PANCHAKSHARI'S PROFESSIONAL ACADEMY PVT LTD
(Your Lifelong Knowledge Partner…)

PPA

52 Questions 52 Marks 60 Minutes

Partnership: Admission of a Partner

Select the best choice to answer the following question.

1. When a new partner is admitted, he is entitled to a share of
   a) Past profits b) present profits
   c) Future profits
   d) Reserve appearing in the balance sheet of the firm

2. When a new partner is admitted, unless otherwise agreed, the profit sharing ratio between the existing partners will
   a) Reduce b) increase
   c) Remain same d) none of above

3. Which of the following is not true?
   a) At the time of admission of a partner if only the incoming partner's profit ratio is given, then it means that the profit sharing ratio between the old partners does not change
   b) If the incoming partner purchase his share of profit from the other partners in a particular ratio, then the old partners continue to share profits and losses in the old ratio
   c) It is often desired to revalue the assets and liabilities at the time of admission of a partner
   d) The contingent liability becoming a certain liability will be debited to revaluation account at the time of admission of a partner

4. Which of the following is true?
   a) All accumulated profits and losses are to be transferred to revaluation account at the time of admission of a partner
   b) If the incoming partner is to bring his share of goodwill in cash the same is taken away by the old partners in their new profit sharing ratio
   c) In case of memorandum revaluation account, the balance of its second part is taken to the capital accounts of the old partners only
   d) When memorandum revaluation account is prepared then all the assets and liabilities except cash appears in the balance sheet at their old values.
5. Which of the following is not true?
   A purchased goodwill
   a) Arises on purchase of a business
   b) Is not shown in the balance sheet
   c) Is recorded in the books of account
   d) Is amortised over its useful economic life

6. Which of the following is not true?
   a) When a new partner is admitted, he is entitled to share of future profits/losses
   b) Calculation of sacrificing ratio is necessary when the new partner will bring in premium for goodwill in cash
   c) Goodwill can have an existence separate from the organisation
   d) Revaluation is the recording of an asset or a liability at the current value.

7. Which of the following statement is wrong in the admission of a partner?
   a) Increase in the valuation of asset will increase capital
   b) Increase in the valuation of asset will decrease capital
   c) Increase in the valuation of liability will decrease capital
   d) Decrease in the valuation of liability will increase capital

8. The account that performs the same function as the revaluation account is the
   a) Profit & loss adjustment account
   b) Capital Account
   c) Depreciation Account
   d) Appreciation Account

9. Profit or loss on revaluation of assets and liabilities is shared by
   a) The old partners in the new ratio
   b) The old partners in the old ratio
   c) The old partners in the sacrificing ratio
   d) All the partners in the new ratio

10. The premium for goodwill brought in by the new partner in cash is shared by the old partners in the
    a) Old Ratio b) New Ratio
    c) Capital Ratio d) Sacrificing Ratio

11. A partnership does not maintain goodwill account. T recently admitted a new partner. No adjustments were made for goodwill in the partners' capital accounts.
    What is the effect of this omission?

Old partners' capital accounts total balances	New partners' capital account balance
a) Overstated	Understated
b) Understated	Overstated
c) Understated	Understated
d) Overstated	Overstated

12. A and B decided to form a partnership. On that date, A's goodwill was Rs. 50,000 and B's goodwill was Rs. 30,000.
The partners decided to write off the goodwill immediately.
How should this be done?
a) According to the amount of capital introduced
b) According to the amount of goodwill introduced
c) In equal shares
d) In the profit sharing ratio

13. A and B are partners in a firm with capital balances of Rs. 1,20,000 and Rs. 1,80,000 respectively. C is admitted to the partnership. C purchases a 20% partnership interest for Rs. 70,000. Which of the following statement is true for the above arrangement?
a) Total capital of the firm will change after C's admission
b) Rs. 70,000 brought in by C will be treated as capital
c) Rs. 60,000 will be treated as capital and Rs. 10,000 will be treated as premium for goodwill. Along with premium, A and B will withdraw 20% of their respective capitals
d) Rs. 60,000 will be treated as capital and Rs. 10,000 will be treated as premium for goodwill. However, premium will be retained in the business.

14. X and Y are partners in a firm with capital balance of Rs. 3,00,000 and Rs 2,00,000 respectively. Z is admitted to the partnership. Z contributes Rs. 1,25,000 for 20% partnership interest.
Which of the following statement is true for the above arrangement?
a) Total capital of the firm will not change after Z's admission
b) Rs. 1,00,000 will be treated as capital and Rs. 25,000as premium for goodwill
c) Entire Rs. 1,25,000 will be treated as capital and it will be retained in the firm
d) None of the above.

