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RECONSTITUTION OF PARTNERSHIP— CHANGE IN PROFIT-SHARING RATIO AMONG THE EXISTING PARTNERS

VERY SHORT/SHORT ANSWER TYPE QUESTIONS

Sacrificing and Gaining Ratio

Problem 1

C and D share profits and losses in the ratio of 2 : 1. With effect from 1st April, 2017, they agreed to share profits equally. Calculate the sacrificing ratio and gaining ratio.

Solution

Calculation of Sacrifice or Gain

Old Ratio of C and D = 2 : 1

New Ratio of C and D = 1 : 1

Sacrifice = Old Share – New Share

Sacrifice or Gain

$$C = \frac{2}{3} - \frac{1}{2} = \frac{4-3}{6} = \frac{1}{6} \text{ (Sacrifice)}$$

$$D = \frac{1}{3} - \frac{1}{2} = \frac{2-3}{6} = (-)\left(\frac{1}{6}\right) \text{ Gain}$$

Thus, C has sacrificed $\frac{1}{6}$th share and D has gained $\frac{1}{6}$th share.

Problem 2

R, S and T are partners sharing profits in the ratio of 5 : 3 : 2. They agree to share profits in equal proportion *w.e.f.* April 1, 2017. You are required to determine sacrificing ratio and the gaining ratio for R, S and T.

Solution

Calculation of Sacrifice or Gain Share of the Partners

	R	*S*	*T*
(A) Old Share	$\frac{5}{10}$	$\frac{3}{10}$	$\frac{2}{10}$
(B) New Share	$\frac{1}{3}$	$\frac{1}{3}$	$\frac{1}{3}$
(C) Difference (A – B)	$\frac{5}{10} - \frac{1}{3}$	$\frac{3}{10} - \frac{1}{3}$	$\frac{2}{10} - \frac{1}{3}$
	$= \frac{5}{30}$	$= (-)\left(\frac{1}{30}\right)$	$= (-)\left(\frac{4}{30}\right)$
	Sacrifice	Gain	Gain

Note : The sum of gaining ratio shall always be equal to the sum of sacrificing ratio.

Problem 3

A, B, C and D are partners sharing profits in equal proportions. They decide to share the profits in the ratio of 5 : 4 : 3 : 2 in future. You are required to calculate sacrificing ratios and the gaining ratios for the partners.

Solution

(A) Old Ratio of A, B, C and D = $\frac{1}{4} : \frac{1}{4} : \frac{1}{4} : \frac{1}{4}$

(B) New Ratio of A, B, C and D = $\frac{5}{14} : \frac{4}{14} : \frac{3}{14} : \frac{2}{14}$

Sacrifice or Gain (A – B)

$$A = \frac{1}{4} - \frac{5}{14} = \frac{7-10}{28} = (-)\frac{3}{28} \text{ (Gain)}$$

$$B = \frac{1}{4} - \frac{4}{14} = \frac{7-8}{28} = (-)\frac{1}{28} \text{ (Gain)}$$

$$C = \frac{1}{4} - \frac{3}{14} = \frac{7-6}{28} = \frac{1}{28} \text{ (Sacrifice)}$$

$$D = \frac{1}{4} - \frac{2}{14} = \frac{7-4}{28} = \frac{3}{28} \text{ (Sacrifice)}$$

Problem 4

A, B and C are partners sharing profits in the ratio of 5 : 3 : 2. Calculate the new profit-sharing ratio and the sacrificing ratio in each of the following cases :

Case I : If C acquires 1/5th share from A.

Case II : If C acquires 1/5th share equally from A and B.

Solution

Case I :

	A	*B*	*C*
(A) Old Ratio	$\frac{5}{10}$	$\frac{3}{10}$	$\frac{2}{10}$
(B) Share received by C from A	$-\frac{1}{5}$ or $\frac{2}{10}$	.....	$+\frac{1}{5}$ or $\frac{2}{10}$
(C) New Ratio	$\frac{3}{10}$	$\frac{3}{10}$	$\frac{4}{10}$
	(A – B)		(A + B)

∴ New Profits-sharing Ratio = $\frac{3}{10} : \frac{3}{10} : \frac{4}{10}$ or 3 : 3 : 4

Share Sacrificed by A = 1/5, C's Gain 1/5.

