CHAPTER : 3

# RECONSTITUTION OF PARTNERSHIP FIRM (ADMISSION OF A NEW PARTNER)

## STUDY NOTES

- According to the Partnership Act 1932, a new partner can be admitted into the firm only with the consent of all the existing partners unless otherwise agreed upon.
- When all the existing partners give consent to a new person to become a partner of the firm, it is called admission of a partner.
- **Rights of a new partner:** A newly admitted partner acquires two main rights in the firm;
  - Right to share the assets of the partnership firm; and
  - Right to share the profits of the partnership firm.
- **Accounting treatment:** Following important points require attention at the time of admission of a new partner:
  - New profit sharing ratio;
  - Sacrificing ratio;
  - Valuation and adjustment of goodwill;
  - Revaluation of assets and Reassessment of liabilities;
  - Distribution of accumulated profits (reserves); and
  - Adjustment of partners' capitals.
- **New profit sharing ratio:** When new partner is admitted he acquires his share in profits from the old partners. This means old partners sacrifice a share of their profit in favour of the new partner. Hence, there is a need to find the new profit sharing ratio among all the partners.

  New ratio = old share - sacrifice.
- **Sacrificing ratio:** The ratio in which the old partners agree to sacrifice their share of profit in favour of the new partner is called sacrificing ratio.

  Sacrificing ratio = Old share – New share.
- **Goodwill and Valuation of goodwill:**
  - **Average Profits Method**

    (a) **Simple Average:** Under this method, the goodwill is valued at the agreed number of years' of purchase of the average profits of the past years.

    **Goodwill = Average Profit × No. of years' of purchase**

    (b) **Weighted Average:** Under this method, the goodwill is valued at an agreed number of years' of purchase of the weighted average profits of the past years. .

    **Goodwill = Weighted Average Profit × No. of years' of purchase**

    Weighted Average Profit = Sum of Profits multiplied by weights/ Sum of weights
  - **Super Profits Method:** Under this method, the goodwill is valued at the agreed number of years' of purchase of the super profits of the firm.

    **Goodwill = Super Profit × No. of years' of purchase**

    **Super Profit = Actual or Average profit – Normal Profit**

- **Capitalization Method:**
  - (i) **Capitalization of Average Profits:** Under this method, the value of goodwill is calculated by deducting the actual capital employed from the capitalized value of the average profits on the basis of the normal rate of return.

    **Goodwill = Normal Capital – Actual Capital Employed**

    **Normal Capital / Capitalized Average profits = Average Profits × (100 / Normal Rate of Return)**

    **Actual Capital Employed = Total Assets (excluding goodwill) – Outside Liabilities**
  - (ii) **Capitalization of Super Profits:** Under this method, Goodwill is calculated by capitalizing the super profits directly.

    **Goodwill = Super Profits × (100 / Normal Rate of Return)**

- **Treatment of goodwill:** The new partner is required to compensate the old partners for their loss of share in the super profits of the firm for which he brings in an additional amount known as premium for goodwill. This amount is shared by the existing partners in sacrificing ratio.
  - The amount of premium brought in by the new partner is shared by the existing sacrificing partners in their ratio of sacrifice.
  - If this amount is paid to the old partners directly (privately) by the new partner, no entry is passed in the books of the firm.
  - But, when the amount is paid through the firm, the following journal entries are passed:

    (i) Bank A/c Dr.

    To Premium for Goodwill A/c

    (Amount brought by new partner as premium)

    (ii) Premium for Goodwill A/c Dr.

    To Sacrificing Partners Capital A/c (Individually)

    (Goodwill distributed among the existing partners' in their sacrificing ratio).

    If they decide to withdraw their amounts, the following entry will be passed:

    (iii) Existing sacrificing partner's Capital A/c (Individually) Dr.

    To Bank A/c

    (The amount of goodwill withdrawn by the existing partners)
  - When a new partner is unable to bring premium for goodwill in cash, his capital/ current account is debited.
  - When a new partner brings goodwill in kind, sundry assets account is debited.
  - Goodwill appearing in the books will be written-off by debiting old partners' capital accounts in their old profit sharing ratio.
  - Accounting Standard 26 implies that purchased goodwill may be accounted for in the books and shown as an asset should be written off in a period not exceeding 10 years.

    Self - generated goodwill is not accounted for in the books. It should be written-off in the same financial year and should not be shown as an asset in the balance sheet.
- **Treatment of accumulated profits and reserves:** Free reserves like general reserve, reserve fund, Profit and Loss Account (credit), etc are distributed among the old partners in old profit sharing ratio.
- Similarly, if there are some accumulated losses in the form of a debit balance of profit and loss account and/or deferred revenue expenditure, etc are also transferred to partner's capital account debit side in old ratio.
- **Investment Fluctuation Reserve/ Fund:** The amount of IFR is distributed among the old partners in their old profit sharing ratio **if book value and market value of investments are same. However, if market value of investments is lower than book value of investments then.**
  - If fall in the value of investment is less than IFR, the IFR to the extent of fall in value of investments is credited to investment account and balance amount of IFR is distributed among the old partners in their old ratio.

- If fall in the value of investment is more than IFR, then amount of IFR along with amount of fall in investments is credited to investment account and amount of fall in excess of IFR is debited to Revaluation account.
- If fall in the value of investment and amount of IFR both are same, the amount of IFR is credited to investment account and nothing is distributed among the old partners.

- **Workmen Compensation Reserve / Fund:** If Workmen Compensation Reserve/fund is given and there is no claim for workmen compensation, the amount of WCR is credited to old partners' capital account in their old profit sharing ratio.
- However, if both Workmen Compensation Reserve/Fund & claim for workmen compensation exist then,
  - **If claim for workmen compensation is less than WCR,** the amount of claim is credited to provision for workmen compensation and balance amount of WCR is transferred to partners' capital account in their old profit sharing ratio.
  - **If claim for workmen compensation is more than WCR,** the amount of claim is credited to provision for workmen compensation and the amount of claim in excess of WCR (loss) is debited to revaluation account (which is distributed among old partners in old ratio)
  - **If claim for workmen compensation is equal to WCR,** the amount of claim is transferred to provision for workmen compensation and nothing is distributed among partners as full amount of WCR is fully utilized for workmen compensation claim.
- **Revaluation of Assets and Reassessment of Liabilities:** On admission of a partner assets and liabilities are revalued. For recording increase or decrease in the value of assets and liabilities, the firm has to prepare the Revaluation Account.
- It is credited with increase in the value of assets and decrease in the value of liabilities and with unrecorded assets if any.
- It is debited with increase in the value of liabilities and decrease in the value of assets and with unrecorded liabilities if any.
- The gain or loss on revaluation of assets and liabilities is transferred to the capital accounts of the old partners in their old profit sharing ratio.

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## QUESTION BANK

### MULTIPLE CHOICE QUESTIONS

1. Reconstitution of partnership firm does not include ___________
   (a) Admission of a new partner
   (b) Dissolution of partnership firm
   (c) Retirement and death of a partner
   (d) Change in profit sharing ratio of existing partners

2. Old profit sharing ratio minus new profit sharing ratio = ______________'
   (a) New profit sharing ratio (b) Sacrificing ratio
   (c) Gaining ratio (d) Both (a) and (b)

3. Cash brought by a new partner as a premium for goodwill is credited to________ in _____ ratio.
   (a) New partner's capital account, new ratio (b) Sacrificing partner's capital account, sacrificing ratio
   (c) Old partner's capital account, new ratio (d) Old partner's capital account in sacrificing ratio

4. Free reserves appearing in the Balance Sheet at the time of admission of a partner, is distributed among partners in their ____________ Ratio.
   (a) New profit sharing (b) Old profit sharing
   (c) Sacrificing (d) Gaining

5. Which one is correct for employee provident fund, at the time of admission of a partner:
   (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) Shown in new balance sheet liability side

6. Which of the following is true with respect to admission of a new 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 gets right in the assets of the firm
   (d) All of these

