CBSE Test Paper 03

Ch-4 Admission of a Partner

1. If new partner is unable to bring in his share of goodwill, How will you deal
   a.
New Partner's A/c Dr. To Gainer Partner'sCapital A/c

   b.
New Partner's A/c Dr. To All Partner'sCapital A/c

   c.
New Partner's A/c Dr. To Old Partner'sCapital A/c

   d.
New Partner'sCAPTIAL A/C OR Current A/C Dr. To Sacrificing Partner's Capital / current A/c

2. __________ means good name, good reputation earned by a firm through the hard work and honesty of its owners
   a. Negative Super Profit
   b. Low Average profit
   c. Revaluation Profit
   d. Goodwill
3. Sacrificing ratio is calculated for :
   a. The old partners
   b. It is related to new partners
   c. It is related to all partners (including new)
   d. It is related to all partners
4. A and B are partners in a firm sharing profits and losses in the ratio of 3:2 A new partner C is admitted. A surrenders 1/5 of his share and B 2/5 of his share in favor of C. For purpose of C's admission, goodwill of the firm is valued at Rs.75,000 and C brings his share of goodwill in cash which is retained in the firm's books. Journalize the above transactions. When goodwill brought by C

a. No Journal Entry in this case

b.

Bank A/c Dr. To Cash A/c	75000 75000

c.

Bank A/c Dr. To Goodwill A/c	2100 2100

d.

Bank A/c Dr. To Premium for Goodwill A/c	21000 21000

5. Unrecorded Liabilities are:
   a. Debited to the Revaluation account
   b. Credited to the Revaluation account
   c. Will be shown in Balance Sheet
   d. Credited to the Partners Account

6. Give the name of the compensation which is paid by a new Partner to sacrificing Partners for sacrificing their share of profits.

7. State the two main rights that a newly admitted partner acquire in the firm.

8. What entry is recorded to distribute General Reserve and the profit and loss A/c balance give in Liability side of Balance sheet?

9. List any two items that need adjustments in the books of accounts of a firm at the time of admission of a partner.

10. Neeta and Sumita are partners sharing profits and losses in the ratios of 2:1. They admit Geeta as a partner for 1/4th share. Geeta pays Rs. 50,000 as capital but does not bring any amount for goodwill. The goodwill of the new firm is valued at Rs. 36,000. Give Journal entries.

11. A and B are partners sharing profits in the ratio of 5: 4. They admit C for 1/10th share of profit which he acquires in equal proportion from both. Find the new profit sharing ratio.

12. A and B are partners in a firm sharing profits and losses in the ratio of 5 : 3. They admit C as a partner for $\frac{1}{10}$th share. C acquires his share from A and B in the ratio of 3 : 2. The goodwill of the firm has been valued at Rs 10,000. C brings the necessary amount for his share of goodwill in cash. Pass the necessary journal entries under each of the following alternative cases :

    i. When goodwill does not appear in the books and amount of goodwill is retained in firm.
    ii. When goodwill already appears in the books at Rs 8,000.

13. A and B are partners sharing profits in the ratio of 3 : 2. They admit C into partnership for l/4th share. C brought Rs 3,00,000 for his capital but could not bring any amount of goodwill. The goodwill of the firm is valued at Rs 2,10,000. Give journal entries on C's admission.

14. Ashish and Dutta were partners in a firm sharing profits in 3:2 ratio. On Jan. 01, 2015 they admitted Vimal for 1/5 share in the profits. The Balance Sheet of Ashish and Dutta as on Jan. 01, 2016 was as follows:

Balance Sheet of A and B as on 1.1.2016			
Liabilities	**Amount Rs**	**Assets**	**Amount Rs**
Creditors	15,000	Land & Building	35,000
Bills Payable	10,000	Plant	45,000
Ashish Capital	80,000	Debtors 22,000	
Dutta's Capital	35,000	Less : Provision 2,000	20,000
		Stock	35,000
		Cash	5,000
	1,40,000 ======		1,40,000 =======

It was agreed that:

1. The value of Land and Building be increased by Rs 15,000.
2. The value of plant be increased by 10,000.
3. Goodwill of the firm be valued at Rs 20,000.
4. Vimal to bring in capital to the extent of 1/5th of the total capital of the new firm.

