ELITE COMMERCE MINDS
COMMERCE RAMA

Concept no.7

Adjustment of Capital

When the remaining partners of a partnership firm want to reconstitute the firm by introducing new capital or changing their capital balances to align with a new profit-sharing ratio, there are specific methods they can follow. These methods ensure fairness and transparency in the reallocation of capital.

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Questions

Q.18). Ajay, Salil and Ravi were partners in a firm sharing profits in the ratio of 5 :3 :2. Ajay died on 20th February, 2024 . The Balance Sheet of the firm on that date was as follows:

Liabilities		₹	Assets	₹
Creditors		19,000	Machinery	41,000
General Reserve		20,000	Furniture	6,000
Loan by Ajay		7,000	Stock	9,000
Capital A/cs:			Debtors	15,000
Ajay	12,000		Cash	3,000
Salil	16,000		Profit & Loss A/c	10,000
Ravi	10,000	38,000		
		84,000		84,000

According to the Partnership Deed, on the death of a partner, the executor of the deceased partner will be entitled to:(i) Balance in Capital Account.
(ii) His share in profit/loss on revaluation of assets and reassessment of liabilities which were as follows:
(a) Machinery is to be revalued at ₹ 45,000 and furniture at ₹ 7,000.
(b) A provision of 10% was to be created for Doubtful Debts.
(iii) The amount payable to Ajay was transferred to his Executors' Loan Account which was to be paid later. Prepare Revaluation Account, Partners' Capital Accounts, Ajay's Executors' Account and the Balance Sheet of Salil and Ravi who decided to continue the business keeping their capital balances in their new profit- sharing ratio. Any surplus or deficit was to be transferred to Current Accounts of the partners.
[Ans.: Revaluation Profit—₹ 3,500; Ajay's Executors' Loan—₹ 25,750; Partners' Capital Account Balances:
Salil—₹ 19,650;Ravi—₹ 13,100; Current Account Balances: Salil—₹ 400 (Cr.); Ravi—₹ 400 (Dr.);
Total of Balance Sheet—₹ 77,900.]

Concept no.7

Q.19). Akul, Bakul and Chandan were partners in a firm sharing profits in the ratio of 7:2:1. Balance Sheet of the firm as on 31st March, 2024 was as follows:

Liabilities		₹	Assets	₹
Capitals:			Goodwill	40,000
Akul	70,000		Land and Building	60,000
Bakul	20,000		Machinery	40,000
Chandan	10,000	1,00,000	Stock	7,000
General Reserve		20,000	Debtors	12,000
Loan from Bakul		30,000	Cash	5,000
Creditors		14,000		
		1,64,000		1,64,000

Bakul died on 24th August, 2024. Partnership Deed provides for the settlement of claims on the death of a partner in addition to his capital as under:

(i) Share of profit of the deceased partner to be computed up to the date of death on the basis of average net profit of the past three years. Average net profit of past three years was ₹ 80,000.

(ii) His share in profit/loss on revaluation of assets and re-assessment of liabilities which were as follows:

Land and Building was revalued at ₹ 94,000, Machinery at ₹ 38,000 and Stock at ₹ 5,000. A provision of 21/2 was to be created on debtors for doubtful debts.

(iii) Net amount payable to 'Bakul's executors was transferred to his Loan Account, to be paid later on.

Prepare Revaluation Account, Partners' Capital Accounts, Bakul's Executor's Account and Balance Sheet of Akul and Chandan who decided to continue the business keeping their capital balances in their new profit-sharing ratio. Any surplus or deficit to be transferred to Current Accounts of the partners.

[Ans.: Revaluation Profit—₹ 29,700; Bakul's Executors' —₹ 58,340; Partners' Capital Account Balances:
Akul—₹ 76,790;Chandan—₹ 10,970; Total of Balance Sheet—₹ 1,60,820.]

Concept no.7

Questions

Q.20) 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 die on the balance sheet date 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 death Also indicate the gaining ratio.

[Ans. Profit on Revaluation ₹3,600; Y's Executor'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.]

END OF CONCEPT.NO-7

ELITE COMMERCE MINDS

COMMERCE RAMA

Concept no.

8 Section 37 of the Indian Partnership Act