**A, B and C are partners sharing profits and losses in the ratio of 5:3:2. C retired and his capital balance after adjustments regarding reserves, accumulated profits/ losses and gain/loss on revaluation was `2,50,000. C was paid `3,00,000 in full settlement. Afterwards D was admitted for 1/4th share. Calculate the amount of goodwill premium brought by D.**

**Sol: Goodwill share of C= `3,00,000-`2,50,000= `50,000 Firm’s Goodwill = 50,000x10/2= `2,50,000 D’s share in Goodwill= `2,50,000x1/4= `62,500**

**2A and B were partners in a firm. They admitted C as a new partner for 20% share in the profits. After all adjustments regarding general reserve, goodwill, gain or loss on revaluation, the balances in capital accounts of A and B were `3,85,000 and `4,15,000 respectively. C brought proportionate capital so as to give him 20% share in the profits. Calculate the amount of capital to be brought by C.**

**Sol: Combined capital of A and B = `3,85,000+`4,15,000= `8,00,000 C’s share=1/5th of total capital Remaining share= 1-1/5 =4/5 4/5= `8,00,000 C’s capital= `8,00,000x5/4x1/5= `2,00,000**

**On April1, 2018 , a firm had assets of Rs. 100000 excluding stock of Rs.20,000. The current liabilities were Rs.10000 and the balance constituted partners capital accounts. If the normal rate of return is 8%, the goodwill of the firm is valued at Rs. 60,000 at 4 years purchase of super profits, find the actual profit of the firm**

**Total Assets= ₹1,20,000**

**Capital Employed = Total Assets – Current Liabilities = 1,20,000 - 10,000 = ₹1,10,000 ½**

**Normal Profits = 8% of 1,10,000 = ₹8,800 1/2**

**Goodwill = Super Profits X No. of Years Purchase ½**

**Super Profits = Actual Average Profits – Normal Profits ½**

**Given Goodwill = ₹ 60,000**

**60,000 = 4 (Average Actual Profits – Normal Profits) 15000 =Average Actual Profits – 8,800 ½**

**Average Actual Profits= 15,000 + 8,800= ₹23,800 ½**

The total capital of the firm of Sakshi, Mehak and Megha is ₹ 1,00,000 and the market rate of interest is 15%. The net profits for the last 3 years were ₹ 30,000; ₹ 36,000 and ₹ 42,000. Goodwill is to be valued at 2 years’ purchase of the last 3 years’ super profits. Calculate the goodwill of the firm.

**Solution:**

Goodwill= Super Profits × No. of years of Purchase

Super Profit = Average Profit – Normal Profit

Average Profit = TotalProductProfitTotalofWeight

= 30,000+36,000+42,0003 = ₹ 36,000

Normal Profits= (Capital Employed × NormalRateofIncome100

Normal Profits= (1,00,000× 15100 = ₹ 15,000

Super Profit = ₹ 36,000 – ₹ 15,000 = ₹ 21,000

Total years’ purchase = 2

Goodwill= 21,000 X 2 = ₹ 42,000

**Question 24**

Rakesh and Ashok earned a profit of ₹ 5,000. They employed the capital of ​₹ 25,000 in the firm. It is expected that the normal rate of return is 15% of the capital. Calculate the amount of goodwill if goodwill is valued at three years’ purchase of super profit.

**Solution:**

Actual Profits = ₹ 5,000

Normal Profits= (Capital Employed × NormalRateofIncome100

Normal Profits= (25,000 × 15100 = ₹ 3,750

Super Profits = Actual Profits (5,000) − (3,750) Normal Profits = ₹1,250

Goodwill = Super Profits × No. of years of Purchase

No. of years of Purchase = 3

= ₹ 1,250 X 3 = ₹ 3,750

**Question 25**

Average net profit expected in future by XYZ firm is ₹ 36,000 per year. Average capital employed in the business by the firm is ₹ 2,00,000. The normal rate of return from capital invested in this class of business is 10%. Remuneration of the partners is estimated to be ₹ 6,000 p.a. Calculate the value of goodwill on the basis of two years’ purchase of super profit.

