

PARTNERSHIP ADMISSION

Solution 1

Case (a)

	A	B	C
Their existing shares	5/10	3/10	2/10
Share acquired by C from B	-	-1/10	+1/10
Their new shares	5/10	2/10	3/10

New Profit sharing ratio of A, B and C = 5 : 2 : 3

Share sacrificed by B = 1/10

Case (b)

	A	B	C
Their existing shares	5/10	3/10	2/10
Share acquired by C from A & B	-1/20	-1/20	+1/10
Their new shares	9/20	5/20	3/10

New Profit sharing ratio of A, B and C = 9 : 5 : 6

Sacrificing Ratio of A & B = 1:1

Case (c)

	A	B	C
Their existing shares	5/10	3/10	2/10
Share acquired by C from A	-1/10	-	+1/10
Their new shares	4/10	3/10	3/10

New Profit sharing ratio of A, B and C = 4 : 3 : 3

Share sacrificed by A = 1/10

Case (d)

	A	B	C
Their existing shares	5/10	3/10	2/10
Share acquired by C from B	-	-1/10	+1/10
Their new shares	5/10	2/10	3/10

New Profit sharing ratio of A, B and C = 5 : 2 : 3

Share sacrificed by B = 1/10

Case (e)

	A	B	C
Their existing shares	5/10	3/10	2/10
Their new shares	5/10	2/10	3/10
	-	1/10	-1/10

C gains by 1/10th share & B sacrificed 1/10th share.

Case (f)

	A	B	C
Their existing shares	5/10	3/10	2/10
Their new shares	2/10	3/10	5/10
	3/10	-	-3/10

C gains by 3/10th share & A sacrificed 3/10th share.

Case (g)

	A	B	C
Their existing shares	5/10	3/10	2/10
Their new shares	2/5	1/5	2/5
	1/10	1/10	-2/10

C gains by 2/10th share & A sacrificed 1/10th share & B sacrificed 1/10th share.

Case (h)

	A	B	C
Their existing shares	5/10	3/10	2/10
Their new shares	1/3	1/3	1/3
	5/30	-1/30	-4/30

B gains by 1/30th share & C gains by 4/30th share & A sacrificed 5/30th share.

Case (i)

Ratio of A and B = 5 : 3

Ratio of B and C should be = 5 : 3

Since B's share in relation to A is 3/5 or 60% of A's share, C's share should also be 60% of B's share

Thus C's share = 60% of 3 = 1.8

New ratio of A, B and C = 5 : 3 : 1.8 or 25 : 15 : 9

	A	B	C
Their existing shares	5/10	3/10	2/10
Their new shares	25/49	15/49	9/49
	-5/490	-3/490	8/490

A gains by 5/490th share & B gains by 3/490th share & C sacrificed 8/490th share.

Solution 2

(i) New profit sharing ratio:

$$A = 3/5 - 1/10 = 5/10$$

$$B = 2/5 \text{ i.e. } 4/10$$

$$C = 1/10$$

i.e. 5:4:1

(ii) A's sacrifice $1/10 \times 2/5 = 2/50$

$$B's \text{ sacrifice } 1/10 \times 3/5 = 3/50$$

New profit sharing ratio

$$A = 3/5 - 2/50 = 28/50$$

$$B = 2/5 - 3/50 = 17/50$$

$$C = 1/10 \text{ i.e. } 5/50$$

i.e. 28:17: 5

(iii) Let total share be 1 C's share = 1/10

$$\text{Remaining share} = 1 - 1/10 = 9/10$$

$$\text{Distribution: } A = 9/10 \times 28/50 = 252/500 \quad B = 9/10 \times 17/50 = 153/500 \quad C = 1/10 \text{ i.e. } = 50/500$$

i.e. 27:18: 5

Solution 3**Journal Entries**

	L.F.	Dr.	Cr.
C's Capital A/c (10,000*1/4) Dr.		2,500	
To A's Capital A/c			1,250
To B's Capital A/c			1,250
Being the share of C in the hidden goodwill adjusted through capital accounts by crediting sacrificing partners in their sacrificing ratio)			

