



படங்களை தொடுக! பாடசாலை வலைதளத்தை சமூக ஊடகங்களில் பின்தொடர்க!! உடனுக்குடன் புதிய செய்திகளை Notifications-ல் பெறுக!





1 3 th	<u>Syllabus</u>	<u>Books</u>	<u>Study</u> <u>Materials –</u> <u>EM</u>	<u>Study</u> <u>Materials -</u> <u>TM</u>	Practical	<u>Online Test</u> (EM & TM)
12	Monthly	Mid Term	Revision	PTA Book	<u>Centum</u>	<u>Creative</u>
Standard	<u>Q&A</u>	<u>Q&A</u>	<u>Q&A</u>	<u>Q&A</u>	Questions	<u>Questions</u>
	<u>Quarterly</u>	Half Yearly	Dublic Evam	NEET		
	Exam	Exam	PUDIIC EXaIII			

11 th	<u>Syllabus</u>	<u>Books</u>	<u>Study</u> Materials – <u>EM</u>	<u>Study</u> Materials - <u>TM</u>	Practical	<u>Online Test</u> (EM & TM)
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Standard	<u>Q&A</u>	<u>Q&A</u>	<u>Q&A</u>	Questions	Questions	
	Quarterly	Half Yearly	Dublic Evam	NEET		
	Exam	<u>Exam</u>	PUDIIC EXam			

10 th	<u>Syllabus</u>	<u>Books</u>	<u>Study</u> <u>Materials -</u> <u>EM</u>	<u>Study</u> <u>Materials -</u> <u>TM</u>	Practical	Online Test (EM & TM)
10	Monthly	Mid Term	Revision	PTA Book	<u>Centum</u>	<u>Creative</u>
Standard	<u>Q&A</u>	<u>Q&A</u>	<u>Q&A</u>	<u>Q&A</u>	Questions	<u>Questions</u>
	<u>Quarterly</u> <u>Exam</u>	<u>Half Yearly</u> Exam	Public Exam	<u>NTSE</u>	<u>SLAS</u>	

9 th	<u>Syllabus</u>	Books	<u>Study</u> <u>Materials</u>	<u>1st Mid</u> Term	2 nd Mid Term	<u>3rd Mid</u> Term
Standard	<u>Quarterly</u> <u>Exam</u>	<u>Half Yearly</u> <u>Exam</u>	<u>Annual</u> <u>Exam</u>	<u>RTE</u>		

8 th	<u>Syllabus</u>	Books	<u>Study</u> <u>Materials</u>	<u>1st Mid</u> <u>Term</u>	2 nd Mid Term	<u>3rd Mid</u> <u>Term</u>
Standard	<u>Term 1</u>	<u>Term 2</u>	<u>Term 3</u>	<u>Public</u> Model Q&A	<u>NMMS</u>	<u>Periodical</u> <u>Test</u>

7 th	<u>Syllabus</u>	<u>Books</u>	<u>Study</u> <u>Materials</u>	<u>1st Mid</u> <u>Term</u>	2 nd Mid Term	<u>3rd Mid</u> Term
Standard	<u>Term 1</u>	<u>Term 2</u>	<u>Term 3</u>	<u>Periodical</u> <u>Test</u>	<u>SLAS</u>	

6 th	<u>Syllabus</u>	Books	<u>Study</u> <u>Materials</u>	<u>1st Mid</u> Term	2 nd Mid Term	<u>3rd Mid</u> Term
Standard	<u>Term 1</u>	<u>Term 2</u>	<u>Term 3</u>	<u>Periodical</u> <u>Test</u>	<u>SLAS</u>	

1 st to 5 th	<u>Syllabus</u>	<u>Books</u>	<u>Study</u> <u>Materials</u>	<u>Periodical</u> <u>Test</u>	<u>SLAS</u>	
Standard	<u>Term 1</u>	<u>Term 2</u>	<u>Term 3</u>	<u>Public</u> Model Q&A		

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Accounts of partnership firms – Fundamentals

- Partnership firm minimum member $\rightarrow 2$
- Maximum member $\rightarrow 50$
- There should be an agreement among the partners. The agreement may be oral or written.
- 1. <u>Application of the provision of the Indian Partnership Act, 1932 in the absence of partnership deed:</u>

If there is no partnership deed or when there is no express statement in the partnership deed, then the following provisions of the Act will apply:

- (i) Remuneration to partners No salary or remuneration is allowed to any partner. [Section 13(a)]
- (ii) Profit sharing ratioProfits and losses are to be shared by the partners equally. [Section 13(b)]
- (iii) Interest on capital

No interest is allowed on the capital. Where a partner is entitled to interest on capital contributed as per partnership deed, such interest on capital will be payable only out of profits. [Section 13(c)]

- (iv) Interest on loans advanced by partners to the firmInterest on loan is to be allowed at the rate of 6 per cent per annum. [Section 13(d)]
- (v) Interest on drawingsNo interest is charged on the drawings of the partners.

2. Final accounts of Partnership firm:

The final accounts prepared by partnership firms are:

- a) Manufacturing account \rightarrow if manufacturing activities carried on
- b) Trading & Profit and loss account \rightarrow to ascertain profitability
- c) Profit & Loss appropriation account \rightarrow to show the disposable of profit and surplus
- d) Balance sheet \rightarrow to ascertain the financial status

3. Methods of maintaining capital account of the partners

- a. Fixed capital method
 - i. Partner's Capital account
 - ii. Partner's Current account

b. Fluctuating capital method

i. Partner's capital account

4. Format of partner's capital account under Fixed capital method:

Dr.	_	_		
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	н.	,	т	۰.
	_	-	-	

Partners' capital account

Cr.

		1						
Data	Dentioulens	Α	В	Dete	Destinulars	Α	В	
Date	Particulars	₹	₹	Date	Particulars	₹	₹	
	To Cash/Bank A/c	xxx	xxx		By Balance b/d	xxx	xxx	
	(permanent withdrawal				By Cash/Bank A/c	xxx	xxx	
	of capital)				(additional capital			
	To Balance c/d	xxx	xxx		introduced)			
		XXX	XXX			XXX	XXX	l

5. Format of partner's current account under Fixed capital method:

Dr.	Partners' current account						Cr.
Date	Particulars	A ₹	B ₹	Date	Particulars	A ₹	B ₹
	To Balance b/d*	xxx	XXX		By Balance b/d*	XXX	xxx
	To Interest on drawings A/c	xxx	xxx		By Salary A/c	xxx	xxx
	appropriation A/c	xxx	xxx		By Commission A/c By Profit and loss	xxx	xxx
	To Balance c/d**	xxx	xxx		appropriation A/c (share of profit)	xxx	xxx
					By Balance c/d**	XXX	XXX
		xxx	XXX			XXX	XXX

Note: * The opening balance may be either credit balance or debit balance for a partner. ** The closing balance may be either credit balance or debit balance for a partner.

6. Format of partner's current account under Fluctuating capital method:

Dr.	Partners' capital account						Cr.
Date	Particulars	Α	В	Date	Dentioulens	Α	В
		₹	₹		Particulars	₹	₹
	To Cash / Bank A/c	xxx	xxx		By Balance b/d	xxx	xxx
	(capital withdrawn)				By Cash / Bank A/c	xxx	xxx
	To Drawings A/c	xxx	xxx		(additional capital introduced)		
	To Interest on drawings A/c	xxx	xxx		By Interest on capital A/c	xxx	xxx
	To Profit and loss appropriation A/c	xxx	xxx		By Salary A/c	xxx	xxx
	(share of loss)				By Commission A/c		xxx
	To Balance c/d	xxx	xxx		By Profit and loss appropriation A/c (share of profit)	xxx	xxx
		xxx	xxx			xxx	xxx

7. Interest on capital of partners

a) For providing interest on capital

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Interest on capital A/c	Dr.		xxx	
	To Partner's capital / current A/c				xxx

b) For closing interest on capital account

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Profit and loss appropriation A/c	Dr.		XXX	
	To Interest on capital A/c				xxx

8. <u>Calculations of interest on capital:</u>

Interest on capital = Amount of capital x Rate of interest per annum x Period of interest **Note:** a) if capital at the beginning is not given, then it can be calculated as below

b) If the date of IOC is not given the average period is 6 months.

Particulars	₹	₹
Capital at the end		xxx
Add: Drawings during the year (if fluctuating capital)	xxx	
Capital withdrawn during the year	xxx	xxx
		xxx
Less: Profit credited during the year (if fluctuating capital)	xxx	
Additional capital introduced during the year	xxx	xxx
Capital at the beginning		xxx

9. Interest on Drawings

a) For charging interest on drawings

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Partner's capital/ current A/c Dr.		XXX	
	To Interest on drawings A/c			xxx

Note: Interest on Drawing is due from the partner to the firm and hence partner's capital /Current account is debited and interest on drawings account is credited.

b) For closing interest on drawings account

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Interest on drawings A/c Dr.		XXX	
	To Profit and loss appropriation A/c			xxx

10. <u>Calculation of interest on drawings (IOD)</u>

a) Direct method

IOD = Amount of Drawings x Rate of interest x Period of interest

b) <u>Product method:</u>

Product method is based on the principle that interest on the amount for a number of days/ months is the same as interest for one day/month on the sum of the products of amount withdrawn and the period of interest.

IOD= sum of products x Rate of interest p.a x 1/12 (one month)

IOD= sum of products x Rate of interest p.a x 1/365 (one day)

c) Average period method:

Interest on drawings =	$\begin{bmatrix} \text{Total amount of drawings} \\ \text{made during the year} \end{bmatrix} \times \begin{bmatrix} \text{Rate of interest} \\ \text{per annum} \end{bmatrix} \times \begin{bmatrix} \frac{\text{Average period}}{12} \end{bmatrix}$
Average period =	$\begin{bmatrix} \text{Number of months from} \\ \text{the date of first withdrawal} \\ \text{to the end of the year} \end{bmatrix} + \begin{bmatrix} \text{Number of months from} \\ \text{the date of last withdrawal} \\ \text{to the end of the year} \end{bmatrix}$

d) Average period is computed as follows:

The following table shows the average period in months for withdrawal made at the beginning, in the middle and at the end of every month, quarter and half year of the year.

