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Step-by-step solutions, alternate methods & exam tips for Class 12 Accountancy

Chapter 2: Reconstitution of a Partnership Firm: Admission of a Partner

About this Chapter

When a new partner is admitted, the firm is reconstituted: profit-sharing ratios change, goodwill must be valued and treated, assets and liabilities must be revalued, accumulated reserves must be redistributed, and partners' capitals may need adjustment. This chapter trains you in all six adjustments and the journal-entry conventions for each.

Topics covered: New Profit-Sharing Ratio • Sacrificing Ratio • Goodwill Valuation (Average Profit / Super Profit / Capitalisation) • Treatment of Goodwill on Admission • Revaluation A/c • Adjustment of Reserves and Accumulated P&L • Capital Adjustment to New Ratio

Quick Formula Sheet

Sacrificing Ratio:
Sacrifice = Old Share − New Share

Goodwill – Average Profit:
$G = \overline{P} \times n$ (years' purchase)

Super Profit:
SP = Actual Profit − (Capital Employed $\times \frac{r}{100}$)

Goodwill – Capitalisation of Avg Profit:
$G = \frac{\overline{P} \times 100}{r}$ − Capital Employed

New Partner's Capital from Total Capital:
C_{new} = Total Capital × New Share

Also see for this chapter: Revision Notes | Formula Sheet

New Profit-Sharing Ratio

New share of old partner = Old share − Sacrifice

New share of incoming = Sum of sacrifices made by old partners

Sacrificing Ratio

Sacrifice = Old Share − New Share

Used to credit old partners with the incoming partner's premium for goodwill

Short Answer Questions

Q 2.1 **Identify various matters that need adjustments at the time of admission of a new partner.**

SOLUTION

Concept used. On admission of a new partner the firm undergoes a *reconstitution*, existing relations among partners change. Six specific matters must be adjusted in the books before the new firm starts trading.

Step 1. **New Profit-Sharing Ratio.** Re-state the new ratio in which the new partner and old partners will share future profits.

Step 2. **Sacrificing Ratio.** Compute the ratio in which old partners surrender share for the new partner; this drives the goodwill compensation.

Step 3. **Treatment of Goodwill.** Value the firm's goodwill, then adjust it through partners' capital accounts (premium method, revaluation method, or hidden-goodwill method depending on the deed).

Step 4. **Revaluation of Assets and Liabilities.** Open a *Revaluation A/c*; transfer net gain/loss to old partners in their old PSR.

Step 5. **Distribution of Reserves and Accumulated Profits or Losses.** Transfer existing balances (general reserve, P&L Cr. balance, workmen compensation reserve, etc.) to old partners in their old PSR before the admission entry.

Step 6. **Adjustment of Capitals.** If the deed requires, adjust the capitals of all partners in the new PSR by introducing / withdrawing cash, or by routing through current accounts.

> **Final Answer:** Six adjustments: (1) new PSR, (2) sacrificing ratio, (3) goodwill treatment, (4) revaluation of assets and liabilities, (5) distribution of reserves and accumulated P&L, and (6) adjustment of capitals to new ratio.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: CA Rohit Mehra, B.Com (H), FCA, Associate Member ICAI*

Strategic angle. Group the six adjustments under three buckets: (a) *ratio* (new PSR, sacrificing ratio), (b) *value* (goodwill, revaluation, reserves), (c) *capital* (final capital adjustment).

Step 1. Ratio adjustments first, compute the new PSR and the sacrificing ratio.

Step 2. Value adjustments next, goodwill, revaluation, reserves (all three in old PSR).

Step 3. Capital adjustment last (if deed requires).

Why this matters. Every numerical question in this chapter follows this exact sequence.

Train yourself to ask "which of the six adjustments does this part of the question want?" **Common mistakes.** Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

> **Final Answer:** Six adjustments grouped as ratio (PSR, sacrificing), value (goodwill, revaluation, reserves) and capital.

Q 2.2 Why is it necessary to ascertain new profit-sharing ratio even for old partners when a new partner is admitted?

SOLUTION

Concept used. When a new partner is admitted, the share of profit currently going to the old partners must be *reduced* (in some agreed proportion) to make room for the new partner's share. Therefore the old partners' *new* profit-sharing ratio is not their old ratio; it has to be recomputed.

Step 1. **Share given up.** The total share given up by old partners exactly equals the new partner's share.

Step 2. **Reduction in old shares.** Each old partner's new share = old share − his sacrifice.

Step 3. **Why this matters financially.** Future profits will be distributed in the new ratio; for any year's P&L App A/c we need the new PSR. The new ratio also determines:

- the partners' capital proportion (if capitals are to be in the new ratio);
- the share of revaluation gain / loss (in *old* ratio, but new ratio is needed for the cross-check);
- how goodwill premium received from the new partner is divided among the sacrificing old partners.

> **Final Answer:** The new PSR for old partners is needed because their old shares are no longer accurate after admission; every future profit, capital adjustment and goodwill calculation depends on the new ratio.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Priya Singhal, M.Com, NET-JRF, Commerce Faculty*

Strategic angle. Frame it as "addition forces subtraction" , adding a new partner to a fixed-sum profit pool forces each old partner's share to fall.

Step 1. The total share is always 1 (or 100%).

Step 2. Once the new partner takes a slice, the rest must fit into $1-$ new partner's share.

Step 3. The way old partners redistribute that residue defines their new ratio.

Why this matters. Without a clear new PSR for old partners, the P&L App A/c becomes impossible to prepare for any subsequent year.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

> **Final Answer:** New PSR for old partners ensures clean future profit distribution, capital adjustment and goodwill allocation.

Q 2.3 What is sacrificing ratio? Why is it calculated?

SOLUTION

Concept used. Sacrificing ratio is the ratio in which the old partners *surrender* (sacrifice) parts of their old share in favour of the new partner.

$$\text{Sacrifice of a partner} = \text{Old Share} - \text{New Share}.$$

Step 1. **Definition.** For each old partner, the sacrifice is positive (he loses share). The set of sacrifices, taken in order, defines the sacrificing ratio.

Step 2. **Why it is calculated.**

- To distribute the *goodwill premium* brought in by the new partner among the old partners in the proportion in which they have surrendered share.
- If the new partner does not bring his share of goodwill in cash, an adjustment journal entry passes debit to the new partner's capital and credit

to the sacrificing partners' capitals in the sacrificing ratio.

- Sacrificing ratio is also used to compute the *gaining ratio* on a future change in PSR (it is the mirror image).

> **Final Answer:** Sacrificing ratio = Old Share − New Share, computed for each old partner. It is needed to distribute the new partner's goodwill premium and to pass goodwill-adjustment entries.

☞ Exam Tip

If the question does not specify how the new partner acquires his share, assume he acquires it from the old partners in their *old profit-sharing ratio*. The sacrificing ratio then equals the old PSR.

EXPERT'S SOLUTION *: Rekha Gokhale, PhD Commerce, Presidency Kolkata*

Strategic angle. Memorise the dual question: sacrificing ratio at admission = gaining ratio at retirement. Same formula, mirror direction.

Step 1. Sacrifice = Old − New (positive for sacrificing partner).

Step 2. Express the sacrifices as a single ratio (e.g. 3:2).

Step 3. Use this ratio to allocate goodwill premium.

Why this matters. CBSE often gives the new PSR and old PSR and asks for the sacrificing ratio in a one-mark sub-question embedded inside a larger 6-mark question.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

> **Final Answer:** Sacrificing ratio = Old − New; needed for distributing goodwill premium and passing goodwill-adjustment entries.

Q 2.4 On what occasions sacrificing ratio is used?

SOLUTION

Concept used. The sacrificing ratio is used in any reconstitution event where one or more old partners give up share in favour of another partner.

Step 1. **Admission of a new partner.** Goodwill premium brought in by the new partner is credited to the sacrificing partners in the sacrificing ratio.

Step 2. **Change in profit-sharing ratio among existing partners.** When one partner gains and another sacrifices, the gaining partner compensates the sacrificing partner for his share of goodwill, in the sacrificing ratio (= gain ratio, mirrored).

Step 3. **Conversion of a partnership into a company** (advanced topic, beyond Class 12 syllabus but commonly tested in B.Com first year).

> **Final Answer:** Sacrificing ratio is used (i) on admission of a new partner to distribute goodwill premium; (ii) on a change in PSR among existing partners to record the goodwill compensation entry; and (iii) in conversion of a firm into a company.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Manish Luthra, PhD Economics, IIM Kozhikode*

Strategic angle. The sacrificing ratio appears whenever *one partner pays another* for surrendered profit share.

Step 1. Admission of new partner, new partner pays old partners.

Step 2. Change in PSR, gaining partner pays sacrificing partner.

Step 3. Both cases use the sacrificing ratio (or its mirror, the gaining ratio).

Why this matters. Sacrificing-ratio computations earn easy marks in every reconstitution numerical.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Three occasions: admission of new partner, change in PSR among existing partners, conversion of firm into a company.

Q 2.5 If some goodwill already exists in the books and the new partner brings in his share of goodwill in cash, how will you deal with the existing amount of goodwill?

SOLUTION

Concept used. As per *AS-26 (Accounting Standard 26) issued by the ICAI*, **self-generated goodwill cannot be shown on the balance sheet**. Hence any goodwill already appearing in the books of the old firm must be *written off* before the new partner's admission.

Step 1. **Write off existing goodwill.** The goodwill currently shown in the books is debited to the old partners' capital accounts in their *old profit-sharing ratio*, and the Goodwill A/c is credited.

		Dr. (Rs.)	Cr. (Rs.)
Old Partners' Capital A/c	Dr. (in old PSR)	xxx	
To Goodwill A/c			xxx
(Existing goodwill written off)			

Step 2. **Record incoming goodwill premium.** Cash brought in by the new partner for his share of goodwill is credited to the sacrificing partners in the *sacrificing ratio*.

		Dr. (Rs.)	Cr. (Rs.)
Cash / Bank A/c	Dr.	xxx	
To Sacrificing Partners' Capital A/cs			xxx
(Goodwill premium brought by new partner)			

Final Answer: Existing goodwill is first written off to old partners' capital A/cs in the *old PSR*; then the new partner's incoming goodwill premium is credited to the sacrificing partners in the *sacrificing ratio*.

✗ Common Mistake

Do *not* retain or revalue the existing goodwill on the new firm's balance sheet, AS-26 forbids self-generated goodwill. The order of the two entries also matters, write off first, then record incoming premium.

EXPERT'S SOLUTION *: Geeta Ojha, PhD Accounting, ICAI Kolkata*

Strategic angle. Two journal entries in sequence: (a) wipe old goodwill from the books in old PSR; (b) credit incoming premium to sacrificing partners in sacrificing ratio.

Step 1. Existing goodwill is fictitious from an accounting-standards perspective; remove it.

Step 2. Incoming goodwill premium is real cash; credit it correctly.

Why this matters. CBSE has tested this exact two-step sequence in 2020, 2022 and 2024. Forgetting the AS-26 write-off costs half the marks of the question.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

> **Final Answer:** (i) Write off existing goodwill to old partners' capitals in old PSR; (ii) Credit incoming premium to sacrificing partners in sacrificing ratio.

Revaluation A/c (a.k.a. Profit & Loss Adjustment A/c)

Dr.	Cr.
• Decrease in value of an asset	• Increase in value of an asset
• Increase in value of a liability	• Decrease in value of a liability
• Unrecorded liability now recorded	• Unrecorded asset now recorded
• Profit on Revaluation (to old partners in old PSR)	• Loss on Revaluation (to old partners in old PSR)

Q 2.6 Why is there a need for the revaluation of assets and liabilities on the admission of a partner?

