

MEANING OF KEY TERMS USED IN THIS CHAPTER

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| 1. Admission of a Partner | Admission of a Partner means new partner being admitted in the firm. |
| 2. New Profit-sharing Ratio | New Profit-sharing Ratio is the ratio in which all the partners, including the new or incoming partner, share future profits and losses of the firm. |
| 3. Sacrificing Ratio | Sacrificing Ratio is the ratio in which the old or existing partners forego, <i>i.e.</i> , sacrifice their share in profits in favour of the new partner. |
| 4. Goodwill | Goodwill is an intangible asset resulting from the efforts made in past by the existing (old) partners of the firm which results in continuous profits. |
| 5. Revaluation of Assets | Revaluation of Assets means change in the value of assets, <i>i.e.</i> , present value being different from the book value of the assets. |
| 6. Reassessment of Liabilities | Reassessment of Liabilities means reassessing the liabilities and determining the change, <i>i.e.</i> , whether the liability is more or less than that shown in the books of account. |
| 7. Revaluation Account or Profit & Loss Adjustment Account | It is a nominal account to which increase in the value of assets and decrease in the amount of liabilities is credited. Decrease in the value of assets and increase in the amount of liabilities is debited. It is closed by transferring the profit or loss to the Capital Accounts of the old or existing partners in their old profit-sharing ratio. |
| 8. Reserve | Reserve is set aside out of profits for general or specific purpose. |
| 9. Workmen Compensation Reserve | It is a reserve set aside out of profits for payment of compensation to workers. |
| 10. Investments Fluctuation Reserve | It is a reserve set aside to meet the fall in the value of investment. |

CHAPTER SUMMARY

- When the existing partners of a firm admit a person or persons as a partner or partners in the firm, it is **admission of a partner or partners**.
- **Adjustments:** The matters that require *adjustment* at the time of admission of a new partner are:
 - (i) Adjustment for change in the Profit-sharing Ratio.
 - (ii) Adjustment for Goodwill.
 - (iii) Adjustment of Gain (Profit)/Loss arising from the Revaluation of Assets and Reassessment of Liabilities.
 - (iv) Adjustment of Deferred Revenue Expenditure.
 - (v) Adjustment of Reserves, Accumulated Profits and Losses.
 - (vi) Adjustment of Capital (if so agreed).

4.2 Double Entry Book Keeping—CBSE XII

- The ratio in which all partners (including the new or incoming partner) share future profits and losses is known as the **new profit-sharing ratio**.
- The ratio in which the old (existing) partners have agreed to sacrifice their share in profits in favour of an incoming partner is called the **sacrificing ratio**.

$$\text{Sacrificing Ratio} = \text{Old Ratio} - \text{New Ratio.}$$

Notes: 1. Unless specified otherwise, the **New Profit-sharing Ratio** of Old Partners will be the same as their **Old Profit-sharing Ratio**.

2. Unless specified otherwise, **Sacrificing Ratio** of Old Partners will be the same as their old Profit-sharing Ratio.

- **Accounting Treatment of Goodwill:** New Partner compensates the sacrificing partner or partners by paying them an amount, called **Goodwill** or **Premium for Goodwill**.

Note: Write off the existing goodwill (if any) existing in the Balance Sheet of the firm by debiting the Old Partners' Capital Accounts (in case of fluctuating capital) or Partners' Current Accounts (in case of fixed capital) in their old profit-sharing ratio and crediting the Goodwill Account. Unless agreed otherwise, it is presumed that the old partners sacrifice in their old profit-sharing ratio.

ACCOUNTING ENTRIES FOR GOODWILL

1. Goodwill (Premium) Paid Privately	No Entry
2. Goodwill brought in Cash	Cash/Bank A/c ...Dr. To Premium for Goodwill A/c
Distribution of Goodwill	Premium for Goodwill A/c ...Dr. To Sacrificing Partners' Capital A/cs [In sacrificing ratio] Or To Sacrificing Partners' Current A/cs (When Capitals are Fixed)
3. Goodwill withdrawn by the Sacrificing (Old) Partners	Sacrificing Partners' Capital A/cs ...Dr. To Cash/Bank A/c
4. Goodwill not brought in Cash	New Partner's Current A/c ...Dr. To Sacrificing Partners' Capital A/cs [In sacrificing ratio]
5. Goodwill brought in kind	Assets A/c ...Dr. To Premium for Goodwill A/c

Note: If incoming partner brings a part of his share of Goodwill in Cash then **unpaid share of goodwill** should be debited to his **Current Account**, Debit Balance of Current Account will appear in the Assets side of Balance Sheet.

There may be three different situations for adjustment of goodwill at the time of admission of a partner:

1. When the new partner brings his/her share of goodwill in cash.
2. When the new partner does not bring his/her share of goodwill.
3. When the new partner brings only a part of his/her share of goodwill.

Let us discuss the accounting treatment in each of the above situations.

1. **When the New Partner brings his/her share of Goodwill in Amount (Premium for Goodwill)**

When the new partner brings amount for his share of capital and goodwill, the amount is credited to his Capital Account and Premium for Goodwill Account.

Accounting Entry:

(a) For Capital and Premium for Goodwill brought in cash by the new partner:

Cash/Bank A/c	...Dr.	
To New Partner's Capital A/c		[With capital]
To Premium for Goodwill A/c		[With share of goodwill]

IMPORTANT NOTE

Write off existing goodwill (if any) appearing in the books of the firm (Balance Sheet) by passing the following entry:

Old Partners' Capital/Current A/cs*	...Dr.	[In Old Profit-sharing Ratio]
To Goodwill A/c		[With Existing Book Value of Goodwill]

2. When the New Partner does not bring his/her Share of Goodwill:

In this case, the following entry is passed:

Accounting Entry:

New Partner's Current A/c	...Dr.
To Sacrificing Partners' Capital/Current A/cs	

3. When the New Partner brings only a part of his/her Share of Goodwill:

In this case, premium for goodwill brought by the new partner will be shared by the sacrificing partners in the sacrificing ratio.

Accounting Entries:

(a) For the amount brought in by new (Incoming partner):

Cash A/c/Bank A/c	...Dr.	[With capital and share of goodwill]
To New Partner's Capital A/c		[With capital]
To Premium for Goodwill A/c		[With share of goodwill brought]

(b) For the amount not brought in cash

New Partner's Current A/c	...Dr.	[With share of goodwill not brought in cash]
To Sacrificing Partners' Capital/Current A/cs		

- **Revaluation Account** or the **Profit & Loss Adjustment Account** is prepared to revalue the assets and reassess the liabilities of the firm at the time of reconstitution of the firm.

Dr.	REVALUATION ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Decrease in Value of Assets	...	By Increase in Value of Assets	...
To Increase in amount of Liabilities	...	By Decrease in amount of Liabilities	...
To Unrecorded Liabilities A/c	...	By Unrecorded Assets A/c	...
To Gain (Profit)* trfd. to the Old Partners' Capital A/cs (in the old profit-sharing ratio)	...	By Loss* trfd. to the Old Partners' Capital A/cs (in the old profit-sharing ratio)	...

*Either of the two will appear.

- **Need to Revalue Assets and Reassess Liabilities:** Assets are revalued and liabilities are reassessed at the time of admission of a partner so that the new partner is not put to an advantage or a disadvantage because of changes in the value of assets and liabilities as on the date of admission.

4.4 Double Entry Book Keeping—CBSE XII

- **Revaluation Account is prepared:**

1. To ascertain the Gain (Profit)/Loss arising on account of Revaluation of Assets and Reassessment of Liabilities.
2. To record the effect of Revaluation of Assets and Reassessment of Liabilities at their revised values.

- **Accumulated Profits or General Reserve** are credited to the old partners in their old profit-sharing ratio. If there are any undistributed losses, they will be debited to the Old Partners' Capital Accounts.

- **Excess of Workmen Compensation Reserve over the Workmen Compensation Claim (Liability)** is credited to Old Partners' Capital Accounts in their Old Profit-sharing Ratio.

- **Excess of Investment Fluctuation Reserve over difference between Book Value and Market Value** of investment is credited to Old Partners in their Old Profit-sharing Ratio.

- **Adjustment of Capital:**

(a) *Adjustment of old partners' capitals on the basis of new partner's capital:*

- Step 1. Calculate the total capital of the firm on the basis of capital of new partner.

$$\text{Total Capital of the Firm} = \frac{\text{Capital of Incoming Partner}}{\text{Share of Profit of Incoming Partner}} .$$

- Step 2. Determine the new capital of each partner.

$$\text{New Capital of Old Partner} = \text{Total Capital of New Firm} \times \text{Share of Profit of Old Partner} .$$

- Step 3. Ascertain the present capitals of old partners (Adjusted).

- Step 4. Find out Surplus/Deficit Capital by comparing Step 2 and Step 3.

- Step 5. Adjust the surplus or deficit through Cash or Current Accounts (as the case may be).

(b) *Calculation of new partner's capital on the basis of old partners' capitals:*

- Step 1. Determine the total adjusted capitals of the old partners.

- Step 2. Determine the total capital of the new firm.

$$\text{Total Capital of New Firm} = \frac{\text{Total Adjusted Old Capital of Old Partners}}{\text{Total Combined New Share of Old Partners}} .$$

- Step 3. Determine the total capital of the incoming partner as follows:

$$\text{Total Capital of New Firm (Step 2)} \times \text{Share of incoming partner} .$$

Important Notes:

1. In the absence of an agreement, **Surplus or Shortage of Capital** is adjusted in Cash and not by transfer to Current Accounts.
2. There is a difference between 'Z is to contribute 1/5th of the total Capital of the New Firm' and 'Z is to contribute 1/5th of the combined capital of the old partners'.

Solved Questions

Illustration 1.

A and B were partners sharing profits in the ratio of 3 : 2. They admitted C and D as new partners. A surrendered $\frac{1}{3}$ rd of his share in favour of C and B surrendered $\frac{1}{4}$ th of his share in favour of D . Calculate new profit-sharing ratio of A , B , C and D .

Solution:

A 's old share of profit = $\frac{3}{5}$

A surrendered $\frac{1}{3}$ rd of his share in favour of C , i.e., $\frac{3}{5} \times \frac{1}{3} = \frac{3}{15}$ or $\frac{1}{5}$

$$A\text{'s share of profit in the new firm} = \frac{3}{5} - \frac{3}{15} = \frac{9-3}{15} = \frac{6}{15}$$

B surrendered $\frac{1}{4}$ th of his share in favour of D , i.e., $\frac{2}{5} \times \frac{1}{4} = \frac{2}{20}$ or $\frac{1}{10}$

$$B\text{'s share of profit in the new firm} = \frac{2}{5} - \frac{2}{20} = \frac{8-2}{20} = \frac{6}{20}$$

$$C\text{'s share of profit in the new firm} = \frac{3}{15}$$

$$D\text{'s share of profit in the new firm} = \frac{2}{20}$$

$$\begin{aligned} \text{New Profit-sharing Ratio of } A, B, C \text{ and } D &= \frac{6}{15} : \frac{6}{20} : \frac{3}{15} : \frac{2}{20} \\ &= 24 : 18 : 12 : 6 \text{ or } 4 : 3 : 2 : 1. \end{aligned}$$

Illustration 2.

Determine new profit-sharing ratio:

- (i) K , L and M are partners sharing profits and losses in the ratio of 3 : 2 : 1. They admit N for $\frac{1}{6}$ th share. M would retain his original share.
- (ii) A , B and C are partners sharing profits in the ratio of 3 : 2 : 5. They admit D and give him $\frac{1}{4}$ th share. Share is contributed by them in the ratio of 1 : 1 : 3.
- (iii) A and B are partners sharing profits in the ratio of 5 : 4. They admit C for $\frac{1}{9}$ th share, which he acquires from A . (Delhi 2008 C)

Solution:

- (i) Let the total share = 1; Share of M and $N = \frac{1}{6} + \frac{1}{6} = \frac{1}{3}$; Remaining share = $1 - \frac{1}{3} = \frac{2}{3}$.

Shares of K and L are calculated by dividing the remaining share in their future profit-sharing ratio (which in this case is the old ratio since nothing is given as to how N gets his share from K and L) as under:

$$K\text{'s New share} = \frac{3}{5}\text{th of } \frac{2}{3} = \frac{6}{15}. \quad L\text{'s New share} = \frac{2}{5}\text{th of } \frac{2}{3} = \frac{4}{15}$$

$$\text{New Ratio of } K, L, M \text{ and } N = \frac{6}{15} : \frac{4}{15} : \frac{1}{6} : \frac{1}{6} \text{ or } \frac{12}{30} : \frac{8}{30} : \frac{5}{30} : \frac{5}{30} = 12 : 8 : 5 : 5.$$

Note: M would retain his original share. He is not a sacrificing partner.

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(ii) Sacrifice made by the old partners is:

$$A's \text{ sacrifice} = 1/4 \times 1/5 = 1/20; B's \text{ sacrifice} = 1/4 \times 1/5 = 1/20;$$

$$C's \text{ sacrifice} = 1/4 \times 3/5 = 3/20.$$

New profit share is determined by deducting the sacrifice made by old partners from their old profit share. Thus, new profit share of

$$A = 3/10 - 1/20 = 5/20; B = 2/10 - 1/20 = 3/20; C = 5/10 - 3/20 = 7/20; D = 1/4 \text{ or } 5/20.$$

Thus, New Profit-sharing Ratio of A, B, C and D will be 5 : 3 : 7 : 5.

(iii) Old ratio of A and B = 5 : 4 or 5/9 : 4/9

$$C's \text{ share, which he acquires from A} = 1/9$$

$$\text{Remaining share of A} = 5/9 - 1/9 = 4/9$$

$$\text{New Profit-sharing Ratio of A, B and C} = 4/9 : 4/9 : 1/9 \text{ or } 4 : 4 : 1.$$

Illustration 3.

X and Y are in partnership sharing profits and losses in the ratio of 4 : 1. They admit Z into the firm for an equal share. Calculate sacrificing ratio.

Solution:

Calculation of Sacrificing Ratio

Partners	Old Share	New Share	Sacrifice/Gain
X	4/5	1/3	4/5 - 1/3 = 7/15 (Sacrifice)
Y	1/5	1/3	1/5 - 1/3 = -2/15 (Gain)

Illustration 4.

X and Y are partners in a firm sharing profits and losses in the ratio of 3 : 2. They admit Z as a partner for 1/5th share. This share is contributed by them in the ratio of 2 : 3. Goodwill of the firm is valued at ₹ 50,000. Z brings in the necessary amount in cash as his share of firm's goodwill and ₹ 30,000 as his capital. Pass necessary Journal entries if capitals are fixed under each of the following alternative cases:

Case 1. When the amount of goodwill is retained in the firm.

Case 2. When the amount of goodwill is withdrawn by the concerned partners to the extent of 50% of what is credited to them.

Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Case 1	Cash A/c ...Dr. To Z's Capital A/c To Premium for Goodwill A/c (₹ 50,000 × 1/5) (Amount brought in by Z for his share of goodwill and capital)		40,000	30,000 10,000
	Premium for Goodwill A/c (₹ 50,000 × 1/5) ...Dr. To X's Current A/c (₹ 10,000 × 2/5) To Y's Current A/c (₹ 10,000 × 3/5) (Share of Z in goodwill credited to X and Y in their sacrificing ratio, i.e., 2 : 3)		10,000	4,000 6,000

Case 2	Cash A/c	...Dr.	40,000	
	To Z's Capital A/c			30,000
	To Premium for Goodwill A/c (₹ 50,000 × 1/5) (Amount brought in by Z for his share of goodwill and capital)			10,000
	Premium for Goodwill A/c (₹ 50,000 × 1/5)	...Dr.	10,000	
	To X's Current A/c (₹ 10,000 × 2/5)			4,000
	To Y's Current A/c (₹ 10,000 × 3/5) (Share of Z in goodwill credited to X and Y in their sacrificing ratio, <i>i.e.</i> , 2 : 3)			6,000
	X's Current A/c (₹ 5,000 × 2/5)	...Dr.	2,000	
	Y's Current A/c (₹ 5,000 × 3/5)	...Dr.	3,000	
	To Cash A/c (50% of ₹ 10,000) (50% of the amount of goodwill credited to X and Y withdrawn by them)			5,000

Illustration 5 (Incoming Partner does not bring in his Share of Goodwill and Capitals are Fixed).

