

**CBSE Test Paper 05**  
**Ch-2 Fundamentals of partnership and Goodwill**

---

1. Revaluation A/c is prepared to find out the profit or loss on :
  - a. sale of goods
  - b. sale of fixed assets
  - c. sale of services
  - d. revaluation of assets and liabilities
2. A firm earns Rs. 65,000 as its average profits. The usual rate of earning is 10%. The total assets of the firm amounted to Rs. 6,80,000 and liabilities are Rs.1,80,000. Calculate the value of goodwill.
  - a. Rs.120000
  - b. Rs.110000
  - c. Rs.100000
  - d. Rs.1,50,000
3. P and Q were partners in a firm sharing profits and losses in the ratio 3:2. They admit R for 1/6th share in profits and guaranteed that his share will not be less than Rs. 25000. Total profit of the firm were Rs. 90,000 Calculate share of profit for each partner when guarantee is given by P.
  - a. P = ₹40000, Q = ₹25,000, R = ₹25,000
  - b. P = ₹35000, Q = ₹10,000, R = ₹25,000
  - c. P= Rs.35000, Q= Rs.30,000, R= Rs.25,000
  - d. P = ₹39000, Q = ₹26,000, R = ₹25,000
4. Calculate the Interest on Drawings of Ram @10% p.a for the year ended 31st March 2012. If Ram withdraw drawings Rs. 2000 p.m in the beginning of every month.
  - a. Rs. 1300
  - b. ₹1100
  - c. ₹1400
  - d. ₹1200
5. A, B and C are partner in a firm. They have introduced Rs. 50,000, Rs. 40,000 and Rs. 30,000 respectively; and agreed to distribute profit or loss in the ratio of their capital. Firm earned profit of Rs. 60,000 during the year. Distribute profit among partners. Pass journal entry.

a.

|                        |       |
|------------------------|-------|
| Profit and Loss A/cDr. | 60000 |
| To A's A/c             | 25000 |
| To B's A/c             | 20000 |
| To C's Account         | 15000 |

b.

|                           |       |
|---------------------------|-------|
| P/L Appropriation A/c Dr. | 60000 |
| To A's Capital A/c        | 25000 |
| To B's Capital A/c        | 20000 |
| To C's Capital A/c        | 15000 |

c.

|                         |       |
|-------------------------|-------|
| Profit and Loss A/c Dr. | 60000 |
| To A's A/c              | 25000 |
| To B's A/c              | 20000 |
| To C's Account          | 15000 |

d.

|                         |       |
|-------------------------|-------|
| Profit and Loss A/c Dr. | 60000 |
| To A's A/c              | 25000 |
| To B's A/c              | 20000 |
| To C's Account          | 15000 |

6. What is Hidden Goodwill?

7. What is the need for the valuation of Goodwill in case of partnership ?
8. State any two circumstances when there is need to revalue the goodwill.
9. Distinguish between fixed and fluctuating capital accounts.
10. State the provision of 'Indian partnership Act 1932' relating to sharing of profits in absence of any provision in the partnership deed.
11. On 1st April, 2014 a firm had assets of Rs 1,00,000 excluding stock of Rs 20,000. Partners' capital accounts showed a balance of Rs 60,000. The current liabilities were Rs 10,000 and the balance constituted the reserve. If the normal rate of return is 8% the 'Goodwill' of the firm is valued at Rs 60,000 at four years' purchase of super profit, find the average profit of the firm.
12. Kavita and Pradeep are partners, sharing profits in the ratio of 3 : 2. They employed Chandan as their manager, to whom they paid a salary of Rs 750 p.m. Chandan deposited Rs 20,000 on which interest is payable @ 9% p.a. At the end of 2017 (after the division of profit), it was decided that Chandan should be treated as partner w.e.f. Jan. 1, 2014 with 1/6 th share in profits. His deposit being considered as capital carrying interest @ 6% p.a. like capital of other partners. Firm's profits after allowing interest on capital were as follows:

|      |        | Rs      |
|------|--------|---------|
| 2014 | Profit | 59,000  |
| 2015 | Profit | 62,000  |
| 2016 | Loss   | (4,000) |
| 2017 | Profit | 78,000  |

Record the necessary journal entries to give effect to the above.

13. Seema, Tanuja and Tripti were partners in a firm trading in garments. They were sharing profits in the ratio of 5 : 3 : 2. Their capitals on 1st April, 2012 were Rs 3,00,000, Rs 4,00,000 and Rs 8,00,000 respectively. After the flood in Uttarakhand, all partners decided to help the flood victims personally. For this, Seema withdrew Rs

---

20,000 from the firm on 15th September, 2012. On the same date, Tanuja instead of withdrawing cash from the firm, took garments amounting to Rs 24,000 from the firm and distributed those to the flood victims. On the other hand, Tripti withdrew Rs 2,00,000 from her capital on 1st January, 2013 and provided a mobile medical van in the flood affected area. The partnership deed provides for charging interest on drawings @ 6% per annum. After the final accounts were prepared, it was discovered that interest on drawings had not been charged. Give the necessary adjusting journal entry and show the working notes clearly. Also, state any two values which the partners wanted to communicate to the society.

