

## Adjustment of capital

### 3/4 Marks Questions

1. Nandan, John and Rosa are partners sharing profits in the ratio of 4 : 3: 2. On 1st April, 2012, John gave a notice to retire from the firm. Nandan and Rosa decided to share future profits in the ratio of 1 : 1. The capital accounts of Nandan and Rosa after all adjustments showed a balance of Rs. 43,000 and Rs. 80,500 respectively. The total amount to be paid to John was Rs. 95,500. This amount was to be paid by Nandan and Rosa in such a way that their capitals become proportionate to their new profit sharing ratio. Pass necessary journal entries in the books of the firm for the above transactions. Show your working clearly. (All India 2013)

**Ans.**

### JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2012 Apr 1	Cash A/c <span style="float: right;">Dr</span> To Nandan's Capital A/c To Rosa's Capital A/c (Being cash to be paid to John brought in by Nandan and Rosa)		95,500	66,500 29,000
Apr 1	John's Capital A/c <span style="float: right;">Dr</span> To Cash A/c (Being cash paid to John for his capital)		95,500	95,500

#### Working Note

Adjusted capitals of Nandan and Rosa (43,000 + 80,500)	1,23,500
(+) Amount to be paid to John	95,500
<b>Total capital of new firm</b>	<b>2,19,000</b>

#### Amount to be Brought in or Withdrawn

Particulars	Nandan (₹)	Rosa (₹)
New Firm's Capital (2,19,000) in New Ratio i.e. 1:1	1,09,500	1,09,500
(-) Existing Capitals	43,000	80,500
Cash to be Brought in	66,500	29,000

2. X, Y and Z are partners in a firm sharing profits in the ratio of 3 : 2 : 1. On 1st April, 2009, X retires from the firm, Y and Z agrees that the capital of the new firm shall be fixed Rs. 2,10,000 in the profit sharing ratio. The capital accounts of Y and Z after all adjustment on the date of retirement showed balances of Rs. 1,45,000 and Rs. 63,000 respectively. State the amount of actual cash to be brought in or to be paid to the partners. (Delhi 2010)

to the partners.

**Ans.**

**Calculation of Cash to be Brought In or Paid Out**

Particulars	Y	Z
Capital After All Adjustments	1,45,000	63,000
(-) New Capital Share (2,10,000 in 2 : 1)	(1,40,000)	(70,000)
Amount of Cash Adjustment	5,000	(7,000)

It means Y will take ₹ 5,000 and Z will bring ₹ 7,000 to make their capital in new ratio.

3. X, Y and Z are partners in a firm sharing profits in the ratio of 3 : 2 : 1. On 1st April, 2009, Y retires from the firm. X and Z agree that the capital of the new firm shall be fixed at Rs.2,10,000 in the profit sharing ratio. The capital accounts of X and Z after all adjustments on the date of retirement showed balances of Rs. 1,45,000 and Rs. 63,000 respectively. State the amount of actual cash to be brought in or to be paid of partners. (All India 2010)

**Ans.**

**Calculation of Cash to be Brought In or Paid Out**

Particulars	X	Z
Capital After All Adjustments	1,45,000	63,000
(-) New Capital Share (2,10,000 in 3 : 1)	(1,57,500)	(52,500)
Amount of Cash Adjustment	(12,500)	10,500

Therefore, X will bring ₹ 12,500 and Z will take away ₹ 10,500 to make their capital in new ratio.

**8 Marks Questions**

4. L, M and N were partners in a firm sharing profits in the ratio of 2 : 1 : 1. On 1st April, 2013 their balance sheet was as follows.

**Balance Sheet**  
as at 1st April, 2013

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital A/cs		Land	8,00,000
L	6,00,000	Building	6,00,000
M	4,80,000	Furniture	2,40,000
N	4,80,000	Debtors	4,00,000
General Reserve	4,40,000	(-) Provision for Doubtful Debts	(20,000)
Workmen's Compensation Fund	3,60,000	Stock	4,40,000
Creditors	2,40,000	Cash	1,40,000
	26,00,000		26,00,000

On the above date, N retired. The following were agreed

(i) Goodwill of the firm was valued at Rs. 6,00,000.