Note: Hidden Goodwill = $(8,000 \times 4/1) - (7,000 + 7,000 + 8,000) = 10,000$

Solution 4**Profit & Loss Adjustment (Revaluation) A/c**

Particulars	₹	Particulars	₹
To Plant	5,000	By Building	30,000
To Debtors	400		
To Stock	600		
To Furniture	3,500		
To Bills Receivable	500		
To Profit transferred to			
Leena's Capital A/c	8,000		
Meena's Capital A/c	12,000		
	30,000		30,000

Partner's Capital Accounts

Particulars	Leena	Meena	Neena	Particulars	Leena	Meena	Neena
To Leena & Meena Cap. A/c (Goodwill Adj)	-	-	20,000	By Balance b/d	60,000	1,40,000	-
				By Bank A/c	-	-	80,000
To Balance c/d	92,000	1,88,000	60,000	By Neena's Capital A/c	8,000	12,000	--
				By P&L Adj. (Rev.) A/c	8,000	12,000	-
				By General Reserve	16,000	24,000	-
	92,000	1,88,000	80,000		92,000	1,88,000	80,000

Balance Sheet as on 1st April, 2023

Liabilities	Amount	Assets	Amount
Capital Accounts:		Building	90,000
Leena	92,000	Plant	40,000
Meena	1,88,000	Furniture	20,000
Neena	60,000	Debtors	38,000
Creditors	42,600	Bill Receivable	12,000
Bills Payable	17,400	Stock	42,000
		Bank	1,58,000
	4,00,000		4,00,000

Working Note:

Share of Neena in Goodwill = $1,00,000 \times \frac{1}{5} = 20,000$

Sacrifice by Leena & Meena in the ratio of 2:3 (old ratio) only

Solution 5**Profit & Loss Adjustment A/c**

Particulars	₹	Particulars	₹
To Plant & Machinery	5,000	By Loss transferred to	
To Inventory	1,500	A's Capital A/c	4,950
To Furniture & Fittings	1,000	B's Capital A/c	3,300
To Provision for doubtful debts	750		
	8,250		8,250

Partner's Capital Accounts

Particulars	A	B	X	Particulars	A	B	X
To P & L Adjustment A/c	4,950	3,300	-	By Balance b/d	37,000	28,000	-

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To A's & B's Capital A/c	-	-	15,000	By Cash A/c	-	-	40,000
To Balance c/d	44,050	27,700	25,000	By X's Capital A/c	12,000	3,000	--
	49,000	31,000	40,000		49,000	31,000	40,000

Working Notes:

(i) New profit sharing ratio:

On admission of X who will be entitled to 1/3rd share of the future profits of the firm. A and B would share the remaining 2/3rd share in equal proportion i.e. 1:1.

$$A: \frac{2}{3} \times \frac{1}{2} = \frac{1}{3}$$

$$B: \frac{2}{3} \times \frac{1}{2} = \frac{1}{3}$$

$$X: \frac{1}{3}$$

A, B and X would share profits and losses in equal ratio.

(ii) Adjustment of goodwill:

X pays ₹15,000 as premium for goodwill for 1/3rd share of the future profits. Thus, total value of goodwill is ₹15,000 x 3 i.e. ₹45,000

Sacrificing ratio:

$$A: \frac{3}{5} - \frac{1}{3} = \frac{4}{15}$$

$$B: \frac{2}{5} - \frac{1}{3} = \frac{1}{15}$$

Hence, sacrificing ratio is 4:1

Solution 6

Journal Entries

	L.F.	Dr.	Cr.
Bank A/c		35,000	
Dr.			
To Shyam's Capital A/c			35,000
(Being amount brought in by Shyam for capital and goodwill)			
Shyam's Capital A/c		10,000	
Dr.			
To Ram's Capital A/c			5,000
To Mohan's Capital A/c			5,000
(Being Shyam's share of goodwill adjusted to existing partners' capital accounts in the profit sacrificing ratio 1:1)			
Revaluation Account		5,000	
Dr.			
To Plant and Machinery Account			3,000
To Provisions for Doubtful Debts Account			500
To Trade payables Account			1,500
(Being recording of the reduction in the value of assets and the liability which had been previously omitted)			
Building Account		7,000	
Dr.			
To Revaluation Account			7,000
(Being increase in the value of building brought into account)			
Revaluation Account		2,000	
Dr.			
To Ram's Capital A/c			1,200
To Mohan's Capital A/c			800
(Being profit on revaluation credited to Ram and Mohan in the old profit sharing ratio)			