14. A and B entered into partnership on 1st April, 2014 without any partnership deed. They introduced capitals of Rs. 5,00,000 and Rs. 3,00,000 respectively. On 31st October, 2014, A advanced Rs. 2,00,000 by way of loan to the firm without any agreement as to interest.

The Profit and Loss Account for the year ended 31-03-2015 showed a profit of Rs. 4,30,000 but the partners could not agree upon the amount of interest on Loan to be charged and the basis of division of profits. Pass a Journal Entry for the distribution of the Profits between the partners and prepare the Capital A/cs of both the partners and Loan A/c of 'A'.

15. A, B and C were partners in a firm having capitals of Rs 60,000; Rs 60,000 and Rs 80,000 respectively. Their Current Account balances were A: Rs 10,000; B: Rs 5,000 and C: Rs 2,000 (Dr). According to the partnership deed, the partners were entitled to interest on capital @ 5% p.a. C being the working partner was also entitled to a salary of Rs 6,000 p.a. The profits were to be divided as follows :

- a. The first Rs 20,000 in proportion to their capitals.
- b. Next Rs 30,000 in the ratio of 5 : 3 : 2.
- c. Remaining profits to be shared equally.

The firm made a profit of Rs 1,56,000 before charging any of the above items. Prepare the Profit & Loss Appropriation Account and pass necessary journal entry for apportionment of profit.

---

**CBSE Test Paper 05**  
**Ch-2 Fundamentals of partnership and Goodwill**

---

**Answer**

1. d. revaluation of assets and liabilities, **Explanation:** revaluation of assets and liabilities
2. d. Rs.1,50,000, **Explanation:** Calculation of Goodwill:
  - i. Average profit = Rs.65,000
  - ii. Capital Employed = 6,80,000 – 1,80,000 = 5,00,000
  - iii. Normal Profit = 5,00,000 × 10/100 = 50,000
  - iv. Super Profit = 65,000 – 50,000 = 15,000
  - v. Goodwill = 15,000 × 100/10 = 1,50,000
3. c. P= Rs.35000, Q= Rs.30,000, R= Rs.25,000, **Explanation:**

New Profit Sharing Ratio = 3:2:1

P's Share of Profit = 90,000 × 3/6 = 45,000

Q's Share of Profit = 90,000 × 2/6 = 30,000

R's Share of Profit = 90,000 × 1/6 = 15,000

R should get 25,000 but he is getting only Rs.15,000 (deficiency Rs.10,000 will be met by P)

Now P's Share will be = 45,000 – 10,000 = Rs. 35,000
4. a. Rs. 1300, **Explanation:** In this case partner has withdrawn a fixed amount on a fixed date for the full year. To calculate the interest on drawings follow these two steps in this situation:

Step 1 : Average Time Period =  $12 + 1 = 13/2 = 6.5$  months

Step 2. Interest on Drawings =  $24,000 \times 10/100 \times 6.5/12 = 1,300$
5. b.

|                           |       |
|---------------------------|-------|
| P/L Appropriation A/c Dr. | 60000 |
| To A's Capital A/c        | 25000 |
| To B's Capital A/c        | 20000 |
| To C's Capital A/c        | 15000 |

**Explanation:**

Capitals of the partners : 50,000 : 40,000 : 30,000

Capital Ratio will be : 5 : 4 : 3

Distribution of Profit in capital Ratio:

A's share of profit =  $60,000 \times 5/12 = 25,000$

B's share of profit =  $60,000 \times 4/12 = 20,000$

C's share of profit =  $60,000 \times 3/12 = 15,000$

6. When the value of Goodwill is not mentioned, it is assumed that goodwill is hidden or it needs to be calculated. Hidden Goodwill is calculated with the help of Capital Employed in business. To calculate the hidden goodwill, actual capital employed in business should be deducted from the total required capital.
7. Following are reasons for valuing the goodwill in case of partnership:
1. When there is a change in profit sharing ratio of partners.
  2. When a new partner is admitted.
  3. When an existing partner retires/dies.
8. Goodwill needs to be revalued in the following circumstances:
1. When there is a change in the profit sharing ratio among partners.
  2. When a new partner is admitted.
9. The differences between fixed and fluctuating capital accounts are:

| Basis             | Fixed capital account                                                  | Fluctuating capital account                                                        |
|-------------------|------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| No. of Account(s) | Each partner has two accounts i.e, capital account and current account | Each partner has only one account i.e, capital account.                            |
| Balance           | Capital account always shows a credit balance.                         | Sometimes capital account may show a debit balance due to huge drawings or losses. |
|                   |                                                                        |                                                                                    |

|                                     |                                                                                                                                   |                                                                                                                                          |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Adjustment for Drawings etc.</b> | All adjustments for drawings, interest on drawings, interest on capital, salary, share of profit/loss are made in Current Account | All adjustments for drawings, interest on drawings, interest on capital, salary, share of profit and losses are made in capital account. |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|

10. Profit should be distributed equally among all the partners when there is no provision for sharing given in the partnership deed.