Record the necessary journal entries and prepare the Balance Sheet of the firm after Vimal's admission.

15. 0, R and S were partners in a firm sharing profits in the ratio of 3:2:1. On 1st April, 2014 their balance sheet was as follows:

Balance Sheet

as on 1st April, 2014

Liabilities	Amount (Rs)	Assets	Amount (Rs)
General Reserve	15,000	R's Current A/c	7,000
Profit and Loss A/c	7,000;	Land and Building	1,75,000
Creditors	80,000	Plant and Machinery	67,500
Bills Payable	45,000	Furniture	80,000
Capital A/cs		Investments	36,500
O 1,75,000		Bills Receivable	17,000
R 1,50,000		Sundry Debtors	43,500
S 1,25,000	4,50,000	Stock	1,37,000
Current A/cs		Bank	43,500
O 4, 000			
S 6,000	10,000		
	6,07,000 =======		6,07,000 =======

On the above date H was admitted on the following terms

i. H will bring Rs 50,000 as his capital and will get 1/6th share in the profits.
ii. He will bring necessary cash for his share of goodwill premium. The goodwill of the firm was valued at Rs 90,000.
iii. The new profit sharing ratio will be 2: 2: 1: 1.
iv. A liability of Rs 7,004 will be created against bills receivables discounted.
v. The value of stock, furniture and investments is reduced by 20%, whereas the value of land and building and plant and machinery will be appreciated by 20% and 10% respectively.
vi. The capital accounts of the partners will be adjusted on the basis of H's capital through their current accounts.

Prepare revaluation account and partners' current accounts and capital accounts.

Answer

1. d.

New Partner’sCAPTIAL A/C OR Current A/C Dr. To Sacrificing Partner’s Capital / current A/c

Explanation: New partner’s CAPTIAL A/C SHOULD BE DEBITED OR(current account should be debited IN CASE OF FIXED CAPITAL METHOD) if he is unable to bring his share of premium for goodwill in cash.

2. d. Goodwill, **Explanation:** Goodwill means good name, good reputation earned by a firm through the hard work and honesty of its owners.

3. a. The old partners, **Explanation:** When the new partner is admitted he gets his share of profits from the old partners. In other words the old partners sacrifice a part of their share to admit the new partner. Hence the sacrificing ratio is calculated for the old partners. Sacrificing ratio = Old ratio - New ratio.(of the old partners)

4. d.

Bank A/c Dr. To Premium for Goodwill A/c	21000 21000

Explanation: Calculation of Premium for goodwill:

Old Share = 3:5

A’s share = 3/5 × 1/5 = 3/25 Now 3/5 – 3/25 = 12/25

B’s share = 2/5 × 2/5 = 4/25 Now 2/5 – 4/25 = 6/25

C’s share = 3/25 + 4/25 = 7/25

New Ratio = 12:6:7

C’s will bring premium for goodwill = 75,000 × 7/25 = 21,000

5. a. Debited to the Revaluation account, **Explanation:** All unrecorded liabilities given in the adjustment only (which are not given in the balance sheet or were not recorded earlier) will be treated as increase in the liabilities and will be recorded in the debit side of revaluation account.

6. Premium for Goodwill.

7. The two main rights are :

   i. Right to share the future profits of the firm
   ii. Right to share the assets of the firm.

8. **JOURNAL**

Particulars	Dr. (Rs.)	Cr. (Rs.)
General Reserve A/c Dr.		
Profit & Loss A/c Dr.		
To Old partners capital A/c		[in Old Ratio]
(Being general reserve and p & l a/c distributed between old partner in old ratio.)		

