One Two academy

UNIT 5

ADMISSION OF A PARTNER

I. Choose the correct answer :

1. Revaluation A/c is a

   (a) Real A/c (b) Nominal A/c

   (c) Personal A/c (d) Impersonal A/c

2. On revaluation, the increase in the value of assets leads to

   (a) Gain (b) Loss

   (c) Expense (d) None of these

3. The profit or loss on revaluation of assets and liabilities is transferred to the capital account of

   (a) The old partners (b) The new partner

   (c) All the partners (d) The Sacrificing partners

4. If the old profit sharing ratio is more than the new profit sharing ratio of a partner, the difference is called

   (a) Capital ratio (b) Sacrificing ratio

   (c) Gaining ratio (d) None of these

5. At the time of admission, the goodwill brought by the new partner may be credited to the capital accounts of

   (a) all the partners (b) the old partners

   (c) the new partner (d) the sacrificing partners

6. Which of the following statements is not true in relation to admission of a partner

   (a) Generally mutual rights of the partners change

   (b) The profits and losses of the previous years are distributed to the old partners

   (c) The firm is reconstituted under a new agreement

   (d) The existing agreement does not come to an end

7. Match List I with List II and select the correct answer using the codes given below:

List I	List II
(i) Sacrificing ratio	1. Investment fluctuation fund
(ii) Old profit sharing ratio	2. Accumulated profit
(iii) Revaluation Account	3. Goodwill

(iv) Capital Account 4. Unrecorded liability

Codes:	(i)	(ii)	(iii)	(iv)
(a)	1	2	3	4
(b)	3	2	4	1
(c)	4	3	2	1
(d)	3	1	2	4

8. Select the odd one out

(a) Revaluation profit (b) Accumulated loss

(c) Goodwill brought by new partner (d) Investment fluctuation fund

9. James and Kamal are sharing profits and losses in the ratio of 5:3. They admit Sunil as a partner giving him 1/5 share of profits. Find out the sacrificing ratio.

(a) 1:3 (b) 3:1

(c) 5:3 (d) 3:5

10. Balaji and Kamalesh are partners sharing profits and losses in the ratio of 2:1. They admit Yogesh into partnership. The new profit sharing ratio between Balaji, Kamalesh and Yogesh is agreed to 3:1:1. Find the sacrificing ratio between Balaji and Kamalesh.

(a) 1:3 (b) 3:1

(c) 2:1 (d) 1:2

Answer :

1. (b) 2. (a) 3. (a) 4. (b) 5.(d) 6. (d) 7. (b) 8. (c) 9. (c) 10. (d)

II. Very short answer questions:

1. What is meant by reevaluation of assets and liabilities ?
   i. When a partner is admitted into the partnership, the assets and liabilities are revalued as the current value may differ from the book value.
   ii. Determination of current values of assets and liabilities is called revaluation of assets and liabilities.
2. How are accumulated profits and losses distributed among the partners at the time of admission of a new partner ?
   i. Profits and losses of previous years which are not distributed to the partners are called accumulated profits and losses.

ii. Any reserve and accumulated profits and losses belong to the old partners and hence these should be distributed to the old partners in the old profit sharing ratio.

3. What is sacrificing ratio ?

   Sacrificing ratio is the proportion of the profit which is sacrificed or foregone by the old partners in favour of the new partner. The share sacrificed is calculated by deducting the new share from the old share.

   Share sacrificed = Old share - New share

   Sacrificing ratio = Ratio of share sacrificed by the old partners

4. Give the journal entry for writing off existing goodwill at the time of admission of a new partner.

Journal entry :

Date	Particulars	L.F	Debit ₹	Credit ₹
	Old partner's capital / current A/c (in old ratio) Dr. To Goodwill A/c (Existing goodwill written off)		XXX	 XXX

5. State whether the following will be debited or credited in the revaluation account.

   (a) Depreciation on assets
   (b) Unrecorded liability
   (c) Provision for outstanding expenses
   (d) Appreciation of assets

   (a) Debit account
   (b) Debit account
   (c) Debit account
   (d) Credit account

III. Short answer questions :

1. What are the adjustments required at the time of admission of a partner ?

   The following adjustments are necessary at the time of admission of a partner:

   i. Distribution of accumulated profits, reserves and losses

   ii. Revaluation of assets and liabilities

   iii. Determination of new profit-sharing ratio and sacrificing ratio

   iv. Adjustment for goodwill

   v. Adjustment of capital on the basis of new profit sharing ratio (if so agreed)

2. What are the journal entries to be passed on revaluation of assets and liabilities ?

Following are the journal entries to be passed to record the revaluation of assets and liabilities:

Date	Particulars	L.F	Debit ₹	Credit ₹
	1.For increase in the value of asset Concerned asset A/c Dr. To Revaluation A/c		xxx	 xxx
	2.For decrease in the value of asset Revaluation A/c Dr. To Concerned asset A/c		xxx	 xxx
	3.For increase in the amount of liabilities Revaluation A/c Dr. To Concerned liability A/c		xxx	 xxx
	4.For decrease in the amount of liability Concerned liability A/c Dr. To Revaluation A/c		xxx	 xxx
	5.For recording an unrecorded asset Concerned asset A/c Dr. To Revaluation A/c		xxx	 xxx
	6.For recording an unrecorded liability Revaluation A/c Dr. To Concerned liability A/c		xxx	 xxx
	7.For transferring the balance in revaluation A/c (a) If there is profit on revaluation Revaluation A/c Dr. To Old partners' capital A/c (individually in old ratio) (b) If there is loss on revaluation Old partners' capital A/c (individually in old ratio) Dr. To Revaluation A/c		xxx xxx	xxx xxx

3. Write a short note on accounting treatment of goodwill.

Accounting treatment for goodwill on admission of a partner is discussed below:

i. **When new partner brings cash towards goodwill**: When the new partner brings cash towards goodwill in addition to the amount of capital, it is distributed to the existing partners in the sacrificing ratio.

ii. **When the new partner does not bring goodwill in cash or in kind**: If the new partner does not bring goodwill in cash or in kind, his share of goodwill must be adjusted through the capital accounts of the partners.

iii. **When the new partner brings only a part of the goodwill in cash or in kind:** Sometimes the new partner may bring only a part of the goodwill in cash or assets. In such a case, for the cash or the assets brought, the respective account is debited and for the amount not brought in cash or kind, the new partner's capital account is debited.

iv. **Existing goodwill** : If goodwill already appears in the books of accounts, at the time of admission if the partners decide, it can be written off by transferring it to the existing partners' capital account / current account in the old profit sharing ratio.

