Chapter 3

Reconstitution Of A Partnership Firm - Admission Of A Partner

Question 1:

Goodwill is to be valued at three years' purchase of four years' average profit. Profits for last four years ending on 31st March of the firm were:
2016 – Rs. 12,000; 2017 – Rs. 18,000; 2018 – Rs. 16,000; 2019 – Rs. 14,000.
Calculate amount of Goodwill.

Question 2:

Profits for the five years ending on 31st March, are as follows:
Year 2015 – Rs. 4,00,000; Year 2016 – Rs. 3,98,000; Year 2017 – Rs. 4,50,000; Year 2018 – Rs. 4,45,000 and Year 2019 – Rs. 5,00,000.
Calculate goodwill of the firm on the basis of 4 years' purchase of 5 years' average profit.

Question 3:

Calculate value of goodwill on the basis of three years' purchase of average profit of the preceding five years which were as follows:

Year	2018-19	2017-18	2016-17	2015-16	2014-15
Profits (Rs.)	8,00,000	15,00,000	18,00,000	4,00,000 (Loss)	13,00,000

Question 4:

Calculate the value of firm's goodwill on the basis of one and half years' purchase of the average profit of the last three years. The profit for first year was Rs. 1,00,000, profit for the second year was twice the profit of the first year and for the third year profit was one and half times of the profit of the second year.

Question 5:

Calculate the goodwill of a firm on the basis of three years' purchase of the weighted average profit of the last four years. The appropriate weights to be used and profits are:

Year	2015-16	2016-17	2017-18	2018-19

Profits (Rs.)	1,01,000	1,24,000	1,00,000	1,40,000
Weights	1	2	3	4

On a scrutiny of the accounts, the following matters are revealed:
(i) On 1st December, 2017, a major repair was made in respect of the plant incurring Rs. 30,000 which was charged to revenue. The said sum is agreed to be capitalised for goodwill calculation subject to adjustment of depreciation of 10% p.a. on Reducing Balance Method.
(ii) The closing stock for the year 2016-17 was overvalued by Rs. 12,000.
(iii) To cover management cost, an annual charge of Rs. 24,000 should be made for the purpose of goodwill valuation.
(iv) On 1st April, 2016, a machine having a book value of Rs. 10,000 was sold for Rs. 11,000 but the proceeds were wrongly credited to Profit and Loss Account. No effect has been given to rectify the same. Depreciation is charged on machine @ 10% p.a. on reducing balance method.

Question 6:

Average profit earned by a firm is Rs. 80,000 which includes undervaluation of stock of Rs. 8,000 on an average basis. The capital invested in the business is Rs. 8,00,000 and the normal rate of return is 8%. Calculate goodwill of the firm on the basis of 7 times the super profit.

Question 7:

Gupta and Bose had a firm in which they had invested Rs. 50,000. On an average, the profits were Rs. 16,000. The normal rate of return in the industry is 15%. Goodwill is to be valued at four years' purchase of profits in excess of profits @ 15% on the money invested. Calculate the value goodwill.

Question 8:

The total capital of the firm of Sakshi, Mehak and Megha is Rs. 1,00,000 and the market rate of interest is 15%. The net profits for the last 3 years were Rs. 30,000; Rs. 36,000 and Rs. 42,000. Goodwill is to be valued at 2 years' purchase of the last 3 years' super profits. Calculate the goodwill of the firm.

Question 9:

Rakesh and Ashok earned a profit of Rs. 5,000. They employed capital of Rs. 25,000 in the firm. It is expected that the normal rate of return is 15% of the capital. Calculate amount of goodwill if goodwill is valued at three years' purchase of super profit.

Question 10:

Average net profit expected in future by XYZ firm is Rs. 36,000 per year. Average capital employed in the business by the firm is Rs. 2,00,000. The normal rate of return from capital invested in this class of business is 10%. Remuneration of the partners is estimated to be Rs. 6,000 p.a. Calculate the value of goodwill on the basis of two years' purchase of super profit.

Question 11:

A partnership firm earned net profits during the last three years ended 31st March, as follows: 2017 – Rs. 17,000; 2018 – Rs. 20,000; 2019 – Rs. 23,000.
The capital investment 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. Calculate value of goodwill on the basis of two years' purchase of average super profit earned during the above-mentioned three years.

Question 12:

A partnership firm earned net profits during the past three years as follows:

Year ended	31st March, 2019	31st March, 2018	31st March, 2017
Net Profit (Rs.)	2,30,000	2,00,000	1,70,000

Capital investment in the firm throughout the above-mentioned period has been Rs. 4,00,000. Having regard to the risk involved, 15% is considered to be a fair return on the capital. The remuneration of the partners during this period is estimated to be Rs. 1,00,000 p.a. Calculate value of goodwill on the basis of two years' purchase of average super profit earned during the above-mentioned three years.

Question 13:

Ideal Marketing earned an average profit of Rs. 4,00,000 during the last five years. Normal rate of return on capital employed is 10%. Balance Sheet of the firm as at 31st March, 2019 was as follows:

Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Capital A/cs:		Land and Building	10,00,000

Shyam	5,00,000		Furniture	2,00,000
Sunder	5,00,000	10,00,000	Investments	1,00,000
Current A/cs:			Sundry Debtors	5,00,000
Shyam	2,00,000		Bills Receivable	50,000
Sunder	2,00,000	4,00,000	Closing Stock	3,00,000
Reserves		3,40,000	Cash in Hand	50,000
Sundry Creditors		4,00,000	Cash at Bank	1,00,000
Bills Payable		1,00,000		
Outstanding Expenses		60,000		
		23,00,000		**23,00,000**

Calculate the value of goodwill, if it is valued at three years' purchase of Super Profits.

