(1) When assets and liabilities are to be shown in the books at their new values

In this method all changes in the values of assets and liabilities are recorded in the revaluation account or profit and loss adjustment account. The net gain or loss of the revaluation account or profit and loss adjustment account is distributed among the old partners in their old profit sharing ratio. Revaluation A/c is a nominal account. It is debited by the decrease in the value of assets and increase in the amount of liabilities. It is credited by the increase in the value of assets or decrease in the amount of liabilities. By closing the revaluation account; if it shows credit balance, it indicates net gain and if there is debit balance, it indicates net loss. Net profit or net loss of revaluation account is transferred to the capital accounts of the old partners in their old ratio and the assets and liabilities will appear in the balance sheet of the new firm at their revised values. (This is also explained in chapter 4.)

Journal Entries

	Particulars	L.F.	Debit (₹)	Credit (₹)
(1)	When value of assets increase :			
	Assets A/c Dr		✓	
	To Revaluation A/c			✓
(2)	When value of assets decrease :			
	Revaluation A/c Dr		✓	
	To Assets A/c			✓
(3)	When bad debt reserve and discount reserve is provided on debtors :			
	Revaluation A/c Dr		✓	
	To Bad debt reserve A/c			✓
	To Discount reserve on debtors A/c			✓
(4)	Accrued income, prepaid expense, unrecorded assets are to be recorded :			
	Accrued income A/c Dr		✓	
	Prepaid expense A/c Dr		✓	
	Assets A/c Dr		✓	
	To Revaluation A/c			✓
(5)	When liabilities increase :			
	Revaluation A/c Dr		✓	
	To Liabilities A/c			✓
(6)	When liabilities decrease :			
	Liabilities A/c Dr		✓	
	To Revaluation A/c			✓

	Particulars	L.F.	Debit (₹)	Credit (₹)
(7)	When unrecorded liability or unpaid liabilities are to be recorded :			
	Revaluation A/c Dr		✓	
	To Liabilities A/c			✓
	To Unpaid liabilities A/c			✓
(8)	When revaluation account is closed :			
	(A) If it is profit of revaluation account, it is distributed among old partners in their old profit sharing ratio :			
	Revaluation A/c Dr		✓	
	To Old partners' capital A/c			✓
	(B) If it is loss of revaluation account, it is distributed among old partners in their old profit sharing ratio :			
	Old partners' capital A/c Dr		✓	
	To Revaluation A/c			✓

Illustration 18 : Patel and Shah are partners in a firm sharing profit and loss in the ratio of 3:2. The balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Patents		10,000
Patel	1,20,000		Land-Building		1,40,000
Shah	1,30,000	2,50,000	Machinery		70,000
Loan		1,00,000	Furniture		80,000
Creditors		80,000	Motor car		1,20,000
Bills payable		20,000	Stock		40,000
Outstanding expense		30,000	Debtors	21,000	
			− Bad debt reserve	1000	20,000
		4,80,000			**4,80,000**

They admitted Raval as a new partner for $\frac{1}{5}$th share from 1-4-2016. Raval brought ₹ 2,00,000 as his capital. The partners decided to revalue assets and liabilities as follows :

(1) Land-building is to be appreciated by 20 %.

(2) Machinery is to be depreciated by 10 %.

(3) Furniture is valued at ₹ 60,000.

(4) Motor car is to be depreciated by 20 %.

(5) A provision for doubtful debt is to be kept at ₹ 5000.

(6) Patents are valueless.

(7) Outstanding interest on loan is ₹ 6000.

(8) Creditors and bills payable are to be paid 10 % less.

(9) Unrecorded investment is valued ₹ 20,000.

(10) Insurance premium which was debited to profit and loss account by ₹ 30,000. Out of this ₹ 10,000 is for next year.

Give necessary journal entries. Prepare revaluation account, partners' capital accounts and balance sheet after admission.

Ans. :

Journal Entries

Date/No.	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	Land-Building A/c Dr To Revaluation A/c [Being increase in the value of land-building is transferred to revaluation A/c.]		28,000	28,000
1-4-2016	Revaluation A/c Dr To Machinery A/c [Being decrease in the value of machinery is transferred to revaluation A/c.]		7000	7000
1-4-2016	Revaluation A/c Dr To Furniture A/c [Being decrease in the value of furniture is transferred to revaluation A/c.]		20,000	20,000
1-4-2016	Revaluation A/c Dr To Motor car A/c [Being decrease in the value of motor car is transferred to revaluation A/c.]		24,000	24,000
1-4-2016	Revaluation A/c Dr To Bad debt reserve A/c [Being increase in provision for bad debt is transferred to revaluation A/c.]		4000	4000
1-4-2016	Revaluation A/c Dr To Patents A/c [Being decrease in patent is transferred to revaluation A/c.]		10,000	10,000
1-4-2016	Revaluation A/c Dr To Outstanding interest on loan A/c [Being outstanding interest on loan is transferred to revaluation A/c.]		6000	6000

Date/No.	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	Creditors A/c Dr		8000	
	Bills payable A/c Dr		2000	
	To Revaluation A/c			10,000
	[Being decrease the value of creditors and bills payable is transferred to revaluation A/c.]			
1-4-2016	Investment A/c Dr		20,000	
	To Revaluation A/c			20,000
	[Being unrecorded investment is transferred to revaluation A/c.]			
1-4-2016	Prepaid insurance premium A/c Dr		10,000	
	To Revaluation A/c			10,000
	[Being prepaid insurance premium transferred to revaluation A/c.]			
1-4-2016	Patel's capital A/c Dr		1800	
	Shah's capital A/c Dr		1200	
	To Revaluation A/c			3000
	[Being the distribution of revaluation loss between old partners in their old ratio.]			
1-4-2016	Cash A/c Dr		2,00,000	
	To Raval's capital A/c			2,00,000
	[Being capital ₹ 2,00,000 brought in cash by new partner.]			
	Total		**3,42,000**	**3,42,000**

Revaluation Account

Dr Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Machinery A/c	7000	By Land-Building A/c		28,000
To Furniture A/c	20,000	By Creditors A/c		8000
To Motor car A/c	24,000	By Bills payable A/c		2000
To Bad debt reserve A/c	4000	By Investment A/c		20,000
(New bad debt reserve ₹ 5000 – Old bad debt reserve ₹ 1000)		By Prepaid insurance premium A/c		10,000
To Patents A/c	10,000	By Loss transferred to old partners' capital A/c		
To Outsatnding interest on loan A/c	6000	Patel	1800	
		Shah	1200	3000
	71,000			**71,000**

Partners' Capital Account

Dr | Cr

Particulars	Patel (₹)	Shah (₹)	Raval (₹)	Particulars	Patel (₹)	Shah (₹)	Raval (₹)
To Revaluation A/c	1800	1200	–	By Balance b/d	1,20,000	1,30,000	–
To Balance c/d	1,18,200	1,28,800	2,00,000	By Cash A/c	–	–	2,00,000
	1,20,000	**1,30,000**	**2,00,000**		**1,20,000**	**1,30,000**	**2,00,000**

Balance Sheet After Admission

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Land-Building		1,68,000
Patel	1,18,200		Machinery		63,000
Shah	1,28,800		Furniture		60,000
Raval	2,00,000	4,47,000	Motor car		96,000
Loan		1,00,000	Stock		40,000
Creditors		72,000	Debtors	21,000	
Bills payable		18,000	– Bad debt reserve	5000	16,000
Outstanding expenses		30,000	Investment		20,000
Outstanding interest on loan		6000	Prepaid insurance premium		10,000
			Cash		2,00,000
		6,73,000			**6,73,000**

Explanation : Assets and liabilities will be shown in the balance sheet at their new values.

(2) **Memorandum Revaluation Account :**

The partners may decide that the value of assets and liabilities will continue to appear in the books at the existing values, yet no partner may be put into any undue advantage or disdavantage because of change in values. In such case an increase or decrease in the amount of assets and liabilities is recorded in the Memorandum Revaluation Accounts. This account is divided into two parts. First part is similar to the revaluation account and in the second part, all entries of first part are reversed. The balance of first part (i.e. profit or loss on revaluation) is transferred to the capital accounts of the old partners in their old profit sharing ratio. The balance of the second part is transferred to all partners including the new partner, in the new profit-loss sharing ratio. (If there is profit in the first part, it becomes loss or debit balance in the second part and if it is debit balance or loss in the first part, it becomes credit balance or profit in the second part.) The journal entries are passed in the Memorandum Revaluation Account as follows :

Note : Memorandum Revaluation Account is given only for the information to students. It's concept and practical aspects are not expected in the examination.

Transaction	Journal Entries
(1) For increase in assets or decrease in liabilities	Assets A/c...Dr Liabilities A/c...Dr To Memorandum Revaluation A/c
(2) For decrease in assets or increase in liabilities	Memorandum Revaluation A/c...Dr To Assets A/c To Liabilities A/c
(3) For transferring the balance of the first part of the memorandum revaluation account to old partners capital a/c in old profit sharing ratio (If credit side exceeds debit side i.e. in case of profit.)	Memorandum Revaluation A/c...Dr To Old partners' capital A/c (Old profit-loss sharing ratio) **Note :** Accounting entry for loss is debited to partners' capital accounts and credited to the Memorandam Revaluation Account)
(4) For reversing the first entry :	Memorandum Revaluation A/c...Dr To Assets A/c To Liabilities A/c
(5) For reversing the second entry :	Assets A/c...Dr Liabilities A/c...Dr To Memorandum Revaluation A/c
(6) For transferring the balance i.e. profit or loss of the second part of the memorandum revaluation account to all including new partners' capital A/c in the new profit sharing ratio. There will be debit balance or loss in the second part as against entry no. 3 and reverse effect of entry no. 3 will be given in new ratio.	All partners' capital A/c...Dr (New profit-loss sharing ratio) To Memorandum Revaluation A/c

Illustration 19 : Pass necessary journal entries for illustration 18 and prepare memorandum revaluation account, partners' capital accounts and balance sheet after admission.

