ADMISSION OF A PARTNER

RATIO

Sacrificing Ratio

Old Ratio- New Ratio

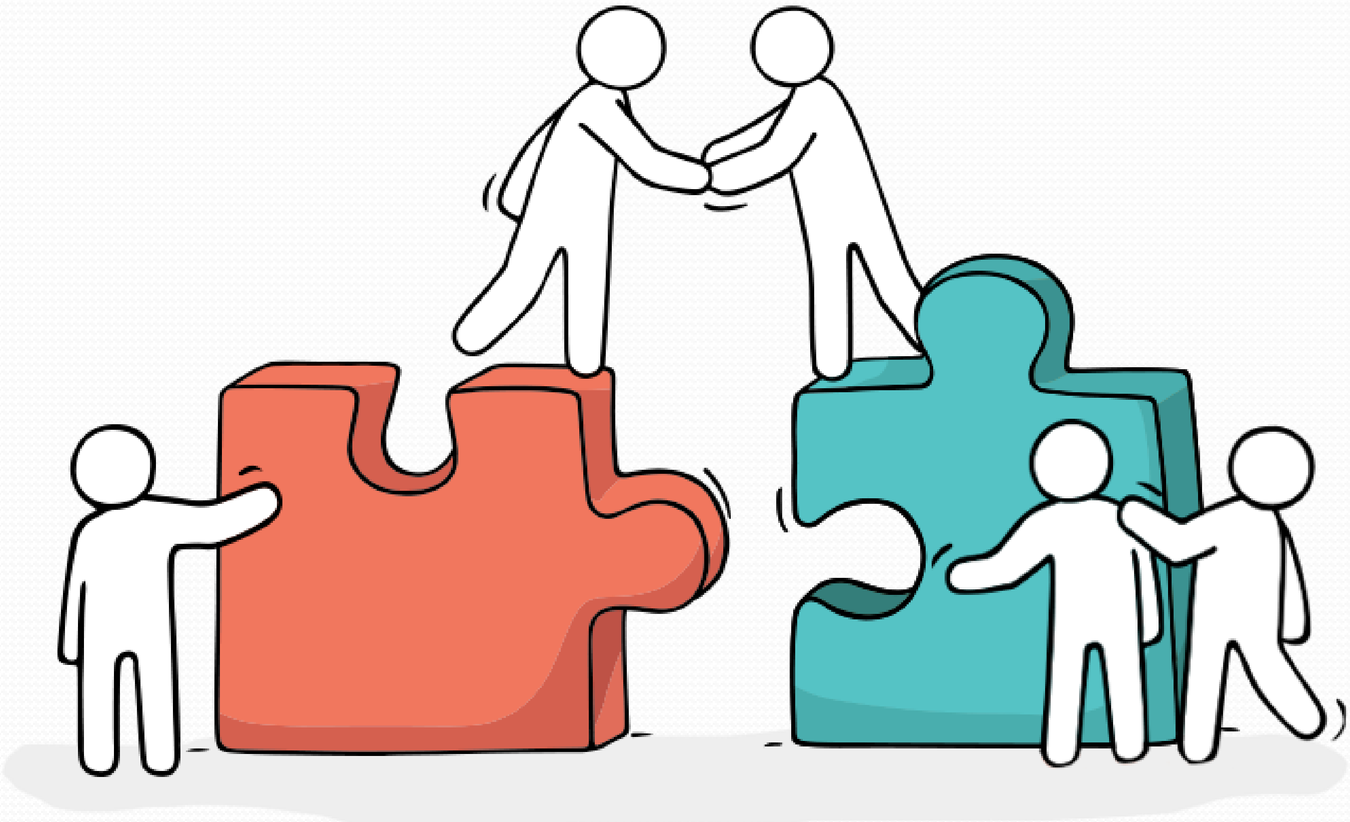
New Ratio

Old Ratio – Sacrificing Ratio

- SACRIFICING RATIO- **Sacrificing ratio** refers to the **ratio** in which the old partners surrender their share of profit in favor of new partner/s

GOODWILL AND TREATMENT

- **Goodwill** is an intangible and not fictitious asset that **accounts** for the excess purchase price of another company.



Case (a) When goodwill is paid privately/ outside business

- No entry required

Case (b) When the New partner bring his share of goodwill

OR When the amount of Premium brings in cash and retained in business.

Journal entry

Date	Particular	L.F	Dr.	Cr.
	■ **<u>If New Partner beings his share of goodwill in cash</u>** Premium for Goodwill A/c (New Partner share goodwill) Dr. Gaining Partner Capital/Current A/c (If old partner gain his share) Dr. To Sacrificing Partner Capital/Current A/c (being the share of New partner in firm's goodwill credited to sacrificing partner in their sacrificing Ratio)			

Case (c) When goodwill appear in old balance sheet

Journal entry

Date	Particular	L.F	Dr.	Cr.
	■ **<u>of Goodwill Appeared in old B/s</u>** Old Partner Capital/Current A/c Dr. To Goodwill A/c---- (old partner ,old ratio) (being the existing goodwill written off in old Ratio)			
	■ Cash/Bank A/c (with capital & share of goodwill) Dr. To new Partner Capital A/c (If capital brings in cash) To Premium for Goodwill A/c (If good will of new partner share brings in cash) (being the amount brought in by New partner)			

Case (d) If New Partner does not brings his share of Goodwill

Journal entry

Date	Particular	L.F	Dr.	Cr.
	New Partner's Capital /Current A/c (only New Partner share goodwill) Dr. Gaining Partner Capital /Current A/c (If old partner gain his share) Dr. To Sacrificing Partner Capital /Current A/c (being the share of New partner in firms goodwill credited to sacrificing partners in their sacrificing Ratio)			

