CHAPTER-4 ADMISSION OF A PARTNER

concept no.

6 Capital Adjustments

A. When the New Partner is required to bring Proportionate Capital

B. When New Partner has to bring Capital on the basis of Combined Capitals of Old Partners

C. Adjustment of the Old Partners' Capitals on the Basis of New or Incoming Partner's Capital with Cash

D. Adjustment of the Old Partners' Capitals on the Basis of New or Incoming Partner's Capital with Current's Account

concept no.6 (Sub-Concept -A)

Capital Adjustments

Q.1) Nem and Khem sharing profits in the ratio of 3 : 2 admit Prem as a partner with 1/3 share in profits. He had to contribute proportionate capital. They had following financial position :

Liabilities		₹	Assets	₹
Sundry Creditors		40,000	Stock	35,000
General Reserve		50,000	Debtors	60,000
Capitals:			Cash	5,000
Nem	50,000		Plant and Machinery	80,000
Khem	40,000	90,000		
		1,80,000		1,80,000

They agreed to admit Prem as a partner on the following terms :

(1) Plant and Machinery to be reduced by 10%.

(2) Stock to be increased by ₹3,000.

(3) Bad debts provision was to be created at 5%.

(4) Accrued incomes not appearing in the books ₹900.

(5) Prem was to introduce ₹20,000 as premium for goodwill for 1/3rd share of the future profits of the firm.

Prepare Profit and Loss Adjustment Account, Capital Accounts

[ANS. Loss on Revaluation ₹7,100; Capital Accounts : Nem ₹87,740; Khem ₹65,160 and Prem ₹76,450; Bank Balance ₹ 1,01,450; and Balance Sheet Total ₹2,69,350. New profit sharing ratio 6 : 4 : 5]

concept no.6 (Sub-Concept -A)

Questions

Q.2) L, M and N were partners in a firm sharing profits in the ratio of 3 : 2 : 1. Their Balance Sheet on 31st March, 2023 was as follows:

Liabilities		₹	Assets	₹
Creditors		1,68,000	Bank	34,000
General Reserve		42,000	Debtors	46,000
Capital A/cs:			Stock	2,20,000
L	1,20,000		Investments	60,000
M	80,000		Furniture	20,000
N	40,000	2,40,000	Machinery	70,000
		4,50,000		4,50,000

On the above date, O was admitted as a new partner and it was decided that:
(i) The new profit-sharing ratio between L, M, N and O will be 2 : 2 : 1 : 1.
(ii) Goodwill of the firm was valued at ₹ 1,80,000 and O brought his share of goodwill premium in cash.
(iii) The market value of investments was ₹ 36,000.
(iv) Machinery will be reduced to ₹ 58,000.
(v) A creditor of ₹ 6,000 was not likely to claim the amount and hence was to be written off.
(vi) O will bring proportionate capital so as to give him 1 /6th share in the profits of the firm.
Prepare Revaluation Account, and Partners' Capital Accounts
(Ans.: Loss on Revaluation—₹ 30,000; Capital A/cs: L—₹ 1,56,000; M—₹ 84,000; N—₹ 42,000 and O—₹ 56,400; Balance Sheet Total—₹ 5,00,400.]

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concept no.6 (Sub-Concept -A)

Questions

Q.3) Raman and Rohit were partners in a firm sharing profits and losses in the ratio of 2 : 1. On 31st March, 2023, their Balance Sheet was as follows:

Liabilities		₹	Assets		₹
Capitals:			Plant and Machinery		1,75,000
Raman	1,40,000		Furniture and Fixtures		65,000
Rohit	1,00,000	2,40,000	Stock		47,000
Workmen Compensation Fund		40,000	Debtors	1,10,000	
			Less: Provision for Doubtful Debts	7,000	1,03,000
Creditors		1,60,000	Bank Balance		50,000
		4,40,000			4,40,000

On the above date, Saloni was admitted in the partnership firm. Raman surrendered 2/5th of his share and Rohit surrendered 1 /5th of his share in favour of Saloni. It was agreed that:

(i) Plant and machinery will be reduced by ₹ 35,000 and furniture and fixtures will be reduced to ₹ 58,500.

(ii) Provision for bad and doubtful debts will be increased by ₹ 3,000.

(iii) A claim for ₹ 16,000 for workmen's compensation was admitted.

(iv) A liability of ₹ 2,500 included in creditors is not likely to arise.

(v) Saloni will bring ₹ 42,000 as her share of goodwill premium and proportionate capital.

Prepare Revaluation Account,and Partners' Capital Accounts .

