CBSE Test Paper 04
Ch-4 Admission of a Partner

1. A, B and C are partners sharing profits in the ratio of 3:2:1. They admit D for 1/6 share. C would retain his old share. Calculate C's sacrifice
   a. 1/12
   b. 1/15
   c. NIL
   d. 1/10
2. Revaluation account is A
   a. Nominal Account
   b. Asset Account
   c. Personal Account
   d. Real Account
3. Revaluation Profit is only for:
   a. All partners
   b. Sacrificing Partners
   c. Old partners
   d. All partners (excluding gainer partner)
4. Admission of a partner is one of the mode of reconstituting the firm under which
   a. Old partnership ended and new one between all partner(including new partner) comes into existence
   b. New partnership ended and old one between all partner(including new partner) comes into existence
   c. Old partnership ended and new one between all partner(excluding old partner) comes into existence
   d. Old partnership ended and new one between all partner(excluding new partner) comes into existence
5. A, B and C are partners sharing profits in the ratio of 3:2:1. They admit D for 1/6 share. C would retain his old share. Calculate new ratio of all partners.
   a. 9 : 8 : 5:5
   b. 9 : 8 : 5:6
   c. 10 : 8 : 5:5

d. 12 : 8 : 5 : 5

6. At the time of admission of a new partner, workmen's compensation reserve in appearing in the Balance sheet as Rs 1,000. Give journal entry if workmen's compensation at the time of admission is estimated at Rs 1,200.

7. State any one purpose for admitting a new partner in a firm.

8. What do you understand by admission of a new Partner?

9. Why is the General reserve distributed among the old Partners before a new Partner is admitted?

10. What is meant by the sacrificing Ratio in case of admission of a Partner?

11. Explain how will you deal with goodwill when new partner is not in a position to bring his share of goodwill in cash?

12. Madhu and Neha were partners in a firm sharing profits and losses in the ratio of 3 : 5. Their fixed capitals were Rs 4,00,000 and Rs 6,00,000 respectively. On 1st January, 2016 Tina was admitted as a new partner for $\frac{1}{4}$th share in the profits. Tina acquired her share of profit fully from Neha. Tina brought Rs4,00,000 as her capital which was to be kept fixed like the capitals of Madhu and Neha. Calculate the goodwill of the firm on Tina's admission and the new profit sharing ratio of Madhu, Neha and Tina. Also, pass necessary journal entry for the treatment of goodwill on Tina's admission considering that Tina did not bring her share of goodwill premium in cash.

13. Asin and Shreya are partners in a firm. They admit Ajay as a new partner with 1/5th share in the profits of the firm. Ajay brings Rs 5,00,000 as his share of capital. The value of the total assets of the firm was Rs 15,00,000 and outside liabilities were valued at Rs 5,00,000 on that date. Give the necessary journal entry to record goodwill at the time of Ajay's admission. Also, show your workings.

14. Prasant and Nilesh are partners sharing profits and losses in the ratio of 3 : 2. Sumit was admitted as a partner for l/4th share. Goodwill valued at Rs 80,000. The following assets were brought in by Sumit as his Capital and his share of Goodwill:
Cash Rs 15,000; Stock Rs 24,000; Furniture Rs 30,000 and Machinery Rs 36,000.

Give necessary entries in the books of the firm and new profit sharing ratio of the firm.

15. A and B were partners in a firm sharing profits in the ratio as 11 : 4. C was admitted as a new partner for 1/5th share in the profits on 1.3.2010. The balance sheet of A and B on 1.3.2010 was as follows :

Liabilities		**(Rs)**	**Assets**		**(Rs)**
Capital Accounts:			Machinery		38,000
Pradip	60,000		Furniture		15,000
Subal	40,000	1,00,000	Investments		21,000
Profit and Loss A/c		20,000	Stock		19,000
Sundry Creditors		18,000	Sundry Creditors	27,000	
			Less: Provision	3,000	24,000
			Cash at Bank		21,000
		1,38,000			1,38,000

It was agreed that :

a. C to bring in capital to the extent of 1/5th of the total capital of the new firm and Rs 1,50,000 for his share of goodwill, half of which was withdrawn by A and B.
b. Building and plant were to be depreciated by 20%.
c. Provision for bad debt was to be increased by Rs 200.
d. Claim on account of workmen compensation is Rs 10,000.

