

**CLASSES**

**BY**

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# Admission of a Partner

Full Fledged Question:-

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

**Question 7 and 8**

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# QUESTION-7

## Ques-7

The following was the Balance Sheet of A, B and C sharing profits in the ratio of 6:5:3 respectively:

Liabilities	Amount	Assets	Amount
Sundry Creditors	13,000	Land and Building	45,000
Reserve	14,000	Furniture	13,500
Capital Accounts :		Debtors	26,000
A 38,000		Cash	16,500
B 33,000		C's current A/c	13,000
C 17,000	88,000	Preliminary exp.	28,000
Current A/c			
A 15,000			
B 12,000	27,000		
	142,000		142,000

They agreed to take D into partnership a physically challenged person by giving 1/8th share on the following terms:

1. That D should bring Rs.14, 000 as capital.
2. Goodwill of the firm was Rs.11, 200.
3. 50% of general reserve is to remain in the business as reserve for doubtful debts.
4. All the fixed assets are undervalued by 10%
5. Expenses on revaluation paid by B were 3,000
6. Capitals of partners will be adjusted on the basis of D's capital and difference if any will be adjusted through current account.

Prepare Revaluation a/c, Partners capital a/c and Balance sheet. Also identify the values disclosed by the old partners.

They agreed to take D into partnership a physically challenged person by giving 1/8th share on the following terms:

1. That D should bring Rs.14,000 as capital.

2. Goodwill of the firm was Rs.11,200.

Firm's share of goodwill is given, D's share of goodwill can be calculated.

3. 50% of general reserve is to remain in the business as reserve for doubtful debts.

50% reserve will be treated as prov. For d/d and the balance will be distributed among the old partner's.

4. All the fixed assets are undervalued by 10%

Fixed assets are at 90%. So we will do  $FA \times 100/90$ , to get the real value and the difference will be credited to the Revaluation a/c

5. Expenses on revaluation paid by B were 3,000

B will be credited and Revaluation A/c will be debited.

6. Capitals of partners will be adjusted on the basis of D's capital and difference if any will be adjusted through current account.

This is capital adjustment. Treatment is shown in the working note.

Prepare Revaluation a/c, Partners capital a/c and Balance sheet. Also identify the values disclosed by the old partners.

This is the Ques. of Fixed capital method as we are maintaining both capital and current a/c.

All the adjustment except capital will be done through the current A/c.

# Solution

REVALUATION A/C			
PARTICULARS		PARTICULARS	
B/s Current A/c	3,000	Land & Building	5,000
Revaluation profit trfd.		Furniture	1,500
A's Current A/c	1,500		
B's Current A/c	1,250		
C's Current A/c	750		
	6,500		6,500

## BALANCE SHEET

PARTICULARS		PARTICULARS	
Creditors	13,000	Land & Building	50,000
Prov. For d/d	7,000	Furniture	15,000
Capital A/c		Debtors	26,000
A	42,000	Cash	30,500
B	35,000		
C	21,000		
D	14,000		
Current A/c		Current A/c	
A	4,100	C	20,450
B	7,250	D	1,400
	143,350		143,350

## CAPITAL A/C

CAPITAL A/C									
PARTICULARS	A	B	C	D	PARTICULARS	A	B	C	D
Balance c/d	42,000	35,000	21,000	<b>14,000</b>	Balance b/d	38,000	33,000	17,000	
					Cash A/c				14,000
					Current A/c	4,000	2,000	4,000	
	42,000	35,000	21,000	<b>14,000</b>		42,000	35,000	21,000	<b>14,000</b>

## CURRENT A/C

CURRENT A/C									
PARTICULARS	A	B	C	D	PARTICULARS	A	B	C	D
Balance b/d			13,000		Balance b/d	15,000	12,000		
Preliminary exp. w/off	12,000	10,000	6,000		General reserve	3,000	2,500	1,500	
A's current A/c				600	Revaluation A/c	1,500	1,250	750	
B's capital A/c				500	Revaluation A/c		3,000		
C's capital A/c				300	D's current A/c	600	500	300	
Capital A/c	4,000	2,000	4,000						
Bal c/d	4,100	7,250			Bal c/d			20,450	1,400
	20,100	19,250	23,000	1,400		20,100	19,250	23,000	<b>1,400</b>

## WORKING NOTE

### CALCULATION OF NEW RATIO

OLD RATIO 6:5:3

$$D'S \text{ SHARE} = \frac{1}{8}$$

Let the total Share = 1, Remaining share of A, B & C =  $1 - \frac{1}{8} = \frac{7}{8}$

$$A'S \text{ Share} = \frac{6}{14} * \frac{7}{8} = \frac{42}{112}$$

$$B'S \text{ Share} = \frac{5}{14} * \frac{7}{8} = \frac{35}{112}$$

$$C'S \text{ Share} = \frac{3}{14} * \frac{7}{8} = \frac{21}{112}$$

$$D's \text{ Share} = \frac{1}{8} * \frac{14}{14} = \frac{14}{112}$$

NEW RATIO = 42:35:21:14 = 6:5:3:2

## WORKING NOTES

### CALCULATION OF CAPITAL OF PARTNERS - BASED ON D'S CAPITAL

$$\text{FIRM'S CAPITAL based on D's Share} = 14,000 * \frac{16}{2} = 112,000$$

$$\text{A'S Capital} = 112,000 = \frac{6}{16} = 42,000$$

$$\text{B'S Capital} = 112,000 = \frac{5}{16} = 35,000$$

$$\text{C'S Capital} = 112,000 = \frac{3}{16} = 21,000$$

$$\text{D'S Capital} = 112,000 = \frac{2}{16} = 14,000$$

# QUESTION-8

## Ques-8

A & B are partners in the firm sharing profits in their **CAPITAL RATIO**. Following is the balance sheet as at 31<sup>st</sup> March, 2014

