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

Questions for Practice Short
Answer Questions

1. Identify various matters that need adjustments at the time of admission of a new partner.
2. Why it is necessary to ascertain new profit sharing ratio even for old partners when a new partner is admitted?
3. What is sacrificing ratio? Why is it calculated?
4. On what occasions sacrificing ratio is used?
5. If some goodwill already exists in the books and the new partner brings in his share of goodwill in cash, how will you deal with existing amount of goodwill?
6. Why there is need for the revaluation of assets and liabilities on the admission of a partner? Long Answer Questions

1. Do you advise that assets and liabilities must be revalued at the time of admission of a partner? If so, why? Also describe how is this treated in the book of account?
2. What is goodwill? What factors affect goodwill?
3. Explain various methods of valuation of goodwill.
4. If it is agreed that the capital of all the partners should be proportionate to the new profit sharing ratio, how will you work out the new capital of each partner? Give examples and state how necessary adjustments will be made.
5. Explain how will you deal with goodwill when new partner is not in a position to bring his share of goodwill in cash.
6. Explain various methods for the treatment of goodwill on the admission of a new partner?
7. How will you deal with the accumulated profits and losses and reserves on the admission of a new partner?
8. At what figures the value of assets and liabilities appear in the books of the firm after revaluation has been due. Show with the help of an imaginary balance sheet. *Numerical Questions*

1. A and B were partners in a firm sharing profits and losses in the ratio of 3:2. They admit C into the partnership with 1/6 share in the profits. Calculate the new profit sharing ratio?
2. A,B,C were partners in a firm sharing profits in 3:2:1 ratio. They admitted D for 10% profits. Calculate the new profit sharing ratio?
3. X and Y are partners sharing profits in 5:3 ratio admitted Z for 1/10 share which he acquired equally for X and Y. Calculate new profit sharing ratio?
4. A, B and C are partners sharing profits in 2:2:1 ratio admitted D for 1/8 sharewhich he acquired entirely from A. Calculate new profit sharing ratio?\
5. P and Q are partners sharing profits in 2:1 ratio. They admitted R into partnership giving him 1/5 share which he acquired from P and Q in 1:2 ratio.Calculate new profit sharing ratio?
6. A, B and C are partners sharing profits in 3:2:2 ratio. They admitted D as anew partner for 1/5 share which he acquired from A, B and C in 2:2:1 ratio respectively. Calculate new profit sharing ratio?
7. A and B were partners in a firm sharing profits in 3:2 ratio. They admitted C for 3/7 share which he took 2/7 from A and 1/7 from B. Calculate new profitsharing ratio?

(Ans : 11:9:15)

8. A, B and C were partners in a firm sharing profits in 3:3:2 ratio. They admitted D as a new partner for 4/7 profit. D acquired his share 2/7 from A. 1/7 from Band 1/7 from C. Calculate new profit sharing ratio?
9. Radha and Rukmani are partners in a firm sharing profits in 3:2 ratio. They admitted Gopi as a new partner. Radha surrendered 1/3 of her share in favour of Gopi and Rukmani surrendered 1/4 of her share in favour of Gopi. Calculate new profit sharing ratio?
10. Singh, Gupta and Khan are partners in a firm sharing profits in 3:2:3 ratio.They admitted Jain as a new partner. Singh surrendered 1/3 of his share infavour of Jain: Gupta surrendered 1/4 of his share in favour of Jain and Khan surrendered 1/5 in favour of Jain. Calculate new profit sharing ratio?
11. Sandeep and Navdeep are partners in a firm sharing profits in 5:3 ratio. They admit C into the firm and the new profit sharing ratio was agreed at 4:2:1.Calculate the sacrificing ratio?
12. Rao and Swami are partners in a firm sharing profits and losses in 3:2 ratio.They admit Ravi as a new partner for 1/8 share in the profits. The new profitsharing ratio between Rao and Swami is 4:3. Calculate new profit sharing ratioand sacrificing ratio? (Ans : New Profit Ratio 4:3:1 and Sacrificing Ratio 4:1)
13. Compute the value of goodwill on the basis of four years' purchase of the average profits based on the last five years? The profits for the last five years were as follows: *Rs.*