Ans. :

Journal Entries

Date/No.	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	Memorandum Revaluation A/c Dr		71,000	
	To Machinery A/c			7000
	To Furniture A/c			20,000
	To Motor car A/c			24,000
	To Bad debt reserve A/c			4000
	To Patents A/c			10,000
	To outstanding interest on loan A/c			6000
	[Being decrease in assets and increase in liabilities and provision are transferred to memorandum revaluation A/c.]			

Date/No.	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	Land-Building A/c Dr		28,000	
	Creditors A/c Dr		8000	
	Bills payable A/c Dr		2000	
	Investment A/c Dr		20,000	
	Prepaid insurance premium A/c Dr		10,000	
	To Memorandum Revaluation A/c			68,000
	[Being increase in assets and decrease in liabilities are transferred to memorandum revaluation account.]			
1-4-2016	Patel's capital A/c Dr		1800	
	Shah's capital A/c Dr		1200	
	To Memorandum Revaluation A/c			3000
	[Being loss of memorandum revaluation A/c is transferred to old partners capital A/c in their old profit sharing ratio.]			
1-4-2016	Machinery A/c Dr		7000	
	Furniture A/c Dr		20,000	
	Motor car A/c Dr		24,000	
	Bad debt reserve A/c Dr		4000	
	Patents A/c Dr		10,000	
	Outstanding interest on loan A/c Dr		6000	
	To Memorandum Revaluation A/c			71,000
	[Being reversing entry of decrease in assets and increase in liabilities and provisions.]			
1-4-2016	Memorandum Revaluation A/c Dr		68,000	
	To Land-Building A/c			28,000
	To Creditors A/c			8000
	To Bills payable A/c			2000
	To Investment A/c			20,000
	To prepaid insurance premium A/c			10,000
	[Being reversing entry of increase assets and decrease liabilities and provisions.]			
1-4-2016	Memorandum Revaluation A/c Dr		3000	
	To Patel's capital A/c			1440
	To Shah's capital A/c			960
	To Raval's capital A/c			600
	[Being profit balance of second part of memorandum revaluation A/c is transferred to all partners' capital A/c in their new profit sharing ratio.]			

Date/No.	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	Cash A/c Dr		2,00,000	
	To Raval's capital A/c			2,00,000
	[Being new partner brought capital of ₹ 2,00,000 in cash.]			
	Total		**4,84,000**	**4,84,000**

Memorandum Revaluation Account

Dr Cr

Particulars		Amt. (₹)	Particulars		Amt. (₹)
To Machinery A/c		7000	By Land-Building A/c		28,000
To Furniture A/c		20,000	By Creditors A/c		8000
To Motor car A/c		24,000	By Bills payable A/c		2000
To Bad debt reserve A/c		4000	By Investment A/c		20,000
To Patents A/c		10,000	By Prepaid insurance premium A/c		10,000
To Outstanding interest on loan A/c		6000	By Old partners' capital A/c (3:2) :		
			Patel	1800	
			Shah	1200	3000
		71,000			**71,000**
To Land-Building A/c		28,000	By Machinery A/c		7000
To Creditors A/c		8000	By Furniture A/c		20,000
To Bills payable A/c		2000	By Motor car A/c		24,000
To Investment A/c		20,000	By Bad debt reserve A/c		4000
To Prepaid insurance premium		10,000	By Patents A/c		10,000
To Profit transferred to all partners' capital A/c (12:8:5)			By Outstanding interest on loan A/c		6000
Patel	1440				
Shah	960				
Raval	600	3000			
		71,000			**71,000**

Partners' Capital Account

Dr Cr

Particulars	Patel (₹)	Shah (₹)	Raval (₹)	Particulars	Patel (₹)	Shah (₹)	Raval (₹)
To Memorandum revaluation A/c	1800	1200	–	By Balance b/d	1,20,000	1,30,000	–
To Balance c/d	1,19,640	1,29,760	2,00,600	By Memorandum revaluation A/c	1440	960	600
				By Cash	–	–	2,00,000
	1,21,440	**1,30,960**	**2,00,600**		**1,21,440**	**1,30,960**	**2,00,600**

Balance Sheet as on 1-4-2016 After Admission

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Patent		10,000
Patel	1,19,640		Land-Building		1,40,000
Shah	1,29,760		Machinery		70,000
Raval	2,00,600	4,50,000	Furniture		80,000
Loan		1,00,000	Motor car		1,20,000
Creditors		80,000	Stock		40,000
Bills payable		20,000	Debtors	21,000	
Outstanding expenses		30,000	− Bad debt reserve	1000	20,000
			Cash		2,00,000
		6,80,000			**6,80,000**

Note : As memorandum revaluation account is prepared, all assets and liabilities are shown at their old values.

Explanation : New profit-loss sharing ratio

Old profit-loss sharing ratio of Patel and Shah 3:2

Share of Raval = $\frac{1}{5}$

Remaining share for Patel and Shah is $1 - \frac{1}{5} = \frac{4}{5}$

$\frac{4}{5}$th share will be divided between Patel and Shah in the ratio of 3:2

Patel's new share = $\frac{4}{5} \times \frac{3}{5} = \frac{12}{25}$

Shah's new share = $\frac{4}{5} \times \frac{2}{5} = \frac{8}{25}$

Raval's new share = $\frac{1}{5} = \frac{5}{25}$

$\therefore$ New ratio = 12:8:5

The two points are important about the memorandum revaluation account :

(1) If first part of the memorandum revaluation shows loss then the second part will show profit and if the first part shows profit then the second part will show loss.

(2) The value of assets and liabilities except cash and capital account, will continue to appear at old values in the balance sheet of the firm after reconstitution.

6. Distribution of Reserves and Accumulated Profit-Losses

(A) Accounting Treatments :

Balances of reserves, accumulated profits or losses or fictitious assets appearing in the books of the firm before the admission of a new partner, are distributed among old partners' in their old ratio because they were created out of the profits earned during earlier period before the new partner was admitted. The new partner should not be put to undue advantage or disadvantage due to such balances. The journal entry will be :

Date/No.	Particulars	L.F.	Debit (₹)	Credit (₹)
	Profit and loss A/c (Profit) Dr General reserve A/c Dr Capital reserve A/c Dr Reserve funds A/c Dr Contigency reserve A/c Dr Workmen compensation reserve A/c Dr Investment fluctuation reserve A/c Dr To old partners' capital/current A/c (Being balances of reserves and profit distributed between old partners in their old ratio.)			
	Old partners' capital/current A/c Dr To Profit-loss A/c (Loss) To Advertisement campaign exp. A/c To Research and development exp. A/c To Unamortised other revenue exp. A/c (Being balance of loss and fictitious assets distributed to old partners in their old ratio.)			

Workmen compensation fund is an amount set aside out of the profit to meet a future liability or a possible loss against workmen's compensation claim. At the time of the admission of a partner the surplus amount out of the amount payable i.e. amount of reserve in excess of the liability is distributed among the old partners in their old profit sharing ratio. If the amount of claim accepted is more then the reserve, the additional amount of claim is debited to the revaluation account and no surplus amount out of reserve will be distributed between old partners.

Investment fluctuation reserve is an amount set aside out of the profit to adjust the loss due to fall in the value of investments. At the time of the admission of a partner the surplus out of the investment fluctuation reserve after deducting decrease in the value of investment is distributed among the old partners in their old profit sharing ratio. If the loss due to decrease in the value of investment is more than the balance of reserve, additional amount is debited to the revaluation account.

Balances of reserves and revenue expenditure, not written off, shown in the balance sheet in old firm are recorded by two methods at the time of the admission of a new partner. If no instruction is given, the accounting effect will be given as per the explanation (1) given below :

Note : (1) When partners decide to distribute the balances of reserves and accumulated profits and losses : These balances must be distributed among old partners in their old profit-loss ratio even if no instruction is given in the question regarding reserves and accumulated profit and loss. Consequently these balances will not be shown in the balance sheet of the new firm.

(2) **When partners decide to show the balances of reserves and accumulated profit and loss at the same value without any change :** If partners decide not to make any change in the balance of reserves, accumulated profit and loss and fictitious assets and show these balances in the new balance sheet at their old values, in this situation if the net amount of such balances is credit, it is debited to the capital accounts of gaining partner including new partner by the amount of gain and credited to sacrificing partners' capital accounts by the amount of sacrifice. If net amount of such balances is debit, it is credited to the gaining partners' capital accounts by the amount of gain and debited to sacrificing partners' capital accounts by the amount of their sacrifice.

Illustration 20 : P and Q are the partners sharing profit and loss in the ratio of 2:1. They decided to admit R as a new partner on 1-4-2016. All three partners' new profit-loss sharing ratio is decided at 3:1:2. The balance sheet of R and Q show the following balances :

General reserve	: ₹ 10,000	
Profit-loss A/c	: ₹ 11,000	
Workmen compensation reserve	: ₹ 14,000	
Advertisement campaign expenditure	: ₹ 6000	
Research and development expenditure	: ₹ 3000	
Investment fluctuation reserve	: ₹ 10,000	
Investment	: ₹ 15,000	(Market value ₹ 14,000)

The firm accepted claim of ₹ 5000 for workmen's compensation.

From the following situation pass necessary journal entries :

(1) When the partners decide to distribute all balance of reserves and accumulated profit and loss.

(2) When partners decide not to distribute all the balance of reserve and profit and loss. But without any change all reserve balance is to appear in the balance sheet.

Ans. : (1) When partners decide to distribute balances of all reserves and accumulated profit and losses :

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	General reserve A/c Dr		10,000	
	Profit-loss A/c Dr		11,000	
	To P's capital A/c			14,000
	To Q's capital A/c			7000
	[Being balances of general reserve and profit and loss of the firm are distributed between old partners in their old profit sharing ratio.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	Workmen's compensation reserve A/c Dr		14,000	
	To Claim for workmen compensation A/c			5000
	To P's capital A/c			6000
	To Q's capital A/c			3000
	[Being after provision for the accepted claim of workmen compensation, surplus amount is distributed between partners P and Q in their old ratio.]			
1-4-2016	Investment fluctuation reserve A/c Dr		10,000	
	To Investment A/c			1000
	To P's capital A/c			6000
	To Q's capital A/c			3000
	[Being a loss due to fall in the value of investment is adjusted against investment fluctuation reserve and remaining surplus is distributed between old partners in old sharing ratio.]			
1-4-2016	P's capital A/c Dr		6000	
	Q's capital A/c Dr		3000	
	To Advertisement campaign exp. A/c			6000
	To Research and development exp. A/c			3000
	[Being balances of advertisement compaign exp. and research and development exp. are written off by debiting old partners' capital accounts in their old ratio.]			

