3 . RECONSTITUTION OF PARTNERSHIP FIRM – ADMISSION OF A PARTNER

MCQ :

1. When is Revaluation A/c prepared?
a) At the time of admission
b) At the time of retirement
c) At the time of death
d) All of the above

2. Profit or loss on revaluation of assets is transferred to Partners' Capital account in which ratio?
a) Equally
b) Profit sharing ratio
c) Fixed capital ratio
d) Current capital ratio

3. New partner may be admitted to partnership :
a) With the consent of all the old partners
b) With the consent of any one partner
c) With the consent of $2/3^{rd}$ of the old partners
d) With the consent of $3/4^{th}$ of the old partners

4. When a new partner is admitted into the firm the old partner stands to :
a) Gain in profit sharing ratio
b) Lose in profit sharing ratio
c) Not affected at all
d) Only one partner gain other loose

5. The proportion in which old partners make a sacrifice :
a) Ratio of capital
b) Ratio of sacrifice
c) Gaining ratio
d) Profit sharing ratio

6. General reserve at the time of admission of a partner is transferred to :
a) Revaluation a/c

b) Partners' capital a/c
c) Neither of two
d) Profit and loss a/c

7. All accumulated losses are transferred to the capital a/c of the partners in :
a) New profit sharing ratio
b) Old profit sharing ratio
c) Capital ratio
d) None of the above

8. When goodwill is not recorded in the books at all on admission of a partner :
a) If paid privately
b) If brought in cash
c) If not brought in cash
d) If brought in kind

9. The need of revaluation of assets and liabilities on admission :
a) Assets and liabilities should appear at revised value
b) Any profit and loss on account of change in values belong to old partners
c) All unrecorded assets and liabilities get recorded
d) None of the above

10. On admission of a partner, which of the following items of the balance sheet is transferred to the credit of capital accounts of old partners in the old profit sharing ratio, if capital accounts are maintained on fluctuating capital accounts method :
a) Deferred revenue expenditure
b) Profit and loss account (debit balance)
c) Profit and loss account (credit balance)
d) Balance in drawing account of partners

11. If the new partner brings his share of goodwill in cash, it will be shared by old partners in :
a) Sacrificing ratio
b) Old profit sharing ratio
c) New ratio
d) Capital ratio

12. Revaluation account is a :
a) Real account
b) Nominal account
c) Personal account
d) None of the above

13. When new partner brings cash for goodwill, the amount is credited to :
a) Realization account
b) Cash account
c) Premium for goodwill account
d) Revaluation account

14. The balance in the investment fluctuation fund after meeting the fall in book value of investment, at the time of admission of partner will be transferred to :
a) Revaluation account
b) Capital accounts of old partners
c) General reserve
d) Capital account of all partners

15. A and B are partners sharing profits in the ratio of 3 : 2 . They admit C for ¼ Rs . 30000 for his share of goodwill . The total value of the goodwill of the firm will be :
a) 150000
b) 120000
c) 100000
d) 160000

16. The credit balance of profits abnd loss account appears in the books at the time of admission of partner will be transferred to :
a) Profit and loss appropriation account
b) All partners capital account
c) Old partners capital account
d) Revaluation account

17. Goodwill of the firm is valued at Rs . 100000 . Goodwill also appears in the books at RS . 50000 . C is admitted for ¼ share . The amount of goodwill to be brought in by C will be :

a) 20000
b) 25000
c) 30000
d) 40000

18. If the new partner brings any additional cash other than his capital contributions then it is termed as :
a) Capital
b) Reserves
c) Profits
d) Premium for goodwill

19. A and B are partners sharing profits and losses in the ratio of 3 : 2. C is admitted for 1/5 share in profits which he gets from A. New profit sharing ratio will be :
a) 12 : 8 : 5
b) 8 : 12 : 5
c) 2 : 2 : 1
d) 2 : 2 : 2

20. A and B are partners sharing profits and losses in the ratio of 3 : 2. A's capital is Rs. 120000 and B's capital is Rs. 60000. they admit C for $1/5^{th}$ share of profits. C should bring as his capital :
a) 36000
b) 48000
c) 58000
d) 45000

21. If at the of admission, some balance of profit and loss account appears in the books, it will be transferred to :
a) Profit and loss adjustment account
b) All partners' capital account
c) Old partners' capital account
d) Revaluation account

22. When a new partner brings his share of goodwill in cash, the amount is debited to :
a) Cash account
b) Capital accounts of the new partner
c) Goodwill account

d) Capital accounts of the old partner

23. When new partner does not bring his share of goodwill in cash, the amount is debited to:
a) Current account of the new partner
b) Premium account
c) Capital account of the old partners
d) Cash account

24. At the time of admission of a new partner, the entry for unrecorded investment will be:
a) Dr. Investment A/c and Cr. Revaluation A/c
b) Dr. Partners' Capital A/c and Cr. Investment A/c
c) Dr. Revaluation A/c and Cr. Investment A/c
d) None of the above

25. A, B, C, and D are partners. A and B share 2/3rd of profits equally and C and D share remaining profits in the ratio of 3:2. Find the profit sharing ratio of A/ B, C and D.
a) 5:5:3:2
b) 7:7:6:4
c) 2.5:2.5:8:6
d) 3:9:8:3