IV. Exercises :

Distribution of accumulated profits, reserves and losses :

1. Arul and Anitha are partners sharing profits and losses in the ratio of 4:3. On 31.3.2018, Ajay was admitted as a partner. On the date of admission, the book of the firm showed a general reserve of ₹ 42,000. Pass the journal entry to distribute the general reserve.

Solution : Journal entry

Date	Particulars	L.F	Debit ₹	Credit ₹
2018	General reserve A/c		42,000	
Mar 31	To Arul's capital A/c (42,000 x 4/7)			24,000
	To Anita's capital A/c (42,000 x 3/7)			18,000
	(General reserve transferred to old partner's			
	Capital account in the old profit sharing ratio)			

2. Anjali and Nithya are partners of a firm sharing profits and losses in the ratio of 5:3. They admit Pramila on 1.1.2018. On that date, their balance sheet showed accumulated loss of ₹ 40,000 on the asset side of the balance sheet. Give the journal entry to transfer the accumulated loss on admission.

Solution: Journal entry

Date	Particulars	L.F	Debit ₹	Credit ₹
2018 Jan 1	Anjali's capital A/c (40,000 x 5/8) Dr. Nithya's capital A/c (40,000 x 3/8) Dr. To profit and loss A/c (Accumulated loss transferred to old profit partner's capital account in the old profit sharing ratio)		25,000 15,000	 40,000

3. Oviya and Kavya are partners in a firm sharing profits and losses in the ratio of 5:3. They admit Agalya into the partnership. Their balance sheet as on 31st March, 2019 is as follows:

Balance Sheet as on 31st March 2019

Liabilities	₹	₹	Assets	₹
Capital accounts :			Buildings	40,000
Oviya	50,000		Plant	50,000
Kavya	40,000	90,000	Furniture	30,000
Profit and loss appropriation A/c		40,000	Debtors	20,000
General reserve		8,000	Stock	10,000
Workmen's compensation fund		12,000	Cash	20,000
Sundry creditors		20,000		
		1,70,000		1,70,000

Pass journal entry to transfer the accumulated profits and reserve on admission.

Solution : Journal entry

Date	Particulars	L.F	Debit ₹	Credit ₹
2019 Apr 1	Profit and loss appropriation A/c Dr. General reserve A/c Dr. Workmen's compensation fund A/c Dr.		40,000 8,000 12,000	

	To Oviya's capital A/c (60,000 x 5/8) To Kaviya's capital A/c (60,000 x 3/8) (Accumulated profit and reserve transferred to old partner's capital account in the old profit sharing ratio)			37,500 22,500

Revaluation of assets and liabilities :

4. Hari, Madhavan and Kesavan are partners, sharing profits and losses in the ratio of 5:3:2. As from 1st April 2017, Vanmathi is admitted into the partnership and the new profit sharing ratio is decided as 4:3:2:1. The following adjustments are to be made.

(a) Increase the value of premises by ₹ 60,000.

(b) Depreciate stock by ₹ 5,000, furniture by ₹ 2,000 and machinery by ₹ 2,500.

(c) Provide for an outstanding liability of ₹ 500. Pass journal entries and prepare revaluation account.

Solution : Journal entry

Date	Particulars	L.F	Debit ₹	Credit ₹
2017 Apr 1	Premises A/c Dr. To Revaluation A/c (Appreciation in value of premises recorded)		60,000	 60,000
2017 Apr 1	Revaluation A/c Dr. To Stock A/c To Furniture A/c To Machinery A/c To Outstanding liability A/c (Decrease in assets recorded and outstanding liability made)		10,000	 5,000 2,000 2,500 500
2017 Apr 1	Revaluation A/c Dr. To Hari's capital A/c To Madhavan's capital A/c To Kesavan's capital A/c (Profit on revaluation transferred)		50,000	 25,000 15,000 10,000

Dr. Revaluation A/c Cr.

Particulars	₹	₹	Particulars	₹
To stock A/c		5,000	By premises A/c	60,000
To furniture A/c		2,000		
To machinery A/c		2,500		
To outstanding liability A/c		500		
To profit on revaluation :				
Hari's capital A/c (5/10)	25,000			
Madhavan's capital A/c (3/10)	15,000			
Kesavan's capital A/c (2/10)	10,000	**50,000**		
		60,000		60,000

5. Seenu and Siva are partners sharing profits and losses in the ratio of 5:3. In the view of Kowsalya admission, they decided
    a) To increase the value of building by ₹ 40,000.
    b) To bring into record investments at ₹ 10,000, which have not so far been brought into account.
    c) To decrease the value of machinery by ₹ 14,000 and furniture by ₹ 12,000.
    d) To write off sundry creditors by ₹ 16,000.

Pass journal entries and prepare revaluation account.

