Illustration 1 (*When one of the Old Partners Gifts his Share*).

A and *B* are partners sharing profits in the ratio of 5 : 3. *C* is admitted for 3/10th share of profits out of which half share was gifted by *A* and the remaining share was taken by *C* equally from *A* and *B*. Calculate new profit-sharing ratio.

Solution:

	A	*B*
(i) Their old share	5/8	3/8
(ii) Share gifted by *A*	3/10 × 1/2 = 3/20	...
(iii) Share acquired by *C*	3/20 × 1/2 = 3/40	3/20 × 1/2 = 3/40

New share of *A* = Old share – Share gifted – Share acquired by *C*

$$= \frac{5}{8} - \frac{3}{20} - \frac{3}{40} = \frac{25-6-3}{40} = \frac{16}{40}$$

New share of *B* $= \frac{3}{8} - \frac{3}{40} = \frac{15-3}{40} = \frac{12}{40}$

Thus, New Profit-sharing Ratio of *A*, *B* and *C* $= \frac{16}{40} : \frac{12}{40} : \frac{3}{10} = 4 : 3 : 3.$

Illustration 2 (*When Premium for Goodwill is paid privately*).

X and *Y* are partners in a firm sharing profits and losses in the ratio of 3 : 2. They admit *Z* as partner for 1/4th share. *Z* paid ₹ 80,000 directly to *X* and *Y* as his share of goodwill. Pass the necessary Journal entry in the books of firm.

Solution: No Journal entry will be passed in the books as *Z* has paid his share of goodwill to *X* and *Y* directly, *i.e.*, privately outside the firm.

Illustration 3 (*New or Incoming Partner brings a Part of his Share of Goodwill*).

A and *B* are partners sharing profits and losses in the ratio of 3 : 2. They admit *C* into partnership for 1/4th share in profits which he takes 1/6th from *A* and 1/12th from *B*. *C* brings ₹ 18,000 as goodwill out of his share of ₹ 30,000. Pass necessary Journal entries to record this arrangement.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Cash/Bank A/c ...Dr.		18,000	
	To Premium for Goodwill A/c			18,000
	(Amount brought in by *C* as his share of goodwill)			
	Premium for Goodwill A/c ...Dr.		18,000	
	C's Current A/c (₹ 30,000 – ₹ 18,000) ...Dr.		12,000	
	To *A*'s Capital A/c			20,000
	To *B*'s Capital A/c			10,000
	(Goodwill credited to the sacrificing partners in their sacrificing ratio, *i.e.*, 2 : 1)			

Notes:

1. *A*'s Sacrifice = 1/6 or 2/12; *B*'s Sacrifice = 1/12; Thus, Sacrificing Ratio = 2/12 : 1/12 = 2 : 1.
2. The unpaid amount of premium for goodwill is adjusted through Current Account of the New Partner.

Illustration 4.

Following is the Balance Sheet of Subash and Asha as at 31st March, 2023 sharing profits in the ratio of 3 : 2:

Liabilities		₹	Assets		₹
Creditors		10,000	Debtors	22,000	
Employees' Provident Fund		8,000	*Less:* Provision for Doubtful Debts	1,000	21,000
General Reserve		30,000	Stock		11,000
Workmen Compensation Reserve		15,000	Bank		21,000
Capital A/cs:			Land and Building		18,000
Subash	15,000		Plant and Machinery		12,000
Asha	10,000	25,000	Advertisement Suspense		5,000
		88,000			88,000

They admit Tanya as a partner on 1st April, 2023 for 1/6th share in the profits. It was decided that:

(i) Value of Land and Building be increased by ₹ 3,000.

(ii) Value of Stock be increased by ₹ 2,500.

(iii) Provision for Doubtful Debts be increased by ₹ 1,500.

(iv) A Bill of Exchange of ₹ 10,000 which was previously discounted with the banker, was dishonoured on 31st March, 2023 but no entry has been passed for dishonour.

(v) Liability against Workmen Compensation Reserve was determined at ₹ 20,000.

(vi) Tanya brought ₹ 10,000 by cheque as her share of goodwill.

(vii) Tanya was to bring in further cheque of ₹ 15,000 as her capital.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Provision for Doubtful Debts A/c	1,500	By Land and Building A/c		3,000
To Workmen Compensation Claim A/c	5,000	By Stock A/c		2,500
		By Loss transferred to:		
		Subash's Capital A/c	600	
		Asha's Capital A/c	400	1,000
	6,500			6,500

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Subash (₹)	Asha (₹)	Tanya (₹)	Particulars	Subash (₹)	Asha (₹)	Tanya (₹)
To Advertisement Suspense A/c	3,000	2,000	...	By Balance *b/d*	15,000	10,000	...
				By General Reserve A/c	18,000	12,000	...
To Revaluation A/c (Loss)	600	400	...	By Bank A/c	...	...	15,000
To Balance *c/d*	35,400	23,600	15,000	By Premium for Goodwill A/c	6,000	4,000	...
	39,000	26,000	15,000		39,000	26,000	15,000

BALANCE SHEET OF THE NEW FIRM *as at 1st April, 2023*

Liabilities		₹	Assets		₹
Creditors		10,000	Bank (WN 5)		36,000
Employees' Provident Fund		8,000	Stock		13,500
Workmen Compensation Claim		20,000	Debtors (WN 4)	32,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	2,500	29,500
Subash	35,400		Plant and Machinery		12,000
Asha	23,600		Land and Building		21,000
Tanya	15,000	74,000			
		1,12,000			1,12,000

Working Notes:

1. Employees' Provident Fund is a liability and, therefore, it will not be distributed.
2. Workmen Compensation Reserve is a reserve set aside out of profits to meet compensation claim, if any. It appears in the Balance Sheet at ₹ 15,000 whereas the liability for workmen compensation is ₹ 20,000. Excess Workmen Compensation Claim of ₹ 5,000 will be debited to Revaluation Account.

		₹	₹
Workmen Compensation Reserve A/c	...Dr.	15,000	
Revaluation A/c	...Dr.	5,000	
To Workmen Compensation Claim A/c			20,000

3. Advertisement Suspense is a deferred revenue expenditure, *i.e.*, loss and, therefore, it will be transferred to old partners in their old profit-sharing ratio.
4. When a bill previously discounted is dishonoured, Debtor Account is debited and Bank Account is credited.
5. Bank Balance = ₹ 21,000 + ₹ 15,000 + ₹ 10,000 – ₹ 10,000 (WN 4) = ₹ 36,000.

Illustration 5 (*Adjustment of Capital by Opening Current Accounts*).

Charu and Harsha were partners in a firm sharing profits in the ratio of 3 : 2. On 1st April, 2014, their Balance Sheet was as follows:

Liabilities		₹	Assets	₹
Creditors		17,000	Cash	6,000
General Reserve		4,000	Debtors	15,000
Workmen Compensation Fund		9,000	Investments	20,000
Investment Fluctuation Fund		11,000	Plant	14,000
Provision for Bad Debts		2,000	Land and Building	38,000
Capital A/cs: Charu	30,000			
Harsha	20,000	50,000		
		93,000		93,000

On the above date Vaishali was admitted for 1/4th share in the profits of the firm on the following terms:

(i) Vaishali will bring ₹ 20,000 for her capital and ₹ 4,000 for her share of goodwill premium.
(ii) All debtors were considered good.
(iii) The market value of investments was ₹ 15,000.
(iv) There was a liability of ₹ 6,000 for Workmen Compensation.

(v) Capital Accounts of Charu and Harsha are to be adjusted on the basis of Vaishali's capital by opening Current Accounts.

Prepare Revaluation Account and Partners' Capital Accounts. *(Delhi 2015)*

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Gain (Profit) transferred to Partners' Capital A/cs:			By Provision for Bad Debts A/c (WN 1)	2,000
Charu	1,200			
Harsha	800	2,000		
		2,000		2,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Charu ₹	Harsha ₹	Vaishali ₹	Particulars	Charu ₹	Harsha ₹	Vaishali ₹
To Partners' Current A/cs (Balancing Figure)	5,400	3,600	...	By Balance *b/d*	30,000	20,000	...
				By General Reserve A/c	2,400	1,600	...
To Balance *c/d* (WN 2)	36,000	24,000	20,000	By Cash A/c	...	...	20,000
				By Premium for Goodwill A/c	2,400	1,600	...
				By Revaluation A/c	1,200	800	...
				By Workmen Compensation Fund A/c (WN 4)	1,800	1,200	...
				By Investment Fluctuation Fund A/c (WN 3)	3,600	2,400	
	41,400	27,600	20,000		41,400	27,600	20,000

Working Notes:

1. *"All debtors were considered good"* means Provision for Bad Debts is no longer required and hence should be credited to Revaluation Account.

2. *Calculation of Partners' Capitals on the basis of Vaishali's Capital:*
   Since, Vaishali brings in ₹ 20,000 as her Capital for 1/4th share in profits.

   Total Capital of the new firm would be = ₹ 20,000 × 4 = ₹ 80,000

   Charu's Capital in New Firm would be = ₹ 80,000 × $\frac{3}{4} \times \frac{3}{5}$ = ₹ 36,000;

   Harsha's Capital in New Firm would be = ₹ 80,000 × $\frac{3}{4} \times \frac{2}{5}$ = ₹ 24,000.

3. Investment Fluctuation Fund is maintained to meet the fall in market value of investments.

	₹
Book Value of Investments (Given in the Balance Sheet)	20,000
Market Value of Investments	15,000
Investment Fluctuation Fund Required to set off loss	5,000
Balance of Investment Fluctuation Fund (Given in the Balance Sheet)	11,000
Less: Investment Fluctuation Fund Required to set off loss	5,000
Surplus of Investment Fluctuation Fund	6,000

   Surplus of Investment Fluctuation Fund is transferred to Old Partners' Capital Accounts in their Old Profit-sharing Ratio.

4. Balance of Workmen Compensation Fund (Given in the Balance Sheet)	9,000
Less: Workmen Compensation Fund Required to cover Liability	6,000
Surplus of Workmen Compensation Fund	3,000

Surplus of Workmen Compensation Fund is transferred to Old Partners' Capital Accounts in their Old Profit-sharing Ratio.

Illustration 6 (*Adjustment regarding Capital when the Current Accounts are Opened*).

Following is the Balance Sheet of *A* and *B*, who had been sharing profits in proportion of 3/4th and 1/4th as at 31st March, 2023:

Liabilities		₹	Assets	₹
Creditors		37,500	Cash at Bank	22,500
General Reserve		6,000	Bills Receivable	3,000
Capital A/cs:			Debtors	16,000
A	28,500		Stock	20,000
B	15,500	44,000	Furniture	1,000
			Land and Building	25,000
		87,500		87,500

They admit *C* into partnership on 1st April, 2023 on the following terms:

(i) *C* pays ₹ 14,000 as his capital for 1/5th share in the future profits.

(ii) Goodwill is valued at ₹ 20,000. *C* is unable to bring cash for his share of goodwill.

(iii) Stock and Furniture be reduced by 10% and 5% Provision for Doubtful Debts be created on Debtors.

(iv) Land and Building be appreciated by 20%.

(v) Capital Accounts of the partners be readjusted on the basis of new partner's capital in their profit-sharing arrangement and any excess or deficiency is to be transferred to their Current Accounts.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm.

Solution:

In the Books of the Firm

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Stock A/c		2,000	By Land and Building A/c	5,000
To Furniture A/c		100		
To Provision for Doubtful Debts A/c		800		
To Gain (Profit) transferred to:				
A's Capital A/c	1,575			
B's Capital A/c	525	2,100		
		5,000		5,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* ₹	*B* ₹	*C* ₹	Particulars	*A* ₹	*B* ₹	*C* ₹
To *B*'s Current A/c (Balancing Figure)	...	4,525	...	By Balance *b/d*	28,500	15,500	...
To Balance *c/d* (WN 3)	42,000	14,000	14,000	By Bank A/c	...	...	14,000
				By General Reserve A/c	4,500	1,500	...
				By Revaluation A/c	1,575	525	...
				By *C*'s Current A/c (Goodwill) (WN 2)	3,000	1,000	...
				By *A*'s Current A/c (Balancing Figure)	4,425	...	...
	42,000	18,525	14,000		42,000	18,525	14,000

BALANCE SHEET OF *A, B* AND *C as at 1st April, 2023*

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		30,000
A	42,000		Furniture		900
B	14,000		Bills Receivable		3,000
C	14,000	70,000	Debtors	16,000	
B's Current A/c (WN 4)		4,525	*Less:* Provision for Doubtful Debts	800	15,200
Creditors		37,500	Stock		18,000
			Cash at Bank		36,500
			A's Current A/c (WN 4)		4,425
			C's Current A/c (WN 4)		4,000
		1,12,025			1,12,025

Working Notes:

1. *Calculation of New Profit-sharing Ratio:*

   Let Total Profit = 1

   C's share = 1/5

   ∴ Remaining Profit = 1 – 1/5 = 4/5 will be shared by *A* and *B* in their old profit-sharing ratio of 3 : 1.

   A's new share = 4/5 × 3/4 = 3/5

   B's new share = 4/5 × 1/4 = 1/5

   ∴ New Profit-sharing Ratio = 3/5 : 1/5 : 1/5 = 3 : 1 : 1.

2. *C*'s share in goodwill ₹ 4,000 (*i.e.*, ₹ 20,000 × 1/5) is adjusted through *C*'s Current Account because capitals of old partners are also adjusted on the basis of *C*'s Capital.

3. *Adjustment of Capital:*

   C brought Capital for 1/5th share = ₹ 14,000

   Total Capital of the new firm = ₹ 14,000 × 5/1 = ₹ 70,000

   Thus, *A*'s Capital in New Firm = ₹ 70,000 × 3/5 = ₹ 42,000;

   B's Capital in New Firm = ₹ 70,000 × 1/5 = ₹ 14,000; and

   C's Capital in New Firm = ₹ 70,000 × 1/5 = ₹ 14,000.

4. Dr. Balance of Current Account is shown on the Assets Side of the Balance Sheet and Cr. Balance is shown on the liabilities side of the Balance Sheet.

Illustration 7 (*When New or Incoming Partner does not bring his Share of Goodwill*).

A and *B* are partners in a firm sharing profits and losses in the proportion of 3/4th and 1/4th respectively. On 1st April, 2023, they take *C* into partnership for 1/5th share of profits. *C* gets his share from *A* and *B* in the ratio of 2 : 1. Value of goodwill is determined at ₹ 24,000. At present, *C* is not in a position to bring amount towards goodwill.

Pass necessary Journal entries under the following alternative cases:

Case 1. When the Goodwill Account appears at ₹ 10,000 in the books of the firm.

Case 2. When Goodwill Account is not appearing in the books of the firm.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
April 1	**Case 1**				
	A's Capital A/c (₹ 10,000 × 3/4)	...Dr.		7,500	
	B's Capital A/c (₹ 10,000 × 1/4)	...Dr.		2,500	
	To Goodwill A/c				10,000
	(Existing value of goodwill written off in the old ratio)				
	C's Current A/c (₹ 24,000 × 1/5)	...Dr.		4,800	
	To *A*'s Capital A/c (₹ 4,800 × 2/3)				3,200
	To *B*'s Capital A/c (₹ 4,800 × 1/3)				1,600
	(Share of *C*'s goodwill credited to sacrificing partners in their sacrificing ratio)				
	Case 2				
	C's Current A/c (₹ 24,000 × 1/5)	...Dr.		4,800	
	To *A*'s Capital A/c (₹ 4,800 × 2/3)				3,200
	To *B*'s Capital A/c (₹ 4,800 × 1/3)				1,600
	(Share of *C*'s goodwill credited to sacrificing partners in their sacrificing ratio, *i.e.*, 2 : 1)				

Illustration 8 (*Premium for Goodwill is brought in cash and Half the Premium is Withdrawn*).

W and *R* are partners in a firm sharing profits in the ratio of 3 : 2. Their Balance Sheet as on 31st March, 2016 was as follows:

BALANCE SHEET OF *W* AND *R* *as on 31st March, 2016*

Liabilities		₹	Assets	₹
Sundry Creditors		20,000	Cash	12,000
Provision for Bad Debts		2,000	Debtors	18,000
Outstanding Salary		3,000	Stock	20,000
General Reserve		5,000	Furniture	40,000
Capitals:			Plant and Machinery	40,000
W	60,000			
R	40,000	1,00,000		
		1,30,000		1,30,000

On the above date, *C* was admitted for 1/6th share in the profits on the following terms:

(i) *C* will bring ₹ 30,000 as his capital and ₹ 10,000 for his share of goodwill premium, half of which will be withdrawn by *W* and *R*.

(ii) Debtors ₹ 1,500 will be written off as bad debts and a provision of 5% will be created for bad and doubtful debts.

(iii) Outstanding salary will be paid off.

(iv) Stock will be depreciated by 10%, furniture by ₹ 500 and Plant and Machinery by 8%.

(v) Investments ₹ 2,500 not mentioned in the Balance Sheet were to be taken into account.

(vi) A creditor of ₹ 2,100 not recorded in the books was to be taken into account.

Pass necessary Journal entries for the above transactions in the books of the firm on *C*'s admission. (*Delhi 2017*)

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2016					
March 31	General Reserve A/c	...Dr.		5,000	
	To *W*'s Capital A/c				3,000
	To *R*'s Capital A/c				2,000
	(General Reserve distributed between *W* and *R*)				
	Bank/Cash A/c	...Dr.		40,000	
	To *C*'s Capital A/c				30,000
	To Premium for Goodwill A/c				10,000
	(Capital and premium for goodwill brought in cash by *C*)				
	Premium for Goodwill A/c	...Dr.		10,000	
	To *W*'s Capital A/c				6,000
	To *R*'s Capital A/c				4,000
	(Premium for goodwill credited to *W* and *R* in their sacrificing ratio, *i.e.*, 3 : 2) (WN 1)				
	W's Capital A/c	...Dr.		3,000	
	R's Capital A/c	...Dr.		2,000	
	To Bank/Cash A/c				5,000
	(Half of goodwill withdrawn by *W* and *R*)				
	Bad Debts A/c	...Dr.		1,500	
	To Debtors A/c				1,500
	(Bad debts written off)				
	Provision for Bad Debts A/c	...Dr.		1,500	
	To Bad Debts A/c				1,500
	(Bad debts met from provision for bad debts)				

	Revaluation A/c ...Dr.			325	
	To Provision for Bad Debts A/c (WN 2)				325
	(Provision for bad debts created)				
	Outstanding Salary A/c ...Dr.			3,000	
	To Bank/Cash A/c				3,000
	(Outstanding Salary paid)				
	Revaluation A/c ...Dr.			5,700	
	To Stock A/c				2,000
	To Furniture A/c				500
	To Plant and Machinery A/c				3,200
	(Decrease in value of assets recorded)				
	Investments A/c ...Dr.			2,500	
	To Revaluation A/c				2,500
	(Unrecorded investments, now recorded)				
	Revaluation A/c ...Dr.			2,100	
	To Sundry Creditors A/c				2,100
	(Unrecorded creditor, now recorded)				
	W's Capital A/c ...Dr.			3,375	
	R's Capital A/c ...Dr.			2,250	
	To Revaluation A/c (WN 3)				5,625
	(Loss on revaluation transferred to Old Partners' Capital A/cs in their old ratio)				

Working Notes:

1. Unless agreed otherwise, sacrificing ratio of old partners will be same as their old profit-sharing ratio.

2. *Dr.* PROVISION FOR BAD DEBTS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bad Debts A/c	1,500	By Balance *b/d*	2,000
To Balance *c/d* (Required) [5/100 (₹ 18,000 – ₹ 1,500)]	825	By Revaluation A/c (Balancing Figure)—Created	325
	2,325		2,325

3. *Dr.* REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Provision for Bad Debts A/c	325	By Investments A/c		2,500
To Stock A/c	2,000	By Loss on Revaluation transferred to:		
To Furniture A/c	500	*W*'s Capital A/c (3/5)	3,375	
To Plant and Machinery A/c	3,200	*R*'s Capital A/c (2/5)	2,250	5,625
To Sundry Creditors A/c	2,100			
	8,125			8,125

Illustration 9 (*New Partner does not bring his Share of Goodwill in Cash*).

A and *B* are partners in a firm. Their Balance Sheet as at 31st March, 2023 was:

Liabilities		₹	Assets		₹
Workmen Compensation Reserve		5,600	Cash		10,000
Outstanding Expenses		3,000	Sundry Debtors	80,000	
Creditors		30,000	*Less:* Provision for Doubtful Debts	4,000	76,000
Capital A/cs: *A*	50,000		Stock		20,000
B	60,000	1,10,000	Machinery		38,600
			Profit & Loss A/c		4,000
		1,48,600			1,48,600

On 1st April, 2023, they admitted *C* as a new partner on the following conditions:

(i) *C* brings in ₹ 40,000 as his share of capital but he is unable to bring amount for goodwill.

(ii) New profit-sharing ratio between *A*, *B* and *C* will be 3 : 2 : 1.

(iii) Claim towards Workmen Compensation is ₹ 3,000.

(iv) Bad Debts amounting to ₹ 6,000 are to be written off.

(v) Creditors are to be paid ₹ 2,000 more.

(vi) ₹ 2,000 be provided for an unrecorded liability for damages.

(vii) Outstanding Expenses be brought down to ₹ 1,200.

(viii) Shikha, an old customer whose account was written off as bad debt has promised to pay ₹ 2,500 in settlement of her dues.

(ix) Goodwill is valued at 1½ years' purchase of the average profit of last three years, *less* ₹ 12,000. The profits of last three years amounted to ₹ 10,000; ₹ 20,000 and ₹ 30,000 respectively.

Prepare Revaluation Account, Capital Accounts of Partners and the Opening Balance Sheet.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Bad Debts A/c (WN 2)	2,000	By Outstanding Expenses A/c		1,800
To Creditors A/c	2,000	By Loss transferred to:		
To Damages Payable A/c	2,000	*A*'s Capital A/c	2,100	
		B's Capital A/c	2,100	4,200
	6,000			6,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Profit & Loss A/c	2,000	2,000	...	By Balance *b/d*	50,000	60,000	...
To Revaluation A/c—Loss	2,100	2,100	...	By Workmen Compensation Reserve A/c (WN 1)	1,300	1,300	...
To Balance *c/d*	47,200	60,200	40,000	By *C*'s Current A/c (WN 3 and 4)	...	3,000	...
				By Cash A/c	...	...	40,000
	51,300	64,300	40,000		51,300	64,300	40,000

OPENING BALANCE SHEET OF THE RECONSTITUTED FIRM
as at 1st April, 2023

Liabilities			₹	Assets	₹
Workmen Compensation Claim			3,000	Cash	50,000
Outstanding Expenses			1,200	Stock	20,000
Damages Payable			2,000	Sundry Debtors	74,000
Creditors			32,000	Machinery	38,600
Capital A/cs:	*A*	47,200		*C*'s Current A/c	3,000
	B	60,200			
	C	40,000	1,47,400		
			1,85,600		1,85,600

Working Notes:

1. Workmen Compensation Reserve is ₹ 5,600 in the Balance Sheet and Workmen Compensation Claim is ₹ 3,000. Therefore, reserve in excess of claim, *i.e.*, ₹ 2,600 is transferred to the Capital Accounts of the old partners in their old profit-sharing ratio.
2. Provision for Doubtful Debts appearing in the Balance Sheet is ₹ 4,000, whereas actual bad debts are ₹ 6,000. Therefore, ₹ 2,000 will be debited to the Revaluation Account as loss.
3. Goodwill = (₹ 20,000* × 3/2) – ₹ 12,000 = ₹ 30,000 – ₹ 12,000 = ₹ 18,000

   C's share of Goodwill = ₹ 18,000 × 1/6 = ₹ 3,000. He has not brought his share of goodwill in cash.

   $$\text{*Average Profit} = \frac{₹\,10,000 + ₹\,20,000 + ₹\,30,000}{3} = ₹\,20,000.$$
4. Sacrifice of Share = Old Profit Share – New Profit Share

   A's Sacrifice = 1/2 – 3/6 = 0; *B*'s Sacrifice = 1/2 – 2/6 = 1/6; Hence, *B* alone has sacrificed.
5. Entry for the promise made by Shikha will not be passed, it being an event and not a transaction. However, there is *another view* that promise to pay should be recognised as gain (*i.e.*, Bad Debts Recovered), in this situation following entry will be passed:

Sundry Debtors A/c	...Dr.	₹ 2,500	
To Revaluation A/c			₹ 2,500

Alternative Solution (When Promise to Pay is taken as Income, *i.e.*, Bad Debts Recovered)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Bad Debts A/c (WN 2)	2,000	By Outstanding Expenses A/c		1,800
To Creditors A/c	2,000	By Sundry Debtors A/c		2,500
To Damages Payable A/c	2,000	By Loss transferred to Capital A/cs:		
		A's Capital A/c	850	
		B's Capital A/c	850	1,700
	6,000			6,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Profit & Loss A/c	2,000	2,000	...	By Balance *b/d*	50,000	60,000	...
To Revaluation A/c—Loss	850	850	...	By Workmen Compensation Reserve A/c (WN 1)	1,300	1,300	...
To Balance *c/d*	48,450	61,450	40,000	By *C's* Current A/c	...	3,000	...
				By Cash A/c	...	...	40,000
	51,300	64,300	40,000		51,300	64,300	40,000

OPENING BALANCE SHEET OF THE RECONSTITUTED FIRM
as on 1st April, 2023

Liabilities		₹	Assets	₹
Workmen Compensation Claim		3,000	Cash	50,000
Outstanding Expenses		1,200	Stock	20,000
Damages Payable		2,000	Sundry Debtors	76,500
Creditors		32,000	Machinery	38,600
Capital A/cs: *A*	48,450		*C's* Current A/c	3,000
B	61,450			
C	40,000	1,49,900		
		1,88,100		1,88,100

Illustration 10.

Murari and Vohra were partners in a firm with capitals of ₹ 1,20,000 and ₹ 1,60,000 respectively. On 1st April, 2024, they admitted Yadav as a partner for one-fourth share in profits on his payment of ₹ 2,00,000 as his capital and ₹ 90,000 for his one-fourth share of goodwill.

On that date the creditors of Murari and Vohra were ₹ 60,000 and Bank overdraft was ₹ 15,000. Their assets apart from cash included Stock ₹ 10,000; Debtors ₹ 40,000; Plant and Machinery ₹ 80,000; Land and Building ₹ 2,00,000.

It was agreed that Stock should be depreciated by ₹ 2,000; Plant and Machinery by 20%, ₹ 5,000 should be written off as Bad Debts and Land and Building should be appreciated by 25%.

Prepare Revaluation Account, Capital Accounts of Murari, Vohra and Yadav and the Balance Sheet of the new firm. (*AI 2011, Modified*)

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Stock A/c		2,000	By Land and Building A/c	50,000
To Plant and Machinery A/c		16,000		
To Bad Debts A/c		5,000		
To Gain (Profit) on Revaluation transferred to:				
Murari's Capital A/c	13,500			
Vohra's Capital A/c	13,500	27,000		
		50,000		50,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Murari (₹)	Vohra (₹)	Yadav (₹)	Particulars	Murari (₹)	Vohra (₹)	Yadav (₹)
To Balance *c/d*	1,78,500	2,18,500	2,00,000	By Balance *b/d*	1,20,000	1,60,000	...
				By Cash A/c	...	...	2,00,000
				By Revaluation A/c (Gain)	13,500	13,500	...
				By Premium for Goodwill A/c	45,000	45,000	...
	1,78,500	2,18,500	2,00,000		1,78,500	2,18,500	2,00,000

BALANCE SHEET OF THE NEW FIRM *as at 1st April, 2024*

Liabilities		₹	Assets	₹
Bank Overdraft		15,000	Cash in Hand (WN 1 and 2)	3,15,000
Creditors		60,000	Stock	8,000
Capital A/cs:			Debtors	35,000
Murari	1,78,500		Plant and Machinery	64,000
Vohra	2,18,500		Land and Building	2,50,000
Yadav	2,00,000	5,97,000		
		6,72,000		6,72,000

Working Notes:

1. MEMORANDUM BALANCE SHEET (before Yadav's Admission)

Liabilities		₹	Assets	₹
Murari's Capital	1,20,000		Land and Building	2,00,000
Vohra's Capital	1,60,000	2,80,000	Stock	10,000
Creditors		60,000	Debtors	40,000
Bank Overdraft		15,000	Plant and Machinery	80,000
			Cash (Balancing Figure)	25,000
		3,55,000		3,55,000

2. *Dr.* CASH ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d* (WN 1)	25,000	By Balance *c/d*	3,15,000
To Premium for Goodwill A/c	90,000		
To Yadav's Capital A/c	2,00,000		
	3,15,000		3,15,000

Illustration 11.

A and *B* are partners sharing profits and losses in the ratio of 3 : 2. They admit *C* as partner in the firm for 1/4th share in profits which he takes 1/6th from *A* and 1/12th from *B*. *C* brings 60% of his share of firm's goodwill. Goodwill of the firm was valued at ₹ 1,00,000. Pass necessary Journal entries to record this arrangement.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		15,000	
	To Premium for Goodwill A/c				15,000
	(Premium for goodwill brought in cash)				
	Premium for Goodwill A/c	...Dr.		15,000	
	To *A*'s Capital A/c				10,000
	To *B*'s Capital A/c				5,000
	(Premium for goodwill distributed among sacrificing partners)				
	C's Current A/c	...Dr.		10,000	
	To *A*'s Capital A/c				6,667
	To *B*'s Capital A/c				3,333
	(Adjustment made for goodwill not brought in cash)				

Working Notes:

1. *Amount brought in by new partner:*

$$\text{Goodwill of the Firm} = ₹\ 1,00,000$$

$$C\text{'s Share of Goodwill} = ₹\ 1,00,000 \times \frac{1}{4} = ₹\ 25,000$$

$$\text{Amount brought for Goodwill in Cash} = ₹\ 25,000 \times \frac{60}{100} = ₹\ 15,000.$$

2. A Sacrifices $= \frac{1}{6}$; B Sacrifices $= \frac{1}{12}$; Thus, Sacrificing Ratio of A and $B = \frac{1}{6} : \frac{1}{12} = 2:1.$

Illustration 12.

Bhuwan and Shivam were partners in a firm sharing profits in the ratio of 3 : 2. Their capitals were ₹ 50,000 and ₹ 75,000 respectively. They admitted Atul on 1st April, 2024 as new partner for 1/4th share in future profits. Atul brought ₹ 75,000 as his capital. Calculate the value of goodwill of the firm and record necessary Journal entries for the above transactions on Atul's admission. (*Foreign 2014, Modified*)

Solution:

	₹	₹
Calculation of Hidden Goodwill:		
Based on Atul's share the total capital of the new firm should be (₹ 75,000 × 4/1)		3,00,000
Less: Capital of Bhuwan	50,000	
Capital of Shivam	75,000	
Capital of Atul	75,000	2,00,000
Value of Goodwill		1,00,000

Atul's share of Goodwill = ₹ 1,00,000 × 1/4 = ₹ 25,000.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2024					
April 1	Bank A/c	...Dr.		75,000	
	To Atul's Capital A/c				75,000
	(Cash brought by Atul for his capital)				
	Atul's Capital/Current A/c	...Dr.		25,000	
	To Bhuwan's Capital A/c				15,000
	To Shivam's Capital A/c				10,000
	(Credit given for goodwill to Bhuwan and Shivam on Atul's admission in their sacrificing ratio)				

Note: Unless agreed otherwise, Sacrificing ratio of old partners will be same as their old profit-sharing ratio.

Illustration 13.

On 31st March 2017, the Balance Sheet of Abhir and Divya, who were sharing profits in the ratio of 3 : 1 was as follows:

BALANCE SHEET OF ABHIR AND DIVYA *as on 31st March, 2017*

Liabilities		₹	Assets		₹
Creditors		2,20,000	Cash at Bank		1,40,000
Employees' Provident Fund		1,00,000	Debtors	6,50,000	
Investment Fluctuation Reserve		1,00,000	*Less:* Provision for Bad Debts	50,000	6,00,000
General Reserve		1,20,000	Stock		3,00,000
Capitals:			Investments (Market Value ₹ 4,40,000)		5,00,000
Abhir	6,00,000				
Divya	4,00,000	10,00,000			
		15,40,000			15,40,000

They decided to admit Vibhor on 1st April, 2017 for 1/5th share.

(a) Vibhor shall bring ₹ 80,000 as his share of goodwill premium.

(b) Stock was overvalued by ₹ 20,000.

(c) A debtor whose dues of ₹ 5,000 were written off as bad debts, paid ₹ 4,000 in full settlement.

(d) Two months' salary @ ₹ 6,000 per month was outstanding.

(e) Vibhor was to bring in Capital to the extent of 1/5th of the total capital of the new firm.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.

(*Delhi 2018 C*)

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Stock A/c	20,000	By Bad Debt Recovered A/c		4,000
To Outstanding Salary A/c	12,000	By Loss transferred to:		
		Abhir	21,000	
		Divya	7,000	28,000
	32,000			32,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Abhir ₹	Divya ₹	Vibhor ₹	Particulars	Abhir ₹	Divya ₹	Vibhor ₹
To Revaluation A/c	21,000	7,000	...	By Balance *b/d*	6,00,000	4,00,000	...
To Balance *c/d*	7,59,000	4,53,000	3,03,000	By Investment Fluctuation Fund A/c	30,000	10,000	...
				By Premium for Goodwill A/c	60,000	20,000	...
				By General Reserve A/c	90,000	30,000	...
				By Bank A/c	...	...	3,03,000
	7,80,000	4,60,000	3,03,000		7,80,000	4,60,000	3,03,000

BALANCE SHEET *as at 1st April, 2017*

Liabilities		₹	Assets		₹
Sundry Creditors		2,20,000	Cash at Bank		5,27,000
Employees' Provident Fund		1,00,000	(₹ 1,40,000 + ₹ 3,03,000 + ₹ 80,000 + ₹ 4,000)		
Outstanding Salary		12,000	Debtors	6,50,000	
Capital A/cs:			*Less:* Provision for Bad Debts	50,000	6,00,000
Abhir	7,59,000		Stock		2,80,000
Divya	4,53,000		Investments		4,40,000
Vibhor	3,03,000	15,15,000			
		18,47,000			18,47,000

Working Note:

Adjusted Combined Capital of Abhir and Divya = ₹ 7,59,000 + ₹ 4,53,000 = ₹ 12,12,000

$$\text{Total Capital of the Firm} = ₹\ 12,12,000 \times \frac{5}{4} = ₹\ 15,15,000$$

$$\text{Vibhor's Capital} = ₹\ 15,15,000 \times \frac{1}{5} = ₹\ 3,03,000.$$

Illustration 14.

Sushil and Satish are partners in a firm sharing profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2024 was as follows:

Liabilities		₹	Assets		₹
Outstanding Rent		13,000	Cash		10,000
Creditors		20,000	Sundry Debtors	80,000	
Workmen Compensation Reserve		5,600	*Less:* Provision for Doubtful Debts	4,000	76,000
Capital A/cs:			Stock		20,000
Sushil	50,000		Profit & Loss A/c		4,000
Satish	60,000	1,10,000	Machinery		38,600
		1,48,600			1,48,600

On 1st April, 2024, they admitted Samir as a partner on the following terms:

(i) Samir will bring ₹ 40,000 through cheque as his share of capital and will be entitled to 1/6th share in the profits.

(ii) Samir is not to bring goodwill in cash, which is valued at 1½ years' purchase of the average profit of last 3 years, *less* ₹ 12,000. Profits for the last 3 years amounted to ₹ 10,000; ₹ 20,000 and ₹ 30,000.

(iii) Claim on account of Workmen Compensation is ₹ 3,000.

(iv) To write off Bad Debts of ₹ 6,000.

(v) Creditors are to be paid ₹ 2,000 more.

(vi) There being a claim against the firm for damages, liabilities to the extent of ₹ 2,000 should be created.

(vii) Outstanding rent be brought down to ₹ 11,200.

Pass Journal entries, prepare Partners' Capital Accounts and opening Balance Sheet.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2024					
April 1	Workmen Compensation Reserve A/c	...Dr.		5,600	
	To Workmen Compensation Claim A/c				3,000
	To Sushil's Capital A/c				1,560
	To Satish's Capital A/c				1,040
	(Workmen Compensation Reserve adjusted)				
	Sushil's Capital A/c	...Dr.		2,400	
	Satish's Capital A/c	...Dr.		1,600	
	To Profit & Loss A/c				4,000
	(Loss adjusted)				
	Sushil's Capital A/c	...Dr.		2,520	
	Satish's Capital A/c	...Dr.		1,680	
	To Revaluation A/c				4,200
	(Loss on revaluation distributed)				
	Goodwill A/c	...Dr.		18,000	
	To Sushil's Capital A/c				10,800
	To Satish's Capital A/c				7,200
	(Goodwill raised with full value in old profit-sharing ratio)				
	Sushil's Capital A/c	...Dr.		9,000	
	Satish's Capital A/c	....Dr.		6,000	
	Samir's Current A/c	...Dr.		3,000	
	To Goodwill A/c				18,000
	(Goodwill written off in new profit-sharing ratio)				

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Sushil ₹	Satish ₹	Samir ₹	Particulars	Sushil ₹	Satish ₹	Samir ₹
To Profit & Loss A/c	2,400	1,600	...	By Balance *b/d*	50,000	60,000	...
To Revaluation A/c	2,520	1,680	...	By Workmen Compensation Reserve A/c	1,560	1,040	...
To Goodwill A/c	9,000	6,000	...	By Goodwill A/c	10,800	7,200	...
To Balance *c/d*	48,440	58,960	40,000	By Bank A/c	...	...	40,000
	62,360	68,240	40,000		62,360	68,240	40,000

BALANCE SHEET *as at 1st April, 2024*

Liabilities		₹	Assets		₹
Outstanding Rent		11,200	Cash		50,000
Creditors		22,000	Sundry Debtors	80,000	
Claim for Damages		2,000	*Less:* Bad Debts	6,000	74,000
Workmen Compensation Claim		3,000	Stock		20,000
Capital A/cs:			Machinery		38,600
Sushil	48,440		Samir's Current A/c		3,000
Satish	58,960				
Samir	40,000	1,47,400			
		1,85,600			1,85,600

Working Notes:

1. *Calculation of Samir's Share of Goodwill:*

$$\text{Average Profit} = \frac{₹\,10,000 + ₹\,20,000 + ₹\,30,000}{3} = \frac{₹\,60,000}{3} = ₹\,20,000$$

$$\text{Goodwill} = \left(₹\,20,000 \times \frac{3}{2}\right) - ₹\,12,000 = ₹\,30,000 - ₹\,12,000 = ₹\,18,000$$

$$\text{Samir's Share of Goodwill} = 18,000 \times \frac{1}{6} = ₹\,3,000.$$

2. *Dr.* REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Bad Debts A/c (₹ 6,000 – ₹ 4,000)	2,000	By Outstanding Rent A/c		1,800
To Creditors A/c	2,000	By Loss transferred to:		
To Claim for Damages A/c	2,000	Sushil's Capital A/c	2,520	
		Satish's Capital A/c	1,680	4,200
	6,000			6,000

3. *Calculation of New Profit-sharing Ratio:*

Samir's profit share = 1/6

$$\text{Remaining share} = 1 - \frac{1}{6} = \frac{5}{6}$$

It will be shared by Sushil and Satish in old profit-sharing ratio.

$$\text{Sushil's New Profit Share} = \frac{5}{6} \times \frac{3}{5} = \frac{15}{30}$$

$$\text{Satish's New Profit Share} = \frac{5}{6} \times \frac{2}{5} = \frac{10}{30}$$

$$\text{Samir's New Profit Share} = \frac{1}{6} \text{ or } \frac{5}{30}$$

$$\text{New Profit-sharing Ratio} = \frac{15}{30} : \frac{10}{30} : \frac{5}{30} \text{ or } 3 : 2 : 1.$$

Illustration 15.

Atul and Amit are partners sharing profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2024 is as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Plant and Machinery	1,80,000
Atul	1,00,000		Furniture	30,000
Amit	1,00,000	2,00,000	Computer	10,000
Current A/cs:			Stock	40,000
Atul	70,000		Debtors	50,000
Amit	50,000	1,20,000	Bills Receivable	10,000
Creditors		40,000	Cash	10,000
Bills Payable		10,000	Bank	40,000
		3,70,000		3,70,000

Abhay is admitted as a partner for 1/4th share on 1st April, 2024 on the following terms:

(a) Abhay is to bring ₹ 65,000 as capital after adjusting amount due to him included in creditors and his share of Goodwill.

(b) ₹ 10,000 included in creditors is payable to Abhay which is to be transferred to his Capital Account.

(c) Furniture is to be reduced by ₹ 3,000 and Plant and Machinery is to be increased to ₹ 1,98,000.

(d) Stock is overvalued by ₹ 4,000.

(e) A Provision for Doubtful Debts is to be created @ 5%.

(f) Goodwill is to be valued at 2 years' purchase of average profit for four years. Profits of four years ended 31st March, were as follows: 2024—₹ 25,000, 2023—₹ 10,000, 2022—₹ 2,500, and 2021—₹ 2,500.

Pass the Journal entries for the above arrangement.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2024					
April 1					
(a)	Cash A/c	...Dr.		70,000	
	To Abhay's Capital A/c				65,000
	To Premium for Goodwill A/c				5,000
	(Capital and Goodwill brought in by Abhay)				
(b)	Premium for Goodwill A/c	...Dr.		5,000	
	To Atul's Capital A/c				3,000
	To Amit's Capital A/c				2,000
	(Goodwill distributed among partners in sacrificing ratio, *i.e.*, 3 : 2)				
(c)	Revaluation A/c	...Dr.		9,500	
	To Furniture A/c				3,000
	To Stock A/c				4,000
	To Provision for Doubtful Debts A/c				2,500
	(Decrease in value of assets)				
(d)	Plant and Machinery A/c	...Dr.		18,000	
	To Revaluation A/c				18,000
	(Increase in value of asset)				
(e)	Revaluation A/c	...Dr.		8,500	
	To Atul's Capital A/c				5,100
	To Amit's Capital A/c				3,400
	(Gain distributed among old partners in old ratio)				
(f)	Creditors A/c	...Dr.		10,000	
	To Abhay's Capital A/c				10,000
	(Creditors adjusted in Abhay's Capital A/c)				

Working Notes:

1. *Dr.* REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Furniture A/c		3,000	By Plant and Machinery A/c	18,000
To Stock A/c		4,000		
To Provision for Doubtful Debts A/c		2,500		
To Gain (Profit) transferred to Capital A/cs:				
Atul	5,100			
Amit	3,400	8,500		
		18,000		18,000

2. $$\text{Average Profit} = \frac{₹\,25{,}000 + ₹\,10{,}000 + ₹\,2{,}500 + ₹\,2{,}500}{4} = ₹\,10{,}000$$

$$\text{Goodwill} = ₹\,10{,}000 \times 2 = ₹\,20{,}000$$

$$\text{Abhay's Share of Goodwill} = ₹\,20{,}000 \times 1/4 = ₹\,5{,}000.$$

Illustration 16.

X and *Y* are partners sharing profits in the ratio of 2 : 1. Their Balance Sheet as at 31st March, 2024 was:

Liabilities		₹	Assets	₹
Sundry Creditors		25,000	Cash/Bank	5,000
General Reserve		18,000	Sundry Debtors	15,000
Capital A/cs:			Stock	10,000
X	75,000		Investments	8,000
Y	62,000	1,37,000	Printer	5,000
			Fixed Assets	1,37,000
		1,80,000		1,80,000

They admit *Z* into partnership on 1st April, 2024 on the following terms:

(a) *Z* brings in ₹ 40,000 as his capital and he is given 1/4th share in profits.

(b) *Z* brings in ₹ 15,000 for goodwill, half of which is withdrawn by old partners.

(c) Investments are valued at ₹ 10,000. *X* takes over Investments at this value.

(d) Printer is to be reduced (depreciated) by 20% and Fixed Assets by 10%.

(e) An unrecorded stock on 31st March, 2024 is ₹ 1,000.

(f) By bringing in or withdrawing cash, the Capitals of *X* and *Y* are to be made proportionate to that of *Z* on their profit-sharing basis.

Pass Journal entries, prepare Revaluation Account, Capital Accounts and new Balance Sheet of the firm.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2024					
Mar. 31	Cash/Bank A/c	...Dr.		55,000	
	To *Z*'s Capital A/c				40,000
	To Premium for Goodwill A/c				15,000
	(Amount brought in by *Z* for his capital and share of goodwill)				
	Premium for Goodwill A/c	...Dr.		15,000	
	To *X*'s Capital A/c				10,000
	To *Y*'s Capital A/c				5,000
	(*Z*'s share of goodwill credited to *X*'s and *Y*'s Capital A/c in their sacrificing ratio, *i.e.*, 2 :1)				
	X's Capital A/c	...Dr.		5,000	
	Y's Capital A/c	...Dr.		2,500	
	To Cash/Bank A/c				7,500
	(Withdrawal by the old partners of 1/2 of the Premium (Goodwill) credited to them)				
	Investments A/c	...Dr.		2,000	
	To Revaluation A/c				2,000
	(Investments revalued at ₹ 10,000)				
	X's Capital A/c	...Dr.		10,000	
	To Investments A/c				10,000
	(*X* takes over investments)				
	Stock of Stationery A/c	...Dr.		1,000	
	To Revaluation A/c				1,000
	(Unrecorded stock of stationery)				
	Revaluation A/c	...Dr.		14,700	
	To Printer A/c				1,000
	To Fixed Assets A/c				13,700
	(Decrease in the value of assets recorded)				
	X's Capital A/c	...Dr.		7,800	
	Y's Capital A/c	...Dr.		3,900	
	To Revaluation A/c				11,700
	(Loss on revaluation of Assets and Liabilities debited to old Partners' Capital A/cs in old ratio)				
	General Reserve A/c	...Dr.		18,000	
	To *X*'s Capital A/c				12,000
	To *Y*'s Capital A/c				6,000
	(General Reserve transferred to old partners)				
	Cash/Bank A/c	...Dr.		5,800	
	To *X*'s Capital A/c				5,800
	(Cash brought in by *X* for his deficit capital)				
	Y's Capital A/c	...Dr.		26,600	
	To Cash/Bank A/c				26,600
	(Cash withdrawn by *Y* for his excess capital)				

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Printer A/c	1,000	By Investments A/c		2,000
To Fixed Assets A/c	13,700	By Stock of Stationery A/c		1,000
		By Loss transferred to:		
		X's Capital A/c	7,800	
		Y's Capital A/c	3,900	11,700
	14,700			14,700

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To Cash/Bank A/c (G/w)	5,000	2,500		By Balance *b/d*	75,000	62,000	...
To Investments A/c	10,000	...	...	By Cash/Bank A/c	...	...	40,000
To Revaluation A/c (Loss)	7,800	3,900	...	By Premium for Goodwill A/c	10,000	5,000	...
To Cash/Bank A/c (Bal. Fig.)	...	26,600	...	By General Reserve A/c	12,000	6,000	...
To Balance *c/d* (WN 1& 2)	80,000	40,000	40,000	By Cash/Bank A/c (Brings in) (Balancing Figure)	5,800	...	...
	1,02,800	73,000	40,000		1,02,800	73,000	40,000

BALANCE SHEET OF M/S. *X*, *Y* AND *Z as at 1st April, 2024*

Liabilities			₹	Assets	₹
Sundry Creditors			25,000	Cash/Bank (WN 3)	31,700
Capital A/cs:	*X*	80,000		Sundry Debtors	15,000
	Y	40,000		Stock of Stationery	1,000
	Z	40,000	1,60,000	Stock	10,000
				Printer	4,000
				Fixed Assets ₹ (1,37,000 – 13,700)	1,23,300
			1,85,000		1,85,000

Working Notes:

1. *Calculation of New Profit-Sharing Ratio:*

$$\text{Old Ratio} = 2 : 1$$

$$\text{Let the total share be} = 1$$

$$Z\text{'s share} = \frac{1}{4}$$

$$\text{Remaining Share for } X \text{ and } Y = 1-\frac{1}{4}=\frac{3}{4}$$

$$X\text{'s New Share} = \frac{3}{4}\times\frac{2}{3}=\frac{2}{4}$$

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

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

Thus, $$\text{New Profit-sharing Ratio of } X, Y \text{ and } Z = \frac{2}{4} : \frac{1}{4} : \frac{1}{4} \text{ or } 2 : 1 : 1.$$

2. *Calculation of New Firm's Capital on the basis of Z's Capital:*

Z's Capital for $\frac{1}{4}$th share = ₹ 40,000

Based on Z's Capital, Firm's Capital will be $= ₹\,40{,}000 \times \frac{4}{1} = ₹\,1{,}60{,}000$, which will be in their new profit-sharing ratio, *i.e.*, 2 : 1 : 1. Thus,

X's Capital in the new firm will be $= ₹\,1{,}60{,}000 \times \frac{2}{4} = ₹\,80{,}000$;

Y's Capital in the new firm will be $= ₹\,1{,}60{,}000 \times \frac{1}{4} = ₹\,40{,}000$;

Z's Capital $= ₹\,1{,}60{,}000 \times \frac{1}{4} = ₹\,40{,}000$.

3. *Dr.* CASH/BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	5,000	By *X*'s Capital A/c	5,000
To *Z*'s Capital A/c	40,000	By *Y*'s Capital A/c	2,500
To Premium for Goodwill A/c	15,000	By *Y*'s Capital A/c (Paid Out)	26,600
To *X*'s Capital A/c (Brings in)	5,800	By Balance *c/d*	31,700
	65,800		65,800

Illustration 17.

The Balance Sheet of *X*, *Y* and *Z* who share profits and losses in the ratio of 3 : 2 : 1, as on 1st April, 2024 is as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			*Y*'s Current Account	7,000
X	1,75,000		Land and Building	1,75,000
Y	1,50,000		Plant and Machinery	67,500
Z	1,25,000	4,50,000	Furniture	80,000
Current A/cs:			Investment	36,500
X	4,000		Sundry Debtors	60,500
Z	6,000	10,000	Stock	1,37,000
General Reserve		15,000	Bank	43,500
Profit & Loss A/c		7,000		
Creditors		1,25,000		
		6,07,000		6,07,000

On the above date, *W* is admitted as a partner on the following terms:

(a) *W* will bring ₹ 50,000 as his capital and get 1/6th share in the profits.

(b) He will bring necessary amount for his share of goodwill premium. Goodwill of the firm is valued at ₹ 90,000.

(c) New profit-sharing ratio will be 2 : 2 : 1 : 1.

(d) A liability of ₹ 7,004 will be created against bills receivable discounted earlier from another Bank but now dishonoured.

(e) The value of stock, furniture and investments is reduced by 20%, whereas the value of Land and Building and Plant and Machinery will be appreciated by 20% and 10% respectively.

(f) Capital Accounts of the partners will be adjusted on the basis of *W*'s Capital through their Current Accounts.

Prepare Revaluation Account, Partners' Current Accounts and Capital Accounts.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Stock A/c	27,400	By Land and Building A/c		35,000
To Furniture A/c	16,000	By Plant and Machinery A/c		6,750
To Investment A/c	7,300	By Loss transferred to:		
		X's Current A/c	4,475	
		Y's Current A/c	2,983	
		Z's Current A/c	1,492	8,950
	50,700			50,700

Dr. PARTNERS' CURRENT ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	*W* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	*W* (₹)
To Balance *b/d*	...	7,000	...	...	By Balance *b/d*	4,000	...	6,000	...
To Revaluation A/c (Loss)	4,475	2,983	1,492	...	By Premium for G/w A/c (WN 1 & 2)	15,000	...	...	...
To Balance *c/d*	1,00,525	47,350	83,175	...	By General Reserve	7,500	5,000	2,500	...
					By Profit & Loss A/c	3,500	2,333	1,167	...
					By *X*'s Capital A/c	75,000	...	...	...
					By *Y*'s Capital A/c	...	50,000	...	...
					By *Z*'s Capital A/c	...	...	75,000	...
	1,05,000	57,333	84,667	...		1,05,000	57,333	84,667	...

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	*W* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	*W* (₹)
To *X*'s Current A/c (Transferred)	75,000	...	...	...	By Balance *b/d*	1,75,000	1,50,000	1,25,000	...
To *Y*'s Current A/c (Transferred)	...	50,000	...	...	By Bank A/c (Capital)	...	...	...	50,000
To *Z*'s Current A/c (Transferred)	...	...	75,000	...					
To Balance *c/d* (WN 3)	1,00,000	1,00,000	50,000	50,000					
	1,75,000	1,50,000	1,25,000	50,000		1,75,000	1,50,000	1,25,000	50,000

Working Notes:

1. *Calculation of Sacrificing Ratio:*

   X's sacrifice (Old Share – New Share) = 3/6 – 2/6 = 1/6

   Y's sacrifice (Old Share – New Share) = 2/6 – 2/6 = 0

   Z's sacrifice (Old Share – New Share) = 1/6 – 1/6 = 0

   So, *X* is the only sacrificing partner.

2. *Adjustment of Goodwill:*

   It is noticed that on *W*'s admission for 1/6th share, it is only *X* who sacrifices his share of profit equivalent to *W*'s share. Therefore, the whole amount of Premium for Goodwill brought in by *W* is to be given to *X* by passing the following accounting entry:

Premium for Goodwill A/c	...Dr.	₹ 15,000	
To *X*'s Current A/c			₹ 15,000

3. *Adjustment of Capital:*

   (*i*) *W*'s share = 1/6th; *W*'s capital = ₹ 50,000.

   (*ii*) Based on *W*'s Capital, total capital of the firm will be (50,000 × 6/1) = ₹ 3,00,000.

   X's Capital in the new firm should be = ₹ 3,00,000 × 2/6 = ₹ 1,00,000.

   Y's Capital in the new firm should be = ₹ 3,00,000 × 2/6 = ₹ 1,00,000.

   Z's Capital in the new firm should be ₹ 3,00,000 × 1/6 = ₹ 50,000.

Illustration 18 (*Proportionate Capital Introduced by Incoming Partner*).

Sahaj and Nimish are partners in a firm. They share profits and losses in the ratio of 2 : 1. They admitted Gauri into partnership for a 1/3rd share. She brought her share of goodwill in cash and proportionate capital. At the time of Gauri's admission, the Balance Sheet of Sahaj and Nimish was as under:

Liabilities		₹	Assets	₹
Capital A/cs:			Machinery	1,20,000
Sahaj	1,20,000		Furniture	80,000
Nimish	80,000	2,00,000	Stock	50,000
General Reserve		30,000	Sundry Debtors	30,000
Creditors		30,000	Cash	20,000
Employees' Provident Fund		40,000		
		3,00,000		3,00,000

It was decided to:

(i) Reduce the value of stock by ₹ 5,000.

(ii) Depreciate furniture by 10% and appreciate machinery by 5%.

(iii) ₹ 3,000 of the debtors proved bad. A provision of 5% was to be created on Sundry Debtors for doubtful debts.

(iv) Goodwill of the firm was valued at ₹ 45,000.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm. (*Delhi 2013, Modified*)

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Stock A/c	5,000	By Machinery A/c		6,000
To Furniture A/c	8,000	By Loss transferred to:		
To Bad Debts A/c	3,000	Sahaj's Capital A/c	7,567	
To Provision for Doubtful Debts A/c	1,350	(₹ 11,350 × 2/3)		
[5/100 (₹ 30,000 – ₹ 3,000)]		Nimish's Capital A/c	3,783	11,350
		(₹ 11,350 × 1/3)		
	17,350			17,350

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Sahaj ₹	Nimish ₹	Gauri ₹	Particulars	Sahaj ₹	Nimish ₹	Gauri ₹
To Revaluation A/c (Loss)	7,567	3,783	...	By Balance *b/d*	1,20,000	80,000	...
To Balance *c/d*	1,42,433	91,217	1,16,825	By General Reserve A/c	20,000	10,000	...
				By Premium for Goodwill A/c	10,000	5,000	...
				(₹ 45,000 × 1/3)			
				By Bank A/c (WN 1)	...	...	1,16,825
	1,50,000	95,000	1,16,825		1,50,000	95,000	1,16,825

BALANCE SHEET OF THE NEW FIRM *as at...*

Liabilities		₹	Assets		₹
Capital A/cs:			Machinery		1,26,000
Sahaj	1,42,433		Furniture		72,000
Nimish	91,217		Stock ₹ (50,000 – 5,000)		45,000
Gauri	1,16,825	3,50,475	Sundry Debtors	30,000	
Creditors		30,000	*Less:* Bad Debts	3,000	
Employees' Provident Fund		40,000		27,000	
			Less: Provision for Doubtful Debts	1,350	25,650
			Cash		20,000
			Bank (WN 2)		1,31,825
		4,20,475			4,20,475

Working Notes:

1. *Calculation of the amount to be brought in by Gauri as Capital:*
   (a) *Adjusted Combined Capital of the Old Partners* = ₹ 1,42,433 + ₹ 91,217 = ₹ 2,33,650.

   (b) *Total Capital of the New Firm* $= \dfrac{\text{Adjusted Combined Capital of the Old Partners}}{\text{Combined New Share of the Old Partners}}$

   = ₹ 2,33,650 × 3/2 = ₹ 3,50,475.

   (c) *Calculation of Gauri's Proportionate Capital* = ₹ 3,50,475 × 1/3 = ₹ 1,16,825.

2. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Gauri's Capital A/c	1,16,825	By Balance *c/d*	1,31,825
To Premium for Goodwill A/c	15,000		
	1,31,825		1,31,825

Illustration 19.

X and *Y* are partners in a firm sharing profits in the ratio of 3 : 2. They admitted *Z* as a partner for 1/4th share. At the time of admission of *Z*, Stock (Book Value ₹ 1,00,000) is to be reduced by 40% and Furniture (Book Value ₹ 60,000) is to be reduced to 40%. Pass the necessary Journal entries.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Revaluation A/c	...Dr.		76,000	
	To Stock A/c				40,000
	To Furniture A/c				36,000
	(Value of stock and furniture reduced by 40% and 60% respectively)				
	X's Capital A/c	...Dr.		45,600	
	Y's Capital A/c	...Dr.		30,400	
	To Revaluation A/c				76,000
	(Loss on revaluation transferred to Old Partners' Capital A/cs)				

Illustration 20.

(a) *X*, *Y* and *Z* are partners sharing profits and losses in the ratio of 5 : 3 : 2. They admit *W* as partner for 1/6th share. Following is the extract of the Balance Sheet on the date of admission:

Liabilities	₹	Assets	₹
General Reserve	36,000	Advertisement Suspense A/c	24,000
Contingency Reserve	6,000		
Profit & Loss A/c	18,000		

Pass necessary Journal entries.

(b) Give the Journal entry to distribute 'Workmen Compensation Reserve' of ₹ 72,000 at the time of admission of *Z*, if there is no claim against it. The firm has two partners *X* and *Y*.

(c) Give the Journal entry to distribute 'Workmen Compensation Reserve' of ₹ 72,000 at the time of admission of *Z*, if there is claim of ₹ 48,000 against it. The firm has two partners *X* and *Y*.

(d) Give the Journal entry to distribute 'Investment Fluctuation Reserve' of ₹ 24,000 at the time of admission of *Z*, when Investment (Market Value ₹ 1,10,000) exists at ₹1,20,000. The firm has two partners *X* and *Y*.

(e) Give the Journal entry to distribute 'General Reserve' of ₹ 4,800 at the time of admission of *Z*, when 20% of General Reserve is to be transferred to Investment Fluctuation Reserve. The firm has two partners *X* and *Y*.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*a*) (*i*)	General Reserve A/c	...Dr.		36,000	
	Contingency Reserve A/c	...Dr.		6,000	
	Profit & Loss A/c	...Dr.		18,000	
	To *X*'s Capital A/c				30,000
	To *Y*'s Capital A/c				18,000
	To *Z*'s Capital A/c				12,000
	(Reserves and undistributed profits distributed among old partners)				
(*ii*)	*X*'s Capital A/c	...Dr.		12,000	
	Y's Capital A/c	...Dr.		7,200	
	Z's Capital A/c	...Dr.		4,800	
	To Advertisement Suspense A/c				24,000
	(Advertisement Suspense Account distributed among old partners)				

(*b*)	Workmen Compensation Reserve A/c ...Dr.		72,000	
	To *X*'s Capital A/c			36,000
	To *Y*'s Capital A/c			36,000
	(Workmen Compensation Reserve distributed among partners)			
(*c*)	Workmen Compensation Reserve A/c ...Dr.		72,000	
	To Workmen Compensation Claim A/c			48,000
	To *X*'s Capital A/c			12,000
	To *Y*'s Capital A/c			12,000
	(Workmen Compensation Reserve distributed among partners)			
(*d*)	Investment Fluctuation Reserve A/c ...Dr.		24,000	
	To Investment A/c			10,000
	To *X*'s Capital A/c			7,000
	To *Y*'s Capital A/c			7,000
	(Investment Fluctuation Reserve adjusted and distributed among partners)			
(*e*)	General Reserve A/c ...Dr.		4,800	
	To Investment Fluctuation Reserve A/c (20% of ₹ 4,800)			960
	To *X*'s Capital A/c			1,920
	To *Y*'s Capital A/c			1,920
	(General Reserve distributed among partners)			

Illustration 21.

On 1st April, 2022, Sahil and Charu entered into partnership for sharing profits in the ratio of 4 : 3. They admitted Tanu as a new partner on 1st April, 2024 for 1/5th share which she acquired equally from Sahil and Charu. Sahil, Charu and Tanu earned profits at a higher rate than the normal rate of return for the year ended 31st March, 2025. Therefore, they decided to expand their business. To meet the requirements of additional capital, they admitted Puneet as a new partner on 1st April, 2025 for 1/7th share in profits which he acquired from Sahil and Charu in 7 : 3 ratio.

Calculate:

(i) New profit-sharing ratio of Sahil, Charu and Tanu for the year 2024–25.

(ii) New profit-sharing ratio of Sahil, Charu, Tanu and Puneet on Puneet's admission.

(*Delhi 2015, Modified*)

Solution:

(i) *Calculation of New Profit-sharing Ratio of Sahil, Charu and Tanu for the year 2024–25:*

$$\text{Sahil's Old Profit Share} = \frac{4}{7}$$

$$\text{Sahil gives out of his profit share to Tanu} = \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$$

New Profit Share of Old Partner = Old Profit Share – Profit Share sacrificed by Old Partner

$$\text{Sahil's New Profit Share} = \frac{4}{7} - \frac{1}{10} = \frac{33}{70}$$

$$\text{Charu's Old Profit Share} = \frac{3}{7}$$

$$\text{Charu gives out of her profit share to Tanu} = \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$$

$$\text{Charu's New Profit Share} = \frac{3}{7} - \frac{1}{10} = \frac{23}{70}$$

$$\text{Tanu's Profit Share} = \frac{1}{5} \text{ or } \frac{14}{70}$$

$$\text{New Profit-sharing Ratio of Sahil, Charu and Tanu} = \frac{33}{70} : \frac{23}{70} : \frac{14}{70} = 33 : 23 : 14.$$

(ii) *New Profit-sharing Ratio of Sahil, Charu, Tanu and Puneet on Puneet's Admission:*

$$\text{Sahil's Old Profit Share} = \frac{33}{70}$$

$$\text{Sahil gives out of his profit share to Puneet} = \frac{1}{7} \times \frac{7}{10} = \frac{7}{70}$$

$$\text{Sahil's New Profit Share} = \frac{33}{70} - \frac{7}{70} = \frac{26}{70}$$

$$\text{Charu's Old Profit Share} = \frac{23}{70}$$

$$\text{Charu gives out of her profit share to Puneet} = \frac{1}{7} \times \frac{3}{10} = \frac{3}{70}$$

$$\text{Charu's New Profit Share} = \frac{23}{70} - \frac{3}{70} = \frac{20}{70}$$

$$\text{Tanu's Profit Share remains the same, } i.e., \ \frac{1}{5} \text{ or } \frac{14}{70}$$

$$\text{Puneet's Profit Share} = \frac{1}{7} \text{ or } \frac{10}{70}$$

$$\text{New Profit-sharing Ratio of Sahil, Charu, Tanu and Puneet} = \frac{26}{70} : \frac{20}{70} : \frac{14}{70} : \frac{10}{70}$$

$$= 13 : 10 : 7 : 5.$$

Illustration 22. (*Adjustment of Capital by Opening Current Account*).

Karim and Rehman are partners in a firm sharing profits in the ratio of 2 : 3 respectively. They admitted Naval as a partner for 1/2 share in the profit. Naval will bring ₹ 5,00,000 for his capital and the capitals of Karim and Rehman will be adjusted in the profit-sharing ratio. For this Current Accounts will be opened. Balance Sheet of the firm as at 31st March, 2025 before Naval's admission was as follows:

Liabilities		₹	Assets	₹
Creditors		2,80,000	Cash in Hand	40,000
General Reserve		80,000	Sundry Debtors	2,00,000
Capital A/cs:			Furniture	2,00,000
Karim	3,75,000		Machinery	3,10,000
Rehman	1,25,000	5,00,000	Building	1,10,000
		8,60,000		8,60,000

The other terms of the agreement were as follows:

(i) Naval will bring ₹ 1,75,000 for his share of goodwill.

(ii) Building will be revalued at ₹ 3,90,000 and ₹ 70,000 depreciation will be charged on machinery.

(iii) A provision of 20% was to be made on debtors for doubtful debts.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the firm after Naval's admission.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Depreciation on Machinery A/c		70,000	By Building A/c	2,80,000
To Provision for Doubtful Debts A/c		40,000		
To Revaluation Profit transferred to:				
Karim's Capital A/c	68,000			
Rehman's Capital A/c	1,02,000	1,70,000		
		2,80,000		2,80,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Karim ₹	Rehman ₹	Naval ₹	Particulars	Karim ₹	Rehman ₹	Naval ₹
To Karim's Current A/c	3,45,000	...	...	By Balance *b/d*	3,75,000	1,25,000	...
(Balancing Figure)				By General Reserve A/c	32,000	48,000	...
To Rehman's Current A/c	...	80,000	...	By Revaluation A/c (Profit)	68,000	1,02,000	
(Balancing Figure)				By Cash A/c	...	...	5,00,000
To Balance *c/d* (WN 1 and 2)	2,00,000	3,00,000	5,00,000	By Premium for Goodwill A/c	70,000	1,05,000	...
	5,45,000	3,80,000	5,00,000		5,45,000	3,80,000	5,00,000

BALANCE SHEET *as at 31st March, 2025*

Liabilities		₹	Assets		₹
Creditors		2,80,000	Cash in Hand		7,15,000
Karim's Current A/c		3,45,000	Sundry Debtors	2,00,000	
Rehman's Current A/c		80,000	*Less:* Provision for Doubtful Debts	40,000	1,60,000
Capital A/cs:			Furniture		2,00,000
Karim	2,00,000		Machinery	3,10,000	
Rehman	3,00,000		*Less:* Depreciation	70,000	2,40,000
Naval	5,00,000	10,00,000	Building		3,90,000
		17,05,000			17,05,000

Working Notes:

1. *New Profit-sharing Ratio:*

Let total share = 1

Remaining profit share of old partners = $1 - \frac{1}{2} = \frac{1}{2}$

Karim's new profit share = 1/2 × 2/5 = 2/10

Rehman's new profit share = 1/2 × 3/5 = 3/10

New Profit-sharing Ratio = 2/10 : 3/10 : 1/2 = 2 : 3 : 5.

2. Total capital of new firm= ₹ 5,00,000 × 2/1 = ₹ 10,00,000

Karim's new capital = ₹ 10,00,000 × 2/10 = ₹ 2,00,000

Rehman's new capital = ₹ 10,00,000 × 3/10 = ₹ 3,00,000.

Illustration 23.

A and *B* are in partnership sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as on 31st March, 2025 is as under:

Liabilities		₹	Assets		₹
A's Capital	88,000		Goodwill		5,000
B's Capital	1,27,000	2,15,000	Land and Building		30,000
Workmen Compensation Reserve		10,000	Investments (Market Value ₹ 22,500)		25,000
Investment Fluctuation Reserve		5,000	Debtors	50,000	
Employees' Provident Fund		5,000	*Less:* Provision for Doubtful Debts	5,000	45,000
C's Loan		1,50,000	Stock		1,50,000
			Bank Balance		1,25,000
			Advertisement Suspense A/c		5,000
		3,85,000			3,85,000

On 1st April, 2025, they admit *C* as partner on the following terms:

(i) *A* sacrifices 1/3rd of his share while *B* sacrifices 1/10th from his share in favour of *C*.

(ii) *C*'s loan will be converted into his capital.

(iii) *C* brings in 60% of his share of goodwill in cash.

(iv) Goodwill is to be valued at 2 years' purchase of super profit of last three completed years. Profits for the last three years ended 31st March, are as follows:

2023—₹ 2,40,000; 2024—₹ 4,65,000; and 2025—₹ 6,90,000.

Normal profit is ₹ 3,15,000 with same amount of capital invested in similar industry.

(v) Land and Building was undervalued by ₹ 25,000, Stock was overvalued by ₹ 35,000 and Provision for Doubtful Debts is to be made equal to 5% of the debtors.

(vi) Claim for Workmen Compensation is ₹ 5,000. An unrecorded accrued income of ₹ 5,000 is to be accounted. A debtor whose dues of ₹ 25,000 were written off as bad debts, paid ₹ 20,000 in full settlement.

(vii) Capital Accounts of the partners to be readjusted on the basis of *C's* Capital in their profit-sharing ratio. Excess or deficiency in capital is to be paid or received.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Stock A/c		35,000	By Land and Building A/c		25,000
To Gain (Profit) on Revaluation transferred to:			By Provision for Doubtful Debts A/c:		
A's Capital A/c	10,500		Existing	5,000	
B's Capital A/c	7,000	17,500	*Less:* Required (5% of ₹ 50,000)	2,500	2,500
			By Bad Debts Recovered A/c		20,000
			By Accrued Income A/c		5,000
		52,500			52,500

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Goodwill A/c	3,000	2,000	...	By Balance *b/d*	88,000	1,27,000	...
To Advertisement Suspense A/c	3,000	2,000	...	By *C's* Loan A/c	...	...	1,50,000
To Bank A/c (Bal. Fig.)	...	13,000	...	By Premium for Goodwill A/c	36,000	18,000	...
To Balance *c/d* (WN 4)	2,00,000	1,50,000	1,50,000	By *C's* Current A/c (WN 3)	24,000	12,000	
				By Revaluation A/c (Profit)	10,500	7,000	
				By Workmen Compensation Reserve A/c	3,000	2,000	...
				By Investment Fluctuation Reserve A/c	1,500	1,000	...
				By Bank A/c (Bal. Fig.)	43,000	...	...
	2,06,000	1,67,000	1,50,000		2,06,000	1,67,000	1,50,000

BALANCE SHEET *as at 1st April, 2025*

Liabilities		₹	Assets		₹
Employees' Provident Fund		5,000	Land and Building		55,000
Workmen Compensation Claim		5,000	Investments		22,500
Capital A/cs:			Debtors	50,000	
A	2,00,000		*Less:* Provision for Doubtful Debts	2,500	47,500
B	1,50,000		Stock (₹ 1,50,000 – ₹ 35,000)		1,15,000
C	1,50,000	5,00,000	Bank Balance (WN 5)		2,29,000
			Accrued Income		5,000
			C's Current A/c (WN 3)		36,000
		5,10,000			5,10,000

Working Notes:

1. *Calculation of C's Share, Sacrificing Ratio and New Ratio:*

   New Profit Share = Old Profit Share – Profit Share Surrendered

   A's New Profit Share = 3/5 – (1/3 × 3/5) = 3/5 – 1/5 = 2/5 or 4/10

   B's New Profit Share = 2/5 – 1/10 = (4 – 1)/10 = 3/10

   C's Profit Share = 1/5 + 1/10 = (2 + 1)/10 = 3/10

   New Profit-sharing Ratio of *A*, *B* and *C* = 4/10 : 3/10 : 3/10 = 4 : 3 : 3

   Sacrificing Ratio of *A* and *B* = 1/5 : 1/10 = 2 : 1.

2. *Calculation of C's Share of Goodwill:*

   (i) Average Profit = $\frac{₹\ 2,40,000 + ₹\ 4,65,000 + ₹\ 6,90,000}{3}$ = ₹ 4,65,000

   (ii) Normal Profit = ₹ 3,15,000

   (iii) Super Profit = Average Profit – Normal Profit = ₹ 4,65,000 – ₹ 3,15,000 = ₹ 1,50,000

   (iv) Firm's Goodwill = Super Profit × No. of years' purchase = ₹ 1,50,000 × 2 = ₹ 3,00,000

   (v) *C*'s Share of Goodwill = ₹ 3,00,000 × 3/10 = ₹ 90,000.

3. *Journal Entries with respect to Goodwill:*

		₹	₹
Bank A/c (60% of ₹ 90,000)	...Dr.	54,000	
To Premium for Goodwill A/c			54,000
Premium for Goodwill A/c	...Dr.	54,000	
To *A*'s Capital A/c			36,000
To *B*'s Capital A/c			18,000
C's Current A/c (₹ 90,000 – ₹ 54,000)	...Dr.	36,000	
To *A*'s Capital A/c			24,000
To *B*'s Capital A/c			12,000

4. *Adjustment of Capital:*

   Total Capital of the New Firm = ₹ 1,50,000 × 10/3 = ₹ 5,00,000

   Thus, *A*'s Capital in New Firm = ₹ 5,00,000 × 4/10 = ₹ 2,00,000;

   B's Capital in New Firm = ₹ 5,00,000 × 3/10 = ₹ 1,50,000; and

   C's Capital in New Firm = ₹ 1,50,000.

5. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,25,000	By *B*'s Capital A/c	13,000
To Bad Debts Recovered A/c	20,000	By Balance *c/d*	2,29,000
To Premium for Goodwill A/c	54,000		
To *A*'s Capital A/c	43,000		
	2,42,000		2,42,000

Illustration 24.

Following is the Balance Sheet as at 31st March, 2025 of Meera and Sarthak, who share profits and losses in the ratio of 3 : 2:

Liabilities		₹	Assets		₹
Capital A/cs: Meera	1,00,000		Plant and Machinery		1,00,000
Sarthak	1,00,000	2,00,000	Land and Building		80,000
General Reserve		1,50,000	Debtors	1,20,000	
Workmen Compensation Reserve		50,000	*Less:* Provision for Doubtful Debts	10,000	1,10,000
Creditors		1,00,000	Stock		1,20,000
			Cash		90,000
		5,00,000			5,00,000

On 1st April, 2025, they admit Rohit into partnership on the following terms:

(i) Provision for Doubtful Debts would be increased by ₹ 20,000.

(ii) Value of Land and Building would be increased to ₹ 1,80,000.

(iii) The value of Stock would be increased by ₹ 40,000.

(iv) Liability against the Workmen Compensation Reserve is determined at ₹ 20,000.

(v) Rohit brought ₹ 1,00,000 in cash as his share of goodwill.

(vi) Rohit would bring in further cash as would make his capital equal to 20% of the total capital of the new firm after the above revaluation and adjustments are carried out.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the firm.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts A/c		20,000	By Land and Building A/c	1,00,000
To Gain (Profit) transferred to:			By Stock A/c	40,000
Meera's Capital A/c	72,000			
Sarthak's Capital A/c	48,000	1,20,000		
		1,40,000		1,40,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Meera (₹)	Sarthak (₹)	Rohit (₹)	Particulars	Meera (₹)	Sarthak (₹)	Rohit (₹)
To Balance *c/d* (Balancing Figure)	3,40,000	2,60,000	1,50,000	By Balance *b/d*	1,00,000	1,00,000	...
				By Cash A/c (WN)	...	...	1,50,000
				By Premium for Goodwill A/c	60,000	40,000	...
				By Revaluation A/c	72,000	48,000	...
				By General Reserve A/c	90,000	60,000	...
				By Workmen Compensation Reserve A/c	18,000	12,000	...
	3,40,000	2,60,000	1,50,000		3,40,000	2,60,000	1,50,000

BALANCE SHEET OF M/s MEERA, SARTHAK AND ROHIT *as at 1st April, 2025*

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		1,80,000
Meera	3,40,000		Plant and Machinery		1,00,000
Sarthak	2,60,000		Debtors	1,20,000	
Rohit	1,50,000	7,50,000	*Less:* Provision for Doubtful Debts	30,000	90,000
Workmen Compensation Claim		20,000	Stock		1,60,000
Creditors		1,00,000	Cash [₹ 90,000 + ₹ 2,50,000 (WN)]		3,40,000
		8,70,000			8,70,000

Working Note: *Computation of Rohit's Capital:*

	₹
Capital of Meera after adjustments	3,40,000
Capital of Sarthak after adjustments	2,60,000
Combined capital of Meera and Sarthak for 80% or 4/5th share	6,00,000

∴ Total capital of new firm = ₹ 6,00,000 × 5/4 = ₹ 7,50,000

Rohit's share in capital = ₹ 7,50,000 × 1/5 = ₹ 1,50,000.

Total cash brought by Rohit = Capital + Share of goodwill

= ₹ 1,50,000 + ₹ 1,00,000 = ₹ 2,50,000.

Illustration 25.

Karim and Rehman are partners sharing profits in the ratio of 3 : 2. Naval is admitted as a partner. New profit-sharing ratio among Karim, Rehman and Naval is 4 : 3 : 2. Find the sacrificing ratio.

Solution:

Old Profit-sharing Ratio of Karim and Rehman = 3 : 2

New Profit-sharing Ratio of Karim, Rehman, and Naval = 4 : 3 : 2

Share sacrificed = Old Profit Share – New Profit Share

$$\text{Karim's sacrifice} = \frac{3}{5} - \frac{4}{9} = \frac{27-20}{45} = \frac{7}{45}$$

$$\text{Rehman's sacrifice} = \frac{2}{5} - \frac{3}{9} = \frac{18-15}{45} = \frac{3}{45}$$

Thus, Sacrificing Ratio of Karim and Rehman = $\frac{7}{45} : \frac{3}{45} = 7 : 3$.

Illustration 26.

Anu and Bhagwan were partners in a firm sharing profits in the ratio of 3 : 1. Goodwill existed in the books at ₹ 4,40,000. Raja was admitted in the partnership. New profit-sharing ratio among Anu, Bhagwan and Raja was 2 : 2 : 1.

Raja brought ₹ 1,00,000 for his capital and necessary cash for his goodwill premium. Goodwill of the firm was valued at ₹ 2,50,000.

Record necessary Journal entries in the books of the firm for the above transactions.

(*AI 2015 C*)

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Anu's Capital A/c	...Dr.		3,30,000	
	Bhagwan's Capital A/c	...Dr.		1,10,000	
	To Goodwill A/c				4,40,000
	(Existing goodwill written off in the old profit-sharing ratio)				
	Bank A/c	...Dr.		1,50,000	
	To Raja's Capital A/c				1,00,000
	To Premium for Goodwill A/c (₹ 2,50,000 × 1/5)				50,000
	(Amount of capital and goodwill brought in cash by Raja)				
	Premium for Goodwill A/c	...Dr.		50,000	
	Bhagwan's Capital A/c	...Dr.		37,500	
	To Anu's Capital A/c				87,500
	(Premium for goodwill and share of goodwill gained by Bhagwan credited to Anu)				

Working Note: *Calculation of Sacrifice/(Gain):*

Particulars	Anu	Bhagwan	Raja
I. Old Share	3/4	1/4	0
II. New Share	2/5	2/5	1/5
III. Sacrifice/(Gain) (I – II)	3/4 – 2/5 = 7/20 Sacrifice	1/4 – 2/5 = –3/20 Gain	1/5 Gain
Share of Goodwill	₹ 2,50,000 × 7/20 = ₹ 87,500	₹ 2,50,000 × 3/20 = ₹ 37,500	₹ 2,50,000 × 1/5 = ₹ 50,000

Illustration 27.

A, *B* and *C* are partners sharing profits and losses in the ratio of 3 : 2 : 1. Their Balance Sheet as at 31st March, 2024 is as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Land and Building	50,000
A	60,000		Plant and Machinery	40,000
B	60,000		Furniture	30,000
C	40,000	1,60,000	Stock	20,000
Creditors		30,000	Debtors	30,000
Bills Payable		10,000	Bills Receivable	20,000
			Bank	10,000
		2,00,000		2,00,000

D is admitted as a partner on 1st April, 2024. His capital is to be ₹ 50,000.

Following adjustments are agreed on *D*'s admission:

(a) Out of the Creditors, ₹ 10,000 is due to *D*, it will be adjusted against his capital.

(b) Advertisement Expenses of ₹ 1,200 are to be carried forward as Prepaid Expenses.

(c) Expenses debited in the Profit & Loss Account includes ₹ 2,000 paid for *B*'s personal expenses.

(d) A Bill of Exchange of ₹ 4,000, which was previously discounted with the bank, was dishonoured on 31st March, 2024 but entry was not passed for dishonour.

(e) Provision for Doubtful Debts @ 5% is to be created against Debtors.

(f) Expenses on Revaluation of ₹ 2,100 is paid by *A*.

Prepare necessary Ledger Accounts and Balance Sheet after *D*'s admission.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Provision for Doubtful Debts A/c	1,700	By Prepaid Advertisement Expenses A/c*		1,200
To *A*'s Capital A/c (Expenses)	2,100	By *B*'s Capital A/c**		2,000
		By Loss transferred to:		
		A's Capital A/c	300	
		B's Capital A/c	200	
		C's Capital A/c	100	600
	3,800			3,800

*Advertisement expenses of ₹ 1,200 relate to next year but wrongly debited to current year's expenses. Hence, it is credited to Revaluation Account and debited to Prepaid Advertisement Expenses Account. In the next year, the amount will be debited to Advertisement Expenses Account.

**Personal expenses of *B* of ₹ 2,000 were wrongly debited as expense of the firm instead of *B*'s Drawings Account. The error is now rectified by passing the following entry:

B's Capital A/c ...Dr.
To Revaluation A/c

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	Particulars	*A* (₹)	*B* (₹)
To Revaluation A/c (Drawings as Expenses)	...	2,000	By Balance *b/d*	60,000	60,000
			By Revaluation A/c (Expenses)	2,100	...
To Revaluation A/c (Loss)	300	200			
To Balance *c/d*	61,800	57,800			
	62,100	60,000		62,100	60,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*C* (₹)	*D* (₹)	Particulars	*C* (₹)	*D* (₹)
To Revaluation A/c (Loss)	100	...	By Balance b/d	40,000	...
To Balance *c/d*	39,900	50,000	By Creditors' A/c (transferred)	...	10,000
			By Bank A/c (WN 3)	...	40,000
	40,000	50,000		40,000	50,000

BALANCE SHEET OF *A*, *B*, *C*, AND *D as at 1st April, 2024*

Liabilities		₹	Assets		₹
Capital A/cs: *A*	61,800		Land and Building		50,000
B	57,800		Plant and Machinery		40,000
C	39,900		Furniture		30,000
D	50,000	2,09,500	Stock		20,000
Creditors		20,000	Debtors	30,000	
Bills Payable		10,000	*Add:* Dishonoured Discounted Bill	4,000	
				34,000	
			Less: Provision for Doubtful Debts	1,700	32,300
			Bills Receivable		20,000
			Bank (WN 1)		46,000
			Prepaid Advertisement Expenses		1,200
		2,39,500			2,39,500

Working Notes:

1. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	10,000	By Debtors' A/c (Dishonoured B/R)	4,000
To *D*'s Capital A/c	40,000	By Balance *c/d*	46,000
	50,000		50,000

2. Provision for Doubtful Debts on Debtors is calculated on ₹ 30,000 + ₹ 4,000, *i.e.,* on ₹ 34,000 @ 5%, *i.e.,* ₹ 1,700.

   When a bill previously discounted, is dishonoured, Debtor's A/c is debited and Bank A/c is credited, *i.e.*, Debtors balance is increased and Bank balance is decreased.

Debtors' A/c	...Dr.	4,000	
To Bank A/c			4,000
(Bills Receivable discounted from the Bank earlier, now dishonoured)			

3. *D* is required to bring only ₹ 50,000 as Capital. However, the firm already owes to him a sum of ₹ 10,000 as Creditor which is stated to be transferred to his Capital as per (*a*) in the Question.

   In view of this, *D* is required to bring ₹ 40,000 (*i.e.,* ₹ 50,000 – ₹ 10,000) only instead of ₹ 50,000.

Creditors' A/c	...Dr.	10,000	
To *D*'s Capital A/c			10,000
(Balance due to *D* as Creditor transferred to his Capital Account)			

Illustration 28.

Following is the Balance Sheet of Jay and Veeru as at 31st March, 2024 who are partners in a firm sharing profits and losses in the ratio of 3 : 2 respectively:

Liabilities		₹	Assets		₹
Creditors		45,000	Cash at Bank		15,000
General Reserve		36,000	Debtors	60,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	2,400	57,600
Jay	1,80,000		Patents		44,400
Veeru	90,000	2,70,000	Investments		24,000
Current A/cs:			Fixed Assets		2,16,000
Jay	30,000		Goodwill		30,000
Veeru	6,000	36,000			
		3,87,000			3,87,000

Sri is admitted as a new partner on 1st April, 2024 on the following terms:

(a) Provision for doubtful debts is to be maintained at 5% on Debtors.

(b) Outstanding rent payable was ₹ 15,000.

(c) An accrued income of ₹ 4,500 does not appear in the books of the firm. It is now to be recorded.

(d) Jay takes over the Investments at an agreed value of ₹ 18,000.

(e) New Profit-sharing Ratio of partners will be 4 : 3 : 2.

(f) Sri will bring in ₹ 60,000 as his capital by cheque.

(g) Sri is to pay an amount equal to his share in firm's goodwill valued at twice the average profit of the last three years ended 31st March, 2024, 2023 and 2022, which were ₹ 90,000; ₹ 78,000 and ₹ 75,000 respectively.

(h) Half of the amount of goodwill is to be withdrawn by Jay and Veeru.

You are required to pass Journal entries, prepare Revaluation Account, Partners' Capital and Current Accounts and the Balance Sheet of the new firm.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2024				
April 1	General Reserve A/c ...Dr.		36,000	
	To Jay's Current A/c			21,600
	To Veeru's Current A/c			14,400
	(General Reserve distributed between old partners in their old profit-sharing ratio)			
	Jay's Current A/c ...Dr.		18,000	
	To Investments A/c			18,000
	(Investments taken by Jay at an agreed value)			
	Revaluation A/c ...Dr.		21,600	
	To Provision for Doubtful Debts A/c (5% of ₹ 60,000 – ₹ 2,400)			600
	To Outstanding Rent A/c			15,000
	To Investments A/c (₹ 24,000 – ₹ 18,000)			6,000
	(Decrease in value of investments and increase in liabilities recorded)			
	Accrued Income A/c ...Dr.		4,500	
	To Revaluation A/c			4,500
	(Accrued income recorded)			
	Jay's Current A/c ...Dr.		10,260	
	Veeru's Current A/c ...Dr.		6,840	
	To Revaluation A/c			17,100
	(Loss on revaluation of assets and reassessment of liabilities transferred to old Partners' Current Accounts in their old profit-sharing ratio)			
	Jay's Current A/c ...Dr.		18,000	
	Veeru's Current A/c ...Dr.		12,000	
	To Goodwill A/c			30,000
	(Existing goodwill written off among the old partners in their old profit-sharing ratio, *i.e.*, 3 : 2)			

	Bank A/c ...Dr.		96,000	
	To Sri's Capital A/c			60,000
	To Premium for Goodwill A/c			36,000
	(Capital and premium for goodwill brought in cash by new partner Sri)			
	Premium for Goodwill A/c ...Dr.		36,000	
	To Jay's Current A/c (₹ 36,000 × 7/10)			25,200
	To Veeru's Current A/c (₹ 36,000 × 3/10)			10,800
	(Premium for goodwill credited to the old Partners' Current Accounts in their sacrificing ratio, *i.e.*, 7 : 3)			
	Jay's Current A/c ...Dr.		12,600	
	Veeru's Current A/c ...Dr.		5,400	
	To Bank A/c			18,000
	(Half of the amount of goodwill withdrawn by partners)			

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Provision for Doubtful Debts A/c	600	By Accrued Income A/c		4,500
To Outstanding Rent A/c	15,000	By Loss transferred to:		
To Investments A/c	6,000	Jay's Current A/c	10,260	
		Veeru's Current A/c	6,840	17,100
	21,600			21,600

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Jay (₹)	Veeru (₹)	Sri (₹)	Particulars	Jay (₹)	Veeru (₹)	Sri (₹)
To Balance *c/d*	1,80,000	90,000	60,000	By Balance *b/d*	1,80,000	90,000	...
				By Bank A/c	...	...	60,000
	1,80,000	90,000	60,000		1,80,000	90,000	60,000
				By Balance *b/d*	1,80,000	90,000	60,000

Dr. PARTNERS' CURRENT ACCOUNTS *Cr.*

Particulars	Jay (₹)	Veeru (₹)	Sri (₹)	Particulars	Jay (₹)	Veeru (₹)	Sri (₹)
To Goodwill A/c (w/o)	18,000	12,000	...	By Balance *b/d*	30,000	6,000	...
To Investments A/c	18,000	...	...	By Premium for Goodwill A/c	25,200	10,800	...
To Revaluation A/c (Loss)	10,260	6,840	...	By General Reserve A/c	21,600	14,400	...
To Bank A/c (Goodwill withdrawn)	12,600	5,400	...				
To Balance *c/d*	17,940	6,960	...				
	76,800	31,200	...		76,800	31,200	...

