VIDYA BHAWAN BALIKA VIDYA PITH

शक्ति उत्थान आश्रम लखीसराय बिहार

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Reconstitution of a Partnership Firm –Admission of a Partner

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 (Ram Lal's Shares of Goodwill charged from his capital by Mohan Lal and Sohan Lal in sacrificing ratio)			20,250

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. **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

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

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

Sacrificing ratio between A and B = 2:1.

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)			