7. 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 ______________ Account.
   (a) Realisation account
   (b) Profit and loss account
   (c) Revaluation account
   (d) Profit and loss appropriation account

8. Sacrificing ratio is computed at the time of__________ .
   (a) Admission of a new partner
   (b) Dissolution of a partnership firm
   (c) Death of a partner
   (d) Retirement of a partner

9. At the time of admission, Gain (Profit) or Loss on revaluation is shared by the old partners in their ______________ ratio.
   (a) New profit sharing
   (b) Old profit sharing
   (c) Sacrificing
   (d) Gaining

10. In case of fixed capital account method, undistributed losses ₹ 15,000 are transferred to _____.
    (a) Debit of Partners' Capital A/c
    (b) Credit of Partners' Capital A/c
    (c) Debit of Partners' Current A/c
    (d) Cedit of Partners' Current A/c

11. 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 partner's capital account
    (d) New partner's capital account

12. Revaluation account is a ________________ account.
    (a) Real account
    (b) Nominal account
    (c) Personal account
    (d) None of these

13. As per accounting standard 26, ______________ goodwill is not accounted in the books of account.
    (a) Purchased goodwill
    (b) Self generated goodwill
    (c) Hidden goodwill
    (d) Both (a) and (b)

14. 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

15. Sacrificing ratio is used to distribute ______________ in case of admission of a partner.
    (a) Goodwill premium
    (b) Revaluation Profit or Loss
    (c) Profit and Loss Account (Credit Balance)
    (d) Both (b) and (c)

16. Revaluation account is also known as ________________.
    (a) Profit and loss account
    (b) Profit and loss appropriation account
    (c) Profit and loss adjustment account
    (d) Profit and loss suspense account

17. Revaluation of assets at the time of reconstitution is necessary because their present value may be different from their:
    (a) Market Value
    (b) Net Value
    (c) Cost of Asset
    (d) Book Value

18. If at the time of admission of a new partner, some unrecorded liability exists, it will be _________ to_________ Account.

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

19. The balance of Workmen Compensation Reserve will be transferred to _________ on admission of a new partner.

(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

20. As per Accounting Standard -26,____________

(a) Only 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) Ignore goodwill

21. Purchased goodwill should be written off from the books of account in the __________.

(a) Period not exceeding 10 years
(b) Period not exceeding 1 years
(c) Period not exceeding 5 years
(d) In same accounting year

22. Premium brought by a newly admitted partner should be:

(a) Credited to sacrificing partners in sacrificing ratio
(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

23. Sacrificing ratio is useful because:

(a) Profit or loss on 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) None of these

24. Partners share the gain or loss on revaluation of assets and liabilities in____________ ratio.

(a) Sacrificing Ratio
(b) Old Profit Sharing Ratio
(c) New Profit Sharing Ratio
(d) Gaining Ratio

25. Revaluation account is credited with______________.

(a) Increase in the value of an asset
(b) Decrease in liabilities
(c) Increase in liabilities
(d) Both (a) and (b)

26. Anita and Bunny are partners in a partnership firm. Their profit sharing ratio is 2:3. On 31st March 2021, their balance sheet shows machinery at ₹ 2,00,000 and debtors at ₹1,00,000. Ramakant is admitted as a new partner and the new profit sharing ratio is fixed as 3:2:1. Machinery is revalued at ₹1,50,000 and a provision is made for doubtful debts @ 10 %. What will be Anita's share in loss on revaluation?

(a) ₹ 50,000
(b) ₹ 10,000
(c) ₹ 24,000
(d) ₹ 36,000

27. Revaluation account is debited with ___________.

(a) Decrease in the value of assets and increase in its liabilities
(b) Increase in the value of an asset.
(c) Decrease in the value of liabilities
(d) Unrecorded asset

28. At the time of admission, if the book value and the market value of investment is same Investment Fluctuation Reserve is transferred to _________ account of the old partners in their _____________ ratio.

(a) Capital, old
(b) Revaluation, old
(c) Realisation, old
(d) Capital, new

**29.** In the absence of an express agreement as to who will contribute to new partners' share of profit, it is implied that the old partners will contribute:

(a) Equally
(b) In the ratio of their capitals
(c) In their old profit-sharing ratio
(d) In the gaining ratio

**30.** Balance sheet of A and B showed ₹ 12,000 profit and loss Account debit balance, at the time of admission of new partner C with 1/4th share. What Journal entry will be passed for the debit balance of profit and loss account ₹ 12,000?

(a) Revaluation A/c dr ₹ 12,000; To profit and loss A/c 12,000
(b) Profit and loss account dr ₹ 12,000; To A's capital A/c 6,000; To B's capital A/c 6000
(c) A's capital A/c dr 6,000; B's capital A/c dr 6000; To Profit and loss account ₹ 12,000
(d) Profit and loss account dr ₹ 12,000; To C's capital A/c 12,000

**31.** In case the firm is following Fixed Capital Accounts method, revaluation profit is transferred to partner's ________ account.

(a) Capital
(b) Revaluation
(c) Realisation
(d) Current

**32.** At the time of reconstitution of a partnership firm, recording of an unrecorded liability will lead to:

(a) Gain to the existing partners
(b) Loss to the existing partners
(c) Neither Gain nor loss to the existing partners
(d) None of the above

**33.** On admission of a new partner, the entry for unrecorded type writer of ₹ 4,000 would be ;

(a) Debit Partners Capital A/c & Credit type writer A/c ₹ 4,000
(b) Debit Revaluation A/c & Credit type writer A/c ₹ 4,000
(c) Debit type writer A/c & Credit Revaluation A/c ₹ 4,000
(d) No effect for this transaction

**34.** At the time of admission of a partner, undistributed profits appearing in the balance sheet of the old firm is transferred to the capital account 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) old partner in sacrificing ratio

**35.** When a new partner does not bring his share of goodwill in cash, the amount is debited to ____.

(a) Cash A/c
(b) Premium for goodwill A/c
(c) Current A/c of the new partner
(d) Capital A/cs of the old partners

**36.** Which of the following items in 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 following Fluctuating Capital Accounts Method

(a) Deferred Revenue Expenditure
(b) Profit and Loss Account (Dr)
(c) Profit and Loss Account (Cr)
(d) Balance in Drawings Account of partners

**37.** The firm of P and Q with profit sharing ratio of 5:3: had the balance in General Reserve Account of ₹ 80,000. R joined as a new partner and the new profit sharing ratio was decided to be 3:3:3. How will you deal with general reserve?

(a) General reserve A/c dr ₹80,000 ; To P's capital A/c 30,000 ; To Q's capital A/c 50,000
(b) General reserve A/c dr ₹80,000 ; To P's capital A/c 40,000 ; To Q's capital A/c 40,000
(c) P's capital A/c dr 50,000; Q's capital A/c dr 30,000 ; To General reserve A/c ₹ 80,000
(d) General reserve A/c dr ₹80,000 ; To P's capital A/c 50,000 ; To Q's capital A/c 30,000

**38.** 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 Account of old Partners
(c) General Reserve
(d) Capital Account of All Partners

39. Mohan, a new partner is to bring ₹ 6,000 as premium for goodwill for his 1/3rd share in profit. Total goodwill of the firm is valued at ₹ ____________.

(a) ₹ 28,000
(b) ₹ 2,000
(c) ₹ 18,000
(d) ₹ 26,000

40. Goodwill of the firm is valued ₹ 60,000 by super profit method. Goodwill already appearing in the balance sheet ₹ 30,000. Smita is admitted to the partnership firm with 1/3rd share in profit. What amount she will bring as her share in goodwill?

(a) ₹ 10,000 (b) ₹ 20,000 (c) ₹ 30,000 (d) ₹ 60,000

41. A and B are partners sharing profit and losses in ratio of 2:3. C is admitted for 1/3rd share. On the date of admission of C, the debtors stood at ₹ 40,000 and the provision for doubtful debts appeared at ₹ 4000. If bad debts now have arisen for ₹ 6,000 and firm decides to maintain provisions at same rate as before then amount of Provision to be debited to Revaluation A/c would be:

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

42. If the new partner brings any additional amount of cash other than his capital contributions then it is termed as ___________.