BALANCE SHEET OF M/S. JAY, VEERU AND SRI

as at 1st April, 2024

Liabilities		₹	Assets		₹
Creditors		45,000	Cash at Bank (WN 1)		93,000
Outstanding Rent		15,000	Debtors	60,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	3,000	57,000
Jay	1,80,000		Accrued Income		4,500
Veeru	90,000		Patents		44,400
Sri	60,000	3,30,000	Fixed Assets		2,16,000
Current A/cs:					
Jay	17,940				
Veeru	6,960	24,900			
		4,14,900			4,14,900

Working Notes:

1. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	15,000	By Jay's Current A/c	12,600
To Sri's Capital A/c	60,000	By Veeru's Current A/c	5,400
To Premium for Goodwill A/c	36,000	By Balance *c/d*	93,000
	1,11,000		1,11,000

2. *Calculation of Goodwill:*

$$\text{Average Profit of 3 Years} = \frac{₹\ 90{,}000 + ₹\ 78{,}000 + ₹\ 75{,}000}{3} = ₹\ 81{,}000$$

Goodwill valued at twice the Average Profits = ₹ 81,000 × 2 = ₹ 1,62,000

Sri's Share of Goodwill = ₹ 1,62,000 × 2/9 = ₹ 36,000.

3. *Calculation of Sacrificing Ratio:*

$$\text{Jay's Sacrifice} = \text{Old Profit Share} - \text{New Profit Share} = \frac{3}{5} - \frac{4}{9} = \frac{27-20}{45} = \frac{7}{45}$$

$$\text{Veeru's Sacrifice} = \text{Old Profit Share} - \text{New Profit Share} = \frac{2}{5} - \frac{3}{9} = \frac{18-15}{45} = \frac{3}{45}$$

$$\text{Thus, Sacrificing Ratio of Jay and Veeru} = \frac{7}{45} : \frac{3}{45} = 7:3.$$

Illustration 29.

Kalpana and Kanika were partners in a firm sharing profits in 3 : 1 ratio. They admitted Karuna as a partner for 1/4th share in future profits. Karuna was to bring ₹ 60,000 for his capital. The Balance Sheet of Kalpana and Kanika as at 1st April, 2024, the date on which *C* was admitted, was:

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		40,000
Kalpana	50,000		Plant and Machinery		70,000
Kanika	80,000	1,30,000	Stock		30,000
General Reserve		10,000	Debtors	35,000	
Creditors		70,000	*Less*: Provision for Doubtful Debts	1,000	34,000
			Investments		26,000
			Cash		10,000
		2,10,000			2,10,000

The other terms agreed upon were:

(a) Goodwill of the firm was valued at ₹ 24,000.

(b) Land and Building were valued at ₹ 65,000 and Plant and Machinery at ₹ 60,000.

(c) Provision for Doubtful Debts was found in excess by ₹ 400.

(d) A liability of ₹ 1,200 included in Sundry Creditors was not payable.

(e) The capitals of the partners be adjusted on the basis of Karuna's contribution of capital to the firm.

(f) Excess or shortfall, if any, be transferred to Current Accounts.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Plant and Machinery A/c		10,000	By Land and Building A/c	25,000
To Gain (Profit) transferred to:			By Provision for Doubtful Debts A/c	400
Kalpana's Capital A/c	12,450		By Creditors A/c	1,200
Kanika's Capital A/c	4,150	16,600		
		26,600		26,600

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Kalpana ₹	Kanika ₹	Karuna ₹	Particulars	Kalpana ₹	Kanika ₹	Karuna ₹
To Kanika's Current A/c (WN 3)	...	43,150	...	By Balance *b/d*	50,000	80,000	...
				By General Reserve A/c	7,500	2,500	...
To Balance *c/d*	1,35,000	45,000	60,000	By Revaluation A/c	12,450	4,150	...
				By Cash A/c	...	...	60,000
				By Karuna's Current A/c (WN 2)	4,500	1,500	...
				By Kalpana's Current A/c (WN 3)	60,550	...	...
	1,35,000	88,150	60,000		1,35,000	88,150	60,000

BALANCE SHEET OF M/S. KALPANA, KANIKA AND KARUNA *as at 1st April, 2024*

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		65,000
Kalpana	1,35,000		Plant and Machinery		60,000
Kanika	45,000		Stock		30,000
Karuna	60,000	2,40,000	Debtors	35,000	
Kanika's Current A/c		43,150	*Less:* Provision for Doubtful Debts	600	34,400
Creditors		68,800	Investments		26,000
			Cash		70,000
			Kalpana's Current A/c		60,550
			Karuna's Current A/c		6,000
		3,51,950			3,51,950

Working Notes:

1. *Calculation of New Profit-sharing Ratio:*

Old Ratio between Kalpana and Kanika = 3 : 1

Let the total profits be = 1

Remaining share after Karuna is given 1/4th share = $1-\frac{1}{4}=\frac{3}{4}$

Thus, Kalpana's new share shall be = $\frac{3}{4}\times\frac{3}{4}=\frac{9}{16}$

Kanika's new share shall be = $\frac{3}{4}\times\frac{1}{4}=\frac{3}{16}$

Therefore, New Ratio of Kalpana, Kanika and Karuna = $\frac{9}{16}:\frac{3}{16}:\frac{1}{4}=\underbrace{\mathbf{9:3}}:\mathbf{4}$.

Since, old partners continue to share profits between themselves as before, *i.e.*, in 9 : 3, *i.e.*, in 3 : 1 ratio, therefore, Sacrificing Ratio between them shall also be the same as the old profit-sharing ratio, *i.e.*, 3 : 1.

2. *Adjustment of Goodwill:*

Karuna's 1/4th share of Goodwill will be = ₹ $24,000\times\frac{1}{4}=$ ₹ 6,000

Which has to be shared by old partners in their Sacrificing Ratio, *i.e.*, 3 : 1

Thus, Kalpana will be credited by = ₹ $6,000\times\frac{3}{4}$ = ₹ 4,500

Kanika will be credited by = ₹ $6,000\times\frac{1}{4}$ = ₹ 1,500.

3. *Calculation of Capital on the basis of* Karuna's *Capital:*

Karuna brings as capital for 1/4th share = ₹ 60,000

∴ Total Capital of the New firm will be = ₹ $60,000\times\frac{4}{1}$ = ₹ 2,40,000

Therefore, Kalpana's New Capital will be = ₹ $2,40,000\times\frac{9}{16}$ = ₹ 1,35,000

Kanika's New Capital will be = ₹ $2,40,000\times\frac{3}{16}$ = ₹ 45,000

While, Kalpana's available capital = ₹ 74,450

Kanika's available capital = ₹ 88,150

Hence, shortage of Kalpana's capital ₹ 60,550 and excess of Kanika's capital ₹ 43,150 would be transferred to their respective Current Accounts.

Illustration 30.

On 1st April, 2022, Sahil and Charu entered into partnership for sharing profits in the ratio of 4 : 3. They admitted Tanu as a new partner on 1st April, 2024 for 1/5 share which she acquired equally from Sahil and Charu. Sahil, Charu and Tanu earned profits at a higher rate than the normal rate of return for the year ended 31st March, 2025. Therefore, they decided to expand their business. To meet the requirements of additional capital, they admitted Puneet as a new partner on 1st April, 2025 for 1/7th share in profits which he acquired from Sahil and Charu in 7 : 3 ratio.

Calculate:

(i) New profit-sharing ratio of Sahil, Charu and Tanu for the year 2024–25.

(ii) New profit-sharing ratio of Sahil, Charu, Tanu and Puneet on Puneet's admission.

(*Delhi 2015, Modified*)

Solution:

(i) *Calculation of New Profit-sharing Ratio of Sahil, Charu and Tanu for the year 2024–25:*

$$\text{Sahil's Old Profit Share} = \frac{4}{7}$$

$$\text{Sahil gives out of his profit share to Tanu} = \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$$

New Profit Share of Old Partner = Old Profit Share – Profit Share sacrificed by Old Partner

$$\text{Sahil's New Profit Share} = \frac{4}{7} - \frac{1}{10} = \frac{33}{70}$$

$$\text{Charu's Old Profit Share} = \frac{3}{7}$$

$$\text{Charu gives out of her profit share to Tanu} = \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$$

$$\text{Charu's New Profit Share} = \frac{3}{7} - \frac{1}{10} = \frac{23}{70}$$

$$\text{Tanu's Profit Share} = \frac{1}{5} \text{ or } \frac{14}{70}$$

$$\text{New Profit-sharing Ratio of Sahil, Charu and Tanu} = \frac{33}{70} : \frac{23}{70} : \frac{14}{70} = 33 : 23 : 14.$$

(ii) *New Profit-sharing Ratio of Sahil, Charu, Tanu and Puneet on Puneet's Admission:*

$$\text{Sahil's Old Profit Share} = \frac{33}{70}$$

$$\text{Sahil gives out of his profit share to Puneet} = \frac{1}{7} \times \frac{7}{10} = \frac{7}{70}$$

$$\text{Sahil's New Profit Share} = \frac{33}{70} - \frac{7}{70} = \frac{26}{70}$$

$$\text{Charu's Old Profit Share} = \frac{23}{70}$$

$$\text{Charu gives out of her profit share to Puneet} = \frac{1}{7} \times \frac{3}{10} = \frac{3}{70}$$

$$\text{Charu's New Profit Share} = \frac{23}{70} - \frac{3}{70} = \frac{20}{70}$$

$$\text{Tanu's Profit Share remains the same, } i.e., \ \frac{1}{5} \text{ or } \frac{14}{70}$$

$$\text{Puneet's Profit Share} = \frac{1}{7} \text{ or } \frac{10}{70}$$

$$\text{New Profit-sharing Ratio of Sahil, Charu, Tanu and Puneet} = \frac{26}{70} : \frac{20}{70} : \frac{14}{70} : \frac{10}{70}$$

$$= 13 : 10 : 7 : 5.$$

Illustration 31 (*Hidden Goodwill*).

Karam and Param are partners in a firm. They share profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2025 was:

Liabilities		₹	Assets		₹
Creditors		2,30,000	Cash at Bank		1,20,000
Outstanding Rent		20,000	Debtors	2,00,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	20,000	1,80,000
Karam	3,00,000		Stock		50,000
Param	1,50,000	4,50,000	Prepaid Expenses		10,000
			Plant and Machinery		3,40,000
		7,00,000			7,00,000

They admitted Suresh as partner on 1st April, 2025 on the following terms:

(i) Suresh will bring ₹ 2,00,000 as capital and the necessary amount for goodwill.

(ii) New profit-sharing ratio among Karam, Param and Suresh will be 5 : 3 : 2.

(iii) Amount of goodwill is to be based on Suresh's share in profits and capital contributed by him.

(iv) Stock is to be reduced by 10%.

(v) Provision for Doubtful Debts is to be ₹ 5,000.

(vi) Plant and Machinery is to be reduced by 5%.

(vii) Expenses on revaluation were ₹ 1,400 and were paid by the firm.

(viii) An unaccounted Commission Receivable of ₹ 1,400 be accounted.

Prepare Revaluation Account, Partners' Capital Accounts, Bank Account and the Balance Sheet of the New Firm.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Stock A/c		5,000	By Provision for Doubtful Debts A/c		15,000
To Plant and Machinery A/c		17,000	(₹ 20,000 – ₹ 5,000)		
To Bank A/c (Revaluation Expenses)		1,400	By Commission Receivable A/c		1,400
			By Loss transferred to:		
			Karam's Capital A/c	4,200	
			Param's Capital A/c	2,800	7,000
		23,400			23,400

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Karam ₹	Param ₹	Suresh ₹	Particulars	Karam ₹	Param ₹	Suresh ₹
To Revaluation A/c (Loss)	4,200	2,800	...	By Balance *b/d*	3,00,000	1,50,000	...
To Balance *c/d*	3,31,500	1,82,900	2,00,000	By Bank A/c	...	...	2,00,000
				By Premium for Goodwill A/c (in Sacrificing Ratio) (WN 1 and 2)	35,700	35,700	...
	3,35,700	1,85,700	2,00,000		3,35,700	1,85,700	2,00,000

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,20,000	By Revaluation A/c	1,400
To Suresh's Capital A/c	2,00,000	By Balance *c/d*	3,90,000
To Premium for Goodwill A/c	71,400		
	3,91,400		3,91,400

BALANCE SHEET OF THE NEW FIRM *as at 1st April, 2025*

Liabilities		₹	Assets		₹
Creditors		2,30,000	Cash at Bank		3,90,000
Outstanding Rent		20,000	Stock (₹ 50,000 – ₹ 5,000)		45,000
Capital A/cs:			Debtors	2,00,000	
Karam	3,31,500		*Less:* Provision for Doubtful Debts	5,000	1,95,000
Param	1,82,900		Prepaid Expenses		10,000
Suresh	2,00,000	7,14,400	Commission Receivable		1,400
			Plant and Machinery		3,23,000
		9,64,400			9,64,400

Working Notes:

1. *Calculation of Sacrificing Ratio (Sacrifice = Old Profit Share – New Profit Share):*

   Karam's sacrifice= 3/5 – 5/10 = 1/10; Param's sacrifice = 2/5 – 3/10 = 1/10

   Thus, Sacrificing Ratio of Karam and Param = 1/10 : 1/10 or 1 : 1.

2. *Calculation of Hidden Goodwill:*

   Suresh contributes Capital for 2/10th share = ₹ 2,00,000

   (A) Total capital of the firm should be = ₹ 2,00,000 × 10/2 = ₹ 10,00,000.

   (B) Total capital of Karam, Param (after adjustment of revaluation loss) and Suresh is [₹ 3,00,000 + ₹ 1,50,000 – ₹ 7,000 (*i.e.*, loss on revaluation) + ₹ 2,00,000] = ₹ 6,43,000.

   (C) Hidden Goodwill (A – B) = ₹ 10,00,000 – ₹ 6,43,000 = ₹ 3,57,000.