Case II :

	A	*B*	*C*
(A) Old Ratio	$\frac{5}{10}$	$\frac{3}{10}$	$\frac{2}{10}$
(B) Share recd. by C from A and B $\frac{1}{5}$ equally (or $\frac{1}{5} \times \frac{1}{2}$)	$-\frac{1}{10}$	$-\frac{1}{10}$	$+\frac{1}{5}$ or $\frac{2}{10}$
(C) New Ratio	$\frac{4}{10}$	$\frac{2}{10}$	$\frac{4}{10}$
	(A – B)	(A – B)	(A + B)

$\therefore$ New Profit-sharing Ratio $= \frac{4}{10} : \frac{2}{10} : \frac{4}{10}$ or 4 : 2 : 4 or 2 : 1 : 2

Share Sacrificed by A $= \frac{1}{10}$, by B $= \frac{1}{10}$

Sacrificing Ratio $= \frac{1}{10} : \frac{1}{10} = 1 : 1$

Problem 5

X, Y and Z are partners in a firm in the ratio of 2 : 3 : 5. On 31st March, 2017 the following proposals are under consideration. You are required to find out change in the ratio of each partner :

(i) New ratio will be 2 : 5 : 3, (ii) Z will give 10% of his share to X.

Solution

Case I :

	X	Y	Z
(A) Old Ratio	$\frac{2}{10}$	$\frac{3}{10}$	$\frac{5}{10}$
(B) *Less* : New Ratio	$\frac{2}{10}$	$\frac{5}{10}$	$\frac{3}{10}$
Difference or Net Effect (A – B)	—	$(-)\frac{2}{10}$	$\frac{2}{10}$
	No Change	Gain	Sacrifice

Thus, Y has gained $\frac{2}{10}$th and Z has sacrified $\frac{2}{10}$th share. In case of X, No Change.

Case II :

	X	Y	Z
(A) Old Share	$\frac{2}{10}$	$\frac{3}{10}$	$\frac{5}{10}$
(B) Z gives 10% of his share to X	$+\frac{1}{20}$	......	$(-)\frac{5}{10} \times \frac{10}{100} = \frac{1}{20}$
(C) New Share	$\frac{5}{20}$	$\frac{3}{10}$ or $\frac{6}{20}$	$\frac{9}{20}$

$\therefore$ New Ratio $= \frac{5}{20} : \frac{6}{20} : \frac{9}{20}$ or 5 : 6 : 9

Thus, X has gained $\frac{1}{20}$ and Z has sacrificed $\frac{1}{20}$ share. In case of Y, there is no change.

Accounting for Distribution of Accumulated Profits and Reserves

Problem 6

A and B are partners in a firm sharing profits in the ratio of 3 : 2. They decided to share profits and losses equally. On the date of change in the profit-sharing ratio, Profit & Loss Account showed a debit balance of ₹ 40,000 and a General Reserve of ₹ 10,000. Record the necessary Journal entry for the distribution of the balance in the Profit & Loss Account and General Reserve before the change in the profit-sharing ratio.

Solution

Journal Entries

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
	A's Capital A/c	Dr.		24,000	
	B's Capital A/c	Dr.		16,000	
	To Profit & Loss A/c				40,000
	(Being undistributed loss transferred to Partners' Capital A/cs in their old ratio *i.e.* 3 : 2)				
	General Reserve A/c	Dr.		10,000	
	To A's Capital A/c				6,000
	To B's Capital A/c				4,000
	(Being transfer of general reserve to Partner's Capital A/cs in the old ratio *i.e.* 3 : 2)				

Problem 7

Dhoni and Pathan are partners in a firm sharing profits in the ratio of 5 : 3. They decided to change their profit-sharing ratio to 3 : 5. On the date of change in the profit-sharing ratio, Profit & Loss Account showed a credit balance of ₹ 50,000 and General Reserve of ₹ 24,000. Record necessary Journal entry for the distribution of the balance in the Profit & Loss Account and General Reserve before the change in the profit-sharing ratio.

Solution

Journal Entries

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
	Profit & Loss A/c	Dr.		50,000	
	To Dhoni's Capital A/c				31,250
	To Pathan's Capital A/c				18,750
	(Being undistributed profit transferred to Partners' Capital A/cs in the old ratio, *i.e.* 5 : 3)				
	General Reserve A/c	Dr.		24,000	
	To Dhoni's Capital A/c				15,000
	To Pathan's Capital A/c				9,000
	(Being transfer of general reserve to Partners' Capital A/cs in old ratio *i.e.* 5 : 3)				

Not to Close the General Reserve Account

Problem 8

X, Y and Z are partners in a firm sharing profits in 5 : 2 : 3 ratio. Their Balance Sheet at 31.3.2017 showed a balance of ₹ 60,000 in General Reserve. From 1.4.2017 they will share profits equally. Record the necessary Journal entry to give effect to the above arrangement when X, Y and Z decided not to close the General Reserve Account.