Working Note: Profit sacrificing ratio:

$$\text{Ram} = \frac{3}{5} \text{ less } \frac{1}{2} = \frac{1}{10}$$

$$\text{Mohan} = \frac{2}{5} \text{ less } \frac{3}{10} = \frac{1}{10}$$

Balance Sheet of Ram, Mohan and Shyam

Liabilities	₹	Assets	₹
Capital Accounts		Buildings	25,000
Ram	26,200	Plant and Machinery	12,000
Shyam	30,800	Inventories	12,000
Mohan	25,000	Trade receivables	10,000
Trade Payables	16,500	Less : Provision for Doubtful Debts	(500)
			9,500
		Bank	40,000
	98,500		98,500

Solution 7

Revaluation A/c

Particulars	₹	Particulars	₹
To Furniture & Fixtures	720	By Stock	1,400
To Provision for Doubtful Debts	535	By Land & Building	5,600
To Profit transferred to			
Dinesh's Capital A/c	2,872.50		
Ramesh's Capital A/c	1,915		
Naresh's Capital A/c	957.50		
	7,000		7,000

Capital Accounts

	Dinesh	Ramesh	Naresh	Suresh		Dinesh	Ramesh	Naresh	Suresh
To Dinesh & Ramesh Cap. A/cs			1,500	4,500	By Bal b/d	15,000	15,000	10,000	-
To Bal c/d	26,972.5	21,015	10,757.5	3,500	By Revaluation A/c	2,872.5	1,915	957.50	-
					By Gen. Reserve	3,900	2,600	1,300	-
					By Naresh & Suresh Cap. A/cs	4,500	1,500	-	-
					By Bank	-	-	-	8,000
					By O/s Liability	700	-	-	-
	26,972.5	21,015	12,257.5	8,000		26,972.5	21,015	12,257.5	8,000

Balance Sheet

Liabilities	Amount	Assets	Amount
Capital Account		Land & Building	42,600
Dinesh	26,972.50	Furniture & Fixtures	6,480
Ramesh	21,015	Stock	14,000
Naresh	10,757.50	Trade Receivables	10,700
Suresh	3,500	Less Prov. for Doubtful Debts	(535)
Trade Payables	22,500		10,165
Outstanding Liabilities	1,500	Cash in Hand	2,800
	86,245	Cash at Bank	10,200
			86,245

Working Notes:

1. Adjustment for goodwill

	Dinesh	Ramesh	Naresh	Suresh
Cr. in Old Ratio (3:2:1)	9,000	6,000	3,000	-
Dr. in New Ratio (1:1:1:1)	(4,500)	(4,500)	(4,500)	(4,500)
	4,500 Cr.	1,500 Cr.	1,500 Dr.	4,500 Dr.

Solution 8

Revaluation Account

	₹		₹
To Furniture	870	By Building A/c	3,200
To Inventory	1,070	By Trade Payables	1,400
To Provision for Doubtful debts (1,750-200)	1,550	By Investment	450
To Outstanding Wages	1,560		
	5,050		5,050

Partner's Capital Accounts

	A	B	C		A	B	C
To A's Capital	-	-	4,500	By Balance b/d	44,000	36,000	-
To B's Capital	-	-	3,000	By Cash	-	-	25,000
To Bal. c/d	48,500	39,000	17,500	By C's Capital	4,500	3,000	-
	48,500	39,000	25,000		48,500	39,000	25,000

Working Notes:

1. Calculation of goodwill:

C's contribution of ₹25,000 consists of only 1/6th of capital. Therefore, total capital of firm should be ₹25,000 x 6 = ₹1,50,000

But combined capital of A, B and C amounts ₹44,000 + 36,000 + 25,000 = ₹1,05,000

Thus, the hidden goodwill is ₹45,000 (₹1,50,000 - ₹1,05,000).

