Reconstitution of Partnership
(Admission of Partner)

EXERCISE - 3 [PAGE 159]

Exercise - 3 | Q 1 | Page 159

Select appropriate alternatives from those given below and rewrite the sentence.

Anuj and Eeshan are two partners sharing profits and losses in the ratio of 3:2. They decided to admit Aaroh for 1/5th share, the new profit sharing ratio will be

____

1. **12:8:5**
2. 4:3:1
3. 12: 8:1
4. 12: 3:1

Solution: Anuj and Eeshan are two partners sharing profits and losses in the ratio of 3:2. They decided to admit Aaroh for 1/5th share, the new profit sharing ratio will be **12:8:5.**

Exercise - 3 | Q 2 | Page 159

Select appropriate alternatives from those given below and rewrite the sentence.

Excess of proportionate capital over actual capital represents _________

1. Equal capital
2. Surplus Capital
3. **Deficit Capital**
4. Gain

Solution: Excess of proportionate capital over actual capital represents **Deficit Capital.**

Exercise - 3 | Q 3 | Page 159

Select appropriate alternatives from those given below and rewrite the sentence.

__________ is credited when an unrecorded asset is brought into the business.

1. **Revaluation Account**
2. Balance Sheet
3. Trading Account

4. Partners capital Account

Solution: **<u>Revaluation Account</u>** is credited when an unrecorded asset is brought into the business.

Exercise - 3 | Q 4 | Page 159

Select appropriate alternatives from those given below and rewrite the sentence.

When goodwill is withdrawn by the partner________account is credited.

1. Revaluation
2. **Cash/Bank**
3. Current
4. Profit and Loss Adjustment

Solution: When goodwill is withdrawn by the partner **<u>Cash/Bank</u>** account is credited.

Exercise - 3 | Q 5 | Page 159

Select appropriate alternatives from those given below and rewrite the sentence.

If the asset is taken over by the partner_________ account is debited.

1. Revaluation
2. **Capital**
3. Asset
4. Balance Sheet

Solution: If the asset is taken over by the partner **<u>Capital</u>** account is debited.

EXERCISE - 3 [PAGE 159]

Exercise - 3 | Q 1 | Page 159

Write a word/phrase/term which can substitute the following statement.

Method under which calculation of goodwill is done on the basis of extra profit earned above the normal profit.

Solution: Method under which calculation of goodwill is done on the basis of extra profit earned above the normal profit - **Super Profit Method**

Exercise - 3 | Q 2 | Page 159

Write a word/phrase/term which can substitute the following statement.

An account opened to adjust the value of assets and liabilities at the time of admission of a partner.

Solution: An account opened to adjust the value of assets and liabilities at the time of admission of a partner - **Revaluation A/c or Profit and Loss A/c**

Exercise - 3 | Q 3 | Page 159

Write a word/phrase/term which can substitute the following statement.

Reputation of business measured in terms of money.

Solution: Reputation of business measured in terms of money - **Goodwill**

Exercise - 3 | Q 4 | Page 159

Write a word/phrase/term which can substitute the following statement.

The ratio in which general reserve is distributed to the old partners.

Solution: The ratio in which general reserve is distributed to the old partners. - **Old Ratio**

Exercise - 3 | Q 5 | Page 159

Write a word/phrase/term which can substitute the following statement.

Name the method of the treatment of goodwill where new partner will bring his share of goodwill in cash.

Solution: Name the method of the treatment of goodwill where new partner will bring his share of goodwill in cash. - **Premium Method**

Exercise - 3 | Q 6 | Page 159

Write a word/phrase/term which can substitute the following statement.

The proportion in which old partners make a sacrifice.

Solution: The proportion in which old partners make a sacrifice. - **Sacrifice Ratio**

Exercise - 3 | Q 7 | Page 159

Write a word/phrase/term which can substitute the following statement.

Capital employed × NRR/100 =

Solution: Capital employed × NRR/100 = **Normal Profit**

Exercise - 3 | Q 8 | Page 159

Write a word/phrase/term which can substitute the following statement.

An account that is debited when the partner takes over the asset.

Solution: An account that is debited when the partner takes over the asset. - **Partner’s Capital A/c or Partner’s Current A/c**

Exercise - 3 | Q 9 | Page 159

Write a word/phrase/term which can substitute the following statement.

Profit and Loss Account balance appearing on the liability side of the Balance Sheet.

Solution: Profit and Loss Account balance appearing on the liability side of the Balance Sheet. - **Undistributed Profit or Accumulated Profit**

Exercise - 3 | Q 10 | Page 159

Write a word/phrase/term which can substitute the following statement.

Old ratio - New ratio =

Solution: Old ratio - New ratio = **Sacrifice Ratio**

EXERCISE - 3 [PAGES 159 - 160]

Exercise - 3 | Q 1 | Page 159

State True or False with reason.

A new partner can bring capital in cash or kind.

1. **True**
2. False

Solution: This statement is **True.**

As per the provision of partnership deed, when any person is admitted to the firm, he has to bring some amount as capital which can be in cash or in-kind of assets to get rights in the assets and definite share in the future profit of the firm.

Exercise - 3 | Q 2 | Page 159

State True or False with reason.

When goodwill is paid privately to the partners, it is not recorded in the books.

1. **True**

2. False

   Solution: This statement is **True**.

   Reason:

   When goodwill is paid privately to the partners, by a newly admitted person, then in such case no transaction takes place in the business and firm as such is not all benefited. Hence it is not recorded in the books of accounts.

Exercise - 3 | Q 3 | Page 159

State True or False with reason.

The gain ratio is calculated at the time of admission of a partner.

1. True
2. **False**

   Solution: This statement is **False.**

   Reason:

   At the time of admission of a person, in the business, sacrifices are made by the old partners in favour of a new partner. It means there is no question of any gain to the partners, so we can say that Gain ratio is not calculated at the time of admission of a partner.

Exercise - 3 | Q 4 | Page 159

State True or False with reason.

Revaluation profit is distributed among all partners including new partner.

1. True
2. **False**

   Solution: This statement is **False.**

   Reason:

   Revaluation profit arises due to efforts and hardworking of the old partners in the past and hence profit earned on revaluation of assets and liabilities at the time of admission of a person as a partner in the business belongs to old partners. So, such profit is not distributed among all partners including a new partner. It distributed only among old partners.

Exercise - 3 | Q 5 | Page 159

State True or False with reason.

Change in the relationship between the partners is called the Reconstitution of partnership.

1. **True**
2. False

Solution: This statement is **True.**

Reason:

When any person joins the business as a partner, a change in the relationship takes place. The old agreement is terminated and a new agreement is prepared. There is a change in profit or loss sharing ratio and the relationship of the partners which is known as the Reconstitution of Partnership.

Exercise - 3 | Q 6 | Page 159

State True or False with reason.

A new partner always bring his share of goodwill in cash.

1. True
2. **False**

Solution: This statement is **False.**

Reason:

When a new person is admitted to the partnership firm, the old partners surrender a certain share in profit and give it to a new partner. In exchange for that new partner is required to bring goodwill in cash or in kind. If he is unable to bring cash for goodwill, then Goodwill is raised and adjusted to the new partner's capital A/c.