Case (e) If New Partner brings in only Part of share of Goodwill

Journal entry

Date	Particular	L.F	Dr.	Cr.
	Premium for Goodwill A/c (whatever brings in cash) Dr. New Partner Capital /Current A/c (with unpaid share of goodwill) Dr. Gaining Partners Capital /Current A/c (If old Partner Gain his share) Dr. To Sacrificing Partner Capital/Current A/c (being the share of New partner in firm's goodwill credited to sacrificing partners in their sacrificing Ratio)			

Case (f) If Goodwill withdrawn by sacrificing Partners

Journal entry

Date	Particular	L.F	Dr.	Cr.
	Sacrificing Partner Capital/Current A/c (To the extent of withdrawn) Dr. To Cash /Bank A/c (Being the goodwill brought n by New partner withdrawn by sacrificing partner .sacrificing Ratio)			

Case (g) When the New Partner brings his goodwill in kind

Journal entry

Date	Particular	L.F	Dr.	Cr.
	1st Record Assets brought by Incoming partner Assets A/c Individually) Dr. To New Partner's Capital A/c (with the amount of capital brought in) To Premium for Goodwill A/c (with the share of goodwill brought in)			

2nd Give credit for Incoming Partner's full share of goodwill to sacrificing partner in sacrificing Ratio.

Journal entry

Date	Particular	L.F	Dr.	Cr.
	Premium for Goodwill A/c (with the share of goodwill brought in) Dr. Gaining Partner Capital/Current A/c (If old partner Gain his share) Dr. To Sacrificing Partners Capital/Current A/c			

Case (h) When goodwill is hidden

when value of the goodwill of the firm is not given then the value of goodwill has to be calculated on the basis of the Net worth of the firm as under

(A) **Net Worth (Including Goodwill)**:- on the basis of the contribution mode by New partner

(B) **Net Worth (Excluding Goodwill)** Capital of all partner (Including New)

OR

Sunday Assets (at Revalued Figures)- Out side Liabilities (At Revalued Figure)

OR

Capital of All Partner (Total Including New) (+) Accumulated Profit (+) Rev Profit (-) Accumulated Loss (-) Rev Loss

(C) **Value of Goodwill** = A-B

REVALUATION ACCOUNT

is a nominal **account**, also known as Profit & Loss Adjustment **Account**, prepared to record the re-valued figure of assets and liabilities at the time of change in profit sharing ratio among the existing partners.

Revaluation A/c

Particular	Dr. Amount	Particular	Cr. Amount
To Decrease in Assets		By Increase in Assets	
To Increase in Liability		By Decrease in Liability	
To Depreciation		By Appreciation	
To O/S Expense		By O/S Income or Accrued Income	
To Income Received in Advance		By unexpired Or prepaid Exp	
To Reserve Fund & Provision (made or created or Increased)		By Reserve & Fund & Provision (Reduced Or Decreased)	
To Provision for Discount ion Debtors		By Provision for Discount on creditors	
To unrecorded liability		By unrecorded Assets	
To provision for contingencies Or unforeseen Liability			
To Profit on Rev A/c [B.F.]		**By Loss on Rev A/c [B.F.]**	

Date	Particular	L.F	Dr.	Cr.
	➢ **For Increase in the value of Assets** Concerned Assets A/c Dr. To Revaluation A/c (being the Increase in the value of an assets recorded)			
	➢ **For Decrease in the value of Assets** Revaluation A/c Dr. To Concerned Assets A/c (Being the decrease in the value of An Assets recorded)			
	➢ **For Increase in the amount of Liability** Revaluation A/c Dr. To Concerned Liability A/c (being the decrease in the amount of a Liability recorded)			
	➢ **For Decrease in the amount of a Liability** Concerned Liability A/c Dr. To Revaluation A/c (being the decrease in the amount of a Liability recorded)			
	➢ **For Recording an unrecorded Assets** Unrecorded Assets A/c Dr. To Revaluation A/c (being an agreed value of an unrecorded assets brought into A/c)			
	➢ **For Recording an Unrecorded Liability** Revaluation A/c Dr. To unrecorded Liability A/c (being an agreed amount of unrecorded Liability brought into A/c)			
	➢ **If Loss** Old partner's capital/ current A/c Dr. To Revaluation A/c (being Loss on Rev. A/c T/f to partner capital/current A/c in old Ratio)			
	➢ **If Profit** Revaluation A/C Dr. To Old Partner's Capital / Current A/C (Being profit on Rev A/C T/F to partners capital/ current a/c in old ratio)			

Accounting Treatment of Reserve, Accumulated Profit /Losses

OLD BALANCE SHEET

Reserve, Accumulated Profit OR Losses

OLD PARTENERS (OLD RATIO)

ACCUMULATED PROFIT

For T/f of Reserve and Accumulated Profit(Given in Balance Sheet Liabilities Side)

- Distributed in Old Partners – Old Ratio

Journal entry

Date	Particular	L.F	Dr.	Cr.
	Reserve Or Reserve Fund or General Reserve Dr. Or Reserve for Contingencies A/c Dr. Profit & Loss A/c or Accumulated Profit A/c Dr. Investment Fluctuation Fund A/c Dr. Workman Compensation Fund A/c Dr. Joint Life Policy Reserve or Fund A/c Dr. To old Partner's Capital/Current A/c (being the reserve & Profit T/f to old Partner in their old ratio)			

ACCUMULATED LOSS

For T/f of accumulated Losses (Given in Balance Sheet Assets Side)

- Distributed in Old Partners – Old Ratio

Journal entry

Date	Particular	L.F	Dr.	Cr.
	Old Partner capital/current A/c Dr. To Profit & Loss A/c Or Accumulated Loss To Loss in Business To Deferred Revenue Expenditure A/c To Preliminary expenses A/c To Misc. Expenditure A/c To Advertisement Suspense Written off A/c (being accumulated Losses T/f to old Partner in their old ratio)			

LET THERE BE PARTNER A AND B. THEY ADMIT PARTNER C.

