CHANGE IN PROFIT SHARING RATIO AMONG THE EXISTING PARTNERS

Meaning of Reconstitution	Whenever old partnership deed comes to an end and a
of Partenrship firm	new partnership deed is formed, it is called reconstitu- tion of partnership firm, In other words any change in existing agreement of partnerships is "Reconstitution of Partneship"vfvcvc c
When reconstitution of part-	Reconstitution of partnership takes place in the follow-
nership takes place	ing circumstances:
	1. Change in proft sharing ratio among existing part-
	ners.
	2. Admission of a new partner
	3. Retirement of an existing partner
	4. Death of a parnter
	5. Amalgamation of two Partnership firm
What is the effect of change	It leads to dissolution of partnership and not the disso-
in profit sharing ratio?	lution of the firm because the existing partnership
	agreement ends and the new agreement comes into ef-
	fect.
Issues which are to be dealt	1. Determination of sacrificing ratio and gaining ratio.
with at the time of change in	2. Accounting treatment of Goodwill.
profit sharing ratio	3. Accounting treatment of Reserves accumulated prof-
	its or losses.
	4. Revaluation of Assests and reassessment liabilities.
TTT1 (1 1	5. Adjustment of Capital
Why do partner's change	This may happen on account of a change in the existing
their profit sharing ratio?	partner's role in the firm
Sacrificing Ratio	The ratio in which one or more partners of the firm
	agree to sacrifice their share of profit in favour of one
	or more partners of the firm.
	Sacrificing Ratio = Old Rato - New Ratio
When is Sacrificing ratio	1. In case of change in Profit sharing ratio
computed?	2. If there is admission of a new partner
Gaining Ratio	It is ratio in which one or more partners gain share of
	profit as a result of sacrificed share in profit by one or
	more partners of the firm
	Gaining Ratio = New Rato - Old Ratio
L	

NEW PROFIT SHARING RATIO	The ratio in which the partners agree to
	share the profits in furture on reconstitu
	tion is known as now sharing ratio
	tion is known as new sharing ratio.
TREATMENT OF GOODWILL IN	A) WHEN GOODWILL IS ADJUSTED
CASE OF CHANGE IN PROFIT	THROUGH PARTNER'S CAPITAL
SHARING RATIO	ACCOUNTS
	i) In case of Fluctuating Capitals
	Gaining Partner's Capital Accounts Dr.
	To Sacrificing Partner's Capital Ac-
	counts (Being adustment made for good-
	will on change in profit sharing ratio)
	ii) In case of Fixed Capitals
	Gaining Partner's Current Accounts Dr.
	To Sacrificing Partner's Current Ac-
	counts (Being adustment made for good-
	will on change in profit sharing ratio)
	B) WHEN GOODWILL IS RAISED &
	WRITTEN OFF
	i) In case of Fluctuating Canitals
	Goodwill Account Dr
	To Partner's Capital Accounts
	(Being the goodwill raised among part-
	ners in old ratio)
	Partner's Capital Accounts Dr.
	To GoodwillAccount
	(Being the goodwill written off among
	partners in new ratio)
	II) IN Case of Fixed Capitals
	GoodWill Account D.r To Portnor's Current Accounts
	(Being the goodwill raised among
	nartner's in old ratio)
	Partner's Current Accounts Dr. To Good-
	will Accout
	(Being the goodwill written off among
	partners in new ratio)
	r

	C) WHEN EXISTING GOODWILL IS
	All Partner's Capital Accounts/Current A/a
	Dr
	To Goodwill Account
	(Being the goodwill written off among part-
	ners in old ratio)
TREATMENT OF RESERVES ACCU-	Accumulate Profits include credit balance of
MULATED PROFITS & LOSSES	D& L A/a Concrol Deserves, Dessava Fund
	F& LA/C, General Reserves, Resseve Fund,
	Eluctration Deserve ate
	A commulated L assas include debit balance of
	Reculturated Losses include debit balance of
	A drastigene ant Sugar ange A /c
	Advertisement Suspense A/C.
	A) WHEN QUESTION IS SILENT OR
	WHEN ACCUMULATED PROFITS OR
	LUSSES AKE TO BE DISTRIBUTED
	OR WHEN ACCUMULAIAED PROF-
	IIS OR LOSSES ARE NOT TO BE
	SHOWN IN NEW BALANCE SHEET
	Contengency Reserve A/c Dr.
	Reserve Ac/ Dr.
	P & LA/c (Cr. Balance) Dr.
	Workmen Compensation Reserve
	A/c Dr.
	Investment Fluctuation Reserve
	A/c Dr.
	To all Partner's Capital A/cs
	(Being reserves & accumulate
	profits transferred to all partners
	in old ratio)
	All Partners Capital A/c Dr. To P& LA/c (Dr
	Balance) To Defered Revenue exp. A/c
	B) WHEN ACCUMULATED PROFITS
	OR LOSSES ARE NOT TO BE DIS-
	TRIBUTED OR WHEN ACCUMU-
	LATAED PROFITS OR LOSSES ARE
	TO BE SHOWN IN NEW BALANCE
	SHEET AT SAME BOOK
	VALUE
	Calculate the net effect of Reserfves, Accu-
	mulate Profits & Losses- ₹
	RESERVES xx
	ACCUMULATED PROFITS xx
	Less ACCUMULATED LOSSES (xx)
	Net Effect +/-
	···· · · · · · · · · · · · · · · · · ·