**Solution:**

Goodwill = Super Profits × No. of years of Purchase

Normal Profits= (Capital Employed × NormalRateofIncome100

Normal Profits= (2,00,000 × 10100 = ₹ 20,000

Expected Profit (Actual) = 36,000 – 20,000 = ₹ 10,000

Super Profits = Actual Profits (30,000) − (20,000) Normal Profits = ₹ 10,000

No. of years of Purchase = 2

Goodwill = 10,000 x 2 = ₹ 20,000

**Question 26**

A partnership firm earned net profits during the last three years ended 31st March, as follows: 2017 − ₹ 17,000; 2018 − ₹ 20,000; 2019 − ₹ 23,000.

The capital investment in the firm throughout the above-mentioned period has been ₹ 80,000. Having regard to the risk involved, 15% is considered to be a fair return on the capital. Calculate value of goodwill on the basis of two years’ purchase of average super profit earned during the above-mentioned three years.

**Solution:**

Goodwill = Super Profits × No. of years of Purchase

Normal Profits= (Capital Employed × NormalRateofIncome100

Normal Profits= (80,000 × 15100 = ₹ 12,000

Average Profit = TotalProductProfitTotalofWeight

Average Actual Profit = 17,000+20,000+23,0003

= 60,0003 = ₹ 20,000

No. of years of Purchase = 2

Goodwill = 8,000 x 2 = ₹ 16,000

**Page No 170:**

**Question 23:**

Amar and Samar were partners in a firm sharing profits and losses in 3:1 ratio. They admitted Kanwar for 1/4 share of profits. Kanwar could not bring his share of goodwill premium in cash. The Goodwill of the firm was valued at Rs. 80,000 on Kanwar’s admission. Record necessary journal entry for goodwill on Kanwar’s admission.

**ANSWER:**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Amar | : | Samar |
| Old Ratio | 3 | : | 1 |

Kanwar admitted for 1/4 share of profit.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Journal Entries** | | | | | | |
| **Date** | **Particulars** | | | **L.F.** | **Debit Amount Rs** | **Credit Amount Rs** |
|  |  |  |  |  |  |  |
|  | Kanwar's Capital A/c | | Dr. |  | 20,000 |  |
|  | To Amar's Capital A/c | |  |  |  | 15,000 |
|  | To Samar's Capital A/c | |  |  |  | 5,000 |
|  | (Kanwar's share of goodwill charged from his capital account by  Amar and Kanwar in sacrificing ratio) | | |  |  |  |
|  |  | | |  |  |  |

New Firm’s Goodwill = Rs 80,000

Kanwar’s Share of Goodwill = 80,000 × (1/4) = 20,000

Kanwar’s Goodwill will be taken by Amar and Samar in their sacrificing ratio here. Sacrificing Ratio will be equal to old ratio because new and sacrificing ratio is not given,

if sacrificing and new ratio is not given it is assumed that old partners sacrificed in their old ratio.

**Page No 170:**

**Question 24:**

Mohan Lal and Sohan Lal were partners in a firm sharing profits and losses in 3:2 ratio. They admitted Ram Lal for 1/4 share on 1.1.2013. It was agreed that goodwill of the firm will be valued at 3 years purchase of the average profits of last 4 years which were Rs. 50,000 for 2013, Rs. 60,000 for 2014, Rs. 90,000 for 2015 and

Rs. 70,000 for 2016. Ram Lal did not bring his share of goodwill premium in cash. Record the necessary journal entries in the books of the firm on Ram Lal’s admission when:

a) Goodwill already appears in the books at Rs. 2,02,500.

b) Goodwill appears in the books at Rs. 2,500.

c) Goodwill appears in the books at Rs. 2,05,000.

**ANSWER:**

|  |  |
| --- | --- |
| **Year** | **Profit** |
| 2013 | 50,000 |
| 2014 | 60,000 |
| 2015 | 90,000 |
| 2016 | 70,000 |
| Sum of 4 years profit | 2,70,000 |

Average Profit =  = Rest

67,500

Goodwill = Average Profit × No. of Years Purchases = 67,500 × 3 = 2,02,500

Ram Lal entered into the firm for 1/4 share of Profit.

Ram Lal’s share of goodwill = 2,02, 500 × (1/4) = Rest

50,625

Here sacrificing ratio of Mohan Lal and Sohan Lal will be equal to old ratio because new and sacrificing ratio is not given.