Goodwill will be shared by A & B in their sacrificing ratio

2.

	A	B	C
Their existing shares	3/5	2/5	-
Their new shares	3/6	2/6	1/6
	-3/30 Sacrifice	-2/30 Sacrifice	1/6 Gain

Therefore, A will get = ₹45,000 × 3 / 30 = 4,500

B will get = ₹45,000 × 2 / 30 = 3,000 and

C will be debited on account of goodwill = ₹45,000 x 1 / 6 = 7,500

Solution 9

Revaluation A/c

Particulars	₹	Particulars	₹
To Machinery	36,000	By Building	75,000
To Bad Debts (Debtors)	2,800		
To Reserve for bad debts	2,000		
To Furniture	4,000		
To Inventory	5,200		
To Profit transferred to Ramu's Capital A/c	15,000		
Mamu's Capital A/c	10,000		
	75,000		75,000

Partner's Capital Accounts

	Ramu	Mamu	Damu		Ramu	Mamu	Damu
To Ramu & Mamu			50,000	By Balance b/d	2,10,000	1,90,000	-
To Bank (b/f)	36,000	99,000		By Revaluation	15,000	10,000	-
				By General Reserve	36,000	24,000	-
				By Bank			1,50,000
To Bal c/d	2,50,000	1,50,000	1,00,000	By Damu's Cap.	25,000	25,000	-
	2,86,000	2,49,000	1,50,000		2,86,000	2,49,000	1,50,000

Bank A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	24,000	By Ramu's capital A/c	36,000
To Damu's capital A/c	1,50,000	By Mamu's capital A/c	99,000
		By Balance c/d	39,000
	1,74,000		1,74,000

Balance Sheet

Liabilities	Amount	Assets	Amount
Capital Account		Land & Building	2,25,000
Ramu	2,50,000	Machinery	1,44,000
Mamu	1,50,000	Furniture	40,000
Damu	1,00,000	Trade Receivables	40,000
		Less Reserve for bad debts	(2,000)
Loan from LFC Bank	25,000	Inventory	60,000
Trade Payables	21,000	Bank	39,000
	5,46,000		5,46,000

Working Notes:

	Ramu	Mamu	Damu
Old Ratio	3/5	2/5	-
Sacrifice Share	-1/10	-1/10	2/10 (gain)
New Share	5/10	3/10	2/10

Since the capitals of the old partners are adjusted on the basis of the incoming partners share- The closing balances will be fixed first as follows-

Capital and goodwill brought in by Damu - ₹ 1,50,000
 His share of goodwill- 2,50,000 x 1/5 ₹ (50,000)
 Amount brought in as capital ₹1,00,000

Total capital of the firm based on his share 1,00,000 x 5 = ₹ 5,00,000

Remaining capital to be borne by Ramu and Mamu in their new profit sharing ratio

Closing capital of Ramu (5/10th share) = 5,00,000 x 5/10 = 2,50,000

Closing capital of Mamu (3/10th share) = 5,00,000 x 3/10 = 1,50,000

Based on the above closing balances- the cash will be either brought in or excess cash will be withdrawn from the books

Solution 10

In the books of X, Y and Z

Revaluation Account

Particulars	₹	Particulars	₹
To Plant	5,000	By Building	45,000
To Bad Debts	2,400	By Salary Payable	800
To Provision for Doubtful Debts	1,800		
To Stock	600		

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To Furniture	3,500		
To Bills receivable	500		
To Profit on revaluation			
- X	12,800		
- Y	19,200		
	45,800		45,800

Partners' Capital A/c's

Particulars	X	Y	Z	Particulars	X	Y	Z
To X and Y (Goodwill adjustment)	-	-	24,000	By Balance b/d	60,000	1,40,000	-
To Balance c/d	98,400	1,97,600	76,000	By Bank	-	-	1,00,000
				By Z	9,600	14,400	-
				By General Reserve	16,000	24,000	-
				By Revaluation	12,800	19,200	-
	98,400	1,97,600	1,00,000		98,400	1,97,600	1,00,000

