1. *R* and *S* are partners sharing profits in the ratio of 5 : 3. *T* joins the firm as a new partner. *R* gives 1/4th of his share and *S* gives 1/5th of his share to the new partner.

Find out new profit-sharing ratio. *(Delhi 2007 C)*

[**Ans.:** *New Profit-sharing Ratio—75 : 48 : 37.*]

2. *X* and *Y* were partners sharing profits in the ratio of 3 : 2. They admitted *P* and *Q* as new partners. *X* surrendered 1/3rd of his share in favour of *P* and *Y* surrendered 1/4th of his share in favour of *Q*. Calculate new profit-sharing ratio of *X*, *Y*, *P* and *Q*. *(Delhi 2000, 2002 C)*

[**Ans.:** *New Profit-sharing Ratio of X, Y, P and Q—4 : 3 : 2 : 1.*]

3. *A* and *B* are in partnership sharing profits and losses as 3 : 2. *C* is admitted for 1/4th share. Afterwards *D* enters for 20 paise in the rupee. Compute profit-sharing ratio of *A*, *B*, *C* and *D* after *D*'s admission.

[**Ans.:** *New Profit-sharing Ratio of A, B, C and D—9 : 6 : 5 : 5.*]

4. *A* and *B* are partners sharing profits in the ratio of 3 : 2. Their books show goodwill at ₹ 2,000. *C* is admitted as parter for 1/4th share of profits and brings in ₹ 10,000 as his capital but is not able to bring in cash for his share of goodwill ₹ 3,000. Draft Journal entries.

5. *A* and *B* are partners in a firm sharing profits and losses in the ratio of 3 : 2. Following is their Balance Sheet as at 31st March, 2023:

Liabilities		₹	Assets	₹
Capital A/cs:			Building	35,000
A	50,000		Machinery	25,000
B	30,000	80,000	Stock	15,000
Creditors		20,000	Debtors	15,000
			Investments	5,000
			Bank	5,000
		1,00,000		1,00,000

C is admitted as a partner on 1st April, 2023 on the following terms:

(a) *C* is to pay ₹ 20,000 as capital for 1/4th share. He also pays ₹ 5,000 as premium for goodwill.

(b) Debtors amounted to ₹ 3,000 is to be written off as bad and a Provision of 10% is created against Doubtful Debts on the remaining amount.

(c) No entry has been passed in respect of a debt of ₹ 300 recovered by *A* from a customer, which was previously written off as bad in previous year. The amount is to be paid by *A*.

(d) Investments are taken over by *B* at their market value of ₹ 4,900 against cash payment.

You are required to prepare Revaluation Account, Partners' Capital Accounts and new Balance Sheet.

[**Ans.:** *Loss on Revaluation—₹ 4,000; Partners' Capital A/cs: A—₹ 50,300; B—₹ 30,400; C—₹ 20,000; Balance Sheet Total—₹ 1,20,700.*]

[**Hint:** Provision for Doubtful Debts = 10/100 (₹ 15,000 – ₹ 3,000 (Bad Debts)).]

6. *X* and *Y* are partners sharing profits and losses in the ratio of 3/4 and 1/4. Their Balance Sheet as at 31st March, 2023 is:

Liabilities		₹	Assets	₹
Capital A/cs:			Land and Building	1,25,000
X	1,50,000		Furniture	5,000
Y	80,000	2,30,000	Stock	1,00,000
Workmen Compensation Reserve		20,000	Sundry Debtors	80,000
Sundry Creditors		1,50,000	Bills Receivable	15,000
Bills Payable		37,500	Cash at Bank	1,00,000
			Cash in Hand	12,500
		4,37,500		4,37,500

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

(a) Goodwill is to be valued at ₹ 1,00,000.

(b) Stock and Furniture to be reduced by 10%.

(c) A Provision for Doubtful Debts is to be created @ 5% on Sundry Debtors.

(d) The value of Land and Building is to be appreciated by 20%.

(e) *Z* pays ₹ 50,000 as his capital for 1/5th share in the future profits.

You are required to show Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm.

[**Ans.:** *Gain (Profit) on Revaluation—₹ 10,500; Partners' Capital A/cs: X—₹ 1,87,875; Y—₹ 92,625; Z—₹ 30,000; Balance Sheet Total—₹ 4,98,000.*]

Note: *Z*'s Share of Goodwill ₹ 20,000 (*i.e.*, ₹ 1,00,000 × 1/5) can be adjusted through *Z*'s Current A/c. In that situation, Partners' Capital A/cs: *X*—₹ 1,87,875; *Y*—₹ 92,625; *Z*—₹ 50,000; *Z*'s Current A/c (Dr.) —₹ 20,000; Balance Sheet Total—₹ 5,18,000.

7. Balance Sheet of Ram and Shyam who share profits in the ratio of their capitals as at 31st March, 2023 is:

Liabilities		₹	Assets	₹
Capital A/cs:			Freehold Premises	20,000
Ram	30,000		Plant and Machinery	13,500
Shyam	25,000	55,000	Fixture and Fittings	1,750
Current A/cs:			Vehicles	1,350
Ram	2,000		Stock	14,100
Shyam	1,800	3,800	Bills Receivable	13,060
Creditors		19,000	Debtors	27,500
Bills Payable		16,000	Bank	1,590
			Cash	950
		93,800		93,800

On 1st April, 2023, they admitted Arjun into partnership on the following terms:

(a) Arjun to bring ₹ 20,000 as capital and ₹ 6,600 for goodwill, which is to be left in the business and he is to receive 1/4th share of the profits.

(b) Provision for Doubtful Debts is to be 2% on Debtors.

(c) Value of Stock to be written down by 5%.

(d) Freehold Premises are to be taken at a value of ₹ 22,400; Plant and Machinery ₹ 11,800; Fixtures and Fittings ₹ 1,540 and Vehicles ₹ 800.

You are required to make necessary adjustment entries in the firm, give Balance Sheet of the new firm as at 1st April, 2023 and also determine the ratio in which the partners will share profits, there being no change in the ratio of Ram and Shyam.

[**Ans.:** *Loss on Revaluation—₹ 1,315; Partners' Capital A/cs: Ram—₹ 30,000; Shyam—₹ 25,000; Arjun—₹ 20,000; Partners' Current A/cs: Ram—₹ 4,883; Shyam—₹ 4,202; Balance Sheet Total—₹ 1,19,085; New Ratio—18 : 15 : 11.*]

8. *A* and *B* are partners in a firm sharing profits in the ratio of 3 : 2. They admit *C* as a partner *w.e.f.* 1st April, 2023. In future, profits will be shared equally. The Balance Sheet of *A* and *B* as at 1st April, 2023 and the terms of admission are:

BALANCE SHEET OF *A* AND *B*

Liabilities		₹	Assets	₹
Sundry Creditors		60,000	Cash in Bank	40,000
Outstanding Expenses		15,000	Sundry Debtors	36,000
Capital A/cs:			Stock	84,000
A	3,00,000		Furniture and Fittings	65,000
B	3,00,000	6,00,000	Plant and Machinery	4,50,000
		6,75,000		6,75,000

(a) Capital of the firm is fixed at ₹ 6,00,000 to be contributed by partners in the profit-sharing ratio. The difference will be adjusted in cash.