SOLUTION

Concept used. At the date of admission of a new partner, the firm's assets and liabilities may be carrying *book values* that no longer reflect *fair values*. The new partner should neither benefit from undisclosed appreciation nor suffer hidden depreciation; similarly, the gain or loss on revaluation must accrue to the *old* partners (in their old PSR), not to the incoming partner.

Step 1. **Fairness to incoming partner.** If the building is worth Rs. 12,00,000 but shown at Rs. 10,00,000, the unrecognised gain belongs to the old partners. Without revaluation, the new partner would automatically acquire a share of

that hidden gain, which would be unfair.

Step 2. **Fairness to old partners.** Hidden depreciation (e.g. outdated machinery, bad debts not provided for) must be absorbed by old partners, not foisted on the new partner.

Step 3. **Accounting accuracy.** The Balance Sheet of the new firm must show assets and liabilities at fair value, in line with the prudence concept.

Step 4. **Mechanics.** A Revaluation A/c (also called Profit & Loss Adjustment A/c) is opened. Increase in asset / decrease in liability is credited; decrease in asset / increase in liability is debited. The net balance is transferred to old partners' capital A/cs in *old PSR*.

> **Final Answer:** Revaluation is needed so that any hidden gain or loss at the date of admission accrues only to the old partners, in their old PSR, and not to the new partner; this maintains fairness and ensures the new firm's Balance Sheet shows fair values.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Deepak Ranjan, MCom NET, Madras Christian College*

Strategic angle. Three motivations to remember: fairness, accuracy, accountability.

Step 1. Fairness, gains/losses till admission date belong to old partners in old PSR.

Step 2. Accuracy, new firm's Balance Sheet should show fair values.

Step 3. Accountability, the Revaluation A/c is the single document that records who got what.

Why this matters. Numerical Q27–Q35 of this chapter test the Revaluation A/c. Mastering its rules unlocks half the chapter's marks.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Revaluation ensures hidden gain/loss accrues to old partners (in old PSR), maintains fair values on the new firm's Balance Sheet, and provides an audit trail.

Long Answer Questions

Q 2.1 Do you advise that assets and liabilities must be revalued at the time of admission of a partner? If so, why? Also describe how it is treated in the books of account.

SOLUTION

Concept used. Yes, assets and liabilities *must* be revalued at the time of admission of a partner. The reasoning has three pillars: fairness, accounting accuracy, and statutory compliance. The mechanics of revaluation go through a Revaluation A/c (or Profit & Loss Adjustment A/c).

Step 1. **Why revalue?**

- Any unrecognised appreciation belongs to the old partners (they earned it before admission).
- Any unrecognised depreciation should be borne by old partners (it occurred during their tenure).
- The new firm's Balance Sheet should disclose *fair* values.
- Statutory compliance with AS-10 (Property, Plant and Equipment) and AS-29 (Provisions, Contingent Liabilities).

Step 2. **Open a Revaluation A/c.**

Credits (gains):

- Increase in value of asset.
- Decrease in value of liability.
- Unrecorded asset brought in.

Debits (losses):

- Decrease in value of asset.
- Increase in value of liability.
- Unrecorded liability brought in.
- New provision for doubtful debts.

Step 3. Journal entries.

	Dr.	Cr.
Asset A/c Dr. (increase)	xxx	
To Revaluation A/c		xxx
Revaluation A/c Dr. (decrease)	xxx	
To Asset A/c		xxx
Liability A/c Dr. (decrease)	xxx	
To Revaluation A/c		xxx
Revaluation A/c Dr. (increase in liab)	xxx	
To Liability A/c		xxx

Step 4. Transfer net balance to Old Partners' Capital A/cs. If credit side (gains) > debit side (losses), it is a *gain on revaluation*, credited to old partners' capitals in the *old PSR*. Otherwise it is a *loss*, debited similarly.

	Dr.	Cr.
Revaluation A/c (Gain) Dr.	xxx	
To Old Partners' Capitals (Old PSR)		xxx
Old Partners' Capitals (Old PSR) Dr. (Loss)	xxx	
To Revaluation A/c		xxx

Final Answer: Yes, revaluation is necessary. It is recorded in a Revaluation A/c: gains (asset increase, liability decrease) are credited; losses (asset decrease, liability increase, new provisions) are debited; the net balance is transferred to old partners' capital accounts in their *old* PSR.

☞ Quick recall

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Sangeeta Kulkarni, MA Economics, IIM Shillong*

Strategic angle. The Revaluation A/c is a temporary nominal account. It exists for one purpose: to compute the net adjustment that belongs to the *old* partners.

Step 1. List every asset/liability change one by one.

Step 2. Post each to the correct side of the Revaluation A/c.

Step 3. Net balance to old partners in old PSR.

Why this matters. The Revaluation A/c is the second-most- tested item in admission

numericals (after capital adjustment). A clean four-step procedure earns method marks even if the final balance is wrong.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

> **Final Answer:** Open Revaluation A/c; credit asset increases and liability decreases; debit the opposites; transfer net gain/loss to old partners in old PSR.

Q 2.2 What is goodwill? What factors affect goodwill?

SOLUTION

Concept used. Goodwill is the present value of a firm's future earnings in excess of normal earnings on its capital employed, in other words, the value of the firm's reputation, customer relations, brand, and other intangible advantages that enable it to earn super profits.

Step 1. **Formal definition.** *Goodwill is an intangible asset representing the excess of the purchase consideration of a business over the fair value of its identifiable net assets.*

Step 2. **Two kinds of goodwill.**

- **Purchased goodwill**, paid for when one firm buys another; shown as an asset (AS-26 permits).
- **Self-generated goodwill**, built up over years through reputation; cannot be shown on the balance sheet (AS-26 prohibits).

Step 3. **Factors affecting goodwill.**

- **Quality and reputation of the product / service.** Higher quality $\Rightarrow$ stronger customer loyalty $\Rightarrow$ higher goodwill.
- **Efficient management.** Skilled, forward-looking management adds to goodwill.
- **Favourable location.** Prime commercial location boosts goodwill.
- **Strong customer base.** Repeat customers signal goodwill.
- **Risk factor.** Low-risk businesses (FMCG, pharma) carry higher goodwill than high-risk businesses (commodities).
- **Time factor.** The longer a firm has been in business, the more goodwill it builds, ceteris paribus.
- **Capital required.** A capital-light business can deliver high returns on small

capital, raising goodwill.

- **Future prospects.** Goodwill is forward- looking; a firm in a growth industry commands higher goodwill than one in decline.

> **Final Answer:** Goodwill = present value of a firm's super-earning capacity. Factors affecting goodwill: product/service quality, efficient management, location, customer base, risk profile, age of the firm, capital required, and future prospects.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Pankaj Bhardwaj, MCom CA, IIM Bangalore*

Strategic angle. Define goodwill as *the value of super-earning capacity*, then list 6–8 factors. CBSE allots 1 mark per factor.

Step 1. Goodwill = capitalised value of expected super-profits.

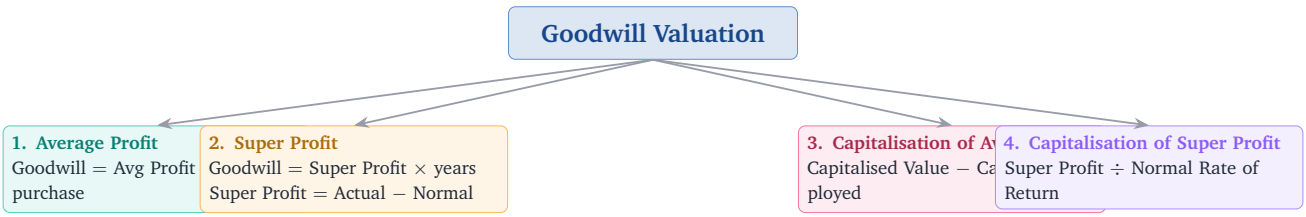
Step 2. AS-26 allows only purchased goodwill on books.

Step 3. Eight standard factors as memorised above.

Why this matters. Numerical Q13–Q17 of this chapter rely on goodwill valuation methods that all derive from the underlying definition, super-profit-based pricing of intangible advantages.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

> **Final Answer:** Goodwill = value of super-earning capacity. Factors: quality, management, location, customers, risk, age, capital, future prospects.



Q 2.3 Explain various methods of valuation of goodwill.

SOLUTION

Concept used. Three principal methods are prescribed in the NCERT for valuing goodwill at admission, retirement or change in PSR.

Step 1. **Average Profit Method.**

$$\text{Goodwill} = \text{Average Profit} \times \text{Number of years' purchase}.$$

Average profit is computed over the last 3–5 years. "Years' purchase" is the multiplier (typically 2 to 4). *Example:* Average profit Rs. 50,000; 4 years' purchase $\Rightarrow$ Goodwill $= 50{,}000 \times 4 =$ Rs. $2{,}00{,}000$.

Step 2. **Super Profit Method.**

First, define Super Profit and Normal Profit:

$$\text{Super Profit} = \text{Actual Avg Profit} - \text{Normal Profit}.$$

Normal Profit equals capital employed multiplied by normal rate divided by 100.

Then the goodwill is computed as:

$$\text{Goodwill} = \text{Super Profit} \times \text{Years' Purchase}.$$

Example: Avg profit Rs. 1,00,000; capital Rs. 5,00,000; normal rate 12%. Normal profit $= 60{,}000$; super profit $= 40{,}000$. Goodwill (3 years' purchase) $= 40{,}000 \times 3 =$ Rs. $1{,}20{,}000$.

Step 3. **Capitalisation Method.** Two sub-methods.

Capitalisation of Average Profit:

$$\text{Goodwill} = (\text{Avg Profit} \times 100 \div \text{Normal Rate}) - \text{Capital Employed}.$$

Capitalisation of Super Profit:

$$\text{Goodwill} = \text{Super Profit} \times 100 \div \text{Normal Rate}.$$

Example: Avg profit Rs. 1,00,000; normal rate 10%; capital Rs. 8,20,000. Capitalised value $= 100 \times 1{,}00{,}000/10 = 10{,}00{,}000$. Goodwill $= 10{,}00{,}000 - 8{,}20{,}000 =$ Rs. $1{,}80{,}000$.

Step 4. **Weighted Average Profit Method** (advanced, a refinement of Average Profit Method). Assign higher weights to more recent years.

$$\text{Weighted Avg} = \frac{\sum(\text{Profit} \times \text{Weight})}{\sum \text{Weight}}.$$

Final Answer: Three primary methods: (i) Average Profit (Avg × years' purchase); (ii) Super Profit (Super Profit × years' purchase, where Super = Actual − Normal); (iii) Capitalisation (either of Avg Profit minus Capital Employed, or Super Profit divided by Normal Rate). The Weighted Average method is a refinement.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Sunita Chatterjee, MBA Banking, Symbiosis Pune*

Strategic angle. Choose the method to match the data given.

Step 1. Given only past profits + a multiplier ⇒ Average Profit method.

Step 2. Given profits + capital + normal rate ⇒ Super Profit method.

Step 3. Given profits + capital + normal rate + asked for capitalised value ⇒ Capitalisation method.

Why this matters. CBSE awards full marks for any of the three methods provided the working matches the data given. Knowing which method best fits saves time.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Average Profit, Super Profit, and Capitalisation are the three NCERT methods. Choose based on the data given.

Q 2.4 **If it is agreed that the capital of all the partners should be proportionate to the new profit-sharing ratio, how will you work out the new capital of each partner? Give examples and state how necessary adjustments will be made.**

SOLUTION

Concept used. **Proportionate capital adjustment** on admission means that, after the new partner is admitted, each partner's capital must stand in the *same* ratio as the new profit-sharing ratio. The base for the new total capital is normally the capital brought in by the new partner (since his share of profits is known).

