BAL BHARATI PUBLIC SCHOOL, PITAMPURA

CLASS-12 (SESSION 2020-21)

ACCOUNTANCY

CHAPTER- ADMISSION OF A PARTNER (PART-2)

REVALUATION OF ASSETS AND REASSESSMENT OF LIABILITIES:

The concept of Revaluation as we discussed in previous chapter, will also be covered in this chapter.

The assets are to be revalued and the liabilities are reassessed at the time of admission of a new partner. When the partners agree to record the assets and liabilities at their revised values, **revaluation account** is to be prepared to record all changes.

But if , the partners agree to record the assets and liabilities at their old values, then, any gain /loss on account of revaluation is adjusted among the gaining and the sacrificing partners through an adjustment entry.

- Why is revaluation account prepared?

1. To show assets and liabilities at their current/ correct values
2. To ensure that no partner is at advantage or disadvantage due to change in the values of assets and liabilities.
3. To record unrecorded assets and liabilities at their proper values, if any.

The following questions need to be solved in your registers from the back of the chapter:

Q 47, 48, 51, 52, 53

ACCOUNTING TREATMENT OF RESERVES AND ACCUMULATED LOSSES:

We have already discussed at length, the treatment of reserves and accumulated losses in the previous chapter. Let us recapitulate the same through the following points.

If at the time of admission of new partner, there is a balance in reserves and Accumulated profits/losses, then, they will be transferred to Old Partners' capital or current accounts in their old profit sharing ratio.

- Why are they transferred to old partners and not to the new partner?

New partner is not entitled to any share of such reserves or profits or losses because these are accumulated profits or losses of past years, which have been earned by old partners. So, the new partner should not be put to any advantage or disadvantage.

- <u>Effect of journal entry of distribution of reserves/losses:</u>

The balance of reserves and accumulated losses will not appear in the new balance sheet of the reconstituted firm.

- <u>Treatment of WCR and IFR:</u>

WCR and IFR , may or may not be required to meet the obligation. So, the excess of such reserves over actual liability, if any, is transferred to capital or current accounts of old partners in their old ratio.

The following questions need to be solved in your registers from the back of the chapter:

Q54, 55, 56