

OSF

Date : 07-03-2024

STD 12 Commerce Elements of Account

Total Marks : 50

12th Account Practice Sheet Day 17 (Part 1 - Ch.5 to 7)

Section A

* Choose The Right Answer From The Given Options. [8]

1. When a new partner brought his share of goodwill in cash, it will not be debited to
A/c.

(A) Goodwill (B) Revaluation (C) Capital (D) Cash/Bank

Ans. :

(B) Revaluation

2. Internally generated goodwill should in the books of accounts.

(A) Be shown (B) Not be shown (C) Be shown in capital ratio (D) Be shown in profit-loss ratio

Ans. :

(B) Not be shown

3. Where will you show balance of accounts like bad debts reserve, investment reserve, workmen compensation fund etc. at the time of retirement of a partner?

(A) In partner capital accounts (B) In profit-loss adjustment accounts (C) In debtors accounts (D) In new balance sheet

Ans. :

(D) In new balance sheet

4. At the time of dissolution, unrecorded outstanding salary of Rs. 10,000 is being paid, where will it be credited?

(A) Realisation A/c (B) Partners' Capital A/c (C) Salary A/c (D) Cash A/c

Ans. : (D) Cash A/c

5. At the time of dissolution ? 20,000 for machinery is shown in Balance sheet. No specification regarding its realisation has been made. What will be its accounting effect?

(A) Partner's Capital A/c Cr. (B) No effect (C) Cash A/ C Cr. (D) Realisation A/c Cr.

Ans. : (D) Realisation A/c Cr.

6. Which is the first payment made from the realisation of assets, at the time of the dissolution of a firm ?

(A) Dissolution expense (B) Loan of partner's wife
(C) Liabilities towards third parties (D) Partner's loan

Ans. : (A) Dissolution expense

7. At the time of dissolution, which of the following is not included in third party liability?
(A) Creditor (B) Provident Fund (C) Loan of Partner (D) Loan of Partners' wife

Ans. : (C) Loan of Partner

8. At the time of dissolution, the Goodwill is Rs. 50,000 in Balance Sheet. No specification has been given regarding it. What will be the effect?
(A) Realisation A/c Cr. (B) Realisation A/c Dr. (C) Goodwill A/c Dr. (D) NO effect

Ans. : (A) Realisation A/c Cr.

Section B

*** Answer The Following Questions In One Sentence.**

[5]

9. Which type of account the revaluation account is?

Ans. :

Revaluation Account is nominal type of account.

10. In which ratio accumulated reserves and fund be distributed among partners?

Ans. :

In old profit-loss ratio and to the old partners accumulated reserves and fund amount is to be distributed at the time of admission of a new partner.

11. State the period upto which the retired partner is liable to receive the part of profit from the firm.

Ans. :

A retired partner is liable to get part in the profit from the last date of financial year to the date of retirement.

12. Which balances are debited to all partners' capital accounts in their old profit-loss sharing ratio?

Ans. :

Following balances are debited to partners' capital accounts :

- (i) Debit balance of capital account (if any).
- (ii) Drawings, interest on drawings till the date of retirement.
- (iii) Share in undistributed loss and deferred revenue expenditure.
- (iv) Share in old goodwill, share in loss of revaluation account, loan given by the firm to the retiring partner.

13. In the second method of preparing realisation A/c, the amount of realisation of assets is written in which A/c?

Ans. : In the second method of preparing realisation A/c, the amount of realisation of assets is credited to respective asset account.

Section C

*** Answer The Following Questions.**

[9]

14. A and B are the partners in a firm sharing profit & loss in the ratio of 3 : 2. C is admitted for $\frac{1}{4}$ th share in the profit. Calculate the new profit sharing ratio.

Ans. :

Old sharing ratio of A and B = 3:2

Let the total share of profit = 1

C 's share = $\frac{1}{4}$, after giving $\frac{1}{4}$ th share to C ,

$$\begin{aligned} \text{Remaining share of } A \text{ and } B &= \text{Total profit} - \text{Share of new partner} \\ &= 1 - \frac{1}{4} \\ &= \frac{4-1}{4} \\ &= \frac{3}{4} \end{aligned}$$

Remaining share for A and B is $\frac{3}{4}$ which is to be distributed in their old sharing ratio 3:2.

New share of old partners = Remaining share of profit \times Share in old ratio

$$A's \text{ new share} = \frac{3}{4} \times \frac{3}{5} = \frac{9}{20}$$

$$B's \text{ new share} = \frac{3}{4} \times \frac{2}{5} = \frac{6}{20}$$

$$C's \text{ new share} = \frac{1}{4}, \text{ Making denominator equal } \frac{1}{4} \times \frac{5}{5} = \frac{5}{20}$$

\therefore New profit sharing ratio of A , B and C = 9:6:5

15. X and Y are the partners of a firm. They admitted Z as a new partner on 1 April, 2016. X sacrificed $\frac{1}{2}$ of his share and Y sacrificed $\frac{3}{4}$ th of his share in favour of Z . X and Z maintain their accounts as per fixed capital method. Z brought in ₹ 60,000 for his capital and ₹ 20,000 for his share of premium for goodwill in cash. Goodwill appeared in the books of the firm at ₹ 30,000 as on 31-3-2016. Give necessary journal entries at the time of Z 's admission.