Note : (1) Claim for workmen's compensation of ₹ 5000 will appear in new balance sheet on liabilities side. (2) Investment of ₹ 14,000 will appear in new balance sheet on assets side. (3) Balance of reserves, profit, advertisement campaign expenses and research and development expenses will not appear in balance sheet.

(2) **When partners decide balance of reserves, profit and loss is to be appear in the new balance sheet without any change :**

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	R's capital A/c Dr		30,000	
	To P's capital A/c			15,000
	To Q's capital A/c			15,000
	[Being balance of reserves and profit and loss are debited to R's capital in his gaining ratio and distributed between P and Q in their sacrificing ratio.]			

Explanation (1) Balance of reserves, profits and losses :

	₹
General reserve	10,000
Profit-loss A/c	11,000
Workmen compensation reserve	9000
(₹ 14,000 – ₹ 5000 claim)	
Investment fluctuation reserve	9000
(₹ 10,000 – ₹ 1000 loss on investment)	
	39,000
Less : Advertisement campaign exp.	6000
Research and development exp.	3000
Net Amount (Credit balance)	**30,000**

(2) Sacrificing ratio :

Old profit-loss sharing ratio of P and Q = 2:1

New profit-loss sharing ratio of P, Q and R = 3:1:2

Sacrifice = Old share – New share

P's sacrifice $= \frac{2}{3} - \frac{3}{6} = \frac{1}{6}$

Q's sacrifice $= \frac{1}{3} - \frac{1}{6} = \frac{1}{6}$

∴ Sacrificing ratio = 1:1

The balance of reserves, profit and loss ₹ 30,000 is to be debited to R's capital account and credited to P's and Q's capital account in their sacrificing ratio.

(3) Different circumstances arising for reserves disclosed in the books of old partnership firm :

Reserves are created by a partnership firm against the possible losses in the assets. These assets are revalued at the time of the admission of a partner. Different situations arise at the time of revaluation. Required accounting treatments in such situation increases reliability of accounts. Theses reserves include investment fluctuation reserve, bad debt reserve, workers accident compensation reserve etc. This is explained as under.

Note : If it is not mentioned that the balance of profit and loss account has a credit balance or debit balance, in this case, assume that the balance is credit balance.

Illustration 21 : Esha and Rucha are the partners in a firm sharing profit-loss equally. Balances of their firm as on 31-3-2016 were as under :

Balance		₹
Investment	: ₹	50,000
Debtors	: ₹	40,000
Investment fluctuation reserve	: ₹	6000
Bad debt reserve	: ₹	3000
Workmen compensation reserve	: ₹	10,000
Workmen profit sharing fund	: ₹	2000

They admitted Eva as a new partner for $\frac{1}{5}$th share in the firm on 1-4-2016. Pass journal entries in following cases :

(1) If investments are valued as under :

(i) ₹ 48,000 (ii) ₹ 40,000

(iii) ₹ 60,000 (iv) ₹ 50,000

(2) If following amount of workmen compensation claim is accepted :

(i) Zero (ii) ₹ 6000

(iii) ₹ 12,000

(3) If provision for bad debt is to be made as follows :

(i) New provision for bad debt reserve is not required.

(ii) Provision for bad debt reserve on debtors is to be kept 10 %.

(iii) Provision for bad debt reserve on debtors is to be kept 5 %.

(iv) After writting off bad debt ₹ 5000 provision for bad debt reserve is to be kept at 10 %.

(v) All debtors are solvent.

Ans. :

(1)	(i) **If value of investment is ₹ 48,000 :**			
	Investment fluctuation reserve A/c Dr		6000	
	To Investment A/c			2000
	To Esha's capital A/c			2000
	To Rucha's capital A/c			2000
	[Being decrease in the value of investment is written off against investment fluctuation reserve and balance amount of investment fluctuation reserve is distributed among old partners in old profit-loss sharing ratio.]			
	(ii) **If value of investment is ₹ 40,000 :**			
	Investment fluctuation reserve A/c Dr		6000	
	Revaluation A/c Dr		4000	
	To Investment A/c			10,000
	[Being investment fluctuation reserve is written off against decrease in investment and balance amount of decrease is debited to revaluation A/c.]			

	(iii) **If value of investment is ₹ 60,000 :**			
	(A) Investment A/c Dr		10,000	
	To Revaluation A/c			10,000
	[Being increase in the value of investment is credited to revaluation account.]			
	(B) Investment fluctuation reserve A/c Dr		6000	
	To Esha's capital A/c			3000
	To Rucha's capital A/c			3000
	[Being balance of investment fluctuation reserve is distributed between old partners in old profit-loss sharing ratio.]			
	(iv) **If value of investment is ₹ 50,000 :**			
	Investment fluctuation reserve A/c Dr		6000	
	To Esha's capital A/c			3000
	To Rucha's capital A/c			3000
	[Being remaining balance of investment fluctuation reserve is distributed between old partners in old profit-loss sharing ratio.]			

Explanation : Explanation regarding investment fluctuation reserve.

Particulars / Investments	(i) ₹	(ii) ₹	(iii) ₹	(iv) ₹
New value	48,000	40,000	60,000	50,000
− Old value	50,000	50,000	50,000	50,000
Increase (Decrease)	(2000)	(10,000)	10,000	−

(1) Investment fluctuation reserve is ₹ 6000. Decrease in the value of investment is ₹ 2000 which is deducted from reserve and balance of reserve ₹ 4000 is credited to partners' capital accounts in their profit-loss sharing ratio.

(2) Decrease in investment is ₹ 10,000. Therefore ₹ 6000 of reserve will be fully utilised and balance of decrease ₹ 4000 (₹ 10,000 − ₹ 6000) is debited to revaluation account.

(3) Value of investment is increased by ₹ 10,000. Therefore entire amount of reserve is credited to partners' capital accounts.

(4) There is no change in the value of investment. Therefore entire amount of reserve is credited to partners' capital accounts.

(2)	(i) **If the claim of workmen compensation is zero :**			
	Workmen compensation reserve A/c Dr		10,000	
	To Esha's capital A/c			5000
	To Rucha's capital A/c			5000
	[Being balance of workmen compensation reserve is distributed between old partners in old profit-loss sharing ratio.]			

	(ii) **If the claim of workmen compensation is ₹ 6000 :** Workmen compensation reserve A/c Dr To Provision for workmen compensation claim A/c To Esha's capital A/c To Rucha's capital A/c [Being provision made for claim of workmen compensation and remaining balance of workmen compensation reserve is distributed between old partners' in old profit-loss sharing ratio.]		10,000	 6000 2000 2000
	(iii) **If the claim of workmen compensation is ₹ 12,000 :** Workmen compensation reserve A/c Dr Revaluation A/c Dr To Provision for workmen compensation claim A/c [Being provision made for claim of workmen compensation by fully utilising workmens' compensation reserve and balance amount of provision is debited to revaluation account.]		10,000 2000	 12,000

Explanation : Explanation regarding workmen compensation reserve :

Particulars / Investment	(i) ₹	(ii) ₹	(iii) ₹
Amount of accident compensation reserve	10,000	10,000	10,000
− Liabilities decided	Zero	6000	12,000
Increase (Decrease)	10,000	4000	(2000)

(1) The amount of option (i) and (ii) is ₹ 10,000 and ₹ 4000 respectively and it is created to the partners' capital accounts in their old profit-loss sharing ratio.

(2) In option (iii) the liability is decided as ₹ 12,000. ₹ 10,000 of reserve is only utilized and balance amount of ₹ 2000 is debited to the revaluation account.

(3)	(i) If new provision for bad debt reserve is not required bad debt reserve ₹ 3000 (old balance) will be deducted from debtors of ₹ 40,000 in balance sheet. Bad debt reserve is a provision for future possible bad debt. So it can not be distributed between old partners.			
	(ii) **If provision for bad debt reserve on debtors is to be kept 10 % :** Revaluation A/c...Dr To Bad debt reserve A/c [Being additional bad debt reserve is debited to revaluation account.]		1000	 1000
	Note : Provision for bad debt at 10 % (₹ 4000) will be deducted from debtors ₹ 40,000 and debtors at ₹ 36,000 will be shown in the new balance sheet of the firm.			

	(iii) If provision for bad debt reserve is to be kept 5 % on debtors :			
	Bad debt reserve A/c...Dr To revaluation A/c [Being surplus of bad debt reserve is credited to revaluation account.]		1000	 1000
	Note : Provision for bad debt reserve at 5 % (₹ 2000) will be deducted from debtors of ₹ 40,000 and remaining debtors ₹ 38,000 will be shown in new balance sheet of new firm.			
	(iv) After writting off bad debt of ₹ 5000, the provision for doubtful debt is to be made at 10 % :			
	(A) Bad debt A/c...Dr To Debtors A/c [Being bad debt written off.] (B) Revaluation A/c...Dr Bad debt reserve A/c...Dr To Bad debt A/c [Being bad debt written off against the old balance of bad debt reserve and additional amount of bad debt debited to revaluation account.] (C) Revaluation A/c...Dr To Bad debt reserve A/c [Being new provision is made for bad debt reserve on debtors after deducting bad debt.]		5000 2000 3000 3500	 5000 5000 3500
	Note : In balance sheet of new firm, ₹ 5000 bad debt will be deducted from debtors of ₹ 40,000 and 10 % new bad debt reserve will be provided on balance of debtors ₹ 35,000 and debtors will be shown at ₹ 31,500 after deducting new bad debt reserve.			
	(v) If all debtors are good : Bad debt reserve A/c...Dr To Revaluation A/c [Being bad debt reserve is credited to revaluation account as it is now not required.]		 3000	 3000
	Note : As all debtors are good, bad debt reserve is not required and therefore it will be credited to the revaluation account and debtors will be shown at ₹ 40,000 in new balance sheet.			

