VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce   Sub. ACT Date 05.06.2021

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Accounting for Partnership : **Admission of a Partner**

Question 21:

X and Y are partners in a firm sharing profits and losses in 4:3 ratio. They admitted Z for 1/8 share. Z brought Rs. 20,000 for his capital and Rs. 7,000 for his 1/8 share of goodwill. Subsequently X, Y and Z decided to show goodwill in their books at Rs. 40,000. Show necessary journal entries in the books of X, Y and Z?

ANSWER:

Journal Entries

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Cash A/c	Dr.		27,000	
	To Z's Capital A/c				20,000
	To Premium for Goodwill A/c				7,000
	(Amount of Capital and his share of Goodwill brought by Z)				
	Premium for Goodwill A/c	Dr.		7,000	
	To X's Capital A/c				4,000
	To Y's Capital A/c				3,000
	(Premium for Goodwill credit to Old Partners in Sacrificing Ratio)				
	Goodwill Rs 40,000 can not be raised. According to AS-10 Goodwill can be shown in the book if money and money value is paid for it. Here no money or money value has been paid for Goodwill.				

Question 22:

Aditya and Balan are partners sharing profits and losses in 3:2 ratio. They admitted Christopher for 1/4 share in the profits. The new profit sharing ratio agreed was 2:1:1. Christopher brought Rs. 50,000 for his capital. His share of goodwill was agreed to at Rs. 15,000. Christopher could bring only Rs. 10,000 out of his share of goodwill. Record necessary journal entries in the books of the firm?

ANSWER:

Journal Entries

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Cash A/c	Dr.		60,000	
	To Christopher's Capital A/c				50,000
	To Premium for Goodwill A/c				10,000
	(Amount of Capital and Premium for Goodwill brought by Christopher)				
	Premium for Goodwill A/c	Dr.		10,000	
	Christopher's Capital A/c	Dr.		5,000	
	To Adiya's Capital A/c				6,000
	To Balam's Capital A/c				9,000
	(Goodwill Christopher's Share taken by Old Partner's in Sacrificing Ratio)				

Sacrificing Ratio = Old Ratio − New Ratio

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.

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 = = Rs 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) = Rs 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 = Rs 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)			

Question 25:

Rajesh and Mukesh are equal partners in a firm. They admit Hari into partnership and the new profit sharing ratio between Rajesh, Mukesh and Hari is 4:3:2. On Hari’s admission goodwill of the firm is valued at Rs 36,000. Hari is unable to bring his share of goodwill premium in cash. Rajesh, Mukesh and Hari decided not to show goodwill in their balance sheet. Record necessary journal entries for the treatment of goodwill on Hari’s admission.

ANSWER:

Books of Rajesh, Mukesh and Hari

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs
	Hari’s Capital A/c Dr.		8,000	
	To Rajesh’s Capital A/c			2,000
	To Mukesh’s Capital A/c			6,000
	(Adjustment of Hari’s share of goodwill)			

Working Notes:

1) Goodwill of a firm = 36,000

Hari's share in goodwill

= Goodwill of firm × admitting Partner Share

$$36,000 \times \frac{2}{9} = 8,000$$

2) Sacrificing Ratio = Old Ratio − New Ratio

$$\text{Rajesh's } = \frac{1}{2} - \frac{4}{9} = \frac{9-8}{18} = \frac{1}{18}$$
$$\text{Mukes's } = \frac{1}{2} - \frac{3}{9} = \frac{9-6}{18} = \frac{3}{18}$$

Sacrificing Ratio between Rajesh and Mukesh 1:3.

Question 26:

Amar and Akbar are equal partners in a firm. They admitted Anthony as a new partner and the new profit sharing ratio is 4:3:2. Anthony could not bring this share of goodwill Rs 45,000 in cash. It is decided to do adjustment for goodwill without opening goodwill account. Pass the necessary journal entry for the treatment of goodwill?

ANSWER:

Books of Amar, Akbar and Anthony

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs
	Anthony's Capital A/c Dr.		45,000	
	To Amar's Capital A/c			11,250
	To Akbar's Capital A/c			33,750
	(Adjustment of Anthony's share of goodwill between Amar and Akbar in sacrificing ratio)			

Working Notes:

1) Sacrificing Ratio = Old Ratio − New Ratio

$$\text{Amar's sacrificing ratio} = \frac{1}{2} - \frac{4}{9} = \frac{9-8}{18} = \frac{1}{18}$$
$$\text{Akbar's sacrificing ratio} = \frac{1}{2} - \frac{3}{9} = \frac{9-6}{18} = \frac{3}{18}$$

Sacrificing Ratio between Amar and Akbar = 1:3.

Question 27:

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 Expenses		2,000	Sundry Debtors	60,000
			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.

Particulars	A	B	C	Particulars	A	B
Balance c/d	2,38,000	1,79,000	1,00,000	Balance b/d	1,80,000	1,50,000
				Bank		
				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

Balance Sheet as on December 31, 2016

Liabilities		Amount (Rs)	Assets		Amou (Rs)
Bills Payable		10,000	Cash in Hand		10,0
Creditors		59,000	Cash at Bank		2,00,0
Outstanding Expenses		2,000	Sundry Debtors	60,000	
Capital:			*Less*: Provision for Doubtful Debt	3,000	57,0
A	2,38,000		Stock		36,0
B	1,79,000		Plant		1,20,0
C	1,00,000	5,17,000	Building		1,65,0
		5,88,000			5,88,0

Working Note:

1) Sacrificing ratio = Old Ratio − New Ratio

$$\text{A's Sacrificing Share} = \frac{2}{3} - \frac{2}{4} = \frac{8-6}{12} = \frac{2}{12}$$

$$\text{B's Sacrificing Share} = \frac{1}{3} - \frac{1}{4} = \frac{4-3}{12} = \frac{1}{12}$$

Sacrificing ratio between A and B = 2:1.

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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)			

Question 29:

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)				

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

$$\text{A's Sacrificing Share} = \frac{3}{4} - \frac{3}{5} = \frac{12-9}{20} = \frac{3}{20}$$

$$\text{B's Sacrificing Share} = \frac{1}{4} - \frac{1}{5} = \frac{5-4}{20} = \frac{1}{20}$$

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