choice Questions:

1. At the time of admission of a new partner, general reserve appearing in the old balance sheet is transferred to:

   a) All Partners Capital Account b) New Partner's Capital Account

   c) Old Partners Capital Account d) None of the above

2. A, B and C are partners in a firm. If D is admitted as a new partner:
   a) Old firm is dissolved
   b) Old firm and old partnership are dissolved
   c) Old partnership is reconstituted
   d) None of the above

3. On the admission of a new partner, increase in the value of asset is credited to:
   a) Profit and Loss Adjustment(Revaluation) Account
   b) Asset Account
   c) Old Partners Capital Account
   d) None of the above

4. At the time of admission of a partner, undistributed profits appeared in the balance sheet of the old firm is transferred to the capital accounts of:
   a) Old partners in old profit sharing ratio
   b) Old partners in new profit sharing ratio
   c) All the partners in new profit sharing ratio
   d) None of the above

5. If new partner brings cash for his share of goodwill, goodwill is transferred to Old Partners' Capital Account in:
   a) Sacrificing ratio
   b) Old profit sharing ratio
   c) New profit sharing ratio
   d) None of the above

6. Which of the following are treated as reconstitution of a Partnership Firm?
   a) Admission of a partner
   b) Change in profit sharing ratio
   c) Retirement of a partner
   d) All the above

7. Profit or Loss on revaluation is shared among the partners in the:
   a) Old profit sharing ratio
   b) New profit sharing ratio
   c) Capital ratio
   d) Equal ratio

8. Assets and Liabilities are recorded in Balance Sheet after the admission of a partner at:
   a) Original value
   b) Revalued value
   c) Realisable value
   d) None of the above

9. On the admission of a new partner, the increase in the value of an asset is credited to:
   a) Revaluation Account
   b) Asset Account
   c) Old partners' Capital Account
   d) None of the above

10. Old Profit Sharing Ratio - New Profit Sharing Ratio is = ---------
   a) Sacrificing ratio
   b) Gaining ratio
   c) Both the above
   d) None of the above

11. In the absence of an agreement to the contrary, it is implied that old partners will contribute to new partner's share of profit in the ratio of:

a) Capital b) Old profit sharing ratio

c) Sacrificing ratio d) Equally

12. The balance of reserves and other accumulated profits at the time of admission of a new partner are transferred to:

a) All partners in the new ratio

b) Old partners in the new ratio

c) Old partners in the old ratio

d) Old partners in the sacrificing ratio

13. Goodwill raised in books at the time of admission of partner will be written off in:

a) Old profit sharing ratio b) New profit sharing ratio

c) Sacrificing ratio d) None of the above

14. Revaluation Account is debited for the:

a) increase in provision for doubtful debts

b) increase in the value of building

c) decrease in the amount of creditors

d) transfer of loss on revaluation

15. A and B are partners sharing profits in the ratio of 3:1. C is admitted into partnership for 1/4th share. The sacrificing ratio of A and B will be:

a) Equal b) 3:1

c) 2:1 d) 3:2

III. True or False Type Questions:

1. Goodwill brought in cash by new partner is distributed among old partner in their Sacrificing ratio.

2. In case of admission of a partner, profit or loss on revaluation is transferred to Old Partners' Capital Accounts.

3. Accumulated profit is transferred to all partners' capital Accounts including new partner.

4. The debit balance of Profit and Loss Account shown in the assets side of the Balance Sheet will be debited to Old Partners Capital Accounts.

5. Increase in the value of an asset is credited to Revaluation Account

6. The traditional name of 'Revalution A/c' is 'Profit and Loss Adjustment A/c'.

7. Goodwill is an intangible asset.

8. Decrease in the value of liability is debited to Revaluation Account.

9. Sacrifice ratio is required to distribute the cash brought by new partner among old partners for his share of goodwill.

10. Share sacrificed = Old share – New share.

Very Short Answer Type:

1. What is Partnership?
2. What do you mean by reconstitution of a Partnership Firm?
3. State any one reason for admission of a new partner.
4. State any one right acquired by a newly admitted partner.
5. Why the NPSR is required at the time of admission of a partner?
6. What is Goodwill?
7. State any one factor affecting the value of goodwill.
8. What is normal profit?
9. State any one method of valuation of goodwill.
10. Give the formula for sacrifice ration
11. Which account is to be debited to record the increase in the value of an asset?
12. What is Revaluation Account?
13. What account will be credited when there is a loss on revaluation?
14. What account will be debited when the cash is brought by a new partner for his share o goodwill?
15. What is hidden goodwill?