	i) In case the Net Effect is Positive		
	Gainng Partner's Capital/Current Ac-		
	counts Dr.		
	To Sacrificing Patner's Capital/Cur-		
	rent Accounts		
	ii) In case the Net Effect is Negative		
	Sacrificing Partner's Capital/Cur-		
	rent/Accounts Dr.		
	To Gaining Patner's Capital/Current		
	Accounts		
TREATMENT OF WORK	MEN COMPENSATION RESERVE		
CASE 1 When there is no Claim	Workmen Compensation Reserve A/c Dr.		
	To Partner's Capital/Current A/cs		
CASE 2 WCC = WCR (equal	Workmen Compensation Reserve A/c Dr.		
	To Provision's for workmen Compensation		
	Claim A/c		
CASE 3 WCC < WCR (less)	Workmen Compensation Reserve A/c Dr.		
	To Provision for workmen Compensation		
	Claim A/c		
	To Partner's Capital/Current A/cs		
CASE 4 WCC > WCR (more)	(i) Workmen Compensation Reserve A/c Dr.		
	Revaluation A/c Dr.		
	To Provision for Workmen Compensation		
	Claim A/c		
	(ii) Partner's Capital/Current A/cs Dr.		
	To Revaluation A/c		

WCC stands for WORKMEN COMPENSATION CLAIM WCR stands for WORKMEN COMPENSATION RESERVE

TREATMENT OF INVESTMENT FLUCTUATION RESERVE

CASE 1 BV = MV	Investment Fluctuation Reserve A/c Dr. To partner's Capital/Current A/cs
CASE 2 BV < MV	Investment Fluctuation Reserve A/c Dr. To Partner's Capital/Current A/cs (Entire reserve distributed in partner's old ratio) Investments A/c Dr. To Revaluation A/c (For increase in value of Investments) Revaluation A/c To Portner's Capital/Current A/ca Dr.

CASE 3 $BV > MV$	1) When Fall in value is less than investment Fluc-				
	tuation Reserve				
	Investment Fluctuation Reserve A/c Dr.				
	To Investment A/c (BV-MV)				
	To Partner's Capital/Current A/cs	(In old ratio)			
	ii) When Fall in vaue is equal to Investment Fluc-				
	tuation Reserve				
	Investment Fluctuation Reserve A/c Dr.				
	To investment A/c				
	iii) When Fall in value is more than	Investment			
	Fluctuation Reserve				
	Investment Fluctuation Reserve A/c	Dr.			
	Revaluation A/c	Dr.			
	To Investment A/c				
	Partner's Capital/Current A/cs	Dr.			
	To Revaluation A/c				
BV star	ds for Book value of Investments				

Mv Stands for Market vale of Investments

Revaluation A/c

REVALUATION OF ASSETS & REASSESSMENT OF LIABILITIES

It is a nominal account & prepared to revalue assets & reassess liabilities. WHEN QUESTION IS SILENT OR

A) WHEN REVISED VALUES OF ASSETS & LIA-BILITIES ARE TO BE RECORDED

Revaluation A/c is prepared & Profit/Loss of revaluation is distributed among old partner's in old ratio

Dr.	TCV4		Cr.
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
to Asset (decrease in value)	XXX	By Asset (increase in value)	XXX
To Liability (in- crease in value)	XXX	By Liability (de- crease in value)	XXX
To Unrecorded lia- bility	XXX	By Unrecorded asset By Loss (transferred	XXX
To Profit (trans- ferred to partner's capital account in old ratio	XXX	to partner's capital account in old ratio)	XXX
Total	xxx	Total	XXX

Dr

WHEN REVISED VALUES OF ASSETS & LIABILITIES ARE NOT TO BE RECORDED (Assets & Liabilities will appear in Balnace Sheet at old Value)

Calculate the net effect of revaluation	₹
Increase in the value of Assests	XX
Add Decrease in the value of liabilities	XX
Less Decrease in the value of Assets	(xx)
Less Increase in the vaule of liablities	(xx)

Net Effect on Revaluation G

For Gaining Partner =Share Gained x Net Effect on Revaluation For Sacrificing Partner = Share Sacrificed x net Effect on Revaluation

i) In case the Net Effect is Gain on revaluation Dr. Gaining Partner's Capital/Current Accounts Dr To Sacrificing Partner's Capital/Current Accounts
 ii) In case the Net Effect is loss on revaluation Sacrificing Partner's Capital/Current Accounts Dr.