2002	40,000
2003	50,000
2004	60,000
2005	50,000
2006	60,000

14. Capital employed in a business is Rs. 2,00,000. The normal rate of return on capital employed is 15%. During the year 2002 the firm earned a profit of Rs. 48,000. Calculate goodwill on the basis of 3 years purchase of super profit?
15. The books of Ram and Bharat showed that the capital employed on 31.12.2002 was Rs. 5,00,000 and the profits for the last 5 years : 2002 Rs. 40,000; 2003 Rs. 50,000; 2004 Rs. 55,000; 2005 Rs. 70,000 and 2006 Rs. 85,000. Calculate the value of goodwill on the basis of 3 years purchase of the average super profits of the last 5 years assuming that the normal rate of return is 10%?
16. Rajan and Rajani are partners in a firm. Their capitals were Rajan Rs. 3,00,000; Rajani Rs. 2,00,000. During the year 2002 the firm earned a profit of Rs. 1,50,000. Calculate the value of goodwill of the firm assuming that the normal rate of return is 20%?

17. A business has earned average profits of Rs. 1,00,000 during the last few years. Find out the value of goodwill by capitalisation method, given that the assets of the business are Rs. 10,00,000 and its external liabilities are Rs. 1,80,000. The normal rate of return is 10%?

(Ans : Rs. 1,80,000)

18. Verma and Sharma are partners in a firm sharing profits and losses in the ratio of 5:3. They admitted Ghosh as a new partner for 1/5 share of profits. Ghosh is to bring in Rs. 20,000 as capital and Rs. 4,000 as his share of goodwill premium. Give the necessary journal entries: a) When the amount of goodwill is retained in the business.

b) When the amount of goodwill is fully withdrawn.

c) When 50% of the amount of goodwill is withdrawn.

d) When goodwill is paid privately.

19. A and B are partners in a firm sharing profits and losses in the ratio of 3:2. They decide to admit C into partnership with 1/4 share in profits. C will bring in Rs. 30,000 for capital and the requisite amount of goodwill premium in cash. The goodwill of the firm is valued at Rs, 20,000. The new profit sharing ratio is 2:1:1. A and B withdraw their share of goodwill. Give necessary journal entries?

20. Arti and Bharti are partners in a firm sharing profits in 3:2 ratio, They admitted Sarthi for 1/4 share in the profits of the firm. Sarthi brings Rs. 50,000 for hiscapital and Rs. 10,000 for his 1/4 share of goodwill. Goodwill already appears in the books of Arti and Bharti at Rs. 5,000. the new profit sharing ratio between Arti, Bharti and Sarthi will be 2:1:1. Record the necessary journal entries in the books of the new firm? 21. X and Y are partners in a firm sharing profits and losses in 4:3 ratio. They admitted Z for 1/8 share. Z brought Rs. 20,000 for his capital and Rs. 7,000 for his 1/8 share of goodwill. Subsequently X, Y and Z decided to show goodwill in their books at Rs. 40,000. Show necessary journal entries in the books of X, Y and Z?

22. Aditya and Balan are partners sharing profits and losses in 3:2 ratio. They admitted Christopher for 1/4 share in the profits. The new profit sharing ratio agreed was 2:1:1. Christopher brought Rs. 50,000 for his capital. His share of goodwill was agreed to at Rs. 15,000. Christopher could bring only Rs. 10,000 out of his share of goodwill. Record necessary journal entries in the books of the firm?

23. Amar and Samar were partners in a firm sharing profits and losses in 3:1 ratio. They admitted Kanwar for 1/4 share of profits. Kanwar could not bring his share of goodwill premium in cash. The Goodwill of the firm was valued at Rs. 80,000 on Kanwar's admission. Record necessary journal entry for goodwill on Kanwar's admission.

24. 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 1.1.2003. 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 2003, Rs. 60,000 for 2004, Rs. 90,000 for 2005 and Rs. 70,000 for 2006. 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.

25. Rajesh and Mukesh are equal partners in a firm. They admit Hari into partnership and the new profit sharing ratio between Rajesh, Mukesh and

Hari is 4:3:2. On Hari's admission goodwill of the firm is valued at Rs. 36,000. Hari is unable to bring his share of goodwill premium in cash. Rajesh, Mukesh and Hari decided not to show goodwill in their balance sheet. Record necessary journal entries for the treatment of goodwill on Hari's admission.