PARTNER’S CAPITAL ACCOUNT

Particular	A	B	C	Particular	A	B	C
Bal b/d (If capital of old Partners given in Assets side)				Balance b/d (capital of old Partners given in Liabilities side)			
Goodwill (appeared in old B/s – Assets (old Partners old Ratio)				Cash/Bank A/c (If New Partners bring capital in cash			
				Premium for Goodwill A/c (If New partners bring capital in cash) (sacrificing Partners, sacrificing Ratio)			
				C’s Current A/c (If New Partners does not bring goodwill in cash (sacrificing partners sacrificing Ratio)			
Cash A/c (Drawings) Sacrificing Partners, sacrificing Ratio							
Revaluation A/c (Loss) (old Partners old Ratio)				Revaluation A/c (Profit) old Partners, old Ratio			
Accumulated loss (Given in B/s – Assets side) (old Partners old Ratio)				Accumulated Profit/Reserve (Given in B/s-Liabilities) old partners old Ratio			
Assets A/c (If old partners taken the Assets)				Liabilities A/c (If old partners taken the Liabilities)			
Bal c/d (B F)							

CAPITAL ADJUSTMENT

PARTNERS CAPITAL A/c

Particular	A	B	C	Particular	A	B	C
				Balance b/d			
Cash A/C (B.F) (Excessive Capital—Cash Paid off)				Cash A/c (B.F.) (Shortage/ Deficiencies of Capital—Cash brought in)			

CASH BOOK

Cash or bank A/c

Particular	Dr. ₹	Particular	Cr. ₹
To Bal b/d[For cash balance If cash A/c prepare]		By sacrificing partner capital A/c[Goodwill withdrawn]	
To Bank A/c [For Bank Balance]		By Bank A/c [If Loan paid]	
To Bal b/d [For Bank Balance If Bank A/c prepare]		By partner capital A/c[If capital Adj - surplus]	
To cash A/c [For cash Balance]			
To New partner capital [If brings in cash]			
To Premium A/c [If Goodwill business cash]			
To partner's capital [If capital Adjusted shortage]		By Bal C/d [B.F]	

PRACTICE QUESTIONS

- RULES FOR LIABLITIES
- RULES FOR ASSETS
- RULES FOR BALANCE SHEET
- RULE FOR UNRECORDED ASSET AND LIABILITY
- RULE FOR OUTSTANDING EXPENSE AND INCOME
- RULE FOR PREPAID EXPENSE AND INCOME
- RULE FORPROVISION/RESERVE/FUND ADJUSTMENT
- RULE FOR PROVISION FOR DOUBTFUL DEBT
- RULE FOR WORKMEN COMPENSATION FUND
- RULE FOR INVESTMENT FLUCTUATION RESERVE

RULES FOR LIABLITIES

PROBLEN—1.

Balance Sheet.

Liabilities	₹	Assets	₹
O/S Expenses	2,000		
Sundry Creditor	15,000		

Dr.	Revaluation A/c	Cr.
	₹	
To Increase in Liability		By Decrease in Liability

Balance Sheet		
Liabilities	₹	Assets
Concerned Liability Add: Increase Less: Decrease		

- Adjustment.1:-Liability were proved at 23,000 one bill for goods purchased having been omitted from books.

Dr.	Revaluation A/c	Cr.
	₹	
To Sundry Creditor	8,000	

Balance Sheet			
Liabilities		₹	Assets
Sundry Creditor	15,000		
Add Omitted Creditor	8,000	23,000	

- Adjustment.2:-A Liability for 1,000 included in sundry creditor was not likely to arise.

Dr.	Revaluation A/c	Cr.
		₹
	By sundry creditor	1,000

Balance Sheet			
Liabilities		₹	Assets
Sundry Creditor	15,000		
Less written back creditor	1,000	14,000	

- Adjustment.3:-An item of 650 Included in S. creditor was not likely to be claimed and hence should be written back

Dr.	Revaluation A/c	Cr.
		₹
	By s. creditor	650

Balance Sheet		
Liabilities	₹	Assets
Sundry Creditor 15,000 Less written back creditor 650	14,350	

- Adjustment.4:-Good purchased on credit from a supplier had been admitted the amount being 650

Dr.	Revaluation A/c	Cr.
	₹	
To s. creditor	650	

Balance Sheet		
Liabilities	₹	Assets
Sundry Creditor 15,000 Add omitted creditor 650	15.650	

- Adjustment.5:-It was found that the creditor included a sum of 1,400 which was not to be paid.