Ans. :

Ans. :

Journal Entries

Date/No.	Particulars	L.F.	Debit (₹)	Credit (₹)
(1)	X's current A/c Dr Y's current A/c Dr To Goodwill A/c [Being old goodwill written off among old partners in their old profit-loss ratio.]		15,000 15,000	30,000
(2)	Cash A/c Dr To Z's capital A/c To Premium for Goodwill A/c [Being Z brought cash as goodwill and capital.]		80,000	60,000 20,000
(3)	Premium for goodwill A/c Dr To X's current A/c To Y's current A/c [Being premium for goodwill distributed between X and Y in their sacrificing ratio.]		20,000	8000 12,000

16. B, R and T are the partners sharing profit and loss in their ratio of 3:2:1. B retires. B's capital after distributing profit of revaluation account and accumulated reserves and profit-loss is 1,20,000. R and T decided to pay ₹ 1,50,000 as final settlement including goodwill to B. R and T will distribute future profit and loss in the ratio of 3:2. Write necessary journal entries for goodwill.

Ans. :

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
—	R's capital A/c Dr T's capital A/c Dr To B's capital A/c [Being goodwill given to B by his share in goodwill by R and T in their gaining ratio.]		16,000 14,000	30,000

Section D

* Answer The Following Questions With Necessary Calculations.

[12]

17. Rutvi and Princy are partners sharing profit and loss in the ratio of 5: 3. The balance sheet of their firm as on 31-3-2017 was as under :

Balance Sheet			
Liabilities	Amt. (₹)	Assets	Amt. (₹)
Workmen's profit sharing fund	30,000	Bank	60,000
Creditors	1,20,000	Debtors	90,000
Workmen compensation reserve	60,000	Stock	60,000
Current account :		Building	4,50,000
Rutvi 1,50,000		Investments	1,05,000
Princy 1,95,000	3,45,000		
Capital account :			
Rutvi 1,20,000			
Princy 90,000	2,10,000		
	7,65,000		7,65,000

They admitted Manan as a partner on 1-4-2017 on the following terms:

- (1) Manan will bring his personal
- (2) niture RS.75,000 as capital. Out of creditors RS.60,000 are payable to Manan which is to be transferred to his capital account
- (3) Manan will be given $\frac{1}{5}$ th share in future.
- (4) Manan will bring RS.45,000 as goodwill in cash,
- (5) Goodwill of firm is valued at RS.3,00,000.
- (6) Credit purchase of RS.15,000 which was not recorded in creditors account and purchase account but it is included in closing stock.
- (7) Market value of stock of RS.45,000 is RS.36,000.
- (8) Liability of workmen compensation is RS.28,000.
- (9) Accrued interest on investment RS.24,000 is not recorded.

Prepare new balance sheet after admission.

Ans. : Balance Sheet:

BALANCE SHEET AS ON 1-04-2017 After admission			
Liabilites	Amount	Assets	Amount
Capital A/c		Furniture A/c	75,000
Rutvi-1,20,000		Stock A/c	51,000
Princy-90,000		Debtors A/c	90,000
Manan-1,35,000	3,45,000	Building A/c	4,50,000
Current A/c		Current a/c of Manan	15,000
Rutvi-2,07,500		Investment	1,05,000
Princy-2,29,500	4,37,000	Accrued intertest on inv.	24,000
Workmen's P.Sharing fund	30,000	Bank A/c (60,000+45,000)	1,05,000
Workmen compensation	28,000		
Creditors	75,000		
	9,15,000		9,15,000

18. P and Q are the partners sharing profit and loss in the ratio of 2:1. They decided to admit R as a new partner on 1-4-2016. All three partners' new profit-loss sharing ratio is decided at 3:1:2. The balance sheet of R and Q show the following balances:

General reserve	: 10,000
Profit-loss A/c	: 11,000
Workmen compensation reserve	: 14,000
Advertisement campaign expenditure	: 6000
Research and development expenditure	: 3000
Investment fluctuation reserve	: 10,000
Investment	: 15,000 (Market value 14,000)

The firm accepted claim of ₹ 5000 for workmen's compensation.

From the following situation pass necessary journal entries:

(1) When the partners decide to distribute all balance of reserves and accumulated profit and loss.

(2) When partners decide not to distribute all the balance of reserve and profit and loss. But without any change all reserve balance is to appear in the balance sheet.