Solution

Calculation of Sacrifice or the Gain Share of Partners

Sacrificing Share = Old Share – New Share

$$X = \frac{5}{10} - \frac{1}{3} = \frac{15-10}{30} = \frac{5}{30} \text{ Sacrifice}$$

$$Y = \frac{2}{10} - \frac{1}{3} = \frac{6-10}{30} = (-)\left(\frac{4}{30}\right) \text{ Gain, being negative result}$$

$$Z = \frac{3}{10} - \frac{1}{3} = \frac{9-10}{30} = (-)\left(\frac{1}{30}\right) \text{ Gain, being negative result}$$

Thus, sacrificing partner's share of General Reserve to be compensated by Gaining partners in their Gaining Ratio *i.e.*, 4 : 1. Share in General Reserve sacrificed by X = $\frac{5}{30} \times 60{,}000$ = ₹ 10,000 to be compensated by Y and Z in 4 : 1 *i.e.*, ₹ 8,000 and ₹ 2,000.

Journal Entry

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
2017 April 1	Y's Capital A/c	Dr.		8,000	
	Z's Capital A/c	Dr.		2,000	
	To X's Capital A/c				10,000
	(Being proportionate share of General Reserve adjusted between existing partners)				

Not to Close Profit and Loss Account

Problem 9.

Abhay and Vaibhav are partners sharing profits in the ratio of 2 : 1. They decided to share future profits equally. On the date of change in the profit-sharing ratio, the Profit and Loss Account showed a credit balance of ₹ 24,000. Record the necessary Journal entry for the distribution of the balance in the Profit & Loss Account before the change in the profit-sharing ratio if they decided not to close the Profit & Loss Account.

Solution

Calculation of the Sacrifice or the Gain Share of Partners

Sacrificing Share = Old Share – New Share

$$\text{Abhay} = \frac{2}{3} - \frac{1}{2} = \frac{4-3}{6} = \frac{1}{6} \text{ (Sacrifice)}$$

$$\text{Vaibhav} = \frac{1}{3} - \frac{1}{2} = \frac{2-3}{6} = (-)\left(\frac{1}{6}\right) \text{ Gain, being negative result.}$$

Thus, gaining partner's share of profit to be adjusted = ₹ 24,000 × $\frac{1}{6}$ = ₹ 4,000

Journal Entry

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
	Vaibhav's Capital A/c	Dr.		4,000	
	To Abhay's Capital A/c				4,000
	(Being proportionate share of profit adjusted between existing partners)				

Problem 10

Mrinal and Mayank are partners in a firm sharing profits in the ratio of 3 : 2. They decided to share future profits equally. On the date of change in the profit-sharing ratio, the Profit & Loss Account showed a debit balance of ₹ 60,000. Record the necessary Journal entry for the distribution of the balance in the Profit & Loss Account before the change in the profit-sharing ratio if the Profit and Loss Account is not closed.

Solution

Calculation of the Sacrifice or the Gain Share of Partners

Sacrificing Share = Old Share – New Share

$$\text{Mrinal} = \frac{3}{5} - \frac{1}{2} = \frac{6-5}{10} = \frac{1}{10} \text{ (Sacrifice)}$$

$$\text{Mayank} = \frac{2}{5} - \frac{1}{2} = \frac{4-5}{10} = (-)\left(\frac{1}{10}\right) \text{ Gain, being negative result.}$$

Thus, gaining partner's share of undistributed loss to be adjusted = ₹ 60,000 × $\frac{1}{10}$ = ₹ 6,000

Journal Entry

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
	Mayank's Capital A/c	Dr.		6,000	
	To Mrinal's Capital A/c				6,000
	(Being proportionate share of loss adjusted between existing partners)				

Not to Close Profit & Loss Account and General Reserve Account

Problem 11

A and B are partners sharing profits in the ratio of 3 : 1. Their Balance Sheet showed a balance of ₹ 20,000 in General Reserve Account and ₹ 30,000 in Profit & Loss Account. They now agree to share the future profits equally. Instead of closing the General Reserve Account and Profit & Loss Account it is decided to pass an adjustment entry for the same. You are required to record the necessary adjustment entry to give effect to the above arrangement.