26. X and Y are partners in a firm with capital of Rs.180000 and Rs.200000. Z was admitted for 1/3rd share in profits and brings Rs.340000 as capital. Calculate the amount of goodwill
a) 240000
b) 100000
c) 150000
d) 300000

27. A and B are partners sharing profits and losses in the ratio of 5:3. On admission, C brings Rs.70000 as capital and Rs.43000 against goodwill. New profit ratio between A, B and C is 7:5:4. The sacrificing ratio of A and B is:
a) 3:1
b) 1:3
c) 4:5

d) 5 : 9

28. Ramesh and Suresh are partners sharing profits in the ratio of 2 : 1 respectively. Ramesh's capital is Rs. 102000 and Suresh capital is Rs. 73000. they admit Mahesh and agreed to give him $1/5^{th}$ share in future profit. Mahesh brings Rs. 14000 as his share of goodwill. He agrees to contribute capital in the new profits sharing ratio. How much capital will be brought by Mahesh?
a) 43750
b) 45000
c) 47250
d) 48000

29. A and B are partners in a firm having capital of Rs. 54000 and Rs. 36000 respectively. They admitted C for $1/3^{rd}$ share in the profits. C brought proportionate amount of capital. The capital brought in by C would be
a) 90000
b) 45000
c) 5400
d) 36000

30. Anil and Aman are partners sharing profits and losses in the ratio of 3 : 2. Akhil is admitted as a new partner for $1/3^{rd}$ share in the profits. Goodwill of the firm is valued at Rs. 60000 and goodwill already appears in the books at Rs. 18000. It is decided that the existing goodwill should continue to appear in the books at its old value. Akhil's share of goodwill is :
a) 26000
b) 14000
c) 20000
d) 6000

31. Ajay and Vijay are partners sharing profits in the ratio of 2 : 1. Ajay's son Anil was admitted for ¼ share of which 1/8 was gifted by Ajay to his son. The remaining was contributed by Vijay. Goodwill of the firm is valued at Rs. 40000. How much of the goodwill will be credited to each of old partners' capital account :
a) 2500
b) 5000
c) 20000
d) None of the above

32. On the admission of a new partner increase in the value of assets is debited to :

a) Profit and loss adjustment account
b) Assets account
c) Old partners' capital account
d) None of the above

33. At the time of admission of a partner, undistributed profits appearing in the balance sheet of the old firm is transferred to the capital accounts of :

a) Old partners in old profit sharing ratio
b) Old partners in new profit sharing ratio
c) All the partner in the new profit sharing ratio
d) None of the above

34. Which of the following is not the reconstitution of partnership?

a) Admission of a partner
b) Dissolution of Partnership
c) Change in Profit Sharing Ratio
d) Retirement of a partner

35. On the admission of a new partner:

a) Old partnership is dissolved
b) Both old partnership and firm are dissolved
c) Old firm is dissolved
d) None of the above

36. Sacrificing ratio is used to distribute ------------------ in case of admission of a partner.

a) Goodwill
b) Revaluation Profit or Loss
c) Profit and Loss Account (Credit Balance)
d) Both b and c

37. Himanshu and Naman share profits & losses equally. Their capitals were Rs. 1,20,000 and Rs. 80,000 respectively. There was also a balance of Rs. 60,000 in General reserve and revaluation gain amounted to Rs. 15,000. They admit friend Ashish with 1/5 share. Ashish brings Rs. 90,000 as capital. Calculate the amount of goodwill of the firm.

a. Rs. 1,00,000
b. Rs. 85,000
c. Rs. 20,000
d. None of the above

38. Yash and Manan are partners sharing profits in the ratio of2 : 1. They admit Kushagra into partnership for 25% share of profit. Kushagra acquired the share from old partners in the ratio of 3 : 2. The new profit sharing ratio will be :

a) 14 : 31 : 15
b) 3 : 2 : 1
c) 31 : 14 : 15
d) 2 : 3 : 1

39. A and B are partners sharing profit and losses in ratio of 5 : 3. C is admitted for $1/4^{th}$ share. On the date of reconstitution, the debtors stood at Rs 40,000, bill receivable stood at Rs. 10,000 and the provision for doubtful debts appeared at Rs. 4000. A bill receivable, of Rs 10,000 which was discounted from the bank, earlier has been reported to be dishonored. The firm has sold, the debtor so arising to a debt collection agency at a loss of 40%. If bad debts now have arisen for Rs 6,000 and firm decides to maintain provisions at same rate as before then amount of Provision to be debited to Revaluation Account would be :

a) Rs 4,400
b) Rs 4,000
c) Rs 3,400
d) None of the above

40. Heena and Sudha share Profit & Loss equally. Their capitals were Rs. 1,20,000 and Rs. 80,000 respectively. There was also a balance of Rs. 60,000 in General reserve and revaluation gain amounted to Rs. 15,000. They admit friend Teena with 1/5 share. Teena brings Rs. 90,000 as capital. Calculate the amount of goodwill of the firm.