(a) Capital
(b) Reserves
(c) Profits
(d) Premium for Goodwill

43. A and B are partners sharing profit and losses in the ratio of 3 : 2. A's capital is ₹ 1, 20,000 and B's capital is ₹ 60,000. They admit C for 1/5thshare of profits. C should bring as his capital

(a) ₹ 36,000 (b) ₹ 48,000 (c) ₹ 58,000 (d) ₹ 45,000

44. A and B are partners sharing profit in the ratio of 3:2. C was admitted for 1/6th share of profit with a minimum guaranteed amount of ₹ 10,000. At the close of accounting year the firm earned profit of ₹ 54,000. What share of profit C will get?

(a) ₹ 10,000 (b) ₹ 9,000 (c) ₹ 26,400 (d) ₹ 17,600

45. Amin and Babita are partners in a firm having capital of ₹ 54,000 and 36,000 respectively. They admitted Charmi in a partnership firm for 1/3rd share and Charmi is to bring proportionate amount of capital. The capital of Charmi would be ₹ ___________

(a) ₹ 45,000 (b) ₹ 90,000 (c) ₹ 55,000 (d) ₹ 90,000

46. S and N are partners in a firm sharing profits in 5:3 ratios. They admit T into the firm and the new profit sharing ratio was agreed at 4:2:1. What will be the sacrificing ratio?

(a) 5:3 (b) 3:5 (c) 2:3 (d) 2:1

47. A and B were partners in a firm sharing profit and loss in the ratio 8:6. They admitted C as a new partner. The new profit sharing ratio between A, B and C was 6:4:4. A surrendered 1/4th of his share in favour of C. What will be B's sacrifice?

(a) $\frac{1}{7}$ (b) $\frac{2}{7}$ (c) $\frac{3}{7}$ (d) $\frac{4}{7}$

48. Anjli and Vishal are partners sharing profits in the ratio of 3:2. They admitted Samir as a new partner for 1/5 share in the future profits of the firm. What will be new profit sharing ratio?

(a) 6:4:2 (b) 1:2:3 (c) 3:2:1 (d) 12:8:5

49. At the time of admission of a partner, what will be the effect of the following information? Balance in Workmen compensation reserve ₹ 40,000. Claim for workmen compensation ₹ 45,000.

(b) 40,000 Debited to Revaluation Account
(b) 45,000 Debited to the Partner's capital Accounts
(c) 5,000 Debited to Revaluation Account
(d) 5,000 Credited to Revaluation Account

50. At the time of admission of a new partner, the balance sheet of the firm showed Investment Fluctuation Reserve ₹ 40,000. Martket value of the Investment is ₹50,000 and book value ₹ 80,000. What amount will be distributed of IFR among old partners?

(a) 10,000 (b) 60,000 (c) 40,000 (d) 30,000

**51.** On admission of Vinit a new partner, the balance sheet of the firm showed Investment Fluctuation Reserve ₹ 30,000. Martket value of the Investment is ₹ 60,000 and book value ₹ 90,000. What amount will be distributed of IFR among old partners?

(a) 30,000 (b) 60,000 (c) Nil (d) 90,000

**52.** Shah and Sharma sharing profits in the ratio of 3:2, admit Mishra as a partner with 1/5th share of profit.1/5th Share of Mishra will be given by Shah and Sharma __________.

(a) In the ratio of their capital (b) In the ratio of their profits

(c) In equal ratio (d) In the gaining ratio

**53.** A, B and C are partners sharing profits in the ratio of 3:2:1. They agree to admit D into the firm. A, B and C agreed to give1/3rd, 1/6th, 1/9th share of their profit. The share of Profit of D will be:

(a) $\frac{1}{10}$ (b) $\frac{14}{54}$ (c) $\frac{12}{54}$ (d) $\frac{13}{54}$

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

(a) $\frac{1}{10}$ (b) $\frac{2}{10}$ (c) $\frac{3}{5}$ (d) $\frac{5}{20}$

**55.** S and G are sharing profits and losses in the ratio 3:2. M is admitted with 1/5th share in profit of the firm which he gets entirely from S. the new profit sharing ratio would be__________.

(a) 3 : 4 : 4 (b) 3 : 1 : 4 (c) 2: 2 : 1 (d) 3: 7 : 6

**56.** Ajay and Bhim are partners sharing profits and losses in the ratio of 7 : 5. They agree to admit Chandni, their manager, into partnership who is to get 1/6th share in the profits. She acquires this share as 1/24th from Ajay and 1/8th from Bhim, The new profit sharing ratio will be :

(a) 13 : 7 : 4 (b) 7 : 13 : 4 (c) 7 : 5 : 6 (d) 5 : 7 : 6

**57.** 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. What will be the new profit sharing ratio?

(a) 5:3:1 (b) 3:2:1 (c) 2:3:1 (d) 2:1:1

**58.** Ram and Laxman are partners sharing profits and losses in the ratio of 5:3. They admitted Om into their partnership. Their new profit sharing ratio is decided 7:5:4. The sacrifice ratio among Ram and Laxman is ____________.

(a) 3 : 1 (b) 3 : 4 (c) 5 : 6 (d) 5 : 7

**59.** Akbar and Birbal are partners sharing profits in the ratio 3:2. They admit Chatur for 1/3 share in future profits. What will be the new ratio?

(a) 6:4:5 (b) 5:6:4 (c) 3:2:1 (d) 1:2:3

**60.** Anish and Bakul are partners sharing in the ratio 3:2. They admit Chinmay as a new partner for $\frac{1}{3}$ rd share in future profit which he gets $\frac{1}{9}$ from Anish and $\frac{2}{9}$ from Bakul. what will be the new ratio?

(a) 26 : 4 : 5 (b) 25 : 6 : 5 (c) 22 : 8 : 5 (d) 22 : 3 : 5

**61.** Azad and Badshah are partners sharing in the ratio 3:2. They admit Chameli as the new partner. Azad surrenders $\frac{1}{3}$ rd of his share and Badshah surrenders 2/3rd of his share in favour of Chameli. What will be the new ratio?

(a) 6:2:7 (b) 7:2:6 (c) 3:2:1 (d) 10:2:7

**62.** X and Y are partners sharing profits and losses in the ratio of 3 : 2. Z is admitted for 1/5th share in profits which he gets from X. New profit sharing ratio between X,Y and Z will be________.

(a) 12 : 8 : 5 (b) 8 : 12 : 5 (c) 2 : 2 : 1 (d) 2 : 2 : 2

**63.** For undistributed accumulated losses at the time of admission, ______________ account should be debited.

(a) Old partner's capital (b) Gaining partner's capital

(c) Sacrificing partner's capital (d) New partner's capital

64. A and B are partners sharing profits and losses in the ratio 14: 6. They admitted C for 1/5th share, which he acquires in equal proportion from both old partners. The new profit sharing ratio would be ______________.

(a) 3 : 1 : 2 (b) 1 : 1 : 4 (c) 7 : 5 : 3 (d) 3 : 1 : 1

65. X and Y are partners in a firm sharing profits and losses in the ratio 5:3. They admit Z into partnership. The new ratio 3:2:1. What will be the Sacrificing Ratio?

(a) 6 : 2 (b) 7 : 2 (c) 3 : 2 (d) 2 : 6

66. Arti and Vandna are partners sharing profits and losses in the ratio 2:1. They admitted Manisha into the partnership firm for 1/4th share in profits for which she brings in ₹ 20,000 as her share of capital. Hence, the adjusted capital of Arti and Vandna will be__________

(a) ₹ 40,000 and ₹ 20,000 respectively
(b) ₹ 30,000 and ₹ 60,000 respectively
(c) ₹ 60,000 and ₹ 40,000 respectively
(d) ₹ 32,000 and ₹ 18,000 respectively

67. Which one of the following statement is correct?

(a) Goodwill is a fictitious asset.
(b) Goodwill is a current asset.
(c) Goodwill is a wasting asset.
(d) Goodwill is an intangible asset.