Ans. :

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2016	General reserve A/c Dr Profit-loss A/c Dr To P's capital A/c To Q's capital A/c [Being balances of general reserve and profit and loss of the firm are distributed between old partners in their old profit sharing ratio.]		10,000 11,000	14,000 7000
1-4-2016	Workmen's compensation reserve A/c Dr To Claim for workmen compensation A/c To P's capital A/c To Q's capital A/c [Being after provision for the accepted claim of workmen compensation, surplus amount is distributed between partners P and Q in their old ratio.]		14,000	5000 6000 3000
1-4-2016	Investment fluctuation reserve A/c Dr To Investment A/c To P's capital A/c To Q's capital A/c [Being a loss due to fall in the value of investment is adjusted against investment fluctuation reserve and remaining surplus is distributed between old partners in old sharing ratio.]		10,000	1000 6000 3000
1-4-2016	P's capital A/c Dr Q's capital A/c Dr To Advertisement campaign exp. A/c To Research and development exp. A/c [Being balances of advertisement campaign exp. and research and development exp. are written off by debiting old partners' capital accounts in their old ratio.]		6000 3000	6000 3000

19. A and B are the partners sharing profit and loss in the ratio of 2:3. They admitted C as a new partner. C brought his share in capital and goodwill ₹ 40,000 and ₹ 60,000 in cash respectively. At the time of C's admission the balance of goodwill in balance sheet of the firm was ₹ 30,000. New profit and loss sharing ratio of all the partners is decided at 3 : 5 : 2.

Entries in the books of A, B and C's Firm

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(1)	A's capital A/c Dr. B's capital A/c Dr. To Goodwill A/c (Being old goodwill amount distributed among old partners in their old profit-loss sharing ratio)		12,000 18,000	30,000
(2)	Cash A/c Dr. To C's capital A/c To Premium for goodwill A/c (Being brought his share of capital and goodwill in cash)		1,00,000	40,000 60,000
(3)	Premium for goodwill A/c Dr. To A's capital A/c To B's capital A/c (Being premium for goodwill amount distributed among partners in their sacrifice ratio)		60,000	30,000 30,000

Ans. :

Section E

* Answer The Following Questions In Detail.

[16]

20. Kanha and Kavisha are partners in a firm sharing profit-loss in the ratio of 2:3. Balance sheet of their firm as on 31-3-2016 was as under :

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Capital :		Goodwill	14,000
Tarana 1,90,000		Land-Building	1,00,000
Jineesha 1,21,000	3,11,000	Machinery	80,000
Workmens' compensation reserve	12,000	Investment	50,000
Investment fluctuation fund	4000	Debtors	70,000
Provident fund	16,000	Stock	36,000
Bad debt reserve	20,000	Cash	40,000
Creditors	30,000	Research and development expense	8000
Outstanding expense	15,000	Profit-loss A/c	10,000
	4,08,000		4,08,000

They admitted Palkhi as a new partner on 1-4-2016, on following terms:

- (1) Kanha sacrifices of her share and Kavisha sacrifices 4th of her share in favour of Palkhi.
- (2) Goodwill of the firm is valued 80,000.
- (3) Kanha and Kavisha will withdraw 50% of their share of goodwill.
- (4) Depreciation on machinery is to be provided at 10%.
- (5) Bad debt of 6000 is to be written off and provision for bad debt reserve is to be kept at 15% on debtors.
- (6) Market value of investment is 15,000.
- (7) Claim for workmen's compensation to be accepted 50,000.

(8) 10% of creditors are not to be paid.

(9) Palkhi will bring 1,20,000 as capital and her share of goodwill in cash.

Ans. :

Revaluation Account

Dr			Cr
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Old partners' capital A/c (Profit)		By Outstanding interest A/c	6000
Tarana	21,500	By Land-Building A/c	25,000
Jineesha	21,500	By Prepaid insurance premium	12,000
	43,000		
	43,000		43,000

21. M, N and O are the partners sharing profit and loss in the ratio of 2:1:2. Balance sheet as on 31-3-2016 was as under:

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Capital Accounts :		Land-building	1,00,000
M	1,00,000	Machinery	60,000
N	60,000	Stock	36,000
O	80,000	Debtors	40,000
	2,40,000	Cash	11,000
General reserve	10,000	Loan to O	30,000
Workmen compensation reserve	18,000	O's current A/c	4000
Creditors	42,000	Advertisement campaign expenditure	5000
Bad debt reserve	6000	Profit-loss A/c	60,000
Current Accounts :			
M	20,000		
N	10,000		
	30,000		
	3,46,000		3,46,000

O died as on 1-12-2016. Provisions of partnership deed were as under

- (1) Land-building is to be appreciated by 10%.
- (2) Value of machinery is to be reduced by 5%.
- (3) Provision for doubtful debts is to be kept at 10% on debtors.
- (4) Goodwill is to be valued at 3 years' purchase of the average profit of last 5 years.
- (5) Previous 4 years profit was as under:

2011-12 ₹80,000

2012-13 ₹60,000

2013-14 ₹70,000

2014-15 ₹50,000

(6) O's share of profit till the date of his death based on last year's profit.

