CHAPTER – 03

ADMISSION OF A PARTNER

As we know that Partnership is an agreement between the partners or members of the firm for sharing profits and losses of the business carried on by all or any of them acting for all. Any change in this agreement amounts to the reconstitution of the partnership firm.

A change in the agreement brings to an end the existing agreement and a new agreement comes into existence. This new agreement changes the relationship among the members or partners of the partnership firm. Hence, whenever there is a change in the partnership agreement, the firm continues but it amounts to the reconstitution of the partnership firm.

Modes of Reconstitution of the Partnership Firm:

Reconstitution of partnership firm usually takes place in any of the following situations:

1. At the time of admission of a new partner;
2. Change in the profit-sharing ratio of existing partners;
3. At the time of retirement of an existing partner;
4. At the time of death of a partner;
5. The amalgamation of two partnership firms.

Admission of a New Partner:

When a business enterprise requires additional capital or managerial help or both for the growth and expansion of the business it may admit a new partner to supplement its existing resources. So, admission of a new partner is required for the following reasons:

1. Requirement of more capital for the expansion of the business.
2. Need of a competent and experienced person for the efficient running of the business.
3. To increase the goodwill of the business by taking a reputed and renowned person into the partnership.
4. To encourage a capable employee by taking him into the partnership.

According to Sec. 31, Indian Partnership Act, 1932, a new partner can be admitted into the firm only with the consent of all the existing partners unless otherwise agreed upon. Admission of a new partner means reconstitution of the firm. It is so because the existing agreement comes to an end and a new agreement comes into effect.

A newly admitted partner acquire has two main rights in the firm:

1. Right to share in the assets of the partnership firm, and
2. Right to share in the profits of the partnership firm.

A new partner brings an agreed amount of capital either in cash or in-kind and he also contributes some additional amount known as premium or goodwill. This is done primarily to compensate the existing partners for the loss of their share in the profits of the firms.

Adjustment at the Time of Admission of a New Partner:

1. Calculation of New profit sharing ratio.
2. Accounting Treatment of goodwill.
3. Accounting treatment for Revaluation of assets and liabilities.
4. Accounting Treatment of accumulated profits or losses or reserves
5. Adjustment of capital on the basis of new profit sharing ratio.

New Profit Sharing Ratio:

The ratio in which all partners including new partner share the future profits is called the new profit sharing ratio. In other words, on the admission of a new partner, the old partners sacrifice a share of their profits in favour of the new partner. On admission of a new partner, the profit-sharing ratio among the old partners will change keeping in view their respective contribution to the profit-sharing ratio of the incoming partner. Hence, there is a need to ascertain the new profit sharing ratio among all the partners.

The new partner may acquire his share from the old partners in any of the following situations:

1. If only the ratio of the new partner is given, then in the absence of any other agreement or information, it is assumed that the old partners will continue to share the remaining profits in the old ratio.

Example: X, Y and Z are partners sharing profits in the ratio 3:2:1 respectively. A is admitted in the firm as a new partner with 1/6th share. Find the new profit sharing ratio.

Answer:

Let total profit = 1

A's share = 1/6th

Remaining Profit = $1 - \frac{1}{6} = \frac{5}{6}$

Old partners share this remaining profit in the old profit sharing

X's share = $\frac{3}{6} \times \frac{5}{6} = \frac{15}{36}$

Y's share = $\frac{2}{6} \times \frac{5}{6} = \frac{10}{36}$

Z's share = $\frac{1}{6} \times \frac{5}{6} = \frac{5}{36}$

New Profit sharing ratio = $\frac{15}{36} : \frac{10}{36} : \frac{5}{36} : \frac{1}{6}$

$= \frac{15:10:5:6}{36}$ = 15: 10: 5: 6

2. If the new partner acquires his share of profit from the old partners equally. In that case, the new profit sharing ratio of the old partner will be calculated by deducting the sacrifice made by them from their existing share of profit.

Example: Varun and Daksh are partners sharing profits and losses in the ratio 5:3. They admit Dhruv as a partner for 1/4th share, which he acquires equally from Varun and Daksh. Calculate the new profit sharing ratio.

Answer:

Dhruv's share = 1/4

Share acquired by Dhruv from Varun = $\frac{1}{4} \times \frac{1}{2} = \frac{1}{8}$

Share acquired by Dhruv from Daksh = $\frac{1}{4} \times \frac{1}{2} = \frac{1}{8}$

Varun's share = = $\frac{5}{8} - \frac{1}{8} = \frac{4}{8}$

Daksh's share = = $\frac{3}{8} - \frac{1}{8} = \frac{2}{8}$

New Profit Sharing Ratio = $\frac{4}{8} : \frac{2}{8} : \frac{1}{4}$ = 2 : 2 : 1

3. In the new partner acquire his share of profit from the old partners in a particular ratio. In that case, the new profit sharing ratio of the old partners will be calculated by deducting the sacrifice made by them from their existing share of profit.

Example: Noni and Pony are partners, sharing profits in the ratio of 7:5. They admit Tony as new partner for 1/6th share which he takes 1/24th from Noni and 1/8th from Pony. Calculate the new profit sharing ratio.

Answer:

Noni's share = = $\frac{7}{12} - \frac{1}{24} = \frac{13}{24}$

Pony's share = = $\frac{5}{12} - \frac{1}{8} = \frac{7}{24}$

New Profit Sharing Ratio = $\frac{13}{24} : \frac{7}{24} : \frac{1}{6}$ = 13 : 7 : 4

Q4. If the old partners surrender a particular fraction of their share in favour of the new partner. In that case, the new partner's share is calculated by adding the surrendered portion of the share by the old partners. Old partners' share is calculated by deducting the surrendered portion from their old ratio.

Example: Anu and Priti are partners in firm sharing profits in the ratio of 5:3. Anu surrenders 1/20th of her share and Priti surrenders 1/24th of her share in favour of Kapil, a new partner. Calculate the new profit sharing ratio.

Answer:

Anu's share = $\frac{5}{8}$

Anu surrenders = $\frac{1}{20} \times \frac{5}{8} = \frac{1}{32}$

Anu's new share = = $\frac{5}{8} - \frac{1}{32} = \frac{19}{32}$

Priti's share = $\frac{3}{8}$

Priti surrenders = $\frac{1}{24} \times \frac{3}{8} = \frac{1}{64}$

Priti's new share = = $\frac{3}{8} - \frac{1}{64} = \frac{23}{64}$

Kapil's share = = $\frac{1}{32} + \frac{1}{64} = \frac{3}{64}$

New Profit Sharing Ratio = $\frac{19}{32} : \frac{23}{64} : \frac{3}{64}$ = 38 : 23 : 3

5. If the new partner acquires his share of profit from only one partner. In that case, the new profit sharing ratio of the old partner will be calculated by deducting the sacrifice made by one partner from his existing ratio.

Example: Akshay and Anshul are partners in a firm sharing profits in a 4: 1 ratio. They admitted Shikha as a new partner for 1/4 share in the profits, which she acquired wholly from Akshay. Calculate the new profit sharing ratio.

Answer:

Akhay's share = 4/5

Akhy's new share =$\frac{4}{6} - \frac{1}{4} = \frac{16-5}{20} = \frac{11}{20}$

Anshul's share = $\frac{1}{6}$

Shikha's share = $\frac{1}{4}$

New Profit Sharing Ratio = $\frac{11}{20} : \frac{1}{5} : \frac{1}{4} = \frac{11}{20} : \frac{1}{5} : \frac{1}{4}$

Sacrificing Ratio:

The ratio in which the old partners have agreed to sacrifice their shares in profit in favour of a new partner is called the sacrificing ratio. This ratio is calculated by taking out the difference between the old profit sharing ratio and the new profit sharing ratio.

Sacrificing Ratio = Old Ratio – New Ratio

Treatment of Goodwill:

To compensate old partners for the loss (sacrifice) of their share in profits, the incoming partner, who acquire his share of profit from the old partners brings in some additional amount termed as a share of goodwill. There may be three situations related to treatment of goodwill at the time of admission of a new partner :

1. When the amount of goodwill is paid privately.
2. When the new partner brings his share of goodwill in cash
3. When the new partner does not bring his share of goodwill in cash

These situations are as discussed below:

1. **When the amount of goodwill is paid privately:** When the new partner pays the amount of goodwill in cash to the old partners privately outside the business, no entries are required to be passed.
2. **When the new partner brings his share of goodwill in cash:** According to this method there are two alternatives:
   - **(i) When the amount of goodwill brought in by new partner is retained in the business**: If the new partner brings in his share of goodwill in cash and this amount is retained in the business, the amount is credited to the Capital Accounts of old partners in their sacrificing ratio. The following two entries are passed for this purpose:
     - **(a)** Cash A/c or Bank A/c Dr.
       To Premium for Goodwill A/c
       (For the amount of Goodwill brought by new partner)
     - **(b)** Premium for Goodwill A/c Dr.
       To Old Partner's Capital A/c
       (For the amount of Goodwill distributed among the old partners in their sacrificing ratio)
   - **(ii) When Goodwill brought in by the new partner is withdrawn by old partners:** Sometimes, the amount of goodwill brought in by new partner is withdrawn by the old partners. In this case, in addition to the two journal entries explained in (i), one more journal entry is to be passed:
     Old Partner's Capital A/c's Dr.
     To Cash A/c or Bank A/c
     (For the amount of goodwill withdrawn by the old partners)

When goodwill already exists in books:

If the goodwill already exists in the books of firms and the incoming partner brings his share of goodwill in cash, then the goodwill appearing in the books will have to be written off.

Old Partner's Capital A/c's Dr.
To Goodwill A/c
(For Goodwill written-off in old ratio)

3. **When a new partner does not bring his share of goodwill in cash(AS-26)-** AS-26 specifies that goodwill can be recorded in books only when some consideration in money or money's worth has been paid for it. It means only purchased goodwill can be recorded in books. At the time of admission, retirement or death of a partner or in case of change in profit sharing ratio among the existing partners, goodwill cannot be raised in books of the firm because it will be non-purchased goodwill and no consideration in money or money's worth has been paid for it.
   When the goodwill of the firm is evaluated and the new partner does not bring his share of goodwill in cash, goodwill should be adjusted through partner's capital accounts. For this purpose new partner's current account is debited from his share of goodwill and the old partner' capital accounts are credited in their sacrificing ratio. Following entry is passed for this purpose:
   New Partner Current A/c* Dr.
   To Old Partner's Capital A/cs
   *__Note-__
   New Partner's Current A/c has been debited instead of Current A/c so that his capital is not reduced and remains intact.
   (Current Account of new partner debited from his share of goodwill on his admission and Capital Accounts of old partner's credited in their sacrificing ratio)

When Goodwill Already appears in the books and new partner does not bring his share of Goodwill in Cash

If goodwill account already exists in the books of the firm, and if the new partner does not bring in his share of goodwill in cash, even then, as already discussed, the amount of goodwill already existing is written off by debiting the capital accounts of old partners in old ratio.

Adjustment for Accumulated (Undistributed) Profits and Losses:

1. **For Distributing Undistributed Profits, Reserves etc.:**
   (For distribution of accumulated profits and reserves to old partners in old profit sharing ratio)
   General Reserves A/c Dr.
   Reserve fund A/c Dr.
   Profit and Loss A/c(Credit Balance) Dr.
   To Old Partner's Capital A/c's
   (For distribution of accumulated profits and reserves to old partners in old profit sharing ratio)
2. **For Distributing Accumulated Losses among old partners:**
   Old Partner's Capital A/c's Dr.
   To Profit and Loss A/c
   To Advertisement Suspense A/c
   To Deferred Revenue Expenditure A/c
   (For distribution of accumulated losses to old partners in old profit sharing ratio)

3. For distributing surplus of specific reserves(like Workmen Compensation Reserve, Investment Fluctuation Reserve):

Workmen Compensation Reserve A/c Dr.
Investment Fluctuation Reserve A/c Dr.
To Old Partner's Capital A/cs or Current A/cs

Note:

Entries for transferring the Reserves and Accumulated Profits and Losses must be passed even if the question is silent on this point. Employee's Provident Fund or Employee's Saving Account appearing on the liabilities side of the Balance Sheet are not distributed among old partners as they are not reserves but are the outside liabilities payable by the firm.

