

# ANSWERS

## 1. MULTIPLE CHOICE QUESTIONS

1. (3) **Explanation:** Payment of Goodwill is by the new partner for taking shares from the old partners. Since old partners sacrifice their share of profit, amount of Goodwill is distributed among them in their Sacrificing Ratio.
2. (1) **Explanation:** Existing Goodwill is written off by debiting old Partners' Capital Accounts because on admission fresh value of goodwill is determined, which includes the existing goodwill. Since compensation is paid by the new partner based on new value of Goodwill, existing Goodwill is written off by debiting old partners' capital accounts in their old profit-sharing ratio.
3. (4) **Explanation:** Goodwill is paid privately, *i.e.*, not through the books of accounts of the firm, entry will not be passed in the books of the firm.
4. (3) **Explanation:** In case the profit-sharing ratio among the old partners does not change, it means they have sacrificed their profit share in favour of the new partner in their profit-sharing ratio. Hence, their Sacrificing Ratio is their old profit-sharing ratio.
5. (1) **Explanation:** Revaluation Account being a nominal account, is debited by the losses and expenses and credited by incomes and gains. Thus, decrease in the value of asset being a loss for the firm, is debited to Revaluation Account and credited to the Asset Account.
6. (2) **Explanation:** Revaluation Account being a nominal account, is debited by the losses and expenses and credited by incomes and gains. Thus, decrease in the value of liability being a gain (profit) for the firm, is credited to Revaluation Account and debited to the Liability Account.
7. (1) **Explanation:** When Capital Accounts are maintained following Fixed Capital Accounts Method, two accounts are maintained for each partner, *i.e.*, Capital Account and Current Account. In Partners' Capital Accounts, transactions that are for introduction of additional capital or withdrawal of capital are posted whereas other transactions are posted in their respective Current Accounts.
8. (3) **Explanation:** Unrecorded assets and liabilities are credited and debited respectively to Revaluation Account and resulting gain (profit) or loss is credited/debited to old Partners' Current Accounts in their old profit-sharing ratio if Partners' Capital Accounts are maintained following Fixed Capital Accounts Method.
9. (3) **Explanation:** At the time of admission of a partner, assets or liabilities, whether recorded or unrecorded, belong to the old partners. Thus, unrecorded assets and liabilities are brought in the books of account by crediting/debiting them to Revaluation Account. Gain (profit) or loss arising from revaluation is transferred to old Partners' Capital Accounts in their old profit-sharing ratio.
10. (3) **Explanation:** At the time of admission of a partner, assets are revalued and liabilities are reassessed. As a result, Gain (profit) or Loss arises from revaluation, is transferred to old Partners' Capital Accounts in their old profit-sharing ratio.
11. (2) **Explanation:** Investment Fluctuation Reserve is set aside to meet fall in the value of investments. The reserve in excess of fall in the value is a free reserve. Since it is set aside out of profits in the past years, it belongs to the old partners and therefore, is transferred to the Capital Accounts of old partners in their old profit-sharing ratio.
12. (1) **Explanation:** As the profit-sharing ratio of old partners has not changed between themselves, their sacrificing ratio will be same as their profit-sharing ratio, *i.e.*, 7 : 3.
13. (3) **Explanation:** Unless agreed otherwise, sacrificing ratio of the old partners will be same as their old profit-sharing ratio. Thus, Sacrificing ratio will be 3 : 2 : 1.
14. (2) **Explanation:** Sacrificing Ratio is the ratio in which one or more partners of the firm forego, *i.e.*, sacrifice their profit share(s) in favour of one or more partners of the firm. Thus, Sacrificing Ratio will be: Old Profit-sharing Ratio *less* New Profit-sharing Ratio.
15. (2) **Explanation:** Sacrificing Ratio is the ratio in which one or more partners of the firm forego, *i.e.*, sacrifice their profit share(s) in favour of one or more partners of the firm. Thus, Sacrificing Ratio will be: Old Profit-sharing Ratio *less* New Profit-sharing Ratio.

16. (3) **Explanation:** Debit balance of Profit & Loss Account, being a loss is transferred to the debit of old Partners' Capital Accounts in their old profit-sharing ratio at the time of admission of a partner because it is loss that was incurred in the period before new partner is admitted remaining undistributed.
17. (1) **Explanation:** Revaluation Account being a nominal account, is debited by the losses and expenses and credited by incomes and gains. Debit balance of the account shows loss while credit balance of the account shows gain (profit). Thus, its credit balance is transferred by debiting Revaluation Account and crediting the Partners' Capital Accounts in their old profit-sharing ratio.
18. (2) **Explanation:** Revaluation Account being a nominal account, is debited by the losses and expenses and credited by incomes and gains. Debit balance of the account shows loss while credit balance of the account shows gain (profit) or loss. Thus, its credit balance is transferred by debiting Revaluation Account and crediting the old Partners' Capital Accounts in their old profit-sharing ratio.
19. (4) **Explanation:** Revaluation Account being a nominal account, is debited by the losses and expenses and credited by incomes and gains. Debit balance of the account shows loss while credit balance of the account shows gain (profit). Thus, its debit balance is transferred by crediting Revaluation Account and debiting the old Partners' Current Accounts in their old profit-sharing ratio.
20. (1) **Explanation:** Revaluation Account being a nominal account, is debited by the losses and expenses and credited by incomes and gains. Thus, increase in Provision for Doubtful Debts being a loss for the firm is debited to Revaluation Account.
21. (2) **Explanation:** Revaluation Account being a nominal account, is debited by the losses and expenses and credited by incomes and gains. Bad Debts Recovered being a gain (profit) for the firm is credited to Revaluation Account.
22. (3) **Explanation:** Admission of a partner leads to dissolution of old partnership as the existing agreement ends and the new agreement comes into effect.
23. (3) **Explanation:** If agreement as to who will contribute to new partner's share of profit does not exist, it is implied that old partners will contribute to his share of profit in their old profit-sharing ratio.
24. (3) **Explanation:** If a new partner is admitted into partnership and is unable to bring his share of goodwill in cash, his share of goodwill is debited to his Current Account and credited to sacrificing partners in their sacrificing ratio.
25. (1) **Explanation:** At the time of admission of a partner, assets or liabilities, whether recorded or unrecorded, belong to the old partners. Thus, they are brought in the books of account by crediting/debiting them to Revaluation Account. Unrecorded investment is brought in the books by debiting Investment Account and crediting Revaluation Account.

26. (2) **Explanation:**

$$\text{Sacrificed Share} = \text{Old Profit Share} - \text{New Profit Share}$$

$$\text{Suraj Sacrificed} = 3/5 - 2/4 = 2/20;$$

$$\text{Kiran Sacrificed} = 2/5 - 1/4 = 3/20$$

Thus, Sacrificing Ratio of Suraj and Kiran =  $2/20 : 3/20$  or  $2 : 3$ .

27. (1) **Explanation:** Deep's share of profit =  $1/4$  which he acquires equally from Aman and Shaan, *i.e.*,  $1/4 \times 1/2 = 1/8$  each.

New Profit Share of Old Partner = Old Profit Share – Sacrificed Share

$$\text{Aman's New Profit Share} = 5/8 - 1/8 = 4/8$$

$$\text{Shaan's New Profit Share} = 3/8 - 1/8 = 2/8$$

$$\text{Deep's Share of Profit} = 1/4 \text{ or } 2/8$$

Thus, New Profit-sharing Ratio =  $4/8 : 2/8 : 2/8$  or  $2 : 1 : 1$ .

28. (4) **Explanation:**

	Particulars	Mika	Sheel	Lucy
I.	Old Profit Share	3/5	2/5	...
II.	New Profit Share	2/5	2/5	1/5
III.	Sacrifice/(Gain) (I – II)	1/5 (Sacrifice)	...	(1/5) (gain)

Thus, Mika sacrifices  $1/5$ th share, Sheel neither gains nor sacrifices and Lucy gains  $1/5$ th share.