X and Y are partners in a firm, sharing profits and losses in the ratio of 3 : 2. They admit Z into the firm for 1/5th share. Z acquires his share from X and Y in the ratio of 2 : 3. Goodwill of the firm is valued at ₹ 30,000. Z brings in ₹ 1,00,000 through cheque, as his share of capital but is unable to bring in the amount of his share of goodwill. Pass necessary Journal entries if capitals are fixed under each of the following alternative cases:

Case 1. When goodwill is not appearing in the books.

Case 2. When goodwill is appearing in the books at ₹ 15,000.

Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Case 1	Bank A/c	...Dr.	1,00,000	
	To Z's Capital A/c (Amount brought in by Z as his capital)			1,00,000
	Z's Current A/c (₹ 30,000 × 1/5)	...Dr.	6,000	
	To X's Current A/c (₹ 6,000 × 2/5)			2,400
	To Y's Current A/c (₹ 6,000 × 3/5) (Share of Z in goodwill credited to X and Y in their sacrificing ratio, <i>i.e.</i> , 2 : 3)			3,600
Case 2	X's Current A/c (₹ 15,000 × 3/5)	...Dr.	9,000	
	Y's Current A/c (₹ 15,000 × 2/5)	...Dr.	6,000	
	To Goodwill A/c (Existing goodwill written off in old ratio, <i>i.e.</i> , 3 : 2)			15,000
	Bank A/c	...Dr.	1,00,000	
	To Z's Capital A/c (Amount brought in by Z as his capital)			1,00,000
	Z's Current A/c (₹ 30,000 × 1/5)	...Dr.	6,000	
	To X's Current A/c (₹ 6,000 × 2/5)			2,400
	To Y's Current A/c (₹ 6,000 × 3/5) (Share of Z in goodwill credited to X and Y in their sacrificing ratio, <i>i.e.</i> , 2 : 3)			3,600

4.8 Double Entry Book Keeping—CBSE XII

Illustration 6.

Balance Sheet of X and Y who share profits and losses in the ratio of 3 : 2 as at 31st March, 2026 was:

Liabilities	₹	Assets	₹
Sundry Creditors	1,30,000	Cash at Bank	10,000
Bills Payable	35,000	Cash in Hand	5,000
Reserves	35,000	Debtors	20,000
Profit & Loss A/c	20,000	Stock	1,00,000
X's Capital	48,000	Fixed Assets	1,30,000
Y's Capital	32,000	Goodwill	25,000
		Advertisement Expenditure	10,000
	3,00,000		3,00,000

They agreed to take Z as a partner from 1st April, 2026 for 1/5th share in the profits of the firm. Z brings in ₹ 60,000 as his capital. Give Journal entries to record the goodwill.

Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026				
April 1	X's Capital A/c (₹ 25,000 × 3/5) ...Dr. Y's Capital A/c (₹ 25,000 × 2/5) ...Dr. To Goodwill A/c (Existing value of goodwill written off by debiting the old partners in their old ratio)		15,000 10,000	25,000
April 1	Z's Capital/Current A/c (₹ 1,40,000 × 1/5) ...Dr. To X's Capital A/c (₹ 28,000 × 3/5) To Y's Capital A/c (₹ 28,000 × 2/5) (Z's share of goodwill adjusted through Capital Accounts by crediting sacrificing partners in their sacrificing ratio) (WN)		28,000	16,800 11,200

Working Note: Calculation of Hidden Goodwill:

Net worth (or total capital) of the new firm on the basis of capital brought in by Z (₹ 60,000 × 5/1)	₹ 3,00,000
Less: Net worth of the new firm (Adjusted Capitals of the Old Partners + Incoming Partner's Capital) [(₹ 48,000 + ₹ 32,000 + ₹ 35,000 + ₹ 20,000 – ₹ 10,000 – ₹ 25,000 for existing goodwill) + ₹ 60,000]	1,60,000
Value of Firm's Goodwill	<u>1,40,000</u>

Some Typical Cases of Revaluation of Assets and Reassessment of Liabilities with Explanation

Illustration 7.

X and Y are partners sharing profits in the ratio of 3 : 2. Pass Journal entries for the following on the admission of Z, a new partner.

- Value of furniture is to be increased by ₹ 10,000 (Book value of furniture is ₹ 50,000).
- Value of furniture is to be increased to ₹ 50,000 (Book value of furniture is ₹ 40,000).

- (iii) Value of furniture is to be brought up to 120% of its value (*Book value of furniture is ₹ 20,000*).
- (iv) Stock is found undervalued by ₹ 4,000 (*Book value of stock is ₹ 25,000*).
- (v) Stock is found overvalued by ₹ 5,000 (*Book value of stock is ₹ 30,000*).
- (vi) A debtor whose dues of ₹ 10,000 were written off as bad debts last year, paid ₹ 6,000 in full settlement.
- (vii) Rent of ₹ 5,000 is outstanding.
- (viii) A bill of ₹ 2,000 for electricity charges has been omitted to be accounted.
- (ix) Half of Machinery is taken by Y for ₹ 40,000 and balance is revalued at ₹ 37,000 (*Book value of machinery is ₹ 80,000*).
- (x) Machinery is taken by Y for ₹ 70,000 (*Book value of machinery is ₹ 65,000*).
- (xi) Out of the amount of insurance premium which was debited to Profit & Loss Account, ₹ 5,000 is to be carried forward to next year.

or

Insurance premium amounting to ₹ 15,000 was debited to Profit & Loss Account of which ₹ 5,000 is related to next year.

- (xii) There is a claim for damages against the firm for which a provision of ₹ 15,000 is to be made.
- (xiii) There is a liability of ₹ 10,000 included in creditors, that is not likely to arise.
- (xiv) An unrecorded accrued income of ₹ 12,000 is to be accounted.

Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Furniture A/c ...Dr. To Revaluation A/c (Increase in the value of furniture recorded)		10,000	10,000
(ii)	Furniture A/c ...Dr. To Revaluation A/c (Increase in the value of furniture recorded)		10,000	10,000
(iii)	Furniture A/c ...Dr. To Revaluation A/c (Increase in the value of furniture recorded)		4,000	4,000
(iv)	Stock A/c ...Dr. To Revaluation A/c (Increase in the value of stock recorded)		4,000	4,000
(v)	Revaluation A/c ...Dr. To Stock A/c (Decrease in the value of stock recorded)		5,000	5,000
(vi) (a)	Cash/Bank A/c ...Dr. To Bad Debts Recovered A/c (Bad debts recovered)		6,000	6,000
(vi) (b)	Bad Debts Recovered A/c ...Dr. To Revaluation A/c (Gain due to bad debts recovered recorded)		6,000	6,000

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(vii)	Revaluation A/c To Outstanding Rent A/c (Liability for rent outstanding recorded)	...Dr.	5,000	5,000
(viii)	Revaluation A/c To Outstanding Electricity Expenses A/c (Liability for electricity charges recorded)	...Dr.	2,000	2,000
(ix) (a)	Revaluation A/c To Machinery A/c (Decrease in the value of machinery recorded) (₹ 80,000 – ₹ 40,000 – ₹ 37,000 = ₹ 3,000)	...Dr.	3,000	3,000
(b)	Y's Capital A/c To Machinery A/c (Half of machinery taken over by Y at the book value)	...Dr.	40,000	40,000
(x) (a)	Machinery A/c To Revaluation A/c (Increase in the value of machinery recorded)	..Dr.	5,000	5,000
(b)	Y's Capital A/c To Machinery A/c (Machinery taken over by Y at the revalued figure)	...Dr.	70,000	70,000
(xi)	Prepaid Insurance Premium A/c To Revaluation A/c (Prepaid insurance premium recorded)	...Dr.	5,000	5,000
(xii)	Revaluation A/c To Provision against Claim for Damages A/c (Provision against claim for damages recorded)	...Dr.	15,000	15,000
(xiii)	Sundry Creditors A/c To Revaluation A/c (Decrease in the amount of sundry creditors recorded)	...Dr.	10,000	10,000
(xiv)	Accrued Income A/c To Revaluation A/c (Unrecorded accrued income recorded)	...Dr.	12,000	12,000

Explanation:

- (i) The value of furniture is to be increased by ₹ 10,000. It means, furniture will appear in the Balance Sheet of reconstituted firm at ₹ 60,000 (*i.e.*, ₹ 50,000 + ₹ 10,000).
- (ii) The value of furniture is to be increased to ₹ 50,000. It means, there is an increase of value of ₹ 10,000 and furniture will appear in the Balance Sheet of reconstituted firm at ₹ 50,000.
- (iii) The value of furniture is to be increased to 120% of its book value of ₹ 20,000. It means, there is an increase of ₹ 4,000 and furniture will appear in the Balance Sheet of reconstituted firm at ₹ 24,000 (*i.e.*, 120% of ₹ 20,000).

Precaution: Be careful about the language of adjustment, *e.g.*, there exists difference between 'Furniture increased by 40%' and 'Furniture increased to 40%'.

- (iv) Due to undervaluation, stock was shown at a lower amount. Now its value is to be increased by ₹ 4,000. Stock will appear in the Balance Sheet of the reconstituted firm at ₹ 29,000 (*i.e.*, ₹ 25,000 + ₹ 4,000).
- (v) Due to overvaluation, stock was shown at a higher amount. Now, its value is to be decreased by ₹ 5,000. Stock will appear in the Balance Sheet of the reconstituted firm at ₹ 25,000.
- (vi) Amount recovered in the form of bad debts written off last year is a gain for the firm. So, Revaluation Account will be credited with such gain.
- (vii) Rent outstanding increases the firm's liability. Revaluation Account will be debited with such amount. Rent outstanding will appear in the Balance Sheet of reconstituted firm at ₹ 5,000.
- (viii) The bill for electricity charges was omitted to be accounted. So, 'Outstanding Electricity Expenses' being a liability will appear in the liabilities side of the Balance Sheet.
- (ix) *There are two aspects of this transaction:*
 1st Journal entry records the total decrease in the value of machinery by ₹ 3,000.
 2nd Journal entry records the machinery taken by Y.
- (x) *There are two aspects of this transaction:*
 1st entry records the increase in the value of machinery by ₹ 5,000.
 2nd entry records machinery taken by Y.
- (xi) The amount of ₹ 5,000 is the prepaid insurance. It will appear as 'Prepaid Insurance Premium' in the assets side of the Balance Sheet of reconstituted firm at ₹ 5,000.
- (xii) A claim for damages against the firm increases the firm's liability against which a provision is to be made. It will be debited to Revaluation Account and must be shown in the liabilities side of the Balance Sheet.
- (xiii) As a liability of ₹ 10,000 is not like to arise, it will reduce the amount of sundry creditors.
- (xiv) The amount of ₹ 12,000 is accrued income. So, it will appear as 'Accrued Income' in the assets side of the Balance Sheet of reconstituted firm.

Illustration 8.

P and S were partners in a firm sharing profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2026 was:

Liabilities	₹	Assets	₹
Bank Overdraft	20,000	Cash in Hand	8,000
Creditors	30,000	Debtors	30,000
Provision for Doubtful Debts	1,000	Bills Receivable	40,000
General Reserve	15,000	Stock	50,000
V's Loan	20,000	Building	90,000
Capital A/cs:		Land	1,48,000
P	1,00,000		
S	1,80,000		
	2,80,000		
	3,66,000		3,66,000

4.12 Double Entry Book Keeping—CBSE XII

On 1st April, 2026, they admitted *V* as a new partner on the following conditions:

- (i) *V* will get 1/8th share in the profits of the firm.
- (ii) *V*'s Loan will be converted into his capital.
- (iii) The goodwill of the firm was valued at ₹ 80,000 and *V* brought in his share of goodwill in cash.
- (iv) A Provision for Doubtful Debts was to be made equal to 5% of the Debtors.
- (v) Stock was to be reduced by 5%.
- (vi) Land was to be appreciated by 10%.

Prepare Revaluation Account, Partners' Capital Accounts of *P*, *S* and *V* and Balance Sheet of the new firm as at 1st April, 2026. (Delhi 2002, Modified)

Solution:

In the Books of the Firm

Dr.	REVALUATION ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Provision for Doubtful Debts A/c	500	By Land A/c	14,800
To Stock A/c	2,500		
To Gain (Profit) transferred to:			
<i>P</i> 's Capital A/c	7,080		
<i>S</i> 's Capital A/c	4,720		
	11,800		
	14,800		14,800

Dr.	PARTNERS' CAPITAL ACCOUNTS							Cr.
Particulars	<i>P</i> ₹	<i>S</i> ₹	<i>V</i> ₹	Particulars	<i>P</i> ₹	<i>S</i> ₹	<i>V</i> ₹	
To Balance c/d	1,22,080	1,94,720	20,000	By Balance b/d	1,00,000	1,80,000	...	
				By <i>V</i> 's Loan A/c	...	...	20,000
				By Premium for Goodwill A/c	6,000	4,000	...	
				By Revaluation A/c	7,080	4,720	...	
				By General Reserve A/c	9,000	6,000	...	
	1,22,080	1,94,720	20,000		1,22,080	1,94,720	20,000	
	1,22,080	1,94,720	20,000		1,22,080	1,94,720	20,000	

BALANCE SHEET OF *M/s P, S AND V* as at 1st April, 2026

Liabilities	₹	Assets	₹
Capital A/cs:		Land	1,62,800
<i>P</i>	1,22,080	Building	90,000
<i>S</i>	1,94,720	Bills Receivable	40,000
<i>V</i>	20,000	Debtors	30,000
	3,36,800	Stock (₹ 50,000 – ₹ 2,500)	47,500
Creditors	30,000	Cash	8,000
Provision for Doubtful Debts	1,500	Add: Paid by <i>V</i>	10,000
Bank Overdraft	20,000		18,000
	3,88,300		3,88,300
	3,88,300		3,88,300

Illustration 9.

X and Y sharing profits in the ratio of 3 : 2 had the following Balance Sheet as at 31st March, 2026:

Liabilities	₹	Assets	₹
Creditors	15,000	Cash	5,000
General Reserve	12,000	Debtors	20,000
Capital A/cs:		Less: Provision for Doubtful Debts	800
X	54,000	Patents	14,800
Y	36,000	Investments	8,000
Current A/cs:		Machinery	72,000
X	10,000	Goodwill	10,000
Y	2,000		
	1,29,000		1,29,000

On 1st April, 2026, they decided to admit Z on the following terms:

- A Provision of 5% is to be created on Debtors.
- Accrued Income of ₹ 1,500 does not appear in the books and ₹ 5,000 are outstanding for salaries.
- The present market value of Investments is ₹ 6,000. X takes over the investments at this value.
- The new profit-sharing ratio of partners will be 4 : 3 : 2.
- Z will bring in ₹ 20,000 as his capital.
- Z is to pay in cash an amount equal to his share in the firm's goodwill valued at twice the average profit of the last three years which were ₹ 25,000; ₹ 26,000 and ₹ 30,000 respectively.
- Half the amount of goodwill is withdrawn by the old partners.

Prepare Revaluation Account, Partners' Capital Accounts, Current Accounts and opening Balance Sheet of the new firm.

Solution:

Dr.				REVALUATION ACCOUNT				Cr.			
Particulars		₹		Particulars		₹					
To Provision for Doubtful Debts A/c		200		By Accrued Income A/c		1,500					
To Outstanding Salaries A/c		5,000		By Loss transferred to:							
To Investments A/c		2,000		X's Current A/c (3/5th)	3,420						
				Y's Current A/c (2/5th)	2,280		5,700				
		7,200					7,200				

Dr.				PARTNERS' CAPITAL ACCOUNTS				Cr.							
Particulars		X ₹		Y ₹		Z ₹		Particulars		X ₹		Y ₹		Z ₹	
To Balance c/d		54,000	36,000	20,000				By Balance b/d		54,000	36,000	...			
								By Cash A/c		...	...	20,000			
		54,000	36,000	20,000						54,000	36,000	20,000			

4.14 Double Entry Book Keeping—CBSE XII

Dr. PARTNERS' CURRENT ACCOUNTS Cr.					
Particulars	X ₹	Y ₹	Particulars	X ₹	Y ₹
To Investments A/c	6,000	...	By Balance b/d	10,000	2,000
To Revaluation A/c	3,420	2,280	By General Reserve A/c	7,200	4,800
To Goodwill A/c	6,000	4,000	By Premium for Goodwill A/c	8,400	3,600
To Cash A/c	4,200	1,800			
To Balance c/d	5,980	2,320			
	25,600	10,400		25,600	10,400

OPENING BALANCE SHEET OF THE RECONSTITUTED FIRM as at 1st April, 2026

Liabilities	₹	Assets	₹
Creditors	15,000	Cash	31,000
Outstanding Salaries	5,000	Debtors	20,000
Capital A/cs:		Less: Provision for Doubtful Debts	1,000
X	54,000	Accrued Income	1,500
Y	36,000	Patents	14,800
Z	20,000	Machinery	72,000
Current A/cs:			
X	5,980		
Y	2,320		
	1,38,300		1,38,300

Working Notes:

- As there are Current Account balances appearing in the Balance Sheet, it means that the Capital Accounts are fixed. Hence, all transactions relating to the Capital Accounts will be passed through the Current Accounts.
- Goodwill appearing in the Balance Sheet is written off by the old partners in their old profit-sharing ratio.
- Calculation of Goodwill:

$$\text{Average Profit} = \frac{\text{₹ } 25,000 + \text{₹ } 26,000 + \text{₹ } 30,000}{3} = \text{₹ } 27,000$$

$$\text{Goodwill} = \text{₹ } 27,000 \times 2 = \text{₹ } 54,000$$

Z brings in his share of goodwill in cash.

