## Adjustment and Revaluation of Assets

At the time of admission of a new partner, the assets are re-valued and liabilities are reassessed. The assets are re-valued and liabilities are reassessed so that:

* The assets are overstated or understated are revalued.
* The liabilities are brought in the books at their correct values
* Unrecorded assets and liabilities of the firm are brought into the books of the firm
* The actual position of the firm is calculated.
* Profit and loss arriving on account of such revaluation up to the date of admission of a new partner may be adjusted in the partner’s capital accounts in their old profit sharing ratio.

Learn more about [*Financial statement here*](https://www.toppr.com/guides/accountancy/financial-statements/an-introduction-to-financial-statements/) in detail

## Revaluation Account



For this purpose, the firm has to prepare the Revaluation Account. In this account:

* An increase in the assets and decrease in its liabilities is credited because it is gain,
* A decrease in the value of assets and increase in its liabilities is debited because it is a loss,
* Unrecorded assets are credited, and
* Unrecorded liabilities are debited.

If the account finally shows a credit balance then it indicates net gain and if there is a debit balance then it indicates the net loss. Profit or loss will be transferred to the capital accounts of the old partners in old ratio.

### ****Journal Entries****

The[journal entries](https://www.toppr.com/guides/principles-and-practices-of-accounting/basic-accounting-procedures/journal-and-journalising-process/) recorded for revaluation of assets and reassessment of liabilities are as follows:

For an increase in the value of an asset:

|  |  |
| --- | --- |
| Asset A/c | Dr. |
| To Revaluation a/c |  |

For a decrease in the value of a liability:

|  |  |
| --- | --- |
| Liability A/c | Dr. |
| To Revaluation a/c |  |

For a decrease in the value of an asset:

|  |  |
| --- | --- |
| Revaluation A/c | Dr. |
| To Asset a/c |  |

 For an increase in the value of a liability:

|  |  |
| --- | --- |
| Revaluation A/c | Dr. |
| To  Liability a/c |  |

For an unrecorded asset:

|  |  |
| --- | --- |
| Asset A/c | Dr. |
| To  Unrecorded asset a/c |  |

For an unrecorded liability:

|  |  |
| --- | --- |
| Revaluation A/c | Dr. |
| To  Unrecorded Liability a/c |  |

The profit on revaluations will be transferred to old partners’ capital accounts in the old profit sharing ratio:

|  |  |
| --- | --- |
| Revaluation A/c | Dr. |
| To  Old partners Capital a/c’s |  |

The loss on revaluations will be transferred to old partners’ capital accounts in the old profit sharing ratio:

|  |  |
| --- | --- |
| Old partners Capital a/c’s | Dr. |
| To  Revaluation A/c |  |

## Solved Example for You

Q: Following is the Balance Sheet of Suhani and Sonia who share profits in the ratio of 3:2.

#### Balance Sheet of A and B as on April 1, 2018

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Amount** | **Assets** | **Amount** |
| Capital: |  | Plant & machinery | 30000 |
| Suhani | 30000 | Furniture | 20000 |
| Sonia | 20000 | Sundry Debtors | 20000 |
| Sundry Creditors | 50000 | Stock | 20000 |
|  |  | Cash in hand | 10000 |
|  | **100000** |  | **100000** |

On that date Keshav is admitted into the partnership on the following terms:

1. Keshav is to bring in Rs. 10,000 as capital and Rs. 5,000 as a premium for goodwill for 1/6 share.
2. The value of a stock is reduced by 10% while plant and machinery are appreciated by 10%.
3. Furniture is revalued at Rs. 15,000.
4. A provision for doubtful debts is to be created on sundry debtors at 5% and Rs. 1000 is to be provided for an electricity bill.
5. Investment worth Rs. 5,000 (not mentioned on the balance sheet) is to be taken into account
6. A creditor of Rs. 2000 is not likely to claim his money and is to be written off.

Record journal entries and prepare revaluation account and capital account of partners.

Solution:

#### Books of A, B, and C

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** |  | **L.F** | **Amount** | **Amount** |
| April 01 | Cash a/c | Dr. |  | 15000 |  |
|  | To Keshav’s Capital a/c |  |  |  | 10000 |
|  | To Goodwill |  |  |  | 5000 |
|  | (Cash brought in by Keshav as capital and goodwill) |  |  |  |  |
| April 01 | Goodwill a/c | Dr. |  | 5000 |  |
|  | To Suhani’s Capital A/c |  |  |  | 3000 |
|  | To Sonia’s Capital A/c |  |  |  | 2000 |
|  | (Goodwill divided between Suhani and Sonia in sacrificing ratio 3:2) |  |  |  |  |
| April 01 | Revaluation a/c | Dr. |  | 2000 |  |
|  | To Stock A/c |  |  |  | 2000 |
|  | (Revaluation in the value of assets ) |  |  |  |  |
| April 01 | Revaluation a/c | Dr. |  | 5000 |  |
|  | To Furniture |  |  |  | 5000 |
|  | (Revaluation in the value of assets) |  |  |  |  |
| April 01 | Revaluation a/c | Dr. |  | 1000 |  |
|  | To Provision for Doubtful Debt A/c |  |  |  | 1000 |
|  | (Revaluation in the value of assets) |  |  |  |  |
| April 01 | Plant and Machinery A/c | Dr. |  | 3000 |  |
|  | Investment A/c | Dr. |  | 5000 |  |
|  | To Revaluation A/c |  |  |  | 8000 |
|  | (Increase in the value of assets on revaluation) |  |  |  |  |
| April 01 | Revaluation A/c | Dr. |  | 1000 |  |
|  | To Outstanding Electricity A/c |  |  |  | 1000 |
|  | (Amount provided for outstanding electricity bill) |  |  |  |  |
| April 01 | Sundry Creditors A/c | Dr. |  | 2000 |  |
|  | To Revaluation a/c |  |  |  | 2000 |
|  | (Amount not likely to be claimed by the creditors written off) |  |  |  |  |
| April 01 | Revaluation A/c | Dr. |  | 1000 |  |
|  | To Suhani’s Capital A/c |  |  |  | 600 |
|  | To Sonia’s Capital A/c |  |  |  | 400 |
|  | (Profit on revaluation of assets and re-assessment of liabilities transferred to Suhani and Sonia in old profit sharing ratio) |  |  |  |  |

#### Revaluation Account

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Amount (Rs.)** | **Particulars** | **Amount (Rs.)** |
| Stock  Furniture  Provision for Doubtful Debts  Outstanding electricity bill  Profit on Revaluation transferred to:  Suhani’s Capital  Sonia’s Capital | 2000  5000  1000  1000      600  400 | Plant And Machinery  Investments  Sundry Creditors | 3000  5000  2000 |
|  | **10000** |  | **10000** |

#### Partner’s Capital Accounts

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date 2018** | **Particulars** | **Suhani** | **Sonia** | **Keshav** | **Date 2018** | **Particulars** | **Suhani** | **Sonia** | **Keshav** |
| April 01 | Balance c/d | 33600 | 22400 | 15000 | April 01 | Balance b/d | 30000 | 20000 |  |
|  |  |  |  |  |  | Cash |  |  | 15000 |
|  |  |  |  |  |  | Goodwill | 3000 | 2000 |  |
|  |  |  |  |  |  | Revaluation (Profit) | 600 | 400 |  |
|  |  | **33600** | **22400** | **15000** |  |  | **33600** | **22400** | **15000** |