

**VALUATION OF GOODWILL, CHANGE IN RATIO & ADMISSION OF A PARTNER**

1. Profit or loss on revaluation of assets is transferred to Partners' Capital account in which ratio?

- a) Equally
- b) Profit sharing ratio
- c) Fixed capital ratio
- d) Current capital ratio

2. Goodwill of a firm is affected by its:

- (a) Location
- (b) Nature of business
- (c) Degree of competition
- (d) All of above

3. The excess amount which the firm gets on selling its business over and above the net value is

- (a) Surplus
- (b) Super profit
- (c) Capital Reserve
- (d) Goodwill

4. Jeetu and Vijay are partners in a firm sharing profits and losses in the ratio of 6 : 5.

Balance Sheet (Extract)

Liabilities	Amt. (₹)	Assets	Amt. (₹)
		Motor Cycle	40,000

If value of Motor cycle in the balance sheet is undervalued by 20%, then at what value will the M. cycle be shown in the New balance sheet

- (a) ₹48,000
- (b) ₹50,000
- (c) ₹53,000
- (d) ₹65,000

5. Weighted average profit method of calculating goodwill is used when:

- (a) Profits are not equal
- (b) Profits show a trend
- (c) Profits are fluctuating
- (d) None of the above

6. Capital invested in a firm is ₹5,00,000. Normal rate of return is 10%. Average profit of the firm are ₹64,000(after an abnormal loss of 4,000). Value of goodwill at four times the super profits will be:

- (a) Rs.72,000
- (b) Rs. 40,000
- (c) Rs. 2,40,000
- (d) 1,80,000

7. Any change in the relationship of existing partners which results in an end of the existing agreement and enforces making of new agreement is called:

- (a) Revaluation of partnership
- (b) Reconstitution of partnership
- (c) Realisation of partnership
- (d) None of the above

8. Increase and decrease in the value of assets and liabilities are recorded through:

- (a) Partners' Capital Account
- (b) Revaluation Account
- (c) Profit and Loss Appropriation Account
- (d) Balance Sheet

9. In which of the following cases, revaluation account is credited?

- (a) Decrease in value of liability
- (b) Increase in value of liability
- (c) Decrease in value of asset
- (d) No change in value of liability

10. A and B are partners in a firm sharing profits in the ratio of 3 : 2. They decided to share future profits equally. Calculate A's gain or sacrifice

- (a) 2/10 (sacrifice)
- (b) 5/10 (gain)
- (c) 1/10 (Gain)
- (d) 1/10 (sacrifice)

11. R; S and T sharing profits and losses in the ratio of 1:2:3, decided to share future profit and losses equally. They also decided to adjust the following accumulated profits, losses and reserves without affecting their book figures, by passing a single adjustment entry:

General Reserve	40000
Profit and Loss A/c	30000
Share Issue expenses	10000

The necessary adjustment entry will be:

- (a) Dr. R and Cr. T by ₹ 10,000
- (b) Dr. T and Cr. R by ₹ 10,000
- (c) Dr. S and Cr. R by ₹ 10,000
- (d) Dr. R and Cr. S by ₹ 10,000

12. U V and W are partners sharing profits in the ratio of 2:3:5. They also decide to record the effect of the following revaluations and reassessments without affecting the book values of assets and liabilities by passing a single adjustment entry:

	Book Value (Rs)	Revised Value (Rs)
Land and Building	3,00,000	3,50,000
Furniture	1,50,000	1,00,000
Sundry Creditors	60,000	20,000
Outstanding Salaries	10,000	15,000

The single adjustment entry will

- (a) Dr. W and Cr. U by ₹10,500
- (b) Dr. U and Cr. W by ₹10,500
- (c) Dr. V and Cr. U by ₹10,500
- (d) Dr. W and Cr. V by ₹10,500

13. X,Y and Z are partners sharing profits and losses in the ratio of 5:3:2.They decide to share the future profits in the ratio of 3:2:1. Workmen compensation reserve appearing in the balance sheet on the date if no information is available for the same will be:

- (a) Distributed among the partners in old profit sharing ratio
- (b) Distributed among the partners in new profit sharing ratio
- (c) Distributed among the partners in capital ratio
- (d) Carried forward to new balance sheet without any adjustment

14. A, B and C were partners in a firm sharing profits in the ratio of 3:4:1. They decided to share profits equally w.e.f from 1.4.2019. On that date the profit and loss account showed the credit balance of 96,000. Instead of closing the profit and loss account, it was decided to record an adjustment entry reflecting the change in profit sharing ratio. In the journal entry:

a) Dr. A by 4,000; Dr. B by 16,000; Cr C by 20,000

b) Cr. A by 4,000; Cr. B by 16,000; Dr C by 20,000

c) Cr. A by 16,000; Cr. B by 4,000; Dr C by 20,000

d) Dr. A by 16,000; Dr. B by 4,000; Cr C by 20,000

15. Himanshu and Naman share profits & losses equally. Their capitals were Rs. 1,20,000 and Rs. 80,000 respectively. There was also a balance of Rs. 60,000 in General reserve and revaluation gain amounted to Rs. 15,000. They admit friend Ashish with 1/5 share. Ashish brings Rs. 90,000 as capital. Calculate the amount of goodwill of the firm.

