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தொகுப்பு: ந. சண்முகசுந்தரம் (மருதம் ஆசிரியர்), அ.எண்: 96598 38789
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HIGHER SECONDARY SECOND YEAR

Unit 5 / ADMISSION OF A PARTNER

ACCOUNTANCY

Choose the correct answer

1. Revaluation A/c is a
(a) Real A/c (b) Nominal A/c
(c) Personal A/c (d) Impersonal A/c

2. On revaluation, the increase in the value of assets leads
(a) Gain (b) Loss (c) Expense (d) None of these

3. The profit or loss on revaluation of assets and liabilities is transferred to the capital account of
(a) The old partners (b) The new partner
(c) All the partners (d) The Sacrificing partners

4. If the old profit sharing ratio is more than the new profit sharing ratio of a partner, the difference is called
(a) Capital ratio (b) Sacrificing ratio
(c) Gaining ratio (d) None of these

5. At the time of admission, the goodwill brought by the new partner may be credited to the capital accounts of
(a) all the partners (b) the old partners
(c) the new partner (d) the sacrificing partners

6. Which of the following statements is not true in relation to admission of a partner
(a) Generally mutual rights of the partners change
(b) The profits and losses of the previous years are distributed to the old partners
(c) The firm is reconstituted under a new agreement
(d) The existing agreement does not come to an end

7. Match List I with List II and select the correct answer using the codes given below:

List I	List II
(i) Sacrificing ratio	1. Investment fluctuation fund
(ii) Old profit sharing ratio	2. Accumulated profit
(iii) Revaluation Account	3. Goodwill
(iv) Capital Account	4. Unrecorded liability

(a) 1 2 3 4 (b) 3 2 4 1 (c) 4 3 2 1 (d) 3 1 2 4

8. Select the odd one out
(a) Revaluation profit (b) Accumulated loss
(c) Goodwill brought by new partner
(d) Investment fluctuation fund

9. James and Kamal are sharing profits and losses in the ratio of 5:3. They admit Sunil as a Partner giving him 1/5 share of profits. Find out the sacrificing ratio.
(a) 1:3 (b) 3:1 (c) 5:3 (d) 3:5

10. Balaji and Kamalesh are partners sharing profits and losses in the ratio of 2:1. They admit Yogesh into partnership. The new profit sharing ratio between Balaji, Kamalesh and Yogesh is agreed to 3:1:1. Find the sacrificing ratio between Balaji and Kamalesh.
(a) 1:3 (b) 3:1 (c) 2:1 (d) 1:2

Very short answer questions

1. What is meant by revaluation of assets and liabilities?

2. How are accumulated profits and losses distributed among the partners at the time of admission of a new partner?

5. State whether the following will be debited or credited in the revaluation account.
(a) Depreciation on assets (b) Unrecorded liability
(c) Provision for outstanding expenses
(d) Appreciation of assets

Short answer questions

1. What are the adjustments required at the time of admission of a partner?

3. Write a short note on accounting treatment of goodwill.

(a) For transferring accumulated profit and reserves

Journal entry

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Profit and loss appropriation A/c	Dr.		xxx	
	General reserve A/c	Dr.		xxx	
	Reserve fund A/c	Dr.		xxx	
	Workmen compensation fund A/c	Dr.		xxx	
	Investment fluctuation fund A/c	Dr.		xxx	
	To Old partners' capital / current A/c (in the old ratio)				xxx

(b) For transferring accumulated loss

Journal entry

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Old partner's capital / current A/c	Dr.		xxx	
	ToProfit and loss A/c (in old ratio)				xxx

DO YOU KNOW?

Investment fluctuation fund

Investment fluctuation fund is created out of profit to adjust the reduction in the market value of the investments. If the market value of the investments is greater than or equal to the book value, then, the entire investment fluctuation fund is transferred to the old partners' capital account in old profit sharing ratio. If the market value of the investments is less than the book value, then the difference is to be subtracted from the investment fluctuation fund and the balance of investment fluctuation fund is to be transferred to the old partners' capital account in old profit sharing ratio.

Illustration 2

Kavitha and Radha are partners of a firm sharing profits and losses in the ratio of 4:3. They admit Deepa on 1.1.2019. On that date, their balance sheet showed debit balance of profit and loss account being accumulated loss of ₹ 70,000 on the asset side of the balance sheet. Give the journal entry to transfer the accumulated loss on admission.