   Suresh's share of Goodwill = 1/5th of ₹ 3,57,000 = ₹ 71,400.

Illustration 32.

Give the Journal entry to distribute 'Investment Fluctuation Reserve' of ₹ 10,000 at the time of admission of Vasu, when Investment (Market value ₹ 47,500) appears at ₹ 50,000. The firm has two partners Ravi and Alok.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Investment Fluctuation Reserve A/c ...Dr.		10,000	
	To Ravi's Capital A/c			3,750
	To Alok's Capital A/c			3,750
	To Investments A/c			2,500
	(Value of Investment brought up to market value and surplus IFR transferred to partners' capital accounts)			

Illustration 33.

Give the Journal entry to distribute 'General Reserve' of ₹ 10,000 at the time of admission of Raj, when 25% of General Reserve is to be transferred to 'Provision for Doubtful Debts'. The firm has two partners Varun and Karan.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	General Reserve A/c ...Dr.		10,000	
	To Varun's Capital A/c			3,750
	To Karan's Capital A/c			3,750
	To Provision for Doubtful Debts A/c			2,500
	(25% of General Reserve transferred to Provision for Doubtful Debts and balance transferred to partners in their old profit-sharing ratio.)			

Illustration 34.

Give Journal entry to distribute 'Workmen Compensation Reserve' of ₹ 1,50,000 at the time of admission of Kabir, when there is a claim of ₹ 1,00,000 against it. The firm has two Partners Shiv and Vishnu.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Workmen Compensation Reserve A/c ...Dr.		1,50,000	
	To Shiv's Capital A/c			25,000
	To Vishnu's Capital A/c			25,000
	To Workmen Compensation Claim A/c			1,00,000
	(Liability of Workmen Compensation Claim created and surplus WCR transfer to Partners Capital Accounts in their old profit-sharing ratio)			

Illustration 35.

A and *B* are in partnership sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as on 31st March, 2025 is as under:

Liabilities		₹	Assets		₹
A's Capital	88,000		Goodwill		5,000
B's Capital	1,27,000	2,15,000	Land and Building		30,000
Workmen Compensation Reserve		10,000	Investments (Market Value ₹ 22,500)		25,000
Investment Fluctuation Reserve		5,000	Debtors	50,000	
Employees' Provident Fund		5,000	*Less:* Provision for Doubtful Debts	5,000	45,000
C's Loan		1,50,000	Stock		1,50,000
			Bank Balance		1,25,000
			Advertisement Suspense A/c		5,000
		3,85,000			3,85,000

On 1st April, 2025, they admit *C* as partner on the following terms:

(i) *A* sacrifices 1/3rd of his share while *B* sacrifices 1/10 from his share in favour of *C*.

(ii) *C*'s loan will be converted into his capital.

(iii) *C* brings in 60% of his share of goodwill in cash.

(iv) Goodwill is to be valued at 2 years' purchase of super profit of last three completed years. Profits for the last three years ended 31st March, are as follows:

2023—₹ 2,40,000; 2024—₹ 4,65,000; and 2025—₹ 6,90,000.

Normal profit is ₹ 3,15,000 with same amount of capital invested in similar industry.

(v) Land and Building was undervalued by ₹ 25,000, Stock was overvalued by ₹ 35,000 and Provision for Doubtful Debts is to be made equal to 5% of the debtors.

(vi) Claim for Workmen Compensation is ₹ 5,000. An unrecorded accrued income of ₹ 5,000 is to be accounted. A debtor whose dues of ₹ 25,000 were written off as bad debts, paid ₹ 20,000 in full settlement.

(vii) Capital Accounts of the partners to be readjusted on the basis of *C*'s Capital in their profit-sharing ratio. Excess or deficiency in capital is to be paid or received.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Stock A/c		35,000	By Land and Building A/c		25,000
To Gain (Profit) on Revaluation transferred to:			By Provision for Doubtful Debts A/c:		
A's Capital A/c	10,500		Existing	5,000	
B's Capital A/c	7,000	17,500	*Less:* Required (5% of ₹ 50,000)	2,500	2,500
			By Bad Debts Recovered A/c		20,000
			By Accrued Income A/c		5,000
		52,500			52,500

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Goodwill A/c	3,000	2,000	...	By Balance *b/d*	88,000	1,27,000	...
To Advertisement Suspense A/c	3,000	2,000	...	By *C*'s Loan A/c	...	...	1,50,000
To Bank A/c (Bal. Fig.)	...	13,000	...	By Premium for Goodwill A/c	36,000	18,000	...
To Balance *c/d* (WN 4)	2,00,000	1,50,000	1,50,000	By *C*'s Current A/c (WN 3)	24,000	12,000	
				By Revaluation A/c (Profit)	10,500	7,000	
				By Workmen Compensation Reserve A/c	3,000	2,000	...
				By Investment Fluctuation Reserve A/c	1,500	1,000	...
				By Bank A/c (Bal. Fig.)	43,000	...	...
	2,06,000	1,67,000	1,50,000		2,06,000	1,67,000	1,50,000

BALANCE SHEET *as at 1st April, 2025*

Liabilities		₹	Assets		₹
Employees' Provident Fund		5,000	Land and Building		55,000
Workmen Compensation Claim		5,000	Investments		22,500
Capital A/cs:			Debtors	50,000	
A	2,00,000		*Less:* Provision for Doubtful Debts	2,500	47,500
B	1,50,000		Stock (₹ 1,50,000 – ₹ 35,000)		1,15,000
C	1,50,000	5,00,000	Bank Balance (WN 5)		2,29,000
			Accrued Income		5,000
			C's Current A/c (WN 3)		36,000
		5,10,000			5,10,000

Working Notes:

1. *Calculation of C's Share, Sacrificing Ratio and New Ratio:*

   New Profit Share = Old Profit Share – Profit Share Surrendered

   A's New Profit Share = 3/5 – (1/3 × 3/5) = 3/5 – 1/5 = 2/5 or 4/10

   B's New Profit Share = 2/5 – 1/10 = (4 – 1)/10 = 3/10

   C's Profit Share = 1/5 + 1/10 = (2 + 1)/10 = 3/10

   New Profit-sharing Ratio of *A*, *B* and *C* = 4/10 : 3/10 : 3/10 = 4 : 3 : 3

   Sacrificing Ratio of *A* and *B* = 1/5 : 1/10 = 2 : 1.

2. *Calculation of C's Share of Goodwill:*

   (i) Average Profit = $\frac{₹\ 2,40,000 + ₹\ 4,65,000 + ₹\ 6,90,000}{3}$ = ₹ 4,65,000

   (ii) Normal Profit = ₹ 3,15,000

   (iii) Super Profit = Average Profit – Normal Profit = ₹ 4,65,000 – ₹ 3,15,000 = ₹ 1,50,000

   (iv) Firm's Goodwill = Super Profit × No. of years' purchase = ₹ 1,50,000 × 2 = ₹ 3,00,000

   (v) *C*'s Share of Goodwill = ₹ 3,00,000 × 3/10 = ₹ 90,000.

3. *Journal Entries with respect to Goodwill:*

		₹	₹
Bank A/c (60% of ₹ 90,000)	...Dr.	54,000	
To Premium for Goodwill A/c			54,000
Premium for Goodwill A/c	...Dr.	54,000	
To *A*'s Capital A/c			36,000
To *B*'s Capital A/c			18,000
C's Current A/c (₹ 90,000 – ₹ 54,000)	...Dr.	36,000	
To *A*'s Capital A/c			24,000
To *B*'s Capital A/c			12,000

4. *Adjustment of Capital:*

   Total Capital of the New Firm = ₹ 1,50,000 × 10/3 = ₹ 5,00,000

   Thus, *A*'s Capital in New Firm = ₹ 5,00,000 × 4/10 = ₹ 2,00,000;

   B's Capital in New Firm = ₹ 5,00,000 × 3/10 = ₹ 1,50,000; and

   C's Capital in New Firm = ₹ 1,50,000.

5. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,25,000	By *B*'s Capital A/c	13,000
To Bad Debts Recovered A/c	20,000	By Balance *c/d*	2,29,000
To Premium for Goodwill A/c	54,000		
To *A*'s Capital A/c	43,000		
	2,42,000		2,42,000

Illustration 36.

Following is the Balance Sheet as at 31st March, 2025 of Meera and Sarthak, who share profits and losses in the ratio of 3 : 2:

Liabilities		₹	Assets		₹
Capital A/cs: Meera	1,00,000		Plant and Machinery		1,00,000
Sarthak	1,00,000	2,00,000	Land and Building		80,000
General Reserve		1,50,000	Debtors	1,20,000	
Workmen Compensation Reserve		50,000	*Less:* Provision for Doubtful Debts	10,000	1,10,000
Creditors		1,00,000	Stock		1,20,000
			Cash		90,000
		5,00,000			5,00,000

On 1st April, 2025, they admit Rohit into partnership on the following terms:

(i) Provision for Doubtful Debts would be increased by ₹ 20,000.

(ii) Value of Land and Building would be increased to ₹ 1,80,000.

(iii) The value of Stock would be increased by ₹ 40,000.

(iv) Liability against the Workmen Compensation Reserve is determined at ₹ 20,000.

(v) Rohit brought ₹ 1,00,000 in cash as his share of goodwill.

(vi) Rohit would bring in further cash as would make his capital equal to 20% of the total capital of the new firm after the above revaluation and adjustments are carried out.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the firm.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts A/c		20,000	By Land and Building A/c	1,00,000
To Gain (Profit) transferred to:			By Stock A/c	40,000
Meera's Capital A/c	72,000			
Sarthak's Capital A/c	48,000	1,20,000		
		1,40,000		1,40,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Meera (₹)	Sarthak (₹)	Rohit (₹)	Particulars	Meera (₹)	Sarthak (₹)	Rohit (₹)
To Balance *c/d*	3,40,000	2,60,000	1,50,000	By Balance *b/d*	1,00,000	1,00,000	...
(Balancing Figure)				By Cash A/c (WN)	...	...	1,50,000
				By Premium for Goodwill A/c	60,000	40,000	...
				By Revaluation A/c	72,000	48,000	...
				By General Reserve A/c	90,000	60,000	...
				By Workmen Compensation Reserve A/c	18,000	12,000	...
	3,40,000	2,60,000	1,50,000		3,40,000	2,60,000	1,50,000

BALANCE SHEET OF M/s MEERA, SARTHAK AND ROHIT *as at 1st April, 2025*

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		1,80,000
Meera	3,40,000		Plant and Machinery		1,00,000
Sarthak	2,60,000		Debtors	1,20,000	
Rohit	1,50,000	7,50,000	*Less:* Provision for Doubtful Debts	30,000	90,000
Workmen Compensation Claim		20,000	Stock		1,60,000
Creditors		1,00,000	Cash [₹ 90,000 + ₹ 2,50,000 (WN)]		3,40,000
		8,70,000			8,70,000

Working Note: *Computation of Rohit's Capital:*

	₹
Capital of Meera after adjustments	3,40,000
Capital of Sarthak after adjustments	2,60,000
Combined capital of Meera and Sarthak for 80% or 4/5th share	6,00,000

∴ Total capital of new firm = ₹ 6,00,000 × 5/4 = ₹ 7,50,000

Rohit's share in capital = ₹ 7,50,000 × 1/5 = ₹ 1,50,000.

Total cash brought by Rohit = Capital + Share of goodwill

= ₹ 1,50,000 + ₹ 1,00,000 = ₹ 2,50,000.

Illustration 37.

A and *B* are carrying on business in partnership and sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2025 stood as:

Liabilities		₹	Assets	₹
Creditors		11,800	Cash	1,500
General Reserve		20,000	Stock	28,000
A's Capital	51,450		Debtors	19,500
B's Capital	36,750	88,200	Furniture	2,500
			Machinery	48,500
			Goodwill	20,000
		1,20,000		1,20,000

They admit *C* into partnership on 1st April, 2025 and give him 1/8th share of future profits on the following terms:

(a) Goodwill of the firm be valued at twice the average of the last three years' profits which amounted to ₹ 21,000; ₹ 24,000 and ₹ 25,560.

(b) *C* is to bring cash for the amount of his share of goodwill.

(c) *C* is to bring cash ₹ 15,000 as his capital.

Pass Journal entries recording these transactions, draw out the Balance Sheet of the new firm and determine new profit-sharing ratio.

Solution:

(*i*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2025	Cash A/c	...Dr.		20,880	
March 31	To *C*'s Capital A/c				15,000
	To Premium for Goodwill A/c				5,880
	(Amount brought in by *C* for his capital and share of goodwill)				
	Premium for Goodwill A/c	...Dr.		5,880	
	To *A*'s Capital A/c				3,528
	To *B*'s Capital A/c				2,352
	(Premium for goodwill credited to Capital A/cs of *A* and *B* in their sacrificing ratio, *i.e.,* 3 : 2)				
	General Reserve A/c	...Dr.		20,000	
	To *A*'s Capital A/c				12,000
	To *B*'s Capital A/c				8,000
	(General Reserve distributed)				
	A's Capital A/c	...Dr.		12,000	
	B's Capital A/c	...Dr.		8,000	
	To Goodwill A/c				20,000
	(Goodwill written off in old profit-sharing ratio)				

(*ii*) BALANCE SHEET OF M/S. *A*, *B* AND *C as at 31st March, 2025*

Liabilities		₹	Assets	₹
Creditors		11,800	Cash ₹ (1,500 + 20,880)	22,380
Capital A/cs:			Sock	28,000
A	54,978		Debtors	19,500
B	39,102		Furniture	2,500
C	15,000	1,09,080	Machinery	48,500
		1,20,880		1,20,880

(*iii*) *Calculation of New Profit-sharing Ratio:*

Old Profit-sharing Ratio between A and B = 3 : 2

Remaining Share after deducting C's 1/8th share = $1 - \frac{1}{8} = \frac{7}{8}$

Which is to be divided between A and B in mutual ratio, *i.e.*, 3 : 2

$\therefore$ A's new profit share = $\frac{7}{8} \times \frac{3}{5} = \frac{21}{40}$

Similarly, B's new profit share = $\frac{7}{8} \times \frac{2}{5} = \frac{14}{40}$

Thus, New Profit-sharing Ratio of A, B and C = $\frac{21}{40} : \frac{14}{40} : \frac{1}{8}$ = 21 : 14 : 5.

Working Notes:

1. *Calculation of Goodwill and C's Share of Goodwill:*

Average Profit = ₹ (21,000 + 24,000 + 25,560)/3

= ₹ 70,560/3 = ₹ 23,520

Goodwill = Twice the average profit of last 3 years = ₹ 23,520 × 2 = ₹ 47,040

C's Share of Goodwill should be = ₹ 47,040/8 = ₹ 5,880.

2. *Dr.* PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Balance *c/d*	54,978	39,102	15,000	By Balance *b/d*	51,450	36,750	...
				By Cash A/c	...	...	15,000
				By Premium for Goodwill A/c	3,528	2,352	...
	54,978	39,102	15,000		54,978	39,102	15,000