**29. (1) Explanation:**

	Particulars	Anup	Sudip	Arup
I.	Old Profit	3/5	2/5	...
II.	(Sacrifice)/Gain	(1/10*)	...	1/10*
III.	New Profit Share(I – II)	5/10	2/5	1/10

Hence, New profit-sharing ratio is 5 : 4 : 1.

\*Share taken from Anup = ₹ 30,000/₹ 3,00,000 = 1/10th Share.

**30. (1) Explanation:** Old Profit Shares of: Rai = 4/9; Roli = 1/3 and Jolly = 2/9.

As given, Jolly would retain his old share, *i.e.*, 2/9 and Dolly (new partner) would get 2/9 as her new share.

In effect, remaining share after Dolly's and Jolly's share =  $1 - 2/9 - 2/9 = 5/9$  will be shared by Rai and Roli in their old ratio, *i.e.*, 4 : 3.

Thus, New Profit shares of:

Rai =  $4/7 \times 5/9 = 20/63$ ; Roli =  $3/7 \times 5/9 = 15/63$

Hence, New Profit-sharing Ratio = 20/63 : 15/63 : 2/9 : 2/9 or 20 : 15 : 14 : 14.

**31. (3) Explanation:** Profit share of Viraj is 1/3.

Let the total share be 1, remaining share 2/3 (*i.e.*,  $1 - 1/3$ ), will be shared by Alex and Mark in their old ratio of 3 : 2.

Thus, Alex's share in profits =  $2/3 \times 3/5 = 6/15$

Mark's share in profits =  $2/3 \times 2/5 = 4/15$

Viraj's share of profit = 1/3 or 5/15.

Hence, New Profit-sharing Ratio is 6 : 4 : 5.

**32. (3) Explanation:** Since Reena got 60% of her share from Sheena, it means she got 40% (*i.e.*, 100% – 60% from Mannu).

Thus, Sacrificing Ratio of Sheena and Mannu = 60% : 40% or 3 : 2.

**33. (1) Explanation:** Since Jonu got 50% of his share from Honey and 30% from Mani, it means he got 20% (*i.e.*, 100% – 50% – 30%) from Vijay.

Thus, Sacrificing Ratio of Honey, Mani and Vijay = 50% : 30% : 20% or 5 : 3 : 2.

**34. (2) Explanation:** Since Sanjay got 60% of his share from Rudra, it means he got 40% (*i.e.*, 100% – 60%) from Daksh.

Thus, Sacrificing Ratio of Rudra and Daksh = 60% : 40% or 3 : 2.

New Profit Share of Old Partners = Old Profit Share – Sacrificed share.

Thus, New Profit Share of Rudra =  $3/5 - (3/5 \times 1/5) = 12/25$ ;

New Profit Share of Daksh =  $2/5 - (2/5 \times 1/5) = 8/25$ ;

Profit Share of Sanjay = 1/5 or 5/25.

Hence, New Profit-sharing Ratio = 12/25 : 8/25 : 5/25 or 12 : 8 : 5.

**35. (1) Explanation:** Ratio of Rajesh and Mahesh = 5 : 4. Therefore, Ratio of Mahesh and Nagesh should be 5 : 4.

Mahesh's share is 80% of Rajesh's Share, *i.e.*,  $4/5 \times 100 = 80\%$ .

Hence, Nagesh's share should be 80% of Mahesh's Share, *i.e.*, 80% of 4 = 3.2.

New Profit-sharing Ratio = 5 : 4 : 3.2 or 25 : 20 : 16.

**36. (2) Explanation:** Since Jyoti gets 1/4th of her share from Apoorv, it means she gets 3/4th (*i.e.*,  $1 - 1/4$ ) share from Renu.

If 3/4th of share of Jyoti = 3/16th share (Received from Renu)

Jyoti's Profit Share =  $3/16 \times 4/3 = 1/4$ .

New Profit Share of old Partners = Old Profit Share – Sacrificed share.

Apoorv's New Profit Share =  $5/8 - (1/4 \times 1/4) = 9/16$

$$\text{Renu's New Profit Share} = 3/8 - 3/16 = 3/16$$

$$\text{Jyoti's Profit Share} = 1/4 \text{ or } 4/16.$$

$$\text{Hence, New Profit-sharing Ratio} = 9/16 : 3/16 : 4/16 \text{ or } 9 : 3 : 4.$$

**\*Note:** It may be noted that from Apoorv, Jyoti gets 1/4th of her total share (i.e., 1/4th of 1/4). On the other hand, from Renu, Jyoti gets 3/16th share. As may be noted, there is a difference in language and meaning of both.

**37. (1) Explanation:**

**Step 1:** Closing capital of Shubhi and Harman = ₹ 1,50,000 (i.e., ₹ 1,00,000 + ₹ 50,000)

**Step 2:** Total share is 1, Remaining share is 4/5th (1 - 1/5) share.

**Step 3:** Satwik's Capital = Closing capital × Inverse of remaining share × Admitted Partner's Share

Therefore Satwik's Capital will be ₹ 37,500 (₹ 1,50,000 × 5/4 × 1/5).

**38. (2) Explanation:** Adjusted capital of old partners is ₹ 4,50,000;

As Manya has been admitted for 1/4th share of profit, combined share of old partners shall be 3/4 (i.e., 1 - 1/4);

Capital of Reconstituted Firm = ₹ 4,50,000 × 4/3 = ₹ 6,00,000;

Therefore, Manya will bring ₹ 1,50,000 (i.e., ₹ 6,00,000 × 1/4, or, ₹ 6,00,000 - ₹ 4,50,000) as capital.

**39. (4) Explanation:** Mohan is admitted for 3/7th share in profits;

He gets 2/7th from Raag,

$$\text{Therefore Raag's new share in profit} = 4/7 - 2/7 = 2/7.$$

$$\text{Sheel's new share in profit} = 3/7 - 1/7 = 2/7;$$

$$\text{Mohan's share in profit} = 3/7.$$

Therefore, New Profit-Sharing Ratio is 2 : 2 : 3.

**40. (1) Explanation:**

	Particulars	Jas	Preet	Jai
I.	Old Share	3/5	2/5	...
II.	(Sacrifice)/Gain	(1/8)	(1/8)	1/4
III.	New Share (I - II)	19/40	11/40	1/4

Hence, New profit-sharing ratio is 19/40 : 11/40 : 1/4 or 19 : 11 : 10.

**41. (2) Explanation:** Sacrifice of a Partner = Old Profit Share - New Profit Share

$$\text{Jasjeet's Sacrifice} = 4/7 - 3/6 = (24 - 21)/42 = 3/42$$

$$\text{Ayush's Sacrifice} = 3/7 - 2/6 = (18 - 14)/42 = 4/42$$

Thus, Sacrificing Ratio = 3 : 4.

**42. (1) Explanation:**

(A) Total Capital of the New Firm on Rahul's Capital\* ₹ 6,00,000

(B) Less: Net worth of the Reconstituted Firm\*\* ₹ 5,00,000

(C) Value of Firm's Goodwill (A - B) ₹ 1,00,000

\*Total capital of new firm = Share brought by new partner × reciprocal of his share = ₹ 2,00,000 × 3 = ₹ 6,00,000

\*\*Net worth of reconstituted firm = ₹ 1,50,000 + ₹ 1,50,000 + ₹ 2,00,000 = ₹ 5,00,000

**43. (2) Explanation:** As, Profit share of Raju is 1/5, remaining share 4/5 (i.e., 1 - 1/5) is the combined profit shares of Rachit and Mahi.

