

ANSWER KEY & MARKING SCHEME · CBSE CLASS 12

Reconstitution of a Partnership Firm — Admission of a Partner

Accountancy · Chapter 3 · Use this with the Board Paper · Companion to Quick Drill

HOW TO USE

Attempt the Board Paper first (closed-book, full time). Then come here. For 2-mark+ questions, compare your answer to the model. For 3-4 mark questions, also consult the **Topper Templates** below — these show the exact step-by-step structure that scores full marks per CBSE marking-scheme conventions.

MODEL ANSWERS · BOARD PAPER**Section A — VSA (1 mark × 4)****Q1. How is the sacrificing ratio calculated on admission of a partner? [1 mark]**

Ans: Sacrificing ratio = Old share – New share, for each old partner.

Q2. In whose ratio is the premium for goodwill credited to the old partners? [1 mark]

Ans: In the sacrificing ratio of the old partners.

Q3. State the treatment of self-generated goodwill under AS-26. [1 mark]

Ans: Self-generated goodwill is not recorded in the books; only purchased goodwill may be recorded.

Q4. In which ratio is profit on revaluation distributed on admission of a partner? [1 mark]

Ans: Among the old partners in their old profit-sharing ratio.

Section B — SA-I (2 marks × 3)**Q5. A and B are partners sharing profits in the ratio 3 : 2. They admit C for a 1/4 share which he takes from A and B in their old ratio. Calculate the new profit-sharing ratio. [2 marks]**

Ans: C's share = 1/4. Remaining 3/4 split in 3:2. A = $3/4 \times 3/5 = 9/20$; B = $3/4 \times 2/5 = 6/20$; C = $1/4 = 5/20$.
New ratio A : B : C = 9 : 6 : 5.

Q6. X and Y share profits 3 : 2 and admit Z for 1/4 share. Z brings ₹ 20,000 as premium for goodwill in cash; the sacrificing ratio of X and Y is 3 : 2. Pass the journal entry distributing the premium. [2 marks]

Ans: Premium for Goodwill A/c Dr ₹ 20,000; To X's Capital A/c ₹ 12,000 ($20,000 \times 3/5$); To Y's Capital A/c ₹ 8,000 ($20,000 \times 2/5$). (Being premium distributed in sacrificing ratio 3:2.)

Q7. On admission, the following are revalued: Stock reduced by ₹ 2,000; Building appreciated by ₹ 15,000; a provision for doubtful debts of ₹ 1,000 created; outstanding repairs ₹ 3,000 brought into the books. Compute the profit or loss on revaluation. [2 marks]

Ans: Gains (credit): Building ₹ 15,000. Losses (debit): Stock ₹ 2,000 + Provision ₹ 1,000 + Outstanding repairs ₹ 3,000 = ₹ 6,000. Profit on revaluation = $15,000 - 6,000 = ₹ 9,000$ (transferred to old partners in old ratio).

Section C — SA-II (3 marks × 3)**Q8. Distinguish between the sacrificing ratio and the gaining ratio on any three bases. [3 marks]**

Ans: (1) MEANING: Sacrificing ratio = ratio in which old partners give up share for the new partner; Gaining ratio = ratio in which continuing partners take over the retiring/deceased partner's share. (2) EVENT: Sacrificing ratio is computed on ADMISSION; gaining ratio on RETIREMENT or DEATH. (3) FORMULA: Sacrificing ratio = Old – New; Gaining ratio = New – Old. (4) USE: Sacrificing ratio distributes the incoming partner's goodwill premium to old partners; gaining ratio determines who compensates the outgoing partner for goodwill.

Q9. P and Q are partners with capitals ₹ 1,00,000 and ₹ 60,000 (after all adjustments). They admit R for 1/4 share; R brings ₹ 80,000 as capital but no goodwill premium. Calculate the hidden goodwill and R's share of it. Sacrificing ratio of P : Q is 3 : 2. [3 marks]

Ans: Total implied capital of the firm = R's capital ÷ R's share = 80,000 ÷ (1/4) = ₹ 3,20,000. Actual combined capital = 1,00,000 + 60,000 + 80,000 = ₹ 2,40,000. Hidden goodwill = 3,20,000 – 2,40,000 = ₹ 80,000. R's share = 80,000 × 1/4 = ₹ 20,000. Adjustment: R's Capital A/c Dr ₹ 20,000; To P's Capital A/c ₹ 12,000 (3/5); To Q's Capital A/c ₹ 8,000 (2/5).