Workmen Compensation Reserve- This reserve is created out of firm's profit to pay compensation to employees. At the time of admission of partner, it is treated as follows:

(1) **If there is no claim against Workmen Compensation Reserve**:
The Journal Entry passed is :
Workmen Compensation Reserve A/c Dr.
To Partner's Capital A/cs
(Workmen Compensation Reserve credited to old partners Capital Accounts in their old profit sharing ratio)

(2) **If the claim for Workmen Compensation is lower than the amount of Workmen Compensation Reserve**:
The Journal Entry passed is :
Workmen Compensation Reserve A/c Dr.
To Provision for Workmen Compensation Claim A/c
To Partner's Capital A/c

(3) If the claim is equal to Workmen Compensation Reserve:
The Journal Entry passed is :
Workmen Compensation Reserve A/c Dr.
To Provision for Workmen Compensation Claim A/c

(4) If the claim is more than the amount of Workmen Compensation Reserve: Entire amount of Workmen Compensation Reserve along with the excess claim is credited to 'Provision for Workmen Compensation Claim A/c. The amount of excess claim is debited to 'Revaluation A/c' because the loss must be borne by all of the old partners in their old profit sharing ratio.

The Journal Entries passed are :

(i) Workmen Compensation Reserve A/c Dr.
Revaluation A/c Dr.
To Provision for Workmen Compensation Claim A/c
(Amount of claim debited to Workmen Compensation Reserve and Revaluation A/c)

(ii) Partner's Capital A/c Dr.
To Revaluation A/c
(Loss on Revaluation transferred to capital accounts of old partners in their old profit sharing ratio)

Investment Fluctuation Reserve- This reserve is created out of firm's profits to meet the fall in the market value of investments. At the time of admission of a partner, this reserve is created as follows:

(1) When Book Value and Market Value of Investment is same:
Investment Fluctuation Reserve A/c Dr.
To Partner's Capital A/c

(2) When Market Value of Investments is less than the Book Value: In this case, the accounting treatment depends on the quantum of decrease. There may be three possibilities:

(i) Fall in the value is less than Investment Fluctuation Reserve: In such a case, Investment Fluctuation Reserve, to the extent of fall in value, is credited to Investments A/c and the balance is credited to old Partner's Capital A/cs in their old profit-sharing ratio. The entry is :
Investment Fluctuation Reserve A/c
To Investments A/c
To Partner's Capital A/cs

(ii) Fall in Value is Equal Fluctuation Reserve:
In such a case, entire amount of Investment Fluctuation Reserve is credited to Investments A/c. The entry is:
Investment Fluctuation Reserve A/c Dr.
To Investments A/c

(iii) Fall in the value is more than Investment Fluctuation Reserve- In such a case, entire amount of Investment Fluctuation Reserve, along with the amount of excess fall is credited to Investments A/c. The amount of excess fall is debited to Revaluation A/c because the loss must be borne old partners in old profit-sharing ratio. The entry is:
Investment Fluctuation Reserve A/c Dr.
Revaluation A/c Dr.
To Investments A/c

(3) When Market Value of Investments is more than the Book value: In such a case, three entries are passed:

(i) Entire amount of Investment Fluctuation Reserve is credited to old Partner's Capital A/cs:
Investment Fluctuation Reserve A/c Dr.
To Partner's Capital A/cs (In old ratio)

(ii) Increase in the value of Investments is debited to Investment A/c and credited to Revaluation A/c
Investments A/c Dr.
To Revaluation A/c
(To bring up the value of Investments to Market Value)

(iii) Revaluation A/c Dr.
To Partner's Capital A/cs

Revaluation of Assets and Reassessment of Liabilities: Revaluation of Assets and Reassessment of Liabilities is done with the help of 'Revaluation Account' or 'Profit and Loss Adjustment Account'.

The journal entries recorded for revaluation of assets and reassessment of liabilities are following:

1. For increase in the value of an Assets
   Assets A/c Dr.
   To Revaluation A/c (Gain)
2. For decrease in the value of an Assets
   Revaluation A/c Dr.
   To Assets A/c (Loss)
3. For appreciation in the amount of Liability
   Revaluation A/c Dr.
   To Liability A/c (Loss)
4. For reduction in the amount of a Liability
   Liability A/c Dr.
   To Revaluation A/c (Gain)
5. For recording an unrecorded Assets
   Unrecorded Assets A/c Dr.
   To Revaluation A/c (Gain)
6. For recording an unrecorded Liability
   Revaluation A/c Dr.
   To Unrecorded Liability A/c (Loss)
7. For the sale of unrecorded Assets
   Cash A/c or Bank A/c Dr.
   To Revaluation A/c (Gain)
8. For payment of unrecorded Liability
   Revaluation A/c Dr.
   To Cash A/c or Bank A/c (Loss)
9. For transfer of gain on Revaluation if the credit balance
   Revaluation A/c Dr.
   To Old Partner's Capital A/c's (Old Ratio)
10. For transfer of loss on Revaluation if debit balance
    Old Partner's Capital A/c's Dr.
    To Revaluation A/c (Old Ratio)

Proforma of Revaluation A/c

Dr. **Revaluation A/c** **Cr.**

Particulars	Amount	Particulars	Amount
To Decrease in Value of Assets	xxxx	By Increase in Value of Assets	xxxx
To Increase in Value of Liabilities	xxxx	By Decrease in Value of Liabilities	xxxx
To Unrecorded Liabilities	xxxx	By Unrecorded Assets	xxxx
To Profit on Revaluation (Transfer to Old Partner's Capital A/c in Old Profit sharing Ratio)	xxxx	By Loss on Revaluation (Transfer to Old Partner's Capital A/c in Old Profit sharing Ratio)	xxxx
	xxxx		xxxx

Hidden Goodwill

Sometimes, the value of goodwill is hidden in the question. In such cases, the amount of goodwill is calculated on the basis of total capital of the firm and the profit sharing ratio of partners. For example, A and B are partners with capitals of ₹30,000 and ₹20,000 respectively. They admit C as a partner with ¼ share. C is to contribute ₹24,000 as his capital. In such a case, the total capital of the firm, based on C's share ought to be ₹24,000 × $\frac{4}{1}$ = ₹96,000. But the combined capital of A, B and C becomes only ₹74,000 (30,000 + 20,000 + 24,000) . As such the value of total goodwill of the firm should be taken as ₹96,000 - ₹74,000 = ₹22,000

Solved Examples

Q1. (a) Ram and Bharat are partners sharing profits and losses in the ratio of $\frac{7}{12}:\frac{5}{12}$. They admit Gopi as a new partner for 1/6 th share, which he acquires equally from Ram and Bharat. Calculate the new profit sharing ratios of the partners.

(b) *A, B* and *C* were partners in a firm sharing profits in the ratio of 3 : 2: 1. They admitted *D* as a new partner for 1/8th share in the profits, which he acquired 1/16th from *B* and 1/16th from *C*.
Calculate the new profit sharing ratio of *A, B, C* and *D*.

Solution:

Sol. Share of Profits given to Gopi = $\frac{1}{6}$
Share acquired by Gopi from Ram

$= \frac{1}{2}$ of $\frac{1}{6} = \frac{1}{12}$

Share acquired by Gopi from Bharat

$= \frac{1}{2}$ of $\frac{1}{6} = \frac{1}{12}$

Therefore,

Ram's new share after surrendering $\frac{1}{12}$ in Gopi's favour $= \frac{7}{12} - \frac{1}{12} = \frac{6}{12}$

Bharat's new share after surrendering $\frac{1}{12}$

in Gopi's favour $= \frac{5}{12} - \frac{1}{12} = \frac{4}{12}$

Gopi's Share $= \frac{1}{12} + \frac{1}{12} = \frac{1}{6}$

Hence, the new profit sharing ratio of Ram, Shyam and Gopi will be :

$= \frac{6}{12} : \frac{4}{12} : \frac{1}{6} = \frac{6:4:2}{12} = 6 : 4 : 2 = 3 : 2 : 1$

(b): A's new Share $= \frac{3}{6}$

B's new Share $= \frac{2}{6} - \frac{1}{16} = \frac{16-3}{48} = \frac{13}{18}$

C's new Share $= \frac{1}{6} - \frac{1}{16} = \frac{8-3}{48} = \frac{5}{48}$

D's Share $= \frac{1}{8}$

Thus, the New Profit Sharing Ratio for A, B, C and D will be: $\frac{3}{6} : \frac{13}{48} : \frac{5}{48} : \frac{1}{8}$

$= \frac{24:13:5:6}{48} = 24 : 13 : 5 : 6$

Q2. Rama and Mohini were partners in a firm sharing profits in 3 : 2 ratio. On 1st April 2020, they admitted Sita and Radha as new partners. Rama sacrificed 1/3rd of her share in favour of Sita and Mohini sacrificed 1/2 of her share in favour of Radha. Profit of the firm for the ended 31st March 2021 amounted to ₹3,60,000. Prepare necessary journal entries for distribution of profit.

Solution

Date	**Particulars**	**L.F.**	**Dr. (₹)**	**Cr. (₹)**
2021				
March 31	Profit & Loss A/c Dr.		3,60,000	
	To Profit & Loss Appropriation A/c			3,60,000
	(Transfer of profit to Profit & Loss Appropriation (A/c)			
March 31	Profit & Loss Appropriation A/c Dr.		3,60,000	
	To Rama's Capital A/c			1,44,000
	To Mohini's Capital A/c			72,000
	To Sita's Capital A/c			72,000
	To Radha's Capital A/c			72,000
	(Distribution of profit in the ratio of 2 : 1 : 1 : 1)			

Working Notes

Calculation of surrendered share:

(i) Rama's old share $= \frac{3}{5}$; Rama surrenders $\frac{1}{3}rd$ of $\frac{3}{5}$ in favour of Sita i.e.,

$\frac{1}{3} \times \frac{3}{5} = \frac{3}{15}$(It means Rama has surrendered $\frac{1}{5}$ out of his share in favour of Sita)

(ii) Mohini's old share $= \frac{2}{5}$; Mohini surrenders $\frac{1}{2}$ of $\frac{2}{5}$ in favour of Radha , i.e.,

$\frac{1}{2}$ of $\frac{2}{5} = \frac{1}{5}$(It means Mohini has surrendered $\frac{1}{5}$ out of his share in favour of Radha)

Calculation of New Ratios:

Rama $= \frac{3}{5} - \frac{1}{5} = \frac{2}{5}$

Mohini $= \frac{2}{5} - \frac{1}{5} = \frac{1}{5}$

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

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

New ratio = 2 : 1 : 1 :1

Q3. *A* and *B* are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. Their capitals are ₹1,80,000 and ₹1,40,000 respectively. They admit *X* in partnership on the conditions that he will bring ₹67,500 as goodwill and ₹1,50,000 as capital and will get 1/4 share in the profits of the firm. Assuming that the capital and goodwill have been brought in cash by the new partner, pass the necessary journal entries and find out new profit sharing ratio of partners when (A) Goodwill is retained in the firm and (B) Goodwill is withdrawn by old partners.

Solution:

(A) When the amount of Goodwill is not withdrawn by the old partners:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		2,17,500	
	To X's Capital A/c			1,50,000
	To Premium for Goodwill A/c			67,500
	(The amount of capital and goodwill/premium brought in cash by new partner)			
	Premium for Goodwill A/c(1) Dr.		67,500	
	To *A*'s Capital A/c			40,500
	To B's Capital A/c			27,000
	(The amount of goodwill/premium credited to the old partner's capitals in Sacrifice Ratio *i.e.,* 3 : 2)			

(B) When the amount of Goodwill is withdrawn by the old partners :

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		2,17,500	
	To *X*'s Capital A/c			1,50,000
	To Premium for Goodwill A/c			67,500
	(The amount of capital and goodwill/premium brought in cash by new partner)			
	Premium for Goodwill A/c(1) Dr.		67,500	
	To *A*'s Capital A/c			40,500
	To *B*'s Capital A/c			27,000
	(The amount of goodwill/premium credited to old partner's capitals in sacrifice ratio *i.e.,* 3 : 2)			
	A's Capital A/c Dr.		40,500	
	B's Capital A/c Dr.		27,000	
	To Bank A/c			67,500
	(The amount of goodwill/premium withdrawn by the old partners)			

Calculation of New Profit Sharing Ratios:

Let total profit be = 1

X is given $\frac{1}{4}$th share out of 1; Remaining profit is = $1 - \frac{1}{4} = \frac{3}{4}$

Old partners will now share only $\frac{3}{4}$ th profit, in their old profit sharing ratio:

Therefore, *A*'s new share of profit $= \frac{3}{5}$ of $\frac{3}{4} = \frac{9}{20}$

B's new share of profit $= \frac{2}{5}$ of $\frac{3}{4} = \frac{6}{20}$

X's share= $\frac{1}{4}$

Thus, the new profit sharing ratio of A, B and X will be:

$$\begin{array}{ccccc} \textbf{A} & : & \textbf{B} & : & \textbf{Y} \end{array}$$

$$= \frac{9}{20} : \frac{6}{20} : \frac{1}{4}$$

$$= \frac{9 : 6 : 5}{20} = 9 : 6 : 5.$$

Note: (1) As the new profit sharing ratio is not given in the question, therefore it will be presumed that the old profit sharing ratio will be the sacrificing ratio, *i.e.,* it will be presumed that the partners have sacrificed in their old ratio.