Therefore, the amount of goodwill brought in by Z = ₹ 54,000 × $\frac{2}{9}$ = ₹ 12,000.

- X Sacrifices = $\frac{3}{5} - \frac{4}{9} = \frac{7}{45}$; Y Sacrifices = $\frac{2}{5} - \frac{3}{9} = \frac{3}{45}$; Thus, Sacrificing Ratio of X and Y = 7 : 3.

Illustration 10.

Following was the Balance Sheet as at 31st March, 2026 of A, B and C sharing profits and losses in the ratio of 6 : 5 : 3 respectively:

Liabilities	₹	Assets	₹
Capital A/cs:		Land and Building	24,000
A	19,000	Furniture	3,500
B	16,000	Stock	14,000
C	8,000	Debtors	12,600
Creditors	9,000	Cash	900
Bills Payable	3,000		
	55,000		55,000

They admit *D* into partnership from 1st April, 2026 and give him a share of 1/8th in the rupee on the following terms:

- (i) *D* should bring in ₹ 4,200 as goodwill and ₹ 7,000 as capital.
- (ii) Furniture be depreciated by 12%.
- (iii) The Stock be depreciated by 10%.
- (iv) Provision of 5% be created for Doubtful Debts.
- (v) The value of Land and Building having over-depreciated, be brought up to ₹ 31,000.
- (vi) After making the above adjustments, the Capital Accounts of the old partners (who continue to share in the same proportion as before) be adjusted on the basis of the proportion of *D*'s Capital to his share in the business, *i.e.*, cash to be paid or brought in by the old partners, as the case may be.

Prepare Profit & Loss Adjustment Account, Cash Account, and opening Balance Sheet of the new firm.

Solution:**In the Books of the Firm**

PROFIT & LOSS ADJUSTMENT ACCOUNT			
Dr.		Cr.	
Particulars	₹	Particulars	₹
To Furniture A/c	420	By Land and Building A/c	7,000
To Stock A/c	1,400		
To Provision for Doubtful Debts A/c	630		
To Gain (Profit) transferred to:			
<i>A</i> 's Capital A/c (6/14)	1,950		
<i>B</i> 's Capital A/c (5/14)	1,625		
<i>C</i> 's Capital A/c (3/14)	975		
	4,550		
	7,000		7,000

CASH ACCOUNT			
Dr.		Cr.	
Particulars	₹	Particulars	₹
To Balance <i>b/d</i>	900	By <i>A</i> 's Capital A/c (WN 3)	1,750
To <i>D</i> 's Capital A/c	7,000	By <i>B</i> 's Capital A/c (WN 3)	1,625
To Premium for Goodwill A/c	4,200	By Balance <i>c/d</i>	9,350
To <i>C</i> 's Capital A/c (WN 3)	625		
	12,725		12,725

BALANCE SHEET OF A, B, C AND D as at 1st April, 2026

Liabilities		₹	Assets		₹
Capital A/cs: <i>A</i>	21,000		Land and Building		31,000
<i>B</i>	17,500		Furniture		3,080
<i>C</i>	10,500		Debtors	12,600	
<i>D</i>	7,000	56,000	Less: Provision for Doubtful Debts	630	11,970
Creditors	9,000		Stock		12,600
Bills Payable	3,000		Cash		9,350
	68,000				68,000

4.16 Double Entry Book Keeping—CBSE XII

Working Notes:

1. Calculation of New Profit-Sharing Ratio:

D joins the business for 1/8th share. Therefore, remaining 7/8th (i.e., $1 - 1/8$) share will be shared by the old partners in their old ratio, i.e., 6 : 5 : 3 respectively. Therefore, A's New share = $6/14 \times 7/8 = 42/112$; B's New share = $5/14 \times 7/8 = 35/112$; C's New share = $3/14 \times 7/8 = 21/112$; and D's share = 1/8th or 14/112. Thus, New Profit-sharing Ratio among A, B, C and D = 42 : 35 : 21 : 14 = 6 : 5 : 3 : 2.

2. Determination of the Combined Capital of the New Firm:

Taking D's Capital as base, the combined capital of the new firm is ₹ 7,000 × 8/1 = ₹ 56,000. Total capital of the new firm will be contributed by the partners in their new profit-sharing ratio, i.e., 6 : 5 : 3 : 2.

Therefore, capitals of the partners in new firm will be:

A—₹ 21,000; B—₹ 17,500; C—₹ 10,500; D—₹ 7,000.

3. Dr. PARTNERS' CAPITAL ACCOUNTS Cr.									
Particulars	A ₹	B ₹	C ₹	D ₹	Particulars	A ₹	B ₹	C ₹	D ₹
To Cash A/c (Bal. Fig.)	1,750	1,625	...	...	By Balance b/d	19,000	16,000	8,000	...
To Balance c/d (WN 2)	21,000	17,500	10,500	7,000	By Cash A/c	...	...	...	7,000
					By Premium for Goodwill A/c	1,800	1,500	900	...
					By P & L Adj. A/c	1,950	1,625	975	...
					By Cash A/c (Bal. Fig.)	...	...	625	...
	22,750	19,125	10,500	7,000		22,750	19,125	10,500	7,000

Illustration 11.

Anil and Sunil are partners sharing profits and losses in the ratio of 3 : 2. They admit Charan as a new partner from 1st April, 2026. Anil gives 1/3rd of his share while Sunil gives 1/10th from his share to Charan. Their Balance Sheet as at 31st March, 2026, is given below:

Liabilities	₹	Assets	₹
Anil's Capital	32,600	Land and Building	6,000
Sunil's Capital	40,400	Investments	5,000
Workmen's Compensation Reserve	2,000	(Market Value ₹ 4,500)	
Investments Fluctuation Reserve	1,000	Debtors	30,000
Employees' Provident Fund	1,000	Stock	10,000
Provision for Doubtful Debts	1,000	Bank	27,000
	78,000		78,000

Terms of Charan's admission are as follows:

- Charan brings ₹ 30,000 as his capital. His share of Goodwill was determined to be ₹ 18,000. He could bring in only 60% of his share.
- Land and Building was found to be undervalued by ₹ 10,000, stock was found overvalued by ₹ 7,000 and provision for doubtful debts is to be made equal to 5% of the debtors.
- Capital Accounts of the old partners to be re-adjusted in the new profit-sharing arrangement on the basis of Charan's Capital, any excess or deficiency to be adjusted in cash.

You are required to:

- Pass Journal entries.
- Prepare Partners' Capital Accounts.
- Balance Sheet of the new firm.

Show your workings clearly.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	Cash/Bank A/c ...Dr. To Charan's Capital A/c To Premium for Goodwill A/c (Amount brought in by Charan as capital and 60% of his share of Premium for Goodwill)		40,800	30,000 10,800
	Premium for Goodwill A/c ...Dr. Charan's Current A/c ...Dr. To Anil's Capital A/c To Sunil's Capital A/c (Share of Charan in goodwill credited to Anil's Capital Account and Sunil's Capital Account in their sacrificing ratio) (WN 1)		10,800 7,200	12,000 6,000
	Land and Building A/c ...Dr. To Revaluation A/c (Increase in value of Land and Building)		10,000	10,000
	Revaluation A/c ...Dr. To Stock A/c To Provision for Doubtful Debts A/c (Value of stock decreased and further provision for doubtful debts made)		7,500	7,000 500
	Revaluation A/c ...Dr. To Anil's Capital A/c To Sunil's Capital A/c (Gain (profit) on revaluation transferred to Old Partners' Capital Accounts in their old profit-sharing ratio)		2,500	1,500 1,000
	Investments Fluctuation Reserve A/c ...Dr. To Investments A/c (Value of investments brought down to market value)		500	500
	Workmen Compensation Reserve A/c ...Dr. To Anil's Capital A/c To Sunil's Capital A/c (Workmen Compensation Reserve credited to Anil's and Sunil's Capital Accounts in their old profit-sharing ratio)		2,000	1,200 800
	Investments Fluctuation Reserve A/c ...Dr. To Anil's Capital A/c To Sunil's Capital A/c (Excess Investments Fluctuation Reserve credited to Anil's and Sunil's Capital Accounts in their old profit-sharing ratio)		500	300 200
	Anil Capital A/c ...Dr. Sunil Capital A/c ...Dr. To Bank A/c (Amount withdrawn by Anil and Sunil to make their capitals proportionate)		7,600 18,400	26,000

4.18 Double Entry Book Keeping—CBSE XII

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.							
Particulars	Anil ₹	Sunil ₹	Charan ₹	Particulars	Anil ₹	Sunil ₹	Charan ₹
To Bank A/c (Withdrawal) (Balancing Figure)	7,600	18,400	...	By Balance b/d	32,600	40,400	...
To Balance c/d (WN 4)	40,000	30,000	30,000	By Workmen Comp. Reserve A/c	1,200	800	...
				By Investments Fluctuation Reserve A/c	300	200	...
				By Revaluation A/c (Gain)	1,500	1,000	...
				By Bank A/c	...	...	30,000
				By Charan's Current A/c	4,800	2,400	...
				By Premium for Goodwill A/c	7,200	3,600	...
	47,600	48,400	30,000		47,600	48,400	30,000

BALANCE SHEET (After Charan's Admission) as at 1st April, 2026

Liabilities	₹	Assets	₹
<i>Capital A/cs:</i>		Land and Building	16,000
Anil	40,000	Investments	4,500
Sunil	30,000	Debtors	30,000
Charan	30,000	Less: Provision for Doubtful Debts	1,500
Employees' Provident Fund	1,000	Stock	3,000
		Bank (WN 5)	41,800
		Charan's Current A/c	7,200
	1,01,000		1,01,000

Working Notes:

1. Dr. REVALUATION ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Stock A/c	7,000	By Land and Building A/c	10,000
To Provision for Doubtful Debts A/c	500		
To Gain (Profit) on Revaluation:			
Anil's Capital A/c	1,500		
Sunil's Capital A/c	1,000		
	2,500		
	10,000		10,000

2. Calculation of Sacrificing Ratio: Anil Sunil

Existing Ratio 3 : 2

$$\text{Anil's Sacrifice} = \frac{3}{5} \times \frac{1}{3} = \frac{1}{5}; \text{Sunil's Sacrifice} = \frac{1}{10}$$

$$\text{Hence, Sacrificing Ratio} = \frac{1}{5} : \frac{1}{10} = 2 : 1$$

Premium for Goodwill of ₹ 18,000 shall be distributed between Anil and Sunil in the Sacrificing Ratio, i.e., 2 : 1

$$\text{Anil's Share} = ₹ 18,000 \times \frac{2}{3} = ₹ 12,000; \text{Sunil's Share} = ₹ 18,000 \times \frac{1}{3} = ₹ 6,000.$$

3. Calculation of New Profit-sharing Ratio:

Share acquired by Charan: From Anil = $\frac{3}{5} \times \frac{1}{3} = \frac{1}{5}$; from Sunil = $\frac{1}{10}$

Anil's New Share = $\frac{3}{5} - \frac{1}{5} = \frac{2}{5}$; Sunil's New Share = $\frac{2}{5} - \frac{1}{10} = \frac{3}{10}$; Charan's Share = $\frac{1}{5} + \frac{1}{10} = \frac{2+1}{10} = \frac{3}{10}$

Thus, New Profit-sharing Ratio of Anil, Sunil and Charan = $\frac{2}{5} : \frac{3}{10} : \frac{3}{10}$ or 4:3:3.

$$4. \text{ Total Capital of New Firm on the basis of Charan's Capital} = \frac{\text{Capital of the New Partner (Charan)}}{\text{Share of Profit of Charan}}$$

$$= \frac{\text{₹ } 30,000}{3/10} = \text{₹ } 30,000 \times \frac{10}{3} = \text{₹ } 1,00,000$$

Anil's Capital = ₹ 1,00,000 × $\frac{4}{10}$ = ₹ 40,000; Sunil's Capital = ₹ 1,00,000 × $\frac{3}{10}$ = ₹ 30,000;

Charan's Capital = ₹ 30,000.

5. Bank Balance:

	₹
Opening Balance	27,000
Add: Brought by Charan	<u>40,800</u>
	67,800
Less: Capital Withdrawn by Anil	7,600
Capital Withdrawn by Sunil	<u>18,400</u>
Closing Balance	<u><u>41,800</u></u>

Illustration 12 (Proportionate Capital Introduced by Incoming Partner).

Sahaj and Nimish are partners in a firm. They share profits and losses in the ratio of 2 : 1. Since both of them are specially abled, sometimes they find it difficult to run the business on their own. Gauri, a common friend decides to help them. Therefore, they admitted her into partnership for a 1/3rd share. She brought her share of goodwill in cash and proportionate capital. At the time of Gauri's admission, the Balance Sheet of Sahaj and Nimish was as under.

Liabilities	₹	Assets	₹
Capital A/cs:		Machinery	2,40,000
Sahaj	2,40,000	Furniture	1,60,000
Nimish	<u>1,60,000</u>	Stock	1,00,000
General Reserve	60,000	Sundry Debtors	60,000
Creditors	60,000	Cash	40,000
Employees' Provident Fund	80,000		
	<u>6,00,000</u>		<u>6,00,000</u>

It was decided to:

- (i) Reduce the value of stock by ₹ 10,000.
- (ii) Depreciate furniture by 10% and appreciate machinery by 5%.
- (iii) ₹ 6,000 of the debtors proved bad. A provision of 5% was to be created on Sundry Debtors for doubtful debts.
- (iv) Goodwill of the firm was valued at ₹ 90,000.

4.20 Double Entry Book Keeping—CBSE XII

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the reconstituted firm. (Delhi 2013, Modified)

Solution:

REVALUATION ACCOUNT			
Dr.	₹	Cr.	₹
Particulars		Particulars	
To Stock A/c	10,000	By Machinery A/c	12,000
To Furniture A/c	16,000	By Loss transferred to:	
To Bad Debts A/c	6,000	Sahaj's Capital A/c (22,700 × 2/3)	15,133
To Provision for Doubtful Debts A/c	2,700	Nimish's Capital A/c (22,700 × 1/3)	7,567
5/100 (₹ 60,000 – ₹ 6,000)			22,700
	34,700		34,700

PARTNERS' CAPITAL ACCOUNTS							
Dr.	Sahaj ₹	Nimish ₹	Gauri ₹	Cr.	Sahaj ₹	Nimish ₹	Gauri ₹
Particulars				Particulars			
To Revaluation A/c (Loss)	15,133	7,567	...	By Balance b/d	2,40,000	1,60,000	...
To Balance c/d	2,84,867	1,82,433	2,33,650	By General Reserve A/c	40,000	20,000	...
				By Premium for Goodwill A/c (₹ 90,000 × 1/3)	20,000	10,000	...
				By Bank A/c (WN 1)	...	...	2,33,650
	3,00,000	1,90,000	2,33,650		3,00,000	1,90,000	2,33,650

BALANCE SHEET OF THE NEW FIRM as at...