9. These are two items that must be adjusted at the time of admission of a new partner;

   i. The Current value of self generated Goodwill of the firm.
   ii. Reserves and accumulated profits or losses appears in the books of old partnership firm.

10. **Journal**

Date	**Particulars**	**L.F.**	**Debit (Rs.)**	**Credit (Rs.)**
1.	Cash A/c Dr.		50,000	
	To Geeta's Capital A/c			50,000
	(Being the amount capital brought in by new partner.)			
2.	Geeta's Capital A/c Dr.		9,000	
	To Neeta's Capital A/c			6,000

	To Sunit's Capital A/c			3,000
	(Being the amount of new Partner's share of goodwill transferred to old Partner's Capital A/c in their sacrificing ratio i.e., 2 : 1) (see W.N.1)			

Working Note :

i. As nothing is given about sacrifice etc. except the old ratio and the new partners share of profit.
   Sacrificing Ratio = Old Ratio = 2 : 1
ii. Goodwill of the firm = Rs. 36,000
   Geeta's share of profit = 1/4
   Geeta's share of Goodwill = 1/4 x 36,000 = Rs.9,000

11. Old ratio of A and B = 5:4
    C's share = $\frac{1}{10}th$
    Which C acquires equally from A and B,
    $\therefore$ A's new share
    = $\frac{5}{9}-[\frac{1}{10}\times\frac{1}{2}]=\frac{5}{9}-\frac{1}{20}$
    $=\frac{100-9}{180}=\frac{91}{180}$
    And B's new share
    = $\frac{4}{9}-[\frac{1}{10}\times\frac{1}{2}]=\frac{4}{9}-\frac{1}{20}=\frac{80-9}{180}=\frac{71}{180}$
    C's new share = $\frac{1}{10}\times\frac{18}{18}=\frac{18}{180}$
    $\therefore$New ratio between A, B and C = 91: 71: 18

12. <u>**Case 1:**</u>

Books of A, B and C

Journal

Date	**Particulars**		**L.F.**	**Dr. (Rs)**	**Cr. (Rs)**
1.	Cash A/c	Dr.		1,000	

	To Premium A/c(Goodwill)				1,000
	(Being cash brought in by C for his share of goodwill)				
2.	Premium of Goodwill A/c	Dr.		1,000	
	To A's Capital A/c				600
	To B's Capital A/c				400
	(Being goodwill premium transferred to sacrificing partners in sacrificing ratio of 3 : 2)				

The Goodwill is distributed among A and B in 3:2 as they have sacrificed the profit in the ratio of 3:2

Case 2:

Books of A, B and C
Journal

Date	Particulars		L.F.	Dr. (Rs)	Cr. (Rs)
1.	**A's Capital A/c**	**Dr.**		**5,000**	
	B's Capital A/c	**Dr.**		**3,000**	
	To Goodwill A/c				**8,000**
	(Being old goodwill distributed among old partners in old profit sharing ratio e.g. 5:3)				
2.	Cash A/c	Dr.		1,000	
	To Premium of Goodwill A/c				1,000
	(Being goodwill brought in by C in cash)				
3.	Premium of goodwill A/c	Dr.		1,000	
	To A's Capital A/c				600
	To B's Capital A/c				400

	To B's Capital A/c				[illegible]
	(Being goodwill premium transferred to sacrificing partners in sacrificing ratio of 3 : 2)				

When Goodwill appeared in the old balance sheet, it has to be written off by debiing old partners capital A/c in their old profit sharing ratio

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

Journal

Date	**Particulars**		**L.F.**	**Debit Amount (Rs)**	**Credit Amount. (Rs)**
1.	Bank A/c	Dr.		3,00,000	
	To C's Capital A/c				3,00,000
	(Being the amount of capital brought in by cash by new partner C)				
2.	C's Capital A/c	Dr.		52,500	
	To A's Capital A/c				31,500
	To B's Capital A/c				21,000
	(Being C’s share of goodwill transferred to sacrificing partners capital A/cs in their sacrificing ratio i.e., 3: 2)				

Working Notes :

i. If the profit sharing ratio of old partners is not given, then their old profit sharing ratio will only be treated as their sacrificing ratio premium of goodwill will be shared in the old ratio.
ii. C’s share of goodwill = Rs 2,10,000 $\times$ 1/4 = Rs 52,500.
iii. If the premium of goodwill is not brought in cash by the new partner, then his capital a/c will be debited by the equal amount.

