

Unit 3: ADMISSION OF NEW PARTNER

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"A working ant is better than a sleeping elephant. A small progress everyday lead us to big success."

CONCEPT

New partners are admitted for the benefit of the partnership firm. New partner is admitted either for increasing the partnership capital or for strengthening the management of the firm.

Points to Note:

- | | |
|---|--|
| 1) Calculation of New Ratio & Sacrificing Ratio | 2) Revaluation of Assets & Liabilities |
| 3) Treatment of Reserves | 4) Treatment of Goodwill |
| 5) Adjustment of Partners capital Accounts | |

Example 1

X and Y share profits in the ratio 5:3. Z is admitted for $\frac{1}{4}$ th Share in Profits. Compute New PSR and Sacrifice Ratio

Example 2

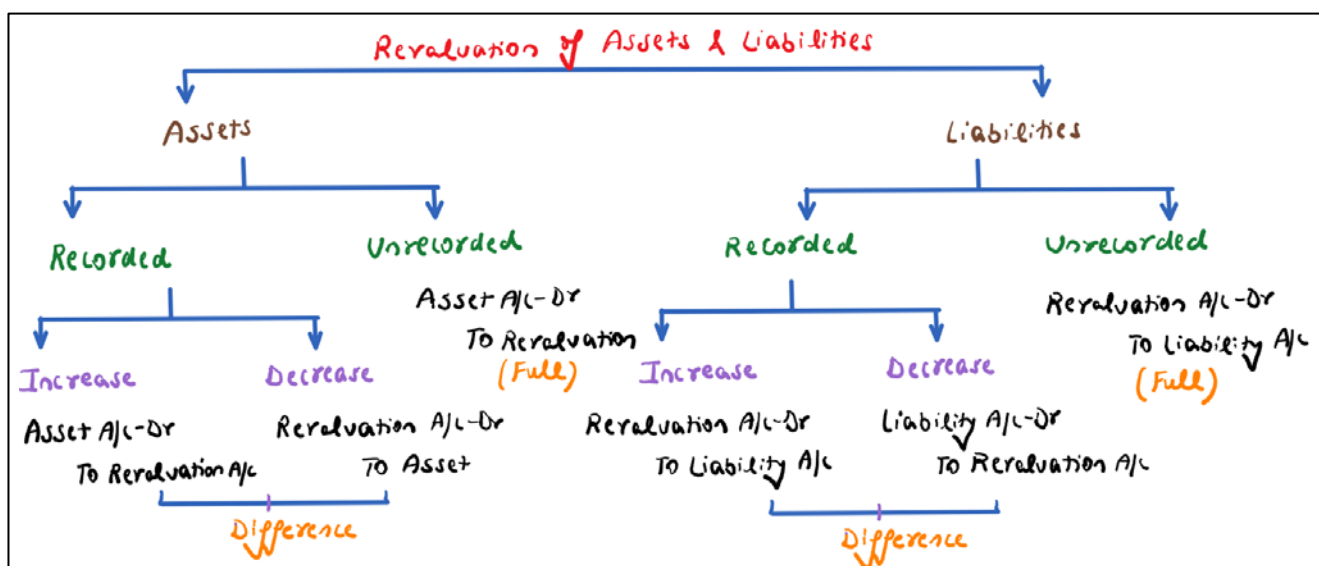
X & Y share profits in the ratio 5:3. Z is admitted for $\frac{1}{5}$ th Share in Profits, which he takes as $\frac{1}{10}$ th each from X & Y. Compute New PSR and Sacrifice Ratio.

Example 3

X & Y share profits in the ratio 3:2. Z is admitted and for which X surrenders $\frac{1}{5}$ th of his share in favour of Z & Y surrenders $\frac{2}{5}$ th of his share in favour of Z. Compute New PSR and Sacrifice Ratio.

Example 4

A, B & C share profits in the ratio 3:2:5. D is admitted for $\frac{1}{4}$ th share which is contributed in the ratio of 1 : 1 : 3. Compute New PSR.

REVALUATION OF ASSETS & LIABILITIES**Revaluation A/c**

Particulars	Amount	Particulars	Amount
To Asset (Decrease)		By Asset (Increase)	
To Liabilities (Increase)		By Assets unrecorded	
To Liabilities unrecorded		By Liabilities (Decrease)	
To Revaluation profit (old partners in old ratio)		By Revaluation Loss (old partners in old ratio)	

Passing the entry through Capital A/c of Partners (Preparing Memorandum Revaluation Account)

1. Find the net gain or loss on Revaluation as follows

2. Entry:

Gaining partners capital A/c (in case of profits)

To Sacrificing partners capital A/c

Sacrificing partners capital A/c (in case of losses)

To Gaining partners capital A/c

Note: When profit/loss on revaluation of assets and liabilities is adjusted through capital accounts only then the assets & liabilities appear in B/sheet of new firm at their old figures.

Difference Between Revaluation Account and Memorandum Revaluation Account

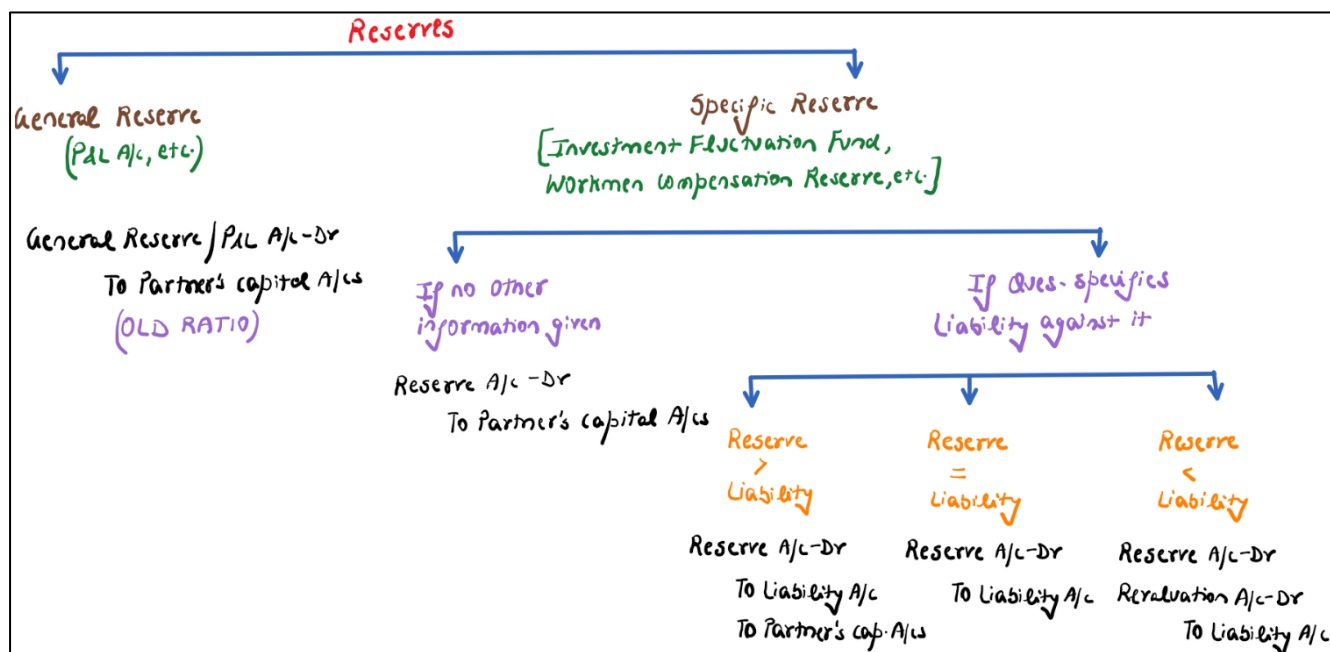
- Revaluation account is prepared to find out the profit or loss on revaluation of assets and liabilities which appear in the new balance sheet at the new or revalued figures. Memorandum revaluation account is also prepared to record the effect of revaluation of assets & liabilities which of course are recorded at their old figures in new balance sheet.
- Revaluation account is not divided into two parts. But the memorandum revaluation account has two parts: first part for old partners and second part for all partners including the new partner.