(b) *C* to bring in his share of capital and goodwill in cash. Goodwill of the firm is to be valued on the basis of two years' purchases of super profit. The average net profits expected in the future by the firm ₹ 90,000 per year. The normal rate of return on capital in similar business is 10%.

(c) The partners agreed to help maintain the plants and keep the area clean.

Calculate goodwill and prepare Partners' Capital Accounts and Bank Account.

[**Ans.:** *Capital of each partner—₹ 2,00,000; C's Share of Goodwill—₹ 20,000; Sacrificing Ratio—4 : 1; A and B will withdraw Cash of ₹ 1,16,000 and ₹ 1,04,000 respectively. Bank Balance—₹ 40,000.*]

9. Sarthak and Vansh are partners sharing profits in the ratio of 2 : 1. Since both of them are specially abled sometimes they find it difficult to run the business on their own. Mansi, a common friend, decides to help them. Therefore, they admit her into partnership for 1/3rd share in profits. She brings ₹ 60,000 for goodwill and proportionate capital. At the time of admission of Mansi, the Balance Sheet of Sarthak and Vansh was as under:

Liabilities		₹	Assets		₹
Capital A/cs:			Plant		66,000
Sarthak	70,000		Furniture		30,000
Vansh	60,000	1,30,000	Investments		40,000
General Reserve		18,000	Stock		46,000
Bank Loan		18,000	Debtors	38,000	
Creditors		72,000	*Less:* Provision for Bad Debts	4,000	34,000
			Cash		22,000
		2,38,000			2,38,000

It was decided to:

(a) Reduce the value of Stock by ₹ 10,000.

(b) Plant is to be valued at ₹ 80,000.

(c) An amount of ₹ 3,000 included in Creditors was not payable.

(d) Half of the Investments were taken over by Sarthak and remaining were valued at ₹ 25,000.

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

(AI 2013, Modified)

[**Ans.:** *Gain (Profit) on Revaluation—₹ 12,000; Partners' Capital Accounts—Sarthak—₹ 1,10,000; Vansh—₹ 90,000; and Mansi—₹ 1,00,000; Cash Balance—₹ 1,82,000; Balance Sheet Total—₹ 3,87,000.*]

[**Hint:** Total Capital of New Firm = (₹ 1,10,000 + ₹ 90,000) × 3/2 = ₹ 3,00,000
Mansi's Capital in New Firm = ₹ 3,00,000 × 1/3 = ₹ 1,00,000.]

10 **(Change in Profit-sharing Ratio and Admission of Partner)**. *X* and *Y* are partners sharing profits and losses in the ratio of 3 : 2. From 1st April, 2023, they decide to share the profits equally. On that date, General Reserve showed balance of ₹ 2,00,000. On the same date, they admitted *Z* as a new partner for 1/3rd share. *Z* brings ₹ 5,00,000 as his capital and ₹ 3,50,000 as premium for goodwill. Pass necessary Journal entries for distribution of General Reserve on change in profit-sharing ratio and at the time of *Z*'s admission.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
April 1	General Reserve A/c	...Dr.		2,00,000	
	To *X*'s Capital A/c				1,20,000
	To *Y*'s Capital A/c				80,000
	(Balance in General Reserve transferred to Capital Accounts of old partners in the old ratio, *i.e.*, 3 : 2)				
	Y's Capital A/c	...Dr.		1,05,000	
	To *X*'s Capital A/c				1,05,000
	(Goodwill adjusted on the change in the profit-sharing ratio between *X* and *Y*)				
	Bank A/c	...Dr.		8,50,000	
	To *Z*'s Capital A/c				5,00,000
	To Premium for Goodwill A/c				3,50,000
	(Capital and premium for goodwill brought in cash by new partner)				
	Premium for Goodwill A/c	...Dr.		3,50,000	
	To *X*'s Capital A/c				1,75,000
	To *Y*'s Capital A/c				1,75,000
	(Premium for goodwill credited to old partners in their sacrificing ratio)				

Note: Total value of the firm's goodwill on the basis of 1/3rd share of *Z* in future is ₹ 10,50,000 (*i.e.*, ₹ 3,50,000 ×3).

11 **(Change in Profit-sharing Ratio and Admission:** *Treatment of General Reserve***)**. *X* and *Y* are partners in a firm sharing profits and losses in the ratio of 5 : 2. On 31st March, 2023, their Balance Sheet showed General Reserve of ₹ 3,50,000. On that date, they decided to admit *Z* as a new partner and the new profit-sharing ratio will be 5 : 3 : 2. Give necessary Journal entries in the books of the firm under the following circumstances:

(i) When they want to transfer the General Reserve to their Capital Accounts.

(ii) When they don't want to transfer general reserve to their Capital Accounts but prefer to record an adjustment entry for the same.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2023					
Mar. 31	General Reserve A/c	...Dr.		3,50,000	
(i)	To *X*'s Capital A/c				2,50,000
	To *Y*'s Capital A/c				1,00,000
	(General reserve transferred to Capital Accounts of partners in the old ratio)				
(ii)	*Y*'s Capital A/c	...Dr.		5,000	
	Z's Capital A/c	...Dr.		70,000	
	To *X*'s Capital A/c				75,000
	(Adjustment made for general reserve due to change in profit-sharing ratio) (Note 1 and 2)				

Notes: 1. *Calculation of Sacrifice/(Gain):*

Partner	Old Share	New Share	Difference = Old Share – New Share
X	5/7	5/10	5/7 – 5/10 = 15/70 (Sacrifice)
Y	2/7	3/10	2/7 – 3/10 = –1/70 (Gain)
Z	0	2/10	0 – 2/10 = –2/10 (Gain)

2. Thus, *Y* has gained, so he will be debited by 1/70 of ₹ 3,50,000 = ₹ 5,000;

Z has gained, so he will be debited by 2/10 of ₹ 3,50,000 = ₹ 70,000; and

X has sacrificed, so he will be credited by 15/70 of ₹ 3,50,000 = ₹ 75,000.

12 **(Admission of a New Partner)**. Complete the following Accounts and Balance Sheet by filling the missing amounts:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bad Debts A/c	4,000	By Land and Building A/c	2,20,000
To Provision for Doubtful Debts A/c	15,000	By Sundry Creditors A/c	?
To Stock A/c	20,000		
To Plant and Machinery A/c	20,000		
To Gain (Profit) transferred to:			
Ayub's Capital A/c	?		
Abhay's Capital A/c	?		
	?		?

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Ayub ₹	Abhay ₹	Parul ₹	Particulars	Ayub ₹	Abhay ₹	Parul ₹
To Balance *c/d*	21,60,000	14,40,000	9,00,000	By Balance *b/d*	?	?	
				By Revaluation A/c (Gain)	1,05,000	70,000	
				By Bank A/c			9,00,000
				By Parul's Current A/c	1,20,000	80,000	
				By Bank A/c (Deficit)	10,15,000	6,10,000	
	21,60,000	14,40,000	9,00,000		21,60,000	14,40,000	9,00,000

BALANCE SHEET (After admission of Parul) *as at ...*

Liabilities	₹	Assets		₹
Capital A/cs:		Land and Building		8,20,000
Ayub	21,60,000	Plant and Machinery		6,80,000
Abhay	14,40,000	Stock		36,000
Parul	9,00,000	Debtors	3,20,000	
Sundry Creditors	2,36,000	*Less:* Bad Debts	20,000	
Bills Payable	?		3,00,000	
		Less: Provision for Doubtful Debts	?	?
		Parul's Current Account		?
		Cash at Bank		27,65,000
	?			?