Following are the journal entries to be passed to record the revaluation of assets and liabilities:

Date	Particulars	L.F.	Debit ₹	Credit ₹
	1. For increase in the value of asset			
	Concerned asset A/c Dr.		xxx	
	To Revaluation A/c			xxx
	2. For decrease in the value of asset			
	Revaluation A/c Dr.		xxx	
	To Concerned asset A/c			xxx
	3. For increase in the amount of liabilities			
	Revaluation A/c Dr.		xxx	
	To Concerned liability A/c			xxx
	4. For decrease in the amount of liability			
	Concerned liability A/c Dr.		xxx	
	To Revaluation A/c			xxx
	5. For recording an unrecorded asset			
	Concerned asset A/c Dr.		xxx	
	To Revaluation A/c			xxx
	6. For recording an unrecorded liability			
	Revaluation A/c Dr.		xxx	
	To Concerned liability A/c			xxx
	7. For transferring the balance in revaluation A/c			
	(a) If there is profit on revaluation			
	Revaluation A/c Dr.		xxx	
	To Old partners' capital A/c (individually in old ratio)			xxx
	(b) If there is loss on revaluation			
	Old partners' capital A/c (individually in old ratio) Dr.		xxx	
	To Revaluation A/c			xxx

Format of Revaluation Account:

Dr. Revaluation Account Cr.

Particulars	₹	Particulars	₹
To Concerned asset A/c (net decrease)	xxx	By Concerned asset A/c (net increase)	xxx
To Concerned liability A/c (net increase)	xxx	By Concerned liability A/c (net decrease)	xxx
To Old partners' capital A/c (profit on revaluation shared in old ratio)*	xxx	By Old partners' capital A/c (loss on revaluation shared in old ratio)*	xxx
	xxx		xxx

*There will be either profit or loss on revaluation.

Illustration 5

Sriram and Raj are partners sharing profits and losses in the ratio of 2:1. Nelson joins as a partner on 1st April 2017. The following adjustments are to be made:

(i) Increase the value of stock by ₹ 5,000

(ii) Bring into record investment of ₹ 7,000 which had not been recorded in the books of the firm.

(iii) Reduce the value of office equipment by ₹ 10,000

(iv) A provision would also be made for outstanding wages for ₹ 9,500.

Give journal entries and prepare revaluation account.

Illustration 6

Raghu and Sam are partners in a firm sharing profits and losses in the ratio of 3:2. Their balance sheet as on 31st March, 2017 is as follows:

Liabilities	₹	₹	Assets	₹	₹
Capital accounts:			Machinery		30,000
Raghu	40,000		Furniture		10,000
Sam	30,000	70,000	Stock		10,000
Sundry creditors		30,000	Debtors	21,000	
			Less: Provision for doubtful debts	1,000	20,000
			Bank		30,000
		1,00,000			1,00,000

Prakash is admitted on 1.4.2017 subject to the following conditions:

(a) He has to bring a capital of ₹ 10,000

(b) Machinery is valued at ₹ 24,000

(c) Furniture to be depreciated by ₹ 3,000

(d) Provision for doubtful debts should be increased to ₹ 3,000

(e) Unrecorded trade receivables of ₹ 1,000 would be brought into books now

Pass necessary journal entries and prepare revaluation account and capital account of partners after admission.

Illustration 12

Suresh and Dinesh are partners sharing profits in the ratio of 3:2. They admit Ramesh as a new partner. Suresh surrenders 1/5 of his share in favour of Ramesh. Dinesh surrenders 2/5 of his share in favour of Ramesh. Calculate the new profit sharing ratio and sacrificing ratio.

Illustration 16

Vimal and Athi are partners sharing profits in the ratio of 2:1. Jeyam is admitted for 1/4 share in the profits. Calculate the new profit sharing ratio and sacrificing ratio.

Illustration 17

Anil, Sunil and Hari are partners in a firm sharing profits in the ratio of 4:3:3. They admit Raja for 20% profit. Calculate the new profit sharing ratio and sacrificing ratio.

(i) For the goodwill brought in cash credited to old partners' capital account

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Cash / Bank A/c Dr.		xxx	
	To Old partners' capital / current A/c (in sacrificing ratio)			xxx

(ii) For the goodwill brought in kind (in the form of assets) credited to old partners' capital account

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Respective Asset A/c Dr.		xxx	
	To Old partners' capital / current A/c (in sacrificing ratio)			xxx

(iii) For withdrawal of cash received for goodwill by the old partners

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Old partners' capital / current A/c Dr.		xxx	
	To Cash / Bank A/c			xxx

Illustration 20

Vasu and Devi are partners sharing profits and losses in the ratio of 3:2. They admit Nila into partnership for 1/4 share of profit. Nila pays cash ₹ 3,000 towards her share of goodwill. The new ratio is 3:3:2. Pass necessary journal entry on the assumption that the fixed capital system is followed.

Illustration 22

Aravind and Balaji are partners sharing profits and losses in 3:2 ratio. They admit Anirudh into partnership. The new profit sharing ratio is agreed at 1:1:1. Anirudh's share of goodwill is valued at ₹ 20,000 of which he pays ₹ 12,000 in cash. Pass necessary journal entries for goodwill on the assumption that the fluctuating capital method is followed.

When goodwill is paid by the new partner to the old partners privately, no entry is made in the books of the partnership firm.