(ii) Land was to be appreciated by 40% and building was to be depreciated by Rs. 1,00,000.

(iii) Furniture was to be depreciated by Rs. 30,000.

(iv) The liabilities for workmen's compensation fund was determined at Rs. 1,60,000.

(v) Amount payable to N was transferred to his loan account.

(vi) Capitals of L and M were to be adjusted in their new profit sharing ratio and for this purpose current accounts of the partners will be opened.

Prepare revaluation account, partner's capital accounts and the balance sheet of the new firm. (All India 2014)

**Ans.**

**Revaluation Account**

Particulars		Amt (₹)	Particulars		Amt (₹)
To Building A/c		1,00,000	By Land A/c		3,20,000
To Furniture A/c		30,000			
To Profit Transferred to Capital A/cs					
L	95,000				
M	47,500				
N	47,500	1,90,000			
		<u>3,20,000</u>			<u>3,20,000</u>

### Partner's Capital Accounts

Particulars	L	M	N	Particulars	L	M	N
To N's Capital A/c	1,00,000	50,000	—	By Balance b/d	6,00,000	4,80,000	4,80,000
To N's Loan A/c	—	—	8,37,500	By General Reserve	2,20,000	1,10,000	1,10,000
To M's Current A/c (Balancing Figure)	—	1,20,000	—	By Revaluation A/c	95,000	47,500	47,500
To Balance c/d	10,35,000	5,17,500	—	By L's Capital A/c	—	—	1,00,000
				By M's Capital A/c	—	—	50,000
				By Workmen's Compensation Fund A/c	1,00,000	50,000	50,000
				By L's Current A/c (Balancing Figure)	1,20,000	—	—
	11,35,000	6,87,500	8,37,500		11,35,000	6,87,500	8,37,500

### Balance Sheet as at ...

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital A/cs		Land	8,00,000
L	10,35,000	(+) Appreciation	3,20,000
M	5,17,500	Buiding	6,00,000
Liabilities for Workmen Compensation Fund	1,60,000	(-) Depreciation	(1,00,000)
Creditors	2,40,000	Furniture	2,40,000
L's Current Account	1,20,000	(-) Depreciation	(30,000)
N's Loan Account	8,37,500	Debtors	4,00,000
		(-) Provision for Doubtful Debts	(20,000)
		Stock	4,40,000
		M's Current A/c	1,20,000
		Cash	1,40,000
	29,10,000		29,10,000

#### Working Note

##### (i) Calculation of Gaining Ratio

Gaining Ratio = New Ratio - Old Ratio

$$L = \frac{2}{3} - \frac{2}{4} = \frac{8-6}{12} = \frac{2}{12}; \quad M = \frac{1}{3} - \frac{1}{4} = \frac{4-3}{12} = \frac{1}{12}$$

Gaining ratio = 2 : 1

##### (ii) Firm's goodwill = 6,00,000

N's share of goodwill =  $6,00,000 \times \frac{1}{4} = 1,50,000$

L's Capital A/c	Dr	1,00,000
M's Capital A/c	Dr	50,000
To N's Capital A/c		1,50,000

(Being N's share of goodwill adjusted among L and M in their gaining ratio)

(iii) **Calculation of Proportionate's Capital**

L's capital after all adjustment = 9,15,000

M's capital after all adjustment = 6,37,500

Total capital of new firm = 15,52,500

L's new capital =  $15,52,500 \times \frac{2}{3} = 10,35,000$

M's new capital =  $15,52,500 \times \frac{1}{3} = 5,17,500$

5. A, B and C were in partnership sharing profits in proportion to their capitals. Their balance sheet on 31st March, 2008 was as follows

**Balance Sheet**  
as at 31st March, 2008

Liabilities		Amt (₹)	Assets		Amt (₹)
Creditors		15,600	Cash		16,000
Reserve		6,000	Debtors	20,000	
Capital A/cs			(--) Provision for Doubtful Debts	(400)	19,600
A	90,000		Stock		18,000
B	60,000		Machinery		48,000
C	30,000	1,80,000	Buildings		1,00,000
		<u>2,01,600</u>			<u>2,01,600</u>

On the above date B retired owing to ill health and the following adjustments were agreed upon

(i) Buildings to be appreciated by 10%.