(a) Rs. 1,00,000

(b) Rs. 85,000

(c) Rs. 20,000

(d) None of the above

16. Yash and Manan are partners sharing profits in the ratio of 2:1. They admit Kushagra into partnership for 25% share of profit. Kushagra acquired the share from old partners in the ratio of 3:2. The new profit sharing ratio will be:

(a) 14:31:15

(b) 3:2:1

(c) 31:14:15

(d) 2:3:1

17. A and B are partners sharing profit and losses in ratio of 5:3. C is admitted for 1/4<sup>th</sup> share. On the date of reconstitution, the debtors stood at Rs 40,000, bill receivable stood at Rs. 10,000 and the provision for doubtful debts appeared at Rs. 4000. A bill receivable, of Rs 10,000 which was discounted from the bank, earlier has been reported to be dishonored. The firm has sold, the debtor so arising to a debt collection agency at a loss of 40%. If bad debts now have arisen for Rs 6,000 and firm decides to maintain provisions at same rate as before then amount of Provision to be debited to Revaluation Account would be:

- (a) Rs 4,400
- (b) Rs 4,000
- (c) Rs 3,400
- (d) None of the above

18. As per -----, only purchased goodwill can be shown in the Balance Sheet.

- (a) AS 37
- (b) AS 26
- (c) Section 37
- (d) AS 37

19. A, and B are partners sharing profits in the ratio of 2:3. Their balance sheet shows machinery at ₹2,00,000; stock ₹80,000, and debtors at ₹1,60,000. C is admitted and the new profit sharing ratio is 6:9:5. Machinery is revalued at ₹1,40,000 and a provision is made for doubtful debts @5%. A's share in loss on revaluation amount to ₹20,000. Revalued value of stock will be:

- (a) ₹62,000
- (b) ₹1,00,000
- (c) ₹60,000
- (d) ₹98,000

20. At the time of admission of a partner, Employees Provident Fund is:

- (a) Distributed to partners in the old profit sharing ratio
- (b) Distributed to partners in the new profit sharing ratio
- (c) Adjusted through gaining ratio
- (d) None of the above

21. At the time of admission, if there is an unrecorded liability, it will be \_\_\_\_\_ to \_\_\_\_\_ account.

- (a) Debited, Revaluation
- (b) Credited, Revaluation
- (c) Debited, Goodwill
- (d) Credited, Partners' Capital

22. The firm of P, Q and R with profit sharing ratio of 6:3:1, had the balance in General Reserve Account amounting Rs. 1,80,000. S joined as a new partner and the new profit sharing ratio was decided to be 3:3:3:1. Partners decide to keep the General Reserve unchanged in the books of accounts. The effect will be:

- (a) P will be credited by Rs. 54,000
- (b) P will be debited by Rs. 54,000
- (c) P will be credited by Rs. 36,000
- (d) P will be credited by Rs. 36,000

23. Premium brought by newly admitted partner should be:

- (a) Credited to sacrificing partners
- (b) Credited to all partners in the new profit sharing ratio
- (c) Credited to old partners in the old profit sharing ratio
- (d) Credited to only gaining partners

24. Sacrificing ratio is calculated because:

- a) Profit shown by Revaluation Account can be credited to sacrificing partners
- b) Goodwill brought in by the incoming partner can be credited to the new partner
- c) Goodwill brought in by the incoming partner can be credited to the sacrificing partners
- d) Both a and c

25. Revaluation Account is a ----- Account.

- a) Real
- b) Nominal
- c) Personal
- d) Liability

26. X, and Y are partners sharing profits in the ratio of 2:1. On 31<sup>st</sup> March, 2019, their Balance Sheet stood as follows: Balance Sheet (As on 31<sup>st</sup> March, 2019)

Liabilities	Amt. in ₹	Assets	Amt. in ₹
<u>Capital A/cs:</u>	6,00,000	Plant & Machinery	1,40,000
X : 3,20,000		Goodwill	60,000
Y : 2,80,000		Furniture	50,000
Creditors	45,000	Building	2,00,000
Workmen's Compensation Fund	15,000	Stock	60,000
Investment Fluctuation Fund	6,000	Debtors	40,000
Outstanding Expenses	9,000	Investment	50,000
General Reserve	12,000	Bank	50,000
		Cash	37,000
	6,87,000		6,87,000

On the above date, Z admitted for  $\frac{1}{4}$  shares in the following terms:

1. Z brought in cash ₹ 2,50,000 share of capital and necessary amount in cash for share of goodwill.
2. Goodwill valued at ₹ 90,000.
3. Plant & Machinery valued at ₹ 1,30,000 and furniture depreciated by 10%.
4. Stock was undervalued by ₹ 5,000.
6. Building appreciated by ₹ 26,000.
7. A creditor of ₹ 2,000 not likely to claim.

XI You are required to pass necessary Journal entries OR prepare Revaluation Account and Partners Capital Accounts.

27. Capital of the firm of Sharma and Varma is ₹ 2,00,000 and the market rate of interest is 15%. Annual salary to partners is ₹ 12,000 each. The profits for the last three years were ₹ 60,000; ₹ 72,000 and ₹ 84,000. Goodwill is to be valued at 2 years purchase of last 3 years average super profit. Calculate goodwill of the firm.

28. A business has earned average profit of ₹ 4,00,000 during the last few years and the normal rate of return in similar business is 10%. Find value of goodwill by:

(i) Capitalisation of Super Profit Method, and

(ii) Super Profit Method if the goodwill is valued at 3 years purchase of super profits.

Assets of the business were ₹ 40,00,000 and its external liabilities ₹ 7,20,000.