68. Arjun and Bhim are partners in a firm sharing profits in the ratio 2:1. Chankya was admitted as a partner with 1/2 share in profits. Chankya is to bring his share of premium for goodwill in cash. The goodwill of the firm is estimated at ₹ 60,000. Credit will be given to Arjun _________ and Bhim ₹ _________.

(a) ₹ 20,000 and ₹ 20,000
(b) ₹ 30,000 and ₹ 30,000
(c) ₹ 20,000 and ₹ 10,000
(d) ₹ 15,000 and ₹ 15,000

69. If partner's capital accounts are maintained on Fixed Capitals Basis, Profit and Loss Account, General Reserve etc. are transferred to_________

(a) Partner's Fixed Capital A/c
(b) Partner's Current A/c
(c) Revaluation A/c
(d) Profit and Loss Adjustment A/c

70. Goodwill already appearing in the ______________,at the time of admission of a new partner should be written off among old partners in old profit sharing ratio.

(a) Trial balance
(b) Profit and loss account
(c) Balance sheet
(d) Trading account

71. Deep a new partner brings ₹ 5,000 cash for his goodwill share in the partnership firm of Dinesh and Divya sharing profits and losses in the ratio of 5:6. Amount of goodwill brought by Deep will be credited to __________.

(a) Cash account
(b) Deep's capital
(c) Old partner's capital in sacrificing ratio
(d) Sacrificing partner's capital account in sacrificing ratio

72. Mohan and Sohan are partners in a firm. They admit Rohan with $\frac{1}{5}$ th share in the profits of the firm. Rohan brings ₹5,00,000 as his share of capital. Find the value of Rohan's share of goodwill on the basis of his capital contribution, given that the combined capital of Mohan and Sohan after all Adjustments is ₹14,00,000.

(a) ₹5,00,000 (b) ₹1,20,000 (c) ₹1,30,000 (d) ₹2,80,000

73. Goodwill is not recorded in the books of the firm at the time of admission of a new partner if __

(a) Goodwill is paid privately by new partner
(b) Goodwill brought in cash by new partner
(c) Goodwill brought in kind by a new partner
(d) If he is unable to pay at the time of admission.

74. On admission of Vijay a new partner with $\frac{1}{3}$ share in profits, goodwill appearing in the balance sheet of Ajay and Sanjay was ₹ 60,000. How will you deal with goodwill shown in the balance sheet?

(a) Goodwill will be written off among all partners in new ratio
(b) Goodwill will be written off among old partners in sacrificing ratio
(c) Goodwill will be written off among old partners in old ratio.
(d) Goodwill will be written off in equal ratio among old partners

**75.** Hemant and Smita were partners in a firm sharing profits in the ratio of 3:1.Their Capitals were ₹ 4,00,000 and 1,00,000 respectively. They admitted Dipa for $\frac{1}{5}$ th share in future profits. Dipa brought ₹ 2,00,000 as her share in capital. Dipa's share of goodwill will be

(a) ₹50,000
(b) ₹1, 60,000
(c) ₹2,00,000
(d) ₹60,000

**76.** X and Y were partners sharing profits in the ratio of 3:2. Z was admitted as a new partner for $\frac{1}{5}$th share. X surrendered $\frac{3}{20}$ from his share and Y sacrificed $\frac{1}{20}$ from his share in favour of Z, the new profit sharing ratio would be___________.

(a) 9:7:4
(b) 8:8:4
(c) 6:10:4
(d) 10:6:5

**77.** __________ is the value of the reputation of a firm in respect of the profits expected in future over and above the normal profits.

(a) Revaluation profit
(b) Goodwill
(c) Abnormal profit
(d) Negative super profit

**78.** A and S are partners in a firm sharing profits and losses in 1:1. A new partner L is admitted for $\frac{1}{5}$ th share and goodwill of the firm is valued at ₹ 1,20,000. What is the entry for goodwill, if L does not bring his share of goodwill in cash .

(a) Premium for Goodwill A/c Dr. 15,000; To A's Capital A/c 7,500 To S's Capital A/c 7,500
(b) L's Current A/c Dr. 20,000 ;To A's Capital A/c 10,000; To S's Capital A/c 10,000
(c) Premium for Goodwill A/c .Dr. 12, 000; To A's Capital A/c 6,000; To S's Capital A/c 6,000
(d) L's Current A/c Dr. 24,000 ;To A's Capital 12,000; To S's Capital 12,000

**79.** In which of the following case, revaluation account is debited?

(a) Increase in value of asset
(b) Decrease in value of asset
(c) Decrease in value of liability
(d) No change in value of assets

**80.** Vipul and Jay are partners in a firm with capital of ₹1,54,000 and 1,36,000 respectively. They admitted Ramesh as a new partner with $\frac{1}{3}$ rd share in profits. Ramesh brought proportionate capital. What will be the capital of Ramesh?

(a) 54,000
(b) 99,000
(c) 1,45,000
(d) 36,000

**81.** A and B share Profit & Loss equally. Their capitals were ₹2,40,000 and ₹ 60,000 respectively. There was also a balance of ₹ 50,000 in General reserve and revaluation gain amounted to ₹ 10,000. They admit friend C with $\frac{1}{5}$ share. C brings ₹1,00,000 as capital. Calculate the amount of goodwill of the firm.

(a) ₹40,000
(b) ₹1,00,000
(c) ₹20,000
(d) ₹ 4,60,000

**82.** On admission of a new partner, reserve fund appearing in the balance sheet of the firm is transferred to________

(a) Revaluation A/c
(b) Old Partners capital A/c.
(c) New Partners capital A/c
(d) All Partners capital A/c

**83.** B and O are partners in a firm sharing profits in the ratio of 4 : 1. They admit M as a new partner for $\frac{1}{3}$ rd share in profits. It was agreed that B, O and M would share profits equally in future. M brought ₹ 15,000 as goodwill for his $\frac{1}{3}$ rd share in profits. Who will sacrifice or gain on admission of M?

(a) B will gain and O will Sacrifice
(b) O will gain and B will Sacrifice
(c) Both B and O will sacrifice
(d) Both B and O will gain

**84.** On admission of a new partner, free reserves like general reserve appearing in the balance sheet is distributed among old partners in ________ ratio.

(a) Sacrificing
(b) New
(c) Old
(d) Gaining

85. A and C sharing profits and losses in equal ratio, decide to admit D as a new partner with effect from 1st April, 2022. Their balance sheet show workmen compensation fund ₹ 60,000. If claim on account of workmen compensation is ₹ 72,000, what journal entry will be passed?

(a) Workmen compensation fund Dr ₹ 60,000
    To workmen compensation claim A/c 60,000

(b) Workmen compensation fund Dr ₹ 60,000
    Revaluation A/c Dr ₹ 12,000
    To workmen compensation claim A/c 72,000

(c) Workmen compensation fund Dr ₹ 72,000
    To workmen compensation claim A/c 72,000

(d) Workmen compensation fund Dr ₹ 60,000
    To A's capital A/c 30,000
    To C's Capital A/c 30,000

86. On admission of new partner, premium for goodwill brought by a new partner is distributed among partners in ________ ratio.

(a) Sacrificing (b) New (c) Old (d) Gaining

87. A and B sharing profits and losses in equal ratio, decide to admit C as a new partner with effect from 1st April, 2022. Their balance sheet show workmen compensation fund ₹ 50,000. If claim on account of workmen compensation is ₹ 10,000, what journal entry will be passed?