Example

X, Y & Z Old PSR = 5 : 3 : 2 New PSR = 2 : 3 : 5

They decided to record effect of revaluation without affecting the book values of assets & liabilities by passing single adjustment entry.

	Book value	Revaluation figures
Land & Building	1,00,000	1,50,000
Plant & Machinery	1,50,000	1,40,000
Creditors	50,000	45,000
Outstanding Expenses	45,000	60,000

TREATMENT OF RESERVES

Note: Sometimes the partner may decide not to close the Reserves / P&L A/c but to record the adjustment entry.

Gaining Partners' capital A/c Dr.
To Sacrificing Partners capital A/c

Example

X, Y & Z

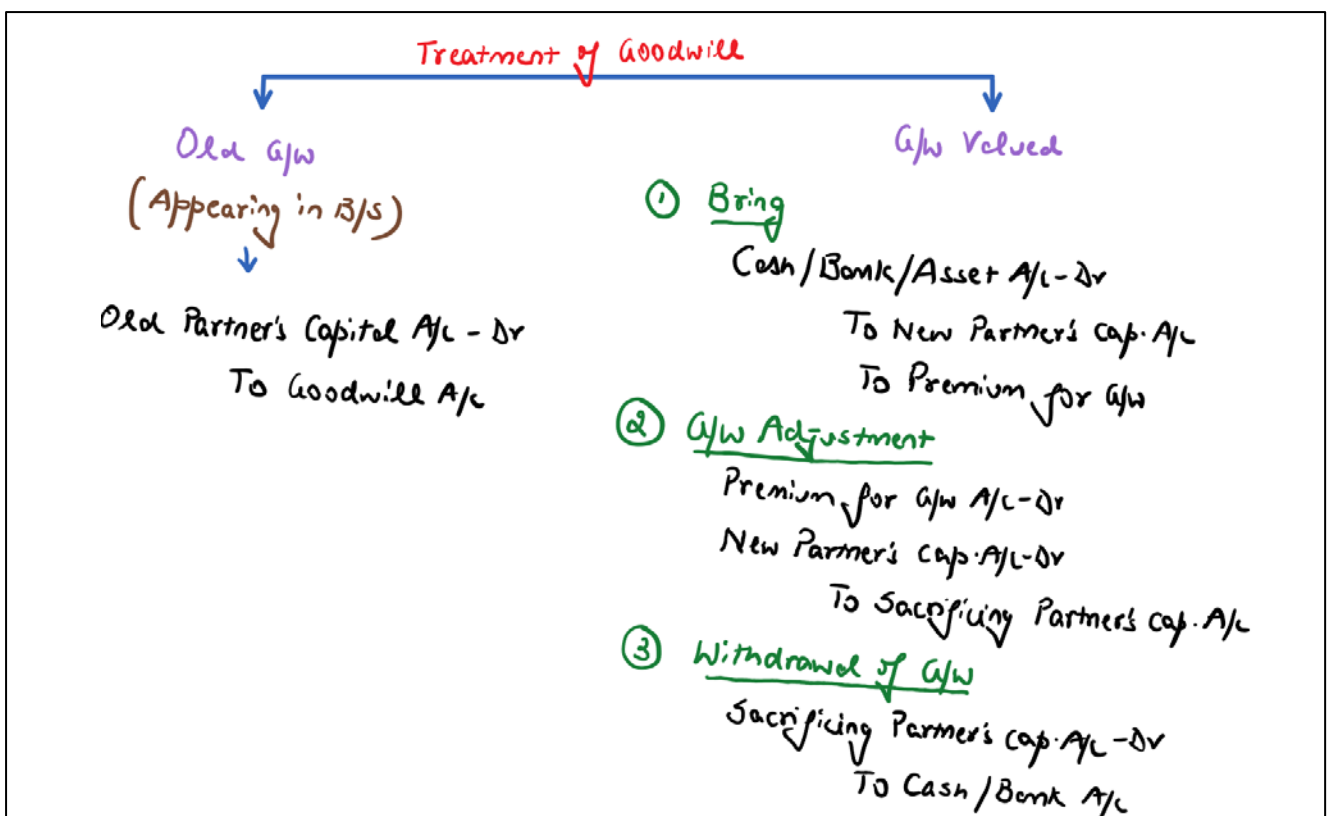
Old Ratio = 5 : 3 : 2

New Ratio = 2 : 3 : 5

Workmen Compensation Reserve appearing in balance sheet ₹ 1,200.

- If there is no other information
- If the workmen compensation claim is ₹ 150/-
- If the workmen compensation claim is ₹ 2,250/-

TREATMENT OF GOODWILL



Example:

A & B are partners with PSR of 3:2.

C is admitted into the firm for $\frac{1}{5}$ th share. His share of capital is 50,000. Goodwill of firm valued at 1,00,000. Pass entries in the following cases:

- C brings his share of capital & goodwill
- C brings his share of capital & 60% share of goodwill
- C brings his share of capital only & nothing for goodwill

HIDDEN GOODWILL

Net worth (including goodwill) on the basis of capital brought by an incoming partner
(Incoming partners capital A/c x Reciprocal of his share)

Less: Net worth (excluding G/w of the firm)

Where, **Net worth** is

Total Assets – Outsiders' Liabilities

OR

Capital of partners including new + Reserves + P & L (Cr. Bal.) – Miscellaneous expenditure

Example

A & B having PSR 3 : 2 are partners with capitals of ₹ 30,000 & ₹ 20,000 on date of C's admission for $\frac{1}{5}$ th share who brings ₹ 40,000. Following are the balances:

P & L (Cr.) = 6,000 Reserves = 55,000 Deferred Revenue Expenditure = 1,000

Find Goodwill.

