CBSE Test Paper 03

Ch-2 Fundamentals of partnership and Goodwill

1. Goodwill is an __________ asset.
   a. Both Intangible asset and Tangible asset
   b. None of these
   c. Intangible asset.
   d. Tangible asset
2. Calculate interest on drawings, if owner withdrew the following amounts as follows Jan.31 Rs. 6000, Mar.31 Rs.4000, July 1 Rs.8000, Sep.30 Rs.3000, 1 Nov, Rs.5000. Accounts are closed on 31st December every year and rate of interest on drawings is 10% p.a.
   a. ₹1418.33
   b. Rs.1408.33
   c. ₹1418.93
   d. ₹1408.93
3. For calculation of capital in the beginning what should be added in the capital at the end of the year
   a. Drawing
   b. Additional capital
   c. Salary
   d. Profit
4. Registration of partnership firm is _________-
   a. Optional
   b. Under Companies Act 2013
   c. Not Allowed
   d. Compulsory
5. Profit and Loss appropriation account is differ from Profit and Loss account as it is prepared by
   a. Only partnership firm
   b. Only sole proprietorship
   c. Only company
   d. All business firms

6. Give the formula of goodwill by Capitalisation of Average Profits?

7. A and B are partners in a firm without a Partnership Deed. A is Active partner and claims a salary of Rs.18,000 per month. State with reasons whether this claim is valid or not.

8. Why should a firm have a partnership deed?

9. What is the status of partnership from an accounting view point?

10. State any two reasons for the preparation of Revaluation Account at the time of admission of a new partner.

11. Menon and Thomas are partners in a firm. They share profits equally. Their monthly drawings are Rs 2,000 each. Interest on drawings is to be charged @ 10% p.a. Calculate interest on Menon's drawings for the year 2006, assuming that money is withdrawn:

    i. In the beginning of every month,
    ii. in the middle of every month, and
    iii. at the end of every month.

12. M and N are partners in a firm and agrees that an interest @ 12% per annum should be charged on drawings. M draws Rs 20,000 per month. Compute the amount of interest to be charged from M.

13. A firm earns a profit of Rs 30,000 per year. In the same business, a 10% return is generally expected. The total assets of the firm are Rs 2,50,000. The value of outsiders' liabilities is Rs 40,000. Find the value of Goodwill.

14. Jay, Vijay, and Karan were partners of an architect firm sharing profits in the ratio of 2 : 2 : 1. Their partnership deed provided the following :

    i. A monthly salary of Rs.15,000 each to Jay and Vijay.
    ii. Karan was guaranteed a profit of Rs.5,00,000 and Jay guaranteed that he will earn an annual fee of Rs.2,00,000. Any deficiency arising because of guarantee to Karan will be borne by Jay and Vijay in the ratio of 3 : 2. During the year ended 31st March 2018, Jay earned fee of Rs.1,75,000 and the profits of the firm amounted to

Rs.15,00,000.

Showing your workings clearly prepare Profit and Loss Appropriation Account and the Capital Account of Jay, Vijay and Karan for the year ended 31st March 2018.

15. A and B are partners in a firm sharing profits and losses in the ratio of 3 : 2. The following was the Balance Sheet of the firm as on 31-3-2010 :

Liabilities	**(Rs)**	**Assets**	**(Rs)**
Capitals: A	60,000	Sundry Assets	80,000
B	20,000		
	80,000		80,000

The profits Rs 30,000 for the year ended 31-3-2010 were divided between the partners without allowing interest on capital @ 12% p.a. and salary to A @ Rs 1,000 per month. During the year, A withdrew Rs 10,000 and B Rs 20,000.

Pass the necessary adjustment journal entry and show your working clearly.

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Answer

1. c. Intangible asset. **Explanation:** Goodwill is an intangible asset, which cannot be seen or touched but it plays important role in earning more and more profits. If a business firm is having good reputation in the market, it will enjoy more profits and goodwill in future.
2. b. Rs.1408.33, **Explanation:** When amounts are different for each drawings and dates of drawings are also different, in such a case Product method should be used to calculate the interest on drawings:

Amount	Months	Products
6,000	11	66,000
4,000	09	36,000
8,000	06	48,000
3,000	03	9,000
5,000	02	10,000

Interest on drawings = Total products Rs.1,69,000 × 10/100 × 1/12 = 1,408.33

3. a. Drawing, **Explanation:** To calculate the interest on capital, we must find out the opening capital first. Sometimes opening capital is not given in the question but closing capital is given. In such a case following formula should be used to find out the opening capital:

   Opening Capital = Closing Capital + Drawings - profit

4. a. Optional, **Explanation:** Registration of a partnership firm is optional. It means there is no need for the registration of a partnership firm. As per the Partnership Act, 1932, it is an option for a partnership firm to get registered or not. But it is always advisable to get registered.
5. a. Only partnership firm, **Explanation:** 1.Profit and loss appropriation account is prepared only in case of partnership business. The main purpose of preparing

this account to distribute the profits amongst the partners in the form of appropriations and profits.
2.Other firms i.e. companies and sole proprietorship firms are not required to prepare profit and loss appropriation account. These firms are required to prepare only profit and loss account.