Liabilities	₹	Assets	₹
Capital A/cs:		Machinery	2,52,000
Sahaj	2,84,867	Furniture	1,44,000
Nimish	1,82,433	Stock ₹ (1,00,000 – 10,000)	90,000
Gauri	2,33,650	Sundry Debtors	60,000
Creditors	60,000	Less: Bad Debts	6,000
Employees' Provident Fund	80,000		54,000
		Less: Provision for Doubtful Debts	2,700
		Cash	40,000
		Bank (WN 2)	2,63,650
	8,40,950		8,40,950

Working Notes:

1. Calculation of the amount to be brought in by Gauri as Capital:

(a) Adjusted Combined Capital of the Old Partners:

$$= ₹ 2,84,867 + ₹ 1,82,433 = ₹ 4,67,300.$$

(b) Total Capital of the New Firm:

$$= \frac{\text{Adjusted Combined Capital of the Old Partners}}{\text{Combined Share of Profit of Old Partners}} = ₹ 4,67,300 \times \frac{3}{2} = ₹ 7,00,950.$$

(c) Calculation of Gauri's Proportionate Capital:

$$= ₹ 7,00,950 \times \frac{1}{3} = ₹ 2,33,650.$$

2. Dr. BANK ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Gauri's Capital A/c	2,33,650	By Balance c/d	2,63,650
To Premium for Goodwill A/c	30,000		
	<u>2,63,650</u>		<u>2,63,650</u>

Illustration 13 (Calculation of Investment to be made to become a Partner).

A commenced his business with a capital of ₹ 5,00,000 on 1st April, 2021. During the five years ended 31st March, 2026, the results of his business were:

Year Ended		₹
31st March, 2022	Loss	10,000
31st March, 2023	Profit	26,000
31st March, 2024	Profit	34,000
31st March, 2025	Profit	40,000
31st March, 2026	Profit	50,000

During this period, he withdrew ₹ 80,000 for his personal use. On 1st April, 2026, he admitted B into partnership on the following terms:

- Goodwill is to be valued at 3 times the average profit of last five years.
- B will have 1/2 share of the future profits.
- He will bring in his share of goodwill in cash.
- He will bring in capital in cash equal to that of A after his admission.

Calculate amount to be brought in by B and pass entries to record the transactions pertaining to admission. (Foreign 1991, Modified)

Solution:

(i) Calculation of share of goodwill to be brought in by B:	₹
(a) Total profits for five years (– ₹ 10,000 + ₹ 26,000 + ₹ 34,000 + ₹ 40,000 + ₹ 50,000)	1,40,000
(b) Average profit (₹ 1,40,000/5)	28,000
(c) Value of goodwill (₹ 28,000 × 3)	84,000
(d) Share of goodwill to be brought in by B (₹ 84,000/2)	42,000

- (ii) Calculation of A's Capital as at 31st March, 2026:

Capital as at 1st April, 2021	5,00,000
Add: Net profit for five years	1,40,000
	<u>6,40,000</u>
Less: Drawings	80,000
Capital as at 31st March, 2026	<u>5,60,000</u>

- (iii) Calculation of amount to be invested by B:

$$\begin{aligned} \text{A's Capital after B's admission} &= ₹ 5,60,000 + \text{Amount of goodwill to be brought in by B} \\ &= ₹ 5,60,000 + ₹ 42,000 = ₹ 6,02,000 \end{aligned}$$

Therefore, B will have to bring ₹ 6,02,000 as Capital and ₹ 42,000 as goodwill, i.e., total amount to be brought in by B = ₹ 6,44,000.

4.22 Double Entry Book Keeping—CBSE XII

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	Cash A/c ...Dr. To B's Capital A/c To Premium for Goodwill A/c (Amount brought in by B)		6,44,000	6,02,000 42,000
April 1	Premium for Goodwill A/c ...Dr. To A's Capital A/c (Amount of goodwill credited to A's Capital Account)		42,000	42,000

Illustration 14 (Comprehensive).

A and B are partners in a firm sharing profits and losses in the ratio of 7 : 3. Their Balance Sheet as at 31st March, 2026 is:

Liabilities	₹	Assets	₹
Sundry Creditors	40,000	Cash in Hand	36,000
Bank Overdraft	20,000	Sundry Debtors	46,000
Reserve	10,000	Less: Provision for Doubtful Debts	2,000
Capital A/cs:		Stock-in-Trade	50,000
A	50,000	Furniture	30,000
B	40,000		
	<u>1,60,000</u>		<u>1,60,000</u>

On 1st April, 2026, C joins the firm as the third partner for 1/4th share of the future profits on the following terms and conditions:

- Goodwill is valued at ₹ 40,000 and C is to bring in the necessary amount in cash as premium for goodwill.
- 20% of the reserve is retained as a Contingency Reserve.
- Stock-in-Trade is to be reduced by 40% and Furniture is to be reduced to 40%.
- A is to pay off the Bank Overdraft.
- C is to introduce ₹ 30,000 as his share of capital to which amount other partners' capitals shall have to be adjusted.

Prepare Balance Sheet of the new firm after C has become a partner. Show the workings clearly.

Solution:

BALANCE SHEET as at 1st April, 2026

Liabilities	₹	Assets	₹
Sundry Creditors	40,000	Cash in Hand (WN 3)	76,000
Contingency Reserve	2,000	Sundry Debtors	46,000
Capital A/cs:		Less: Provision for Doubtful Debts	2,000
A	63,000	Stock (₹ 50,000 – ₹ 20,000)	30,000
B	27,000	Furniture	12,000
C	30,000		
	<u>1,20,000</u>		<u>1,62,000</u>
	<u>1,62,000</u>		<u>1,62,000</u>

Working Notes:

Dr.				Cr.			
PARTNERS' CAPITAL ACCOUNTS							
Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
To Revaluation A/c (Loss) (WN 4)	26,600	11,400	...	By Balance b/d	50,000	40,000	...
To Cash A/c (Surplus) (Balancing Figure)	...	7,000	...	By Premium for Goodwill A/c	7,000	3,000	...
To Balance c/d (WN 2)	63,000	27,000	30,000	By Reserve A/c	5,600	2,400	...
				By Bank Overdraft A/c	20,000	...	...
				By Cash A/c	...	...	30,000
				By Cash A/c (Deficit) (Balancing Figure)	7,000	...	...
	89,600	45,400	30,000		89,600	45,400	30,000

2. Calculation of New Profit-sharing Ratio and Proportionate Capital:

C joins the firm for 1/4th share of profits. Therefore, 3/4th (i.e., $1 - 1/4$) will be shared by A and B in the ratio of 7 : 3.

A's new share = $3/4 \times 7/10 = 21/40$; B's new share = $3/4 \times 3/10 = 9/40$; C's share = $1/4$ or $10/40$.

∴ New Profit-sharing Ratio = 21 : 9 : 10.

Total Capital of the new firm on the basis of C's Capital = ₹ 30,000 × 4/1 = ₹ 1,20,000.

A's Capital in New Firm = ₹ 1,20,000 × $21/40$ = ₹ 63,000;

B's Capital in New Firm = ₹ 1,20,000 × $9/40$ = ₹ 27,000.

3. The partners decide to retain 20% of Reserve as Contingency Reserve. Therefore, the balance, i.e., ₹ 8,000 is distributed between the old partners in their old profit-sharing ratio.

Dr.		Cr.	
CASH ACCOUNT			
Particulars	₹	Particulars	₹
To Balance b/d	36,000	By B's Capital A/c	7,000
To C's Capital A/c	30,000	By Balance c/d	76,000
To Premium for Goodwill A/c	10,000		
To A's Capital A/c	7,000		
	83,000		83,000

Dr.		Cr.	
REVALUATION ACCOUNT			
Particulars	₹	Particulars	₹
To Stock A/c (₹ 50,000 × 40/100)*	20,000	By Loss transferred to:	
To Furniture A/c (₹ 30,000 × 60/100)**	18,000	A's Capital A/c (₹ 38,000 × 7/10)	26,600
		B's Capital A/c (₹ 38,000 × 3/10)	11,400
	38,000		38,000

*Stock-in-Trade is to be reduced by 40% means deduct 40% of the book value of stock. Thus, stock is to be shown at 60% of the book value.

**Furniture is to be reduced to 40% means 60% of the book value of furniture is to be written off.

4.24 Double Entry Book Keeping—CBSE XII

Illustration 15 (When the new partner brings proportionate capital).

A and B are partners sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2026 was:

Liabilities	₹	Assets	₹
Capital A/cs:		Machinery	66,000
A	70,000	Furniture	30,000
B	60,000	Investments	40,000
General Reserve	20,000	Stock	46,000
Bank Loan	18,000	Debtors	38,000
Creditors	72,000	Less: Provision for Doubtful Debts	4,000
		Cash	24,000
	2,40,000		2,40,000

On 1st April, 2026, they admitted C for 25% share in profits on the following terms:

- C brings in capital proportionate to his share after all adjustments and ₹ 8,000 for goodwill out of his share of ₹ 14,000.
- Reduce Furniture by 10%.
- Half of Investments was to be taken over by A and B in their profit-sharing ratio and remaining valued at ₹ 26,000.
- New ratio will be 3 : 3 : 2.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet after C's admission. (Delhi 1999, Modified)

Solution:

Dr.				REVALUATION ACCOUNT		Cr.	
Particulars	₹	Particulars	₹				
To Furniture A/c	3,000	By Investments A/c	6,000				
To Gain (Profit) transferred to:							
A's Capital A/c	1,800						
B's Capital A/c	1,200						
	3,000						
	6,000						6,000

Dr.				PARTNERS' CAPITAL ACCOUNTS				Cr.			
Particulars	A	B	C	Particulars	A	B	C				
	₹	₹	₹		₹	₹	₹				
To Investments A/c	12,000	8,000	...	By Balance b/d	70,000	60,000	...				
To Balance c/d	84,400	62,600	49,000	By Cash A/c (WN 3)	...	...	49,000				
				By C's Current A/c (WN 2)	5,400	600	...				
				By Premium for Goodwill A/c	7,200	800	...				
				By General Reserve A/c	12,000	8,000	...				
				By Revaluation A/c	1,800	1,200	...				
				—Gain (Profit)							
	96,400	70,600	49,000		96,400	70,600	49,000				

BALANCE SHEET OF A, B AND C as at 1st April, 2026

Liabilities	₹	Assets	₹
Capital A/cs:		Machinery	66,000
A	84,400	Furniture	27,000
B	62,600	Investments	26,000
C	49,000	Debtors	38,000
Bank Loan		Less: Provision for Doubtful Debts	4,000
Creditors	72,000	C's Current A/c	6,000
		Stock	46,000
		Cash ₹ (24,000 + 8,000 + 49,000)	81,000
	2,86,000		2,86,000

Working Notes:

1. A part of Goodwill brought in by C in cash has been shared by A and B in their sacrificing ratio of 9 : 1.
Calculation of Sacrificing Ratio:

Partners	Old Profit Share	New Profit Share	Sacrifice (Old Profit Share – New Profit Share)	Sacrificing Ratio
A	3/5	3/8	$3/5 - 3/8 = 9/40$	A : B
B	2/5	3/8	$2/5 - 3/8 = 1/40$	9 : 1

2. Goodwill not brought in cash out of his share by ₹ 6,000 will be recorded as follows:

C's Current A/c	...Dr.	₹ 6,000	
To A's Capital A/c			₹ 5,400
To B's Capital A/c			₹ 600

3. Capital brought in by C:

C's share in profits = 25% or 1/4

For 3/4th share, combined capitals of A and B (after adjustments) are (₹ 84,400 + ₹ 62,600) ₹ 1,47,000.

∴ Total capital of New Firm = ₹ 1,47,000 × 4/3 = ₹ 1,96,000.

∴ C's capital in New Firm = ₹ 1,96,000 × 1/4 = ₹ 49,000.

Illustration 16 (Admission-cum-Retirement: Workmen Compensation Reserve).

X, Y and Z are partners sharing profits and losses in the ratio of 5 : 3 : 2. On 1st April, 2026, R is admitted into the partnership for 1/5th share in profits and brings ₹ 1,00,000 as his capital. On the same date Z retires from the firm. On that date, balance in Workmen Compensation Reserve is valued at ₹ 35,000. Claim for workmen compensation was determined at ₹ 25,000. Give necessary Journal entries.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026				
April 1	Workmen Compensation Reserve A/c To Workmen Compensation Claim A/c (Workmen Compensation Reserve equivalent to claim is transferred to Workmen Compensation Claim Account)	...Dr.	25,000	25,000
April 1	Workmen Compensation Reserve A/c To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Balance of Workmen Compensation Reserve in excess distributed among old partners in old ratio)	...Dr.	10,000	5,000 3,000 2,000
April 1	Bank A/c To R's Capital A/c (Capital brought in by R for 1/5th share)	...Dr.	1,00,000	1,00,000

4.26 Double Entry Book Keeping—CBSE XII

Illustration 17 (Admission-cum-Retirement: Investment Fluctuation Reserve).

A, B and C are partners sharing profits in the ratio of 5 : 3 : 2. A, by agreement, retires and D joins the firm on the basis of one third share of profit on 1st April, 2026 bringing ₹ 50,000 towards capital. An extract of their Balance Sheet as at 31st March, 2026 is as follows:

Liabilities	₹	Assets	₹
Investment Fluctuation Reserve	3,750	Investment (at Cost)	50,000

Pass Journal entries if market value of Investment is ₹ 55,000.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	Investment Fluctuation Reserve A/c ...Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Transfer of Investment Fluctuation Reserve to Partners' Capital Accounts in their old profit-sharing ratio)		3,750	1,875 1,125 750
	Investment A/c ...Dr. To Revaluation A/c (Value of Investment brought up to market value)		5,000	5,000
	Revaluation A/c ...Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Transfer of gain (profit) on revaluation)		5,000	2,500 1,500 1,000
	Bank A/c ...Dr. To D's Capital A/c (Capital brought in by D)		50,000	50,000

Illustration 18 (Adjustment of Capital to be made by Cash).

A, B and C are partners sharing profits and losses in the ratio of 2 : 3 : 5. On 31st March, 2026, their Balance Sheet was:

Liabilities	₹	Assets	₹
Creditors	64,000	Cash	18,000
Bills Payable	32,000	Bills Receivable	24,000
Profit & Loss A/c	14,000	Furniture	28,000
Capital A/cs:		Stock	44,000
A	36,000	Debtors	42,000
B	44,000	Investments	32,000
C	52,000	Machinery	34,000
	1,32,000	Goodwill	20,000
	2,42,000		2,42,000

They admit D into partnership from 1st April, 2026 on the following terms:

- (i) Furniture, Investments and Machinery to be reduced by 15%.
- (ii) Stock is revalued at ₹ 48,000.
- (iii) Outstanding Rent amounted to ₹ 1,800.
- (iv) Prepaid Salaries ₹ 800.

- (v) *D* brings in ₹ 32,000 as his capital and ₹ 6,000 for goodwill in Cash for 1/6th share of future profits of the firm.
- (vi) Capital of the partners shall be proportionate to their profit-sharing ratio, taking *D*'s capital as base.
- (vii) Adjustment of capitals to be made in cash.

Prepare Revaluation Account, Partners' Capital Accounts, Cash Account and the Balance Sheet of the new firm.