Dr.	Revaluation A/c	Cr.
		₹
	By s. creditor	1,400

Balance Sheet		
Liabilities	₹	Assets
Sundry Creditor 15,000 Less written back creditor 1,400	13,600	

- Adjustment.6:-An amount of 2,000 included in creditor is to be written off as there is no liability to pay the amount

Dr.	Revaluation A/c	Cr.
		₹
	By s. creditor	2,000

Balance Sheet		
Liabilities	₹	Assets
Sundry Creditor 15,000 Less written off creditor 2,000	13,000	

- Adjustment.7:-A Provision of 2% be made for Discount on creditor

Dr.	Revaluation A/c	Cr.
		₹
	By dis. On creditor	300

Balance Sheet		
Liabilities	₹	Assets
Sundry Creditor 15,000 Less dis. 300	14,700	

- Adjustment.8:-O/S Exp are to be raised by/increased by/appreciated by 3,000

ANSWER:

Dr.	Revaluation A/c	Cr.
	₹	
To o/s exp	3,000	

Balance Sheet		
Liabilities	₹	Assets
o/s exp. 2,000 add increase 3,000	5,000	

- Adjustment.9:-O/S Exp are to be raised to/increased to/appreciated to 3,000

Dr. Revaluation A/c Cr.

	₹	
To o/s exp.	1,000	

Balance Sheet

Liabilities	₹	Assets
o/s exp. 2,000 add increase 1,000	3,000	

- Adjustment.10:-O/S Exp are to be written off

Dr. Revaluation A/c Cr.

		₹
	By o/s exp.	2,000

Balance Sheet

Liabilities	₹	Assets
o/s exp 2,000 less written off 2,000	NILL	

IN CASE: LIABILITY TAKEN BY PARTNER

Balance sheet (Liabilities Side)	
Concerned Liability Add: Increase Less: Decrease Less: Partner Taken	

Partners Capital A/c Cr.	
By Liabilities	

Dr. Revaluation A/c		Cr.	
To Increase in Liability		By Decrease in Liability	

- Adjustment.11:- If Liability of 10,000 taken by Partner Anurag.

Dr. Revaluation A/c	Cr.
	No Effect

Balance Sheet			
Liabilities		₹	Assets
Sundry Creditor Less Anurag taken	15,000 10,000	5,000	

Dr.	Anurag Capital Account		Cr.
			₹
		By Sundry Creditor	10,000

- Adjustment.12:- If sundry creditor taken by Anurag at 13,000

Dr. Revaluation A/c Cr.

			₹
		By Sundry Creditor	2,000

Balance Sheet

Liabilities		₹	Assets
Sundry Creditor	15,000		
Less Decrease	2,000		
	13,000		
Less Anurag taken	13,000	NIL	

Dr. Anurag Capital Account Cr.

			₹
		By Sundry Creditor	13,000

- Adjustment.13:- If Sundry creditor taken by Anurag at 16,000

Dr. Revaluation A/c Cr.

	₹	
To Sundry Creditor	1,000	

Balance Sheet

Liabilities		₹	Assets
Sundry Creditor	15,000		
Add Increase	1,000		
	16,000		
Less Anurag taken	16,000	NIL	

Dr. Anurag Capital Account Cr.

			₹
		By Sundry Creditor	16,000

RULES FOR ASSETS

Balance Sheet.			
Liabilities	₹	Assets	₹
		Plant& Machinery	1,00,000

Dr.	Revaluation A/c		Cr.
	₹		
To Decrease in Assets		By Increase in Assets	

Balance Sheet		
Liabilities	₹	Assets
		Concerned Assets Add: Appreciation Less: Depreciation

- Adjustment.1:- value of P & M be valued at 1,25,000

Value of P&M be Increased/Appreciated to/raised to 1,25,000

Value of P&M Appreciated to/AT 125%

Dr.	Revaluation A/c	Cr.	Balance Sheet		
		₹	Liabilities	Assets	₹
	By P&M A/c	25,000		Plant& Machinery 1,00,000 Add Appreciation 25,000	1,25,000

Adjustment.2:- value of P&;M be Increased/Appreciated /raised by 1,25,000

Value of P&M be valued at 125% More

Dr.	Revaluation A/c	Cr.	Balance Sheet		
		₹	Liabilities	Assets	₹
	By P&M A/c	1,25,000		Plant& Machinery 1,00,000 Add Appreciation 1,25,000	2,25,000

- Adjustment.3:- value of P&M is under valued by 25,000

Dr.	Revaluation A/c	Cr.	Balance Sheet		
		₹	Liabilities	Assets	₹
	By P&M A/c	25,000		Plant& Machinery 1,00,000 Add Appreciation 25,000	 1,25,000

- Adjustment.4:- Value of P&M is over valued by 40,000

Dr.	Revaluation A/c	Cr.	Balance Sheet		
	₹		Liabilities	Assets	₹
To P&M A/c	40,000			Plant& Machinery 1,00,000 Less Dep. 40,000	 60,000

- Adjustment.5:-value of P&M valued at 20% Less/ decreased

Dr. Revaluation A/c Cr.			Balance Sheet		
	₹		Liabilities	Assets	₹
To P&M A/c	20,000			Plant& Machinery 1,00,000	
				Less Dep. 20,000	80,000

- Adjustment.6:- Value of R 8 M be depreciated to 20%

Dr. Revaluation A/c Cr.			Balance Sheet		
	₹		Liabilities	Assets	₹
To P&M A/c	80,000			Plant& Machinery 1,00,000	
				Less Dep. 80,000	20,000

- Adjustment.7:- P&M written off

Dr. Revaluation A/c Cr.			Balance Sheet		
	₹		Liabilities	Assets	₹
To P&M A/c	1,00,000			Plant& Machinery 1,00,000 Less dep. 1,00,000	NILL

- ASSETS TAKEN BY PARTNER

Rule:-ASSETS TAKEN BY PARTNER

Dr. Revaluation A/c		Cr.	
To Decrease in Assets		By Increase in Assets	

Partners Capital A/c Dr.	
To Assets	

Balance sheet (Assets Side)	
Concerned Assets Add: Appreciation Less: Depreciation Less: Partners Taken	

RULES FOR BALANCE SHEET

Balance Sheet.