11. Goodwill = Super Profit  $\times$  Number of Years' Purchase

$$60,000 = \text{Super profit} \times 4$$

$$\text{Super profit} = \frac{60,000}{4} = 15,000$$

Capital Employed

$$\Rightarrow \text{Total Assets} - \text{Current Liabilities}$$

$$\Rightarrow (1,00,000 + 20,000) - 10,000$$

$$\Rightarrow \text{Rs } 1,10,000$$

Normal Profit = Capital Employed  $\times$  Normal Rate of Return

$$= 1,10,000 \times \frac{8}{100} = \text{Rs } 8,800$$

Super Profit = Average Profit - Normal Profit

$$15,000 = \text{Average profit} - 8,800$$

$$\text{Average profit} = 15,000 + 8,800 = \text{Rs } 23,800$$

12. **Journal**

|                                                                 | Dr. | Cr. |
|-----------------------------------------------------------------|-----|-----|
| Kavita.....Dr.                                                  | 300 |     |
| Pradeep.....Dr.                                                 | 200 |     |
| To Chandan `                                                    |     | 500 |
| (Being adjustment entry made on manager admitted as a partner.) |     |     |

**Working Note:**

- Amount already received by Chandan as a Manager;

|                       |        |
|-----------------------|--------|
| Salary (750 x 12 x 4) | 36,000 |
|-----------------------|--------|

|                            |                      |
|----------------------------|----------------------|
| Interest (20,000 x 9% x 4) | <u>7,200</u>         |
|                            | <b><u>43,200</u></b> |

- Amount to be received by Chandan as a Partner;

|                                                                             |                      |
|-----------------------------------------------------------------------------|----------------------|
| Interest on Capital (20,000 x 6% x 4)                                       | 4,800                |
| Share of Profit {(59,000 + 62,000 - 4,000 + 78,000) + 43,200 - 4,800} x 1/6 | <u>38,900</u>        |
|                                                                             | <b><u>43,700</u></b> |

- Final Amount to be adjusted = 43,700 - 43,200 = 500

**Rs. 500 paid by Kavita and Pradeep to Chandan in 3:2.**

### 13. Adjusting Journal Entry

| Date | Particulars                                                    | L/F | Amount (Rs) | Amount (Rs) |
|------|----------------------------------------------------------------|-----|-------------|-------------|
|      | Tanuja's Capital A/c Dr                                        |     | 351         |             |
|      | To Seema's Capital A/c                                         |     |             | 65          |
|      | To Tripti's Capital A/c<br>(Being the adjustment entry passed) |     |             | 286         |

### Adjustment Table

| Particulars                         | Seema (Rs) | Tanuja (Rs) | Tripti (Rs) | Total (Rs) |
|-------------------------------------|------------|-------------|-------------|------------|
| <b>I. Amount to be debited</b>      |            |             |             |            |
| Interest on Drawings                | 650        | 780         | -----       | 1,430      |
| <b>II. Amount to be credited</b>    |            |             |             |            |
| Profits i.e., Rs 1,430 in 2 : 1 : 1 | 715        | 429         | 286         | 1,430      |
| <b>Net Effect ( I - II )</b>        | 65 (Cr)    | 351 (Cr)    | 286 (Cr)    | Nil        |

### Working Note

#### Calculation of Interest on Drawings



$$\text{Seema} = 20,000 \times \frac{6}{100} \times \frac{6.5}{12} = \text{Rs } 650$$

$$\text{Tanuja} = 24,000 \times \frac{6}{100} \times \frac{6.5}{12} = \text{Rs } 780$$

Cash or Goods withdrawn by a proprietor from the business for their personal use is labelled as drawings. Interest may be charged by the business at a fixed rate when a business owner draws funds or assets. Journal entry for interest on drawings includes two accounts; Drawings A/C & Interest on Drawings A/C. Interest on drawings is provided as per the provisions of partnership deed. If nothing is mentioned therein interest on drawings cannot be provided. The values which partners wanted to communicate to the society are:

- i. Concern and Care towards Flood Victims By donating garments and providing medical facilities to the flood victims partners have shown care and concern towards them.
- ii. Doing your Best and Compassion Partners have done their best and have shown compassionate behaviour by helping the flood victims.