Q10. Explain the treatment on admission of: (i) goodwill already appearing in the old Balance Sheet, (ii) a general reserve, and (iii) the premium for goodwill brought in cash. [3 marks]

Ans: (i) Existing goodwill in the old Balance Sheet is WRITTEN OFF among the old partners in their OLD ratio before any other adjustment (AS-26 forbids carrying self-generated goodwill). (ii) A general reserve belongs to past operations → distributed among OLD partners in OLD ratio. (iii) Premium for goodwill brought in cash is credited to the OLD (sacrificing) partners in their SACRIFICING ratio; no goodwill asset is raised.

Section D — Long Answer (Numerical) (8-13 marks)

Q11. A and B are partners sharing profits in the ratio 3 : 2. Their Balance Sheet as on 31 March 2025 stood at — Liabilities: Creditors ₹ 30,000; General Reserve ₹ 25,000; Capital A/cs: A ₹ 1,00,000, B ₹ 60,000 (total ₹ 1,60,000). Total ₹ 2,15,000. Assets: Building ₹ 80,000; Stock ₹ 40,000; Debtors ₹ 35,000; Cash ₹ 60,000. Total ₹ 2,15,000. C is admitted for a 1/4 share on the following terms: (a) C brings ₹ 60,000 as capital and ₹ 20,000 as premium for goodwill in cash. (b) Building is appreciated by ₹ 15,000; Stock is reduced by ₹ 2,000. (c) A provision for doubtful debts of ₹ 1,000 is created on Debtors. (d) An outstanding repairs liability of ₹ 3,000 is recorded. Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm. [13 marks]

Ans: WORKING — Sacrificing ratio: C takes 1/4 from A and B in old ratio 3:2, so sacrificing ratio = old ratio = 3:2. New ratio A:B:C = 9:6:5. REVALUATION ACCOUNT: Debit — Stock ₹ 2,000, Provision for doubtful debts ₹ 1,000, Outstanding repairs ₹ 3,000 (total ₹ 6,000). Credit — Building ₹ 15,000. Profit on revaluation = 15,000 – 6,000 = ₹ 9,000 → A ₹ 5,400 (3/5), B ₹ 3,600 (2/5). GENERAL RESERVE ₹ 25,000 → A ₹ 15,000 (3/5), B ₹ 10,000 (2/5). PREMIUM ₹ 20,000 (sacrificing ratio 3:2) → A ₹ 12,000, B ₹ 8,000. PARTNERS' CAPITAL ACCOUNTS — A: 1,00,000 + 5,400 + 15,000 + 12,000 = ₹ 1,32,400. B: 60,000 + 3,600 + 10,000 + 8,000 = ₹ 81,600. C: ₹ 60,000. Total capitals = 1,32,400 + 81,600 + 60,000 = ₹ 2,74,000. CASH = opening 60,000 + C's capital 60,000 + premium 20,000 = ₹ 1,40,000. BALANCE SHEET as on 31 March 2025 — LIABILITIES: Creditors ₹ 30,000 + Outstanding repairs ₹ 3,000 + Capitals (A 1,32,400 + B 81,600 + C 60,000 = 2,74,000) = ₹ 3,07,000. ASSETS: Building (80,000 + 15,000) ₹ 95,000 + Stock (40,000 – 2,000) ₹ 38,000 + Debtors (35,000 – 1,000 provision) ₹ 34,000 + Cash ₹ 1,40,000 = ₹ 3,07,000. ✓ Totals match at ₹ 3,07,000.

Q12. Explain the need for reconstitution of a partnership firm on the admission of a new partner, and the various matters that require adjustment at that time. [8 marks]

Ans: NEED FOR RECONSTITUTION: When a new partner is admitted (with the consent of all existing partners under Section 31 of the Indian Partnership Act 1932), the existing partnership agreement comes to an end and a new agreement begins, although the business continues. The incoming partner acquires a right to share in future profits and in the assets of the firm, so the books must be squared fairly between old and new partners. MATTERS REQUIRING ADJUSTMENT: (1) NEW PROFIT-SHARING RATIO and the SACRIFICING RATIO — the old partners' shares are reduced to make room for the newcomer; the sacrifice is computed as Old – New. (2) GOODWILL — the new partner compensates the old (sacrificing) partners for the share of profit they surrender, through premium in cash or the hidden-goodwill route; under AS-26 only purchased goodwill is recorded and self-generated goodwill is not raised. (3) REVALUATION OF ASSETS AND REASSESSMENT OF LIABILITIES — assets and liabilities are restated at current values through a Revaluation Account so that pre-admission profit or loss stays with the old partners in the old ratio. (4) ACCUMULATED RESERVES, PROFITS AND LOSSES — distributed among the old partners in the old ratio, as they were earned/incurred under the old agreement. (5) ADJUSTMENT OF CAPITALS — partners' capitals may be made proportionate to the new profit-sharing ratio, the difference being brought in or withdrawn.