(ii) Provision for doubtful debts to be increased to 5% of debtors.

(iii) Machinery to be depreciated by 15%.

(iv) Goodwill of the firm be valued at Rs. 36,000 and be adjusted into the capital accounts of A and C who will share profits in future in the ratio of 3 : 1.

(v) A provision to be made for outstanding repairs bill of Rs. 3,000.

(vi) Included in the value of creditors is Rs. 1,800 for an outstanding legal claim, which is not likely to arise.

(vii) Out of the insurance premium paid Rs. 2,000 is for the next year. The amount was debited to profit and loss account.

(viii) The partners decide to fix the capital of the new firm as Rs. 1,20,000 in the profit sharing ratio.

(ix) B to be paid Rs. 9,000 in cash and balance to be transferred to his loan account.

Prepare the revaluation account, partners' capital account and the balance



sheet of the new firm after B<sup>1</sup> s retirement. (Delhi; All India; Foreign 2009)

**Ans.** Dr Cr

Revaluation Account			
Particulars	Amt (₹)	Particulars	Amt (₹)
To Provision For Doubtful Debts A/c	600	By Building A/c	10,000
To Machinery A/c	7,200	By Creditors A/c	1,800
To Outstanding Repair A/c	3,000	By Prepaid Insurance A/c	2,000
To Profit Transferred to			
A's Capital A/c	1,500		
B's Capital A/c	1,000		
C's Capital A/c	500		
	3,000		
	13,800		13,800

Dr Cr

Partners' Capital Account							
Particulars	A	B	C	Particulars	A	B	C
To B's Capital A/c	9,000	—	3,000	By Balance b/d	90,000	60,000	30,000
To Cash A/c	—	9,000	—	By Reserve A/c	3,000	2,000	1,000
To B's Loan A/c	—	66,000	—	By Revaluation A/c (Profit)	1,500	1,000	500
To Balance c/d	90,000	—	30,000	By A's Capital A/c	—	9,000	—
				By C's Capital A/c	—	3,000	—
				By Cash (Balancing Figure)	4,500	—	1,500
	99,000	75,000	33,000		99,000	75,000	33,000





**Balance Sheet**  
as at 31st March, 2008

Liabilities	Amt (₹)	Assets	Amt (₹)
Outstanding Repairs	3,000	Building	1,10,000
Creditors	13,800	Debtors	20,000
Capital A/cs		(-) Provision for Doubtful Debts	(1,000)
A	90,000	Machinery	40,800
C	30,000	Prepaid Insurance	2,000
B's Loan A/c	66,000	Stock	18,000
		Cash	13,000
	2,02,800		2,02,800

**Working Note**

(i) **Calculation of Gaining Ratio**

Old ratio  $\Rightarrow 3 : 2 : 1$     New ratio  $\Rightarrow 3 : 1$

Gaining Ratio = New Ratio - Old Ratio

$$A = \frac{3}{4} - \frac{3}{6} = \frac{9-6}{12} = \frac{3}{12}, \quad C = \frac{1}{4} - \frac{1}{6} = \frac{3-2}{12} = \frac{1}{12}$$

Gaining ratio = 3 : 1

(ii) **Calculation of B's Share of Goodwill**

Firm's goodwill = 36,000

B's share of goodwill =  $36,000 \times \frac{2}{6} = ₹ 12,000$ , to be contributed by A and C in their gaining ratio.

i.e. 3 : 1.