Q4. Aarti and Bharti are partners in a firm sharing profits in 3 : 2 ratio. The admitted Sarthi as a new partner and the new profit-sharing ratio will be 2 : 1 : 1. Sarthi brought ₹ 1,00,000 for her share of goodwill. Goodwill already appeared in the books of Aarti and Bharti at ₹60,000.

Pass the necessary Journal entries in the books of the new firm for the above transactions.

Solution:

JOURNAL ENTRIES

Date	*Particulars*	*L.F.*	*Dr. (₹)*	*Cr. (₹)*
	Aarti's Capital A/c Dr.		36,000	
	Bharti's Capital A/c Dr.		24,000	
	To Goodwill A/c			60,000
	(Goodwill already appearing in the books, now written off in old ratio)			
	Bank A/c Dr.		1,00,000	
	To Premium for Goodwill A/c			1,00,000
	(The amount of goodwill/premium brought in cash by Sarthi)			
	Premium for Goodwill A/c Dr.		1,00,000	
	To Aarti's Capital A/c			40,000
	To Bharti's Capital A/c			60,000
	(The amount of goodwill/premium transferred to old partner's in sacrificing ratio)			

Working Note:

Calculation of Sacrificing Ratio:

Old Ratio – New Ratio

Aarti $= \frac{3}{5} - \frac{2}{4} = \frac{12-10}{20} = \frac{2}{20}$

Bharti $= \frac{2}{5} - \frac{1}{4} = \frac{8-5}{20} = \frac{3}{20}$

Hence, Sacrificing Ratio of Aarti and Bharti = 2 : 3

Q5. Aman and Bhim are partners sharing profits in the ratio of 3 : 2. They admit Chirag into the partnership with $\frac{1}{4}$th share in future profits. The new profit sharing ratio is 5 : 4 : 3. Chirag brings into the business ₹ 50,000 for his capital but could not bring any amount for goodwill. The firm's goodwill on Chirag's admission was valued at ₹48,000. Pass journal entries.

Solution:

JOURNAL ENTRIES

Date	**Particulars**	**L.F.**	**Dr. (₹)**	**Cr. (₹)**
	Bank A/c Dr.		50,000	
	To Chirag's Capital A/c			50,000
	(The amount of capital brought in cash)			
	Chirag's Current A/c(1) Dr.		12,000	
	To Aman's Capital A/c			8,800
	To Bhim's Capital A/c			3,200
	(Current Account of new partner debited from his share of goodwill and Capital Accounts of old partner's credited in their sacrificing ratio, *i.e.,* 11 : 4)			

Notes

(1) Value of total goodwill of the firm = ₹ 48,000

Chirag's share of goodwill $= 48{,}000 \times \frac{1}{4} =$ ₹12,000.

(2) Calculation of Sacrificing Ratio:

Sacrifice Ratio = Old Ratio – New Ratio

Aman $= \frac{3}{5} - \frac{5}{12} = \frac{36-25}{60} = \frac{11}{60}$

Bhim $= \frac{2}{5} - \frac{4}{12} = \frac{24-20}{60} = \frac{4}{60}$

Thus, Sacrifice Ratio $= \frac{11}{60} : \frac{4}{60}$ or 11 : 4

Q6. *X* and *Y* are partners in a firm sharing profits in the ratio of 5 : 3. On March 1, 2021 they admitted M as a new partner. The new profit sharing ratio will be 4 : 3 : 2. M brought in ₹ 1,00,000 in cash as his share of capital but could not bring any amount for goodwill in cash. The firm's goodwill on M's admission was valued at ₹1,80,000. *X* and *Y* decided that M can bring his share of premium for goodwill later or it can be adjusted against his share of profits. At the time of M's admission goodwill existed in the books of the firm at ₹2,40,000.
You are required to pass necessary journal entries in the books of the firm on M's admission.

Solution:

JOURNAL

Date	**Particulars**	**L.F.**	**Dr. (₹)**	**Cr. (₹)**
2021				
March 1	X's Capital A/c Dr.		1,50,000	
	Y's Capital A/c Dr.		90,000	

	To Goodwill A/c (Goodwill already existing in the books, now written off in old ratio i.e. 5 : 3			2,40,000
March 1	Bank A/c Dr. To M's Capital A/c (Amount brought in by M as his capital)		1,00,000	1,00,000
March 1	M's Current A/c $\left(\frac{2}{9} \text{ of } 1{,}80{,}000\right)$ Dr. To X's Capital A/c To Y's Capital A/c (M's share of goodwill credited to X and Y in their sacrificing ratio i.e. 13 : 3)		40,000	32,500 7,500

Working Notes

Calculation of sacrificing ratio

X's sacrifice = $\frac{5}{8} - \frac{4}{9} = \frac{13}{72}$

Y's sacrifice = $\frac{3}{8} - \frac{3}{9} = \frac{3}{72}$

Thus, sacrificing ratio between X and Y = 13 : 3

Q7. *A* and *B* are partners sharing profits in the ratio of 3 : 2. They admit X into the firm for 1/4th share in profit which he takes 1/6th from *A* and 1/12th from *B.* X brings ₹50,000 as goodwill out of his share of ₹90,000. No goodwill account appears in the books of the firm. Pass necessary journal entries to record this arrangement.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To Premium for Goodwill A/c (A part of his share of goodwill/premium brought in by X)		50,000	50,000
	Premium for Goodwill A/c Dr. *X*'s Current A/c Dr. To *A*'s Capital A/c To *B*'s Capital A/c (Goodwill/premium credited to *A* and *B* in their sacrificing ratio, *i.e.,* 2 : 1)		50,000 40,000	60,000 30,000

Q8. Leela and Meeta were partners in a firm sharing profits and losses in the ratio of 5 : 3. On 1st April, 2018 they admitted Raj as a new partner. On the date of Raj's admission the balance sheet of Leela and Meeta showed a balance of ₹1,60,000 in General reserve and ₹2,40,000 (Cr.) in Profit and Loss Account. Record necessary journal entries for the treatment of these items on Raj's admission. The new-profit sharing ratio between Leela, Meeta and Raj was 5 : 3 : 2.

Solution:

Books of Leela, Meeta and Raj

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 April 1	General Reserve A/c Dr. To Leela's Capital A/c To Meeta's Capital A/c (The transfer of the balance of General Reserve to old partner's capital accounts in old ratio on the admission of Raj)		1,60,000	1,00,000 60,000
April 1	Profit & Loss A/c Dr. To Leela's Capital A/c To Meeta's Capital A/c (The transfer of the balance of Accumulated Profits to old partner's capital accounts in old ratio on the admission of Raj)		2,40,000	1,50,000 90,000

Q9. A, B and C are partners sharing profits and losses in the ratio of 2 : 2: 1. They admitted D for 1/4th share with effect from 1st April, 2021 . An extract of their Balance Sheet as at 31st March, 2021 is as follows:

Liabilities	₹	Assets	₹
Workmen Compensation Reserve	80,000		

Show the accounting treatment under the following alternative cases:
Case 1. If there is no other information.
Case 2. If a claim for workmen compensation is estimated at ₹50,000.
Case 3. If a claim for workmen compensation is estimated at ₹80,000.
Case 4. If a claim for workmen compensation is estimated at ₹1,00,000.

Solution:

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2021 April 1 Case 1	Workmen Compensation Reserve A/c Dr. To *A*'s Capital A/c To *B*'s Capital A/c To *C*'s Capital A/c (Workmen Compensation Reserve credited to old Partners' Capital Accounts in their old profit-sharing ratio)		80,000	 32,000 32,000 16,000
Case 2	Workmen Compensation Reserve A/c Dr. To Provision for Workmen Compensation Claim A/c To *A*'s Capital A/c To *B*'s Capital A/c To *C*'s Capital A/c (Surplus workmen compensation reserve credited to old Partners' Capital Accounts in their old profit-sharing ratio)		80,000	 50,000 12,000 12,000 6,000
Case 3	Workmen Compensation Reserve A/c Dr. To Provision for Workmen Compensation Claim A/c (Provision made for Workmen Compensation Claim)		80,000	 80,000
Case 4	Workmen Compensation Reserve A/c Dr. Revaluation A/c Dr. To Provision for Workmen Compensation Claim A/c (Provision made for workmen claim and shortfall charged to Revaluation Account)		80,000 20,000	 1,00,000
	A's Capital A/c Dr. *B*'s Capital A/c Dr. *C*'s Capital A/c Dr. To Revaluation A/c (Loss on revaluation debited to Partners' Capital Accounts in their old profit-sharing ratio)		8,000 8,000 4,000	 20,000

Q10. *A*, *B* and *C* sharing profits and losses in the ratio of 3 :2: 1 decide to admit *D* for 1/5th share with effect from 1st April,2021. An extract of their Balance Sheet as at 31st March, 2021 is:

Liabilities	₹	*Assets*	₹
Investment Fluctuation Reserve	30,000	Investments (At cost)	5,00,000

Show the accounting treatment under the following alternative cases:
Case 1. If there is no other information.
Case 2. If the market value of investments is ₹5,00,000.
Case 3. If the market value of investments is ₹4,82,000.
Case 4. If the market value of investments is ₹4,55,000.
Case 5. If the market value of investments is ₹5,24,000.

Solution:

Journal

Date	*Particulars*	*L.F.*	*Dr. (₹)*	*Cr. (₹)*

2021 April 1 Case 1	Investments Fluctuation Reserve A/c Dr. To *A*'s Capital A/c To *B*'s Capital A/c To *C*'s Capital A/c (Investments fluctuation reserve credited to Partners' Capital Accounts in their old profit-sharing ratio)		30,000	 15,000 10,000 5,000
Case 2	Same entry as given in Case 1.			
Case 3	Investments Fluctuation Reserve A/c Dr. To Investments A/c To *A*'s Capital A/c To *B*'s Capital A/c To *C*'s Capital A/c (Excess investments fluctuation reserve credited to Partners' Capital Accounts in their old profit-sharing ratio)		30,000	 18,000 6,000 6,000 2,000
Case 4	Investments Fluctuation Reserve A/c Dr. Revaluation A/c Dr. To Investments A/c (Fall in book value of investments credited to investments account and excess fall charged to Revaluation Account)		30,000 15,000	 45,000
	A's Capital A/c Dr. *B*'s Capital A/c Dr. *C*'s Capital A/c Dr. To Revaluation A/c (Loss on revaluation debited to partners' Capital Accounts in their old profit-sharing ratio)		7,500 5,000 2,500	 15,000
Case 5	Investments Fluctuation Reserve A/c Dr. To *A*'s Capital A/c To *B*'s Capital A/c To *C*'s Capital A/c (Investments fluctuation reserve credited to Partners' Capital Accounts in their old profit-sharing ratio)		30,000	 15,000 10,000 5,000
	Investments A/c Dr. To Revaluation A/c (Value of investments brought up to market value)		24,000	 24,000
	Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Profit on revaluation credited to partner's Capital Accounts in their old profit-sharing ratio)		24,000	 12,000 8,000 4,000

Q11. Veena and Somesh were partners in a firm with capitals of ₹1,00,000 and ₹80,000 respectively. They admitted Vipin on 1st April, 2019 as a new partner for 1/4th share in the future profits of the firm. Vipin brought ₹90,000 as her capital. Vipin acquired his share as 1/12th from Veena and the remaining from Somesh. Calculate the value of goodwill of the firm and pass the necessary journal entries on Vipin's admission.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019				

April 1	Bank A/c Dr. To Vipin's Capital A/c (Capital brought in by Vipin)			90,000	90,000
	Vipin's Current A/c Dr. To Veena's Capital A/c To Somesh's Capital A/c (Vipin's share of goodwill credited to Veena and Somesh in sacrificing ratio of 1 : 2			22,500	7,500 15,000

Working Notes:

(i) Calculation of Goodwill ₹

Total Capital of New Firm on the basis of Vipin's Capital (90,000 × 4/1) = 3,60,000

