BHARATIYA VIDYA BHAVAN'S V M PUBLIC SCHOOL, VADODARA
QUESTION BANK

1.Name the two accounts prepared for partners when their capitals are fixed. [1]

2.List any one difference between fixed capital account and fluctuating capital account. [1]

3.List any two items which may appear on the debit side of Partner's Current Account. [1]

4.List any two items which may appear on the credit side of Partner's Current Account. [1]

5.State any two circumstances in which the fixed capital of a partner may change. [1]

6.A and B are partners in a firm. A is to get commission of 10% of net profit before charging any commission. B is to get a commission of 10% on net profit after charging all commissions. Net profit before charging any commission was Rs.55,000. Find out the commission of A and B. [3]

7.AK, CK and VK set up a partnership firm on January 1, 2013. They contributed Rs.50,000 ; Rs.40,000 and Rs.30,000 respectively as their capitals and decided to share profits in the ratio of 3:2:1. The partnership deed provided that AK is to be paid a salary of Rs.1,000 per month and CK a commission of Rs.5,000. It also provided that interest on capital be allowed @6% p.a. The drawings for the year were AK Rs.6,000; CK Rs.4,000; and VK Rs.2,000. Interest on drawings Rs.270 on AK's drawings; Rs.180 on CK's drawings and Rs.90 on VK's drawings. The net amount of profit as per the profit and loss account for the year ended 2013 was Rs.35,660. Prepare P/L Appropriation Account and Partners capital accounts. [6]

8.Pawan and Purna are partners in a firm sharing profits in the ratio of 3:2. The balance in their capital and current accounts as on January 1, 2013 were as under:

	Pawan	Purna
Capital Account	30,000	20,000
Current Account (Cr.)	10,000	8,000

The partnership deed provided that Pawan is to be paid salary Rs.500 per month [6]
whereas Purna is to get commission of Rs.4,000 for the year.Interest on capital is to be allowed 6% p.a. The drawings of Pawan and Purna for the year were Rs.3,000 and Rs.1,000, respectively. Interest on drawings for Pawan and Purna works out at Rs.75 and Rs.25 respectively. The net profit of the firm before making these adjustments was Rs.24,900.

Prepare the Profit and Loss Appropriation A/c and partners' capital and current accounts.

VK and GK are partners sharing profits in proportions of 2:1. VK is entitled to get a salary of Rs.5,000 per month. It was decided that salary of VK will be Rs.8,000 per month effective from 1 November 2013. 8% of divisible profit is to be transferred to General Reserve. GK will get a bonus 6% on profits which exceeds Rs.80,000. GK will get a commission @5% on Gross sales and 5% on profit after all appropriations (including his commission) but before creating General Reserve. The profit on 31-3-2014 was Rs.3,00,000 and Gross Sales were Rs.8,00,000. Prepare Profit & Loss Appropriation Account.

1.A and B have contributed a large amount as compared to C and therefore they want that the profits should be distributed in capital ratio to which all partners agreed. They don't have any partnership deed. Give your views. [1]

2. In the absence of an agreement, state the rules regarding interest on partner's loan. [1]

3.Amit has provided a capital of Rs.1,00,000 whereas Vinod had provided Rs.20,000 only as capital. Vinod however has provided Rs.40,000 in the beginning as loan to the firm. There is no partnership agreement. Vinod claims interest of Rs.2,400. Whereas other partners do not want to give any interest. State giving reason who is correct in this case.[1]

4.A and B started business on July 1, 2014, each partner contributing Rs.1,50,000 as his share of capital. Three months later, on October 1, 2014, B makes an additional contribution of Rs.1,00,000 which is treated as loan. The profit for the period ending March 2005 was Rs.85,000 before charging any interest. All the partners were taking a salary of Rs.3,000 each per quarter. The partners had drawn Rs.24,000 each on 1st January 2015. Prepare P/L Appropriation Account on 31st March 2015 when there was no partnership deed. [3]

5.X and Y are partners in a firm. State by giving reasons whether their claims are valid if partnership deed is silent in the following matters:

(i) Y has advanced a loan of Rs.2,00,000 to the firm. He claims interest at the usual interest charged by banks. The rate of interest is 15% p.a.
(ii) X has contributed Rs.2,00,000 and Y Rs.1,00,000 as capital. Y wants that profits be shared equally. [3]

6.Vinod and Kumar entered into partnership on 1st April 2013 without any partnership deed. They introduced capital Rs.5,00,000 and Rs.3,00,000 respectively. On 30 October 2013, Vinod advanced Rs.2,00,000 by way of loan to the firm without any agreement as to interest.

