CBSE Test Paper 02

Ch-4 Admission of a Partner

1. WHEN the value of goodwill is not given at the time of admission of a new partner, it IS inferred from the capital OF THE NEW FIRM and profit-sharing ratio. This concept is called
   a. Purchased Goodwill
   b. Premium for Goodwill
   c. Average Goodwill
   d. Hidden Goodwill
2. Sacrifice ratio is used only for
   a. Distribution of Premium for goodwill
   b. Revaluation profit
   c. Distribution of Reserve
   d. Revaluation of loss
3. At the time of increase in the value of assets which account should be debited while preparing Revaluation Account?
   a. Realisation A/c
   b. Revaluation A/c
   c. Asset A/c
   d. Partners' Capital A/c
4. Neeta and Sumita are partners sharing profits and losses in the sates 2:1. They admit Geeta as a partner for 1/4th Share. Geeta pays ₹50, 000 as cash for capital but does not bring any amount for goodwill. The goodwill of the new firm is valued at ₹36,000. Give journal entry.
   a.

Cash/Bank A/c Dr. To Geeta's Capital A/c	20000 50000

   b.

Cash A/c Dr. To Geeta's Capital A/c	50000 50000

   Geetha's capital A/c Dr 9000

   TO Neetha's capital 6000

TO Sumitha's capital 3000

c.

Cash/Bank A/c Dr. To Geeta's Capital A/c	5000 5000

d.

Cash/Bank A/c Dr. To Geeta's Capital A/c	30000 50000

5. Anand and Nitin are partners sharing profits in the ratio of 3:2. They admitted Jayshree as a new partner for 3/10 share which she acquired 2/10 from Anand and 1/10 from Nitin. Calculate the new profit sharing ratio of Anand, Nitin and Jay
   a. 1:2:2
   b. 3:2:2
   c. 4:3:3
   d. 2:1:1

6. Which account shows the net results of revaluation of assets and reassessment of liabilities?

7. Amit and Beena were partners in a firm sharing profits and losses in the ratio of 3: 1 Chaman was admitted as a new partner for $\frac{1}{6}$ th share in the period. Chaman acquired $\frac{2}{5}$ th of his share from Amit. How much share did Chaman acquire from Beena?

8. State the need for treatment of goodwill on admission of a partner.

9. When the new partner brings cash for goodwill, the amount is credited to which account?

10. Explain the treatment of goodwill in the books of a firm on the admission of a new Partner when goodwill already appears in the Balance sheet at its full value and the new partner brings his share of goodwill in cash.

11. A and B are partners sharing profits and losses in the ratio of 3 : 2. They admit C into the firm for l/4th share in profits which he takes 1/6th from A and 1/12th from B. C bring Rs 18,000 as goodwill out of his share of Rs 30,000. No goodwill account appears in the books of the firm. Pass the necessary journal entries to record this

arrangement.

12. Mohan Lal and Sohan Lal were partners in a firm sharing profits and losses in 3:2 ratio. They admitted Ram Lal for 1/4 share on 1.1.2013. It was agreed that goodwill of the firm will be valued at 3 years purchase of the average profits of last 4 years which were Rs. 50,000 for 2013, Rs. 60,000 for 2014, Rs. 90,000 for 2015 and Rs. 70,000 for 2016. Ram Lal did not bring his share of goodwill premium in cash. Record the necessary journal entries in the books of the firm on Ram Lal's admission when:

    a. Goodwill already appears in the books at Rs. 2,02,500.
    b. Goodwill appears in the books at Rs. 2,500.
    c. Goodwill appears in the books at Rs. 2,05,000.

13. Hemant and Nishant were partners in a firm sharing profits in the ratio of 3: 2. Their capitals were ₹1,60,000 and ₹1,00,000 respectively. They admitted Somesh on 1st April, 2019 as a new partner for $\frac{1}{5}$ th share in the future profits. Somesh brought ₹1,20,000 as his capital. Calculate the value of goodwill of the firm and record necessary journal entries for the above transactions on Somesh's admission.