ADJUSTMENT OF CAPITAL

Example 1

A & B. Ratio = 3 : 2. C is admitted $\frac{1}{4}$ th share & brings ₹ 1,00,000 as capital. Capital of new firm is to be ₹ 4,00,000. Actual capital after all adjustments of A & B are ₹ 2,00,000 & ₹ 1,00,000. New capital will be shared in their new PSR.

Example 2

A & B = 3 : 2. Capital of A & B after adjustments are ₹ 80,000 & ₹ 60,000 respectively C is admitted who brings ₹35,000 as capital for $\frac{1}{5}$ th share of profit to be acquired equally from A & B. Capital of A & B are to be adjusted on the basis of C's capital.

Example 3

A & B = 3 : 2

Capitals of A & B after adjustments are ₹ 90,000 & ₹ 70,000. Calculate incoming partners proportionate capitals & surplus/shortage of existing capitals of old partners.

- If C is to contribute proportionate capital for his $\frac{1}{5}$ th share
- If C is to contribute $\frac{1}{4}$ th of the combined capitals of the existing partners.
- If C is to contribute proportionate capital for his $\frac{1}{5}$ th share & capitals of all the partners are to be adjusted in new PSR 3:1:1

ASSIGNMENT QUESTIONS

Question 1 *(ICAI Study Material)*

Pg no. _____

The following is the Balance Sheet of Yellow and Green as at 31st December, 2023:

Liabilities	₹	Assets	₹
Capital A/cs		Cash at Bank	10,000
Yellow	25,000	Sundry assets	55,000
Green	20,000		
Trade Payables	20,000		
	65,000		65,000

The partners shared profits and losses in the ratio 3:2. On the above date, Black was admitted as partner on the condition that he would pay ₹ 20,000 as Capital.

Goodwill was to be valued at 3 years' purchase of average of four years' profits which were:

Year	Profit
2020	9,000
2021	14,000
2022	12,000
2023	13,000

The new profit sharing ratio is 6:5:5. Give journal entries & balance sheet

- If goodwill is adjusted through partners' capital accounts
- If goodwill is brought in cash
- If goodwill is brought in cash but withdrawn
- If goodwill is paid privately

Question 2 *(ICAI Study Material)*

Pg no. _____

Gopal and Govind are partners sharing profits and losses in the ratio 60:40. The firms' balance sheet as on 31.03.2023 was as follows:

Liabilities	₹	Assets	₹
Long term loan	2,00,000	Fixed assets	3,00,000
Current liabilities	2,50,000	Investments	50,000
Capital Accounts:		Current assets	2,00,000
Gopal 1,20,000		Loans and advances	1,00,000
Govind 80,000	2,00,000		
	6,50,000		6,50,000

Due to financial difficulties, they have decided to admit Guru as partner in the firm from 01.04.2023 on the following terms:

Guru will be paid 40% of the profits. Guru will bring in cash ₹ 1,00,000 as capital. It is agreed that goodwill of the firm will be valued at 2 years' purchase of 3 years' normal average profits of the firm & Guru will bring in cash his share of goodwill. It was also decided that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.

The profits of the previous three years were as follows:

For the year ended 31.3.2021: profit ₹ 20,000 (includes insurance claim received of ₹ 40,000).

For the year ended 31.3.2022: loss ₹ 80,000 (includes voluntary retirement compensation paid ₹1,10,000).

For the year ended 31.3.2023: profit of ₹1,05,000 (includes a profit of ₹ 25,000 on the sale of assets).

It was decided to revalue the assets on 31.03.2023 as follows:

Fixed assets (net)	4,00,000
Investments	Nil
Current assets	1,80,000
Loans and advances	1,00,000

The new profit sharing ratio after the admission of Guru was 35:25:40.

Pass journal entries on admission, show goodwill calculation & prepare revaluation account, partners' capital accounts and balance sheet as on 01.04.2023 after the admission of Guru.

Question 3 *(ICAI Study Material)*

Pg no. _____

Alpha & Beeta were partners in LLP namely Meta-Chem LLP sharing profits & losses equally.

BALANCE SHEET of Meta-Chem as on 31st March 2023

Liabilities	₹	Assets	₹
Capital Accounts:		Factory Building	4,78,000
Alpha	3,00,000	Plant & Machinery	3,41,000
Beeta	2,00,000	Office Furniture	55,850
General Reserve	1,80,000	Inventory	77,740
Workmen Compensation Fund	60,000	Trade Receivables	1,43,210
Term Loan from IDFC Bank	2,78,000	Bank	44,200
Trade Payables	1,22,000		
	11,40,000		11,40,000

They agreed to admit Gyama as partner from 1st April 2023 on the following terms:

1. He shall have one-sixth share in future profits.
2. New profit sharing ratio would be 3:2:1
3. He shall bring ₹ 2,50,000 as his capital.
4. Goodwill of the firm is valued at ₹ 3,00,000
5. Factory Building is to be appreciated by 20% and inventory is revalued at ₹ 70,000.
6. Machinery to be appreciated by 20% and Office furniture to be revalued at ₹ 50,000
7. Of the trade receivables ₹ 3,210 are bad and 5% be provided for bad & doubtful debts.
8. There is no actual liability towards workman.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Bank Account
4. Balance Sheet after admission.

Question 4 *(ICAI Study Material)*

Pg no. _____

A and B are in the partnership sharing profits and losses in the proportion of three-fourth and one-fourth respectively. Their balance sheet as on 31st March, 2023 was as follows:

Cash ₹1,000; trade receivables ₹25,000; Inventory ₹22,000; plant and machinery ₹4,000; trade payables ₹12,000; bank overdraft ₹15,000; A's capital ₹15,000; B's capital ₹10,000.

On 1st April, 2023, they admitted C into partnership on the following terms:

- a) C to purchase one-third of the goodwill for ₹2,000 and provide ₹10,000 as capital. Goodwill not to appear in books.
- b) Further profits and losses are to be shared by A, B and C equally.
- c) Plant and machinery is to be reduced by 10% and ₹500 is to be provided for estimated bad debts. Inventory is to be taken at a valuation of ₹24,940.
- d) By bringing in or withdrawing cash and capitals of A and B are to be made proportionate to that of C on their profit-sharing basis.

Set out entries to the above arrangement in firm's journal & give partners' capital accounts.

Question 5 (ICAI Study Material)

Pg no. _____

A and B are in partnership sharing profits and losses equally. The Balance Sheet of M/s A and B as on 31-12-23 was as follows :

Liabilities	₹	Assets	₹
Capital A/cs		Sundry Fixed assets	60,000
A	45,000	Inventories	30,000
B	45,000	Bank	20,000
Trade Payables	20,000		
	1,10,000		1,10,000

On 1-1-24 they agreed to take C as 1/3rd partner to increase the capital base to ₹ 1,35,000. C agrees to pay ₹ 60,000. Capital to be in their new profit sharing ratio. Show necessary journal entries and prepare partners' capital accounts.

