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## CHAPTER -3 ADMISSION OF A PARTNER

## ONE MARK QUESTIONS.

1. Why is it necessary to revalue assets and reassess liabilities of a firm in case of admission of a new partner?

Ans. The assets are revalued and liabilities of a firm are reassess, at the time of admission of a partner because the new partner should; neither benefit nor suffer because change in the value of assets and liabilities as on the date of admission.
2. What are the accumulated profit and accumulated losses?

Ans. The profit accumulated over the years and have not been credited to partners' capital A/c are known as accumulated Profit or undistributed profit, e.g. the General Reserve, Profit and Loss A/c (credit balance).
The losses which have not yet been written off to the debit of Partners' Capital A/c are known as accumulated Losses, e.g. the Profit and Loss A/c appearing on the assets side of Balance Sheet, etc.
3. Explain the treatment of goodwill in the books of a firm on the admission of a new Partner when goodwill already appears in the Balance sheet at its full value and the new partner brings his share of good will in cash.

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Ans. By following accounting standard - 10, the existing goodwill (i.e. goodwill appearing in the Balance Sheet) is written off to the old partners' Capital a/c in their old profit sharing ratio.

Old partners' capital A/c Dr.
To Goodwill A/c
[Being the existing $\mathrm{g} / \mathrm{w}$ written off in the old ratio.]
4. Under what circumstances the premium for goodwill paid by the incoming Partner will not recorded in the books of Accounts?

Ans. When the premium for goodwill is paid by the incoming partner privately, it is not recorded in the books of $\mathrm{A} / \mathrm{c}$ as it is as a matter outside the business.
$5 \quad$ A and B share profits and losses in the Ratio of $4: 3$, they admit $C$ with $3 / 7$ th share; which he gets $2 / 7$ th from $A$ and $1 / 7$ from $B$. What is the new profit sharing ratio?
Ans. $\quad$ A: $=4 / 7-2 / 7=2 / 7$
B: $\quad=3 / 7-1 / 7=2 / 7$
C: $\quad=2 / 7+1 / 7=3 / 7$
New Profit sharing Ratio is 2:2:3.
6 The capital of A and B are Rs. 50,000 and Rs. 40,000. To Increase the Capital base of the firm to Rs. 1,50,000, they admit C to join the firm; C is required to pay a sum of Rs. 70,000, what is the amount of premium of goodwill?
Ans. The total capital of the firm is Rs. 90,000. To increase the capital base to Rs. 1, $50,000, \mathrm{C}$ is to bring in Rs. 60,000 (Rs. 1, 50,000-9, 00, 00) But he bring in Rs. 70,000. Therefore, the excess of Rs. 10,000 represent premium for goodwill.
$7 \quad \mathrm{X}, \mathrm{Y}$ and Z are partners sharing in the ratio of $3: 2: 1$. Z retires and his share of 10000 was purchased by X and $Y$ for Rs. 5000 each. Calculate NPSR.

## Answer. 2:1

8 Capital employed in a business is Rs 200000. The normal rate of return is $15 \%$. During the year 2015 the firm earned a profit of Rs. 48000 . Calculate the value of goodwill at 3 years purchase of the super profits.
Answer. Rs. 54000.

## THREE/FOUR MARKS QUESTIONS

1. $A \& B$ are partners sharing in the ratio of $3: 2$. $C$ is admitted. $C$ gets $3 / 20$ th from $A$ and $1 / 20$ th from $B$. calculate new and sacrifice ratio
Ans: 9:7:4

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2. $X \& Y$ are partners share profits in the ratio of $5: 3$. Z the new partner gets $1 / 5$ of X's share and $1 / 3^{r d}$ of $Y$ 's share. Calculate new ratio.

Ans: 4:2:2
3. $\quad P \& Q$ are partners sharing in the ratio of $5: 3$. They admit $R$ for $1 / 4$ th share and agree to share
between them in the ratio of $2: 1$ in future. Calculate new ratio.

Ans: 2:1:1.
4. $A, B$ and $C$ are partners sharing in the ratio of $7: 5: 8$. $D$ was admitted to $1 / 4$ th of the future profits. B sacrificed $1 / 5^{\text {th }}$ from his profit, while the balance was sacrificed by A and C in the ratio of 3:1. D brings Rs. 120000 as his capital but nothing for goodwill which was valued at Rs. 200000 for the firm. Calculate NPSR and SR and pass necessary journal entry for the treatment of goodwill.
Answer. NPSR 4:4:7:5 AND SR 3:1:1