Less : Combined Capital of all partners (₹ 1,00,000 + ₹80,000 + ₹90,000) = 2,70,000

Value of Firm's Goodwill 90,000

Vipin's Share of Goodwill = 90,000 × 1/4 = ₹22,500

(ii) Calculation of Sacrifice Ratio

Vipin's Share = 1/4

Veena's Sacrifice = 1/12

Somesh's Sacrifice = 1/4 – 1/12 = 2/12

Sacrifice Ratio of Veena & Somesh = 1 : 2

QUESTIONS FOR PRACTICE

MCQ

1. Which amongst the following adjustment(s) is/are required at the time of admission of a new partner?
(a) Computation of new profit sharing ratio and sacrificing ratio
(b) Adjustment for goodwill
(c) Revaluation of assets
(d) All of these

2. Amount of premium brought in by a new partner will be shared by the existing partners in ....
(a) Old ratio (b) New ratio
(c) Gaining ratio (d) Sacrificing Ratio

3. 'X' and 'Y' are partners sharing profits equally. 'Z' was admitted for 1/5 share. Calculate new profit sharing ratio.
(a) 2 : 3 : 1 (b) 3 : 3 : 1
(c) 6 : 5 : 2 (d) 2 : 2 : 1

4. 'A' and 'B' are partners sharing profits and losses in the ratio of 5 : 3. On admission, 'C' brings ₹ 70,000 cash and ₹ 48,000 against goodwill. New profit sharing ratio between 'A', 'B' and 'C' is 7 : 5 : 4. The sacrificing ratio among 'A' and 'B' is
(a) 4 : 1 (b) 4 : 7
(c) 5 : 4 (d) 3 : 1

5. A firm has an unrecorded investment of ₹ 5,000. Entry in the firm's journal on admission of a partners will
(a) Unrecorded Investment A/c Dr. 5,000
To Revaluation A/c 5,000
(b) Partners' Capital A/c Dr. 5,000
To Unrecorded Investment A/c 5,000
(c) Revaluation A/c Dr. 5,000
To Unrecorded Investment A/c 5,000
(d) None of the above

6. 'A' and 'B' share profits in the ratio of 3 : 2. 'A's' capital is ₹ 40,000, 'B's' capital is ₹ 30,000. 'C' is admitted for 1/5th share in profits. What is the amount of capital which 'C' should bring?
(a) ₹ 17,500 (b) ₹ 16,000
(c) ₹ 1,00,000 (d) ₹ 64,000

7. 'A' and 'B' carry on business and share profits and losses in the ratio of 3: 2. Their respective capitals are ₹ 1,20,000 and ₹ 54,000. 'C' is admitted for 1/5th share in profit and brings ₹ 1,20,000 as his share of capital. Capitals of 'A' and 'B' to be adjusted according to 'C's' share. Calculate the amount required to bring by 'A'.
(a) ₹30,000 (b) ₹1,68,000
(c) ₹60,000 (d) ₹28,000

8. 'A' and 'B' are partners in a firm sharing profits in 3:2 ratio. They admitted 'C' as a new partner and the new profit sharing ratio will be 2:1:1. 'C' brought in ₹ 40,000 as premium for goodwill for it's share. What will be the journal entry for the premium of goodwill shared by old partners as per sacrificing ratio?
(a) Premium for Goodwill A/c Dr. 40,000
To A's Capital A/c 16,000
To B's Capital A/c 24,000
(b) A's Capital A/c Dr. 16,000
B's Capital A/c Dr. 24,000
To Premium for Goodwill A/c 40,000
(c) Premium for Goodwill A/c Dr. 40,000
To Bank A/c 40,000
(d) Bank A/c Dr. 40,000
To Premium for Goodwill A/c 40,000

9. A and B are partners sharing profits in the ratio of 3 : 1. They admit C for 1/4 share in the future profits. The new profit sharing ratio will be
(a) A $\frac{9}{16}$, B $\frac{3}{16}$, C $\frac{4}{16}$ (b) A $\frac{8}{16}$, B $\frac{4}{16}$, C $\frac{4}{16}$

(c) $A\frac{10}{16}, B\frac{2}{16}, C\frac{4}{16}$ (d) $A\frac{8}{16}, B\frac{9}{16}, C\frac{10}{16}$

10. X and Y share profits in the ratio pf 3: 2. Z was admitted as a partner who gets 1/5 share. New profit sharing ratio, if Z acquires 3/20 from X and 1/20 from Y would be
(a) 9 : 7 : 4 (b) 8 : 8 : 4
(c) 6 : 10 : 4 (d) 10 : 6 : 4

11. A and B share profits and losses in the ratio of 3 : 1, C is admitted into partnership for 1/4 share. The sacrificing ratio of A and B is
(a) equal (b) 3 : 1
(c) 2 : 1 (d) 3 : 2

12. A new partner is admitted in the firm
(a) for procuring additional capital
(b) for acquiring additional managerial skills
(c) to benefit from the goodwill of the admitted partner
(d) All of the above

13. When a new partner doesn't bring his share of goodwill in cash, the amount is debited to:
(a) Cash A/c
(b) Current A/c of new partner
(c) Capital A/cs of old partners
(d) Premium for Goodwill A/c

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

15. At the time of admission of a partner, undistributed profits appearing in the balance sheet of the old firm is transferred to the capital account of
(a) old partners in old profit sharing ratio
(b) old partners in new profit sharing ratio
(c) all the partner in the new profit sharing ratio
(d) None of the above

16. On account of admission, the assets are revalued and liabilities are reassessed in ________.
(a) Partner's Capital Account
(b) Revaluation Account
(c) Realisation Account
(d) Balance Sheet

17. At the time of admission of a new partner in the firm, the new partner compensates the old partners for their loss of share in the profits of the firm for which he brings in an additional amount which is known as ……… .
(a) capital share (b) premium for goodwill
(c) Both (a) and (b) (d) None of these

18. At the time of admission, incoming partner become liable for the ….. of the firm and also acquires right on the ……… .
(a) assets, liabilities (b) goodwill, capital
(c) liabilities, assets (d) None of these

19. Which of the following is/are right of newly admitted partner?
(a) Right to share profits of firm
(b) Right to inspect the books of accounts
(c) Right to participate in affairs of business
(d) All of the above

20. The new partner, at the time of admission, may acquire his share from old partners in
(a) old profit sharing ratio
(b) some agreed ratio
(c) particular fraction from some of the partners
(d) All of the above

SUBJECTIVE QUESTIONS

1. A and B are partners in a firm sharing profits in the ratio of 3:1. They admitted C as anew partner. The new profit-sharing ratio of A, B and C will be 2:1:1. C brought ₹2,50,000 for his capital but could not bring his share of goodwill (premium) ₹10,000 in cash. Pass necessary journal entries in the books of the firm for the amount of capital brought in by C and for the treatment of goodwill.

2. Saloni and Shrishti were partners in a firm sharing profits in the ratio of 7:3. Their capitals were ₹2,00,000 and ₹1,50,000 respectively. They admitted Aditi on 1st April, 2017 as a new partner for 1/6th share in future profits. Aditi brought ₹1,00,000 as her capital. Calculate the value of goodwill of the firm and record necessary journal entries for the above transaction on Aditi's admission.

3. A and B are partners sharing profits and losses in the ratio of 3 : 2. C is admitted for 1/5 th share. Afterwards D enters for 25 paise in the rupee. Calculate new ratio of A, B, C and D.

4. A and B are partners sharing profit in the ratio of 3 : 2. C and D join the firm. A sacrifices 1/2 of his share in favour of C and B sacrifices 1/4th of his share in favour of D. Compute new ratio of A, B, C and D.

5. Kanu and Manu were partners in a firm. They admitted Tarun as a new partner for 1/4th share of profits. Tarun brought ₹3,00,000 as his capital and the necessary amount of goodwill premium for his share of goodwill. The goodwill of the firm was valued at ₹1,60,000. The new profit sharing ratio will be 2 : 1 : 1.
Pass necessary journal entries for the above transactions in the books of the firm.

6. Asin and Shreyas are partners in a firm. They admit Ajay as a new partner with 1/5 th share in the profits of the firm. Ajay brings ₹5,00,000 as his share of capital. The value of the total assets of the firm was and ₹15,00,000 and outside liabilities were valued at ₹5,00,000 on that date. Give the necessary Journal entry to record goodwill at the time of Ajay's admission. Also show your workings.

7. Asha and Aditi are partners in a firm sharing profits and losses in the ratio of 3:2. They admit Raghav as a partner for 1/4th share in the profits of the firm. Raghav brings ₹6,00,000 as his capital and his share of goodwill in cash. Goodwill of the firm is to be valued at two years' purchase of average profits of the last four years.

The profits of the firm during the last four years are given below:

Year	Profit (₹)
2013 — 14	3,50,000
2014 — 15	4,75,000
2015 — 16	6,70,000
2016 — 17	7,45,000

The following additional information is given:

(i) To cover management cost an annual charge of ₹56,250 should be made for the purpose of valuation of goodwill.

(ii) The closing stock for the year ended 31.3.2017 was overvalued by ₹ 15,000.

Pass necessary journal entries on Raghav's admission showing the working notes clearly.

8. Anubhav and Babita are partners in a firm sharing profits in the ratio of 3 : 2. On April 1, 2017 they admit Deepak as a new partner for 3/13 share in the profits. Deepak contributed the following assets towards his capital and for his share of goodwill: land ₹90,000 machinery ₹70,000, stock ₹60,000 and debtors ₹40,000. On the date of admission of Deepak, the goodwill of the firm was valued at ₹5,20,000, which is not to appear in the books. Record necessary journal entries in the books of the firm. Show your calculations clearly.

9. Sheetal and Raman share profits equally. They admit Chinki into partnership. Chinki pays only ₹1,000 for premium out of his share of premium of ₹1,800 for 1/4th share of profit. Goodwill Account appears in the books at ₹6,000. All partners have decided that goodwill should not appear in the books of the new firm.

10. A and B were partners in a firm sharing profits in 4 : 3 ratio. On 1st April, 2019 they admitted C as a new partner. On the date of C's admission, the Balance Sheet of A and B showed a general reserve of ₹70,000 and a debit balance of ₹7,000 in the 'Profit and Loss Account'. Pass the necessary journal entries for the treatment of these items on C's admission.

HOMEWORK

MCQ

1. At the time of admission, incoming partner become liable for the ___ of the firm and also acquires right on the ___ .

(a) assets, liabilities (b) goodwill, capital
(c) liabilities, assets (d) None of these

2. A and B are two partners sharing profits in the ratio of 2 : 1. C, a new partner admitted for 1/4th share. At the time of admission, loss from revaluation is ₹ 9,000. Pass a necessary journal entry for distribution of loss between the partners.

(a) A's Capital A/c Dr 6,000
B's Capital A/c Dr 3,000
To Revaluation A/c 9,000

(b) A's Capital A/c Dr 9,000
To B's Capital A/c 9,000

(c) Revaluation A/c Dr 9,000
To A's Capital A/c 6,000
To B's Capital A/c 3,000

(d) B's Capital A/c Dr 9,000
To A's Capital A/c 9,000

3. A and B are partners in the ratio of 3 : 1. C was admitted for $\frac{1}{5}$th share and he could not bring his share of goodwill. Goodwill of firm is valued at ₹ 1,00,000. Journalise.

(a) Premium for Goodwill A/c Dr 1,00,000
To A's Capital A/c 75,000
To B's Capital A/c 25,000

(b) C's Capital A/c Dr 1,00,000
To A's Capital A/c 75,000
To B's capital A/c 25,000

(c) C's Capital A/c Dr 20,000
To A's Capital A/c 10,000
To B's Capital A/c 10,000

(d) C's Capital A/c Dr 20,000
To A's Capital A/c 15,000
To B's Capital A/c 5,000

4. Emi, Nemi and Kimi are partners sharing profits in the ratio of 5 : 3 : 2. They have admitted Vimi into the partnership for $\frac{1}{6}$th share. An extract of their balance sheet on 1st April, 2020 is as follows

Labilities	Amt(₹)	Assets	Amt (₹.)
Investment Fluctuation Fund	27,000	Investment (Cost)	3,00,000

If the market value of investments is ₹ 2,90,000, then the investment fluctuation fund will be shown in the balance sheet of the firm at

(a) ₹27,000 (b) ₹20,000
(c) ₹10,000 (d) ₹13,000

5. Which of the following is not a right of newly admitted partner?

(a) Right to share profits of firm.
(b) Right to inspect the books of accounts
(c) Right to participate in affairs of business
(d) None of these

6. Match the columns (at the time of admission of partner situation)

Column-I	**Column-II**
A. Increase in Liabilities	(i) Credit-Revaluation Account
B. Bad Debts recovered	(ii) Credit- Partner's Capital Account
C. Accumulated Losses	(iii) Debit- Revaluation Account
D. Profit and Loss (Cr.)	(iv) Debit- Partner's Capital Account

A B C D **A B C D**
(a) (iii) (i) (ii) (iv) (b) (i) (iii) (iv) (ii)
(c) (i) (iii) (ii) (iv) (c) (iii) (i) (iv) (ii)

7. A and B are partners sharing profits and losses equally. At the time of admission of C, revaluation of assets and liabilities was done. Investments were raised by ₹20,000 and there was a provision created on debtors @ 5% (debtors being ₹ 1,00,000), stock was also revalued, loss on realisation for A was ₹5,000. New profit sharing ratio of A : B : C would be 1 : 1 : 2. Find the revalued amount of stock, if initially stock was ₹ 60,000.