CHAPTER -4 RECONSTITUTION OF PARTNERSHIP SACRIFICING & GAINING RATIO

Illustration 1) A, B & C ar Partners sharing profits in the ratio of 5:3:2. They decided to share profits in the future in the ration of 2:2:1 w.e.f 1st April 2019. Calculate Sacrificing & Gaining Ratio?

Solution: Sacrificing ratio = Old ratio - New ratio - <u>2</u> 5 Sacrifice <u>5-4</u> = = A = 51010 $=\frac{3}{10}-\frac{2}{5}$ В <u>-1</u> Gain 10 10 $C = \frac{2}{10} - \frac{1}{5}$ 2-2 0 10 TREATMENT OF GOOD WILL

Illustration 2. A, B & C are partners sharing profit & losses in the ratio of 5:4:1. It was decided that w.e.f. 15th April 2019 . The profit sharing ratio will be 9:6:5. Goodwill is to be valued at 2 years purchase of average profits of last 3 years profits. The profit for 2016-17, 2017-18 & 2018-19 were -₹ 42,000, `-₹ 48,000 &-₹ 60,000 respectively. Goodwill appears in the books at ` 10,000. Pass necessart journal entry for the treatment of goodwill. Also give journal entries if goodwill is raised & writeen off.

Solution WHEN GOODWILL IS ADJUSTED THROUGH PARTNER'S CAPITAL						
Average Pro	ofit =	₹	<u>42,000</u>	0 <u>₹ 480</u>	<u>00 + ₹_60,00</u>	<u>)0</u>
Coo	davill			3	=	₹ 50,000
Good	=	₹	50,000	х	2	=
						< 1,00,000
Sacrificir	ng/ Gaining Ra	tio				
$A = \frac{5}{10} - $	<u>9</u> 20 =	<u>10-9</u> 20	=	<u>1</u> 20	(Sacrifice	e)
$B = \frac{4}{10} -$	<u>6</u> 20 =	<u>8-6</u> 20	=	<u>2</u> 20	(Sacrific	e)
$C = \frac{1}{10}$	$-\frac{5}{20} =$	<u>2-5</u> 20	=	<u>- 3</u> 20	(Gair	n)
Date	Partic	ulars		1.f	Dr.]
1st April 2019	A' Capital B's Capita C's Capita	A/c Dr al A/c Dr al A/c Dr			5000 4000 1000	
	To Goodwill A isting goodwil	/c (Bein ll writter	g ex- 1 off)			10,000
Journal						
Date	Partic	ulars		l.f	Dr.	
1st April 2019	C's Capita To A's Ca To B's Ca (Being good due to change	al A/c Dr pital A/c pital A/c will adju in profit atio)	: sted shar-		15000	5,000 10,000

WHEN GOODWILL IS RAISED & WRITTEN OFF Journal Date Particulars L.F Dr. 1st April 1,00,000 Goodwill A/c Dr. 2019 TO A's Capital A/c 50,000 To B's Capital A/c 40,000 To C's Capital A/c 10,000 (Being goodwill raised in old profit sharing ratio) 1st April A's Capital A/c Dr. 45,000 2019 B's Capital A/c Dr. 30,000 C's Capital A/c Dr. 25,000 To goodwill A/c 1,00,000 (Being goodwill written off in new profit sharing ratio)

TREATMENT OF RESERVES & LOSSES

Illustration 3) X, Y, Z are partners sharing profits & losses in the ratio of 5:3:2. They decide to share future profits & losses in the ratio of 2:3:5 w.e.f 1st April 2019 Following items appear in the balance sheet as on 31/3/18 General Reserve 75,000 Workmen Compensation Reserve ₹ 12,500

Profit & Loss Account ₹ 37,500 Advertisement Suspense A/c (Dr), ₹ 50,000

ii) Pass necessary journal entries

iii). Show the effect without affecting their book values by passing an adjustment entry.

