

## Chapter 12 Partnership revaluation (合夥重估)

### 12.2 Need for revaluation (需要重估的原因)

Whenever there is a **change in the profit and loss sharing ratio** or a change in the composition of a partnership such as **Admission of a new partner, Withdrawal or death of an old partner**, all **assets** (including goodwill) and **liabilities** must be **revalued** and adjusting entries are required to be made immediately.

The overall profit or loss on revaluation of all assets and liabilities of the partnership should be shared immediately among the old partners in the old profit and loss sharing ratio. The partners' capital balances would be increased by profit on revaluation or decreased by the loss on revaluation.

### 12.3 Accounting entries for revaluation (重估所需的會計分錄)

#### 1. An increase in the value of an asset (重估時資產值上升):

Dr Asset account  
Cr Revaluation account

#### 2. A decrease in the value of an asset (重估時資產值下跌):

Dr Revaluation account  
Cr Asset account

#### 3. An increase in the amount of a liability (重估時負債額上升):

Dr Revaluation account  
Cr Liability account

#### 4. A decrease in the amount of a liability (重估時負債額下跌):

Dr Liability account  
Cr Revaluation account

#### 5. An increase of expenses on revaluation (重估時費用增加):

Dr Revaluation account (increase in allowance for doubtful account, revaluation fees, bad debts)  
Cr allowance for doubtful account/ Cash at bank / trade receivable

#### 6. An increase of revenues on revaluation (重估時收入增加):

Dr Trade receivable/allowance for doubtful account  
Cr Revaluation account (bad debts recovery, decrease in allowance for doubtful account)

#### 7. (i) Sharing of the overall profit on revaluation (分配重估的整體利潤):

Dr Revaluation account  
Cr Partners' capital accounts (old profit and loss sharing ratio)

#### (ii) Sharing of the overall loss on revaluation (分配重估的整體損失):

Dr Partners' capital accounts (old profit and loss sharing ratio)  
Cr Revaluation account

Revaluation			
	\$	\$	\$
Motor vehicles (\$35,500 – \$26,000)	9,500	Buildings (\$17,000 – \$80,000)	90,000
Allowance for doubtful accounts	1,500	Trade receivables (bad debts recovery)	5,000
Cash at bank – Professional fees	2,200		
Profit on revaluation –			
Capital: Tai (5/10)	40,900		
Capital: Suen (3/10)	24,540		
Capital: Chung (2/10)	16,360		
	<u>81,800</u>		
	<u>95,000</u>		<u>95,000</u>

Capital							
	Tai	Suen	Chung		Tai	Suen	Chung
	\$	\$	\$		\$	\$	\$
Balance c/d	154,500	88,740	46,760	Balance b/f	113,600	64,200	30,400
				Revaluation – Share of profit	40,900	24,540	16,360
	154,500	88,740	64,760		154,500	88,740	64,760

### Example 1

A and B were partners, sharing profits and losses in the ratio of 3 : 2 and the new sharing profits and losses in the ratio of 4 : 3.

If the value of the premise has risen from \$20,000 to \$30,000,

If the value of the Inventory has risen from \$5,000 to \$8,000,

If the amount of the creditor has risen from \$2,000 to \$3,000,

If the amount of the bank loan has risen from \$3,000 to \$5,000,

An allowance for doubtful debts of \$4,000 was to be made.

A bad debt recovery of \$2,000 would be collected.

Professional fees of \$1,000 were paid in cheque for the revaluation of assets.

#### Revaluation

	\$	\$		\$
Creditor (\$3,000 – \$2,000)		1,000	Premises (\$30,000 – \$20,000)	10,000
Bank loan (\$5,000 – \$3,000)		2,000	Inventory (\$8,000 – \$5,000)	3,000
Allowance for doubtful accounts		4,000	Trade receivables (bad debts recovery)	2,000
Cash at bank– Professional fees		1,000		
Profit on revaluation –				
Capital : A (3/5)	4,200			
Capital : B (2/5)	2,800	7,000		
		15,000		15,000

### Example 2

A and B were partners, sharing profits and losses in the ratio of 3 : 2 and the new sharing profits and losses in the ratio of 4 : 3.

If the value of the premise has dropped from \$30,000 to \$20,000

If the value of the Inventory has dropped from \$8,000 to \$5,000,

If the amount of the creditor has decreased from \$3,000 to \$2,000,

If the amount of the bank loan has decreased from \$5,000 to \$3,000,

A decrease in allowance for doubtful debts of \$4,000.

A bad debt of \$2,000 would be written off.

Professional fees of \$1,000 were paid in cheque for the revaluation of assets.