Solution:**In the Books of the Firm**

Dr.				Cr.			
REVALUATION ACCOUNT				REVALUATION ACCOUNT			
Particulars	₹	Particulars	₹				
To Furniture A/c	4,200	By Stock A/c	4,000				
To Investments A/c	4,800	By Prepaid Salaries A/c	800				
To Machinery A/c	5,100	By Loss transferred to:					
To Outstanding Rent A/c	1,800	A's Capital A/c	2,220				
		B's Capital A/c	3,330				
		C's Capital A/c	5,550				
	15,900		11,100				
			15,900				

Dr.					Cr.				
PARTNERS' CAPITAL ACCOUNTS					PARTNERS' CAPITAL ACCOUNTS				
Particulars	A (₹)	B (₹)	C (₹)	D (₹)	Particulars	A (₹)	B (₹)	C (₹)	D (₹)
To Revaluation A/c (Loss)	2,220	3,330	5,550	...	By Balance b/d	36,000	44,000	52,000	...
To Goodwill A/c (2 : 3 : 5)	4,000	6,000	10,000	...	By Cash A/c	...	...	...	32,000
To Cash A/c (Bal. Fig.)	1,780	...	...	...	By P & L A/c	2,800	4,200	7,000	...
To Balance c/d	32,000	48,000	80,000	32,000	By Premium for Goodwill A/c (2 : 3 : 5)	1,200	1,800	3,000	...
	40,000	57,330	95,550	32,000	By Cash A/c (Bal. Fig.)	...	7,330	33,550	...
						40,000	57,330	95,550	32,000

Dr.			Cr.		
CASH ACCOUNT			CASH ACCOUNT		
Particulars	₹	Particulars	₹		
To Balance b/d	18,000	By A's Capital A/c	1,780		
To B's Capital A/c	7,330	By Balance c/d	95,100		
To C's Capital A/c	33,550				
To D's Capital A/c	32,000				
To Premium for Goodwill A/c	6,000				
	96,880		96,880		

BALANCE SHEET OF A, B, C AND D as at 1st April, 2026

Liabilities	₹	Assets	₹
Bills Payable	32,000	Cash	95,100
Creditors	64,000	Stock	48,000
Outstanding Rent	1,800	Debtors	42,000
Capital A/cs:		Bills Receivable	24,000
A	32,000	Prepaid Salaries	800
B	48,000	Investments	27,200
C	80,000	Furniture	23,800
D	32,000	Machinery	28,900
	1,92,000		2,89,800
	2,89,800		2,89,800

4.28 Double Entry Book Keeping—CBSE XII

Working Notes:

1. *New Profit-Sharing Ratio is calculated as under:*

Let total profit be = 1

D gets = $1/6$ th share

Remaining profit = $1 - 1/6 = 5/6$ will be shared by A , B and C in their old profit-sharing ratio.

A 's share = $5/6 \times 2/10 = 2/12$

B 's share = $5/6 \times 3/10 = 3/12$

C 's share = $5/6 \times 5/10 = 5/12$

Thus, New Profit-sharing Ratio of A , B , C and $D = 2/12 : 3/12 : 5/12 : 1/6$ or $2 : 3 : 5 : 2$.

2. *Adjustment of Capital:*

For $1/6$ th share D brought capital = ₹ 32,000

∴ Total capital of the New firm = ₹ 32,000 × 6/1 = ₹ 1,92,000

A 's Capital = ₹ 1,92,000 × 2/12 = ₹ 32,000; C 's Capital = ₹ 1,92,000 × 5/12 = ₹ 80,000

B 's Capital = ₹ 1,92,000 × 3/12 = ₹ 48,000; D 's Capital = ₹ 1,92,000 × 2/12 = ₹ 32,000.

Illustration 19 (Admission-cum-Death: Treatment of Goodwill).

A and B are partners in a firm sharing profits in the ratio of 3 : 2. They admitted C as a partner for $1/5$ th share of profit on 1st April, 2026. He brings ₹ 4,500 as a premium out of his share of ₹ 6,000. On the same date B died. According to his will, the executors should donate his share to a school for providing scholarships to the students.

Pass Journal entries to give effect to the above.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	Cash A/c ...Dr. To Premium for Goodwill A/c (C brings only a part of his share of goodwill)		4,500	4,500
April 1	Premium for Goodwill A/c ...Dr. C 's Current A/c ...Dr. A 's Capital A/c ...Dr. To B 's Capital A/c (Sacrificing partner (B) compensated with the share of goodwill)		4,500 1,500 6,000	12,000

Working Notes:

1. *Calculation of Gaining/Sacrificing Share:*

	A	B	C
(i) Old Profit Share	$3/5$	$2/5$	...
(ii) New Profit Share	$4/5$	...	$1/5$
Sacrifice/(Gain) (i - ii)	$-1/5$ (Gain)	$2/5$ (Sacrifice)	$-1/5$ (Gain)

2. *Calculation of Share of Goodwill:*

For $1/5$ th Share of C , Goodwill = ₹ 6,000

Value of Firm's Goodwill = ₹ 6,000 × 5/1 = ₹ 30,000

For $2/5$ th sacrifice of B , value of Goodwill = ₹ 30,000 × 2/5 = ₹ 12,000

For $1/5$ th Gain of A , value of Goodwill = ₹ 30,000 × 1/5 = ₹ 6,000.

Illustration 20.

Bishan and Krishan are partners sharing profits and losses in the ratio of 3 : 2. They admit Amit for 1/10th share which he acquires equally from Bishan and Krishan.

Calculate the New Profit-sharing Ratio.

Solution: Share surrendered by Bishan = $\frac{1}{10} \times \frac{1}{2} = \frac{1}{20}$

Share surrendered by Krishan = $\frac{1}{10} \times \frac{1}{2} = \frac{1}{20}$

New Share = Old share – Share surrendered

$$\text{Bishan's New Share} = \frac{3}{5} - \frac{1}{20} = \frac{12-1}{20} = \frac{11}{20}$$

$$\text{Krishan's New Share} = \frac{2}{5} - \frac{1}{20} = \frac{8-1}{20} = \frac{7}{20}$$

$$\text{Amit's Share} = \frac{1}{10} \text{ or } \frac{2}{20}$$

$$\text{New Profit-sharing Ratio} = \frac{11}{20} : \frac{7}{20} : \frac{2}{20} = 11:7:2.$$

Illustration 21.

X, Y and Z are partners sharing profits in the ratio of 4 : 3 : 3. They admitted A into partnership for 1/5th share which he took from the old partners in the ratio 1 : 2 : 3. Calculate the new profit-sharing ratio.

Solution:

A acquires from X = $\frac{1}{6}$ th of $\frac{1}{5} = \frac{1}{30}$; from Y = $\frac{2}{6}$ th of $\frac{1}{5} = \frac{2}{30}$; from Z = $\frac{3}{6}$ th of $\frac{1}{5} = \frac{3}{30}$

New Share = Old Share – Share Surrendered

$$\text{X's New Share} = \frac{4}{10} - \frac{1}{30} = \frac{12-1}{30} = \frac{11}{30}$$

$$\text{Y's New Share} = \frac{3}{10} - \frac{2}{30} = \frac{9-2}{30} = \frac{7}{30}$$

$$\text{Z's New Share} = \frac{3}{10} - \frac{3}{30} = \frac{9-3}{30} = \frac{6}{30}$$

$$\text{A's Share is } \frac{1}{5} \text{ or } \frac{6}{30}$$

$$\text{Thus, New Profit-sharing Ratio} = \frac{11}{30} : \frac{7}{30} : \frac{6}{30} : \frac{6}{30} = 11:7:6:6.$$

4.30 Double Entry Book Keeping—CBSE XII

Illustration 22 (Adjustment of Accumulated Profits and Losses).

A, B and C were partners in a firm sharing profits and losses in the ratio of 3 : 1 : 1. On 1st April, 2026, their Balance Sheet stood as:

BALANCE SHEET as at 1st April, 2026

Liabilities	₹	Assets	₹
Capital A/cs:		Land and Building	1,50,000
A	1,00,000	Machinery	50,000
B	30,000	Furniture	10,000
C	20,000	Investments (Market value ₹ 28,000)	30,000
General Reserve	25,000	Current Assets	1,18,000
Profit & Loss A/c	35,000	Advertisement Suspense (Deferred Revenue Expenditure)	25,000
Investments Fluctuation Reserve	20,000		
Workmen Compensation Reserve	23,000		
Employees' Provident Fund	30,000		
Creditors	1,00,000		
	3,83,000		3,83,000

They admitted D into partnership for 1/5th share of profits on the above date. A claim for workmen compensation is estimated at ₹ 13,000.

Pass necessary Journal entries to adjust the accumulated profits and losses.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	Investments Fluctuation Reserve A/c ...Dr. To Investments A/c (Value of investments brought down to market value)		2,000	2,000
	Workmen Compensation Reserve A/c ...Dr. To Provision for Workmen Compensation Claim A/c (Workmen compensation claim provided for)		13,000	13,000
	General Reserve A/c ...Dr. Profit & Loss A/c ...Dr. Investments Fluctuation Reserve A/c [₹ 20,000 – (₹ 30,000 – ₹ 28,000)] ...Dr. Workmen Compensation Reserve A/c (₹ 23,000 – ₹ 13,000) ...Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Transfer of accumulated profits to old partners in their old profit-sharing ratio)		25,000 35,000 18,000 10,000	52,800 17,600 17,600
	A's Capital A/c ...Dr. B's Capital A/c ...Dr. C's Capital A/c ...Dr. To Advertisement Suspense A/c (Transfer of accumulated losses to old partners in their old profit-sharing ratio)		15,000 5,000 5,000	25,000

Notes:

- Market value of investments is less than its Book Value by ₹ 2,000. This loss is met out of Investments Fluctuation Reserve. After meeting the loss, remaining balance of Investments Fluctuation Reserve, i.e., ₹ 18,000 is distributed among old partners in their old profit-sharing ratio.
- Employees' Provident Fund is a statutory liability and not a reserve.

Illustration 23.

Usha and Asha are partners in a firm sharing profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2026 was:

Liabilities	₹	Assets	₹
Creditors	27,000	Cash	24,000
General Reserve	18,000	Debtors	48,000
Bills Payable	5,000	Less: Provision for Doubtful Debts	4,800
Capital A/cs:		Stock	30,000
Usha	40,000	Patents	7,400
Asha	35,000	Building	20,400
	1,25,000		1,25,000

Neelam is admitted into the partnership giving her 1/5th share in the profits. Neelam is to bring in ₹ 30,000 as her capital and her share of goodwill in cash subject to the following terms:

- Goodwill of the firm to be valued at ₹ 50,000.
- Stock to be reduced by 10% and the Provision for Doubtful Debts be reduced by ₹ 2,400.
- Patents to be valueless.
- There was a claim against the firm for damages amounting to ₹ 2,000. The claim has now been accepted.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm. (Delhi, AI, Foreign 2004, Modified)

Solution:

REVALUATION ACCOUNT			
Dr.	₹	Cr.	₹
To Stock A/c	3,000	By Provision for Doubtful Debts A/c	2,400
To Patents A/c	7,400	By Loss transferred to:	
To Claim for Damages A/c	2,000	Usha's Capital A/c	6,000
		Asha's Capital A/c	4,000
	12,400		10,000
			12,400

PARTNERS' CAPITAL ACCOUNTS							
Dr.	Usha	Asha	Neelam	Cr.	Usha	Asha	Neelam
Particulars	₹	₹	₹	Particulars	₹	₹	₹
To Revaluation A/c	6,000	4,000	...	By Balance b/d	40,000	35,000	...
—Loss				By General Reserve A/c	10,800	7,200	...
To Balance c/d	50,800	42,200	30,000	By Cash A/c	...	...	30,000
				By Premium for Goodwill A/c	6,000	4,000	...
	56,800	46,200	30,000		56,800	46,200	30,000

4.32 Double Entry Book Keeping—CBSE XII

BALANCE SHEET OF THE NEW FIRM as at 31st March, 2026

Liabilities	₹	Assets	₹
Bills Payable	5,000	Cash (₹ 24,000 + ₹ 40,000)	64,000
Creditors	27,000	Stock (₹ 30,000 – ₹ 3,000)	27,000
Claim for Damages	2,000	Debtors	48,000
Capital A/cs:		Less: Provision for Doubtful Debts	2,400
Usha	50,800	Building	20,400
Asha	42,200		
Neelam	30,000		
	1,23,000		
	1,57,000		1,57,000

Note: Neelam's Share of Goodwill = ₹ 50,000 × 1/5 = ₹ 10,000.

Illustration 24.

Annu and Mannu are partners sharing profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2009 was as follows:

BALANCE SHEET OF ANNU AND MANNU as at 31st March, 2009

Liabilities	₹	Assets	₹
Creditors	56,000	Cash in Hand	77,000
General Reserve	10,000	Debtors	42,000
Investments Fluctuation Fund	4,000	Less: Provision for Doubtful Debts	7,000
Capital A/cs:		Investments (Market value ₹ 19,000)	21,000
Annu	1,19,000	Building	98,000
Mannu	1,12,000	Plant and Machinery	70,000
	2,31,000		
	3,01,000		3,01,000

Sonu was admitted on that date for 1/4th share of profit on the following terms:

- Sonu will bring ₹ 56,000 as his share of capital.
- Goodwill of the firm is valued at ₹ 84,000 and Sonu will bring his share of Goodwill in cash.
- Plant and Machinery is appreciated by 20%.
- All Debtors are good.
- There is a liability of ₹ 9,800 included in Sundry Creditors, which is not likely to arise.
- New profit-sharing ratio will be 2 : 1 : 1.
- Capitals of Annu and Mannu will be adjusted on the basis of Sonu's share of capital and any excess or deficiency will be made good by withdrawing or bringing in cash by the concerned partners as the case may be.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm. (Delhi 2012 C)

Solution:

REVALUATION ACCOUNT			
Dr.	₹	Cr.	₹
To Gain (Profit) transferred to:		By Plant and Machinery A/c	14,000
Annu's Capital A/c	18,480	By Provision for Doubtful Debts A/c*	7,000
Mannu's Capital A/c	12,320	By Creditors A/c	9,800
	30,800		30,800

*All Debtors are good means Provision for Doubtful Debts is no longer required and hence is credited to Revaluation Account.

Dr. PARTNERS' CAPITAL ACCOUNTS				Cr.			
Particulars	Annu (₹)	Mannu (₹)	Sonu (₹)	Particulars	Annu (₹)	Mannu (₹)	Sonu (₹)
To Cash A/c (Bal. Fig.)	41,080	85,720	...	By Balance b/d	1,19,000	1,12,000	...
To Balance c/d (WN 3)	1,12,000	56,000	56,000	By General Reserve A/c	6,000	4,000	...
				By Revaluation A/c (Gain)	18,480	12,320	...
				By Investments			
				Fluctuation Fund A/c (WN 1)	1,200	800	...
				By Premium for Goodwill A/c (WN 2)	8,400	12,600	...
				By Cash A/c (Capital)	...	...	56,000
	1,53,080	1,41,720	56,000		1,53,080	1,41,720	56,000

BALANCE SHEET OF THE NEW FIRM as at 31st March, 2009

Liabilities	₹	Assets	₹
Creditors (₹ 56,000 – ₹ 9,800)	46,200	Cash in Hand (WN 4)	27,200
Capital A/cs:		Debtors	42,000
Annu	1,12,000	Investments (Market Value)	19,000
Mannu	56,000	Building	98,000
Sonu	56,000	Plant and Machinery	84,000
	2,24,000		2,70,200
	2,70,200		2,70,200

Working Notes:

- Investments Fluctuation Fund A/c ...Dr. ₹ 4,000
 To Investments A/c ₹ 2,000
 To Annu's Capital A/c ₹ 1,200
 To Mannu's Capital A/c ₹ 800
 (Transfer of excess Investments Fluctuation Fund to Old Partners' Capital Accounts in their old profit-sharing ratio)
- Sonu's share of Goodwill = ₹ 84,000 × 1/4 = ₹ 21,000, which is credited to Annu's and Mannu's Capital Accounts in their sacrificing ratio.

Calculation of Sacrificing Ratio (Sacrifice = Old Share – New Share):

$$\text{Annu's Sacrifice} = \frac{3}{5} - \frac{2}{4} = \frac{12-10}{20} = \frac{2}{20}; \quad \text{Mannu's Sacrifice} = \frac{2}{5} - \frac{1}{4} = \frac{8-5}{20} = \frac{3}{20}$$

$$\text{Sacrificing Ratio} = \frac{2}{20} : \frac{3}{20} \text{ or } 2:3.$$

Share of Annu in Goodwill = ₹ 21,000 × 2/5 = ₹ 8,400

Share of Mannu in Goodwill = ₹ 21,000 × 3/5 = ₹ 12,600.

- Calculation of adjusted capital of Annu and Mannu on the basis of Sonu's Capital:

$$\begin{aligned} \text{Total Capital of the New Firm} &= \frac{\text{Capital of the New Partner (Sonu)}}{\text{Share of Profit of the New Partner}} \\ &= \frac{₹ 56,000}{1/4} = ₹ 56,000 \times \frac{4}{1} = ₹ 2,24,000 \end{aligned}$$

Thus, Annu's Capital in New Firm = ₹ 2,24,000 × 2/4 = ₹ 1,12,000; and

Mannu's Capital in New Firm = ₹ 2,24,000 × 1/4 = ₹ 56,000.

4.34 Double Entry Book Keeping—CBSE XII

4. Dr. CASH ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Balance b/d	77,000	By Annu's Capital A/c	41,080
To Sonu's Capital A/c	56,000	By Mannu's Capital A/c	85,720
To Premium for Goodwill A/c	21,000	By Balance c/d	27,200
	1,54,000		1,54,000

Illustration 25 (Fundamentals and Admission: Guarantee to a New Partner).