Solution (i)

Date	Particulars	l.f	Dr.	Cr.
1st April	General Reserve A/c Dr.		75,000	
2019	Workmen Compensation		12,500	
	Reserve A/c Dr.		37,500	
	Profit & Loss Account Dr.			
	To X's Capital A/c			62,500
	To Y 's Capital A/c			37,000
	To Z 's Capital A/c			25,000
	(Being the reserves & prof-			
	its transferred to odd part-			
	ners int their old ratio)			
1st April	X's Capital A/c Dr.		25,000	
2019	Y s Capital A/c Dr.		15,000	
	Z's Capital A/c Dr.		10,000	
	To advertisement Suspense			
	A/c			50,000
	(Being advertisement sus-			
	pense transferred to lod			
	partners in old ratio)			
ii)	ADJUSTMENT ENTR	Y		
•				

Journal

1st.	April 20	019	Z's Capital A To x's Capita (Being adjus madr for ne serves & los	/c Dr. al A/c tment tre- sses)	22,500		22,500
# H val	lere, Re ues	serves &	Losses will	appear in B	alance Sheet	of New Fi	rm as their old
We	orking N	lotes					
1) Calculation of Net Effect of Reserves & Profit General Reserve 75,000 Workmen Compensation Resrve 12500 Profit & Loss A/c <u>37500</u> Less: Advertisement Suspense A/c (Dr). (50,000) 2) Calculation of Sacrificing/Gaining Ratio							
X +		<u>5</u> 10	-	<u>2</u> 10	=	<u>3</u> 10	Sacrifice
Y	=	<u>3</u> 10	-	<u>3</u> 10	=	0	Sacrifice
Z	=	<u>2</u> 10	-	<u>5</u> 10	=	<u>-3</u> 10	Gain
			REVAL	JATION (OF ASSET	S & LIAE	BILITIES
Illus	Illustration 4) Pivush Pooia & Praveen are partners sharing Profits						

Illustration 4) Piyush, Pooja & Praveen are partners sharing Profits &losses in the rates of 3:3:2. Their balance sheet a on 31st March 2019 was as follows-

Liatilities		(₹)	Assets	(₹)
Sunday credito	ors Bank	48,000	Cash at bank	74,000
Bank Loan		72,000	Sundry debtors	88,000
Capital :-			Stock	2,40,000
Piyush -	4,00,000	10,00,000	Machinery	3,18,000
Pooja -	3,00,000		Building	4,00,000
Praveen -	3,00,000			
		11,20,000		11,20,000

Partners, decided that with effect from April 1, 2019, they would share profits and losses in the ratio of 4:3:2. It was agreed that::

(i) Stock be valued at (₹) 2,20,000.

(ii) Machinery is to be depreciated by 10%

(iii) A provision for doubtful debts is to be made on debrots at 5%

(iv) Building is to be appreciated by 20%.

(v) A liability for (₹) 5,000 included in sundry creditors is not likely to arise. Partners agreed that the revised value are to be recorded in the books. You are required to prepare journal, revaluation account, partner's capital Accounts and revised Balance Sheet.

Date	Particulars					L.F.	Debit (₹)	Credit (₹	
1st April 2019	Revaluation To Stock To Machine To Provisior (Revaluatio	A/c ry n for doubt n of assets	ful de	Di ebts /	r. A/c		56,200	20,000 31,800 4,400	
1st April 2019	Building A/ Sundry crec To R (Revaluation	c litor A/c evaluation n of assets	n A/c s and	Di Di liabi	r. r. lities))	80,000 5,000	85,000	
1st April 2019	Revalutin A To F To F To F (Profit on re	Vc Piyush's ca Pooja's ca Praveen's evaluatior	apita pital capi า)	D II A/c A/c tal A	r. ; /c		28,000	10,800 10,800 7,200	
Dr		R	lelal	uatio	on A	ccoun	t	•	
	Liabili	ties		(₹)		Assets	(₹	()
To Sto To Ma To Pro To pro accour Piyush Pooia	ck chinery ovision for do fits transferr nts of: 1	oubtful deb ed to capi 10,800	ots tal 0	20.,(31,8 4,40	000 00 00	By Bui By Sur tors	lding ndry credi-	80,000 5,000	
Prave	ən	<u>7,200</u>	0	20,0 85,0	00	-		85,000	
		Pa	artne	er's	Capi	tal A/c	s	I	
ticulars	s Piyush	Pooja	Prav	een	Parti	culars	Piyush	Pooja	Pravee
balanco	e 4,10,800	3,10,800	3,07	,200	By b by Reva A/c	al. b/d aluation	4,00,000 10,800	3,00,000 10,800	3,00,00 7,200
	4,10,800	3,10,800	3,07	,200			4,10,800	3,10,800	3,07,20