Mohan Lal will get = Ram Lal’s Share of Goodwill × (3/5) = 50,625 × (3/5) = 10,125 × 3 = Rest

30,375

Sohan

Lal will = Ramlal

Share of Goodwill × (1/5)= 50,625 × (1/5)= Rs 10,125 × 2 = Rs 20,250

Case (a)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Journal Entries** | | | | | | |
| **Date** | **Particulars** | | | **L.F.** | **Debit Amount Rs** | **Credit Amount Rs** |
|  | Mohan Lal's Capital A/c | | Dr. |  | 1,21,500 |  |
|  | Sohan Lal's Capital A/c | | Dr. |  | 81,000 |  |
|  |  | To Goodwill A/c |  |  |  | 2,02,500 |
|  | (Goodwill appeared in the old firm written off) | |  |  |  |  |
|  |  | | |  |  |  |
|  | Ramlal's Capital A/c | | Dr. |  | 50,625 |  |
|  |  | To Mohan Lal's Capital A/c | |  |  | 30,375 |
|  |  | To Sohan Lal's Capital A/c | |  |  | 20,250 |
|  | (Ram Lal's Shares of Goodwill charged  from his account  and Distrbuted between  in Mohan Lal and Sohan Lal in  Sacrificing Ratio) | | |  |  |  |
|  |  | | |  |  |  |
|  |  |  |  |  |  |  |

Case (b)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Journal Entries** | | | | | | |
| **Date** | **Particulars** | | | **L.F.** | **Debit Amount**  **Rs** | **Credit Amount Rs** |
|  | Mohan Lal's Capital A/c | | Dr. |  | 1,500 |  |
|  | Sohan Lal's Capital A/c | | Dr. |  | 1,000 |  |
|  |  | To Goodwill A/c |  |  |  | 2,500 |
|  | (Goodwill already appeared in the books of firm  written off in old ratio) | | |  |  |  |
|  |  | | |  |  |  |
|  | Ramlal's Capital A/c | | Dr. |  | 50,625 |  |
|  | To Mohan Lal's Capital A/c | | |  |  | 30,375 |
|  | To Sohan Lal's Capital A/c | | |  |  | 20,250 |
|  | (Ram Lal's Shares of Goodwill charged  from his  capital by Mohan Lal and Sohan Lal in sacrificing ratio) | | |  |  |  |
|  |  | | |  |  |  |
|  |  |  |  |  |  |  |

Case (c)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Journal Entries** | | | | | |
| **Date** | **Particulars** | | **L.F.** | **Debit Amount**  **Rs** | **Credit Amount Rs** |
|  | Mohan Lal's Capital A/c | Dr. |  | 1,23,000 |  |
|  | Sohan Lal's Capital A/c | Dr. |  | 82,000 |  |
|  | To Ram Lal’s Capital A/c |  |  |  | 2,05,000 |
|  | (Goodwill already appeared in the books of firm written off in Old Ratio) |  |  |  |  |
|  |  | |  |  |  |
|  | Ramlal's Capital A/c | Dr. |  | 50,625 |  |
|  | To Mohan Lal's Capital A/c | |  |  | 30,375 |
|  | To Sohan Lal's Capital A/c | |  |  | 20,250 |
|  | (Ram Lal's Shares of Goodwill charged  from his capital  by Mohan Lal and Sohan Lal in sacrificing ratio) | |  |  |  |
|  |  | |  |  |  |

**Given below is the Balance Sheet of A and B, who are carrying on partnership business on 31.12.2016. A and B share profits and losses in the ratio of 2:1.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Balance Sheet of A and B as on December 31, 2016** | | | | | |
| **Liabilites** | | | **Amount**  **(Rs)** | **Assets** | **Amount**  **(Rs)** |
| **Bills Payable** | |  | **10,000** | **Cash in Hand** | **10,000** |
| **Creditors** | |  | **58,000** | **Cash at Bank** | **40,000** |
| **Outstanding** | |  | **2,000** | **Sundry Debtors** | **60,000** |
| **Expenses** | |  |  | **Stock** | **40,000** |
| **Capitals:** | |  |  | **Plant** | **1,00,000** |
|  | **A** | **1,80,000** |  | **Buildings** | **1,50,000** |
|  | **B** | **1,50,000** | **3,30,000** |  |  |
|  |  |  | **4,00,000** |  | **4,00,000** |
|  |  |  |  |  |  |