Solution

Calculation of the Gain or Sacrifice of the Partners

Sacrificing Share = Old Share – New Share

$$A = \frac{3}{4} - \frac{1}{2} = \frac{6-4}{8} = \frac{2}{8} = \frac{1}{4} \text{ (Sacrifice)}$$

$$B = \frac{1}{4} - \frac{1}{2} = \frac{2-4}{8} = (-)\left(\frac{2}{8}\right) = (-)\left(\frac{1}{4}\right) \text{ Gain, being negative result.}$$

Adjustment of General Reserve and Profit & Loss A/c

	₹
(a) General Reserve : ₹ 20,000 × $\frac{1}{4}$ =	5,000
(b) Profit & Loss A/c : ₹ 30,000 × $\frac{1}{4}$ =	7,500
Total (a + b) =	12,500

Journal Entry

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	B's Capital A/c Dr.		12,500	
	To A's Capital A/c			12,500
	(Being proportionate share of General Reserve and Profit & Loss A/c adjusted between existing partners)			

Problem 12

A, B and C shared profits and losses equally. They mutually decided to change their profit-sharing ratio to 5 : 3 : 2 respectively. On the date of the change in the ratio, they had the following undistributed profits which need to be adjusted because of the change in their ratio :

	₹
(i) General Reserve	48,000
(ii) Contingency Reserve	96,000
(iii) Profit & Loss Account (Credit Balance)	1,32,000
(iv) Joint Life Policy Reserve	1,50,000

Give one entry for all reserves to make the necessary adjustments.

Solution

1. Calculation of Gain/Sacrifice Share of Partners

Sacrifice = Old Share – New Share

$$A = \frac{1}{3} - \frac{5}{10} = \frac{10-15}{30} = (-)\left(\frac{5}{30}\right) \text{ Gain, being negative result.}$$

$$B = \frac{1}{3} - \frac{3}{10} = \frac{10-9}{30} = \frac{1}{30} \text{ (Sacrifice)}$$

$$C = \frac{1}{3} - \frac{2}{10} = \frac{10-6}{30} = \frac{4}{30} \text{ (Sacrifice)}$$

2. Calculation of Total Undistributed Profits

	₹
(i) General Reserve	48,000
(ii) Contingency Reserve	96,000
(iii) Profit & Loss Account	1,32,000
(iv) Joint Life Policy Reserve Account	1,50,000
Total	4,26,000

3. Proportionate Share of Gaining Partner :

$$A = 4,26,000 \times \frac{5}{30} = ₹\,71,000$$

Proportionate Share of Sacrificing Partners :

$$B = 4,26,000 \times \frac{1}{30} = ₹\,14,200$$

$$C = 4,26,000 \times \frac{4}{30} = ₹\,56,800$$

Journal Entry

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	A's Capital A/c Dr.		71,000	
	To B's Capital A/c			14,200
	To C's Capital A/c			56,800
	(Being adjustment for all reserves)			

Problem 13

X, Y and Z are partners sharing profit and loss in the ratio of 5 : 3 : 2. They decide to share future profit and loss in the ratio of 2 : 3 : 5. They also decide to record the effect of the following profit, reserves and losses without affecting their book values by passing a single entry :

	Book Value ₹
Profit & Loss A/c—Credit	70,000
General Reserve	20,000
Advertisement Suspense A/c	36,000

Solution

Step 1 : Calculation of Net Effect of Profit, Reserve and Losses

	₹
Profit & Loss A/c (Credit)	70,000
Add : General Reserve	20,000
	90,000
Less : Advertisement Suspense A/c	36,000
	54,000

Step 2 : Calculation of Sacrifice/Gain

	Old Share (A)	New Share (B)	Sacrifice/Gain (A – B)
X's Share	$\frac{5}{10}$	$\frac{2}{10}$	$\frac{5}{10} - \frac{2}{10} = \frac{3}{10}$ (Sacrifice)
Y's Share	$\frac{3}{10}$	$\frac{3}{10}$	$\frac{3}{10} - \frac{3}{10} =$ (Nil)
Z's Share	$\frac{2}{10}$	$\frac{5}{10}$	$\frac{2}{10} - \frac{5}{10} = (-)\frac{3}{10}$ (Gain)

Here X sacrifices and Z gains. Hence X will be compensated by Z for net gain.

