

CLASSES

BY

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Admission of a Partner

Full Fledged Question:-

Revaluation A/c, Capital A/c, Balance sheet

Question 3 and 4

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QUESTION-3

Ques-3

X & Y are partners in the firm sharing profits in the ratio $\frac{1}{3}$ & $\frac{1}{2}$. Following is the balance sheet as at 31st march, 2019

Liabilities	Rs.	Assets	Rs.
Capital		Building	32,000
X	30,000	Debtors	20,000
Y	20,000	Stock	6,000
Creditors	20,000	Investment	20,000
O/s expenses	3,000	Cash	31,000
Workmen comp. reserve	20,000		
Investment fluctuation. reserve	16,000		
	109,000		109,000

On 1st April 2014, Z entered into the partnership for 1/3 share in the profits and brought 50,000 as capital.

He also brought 6,000 out of his share of 10,000 as goodwill.

Following are the adjustments on Z's admission:

1. Investments are valued at 24,000, half of which is taken over by X upon cash payment.
2. There is a liability against the workmen compensation amounted to 28,000
3. No entry has been made in respect of a debt of 3,000 recovered by X from a customer which was previously written off as bad debts. The amount is to be paid by x now.
4. O/s expenses are to be brought down TO 1,800
5. That included in creditors is an item of 1,200, which is not to be paid and therefore has to be written off.

Prepare Revaluation account, Capital account and the Balance sheet.

Z brought 6,000 out of his share of 10,000 as goodwill.

J. entry:- Z's capital A/c Dr. 4,000 (Z will pay 4,000 out of his capital to compensate)

Premium for goodwill A/c Dr. 6,000

To X's Capital A/c

To Y's Capital A/c

Following are the adjustments on Z's admission:

1. Investments are valued at 24,000, half of which is taken over by X upon cash payment.

J. entry:- Investments A/c Dr. 4,000

To Revaluation A/c 4,000 (Profit on Investments revaluation)

J. entry:- Cash A/c Dr. 12,000

To Investment 12,000 (Investments sold to X for cash payment)

2. There is a liability against the workmen compensation amounted to 28,000

J. entry:- Revaluation A/c Dr. 8,000 (Inc. in liability Debited to Revaluation A/c)

Workmen compensation reserve A/c Dr. 20,000

To Liability for workmen compensation reserve 28,000

3. No entry has been made in respect of a debt of 3,000 recovered by X from a customer which was previously written off as bad debts. The amount is to be paid by X now.

X's capital A/c Dr. 3,000 (Amount to be recovered from X)
 To Revaluation A/c 3,000

4. O/s expenses are to be brought down TO 1,800

O/s Expenses A/c Dr. 1,200 (Liability decreased credited to Revaluation)
 To Revaluation A/c 1,200

5. That included in creditors is an item of 1,200, which is not to be paid and therefore has to be written off.

Creditors A/c 1,200 (Liability decreased credited to Revaluation)
 To Revaluation A/c 1,200

Prepare Revaluation account, Capital account and the Balance sheet.

Sol.

REVALUATION A/C			
PARTICULARS	Amount	PARTICULARS	Amount
Liab. for Workmen comp.	8,000	X's Capital A/c	3,000
		O/s expenses	1,200
Revaluation Profit transferred		Investment	4,000
X's capital A/c	560	Creditors	1,200
Y's capital A/c	840		
	9,400		9,400

BALANCE SHEET			
LIABILITIES	Amount	ASSETS	Amount
Liability for Workmen comp.	28,000	Building	32,000
Creditors	18,800	Stock	6,000
O/s expenses	1,800	Debtors	20,000
Capital		Investment	12,000
X	37,960		
Y	36,440	Cash	99,000
Z	46,000		
	169,000		169,000

CAPITAL A/C

PARTICULARS	X	Y	Z	PARTICULARS	X	Y	Z
X's capital A/c			1,600	Balance b/d	30,000	20,000	
Y's capital A/c			2,400	Inv. Fluctuation reserve	6,400	9,600	
Revaluation A/c	3,000			Revaluation A/c	560	840	
				Cash A/c			50,000
Balance c/d	37,960	36,440	46,000	Premium for goodwill	2,400	3,600	
				Z's capital A/c	1,600	2,400	
	40,960	36,440	50,000		40,960	36,440	50,000

NOTE:-

Investment Fluctuation Reserve – will be credited to old partner's capital A/c in the old ratio as there is no loss on Investments.