Question 14:

Varuna and Karuna are partners for equal shares. They admit Lata into partnership for 1/4th share. It was agreed to value goodwill of the firm at 4 years' purchase of super profit. Normal rate of return is 15% of the capital employed. Average profit of the firm is Rs. 4,00,000. Balance Sheet of the firm as at 31st March, 2019 was as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)

Capital A/cs:			Furniture	4,00,000
Varuna	5,00,000		Computers	3,00,000
Karuna	5,00,000	10,00,000	Electrical Fittings	1,00,000
Long-term Loan		5,50,000	Investments (Trade)	2,00,000
Sundry Creditors		2,00,000	Stock	3,00,000
Outstanding Expenses		50,000	Sundry Debtors	3,00,000
Advances from Customers		1,50,000	Bills Receivable	50,000
			Cash in Hand	50,000
			Cash at Bank	2,00,000
			Deferred Revenue Expenditure:	
			Advertisement Suspense	50,000
		19,50,000		**19,50,000**

Calculate the value of goodwill.

Question 15:

Supreet and Shubham are equal partners. They decide to admit Akriti for 1/3rd share. For the purpose of admission of Akriti, goodwill of the firm is to be valued at four years' purchase of super profit. Average capital employed in the firm is Rs. 1,50,000. Normal rate of return may be taken as 15% p.a. Average profit of the firm is Rs. 40,000. Calculate value of goodwill.

Question 16:

On 1st April, 2019, an existing firm had assets of Rs. 75,000 including cash of Rs. 5,000. Its creditors amounted to Rs. 5,000 on that date. The firm had a Reserve of Rs. 10,000 while Partners' Capital Accounts showed a balance of Rs. 60,000. If Normal Rate of Return is 20% and goodwill of the firm is valued at Rs. 24,000 at four years' purchase of super profit, find average profit per year of the existing firm.

Question 17:

Average profit earned by a firm is Rs. 1,00,000 which includes undervaluation of stock of Rs. 40,000 on an average basis. The capital invested in the business is Rs. 6,30,000 and the normal rate of return is 5%. Calculate goodwill of the firm on the basis of 5 times the super profit.

Question 18:

Average profit earned by a firm is Rs. 7,50,000 which includes overvaluation of stock of Rs. 30,000 on an average basis. The capital invested in the business is Rs. 42,00,000 and the normal tare of return is 15%. Calculate goodwill of the firm on the basis of 3 time the super profit.

Question 19:

Ayub and Amit are partners in a firm and they admit Jaspal into partnership *w.e.f.* 1st April, 2019. They agreed to value goodwill at 3 years' purchase of Super Profit Method for which they decided to average profit of last 5 years. The profits for the last 5 years were:

Year Ended	*Net Profit* (Rs.)	
31st March, 2015	1,50,000	
31st March, 2016	1,80,000	
31st March, 2017	1,00,000	(Including abnormal loss of Rs. 1,00,000)
31st March, 2018	2,60,000	(Including abnormal gain (profit) of Rs. 40,000)
31st March, 2019	2,40,000	

The firm has total assets of Rs. 20,00,000 and Outside Liabilities of Rs. 5,00,000 as on that date. Normal Rate of Return in similar business is 10%.
Calculate value of goodwill.

Question 20:

From the following information, calculate value of goodwill of the firm by applying Capitalisation Method: Total Capital of the firm Rs. 16,00,000.
Normal rate of return 10%. Profit for the year Rs. 2,00,000.

Change In Profit Sharing Ratio Among The Existing Partners

Question 1:

A and *B* are sharing profits and losses equally. With effect from 1st April 2019, they agree to share profits in the ratio of 4 : 3. Calculate individual partner's gain or sacrifice due to the change in ratio.

Question 2:

A B and *C* are partners sharing profits and losses in the ratio of 5: 4: 1. Calculate the new profit-sharing ratio, sacrificing ratio, and gaining ratio in each of the following cases:
Case 1. *C* acquires 1/5th share from *A*.
Case 2. *C* acquires 1/5th share equally form *A* and *B*.
Case 3. *A B* and *C* will share future profits and losses equally.
Case 4. *C* acquires 1/10th share of *A* and 1/2 share of *B*.

Question 3:

A B and *C* shared profits and losses in the ratio of 3: 2: 1 respectively. With effect from 1st April 2019, they agreed to share profits equally. The goodwill of the firm was valued at Rs. 18,000. Pass necessary Journal entries when: (a) Goodwill is adjusted through Partners' Capital Accounts, and (b) Goodwill is raised and written off.

Question 4:

X, *Y*, and *Z* are partners sharing profits and losses in the ratio of 5 : 3: 2. From 1st April 2018, they decided to share profits and losses equally. The Partnership Deed provides that in the event of any change in the profit-sharing ratio, the goodwill should be valued at two years' purchase of the average profit of the preceding five years. The profits and losses of the preceding years ended 31st March, are:

Year	2013-14	2014-15	2015-16	2016-17	2017-18
Profits (Rs.)	70,000	85,000	45,000	35,000	10,000 (Loss)

You are required to calculate goodwill and pass journal entry.

Question 5:

Mandeep, Vinod, and Abbas are partners sharing profits and losses in the ratio of 3 : 2: 1. From 1st April 2019, they decided to share profits equally. The Partnership Deed provides that in the event of any change in profit-sharing ratio, goodwill shall be valued at three years' purchase of the average profit of the last five years. The profits and losses of the past five years are:
Profit – Year ended 31st March, 2015 – Rs. 1,00,000; 2016 – Rs. 1,50,000; 2018 – Rs. 2,00,000; 2019 – Rs. 2,00,000.
Loss – Year ended 31st March 2017 – Rs. 50,000.
Pass the Journal entry showing the working.

Question 6:

Jai and Raj are partners sharing profits in the ratio of 3: 2. With effect from 1st April 2019, they decided to share profits equally. Goodwill appeared in the books at Rs. 25,000. As of 1st April 2019, it was valued at Rs. 1,00,000. They decided to carry goodwill in the books of the firm. Pass the Journal entry giving effect to the above.