Step 3 : X will be compensated with $₹\,54,000 \times \frac{3}{10} = ₹\,16,200$

Step 4 :

Adjustment Entry

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Z's Capital A/c Dr.		16,200	
	To X's Capital A/c			16,200
	(Being the adjustment made for net profit, reserve and loss)			

Adjustment for Revaluation of Assets and Liabilities

Problem 14

Shankar, Babita and Vishal are partners in a firm in the ratio of 5 : 4 : 2. On 1st April, 2017 they decided to share profits in the ratio of 4 : 3 : 2. On this date general reserve was ₹ 34,900 and loss on revaluation of assets and liabilities was ₹ 5,200. It was decided that adjustment should be made without altering the figures of assets and liabilities in the Balance Sheet. Make adjustment by a single Journal entry.

Solution

(i) Calculation of Sacrifice/Gain of Partners

Sacrificing Share = Old Share − New Share

$$\text{Shankar} = \frac{5}{11} - \frac{4}{9} = \frac{45-44}{99} = \frac{1}{99} \text{ (Sacrifice)}$$

$$\text{Babita} = \frac{4}{11} - \frac{3}{9} = \frac{36-33}{99} = \frac{3}{99} \text{ (Sacrifice)}$$

$$\text{Vishal} = \frac{2}{11} - \frac{2}{9} = \frac{18-22}{99} = (-)\left(\frac{4}{99}\right) \text{ Gain, being negative result}$$

(ii) (a) Gaining Partners' Share of Profit (for Adjustment) :

	₹
General Reserve	34,900
Less : Loss on Revaluation	5,200
Net Effect	29,700

Hence $₹ 29{,}700 \times \frac{4}{99} = ₹ 1{,}200$

(b) Shankar's Sacrifice = $₹ 29{,}700 \times \frac{1}{99} = ₹ 300$

(c) Babita's Sacrifice = $₹ 29{,}700 \times \frac{3}{99} = ₹ 900$

(iii) **Journal Entry**

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
	Vishal's Capital A/c	Dr.		1,200	
	To Shankar's Capital A/c				300
	To Babita's Capital A/c				900
	(Being net share of profit adjusted)				

Problem 15

C and D who share profits equally decided to share future profits in the ratio of 3 : 2. For this purpose assets and liabilities were revalued as under :

(i) Building will increase by ₹ 40,000.

(ii) Furniture and creditors will decrease by ₹ 4,000 and ₹ 2,000 respectively.

(iii) Unrecorded liability is to be recorded now at ₹ 6,000.

(iv) The balance of general reserve was ₹ 40,000 and Profit and Loss Account showed a debit balance of ₹ 20,000.

Pass the necessary Journal entries to record the above.

Solution

Journal Entries

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
	Building A/c	Dr.		40,000	
	Creditors A/c	Dr.		2,000	
	To Revaluation A/c				42,000
	(Being increase in the value of building and decrease in the amount of creditors)				
	Revaluation A/c	Dr.		10,000	
	To Furniture A/c				4,000
	To Unrecorded Liability				6,000
	(Being decrease in the value of furniture and recording of unrecorded liability)				

Particulars		L.F.	Dr. ₹	Cr. ₹
Revaluation A/c	Dr.		32,000	
To C's Capital A/c				16,000
To D's Capital A/c				16,000
(Being transfer of profit on revaluation in old ratio)				
General Reserve A/c	Dr.		40,000	
To C's Capital A/c				20,000
To D's Capital A/c				20,000
(Being distribution of General Reserve in old ratio)				
C's Capital A/c	Dr.		10,000	
D's Capital A/c	Dr.		10,000	
To Profit & Loss A/c				20,000
(Being distribution of loss in old ratio)				

Problem 16

The following is the Balance Sheet of S and T on 31st March, 2017. They share profits and losses in the ratio of 3 : 1. They decided that in future they will share profits equally :

Liabilities		Amount	Assets	Amount
		₹		₹
Creditors		1,00,000	Business Premises	1,00,000
Bills Payable		10,000	Furniture	4,000
Profit & Loss A/c		40,000	Stock	80,000
General Reserve		16,000	Book Debts	64,000
Capital A/cs :	₹		Bills Receivable	12,000
S	1,00,000		Cash at Bank	80,000
T	84,000	1,84,000	Cash in hand	10,000
		3,50,000		3,50,000

On the date of change in profit-sharing ratio, they decided that :

(i) The value of business premises be appreciated by 20%.