Thus, combined capital of Rachit and Mahi for 4/5th share = ₹ 1,02,000 + ₹ 73,000 + ₹ 14,000 (Premium for Goodwill) = ₹ 1,89,000;

$$\text{Total Capital of New Firm} = ₹ 1,89,000 \times 5/4 = ₹ 2,36,250;$$

$$\text{Raju's Capital} = ₹ 2,36,250 \times 1/5 = ₹ 47,250.$$

**44. (2) Explanation:**

Particulars	Goonj	Gauri	Surbhi
Old Profit Share	5/8	3/8	...

Surbhi is admitted for 1/5th share.

Total Goodwill brought by Surbhi = ₹ 1,60,000, which is taken by Goonj and Gauri in the ratio 3 : 5 (60,000 : 1,00,000). Hence, sacrificing ratio of Goonj and Gauri is 3 : 5.

Now, 1/5th share of Surbhi is given by Goonj and Gauri in the ratio 3 : 5.

Share sacrificed by Goonj =  $3/8 \times 1/5 = 3/40$ ;

Share sacrificed by Gauri =  $5/8 \times 1/5 = 5/40$ .

New Profit-sharing ratio;

Goonj =  $5/8 - 3/40 = 22/40$ ;

Gauri =  $3/8 - 5/40 = 10/40$ ;

Surbhi =  $1/5$  or  $8/40 = 22 : 10 : 8 = 11 : 5 : 4$ .

**45. (1) Explanation:**

Increase in value of Building	₹ 22,000
Decrease in value of Furniture	(₹ 16,000)
Gain(Profit) on Revaluation	<u>₹ 6,000</u>

**Note:** Bill Receivable of ₹ 20,000 discounted with bank was dishonoured will be recorded in the books as:

Debtor's A/c	...Dr.	₹ 20,000	
	To Bank A/c		₹ 20,000

Thus, it will not affect Revaluation Account.

**46. (2) Explanation:**

Increase in value of Stock	₹ 20,000
Increase in Provision for Doubtful Debts	(₹ 4,000)
Increase in Value of Building (Balancing Figure)	₹ 20,000
Gain (Profit) on Revaluation*	₹ 36,000*

**Working Note:**

\*Vansh's share of Gain on revaluation for 4/9 share = ₹ 16,000;

Thus, total Gain (Profit) on Revaluation = ₹ 16,000 × 9/4 = ₹ 36,000.

From the above calculation, increase in value of building is determined as ₹ 20,000, and Book Value of Building as given in question is ₹ 2,00,000. Hence, revalued amount of Building is ₹ 2,00,000 + ₹ 20,000 = ₹ 2,20,000.

**47. (4) Explanation:**

Jai's New Profit-share =  $4/9 \times 4/5 = 16/45$   
 Vijay's New Profit-share =  $5/9 \times 4/5 = 20/45$   
 Lokesh's New Profit-share =  $1/5$  or  $9/45$   
 New Profit-sharing Ratio =  $16/45 : 20/45 : 9/45 = 16 : 20 : 9$ .

**48. (3) Explanation:**

(A) Total Capital of New Firm on Deepa's Capital (Capital contributed by incoming partner Deepa × reciprocal of her share) = ₹ 3,60,000 × 3 = ₹ 10,80,000;

(B) Less: Net worth of the Reconstituted Firm (Total of capitals contributed by Harmeet, Harsh and Deepa) = ₹ 7,60,000;

(C) Value of Firm's Goodwill (A – B) = ₹ 3,20,000.

**49. (2) Explanation:**

(A) Total Capital of the New Firm on adding Manju's Capital (Capital contributed by incoming partner Manju X reciprocal of her share) = ₹ 14,00,000;

(B) Less: Net worth of the Reconstituted Firm (Total of capitals contributed by Richa, Ruchi and Manju) = ₹ 11,50,000;

(C) Value of Firm's Goodwill (A – B) = ₹ 2,50,000;

(D) Manju's Share of Goodwill (₹ 2,50,000 × 1/4) = ₹ 62,500.

Hence, Manju's Current Account shall be debited by ₹ 62,500.

**50. (1) Explanation:**

Workmen Compensation Reserve A/c	...Dr.	₹ 1,05,000	
To Mani's Capital A/c			₹ 60,000
To Saroj's Capital A/c			₹ 45,000
(Balance of Workmen Compensation Reserve distributed between old partners on admission of Pari)			

**Note:** In the absence of any other information, it is presumed that Workmen Compensation Reserve is in the nature of free reserve.

**51. (3) Explanation:**

Workmen Compensation Reserve A/c	...Dr.	₹ 1,50,000	
To Workmen Compensation Claim A/c			₹ 45,000
To Vimal's Capital A/c			₹ 63,000
To Shivam's Capital A/c			₹ 42,000
(Excess Workmen Compensation Reserve after adjusting the claim of Workmen Compensation Reserve distributed between old partners)			

**Note:** Claim amount is transferred to Workmen Compensation Claim Account and balance is distributed among partners in their old profit-sharing ratio.

**52. (1) Explanation:**

General Reserve A/c	...Dr.	₹ 1,80,000	
To Achin's Capital A/c			₹ 1,08,000
To Sachin's Capital A/c			₹ 72,000
(Balance of General Reserve distributed between partners on admission of Nipen)			

General Reserve is a free reserve and is distributed among old partners in their old profit-sharing ratio since it was set aside out of profits which are for the period before the admission of a new partner.

**53. (4) Explanation:**

Investment Fluctuation Reserve A/c	...Dr.	₹ 60,000	
To Investments A/c			₹ 4,000
To Pakhi's Capital A/c			₹ 32,000
To Pihu's Capital A/c			₹ 24,000
(Excess Investment Fluctuation Reserve distributed between partners on admission of Nav)			

Investment Fluctuation Reserve is debited by ₹ 4,000 to the extent of decrease in value of investments and balance is distributed among old partners in their old profit-sharing ratio since the reserve was set aside out of past profits.

**54. (3) Explanation:** Average Normal Profit = ₹ 65,000

Capitalised Value of Firm = Average Profit × 100/NRR = ₹ 65,000 × 100/13 = ₹ 5,00,000

Net Assets = All Assets (except Goodwill, Non-trade Investments and Fictitious Assets) – Outside Liabilities  
= ₹ 8,00,000 – ₹ 4,40,000 = ₹ 3,60,000

Goodwill = Capitalised Value of Firm – Net Assets = ₹ 5,00,000 – ₹ 3,60,000 = ₹ 1,40,000

Vinay's Share of Goodwill = ₹ 1,40,000 × 1/4 = ₹ 35,000.

Thus, for adjustment of goodwill, Vinay's Current Account will be debited with ₹ 35,000.

**55. (2) Explanation:**

Bad Debts A/c	...Dr.	₹ 35,000	
To Sundry Debtors			₹ 35,000
(Amount due to Karan and 70% of amount due to Arjun written off)			

Revaluation* A/c	...Dr.	₹ 55,500	
To Bad Debts A/c**			₹ 35,000
To Provision for Doubtful Debts*** A/c			₹ 20,500
(Bad Debts and Provision for Doubtful Debts met through Revaluation Account)			

\*Loss on Revaluation is ₹ 55,500.

**Note:**

\*\*Total Bad Debts = ₹ 7,000 (Due from Karan) + ₹ 28,000 (i.e., 70% of ₹ 40,000; Due from Arjun) = ₹ 35,000;

\*\*\*Provision for Doubtful Debts = (Total Debtors ₹ 4,57,000 – Bad Debts ₹ 35,000 – Good Debts on which no provision of doubtful debts is required ₹ 12,000) × 5/100 = ₹ 20,500.

