

5

PARTNERSHIP ACCOUNTS (II) Admission of a New Partner

Problem No. 1

Calculations of Goodwill

The Profits for three years = 12,000 + 16,000 + 20,000

48,000 / 3 x 3 = 48,000

- 1) when Goodwill brought in cash

Journal Entries

Particulars	L.F	Debit Rs.	Credit Rs.
Cash Account		112,000	
To C's Capital Account			100,000
To Goodwill Account			12,000
C brings his share of capital and goodwill			
Goodwill Account		12,000	
A's Capital Account			8,000
To B's Capital Account			4,000
Goodwill distributed among the old partners in their sacrificing ratios			

- 2) When the Goodwill is withdrawn by the old partner

Particulars	L.F	Debit Rs.	Credit Rs.
Cash Account		112,000	
To C's Capital Account			100,000
To Goodwill Account			12,000
C brings his share of capital and goodwill			
Goodwill Account		12,000	
To A's Capital Account			8,000
To B's Capital Account			4,000
Goodwill distributed among the old partners in their sacrificing ratios			

Key to Fundamental Principles of Accounting

A's Capital Account	8,000	
B's Capital Account	4,000	
To Cash Account		12,000
Goodwill withdrawn by the old partners		

3) When Goodwill is Raised

	Rs.	Rs.
Cash Account	100,000	
To C's Capital Account		100,000
C brought is as capital		
Goodwill Account	48,000	
To A's Capital Account		32,000
To B's Capital Account		16,000
Goodwill raised and transferred to the old partners in their old ratios		

4) When Goodwill is Raised and Written off

	Rs.	Rs.
Cash Account	100,000	
To C's Capital Account		100,000
C brought is as capital		
Goodwill Account	48,000	
To A's Capital Account		32,000
To B's Capital Account		16,000
Goodwill raised and transferred to the old partners in their old ratios		
A's Capital Account	24,000	
B's Capital Account	12,000	
C's Capital Account	12,000	
To Goodwill Account		00
Goodwill written off among the all partners capital accounts		

Problem No. 2**Journal**

	Rs.	Dr.	Cr.	Rs.
Bank Account To C's Capital Account C brought his share of capital	5,000			5,000
Goodwill Account To A's Capital a/c To B's Capital a/c The additional goodwill raised on O's admission	1,500			750 750

Balance Sheet of a New Firm

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
A's Capital	5,750	Sundry Assets	8,000
B's Capital	4,750	Bank	6,000
C's Capital	5,000	Goodwill	3,500
Sundry Creditors	2,000		
Total:	17,500	Total:	17,500

Problem No. 3

Calculation of total value of goodwill:

For 1/5th share, the value of goodwill is Rs. 2,000

For full share, the value of goodwill is 10,000

Key to Fundamental Principles of Accounting

Journal Entries

	Rs.	Rs.
Goodwill To A (3/5th share) To B (2/5th share) Difference between total value of goodwill and the value of goodwill already appearing has been raised and credited to old partners in the old ratio.	7500	4500 3000
Cash To C's Capital Amount brought in by C for capital and goodwill, credited to his capital account.	10000	10000
Reserve Fund To A's Capital To B's Capital Reserve fund transferred in old ratio	4000	2400 1600
A's Capital B's Capital C's Capital To Goodwill Goodwill brought down to the desired amount in the new ratio.	1600 1600 800	4000

Balance Sheet of A, B and C

	Rs.		Rs.
A's Capital	13300	Goodwill	6000
B's Capital	11000	Assets	17500
C's Capital	19200	Cash	10000
	33500		33500

Problem No. 4**Calculation of the value of hidden goodwill**

For 1/5 share in profit R brings

Rs. 12000

For full share of profit R will

Bring Rs. (12000 x 5)

Rs. 60000

If R should bring Rs. 60000 for full share

then it means that business is Worth

Rs. 60000

Less tangible assets after the admission of Rs. (40000+12000) = 52000

Hence the hidden value of the goodwill will be

Rs. 8000

Date	Particulars	L/F	Debit	Credit
	Cash A/c		12000	
	To R capital A/c			12000
	R brought his share of capital			
	Goodwill A/c		8000	
	To P capital			6000
	To Q capital			2000
	Goodwill raised and transferred to the old partners capital A/c			
	Reserve A/c		10000	
	To P capital			7500
	To Q capital			2500
	Reserve transferred to the old partners capital A/c			