a) Rs. 85,000
b) Rs. 1,00,000
c) Rs. 20,000
d) None of the above

41. Which of the following is not true with respect to Admission of a partner?

a) A new partner can be admitted if it is agreed in the partnership deed.
b) If all the partners agree, a new partner can be admitted.
c) A new partner has to bring relatively higher capital as compared to the existing partners
d) A new partner gets right in the assets of the firm

42. As per ---------, only purchased goodwill can be shown in the Balance Sheet.

a) AS 37
b) AS 26
c) Section 37
d) AS 37

43. A, and B are partners sharing profits in the ratio of 2:3. Their balance sheet shows machinery at ₹2,00,000; stock ₹80,000, and debtors at ₹1,60,000. C is admitted and the new profit sharing ratio is 6:9:5. Machinery is revalued at ₹1,40,000 and a provision is made for doubtful debts @5%. A's share in loss on revaluation amount to ₹20,000. Revalued value of stock will be:

a) ₹62,000
b) ₹1,00,000
c) ₹60,000
d) ₹98,000

44. At the time of admission of a partner, Employees Provident Fund is:

a) Distributed to partners in the old profit sharing ratio
b) Distributed to partners in the new profit sharing ratio
c) Adjusted through gaining ratio
d) None of the above

45. If at the time of admission if there is some unrecorded liability, it will be ------- ------to -- ------------ Account.

a) Debited, Revaluation
b) Credited, Revaluation
c) Debited, Goodwill
d) Credited, Partners' Capital

46. At the time of admission of a new partner, the balance of Workmen Compensation Reserve will be transferred to:

a) Old partners in the old profit sharing ratio
b) Sacrificing partners in the sacrificing ratio
c) Revaluation Account
d) All partners in the new profit sharing ratio

47. The firm of P, Q and R with profit sharing ratio of 6:3:1, had the balance in General Reserve Account amounting Rs. 1,80,000. S joined as a new partner and the new profit sharing ratio was decided to be 3:3:3:1. Partners decide to keep the General Reserve unchanged in the books of accounts. The effect will be:

a) P will be credited by Rs. 54,000
b) P will be debited by Rs. 54,000
c) P will be credited by Rs. 36.000
d) P will be credited by Rs. 36,000

48. Which statement is true with respect to AS-26?

a) Purchased goodwill can be shown in the Balance Sheet
b) Revalued goodwill can be shown in the Balance Sheet
c) Both purchased goodwill and revalued can be shown in the Balance Sheet

d) None of the above

49. Premium brought by newly admitted partner should be:

a) Credited to sacrificing partners
b) Credited to all partners in the new profit sharing ratio
c) Credited to old partners in the old profit sharing ratio
d) Credited to only gaining partners

50. Sacrificing ratio is calculated because:

a) Profit shown by Revaluation Account can be credited to sacrificing partners
b) Goodwill brought in by the incoming partner can be credited to the new partner
c) Goodwill brought in by the incoming partner can be credited to the sacrificing partners
d) Both a and c

51. Aryaman and Bholu are partners sharing profit and losses in ratio of 5:3. Chirag is admitted for $1/4^{th}$ share. On the date of reconstitution, the debtors stood at Rs 40,000, bill receivable stood at Rs. 10,000 and the provision for doubtful debts appeared at Rs. 4000. A bill receivable, of Rs 10,000 which was discounted from the bank, earlier has been reported to be dishonored. The firm has sold, the debtor so arising to a debt collection agency at a loss of 40%. If bad debts now have arisen for Rs 6,000 and firm decides to maintain provisions at same rate as before then amount of Provision to be debited to Revaluation Account would be:

a. Rs 4,400
b. Rs 4,000
c. Rs. 3,400
d. None of the above

52. Match the following:

i.	Sacrificing Ratio	A	Nominal Account
ii.	Gaining Ratio	B	Reconstitution of Partnership
iii.	Revaluation Account	C	New Ratio – Old Ratio
iv.	Admission of a Partner	D	Old Ratio – New Ratio

a) i– B, ii–C, iii–A, iv–D
b) i– D, ii–B, iii–A, iv–C
c) i– D, ii–C, iii–A, iv–B
d) i– D, ii–C, iii–B, iv–A

53. Match the following with respect to journal entries for treatment of goodwill.

i.	Incoming partner brings his share of goodwill	A	No Entry
ii.	Incoming partner does not bring his share of goodwill	B	Premium for Goodwill A/c Dr. Incoming Partner's Capital A/c Dr. To Sacrificing Partners Capital A/c

iii.	Incoming partner pays his share of goodwill privately	C	Premium for Goodwill A/c Dr. To Sacrificing Partners Capital A/c
iv.	Incoming partner brings only a part of his share of goodwill	D	Incoming Partner's Capital A/c Dr. To Sacrificing Partners Capital A/c

a) i– B, ii–C, iii–A, iv–D
b) i– C, ii–D, iii–A, iv–B
c) i– D, ii–C, iii–A, iv–B
d) i– D, ii–C, iii–B, iv–A