(a) ₹35,000 (b) ₹85,000
(c) ₹55, 000 (d) ₹65,000

8. A and B are partners in a firm. They admit C as a partner with 1/5th share in the profits of the firm. C brings 4,00,000 as his share of capital. Calculate the value of C's share of goodwill on the basis of his capital, given that the combined capital of A and B after all adjustments is ₹10,00,000.

(a) ₹1,20,000 (b) ₹6,00,000
(c) ₹2,40,000 (d) ₹2,00,000

9. Match the columns for situations at the time of admission of new partners.

Column-I	**Column-II**
A. Future Profits	(i) Old Ratio
B. General Reserve	(ii) New Ratio
C. Employee Provident Fund	(iii) Sacrificing Ratio
D. Goodwill of incoming partner	(iv) Not distributed

A B C D **A B C D**
(a) (i) (ii) (iii) (iv) (b) (i) (ii) (iv) (iii)
(c) (ii) (i) (iv) (iii) (c) (ii) (i) (iii) (iv)

10. Goodwill of the firm of X and Y is valued at ₹ 45,000. It is appearing in the books at ₹ 18,000. Z is admitted in the firm. What amount is she supposed to bring an account of goodwill?

(a) ₹15,000 (b) ₹6,000
(c) ₹9,000 (d) Can't be determined

11. A and B are partners in a firm sharing profits and losses in ratio of 1 : 3. C was admitted for $\frac{1}{4}$ th share of profit. Machinery would be depreciated by 20% (book value ₹ 1,00,000) and building would be appreciated by 10% (book value ₹ 80,000) unrecorded debtors of ₹ 2,000 would be brought in books. What was B's and C's share of revaluation?

(a) ₹2,500, ₹7,500 (b) ₹7,500, ₹2,500
(c) ₹7,500, ₹0 (d) ₹2,500, ₹0

Direction Assertion-Reasoning MCQs (12 to 15): There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
(b) Both Assertion (A)and Reason (R)are true but Reason (R) is not the correct explanation of Assertion (A)
(c) Assertion (A)is false, but Reason (R) is true
(d) Assertion (A)is true, but Reason (R) is false

12. **Assertion (A):** In certain cases, the premium for goodwill paid by the incoming partner is not recorded in the books of accounts.

Reason (R): Sometimes, the incoming partner pays his share of goodwill privately to the sacrificing partner's, outside the business.

13. **Assertion (A):** If the amount of any liability is understated, then revaluation account will be debited to restore the liability's amount to its actual value.

Reason (R): Increase in the amount of liability is a profit for the firm.

14. **Assertion (A):** It is necessary to ascertain new profit sharing ratio for old partners when a new partner is admitted.

Reason (R): New partner acquires his share from old partners which reduces old partner's share in profits.

15. Assertion (A): The balance of memorandum revaluation account (second part) is transferred to partner's capital account in old profit sharing ratio.

Reason (R): Sometimes, partners decide to show the assets and liabilities in the books of the new firm at their existing values.

Direction: Analyse the following case study and answer the questions 16 to 20 on the basis of the same. A and B are partners in a firm sharing profits in the ratio of 5 : 2. On 1st April, 2020 their balance sheet was as follows

Balance Sheet
as at 1st April, 2020

Liabilities	Amount(₹)	Assets	Amount(₹)
A's Capital	80,000	Bank	10,000
B's Capital	70,000	Stock	20,000
Creditors	30,000	Debtors	30,000
		Plant and Machinery	40,000
		Building	80,000
	1,80,000		1,80,000

On the above date, they admitted C as a new partner on the following terms

(i) That the new profit sharing ratio will be 2 : 3 : 3.

(ii) That C will bring ₹1,00,000 for his capital and the necessary amount of goodwill premium in cash.

(iii) Goodwill of the firm is valued at ₹1,40,000.

16. Old partners are always sacrificing at the time of admission of new partners.
(a) True (b) False
(c) Partially true (d) Can't say

17. What was the share of A's sacrifice?
(a) 5/56 (b) 13/28
(c) 3/7 (d) 3/8

18. Who is/are the gaining partner(s) in this case?
(a) A (b) B
(c) C (d) Both(b)and(c)

19. What was C's share of goodwill?
(a) ₹12,500 (b) ₹52,500
(c) ₹1,40,000 (d) ₹2,80,000

20. In goodwill adjustment entry, B's capital account will be __ by __.
(a) credited; ₹12,500 (b) debited; ₹12,500
(c) credited; ₹65,000 (d) debited; ₹65,000

Direction: Read the following case study and answer the 21 to 25 questions on the basis of the same. Rachit and Madhur were partners in a firm sharing profits and losses in the ratio of 4 : 3. The following is the balance sheet of the firm as on 31st December, 2019.

Balance Sheet
as at 31st December, 2019

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		20,000	Cash		14,800
Bills Payable		3,000	Debtors	20,500	
Bank Overdraft		17,000	(-) Provision for Doubtful debts	(300)	20,200
Capital A/cs			Stock		20,000
Rachit	70,000		Plant		40,000
Madhur	60,000	1,30,000	Building		75,000
		1,80,000			1,80,000

They agreed to admit Rishant as a partner with effect from 1st January, 2020 for 1/4th share in profits on the following terms
(i) Rishant will bring in ₹47,183 as his capital.
(ii) Building is to he appreciated by ₹14,000 and plant to be depreciated by ₹7,000.
(iii) The provision on debtors is to be raised to ₹1,000.
(iv) The goodwill of the firm has been valued at ₹21,000.
Prepare revaluation account, partner's capital account and balance sheet of the firm immediately after Rishant's admission.

21. What will be the net amount of debtors in new balance sheet?
(a) ₹20,500 (b) ₹20,200
(c) ₹19,500 (d) ₹19,200

22. What is the profit/loss on revaluation and by what amount?
(a) Profit ₹ 7,000 (b) Profit ₹ 6,300
(c) Loss ₹7,000 (d) Loss ₹6,300

23. What is the sacrificing ratio of Rachit and Madhur?
(a) 1:1 (b) 3:4
(c) 4:3 (d) Can't be determined

24. What is the total of cash account after this event of admission?
(a) ₹14,800 (b) ₹61,983
(c) ₹67,233 (d) Can't be determined

25. In general, goodwill adjustment is done in accounts of old partners in ___ ratio.
(a) Old profit sharing (b) Sacrificing ratio
(c) Both (a)and (b) (d) new profit sharing

26. A, B, C and D were partners in a firm sharing profits and losses equally. E was admitted as a new partner for 1/3rd share in the profits of the firm which he acquires equally from C and D. On E's admission the goodwill of the firm is valued ₹3,00,000. What will be necessary journal entry on E's admission, assuming that he failed to bring his share of goodwill in Cash.
(a) E's Capital A/c Dr. 1,00,000
To C's Capital A/c 50,000
To D's Capital A/c 50,000
(b) E's Current A/c Dr. 1,00,000
To C's Capital A/c 50,000
To D's Capital A/c 50,000
(c) E's Capital A/c Dr. 1,00,000
To C's Capital A/c 70,000
To D's Capital A/c 30,000
(d) C's Capital A/c Dr. 50,000
D's Capital A/c Dr. 50,000
To E's Capital A/c 50,000

27. Mohan and Sohan are partners sharing profits and losses in the ratio of 9:6. They admitted Pawan with1/8 share of profits. The new profit sharing ratio between Mohan and Sohan is agreed to be 8:6. Calculate the sacrificing ratio
(a) 2:1 (b) 4:1
(c) 1:1 (d) Cannot be determined

Direction: Analyse the following case study and answer the questions 28 to 30 on the basis of the same. R and S are partners in a firm sharing profit in the ratio of 3 : 2. They admit T as a new partner. The new profit sharing ratio of R, S and T will be 5 : 5 : 3. T contributed the following assets towards his capital and for share of goodwill.
Stock ₹ 1,67,000 debtors ₹ 1,40,000 (less provision for doubtful debts of 5%), and land ₹1,00,000, plant and machinery ₹1,80,000. On the date of admission of T, the goodwill the firm was valued at ₹ 13,00,000.

28. What was the amount of capital brought in by T?
(a) ₹ 5,80,000 (b) ₹3,00,000
(c) ₹2,85,000 (d) ₹2,80,000

29. What is the sacrificing ratio of R and S?
(a) 2 : 3 (b) 3:2
(c) 1:1 (d) None of the above

30. What share of goodwill did R got?
(a) ₹6,50,000 (b) ₹1,50,000
(c) ₹2,80,000 (d) None of these

SUBJECTIVE QUESTIONS

1. Ashok and Ravi were partners in a firm sharing profits in the ratio of 7 : 3. They admitted Chander as a new partner. The profit-sharing ratio between Ashok, Ravi and Chander will be 2: 2: 1. Chander brought ₹ 24,000 for his share of goodwill. Pass necessary journal entries for the treatment of goodwill.

2. Simean and Vani are partners sharing profits in the ratio of 2 : 1. They admit Maithali into partnership for 1/3rd share in profits. She brings ₹60,000 for goodwill and proportionate capital. At the time of admission of Maithali, the Balance Sheet of Simean and Vani was as under:

Liabilities		(₹)	Assets		(₹)
Capital Accounts:			Plant		66,000
Simean	70,000		Furniture		30,000
Vani	60,000	1,30,000	Investment		40,000
General Reserve		18,000	Stock		46,000
Bank Loan		18,000	Debtors	38,000	
Creditors		72,000	*Less:* Provision for Doubtful Debts	4,000	34,000
			Cash		22,000
		2,38,000			2,38,000

It was decided to:
(i) Reduce the value of stock by ₹10,000.
(ii) Plant is to be valued at ₹ 80,000.
(iii) An amount of ₹3,000 included in Creditors was not payable.
(iv) Half of the Investments were taken over by Simean and remaining were valued at ₹25,000.
Prepare Revaluation Account of the reconstituted firm.

3. Murari and Vohra were partners in a firm with capitals of ₹1,20,000 and ₹1,60,000 respectively. On 1.4.2010, they admitted Yadav as a partner for one-fourth share in profits on his payment of ₹2,00,000 as his capital and ₹ 90,000 for his one-fourth share of goodwill.
On that date, the creditors of Murari and Vohra were ₹60,000 and Bank Overdraft was ₹15,000. Their assets apart from Cash included Stock ₹10,000; Debtors ₹40,000; Plant and Machinery ₹80,000; Land and Building ₹2,00,000. It was agreed that stock should be depreciated by ₹2,000; Plant and Machinery by 20%, ₹5,000 should be written off as bad debts and Land and Building should be appreciated by 25%.
Prepare Revaluation Account, Capital Accounts of Murari, Vohra and Yadav and the Balance Sheet of the new firm.

4. On 1-4-2012 Sahil and Charu entered into partnership for sharing profits in the ratio of 4 : 3. They admitted Tanu as a new partner on 1-4-2012 for 1/5th share which she acquired equally from Sahil and Charu. Sahil, Charu and Tanu earned profits at a higher rate than the normal rate of return for the year ended 31-3-2013. Therefore, they decided to expand their business. To meet the requirements of additional capital they admitted Puneet as a new partner on 1-4-2013 for 1/7th share in profits which he acquired from Sahil and Charu in 7 : 3 ratio.
Calculate:
(i) New profit-sharing ratio of Sahil, Charu and Tanu for the year 2012-13.
(ii) New profit-sharing ratio of Sahil, Charu, Tanu and Puneet on Puneet's admission.