X and Y are partners in a firm sharing profits in the ratio of 3 : 1. On 1st April, 2025, they decide to admit Z for 1/5th share in profits with a guaranteed amount of ₹ 1,50,000 p.a. The new profit-sharing ratio is agreed at 3 : 1 : 1. The firm earned a profit of ₹ 4,80,000 for the year ended 31st March, 2026. X undertook to meet the liability arising out of the guaranteed amount to Z. Calculate how the profits will be distributed and prepare Profit & Loss Appropriation Account for the year ended 31st March, 2026.

Solution:

Particulars	X	Y	Z
Divided Net Profit of ₹ 4,80,000 in the ratio of 3 : 1 : 1	₹ 4,80,000 × 3/5 = ₹ 2,88,000	₹ 4,80,000 × 1/5 = ₹ 96,000	₹ 4,80,000 × 1/5 = ₹ 96,000

However, Z's minimum guaranteed profit is ₹ 1,50,000. So, there is deficiency of ₹ 54,000, to be borne by X personally.

X's New Share of Profit = ₹ 2,88,000 – ₹ 54,000 = ₹ 2,34,000

Y's Share of Profit = ₹ 96,000

Z's New Share of Profit = ₹ 96,000 + ₹ 54,000 = ₹ 1,50,000.

Dr. PROFIT & LOSS APPROPRIATION ACCOUNT for the year ended 31st March, 2026 Cr.

Particulars	₹	Particulars	₹
To Profit Transferred to:		By Profit & Loss A/c	4,80,000
X's Capital A/c	2,34,000	(Net Profit)	
Y's Capital A/c	96,000		
Z's Capital A/c	1,50,000		
	4,80,000		4,80,000

Illustration 26 (Fundamentals and Admission: Guarantee to a New Partner).

X and Y are partners, sharing profits and losses in the ratio of 2 : 1. On 1st April, 2025, they admit Z with 1/4th share in profits with guaranteed profit of ₹ 25,000. Any deficiency arising on that account shall be met by X and Y equally. Trading profits of the firm for the year ended 31st March, 2026 amounted to ₹ 76,000. Show the distribution of profits.

Solution:

Step 1: Calculation of New Shares:

Let the Total Share be = 1, Z's share = 1/4, Remaining Share = 1 – 1/4 = 3/4

X's New Share = 2/3 × 3/4 = 2/4; Y's New Share = 1/3 × 3/4 = 1/4; Z's Share = 1/4.

So, New Ratio of X, Y and Z = 2 : 1 : 1.

Step 2: Z's Share of Profit = ₹ 76,000 × 1/4 = ₹ 19,000.

Step 3: Deficiency = Guaranteed amount – ₹ 19,000
= ₹ 25,000 – ₹ 19,000 = ₹ 6,000.

Step 4: Deficiency is to be borne by X and Y equally as follows:

$$X = ₹ 6,000 \times 1/2 = ₹ 3,000; Y = ₹ 6,000 \times 1/2 = ₹ 3,000.$$

Step 5: Division of Profit:

$$X's \text{ Share} = ₹ 76,000 \times 2/4 = ₹ 38,000 - ₹ 3,000 = ₹ 35,000.$$

$$Y's \text{ Share} = ₹ 76,000 \times 1/4 = ₹ 19,000 - ₹ 3,000 = ₹ 16,000.$$

$$Z's \text{ Share} = ₹ 76,000 \times 1/4 = ₹ 19,000 + ₹ 3,000 (X) + ₹ 3,000 (Y) = ₹ 25,000.$$

Illustration 27.

Following is the Balance Sheet as at 1st April, 2026 of Sushil and Satish who are in partnership sharing profits and losses in the ratio of 5 : 2:

Liabilities	₹	Assets	₹
Sundry Creditors	1,30,000	Bank	10,000
Capital A/cs:		Stock	20,000
Sushil	80,000	Debtors	30,500
Satish	70,000	Less: Provision for Doubtful Debts	500
	1,50,000	Plant and Machinery	50,000
		Building	1,70,000
	2,80,000		2,80,000

On the above date, they admitted Samir as new partner on the following terms:

- That Samir will bring in ₹ 1,00,000 for his capital and the necessary amount of goodwill/premium for goodwill for 3/8th share in future profits.
- Goodwill of the firm on Samir's admission was valued at ₹ 1,40,000.
- That new profit-sharing ratio will be 2 : 3 : 3.

Pass necessary Journal entries to carry out these and prepare Balance Sheet of the firm after Samir's admission as a partner.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026				
April 1	Bank A/c ...Dr. To Premium for Goodwill A/c To Samir's Capital A/c (Samir brought in his capital and his share of goodwill premium)		1,52,500	52,500 1,00,000
April 1	Premium for Goodwill A/c (WN 2) ...Dr. Satish's Capital A/c (WN 3) ...Dr. To Sushil's Capital A/c (Goodwill/premium for goodwill brought by Samir transferred to the Capital A/c of Sushil and also Satish's Capital A/c is proportionately debited for gain)		52,500 12,500	65,000

4.36 Double Entry Book Keeping—CBSE XII

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.									
Date	Particulars	Sushil ₹	Satish ₹	Samir ₹	Date	Particulars	Sushil ₹	Satish ₹	Samir ₹
2026					2026				
April 1	To Sushil's Capital A/c	...	12,500	...	April 1	By Balance b/d	80,000	70,000	...
April 1	To Balance c/d	1,45,000	57,500	1,00,000	April 1	By Bank A/c	...	...	1,00,000
					April 1	By Satish's Capital A/c	12,500	...	...
					April 1	By Premium for Goodwill A/c	52,500	...	...
		1,45,000	70,000	1,00,000			1,45,000	70,000	1,00,000

BALANCE SHEET
as at 1st April, 2026

Liabilities	₹	Assets	₹
Sundry Creditors		Bank	1,62,500
Capital A/cs:		Stock	20,000
Sushil	1,45,000	Debtors	30,500
Satish	57,500	Less: Provision for Doubtful Debts	500
Samir	1,00,000	Plant and Machinery	50,000
	3,02,500	Building	1,70,000
	4,32,500		4,32,500

Working Notes:

1. Calculation of Sacrificing Ratio (Sacrifice = Old Share – New Share):

$$\text{Sushil} = \frac{5}{7} - \frac{2}{8} = \frac{40 - 14}{56} = \frac{26}{56} \text{ (Sacrifice); Satish} = \frac{2}{7} - \frac{3}{8} = \frac{16 - 21}{56} = -\frac{5}{56} \text{ (Gain).}$$

2. Samir's share of premium (Goodwill) = $\frac{3}{8} \times ₹ 1,40,000 = ₹ 52,500$.
3. Since Satish is gaining on Samir's admission, hence, he will also compensate Sushil proportionately by ₹ 12,500 (i.e., ₹ 1,40,000 × 5/56).

Illustration 28 (Hidden Goodwill).

A and B are partners with capitals of ₹ 1,60,000 and ₹ 1,20,000 respectively. They admit C as a partner on 1st April, 2026 for 1/4th share in profits of the firm. C brings in ₹ 1,60,000 as his share of capital.

Pass Journal entries on C's admission.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026				
April 1	Bank A/c ...Dr. To C's Capital A/c (Cash brought in by C for his capital)		1,60,000	1,60,000
April 1	C's Capital/Current A/c ...Dr. To A's Capital A/c To B's Capital A/c (Credit given for goodwill to A and B on C's admission) (WN 2)		50,000	25,000 25,000

Working Notes:

1. In the absence of any agreement profits are shared equally.

2. Calculation of Hidden Goodwill:

C's Capital for 1/4th share = ₹ 1,60,000

(a) Total capital of the new firm = ₹ 1,60,000 × 4 = ₹ 6,40,000

(b) A, B and C's Capitals = ₹ 1,60,000 + ₹ 1,20,000 + ₹ 1,60,000 = ₹ 4,40,000

∴ **Goodwill of the firm = ₹ 2,00,000** [(a) – (b)]

Thus, C's share of Goodwill = $1/4 \times ₹ 2,00,000 = ₹ 50,000$.

Illustration 29.

The Balance Sheet of Madan and Mohan who share profits and losses in the ratio of 3 : 2, as at 31st March, 2010 was as follows:

Liabilities	₹	Assets	₹
Creditors	28,000	Cash at Bank	10,000
Workmen's Compensation Reserve	12,000	Debtors	65,000
General Reserve	20,000	Less: Reserve for Doubtful Debts	5,000
Capital A/cs:		Stock	30,000
Madan	60,000	Investments	50,000
Mohan	40,000	Patents	10,000
	<u>1,00,000</u>		<u>1,60,000</u>
	<u>1,60,000</u>		<u>1,60,000</u>

They decided to admit Gopal on 1st April, 2010 for 1/4th share on the following terms:

- (i) Gopal shall bring ₹ 25,000 as his share of premium for goodwill.
- (ii) That unaccounted Accrued Income of ₹ 500 be provided for.
- (iii) The market value of Investments was ₹ 45,000.
- (iv) A Debtor whose dues of ₹ 1,000 were written off as Bad Debts paid ₹ 800 in full settlement.
- (v) A claim of ₹ 2,000 on account of Workmen Compensation to be provided for.
- (vi) Patents are undervalued by ₹ 5,000.
- (vii) Gopal to bring in capital equal to 1/4th of the total capital of the new firm after all adjustments.

Prepare Revaluation Account, Capital Accounts of Partners and the Balance Sheet of the new firm. (Delhi 2011 C)

Solution:

REVALUATION ACCOUNT			
Dr.		Cr.	
Particulars	₹	Particulars	₹
To Investments A/c	5,000	By Accrued Income A/c	500
To Gain (Profit) transferred to:		By Bad Debts Recovered A/c	800
Madan's Capital A/c	780	By Patents A/c	5,000
Mohan's Capital A/c	520		
	<u>1,300</u>		
	<u>6,300</u>		<u>6,300</u>

4.38 Double Entry Book Keeping—CBSE XII

PARTNERS' CAPITAL ACCOUNTS							
Dr.	Madan (₹)	Mohan (₹)	Gopal (₹)	Cr.	Madan (₹)	Mohan (₹)	Gopal (₹)
To Balance <i>c/d</i>	93,780	62,520	52,100	By Balance <i>b/d</i>	60,000	40,000	...
				By General Reserve A/c	12,000	8,000	...
				By Revaluation A/c	780	520	...
				By Workmen Compensation Reserve A/c	6,000	4,000	...
				By Premium for Goodwill A/c	15,000	10,000	...
				By Bank A/c (WN 1)	...	...	52,100
	93,780	62,520	52,100		93,780	62,520	52,100

BALANCE SHEET OF THE NEW FIRM as at 1st April, 2010

Liabilities	₹	Assets	₹
Creditors	28,000	Cash at Bank (WN 2)	87,900
Workmen Compensation Claim	2,000	Debtors	65,000
Capital A/cs:		Less: Reserve for Doubtful Debts	5,000
Madan	93,780	Stock	30,000
Mohan	62,520	Investments	45,000
Gopal	52,100	Patents	15,000
	2,08,400	Accrued Income	500
	2,38,400		2,38,400

Working Notes:

1. Calculation of Gopal's Capital:

(i) Total adjusted capital of Madan and Mohan = ₹ 93,780 + ₹ 62,520 = ₹ 1,56,300.

(ii) Calculation of Total Capital of the New Firm:

Gopal joins the firm for 1/4th share

Therefore, Madan and Mohan will share 3/4th (i.e., 1 - 1/4) of the firm's profit.

(iii) Total Capital of the Firm = $\frac{\text{Adjusted Combined Capital of the Old Partners}}{\text{Combined Share of Profit of the Old Partners}}$
 = ₹ 1,56,300 × 4/3 = ₹ 2,08,400.

(iv) Gopal's Capital in the New Firm = ₹ 2,08,400 × 1/4 = ₹ 52,100.

BANK ACCOUNT			
Dr.	₹	Cr.	₹
To Balance <i>b/d</i>	10,000	By Balance <i>c/d</i>	87,900
To Gopal's Capital A/c	52,100		
To Premium for Goodwill A/c	25,000		
To Bad Debts Recovered A/c	800		
	87,900		87,900

Unsolved Questions

1. A and B share profits in the ratio of 5 : 4. They admit C for 2/7th share which he takes 3/14th from A and 1/14th from B. Calculate new profit-sharing ratio. (Delhi 1999)

[Ans.: New Profit-sharing Ratio—43 : 47 : 36.]

2. L and M are sharing profits and losses in the ratio of 2 : 2. They admit N as a partner who takes 1/4th share from L and 1/8th share from M. Calculate new profit-sharing ratio of the partners. (Foreign 2003)

[Ans.: New Profit-sharing Ratio—2 : 3 : 3.]

3. A, B and C are partners sharing profits and losses in the ratio of 3 : 2 : 1. D is admitted. The new profit-sharing ratio among A, B, C and D will be 3 : 3 : 2 : 2. Calculate gain/sacrifice.

[Ans.: A sacrificed 6/30; B sacrificed 1/30 and C gained 1/30.]

4. X and Y shared profits in the ratio of 7 : 3. Z was admitted as a partner. X surrendered 1/7th of his share and Y surrendered 1/3rd of his share in favour of Z. Calculate new ratio and sacrificing ratio. (Foreign 2005)

[Ans.: New Ratio of X, Y and Z—3 : 1 : 1; Sacrificing Ratio of X and Y—1 : 1.]

5. A and B are partners sharing profits in the ratio of 3 : 2. They admit C into partnership. C pays a premium of ₹ 1,000 for 1/4th share of profits. The new ratio is 3 : 3 : 2. Goodwill Account appears in the books at ₹ 1,000. Give necessary Journal entries. (AI 2002 C, Foreign 2003)

[Ans.: (i) Dr. A's Capital A/c by ₹ 600 and B's Capital A/c by ₹ 400; Cr. Goodwill A/c by ₹ 1,000;

(ii) Dr. Cash A/c and Cr. Premium for Goodwill A/c by ₹ 1,000;

(iii) Dr. Premium for Goodwill A/c by ₹ 1,000; Cr. A's Capital A/c by ₹ 900 and

B's Capital A/c by ₹ 100; sacrificing ratio, i.e., 9 : 1.]

6. A and B are partners sharing profits equally. They admit C into partnership; C paying only ₹ 1,000 for premium out of his share of premium of ₹ 1,800 for 1/4th share of profit. Goodwill Account appears in the books at ₹ 6,000. All the partners have decided that goodwill should not appear in the new firm's books. Give necessary Journal entries. (Delhi 1994, AI 2003)

[Ans.: Dr. Cash A/c and Cr. Premium for Goodwill A/c by ₹ 1,000; Dr. Premium for Goodwill A/c

by ₹ 1,000 and C's Current A/c by ₹ 800; Cr. A's Capital A/c by ₹ 900 and B's Capital A/c by

₹ 900 in Sacrificing Ratio 1 : 1 and ₹ 6,000 existing goodwill is to be

written off between old partners in the old ratio.]

7. A and B are partners sharing profits and losses in the ratio of 2 : 1. They admit C, their Manager, into partnership who is to get 1/3rd share in the business. C brings in ₹ 10,000 for his capital and ₹ 3,000 for 1/3rd share of goodwill. A, B and C agree to share future profits equally. The amount of goodwill is withdrawn from the business. Pass necessary Journal entries in connection with C's admission.

8. (a) Ashok and Ramu are partners sharing profits in the ratio of 7 : 3 respectively. Their capitals on 1st January, 2006 were ₹ 80,000 and ₹ 60,000 respectively. They admitted Vijay into the partnership on that date giving him 1/5th share in future profits, which he acquired equally from Ashok and Ramu. Vijay is to bring in ₹ 50,000 as his share of capital.

Find new profit-sharing ratio and value of the goodwill of the firm.

- (b) Record necessary Journal entries on Vijay's admission from the above mentioned transactions.

(Foreign 2006)

[Ans.: New Ratio—3 : 1 : 1; Value of Goodwill of the Firm—₹ 60,000; Dr. Bank A/c and

Cr. Vijay's Capital A/c by ₹ 50,000; Dr. Vijay's Capital/Current A/c by ₹ 12,000 and

Cr. Capital Accounts of Ashok and Ramu by ₹ 6,000 each.]