As on April 1,2019

Liabilities		(₹)	Assets		(₹)	
Sundry crediti	ors	43,000	Cash at bank		74,000	_
Bank Loan		72,000	Sundry debtors	88,000	83,600	
Capital accon	ts:		Less: provision 5%	<u>(4,400</u>)		
Piyush 4,10,8	00		Stock		2,20,000	
Pooja	3,10,800		Machninery		2,86,200	
Praveen	307200	1028800	Building		4,80,000	
		11 10 000			11 10 000	
		11,43,800			<u>11,43,800</u>	

Ilustration 5- If in the above Illustration No-4, Partners agread that The revised values of assets & Liabilities are not to be shown the books. You are required to record the effect by passing a single journal entry. Also prepare the revised balance Sheet

Journal

Date	Particulars		L.F.	Debit	Credit
				(₹)	(₹)
2019	Piyush's capital A/c	Dr.		2,000	
Apr.1	To Pooja's capital A/c				1,200
	To Praveen's Capital A/c				800
	(Adjustment for profit on revaluation)				

Capital Accounts

Dr.

Particulars	Piyush	Pooja	Praveen	Particulars	Piyush	Pooja	Praveen
To Pooja's	1,200			By Balance	4,00,000	3,00,000	3,00,000
Capital A/c				b/d			
To Praveen				By Piyush's		1,200	800
Capital A/c				Capital A/c			
To Balance c/d	800 <u>398,000</u> 4.00.000	<u>3,01,200</u> 3,01,200	<u>3,00,800</u> <u>3,00,800</u>		<u>4.00.000</u>	3.01.200	<u>3.00.800</u>

Balance Sheet As on April 1 ,2019 Balance Sheet of Piyush, Pooja and Praveen

Liabilities		(₹)	Assets	(₹)
Sundry credit	iors	48,000	Cash at bank	74,000
Bank Loan		72,000	Sundry debrors	88,000
Capital accou	int		Stock	2,40,000
Piyush	3,98,000		Machinery	3,18,200
Pooja	3,01,200		Building	4,6000
Praveen	3,00,800	10,00,000		
		11,20,000		<u>11,20,000</u>

	W.Note-1 Calc Building Sundry Credito Total Less Loss due	ulation of ors e to revalu	Gain du	ie to revalu 80,000 5,000 85,000	ation
	Of Stock Machinery Provision Net Gain	y for Doubt	tfurl Deb	(20,00 (31, 80 ots (<u>4,400</u> <u>28,80</u>	0))0)) 0
	2. Calculatior Piyush =	of Sacrif $\frac{3}{8} - \frac{4}{9} =$	icing / G <u>27-32</u> <u>72</u>	Baining Rati = <u>5</u> <u>72</u>	o - (Gain)
	Pooja =	<u>3</u> - <u>3</u> <u>8</u> - <u>9</u>	<u>27-24</u> 72	$\frac{1}{2} = \frac{3}{72}$	(Sacrifice)
	Praveen =	<u>2</u> - <u>2</u> <u>8</u> - <u>9</u>	<u>18-16</u> 72	$\frac{1}{2} = \frac{2}{72}$	(Sacrifice)
	Amo	unt Sacri	ficed/Ga	ained-	
Piyush=	28,800x5/72	=	(₹)	2000 Dr.	
Pooja=	28,800x3/72	=	(₹)	1200 Cr.	
Praveen=	28,800x2/72		(₹)	800 Cr.	

Illustration 6)

Bhavya and Sakshi are partners in a firm. Sharing prifits and losses in the ratio in the of 3:2 On 31st March.2018 their balance Sheet was as under. Balance Sheet of Bhavya and Sakshi

As at 31st March.2018

Liabilities	Amount	Assets	Amount
	(₹)		(₹)
Sundry Creditors	13.800	Furniture	16.000
General Reserve	23.400	Land and Building	56.000
Investment Fluetuatioin Fund	20.000	Investments	30.000
Bhavya's Capital	50.000	Trade Receivables	18.500
Sakshi's Capital	40.000	Cash in Hand	26.700
	1.47.200		1.47.200

The partners have decided to change their profit sharing ratio to 1:1 with immediate effect. For the purpose, they decided that:

a. investment to be valued at (₹) 20.000

b. Goodwill of the firm valued at (₹) 24.000

c. General Reserve not to be distributed betwen the partners.

You are required to pass necessary journal entries in the boods of the firm. Show working.