54. A and B are partners in a firm sharing profits in 4:1. They admit Pal as a new partner for ¼ share in the profits, which he acquired wholly from A. New profit sharing ratio of the partners is:

a) 4:1:1

b) Equally

c) 11:4:5

d) none of the above

55. A and B are partners sharing profits in the ratio of 3:1. C is admitted to partnership firm for $1/4^{th}$ share. The sacrificing ratio of A and B will be:

a) Equal

b) 2:1

c) 3:2

d) 3:1

56. The profit sharing ratio of Seeema and Ghosh was 5:3. They admitted Munmun as a new partner and the new profit sharing ratio of Seema, Gosh and Munmun was 4:3:3. The sacrificing ratio Seem and Gosh will be:

a) 5:3

b) 4:3

c) 1:1

d) 3:1

57. A and B are partners sharing profits in the ratio of 7:3. A surrenders $1/7^{th}$ of his share and B surrenders $1/3^{rd}$ of his share in favour C the new partner. The sacrificing ratio will be:

a) 3:7

b) 1:1

c) 7:3

d) 3:2

58. The share of new partner and the sacrificing ratio of old partners is decided by:

a) the new partner only

b) the old partners only

c) the old partners and the new partner

d) the accountant of the firm

59. On admission of a new partner, the method of valuation of goodwill is decided by:

a) the new partner only

b) the old partners only

c) the old partners and the new partner

d) the accountant of the firm

60. Share of goodwill brought by the new partner in cash is shared by old partners in:

a) ratio of sacrifice

b) old profit sharing ratio

c) new profit sharing ratio

d) none of the above

Answers:

1. (d) 2. (b) 3 (a) 4. (b) 5. (b) 6. (b) 7. (b) 8. (a) 9. (b) 10. (c)

11. (a) 12. (b) 13. (c) 14. (b) 15. (b) 16. (c) 17. (b) 18. (d) 19. (c) 20. (d)

21. (c) 22. (a) 23. (c) 24. (a) 25. (a) 26. (d) 27. (a) 28. (c) 29. (b) 30. (b)

31. (b) 32. (b) 33. (b) 34. (b) 35. (a) 36. (a) 37. (b) 38. (c) 39. (c) 40. (a)

41. (c) 42. (b) 43. (c) 44. (d) 45. (a) 46. (a) 47. (a) 48. (a) 49. (a) 50. (c)

51. (c) 52. (c) 53. (b) 54 (c) 55. (d) 56. (d) 57. (b) 58. (c) 59. (c) 60. (a)

True/ False :

1. "At the time of admission, old partnership comes to an end".

2. "As per Section 26 of the Indian Partnership Act, 1932, a person can be admitted as a new partner if it is agreed in the Partnership Deed".

3. "A newly admitted partner cannot pay his share of the goodwill to the sacrificing partners privately".

4. "Unless agreed otherwise, Sacrificing Ratio of the old partners will be the same as their Old Profit Sharing Ratio".

5. In the case of admission of a partner, all existing partners sacrifice.

6. New partner may or may not contribute capital at the time of admission.

7. New partner may bring his share of goodwill premium in kind.

8. At the time of admission of partner, the partnership firm is dissolved.

9. The goodwill brought at the time of admission of partner will be distributed among all the partners in new profit sharing ratio.

10. Claim of workmen compensation if more than workmen compensation reserve, is debited to revaluation account.

11. Increase in provision for doubtful debts will credited to revaluation account.

12. New partner brings goodwill in the firm to get share in the past profits.

13. Reserve and accumulated profits are distributed in old profit sharing ratio at the time of admission of a partner.

14. Admission of a partner changes the relationship between / among existing partners.

15. Hidden goodwill arises when total capital is computed based on the new partner's capital is less than total capitals of remaining partners after all adjustments.

16. Employee Provident Fund is a part of Accumulated profits and reserves.

17. At the time of admission, reserves may be carried forwarded by the partners.

18. Admission of a new partner does not amount to reconstitution of the partnership firm.

19. Goodwill exists only when firm earns super profits.

20. The need for valuation of goodwill also arises when the firm is dissolved involving sale of business as a going concern.

ANSWER

1. True 2. False 3. False 4. True 5. False 6. True 7. True 8. False 9. False

10. True 11. False 12. False 13. True 14. True 15. False 16. False 17. True 18. False

19. True 20. True

Fill in the blanks

1. when the value of goodwill of the firm is not given but has to be inferred on the basis of net worth of the firm, it is called…………….

2. Vinay and Naman are partners sharing profit in the ratio of 4:1. Their capitals were Rs.90000 and Rs.70000 respectively. They admitted Pratik for 1/3 share in the profits. Pratik brings Rs.100000 as his capital. The value of firm's goodwill be…………..

3. Goodwill appearing in the books oat the time of admission of a new partner is written off by debiting …………..and crediting ………….

4. On the admission of a new partner, after revaluation has been done, the value of assets and liabilities appear in the books of the firm at………….

5. Debit balance in the profit and loss account indicates…………….

6. General reserve account indicates ………..and shows ………..balance.

7. If, at the time of admission of a new partner, provision for doubtful debts is to be reduced, it shall be …………to profit and loss adjustment account.