29. On 1 April 2018, an existing firm had assets of ₹75,000 including cash of ₹5,000. Its creditors amounted to ₹5,000 on that date. The firm had a Reserve of ₹10,000 while Partner's capital accounts showed a balance of ₹60,000. If normal rate of return is 20% and the goodwill of the firm is valued at ₹24,000 at four year's purchase of super profit, find average profit per year for the existing firm.

30. On 1 April 2018, a firm had assets of ₹1,00,000 excluding stock of ₹20,000. The current liabilities were ₹10,000 and the balance constituted Partner's Capital Accounts. If the normal rate of return is 8%, the goodwill of the firm is valued at ₹60,000 at four year's purchase of super profit, find the actual profits of the firm.

31. X, Y and Z are sharing profits and losses in the ratio of 5 : 3 : 2 . They decided to share future profits and losses in the ratio of 2 : 3 : 5 with effect from 1st April, 2018. They also decided to record the effect of the following accumulated profits, losses and reserves without affecting their book values by passing a single entry.

	<i>Book Value(₹)</i>
General Reserve	6,000
Profit and Loss A/c ( Credit)	24,000
Advertisement Suspense A/c	12,000

Pass an Adjustment Entry.

32. X, Y and Z who are presently sharing profits and losses in the ratio of 5 : 3 : 2 decide to share future profits and losses in the ratio of 2 : 3 : 5 . with effect from 1st April, 2018. Workmen Compensation Reserve appears at ₹ 1,20,000 in the Balance Sheet as at 31st March, 2018 and Workmen Compensation Claim is estimated at ₹ 1,50,000. Pass journal entries for the accounting treatment of Workmen Compensation Reserve.

33. Nitin, Tarun and Amar are partners sharing profits equally and decide to share profits in the ratio of 2 : 2 : 1 w.e.f . 1st April, 2018. The extract of their Balance Sheet as at 31st March, 2018 is as follows:

Liabilities	₹	Assets	₹
Investments Fluctuation Reserve	60,000	Investments (At Cost)	4,00,000

Pass the journal entries in each of the following situations:

- When its Market Value is not given;
- When its Market Value is given as ₹ 4,00,000;
- When its Market Value is given as ₹ 4,24,000;
- When its Market Value is given as ₹ 3,70,000;
- When its Market Value is given as ₹ 3,10,000.

34. Bharati and Astha were partners sharing profits in the ratio of 3 : 2. They admitted Dinkar as a new partner for 1/5th share in the future profits of the firm which he got equally from Bharati and Astha. Calculate the new profit-sharing ratio of Bharati, Astha and Dinkar.

35. Give Journal entries to record the following arrangements in the books of the firm:

- B and C are partners sharing profits in the ratio of 3 : 2. D is admitted paying a premium (goodwill) of ₹ 2,000 for 1/4th share of the profits, shares shares of B and C remain as before.
- B and C are partners sharing profits in the ratio of 3 : 2. D is admitted paying a premium of ₹ 2,100 for 1/4th share of profits which he acquires 1/6th from B and 1/12th from C.

36. A and B were partners in a firm sharing profits in 3 : 1 ratio. They admitted C as a partner for 1/4th share in the future profits. C was to bring ₹60,000 for his capital. The Balance Sheet of A and B as at 1st April, 2019, the date on which C was admitted, was:

Liabilities			Assets	
Capital A/cs:			Land and Building	40,000
A	50,000		Plant ad Machinery	70,000
B	80,000	1,30,000	Stock	30,000
General Reserve		10,000	Debtors	35,000
			<i>Less:</i>	
			Provision for Doubtful	
Creditors		70,000	Debts	1,000
			Investments	26,000
			Cash	10,000
		<b>2,10,000</b>		<b>2,10,000</b>

The other terms agreed upon were:

- Goodwill of the firm was valued at ₹24,000.
- Land and Building were valued at ₹65,000 and Plant and Machinery at ₹60,000.
- Provision for Doubtful Debts was found in excess by ₹400.



- (d) A liability of ₹1,200 included in Sundry Creditors was not likely to arise.  
 (e) The capitals of the partners be adjusted on the basis of C's contribution of capital to the firm.  
 (f) Excess of shortfall, if any, be transferred to Current Accounts.  
 Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm.

37. Shikhar and Rohit were partners in a firm sharing profits in the ratio of 7 : 3. On 1st April, 2013, 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, 2013 was as follows:

**BALANCE SHEET OF SHIKHAR AND ROHIT as at 1st April, 2013**

Liabilities	`	Assets	`
Capital A/cs:		Land and Building	3,50,000
Shikhar           8,00,000		Machinery	4,50,000
Rohit <u>3,50,000</u>	11,50,000	Debtors           2,20,000	
General Reserve	1,00,000	Less: Provision <u>20,000</u>	2,00,000
Workmen's Compensation Fund	1,00,000	Stock	3,50,000
Creditors	1,50,000	Cash	1,50,000
	<b>15,00,000</b>		<b>15,00,000</b>

It was agreed that:

- (a) the value of Land and Building will be appreciated by 20%.  
 (b) the value of Machinery will be depreciated by 10%.  
 (c) the liabilities of Workmen's Compensation Fund were determined at ` 50,000.  
 (d) 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 Balance Sheet of the new firm.