Solution : Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Building A/c Dr.		40,000	
	Investment A/c Dr.		10,000	
	Sundry creditors Dr.		16,000	
	To revaluation A/c			66,000
	(Increase in the value of building, unrecorded investment and sundry creditors written off accounted)			
	Revaluation A/c Dr.		26,000	
	To machinery A/c			14,000
	To furniture A/c			12,000

	(Reduction in the value of machinery and furniture recorded)			
	Revaluation A/c Dr. To Seenu's capital A/c (5/8) To Siva's capital A/c (3/8) (Profit on revaluation transferred)		40,000	 25,000 15,000

Dr. Revaluation A/c Cr.

Particulars	₹	₹	Particulars	₹
To machinery A/c		14,000	By buildings A/c	40,000
To furniture A/C		12,000	By investment A/c	10,000
To profit on revaluation :			By sundry creditors A/c	16,000
Seenu's capital A/c (40,000 x 5/8)	25,000			
Siva's capital A/c (40,000 x 3/8)	15,000	**40,000**		
		66,000		66,000

6. Sai and Shankar are partners, sharing profits and losses in the ratio of 5:3. The firm's balance sheet as on 31st December, 2017, was as follows:

Liabilities	₹	₹	Assets	₹	₹
Capital accounts			Building		34,000
Sai	48,000		Furniture		6,000
Shankar	40,000	88,000	Investment		20,000
Creditors		37,000	Debtors	40,000	
Outstanding wages		8,000	Less: Provision for bad debts	3,000	37,000
			Bills receivable		12,000
			Stock		16,000
			Bank		8,000
		1,33,000			1,33,000

On 31st December, 2017 Shanmugam was admitted into the partnership for 1/4 share of profit with ₹ 12,000 as capital subject to the following adjustments.

(a) Furniture is to be revalued at ₹ 5,000 and building is to be revalued at ₹ 50,000.

(b) Provision for doubtful debts is to be increased to ₹ 5,500

(c) An unrecorded investment of ₹ 6,000 is to be brought into account

(d) An unrecorded liability ₹ 2,500 has to be recorded now.

Pass journal entries and prepare Revaluation Account and capital account of partners after admission.

Solution : Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
2017 Dec 31	Bank A/c Dr. To Shanmugam's capital A/c (Capital brought by Shanmugam)		12,000	 12,000
2017 Dec 31	Building A/c Dr. Unrecorded investment A/c To revaluation A/c (Appreciation on building and unrecorded Investments adjusted)		16,000 6,000	 22,000
2017 Dec 31	Revaluation A/c Dr. To furniture A/c To unrecorded liability A/c To provision for doubtful debts A/c (Decreased on furniture, unrecorded liability provision made for doubtful debts adjusted)		6,000	 1,000 2,500 2,500
2017 Dec 31	Revaluation A/c Dr. To Sai's capital A/c To Shankar's capital A/c (Profit on revaluation transferred to capital accounts)		16,000	 10,000 6,000

Dr. Revaluation A/c Cr.

Particulars	₹	₹	Particulars	₹
To furniture A/c		1,000	By buildings A/c	16,000

To provision for bad debts A/c		2,500	By unrecorded	
To unrecorded liability A/c		2,500	investment A/c	6,000
To profit on revaluation :				
Sai's capital A/c (5/8)	10,000			
Shankar's capital A/c (3/8)	6,000	**16,000**		
		22,000		22,000

Dr. Capital account Cr.

Particulars	Sai	Shankar	Shanmugam	Particulars	Sai	Shankar	Shanmugam
To balance c/d	**58,000**	**46,000**	**12,000**	By balance b/d	48,000	40,000	-
				By bank A/c	-	-	12,000
				By revaluation A/c	10,000	6,000	
	58,000	46,000	12,000		58,000	46,000	12,000
				By balance b/d	58,000	46,000	12,000

7. Amal and Vimal are partners in a firm sharing profits and losses in the ratio of 7:5. Their balance sheet as on 31st March, 2019, is as follows:

Liabilities	₹	₹	Assets	₹
Capital accounts :			Land	80,000
Amal	70,000		Furniture	20,000
Vimal	50,000	1,20,000	Stock	25,000
Sundry creditors		30,000	Debtors	30,000
Profit and loss A/c		24,000	Bank	19,000
		1,74,000		1,74,000

Nirmal is admitted as a new partner on 1.4.2018 by introducing a capital of ₹ 30,000 for 1/3 share in the future profit subject to the following adjustments.

(a) Stock to be depreciated by ₹ 5,000

(b) Provision for doubtful debts to be created for ₹ 3,000

(c) Land to be appreciated by ₹ 20,000

Prepare revaluation account and capital account of partners after admission.

Solution :

Dr. Revaluation A/c Cr.

Particulars	₹	₹	Particulars	₹
To stock A/c To provision for doubtful debts A/c To profit on revaluation: Amal's capital A/c (7/12) Vimal's capital A/c (5/12)	 7,000 5,000	5,000 3,000 **12,000**	By land A/c	20,000
		20,000		20,000

Dr. Capital account Cr.

Particulars	Amal ₹	Vimal ₹	Nirmal ₹	Particulars	Amal ₹	Vimal ₹	Nirmal ₹
To balance c/d	**91,000**	**65,000**	**30,000**	By balance b/d By bank A/c By revaluation A/c By profit and loss A/c	70,000 - 7,000 14,000	50,000 - 5,000 10,000	- 30,000 - -
	91,000	65,000	30,000		91,000	65,000	30,000
				By balance b/d	91,000	65,000	30,000

Computation of sacrificing and new profit sharing ratio:

8. Praveena and Dhanya are partners sharing profits in the ratio of 7:3. They admit Malini into the firm. The new ratio among Praveena, Dhanya and Malini is 5:2:3. Calculate the sacrificing ratio.