(a) Workmen compensation fund Dr ₹50,000
    To workmen compensation claim A/c ₹50,000

(b) Workmen compensation fund Dr ₹50,000
    To Revaluation A/c Dr ₹ ₹40,000
    To workmen compensation claim A/c ₹10,000

(c) Workmen compensation fund Dr ₹50,000
    To workmen compensation claim A/c ₹10,000
    To A's capital A/c ₹20,000
    To B's capital A/c ₹20,000

(d) Workmen compensation fund Dr ₹50,000
    To A's capital A/c ₹25,000
    To C's Capital A/c ₹25,000

88. When new partner brings cash for goodwill, the amount is credited to the _______.

(a) Premium for goodwill account (b) Cash account
(c) Capital account of new partner (d) Both (a) and (b)

89. Ankita and Bankita are partners sharing profits in the ratio of 3 : 2. They admit Chankita for $\frac{1}{5}$th share who contributed ₹ 30,000 for his share of goodwill. The total value of the goodwill of the firm will be_______________.

(a) 1,50,000 (b) 1,20,000 (c) 90,000 (d) 6,000

90. M, S and Q were partners sharing profits and losses in the ratio of 4 : 3 : 2. The partners decide to share future profits and losses in the ratio 2 : 2 : 1. Sacrifice or gain of Q will be__________.

(a) Sacrifice of Q = $\frac{1}{45}$ (b) Gain of Q = $\frac{3}{45}$
(c) Sacrifice of Q = $\frac{2}{45}$ (d) Gain Q of = $\frac{2}{45}$

91. Which of the following profit/reserves is not distributed among old partners?

(a) Profit and loss account credit balance. (b) Workmen provident fund.
(c) Workmen profit sharing fund (d) Both (b) and (c) above.

**92.** X surrendered $\frac{1}{12}$ th share and Y surrendered $\frac{1}{6}$ th share in favour of Z. what will be sacrificing ratio between X and Y?

(a) 2:1 (b) 1:2 (c) 3:2 (d) 1:6

**93.** Average profit is ₹ 1,00,000 in last 5 years and Normal rate of return is 10 % and capital employed is ₹ 9,00,000. If the goodwill is valued at 4 year's purchase of super profit is value of goodwill will be ₹ _______.

(a) 20,000 (b) 1,00,000 (c) 40,000 (d) 90,000

**94.** Sacrificing ratio is equal to__________

(a) New share minus old share (b) Old share minus new share
(c) Old share plus new share (d) New share plus old share.

**95.** Manju and Anju are partners in a firm sharing profits in the ratio of 4:2 admitted Kaju into the firm for $\frac{1}{4}$ th share in profits for which he brings in ₹ 20,000 as his share of capital. The adjusted capital Manju and Anju would be:

(a) 40,000 and 40,000 respectively (b) 20,000 and 20,000 respectively
(c) 40,000 and 20,000 respectively (d) 20,000 and 40,000 respectively

**96.** Goodwill as per super profit method =__________

(a) Super profit x Normal rate of return (b) Super profit x Average profit
(c) Super profit x Number of years purchased (d) Super profit x Net assets

**97.** A and B were sharing profits in the ratio of 3 : 2. They decided to admit C into the partnership for $\frac{1}{6}$ th share of the future profits. Goodwill, valued at 4 times the average super profits of the firm, was ₹ 18,000. The firm had Assets worth ₹ 15,00,000 and Liabilities ₹ 12,00,000. The normal earning capacity of such firms is expected to be 10% p.a. The Average Profits earned by the firm during the last 4 years is __________.

(a) 55,500 (b) 34,500 (c) 50,000 (d) 18,000

**98.** Capital employed by a partnership firm is ₹ 4, 00,000. Its actual profit is ₹ 70,000. The normal rate of return in similar type of business is 10%. What is the amount of super profits?

(a) 60,000 (b) 16,000 (c) 10,000 (d) 30,000

**99.** Reserves and accumulated profits are transferred to partner's capital accounts at the time of reconstitution of partnership firm in ______________

(a) Old profit-sharing ratio (b) Sacrificing Ratio
(c) Gaining ratio (d) New profit-sharing ratio

**100.** Anand and Bunky are sharing profits and losses in the ratio of 3: 2. They admitted Chunky as a partner for 1/3rd share in the profits of the firm. The new profit sharing ratio will be:

(a) 6 : 4 : 5 (b) 3 : 2 : 2 (c) 3 : 2 : 5 (d) 5 : 2 : 3

**101.** The ratio in which a partner receives a rise in his share of profits is known as:

(a) New Ratio (b) Sacrificing Ratio (c) Capital Ratio (d) Gaining Ratio

**102.** Average profit is ₹ 1,00,000 in last 5 years and Normal rate of return is 10 % and capital employed is ₹ 9,00,000. Goodwill as per capitalisation of super profit method is _______.

(a) 2,00,000 (b) 1,00,000 (c) 10,00,000 (d) 9,00,000

**103.** A, B and C were sharing profits and losses in the ratio of 5 : 3 : 2. They decided to share future profits and losses in the ratio of 2 : 3 : 5 with effect from 1st April, 2021. They decided to record the effect of the following, without affecting their book values:

(i) Profit and Loss Account Credit balance. ₹36,000
(ii) Advertisement Suspense Account ₹ 24,000.

C will be debited by ₹ _______ and A will be credited with ₹__________.

(a) 12,000, 12,000 (b) 3,600, 3,600 (c) 24,000, 24,000 (d) 36,000, 36,000

**104.** Pick the odd one out:

(a) Reserve fund
(b) Employee Provident Fund
(c) Investment Fluctuation Fund
(d) Workmen Compensation Fund

**105.** A, B and C at present share profits and losses in the ratio of 5 : 3 : 2. They decide to share future profits and losses equally with effect from 1st April, 2022. The goodwill of the firm has been valued at ₹ 90,000. What entry will be passed for goodwill?

(a) B's Capital A/c Dr. 12,000
C's capital A/c Dr. 3,000
To A's capital A/c 15,000

(b) B's Capital A/c Dr 3,000
C's capital A/c Dr 12,000
To A's capital A/c 15,000

(c) B's Capital A/c Dr 7,500
C's capital A/c Dr 7,500
To A's capital A/c 15,000

(d) B's Capital A/c Dr 12,000
A's capital A/c Dr 3,000
To C's capital A/c 15,000

**106.** Nagraj and Yamraj are partners in a firm sharing profits and losses in the ratio 6:4. They decided to admit Shivraj as a new partner for $\frac{1}{3}$ rd share in the profits. The new ratio is decided 10:10:6. Shivraj contributed following assets towards his capital and share of goodwill: Furniture ₹ 20,000; Computer ₹ 20,000; Machinery ₹ 80,000. Goodwill of the firm is valued ₹ 60,000. What is the amount of capital of Shivraj?

(a) 1,20,000 (b) 1,00,000 (c) 1,60,000 (d) 2,20,000

**107.** Assets of the firm are ₹ 24,00,000 and Outside liabilities are ₹ 14,00,000, Actual Profit of the firm is ₹ 1,50,000 and Normal rate of return is 10%. Capital employed by the firm is __.

(a) 10,00,000 (b) 1,00,000 (c) 50,000 (d) 20,000

**108.** Mani and Neeru are partners in a firm sharing profits in the ratio of 5:3. On 1/4/21, they admitted Lily as a new partner on the terms: The new profit sharing ratio will be 2:3:3.Lily will bring ₹ 1,00,000 for her capital and the necessary amount of goodwill premium in cash. Goodwill of the firm was valued at ₹ 1,40,000. The journal entry of goodwill premium brought by Lily will be:

(a) Premioum for goodwill A/c Dr 52,500
To Mani's capital A/c 37,500
To Neeru's capital A/c 15,000

(b) Premium for goodwill A/c Dr 52,500
To Mani's capital A/c 52,500

(c) Premioum for goodwill A/c Dr 52,500
Neeru's capital A/c Dr 12,500
To Mani's capital A/c 65,000

(d) Lily's current A/c Dr 1,40,000
To Mani's capital A/c 1,00,000
To Neeru's capital A/c 40,000

**109.** The ratio in which a partner surrenders his share in favour of a partner is known as:

(a) New profit-sharing ratio
(b) Sacrificing Ratio
(c) Gaining Ratio
(d) Capital Ratio

**110.** A partnership firm earns ₹1,10,000 actual profits. The normal rate of return is 10%. The assets of the firm amounted to 11,00,000 and liabilities to 1,00,000. Value of goodwill by capitalisation of Average Actual Profits will be ________

(a) 3,00,000 (b) 1,10,000 (c) 55,000 (d) 1,00,000

**111.** A, S and G are partners in a firm sharing profits in the ratio 3: 3 : 2. They decided to share profits equally w.e.f. January 1, 2021. What will be the gain or sacrifice of G?

