Concept no.9

Capital Adjustments

# Capital Adjustments

v.imp.

A. When Total Capital of the New Firm is given

B. When existing total capital of remaining partners is to be in New Ratio

C. When Total Capital of New Firm is equal to Total Capital before Retirement of a Partner

D. When the Retiring Partner is to be paid from amount brought by the remaining partners in a manner to make their Capitals Proportionate to New Profit-sharing Ratio

E. When the Retiring Partner is to be paid from amount brought by the remaining partners in a manner to make their Capitals Proportionate to New Profit-sharing Ratio and also leave a desired Cash/Bank Balance

# Concept no.9 (Sub Concept-A)

**Questions**

**Q.23)** On 31st March, 2023, the Balance Sheet of Saman, Harish and Meeta who were sharing profits and losses in the ratio of 2 : 3 : 2, stood as follows :

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capitals : Saman | 10,00,000 | | Land and Buildings | 19,00,000 |
| Harish | 15,00,000 | | Machinery | 5,00,000 |
| Meeta | 10,00,000 | 35,00,000 | Furniture | 7,70,000 |
| Workmen Compensation Reserve | | 8,40,000 | Closing Stock | 5,00,000 |
| Sundry Creditors | | 5,10,000 | Sundry Debtors | 7,00,000 |
| | | | Cash | 4,80,000 |
| | | 48,50,000 | | 48,50,000 |

On 31st March, 2023, Harish retired from the firm and the remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities as follows :
(i) Land and buildings be appreciated by 20%. (ii) Machinery be depreciated by 20%.
(iii) Closing stock be valued at ₹4,50,000.
(iv) Provision for Doubtful Debts be made at 5% on Debtors.
(v) Sundry creditors of ₹65,000 be written off.
(vi) Goodwill of the firm be valued at ₹5,60,000 and Harish's share of the goodwill be adjusted in the accounts of Saman and Meeta who will share the future profits and losses in the ratio of 3 : 2.
(vii) The total capital of the newly constituted firm will be ₹35,00,000, which will be adjusted by opening Current Accounts.(viii) Amount due to Harish was settled by accepting a bill of exchange in his favor payable after 4 months.Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm on Harish's retirement.

**[Ans. Profit on Revaluation ₹2,60,000; Bills Payable accepted ₹22,11,428; Capital A/cs : Saman ₹21,00,000 and Meeta ₹ 14,00,000;Current A/cs Saman (Dr.) ₹9,61,714 and Meeta (Dr.) ₹1,49,714; B/S Total ₹61,56,428]**

COMMERCE RAMA

# Concept no.9 (Sub Concept-A)

**Questions**

**Q.24)** The Balance Sheet of X, Y and Z who were sharing profit in proportion of capitals is as follows :

| Liabilities | ₹ | Assets | | ₹ |
|---|---|---|---|---|
| Sundry Creditors | 7,000 | Cash at Bank | | 15,600 |
| **Capital A/cs:** | | S. Debtors | 5,000 | |
| X | 25,000 | Less: Provision | 100 | 4,900 |
| Y | 20,000 | Stock | | 10,000 |
| Z | 15,000 | Plant and Machinery | | 11,500 |
| | | Land and Building | | 25,000 |
| | 67,000 | | | 67,000 |

Y retires and the following adjustments of the assets and liabilities have been made before the ascertainment of the amount payable by the firm to Y:
(i) That the stock be depreciated by 5%. (ii) That the provision for doubtful debts be increased to 5% on debtors.(iii) That the land and building be appreciated by 20%.
(iv) That a provision of ₹750 be made in respect of outstanding legal charges.
(v) That the Goodwill of the entire firm be fixed at ₹ 16,200 and Y's share of the same be adjusted into the Accounts of X and Z.
(vi) That X and Z decide to share future profits of the firm in equal proportion.
(vii) That the entire capital of the new firm is fixed at ₹48,000 between X and Z in equal proportions.
For the purpose, actual cash is to be brought in or paid off.
You are required to prepare the Revaluation Account, Partner's Capital Accounts, Bank account and revised balance sheet after Y's retirement. Also indicate the gaining ratio. **[Ans. Profit on Revaluation ₹3,600; Y's Loan Account ₹26,600; Capital A/cs–X ₹24,000 and Z ₹24,000; Cash withdrawn by X ₹1,150; and cash brought in by Z ₹ 12,150; Bank Balance – ₹26,600; Balance Sheet total ₹82,350.]**

COMMERCE RAMA

# Concept no.9 (Sub Concept-B)

**Questions**

**Q.25)** Ajay, Vijay and Sanjay are partners in a firm sharing profits and losses in the ratio of 5 : 4 : 3. Vijay retires. After making all adjustments relating to revaluation, goodwill and accumulated profits, etc. the capital account of Ajay showed a credit balance of ₹2,00,000 and that of Sanjay ₹ 1,00,000. It was decided to adjust the capitals of Ajay and Sanjay in their profit sharing ratio. You are required to calculate the new capital of the partner's and record necessary entry for surplus/deficit.