★ TOPPER TEMPLATE — 6-8 mark: 'Prepare Revaluation A/c, Partners' Capital A/cs and the Balance Sheet of the reconstituted firm on admission.'

Annual

Step 1 [1 mark]	New ratio + sacrificing ratio (working note)	Compute new share of each partner. Sacrificing ratio = Old share – New share for each old partner. Show on a common denominator in a labelled working note.
Step 2 [2 marks]	Revaluation Account	Debit losses (asset decreases, liability increases, unrecorded liabilities, provisions created). Credit gains (asset increases, liability decreases, unrecorded assets). Transfer balancing profit/loss to OLD partners' capital A/cs in OLD ratio.
Step 3 [1 mark]	Distribute reserves + goodwill premium	Reserves / accumulated P&L → old partners in OLD ratio. Goodwill premium brought by new partner → sacrificing partners in SACRIFICING ratio (Premium A/c Dr, old partners' capital Cr).
Step 4 [2 marks]	Partners' Capital Accounts	Open columnar capital accounts. Credit: opening capital, share of revaluation profit, share of reserves, goodwill premium, new partner's capital brought in. Debit: revaluation loss, accumulated losses, goodwill written off, drawings. Balance c/d each.
Step 5 [2 marks]	Balance Sheet of reconstituted firm	Liabilities: revised partners' capitals + revised liabilities (after reassessment) + outstanding items. Assets: revised asset values (after revaluation) + cash (old balance + new partner's capital + premium – amounts withdrawn). Totals MUST match.

COMMON LOSS OF MARKS:

- Sharing revaluation profit / reserves in NEW ratio instead of OLD ratio.
- Crediting goodwill premium in old ratio instead of SACRIFICING ratio.
- Wrong direction in Revaluation A/c (asset increase debited).
- Forgetting to add new partner's capital + premium to cash on the assets side.
- Mismatched Balance Sheet totals — auto –1 mark.

★ TOPPER TEMPLATE — 3-4 mark: 'Compute the new profit-sharing ratio and the sacrificing ratio.'

Most years

Step 1 [1 mark]	State old shares + new partner's share	Write each old partner's old share and the share surrendered to / taken by the new partner. Bring all to a common denominator.
Step 2 [2 marks]	Compute new shares	New share of each old partner = Old share – Share sacrificed. New partner's share = sum of sacrifices. Express as a single ratio over the common denominator.
Step 3 [1 mark]	Sacrificing ratio + state	Sacrificing ratio = Old share – New share for each old partner. State: 'New ratio = a : b : c; Sacrificing ratio = x : y.'

COMMON LOSS OF MARKS:

- Not using a common denominator → arithmetic slip.
- Confusing sacrificing ratio with old ratio when sacrifice is unequal.
- Forgetting that new partner's share = total sacrifice of old partners.

★ TOPPER TEMPLATE — 3-4 mark: 'Journal entries for treatment of goodwill when the new partner brings premium in cash.'

Most years

Step 1 [1 mark]	Capital + premium brought in	Cash/Bank A/c Dr (capital + premium); To New Partner's Capital A/c (capital); To Premium for Goodwill A/c (premium).
Step 2 [2 marks]	Distribute premium in sacrificing ratio	Premium for Goodwill A/c Dr; To Old (sacrificing) Partners' Capital A/cs (in SACRIFICING ratio). Show each partner's amount.
Step 3 [1 mark]	Any amount withdrawn by old partners	If old partners withdraw the premium: Old Partners' Capital A/cs Dr; To Cash/Bank A/c. State the AS-26 note: self-generated goodwill is not raised as an asset.

COMMON LOSS OF MARKS:

- Crediting premium in old ratio rather than sacrificing ratio.
- Raising goodwill as an asset (violates AS-26).
- Omitting the withdrawal entry when the question says old partners take the cash.

MARKING SCHEME — GENERAL NOTES

- Working notes for new ratio, sacrificing ratio, revaluation and goodwill are MANDATORY (auto –1 mark if missing).
- Sharing revaluation profit / reserves in the NEW ratio instead of OLD ratio is the single most-deducted error.
- Crediting goodwill premium in old ratio rather than sacrificing ratio loses the goodwill marks.
- Mismatched Balance Sheet totals = auto –1 mark even if everything else is right.

· State final figures with ₹ symbol + comma format (e.g., ₹ 3,07,000).