**CBSE Test Paper 01**

**Ch-4 Admission of a Partner**

1. Kamal and Rahul are partner's in a firm sharing profits and losses in the ratio of 7:3. They admit Kaushal as a partner for 1/5th share. Kaushal acquires his share from Kamal and Rahul in the ratio of 3:2. The goodwill of the firm has been valued at Rs.25000. Kaushal paid Rs.10000 privately to X and Y as his share of goodwill. What should be the journal entry
   a. No entry will be passed
   b.

      | |
      |---|
      | Rahul A/c Dr. |
      | Kamal A/c Dr. |
      | To Kaushal A/c |

   c.

      | |
      |---|
      | Kamal A/c Dr. |
      | Cash A/c Dr. |
      | To Goodwill A/c |

   d.

      | |
      |---|
      | Rahul A/c Dr. |
      | LoanA/c Dr. |
      | To Cash A/c |

2. Being Chander brought rs 20000 for his share of goodwill. Which account should be debited?
   a. Goodwill A/c
   b. Cash/Bank A/c
   c. Profit and Loss A/c
   d. Partner's capital account
3. If goodwill already existing in the --------, it should be written off by debiting old partners in their old profit sharing ratio
   a. Trading account
   b. Balance sheet
   c. Trial Balance
   d. Profit and loss account

4. In case of undistributed accumulated losses whose account should be debited
   a. New partner’s A/c
   b. Old partner’s Capital A/c
   c. Gaining Partner’s A/c
   d. Goodwill A/c
5. What treatment should be given to Employee’s Provident Fund appearing in the liabilities side of the Balance Sheet in case of admission of a partner
   a. Not to be distributed
   b. Should be distributed in equal ratio
   c. Should be distributed as a part of reserve
   d. Both treatment can be done

6. A and B were partners in a firm sharing profits and losses in the ratio of 5 : 3. They admitted C as a new partner. The new profit sharing ratio between A, B and C was 3: 2 : 3. A surrendered $\frac{1}{5}$ th of his share in favour of C. Calculate B’s sacrifice.

7. Accounting Standard-26 requires that goodwill is to be recorded in the books of accounts only when money or money’s worth has been paid for it. How will you deal with the issue, if the new partner is unable to bring in his share of goodwill ?

8. Amit and Viney are partners in a firm sharing profits and losses in 3:1 ratio. On 1.1.2017 they admitted Ranjan as a partner. On Ranjan’s admission the profit and loss account of Amit and Viney showed a debit balance of Rs 40,000. Record necessary journal entry for the treatment of the same.

9. (All partners sacrifice) : A and B partners sharing profits and losses in the ratio of 3:2. They admit C into partnership for 1/4 share in profits. C’s brings Rs. 3,00,000 as capital and Rs. 1,00,000 as goodwill. New profit sharing ratio of the partners shall be 3:3:2. Pass necessary Journal entries.

10. At the time of admission of a new partner, new profit-sharing ratio is ascertained. The new of incoming partner acquires the share from old partners and as a result profit share of old partners is reduced. What is it known as and why is it important to ascertain it?

11. A and B who shared profits in the proportion of 5 : 3 had capitals of Rs 70,000 and Rs

40,000 respectively. They agree to admit C into partnership for $\frac{1}{10}$th share in future profits. C brings Rs 30,000 as capital and is unable to bring Rs 1,600 as his share of goodwill in cash. Give journal entries.

12. Asha and Aditi are partners in a firm sharing profits and losses in the ratio of 3 : 2They admit Raghav as a partner for $\frac{1}{4}$th share in the profits of the firm Raghav brings Rs.6,00,000 as his capital and his share of goodwill in cash. Goodwill of the firm is to be valued at two year's purchase of average profits of the last four years.
The profits of the firm during the last four years are given below:

| Year | Profit (Rs.) |
|---|---|
| 2013 - 14 | 3,50,000 |
| 2014 - 15 | 4,75,000 |
| 2015 - 16 | 6,70,000 |
| 2016 - 17 | 7,45,000 |

The following additional information is given.

i. To occur management cost an annual charge or Rs. 56,250 should be made for the purpose of valuation of goodwill.
ii. The closing stock for the year ended 31st March 2017 was overvalued by Rs. 15,000 Pass necessary journal entries on Raghav's admission showing the working notes clearly.