Prepare revaluation account, partners’ capital account and balance sheet of a new firm.

Answer

1. a. (c) NIL, **Explanation:** Calculation of C's Sacrifice:
   Old Share = 3:2:1
   New Share = 12 : 8 : 5 : 5
   C's Sacrifice = 1/6 – 5/30 = Nil
2. a. (a) Nominal Account, **Explanation:** Nature of revaluation is Nominal Account. Any account which is prepared to calculate the profit or loss is considered as a Nominal Account.
3. a. (c) Old partners, **Explanation:** Revaluation profit or loss will be shared by the old partners only in their old profit sharing ratio. A new partner is not entitled to the revaluation profit of a partnership firm. The main reason is that he has not played any role in the previous events of the business.
4. a. (a) Old partnership ended and new one between all partner(including new partner) comes into existence
   Explanation: Admission of a partner is one of the methods of reconstitution of a firm. It means, it is the end of old partnership and beginning of a new partnership between all the partners including the new partner.
5. a. (d) 12 : 8 : 5 : 5, **Explanation:** Calculation of new ratio:
   Let the profit be = 1
   Share of C and D = 1/6 + 1/6 = 1/3
   Remaining share after paying C and D = 1 – 1/3 = 2/3
   A's New Share = 3/5 × 2/3 = 6/15
   B's New Share = 2/5 × 2/3 = 4/15 New Ratio = 6/15 : 4/15 : 1/6 : 1/6 or 12 : 8 : 5 : 5

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Particulars	Dr.	Cr.
Workmen's Compensation Reserve A/c Dr.	1,000	
Revaluation A/c Dr.	200	

To Workmen's Compensation Claim A/c		1,200
(Being workmen's compensation estimated at Rs.1,200)		

7. A new partner is admitted to take up the expansion of the partnership business. For this purpose old partner or partners need a new partner for better managerial control and more fund etc.

8. When a new person joins as a partner in the firm, it is known as admission of a new partner. As a consequence-old partnership comes to an end and new partnership comes into existence.

9. Distribution of General Reserve should take place at the time of admission of a partner because General Reserve represents accumulated profits relating to the period prior to the admission of a new partner. Therefore It belongs to the old partners and distributed among old partners.

10. The sacrificing ratio is the ratio in which the old partners have agreed to sacrifice their share in profit in favour of an incoming partner.

    Sacrificing Ratio = Old Ratio - New Ratio

11. Goodwill is the value of the reputation of a firm built over time with respect to the expected future profits over and above the normal profits. A well-established firm earns a good name in the market, builds trust with the customers and also has more business connections as compared to a newly set up business. Thus, the monetary value of this advantage that a buyer is ready to pay is termed as Goodwill. When the new partner is not in a position to bring his share of goodwill in cash, then goodwill account is adjusted through the old Partners' Capital Account. New Partner's Capital Account or Current Account is debited with his/her share of goodwill and the partners who sacrifice their share in favour of the new partner are credited in their sacrificing ratio. The following Journal entry is passed in the books of accounts.

New Partner's Capital A/c	Dr.
To Old Partners' Capital A/c	
(New partner capital account is debited with his/her share of goodwill and	

sacrificing Partners’ Capital Account are credited in their sacrificing ratio)	

12. **(i) Calculation of Goodwill of the Firm on Tina's Admission**

Step 1: Total capital of the new firm should be on the basis of Tina's capital and her share = $4,00,000 \times \frac{4}{1} = 16,00,000$
Step 2: Actual capital invested in new firm after Tina's admission or Capital Employeed of new firm = [Capital after all adjustments of old partners + Capital of new partner] or [(All Assets - External Liabilities) + Capital of new partner] = (4,00,000 + 6,00,000) + 4,00,000 = 14,00,000
Step 3: Value of firms Goodwill or Hidden goodwill = Step 1 - Step 2 = 16,00,000 - 14,00,000 = Rs 2,00,000

