ADMISSION OF PARTNER

PRACTICAL PROBLEMS: (3 MARKS)

1. A, B and C were partners in a firm sharing profits in 3:2:1. They admitted D for 10% profits. Calculate the new profit sharing ratio. (Ans: 9:6:3:2).
2. X and Y are partners sharing profits in 5:3 ratio admitted Z for 1/10th share which he acquired equally for X and Y. Calculate new profit sharing ratio.(Ans. 23:13:4).
3. Radha and Rukmani are partners in a firm sharing profits in 3:2 ratio. They admitted Gopi as a new partner. Radha surrendered 1/3rd of her share in favour of Gopi and Rukmani surrendered 1/4th of her share in favour of Gopi. Calculate new profit sharing ratio.(Ans. 4:3:3)
4. A and B are partners in a firm sharing profits in the ratio of 3:2. They admit C into partnership for 1/5th share of profits in the firm. The goodwill of the firm is valued at Rs. 1,00,000. He is unable to bring in his share of goodwill. What will be the journal entries?

Solution: Goodwill of the firm = Rs 1,00,000

C’s share of goodwill = 1,00,000 X 1/5 = Rs. 20,000

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Date	Particulars	L.F.	Dr.(Rs.)	Cr.(Rs.)
	C’s Capital A/c Dr		20,000	
	To A’s Capital A/c			12,000
	To B’s Capital A/c			8,000

(8 MARKS)

5. P and Q were partners sharing profits in the ratio of 3:2. Their balance sheet on March 31st 2014 are as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	20,000	Cash	14,800
Bills Payable	3,000	Debtors 20,500	
Bank overdraft	17,000	Less: Provision for bad debts 300	20,200
Reserve	15,000		

P's Capital	70,000	Stock	20,000
Q's Capital	60,000	Plant	40,000
		Buildings	70,000
		Motor Vehicles	20,000
	1,85,000		1,85,000

They agreed to admit Mishra for 1/4th share from 1.4.2014 subject to the following terms:

(a) P to bring in capital equal to 1/4th of the total capital of P and Q after all adjustments including premium for goodwill.

(b) Buildings to be appreciated by Rs. 14,000 and stock to be depreciated by Rs. 6,000.

(c) Provision for Bad debts on Debtors to be raised to Rs. 1,000.

(d) A provision be made for Rs. 1,800 for outstanding legal charges.

(e) P's share of goodwill/premium was calculated at Rs. 10,000.

Prepare Revaluation Account, Partner's Capital Accounts and the Balance Sheet of the new firm on R's admission.

Solution: Revaluation A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Stock A/c	6,000	By Buildings A/c	14,000
To provision for Legal Charges A/c	1,800		
To Provision for Doubtful Debts A/c	700		
ToProfittransferred to Capitals:			
P 3,300			
Q 2,200	5,500		
	14000		14,000

Partner's Capital A/c

Dr. Cr.

Particulars	P	Q	R	Particulars	P	Q	R
To balance c/d	88,300	72,200	40,125	By Balance b/d	70,000	60,000	
				By Cash			40,125
				By Prem. for gw A/c	6,000	4,000	
				By Revaluation A/c	3,300	2,200	
				By Reserves	9,000	6,000	
	88,300	72,200	40,125		88,300	72,200	40,125

Balance Sheet

As on April1, 2014

Dr. Cr.

Liabilities	**Rs.**	**Particulars**	**Rs.**
Bills Payables	3,000	Cash in Hand	64,925
Creditors	20,000	Debtors 20,500	
Provision for Legal Expenses	1,800	Less:Pro. D. debts 1,000	19,500
Bank Overdraft	17,000	Stock	14,000
Capital Accounts		Motor Vehicles	20,000
P 88,300		Plant	40,000
Q 72,200		Buildings	84,000
R 40,125	2,00,625		
	242,425		242,425

Working Notes:

Calculation of Mishra's Capital:

Sum of capitals of Jain and Gupta Rs. 88,300+Rs. 72,200=Rs. 1,60,500

Mishra's capital = ¼(1,60,500) = Rs. 40,125

(i) Cash Account = Opening Balance + Goodwill + Mishra's Capital

= 14,800+10,000+40,125=Rs. 64,925

6. On 31.3.14, the Balance sheet of W and R sho shared profits in 3:2 ratio was as follows:

Liabilities	Amount	Assets	Amount
Creditors	40,000	Cash	10,000
Profit and loss A/c	30,000	SundryDebtors 40,000	
Capital Accounts:		Less: Provision 14,00	38,600
W 80,000		Stock	50,000
R 60,000	1,40,000	Plant and Machinery	70,000
		Patents	41,400
	2,10,000		2,10,000

On this date, B was admitted as a partner on the following conditions:

(a) B will get 4/15th share of profits.

(b) B had to bring Rs. 60,000 as his capital to which amount other partners capitals shall have to be adjusted.

(c) He would pay cash for his share fo goodwill which would be based on 2 1/2years purchase of average profits of past 4 years.

(d) The assets would be revalued as under:

Sundry debtors book value less 5% provision for bad debts. Stock at Rs. 40,000, plant and Machinery at Rs. 80,000.

(e) The profits of the firm for the years 2011, 2012, 2013 were Rs. 40,000, 28,000 and Rs. 34,000 respectively.

Prepare Revaluation A/c, Partner's Capital A/c and the Balance Sheet of the new firm.

Solution:

Revaluation A/c

Dr. Cr.

Particulars	Amount	Particulars	Amount
To prov. For Bad debts A/c To Stock A/c	600 10,000	By Plant and Machinery A/c BY Capitals A/c W 360 R 240	10,000 600
	10,600		10,600

Partner's Capital A/c

Dr. Cr.

Particulars	W	R	B	Particulars	W	R	B
To Rev. A/c	360	240		By Balance b/d	80000	60000	
				BY Cash A/c			60000
To Bal. c/d	110840	80560	60000	By P&L A/c	18000	12000	
				By Prem for G/w	13200	8800	
	111200	80800	60000		111200	80800	60000
To Cash	**11840**	**14560**		By Balance b/d	110840	80560	60000
To Bal. c/d	99000	66000	60000				

	110840	80560	60000		110840	80560	60000

Balance Sheet

As on 31st March 2014

Liabilities	**Amount**	**Assets**	**Amount**
Creditors	40,000	Cash	65,600
Capitals		SundryDebtors40,000	
W 99,000		Less: Prov. 2,000	38,000
R 66,000		Stock	40,000
B 60,000	2,25,000	Plant and Machinery	80,000
		Patents	41,400
	2,65,000		2,65,000

Working Notes:

(i) Let total profit = 1

B's share = 4/15

Remaining profit = 1 – 4/15 = 11/15

W's share = 11/15X3/5 = 33/75

R's share = 11/15X2/5 = 22/75

B's share = 4/15=20/75

New profit sharing ratio of W, R and B

= 33/75: 22/75:20/75

= 33:22:20

(ii) Year Profit

2011 40,000

2012	28,000
2013	34,000
2014	30,000
Total	1,32,000

Average Profit = 1,32,000/4

= 33,000

Goodwill = Average Profit X Number of Years Purchase

= 33,000 X 5/2

= 82,500

(iii) B's capital for 4/15th share = Rs. 60,000

(iv) Total capital of firm 60,000 X 15/4 = 2,25,000

2,25,000-60,000 = 1,65,000

W's capital = 1,65,000 X 3/5 = 99,000

R's capital = 1,65,000 x 2/5 = 33,000

OR

Distribute 2,25,000 in 33:22:20.