38. Raghu and Rishu are partners sharing profits in the ratio 3 : 2. Their Balance Sheet as at 31st March, 2009 was as follows:

**BALANCE SHEET OF RAGHU AND RISHU  
as at 31st March, 2009**

Liabilities	`	Assets	`
Creditors	86,000	Cash in Hand	77,000
Employees' Provident Fund	10,000	Debtors           42,000	
Investments Fluctuation Reserve	4,000	Less: Provision for Doubtful Debts <u>7,000</u>	35,000
Capital A/cs:		Investments	21,000
Raghu           1,19,000		Buildings	98,000
Rishu <u>1,12,000</u>	2,31,000	Plant and Machinery	1,00,000
	<b>3,31,000</b>		<b>3,31,000</b>

Rishabh was admitted on that date for 1/4th share of profit on the following terms:

- Rishabh will bring ₹ 50,000 as his share of capital.
- Goodwill of the firm is valued at ₹ 42,000 and Rishabh will bring his share of goodwill in cash.
- Buildings were appreciated by 20%.
- All Debtors were good.
- There was a liability of ₹ 10,800 included in Creditors which was not likely to arise.
- New profit-sharing ratio will be 2 : 1 : 1.
- Capital of Raghu and Rishu will be adjusted on the basis of Rishabh's share of capital and any excess or deficiency will be made by withdrawing or bringing in cash by the concerned partners as the case may be.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm.

39. Following is the Balance Sheet of Abha and Binay as at 31st March, 2014:

Liabilities		₹	Assets		₹
Creditors		13,000	Bank		15,000
Employees Provident Fund		8,000	Debtors	22,000	
Workmen Compensation Fund		15,000	Less : Provision for Doubtful Debts	1,000	21,000
Capital A/cs:			Stock		10,000
Abha	55,000		Plant and Machinery		60,000
Binay	30,000	85,000	Goodwill		10,000
			Profit and Loss		5,000
		<b>1,21,000</b>			<b>1,21,000</b>

Chitra was admitted as a partner for 1/4th share in the profits of the firm. It was decided that:

- Bad Debts amounted to ₹ 1,500 will be written off.
- Stock worth ₹ 8,000 was taken over by Abha and Binay at Book Value in their profit-sharing ratio. The remaining stock was valued at ₹ 2,500.
- Plant and Machinery and Goodwill were valued at ₹32,000 and ₹20,000 respectively.
- Chitra brought her share of goodwill in cash.
- Chitra will bring proportionate capital and the capitals of Abha and Binay will be adjusted in their profit-sharing ratio by bringing in or paying off cash as the case may be.

Prepare Revaluation Account and Partners' Capital Accounts.

## Answers

1. b
2. d
3. d
4. b
5. b
6. a
7. b
8. b
9. a
10. d
11. a
12. b
13. a
14. b
15. b
16. c
17. c
18. b
19. c
20. d
21. a
22. a
23. a
24. c
25. b
26. **Solution:**

### Journal Entry

Date	Particulars	L.F.	Dr.	Cr.
2019	General Reserve A/c Dr.		12,000	
March	Workmen's Compensation Reserve A/c (15,000 - 9,000) Dr.		6,000	
31	Investment Fluctuation Fund Dr.		6,000	
	To X's Capital A/c			16,000
	To Y's Capital A/c			8,000
	(Being balance of accumulated profits transferred in 2:1)			
	X's Capital A/c Dr.		40,000	
	Y's Capital A/c Dr.		20,000	
	To Goodwill A/c			60,000
	(Being existing goodwill written off in 2:1 ratio)			
	Cash A/c Dr.		2,72,500	
	To Z's Capital A/c			2,50,000
	To Premium for Goodwill A/c			22,500
	(Being cash brought in by Z for share of capital & premium)			

Premium for Goodwill A/c	Dr.	22,500	
To X's Capital A/c			15,000
To Y's Capital A/c			7,500
Being premium of goodwill transferred in sacrificing ratio)			
Revaluation A/c	Dr.	15,000	
To Furniture A/c			5,000
To Plant & Machinery A/c			10,000
(Being loss on revaluation)			
Stock A/c	Dr.	5,000	
Building A/c	Dr.	26,000	
Creditor A/c	Dr.	2,000	
To Revaluation A/c			33,000
(Being gain on revaluation)			
Revaluation A/c	Dr.	18,000	
To X's Capital A/c			12,000
To Y's Capital A/c			6,000
(Being gain on revaluation transferred in 2:1 ratio)			

**OR**

**Revaluation Account**

Particulars	Amt. in ₹	Particulars	Amt. in ₹
Furniture A/c	5,000	Stock A/c	5,000
Plant & Machinery A/c	10,000	Building A/c	26,000
Capital A/cs:	18,000	Creditor A/c	2,000
X : 12,000			
Y : 6,000			
	33,000		33,000

**Capital Account**

Particulars	X	Y	Z	Particulars	X	Y	Z
Goodwill	40,000	20,000		Balance b/d	3,20,000	2,80,000	
Balance c/d	3,23,000	2,81,500	2,50,000	Cash A/c			2,50,000
				General Res.	8,000	4,000	
				WCF	4,000	2,000	
				IFF	4,000	2,000	
				Premium for g/w	15,000	7,500	
				Revaluation A/c	12,000	6,000	
	3,63,000	3,01,500	2,50,000		3,63,000	3,01,500	2,50,000

**Balance Sheet (After Reconstitution)**

Liabilities	Amt. in ₹	Assets	Amt. in ₹
<u>Capital A/cs:</u>	8,54,500	Plant & Machinery	1,30,000
X : 3,23,000		Furniture	45,000
Y : 2,81,500		Building	2,26,000
Z : 2,50,000		Stock	65,000
Creditors	43,000	Debtors	40,000
Workmen's Compensation Fund	9,000	Investment	50,000
Outstanding Expenses	9,000	Bank	50,000
		Cash (37,000 + 2,50,000 + 22,500)	3,09,500
	9,15,500		9,15,500

27.

