VIDYA BHAWAN BALIKA VIDYA PITH

शक्ति उत्थान आश्रम लखीसराय बिहार

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Reconstitution of a Partnership Firm –Admission of a Partner

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 Half of this sum is to be withdrawn by A and B.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	(Half of amount withdrawn by old partners)				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.

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

$$\text{C's Shares} = \frac{1}{4}$$

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

$$\text{A's new share} = \frac{3}{4} \times \frac{3}{4} = \frac{9}{16}$$

$$\text{B's new share} = \frac{1}{4} \times \frac{3}{4} = \frac{3}{16}$$

$$\left\{\text{C's share} = \frac{1}{4} \times \frac{4}{4} = \frac{4}{16}\right\}$$

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= $20,000 \times \frac{4}{1} = 80,000$

$$\text{A's Capital} = \frac{9}{16} \times 80,000 = 45,000$$

$$\text{Thus, A will withdraw} = 50,000 - 45,000 = 5,000$$

$$\text{B's Capital} = \frac{3}{16} \times 80,000 = 15,000$$

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

Question 32:

Pinky, Qumar and Roopa partners in a firm sharing profits and losses in the ratio of 3:2:1. S is admitted as a new partner for 1/4 share in the profits of the firm, whichs he gets 1/8 from Pinky, and 1/16 each from Qmar and Roopa. The total capital of the new firm after Seema's admission will be Rs 2,40,000. Seema is required to bring in cash equal to 1/4 of the total capital of the new firm. The capitals of the old partners also have to be adjusted in proportion of their profit sharing ratio. The capitals of Pinky, Qumar and Roopa after all adjustments in respect of goodwill and revaluation of assets and liabilities have been made are Pinky Rs 80,000, Qumar Rs 30,000 and Roopa Rs 20,000. Calculate the capitals of all the partners and record the necessary journal entries for doing adjustments in respect of capitals according to the agreement between the partners?

ANSWER:

1) Calculation of new profit sharing Ratio = Old Ratio − Sacrificing Ratio

$$\text{Pinky} = \frac{3}{6} - \frac{1}{8} = \frac{12-3}{24} = \frac{9}{24}$$

$$\text{Qumar} = \frac{2}{6} - \frac{1}{16} = \frac{16-3}{48} = \frac{13}{48}$$

$$\text{Roopa}\ \frac{1}{6} - \frac{1}{16} = \frac{8-3}{48} = \frac{5}{48}$$

New profit sharing ratio between Pinky, Qumar, Roopa and Seema

$$\frac{9}{24} : \frac{13}{48} : \frac{5}{48} : \frac{1}{4} = \frac{18}{48} : \frac{13}{48} : \frac{5}{48} : \frac{12}{48} = 18:13:5:12$$

2) Required capital of all partners in the new firm

$$\text{Pinky's Capital} = 2,40,000 \times \frac{18}{48} = 90,000$$

$$\text{Qumar's Capital} = 2,40,000 \times \frac{13}{48} = 65,000$$

$$\text{Roopa's Capital} = 2,40,000 \times \frac{5}{48} = 25,000$$

$$\text{Seema's Capital} = 2,40,000 \times \frac{12}{48} = 60,000$$

3) Amount to be brought by each partner

Pinky = 90,000 − 80,000 = 10,000

Qumar = 65,000 − 30,000 = 35,000

Roopa = 25,000 − 20,000 = 5,000

Seema = 2,40,000 $\times \frac{1}{4}$ =60,000

Books of Pinky, Qumar, Roopa and Seema

Journal

Date	Particularss	L.F.	Amount Rs	Amount Rs
	Bank A/c Dr.		60,000	
	To Seema Capital A/c			60,000
	(Seema bring her share of Capital for 1/4 th share of profit)			
	Bank A/c Dr.		50,000	
	To Pinky's Capital A/c			10,000
	To Qumar's Capital A/c			35,000
	To Roopa's Capital A/c			5,000
	(Amount brought by Pinky, Qumar and Roopa to make capital equal to their proportion)			

Question 33:

The following was the Balance Sheet of Arun, Bablu and Chetan sharing profits and losses in the ratio of respectively.