(a) $\frac{1}{24}$ (Gain) (b) $\frac{2}{24}$ (Gain) (c) $\frac{1}{24}$ (Sacrifice) (d) $\frac{2}{24}$ (Sacrifice)

**112.** A business has earned Super profit of 2,00,000 during the last few years and Normal rate of returns is 10%. Goodwill of the firm will be _________

(a) 10,00,000 (b) 54,000 (c) 20,00,000 (d) 36,000

**113.** A and B are partners in a firm sharing profits in the ratio of 3:2. They decided to share future profits equally. Calculate A's gain or sacrifice

(a) $\frac{2}{10}$ (sacrifice) (b) $\frac{5}{10}$ (gain) (c) $\frac{1}{10}$ (Gain) (d) $\frac{1}{10}$ (sacrifice)

**114.** In case of change in profit-sharing ratio, the gaining partner must compensate the sacrificing partners by paying the proportional amount of_______.

(a) Capital (b) Cash balance (c) Goodwill (d) Bank balance

**115.** Reshma, Smita and Tarun sharing profits and losses in the ratio of 1:2:3, decided to share future profit and losses equally. They also decided to adjust the following accumulated profits, losses and reserves without affecting their book figures, by passing a single adjustment entry:

| | |
|---|---|
| General Reserve | 40,000 |
| Profit and Loss A/c (credit) | 30,000 |
| Share issue expenses | 10,000 |

The necessary .adjustment entry will be:

(a) Dr. Reshma and Cr. Tarun by ₹ 10,000 (b) Dr. Tarun and Cr. Resham by ₹ 10,000

(c) Dr. Smita and Cr. Resham by ₹ 10,000 (d) Dr. Resham and Cr. Smita by ₹ 10,000

**116.** X,Y and Z are partners sharing profits and losses in the ratio of 5:3:2.They decide to share the future profits in the ratio of 3:2:1. Workmen compensation reserve appearing in the balance sheet on the date if no information is available for the same will be:

(a) Distributed among the partners in old profit sharing ratio

(b) Distributed among the partners in new profit sharing ratio

(c) Distributed among the partners in capital ratio

(d) Carried forward to new balance sheet without any adjustment

**117.** Actual Profit is ₹ 1,50,000; Actual Capital Employed is ₹ 5,00,000; Rate of Normal Profit is 10% What is the amount of Super Profit?

(a) 1,00,000 (b) 1,80,000 (c) 1,60,000 (d) 1,10,000

**118.** Goodwill of the firm is not affected by __________

(a) Intelligence of customers (b) Nature of business

(c) Efficiency of management (d) Technical know-how

**119.** Uvraj, Vinay and Wolsan are partners sharing profits in the ration of 2:3:5. They also decide to record the effect of the following revaluations and reassessments without affecting the book values of assets and liabilities by passing a single adjustment entry:

| Particulars | Book Value(₹) | Revised Value (₹) |
|---|---|---|
| Land and Building | 3,00,000 | 3,50,000 |
| Furniture | 1,50,000 | 1,00,000 |
| Sundry Creditors | 60,000 | 20,000 |
| Outstanding Salaries | 10,000 | 15,000 |

The single adjustment entry will

(a) Dr. Wolsan and Cr. Uvraj by ₹10,500 (b) Dr. Uvraj and Cr. Wolsan by ₹10,500

(c) Dr. Vinay and Cr. Uvraj by ₹10,500 (d) Dr. Wolsan and Cr. Vinay by ₹10,500

120. Weighted average method of calculating goodwill is used when________

(a) Profits are negative
(b) Profits are not equal
(c) Profits show a trend
(d) profits are equal

121. Arti, Bharti and Chandni were are partners in a firm sharing profits in the ratio of 3:4:1 .They decided to share profits equally from 1.4.2021. On that date the profit and loss account showed the credit balance of ₹ 96,000. Instead of closing the profit and loss account, it was decided to record an adjustment entry reflecting the change in profit sharing ratio. What will be the journal entry:

(a) Dr. Arti by 4,000; Dr. Bharti by 16,000; Cr C by 20,000
(b) Cr. Arti by 4,000; Cr. Bharti by 16,000; Dr C by 20,000
(c) Cr. Arti by 16,000; Cr.Bharti by 4,000; Dr C by 20,000
(d) Dr. Arti by 16,000; Dr. Bharti by 4,000; Cr C by 20,000

122. What will the value of goodwill based on 3 years purchase of weighted average profit if total weighted profit is ₹ 6,96,000 and total weight is 15?

(a) ₹ 1,39,200
(b) ₹ 1,00,000
(c) ₹ 3,00,000
(d) ₹ 5,00,000

123. Under the capitalisation method of calculation of goodwill, the formula for calculating the goodwill is__________.

(a) Super profits X the Normal rate of return
(b) Average profits X the Normal rate of return
(c) Super profits divided by the Normal rate of return
(d) Average profits divided by the Normal rate of return

124. Akbar, Birbal and Chatur share profits and losses in the ratio of 3:2:1 respectively. With effect from 1st April 2021, they agreed to share profits in the ratio of 1:1:1. The goodwill of the firm was valued at ₹ 18,000. What will be the journal entry for this?

(a) B's capital A/c Dr 3.000; To A's Capital A/c ₹ 3,000
(b) A's capital A/c Dr 3.000; To C's Capital A/c ₹ 3,000
(c) C's capital A/c Dr 3.000; To A's Capital A/c ₹ 3,000
(d) C's capital A/c Dr 3.000; To B's Capital A/c ₹ 3,000

125. X,Y and Z are sharing profits and losses in the ratio of 5:3:2. With effect from 1st April, 2021 they decided to share future profits in equal ratio. Gain or Sacrifice of Z =__________.

(a) $\frac{4}{30}$ (sacrifice)
(b) $\frac{1}{30}$ (gain)
(c) $\frac{4}{30}$ (Gain)
(d) $\frac{1}{30}$ (sacrifice)

## INPUT-TEXT BASED MCQs

**Read the following text and answer the following questions (126 to 129) on the basis of the same:**

Rahul and Rohit were partners in a fast-food corner sharing profits and losses in ratio 3:2. They sold fast food items across the counter and did home delivery too. Their initial fixed capital contribution was ₹1,20,000 and ₹80,000 respectively. At the end of first year their profit was ₹1,20,000 before allowing the remuneration of ₹3,000 per quarter to Rahul and ₹2,000 per half year to Rohit. Such a promising performance for first year was encouraging, therefore, they decided to expand the area of operations. For this purpose, they needed a delivery van, a few Scotties and an additional person to support. Six months into the accounting year they decided to admit Namit as a new partner and offered him 20% as a share of profits along with monthly remuneration of ₹2,500. Namit was asked to introduce ₹1,30,000 for capital and ₹70,000 for premium for goodwill. Besides this Namit was required to provide Rs.1,00,000 as loan for two years. Namit readily accepted the offer. The terms of the offer were duly executed and he was admitted as a partner.

126 Remuneration will be transferred to __________ of Rahul and Rohit at the end of the accounting period.

(a) Capital account
(b) Loan account
(c) Current account
(d) None of the above

127 Upon the admission of Namit the sacrifice for providing his share of profits would be done:

(a) by Rahul only
(b) by Rohit only
(c) by Rahul and Rohit equally
(d) by Rahul and Rohit in the ratio of 3:2

**128.** Namit will be entitled to a remuneration of ____________ at the end of the year.

(a) 15,000 (b) 30,000 (c) 5,000 (d) 10,000

**129.** While taking up the accounting procedure for this reconstitution the accountant of the firm Mr. Samir Das faced a difficulty. Solve it by answering the following:

For the amount of loan that Namit has agreed to provide, he is entitled to interest thereon at the rate of ___________.