Exercise - 3 | Q 7 | Page 159

State 'True' or 'False'

When goodwill is written off, goodwill amount is debited.

1. True
2. **False**

Solution: This statement is **False.**

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

Exercise - 3 | Q 8 | Page 160

State True or False with reason.

The new ratio minus old ratio is equal to the sacrifice ratio.

1. True
2. **False**

Solution: This statement is **False.**

Reason:

When a new partner is admitted, old partners have to sacrifice their profit share in favour of new partner and their old ratio gets reduced and whatever ratio left becomes a new ratio. Hence, as per equation: New Ratio = Old Ratio – Sacrifice Ratio. By interchanging the terms, Sacrifice Ratio = Old Ratio – New Ratio.

Exercise - 3 | Q 9 | Page 160

State True or False with reason.

Usually, when a new partner is admitted to the firm there will be an increase in the capital of the firm.

1. **True**
2. False

Solution: This statement is **True**

Reason:

When a new partner is admitted to the firm, he brings his share of capital and goodwill, in cash or in-kind, to enjoy the right of sharing the future profit, and hence there will be an increase in the capital of the firm.

Exercise - 3 | Q 10 | Page 160

State True or False with reason.

Cash/ Bank Account is credited when goodwill is withdrawn by the old partners.

1. **True**
2. False

Solution: This statement is **True.**

Reason:

When a new partner brings his share of goodwill, old partners have the right to withdraw it in cash. Therefore, when old partners withdraw the amount of goodwill, cash goes out of the firm and not goodwill. Hence Cash/Bank A/c is credited.

EXERCISE - 3 [PAGE 160]

Exercise - 3 | Q 1 | Page 160

Find the Odd one.

1. General reserve
2. Creditors
3. **Machinery**
4. Capital

Solution: General reserve, Creditors, Machinery, Capital - **Machinery**

Exercise - 3 | Q 2 | Page 160

Find the Odd one.

1. The decrease in Furniture
2. Patents written off
3. Increase in Bills Payable
4. **RDD written off**

Solution: The decrease in Furniture, Patents , written offIncrease in Bills Payable, RDD written off - **R.D.D. written off**

Exercise - 3 | Q 3 | Page 160

Find the Odd one.

1. Super profit method
2. Valuation method
3. Average profit method
4. **Fluctuating capital method**

Solution: Super profit method, Valuation method, Average profit method, Fluctuating capital method - **Fluctuating capital method**

EXERCISE - 3 [PAGE 160]

Exercise - 3 | Q 1 | Page 160

Calculate the following.

A and B are partners in a firm sharing profits and losses in the ratio of 1:1. C is admitted. A surrenders 1/4 th share and B surrenders 1/5 th of his share in favor of C. Calculate the new profit sharing ratio.

Solution:

Old ratio of A and B = 1 : 1 or $\frac{1}{2} : \frac{1}{2}$

A's sacrifice = $\frac{1}{4} \times \frac{1}{2} = \frac{1}{8}$

B's sacrifice = $\frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$

Sacrificing ratio of A and B = $\frac{1}{8} : \frac{1}{10}$ = 5 : 4

C's share = A's share + B's share

= $\frac{1}{8} + \frac{1}{10} = \frac{5+4}{40} = \frac{9}{40}$

A's new share = Old ratio – Sacrifice ratio

= $\frac{1}{2} - \frac{1}{8} = \frac{4-1}{8} = \frac{3}{8}$

B's new share = Old ratio – Sacrifice ratio

= $\frac{1}{2} - \frac{1}{10} = \frac{5-1}{10} = \frac{4}{10}$

Therefore, New ratio of A, B and C

= $\frac{3}{8} : \frac{4}{10} : \frac{9}{40}$

= 15 : 16 : 9

(Making denominator equal)

Exercise - 3 | Q 2 | Page 160

Calculate the following.

Anika and Radhika are partners sharing profits in the ratio of 5:1. They decide to admit Sanika in the firm for 1/5 th share. calculate the sacrifice ratio of Anika and Radhika

Solution:

Balance – 1 = 1 – share of new partner

$= 1 - \frac{1}{5}$

$= \frac{4}{5}$ (Remaining share)

New ratio = Old ratio × Balance of 1

Anika's New ratio $= \frac{5}{6} \times \frac{4}{5} = \frac{20}{30}$

Radhika's New ratio $= \frac{1}{6} \times \frac{4}{5} = \frac{4}{30}$

Sanika's New ratio $= \frac{1}{5} \times \frac{6}{6} = \frac{6}{30}$ (Making denominator equal)

∴ New Profit and Loss ratio $= \frac{20}{30} : \frac{4}{30} : \frac{6}{30}$

= 20 : 4 : 6 i.e. 10 : 2 : 3

Sacrifice ratio = old ratio – New ratio

Anika's Sacrifice ratio $= \frac{5}{6} - \frac{20}{30} = \frac{25-20}{30} = \frac{5}{30}$

Radhika's Sacrifice ratio $= \frac{1}{6} - \frac{4}{30} = \frac{5-4}{30} = \frac{1}{30}$

∴ Sacrifice ratio $= \frac{5}{30} : \frac{1}{30} = 5 : 1$

Exercise - 3 | Q 3 | Page 160

Calculate the following.

Pramod and Vinod are partners sharing profits and losses in the ratio of 3:2. After the admission of Ramesh the new ratio of Pramod, Vinod and Ramesh is 4:3:2. Find out the sacrifice ratio.

Solution:

Sacrifice Ratio = Old ratio – New ratio

$$\text{Pramod's Sacrifice ratio} = \frac{3}{5} - \frac{4}{9} = \frac{27-20}{45} = \frac{7}{45}$$

$$\text{Vinod's Sacrifice ratio} = \frac{2}{5} - \frac{3}{9} = \frac{18-15}{45} = \frac{3}{45}$$

$$\therefore \text{Sacrifice ratio} = \frac{7}{45} : \frac{3}{45} = 7 : 3.$$

EXERCISE - 3 [PAGE 160]

Exercise - 3 | Q 1 | Page 160

Answer in one sentence only.

What is revaluation account?

Solution 1:

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

Solution 2:

The account which shows change in the values of assets and liabilities during the admission, retirement or death of a partner is known as Revaluation Account.

Exercise - 3 | Q 2 | Page 160

Answer the following.

What is meant by the Reconstitution of Partnership?

Solution: Reconstitution of partnership means a change in the relationship between/among partners and in the form of partnership.

Exercise - 3 | Q 3 | Page 160

Answer the following.

Why is a new partner admitted?

Solution: A new partner is admitted to the existing partnership firm to increase the capital resources of the firm and to secure advantages of a new entrant's skill and business connections, i.e. goodwill.

Exercise - 3 | Q 4 | Page 160

Answer the following.

What is the sacrifice ratio?

Solution: A ratio that is surrendered or given up by the old partners in favour of a newly admitted partner is called sacrifice ratio.

Exercise - 3 | Q 5 | Page 160

Answer the following.

What do you mean by raising the goodwill at the time of admission of a new partner?

Solution: Raising the Goodwill at the time of admission of a new partner means debiting Goodwill Account up to the value it is raised and crediting. Old partners Capital Accounts in their old ratio in the books of the firm.

Exercise - 3 | Q 6 | Page 160

Answer the following.