	Average period (in months)						
Frequency of withdrawal	Time of withdrawal						
	At the beginning	In the middle	At the end				
Monthly	$\frac{(12+1)}{2} = 6.5$	$\frac{(11.5+0.5)}{2} = 6$	$\frac{(11+0)}{2} = 5.5$				
Quarterly	$\frac{(12+3)}{2} = 7.5$	$\frac{(10.5+1.5)}{2} = 6$	$\frac{(9+0)}{2} = 4.5$				
Half-yearly	$\frac{(12+6)}{2} = 9$	$\frac{(9+3)}{2} = 6$	$\frac{(6+0)}{2} = 3$				

11. Salary and commission to Partners:

a) For partner's salary and commission due

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Partner's salary A/c	Dr.		xxx	
	Partner's commission A/c	Dr.		xxx	
	To Partner's capital / current A/c				xxx

b) For closing partner's salary and commission account at the end of the accounting year

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Profit and loss appropriation A/c Dr.		xxx	
	To Partner's salary A/c			xxx
	To Partner's commission A/c			xxx

Note: Partners are entitled to remuneration only if there is a profit in the firm. Hence, Profit and loss appropriation account is debited. As the remuneration is due to the partner's Capital / Current account of partners is credited

i) <u>Commission as a percentage of net profit before charging such commission</u>

= Net profit before commission $\times \frac{\% \text{ of commission}}{100}$

100

ii) <u>Commission as a percentage of net profit after charging such commission</u>

= Net profit before commission $\times \frac{\% \text{ of commission}}{100 + \% \text{ of commission}}$

12. Interest on loan from partners:

a) For providing interest on partner's loan

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Interest on partner's loan A/c Dr.		xxx	
	To Partner's loan A/c			xxx

b) For closing interest on partner's loan account

Date	Particulars	L.F.	Debit	Credit
			₹	₹
	Profit and loss A/c D	:	xxx	
	To Interest on partner's loan A/c			xxx

Note: Interest on partner's loan being expenses to the firm is debited in the firm's book. It is a charge against profit, that is, whether there is profit or loss for the firm, this interest is to be provided. Hence interest on partner's loan is transferred to profit and loss account.

13. <u>Division of profits among partners:</u>

Date	Particulars	L.F.	Debit ₹	Credit ₹	
	Profit and loss appropriation A/c Dr.		xxx		
	To Partner's capital/current A/c			xxx	

Note: if there is a loss, the reverse entry is made.

14. Profit and loss appropriation account:

Format of profit and loss appropriation account

Dr. Profit and loss appropriation account					
Particulars	₹	Particulars	₹		
To Interest on partners' capital A/c	xxx	By Profit and loss A/c *	xxx		
To Partners' salary A/c	xxx	By Interest on partners'			
To Partners' commission A/c	xxx	drawings A/c	xxx		
To Partners' capital/current A/c (Profit)	xxx				
	xxx		xxx		

*Amount of profit transferred from profit and loss account.

15. Point to remember

- Profits and losses are shared among the partners of a firm in the profit sharing ratio. In the absence of agreed ratio, the profits and losses are to be shared by the partners equally.
- In the absence of agreement, no interest is allowed on capital, no interest is charged on drawings and no salary or other remuneration is given to the partners.
- Partners are entitled to interest on the loans advanced by them to the firm at a rate agreed by them. If the rate of interest on partners' loan is not agreed, the partners are entitled to interest on loans at 6% per annum.
- When fixed capital method is adopted by a firm, current accounts are opened for each partner apart from the capital account of each partner.
- When fluctuating capital method is followed, all the adjustments regarding additional capital introduced, share of profit, interest on capital, interest on drawings, etc. are done in the capital account.
- In Profit and loss appropriation account, adjustments are made for interest on capital, interest on drawings and partners' remuneration, the resultant profit is shared by the partners in their profit sharing ratio.

BOOK EXERCISE

1. There is no partnership deed, we must be follow Indian Partnership act 1932

- As per Indian partnership act 1932 section 13(c) No interest is allowed on the capital. So the i) claim of Aakash is invalid.
- As per Indian partnership act 1932, No interest is charged on the drawing of the partner. So ii) bala did agree to pay IOD is invalid.
- As per Indian partnership act 1932 section (b), the profit or loss divided in equal ratio. So the iii) claim of Aakash is invalid.
- iv) Daniel demanded salary is not valid, because as per Indian partnership act 1932 section (a) the salary is not allowed to partners.
- Chandru demanded Interest on Ioan 12% is not valid, because as per Indian Partnership act v) 1932 section(d), the rate of interest on loan to the Partner's loan is 6% only.

2. Fixed capital method

Dr

Dr

Partner's Capital a/c

Particulars	Rooban	Deri	Particulars	Rooban	Deri
			Balance b/d	70000	50000
			Cash/bank a/c	18000	16000
Balance c/d	88000	66000			
	88000	66000		88000	66000

s cui rent a

Particulars	Rooban	Deri	Particulars	Rooban	Deri
Drawings	10000	6000	Balance b/d	25000	15000
Interest on drawings	500	300	Interest on capital	3500	2500
			Salary	-	18000
			Commission	12000	-
Balance c/d	65000	55000	Share of profit	35000	25800
	75500	61300		75500	61300

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Cr

3. Fixed capital method:

Partner's capital a/c

Particulars	Arun	Selvam	Particulars	Arun	Selvam	
			Balance b/d	220000	150000	
Balance c/d	220000	220000	Cash/bank a/c	-	70000	
	220000	220000		220000	220000	

Pa	rtn	er'	S	Curr	ent	a/	(

Dr **Particulars** Selvam **Particulars** Arun Selvam Arun Balance b/d Balance b/d 4250 10000 -22000 Drawings 10000 20000 Share of profit 15000 Interest on capital 1100 Interest on 750 600 750 drawing Commission 6900 **Balance c/d** 15000 12000 Salary 6850 30000 32600 30000 32600

4. Fluctuating capital method

Partner's capital account

Dr

Cr

Particulars	Padmini	Padma	Particulars	Padmini	Padma
			Balance b/d	500000	400000
Drawings	70000	40000	Share of profit	52000	40000
Interest on drawings	2000	1000	Interest on capital	30000	24000
			Commission	-	21000
Balance c/d	555000	444000	Salary	45000	-
	627000	485000		627000	485000

5. <u>Calculation of IOC(Interest on Capital)</u>

Interest on capital = Opening Capital x Rate of Interest x period of interest

Mannan : 150000 x 6/100 = **₹9000**

Ramesh: 10000 x 6/100=**₹6000**

6. <u>Calculation of IOC:</u>

Prakash	<u>Supria</u>
Capital =300000 x 6/100 =18000	Capital =200000 x 6/100=12000
Additional Capital =60000 x 6/100 x 9/12 =2700	Additional capital =200000 x 6/100x6/12=900
20700	12900

Note: The date of additional capital is not given. The average period is 6 months.

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Cr

7. <u>Calculation of IOC:</u>

· ·		•					
	Begam				<u>Fatima</u>		
	Ca	pital =50000 x 4	/100 =200	0		Capital =40000 x 4	/100=1600
	Additional Capital	=10000 x 4/100	x 3/12 =10	00	Additional cap	pital =9000 x 4/100x	8/12=240
				00			1840
8.	Calculation of IOC	<u>:</u>					
		<u>Subha</u>		<u>Su</u>	<u>dha</u>		
		Closing capital	40000	Clo	osing capital	60000	
		Add:Drawing	<u>8000</u>	Ad	ld: Drawing	<u>10000</u>	
			48000			70000	
		Less: Profit	<u>12000</u>	Le	ss: Profit	<u>18000</u>	
		Opening capital	36000	Op	ening capital	<u>52000</u>	
		<u>Subha</u>		<u>Su</u>	<u>dha</u>		
		36000X5/100	=1800	52	000X5/100	=2600	
9.	Calculation of IOC	<u>:</u>					
	<u>Rajan</u>			<u>D</u>	<u>evan</u>		
	Closing capital		100000	C	losing capital		80000
	Add: Drawings		<u>20000</u>	A	dd: Drawings		<u>10000</u>
			120000				90000
	Less: Profit		<u>(-)20000</u>	L	ess: Profit		<u>10000</u>
			100000				80000
	Add: Additional Cap	oital	<u>(-)40000</u>	А	dd: Additional	Capital	<u>30000</u>
	Opening capital		<u>60000</u>	0	pening capital		<u>50000</u>
	<u>Rajan</u>			D	<u>evan</u>		
	Capital 60000X6/100		=3600	C	apital 50000X6	/100	=3000
	Additional capital 400	000X6/100X9/12	= <u>1800</u>	A	dditional capital	30000X6/100X4/12	= <u>600</u>
			<u>5400</u>				<u>3600</u>
10.	Compute the amount	of interest on cap	<u>oital in eac</u>	ch o	of the following	situations:	
j	i) If the partners	hip deed is silent, t	he interest	on o	capital is not allo	owed to partner's capit	al
1	ii) If IOC @4% i	s allowed as per th	e partnersh	ip d	leed		
	<u>A</u>	<u>hamed</u>	2400	Bas	$\frac{sher}{2} = 40000 \mathbf{X} \frac{1}{10}$	0 1600	
	Ю	JC -00000A4/100	=2400 (2400+1	100	_ = 40000 A 4/10 = 4000)	vo =1000	
					1 0 600		

iii) If the partnership deed allows interest on capital @ 6% per annum.

Ahamed

Basher

IOC =60000X6/100 =3600 IOC = 40000X6/100 =2400

(3600+2400=6000) Note: if the IOC is greater than the profit. Profit will be distributed to the partners in their capital ratio 3:2.

11. Calculate IOD

Interest on Drawings = Amount of Drawings x Rate of interest x Period of interest

Mani:IOD = 30000 x 6/100 x 4/12 =₹600

12. Calculate the amount of IOD

Date	Drawings₹	IOD calculation	IOD
February 1	2000	2000 x 6/100 x 11/12	110
May 1	10000	10000 x 6/100 x 8/12	400
July 1	4000	4000 x 6/100 x 6/12	120
October 1	6000	6000 x 6/100 x 3/12	90
			720

13. Calculate the amount of IOD

Date	Drawings₹	IOD calculation	IOD
March 1	4000	4000 x 6/100 x 10/12	200
June 1	4000	4000 x 6/100 x 7/12	140
September 1	4000	4000 x 6/100 x 4/12	80
December 1	4000	4000 x 6/100 x 1/12	20
			440

14. Calculate IOD of Mathew:

IOD= Amount of Drawing x Rate of Interest x period of Interest

IOD= 20000 x 10/100 x 6/12 = ₹1000

Note: If the date of Withdrawal is not given. The average period is taken as 6 months.

