

**CLASSES**

**BY**

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# **Admission of a Partner**

Full Fledged Question:-

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

**Question 5 and 6**

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# QUESTION-5

## Ques-5

A & B are partners in the firm sharing profits in the ratio 5:3.

C joins the firm as partner for **1/3 share & 60,000 as capital and 10,000 as premium for goodwill out of his share of 12,000.**

Following is the BALANCE SHEET of A & B as at 31<sup>st</sup> march, 2018

LIABILITIES	Rs.	ASSETS		Rs.
Capital		Debtors	44,000	
A	100,000	Less: Provision for d/d	5,000	39,000
B	50,000	Stock		35,000
B's loan	20,000	B/R		10,000
Creditors	50,000	Bank		136,000
	220,000			220,000

Following are the adjustments on C's admission

1. A charge of 1,800 for insurance premium was debited to P & L account of 2018 of which 600 was to be **APPLIED FOR THE PERIOD AFTER MARCH, 2018**
2. Bill of 2,000 accepted by debtors was **NOT RECORDED** in the books.
3. Bad debts were 2,000; Provision for d/d is to be brought @5% on debtors.
4. Bank charges were **overlooked** and amounted to 2,000 for year 2017-18
5. Stock was valued at 25% **above cost**. It was to be brought into the books of the new firm **at cost price**.
6. Creditors included claim of C amounted to 20,000 which will be converted into his capital

Prepare Revaluation account, Capital account and the Balance sheet

Following are the adjustments on C's admission

1. A charge of 1,800 for insurance premium was debited to P & L account of 2018 of which 600 was to be **APPLIED FOR THE PERIOD AFTER MARCH, 2018**
  - That 600 is the prepaid Insurance. Recorded in the Balance sheet and Credited to the Revaluation A/c
2. Bill of 2,000 accepted by debtors was **NOT RECORDED** in the books.
  - B/R A/c Dr.  
To Debtors A/c (No effect on Revaluation a/c as no loss-profit)
3. Bad debts were 2,000; Provision for d/d is to be brought @5% on debtors.
  - First Bad debts will be adjusted, then provision will be charged on the remaining amount and the difference of total old prov. Vs. New Prov.+Bad debts will be adjusted with the Revaluation A/c
4. Bank charges were **overlooked** and amounted to 2,000 for year 2017-18
  - J. entry:-Revaluation A/c  
To Bank A/c

5. Stock was valued at 25% above cost. It was to be brought into the books of the new firm at cost price. Stock is shown in the books at 125% of its cost and now it is to be brought down to 100%, difference will be Debited to Revaluation A/c

6. Creditors included claim of C amounted to 20,000 which will be converted into his capital  
J. entry:- Creditors A/c  
            To C's capital A/c

Prepare Revaluation account, Capital account and the Balance sheet

## Solution.

REVALUATION A/C			
Stock	7,000	Prepaid insurance	600
<b>Bank Charges</b>	2,000	Provision for d/d	1,000
		Revaluation Loss trfd.	
		A's capital A/c	4,625
		B's capital A/c	2,775
	9,000		9,000



BALANCE SHEET			
LIABILITIES	Amount	ASSETS	Amount
Creditors	30,000	Prepaid insurance	600
B's loan	20,000	Stock (35,000*100/125)	28,000
CAPITAL		Debtors	38,000
A	102,875	B/R	12,000
B	51,725	Bank	184,000
C	58,000		
	262,600		262,600

CAPITAL A/C							
PARTICULARS	A	B	C	PARTICULARS	A	B	C
				Balance b/d	100,000	50,000	
A's capital A/c			1,250	Creditors A/c			20,000
B's capital A/c			750	Cash A/c			40,000
				Premium for g/w	6,250	3,750	
BALANCE C/D	117,625	57,575	263,000	C's capital A/c	1,250	750	
	107,500	54,500	60,000		107,500	54,500	60,000

# QUESTION-6

## Ques-6

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 31<sup>st</sup> march, 2019

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
General res.	16,000	Investment		10,000
		Bank		34,000
		Advertisement suspense a/c		12,000
	170,000			170,000

Following are the adjustments on c's admission

1. Building was found undervalued by 12,000 while machinery was overvalued by 2,000
2. Provision for d/d is to be brought up to 5% on debtors.
3. Investment was taken over by the partners at a discount of 10% in their profit sharing ratio
4. General reserve will appear in the books at the original figure.
5. New ratio is 2:4:2
6. C brings 25,000 as capital but cannot bring 3,600 as his share of goodwill.