Liabilities	₹	Assets	₹
		Plant& Machinery	1,00,000

Adjustment.1:- 30% If total P & M were taken by a partner Anurag at a Discount of 10%.

ANSWER:- 100,000 X30/100 =30,000- 30,000X10/100 (3,000) =27,000

Dr.	Revaluation A/c	Cr.
	₹	
To P&M	3,000	

Balance Sheet		
Liabilities	Assets	₹
	P& M 1,00,000 Less Depreciation 3,000 Less A.taken 27,000	70,000

- Adjustment.2:- 30% & total P&M were taken by a partner Anurag at a profit of 10%.

➢ 1,00,000 X30/100 =30,000 + 30,000X 10/100(3,000) =33,000

Balance Sheet		
Liabilities	Assets	₹
	P&M 1,00,000 Add Appreciation 3,000 1,03,000 Less A. taken 33,000	70,000

Dr.	Revaluation A/c	Cr.
		₹
	By P&M	3,000

Dr.		Anurag Capital Account	Cr.
Particular	₹	Particular	₹
To Plant & Machinery A/c	33,000		

- Adjustment.3:- 20% If total P&M were taken by partner Anurag and vivek in Profit sharing Ratio 3:2.

➢ 1,00,000 X20/100 =20,000 3:2 12,000: 8,000

Dr.	Revaluation A/c Cr.
	No Effect

Balance Sheet		
Liabilities	Assets	₹
	P&M 1,00,000 Less P. taken 20,000	80,000

Dr.			Partner Capital Account		Cr.
Particular	Anurag	Vivek	Particular	Anurag	Vivek
To Plant & Machinery A/c	12,000	8,000			

RULE FOR UNRECORDED ASSET

Revaluation A/c		Balance Sheet	
Dr.	Cr.	Liabilities	Assets
	By unrecorded assets		Concerned assets Add unrecorded assets

Problem :- B/s – no information

Adj.:- Typewriter worth ₹ 1,000 not mentioned in the B/s was to be taken into A/c

Dr.	Revaluation A/c	Cr.	Balance Sheet		
		₹	Liabilities	Assets	₹
	By unrecorded typewriter	1,000		Unrecorded typewriter	1,000

UNRECORDED LIABILITY

Revaluation A/c		Balance Sheet	
Dr.	Cr.	Liabilities	Assets
To Unrecorded Liability		Concerned Liability Add Unrecorded Liability	

Problem :- B/s – no information

Adj.:- there was a There was a unrecorded Liability ₹ 5,000

Ans:-

Dr. Revaluation A/c Cr.			Balance Sheet		
	₹		Liabilities	₹	Assets
To Unrecorded liabilities	5,000		Unrecorded liabilities	5,000	

RULE FOR OUTSTANDING EXPENSE

Revaluation A/c		Balance Sheet	
Dr.	**Cr.**	**Liabilities**	**Assets**
To O/S Expenses		O/S Expenses	

Problem:- B/s - no information

Adj. :- O/S exp. are ₹ 2,000

Ans:-

Dr.	Revaluation A/c	Cr.	Balance Sheet		
	₹		Liabilities	₹	Assets
To O/s exp.	2,000		o/s exp.	2,000	

ACCRUED INCOME

Revaluation A/c		Balance Sheet	
Dr.	**Cr.**	**Liabilities**	**Assets**
	By accrued income or o/s income		Accrued income or o/s income

Problem :- B/s – no information

Adj.:- that unaccounted accrued Income of ₹ 100 be accounted for

Ans:-

Dr.	Revaluation A/c	Cr.	Balance Sheet		
		₹	**Liabilities**	**Assets**	₹
	By o/s income	100		o/s income	100

RULE FOR PREPAID EXPENSE

Revaluation A/c		Balance Sheet	
Dr.	Cr.	Liabilities	Assets
	By prepaid exp.		Prepaid exp.

Problem :- B/s – no information

Adj.:- Insurance Premium unexpired ₹ 1,000 or that out of Insurance which was earlier debited to Profit & Loss A/c ₹ 1,000 be carried forward as unexpired Insurance.

Ans:-

Revaluation A/c			Balance Sheet		
Dr.	Cr.	₹	Liabilities	Assets	₹
	unrecorded insurance	1,000		unrecorded insurance	1,000

PREPAID INCOME

Revaluation A/c		Balance Sheet	
Dr.	Cr.	Liabilities	Assets
To income received in advance		income received in advance	

Problem :- B/s – no information

Adj.:- Income Or Commission of ₹ 500 received in Advance

Ans:-

Dr. Revaluation A/c Cr.			Balance Sheet		
	₹		Liabilities	₹	Assets
Commission received in advance	500		Commission received in advance	500	

RULE FOR PROVISION/ RESERVE/ FUND ADJUSTMENT

Revaluation A/c		Balance Sheet	
Dr.	Cr.	Liabilities	Assets
To Reserve/ Provision/ Fund Made/created OR Increased	By Reserve/ Provision/ Fund Reduced OR Decreased	Reserve/ Provision/ Fund—Present Value	

PROBLEM:- B/s – No. Information

Adjustment.1:- There being a claim against the firm for damage Liability to the extent of ₹ 1,000 should be created

ANSWER:-

Dr. Revaluation A/c		Cr.	Balance Sheet		
	₹		Liabilities	₹	Assets
To Provision for Damage Liability	1,000		Provision for Damage Liability	1,000	

Adjustment.2:- Create a Provision for Legal Damage ₹ 900

ANSWER:-

Dr. Revaluation A/c		Cr.	Balance Sheet		
	₹		Liabilities	₹	Assets
To Provision for Legal Damage	900		Provision for Legal Damage	900	

Adjustment.3:- A Liability to the extent of ₹ 2,000 be created in respect of a claim for Damage against the firm and one other Liability toward Provident Fund also be created by ₹ 3,000. WCF is created for ₹ 5,000.

