XII COME
ACCOUNTS CLASS

56. *A* and *B* were partners sharing profits equally. Their Balance Sheet as at 31st March, 2018 was as follows:

Liabilities		₹	Assets		₹
Sundry Creditors		6,50,000	Cash at Bank		2,70,000
Outstanding Expenses		30,000	Sundry Debtors	2,00,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	5,000	1,95,000
A	6,00,000		Stock		2,00,000
B	4,00,000	10,00,000	Furniture		1,00,000
			Machinery		1,80,000
			Building		7,35,000
		16,80,000			16,80,000

On 1st April, 2018, they agreed to admit *C* as a partner on the following terms:

(i) *C* shall get 1/5th share in profits and he will bring ₹ 2,00,000 as his Capital and ₹ 50,000 as his share of Goodwill. Goodwill brought by *C* shall be withdrawn by *A* and *B*.

(ii) Provision for Doubtful Debts to be brought up to 5% on Sundry Debtors.

(iii) Machinery be reduced (depreciated) by ₹ 20,000 and Furniture by 12.5%.

(iv) Stock be valued at ₹ 2,30,000. increase

(v) Building to be appreciated by 20%.

(vi) Investments of ₹ 20,000 which did not appear in books is to be recorded.

Pass necessary Journal entries and prepare Balance Sheet of the new firm.

X and Y are partners in a firm. They share profits and losses in the ratio of 3 : 2. Their Balance Sheet as at

Preparation of Balance Sheet and Partners' Capital Accounts

55. Following was the Balance Sheet of *A* and *B* who were sharing profit 2/3rd and 1/3rd as at 31st March, 2018:

Liabilities		₹	Assets	₹
Capital A/cs:			Building	25,000
A	15,000		Plant and Machinery	17,500
B	10,000	25,000	Stock	10,000
Sundry Creditors		32,950	Sundry Debtors	4,850
			Cash in Hand	600
		57,950		57,950

They agree to admit *C* into the partnership on the following terms:

(i) *C* was to bring ₹ 7,500 as his Capital and ₹ 3,000 as Goodwill for 1/4th share in the firm.

(ii) That the values of the Stock and Plant and Machinery were to be reduced by 5%.

(iii) That a Provision for Doubtful Debts of ₹ 375 was to be created on Sundry Debtors.

(iv) That the Building was to be appreciated by 10%.

Pass necessary Journal entries to give effect to the arrangements, prepare Revaluation Account, Partners Capital Accounts and the new Balance Sheet.

... ₹ 7,500 (i.e., ₹ 30,000 × 1/4) will be credited to A and B in their sacrificing ratio, i.e., equally. ... of ₹ 30,000 (i.e., ₹ 2,40,000 − ₹ 2,10,000).

Steps for Calculating Value of Hidden Goodwill

I. Net worth (including Goodwill) on the basis of capital brought in by Incoming Partner = Incoming Partner's Capital × Reciprocal of Share of Incoming Partner

II. Less: Net Worth (excluding goodwill) of the New Firm (including new partner's capital) (Adjusted capitals of old partners + Capital brought in by incoming partner)

III. Value of Goodwill = I − II

Notes: *1. Net Worth = Sundry Assets − Outside Liabilities*

Or

= Capital of Partners + Accumulated Profits and Reserve (if any) − Accumulated Losses

2. The Capitals of old partners will have to be adjusted with any reserve or any undistributed profits and gain or loss on revaluation of assets and reassessment of liabilities on the date of admission.

Illustration 20 (*Hidden Goodwill*) A and B ...

Steps to find out Hidden Goodwill:
1. Find adjusted Capital of all Partners including New Partner without taking the Premium of Goodwill brought in by New partner.
2.
Find Total Capital of the New Firm taking the Capital and Future Profit Sharing Ratio as base of the new Partner.
3.
Substruct :
2 minus 1= Goodwill of the firm

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Cash A/c	Dr.		21,000	
	To Premium for Goodwill A/c				21,000
	(Being premium for goodwill brought in by C)				
	Premium for Goodwill A/c	Dr.		21,000	
	To A's Capital A/c				9,000
	To B's Capital A/c				12,000
	(Being premium for Goodwill brought in by C distributed between A and B in sacrificing ratio i.e. 3 : 4)				

Old Ratio A and B = 3: 2

A's sacrifice = $\frac{3}{5} \times \frac{1}{5} = \frac{3}{25}$

B's sacrifice = $\frac{2}{5} \times \frac{2}{5} = \frac{4}{25}$

Sacrificing Ratio A and B = 3 : 4

New Ratio = Old Ratio – Sacrificing Ratio

A's New Share = $\frac{3}{5} - \frac{3}{25} = \frac{15-3}{25} = \frac{12}{25}$

B's New Share = $\frac{2}{5} - \frac{4}{25} = \frac{10-4}{25} = \frac{6}{25}$

C's share = A's sacrifice + B's sacrifice

C's share = $\frac{3}{25} + \frac{4}{25} = \frac{7}{25}$

New Ratio is 12:6:7

C's will bring Premium for Goodwill = $75{,}000 \times \frac{7}{25}$

= `21,000

Distribution of Premium for Goodwill

A's Goodwill = $21{,}000 \times \frac{3}{7}$ = ₹9,000

B's Goodwill = $21{,}000 \times \frac{4}{7}$ = ₹12,000

...which did not appear in books is to be recorded.

Pass necessary Journal entries and prepare Balance Sheet of the new firm.

57. *X* and *Y* are partners in a firm. They share profits and losses in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2018 was as under:

Liabilities		₹	Assets		₹
Creditors		1,87,500	Cash at Bank		1,50,000
Bills Payable		1,00,000	Debtors	2,50,000	
Outstanding Rent		25,000	Less: Provision for Doubtful Debts	25,000	2,25,000
Capital A/cs:			Stock		62,500
X	3,75,000		Prepaid Expenses		12,500
Y	1,87,500	5,62,500	Plant and Machinery		4,25,000
		8,75,000			8,75,000

They admitted *Z* as a new partner on 1st April, 2018 on the following terms:

(i) *Z* will bring ₹ 2,50,000 as Capital and necessary amount for Goodwill.

(ii) The new profit-sharing ratio among *X*, *Y* and *Z* will be 5 : 3 : 2.

(iii) The amount of goodwill is to be based on *Z*'s share in profits and capital contributed by him.

(iv) Stock to be depreciated by 10%.

(v) Provision for Doubtful Debts is to be ₹ 6,250.

(vi) Plant and Machinery is to be reduced (depreciated) by 5%.

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