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bad Debts A/c	4,000	By Land and Building A/c	2,20,000
To Provision for Doubtful Debts A/c	15,000	By Sundry Creditors A/c	**14,000**
To Stock A/c	20,000		
To Plant and Machinery A/c	20,000		
To Gain (Profit) transferred to:			
Ayub's Capital A/c	**1,05,000**		
Abhay's Capital A/c	**70,000**		
	2,34,000		**2,34,000**

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Ayub ₹	Abhay ₹	Parul ₹	Particulars	Ayub ₹	Abhay ₹	Parul ₹
To Balance *c/d*	21,60,000	14,40,000	9,00,000	By Balance *b/d*	**9,20,000**	**6,80,000**	
				By Revaluation A/c (Gain)	1,05,000	70,000	
				By Bank A/c			9,00,000
				By Parul's Current A/c	1,20,000	80,000	
				By Bank A/c (Deficit)	10,15,000	6,10,000	
	21,60,000	14,40,000	9,00,000		21,60,000	14,40,000	9,00,000

BALANCE SHEET (After admission of Parul)

as at ...

Liabilities	₹	Assets		₹
Capital A/cs:		Land and Building		8,20,000
Ayub	21,60,000	Plant and Machinery		6,80,000
Abhay	14,40,000	Stock		36,000
Parul	9,00,000	Debtors	3,20,000	
Sundry Creditors	2,36,000	*Less:* Bad Debts	20,000	
Bills Payable	**50,000**		3,00,000	
		Less: Provision for Doubtful Debts	**15,000**	**2,85,000**
		Parul's Current Account		**2,00,000**
		Cash at Bank		27,65,000
	47,86,000			**47,86,000**

13. Vinay and Naman are partners sharing profits in the ratio of 4 : 1. Their capitals were ₹ 90,000 and ₹ 70,000 respectively. They admitted Prateek for 1/3 share in the profits. Prateek brought ₹ 1,00,000 as his capital. Calculate the value of firm's goodwill. *(CBSE 2018 C)*

[**Ans.:** *Value of Firm's Goodwill—₹ 40,000.*]

14. *A* and *B* are partners in a firm sharing profits in the ratio of 3 : 2. They admit *C* as a partner on 1st April, 2023 on which date the Balance Sheet of the firm was:

Liabilities		₹	Assets	₹
Capital A/cs:			Building	50,000
A	60,000		Plant and Machinery	30,000
B	40,000	1,00,000	Stock	20,000
Creditors		20,000	Debtors	10,000
			Bank	10,000
		1,20,000		1,20,000

You are required to prepare the Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm after considering the following:

(a) *C* brings ₹ 30,000 as capital for 1/4th share. He also brings ₹ 10,000 for his share of goodwill.

(b) Part of the Stock which had been included at cost of ₹ 2,000 had been badly damaged in storage and could only expect to realise ₹ 400.

(c) Bank charges of ₹ 200 for the year were not recorded.

(d) Depreciation on Building of ₹ 3,000 for the year was not provided.

(e) A credit purchase of goods for ₹ 800 were not recorded in the books but had been included in Stock.

(f) An expense of ₹ 1,200 for insurance premium was debited in the Profit & Loss Account for the year but ₹ 600 of this related to the period after 31st March, 2023.

[**Ans.:** *Loss on Revaluation—₹ 5,000; Partners' Capital A/cs: A—₹ 63,000; B—₹ 42,000; C—₹ 30,000; Balance Sheet Total—₹ 1,55,800.*]

15. Yogesh and Naresh are partners sharing profits in the ratio of 3 : 2. They admit Ramesh for 1/3rd share on 1st April, 2023 and also decide to share future profits equally. Balance Sheet of the firm as at 31st March, 2023 was as follows:

Liabilities		₹	Assets		₹
Capital A/cs:			Land		4,00,000
Yogesh	5,00,000		Building		4,00,000
Naresh	5,00,000	10,00,000	Furniture		50,000
Current A/cs:			Computers		1,00,000
Yogesh	1,10,000		Stock		1,50,000
Naresh	90,000	2,00,000	Sundry Debtors	2,10,000	
Employees' Provident Fund		25,000	*Less:* Provision for Doubtful Debts	10,000	2,00,000
Workmen Compensation Reserve		1,00,000	Cash		10,000
Sundry Creditors		75,000	Bank		70,000
Expenses Payable		10,000	Advertisement Suspense		30,000
		14,10,000			14,10,000

They admitted Ramesh on the following terms:

(a) He will bring ₹ 5,00,000 as his capital.

(b) His share of goodwill is valued at ₹ 1,00,000 but he is unable to bring cash for his share of goodwill.

(c) Value of Land and Building is to be appreciated by ₹ 40,000 each.

(d) Value of Furniture to be reduced to ₹ 40,000.

(e) Provision for Doubtful Debts to be increased to 10%.

(f) A liability for damages of ₹ 10,000 is to be created.

Pass the Journal entries on admission of Ramesh and prepare Revaluation Account.

[**Ans.:** *Gain on Revaluation—₹ 49,000; Sacrificing Ratio—4 : 1.*]

16. *A*, *B* and *C* are partners sharing profits and losses in the ratio of 2 : 3 : 5. On 31st March, 2023, their Balance Sheet was:

Liabilities		₹	Assets	₹
Creditors		64,000	Cash	18,000
Bills Payable		22,000	Bills Receivable	14,000
General Reserve		14,000	Stock	44,000
Capital A/cs:			Debtors	42,000
A	36,000		Machinery	94,000
B	44,000		Goodwill	20,000
C	52,000	1,32,000		
		2,32,000		2,32,000

They admit *D* into the partnership on the following terms:

(a) Machinery is to be depreciated by 15%.

(b) Stock is to be revalued at ₹ 48,000.

(c) It is found that the Creditors included a sum of ₹ 12,000 which was not to be paid.

(d) Outstanding Rent is ₹ 1,900.

(e) *D* is to bring in ₹ 6,000 as goodwill and sufficient capital for 2/5th share.

(f) The partners decided to use 10% of the profits every year in providing drinking water in schools, where required.

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

[**Ans.:** *Neither Gain (Profit) nor Loss on Revaluation; Capital A/cs: A—₹ 36,000; B—₹ 44,000; C—₹ 52,000; D—₹ 88,000; Cash Balance—₹ 1,12,000; Balance Sheet Total—₹ 2,95,900*.]

[**Hint:** Calculation of D's Capital = ₹ 1,32,000 (*i.e.*, ₹ 36,000 + ₹ 44,000 + ₹ 52,000) × 5/3 × 2/5 = ₹ 88,000.]

