Concept no.5

Revaluation of Assets and Reassessment of Liabilities

When a partner retires from a partnership firm, it becomes necessary to revalue the assets and liabilities of the firm to their true and fair values. This is done because, over time, the value of certain assets might have increased while the value of other assets might have decreased. Therefore, the actual values of various assets and liabilities may differ from those stated in the balance sheet. The retiring partner should neither suffer due to a reduction in the value of assets, nor should they unfairly benefit from an increase in the value of assets. Hence, any profit or loss arising from the revaluation is shared among the remaining partners as well as the retiring partner, 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.5

Questions

Q.11). M, N and G were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31-3-2023 their Balance Sheet was as

Liabilities		₹	Assets		₹
Creditors		55,000	Cash		40,000
General Reserve		30,000	Debtors	45,000	
Capitals :			Less: Provision	5,000	40,000
M	1,50,000		Stock		**50,000**
N	1,25,000		Machinery		1,50,000
G	75,000	3,50,000	Patents		30,000
			Building		1,00,000
			Profit & Loss A/c		25,000
		4,35,000			4,35,000

M retired on the above date and it was agreed that:

(i) Debtors of ₹2,000 will be written off as bad debts and a provision of 5% on debtors for bad and doubtful debts will be maintained.

(ii) Patents will be completely written off and stock, machinery and building will be depreciated by 5%.

(iii) An unrecorded creditor of ₹ 10,000 will be taken into account.

(iv) N and G will share the future profits in the ratio of 2 : 3.

(v) Goodwill of the firm on Ms retirement was valued at ₹3,00,000.

Pass necessary Journal Entries for the above transactions in the books of the firm on M's retirement.

[Ans. Revalution Loss ₹ 54,150 .]

COMMERCE RAMA

Concept no.5

Questions

Q.12).A, B and C were partners sharing profits and losses in the ratio of 5 : 3 : 2. Following was their Balance Sheet as at 31st March, 2023 :

Liabilities		₹	Assets		₹
Sundry Creditors		1,20,000	Cash at Bank		34,000
Capital A/cs :			Sundry Debtors	1,50,000	
A	4,00,000		Less : Provision for		
B	2,50,000		Doubtful		
C	1,50,000	8,00,000	Debts	9,000	1,41,000
			Stock		1,45,000
			Plant		2,00,000
			Land and Building		4,00,000
		9,20,000			9,20,000

A retires on this date and the following adjustments were agreed upon :

(i) Bad Debts amounting to ₹ 10,000 were to be written off and provision for doubtful debts be maintained at existing rate.

(ii) An unrecorded creditor of ₹20,000 will be taken inter account.

(iii) Provision is to be made for legal damages amounting to ₹25,000.

(iv) There is a liability for ₹ 15,000 for outstanding salaries.

(v) Sundry creditors be reduced by ₹8,000 being a liability not payable.

(yi) Stock be increased by ₹ 15,000 and Plant is to be reduced to ₹ 1,80,000.

Pass journal entries to give effect to above adjustments and prepare Revaluation Account.

[Ans. Loss on Revaluation ₹66,400]

END OF CONCEPT.NO-5

Concept no.

6 Treatment of Reserves and Accumulated Profits/Losses