5. Karan and Varun were partners in a firm sharing profits and losses in the ratio of 1 : 2. Their fixed capitals were ₹2,00,000 and ₹3,00,000 respectively. On 1st April 2016, Kishore was admitted as a new partner for 1/4th share in the profits. Kishore brought ₹2,00,000 for his capital which was to be kept fixed like the capitals of Karan and Varun. Kishore acquired his share of profit from Varun.
Calculate goodwill of the firm on Kishore's admission and the new profit sharing ratio of Karan, Varun and Kishore. Also, pass necessary Journal Entry for the treatment of Goodwill on Kishore's admission considering that Kishore did not bring his share of goodwill premium in cash.

6. Anil and Beena were partners in a firm sharing profits in the ratio of 4 : 3. On 1st April, 2015 they admitted Chahat as a new partner for 1/4th share in the profits of the firm. On the date of Chahat's admission, the Balance Sheet of Anil and Beena showed a General Reserve of ₹70,000, a debit balance of ₹7,000 in the Profit and Loss Account and an Investment Fluctuation Found of ₹10,000.
The following was agreed upon, on Chahat's admission.
(a) Chahat will bring ₹ 80,000 as her capital and her share of goodwill premium of ₹21,000 in cash.
(b) The market value of investments was ₹17,000 less than the book value.
(c) New profit-sharing ratio was agreed at 2 : 1: 1.

Pass the necessary Journal entries for the above on Chahat's admission.

7. Verma and Sharma are partners in a firm sharing profits and losses in the ratio of 5: 3. They admitted Ghosh as a new partner for one-fifth share of profits. Ghosh is to bring in ₹20,000 as capital and ₹4,000 as his share of goodwill premium. Give the necessary journal entries:

(i) when the amount of goodwill is retained in the business.
(ii) when the amount of goodwill is fully withdrawn.
(iii) when 50% of the amount of goodwill is withdrawn.
(iv) when goodwill is paid privately.

8. W and R are partners in a firm sharing profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2016 was as follows:

Balance Sheet of W and R
as at 31st March, 2016

Liabilities		(₹)	Assets	(₹)
Sundry Creditors		20,000	Cash	12,000
Provision for Bad Debts		2,000	Debtors	18,000
Outstanding Salary		3,000	Stock	20,000
General Reserve		5,000	Furniture	40,000
Capitals:			Plant and Machinery	40,000
W	60,000			
R	40,000	1,00,000		
		1,30,000		1,30,000

On the above date, C was admitted for 1/6th share in the profits on the following terms:

(i) C will bring ₹30,000 as his capital and ₹10,000 for his share of goodwill premium, half of which will be withdrawn by W and R.
(ii) Debtors ₹1,500 will be written off as bad debts and a provision of 5% will be created on debtors for bad and doubtful debts.
(iii) Outstanding salary will be paid off.
(iv) Stock will be depreciated by 10%, furniture by ₹500 and Plant and Machinery by 8%.
(v) Investments of ₹2,500 not mentioned in the Balance Sheet were to be taken into account.
(vi) A creditor of ₹2,100 not recorded in the books was to be taken into account.

Pass necessary journal entries for the above transactions in the books of the firm on C's admission.

9. Rajesh and Ravi are partners sharing profits in the ratio of 3:2. Their Balance Sheet stood as under on 31st March, 2017:

Liabilities	(₹)	Assets		(₹)
Creditors	77,000	Cash		4,000
Employees' Provident Fund	8,000	Stock		30,000
Capitals:		Prepaid Insurance		3,000
Rajesh	52,000	Debtors	18,800	
Ravi	26,000	*Less:* Provision	800	18,000
Workmen Compensation Reserve	5,000	Machinery		38,000
Contingency Reserve	5,000	Building		70,000
		Furniture		10,000
	1,73,000			1,73,000

Raman is admitted as a new partner introducing a capital of ₹32,000. The new profit-sharing ratio is decided as 5 : 3 : 2. Raman is unable to bring in any cash for Goodwill. So, it is decided to calculate the amount of goodwill on the basis of Raman's share in the profits and the capital contributed by him. Following revaluations are made:

(i) Stock to be depreciated by 5%.
(ii) Provision for doubtful debts to be made at ₹1,000.
(iii) Furniture to depreciate by 10%.
(iv) Building is valued at ₹ 80,000.

Show the necessary Ledger Accounts and the Balance Sheet of the new firm.

10. 'B' and 'C' were partners sharing profits in the ratio of 3 : 2. Their Balance Sheet as on 31st March, 2012 was as follows:

Balance Sheet of B and C

as at 31st March, 2012

Liabilities		(₹)	Assets	(₹)
Capitals:			Land and Building	80,000
B	60,000		Machinery	20,000
C	40,000	1,00,000	Furniture	10,000
Provision for Doubtful Debts		1,000	Debtors	25,000
Creditors		60,000	Cash	16,000
			Profit and Loss Account	10,000
		1,61,000		1,61,000

'D' was admitted to the partnership for 1/5th share in the profits on the following terms:
(i) The new profit-sharing ratio was decided as 2:2:1.
(ii) D will bring ₹30,000 as his capital and ₹15,000 for his share of goodwill.
(iii) Half of goodwill amount was withdrawn by the partner who sacrificed his share of profit in favour of 'D'.
(iv) A provision of 5% for bad and doubtful debts was to be maintained.
(v) An item of ₹500 included in Sundry Creditors was not likely to be paid.
(vi) A provision of ₹800 was to be made for claims for damages against the firm.
After making the above adjustments, the Capital Accounts of 'B' and 'C' were to be adjusted on the basis of D'S Capital. Actual cash was to be brought in or to be paid off as the case may be.
Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm.

SOLUTION FOR PRACTICE QUESTIONS

SOLUTION FOR MCQ QUESTIONS

1. **(d)**

2. **(d)**

3. **(d):** Z's share = $\frac{1}{5}$

Balance share = $1-\frac{1}{5} = \frac{4}{5}$

X's share and Y's share = $\frac{4}{5} \times \frac{1}{2} = \frac{2}{5}$ each

4. **(d):** A's sacrifice = $\frac{5}{8} - \frac{7}{16} = \frac{3}{16}$

B's sacrifice = $\frac{3}{8} - \frac{5}{16} = \frac{1}{16}$

Sacrificing Ratio = 3 : 1

5. **(a)**

6. **(a):** Capital of A and B for $\frac{4}{5}$ share = 70,000

Total capital of firm = $70,000 \times \frac{5}{4} = 87,500$

C's share in capital should be = 87,500 – 70,000 = 17,500

7. **(b):** Total capital of firm based on C's share = $\frac{5}{1} \times$ 1,20,000 = 6,00,000

Remaining share = $1-\frac{1}{5} = \frac{4}{5}$

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

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

A's capital based on new share = $6,00,000 \times \frac{12}{25}$ = 2,88,000

Capital to bring in by 'A' = 2,88,000 -1,20,000 = 1,68,000

8. **(a):** A's sacrifice = $\frac{3}{5} - \frac{2}{4} = \frac{2}{20}$

B's sacrifice = $\frac{2}{5} - \frac{1}{4} = \frac{3}{20}$

Hence, premium for goodwill account will be debited by 40,000 and A's and B's capital account will be credited by 16,000 and 24,000 respectively.

9. **(a):** Remaining share of A and B = $1 - \frac{1}{4} = \frac{3}{4}$

A's new share = $\frac{3}{4} \times \frac{3}{4} = \frac{9}{16}$

B's new share = $\frac{3}{4} \times \frac{1}{4} = \frac{3}{16}$

So new ratio = $\frac{9}{16} : \frac{3}{16} : \frac{1}{4} = \frac{9}{16} : \frac{3}{16} : \frac{4}{16}$

10. **(a):** X's new share = $\frac{3}{5} - \frac{3}{20} = \frac{9}{20}$

Y's new share = $\frac{2}{5} - \frac{1}{20} = \frac{7}{20}$

Z's new share = $\frac{3}{20} + \frac{1}{20} = \frac{4}{20}$

11. **(b):** When nothing is mentioned in the question regarding old partners sacrifice, then sacrificing ratio will be same as their old ratio.

12. (d)	**13. (b)**	**14. (c)**
15. (a)	**16. (b)**	**17. (b)**
18. (c)	**19. (d)**	**20. (d)**

SOLUTIONS FOR SUBJECTIVE QUESTIONS

1. New ratio of A, B and C = $\frac{2}{4}:\frac{1}{4}:\frac{1}{4}$; Old ratio of A and B = $\frac{3}{4}:\frac{1}{4}$

Sacrificing Ratio = Old Ratio – New Ratio

A = $\frac{3}{4}-\frac{2}{4}=\frac{3-2}{4}=\frac{1}{4}$; B = $\frac{1}{4}-\frac{1}{4}$ = NIL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Cash A/c Dr		2,50,000	
	To C's Capital A/c			2,50,000
	(Being capital brought in by C)			
	C's Current A/c Dr.		10,000	
	To A's Capital A/c			10,000
	(Being goodwill transferred to sacrificing partner)			

2. **Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017	Cash A/c Dr.		1,00,000	
April 1	To Aditi's Capital A/c			1,00,000
	(Being the amount of capital brought in cash by new partner)			
	Aditi's Current A/c Dr.		25,000	
	To Saloni's Capital A/c			17,500
	To Shrishti's Capital A/c			7,500
	(Being Aditi's share of goodwill credited to sacrificing partners' capital accounts in their sacrificing ratio, *i.e.,* 7 : 3)			

Working Note: Calculation for Hidden Goodwill:

Particulars	(₹)
Total Capital of the New Firm on the basis of Aditi's Capital, *i.e.,* 1,00,000 × $\frac{6}{1}$	6,00,000
Less: Total Combined Capital of Saloni, Shrishti and Aditi, *i.e.,* ₹2,00,000 + ₹1,50,000+₹1,00,00	4,50,000
Goodwill of the firm	1,50,000

Aditi's share of goodwill = 1,50,000 × $\frac{1}{6}$ = ₹25,000.

3. Old ratio = 3 : 2 C's share = $\frac{1}{5}$

Let total share = 1

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

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

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

New ratio of A, B and C = $\frac{12}{25}:\frac{8}{25}:\frac{1}{5}=12:8:5$

D's share = 25 paise, or = $\frac{1}{4}$

Let total share = 1, Remaining share = $1-\frac{1}{4}=\frac{3}{4}$

A's new share = $\frac{3}{4}\times\frac{12}{25}=\frac{36}{100}$

B's new share = $\frac{3}{4}\times\frac{8}{25}=\frac{24}{100}$; C's new share = $\frac{3}{4}\times\frac{5}{25}=\frac{15}{100}$

New Ratio = $\frac{36}{100}:\frac{24}{100}:\frac{15}{100}:\frac{1}{4}=\frac{36:24:15:25}{100}$

4. Old ratio between A and B = 3:2

A's sacrifice in favour of C = $\frac{3}{5}\times\frac{1}{2}=\frac{3}{10}$, B's sacrifice in favour of D = $\frac{2}{5}\times\frac{1}{4}=\frac{2}{20}$

New share = Old share — Sacrifice

A's new share = $\frac{3}{5}-\frac{3}{10}=\frac{6-3}{10}=\frac{3}{10}$, B's new share = $\frac{2}{5}-\frac{2}{20}=\frac{8-2}{20}=\frac{6}{20}$

C's new share = $\frac{3}{10}$, D's new share = $\frac{2}{20}$

New ratio = $\frac{3}{10}:\frac{6}{20}:\frac{3}{10}:\frac{2}{20},=\frac{6:6:6:2}{20}=6:6:6:2$ = 3 : 3 : 3 : 1

5.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		3,40,000	
	To Tarun's Capital A/c			3,00,000
	To Premium for Goodwill A/c			40,000
	(Being capital and premium brought in by new partner, Tarun)			
	Premium for Goodwill A/c Dr.		40,000	
	To Manu's Capital A/c			40,000
	(Being premium for goodwill transferred to only sacrificing partner, Manu)			

6. **Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Ajay's Current A/c Dr.		2,00,000	
	To Asin's Capital A/c			1,00,000
	To Shreyas's Capital A/c			1,00,000
	(Being goodwill adjusted to sacrificing partners by adjusting through Ajay's Current A/c in 1:1)			

Working Notes:

(a) Calculation of the value of the Hidden Goodwill:
Net Assets of the firm/Net worth = Total Assets — Total outside Liabilities
= 15,00,000 – 5,00,000 = ₹10,00,000
Total Capital of new firm on the
basis of Ajay's Capital = 5,00,000 × 5 = ₹25,00,000
Capital employed of new firm = ₹10,00,000 + ₹5,00,000 (Capital of the new partner)
= ₹15,00,000
Goodwill = ₹25,00,000 – 15,00,000 = ₹10,00,000

(b) Ajay's Share of Goodwill = ₹10,00,000 × $\frac{1}{5}$ = ₹2,00,000.

