concept no.

4 Revaluation of Assets and Reassessment of Liabilities

concept no.4

Revaluation of Assets and Reassessment of Liabilities



Whenever a new partner is admitted, it becomes necessary to revalue the assets and liabilities of the firm to their true and fair values. This is done because with the passage of time the value of certain assets might have increased while the value of certain other assets might have decreased. Thus, the actual values of various assets and liabilities may be different from the values stated in the balance sheet. New partner should not suffer because of reduction in the value of assets, nor should he be benefited by increase in the value of assets. Thus, the entire profit or loss arising from revaluation is divided between the old partners in their old profit sharing ratio.

Following entries are passed for the purpose of revaluation :

- **For decrease in the value of assets :**
  Revaluation A/c or Profit & Loss Adjustment a/c .....Dr.
  To Assets a/c
- **For increase in the value of assets :**
  Assets a/c.....Dr.
  To Revaluation A/c or Profit & Loss Adjustment a/c
- **For increase in the value of liabilities :**

Revaluation A/c or Profit & Loss Adjustment a/c .....Dr.
To Liabilities a/c

- **For decrease in the value of liabilities :**

Liabilities .....Dr.
To Revaluation A/c or Profit & Loss Adjustment a/c

COMMERCE RAMA

concept no.4

Questions

Q.1). Pass journal entries to record the following transactions on the admission of a new partner :
(i) Land and Building is undervalued by ₹2,00,000.
(ii) Stock is overvalued by 20% (Book Value of Stock ₹ 60,000)
(iii) Provision to be made for compensation of ₹ 20,000 to an ex-employee.
(iv) Sundry Debtors appeared in the books at ₹ 1,50,000. They are estimated to produce not more than ₹ 1,30,000.
(v) Creditors include an amount of ₹ 10,000 received as commission.
(vi) A bill of exchange of ₹40,000 which was previously discounted with the banker, was dishonored on 31st March, 2022 but no entry has been passed for it.
(vii) Value of Machinery is to be decreased to ₹ 1,20,000 (Book Value ₹2,00,000)
(viii) Value of Machinery is to be decreased by ₹ 1,20,000 (Book Value ₹ 2,00,000)
(ix) Expenses on revaluation amount to ₹ 8,000 have been paid by partner X
[Ans. (i) Dr. Land & Building A/c; Cr. Revaluation A/c by ₹2,00,000.
(ii) Dr. Revaluation A/c; Cr. Stock A/c by ₹ 10,000.
(iii) Dr. Revaluation A/c; Cr. Provision for Compensation by ₹20,000.
(iv) Dr. Revaluation A/c; Cr. Provision for Doubtful Debts A/c by ₹20,000.
(v) Dr. Creditors A/c; Cr. Revaluation A/c by ₹ 10,000.
(vi) **Dr. Sundry Debtors A/c; Cr. Bank A/c by ₹40,000.**
(vii) Dr. Revaluation A/c; Cr. Machinery A/c by ₹80,000.
(viii) Dr. Revaluation A/c; Cr. Machinery A/c by ₹ 1,20,000.
(ix) Dr. Revaluation A/c; Cr. As Capital A/c by ₹8,000.]

COMMERCE RAMA

concept no.4

Questions

Q.2). A and B were in partnership sharing profits and losses in the ratio of 3 : 1. On 1st April, 2022 they admit C as a partner on the following terms :

(a) That the value of land and buildings to be appreciated by 15 per cent and that of stocks and machinery & fixtures to be reduced by 7 and 5 per cent respectively.

(b) That provision for doubtful debts be made at 5 per cent.

(c) That ₹ 15,000 be provided for an unforeseen liability.

The Balance Sheet of the old partnership as at 31 st March, 2022 stood as :

Liabilities		₹	Assets	₹
Sundry Creditors		3,50,000	Cash in hand	40,000
Capital Accounts :			Book Debts	2,00,000
A	4,00,000		Stock	1,80,000
B	2,00,000	6,00,000	Machinery & Fixtures	2,00,000
			Land & Building	3,30,000
		9,50,000		9,50,000

Give necessary Journal Entries.

[Ans. (a) Dr. Land & Building; Cr. Revaluation a/c ₹49,000, Dr. Revaluation a/c ; Cr. Stock a/c by ₹12,600 & Dr. Revaluation a/c; Cr. Machinery & Furniture a/c by ₹10,000 (b) Dr. Revaluation a/c; Cr. Provision For bad debts a/c by ₹10,000 (c) Dr. Revaluation a/c; Cr. Unforeseen liability a/c by ₹15,000]

END OF CONCEPT NO-4

COMMERCE RAMA