(a) 6% (b) 10% (c) 11% (d) 5%

## ANSWERS

### Multiple Choice Questions

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **1.** (a) | **2.** (b) | **3.** (c) | **4.** (b) | **5.** (d) | **6.** (d) | **7.** (c) | **8.** (a) | **9.** (b) | **10.** (c) |
| **11.** (a) | **12.** (b) | **13.** (b) | **14.** (a) | **15.** (a) | **16.** (c) | **17.** (d) | **18.** (a) | **19.** (a) | **20.** (a) |
| **21.** (a) | **22.** (a) | **23.** (c) | **24.** (b) | **25.** (d) | **26.** (c) | **27.** (a) | **28.** (a) | **29.** (c) | **30.** (c) |
| **31.** (d) | **32.** (b) | **33.** (c) | **34.** (a) | **35.** (c) | **36.** (c) | **37.** (d) | **38.** (b) | **39.** (c) | **40.** (b) |
| **41.** (c) | **42.** (d) | **43.** (d) | **44.** (a) | **45.** (a) | **46.** (b) | **47.** (a) | **48.** (d) | **49.** (c ) | **50.** (a) |
| **51.** (c) | **52.** (b) | **53.** (d) | **54.** (c) | **55.** (c) | **56.** (a) | **57.** (b) | **58.** (a) | **59.** (c) | **60.** (c) |
| **61.** (a) | **62.** (a) | **63.** (a) | **64.** (d) | **65.** (a) | **66.** (a) | **67.** (d) | **68.** (c) | **69.** (b) | **70.** (c) |
| **71.** (d) | **72.** (b) | **73.** (a) | **74.** (c) | **75.** (d) | **76.** (a) | **77.** (b) | **78.** (d ) | **79.** (b) | **80.** (c) |
| **81.** (a) | **82.** (b) | **83.** (b) | **84.** (c) | **85.** (b) | **86.** (a) | **87.** (c) | **88.** (a) | **89.** (a) | **90.** (a) |
| **91.** (d) | **92.** (b) | **93.** (c) | **94.** (b) | **95.** (c) | **96.** (c) | **97.** (b) | **98.** (d) | **99.** (a) | **100.** (a) |
| **101.** (d) | **102.** (b) | **103.** (b) | **104.** (b) | **105.** (b) | **106.** (b) | **107.** (a) | **108.** (b) | **109.** (b) | **110.** (d) |
| **111.** (b) | **112.** (c) | **113.** (d) | **114.** (c) | **115.** (a) | **116.** (a) | **117.** (a) | **118.** (a) | **119.** (b) | **120.** (c) |
| **121.** (c) | **122.** (a) | **123.** (c) | **124.** (c) | **125.** (c) | | | | | |

### Input-Text Based MCQs

**126.** (c) **127.** (d) **128.** (a) **129.** (a)

## HINTS TO SOME SELECTED QUESTIONS

**13.** Self - generated goodwill is not accounted for in the books. If self generated goodwill should be written - off in the same financial year and should not be shown as an asset in the balance sheet.

**26.** Fall in value of machine ₹ 50,000 + provision ₹ 10,000 = ₹ 60,000. Share of Anita in loss = $60,000 \times \frac{2}{5} = 24,000$

**30.** At the time of admission of a new partner, accumulated profit or loss appearing in the balance sheet is distributed among the old partners in old ratio.

**37.** Free reserves are distributed among the old partners in old ratio.

**39.** $6000 \times \frac{3}{1} = 18000$.

**40.** $60,000 \times \frac{1}{3} = 20,000$. Goodwill appearing in balance sheet will be written off among old partners in old ratio.

**41.** Rate of provision for doubtful debt = $4000 \times \frac{100}{40,000} = 10\%$; Gross debtors 60,000 – 6000 bad debt = Net debtors 34,000; 10% of 34,000 = 3,400.

**44.** $56000 \times \frac{1}{6} = 9000$. But he was given guarantee of 10,000. So 1000 will be given by A and B to C in the ratio 3:2.

45. Remaining share = $1 - \frac{1}{3} = \frac{2}{3}$. 90,000 × $\frac{1}{3} \times \frac{2}{3}$ = ₹ 45,000.

46. Sacrificing ratio = old ratio – new ratio.

47. B's sacrifice = old share – new share = $\frac{6}{14} - \frac{4}{14} = \frac{2}{14} = \frac{1}{7}$.

48. Remaining share = $1 - \frac{1}{5} = \frac{4}{5}$ ; new ratio = Remaining share × old ratio.

49. Out of claim of ₹ 45,000, ₹ 40,000 will be recovered from WCR and remaining ₹ 5,000 will be debited to Revaluation account.

50. Loss due to fall in the value of investment is 80,000 – 50,000 = 30,000 will be recovered from available balance of IFR ₹ 40,000. Hence, balance amount of IFR ₹ 10,000 (IFR 40,000 – loss 30,000) will be distributed among old partners in old ratio.

51. Loss due to fall in the value of investment is 90,000 – 60,000 = 30,000 will be recovered from available balance of IFR ₹ 30,000. Hence, nothing is left in IFR to distribute among old partners.

53. Hint : First find sacrifice by A,B and C by multiplying their old share with sacrifice share given. Then add sacrifice of A,B and C; ( $\frac{3}{18} + \frac{2}{36} + \frac{1}{54} = \frac{13}{54}$ ).

54. $1 - \frac{2}{5} = \frac{3}{5}$

55. M's share $\frac{1}{5}$; S's share $\frac{3}{5} - \frac{1}{5} = \frac{2}{5}$ ; G's share $\frac{2}{5}$ ; New ratio 2:2:1)

56. Chandni's share = $\frac{1}{24} + \frac{1}{8} = \frac{1}{24} + \frac{3}{24} = \frac{4}{24} = \frac{1}{6}$

New Share = Old Share – Surrendered Share

A $= \frac{7}{12} - \frac{1}{24} = \frac{14}{24} - \frac{1}{24} = \frac{13}{24}$

B $= \frac{5}{12} - \frac{1}{8} = \frac{10}{24} - \frac{3}{24} = \frac{7}{24}$. So, New Ratio : A, B and C = 13 : 7 : 4)

57. Remaining share = $1 - \frac{1}{6} = \frac{5}{6}$, find new share of old partner by multiplying remaining share with old share.

58. Sacrifice of Ram $\frac{5}{8} - \frac{7}{16} = \frac{3}{16}$; sacrifice of Laxman $\frac{3}{8} - \frac{5}{16} = \frac{1}{16}$.

59. Chatur's Share = $\frac{1}{3}$ Remaining share = $1 - \frac{1}{3} = \frac{2}{3}$ ; Akabar's share = $\frac{2}{3} \times \frac{3}{5} = \frac{6}{15}$ ;Birbal's share = $\frac{2}{3} \times \frac{2}{5} = \frac{4}{15}$ ;

Chatur's share = $\frac{1}{3} \times \frac{5}{5} = \frac{5}{15}$ ; New ratio = $\frac{6}{15} : \frac{4}{15} : \frac{5}{15}$ = 6:4:5.

60. New share = old share – sacrifice; Anish's new share = $\frac{2}{5} - \frac{1}{9} = \frac{22}{45}$ ; Bakul's new share = $\frac{2}{5} - \frac{2}{9} = \frac{8}{45}$ ;

Chinmay's new share = $\frac{1}{9} \times \frac{5}{5} = \frac{5}{45}$ ; New ratio = 22 : 8 : 5.