**C is admitted as a partner on the date of the balance sheet on the following terms:**

**(i) C will bring in Rs 1,00,000 as his capital and Rs 60,000 as his share of goodwill for 1/4 share in the profits.**

**(ii) Plant is to be appreciated to Rs 1,20,000 and the value of buildings is to be appreciated by 10%.**

**(iii) Stock is found over valued by Rs 4,000.**

**(iv) A provision for bad and doubtful debts is to be created at 5% of debtors.**

**(v) Creditors were unrecorded to the extent of Rs 1,000.**

**Pass the necessary journal entries, prepare the revaluation account and partners’ capital accounts, and show the Balance Sheet after the admission of C.**

**ANSWER:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Books of A, B and C**  **Journal** | | | | | | | |
| **Date** | **Particulars** | | | | **L.F.** | **Amount**  **Rs** | **Amount**  **Rs** |
| **2016** |  | | |  |  |  |  |
| **Dec 31** | **Bank A/c** | | | **Dr.** |  | **1,60,000** |  |
|  |  | **To C’s Capital A/c** | |  |  |  | **1,00,000** |
|  |  | **To Premium for Goodwill A/c** | |  |  |  | **60,000** |
|  | **(Capital and premium for goodwill brought by C for 1/4 th share)** | | | |  |  |  |
|  |  | |  |  |  |  |  |
|  | **Premium for Goodwill A/c** | | | **Dr.** |  | **60,000** |  |
|  |  | **To A’s Capital A/c** | |  |  |  | **40,000** |
|  |  | **To B’s Capital A/c** | |  |  |  | **20,000** |
|  | **(Premium for Goodwill brought by C transferred to old partners’ capital**  **account in their sacrificing ratio, 3:1)** | | |  |  |  |  |
|  |  | |  |  |  |  |  |
|  | **Plant A/c** | | | **Dr.** |  | **20,000** |  |
|  | **Building A/c** | | | **Dr.** |  | **15,000** |  |
|  |  | **To Revaluation A/c** | |  |  |  | **35,000** |
|  | **(Value of assets increased)** | | |  |  |  |  |
|  |  | |  |  |  |  |  |
|  | **Revaluation A/c** | | | **Dr.** |  | **8,000** |  |
|  |  | **To Stock** | |  |  |  | **4,000** |
|  |  | **To Provision for Doubtful Debts A/c** | | |  |  | **3,000** |
|  |  | **To Creditors A/c (Unrecorded)** | |  |  |  | **1,000** |
|  | **(Assets and liabilities revalued)** | | |  |  |  |  |
|  |  | |  |  |  |  |  |
|  | **Revaluation A/c** | | | **Dr.** |  | **27,000** |  |
|  |  | **To A’s Capital A/c** | |  |  |  | **18,000** |
|  |  | **To B’s Capital A/c** | |  |  |  | **9,000** |
|  | **(Profit on revaluation transferred to old partners capital account)** | | |  |  |  |  |
|  |  | | |  |  |  |  |
|  |  |  |  |  |  |  |  |

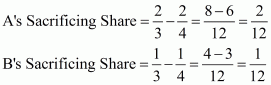
|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Revaluation Account** | | | | | | |
| **Dr.** | | | | **Cr.** | | |
| **Particulars** | | | **Amount**  **Rs** | | **Particulars** | **Amount**  **Rs** |
| **Stock** | | | **4,000** | | **Plant** | **20,000** |
| **Provision for Doubtful Debts** | | | **3,000** | | **Building** | **15,000** |
| **Creditors (Unrecorded)** | | | **1,000** | |  |  |
| **Profit transferred to** | | |  | |  |  |
|  | **A’s Capital** | **18,000** |  | |  |  |
|  | **B’s Capital** | **9,000** | **27,000** | |  |  |
|  | | | **35,000** | |  | **35,000** |
|  | | |  | |  |  |
|  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Partners’ Capital Account** | | | | | | | | |
| **Dr.** | | | | | **Cr.** | | | |
| **Particulars** | **A** | **B** | **C** | **Particulars** | | **A** | **B** | **C** |
| **Balance c/d** | **2,38,000** | **1,79,000** | **1,00,000** | **Balance b/d** | | **1,80,000** | **1,50,000** |  |
|  |  |  |  | **Bank** | |  |  | **1,00,000** |
|  |  |  |  | **Premium for Goodwill** | | **40,000** | **20,000** |  |
|  |  |  |  | **Revaluation** | | **18,000** | **9,000** |  |
|  |  |  |  |  | |  |  |  |
|  | **2,38,000** | **1,79,000** | **1,00,000** |  | | **2,38,000** | **1,79,000** | **1,00,000** |
|  |  |  |  |  | |  |  |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet as on December 31, 2016** | | | | | | | |
| **Liabilities** | | | | **Amount**  **(Rs)** | **Assets** | | **Amount**  **(Rs)** |
| **Bills Payable** | | | | **10,000** | **Cash in Hand** |  | **10,000** |
| **Creditors** | | | | **59,000** | **Cash at Bank** |  | **2,00,000** |
| **Outstanding Expenses** | | | | **2,000** | **Sundry Debtors** | **60,000** |  |
| **Capital:** | | | |  | ***Less*: Provision for Doubtful Debt** | **3,000** | **57,000** |
|  | | **A** | **2,38,000** |  | **Stock** |  | **36,000** |
|  | | **B** | **1,79,000** |  | **Plant** |  | **1,20,000** |
|  | | **C** | **1,00,000** | **5,17,000** | **Building** |  | **1,65,000** |
|  | | | | **5,88,000** |  |  | **5,88,000** |
|  | | | |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