Section B: Two Marks Questions:

1. When the goodwill is distributed among old partners in the sacrificing ratio?
2. State any two methods of valuation of goodwill.
3. State any two rights acquired by a new partner.
4. What do you mean by hidden goodwill?
5. Pass the journal entry to write off the goodwill raised to the extent of full value.
6. State any two matters which need adjustments in the books of the firm at the time of admission of a new partner.
7. What is sacrifice ratio?
8. Why the sacrifice ratio is calculated?
9. What is the need for the revaluation of assets and liabilities on the admission of a partner?
10. State any two reasons for admitting a new partner.
11. How do you close revaluation account when there is a profit?
12. State any two factors which determine the goodwill of the firm.
13. What is average profit method of valuation of goodwill?
14. Goodwill of the firm valued at two years purchase of the average profit of last four years. The total profits for last four years is ₹40,000. Calculate the goodwill of the firm.
15. Pass the journal entry for increase in the value of building on the admission of a partner.
16. Pass the journal entry for the decrease in the value of a liability.

Section-C: Six Marks Questions

Problems on calculation of NPSR

1. Anil and Vishal are partners sharing profits in the ratio of 3:2. They admitted Sumit as a new partner for 1/5th share in future profits of the firm. Calculate new profit sharing ratio of Anil, Vishal and Sumit.

   (Ans: 12:8:5)

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

   (Ans: 3:2:1)

3. 'A', 'B' and 'C' are partners sharing profits and losses in the proportion of 2/8th, 3/8th and 3/8th . They admit 'D' for 1/4th share. Calculate the new profit sharing ratio of all partners.

   (Ans: 6:9:9:8)

4. Veena and Vani are partners sharing profits in the ratio of 3:2. They admit Rani as a new partner for 1/5th share in the future profits of the firm, which she gets equally from Veena and Vani. Calculate new profit sharing ratio of Veena, Vani and Rani.

   (Ans: 5:3:2)

5. Amar and Akbar are partners sharing profits and losses in the ratio of 6:4. They admit Antony into the partnership giving him 6/20th share, which he obtains 4/20th from Amar and 2/20th from Akbar. Calculate the new profit sharing ratio.

   (Ans: 4:3:3)

6. Raga and Tala are partners sharing profits and losses in the ratio of 7:3. They admit Shruti into the partnership. Raga surrenders 1/2nd of his share and Tala 1/4th of her share in favour of Shruti. Calculate new profit sharing ratio of Raga, Tala and Shruti.

   (Ans: 14:9:17)

7. Chaya and Maya are partners in a firm sharing profits and losses in the ratio of 3:2. They admit Shreya as a new partner. Chaya agrees to surrender 1/4th of her share and Maya agrees to surrender 1/3rd of her share in favour of Shreya. Calculate new profit sharing ratio of Chaya, Maya and Shreya.

   (Ans: 27:16:17)

8. Pradeep and Sandeep are partners sharing profits and losses in the ratio of 5:3. They admit Pramod into the partnership and offer him 1/6th of the share which he acquired in the ratio of 3:1 from the old partners. Calculate the new profit sharing ratio.

   (Ans: 12:8:4 or 3:2:1)

9. Prakash and Akash are partners sharing profits and losses in the ratio of 2:1. They admit Ramesh into the partnership giving him 1/5th share which he acquired from Prakash and Akash in 1:2 ratio. Calculate new profit sharing ratio.

(Ans: 9:3:3 or 3:1:1)

10. Saraswati and Laxmi are partners in a firm sharing profits in ratio of 4:1. They admit Parvati as a new partner for 1/4th share in future profits, which she acquired wholly from Saraswati. Calculate the new profit sharing ratio of the all partners.

(Ans: 11:4:5)

Problems on sacrifice ratio

1. Mohan and Madan are partners sharing profits and losses in the ratio of 4:3. They admit Murali into partnership. The new profit sharing ratio is agreed at 7:4:3 respectively. Find out the sacrifice ratio of old partners.

(Ans: 1:2)

2. Dinesh and Mahesh are partners sharing profits and losses in the ratio of 3:2. They admit Ramesh into business and the new ratio was agreed to be 5:4:3. Calculate the sacrifice ratio.

(Ans: 11:4)

3. 'A' and 'B' are partners in a firm sharing profits in the ratio of 5:3. They admit 'C' as a new partner for 1/7th share in the future profit. The new profit sharing ratio will be 4:2:1. Calculate the sacrifice ratio of 'A' and 'B'.