The profit and loss account for the year ended 31.3.2014 showed a profit Rs.4,30,000 but the partners could not agree upon the amount of interest on loan to be charged and the basis of division of profits. Pass a journal entry for the distribution of profit between the partners and prepare the capital Accounts of both the partners and loan account of Vinod. [4]

7.X and Y are partners. They do not have any partnership agreement. What is your opinion in the following cases: [4]

(i) X spends twice the time that Y devotes to business. X claims that he should get a salary of Rs.40,000 per month for his extra time spent.
(ii) Y has provided a capital of Rs.1,00,000 whereas X has provided Rs.10,000 only as capital. X however has provided 20,000 as loan to the firm. What interest will be given to X and Y.
(iii) X wants to introduce his son Z into his business. Y object to it.
(iv) Y wants that profit should be distributed in the ratio of capitals but X wants that it should be distributed equally.

8.In the absence of partnership deed, what are the rules for following:

(i) Salary to partners
(ii) Interest on partners' capital
(iii) Interest on partners loan
(iv) Interest on partners drawings
(v) Division of profit among the partners

1.State the meaning of Guarantee of Minimum profit. [1]

2.Vinod, Kumar and Yuvraj were in a partnership sharing profits as 4:2:1 respectively. It was provided that in no case Yuvraj's share in profit should be less than Rs. 7500. The profits for the year 2014 amount to Rs. 31500. You are required to show the appropriation amongst partners. [3]

3.X and Y are sharing profits in the ratio of 3:2. Z was admitted for 1/6th share of profit with a minimum guaranteed amount of Rs.20,000. The firm earned a profit at the end of first financial year Rs.1,08,000. Find out the share of profit which X, Y and Z will get [. 3]

4.A, B and C were partners in a firm sharing profits in 2:3:5 ratio. A was guaranteed a minimum profit of Rs.1,00,000. Any deficiency on this account was to be borne by C. the net profit of the firm for the year ended 31.3.2013 was Rs.4,50,000. Prepare Profit and Loss Appropriation Account. [3]

5.A, B and C are partners sharing profits in the ratio of 5:4:1. C is given a guarantee that his share of profits in any given year would be Rs.5,000. Deficiency, if any, would be borne by A and B equally. The profits for the year 2013 amounted to Rs.40,000. Pass necessary journal entries. [3]

6.P, Q and R are partners in a firm. Their profit sharing ratio is 3:2:1. However, R is guaranteed a minimum amount of Rs.20,000 as share of profits every year. Any deficiency arising on that account shall be met by Q. The profits for two years ending December 31st, 2012 and 2013 were Rs.90,000 and 1,50,000 respectively. Prepare Profit and Loss Appropriation Account for two years. [4]

7.A, B and C are partners in a firm sharing profits in the ratio of 2:2:1. C is guaranteed a minimum amount of Rs.10,000 as his share of profit every year. Deficiency, if any, on that account shall be borne by B. The profits for two years ended 31st March, 2015 and 2016 were Rs.50,000 and Rs.60,000 respectively. [4]

8.Ahmad, Bheem and Daniel are partners in a firm. On 1st April 2011 the balance in their capital accounts stood at Rs.8,00,000, Rs.6,00,000 and Rs.4,00,000 respectively. They shared profits in the proportion of 5 : 3 : 2 respectively. Partners are entitled to interest on capital @5% p.a. and salary to Bheem @ Rs.3,000 per month and a commission of Rs.12,000 to Daniel as per the provisions of the partnership deed. [6]

Ahmad's share of profit, excluding interest on capital, is guaranteed at not less than Rs.25,000 p.a. Bheem's share of profit, including interest on capital but excluding salary, is guaranteed at not less than Rs.55,000 p.a. Any deficiency arising on that account shall be met by Daniel. The profits of the firm for the year ended 31st March 2012 amounted to Rs.2,16,000. Prepare Profit and Loss Appropriation A/c for the year ended 31st March 2012.