<b>LIABILITIES</b>	<b>Rs.</b>	<b>ASSETS</b>	<b>Rs.</b>
Creditors	10,000	Building	32,000
Capital		Furniture	10,000
A	30,000	Debtors	20,000
B	20,000	<b>Investment (Market value 7,000)</b>	<b>18,000</b>
Bank overdraft	20,000	Cash	27,000
<b>Investment fl. reserve</b>	<b>3,000</b>		
<b>Workmen Comp. reserve</b>	<b>24,000</b>		
	<b>107,000</b>		<b>107,000</b>

On 1st April 2014, C entered into the partnership for **20 paisa in a rupee** share and brought capital and necessary amount of goodwill.

Following are the adjustments on C's admission

1. Goodwill is valued at 1 and  $\frac{1}{2}$  year's purchase of the average profit of last three years less 12,000. The profits of last three years amounted to Rs. 10,000, 20,000 and 30,000.
2. B pays off the bank overdraft along with interest of 2,500
3. A creditor for 3,000 is not traceable and the amount is to be written off.
4. 2% discount is to be received from the creditors.
5. C to bring 20% of the total capital of the new firm after all adjustments.
6. A brought in additional capital amounted to 10,000
7. Partners decided to show investments at the market value.

A & B decided: Not to show goodwill in the books. Prepare Revaluation A/c, Partners Capital A/c and Balance Sheet.

Following are the adjustments on C's admission

1. Goodwill is valued at 1 and  $\frac{1}{2}$  year's purchase of the average profit of last three years less 12,000. The profits of last three years amounted to Rs.10, 000, 20,000 and 30,000.
  - Working shared in the working note.

2. B pays off the bank overdraft along with interest of 2,500

The additional liability of 2,500 will be Debited to Revaluation A/c.

3. A creditor for 3,000 is not traceable and the amount is to be written off.

Decrease in the creditors is a profit to the firm and so will be credited to the Revaluation A/c

4. 2% discount is to be received from the creditors.

J. entry:- Creditors A/c To Revaluation A/c

5. C to bring 20% of the total capital of the new firm after all adjustments.

This is capital adjustment. Working is shared in the working note.

6. A brought in additional capital amounted to 10,000

7. Partners decided to show investments at the market value.

The loss in the Investment will be adjusted against the Investment fluctuation reserve and

- diff. if any as loss will be debited to the Revaluation A/c
- diff. if any as balance of reserve will be credited to the partner's capital A/c

A & B decided: Not to show goodwill in the books. Prepare Revaluation A/c, Partners Capital A/c and Balance Sheet.

## Solution

REVALUATION A/C			
PARTICULARS		PARTICULARS	
Int. on bank overdraft	2,500	Creditors	3,000
Investment	8,000	Prov. For discount on creditors	140
		Revaluation loss trfd.	
		A's Capital A/c	4,416
		B's Capital A/c	2,944
	10,500		10,500

BALANCE SHEET			
PARTICULARS		PARTICULARS	
Creditors	6,860	Building	32,000
Capital		Machinery	10,000
A	52,144	Debtors	20,000
B	50,596	Investment	7,000
C	25,685	Cash a/c	66,285
	135,285		135,285

### CAPITAL A/C

PARTICULARS	A	B	C	PARTICULARS	A	B	C
Revaluation A/c	4416	2944		Balance b/d	30,000	20,000	
				CASH A/C	10,000		25,685
BALANCE C/D	52,144	50,596	25,685	Bank Overdraft A/c		22,500	
				Premium for goodwill	2,160	1,440	
				WCR	14,400	9,600	
	56,560	53,540	25,685		56,560	53,540	25,685

## WORKING NOTES

### CALCULATION OF C'S SHARE OF GOODWILL

FIRM'S GOODWILL = AVERAGE PROFIT \* NO. OF PURCHASE YEARS - 12,000

$$= \frac{60,000}{3} * 1.5 - 12,000 = 18,000$$

$$\text{C'S SHARE OF GOODWILL} = 18,000 * \frac{1}{5} = 3,600$$

## WORKING NOTES

### CALCULATION OF C'S CAPITAL

$$\text{ADJUSTED CAPITAL OF A \& B} = 52,144 + 50,596 = 102,740$$

$$\text{C'S CAPITAL} = \text{FIRM'S CAPITAL} * \text{C'S SHARE} = \frac{102,740}{80\%} * \frac{1}{5} = 25,685$$