17. Following is the Balance Sheet of *X* and *Y* as at 31st March, 2023, *Z* is admitted as a partner on that date when the position of *X* and *Y* was:

Liabilities		₹	Assets	₹
X's Capital	10,000		Cash in Hand	9,000
Y's Capital	8,000	18,000	Debtors	11,000
Creditors		12,000	Stock	12,000
General Reserve		16,000	Building	8,000
Workmen Compensation Reserve		4,000	Machinery	10,000
		50,000		50,000

X and *Y* share profits in the proportion of 3 : 2. The following terms of admission are agreed upon:

(a) Revaluation of assets: Building ₹ 18,000; Stock ₹ 16,000.

(b) The liability on Workmen Compensation Reserve is determined at ₹ 2,000.

(c) *Z* brought in as his share of goodwill ₹ 10,000 in cash.

(d) *Z* was to bring in further cash as would make his capital equal to 20% of the combined capital of *X* and *Y* after above revaluation and adjustments are carried out.

(e) The future profit-sharing proportions were: *X*—2/5th, *Y*—2/5th and *Z*—1/5th.

Prepare new Balance Sheet of the firm and Capital Accounts of the Partners.

[**Ans.:** *Revaluation Gain (Profit)—₹ 14,000; Capital A/cs: X—₹ 39,200; Y—₹ 20,800; Z—₹ 12,000; Balance Sheet Total—₹ 86,000.*]

18. Mohan and Sohan are in partnership sharing profits in the proportion of 3/5th and 2/5th respectively. Their Balance Sheet as at 31st March, 2023 was:

Liabilities		₹	Assets		₹
Mohan's Capital	2,000		Plant		650
Sohan's Capital	1,000	3,000	Cash		650
Creditors		400	Debtors	1,000	
			Less: Provision for Doubtful Debts	400	600
			Stock		1,500
		3,400			3,400

They admit Rohan to a 1/3rd share upon the terms that he is to pay into the business ₹ 1,000 as Goodwill and sufficient Capital to give him a 1/3rd share of the total capital of the new firm. It was agreed that the Provision for Doubtful Debts be reduced to ₹ 100 and the Stock be revalued at ₹ 2,000 and that the Plant be reduced to ₹ 500.

You are required to record the above in the Ledger of the firm and show Balance Sheet of the new partnership.

[**Ans.:** *Revaluation Gain (Profit)—₹ 650; Partners' Capital A/cs: Mohan—₹ 2,990; Sohan—₹ 1,660; Rohan—₹ 2,325; Balance Sheet Total—₹ 7,375.*]

19. (Valuation of Goodwill and Admission of a Partner). Vinay and Naman are partners sharing profits in the ratio of 3 : 2. On 1st April, 2023, they admitted Prateek as a new partner for 1/5th share. Prakteek brings ₹ 7,50,000 as his capital and necessary share for premium of goodwill. On Prateek's admission, it is decided that goodwill of the firm will be valued at 2 years' purchase of super profit. During the year ended 31st March, 2023, the firm earned a profit of ₹ 3,75,000 and capital employed is ₹ 12,50,000. If normal rate of return is 20%, calculate the value of goodwill of the firm and pass necessary Journal entries at the time of Prateek's admission.

Solution: *Valuation of Goodwill:*

$$\text{Average Profit} = ₹\ 3,75,000$$

$$\text{Capital Employed} = ₹\ 12,50,000$$

$$\text{Normal Profit} = \text{Capital Employed} \times \frac{\text{Normal Rate of Return}}{100}$$

$$= ₹\ 12,50,000 \times \frac{20}{100} = ₹\ 2,50,000$$

$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit}$$

$$= ₹\ 3,75,000 - ₹\ 2,50,000 = ₹\ 1,25,000$$

$$\text{Goodwill} = \text{Super Profit} \times \text{No. of Years' Purchase}$$

$$= ₹\ 1,25,000 \times 2 = ₹\ 2,50,000$$

$$\text{Prateek's share of Goodwill} = ₹\ 2,50,000 \times 1/5 = ₹\ 50,000.$$

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023 April 1	Bank A/c ...Dr.		8,00,000	
	To Prateek's Capital A/c			7,50,000
	To Premium for Goodwill A/c			50,000
	(Capital and premium for goodwill brought in cash by new partner)			
	Premium for Goodwill A/c ...Dr.		50,000	
	To Vinay's Capital A/c			30,000
	To Naman's Capital A/c			20,000
	(Premium for goodwill credited to old partners in their sacrificing ratio of 3 : 2)			

20. *X* and *Y* are partners sharing profits in the ratio of 3 : 1. *Z* is admitted as a partner for which he pays ₹ 30,000 for goodwill in cash. *X, Y* and *Z* decide to share the future profits equally. Pass an adjustment Journal entry to give effect to the above arrangement.

[**Ans.:** *Dr. Cash A/c by ₹ 30,000 and Y's Capital A/c by ₹ 7,500; Cr. X's Capital A/c by ₹ 37,500*.]

21. Anshul and Parul are partners sharing profits in the ratio of 3 : 2. They admit Payal as partner for 1/4th share in profits on 1st April, 2022. Payal brings ₹ 5,00,000 as capital and her share of goodwill by cheque. It was agreed to value goodwill at three years' purchase of average profit of last four years.

Profits for the last four years ended 31st March, were:	₹
2019	4,00,000
2020	5,00,000
2021	6,00,000
2022	7,00,000

Additional Information:

1. Closing stock for the year ended 31st March, 2021 was overvalued by ₹ 50,000.
2. ₹ 1,00,000 should be charged annually to cover management cost.

Pass necessary Journal entries on Payal's admission.

[**Ans.:** *(i) Dr. Bank A/c by ₹ 8,37,500; Cr. Payal's Capital A/c by ₹ 5,00,000 and Premium for Goodwill A/c by ₹ 3,37,500; (ii) Dr. Premium for Goodwill A/c by ₹ 3,37,500; Cr. Ansul's Capital A/c by ₹ 2,02,500 and Parul's Capital A/c by ₹ 1,35,000*.]

22. Aman commenced business with a capital of ₹ 2,50,000 on 1st April, 2018. During the five years ended 31st March, 2023, the following profits and losses were made:

31st March, 2019—Loss ₹ 5,000
31st March, 2020—Profit ₹ 13,000
31st March, 2021—Profit ₹ 17,000
31st March, 2022—Profit ₹ 20,000
31st March, 2023—Profit ₹ 25,000

During this period he had drawn ₹ 40,000 for his personal use. On 1st April, 2023, he admitted Boman into partnership on the following terms:

Boman to bring for his half share in the business, capital equal to Aman's Capital on 31st March, 2023 and to pay for the one-half share of goodwill of the business, on the basis of three times the average profit of the last five years. Prepare the statement showing what amount Boman should invest to become a partner and pass entries to record the transactions relating to admission.

[**Ans.:** *Boman will have to bring ₹ 2,80,000 as Capital and ₹ 21,000 for Goodwill*.]

23. *A* and *B* are in partnership sharing profits and losses in proportion of 2/3rd and 1/3rd respectively. Their Balance Sheet as at 31st March, 2023 was: Cash ₹ 1,00,000; Sundry Debtors ₹ 15,00,000; Stock ₹ 22,00,000; Plant and Machinery ₹ 4,00,000; Sundry Creditors ₹ 2,00,000; Bank Overdraft ₹ 15,00,000; *A*'s Capital ₹ 15,00,000; *B*'s Capital ₹ 10,00,000.