15. Premium paid by a new partner in addition to the capital brought in, is meant for _____
a) Creditors b) Goodwill
c) Loan d) mortgage

16. The net identifiable assets of a going concern is Rs. 1,20,000 but the selling price of the going concern is Rs. 1,50,000. The difference of Rs. 30,000 represents______.
a) Net profit b) gross profit
c) Goodwill d) Appreciation

17. Goodwill is _____ asset
a) A current b) an intangible
c) A fictitious d) not an

18. The excess of purchase consideration over its net assets value is referred to as _____ goodwill.
a) Non-purchased b) self generated
c) Purchased d) fixed

19. A and B are in partnership, sharing profits and loss equally. A's capital account is Rs. 60,000 and B's capital account is Rs. 50,000. Goodwill is valued at Rs. 1,20,000, but it is not shown in the accounts they agree to admit C as a new partner and to share profits and losses equally.
A's new capital account balance is_____.
a) Rs. 40,000 b) Rs. 80,000
c) Rs. 1,00,000 d) Rs. 1,20,000

20. Ram and Rahim are partners sharing profits and losses equally. On 1st January, 2007 the admit Laxman as partners giving him 3/10th share in profits and losses. The new profit sharing ratio is 4:3:3.
a) 2:1 b) 1:2
c) 1:1 d) 4:3

21. X, Y and Z are partners in a firm sharing profits and losses as 5:3:2. D is admitted ass a new partner and the new profit sharing ratio becomes 4:4:3:3.
Sacrifice/gain will be
a) X:30/140 (sacrifice); Y: 2/140 (sacrifice); Z: 2/140 (sacrifice)
b) X:30/140 (sacrifice); Y: 2/140 (sacrifice); Z: 2/140 (sacrifice)
c) X:30/140 (sacrifice); Y: 2/140 (sacrifice); Z: 2/140 (sacrifice)
d) X:30/140 (sacrifice); Y: 2/140 (sacrifice); Z: 2/140 (sacrifice)

22. M and N are partners in a firm sharing profits and losses in the ratio of 5:3. On 1st January, 2007 the partners decide to admit R as a partner. The new profit sharing ratio of M, N and R will be 7:5:4 respectively. The sacrificing ratio is:
a) 5:3 b) 3:1
c) 3:2 d) 4:5

23. The average net profit expected in the future by ABC firm are Rs. 36,000 per year. the average capital employed in the business by the firm is Rs. 2,00,000. The rate of interest expected from capital invested in this class of business is 10%.

The remuneration of the partners is estimated to be Rs. 6,000 per annum. Value of goodwill on the basis of two years' purchase of super profits, is
a) Rs. 44,000 b) Rs. 32,000
c) Rs. 20,000 d) None of above

24. A and B are sharing profits and losses in the ratio of 2:1. C is admitted with 1/3rd share of profit. What will be the new profit sharing ratio between A and B?
a) 3:1 b) 1:1
c) 2:1 d) 4:1

25. The capital balance of A and B are Rs. 25,000 and Rs. 20,000 respectively after making all the adjustments. If C, the incoming partner, is to bring in 1/3rd of the total capital of the firm, then what should be his share of capital?
a) Rs. 25,500 b) Rs. 22,500
c) Rs 15,000 d) Rs. 27,500

26. C the incoming partner, is to bring Rs. 6,000 by way of premium for goodwill for 1/5th share in the firm's profits. What is the value of the total goodwill of the firm?
a) Rs. 30,000 b) Rs. 24,000
c) Rs. 25,000 d) Rs. 27,500

27. A and B are sharing profits and losses in the ratio of 5:4. C is admitted into the partnership with 1/10 th share of profits for which he brings in Rs. 10,000 as his capital. What will be A's share of adjusted capital?
a) Rs. 40,000 b) Rs. 50,000
c) Rs. 30,000 d) Rs. 1,00,000

28. A and B are sharing profits and losses in the ratio of 4:3. C is admitted into the firm with 1/4th share of profit. The new profit sharing ratio among A, B and C is 3:3:2. What is the ratio of sacrifice?
a) 4:3 b) 3:4
c) 11:3 d) 2:1