Solution :

Old ratio of Praveena and Dhanya $= 7:3 = \frac{7}{10} : \frac{3}{10}$

New ratio of Praveena, Dhanya and Malini $= 5:2:3 = \frac{5}{10} : \frac{2}{10} : \frac{3}{10}$

Share sacrificed = Old share – New share

Praveena $= \frac{7}{10} - \frac{5}{10} = \frac{7-5}{10} = \frac{2}{10}$

Dhanya $= \frac{3}{10} - \frac{2}{10} = \frac{3-2}{10} = \frac{1}{10}$

Sacrificing ratio of Praveena and Dhanya is $\frac{2}{10} : \frac{1}{10}$ = **2 : 1**

9. Ananth and Suman are partners sharing profits and losses in the ratio of 3:2. They admit Saran for 1/5 share, which he acquires entirely from Ananth. Find out the new profit sharing ratio and sacrificing ratio.

Solution :

Share sacrificed by old partners :

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

Suman = 0

Sacrificing ratio = **1:0**

Old profit of Ananth and Suman = 3 : 2 = $\frac{3}{5} : \frac{2}{5}$

New share of old partner = Old share – Share sacrificed

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

Suman $= \frac{2}{5}$

Share of new partner:

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

New profit sharing ratio of Ananth, Suman and Saran is $\frac{2}{5} : \frac{2}{5} : \frac{1}{5}$

= **2 : 2 : 1**

10. Raja and Ravi are partners, sharing profits in the ratio of 3:2. They admit Ram for 1/4 share of the profit. He takes 1/20 share from Raja and 4/20 from Ravi. Calculate the new profit sharing ratio and sacrificing ratio.

Solution : **Computation of sacrificing ratio and new profit sharing ratio**

Share sacrificed $= \frac{1}{20} : \frac{4}{20}$

Sacrificing ratio = **1 : 4**

Old profit sharing ratio = 3 : 2 = $\frac{3}{5} : \frac{2}{5}$

New share of old partners = Old share – Share sacrificed

Raja $= \frac{3}{5} - \frac{1}{20} = \frac{12-1}{20} = \frac{11}{20}$

Ravi $= \frac{2}{5} - \frac{4}{20} = \frac{8-4}{20} = \frac{4}{20}$

Share of new partner:

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

In order to equate the denominator of Ram's share, multiply and divide by 5

$$= \frac{1}{4} \text{x} \frac{5}{5} = \frac{5}{20}$$

New profit sharing ratio $= \frac{11}{20} : \frac{4}{20} : \frac{5}{20}$ = **11: 4 : 5**

11. Vimala and Kamala are partners, sharing profits and losses in the ratio of 4:3. Vinitha enters into the partnership and she acquires 1/14 from Vimala and 1/14 from Kamala. Find out the new profit sharing ratio and sacrificing ratio.

Solution : Computation of sacrificing ratio and new profit sharing ratio

Share sacrificed $= \frac{1}{14} : \frac{1}{14}$

Sacrificing ratio = **1 : 1**

Old profit sharing ratio = 4 : 3 = $\frac{4}{7} : \frac{3}{7}$

New share of old partners = Old share – Share sacrificed

Vimala $= \frac{4}{7} - \frac{1}{14} = \frac{8-1}{14} = \frac{7}{14}$

Kamala $= \frac{3}{7} - \frac{1}{14} = \frac{6-1}{14} = \frac{5}{14}$

Share of new partner:

Ram = Sum of shares sacrificed by old partners

$$= \frac{1}{14} + \frac{1}{14} = \frac{2}{14}$$

In order to equate the denominator of Ram's share, multiply and divide by 5

$$= \frac{1}{4} \text{x} \frac{5}{5} = \frac{5}{20}$$

New profit sharing ratio $= \frac{7}{14} : \frac{5}{14} : \frac{2}{14}$ = **7: 5 : 2**

12. Govind and Gopal are partners in a firm sharing profits in the ratio of 5:4. They admit Rahim as a partner. Govind surrenders 2/9 of his share in favour of Rahim. Gopal surrenders 1/9 of his share in favour of Rahim. Calculate the new profit sharing ratio and sacrificing ratio.

Solution : **Computation of sacrificing ratio and new profit sharing ratio**

Old share $= 5 : 4 = \frac{5}{9} : \frac{4}{9}$

Share sacrificed = Old share x Proportion of share sacrificed

Govind $= \frac{5}{9} \times \frac{2}{9} = \frac{10}{81}$

Gopal $= \frac{4}{9} \times \frac{1}{9} = \frac{4}{81}$

Share sacrificed $= \frac{10}{81} : \frac{4}{81}$

Sacrificing ratio = **10 : 4** = **5 : 2**

New share = Old share – Share sacrificed

Govind $= \frac{5}{9} - \frac{10}{81} = \frac{45-10}{14} = \frac{35}{81}$

Gopal $= \frac{4}{9} - \frac{4}{81} = \frac{36-4}{81} = \frac{32}{81}$

Share of new partner:

Rahim = Sum of shares sacrificed by old partners

$= \frac{10}{81} + \frac{4}{81} = \frac{10+4}{81} = \frac{14}{81}$

New profit sharing ratio $= \frac{35}{81} : \frac{32}{81} : \frac{14}{81}$ = **35 : 32 : 14**

13. Prema and Chandra share profits in the ratio of 5:3. Hema is admitted as a partner. Prema surrendered 1/8 of her share and Chandra surrendered 1/8 of her share in favour of Hema. Calculate the new profit sharing ratio and sacrificing ratio.