Goodwill = Super Profit × Number of Years Purchase

Normal Profit = Capital Investment ×  $\frac{\text{Normal Rate Return}}{100}$

$$= 2,00,000 \times \frac{15}{100} = ₹30,000$$

Year	Profit before Partners' Salary	-	Partners' Salary	=	Actual Profit after Salary
1	60,000	-	24,000	=	36,000
2	72,000	-	24,000	=	48,000
2	84,000	-	24,000	=	60,000

Average Actual Profit after Salary Partners

$$= \frac{36,000 + 48,000 + 60,000}{3}$$

$$= \frac{1,44,000}{3}$$

$$= ₹48,000$$

Super Profit = Average Actual Profit after Salaries – Normal Profit

$$= 48,000 - 30,000$$

$$= ₹18,000$$

Number of years purchase = 2

Super Profit = ₹18,000

∴ Goodwill = Super Profit × Number of Years Purchase

∴ Goodwill = 18,000 × 2

$$= ₹36,000$$

28.

**Given:**

Average Profit = Rs.4,00,00

Normal Rate of Return = 10%

(i) Goodwill by Capitalisation of super profit

Capital Employed = Assets - External Liabilities = 40,00,000 - 7,20,000 = Rs.32,80,000

Normal Profit = Capital Employed  $\times \frac{\text{Normal Rate of Return}}{100}$

$$= 32,80,000 \times \frac{10}{100}$$

$$= ₹3,28,000$$

Super Profit = Actual Profit - Normal Profit = 4,00,000 - 3,28,000 = Rs.72,000

Goodwill = Super Profits  $\times \frac{100}{\text{Normal Rate of Return}}$

$$\text{Goodwill} = 72,000 \times \frac{100}{10}$$

= Rs.7,20,000

(ii) Super Profit Method if the goodwill is valued at 3 years purchase of super profits

Goodwill = Super Profits  $\times$  Number of Years of Purchase

$$= 72,000 \times 3$$

$$= ₹2,16,000$$

Therefore, Goodwill is valued at Rs.2,16,000

29. Goodwill = Super Profits  $\times$  No of years purchase

Super Profits = Actual/ Average Profit – Normal Profit

Capital employed = 60,000 + 10,000 = 70,000

Normal Profit = Capital Employed  $\times \frac{20}{100} = 70,000 \times \frac{20}{100}$

$$= 14,000$$

24,000 = Super Profits  $\times 4$ , Super Profits = 24,000/4 = 6,000

6,000 = Average Profits – 14,000, Average Profits = 14,000 + 6,000 = 20,000

30. Capital Employed = 1,00,000 + 20,000 – 10,000 = 1,10,000

Normal Profits = 1,10,000 X 8/100 = 8,800

Goodwill = Super Profits X No of years purchase

60,000 = Super Profit X 4, Super Profits = 60,000/4 = 15,000

Super Profits = Actual Profits – Normal Profits

15,000 = Actual Profits – 8,800, Actual Profits = 15,000 + 8,800 = 23,800

31.

**Journal**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Z's Capital A/c To X's Capital A/c	Dr.	5,400	5,400
	(Being adjustment for General Reserve, Profit and Loss account and Advertisement Suspense account made on change in PSR)			

**Working notes :**

1.

Net amount to be adjusted = General Reserve + Profit and Loss A/c (Credit) - Adjustment Suspense A/c

Net amount to be adjustment = 6,000 + 24,000 - 12,000 = Rs.18,000

2.

**Calculation of Sacrificing (or Gaining) Ratio**

Old Ratio (X, Y and Z) = 5 : 3 : 2

New Ratio (X, Y and Z) = 2 : 3 : 5

Sacrificing (or gaining) Ratio = Old Ratio - New Ratio

$$X's \text{ Share} = \frac{5}{10} - \frac{2}{10} = \frac{3}{10} \text{ (Sacrifice)}$$

$$Y's \text{ Share} = \frac{3}{10} - \frac{3}{10} = \text{Nil}$$

$$Z's \text{ Share} = \frac{2}{10} - \frac{5}{10} = \frac{-3}{10} \text{ (Gain)}$$

$$\text{Credited to X's Capital} = 18,000 \times \frac{3}{10} \text{ (Sacrifice)} = ₹5,400$$

$$\text{Credited to Z's Capital} = 18,000 \times \frac{3}{10} \text{ (Gain)} = ₹5,400$$

32.

**Journal**

Sr. No.	Particulars	L.F.	Debit Rs.	Credit Rs.
(i)	Workmen Compensation Reserve A/c Revaluation A/c To Provision for W.C. Claim A/c (Being provision created and shortfall charged to Revaluation account)	Dr. Dr.	1,20,000 30,000	1,50,000
(ii)	X's Capital A/c Y's Capital A/c Z's Capital A/c To Revaluation A/c (Being loss on revaluation transferred to Partner's Capital account)	Dr. Dr. Dr.	15,000 9,000 6,000	30,000

33.