(7) New profit and loss sharing ratio of M and N is decided at 3:2.

(8) O's executors is to be paid ₹ 6800 immediately and the balance in 4 equal half yearly instalments with interest at 12 % p.a. Prepare O's capital account and O's executor's account till it is finally paid.

Dr			O's Capital Account			Cr		
Date	Particulars	Amt. (₹)	Date	Particulars	Amt. (₹)			
1-12-16	To Advertisement campaign expenditure A/c	2000	1-12-16	By Balance b/d	80,000			
"	To Profit and loss A/c	24,000	"	By General reserve A/c	4000			
"	To O's loan A/c	30,000	"	By Workmen compensation reserve A/c	7200			
"	To O's current A/c	4000	"	By Revaluation A/c	3600			
"	To Profit and loss suspense A/c (Loss)	16,000	"	By M's capital A/c (goodwill)	24,000			
"	To Bank A/c	6800	"	By N's capital A/c (goodwill)	24,000			
"	To O's executor's A/c	60,000						
		1,42,800			1,42,800			

Ans. :

Dr			O's Executor's Account			Cr		
Date	Particulars	Amt. (₹)	Date	Particulars	Amt. (₹)			
31-3-17	To Balance c/f	62,400	1-12-16	By O's capital A/c	60,000			
			31-3-17	By Interest A/c (₹ 60,000 × $\frac{12}{100} \times \frac{4}{12}$)	2400			
		62,400			62,400			
31-5-17	To Bank A/c (15,000 + 2400 + 1200)	18,600	1-4-17	By Balance b/d	62,400			
30-11-17	To Bank A/c (15,000 + 2700)	17,700	31-5-17	By Interest A/c (₹ 60,000 × $\frac{12}{100} \times \frac{2}{12}$)	1200			
31-3-18	To Balance c/f	31,200	30-11-17	By Interest A/c (₹ 45,000 × $\frac{12}{100} \times \frac{6}{12}$)	2700			
			31-3-18	By Interest A/c (₹ 30,000 × $\frac{12}{100} \times \frac{4}{12}$)	1200			
		67,500			67,500			
31-5-18	To Bank A/c (₹ 15,000 + ₹ 1200 + ₹ 600)	16,800	1-4-18	By Balance b/d	31,200			
30-11-18	To Bank A/c (₹ 15,000 + ₹ 900)	15,900	31-5-18	By Interest A/c (₹ 30,000 × $\frac{12}{100} \times \frac{2}{12}$)	600			
			30-11-18	By Interest A/c (₹ 15,000 × $\frac{12}{100} \times \frac{6}{12}$)	900			
		32,700			32,700			

Explanation : (1)**Revaluation Account**

Dr

Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Machinery A/c	3000	By Land-building A/c	10,000
To Partners' capital A/c (Profit) :		By Bad debt reserve A/c	2000
M	3600		
N	1800		
O	3600		
	9000		
	12,000		12,000

(2) Valuation of goodwill

$$\begin{aligned}
 \text{5 years average profit} &= \frac{80,000 + 60,000 + 70,000 + 50,000 - 60,000}{5} \\
 &= \frac{2,00,000}{5} \\
 &= ₹40,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Goodwill} &= 40,000 \times 3 \\
 &= ₹1,20,000
 \end{aligned}$$

(3) Distribution of goodwill

Share of O in goodwill

$$\begin{aligned}
 &= ₹1,20,000 \times \frac{2}{5} \\
 &= ₹48,000
 \end{aligned}$$

Gaining ratio of M and N :

$$\text{Gain} = \text{New share} - \text{Old share}$$

$$M = \frac{3}{5} - \frac{2}{5} = \frac{1}{5}$$

$$N = \frac{2}{5} - \frac{1}{5} = \frac{1}{5}$$

∴ Gaining ratio of M and N = 1 : 1

∴ Goodwill is to be given by M and N to O in equal proportion.

Journal Entry :

M's capital A/c...Dr	24,000
N's capital A/c...Dr	24,000
To O's capital A/c...Dr	48,000

(4) : O's share in profit :

O died as 1-12-2016, so O will receive his share in profit from 1-4-2016 to 1-12-2016 i.e. for 8 months.

Last year 2015-16, the amount of loss is ₹60,000.

$$\begin{aligned}
 \therefore \text{O's share in loss} &= ₹60,000 \times \frac{8}{12} \times \frac{2}{5} \\
 &= ₹16,000
 \end{aligned}$$