What is the super profit method of calculation of goodwill?

Solution: Super profit method of calculation of Goodwill is a method in which Goodwill is valued at a certain number of years purchases of the super profit of the partnership firm.

Exercise - 3 | Q 7 | Page 160

Answer the following.

When is the ratio of sacrifice calculated for the distribution of goodwill?

Solution: The ratio of sacrifice is calculated when the benefits of goodwill contributed by a new partner in cash is to be transferred to existing partners' Capital/Current Account.

Exercise - 3 | Q 8 | Page 160

Answer the following.

What is the treatment of accumulated profits at the time of admission of a partner?

Solution: Accumulated profits at the time of admission of a partner are transferred to old partners' Capital/ Current Accounts in their old profit sharing ratio.

Exercise - 3 | Q 9 | Page 160

Answer the following.

State the ratio in which the old partner's Capital A/c will be credited for goodwill when the new partner does not bring his share of goodwill in cash?

Solution: When the new partner does not bring his share of goodwill in cash, Goodwill is raised up to a certain value and credited to old partners' Capital/Current A/cs in their old profit sharing ratio.

Exercise - 3 | Q 10 | Page 160

Answer the following.

What does the excess of debit over credits in the Profit and Loss Adjustment Account indicate?

Solution: The excess of debit over credits in Profit and Loss Adjustment Account indicates a loss on the revaluation of assets and liabilities.

EXERCISE - 3 [PAGE 160]

Exercise - 3 | Q 1 | Page 160

Complete the following sentence.

$$\_\_\_\_\_\_\_\_\_\_ = \frac{\text{Total profit}}{\text{Number of years.}}$$

Solution:

$$\underline{\textbf{Average Profit}} = \frac{\text{Total profit}}{\text{Number of years.}}$$

Exercise - 3 | Q 2 | Page 160

Complete the following sentence.

$$\text{Normal Profit} = \_\_\_\_\_\_\_\_ \times \frac{\text{NRR}}{100}$$

Solution:

$$\text{Normal Profit} = \underline{\textbf{Capital employed}} \times \frac{\text{NRR}}{100}$$

Exercise - 3 | Q 3 | Page 160

Complete the following sentence.

The stock showed in Balance Sheet → Stock undervalued by 20% → Cost of Stock

₹1,60,000 → __________ → __________

Solution:

The stock showed in Balance Sheet → Stock undervalued by 20% → Cost of Stock

₹ 1,60,000 → **₹ 40,000** → **₹ 2,00,000**

PRACTICAL PROBLEMS [PAGES 161 - 167]

Practical Problems | Q 1 | Page 161

Vikram and Pradnya share profits and losses in the ratio 2:3 respectively. Their balance sheet as on 31st March 2018 was as under.

Balance Sheet as on 31st March 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	1,05,000	Cash	7,500
Capitals :		Land & Building	37,500
Vikram	75,000	Plant	45,000
Pradnya	75,000	Furniture	3,000
		Stock	75,000
		Debtors	87,000
	2,55,000		**2,55,000**

They agreed to admit Avani as a partner on 1st April 2018 on the following terms:

1 Avani shall have 1/4th share in future profits.

2. He shall bring ₹ 37,500 as his capital and ₹ 30,000 as his share of goodwill.

3. Land and building to be valued at ₹ 45,000 and furniture to be depreciated by 10%.

4. Provision for bad and doubtful debts is to be maintained at 5% on the Sundry Debtors.

5 Stocks to be valued ₹ 82, 500.

The capital A/c of all partners to be adjusted in their new profit and loss ratio and excess amount be transferred to their loan accounts.

Prepare Profit and Loss Adjustment Account, Capital Accounts, and New Balance Sheet.

Solution:

Dr	**In the books of Partnership Firm Profit and Loss Adjustment Account**		**Cr**
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To R.D.D. A/c	4,350	By Land & Building A/c	7,500

To Furniture A/c (Depreciation)	300	By Stock A /c	7,500
To Profit on Revaluation			
Vikram 4,140			
Pradnya 6,210	10,350		
	15,000		**15,000**

Dr	**Partners' Capital Accounts**						**Cr**
Particulars	**Vikram (₹)**	**Pradnya (₹)**	**Avani (₹)**	**Particulars**	**Vikram (₹)**	**Pradnya (₹)**	**Avani (₹)**
To Partners' Loan A/c	46,140	31,710		By Balance b/d	75,000	75,000	
To Balance c /d	45,000	67,500	37,500	By Bank A/c	-	-	37,500
				By Revaluation A/c (Profit)	4,140	6,210	
				By Goodwill A/c	12,000	18,000	
	91,140	**99,210**	**37,500**		**91,140**	**99,210**	**37,500**

Dr	**Balance Sheet as on 1st April 2018**				**Cr**
Liabilities	**Amount (₹)**	**Amount (₹)**	**Assets**	**Amount (₹)**	**Amount (₹)**
Capital Accounts:			Cash		75,000
Vikram	45,000				
Pradnya	67,500				
Avani	37,500	1,50,000			
Creditors		1,05,000	Land & Building	37,500	
			Add: Appreciation	7,500	45,000

Partners' Loan A/c :			Furniture	3,000	
			Less: Depreciation	300	2,700
Vikram	46,140				
Pradnya	31,710	77,850			
			Plant		45,000
			Stock	75,000	
			Add: Appreciation	7,500	82,500
			Debtors	87,000	
			Less : R.D.D. (5%)	4,350	82,650
		3,32,850			**3,32,850**

Working Notes :

(1) Calculation of new profit ratio = 1 – share of new partner

$= 1 - \frac{1}{4}$

$= \frac{3}{4}$ Remaining share

New ratio = old ratio × balance 1 (Remaining share)

Vikram's new ratio $= \frac{2}{5} \times \frac{3}{4} = \frac{6}{20}$

Pradnya's new ratio $= \frac{3}{5} \times \frac{3}{4} = \frac{9}{20}$.

Avani's ratio $= \frac{1}{4} = \frac{1}{4} \times \frac{5}{5} = \frac{5}{20}$

∴New profit sharing ratio = 6 : 9 : 5.

Capital amount adjusted in their new profit and loss ratio:
Total Capital of the Partnership Firm = (Reciprocal of New Partner's Share) × (Capital of New Partner)

$$= \left(\text{Reciprocal of}\left(\frac{1}{4}\right) \times 37{,}500 = 4 \times 37{,}500 = ₹\ 1{,}50{,}000\right.$$

Vikram's Capital balance = (Vikram's New Ratio) × (Total Capital of the firm)

=6/20 x 1,50,000 = ₹ 45,000

Pradnya's Capital balance =9/20 × 1,50,000 = ₹ 67,500

Practical Problems | Q 2 | Page 161

Amalendu and Sameer share profits and losses in the ratio 3:2 respectively Their balance sheet as on 31st March 2017 was as under.

