

Chapter 3 Admission of a partner

Question 1

A and B are partners sharing profits in the ratio of 3:2. They admit C into the company for 1/4th share in profit which he takes 1/6th from A and 1/12th from B. However, C brings ₹50,000 as goodwill out of his share of ₹90,000. No goodwill account appears in the books of the company. Pass necessary journal entries to record this arrangement.

Solution:

Journal					
Date	Particulars		L.F	Dr. (₹)	Cr. (₹)
	Bank Account	Dr.		50,000	
	To Premium for Goodwill A/c (A part of his share of goodwill/premium brought in by C)				50,000
	Premium for Goodwill A/c	Dr.		50,000	
	C's Current A/c	Dr.		40,000	
	To A's Capital A/c				60,000
	To B's Capital A/c (Goodwill/premium credited to A and B in their sacrificing ratio, i.e, 2:1)				30,000

Question 2

A and B are partners sharing profits equally. They admit C into partnership, C paying only ₹60,000 for premium out of his share of a premium of ₹1,80,000 for a 1/4th share of profit. Goodwill account appears in the book at ₹3,00,000. Give the necessary journal entries.

Solution:

Journal Entry					
Date	Particulars		L.F	Dr. (₹)	Cr. (₹)
	A's Capital A/c	Dr.		1,50,000	

	B's Capital A/c	Dr.	1,50,000	
	To Goodwill A/c			3,00,000
	(The existing goodwill is written off)			
	Bank A/c	Dr.	60,000	
	To Premium for Goodwill A/c			60,000
	(A part of his share of goodwill/premium brought in by C)			
	The premium for Goodwill A/c	Dr.	60,000	
	C's Current A/c	Dr.	48,000	
	To A's Capital A/c			54,000
	To B's Capital A/c			54,000
	(The goodwill/premium credited to old partners in their sacrificing ratio i.e 1:1)			

Question 3

X and Y are partners in a company. Their profit sharing ratio is 5:3. They admit Z into a partnership for 1/4th share. As between themselves, A and B decide to share profits equally in the future. C brings in ₹1,20,000 as his capital and ₹60,000 as premium. Calculate the sacrificing ratio and record the necessary journal entries on the assumption that the amount of premium brought in by C is retained in the business.

Solution:

Journal					
Date	Particulars		L.F	Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.		1,80,000	
	To Z's Capital A/c				1,20,000
	To Premium for Goodwill A/c				60,000
	(The amount of goodwill/premium brought in cash)				
	The premium for Goodwill A/c	Dr.		60,000	
	To X's Capital A/c				60,000

	(Full amount of goodwill /premium transferred to X's Capital A/c, as he alone has sacrificed)				
--	---	--	--	--	--

Calculation of new profit sharing ratio: C takes a 1/4th share out of 1.

Thus, the remaining profit is 3/4; This is divided equally between A and B

X's new share = $\frac{3}{4} \times \frac{1}{2} = \frac{3}{8}$

Y's new share = $\frac{3}{4} \times \frac{1}{2} = \frac{3}{8}$

Sacrificed made by X = $\frac{5}{8} - \frac{3}{8} = \frac{2}{8}$

Sacrificed made by Y = $\frac{3}{8} - \frac{3}{8} = 0$

Hence, X alone has sacrificed and as such he alone will be entitled to the full amount of goodwill premium brought in by Z.

Question 4

Balance Sheet of P and Q who share profits and losses in the ratio of 5:3 as at 31st March, 2018 was as follows.

Liabilities	₹	Assets	₹
Capital Accounts:		Land & Building	3,00,000
P	2,50,000	Machinery	2,00,000
Q	1,50,000	Stock	70,000
Profit & Loss A/c	1,30,000	Debtors	30,000
Workmen Compensation Reserve	60,000	Cash	10,000
Sundry Creditors	50,000	Advertisement Expenditure (Deferred Revenue)	30,000
	6,40,000		6,40,000

They admit R as a partner for 1/3 rd share in the profits of the firm which he acquires from P and Q in the ratio of 3:1. R brings in ₹4,00,000 as his capital. Ascertain the amount of goodwill and pass journal entries on the admission of R.

Solution:

Journal					
Date	Particulars		L.F	Dr. (₹)	Cr. (₹)
2018	Profit and Loss A/c	Dr.		1,30,000	

1st April	Workmen Compensation Reserve A/c	Dr.	60,000	
	To P's Capital A/c			1,18,750
	To Q's Capital A/c			71,250
	(Transfer of accumulated profits to old partners in their old profit sharing ratio)			
	P's Capital A/c	Dr.	18,750	
	Q's Capital A/c	Dr.	11,250	
	To Advertisement Expenditure A/c			30,000
	(Transfer of accumulated loss to old partners in their old profit sharing ratio)			
	Bank A/c	Dr.	4,00,000	
	To R's Capital A/c			4,00,000
	(Amount brought in by R as his capital)			
	R's Current A/c	Dr.	80,000	
	To P's Capital A/c			60,000
	To Q's Capital A/c			20,000
	(R's share of goodwill credited to P and Q in their sacrificing ratio 3:1)			

Working Note:

Calculation of hidden goodwill

Total of Capital of the new firm on the basis of R's capital: ₹4,00,000 x 3/1		12,00,000
Less: Net worth of new firm:		
Adjusted capital of P		
(₹2,50,000 + ₹1,18,750 - ₹18,750)	3,50,000	

Adjusted capital of Q		
(₹1,50,000 + ₹71,250 - ₹11,250)	2,10,000	
Capital of R	4,00,000	9,60,000
Value of the firm's goodwill		2,40,000
R's share of goodwill = ₹2,40,000 x 1/3 = ₹ 80,000		