Reconstitution of a Partnership Firm – Admission of a Partner

Standard difficulty · 20 questions · 40 marks · Time: 39 minutes

Name: _____ Date: _____ Score: ____ / 40

Show your working for Sections B and C. Answers are on the last page — try every question first!

Section A — Choose the correct answer — 8 × 1 = 8 marks

1. On admission, the ratio in which the old partners give up their share is the:
   (a) new ratio **(b)** capital ratio
   (c) gaining ratio **(d)** sacrificing ratio

2. What is meant by “premium for goodwill”?
   (a) the amount a new partner brings in for a share of the firm’s goodwill
   (b) the ratio in which all the partners share profits after the admission
   (c) the number of years’ profits for which goodwill is valued
   (d) reserves and profit balances that belong to the old partners in the old ratio

3. Which of these affects the value of a firm’s goodwill?
   (a) the partners’ private houses **(b)** the age of the partners
   (c) the number of partners **(d)** special advantages such as licences

4. Isha and Vikram share profits 3 : 1. They admit Arjun for a 1/6 share, which Arjun takes from them in their old ratio. What is the new profit-sharing ratio?
   (a) 15 : 5 : 4 **(b)** 5 : 15 : 4 **(c)** 3 : 1 : 1 **(d)** 9 : 3 : 2

5. Zoya and Ananya share profits 3 : 4. Rohan is admitted and takes 1/21 of the profit from Zoya and 5/21 from Ananya. What is the sacrificing ratio of Zoya and Ananya?
   (a) 1 : 5 **(b)** 8 : 7 **(c)** 3 : 4 **(d)** 5 : 1

6. A firm’s profits for the last 3 years were ₹51,000, ₹62,000, ₹64,000. Goodwill is valued at 3 years’ purchase of the average profit. What is the goodwill?
   (a) ₹2,36,000 **(b)** ₹1,77,000 **(c)** ₹59,000 **(d)** ₹1,18,000

7. A firm’s capital employed is ₹4,50,000 and the normal rate of return is 20%. Its average profit is ₹1,12,000. Goodwill is valued at 3 years’ purchase of the super profit. What is the goodwill?
   (a) ₹88,000 **(b)** ₹22,000 **(c)** ₹3,36,000 **(d)** ₹66,000

8. The goodwill of a firm is valued at ₹70,000. Zoya is admitted for a 1/5 share and brings in the share of goodwill in cash. How much is the premium for goodwill?
   (a) ₹14,000 **(b)** ₹70,000 **(c)** ₹11,667 **(d)** ₹56,000

Section B — Short answer — 8 × 2 = 16 marks

9. Name the modes of reconstitution of a partnership firm.

10. Explain each term: (a) accumulated profits (b) new profit-sharing ratio

11. Asha and Dev share profits 1 : 1. They admit Kabir, who takes 1/4 of the profit from Asha and 1/4 from Dev. Find the new profit-sharing ratio and Kabir's share.

12. A firm earns an average profit of ₹69,000. The normal rate of return is 10% and its net assets (capital employed) are ₹5,00,000. Find its goodwill by capitalising the average profit.

13. A firm has capital employed of ₹7,60,000, an average profit of ₹83,000 and a normal rate of return of 10%. Find the goodwill by capitalising the super profit.

14. Isha and Vikram have capitals of ₹3,60,000 and ₹1,25,000. Rahul is admitted for a 1/5 share and brings ₹1,40,000 as capital, but nothing for goodwill. Find the hidden goodwill of the firm and Rahul's share of it.

15. The profits of a firm for three years were ₹1,02,000, ₹84,000, ₹1,20,000 (oldest first). Goodwill is valued at 3 years' purchase of the weighted average profit, with weights 1, 2 and 3. Find the goodwill.

16. Zoya and Kabir share profits 5 : 3. Priya is admitted for a 1/3 share, taken from them in their old ratio, and brings in a premium for goodwill in cash. The firm's goodwill is valued at ₹48,000. How much premium is credited to (a) Zoya (b) Kabir?