**56. (2) Explanation:**

Jatin's Capital A/c	...Dr.	₹ 45,000	
To Kapil's Capital A/c			₹ 27,000
To Vipul's Capital A/c			₹ 18,000
(Adjusted Jatin's share in General Reserve by crediting Sacrificing Partners in their Sacrificing ratio, i.e., 3 : 2)			

**Note:** Since new profit-sharing ratio is not given, sacrificing ratio is their old profit-sharing ratio.

**57. (4) Explanation:**

Nayan's Capital A/c	...Dr.	₹ 6,400	
Yug's Capital A/c	...Dr.	₹ 9,600	
To Moksh's Capital A/c			₹ 16,000
(Adjusted Moksh's share in Advertisement Suspense Account, i.e., Deferred Revenue Expenditure by debiting old partners)			

**58. (3) Explanation:**

Chetak's Share of Goodwill = ₹ 6,50,000 × 3/13 = ₹ 1,50,000;

Total assets brought by Chetak = ₹ 1,44,000 (Stock) + ₹ 2,40,000 (Building) + ₹ 1,96,000 (Plant and Machinery) = ₹ 5,80,000;

Capital brought by Chetak = Assets brought in ₹ 5,80,000 – Share of Goodwill in the firm ₹ 1,50,000 = ₹ 4,30,000.

**59. (2) Explanation:** Revaluation Account being a nominal account, is debited by the losses and expenses and credited by incomes and gains. Thus, the revaluation expenses paid by Mahesh, a partner, is debited to Revaluation Account and credited to Mahesh's Capital Account (since it is paid by Mahesh) at the time of admission of a partner.

**60. (2) Explanation:** When a new partner is admitted into partnership, the amount brought by him against his share of goodwill in cash, is debited to Cash Account and credited to Premium for Goodwill Account.

**61. (1) Explanation:**

	Particulars	Mohit	Shiv	Neena
I.	Old Profit Share	5/9	4/9	...
II.	New Profit Share	2/5	2/5	1/5
III.	Sacrifice/(Gain) (I – II)	7/45 (Sacrifice)	2/45 (Sacrifice)	(1/5)

Thus, Mohit sacrifices 7/45th share, Shiv sacrifices 2/45th share and Neena gains 1/5th share.

**62. (3) Explanation:**

	Particulars	Anil	Parul	Varun
I.	Old Profit Share	5/8	3/8	...
II.	Sacrifice/Gain	(1/6*)	...	1/6*
III.	New Profit Share (I – II)	11/24	3/8	1/6

Hence, New profit-sharing ratio is 11/24 : 3/8 : 1/6 or 11 : 9 : 4.

\*Share taken from Anil = ₹ 60,000/₹ 3,60,000 = 1/6th Share.

**63. (1) Explanation:**

General Reserve A/c	...Dr.	₹ 1,80,000	
To Kamal's Capital A/c			₹ 1,08,000
To Vipin's Capital A/c			₹ 72,000
(Balance of General Reserve credited to old partners in their old ratio, i.e., 3 : 2)			

General Reserve has a credit balance which is appropriated from profits before the admission of Jai. It therefore, belongs to the old partners and is credited to their Capital Accounts in their old profit-sharing ratio.

**64. (3) Explanation:**

Nav's Capital A/c	...Dr.	₹ 32,000	
Yash's Capital A/c	...Dr.	₹ 48,000	
To Advertisement Suspense A/c			₹ 80,000
(Balance in Advertisement Suspense Account, i.e., Deferred Revenue Expenditure debited to old partners in their old ratio)			

Advertisement Suspense Account is an expense not yet written off. At the time of admission of a partner, it is transferred to the debit of Partners' Capital/Current Accounts as it is a loss for the period before the admission of the partner.

**65. (4) Explanation:** Debit balance of Profit & Loss Account is accumulated loss. Remaining entries (items) are accumulated profits and reserves.

**66. (3) Explanation:** Adjustment of Capital based on new profit-sharing ratio is only required to be made when it is so agreed among partners. Remaining adjustments are made at the time of admission of a partner unless agreed otherwise among partners.

**67. (2) Explanation:**

	Vikas (₹)	Ajit (₹)
Capital	2,50,000	2,00,000
Premium for Goodwill	15,000	12,000
Revaluation (Gain)	20,000	16,000
Capitals after adjustments	2,85,000	2,28,000

Total Capitals of old Partners for balance 4/5th (i.e.,  $1 - 1/5$ ) share

$$= ₹ 2,85,000 + ₹ 2,28,000 = ₹ 5,13,000$$

Total Capital of Reconstituted Firm = ₹ 5,13,000 × 5/4 = ₹ 6,41,250

Thus, Vinod's Capital = ₹ 6,41,250 × 1/5 = ₹ 1,28,250.

**68. (1) Explanation:**

	Ruby (₹)	Amrita (₹)
Capital (Before Adjustments)	2,80,000	3,60,000
Premium for Goodwill	10,000	15,000
Revaluation (loss)	(26,000)	(39,000)
Capitals After adjustments	2,64,000	3,36,000

Total Capitals of old Partners for balance 5/6th (i.e.,  $1 - 1/6$ ) share = ₹ 2,64,000 + ₹ 3,36,000 = ₹ 6,00,000

Total Capital of Reconstituted Firm = ₹ 6,00,000 × 6/5 = ₹ 7,20,000

Thus, Indra's Capital = ₹ 7,20,000 × 1/6 = ₹ 1,20,000.

69. (3) **Explanation:** As the Motor Vehicles is overvalued by 2/3 of its original value

It means, if its original value is 1, then Book Value is  $5/3 (1 + 2/3)$

$$= 5/3 \text{ of Value of Motor Vehicles} = ₹ 1,65,000$$

Revalued value of Motor Vehicles = ₹ 1,65,000 × 3/5 = ₹ 99,000 at which it shall be shown in the Balance Sheet of the reconstituted firm.

70. (4) **Explanation:** Accounting Entry for Investment Fluctuation Reserve would be:

Investment Fluctuation Reserve A/c	...Dr.	₹ 40,000
To Investment A/c*		₹ 5,000
To Ram's Capital A/c**		₹ 17,500
To Rahim's Capital A/c**		₹ 17,500
(Excess Investment Fluctuation Reserve distributed among old partners equally)		

\*Fall in Value of Investment is a loss that is met by Investment Fluctuation Reserve.

\*\*In the absence of profit-sharing ratio being given, it is divided as per the provisions of Partnership Act, 1932 *i.e.*, equally.

71. (3) **Explanation:** Existing goodwill is written off in the old profit-sharing ratio among old partners.

72. (1) **Explanation:** The valuation expenses incurred and paid by the firm, are the expenses related to revaluation of assets. Hence, they are debited to Revaluation Account. Since they are paid also, Cash or Bank Account is credited by the amount of expenses.

73. (4) **Explanation:** He is not compensated for balance of Employees' Provident Fund as it is a liability of the firm.

74. (4) **Explanation:** Value of Machinery is ₹ 1,75,000 which is 70% of actual value of Machinery. Revised value is 100% = ₹ 1,75,000 × 100/70 = ₹ 2,50,000, Increase in value of Machinery = ₹ 2,50,000 – ₹ 1,75,000 = ₹ 75,000.

Hence increase in the assets, *i.e.*, Machinery is recorded in the credit side of Revaluation Account.

75. (4) **Explanation:** Chander's share of Goodwill = ₹ 80,000 × 1/8 = ₹ 10,000 out of which he brought ₹ 4,000 (*i.e.*, 40% of ₹ 10,000) in cash. However, sacrificing partners will get the amount credited for the share of goodwill sacrificed by them. Thus, Akshay's Capital Account will be credited by ₹ 3,750 (*i.e.*, ₹ 10,000 × 3/8). Sacrificing ratio is the old profit-sharing ratio since Sacrificing Ratio is not known.