61. Azad surrender to C = $\frac{3}{5} \times \frac{1}{3} = \frac{3}{15}$ ; Azad's new share = $\frac{3}{5} - \frac{3}{15} = \frac{6}{15}$ ; Badshah surrender to C = $\frac{2}{5} \times \frac{2}{3}$ $= \frac{4}{15}$ ; Badshah's new share = $\frac{2}{5} - \frac{4}{15} = \frac{2}{15}$ ; Chameli's share = $\frac{3}{15} + \frac{4}{15} = \frac{7}{15}$; New ratio = 6:2:7.

62. Remaining share $1 - \frac{1}{5} = \frac{4}{5}$. New share of X = $\frac{4}{5} \times \frac{3}{55} = \frac{12}{15}$ ;

New share of Y = $\frac{4}{5} \times \frac{2}{5} = \frac{8}{25}$ ; new share of Z = $\frac{1}{5} \times \frac{5}{5} = \frac{5}{25}$ ; new ratio 12:8:5.

64. Find sacrifice of A and B ; $\frac{1}{5} \times ½ = \frac{4}{100}$ each. Minus sacrifice from their old share.

**65.** Sacrifice = old share – new share ;X = $\frac{5}{8} - \frac{6}{6} = \frac{6}{48}$ ;Y = $\frac{3}{8} - \frac{6}{6} = \frac{2}{48}$ ; Sacrificing ratio = 6 : 2 or 3 : 1

**66.** Firm's capital = $\frac{4}{1}$ × 20000 = 80,000. Remaining capital = 80,000- 20,000=60,000. Arti's capital: 60,000 × $\frac{2}{3}$ = 40,000; Vandna's capital = 60,000 × $\frac{1}{3}$ = 20,000

**68.** Chankya's share in goodwill ₹ 60,000 × ½ = 30,000 will be credited in sacrificing ratio 2:1 between Arjun and Bhim

**71.** When a new partner brings cash for premium for goodwill, it is credited to sacrificing partner's capital account in sacrificing ratio.

**72.** Hidden goodwill = total capital of firm = 5,00,000 × $\frac{5}{1}$ = 25,00,000 – Adjusted capital of all partners ₹ 19,00,000 = 6,00,000; share of Rohan = 6,00,000 × 1/5 = 1,20,000.

**75.** Hidden goodwill = Firm's capital based on Deepa's share less adjusted capital of all partners; 200000 × $\frac{5}{1}$ = 10,00,000 – 7,00,000 = 3,00,000; Dipa's share = 3,00,000 × $\frac{1}{5}$ = 60,000

**76.** New share = old share – sacrifice: X = $\frac{3}{5} - \frac{3}{20} = \frac{9}{20}$ ; Y = $\frac{2}{5} - \frac{1}{20} = \frac{7}{20}$ ; Z $\frac{1}{5} \times \frac{4}{4} = \frac{4}{20}$ ; new ratio: 9:7:4

**78.** L's share of goodwill = 1,20,000 × $\frac{1}{5}$ = 24,000 credited to A and S in sacrificing ratio 1:1

**80.** Proportionate Capital of Ramesh = 2,90,000 × $\frac{1}{3} \times \frac{3}{2}$ = 1,45,000

**81.** Hidden goodwill = 1,00,000 × 5 = 5,00,000 – adjusted capital of A and B including capital of C ₹ 4,60,000 = 40,000

**82.** Sacrificing ratio = old share – new share; B = $\frac{4}{5} - \frac{1}{3} = \frac{7}{15}$ (sacrifice); O = $\frac{1}{5} - \frac{1}{3} = -\frac{2}{15}$ (gain).

**85.** If claim is more than available fund, difference is debited to revaluation A/c.

**87.** If claim is less than available fund, excess amount of fund is distributed among old partners in their old ratio.

**89.** 30,000 × 5 = 1,50,000

**90.** Sacrificing ratio = Old share – New share; Q = $\frac{2}{9} - \frac{1}{5} = \frac{1}{45}$.

**92.** Sacrifice of X and Y = $\frac{1}{12} : \frac{1}{6} = \frac{1}{12} : \frac{2}{12}$ : So, 1 : 2.

**93.** Normal profit = 9,00,000 × $\frac{10}{100}$ = 90,000. Super profit = 1,00,000 – 90,000 = 10,000 Goodwill = 10,000 × 4 years of purchase = 40,000.

**95.** 20,000 × ¾ × $\frac{4}{1}$ = 60,000 distribute in 4:2 between Manju and Anju.

**97.** Goodwill = Super Profits × 4; Super Profits = $\frac{18,000}{4}$ = 4,500; Capital Employed = Assets – Liabilities = 15,00,000 – 12,00,000 = 3,00,000; Normal Profits = Capital Employed × Normal Rate of Return = 3,00,000 × $\frac{10}{100}$ = 30,000; Average Profits = Normal Profits + Super Profits = 30,000 + 4,500 = 34,500.

**98.** Normal profit = 4,00,000 × 10 % = 40,000. Actual profit = 70,000. Super profit = 70,000 – 40,000 = 30,000.

**100.** New share = remaining share × old share

**102.** Normal profit = 9,00,000 × $\frac{10}{100}$ = 90,000. Super profit = 1,00,000 – 90,000. Goodwill = 10,000 × $\frac{100}{10}$ = 1,00,000.

**103.** Sacrificing ratio = old share – new share. A = $\frac{5}{10} - \frac{2}{10} = \frac{3}{10}$ (sacrifice); B = $\frac{3}{10} - \frac{3}{10}$ = nil; C = $\frac{2}{10} - \frac{5}{10} = \frac{3}{10}$ (Gain). (36,000 – 24,000 = 12,000 × $\frac{3}{10}$ = 3,600.)

**104.** Employee Provident Fund is liability and shown in balance sheet after admission of a partner.

**105.** Gaining ratio = New share – Old share. Gain to B = $\frac{1}{30}$ ; gain to C = $\frac{4}{30}$ ; sacrifice of A $\frac{5}{30}$.

**106.** Sundry assets ₹ 1,20,000 less share of goodwill of Shivraj ₹ 20,000 (being $\frac{1}{3}$ of ₹ 60,000) = 1,00,000

**107.** Capital employed = 24,00,000 – 14,00,000 = 10,00,000.

**108.** Sacrifice = old share – new share; Mani = $\frac{5}{8} - \frac{2}{8} = \frac{3}{8}$ ; Neeru = $\frac{3}{8} - \frac{3}{8}$ = nil; share in goodwill = 1,40,000 $\times \frac{3}{8}$ = 52,500; only Mani has sacrificed so she will be credited by 52,500.

**110.** Capitalised average profit = 1,10,000 × $\frac{100}{10}$ = 11,00,000. Capital employed = 11,00,000 – 1,00,000 = 10,0000.
Godwill = 11,00,000 – 10,00,000 = 1,00,000

**111.** Gaining ratio = new share – old share

**112.** Goodwill = super profit × $\frac{100}{\text{normal rate of return}}$ = 2,00,000 × $\frac{100}{10}$ = 20,00,000

**113.** Sacrificing ratio = old share – new share. A = $\frac{3}{8} - \frac{1}{2} = \frac{1}{10}$.

**115.** Sacrificing ratio = old share – new share; Reshma = $\frac{1}{6} - \frac{1}{3} = \frac{1}{5}$ (gain); Smita = $\frac{2}{6} - \frac{1}{3}$ = nil; Tarun = $\frac{3}{6} - \frac{1}{3} = \frac{1}{6}$ (sacrifice). Total = 40,000 + 30,000 – 10,000 = 60,000. So, 60,000 × $\frac{1}{6}$ = 10,000.

**117.** Super profit = Actual profit – Normal profit.; 1,50,000 – 50000 = 1,00,000

**119.** Find gain or sacrifice and distribute loss or profit.

**121.** Find sacrifice or gain and distribute the amount.

**122.** Goodwill = weighted average profit × number of years of purchase.

**125.** Sacrificing ratio = old share – new share. Z = $\frac{2}{10} - \frac{1}{3} = -\frac{4}{30}$.

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