(ii) Stock and furniture be reduced by 10% each.

(iii) A reserve of 5% be created for doubtful debts on book debts.

Prepare the Revaluation Account.

Solution

Revaluation Account

Dr. Particulars		₹	Cr. Particulars	₹
To Stock A/c		8,000	By Business Premises A/c	20,000
To Furniture A/c		400		
To Reserve for D. Debts A/c		3,200		
To Profit transferred to Capital A/cs :	₹			
S	6,300			
T	2,100	8,400		
		20,000		20,000

When Revised Values are not to be Recorded

Problem 17

Shukla and Saxena are partners in a firm sharing profits in the ratio of 2 : 3. Their Balance Sheet as on 31st March, 2017 is as follows :

Liabilities	₹	₹	Assets	₹
Capital A/cs :			Land	1,20,000
Shukla	1,80,000		Building	1,00,000
Saxena	1,20,000	3,00,000	Plant	1,00,000
Creditors		1,20,000	Investments	1,00,000
		4,20,000		4,20,000

Revaluation of Assets : Land ₹ 3,00,000 and Building ₹ 90,000.

On March 31, 2017, the partners decided to share profits equally with effect from April 1, 2017. You are required to record the necessary Journal entries and prepare Revaluation Account.

Solution

Journal Entries

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
	Land A/c	Dr.		1,80,000	
	To Revaluation A/c				1,80,000
	(Being appreciation in the value of land)				
	Revaluation A/c	Dr.		10,000	
	To Building A/c				10,000
	(Being decrease in the value of building)				
	Revaluation A/c	Dr.		1,70,000	
	To Shukla's Capital A/c				68,000
	To Saxena's Capital A/c				1,02,000
	(Being transfer of profit on revaluation in old ratio)				

Revaluation Account

Dr. Cr.

Particulars		₹	Particulars	₹
To Building A/c		10,000	By Land A/c	1,80,000
To Profit transferred to Capital A/cs :	₹			
Shukla	68,000			
Saxena	1,02,000	1,70,000		
		1,80,000		1,80,000

Problem 18

Munda, Manjhi and Murmu are partners sharing profits and losses in the ratio of 5 : 3 : 2. They decide to share future profits and losses in the ratio of 2 : 3 : 5 with effect from 1st April, 2017. They decide to record the effect of the following revaluations without effecting the book value of the assets and liabilities by passing a single Journal entry :

Particulars	Book Value	Revised Value
	₹	₹
Plant & Machinery	3,00,000	2,90,000
Land & Building	2,00,000	2,50,000
Investments	50,000	40,000
Sundry Creditors	60,000	50,000

Required : Pass the necessary single adjusting entry.

Solution

1. Calculation of Net Effect of Revaluation

	₹
Increase in Value of Land & Building	50,000
Add : Decrease in the amount of Creditors	10,000
Less : Decrease in the value of Investments	(10,000)
Less : Decrease in the value of Plant and Machinery	(10,000)
Net Effect : Net Profit on Revaluation	40,000

2. Calculation of the Gain or Sacrifice of Share

Sacrifice = Old Share − New Share

Munda $= \frac{5}{10} - \frac{2}{10} = \frac{3}{10}$ (Sacrifice)

Manjhi $= \frac{3}{10} - \frac{3}{10} = \frac{0}{10}$ Nil

Murmu $= \frac{2}{10} - \frac{5}{10} = (-)\frac{3}{10}$ (Gain)

3. Calculation of Proportion of Net Profit on Revaluation

Munda $= 40{,}000 \times \frac{3}{10} =$ ₹ 12,000 (Credit)

Murmu $= 40{,}000 \times \frac{3}{10} =$ ₹ 12,000 (Debit)

Journal Entry

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
2017 April 1	Murmu's Capital A/c	Dr.		12,000	
	To Munda's Capital A/c				12,000
	(Being proportionate share of profit on revaluation adjusted between existing partners)				

Accounting Treatment of Goodwill

Problem 19

A and B are partners in a firm sharing profits in the ratio of 3 : 2. With effect from 1st January, 2017 they agreed to share profits equally. For this purpose the goodwill of the firm was valued at ₹ 30,000. Pass the Journal entry for the treatment of goodwill.