[Hint: Hidden Goodwill = (₹ 50,000 × 5/1) – (₹ 80,000 + ₹ 60,000 + ₹ 50,000) = ₹ 60,000.]

9. X and Y are partners sharing profits in the ratio of 3 : 1. They admit Z as a partner for 1/4th share. His share of goodwill is ₹ 18,000. Give Journal entries in the following cases:

(a) When the amount of goodwill is paid privately.

(b) When the goodwill is received in cash and retained in the business.

(c) When the goodwill is received in cash and withdrawn by the old partners.

4.40 Double Entry Book Keeping—CBSE XII

10. Ram and Shyam are partners sharing profits and losses in the ratio of 3 : 1. They agreed to admit Mohan into the partnership firm.

Mohan is to bring in ₹ 40,000 as his capital and ₹ 12,000 as goodwill for 1/4th share of future profits. This he acquires in the ratio of 2 : 1 from Ram and Shyam. The amount of goodwill brought in by Mohan is to remain in the business. At the time of Mohan's admission a General Reserve of ₹ 16,000 existed in the books of the old firm. For the purpose of admission, the assets and liabilities are to be revalued as:

- Buildings were appreciated by ₹ 20,000.
- The Provision for Doubtful Debts was reduced from ₹ 2,000 to ₹ 1,000.
- A provision of ₹ 1,000 was to be made for an outstanding bill for repairs.

Pass necessary Journal entries in connection with Mohan's admission and also calculate future profit-sharing ratio of the partners. [Ans.: New Profit-sharing Ratio—7 : 2 : 3.]

11. M and S are partners sharing profits in the ratio of 2 : 1. Their Balance Sheet stood at 31st March, 2026 as:

BALANCE SHEET

Liabilities	₹	Assets	₹
Sundry Creditors	44,000	Cash at Bank	17,000
Capital A/cs:		Sundry Debtors	15,000
M	30,000	Bills Receivable	4,000
S	20,000	Stock	25,000
	50,000	Furniture and Fixtures	3,000
		Land and Building	30,000
	94,000		94,000

R, a differently abled person, is very efficient in office management. He is admitted to partnership with effect from 1st April, 2026 on the following terms:

- He brings in ₹ 15,000 as his capital for 1/4th share and pays ₹ 6,000 for goodwill, half of which is to be withdrawn by M and S.
- There is likely to be a claim against the firm for damages for which a provision to the extent of ₹ 1,500 is to be made.
- A bill for ₹ 300 for electricity charges has been omitted to be accounted. It should, therefore, now be provided for.
- The Stock is to be reduced to ₹ 23,000 and Furniture and Fixtures by ₹ 1,000.
- 5% Reserve for Bad and Doubtful Debts to be created.
- The value of Land and Building is to be appreciated by 20%.
- That included in the Sundry Creditors is an item of ₹ 1,200 which is not paid and, therefore, has to be written back.
- The profit-sharing ratio of the old partners will not change.

You are required to show necessary accounts and Balance Sheet of the new firm stating the proportion in which the partners will share profits in future.

[Ans.: Gain (Profit) on Revaluation—₹ 1,650; Closing Balance of Capital A/cs: M—₹ 33,100; S—₹ 21,550; R—₹ 15,000; Balance Sheet Total—₹ 1,14,250.]

12. A and B share profits in the proportion of 3/4 and 1/4. Their Balance Sheet as at 31st March, 2026 was:

Liabilities	₹	Assets	₹
Sundry Creditors	41,500	Cash at Bank	26,500
General Reserve	4,000	Bills Receivable	3,000
Capital A/cs:		Debtors	16,000
A	30,000	Stock	20,000
B	16,000	Fixtures	1,000
	46,000	Land and Building	25,000
	91,500		91,500

On 1st April, 2026, C was admitted into partnership for 1/5th share on the following terms:

- C pays ₹ 10,000 as his capital.
- C pays ₹ 5,000 for goodwill. Half of this sum is to be withdrawn by A and B.
- Stock and Fixtures be reduced by 10% and a 5% Provision for Doubtful Debts be created on Debtors and Bills Receivable.
- The value of Land and Building be appreciated by 20%.
- There being a claim against the firm for damages, a liability to the extent of ₹ 1,000 should be created.
- An item of ₹ 650 included in Sundry Creditors is not likely to be claimed and hence should be written back.

Record the above transactions (Journal entries) in the books of the firm assuming that the profit-sharing ratio between A and B has not changed. Prepare Balance Sheet on the admission of C.

[Ans.: Gain (Profit) on Revaluation—₹ 1,600; Capital A/cs: A—₹ 36,075; B—₹ 18,025; C—₹ 10,000; Balance Sheet Total—₹ 1,05,950.]

13. X and Y are partners sharing profits and losses equally. Their Balance Sheet as at 31st March, 2026 was:

Liabilities	₹	Assets	₹
Capital A/cs:		Land and Building	30,000
X	30,000	Plant and Machinery	20,000
Y	20,000	Furniture and Fittings	5,000
	50,000	Stock	15,000
Current A/cs:		Debtors	15,000
X	8,000	Less: Provision for Doubtful Debts	1,000
Y	6,000		14,000
	14,000	Bills Receivable	6,000
Creditors	26,000	Bank	10,000
Bills Payable	10,000		10,000
	1,00,000		1,00,000

Z is admitted as a partner from 1st April, 2026 for 1/4th share under the following terms:

- Z is to introduce ₹ 25,000 as capital and also ₹ 10,000 as goodwill premium by cheque.
- Creditors included a sum of ₹ 1,500 which was not to be paid. A liability for compensation to workers amounted to ₹ 2,000 existed that was not recorded.
- Provision for Doubtful Debts is to be created @ 10% on Debtors.
- In regard to the Partners' Capital Accounts, Fixed Capital Accounts Method is to be converted into Fluctuating Capital Accounts Method.
- Bills of ₹ 4,000 accepted from Creditors were not recorded in the books.
- X provides Loan of ₹ 10,000 by cheque to the business carrying interest @ 15% p.a.
- Partners withdrew amount of goodwill.

You are required to prepare Revaluation Account, Partners' Capital Accounts, Bank Account and Balance Sheet of the new firm.

[Ans.: Loss on Revaluation—₹ 1,000; Partners' Capital A/cs: X—₹ 37,500; Y—₹ 25,500; Z—₹ 25,000; Balance Sheet Total—₹ 1,34,500; Creditors—₹ 20,500; Bills Payable ₹ 14,000; Bank—₹ 45,000.]

4.42 Double Entry Book Keeping—CBSE XII

14. Following is the Balance Sheet as at 31st March, 2026 of Sushil and Satish who are in partnership sharing profits and losses in the ratio of 3 : 2:

Liabilities	₹	Assets	₹
Capital A/cs:		Freehold Premises	10,000
Sushil	25,000	Machinery	5,400
Satish	9,000	Stock	12,500
Creditors	18,400	Debtors	22,500
		Less: Provision for Doubtful Debts	4,000
		Cash at Bank	6,000
	52,400		52,400

They admit Samir into partnership with effect from 1st April, 2026 on the following conditions:

- Samir to bring in ₹ 6,000 as capital and ₹ 4,800 for 2/7th share of goodwill, both the sums remaining in the business.
- Freehold premises have been revalued at ₹ 15,000; Stock to be discounted @ 10% and Provision for Doubtful Debts to be reduced by ₹ 1,000.

Pass Journal entries in the books of the firm to record the transactions relating to Samir's admission and prepare Balance Sheet of Sushil, Satish and Samir as at 1st April, 2026.

[Ans.: Gain (Profit) on Revaluation—₹ 4,750; Balance Sheet Total—₹ 67,950.]

15. X, Y and Z were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Following is their Balance Sheet as at 31st March, 2026:

Liabilities	₹	Assets	₹
Capital A/cs:		Land and Building	5,00,000
X	3,00,000	Furniture	1,50,000
Y	2,00,000	Stock	2,00,000
Z	1,00,000	Bills Receivable	50,000
General Reserve	3,00,000	Sundry Debtors	75,000
Sundry Creditors	60,000	Cash at Bank	25,000
Bills Payable	40,000		
	10,00,000		10,00,000

W is to be admitted as a partner with effect from 1st April, 2026 on the following terms:

- W will bring in ₹ 1,50,000 as capital and ₹ 1,20,000 as premium for goodwill. Half of the goodwill will be withdrawn by the partners.
- W will be entitled to 1/6th share of the profits of the firm.
- The assets will be revalued as: Land and Building—₹ 5,60,000; Furniture—₹ 1,20,000; Stock—₹ 1,60,000 and Sundry Debtors—₹ 70,000.
- The claim of a creditor for ₹ 23,000 is paid as ₹ 20,000.
- Half of the General Reserve is to be withdrawn by the partners.

You are required to show Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm.

[Ans.: Loss on Revaluation—₹ 12,000; Partners' Capital A/cs: X—₹ 3,99,000; Y—₹ 2,66,000; Z—₹ 1,33,000; W—₹ 1,50,000; Balance Sheet Total—₹ 10,25,000; Balance of Creditors—₹ 37,000; Cash at Bank—₹ 65,000.]

16. V and N were partners in a firm sharing profits in the ratio of 7 : 3. Their Balance Sheet as at 31st March, 2026 was:

Liabilities	₹	Assets	₹
Creditors	10,000	Cash	15,500
Bills Payable	15,000	Debtors	20,000
Provision for Doubtful Debts	500	Bills Receivable	50,000
General Reserve	10,000	Stock	30,000
P's Loan	80,000	Building	1,00,000
Capital A/cs:		Land	1,00,000
V	1,50,000		
N	50,000		
	2,00,000		
	3,15,500		3,15,500

On 1st April, 2026, they admitted P as a new partner on the following terms:

- P will get 1/5th share in the profits of the firm.
- P's Loan will be converted into her capital.
- The goodwill of the firm was valued at ₹ 2,00,000 and P brought her share of goodwill premium in cash.
- The Provision for Doubtful Debts was to be made equal to 4% of Debtors.
- Stock was to be reduced by 5%.
- Land was to be appreciated by 10%.

Prepare Revaluation Account, Capital Accounts of V, N and P and Balance Sheet of the new firm as at 1st April, 2026. (OD 2002, Modified)

[Ans.: Gain (Profit) on Revaluation—₹ 8,200; Capital A/cs: V—₹ 1,90,740; N—₹ 67,460; P—₹ 80,000; Balance Sheet Total—₹ 3,64,000.]

17. A and B are partners in a firm sharing profits and losses in the ratio of 3 : 1. On 1st April, 2026 their Balance Sheet was:

Liabilities	₹	Assets	₹
Capital A/cs:		Goodwill	20,000
A	2,00,000	Plant	1,00,000
B	80,000	Patents	10,000
Sundry Creditors	70,000	Stock	1,42,000
		Sundry Debtors	50,000
		Cash at Bank	8,000
		Profit & Loss A/c	20,000
	3,50,000		3,50,000

They admit C into partnership with 1/6th share in profits on the following terms:

- Goodwill is to be valued at one year's purchase of the five years' average profit which were ₹ 20,000; ₹ 30,000; ₹ 30,000; ₹ 50,000 and ₹ 50,000 respectively.
 - C agrees to contribute 1/4th of the combined capital of A and B in the new firm.
 - Plant is to be written down to ₹ 90,000 and Patents written up to ₹ 12,000.
 - A Provision for Doubtful Debts is to be created @ 2% of Sundry Debtors.
 - A liability of ₹ 5,000 included in Sundry Creditors is not likely to arise.
- Give Journal entries and Balance Sheet after the admission of C.

[Ans.: Loss on Revaluation—₹ 4,000; Capital A/cs: A—₹ 1,71,500; B—₹ 70,500; C—₹ 60,500; Balance Sheet Total—₹ 3,67,500.]

[Hint: Firm's Goodwill = ₹ 36,000; C's Share of Goodwill = ₹ 6,000.]

4.44 Double Entry Book Keeping—CBSE XII

18. Following was the Balance Sheet of A, B and C sharing profits and losses in the proportion of 6/14, 5/14 and 3/14 respectively:

Liabilities	₹	Assets	₹
Capital A/cs:		Land and Building	50,400
A	36,900	Furniture	7,350
B	33,600	Stock	29,400
C	19,800	Debtors	26,460
Creditors	18,900	Cash	1,890
Bills Payable	6,300		
	1,15,500		1,15,500

They agreed to take D into partnership and give him 1/8th share on the following terms:

- D should bring in ₹ 16,000 as his capital.
- Furniture be reduced by ₹ 920.
- Stock be reduced by 10%.
- A provision of ₹ 1,320 be made for outstanding repair bills.
- The value of Land and Building having appreciated be brought up to ₹ 65,100.
- D should bring in ₹ 8,820 as his share of goodwill.
- After making the above adjustments the Capital Accounts of the old partners (who continue to share in the same proportions as above) be adjusted on the basis of the proportions of D's Capital to his share in the business.

Pass Journal entries to give effect to the above arrangements and prepare opening Balance Sheet of the firm as newly constituted.

[Ans.: Gain (Profit) on Revaluation—₹ 9,520; Partners' Capital Accounts: A—₹ 48,000; B—₹ 40,000; C—₹ 24,000; D—₹ 16,000; Balance Sheet Total—₹ 1,54,520.]

19. Hari and Ram were in partnership, sharing profits and losses equally. On 1st April, 2025, Suraj was admitted into partnership on the following terms:

Suraj is to have 1/6th share in the profits/losses, which he had got from Hari paying him ₹ 40,000 for that share as goodwill. Out of this amount, Hari is to withdraw ₹ 30,000 and the balance amount is to remain in the firm. It was further agreed that the value of Investments should be reduced to ₹ 18,000 and Plant to be valued at ₹ 29,000. Creditors were to be reduced by ₹ 3,000 as one of the creditors has closed his business and gone. Suraj is to bring in proportionate capital on his admission.

The Balance Sheet as at 31st March, 2026 was:

Liabilities	₹	Assets	₹
Creditors	1,05,000	Cash at Bank	40,000
Capital A/cs:		Book Debts	60,000
Hari	60,000	Stock	50,000
Ram	60,000	Investments	30,000
	1,20,000	Furniture	10,000
		Plant	35,000
	2,25,000		2,25,000

The profit for the year ended 31st March, 2026 was ₹ 60,000 and the drawings were:

Hari ₹ 15,000; Ram ₹ 22,500 and Suraj ₹ 7,500. Journalise the entries on Suraj's admission and give the Capital Accounts and the Balance Sheet as at 31st March, 2026.

[Ans.: Revaluation Loss—₹ 15,000; Capital Accounts (31.3.2026): Hari—₹ 67,500; Ram—₹ 60,000; Suraj—₹ 25,500; Balance Sheet Total—₹ 2,55,000.]

20. X and Y were partners sharing profits in the ratio of 2 : 1. Their Balance Sheet as on 31st March, 2026 was as follows:

Liabilities	₹	Assets	₹
Provision for Doubtful Debts	250	Cash	18,250
Sundry Creditors	59,000	Debtors	15,000
Capital A/cs:		Stock	32,000
X	27,000	Land and Building	30,000
Y	18,000	Profit & Loss A/c	9,000
	45,000		
	1,04,250		1,04,250

Z was admitted to the partnership with effect from 1st April, 2026 on the following terms:

- He will bring ₹ 15,000 as his capital for one-fourth share and pay ₹ 6,000 for Goodwill, half of which was to be withdrawn by X and Y.
- There is likely to be a claim against the firm for damages, a provision of ₹ 1,500 was to be made for the same.
- A bill for ₹ 1,300 for electricity charges has been omitted, now it is to be provided for.
- A provision of 5% on Debtors was to be created for doubtful debts.
- Included in Sundry Creditors was an item of ₹ 1,200 which was not to be paid and therefore, had to be written back.

After making the above adjustments, the Capital Accounts of X and Y were to be adjusted on the basis of Z capital. Actual cash was to be brought in or to be paid off as the case may be.

(Foreign 2012, Modified)

[Ans.: Revaluation Loss—₹ 2,100; Capital A/cs: X—₹ 30,000; Y—₹ 15,000 and Z—₹ 15,000. Balance Sheet Total—₹ 1,20,600.]

