

## CHAPTER-3.

# RECONSTITUTION OF A PARTNERSHIP FIRM

## ADMISSION OF A PARTNER

---

### Section A: One Mark Questions

#### I. Fill In The Blanks:

1. \_\_\_\_\_ ratio is used to distribute accumulated profits and losses at the time of admission of a new partner.
2. Profit or loss on revaluation is shared among the old partners in \_\_\_\_\_ ratio
3. Old ratio – New ratio = \_\_\_\_\_
4. Accumulated losses are transferred to the capital accounts of the old partners at the time of admission in their \_\_\_\_\_ ratio.
5. General reserve is to be transferred to \_\_\_\_\_ accounts at the time of admission of a new partner.
6. Goodwill brought in by new partner in cash is to be distributed among old partners in \_\_\_\_\_ ratio.
7. If the amount brought by new partner is more than his share in capital, the excess is known as \_\_\_\_\_.
8. \_\_\_\_\_ Account is debited for the increase in the value of an asset.
9. Unrecorded asset is to be credited to \_\_\_\_\_ account.
10. A and B are partners sharing profits & losses equally with capitals of ₹45,000 each. C is admitted for 1/3rd share and he brings in ₹60,000 as his capital. Hidden Goodwill is ₹\_\_\_\_\_.
11. Due to change in profit sharing ratio, some partners will gain in future profits while others will \_\_\_\_\_.
12. Goodwill is an \_\_\_\_\_ asset.
13. \_\_\_\_\_ account is credited for cash brought in by new partner for his share of goodwill.
14. \_\_\_\_\_ ratio is required for sharing future profits and also for adjustment of capitals.

#### II. Multiple Choice Questions:

1. At the time of admission of a new partner, general reserve appearing in the old balance sheet is transferred to:
  - a) All Partners Capital Account
  - b) New Partner's Capital Account
  - c) Old Partners Capital Account
  - d) None of the above

2. A, B and C are partners in a firm. If D is admitted as a new partner:
  - a) Old firm is dissolved
  - b) Old firm and old partnership are dissolved
  - c) Old partnership is reconstituted
  - d) None of the above
3. On the admission of a new partner, increase in the value of asset is credited to:
  - a) Profit and Loss Adjustment(Revaluation) Account
  - b) Asset Account
  - c) Old Partners Capital Account
  - d) None of the above
4. At the time of admission of a partner, undistributed profits appeared in the balance sheet of the old firm is transferred to the capital accounts of:
  - a) Old partners in old profit sharing ratio
  - b) Old partners in new profit sharing ratio
  - c) All the partners in new profit sharing ratio
  - d) None of the above
5. If new partner brings cash for his share of goodwill, goodwill is transferred to Old Partners' Capital Account in:
  - a) Sacrificing ratio
  - b) Old profit sharing ratio
  - c) New profit sharing ratio
  - d) None of the above
6. Which of the following are treated as reconstitution of a Partnership Firm?
  - a) Admission of a partner
  - b) Change in profit sharing ratio
  - c) Retirement of a partner
  - d) All the above
7. Profit or Loss on revaluation is shared among the partners in the:
  - a) Old profit sharing ratio
  - b) New profit sharing ratio
  - c) Capital ratio
  - d) Equal ratio
8. Assets and Liabilities are recorded in Balance Sheet after the admission of a partner at:
  - a) Original value
  - b) Revalued value
  - c) Realisable value
  - d) None of the above
9. On the admission of a new partner, the increase in the value of an asset is credited to:
  - a) Revaluation Account
  - b) Asset Account
  - c) Old partners' Capital Account
  - d) None of the above
10. Old Profit Sharing Ratio - New Profit Sharing Ratio is = -----
  - a) Sacrificing ratio
  - b) Gaining ratio
  - c) Both the above
  - d) None of the above

11. In the absence of an agreement to the contrary, it is implied that old partners will contribute to new partner's share of profit in the ratio of:
- |                      |                             |
|----------------------|-----------------------------|
| a) Capital           | b) Old profit sharing ratio |
| c) Sacrificing ratio | d) Equally                  |
12. The balance of reserves and other accumulated profits at the time of admission of a new partner are transferred to:
- All partners in the new ratio
  - Old partners in the new ratio
  - Old partners in the old ratio
  - Old partners in the sacrificing ratio
13. Goodwill raised in books at the time of admission of partner will be written off in:
- |                             |                             |
|-----------------------------|-----------------------------|
| a) Old profit sharing ratio | b) New profit sharing ratio |
| c) Sacrificing ratio        | d) None of the above        |
14. Revaluation Account is debited for the:
- increase in provision for doubtful debts
  - increase in the value of building
  - decrease in the amount of creditors
  - transfer of loss on revaluation
15. A and B are partners sharing profits in the ratio of 3:1. C is admitted into partnership for 1/4th share. The sacrificing ratio of A and B will be:
- |          |        |
|----------|--------|
| a) Equal | b) 3:1 |
| c) 2:1   | d) 3:2 |

### III. True or False Type Questions:

- Goodwill brought in cash by new partner is distributed among old partner in their Sacrificing ratio.
- In case of admission of a partner, profit or loss on revaluation is transferred to Old Partners' Capital Accounts.
- Accumulated profit is transferred to all partners' capital Accounts including new partner.
- The debit balance of Profit and Loss Account shown in the assets side of the Balance Sheet will be debited to Old Partners Capital Accounts.
- Increase in the value of an asset is credited to Revaluation Account
- The traditional name of 'Revaluation A/c' is 'Profit and Loss Adjustment A/c'.
- Goodwill is an intangible asset.
- Decrease in the value of liability is debited to Revaluation Account.
- Sacrifice ratio is required to distribute the cash brought by new partner among old partners for his share of goodwill.
- Share sacrificed = Old share – New share.

### **Very Short Answer Type:**

1. What is Partnership?
2. What do you mean by reconstitution of a Partnership Firm?
3. State any one reason for admission of a new partner.
4. State any one right acquired by a newly admitted partner.
5. Why the NPSR is required at the time of admission of a partner?
6. What is Goodwill?
7. State any one factor affecting the value of goodwill.
8. What is normal profit?
9. State any one method of valuation of goodwill.
10. Give the formula for sacrifice ration
11. Which account is to be debited to record the increase in the value of an asset?
12. What is Revaluation Account?
13. What account will be credited when there is a loss on revaluation?
14. What account will be debited when the cash is brought by a new partner for his share o goodwill?
15. What is hidden goodwill?

### **Section B: Two Marks Questions:**

1. When the goodwill is distributed among old partners in the sacrificing ratio?
2. State any two methods of valuation of goodwill.
3. State any two rights acquired by a new partner.
4. What do you mean by hidden goodwill?
5. Pass the journal entry to write off the goodwill raised to the extent of full value.
6. State any two matters which need adjustments in the books of the firm at the time of admission of a new partner.
7. What is sacrifice ratio?
8. Why the sacrifice ratio is calculated?
9. What is the need for the revaluation of assets and liabilities on the admission of a partner?
10. State any two reasons for admitting a new partner.
11. How do you close revaluation account when there is a profit?
12. State any two factors which determine the goodwill of the firm.
13. What is average profit method of valuation of goodwill?
14. Goodwill of the firm valued at two years purchase of the average profit of last four years. The total profits for last four years is ₹40,000. Calculate the goodwill of the firm.
15. Pass the journal entry for increase in the value of building on the admission of a partner.
16. Pass the journal entry for the decrease in the value of a liability.