1. CASH A/C DR 120000

TO D'S CAPITAL AC
120000
2. D'S CURRENT A/C DR

TO A'S CAPITAL 50000

TO B'S CAPITAL 30000

TO C'SCAPITAL
10000
10000

## SIX/EIGHT MARKS QUESTIONS

1.Neeraj and Prasun are partners in a firm sharing profits in the ratio of 3:2. On $1^{\text {st }}$ April 2012 they admitted Zulfi as a partner in the firm.The Balance Sheet of Neeraj and Prasun on that date stood as follows:

| LIABILITIES | AMOUNT | ASSETS | AMOUNT |
| :--- | :--- | :--- | :--- |
| Creditors | 210000 | Cash | 140000 |
| Workmen <br> compensation fund | 250000 | Debtors | 160000 |
| General reserve | 160000 | Stock | 120000 |
| Capitals: | Machiner <br> y | 100000 |  |
| Neeraj | 100000 | Building | 280000 |
| Prasun | 80000 |  |  |
|  | 800000 |  | 800000 |

It was agreed that:

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1. The value of building and stock be appreciated to 380000 and 160000 respectively
2. The liability on account of workmen compensation fund was determined at Rs. 230000
3. Zulfi brought Rs. 100000 as his share of goodwill
4. Zulfi was to bring further cash to make his capital equal to $20 \%$ of the combined capital on Neeraj and Parsun.
5. The new profit sharing ratio was determined at $2 / 5,2 / 5,1 / 5$ respectively.

Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm.
Answer:
Revaluation Account

| PARTICULARS | AMOUNT | PARTICULAR <br> S | AMOUNT |
| :--- | :--- | :--- | :--- |
| To Profit trans to <br> Capitals: |  | By building | 100000 |
| Neeraj | 84000 | By Stock | 40000 |
| Prasun | 56000 |  |  |
|  | 140000 |  | 140000 |

## PARTNER'S CAPITAL ACCOUNT

| Particular <br> s | Neeraj | Prasun | Zulfi | Particular <br> s | Neeraj | Prasun | Zulfi |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| To bal | 392000 | 208000 | 120000 | By bal | 100000 | 80000 |  |
|  |  |  |  | By G.R. | 96000 | 64000 |  |
|  |  |  |  | By WCF | 12000 | 8000 |  |
|  |  |  |  | By Reval | 84000 | 56000 |  |
|  |  |  |  | By Prem | 100000 |  |  |
|  |  |  |  | By cash |  |  | 120000 |
|  | 392000 | 208000 | 120000 |  | 392000 | 208000 | 120000 |

BALANCE SHEET

| LIABILITIES | AMOUNT | ASSETS | AMOUNT |
| :--- | :--- | :--- | :--- |
| Creditors | 210000 | Cash | 360000 |
| Workmen <br> compensation fund | 230000 | Debtors | 160000 |
| Capitals: |  | Stock | 160000 |
| Neeraj | 392000 | Machinery | 100000 |
| Prasun | 208000 | Building | 380000 |

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| Zulfi | 120000 |  |  |
| :--- | :--- | :--- | :--- |
|  | 1140000 |  | 1140000 |

2. Tanu and Kanu are partners sharing profits in the ratio of $2: 3$. On 31 st March, 2014 their Balance Sheet was :

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
| :---: | :---: | :---: | :---: |
| Capitals A/cs |  | Goodwill | 20,000 |
| Tanu |  | Machiner | 90,000 |
| 30,000 | 70,000 | y | 14,000 |
| Kanu | 14,000 | Stock | 38,000 |
| 40,000 | 66,000 | Debtors | 3,000 |
| G ener al | 15,000 | Cash |  |
| Reserve |  |  |  |
| Creditors |  |  |  |
| Bills Payable |  |  |  |
|  | 1,65,000 |  | 1,65,000 |

They decided to admit Manu into the partnership for on the following terms :
a) Stock is to be revalued at Rs. 18,000 .
b) Machinery is to be depreciated by $15 \%$.
c) It is found that the creditors included a sum of Rs. 12,000 which was not to be paid.
d) Outstanding rent is Rs. 1,900.
e) Manu is to bring in Rs. 36,000 as his capital and share of goodwill Rs. 10,000 for his $1 / 6^{\text {th }}$ share in the profits of the firm.
Prepare the Revaluation Account and Partners' Capital Accounts.
Answer:
Revaluation A/c

| Particulars | Amount <br> (Rs.) | Particula <br> rs | Amount <br> (Rs.) |
| :--- | ---: | ---: | ---: |
| Machinery | 13,500 | Stock | 4,000 |
| Outstanding | 1,900 | Creditors | 12,000 |
| Rent A/c <br> Cap A/c (profit) <br> Tanu $: 240$ <br> Kanu $: 360$ | 600 |  |  |
|  | 16,000 |  |  |