Question 6 (ICAI Study Material)

Pg no. _____

Dalal, Banerji and Mallick is a firm sharing profits and losses in the ratio 2:2:1. Their Balance Sheet as on 31st March, 2023 is as below:

Liabilities		₹	Assets	₹
Trade Payables		12,850	Land and Buildings	25,000
Outstanding liabilities		1,500	Furniture	6,500
General reserve		6,500	Inventory of goods	11,750
Capital Account :			Trade Receivables	5,500
Mr. Dalal	12,000		Cash in hand	140
Mr. Banerji	12,000		Cash at bank	960
Mr. Mallick	<u>5,000</u>	29,000		
		49,850		49,850

Partners have agreed to take Mr. Mistri as a partner with effect from 1st April, 2023 on the following terms:

- (1) Mr. Mistri shall bring 5,000 towards his capital.
- (2) The value of inventory should be increased by ₹ 2,500 and Furniture should be depreciated by 10%.
- (3) Reserve for bad and doubtful debts should be provided at 10% of the trade receivables.
- (4) The value of land and buildings should be enhanced by 20%
- (5) The value of the goodwill be fixed at ₹ 15,000.
- (6) General Reserve will be transferred to the partner's Capital Accounts.
- (7) The new profit sharing ratio shall be : Mr. Dalal 5/15, Mr. Banerji 5/15, Mr. Mallick 3/15 and Mr. Mistri 2/15.

The outstanding liabilities include ₹ 1,000 due to Mr. Sen which has been paid by Mr. Dalal. Necessary entries were not made in the books. Prepare

- (i) Revaluation Account, and
- (ii) The Capital Accounts of the partners, and
- (iii) Balance Sheet of the firm after admission of Mr. Mistri.

Question 7

Pg no. _____

The following was the Balance Sheet of 'Kamal' and 'Rani', who were sharing profits and losses in the ratio of 2:1 on 31.12.2021:

Liabilities	₹	Assets	₹
Capital Account :		Plant and Machinery	24,00,000
Kamal	20,00,000	Building	18,00,000

Rani	10,00,000	Sundry debtors	6,00,000
Reserves	18,00,000	Stock	8,00,000
Sundry creditors	8,00,000	Cash	2,00,000
Bills payable	2,00,000		
	58,00,000		58,00,000

They agreed to admit 'Nisha' into the partnership on the following terms:

- The goodwill of the firm was fixed at ₹ 2,10,000.
- That the value of stock and plant and machinery were to be reduced by 10%.
- That a provision of 5% was to be created for doubtful debts.
- That the building account was to be appreciated by 20%.
- There was an unrecorded liability of ₹ 20,000.
- Investments worth ₹ 40,000 (Not mentioned in the Balance Sheet) were taken into account.
- That the value of reserves, the values of liabilities and the values of assets other than cash are not to be altered.
- 'Nisha' was to be given one-fourth share in the profit and was to bring capital equal to his share of profit after all adjustments.

Prepare Memorandum Revaluation Account, Capital account of the partners and the Balance Sheet of the newly reconstituted firm.

Question 8

Pg no. _____

The Balance Sheet of Amit, Bhushan and Charan, who share profits and losses as 3 : 2 : 1 respectively, as on 01.04.2021 is as follows:

Liabilities	₹	Assets	₹
Capital Accounts :		Machinery	1,50,000
Amit	1,80,000	Furniture	1,50,000
Bhushan	1,60,000	Stock	2,10,000
Charan	1,40,000	Debtors	80,000
Current Accounts:	16,000	Less: Provision for	
Bhushan		Bad Debts (4,000)	76,000
Creditors	1,20,000	Cash	20,000
		Current Account: Charan	10,000
	6,16,000		6,16,000

Dev is admitted as a partner on the above date for 1/5th share in the profit and loss. Following are agreed upon:

- The profit and loss sharing ratio among the old partners will be equal.
- Dev brings in ₹ 1,50,000 as capital but is unable to bring required amount of premium for goodwill.
- The goodwill of the firm is valued at ₹ 60,000.
- Assets and liabilities are to be valued as follows: Machinery ₹ 2,06,000 : Furniture ₹ 1,28,000 : Provision for doubtful debts @ 10% on debtors.
- Necessary adjustments regarding goodwill and Profit / loss on revaluation are to be made through the Partner's Current Accounts.
- It is decided that the revalued figures of assets and liabilities will not appear in the Balance Sheet of the new firm.
- Capital Accounts of the old partners in the new firm should be proportionate to the new profit and loss sharing ratio, taking Dev's Capital as base. The existing partners will not bring cash for further capital. The necessary adjustments are to be made through the partner's Current Account.

Prepare Partner's Capital & Current Account, & Balance Sheet of the new firm after admission

Question 9 *(CA Foundation Dec 2021) (10 Marks) / (RTP Sep 2024)* Pg no. _____

A and B are partners, sharing profits and losses in the proportion of $\frac{3}{4}$ th and $\frac{1}{4}$ th As at 31st March, 2021, following is the Balance Sheet of A and B.

Balance Sheet as at 31st March 2021

Liabilities	₹	Assets	₹
Capital Accounts:		Cash in Hand	1,15,000
A 2,85,000		Cash at Bank	1,10,000
B 1,55,000	4,40,000	Debtors	1,60,000
General Reserve	60,000	Stock	2,00,000
Creditors	3,75,000	Bills Receivable	30,000
		Land & Building	2,50,000
		Office Furniture	10,000
	8,75,000		8,75,000

They agreed to take C into Partnership on 1st April, 2021 on the following terms:

- Goodwill is to be valued at ₹ 2,00,000. C is unable to bring cash for his share of goodwill. So, it was decided that due credit for goodwill be given to A and B for their sacrifice in favour of C through C's current account.
 - C pays ₹ 1,40,000 as his capital for $\frac{1}{5}$ th share in the future profits.
 - Stock and Furniture to be reduced by 10%.
 - A provision @ 5% for doubtful debts to be created on debtors.
 - Land and building to be appreciated by 20%.
 - Capital Accounts of the partners be readjusted on the basis of their profit sharing arrangement and any excess or deficiency is to be transferred to their Current Accounts.
- Prepare Revaluation Account and Partners Capital Accounts.