15. Calculate IOD by using Product method:

IOD = Total product amount x Rate of Interest x 1/12

Date	Drawing ₹	Period of interest	Total product
February 1	2000	11	22000
May 1	10000	8	80000
July 1	4000	6	24000
October 1	6000	3	18000
			144000

IOD= 144000 x $\overline{6/100 \times 1/12} = 720$

16. <u>Calculate IOD using Average Period Method:</u>

Total amount of drawings = Drawings per month x 12 (Every Month Drawing)

IOD = Total amount of Drawings x Rate of Interest x Average Period/12

Total amount of drawings = 2500 x 12 = 30000

i)	At the beginning of every month:	IOD = 30000 x 4/100 x 6.5/12 = 650
ii)	In the middle of every month:	IOD = 30000 x 4/100 x 6/12 = 600
iii)	At the end of every month:	IOD = 30000 x 4/100 x 5.5/12 = 550

Average period is computed as follows:

The following table shows the average period in months for withdrawal made at the beginning, in the middle and at the end of every month, quarter and half-year of the year.

	Average period (in months)							
Frequency of withdrawal		Time of withdrawal						
	At the beginning	In the middle	At the end					
Monthly	$\frac{(12+1)}{2} = 6.5$	$\frac{(11.5+0.5)}{2} = 6$	$\frac{(11+0)}{2} = 5.5$					
Quarterly	$\frac{(12+3)}{2} = 7.5$	$\frac{(10.5+1.5)}{2} = 6$	$\frac{(9+0)}{2} = 4.5$					
Half-yearly	$\frac{(12+6)}{2} = 9$	$\frac{(9+3)}{2} = 6$	$\frac{(6+0)}{2} = 3$					

17. Calculate IOD (Kevin)

Total amount of Drawings=Amount draws in every month x 4

Total amount of Drawings= 5000x4=20000

IOD = Total amount of Drawings x Rate of Interest x Average Period/12

IOD = 20000 x 6/100 x 4.5/12 = ₹450

18. Calculate IOD (Ram)

Total amount of Drawings=Amount draws in every month x 2

Total amount of Drawings= 18000x2=36000

IOD = Total amount of Drawings x Rate of Interest x Average Period/12

IOD = 36000 x 10/100 x 9/12 = ₹2700

19. Journal entries:

Date		Particular	L.F	Debit	Credit
31 st	March	Kamali's salary a/c Dr		10000	
2018		To Kamali's capital a/c			10000
		(Kamali's salary transfer to their capital account)			
31 st	March	Janani's Commission a/c Dr		40000	
2018		To Janani's capital a/c			40000
		(Janani's Commission transfer to their capital account)			
31 st	March	Profit & Loss Appropriation a/c Dr		50000	
2018		To Kamali's Salary a/c			10000
		To Janani's Commission a/c			40000
		(salary & commission Transfer to Profit & Loss			
		Appropriation a/c)			

20. Find the commission of Sibi and Manoj (Prepare P&L Appropriation account)

Profit & Loss Appropriation a/c

Particu	lar		₹	₹	Particulars			₹	₹
Sibi's co	ommission	1	2000		Profit				60000
Manoj's	commission	8	0000	20000					
Partner	's Capital a/c								
Sibi's ca	pital	2	0000						
Manoj's	capital	2	0000	40000					
5	1			60000					60000
21. Prenare	e journal entries a	and Pro	fit & Los	s Annro	priation account				
D. <u>110 park</u>	r	Profit d	& Loss Ar	ppropriat	ion a/c			Cr	
	Particulars			₹	Particulars		₹	₹	
	Interest on cap	ital:			Profit			35000	_
	Ananth		3000		Interest on drav	wings			
	Narayanan		1800	4800	Ananth		1000		
	Partner's capit	al a/c			Narayanan		800	1800	
	Ananth's capita	l a/c	20000						
	Narayanan's cap	pital a/c	<u>12000</u>	32000					
	Narayanan's caj	pital a/c	<u>12000</u>	32000 36800				36800	-
	Narayanan's cap Journal	pital a/c I entries	12000 in the b	32000 36800 ook of Pa	rtnership firm o	f Anar	nth & N	36800 Jarayan	
	Narayanan's cap Journal Date	pital a/c l entries Partice	<u>12000</u> in the bound	32000 36800 ook of Pa	artnership firm o	f Anar L.F	nth & N Debit	36800 Varayan Credit	
	Narayanan's cap Journal Date 31 st March 2018	pital a/c l entries Partice Interes	12000 in the bo llar t on capita	32000 36800 ook of Pa	rtnership firm o Dr	f Anai L.F	nth & N Debit 4800	36800 Jarayan Credit	
	Narayanan's cap Journal Date 31 st March 2018	pital a/c l entries Particu Interes T	12000 in the bo llar t on capita o Ananth'	32000 36800 ook of Pa al a/c 's capital a	nrtnership firm o Dr	f Anai L.F	nth & N Debit 4800	36800 Jarayan Credit 3000	
	Narayanan's caj Journal Date 31 st March 2018	entries Partice Interes	12000 in the bo ilar t on capita t on capita t o Ananth'	32000 36800 ook of Pa al a/c 's capital a nan's capi	Dr /c tal a/c	f Anar	nth & N Debit 4800	36800 Jarayan Credit 3000 1800	
	Narayanan's cap Journal Date 31 st March 2018	entries Partice Interes (Being	12000 in the bo llar t on capita o Ananth' To Naraya IOC Tran	32000 36800 ook of Pa al a/c 's capital a nan's capi asfer to par	Dr /c tal a/c tner's capital a/c)	f Anar	nth & N Debit 4800	36800 Jarayan Credit 3000 1800	
	Narayanan's cap Journal Date 31 st March 2018 31 st March 2018	entries Partice Interes (Being Profit a	12000 in the bo ilar t on capita o Ananth' To Naraya IOC Tran nd loss ap To Intere	32000 36800 ook of Pa al a/c 's capital a nan's capi asfer to par opropriatic	Dr /c tal a/c tner's capital a/c) m a/c Dr ital a/c	f Anai	nth & N Debit 4800	36800 Jarayan Credit 3000 1800	
	Narayanan's caj Journal Date 31 st March 2018 31 st March 2018	entries Partice Interes (Being Profit a (Being	12000 in the bo ilar t on capita o Ananth' To Naraya IOC Tran nd loss ap To Intere IOC a/c C	32000 36800 ook of Pa al a/c 's capital a nan's capi asfer to par opropriatic est on Cap Closed)	Dr /c tal a/c tner's capital a/c) n a/c Dr ital a/c	f Anar	nth & N Debit 4800	36800 Arayan Credit 3000 1800 4800	
	Narayanan's caj Journal Date 31 st March 2018 31 st March 2018	entries Partice Interes (Being Profit a (Being Ananth	12000 in the bo lar t on capita o Ananth' To Naraya IOC Tran nd loss ap To Intere IOC a/c C 's capital	32000 36800 ook of Pa al a/c 's capital a nan's capital a propriation est on Cap Closed) a/c	Dr /c tal a/c tner's capital a/c) n a/c Dr ital a/c Dr	f Anar	nth & N Debit 4800 4800 1000	36800 arayan Credit 3000 1800 4800	
	Narayanan's caj Journal Date 31 st March 2018 31 st March 2018 31 st March 2018	entries Partice Interes T (Being Profit a (Being Ananth Naraya	12000 in the bo ilar ton capita o Ananth' To Naraya IOC Tran nd loss ap To Intere IOC a/c C i's capital nan's cap	32000 36800 ook of Pa al a/c 's capital a nan's capital a propriation est on Cap Closed) a/c ital a/c	Dr ital a/c tner's capital a/c) n a/c Dr ital a/c Dr Dr Dr Dr	f Anar	Image: https://www.new.org/action/org/actio	36800 Arayan Credit 3000 1800 4800	
	Narayanan's caj Journal Date 31 st March 2018 31 st March 2018 31 st March 2018	Partice Interes T (Being Profit a (Being Ananth Naraya To I	12000 in the bo llar t on capita o Ananth' To Naraya IOC Tran IOC Tran IOC Tran IOC a/c C 's capital nan's capi	32000 36800 ook of Pa al a/c 's capital a nan's capi sfer to par opropriatic est on Cap Closed) a/c ital a/c Drawing a	rtnership firm o Dr /c tal a/c tner's capital a/c) n a/c Dr ital a/c Dr Dr Dr d/c	f Anar	Image: https://www.new.org/action/org/actio	36800 Jarayan Credit 3000 1800 4800	
	Journal Journal Date 31 st March 2018 31 st March 2018 31 st March 2018	entries Partice Interes T (Being Profit a (Being Ananth Naraya To h (Being	12000 in the bo llar ton capita ton capita to Ananth' To Naraya IOC Tran IOC Tran IOC a/c C i's capital nan's capi nterest on IOD Tran	32000 36800 ook of Pa al a/c 's capital a nan's capi asfer to par opropriatic est on Cap Closed) a/c ital a/c Drawing a asfer to Par	Thership firm of Dr Dr /c tal a/c ther's capital a/c) in a/c Dr ital a/c Dr Dr Dr Dr d/c thers capital a/c)	f Anar	nth & N Debit 4800 4800 1000 800	36800 Jarayan Credit 3000 1800 4800	
	Journal Journal Date 31 st March 2018 31 st March 2018 31 st March 2018 31 st March 2018	entries Partice Interes T (Being Profit a (Being Ananth Naraya To h (Being Interes	12000 in the bo llar ton capita o Ananth' To Naraya IOC Tran IOC Tran IOC a/c C i's capital nan's ca	32000 36800 ook of Pa al a/c 's capital a nan's capi asfer to par opropriatic est on Cap Closed) a/c ital a/c Drawing a sfer to Par ing a/c	rtnership firm o Dr /c tal a/c tner's capital a/c) n a/c Dr ital a/c Dr Dr d/c tners capital a/c) Dr	f Anar	Ith & N Debit 4800 4800 1000 800 1800	36800 Varayan Credit 3000 1800 4800	
	Narayanan's caj Journal Date 31 st March 2018 31 st March 2018 31 st March 2018 31 st March 2018	Partice Partice Interes T (Being Profit a (Being Ananth Naraya To It (Being Interes To F (Dain	12000 in the bo ilar ton capita ton capita to Ananth' To Naraya IOC Tran IOC Tran IOC a/c C i's capital nan's capi	32000 36800 ook of Pa al a/c 's capital a nan's capi asfer to par opropriatic est on Cap Closed) a/c ital a/c Drawing a ing a/c oss Approp	Artnership firm o Dr /c tal a/c tner's capital a/c) n a/c Dr ital a/c Dr Dr Dr Dr C truers capital a/c) Dr Dr Dr Dr Dr Dr Dr Dr Dr Dr	f Anar	Image: math & N Debit 4800 4800 1000 800 1800	36800 Jarayan Credit 3000 1800 4800 1800 1800	
	Journal Journal Date 31 st March 2018 31 st March 2018 31 st March 2018 31 st March 2018 31 st March 2018	entries Particu Interes T (Being Profit a (Being Ananth Naraya To It (Being Interes To F (Being	12000 in the bo llar t on capita o Ananth' To Naraya IOC Tran nd loss ap To Intere IOC a/c C 's capital nan's capi	32000 36800 36800 ook of Pa al a/c 's capital a nan's capi asfer to pan opropriatic est on Cap Closed) a/c ital a/c Drawing a ing a/c coss Approp Closed) proprietic	artnership firm o Dr /c tal a/c tner's capital a/c) in a/c Dr ital a/c Dr Dr Dr Dr d/c ctners capital a/c) Dr d/c ctners capital a/c) Dr	f Anar	nth & N Debit 4800 4800 1000 800 1800 32000	36800 arayan Credit 3000 1800 4800 1800 1800	
	Narayanan's caj Journal Date 31 st March 2018 31 st March 2018 31 st March 2018 31 st March 2018 31 st March 2018	Partice Interess Partice Interess T (Being Profit a (Being Interess To I (Being Interess To F (Being Profit a	12000 in the bo llar t on capita o Ananth' To Naraya IOC Tran nd loss ap To Intere IOC a/c C i's capital nan's cap	32000 36800 ook of Pa al a/c 's capital a nan's capi asfer to pan opropriatic est on Cap Closed) a/c ital a/c Drawing a ing a/c oss Approj Closed) propriation capital a/c	Intership firm o Image: Dr /c tal a/c ther's capital a/c) in a/c Dr ital a/c Dr ital a/c Dr ital a/c Dr Dr Dr Dr Dr Dr oriation a/c in a/c Dr	f Anar	Ith & N Debit 4800 4800 1000 800 1800 32000	36800 Xarayan Credit 3000 1800 4800 1800 1800 1800 20000	
	Narayanan's caj Journal Date 31 st March 2018 31 st March 2018 31 st March 2018 31 st March 2018 31 st March 2018	entries Partice Interes T (Being Profit a (Being Ananth Naraya To It (Being Interes To F (Being Profit a To F (Being	12000 in the bo lar t on capita o Ananth' To Naraya IOC Tran nd loss ap To Intere IOC a/c C 's capital nan's capit	32000 36800 ook of Pa al a/c 's capital a nan's capital a propriation est on Cap Closed) a/c ital a/c Drawing a ing a/c oss Approp Closed) propriation capital a/c n's capital	Inthership firm o Image: Dr /c tal a/c ther's capital a/c) in a/c Dr ital a/c n/c thers capital a/c) Dr oriation a/c n a/c Dr a/c	f Anar	Image: https://www.new.org/action/org/action/act	36800 Varayan Credit 3000 1800 4800 4800 1800 1800 1800 20000 12000	