Illustration 26

Ameer and Raja are partners sharing profits in the ratio of 3:2. Their balance sheet is shown as under on 31.12.2018.

Liabilities	₹	₹	Assets	₹
Capital accounts:			Machinery	60,000
Ameer	80,000		Furniture	40,000
Raja	70,000	1,50,000	Debtors	30,000
Reserve fund		15,000	Stock	10,000
Creditors		35,000	Prepaid insurance	40,000
			Cash at bank	20,000
		2,00,000		2,00,000

Rohit is admitted as a new partner who introduces a capital of ₹ 30,000 for his 1/5 share in future profits. He brings ₹ 10,000 for his share of goodwill.

Following revaluations are made:

(i) Stock is to be appreciated to ₹ 14,000

(ii) Furniture is to be depreciated by 5%

(iii) Machinery is to be revalued at ₹ 80,000

Prepare the necessary ledger accounts and the balance sheet after the admission.

4. Hari, Madhavan and Kesavan are partners, sharing profits and losses in the ratio of 5:3:2. As from 1st April 2017, Vanmathi is admitted into the partnership and the new profit sharing ratio is decided as 4:3:2:1. The following adjustments are to be made.

(a) Increase the value of premises by ₹ 60,000.

(b) Depreciate stock by ₹ 5,000, furniture by ₹ 2,000 and machinery by ₹ 2,500.

(c) Provide for an outstanding liability of ₹ 500.

Pass journal entries and prepare revaluation account.

8. Praveena and Dhanya are partners sharing profits in the ratio of 7:3. They admit Malini into the firm. The new ratio among Praveena, Dhanya and Malini is 5:2:3. Calculate the sacrificing ratio.

13. Prema and Chandra share profits in the ratio of 5:3. Hema is admitted as a partner. Prema surrendered 1/8 of her share and Chandra surrendered 1/8 of her share in favour of Hema. Calculate the new profit sharing ratio and sacrificing ratio.

17. Ambika, Dharani and Padma are partners in a firm sharing profits in the ratio of 5:3:2. They admit Ramya for 25% profit. Calculate the new profit sharing ratio and sacrificing ratio.

21. Anu and Arul were partners in a firm sharing profits and losses in the ratio of 4:1. They have decided to admit Mano into the firm for 2/5 share of profits. The goodwill of the firm on the date of admission was valued at ₹ 25,000. Mano is not able to bring in cash for his share of goodwill. Pass necessary journal entry for goodwill on the assumption that the fluctuating capital method is followed.

23. Sam and Jose are partners in a firm sharing profits and losses in the ratio of 3:2. On 1st April 2018, they admitted Joel as a partner. On the date of Joel's admission, goodwill appeared in the books of the firm at ₹ 30,000. By assuming fluctuating capital method, pass the necessary journal entry if the partners decide to

(a) write off the entire amount of existing goodwill

(b) write off ₹ 20,000 of the existing goodwill.

27. Anbu and Shankar are partners in a business sharing profits and losses in the ratio of 3:2. The balance sheet of the partners on 31.03.2018 is as follows:

Liabilities	₹	₹	Assets	₹
Capital accounts:			Computer	40,000
Anbu	4,00,000		Motor car	1,60,000
Shankar	3,00,000	7,00,000	Stock	4,00,000
Profit and loss		1,20,000	Debtors	3,60,000
Creditors		1,20,000	Bank	40,000
Workmen compensation fund		60,000		
		10,00,000		10,00,000

Rajesh is admitted for 1/5 share on the following terms:

(i) Goodwill of the firm is valued at ₹ 75,000 and Rajesh brought cash for his share of goodwill.

(ii) Rajesh is to bring ₹ 1,50,000 as his capital.

(iii) Motor car is valued at ₹ 2,00,000; stock at ₹ 3,80,000 and debtors at ₹ 3,50,000.

(iv) Anticipated claim on workmen compensation fund is ₹10,000

(v) Unrecorded investment of ₹ 5,000 has to be brought into account.

Prepare revaluation account, capital accounts and balance sheet after Rajesh's admission.

5.5.2 Sacrificing ratio

The old partners may sacrifice a portion of the share of profit to the new partner. The sacrifice may be made by all the partners or some of the partners. Sacrificing ratio is the proportion of the profit which is sacrificed or foregone by the old partners in favour of the new partner. The purpose of finding the sacrificing ratio is to share the goodwill brought in by the new partner. The share sacrificed is calculated by deducting the new share from the old share.

Share sacrificed = Old share - New share

Sacrificing ratio = Ratio of share sacrificed by the old partners

Share of the new partner is the sum of shares sacrificed by the old partners.

5.6.1 Accounting treatment for goodwill

Accounting treatment for goodwill on admission of a partner is disccussed below:

1. When new partner brings cash towards goodwill
2. When the new partner does not bring goodwill in cash or in kind
3. When the new partner brings only a part of the goodwill in cash or in kind
4. Existing goodwill