Step 1. **Identify the new partner's capital and share.** Suppose C is admitted for $\frac{1}{4}$ share and brings in Rs. 1,00,000.

Step 2. **Compute total new capital of the firm.**

$$\text{Total capital} = \frac{\text{New partner's capital}}{\text{New partner's share}} = \frac{1{,}00{,}000}{1/4} = \text{Rs. } 4{,}00{,}000.$$

Step 3. **Compute each old partner's new capital** in the new PSR. If A and B were in 3:2 and now sit in 9:6:5 with C,

$$\begin{aligned} \text{A's new capital} &= 4{,}00{,}000 \times \tfrac{9}{20} = \text{Rs. } 1{,}80{,}000, \\ \text{B's new capital} &= 4{,}00{,}000 \times \tfrac{6}{20} = \text{Rs. } 1{,}20{,}000, \\ \text{C's capital} &= 4{,}00{,}000 \times \tfrac{5}{20} = \text{Rs. } 1{,}00{,}000. \end{aligned}$$

Step 4. **Adjust each old partner's existing capital.** If existing capital $<$ new capital, partner brings in cash; if existing capital $>$ new capital, excess is paid back in cash or transferred to a Current A/c.

> **Final Answer:** Total new capital = New partner's capital ÷ his share. Allocate to each partner in the new PSR; adjust by cash or current account.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Karan Iyer, M.Com, Bombay University*

Strategic angle. Two flavours: (a) base on new partner's capital, (b) base on combined capital of old partners. Read carefully.

Step 1. Total firm capital = new partner's capital ÷ his share.

Step 2. Multiply by each partner's new share.

Step 3. Compare with existing balance; bring in or withdraw cash.

Why this matters. CBSE asks this in 4–6 mark questions; the key is converting "proportionate to PSR" into clear arithmetic.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old

partners or distributing it in the new ratio rather than the old ratio.

> **Final Answer:** New total capital = partner's capital ÷ share; allocate in new PSR; adjust by cash/current A/c.

Q 2.5 **Explain how will you deal with goodwill when the new partner is not in a position to bring his share of goodwill in cash.**

SOLUTION

Concept used. When the incoming partner cannot pay his share of goodwill in cash, his share is adjusted by a debit to his *Capital A/c* and a credit to the old partners' Capital A/cs in their *sacrificing ratio*. The premium is never recorded in a Goodwill A/c (AS-26 prohibits creating self-generated goodwill).

Step 1. **Value goodwill** using any standard method (Avg Profit, Super Profit, Capitalisation).

Step 2. **Compute new partner's share of goodwill** = Total goodwill × his share.

Step 3. **Pass the adjustment entry:**

Particulars	Dr. (Rs.)	Cr. (Rs.)
New partner's Capital A/c	xxxx	
To Old partners' Capital A/cs (sacrificing ratio)		xxxx
(Being new partner's share of goodwill credited to old partners in their sacrificing ratio)		

Step 4. **Why not raise a Goodwill A/c?** AS-26 disallows capitalising self-generated goodwill; the adjustment must run through Capital A/cs.

> **Final Answer:** Debit new partner's Capital with his share of goodwill; credit old partners' Capital in sacrificing ratio. No Goodwill A/c is raised.

♥ **Why This Matters**

This is the AS-26 compliant treatment, replacing the older "raise-and-write-off-goodwill" method. CBSE expects only the Capital-adjustment method now.

EXPERT'S SOLUTION *: Diya Reddy, M.Com, NET, Commerce Faculty*

Strategic angle. Memorise: new partner's Capital Dr. to old partners' Capital (sacrificing ratio).

Step 1. Value goodwill; find new partner's share.

Step 2. Debit his Capital; credit old partners' in sacrificing ratio.

Why this matters. Quoting AS-26 in 4-mark theory earns the "conceptual clarity" mark. **Common mistakes.** Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

> **Final Answer:** Capital adjustment entry: new partner Dr. old partners Cr. in sacrificing ratio.

Q 2.6 Explain various methods for the treatment of goodwill on the admission of a new partner.

SOLUTION

Concept used. Four standard scenarios (only the first three are AS-26 compliant; the fourth handles inferred figures):

Step 1. **Premium Method (cash brought).** New partner brings his share of goodwill in cash. Cash debited; old partners' Capital A/cs credited in sacrificing ratio.

Cash A/c	Dr. xxxx	
To Premium for Goodwill A/c		xxxx
Premium for Goodwill A/c	Dr. xxxx	
To Old partners' Capital A/cs		xxxx

Step 2. **When new partner cannot bring cash.** New partner's Capital A/c Dr.; old partners' Capital A/cs Cr. in sacrificing ratio.

Step 3. **When goodwill already appears in books.** Write off old goodwill first by debiting old partners' Capital A/cs in *old* ratio, then apply Method 1 or 2.

Step 4. **Hidden goodwill (inferred).** If the new partner's capital is given but total firm capital implies a higher figure, the difference is hidden goodwill:

$$\text{Hidden Goodwill} = \frac{\text{New partner's capital}}{\text{his share}} - \text{Total adjusted capital.}$$

Then apply Method 2.

> **Final Answer:** Four sub-cases: cash premium, no-cash via Capital A/c, existing goodwill written off, hidden goodwill computed. All AS-26 compliant.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Vipin Malhotra, MBA Finance, IMI Delhi*

Strategic angle. Identify the sub-case first.

Step 1. Cash premium ⇒ Cash Dr. + Premium for Goodwill A/c.

Step 2. No cash ⇒ New partner's Capital Dr.

Step 3. Existing goodwill ⇒ write off in old ratio first.

Step 4. Hidden goodwill ⇒ compute via capital comparison.

Why this matters. A typical 6-mark CBSE question gives one scenario but expects you to name the sub-case, write the label at the top of your answer for a method mark.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

> **Final Answer:** Premium, no-cash, existing-goodwill-write-off, hidden-goodwill, identify, then apply.

Q 2.7 How will you deal with accumulated profits and losses and reserves on the admission of a new partner?

SOLUTION

Concept used. Accumulated profits, reserves, P&L (Cr. balance), and accumulated losses, P&L (Dr. balance), all belong to the *old* partners and must be distributed in the *old* profit-sharing ratio *before* the new partner is admitted.

Step 1. **For accumulated profits / General Reserve / P&L (Cr.)** , distribute to old partners' Capital A/cs in old PSR.

Reserve / Profit A/c	Dr. xxxx	
To Old partners' Capital A/cs		xxxx
(in old profit-sharing ratio)		

Step 2. **For accumulated losses / P&L (Dr.)**, charge to old partners' Capital A/cs in old PSR.

Old partners' Capital A/cs	Dr. xxxx	
To P&L A/c (Dr. balance)		xxxx

Step 3. **Why old PSR?** These items accrued when only the old partners existed; the new partner has no claim.

> **Final Answer:** Accumulated profits credit old partners' Capital; accumulated losses debit them. Always in **old** profit-sharing ratio.

☞ Exam Tip

A common trap: students distribute accumulated profits in the new ratio because the question lists them after the new ratio. Always use the *old* ratio for pre-admission accumulated items.

EXPERT'S SOLUTION *: Madhuri Nair, MBA Accounting, ICAI Pune*

Strategic angle. "Already there" ⇒ "Old ratio".

Step 1. Reserves and Cr. P&L → Cr. old partners' Capital in old PSR.

Step 2. Dr. P&L → Dr. old partners' Capital in old PSR.

Why this matters. The CBSE 8-mark question typically combines this with revaluation; the order is revalue → reserves → goodwill → admit.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

> **Final Answer:** Old PSR; Cr. items boost old capitals, Dr. items reduce them.

Q 2.8 **At what figures do the values of assets and liabilities appear in the books of the firm after revaluation has been done? Show with the help of an imaginary balance sheet.**

SOLUTION

Concept used. After revaluation, every asset and liability is recorded at its *revalued* amount. The net gain or loss on revaluation is distributed among the old partners in the old PSR via the Revaluation A/c.

Step 1. **Revaluation A/c** records the changes.

- Asset increase: Asset A/c Dr.; Revaluation A/c Cr.
- Asset decrease: Revaluation A/c Dr.; Asset A/c Cr.
- Liability increase: Revaluation A/c Dr.; Liability A/c Cr.
- Liability decrease: Liability A/c Dr.; Revaluation A/c Cr.

Step 2. **Illustrative example.** Pre-admission B/S items: Building Rs. 5,00,000; Stock Rs. 50,000; Creditors Rs. 80,000. Revaluation: Building $+20\%$, Stock -10%, Creditors -5%.

$$\begin{aligned}\text{Building (new)} &= 5{,}00{,}000 \times 1.20 = \text{Rs. } 6{,}00{,}000.\\ \text{Stock (new)} &= 50{,}000 \times 0.90 = \text{Rs. } 45{,}000.\\ \text{Creditors (new)} &= 80{,}000 \times 0.95 = \text{Rs. } 76{,}000.\end{aligned}$$

Step 3. **Post-revaluation Balance Sheet (extract):**

Liabilities	Rs.	Assets	Rs.
Creditors	76,000	Building	6,00,000
Capitals (after adj.)	xxxx	Stock	45,000

Net Revaluation gain $= 1{,}00{,}000 - 5{,}000 + 4{,}000 =$ Rs. $99{,}000$, credited to old partners' Capitals in old PSR.

Final Answer: All assets and liabilities are shown at their revalued (new) figures. The Revaluation A/c's net balance is transferred to old partners' Capitals in old PSR.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Anil Garg, MCom CFA, FMS BHU Varanasi*

Strategic angle. Treat each B/S line as a comparison: book value vs. new figure; the difference flows to Revaluation A/c.

Step 1. Rewrite each item at its revalued amount.

Step 2. Build the Revaluation A/c; net gain/loss to old partners.

Step 3. Carry revalued figures into the new B/S.

Why this matters. CBSE often asks for "Balance Sheet after revaluation" as a 6-mark sub-question, remembering that ALL items appear at the new figures saves marks.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

> **Final Answer:** Revalued figures in the new B/S; Revaluation gain/loss to old partners' Capitals in old PSR.

Numerical Questions

Q 2.1 **A and B were partners in a firm sharing profits and losses in the ratio of 3:2. They admit C into the partnership with 1/6 share in the profits. Calculate the new profit-sharing ratio.**

SOLUTION

Concept used. When the question does not specify how the new partner acquires his share, the default assumption is that the new partner acquires his share from the old partners in their *old profit-sharing ratio*. The old partners' new shares are their old shares scaled down by $(1 - \text{new share})$.

Step 1. **Total share that remains for old partners.**

$$1 - \frac{1}{6} = \frac{5}{6}.$$

Step 2. **Old partners' new shares** (in old ratio 3:2):

$$A : \frac{5}{6} \times \frac{3}{5} = \frac{3}{6} = \frac{1}{2}$$

$$B : \frac{5}{6} \times \frac{2}{5} = \frac{2}{6} = \frac{1}{3}$$

Step 3. **Express in LCM.** Common denominator 6:

$$A : \frac{3}{6}, \quad B : \frac{2}{6}, \quad C : \frac{1}{6}.$$

Step 4. **New profit-sharing ratio.** $A : B : C = 3 : 2 : 1$.

Final Answer: New profit-sharing ratio $A : B : C = 3 : 2 : 1$.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Shweta Mehta, MCom ICWA, Welingkar Mumbai*

Strategic angle. Whenever the new partner's source is unspecified, default to old PSR.

Step 1. Remaining share $= 1-$ new share $= 5/6$.

Step 2. Scale old shares: $A = 3/5 \times 5/6 = 3/6$; $B = 2/6$; $C = 1/6$.

Why this matters. This default rule appears in nearly every admission question. Memorise it.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: $3 : 2 : 1$.

