WORK SHEET BASED ON ADMISSION OF A PARTNER (20th July 2009)
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<u>Important note: 1st two questions of this sheet have to be done in the class only</u>

1. X, Y & Z are sharing profits and losses in the ratio of <u>5:3:2.</u> **<u>A</u>** is admitted for **1/5** share. Calculate the **<u>NPSR</u>** if:
   1. If A takes his share entirely from X.
   2. If A takes his share entirely from Z.
   3. If A takes his share equally from old partners
   4. If A takes 3/20 from X and 1/20 from Z
   5. If A takes 2/20 from X, 1/20 from Y and remaining from Z.

2. X &Y are partners in the ratio 3:1. Their Balance Sheet as on 31.03.02 was as under:

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Bills Payable	90,000	Buildings	75,000
Bank loan	20,000	Debtors	49,000
General Reserve.	15,000	Stock	8,000
Capital Accounts: X	65,000	Cash in hand	68,000
Y	48,000	Cash at bank	48,000
Outstanding expenses	10,0000	Advertising Suspense A/c	
	2,48,000		**2,48,000**

- They admit Z for 1/4th share**.** He brings 50,000 as capital.
- Write off Rs 3,000 as bad debts.
- Maintain 10% provision for bad debts.
- Building is revalued at Rs 1,00,000.
- Stock to be reduced to Rs 6,000.
- 10% of the bills payables are no more payable, therefore partners decided to write off bills payable to the extent of 10%.
- Outstanding expenses are revalued at Rs 8,000.

Prepare Revaluation account Partners, Capital account & Revised Balance sheet.

3. A & B shared profits in the ratio 7:3. Their Balance Sheet as on 31/03/02 was as under:

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Creditors	40,000	Buildings	50,000
Bills Payable	12,000	Furniture	12,000
Bank overdraft	8,000	Debtors	6,000
Contingency Reserve	3,300	Stock	22,000
General Res.	2,700	Cash in hand	29,500
Capital Accounts: A:	34,000	Prepaid expenses	4,000
B:	23,500		
Total	1,23,500		1,23,500

a. They admit C for 1/5th share of profit. He brings Rs 30,000 as capital.
b. Building is appreciated by 15% & Furniture is depreciated by 20%.
c. Provision for bad debts to be maintained at 5% on debtors. Prepare necessary Accounts and Revised Balance Sheet after admission Also give entries.

4. X & Y are partners in the ratio of 3:2. They admit C as a partner. X surrenders 1/5th of his share and Y surrenders 1/10th of his share in C's favour. Calculate new ratio and sacrificing ratio.

5. A & B are partners in the ratio of 5:3. They admit Z as a partner. A surrenders 1/5th from his share and B surrenders 1/10th from his share in Z's favour. Calculate new ratio and sacrificing ratio.

Revision Sheet NPO

1. Calculate what amount to be posted to income and Expenditure Account for the year ended 31-3-08

Particulars	**Rs.**
Stock of stationery on 1-4-07	100
Creditors for stationery on 1-4-07	500
Stock of stationery on 31-3-08	300
Amount paid for stationery during the year	1,700
Creditors for stationery on 31-3-08	280

2. Calculate what amount to be posted to Income and Expenditure Account for the year ended 31-12-07

Particulars	**Rs.**
Amount paid to suppliers of refreshment during the year	2,900
Advances to suppliers for refreshment at the beginning of the year	340
Stock of refreshment at the end of the year	100
Outstanding bills for refreshment at the end	200
Stock of refreshment at the beginning of the year	160
Advances to suppliers for refreshment at the end of the year	140
Outstanding bills for refreshment at the beginning of the year	80

3. From the following Receipts & Payments Account & additional information, prepare Income and Expenditure A/c and Balance Sheet for the year ending on 31st Dec, 2002 of an Entertainment Club:

Receipts		**Amount**	**Payments**	**Amount**
To Cash Balance (1-1- 2002)		7,200	By Tournament Expenses	8,500
To Life Membership Fees		10,000	By Furniture Purchased	6,000
To Donation		52,000	By Building	43,200
To Entrance Fees		5,700	By Sports Materials purchased	20,000
To Subscriptions:			By Restaurant Expenses	12,600
2001 :	4,200		By Salary	18,200
2002 :	46,000		By Printing	4,100
2003:	1,600	51,800	By Investments @ 12% p.a.	20,000
To Tournament Fund		12,200	By Cash Balance (31-12-2002)	15,800
To Restaurant Receipts		8,000		
To Miscellaneous Income		700		
To Interest on Investments		800		
		1,48,400		1,48,400

1. The Club had 500 members, each paying an annual subscription of Rs.100.
2. Outstanding subscriptions at the end of previous year were Rs.4,500 & five members had paid their subscription for 2002 in previous year itself.
3. Outstanding salaries were Rs.1,500 and prepaid salaries were Rs.2,000.
4. 50% of the Entrance fee is to be treated as Revenue.
5. Donations and Life Membership fees are to be capitalized.
6. Investments were purchased on 30th April 2002.