22. Prepare Profit & Loss Appropriation account

Dr	<u>Profit</u>	& Loss A	Cr		
Particulars	₹	₹	Particulars	₹	₹
Interest on capital:			Profit		220000
Dinesh	60000		Interest on Drawing:		
Sugumar	<u>48000</u>	10800	Dinesh	3600	
Dinesh's salary		60000	sugumar	<u>2200</u>	5800
Sugumar's commission		80000			
Partner's capital:					
Dinesh's capital	50000				
Sugumar's capital	25000	75000			
		225800			225800

23. Prepare profit & loss appropriation account

Dr <u>Profit & Loss Appropriation a/c</u>					Cr
Particulars	₹	₹	Particulars	₹	₹
Interest on capital a/c:			Profit		365000
Antony	20000				
Ranjith	15000	35000			
Antony's salary		90000			
Ranjith's commission		48000			
Partner's capital:					
Antony	96000				
Ranjith	96000	192000			
		225800			225800

CASE STUDY Malar and Mani are good friends and wanted to start a business of buying and selling of sports materials. So, they formed a partnership firm. They contributed equal amount of capital. Apart from the capital, Mani gave loan to the business. However, there was no partnership deed. Malar is good at marketing and adds value to the business with her skills. The firm maintains two separate accounts- capital and current accounts. The business gained popularity and reputation. But, the business could not cover its expenses and hence made a loss. At the end of the first year of the business, they had some misunderstanding on the following:

- 1) Malar claims salary of ₹ 10,000 per month, for her extra efforts. Mani does not agree to this.
- 2) Mani claims interest on the loan. But, Malar does not agree for this saying that the business made a loss.
- 3) Mani wants to admit his relative into the existing firm, but Malar does not agree for this.

They both need your help to solve these issues.

- Malar's claims is invalid, because according to the Indian Partnership Act 1932 Sec(A) salary is not allowed to the partners in a firm
- 2. Mani's claims is valid, because according to the Indian partnership Act 1932 Sec (d) Interest on loan provided to the partners at 6% P.a
- 3. Mani want to admit his relative into the existing firm with the agree of other partners.

Arise! Awake! And Stop not until the goal is reached

-Swami Vivekanandar

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GOODWILL (AS10) IN PARTNERSHIP ACCOUNTS FORMULAS, SPECIMENS & BOOK BACK EXERCISE

1. <u>Meaning:</u>

Goodwill is the good name and reputation of the business which brings business benefits to the business. It is an intangible fixed asset. It is intangible because it has no physical existence. It cannot be seen and touched.

2. Factors determining the value of goodwill of a partnership firm:

- a. Profitability of the business
- b. Favourable location of the business enterprises
- c. Good quality of goods and services offered
- d. Tenure of the business enterprises
- e. Efficiency of the management
- f. Degree of competition
- g. Other factors

3. <u>Need for valuation of goodwill of partnership firms:</u>

- a. When there is a change in the profit sharing ratio
- b. When a new partner is admitted into a firm
- c. When an existing partner retires from the firm or when a partner dies
- d. When a partnership firm is dissolved.

4. <u>Classification of goodwill:</u>

- a. Acquired goodwill (it can be recorded in the books of accounts & it shown in the assets side of Balance sheet)
- b. Self generated goodwill (it cannot be recorded in the books of accounts & it not shown in the balance sheet)

5. <u>Method of valuation of goodwill (Self generated goodwill):</u>

a. Average profit method

- i. Simple average profit method
- ii. Weighted average profit method

b. <u>Super profit method</u>

- i. Purchase of super profit method
- ii. Annuity method
- iii. Capitalization of super profit method

c. Capitalization method

6. <u>Average profit method:</u>

While computing the average profit, in addition to rectification of errors, the following adjustments are to be made:

Adjusted profit = Actual profit

- + Past expenses not required in the future
- Past revenues not likely to be earned in the future
- + Additional income expected in the future
- Additional expenses expected to be paid in the future

The average profit may be either simple average profit or weighted average profit.

7. Simple average profit method:

Goodwill = Average profit x No of years of purchase

Average profit = $\frac{Total Profit}{No of years}$

8. <u>Weighted average profit method:</u>

This method is used when the profit show an increase or decreasing trend. More weight is generally

given to the profit of the recent year.(Ex: Year 1=1; Year 2=2; Year 3=3; Year 4=4;.... Year n=n;)

Goodwill = Weighted Average profit x No of years of purchase

Average profit = $\frac{Total \ of \ weighted \ Profit}{Total \ of \ weight}$

9. <u>Super profit method:</u>

Super profit = Average profit – Normal profit

Average profit = $\frac{Total Profit}{No of years}$

Normal profit = Capital employed x Normal Rate of return

Capital Employed = Fixed assets + Current assets - Current Liability

Normal Rate of return = profit earned by the similar business entity in the industry under normal circumstances.

10. Purchase of super profit method

Goodwill = super profit x No of years purchase

11. <u>Annuity method:</u>

Goodwill = Super profit x Present value of annuity factor

Present value of annuity factor is the present value of annuity of rupee one at given time. It can

found out from annuity table or by using formula

Note: Annuity table download from internet.

The formula is: Annuity factor = $\frac{(1+i)^{n}-1}{i(1+i)^{n}}$

12. <u>Capitalisation of super profit method:</u>

 $Goodwill = \frac{super \ profit}{Normal \ Rate \ of \ Return} \ x \ 100$

13. <u>Capitalisation method:</u>

Goodwill = Total capitalized value of the business - Actual capital employed

Capitalized value of the business = $\frac{Average \ profit}{Normal \ rate \ of \ return} x100$

Actual capital employed = Fixed assets (Excluding goodwill)+Current assets -Current Liabilities

14. Point to remember:

- Goodwill is the good name or reputation of the business which brings benefit to the business.
- It is an intangible fixed asset. Following are the circumstances that require valuation of goodwill of partnership firms in order to protect the rights of the partners:
- When the profit sharing ratio is changed, when a new partner is admitted into a firm, when an existing partner retires from the firm or when a partner dies and when a partnership firm is dissolved
- Goodwill may be classified into acquired goodwill and self-generated goodwill.
- Following are the methods generally followed to value goodwill: Average profits methods, super profit methods and capitalisation method

BOOK EXERCISE

1. Short answer question 4 Compute average profit

Average profit = $\frac{Total \ Profit}{No \ of \ years}$ Average profit = $\frac{8000+10000+9000}{3} = \frac{27000}{3} = ₹9000$

2. Short answer question 5 Compute goodwill using average profit method

Goodwill = Average profit x No of years purchase

Good will = $15000 \ge 2 = ₹30000$

EXERCISE SUMS

Simple Average Profit Method:

1. Calculate the value of goodwill Under Average profit method:

Goodwill = Average profit x No of years purchase

Average profit = $\frac{Total \ Profit}{No \ of \ years}$

Average profit = $\frac{10000 + 11000 + 12000 + 13000 + 14000}{5} = \frac{60000}{5} = ₹12000$

Goodwill = 12000 x 2 = ₹24000

2. Calculate the value of goodwill Under Average profit method

Goodwill = Average profit x No of years purchase

Average profit =
$$\frac{Total Profit}{No of years}$$

Average profit = $\frac{5000+8000-3000+6000}{4} = \frac{16000}{4} = ₹4000$

Goodwill = 4000 x 3 = ₹12000

3. <u>Calculate the value of goodwill Under Average profit method:</u>

Particular	2015	2016	2017	2018
Profits	10000	12500	12000	11500
Less: Remuneration	(-)1500	(-)1500	(-)1500	(-)1500
Profit after adjustment	8500	11000	10500	10000