**[Ans. . Ajay will withdraw ₹ 12,500 and Sanjay will bring in ₹ 12,500]**

COMMERCE RAMA

# Concept no.9 (Sub Concept-C)

**Questions**

**Q.26)** Following is the Balance Sheet of Kusum, Sneh and Usha as at 31 st March 2023, who have agreed to share profits and losses in proportion of their capitals.

as at 31st March, 2022

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capitals : | | | Land and Building | | 4,00,000 |
| Kusum : | 4,00,000 | | Machinery | | 6,00,000 |
| Sneh : | 6,00,000 | | Closing Stock | | 2,00,000 |
| Usha : | 4,00,000 | 14,00,000 | Sundry Debtors | 2,20,000 | |
| Employee's Provident Fund | | 70,000 | Less : Provision for | | |
| Workmen Compensation | | | Doubtful debts | 20,000 | 2,00,000 |
| Reserve | | 30,000 | Cash at Bank | | 2,00,000 |
| Sundry' Creditors | | 1,00,000 | | | |
| | | 16,00,000 | | | 16,00,000 |

On 31st March, 2023 Kusum desired to retire from the firm and the remaining partners decided to carry on the business.
It was agreed to revalue the assets and re-assess the liabilities on that date, on the following basis :
(i) Land and Building be appreciated by 30%. (ii) Machinery be depreciated by 30%.
(iii) There were Bad debts of ₹35,000.(iv) The claim on account of Workmen Compensation Reserve was estimated at ₹15,000. (v) Goodwill of the firm was valued at ₹2,80,000 and Kusum's share of goodwill was adjusted against the Capital Accounts of the continuing partners Sneh and Usha who have decided to share future profits in the ratio of 3 : 4 respectively.
(vi) Capital of the new firm in total will be the same as before the retirement of Kusum and will be in the new profit sharing ratio of the continuing partners.
(vii) Amount due to Kusum be settled by paying ₹ 1,00,000 in cash and balance by transferring to her loan A/c which will be paid later on.Prepare Revaluation Account, Capital Accounts Partners.

**[Ans. Loss on Revaluation ₹75,000; Kusum's Loan A/c ₹3,62,857; Final Capitals of Sneh ₹6,00,000 and Usha ₹8,00,000; Amount brought in by Sneh ₹25,715 and Usha ₹4,97,142; Bank balance ₹6,22,857; B/S Total ₹19,47,857**

# Concept no.9 (Sub Concept-D)

**Questions**

**Q.27)** P, Q and R were partners sharing profits and losses in the ratio of 5 : 3 : 2 respectively. As at 31st March, 2023 the Balance Sheet of the firm stood as follows :

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Sundry Creditors | | 5,300 | Fixed Assets | 25,000 |
| Expenses Outstanding | | 700 | Stock | 11,000 |
| Reserve | | 3,000 | Book Debts | 9,000 |
| Capitals : | | | Cash at Bank | 2,000 |
| P | 20,000 | | | |
| Q | 10,000 | | | |
| R | 8,000 | 38,000 | | |
| | | 47,000 | | 47,000 |

On this date Q decided to retire and for this purpose :
(a) Goodwill was valued at ₹ 19,000;
(b) Fixed assets were valued at ₹30,000;
(c) Stock was considered as worth ₹ 10,000.
Q was to be paid through cash, brought in by P and R, in such a way as to make their capitals proportionate to their new profit sharing ratio which was to be P 3/5 and R 2/5.
Record these matters in the journal of the firm and prepare the resultant Balance Sheet.
**[Ans. Profit on revaluation ₹4,000; Amount paid to Q ₹ 17,800; Capital A/cs: P ₹27,000, R ₹ 18,000 and Balance Sheet total ₹51,000; Gaining Ratio 1 : 2]**

COMMERCE RAMA

# Concept no.9 (Sub Concept-E)

**Questions**

**Q.28)** A. B and C were equal partners. Their Balance Sheet as at 31st March, 2023 was as under :

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| B/P | | 20,000 | Bank | | 20,000 |
| Creditors | | 40,000 | Stock | | 20,000 |
| General Reserve | | 30,000 | Furniture | | 28,000 |
| P/L | | 6,000 | Debtors | 45,000 | |
| Capitals : | | | Less : RBDD | 5,000 | 40,000 |
| A | 60,000 | | Land & Building | | 1,20,000 |
| B | 40,000 | | | | |
| C | 32,000 | 1,32,000 | | | |
| | | 2,28,000 | | | 2,28,000 |

B retired on 1st April, 2023. A and C decided to continue the business sharing profits in the ratio of 3 : 2. Following terms were agreed :

(a) Goodwill of the firm was valued at ₹57,600. (b) Reserve for bad and doubtful debts to be maintained at 10% on debtors.(c) Land and building to be increased to ₹ 1,32,000.

(d) Furniture to be reduced by ₹8,000.

(e) Rent outstanding (not provided for as yet) was ₹ 1,500.

Remaining partners decided to bring sufficient cash in the business to pay off B and to maintain a bank balance of ₹24,800. They also decided to readjust their capitals as per their new profit sharing ratio.Prepare necessary Ledger Accounts and Balance Sheet.

**[Ans. Profit on Revaluation : ₹3,000; Cash paid to B ₹72,200; Final Capitals A ₹ 1,05,480 and C ₹70,320; A brings in ₹47,840 and C brings in ₹29,160;B/S Total ₹2,37,300]**

COMMERCE RAMA

# END OF CONCEPT.NO-9

# END OF CHAPTER-5