Balance Sheet as on 1st April, 2022 (after admission)

Liabilities	₹	Assets	₹
Capital Accounts:		Building	1,05,000
- X	98,400	Plant	40,000
- Y	1,97,600	Furniture	20,000
- Z	76,000	Debtors*	34,200
Creditors	42,600	Bills Receivable	12,000
Bills Payable	15,400	Stock	42,000
Salary Payable	1,200	Bank	1,78,000
	4,31,200		4,31,200

* Debtors: (38,400 – 2,400 – 1,800) = ₹ 34,200

Solution 11

Revaluation Account

	₹		₹
To Plant & Machinery (1,70,000 x 15%)	25,500	By Land & Building A/c	1,52,000
To Provision for Bad & Doubtful debts (60,000 X 5%)	3,000		
To Outstanding Repairs to Building	6,000		
To A's Capital A/c (5/8)	73,438		
To B's Capital A/c (3/8)	44,062		
	1,52,000		1,52,000

Capital Accounts of Partners

	A	B	C		A	B	C
To A's Capital	-	-	20,000	By Balance b/d	4,10,000	3,30,000	-
To B's Capital	-	-	12,000	By Revaluation	73,438	44,062	-
To B's Current A/c	-	68,062	-	By Profit & Loss	70,000	42,000	-
To Bal. c/d	6,00,000	3,60,000	2,40,000	By Bank	-	-	2,72,000
				By C's Capital	20,000	12,000	-
				By A's Current	26,562	-	-
	6,00,000	4,28,062	2,72,000		6,00,000	4,28,062	2,72,000

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Calculation of New Profit sharing ratio and gaining ratio:

C's share of Profit = $1/5 = 2/10$

Remaining Share = $1 - 1/5 = 4/5$

A's Share = $5/8 \times 4/5 = 20/40 = 5/10$

B's Share = $3/8 \times 4/5 = 12/40 = 3/10$

New Profit sharing Ratio = 5:3:2

Gaining Ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of AB & Co. as on 31.3.2021

Liabilities		₹	Assets		₹
Capital Accounts:			Land & Buildings		5,32,000
A	6,00,000		Plant & Machinery	1,70,000	
B	3,60,000		Less: Depreciation	(25,500)	1,44,500
C	<u>2,40,000</u>	12,00,000	Furniture		1,09,480
B's Current A/c		68,062	Stock		1,45,260
Trade Creditors		54,800	Sundry Debtors	60,000	
Outstanding Repairs to building		6,000	Less: Provision	(3,000)	57,000
			Cash at Bank		3,14,060
			A's current A/c		26,562
		13,28,862			13,28,862

Working Note:

Required Balance of Capital Accounts

C's Capital after writing off goodwill = $2,72,000 - 32,000 = 2,40,000$

C's share of Profit = $1/5$

Thus capital of the firm shall be = $2,40,000 \times 5 = 12,00,000$

A's capital = $12,00,000 \times 5/10 = 6,00,000$

B's capital = $12,00,000 \times 3/10 = 3,60,000$

Solution 12

Journal Entries

	L.F.	Dr.	Cr.
Cash A/c		16,000	
To D's Capital A/c			16,000
(Being amount brought in by D for capital and goodwill)			
D's Capital A/c		6,000	
To A's Capital A/c			2,000
To B's Capital A/c			2,000
To C's Capital A/c			2,000
(Being D's share of goodwill adjusted to existing partners' capital accounts in the sacrificing ratio)			
A's Capital A/c		1,000	
B's Capital A/c		1,000	
C's Capital A/c		1,000	
To Cash A/c			3,000
(Half the amount of goodwill withdrawn by existing partners)			
Memorandum Revaluation Account		12,000	
To A's Capital A/c			4,000
To B's Capital A/c			4,000
To C's Capital A/c			4,000
(Profit on revaluation credited to old partners)			
A's Capital A/c		3,000	

B's Capital A/c	Dr.		3,000	
C's Capital A/c	Dr.		3,000	
D's Capital A/c	Dr.		3,000	
To Memorandum Revaluation Account				12,000
(The profit credited previously to old partners written off to all partners including D in the new profit-sharing ratio)				