PRACTICE QUESTIONS**MULTIPLE CHOICE QUESTIONS**

- 1) A and B are partners sharing profits and losses in the ratio 5:3. They admitted C and agreed to give him $\frac{3}{10}$ th of the profit. What is the new ratio after C's admission?
(a) 35:42:17.
(b) 35:21:24.
(c) 49:22:29.
- 2) A and B are partners sharing profits in the ratio 5:3, they admitted C giving him $\frac{3}{10}$ th share of profit. If C acquires $\frac{1}{5}$ from A and $\frac{1}{10}$ from B, new profit sharing ratio will be:
(a) 5:6:3.
(b) 2:4:6.
(c) 17:11:12
- 3) C was admitted in a firm with $\frac{1}{4}$ th share of the profits of the firm. C contributes ₹15,000 as his capital, A and B are other partners with the profit sharing ratio as 3:2. Find the required capital of A & B, if capital should be in profit sharing ratio taking C's as base capital:
(a) ₹27,000 and ₹16,000 for A and B respectively.
(b) ₹27,000 and ₹18,000 for A and B respectively.
(c) ₹32,000 and ₹21,000 for A and B respectively.
- 4) A, B and C are partners sharing profits and losses in the ratio 6:3:3, they agreed to take D into partnership for $\frac{1}{8}$ th share of profits. Find the new profit sharing ratio.
(a) 12:27:36:42.
(b) 14:7:7:4.
(c) 1:2:3:4.
- 5) A and B are partners sharing profits and losses in the ratio of 3:2 (A's Capital is ₹30,000 and B's Capital is ₹15,000). They admitted C and agreed to give $\frac{1}{5}$ th share of profits to him. How much C should bring in towards his capital?
(a) ₹9,000.
(b) ₹12,000.
(c) ₹11,250.
- 6) A and B are partners sharing the profit in the ratio of 3:2. They take C as the new partner, who brings in ₹25,000 against capital and ₹10,000 against goodwill. New profit sharing ratio is 1:1:1. In what ratio will this amount will be shared among the old partners A & B.
(a) ₹8,000: ₹2,000.
(b) ₹5,000: ₹5,000.
(c) Old partners will not get any share in the goodwill brought in by C.
- 7) A and B are partners sharing the profit in the ratio of 3:2. They take C as the new partner, who is supposed to bring ₹25,000 against capital and ₹10,000 against goodwill. New profit sharing ratio is 1:1:1. C brought cash for his share of Capital and agreed to compensate to A and B outside the firm. How this will be treated in the books of the firm.
(a) Cash brought in by C will only be credited to his capital account.
(b) Goodwill will be raised to full value in old ratio.
(c) Goodwill will be raised to full value in new ratio.

- 8) X and Y are partners sharing profits in the ratio of 3: 1. They admit Z as a partner who pays ₹4,000 as Goodwill the new profit sharing ratio being 2:1: 1 among X, Y and Z respectively. The amount of goodwill will be credited to:
- (a) X and Y as ₹3,000 and ₹1,000 respectively.
 - (b) X only
 - (c) Y only.
- 9) P and Q are partners sharing Profits in the ratio of 2:1. R is admitted to the partnership with effect from 1st April on the term that he will bring ₹ 20,000 as his capital for 1/4th share and pays ₹ 9,000 for goodwill, half of which is to be withdrawn by P and Q. If profit on revaluation is ₹ 6,000 and opening capital of P is ₹ 40,000 and of Q is ₹ 30,000, find the closing balance of each capital.
- (a) ₹ 47,000: ₹ 33,500: ₹ 20,000
 - (b) ₹ 50,000: ₹ 35,000: ₹ 20,000.
 - (c) ₹ 40,000: ₹ 30,000: ₹ 20,000
- 10) Adam, Brain and Chris were equal partners of a firm with goodwill ₹ 1,20,000 shown in the balance sheet and they agreed to take Daniel as an equal partner on the term that he should bring ₹ 1,60,000 as his capital and goodwill, his share of goodwill was evaluated at ₹ 60,000 and the goodwill account is to be written off before admission. What will be the treatment for goodwill?
- a) Write off the goodwill of ₹ 1,20,000 in old ratio.
 - b) Cash brought in by Daniel for goodwill will be distributed among old partners in sacrificing ratio.
 - c) Both (a) & (b)

ANSWERS MCQs

1 (b) 2 (c) 3 (b) 4 (b) 5 (c) 6 (a) 7 (a) 8 (b) 9 (a) 10 (c)

TRUE / FALSE

State with reasons, whether the following statements are true or false:

- 1) A newly admitted partner does not have same rights as old partners.
- 2) When a new partner is admitted, old partners have to forego certain share in profits of the firm, this is called as sacrifice ratio.
- 3) Revaluation account is also called as Profit and Loss Adjustment Account. *(June 2024)*
- 4) Any appreciation in the value of an asset is credited to Revaluation account.
- 5) All the partners may decide not to change the values of assets and liabilities in the books of accounts.
- 6) New partner is entitled to have share in Reserves appearing in the balance sheet prior to his admission.
- 7) If revaluation account shows credit balance then it represents profit and therefore it is credited to all partners equally.
- 8) New partner brings in necessary amount as his capital.
- 9) New partner is entitled to share in revaluation profit.
- 10) Goodwill brought in by incoming partner in cash for joining in a partnership firm is taken away by the old partners in their new profit sharing ratio
- 11) Profit or loss on revaluation is shared among the partners in new profit sharing ratio.
- 12) The balance of memorandum revaluation account (second part) is transferred to the capital accounts of the partners in old profit sharing ratio.

- 13) When Memorandum Revaluation account is prepared, assets & liabilities in the balance sheet will appear at their old values.
- 14) At the time of admission or retirement of a partner, goodwill can be raised in the books of accounts and shown as an asset.
- 15) Any Reserve appearing in the Balance Sheet is credited to existing partners equally.
- 16) In case of admission of a new partner in a partnership firm, the profit/loss on revaluation account is transferred to all partners in their new profit sharing ratio. *(Nov 2020)*

Solution

- 1) **False:** All the partners have same rights at all times, unless contrary is provided in the partnership deed or agreed by the partners.
- 2) **True:** With every new partner, remaining old partners have to foregone a proportion in their share which is called as sacrifice ratio
- 3) **True:** Revaluation Account is also called as Profit and Loss Adjustment account. It is used to record the gain/loss arising from the revaluation of assets and liabilities of a firm at the time of reconstitution.
- 4) **True:** Increase in Asset is an income hence credited to revaluation account.
- 5) **True:** This can be done by opening Memorandum Revaluation Account.
- 6) **False:** New partner is not entitled to have any share in the reserves of the firm prior to his admission. Such reserves are distributed to old partners in their old profit sharing ratio.
- 7) **False:** If revaluation account shows credit balance then it represents profit and therefore it is credited to all partners in their profit sharing ratio and not equally.
- 8) **True:** Every incoming partner shall bring in some amount of capital for the firm
- 9) **False:** New partner is not entitled to profit on revaluation, it belongs to old partners in their old profit sharing ratio.
- 10) **False:** The goodwill in cash, brought in by the new partner is taken away by the old partners in the sacrificing ratio and not in the new profit sharing ratio.
- 11) **False:** Profit or loss on revaluation is shared among the partners in old profit sharing ratio.
- 12) **False:** The balance of memorandum revaluation account (second part) is transferred to the capital accounts of the partners in new profit sharing ratio.
- 13) **True:** When Memorandum Revaluation account is prepared, assets & liabilities in the balance sheet will appear at their old values.
- 14) **False:** At the time of admission or retirement of a partner, goodwill can be raised in the books of accounts and it is immediately written off. It can not remain in the books of accounts as asset in balance sheet as per accounting standard.
- 15) **False:** Any Reserve appearing in the Balance Sheet is credited to existing partners in their old profit sharing ratio and not equally.
- 16) **False:** In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