Balance Sheet of a new firm

Liabilities	Amount	Assets	Amount
P's capital	33500	Building	2000
Q's capital	14500	Machinery	1000
R's capital	12000	Cash	22000
		Goodwill	8000
	60000		60000

Problem No. 5**Journal**

	Rs.	Rs.
Cash A/c	40000	
To C's Capital A/c		2500
To Goodwill A/c		1500
C brought his share of capital and goodwill.		
Goodwill A/c	15000	
To A's Capital		15000
To B's Capital		
Goodwill distributed among the old partners in their sacrificing ratios.		
A's Capital A/c	2500	
B's Capital A/c	5000	
To Cash A/c		7500
Half the amount of the goodwill withdrawn by the old partner.		
General Reserve A/c	9000	
To A's Capital A/c		6000
To B's Capital A/c		3000
General Reserve transferred to the old partners		

Capital Account

	A	B	C		A	B	C
To Cash A/c	2500	5000		By Balance	60000	30000	--
To Balance c/d	68500	38000	25000	By Cash A/c			25000
				By goodwill	5000	10000	
				By Reserve	6000	3000	
	71000	43000	25000		71000	43000	25000

Goodwill Account

	Rs.		Rs.
To A's Capital A/c	5000	By Cash	15000
To B's Capital A/c	10000		
	15000		15000

Cash Account

	Rs.		Rs.
To Balance b/d	24000	By A's Capital A/c	2500
To C's Capital A/c	25000	By B's Capital A/c	5000
To Goodwill A/c	15000	By Balance c/d	56500
	64000		64000

Balance Sheet of the New Firm

	Rs.		Rs.
Sundry Creditors	25000	Cash at Bank	56500
Capital: A	68500	Sundry Assets	100000
B	38000		
C	25000		
	156500		156500

Problem No. 6

	Rs.	Rs.
Cash A/c	20,000	
To Z's Capital A/c		15,000
To Goodwill A/c		5,000
Amount brought in by Z as Capital and Goodwill.		

Goodwill A/c	5,000	
To X's Capital A/c		2,000
To Y's Capital A/c		3,000
Goodwill distributed among the old partners.		
Revaluation A/c	2,000	
To Fixed Assets		1,000
To Sundry Debtors		1,000
Decrease in the value of Assets Recorded.		
X's Capital	800	
Y's Capital	1,200	
To Revaluation A/c		2,000
Loss on Revaluation transferred to old partners.		

Capital Account

	X	Y	Z		X	Y	Z
To Revaluation A/c	800	1,200	--	By Balance b/d	12,000	18,000	--
To Balance	13,200	19,800	15,000	By Cash A/c	--	--	15,000
				By Goodwill	2,000	3,000	--
	14,000	21,000	15,000		14,000	21,000	15,000

Balance Sheet of New Firm

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Sundry Creditors	9,000	Cash	20,800
Capitals: X	13,200	Sundry Debtors	10,000
Y	19,800	Less Provision	<u>1,000</u>
Z	15,000	Stock	72,000
		Fixed Assets	20,000
Total:	57,000	Total:	57,000

Problem No. 7

Journal Entries

Date	Particulars	L.F	Dr.	Cr.
			Rs.	Rs.
	Cash A/c		14,500	
	To Fahad's Capital A/c			10,000
	To Fahad's Goodwill A/c			4,500
	Cash brought by Fahad as his Capital and goodwill A/c			
	Goodwill A/c		4,500	
	To Fraz's Capital A/c			3,000
	To Farrukh's Capital A/c			1,500
	Goodwill distributed among the old partners.			
	Revaluation A/c		4,250	
	To Stock A/c			1,200
	To Building A/c			2,800
	To Provision for Bad Debts A/c			250
	Decrease in the value of above assets.			
	Machinery A/c		5,000	
	To Revaluation A/c			5,000
	Increase in the Value of Machinery.			
	Revaluation A/c		750	
	To Fraz's Capital A/c			500
	To Fahad's Capital A/c			250
	Profit on Revaluation transferred to old Partner's Capital Accounts.			