Liabilites		Amount (Rs)	Assets	Amount (Rs)
Creditors		9,000	Land and Buildings	24,000
Bills Payable		3,000	Furniture	3,500
Capital Accounts			Stock	14,000
Arun	19,000		Debtors	12,600
Bablu	16,000		Cash	900
Chetan	8,000	43,000		
		55,000		55,000

They agreed to take Deepak into partnership and give him a share of 1/8 on the following terms:

(a) that Deepak should bring in Rs 4,200 as goodwill and Rs 7,000 as his Capital;

(b) that furniture be depreciated by 12%;

(c) that stock be depreciated by 10% ;

(d) that a Reserve of 5% be created for doubtful debts;

(e) that the value of land and buildings having appreciated be brought upto Rs 31,000;

(f) that after making the adjustments the capital accounts of the old partners (who continue to share in the same proportion as before) be adjusted on the basis of the proportion of Deepak's Capital to his share in the business, i.e., actual cash to be paid off to, or brought in by the old partners as the case may be.

Prepare Cash Account, Profit and Loss Adjustment Account (Revaluation Account) and the Opening Balance Sheet of the new firm.

ANSWER:

Books of Arun, Bablu, Chetan and Deepak

Profit and Loss Adjustment Account

(Revaluation Account)

Dr. **Cr.**

Particulars		**Amount Rs**	**Particulars**	**Amount Rs**
Furniture		420	Land and Buildings	7,000
Stock		1,400		
Reserve for Doubtful Debts		630		
Profit on revaluation				
Profit transferred to				
Arun's Capital	1,950			
Bablu's Capital	1,625			
Chetan's Capital	975	4,550		
		7,000		7,000

Cash Account

Dr. **Cr.**

Particulars	Amount Rs	Particulars	Amount Rs
Balance b/d	900	Arun's Capital	1,750
Chetan's Capital	625	Bablu's Capital	1,625
Deepak's Capital	7,000	Balance c/d	9,350
Premium for Goodwill	4,200		
	12,725		12,725

Balance Sheet

Liabilities		Amount (Rs)	Assets		Amount (Rs)
Creditors		9,000	Land and Buildings		31,000
Bills Payable		3,000	Furniture		3,080
Capital Account			Stock		12,600
Arun	21,000		Debtor	12,600	
Bablu	17,500		*Less*: Reserve for Doubtful Debt	630	11,970
Chetan	10,500		Cash		9,350
Deepak	7,000	56,000			
		68,000			68,000

Working Note:

1)

Partner's Capital Account

Dr. **Cr.**

Particulars	Arun	Bablu	Chetan	Deepak	Particulars	Arun	Bablu	Chetan	Deepak
Bank	1,750	1,625			Balance b/d	19,000	16,000	8,000	
Balance c/d	21,000	17,500	10,500	7,000	Cash A/c				7,000
					Premium for goodwill	1,800	1,500	900	
					Revaluation	1,950	1,625	975	
					Bank			625	
	22,750	19,125	10,500	7,000		22,750	19,125	10,500	7,000

2)

Calculation of New Profit Sharing Ratio

$$\text{Deepak's Share} = \frac{1}{8}$$

$$\text{Remaining Share} = 1 - \frac{1}{8} = \frac{7}{8}$$

$$\text{Arun's New Share} = \frac{6}{14} \times \frac{7}{8} = \frac{42}{112}$$

$$\text{Bablu's New Share} = \frac{5}{14} \times \frac{7}{8} = \frac{35}{112}$$

$$\text{Chetan's New Share} = \frac{3}{14} \times \frac{7}{8} = \frac{21}{112}$$

New Profit sharing ratio of Arun, Bablu, Chetan and Deepak

$$= \frac{42}{112} : \frac{35}{112} : \frac{21}{112} : \frac{1}{8} \text{ or } \frac{42}{112} : \frac{35}{112} : \frac{21}{112} : \frac{14}{112}$$

= 42:35:21:14 or 6:5:3:2

3) **Calculation of capital of Arun, Bablu, and Chetan in the new firm**

Deepak bring Rs 7,000 for $\frac{1}{8}$ th share of profit.