Question 7:

X and *Y* are partners in a firm sharing profits and losses in the ratio of 3: 2. With effect from 1st April 2019, they decided to share future profits equally. On the date of a change in the profit-sharing ratio, the Profit and Loss Account showed a credit balance of Rs. 1,50,000. Record the necessary journal entry for the distribution of the balance in the Profit and Loss Account immediately before the change in the profit-sharing ratio.

Question 8:

A and *B* are partners in a firm sharing profits in the ratio of 4: 1. They decided to share future profits in the ratio of 3: 2 *w.e.f.* 1st April 2019. On that day, the Profit and Loss Account showed a debit balance of Rs. 1,00,000. Pass Journal entry to give effect to the above.

Question 9:

X, *Y,* and *Z* are sharing profits and losses in the ratio of 5 : 3: 2. They decide to share future profits and losses in the ratio of 2 : 3: 5 with effect from 1st April 2019. They also decide to record the effect of the following accumulated profits, losses, and reserves without affecting their book values by passing a single entry.

	Book Values (Rs.)
General Reserve	6,000
Profit and Loss A/c (Credit)	24,000
Advertisement Suspense A/c	12,000

Pass an Adjustment Entry.

Question 10:

A, *B*, and *C* who are presently sharing profits and losses in the ratio of 5 : 3: 2 decide to share future profits and losses in the ratio of 2 : 3: 5. Give the Journal entry to distribute the 'Workmen Compensation Reserve' of Rs. 1,20,000 at the time of change in profit-sharing ratio, when:
(i) no information is given; (ii) there is no claim against it.

Question 11:

A, *B*, and *C* who are presently sharing profits and losses in the ratio of 5 : 3: 2 decide to share future profits and losses in the ratio of 2 : 3: 5. Give the journal entry to distribute the 'Investments Fluctuation Reserve' of Rs. 20,000 at the time of change in profit-sharing ratio, when investment (market value Rs. 95,000) appears in the books at Rs. 1,00,000.

Question 12:

Nitin, Tarun, and Amar are partners sharing profits equally and decide to share profits in the ratio of 2: 2: 1 *w.e.f.* 1st April 2019. The extract of their Balance Sheet as at 31st March 2019 is as follows:

Liabilities	Rs.	Assets	Rs.
Investments Fluctuation Reserve	60,000	Investments (At Cost)	4,00,000

Pass the Journal entries in each of the following situations:
(i) When its Market Value is not given;
(ii) When its Market Value is Rs. 4,00,000;
(iii) When its Market Value is Rs. 4,24,000;
(iv) When its Market Value is Rs. 3,70,000;
(v) When its Market Value is Rs. 3,10,000.

Admission Of A Partner

Question 1:

X and *Y* are partners in a firm sharing profits and losses in the ratio of 3 : 2. *Z* is admitted as partner with 1/4 share in profit. *Z* acquires his share from *X* and *Y* in the ratio of 2 : 1. Calculate new profit-sharing ratio.

Question 2:

R and *S* are partners sharing profits in the ratio of 5 : 3. *T* joins the firm as a new partner. *R* gives 1/4th of his share and *S* gives 1/5th of his share to the new partner. Find out new profit-sharing ratio.

Question 3:

Kabir and Farid are partners in a firm sharing profits and losses in the ratio of 7 : 3. Kabir surrenders 2/10th from his share and Farid surrenders 1/10th from his share in favour of Jyoti; the new partner. Calculate new profit-sharing ratio and sacrificing ratio.

Question 4:

Find New Profit-sharing Ratio:
(i) *R* and *T* are partners in a firm sharing profits in the ratio of 3 : 2. *S* joins the firm. *R* surrenders 1/4th of his share and T 1/5th of his share in favour of *S*.
(ii) *A* and *B* are partners. They admit *C* for 1/4th share. In future, the ratio between *A* and *B* would be 2 : 1.
(iii) *A* and *B* are partners sharing profits and losses in the ratio of 3 : 2. They admit *C* for 1/5th share in the profit. *C* acquires 1/5th of his share from *A* and 4/5th share from *B*.
(iv) *X, Y* and *Z* are partners in the ratio of 3 : 2 : 1. *W* joins the firm as a new partner for 1/6th share in profits. *Z* would retain his original share.
(v) *A* and *B* are equal partners. They admit *C* and *D* as partners with 1/5th and 1/6th share respectively.
(vi) *A* and *B* are partners sharing profits/losses in the ratio of 3 : 2 . *C* is admitted for 1/4th share. *A* and *B* decide to share equally in future.

Question 9:

X and *Y* were partners sharing profits in the ratio of 3 : 2. They admitted *P* and *Q* as new partners. *X* surrendered 1/3rd of his share in favour of *P* and *Y* surrendered 1/4th of his share in favour of *Q*. Calculate new profit-sharing ratio of *X, Y, P* and *Q*.

Question 5:

Rakesh and Suresh are sharing profits in the ratio of 4 : 3. Zaheer joins and the new ratio among Rakesh, Suresh and Zaheer is 7 : 4 : 3. Find out the sacrificing ratio.

Question 6:

A and *B* are partners sharing profits in the ratio of 3 : 2. *C* is admitted as a partner. The new profit-sharing ratio among *A*, *B* and *C* is 4 : 3 : 2. Find out the sacrificing ratio.

Question 7:

A, B and *C* are partners sharing profits in the ratio of 4 : 3 : 2. *D* is admitted for 1/3rd share in future profits. What is the sacrificing ratio?