Revaluation Account

	Rs.		Rs.
To Stock A/c	1,200	By Machinery A/c	5,000
To Building A/c	2,800		
To Provision for Bad Debts A/c	250		
To Fraz's Capital A/c 500			
To Farrukh Capital A/c 250	7,500		
Total:	5,000	Total:	5,000

Capital Accounts

	Faraz	Farrukh	Fahad		Faraz	Farrukh	Fahad
To Balance c/d	37,500	18,750	10,000	By Balance b/d	34,000	17,000	--
				By Cash A/c	--	--	10,000
				By Goodwill A/c	3,000	1,500	--
				By Revaluation A/c	500	250	--
Total:	37,500	18,750	10,000	Total:	37,500	18,750	10,000

Balance Sheet of the New Firm

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Sundry Creditors	28,000	Cash in hand	15,000
Bills Payable	3,000	Cash at Bank	5,500
Capitals: Faraz	37,500	Sundry Debtors 5,000	
Farrukh	18,700	Less Reserve 250	4,700
Fahid	10,000	Stock	10,800
		B/R	6,000
		Machinery	30,000
		Building	25,200
Total:	97,250	Total:	97,250

Problem No. 8**Journal**

	Rs.	Rs.
Cash Account	10,000	
To C's Capital Account		10,000
Cash brought in the C as Capital		
Goodwill Account	2,000	
To A's Capital Account		15,000
To B's Capital Account		5,000
Goodwill raised/		
Revaluation Account	2,900	
To Stock Account		2,000
To Furniture Account		100
To Reserve for Doubtful Debts		800
Assets Revalued.		
Buildings Account	5,000	
To Revaluation Account		5,000
Building Revalued		
Revaluation Account	2,100	
To A's Capital Account		1,575
To B's Capital Account		525
Revaluation account transferred to capital accounts		
A's Capital Account	26,575	
B's Capital Account	5,525	
To Cash Account		32,100
Extra Capital drawn.		

Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Stock a/c	2,000	By Buildings a/c	5,000
To Furniture a/c	100		
To Res. For Bad Debts	800		
To profit transferred to			
A' Capital	1,575		
B' Capital	525		
	2,100		
Total:	5,000	Total:	5,000

A's Capital Account

Particulars	Rs.	Particulars	Rs.
To Cash a/c	26,575	By Balance b/f	40,000
To Balance c/d	30,000	By Goodwill a/c	15,000
		By Revaluation a/c (profit)	1,575
Total:	56,575	Total:	56,575

B's Capital Account

Particulars	Rs.	Particulars	Rs.
To Cash a/c	5,525	By Balance b/f	10,000
To Balance c/d	10,000	By Goodwill a/c	5,000
		By Revaluation a/c (profit)	525
Total:	15,525	Total:	15,525

Balance Sheet of A, B and C
As at Dec. 31, 2005

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	37,500	Cash at Bank	400
Capital Accounts:		Bills Receivable	3,000
A 30,000		Books Debts	16,000
B 10,000		Less: Reserve	800
C 10,000	50,000	Stock	18,000
		Furniture	900
		Buildings	30,000
		Goodwill	20,000
Total:	87,500	Total:	87,500

Problem No. 9**Revaluation Account**

	Rs.		Rs.
To Plant a/c	8,000	By Loss	
To Stock a/c	1,000	Hussain $\frac{3}{4}$	9,000
To Reserve for bad debts	3,000	Rehman $\frac{1}{4}$	3,000
	12,000		12,000

Capital Accounts

	Hussain	Rehman	Zaman		Rehman	Hussain	Zaman
To Loss on revaluation	9,000	3,000	--	By Balance b/d	50,000	30,000	--
				By Goodwill a/c	15,000	5,000	--
To Balance c/d	56,000	32,000	22,000	By Cash a/c	--	--	22,000
	65,000	35,000	22,000		65,000	35,000	22,000

Balance Sheet of Hussain, Rehman & Zaman

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Capital accounts		Plant	32,000
Hussain	56,000	Stock	9,000
Rehman	32,000	Debtors	30,000
Zaman	22,000	Less Reserve	3,000
Creditors	20,000	Cash at Bank	62,000
	130,000		130,000

