

CLASSES

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Admission of a Partner

Full Fledged Question:-

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

Concepts + Question 1 and 2

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Revaluation A/c

What is Revaluation A/c ?

Re-Valuation as the name appears RE-Valuation of the Assets and Liabilities.

Revaluation account is prepared for the distribution of profits / losses arising due to change (increase / decrease) in the book value of assets and liabilities on

- Admission of a partner,
 - Retirement of a partner or
 - Death of a partner.
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- Let's see how it is prepared with the following example.

BALANCE SHEET OF A & B

LIABILITIES	RS.	ASSETS	RS.
Capital		Plant & Machinery	35,000
A	30,000	Furniture	10,000
B	10,000	Stock	5,000
Creditors	20,000	Debtors	10,000
	60,000		60,000

Let's say C, a new partner is admitted and when C is admitted the value of assets and liabilities revalued as follows:-

- P&M found to be **30,000 only**,
- Furniture to be **8,000 only**,
- Stock to be **3,000 only** (the balance being obsolete),
- Debtors to be **8,000 only** (balance being the bad debts),
- Creditors to be paid **15,000 only**.

Now the above Increase or Decrease in the value of Assets and the Liabilities are recorded in the Revaluation A/c, the outcome of which is either the Revaluation Profit /Loss to be distributed **among the old partners**.

REVALUATION A/C

Particulars	Amount	Particulars	Amount
Dr- Loss Side		Cr- Profit Side	
Decrease in Asset		Increase in Asset	
Increase in Liability		Decrease in Liability	
Revaluation Profit (when total of Cr. is Higher)	Bal-fig.	Revaluation Loss (when total of Dr. is Higher)	Bal-fig.
	TOTAL		TOTAL

REVALUATION A/C

DR.	Rs.	CR.	Rs.
P & M	5,000	Creditors	5,000
Furniture	2,000	Revaluation loss- trfd.	
Stock	2,000	A's capital A/c	3,000
Debtors	2,000	B's capital A/c	3,000
	11,000		11,000

Why this Revaluation profit/ loss credited/debited to the old partner Only?

It is because, the new partner doesn't have any role in the present value of the assets and liabilities. If the Assets are found to be more than the value in the balance sheet, the Revaluation profit belong to the old partners and same for the loss.

CAPITAL A/C

PARTICULARS	A	B	C	PARTICULARS	A	B	C
Revaluation A/c	3,000	3,000		BAL B/D	30,000	10,000	
Bal c/d	27,000	7,000	40,000	Cash A/c			40,000
	35,000	15,000	40,000		30,000	10,000	40,000

BALANCE SHEET OF A ,B & C

LIABILITIES	RS.	ASSETS	RS.
Capital		Plant &Machinery	30,000
A	27,000	Furniture	8,000
B	7,000	Stock	3,000
C	40,000	Debtors	8,000
Creditors	15,000	Cash	40,000
	89,000		89,000

QUESTION -1

X & Y are **equal** partners in the firm. Following is the balance sheet as at 31st march, 2019

LIABILITIES	RS.	ASSETS	RS.
Capital		Building	50,000
X	50,000	Plant & machinery	40,000
Y	25,000	Furniture	10,000
Creditors	20,000	Debtors	20,000
Employee PF	10,000	Goodwill	10,000
Reserve	30,000	Cash	5,000
	135,000		135,000

On 1st April 2019, Z entered into the partnership for 1/3 share in the profits and brought 21,000 as capital of which 9,000 as goodwill.

Following are the adjustments on Z's admission

1. All the fixed assets are OVERVALUED by 20%
2. Employees PF is to be INCREASED BY 15,000
3. In regard to the debtors, the following debts proved bad or doubtful
6,000 due from A –expected to be REALIZED ONLY $\frac{1}{4}$
4,000 due from B- expected to be INSOLVENT TO THE EXTENT OF $\frac{3}{4}$
4. A liability of Rs.4, 000 included in creditors has been decided by the court TO BE SETTLED AT Rs.2, 200
5. There is an unrecorded asset in respect of salary paid in advance 2,000

Prepare Revaluation Account, Capital Account and the Balance Sheet.

Let's understand each of the adjustments given in the Question.

On 1st April 2019, Z entered into the partnership for 1/3 share in the profits and brought 21,000 as capital of which 9,000 as goodwill.

So, Z's Capital = 12,000 and Premium for goodwill = 9,000

Effect:- Capital A/c-Z will be added by 12,000

Premium for goodwill be distributed among the old partners.

Following are the adjustments on Z's admission

1. All the fixed assets are OVERVALUED by 20%

So, we will reduce the value of all fixed assets by 20%

Effect:-Revaluation a/c –Debit Side, Balance sheet- Assets will decrease

2. Employees PF is to be INCREASED BY 15,000

Liability is increasing

Effect:-Revaluation a/c –Debit Side, Balance sheet- Liability will Increase

3. In regard to the debtors, the following debts proved bad or doubtful

6,000 due from A –expected to be REALIZED ONLY $\frac{1}{4}$,

So bad debts $6,000 \times \frac{1}{4} = 4,500$

4,000 due from B- expected to be INSOLVENT TO THE EXTENT OF $\frac{3}{4}$,

So bad debts = 3,000,

Total bad debts = 7,500

Effect:- Revaluation A/c- Debit, Balance sheet-Asset will decrease

4. A liability of Rs.4, 000 **included** in creditors has been decided by the court TO BE SETTLED AT Rs.2, 200,

So, liability is getting decreased by 1,800

Effect:- Revaluation A/c- Credit, Balance sheet- Liability will decrease

5. There is an unrecorded asset in respect of salary paid in advance 2,000
Prepaid salary is an asset, so there is an unrecorded asset which need to be recorded.

Effect:- Revaluation A/c- Credit, Balance sheet- Asset will Increase

Prepare Revaluation Account, Capital Account and the Balance Sheet.

REVALUATION A/C			
Building	10,000	Creditors	1,800
Plant & Mac.	8,000	Prepaid Salary	2,000
Furniture	2,000	Revaluation loss	
Employees PF	15,000	X's capital A/c	19,350
Debtors	7,500	Y's capital A/c	19,350
	42,500		42,500

BALANCE SHEET			
Employees PF	25,000	Building	40,000
Creditors	18,200	Plant & Mac.	32,000
CAPITAL		Furniture	8,000
X	45,150	Debtors	12,500
Y	20,150	Cash	26,000
Z	12,000	Prepaid Salary	2,000
	120,500		120,500

CAPITAL A/C

	X	Y	Z		X	Y	Z
Goodwill	5,000	5,000		Balance b/d	50,000	25,000	
Revaluation A/c	19,350	19,350		Reserves	15,000	15,000	
				Cash A/c			12,000
Balance c/d	45,150	20,150	12,000	Premium for goodwill A/c	4,500	4,500	
	69,500	44,500	12,000		69,500	44,500	12,000

QUESTION -2

X & Y are partners in the firm sharing profits in their capital ratio.

Following is the balance sheet as at 31st march, 2024

LIABILITIES	RS.	ASSETS	RS.
Capital		Furniture	44,000
X	30,000	Debtors	20,000
Y	20,000	Stock	18,000
Creditors	10,000	Cash	15,000
Prov. for d/d	1,000		
Workmen compensation reserve	24,000		
Investment fluctuation reserve	12,000		
	97,000		97,000

On 1st April 2024, Z entered into the partnership for 1/3 share in the profits and brought 30,000 as capital and necessary amount of goodwill.

Following are the adjustments on Z's admission

1. Stock is **UNDERVALUED by 10%** whereas furniture is **OVERVALUED by 20%**
2. There is a **LIABILITY AGAINST** the workmen compensation amounted to 4,000
3. Provision for d/d is to be made at the rate of 10% on debtors.
4. Goodwill of the **FIRM** IS 24,000; half of the goodwill is **WITHDRAWN** by the partners
5. Creditors **INCLUDE** a contingent liability amounted to 6,000 which has been decided by the court at 7,000
6. Rs.5, 000 for damages claimed by a customer had been disputed by the firm. It was agreed at Rs.3, 000 by a compromise between the customer & the firm.

Prepare Revaluation Account, Capital Account and the Balance Sheet.

Let's understand each of the adjustments given in the Question.

1. Stock is **UNDERVALUED** by 10% whereas furniture is **OVERVALUED** by 20%

- Stock is undervalued. It means the stock that we have shown in our balance sheet is at 90% while the actual value is 100% so we will do $18,000 * \frac{100}{90}$ to get the 100% value which is 20,000. So our stock is getting increased by 2,000 which will be credited to revaluation a/c.
- Furniture is overvalued which means we need to decrease the value of furniture by 20%.

2. There is a **LIABILITY AGAINST** the workmen compensation amounted to 4,000

- This liability will be adjusted with the reserve that we have already created as workmen compensation reserve and the balance reserve will be distributed among the old partners in the old ratio. So No effect on Revaluation.

3. Provision for d/d is to be made at the rate of 10% on debtors.

- Provision for d/d will be $20,000 * 10\% = 2,000$ but we have already created a provision of 1,000 which is given in the balance sheet - liability side. So amount to be debited to revaluation will be only the difference which is 1,000.

4. Goodwill of the **FIRM** IS 24,000; half of the goodwill is **WITHDRAWN** by the partners

- Here Z's share of Goodwill be $24,000 \times \frac{1}{3} = 8,000$ which will credited to X & Y in the old ratio and half of whatever they are getting will be debited to their capital account as they are withdrawing this amount from the business.

5. Creditors **INCLUDE** a contingent liability amounted to 6,000 which has been decided by the court at 7,000

- Here our liability is getting increased by 1,000 so it's a loss and it will be debited to Revaluation a/c.

6. Rs.5, 000 for damages claimed by a customer had been disputed by the firm. It was agreed at Rs.3, 000 by a compromise between the customer & the firm.

- Here our liability is getting increased by 3,000 so it's a loss and it will be debited to Revaluation a/c.

Prepare Revaluation Account, Capital Account and the Balance Sheet.

REVALUATION A/C			
Furniture	8,800	Stock	2,000
Prov. For d/d	1,000		
Creditors	1,000	Revaluation loss	
Prov. for damages	3,000	X's capital A/c	7,080
		Y's capital A/c	4,720
	13,800		13,800

BALANCE SHEET			
Liab. For workmen comp.	4,000	Furniture	35,200
Creditors	11,000	Stock	20,000
Provision for damages	3,000	Debtors	18,000
CAPITAL		Cash	39,000
X	44,520		
Y	29,680		
Z	30,000		
	122,200		112,200

CAPITAL A/C

	X	Y	Z		X	Y	Z
Cash A/c	2,400	1,600		Balance b/d	30,000	25,000	
Revaluation A/c	7,080	4,720		Workmen Comp. Res.	12,000	8,000	
				Investment fl. Reserve	7,200	4,800	
Balance c/d	44,520	29,680	30,000	Cash A/c			30,000
				Premium for goodwill A/c	4,800	3,200	
	69,500	44,500	12,000		69,500	44,500	12,000