Vinod, Shubh and Gaurav were partners sharing profits in the ratio of 1:1:1. Their fixed capitals were Rs.2,00,000 each. Manager of the firm will be paid 10% commission after charging such commission. Vinod has advanced Rs.1,00,000 to the firm as loan on 1 July, 2012. Partnership deed is silent on interest on loan to the partner. A guaranteed amount of Rs.30,000 will be paid to Gaurav whether there is profit or loss incurred by the firm. Profit on 31st December, 2012 was Rs.25,000.

Show the distribution of profit or loss to the partners.

The partners of a firm distributed the profit for the year ended 31st March, 2014, Rs.1,80,000 in the ratio of 3 : 2 : 1 without providing the following items :

(i) X and Z were entitled to salary of Rs.3,000 each per annum.

(ii) Y was entitled to a commission of Rs.9,000

(iii) Y and Z guaranteed to X, a minimum profit of Rs.70,000 p.a.

(iv) Profits were to be shared in the ratio of 3 : 3 : 2.

Pass necessary Journal entry for the above adjustments in the book of the firm.

1.

Vinod, Ashish and Kanwar are partners in a firm having fixed capitals of Rs.40,000; Rs.20,000; 25,000 respectively sharing profits as 7 : 6 : 4. The rate of interest on capital was agreed at 10% per annum, but was wrongly credited to them 12% per annum. Give adjustment entry [3]

2.Vinod, Gaurav and Swami sharing profits and losses equally. Their capitals were Rs.1,20,000; Rs.90,000 and Rs.60,000 respectively. For the year 2014, interest was credited to them @6% instead of 5% p.a. Give adjustment entry. [3]

3.On March 31, 2013 after the close of books of accounts, the capital accounts of A, B and C stood at Rs.48,000; 40,000 and Rs 24,000 respectively. The profits for the year Rs.72,000 was distributed equally. Subsequently it was discovered that interest on capital @5% p.a. had been omitted. The profit sharing ratio was 2:2:1. Pass adjustment entry. [3]

4.Ram and Shyam were partners in a firm sharing profits in the ratio of 3:5. Their fixed capitals were Rs.2,50,000 and Rs.4,50,000 respectively. After the final accounts of the year had been closed, it was found that interest on capital at 10% per annum as provided in the partnership agreement has not been credited to the capital accounts of the partners. Give necessary adjustment entry. [3]

5.A, B, C and D are partners sharing profits and losses in the ratio of 4:3:3:2. Their fixed capitals on 31.3.2010 were Rs.30,000; Rs.45,000; 60,000 and 45,000 respectively. After preparing the final accounts for the year ended 31.3.2011. it was discovered that interest on capital @12% p.a. was not allowed and interest on drawings amounting to Rs.1,000; 1,250; 750 and 500 respectively was not charged. Give necessary adjustment entry. [4]

6.Vinod, Bitu and Chetan were partners in a firm. On 1.4.2013 their capitals were Rs.1,00,000; Rs.50,000 and Rs.50,000 respectively. As per the provisions of the partnership deed:

(i) Chetan was entitled for a salary of Rs.10,000 p.a.
(ii) Partners were entitled to interest on capital at 5% p.a.
(iii) Profits were to be shared in the ratio of partner's capital.

The net profit for the year 2013-14 of Rs.66,000 was divided equally without providing for the above terms. Give adjustment entry. [4]

7.PK, MK and NK shared profits in the ratio of 3:2:1. The profits of the last three years were Rs.2,80,000, Rs.1,68,000 and Rs.2,12,000 respectively. These profits were by mistake, shared equally for all the three years. It is now decided to correct the error. Give entry. [4]

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

For this Seema withdrew Rs. 20,000 from the firm on 15th September, 2012. Tanuja instead of withdrawing cash from the firm took garments amounting to Rs. 24,000 on 1 October from the firm and distributed those to the flood victims. On the other hand, Tripti withdrew Rs. 2,00,000 from her capital on 1st January, 2013 and provided a mobile medical van in the flood affected area.

The partnership deed provides for charging interest on drawings @ 6% p.a. After the final accounts were prepared it was discovered that interest on drawings had not been charged. Give the necessary adjusting journal entry and show the working notes clearly. Also state any two values which the partners wanted to communicate to the society.

Vinod, Mohan and Sohan are partners sharing profits and losses in the ratio of 3:2:1. After the final accounts have been prepared, it was discovered that interest on drawings had not been taken into consideration. The interest on drawing of partners amounted to Vinod Rs.1,000; Mohan Rs.720 and Sohan Rs.400. Give adjustment entry.