21. A firm has two partners B and C, sharing profits in the ratio of 3 : 2. They admit A into the firm on 1st April, 2026, when the Balance Sheet of the firm was:

Liabilities	₹	Assets	₹
Capital A/cs:		Machinery	18,000
B	30,000	Furniture	18,000
C	10,000	Investments	9,000
Profit & Loss A/c	7,500	Stock	6,000
Creditors	7,000	Debtors	4,000
Bills Payable	2,500	Cash	2,000
	57,000		57,000

Terms of A's admission are:

- A is to bring in ₹ 20,000 as his capital for a 1/3rd share of profit and ₹ 3,500 as his share of goodwill.
- Value of Machinery and Stock is to be reduced by ₹ 7,000 and ₹ 1,000 respectively and the value of the Furniture to be increased by ₹ 3,000.
- Capital of the partners shall be proportionate to their profit-sharing ratio, taking A's Capital as the base. Excess capital is to be withdrawn in cash by the partner concerned and the deficiency is to be made up by bringing cash.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the firm after the above adjustments.

[Ans.: Loss on Revaluation—₹ 5,000; Capital A/cs: A—₹ 20,000; B—₹ 24,000; C—₹ 16,000; Balance Sheet Total—₹ 69,500.]

4.46 Double Entry Book Keeping—CBSE XII

22. The Balance Sheet of a partnership firm of X and Y, who were sharing profits in the ratio of 5 : 3 respectively, as at 31st March, 2026 was as follows:

Liabilities	₹	Assets	₹
Creditors	25,000	Cash at Bank	11,200
General Reserve	20,000	Bills Receivable	12,800
Capital A/cs:		Debtors	20,000
X	75,000	Stock	35,000
Y	60,000	Furniture	21,000
	1,35,000	Machinery	30,000
		Building	50,000
	1,80,000		1,80,000

On the above date, Z was admitted on the following terms:

- Z was to get 1/5th share in the profits.
- Z was to pay ₹ 50,000 as Capital and ₹ 16,000 for his share of Goodwill.
- Machinery was to be depreciated by 10% and Building was to be appreciated by 20%.
- Stock was valued at 25% above cost. It was to be brought into the books of the new firm at cost price.
- There was a liability for repairs to Furniture amounted to ₹ 600; the same was to be recorded in the books.
- Capital Accounts of the old partners were to be adjusted in the new profit-sharing ratio by opening the necessary Current Accounts.

Prepare Revaluation Account, Capital Accounts and initial Balance Sheet of the new firm.

[Ans.: Loss on Revaluation—₹ 600; Capital: X—₹ 1,25,000; Y—₹ 75,000; Z—₹ 50,000;
Current A/c: X—₹ 27,875 (Dr.); Y—₹ 1,725 (Dr.); Balance Sheet Total—
₹ 2,75,600; Cost Price of Stock—₹ 28,000.]

23. X and Y are partners in a firm. They share profits and losses as X—3/5th and Y—2/5. Their Balance Sheet as on 1st April, 2026 is given below:

Liabilities	₹	Assets	₹
Capital A/cs:		Land and Building	3,00,000
X	7,00,000	Plant and Machinery	4,00,000
Y	3,50,000	Patents	1,60,000
	10,50,000	Stock	2,50,000
Creditors	2,60,000	Debtors	3,00,000
Bills Payable	2,40,000	Less: Provision for Doubtful Debts	6,000
		Cash at Bank	1,46,000
	15,50,000		15,50,000

They agree to admit Z into partnership on the following basis:

- Z will pay ₹ 3,00,000 as capital and Capital Accounts of other partners to be adjusted in their new profit-sharing ratio on the basis of Z's Capital.
- Goodwill of the firm is valued at ₹ 2,50,000. Z fails to bring his share of goodwill.
- Plant and Machinery is to be depreciated by 15%, stock by ₹ 40,000, Land and Building are to be appreciated by ₹ 1,60,000.
- New profit-sharing ratio will be 5 : 3 : 2.

Prepare necessary ledger accounts.

[Ans.: Sacrificing Ratio—1 : 1; Revaluation Gain (Profit)—₹ 60,000; Partners' Capital A/cs:
X—₹ 7,50,000; Y—₹ 4,50,000 and Z—₹ 3,00,000; Z's Current A/c—₹ 50,000; (Dr.);
Cash at Bank—₹ 4,86,000; Balance Sheet Total—₹ 20,00,000.]

[Hint: Capitals of old partners are to be adjusted on the basis of incoming partner's (Z) capital and Z is unable to bring his share of goodwill of ₹ 50,000 (i.e., ₹ 2,50,000 × 2/10), the adjustment for goodwill will be through his Current A/c. Thus, Z's Current A/c will be debited by ₹ 50,000 and X's and Y's Capital A/cs will be credited by ₹ 25,000 each.]

24. Amrit and Baldev were carrying on business in partnership sharing profits in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2026 was:

Liabilities	₹	Assets	₹
Amrit's Capital	50,000	Land and Building	25,000
Baldev's Capital	25,000	Furniture	10,000
Creditors	16,000	Stock	46,000
Bills Payable	14,000	Debtors	20,000
		Less: Provision for Doubtful Debts	600
		Cash at Bank	4,600
	1,05,000		1,05,000

Chetan is admitted into partnership on the following terms:

- New profit-sharing ratio of Amit, Baldev and Chetan will be 5 : 3 : 2.
- Land and Building is to be appreciated by ₹ 5,000; Furniture is to be depreciated by 10%, Provision for Doubtful Debts is to be increased by ₹ 300 and Outstanding Expenses of ₹ 200 are to be recorded.
- Chetan will bring ₹ 20,000 as his capital and ₹ 6,000 as his share of goodwill.
- The capitals of all the partners will be in their profit-sharing ratio; Amrit and Baldev making the necessary adjustments in cash.

Prepare (i) Revaluation Account; (ii) Partners' Capital Accounts; (iii) Bank Account and (iv) Balance Sheet immediately after recording the above-mentioned transactions.

[Ans.: Gain (Profit) on Revaluation—₹ 3,500; Capital A/cs: Amrit—₹ 50,000; Baldev—₹ 30,000; Chetan—₹ 20,000; Balance Sheet Total—₹ 1,30,200.]

25. Jain and Gupta were partners in a firm sharing profits and losses in the ratio of 4 : 3. The following is the Balance Sheet of the firm as at 31st March, 2026:

BALANCE SHEET OF JAIN AND GUPTA as at 31st March, 2026

Liabilities	₹	Assets	₹
Sundry Creditors	20,000	Cash	14,800
Bills Payable	3,000	Debtors	20,500
Bank Overdraft	17,000	Less: Provision for Doubtful Debts	300
Capital A/cs:		Stock	20,000
Jain	70,000	Plant	40,000
Gupta	60,000	Building	75,000
	1,30,000		1,70,000
	1,70,000		1,70,000

They agreed to admit Mishra as partner with effect from 1st April, 2026 with 1/4th share in profits on the following terms:

- Mishra will bring in capital to the extent of 1/4th of the total capital of the new firm after all adjustments have been made.
- Building is to be appreciated by ₹ 14,000 and Plant to be depreciated by ₹ 7,000.
- The provision for doubtful debts on Debtors is to be raised to ₹ 1,000.
- Mishra will bring in ₹ 21,000 as his share of goodwill.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the firm immediately after Mishra's admission.

[Ans.: Gain (Profit) on Revaluation—₹ 6,300; Balance Sheet Total—₹ 2,49,733.]

[Hint: Calculation of Mishra's Capital: Combined Capital of Jain and Gupta (after adjustments) for 3/4th share = ₹ 85,600 + ₹ 71,700 = ₹ 1,57,300

New Firm's Total Capital = ₹ 1,57,300 × 4/3

Mishra's Capital for 1/4th share = ₹ 1,57,300 × 4/3 × 1/4 = ₹ 52,433.]

4.48 Double Entry Book Keeping—CBSE XII

26. A, B and C are partners sharing profits and losses in the ratio of 2 : 3 : 5. On 31st March, 2026, their Balance Sheet was:

Liabilities	₹	Assets	₹
Creditors	64,000	Cash at Bank	18,000
Employees' Provident Fund	32,000	Bills Receivable	24,000
Profit & Loss A/c	14,000	Furniture	28,000
Capital A/cs:		Stock	44,000
A	36,000	Debtors	42,000
B	44,000	Investments	32,000
C	52,000	Machinery	34,000
	1,32,000	Goodwill	20,000
			2,42,000
	2,42,000		2,42,000

They admit D into partnership on the following terms:

- Furniture, Investments and Machinery to be depreciated by 15%.
- Stock is revalued at ₹ 48,000.
- Goodwill to be valued at ₹ 24,000.
- Employees' Provident Fund liability is to be increased by ₹ 1,800.
- Prepaid Salaries ₹ 800.
- D to bring in ₹ 36,000 towards capital for 1/6th share and Partners to readjust their Capital Accounts on the basis of their profit-sharing ratio.
- D is not in a position to bring in any amount for his share of firm's goodwill. The partners decide that the necessary adjustments should be made through D's Current Account.

Prepare Revaluation Account, Partners' Capital Accounts, Bank Account and Balance Sheet of the new firm.

[Ans.: Loss on Revaluation—₹ 11,100;

Partners' Capital Accounts: A—₹ 36,000; B—₹ 54,000; C—₹ 90,000; D—₹ 36,000.

A will bring ₹ 2,620; B will bring ₹ 13,930 and C will bring ₹ 44,550 in Cash.

Cash at Bank—₹ 1,15,100; Balance Sheet Total—₹ 3,13,800.]

[Hint: For Adjustment of Goodwill:

Dr. D's Current A/c—₹ 4,000;

Cr. A's Capital A/c—₹ 800; B's Capital A/c—₹ 1,200 and C's Capital A/c—₹ 2,000.]

27. A and B are partners sharing profits in the ratio of 3 : 2. They admit C into the firm for 3/7th share in profits which he takes 2/7th from A and 1/7th from B and brings ₹ 10,000 as premium out of his share of ₹ 16,000. Pass Journal entries for the above.

[Ans.: (i) Dr. Bank A/c and Cr. Premium for Goodwill A/c by ₹ 10,000.

(ii) Dr. Premium for Goodwill A/c—₹ 10,000;

Cr. A's Capital A/c—₹ 6,667 and B's Capital A/c—₹ 3,333.

(iii) Dr. C's Current A/c—₹ 6,000;

Cr. A's Capital A/c—₹ 4,000 and B's Capital A/c—₹ 2,000.]

28. X and Y are partners in a firm sharing profits and losses in the ratio of 3 : 2. They admit Z as a new partner for 1/5th share. Goodwill of the firm is valued at ₹ 10,000. Goodwill already appears in the books at ₹ 5,000. Z brings in 60% of his share of goodwill and ₹ 40,000 as his capital in cash. The amount of goodwill brought in cash is withdrawn by the concerned partners to the extent of 30% of what is credited to them. The profit for the first year of new partnership amounted to ₹ 20,000. Pass necessary Journal entries to adjust goodwill and to distribute profits.

[Ans.: Sacrificing Ratio—3 : 2 and New Profit-sharing Ratio—12 : 8 : 5.]

29. A and B are partners sharing profits and losses in the ratio of 3/4 : 1/4. They agree to admit C into the business. C is to get 1/4th share of future profits. At the time of C's admission, there was a General Reserve of ₹ 4,000 appearing in the Balance Sheet of A and B. Revaluation of assets and liabilities resulted in gain of ₹ 2,000. Pass necessary Journal entries on C's admission.

30. A and B are partners in a firm sharing profits and losses in the ratio of 2 : 1. On 31st March, 2026, their Balance Sheet stood as follows:

Liabilities	₹	Assets	₹
A's Capital	1,60,000	Buildings	80,000
B's Capital	1,20,000	Furniture	24,000
General Reserve	96,000	Stock	48,000
Creditors	64,000	Debtors	2,40,000
		Cash at Bank	48,000
	4,40,000		4,40,000

It was decided to admit C into the firm with effect from 1st April, 2026 subject to the following terms and conditions:

- C will bring in ₹ 84,000 of which ₹ 36,000 will be treated as his share of goodwill to be retained in the business.
- C will be entitled to 1/4th share of the profits.
- ₹ 9,000 is to be provided for Doubtful Debts.
- Furniture is to be reduced by 5%.
- Stock is to be revalued at ₹ 42,000.

You are required to prepare necessary Ledger Accounts and Balance Sheet of the firm after the admission of C from the above informations.

[Ans.: Loss on revaluation—₹ 16,200; Capital A/cs: A—₹ 2,37,200; B—₹ 1,58,600; C—₹ 48,000; Balance Sheet Total—₹ 5,07,800; Bank Balance—₹ 1,32,000.]

31. M and N are partners in a firm sharing profits and losses in the ratio of 5 : 3. On 31st March, 2026, their Balance Sheet was:

BALANCE SHEET OF M AND N

Liabilities	₹	Assets	₹
Sundry Creditors	4,000	Stock	8,000
Bills Payable	2,000	Sundry Debtors	7,200
Capital A/cs:		Cash at Bank	500
M	12,000	Cash in Hand	300
N	10,000	Machinery	12,000
	28,000		28,000

On 1st April, 2026, the partners decide to admit R as a partner on the following terms:

- New profit-sharing ratio of M, N and R will be 7 : 5 : 4.
- R shall bring in ₹ 8,000 as his capital and ₹ 4,000 for his share of goodwill.
- M and N will draw half of the goodwill in cash.
- Machinery is to be valued at ₹ 15,000; Stock at ₹ 10,000 and a Provision for Doubtful Debts of ₹ 1,000 is to be created.
- There is a liability of ₹ 2,000, being the outstanding salary payable to employees of the firm. This liability is not included in the creditors. Partners decide to show this liability in the books of account of the new firm.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of M, N and R.

[Ans.: Revaluation Gain (Profit)—₹ 2,000; Partners' Capital A/cs: M—₹ 14,750; N—₹ 11,250; R—₹ 8,000; Balance Sheet Total—₹ 42,000.]

4.50 Double Entry Book Keeping—CBSE XII

32. Following is the Balance Sheet of A and B (who share profits in the ratio of 3 : 2) as at 31st March, 2026:

Liabilities	₹	Assets	₹
Sundry Creditors	15,000	Building	18,000
Capital A/cs:		Machinery	15,000
A	20,000	Stock	12,000
B	25,000	Debtors	10,000
	45,000	Bank	5,000
	60,000		60,000

On 1st April, 2026, C was admitted on the following terms:

- C is to pay ₹ 25,000 as his capital and ₹ 10,000 as his share of goodwill for 1/5th share of profits.
- The new profit-sharing ratio will be 5 : 3 : 2.
- The assets are to be revalued as Building ₹ 25,000; Machinery ₹ 12,000; Stock ₹ 12,000; Debtors (because of doubtful debts) ₹ 9,500.
- It was found that there was a liability for ₹ 1,500 for goods received but not recorded in books.

Give Journal entries to record the above. Also, give the Ledger Accounts and Balance Sheet after C's admission.

[Ans.: Gain (Profit) on Revaluation—₹ 2,000; Capital A/cs: A—₹ 26,200; B—₹ 30,800; C—₹ 25,000; Bank Balance—₹ 40,000; Balance Sheet Total—₹ 98,500.]

33. X and Y are partners sharing profits and losses in the ratio of 5 : 3. Their Balance Sheet as at 31st March, 2026 is:

Liabilities	₹	Assets	₹
Capital A/cs:		Furniture	40,000
X	40,000	Patents	10,000
Y	50,000	Sundry Debtors	44,000
General Reserve	14,000	Less: Provision for Doubtful Debts	5,000
Sundry Creditors	30,000	Stock	20,000
		Cash at Bank	22,000
		Cash in Hand	3,000
	1,34,000		1,34,000

On 1st April, 2026, they take Z into the partnership on the following terms:

- Z brings in ₹ 25,000 as his capital but cannot bring in ₹ 3,600 as his share of goodwill.
- Patents are written off from the books.
- General Reserve will appear in the books of the new firm at its original value.
- A Provision for Doubtful Debts is to be maintained @ 5% on Sundry Debtors.
- The new profit-sharing ratio of X, Y and Z is 2 : 4 : 1.

You are required to show Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm.

[Ans.: Loss on Revaluation—₹ 7,200; Partners' Capital A/cs: X—₹ 48,800; Y—₹ 39,600; Z—₹ 23,000; Balance Sheet Total—₹ 1,55,400; Goodwill adjustment:

Dr. Y's Capital A/c by ₹ 4,950 and Z's Current A/c by ₹ 3,600; Cr. X's Capital A/c by ₹ 8,550.]