ANSWER:-

Dr. Revaluation A/c		Cr.	Balance Sheet		
	₹		Liabilities	₹	Assets
To Provision for Damage Liability	2,000		Provision for Damage Liability	2,000	
To Provision for Provident Fund	3,000		Provision for Provident Fund	3,000	
To WCF	5,000		WCF	5,000	

Adjustment.2:- Provision for Bad Debts is not required as all Debtor are good.

ANSWER:-

Dr.	**Revaluation A/c**	**Cr.**	**Balance Sheet**		
		₹	**Liabilities**	**Assets**	₹
	By Provision for B/D	4,000		Sundry Debtor 50,000 Less New Reserve for B/D NILL	50,000

Adjustment.3:- Provision for Bad Debts be brought up by/Increased by ₹ 6,000

ANSWER:-

Dr.	**Revaluation A/c**	**Cr.**	**Balance Sheet**		
	₹		**Liabilities**	**Assets**	₹
To Provision for B/D	6,000			Sundry Debtor 50,000 Less New Reserve for B/D 10,000	40,000

Adjustment.4:- Provision for Bad Debts be brought up to/Increased up to ₹ 6,000

ANSWER:-

Dr.	**Revaluation A/c**	**Cr.**	**Balance Sheet**		
	₹		**Liabilities**	**Assets**	₹
To Provision for B/D	2,000			Sundry Debtor 50,000 Less New Reserve for B/D 6,000	44,000

Adjustment.5:- Provision for Bad Debts are to be reduced by/Decrease by ₹ 2,500

ANSWER:-

Dr.	**Revaluation A/c**	**Cr.**	**Balance Sheet**		
		₹	**Liabilities**	**Assets**	₹
	By Provision for B/D	2,500		Sundry Debtor 50,000 Less New Reserve for B/D 1,500	48,500

Adjustment.6:- Provision for bad debts are to be reduced to / decreased to ₹ 2,500.

ANSWER:-

Dr.	**Revaluation A/c**	**Cr.**	**Balance Sheet**		
		₹	**Liabilities**	**Assets**	₹
	By Provision for B/D	1,500		Sundry Debtor 50,000 Less New Reserve for B/D 2,500	47,500

Adjustment.7:- Write off bad debts amounting to ₹ 5,000.

ANSWER:-

Dr.	Revaluation A/c	Cr.	Balance Sheet		
	₹		Liabilities	Assets	₹
To bad debts	1,000			Sundry Debtor 50,000 Less New Reserve for B/D 5,000	45,000

Adjustment.8:- X an Old customer whose A/c was written off Bad Debts has promised to pay ₹ 3,500 in settlement of his Debt.

ANSWER:-

Dr.	Revaluation A/c	Cr.	Balance Sheet		
		₹	Liabilities	Assets	₹
	By X's A/c	3,500		Sundry Debtor 50,000 Less New Reserve for B/D 500	49,500

Adjustment.9:- Provision for Bad Debts are found to be in excess by ₹ 3,000

ANSWER:-

Dr.	Revaluation A/c	Cr.	Balance Sheet		
		₹	Liabilities	Assets	₹
	By Provision for B/D	3,000		Sundry Debtor 50,000 Less New Reserve for B/D 1,000	49,000

Adjustment.10:- Debtors be valued at ₹ 40,000

ANSWER:-

Dr.	Revaluation A/c	Cr.	Balance Sheet		
	₹		Liabilities	Assets	₹
To Provision for B/D	6,000			Sundry Debtor 50,000 Less New Reserve for B/D 10,000	40,000

Adjustment.11:- 95% Debtor are good

ANSWER:-

Dr.	Revaluation A/c	Cr.	Balance Sheet		
		₹	Liabilities	Assets	₹
	By Provision for B/D	1,500		Sundry Debtor 50,000 Less New Reserve for B/D 2,500	47,500

Adjustment.12:- Provision for Bad Debts be made up to 6% on Debtors

ANSWER:-

Dr.	Revaluation A/c	Cr.	Balance Sheet		
		₹	**Liabilities**	**Assets**	₹
	By Provision for B/D	1,000		Sundry Debtor 50,000 Less New Reserve for B/D 3,000	47,000

Adjustment.12 A:- Debtor be valued at Book value Less 5%.

ANSWER:-

Dr	Revaluation A/c	Cr.	Balance Sheet		
.	₹		**Liabilities**	**Assets**	₹
To Provision for B/D	2,300			Sundry Debtor 50,000 Less New Reserve for B/D 6,300	43,700

Balance Sheet.