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Date	Particuars	L.F.	Amounts	Amounts
			(₹)	(₹)
31.3.18	Investment Fluctuation Fund A/c			
	To Investment Dr		20.000	6,000
	To Bhavya's Capital A/c			6,000
	To Sakshi's Capital A/c			4,000
	(Being Investment Fluctuation Fund ad-	·		
	justed against the Fluctuations in marke	t		
	<u>Value and balance was distributed</u> anongs		0.400	
31.3.18	partners)		2,400	
	Sakshi's Capital A/c Dr			
	To Bhavya's Capital A/c			2,400
	(Being adjustment of goodwill made		2,340	2,340
	betwen partners due to change in profi			
31.3.18	<u>sharing ratio between partners)</u>			
	Sakshi's Capital A/c Dr			
	To Bhavya's Capital A/c			
	(Being Genrral Reserve adjusted among			
	the partners without writing it off)			
Sac	rificing ratio = old ratio- new ratio			
Bha	vya's = 3/5-1/2= 1/10 Sacrifice			

Sakshi's = 2/5-1/2= (1/10) Gain

Illustration 7) ADJUSTMENT OF CAPITAL

A, B & C were partners in a firm sharing profits & looses in the ratio of 3:2: 1. On March 31, 2019, their Balance Sheet was as follows:

Balance Sheet

as at March 31, 2019

Liabilities		Rs.	Assets	Rs.
Capital			Fixed Assets	1,80,000
А	50,000		Current Assets	35,000
В	40, 000			
С	<u>30,000</u>	1,20,000		
Reserve Fund		18,000		
Creditors		27,000		
Employees Pere	ovident Fund	50,000		
		2,15,000		2,15,000

From April 1, 2019, they decided to share future profits equally. For this purpose the followings were ageed upon:

(i) Goodwill of the firm was valued at Rs. 3,00,000.

(ii) Fixed Assets will be depreciated by 10%

(iii) Capitals of the partners will be in proportion to their new profit sharing ratio. For this purpose, Current Account will be opened.

Pass necessary Journal entries for the above transactions in the books of the firm.

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Date	Particulars		L.F	Dr.	Cr. Amoun
				(Rs)	(RS)
	C's Capital Account To A's Capital Account (Treatment of goodwill due to cha profit sharing ratio)	Dr. nge in		50,000	50,000
	Reserve Fund Account To A's Capital Account To B's Capital Account To C's Capital Account (Reserve Fund transferred to part capital acconts in their old profit s ratio)	Dr. mers' haring		18,000	9,000 6,000 3,000
	Rervaluation Account To Fixed Assets Account (Revaluation of Fixed assets on c profit sharing ratio)	Dr. hange in		18,000	18,000
	A's Capital Account B's Capital Account C's Capital Account To Revaluation Acount (Loss on revaluation transrerred t ners' capital acconts)	Dr. Dr. Dr. o part-		9,000 6,000 3,000	18,000
	A's Capital Account To A's Current Account (Adjustment of capital by opening rentg acconts	Dr. of cur-		60,000	60,000
	C's Current Account To C's Capital Account (Adjustment of capital by opening rentg acconts	Dr. of cur-		60,000	60,000

Que.1) A, B, C are partners in a firm sharing profit in the ratio 5:3:2. They agreed to share profite losses equally w.e.f. 1st April 2019. Goodwill if the firm is valued at (₹) 90,000 Pass necessory Jorunal entry.

Que.2) Keshav, Meenakshi & Mohit are parteners sharing Profits & losses in the ratio of 1:2:2 have decided to share future profit equally w.e.f. 1st April 2019. On that date, General Reserve Showed a balance of (₹) 2,40,000 Partners do not want to distribute the reserves pass necessary adjusting entry.

Que.3) P, Q & R are partners sharing Profits equally. they decided that in future R will get $1/5^{th}$ share in profit & remaining profit will be shared by P & Q equally. On the day of change, firm's goodwill is valued at (₹) 60,000. Deferred revenue expenditure was (₹) 4000 & balance in profit & loos A/c (Dr) Was (₹) 8000.

Give journal entrires arising on account of change in profit sharing ratio without disturbing the balance sheet.

Que.4) P, Q, R & S were partners in af firm sharing profits in the ratio of 1:4:2:3. on 1stth April 2019, their balance sheet was as following.