**Journal**

Sr. No.	Particulars	L.F.	Debit Rs.	Credit Rs.
(i)	Investment Fluctuation Reserve A/c To Nitin's Capital A/c To Tarun's Capital A/c To Amar's Capital A/c (Being Investment Fluctuation Reserve distributed)	Dr.	60,000	20,000 20,000 20,000
(ii)	Investment Fluctuation Reserve A/c To Nitin's Capital A/c To Tarun's Capital A/c To Amar's Capital A/c (Being Investment Fluctuation Reserve distributed)	Dr.	60,000	20,000 20,000 20,000
(iii)	Investment Fluctuation Reserve A/c To Nitin's Capital A/c To Tarun's Capital A/c To Amar's Capital A/c (Being Investment Fluctuation Reserve distributed)	Dr.	60,000	20,000 20,000 20,000
	Investments A/c To Revaluation A/c (Being investment revalued)	Dr.	24,000	24,000
	Revaluation A/c To Nitin's Capital A/c To Tarun's Capital A/c To Amar's Capital A/c (Being revaluation profit transferred to partners' Capital A/c)	Dr.	24,000	8,000 8,000 8,000



(iv)	Investment Fluctuation Reserve A/c To Investment A/c To Nitin's Capital A/c To Tarun's Capital A/c To Amar's Capital A/c (Being investment Fluctuation Reserve distributed)	Dr.		60,000	30,000 10,000 10,000 10,000
(v)	Investment Fluctuation Reserve A/c Revaluation A/c To Investment A/c (Being decrease in investment set off against IFR and balance debited to Revaluation A/c)	Dr. Dr.		60,000 30,000	90,000
	Nitin's Capital A/c Tarun's Capital A/c Amar's Capital A/c To Revaluation A/c (Being loss on revaluation transferred to Partner's Capital)	Dr. Dr. Dr.		10,000 10,000 10,000	30,000

34.

Old Ratio between Bharti and Astha = 3 : 2

$$\text{Dinkar} = \frac{1}{5}$$

$$\text{Bharti's sacrifice} = \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$$

$$\text{Astha's sacrifice} = \frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$$

$$\text{Bharti's new share} = \frac{3}{5} - \frac{1}{10} = \frac{6}{10} - \frac{1}{10} = \frac{5}{10}$$

$$\text{Astha's new share} = \frac{2}{5} - \frac{1}{10} = \frac{4}{10} - \frac{1}{10} = \frac{3}{10}$$

$$\text{Dinkar's new share} = \frac{1}{5} \times \frac{2}{2} = \frac{2}{10}$$

$$\text{Bharti : Astha : Dinkar} = 5 : 3 : 2$$

35.

(a)

**Journal**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Cash A/c <span style="float: right;">Dr.</span> To Premium for Goodwill A/c (Being premium for goodwill brought in by D)		2,000	2,000
	Premium for Goodwill A/c <span style="float: right;">Dr.</span> To B's Capital A/c To C's Capital A/c (Being premium for goodwill distributed between B and C in sacrificing ratio i.e. 3:2)		2,000	1,200 800

**Working Note:**

Distribution of premium for Goodwill

$$\text{B's Goodwill} = 2,000 \times \frac{3}{5} = ₹1,200$$

$$\text{C's Goodwill} = 2,000 \times \frac{2}{5} = ₹800$$

(b)

**Journal**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Cash A/c <span style="float: right;">Dr.</span> To Premium for Goodwill A/c (Being premium for goodwill brought by D in cash)		2,100	2,100
	Premium for Goodwill A/c <span style="float: right;">Dr.</span> To B's Capital A/c To C's Capital A/c (Being premium for goodwill distributed between B and C in sacrificing ratio i.e. 2:1)		2,100	1,400 700

**Working Note:**

1.

$$\text{Sacrificing Ratio B and C} = \frac{1}{6} : \frac{1}{12} = \frac{2}{12} : \frac{1}{12} = 2:1$$

2.

Distribution of Premium for Goodwill-

$$\text{B's Goodwill} = 2,100 \times \frac{2}{3} = ₹1,400$$

$$\text{C's Goodwill} = 2,100 \times \frac{1}{3} = ₹700$$

36.

**Revaluation Account**

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
Plant and Machinery (70,000 – 60,000)	10,000	Land and Building (65,000 – 40,000)	25,000
Profit transferred to A Capital	12,450	Provision for Doubtful Debts	400
B Capital	4,150	Creditors	1,200
	<b>26,600</b>		<b>26,600</b>

**Partners' Capital Accounts**

Dr.				Cr.			
Particulars	A	B	C	Particulars	A	B	C
Balance c/d				Balance b/d	50,000	80,000	
				General Reserve	7,500	2,500	
				Revaluation ( <i>Profit</i> )	12,450	4,150	
	74,450	88,150	60,000	Cash			60,000
	<b>74,450</b>	<b>88,150</b>	<b>60,000</b>	C's Current A/c	4,500	1,500	
B's Current A/c		43,150			<b>74,450</b>	<b>88,150</b>	<b>60,000</b>
Balance c/d				Balance b/d	74,450	88,150	60,000
(Adjusted)	1,35,000	45,000	60,000	A's Current A/c	60,550		
	<b>1,35,000</b>	<b>88,150</b>	<b>60,000</b>		<b>1,35,000</b>	<b>88,150</b>	<b>60,000</b>

**Balance Sheet**

*as on April 01, 2019 after C's admission*

Liabilities		Amount	Assets		Amount
Creditors (70,000 – 1,200)		68,800	Land and Building		65,000
Capital A/cs:			Plant and Machinery		60,000
A	1,35,000		Stock		30,000
B	45,000		Debtors	35,000	
C	60,000	2,40,000	<i>Less: Prov. for Doubtful</i>		
B's Current A/c		43,150	Debts	600	34,400
			Investments		26,000
			Cash		70,000
			A's Current A/c		60,550

		C's Current A/c	6,000
	<b>3,51,950</b>		<b>3,51,950</b>

**Working Notes:**

**WN1**

	A	B
OLD RATION	3 :	1
SACRIFICING RATIO	3 :	1

**WN2**

c's of goodwill =  $24,000 \times 1/4 = 6,000$

A will get =  $6,000 \times 3/4 = 4,500$

B will get =  $6,000 \times 1/4 = 1,500$

As C has not brought his share of goodwill in cash, hence, his share shall be debited to his current account.