Solution : **Computation of sacrificing ratio and new profit sharing ratio**

Old share $= 5 : 3 = \frac{5}{8} : \frac{3}{8}$

Share sacrificed = Old share x Proportion of share sacrificed

Prema $= \frac{5}{8} \times \frac{1}{8} = \frac{5}{64}$

Chandra $= \frac{3}{8} \times \frac{1}{8} = \frac{3}{64}$

Share sacrificed $= \frac{5}{64} : \frac{3}{64}$

Sacrificing ratio = **5 : 3**

New share = Old share – Share sacrificed

Prema $= \frac{5}{8} - \frac{5}{64} = \frac{40-5}{64} = \frac{35}{64}$

Chandra $= \frac{3}{8} - \frac{3}{64} = \frac{24-3}{64} = \frac{21}{64}$

Share of new partner:

Hema = Sum of shares sacrificed by old partners

$= \frac{5}{24} + \frac{3}{64} = \frac{5+3}{64} = \frac{8}{64}$

New profit sharing ratio $= \frac{35}{64} : \frac{21}{64} : \frac{8}{64}$ = **35 : 21 : 8**

14. Karthik and Kannan are equal partners. They admit Kailash with 1/4 share of the profit. Kailash acquired his share from old partners in the ratio of 7:3. Calculate the new profit sharing ratio and sacrificing ratio.

Solution : Computation of sacrificing ratio and new profit sharing ratio

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

Old share $= 1 : 1 = \frac{1}{2} : \frac{1}{2}$

Proportion of share sacrificed $= 7 : 3 = \frac{7}{10} : \frac{3}{10}$

Share sacrificed = New partner's share x Proportion of share sacrificed

Karthik $= \frac{1}{4} \times \frac{7}{10} = \frac{7}{40}$

Kannan $= \frac{1}{4} \times \frac{3}{10} = \frac{3}{40}$

Share sacrificed $= \frac{7}{40} : \frac{3}{40}$

Sacrificing ratio = **7 : 3**

New share = Old share – Share sacrificed

Karthik $= \frac{1}{2} - \frac{7}{40} = \frac{20-7}{40} = \frac{13}{40}$

Kannan $= \frac{1}{2} - \frac{3}{40} = \frac{20-3}{40} = \frac{17}{40}$

Share of new partner:

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

In order to equate the denominator of Kailash's share, multiply and divide by 10

$$= \frac{1}{4} \times \frac{10}{10} = \frac{10}{40}$$

New profit sharing ratio $= \frac{13}{40} : \frac{17}{40} : \frac{10}{40}$ = **13 : 17 : 10**

15. Selvam and Senthil are partners sharing profit in the ratio of 2:3. Siva is admitted into the firm with 1/5 share of profit. Siva acquires equally from Selvam and Senthil. Calculate the new profit sharing ratio and sacrificing ratio.

Solution : Computation of sacrificing ratio and new profit sharing ratio

Siva's share $= \frac{1}{5}$

Old share $= 2 : 3 = \frac{2}{5} : \frac{3}{5}$

Proportion of share sacrificed $= 1 : 1 = \frac{1}{2} : \frac{1}{2}$

Share sacrificed = New partner's share x Proportion of share sacrificed

Selvam $= \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$

Senthil $= \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$

Share sacrificed $= \frac{1}{10} : \frac{1}{10}$

Sacrificing ratio = **1 : 1**

New share = Old share – Share sacrificed

Selvam $= \frac{2}{5} - \frac{1}{10} = \frac{4-1}{10} = \frac{3}{10}$

Senthil $= \frac{3}{5} - \frac{1}{10} = \frac{6-1}{10} = \frac{5}{10}$

Share of new partner:

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

In order to equate the denominator of Siva's share, multiply and divide by 2

$$= \frac{1}{5} \times \frac{2}{2} = \frac{2}{10}$$

New profit sharing ratio $= \frac{3}{10} : \frac{5}{10} : \frac{2}{10}$ = **3 : 5 : 2**

16. Mala and Anitha are partners, sharing profits and losses in the ratio of 3:2. Mercy is admitted into the partnership with 1/5 share in the profits. Calculate new profit sharing ratio and sacrificing ratio.

Solution : **Computation of sacrificing ratio and new profit sharing ratio**

Since share sacrificed, proportion of share sacrificed and new profit sharing ratio are not given, it is assumed that the existing partners sacrifice in their old profit sharing ratio, that is 3 : 2

Sacrificing ratio = 3 : 2

Let the total share be 1

Mercy's share $= \frac{1}{5}$

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

New share of old partners = Remaining share x Old share

Mala $= \frac{4}{5} \times \frac{3}{5} = \frac{12}{25}$

Anitha $= \frac{4}{5} \times \frac{2}{5} = \frac{8}{25}$

Share of new partner:

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

In order to equate the denominator of Mercy's share, multiply and divide by 5

$$= \frac{1}{5} \times \frac{5}{5} = \frac{5}{25}$$

New profit sharing ratio $= \frac{12}{25} : \frac{8}{25} : \frac{5}{25}$ = **12 : 8 : 5**

17. Ambika, Dharani and Padma are partners in a firm sharing profits in the ratio of 5:3:2. They admit Ramya for 25% profit. Calculate the new profit sharing ratio and sacrificing ratio.

Solution : **Computation of sacrificing ratio and new profit sharing ratio**

Old profit sharing ratio $= 5 : 3 : 2 = \frac{5}{10} : \frac{3}{10} : \frac{2}{10}$

Ramya's share of profit $= 25\ \% = \frac{25}{100}$ or $\frac{1}{4}$

Let the total share be 1

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

New share of old partners = Remaining share x Old share

Ambika $= \frac{3}{4} \times \frac{5}{10} = \frac{15}{40}$

Dharani $= \frac{3}{4} \times \frac{3}{10} = \frac{9}{40}$

Padma $= \frac{3}{4} \times \frac{2}{10} = \frac{6}{40}$

Share of new partner:

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

In order to equate the denominator of Ramya's share, multiply and divide by 10

$$= \frac{1}{4} \times \frac{10}{10} = \frac{10}{40}$$

New profit sharing ratio $= \frac{15}{40} : \frac{9}{40} : \frac{6}{40} : \frac{10}{40}$ = **15 : 9 : 6 : 10**

Adjustment for goodwill :

18. Aparna and Priya are partners who share profits and losses in the ratio of 3:2. Brindha joins the firm for 1/5 share of profits and brings in cash for her share of goodwill of ₹ 10,000. Pass necessary journal entry for adjusting goodwill on the assumption that the fluctuating capital method is followed and the partners withdraw the entire amount of their share of goodwill.