1.
How would you record the interest on drawings when capitals are fixed? [1]

2.Name the method of calculating interest on drawings of the partners if different amounts are withdrawn on different dates. [1]

3.X, Y and Z are partners sharing profits equally. They have decided that no interest on drawings is to be charged to any partner. But after one year 'Z' wants that interest on drawings should be charged to every partner. State how 'Z' can do this. [1]

4.Calculate interest on drawings of Mr. Vinod @ 8% p.a. for the year ended 31st March, 2014 in each of the following cases:
Case 1: If he withdrew Rs.2,000 at the beginning of each year.
Case 2: If he withdrew Rs.2,000 during the middle of each month.
Case 3: If he withdrew Rs.2,000 at the end of each month. [3]
5.Calculate interest on drawings of Mr. Vinod @ 10% p.a. for the year ended 31st March, 2014 in each of the following cases:
Case 1: If he withdrew Rs.1,000 at the beginning of each Quarter.
Case 2: If he withdrew Rs.1,000 during the middle of each Quarter.
Case 3: If he withdrew Rs.1,000 at the end of each Quarter. [3]
6.Find out interest on drawing of Mr. Vinod, if he withdrew Rs.2,000 in the beginning of every month for last six months.. Rate of interest on drawings is 6% p.a. [3]
7.Find out interest on drawing of Mr. Vinod, if he withdrew Rs.2,000 at the end of every month for six months ended 31st March 2014. Rate of interest on drawings is 6% p.a. [3]

8.Find out interest on drawing of Mr. Vinod, if he withdrew Rs.2,000 in the middle of every month for six months ended 31st March 2014. Rate of interest on drawings is 6% p.a. (3)

9.Calculate interest on drawing of Mr.Vinod @ 10% p.a. for the year ended 31st March 2014 in each of the following cases:(a) If he withdrew Rs.500 per month during the year.

(b) If he withdrew 2,000 in each quarter. (3)

10.Vinod is a partner in a firm. He withdrew the following amounts during the year 2013: (4)

January 31	Rs.6,000
March 31	Rs.4,000
June 30	Rs.8,000
September 30	Rs.3,000
October 31	Rs.5,000

The interest on drawings is to be charged @6% p.a. Assuming the accounting year closes on December 31 each year, calculate interest on drawings to be debited to Mr. Vinod.

12.Vinod and Mohan were partners in a firm. The partnership agreement provided that interest on drawings was to be charged @12% p.a. Vinod had withdrawn the following amounts during the year ended 31.12.2013:

January 1 Rs.10,000
March 31 Rs.16,000 July 1
Rs.20,000
December 31 Rs.4,000

1.
Calculate interest on Vinod's Drawings.

A and B started business on 1st Jan. 2014 with a capital of Rs. 60,000 and Rs. 40,000 respectively. A introduced Rs. 25,000 into the firm on 1st July 2014 as additional capital. His drawings for the year were Rs. 10,000. Calculate interest on capital payable to A and B, if rate of interest is 10% p.a. on 31st December 2014. [1]

2.Where would you record the interest on capital when capitals are fixed? [1]

3.X and Y are partners in a firm having not partnership deed. X and Y have contributed Rs.2,00,000 and Rs.4,00,000 respectively as capitals. Y wants that profit should be distributed in the ratio of capitals and interest on capital should be 10% p.a. but X does not agree to this. State giving reason who is correct in this case. [1]

4.X and Y are partners in a firm having no partnership deed. X desires that Y should not participate in the conduct of the firm's business and will not get any interest on capital but Y does not agree to this. State giving reason who is correct in this case. [1]

5.X and Y started business on 1.1.2013 with capitals of Rs.1,20,000 and Rs.80,000 respectively. During the year, A introduced Rs.20,000 to the firm as additional capital on 1.7.2013. They withdrew Rs.1,000 per month for the house expenses in lieu of profit. Interest on capital is to be allowed @ 10% per annum. Calculate the interest payable to X and Y for the year ending 31.12.2013. [3]

6.Vinod and Kumar started business on 1st April, 2013 with capitals of Rs.5,00,000 and Rs.3,00,000 respectively. On 1st October 2013 they decided that their capitals should be 4,00,000 each. The necessary adjustment in the capitals were made by introducing or withdrawing cash. Interest on capital is allowed at 8% p.a. Calculate the interest on Kumar's Capital on 31st March 2014. [3]

7.A and B are partners and they had Rs.2,00,000 and Rs.3,00,000 in their respective capital accounts as on 1st April 2013. A paid in further Rs.25,000 on I November 2013 and another Rs.25,000 on 15 February 2014. Calculate the Interest on capital for A when rate of interest on capital is 6% p.a. [3]

8.X and Y are partners sharing profit and loss in the ratio 3:2. Their capitals on 1 April 2013 were Rs.1,00,000 and Rs.80,000. On 1st July 2013 X introduced Rs.20,000 as his additional capital and Y introduced Rs.2,000 only. Find out interest on capital for both the partners @ 10% p.a. on 31st March 2014. [3]

Vinod and Kumar are partners sharing profits and losses in the ratio of 3:2. Their capitals were Rs.1,00,000 and Rs.50,000 respectively. Rate of Interest on capital is 10% p.a. Show the distribution of profit when:
Case 1: Partnership deed is silent as to interest on capital and profit for the year is Rs.30,000.
Case 2: Partnership deed provides for interest on capital but there is loss Rs.20,000.
Case 3: Partnership deed provides for interest on capital and profit for the year is Rs.20,000.
Case 4: Partnership deed provides for interest on capital and profit for the year is Rs.9,000.
Case 5: Interest on capital is a charge and profit for the year is Rs.9,000. Case
6: Interest on capital is a charge and loss for the year is Rs.5,000.

1.Why Profit and Loss Appropriation Account is prepared? [1]

1.

2.Do all firms of business organizations prepare the Profit and Loss Appropriation Account? [1]

3.What should we do when appropriations are more than the profits? [1]

4.What do understand by the following:

(a) When ‘Interest on capital is Treated as an appropriation’

(b) When “Interest on capital is Treated as a charge” [1]

5.David and John were partners in a firm sharing profits in the ratio of 4 : 1. Their capitals on 1.4.2006 were : David Rs.2,50,000 and John Rs.50,000. The partnership deed provided that David will get a commission of 10% on the net profit after allowing a salary of Rs.2,500 per month to John. The profit of the firm for the year ended 31.3.2007 was Rs.1,40,000. Prepare Profit and Loss Appropriation Account. [4]

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

(a)The first Rs.20,000 in proportion to their capitals

(b) Next Rs.30,000 in the ratio of 5 : 3 : 2

(c) Remaining profits to be shared equally

The firm made a profit of Rs.1,56,000 before charging any of the above items.

Prepare the profit and loss appropriation account and pass the necessary Journal entry for the appropriation of profits

7.X and Y were partners in a firm sharing profits and losses in the ratio of their capitals which were Rs.5,00,000 and Rs.4,00,000 respectively. The partnership agreement provided a salary of Rs.20,000 p.a. to Y and 10% p.a. interest on partners’ capital. The profit of the firm for the year ended 31st March, 2008 was Rs.1,46,000. Prepare P/L Appropriation Account of X and Y for the year ended 31st March 2008. [3]

8.Angad, Fateh and Kothari were partners in a firm sharing profits in the ratio of 3 : 4 : 5. The fixed capitals were Angad Rs.2,00,000, Fateh Rs.2,50,000 and Kothari Rs.3,00,000 respectively. The partnership deed provided for the following :

(i). Interest on capital @6% p.a.

(ii) Salary of Rs.15,000 p.a. to Kothari.

(iii) Interest on partner’s drawings will be charged @12% p.a.

During the year ended 31.3.2009 the firm earned a profit of Rs.1,35,000. Angad withdrew Rs.5,000 on 1.4.2008, Fateh withdrew Rs.6,000 on 30.9.2008 and Kothari withdrew Rs.7,500 on 31.12.2008.

Prepare Profit and Loss Appropriation Account for the year ended 31.3.2009 [4]

9.DK, EK and FK were partners in a firm sharing profits in the ratio of 7:4:9. Their fixed capitals were ; DK Rs.2,00,000; EK Rs.75,000 and FK Rs.3,50,000. Their Partnership deed provided for the following:

(i). Interest on capital @ 9% per annum and Interest on drawings @ 6% per annum.

(ii) Salary of Rs.6,000 per month to EK.

DK Withdrew Rs.25,000 ; EK withdrew Rs.15,000 during the year and interest on FK’s Drawings was Rs.1,250 on average basis.

During the year ended 31st December, 2013, the firm earned a profit of Rs.1,70,000.

Prepare P/L Appropriation Account. [4]

10.Singh and King entered into partnership on 1st April 2013 without any partnership deed. They introduced capitals of Rs.5,00,000 and Rs.3,00,000 respectively. On 30 October 2013, Singh advanced Rs.2,00,000 by way of loan to the firm without any agreement as to interest.

The profit and loss account for the year ended 31.3.2014 showed a profit of Rs.4,30,000 but the Partners could not agree upon the amount of interest on loan to be charged and the basis of division of profits.Pass a journal entry for the distribution of the profit between the partners and prepare the capital accounts of both the partners and Loan account of Singh. [4]

11.Ashok and Rohit were partners in a firm sharing profits in the ratio of 5 : 3. Their fixed capitals on 1-4-2010 were : Ashok Rs.60,000 and Rohit Rs.80,000. They agreed to allow interest on capital @12% p.a. and to charge interest on drawings @15% irrespective of time period. The profit of the firm for the year ended 31-3-2011 before all adjustments were Rs.12,600 during the year. The drawing made by Ashok and Rohit were Rs.2,000 and Rs.4,000 during the year. Prepare profit and loss appropriation account. The interest on capital will be allowed even if the firm incurs loss.[4]

12.Singh and Gupta decided to start a partnership firm to manufacture low cost jute bags as plastic bags were creating many environmental problems. They contributed capitals of Rs. 1,00,000 and Rs. 50,000 on 1st April, 2012 for this. Singh expressed his willingness to admit Shakti as a partner without capital, who is specially abled but a very creative and intelligent friend of his. Gupta agreed to this. The terms of partnership were as follows :

(i) Singh, Gupta and Shakti will share profits in the ratio of 2 : 2 : 1.
(ii) Interest on capital will be provided @ 6% p.a.
Due to shortage of capital, Singh contributed Rs. 25,000 on 30th September, 2012 and Gupta contributed Rs. 10,000 on 1st January, 2013 as additional capital. The profit of the firm for the year ended 31st March, 2013 was Rs. 1,68,900.
(a) Identify any two values which the firm wants to communicate to the society.
(b) Prepare Profit and Loss Appropriation Account for the year ending 31st March, 2013.
Accountancy Challenge

Challenge : 1

Narendra and Kumar are partners sharing profits and losses in the ratio of 3:2. Capital of Vinod is 5,00,000 and Kumar Rs. 3,00,000. As per partnership deed partners are entitled for 12% interest on capital. The profit for the year was 60,000. Show the distribution of profit.

Challenge : 2

Virendra and Kumar were partners in a firm sharing profits in the ratio of 3:2. Their fixed capitals on 1-4-2010 were Vinod Rs.2,00,000 and Kumar Rs.4,00,000. They agreed to allow interest on capital @12% p.a. and charge on drawings @ 15% p.a. The firm earned a profit, before all above adjustments, of Rs.60,000 for the year ended 31-3-2011. The drawings of Vinod and Kumar during the year were Rs.3,000 and Rs.5,000 respectively.

Showing your calculation clearly prepare, profit and loss appropriation account of Vinod and Kumar. The interest on capital will be allowed even if the firm incurs loss.

1. Give the formula of Goodwill by 'Capitalisation of Average Profits' Method. [1]

2. Give the formula for calculation of Goodwill by 'Capitalisation of Super Profit' Method. [1]

3. Why is Goodwill considered as an intangible asset but not a Fictitious Asset? [1]

4. A partnership firm earned net profits during the last three years as follows:

Years	Profit
2007-08	38000
2008-09	44000
2009-10	50,000

The Capital Employed in the firm throughout the above mentioned period has been Rs.80,000.

Having regard to the risk involved, 15% is considered to be a fair return on the capital. The remuneration of all the partners during this period is estimated to be Rs.20,000 per annum.