(ii) **Calculation of New Profit Sharing Ratio**
Madhu's new share remains same as old share = $\frac{3}{8}$
Neha's new share = $\frac{5}{8} - \frac{1}{4} = \frac{5-2}{8} = \frac{3}{8}$
Tina's new share = $\frac{1}{4} \times \frac{2}{2} = \frac{2}{8}$
New profit sharing ratio between Madhu, Neha and Tina = 3:3:2

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Date	Particulars		LF	Amt(Dr)	Amt(Cr)
2016 Jan 1	.	.	.	.	.
.	Cash A/c To Tina's Capital A/c	Dr	.	4,00,000	.
.	(Being Capital brought by new partner in cash.)	.	.	.	4,00,000
.	Tina's Current A/c To Neha's Current A/c	Dr	.	50,000	.
.	(Being adjustment made for goodwill on the the admission of new partner's admission)	.	.	.	50,000

Working Notes:-

i. Calculation of Sacrificing Ratio = Old Share - New Share
Madhu = $\frac{3}{8} - \frac{3}{8} = \frac{3-3}{8}$ = Nil; Neha = $= \frac{5}{8} - \frac{3}{8} = \frac{5-3}{8} = \frac{2}{8}$
ii. Tina's share of goodwill = $2,00,000 \times \frac{1}{4} = Rs. 50,000$

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Date	Particulars		L.F.	Amt. (Dr.)	Amt. (Cr.)
	Ajay's Capital A/c	Dr		2,00,000	
	To Asin's Capital A/c $(2,00,000 \times 1/2)$				1,00,000
	To Shreya's Capital A/c $(2,00,000 \times 1/2)$				1,00,000
	(Being adjustment for goodwill made at the time of new partner's admission through their capital a/cs in sacrificing ratio i.e. 1:1 (see W. N. ii))				

Working Note:-

i. **Calculation of Hidden Goodwill and Ajay's Share in Goodwill**
   a. Total Capital of New firm should be on the basis of Ajay's capital and his share in the new firm = $5,00,000 \times \frac{5}{1} = 25,00,000$
   b. Actual Capital of New firm after Ajay's admission or Capital Employeed in new firm = (Capital after all adjustments of Old Partners + New Partner's Capital) or (All Assets - External Liabilities + New Partner's Capital)
   = 15,00,000 - 5,00,000 + 5,00,000 = Rs 15,00,000
   Value of firm's Goodwill or hidden goodwill = (a - b) = 25,00,000 -15,00,000 = Rs 10,00,000
   Ajay's share in Goodwill = $10,00,000 \times \frac{1}{5} =$ Rs 2,00,000

ii. Sacrificing ratio has been taken to same as old partners' profit sharing ratio as new profit sharing ratio is not given and <u>when new ratio is not given then sacrificing ratio must be same as old ratio</u> (old ratio is not given that we taken equally as per partnership act, 1932.

14. **Books of A, B and C**

Journal

Date	Particulars		L.F.	Dr. (Rs)	Cr. (Rs)
1.	Cash A/c	Dr.		15,000	
	Stock A/c	Dr.		24,000	
	Furniture A/c	Dr.		30,000	
	Machinery A/c	Dr.		36,000	
	To Sumit's Capital A/c				85,000
	To Premium for Goodwill A/c				20,000
	(Being the premium for goodwill and capital brought in by Sumit for his l/4th share)				
2.	Premium for Goodwill A/c	Dr.		20,000	
	To Prasant's Capital A/c				12,000
	To Nilesh's Capital A/c				8,000
	(Being the premium for goodwill distributed between Prasant and Nilesh according to their sacrificing ratio 3 : 2)				

Working Notes :