Liabilities	₹	**Assets**	₹
		Debtor	35,000
		B/R	7,000

Adjustment.1:- A Provision of 5% to be created for Doubtful Debts on Debtor and B/R

ANSWER:-

Dr	Revaluation A/c	Cr.	Balance Sheet		
	₹		**Liabilities**	**Assets**	₹
To Provision for B/D	1,750			Sundry Debtor 35,000 Less New Reserve for B/D 1750	33,250
To Provision for B/R	350			B/R 7,000 Less provision for B/D 350	6,650

Balance Sheet.

Liabilities	₹	Assets	₹
		Debtor	26,460

Adjustment.1:- An old customer whose account was written off as bad has Promised to pay ₹ 2,000 in full settlement of his full Debts

ANSWER:-

Dr.	Revaluation A/c	Cr.	Balance Sheet		
		₹	Liabilities	Assets	₹
	By Provision for B/D	2,000		Debtor 26,460 Add bad debts 2,000	28,460

Balance Sheet.

Liabilities	₹	Assets	₹
		Debtor	20,000

Adjustment.1:- ₹ 2,000 out of Debtor ore bad and a provision of 5% is to be made for Bad Debts and 2% for Discount on Debtors

ANSWER:-

Dr. Revaluation A/c		Cr.	Balance Sheet		
	₹		Liabilities	Assets	₹
To Further B/D	2,000			S. debtor 20,000 Less Further B/d 2,000 18,000 Less new reserve for B/D 900 17100 Less dis. on debtor 342	16,758
To Provision for B/D	900				
To Discount on debtor	342				

Balance Sheet.

Liabilities	₹	Assets	₹
General Reserve	10,000	Sundry Debtor 50,000 Less Provision for Bad Debts 4,000	46,000

Adjustment.1:- 30% General Reserve is to remain as a provision against Bad and doubtful Debts

ANSWER:-

Dr.	Partner Capital A/c	Cr.
		₹
	By General Reserve (Old Partner, Old Ratio)	7,000

Balance Sheet

Liabilities	Assets	₹
	Sundry Debtor 50,000 Less Provision for B/D 7,000	43,000

Balance Sheet.

Liabilities	₹	Assets	₹
		Sundry Debtor 6,500 Less Provision for Bad Debt 500	6,000

Adjustment.1:- A Debtor whose due for ₹ 500 were written off as bad debts paid ₹ 400 in full settlement.

ANSWER:-

Dr.	Revaluation A/c	Cr.
		₹
	By Bank A/c /Bad Debts Recovered	4,00

Balance Sheet

Liabilities	Assets	₹
	Debtor 6,500 Less Provision for B/D 500	6,000

Entries for Bad Debts Recovered:

Bank A/c Dr. 4,00

To Bad Debts Recovered A/c 4,00

Bad Debts Recovered A/c Dr. 4,00

To Revaluation A/c 4,00

- *THERE IS NO EFFECT OF BAD DEBT RECOVERED ON DEBTORS IN BALANCE SHEET

RULE FOR PROVISION FOR DOUBTFUL DEBT

Balance Sheet

Liabilities	₹	Assets		₹
		Sundry Debtors Less Provision for Bad Debts	50,000 **4,000**	46,000

OR

Balance Sheet

Liabilities	₹	Assets	₹
Provision for Bad Debts	4,000	Sundry Debtors	50,000

RULE FOR PROVISION FOR BAD DEBTS:-

Dr. Revaluation A/c Cr.			Balance Sheet		
	₹		Liabilities	Assets	₹
To Provision for B/D (Created/ Made)		By Provision for B/D Reduced/ Decreased		Sundry Debtors 1.Less: Further B/D Balance 2.Less: New Reserve Balance 3.Less: Discount on Debtor	
To Provision for further B/D					
To Discount on Debtors					

Adjustment.1:- Provision for Bad Debts should be 10% on Debtors and Provision for Discount should also be ma on Debtor at 2%.

ANSWER:-

Dr. Revaluation A/c Cr.			Balance Sheet			
	₹		Liabilities	Assets		₹
To Provision for B/D To Discount on Debtor	1,000 900			Sundry Debtor Less New Reserve for B/D Less Discount on Debtor	50,000 5,000 45,000 900	44,100

RULE FOR WORKMEN COMPENSATION FUND

X,Y and Z are partner sharing profits & losses in the ratio of 5:3:2. They decide to admit W into partnership for 1/5th share. Show the accounting treatment in each of the following alternative cases on W's admission:(WCF-720)

Case I. If there is no other information.

Case II. If a claim on account of workman compensation is estimated at ₹ 90 only.

Case III. If a claim on account of workman compensation is estimated at ₹ 1,350.

Case. I.

Workman Compensation Reserve A/c	Dr. 720	
To X's Capital A/c		360
To Y's Capital A/c		216
To Z' Capital A/c		144
(being the WCR t/f to partners in their old profit sharing ratio)		

CASE.II.

Workman compensation reserve A/c Dr. 90

To provision for workman compensation claim A/c 90

(being the provision made for workman compensation claim)

Workman Compensation Reserve A/c	Dr. 630	
To X's Capital A/c		315
To Y's Capital A/c		189
To Z' Capital A/c		126
(being the WCR t/f to partners in their old profit sharing ratio)		

Case III.

Workman compensation reserve A/c Dr. 720

Revaluation A/c Dr. 630

To provision for workman compensation claim A/c 1,350

(being the provision made for workman compensation claim)

being the provision made for workman compensation claim)

X's Capital A/c Dr.	315	
Y's Capital A/c Dr.	189	
Z' Capital A/c Dr.	126	
To Revaluation A/c		630

(being the transfer of loss on revaluation to partners capital accounts in their old profit sharing ratio)

RULE FOR INVESTMENT FLUCTUATION RESERVE

X, Y and Z are partners sharing profit & losses in the ratio of 5:3:2. They decide to admit W into partnership for 1/5th share.