Goodwill = Average profit x No of years purchase

Average profit =
$$\frac{Total Profit}{No of years}$$
;

Average profit =
$$\frac{8500 + 11000 + 10500 + 10000}{4} = \frac{40000}{4} = ₹10000$$

Goodwill = 10000 x 3 = ₹30000
(Or)

Average profit = $\frac{10000 + 12500 + 12000 + 11500}{4} = \frac{46000}{4} = ₹11500$

Less: Remuneration = ₹1500

Adjusted average profit = **<u>10000</u>**

Goodwill = 10000 x 3 = ₹30000

4. <u>Calculate the value of goodwill Under Average profit method:</u>

Particulars	2016	2017	2018
Profit	175000	150000	200000
Less: Non recurring income	(-)45000	-	-
Less: Over valuation of closing stock	-	(-)30000	-
Add: over valuation of opening stock	-		(+)30000
Adjusted profit	130000	120000	230000

Goodwill = Average profit x No of years purchase

Average profit = $\frac{Total \ Profit}{No \ of \ years}$; Average profit = $\frac{130000+120000+230000}{3} = \frac{480000}{3} = ₹160000$

Goodwill = $160000 \ge 4 = ₹640000$

5. <u>Calculate the value of goodwill under Average profit method:</u>

Particulars	2016	2017	2018
Profit	25000	23000	26000
Less: Non recurring income	(-)2500	-	-
Add: stock destroyed by fire	-	(+)3500	-
Less: Insurance Premium in future	(-)250	(-)250	(-)250
Adjusted profit	22250	26250	25750

Weighted Average profit method:

6. Calculate the value of goodwill under Weighted average profit method:

Year	Profits (A)	Weight (B)	Weighted profit (AxB)
2015	10000	1	10000
2016	12000	2	24000
2017	16000	3	48000
2018	18000	4	72000
	Total	10	154000

Goodwill = Weighted Average profit x No of years of purchase

Average profit =
$$\frac{Total \ of \ weighted \ Profit}{Total \ of \ weight} = \frac{154000}{10} = 15400$$

Goodwill = 15400 x 3 = ₹46200

Purchased Super profit method:

7. <u>Calculate the value of goodwill under purchased super profit method:</u>

Super profit = Average profit – Normal profit

Average profit = $\frac{Total \ Profit}{No \ of \ years}$

Normal profit = Capital employed x Normal Rate of return

Capital Employed = Fixed assets + Current assets - Current Liability

Capital employed= 500000-200000=₹300000

Normal profit = = 300000 x 12.5/100 =₹ 37500

Super profit = 60000 -37500 = ₹22500

Goodwill = 22500 x 2 = ₹45000

8. <u>Calculate the value of goodwill under super profit method:</u>

Super profit = Average profit – Normal profit

Average profit = $\frac{Total Profit}{No of years}$

Normal profit = Capital employed x Normal Rate of return

Capital Employed = Fixed assets + Current assets - Current Liability

Average profit = 20000+17000+230000/3 = 60000/3=**₹20000**

Normal profit = = $80000 \ge 15/100 = 12000$

Super profit = 20000 -12000 = ₹8000

Goodwill = 8000 x 2 = ₹16000

Annuity method

9. Calculate the value of goodwill under Annuity method

Goodwill = Super profit x Present value of annuity factor

Super profit = Average profit – Normal Profit

= 14000 - 4000 = 10000

Goodwill = 10000 x 3.352 = **₹33520**

Capitalisation of super profit method

10. Calculate the value of goodwill under capitalisation of super profit method

 $Goodwill = \frac{super profit}{Normal Rate of Return} x 100$

Super profit = Average profit – Normal profit

Average profit = $\frac{Total \ Profit}{No \ of \ years} = \frac{(30000 - 3000) + 40000 + 50000 + 45000}{4} = 162000/4 = ₹40500$

Note: A non recurring income of Rs.3000 is included in Rs.30000 profit. So it was deducted from

Rs.30000. Normal profit = capital employed x NRR (Normal rate of return)

= 300000 x 10/100 =₹30000

Super profit = 40500 - 30000 = ₹10500;

Goodwill = 10500/10x100 = ₹105000

Capitalisation method

11. Calculate the value of goodwill under capitalisation method

Goodwill = Total capitalized value of the business – Actual capital employed Capitalized value of the business = $\frac{Average \ profit}{Normal \ rate \ of \ return} x100$ Actual capital employed = Fixed assets (Excluding goodwill)+Current assets –Current Liabilities Capitalisaton value of the business = 20000/10 x 100 = 200000

Goodwill = 200000 − 150000 = ₹50000

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Admission of a partner (Sec 31(1) of Indian Partnership Act 1932

Formulae, Specimens and Exercise sums

1. Adjustment required at the time of admission of a partner

On admission, the new partner may bring capital in cash or in kind or both. The following journal entry is passed to record the capital brought in

Date	Particulars	LF	Debit	Credit
	Cash or Bank a/c Dr		XXXX	
	Assets a/c Dr		XXXX	
	To New Partner Capita	l a/c		XXXX

The following adjustments are necessary at the time of admission of a partner

- a. Distribution of accumulated profits, reserves and losses
- b. Revaluations of Assets and Liabilities
- c. Determinations of new profit sharing ration and Sacrificing ratio
- d. Adjustment for Goodwill
- e. Adjustment of capital on the basis of new profit sharing ratio (if so agreed)

2. <u>Distribution of accumulated profits, reserves and losses</u>

For transferring accumulated profits and reserves

_				
Date	Particulars	LF	Debit	Credit
	Profit and loss appropriation a/c Dr		XXXX	
	General Reserve a/c Dr		xxxx	
	Workmen compensation fund a/c* Dr		XXXX	
	Investment fluctuation fund a/c* Dr		XXXX	
	To Old Partner's Capital /Current a/c			XXXX
	(in old ratio)			

For transferring accumulated losses

Date	Particulars	LF	Debit	Credit
	Old partner's Capital / Current a/c Dr		XXXX	
	To Profit & Loss a/c (in old ratio)			XXXX

<u>Note:</u> In case of WCF*, the excess amount after providing for anticipated claim is the accumulated profit to be transferred.

In case of IFF* if the market value of investments is less than the book value, then the difference (book value and market value of investment) is to be subtracted from the IFF and the balance of IFF is to be transferred to the old partners capital a/c / current a/c in their old profit sharing ratio.

3. <u>Revaluation of assets and liabilities</u>

- a) Revised value of assets and liabilities are show in the book
- b) Revised value of assets and liabilities are not show in the book

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 rat	io)			xxx
	(b) If there is loss on revaluation				
	Old partners' capital A/c (individually in old ratio)	Dr.		xxx	
	To Revaluation A/c				xxx

4. <u>Revised value of assets and liabilities are show in the book</u>

5. Format of revaluation account

Dr

Revaluation a/c

Cr

Particulars	₹	₹	Particulars	₹	₹
To Increase in Liabilities		xxxx	By Decrease in Assets		xxxx
To Decrease in Assets		xxxx	By Increase in Liabilities		xxxx
To Unrecorded Liabilities		xxxx	By Unrecorded Assets		xxxx
To old Partner's Capital a/c (Profit on revaluation	xxxx	xxxx	To old Partner's Capital a/c (Profit on revaluation	xxxx	хххх
shared in old ratio)*			shared in old ratio)*		

Note: There will be either Profit or Loss on revaluation.

When revised value of assets and Liabilities are not shown in the book:

Under this method, the assets and liabilities are shown at their original values and not at the revised value in the books and in the balance sheet which is prepared immediately after the admission of a partner.

A memorandum revaluation account which is a temporary account is opened when the revised values are not to be shown in the books of accounts.

6. New profit sharing ratio and Sacrificing ratio

a. When new profit sharing ratio is given

Sacrificing ratio = Ratio of share sacrificed by the old partner (Existing partner) Share Sacrificed = Old share – New share

b. When new profit sharing ratio is not given

i) when share sacrificed is given

New share of old partner = Old share – Share sacrified

Share of New partner = Sum of shares sacrificed by old partners

ii) When proportion of share sacrificed is given

a) when share sacrificed is given as a proportion on old partners' share

Share sacrificed by old partner = old share x Proportion of share sacrificed

New share of old partner = Old share - share sacrificed

Share of new partner = Sum of share sacrificed by old partners

b) When proportion of share sacrificed on new partner's share is given

New share of old partner = Old share – Share sacrificed

Share sacrificed = New partner's share x Proportion of share sacrificed

c) When share sacrificed and proportion of share sacrificed is not given

Share sacrificed = old share of old partners

Total share of firm is considered as = 1

Remaining share = 1- New partner share

New share of old partners = Remaining share x old share

7. Adjustment for goodwill

- a. Accounting Treatment for goodwill
 - i. When new partner brings cash towards goodwill
 - ii. When the new partner does not bring goodwill in cash or in kind
 - iii. When the new partner brings only a part of the goodwill in cash or kind
 - iv. Existing goodwill

i. When new partner brings cash towards goodwill

For the goodwill brought in cash

Date	Particulars	L.F	Dr₹	Cr₹
	Cash a/c Dr		XXXX	
	To Goodwill a/c			Xxxx
	(Being amount received from new partner for goodwill)			
	Goodwill a/c Dr		XXXX	
	To Old partners Capital /Current a/c			XXXX
	To sacrificed partners Capital /Current a/c			XXXX
	(Being goodwill transferred to existing partners capital/ current a/c)			

For the goodwill brought in Kinds (Assets)

Date	Particulars	L.F	Dr₹	Cr₹
	Respective assets a/c Dr		XXXX	
	To Goodwill a/c			Xxxx
	(Being Assets received from new partner for goodwill)			