(Ans: 3:5)

4. Anil and Sunil are partners in a firm sharing profits and losses in the ratio of 3:2. They admit Ashok as a new partner for 1/4th share. The new profit sharing ratio between Anil and Sunil will be 2:1. Calculate the sacrifice ratio.

(Ans: 2:3)

5. 'X and 'Y' are partners in a firm sharing profits and losses in the ratio of 3:2. They admit 'Z' into the partnership. 'X' agrees to surrender 1/2nd of his share and 'Y' agrees to surrender 1/4th of his share in favour of 'Z'. Calculate the sacrifice ratio.

(Ans: 3:1)

6. Ram and Rahim are partners sharing profits and losses equally. They admit Charlin into the partnership. Ram agrees to surrender 1/3rd of his share and Rahim agrees to surrender 1/4th of his share to Charlin. Calculate the sacrifice ratio.

(Ans: 4:3)

7. Radha and Rukmini are partners sharing profits and losses in the ration of 4:3. They admit Sita into the partnership. The new profit sharing ratio is 7:4:3 respectively. Find out the sacrifice ratio of the old partners.

(Ans: 1:2)

8. Arati and Bharati are partners sharing profits and losses in the ratio of 3:2. They admit Keerti into the partnership. The new profit sharing ratio is 4:3:3. Calculate the sacrifice ratio of Arati and Bharati.

(Ans: 2:1)

9. Ravi and Shankar are partners sharing profits and losses in the ratio of 2:1. They admit Shiva into the partnership and gave him 1/6th share. Ravi and Shankar agree to share the remaining share in the ratio of 3:2. Calculate the sacrifice ratio.

(Ans: 5:0 or 1:0)

Section-D:12 Marks Questions

1. 'A' and 'B' are partners sharing profits and losses in the ratio of 2:1. Their Balance Sheet as on 31.3.2018 was as follows:

Balance Sheet as on 31.03.2018

Liabilities	Rs	Assets	Rs
Creditors	20,000	Cash in Hand	5,000
Bills Payable	10,000	Stock	15,000
Reserve Fund	12,000	Debtors	20,000
Capitals:		Machinery	30,000
A	60,000	Buildings	60,000
B	40,000	Investments	12,000
	142,000		**142,000**

On 01.04.2018, 'C' is admitted into partnership on the following conditions:

a. 'C' should bring in cash ₹ 25,000 as his capital and ₹ 15,000 goodwill for his 1/5th share in future profits.

b. Appreciate buildings at 20% and stock is revalued at ₹ 12,000.

c. Provision for doubtful debts maintained at 5% on debtors.

d. Outstanding salary ₹ 2,000.

Prepare: i) Revaluation Account.

ii) Partners' Capital Accounts &

iii) New Balance Sheet of the firm.

(Ans:- Profit on Revaluation Account ₹ 6,000, Capital Account balance A - ₹ 82,000, B - ₹ 51,000, C - ₹ 25,000, Cash Account ₹ 45,000,Balance Sheet total ₹ 1,90,000)

2. Sachin and Dravid are partners in a firm sharing profits and losses in the ratio of 3:2. Their balance sheet is given below:

Balance Sheet as on 31.03.2017

Liabilities		Rs	Assets		Rs
Creditors		18,000	Cash in Hand		2,000
Bills Payable		12,000	Cash at Bank		18,000
Reserve Fund		3,000	Sundry debtors	25,000	
Capitals:			Less: PDD	2,000	23,000
Sachin	50,000		Stock		10,000
Dravid	50,000	100,000	Furniture		25,000
			Buildings		50,000
			P & L Account		5,000
		133,000			**133,000**

On 01.04.2017, they admit Ashwin as a new partner into partnership on the following terms:

a) He brings in ₹ 40,000 as capital and ₹ 18,000 towards goodwill for 1/4th share in future profits.

b) Depreciate furniture by 10% and buildings are revalued at ₹ 45,000.

c) PDD is increased to ₹ 3,500.

d) Prepaid insurance ₹ 2,000.

Prepare: i) Revaluation Account.

ii) Partners' Capital Accounts &

iii) New Balance Sheet as on 01.04.2017.

(Ans:- Loss on Revaluation Account ₹ 7,000, Capital Account balance: Sachin - ₹ 55,400, Dravid - ₹ 53,600, Ashwin -₹ 40,000, Bank Account ₹ 78,000, Balance Sheet total ₹ 1,79,000)

3. Suresh and Shankar are partners in a firm sharing profits and losses in the ratio of 1:1. Their balance sheet as on 31.03.2017 was as follows.