76. (2) **Explanation:** Reserve is an appropriation of profit, *i.e.*, is made by debiting Profit and Loss Appropriation Account.

77. (4) <b>Explanation:</b>	Bhavika	Suruchi
I. Old Profit Share	3/5	2/5
II. New Profit Share*	8/15	4/15
III. Sacrifice/(Gain) (I – II)	1/15	2/15

Thus, Sacrificing Ratio of Bhavika and Suruchi = 1/15 : 2/15 or 1 : 2. It means amount of goodwill credited to Capital Accounts of Bhavika and Suruchi will be ₹ 20,000 and ₹ 40,000 respectively.

\*New Profit Shares: Let Profit Share is 1, out of which given to Sanya 1/5; remaining profit share = 4/5, which is taken by Bhavika and Suruchi in their future ratio, *i.e.*, 2 : 1. Thus, New Shares of Bhavika and Suruchi are 8/15 and 4/15 respectively.

78. (2) **Explanation:** Investment Fluctuation Reserve in excess of fall in the book value is a free reserve. Since, the market value of Investment is more than its Book value, the total Investment Fluctuation Reserve is a free reserve and appropriated among old partners in their old profit-sharing ratio, which is equal (profit-sharing ratio is not given). Thus, Investment Fluctuation Reserve Account is debited by ₹ 40,000 and credited to Capital Accounts of Alok and Manish by ₹ 20,000 each.

79. (3) **Explanation:** New partner can be admitted if all existing partners agree for it.

80. (3) **Explanation:** A's Sacrifice =  $9/30$  and B's gain =  $4/30$

The entry passed is:

Premium for Goodwill A/c	...Dr.	₹ 20,000	
B's Capital A/c	...Dr.	₹ 16,000	
To A's Capital A/c (₹ 1,20,000 × $9/30$ )			₹ 36,000

81. (4) **Explanation:** Rahul's share of Goodwill = ₹ 1,20,000; (₹ 1,00,000 + ₹ 20,000)

Rahul's share of Profit = 20% or  $1/5$

Goodwill of the Firm = ₹ 1,20,000 × 5 = ₹ 6,00,000

Rohit's Gain = ₹ 30,000/₹ 6,00,000 =  $1/20$

Virat's Sacrifice = ₹ 1,50,000/₹ 6,00,000 =  $1/4$

Virat's New Share =  $5/8 - 1/4 = 3/8$  or  $15/40$

Rohit's new share =  $3/8 + 1/20 = 17/40$

Hence, New Profit-sharing Ratio = 15 : 17 : 8.

82. (4) **Explanation:** Combined Capital of A and B for  $4/5$ th share = ₹ 30,000 + ₹ 15,000 = ₹ 45,000

Combined Profit-share of A and B =  $1 - 1/5 = 4/5$

Total Capital of the New firm will be = ₹ 45,000 ×  $5/4 = ₹ 56,250$

C's Capital will be = ₹ 56,250 ×  $1/5 = ₹ 11,250$ .

83. (2) **Explanation:** Total Capital of the new firm = ₹ 2,00,000 ×  $4/1 = ₹ 8,00,000$ .

84. (1) **Explanation:** Total amount of the new Firm will be = ₹ 4,50,000 ×  $4/3 = ₹ 6,00,000$ .

Kavi's Capital in the new firm will be = ₹ 6,00,000 ×  $1/4 = ₹ 1,50,000$ .

85. (2) **Explanation:** Total Capital of new firm based on Savale's Capital = ₹ 1,50,000 ×  $4/1 = ₹ 6,00,000$

Combined Profit Share of Kale and Gore will be =  $1 - 1/4 = 3/4$

Kale's Share of profit =  $3/4 × 3/5 = 9/20$

Adjusted Capital of Kale will be = ₹ 6,00,000 ×  $9/20 = ₹ 2,70,000$ .

86. (1) **Explanation:** Total Adjusted Capitals of A and B = ₹ 4,50,000 + ₹ 3,50,000 = ₹ 8,00,000

Combined New Share of A and B =  $2/5 + 2/5 = 4/5$

Total Capital of new firm = ₹ 8,00,000 ×  $5/4 = ₹ 10,00,000$

C's Capital = ₹ 10,00,000 ×  $1/5 = ₹ 2,00,000$

C will bring ₹ 2,00,000 as Capital.

87. (2) **Explanation:** Total Capital on basis of Chandan's Capital = ₹ 30,000 ×  $4/1 = ₹ 1,20,000$

Combined Capital of Akul and Bakul = ₹ 1,20,000 – ₹ 30,000 = ₹ 90,000, which would be in their profit ratio, i.e., 3 : 2 (Unless agreed otherwise, profit sharing ratio of existing partners remains unchanged).

Akul's New Capital = ₹ 90,000 ×  $3/5 = ₹ 54,000$ ; and

Bakul's New Capital = ₹ 90,000 ×  $2/5 = ₹ 36,000$ .

88. (3) **Explanation:**

(i) Calculation of new profit-sharing ratio:

Let the total share of the firm = 1

Ajay's Profit share =  $1/5$ , Remaining Share =  $1 - 1/5 = 4/5$

Asin's New Profit Share =  $4/5 × 5/8 = 4/8$

Shreya's New Profit Share =  $4/5 × 3/8 = 12/40$

(ii) Total capital of the new firm based on Ajay's Capital = ₹ 6,00,000 ×  $5/1 = ₹ 30,00,000$ .

(iii) Capital Balances of each partner will be:

$$\text{Asin} = ₹ 30,00,000 \times 4/8 = ₹ 15,00,000$$

$$\text{Shreya} = ₹ 30,00,000 \times 12/40 = ₹ 9,00,000$$

$$\text{Ajay (Given)} = ₹ 30,00,000 \times 1/5 = ₹ 6,00,000.$$

- 89. (3) Explanation:** Total Capital of New Firm = ₹ 2,50,000 × 5/1 = ₹ 12,50,000  
 Abha's New Capital = ₹ 12,50,000 × 12/25\* = ₹ 6,00,000  
 Binay's New Capital = ₹ 12,50,000 × 8/25\* = ₹ 4,00,000

Calculation of Cash to be brought/Cash to be paid:

Particulars	Abha (₹)	Binay (₹)
New Capital	6,00,000	4,00,000
Adjusted Capital	6,50,000	3,50,000
Amount to be brought/(Paid)	(50,000)	50,000

\*Share in Reconstituted firm: Abha =  $3/5 \times 4/5 = 12/25$ ;

$$\text{Binay} = 2/5 \times 4/5 = 8/25.$$

- 90. (1) Explanation:** Increase of Tarang's Capital =  $4/7$  (₹ 4,20,000 – ₹ 42,000) = ₹ 2,16,000.

**91. (2) Explanation:**

(i) Total Capitals of X and Y = ₹ 48,000 + ₹ 36,000 = ₹ 84,000

$$\text{Combined New Profit-share of X and Y} = 1 - 1/5 = 4/5$$

$$\text{Total Capital of new firm} = ₹ 84,000 \times 5/4 = ₹ 1,05,000$$

$$\text{Z's Capital} = ₹ 1,05,000 \times 1/5 = ₹ 21,000$$

Z will bring ₹ 21,000 as capital

(ii) X's new Profit-share =  $3/5 - 1/10$  (i.e.,  $1/5 \times 1/2$ ) =  $(6 - 1)/10 = 5/10$

$$\text{Y's new Profit-share} = 2/5 - 1/10 \text{ (i.e., } 1/5 \times 1/2) = (4 - 1)/10 = 3/10$$

$$\text{Z's Profit-share} = 1/5 \text{ or } 2/10$$

$$\text{New Profit sharing ratio of X, Y and Z} = 5/10 : 3/10 : 2/10 = 5 : 3 : 2$$

$$\text{X's New Capital} = ₹ 1,05,000 - 5/10 = ₹ 52,500$$

$$\text{Y's New Capital} = ₹ 1,05,000 \times 3/10 = ₹ 31,500$$

$$\text{Z's Capital} = ₹ 21,000$$

(iii) Calculation of amount to be paid or brought by X and Y:

Particulars	X (₹)	Y (₹)
(a) New Capitals	52,500	31,500
(b) Adjusted Old Capital	48,000	36,000
Cash to be brought (paid) (a – b)	4,500	(4,500)

**92. (3) Explanation:**

1. Calculation of new Capital of Partners:

$$\text{New Capital of partners} = \text{Total Capital of the firm} \times \text{New Share}$$

$$\text{Shiv's Capital} = ₹ 2,40,000 \times 2/4 = ₹ 1,20,000$$

$$\text{Mohan's Capital} = ₹ 2,40,000 \times 1/4 = ₹ 60,000$$

$$\text{Gopal's Capital} = ₹ 2,40,000 \times 1/4 = ₹ 60,000$$

2. Calculation of Surplus or Deficit:

- Deficit of ₹ 40,000 in Shiv's Capital as his adjusted capital of ₹ 80,000 is less than her new capital of ₹ 1,20,000.
- Surplus of ₹ 10,000 in Mohan's capital as his adjusted capital of ₹ 70,000 is more than his new capital of ₹ 60,000.

3. Adjust this Surplus or Deficit through cash:

Shiv will bring	₹ 40,000;
Mohan will withdraw	₹ 10,000;
Gopal will bring	₹ 60,000.

93. (4) Explanation:

Particulars	A (₹)	B (₹)	C (₹)
Existing Capital/Contributed	1,00,000	80,000	40,000
Credit for goodwill in sacrificing ratio 4 : 3	24,000	18,000	...
	1,24,000	98,000	40,000

94. (3) Explanation: It is a case of Hidden Goodwill. Calculation of Hidden Goodwill:

(a) Net Worth of the new firm on the basis of Gopal's Contribution = ₹ 50,000 × 6/1 = ₹ 3,00,000

(b) Existing Capital of Sonu, Monu and Gopal = ₹ 1,00,000 + ₹ 60,000 + ₹ 30,000 (General Reserve) + ₹ 50,000  
= ₹ 2,40,000

(c) Firm's Goodwill (a – b) = ₹ 3,00,000 – ₹ 2,40,000 = ₹ 60,000

Gopal's share of Goodwill = ₹ 60,000 × 1/6 = ₹ 10,000

(d) Closing Capital of Gopal = ₹ 50,000 – ₹ 10,000 = ₹ 40,000.

95. (1) Explanation:

Particulars	Leena (₹)	Mohit (₹)	Manoj (₹)
Opening Capital	20,000	20,000	30,000
Premium for Goodwill (= ₹ 30,000 × 1/3)	5,000	5,000	...
Profit on Revaluation	6,500	6,500	...
Closing Balances of Capital Accounts	31,500	31,500	30,000

## 2. CASE STUDY BASED MCQS

1. A. 4. Explanation: Old profit-sharing ratio = 5 : 3 : 2

Pulkit's share in Profits = 1/5

Remaining share (apart from Pulkit's 1/5th share) = 1 – 1/5 = 4/5

George's New Profit Share = 4/5 × 5/10 = 20/50

Anish's New Profit Share = 4/5 × 3/10 = 12/50

Binu's New Profit Share = 4/5 × 2/10 = 8/50

Pulkit's Profit Share = 1/5 × 10/10 = 10/50

New Profit-sharing Ratio = 20 : 12 : 8 : 10 or 10 : 6 : 4 : 5.

B. 2. Explanation: Unless agreed otherwise, sacrificing ratio of old partners is same as their old profit-sharing ratio. Thus, their sacrificing ratio is 5 : 3 : 2.

C. 3. Explanation: Value of Goodwill at the time of admission of new partner

= Goodwill brought by New Partner × Inverse of his share in the partnership

= ₹ 15,00,000 × 5/1 = ₹ 75,00,000.

D. 4. Explanation: For distributing the premium for goodwill, Premium for Goodwill Account is debited by the amount of goodwill premium brought by new partner, i.e., ₹ 15,00,000 and Capital Accounts of sacrificing partners are credited in their sacrificing ratio, i.e., 5 : 3 : 2. Thus, entry passed is:

Premium for Goodwill A/c	...Dr.	₹ 15,00,000	
To George's Capital A/c			₹ 7,50,000
To Anish's Capital A/c			₹ 4,50,000
To Binu's Capital A/c			₹ 3,00,000

2. A. 1. **Explanation:** Rajinder has brought his share of Capital and Premium for Goodwill in Cash. Hence, Cash Account is debited by ₹ 1,74,000 and Rajinder's Capital Account and Premium for Goodwill Account are credited by ₹ 1,20,000 and ₹ 54,000 respectively.

B. 3. **Explanation:** Rajinder's share in Profits =  $1/5$

$$\text{Remaining Profit share} = 1 - 1/5 = 4/5$$

$$\text{Sarabjeet's New Profit share} = 4/5 \times 1/2 = 4/10$$

$$\text{Jaspal's New Profit share} = 4/5 \times 1/2 = 4/10$$

$$\text{Rajinder's Profit share} = 1/5 \text{ or } 2/10$$

$$\text{New Profit-sharing ratio} = 4 : 4 : 2 \text{ or } 2 : 2 : 1.$$

C. 2. **Explanation:** Sacrifice = Old Profit Share – New Profit Share

$$\text{Sarabjeet's Sacrifice} = 5/9 - 2/5 = 7/45$$

$$\text{Jaspal's Sacrifice} = 4/9 - 2/5 = 2/45$$

Sacrificing Ratio is 7 : 2.

D. 4. **Explanation:** Existing Goodwill is written off among old partners by debiting their capital accounts in their old profit-sharing ratio. Thus, entry passed would be:

Sarabjeet's Capital A/c	...Dr.	₹ 20,000	
Jaspal's Capital A/c	...Dr.	₹ 16,000	
To Goodwill A/c			₹ 36,000

3. A. 3. **Explanation:** Virat's share in profits =  $1/4$

$$\text{Remaining Profit Share} = 1 - 1/4 = 3/4$$

$$\text{Rohit's new Profit Share} = 3/4 \times 2/3 = 6/12$$

$$\text{Rahul's new Profit Share} = 3/4 \times 1/3 = 3/12$$

$$\text{Virat's new Profit Share} = 1/4 \text{ or } 3/12$$

$$\text{New Profit-sharing Ratio} = 6 : 3 : 3 = 2 : 1 : 1.$$

B. 3. **Explanation:** Goodwill = Average Profit × No. of years' purchase

$$\text{Average Profit} = \text{Total Profits} / \text{Number of years}$$

$$\text{Total Profits} = -₹ 10,000 + ₹ 26,000 + ₹ 34,000 + ₹ 40,000 + ₹ 50,000 = ₹ 1,40,000$$

$$\text{Average Profit} = ₹ 1,40,000 / 5 = ₹ 28,000$$

$$\text{Firm's Goodwill} = ₹ 28,000 \times 3 = ₹ 84,000$$

$$\text{Virat's share of Goodwill} = ₹ 84,000 \times 1/4 = ₹ 21,000.$$

C. 2. **Explanation:** Sacrificed Profit Share = Old Profit Share – New Profit Share

$$\text{Rohit} = 1/2 - 2/4 = 0$$

$$\text{Rahul} = 1/2 - 1/4 = 1/4$$

Since Rohit has neither gained nor sacrificed on admission of Virat into the partnership. Therefore, Premium for Goodwill brought by Virat will be credited to Rahul's Capital Account.