HOMEWORK QUESTIONS

Question 1 Pg no. _____

A, B and C are sharing profits and losses in the ratio of 5:3:2. Calculate the new profit sharing ratio and the sacrificing ratio in each of the following alternative cases:

Case (a) If C acquires $\frac{1}{10}$ th share from B

Case (b) If C acquired $\frac{1}{10}$ th share equally from A and B

Case (c) If C's share is increased by $\frac{1}{10}$ th share by acquiring from A.

Case (d) If C's share is increased to $\frac{3}{10}$ th by acquiring from B.

Case (e) If A, B and C decide to share future profits and losses in the ratio of 5:2:3.

Case (f) If A, B and C decide to share future profits and losses in the ratio of 2:3:5.

Case (g) If A, B and C decide to share future profits and losses in the ratio of 2:1:2.

Case (h) If A, B and C decide to share future profits and losses equally.

Case (i) If A, B and C decide that the future profit sharing ratio between B and C shall be the same as existing between A and B

Question 2 (ICAI Study Material) Pg no. _____

A and B are in partnership sharing profits and losses at the ratio 3:2. They take C as a new partner. Calculate the new profit sharing ratio if –

(i) C purchases $\frac{1}{10}$ share from A

(ii) A and B agree to sacrifice $\frac{1}{10}$ th share to C in the ratio of 2: 3

(iii) Simply gets $\frac{1}{10}$ th share of profit.

Question 3 (ICAI Study Material) Pg no. _____

A and B are partners with capitals of ₹7,000 each. They admit C as a partner with $\frac{1}{4}$ th share in the profits of the firm. C brings ₹ 8,000 as his share of capital. Give the necessary journal entry to record goodwill.

Question 4 (ICAI Study Material) Pg no. _____

Leena and Meena were in partnership business sharing profits and losses in the ratio of 2:3. Their Balance Sheet as on 31st March, 2023 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Building	60,000
Leena	60,000	Plant	45,000
Meena	1,40,000	Furniture	23,500
General Reserve	40,000	Debtors	38,400
Creditors	42,600	Bill Receivable	12,500
Bills Payable	17,400	Stock	42,600
		Bank	78,000
	3,00,000		3,00,000

On 1st April, 2023, they decided to admit Neena into the partnership giving her a $\frac{1}{5}$ th share in future profits. She brings in ₹ 80,000 as his share of capital. Goodwill was valued at 1,00,000 at the time of admission of Neena. The partners decided to revalue the Assets as follows: Plant ₹ 40,000, Debtors ₹ 38,000, Stock ₹ 42,000, Building ₹ 90,000, Furniture ₹ 20,000, Bills Receivable ₹ 12,000. You are required to show the following accounts in the books of the firm

- (a) Profit & Loss Adjustment Account
- (b) Partners' Capital Accounts
- (c) Balance Sheet of the new firm.

Question 5 (ICAI Study Material)

Pg no. _____

A and B are partners of X LLP sharing profits and losses in 3:2 ratio between themselves. On 31st March, 2023, the balance sheet of the firm was as follows:

Balance Sheet of X LLP as at 31.3.2023

Liabilities	₹	Assets	₹
Trade payables	5,000	Plant and machinery	20,000
Capital Accounts:		Furniture & Fittings	5,000
A 37,000		Inventories	15,000
B 28,000	65,000	Trade receivables	20,000
		Cash	10,000
	70,000		70,000

X agrees to join the business on the following conditions as and from 1.4.2023:

- He will introduce ₹25,000 as his capital and pay ₹15,000 to the partners as premium for goodwill for 1/3rd share of the future profits of the firm.
- A revaluation of assets of the firm will be made by reducing the value of plant and machinery to ₹15,000, Inventory by 10%, furniture and fitting by ₹1,000 and by making a provision of bad and doubtful debts at ₹750 on trade receivables.

Prepare profit and loss adjustment account, capital accounts of partners including the incoming partner X assuming that the relative ratios of the old partners will be in equal proportion after admission.

Question 6 (ICAI Study Material)

Pg no. _____

The following is the Balance Sheet of Ram and Mohan, who share profits in the ratio of 3:2 as on 1st January, 2023:

Liabilities	₹	Assets	₹
Trade payables	15,000	Buildings	18,000
Ram's Capital	20,000	Plant and Machinery	15,000
Mohan's Capital	25,000	Inventories	12,000
		Trade receivables	10,000
		Bank	5,000
	60,000		60,000

On this date Shyam was admitted on the following:

- He is to pay ₹ 25,000 as his capital and ₹ 10,000 as his share of goodwill for one fifth share in profits.
- The new profits sharing ratio will be 5:3:2.
- The assets are to be revalued as under:

Building	25,000
Plant and Machinery	12,000
Inventories	12,000
Trade receivables (because of doubtful debts)	9,500

- It was found that there was a liability for ₹1,500 for goods received but not recorded in books.

Give journal entries to record the above. Also, give the Balance Sheet of the partnership firm after Shyam's admission.

Question 7 (CA Foundation Nov 2018)(15 Marks)/(RTP May 2020)/(May 2023)(Sim.)

Pg no. _____

Dinesh, Ramesh and Naresh is a firm sharing profits and losses in the ratio 3:2:1. Their Balance Sheet as on 31st March, 2021 is as below:

Liabilities		₹	Assets	₹
Trade Payables		22,500	Land and Buildings	37,000
Outstanding liabilities		2,200	Furniture & Fixtures	7,200
General reserve		7,800	Stock	12,600
Capital Account :			Trade Receivables	10,700
Dinesh	15,000		Cash in hand	2,800
Ramesh	15,000		Cash at bank	2,200
Naresh	10,000	40,000		
		72,500		72,500

The partners have agreed to take Suresh as a partner with effect from 1st April, 2021 on the following terms:

- (1) Suresh shall bring 8,000 towards his capital.
- (2) The value of stock to be increased to ₹ 14,000 and Furniture & Fixtures to be depreciated by 10%.
- (3) Reserve for bad and doubtful debts should be provided at 5% of the Trade Receivables.
- (4) The value of land and buildings to be increased by 5,600 and the value of the goodwill be fixed at ₹ 18,000.
- (5) The new profit sharing ratio shall be divided equally among the partners

The outstanding liabilities include ₹ 700 due to Ram which has been paid by Dinesh. Necessary entries were not made in the books. Prepare