Solution :

As the sacrifice made by the existing partners is not mentioned, it is assumed that they sacrifice in their old profit sharing ratio 3:2.

Journal entry

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c Dr.		10,000	
	To Aparna's capital A/c (3/5)			6,000
	To Priya's capital A/c (2/5)			4,000
	(Cash brought for goodwill credited to Aparna's And Priya's capital A/Cs in sacrificing ratio)			
	Aparna's capital A/c Dr.		6,000	

	Priya's capital A/c Dr.		4,000	
	To bank A/c			10,000
	(Amount withdrawn by the partners)			

19. Deepak, Senthil and Santhosh are partners sharing profits and losses equally. They admit Jerald into partnership for 1/3 share in future profits. The goodwill of the firm is valued at ₹ 45,000 and Jerald brought cash for his share of goodwill. The existing partners withdraw half of the amount of their share of goodwill. Pass necessary journal entries for adjusting goodwill on the assumption that the fluctuating capital method is followed.

Solution :

Jerald's share of goodwill = 45,000 x $\frac{1}{3}$ = ₹ 15,000

As the sacrifice made by the existing partners is not mentioned, it is assumed that they sacrifice in their old profit sharing ratio 1:1:1

Journal entry

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c Dr.		15,000	
	To Deepak's capital A/c			5,000
	To Senthil's capital A/c			5,000
	To Santhosh's capital A/c			5,000
	(Cash brought for goodwill credited to old partner's capital A/Cs in sacrificing ratio)			
	Deepak's capital A/c Dr.		2,500	
	Senthil's capital A/c Dr.		2,500	
	Santhosh's capital A/c Dr.		2,500	
	To bank A/c			7,500
	(Amount withdrawn by the partners)			

20. Malathi and Shobana are partners sharing profits and losses in the ratio of 5:4. They admit Jayasri into partnership for 1/3 share of profit. Jayasri pays cash ₹ 6,000 towards her share of goodwill. The new ratio is 3:2:1. Pass necessary journal entry for adjusting goodwill on the assumption that the fixed capital method is followed.

Solution : **Calculation of sacrificing ratio**

Share sacrificed = Old share – New share

Malathi $= \frac{5}{9} - \frac{3}{6} = \frac{30-27}{54} = \frac{3}{54} = \frac{1}{18}$

Shobana $= \frac{4}{9} - \frac{2}{6} = \frac{24-18}{54} = \frac{6}{54} = \frac{2}{18}$

Sacrificing ratio is $\frac{1}{18}$ **:** $\frac{2}{18}$ = **1 : 2**

Journal entry

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c Dr.		6,000	
	To Malathi's capital A/c (1/3)			2,000
	To Shobana's capital A/c (2/3)			4,000
	(Cash brought for goodwill credited to old partner's capital A/Cs in sacrificing ratio)			

21. Anu and Arul were partners in a firm sharing profits and losses in the ratio of 4:1. They have decided to admit Mano into the firm for 2/5 share of profits. The goodwill of the firm on the date of admission was valued at ₹ 25,000. Mano is not able to bring in cash for his share of goodwill. Pass necessary journal entry for goodwill on the assumption that the fluctuating capital method is followed.

Solution :

Mano's share of goodwill = 25,000 x $\frac{2}{5}$ = ₹ 10,000

As the sacrifice made by the existing partners is not mentioned, it is assumed that they sacrifice in their old profit sharing ratio 4 : 1

Journal entry

Date	Particulars	L.F	Debit ₹	Credit ₹
	Mano's capital A/c Dr.		10,000	
	To Anu's capital A/c (4/5)			8,000
	To Arul's capital A/c (1/5)			2,000
	(Mano's share of goodwill credited to old partner's capital A/Cs in sacrificing ratio)			

22. Varun and Barath are partners sharing profits and losses 5:4. They admit Dhamu into partnership. The new profit sharing ratio is agreed at 1:1:1. Dhamu's share of goodwill is valued at ₹ 15,000 of which he pays ₹10,000 in cash. Pass necessary journal entries for adjustment of goodwill on the assumption that the fluctuating capital method is followed.

Solution : **Calculation of sacrificing ratio**

Share sacrificed = Old share – New share

Varun $= \frac{5}{9} - \frac{1}{3} = \frac{5-3}{9} = \frac{2}{9}$

Bharath $= \frac{4}{9} - \frac{1}{3} = \frac{4-3}{9} = \frac{1}{9}$

Sacrificing ratio is $\frac{2}{9} : \frac{1}{9}$ = **2 : 1**

Journal entry

Date	Particulars	L.F	Debit ₹	Credit ₹
	Cash A/c Dr.		10,000	
	Damu's capital A/c Dr.		5,000	
	To Varun's capital A/c (2/3)			10,000
	To Bharath's capital A/c (1/3)			5,000
	(Share of goodwill of Damu credited to old partner's capital A/Cs in sacrificing ratio)			

23. Sam and Jose are partners in a firm sharing profits and losses in the ratio of 3:2. On 1st April 2018, they admitted Joel as a partner. On the date of Joel's admission, goodwill appeared in the books of the firm at ₹ 30,000. By assuming fluctuating capital method, pass the necessary journal entry if the partners decide to

(a) write off the entire amount of existing goodwill

(b) write off ₹ 20,000 of the existing goodwill.