6. Goodwill = Capitalised Value of Average Profits - Net Assets
Capitalised Value = $\frac{\text{Average future Maintainable Profits}}{\text{Normal Rate of Return}} \times 100$ When a similar type of business earns profit at a certain percentage of the capital employed, it is called normal rate of return.
7. This claim of A is not valid because in the absence of any partnership deed no salary, commission, interest on capital etc. is to be paid to any partner.
8. A firm should have a partnership deed because
   i. It regulates the rights, duties and liabilities of the partners.
   ii. It avoids disputes in future by acting as a proof.
   iii. It serves as an evidence in the court of law.
   iv. In the absence of partnership deed partners can not sue over the firm and vice versa. And the firm can not sue even the third parties
9. From an accounting viewpoint, partnership is a separate business entity from its partners or owners. It means the books of account are prepared from firm's viewpoint not from the partners. From a legal viewpoint, however, a Partnership, like a sole proprietorship, is not separate from the owners.
10. The revaluation account should be prepared at the time of reconstitution of partnership due to following reasons: 1. To show the assets and liabilities at their current values. 2. To protect the right of partners that no partner can take advantage due to change in the value of assets/liabilities.
11. Statement showing calculation of Interest on Drawings for the year 2006:

Particulars	**Beginning of Every Month**	**Middle of Every Month**	**End of Every Month**
Menon	$24,000 \times \frac{10}{100} \times \frac{6\frac{1}{2}}{12}$ = Rs. 1,300	$24,000 \times \frac{10}{100} \times \frac{6}{12}$ = Rs. 1200	$24,000 \times \frac{10}{100} \times \frac{5\frac{1}{2}}{12}$ = Rs. 1,100
Thomas	$24,000 \times \frac{10}{100} \times \frac{6\frac{1}{2}}{12}$	$24,000 \times \frac{10}{100} \times \frac{6}{12}$ =	$24,000 \times \frac{10}{100} \times \frac{5\frac{1}{2}}{12}$ =

	= Rs. 1,300	Rs. 1200	Rs. 1,100

12. Here the total amount of M’s drawings is Rs 2,40,000. **Interest to be calculated can be studied under three cases**.

    i. If amount is drawn in the **beginning** of each month;

    Interest = $\frac{2{,}40{,}000 \times 12}{100} \times \frac{6\frac{1}{2}}{12}$ = Rs 15,600

    ii. If amount is drawn in the **middle** of each month;

    Interest = $\frac{2{,}40{,}000 \times 12}{100} \times \frac{6}{12} =$Rs 14,400

    iii. If amount is drawn at the **end** of each month;

    Interest = $\frac{\times 2{,}40{,}000 \times 12}{100} \times \frac{5\frac{1}{2}}{12}$ = Rs 13,200

13. Under this method, goodwill is calculated by taking average super profit as the value of an annuity over a certain number of years. The present value of this annuity is computed by discounting at the given rate of interest (normal rate of return). This discounted present value of the annuity is the value ofgoodwill. Calculation of Goodwill

    Total Capitalised value of the firm

    = $\frac{\text{Actual Profit}}{\text{Rate of Normal Profits}} \times 100$

    = $\frac{30{,}000}{10} \times 100$= Rs 3,00,000

    Net Tangible Assets of the firm = Total Tangible Assets - Outsider’s Liabilities’

    = Rs 2,50,000 - Rs 40,000

    = Rs 2, 10,000

    Goodwill = Total Capitalised Value - Net Assets

    = Rs 3,00,000 - Rs 2,10,000

    = Rs 90,000

14. **Profit and Loss Appropriation Account**

Particulars		(Rs.)	Particulars	(Rs.)
To Salary:			By Net Profit	15,00,000
Jay	1,80,000		By Jay's Capital A/c	25,000
Vijay	1,80,000	3,60,000	(2,00,000-1,75,000)	

To Profit transferred:			(Deficiency in fees)	
~~Jay~~	~~4,66,000~~			
Less: guarantee(3/5)	<u>1,60,200</u>	3,05,800		
Vijay	4,66,000			
Less: guarantee(2/5)	<u>1,06,800</u>	3,59,200		
Karan	2,33,000			
Add: guarantee	<u>2,67,000</u>	5,00,000		
		<u>15,25,000</u>		**<u>15,25,000</u>**

Partner's Capital Accounts

Particulars	**Jay**	**Vijay**	**Karan**	**Particulars**	**Jay**	**Vijay**	**Kara**
To P/L Appropriation	25,000	-	-	By Salary	1,80,000	1,80,000	-
To Balance c/d	4,60,800	5,39,200	5,00,000	By P/L Appropriation	3,05,800	3,59,200	5,00,
	<u>4,85,800</u>	**<u>5,39,200</u>**	**<u>5,00,000</u>**		**<u>4,85,800</u>**	**<u>5,39,200</u>**	**<u>5,00,</u>**

15. Adjusting entries are journal entries made at the end of an accounting cycle to update certain revenue and expense accounts and to make sure you comply with the matching principle. The matching principle states that expenses have to be matched to the accounting period in which the revenue paying for them is earned that are done as follows:-

Journal

Date	**Particulars**		**L.F**	**Dr(Rs)**	**Cr(Rs)**
2010 Mar. 31	B's Capital A/c	Dr.		5,280	
	To A's Capital A/c (Being interest on capitals and salary to A not				5,280

	charged, not adjusted)				

Working notes:

Calculation of Opening Capital

Particulars	A(Rs)	B(Rs)
Closing Capital	60,000	20,000
Less: Profit(3 : 2)	18,000	12,000
	42,000	8,000
Add: Drawings made during the year	10,000	20,000
Capital in the beginning of the year	52,000	28,000

Adjustment Table

Particulars	A's Capital Account		B's Capital Account		Firm	
	Dr.(Rs)	Cr.(Rs)	Dr.(Rs)	Cr.(Rs)	Dr. (Rs)	Cr.(Rs)
Interest on Capital	--	6,240	---	3,360	9,600	--
Salary to A	--	12,000	---	--	12,000	--
Loss to be debited(3 : 2)	12,960	--	8,640	---	---	21,600
Total	12,960	18,240	8,640	3,360	21,600	21,600
Net Effect	--	5,280(Cr.)	5,280(Dr.)	--	--	--