On 1st April, 2023, they admitted *C* into partnership on the following terms:

(a) *C* to purchase one-quarter of the goodwill for ₹ 3,00,000 and provide ₹ 10,00,000 as capital. *C* brings in necessary cash for goodwill and capital.

(b) Profits and losses are to be shared in the proportion of one-half to *A*, one-quarter to *B* and one quarter to *C*.

(c) Plant and Machinery is to be reduced by 10% and ₹ 50,000 are to be provided for estimated Bad Debts. Stock is to be taken at a valuation of ₹ 24,94,000.

(d) By bringing in or withdrawing cash the capitals of *A* and *B* are to be made proportionate to that of *C* on their profit-sharing basis.

Prepare necessary Ledger Accounts in the books of the firm relating to the above arrangement and submit the opening Balance Sheet of the new firm.

[**Ans.:** *Gain (Profit) on Revaluation—₹ 2,04,000; Cash brought in by A—₹ 1,64,000; Cash withdrawn by B—₹ 1,68,000; Balance Sheet Total—₹ 57,00,000; Cash Balance—₹ 13,96,000.*]

24. Shikhar and Rohit were partners in a firm sharing profits in the ratio of 7 : 3. On 1st April, 2013, they admitted Kavi as a new partner for 1/4th share in profits of the firm. Kavi brought ₹ 4,30,000 as his capital and ₹ 25,000 for his share of goodwill premium. The Balance Sheet of Shikhar and Rohit as on 1st April, 2013 was as follows:

BALANCE SHEET OF SHIKHAR AND ROHIT *as at 1st April, 2013*

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		3,50,000
Shikhar	8,00,000		Machinery		4,50,000
Rohit	3,50,000	11,50,000	Debtors	2,20,000	
General Reserve		1,00,000	*Less:* Provision	20,000	2,00,000
Workmen's Compensation Fund		1,00,000	Stock		3,50,000
Creditors		1,50,000	Cash		1,50,000
		15,00,000			15,00,000

It was agreed that:

(a) the value of Land and Building will be appreciated by 20%.

(b) the value of Machinery will be depreciated by 10%.

(c) the liabilities of Workmen's Compensation Fund were determined at ₹ 50,000.

(d) capitals of Shikhar and Rohit will be adjusted on the basis of Kavi's capital and actual cash to be brought in or to be paid off as the case may be.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm. (*AI 2014*)

[**Ans.:** *Gain (Profit) on Revaluation—₹ 25,000; Capital A/cs: Shikhar—₹ 9,03,000; Rohit—₹ 3,87,000; Kavi—₹ 4,30,000; Shikhar will withdraw—₹ 37,000 and Rohit will withdraw—₹ 23,000; Balance Sheet Total—₹ 19,20,000.*]

25. Raghu and Rishu are partners sharing profits in the ratio 3 : 2. Their Balance Sheet as at 31st March, 2023 was as follows:

BALANCE SHEET OF RAGHU AND RISHU *as at 31st March, 2023*

Liabilities		₹	Assets		₹
Creditors		86,000	Cash in Hand		77,000
Employees' Provident Fund		10,000	Debtors	42,000	
Investments Fluctuation Reserve		4,000	*Less:* Provision for Doubtful Debts	7,000	35,000
Capital A/cs:			Investments		21,000
Raghu	1,19,000		Buildings		98,000
Rishu	1,12,000	2,31,000	Plant and Machinery		1,00,000
		3,31,000			3,31,000

Rishabh was admitted on that date for 1/4th share of profit on the following terms:

(a) Rishabh will bring ₹ 50,000 as his share of capital.

(b) Goodwill of the firm is valued at ₹ 42,000 and Rishabh will bring his share of goodwill in cash.

(c) Buildings were appreciated by 20%.

(d) All Debtors were good.

(e) There was a liability of ₹ 10,800 included in Creditors which was not likely to arise.

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

(g) Capital of Raghu and Rishu will be adjusted on the basis of Rishabh's share of capital and any excess or deficiency will be made by withdrawing or bringing in cash by the concerned partners as the case may be.

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

(*AI 2012 C, Modified*)

[**Ans.:** *Gain (Profit) on Revaluation—₹ 37,400; Partners' Capital A/cs: Raghu—₹ 1,00,000; Rishu—₹ 50,000; Rishabh—₹ 50,000; Balance Sheet Total—₹ 2,85,200; Cash in Hand—₹ 4,600; Raghu will withdraw ₹ 48,040; Rishu will withdraw ₹ 84,860.*]

26. Following is the Balance Sheet of Abha and Binay as at 31st March, 2014:

Liabilities		₹	Assets		₹
Creditors		13,000	Bank		15,000
Employees' Provident Fund		8,000	Debtors	22,000	
Workmen's Compensation Fund		15,000	*Less:* Provision for Doubtful Debts	1,000	21,000
Capital A/cs:			Stock		10,000
Abha	55,000		Plant and Machinery		60,000
Binay	30,000	85,000	Goodwill		10,000
			Profit and Loss		5,000
		1,21,000			1,21,000

Chitra was admitted as a partner for 1/4th share in the profits of the firm. It was decided that:

(a) Bad Debts amounted to ₹ 1,500 will be written off.

(b) Stock worth ₹ 8,000 was taken over by Abha and Binay at Book Value in their profit-sharing ratio. The remaining stock was valued at ₹ 2,500.

(c) Plant and Machinery and Goodwill were valued at ₹ 32,000 and ₹ 20,000 respectively.

(d) Chitra brought her share of goodwill in cash.

(e) Chitra will bring proportionate capital and the capitals of Abha and Binay will be adjusted in their profit-sharing ratio by bringing in or paying off cash as the case may be.

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

[**Ans.:** *Loss on Revaluation—₹ 28,000; Partners' Capital A/cs: Abha—₹ 27,000; Binay— ₹ 27,000; Chitra—₹ 18,000.*]

27. *A* and *B* are partners in a firm sharing profits and losses in the ratio 3 : 1. They admit *C* for 1/4th share on 31st March, 2014 when their Balance Sheet was as follows:

Liabilities		₹	Assets		₹
Employees' Provident Fund		17,000	Cash		6,100
Workmen Compensation Reserve		6,000	Stock		15,000
Investment Fluctuation Reserve		4,100	Debtors	50,000	
Capital A/cs: *A*	54,000		*Less:* Provision for Doubtful Debts	2,000	48,000
B	35,000	89,000	Investments		7,000
			Goodwill		40,000
		1,16,100			1,16,100

The following adjustments were agreed upon:

(a) C brings in ₹ 16,000 as goodwill and proportionate capital.

(b) Bad debts amounted to ₹ 3,000.

(c) Market value of investment is ₹ 4,500.

(d) Liability on account of Workmen Compensation Reserve amounted to ₹ 2,000.