1. **Calculation of Sumit’s share of goodwill:** Total Goodwill of the firm = 80,000. Hence, Sumit’s share of Goodwill = $1/4 \times 80{,}000$ = Rs 20,000.
2. **Calculation of the new profit sharing ratio of the partners in the new firm :** Sumit’s share = 1/4th. Hence, the total share of Prasant and Nilesh in the new firm afer Sumit's share would be = 1 - 1/4 = 3/4 th.
3. Calculation of new profit Sharing ratio
4. Prasant’s new share = 3/5 of 3/4th = $3/5 \times 3/4 = 9/20$
5. Nilesh’s new share = 2/5 of 3/4th = $2/5 \times 3/4 = 6/20$

Therefore, the new profit sharing ratio of Prasant, Nilesh and Sumit would be as follows :

Prasant : Nilesh, Sumit = 9/20 : 6/20 : 1/4 = 9/20 : 6/20 : 5/20 = 9 : 6 : 5

15. In this question there is a need to make Revaluation Account which means An increase in an asset's value in order to reflect the current market value of the asset.

    It is debited with the decrease in the value of assets and the increase in the value of liabilities. The balance of this account shows a gain or loss on revaluation which is transferred to the Existing partners' capital account in existing profit sharing ratio. Revaluation of fixed assets is an action that may be required to accurately describe the true value of the capital goods a business owns. ... The purpose of a revaluation is to bring into the books the fair market value of fixed assets.

Books of Pradip, Subal and Kuntal

Revaluation Account

Dr.				**Cr.**
Particulars	**Amt(Rs)**	**Particulars**		**Amt(Rs)**
To Building	2,80,000	By Loss transferred to:		
To Plant	60,000	A's Capital A/c	2,49,480	
To Provision for Bad Debts	200	B's Capital A/c	90,720	3,40,200
	3,40,200			3,40,200

Partner's Capital Accounts

Dr.							**Cr.**
Particulars	**A**	**B**	**C**	**Particulars**	**A**	**B**	**C**
To Bank	55,000	20,000	---	By Balance b/d	20,00,000	5,50,000	---
To Revaluation Loss	2,49,480	90,720	--	By Premium	1,10,000	40,000	---

To Balance c/d	19,15,520	5,19,280	6,08,700	By Workmen Compensation Fund	1,10,000	40,000	--
				By Bank			6,08,700
	22,20,000	6,30,000	6,08,700		22,20,000	6,30,000	6,08,700

Balance Sheet

as at 31st March, 2009

Liabilities		**(Rs)**	**Assets**		**(Rs)**
Capitals:			Building(14,00,000 - 2,80,000)		11,20,000
A	19,15,520		Plant		2,40,000
B	5,19,280		Debtors	30,000	
C	6,08,700	30,43,500	(-) Provision for Bad Debts	(1,200)	28,800
Workmen Compensation Fund		10,000	Stock		29,000
Creditors		15,000	Land		10,00,000
Bills Payable		30,000	Bank		7,00,700
Employees Provident Fund		20,000			
		31,18,500			31,18,500

Working Note:

Bank Account

Dr.			**Cr.**
Particulars	**Amt(Rs)**	**Particulars**	**Amt(Rs)**
To Balance b/d	17,000	By A's Capital A/c	55,000

To Premium	1,50,000	By B's Capital A/c	20,000
To C's Capital A/c	6,08,700	By Balance c/d	7,00,700
	7,75,700		7,75,700

Calculation for Adjustment of Capital

A’s Capital after adjustment = 19,15,520

B’s Capital after adjustment = 5,19,280

(+) = 24,34,800

C’s share = $\frac{1}{5}$ th

Remaining share to be shared by A and B = $1-\frac{1}{5}=\frac{4}{5}th$

$\frac{4}{5}$ th share capital = Rs 24,34,800

Total capital = Rs 24,34,800 $\times \frac{5}{4}$ = Rs 30,43,500

C’s share of capital = Rs 30,43,500 $\times \frac{1}{5}$ = Rs 6,08,700