Balance Sheet as on 31.03.2017

Liabilities		Rs	Assets		Rs
Creditors		40,000	Cash at Bank		30,000
Bills Payable		45,000	Stock		25,000
Reserve Fund		15,000	Debtors	40,000	
Capital Accounts:			Less: PDD	2,000	38,000
Suresh	60,000		Furniture		10,000
Shankar	40,000	100,000	Machinery		15,000
Profit and Loss A/c		30,000	Buildings		92,000
			Patents		20,000
		230,000			**230,000**

On 01.04.2017, they admit Jagadish as a new partner for 1/4th share in the future profits on the following terms:

a. Jagadish should bring in cash ₹ 50,000 as his capital and ₹ 25,000 towards goodwill

b. Depreciate Machinery by 10%.

c. Increase provision for doubtful debts by ₹ 4,000.

d. Buildings are revalued at ₹ 1,20,500.

Prepare: i) Revaluation Account

ii) Partners' Capital Accounts &

iii) New Balance Sheet of the firm.

(Ans:- Profit on Revaluation Account ₹ 23,000, Partners' Capital Account balance: Suresh - ₹ 1,06,500, Shankar - ₹ 86,500, Jagadish - ₹ 50,000, Bank Account ₹ 1,05,000, Balance Sheet total ₹ 3,28,000)

4. Rajesh and Rakesh are partners in a firm sharing profits and losses in the ratio of 3:2. Their balance sheet as on 31.03.2018 stood as follows:

Balance Sheet as on 31.03.2018

Liabilities	Rs	Assets		Rs
Creditors	41,500	Cash at Bank		22,500
General Reserve	4,000	Bills Receivable		3,000
Capital Accounts:		Debtors	18,000	
Rajesh	30,000	Less: PDD	1,000	17,000
Rakesh	16,000	Stock		20,000
		Buildings		25,000
		Machinery		4,000
	91,500			**91,500**

On 01.04.2018, they admit Shyam as a new partner and offered him 1/5th share in

the future profits on the following terms:

a) He has to bring in ₹ 10,000 as his capital and ₹ 5,000 towards goodwill.

b) Appreciate buildings by 20%.

c) Maintain 5% PDD on debtors.

d) Provide for outstanding repair bills ₹ 1,000.

Prepare: i) Revaluation Account

ii) Partners' Capital Accounts &

iii) New Balance Sheet of the firm.

(Ans: Profit on Revaluation Account ₹ 4,100, Partners Capital Account balance: Rajesh - ₹ 37,860, Rakesh - ₹ 21,240, Shyam - ₹ 10,000, Bank Account ₹ 37,500, Balance Sheet total ₹ 1,11,600)

5. 'A' and 'B' are partners in a firm sharing profits and losses in the ratio of 6:4. Their balance sheet as on 31.03.2017 was as follows.

Balance Sheet as on 31.03.2017

Liabilities		Rs	Assets		Rs
Creditors		20,000	Cash at Hand		5,000
Bills Payable		6,000	Debtors	20,000	
Reserve Fund		4,000	Less: PDD	2,000	18,000
Capitals:			Stock		17,000
A	40,000		Buildings		30,000
B	30,000	70,000	Furniture		30,000
		100,000			**100,000**

On 01.04.2017, 'C' is admitted into the partnership on the following terms:

a) He brings ₹ 25,000 as capital and ₹ 8,000 towards goodwill for 1/6th share in the future profits.

b) Depreciate furniture at 10% and appreciate buildings by 20%.

c) Provision for doubtful debts is no longer.

d) Provide ₹ 1,000 for repair charges.

e) Goodwill is to be withdrawn by the Old Partners.

Prepare: i) Revaluation Account

ii) Partners' Capital Accounts &

iii) Balance Sheet of the firm after admission.

(Ans: Profit on Revaluation Account ₹ 4,000, Capital Account balance: A - ₹ 44,800, B - ₹ 33,200, C - ₹ 25,000, Cash Account ₹ 38,000, Balance Sheet total ₹ 1,30,000)

6. Surekha and Sunita are partners in a firm. Their balance sheet as on 31.03.2017 was as follows:

Balance Sheet as on 31.03.2017

Liabilities	Rs	Assets	Rs
Creditors	150,000	Cash at Bank	50,000
General Reserve	50,000	Stock	50,000
		Furniture	120,000
Capitals:		Debtors	40,000
Surekha	120,000	Buildings	100,000
Sunita	80,000	Investments	40,000
	400,000		**400,000**

On 01.04.2017 Kavita is admitted into the partnership on the following terms:

a) She brings in ₹ 60,000 as her capital and ₹ 20,000 towards goodwill for 1/4th share in the future profits. Goodwill is to be withdrawn by the Old Partners.

b) Depreciate furniture by 10% and appreciate buildings by ₹ 22,000.

c) Investments are to be revalued at ₹ 50,000.

d) Provide ₹ 2,000 for outstanding salary.