	Goodwill a/c Dr					vvvv	
	To Old nontrone Conital /Current a/a					ΛΛΛΛ	
	To Old partners Capital /Current a/c	,					XXXX
	To sacrificed partners Capital /Current	a/c					XXXX
	(Being goodwill transferred to existing pa	rtners	capital	current a/c)			
For w	ithdrawal of cash received for goodwill	by the	e old pa	<u>irtners</u>			
Date	Particulars				L.F	Dr₹	Cr₹
	Old partner's capital/current a/c	Dr				XXXX	
	To Cash / Bank a/c						Xxxx
	(Being amount withdrawal from the firm	for ne	w partr	er goodwill)			
ii. Wh	en new partner does not bring goodwill	in cas	sh or in	kind			
Date	Particulars	L.F	Dr₹	Cr₹			
	New partner's capital a/c Dr		XXXX				
	To Old partner's capital/current a/c			Xxxx			
	(in sacrificing ratio)						
iii. W	hen the new partner bring only a part of	f the g	oodwil	l in cash or i	n kind		
Date	Particulars	LF	Dr₹	Cr₹			
Dute	Cash/Bank a/c Dr		vvvv				
	New partner's capital a/c Dr		ЛЛЛЛ	Vvvv			
	To Old norther's capital d/c Di			ΛΛΛΛ			
	i o olu partner s'capital/current a/c						
	(in sacrificing ratio)						
iv. Ex	isting Goodwill						
Date	Particulars I	.F I)r₹ (r₹			

Date	Particulars		L.F	Dr₹	Cr₹
	Old partner's capital/current a/c	Dr		XXXX	
	To Goodwill a/c				Xxxx
	(in sacrificing ratio)				

8. Adjustment of capital on the basis of new profit sharing ratio:

Sometimes, it may be agreed by the partners that their capitals in the reconstituted firm be in the proportion of their new profit sharing ratio. There can be two situations

- 1. The new partner may be required to bring proportionate capital for his share of profit.
- 2. The old partners may be required to make their capital in proportion to their new profit sharing ratio

9. <u>Points to remember:</u>

- On admission of a new partner, the firm is reconstituted with a new agreement and the existing agreement comes to an end.
- On admission of a partner, generally there is a change in the mutual rights of the partners. The new partner acquires the right to share the future profits and share the assets of the firm.
- The new partner becomes liable for all the acts which are carried out by the firm from the date of his / her admission into the firm.
- On admission of a partner, the accumulated profits, accumulated losses and reserves before admission are to be distributed to the existing partners in the old ratio.
- When a partner is admitted into the firm, assets and liabilities are to be revalued and the profit or loss on revaluation is to be distributed to the existing partners in the old ratio.

- At the time of admission of a partner it is necessary to determine the new profit sharing ratio because the new partner is entitled to share the future profits of the firm.
- If the new profit sharing ratio is not agreed, the partners will share the profits and losses equally.
- The existing partners sacrifice part of their share of profit in favour of the new partner. To compensate the sacrifice made by the existing partners, goodwill brought by the new partner is distributed in the sacrificing ratio to the old partners who sacrifice.
- Sacrificing ratio is the proportion of the profit which is sacrificed or foregone by the old partners in favour of the new partner.

	<u>Exercise sums</u>								
Distributions of Undistributed Profits, reserves and losses									
1.	Journal entries for undistributed General Reserves						,		
Date	Particulars		$\mathbf{\Sigma}$	LF	Dr.₹	Cr.₹	;		
	General reserve a/c Dr		/		42000				
	To Arul's Capital a/c					24000)		
	To Anitha's Capital a/c					18000)		
	(Being General reserves distributed to the old partners in o	old rat	io)						
2.	Journal entry for Undistributed Losses								
Date	Particulars	LF	Dr	₹	Cr.₹				
	Anjali's Capital a/c Dr		420	00					
	Nithya's Capital a/c Dr			,	24000				
	To Profit and Loss a/c				18000				
	(Being Losses distributed to the old partners in old ratio)								
3.	Journal entries for undistributed Profit, WCF and Ge	neral	Res	ereve	S				
		ncrai	Iteb						
Date	Particulars	nerui		L	F Dr.	₹ Cr	. F		
Date	Profit and loss a/c Dr			L	F Dr. 4000	₹ Cr	•. F		
Date	ParticularsProfit and loss a/cDrGeneral Reserve a/cDr			L	F Dr. 4000 800	₹ Cr	• F		
Date	ParticularsProfit and loss a/cDrGeneral Reserve a/cDrWorkmen Compensation Fund a/cDr			L	F Dr. 4000 800 1200	₹ Cr 00 00 00	• F		
Date	ParticularsProfit and loss a/cDrGeneral Reserve a/cDrWorkmen Compensation Fund a/cDrOviya's Capital a/c (25000+5000+7500)			L	F Dr. 4000 800 1200	₹ Cr. 00 00 00 375	500		
Date	ParticularsProfit and loss a/cDrGeneral Reserve a/cDrWorkmen Compensation Fund a/cDrOviya's Capital a/c (25000+5000+7500)Kaviya's Capital a/c(15000+3000+4500)			L	F Dr. 4000 800 1200	₹ Cr 00 00 00 375 225	500		
Date	ParticularsProfit and loss a/cDrGeneral Reserve a/cDrWorkmen Compensation Fund a/cDrOviya's Capital a/c (25000+5000+7500)Kaviya's Capital a/c (15000+3000+4500)(old partners Profit, General reserves & WCF distributed in the profit of the process of the proces of t	in old	ratic		F Dr. 4000 800 1200	₹ Cr 00 00 00 375 225	500 500		
Date	ParticularsProfit and loss a/cDrGeneral Reserve a/cDrWorkmen Compensation Fund a/cDrOviya's Capital a/c (25000+5000+7500)Kaviya's Capital a/c (15000+3000+4500)(old partners Profit, General reserves & WCF distributed ifWorkings: 1),Profit40000x5/8=25000 (Oviya) 40000x	in old 3/8=1	ratic 5000)) (Ka	F Dr. 4000 800 1200 viya)	₹ Cr 00 00 00 375 225	500 500		
Date	ParticularsProfit and loss a/cDrGeneral Reserve a/cDrWorkmen Compensation Fund a/cDrOviya's Capital a/c (25000+5000+7500)Kaviya's Capital a/c (15000+3000+4500)(old partners Profit, General reserves & WCF distributed ifWorkings: 1),Profit40000x5/8=25000 (Oviya) 40000x2) general reserve8000x5/8=5000 (Oviya) 8000x3/8=	in old 3/8=1 =3000	ratic 5000 (Ka))) (Ka viya)	F Dr. 4000 800 1200 viya)	₹ Cr 00 00 00 375 225	500 500		
Date	ParticularsProfit and loss a/cDrGeneral Reserve a/cDrWorkmen Compensation Fund a/cDrOviya's Capital a/c (25000+5000+7500)Kaviya's Capital a/c (15000+3000+4500)(old partners Profit, General reserves & WCF distributed ifWorkings: 1),Profit40000x5/8=25000 (Oviya) 40000x2) general reserve8000x5/8=5000 (Oviya) 8000x3/8=3) WCF: 12000x5/8=7500 (Oviya) 12000x3/8=4500 (Ka	in old 3/8=1 =3000 viya)	ratic 5000 (Ka) (Ka viya)	F Dr. 4000 800 1200 viya)	₹ Cr 00 00 00 375 225	500 500		
Date <u>Revali</u>	ParticularsProfit and loss a/cDrGeneral Reserve a/cDrWorkmen Compensation Fund a/cDrOviya's Capital a/c (25000+5000+7500)Kaviya's Capital a/c (15000+3000+4500)(old partners Profit, General reserves & WCF distributed ifWorkings: 1),Profit40000x5/8=25000 (Oviya) 40000x2) general reserve8000x5/8=5000 (Oviya) 8000x3/8=3) WCF: 12000x5/8=7500 (Oviya) 12000x3/8=4500 (Kawations of Assets and Liabilities	in old 3/8=1 =3000 viya)	ratic 5000 (Ka))) (Ka viya)	Dr. 4000 800 1200 viya)	₹ Cr 00 00 375 225	. F 500		
Date <u> Revalu</u> 4.	ParticularsProfit and loss a/cDrGeneral Reserve a/cDrWorkmen Compensation Fund a/cDrOviya's Capital a/c (25000+5000+7500)Kaviya's Capital a/c (15000+3000+4500)(old partners Profit, General reserves & WCF distributed ifWorkings: 1),Profit40000x5/8=25000 (Oviya) 40000x2) general reserve8000x5/8=5000 (Oviya) 8000x3/8=3) WCF: 12000x5/8=7500 (Oviya) 12000x3/8=4500 (Kauations of Assets and LiabilitiesJournal entries for Revaluation account:	in old 3/8=1 =3000 viya)	ratic 5000 (Ka)))) (Ka viya)	F Dr. 4000 800 1200 viya)	₹ Cr 00 00 00 375 225	500 500		

Dutt	i ui ticului b		
	Premises a/c Dr	60000	
	To Revaluation a/c		60000
	(Being Premises Revalued)		
	Revaluation a/c Dr	9500	
	To Stock a/c		5000
	To Furniture a/c		2000
	To Machinery a/c		2500
	(Being Assets are revalued)		
	Revaluation a/c Dr	500	
	To outstanding Liabilities a/c		500
	(being outstanding liabilities revalued)		

	Reval	uation a	/c	
Particulars	₹	₹	Particulars	₹
Stock		5000	Premises	60000
Furniture		2000		
Machinery		2500		
Outstanding liabilities		500		
Revaluation profit				
Hari's Capital 5/10	25000			
Mathavan's capital 3/10	15000			
Kesavan's Capital 2/10	10000	50000		
		60000		60000

5. Journal entries for Revaluation account

Date	Particulars	LF	Dr.₹	Cr.₹
	Building a/c Dr		40000	
	To Revaluation a/c			40000
	(Building Revalued)			
	Investment a/c Dr		10000	
	To Revaluation a/c			10000
	(Investment Revalued)			
	Revaluation a/c Dr		26000	
	To Furniture a/c			14000
	To Machinery a/c			12000
	(Being Assets Revalued)			
	Creditor a/c Dr		16000	
	To Revaluation a\c			16000
	(Creditor revalued)			

Revaluation a/c										
Particulars	₹	₹	Particulars	₹						
Furniture		14000	Buildings	40000						
Machinery		12000	Sundry Creditors	16000						
			Investment	10000						
Revaluation profit										
Seenu's Capital 5/8	25000									
Siva's capital 3/8	15000	40000								
		r								
		66000		66000						

6. Journal entries for Revaluation account

Date	Particulars	LF	Dr.₹	Cr.₹
	Building a/c Dr		16000	
	To Revaluation a/c			16000
	(Building Revalued)			10000
	Investment a/c Dr		6000	
	To Revaluation a/c			6000
	(Investment Revalued)			0000
	Revaluation a/c Dr		3500	
	To Furniture a/c			1000
	To Provision for Bad & doubtful a/c			2500
	(Being Assets Revalued)			2300
	Revaluation a/c Dr		2500	
	To Unrecorded Liability a\c			2500
	(Creditor revalued)			2300