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Partner's Capital A/c

| Particulars | Tanu | Kanu | Manu | Particulars | Tanu | Kanu | Manu |
| :--- | ---: | :--- | ---: | :--- | :--- | :--- | ---: |
| Goodwill A/c |  |  |  | Balance b/d | 30,000 | 40,000 | -- |
| (Old) | 8,000 | 12,000 | -- | General |  |  |  |
| Balance c/d | 31,84 | 42,760 | 36,000 | Reserve A/c | 5,600 | 8,400 | -- |
|  | 0 |  |  | Revaluation | 240 | 360 | -- |
|  |  |  |  | A/c | -- | 36,00 |  |
|  |  |  |  | Cash A/c | 4,000 | 6,000 | 0 |
|  |  |  |  |  |  |  |  |
|  | 39,84 | 54,760 | 36,000 |  | 39,840 | 54,760 | 36,00 |
|  | 0 |  |  |  |  |  |  |

3. X and Y are partners as they share profits in the proportion of 3:1 their balance sheet as at 31.03.15 as follows.

BALANCE SHEET as at 31.03.15

| Liabilities | Rs. | Assets | Rs. |
| :--- | ---: | :--- | ---: |
| C a p i t a l |  | Land | $1,65,000$ |
| Account |  |  |  |
| X | $1,76,000$ | Furniture | 24,200 |
| Y | $1,45,200$ | Stock | $1,32,000$ |
| Creditors | 91,300 | Debtors | 35,200 |
|  |  | B i l l s | 28,600 |
|  |  | Receivable |  |
|  | Cash | 27,500 |  |

On the same date, Z is admitted into partnership for $1 / 5^{\text {th }}$ share on the following terms
i. Goodwill is to be valued at $31 / 2$ years purchase of average profits of last for year which was Rs. 20,000 Rs. 17,000 Rs. 9,000 (Loss) respectively.
ii. Stock is fund to be overvalued by Rs. 2,000 Furniture is reduced and Land to be appreciated by $10 \%$ each, a provision for Bad Debts @ $12 \%$ is to be created on Debtors and a Provision of Discount of Creditors @ 4\% is to be created.

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iii. A liability to the extent of Rs. 1,500 should be created for a claim against the firm for damages.
iv. An item of Rs. 1,000 included in Creditors is not likely to be claimed, and hence it should be written off.
Prepare Revaluation Account, Partners: Capital Accounts and Balance Sheet of the new firm if Z is to contribute proportionate capital and goodwill. The capital of partners is to be in profit sharing ratio by opening current Accounts.

Solution

BOOK OF X, Y AND Z
REVALUATION ACCOUNT

| Particulars | Amoun <br> t | Particulars | Amoun <br> t |
| :--- | :--- | :--- | :--- |
| To Stock A/c | 200 <br> 0 | By land A/c | 16500 |
| To furniture A/c | 242 <br> 0 | By creditors A/c | 1000 |
| To Provision for bad <br> debts A/c | 422 <br> 4 | By provision of discount on <br> creditors A/c | 3612 |
| To claim against <br> damages A/c | 150 <br> 0 |  |  |
| To profit transferred to |  |  |  |
| X's capital A/c 8266 |  |  | $\mathbf{2 1 1 1 2}$ |
| Y's capital A/c 2742 | 1096 <br> 8 |  |  |
|  | $\mathbf{2 1 1 1}$ |  |  |
| $\mathbf{2}$ |  |  |  |

PARTNER'S CAPITAL ACCOUNT

| Dr. |
| :--- |
| Particulars X Rs. Y Rs. Z Rs. Particulars X Rs. Y Rs. Z Rs. <br> To Y's <br> Current A/c - 64,900 - By Balance b/d $1,76,00$ <br> 0 $1,45,20$ <br> 0 - <br> To Balance $2,54,90$       <br> 1        |

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|  |  |  |  |  |  | 7 |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
|  |  |  |  | By X's current | 64,900 | - | - |
|  | $\mathbf{2 , 5 4 , 9 0}$ | $\mathbf{1 , 4 9 , 8 6}$ | $\mathbf{8 4 , 9 6}$ |  | $\mathbf{2 , 5 4 , 9 0}$ | $\mathbf{1 , 4 9 , 8 6}$ | $\mathbf{8 4 , 9 6}$ |
|  | $\mathbf{1}$ | $\mathbf{7}$ | $\mathbf{7}$ |  | $\mathbf{1}$ | $\mathbf{7}$ | $\mathbf{7}$ |