Prepare: i) Revaluation Account

ii) Partners' Capital Accounts &

iii) New Balance Sheet of the firm.

(Ans: Profit on Revaluation Account ₹ 18,000, Capital Accounts: Surekha- ₹ 1,54,000, Sunita - ₹ 1,14,000, Kavita - ₹ 60,000, Bank Account ₹ 1,10,000, Balance Sheet total ₹ 4,80,000)

7. Raja and Rani are partners in a firm sharing profits and losses in the ratio of 3:2. Their balance sheet as on 31.03.2018 was as follows:

Balance Sheet as on 31.03.2018

Liabilities		Rs	Assets		Rs
Creditors		40,000	Cash		5,000
Bills Payable		20,000	Machinery		60,000
General Reserve		25,000	Stock		25,000
Capitals:			Debtors	23,000	
Raja	60,000		Less: PDD	3,000	20,000
Rani	40,000	100,000	Buildings		50,000
			Investments		20,000
			P & L Account		5,000
		185,000			**185,000**

On 01.04.2018, they admit Mantri as a new partner and offer him $1/5^{th}$ share in the future profits on the following terms:

a. Mantri has to bring in ₹ 30,000 as his capital and ₹ 10,000 towards goodwill. Goodwill is to be withdrawn by the old partners.

b. Depreciate Machinery by 5%.

c. Appreciate buildings by 10%.

d. PDD is reduced to ₹ 2,000 and investments are to be revalued at ₹ 25,000.

Prepare: i) Revaluation Account

ii) Partners' Capital Account &

iii) New Balance Sheet of the firm.

(Ans: Profit on Revaluation Account ₹ 8,000, Capital Account: Raja - ₹ 76,800, Rani - ₹ 51,200, Mantri - ₹ 30,000, Cash Account ₹ 35,000, Balance Sheet total ₹ 2,18,000)

8. Pujari and Purohit are equal partners. Their Balance Sheet as on 31.03.2017 was as follows:

Balance Sheet as on 31.03.2017

Liabilities	Rs	Assets	Rs
Bills Payable	6,600	Cash	1,800
Sundry Creditors	12,800	Stock	23,600
Capitals Accounts:		Sundry debtors 25,000	
Pujari 40,000		Less: PDD 5,000	20,000
Purohit 30,000	70,000	Furniture	4,000
		Buildings	40,000
	89,400		**89,400**

On 01.04.2017, they admit Pandit as a new partner and offered him 1/4th share in the profit on the following terms:

a) He should bring in ₹ 30,000 as capital and ₹ 18,000 towards goodwill.

b) Half of the goodwill should be withdrawn by the old partners.

c) Stock and furniture to be depreciated by 10% each.

d) PDD is reduced by ₹ 3,000.

Prepare: i) Revaluation Account

ii) Partners' Capital Accounts &

iii) New Balance Sheet of the firm.

(Ans: Profit on Revaluation Account ₹ 240, Capital Account: Pujari - ₹ 44,620, Purohit - ₹ 34,620, Pandit - ₹ 30,000, Cash Account ₹ 40,800, Balance Sheet total ₹ 1,28,640)

9. Anil and Sunil are partners in a firm sharing profits in the ratio of 2:1. Their Balance Sheet as on 31.03.2016 was as follows:

Balance Sheet as on 31.03.2016

Liabilities	Rs	Assets	Rs
Bills Payable	16,000	Cash	4,000
Sundry Creditors	5,000	Sundry debtors	30,000
Reserved Fund	9,000	Stock	32,000
Capitals:		Furniture	8,000
Anil	60,000	Buildings	56,000
Sunil	50,000	Motor Car	10,000
	140,000		**140,000**

On 01.04.2016,they admitted Vimal for 1/4th share in future profits under the following terms:

a) He should bring cash for capital ₹ 40,000 and ₹ 30,000 for goodwill.

b) Half of the goodwill amount withdrawn by the old partners.

c) Buildings are revalued at ₹ 66,000 and make a provision for legal charges ₹ 700.

d) Stock and Motor Car be depreciated by 10% each.

e) Provide provision for doubtful debts at 5% on debtors.

Prepare: i) Revaluation Account

ii) Partners' Capital Accounts &

iii) Balance Sheet of the new firm.