Investment / **Particulars**	(i) ₹	(ii) ₹	(iii) ₹	(iv) ₹	(v) ₹
Bad debt reserve (old) − Bad debt (new)	3000 –	3000 –	3000 –	3000 5000	3000 –
Surplus of old BDR − New bad debt reserve	3000 Sufficient	3000 4000	3000 2000	(2000)* 3500*	3000 Not required
		(1000)*	1000*	(5500)	3000*
	No accounting effect	Debited to revaluation account	Credited to revaluation account	Debited to revaluation account	Credited to revaluation account

Note : Workers' profit sharing fund is a liability for the firm, which will be shown in the new balance sheet on the liabilities' side after the reconstitution.

7. Change in Capital Accounts and Construction of New Balance Sheet

Illustration 22 : Bhavya and Shlok are partners in a firm sharing profit and loss in the ratio of 3:2. Balance sheet of their firm as on 31-3-2017 is as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Goodwill		1,00,000
Bhavya	4,00,000		Land-Building		3,50,000
Shlok	3,00,000	7,00,000	Machinery		2,00,000
General reserve		90,000	Stock		1,80,000
Workmen's compensation reserve		20,000	Debtors	1,20,000	
Investment reserve		10,000	– Bad debt reserve	10,000	1,10,000
Creditors		1,40,000	Investment		20,000
Bills payable		60,000	Cash-Bank		50,000
			Advertisement campaign expenditure		10,000
		10,20,000			**10,20,000**

They admitted Aayush as a new partner on 1-4-2017 on the following conditions :

(1) Aayush brought ₹ 5,00,000 as his capital and 1,00,000 as his share of goodwill in cash.

(2) Value of land-building is to be increased by ₹ 80,000.

(3) Value of machinery is to be reduced upto ₹ 1,60,000.

(4) Provision for doubtful debt is to be kept 10 % on debtors.

(5) Provision for outstanding repairing expense is to be made ₹ 8000.

(6) New profit and loss sharing ratio of all partners is to be kept at 2:1:2.

From the above particulars, pass journal entries. Prepare Revaluation a/c, Partners' capital a/c, Cash-bank a/c and new balance sheet after admission.

Journal Entries

No.	Particulars	L.F.	Debit (₹)	Credit (₹)
1	General reserve A/c Dr		90,000	
	To Bhavya's capital A/c			54,000
	To Shlok's capital A/c			36,000
	[Being general reserve distributed between old partners in their old profit-loss ratio.]			

No.	Particulars	L.F.	Debit (₹)	Credit (₹)
2	Workmen compensaiton reserve A/c Dr To Bhavya's capital A/c To Shlok's capital A/c [Being workmen compensation reserve distributed between old partners in their old profit-loss sharing ratio.]		20,000	 12,000 8000
3	Investment reserve A/c Dr To Bhavya's capital A/c To Shlok's capital A/c [Being investment reserve distributed between old partners in their old profit-loss sharing ratio.]		10,000	 6000 4000
4	Bhavya's capital A/c Dr Shlok's capital A/c Dr To Goodwill A/c [Being old goodwill written off between old partners in their old profit-loss sharing ratio.]		60,000 40,000	 1,00,000
5	Bhavya's capital A/c Dr Shlok's capital A/c Dr To Advertisement campaign exp. A/c [Being advertisement campaign expenditure written off between old partners in their old profit-loss sharing ratio.]		6000 4000	 10,000
6	Cash A/c Dr To Aayush's capital A/c [Being capital brought by Aayush in cash.]		5,00,000	 5,00,000
7	Cash A/c Dr To Premium for goodwill A/c [Being share in goodwill brought in cash by Aayush.]		1,00,000	 1,00,000
7	Premium for goodwill A/c Dr To Bhavya's capital A/c To Shlok's capital A/c [Being premium for goodwill distributed between old partners in their sacrificing ratio.]		1,00,000	 50,000 50,000
9	Revaluation A/c Dr To Machinery A/c To Bad debt reserve A/c To outstanding repairing expense A/c [Being decrease in machinery, increase in bad debt reserve and outstanding repairing expense debited to revaluation account.]		50,000	 40,000 2000 8000

No.	Particulars	L.F.	Debit (₹)	Credit (₹)
10	Land-Building A/c Dr		80,000	
	To Revaluation A/c			80,000
	[Being increase in land and building credited to revaluation account.]			
11	Revaluation A/c Dr		30,000	
	To Bhavya's capital A/c			18,000
	To Shlok's capital A/c			12,000
	[Being profit of revaluation account distributed between old partners in old ratio.]			
	Total		**10,90,000**	**10,90,000**

Dr **Revaluation Account** Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Machinery A/c		40,000	By Land-building A/c	80,000
To Bad debt reserve A/c (New ₹ 12,000 – Old ₹ 10,000)		2000		
To Outstanding repairing expense A/c		8000		
To Profit : Old partners' capital A/c				
Bhavya	18,000			
Shlok	12,000	30,000		
		80,000		**80,000**

Partners' Capital Account

Dr Cr

Particulars	Bhavya(₹)	Shlok(₹)	Aayush(₹)	Particulars	Bhavya(₹)	Shlok(₹)	Aayush(₹)
To Advertisement campaign expenditure A/c	6000	4000	–	By Balance b/d	4,00,000	3,00,000	–
To Goodwill	60,000	40,000	–	By General reserve A/c	54,000	36,000	–
To Balance c/f	4,74,000	3,66,000	5,00,000	By Workmen's compensation reserve A/c	12,000	8000	–
				By Investment fluctuation reserve	6000	4000	–
				By Cash A/c	–	–	5,00,000
				By Premium for goodwill A/c	50,000	50,000	–
				By Revaluation A/c	18,000	12,000	–
	5,40,000	**4,10,000**	**5,00,000**		**5,40,000**	**4,10,000**	**5,00,000**

Dr **Cash-Bank Account** Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	50,000	By Balance c/f	6,50,000
To Aayush's capital A/c	5,00,000		
To Premium for goodwill A/c	1,00,000		
	6,50,000		**6,50,000**

Balance Sheet as on 1-4-2017 After Admission

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Land-Building	3,50,000	
Bhavya	4,74,000		+ Addition	80,000	4,30,000
Shlok	3,66,000		Machinery	2,00,000	
Aayush	5,00,000	13,40,000	− Reduction	40,000	1,60,000
Creditors		1,40,000	Debtors	1,20,000	
Bills payable		60,000	− Bad debt reserve	12,000	1,08,000
Outstanding repairing expense		8000	Stock		1,80,000
			Investment		20,000
			Cash-Bank		6,50,000
		15,48,000			**15,48,000**

Explanation (1) : Sacrificing ratio and distribution of goodwill :

Old ratio of Bhavya and Shlok = 3:2

New ratio of Bhavya, Shlok and Aayush = 2:1:2

Sacrifice = Old share − New share

Bhavya = $\frac{3}{5} - \frac{2}{5} = \frac{1}{5}$, Shlok = $\frac{2}{5} - \frac{1}{5} = \frac{1}{5}$

$\therefore$ Sacrificing ratio = 1:1

Both old partners will receive goodwill equally. (See illustration 2 for explanation of goodwill)

Illustration 23 : Tarana and Jineesha are partners in a firm. Their balance sheet as on 31-3-2017 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Goodwill	14,000
Tarana	1,90,000		Land-Building	1,00,000
Jineesha	1,21,000	3,11,000	Machinery	80,000
Workmens' compensation reserve		12,000	Investment	50,000
Investment fluctuation fund		4000	Debtors	70,000
Provident fund		16,000	Stock	36,000
Bad debt reserve		20,000	Cash	40,000
Creditors		30,000	Research and development expense	8000
Outstanding expense		15,000	Profit-loss A/c	10,000
		4,08,000		**4,08,000**

They admitted Rihan as a new partner on 1-4-2017 on following conditions :

(1) Rihan will bring ₹ 2,00,000 as his capital and ₹ 18,000 for his share of goodwill in cash. Any difference in the amount of goodwill is to be adjusted to his capital account.

(2) New profit-loss sharing ratio will be 4:3:3.

(3) Goodwill is to be valued at ₹ 1,00,000.

(4) Claim accepted for workmen's compensation ₹ 8000.

(5) Jineesha will take over investment at ₹ 48,000.

(6) Accrued interest of ₹ 6000 is not recorded.

(7) Bills payable drawn by creditors for ₹ 10,000 is accepted but not been recorded in the books of accounts.

(8) Book value of land and building is 20 % less then the market value.

(9) Out of insurance premium paid, ₹ 12,000 is to be carried forward to next year.

Prepare revaluation account, partners' capital account, cash account and balance sheet after admission.

Revaluation Account

Dr | Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Old partners' capital A/c			By Outstanding interest A/c	6000
(Profit)			By Land-Building A/c	25,000
Tarana	21,500		By Prepaid insurance premium	12,000
Jineesha	21,500	43,000		
		43,000		**43,000**

Partners' Capital Account

Dr | Cr

Particulars	Tarana (₹)	Jineesha (₹)	Rihan (₹)	Particulars	Tarana (₹)	Jineesha (₹)	Rihan (₹)
To Investment A/c	–	48,000	–	By Balance b/d	1,90,000	1,21,000	–
To Goodwill A/c	7000	7000	–	By Workmen compensation reserve A/c	2000	2000	–
To Research and development expense A/c	4000	4000	–	By Investment fluctuation fund A/c	1000	1000	–
To Profit-loss A/c	5000	5000	–	By Cash A/c	–	–	2,00,000
To Tarana's capital A/c (Goodwill)	–	–	4000	By Premium for goodwill A/c	6000	12,000	–
To Jineesha's A/c A/c (Goodwill)	–	–	8000	By Rihan's capital A/c (Goodwill)	4000	8000	–
To Balance b/d	2,08,500	1,01,500	1,88,000	By Revaluation A/c	21,500	21,500	–
	2,24,500	**1,65,500**	**2,00,000**		**2,24,500**	**1,65,500**	**2,00,000**

Cash Account

Dr Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	40,000	By Balance c/d	2,58,000
To Rihan's capital A/c	2,00,000		
To Premium for goodwill A/c	18,000		
	2,58,000		**2,58,000**

Balance Sheet as on 1-4-2017 After Admission

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Land-Building	1,25,000
Tarana	2,08,500		Machinery	80,000
Jineesha	1,01,500		Debtors	70,000
Rihan	1,88,000	4,98,000	Stock	36,000
Provident fund		16,000	Cash	2,58,000
Creditors(30,000 − Bills payable 10,000)		20,000	Outstanding interest	6000
Workmen's compensation reserve		8000	Prepaid insurance premium	12,000
Bad debt reserve		20,000		
Outstanding expense		15,000		
Bills payable		10,000		
		5,87,000		**5,87,000**

Explanation (1) : Sacrificing ratio :

Old profit-loss sharing ratio of Tarana and Jineesha = 1:1

New profit-loss sharing ratio of Tarana, Jineesha and Rihan = 4:3:3

Sacrifice = Old share − New share

Tarana = $\frac{1}{2} - \frac{4}{10} = \frac{1}{10}$; Jineesha = $\frac{1}{2} - \frac{3}{10} = \frac{2}{10}$

∴ Sacrificing ratio = 1:2

∴ Goodwill will distributed to both old partners in 1:2 ratio.