**Working Note:**

**1) Sacrificing ratio = Old Ratio − New Ratio**

****

**Sacrificing ratio between A and B = 2:1.**

**Page No 171:**

**Question 28:**

**Leela and Meeta were partners in a firm sharing profits and losses in the ratio of 5:3. On Is Jan. 2017 they admitted Om as a new partner. On the date of Om’s admission the balance sheet of Leela and Meeta showed a balance of Rs 16,000 in general reserve and Rs 24,000 (Cr) in Profit and Loss Account. Record necessary journal entries for the treatment of these items on Om’s admission. The new profit sharing ratio between Leela, Meeta and Om was 5:3:2.**

**ANSWER:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Books of Leela, Meeta and Om**  **Journal** | | | | | | |
| **Date** | **Particulars** | | | **L.F.** | **Amount**  **Rs** | **Amount**  **Rs** |
| **2017** |  | |  |  |  |  |
| **Jan 1** | **General Reserve A/c** | | **Dr.** |  | **16,000** |  |
|  | **Profit and Loss A/c** | | **Dr.** |  | **24,000** |  |
|  |  | **To Leela’s Capital A/c** |  |  |  | **25,000** |
|  |  | **To Meeta’s Capital A/c** |  |  |  | **15,000** |
|  | **(General reserve and balance in Profit and Loss credited to old**  **partners’ capital account in their old ratio, 5:3)** | | |  |  |  |
|  |  | | |  |  |  |

Amit and Viney are partners in a firm sharing profits and losses in 3:1 ratio. On 1.1.2017 they admitted Ranjan as a partner. On Ranjan’s admission the profit and loss account of Amit and Viney showed a debit balance of Rs 40,000. Record necessary journal entry for the treatment of the same.

**ANSWER:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Books of Amit, Viney and Ranjan**  **Journal** | | | | | | |
| **Date** | **Particulars** | | | **L.F.** | **Amount**  **Rs** | **Amount**  **Rs** |
| 2017 |  | |  |  |  |  |
| Jan 1 | Amit’s Capital A/c | | Dr. |  | 30,000 |  |
|  | Viney’s Capital A/c | | Dr. |  | 10,000 |  |
|  |  | To Profit and Loss A/c |  |  |  | 40,000 |
|  | (Debit Balance in Profit and Loss Account written off) | |  |  |  |  |
|  |  | |  |  |  |  |
|  |  |  |  |  |  |  |

**Page No 171:**

**Question 30:**

A and B share profits in the proportions of 3/4 and 1/4. Their Balance Sheet on Dec. 31, 2016 was as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Balance Sheet of A and B as on December 31, 2016** | | | | |
| **Liabilites** | | **Amount**  **(Rs)** | **Assets** | **Amount**  **(Rs)** |
| Sundry creditors | | 41,500 | Cash at Bank | 26,500 |
| Reserve fund | | 4,000 | Bills Receivable | 3,000 |
| Capital Accounts | |  | Debtors | 16,000 |
|  | A | 30,000 | Stock | 20,000 |
|  | B | 16,000 | Fixtures | 1,000 |
|  | |  | Land & Building | 25,000 |
|  | | 91,500 |  | 91,500 |
|  | |  |  |  |

On Jan. 1,2017, C was admitted into partnership on the following terms:

(a) That C pays Rs 10,000 as his capital.

(b) That C pays Rs 5,000 for goodwill. Half of this sum is to be withdrawn by A and B.