29. A and B are sharing profits and losses in the ratio of 3:2. C is admitted with 1/5th share in profits, which he gets from A. what is the new profit sharing ratio?
a) 12:8:5 b) 5:4:3
c) 6:5:4 d) 2:2:1

30. A and B share profits and losses in the ratio of 4:3. They admit C with 3/7th share, which he gets 2/7th from A and 1/7th from B. what is the new profit sharing ratio?
a) 2:1:1 b) 2:2:3
c) 2:3:3 d) 5:2:3

31. The capitals of A and B are Rs. 50,000 and Rs. 40,000. To increase the capital base of the firm to Rs. 1,50,000, they admit C. To join the firm, C is required to pay a sum of Rs. 70,000. What is the amount of premium for goodwill?
a) Rs. 20,000 b)Rs. 30,000
c) Rs. 10,000 d) Rs. 5,000

32. A and B are partners sharing profits and losses in the ratio of 3:2. Their capitals are Rs. 60,000 and Rs. 40,000 respectively. They admit C, a new partner, who will get 1/6th share in the profits of the firm. C brings in Rs. 25,000 as capital. What is the value of hidden goodwill?
a) Rs. 30,000 b) Rs. 25,000
c) Rs. 15,000 d) Rs. 10,000

33. A partnership firm earned net profits during the last three years as follows:
2004-Rs. 17,000; 2005-Rs. 20,000; 2006-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 employed. The value of goodwill on the basis of 2 years' purchase of average super profits earned during the above-mentioned three years is
a) Rs. 40,000 b) Rs. 16,000
c) Rs. 32,000 d) Rs. 8,000

34. A and B are in partnership sharing profits and losses in the ratio of 3:2. The balances of their capital accounts are- A Rs. 1,50,000 and B Rs. 2,00,000.
On 31st December,2006 they decide to admit C as a partner who is to bring in Rs. 1,00,000 as his capital and receives 1/5 th of the future profits. For this purpose, goodwill is to be calculated at 2 years' purchase of average super profits of the last three years. The super profits are after charging interest on capital of 5% per annum and partners' salaries of Rs. 1,25,000 per annum each. The profit transferred to the profit and loss appropriation account are as follows: 2004 Rs. 2,85,600; 2005 Rs. 2,99,800; 2006 Rs. 3,22,100. The value of goodwill is
a) Rs. 3,20,000 b) Rs. 70,000
c) Rs. 55,000 d) none of above

35. Taylor and Best were in partnership sharing profit and losses in the ratio of 2:1. The partners agreed to take Watson into

partnership as on 1st January, 2006. For this purpose, goodwilll is to be valued at 4 times the average annual profits of the previous four or five years' whichever is higher.
The agreed profits for goodwill purposes of the past five years are as follows: 2001 Rs. 14,000; 2002 Rs. 15,500; 2003 Rs. 10,000; 2004 Rs. 16,000; 2005 Rs. 15,000.
The value of goodwill is
a) Rs. 56,400 b) Rs. 56,500
c) Rs. 56,600 d) Rs. 56,700

36. A and B are partners sharing profits and losses in the ratio of 5:3. On 1st January, 2006 C is admitted to the partnership for 1/4th share of profits. For this purpose, goodwill is to be valued at 2 years' purchase of last three years' (after allowing partners' remuneration). Profits to be weighed 1:2:3, the greatest weight being given to last year.
Net profit before partners' remuneration were: 2003 Rs. 2,00,000; 2004 Rs. 2,30,000; 2005 Rs. 2,50,000.
The remuneration of the partners' is estimated to be Rs. 90,000 per annum.
The value of goodwill is
a) Rs. 2,73,333 b) Rs. 1,45,000
c) Rs 2,90,000 d) Rs. 4,35,000

37. P, Q and R are partners sharing profits and losses in the ratio 2:2:1. They agree to admit S for 1/5th share. For the purpose of admission of D, the goodwill of the firm is to be valued at 3 years' purchase on the basis of average of 5 years' profit or loss. The profits are:
On 1st January, 2005, a motor cycle costing Rs. 40,000 was purchased and debited to Travelling expenses account on which depreciation is to be calculated at 25%.
The value of goodwill is
a) Rs. 50,000 b) Rs. 1,56,000
c) Rs. 1,50,000 d) Rs. 1,60,000

Answer Question Nos. 38 and 39 from the following information.
L and M share profits of a business in the ratio of 5:3. They admit N into the firm for 1/4th share in the profits. For the purpose of admission of N, goodwill of the firm is to be valued at 4 years' purchase of the average super profits of the last 3 years. Average profit of the last 3 years are Rs. 20,000. Normal profit is Rs. 12,000. Goodwill is not to be shown in the books of the firm.