7. At the end 2002, the stock of sports material was Rs.5,000 and stock of refreshment was Rs.1,600.

Treatment of Joint Life Policy

(Retirement of Partner)

Important Terms:

1. **Joint Life Policy** (Taken by firm, premium is paid jointly out of firm's profit)
2. **Individual Life Policy** (Taken by firm, premium is paid jointly out of firm's profit)
3. **Personal Life Policy** (Taken privately by partner, premium is paid by him personally)
4. **Policy Amount**: Is the sum assured
5. **Premium:** Is the periodic payment made to Insurance Company for risk covered.
6. **Claim:** Is the amount receivable either on death or on maturity not otherwise
7. **Surrender value**: Is the amount receivable on discontinuation of policy during its life. i.e. before maturity. A policy may have to be discontinued for many reasons like; when firm is not able to pay the premium, Admission of a partner, Retirement of a partner, dissolution of firm, disputes on the JLP matters etc…
8. **Objective of Life policies**: To provide financial support to the firm when there is sudden death of any partner/s. The amount received from insurance company will of great help in those bad times.

Accounting treatment

1. JLP recorded: There is a systematic account for JLP in firm's books and JLP appears in the balance sheet as an asset at its current realizable value i.e. Surrender Value

2. JLP Unrecorded: The firm does not maintain any account for JLP and it does not appear in the balance sheet.

Case I JLP recorded:

A. The firm may decide to surrender the policy

B. The firm may decide to continue with the policy

(A-1) Surrendered **at par:**

- Bank/Cash will increase & JLP will not appear in the revised balance sheet

(A-2) Surrendered **at loss**:

- Amount of Loss: Revaluation Account Debit
- Bank/Cash balance: It will Increase by the amount realized & JLP will not appear in the revised balance sheet

(A-3) Surrendered **at Profit**:

- Amount of Profit: Revaluation Account Credit
- Bank/Cash balance: It will increase by the amount realized & JLP will not appear in the revised balance sheet

Journal entries

At par	**At loss**	**at Profit**:
Bank/Cash A/c Dr ----- To JLP A/c -----	Bank/Cash A/c Dr ----- Revaluation A/c Dr ---- To JLP A/c -----	Bank/Cash A/c Dr ----- To JLP A/c ----- Revaluation A/c ----

Important note: It is advised that the firms should avoid surrender of JLP in case of admission or retirement. If surrendered the purpose of taking Insurance will not be served.

B. The firm may decide to continue with the policy i.e. JLP not surrendered

(B-1) No entry would be needed if there is no change in its value.
(B-2) If the value has increased, Credit Revaluation Account or Capital accounts by the difference & show JLP at its revised value
(B-3) If the value has reduced, Debit Revaluation Account or Capital accounts by the difference & show JLP at its revised value

Case II JLP is unrecorded:

This is a very simple situation. When it is not on records it can be treated in the following two ways;

1. JLP Account opened at its latest surrender value (all partners, Old Ratio)

JLP A/c Dr ---------- (Surrender value)
To, partners' Capital Account -----------

2. JLP Account closed immediately after retirement (Remaining partners, New Ratio)

Alternatively

Internal Adjustment entry may be passed (in gaining ratio)

Remaining Partners' Capital Account Dr. ------------
To Retiring Partners' Capital Account --------------
(Being retiring partner's share compensated by remaining partners in gaining ratio)

Example Question

Q. P, Q & R are partners sharing profits and losses in the ratio of 5:3:2. Q retired from the firm. They had a JLP of Rs 1,00,000, surrender value of which on Q's retirement was Rs 4,000. The total premium paid on policy so far was Rs 16,000.
You are required to give entries in each of the following cases;

(a) The JLP appeared in books at Rs 5,000 and it was surrendered at Rs 4,000
(b) The JLP appeared in books at Rs 7,000 and it was surrendered at Rs 4,000
(c) The JLP appeared in books at Rs 4,000 and it was surrendered at Rs 4,000
(d) The JLP appeared in books at Rs 4,000 and it was not surrendered.
(e) The JLP appeared in books at Rs 5,000 and was not surrendered
(f) The JLP appeared in books at Rs 7,000 and it was not surrendered
(g) The JLP does not appear in books but it was surrendered at Rs 4,000
(h) The JLP does not appear in books but it was not surrendered at Rs 4,000