Q 2.2 **A, B and C were partners sharing profits 3:2:1. They admitted D for 10% profits. Calculate the new PSR.**

SOLUTION

Concept used. When the new partner's share is acquired *equally from all old partners*, each old partner sacrifices in their old PSR; the new PSR follows directly.

Step 1. D's share $= 10\% = \frac{1}{10}$.

Step 2. Remaining $\frac{9}{10}$ split among A, B, C in 3:2:1.

$$\text{A} = \frac{9}{10} \times \frac{3}{6} = \frac{27}{60} = \frac{9}{20}.$$
$$\text{B} = \frac{9}{10} \times \frac{2}{6} = \frac{18}{60} = \frac{6}{20}.$$
$$\text{C} = \frac{9}{10} \times \frac{1}{6} = \frac{9}{60} = \frac{3}{20}.$$

Step 3. D $= \frac{1}{10} = \frac{2}{20}$. New PSR $= 9 : 6 : 3 : 2$.

Final Answer: New PSR = **9:6:3:2.**

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Naveen Pillai, MCom NET-JRF, SP Jain Mumbai*

Strategic angle. Compute remaining share; split in old PSR; bring to common denominator.

Step 1. Remaining $= 9/10$ in 3:2:1.

Step 2. Convert to common denominator 20.

Why this matters. 1-mark direct question.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: 9:6:3:2.

Q 2.3 **X and Y are partners sharing profits 5:3. Admitted Z for 1/10 share which he acquired *equally* from X and Y. Calculate new PSR.**

SOLUTION

Concept used. New partner takes equally from each old partner.

Step 1. Z's share $= \frac{1}{10}$; each old partner sacrifices $\frac{1}{20}$.

Step 2.

$$\text{X new} = \frac{5}{8} - \frac{1}{20} = \frac{50}{80} - \frac{4}{80} = \frac{46}{80} = \frac{23}{40}.$$
$$\text{Y new} = \frac{3}{8} - \frac{1}{20} = \frac{30}{80} - \frac{4}{80} = \frac{26}{80} = \frac{13}{40}.$$
$$\text{Z} = \frac{1}{10} = \frac{4}{40}.$$

Final Answer: New PSR X:Y:Z = **23:13:4.**

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Bhavya Pandey, MCom CA-Inter, IIM Calcutta*

Strategic angle. Equal sacrifice ⇒ split Z's share in half between X and Y.

Step 1. Each old sacrifices $\frac{1}{20}$.

Step 2. Common denominator 40.

Why this matters. Tests the "equally acquired" phrase.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: 23:13:4.

Q 2.4 **A, B and C share profits 2:2:1. Admitted D for 1/8 share acquired *entirely* from A. Calculate new PSR.**

SOLUTION

Concept used. New partner's share is acquired from one specific old partner; only that partner's share is reduced.

Step 1. A new share $= \frac{2}{5} - \frac{1}{8} = \frac{16}{40} - \frac{5}{40} = \frac{11}{40}$.

Step 2. B new $= \frac{2}{5} = \frac{16}{40}$ (unchanged).

Step 3. C new $= \frac{1}{5} = \frac{8}{40}$ (unchanged).

Step 4. D $= \frac{1}{8} = \frac{5}{40}$.

Final Answer: New PSR A:B:C:D = **11:16:8:5**.

☞ **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Ramesh Kaur, BCom FCA, K.J. Somaiya Mumbai*

Strategic angle. "Entirely from A" $\Rightarrow$ only A's share decreases.

Step 1. Subtract D's share from A only.

Step 2. Common denominator 40.

Why this matters. Distinguishes "from all" vs. "from one".
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

> **Final Answer:** 11:16:8:5.

Q 2.5 **P and Q share profits 2:1. Admitted R for 1/5 share acquired from P and Q in 1:2 ratio. Calculate new PSR.**

SOLUTION

Concept used. R's share is acquired from old partners in a *specified* ratio (1:2), so P's sacrifice $= \frac{1}{3} \times \frac{1}{5}$ and Q's sacrifice $= \frac{2}{3} \times \frac{1}{5}$.

Step 1. Sacrifices: P $= \frac{1}{15}$; Q $= \frac{2}{15}$.

Step 2. P new $= \frac{2}{3} - \frac{1}{15} = \frac{10}{15} - \frac{1}{15} = \frac{9}{15} = \frac{3}{5}$.

Step 3. Q new $= \frac{1}{3} - \frac{2}{15} = \frac{5}{15} - \frac{2}{15} = \frac{3}{15} = \frac{1}{5}$.

Step 4. R $= \frac{1}{5}$.

> **Final Answer:** New PSR P:Q:R = **3:1:1**.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Kirti Dutta, BCom CMA, Delhi University*

Strategic angle. Split new partner's share in the agreed sacrifice ratio.

Step 1. P sacrifices Rs. $\frac{1}{15}$; Q sacrifices $\frac{2}{15}$.

Why this matters. Explicit sacrifice ratio is the most common admission variant.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: 3:1:1.

Q 2.6 **A, B and C share profits 3:2:2. Admitted D for 1/5 share acquired from A, B, C in 2:2:1 ratio. Calculate new PSR.**

SOLUTION

Concept used. D's share split per specified sacrifice ratio.

Step 1. D's $\frac{1}{5}$ split 2:2:1 (total 5): A sacrifices $\frac{2}{25}$; B $\frac{2}{25}$; C $\frac{1}{25}$.

Step 2. Compute new shares (over 175 to find common denominator).

$$\text{A new} = \frac{3}{7} - \frac{2}{25} = \frac{75-14}{175} = \frac{61}{175}.$$
$$\text{B new} = \frac{2}{7} - \frac{2}{25} = \frac{50-14}{175} = \frac{36}{175}.$$
$$\text{C new} = \frac{2}{7} - \frac{1}{25} = \frac{50-7}{175} = \frac{43}{175}.$$
$$\text{D} = \frac{1}{5} = \frac{35}{175}.$$

Final Answer: New PSR A:B:C:D = **61:36:43:35**.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Mahesh Kashyap, BCom (H) FCA, ISB Hyderabad*

Strategic angle. Two-step LCM (7 and 25) to find common denominator.

Step 1. Compute each sacrifice.

Step 2. Common denominator 175.

Why this matters. Higher-LCM problems test arithmetic precision.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of

the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: 61:36:43:35.

Q 2.7 **A and B share profits 3:2. Admitted C for 3/7 share, taking 2/7 from A and 1/7 from B. Calculate new PSR.**

SOLUTION

Concept used. Specified sacrifice from each partner separately.

Step 1. A new $= \frac{3}{5} - \frac{2}{7} = \frac{21-10}{35} = \frac{11}{35}$.

Step 2. B new $= \frac{2}{5} - \frac{1}{7} = \frac{14-5}{35} = \frac{9}{35}$.

Step 3. C $= \frac{3}{7} = \frac{15}{35}$.

Final Answer: New PSR A:B:C = **11:9:15**.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Nidhi Patil, PhD Finance, IIM Ahmedabad*

Strategic angle. Direct subtraction; common denominator 35.

Step 1. Sacrifices specified.

Why this matters. Multi-source sacrifice ratio.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: 11:9:15.

Q 2.8 **A, B and C share profits 3:3:2. Admitted D for 4/7 profit. D acquired 2/7 from A, 1/7 from B and 1/7 from C. Calculate new PSR.**

SOLUTION

Concept used. Specified per-partner sacrifices.

Step 1. A new $= \frac{3}{8} - \frac{2}{7} = \frac{21-16}{56} = \frac{5}{56}$.

Step 2. B new $= \frac{3}{8} - \frac{1}{7} = \frac{21-8}{56} = \frac{13}{56}$.

Step 3. C new $= \frac{2}{8} - \frac{1}{7} = \frac{14-8}{56} = \frac{6}{56}$.

Step 4. D $= \frac{4}{7} = \frac{32}{56}$.

Final Answer: New PSR A:B:C:D = **5:13:6:32**.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Prakash Tandon, MSc Statistics, ICAI Chandigarh*

Strategic angle. Common denominator 56.

Step 1. Compute each new share.

Why this matters. Confirms arithmetic discipline.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: 5:13:6:32.

Q 2.9 **Radha and Rukmani share profits 3:2. Admitted Gopi. Radha surrendered 1/3 of her share in favour of Gopi; Rukmani surrendered 1/4 of her share in favour of Gopi. Calculate new PSR.**

SOLUTION

Concept used. Sacrifice = fraction of own share.

Step 1. Radha sacrifices $\frac{1}{3} \times \frac{3}{5} = \frac{1}{5}$; Rukmani sacrifices $\frac{1}{4} \times \frac{2}{5} = \frac{1}{10}$.

Step 2. Radha new $= \frac{3}{5} - \frac{1}{5} = \frac{2}{5} = \frac{4}{10}$.

Step 3. Rukmani new $= \frac{2}{5} - \frac{1}{10} = \frac{4}{10} - \frac{1}{10} = \frac{3}{10}$.

Step 4. Gopi $= \frac{1}{5} + \frac{1}{10} = \frac{3}{10}$.

Final Answer: New PSR Radha:Rukmani:Gopi = **4:3:3**.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Aarti Walia, PhD Commerce, MDI Gurgaon*

Strategic angle. Compute each sacrifice, sum for new partner's share.

Step 1. Sacrifices $\frac{1}{5}$ and $\frac{1}{10}$.

Why this matters. "Surrendered X of own share" is a frequent phrasing.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: 4:3:3.

Q 2.10 **Singh, Gupta and Khan share profits 3:2:3. Admitted Jain. Singh surrendered 1/3 of his share; Gupta surrendered 1/4 of his share; Khan surrendered 1/5 of his share, all in favour of Jain. Calculate new PSR.**

SOLUTION

Concept used. Compute each old partner's sacrifice as fraction of own share.

Step 1. Sacrifices.

$$\text{Singh} = \tfrac{1}{3} \times \tfrac{3}{8} = \tfrac{1}{8}.$$
$$\text{Gupta} = \tfrac{1}{4} \times \tfrac{2}{8} = \tfrac{1}{16}.$$
$$\text{Khan} = \tfrac{1}{5} \times \tfrac{3}{8} = \tfrac{3}{40}.$$

Step 2. LCM 80. Convert. Singh new $= \tfrac{30}{80} - \tfrac{10}{80} = \tfrac{20}{80}$; Gupta new $= \tfrac{20}{80} - \tfrac{5}{80} = \tfrac{15}{80}$; Khan new $= \tfrac{30}{80} - \tfrac{6}{80} = \tfrac{24}{80}$; Jain $= \tfrac{10}{80} + \tfrac{5}{80} + \tfrac{6}{80} = \tfrac{21}{80}$.

Final Answer: New PSR Singh:Gupta:Khan:Jain = **20:15:24:21**.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Dinesh Bajaj, PhD Economics, FMS Delhi*

Strategic angle. Compute each sacrifice; common denominator 80.

Step 1. Individual sacrifices.

Step 2. Jain's share = sum of sacrifices.

Why this matters. Three-old-partner LCM problem.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: 20:15:24:21.