D. 4. **Explanation:** Calculation of Closing Capital of Rohit and Rahul:

$$\text{Closing Capital} = \text{Opening Capital} - \text{Drawings} + \text{Profits (distributed in old profit sharing ratio, i.e., 1 : 1)*}$$

$$\text{Rohit's Closing Capital} = ₹ 3,00,000 - ₹ 70,000 + ₹ 70,000* = ₹ 3,00,000$$

$$\text{Rahul's Closing Capital} = ₹ 2,00,000 - ₹ 50,000 + ₹ 70,000* + ₹ 21,000 (\text{Premium for goodwill})** = ₹ 2,41,000$$

$$\text{Capital brought by Virat} = \text{Capital of Rohit and Rahul} \times 1/4$$

$$= (₹ 3,00,000 + ₹ 2,41,000) / 4 = ₹ 5,41,000 / 4 = ₹ 1,35,250.$$

$$*\text{Total profits of the firm for last 5 years} = -₹ 10,000 + ₹ 26,000 + ₹ 34,000 + ₹ 40,000 + ₹ 50,000 = ₹ 1,40,000$$

The total Profits were shared equally by the partners, hence, profits added to Capitals of Rohit and Rahul will be ₹ 70,000 each.

\*\*Premium for goodwill will be credited to the Capital Account of Rahul, as he alone sacrifices on admission of Virat.

(Sacrificing Ratio: Rohit's Sacrifice =  $1/2 - 6/12 = \text{nil}$ ; Rahul's Sacrifice =  $1/2 - 3/12 = 3/12$  or  $1/4$ ).

4. A. 3. **Explanation:** Old Profit Ratio = 5 : 5 : 8  
 Harman's Profit Share =  $8/18 \times 1/4 = 8/72$  or  $1/9$   
 Smriti's New Profit Share =  $8/18 - 1/9 = 6/18$  or  $1/3$   
 New profit-sharing ratio of Jemima, Mithali and Smriti and Harman  
 Jemima =  $5/18$   
 Mithali =  $5/18$   
 Smriti =  $1/3$   
 Harman =  $1/9$   
 Thus, New Profit-sharing Ratio = 5 : 5 : 6 : 2.
- B. 2. **Explanation:** Harman's Capital = Required Capital of Smriti – Capital brought by Smriti's – Existing Capital of Smriti\*  
 $= ₹ 16,00,000 - ₹ 4,00,000 - (₹ 8,00,000 + ₹ 2,00,000) = ₹ 2,00,000.$   
 \*Existing Capital of Smriti = ₹ 8,00,000 + ₹ 2,00,000 (Premium for Goodwill) = ₹ 10,00,000.
- C. 4. **Explanation:** Goodwill of the firm =  $18/2 \times ₹ 2,00,000 = ₹ 18,00,000$
- D. 2. **Explanation:** Since only Smriti is sacrificing her profit, therefore total Premium for Goodwill brought by Harman will be credited to Smriti's Capital A/c.
5. A. 4. **Explanation:** Unless agreed otherwise, sacrificing ratio of old partners will be same as their old profit-sharing ratio. Thus, premium for goodwill of ₹ 6,00,000 brought by Aishwarya will be credited to the Current Accounts of Abhishek and Vivek in their sacrificing ratio, i.e., 3 : 2.
- B. 4. **Explanation:** Unless agreed otherwise, sacrificing ratio of old partners will be same as their old profit-sharing ratio. Thus, premium for goodwill of ₹ 6,00,000 brought by Aishwarya is credited to the Current Accounts of Abhishek and Vivek in their sacrificing ratio, i.e., 3 : 2. Thus, entries passed for accounting of goodwill are:
- |                               |        |            |            |
|-------------------------------|--------|------------|------------|
| (i) Bank A/c                  | ...Dr. | ₹ 6,00,000 |            |
| To Premium for Goodwill A/c   |        |            | ₹ 6,00,000 |
| (ii) Premium for Goodwill A/c | ...Dr. | ₹ 6,00,000 |            |
| To Abhishek's Current A/c     |        |            | ₹ 3,60,000 |
| To Vivek's Current A/c        |        |            | ₹ 2,40,000 |
- C. 1. **Explanation:** Interest on Abhishek's Loan =  $₹ 25,00,000 \times 6/100 \times 6/12 = ₹ 75,000.$   
**Note:** In respect of interest on loan given by Abhishek to the firm, even in the absence of any provision in the Partnership Deed, Abhishek shall be entitled to get interest on the loan at the rate of 6% p.a. The rate of interest decided by the other partners @ 5% p.a. is not accepted by Abhishek. Thus, he will get interest @ 6% p.a. as is provided in the Partnership Act, 1932.
- D. 4. **Explanation:** As there is no agreement to interest on loan advanced to partner, as per the provisions of Indian Partnership Act, 1932, interest is not charged from partner.
6. A. 1. **Explanation:** Tarun's Sacrificed Profit share =  $1/4 \times 1/5 = 1/20$ ;  
 Bimal's Sacrificed Share =  $1/4 \times 4/5 = 4/20$   
 Thus, Sacrificing Ratio is = 1 : 4.
- B. 3. **Explanation:** Tarun's new Profit Share =  $3/5 - 1/20 = 11/20$   
 Bimal's new Profit Share =  $2/5 - 4/20 = 4/20$   
 Mukesh's Profit Share =  $1/4$  or  $5/20$   
 Hence, New Profit-sharing Ratio is 11 : 4 : 5.
- C. 1. **Explanation:** Goodwill brought by Mukesh is ₹ 1,00,000 distributed between Tarun and Bimal as in Sacrificing Ratio of 1 : 4. Thus, Premium for Goodwill transferred to Capital Accounts of  
 Tarun =  $₹ 1,00,000 \times 1/5 = ₹ 20,000$ ;  
 Bimal =  $₹ 1,00,000 \times 4/5 = ₹ 80,000.$

D. 2. **Explanation:** The existing goodwill of ₹ 2,00,000 is written off by debiting Capital A/cs of old Partners in their old profit-sharing ratio. Thus, It is written off debiting Capital A/cs of Tarun and Bimal by ₹ 1,20,000 and ₹ 80,000 respectively.

E. 4. **Explanation:** Debits in Revaluation Account = ₹ 2,50,000 (Plant and Machinery) + ₹ 50,000 (Computers and Printers) + ₹ 1,00,000 (Claim for Damages) + ₹ 2,50,000 (Workmen Compensation Claim) = ₹ 6,50,000  
Credits in Revaluation Account = ₹ 40,00,000 (Land and Building)

Gain on revaluation = ₹ 40,00,000 – ₹ 6,50,000 = ₹ 33,50,000

Gain transferred to Capital Accounts:

Tarun: ₹ 33,50,000 × 3/5 = ₹ 20,10,000

Bimal: ₹ 33,50,000 × 2/5 = ₹ 13,40,000

**Note:** An endorsed bill receivable which was discounted with bank, dishonoured will not affect Revaluation Account, but is recorded in the books by passing the following entry:

Debtors A/c	...Dr.	₹ 50,000	
To Bank A/c			₹ 50,000

### 3. SEQUENCE BASED MCQS

1. 2. **Explanation:** The sequence when amounts of reserves and accumulated profits etc. are adjusted on admission of a partner by passing a single Journal entry is:

C. Calculate the Net Effect of Reserves, Accumulated Profits and Losses.

B. Calculate Sacrifice/(Gain) Share of each Partner.

D. Calculate share of Gaining Partner and Sacrificing Partner in the Net Effect of Reserves, Accumulated Profits and Losses.