Balance Sheet as on 31st March 2017

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Sundry Creditors	10,000	Cash at bank	12,000
Amlendu capital	60,000	Sundry debtors	24,000
Sameer capital	40,000	Land & Building	50,000
General reserve	20,000	Stock	16,000
		Plant and machinery	20,000
		Furniture & fixture	8,000
	1,30,000		**1,30,000**

On 1st April 2017, they admit Paresh into partnership. The term being that:

1 He shall pay ₹16,000 as his share of Goodwill 50% amount of Goodwill shall be withdrawn by the old partners.

2 He shall have to bring in ₹20,000 as his Capital for 1/4 share in future profits.

3. For the purpose of Paresh's admission, it was agreed that the assets would be revalued as follows.

A) Land and Building is to be valued at ₹60,000

B) Plant and Machinery to be valued at ₹16,000

C) Stock valued at ₹20,000 and Furniture and Fixtures at ₹4,000

D) A Provision of 5% on Debtors would be made for Doubtful Debts.

Pass The necessary Journal Entries in the Books of a New Firm.

Solution:

Journal entries in the books of Partnership Firm				
Date	**Particulars**	**L.F**	**Debit (₹)**	**Credit (₹)**
2017 April 1	General Reserve A/c Dr.		20,000	
	To Amalendu's Capital A/c			12,000
	To Sameer's Capital A/c			8,000
	(Being general reserve distributed among old partners)			
	Profit and Loss Adjustment A/c Dr.		9,200	
	To Plant and Machinery A/c			4,000
	To Furniture & Fixture A/c			4,000
	To R.D.D. A/c			1,200
	(Being decrease in the value of assets and reserve for doubtful debts.)			
	Land and Building A/c Dr		4,000	
	Stock A/c Dr.		10,000	
	To Profit and Loss Adjustment A/c			14,000
	(Being appreciation in the value of assets)			
	Profit and Loss Adjustment A/c Dr.		4,800	
	To Amalendu's Capital A/c			2,880
	To Sameer's Capital A/c			1,920
	(Being profit on revaluation distributed in profit sharing ratio)			
	Cash / Bank A/c Dr.		20,000	
	To Paresh's Capital A/c			20,000

	(Being amount brought in for capital by Paresh)			
	Cash / Bank A/c Dr.		16,000	
	To Goodwill A/c			16,000
	(Being amount brought in for goodwill by Paresh)			
	Goodwill A/c Dr.		16,000	
	To Amalendu’s Capital A/c			9,600
	To Sameer’s Capital A/c			6,400
	(Being goodwill distributed among old partners)			
	Amalendu’s Capital A/c Dr.		4,800	
	Sameer’s Capital A/c Dr.		3,200	
	To Bank A/c			8,000
	(Being half of the goodwill amount withdrawn by old partners)			
			108000	**108000**

Working Notes :

Dr	Goodwill Account		Cr
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Amalendu’s Capital A/c	9,600	By Cash / Bank A/c	16,000
To Sameer’s Capital A/c	6,400		
	16,000		**16,000**

Dr	Profit and Loss Adjustment Account				Cr
Particulars	**Amount (₹)**	**Amount (₹)**	**Particulars**	**Amount (₹)**	**Amount (₹)**
To Plant and Machinery A/c		4,000	By Land & Building A/c		10,000

To Furniture and Fixture A/c		4,000	By Stock A/c		4,000
To R.D.D. Debts A/c		1,200			
To Profit on Revaluation Transferred to Partners'					
Capital A/cs : Amalendu	2,880				
Sameer	1,920	4,800			
		14,000			**14,000**

Practical Problems | Q 3 | Page 162

Vasu and Viraj Share Profits and Losses in the Ratio of 3:2 respectively Their Balance Sheet as on 31st March 2019 was as under

Balance Sheet as on 31st March, 2019

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	45,000	Cash at bank	750
General Reserve	30,000	Sundry debtors	66,750
Capital:		Stock	25,500
Vasu	1,08,000		
Viraj	72,000		
		Investment	36,000
		Plant	90,000
		Building	36,000
	2,55,000		**2,55,000**

They admit Hari into Partnership on 1.4. 2019 the terms being that :

1 He shall have to bring in ₹60,000 as his Capital for 1/4 share in future profits

2 Value of Goodwill of the Firm is to be fixed at The average profits for the last three years. The Profit was.

2009-10 ₹ 48,000,

2010-11 ₹ 81,000

2011-12 ₹ 73,500

Hari is unable to bring the value of the Goodwill in cash. It is decided to raise the Goodwill in the books of accounts.

3. Reserve for Doubtful Debts is to be created at ₹ 1,500.

4. Closing Stock is valued at ₹ 22,500

5. Plant and Building is to be depreciated by 5%

Prepare Profit and Loss Adjustment A/c, Capital Accounts of Partners, And Balance Sheet of the New Firm.

Solution:

In the books of the firm.........

Dr		Profit and Loss Adjustment Account			Cr
Particulars		**Amount (₹)**	**Particulars**		**Amount(₹)**
To R.D.D. (New) A/c		1,500	By Loss on Revaluation		
To Stock A/c		3,000	Transferred to Partners' Capital A /cs :		
			Vasu	6,480	
			Viraj	4,320	10,800
To Depreciation A/cs:					
Plant	4,500				
Building	1,800	6,300			
		10,800			**10,800**

Dr	Partners' Capital Accounts						Cr
Particulars	**Vasu (₹)**	**Viraj (₹)**	**Hari(₹)**	**Particulars**	**Vasu (₹)**	**Viraj (₹)**	**Hari(₹)**

To Profit and Loss Adjustment A/c (Loss)	6,480	4,320		By Balance b/d	1,08,000	72,000	
To Balance c / d	1,60,020	1,06,680	60,000	By Cash / Bank A/c			60,000
				By Goodwill A/c	40,500	27,000	
				By General Reserve A/c	18,000	12,000	
	1,66,500	**1,11,000**	**60,000**		**1,66,500**	**1,11,000**	**60,000**

Balance Sheet as on 1st April 2019					
Liabilities	**Amount (₹)**	**Amount (₹)**	**Assets**	**Amount (₹)**	**Amount (₹)**
Capital A/cs : Vasu	1,60,020		Cash		60,750
Viraj	1,06,680		Sundry Debtors	66,750	
Hari	60,000	3,26,700	Less : R.D.D. (New)	1,500	65,250
Sundry Creditors		45,000	Stock	25,500	
			Less :Depreciation	3,000	22,500
			Investments		36,000
			Plant	90,000	
			Less : Depreciation	4,500	85,500
			Building	36,000	
			Less: Depreciation	1,800	34,200

			Goodwill		67,500
		3,71,700			**3,71,700**

Working Notes :

(1) Average Profit $= \frac{\text{Total Profit}}{\text{No. of years}}$

$= \frac{48,000 + 81,000 + 73,500}{3}$ = ₹ 67,500

∴ Goodwill value = ₹ 67,500

Vasu's share in Goodwill = ₹ $40,500 \left(67,500 \times \frac{3}{5}\right)$

Viraj's share in Goodwill = ₹ $27,000 \left(67,500 \times \frac{2}{5}\right)$

(2) Hari is not able to bring share in goodwill and it is decided to raise the goodwill in the book. Therefore, Goodwill is recorded in the Asset side ₹ 67,500.

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Mr. Deep & Mr. Karan were in Partnership sharing Profits & Losses in the proportion of 3: 1 respectively. Their Balance Sheet On 31st March 2018 Stood as follows

Balance Sheet as on 31st March

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Sundry Creditors		40,000	Cash		40,000
Bill Payable		10,000	Sundry debtors		32,000
Bank Overdraft		11,000	Land & Building		16,000
Capital A/c:			Stock		20,000

Deep	60,000				
Karan	20,000	80,000			
General Reserve		8,000	Plant and machinery		30,000
			Furniture		11,000
		1,49,000			**1,49,000**

They admit Shubham into Partnership on 1 April 2018 The term being that:

1. He shall have to bring in ₹ 20,000 as his capital for 1/5 Share in future profits & 10,000 as his share of Goodwill.
2. A Provision for 5% doubtful debts to be created on Sundry Debtors.
3. Furniture to be depreciated by 20%
4. Stock should be appreciated by 5% and Building be appreciated by 20%
5. Capital A/c of all partners be adjusted in their new profit sharing ratio through a cash account.

Prepare Profit and Loss Adjustment A/c, Partner's Capital A/c, Balance sheet of the new firm.

Solution:

Dr		**In the books of the firm --- Profit and Loss Adjustment Account**		**Cr**
Particulars		**Amount (₹)**	**Particulars**	**Amount (₹)**
To R.D.D. (New) A/c		1,600	By Stock A/c	1,000
To Depreciation A/c – Furniture		2,200	By Building A/c	3,200
To Profit on Revaluation Transferred to Partners' Capital A/cs				
Deep	300			
Karan	100	400		
		4,200		**4,200**

Dr.	Partners' Capital Accounts						Cr.
Particulars	**Deep (₹)**	**Karan (₹)**	**Shubham (₹)**	**Particulars**	**Deep (₹)**	**Karan (₹)**	**Shubham (₹)**
To Cash A/c	13,800	4,600		By Balance b/d	60,000	20,000	
To Balance c / d	60,000	20,000	20,000	By Cash / Bank A/c			20,000
				By Goodwill A/c	7,500	2,500	
				By Revaluation on A/c (Profit)	300	100	
				By General Reserve A/	6,000	2,000	
	73,800	**24,600**	**20,000**		**73,800**	**24,600**	**20,000**

Balance Sheet as on 1st April 2018					
Liabilities	**Amount (₹)**	**Amount (₹)**	**Assets**	**Amount (₹)**	**Amount (₹)**
Capital A/cs:			Cash		51,600
Deep	60,000		Sundry Debtors	32,000	
Karan	20,000		Less: R.D.D	1,600	30,400
Shubham	20,000	1,00,000	Land and Building	16,000	
Sundry Creditors		40,000	Add: Appreciation	3,200	19,200
Bills Payable		10,000	Stock	20,000	
Bank Overdraft		11,000	Add: Appreciation	1,000	21,000
			Furniture	11,000	
			Less: Depreciation	2,200	8,800

			Plant and Machinery		30,000
*		**1,61,000**			**1,61,000**

Working Note :

Calculation of new ratio: Balance of 1 = 1 – share of new partner

$= 1 - \frac{1}{5}$

$= \frac{4}{5}$ (Remaining share)

New ratio = Old ratio × balance 1 (Remaining share)

Deep's new ratio = $\frac{3}{4} \times \frac{4}{5} = \frac{3}{5}$

Karan's new ratio = $\frac{1}{4} \times \frac{4}{5} = \frac{1}{5}$

Shubham's new ratio $= \frac{1}{5} = \frac{1}{5}$

∴ New profit and loss sharing ratio = 3: 1: 1

Capital amount to be adjusted in Partner's new profit and loss ratio:

Total Capital of the firm = (Reciprocal of New partner's share) × (New partner's capital)

= 5 × 20,000 = ₹ 1,00,000

Deep's capital balance = 5/3 × 1,00,000 = ₹ 60,000

Karan's capital balance =1/5× 1,00,000 = ₹
20,000

Dr	**Cash Account**		**Cr**
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Balance b/d	40,000	By Deep's Capital A/c	13,800
To Shubham's Capital A/c	20,000	By Karan's Capital A/c	4,600
To Goodwill A/c	10,000	By Balance c / d	51,600

	70,000		**70,000**

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Mr. Kishor & Mr. Lal were in partnership sharing profits & losses in the proportion of 3/4 and 1/4 respectively.

Balance Sheet as on 31 March 2018

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Creditors		1,20,000	Land and Building		75,000
General Reserve		12,000	Furniture		6,000
Capital A/c:			Stock		60,000
Kishor	90,000				
Lal	48,000	1,38,000			
			Debtors		60,000
			Bills Receivable		39,000
			Cash at Bank		30,000
		2,70,000			**2,70,000**

They decided to admit Ram on 1 April 2018 on following terms:

1. He should be given 1/5th share in profit and for that he brought in ₹ 60,000 as capital through RTGS.
2. Goodwill should be raised at ₹ 60,000
3. Appreciate Land and Building by 20%
4. Furniture and Stock are to be depreciated by 10%
5. The Capitals of all partners should be adjusted in their new profit sharing ratio through Bank A/c.

Pass necessary Journal Entries in the books of the Partnership firm and a Balance sheet of the new firm.

Solution:

Journal entries in the books of the firm				
Date	**Particulars**	**L.F**	**Debit (₹)**	**Credit (₹)**
2018 April 1	General Reserve A/c Dr.		12,000	
	To Mr. Kishor's Capital A/c			9,000
	To Mr. Lal's			3,000
	Capital A/c (Being general reserve distributed among old partners)			
1	Profit and Loss Adjustment A/c Dr.		6,600	
	To Furniture A/c			600
	To Stock A/c			6,000
	(Being decrease in the value of assets)			
1	Land and Building A/c Dr.		15,000	
	To Profit and Loss Adjustment A/c			15,000
	(Being increase in the value of assets)			
1	Profit and Loss Adjustment A/c Dr.		8,400	
	To Mr. Kishor's Capital A/c			6,300

	To Mr. Lal's Capital A/c			2,100
	(Being profit on revaluation distributed in profit sharing ratio)			
1	Bank A/c Dr.		60,000	
	To Ram's Capital A/c			60,000
	(Being capital amount brought in through RTGS)			
1	Goodwill A/c Dr		60,000	
	To Kishor's Capital A/c			45,000
	To Lal's Capital A/c			15,000
	(Being the goodwill raised and transferred to capital A/cs in their old ratio)			
1	Bank A/c Dr.		29,700	
	To Kishor's Capital A/c			29,700
	(Being deficit in capital account settled in cash by Kishor)			
1	Lal's Capital A/c Dr.		8,100	
	To Bank A/c			8,100
	(Being surplus capital amount paid to Lal)			
			199800	**199800**

Dr.			Balance Sheet as on 1st April 2018		Cr.
Liabilities	**Amount (₹)**	**Amount (₹)**	**Assets**	**Amount (₹)**	**Amount (₹)**
Capital Accounts:			Land & Building	75,000	90,000
Mr. Kishor	1,80,000		Add: Appreciation	15,000	
Mr. Lal	60,000				
Ram	60,000	3,00,000			
Creditors		1,20,000	Furniture	6,000	
			Less: Depreciation	600	5,400
			Stock	60,000	
			Less : Depreciation	6,000	54,000
			Debtors		60,000
			Goodwill		60,000
			Bills Receivable		39,000
			Cash at Bank		1,11,600
		4,20,000			**4,20,000**

Working Notes :

(1)

Dr			Partners' Capital Accounts				Cr
Particulars	**Kishor (₹)**	**Lal (₹)**	**Ram (₹)**	**Particulars**	**Kishor (₹)**	**Lal (₹)**	**Ram (₹)**

To Bank A/c		8,100		By Balance b / d	90,000	48,000	
To Balance c / d	1,80,000	60,000	60,000	By Bank A/c			60,000
				By Goodwill A/c	45,000	15,000	
				By General Reserve A/c	9,000	3,000	
				By Revaluation A/c (Profit)	6,300	2,100	
				By Bank A/c	29,700		
	1,80,000	**68,100**	**60,000**		**1,80,000**	**68,100**	**60,000**

Bank Account			
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Balance b / d	30,000	By Lal's Capital A/c	8,100
To Ram's Capital A/c	60,000	By Balance c / d	1,11,600
To Kishor's Capital A/c	29,700		
	1,19,700		**1,19,700**

(2) Calculation of new profit sharing ratio:

New Ratio = (Balance of 1) × (old ratio)

Kishor's New ratio = $\left(1-\frac{1}{5}\right)\times\frac{3}{4}=\frac{4}{5}\times\frac{3}{4}=\frac{3}{5}$

Lal's New ratio = $\left(1-\frac{1}{5}\right)\times\frac{1}{4}=\frac{4}{5}\times\frac{1}{4}=\frac{1}{5}$

Ram's ratio = $\frac{1}{5}$

(3) Total capital of the firm = (Reciprocal of Ram's ratio) × (His capital contribution)

= $\frac{5}{1}\times 60,000 = ₹3,00,000$

Kishor's new closing capital balance = $3,00,000\times\frac{3}{5}$ = ₹ 1,80,000

Lal's new closing capital balance = $3,00,000\times\frac{1}{5}$ = ₹ 60,000

Ram's new closing capital balance = ₹ 60,000

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Vrushali and Leena are equal partners in the business. Their Balance sheet as on 31 March 2018 stood as under

Balance Sheet as on 31 March 2018

Liabilities	**Amt. (₹)**	**Amt. (₹)**	**Assets**	**Amt. (₹)**	**Amt. (₹)**
Sundry Creditors	90,000	90,000	Cash in Bank		62,000
Capitals:			Debtors	31,000	
Vrushali	45,000	75,000	Less: R.D.D	1,000	30,000
Leena	30,000		Building		55,000
General Reserves		18,000	Machinery		24,000
			Bills Receivable		12,000
		1,83,000			**1,83,000**

They decided to admit Aparna on 1st April 2018 on the following terms:

1. The Machinery and Building be depreciated by 10%. Reserve for Doubtful Debts to be increased by ₹ 5,000

2. Bills Receivable are taken over by Vrushali at the discount of 10%

3. Aparna should bring Rs. 60,000 as capital for her 1/4th share in future profits.

4. The capital accounts of all the partners be adjusted in proportion in the new profit sharing ratio by opening current accounts of the partners.

Prepare Profit and Loss Adjustment A/c, Partner's Capital A/c, Balance sheet of the new firm.

Solution:

Dr.	**Profit and Loss Adjustment Account**			**Cr.**
Particulars	**Amount (₹)**	**Particulars**		**Amount (₹)**
To Machinery A/c	2,400	By Loss on Revaluation		
To Building A/c	5,500	Transferred to Partners' Capital A/cs :		
To R.D.D. A/c	5,000	Vrushali	7,050	
		Leena	7,050	14,100
To Bills Receivable A/c (Discount)	1,200			
	14,100			**14,100**

Dr	**Partners' Capital Accounts**						**Cr**
Particulars	**Vrushali (₹)**	**Leena (₹)**	**Aparna (₹)**	**Particulars**	**Vrushali (₹)**	**Leena (₹)**	**Aparna (₹)**
To Revaluation A/c (Loss)	7,050	7,050		By Balance b / d	45,000	30,000	
To Bills Receivable A/c	10,800			By Bank A/c			60,000
To Balance c/d	90,000	90,000	60,000	By General Reserve A/c	9,000	9,000	
				By Partner's Current A/c	53,850	58,050	
	1,07,850	**97,050**	**60,000**		**1,07,850**	**97,050**	**60,000**

Balance Sheet as on 1st April 2018					
Liabilities	**Amount (₹)**	**Amount (₹)**	**Assets**	**Amount (₹)**	**Amount (₹)**
Capital A/cs :			Cash in Bank		1,22,000
Vrushali	90,000		Debtors	31,000	
Leena	90,000		Less : R.D.D. (1000 + 5000)	6,000	25,000
Aparna	60,000	2,40,000	Building	55,000	
Sundry Creditors		90,000	Less: Depreciation	5,500	49,500
			Machinery	24,000	
			Less: Depreciation	2,400	21,600
			Partners' Current A/cs :		
			Vrushali	53,850	
			Leena	58,050	1,11,900
		3,30,000			**3,30,000**

Working Notes :

(1) R.D.D. to be increased by ₹ 5,000 means subtract 5,000 from Debtors.

(2) Bills receivable taken by Vrushali at 10 % discount i.e. 12,000 – 1,200 = ₹ 10,800. Write this amount in the debit side of partners Capital Account in Vrushali's column.

(3) Calculation of new ratio = 1 – share of new partner

$= 1 - \frac{1}{4}$

$= \frac{3}{4}$ Remaining share

New ratio = Old ratio × Balance 1 (Remaining Share)

Vrushali's new ratio = $\frac{1}{2} \times \frac{3}{4} = \frac{3}{8}$

Leena's new ratio = $\frac{1}{2} \times \frac{3}{4} = \frac{3}{8}$

Aparna's ratio = $\frac{1}{4}$

Partner's new profit and loss ratio $= \frac{3}{8} : \frac{3}{8} : \frac{1}{4}$

= 3: 3: 2

Now, capital amount to be adjusted in partners new profit and loss ratio.

Total capital of the firm = (Reciprocal of New Partner's Share) × (New Partner's Capital)

= (Reciprocal of 1/4) × 60,000 = 4 × 60,000 = ₹ 2,40,000

Vrushali's capital balance =₹3/8×2,40,000=₹90,000

Leela's capital balance = ₹3/8×2,40,000=₹90,000

Deficit of these capital balance are to be adjusted through Current account.

To keep balance of Vrushali's and Leena's capital ₹ 90,000 each, deficit of ₹ 53,850 and ₹ 58,050 are incurred which is transferred to respective Partner's Current A/cs and recorded on Asset side of Balance Sheet [As it is to be recovered from Partners].

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The balance sheet of Medha and Radha who share profit and loss in the ratio 3: 1 is as follows:

Balance Sheet as on 31 March 2018			
Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**

Sundry Creditors	80,000	Cash	78,000
Bills Payable	20,000	Sundry debtors	64,000
Bank overdraft	20,000	Stock	40,000
Capital A/c:		Plant & Machinery	60,000
Medha	1,20,000	Furniture	22,000
Radha	40,000	Land and Building	32,000
General reserve	16,000		
	2,96,000		**2,96,000**

They decided to admit krutika on 1st April 2018 on the following terms:

1. Krutika is taken as partner on 1st April 2017 she will pay 40,000 as her capital for 1/5 share in future profits and Rs. 2,500 as goodwill

2. A 5% provision for bad and doubtful debt be created on debtors.

3. Furniture be depreciated by 20%.

4. Stocks be appreciated by 5% and plant & machinery by 20%

5. The Capital accounts of all partners be adjusted in their new profit sharing ratio by adjusting the amount through loan.

6. The new profit sharing ratio will be 3/5 1/5 1/5 respectively.

You are required to prepare profit and loss adjustment A/c, Partner's Capital A/c, Balance Sheet of the new firm.

Solution:

Dr.	**Profit and Loss Adjustment Account**		**Cr.**
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To R.D.D. A/c	3,200	By Stock A/c	2,000
To Depreciation A/c – Furniture	4,400	By Plant & Machinery A/c	12,000

To Profit on Revaluation Transferred to Partners' Capital Accounts			
Medha 4,800			
Radha 1,600	6,400		
	14,000		**14,000**

Dr	Partners' Capital Account						Cr
Particulars	**Medha (₹)**	**Radha (₹)**	**Krutika (₹)**	**Particulars**	**Medha (₹)**	**Radha (₹)**	**Krutika (₹)**
To Partners' Loan A/c	18,675	6,225		By Balance b / d	1,20,000	40,000	
To Balance c/d	1,20,000	40,000	40,000	By Bank A/c			40,000
				By Goodwill A/c	1,875	625	
				By Revaluation A/c	4,800	1,600	
				By General Reserve	12,000	4,000	
	1,38,675	**46,225**	**40,000**		**1,38,675**	**46,225**	**40,000**

Balance Sheet as on 1st April 2018					
Liabilities	**Amount (₹)**	**Amount (₹)**	**Assets**	**Amount (₹)**	**Amount (₹)**

Capital A/cs:			Cash		1,20,500
Medha	1,20,000		Sundry Debtors	64,000	
Radha	40,000		Less: R.D.D	3,200	60,800
Krutika	40,000	2,00,000	Stock	40,000	
Sundry Creditors		80,000	Add: Appreciation	2,000	42,000
Bills Payable		20,000	Plant & Machinery	60,000	
Bank Overdraft		20,000	Add: Appreciation	12,000	72,000
Partner's Loan :			Furniture	22,000	
Medha	18,675		Less: Depreciation	4,400	17,600
Radha	6,225	24,900	Land and Building		32,000
		3,44,900			**3,44,900**

Working Notes :

(1) Total capital of the firm = (Reciprocal of New Partner's Profit Sharing ratio) × (Capital contributed by new partner)

= (Reciprocal of 1/5) x 40,000 = 5 x 40,000 = ₹ 2,00,000

Medha's closing capital balance = 3/5 x 2,00,000 = ₹ 1,20,000

Radha's closing capital balance = 1/5 x 2,00,000 = ₹ 40,000

(2) General reserve is distributed among old partners in their old profit and loss ratio.

(3) Cash Bal. : 78,000 + 40,000 + 2,500 = ₹ 1,20,500 [Amount brought in by new partner.]

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The Balance Sheet of Sahil and Nikhil who share profits in the ratio of 3: 2 as on 31st March 2017

Balance Sheet as on 31st March 2017

Liabilities	Amt. (₹)	Amt. (₹)	Assets	Amt. (₹)	Amt. (₹)
Creditors		60,000	Furniture		60,000
capitals:			Building		72,000
Sahil	80,000		Debtors		40,000
Nikhil	1,00,000	1,80,000	Closing Stock		48,000
			Cash in Hand		20,000
		2,40,000			**2,40,000**

Varad admitted on 1St April 2017 on the following terms :

1. Varad was to pay 1,00,000 for his share of capital.

2. He was also to pay 40,000 as his share of goodwill.

3. The new profit sharing ratio was 3:2:3

4. Old partners decided to revalue the assets as follows:

Building 1,00,000, Furniture- 48,000, Debtors - 38,000 (in view of likely bad debts)

5. It was found that there was a liability for 3,000 for goods in March 2017 but recorded on 2nd April 2017**.**

You are required to prepare:

a) Profit and Loss adjustment accounts

b) Capital accounts of the partners

c) Balance sheet after the admission of Varad

Solution:

Dr.	**Profit and Loss Adjustment Account**		**Cr**
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Furniture A/c	12,000	By Building A/c	28,000
To Bad Debts A/c (likely)	2,000		
To Unrecorded Liability A/c	3,000		

To Profit on Revaluation Transferred to Partners' Capital A/cs:				
Sahil	6,600			
Nikhil	4,400	11,000		
		28,000		**28,000**

Dr			**Partners' Capital Accounts**				**Cr**
Particulars	**Sahil (₹)**	**Nikhil (₹)**	**Varad (₹)**	**Particulars**	**Sahil (₹)**	**Nikhil (₹)**	**Varad (₹)**
				By Balance b/d	80,000	1,00,000	
				By Bank A/c	-	-	1,00,000
				By Goodwill A/c	24,000	16,000	
To Balance c/d	1,10,600	1,20,400	1,00,000	By Revaluation A/c	6,600	4,400	
	1,10,600	**1,20,400**	**1,00,000**		**1,10,600**	**1,20,400**	**1,00,000**

Balance Sheet as on 1st April 2017

Liabilities	**Amount (₹)**	**Amount (₹)**	**Assets**	**Amount (₹)**	**Amount (₹)**
Capital A/cs:			Furniture	60,000	
Sahil	1,10,600		Less: Depreciation	12,000	48,000
Nikhil	1,20,400		Building	72,000	
Varad	1,00,000	3,31,000	Add: Appreciation	28,000	1,00,000
Creditors		60,000	Debtors	40,000	

Unrecorded Liability		3,000	Less: Bad Debts (likely)	2,000	38,000
			Closing Stock		48,000
			Cash in Hand		1,60,000
		3,94,000			**3,94,000**

Working Notes:

(1) Cash in hand = Opening balance + Varad's capital + Varad's goodwill (amount brought in)

= 20,000 + 1,00,000 + 40,000

= ₹ 1,60,000

(2) Sacrifice ratio = Old ratio – New ratio

$$\text{Sahil's sacrifice} = \frac{3}{5} - \frac{3}{8} = \frac{24-15}{40} = \frac{9}{40}$$

$$\text{Nikhil's sacrifice} = \frac{2}{5} - \frac{2}{8} = \frac{16-10}{40} = \frac{6}{40}$$

$$\text{i.e. sacrifice ratio} \frac{9}{40} : \frac{6}{40} = 9:6 = 3:2.$$

Goodwill is distributed among old partners in the sacrifice ratio.

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Mr. Amit and Baban share profits and losses in the ratio 2:3 respectively. Their balance sheet as on 31st March 2018 was as under

Balance Sheet as On 31st March 2018			
Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Creditors	1,40,000	Cash	110,000
Capital:		Land and Building	50,000
Amit	100,000	Plant	60,000
Baban	100,000	Furniture	4,000
		Stock	100,000

		Debtors	16,000
	3,40,000		**3,40,000**

They agreed decided to admit Kamal on 1st April 2018 on the following terms:

1. Kamal shall have 1/4th share in future profits.
2. They agreed to admit Kamal as a partner on 1st April 2018 on the following terms:
3. She shall bring 50,000 as her capital and 40,000 as her share of goodwill.
4. Land and building to be valued at 60,000 and furniture to be depreciated by 10%
5. Provision for bad and doubtful debts is to be maintained at 5% on the sundry debtors.
6. Stocks to be valued 1,10,000 The capital A/c of all partners to be adjusted in their new profit and loss ratio and excess amount be transferred to their loan accounts.

Prepare profit and loss adjustment A/c, Capital A/cs, and New Balance Sheet.

Solution:

Dr.	**Profit and Loss Adjustment Account**			**Cr.**
Particulars		**Amount (₹)**	**Particulars**	**Amount (₹)**
To Depreciation A/c – Furniture		400	By Land and Building A/c	10,000
To R.D.D. A/c		800	By Stock A/c	10,000
To Profit on Revaluation Transferred to Partners' Capital A/cs:				
Amit	7,520			
Baban	11,280	18,800		
		20,000		**20,000**

Dr.	**Partners' Capital Accounts**						**Cr.**
Particulars	**Amit (₹)**	**Baban (₹)**	**Kamal (₹)**	**Particulars**	**Amit (₹)**	**Baban (₹)**	**Kamal (₹)**
To Partners' Loan A/c	63,520	45,280		By Balance b /d	1,00,000	1,00,000	
To Balance c/d	60,000	90,000	50,000	By Bank A/c			50,000
				By Goodwill A/c	16,000	24,000	

				By Revaluation A/c (Profit)	7,520	11,280	
	1,23,520	**1,35,280**	**50,000**		**1,23,520**	**1,35,280**	**50,000**

Balance Sheet as on 1st April 2018					
Liabilities	**Amount (₹)**	**Amount (₹)**	**Assets**	**Amount (₹)**	**Amount (₹)**
Capital A/cs:			Cash		2,00,000
Amit	60,000		Land and Building	50,000	
Baban	90,000		Add: Appreciation	10,000	60,000
Kamal	50,000	2,00,000	Plant		60,000
Creditors		1,40,000	Furniture	4,000	
Partners' Loan :			Less: Depreciation	400	3,600
Amit	63,520		Stock	1,00,000	
Baban	45,280	1,08,800	Add: Appreciation	10,000	1,10,000
			Debtors	16,000	
			Less: R.D.D.	800	15,200
		4,48,800			**4,48,800**

Working Notes :

(1) Cash balance = Opening balance + Amount brought in by Kamal

= 1,10,000 + 50,000 + 40,000

= Rs. 2,00,000

(2) For the calculation of new profit and loss ratio:

Calculation of new profit ratio = 1 – share of new partner

$= 1 - \frac{1}{4}$

$= \frac{3}{4}$ Remaining share

New ratio = old ratio × balance 1 (Remaining share)

Amit's new ratio $= \frac{2}{5} \times \frac{3}{4} = \frac{6}{20}$

Baban's new ratio $= \frac{3}{5} \times \frac{3}{4} = \frac{9}{20}$.

Kamal's ratio $= \frac{1}{4} = \frac{1}{4} \times \frac{5}{5} = \frac{5}{20}$

∴New profit sharing ratio = 6 : 9 : 5.

(3) New profit and loss ratio = 6: 9: 5

Capital amount adjusted in their new profit and loss ratio by taking new partner Kamal's capital (₹ 50,000) as a base.

∴ For part 5 capital = ₹ 50,000 (Kamal's capital)

∴ For part 6 capital = ₹ 60,000 (Amit's capital)

∴ For part 9 capital = ₹ 90,000 (Baban's capital)

(4) After keeping these capital balances difference of the amount of Amit's capital ₹ 63,520 and of Baban's capital ₹ 45,280 are taken as the partner's loan to the firm and as a liability of the firm it is recorded in the Liabilities side of the Balance Sheet.

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The following is the Balance Sheet of Om and Jay on 31st March 2018, they share profits and losses in the ratio 3:2

Balance Sheet As On 31st March 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	30,000	Cash	3,000
Capital A/c		Building	15,000
Om	21,000	Machinery	21,000
Jay	21,000	Furniture	900
Current A/c		Stock	12,300
Om	3,750	Debtors	27,000
Jay	3,450		
	79,200		**79,200**

They take Jagdish into partnership on 1st April 2018 the terms being

1. Jagdish should pay 3,000 as his share of Goodwill. 50% of goodwill withdrawn by partners in cash.
2. He should bring 9,000 as capital for 1/4th share in future profits.
3. Building to be valued at 18,000, Machinery and Furniture to be reduced by 10%
4. A Provision of 5% on debtors to be made for doubtful debts.
5. Stock is to be taken at a value of 15,000.

Prepare profit and loss A/c, Partner's Current A/c, Balance Sheet of the new firm

Solution:

Dr.	**Profit and Loss Adjustment Account**				**Cr.**
Particulars		**Amount (₹)**	**Particulars**	**Amount (₹)**	
To Depreciation A/c			By Building A/c	3,000	
Machinery		2,100	By Stock A/c	2,700	
Furniture		90			
To R.D.D. A/c		1,350			
To Profit on Revaluation Transferred to Partners Capital A/cs:					
Om	1,296				
Jay	864	2,160			
		5,700		**5,700**	

Dr.	Partners' Current Accounts					Cr.
Particulars	**Om (₹)**	**Jay (₹)**	**Particulars**	**Om (₹)**	**Jay (₹)**	
To Goodwill	900	600	By Balance b/d	3,750	3,450	
To Balance c/d	5,946	4,914	By Goodwill A/c	1,800	1,200	
			By Revaluation A/c	1,296	864	
	6,846	**5,514**		**6,846**	**5,514**	

Balance Sheet as on 1st April 2018					
Liabilities	**Amount (₹)**	**Amount (₹)**	**Assets**	**Amount (₹)**	**Amount (₹)**
Capital Accounts:			Cash		13,500
Om	21,000		Building	15,000	
Jay	21,000		Add: Appreciation	3,000	18,000
Jagdish	9,000	51,000	Machinery	21,000	
Current A/cs:			Less: Depreciation	2,100	18,900
Om	5,946		Furniture	900	
Jay	4,914	10,860	Less: Depreciation	90	810
Creditors		30,000	Stock	12,300	
			Add: Appreciation	2,700	15,000
			Debtors	27,000	
			Less: R.D.D	1,350	25,650

		91,860			**91,860**

Working Notes:
(1)

Dr.		**Cash Account**			**Cr.**
Particulars	**Amount (₹)**	**Amount (₹)**	**Particulars**	**Amount (₹)**	**Amount (₹)**
To Balance b/d		3,000	By Om's Capital A/c	900	
To Jagdish's Capital A/cs		9,000	By Jay's Capital A/c	600	1,500
To Om's Capital A/c	1,800		By Balance c /d		13,500
To Jay's Capital A/c	1,200	3,000			
		15,000			**15,000**

(2) Write partner's capital accounts balance as fixed capital balance in the Balance Sheet and transferred current account balance in the Balance Sheet as Partners Current A/c.

(3) As shown in the cash account partners' withdrew half amount of goodwill amount share