Hence total capital of the new firm = $7,000 \times \frac{8}{1} = 56,000$

$$\text{Arun's Capital} = 56,000 \times \frac{6}{16} = 21,000$$

$$\text{Bablu's Capital} = 56,000 \times \frac{5}{16} = 17,500$$

$$\text{Chetan's Capital} = 56,000 \times \frac{3}{16} = 10,500$$

Question 34:

Azad and Babli are partners in a firm sharing profits and losses in the ratio of 2:1. Chintan is admitted into the firm with 1/4 share in profits. Chintan will bring in Rs 30,000 as his capital and the capitals of Azad and Babli are to be adjusted in the profit sharing ratio. The Balance Sheet of Azad and Babli as on December 31, 2016 (before Chintan's admission) was as follows:

Balance Sheet of A and B as on 31.12.2016

Liabilites		Amount (Rs)	Assets	Amount (Rs)
Creditors		8,000	Cash in hand	2,000
Bills payable		4,000	Cash at bank	10,000
General reserve		6,000	Sundry debtors	8,000
Capital accounts:			Stock	10,000
Azad	50,000		Funiture	5,000
Babli	32,000	82,000	Machinery	25,000
			Buildings	40,000
		1,00,000		1,00,000

It was agreed that:

i) Chintan will bring in Rs 12,000 as his share of goodwill premium.

ii) Buildings were valued at Rs 45,000 and Machinery at Rs 23,000.

iii) A provision for doubtful debts is to be created @ 6% on debtors.

iv) The capital accounts of Azad and Babli are to be adjusted by opening current accounts.

Record necessary journal entries, show necessary ledger accounts and prepare the Balance Sheet after admission.

ANSWER:

Books of Azad, Babli and Chintan

Journal

Date	Particulars		L.F.	Amount Rs	Amount Rs
2016					
Dec 31	Bank A/c	Dr.		42,000	
	To Chintan's Capital A/c				30,000
	To Premium for Goodwill A/c				12,000
	(Chintan brought Capital and Premium for Goodwill for 1/4 share of profit)				
	Premium for Goodwill A/c	Dr.		12,000	
	To Azad's Capital A/c				8,000
	To Babli's Capital A/c				4,000
	(Goodwill brought by Chintan transferred to old partners capital account in their sacrificing ratio, 2:1)				
	General Reserve A/c	Dr.		6,000	
	To Azad's Capital A/c				4,000
	To Babli's Capital A/c				2,000
	(General reserve distributed between old partners)				

	Building A/c Dr. To Revaluation A/c (Increase in value of Building adjusted)		5,000	5,000
	Revaluation A/c Dr. To Machinery A/c To Provision for Doubtful Debt (Decrease in value of machinery adjusted and Provision for Doubtful Debt created)		2,480	2,000 480
	Revaluation A/c Dr. To Azad is Capital A/c To Babli's Capital A/c (Profit on revaluation transferred to Azad and Babli's Capital Account)		2,520	1,680 840
	Azad's Capital A/c Dr. To Azad's Current A/c (Excess of Capital transferred to current account)		3,680	3,680
	Babli's Capital A/c Dr. To Babli's Current A/c (Excess of Capital transferred to current account)		8,840	8,840

Revaluation Account

Dr. **Cr.**

Particulars	**Amount Rs**	**Particulars**	**Amount Rs**
To Machinery	2,000	Building	5,000

To Provision for Doubtful Debt		480		
To Profit transferred to				
Azad's Capital	1,680			
Babli's Capital	840	2,520		
		5,000		5,000

Partner's Capital Account

Dr.

Particulars	Azad	Babli	Chintan	Particulars	Azad	Babli	C
Current A/c	3,680	8,840		Balance b/d	50,000	32,000	
Balance c/d	60,000	30,000	30,000	Bank			
				Premium for Goodwill	8,000	4,000	
				General Reserve	4,000	2,000	
				Revaluation	1,680	840	
	63680	38,840	30,000		63680	38,840	

Balance Sheet as on December 31, 2006

Liabilities		Amount (Rs)	Assets		Amount (Rs)
Creditors		8,000	Cash in Hand		2,00
Bills Payable		4,000	Cash at Bank		52,00
Current Accounts:			Sundry Debtors	8,000	
Azad	3,680		*Less*: Provision for Doubtful debt	480	7,52
Babli	8,840	12,520	Stock		10,00
Capital Accounts:			Furniture		5,00

Azad	60,000		Machinery	23,00
Babli	30,000		Building	45,00
Chintan	30,000	1,20,000		
		1,44,520		1,44,52

