

CLASSES

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Admission of a Partner

Full Fledged Question:-

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

Question 9 and 10

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QUESTION-9

A & B are partners in the firm sharing profits in the ratio 5:3. C joins the firm as partner. Following is the balance sheet of A & B as at 31st march, 2014

LIABILITIES	RS.	ASSETS		RS.
Capital		Building		100,000
A	100,000	Debtors	20,000	
B	50,000	Less: Provision for d/d	4,000	16,000
Creditors	20,000	Machinery		14,000
Undistributed profits	20,000	Investment		10,000
Investment fluctuation reserve.	10,000	Bank		48,000
		Goodwill		12,000
	200,000			200,000

Following are the adjustments on C's admission

1. An old customer, whose account was written off as bad, has promised to pay 2,000 in full settlement of his debt.
 2. A took over investment at 11,000
 3. A bill of 3,000 for electrical charges has been omitted, now it is to be provided for.
 4. There is a Liab. against the compensation payable to employees amounted to 6,000
 5. New ratio is 5:3:2
 6. C brings 25,000 as capital but cannot bring 3,600 as his share of goodwill.
 7. A is bringing 10,000 as his additional capital.
 8. It was decided that the capital of partners should be made proportionate in their new ratio based on C's capital, the difference if any will be adjusted through current account.
- Prepare revaluation account, capital account and the balance sheet.**

Following are the adjustments on C's admission

1. An old customer, whose account was written off as bad, has promised to pay 2,000 in full settlement of his debt.

- No effect as its just the promise and nothing received as such.

2. A took over investment at 11,000

J. entry:-

A's capital A/c

To Investment A/c

3. A bill of 3,000 for electrical charges has been omitted, now it is to be provided for.

J. entry:-

Revaluation A/c

To O/s Bill for electric charges

4. There is a Liab. against the compensation payable to employees amounted to 6,000

J. entry:-

Revaluation A/c

To Liability for workmen compensation

5. New ratio is 5:3:2

Sacrificing ratio need to be calculated.

6. C brings 25,000 as capital but cannot bring 3,600 as his share of goodwill.

7. A is bringing 10,000 as his additional capital.

8. It was decided that the capital of partners should be made proportionate in their new ratio based on C's capital, the difference if any will be adjusted through current account. This is capital Adjustment. Working is shared in the working note.

Prepare revaluation account, capital account and the balance sheet.

Solution

REVALUATION A/C			
PARTICULARS		PARTICULARS	
O/s Electric charges	3,000	Investment	1,000
Liability for workmen compensation	6,000		
		Revaluation loss trfd.	
		A's Capital A/c	4,800
		B's Capital A/c	3,200
	9,000		9,000

BALANCE SHEET			
PARTICULARS		PARTICULARS	
Creditors	20,000	Building	100,000
O/s Electric charges	3,000	Debtors 20,000	
Liability of workmen compensation	6,000	Less: Prov. For d/d 4,000	16,000
Capital		Machinery	14,000
A	62,500	Bank A/c	83,000
B	37,500	C's Current A/c	3,600
C	25,000		
Current A/c			
A	45,200		
B	17,400		
	216,600		216,600

CAPITAL A/C

PARTICULARS	A	B	C	PARTICULARS	A	B	C
Goodwill	7,500	4,500		Balance b/d	100,000	50,000	
Revaluation A/c	4,800	3,200		P &L A/C	12,500	7,500	
Investment	11,000			IFR	6,250	3,750	
Balance c/d	62,500	37,500	25,000	Cash A/c	10,000		25,000
Current A/c	45,200	17,400		C's current A/c	2,250	1,350	
	131,000	62,600	25,000		131,000	62,600	25,000

WORKING NOTES

CALCULATION OF SACRIFICING RATIO

OLD RATIO 5:3

NEW RATIO 5:3:2

$$\text{A'S SACRIFICE} = \frac{5}{8} - \frac{5}{10} = \frac{25-20}{40} = \frac{5}{40}$$

$$\text{B'S SACRIFICE} = \frac{3}{8} - \frac{3}{10} = \frac{15-12}{40} = \frac{3}{40}$$

SACRIFICING RATIO = 5:3

WORKING NOTES

CALCULATION OF CAPITAL OF PARTNERS -BASED ON C'S CAPITAL

$$\text{FIRM'S CAPITAL based on C's CAPITAL} = 25,000 * \frac{10}{2} = 125,000$$

$$\text{A'S Capital} = 125,000 * \frac{5}{10} = 62,500$$

$$\text{B'S Capital} = 125,000 * \frac{3}{10} = 37,500$$

QUESTION-10

A & B are partners in the firm. C joins the firm as partner for an **equal share**.