13. X and Y are partners in a firm sharing profits in the ratio of 4 : 3. On 1st April, 2012, they admitted Z as a new partner. Z brought in Rs 1,00,000 for his capital and Rs 21,000 for 1/3 rd share of goodwill premium. On Z’s admission goodwill appeared in the books of the firm at Rs 28,000. Record the necessary journal entries on Z's admission

14. A, B and C were partners in a firm sharing profits in the ratio of 3:2:1. On 31st March, 2019 their balance sheet was as follows

**Balance Sheet**

as at 31st March, 2015

| Liabilities | | Amit (Rs) | Assets | Amt (Rs) |
|---|---|---|---|---|
| Creditors | | 84,000 | Bank | 17,000 |
| General Reserve | | 21,000 | Debtors | 23,000 |
| Capital A/cs | | | Stock | 1,10,000 |
| A | 60,000 | | Investments | 30,000 |
| B | 40,000 | | Furniture and Fittings | 10,000 |
| C | 20,000 | 1,20,000 | Machinery | 35,000 |
| | | 2,25,000 | | 2,25,000 |

On the above date, D was admitted as a new partner and it was decided that

i. The new profit sharing ratio between A, B, C and D will be 2: 2: 1: 1.
ii. Goodwill of the firm was valued at Rs 90,000 and D brought his share of goodwill premium in cash.
iii. The market value of investments was Rs 24,000.
iv. Machinery will be reduced to Rs 29,000.
v. A creditor of Rs 3,000 was not likely to claim the amount and hence to be written-off.
vi. D will bring proportionate capital so as to give him l/6th share in the profits of the firm.
   Prepare revaluation account, partners' capital accounts and the balance sheet of the reconstituted firm.

15. On 31st March, 2010 the balance sheet of W and R who shared profits in 3: 2 ratio was as follows

**Balance Sheet**

as at 31st March, 2010

| Liabilities | | Amt (Rs) | Assets | | Amt (Rs) |
|---|---|---|---|---|---|
| Creditors | | 20,000 | Cash | | '5,000 |

| | | | | | |
|---|---|---|---|---|---|
| Profit and Loss A/c | | 15,000 | Sundry Debtors | 20,000 | |
| Capital A/cs | | | (-) Provision for Doubtful Debts | (700) | 19,300 |
| W | 40,000 | | Stock | | 25,000 |
| R | 30,000 | 70,000 | Plant and Machinery | | 35,000 |
| | | | Patents | | 20,700 |
| | | 1,05,000 | | | 1,05,000 |

On this date, B was admitted as a partner on the following conditions

i. B will get 4/15th share of profits.
ii. B had to bring Rs 30,000 as his capital to which amount other partners' capital shall have to be adjusted.
iii. He would pay cash for his share of goodwill which would be based on 2.5 years' purchase of average profits of past 4 years.
iv. The assets would be revalued as under Sundry debtors at book value less 5% provision for bad debts, stock at ? 20,000, plant and machinery at Rs 40,000.
v. The profits of the firm for the year's ending on 31st March, 2007, 2008 and 2009 were Rs 20,000, Rs 14,000 and Rs 17,000 respectively.
Prepare revaluation account, partners' capital account and balance sheet of the new firm.

## Answer

1. a. No entry will be passed, **Explanation:** No need to pass any journal entry when a new partner pays his premium for goodwill amount privately to the sacrificing partners, it will not be recorded in the books of accounts.
2. b. Cash/Bank A/c, **Explanation:** When a new partner is admitted and he brings his share of goodwill (premium for goodwill) in cash, in such a case Cash or Bank account should be debited and Premium for goodwill account should be credited.
3. b. Balance sheet, **Explanation:** The goodwill already existing in the balance sheet of the old firm should be written off and transferred to the old partners capital account in the old ratio.
4. b. Old partner's Capital A/c, **Explanation:** At the time of admission of a new partner, all accumulated profits and losses should be distributed among the old partners in their old profit sharing ratio. Accumulated losses given in the assets side of the balance sheet should also be written off to he old partners in the old ratio. Hence the old partners capital accounts are to be debited to write off the accumulated losses in the balance sheet.
5. a. Not to be distributed, **Explanation:** Employee provident fund is not a free reserve.It is not an accumulated profit. Partners cannot distribute it among themselves. This is outsiders' liability which has to be paid to the employees after sometime. It will be shown in the new balance sheet of the firm (if not paid).
6. B's Sacrifice = Old Share - New Share
   = $\frac{3}{8} - \frac{2}{8} = \frac{1}{8}$

   we can say, $\frac{1}{3}$ rd of B's share
7. When the new partner is unable to bring premium of goodwill in cash. In such a situation, New Partner's Capital Account will be debited with his share of goodwill

and sacrificing Partners' Capital Accounts will be credited with their respective shares. In case of Fixed Capital Accounts, new partners Current Accounts will be debited and sacrificing partners current a/c will be credited.