Question 8:

A, B, C and *D* are in partnership sharing profits and losses in the ratio of 36 : 24 : 20 : 20 respectively. *E* joins the partnership for 20% share and *A, B, C* and *D* in future would share profits among themselves as 3/10 : 4/10 : 2/10 : 1/10. Calculate new profit-sharing ratio after *E's* admission .

Question 9:

X and *Y* are partners sharing profits and losses in the ratio of 3 : 2. They admit *Z* into partnership. *X* gives 1/3rd of his share while *Y* gives 1/10th from his share to *Z*. Calculate new profit-sharing ratio and sacrificing ratio.

Question 10:

A, B and *C* are partners sharing profits in the ratio of 2 : 2 : 1. *D* is admitted as a new partner for 1/6th share. *C* will retain his original share. Calculate the new profit-sharing ratio and sacrificing ratio.

Question 11:

A and *B* are in partnership sharing profits and losses as 3 : 2. *C* is admitted for 1/4th share. Afterwards *D* enters for 20 paise in the rupee. Compute profit-sharing ratio of *A, B, C* and *D* after *D's* admission.

Question 12:

P and *Q* are partners sharing profits in the ratio of 3 : 2. They admit *R* into partnership who acquires 1/5th of his share from *P* and 4/25th share from *Q*. Calculate New Profit-sharing Ratio and Sacrificing Ratio.

Question 13:

A and *B* are partners sharing profits and losses in the ratio of 2 : 1. They take *C* as a partner for 1/5th share. Goodwill Account appears in the books at Rs.15,000. For the purpose of *C*'s admission, goodwill of the firm is valued at Rs.15,000. *C* is to pay proportionate amount as premium for goodwill which he pays to *A* and *B* privately.
Pass necessary entries.

Question 14:

A and *B* are partners in a firm sharing profits and losses in the ratio of 3 : 2. They admit *C* into partnership for 1/5th share. *C* brings Rs.30,000 as capital and Rs.10,000 as goodwill. At the time of admission of *C*, goodwill appeared in the Balance Sheet of *A* and *B* at Rs.3,000. New profit-sharing ratio of the partners will be 5 : 3 : 2. Pass necessary Journal entries.

Question 15:

Anu and Bhagwan were partners in a firm sharing profits in the ratio of 3 : 1. Goodwill appeared in the books at Rs.4,40,000. Raja was admitted to the partnership. The new profit-sharing ratio among Anu, Bhagwan and Raja was 2 : 2 : 1.
Raja brought Rs.1,00,000 for his capital and necessary cash for his goodwill premium. Goodwill of the firm was valued at Rs.2,50,000.
Record necessary Journal entries in the books of the firm for the above transactions.

Question 16:

X and *Y* are partners in a firm sharing profits in the ratio of 3 : 2. On 1st April, 2019, they admit *Z* as a partner for 1/4th share in the profits. *Z* contributed following assets towards his capital and for his share of goodwill:
Stock Rs.60,000; Debtors Rs.80,000; Land Rs.1,00,000, Plant and Machinery Rs.40,000.
On the date of admission of *Z*, the goodwill of the firm was valued at Rs.6,00,000.
Pass necessary Journal entries in the books of the firm on *Z's* admission.

Question 17:

A and *B* are partners in a business sharing profits and losses in the ratio of 1/3rd and 2/3rd. On 1st April, 2019, their capitals were Rs.8,000 and Rs.10,000 respectively. On that date, they admit *C* in partnership and give him 1/4th share in the future profits. *C* brings Rs.8,000 as his capital and Rs.6,000 as goodwill. The amount of goodwill is withdrawn by the old partners in cash. Draft the journal entries and show the Capital Accounts of all the Partners. Calculate proportion in which partners would share profits and losses in future.

Question 18:

A and *B* were partners in a firm sharing profits and losses in the ratio of 3 : 2. They admitted *C* as a new partner for 3/7th share in the profit and the new profit-sharing ratio will be 2 : 2 : 3. *C* brought Rs.2,00,000 as his capital and Rs.1,50,000 as premium for goodwill. Half of their share of premium was withdrawn by *A* and *B* from the firm. Calculate sacrificing ratio and pass necessary Journal entries for the above transactions in the books of the firm.

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Question 19:

A and *B* are partners sharing profits in the ratio of 2 : 1. They admit *C* for 1/4th share in profits. *C* brings in Rs.30,000 for his capital and Rs.8,000 out of his share of Rs.10,000 for goodwill. Before admission, goodwill appeared in books at Rs.18,000. Give Journal entries to give effect to the above arrangement.

Question 20:

A and *B* are partners sharing profits and losses in the ratio of 3 : 2. They admit *C* as partner in the firm for 1/4th share in profits which he takes 1/6th from *A* and 1/12th from *B*. *C* brings in only 60% of his share of firm's goodwill. Goodwill of the firm has been valued at Rs.1,00,000. Pass necessary journal entries to record this arrangement.

Question 21:

On the admission of Rao, goodwill of Murty and Shah is valued at Rs.30,000. Rao is to get 1/4th share of profits. Previously Murty and Shah shared profits in the ratio of 3 : 2. Rao is unable to bring amount of goodwill. Give Journal entries in the books of Murty and Shah when:
(a) there is no Goodwill Account and
(b) Goodwill appears in the books at Rs.10,000.

Question 22:

A and *B* are partners sharing profits in the ratio of 3 : 2. Their books show goodwill at Rs.2,000. *C* is admitted as partner for 1/4th share of profits and brings in Rs.10,000 as his capital but is not able to bring in cash for his share of goodwill Rs.3,000. Draft Journal entries.

Question 23:

A, *B* and *C* are in partnership sharing profits and losses in the ratio of 5 : 4 : 1 respectively. Two new partners *D* and *E* are admitted. The profits are now to be shared in the ratio of 3 : 4 : 2 : 2 : 1 respectively. *D* is to pay Rs.90,000 for his share of Goodwill but *E* has insufficient cash to pay for Goodwill. Both the new partners introduced Rs.1,20,000 each as their capital. You are required to pass necessary Journal entries.