- (i) Revaluation Account, and
- (ii) The Capital Accounts of the partners, and
- (iii) Balance Sheet of the firm after admission of Suresh

Question 8 (ICAI Study Material) / (RTP May 2019)

Pg no. _____

A and B are partners in a firm, sharing profits and losses in the ratio of 3:2. The Balance Sheet of A and B as on 1.1.2023 was as follows:

Liabilities	₹	Assets	₹
Trade payables	17,000	Building	26,000
Bank overdraft	9,000	Furniture	5,800
Capital Accounts:		Inventories	21,400
A 44,000		Trade receivables 35,000	
B 36,000	80,000	Less: Provision (200)	34,800
		Investment	2,500
		Cash	15,500
	1,06,000		1,06,000

'C' was admitted to the firm on the above date on the following terms:

- a) C is admitted for 1/6 share in the future profits and to introduce a capital of ₹25,000.
- b) The new profit sharing ratio of A, B and C will be 3:2:1 respectively.
- c) 'C' is unable to bring in cash for his share of goodwill, they decide to calculate goodwill on the basis of C's share in the profits and the capital contribution made by him to the firm.
- d) Furniture is to be written down by ₹870 and Inventory to be depreciated by 5%. A provision is required for trade receivables @ 5% for bad debts. A provision would also be made for outstanding wages for ₹1,560. The value of buildings having appreciated be brought upto ₹29,200. The value of investments is increased by ₹450.
- e) It is found that the trade payables included a sum of ₹1,400, which is not to be paid off.

Prepare the following:

- (i) Revaluation account. (ii) Partners' capital accounts.

Question 9 (RTP May 2021)

Pg no. _____

Ramu and Mamu were partners in a firm sharing profits and losses in the ratio 3:2 Their Balance Sheet as on 31st March, 2020 was as follows:

Liabilities	₹	Assets	₹
Capital		Land & Building	1,50,000
Ramu	2,10,000	Machinery	1,80,000
Mamu	1,90,000	Furniture	44,000
General Reserve	60,000	Trade Receivables	42,800
Loan from LFC bank	25,000	Inventory	65,200
Trade Payables	21,000	Bank	24,000
	5,06,000		5,06,000

Damu was admitted as partner from 1st April, 2020 on the following terms:

1. He shall bring ₹ 1,50,000 as capital and goodwill.
2. He shall get 1/5th share in future profits, to be acquired equally from Ramu and Mamu.
3. Goodwill of the firm to be valued at ₹ 2,50,000. It was agreed that goodwill shall not appear in the books of accounts.
4. Land & Building is to be appreciated by 50% and inventory is revalued at ₹ 60,000.
5. Machinery to be depreciated by 20%. Debtors of ₹ 2,800 are to be written off as bad debts and a Reserve for doubtful debts should be created @ 5% of debtors.
6. Furniture to be reduced to ₹40,000.
7. After admission of Damu, capitals of the partners' to be adjusted in their new profit sharing ratio, taking Damu's capital as base.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Cash and bank account.
4. Balance Sheet after admission

Question 10 (CA Foundation Dec 2022) (10 Marks)

Pg no. _____

X and Y are in partnership business sharing profits and losses in the ratio of 2:3. Their Balance Sheet as at 31st March, 2022 is as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Building	60,000
X	60,000	Plant	45,000
Y	1,40,000	Furniture	23,500
General Reserve	40,000	Debtors	38,400
Creditors	42,600	Bills receivable	12,500
Bills payable	15,400	Stock	42,600
Salary payable	2,000	Bank	78,000
	3,00,000		3,00,000

On 1st April, 2022 they decided to admit Z into the partnership giving him 1/5th share in the future profits. He brings in ₹ 1,00,000 as his share of capital. Goodwill was valued at ₹ 1,20,000 at the time of admission of Z. The partners decided to revalue assets & liabilities as follows:

- a. Plant ₹ 40,000, Stock ₹ 42,000, Furniture ₹ 20,000 and Bills Receivable ₹ 12,000.
- b. Out of total Debtors, ₹ 2,400 is bad and 5% provision is to be provided for bad and doubtful debts.
- c. Building is to be appreciated by 75%.
- d. Actual liability towards salary payable is ₹ 1,200 only.

You are required to show the following accounts in the books of the firm:

1. Revaluation Account
2. Partner's Capital Accounts
3. Balance sheet of the Firm after Admission of Z.

Question 11

Pg no. _____

The Balance Sheet of a Partnership Firm M/s AB & Co consisted of two partners A and B who were sharing Profits and Losses in the ratio of 5:3 respectively. The position as on 31-03-2021 was as follows:

Liabilities	Amount	Assets	Amount
A's Capital	4,10,000	Land & Building	3,80,000
B's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss A/c	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry Debtors	60,000
		Cash at Bank	42,060
	9,06,800		9,06,800

On the above date, C was admitted as a partner on the following terms:

- a) C should get 1/5th of share of profits.
- b) C brought ₹ 2,40,000 as his capital and ₹ 32,000 for his share of Goodwill.
- c) Plant & Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.
- d) A provision for doubtful debts to be created at 5% on sundry debtors.
- e) An unrecorded liability of ₹ 6,000 for repairs to Buildings would be recorded in the books of accounts.
- f) Immediately after C's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of C.

Question 12 *(ICAI Study Material)*

Pg no. _____

The following was the balance sheet of A, B & C who were equal partners on January 1, 2023

Liabilities	₹	Assets	₹
Bills payables	3,000	Cash	1,000
Creditors	6,000	Debtors	10,000
Capital Accounts:		Stock	12,000
A 20,000		Furniture	5,000
B 15,000		Buildings	25,000
C 10,000	45,000	Bills Receivable	1,000
	54,000		54,000

They agree to take D into partnership & give him a 1/4 share in the profits on following terms:

- (1) that D should bring in ₹ 6,000 for goodwill and ₹ 10,000 as capital.
- (2) that one-half of the goodwill shall be withdrawn by old partners.
- (3) that stock and furniture be depreciated by 10%.
- (4) that a liability of ₹ 1,300 be created against bills discounted.
- (5) that the building be valued at ₹ 40,000.
- (6) that the values of liabilities and assets other than cash are not to be altered.

Give the necessary entries to give effect to the above arrangement; prepare revaluation account and opening balance sheet of the firm as newly constituted.