26. Amar and Akbar are equal partners in a firm. They admitted Anthony as a new partner and the new profit sharing ratio is 4:3:2. Anthony could not bring this share of goodwill Rs. 45,000 in cash. It is decided to do adjustment for goodwill without opening goodwill account. Pass the necessary journal entry for the treatment of goodwill?

27. Given below is the Balance Sheet of A and B, who are carrying on partnership business on 31.12.2006. A and B share profits and losses in the ratio of 2:1.

Balance Sheet of A and B as on December 31, 2006

Liabilities		Assets	
Sundry Creditors Bills payable outstanding Expenses Capitals A 180000 B 150000	58000 10000 2000 330000	Cash in hand Cash at Bank Sundry Debtors Stock Plant and Machinery Building	10000 40000 60000 40000 100000 150000
	400000		400000

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. 60,000 as his share ofgoodwill for 1/4 share in the profits. (ii) Plant is to be appreciated to Rs. 1,20,000 and the value of buildings is to beappreciated by 10%.

(iii) Stock is found over valued by Rs. 4,000.

(iv) A provision for bad and doubtful debts is to be created at 5% of debtors. (v) Creditors were unrecorded to the extent of Rs. 1,000.

Pass the necessary journal entries, prepare the revaluation account and partners'capital accounts, and show the Balance Sheet after the admission of C.

28. Leela and Meeta were partners in a firm sharing profits and losses in the ratioof 5:3. On Is Jan. 2007 they admitted Om as a new partner. On the date of Om'sadmission the balance sheet of Leela and Meeta showed a balance of Rs. 16,000in general reserve and Rs. 24,000 (Cr) in Profit and Loss Account. Recordnecessary journal entries for the treatment of these items on Om's admission. The new profit sharing ratio between Leela, Meeta and Om was 5:3:2.

29. Amit and Viney are partners in a firm sharing profits and losses in 3:1 ratio.On 1.1.2007 they admitted Ranjan as a partner. On Ranjan's admission theprofit and loss account of Amit and Viney showed a debit balance of Rs. 40,000. Record necessary journal entry for the treatment of the same.

30. A and B share profits in the proportions of 3/4 and 1/4 . Their Balance Sheet on Dec. 31, 2006 was as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	41500	Cash at Bank	26500
Reserve Fund	4000	bills Receivable	3000
Capitals		Sundry Debtors	16000
A 30000		Stock	20000
B 16000	46000	Fixtures	1000
		Building	25000
	91500		91500

On Jan. 1,2007, C was admitted into partnership on the following terms:

(a) That C pays Rs. 10,000 as his capital.
(b) That C pays Rs. 5,000 for goodwill. Half of this sum is to be withdrawn by A and B.
(c) That stock and fixtures be reduced by 10% and a 5%, provision for doubtful debts be created on Sundry Debtors and Bills Receivable.
(d) That the value of land and buildings be appreciated by 20%.
(e) There being a claim against the firm for damages, a liability to the extent of Rs. 1,000 should be created.
(f) An item of Rs. 650 included in sundry creditors is not likely to be claimed and hence should be written back.

Record the above transactions (journal entries) in the books of the firm assuming that the profit sharing ratio between A and B has not changed. Prepare the new Balance Sheet on the admission of C.

31. A and B are partners sharing profits and losses in the ratio of 3:1. On Ist Jan. 2007 they admitted C as a new partner for 1/4 share in the profits of the firm. C brings Rs. 20,000 as for his 1/4 share in the profits of the firm. The capitals of A and B after all adjustments in respect of goodwill, revaluation of assets and liabilities, etc. has been worked out at Rs. 50,000 for A and Rs. 12,000 for B. It is agreed that partner's capitals will be according to new profit sharing ratio. Calculate the new capitals of A and B and pass the necessary journal entries assuming that A and B brought in or withdrew the necessary cash as the case may be for making their capitals in proportion to their profit sharing ratio?