Question 24:

Mohan and Sohan were partners in a firm sharing profits and losses in the ratio of 3 : 2. They admitted Ram for 1/4th share on 1st April, 2019. It was agreed that goodwill of the firm will be valued at 3 years' purchase of the average profit of last 4 years ended 31st March, were Rs.50,000 for 2015-16, Rs.60,000 for 2016-17, Rs.90,000 for 2017-18 and Rs.70,000 for 2018-19. Ram did not bring his share of goodwill premium in cash. Record the necessary Journal entries in the books of the firm on Ram's admission when:
(a) Goodwill 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.

Question 25:

Madan and Gopal are partners sharing profits in the ratio of 3 : 2. They admit Sooraj for 1/3rd share in profits on 1st April, 2019. They also decide to share future profits equally. Goodwill of the firm was valued at Rs.5,50,000. Goodwill existed in the books of account at Rs.1,00,000, which the partners decide to carry forward.
Sooraj is unable to bring his share of goodwill. Pass the necessary Journal entries on admission of Sooraj, if:
(a) Goodwill is not to be raised and written off; and
(b) Goodwill is to be raised and written off.

Question 26:

Mr. *A* commenced business with a capital of Rs.2,50,000 on 1st April, 2013. During the five years ended 31st March, 2018, the following profits and losses were made:
31st March, 2014−Loss Rs.5,000
31st March, 2015−Profit Rs.13,000
31st March, 2016−Profit Rs.17,000
31st March, 2017−Profit Rs.20,000
31st March, 2018−Profit Rs.25,000
During this period he had drawn Rs.40,000 for his personal use. On 1st April, 2018, he admitted *B* into partnership on the following terms:
B to bring for his half share in the business, capital equal to *A's* Capital on 31st March, 2018 and to pay for the one-half share of goodwill of the business, on the basis of three times the average profit of the last five years. Prepare the statement showing what amount *B* should invest to become a partner and pass entries to record the transactions relating to admission.

Question 27:

Pass entries in the firm's journal for the following on admission of a partner:
(i) Machinery be reduced by Rs.16,000 and Building be appreciated by Rs.40,000.
(ii) A provision be created for Doubtful Debts @ 5% of Debtors amounting to Rs.80,000.
(iii) Provision for warranty claims be increased by Rs.12,000.

Question 28:

Pass entries in firm's Journal for the following on admission of a partner:
(i) Unrecorded Investments worth Rs.20,000.
(ii) Unrecorded liability towards suppliers for Rs.5,000.
(iii) An item of Rs.1,600 included in Sundry Creditors is not likely to be claimed and hence should be written back.

Question 29:

X and *Y* are partners in a firm sharing profits in the ratio of 3 : 2. They admitted *Z* as a partner and fixed the new profit-sharing ratio as 3 : 2 : 1. At the time of admission of *Z*, Debtors and Provision for Doubtful Debts appeared at Rs.50,000 and Rs.5,000 respectively all debtors are good. Pass the necessary Journal entries..

Question 30:

X and *Y* are partners in a firm sharing profits in the ratio of 3 : 2. They admitted *Z* as a partner for 1/4th share. At the time of admission of *Z*, Stock (Book Value Rs.1,00,000) is to be reduced by 40% and Furniture (Book Value Rs.60,000) is to be reduced to 40%. Pass the necessary Journal entries.

Question 31:

X and *Y* are partners sharing profits in the ratio of 3 : 2. They admitted *Z* as a partner for 1/4th share of profits. At the time of admission of *Z*, Investments appeared at Rs.80,000. Half of the investments to be taken by *X* and *Y* in their profit-sharing ratio at book value. Remaining investments were valued at Rs.50,000. Pass the necessary Journal entries.

Question 32:

X and *Y* are partners in a firm sharing profits in the ratio of 3 : 2. They admitted *Z* as a partner for 1/4th share of profits. At the time of admission of *Z*, Debtors and Provision for Doubtful Debts appeared at Rs.76,000 and Rs.8,000 respectively. Rs.6,000 of the debtors proved bad. A provision of 5% is to be created on Sundry Debtors for doubtful debts. Pass the necessary Journal entries.

Question 33:

X, *Y* and *Z* are partners sharing profits and losses in the ratio of 6 : 3 : 1. They admitted *W* into partnership with effect from 1st April, 2019. New profit-sharing ratio between *X*, *Y*, *Z* and *W* was agreed to be 3 : 3 : 3 : 1. They also decide to record the effect of the following revaluations without affecting the book values of the assets and liabilities by passing an adjustment entry:

	Book Values (Rs.)	*Revised Values* (Rs.)
Plant and Machinery	3,50,000	3,40,000
Land and Building	5,00,000	5,50,000
Trade Creditors	1,00,000	90,000
Outstanding Expenses	85,000	1,00,000

Pass necessary adjustment entry.

Question 34:

At the time of admission of a partner *C*, assets and liabilities of *A* and *B* were revalued as follows:
(a) A Provision for Doubtful Debts @10% was made on Sundry Debtors (Sundry Debtors Rs.50,000).
(b) Creditors were written back by Rs.5,000.
(c) Building was appreciated by 20% (Book Value of Building Rs.2,00,000).
(d) Unrecorded Investments were valued at Rs.15,000.
(e) A Provision of Rs.2,000 was made for an Outstanding Bill for repairs.
(f) Unrecorded Liability towards suppliers was Rs.3,000.
Pass necessary Journal entries.

Question 35:

X and *Y* are partners in a firm sharing profits and losses in the ratio of 3 : 2. On 1st April, 2019, they admit *Z* as a partner for 1/5th share in profits. On that date, there was a balance of Rs.1,50,000 in General Reserve and a debit balance of Rs.20,000 in the Profit and Loss Account of the firm. Pass necessary Journal entries regarding adjustment of reserve and accumulated profit/loss.