Prepare Revaluation Account and Partners' Capital Accounts. (*CBSE Sample Paper 2015*)

[**Ans.:** *Loss on Revaluation—₹ 1,000; Partners' Capital A/cs: A—₹ 39,450; B—₹ 30,150; C—₹ 23,200.*]

28. Kalpana and Kanika were partners in a firm sharing profits in the ratio of 3 : 2. On 1st April, 2023, they admitted Karuna as a new partner for 1/5th share in the profits of the firm. The Balance Sheet of Kalpana and Kanika as on 1st April, 2023 was as follows:

BALANCE SHEET OF KALPANA AND KANIKA *as on 1st April, 2023*

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		2,10,000
Kalpana	4,80,000		Plant		2,70,000
Kanika	2,10,000	6,90,000	Stock		2,10,000
General Reserve		60,000	Debtors	1,32,000	
Workmen's Compensation Fund		1,00,000	*Less:* Provision	12,000	1,20,000
Creditors		90,000	Cash		1,30,000
		9,40,000			9,40,000

It was agreed that;

(a) the value of Land and Building will be appreciated by 20%.

(b) the value of plant be increased by ₹ 60,000.

(c) Karuna will bring ₹ 80,000 for her share of goodwill premium.

(d) the liabilities of Workmen's Compensation Fund were determined at ₹ 60,000.

(e) Karuna will bring in cash as capital to the extent of 1/5th share of the total capital of the new firm.

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

(*Foreign 2014, Modified*)

[**Ans.:** *Gain (Profit) on Revaluation—₹ 1,02,000; Partners' Capital A/cs: Kalpana—₹ 6,49,200; Kanika—₹ 3,22,800; Karuna—₹ 2,43,000; Cash Balance—₹ 4,53,000; Balance Sheet Total—₹ 13,65,000.*]

[**Hints:** 1. Excess Workmen Compensation Fund Credited to Kalpana—₹ 24,000 and Kanika—₹ 16,000.

2. *Calculation of Karuna's Capital:*
Combined capital of Kalpana and Kanika (after all adjustments) for 4/5 Share
= ₹ 6,49,200 + ₹ 3,22,800 = ₹ 9,72,000.
It means, Firm's Total Capital = ₹ 9,72,000 × 5/4 = ₹ 12,15,000;
Karuna's Share of Capital = ₹ 12,15,000 × 1/5 = ₹ 2,43,000.]

29. Pradeep and Dhanraj were partners in a firm sharing profits in the ratio of 3 : 1. Their Balance Sheet on 31st March, 2023 was:

Liabilities		₹	Assets		₹
Creditors		30,000	Cash		4,000
Bills Payable		1,000	Debtors	50,000	
Reserve Fund		16,000	*Less:* Provision for Doubtful Debts	5,000	45,000
Outstanding Salary		3,000	Stock		30,000
Capital A/cs:			Bills Receivable		10,000
Pradeep	60,000		Patents		1,000
Dhanraj	20,000	80,000	Machinery		40,000
		1,30,000			1,30,000

They admitted Leander as a new partner on this date. New profit-sharing ratio is agreed as 3 : 2 : 3. Leander brings in proportionate capital after the following adjustments:

(a) Leander brings ₹ 16,000 as his share of goodwill.

(b) Provision for Doubtful Debts is to be reduced by ₹ 2,000.

(c) There is an Old Printer valued at ₹ 2,400. It does not appear in the books of the firm. It is now to be recorded.

(d) Patents are valueless.

Prepare Revaluation Account, Capital Accounts and opening Balance Sheet of Pradeep, Dhanraj and Leander.

[**Ans.:** *Gain (Profit) on Revaluation—₹ 3,400; Partners' Capital A/cs: Pradeep—₹ 90,550; Dhanraj—₹ 24,850; Leander—₹ 69,240; Balance Sheet Total—₹ 2,18,640; Cash brought by Leander—₹ 69,240 + ₹ 16,000 (Goodwill) = ₹ 85,240.*]

[**Hint:** In this question only Pradeep will get premium for goodwill because only he has sacrificed.]

30. *A* and *B* are partners sharing profits in the ratio of 3 : 2. They admit *C* as a new partner from 1st April, 2023. They have decided to share future profits in the ratio of 4 : 3 : 3. The Balance Sheet as at 31st March, 2023 is given below:

Liabilities		₹	Assets		₹
A's Capital	1,76,000		Goodwill		34,000
B's Capital	2,54,000	4,30,000	Land and Building		60,000
Workmen Compensation Reserve		20,000	Investment (Market value ₹ 45,000)		50,000
Investment Fluctuation Reserve		10,000	Debtors	1,00,000	
Employees' Provident Fund		34,000	*Less:* Provision for Doubtful Debts	10,000	90,000
C's Loan		3,00,000	Stock		3,00,000
			Bank Balance		2,50,000
			Advertisement Suspense A/c		10,000
		7,94,000			7,94,000

Terms of *C*'s admission are as follows:

(i) *C* contributes proportionate capital and 60% of his share of goodwill in cash.

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

2021—₹ 4,80,000; 2022—₹ 9,30,000; 2023—₹ 13,80,000.

The normal profit is ₹ 5,30,000 with same amount of capital invested in similar industry.

(iii) Land and Building was found undervalued by ₹ 1,00,000.

(iv) Stock was found overvalued by ₹ 31,000.

(v) Provision for Doubtful Debts is to be made equal to 5% of the debtors.

(vi) Claim on account of Workmen Compensation is ₹ 11,000.

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

[**Ans.:** *Gain (Profit) on Revaluation—₹ 74,000; C's Current A/c: ₹ 96,000; Partners' Capital A/cs: A—₹ 3,62,400; B—₹ 3,51,600; C—₹ 3,06,000; Balance Sheet Total—₹ 13,65,000.*]

[**Hint:** *C* brings capital in cash means his loan will continue in business.]

31. Geeta, Sunita and Anita were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 1st January, 2015, they admitted Yogita as a new partner for 1/10th share in the profits. On Yogita's admission, the Profit & Loss Account of the firm was showing a debit balance of ₹ 20,000 which was credited by the accountant of the firm to the Capital Accounts of Geeta, Sunita and Anita in their profit-sharing ratio. Did the accountant give correct treatment? Give reason in support of your answer. (*AI 2015*)

[**Hint:** **No**, the accountant did not give correct treatment as the debit balance of Profit & Loss Account shows loss, it should have been debited to the Partners' Capital Accounts.]

32. *A*, *B*, *C* and *D* were partners in a firm sharing profits in the ratio of 4 : 3 : 2 : 1. On 1st January, 2015, they admitted *E* as a new partner for 1/10 share in the profits. *E* brought ₹ 10,000 for his share of goodwill premium which was correctly recorded in the books by the accountant. The accountant showed goodwill at ₹ 1,00,000 in the books. Was the accountant correct in doing so? Give reason in support of your answer. (*Delhi 2015*)

[**Hint:** **No**, the accountant is not correct. **Reason**: It is a self-generated goodwill and only **purchased goodwill is recognised** in the books of account as per AS–26.]

33. Ravi and Mukesh are sharing profits in the ratio of 7 : 3. They admit Ashok for 3/7th share in the firm which he takes 2/7th from Ravi and 1/7th from Mukesh.