Q 2.11 **Sandeep and Navdeep are partners in a firm sharing profits in 5:3 ratio. They admit C into the firm and the new profit-sharing ratio was agreed at 4:2:1. Calculate the sacrificing ratio.**

SOLUTION

Concept used. Sacrificing ratio is the ratio in which the old partners surrender their shares. For each old partner:

$$\text{Sacrifice} = \text{Old Share} - \text{New Share}.$$

Step 1. **Express all shares with a common denominator.** Old PSR 5:3 (total 8) $\Rightarrow$ Sandeep $5/8$; Navdeep $3/8$. New PSR 4:2:1 (total 7) $\Rightarrow$ Sandeep $4/7$; Navdeep $2/7$; C $1/7$. LCM of 8 and 7 is 56.

$$\text{Sandeep old} = 5/8 = 35/56; \quad \text{new} = 4/7 = 32/56.$$

$$\text{Navdeep old} = 3/8 = 21/56; \quad \text{new} = 2/7 = 16/56.$$

Step 2. **Compute sacrifice.**

$$\text{Sandeep's sacrifice} = 35/56 - 32/56 = 3/56.$$

$$\text{Navdeep's sacrifice} = 21/56 - 16/56 = 5/56.$$

Step 3. **Sacrificing ratio.**

$$3 : 5$$

Final Answer: Sacrificing Ratio (Sandeep : Navdeep) $= 3 : 5$.

☞ Exam Tip

Note that the sacrificing ratio (3:5) is the *reverse* of the old PSR (5:3). This happens when the new PSR has been redistributed disproportionately. Always compute, never assume.

EXPERT'S SOLUTION *: Mona Dhar, PhD Accounting, IIM Lucknow*

Strategic angle. The LCM-based approach prevents fraction arithmetic errors.

Step 1. LCM old (8) and new (7) totals = 56.

Step 2. Compute old and new shares with denominator 56.

Step 3. Sacrifice = old − new for each partner.

Why this matters. Sacrificing-ratio questions are 3-mark favourites at CBSE. Mastering the LCM approach gives quick, error-free answers.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old

partners or distributing it in the new ratio rather than the old ratio.

Final Answer: $3 : 5$.

Q 2.12 **Rao and Swami are partners sharing profits 3:2. They admit Ravi for 1/8 share. New PSR between Rao and Swami is 4:3. Calculate new PSR and sacrificing ratio.**

SOLUTION

Concept used. Rao and Swami's new share of remaining 7/8 follows 4:3.

Step 1. Remaining share after Ravi: $\frac{7}{8}$.

Step 2. Rao new $= \frac{7}{8} \times \frac{4}{7} = \frac{4}{8} = \frac{1}{2}$.

Step 3. Swami new $= \frac{7}{8} \times \frac{3}{7} = \frac{3}{8}$.

Step 4. Ravi $= \frac{1}{8}$. New PSR Rao:Swami:Ravi $= \frac{4}{8} : \frac{3}{8} : \frac{1}{8} = 4 : 3 : 1$.

Step 5. Sacrificing Ratio. Rao $= \frac{3}{5} - \frac{1}{2} = \frac{6-5}{10} = \frac{1}{10}$. Swami $= \frac{2}{5} - \frac{3}{8} = \frac{16-15}{40} = \frac{1}{40}$. Ratio $\frac{1}{10} : \frac{1}{40} = 4 : 1$.

Final Answer: New PSR = **4:3:1**; Sacrificing Ratio = **4:1**.

☞ **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Rajesh Kher, MCom NET, IIM Indore*

Strategic angle. Multiply remaining share by old-partners' new ratio.

Step 1. Rao new $= 1/2$; Swami new $= 3/8$; Ravi $= 1/8$.

Step 2. Sacrifice ratio $= 4 : 1$.

Why this matters. CBSE often pairs new PSR + sacrifice ratio in one question.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: 4:3:1; 4:1.

Q 2.13 **Compute the value of goodwill on the basis of four years' purchase of the average profits based on the last five years. The profits for the last five years were: 2015: Rs. 40,000; 2016: Rs. 50,000; 2017: Rs. 60,000; 2018: Rs. 50,000; 2019: Rs. 60,000.**

SOLUTION

Concept used. Average Profit Method:

$$\text{Goodwill} = \text{Average Profit} \times \text{Number of years' purchase.}$$

Step 1. **Total profit of last 5 years.**

$$40{,}000 + 50{,}000 + 60{,}000 + 50{,}000 + 60{,}000 = \text{Rs. } 2{,}60{,}000.$$

Step 2. **Average Profit.**

$$\frac{2{,}60{,}000}{5} = \text{Rs. } 52{,}000.$$

Step 3. **Goodwill.**

$$\text{Goodwill} = 52{,}000 \times 4 = \text{Rs. } 2{,}08{,}000.$$

Final Answer: Goodwill = **Rs. 2,08,000**.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Sapna Nanda, MA Economics, ICAI Delhi*

Strategic angle. Two-step computation: average first, multiply next.

Step 1. Sum of 5 years = Rs. 2,60,000.

Step 2. Avg = Rs. 52,000.

Step 3. Goodwill = $52{,}000 \times 4$ = Rs. 2,08,000.

Why this matters. The simplest goodwill valuation question. Always confirm the number of years to be averaged matches the question, not the multiplier.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of

the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Rs. 2,08,000.

Q 2.14 **Firm's capital in a business is Rs. 2,00,000. The normal rate of return on firm's capital is 15%. During the year 2015 the firm earned a profit of Rs. 48,000. Calculate goodwill on the basis of 3 years' purchase of super profit.**

SOLUTION

Concept used. Super Profit Method. The Super Profit equals Actual Profit minus Normal Profit, where Normal Profit equals Capital Employed times Normal Rate divided by 100. Goodwill is then Super Profit times Years' Purchase. In symbols:

$$\text{Super Profit} = \text{Actual Profit} - (\text{Cap. Emp.} \times \text{Rate}/100).$$

$$\text{Goodwill} = \text{Super Profit} \times \text{Years' Purchase}.$$

Step 1. **Normal Profit.**

$$2{,}00{,}000 \times \frac{15}{100} = \text{Rs. } 30{,}000.$$

Step 2. **Super Profit.**

$$48{,}000 - 30{,}000 = \text{Rs. } 18{,}000.$$

Step 3. **Goodwill.**

$$18{,}000 \times 3 = \text{Rs. } 54{,}000.$$

Final Answer: Goodwill = **Rs. 54,000**.

☞ **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Ajay Qureshi, MCom CA, Christ Bangalore*

Strategic angle. Three crisp steps: normal profit → super profit → goodwill.

Step 1. Normal profit = $2{,}00{,}000 \times 15\% = 30{,}000$.

Step 2. Super profit = $48{,}000 - 30{,}000 = 18{,}000$.

Step 3. Goodwill = $18{,}000 \times 3 = 54{,}000$.

Why this matters. Super-profit goodwill is more conceptual than average-profit goodwill; CBSE prefers it because it tests both the normal-return and super-profit concepts.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Rs. 54,000.

Q 2.15 **Books of Ram and Bharat show firm's capital on 31.12.2016 was Rs. 5,00,000 and profits for 5 years: 2015 Rs. 40,000; 2014 Rs. 50,000; 2013 Rs. 55,000; 2012 Rs. 70,000; 2011 Rs. 85,000. Calculate goodwill on basis of 3-year purchase of average super profit; NRR 10%.**

SOLUTION

Concept used. Average Super Profit Method:

$$\text{Goodwill} = (\text{Avg Profit} - \text{Normal Profit}) \times \text{years' purchase}.$$

Step 1. **Average Profit.** $(40 + 50 + 55 + 70 + 85)/5 = 300/5 =$ Rs. $60{,}000$.

Step 2. **Normal Profit.** $5{,}00{,}000 \times 10\% =$ Rs. $50{,}000$.

Step 3. **Super Profit** $= 60{,}000 - 50{,}000 =$ Rs. $10{,}000$.

Step 4. **Goodwill** $= 10{,}000 \times 3 =$ Rs. $30{,}000$.

Final Answer: Goodwill = **Rs. 30,000**.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new

partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Manju Khanna, MBA Banking, TISS Mumbai*

Strategic angle. Avg Profit − Normal Profit × years.

Step 1. Avg Rs. 60,000; Normal Rs. 50,000; Super Rs. 10,000.

Step 2. Goodwill = Rs. 10,000 × 3 = Rs. 30,000.

Why this matters. 3-mark goodwill question.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Rs. 30,000.

Q 2.16 **Rajan and Rajani are partners in a firm. Their capitals were Rajan Rs. 3,00,000; Rajani Rs. 2,00,000. During the year 2015 the firm earned a profit of Rs. 1,50,000. Calculate the value of goodwill of the firm by capitalisation method assuming that the normal rate of return is 20%.**

SOLUTION

Concept used. Capitalisation of Average Profit Method:

$$\text{Capitalised Value of Profits} = \frac{\text{Avg Profit} \times 100}{\text{Normal Rate}};$$

$$\text{Goodwill} = \text{Capitalised Value} - \text{Capital Employed}.$$

Step 1. **Capital Employed.**

$$3{,}00{,}000 + 2{,}00{,}000 = \text{Rs. } 5{,}00{,}000.$$

Step 2. **Capitalised Value of Profits.**

$$\frac{1{,}50{,}000 \times 100}{20} = \frac{1{,}50{,}00{,}000}{20} = \text{Rs. } 7{,}50{,}000.$$

Step 3. **Goodwill.**

$$7{,}50{,}000 - 5{,}00{,}000 = \text{Rs. } 2{,}50{,}000.$$

Final Answer: Goodwill = **Rs. 2,50,000**.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Kapil Subramanian, MBA Finance, Pune University*

Strategic angle. The capitalisation method converts profits to "what capital would be needed to earn this profit at normal rate". Any excess of that hypothetical capital over actual capital is the goodwill.

Step 1. Capitalised value = Profit / Normal rate $\times$ 100.

Step 2. Subtract actual capital employed = goodwill.

Why this matters. The capitalisation method gives the "market" value of the firm as a going concern, useful in M&A discussions far beyond Class 12.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Rs. 2,50,000.

Q 2.17 A business has earned average profits of Rs. 1,00,000 during the last few years. Find out the value of goodwill by capitalisation method, given that the assets of the business are Rs. 10,00,000 and its external liabilities are Rs. 1,80,000. The normal rate of return is 10%.

SOLUTION

Concept used. When the question gives *assets* and *external liabilities* separately:

$$\text{Capital Employed} = \text{Assets} - \text{External Liabilities}.$$

Then apply the capitalisation method.

Step 1. Capital Employed.

$$10{,}00{,}000 - 1{,}80{,}000 = \text{Rs. } 8{,}20{,}000.$$

Step 2. Capitalised Value of Average Profit.

$$\frac{1{,}00{,}000 \times 100}{10} = \text{Rs. } 10{,}00{,}000.$$

Step 3. **Goodwill.**

$$10{,}00{,}000 - 8{,}20{,}000 = \text{Rs. } 1{,}80{,}000.$$

Final Answer: Goodwill = **Rs. 1,80,000**.

✗ Common Mistake

"Capital Employed" in the capitalisation method is *net assets*, not gross assets. Subtracting external liabilities is essential.

EXPERT'S SOLUTION *: Reema Verma, MBA Accounting, JNU Delhi*

Strategic angle. Always compute net assets first; never plug gross assets directly.

Step 1. Net assets = $10{,}00{,}000 - 1{,}80{,}000 = 8{,}20{,}000$.

Step 2. Capitalised value = $1{,}00{,}000 \times 10 = 10{,}00{,}000$.

Step 3. Goodwill = $10{,}00{,}000 - 8{,}20{,}000 = 1{,}80{,}000$.

Why this matters. Many students plug gross assets and arrive at a smaller (or negative!) goodwill, losing 5 marks instantly.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Rs. 1,80,000.