38. The new profit sharing ratio is
a) 4:2:2 b) Rs. 15:9:8
c) 3:3:2 d) Rs. 4:3:1

39. For adjustment of goodwill, the entry will be:
a) Debit: N Capital Rs. 8,000
Credit: L Capital Rs. 8,000
b) Debit: N Capital Rs. 8,000
Credit: L Capital Rs. 5,000
Credit: M Capital Rs. 3,000
c) Debit: N Capital Rs. 6,000
Credit: L Capital Rs. 3,000
Credit: M Capital Rs. 3,000
d) Debit: N Capital Rs. 8,000
Credit: L Capital Rs. 3,000
Credit: M Capital Rs. 5,000

40. J and K are partners sharing profits and losses equally. They do not record goodwill in the firm's books. L joins the partnership paying Rs. 24,000 for his share of the goodwill. Profits and losses are to be shared equally between J, K and L.
Which of the following shows the increase in the partners' accounts on the admission of L as a partner?
(all figure in rupees)

	Good will	Cash	Capital A/c		
			J	K	L
a	-	24,000	8,000	8,000	8,000
b	-	24,000	-	-	-
c	-	24,000	12,000	12,000	-
D	24,000	24,000	12,000	12,000	-

41. L and M are in partnership sharing profits and losses in the ratio of 3:2. They admit N as a partner on 1 January. On the same date the partnership net assets are revalued and show a loss on revaluation of Rs. 40,000.
The new profit/loss sharing ratio is L: 2/5, M 2/5, N 1/5.
How will the revaluation of the net assets be recorded in the partners' capital account?

Capital Accounts

L (Rs.)	M (Rs.)	N (Rs.)
a) Cr. 16,000	Cr. 16,000	Cr. 8,000
b) Cr. 16,000	Dr. 16,000	Dr. 8,000
c) Cr. 24,000	Cr. 16,000	-
d) Dr. 24,000	Dr. 16,000	-

42. S and T are partners sharing profits and losses in the ratio of 1:2. They admit V as a partner and revise the profit-sharing ratio to S: 2/5; T: 2/5; V: 1/5.
Goodwill is valued at Rs. 60,000 but no goodwill is to be recorded in the books.
Which entries will be made in the partners' capital accounts?

Capital Accounts

S (Rs.)	T (Rs.)	V (Rs.)
a) Dr. 4,000	Cr. 16,000	Dr. 12,000
b) Cr. 24,000	Cr. 24,000	Dr. 48,000
c) Cr. 4,000	Dr. 16,000	Cr. 12,000
d) Dr. 24,000	Dr. 24,000	Cr. 48,000

43. A and B are partnership sharing the profits equally. No goodwill account is maintained in the accounts. C joins the partnership and pays Rs. 30,000 cash as premium for goodwill.
Which of the following correctly shows the increases in the accounts on the admission of C into the partnership?

Cash	A's Capital (Rs.)	B's Capital (Rs.)	C' Capital (Rs.)
a) 30,000	10,000	10,000	10,000
b) 30,000	-	-	30,000
c) 30,000	15,000	15,000	-
d) 30,000	-	-	-

Answer Question No. 44 and 45 from the following information:
P and Q are partners in a firm sharing profits and losses in the ratio of 3:2 respectively. They admit R as a partner on 1.1.2004 on the basis of his buying 1/5th of P's share and 1/6th of Q's share. On 1.1.2006, they permit R to purchase a further 1/10th of their remaining shares.

44. How much did R pay each of the others on each occasion for goodwill assuming that the goodwill of the firm was Rs. 30,000 on the first occasion and Rs. 40,000 on the second?
    a) Rs. 2,000 and Nil
    b) Rs. 3,253 and Rs. 5,600
    c) Rs. 5,600 and Rs. 3,253
    d) Rs. 5,600 and Nil

45. What is the ultimate share of each partner in the business?
    a) 35:25:15 b) 35:25:14
    c) 108:75:67 d) 108:75:76

46. P, Q and R sharing profits and losses in the ratio of 3:2:1. It was decided to admit S into the partnership on the following terms and conditions:
    1) New profit sharing ratio will 3:3:2:2
    2) Goodwill of the firm is valued at Rs. 3,00,000. S brings his share of goodwill in cash which is credited to the old partners.