Liabilities	₹	Assets	₹
Investment Fluctuation Reserve	1,500	Investments (at cost)	20,000

Show the accounting treatment in each of the following alternative cases on W's admission:

Case. I. If there is no other information.

Case. II. If the market value of investments is ₹ 20,000.

Case. III. If the market value of investments is ₹ 19,000.

Case. IV. If the market value of investments is ₹ 18,000.

Case. V. If the market value of investments is ₹ 20,500.

CASE.I. 1st Alternative

Assuming that the firm maintains Investment Fluctuation Reserve exactly equal to difference between Cost & Market price.
No further entry is required.

2nd Alternative

Assuming that the market value of investment is ₹ 20,000

Investment Fluctuating Reserve A/c	Dr.	1,500	
To X's Capital A/c			750
To Y's Capital A/c			450
To Z' Capital A/c			300

(being the transfer of excess Investments Fluctuation Reserve to partners capital accounts in their old profit sharing ratio)

CASE. II.

2nd Alternative

Assuming that the market value of investment is ₹ 20,000

Investment Fluctuating Reserve A/c	Dr.	1,500	
To X's Capital A/c			750
To Y's Capital A/c			450
To Z' Capital A/c			300

(being the transfer of excess Investments Fluctuation Reserve to partners capital accounts in their old profit sharing ratio)

CASE. III.

Investment Fluctuation Reserve A/c Dr. 1,000
To Investment A/c 1,000
(being the value of investment brought up to market value)

Investment Fluctuating Reserve A/c Dr. 500
To X's Capital A/c 250
To Y's Capital A/c 150
To Z' Capital A/c 100
(being the transfer of excess investments fluctuation reserve to partners capital accounts in their old profit sharing ratio)

CASE. IV.

Investment Fluctuation Reserve A/c Dr. 1,500
Revaluation A/c Dr. 500
To Investment A/c 2,000
(being the value of investment brought up to market value)

X's Capital A/c Dr 250
Y's Capital A/c Dr. 150
Z' Capital A/c Dr. 100
To Revaluation A/c 500
(being the transfer of loss on revaluation)

CASE. V.

Investment Fluctuating Reserve A/c Dr. 1,500
To X's Capital A/c 750
To Y's Capital A/c 450
To Z' Capital A/c 300
(being the transfer of excess Investments Fluctuation Reserve to partners capital accounts in their old profit sharing ratio)

Investment A/c Dr. 500
To Revaluation A/c 500
(being the value of investment brought upto market value)

Revaluation A/c Dr. 500
X's Capital A/c Dr 250
Y's Capital A/c Dr. 150
Z' Capital A/c Dr. 100
(being the transfer of profit on revaluation)

CAPITAL ADJUSTMENT

- <u>TYPE:-Profit Sharing Capital Adjustment</u>
- Adjusted the capital of old partners on the basis of capital of new partner share capital.
- Capital of old partners/ all partners adjusted in profit sharing ratio/ new profit sharing ratio.
- Fixed Capital is Given
- <u>TYPE:-Proportionate capital adjustment.(New partner capital is not given)</u>
- When new partner brings capital on the basis of old partner capita.

CALCULATE TOTAL CAPITAL OF NEW FIRM

NEW PARTNER CAPITAL IN EXTENDED PARTNER CAPITAL A/C X RECIPROCAL SHARE OF NEW PARTNER.

TOTAL CAPITAL OF NEW FIRM DISTRIBUTED

TOTAL FIXED CAPITAL DISTRIBUTED IN ALL PARTNERS, NEW RATIO.

ADJUSTMENT

AFTER CAPITAL ADJUSTMENT THERE IS SURPLUS/ EXCESS CAPITAL OR SHORTAGE/ DEFICIENCY OF CAPITAL WHICH IS ADJUSTED BY JOURNAL ENTRY.

1. In Case of Shortage/ Deficiency of Capital.

Particulars	L.F.	₹	₹
Cash A/c OR Concerned Partner's Current A/c Dr. To Concerned Partner's Capital A/c (Being shortage of cash brought in by concerned partner)			

2. In Case of Surplus/ Excess Capital.

Particulars	L.F.	₹	₹
Concerned Partner's Capital A/c Dr. To Cash A/c OR Concerned Partner's Current A/c (Being the excess amount withdrawn by concerned partner)			

QUESTION FOR PROPORTINATE CAPITAL ADJUSTMENT:-

A and B are in partnership sharing profit and losses in the ratio of 3:2. The Capital of A and B remaining after adjustment are 80,000 and 60,000 respectively. Calculate incoming partner's proportionate capital in the following alternative cases:-

Case (a):-If C is to proportionate capital for his 1/5 th share OR If C is to contribute 1/5 th of the total capital of the new firm.

Solution

Let the Total Firm Capital =1

New partner share capital (C's share Capital) =1/5

Remaining Capital = 1- 1/5 =4/5

4/5 th Capital = Combined Capital of old partners after all adjustment(80,000 +60,000)

Then total firm Capital =1,40,000 X 5/4

Then C's Share Capital = 1,40,000 X 5/4 X1/5 =35,000

Case (b):- If C is to contribute 1/5 th of the combined capital /Total Capitals of the existing / old partners.

Solution

C's Share Capital =1/5

Combined Capital / Total Capital of A and B. =80,000 + 60,000 =1,40,000

C's Share Capital = 1,40,000 X 1/5 =28,000