(For explanation of goodwill see illustration no. 2)

(2) : Rihan's share in goodwill :

Share of Rihan in new goodwill = 1,00,000 × $\frac{3}{10}$ = 30,000

Rihan brought ₹ 18,000 in cash and remaining ₹ 12,000 does not bring in cash for goodwill.

Journal entries for goodwill will be as under :

(1) Cash A/c...Dr 18,000

To Premium for goodwill A/c 18,000

(2) Premium for goodwill A/c...Dr 18,000

To Tarana's capital A/c 6000

To Jineesha's capital A/c 12,000

(3) Rihan's capital A/c...Dr 12,000

To Tarana's capital A/c 4000

To Jineesha's capital A/c 8000

(3) : Market value of land-building :

Book value of land-building is ₹ 1,00,000, which is 20 % less than its market value.

Suppose market value ₹ 100

− 20 % ₹ 20

Book value ₹ 80

Book value	Market value
₹ 80	₹ 100
₹ 1,00,000	(?)

$= 100 \times \frac{1,00,000}{80}$

$= 1,25,000$

Illustration 24 : Kanha and Kavisha are partners in a firm sharing profit-loss in the ratio of 2:3. Balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Building	1,10,000
Kanha	80,000		Machinery	50,000
Kavisha	1,00,000	1,80,000	Stock	30,000
Contingency reserve		15,000	Debtors	66,000
Workmen's compensation fund		40,000	Bank	14,000
Investment reserve		12,000	Investment	30,000
Creditors		50,000		
Bad debt reserve		3000		
		3,00,000		**3,00,000**

They admitted Palkhi as a new partner on 1-4-2016, on following terms :

(1) Kanha sacrifices $\frac{1}{2}$ of her share and Kavisha sacrifices $\frac{1}{4}$th of her share in favour of Palkhi.

(2) Goodwill of the firm is valued ₹ 80,000.

(3) Kanha and Kavisha will withdraw 50 % of their share of goodwill.

(4) Depreciation on machinery is to be provided at 10 %.

(5) Bad debt of ₹ 6000 is to be written off and provision for bad debt reserve is to be kept at 15 % on debtors.

(6) Market value of investment is ₹ 15,000.

(7) Claim for workmen's compensation to be accepted ₹ 50,000.

(8) 10 % of creditors are not to be paid.

(9) Palkhi will bring ₹ 1,20,000 as capital and her share of goodwill in cash.

Prepare necessary accounts and balance sheet of new firm.

Ans. :

Dr **Revaluation Account** Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Pro. for workmen's compensation	10,000	By Creditors A/c		5000
To Investment A/c	3000	By Loss transferred to old partners'		
To Machinery A/c	5000	capital A/c		
To Bad debt A/c	3000	Kanha	10,000	
To Bad debt reserve A/c	9000	Kavisha	15,000	25,000
	30,000			**30,000**

Dr **Partners' Capital Account** Cr

Particulars	Kanha (₹)	Kavisha (₹)	Palkhi (₹)	Particulars	Kanha (₹)	Kavisha (₹)	Palkhi (₹)
To Bank A/c (Goodwill)	8000	6000	–	By Balance b/d	80,000	1,00,000	–
To Revaluation A/c	10,000	15,000	–	By Contigency reserve A/c	6000	9000	–
To Balance c/d	84,000	1,00,000	1,20,000	By Bank A/c	–	–	1,20,000
				By Premium for goodwill A/c	16,000	12,000	–
	1,02,000	**1,21,000**	**1,20,000**		**1,02,000**	**1,21,000**	**1,20,000**

Dr **Bank Account** Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	14,000	By Kanha's capital A/c	8000
To Palkhi's capital A/c	1,20,000	By Kavisha's capital A/c	6000
To Premium for goodwill A/c	28,000	By Balance c/d	1,48,000
	1,62,000		**1,62,000**

Balance Sheet as on 1-4-2016 After Admission

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Building		1,10,000
Kanha	84,000		Machinery		45,000
Kavisha	1,00,000		Stock		30,000
Rihan	1,20,000	3,04,000	Debtors	66,000	
Provision of workmen's compensation			– Bad debt	6000	
claim		50,000		60,000	
Creditors		45,000	– Bad debt reserve (15 %)	9000	51,000
			Investment		15,000
			Bank		1,48,000
		3,99,000			**3,99,000**

Explanation (1) Sacrificing ratio :

Old ratio of Kanha and Kavisha = 2:3

Kanha sacrificed $\frac{1}{2}$ of his share.

∴ Sacrifice of Kanha = $\frac{2}{5} \times \frac{1}{2} = \frac{2}{10}$

Kavisha sacrificed $\frac{1}{4}$th of her share.

∴ Sacrifice of Kavisha = $\frac{3}{5} \times \frac{1}{4} = \frac{3}{20}$

∴ Sacrificing ratio of Kanha and Kavisha = $\frac{2}{10} : \frac{3}{20}$ = 4:3 (Making denominator equal)

∴ Goodwill will be distributed to both the partners in 4:3 ratio.

(2) : Goodwill brought by Palkhi :

Share of Palkhi in new firm = Sacrifice of Kanha + Sacrifice of Kavisha

$= \frac{2}{10} + \frac{3}{20}$

$= \frac{4+3}{20} = \frac{7}{20}$

Goodwill brought by Palkhi = ₹ 80,000 × $\frac{7}{20}$ = ₹ 28,000

Goodwill brought by Palkhi will be distributed between Kanha and Kavisha in their sacrificing ratio.

Journal :

		Dr	Cr
(1)	Bank A/c...Dr	28,000	
	To premium for goodwill A/c		28,000
(2)	premium for goodwill A/c...Dr	28,000	
	To Kanha's capital A/c		16,000
	To Kavisha's capital A/c		12,000

(3) (1) Claim for workmen's compensation accepted is ₹ 50,000 against the provision for workmen's compensation ₹ 40,000. Therefore additional claim of ₹ 10,000 is debited to the revaluation account. (2) Decrease value of investment is ₹ 15,000 while investment fluctuation reserve is only ₹ 12,000. Therefore additional loss is debited to the revaluation account.

Illustration 25 : Bhavya and Deep are partners sharing profit & loss in the ratio of 5:3. Balance sheet of their firm as on 31-3-2017 was as under :

Balance Sheet

Liabilities			Amt. (₹)	Assets	Amt. (₹)
Provident fund			20,000	Bank	40,000
Creditors			80,000	Debtors	60,000
Workmens' compensation reserve			40,000	Stock	40,000
Capital account :	Bhavya	1,00,000		Building	3,00,000
	Deep	1,30,000	2,30,000	Investment	70,000
Current account :	Bhavya	80,000			
	Deep	60,000	1,40,000		
			5,10,000		**5,10,000**

They admitted Vedang as a new partner on 1-4-2017 on the following conditions :

(1) Vedang will bring his personal furniture of ₹ 50,000 in the firm.

(2) Creditors include ₹ 40,000 payable to Vedang, which is to be transferred to his capital account.

(3) Vedang will share $\frac{1}{5}$ in future profit.

(4) Vedang will bring ₹ 30,000 in cash as goodwill.

(5) Goodwill of the firm valued at ₹ 2,00,000.

(6) Credit purchase of ₹ 10,000 was not recorded in creditors account and purchase account. But it is included in closing stock.

(7) Market value of stock of ₹ 30,000 is ₹ 24,000.

(8) Liability for workmen's compensation is ₹ 24,000.

(9) Outstanding interest on investment ₹ 16,000 is unrecorded.

Prepare balance sheet after admission.

Ans. :

Balance Sheet as on 1-4-2017 After Admission

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital account :			Furniture	50,000
Bhavya	1,00,000		Stock	34,000
Deep	1,30,000		Debtors	60,000
Vedang	90,000	3,20,000	Building	3,00,000
Current account :			Current account of Vedang	10,000
Bhavya	1,15,000		Investment	70,000
Deep	81,000	1,96,000	Outstanding interest on investment	16,000
Provident fund		20,000	Bank (₹ 40,000 + ₹ 30,000)	70,000
Workmen's compensation reserve		24,000		
Creditors (₹ 80,000 – ₹ 40,000 Vedang's capital A/c + 10,000 unrecorded)		50,000		
		6,10,000		**6,10,000**

Explanation : (1) **Revaluation Account**

Dr Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
Stock A/c	6000	Outstanding interest on investment	16,000
Creditors A/c	10,000		
	16,000		**16,000**

(2) : **Capital Account**

Dr Cr

Particulars	Bhavya (₹)	Deep (₹)	Vedang (₹)	Particulars	Bhavya (₹)	Deep (₹)	Vedang (₹)
To Balance c/d	1,00,000	1,30,000	90,000	By Balance b/d	1,00,000	1,30,000	–
				By Furniture A/c	–	–	50,000
				By Creditors A/c	–	–	40,000
	1,00,000	**1,30,000**	**90,000**		**1,00,000**	**1,30,000**	**90,000**

(3) : **Partners' Current Account**

Dr Cr

Particulars	Bhavya (₹)	Deep (₹)	Vedang (₹)	Particulars	Bhavya (₹)	Deep (₹)	Vedang (₹)
To Bhavya's current A/c (Goodwill)	–	–	6250	By Balance b/d	80,000	60,000	–
To Deep's current A/c (Goodwill)	–	–	3750	By Premium for goodwill A/c	18,750	11,250	–
To Balance b/d	1,15,000	81,000	–	By Vedang current A/c (Goodwill)	6250	3750	–
				By Workmen's compensation reserve A/c	10,000	6000	–
				By Balance c/d	–	–	10,000
	1,15,000	**81,000**	**10,000**		**1,15,000**	**81,000**	**10,000**

Explanation : New profit-loss sharing ratio of Bhavya and Deep is 5:3. Vedang is admitted with $\frac{1}{5}$th share. As no other information is given, relative ratio of Bhavya and Deep will remain the same i.e. 5:3. So, their sacrificing ratio will also be 5:3. Hence, goodwill will be distributed between old partners in the ratio of 5:3.