8.

| Books of Amit, Viney and Ranjan Journal | | | | |
|---|---|---|---|---|
| **Date** | **Particulars** | **L.F.** | **Dr. Rs.** | **Cr. Rs.** |
| | | | | |
| 01.01.17 | Amit's Capital A/c Dr. | | 30,000 | |
| | Viney's Capital A/c Dr. | | 10,000 | |
| | To Profit and Loss A/c | | | 40,000 |
| | (Being debit balance of Profit and Loss Account distributed between old partner in their old ratio, i.e., 3 : 1) | | | |

9. **Journal**

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| i | Bank A/c Dr. | | 4,00,000 | |
| | To Premium for Goodwill A/c | | | 1,00,000 |
| | To C's Capital A/c | | | 3,00,000 |
| | (Being the amount of goodwill and capital brought in by new partner.) | | | |
| | Premium for Goodwill A/c Dr. | | 1,00,000 | |
| | To A's Capital A/c | | | 90,000 |
| | To B's Capital A/c | | | 10,000 |
| | (Being the goodwill distributed between A and B in | | | |

| | | | | | |
|---|---|---|---|---|---|
| | their sacrificing ratio i.e., 9 : 1, see W.N.1) | | | | |

**Working Note:-**

**Calculating sacrificing Ratio**

Sacrificing Share = Old Share - New Share

A = $\frac{3}{5} - \frac{3}{8} = \frac{24-15}{40} = \frac{9}{40}$

B = $\frac{2}{5} - \frac{3}{8} = \frac{16-15}{40} = \frac{1}{40}$

10. When a new partner is admitted in the firm, he has to be given a share in the profit of the firm. This part of the profit has to be compensated by the old partners. Hence their part of share in profit gets reduced. The reduced part of the profit-sharing ratio of the old partners is known as Sacrificing Ratio. It is important to ascertain the sacrificing ratio because of the reason that the new partner will have a share in an existing firm for which he compensates by paying goodwill to the sacrificing partner or partners in the sacrificing ratio.

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

**Journal**

| Date | Particulars | | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|---|
| (i) | Bank A/c | Dr. | | 30,000 | |
| | To C's Capital A/c | | | | 30,000 |
| | (Being cash brought in by C for his share of capital.) | | | | |
| (ii) | C's Capital A/c | Dr. | | 1,600 | |
| | To A's Capital A/c | | | | 1,000 |
| | To B's Capital A/c | | | | 600 |
| | (Being share of goodwill on C’s admission is | | | | |

| | | | | | |
|---|---|---|---|---|---|
| | adjusted in sacrificing ratio, i.e., 5 : 3.) | | | | |

12. **JOURNAL Entries**

| Date | Particulars | LF | Dr. | Cr. |
|---|---|---|---|---|
| 2017 | | | Rs. | Rs. |
| Apr 01 | Cash A/c.......Dr. | | 8,50,000 | |
| | To Raghav's Capital A/c | | | 6,00,000 |
| | To Premium for Goodwill A/c | | | 2,50,000 |
| | (Being Rahgav brought his capital and goodwill.) | | | |
| Apr 01 | Premium for Goodwill A/c.......Dr. | | 2,50,000 | |
| | To Asha's Capital A/c | | | 1,50,000 |
| | To Aditi's Capital A/c | | | 1,00,000 |
| | (Being goodwill brought by new partner distributed among the old partners in their sacrificing ratio.) | | | |

**Working Note:**

**Calculation of Adjusted Profit**

| Year | Profit | Adjustments | | Adjusted Profit |
|---|---|---|---|---|
| 2013 - 14 | 3,50,000 | - 56,250 | = | 2,93,750 |
| 2014 - 15 | 4,75,000 | - 56,250 | = | 4,18,750 |
| 2015 - 16 | 6,70,000 | - 56,250 | = | 6,13,750 |
| 2016 - 17 | 7,45,000 | - 56,250 - 15,000 | = | 6,73,750 |
| | | | Total | 20,00,000 |

Average Adjusted profit = $\frac{20,00,000}{4}$ = Rs. 5,00,000

Goodwill = Average profit × Number of years' purchase

= 5,00,000 × 2 = Rs. 10,00,000

Raghav's share of goodwill = 10,00,000 × $\frac{1}{4}$ = Rs. 2,50,000 to be shared by Asha and Aditi in 3 : 2 ratio.