Books of Ashish, Dutta, and Vimal

Journal					
Date	**Particulars**		**L.F.**	**Amount Rs**	**Amount Rs**
2016					
Jan 1	Land and Building A/c	Dr.		15,000	
	Plant A/c	Dr.		10,000	
	To Revaluation A/c				25,000
	(Increased in the value of assets)				
	Revaluation A/c	Dr.		25,000	
	To Ashish's Capital A/c				15,000
	To Dutta's Capital A/c				10,000
	(Profit on revaluation transferred to partners capital account)				
	Cash A/c	Dr.		36,000	
	To Vimal Capital A/c				36,000
	(Capital brought by Vimal)				
	Vimal's Current A/c	Dr.		4,000	
	To Ashish's Capital A/c				2,400
	To Dutta's Capital A/c				1,600
	(Vimal's share goodwill adjusted through his current account)				

14. **Balance sheet**

as on January 1, 2016

Liabilities	**Amount Rs**	**Assets**	**Amount Rs**
Creditors	15,000	Land and Building	50,000
Bills Payable	10,000	Plant	55,000

Ashish's Capital Account 97,400		Debtors 22,000	
Dutta's Capital Account 46,600		Less: Provision 2,000	20,000
Vimal's Capital Account 36,000	1,80,000	Stock	35,000
		Cash	41,000
		Vimal's Current Account	4,000
	2,05,000 ======		2,05,000 =======

Working Note:

Partner's Capital A/c

Particulars	Ashish Amount Rs.	Dutta Amount Rs	Vimal Amount Rs.	Particulars	Ashish Amount Rs.	Dutta Amount Rs.	Vimal Amount Rs.
				Balance b/d	80,000	35,000	
				Revaluation	15,000	10,000	
Balance c/d	97,400	46,600	36,000	Cash			36,000
				Vimal Current	2,400	1,600	
	97,400 ======	46,600 =======	36,000 ======		97,400 =======	46,600 ======	36,000 ======

Vimal's Current A/c

Particulars	Amount Rs	Particulars	Amount Rs
Ashish's Capital A/c	2,400		
Dutta's Capital A/c	1,600	Balance c/d	4,000
	4,000		4,000

	=======		======

According to Section 31 of Indian Partnership Act 1932 "A Partner can be admitted only consent of all the Existing Partners." Adjustments required when a New Partner is Admitted a. Calculation of New Profit Sharing Ratio / Sacrificing Ratio. b. Valuation and Treatment of Goodwill. c. Revaluation of Assets and Liabilities. d. Adjustment of accumulated Profits, Reserve and Losses. e. Necessary Adjustment of Capital Accounts of Partners.

1. Calculation of New Profit Sharing Ratio

Vimal's share=1/5

Remaining share=1-1/5=4/5

Ashish's New share=3/5*4/5=12/25

Dutta's new share=2/5*4/5=8/25

New profit sharing ratio of Ashish, Dutta and Vimal=12/25:8/25:1/5=12/25:8/25:5/25=12:8:5

1. Sacrificing Ratio = Old Ratio – New Ratio

   Ashish’s Sacrificing Share =3/5-12/25=15-12/25=3/25

   Dutta’s Sacrificing Share =2/5-8/25=10-8/25=2/25

   Sacrificing Ratio between Ashish and Dutta is 3:2

   Note: Here, Goodwill has been adjusted through current account because Vimal has not brought his share of goodwill and he is to bring capital in proportion to total capital of the new firm after adjustment.