    Premium for goodwill will be shared as (all figure in rupees):

	P	Q	R	S
a)	30,000	20,000	10,000	-
b)	60,000	-	-	-
c)	51,429	-	8,571	-
d)	51,429	8,571	-	-

47. P & Q are in partnership sharing profits and losses in the ratio of 4:1. They admit R into the firm. R paid Rs. 60,000 as premium in cash for an equal share. Which of the following entry is correct to record the above?
    a) Debit: Bank Rs. 60,000
       Credit: P Capital Rs. 48,000
       Credit: Q Capital Rs. 12,000
    b) Debit: Bank Rs. 60,000
       Credit: P Capital Rs. 60,000
    c) Debit: Bank Rs. 60,000
       Debit: Q Capital Rs. 24,000
       Credit: P Capital Rs. 84,000
    d) Debit: Bank Rs. 84,000
       Credit: P Capital Rs. 60,000
       Credit: Premium for Goodwill Rs. 24,000

48. A, B and C are in partnership sharing profit and losses in the ratio of 5:4:1 respectively. Two new partners are introduced, D and E. The profits are now to be shared in the ratio 3:4:2:2:1 respectively. D paid Rs. 30,000 in cash as premium for goodwill. However, E could not pay premium for goodwill in cash. Which of the following entry is correct to record the above?
    a) Bank A/c Dr. 30,000
       To A Capital A/c 15,000
       To B Capital A/c 12,000
       To C Capital A/c 3,000
    b) Bank A/c Dr. 30,000
       C Capital A/c Dr. 12,000
       E Capital A/c Dr. 15,000
       To A Capital A/c 45,000
       To B Capital A/c 12,000
    c) Bank A/c Dr. 30,000
       E Capital A/c Dr. 15,000
       To A Capital A/c 22,500
       To B Capital A/c 18,000
       To C Capital A/c 4,500
    d) Bank A/c Dr. 30,000
       C Capital A/c Dr. 12,000
       To A Capital A/c 18,000
       To B Capital A/c 24,000

49. X and Y are in partnership and prepare their accounts to 31st December each year. on 1st July, 2006, Z joined the partnership.
The profits sharing arrangements are:

	6 months to 30th June 2006 Rs.	6 months to 31st December, 2006 Rs.

	15,000	25,000
Salary-X		
Shares of balance of profit:		
X	60%	40%
Y	40%	40%
Z	-	20%

The partnership profit for the year ended 31st December, 2006 was Rs. 3,50,000 accruing evenly over the year.
What is the partners' total profit share for the year ended 31st December, 2006? (Rupees in '000)

	X	Y	Z
a)	196	124	30
b)	217	108	25
c)	155	130	65
d)	175	145	35

Answer Question Nos. 50, 51 and 52 form the following information.

Rain and Storm are partners in a firm sharing profits and losses as 3:2 respectively. They agree to take Dust as a partner from 1 January, 2007 on the following terms and conditions:

i) Dust will contribute Rs. 15,000 as capital and will bring proportionate amount in cash for goodwill.
ii) The goodwill of the firm shall be valued at s 23,750
iii) Agreed revaluation surplus is Rs. 1,700
iv) The profit and loss sharing ratio shall be adjusted, that is, between Rain and Storm the former ratio is maintained, while between Storm and Dust there shall be the same ratio as between Rain and Storm.
v) The capital shall be adjusted (without disturbing the ultimate total capital) so as to correspond with the new ratio, the excess or deficit being transferred to their respective current account.

50. The premium for goodwill brought in by Dust is
    a) Rs. 10,000 b) Rs. 5,000
    c) Rs. 3,000 d) Rs. 2,000

51. Partners' capital account balances after admission are

Rain (Rs.)	Storm (Rs.)	Dust (Rs.)
a) 44,000	25,800	15,000
b) 41,000	23,800	17,200
c) 38,700	25,800	17,200
d) 43,000	22,000	15,000

52. Amount transferred to current account of partners

Rain (Rs.)	Storm (Rs.)	Dust (Rs.)
a) 5,320(Dr.)	3,120(Cr.)	2,200(Cr.)
b) 5,320(Cr.)	3,120(Dr.)	2,200 (Cr.)
c) 5,320(Cr.)	3,120(Cr.)	2,200(Dr.)
d) 5,320(Cr.)	3,120(Dr.)	2,200(Dr.)