13. **Journal**

| **Date** | **Particulars** | | **L.F.** | **Debit Amount (Rs)** | **Credit Amount(Rs)** |
|---|---|---|---|---|---|
| 01/04/2012 | X's Capital A/c | Dr. | | 16,000 | |
| | Y's Capital A/c | Dr. | | 12,000 | |
| | To Goodwill A/c | | | | 28,000 |
| | (Being the existing goodwill written off prior to Z's admission between X and Y in their Profit Sharing Ratio, which is 4:3) | | | | |
| 01/04/2012 | Bank A/c | Dr. | | 1,21,000 | |
| | To Z's Capital A/c | | | | 1,00,000 |
| | To premium of Goodwill A/c | | | | 21,000 |
| | (Being Z brought in cash for his capital and his share of goodwill for 1/4th share in future profit) | | | | |
| 01/04/2012 | Premium of Goodwill A/c | Dr. | | 21,000 | |
| | To X's Capital A/c | | | | 12,000 |
| | To Y's Capital A/c | | | | 9,000 |
| | (Being the premium for goodwill brought in by Z transferred to the Capital Accounts of X and Y in their | | | | |

| | | | | | |
|---|---|---|---|---|---|
| | sacrificing ratio, which is 4 : 3) | | | | |

14. **Working Notes:**

    i. total Goodwill = 90,000
    D's share = 90,000 $\times$ 1/6 = 15,000
    Calculation Of Gain Or Sacrifice
    Sacrifice = Old Share - New Share
    A's Sacrifice = 3/6 - 2/6 = 1/6
    B's Sacrifice = 2/6 - 2/6 = 0
    C's Sacrifice = 1/6 - 1/6 = 0
    So Cash Brought By D for Goodwill Will Be Credited To A's Account only.

    ii. Calculation of D's Capital
    Adjusted Capital Of A = 81,000
    Adjusted Capital Of B = 44,000
    Adjusted Capital Of C = 22,000
    Total Adjusted Capital = 1,47,000
    Combined Share Of A, B, C = 1 - 1/6 = 5/6
    So D's Share In Capital = 1,47,000 $\times$ 6/5 $\times$ 1/6 = 29,400

**Revaluation Account**

| **Particulars** | **Amount** | **Particulars** | | **Amount** |
|---|---|---|---|---|
| To Investment | 6,000 | By Creditors a/c | | 3,000 |
| To Machinery A/c | 6,000 | By Revaluation Loss T/F | | |
| | | A's Capital A/c | 4,500 | |
| | | B's Capital A/c | 3,000 | |
| | | C's Capital A/c | 1,500 | 9,000 |
| | 12,000 | | | 12,000 |

**Partner's Capital A/c:-**

| **Particulars** | **A** | **B** | **C** | **D** | **Particulars** | **A** | **B** | **C** | **D** |
|---|---|---|---|---|---|---|---|---|---|

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| To Revaluation (Loss) | 4,500 | 3,000 | 1,500 | | By Bal b/d | 60,000 | 40,000 | 20,000 | |
| To Bal C/d | 81,000 | 44,000 | 22,000 | 29,400 | By General Reserve | 10,500 | 7,000 | 3,500 | |
| | | | | | By Premium for Goodwill (WN1) | 15,000 | | | |
| | | | | | By Bank (WN 2) | | | | 29,400 |
| | 85,500 | 47,000 | 23,500 | 29,400 | | 85,500 | 47,000 | 23,500 | 29,400 |