Memorandum Revaluation A/c

Particulars	₹	Particulars	₹
To Stock	1,200	By Building	15,000
To Furniture	500		
To Liability for Bill Discounted	1,300		
To Profit transferred to			
A's Capital A/c	4,000		
B's Capital A/c	4,000		
C's Capital A/c	4,000		
	15,000		15,000
To Building	15,000	By Stock	1,200
		By Furniture	500
		By Liability for Bill Discounted	1,300
		By Loss transferred to	
		A's Capital A/c	3,000
		B's Capital A/c	3,000
		C's Capital A/c	3,000
		D's Capital A/c	4,000
	15,000		15,000

Balance Sheet

Liabilities	Amount	Assets	Amount
Capital Account		Cash	14,000
A	22,000	Debtors	10,000
B	17,000	Stock	12,000
C	12,000	Furniture	5,000
D	7,000	Buildings	25,000
Creditors	6,000	Bill receivables	1,000
Bills Payables	3,000		
	67,000		67,000

Solution 13

Memorandum Revaluation A/c

Particulars	₹	Particulars	₹
To Provision for doubtful debts	500	By Freehold Premises	40,000
To Inventory	3,000	By Furniture	5,000
To Plant A/c	5,000	By Office Equipment	2,500
To Profit transferred to (3:2)			
A's Capital A/c	23,400		
B's Capital A/c	15,600		
	47,500		47,500
To Freehold Premises	40,000	By Provision for doubtful debts	500
To Furniture	5,000	By Inventory	3,000
To Office Equipment	2,500	By Plant A/c	5,000

		By Loss transferred to (12:8:5)	
		A's Capital A/c	18,720
		B's Capital A/c	12,480
		C's Capital A/c	7,800
	47,500		47,500

Partner's Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
To A's Capital A/c	-	-	6,000	By Balance b/d	2,00,000	1,00,000	-
To B's Capital A/c	-	-	4,000	By Bank A/c	-	-	60,000
To Revaluation A/c	18,720	12,480	7,800	By C's Capital A/c	6,000	4,000	--
To Balance c/d	2,10,680	1,07,120	42,200	By Revaluation A/c	23,400	15,600	-
	2,29,400	1,19,600	60,000		2,29,400	1,19,600	60,000

Balance Sheet

Liabilities	Amount	Assets	Amount
Capital Account		Freehold Premises	2,00,000
A	2,10,680	Plant	40,000
B	1,07,120	Furniture	20,000
C	42,200	Office Equipment	25,000
Trade Payables	50,000	Inventories	30,000
		Trade receivables	25,000
		Bank	70,000
	4,10,000		4,10,000

Solution 14

Memorandum Revaluation A/c

Particulars	₹	Particulars	₹
To Stock	30,000	By Building	1,11,000
To Plant & Machinery	50,000		
To Unrecorded Liability	10,000		
To Profit transferred to			
A's Capital A/c	14,000		
B's Capital A/c	7,000		
	1,11,000		1,11,000
To Building	1,11,000	By Stock	30,000
		By Plant & Machinery	50,000
		By Unrecorded Liability	10,000
		By Loss transferred to	
		A's Capital A/c	9,000
		B's Capital A/c	6,000
		P's Capital A/c	3,000
		Q's Capital A/c	3,000
	1,11,000		1,11,000

Partner's Capital Accounts

	A	B	P	Q		A	B	P	Q
To Memo. Rev	9,000	6,000	3,000	3,000	By Bal b/d	8,00,000	4,00,000	-	
To Reserve	2,25,000	1,50,000	75,000	75,000	By Memo Rev.	14,000	7,000	-	
To A&B	-	-	12,000	12,000	By Reserve	3,50,000	1,75,000	-	
To Bal c/d	9,50,000	4,30,000	2,15,000	2,15,000	By P&Q	20,000	4,000	-	
					By Cash (Bal Fig)	-	-	3,05,000	3,05,000
	11,84,000	5,86,000	3,05,000	3,05,000		11,84,000	5,86,000	3,05,000	3,05,000