Calculate new profit-sharing ratio. [**Ans.:** *New Profit-sharing Ratio—29 : 11 : 30.*]

34. Disha and Divya are partners in a firm sharing profits in the ratio of 3 : 2. The fixed capital of Disha is ₹ 4,80,000 and of Divya is ₹ 3,00,000. On 1st April, 2022, they admitted Hina as a new partner for 1/5th share in future profits. Hina brought ₹ 3,00,000 as her capital. Calculate value of goodwill of the firm and record necessary Journal entries on Hina's admission. (*Delhi 2013 C, Modified*)

[**Ans.:** *(i) Dr. Bank A/c and Cr. Hina's Capital A/c by ₹ 3,00,000; (ii) Dr. Hina's Current A/c by ₹ 84,000; Cr. Disha's Current A/c by ₹ 50,400 and Divya's Current A/c by ₹ 33,600.*]

35. *E* and *F* were partners in a firm sharing profits in the ratio of 3 : 1. They admitted *G* as a new partner on 1st April, 2022 for 1/3rd share. It was decided that *E*, *F* and *G* will share future profits equally. *G* brought ₹ 50,000 in cash and machinery valued at ₹ 70,000 as premium for goodwill.
Pass necessary Journal entries in the books of the firm.

[**Ans.:** *(i) Dr. Cash A/c by ₹ 50,000 and Machinery A/c by ₹ 70,000; Cr. Premium for Goodwill A/c by ₹ 1,20,000. (ii) Dr. Premium for Goodwill A/c by ₹ 1,20,000 and F's Capital A/c by ₹ 30,000; Cr. E's Capital A/c by ₹ 1,50,000.*]

[**Hint:** *E*'s Sacrifice = 5/12; *F*'s Gain = 1/12.]

36. Verma and Sharma are partners in a firm sharing profits and losses in the ratio of 5 : 3. They admitted Ghosh as a new partner for 1/5th share of profits. Ghosh is to bring in ₹ 20,000 as capital and ₹ 4,000 as his share of goodwill premium. Give the necessary Journal entries:

(a) When the amount of goodwill is retained in the business.

(b) When the amount of goodwill is fully withdrawn.

(c) When 50% of the amount of goodwill is withdrawn.

(d) When goodwill is paid privately. (*NCERT*)

37. Shyam and Sanjay were in partnership business sharing profits and losses in the ratio of 2 : 3. Their Balance Sheet as at 31st March, 2022 was:

Liabilities		₹	Assets	₹
Sundry Creditors		12,435	Cash in Hand	710
Capital A/cs:			Cash at Bank	11,925
Shyam	34,050		Sundry Debtors	5,500
Sanjay	34,050	68,100	Stock	18,000
			Furniture	4,400
			Building	40,000
		80,535		80,535

On 1st April, 2022, they admitted Shanker into partnership for 1/3rd share in future profits on the following terms:

(a) Shanker is to bring in ₹ 30,000 as his capital and ₹ 20,000 as goodwill which is to remain in the business.

(b) Stock and Furniture are to be reduced by 10%.

(c) Building is to be appreciated by ₹ 15,000.

(d) Provision of 5% is to be made on Sundry Debtors for Doubtful Debts.

(e) Unaccounted Accrued Commission Income of ₹ 2,400 to be provided for. A debtor, whose dues of ₹ 4,800 were written off as bad debts, paid 50% in settlement.

(f) Outstanding Rent was ₹ 4,800.

Show Profit & Loss Adjustment Account (Revaluation Account), Capital Accounts of Partners and opening Balance Sheet of the new firm.

[**Ans.:** *Profit & Loss Adjustment A/c (Revaluation Account)—Gain (Profit) ₹ 12,485; Capital A/cs: Shyam—₹ 47,044; Sanjay—₹ 53,541; Shanker—₹ 30,000; Balance Sheet Total—₹ 1,47,820.*]

38. Following is the Balance Sheet of the firm, Ashirvad, owned by *A*, *B* and *C* who share profits and losses of the business in the ratio of 3 : 2 : 1:

BALANCE SHEET *as at 31st March, 2022*

Liabilities		₹	Assets	₹
Capital A/cs:			Furniture	95,000
A	1,20,000		Business Premises	2,05,000
B	1,20,000		Stock-in-Trade	40,000
C	1,20,000	3,60,000	Debtors	28,000
Sundry Creditors		20,000	Cash at Bank	15,000
Outstanding Salaries and Wages		7,200	Cash in Hand	4,200
		3,87,200		3,87,200

On 1st April, 2022, they admit *D* as a partner on the following conditions:

(a) *D* will bring ₹ 1,20,000 as his capital and also ₹ 30,000 as goodwill premium for 1/4th share in the future profits/losses of the firm.

(b) Values of the fixed assets of the firm will be increased by 10% before the admission of *D*.

(c) Mohan, an old customer whose account was written off as bad debts, has promised to pay ₹ 3,000 in full settlement of his dues.

(d) Future profits and losses of the firm will be shared equally by all the partners.

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

[**Ans.:** *Gain (Profit) on Revaluation—₹ 30,000; Capital A/cs: A—₹ 1,65,000; B—₹ 1,40,000; C—₹ 1,15,000; D—₹ 1,20,000; Balance Sheet Total—₹ 5,67,200.*]

Note: There will be no entry for the promise made by Mohan, since it is an event and not a transaction. There is another view, ₹ 3,000 is to be considered as Bad Debts Recovered. In this situation result will be as follows:

Gain (Profit) on Revaluation—₹ 33,000; Capital A/cs: *A*—₹ 1,66,500; *B*—₹ 1,41,000; *C*—₹ 1,15,500; *D*'s Capital—₹ 1,20,000; Balance Sheet Total—₹ 5,70,200.

[**Hint:** Change in the profit-sharing ratio will result in loss of 6/24th to *A* and 2/24th to *B*; gain of 2/24th to *C* and 1/4th to *D*. Hence, the entry for adjustment of goodwill premium will be:

C's Capital A/c	...Dr.	₹ 10,000	
Premium for Goodwill A/c	...Dr.	₹ 30,000	
To *A*'s Capital A/c			₹ 30,000
To *B*'s Capital A/c			₹ 10,000.]

39. Shiv and Mohan are partners sharing profits equally. Their Balance Sheet as on 31st March, 2022 is given below:

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		1,50,000
Shiv	1,50,000		Plant and Machinery		1,00,000
Mohan	1,00,000	2,50,000	Furniture and Fittings		25,000
Current A/cs:			Stock		75,000
Shiv	40,000		Debtors	75,000	
Mohan	30,000	70,000	*Less:* Provision for Doubtful Debts	5,000	70,000
Creditors		1,30,000	Bills Receivable		30,000
Bills Payable		50,000	Bank		50,000
		5,00,000			5,00,000

Jea is admitted as a new partner for 1/4th share under the following terms:

(a) Jea is to introduce ₹ 1,25,000 as capital.

(b) Goodwill of the firm was valued at nil.

(c) It is found that the creditors included a sum of ₹ 7,500 which was not to be paid. But it was also found that there was a liability for Compensation to Workmen amounting to ₹ 10,000.

(d) Provision for doubtful debts is to be created @ 10% on debtors.

(e) In regard to the Partners' Capital Accounts, present Fixed Capital Accounts Method is to be converted into Fluctuating Capital Accounts Method.

(f) Bills of ₹ 20,000 accepted from creditors were not recorded in the books.

(g) Shiv provides ₹ 50,000 loan to the business carrying interest @ 10% p.a.