Calculate the value of goodwill on the basis of (i) Two years purchase of super profits earned on average basis during the above mentioned three years and (ii) Capitalization method.[4]

5. A Business earned average profits of Rs.5,00,000 during the last few years and the normal rate of return in similar business is 10%. Find out the value of Goodwill by

(i) Capitalization of Super Profit method and
(ii) Super Profit method, if the goodwill is valued at 3 years purchase of super profit.
The assets of the business were Rs.50,00,000 and its external liabilities Rs.9,00,000. [4] 6.
Vinod and Kumar are partners in a firm. Their capitals were: Vinod Rs.6,00,000 and Kumar Rs.4,00,000. During the year 2014 the firm earned a profit of Rs.3,00,000.

Calculate the value of goodwill of the firm assuming that the normal rate of return is 20%. [4]

7. A Business has earned average profits of Rs.2,00,000 during the last few years and the normal rate of return in a similar type of business is 10%. Ascertain the value of Goodwill by Capitalisation method. Given that the value of Net Assets of the firm is Rs.16,40,000. [4]

8. Larson, William and Harry are partners in a firm with the capitals of Rs.1,87,500 , Rs.1,50,000 , Rs.1,12,500. Average profit of the business for last few years is Rs.72,000. Normal rate of return in a similar business is 10%. Calculate the
valueof goodwill by capitalization of super profit. [4]

Challenge : 1

From the following information, Calculate value of goodwill by capitalizing the super profit :

i) Average net capital employed in the business Rs.7,00,000.
ii)Net Trading profit of the firm for the last three years : Rs.1,47,600 ; Rs.1,48,100 ; and Rs.1,52,500. iii) Rate of return expected from the capital having regard to the risk involved 18%. iv) Fair remuneration to the partners for their services Rs.12,000 per annum.
v) Sundry Assets (excluding goodwill) of the firm Rs.7,54,762 ; Sundry Liabilities Rs.31,329. Find goodwill on the basis of :

a) 3 years purchase of average profits
b) 3 years purchase of super profits
c) Capitalization of average profits
d) Capitalization of super profits

Challenge : 2

(a) The goodwill of a firm is estimated at three years purchase of the average Profits of the last fiveyears which are as follows:

Years	2010	2011	2012	2013	2014
Profits	(Loss) 20,000	30,000	8,000	(10,000 Loss)	12,000

(b) If in the firm total capital employed is Rs.2,00,000 and normal rate of return is 8%, the average profit for last 5 years is Rs.24,000 and Goodwill is estimated at 3 years purchase of super profits, remuneration to partners Rs.6,000.

(c) Vivek Brothers earn a net profit of Rs.60,000 with a capital of Rs.4,00,000. The normal rate of return in the business is 10%. Use Capitalisation of super profits method to value the goodwill of the firm.

1. Define Goodwill [1]

2. List any four factors affecting goodwill. [1]

3. How does the factor ‘Quality of Products’ affect the goodwill of a firm? [1]

4. How does the factor ‘Location’ affect the goodwill of a firm? [1]

5. How does the factor ‘Efficiency of Management’ affect the goodwill of a firm? [1]

6. How does the market situation affect the value of goodwill of a firm? [1]

7. How does the nature of business affect the value of goodwill of a firm? [1]

8. Describe the need for valuation of goodwill. [3]

9. The profit for the last five years of a firm were as follows:

Year 2010 Rs.4,00,000; Year 2011 Rs.3,98,000; Year 2012 Rs.4,50,000; Year 2013 Rs.4,45,000 and Year 2014 Rs.5,00,000.

Calculate goodwill of the firm on the basis of 4 years purchase of 5 years average profits. (3)

10. Compute the value of goodwill on the basis of four years purchases of the average profits based on the last five years.

Year	Amount
2010	90,000
2011	(40,000) Loss
2012	80,000
2013	70,000
2014	60,000

(3)

11. The following were the profits of a firm for the last three years.Years ending Profit

2012 4,00,000 (Including an abnormal gain of Rs.50,000)

2013 5,00,000 (after charging an abnormal loss of Rs.1,00,000)

2014 4,50,000 (excluding Rs.50,000 payable on the insurance of plant and machinery)

Calculate the vlaue of goodwill on the basis of two years purchase of the average profits for the last three years.

12. The following were the profit of a business firm:

2012 Rs.60,000 (including an abnormal gain Rs.15,000)

2013 Rs.1,20,000 (after charging an abnormal loss Rs.30,000)

2014 Rs.1,26,000 (excluding Rs.6,000 as insurance premium of property now to beinsured)

Calculate firm's goodwill at two year's purchase of the average profit of the last threeyears.(4)

Accountancy Challenge Challenge

: 1

The profits of a firm for the year ended 31st March for the last five years were as follows:

Year	Amount
2010	20,000
2011	24,000
2012	30,000
2013	25,000
2014	18,000

Calculate the value of goodwill on the basis of three years purchase of weighted average profits after weights 1,2,3,4 and 5 respectively tot he profits for 2010, 2011, 2012, 2013 and 2014.

Challenge : 2

Calculate the value of goodwill of a firm at 3 years purchase of the weighted average profits of the last four years. Weights to be used are 2006 : 1 ; 2007 : 2 ; 2008 : 3 ; 2009 : 4. The profit for these years are 2006 : Rs.20200 ; 2007 : Rs.24,800 ; 2008 : Rs.20,000 and 2009 : Rs.30,000.
i) On 1 September 2008 , a major repair was made in respect of the plant incurring Rs.6,000 which amount was charged to revenue. The paid sum is agreed to becapitalized for goodwill calculation subject to adjustment of depreciation of 10% p.a.on reducing balance method. ii) Closing stock for the year 2007 was over valued by Rs.2,400. iii) To cover the management cost an annual charge of Rs.4,800 should be made for thepurpose of goodwill valuation.
Calculate the value of Goodwill.

1. What is meant by Super Profit Method? [1]

2. What are the four steps involved in calculating goodwill through Super Profit? [1]

3. If the amount of super profit is negative, what does it indicate? [1]

4. Differentiate between Average Profit Method and Super Profit Method [3]

5. The books of a business firm showed that the capital employed on 31 December 2013 was Rs.10,00,000 and the profits for the last five years were:

2010	Rs.80,000
2011	Rs.1,00,000
2012	Rs.1,10,000

2013	Rs.1,40,000
2014	Rs.1,70,000

You are required to find out the value of goodwill based on 3 years purchase of the superprofits of the business. Given that the normal rate of return is 10%. [3]

6. The books of a business firm showed that the capital employed on 31 December 2013 was Rs.20,00,000 and the profits for the last five years were:

2010	Rs.2,60,000
2011	Rs.2,80,000
2012	Rs.2,70,000
2013	Rs.2,50,000
2014	Rs.2,10,000

You are required to find out the value of goodwill based on 3 years purchase of the superprofits of the business. Given that the normal rate of return is 10%. [3]

7. The Capital employed in a business is Rs.50,000. The average net profits of business isRs.9,000. The Normal Rate of return on capital employed is 10%. The remuneration of thepartners is estimated to be Rs.1,500 per annum. Calculate

the value of goodwill on the basis of 4 years purchase of super profits. [3]

8. A and B are partners in a firm sharing profits in the ratio of 2 : 1. Their capitals areRs.2,00,000 and Rs.1,50,000. Normal rate or return on the capital employed is 10%. Bothpartners will get annual salary of Rs.25,000 each. Profits of firm are :

Year	Profit/Loss
2008	75000
2009	90000
2010	120000

Calculate the value of goodwill on the basis of 2 years purchase of super profits. [3]

Accountancy Challenge

Challenge : 1

The capital of the firm of Vinod and Kumar is Rs.2,00,000 and the market rate of interest is 15%.Annual Salary to partners is Rs.12,000 each. The profits for the last 3 years were Rs.60,000; Rs.72,000 and Rs.84,000. Goodwill is to be valued at 2 years purchase of the last 3 years average super profits.

Calculate the goodwill of the firm.

Challenge : 2

On April 1st, 1998 an existing firm had assets of Rs.3,00,000 including cash of Rs.20,000. The partners capital accounts showed a balance of Rs.2,40,000 and reserves constituted the rest. If the normal rate of return is 20%and the goodwill of the firm is valued at Rs.96,000 at 4 years purchase of super profits, find the average profits of the firm.

Challenge : 3

Vishal and Kunal were sharing profits in the ratio of 3:2. They decided to admit Swami into the partnership for1/6th share of the future profits. Goodwill, valued at 4 times the average super profits of the firm, was Rs.36,000.The firm had assets worth Rs.30 Lakhs and liabilities Rs.24 Lakhs. The normal earning capacity of such firms is expected to be 10% p.a. find the average profits/actual profits earned by the firm during the last 4 years.