Revaluation account

Particulars	₹	₹	Particulars	₹
Furniture		1000	Buildings	16000
Provision for bad & doubtful		2500	Investment	6000
Unrecorded Liablities (Creditor)		2500		
Revaluation Profit				
Sai's Capital 5/8	10000			
Sankar's Capital 3/8	6000	16000		
		22000		22000

					Partr	ner's Ca	apital A/	c				
[Particulars	Sai	Sankar	Shanmug	am	Particu	lars	Sai	S	Sanka	r Shann	nugam
Ī						Balanc	e b/d	48000)	4000	0	-
						Bank/ca	ash a/c					12000
	Balance c/d	58000	46000	120	000	Revalua	ation prof	fit 10000)	6000	0	
-		58000	46000	12(000			58000		6000	12000	
7	Proporo Rove	50000 aluation	40000	120 nd Partna	100 r's Ci	nital a	f A mal N	Jouu Vimal and) 4 Ni	rmal	12000	
/.						evaluati	on a/c		1 1 1 1	<u>1 11141</u>		
]		Partic	ılars		₹	₹	Particul	ars	₹		
		Stock					5000	Building		2000	00	
		Provisio	on for bad	& doubtful	debt		3000	-				
		Revalua	ation Prof	it								
		Amal's	Capital 7/	12		7000	10000					
		Vimal's	Capital 5	12		5000	12000					
							20000			2000		
	l				Parti	lers Ca	20000 nital a/	C		2000		7
Ī	Particulars	Amal	Vimal	Nirmal	Par	ticular	s	Amal	Vi	mal	Nirmal]
ŀ	1 al ticular 5	2 Milai	v IIIai		Ral	ance h	<u>,</u> /d	70000	50		-	-
					Cas	h/ Banl	x a/c	/0000	50		30000	
	Balance c/d	91000	65000	30000	Rev	valuatio	n profit	7000	5	000	50000	
	Dulunce e, u	2000	00000	20000	Pro	fit & Lo	oss a/c	14000	10	0000		
ľ		91000	65000	30000				91000	65	5000	30000	
8.	Calculate sa	crificin	g ratio:									
	Old profit sh	aring rai	ito = 7:3	(or) 7/10:3	8/10							
	New profit s	haring ra	atio = 5:2	:3(or) 5/10):2/10):3/10						
	Sacrificing s	share =	Old Shar	e – New S	hare							
	Praveena =	7/10-5/	10 = 2/10									
	Dhanya = $3/$	/10-2/10	= 1/10									
	Malini = $2/1$	10:1/10 c	or 2:1									
9.	<u>Calculate N</u>	ew prof	it sharing	<u>g ratio an</u>	d sac	rificed	<u>ratio</u>					
	Old profit sh	aring rat	tio = 3:2	(or) 3/5:2/	5	share c	of New p	artner(sa	ran)	= 1/5	5	
	Sacrificed by	/ Ananth	n = 1/5									
	Sacrificed by	/ suman	= 0	1.0								
	Sacrificed sr	are = 1/2	5:0/10 or	1:0 								
	New share = Δ papth = 3	= Old Sn /5_1/5— '	are – Sau 2/5	rniced sn	are							
	Suman $= 2/5$	-0/5 - 2/	213									
	Saran = $1/5$	-0/3 -2/	5									
	New ratio =	2:2:1 (0	or) 2/5:2/	5:1/5								
10.	Calculate N	ew profi	it sharing	g ratio and	d sac	rificed	ratio					
	Old profit ra	tio = 3:2	(or) 3/5:2	2/5 Sh	nare c	of new p	oartner (Ram) = 1/	/4			
	Sacrificed sh	are by R	Raja= 1/4	x1/20=1/8	0	1	. ``	,				
	Sacrificed sh	are by R	avi = 1/4	x4/20 = 4/8	80							
	Sacrifice rati	io = 1/8	0:4/80 or	1:4								
	New share =	= old sha	are – saci	ificed sha	re							
	Raja = $3/5-1$	/20=1 2/	20-1/20=	11/20								
	Ravi = 2/5-4	/20 =8/2	20-4/20 = 4	4/20								
	Ram = 1/4 x5/5 = 5/20											
	New Ratio =	= 11:4:5	(m) 11/2	0:4/20:5/2	0							
11.	Calculate N	<u>ew prof</u>	<u>it sharing</u>	<u>g ratio and</u>	d sac	rificed	<u>ratio</u>					
	Old profit ra	$t_{10} = 4:3$	(or) 4/7	:3/7								
	Sacrificed by	vimala	= 1/14									
	Sacrificed by	/ kamala	l = 1/14									

Sacrificed ratio =1/14:1/14 or 1:1New share = old share - sacrificed share Vimala = 4/7 - 1/14 = 8/14 - 1/14 = 7/14Kamala= 3/7-1/14=6/14-1/14=5/14 Vinitha = 1/14 + 1/14 = 2/14New Ratio = 7:5:2 (or) 7/14:5/14:2/14 12. Calculate New profit sharing ratio and sacrificed ratio Old profit ratio = 5:4 (or) 5/9:4/9Sacrificing ratio = old share x sacrificed share Sacrificed by Govindan = $5/9x^2/9=10/81$ Sacrificed by Gopal= 4/9x1/9=4/81 Sacrificing ratio = 10/81:4/81 or 10:4 or 5:2New share = old share - sacrificed share Govindan = 5/9-10/81=45-10/81=35/81 Gopal= 4/9-4/81=36-4/81=32/81 Rahim = 10/81 + 4/81 = 14/81New Ratio = 35:32:14 (m) 35/81:32/81:14/81 **13.** Calculate New profit sharing ratio and sacrificed ratio Old profit ratio = $5:3(\text{or}) \frac{5}{8:3/8}$ Sacrificing ratio = old share x sacrificed share Sacrificed by Prema = 5/8x1/8=5/64Sacrificed by Chandra = 3/8x1/8=3/64Sacrificing Ratio = 5/64:3/64 or 5:3New share = old share - sacrificed share Prema= 5/8-5//64=40-5/64=35/64 Chandra = 3/8 - 3/64 = 24 - 3/64 = 21/64Hema = 5/64 + 3/64 = 8/64New ratio = 35:21:8 (or) 35/64:21/64:8/64 14. Calculate New profit sharing ratio and sacrificed ratio Old profit ratio= 1:1(or) 1/2:1/2 Sacrificing Ratio= 7:3 Sacrificed ratio = old share x sacrificed share Sacrificed by karthick = 1/4x7/10=7/40Sacrificed by kannan = 1/4x3/10=3/40Sacrificed ratio = 7/40:3/40 or 7:3 New share = old share - sacrificed share karthick = 1/2-7/40=20/40-7/40=20-7/40=13/40 Kannan= 1/2-3/40=20/40-3/10=20-36/20=17/40 Kailash= 7/40+3/40=10/40 New Ratio = 13;:17:10 (or) 13/40:17/40:10/40 15. Calculate New profit sharing ratio and sacrificed ratio Old ratio = $2:3(\text{or}) \frac{2}{5:3}$ Sacrificed share: 1:1 Sacrificing ratio = old share x sacrificed share Sacrificed by selvam = 1/5x1/2=1/10Sacrificed by senthil = 1/5x1/2=1/10Sacrificed ratio = 1/10:1/10 or 1:1 New share = old share - sacrificed share selvam = $\frac{2}{5} - \frac{1}{10} = \frac{4}{10} - \frac{1}{10} = \frac{3}{10}$ senthil = 3/5 - 1/10 = 6/10 - 1/10 = 5/10siva= 1/10+1/10=2/10 New Ratio = 3:5:2 (or) 3/10:5/10:2/10 16. Calculate New profit sharing ratio and sacrificed ratio Old ratio = 3:2(or) 3/5:2/5 share of new partner= 1/5Sacrificing ratio = old ratio Sacrificing ratio = 3/5:2/5 or 3:2

Total share of profit=1 Remaining share = 1-Share of new partner New share of old partners = Remaining share x old share Remaining share=1-1/5=4/5Mala = 3/5x4/5=12/25Anitha = 2/5x4/5=8/25Mercy= 1/5x5/5=5/25New Ratio= 12:8:5 (or) 12/25:8/25:5/25

Note: if the share of sacrificed and sacrifice share of old partners are not given. we must be considered the old Ratio of old partner is treated as sacrificing ratio and the total share of profit of the firm is 1.

17. Calculate New profit sharing ratio and sacrificed ratio

Old ratio =5:3:2(or) 5/10:3/10:2/10 Share of new partner = 25% profit = 25/100 = 1/4Sacrificing ratio = Old ratio Sacrificing ratio = 5/10:3/10:2/10 or 5:3:2 Total share of profit=1 Remaining share = 1-Share of new partner New share of old partners = Remaining share x old share Remaining share=1-1/4=3/4Ambika= 5/10x3/4=15/40Dharani= 3/10x3/4=9/40Padma= 2/10x3/4=6/40Ramya= 1/4x10/10=10/40New Ratio = 15;:9:6:10 (or) 15;40:9/40:6/40:10/40

Adjustment for goodwill

18. Sacrificing ratio = Old ratio

	Ap	arna =10000x3/5=6000 priya = 10000x2/5=4000			
	Date	Particular	LF	Dr.₹	Cr.₹
		Cash/ Bank a/c Dr		10000	
		To Goodwill a/c			10000
		(Being received compensation amount for goodwill from new partner)			
		Goodwill a/c Dr		10000	
		To Aparna's capital a/c			6000
		To Priya's capital a/c			4000
		(Being goodwill transferred to Partners capital a/c in SR)			
2D	- donot	e Sacrificing Ratio			

SR- denote Sacrificing Ratio

19. <u>Adjustment for goodwill:</u> Sacrificin Ratio = Old Ratio

Firm's Goodwill =45000 Jerald's goodwill =45000 x 1/3 =15000

Deepak =15000x1/3=5000 Senthil = 15000x1/3=5000 Santhosh = 15000x1/3=5000

Date	Particular	LF	Dr.₹	Cr.₹
	Cash/ Bank a/c Dr		15000	
	To Goodwill a/c			15000
	(Being received compensation amount for goodwill from new partner)			
	Goodwill a/c Dr		15000	
	To Deepak's capital a/c			5000
	To Senthil's capital a/c			5000
	To Santhosh's capital a/c			5000
	(Being goodwill transferred to Partners capital a/c in SR)			
20 44	justment for goodwil			