(c) That stock and fixtures be reduced by 10% and a 5%, provision for doubtful debts be created on Sundry Debtors and Bills Receivable.

(d) That the value of land and buildings be appreciated by 20%.

(e) There being a claim against the firm for damages, a liability to the extent of Rs 1,000 should be created.

(f) An item of Rs 650 included in sundry creditors is not likely to be claimed and hence should be written back.

Record the above transactions (journal entries) in the books of the firm assuming that the profit sharing ratio between A and B has not changed. Prepare the new Balance Sheet on the admission of C.

**ANSWER:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Books of A, B and C**  **Journal** | | | | | | | |
| **Date** | **Particulars** | | | | **L.F.** | **Amount**  **Rs** | **Amount**  **Rs** |
| 2017 |  | |  | |  |  |  |
| Jan. 01 | Bank A/c | | Dr. | |  | 15,000 |  |
|  |  | To C’s Capital A/c |  | |  |  | 10,000 |
|  |  | To Premium for Goodwill A/c |  | |  |  | 5,000 |
|  | (Capital and Premium for goodwill brought by C  for 1/5 th share) | | | |  |  |  |
|  |  |  | |  |  |  |  |
| Jan. 01 | Premium for Goodwill A/c | | |  |  | 5,000 |  |
|  |  | To A’s Capital A/c | |  |  |  | 3,750 |
|  |  | To B’s Capital A/c | |  |  |  | 1,250 |
|  | (Amount of goodwill brought by C is transferred to old  partners’ capital account in their sacrificing ratio, 3:1) | | |  |  |  |  |
|  |  |  | |  |  |  |  |
| Jan. 01 | A’s Capital A/c | | | Dr. |  | 1,875 |  |
|  | B’s Capital A/c | | | Dr. |  | 625 |  |
|  |  | To Bank A/c | |  |  |  | 2,500 |
|  | (Half of amount  withdrawn by old partners) | | |  |  |  |  |
|  |  |  | |  |  |  |  |
| Jan. 01 | Revaluation A/c | | | Dr. |  | 4,050 |  |
|  |  | To Stock A/c | |  |  |  | 2,000 |
|  |  | To Fixture A/c | |  |  |  | 100 |
|  |  | To Provision for doubtful Debts on Debtors A/c | |  |  |  | 800 |
|  |  | To provision for doubtful Debts on Bills Receivable A/c | |  |  |  | 150 |
|  |  | To Claim for Damages A/c | |  |  |  | 1,000 |
|  | (Assets and liabilities are revalued) | | |  |  |  |  |
|  |  |  | |  |  |  |  |
| Jan. 01 | Land and Building A/c | | | Dr. |  | 5,000 |  |
|  | Sundry Creditors A/c | | |  |  | 650 |  |
|  |  | To Revaluation A/c | |  |  |  | 5,650 |
|  | (Asset and liability are revalued) | | |  |  |  |  |
|  |  |  | |  |  |  |  |
| Jan. 01 | Revaluation A/c | | | Dr. |  | 1,600 |  |
|  |  | To A’s Capital A/c | |  |  |  | 1,200 |
|  |  | To B’s Capital A/c | |  |  |  | 400 |
|  | (Profit on Revaluation transferred to old partners’ capital) | | |  |  |  |  |
|  |  |  | |  |  |  |  |
| Jan. 01 | Reserve Fund A/c | | | Dr. |  | 4,000 |  |
|  |  | To A’s Capital A/c | |  |  |  | 3,000 |
|  |  | To B’s Capital A/c | |  |  |  | 1,000 |
|  | (Reserve Fund distributed among old partners) | | |  |  |  |  |
|  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Balance Sheet as on January 01, 2007** | | | | | | |
| **Liabilities** | | | **Amount**  **(Rs)** | **Assets** | | **Amount**  **(Rs)** |
| Sundry Creditors | |  | 40,850 | Cash at Bank | | 39,000 |
| Claim for Damages | |  | 1,000 | Bills Receivable | 3,000 |  |
|  | A | 36,075 |  | *Less*:Provision | 150 | 2,850 |
|  | B | 18,025 |  | Debtors | 16,000 |  |
|  | C | 10,000 | 64,100 | *Less*: Provision | 800 | 15,200 |
|  |  |  |  | Stock | | 18,000 |
|  |  |  |  | Fixtures | | 900 |
|  |  |  |  | Land and Building | | 30,000 |
|  |  |  | 1,05,950 |  | | 1,05,950 |
|  |  |  |  |  | |  |