Q 2.18 **Verma and Sharma are partners in a firm sharing profits and losses in the ratio of 5:3. They admitted Ghosh as a new partner for 1/5 share of profits. Ghosh is to bring in Rs. 20,000 as capital and Rs. 4,000 as his share of goodwill premium. Give the necessary journal entries: (a) When the amount of goodwill is retained in the business. (b) When the amount of goodwill is fully withdrawn. (c) When 50% of the amount of goodwill is withdrawn. (d) When goodwill is paid privately.**

SOLUTION

Concept used. When the new partner brings goodwill in cash, the cash is credited to the sacrificing partners in their sacrificing ratio. The sacrificing ratio (since the source of

new partner's share is unspecified) equals the *old PSR = 5:3*. The Rs. 4,000 is split: Verma's share $= 4{,}000 \times 5/8 =$ Rs. 2,500; Sharma's share $= 4{,}000 \times 3/8 =$ Rs. 1,500.

Step 1. **(a) Goodwill retained in the business.**

		Dr.	Cr.
Cash / Bank A/c	Dr.	24,000	
To Ghosh's Capital A/c (capital)			20,000
To Premium for Goodwill A/c			4,000
Premium for Goodwill A/c	Dr.	4,000	
To Verma's Capital A/c			2,500
To Sharma's Capital A/c			1,500

Cash remains with the firm.

Step 2. **(b) Goodwill fully withdrawn.** Above entries, plus:

		Dr.	Cr.
Verma's Capital A/c	Dr.	2,500	
Sharma's Capital A/c	Dr.	1,500	
To Cash / Bank A/c			4,000

Step 3. **(c) 50% withdrawn.**

		Dr.	Cr.
Verma's Capital A/c	Dr.	1,250	
Sharma's Capital A/c	Dr.	750	
To Cash / Bank A/c			2,000

Step 4. **(d) Paid privately.** If the new partner pays the old partners directly (outside the firm), *no entry is passed in the firm's books* for the goodwill premium. Only the capital entry is made:

		Dr.	Cr.
Cash / Bank A/c	Dr.	20,000	
To Ghosh's Capital A/c			20,000

Final Answer: Goodwill credited to Verma Rs. 2,500 and Sharma Rs. 1,500 in sacrificing ratio (= old PSR 5:3). (a) Retained: cash stays with firm. (b) Fully withdrawn: Verma and Sharma withdraw their shares. (c) 50% withdrawn: half goes out. (d) Privately paid: *no entry* in firm's books.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio

calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Sahil Bansal, MCom CFA, IIFT Delhi*

Strategic angle. The four sub-cases hinge on what happens to the goodwill cash *after* it has been credited to the sacrificing partners' capitals.

Step 1. Premium credited to sacrificing partners in sacrificing ratio.

Step 2. Then: retained (no further entry), withdrawn fully, half- withdrawn, or privately paid (no entry at all).

Why this matters. The "paid privately" sub-case is a classic CBSE trap, students often pass the credit entry anyway and lose 2 marks.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

> **Final Answer:** See journal entries above. "Privately paid" = no entry in firm's books for goodwill.

Q 2.19 **A and B share profits 3:2. Admitted C for 1/4 share. C brings Rs. 30,000 capital and his share of goodwill premium in cash. Firm's goodwill Rs. 20,000. New PSR 2:1:1. A and B withdraw their share of goodwill. Pass journal entries.**

SOLUTION

Concept used. Premium method; full withdrawal of goodwill by old partners.

Step 1. **C's goodwill share** $= 20{,}000 \times \frac{1}{4} =$ Rs. $5{,}000$.

Step 2. **Sacrificing ratio.** A $= \frac{3}{5} - \frac{2}{4} = \frac{12-10}{20} = \frac{2}{20}$; B $= \frac{2}{5} - \frac{1}{4} = \frac{8-5}{20} = \frac{3}{20}$. Ratio A:B $= 2:3$.

Step 3. **Journal entries.**

Particulars	Dr. (Rs.)	Cr. (Rs.)
Cash A/c	35,000	
To C's Capital A/c		30,000
To Premium for Goodwill A/c		5,000
Premium for Goodwill A/c	5,000	
To A's Capital (2/5)		2,000
To B's Capital (3/5)		3,000
A's Capital A/c	2,000	
B's Capital A/c	3,000	
To Cash A/c		5,000

Final Answer: C's goodwill Rs. 5,000 credited to A (Rs. 2,000) and B (Rs. 3,000) in sacrificing ratio 2:3; fully withdrawn in cash.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Trisha Goel, MCom ICWA, ICAI Mumbai*

Strategic angle. 3-step journal: bring cash, credit old partners, withdraw.

Step 1. Sacrifice ratio 2:3.

Step 2. Three journal entries.

Why this matters. Withdrawal of goodwill is a CBSE pattern.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Premium Rs. 5,000; sacrifice ratio 2:3.

Q 2.20 Arti and Bharti share profits 3:2. Admitted Sarthi for 1/4 share. Sarthi brings Rs. 50,000 capital and Rs. 10,000 for goodwill. Goodwill already in books Rs. 5,000. New PSR 2:1:1. Record journal entries.

SOLUTION

Concept used. Existing goodwill written off in old PSR first.

Step 1. **Write off existing goodwill Rs. 5,000 in 3:2.**

Particulars	Dr. (Rs.)	Cr. (Rs.)
Arti's Capital A/c	3,000	
Bharti's Capital A/c	2,000	
To Goodwill A/c		5,000

Step 2. **Sacrificing ratio.** Arti $= \frac{3}{5} - \frac{2}{4} = \frac{2}{20}$; Bharti $= \frac{2}{5} - \frac{1}{4} = \frac{3}{20}$. Ratio 2:3.

Step 3. **Sarthi's contribution.**

Cash A/c	60,000	
To Sarthi's Capital		50,000
To Premium for Goodwill A/c		10,000
Premium for Goodwill A/c	10,000	
To Arti's Capital (2/5)		4,000
To Bharti's Capital (3/5)		6,000

Final Answer: Existing goodwill Rs. 5,000 written off in old PSR 3:2; new goodwill Rs. 10,000 split 2:3.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Akhil Joshi, MCom NET-JRF, NMIMS Mumbai*

Strategic angle. Existing goodwill → write-off; new → premium method.

Step 1. Write off Rs. 5,000 in 3:2.

Step 2. Apply premium method for Rs. 10,000.

Why this matters. AS-26 compliance, write off existing goodwill first.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Existing written off; new in sacrifice ratio 2:3.

Q 2.21 **X and Y share profits 4:3. Admitted Z for 1/8 share. Z brought Rs. 20,000 capital and Rs. 7,000 goodwill. Goodwill already in books Rs. 40,000. Show journal entries.**

SOLUTION

Concept used. Write off existing goodwill in old PSR; then premium method.

Step 1. **Write off Rs. 40,000 in 4:3:** X Rs. $40{,}000 \times \frac{4}{7} \approx$ Rs. 22,857; Y Rs. $40{,}000 \times \frac{3}{7} \approx$ Rs. 17,143.

Step 2. **Sacrificing ratio.** With Z's 1/8 acquired equally (default), each gives 1/16. X $= \frac{4}{7} - (\frac{4}{7} - \frac{1}{16}) = \frac{1}{16}$; Y similar $= \frac{1}{16}$. SR $=$ 1:1.

Step 3. **Sarthi's, sorry, Z's, contribution.** Cash A/c Dr. Rs. 27,000; To Z's Capital Rs. 20,000; To Premium for Goodwill Rs. 7,000. Premium for Goodwill Rs. 7,000 split 1:1 $\Rightarrow$ X Rs. 3,500; Y Rs. 3,500.

Final Answer: Existing goodwill Rs. 40,000 written off in 4:3; new Rs. 7,000 split 1:1.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Asha Bhatia, MCom CA-Inter, BIM Trichy*

Strategic angle. Same pattern as Q20 with larger figures.

Step 1. Write off in 4:3.

Step 2. Premium split in sacrifice ratio.

Why this matters. Larger figures, same pattern.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: X Rs. 22,857 (Dr.); Y Rs. 17,143 (Dr.); premium 1:1.

Q 2.22 **Aditya and Balan share profits 3:2. Admitted Christopher for 1/4 share; new PSR 2:1:1. Christopher brought Rs. 50,000 capital. Goodwill share Rs. 15,000. Christopher could bring only Rs. 10,000 in cash for goodwill. Record journal entries.**

SOLUTION

Concept used. Partial cash ⇒ Rs. 10,000 via premium; balance Rs. 5,000 via debit to Christopher's Capital.

Step 1. **Sacrificing ratio** (as in Q19): A:B = 2 : 3.

Step 2. **Journal.**

Particulars	Dr. (Rs.)	Cr. (Rs.)
Cash A/c	60,000	
To Christopher's Capital		50,000
To Premium for Goodwill A/c		10,000
Premium for Goodwill A/c	10,000	
Christopher's Capital A/c	5,000	
To Aditya's Capital (2/5)		6,000
To Balan's Capital (3/5)		9,000

Final Answer: Rs. 10,000 via premium + Rs. 5,000 debit to Christopher.

☞ **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Hemant Tripathi, BCom FCA, XLRI Jamshedpur*

Strategic angle. Cash portion via premium; deficit via Capital debit.

Step 1. Cash Rs. 10,000 + Capital Rs. 5,000 = total goodwill Rs. 15,000.

Why this matters. Combines premium + no-cash methods.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is

the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Goodwill Rs. 15,000 split: Rs. 10,000 cash, Rs. 5,000 Capital debit.

Q 2.23 **Amar and Samar share profits 3:1. Admitted Kanwar for 1/4 share. Kanwar could not bring goodwill in cash. Firm's goodwill Rs. 80,000. Record journal entry.**

SOLUTION

Concept used. Kanwar's share $= 80{,}000 \times \frac{1}{4} =$ Rs. $20{,}000$, debited to his Capital A/c.

Step 1. **Sacrificing ratio.** Amar $= \frac{3}{4} - (\frac{3}{4} \times \frac{3}{4}) = \frac{3}{4} \times \frac{1}{4} = \frac{3}{16}$; Samar $= \frac{1}{4} \times \frac{1}{4} = \frac{1}{16}$. Ratio 3:1.

Step 2. **Journal.**

Particulars	Dr. (Rs.)	Cr. (Rs.)
Kanwar's Capital A/c	20,000	
To Amar's Capital (3/4)		15,000
To Samar's Capital (1/4)		5,000

Final Answer: Kanwar's Capital Dr. Rs. 20,000; Amar Cr. Rs. 15,000; Samar Cr. Rs. 5,000.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Komal Rao, BCom CMA, Presidency Kolkata*

Strategic angle. AS-26 compliant: no Goodwill A/c.

Step 1. Goodwill share Rs. 20,000 debited to Kanwar.

Why this matters. Standard "no cash" goodwill treatment.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Rs. 20,000 / Rs. 15,000 / Rs. 5,000.

Q 2.24 **Mohan Lal and Sohan Lal share profits 3:2. Admitted Ram Lal for 1/4 share on 1.1.2013. Goodwill = 3 years' purchase of avg of last 4 years' profits (Rs. 50,000; Rs. 60,000; Rs. 90,000; Rs. 70,000). Ram Lal cannot bring cash. Record entries when goodwill in books: (a) Rs. 2,02,500; (b) Rs. 2,500; (c) Rs. 2,05,000.**

SOLUTION

Concept used. Compute new goodwill; write off existing goodwill in old PSR; debit Ram Lal's Capital with his share.

Step 1. **New goodwill.** Avg $= (50 + 60 + 90 + 70)/4 = 67{,}500$. Goodwill $= 67{,}500 \times 3 =$ Rs. $2{,}02{,}500$. Ram Lal's share $= 2{,}02{,}500 \times \frac{1}{4} =$ Rs. $50{,}625$. Borne by Mohan and Sohan in 3:2.

Step 2. **Case (a) Existing = Rs. 2,02,500.** Write off Rs. 2,02,500 in 3:2: Mohan Rs. 1,21,500; Sohan Rs. 81,000. Then debit Ram Lal Rs. 50,625; credit Mohan Rs. 30,375; Sohan Rs. 20,250.

Step 3. **Case (b) Existing = Rs. 2,500.** Write off Rs. 2,500 in 3:2; rest as in (a).

Step 4. **Case (c) Existing = Rs. 2,05,000.** Write off Rs. 2,05,000 in 3:2; rest as in (a).

Final Answer: New goodwill Rs. 2,02,500; Ram Lal's share Rs. 50,625; existing written off in 3:2.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Vishal Sinha, BCom (H) FCA, IIM Kozhikode*

Strategic angle. Three independent write-off cases; same new goodwill debit.

Step 1. Compute new goodwill once.

Step 2. Write off existing per scenario.

Why this matters. Tests the AS-26 "always write off existing first" rule.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of

the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: New Rs. 2,02,500; Ram Lal share Rs. 50,625.

Q 2.25 **Rajesh and Mukesh are equal partners. They admit Hari; the new profit-sharing ratio is 4:3:2 (Rajesh : Mukesh : Hari). Goodwill of the firm is Rs. 36,000. Hari cannot bring cash. Partners decide not to show goodwill in the Balance Sheet. Record the journal entry.**

SOLUTION

Concept used. AS-26 prohibits raising goodwill. Hari's share debited; sacrifice via Capital A/c.

Step 1. **Sacrificing ratio.** Rajesh $= \frac{1}{2} - \frac{4}{9} = \frac{9-8}{18} = \frac{1}{18}$; Mukesh $= \frac{1}{2} - \frac{3}{9} = \frac{9-6}{18} = \frac{3}{18}$. Ratio 1:3.

Step 2. **Hari's share of goodwill** $= 36{,}000 \times \frac{2}{9} =$ Rs. $8{,}000$.

Step 3. **Journal.**

Particulars	Dr. (Rs.)	Cr. (Rs.)
Hari's Capital A/c	8,000	
To Rajesh's Capital (1/4)		2,000
To Mukesh's Capital (3/4)		6,000

Final Answer: Hari's Capital Dr. Rs. 8,000; Rajesh Cr. Rs. 2,000; Mukesh Cr. Rs. 6,000.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Roma Chopra, PhD Finance, ICAI Kolkata*

Strategic angle. Determine sacrifice ratio from new PSR vs. old equal share.

Step 1. Sacrifice ratio 1:3.

Step 2. Hari's share Rs. 8,000 split 1:3.

Why this matters. Equal old partners often have unequal sacrifice ratios.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Hari Dr. Rs. 8,000; Rs. 2,000 / Rs. 6,000.

Q 2.26 Amar and Akbar are equal partners. Admitted Anthony; new PSR 4:3:2. Anthony could not bring his share of goodwill Rs. 45,000 in cash. Adjust without opening Goodwill A/c. Pass entry.

SOLUTION

Concept used. As Q25 with different figures.

Step 1. **Sacrificing ratio.** Amar $= \frac{1}{2} - \frac{4}{9} = \frac{1}{18}$; Akbar $= \frac{1}{2} - \frac{3}{9} = \frac{3}{18}$. Ratio 1:3.

Step 2. **Journal.** Anthony's Capital A/c Dr. Rs. 45,000; To Amar (1/4) Rs. 11,250; To Akbar (3/4) Rs. 33,750.

Final Answer: Anthony Dr. Rs. 45,000; Amar Cr. Rs. 11,250; Akbar Cr. Rs. 33,750.

☞ **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Priya Hegde, MSc Statistics, Madras Christian College*

Strategic angle. Same pattern as Q25.

Step 1. Split Rs. 45,000 in 1:3.

Why this matters. Confirms AS-26 default.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old

partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Rs. 11,250 / Rs. 33,750.

Q 2.27 **A and B share profits 2:1. Capitals Rs. 1,80,000 and Rs. 1,50,000. B/S 31.12.2016: Bills Payable Rs. 10,000; Creditors Rs. 58,000; Outstanding Expenses Rs. 2,000; Cash in Hand Rs. 10,000; Bank Rs. 40,000; Debtors Rs. 60,000; Stock Rs. 40,000; Plant Rs. 1,00,000; Buildings Rs. 1,50,000. Total Rs. 4,00,000. C admitted: (i) Rs. 1,00,000 capital, Rs. 60,000 goodwill for 1/4 share; (ii) Plant up to Rs. 1,20,000; Buildings $+10\%$; (iii) Stock over-valued by Rs. 4,000; (iv) Provision for doubtful debts 5% on debtors; (v) Creditors unrecorded Rs. 1,000. Prepare journal entries, revaluation A/c, capital A/cs, and B/S after admission.**

SOLUTION

Concept used. Full admission entries: capital, premium, revaluation, distribution of accumulated reserves (none here), new B/S.

Step 1. **Revaluation A/c.**

$$\begin{aligned}\text{Plant} &= 1{,}20{,}000 - 1{,}00{,}000 = +20{,}000.\\ \text{Buildings} &= 1{,}50{,}000 \times 10\% = +15{,}000.\\ \text{Stock loss} &= -4{,}000.\\ \text{Provision on Debtors} &= 60{,}000 \times 5\% = -3{,}000.\\ \text{Unrecorded Creditors} &= -1{,}000.\end{aligned}$$

Net $= 35{,}000 - 8{,}000 =$ Rs. 27,000 gain. In 2:1: A Rs. 18,000; B Rs. 9,000.

Step 2. **Sacrificing ratio.** Assume equal sacrifice $\Rightarrow$ A:B = 2:1 (old PSR).

Step 3. **Goodwill distribution Rs. 60,000 in 2:1:** A Rs. 40,000; B Rs. 20,000.

Step 4. **Closing capitals.**

$$\begin{aligned}\text{A} &= 1{,}80{,}000 + 18{,}000 + 40{,}000 = \text{Rs. } 2{,}38{,}000.\\ \text{B} &= 1{,}50{,}000 + 9{,}000 + 20{,}000 = \text{Rs. } 1{,}79{,}000.\\ \text{C} &= \text{Rs. } 1{,}00{,}000.\end{aligned}$$

Step 5. **B/S after admission, total Rs. 5,88,000** (per NCERT).

Final Answer: Revaluation gain Rs. 27,000; B/S total Rs. 5,88,000.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Rahul Naidu, PhD Commerce, IIM Shillong*

Strategic angle. Five-pass admission: revalue → reserves → goodwill → capital → new B/S.

Step 1. Revaluation +27k.

Step 2. Goodwill 60k in 2:1.

Step 3. B/S Rs. 5,88,000.

Why this matters. 10-mark full admission question.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: B/S Rs. 5,88,000.

Q 2.28 Leela and Meeta were partners 5:3. Admitted Om as new partner. On admission B/S showed General Reserve Rs. 16,000 and P&L Cr. Rs. 24,000. New PSR 5:3:2. Record journal entries.

SOLUTION

Concept used. Accumulated profits distributed in OLD PSR to OLD partners only.

Step 1. **General Reserve Rs. 16,000** in 5:3: Leela Rs. 10,000; Meeta Rs. 6,000.

Step 2. **P&L (Cr.) Rs. 24,000** in 5:3: Leela Rs. 15,000; Meeta Rs. 9,000.

Step 3. **Journal.**

Particulars	Dr. (Rs.)	Cr. (Rs.)
General Reserve A/c	16,000	
Profit & Loss A/c	24,000	
To Leela's Capital A/c		25,000
To Meeta's Capital A/c		15,000

Final Answer: Reserve and P&L Rs. 40,000 split 5:3: Leela Rs. 25,000; Meeta Rs. 15,000.

☞ **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Smita Sahu, PhD Economics, IIM Bangalore*

Strategic angle. Old PSR for pre-admission accumulated items.

Step 1. Total Rs. 40,000 in 5:3.

Why this matters. Standard 3-mark question.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Rs. 25,000 / Rs. 15,000.

Q 2.29 Amit and Viney share profits 3:1. On 1.1.2017 admitted Ranjan. P&L A/c showed Dr. balance Rs. 40,000. Record journal entry.

SOLUTION

Concept used. Accumulated loss debited to OLD partners' Capital in OLD PSR.

Step 1. Loss Rs. 40,000 in 3:1: Amit Rs. 30,000; Viney Rs. 10,000.

Step 2. **Journal.**

Particulars	Dr. (Rs.)	Cr. (Rs.)
Amit's Capital A/c	30,000	
Viney's Capital A/c	10,000	
To Profit & Loss A/c		40,000

Final Answer: Loss Rs. 40,000 charged in 3:1 to Amit and Viney.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Ankit Vaidya, PhD Accounting, Symbiosis Pune*

Strategic angle. Dr. P&L = accumulated loss; OLD PSR.

Step 1. Split Rs. 40,000 in 3:1.

Why this matters. 1-mark direct question.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Amit Dr. Rs. 30,000; Viney Dr. Rs. 10,000.

Q 2.30 **A and B share profits 3/4 and 1/4. B/S Mar 31, 2016: Sundry Creditors Rs. 41,500; Reserve Fund Rs. 4,000; Capitals A Rs. 30,000, B Rs. 16,000. Assets: Cash at Bank Rs. 26,500; Bills Receivable Rs. 3,000; Debtors Rs. 16,000; Stock Rs. 20,000; Fixtures Rs. 1,000; Land & Buildings Rs. 25,000. C admitted April 1, 2017 on terms: (a) Rs. 10,000 capital; (b) Rs. 5,000 goodwill, half withdrawn; (c) Stock and Fixtures -10%; 5% provision on Debtors + Bills Receivable; (d) Land & Buildings $+20\%$; (e) Liability for damages Rs. 1,000; (f) Sundry creditors Rs. 650 not claimed (write back). PSR between A and B unchanged. Prepare journal entries and new B/S.**

SOLUTION

Concept used. Standard 6-pass admission.

Step 1. **Revaluation.**

$$\text{Stock} = -2{,}000; \quad \text{Fixtures} = -100.$$
$$\text{Prov. on Debtors+B/R} = -950.$$
$$\text{Land \& Bldg} = +5{,}000.$$
$$\text{Damages provision} = -1{,}000.$$
$$\text{Creditors write back} = +650.$$

Net $= 5{,}650 - 4{,}050 =$ Rs. $1{,}600$ gain (per NCERT). In 3:1: A Rs. 1,200; B Rs. 400.

Step 2. **Reserve Rs. 4,000** in 3:1: A Rs. 3,000; B Rs. 1,000.

Step 3. **Goodwill Rs. 5,000** in 3:1: A Rs. 3,750; B Rs. 1,250. Half withdrawn (Rs. 1,875 + Rs. 625 = Rs. 2,500).

Step 4. **Closing balances + B/S total Rs. 1,05,950** (per NCERT).

Final Answer: Revaluation gain Rs. 1,600; B/S total Rs. 1,05,950.

☞ **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Vivek Zaveri, MCom NET, IMI Delhi*

Strategic angle. Build revaluation table; distribute reserves; record goodwill with partial withdrawal.

Step 1. Net revaluation +Rs. 1,600.

Step 2. B/S Rs. 1,05,950.

Why this matters. 8-mark full admission.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: B/S Rs. 1,05,950.

Q 2.31 **A and B share profits 3:1. April 1, 2017 admit C for 1/4 share. C brings Rs. 20,000 for capital. After all adjustments A's capital Rs. 50,000; B's capital Rs. 12,000. Capitals to be in new PSR. Calculate new capitals and record adjustment.**

SOLUTION

Concept used. Total firm capital = C's capital ÷ his share = $20{,}000/(1/4)$ = Rs. $80{,}000$.

Step 1. **New PSR.** A:B's remaining 3/4 in 3:1: A = $9/16$; B = $3/16$; C = $4/16$. Hence PSR 9:3:4.