Question 36:

X and *Y* were partners in a firm sharing profits and losses in the ratio of 2 : 1. *Z* was admitted for 1/3rd share in the profits. On the date of *Z*'s admission, the Balance Sheet of *X* and *Y* showed

General Reserve of Rs.2,50,000 and a credit balance of Rs.50,000 in Profit and Loss Account. Pass necessary Journal entries on the treatment of these items on *Z*'s admission.

Question 37:

Balance Sheet of Ram and Shyam who shares profits in the ratio of their capitals as at 31st March, 2019 is:

Liabilities		Amount (Rs.)	Assets	Amount (Rs.)
Capital A/cs:			Freehold Premises	20,000
Ram	30,000		Plant and Machinery	13,500
Shyam	25,000	55,000	Fixtures and Fittings	1,750
Current A/cs:			Vehicles	1,350
Ram	2,000		Stock	14,100
Shyam	1,800	3,800	Bills Receivable	13,060
Creditors		19,000	Debtors	27,500
Bills Payable		16,000	Bank	1,590
			Cash	950
		93,800		**93,800**

On 1st April, 2019, they admitted Arjun into partnership on the following terms:
(a) Arjun to bring Rs.20,000 as capital and Rs.6,600 for goodwill, which is to be left in the business and he is to receive 1/4th share of the profits.
(b) Provision for Doubtful Debts is to be 2% on Debtors.
(c) Value of Stock to be written down by 5% .
(d) Freehold Premises are to be taken at a value of Rs.22,400; Plant and Machinery Rs.11,800; Fixtures and Fittings Rs.1,540 and Vehicles Rs.800.
You are required to make necessary adjustments entries in the firm, give Balance Sheet of the new firm as at 1st April, 2019 and also determine the ratio in which the partners will share profits, there being no change in the ratio of Ram and Shyam.

Question 38:

Following is the Balance Sheet of *X* and *Y* as at 31st March, 2019 who are partners in a firm sharing profits and losses in the ratio of 3 : 2 respectively:

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Creditors		45,000	Cash at Bank		15,000
General Reserve		36,000	Debtors	60,000	
Capital A/cs:			*Less*: Provision for Doubtful Debts	2,400	57,600
X	1,80,000		Patents		44,400
Y	90,000	2,70,000	Investments		24,000
Current A/cs:			Fixed Assets		2,16,000
X	30,000		Goodwill		30,000
Y	6,000	36,000			
		3,87,000			**3,87,000**

Z is admitted as a new partner on 1st April, 2019 on the following terms:
(a) Provision for doubtful debts is to be maintained at 5% on Debtors.
(b) Outstanding rent amounted to Rs.15,000.
(c) An accrued income of Rs.4,500 does not appear in the books of the firm. It is now to be recorded.
(d) *X* takes over the Investments at an agreed value of Rs.18,000.
(e) New Profit-sharing Ratio of partners will be 4 : 3 : 2.
(f) *Z* will bring in Rs.60,000 as his capital by cheque.
(g) *Z* is to pay an amount equal to his share in firm's goodwill valued at twice the average profit of the last three years which were Rs.90,000; Rs.78,000 and Rs.75,000 respectively.
(h) Half of the amount of goodwill is to be withdrawn by *X* and *Y*.
You are required to pass Journal entries, prepare Revaluation Account, Partners' Capital and Current Accounts and the Balance Sheet of the new f

Question 39:

X and *Y* are partners sharing profits equally. Their Balance Sheet as on 31st March, 2019 is given below:

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital A/cs:			Land and Building		1,50,000
X	1,50,000		Plant and Machinery		1,00,000
Y	1,00,000	2,50,000	Furniture and Fittings		25,000
Current A/cs:			Stock		75,000
X	40,000		Debtors	75,000	
Y	30,000	70,000	*Less*: Provision for Doubtful Debts	5,000	70,000
Creditors		1,30,000	Bills Receivable		30,000
Bills Payable		50,000	Bank		50,000
		5,00,000			**5,00,000**

Z is admitted as a new partner for 1/4th share under the following terms:
(a) *Z* is to introduce Rs.1,25,000 as capital.
(b) Goodwill of the firm was valued at nil.
(c) It is found that the creditors included a sum of Rs.7,500 which was not to be paid. But it was also found that there was a liability for Compensation to Workmen amounting to Rs. 10,000.
(d) Provision for doubtful debts is to be created @ 10% on debtors.
(e) In regard to the Partners' Capital Accounts, present Fixed Capital Account Method is to be converted into Fluctuating Capital Account Method.
(f) Bills of Rs.20,000 accepted from creditors were not recorded in the books.
(g) *X* provides Rs.50,000 loan to the business carrying interest @ 10% p.a.
You are required to prepare Revaluation Account, Partners' Capital Accounts, Bank Account and the Balance Sheet of the new firm.

Question 40:

X and *Y* are partners sharing profits in the ratio of 2 : 1. Their Balance Sheet as at 31st March, 2019 was:

Liabilities		Rs.	Assets	Rs.
Sundry Creditors		25,000	Cash/Bank	5,000
General Reserve		18,000	Sundry Debtors	15,000
Capital A/cs:			Stock	10,000
X	75,000		Investments	8,000
Y	62,000	1,37,000	Printer	5,000
			Fixed Assets	1,37,000
		1,80,000		**1,80,000**

They admit *Z* into partnership on the same date on the following terms:
(a) *Z* brings in Rs.40,000 as his capital and he is given 1/4th share in profits.
(b) *Z* brings in Rs.15,000 for goodwill, half of which is withdrawn by old partners.
(c) Investments are valued at Rs.10,000. *X* takes over Investments at this value.
(d) Printer is to be reduced (depreciated) by 20% and Fixed Assets by 10%.
(e) An unrecorded stock of Stationery on 31st March, 2019 is Rs.1,000.
(f) By bringing in or withdrawing cash, the Capitals of *X* and *Y* are to be made proportionate to that of *Z* on their profit-sharing basis.
Pass Journal entries, prepare Revaluation Account, Capital Accounts and new Balance Sheet of the firm.