(Ans: Profit on Revaluation Account ₹ 3,600, Partners Capital Account balance: Anil - ₹ 78,400, Sunil - ₹ 59,200, Vimal - ₹ 40,000, Cash Account ₹ 59,000, Balance Sheet total ₹ 1,99,300)

10. Arati and Bharati are partners in a firm sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31.03.2017 stood as follows:

Balance Sheet as on 31.03.2017

Liabilities	Rs	Assets		Rs
Bills Payable	14,000	Cash		15,000
Creditors	16,000	Buildings		25,000
		Patents		6,000
Capitals:		Machinery		35,000
Arati	50,000	Debtors	20,000	
Bharati	25,000	Less: Provisions	600	19,400
		Stock		4,600
	105,000			**105,000**

On 01.04.2017, Jayanti is admitted into the partnership on the following terms:

a) Jayanti Pays ₹ 20,000 as capital. The Goodwill of the firm is valued at ₹ 20,000 and Goodwill Account should not remain in books.

b) Buildings are appreciated by ₹ 5,000 & machinery is depreciated by 20%.

c) Provision for doubtful debts is increased by ₹ 1,000.

d) The new profit sharing ratio between the partners is 5:3:2.

Prepare: i) Revaluation Account

ii) Partners' Capital Accounts &

iii) Balance Sheet of the firm after admission.

(Ans: Loss on Revaluation Account ₹ 3,000, Partners Capital Account balance: Arti - ₹ 50,200, Bharati - ₹ 25,800, Jayanti - ₹ 16,000, Cash Account ₹ 35,000, Balance Sheet total ₹ 1,22,000)

11. 'A', 'B' and 'C' are partners in a firm sharing profits and losses in the ratio of 4:3:3. Their Balance Sheet as on 31.03.2017 was as follows:

Balance Sheet as on 31.03.2017

Liabilities	Rs	Assets		Rs
Creditors	100,000	Cash at Bank		17,000
Reserve	32,000	Bills Receivable		19,000
Bank OD	8,000	Debtors	1,20,000	
Capitals:		Less: PDD	6,000	114,000
A	40,000	Stock		80,000
B	50,000	Buildings		60,000
C	60,000			
	290,000			**290,000**

On 01.04.2017, they admit 'D' into the partnership on the following terms:

a) 'D' brings ₹ 50,000 as his capital.

b) Goodwill Account is created for ₹ 64,000 and agreed to write off by all partners in their new profit sharing ratio i.e., 6:9:9:8.

c) Reduce stock by 10% and increase buildings to ₹ 69,000.

d) Provision for doubtful debts decreased by ₹ 2,000.

Prepare: i) Revaluation Account

ii) Partners' Capital Accounts &.

iii) New Balance Sheet of the new firm.

(Ans: Profit on Revaluation Account ₹ 3,000, Partners Capital Account balance: A - ₹ 67,600, B - ₹ 61,700, C - ₹ 71,700, D - ₹ 34,000, Bank Account ₹ 67,000, Balance Sheet total ₹ 3,43,000)

12. Sharat and Bharat are sharing profits and losses in the ratio 2:1. Their Balance Sheet as on 31.03.2018 was as follows:

Balance Sheet as on 31.03.2018

Liabilities		Rs	Assets	Rs
Creditors		12,000	Cash in Hand	10,000
Bills Payable		8,000	Debtors	5,000
Reserve Fund		9,000	Stock	10,000
Capitals:			Furniture	4,000
Sharat	20,000		Buildings	40,000
Bharat	20,000	40,000		
		69,000		**69,000**

They admit Kamat into partnership giving him 1/5th share in the future profits on the following terms:

a) The new partner should bring ₹ 25,000 as his capital.

b) The Goodwill Account is to be raised at ₹ 24,000.

c) Value of buildings is to be appreciated by ₹ 7,000 and furniture to be appreciated by ₹1,000

d) Stock is valued at 10% less than the book value and there is an outstanding printing bill for ₹400

Prepare: i) Revaluation Account

ii) Partners' Capital Accounts &.

iii) Balance Sheet of the new firm.

(Ans: Profit on Revaluation Account ₹ 6,600, Capital Account balance: Sharat - ₹ 46,400, Bharat - ₹ 33,200, Kamat - ₹ 25,000, Cash Account ₹ 35,000, Balance Sheet total ₹ 1,25,000)

13. Vani and Sandhya are partners sharing profits and losses in the proportion of 3/5 and 2/5. Their Balance Sheet as on 31.03.2018 was as follows:

Balance Sheet as on 31.03.2018

Liabilities	Rs	Assets		Rs
Creditors	77,500	Cash at Bank		21,500
Reserve	20,000	Stock		39,000
P & L Account	5,000	Debtors	60,000	
Capitals:		Less: PDD	3,000	57,000
Vani	60,000	Furniture		10,000
Sandhya	30,000	Buildings		40,000
		Machinery		25,000
	192,500			**192,500**

On 01.04.2018, Chaya is admitted into partnership on the following terms:

a) She should bring ₹ 40,000 as capital for $1/4^{th}$ share and goodwill of the firm is valued at ₹25,000

b) Depreciate furniture by 10%.

c) Appreciate buildings by 20%.

d) PDD is increased by ₹ 3,000.

e) An amount of ₹ 2,000 due to a creditor is not likely to be claimed and hence to be written off.

Prepare: i) Revaluation Account.

ii) Partners' Capital Accounts &.

iii) New Balance Sheet of the firm.

(Ans: Profit on Revaluation Account ₹ 6,000, Partners Capital Account balance: Vani - ₹ 93,600, Sandhya - ₹ 52,400, Chaya - ₹ 40,000, Bank Account ₹ 86,500, Balance Sheet total ₹ 2,61,500)

Problems on Adjusments on Capitals

14. Mahendra and Surendra are equal partners in a firm. Their Balance Sheet as on 31.03.2017 stood as follows:

Balance Sheet as on 31.03.2017

Liabilities		Rs	Assets		Rs
Creditors		40,000	Stock		39,000
Bank Loan		8,000	Debtors	32,000	
			Less: PDD	1,000	31,000
Capitals:			Land & Buildings		40,000
Mahendra	80,000		Machinery		36,000
Surendra	40,000	120,000	Motor Car		8,000
			Cash at Bank		14,000
		168,000			**168,000**

On 01.04.2017, Chandra is admitted into partnership for $1/6^{th}$ share in profits on the following terms:

a) Chandra brings ₹ 26,000 as capital.

b) Goodwill of the firm is valued at ₹ 14,000 and it is to be retained in business.

c) Motor car and Machinery are to be depreciated by 20% and ₹ 3,800 respectively.

d) Prepaid rent ₹ 600.

e) Provision for doubtful debts is to be maintained at 10%.

f) The Capital Accounts of all the partners are to be adjusted in their new profit sharing ratio 3:2:1, based on Chandra's Capital (Adjustments are to be made in cash)

Prepare: i) Revaluation Account

ii) Partners' Capital Account &

iii) New Balance Sheet of the firm.

(Ans: Loss on Revaluation Account ₹ 7,000, Partners Capital Account balance: Mahendra - ₹ 78,000, Surendra - ₹ 52,000, Chandra - ₹ 26,000, Bank Account ₹ 43,000, Balance Sheet total ₹ 2,04,000)

15. Ganga and Yamuna are partners in a firm. Following is their Balance Sheet as on 31.03.2017

Balance Sheet as on 31.03.2017

Liabilities		Rs	Assets		Rs
Creditors		20,000	Cash in Hand		7,000
Bills Payable		4,000	Stock		15,000
			Debtors	16,000	
Capitals:			Less: Provision	500	15,500
Ganga	40,000		Furniture		4,500
Yamuna	20,000	60,000	Patents		4,000
			Plant & Machinery		18,000
			Land & Building		20,000
		84,000			**84,000**

On 01.04.2017, Kaveri is admitted into partnership on the following terms:

a) Kaveri should bring ₹ 13,000 as capital.

b) Goodwill of the firm is valued at ₹ 6,000.

c) Provision for doubtful debts is to be increased by ₹ 1,200.

d) Patents and machinery are to be reduced by 20% and ₹ 2,000 respectively.

e) Land & Buildings are to be increased by 4,000.

f) Capital Accounts of partners are to be adjusted in their new profit sharing ratio 3:2:1, based on Kaveri's Capital (Adjustments to be made in cash)

Prepare: i) Revaluation Account

ii) Cash Account.

iii) Partners' Capital Accounts &

iv) New Balance Sheet of the firm.