Section C — Word problems — 4 × 4 = 16 marks

17. Explain the adjustments needed on the admission of a new partner.

18. Meera and Isha share profits 4 : 1. On admitting Dev: (i) building of ₹1,83,000 is valued at ₹2,19,000; (ii) stock of ₹43,000 is reduced by ₹2,500; (iii) a provision for doubtful debts of 10% is made on debtors of ₹40,000; (iv) an unrecorded liability of ₹4,000 is to be recorded. Find the profit or loss on revaluation and each old partner's share.

19. Ananya and Vikram share profits 2 : 3, and their balance sheet shows a general reserve of ₹35,000. Zoya is admitted for a 1/5 share (taken in the old ratio), bringing ₹70,000 as capital and the share of goodwill in cash. Goodwill is valued at ₹50,000. Pass the journal entries.

20. Vikram and Rohan share profits 3 : 4. Rahul is admitted for a 1/5 share (taken in the old ratio) and brings ₹2,10,000 as capital. After all adjustments, the capitals of Vikram and Rohan are ₹3,69,000 and ₹4,75,000. Their capitals are to be in the new profit-sharing ratio, based on Rahul's capital. Find each one's new capital and the cash to be brought in or withdrawn.

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Answer key

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Q	Answer	Working
1	**(d) sacrificing ratio**	—
2	**(a) the amount a new partner brings in for a share of the firm's goodwill**	—
3	**(d) special advantages such as licences**	—
4	**(a) 15 : 5 : 4**	remaining 5/6 shared 3 : 1
5	**(a) 1 : 5**	sacrificing ratio = shares given up
6	**(b) ₹1,77,000**	average ₹1,77,000 ÷ 3 = ₹59,000; × 3
7	**(d) ₹66,000**	normal profit ₹90,000; super profit ₹22,000; × 3
8	**(a) ₹14,000**	₹70,000 × 1/5
9	**Change in the profit-sharing ratio, admission of a partner, retirement of a partner, death of a partner, and amalgamation of firms.**	—
10	**(a) reserves and profit balances that belong to the old partners in the old ratio (b) the ratio in which all the partners share profits after the admission**	—
11	**1 : 1 : 2; Kabir's share 1/2**	Asha 2/4 − 1/4; Dev 2/4 − 1/4; Kabir 2/4
12	**₹1,90,000**	capitalised value ₹69,000 × 100/10 = ₹6,90,000; − ₹5,00,000
13	**₹70,000**	normal profit ₹76,000; super profit ₹7,000; × 100/10
14	**₹75,000; ₹15,000**	total capital ₹1,40,000 × 5 = ₹7,00,000; − (₹4,85,000 + ₹1,40,000) = ₹75,000
15	**₹3,15,000**	(₹1,02,000 × 1 + ₹84,000 × 2 + ₹1,20,000 × 3) ÷ 6 = ₹1,05,000; × 3
16	**(a) ₹10,000; (b) ₹6,000**	premium ₹48,000 × 1/3 = ₹16,000, shared in the sacrificing ratio 5 : 3
17	**New profit-sharing ratio and sacrificing ratio, goodwill, revaluation of assets and liabilities, distribution of accumulated profits and losses, and adjustment of capitals.**	—
18	**profit of ₹25,500; Meera ₹20,400, Isha ₹5,100**	+₹36,000 − ₹2,500 − ₹4,000 − ₹4,000 = ₹25,500; shared 4 : 1 (old ratio)
19	**(i) Bank A/c Dr. ₹80,000 To Zoya's Capital A/c ₹70,000 To Premium for Goodwill A/c ₹10,000 (ii) Premium for Goodwill A/c Dr. ₹10,000**	premium ₹50,000 × 1/5; premium shared in the sacrificing ratio and the reserve in the old ratio, 2 : 3

Q	Answer	Working
	To Ananya's Capital A/c ₹4,000 **To Vikram's Capital A/c ₹6,000** **(iii) General Reserve A/c Dr. ₹35,000** **To Ananya's Capital A/c ₹14,000** **To Vikram's Capital A/c ₹21,000**	
20	**new capitals: Vikram ₹3,60,000, Rohan ₹4,80,000; Vikram withdraws ₹9,000; Rohan brings in ₹5,000**	total capital ₹2,10,000 × 5 = ₹10,50,000; new ratio 12 : 16 : 7

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