Balance Sheet:-

| **Liabilities** | | **Amount** | **Assets** | **Amount** |
|---|---|---|---|---|
| Creditors | | 81,000 | Bank | 61,400 |
| Capital A/c | | | Debtors | 23,000 |
| A | 81,000 | | Stock | 1,10,000 |
| B | 44,000 | | Investment | 24,000 |
| C | 22,000 | | Furniture And Fittings | 10,000 |
| D | 29,400 | 1,76,400 | Machinery | 29,000 |
| | | 2,57,400 | | 2,57,400 |

15.

| **Dr** | | **Revaluation Account** | | **Cr** |
|---|---|---|---|---|
| **Particulars** | **Amt(Rs)** | **Particulars** | | |
| To Provision for Bad Debts A/c | 300 | By Plant and Machinery A/c | | 5,000 |
| To Stock A/c | 5,000 | By Loss Transferred to | | |
| | | W's Capital A/c (300×3/5) | 180 | |
| | | R's Capital A/c (300×2/5) | 120 | 300 |
| | 5,300 | | | 5,300 |

| Dr | Partners' Capital Account | | | | | | Cr |
|---|---|---|---|---|---|---|---|
| Particulars | W (Rs) | R (Rs) | B (Rs) | Particulars | W (Rs) | R (Rs) | B (Rs) |
| To Revaluation A/c (Loss) | 180 | 120 | __ | By Balance b/d | 40,000 | 30,000 | __ |
| To Cash A/c | 5,920 | 7,280 | __ | By Cash A/c | __ | __ | 30,000 |
| (Balancing figure) | | | | By Premium for Goodwill A/c | 6,600 | 4,400 | |
| To Balance c/d | 49,500 | 33,000 | 30,000 | By Profit and Loss A/c | 9,000 | 6,000 | |
| | | | | | | | |
| | | | | | 55,600 | 40,400 | 30,000 |

**Balance Sheet**

as at 31st March, 2010

| **Liabilities** | | **Amt(Rs)** | **Assets** | | **Amt(Rs)** |
|---|---|---|---|---|---|
| Creditors | | 20,000 | Debtors | 20,000 | |
| Capital A/cs | | | (-) Provision for Doubtful Debts | (1,000) | 19,000 |
| W | 49,500 | | Stock (25,000- 5,000) | | 20,000 |
| R | 33,000 | | Plant and Machinery (35,000+ 5,000) | | 40,000 |
| B | 30,000 | 1,12,500 | Patents | | 20,700 |
| | | | Cash | | 32,800 |
| | | 1,32,500 | | | 1,32,500 |

**Working Note**

**Calculation of New Profit Sharing Ratio**

Let total profit be 1

B 's share of profit = $\frac{4}{15}$ Remaining share$=1-\frac{4}{15}=\frac{15-4}{15}=\frac{11}{15}$

W's new share = $\frac{11}{15}\times\frac{3}{5}=\frac{33}{75}$; R's new share = $=\frac{11}{15}\times\frac{2}{5}=\frac{22}{75}$

B's new share = $\frac{4}{15}\times\frac{5}{5}=\frac{20}{75}$

New profit sharing ratio = 33:22:20

**Calculation of Goodwill**

4years average profit = $\frac{20{,}000+14{,}000+17{,}000+15{,}000}{4}=Rs16,500$

Value of Firm's Goodw = Average Profit $\times$ Number of Year's Purchase

$=16,500\times 2.5=Rs41,250$

B 's share of goodwill =$41,250\times\frac{4}{15}=Rs11,000$ to be credited to W and R in Sacrificing ratio i.e., 3:2

| Dr | Cash Account | | Cr |
|---|---|---|---|
| **Particulars** | **Amt(Rs)** | **Particulars** | **Amt(Rs)** |
| To Balance b/d | 5,000 | By W's Capital A/c | 5,920 |
| To B's Capital A/c | 30,000 | By R's Capital A/c | 7,280 |
| To Premium for Goodwill A/c | 11,000 | By Balance c/d (Balancing figure) | 32,800 |
| | 46,000 | | 46,000 |

**Calculation of Adjustment of Capital**

B’s share $=\frac{4}{15}$

B 's capital = Rs 30,000

For $\frac{4}{15}$ th share, capital = Rs 30,000

Total capital = $30,000\times\frac{15}{4}=Rs12,500$

W 's new capital = $1,12,500\times\frac{33}{75}=Rs49,500$

R 's new capital = $1,12,500\times\frac{22}{75}=Rs33,000$

B’s new capital = $1,12,500\times\frac{20}{75}=Rs30,000$