Balance Sheet as on 1/4/19

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Capitals-			Fixed Assets	12,70,000
Р	200000		Current Assets	5,30,000
Q	300000			
R	400000			
S	<u>500000</u>	14,00,000		
Sundry Creditors		2,30,000		
Workman Compensat	ion Reserve	1,70,000		<u>18,00,000</u>

18,00,000

From the above date the partners decided to share the future profits equally. For this purpose the goodwill of the firm was valued at ₹ 2,70,000

The partners also agreed for the following -

(1) The claim against workmen compensation reserve was estimated at ₹. 2,00,000

(2) Capitals of the partners was to be adjusted according to the new profit sharing ratio by opening Partners Current A/c

Prepare Revaluation A/c Partners Capital Account & the Balance Sheet of the reconstituted firm

Ques 5 Om, Jai, Jagdish are partner's sharing profits & losses in the ratio of 5:4:1.. Their Balance sheet as at 31/03/2019 was as follows.

Liabilities	(₹)	Assets	(₹)
Sundry Criditors	1,10,000	Cash at Bank	2,10,000
Salaries Payable		Sundry Debtors	1,00,000
Outstanding Ex-	30,000	Less for D/d	(10,000) 50,0009
penses	10,000	Stock	50,000
General Reserve		Furniture	40,000
Capital A/cs	40,000	Computers	2,00,00
OM 3, 00, 000		Cars	2,00,00
Jai 1, 50, 000	60,0,000		
Jagdish 1 , 50, 000	7,90,000	116 A	7,90,000

Profit sharing ration w.e.f Ist April 2019 was decided the equal Fall was also agreed among the partners;

(1) Stock to be reductd to ₹40,000

(2) Provision for D/d to be written back, Since al debtors are good.

(3) Computers to be reducd by \gtrless 20,000

(4) Out of the salaries Payable, ₹ 10,000 was not payable as the ambulance lest without notice.

(5) Outstanding expensed were not payable

(6) An unrecorded asset (motor cycle) valued at ₹ 10,000 to be accounted (7) Goodwill of the firm was valued at ₹ 50,000

(8) Total Capita of the firm ₹ 6,00,000 was to be in profit sharing ratio, excess capital to be withdrawn & short to be made good.

Prepare Revolution Account. Painters Capital Accounts Balance Sheet of the new firm.

Ques 6. P. Q and R partners in a firm sharing profits and losses in the ratio 3:3:2. Their Balance Sheet as at 31st March 2016 was :

Liablities	(₹)	Asset	(₹)
Sundry Creditors	24,000	Cash at Bank	27,000
General Reserve	36,000	Sundry Debtors	50,000
Capital A/cs		stock	1,20,000
P 2,00,000		Machinery	1,59,000
Q 2,00,000		Building	2,00,000
R 1,00,000	5,00,000	Advertisement Expenditure	4,000
	<u>5,60,000</u>	-	5,60,000
	5,60,000		5,60,000

Partners decided that with effect from 1st April, 2016 they would share profits and losses in the ratio of 4:3:2. It was agreed that:

(1) Stock is to be valued at ₹ 1,10,000

(2) Machiery is to be depreciated by 10 %

(3) A provision for doubtful debts is to be made on debtors @ 5 %

(4) Building to be appreciated by 20 %

(5) A liability for ₹ 3000 included in Sundry Creditors are not likely to arise Partners agreed that revised values of assets and liabilities are to be recorded in the books. They decided to retain the General Reseve in the books. Find missing figures in Journal.

Partners decided that with effect from 1st April, 2016, they would share profits and losses in the ratio of 4:3:2. It was agreed that:

(i) Stock is to be valued at (₹) 1,10,000

(ii) (Machinery is to be depriciated by 10%

(iii) A provision for doubtful debts is to be made on debtors @ 5%.

(iv) Building to be appresiated by 20%

(v) A liability for (₹) 3000 included in Sundry Creditors are not likely to arise. Partners agreed that revised values of assets and liabilities are to be recorded in the books They decided to retain the General Reserve in the books. Find missing figures in Journal.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2016 April 1	Revalutution A/c To Stock To Machinery A/c Dr To Provision for Doubtful Debit A/c (For Decrease in the value of assets and pro- visions made for D/D)		(a) (e) 3000	(b) (c) (d) 43000
April 1	Building A/c Dr. Creditors A/c Dr. To Revaluation A/c (For increase in the value of assets and de- crease in the value of liablities)		(f)	(g) (h) (i) (k)
April 1	P's Capital A/c Dr. To Q's Capital A/c To R's Capital A/c (for transferring profit on revaluation to the capital A/c of partners in old profit sharing ratio To P's Capital A/c		(j) (m)	(1)
April 1	To Q's Capital A/c To R's Capital A/c To (P) (For tranfer of advertisement expenditure to all partners on (q)		(n) (o)	