7. **Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017	Bank A/c Dr.		8,50,000	
April 1	To Raghav's Capital A/c			6,00,000
	To Premium for Goodwill A/c			2,50,000
	(Being capital and premium brought in by Raghav)			
	Premium for Goodwill A/c Dr.		2,50,000	
	To Asha's Capital A/c			1,50,000
	To Aditi's Capital A/c			1,00,000
	(Being premium for goodwill credited to the capital accounts of Asha and Aditi in the sacrificing ratio)			

Working Notes:

Calculation of sacrificing ratio:
Old Ratio = 3:2; Asha = 3/5; Aditi = 2/5
Raghav admitted for 1/4th share; Let total share be 1
Remaining share after Raghav's admission = $\frac{1}{1} - \frac{1}{4} = \frac{3}{4}$
Asha's new share = $3/4 \times 3/5 = 9/20$, Aditi's new share = $3/4 \times 2/5 = 6/20$
Sacrificing Ratio = Old Ratio — New Ratio
Asha's Sacrifice = 3/5 — 9/20 = 3/20
Aditi's Sacrifice = 2/5 — 6/20 = 2/20
∴ Sacrificing Ratio = 3:2
Calculation of goodwill:
Goodwill = Average profit × No. of years' purchase
Average Profit = $\frac{\text{Total profit}}{\text{No. of years}}$

$$= \frac{3,50,000+4,75,000+6,70,000+(7,45,000-15,000)}{4} = \frac{22,25,000}{4} = ₹5,56,250$$

Average profit after Annual Management Cost = 5,56,250 — 56,250 = ₹5,00,000
Goodwill 5,00,000 × 2 = ₹10,00,000
Raghav's share in goodwill = 10,00,000 × 1/4 = ₹2,50,000

8.

Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2017	Land A/c	Dr.		90,000	
Apr. 1	Machinery A/c	Dr.		70,000	
	Stock A/c	Dr.		60,000	
	Debtors A/c	Dr.		40,000	
	To Premium for Goodwill A/c (5,20,000 × 3/13)				1,20,000
	To Deepak's Capital A/c (Balancing Figure)				1,40,000
	(Being the amount of goodwill and capital brought in kind by new partner)				
	Premium for Goodwill A/c	Dr.		1,20,000	
	To Anubhav's Capital A/c				72,000
	To Babita's Capital A/c				48,000
	(Being Deepak's share of goodwill credited to sacrificing partners' in their sacrificing ratio, *i.e.*, 3 : 2)				

9.

Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.		1,000	
	To Premium for Goodwill A/c				1,000
	(Being the amount of goodwill brought in cash by new partner)				
	Premium for Goodwill A/c	Dr.		1,000	
	Chinki's Current A/c			800	
	To Sheetal's Capital A/c				900
	To Raman's Capital A/c				900
	(Being Chinki's share of goodwill transferred to sacrificing partners in their sacrificing ratio, *i.e.*, 1 : 1)				
	Sheetal's Capital A/c	Dr.		3,000	
	Raman's Capital A/c	Dr.		3,000	
	To Goodwill A/c				6,000
	(Being existing goodwill written off between old partners in their old ratio, *i.e.*, equal)				

10.

Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019	General Reserve A/c	Dr.		70,000	
Apr. 1.	To A's Capital A/c				40,000
	To B's Capital A/c				30,000
	(Being the transfer of general reserve to told partners' capital accounts in their old ratio, *i.e.*, 4 : 3)				
	A's Capital A/c	Dr.		4,000	
	B's Capital A/c	Dr.		3,000	
	To Profit and Loss A/c				7,000
	(Being the losses transferred to old partners' capital accounts in their old ratio, *i.e.*, 4:3)				

SOLUTION FOR HOMEWORK QUESTIONS

SOLUTION FOR MCQ QUESTIONS

1. **(c)**

2. **(a)**

3. **(d):** Sacrificing Ratio between A and B is same as old ratio (since no information is given) i.e. 3 : 1.
Goodwill share of C = Share of C × Value of firm's goodwill = $\frac{1}{5}$ × 1,00,000 = ₹20,000
No premium for goodwill account will be opened since the partner is unable to bring his share of goodwill.

4. (c): Difference between cost price and market value of investments is ₹10,000 (3,00,000 — 2,90,000), thus Investment fluctuation Fund will be shown at 10,000 in the balance sheet of new firm.

5. (d)

6. (d)

7. (a): Total loss on revaluation = $\frac{2}{1}$ × 5,000 = ₹10,000

Dr. **Revaluation A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Provision for Doubtful debts (5% × 1,00,000) To Stock (Balance)	5,000 25,000	By Investments By Loss on Revaluation	20,000 10,000
	30,000		30,000

i.e. Stock has reduced by ₹25,000
Revalued value of stock = 60,000 – 25,000 = ₹35,000

8. (a):

Total Capital as per C's share (4,00,000 × 5)	20,00,000
(-) Actual Capital of A, B, C (10,00,000 + 4,00,000)	14,00,000
Value of firm's goodwill	6,00,000

C's share of goodwill = 6,00,000 × $\frac{1}{5}$ = ₹1,20,000

9. (c)

10. (a): Goodwill share is calculated at the valued amount of goodwill, not the amount appearing in the books.
Ratio is supposed to be equal among X, Y, Z i.e. 1 : 1: 1
So, Z's share of goodwill = $\frac{1}{3}$ × 45,000 = ₹15,000

11. (c):

Dr. **Revaluation A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery A/c (20% of 1,00,000)	20,000	By Building A/c (10% of 80,000) By Loss on Revaluation A 2,500 B 7,500	10,000 10,000
	20,000		20,000

C is a new partner, so he won't get any share of revaluation loss/profit.

12. (a)

13. (d): Increase in a liability is a loss for a firm.

14. (a)

15. (c): The balance of memorandum revaluation account (second part) is transferred to all partner's capital account (including new partner) in new ratio as the value of assets and liabilities are not to be changed.

16. (b): In certain situations, one or more partner's may be gaining a share when new partner come in due change in profit sharing ratio.

17. (b): Calculation of Sacrificing Ratio
A= $\frac{5}{7} - \frac{2}{8} = \frac{26}{56}$(Sacrifice)
B= $\frac{2}{7} - \frac{3}{8} = \frac{-5}{56}$(Gain)

18. (d)

19. (b): C's share of goodwill = $\frac{3}{8}$ × 1,40,000 = ₹52,500

20. (b): B will have to compensate 1,40,000 × $\frac{5}{56}$ = ₹12,500 (to be debited)

21. (c):

	Amount(₹)
Debtors	20,500
(-) Provision for Doubtful Debts	(1,000)
	19,500

22. (b):

Dr. **Revaluation A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Plant A/c	7,000	By Building A/c (10% of 80,000)	14,000
To Provision for Bad Debts A/c	700		
To Profit transferred to Rachit's Capital A/c 3,600 Madhur's Capital A/c 2,700	6,300		
	14,000		14,000

23. (c): In absence of information sacrificing ratio is equal to the old ratio between partners, therefore 4:3.

24. (b): Cash (14,800 + 47,183) = ₹61,983

25. (b)

26. (b): New ratio of A,B,C,D and E will be 3:3:1:1:4

E's Current A/c	Dr.	1,00,000
To C's Capital A/c		50,000
To D's Capital A/c		50,000

27. (b)

28. (d):

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Stock A/c Dr.		1,67,000	
	Debtors A/c Dr.		1,40,000	
	Land A/c Dr.		1,00,000	
	Plant and Machinery A/c Dr.		1,80,000	
	To Provision for Doubtful Debts A/c			7,000
	To Premium for Goodwill A/c			3,00,000
	To T's Capital A/c (Balancing figure)			2,80,000
	(Being stock, debtors, land and plant and machinery contributed by T on his admission as his capital and his share of goodwill)			

29. **(d):** Calculation of Sacrificing Ratio

$R = \frac{3}{5} - \frac{5}{13} = \frac{14}{65}$

$S = \frac{2}{5} - \frac{5}{13} = \frac{1}{65}$

30. **(c):** Premium for Goodwill of T = ₹3,00,000; Sacrificing Ratio = 14 : 1

Therefore, R's share = $\frac{14}{15} \times 3,00,000$ = ₹2,80,000

SOLUTION FOR SUBJECTIVE QUESTIONS

1.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		24,000	
	To Premium for Goodwill A/c			24,000
	(Being the amount of goodwill brought in cash by new partner)			
	Premium for Goodwill A/c Dr.		24,000	

	Ravi's Capital A/c Dr. To Ashok's Capital A/c (Being amount of the goodwill credited to Ashok's Capital A/c along with 1/10 of goodwill to be contributed by Ravi due to his gain)		12,000	 36,000

Working Note: Calculation of sacrifice/gain of partner(s):

Sacrificing ratio = Old ratio – New ratio

Ashok $= \frac{7}{10} - \frac{2}{5} = \frac{7-4}{10} = \frac{3}{10}$ sacrifice, Ravi $= \frac{3}{10} - \frac{2}{5} = \frac{3-4}{10} = \left(\frac{-1}{10}\right)$ gain

Being negative result, it shows gain. Since Ravi is gaining equal to 1/10th in the profits, therefore, he will also have to compensate Ashok proportionately. For 1/5th share Chander brought ₹24,000, therefore, Ravi will compensate Ashok by ₹12,000, *i.e.*, $24{,}000 \times \frac{5}{1} \times \frac{1}{10}$.

2.

Dr. **Revaluation Account** Cr.

Particulars		(₹)	Particulars	(₹)
To Stock A/c		10,000	By Plant A/c	14,000
To Profit transferred to:			By Creditors A/c	3,000
Simean Capital A/c	8,000		By Investment A/c	5,000
Vani Capital A/c	4,000	12,000		
		22,000		22,000

3.

Dr. **Revaluation Account** Cr.

Particulars		(₹)	Particulars	(₹)
To Stock A/c		2,000	By Land and Building A/c	50,000
To Plant and Machinery A/c		16,000		
To Bad Debts Written off		5,000		
To Profit on Revaluation trfd. to:				
Murari's Capital A/c	13,500			
Vohra's Capital A/c	13,500	27,000		
		50,000		50,000

Dr. **Partner's Capital A/c** **Cr.**

Particulars	Murari	Vohra	Yadav	Particulars	Murari	Vohra	Yadav
To balance c/d	1,78,500	2,18,500	2,00,000	By balance b/d	1,20,000	1,60,000	-
				By Cash A/c	-	-	2,00,000
				By Premium for Goodwill A/c	45,000	45,000	-
				By Revaluation A/c	13,500	13,500	-
	1,78,500	2,18,500	2,00,000		1,78,500	2,18,500	2,00,000

Balance Sheet of Murari, Vohra and Yadav

as at 1st April, 2010

Liabilities		(₹)	Assets	(₹)
Capital A/cs:			Plant and Machinery	64,000
Murari	1,78,500		Land and Building	2,50,000
Vohra	2,18,500		Stock	8,000
Yadav	2,00,000	5,97,000	Debtors	35,000
Bank Overdraft		15,000	Cash in Hand (25,000 + 2,90,000)	3,15,000
Creditors		60,000		
		6,72,000		6,72,000

Working Notes:

Calculation of opening Cash Balance: For this, Memorandum Balance Sheet has been prepared.

Memorandum Balance Sheet

Liabilities	(₹)	Assets	(₹)
Creditors	60,000	Land and Building	2,00,000
Bank Overdraft	15,000	Stock	10,000
Murari's Capital	1,20,000	Debtors	40,000
Vohra's Capital	1,60,000	Plant and Machinery	80,000
		Cash (Balancing Figure)	25,000
	3,55,000		3,55,000

4.