BALANCE SHEET as at 31.03.15

| Liabilities | Rs. | Assets Rs. | Rs. |
| :---: | :---: | :---: | :---: |
| Claim against damages | 1,500 | Cash | 1,20,167 |
| Creditors 91,300 |  | Land | 1,81,500 |
| Less $\quad \underline{1,000}$ |  | Furniture | 21,780 |
| 90,300 |  | Stock | 1,30,000 |
| Less Prov. $\underline{\text { 3,612 }}$ | 86,688 | Debtors 35,200 |  |
| Capital |  | Less provision. 4,224 | 30,976 |
| X 2,54,901 |  | Bills receivables | 28,600 |
| Y 84,967 |  | X's current a/c | 64,900 |
| Z 年4,967 | 4,24,835 | Current A/c (Y) | 64,900 |
|  | 5,77,923 |  | $\begin{aligned} & 5,77,92 \\ & 3 \end{aligned}$ |

4. Rashmi and Pooja are partners in a firm. They share profits and losses in the ratio of $2: 1$. They admit Santosh into partnership firm on the condition that she will bring Rs. 30,000 for Goodwill and will bring such an amount that her capital will be $1 / 3$ of the total capital of the new firm. Santosh will be given $1 / 3$ share in future profits. At the time of admission of Santosh, the Balance Sheet of Rashmi and Pooja was as under:

Balance sheet as at 31 March,2015

| Liabilities | Rs. | Assets | Rs. |
| :--- | ---: | :--- | ---: |
| Capital Account: |  | Cash | 90,000 |
| Rashmi | $1,15,000$ | Machinery | $1,20,000$ |
| Pooja | $1,15,000$ | Furniture | 10,000 |
| Reserve | 24,000 | Stock | 50,000 |

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| Work com. Reserve | 9,000 | Debtors | 30,000 |
| :--- | ---: | :--- | ---: |
| Creditors | 30,000 | Adv. Suspense. A/c | 3,000 |
| Bills Payable | 10,000 |  |  |
|  | $3,03,000$ |  | $3,03,000$ |

It was decided to:
a. Revalue stock at Rs. 45,000.
b. Depreciated furniture by $10 \%$ and machinery by $5 \%$.
c. Make provision of Rs. 3,000 on sundry debtors for doubtful debts.

Prepare Revaluation Account, Partners: Capital Accounts and Balance Sheet of the new firm. Give full workings.

Ans.

## REVALUATION ACCOUNTS

Dr.

> Cr.

| Particulars | $₹$. | Particulars | $₹$. |
| :---: | :---: | :--- | :--- |
| To Stock | 5000 | By Loss on Revaluation distributed |  |
| To Furniture | 1000 | Rashmi | 10000 |
| To Machinery | 6000 | Pooja | 5000 |
| To Debtors | 3000 |  | $\mathbf{1 5 0 0 0}$ |

CAPITAL ACCOUNTS OF PARTNERS

| Particulars | Rash <br> mi | $\begin{aligned} & \text { Pooj } \\ & \text { a } \end{aligned}$ | $\begin{aligned} & \text { Santo } \\ & \text { sh } \end{aligned}$ | Particulars | Rashmi | Pooja | Sant osh |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| T o <br> Revaluation <br> A/c | $\begin{array}{r} 1000 \\ 0 \end{array}$ | $\begin{array}{r} 500 \\ 0 \end{array}$ | -- | By Balance <br> b/d  | $\begin{array}{r} 1150 \\ 00 \end{array}$ | $\begin{aligned} & 11500 \\ & 0 \end{aligned}$ | -- |
| To AdvSusp. $\mathrm{A} / \mathrm{c}$ | $\begin{array}{r} 200 \\ 0 \\ \hline \end{array}$ | $\begin{array}{r} 100 \\ 0 \\ \hline \end{array}$ | -- | By Cash A/c | - | -- | -- |
| $\begin{array}{ll} \text { To } \\ \text { C/d } \end{array}$ | $\begin{array}{r} 4500 \\ 0 \\ \hline \end{array}$ | $\begin{array}{r} 1300 \\ 00 \\ \hline \end{array}$ | -- | $\begin{array}{ll} \text { By } & \text { Premium } \\ \text { a/c } & \\ \hline \end{array}$ | $\begin{array}{r} 200 \\ 00 \\ \hline \end{array}$ | $\begin{aligned} & 1000 \\ & 0 \\ & \hline \end{aligned}$ | -- |
|  |  |  |  | By Reserve | 160 | 800 | -- |

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BALANCE SHEET OF A, B \& C

| Liabilities | $₹$ | Assets | $₹$ |
| :--- | ---: | :--- | ---: |
| Creditors | 30000 | Cash 257500 |  |
| Bills Payable | 10000 | Machinery | 114000 |
| Rashmi's Capital | 145000 | Furniture | 9000 |
| Pooja's capital | 130000 | Stock | 45000 |
| Santosh's capital | 137500 | Debtors | 30000 |
|  |  | Less : Provision | 3000 |
|  | $\mathbf{4 5 2 5 0 0}$ |  | 27000 |