Problem No. 10

Particulars	L.F	Debit	Credit
		Rs.	Rs.
Bank Accounts		35,000	
To Karim's Capital Account			25,000
To Goodwill Accounts			10,000
Amount brought in by Karim as capital and goodwill			
Goodwill Account		10,000	
To Rahim's Capital Accounts			5,000
To Rahman's Capital Accounts			5,000
Goodwill transferred to old partners in the ratio of sacrifice i.e. equally			
Revaluation Accounts		5,000	
To Plant & Machinery			3,000
To Provision for doubtful debts			500
To Sundry Creditors			1,500
Revaluation in assets recorded			

Building Accounts			
To Revaluation Accounts		7,000	
Increase in the value of building recorded			7,000
Revaluation Accounts			
To Rahim's Capital Accounts		2,000	
To Rehman's Capital Accounts			2,000
Profit on revaluation credited to old partners			

Revaluation Accounts

	Rs.		Rs.
To Plant & Machinery a/c	3,000	By Building a/c	7,000
To Prov. for bad debts a/c	500		
To Sundry Creditors	1,500		
To Profit transferred to			
Rahim (3/5) 1200			
Rahman (2/5) 800	2000		
	7,000		7,000

Rahim's Capital Account

	Rs.		Rs.
To Balance c/d	26,200	By Balance b/d	20,000
		By Goodwill a/c	5,000
		By Revaluation a/c	1,200
	26,200		26,200

Rahman's Capital Account

	Rs.		Rs.
To Balance c/d	30,000	By Balance b/d	25,000
		By Goodwill a/c	5,000
		By Revaluation a/c	800
	30,000		30,000

Bank Account

	Rs.		Rs.
To Balance b/d	5,000	By Balance c/d	40,000
To Karim's Capital a/c	35,000		
	40,000		40,000

Balance Sheet of Rahim, Rehman and Karim

As at Jan. 1, 2000

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Sundry Creditors	16,500	Buildings	25,000
Capitals:		Plant & Machinery	12,000
Rahim	26,200	Stock	12,000
Rahman	30,000	Sundry Debtors	10,000
Karim	25,000	Less Provision	500
		Bank	40,000
	98,500		98,500

Problem No. 11

	Rs.	Rs.
Capital Account	24,000	
To H's Capital Account		15,000
To Goodwill Account		9,000
Amount of Capital and goodwill brought in by H.		

Goodwill Account	9,000	
To D's Capital Account		3,000
To E's Capital Account		3,000
To F's Capital Account		3,000
Goodwill transferred to old partners.		
D's Capital Account	1,500	
E's Capital Account	1,500	
F's Capital Account	1,500	
To Cash Account		4,500
One half goodwill withdraw by the old partners.		
Memorandum Revaluation Account	4,500	
To D's Capital Account		1,500
To E's Capital Account		1,500
To F's Capital Account		1,500
Profit on revaluation credited to old partners.		
D's Capital Account	1,125	
E's Capital Account	1,250	
F's Capital Account	1,125	
H's Capital Account	1,125	
To Memorandum Revaluation Account		4,500
Memorandum Revaluation Account close by debiting all partners in new profit sharing ratio.		

Memorandum Revaluation Account

Particulars	Rs.	Particulars	Rs.
To Stock	1,140	By Buildings	7,500
To Furniture	240		
To Reserve for Doubtful Debts	540		
To Provision for Bills Discounted	1,080		
To Profit transferred to			
D	1,500		
E	1,500		
F	1,500		
Total:	7,500	Total:	7,500
To Buildings	7,500	By Stock	1,140
		By Furniture	240
		By Reserve for doubtful Debts	540
		By Provision for Bills Discounted	1,080
		By loss transferred to	
		D 1/4	1,125
		E 1/4	1,125
		F 1/4	1,125
		H 1/4	1,125
Total:	7,500	Total:	7,500

Balance Sheet of D, E, F and H

Liabilities	Rs.	Assets	Rs.
Bills Payable	3,300	Cash	20,100
Creditors	6,000	Debtors	10,800
Capitals		Stock	11,400
D	18,675	Furniture	2,400
E	14,475	Buildings	19,500
F	7,875		
H	13,875		
Total:	64,200	Total:	64,200