(i) **Calculation of New Profit-sharing ratio of Sahil, Charu and Tanu:**

Sahil's old share $= \frac{4}{7}$, Sahil surrenders in favour of Tanu $= \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$

Sahil's new share $= \frac{4}{7} - \frac{1}{10} = \frac{33}{70}$

Charu's old share $\frac{3}{7}$, Charu surrenders in favour of Tanu $= \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$

Charu's new share $= \frac{3}{7} - \frac{1}{10} = \frac{23}{70}$; Tanu's share $\frac{1}{10} + \frac{1}{10} = \frac{2}{10}$

New Profit-sharing ratio among Sahil, Charu and Tanu $\frac{33}{70} : \frac{23}{70} : \frac{2}{10}$ or $\frac{14}{70} = 33 : 23 : 14$

(ii) **Calculation of New Profit-sharing ratio of Sahil, Charu, Tanu and Puneet:**

Sahil's old share $= \frac{33}{70}$, Sahil surrenders in favour of Puneet $= \frac{1}{7} \times \frac{7}{10} = \frac{7}{70}$

Sahil's new share $\frac{33}{70} - \frac{7}{70} = \frac{26}{70}$

Charu's old share $= \frac{23}{70}$, Charu surrenders in favour of Puncet $= \frac{1}{7} \times \frac{3}{10} = \frac{3}{70}$

Charu's new share $= \frac{23}{70} - \frac{3}{70} = \frac{20}{70}$; Tanu's share $= \frac{14}{70}$

Puneet's new share $= \frac{1}{7}$ or $\frac{10}{70}$

New Profit-sharing ratio among partners $= \frac{26}{70} : \frac{20}{70} : \frac{14}{70} : \frac{10}{70} = 26 : 20 : 14 : 10 = 13 : 10 : 7 : 5.$

5. (a) Calculation of Hidden Goodwill

Kishore's share = 1/4; Kishore's Capital = ₹2,00,000

Total capital of the new firm = 2,00,000 × 4/1 = 8,00,000

Existing total capital of Karan, Varun and Kishore = 2,00,000 + 3,00,000 + 2,00,000 = ₹7,00,000

Goodwill of the firm = 8,00,000 – 7,00,000 = ₹1,00,000

Thus, Kishore's share of goodwill = 1/4 × ₹1,00,000 = ₹25,000

(b) Calculation of New Profit Sharing ratio:

Karan's new share = 1/3 = 4/12, Varun's new share = 2/3 — 1/4 = 5/12

Kishore's share = 1/4 = 3/12, New Profit sharing Ratio = 4:5:3

Books of the firm

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016	Kishore's Current A/c Dr.		25,000	
Apr. 1	To Varun's Current A/c			25,000
	(Being credit given for goodwill to Varun on Kishore's admission)			

6.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2015	General Reserve A/c Dr.		70,000	

April 1	To Anil's Capital A/c To Beena's Capital A/c (Being the General Reserve transferred to the old partners capital accounts in their old ratio of 4 : 3)			40,000 30,000
	Anil's Capital A/c Dr. Beena's Capital A/c Dr. To Profit and Loss A/c (Being the accumulated loss debited to the old partners in their old ratio of 4 : 3)		4,000 3,000	 7,000
	Investment Fluctuation Fund A/c Dr. Revaluation A/c Dr. To Investment A/c (Being the value of investment adjusted to the market value)		10,000 7,000	 17,000
	Anil's Capital A/c Dr. Beena's Capital A/c Dr. To Revaluation A/c (Being the loss on revaluation transferred to partner's capital accounts)		4,000 3,000	 7,000
	Bank A/c Dr. To Chahat's Capital A/c To Premium for Goodwill A/c (Being the capital and amount of premium for goodwill brought in cash by Chahat)		1,01,000	 80,000 21,000
	Premium for Goodwill A/c Dr. To Anil's Capital A/c To Beena's Capital A/c (Being the goodwill credited to sacrificing partners in their sacrificing ratio, *i.e.*, 2 : 5)		21,000	 6,000 15,000

Working Note:

Calculation of sacrificing ratio:

Sacrificing Share = Old Share — New Share

Anil's sacrifice $= \frac{4}{7} - \frac{2}{4} = \frac{16-14}{28} = \frac{2}{28}$, Beena's sacrifice $= \frac{3}{7} - \frac{1}{4} = \frac{12-7}{28} = \frac{5}{28}$

Sacrificing Ratio $= \frac{2}{28} : \frac{5}{28} = 2 : 5.$

7. Old ratio of Verma and Sharma = 5:3, Sacrificing Ratio = 5 : 3

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Cash A/c Dr. To Ghosh's Capital A/c To Premium for Goodwill A/c (Being the amount of capital and goodwill brought in by Ghosh)		24,000	 20,000 4,000
	Premium for Goodwill A/c Dr. To Verma's Capital A/c To Sharma's Capital A/c (Being the amount of goodwill distributed between Verma Sharma in sacrificing ratio 5 : 3)		4,000	 2,500 1,500
(ii)	Cash A/c Dr. To Ghosh's Capital A/c To Premium for Goodwill A/c (Being the amount of capital and goodwill brought in by Ghosh)		24,000	 20,000 4,000
	Premium for Goodwill A/c Dr. To Verma's Capital A/c To Sharma's Capital A/c		4,000	 2,500 1,500

	(Being the amount of goodwill distributed between Verma and Sharma in sacrificing ratio 5 : 3)			
	Verma's Capital A/c Dr. Sharma's Capital A/c Dr. To Cash A/c (Being the amount of goodwill withdrawn by Verma and Sharma)		2,500 1,500	 4,000
(iii)	Cash A/c Dr. To Ghosh's Capital A/c To Premium for Goodwill A/c (Being the amount of capital and goodwill brought in by Ghosh)		24,000	 20,000 4,000
	Premium for Goodwill A/c Dr. To Verma's Capital A/c To Sharma's Capital A/c (Being the amount of goodwill distributed between Verma and Sharma in sacrificing ratio 5 : 3)		4,000	 2,500 1,500
	Verma's Capital A/c Dr. Sharma's Capital A/c Dr. To Cash A/s (Being half (50%) the amount of goodwill withdrawn by Verma and Sharma)		1,250 750	 2,000
(iv)	Cash A/c Dr. To Ghosh's Capital A/c (Being cash brought in by Ghosh		20,000	 20,000
No entry is require for goodwill when goodwill is paid privately.				

8.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 March, 31				
(i)	General Reserve A/c Dr. To W's Capital A/c To R's Capital A/c (Being General Reserve distributed among partners)		5,000	 3,000 2,000
(ii)	Cash A/c Dr. To C's Capital A/c To Premium for Goodwill A/c (Being cash received as C's Capital and premium for goodwill)		40,000	 30,000 10,000
(iii)	Premium for Goodwill A/c Dr. To W's Capital A/c To R's Capital A/c (Being premium for Goodwill credited to old partners' capital accounts in sacrificing ratio)		10,000	 6,000 4,000
(iv)	W's Capital A/c Dr. R's Capital A/c Dr. To Cash A/c (Being half of premium for goodwill amount withdrawn by W and R)		3,000 2,000	 5,000
(v)	Bad Debts A/c Dr. To Debtors A/c (Being debtors of ₹ 1,500 written off)		1,500	 1,500
(vi)	Provision for Bad and Doubtful Debts A/c Dr. To Bad Debts A/c (Being provision utilised for writing off bad debts)		1,500	 1,500
(vii)	Revaluation A/c Dr. To Provision for Bad and Doubtful Debts A/c		325	 325

	(Being provision for bad debts created)			
(viii)	Outstanding Salary A/c Dr. To Cash A/c (Being outstanding salary paid)		3,000	 3,000
(ix)	Revaluation A/c Dr. To Stock A/c To Furniture A/c To Plant and Machinery A/c (Being decrease in assets recorded)		5,700	 2,000 500 3,200
(x)	Investments A/c Dr. To Revaluation A/c (Being increase in investments recorded)		2,500	 2,500
(xi)	Revaluation A/c Dr. To Creditors A/c (Being increase in creditors recorded)		2,100	 2,100
(xii)	W's Capital A/c Dr. R's Capital A/c Dr. To Revaluation A/c (Being loss on revaluation transferred to Partners' Capital A/cs)		3,375 2,250	 5,625

9.

Dr. **Revaluation Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Stock A/c	1,500	By Building A/c	10,000
To Provision for doubtful debts A/c	200		
To Furniture A/c	1,000		
To Profit on Revaluation transferred to:			
Rajesh's Capital A/c	4,380		
Ravi's Capital A/c	2,920		
	10,000		10,000

Dr. **Partner's Capital Accounts** **Cr.**

Particulars	Rajesh (₹)	Ravi (₹)	Raman (₹)	Particulars	Rajesh (₹)	Ravi (₹)	Raman (₹)
To Balance c/d	65,650	36,190	32,000	By Balance b/d	52,000	26,000	---
				By Revaluation A/c	4,380	2,920	---
				By Raman's Current A/c	3,270	3,270	---
				By Cash A/c	---	---	32,000
				By Workmen Compensation Res.	3,000	2,000	---
				By Contingency Res.	3,000	2,000	---
	65,650	36,190	32,000		65,650	36,190	32,000

Balance Sheet of Reconstituted Firm

as at 31st March, 2017

Liabilities	(₹)	Assets		(₹)
Creditors	77,000	Cash		36,000
Employees' Provident Fund	8,000	Stock		28,500
Rajesh's Capital	65,650	Prepaid Insurance		3,000
Ravi's Capital	36,190	Debtors	18,800	
Raman's Capital	32,000	*Less:* Provision	1,000	17,800
		Buildings		80,000
		Machinery		38,000
		Furniture		9,000
		Raman's Current Account		6,540
	2,18,840			2,18,840

Working Notes:

(i) Calculation of Hidden Goodwill:

A. Net worth (including goodwill) on the basis of contribution made by incoming partner (₹32,000 × 10/2) ₹1,60,000

Less: Net worth (excluding goodwill) of the reconstituted firm, *i.e.*, ₹1,27,300

Hidden goodwill ₹32,700

B. Assets of the reconstituted firm:

(36,000 + 28,500 + 3,000 + 17,800 + 38,000 + 80,000 + 9,000) ₹2,12,300

Less: Liabilities (77,000 + 8,000) ₹85,000

₹1,27,300

(ii) For Raman's share of goodwill, his current account has been debited instead of his capital account so that his capital may not reduce and remains intact at ₹32,000.

(iii) It is assumed that there is no liability against workmen compensation reserve and contingency reserve, so they are credited to partners' capital accounts.

(iv) Sacrificing ratio of Rajesh and Ravi is 1 : 1.

10.

Dr. Revaluation Account Cr

Particulars	(₹)	Particulars		(₹)
To Provision for Bad and Doubtful debts A/c	250	By Sundry Creditors A/c		500
To Provision for Claim for Damages A/c	800	By Loss transferred to Partners' Capital A/cs:		
		B	300	
		C	220	550
	1,050			1,050

Dr. Partner's Capital Accounts Cr.

Particulars	B (₹)	C (₹)	D (₹)	Particulars	B (₹)	C (₹)	D (₹)
To Cash A/c	7,500	—	—	By Balance b/d	60,000	40,000	—
To Profit and Loss A/c	6,000	4,000	—	By Cash A/c	—	—	30,000
To Revaluation A/c	330	220	—	By Premium for Goodwill	15,000	—	—
To Balance c/d	61,170	35,780	30,000				
	75,000	40,000	30,000		75,000	40,000	30,000
To Cash A/c	1,170	—	—	By Balance b/d	61,170	35,780	30,000
To Balance c/d	60,000	60,000	30,000	By Cash A/c	—	24,220	—
	61,170	60,000	30,000		61,170	60,000	30,000

Balance Sheet of B, C and D

as at 31st March, 2012

Liabilities		(₹)	Assets	(₹)
Capital A/cs:			Land and Building	80,000
B	60,000		Machinery	20,000
C	60,000		Furniture	10,000
D	30,000	1,50,000	Debtors	25,000
Sundry Creditors		59,500	Cash	76,550
Provision for Bad and Doubtful Debts		1,250		
Provision for Claim for Damages		800		
		2,11,550		2,11,550

Working Notes:

1. Calculation of Sacrificing Ratio:

$B = \frac{3}{5} - \frac{2}{5} = \frac{1}{5}, C = \frac{2}{5} - \frac{2}{5} = \text{Nil}$

2. **Adjustment of Capital:**

D'S Capital = ₹30,000 for 1/5th share

Total Capital of the firm = ₹30,000 × $\frac{5}{1}$ = ₹1,50,000

B's Capital = ₹1,50,000 × $\frac{2}{5}$ = ₹60,000, C's Capital = ₹1,50,000 × $\frac{2}{5}$ = ₹60,000

3.

Dr. **Cash Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/d	16,000	By B's Capital A/c	1,170
To D's Capital A/c	30,000	By B's Capital A/c (Premium)	7,500
To Premium for Goodwill A/c	15,000	By Balance c/d	76,550
To C's Capital A/c	24,220		
	85,220		85,220