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

[**Ans.:** *Loss on Revaluation—₹ 5,000; Partners' Capital A/cs: Shiv—₹ 1,87,500; Mohan—₹ 1,27,500; Jea— ₹ 1,25,000; Balance Sheet Total—₹ 6,72,500.*]

40. Sarah and Varsha were partners in a firm sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2023 was as follows:

BALANCE SHEET OF SARAH AND VARSHA *as at 31st March, 2023*

Liabilities		₹	Assets		₹
Capital:			Plant and Machinery		2,00,000
Sarah	60,000		Stock		30,000
Varsha	50,000	1,10,000	Debtors	50,000	
Workmen's Compensation Fund		20,000	*Less*: Provision for Doubtful Debts	5,000	45,000
Provident Fund		1,20,000	Cash		25,000
Creditors		50,000			
		3,00,000			3,00,000

On 1st April, 2023, they decided to admit Tasha as a new partner for 1/4th share of the profits on the following terms:

(i) Tasha brought ₹ 40,000 as her capital and ₹ 20,000 as her share of premium for goodwill.

(ii) Plant and Machinery was valued at ₹ 1,90,000.

(iii) An item of ₹ 20,000, included in creditors, is not likely to be claimed and should be written off.

(iv) Capitals of the partners in the new firm are to be in the new profit-sharing ratio on the basis of Tasha's capital, by bringing or paying off cash, as the case may be.

Prepare Revaluation Account and Partners' Capital Accounts. (*CBSE 2024*)

[**Ans.:** *Gain (Profit) on Revaluation—₹ 10,000; Partners' Capital Accounts: Sarah—₹ 72,000; Varsha—₹ 48,000; Tasha—40,000.*]

Missing Value Questions

41. Lalit and Mukul are partners with capitals of ₹ 6,50,000 and ₹ 5,50,000 respectively. They admit Chetan as a partner with 1/4th share in the profit of the firm. Fill-in the missing figures to record capital and goodwill:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		6,50,000	
	To Chetan's Capital A/c			?
	(Amount of capital brought in by Chetan)			
	Chetan's ? A/c ...Dr.		?	
	To ?			?
	To ?			?
	(Chetan's share of goodwill credited to sacrificing partners in their sacrificing ratio)			

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		6,50,000	
	To Chetan's Capital A/c			**6,50,000**
	(Amount of capital brought in by Chetan)			
	Chetan's **Current** A/c ...Dr.		**1,87,500**	
	To **Lalit's Capital A/c**			**93,750**
	To **Mukul's Capital A/c**			**93,750**
	(Chetan's share of goodwill credited to sacrificing partners in their sacrificing ratio)			

Working Notes:

(i) Total Capital of the Firm on the basis of Chetan's Capital = ₹ 6,50,000 × 4/1 = ₹ 26,00,000

(ii) Actual Capital of New Firm = ₹ 6,50,000 + ₹ 5,50,000 + ₹ 6,50,000 = ₹ 18,50,000

(iii) Firm's Goodwill [(i) – (ii)] = ₹ 26,00,000 – ₹ 18,50,000 = ₹ 7,50,000

Chetan's Share of Goodwill = ₹ 7,50,000 × 1/4 = ₹ 1,87,500.

42. Complete the missing amounts in the following accounts:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Machinery A/c	?	By Building A/c		?
To Stock A/c	?	By Loss transferred to:		
To Provision for Doubtful Debts A/c	10,000	Amit's Capital A/c	15,000	
To Salary Outstanding A/c	25,000	Beena's Capital A/c	10,000	25,000
	1,75,000			1,75,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Amit ₹	Beena ₹	Chaman ₹	Particulars	Amit ₹	Beena ₹	Chaman ₹
To Revaluation A/c	?	?		By Balance *b/d*	?	?	
To Balance *c/d*	?	?	?	By Premium for Goodwill A/c	60,000	40,000	
				By Bank A/c			?
	?	?	?		?	?	6,00,000

BALANCE SHEET OF RECONSTITUTED FIRM *as at 31st March, 2022*

Liabilities		₹	Assets		₹
Creditors		2,50,000	Building (₹ 5,00,000 + ₹ 1,50,000)		6,50,000
Bills Payable		?	Machinery (₹ 4,00,000 – ₹ 40,000)		3,60,000
Outstanding Expenses		75,000	Stock (₹ 5,00,000 – ₹ 1,00,000)		4,00,000
Capital A/cs:			Debtors	2,00,000	
Amit	9,45,000		*Less:* Provision for Doubtful Debts	?	?
Beena	3,80,000		Bank		7,50,000
Chaman	6,00,000	19,25,000			
		?			?

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Machinery A/c **(Note 1)**	**40,000**	By Building A/c **(Note 1)**		**1,50,000**
To Stock A/c **(Note 1)**	**1,00,000**	By Loss transferred to:		
To Provision for Doubtful Debts A/c	10,000	Amit's Capital A/c	15,000	
To Salary Outstanding A/c	25,000	Beena's Capital A/c	10,000	25,000
	1,75,000			1,75,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Amit ₹	Beena ₹	Chaman ₹	Particulars	Amit ₹	Beena ₹	Chaman ₹
To Revaluation A/c	**15,000**	**10,000**		By Balance *b/d*	**9,00,000**	**3,50,000**	
To Balance *c/d*	**9,45,000**	**3,80,000**	**6,00,000**	By Premium for Goodwill A/c	60,000	40,000	
				By Bank A/c			**6,00,000**
	9,60,000	**3,90,000**	**6,00,000**		**9,60,000**	**3,90,000**	6,00,000

BALANCE SHEET OF RECONSTITUTED FIRM *as at 31st March, 2022*

Liabilities		₹	Assets		₹
Creditors		2,50,000	Building (₹ 5,00,000 + ₹ 1,50,000)		6,50,000
Bills Payable		**1,00,000**	Machinery (₹ 4,00,000 – ₹ 40,000)		3,60,000
Outstanding Expenses		75,000	Stock (₹ 5,00,000 – ₹ 1,00,000)		4,00,000
Capital A/cs:			Debtors	2,00,000	
Amit	9,45,000		*Less:* Provision for Doubtful Debts	**10,000**	**1,90,000**
Beena	3,80,000		Bank		7,50,000
Chaman	6,00,000	19,25,000			
		23,50,000			**23,50,000**

Notes:

1. **Calculation of Missing Values of Revaluation Account:** They have been taken from the given Balance Sheet of Reconstituted firm.

   For Example: Decrease in value of Machinery ₹ 40,000 is taken for machinery.

2. **Calculation of Opening Balances of Amit's Capital and Beena's Capital:** Following steps have been taken:

   Step 1. Put the value of closing balances of Partners' Capitals given in the Balance Sheet.

   Step 2. Put the value of loss on Revaluation from Revaluation Account.

   Step 3. The amounts of ₹ 9,00,000 and ₹ 3,50,000 represent the Opening Balances of their Capitals, calculated as Balancing Figure.

3. **Value of Bills Payable** is calculated by taking the following steps:

   Step 1. Take the value of Provision for Doubtful Debts from Revaluation Account and deduct it from debtors on the Balance Sheet, then we get Net debtors.

   Step 2. Find out total of Assets side of the Balance Sheet and put it as the total of Liabilities side.

   Step 3. Calculate the value of Bills Payable as the Balancing Figure.