**WN3 Distribution of Revaluation Profit**

A will get =  $16,600 \times 3/4 = 12,450$

B will get =  $16,600 \times 1/4 = 4,150$

**WN4 Adjustment of Capital**

Total Capital of the firm after C's admission	=	$60,000 \times 4$	=	2,40,000
Less: C's Capital			=	<u>60,000</u>
Combined Capital of A and B			=	<u><u>1,80,000</u></u>

A's proportion of capital =  $1,80,000 \times 3/4 = 1,35,000$

B's proportion of capital =  $1,80,000 \times 1/4 = 45,000$

**WN5**

**Cash Account**

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
Balance b/d	10,000	Balance c/d	70,000
C's Capital	60,000	(Balancing Figure)	
	<b>70,000</b>		<b>70,000</b>

37.

**Revaluation Account**

Dr.		Amount	Cr.	
Particulars			Particulars	
Machinery		45,000	Land and Building	70,000
Profit transferred to:				
Shikhar's Capital				
A/c	17,500			
Rohit's Capital				
A/c	7,500	25,000		
		<b>70,000</b>		<b>70,000</b>

**Partners' Capital Accounts**

Dr.				Cr.			
Particulars	Shikhar	Rohit	Kavi	Particulars	Shikhar	Rohit	Kavi
Balance c/d	9,40,000	4,10,000	4,30,000	Balance b/d	8,00,000	3,50,000	
				General Reserve	70,000	30,000	
				Workmen's Compensation Fund	35,000	15,000	
				Cash A/c			4,30,000
				Premium for Goodwill	17,500	7,500	
				Revaluation A/c (Profit)	17,500	7,500	
	<b>9,40,000</b>	<b>4,10,000</b>	<b>4,30,000</b>		<b>9,40,000</b>	<b>4,10,000</b>	<b>4,30,000</b>
Cash A/c	37,000	23,000		Balance b/d	9,40,000	4,10,000	4,30,000
Balance c/d	9,03,000	3,87,000	4,30,000				
	<b>9,40,000</b>	<b>4,10,000</b>	<b>4,30,000</b>		<b>9,40,000</b>	<b>4,10,000</b>	<b>4,30,000</b>

**Balance Sheet**

*as on April 01, 2013 after Kavi's admission*

Liabilities	Amount	Assets	Amount
Liability for Workmen's Compensation Creditors	50,000	Land and Building	4,20,000
	1,50,000	Machinery	4,50,000

Capitals:			<i>Less:</i>		
Shikhar	9,03,000		Depreciation @ 10%	45,000	4,05,000
Rohit	3,87,000		Debtors	2,20,000	
Kavi	4,30,000	17,20,000	<i>Less:</i>		
			Provision	20,000	2,00,000
			Stock		3,50,000
			Cash		5,45,000
		<b>19,20,000</b>			<b>19,20,000</b>

### Calculation of Profit Sharing Ratio:

A    B  
**OLD RATION    3 : 1**

**Kavi's share=1/4**

Let total capital =1

Remaining share of the firm=1-1/4=3/4

Shikhar's new share=  $7/10 \times 3/4 = 21/40$

Rohit's new share=  $3/10 \times 3/4 = 9/40$

New profit sharing ratio =  $21/40 : 9/40 : 1/4$   
= 21:9:10

Sacrificing Ratio = Old ratio - new ratio

Shikhar =  $7/10 - 21/40 = 7/40$

Rohit =  $3/10 - 9/40 = 3/40$

Sacrificing Ratio = 7:3

### **WN1: Distribution of Goodwill brought in by Kavi:**

Shikhar will get =  $25,000 \times 7/10 = 17,500$

Rohit will get =  $25,000 \times 3/10 = 7,500$

### **WN2: Distribution of Workmen's Compensation Fund**

Shikhar will get =  $50,000 \times 7/10 = 35,000$

Rohit will get =  $50,000 \times 3/10 = 15,000$

### **WN3: Distribution of General Reserve:**

Shikhar will get =  $1,00,000 \times 7/10 = 70,000$

Rohit will get =  $1,00,000 \times 3/10 = 30,000$

### **WN4: Adjustment of Capital:**

Total capital of the firm = capital brought by new partner  $\times$  reciprocal of share  
capital brought by kavi = 4,30,000

Total capital of the firm =  $4,30,000 \times 4/1 = 17,40,000$

Shikhar's new of capital =  $17,40,000 \times 21/40 = 9,03,000$

Rohit's new of capital =  $17,40,000 \times 9/40 = 3,87,000$

38.