#### Revaluation

	\$		\$	\$
Premises (\$30,000 – \$20,000)	10,000	Creditor (\$3,000 – \$2,000)		1,000
Inventory (\$8,000 – \$5,000)	3,000	Bank loan (\$5,000 – \$3,000)		2,000
Trade receivables (bad debts)	2,000	Allowance for doubtful accounts		4,000
Cash at bank– Professional fees	1,000	Loss on revaluation –		
		Capital : A (3/5)	5,400	
		Capital : B (2/5)	3,600	9,000
	16,000			16,000

### Class work 3

1. Wendy and Yan were partners, sharing **profits and losses in the ratio of 2 : 1**. Starting from 1 January 2011, they would share **profits and losses equally**. The following is the balance sheet of their partnership as at 31 December 2010:

#### Wendy and Yan Balance Sheet as at 31 December 2010

	\$	\$	\$
Non Current assets	Cost	Accumulated depreciation	Net book value
Office equipment	65,000	20,000	45,000
Furniture and fittings	40,000	25,000	15,000
	<u>105,000</u>	<u>45,000</u>	60,000
Current assets			
Inventory		20,000	
Accounts receivable	20,000		
Less Allowance for doubtful accounts	<u>(1,000)</u>	19,000	
Bank		<u>13,000</u>	
		52,000	
Less Current Liabilities			
Accounts payable		<u>(24,000)</u>	
Net Current assets			28,000
			<u>88,000</u>
Financed by:			
Capital account: Wendy		30,000	
Yan		<u>15,000</u>	45,000
Current account: Wendy		23,000	
Yan		<u>20,000</u>	43,000
			<u>88,000</u>

The following assets were revalued on 1 January 2011: **Office equipment \$46,000, Furniture and fittings \$11,000, inventory \$18,000**. An **extra allowance of \$1,000** was to be made for **doubtful accounts**. The value of other assets and liabilities remained unchanged. The overall profit and loss on revaluation would be reflected in the partners' capital balances.

- (a) Show the adjusting entries in the revaluation account and **capital accounts**.  
 (b) Show the balance sheet of their partnership as at 1 January 2011 (after revaluation).

#### Revaluation

	\$		\$	\$
Furniture and fittings (15,000 – 11,000)	4,000	Office equipment (46,000 – 45,000)		1,000
Inventory (20,000 – 18,000)	2,000	Loss on revaluation –		
Allowance for doubtful accounts	1,000	Capital: Wendy (2/3)	4,000	
		Capital: Yan (1/3)	2,000	6,000
	<u>7,000</u>			<u>7,000</u>

#### Capital

	Wendy	Yan		Wendy	Yan
	\$	\$		\$	\$
Revaluation – Share of loss	4,000	2,000	Balance b/f	30,000	15,000
Balance c/d	26,000	13,000			
	<u>30,000</u>	<u>15,000</u>		<u>30,000</u>	<u>15,000</u>

(b) Show the balance sheet of their partnership as at 1 January 2011 (after revaluation).

**Wendy and Yan  
Balance Sheet as at 31 January 2011**

	\$	\$	\$
			Net book value
Non Current assets			
Office equipment			46,000
Furniture and fittings			11,000
			57,000
Current assets			
Inventory		18,000	
Accounts receivable	20,000		
Less Allowance for doubtful accounts	(2,000)	18,000	
Bank		13,000	
		49,000	
Less Current Liabilities			
Accounts payable		(24,000)	
Net Current assets			25,000
			82,000
Financed by:			
Capital account: Wendy		26,000	
Yan		13,000	39,000
Current account: Wendy		23,000	
Yan		20,000	43,000
			82,000

## 12.4 Revaluation of goodwill (商譽重估)

### A goodwill account was opened (開設商譽帳戶)

#### Class work 4

1. K and C had been in partnership, sharing profits and losses in the ratio of 1 : 1 respectively. They decided to admit L as a partner. He would contribute \$20,000 cash as capital on 1 April 2009. In addition, the profits and losses would be shared in the ratio of K 3 : C 3 : L 2. The last balance sheet before L's admission was as follows:

K and C	
Balance Sheet as at 31 March 2009	
	\$
Premises, at net book value	80,000
Machinery, at net book value	30,000
Motor vehicles, at net book value	40,000
Fixtures, at net book value	8,000
Inventory	10,000
Accounts receivable	12,000
Bank	15,000
	195,000
Less Accounts payable	(5,000)
	190,000
Capital	
K	95,000
C	95,000
	180,000

Upon L's admission, a goodwill account with a value of \$48,000 was opened. In addition, the following assets were revalued to: premises \$100,000, machinery \$28,000, motor vehicles \$38,000, fixtures \$5,000 and inventory \$9,000.

You are required to:

- Show the necessary entries in the revaluation account and capital accounts.
- Draw up the balance sheet as at 1 April 2009.
- Show the necessary entries in the revaluation account and capital accounts if no goodwill account was opened.