20. Adjustment for goodwil

Calculate sacrificing ratio

Old ratio = 5:4 New Ratio = 3:2:1

Sacrificing share = old share - new share

20000

Malathi = 5/9-3/6=30/54-27/54=3/54 Shobana = 4/9-2/6=24/54-18/54=6/54 Sacrificing ratio = 3/54:6/54 or 3:6

Malath	$i = 6000 \times 3/9 = 2000$ Shobana = $6000 \times 6/9 = 4000$			
Date	Particular	LF	Dr.₹	Cr.₹
	Cash/ Bank a/c Dr		6000	
	To Goodwill a/c			6000
	(Being received compensation amount for goodwill from new partner))		
	Goodwill a/c Dr		6000	
	To Malathi's current a/c			2000
	To Shobana's current a/c			4000
	(Being goodwill transferred to Partners capital a/c in SR)			
l. Adjustr	nent for goodwill			
Sacrific	ing ratio = old ratio			
Firm's g	goodwill =25000 Mano's goodwill =25000 x 2/5 =10000			
Anu $=10$	0000x4/5=8000 Arul = 10000x1/5=2000			
Date	Particular	LF	Dr.₹	Cr.₹
	Mano's capital a/c Dr		10000	
	To Anu's current a/c			8000
	To Arul's current a/c			2000
	(Being new partner capital transferred to Partners capital a/c in SR			
	For the purpose of compensation of goodwill)			
2. Adjustr	nent for goodwill			
Calcula	te sacrificing ratio			
Old ratio	p = 5.4 New ratio = 1.1.1			
Sacrific	ing share = old share - new share			
Varun =	5/9-1/3=5/9-3/9=2/9 Bharath = $4/9-1/3=4/9-3/9=1/9$ sacrificing rational statements of the second statement of the second s	io = 2i	/9·1/9 or	2.1
Varun:	$=6000x^{3}/5=3600$ Bharath $=6000x^{2}/5=2400$	- P	<i>,</i> ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	
Date	Particular	LF	Dr.₹	Cr.₹
2	Cash/ Bank a/c Dr		10000	
	To Goodwill a/c		10000	1000
	(Being received compensation amount for goodwill from new partner)			1000
	Goodwill a/c Dr		10000	
	Dhamu's Capital a/c Dr		5000	
	To Varun's capital a/c		5000	1000
	To Bharath's capital a/c			500
	(Being good will transferred to Partners capital a/c in SR)			500
R Evicting	a good will distributed to the old partners in old ratio*	<u> </u>		1
Sam -3	2 good will distributed to the old partners in old ratio -			
a) Wri	ite off the entire amount of goodwill			
a) <u>wi</u>	Particular	IF	Dr₹	Cr₹
Date	Sam's Capital a/a Dr	LI	12000	
	Sam S Capital a/C Di Loss's Capital a/c Dr		12000	I
	Goodwill a/c Di		12000	20000
	(Evicting coodwill Transformed to old northern conital a/a in ald ratio)			50000
	(Existing goodwill i ransferred to old partners capital a/c in old ratio)			
D) <u>Wr</u>	tte off Ks.20000 of the existing goodwill.			
sam = 20	$JUUUX_{5/5}=12000$ Jose = 20000X2/5=8000	<u> </u>	n =	~ =
Date	Particular	LF,	Dr.₹	Cr.₹
	Sam's Capital a/c Dr		12000	1
	Jose's Capital a/c Dr		8000	1

(Existing goodwill Transferred to old partners capital a/c in old ratio)

Goodwill a/c

Comprehensive problems:

24. Prepare revaluation a/c, Partner's Capital a/c & Balance sheet

Old R	Old Ratio is 3:1 Revaluation a/c															
				Pa	rticu	ılar	s		₹	₹	Partic	ulars	₹	F		
		Sto	ock							2000	Buildir	ngs	50	00		
		Fu	rnitu	re						100						
		Pro	ovisio	on fo	or ba	d 8	z doubt	ful		800						
		Re	evalu	atio	n pr	ofit										
		Ra	ija's (Capi	ital 3	4			1575							
	Selva's Capital ¹ / ₄					525	2100									
								5000			50	00				
	Partner's Capital a/c															
Partic	ulars	R	aja	Se	lva	Ga	nesan	Par	rticular	5	Raja	Selva	a (Janes	san	
Profit a	and loss a/c	7	7500	2	500			Bal	lance b/	d	30000	1600	0		-	
								G	1/1 1	1				100		
Balance c/d		25	7075	15	0.25	10000 Pay			sh/ bank	a/c	1575	50	=	100		
Balance c/d		21	/0/5	15	025	10000 Re		Gen	valuation	rve	3000	100	0			
			1575	17	525		10000	Uu			34575	1752	5	100	000	
1							Bala	nce	sheet a	s on 1.	4.2017		-	200		
	Liabilitie	es	₹		₹				Α	ssets			;	₹	₹	7
	Capital a	/c					Build	ings					25	000		-
	Rajan		270'	75			Add:	App	oreciati	on			5	000	30000	
	Selva		1502	25			Furnit	ture					1	000		
	Ganesan		1000	00	521	00	Less:	Dep	oreciati	on			(-)	100	900	
	Creditors				375	00	Stock					-	20	000		
							Less:	Dec	rease s	tock			(-)2	000	18000	
							Debto	ors					16	000		
		Less: Pr					Pro	vision	for bad	& doub	otful	(-)	800	15200		
							Bills 1	ecei	ivable						3000	
		Cash at					at ba	ank						12500		
					896	00										
															89600	

Prepare revaluation a/c, Partner's Capital a/c & Balance sheet

25. Old ratio 3:2 sacrificing ratio 3:2

Note: Share of sumar's goodwill was not bringing in cash. So that amount deducted from their Capital account

Sundar = 15000x3/5=9000

Suresh = $15000 \times 2/5 = 6000$

			Revaluation a/c								
Particulars	₹	₹	Particulars	₹	₹						
Stock		5000									
Furniture		2000	Revaluation Loss								
Building		8000	Sundar's Capital 3/5	9000							
			Suresh's Capital 2/5	6000	15000						
		15000			15000						
Dartnar's Canital											

	rartner's Capital													
Particulars	Sundar	Suresh	Sugumar	Particulars	Sundar	Suresh	Sugumar							
Revaluation loss	9000	6000	-	Balance b/d	30000	20000	-							
Sundar's capital			3000	Cash/ Bank a/c			30000							
a/c														
Suresh's Capital			2000	Sugumar's capital a/c	3000	2000	-							
a/c														
Balance c/d	39000	26000	25000	General reserve	6000	4000	-							
				Workmen compensation	9000	6000	-							
				fund										
	48000	32000	30000		48000	32000	30000							

Liabilities	₹	₹	Assets	₹	₹				
Capital a/c			Buildings	40000					
Sundar	39000		Less: depreciation	<u>(-)8000</u>	32000				
Suresh	26000		Furniture	13000					
Sugumar	25000	90000	Less: Depreciation	(-)2000	11000				
Creditors		50000	Stock	25000					
			Less: Decreasing stock	<u>(-)5000</u>	20000				
			Debtors		15000				
			Bills receivable		14000				
			Cash at bank (18000+30000)		48000				
		140000			140000				
		• •							

Balance sheet as on 1.1.2017

<u>Prepare Revaluation, Partner's Capita a/c and Balance Sheet</u>
26. Old ratio 1:1 Share of new partner 1/5 Sacrificing Ratio=1:1

Balan's bring goodwill ₹10000 James = 10000x1/2=5000

Justina = $10000 \times 1/2 = 5000$

Revaluation a/c

Particulars	₹	₹	Particulars	₹	₹
Provision for baddebt		2000	Buildings		10000
Revaluation profit			Stock		3000
James's capital	5500				
Justina's capital	5500	11000			
		13000			13000

Partner's Capital a/c

				I withit s empire			
Particulars	James	Justina	Balan	Particulars	James	Justina	Balan
				Balance b/d	40000	50000	-
				Cash / Bank a/c			25000
				Goodwill	5000	5000	-
Balance c/d	58000	68000	25000	Reserve fund	7500	7500	-
				Revaluation profit	5500	5500	_
	58000	68000	25000		58000	68000	25000

Balance sheet as on 1.1.2017

Liabilities	₹	₹	Assets	₹	₹
Capital a/c			Buildings	70000	
James	58000		Add: Appreciation	10000	80000
Justina	68000		Stock	30000	
Balan	25000	151000	Add: Appreciation	<u>3000</u>	33000
Creditors		35000	Debtor	20000	
			Less: Provision for baddebt	<u>2000</u>	18000
			Insurance paid in advance		5000
			Bank (15000+25000+10000)		50000
		186000			186000

27. <u>Prepare Revaluation a/c, Partner's Capital a/c and Balance sheet</u> Old Ratio 3:2 Share of new partner 1/5 Sacrificing ratio 3:2

Firm's goodwill₹75000 Rajesh's goodwill=75000x1/5=15000

Anbu = $15000 \times 3/5 = 9000$

Sankar = 15000x2/2=5000 R

Revaluation a/c

Particulars	₹	₹	Particulars	₹	₹
Stock		20000	Premises		40000
Provision for bad & doubtful		10000	Investment		5000
Revaluation profit					
Anbu's Capital 3/5	9000				
Sankar's Capital 2/5	6000	15000			
		45000]		45000

Partner's Capital a/c									
Particulars	Anbu	Sankar	Rajesh	1 Particulars A		Sankar	Rajesh		
				Balance b/d	400000	300000	-		
				Bank/ cash a/c			150000		
				Goodwill	9000	6000	-		
Balance c/d	520000	380000	150000	Profit and loss a/c	72000	48000			
				Workmen compensation fund	30000	20000	-		
				Revaluation profit	9000	6000	-		
	520000	380000	150000		520000	380000	150000		

Balance sheet as on 1.4.2008								
Liabilities	₹	₹	Assets	₹	₹			
Capital a/c			Computer		40000			
Anbu	520000		Vehicle	160000				
Sankar	380000		Add: Appreciatioin	40000	200000			
Rajesh	150000	1050000	Stock	400000				
Creditors		120000	Less: Decrease in stock	20000	380000			
Workmen compensation		10000	Debtors	360000				
fund								
			Less: Provision for DD	10000	350000			
			Investment		5000			
			Cash at		205000			
			bank(40000+150000+15000)					
		1180000			1180000			

DD –Denote --→ Doubtful debt



Arise! Awake! And Stop not until the goal is reached -Swami Vivekanandar

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