CHAPTER-4 <u>CHANGE IN PROFIT SHARING RATIO</u> MCQs <u>AMONG THE EXISTING PARTNERS</u>

Que.1) A,B & C are partners sharing profits in the ratio of 4:3:2, decided to share profit equally Goodwill of the firm is valued at (`) 10,800. Good adjusting entry will then be:

a) A's Capital A/c Cr. by (`) 4800; B's Capital A/c Cr. by (`) 3600; C's Capital A/c Cr. by (`) 2400

b) A's Capital A/c Cr. by (`) 3600; B's Capital A/c Cr. by (`) 3600; C's Capital A/c Cr. by (`) 2400

c) A's Capital A/c Cr. by (`) 1200; C's Capital A/c Cr. by (`) 1200 d) A's Capital A/c Cr. by (`) 1200; C's Capital A/c Cr. by (`) 1200

Que.2 X, Y & Z are partners sharing profit in the ratio of 1:2:3 On April 1st, 2019, they deicided to share the profite equally on that date there was a credit balance of (`) 1,20,000 in Their profit & Loss Account & a balance of (`) 1,80,000 in General Reserve Account. Instead of closing the Gereral Reserve Account & Profit and Loss Account, it is decided to record on adjustment entry which will be -

a) Dr. A by (`) 50,000 ; Cr. B by (`) 50,000 b) Dr. A by (`) 50,000 ; Cr C by (`) 50,000

c) Cr. A by (`) 50,000 ; Dr. B by (`) 50,000

d)Cr. A by (`) 50,000 ; Dr. C by (`) 50,000

Que.3 A, B & C are partners sharing profits are losses in the ratio of 4:3:2, decided to share future profit & losses in the ratio of 2:3:4, w.e.f. 1/April/2019. Workmen Compensation Reserve appearing in the balance sheet is (`) 45,000 & a claim on account5 of Workmen Conpensation is estimated at (`) 54,000, Then -

a) (₹) 9000 is distributed amongst partner in old profit sharing ratio

b) (`) 9000 is distributed amongst partner in new profit sharing ratio

c) ((₹) 9000 is shown as provision in new balance sheet

d) ((₹) 9000 is distributed amongst partner in their Capital ratio.

Que. 4) Any change in the relationship of exieting partners Which results in an end of the existing agreement and enforces making of a new agreement is called

- a) Revaluation of Partnership
- b) Reconstitution of Partnership
- c) Realization of Partnership
- d) None of the Above.

Que. 5)

A, B, & C are partners sharing ratio profits in the ratio of 5:3: 2. They decided to share furture profits is the ratio of 2: 3: 5 w.e.f 1/April/2019. They also decide to record the effect of following revaluation without affecting the book values of assets & liabilities by passing single adjusting entry : -

	Book Value (₹)		Revised Value (₹)
Land & Building Stock Sundry Crditor's Outstanding Rent The Single Adjustment en	7,00,000 2,50,000 3, 50,000 2,35,000 try will be		8,50,000 2,20,000 3, 35, 000 2,80,000
a) Dr. C by (₹) 27000; b) Dr A by (₹) 27000; c) Cr. B by (₹) 27000; d) Dr A by (₹) 27000;	Cr. A by Cr. C by Cr. A by Cr. B by	(₹) 27000 (₹) 27000 (₹)27000; (₹) 27000; (₹) 27000	;
Answers to MCQ 1. d 2. b 3. a 4 b 5. a			
Answers to Practice Exerc Q. B's Capital A/c Dr 30	ise 000		
C' s Capital A/c Dr 1 To A's Capital Ac 1	2000 5,000		
Q. 2. Keshav's Capital A/c To Meenakshi's Capita To Mohit's Capital A/c	Dr. 32000 al A/c 16000 16000		
Q.3. R' s Capital To P's Capital A/c 3200 To Q's Capital A/c 3200			
Q.4. Loss of Revaluation P's Current A/c (Dr) ₹ Q's Current A/c) (Dr) ₹ R's Current A/c ₹ R's Current A/c ₹	<pre>= ₹ 30,000 18600 14000; 38000; 1.62.000</pre>		

Q.5 Gain of Revaluation A/c = ₹ 10,000 Om, Jai, Jagdish Cap A/c = ₹ 2,00,000 each Shortage of Capital for Jai = ₹ 26, 666 Shortage of Capital for Jagdish = ₹ 56,667 Surplus of Capital for Om = ₹ 1,33,333 Q.6 a) 28, 400 b) 10,000 c) 15,900 d) 2,500 e) 40,,000 f) 14,600 h) 5,475 g) 5,475 i) 3, 650 j) 2, 500 k) 1,000 l) 1,500 m) 1,500 n) 1,500 o) 1,000 p) Advertisement Expenditure A/c q) Old Profit sharing Ratio