Question 13 (ICAI Study Material)

Pg no. _____

A and B are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31.3.2023 is given below:

Liabilities	₹	Assets	₹
Trade payables	50,000	Freehold premises	2,00,000
Capital Accounts:		Plant	40,000
A	2,00,000	Furniture	20,000
B	1,00,000	Office equipment	25,000
		Inventories	30,000
		Trade receivables	25,000
		Bank	10,000
	3,50,000		3,50,000

On 1.4.2023 they admit C on the following terms:

- (1) C will bring ₹ 50,000 as a capital and ₹ 10,000 for goodwill for 1/5 share;
- (2) Provision for doubtful debts is to be made on Trade receivables @ 2%
- (3) Inventory to be written down by 10%.
- (4) Freehold premises is to be revalued at ₹2,40,000, plant at ₹ 35,000, furniture ₹ 25,000 and office equipment ₹ 27,500.
- (5) Partners agreed that the values of the assets and liabilities remain the same and, as such, there should not be any change in their book values as a result of the above mentioned adjustments.

You are required to make necessary adjustment in the Capital Accounts of the partners and show the Balance Sheet of the New Firm

Question 14

Pg no. _____

A and B were partners of a firm sharing profits and losses in the ratio 2:1. The Balance Sheet of the firm as at 31st March, 2021 was as under:

Liabilities	Amount	Assets	Amount
Capital Accounts		Plant and Machinery	5,00,000
A	8,00,000	Building	9,00,000
B	4,00,000	Sundry Debtors	2,50,000
Reserves	5,25,000	Stock	3,00,000
Sundry Creditors	2,75,000	Cash	1,50,000
Bills Payable	1,00,000		
	21,00,000		21,00,000

They agreed to admit P and Q into the partnership on the following terms:

- a) The firm's goodwill to be valued at 2 years' purchase of the weighted average of the profits of the last 3 years. The relevant figures are:
 Year ended 31.3.2018 - Profit ₹ 37,000
 Year ended 31.3.2019 - Profit ₹ 40,000
 Year ended 31.3.2020 - Profit ₹ 45,000
- b) The value of the stock and Plant & Machinery were to be reduced by 10%.
- c) Building was to be valued at ₹ 10,11,000.
- d) There was an unrecorded liability of ₹ 10,000.
- e) A, B, P & Q agreed to share profits and losses in the ratio 3:2:1:1.

- f) The value of reserve, the values of liabilities & values of assets other than cash were not to be altered.
- g) P and Q were to bring Capitals equal to their shares of profit considering B's Capital as base after all adjustments.

You are required to prepare:

- 1) Memorandum Revaluation Account,
- 2) Partner's Capital Accounts and
- 3) The Balance Sheet of the newly constructed firm

Question 15 *(ICAI Study Material)*

Pg no. _____

Cu and Au were in partnership sharing profits and losses in the ratio 5:3. On 1st April 2023, they decided to admit Ag in the partnership on the following terms:

1. Ag will bring ₹ 2,00,000/- as capital for $\frac{1}{3}$ share.
2. New profit sharing ratio shall be 2:1:1 among Cu, Au and Ag.
3. Cu was entitled to salary of ₹ 2,000/- p.m., it was revised to ₹ 3,000 p.m. from 1st October 2021.
4. Interest on capital was paid at 8% p.a.
5. Capitals as on 31st March 2023 were Cu ₹ 4,00,000 Au ₹ 3,00,000, which had remained unchanged since last four years.
6. Goodwill was to be valued on the basis of 3 years purchase of average adjusted weighted average profits of past 4 years. The profits of previous four years, before charging interest on capital and salary to Cu were as follows:

Year	Profit
2019-20	2,10,000
2020-21	2,60,000
2021-22	2,10,000
2022-23	3,05,000

These profits were subject to following rectification

- (b) A machine costing ₹ 40,000 purchased on 1st October 2021 was wrongly charged to revenue. The machinery was depreciated at 20% p.a. on w.d.v. method
 - (c) Stock on 31st March 2021 was over valued by ₹ 20,000/-
 - (d) There was a loss by fire amounting to ₹ 10,000/- in the year 2019-20 which was not considered in trading account but correctly debited in the P&L Acc for that year.
 - (e) Debtors as on 31st March 2023 included bad debts of ₹ 5,800/-
7. Ag shall bring his share of goodwill in cash.

You are required to calculate amount of goodwill Ag is supposed to bring and journal entry for the same.

Question 16 *(CA Foundation June 2024) (12 Marks)*

Pg no. _____

Anu and Manu are carrying on business in partnership and sharing profits & losses in the ratio of 5:3. The firm's Balance Sheet as on 31st March, 2024 was as follows:

Balance Sheet as on 31st March, 2024

Liabilities	Amount	Assets	Amount
Capital Accounts:		Building	3,80,000
Anu	2,80,000	Machinery	1,43,000
Manu	2,50,000	Furniture	85,000
Long Term Loan	2,00,000	Trade Receivables	1,64,000
Trade Payables	1,19,500	Inventories	48,400
Outstanding liabilities	16,200	Investments	15,200

		Cash & Bank	30,100
	8,65,700		8,65,700

They decided to admit Ranu as a partner with effect from 1st April, 2024 on the following terms:

- Ranu will be paid 1/5 share in the future profits and new profit sharing ratio would be 5:3:2.
- Ranu will bring ₹ 1,00,000 as his capital.
- Goodwill of firms is to be valued at 2 years' purchase of average profit of past 3 years and Ranu will bring his share of goodwill in cash. The profits of past 3 years ending on 31st March were as under:

31st March,2022	₹ 87,000
31st March,2023	₹ 1,06,000
31st March,2024	₹ 1,22,000

- It was also agreed that the partners will not withdraw their share of goodwill nor will the goodwill appear in the books of account.
- It was also decided to value the assets:
Building is to be appreciated by ₹ 50,000 and Machinery is to be depreciated by 10%.
Furniture is revalued at ₹ 80,000. Investments at ₹ 16,000 and Inventories at ₹ 47,500.
Provision for doubtful debts is to be created on debtors @ 5%.

You are required to prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the reconstituted firm as on 1st April, 2024.

Question 17 (CA Foundation Sep 2024) (10 Marks)

Pg no. _____

The following is the Balance Sheet of Krish and Bala, sharing profit and loss in the ratio 3: 2

Liabilities	Amount	Assets	Amount
Capital Accounts:		Land & Buildings	28,000
Krish 25,000		Plant & Machinery	15,000
Bala 15,000	40,000	Stock	10,000
General Reserve	30,000	Debtors 25,000	
Workmen's Compensation Reserve	10,000	Less: Provision for Doubtful debts 4,000	21,000
Creditors	10,000	Bank	20,000
Employee's Provident Fund	8,000	Advertisement Expenditure	4,000
	98,000		98,000

On admission of Sobha for 1/6th share in the profits, it was decided that:

- Value of land and buildings to be increased by ₹ 5,000.
- Value of stock to be increased by ₹ 3,500.
- Provision of doubtful debts to be increased by ₹ 1,500.
- Liabilities of workmen's compensation reserve was determined to be ₹ 8,000.
- Sobha was to bring in cash of ₹ 25,000 as her capital.
- Sobha brought in her share of goodwill ₹ 12,000 in cash.

Prepare the Revaluation Account, the Capital Account and the Balance Sheet of the new firm.