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

LIABILITIES	RS.	ASSETS		RS.
Capital		Building		100,000
A	50,100	Debtors	20,000	
B	50,100	Less: Provision for d/d	4,000	16,000
Creditors	39,900	Machinery		14,000
Workmen compensation reserve	10,000	Stock		20,100
	150,100			150,100

FOLLOWING ARE THE ADJUSTMENTS ON C'S ADMISSION

1. It is decided to write off bad debts amounted to 8,000
2. Building was found **undervalued** by 20% while machinery was overvalued by 20%
3. An item of stock costing 2,000 unrecorded become **obsolete** and was **sold at a loss** of 20%
4. There is a liability against the compensation payable to employees amounted to 16,000
5. **Revaluation expenses amounted to 3,000 were paid by A.**
6. **Debtor to the extent of 5,000 was not recorded.**
7. C brings 75,000 as capital and his share of goodwill in cash. **A & B had withdrawn 50% of their share of goodwill in cash.**
8. A also brought 10,000 as his additional capital.

Prepare Revaluation account, Capital account and the Balance sheet

FOLLOWING ARE THE ADJUSTMENTS ON C'S ADMISSION

1. It is decided to write off bad debts amounted to 8,000
2. Building was found **undervalued** by 20% while machinery was overvalued by 20%
3. An item of stock costing 2,000 unrecorded become **obsolete** and was **sold at a loss** of 20%

There is a profit of 1600 as the item was unrecorded.

4. There is a liability against the compensation payable to employees amounted to 16,000

5. **Revaluation expenses amounted to 3,000 were paid by A.**

A's capital will be credited and Revaluation A/c will be Debited.

6. **Debtor to the extent of 5,000 was not recorded.**

Debtors A/c To Revaluation A/c

7. C brings 75,000 as capital and his share of goodwill in cash. A & B had withdrawn 50% of their share of goodwill in cash.
8. A also brought 10,000 as his additional capital.

Prepare Revaluation account, Capital account and the Balance sheet

REVALUATION A/C			
PARTICULARS		PARTICULARS	
Bad debts	4,000	Building	25,000
Machinery	2,800	Stock	1,600
Liability for workman comp.	6,000	Debtors	5,000
A's capital A/c	3,000		
Revaluation profit transferred			
A's capital A/c	7,900		
B's capital A/c	7,900		
	31,600		31,600

BALANCE SHEET			
PARTICULARS		PARTICULARS	
Creditors	39,900	Building	125,000
Liability of workmen compensation	16,000	Machinery	11,200
		Debtors 25,000	
Capital		Less: Bad debts 8,000	17,000
A	72,750		
B	59,750	Stock	20,100
		Bank A/c	90,100
C	75,000		
	263,400		263,400

CAPITAL A/C							
PARTICULARS	A	B	C	PARTICULARS	A	B	C
Cash A/c	1,750	1,750		Balance b/d	50,100	50,100	
				Revaluation A/c	3,000		
Balance c/d	72,750	59,750	75,000	Revaluation A/c	7,900	7,900	
				Cash A/c	10,000		75,000
				Premium for goodwill	3,500	3,500	
	74,500	61,500	75,000		74,500	61,500	75,000

WORKING NOTES

CALCULATION OF C'S SHARE OF GOODWILL

FIRM'S GOODWILL = FIRM'S CAPITAL BASED ON C'S SHARE - ADJUSTED CAPITAL OF PARTNERS.

(before adjustment of goodwill)

$$= 75,000 * \frac{3}{1} - (71,000 + 58,000 + 75,000)$$

$$= 225,000 - 204,000 = 21,000$$

$$\text{C'S SHARE OF GOODWILL} = 21,000 * \frac{1}{3} = 7,000$$