If there would be any loss on the value of Investments, then that loss would be adjusted against the reserve and the balance would be credited to the partner's capital a/c

QUESTION-4

Ques-4

A & B are partners in the firm sharing profits in the ratio 5:3. C joins the firm as partner. **A gives 1/4 of his share and B gives 1/5 of his share to C.**

Following is the balance sheet of A & B as at 31st march, 2019

Liabilities	Rs.	Assets		Rs.
Capital		Building		100,000
A	100,000	Debtors	20,000	
B	50,000	Less: Provision for d/d	2,000	18,000
Bank loan	20,000	Stock		6,000
		Cash		15,000
		Bank		18,000
		Deferred revenue exp.		13,000
	170,000			170,000

Following are the adjustments on C's admission

1. Accrued interest not recorded are 4,000 while commission payable unrecorded amounted to 2,000.
2. A debtor whose dues of Rs. 1,000 were written off as bad debts paid Rs.800 in full settlement.
3. Bank loan was repaid along with interest amounted to 1,000.
4. A bill of exchange of 6,000 which was previously discounted with the bank was dishonoured but no entry was passed for that.
5. Provision for d/d is to be made existing rate.
6. Goodwill of the firm is 160,000 and C brings necessary amount of goodwill in cash
7. C brought 3, 00,000 as his capital and goodwill.

Prepare Revaluation account, Capital account and the Balance Sheet.

Following are the adjustments on C's admission

1. **Accrued interest not recorded** are 4,000 while **commission payable unrecorded** amounted to 2,000.

Accrued Interest is an Asset-credited to Revaluation A/c, Commission payable is a liability –Debited to Revaluation A/c

2. **A debtor whose dues of Rs. 1,000 were written off as bad debts paid Rs.800 in full settlement.**

Bad debts recovered is an Asset-credited to Revaluation A/c

3. **Bank loan was repaid along with interest amounted to 1,000.**

Interest is an additional liability and will be debited to Revaluation A/c

4. **A bill of exchange of 6,000 which was previously discounted with the bank was dishonoured but no entry was passed for that.**

Debtors increased and Bank decreased. No effect on Revaluation A/c as there is no loss.

5. **Provision for d/d is to be made existing rate.**

Provision amount is 2,000 on 20,000 Debtors, so provision rate is 10%. We will make 10% provision on the New amount of Debtors (20,000+6000 effect on 4th adj.), Difference in the provision amount will be Debited to the Revaluation A/c.

6. Goodwill of the firm is 160,000 and C brings necessary amount of goodwill in cash

7. C brought 3,00,000 as his capital and goodwill.

Workings for 6th and the 7th adjustment are shared in the Working note.

Prepare Revaluation account, Capital account and the Balance Sheet.

Sol.

REVALUATION A/C			
Commission payable	2,000	Accrued interest	4,000
Interest on loan	1,000	Bad debts recovered	800
Prov. For d/d	600		
Revaluation Profit transferred			
A's capital A/c	750		
B's capital A/c	450		
	4,800		4,800

BALANCE SHEET			
LIABILITIES	Amount	ASSETS	Amount
O/S Commission	2,000	Building	100,000
		Stock	6,000
Capital		Debtors	23,400
A	117,625	Accrued interest	4,000
B	57,575	Cash	15,800
C	263,000	Bank	291,000
	440,200		440,200

CAPITAL A/C							
PARTICULARS	A	B	C	PARTICULARS	A	B	C
Deferred rev. exp.	8,125	4,875		Balance b/d	100,000	50,000	
				Revaluation A/c	750	450	
Balance c/d	117,625	57,575	263,000	Cash A/c			263,000
				Premium for g/w	25,000	12,000	
	125,750	62,450	263,000		125,750	62,450	263,000

WORKING NOTES

CALCULATION OF NEW RATIO

OLD RATIO 5:3

$$\text{A Surrender to C} = \frac{5}{8} * \frac{1}{4} = \frac{5}{32} \text{ (A surrendered 1/4}^{\text{th}} \text{ of his share)}$$

$$\text{B Surrender to C} = \frac{3}{8} * \frac{1}{5} = \frac{3}{40} \text{ (B surrendered 1/5}^{\text{th}} \text{ of his share)}$$

$$\text{A's new share} = \frac{5}{8} - \frac{5}{32} \text{ (the share he had given to C)} = \frac{20-5}{32} = \frac{15}{32} * \frac{5}{5} \text{ (to make the denominator same)} = \frac{75}{160}$$

$$\text{B's new share} = \frac{3}{8} - \frac{3}{40} \text{ (the share he had given to C)} = \frac{15-3}{40} = \frac{12}{40} * \frac{4}{4} = \frac{48}{160}$$

$$\text{C's share} = \frac{5}{32} + \frac{3}{40} = \frac{25+12}{160} = \frac{37}{160}$$

WORKING NOTES

CALCULATION OF C's Share of Goodwill:

= Firm's Goodwill * C's share

$$= 160,000 * \frac{37}{160} = 37,000$$

$$A's \text{ share} = 37,000 * \frac{25}{37} = 25,000$$

$$B's \text{ share} = 37,000 * \frac{12}{37} = 12,000$$

WORKING NOTES

B/R DISHONoured

B/R

TO DEBTOR A/C

BANK A/C

BILL DISCOUNTING CHARGES

TO B/R

DEBTORS A/C

TO BANK A/C