Illustration 26 : Shiya and Janki are the partners sharing profit and loss in the ratio of 1:2. They admitted Chandni as a new partner for $\frac{1}{6}$th share. Chandni brought ₹ 25,000 as her capital in cash. The capitals of Shiya and Janki after the adjustments of loss of revaluation A/c, goodwill and reserves are ₹ 60,000 and ₹ 70,000 respectively. They decided to keep the capital of all the partners in their new profit-loss sharing ratio by taking new partners' capital as the base. For this purpose, the amount of actual cash to be paid or brought in by the old partners. New profit-loss sharing ratio is 3:2:1. Prepare the partners' capital accounts.

Ans. : **Partners' Capital Accounts**

Dr Cr

Particulars	Shiya (₹)	Janki (₹)	Chandni (₹)	Particulars	Shiya (₹)	Janki (₹)	Chandni (₹)
To Cash A/c (Diff.)	–	20,000	–	By Balance b/d	60,000	70,000	–
				By Cash A/c	–	–	25,000
To Balance c/d	75,000	50,000	25,000	By Cash A/c(Diff.)	15,000	–	–
	75,000	**70,000**	**25,000**		**75,000**	**70,000**	**25,000**

Explanation (1) : New profit-loss sharing ratio of Shiya, Janki and Chandni = 3:2:1

On the basis of Chandni's capital total capital of new firm :

$\frac{1}{6}$: ₹ 25,000

1 : (?)

= 25,000 $\times$ 6

= 1,50,000

Shiya's capital in new firm = 1,50,000 $\times \frac{3}{6}$ = ₹ 75,000

Janki's capital in new firm = 1,50,000 $\times \frac{2}{6}$ = ₹ 50,000

Illustration 27 : Pandit and Pandya are partners in a firm sharing profit and loss in the ratio of 2:1. The balance-sheet of the firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Goodwill	30,000
Pandit	1,30,000		Building	2,00,000
Pandya	1,20,000	2,50,000	Furniture	40,000
Capital reserve		21,000	Stock	26,000
Workmen's saving A/c		10,000	Debtors	24,000
Workmen's profit sharing fund		12,000	Cash	80,000
10 % loan		50,000		
Creditors		57,000		
		4,00,000		**4,00,000**

They admitted Patel as a new partner as on 1-4-2016 on the following terms :

(1) New profit and loss sharing ratio is to be kept at 3:5:1.

(2) Patel brought ₹ 50,000 as his capital in cash.

(3) Interest on loan is outstanding for last year.

(4) Personal expenses ₹ 8000 of Pandya was debited to the profit and loss account.

(5) Reconstruction's expense of ₹ 12,000 is paid by Pandit.

(6) Goodwill is valued at ₹ 2,70,000.

(7) Capital of Pandit and Pandya in the new firm should be kept in new profit and loss ratio by taking Patel's capital as the base. For this purpose necessary adjustments are to be made in their current account.

Prepare necessary accounts and balance sheet of the new firm.

Dr **Revaluation Account** Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Outstanding interest on loan	5000	By Pandya's capital A/c		8000
To Pandit's capital A/c	12,000	By Partners' capital A/c (Loss)		
		Pandit	6000	
		Pandya	3000	9000
	17,000			**17,000**

Dr **Partners' Capital Accounts** Cr

Particulars	Pandya (₹)	Pandit (₹)	Patel (₹)	Particulars	Pandya (₹)	Pandit (₹)	Patel (₹)
To Goodwill A/c	20,000	10,000	–	By Balance b/d	1,30,000	1,20,000	–
To Revaluation A/c	–	8000	–	By Capital reserve A/c	14,000	7000	–
To Pandit's capital A/c	–	60,000	–	By Cash A/c	–	–	50,000
To Revaluation A/c	6000	3000	–	By Revaluation A/c	12,000	–	–
To Pandit's current A/c	70,000	–	–	By Patel's current A/c	30,000	–	–
To Balance c/d	1,50,000	2,50,000	50,000	By Pandya's capital A/c	60,000	–	–
				By Pandya's current A/c		2,04,000	
	2,46,000	**3,31,000**	**50,000**		**2,46,000**	**3,31,000**	**50,000**

Dr **Cash Account** Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	80,000	By Balance c/d	1,30,000
To Patel's capital A/c	50,000		
	1,30,000		**1,30,000**

Balance Sheet as on 1-4-2016 after admission

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Building	2,00,000
Pandya	1,50,000		Furniture	40,000
Pandit	2,50,000		Stock	26,000
Patel	50,000	4,50,000	Debtors	24,000
Workers' savings A/c		10,000	Cash	1,30,000
Workers' profit sharing fund		12,000	Pandya's current A/c	2,04,000
10 % Loan		50,000	Patel's current A/c	30,000
Creditors		57,000		
Outstanding interest on loan		5000		
Pandit's current A/c		70,000		
		6,54,000		**6,54,000**

Explanation : (1) Sacrificing ratio

Old ratio of Pandit and Pandya = 2:1

New ratio of Pandit, Pandya and Patel = 3:5:1

Sacrifice = Old share − New share

Sacrifice of Pandit = $\frac{2}{3} - \frac{3}{9} = \frac{6-3}{9} = \frac{3}{9}$

Sacrifice of Pandya = $\frac{1}{3} - \frac{5}{9} = \frac{3-5}{9} = -\frac{2}{9}$ (Gain)

(2) Entry for goodwill : Pandya gains, therefore he will also give goodwill to Pandit

Goodwill payable to Pandya = $\frac{2}{9} \times 2{,}70{,}000$ = ₹ 60,000

Goodwill payable to Patel = $\frac{1}{9} \times 2{,}70{,}000$ = ₹ 30,000

Goodwill receivable by Pandit = $\frac{3}{9} \times 2{,}70{,}000$ = ₹ 90,000

Patel does not bring Goodwill in cash.

Journal Entries :

Patel's current A/c...Dr	30,000	
Pandya's capital A/c...Dr	60,000	
To Pandit's capital A/c		90,000

Note : As capital of all partners is to be kept in new profit sharing ratio, by taking Patel's capital as base, goodwill of Patel is debited to his current account.

(3) Capital of partners in new profit-loss sharing ratio

For $\frac{1}{9}$th share of Patel, capital = ₹ 50,000

Total capital of firm 1 = (?)

= 50,000 × 9 = ₹ 4,50,000

Pandit's capital in new firm = $\frac{3}{9} \times 4{,}50{,}000$ = ₹ 1,50,000

Pandya's capital in new firm = $\frac{5}{9} \times 4{,}50{,}000$ = ₹ 2,50,000

Illustration 28 : A and B are partners sharing profit-loss in the ratio of 2:1. The balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital :			Plant-Machinery		80,000
A	80,000		Building		50,000
B	40,000	1,20,000	Stock		17,000
Reserve fund		21,000	Debtors	50,000	
Creditors		75,000	− Bad debt reserve	4000	46,000
Bills payable		10,000	Cash-Bank		33,000
		2,26,000			**2,26,000**

They admitted C as a new partner on 1-4-2016 on following conditions :

(1) A sacrificed $\frac{1}{12}$th share and B sacrificed $\frac{1}{6}$th share from their profit share in favour of C.

(2) C will bring proportionate capital.

(3) C will bring his share of goodwill in cash. Goodwill is valued at ₹ 1,80,000.

(4) Fixed assets are to be depreciated at 10 %.

(5) All debtors are solvent.

(6) Insurance premium of ₹ 3000 is to be carried forward to the next year.

Prepare necessary account and the balance sheet.

Revaluation Account

Dr | Cr

Particulars	Amt. (₹)	Particulars		Amt. (₹)
To Plant-Machinery A/c	8000	By Bad debt reserve A/c		4000
To Building A/c	5000	By Prepaid insurance premium A/c		3000
		By Loss transferred to old partners capital A/c		
		A	4000	
		B	2000	6000
	13,000			**13,000**

Partners' Capital Accounts

Dr | Cr

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Revaluation A/c	4000	2000	–	By Balance b/d	80,000	40,000	–
To Balance c/d	1,05,000	75,000	60,000	By Reserve fund A/c	14,000	7000	–
				By Premium for goodwill A/c	15,000	30,000	–
				By Cash A/c	–	–	60,000
	1,09,000	**77,000**	**60,000**		**1,09,000**	**77,000**	**60,000**

Cash Account

Dr | Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	33,000	By Balance c/d	1,38,000
To C's capital A/c	60,000		
To Premium for goodwill A/c	45,000		
	1,38,000		**1,38,000**

Balance Sheet as on 1-4-2016 after admission

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital :			Plant	72,000
A	1,05,000		Building	45,000
B	75,000		Stock	17,000
C	60,000	2,40,000	Debtors	50,000
Creditors		75,000	Cash	1,38,000
Bill payable		10,000	Prepaid insurance premium	3000
		3,25,000		**3,25,000**

Explanation : (1) Sacrificing ratio

Old ratio of A and B = 2:1

A's sacrifice = $\frac{1}{12}$

B's sacrifice = $\frac{1}{6} = \frac{2}{12}$

∴ Sacrificing ratio = 1:2

(2) Goodwill

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

$= \frac{1}{12} + \frac{2}{12} = \frac{3}{12} = \frac{1}{4}$

Goodwill brought by C $= \frac{1}{4} \times 1{,}80{,}000$

= ₹ 45,000

C's share of Goodwill ₹ 45,000 is to be distributed between A and B in their sacrificing ratio 1:2. (See illustration 6 for explanation.)