8. Gain or loss arising from revaluation is shared by ………..partners in …………ratio.

9. If the revaluation account finally shows a debit balance then it indicates ………….., which will be transferred to …………

10. A and B are partners sharing profits equally. They admit C for 1/3 share in profits. A debtor whose dues of Rs.5000 were written off as bad debts, paid Rs.4000 in full settlement.

Bad debts recovered Rs.4000 will be debited to …………and credited to ……………

11. At the time of admission, the assets are revalued and liabilities are reassessed. The increase or decrease in the values is debited or credited in ……………..

12. Revaluation account is a …………………

13. In the case of downward revaluation of an asset, revaluation account is ………………

14. Revaluation account shows ………….in the values of assets and liabilities.

15. In case of upward revaluation of a liability, revaluation account is …………….

16. At the time of admission of a partner, new profit sharing is used for sharing future………

17. At the time of admission, it the book value and the market value of investment is same then investment fluctuation reserved is transferred to …………….account of the old partners in their ……….. ratio.

18. The newly admitted partner brings his/ her share of capital for which he/she will get ……….in firm.

19. A, B and C are partners sharing profits and losses in the ratio of 3:2:1. On admission of D, they agree to share profits and losses in the ratio of 5:4:2:1. Sacrificing ratio of A, B and C will be……….

20. R and S are partners sharing profits equally. They admitted T for 1/3 share in the firm. New profit sharing ratio will be……….

ANSWER

1. Hidden goodwill 2. 40000 3. Old partners' capital accounts, goodwill account

4. their current value 5. Accumulated loss 6. Accumulated profits, credit

7. credited 8. Old partners, old profit sharing ratio 9. Net loss, debit side of old partners'

capital accounts 10. Cash account, revaluation account 11. Revaluation account 12. Nominal account 13. Debited 14. Increase or decrease 15. Debited 16. Profits 17. Capital accounts of old partners, old profit sharing ratio 18. Profit share 19. Only A sacrifice- 1/12 20. Equal

LONG QUESTIONS

1. At the time of admission of a new partner, the assets and liabilities of A and B were revalued as follows.

i) A provision for Doubtful Debts @10% was made on sundry debtors (Sundry Debtors Rs.50,000)
ii) Creditors were written back by Rs.5,000.
iii) Building was appreciated by 20% (Book Value of Building Rs.2,00,000)
iv) Unrecorded investments were worth Rs.15,000.
v) A provision of Rs.2,000 was made for an outstanding bill for repairs.
vi) Unrecorded Liability towards suppliers was Rs.3,000.

Pass necessary journal entries.

Solution:

Date	Particulars	L.F.	Debit	Credit
i.	Revaluation A/c Dr. To Provision for Doubtful Debts A/c (being provision for DD created)		5000	5000
ii.	Creditors A/c Dr. To Revaluation A/c		5000	5000

	(being Creditors written back)			
iii.	Building A/c Dr. To Revaluation A/c (being Building appreciated)		40000	40000
iv	Investment A/c Dr. To Revaluation A/c (being unrecorded investment recorded)		15000	15000
v	Revaluation A/c Dr. To Creditors A/c (being provision for DD created)		3000	3000
vi	Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c (being profit of revaluation account distribute among A and B equally)		52000	26000 26000

2. A & B carrying on business in partnership and sharing profits and losses in the ratio of3:2 require a partner when their Balance Sheet stood as follows:

Assets	Amount	Liabilities	Amount
Creditors A's Capital 51,450 B's Capital 36,750	11,800 88,200	Cash Stock Debtors Furniture Machinery	1,500 28,000 19,500 2,500 48,500
	1,.00,000		1,00000

They admit C into partnership and gave him 1/8th share in the future profits in the following terms.

i. Goodwill of their firm will be valued twice the average of the last three years profits which amounted to Rs.21000; Rs.24000 and Rs.25560.

ii. C is to bring in cash for the amount of his share of goodwill.

iii. C is to bring Rs.15000 as his capital.

iv Furniture decreased by Rs.500

v Machinery increased to Rs50000

vi. Make a provision @5% for DD on debtors.

Pass journal entries to record these transactions.

Solution:

Date	Particulars	L.F.	Debit	Credit
i.	Cash A/c Dr. To C's Capital A/c To Premium for Goodwill A/c (being cash brought in by C for capital and premium)		20880	15000 5880
ii.	Premium for Goodwill A/c Dr. To A's Capital A/c To B's Capital A/c (being premium for goodwill distributed)		5880	3528 2352
iii.	Revaluation A/c Dr.		500	

	To Furniture A/c (being Furniture depreciated)			500
iv	Machinery A/c Dr. To Revaluation A/c (being unrecorded investment recorded)		1500	 1500
v	Revaluation A/c Dr. To Provision for Doubtful Debts A/c (being provision for DD created)		975	 975
vi	Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c (being profit of revaluation account distribute among A and B)		25	 15 10
	Working note: Total Profit=21000+24000+25560=70560 Average profit= 70560/3=23520 Goodwill= 23560*2=47040 C's share of goodwill premium=47040/8 =5880			

3. Given below is the balance sheet of A and B who are carrying partnership business on 31st March 2018 A and B share profits and losses in the ratio of 2:1

Balance Sheet of A and B as on 31st March 2018

Assets	Amount	Liabilities	Amount
Bills Payable Creditors Outstanding Expenses Profit & Loss a/c Capital Accounts A-1,80,000 B-1,50,000	10,000 58,000 2,000 12000 3,30,000	Cash in hand Cash at Bank Sundry Debtors Stock Plant Building	22,000 40,000 60,000 40,000 1,00,000 1,50,000
	4,12,000		4,12,000

C is admitted as a partner on the date of the Balance Sheet on the following terms

i. C will bring in Rs.1,00,000 as his capital and Rs. 60,0000 as his share of goodwill for 1/4th share in the profits.

ii. Plant is to be appreciated to Rs.1,20,000 and the value of Building is to be appreciated by 10%.

iii. Stock is found overvalued by Rs.4,000

iv. A provision for doubtful debts is to be created at 5% of Sundry Debtors.

v. A creditors were unrecorded to the extent of Rs.1,000.

Pass the necessaries journal entries.

Solution:

Date	Particulars	L.F.	Debit	Credit
i.	Bank A/c Dr. To C's Capital A/c To Premium for Goodwill A/c		160000	 100000 60000

	(being cash brought in by C for capital and premium)			
ii.	Premium for Goodwill A/c Dr. To A's Capital A/c To B's Capital A/c (being premium for goodwill distributed)		60000	 40000 20000
iii.	Plant A/c Dr. Building A/c Dr. To Revaluation A/c (being Plant & Building appreciated)		20000 15000	 35000
iv	Revaluation A/c Dr. To Stock A/c (Being stock found overvalued)		4000	 4000
v	Revaluation A/c Dr. To Provision for Doubtful Debts A/c (being provision for DD created)		3000	 3000
vi	Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c (being profit of revaluation account distribute b/w A and B)		27000	 18000 9000
vii	Profit and Loss A/c Dr. To A's Capital A/c To B's Capital A/c (being undistributed profits distributed b/w A and B_		12000	 8000 4000

4. Charu and Harsha were partners in a firm sharing profits in the ratio of 3:2. On 1st April, 2014 their Balance Sheet was as follows:

Assets	Amount	Liabilities	Amount
Creditors	17,000	Cash at Bank	6,000
General Reserve	4,000	Debtors	15,000
Workmen's Compensation Fund	9,000	Investment	20,000
		Plant	14,000
Investment Fluctuation Fund	11,000	Land and Building	38,000
Provision for Doubtful Debts	2,000		
Capital Account: Charu- 30,000 Harsha- 20,000	50,000		
	93,000		93,000

On the above date Vaishali was admitted for 1/4th share in the profits of the firm on the following terms.

i. Vaishali will bring Rs. 20,000 for her capital and Rs. 4,000 for her share of goodwill premium.

ii. All Debtors were considered good.

iii. The market value of Investments was Rs. 50,000.

iv. There was a liability of Rs. 6,000 for Workmen's compensation.
Pass necessary entries.
Solution:

Date	Particulars	L.F.	Debit	Credit
i.	Bank A/c Dr. To Vaishali's Capital A/c To Premium for Goodwill A/c (being amount of capital and premium brought by Vaishali)		24000	20000 4000
ii.	Premium for Goodwill A/c Dr. To Charu's Capital A/c To Harsha's Capital A/c (being premium for goodwill distributed)		4000	2400 1600
iii.	Provision for DD A/c Dr. To Revaluation A/c (being Provision for DD not required)		2000	2000
iv	Investment A/c Dr. To Revaluation A/c (Being value of investment increased)		30000	30000
v	Revaluation A/c Dr. To Charu's Capital A/c To Harsh's Capital A/c (being profit of revaluation account distribute b/w Charu and Harsha)		32000	19200 12800
vi	Workmen's Compensation Fund A/c Dr. To Provision for Work. Comp. Claim A/c To Charu's Capital A/c To Harsha's Capital A/c (being WCF adjusted)		9000	6000 1800 1200
vii	Investment Fluctuation Fund A/c Dr. To Charu's Capital A/c To Harsha's Capital A/c (being Investment Fluctuation Fund distribute b/w Charu and Harsha)		11000	6600 4400
viii	General Reserve A/c Dr. To Charu's Capital A/c To Harsha's Capital A/c (being General Reserve distribute b/w Charu and Harsha)		4000	2400 1600

5. The balance sheet of Madhu and Vidhi who are sharing profits in the ratio of 2:3 as at 31st March 2016 is given below

Liabilities	Rs.	Assets	Rs.
Madhu's capital	528000	Land and building	300000

Vidhi's capital	300000	Machinery	280000
General reserve	30000	Stock	80000
Bills payable	50000	Debtors 300000	
Creditors	100000	Less: provision 10000	290000
		Bank	50000
		Profit and Loss account	8000
	1008000		1008000

Madhu and Vidhi decided to admit Gayatri as a new partner from 1st april 2016 and their new profit sharing ratio will be 2:3:5. Gayatri brought Rs 400000as capital and goodwill premium in cash.

