Partnership - Admission

Tuesday, October 29, 2024 7:28 PM

Revaluation Account , Goodwill adjustment:

Step#01. when new capital introduced by new Partner:
→ Bank A/c.
✓ capital A/c.

Partner's Capital A/c.

	Balance b/d xx
	Bank xx

Old Partner's need to prepare revaluation account.

Journal entries:-

Gain on revaluation.

Increase in the value of Asset:.
Asset Dr.
Revaluation A/c. Cr.

Decrease in the value of Liability
Liability Dr.
Revaluation A/c Cr.

Loss on revaluation.

Decrease in the value of Asset.
Revaluation A/c. Dr.
Asset Cr.

Increase in the value of Liability
Revaluation A/c. Dr.
Liability Cr.

Dr. Revaluation A/c. Cr.

Dr.		Cr.	
Decrease in value of Asset		Increase in the value of Asset	
Increase in value of Liability		Decrease in the value of Liability	
Revaluation Profit:		Revaluation Loss,	
A	xx	A	xx
B	xx	B	xx
	xx		xx

Goodwill Old Ratio (3:2) New Ratio. (2:1:1)

Current goodwill — $250,000 24 hours: 250,000 A,B.

Details	A	B	C New Partner.
→ Share of Profit	150,000	100,000	—
→ Share of Profit after admission of "C"	125,000	62,500	62,500
Loss on admission.	(25000)	(37,500)	62,500 ✓

Goodwill adjustments:-

Journal Entries

Before admission – Creation (old) write off. (New Ratio)

Before admission – Creation (old)

Goodwill	250,000	Dr.
A's	150,000	Cr.
B's	100,000	Cr.

write off (New Ratio)

A	125,000	
B	62,500	
C	62,500	
	Goodwill	250,000

Net effect:-

A = 150,000 (Cr.) − 125,000 (Dr) = $25,000 Credit.
B = 100,000 (Cr.) − 62,500 (Dr) = $37,500 Credit
C = = $62,500 Debit

X and Y are in partnership sharing profits and losses equally. They provide the following information:

X and Y -Statement of financial position at 31 May 2021

		$
ASSETS:		
Non-Current Assets		
- Building		50,000
- Machinery		24,000
Current assets		16,000
Total Assets:		**90,000**
CAPITAL AND LIABILITIES		
Capital accounts -	X	36,000
	Y	36,000
		72,000
Current liabilities		18,000
Total capital and liabilities		**90,000**

They agree that Z be admitted as a partner with effect from 01 June 2021. Profits and losses in future to be shared in the ratio 4:3:2. They further agree that building be valued at $120,000 and machinery at $10,000. The goodwill of the firm is valued at $45,000. Goodwill should not remain in the business books of account.
Z is to pay $40,000 into the business bank account as capital.

Prepare the following:
a. Revaluation account
b. Capital account of partners
c. Statement of financial position on 01 June 2021 after Z's admission.

(A) Dr. Revaluation A/c ($) Cr.

Machinery	14,000	Building	70,000
Gain:-			
X (56,000 × 1/2)	28000		
Y (56000 × 1/2)	28000		
	70,000		70,000

Asset ↑ $70,000 → Asset A/c. 70,000
Revaluation A/c. 70,000.

Asset ↓ $14,000 → Revaluation A/c 14,000
Asset A/c 14,000.

(B) Partner's Capital Account.

Details	X	Y	Z	Details	X	Y	Z
Goodwill write off	20000	15000	10000	Balance b/d	36000	36000	—
Balance c/d	66500	71500	30000	Gain on Revaluation	28000	28000	—
				Capital	—	—	40,000
				Goodwill Creation	22,500	22,500	—
	86500	86500	40,000		86500	86500	40,000

Goodwill Creation :- (Old → Equal)

Goodwill	45,000	
X		22,500
Y		22,500

X	20,000	
Y	15,000	
Z	10,000	
Goodwill		45,000

(New Ratio) 4 : 3 : 2 = 9

(C) Statement of financial Position.

	$
Non-Current Asset:-	
Machinery	10,000
Building	120,000
Current Asset:-	
Bank (16,000 + 40,000)	56,000
Total Asset	186,000

Liabilities:-

Current Liabilities	18,000
capital.	
X	66,500
Y	71,500
Z	30,000
Liabilities + capital	186,000