(a)

Goodwill			
	\$		\$
Revaluation	48,000	Balances c/f	48,000

Revaluation			
	\$	\$	\$
Machinery (\$30,000 – \$28,000)		2,000	Goodwill 48,000
Motor vehicles (\$40,000 – \$38,000)		2,000	Premises (\$100,000 – \$80,000) 20,000
Fixtures (\$8,000 – \$5,000)		3,000	
Inventory (\$10,000 – \$9,000)		1,000	
Profit on revaluation –			
Capital: K (1/2)	30,000		
Capital: C (1/2)	30,000	60,000	
		68,000	68,000

Capital						
	K	C	L		K	C
	\$	\$	\$		\$	\$
Balances c/f	125,000	125,000	20,000	Balances b/f	95,000	95,000
				Revaluation – Share of profit	30,000	30,000
				Cash	—	20,000
	125,000	125,000	20,000		125,000	125,000

(b)

**K, C and L**  
**Balance Sheet as at 1 April 2009**

	\$	\$
<b>Non Current assets</b>		
Premises	100,000	
Machinery	28,000	
Motor vehicles	38,000	
Fixtures	5,000	171,000
Goodwill		48,000
		219,000
<b>Current assets</b>		
Inventory	9,000	
Accounts receivable	12,000	
Bank (\$15,000 + \$20,000)	35,000	
	56,000	
Less Accounts payable	(5,000)	51,000
		270,000
<b>Capital : K</b>		125,000
C		125,000
L		20,000
		270,000

**A goodwill account was not opened (不開設商譽帳戶)**

(c)

**Revaluation**

	\$	\$		\$
Machinery (\$30,000 – \$28,000)		2,000	Premises (\$100,000 – \$80,000)	20,000
Motor vehicles (\$40,000 – \$38,000)		2,000		
Fixtures (\$8,000 – \$5,000)		3,000		
Inventory (\$10,000 – \$9,000)		1,000		
Profit on revaluation –				
Capital: K (1/2)	6,000			
Capital: C (1/2)	6,000	12,000		
		20,000		20,000

**Goodwill Adjustment**

Partner	Goodwill shared in old ratio	Goodwill shared in new ratio
K	(1/2)\$24,000	(3/8)\$18,000
C	(1/2)\$24,000	(3/8)\$18,000
L	—	(2/8)\$12,000

**Capital**

	K	C	L		K	C	L
	\$	\$	\$		\$	\$	\$
Goodwill (3 : 3 : 2)	18,000	18,000	12,000	Balances b/f	95,000	95,000	—
Balances c/f	107,000	107,000	8,000	Goodwill (1 : 1)	24,000	24,000	—
				Revaluation – Share of profit	6,000	6,000	—
				Bank	—	—	20,000
	125,000	125,000	20,000		125,000	125,000	20,000

## Class work 2

1. Tai, Suen and Chung were in partnership. The following shows their balance sheet as at 31 December 2009:

### Tai, Suen and Chung Balance Sheet as at 31 December 2009

	\$
Buildings, at net book value	80,000
Motor vehicles, at net book value	35,500
Office fittings, at net book value	13,100
Inventory	20,400
Accounts receivable	45,300
Bank	20,700
	<u>215,000</u>
Less Accounts payable	(6,800)
	<u>208,200</u>
Capital	
Tai	95,600
Suen	64,200
Chung	48,400
	<u>208,200</u>

The partners had shared profits and losses in the ratio: Tai 5 : Suen 3 : Chung 2.

On 1 January 2010, the profit and loss sharing ratio was altered to: Tai 2, Suen 3 and Chung 5. The following assets were revalued to: buildings \$175,000, motor vehicles \$26,000, inventory \$18,900, office fittings \$10,900. The partnership's goodwill was valued at \$60,000 on the same date but no goodwill account was to be opened.

- Show the required entries in the revaluation account and capital account
- Draw up a balance sheet as at 1 January 2010.

(a)

#### Revaluation

	\$	\$		\$
Motor vehicles (\$35,500 – \$26,000)		9,500	Buildings (\$175,000 – \$80,000)	95,000
Inventory (\$20,400 – \$18,900)		1,500		
Office fittings (\$13,100 – \$10,900)		2,200		
Profit on revaluation –				
Capital: Tai (5/10)	40,900			
Capital: Suen (3/10)	24,540			
Capital: Chung (2/10)	16,360	81,800		
		<u>95,000</u>		<u>95,000</u>

#### Capital

	Tai	Suen	Chung		Tai	Suen	Chung
	\$	\$	\$		\$	\$	\$
Goodwill (2 : 3 : 5)	12,000	18,000	30,000	Balances b/f	95,600	64,200	48,400
Balances c/f	154,500	88,740	46,760	Goodwill (5 : 3 : 2)	30,000	18,000	12,000
				Revaluation – Share of profit	40,900	24,540	16,360
	<u>166,500</u>	<u>106,740</u>	<u>76,760</u>		<u>166,500</u>	<u>106,740</u>	<u>76,760</u>

#### Goodwill Adjustment

Partner	Goodwill in old ratio	Goodwill in new ratio
Tai	(5/10)\$30,000	(2/10)\$12,000
Suen	(3/10)\$18,000	(3/10)\$18,000
Chung	(2/10)\$12,000	(5/10)\$30,000

(b)

**Tai, Suen and Chung**  
**Balance Sheet as at 1 January 2010**

	\$	\$
<b>Non Current assets</b>		
Buildings		175,000
Motor vehicles		26,000
Office fittings		10,900
		211,900
<b>Current assets</b>		
Inventory	18,900	
Accounts receivable	45,300	
Bank	20,700	
	84,900	
Less Accounts payable	(6,800)	78,100
		290,000
<b>Capital</b>		
Tai		154,500
Suen		88,740
Chung		46,760
		290,000