(iii) Dr Cash Account Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d	16,000	By B's Capital A/c	9,000
To A's Capital A/c	4,500	By Balance c/d	13,000
To C's Capital A/c	1,500		
	22,000		22,000

6. The balance sheet of A, B and C on 31st March, 2007 was as follows

**Balance Sheet**  
as at 31st March, 2007

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	50,000	Profit and Loss A/c	30,000
Capital A/cs		Land and Buildings	80,000
A	80,000	Plant and Machinery	56,000
B	80,000	Motor Car	54,000
C	60,000	Debtors	48,000
		Cash	2,000
	2,70,000		2,70,000

The following terms were agreed upon for As retirement

(i) Goodwill to be valued at Rs. 42,000 and not to be shown in the books of the firm after A's retirement.

(ii) Land and building to be appreciated by Rs. 20,000.

(iii) Plant and machinery to be reduced to Rs. 46,000.

(iv) Provision for doubtful debts to be created at 5% on debtors.

(v) Create a provision of Rs. 1,400 for discount on creditors.

(vii) The sum payable to A to be brought in by B and C in such a manner that their capitals are in proportion to their new profit sharing ratio.

Prepare the revaluation account, partners' capital account and the balance sheet of the new firm to give effect to the above terms. (All India 2008)

Ans. Dr		Revaluation Account		Cr
Particulars	Amt (₹)	Particulars	Amt (₹)	
To Plant and Machinery A/c	10,000	By Land and Buildings A/c	20,000	
To Provision for Doubtful Debts A/c	2,400	By Discount on Creditors A/c	1,400	
To Profit Transferred to				
A's Capital A/c	3,000			
B's Capital A/c	3,000			
C's Capital A/c	3,000			
	9,000			
	21,400			21,400

Dr		Partners' Capital Account						Cr
Particulars	A	B	C	Particulars	A	B	C	
To Profit and Loss A/c	10,000	10,000	10,000	By Balance b/d	80,000	80,000	60,000	
To A's Capital A/c	—	7,000	7,000	By B's Capital A/c	7,000	—	—	
To Cash A/c	87,000	—	—	By C's Capital A/c	7,000	—	—	
To Balance c/d	—	99,500	99,500	By Revaluation A/c (Profit)	3,000	3,000	3,000	
				By Cash A/c	—	33,500	53,500	
	97,000	1,16,500	1,16,500		97,000	1,16,500	1,16,500	

**Balance Sheet**  
as at 31st March, 2007

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	48,600	Land and Building (80,000 + 20,000)	1,00,000
Capital A/cs		Plant and Machinery	46,000
B	99,500	Debtors	48,000
C	99,500	(-) Provision for Doubtful Debts	(2,400)
	1,99,000	Motor Car	54,000
		Cash	2,000
	2,47,600		2,47,600





**Working Note**

(i) Dr		Cash Account		Cr
Particulars	Amt (₹)	Particulars	Amt (₹)	
To Balance b/d	2,000	By A's Capital A/c	87,000	
To B's Capital A/c	33,500	By Balance c/d	2,000	
To C's Capital A/c	53,500			
	89,000		89,000	

**(ii) Calculation of A's Share of Goodwill**

Firm's goodwill = 42,000

A's share of goodwill =  $42,000 \times \frac{1}{3} = ₹ 14,000$ , to be contributed by B and C in their gaining ratio  
i.e. 1 : 1

**(iii) Calculation of New Capital of B and C**

A's capital after all adjustment = 87,000

B's capital after all adjustment = 66,000

C's capital after all adjustment = 46,000

₹ 1,99,000

To be the capital of new firm

B's share of new capital =  $1,99,000 \times \frac{1}{2} = ₹ 99,500$

C's share of new capital =  $1,99,000 \times \frac{1}{2} = ₹ 99,500$

**(iv) Calculation of Cash to be Brought In or Withdrawn**

Cash to be brought in by B =  $99,500 - 66,000 = 33,500$

Cash to be brought in by C =  $99,500 - 46,000 = 53,500$

Amount of cash to be paid to B. ₹ 87,000