

WEEK 5 E- LESSON NOTE

REVALUATION ACCOUNT

The assets of the business may be revalued to show the current value. The revaluation of assets is necessary because some asset may have appreciated in value while others may have depreciated.

Accounting entries

a. Open a revaluation account:

i. **DR:** asset account
CR: revaluation account } with increase in value of assets

ii. **DR:** revaluation account
CR: assets account } with reduction in value of assets

iii. **DR:** revaluation account
CR: liabilities account } with increase in value of liabilities

iv. **DR:** liabilities account
CR: revaluation account } with reduction in value of liabilities

In revaluation of assets, the following accounts are prepared:

a. Revaluation account

b. Capital account of partners

c. Balance sheet.

Example:

Sola and Ojo are in partnership, sharing profit and losses equally. On the 1st January, they decided to admit Joke, who would be entitled to one quarter of future profits, the balance being shared equally between Sola and Ojo.

The financial position of the business before the admission of Joke was as follows:

	N
Freehold premises	75,000
Fixture and fittings	26,000
Stocks	105,480
Debtors	45,000
Cash in hand	12,640

Creditors

58,940

Additional information:

a. It is agreed to value and retain goodwill at ~~₦~~30, 000

b. Revalue the other assets as follows:

	N
Freehold premises	100,000
Fixture and fittings	24,000
Stock	103,000

c. provision for bad debt of ~~₦~~3, 000 is to be made

d. capital is contributed by Sola and Ojo equally

E. Joke is to bring ~~₦~~80, 000 into the business as capital

You are required to prepare:

- i. Revaluation account
- ii. Partners capital account
- iii. Opening balance sheet of the new partnership of Sola, Ojo and Joke.

Solution

The closing balance sheet of Sola and Ojo to show the capital contributed by each of them

	N	N		
Capital: Sola	102,590	freehold premises	75,000	
Ojo	<u>102,590</u>	205,180	fixture and fittings	26,000
Creditors	58,940	stock	105,480	
		Debtors	45,000	
		Cash in hand	<u>12,640</u>	
	<u>264,120</u>		<u>264, 120</u>	

(i).

Dr	Revaluation account	Cr

Decrease in asset value

Fixture and fittings	2,000
Stock	2,480
Provision for bad debt	3,000

Share of profit:

Sola	23,760	
Ojo	<u>23,760</u>	<u>47,520</u>
		<u>55,000</u>

increase in asset value

Freehold premises	25,000
Goodwill	30,000

<u>55,000</u>

	Dr	Premises account	Cr
Balance b/f	75,000		balance c/d 100,000
Revaluation account	25,000		
	<u>100,000</u>		<u>100,000</u>
Balance b/d	100,000		

	Dr	Fixture and fittings account	Cr
		N	N
Balance b/f	26,000		Revaluation account 2,000
			Balance c/d 24,000
	<u>26,000</u>		<u>26,000</u>
Balance b/d	24,000		

	Dr	Stock account	Cr
		N	N
Balance b/f	105,480		Revaluation account 2,480
			Balance c/d 103,000
	<u>105,480</u>		<u>105,480</u>
Balance b/d	103,000		

Dr	Partner's capital account			Cr			
Details	Sola	Ojo	Joke	Details	Sola	Ojo	Joke
	N	N	N		N	N	N
Balance c/d	126,350	126,350	80,000	Balance b/f	102,590	102,590	-

				Cash	-	-	80,000
				Share of profit	23,760	23,760	-
	126,350	126,350	80,000		126,350	126,350	80,000

Share of profit:

Sola (1/2 of N47, 520) =N23, 760

Ojo (1/2 of N47, 520) =N23, 760

Balance sheet as at 1st January, 2005

		N	N		
Capital:			Fixed assets:		
Sola	126,350		Goodwill	30,000	
Ojo	126,350		Freehold premises	100,000	
Joke	<u>80,000</u>	332,700	Fixture and fittings	<u>24,000</u>	154,000
Creditors		58,940	Current assets:		
			Stock	103,000	
			Debtors	45,000	
			Less provision <u>3,000</u>	42,000	
			Cash balance	<u>92,640</u>	<u>237,640</u>
		<u>391,640</u>			<u>391, 640</u>