A. Goodwill of the firm was valued at Rs. 300000
B. Land and building was found undervalued by Rs. 26000
C. Provision for doubtful debts was to be made equal to 5% of the debtors.
D. There were unrecorded supplier to the extent of Rs. 20000.
E. There was a claim of Rs. 6000 on account of workmen compensation.

Pass necessary journal entries.

Solution:

Date	Particulars	L.F.	Debit	Credit
i.	Bank A/c Dr. To Gayatri's Capital A/c To Premium for Goodwill A/c (being amount of capital and premium brought by Vaishali)		550000	 400000 150000
ii.	Premium for Goodwill A/c Dr. To Madhu's Capital A/c To Vidhi's Capital A/c (being premium for goodwill distributed in sacrificing ratio)		150000	 60000 90000
iii.	Land and Building A/c Dr. To Revaluation A/c (being value of land and building increased)		26000	 26000
iv	Revaluation A/c Dr. To Provision for Doubtful Debts A/c (being provision for DD created)		5000	 5000
v	Revaluation A/c Dr. To Creditors A/c (being creditors found unrecorded)		16000	 16000
vi	Revaluation A/c Dr. To Provision for Work. Comp. Claim A/c (being provision for DD created)		6000	 6000
vii	Madhu's Capital A/c Dr. Vidhi's Capital A/c Dr. To Revaluation A/c		1000	 400 600

	(Being loss on revaluation transferred to Madhu and Vidhi)			
viii	General Reserve A/c Dr. To Madhu's Capital A/c To Vidhi's Capital A/c (being General Reserve distribute b/w Madhu and Vidhi)		30000	 12000 18000
ix	Madhu's Capital A/c Dr. Vidhi's Capital A/c Dr. To Profit and Loss A/c (Being debit balance of P &L (undistributed loss) transferred to Madhu and Vidhi)		3200 4800	 8000

6. A, B and C were partners sharing profits and losses in the ratio of 4:3:2. They admit D as a new partner on April 1, 2020. An extract of their Balance Sheet as at 31st March, 2020 is as follows:

Liabilities	Amount	Assets	Amount
Workmen Compensation Reserve	63000		

Show the accounting treatment under the following alternative cases:

Case 1: If there is no claim made against WCR.

Case 2: If a claim on account of WCR is estimated at Rs. 18000.

Case 1: If a claim on account of WCR is exactly Rs. 63000

Case 1: If a claim on account of WCR is Rs. 18000.

Solution:

Date	Particulars	L.F.	Debit	Credit
	Case1 Workmen's CompensationReserve A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (being the transfer of WCR to partners' capital accounts in their old psr)		63000	 28000 21000 14000
	Case2 Workmen's CompensationReserve A/c Dr. To Provision for Work. Comp. Claim A/c To A's Capital A/c To B's Capital A/c To C's Capital A/c (being the transfer of surplus WCR to partners' capital accounts in their old psr)		63000	 18000 20000 15000 10000
	Case−3 Workmen's CompensationReserve A/c Dr. To Provision for Work. Comp. Claim A/c (being amount for workmen compensation claim provided for)		63000	 63000

	Case 4 (a) Workmen's CompensationReserve A/c Dr. Revaluation A/c Dr. To Provision for Work. Comp. Claim A/c (being amount for workmen compensation claim provided for)		63000 9000	72000
	(b) A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Revaluation A/c (being loss on revaluation transferred to partners' capital accounts in their old psr)		4000 3000 2000	9000

7. A, B and C were partners sharing profits and losses in the ratio of 2:1:1. They admit D as a new partner on April 1, 2020. On that date their Balance Sheet had following items appearing in it.

Liabilities	Amount	Assets	Amount
Investment Fluctuation Fund	15000	investments	180000

You are required to pass necessary journal entries in each of the following situation in connection with investment Fluctuation Fund:

a) There is no additional information given.
b) Market value of investment is Rs.175000
c) Market value of investment is Rs.165000
d) Market value of investment is Rs.198000
e) Market value of investment is Rs.155000

Solution:

Date	Particulars	L.F.	Debit	Credit
a	Investment FluctuationReserve A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (being the transfer of IFR to partners' capital accounts in their old psr)		15000	7500 3750 3750
b	Investment FluctuationReserve A/c Dr. To Investment A/c To A's Capital A/c To B's Capital A/c To C's Capital A/c (being fall in the value of Investment adjusted and balance of IFR transferred to capital accounts in old ratio)		15000	5000 5000 2500 2500
c	Investment FluctuationReserve A/c Dr.		15000	

	Particulars	L.F.	Dr	Cr
	To Investment A/c (being fall in the value of Investment adjusted to IFR)			15000
d	(i) Investments A/c Dr. To Revaluation A/c (being profit on revaluation of Investments transferred to Revaluation account) (ii) Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (being profit on revaluation transferred to capital accounts in old ratio) (iii) Investment FluctuationReserve A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (being the transfer of IFR to partners' capital accounts in their old psr)		18000 18000 15000	 18000 9000 4500 4500 7500 3750 3750
e	(i) Investment FluctuationReserve A/c Dr. Revaluation A/c Dr. To Investment A/c (being fall in the value of Investment adjusted and Revaluation account) (ii) A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Revaluation A/c (being loss on revaluation transferred to partners' capital accounts in their old psr)		 15000 10000 5000 2500 2500	 25000 10000

8. The Balance Sheet of Madan and Mohan who share profits and losses in the ratio of 3:2 as at 31st March 2017 was as follows.