 Working Note:

 1)

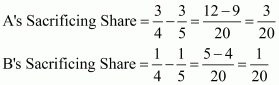
|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Partners’ Capital Account** | | | | | | | | |
| **Dr.** | | | | | **Cr.** | | | |
| **Particulars** | **A** | **B** | **C** | **Particulars** | | **A** | **B** | **C** |
| Bank | 1,875 | 625 |  | Balance b/d | | 30,000 | 16,000 |  |
| Balance c/d | 36,075 | 18,025 | 10,000 | Bank | |  |  | 10,000 |
|  |  |  |  | Premium for Goodwill | | 3,750 | 1,250 |  |
|  |  |  |  | Revaluation | | 1,200 | 400 |  |
|  |  |  |  | Reserve Fund | | 3,000 | 1,000 |  |
|  | 37,950 | 18,650 | 10,000 |  | | 37,950 | 18,650 | 10,000 |
|  |  |  |  |  | |  |  |  |
|  |  |  |  |  |  |  |  |  |

2)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Bank Account** | | | | |
| **Dr.** | | **Cr.** | | |
| **Particulars** | **Amount**  **Rs** | **Particulars** | | **Amount**  **Rs** |
| Balance b/d | 26,500 | A’s Capital A/c | | 1,875 |
| C’s Capital A/c | 10,000 | B’s Capital A/c | | 625 |
| Premium for Goodwill | 5,000 | Balance c/d | | 39,000 |
|  | 41,500 |  | | 41,500 |
|  |  |  | |  |
|  |  |  |  |  |
|  |  |  |  |  |

3)

Sacrificing ratio = Old Ratio − New Ratio



Note: Assuming that ratio between A and B has not change hence sacrificing ratio should be same as old ratio.

**Page No 172:**

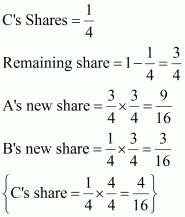
**Question 31:**

A and B are partners sharing profits and losses in the ratio of 3:1. On Ist Jan. 2017 they admitted C as a new partner for 1/4 share in the profits of the firm. C brings Rs 20,000 as for his 1/4 share in the profits of the firm. The capitals of A and B after all adjustments in respect of goodwill, revaluation of assets and liabilities, etc. has been worked out at Rs 50,000 for A and Rs 12,000 for B. It is agreed that partner’s capitals will be according to new profit sharing ratio. Calculate the new capitals of A and B and pass the necessary journal entries assuming that A and B brought in or withdrew the necessary cash as the case may be for making their capitals in proportion to their profit sharing ratio?

**ANSWER:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Books of A, B and C**  **Journal** | | | | | | |
| **Date** | **Particulars** | | | **L.F.** | **Amount**  **Rs** | **Amount**  **Rs** |
| 2017 |  | |  |  |  |  |
| Jan. 01 | A’s Capital A/c | | Dr. |  | 5,000 |  |
|  |  | To Cash A/c |  |  |  | 5,000 |
|  | (Excess capital withdrawn by A) | |  |  |  |  |
|  |  | | |  |  |  |
|  | Cash A/c | | Dr. |  | 3,000 |  |
|  |  | To B’s Capital A/c |  |  |  | 3,000 |
|  | (Capital brought in by B to make in proportion to the profit sharing) | | |  |  |  |
|  |  | | |  |  |  |

1) Calculation of New Profit sharing Ratio

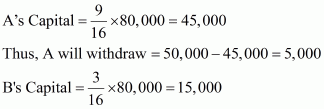


New Profit sharing ratio of A, B and C will be 9:3:4

2) New Capital of A and B.

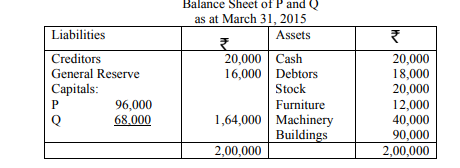
C bring Rs 20,000 for 1/4th share of profit in the new firm.