[Ans.: Loss on Revaluation = ₹ 42,000; Partners' Capital Accounts: Raman–₹ 1,61,600; Rohit–₹ 1,02,400; Saloni–₹ 1,32,000; Balance Sheet Total –₹ 5,69,500.]

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concept no.6 (Sub-Concept -B)

Capital Adjustments

Q.1) On 31st March, 2023 the Balance Sheet of Ram and Shyam who share profits and losses in the ratio of 3 : 2 was as follows:

Liabilities		₹	Assets		₹
Creditors		70,000	Cash at Bank		25,000
General Reserve		25,000	Debtors	1,62,500	
Employees' Provident Fund		55,000	Less: Provision for Doubtful debts	12,500	1,50,000
Capitals:			Stock		82,500
Ram	1,50,000		Machinery		1,42,500
Shyam	1,00,000	2,50,000			
		4,00,000			4,00,000

They decided to admit Mahesh on 1st April, 2023 for 1 /5th share which Mahesh acquired wholly from Shyam on the following terms:

(i) Mahesh shall bring ₹ 25,000 as his share of premium for Goodwill.

(ii) A debtor whose dues of ₹ 7,500 were written off as bad debt paid ₹ 5,000 in settlement.

(iii) A claim of ₹ 12,500 on account of workmen's compensation was to be provided for.

(iv) Machinery was undervalued by ₹ 5,000. Stock was valued 10% more than its market value.

(v) Mahesh was to bring in capital equal to 20% of the combined capitals of Ram and Shyam after all adjustments.

Prepare Revaluation Account, and Partners' Capital Accounts

[Ans.: Loss on Revaluation—₹ 10,000; Partners' Capital Accounts: Ram—₹ 1,59,000; Shyam—₹ 1,31,000; Mahesh—₹ 58,000; Balance Sheet Total—₹ 4,85,500.]

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concept no.6 (Sub-Concept -B)

Capital Adjustments

Q.2) Aan and Shaan were partners sharing profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2023 was as under:

Liabilities	₹	Assets		₹
Creditors	2,00,000	Cash		1,48,000
Employees' Provident Fund	30,000	Debtors	2,05,000	
		Less: Provision for Doubtful		
Bank Overdraft	1,70,000	Debts	3,000	2,02,000
Reserve	1,50,000	Stock		2,00,000
Capital A/cs:		Plant and Machinery		6,00,000
Aan's 7,00,000		Building		7,00,000
Shaan's 6,00,000	13,00,000			
	18,50,000			18,50,000

They agreed to admit Mohan for 1/4th share on the above date subject to the following terms:
(i) Mohan to bring in capital equal to 1/4th of the total capital of Aan and Shaan after all adjustments including premium for goodwill.
(ii) Building to be appreciated by 20% and stock to be depreciated to 70%.
(iii) Provision for Doubtful Debts on Debtors to be raised to ₹ 10,000.
(iv) A provision be made for ₹ 18,000 for outstanding legal charges.
(v) Mohan's share of goodwill premium was calculated as ₹ 1,00,000.
Prepare the Revaluation Account, and Partners' Capital Accounts
[Ans.: Gain on Revaluation—₹ 55,000; Capital Accounts: Aan—₹ 8,83,000; Shaan—₹ 7,22,000; Mohan—₹ 4,01,250; Total of Balance Sheet—₹ 24,24,250.]

COMMERCE RAMA

concept no.6 (Sub-Concept -C)

Questions

Q.1) X and Y are partners sharing profits in the ratio of 2 : 1. Their balance sheet as at 31 st March, 2023 was as follows :

Liabilities		₹	Assets	₹
Sundry Creditors		25,000	Stock	10,000
General Reserve		18,000	Debtors	15,000
Capitals:			Cash at Bank	5,000
X	75,000		Typewriter	5,000
Y	62,000	1,37,000	Fixed Assets	1,37,000
			Investments	8,000
		1,80,000		1,80,000

They admit Z into partnership from 1st April, 2023 on the following terms :
I. Z brings in ₹40,000 as his capital and he is given l/4th share in profits.
II. Z brings in ₹ 15,000 for goodwill, half of which is withdrawn by old partners.
III. Investments are valued at ₹ 10,000. X takes over Investments at this value.
IV. Typewriter is to be depreciated by 20% and fixed Assets by 10%.
V. An old customer, whose account was written off as bad debts, has promised to pay ₹ 1,000.
VI. By bringing in or withdrawing cash, the Capitals of X and Y are to be made proportionate to that of Z on their profit sharing basis.
Pass Journal entries,and prepare capital accounts
[ANS. Loss on Revaluation ₹ 11,700; Capital A/cs X ₹80,000; Y ₹40,000; Z ₹40,000; Bank balance ₹31,700; B/S total ₹ 1,85,000; X brings in ₹5,800; Y withdraws ₹26,600]

concept no.6 (Sub-Concept -C)