**Revaluation Account**

Dr.			Cr.
Particulars	Amount	Particulars	Amount
Profit on Revaluation transferred to- Raghu's Capital A/c	22,440	Building	19,600
		Provision for Doubtful Debts (Old)	7,000
Rishu's Capital A/c	14,960	Liability for Creditors	10,800
	<b>37,400</b>		<b>37,400</b>

**Partners' Capital Account**

Dr.				Cr.			
Particulars	Raghu	Rishu	Rishabh	Particulars	Raghu	Rishu	Rishabh
Cash A/c (Bal. Fig.)	48,040	84,860		Balance b/d	1,19,000	1,12,000	
Balance c/d	1,00,000	50,000	50,000	Cash A/c Investment Fluctuation Fund	2,400	1,600	50,000
				Premium for Goodwill	4,200	6,300	
				Revaluation A/c (Profit)	22,440	14,960	
	<b>1,48,040</b>	<b>1,34,860</b>	<b>50,000</b>		<b>1,48,040</b>	<b>1,34,860</b>	<b>50,000</b>

**Balance Sheet**  
*as on March 31, 2009*

<b>Liabilities</b>	<b>Amount</b>	<b>Assets</b>	<b>Amount</b>
Creditors	86,000	Cash ( <del>WN4</del> )	4,600
<i>Less:</i>			
Liability	(10,800)	Debtors	42,000
Employees Provident Fund	10,000	Investments	21,000
Capital A/cs:		Buildings (98,000 + 19,600)	1,17,600
Raghu	1,00,000	Plant and Machinery	1,00,000
Rishu	50,000		
Rishabh	50,000		
	<b>2,00,000</b>		
	<b>2,85,200</b>		<b>2,85,200</b>

**Working Notes:**

**WN 1** *Calculation of Sacrificing Ratio*

Old Ratio = 3 : 2

New Ratio = 2 : 1 : 1

Sacrificing Ratio = Old ratio – New Ratio

Raghu =  $3/5 - 2/4 = 10 - 12/20 = 2/20$

Rishu =  $2/5 - 1/4 = 8 - 5/20 = 3/20$

Sacrificing Ratio = 2:3

**WN 2** *Share of Rishabh's Share of Goodwill*

Value of Firm's Goodwill = 42,000

Rishabh's share of goodwill =  $42,000 \times 1/4 = 10,500$

**WN 3** *Adjustment of Capital*

Total Capital of New Firm = Rishabh's Capital  $\times$  Reciprocal of Rishabh's Share

Capital of Rishabh = ` 50,000

Total capital of the firm = capital brought by new partner  $\times$  reciprocal of share

Total capital of the firm =  $50,000 \times 4/1 = 2,00,000$

Raghu's new capital =  $2,00,000 \times 2/4 = 1,00,000$

Rishu's new capital =  $2,00,000 \times 1/4 = 50,000$

**WN 4** Cash Account



**Cash Account**

<b>Dr.</b>	<b>Amount</b>		<b>Cr.</b>
<b>Particulars</b>	<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>
Balance b/d	77,000	Raghu's Capital	48,040
Rishabh's Capital	50,000	Rishu's Capital	84,860
Premium for Goodwill	10,500	Balance c/d	4,600
	<b>1,37,500</b>		<b>1,37,500</b>

39.

**Revaluation Account**

<b>Dr.</b>	<b>Amount</b>		<b>Cr.</b>
<b>Particulars</b>	<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>
Bad debts	500	Stock	500
Plant and Machinery	28,000	Loss on Revaluation	
		Abha's Capital A/c	14,000
		Binay's Capital A/c	14,000
			<u>28,000</u>
	<u>28,500</u>		<u>28,500</u>

**Partners' Capital Accounts**

<b>Dr.</b>					<b>Cr.</b>		
<b>Particulars</b>	<b>Abha</b>	<b>Binay</b>	<b>Chitra</b>	<b>Particulars</b>	<b>Abha</b>	<b>Binay</b>	<b>Chitra</b>
Revaluation	14,000	14,000		Balance b/d	55,000	30,000	
Goodwill	5,000	5,000		Bank			18,000
Profit and Loss	2,500	2,500		Premium for Goodwill	2,500	2,500	
Stock	4,000	4,000		WCF	7,500	7,500	
Balance c/d	39,500	14,500	18,000				
	<b>65,000</b>	<b>40,000</b>	<b>18,000</b>		<b>65,000</b>	<b>40,000</b>	<b>18,000</b>
Bank	12,500			Balance c/d	39,500	14,500	18,000
Balance c/d (adjusted)	27,000	27,000	18,000	Bank		12,500	
	<b>39,500</b>	<b>27,000</b>	<b>18,000</b>		<b>39,500</b>	<b>27,000</b>	<b>18,000</b>

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**Working Notes:**

**WN1 Calculation of Chitra's Capital**

Chitra's Capital=Total Adjusted Capital of Abha and Binay×Reciprocal of Combined Profit Share × Chitra's Profit Share

Abha's Adjusted Capital =55,000+2,500+7,500-14,000-5,000-2,500-4,000= ₹39,500

Binay's Adjusted Capital=30,000+2,500+7,500-14,000-5,000-2,500-4,000= ₹14,500

Chitra's Capital=(39,500+14,500)× $\frac{1}{43}$ ×14= ₹18,000

**WN2 Calculation of New Capital**

New Capital=Total Adjusted Capital×Respective Partner's Profit Share

Abha's New Capital=(39,500+14,500)× $\frac{12}{43}$ = ₹27,000

Binay's New Capital=(39,500+14,500)× $\frac{12}{43}$ = ₹27,000

**WN3 Calculation of Chitra's Share of Goodwill**

Chitra's Share=Firm's Goodwill×Chitra's Profit Share

=20,000× $\frac{14}{43}$ = ₹5,000

₹5,000 will be shared between Abha and Binay in sacrificing ratio 1:1