Solution : Journal entry

a) To write off the entire amount of existing goodwill

Date	Particulars	L.F	Debit ₹	Credit ₹
2018	Sam's capital A/c (3/5) Dr.		18,000	
April 1	Jose's capital A/c (2/5) Dr.		12,000	

	To Goodwill A/c (Existing goodwill written off)			30,000

b) To write off ₹ 20,000 of the existing goodwill :

Date	Particulars	L.F	Debit ₹	Credit ₹
2018 April 1	Sam's capital A/c (3/5) Dr. Jose's capital A/c (2/5) Dr. To Goodwill A/c (Existing goodwill written off to the extent of ₹ 20,000)		12,000 8,000	 20,000

Comprehensive problems :

24. Rajan and Selva are partners sharing profits and losses in the ratio of 3:1. Their balance sheet as on 31st March 2017 is as under:

Liabilities	₹	₹	Assets	₹
Capital accounts:			Building	25,000
Rajan	30,000		Furniture	1,000
Selva	16,000	46,000	Stock	20,000
General reserve		4,000	Debtors	16,000
Creditors		37,500	Bills receivable	3,000
			Cash at bank	12,500
			Profit and loss account	10,000
		87,500		87,500

On 1.4.2017, they admit Ganesan as a new partner on the following arrangements:

(i) Ganesan brings ₹ 10,000 as capital for 1/5 share of profit.

(ii) Stock and furniture is to be reduced by 10%, a reserve of 5% on debtors for doubtful debts is to be created.

(iii) Appreciate buildings by 20%.

Prepare revaluation account, partners' capital account and the balance sheet of the firm after admission.

Solution :

Dr. Revaluation A/c Cr.

Particulars	₹	₹	Particulars	₹
To stock A/c		2,000	By buildings A/c	5,000
To furniture A/c		100		
To debtors A/c		800		
To profit on revaluation:				
Rajan (3/4)	1,575			
Selva (1/4)	525	**2,100**		
		5,000		5,000

Dr. Capital A/c Cr.

Particulars	Ranjan ₹	Selva ₹	Ganesan ₹	Particulars	Ranjan ₹	Selva ₹	Ganesan ₹
To profit & loss A/c	7,500	2,500	-	By balance b/d	30,000	16,000	-
To balance c/d	**27,075**	**15,025**	**10,000**	By general reserve A/c	3,000	1,000	-
				By bank A/c	-	-	10,000
				By revaluation A/c	1,575	525	-
	34,575	17,525	10,000		34,575	17,525	10,000
				By balance b/d	58,000	46,000	12,000

Balance sheet

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Building	25,000	
Rajan	27,075		**Add:** Appreciation	5,000	30,000
Selva	15,025		Furniture	1,000	
Ganesan	10,000	52,100	**Less:** Depreciation	100	900
Creditors		37,500	Stock	20,000	
			Less: Depreciation	2,000	18,000
			Debtors	16,000	
			Less: Doubtful debts	800	15,200
			Bills receivable		3,000

			Cash at bank **Add:** Ganesan's capital	12,500 <u>10,000</u>	 22,500
		89,600			89,600

25. Sundar and Suresh are partners sharing profits in the ratio of 3:2. Their balance sheet as on 1st January, 2017 was as follows:

Liabilities	₹	₹	Assets	₹
Capital accounts:			Building	40,000
Sundar	30,000		Furniture	13,000
Suresh	<u>20,000</u>	50,000	Stock	25,000
Creditors		50,000	Debtors	15,000
General reserve		10,000	Bills receivable	14,000
Workmen compensation fund		15,000	Bank	18,000
		1,25,000		1,25,000

They decided to admit Sugumar into partnership for 1/4 share in the profits on the following terms:

(a) Sugumar has to bring in ₹ 30,000 as capital. His share of goodwill is valued at ₹ 5,000. He could not bring cash towards goodwill.

(b) That the stock be valued at ₹ 20, 000.

(c) That the furniture be depreciated by ₹ 2,000.

(d) That the value of building be depreciated by 20%.

Prepare necessary ledger accounts and the balance sheet after admission.

Solution :

Dr. Revaluation A/c Cr.

Particulars	₹	Particulars	₹	₹
To Stock A/c	5,000	By loss on revaluation:		
To furniture A/c	2,000	Sundar's capital A/c(3/5)	9,000	
To building A/c	8,000	Suresh's capital A/c(2/5)	6,000	**15,000**
	15,000			15,000

Dr. Capital A/c Cr.

Particulars	Ranjan	Selva	Ganesan	Particulars	Ranjan	Selva	Ganesan

	₹	₹	₹		₹	₹	₹
To revaluation A/c	9,000	6,000	-	By balance b/d	30,000	20,000	-
To Sundar's capital A/c	-	**-**	3,000	By bank A/c	-	-	30,000
To Suresh's capital A/c	-	**-**	2,000	By general reserve A/c	6,000	4,000	-
To balance c/d	**39,000**	**26,000**	**25,000**	By workmen compensation fund A/c	9,000	6,000	-
				By Sugumar's capital A/c	3,000	2,000	-
	48,000	32,000	30,000		48,000	32,000	30,000
				By balance b/d	39,000	26,000	25,000

Balance sheet

Liabilities	₹	₹	Assets	₹	₹
Capital A/cs:			Building	40,000	
Sundar	39,000		**Less:** Depreciation 20%	8,000	32,000
Suresh	26,000		Furniture	13,000	
Sugumar	25,000	90,000	**Less:** Depreciation	2,000	11,000
Creditors		50,000	Stock	25,000	
			Less: Depreciation	5,000	20,000
			Debtors		15,000
			Bills receivable		14,000
			Bank	18,000	
			Add: Sugumar's capital	30,000	48,000
		1,40,000			1,40,000

26. The following is the balance sheet of James and Justina as on 1.1.2017. They share the profits and losses equally.

Liabilities	₹	₹	Assets	₹
Capital accounts:			Building	70,000
James	40,000		Stock	30,000
Justina	50,000	90,000	Debtors	20,000
Creditors		35,000	Bank	15,000

Reserve fund		15,000	Prepaid insurance	5,000
		1,40,000		1,40,000

On the above date, Balan is admitted as a partner with 1/5 share in future profits. Following are the terms for his admission:

(i) Balan brings ₹ 25,000 as capital.