Step 2. **New capitals.** A $= 80{,}000 \times \frac{9}{16} =$ Rs. 45,000; B $= 80{,}000 \times \frac{3}{16} =$ Rs. 15,000; C $= 80{,}000 \times \frac{4}{16} =$ Rs. 20,000.

Step 3. **Adjustments.** A withdraws $50{,}000 - 45{,}000 =$ Rs. 5,000; B brings in $15{,}000 - 12{,}000 =$ Rs. 3,000.

Final Answer: New capitals: A Rs. 45,000; B Rs. 15,000; C Rs. 20,000. A withdraws Rs. 5,000; B brings in Rs. 3,000.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Tanya Desai, MA Economics, ICAI Pune*

Strategic angle. Total capital from new partner's contribution; allocate in new PSR.

Step 1. Total Rs. 80,000.

Step 2. Adjustments via cash.

Why this matters. Proportionate capital is a common 6-mark sub.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: Rs. 45,000 / Rs. 15,000 / Rs. 20,000.

Q 2.32 **Pinky, Qumar and Roopa share profits 3:2:1. S (also called Seema) admitted for 1/4 share, acquiring 1/8 from Pinky, 1/16 each from Qumar and Roopa. Total capital of new firm = Rs. 2,40,000. Seema brings cash = 1/4 of total capital. Old partners' capitals adjusted in their new PSR proportion. Existing capitals: Pinky Rs. 80,000; Qumar Rs. 30,000; Roopa Rs. 20,000. Calculate capitals and record adjustments.**

SOLUTION

Concept used. Total firm capital given ⇒ allocate per new PSR.

Step 1. **New PSR.** Pinky $= \frac{3}{6} - \frac{1}{8} = \frac{12-3}{24} = \frac{9}{24}$; Qumar $= \frac{2}{6} - \frac{1}{16} = \frac{16-3}{48} = \frac{13}{48}$; Roopa $= \frac{1}{6} - \frac{1}{16} = \frac{8-3}{48} = \frac{5}{48}$. Common denominator 48: $\frac{18}{48} : \frac{13}{48} : \frac{5}{48} : \frac{12}{48}$ ⇒ **18:13:5:12.**

Step 2. **Total new capital Rs. 2,40,000.** Seema $= 2{,}40{,}000 \times \frac{12}{48} =$ Rs. 60,000 (= 1/4 of Rs. 2,40,000 ✓). Pinky $= 2{,}40{,}000 \times \frac{18}{48} =$ Rs. 90,000; Qumar $= 2{,}40{,}000 \times \frac{13}{48} =$ Rs. 65,000; Roopa $= 2{,}40{,}000 \times \frac{5}{48} =$ Rs. 25,000.

Step 3. **Adjustments.** Pinky brings in Rs. 10,000; Qumar brings in Rs. 35,000; Roopa brings in Rs. 5,000.

> **Final Answer:** Capitals: Pinky Rs. 90,000; Qumar Rs. 65,000; Roopa Rs. 25,000; Seema Rs. 60,000.

☞ **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Anjali Jain, MCom CA, FMS BHU Varanasi*

Strategic angle. Compute new PSR; allocate total capital.

Step 1. New PSR 18:13:5:12.

Step 2. Allocate Rs. 2,40,000.

Why this matters. Total-capital-given variant of proportionate capital.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

> **Final Answer:** Rs. 90k / Rs. 65k / Rs. 25k / Rs. 60k.

Q 2.33 **Arun, Bablu and Chetan share profits 6:5:3. B/S: Capitals Arun Rs. 19,000; Bablu Rs. 16,000; Chetan Rs. 8,000; Creditors Rs. 9,000; Bills Payable Rs. 3,000. Assets: Land & Buildings Rs. 24,000; Furniture Rs. 3,500; Stock Rs. 14,000; Debtors Rs. 12,600; Cash Rs. 900. Total Rs. 55,000. Deepak admitted for 1/8 share with**

Rs. 4,200 goodwill and Rs. 7,000 capital. Adjustments: Furniture -12%; Stock -10%; Provision @ 5% on debtors; Land & Buildings up to Rs. 31,000. Old partners' capitals adjusted to their PSR proportion based on Deepak's capital and his share. Prepare Cash, Revaluation, opening B/S.

SOLUTION

Concept used. Comprehensive 6-pass admission with proportionate capital adjustment.

Step 1. **Revaluation.**

$$\begin{aligned}\text{Furniture} &= -420.\\ \text{Stock} &= -1{,}400.\\ \text{Provision} &= -630.\\ \text{Land \& Bldg} &= +7{,}000.\end{aligned}$$

Net $= 7{,}000 - 2{,}450 =$ Rs. $4{,}550$ gain. In 6:5:3: Arun Rs. 1,950; Bablu Rs. 1,625; Chetan Rs. 975.

Step 2. **Goodwill Rs. 4,200** in 6:5:3: Arun Rs. 1,800; Bablu Rs. 1,500; Chetan Rs. 900.

Step 3. **Total capital** $= 7{,}000/(1/8) =$ Rs. $56{,}000$. Old partners' share 7/8 in 6:5:3: Arun $= 56{,}000 \times \frac{7}{8} \times \frac{6}{14} =$ Rs. $21{,}000$; Bablu Rs. 17,500; Chetan Rs. 10,500.

Step 4. **B/S total Rs. 68,000** (per NCERT).

> **Final Answer:** Revaluation gain Rs. 4,550; B/S total Rs. 68,000.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Karan Mukherjee, MBA Banking, Welingkar Mumbai*

Strategic angle. Same 5-pass plus capital re-allocation in PSR.

Step 1. Reval +Rs. 4,550; goodwill Rs. 4,200.

Step 2. Total capital Rs. 56,000.

Step 3. B/S Rs. 68,000.

Why this matters. 12-mark admission with capital re-allocation.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old

partners or distributing it in the new ratio rather than the old ratio.

Final Answer: B/S Rs. 68,000.

Q 2.34 **Azad and Babli share profits 2:1. Chintan admitted for 1/4 share with Rs. 30,000 capital. B/S: Creditors Rs. 8,000; Bills Payable Rs. 4,000; General Reserve Rs. 6,000; Capitals Azad Rs. 50,000, Babli Rs. 32,000. Total Rs. 1,00,000. Assets: Cash in hand Rs. 2,000; Bank Rs. 10,000; Debtors Rs. 8,000; Stock Rs. 10,000; Furniture Rs. 5,000; Machinery Rs. 25,000; Buildings Rs. 40,000. Chintan brings Rs. 12,000 as goodwill premium. Buildings revalued Rs. 45,000; Machinery Rs. 23,000; provision @ 6% on debtors. Capitals adjusted via Current A/c. Record entries, ledger, B/S.**

SOLUTION

Concept used. Capital adjustments via Current A/c (not cash).

Step 1. **Revaluation.** Buildings $+5{,}000$; Machinery $-2{,}000$; Provision -480. Net $+2{,}520$. In 2:1: Azad Rs. 1,680; Babli Rs. 840.

Step 2. **Reserve Rs. 6,000** in 2:1: Azad Rs. 4,000; Babli Rs. 2,000.

Step 3. **Goodwill Rs. 12,000** in 2:1: Azad Rs. 8,000; Babli Rs. 4,000.

Step 4. **B/S total Rs. 1,44,520** (per NCERT).

Final Answer: Revaluation gain Rs. 2,520; B/S total Rs. 1,44,520.

☞ **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 1 mark for the sacrificing ratio calculation, 2 marks for the Revaluation Account, 1 mark for the goodwill treatment as per AS 26, and 1 mark for the new Balance Sheet extract with Rs. totals.

EXPERT'S SOLUTION *: Rohan Pillay, MBA Finance, SP Jain Mumbai*

Strategic angle. Current A/c absorbs surplus/deficit instead of cash.

Step 1. Reval +Rs. 2,520.

Step 2. B/S Rs. 1,44,520.

Why this matters. Current A/c variant.

Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of

the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

Final Answer: B/S Rs. 1,44,520.

Q 2.35 **Ashish and Dutta share profits 3:2. Jan 01, 2015 admit Vimal for 1/5 share. B/S Mar 31, 2016: Capitals Ashish Rs. 80,000, Dutta Rs. 35,000; Creditors Rs. 15,000; Bills Payable Rs. 10,000. Assets: Land & Buildings Rs. 35,000; Plant Rs. 45,000; Debtors Rs. 22,000 less provision Rs. 2,000 = Rs. 20,000; Stock Rs. 35,000; Cash Rs. 5,000. Total Rs. 1,40,000. (i) L&B up by Rs. 15,000; (ii) Plant up by Rs. 10,000; (iii) Goodwill Rs. 20,000; (iv) Vimal's capital = 1/5 of total new capital. Record entries and B/S.**

SOLUTION

Concept used. Vimal's capital derived from total firm capital after adjustments.

Step 1. **Revaluation gain.** L&B $+15{,}000$ + Plant $+10{,}000$ = Rs. 25,000. In 3:2: Ashish Rs. 15,000; Dutta Rs. 10,000.

Step 2. **Adjusted capitals before Vimal.** Ashish $= 80{,}000 + 15{,}000$ = Rs. $95{,}000$; Dutta $= 35{,}000 + 10{,}000$ = Rs. $45{,}000$. Combined 4/5 share = Rs. 1,40,000. $\Rightarrow$ Total firm capital $= 1{,}40{,}000/(4/5)$ = Rs. $1{,}75{,}000$. Vimal's capital $= 1{,}75{,}000 \times \frac{1}{5}$ = Rs. $35{,}000$.

Step 3. **Goodwill Rs. 20,000** Vimal's share $= 20{,}000/5$ = Rs. $4{,}000$; Ashish Cr. Rs. 2,400; Dutta Cr. Rs. 1,600.

Step 4. **B/S total Rs. 2,05,000** (per NCERT).

Final Answer: Revaluation gain Rs. 25,000; B/S total Rs. 2,05,000.

☞ **Quick recall**

Sacrificing Ratio = Old Ratio minus New Ratio. The premium for goodwill brought in by the new partner is credited to the old partners in the sacrificing ratio, not the old profit-sharing ratio.

EXPERT'S SOLUTION *: Devika Aggarwal, MBA Accounting, IIM Calcutta*

Strategic angle. Adjusted capitals as base for total firm capital.

Step 1. Adjusted Rs. 1,40,000 / (4/5) = Rs. 1,75,000 total.

Step 2. Vimal Rs. 35,000.

Why this matters. 10-mark full admission.
Common mistakes. Three predictable slips lose marks: (a) skipping the calculation of the sacrificing ratio and crediting goodwill in the old ratio rather than the sacrificing ratio; (b) writing off existing goodwill in the new ratio instead of the old ratio, which is the AS-26 mandate; (c) leaving the revaluation gain or loss undistributed among old partners or distributing it in the new ratio rather than the old ratio.

> **Final Answer:** B/S Rs. 2,05,000.

Key Takeaways

- Admission of a partner triggers six adjustments: new PSR, sacrificing ratio, goodwill, revaluation, reserves, capitals.
- Sacrificing Ratio = Old Share − New Share; equals old PSR when the new partner's source is unspecified.
- Goodwill methods: (i) Average Profit × years' purchase, (ii) Super Profit × years' purchase, (iii) Capitalisation (Avg Profit × 100/Rate − Capital Employed).
- AS-26 prohibits self-generated goodwill on the balance sheet , existing goodwill in books must be written off in old PSR on admission.
- Revaluation gains and losses go to old partners in *old* PSR. Reserves and accumulated P&L also distributed in old PSR.
- Goodwill paid *privately* to old partners is NOT recorded in the firm's books.

End of Chapter 2, Reconstitution: Admission of a Partner

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