Working Note:

1) Calculation of New Profit Sharing Ratio

$$\text{Chintan's Share} = \frac{1}{4}$$

$$\text{Remaining Share of firm} = 1 - \frac{1}{4} = \frac{3}{4}$$

$$\text{Azad's New Share} = \frac{2}{3} \times \frac{3}{4} = \frac{6}{12}$$

$$\text{Babli's New Share} = \frac{1}{3} \times \frac{3}{4} = \frac{3}{12}$$

New Profit sharing ratio of Azad, Babli and Chintan

$$= \frac{6}{12} : \frac{3}{12} : \frac{1}{4} \text{ or } \frac{6}{12} : \frac{3}{12} : \frac{3}{12} \text{ or } 6:3:3 \text{ or } 2:1:1.$$

2) New Capital of Azad, and Babli

Chintan bring Rs 30,000 for $\frac{1}{4}$ share of profit. Hence total capital of a firm = 30,000× $\frac{4}{1}$ =1,20,000

Azad's Capital = $1,20,000 \times \frac{2}{4} = 60,000$

Babli's Capital = $1,20,000 \times \frac{1}{4} = 30,000$

Question 35:

Ashish and Dutta were partners in a firm sharing profits in 3:2 ratio. On Jan. 01, 2015 they admitted Vimal for 1/5 share in the profits. The Balance Sheet of Ashish and Dutta as on Jan. 01, 2016 was as follows:

Balance Sheet of A and B as on 1.1.2016

Liabilites	Amount Rs	Assets		Amount Rs
Creditors	15,000	Land & Building		35,000
Bills Payable	10,000	Plant		45,000
Ashish Capital	80,000	Debtors	22,000	
Dutta's Capital	35,000	*Less* : Provision	2,000	20,000
		Stock		35,000
		Cash		5,000
	1,40,000			1,40,000

It was agreed that:

i) The value of Land and Building be increased by Rs 15,000.

ii) The value of plant be increased by 10,000.

iii) Goodwill of the firm be valued at Rs 20,000.

iv) Vimal to bring in capital to the extent of 1/5th of the total capital of the new firm.

Record the necessary journal entries and prepare the Balance Sheet of the firm after Vimal's admission.

ANSWER:

Books of Ashish, Dutta and Vimal

Journal

Date	Particularss		L.F.	Amount Rs	Amount Rs
2016					
Jan 1	Land and Building A/c	Dr.		15,000	
	Plant A/c	Dr.		10,000	
	To Revaluation A/c				25,000
	(Increased in the value of assets)				
	Revaluation A/c	Dr.		25,000	
	To Ashish's Capital A/c				15,000
	To Dutta's Capital A/c				10,000
	(Profit on revaluation transferred to partners capital account)				
	Cash A/c	Dr.		36,000	
	To Vimal Capital A/c				36,000
	(Capital brought by Vimal)				
	Vimal's Current A/c	Dr.		4,000	
	To Ashish's Capital A/c				2,400
	To Dutta's Capital A/c				1,600
	(Vimal's share goodwill adjusted through his current account)				

Balance Sheet as on January 01, 2016

Liabilities	Amount Rs	Assets	Amount Rs
Creditors	15,000	Land and Building	50,000
Bills Payable	10,000	Plant	55,000

		Debtors	22,000	
Ashish's Capital Account	97,400	*Less*: Provision	2,000	20,000
Dutta's Capital Account	46,600	Stock		35,000
Vimal's Capital Account	36,000	Cash		41,000
		Vimal's Current Account		4,000
	2,05,000			2,05,000

Working Note:

1)

Partners' Capital Account

Dr. **Cr.**

Particulars	Ashish	Dutta	Vimal	Particulars	Ashish	Dutta	Vimal
				Balance b/d	80,000	35,000	
				Revaluation	15,000	10,000	
Balance c/d	97,400	46,600	36,000	Cash			36,000
				Vimal Current	2,400	1,600	
	97,400	46,600	36,000		97,400	46,600	36,000

2)

Vimal Current Account

Dr. **Cr.**

Particulars	Amount Rs	Particulars	Amount Rs
Ashish's Capital A/c	2,400		
Dutta's Capital A/c	1,600	Balance c/d	4,000

	4,000

4,000