A. Pass single adjustment entry by adjusting Partners' Capital/Current A/cs.

2. 3. **Explanation:** The correct order of sequence in passing the adjusting entry is:

C. Calculate the Net Effect of Revaluation of Assets and Reassessment of Liabilities.

A. Calculate Sacrifice/(Gain) Share of each Partner.

D. Calculate share of Gaining Partner and Sacrificing Partner in the Net Effect of Revaluation of Assets and Reassessment of Liabilities.

B. Pass single adjustment entry by adjusting Partners' Capital/Current A/cs.

3. 4. **Explanation:** The correct order or sequence in which the capital accounts of old partners is adjusted is:

D. Compute Total Capital of the firm on the basis of Capital of New Partner.

E. Determine Capital (*i.e.*, Proportionate) of each partner in reconstituted firm.

B. Ascertain Present Capital (after all adjustments) of old partners.

A. Find Surplus or Deficit Capital by comparing Present Capital and Proportionate Capital.

C. Pass necessary Journal entries for adjusting Surplus or Deficit Capital.

4. 2. **Explanation:** The correct sequence to determine new partner's capital on the basis of old partners' capitals is

D. Ascertain Capital (after all adjustments) of old partners.

C. Determine sum of Adjusted Capital of old Partners.

A. Determine Total Capital of New Firm by multiplying Total adjusted capital of old partners with Reciprocal of combined new share of old partners.

B. Determine Capital of New Partner in proportion to Capital of New Firm.

## 4. MATCHING QUESTIONS

1. 2. **Explanation:**

- A. When there is no claim against it, amount of Reserve is appropriated among old partners in their old profit-sharing ratio. **[Column II (II)]**
- B. When amount of claim is more than the reserve, amount of reserve is transferred to Workmen Compensation Claim A/c and excess of claim over reserve is debited to Revaluation A/c. **[Column II (III)]**
- C. When amount of claim is equal to the reserve, amount of reserve is transferred to Workmen Compensation Claim A/c. **[Column II (IV)]**
- D. When amount of claim is less than the reserve, amount of reserve to the extent of claim is transferred to Workmen Compensation Claim A/c and Excess balance is appropriated among old partners in their old profit-sharing ratio. **[Column II (I)]**

2. 4. **Explanation:**

- A. Reserve /General Reserve are appropriation of profits. in the case free reserves they assume the nature of Accumulated Profit. **[Group II(III)]**
- B. Sacrificing Ratio is calculated using the formula Old Profit Share – New Profit Share **[Group II (I)]**
- C. Increase in the value of liability is debited to Revaluation Account, being a loss. **[Group II (IV)]**
- D. Increase in the value of asset is credited to Revaluation Account, being a gain (profit). **[Group II (II)]**

3. 3. **Explanation:**

- A. General Reserve is appropriated among old partners in old profit-sharing ratio. **[Group II (III)]**
- B. Profit of Reconstituted firm is distributed among all partners in new profit-sharing ratio. **[Group II (IV)]**
- C. Premium for Goodwill is distributed among old partners in their sacrificing ratio. **[Group II (II)]**
- D. Adjustment of Capital is made as is agreed. **[Group II (I)]**

4. 1. **Explanation:**

- A. When Market Value of Investment is equal to its Book Value, amount of reserve is appropriated among old partners in old profit-sharing ratio. **[Group II (III)]**
- B. When Market Value of Investment is higher than its Book Value , amount of reserve is distributed among partners in their old profit-sharing ratio and also increase in the value of Investment is credited to Revaluation Account, which is distributed among old partners in their old profit-sharing ratio. **[Group II (I)]**
- C. When Fall in Value of Investments is equal to Investment Fluctuation Reserve, amount of reserve is adjusted against the fall in value of investment. **[Group II (IV)]**
- D. When Fall in Value of Investment is less than Investment Fluctuation Reserve, amount of reserve to the extent of fall in value is adjusted and balance is transferred to old partners' Capital Accounts in their old profit-sharing ratio. **[Group II (V)]**
- E. When fall in the value of Investments is more than Investment Fluctuation Reserve, amount of reserve is adjusted against the fall in value of investments and excess of fall in value of investments is debited to Revaluation Account, which is distributed among old partners in old profit-sharing ratio. **[Group II (II)]**

## 5. COMBINATION WITH SINGLE ANSWER QUESTIONS

- 1. 2. **Explanation:** At the time of admission of a partner all the adjustments except settlement of account are made.
- 2. 3. **Explanation:** Payment of Due amount in Lump Sum, Transfer of Amount from Capital Account to Loan Account and Realisation of Assets do not relate to admission of a partner. These adjustments are made at the time to retirement/death and dissolution of partnership firm.
- 3. 1. **Explanation:** Gain (Profit) on Revaluation Account, Premium for Goodwill Account and Contingency Reserve are credited to old Partners' Capital Accounts at the time of admission of a partner. Profit & Loss Account (Dr.) balance is transferred to the debit of old Partners' Capital Accounts.

4. 2. **Explanations:** Profit & Loss Account (Dr.) and Advertisement Suspense Account are fictitious assets, hence are transferred to the debit of old Partners' Capital Accounts. Goodwill Account is written off and Loss on Revaluation Account are transferred to the debit of old Partners' Capital Accounts at the time of admission of a partner.
5. 4. **Explanation:** Capital brought by the new partner and Drawings against Capital are accounted in Partners' Capital Accounts when Capital Accounts are maintained following Fixed Capital Accounts Method. Remaining entries (items) are transferred to Current Accounts.
6. 1. **Explanation:** Profit & Loss Account (Dr.), Premium for Goodwill Account and Drawings Account are accounted in Partners' Current Accounts, if Capital Accounts are maintained following Fixed Capital Accounts Method because these entries do not relate to introduction or withdrawal of capital.
7. 2. **Explanation:**
- A. Decrease in Provision for Doubtful Debts—it results in decreased provisions and thus, is credited to Revaluation Account.
  - B. Dishonour of Discounted Bills Receivable—It is not accounted in Revaluation Account but the amount is debited to Debtor's Account.
  - C. Make Provision for Damages—It is debited to Revaluation Account, being a provision for loss.
  - D. Bad Debts Recovered—it is credited to Revaluation Account, being a gain.
  - E. Undervaluation of Plant and Machinery—it is credited to Revaluation Account, being gain (profit) on revaluation.
8. 4. **Explanation:**
- A. Overvaluation of Building—It is debited to Revaluation Account.
  - B. Fall in value of Investment—It is debited to Revaluation Account.
  - C. Revaluation Expenses paid by a partner—It is debited to Revaluation Account.
  - D. Creditors no longer Payable—It is credited to Revaluation Account.
  - E. Provision for Workmen Compensation Claim—It is debited to Revaluation Account.
9. 2. **Explanation:**
- A. Decrease in Provision for Doubtful Debts—it is credited to Revaluation Account being a reduction in provisions.
  - B. Dishonour of Endorsed Bills Receivable—It is not accounted in Revaluation Account. It is debited to Debtor's Account.
  - C. Make Provision for Warranties—It is debited to Revaluation Account, being a provision for loss.
  - D. Creditors no longer Payable—it is credited to Revaluation Account, being reduction in liability and thus resulting in gain (profit).
  - E. Overvaluation of Furniture—it is debited to Revaluation Account. The overvalued amount is written off resulting in loss.
10. 3. **Explanation:**
- A. Workmen Compensation Reserve, when there is no claim—It is appropriated among old partners in their old profit-sharing ratio.
  - B. Increase in value of Investment—It is credited to Revaluation Account, being a gain (profit).
  - C. Revaluation Expenses paid by a partner—It is debited to Revaluation Account being an expense of revaluation.
  - D. Acceptance given to Creditors—it is not accounted in Revaluation Account, it being payment of liability.
  - E. Investment sold at a price that is more than its Book Value—Difference in Sale Price and Book Value is credited to Revaluation Account being a gain (profit).