(3) C's capital

A's capital in new firm	₹ 1,05,000
B's capital in new firm	₹ 75,000
Total capital of A and B	₹ 1,80,000

C's share in profit = $\frac{1}{4}$

Total share in profit of A and B $= 1 - \frac{1}{4} = \frac{3}{4}$

A and B's share $\frac{3}{4}$ = Capital ₹ 1,80,000

C's share $\frac{1}{4}$ = (?)

$= 1{,}80{,}000 \times \frac{1}{4} \times \frac{4}{3}$

= ₹ 60,000

Illustration 29 : Chandni and Nihar are the partners sharing profit in the ratio of 3:2. Their balance sheet as on 31-3-2016 was as under :

Balance Sheet

Liabilities			Amt. (₹)	Assets		Amt. (₹)
Creditors			64,000	Bank		56,000
General reserve			12,000	Debtors	80,000	
Investment fluctuation reserve			6000	− Provision for bad debt	4000	76,000
Workmen profit sharing fund			45,000	Investment		90,000
Capital account :	Chandni	1,00,000		Building		60,000
	Nihar	80,000	1,80,000	Machinery		25,000
			3,07,000			**3,07,000**

On 1-4-2016, they admitted Payal as a new partner on the following conditions :

(1) Payal brought ₹ 20,000 as goodwill in cash.

(2) Provision for doubtful debt is not required.

(3) Value of machinery is to be reduced by 10 %.

(4) Market value of building is ₹ 1,00,000.

(5) Market value of investments is ₹ 98,500.

(6) Payal will bring 20 % of total capital of Chandni and Nihar in the new firm as her capital.

(7) New profit sharing ratio is to be kept at 2:2:1.

(8) Chandni and Nihar will maintain their capital in the proportion of their new profit and loss sharing ratio.

Prepare necessary accounts and balance sheet.

Revaluation Account

Dr | Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Machinery A/c		2500	By Doubtful debt reserve	4000
To Profit transferred to old partners			By Building A/c	40,000
capital A/c			By Investment A/c	8500
Chandni	30,000			
Nihar	20,000	50,000		
		52,500		**52,500**

Partners' Capital Accounts

Dr | | | | | | | Cr

Particulars	Chandni (₹)	Nihar (₹)	Payal (₹)	Particulars	Chandni (₹)	Nihar (₹)	Payal (₹)
To Bank A/c	26,800	–	–	By Balance b/d	1,00,000	80,000	–
To Balance c/d	1,34,000	1,34,000	53,600	By General reserve A/c	7200	4800	–
				By Investment fluctuation reserve A/c	3600	2400	–
				By Premium for goodwill A/c	20,000	–	–
				By Revaluation A/c	30,000	20,000	–
				By Bank A/c	–	26,800	53,600
	1,60,800	**1,34,000**	**53,600**		**1,60,800**	**1,34,000**	**53,600**

Cash / Bank Account

Dr | | | Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	56,000	By Chandni's capital A/c	26,800
To Premium for goodwill A/c	20,000	By Balance c/d	1,29,600
To Payal's capital A/c	53,600		
To Nihar's capital A/c	26,800		
	1,56,400		**1,56,400**

Balance Sheet as on 1-4-2016 after Admission

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital Account :			Bank	1,29,600
Chandni	1,34,000		Debtors	80,000
Nihar	1,34,000		Investment	98,500
Payal	53,600	3,21,600	Building	1,00,000
Creditors		64,000	Machinery	22,500
Workmen profit sharing fund		45,000		
		4,30,600		**4,30,600**

Explanation : (1) Sacrificing ratio

Old profit-loss sharing ratio of Chandni and Nihar = 3:2

New profit-loss sharing ratio of Chandni, Nihar and Payal = 2:2:1

Sacrifice = Old share − New share

Chandni's sacrifice = $\frac{3}{5} - \frac{2}{5} = \frac{1}{5}$; Nihar's sacrifice = $\frac{2}{5} - \frac{2}{5} = 0$

(2) **Capital of Chandni, Nihar and Payal**

Particulars	Chandni	Nihar
Opening balance	1,00,000	80,000
General reserve	7200	4800
Investment fluctuation reserve	3600	2400
Premium for goodwill	20,000	–
Revaluation profit	30,000	20,000
	1,60,800	**1,07,200**

Payal brought her share of capital, which is 20 % of total capital of Chandni and Nihar.

Chandni's capital = 1,60,800

Nihar's capital = 1,07,200

Total capital of Chandni and Nihar = 2,68,000

∴ Payal's capital = $2,68,000 \times \frac{20}{100}$ = ₹ 53,600

Chandni and Nihar maintained their total capital in their new profit sharing ratio.

Total capital of Chandni and Nihar is ₹ 2,68,000. New profit-loss sharing ratio = 2:2 = 1:1

∴ Chandni's capital = $2,68,000 \times \frac{1}{2}$ = ₹ 1,34,000

Nihar's capital = $2,68,000 \times \frac{1}{2}$ = ₹ 1,34,000

Note : Premium for goodwill is received by Chandni only.

Illustration 30 : Shivani and Niraj are the partners in a firm sharing profit and loss in the ratio of 1:2. Balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital account :			Goodwill	27,000
Shivani	1,00,000		Land-Building	1,50,000
Niraj	1,50,000	2,50,000	Machinery	50,000
Profit-loss A/c		9000	Stock	20,000
General reserve		15,000	Debtors	30,000
Creditors		25,000	Bills receivable	10,000
Bad debt reserve		8000	Cash	20,000
		3,07,000		**3,07,000**

They admitted Vijay as a new partner as on above date for the following terms :

(1) Bad debt reserve is to be kept ₹ 5000 on debtors.

(2) Goodwill is valued at ₹ 36,000.

(3) Value of land and building is to be appreciated by 10 %.

(4) Book value of machinery is 25 % more than its market value.

(5) Value of stock is to be decreased by 10 %.

(6) Vijay will bring 50 % of net assets of new firm as the capital and his share of gooodwill in cash.

(7) Shivani sacrifices $\frac{1}{3}$rd of her share and Niraj sacrifices $\frac{1}{3}$ share for Vijay.

Prepare necessary accounts and balance sheet after admission of a new partner.

Revaluation Account

Dr Cr

Particulars		Amt. (₹)	Particulars	Amt. (₹)
To Machinery A/c		10,000	By Bad debt reserve A/c	3000
To Stock A/c		2000	By Land-building A/c	15,000
To Profit transferred to old partners' capital A/c				
Shivani	2000			
Niraj	4000	6000		
		18,000		**18,000**

Partners' Capital Accounts

Dr Cr

Particulars	Shivani (₹)	Niraj (₹)	Vijay (₹)	Particulars	Shivani (₹)	Niraj (₹)	Vijay (₹)
To Goodwill A/c	9000	18,000	–	By Balance b/d	1,00,000	1,50,000	–
To Balance c/d	1,05,000	1,64,000	2,69,000	By Profit-loss A/c	3000	6000	–
				By General reserve A/c	5000	10,000	–
				By Premium for goodwill A/c	4000	12,000	–
				By Revaluation A/c	2000	4000	–
				By Cash A/c	–	–	2,69,000
	1,14,000	**1,82,000**	**2,69,000**		**1,14,000**	**1,82,000**	**2,69,000**

Cash Account

Dr Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	20,000	By Balance c/d	3,05,000
To Premium for goodwill A/c	16,000		
To Vijay's capital A/c	2,69,000		
	3,05,000		**3,05,000**

Balance Sheet as on 1-4-2016 After Admission

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capital account :			Land-Building	1,65,000
Shivani	1,05,000		Machinery	40,000
Niraj	1,64,000		Stock	18,000
Vijay	2,69,000	5,38,000	Bills receivable	10,000
Creditors		25,000	Debtors	30,000
Bad debt reserve		5000	Cash	3,05,000
		5,68,000		**5,68,000**

Explanation (1) Sacrificing ratio

Old profit-loss sharing ratio of Shivani and Niraj = 1:2

Shivani sacrificed $\frac{1}{3}$rd of her profit share

∴ Sacrifice of Shivani $= \frac{1}{3} \times \frac{1}{3} = \frac{1}{9}$

Niraj sacrificed $\frac{1}{3}$rd from his profit share

∴ Sacrifice of Niraj $= \frac{1}{3}$

∴ Sacrificing ratio $= \frac{1}{9} : \frac{1}{3} = 1:3$ (See illustration 5 for explanation)

(2) Distribution of goodwill

Share of Vijay = Sacrifice of Shivani + Sacrifice of Niraj

$$= \frac{1}{9} + \frac{1}{3}$$

$$= \frac{1+3}{9}$$

$$= \frac{4}{9}$$

Share of Goodwill of Vijay $= 36,000 \times \frac{4}{9} =$ ₹ 16,000

Goodwill of Vijay will be distributed between Shivani and Niraj in their sacrificing ratio 1:3.

(3) Book value of machinery is ₹ 50,000, which is 25 % more from its market value. Therefore if market value of machinery is ₹ 100, its book value is ₹ 125. Determine the market value of machine as under :

Book value	Market value
125	100
50,000	(?)

$$= 100 \times \frac{50,000}{125} = ₹\ 40,000$$

(4) Capital is brought by Vijay :

Vijay brought 50 % of net asset of new firm as capital

Net assets = Total assets − Total Liabilities

Total assets − Total liabilities is total capital

∴ 50 % of total capital is brought by Vijay as his share of capital in new firm.

Capital of Shivani in new firm	₹ 1,05,000
Capital of Niraj in new firm	₹ 1,64,000
Total capital of Shivani and Niraj in new firm =	₹ 2,69,000

50 % of total capital is brought by Vijay.

∴ Remaining 50 % capital is of Shivani and Niraj

∴ 50 % capital = ₹ 2,69,000 of Shivani and Niraj

50 % capital of Vijay = (?)