14.

### Profit and Loss Account

For the year ending on 31st March, 2015

| Particulars                                  | Amount<br>(Rs.)   | Particulars               | Amount<br>(Rs.)   |
|----------------------------------------------|-------------------|---------------------------|-------------------|
| To Interest on Loan<br>(2,00,000*6/100*5/12) | 5,000             | By Profit and Loss<br>A/c | 4,30,000          |
| To Partner's Capital A/c:                    |                   |                           |                   |
| A - 2,12,500                                 |                   |                           |                   |
| B - 2,12,500                                 | 4,25,000          |                           |                   |
|                                              | 4,30,000<br>===== |                           | 4,30,000<br>===== |

### Partner's Capital A/cs

|  |  |   |   |  |  |   |   |
|--|--|---|---|--|--|---|---|
|  |  | A | B |  |  | A | B |
|--|--|---|---|--|--|---|---|

| Date      | Particulars       | Amount<br>(Rs.)   | Amount<br>(Rs.)   | Date       | Particulars                  | Amount<br>(Rs.)   | Amount<br>(Rs.)   |
|-----------|-------------------|-------------------|-------------------|------------|------------------------------|-------------------|-------------------|
| 31.3.2015 | To balance<br>c/d | 7,12,500          | 5,12,500          | 1.4.2014   | By Bank A/c                  | 5,00,000          | 3,00,000          |
|           |                   | ...               | ...               | 31.03.2015 | By Profit<br>and Loss<br>A/c | 2,12,500          | 2,12,500          |
|           |                   | 7,12,500<br>===== | 5,12,500<br>===== |            |                              | 7,12,500<br>===== | 5,12,500<br>===== |

### Journal

| Date      | Particulars                                   | LF. | Debit<br>Amount<br>(Rs.) | Credit<br>Amount<br>(Rs.) |
|-----------|-----------------------------------------------|-----|--------------------------|---------------------------|
| 31.3.2015 | Profit and Loss Appropriation A/C Dr.         |     | 4,25,000                 |                           |
|           | To A's Capital A/c                            |     | ...                      | 2,12,500                  |
|           | To B's Capital A/c                            |     | ...                      | 2,12,500                  |
|           | (Being profit distributed among the partners) |     |                          |                           |
|           | Total                                         |     | 4,25,000                 | 4,25,000                  |

### A's Loan A/c

| Date              | Particulars       | Amount<br>(Rs.)   | Date             | Particulars                | Amount<br>(Rs.)   |
|-------------------|-------------------|-------------------|------------------|----------------------------|-------------------|
| 2015 March,<br>31 | To Balance<br>c/d | 2,05,000          | 2014 Oct.,<br>31 | By Bank A/c                | 2,00,000          |
|                   |                   |                   |                  | By interest on Loan<br>A/c | 5,000             |
|                   |                   | 2,05,000<br>===== |                  |                            | 2,05,000<br>===== |

15. The profit and loss appropriation account is an extension of the profit and loss account. The main intention of preparing a profit and loss appropriation account is to show the distribution of profits among the partners. So as per the particulars available in this question the Profit & Loss Appropriation A/c is prepared as follows:-

### Profit and Loss Appropriation Account

| Dr.                                    |        |          |               | Cr.      |
|----------------------------------------|--------|----------|---------------|----------|
| Particulars                            |        | (Rs)     | Particulars   | (Rs)     |
| To Interest on Capital:                |        |          | By Net Profit | 1,56,000 |
| A                                      | 3,000  |          |               |          |
| B                                      | 3,000  |          |               |          |
| C                                      | 4,000  | 10,000   |               |          |
| To Salary to C                         |        | 6,000    |               |          |
| To Profit transferred to Current A/cs: |        |          |               |          |
| A(6,000 + 15,000 + 30,000)             | 51,000 |          |               |          |
| B(6,000 + 9,000 + 30,000)              | 45,000 |          |               |          |
| C(8,000 + 6,000 + 30,000)              | 44,000 | 1,40,000 |               |          |
|                                        |        | 1,56,000 |               | 1,56,000 |

### JOURNAL

| Date | Particulars                                                          |     | L.F | Dr(Rs)   | Cr(Rs) |
|------|----------------------------------------------------------------------|-----|-----|----------|--------|
|      | Profit and Loss Appropriation A/c                                    | Dr. |     | 1,40,000 |        |
|      | To A's Current A/c                                                   |     |     |          | 51,000 |
|      | To B's Current A/c                                                   |     |     |          | 45,000 |
|      | To C's Current A/c<br>(Being profit appropriated among the partners) |     |     |          | 44,000 |