(ii) His share of goodwill is ₹10, 000 and he brings cash for it.

(iii) The assets are to be valued as under: Building ₹ 80, 000; Debtors ₹ 18,000; Stock ₹ 33,000

Prepare necessary ledger accounts and the balance sheet after admission.

Solution :

Dr. Revaluation A/c Cr.

Particulars	₹	₹	Particulars	₹
To Debtors A/c To profit on revaluation: James's capital A/c Justina's capital A/c	 5,500 5,500	 **11,000**	By building A/c By stock A/c	10,000 3,000
		13,000		13,000

Dr. Capital A/c Cr.

Particulars	James ₹	Justina ₹	Balan ₹	Particulars	James ₹	Justina ₹	Balan ₹
To balance c/d	**58,000**	**68,000**	**25,000**	By balance b/d By bank A/c By reserve fund A/c By revaluation A/c By bank A/c (share of goodwill)	40,000 - 7,500 5,500 5,000	50,000 - 7,500 5,500 5,000	- 25,000 - - -
	58,000	68,000	25,000		58,000	68,000	25,000
				By balance b/d	58,000	68,000	25,000

Dr. Cash at bank A/c Cr.

Particulars	₹	Particulars	₹
To balance b/d To Balan's capital A/c To James's capital A/c	15,000 25,000 5,000	By balance c/d	**50,000**

To Justina's capital A/c	5,000		
	50,000		50,000

Balance sheet

Liabilities	₹	₹	Assets	₹	₹
Capital A/cs:			Building	70,000	
James	58,000		**Add:** Appreciation	10,000	80,000
Justina	68,000		Stock	30,000	
Balan	25,000	1,51,000	**Add :** Appreciation	3,000	33,000
Creditors		35,000	Debtors	20,000	
			Less: Undervalued	2,000	18,000
			Bank		50,000
			Prepaid insurance		5,000
		1,86,000			1,86,000

27. Anbu and Shankar are partners in a business sharing profits and losses in the ratio of 3:2. The balance sheet of the partners on 31.03.2018 is as follows:

Liabilities	₹	₹	Assets	₹
Capital accounts:			Building	40,000
Anbu	4,00,000		Furniture	13,000
Shankar	3,00,000	7,00,000	Stock	25,000
Profit and loss		1,20,000	Debtors	15,000
Creditors		1,20,000	Bills receivable	14,000
Workmen compensation fund		60,000	Bank	18,000
		1,25,000		1,25,000

Rajesh is admitted for 1/5 share on the following terms:

(i) Goodwill of the firm is valued at ₹ 75,000 and Rajesh brought cash for his share of goodwill.

(ii) Rajesh is to bring ₹ 1,50,000 as his capital.

(iii) Motor car is valued at ₹ 2,00,000; stock at ₹ 3,80,000 and debtors at ₹ 3,50,000.

(iv) Anticipated claim on workmen compensation fund is ₹10,000

(v) Unrecorded investment of ₹ 5,000 has to be brought into account.

Prepare revaluation account, capital accounts and balance sheet after Rajesh's admission.

Solution:

Dr. Revaluation A/c Cr.

Particulars	₹	₹	Particulars	₹
To stock A/c		20,000	By motor car A/c	40,000
To debtors A/c		10,000	By investment A/c	5,000
To profit on revaluation:				
Anbu's capital A/c	9,000			
Shankar's capital A/c	6,000	**15,000**		
		45,000		45,000

Dr. Capital A/c Cr.

Particulars	Anbu ₹	Shankar ₹	Rajesh ₹	Particulars	Anbu ₹	Shankar ₹	Rajesh ₹
To balance c/d	**5,20,000**	**3,80,000**	**1,50,000**	By balance b/d	4,00,000	3,00,000	-
				By bank A/c	-	-	1,50,000
				By profit & loss A/c	72,000	48,000	- -
				By workmen compensation fund A/c (60,000-10,000)	30,000	20,000	- -
				By revaluation A/c	9,000	6,000	-
				By bank A/c (share of goodwill)	9,000	6,000	
	5,20,000	3,80,000	1,50,000		5,20,000	3,80,000	1,50,000
				By balance b/d	5,20,000	3,80,000	1,50,000

Goodwill of the firm = ₹ 75,000

Rajesh's share of goodwill = 75,000 x $\frac{1}{5}$ = ₹ 15,000

It is to be distributed to Anbu and Shankar in their old profit sharing ratio of 3:2

Dr. Cash at bank A/c Cr.

Particulars	₹	Particulars	₹
To balance b/d	40,000	By balance c/d	**2,05,000**

To Rajesh's capital A/c	1,50,000		
To Anbu's capital A/c	9,000		
To Shankar's capital A/c	6,000		
	2,05,000		2,05,000

Balance sheet

Liabilities	₹	₹	Assets	₹	₹
Capital Accounts:			Computer		40,000
Anbu	5,20,000		Motor car	1,60,000	
Shankar	3,80,000		**Add:**		
Rajesh	1,50,000	10,50,000	Appreciation	40,000	2,00,000
Creditors		1,20,000	Stock	4,00,000	
Workmen			**Less:**		
compensation			Depreciation	20,000	3,80,000
fund		10,000	Debtors	3,60,000	
			Less:		
			Undervalued	10,000	3,50,000
			Bank		2,05,000
			Unrecorded		
			investment		5,000
		11,80,000			11,80,000