Questions

Q 2). Shikhar and Rohit were partners in a firm sharing profits in the ratio of 7 : 3. On 1st April, 2023 they admitted Kavi as a new partner for 1/4th share in profits of the firm. Kavi brought ` 4,30,000 as his capital and ` 25,000 for his share of goodwill premium. The Balance Sheet of Shikhar and Rohit as on 1st April, 2023 was as follows :

Balance Sheet of Shikhar and Rohit as on 1st April, 2023

Liabilities		Amount (₹)	Assets		Amount (₹)
Capitals :			Land and Building		3,50,000
Shikhar	8,00,000		Machinery		4,50,000
Rohit	3,50,000	11,50,000	Debtors	2,20,000	
General Reserve		1,00,000	*Less* : Provision	20,000	2,00,000
Workmen's Compensation Fund		1,00,000	Stock		3,50,000
Creditors		1,50,000	Cash		1,50,000
		15,00,000			15,00,000

It was agreed that :

(i) The value of Land and Building will be appreciated by 20%. (ii) The value of Machinery will be depreciated by 10%. (iii) The liabilities of Workmen's Compensation Fund was determined at ` 50,000.

(iv) Capitals of Shikhar and Rohit will be adjusted on the basis of Kavi's capital and actual cash to be brought in or to be paid off as the case may be. Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm

[Ans.: Gain on Revaluation—₹ 25,000; Capital Accounts: Shikhar ₹ 9,03,000; Rohit—₹ 3,87,000; kavi—₹ 4,30,000; Cash Withdraw By Shikhar ₹ 37,000; Rohit—₹ 23,000

concept no.6 (Sub-Concept -C)

Questions

Q.3) A and B are partners sharing profits in the ratio of 2 : 1. Following items appeared in their Balance Sheet as at 31st March, 2022 : A's Capital ₹48,000; B's Capital ₹30,000; Creditors ₹15,000; Bank balance ₹ 5,000; Debtors ₹20,000; Machinery ₹36,000; Stock ₹44,000. They admit C into partnership on 1 st April, 2022 with 1/6th share in profits, which he acquires equally from A and B. He brings in ₹20,000 as his capital and ₹1 8,000 as goodwill in cash.

Following revaluations were made :

I. 5% provision be made for doubtful debts on Debtors and a provision of 2% be made on Debtors and Creditors for discount. ,

II. ₹ 1,000 are prepaid for insurance.

III. ₹5,000 are outstanding for salaries.

IV. ₹ 1,480 for accrued income are to be shown in the books.

V. Investments for ₹6,000 have been omitted to be recorded in the books.

A and B decide to have their capitals in proportion to their share in profits, based on C's share. Any excess of capital was to be withdrawn and deficit to be paid in Cash.

Prepare the partner's capital accounts and give the new balance sheet of the firm.

[ANS. Profit on Revaluation ₹2,400; Capitals A ₹70,000; B ₹30,000 and C ₹20,000; Bank balance ₹32,600; B/S total ₹ 1,39,700; New profit sharing ratio 7 : 3 : 2. Cash brought in by A ₹3,400; Cash withdrawn by B ₹ 13,800]

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concept no.6 (Sub-Concept -D)

Questions

Q.1) Badal and Bijli were partners in a firm sharing profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2019 was as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Building	1,50,000
Badal	1,50,000		Investments	73,000
Bijli	90,000	2,40,000	Stock	43,000
Badal's Current A/c		12,000	Debtors	20,000
Investment Fluctuation Reserve		24,000	Cash	22,000
Bills Payable		8,000	Bijli's Current A/c	2,000
Creditors		26,000		
		3,10,000		3,10,000

Raina was admitted on the above date as a new partner for 1 /6th share in the profits of the firm. The terms of agreement were as follows:

(i) Raina will bring ₹ 40,000 as her capital and capitals of Badal and Bijli will be adjusted on the basis of Raina's capital by opening Current Accounts.

(ii) Raina will bring her share of goodwill premium for ₹ 12,000 in cash.(iii) The building was overvalued by ₹ 15,000 and stock by ₹ 3,000.

(iv) A provision of 10% was to be created on debtors for bad debts.Prepare the Revaluation Account and Current and Capital Accounts of Badal, Bijli and Raina. **[Ans.: Loss on Revaluation—₹ 20,000; Partners' Capital A/cs: Badal—₹ 1,20,000; Bijli—₹ 80,000 and Raina—₹ 40,000; Partners' Current A/cs: Badal—₹ 51,600 (Cr.); Bijli—₹ 14,400 (Cr.).]**