Question 41:

A and *B* are in partnership sharing profits and losses in the proportion of 2/3rd and 1/3rd respectively. Their Balance Sheet as at 31st March, 2019 was: Cash Rs.1,000; Sundry Debtors Rs.15,000; Stock Rs.22,000; Plant and Machinery Rs.4,000; Sundry Creditors Rs.2,000; Bank Overdraft Rs.15,000; *A*'s Capital Rs.15,000; *B*'s Capital Rs.10,000.
On 1st April, 2019 they admitted *C* into partnership on the following terms:
(a) *C* to purchase one-quarter of the goodwill for Rs.3,000 and provide Rs.10,000 as capital. *C* brings in necessary cash for goodwill and capital.
(b) Profits and losses are to be shared in the proportion of one-half to *A*, one-quarter to *B* and

one quarter to *C*.
(c) Plant and Machinery is to be reduced by 10% and Rs.500 are to be provided for estimated Bad Debts. Stock is to be taken at a valuation of Rs.24,940.
(d) By bringing in or withdrawing cash the capitals of *A* and *B* are to be made proportionate to that of *C* on their profit-sharing basis.
Prepare necessary Ledger Accounts in the books of the firm relating to the above arrangement and submit the opening Balance Sheet of the new firm.

Question 42:

A and *B* were partners in a firm sharing profits in 3 : 1 ratio. They admitted *C* as a partner for 1/4th share in the future profits. *C* was to bring Rs.60,000 for his capital. The Balance Sheet of *A* and *B* as at 1st April, 2019, the date on which *C* was admitted, was:

Liabilities		Rs.	Assets		Rs.
Capital A/cs:			Land and Building		40,000
A	50,000		Plant ad Machinery		70,000
B	80,000	1,30,000	Stock		30,000
General Reserve		10,000	Debtors	35,000	
Creditors		70,000	*Less:* Provision for Doubtful Debts	1,000	34,000
			Investments		26,000
			Cash		10,000
		2,10,000			**2,10,000**

The other terms agreed upon were:
(a) Goodwill of the firm was valued at Rs.24,000.
(b) Land and Building were valued at Rs.65,000 and Plant and Machinery at Rs.60,000.
(c) Provision for Doubtful Debts was found in excess by Rs.400.
(d) A liability of Rs.1,200 included in Sundry Creditors was not likely to arise.
(e) The capitals of the partners be adjusted on the basis of C's contribution of capital to the firm.
(f) Excess of shortfall, if any, be transferred to Current Accounts.
Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm.

Question 43:

The Balance Sheet of *X*, *Y* and *Z* who share profits and losses in the ratio of 3 : 2 : 1, as on 1st April, 2019 is as follows:

Liabilities		**Rs.**	**Assets**	**Rs.**
Capital A/cs:			*Y*'s Current Account	7,000
X	1,75,000		Land and Building	1,75,000
Y	1,50,000		Plant and Machinery	67,500
Z	1,25,000	4,50,000	Furniture	80,000
Current A/cs:			Investments	36,500
X	4,000		Bills Receivable	17,000
Z	6,000	10,000	Sundry Debtors	43,500
General Reserve		15,000	Stock	1,37,000
Profit and Loss A/c		7,000	Bank	43,500
Creditors		80,000		
Bills Payable		45,000		
		6,07,000		**6,07,000**

On the above date, W is admitted as a partner on the following terms:
(a) W will bring Rs.50,000 as his capital and get 1/6th share in the profits.
(b) He will bring necessary amount for his share of goodwill premium. Goodwill of the firm is valued at Rs.90,000.
(c) New profit-sharing ratio will be 2 : 2 : 1 : 1.
(d) A liability of Rs.7,004 will be created against bills receivable discounted earlier but now dishonoured.
(e) The value of stock, furniture and investments is reduced by 20%, whereas the value of Land and Building and Plant and Machinery will be appreciated by 20% and 10% respectively.
(f) Capital Accounts of the partners will be adjusted on the basis of W's Capital through their Current Accounts.
Prepare Revaluation Account, Partners' Current Accounts and Capital Accounts.

Question 44:

A and *B* are partners in a firm sharing profits and losses in the ratio 3 : 1. They admit *C* for 1/4th share on 31st March, 2014 when their Balance Sheet was as follows:

Liabilities		Rs.	Assets		Rs.
Employees Provident Fund		17,000	Cash		6,100
Workmen Compensation Reserve		6,000	Stock		15,000
Investment Fluctuation Reserve		4,100	Debtors	50,000	
Capital's A/cs:			*Less* : Provision for Doubtful Debts	2,000	48,000
A	54,000				
B	35,000	89,000	Investments		7,000
			Goodwill		40,000
		1,16,100			**1,16 ,100**

The following adjustments were agreed upon:
(a) *C* brings in Rs.16,000 as goodwill and proportionate capital.
(b) Bad debts amounted to Rs.3,000.
(c) Market value of investment is Rs.4,500.
(d) Liability on account of Workmen Compensation Reserve amounted to Rs.2,000.
Prepare Revaluation Account and Partners' Capital Accounts.

Question 45:

Mohan and Sohan are in partnership sharing profits in the proportion of 3/5th and 2/5th respectively. Their Balance Sheet as at 31st March, 2019 was:

Liabilities	Rs.	Assets	Rs.