32. Pinky, Qumar and Roopa partners in a firm sharing profits and losses in the ratio of 3:2:1. S is admitted as a new partner for 1/4 share in the profits of the firm, whichs he gets 1/8 from Pinky, and 1/16 each from Qmar and Roopa. The total capital of the new firm after Seema's admission will be Rs. 2,40,000. Seema is required to bring in cash equal to 1/4 of the total capital of the new firm. The capitals of the old partners also have to be adjusted in proportion of their profit sharing ratio. The capitals of Pinky, Qumar and Roopa after all adjustments in respect of goodwill and revaluation of assets and liabilities have been made are Pinky Rs. 80,000, Qumar Rs. 30,000 and Roopa Rs. 20,000. Calculate the capitals of all the partners and record the necessary journal entries for doing adjustments in respect of capitals according to the agreement between the partners?

33. The following was the Balance Sheet of Arun, Bablu and Chetan sharing profits and losses in the ratio of 6: 5: 3 respectively.

Liabilities	₹	Assets	₹
Sundry Creditors	9000	Cash at Bank	900
Bills payable	3000	Sundry Debtors	12600
Capitals		Stock	14000
Arun 19000		Furniture	3500
Bablu 16000	43000	Land and Building	24000
Chetan 8000			
	55000		55000

They agreed to take Deepak into partnership and give him a share of 1/8on the following terms: a) that Deepak should bring in Rs. 4,200 as goodwilland Rs. 7,000 as his Capital;
(b) that furniture be depreciated by 12%;

(c) thatstock be depreciated by 10%
(d) that a Reserve of 5% be created for doubtfuldebts:
(e) that the value of land and buildings having appreciated be brought upto Rs. 31,000 ;
(f) that after making the adjustments the capital accounts ofthe old partners (who continue to share in the same proportion as before) beadjusted on the basis of the proportion of Deepak's Capital to his share in thebusiness, i.e., actual cash to be paid off to, or brought in by the old partners asthe case may be.Prepare Cash Account, Profit and Loss Adjustment Account (RevaluationAccount) and the Opening Balance Sheet of the new firm.

34. Azad and Babli are partners in a firm sharing profits and losses in the ratio of2:1. Chintan is admitted into the firm with 1/4 share in profits. Chintan willbring in Rs. 30,000 as his capital and the capitals of Azad and Babli are to be adjusted in the profit sharing ratio. The Balance Sheet of Azad and Babli as on December 31, 2006 (before Chintan's admission) was as follows:

Balance Sheet of Azad and Babli as on December 31, 2006

Liabilities		Assets	
Sundry Creditors	8000	Cash in hand	2000
Bills payable	4000	Cash at Bank	10000
General Reserve	6000	Sundry Debtors	8000
Capitals		Stock	10000
A 50000		Furniture	5000
B 32000	82000	Plant and Machinery	25000
		Building	40000
	100000		100000

It was agreed that:
i) Chintan will bring in Rs. 12,000 as his share of goodwill premium. ii) Buildings were valued at Rs. 45,000 and Machinery at Rs. 23,000. iii) A provision for doubtful debts is to be created @ 6% on debtors. iv) The capital accounts of Azad and Babli are to be adjusted by opening current accounts.
Record necessary journal entries, show necessary ledger accounts and prepare the Balance Sheet after admission.

35. Ashish and Dutta were partners in a firm sharing profits in 3:2 ratio. On Jan.01, 2007 they admitted Vimal for 1/5 share in the profits. The Balance Sheet ofAshish and Dutta as on Jan. 01, 2007 was as follows:

Balance Sheet of A and B as on 1.1.2007

Liabilities		Assets	
Sundry Creditors	15000	Cash in hand	5000
Bills payable	10000	Sundry Debtors 22000	20000
Capitals		less provisions 2000	35000
Ashish's 80000		Stock	45000
Dutta 's 35000	115000	Plant and Machinery	35000
		Land and Building	
	140000		140000

It was agreed that:
i) The value of Land and Building be increased by Rs. 15,000.
ii) The value of plant be increased by 10,000. iii) Goodwill of the firm be valued at Rs. 20,000. iv) Vimal to bring in capital to the extent of 1/5th of the total capital of the new firm.
Record the necessary journal entries and prepare the Balance Sheet of the firm after Vimal's admission.