= ₹ 2,69,000

EXERCISE

1. Select appropriate alternative for each question :

(1) Balance of general reserve and credit balance of profit and loss account is transferred to .... account at the time of the admission of a new partner.

(a) capital account of newly admitted partner

(b) all partners' capital accounts including new partner

(c) old partners' capital accounts

(d) revaluation account

(2) Goodwill appearing in the books of the firm at the time of admission of the new partner is recorded as ....

(a) debited to old partners' capital accounts in their old profit-loss sharing ratio and goodwill account is credited

(b) credited to all partners' capital accounts including new partner in their new profit-loss sharing ratio.

(c) admitted partners' capital A/c Cr, Goodwill A/c Dr

(d) credited to old partners' capital accounts in their old profit-loss sharing ratio and goodwill account debited.

(3) Premium for goodwill brought by the partner is recorded on .... side.

(a) debit side of old partners' capital accounts in old profit-loss sharing ratio.

(b) credit side of old partners' capital accounts in their old profit-loss sharing ratio

(c) debit side of old partners' capital accounts in their sacrificing ratio

(d) credit side of old partners' capital accounts in their sacrificing ratio

(4) Revaluation account is .... type of account.

(a) personal (b) nominal

(c) real (d) temporary

(5) When new partner brings his share of goodwill in cash, ... account is credited.

(a) cash (b) premium for goodwill

(c) goodwill (d) his capital account

(6) As per accounting standard-26 .... goodwill can not be shown in the books.

(a) goodwill for which some amount is paid for consideration

(b) internally generated

(c) (a) and (b) both

(d) neither of (a) and (b)

(7) Revaluation account is also known as ....

(a) profit-loss account (b) profit and loss adjustment account

(c) profit and loss appropriation account (d) profit and loss suspense account

(8) When only old profit-loss sharing ratio is given; sacrificing ratio of partners = ...

(a) equal (b) old ratio

(c) old share – new share (d) can not be calculated

(9) Old partner is also required to give his share in goodwill to other old partner, when ....

(a) his capital is less

(b) his new share in new profit-loss ratio is more than his old share

(c) his new share in new profit-loss ratio is less than his old share

(d) his new share in new profit-loss ratio is equal to old share

(10) Profit or loss of revaluation account is transferred to .... account in .... ratio.

(a) old partners, equal (b) all partners, new profit-loss sharing ratio

(c) old partners, sacrificing ratio (d) old partners, old ratio

2. Answer following questions in one sentence :

(1) How is a new partner admitted in a firm ?

(2) For what purpose a new partner is admitted in a firm ?

(3) State necessary accounting adjustments at the time of the admission of a new partner.

(4) State rights of a new partner.

(5) Why assets and liabilities are revalued at the time of the admission of a new partner ?

(6) Why a new partner is required to give his share in goodwill ?

(7) What is sacrificing ratio ? How it is calculated ?

(8) Explain with reasons the accounting treatment of reserves and accumulated profit and loss appearing in the books of the firm at the time of the admission of a new partner.

(9) When revaluation account is debited and credited ?

(10) State provision for the goodwill as per accounting standard-26.

3. Calculate new profit and loss sharing ratio and sacrificing ratio :

(1) A and B are the partners sharing profit and loss in the ratio of 3:2. They admitted C as a new partner for $\frac{1}{4}$th share in profit.

(2) A and B are the partners sharing profit and loss in the ratio of $\frac{4}{5}$ and $\frac{2}{10}$. They admitted C as a new partner for 20 % profit of the firm.

(3) A and B are the partners in a firm. They admitted C for $\frac{1}{6}$th share as a new partner. After the admission of C, the new profit and loss sharing ratio of A and B will be 2:3.

(4) A and B are partners in a firm sharing profit and loss in the ratio of 2:1. They admitted C as a new partner for $\frac{1}{5}$th share in the profit. C will acquire $\frac{1}{10}$th share from A and $\frac{1}{10}$th share from B.

(5) A, B and C are the partners sharing profit and loss in the ratio of 5:3:2. They admitted D as a new partner. 'A' sacrifices $\frac{1}{20}$th from his share and 'B' sacrifices $\frac{3}{40}$th from his share in favour of D.

(6) A and B are the partners sharing profits in the ratio of 3:2. They admitted C as a new partner for $\frac{1}{10}$th share of profit which he will acquire from A and B in equal proportion.

(7) A, B and C are the partners sharing profit in the ratio of 20 %, 40 % and 40 % respectively. They admitted D as a new partner for $\frac{1}{8}$th share in profit. D is to receive his share from B and C in the ratio of 3:2.

(8) A and B are the partners in a firm. They admitted C as a new partner for $\frac{1}{5}$th share in profit. Out of which C takes $\frac{1}{15}$th share from A and remaining share from B.

(9) A, B and C are the partners sharing profit and loss in the ratio of 4:3:3. They admitted D as a new partner for $\frac{1}{20}$th share of profit, out of which he takes $\frac{1}{40}$th from A and remaining share from B and C equally.

(10) A and B are the partners sharing profit and loss in the ratio of 3:1. They admitted C as a new partner. 'A' sacrifices $\frac{1}{3}$rd of his share and 'B' sacrifices $\frac{1}{4}$th of his share in favour of C.

(11) A and B are the partners sharing profit and loss in the ratio of 5:3. They admitted C as a new partner. A sacrifices 30 % his share and 'B' sacrifices 20 % of his share in favour of C.

(12) X and Y are the partners sharing profit and loss in the ratio of 2:1. They admitted Z as a new partner. 'X' sacrifices $\frac{1}{15}$th from his share and 'Y' sacrifices $\frac{1}{5}$th of his share in favour of Z.

(13) X, Y and Z are the partners sharing profit and loss in the ratio of 2:3:1. They admitted W as a new partner with $\frac{1}{6}$th share. Z will retain his original share in future also.

(14) X and Y are the partners sharing profit and loss in the ratio of 5:4. They admitted Z as a new partner. All the three partners will distribute future profit in equal proportion. (Calculate only sacrificing ratio.)

(15) X, Y and Z are the partners sharing profit and loss in the ratio of 3:2:1. They admitted W as a new partner. Their new profit-loss sharing ratio is to be 4:3:2:3. (Calculate only sacrificing ratio).

4. Pass necessary journals for the following transactions :

(1) A and B are the partners sharing profit and loss in the ratio of 3:2. They admitted C as a new partner for $\frac{1}{5}$th share of profit. C brings ₹ 80,000 as his capital in cash. C gave his share of goodwill personally to A and B. There was a balance of goodwill ₹ 25,000 in the books of firm before C's admission.

(2) A and B are the partners in a firm. C admitted as a new partner for $\frac{1}{4}$th share in profit. C brought ₹ 80,000 as his capital and his proportionate share of goodwill in cash. Goodwill of the firm is valued at ₹ 1,00,000.

(3) A and B are the partners sharing profit and loss in the ratio of 2:3. They admitted C as a new partner. C brought his share in capital and goodwill ₹ 40,000 and ₹ 60,000 in cash respectively. At the time of C's admission the balance of goodwill in balance sheet of the firm was ₹ 30,000. New profit and loss sharing ratio of all the partners is decided at 3:5:2.

(4) P, Q and R are the partners sharing profit and loss in the ratio of 3:2:1. They maintain their capital account by fixed capital method. They admitted S as a new partner. S brought cash ₹ 50,000, Furniture ₹ 40,000 and Motor car ₹ 60,000 as his capital and share of goodwill. Goodwill is valued at ₹ 2,40,000. At the time of S's admission goodwill appeared in the books of the firm at ₹ 90,000. New profit-loss sharing ratio of all the partners is decided at 4:3:2:3. Old partners withdrew 50 % goodwill of their share in cash.

(5) X and Y are the partners sharing profit and loss in the ratio of 1:3. Z admitted as a new partner. Z brought ₹ 65,000 as a capital and ₹ 36,000 as his share of goodwill in cash. After Z's admission, all partners decided to distribute the profit equally in future.

(6) M, N and O are the partners sharing profit and loss in the ratio of 4:3:3. They admitted P as a new partner. P brought ₹ 40,000 as goodwill in cash. New profit sharing ratio of all the partners is decided at 1:1:2:1. Balance of goodwill in old firm was ₹ 50,000.

(7) B and C are the partners. D admitted as a new partner in the firm. D brought ₹ 50,000 as a capital and ₹ 14,000 in cash out of his share in goodwill ₹ 20,000.

(8) A, B and C are the partners sharing profit and loss in the ratio of 3:2:4. They maintain their capital accounts by fixed capital method. They admitted D as a new partner. D brought ₹ 70,000 as capital and ₹ 30,000 as share of goodwill in cash. At the time of admission of D, the balance of goodwill was ₹ 45,000 in the balance sheet of the firm. At the time of admission, goodwill is valued of ₹ 1,80,000. New ratio of A, B, C and D decided at 1:1:1:1.

(9) A and B are the partners sharing profit and loss in the ratio of 3:2. They admitted C as a new partner for $\frac{1}{5}$th share. C brought ₹ 30,000 as capital in cash, but he could not bring his share of goodwill ₹ 10,000 in cash.

(10) P and Q are the partners sharing profit and loss in the equal proportion. They maintain their capital accounts by fixed capital method. They admitted R as a new partner. At the time of R's admission goodwill ₹ 70,000 was appearing in the balance sheet. R brought ₹ 40,000 as his capital in cash. Goodwill is valued at ₹ 1,60,000. New profit sharing ratio of P, Q and R is decided at 5:2:1.

(11) Capital of G and E is ₹ 80,000 and ₹ 60,000 respectively. They admitted B as a new partner for $\frac{1}{4}$th share in profit. B brought ₹ 50,000 as his capital. Calculate goodwill and pass necessary journal entries for goodwill.

(12) R, C and B are the partners sharing profit and loss in the ratio of 3:2:1. Their capital as on 1-4-2016 is ₹ 1,00,000, ₹ 60,000 and ₹ 50,000 respectively. On that date the balance of general reserve was ₹ 90,000. They admitted P as a new partner. P brought ₹ 1,80,000 as his capital. New profit and loss sharing ratio of all the partners is decided to 2:1:1:2. Calculate goodwill and pass necessary journal entries.