Thus, total capital of firm on the basis of C’s share= https://img-nm.mnimgs.com/img/study_content/curr/1/15/17/2430/14889/Gr12_Acc_NCERT_Book1-Chp3_Vas_Dilpreet_html_6917e84c.gif



Thus, B’s will bring 15,000 − 12,000 = 3,000

1. A, B and C are partners sharing profits and losses in the ratio of 5:3:2. C retired and his capital balance after adjustments regarding reserves, accumulated profits/ losses and gain/loss on revaluation was `2,50,000. C was paid `3,00,000 in full settlement. Afterwards D was admitted for 1/4th share. Calculate the amount of goodwill premium brought by D. Sol: Goodwill share of C= `3,00,000-`2,50,000= `50,000 Firm’s Goodwill = 50,000x10/2= `2,50,000 D’s share in Goodwill= `2,50,000x1/4= `62,500

**P and Q were partners in a firm sharing profits in 3:2 ratio. R was admitted as a new partner for 1/4th share in the profits on April 1, 2015. The Balance Sheet of the firm on March 31,2015 was as follows**

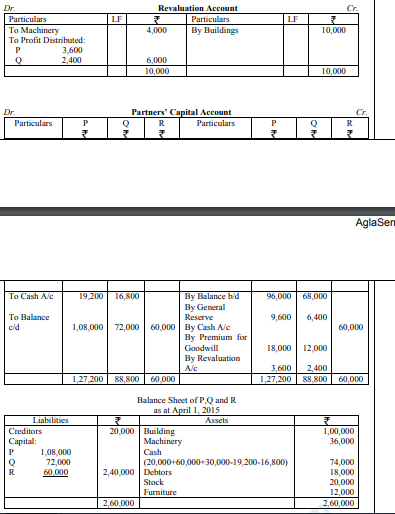
**The term of agreement on R’s admission were as follows:**

**a) R brought in cash 60,000 for his capital and 30,000 for his share of goodwill. b) Building was valued at 1,00,000 and Machinery at 36,000.**

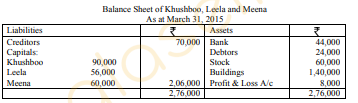
**c) The capital accounts of P and Q were to be adjusted in the new profit-sharing ratio. Necessary cash was to be brought in or paid off to them as the case may be.**

**Prepare Revaluation Account, Partner’s Capital Account and the Balance Sheet of P, Q and R.**

**retirement**



**2** **Khushboo, Leela and Meena were partners in a firm sharing profits in the ratio of 5:3:2. Their Balance Sheet on March 31,2015 was as follows:**



On April 1,2015 Leela retired on the following terms:

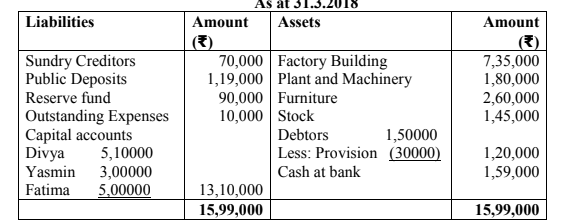
1. Building was to be depreciated by 10,000.
2. A Provision of 5% was to be made on Debtors for doubtful debts.
3. Salary outstanding was 4,800
4. Goodwill of the firm was valued at 1,40,000.
5. Leela was to be paid 20,800 through cheque and the balance was to be paid in two equal quarterly installments (starting from June 30,2015) along with interest @ 10% p.a.

Prepare Revaluation Account, Leela’s Capital Account and her Loan Account till it is finally paid. Soluti

**Divya, Yasmin and Fatima are partners in a firm, sharing profits and losses in 11:7:2 respectively. The balance sheet of the firm as on 31st March 2018 was as follows:**

**Balance Sheet**

**As at 31.3.2018**

****

**On 1.4.2018, Aditya is admitted as a partner for one-fifth share in the profits with a capital of ₹4,50,000 and necessary amount for his share of goodwill on the following terms:**

**i. Furniture of ₹2,40,000 were to be taken over Divya, Yasmin and Fatima equally.**

**ii. A creditor of ₹ 7,000 not recorded in books to be taken into account.**

**iii. Goodwill of the firm is to be valued at 2.5 years purchase of average profits of last two years. The profit of the last three years were: 2015-16 ₹6,00,000; 2016-17 ₹2,00,000; 2017-18 ₹6,00,000**

**iv. At time of Aditya’s admission Yasmin also brought in 50,000 as fresh capital**

1. **Plant and Machinery is re-valued to ₹2,00,000 and expenses outstanding were brought down to ₹ 9,000.**

**Prepare Revaluation Account, Partners Capital**

**Account and the balance sheet of the reconstituted firm.**