(Ans: No Profit and No Loss on Revaluation Account, Capital Account balance: Ganga - ₹ 39,000, Yamuna - ₹ 26,000, Kaveri - ₹ 13,000, Cash Account ₹ 19,000, Balance Sheet total ₹ 1,02,000)

16. Gouri and Ganesh are partners in a firm sharing profit equally. Following is their Balance Sheet as on 31.03.2017.

Balance Sheet as on 31.03.2017

Liabilities	Rs	Assets		Rs
Creditors	20,000	Cash in Hand		7,000
Bills Payable	4,000	Stock		25,000
General Reserve	6,000	Buildings		40,000
Capitals:		Debtors	17,000	
Gouri	80,000	Less: PDD	1,500	15,500
Ganesh	40,000	Furniture		14,500
		Patents		30,000
		Plant & Machinery		18,000
	150,000			**150,000**

On 01.04.2017, Shiva is admitted into partnership on the following terms:

a) Shiva should bring ₹ 25,000 as capital.
b) Goodwill of the firm is valued at ₹ 16,000.
c) Stock is to be increased by 8%.
d) Provision for doubtful debts is increased to ₹ 2,600.
e) Capital accounts of partners are to is be adjusted in their new profit sharing ratio 3:2:1, based on Shiva's capital (Adjustments to be made in cash).

Prepare: i) Revaluation Account.
ii) Partners' Capital Accounts &
iii) Balance sheet of the new firm.

(Ans: Profit on Revaluation Account ₹ 900, Capital Account balance: Gouri - ₹ 75,000, Ganesh - ₹ 50,000, Shiva - ₹ 25,000, Cash Account ₹ 14,100, Balance Sheet total ₹ 1,74,000)

17. Vani and Veena are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31.03.2017 was as follows:

Balance Sheet as on 31.03.2017

Liabilities	Rs	Assets	Rs
Creditors	40,000	Cash at Bank	6,000
Reserve	15,000	Stock	24,000
		Debtors	30,000
Capitals:		Furniture	20,000
Vani	60,000	Machinery	60,000
Veena	40,000	Goodwill	15,000
	155,000		**155,000**

On 01.04.2017, they admit Rani as new partner into partnership on the following Conditions:

a) Rani is to bring in ₹ 30,000 as capital and offer $1/6^{th}$ share in future profits.
b) Goodwill of the firm is valued at ₹ 25,000.
c) Machinery is appreciated by 10% and stock is reduced by 10%.
d) Furniture revalued at ₹ 18,000 and investments worth ₹ 2,000 is not recorded in the books, now it is to be taken into account.
e) PDD is created at 5% on debtors.

Prepare: i) Revaluation Account.
ii) Partners' Capital Accounts &
iii) New Balance Sheet of the firm.

(Ans: Profit on Revaluation Account ₹ 2,100, Partners Capital Account balance: Vani - ₹ 76,260, Veena - ₹ 50,840, Rani - ₹ 30,000, Bank Account ₹ 36,000, Balance Sheet total ₹ 1,97,100)

18. Surya and Chandra are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31.03.2016 was as follows.

Balance Sheet as on 31.03.2016

Liabilities	Rs	Assets		Rs
Creditors	10,000	Cash at Bank		10,000
Bills Payable	8,000	Debtors	20,000	
Reserve	12,000	Less: PDD	1,000	19,000
Capitals:		Stock		8,000
Surya	30,000	Building		20,000
Chandra	20,000	Furniture		5,000
		Goodwill		9,000
		P & L Account		9,000
	80,000			**80,000**

On 01.04.2016, they admit Akash into partnership on the following terms:

a) Akash should bring ₹ 25,000 as capital for 1/5th share in future profits.

b) The Goodwill of the firm is valued at ₹ 6,000.

c) PDD is reduced to ₹ 500.

d) Building is appreciated by 10% and Stock is revalued at ₹ 7,000.

Prepare: i) Revaluation Account.

ii) Partners' Capital Accounts &

iii) Balance Sheet as on 01.04.2016.

(Ans: Profit on Revaluation Account ₹ 1,500, Partners Capital Account balance: Surya - ₹ 30,900, Chandra - ₹ 20,600, Akash - ₹ 25,000, Bank Account ₹ 35,000, Balance Sheet total ₹ 94,500)

Key Answers

I. Fill in the blanks:

1. Old Ratio
2. Old Ratio
3. Sacrific Ratio
4. Old Ratio
5. Capital
6. Sacrifice Ratio
7. Goodwill
8. Asset
9. Revaluation
10. ₹30,000
11. loose
12. Intangible
13. Goodwill
14. New Profit Sharing Ratio.

II. Multiple choice questions:

1. c	2. c	3. b	4. a	5. a	6. d
7. a	8. b	9. a	10. a	11. b	12. c
13. b	14. a	15. b			

III. True or False

1.True	2. True	3. False	4. True	5. True	6. True
7.True	8. False	9. True	10. True		

****