Balance Sheet

Liabilities	Amount	Assets	Amount
Capital Account		Plant & Machinery	5,00,000
A	9,50,000	Building	9,00,000
B	4,30,000	Sundry Debtors	2,50,000
P	2,15,000	Stock	3,00,000
Q	2,15,000	Cash (1,50,000+3,05,000+3,05,000)	7,60,000
Reserve	5,25,000		
Creditors	2,75,000		
Bills Payables	1,00,000		
	27,10,000		27,10,000

Working Notes:

1. Calculation of Goodwill : Weighted Average Profit:

Year	Profit	Weight	Weighted Profit
2018	37,000	1	37,000
2019	40,000	2	80,000
2020	45,000	3	1,35,000
		6	2,52,000

Weighted Average Profit = ₹ 2,52,000/6 = ₹ 42,000

Goodwill is valued at 2 year's purchase Value of Goodwill: ₹ 42,000 × 2 = ₹ 84,000

	A	B	C	D
Old Ratio	2/3	1/3	-	-
New Ratio	3/7	2/7	1/7	1/7
Sacrifice/Gain	5/21	1/21	1/7	1/7
	Sacrifice	Sacrifice	Gain	Gain

2. Adjustment for goodwill

	A	B	C	D
Cr. in Old Ratio	56,000	28,000	-	-
Dr. in New Ratio	(36,000)	(24,000)	(12,000)	(12,000)
	20,000 Cr.	4,000 Cr.	12,000 Dr.	12,000 Dr.

3. Calculation of closing capitals of P and Q; B's capital is taken as base.

Closing capital of B after all adjustments is 4,30,000.

Total capital of firm will be = 4,30,000 × 7/2 = 15,05,000

Hence, P's and Q's closing capital should be ₹ 2,15,000 (15,05,000 × 1/7) each i.e. at par with B (as per new profit and loss sharing ratio)

Note:

Since question has asked for adjustment of capital of P&Q on the basis of B's capital as base therefore the same is calculated & A's capital is not changed at all.

Question has not mentioned anything for A so that will be same as computed & not to be altered.

Solution 15**Calculation of Goodwill**

	2019-20	2020-21	2021-22	2022-23
Given Profits	2,10,000	2,60,000	2,10,000	3,05,000
Less: Salary to Cu	(24,000)	(24,000)	(30,000)	(36,000)
Less: Interest on Capital [7,00,000*8%]	(56,000)	(56,000)	(56,000)	(56,000)
Add: Machine to be capitalised	-	-	40,000	-
Less: Depreciation on Machinery	-	-	(4,000) [40,000*20%*6/12]	(7,200) [36,000*20%]
Less: Overvaluation of Closing Stock	-	(20,000)	-	-
Add: Overvaluation of Opening Stock	-	-	20,000	-
Add: Loss by Fire (Abnormal Item)	10,000	-	-	-
Less: Bad Debts to be w/off	-	-	-	(5,800)
Adjusted Profits	1,40,000	1,60,000	1,80,000	2,00,000
Weights	1	2	3	4
Weighted Profits i.e. Product	1,40,000	3,20,000	5,40,000	8,00,000

Weighted Average Profits = Total Product / Total of Weights

$$= 18,00,000 / 10$$

$$= 1,80,000$$

Goodwill = 3 year purchase = 1,80,000 * 3

$$= 5,40,000$$

Share of Ag = 5,40,000 * 1/4 = 1,35,000

Journal Entries

Particulars	L.F.	Dr.	Cr
Bank A/c Dr.		3,35,000	
To Ag's Capital A/c			3,35,000
[Being Capital of 2,00,000 & G/w Share 1,35,000 Brought by Ag]			
Ag's Capital A/c Dr.		1,35,000	
To Cu's Capital A/c			67,500
To Au's Capital A/c			67,500
(Being the adjusting entry for goodwill through capital accounts of partners)			

Working Note:

Particulars	Cu	Au	Ag
Credit in Old Ratio (5:3)	3,37,500	2,02,500	
Debit in New Ratio (2:1:1)	(2,70,000)	(1,35,000)	(1,35,000)
	67,500 Cr.	67,500 Cr.	1,35,000 Dr.