14. Abha and Bimal are partners in a firm sharing profits and losses in the ratio of 3: 2. On 31st March, 2015 they admitted Chintu into partnership for 1/5th share in the profits of the firm. On that date their balance sheet stood as under

Balance Sheet

as at 31st March, 2015

Liabilities		Amt (Rs)	Assets	Amt (Rs)
General Reserve		20,000	Plant and Machinery	1,30,000
Sundry Creditors			Furniture	25,000
Capital A/c			Investments	1,00,000
Abha	1,20,000		Sundry Debtors	50,000
Bimal	1,00,000	2,20,000	Bank	35,000
		3,40,000		3,40,000

Chintu was admitted on the following terms

i. (He will bring Rs 80,000 as capital and Rs 30,000 for his share of goodwill premium.
ii. Partners will share future profits in the ratio of 5 :3: 2.
iii. Profit on revaluation of assets and reassessment of liabilities was Rs 7,000.
iv. After making adjustments, the capital accounts of the partners will be in proportion to Chintu's capital. Balance to be paid off or brought in by the old partners by cheque as the case may be.
Prepare the capital accounts of the partners and bank account.

15. L, M and N were partners in a firm sharing profits in the ratio of 3: 2: 1. Their balance sheet as at 31st March, 2015 was as follows

Balance Sheet

as at 31st March, 2015

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	1,68,000	Bank	34,000
General Reserve	42,000	Debtors	46,000
Capital A/cs		Stock	2,20,000
L 1,20,000		Investments	60,000
M 80,000		Furniture	20,000
N 40,000	2,40,000	Machinery	70,000
	4,50,000 =======		4,50,000 =======

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

i. The new profit sharing ratio between L, M, N and O will be 2: 2 : 1: 1.
ii. Goodwill of the firm was valued at Rs 1,80,000 and O brought his share of goodwill premium in cash.

iii. The market value of investments was at Rs.36,000.
iv. Machinery will be reduced to Rs 58,000.
v. A creditor of Rs 6,000 was not likely to claim the amount and hence is to be written-off.
vi. O will bring proportionate capital so as to give him 1/6th share in the profits of the firm. Prepare revaluation account, partners' capital accounts and the balance sheet of the new firm.

Answer

1. d. Hidden Goodwill, **Explanation:** It is known as hidden goodwill. Following formula should be used to calculate the value of hidden goodwill: Total Capital of the NEW firm – Combined capital of ALL partners = Hidden Goodwill
2. a. Distribution of Premium for goodwill, **Explanation:** At the time of admission of a new partner, the main use of sacrificing ratio is to adjust the premium for goodwill brought by a new partner.
3. c. Asset A/c, **Explanation:**At the time of preparation of Revaluation Account, increase in the value of asset is to be shown in the debit side of Revaluation Account. Hence, following entry will take place: Asset A/c Dr. To Revaluation Account
4. b.

Cash A/c Dr. To Geeta's Capital A/c	50,000 50,000

Geetha's capital A/c Dr 9000

TO Neetha's capital 6000

TO Sumitha's capital 3000

Explanation:

Journal entry for the amount brought by new partner as his capital:

Cash/Bank A/c Dr. To Geeta's Capital A/c	50,000 50,000

Since Geetha does not bring any amount for goodwill, her capital account is debited with her share of goodwill and old partners are credited with the share in sacrificing ratio.

5. c. 4:3:3, **Explanation:** Jayshree's share = 3/10
Anand's share = 3/5 – 2/10 = 4/10
Nitin's share = 2/5 – 1/10 = 3/10
New profit sharing ratio = 4:3:3

6. Revaluation Account shows the net results of revaluation of assets and reassessment of liabilities at the time of reconstruction of the partnership. e.g. change in profit sharing ratio, admission of partners, etc.

7. Chairman's share = $\frac{1}{6}$
Share acquired from Amit = $\frac{2}{5}$ of $\frac{1}{6}$
So, Share acquired from Beena = $\frac{1}{6} \times \frac{3}{5} = \frac{3}{30} = \frac{1}{10}$

8. Goodwill is a result of the past efforts of the old or existing partner or partners of old firm but when a new partner is admitted, his share in future profits of the firm is equal to the sacrifice of profit by an existing partner or partners of the firm. The amount he pays to the sacrificing partner or partners to compensate this sacrifice, is called goodwill. Therefore, it is important to treat goodwill at the time of admission of a partner.

9. The goodwill brought in cash by new partner is credited to premium for goodwill account.

10. **JOURNAL**

S.No.	Particulars	Dr.	Cr.
i	Old partners capital A/c Dr.	[in old Ratio]	
	To Goodwill A/c		[Value in Balance Sheet]
	(Being the existing goodwill distributed in old partner in the old ratio.)		
ii	Bank A/c Dr.	[Cash brought for Goodwill]	

	To Premium for Goodwill A/c		[Cash brought for Goodwill]
	(Being premium for Goodwill brought in cash by new partner.)		
iii	Premium for Goodwill A/c Dr.	[Cash brought for Goodwill]	
	To Sacrificing Partners Capital A/c		
	(Being premium for Goodwill adjusted in sacrificing ratio.)		[in sacrificing ratio]

11. **Journal**

Date	Particulars		L.F.	Dr. (Rs)	Cr. (Rs)
1.	Cash A/c	Dr.		18,000	
	To Premium for Goodwill A/c				18,000
	(Being the amount brought in by C as his share of goodwill)				
2.	Premium for Goodwill A/c	Dr.		18,000	
	C's Capital A/c(30,000 - 18,000)	Dr.		12,000	
	To A's Capital A/c				20,000
	To B's Capital A/c				10,000
	(Being the goodwill credited to the sacrificing partners in their sacrificing ratio i.e., 2 :1)				

C's share of Goodwill is Rs.30,000. However, he brought only Rs. 18,000 premium in the form of cash. For the balance goodwill (Rs.30,000 - Rs.18,000 = Rs.12,000), his capital a/c is to be debited by Rs.12,000.

12. When admitting a new partner to a partnership a lot of accounting adjustments need

to be made. One such major adjustment is the valuation and the treatment of goodwill. 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. The buyer who pays expects that he will be able to earn super profits as compared to the profits earned by the other firms. Thus, it can be said that goodwill exists only in case of firms making super profits and not in case of firms earning normal profits or losses. It is an intangible real asset which cannot be seen or felt but exists in reality and can be bought and sold.

Calculation of the value of goodwill

Year	**Profit**
2013	50,000
2014	60,000
2015	90,000
2016	70,000
Sum of 4 years profit	2,70,000

Average Profit = = Rs 67,500

Goodwill = Average Profit × No. of Years Purchases = 67,500 × 3 = 2,02,500

Ram Lal entered into the firm for 1/4 share of Profit.

Ram Lal’s share of goodwill = 2,02, 500 × (1/4) = Rs 50,625

Here sacrificing ratio of Mohan Lal and Sohan Lal will be equal to old ratio because new and sacrificing ratio is not given.

Mohan Lal will get = Ram Lal’s Share of Goodwill × (3/5) = 50,625 × (3/5) = 10,125 × 3 = Rs 30,375

Sohan Lal will = Ramlal Share of Goodwill × (2/5) = 50,625 × (2/5) = Rs 10,125 × 2 = Rs 20,250

Case (a)

Journal Entries					
Date	**Particulars**		**L.F.**	**Debit Amount Rs**	**Credit Amount Rs**
	Mohan Lal's Capital A/c	Dr.		1,21,500	
	Sohan Lal's Capital A/c	Dr.		81,000	
	To Goodwill A/c				2,02,500
	(Goodwill appeared in the old firm written off)				
	Ramlal's Capital A/c	Dr.		50,625	
	To Mohan Lal's Capital A/c				30,375
	To Sohan Lal's Capital A/c				20,250
	(Ram Lal's Shares of Goodwill charged from his account and Distributed between in Mohan Lal and Sohan Lal in Sacrificing Ratio)				

Case (b)

Journal Entries					
Date	**Particulars**		**L.F.**	**Debit Amount Rs**	**Credit Amount Rs**
	Mohan Lal's Capital A/c	Dr.		1,500	
	Sohan Lal's Capital A/c	Dr.		1,000	
	To Goodwill A/c				2,500

	(Goodwill already appeared in the books of firm written off in old ratio)				
	Ramlal's Capital A/c	Dr.		50,625	
	To Mohan Lal's Capital A/c				30,375
	To Sohan Lal's Capital A/c				20,250
	(Ram Lal's Shares of Goodwill charged from his capital by Mohan Lal and Sohan Lal in sacrificing ratio)				

Case (c)

Journal Entries					
Date	**Particulars**		**L.F.**	**Debit Amount Rs**	**Credit Amount Rs**
	Mohan Lal's Capital A/c	Dr.		1,23,000	
	Sohan Lal's Capital A/c	Dr.		82,000	
	To Ram Lal's Capital A/c				2,05,000
	(Goodwill already appeared in the books of firm written off in Old Ratio)				
	Ramlal's Capital A/c	Dr.		50,625	
	To Mohan Lal's Capital A/c				30,375
	To Sohan Lal's Capital A/c				20,250
	(Ram Lal's Shares of Goodwill charged from his capital by Mohan Lal and Sohan Lal in sacrificing ratio)				

13. **Journal**

1)	Cash A/c....Dr.	120000	
	To somesh's capital A/c		120000
2)	Somesh capital A/c.....Dr.	44000	
	To Hemant's capital A/c		26400
	To Naresh's capital A/c		17600

Calculation of new profit sharing ratio -

Hemant : Naresh = 3:2

Somesh share = 1/5

Firm profit =1 - 1/5 = 4/5

New profit sharing ratio -

Hemant = 4/5 $\times$ 3/5 = 12/25

Naresh = 4/5 $\times$ 2/5 = 8/25

Somesh = 1/5

New profit sharing ratio is 12:8:5

Calculation of somesh share of goodwill- Goodwill of the firm = Total capital of the firm - total capital of all partners

Total capital of the firm = 120000 $\times$ 5/1 = 600000

Total capital of all partners = 160000 + 100000 + 120000 = 380000

Hidden goodwill = 600000 - 380000 = 220000

Somesh share of goodwill = 220000 $\times$ 1/5 = 44000

Goodwill distributed in old ratio in old partners because if no information is given old ratio is sacrificing ratio.

14.

Dr	**Partners' Capital Account**						**Cr**
Particulars	Abha (Rs)	Bimal (Rs)	Chintu (Rs)	Particulars	Abha(Rs)	Bimal (Rs)	Chintu (Rs)
To Bank A/c	__	5,800	__	__	By Balance b/d......1,20,000	1,00,000	__
(Balancing					By Revaluation		

Figure)					A/c......4,200	2,800	—
To Balance c/d	2,00,000	1,20,000	80,000	80,000	By General Reserve......12,000	8,000	—
					By Bank A/c......—	—	80,000
					By Premium for		.
					Goodwill A/c......15,000	15,000	—
					By Bank A/c......48,800	—	—
					(Balancing figure)		
	2,00,000	1,25,800	80,000		2,00,000	1,25,800	80,000

Dr	**Bank Account**		**Cr**
Particulars	**Amt (Rs)**	**Particulars**	**Amt (Rs)**
To Balance b/d	35,000	By Bimal's Capital A/c	5,800
To Chintu's Capital A/c	80,000	By Balance c/d	1,88,000
To Premium for Goodwill A/c	30,000		
To Abha's Capital A/c	48,800		
	1,93,800		1,93,800

Working Note:-

1. Calculation of Sacrificing Ratio

Sacrificing Ratio = Old Share - New Share

Abha's sacrifice = $\frac{3}{5}-\frac{5}{10}=\frac{6-5}{10}=\frac{1}{10}$

Bimal's sacrifice = $\frac{2}{5}-\frac{3}{10}=\frac{4-3}{10}=\frac{1}{10}$

Therefore, Sacrificing ratio between Abha and Bimal = 1:1

2. Calculation of Capitals required in New Firm

Chintu’s share = $\frac{1}{5}$

Chintu's Capital = Rs 80,000

Total Capital of the new firm should be on the basis of Chintu's Capital and share of

profit = $80,000 \times \frac{5}{1}$ = Rs 4,00,000
Abha's capital = $4,00,000 \times \frac{5}{10}$ = Rs 2,00,000
Bimal's capital = $4,00,000 \times \frac{3}{10}$ = Rs 1,20,000
Chintu's capital = $4,00,000 \times \frac{2}{10}$ = Rs 80,000

15. **Revaluation A/c**

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Investment A/c	24,000	By Creditors A/c	6,000
To Machinery	12,000	By Loss Transferred to Capital A/cs	
		L 15,000	
		M 10,000	
		N 5,000	30,000
	36,000 ========		36,000 =======

Partner's Capital A/c

Particulars	L Amount (Rs)	M Amount R)	N Amount Rs)	O Amount (Rs)	Particulars	L Amount (Rs)	M Amount (Rs)	N Amount (Rs)	O Amount (Rs)
To Revaluation A/c (Loss)	15,000	10,000	5,000		By Balance b/d	1,20,000	80,000	40,000	
To Balance c/d	1,56,000	84,000	42,000	56,400	By Reserve A/c	21,000	14,000	7,000	
					By Premium for Goodwill	30,000			

					A/c				
					By Cash A/c				56,400
	1,71,000 ======	94,000 ======	47,000 ======	56,400 =======		1,71,000 =======	94,000 ======	47,000 ======	56,400 ======

Balance Sheet

as at 31st March,2015

Liabilities		Amt (Rs)	Assets		Amt (Rs)
Creditors (1,68,000 -6,000)		1,62,000	Debtors		46,000
Capital A/cs			Stock		2,20,000
L	1,56,000		Investments (60,000-24,000)		36,000
M	84,000		Furniture and Fittings		20,000
N	42,000		Machinery	70,000	
O	56,400	3,38,400	(-) Depreciation	(12,000)	58,000
			Bank		1,20,400
		5,00,400			5,00,400

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

Sacrificing Ratio = Old Share - New Share

$$\mathbf{L}=\frac{3}{6}-\frac{2}{6}=\frac{3-2}{6}=\frac{1}{6}$$

$$M=\frac{2}{6}-\frac{2}{6}=\frac{2-2}{6}=\text{Nil}$$

$N = \frac{1}{6} - \frac{1}{6} = \frac{1-1}{6} = \text{Nil}$

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.

Adjustment for Goodwill

Firm's goodwill = Rs 1,80,000
O's share of goodwill = $1,80,000 \times \frac{1}{6} = Rs30,000$
O's share of goodwill will be credited to L's capital account as he is the only sacrificing partner.

i. Calculation of Adjustment of Capital

Adjusted capital of L	1,56,000
Adjusted capital of M	84,000
Adjusted capital of N	42,000
Total adjusted capital	Rs 2,82,000

For 5/6th share, combined capital of L, M and N after adjustment is Rs 2,82,000
$\therefore$ Total capital of the firm is $282,000 \times \frac{6}{5} = Rs3,38,400$
$\therefore$ O's share in capital =$3,38.400 \times \frac{1}{6} = Rs56,400$

Bank A/c

Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**
To Balance b/d	34,000	By Balance C/d	1,20,400
To Premium for Goodwill A/c	30,000		
To 0's Capital A/c	56,400		
	1,20,400 ========		1,20,400 =======