Prepare revaluation account, capital account and the balance sheet

Following are the adjustments on c's admission

1. Building was found undervalued by 12,000 while machinery was overvalued by 2,000

Asset Undervalued-Profit –Credited to Revaluation A/c

Asset Overvalued-Loss –Debited to Revaluation A/c

2. Provision for d/d is to be brought up to 5% on debtors.

$20,000 \times 5\% = 1,000$ , The extra provision will be credited to Revaluation A/c

3. Investment was taken over by the partners at a discount of 10% in their profit sharing ratio

Loss on Investment will be debited to Revaluation A/c. Balance of Investment will be debited in the old partners A/c

4. General reserve will appear in the books at the original figure.

Since Reserve will appear in the New balance sheet, proportionate share of New partner will be debited and credited to the sacrificing partner's

5. New ratio is 2:4:2

Sacrificing ratio need to be calculated as New ratio is given

6. C brings 25,000 as capital but cannot bring 3,600 as his share of goodwill.  
C's share will be debited and the sacrificing partner's capital account will be credited.

Prepare revaluation account, capital account and the balance sheet

Revaluation A/c			
PARTICULARS	Amt.	PARTICULARS	Amount
Machinery	2,000	Building	12,000
		Provision	
Investment	1,000	for d/d	3,000
Revaluation Profit transferred			
A's capital A/c	7,500		
B's capital A/c	4,500		
	15,000		15,000

Balance Sheet			
LIABILITIES	Amount	ASSETS	Amount
Creditors	20,000	Building	112,000
General Reserve	16,000	Machinery	12,000
Capital		Debtors	19,000
A	105,775		
B	42,825	Bank	59,000
C	17,400		
	202,000		202,000



## CAPITAL A/C

PARTICULARS	A	B	C	PARTICULARS	A	B	C
Advertisement Suspense A/c	7,500	4,500		Balance b/d	100,000	50,000	
Investment	5,625	3,375		Revaluation A/c	7,500	4,500	
A's Capital A/c		2,000	4,000	Cash A/c			25,000
A's Capital A/c		1,800	3,600	B's capital A/c	2,000		
				C's capital A/c	4,000		
Balance c/d	105,775	42,825	17,400	B's capital A/c	1,800		
				C's capital A/c	3,600		
	118,900	54,500	25,000		118,900	54,500	25,000

## WORKING NOTES

### CALCULATION OF SACRIFICING RATIO

OLD RATIO 5:3

NEW RATIO 2:4:2

$$\text{A'S SACRIFICE} = \frac{5}{8} - \frac{2}{8} = \frac{3}{8}$$

$$\text{B'S SACRIFICE} = \frac{3}{8} - \frac{4}{8} = \frac{-1}{8}$$

## WORKING NOTES

### ADJUSTMENT FOR GENERAL RESERVE

B'S CAPITAL A/C  $(16,000 * \frac{1}{8})$  2,000

C'S CAPITAL A/C  $(16,000 * \frac{2}{8})$  4,000

TO A'S CAPITAL A/C          6,000

### ADJUSTMENT FOR GOODWILL

FIRM'S GOODWILL :  $3,600 * \frac{8}{2} = 14,400$

B'S CAPITAL A/C  $(14,400 * \frac{1}{8})$  1,800

C'S CAPITAL A/C                      3,600

TO A'S CAPITAL A/C          5,400