Liabilities	Amount	Assets	Amount
Creditors	28,000	Cash at Bank	10,000
Workmen's Comp Res	12,000	Debtors 62000	
General Reserve	20,000	Provision for D/d 2000	60,000
Capital Account		Stock	30,000
Madan–60,000		Investment	50,000
Mohan–40,000	1,00,000	Patent	10,000
	1,60,000		1,60,000

They decided to admit Gopal on 1st April 2017 for 1/4th share on the following terms.

	i. Gopal shall bring Rs.25,000 as his share of premium for goodwill and capital Rs.80000. ii. That unaccounted accrued income of Rs.500 be provided for. iii The market value of investment was Rs.45,000. iv. A debtor whose dues of Rs.1,000 were written off as Bad Debts paid Rs.800 in full settlement. v. A claim of Rs.2,000 on account of Workmen's Compensation to be provided for. vi. Patents are undervalued by Rs.5,000. Pass journal entries. Ans: Loss on revaluation- 8700
9.	A,B and C were partners in a firm sharing profits in the ratio 3:2 :1. On 31st march,2015, their balance sheet was as follows: (see table below) On the above date, D was admitted as a new partner, he brought Rs.100000 as capital and further it was decided that: a. The new profit sharing ratio between A,B,C and D will be 2:2:1:1 b. Goodwill of the firm was valued at Rs 90000 and D bought his share of goodwill premium in cash c. The market value of investments was Rs 24000 d. Machinery will be reduced to Rs 29000 e. A creditor of Rs 3000 was not likely to claim the amount and hence to be written off Pass necessary journal entries. Ans: profit on revaluation- 3000
10	X, Y and Z were partners sharing profits and losses in the ratio of 5:3:2. They admit S as a new partner on April 1, 2020. On that date their Balance Sheet had following items appearing in it. (see table below) You are required to pass necessary journal entries in each of the following situation in connection with investment Fluctuation Fund: i) There is no additional information given. ii) Market value of investment is Rs.180000 iii) Market value of investment is Rs.172000 iv) Market value of investment is Rs.224000 v) Market value of investment is Rs.160000

Balance sheet (Q9):

Liabilities	Rs	Assets	Rs
Creditors	84000	Bank	17000
General reserve	21000	Debtors	23000
Capital a/c s		Stock	110000
A 60000		Investments	30000
B 40000		Furniture and fittings	10000
C 20000	120000	Machinery	35000
	225000		225000

Balance sheet items (Q10):

Liabilities	Amount	Assets	Amount
Investment Fluctuation Fund	28000	Investments	200000

11	Vinay and Madan were partners sharing profits in the ratio of 2 : 1. On 1st April 2019, They admitted Sunil, a retired army officer who had lost his legs while servicing in army, as a new partner for 1/4 share in profits. Sunil will bring 60,000 for Goodwill and ₹ 50,000 as capital, At the time of admission of Sunil the Balance Sheet Vinay and Madan was as under :-

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital accounts Vinay 7,0000 Madan60,000	1,30,000	Plant Furniture Investment Stock	66,000 30,000 40,000 46,000
General Reserve	18,000	Debtors 38,000	
Bank Loan	18,000	Less PBD– 4,000	34,000
Creditors	72,000	Cash	22,000
Total	2,38,000	Total	2,38,000

It was decided to

(i) Reduce the value of stock by ₹. 10, 000.

(ii) Plant to be valued at ₹ 80,000.

(iii) An amount of ₹. 3,000 included in creditors was not payable.

(iv) Half of the investment were taken over by Vinay and remaining were valued at ₹. 25,000.

Prepare revaluation account, partners 'capital account and Balance sheet of the reconstituted firm.

Solution :- **Solution :**

Balance sheet as on

Liabilities	**Amount₹**	Assets	Amount₹
Bank Loan	18,000	Plant	80,000
Creditor	69,000	Furniture	30,000
Capital		Investment	25,000
Vinay 1,10,000		stock	36,000
Madan 90,000		Debtors	34,000
Sunil 50000	2,50,000	Cash	1,32,000
	3,37,000		**3,37,000**

Partners Capital Account

	Vinay	Madan	Sunil		Vinay	Madan	Sunil
To Investment	20,000			Bal b/d	70000	60000	
				G/R	12000	6000	
				G/W Prem	40000	20000	
To Bal c/d	1,10,000	90,000	50000	Rev. profit	8000	4000	
				cash			50000
	1,30,000	**90,000**	**50000**		**1,30,000**	**90,000**	**50000**

Revaluation Account

To Stock	10,000	By Plant	14,000
TO partners Capital Vinay– 8,000		By Creditors	3,000
Madan 4,000	12,000	By Investment	5,000
	22,000		**22,000**

Revaluation account –3 marks
Partners capital account – 3 marks
Balance sheet – 2 marks