Mohan's Capital	2,000		Plant		650
Sohan's Capital	1,000	3,000	Cash		650
Creditors		400	Debtors	1,000	
			Less: Provision for Doubtful Debts	400	600
			Stock		1,500
		3,400			**3,400**

They admit Rohan to a 1/3rd share upon the terms that he is to pay into the business Rs.1,000 as Goodwill and sufficient Capital to give him a 1/3rd share of the total capital of the new firm. It was agreed that the Provision for Doubtful Debts be reduced to Rs.100 and the Stock be revalued at Rs.2,000 and that the Plant be reduced to Rs.500.

You are required to record the above in the Ledger of the firm and show Balance Sheet of the new partnership.

Question 46:

Pradeep and Dhanraj were partners in a firm sharing profits in the ratio of 3 : 1. Their Balance Sheet on 31st March, 2019 was:

Liabilities		**Rs.**	**Assets**		**Rs.**
Creditors		30,000	Cash		4,000
Bills Payable		1,000	Debtors	50,000	
Reserve Fund		16,000	*Less*: Provision for Doubtful Debts	5,000	45,000
Outstanding Salary		3,000	Stock		30,000
Capital A/cs:			Bills Receivable		10,000
Pradeep	60,000		Patents		1,000
Dhanraj	20,000	80,000	Machinery		40,000
		1,30,000			1,30,000

They admitted Leander as a new partner on this date. New profit-sharing ratio is agreed as 3 : 2 : 3. Leander brings in proportionate capital after the following adjustments:
(a) Leander brings Rs.16,000 as his share of goodwill.
(b) Provisions for Doubtful Debts is to be reduced by Rs.2,000.
(c) There is an old Printer valued at Rs.2,400. It does not appear in the books of the firm. It is now to be recorded.
(d) Patents are valueless.
Prepare Revaluation Account, Capital Accounts and opening Balance Sheet of Pradeep, Dhanraj and Leander.

Question 47:

Following is the Balance Sheet of *X* and *Y* as at 31st March, 2019. *Z* is admitted as a partner on that date when the position of *X* and *Y* was:

Liabilities		Rs.	Assets	Rs.
X's Capital	10,000		Cash in Hand	9,00
Y's Capital	8,000	18,000	Debtors	11,00
Creditors		12,000	Stock	12,00
General Reserve		16,000	Building	8,00
Workmen Compensation Reserve		4,000	Machinery	10,00
		50,000		**50,00**

X and *Y* share profits in the proportion of 3 : 2. The following terms of admission are agreed upon:
(a) Revaluation of assets: Building Rs.18,000; Stock Rs.16,000.
(b) The liability on Workmen Compensation Reserve is determined at Rs.2,000.
(c) Z brought in as his share of goodwill Rs.10,000 in cash.
(d) Z was to bring in further cash as would make his capital equal to 20% of the combined capital of *X* and *Y* after above revaluation and adjustments are carried out.
(e) The further profit-sharing proportions were: *X*−2/5th, *Y*−2/5th and *Z*−1/5th.
Prepare new Balance Sheet of the firm and Capital Accounts of the Partners.

Question 48:

Kalpana and Kanika were partners in a firm sharing profits in the ratio of 3 : 2. On 1st April, 2019, they admitted Karuna as a new partner for 1/5th share in the profits of the firm. The Balance Sheet of Kalpana and Kanika as on 1st April, 2019 was as follows:

BALANCE SHEET OF KALPANA AND KANIKA *as on 1st April, 2019*

Liabilities		Rs.	Assets		Rs.
Capital A/cs:			Land and Building		2,10,000
Kalpana	4,80,000		Plant		2,70,000
Kanika	2,10,000	6,90,000	Stock		2,10,000
General Reserve		60,000	Debtors	1,32,000	
Workmen's Compensation Fund		1,00,000	*Less*: Provision	12,000	1,20,000
Creditors		90,000	Cash		26,000
					1,30,000
		9,40,000			**9,40,000**

It was agreed that:
(a) the value of Land and Building will be appreciated by 20%.
(b) the value of plant be increased by Rs.60,000.
(c) Karuna will bring Rs.80,000 for her share of goodwill premium.
(d) the liabilities of Workmen's Compensation Fund were determined at Rs.60,000.
(e) Karuna will bring in cash as capital to the extent of 1/5th share of the total capital of the new firm.
Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm.

Question 49:

A and *B* are partners sharing profits in the ratio of 3 : 2. They admit *C* as a new partner from 1st April, 2019. They have decided to share future profits in the ratio of 4 : 3 : 3. The Balance Sheet as at 31st March, 2019 is given below:

Liabilities		Rs.	Assets		Rs.
A's Capital	1,76,000		Goodwill		34,000
B's Capital	2,54,000	4,30,000	Land and Building		60,000
Workmen Compensation Reserve		20,000	Investment (Market value Rs.45,000)		50,000
Investments Fluctuation Reserve		10,000	Debtors	1,00,000	
Employee's Provident Fund		34,000	*Less*: Provision for Doubtful Debts	10,000	90,000
C's Loan		3,00,000	Stock		3,00,000
			Bank Balance		2,50,000
			Advertising Suspense A/c		10,000
		7,94,000			**7,94,000**

Terms of *C*'s admission are as follows:
(i) *C* contributes proportionate capital and 60% of his share of goodwill in cash.
(ii) Goodwill is to be valued at 2 years' purchase of super profit of last three completed years.
Profits for the years ended 31st March were:
2017 − Rs.4,80,000; 2018 − Rs.9,30,000; 2019 − Rs.13,80,000.
The normal profit is Rs.5,30,000 with same amount of capital invested in similar industry.

(iii) Land and Building was found undervalued by Rs.1,00,000.
(iv) Stock was found overvalued by Rs.31,000.
(v) Provision for Doubtful Debts is to be made equal to 5% of the debtors.
(vi) Claim on account of Workmen Compensation is Rs.11,000.
Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet.