COURSE : II B.COM (CA)
SEMESTER : III
SUBJECT : Partnership Accounting
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SYLLABUS : Admission of Partners

ADMISSION OF A PARTNER

The following are the main points which usually require treatment at the time of admission of a partner.

1. Calculation of New Profit Sharing Ratio.
2. Revaluation of Assets and Liabilities.
3. Transfer of Accumulated Reserves and profit or loss.
4. Treatment of Goodwill.
5. Re-adjustment of the capital of the old partners and recording the capital of the new partners.

CALCULATION OF NEW PROFIT SHARING RATIO:

New Ratio at the Time of admission:
SUM NO 1: X and Y were partners sharing profits in the ratio of 7:3. Z was admitted on $3/7^{ths}$ share in the profits. Calculate new profit sharing ratio of the partners.

SUM NO 2: X and Y sharing profits in the ratio of 7:3 admit Z on 3/7ths share in the new firm which he takes 2/7ths from X and 1/7ths from Y. Calculate new ratio of partners.

SUM NO 3: X and Y shared profits in the ratio of 7:3. Z was admitted as a partner. X surrendered $1/7^{th}$ of his share and Y $1/3^{rd}$ of his share in favor of Z. Calculate the new ratio.

REVALUATION OF ASSETS AND LIABILITIES:

Before a new partner is admitted, the firms assets and liabilities must be brought to their current values, which may be higher or lower than their book values. In addition, some assets and liabilities which are not recorded in the books, must be brought into account.

When values of some assets are increased or when a unrecorded asset is now recorded, it results in profit. When the value of assets are decreased, it results in loss. Conversely, when the liabilities are increased or when a liability is newly recorded, loss arises; when a liability decreases, profit arises.

In other word, some revaluation items will result in profit and some other items result in loss. This revaluation profit or loss is recorded through a special account called revaluation account.

TRANSFER OF ACCUMULATED RESERVES & UNDISTRIBUTED PROFIT OR LOSS:

When there is an admission of a partner, it is essential to close all accumulated and undistributed profit or loss transferring them to capital accounts of old partners in their old partners in their old profit sharing ratio. The new partner gets no share of such reserves or profits.

VALUATION OF GOODWILL:

Meaning: Goodwill is the benefit and advantage of the good name, reputation and connection with business. It is the attractive force which brings in customer. It is one of thing which distinguishes an old established business from a new business as its first start. It is an intangible asset.

Methods of Valuing Goodwill:

There are two methods of valuing goodwill:

(1) Simple Average Profit: Under this method, goodwill is expressed to be the purchase of certain numbers of year profit based on the average of a given period.

SUM NO 4 calculate the amount of goodwill at three yrs' purchase of last five yrs avg profits. The profits for 5 yrs were 9600, 14400, 20000, 6000, 10000 resp.

(2) Super Profit Method: Super profit is the difference between average profit and normal profit.

SUM NO 5: A firm earned net profit during the last 3 yrs were 36000, 40000, 44000. the capital investment of the firm is 120000. a fair return on the capital having regard to the risk involved is 10% . calculate the value of goodwill on the basis of 3 yrs purchase of super profits.

(3) Capitalization method:

SUM NO 6: A firm earns 120000 as its annual profits, the rate of normal profit being 10%. The assets of the firm amounts to 1440000 and liabilities 480000. find the value of goodwill by capitalization method.

SUM NO 7: Accounting treatment @ the time of admission.
Premium method: A and B were partners sharing 3:2 and C was admitted paying a premium of 1000 for ¼ share of profit. No goodwill a/c appear in the books and they withdraw the amt. of goodwill journalize.

SUM NO 8 A and B were partners sharing 3:2 and C was admitted paying a premium of 2000 for ¼ share of profit. The new ratio 3:3:2 goodwill a/c appear in the books 2000 and the amt. of goodwill continue to appear in the books was 1600. Journalize.

SUM NO 9: X and Y are equal partners with capital of Rs;. 10,000 and Rs. 12,000 respectively. They admit Z for a third share. Z pays Rs. 15,000 as capital. Z has given 1/5th in the future profits and loss. Calculate goodwill and pass journal entries.

SUM NO 10: A and B are partners with capital of Rs;. 36,000 and Rs. 32,000 respectively. They admit G for a third share with Rs. 30,000 as capital. G has given 1/5th in the future profits and loss. Calculate goodwill and pass journal entries.

SUM NO 11: X and Y are partners sharing profits and losses in 5:3.They admit Z who brings Rs. 12,000 as premium for goodwill. The new ratio was 3:2:1. goodwill appears in full value in books. Journalize.

Revaluation method:
SUM NO 12: A, B and C were partners in 5:5:4. D was admitted as with a capital of 40000 for his ¼ th share. Goodwill to be valued @ 2 years' purchase of 3 year profit were 15000, 26000, 22000. give journal entries if (1). No goodwill in the books.(2) goodwill appears at 14000 (3) goodwill already in the books 56000.

Memorandum Revaluation method:
SUM NO 13: A and B were partners in sharing profits in 3:1. they admitted Z into partnership at ¼ th share. But Z was unable to bring any amt. for goodwill. Goodwill was raised in the books 48000 and was written off after admission. Journalise.

Premium method SUM NO 14: A and B were partners sharing 2:3 and C was admitted with new ratio2:5:3 C bought goodwill in to the books 3000 which has to be retained in the firm. Journalize.
REVALUATION OF ASSETS AND LIABILITIES:
SUM NO 15: A and B are partners sharing profits in the ratio of 3:1. their balance sheet on 31.12.2013 were: Liabilities were capital A 30000, B 20000, salary due 5000, creditors 40000. = 95000 Assets were stock 10000, prepaid insurance 1000, debtors (8000-500 provision) 7500, cash 18500, machinery 22000, buildings 30000, furniture 6000 = 95000
C admitted in the firm as new partner introducing a capital of 20000 for his ¼ th share in future profits. The revaluation were stock depreciated by 5% ,furniture depreciated by 10% , building revalued 45000, PBDD increased to 1000. pass journal revaluation a/c and b/s after admission.

SUM NO 16: R and G are partners sharing profits in the ratio of 2:1. their balance sheet on 31.12.2013 were: Liabilities were capital R 60000, G 35000, wages due 5000, creditors 48000. =

148000 Assets were stock 18000, cash in hand 22000, cash @ bank 2000, debtors (30000-2000 provision) 28000, B/R 12000, investment 12000, buildings 50000, furniture 4000 = 148000
S admitted in the firm as new partner introducing a capital of 25000 for his ¼ th share in future profits. The revaluation were furniture depreciated to 3500 , building to be increased by 10000, PBDD increased to 3500, an investment of 1500 not recorded in the books now brought into a/c, a contingent liability of 800 has become a certain liability. It has been agreed among the partners that assets and liabilities are to be shown @ old values. Prepare memorandum revaluation a/c and new b/s after admission.

ACCUMULATED PROFITS AND LOSSES:
SUM NO 17: A,B and C were in firm sharing P& L in 2:2:1. their B/S as on 31.12.2013 were Liabilities were capital A 44000, B 26000 C 15000, General reserve 60000, creditors 3000, machinery replacement fund 10000, investment fluctuation fund 8000. = 166000 Assets were stock 30000, cash 23500, Goodwill 5000, debtors 25000, machinery 40000, investment (market value 4000) 4500, land & buildings 30000, machinery replacement investment 8000 = 166000 . give journal when D is admitted as partner.

ADJUSTMENT OF CAPITALS:
SUM NO 18: A and B are partner sharing profits in the ratio 3:2 with a capital of 12000 and 5400. C admitted as a new partner for 1/3 rd share of profit with a capital of 7500. adjust the capital of them in the new profit sharing ratio. Give necessary journal.

SUMS WITH COMBINED ENTRIES.
SUM NO 19: A and B were partners sharing 3:2 and C was admitted brings in cash 8000 for capital 2000 for goodwill. The new ratio 2:2:1 the b/s were Liabilities were capital A 8000, B 8000, reserve 4000. = 20000 Assets were asset 17500, goodwill 2500. = 20000 .Partners decided that goodwill a/c should appear in the new firms books @ 6000. Journalize and prepare B/s..

SUM NO 20: X and Y were partners sharing P&L in 5:3. Z admitted in to firm, asked to bring 64000 as goodwill and half of combined capital of X and Y after making adjustments and B/S were: Liabilities were capital X 120000, Y 40000, reserve fund 32000, creditors 8000 = 200000 Assets were Sundry asset 154000, P&L 40000, cash 6000. = 200000. Revaluation a/c prepared bon that date showed a loss of 11200. Calculate the amount of capital to be bought by Z.

SUM NO 21: A and B are partners sharing profits in the ratio of 3:1. their balance sheet on 31.12.2013 were: Liabilities were capital A 80000, B 40000, reserve 40000, creditors 60000, bill payable 20000 = 240000 Assets were stock 40000, cash 5000, debtors 70000, plant 25000, buildings 100000, = 240000 C admitted in the firm as new partner introducing a capital of 50% of adjusted capital of A and B for his1/5 th share in future profits. The revaluation were plant depreciated to 80% , building to be revaluated at 120000, PBDD to be made at 5%, stock to be revaluated at 30000. Prepare revaluation a/c and new b/s after admission.

SUM NO 22: R and K are partners sharing profits in the ratio of 3:1.On 1.1.12 their position :

Liabilities	Rs.	Assets	Rs.
Creditors	20,000	Plant	40,000
Capital : R	50,000	Stock	10,000
K	30,000	Debtors	30,000
		Bank	20,000
	1,00,000		1,00,000

N is to join the firm. He agrees to pay Rs. 20,000 by way of goodwill and introduced half of the combined capital of existing partner after depreciating plant and stock at 20% and 10% respectively and raising a provision of 10% on debtors. The new partner is allowed 1/4th share. Open necessary ledger accounts and show the balance sheet of the new firm.

SUM NO 23: Ram and Rahim were partners sharing profit in the ratio3:2. On 30th June 2013,

Liabilities	Rs.	Assets	Rs.
Ram's Capital	30,000	Land	40,000
Rahim's Capital	25,000	Stock	31,000
Reserve	10,000	Debtors	8,000
Creditors	16,000	Cash	2,000

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81,000	81,000
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On the above date Rabin was admitted for a fourth share. The terms were: 1) He should pay Rs.20,000 as capital and Rs. 10,000 as goodwill. 2) Land was to be revalued at Rs. 45,000 and stock was written down by Rs. 2,000. Creditors include Rs.500 no longer payable and this amount be written off.

SUM NO 24: A and B are partners sharing profit in the ratio of 7:3. Their balance sheet on 31-12-13 is as follows:

Liabilities	Rs.	Assets		Rs.
Sundry Creditors	30,000	Cash		6,000
Profit&loss a/c	25,000	Debtors	40,000	
Capital : A	50,000	Less: Provision for doubtful		
B	40,000	debt	1,000	
			--------	39,000
		Stock		30,000
		Plant		30,000
		Building		40,000
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	1,45,000			1,45,000
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C is admitted into the partnership with a share of 1/3(equally from old partners). He contributes a capital of Rs. 60,000. Goodwill is to be raised at Rs.36,000 in the books. Depreciation is to be made at 10% on plant. Prepare Revaluation a/c, capital accounts of partners and Revised Balance sheet.

SUM NO 25: X, Y are equal partners. Their balance sheet is as follows(as on 31st March 2012):

Creditors	30,000	Goodwill	8,000
Profit and loss account	10,000	Motor car	30,000
Capital: X	40,000	Machinery	20,000
Y	20,000	Debtors	22,000
		Cash and Bank	20,000
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	1,00,000		1,00,000
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Z is admitted into the partnership with 1/5 share of profit, on the following condition:

(i) Z contributes a capital of Rs. 15,000

(ii) The goodwill is fixed at Rs. 18,000 and it is decided to restore its original value.

(iii)Depreciate motor car by Rs. 3,000 and Rs. 2,000.

(iv) Provide for doubtful at 10% on debtors.

Show journal entries only in respect of transactions taking place at the time of admission of Z.

SUM NO 26: K and L are partners sharing profits in the ratio of 3:1. their balance sheet on 31.12.2013 were: Liabilities were capital K 40000, L 30000, reserve 20000, creditors 20000= 110000 Assets were stock 8000, cash 4000, debtors 60000, P&L 6000, buildings 30000, furniture 2000 = 110000 M admitted in the firm as new partner will bring in 21000 of which 10000 will be treated as goodwill which has to be retained in the business and his1/4 th share in future profits. The revaluation were furniture depreciated at 15% , stock to be revaluated at 6500, 50% of reserve to be remained as PBDD give journal and Prepare new b/s after ADMISSION.

BOOK REFFERED : FINANCIAL ACCOUNTING BY T. S. REDDY AND MOORTHI