2. Capital of new firm on the basis of old partners adjusted capital:

   Total adjusted capital of old partners

Ashish’s Capital	97,400

Dutta’s Capital	46,600
	1,44,000

Remaining Share of Ashish and Dutta (old partners) in the new firm =

Capital of the new firm = 1,44,000 *5/4 =1,80,000

Vimal’s share in the capital of the new firm = 1,80,000 *1/5=36,000.

15. **Revaluation A/c**

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Stock A/c	27,400	By Land and Building A/c	35,000
To Furniture A/c	16,000	By Plant and Machinery A/c	6,750
To Investments A/c	7,300	By Loss Transferred to Capital A/cs	
To Liability against Bills		O 7,977	
Receivable Discounted	7,004	R 5,318	
		S 2,659	15,954
	57,704 ======		57,704 =======

Partner's Capital A/c

Particulars	O Amount (Rs)	R Amount (Rs)	S Amount (Rs)	H Amount (Rs)	Particulars	O Amount (Rs)	R Amount (Rs)	S Amount (Rs)	H Amount (Rs)
To Current A/c	75,000	50,000			By Balance b/d	1,75,000	1,50,000	1,25,000	
To Balance c/d	1,00,000	1,00,000	50,000	50,000	By cash A/c				50,000
	1,75,000	1,50,000	1,25,000	50,000		1,75,000	1,50,000	1,25,000	50,000

	======	=======	=======	======		=======	======	======	======

Partner's Current A/c

Particulars	O Amount (Rs)	R Amount (Rs)	S Amount (Rs)	Particulars	O Amount (Rs)	R Amount (Rs)	S Amount (Rs)
To Balance b/d		7,000		By Balance b/d	4,000		6,000
To Revaluation A/c (Loss)	7,977	5,318	2,659	By General Reserve A/c	7,500	5,000	2,500
To Balance c/d	97,023	45,015	82,008	By Profit and Loss A/c	3,500	2,333	1,167
				By Premium for Goodwill A/c	15,000		
				By Capital A/c	75,000	50,000	75,000
	1,05,000 =======	57,333 ======	84,667 ======		1,05,000 =======	57,333 ======	84,667 ======

Working Note:

When a new partner is admitted he/she acquires his/her share in profit from the existing partners. As a result, the profit sharing ratio in the new firm is decided mutually between the existing partners and the new partner.

i. **Calculation of Sacrificing Ratio**
   Old ratio = 3:2:1; New ratio = 2:2 :1:1
   Sacrificing Ratio = Old Share - New Share
   $\mathrm{O}=\frac{3}{6}-\frac{2}{6}=\frac{1}{6}$
   $R=\frac{2}{6}-\frac{2}{6}=$Nil
   $\mathrm{S}=\frac{1}{6}-\frac{1}{6}=\mathrm{Nil}$
   Here, only O has sacrificed his $\frac{1}{6}$ th share.

Over a period of time, a business firm develops a good name and reputation among the customers. This help the business earn some extra profits as compared to a newly set up business. In accounting capitalised value of this extra profit is known as goodwill.

i. **Adjustment of Goodwill**
H's share of goodwill = $90,000 \times \frac{1}{6} = Rs15,000$
As only O has sacrificed his share, therefore, he will get = Rs15,000
ii. **Adjustment of Capital**
Total Capital of the Firm = H’s Capita$\times$Reciprocal of His share
$= 50,000 \times \frac{6}{1} = Rs3,00,000$
New profit sharing ratio = 2:2:1:1
O's new capital = $3,00,000 \times \frac{2}{6} = Rs1,00,000$
R's new capital = $3,00,000 \times \frac{2}{6} = Rs1,00,000$
S's new capital = $3,00,000 \times \frac{1}{6} = Rs50,000$
H's new capital = $3,00,000 \times \frac{1}{6} = Rs50,000$