Solution

Calculation of Sacrifice or Gain Share of the Partner(s)

Sacrifice Share = Old Share − New Share,
Gain = New Share − Old Share

Old Share of A and B = 3 : 2
New Share of A and B = 1 : 1

$A = \frac{3}{5} - \frac{1}{2} = \frac{6-5}{10} = \frac{1}{10}$ (Sacrifice); $B = \frac{2}{5} - \frac{1}{2} = \frac{4-5}{10} = \left(\frac{1}{10}\right)$ (Gain)

Thus the gaining partner's share of goodwill to be adjusted ₹ $30{,}000 \times \frac{1}{10}$ = ₹ 3,000

Journal Entry

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2017 Jan. 1	B's Capital A/c Dr.		3,000	
	To A's Capital A/c			3,000
	(Being proportionate share of goodwill adjusted between existing partners)			

Problem 20

Ram and Shyam are partners sharing profits in the ratio of 3 : 4. Goodwill does not appear in the books but it is worth ₹ 42,000. The partners decide to share profits in future in the ratio of 4 : 3.

Give Journal entry to record the above change.

Solution

Calculation of Sacrifice/Gain :

$$\text{Ram} = \frac{3}{7} - \frac{4}{7} = \frac{3-4}{7} = (-)\left(\frac{1}{7}\right) \text{ (Gain)}$$

$$\text{Shyam} = \frac{4}{7} - \frac{3}{7} = \frac{4-3}{7} = \frac{1}{7} \text{ (Sacrifice)}$$

Goodwill = ₹ 42,000

$$\therefore \text{ Ram's Gain} = 42{,}000 \times \frac{1}{7} = ₹\, 6{,}000 \text{ (to be debited)}$$

$$\text{Shyam's Sacrifice} = 42{,}000 \times \frac{1}{7} = ₹\, 6{,}000 \text{ (to be credited)}$$

Journal Entry

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Ram's Capital A/c Dr.		6,000	
	To Shyam's Capital A/c			6,000
	(Being adjustment made for goodwill due to change in profit-sharing ratio)			

LONG ANSWER TYPE/COMPREHENSIVE QUESTIONS

Problem 21

Jain and Gupta are partners in a firm sharing profits in the ratio of 2 : 3. Their Balance Sheet as on 31.3.2017 was as follows :

Liabilities	₹	₹	Assets	₹
Jain's Capital	90,000		Land	60,000
Gupta's Capital	60,000	1,50,000	Building	50,000
Creditors		40,000	Plant	95,000
General Reserve		20,000	Profit & Loss A/c	5,000
		2,10,000		2,10,000

The Goodwill of the firm has been valued at ₹ 75,000; Land ₹ 1,50,000 and Building ₹ 45,000. On 31st March, 2017 the partners decided to share profit equally with effect from April 1, 2017.

Required :

(i) Pass the necessary Journal entries without opening Revaluation Account.

(ii) Prepare the Capital Accounts of the partners.

(iii) Prepare the Balance Sheet of the reconstituted firm.

Solution

Working Notes :

(1) Calculation of the Gain or Sacrifice of Partners :

Sacrifice = Old Share – New Share

Gain = New Share – Old Share

$$\text{Jain} = \frac{1}{2} - \frac{2}{5} = \frac{5-4}{10} = \frac{1}{10} \text{ (Gain)}$$

$$\text{Gupta} = \frac{3}{5} - \frac{1}{2} = \frac{6-5}{10} = \frac{1}{10} \text{ (Sacrifice)}$$

(2) Net Effect of Revaluation of Assets and Liabilities :

	₹
Increase in the value of Land (₹ 1,50,000 – 60,000)	90,000
Less : Decrease in the value of Building (₹ 50,000 – 45,000)	5,000
Net Profit on Revaluation	85,000
Adjustment for Goodwill	75,000
Total Profit	1,60,000

$$\text{Proportionate Share of Gaining Partner} = 1{,}60{,}000 \times \frac{1}{10} = ₹\, 16{,}000$$

(i) Journal Entry

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Jain's Capital A/c Dr.		16,000	
	To Gupta's Capital A/c			16,000
	(Being share of profit on revaluation and goodwill transferred to sacrificing Partner's Capital A/c in his sacrificing ratio)			

(ii) Capital Accounts

Dr. | Cr.

Date	Particulars	Jain ₹	Gupta ₹	Date	Particulars	Jain ₹	Gupta ₹
2017 April 1	To Profit & Loss A/c (2 : 3)	2,000	3,000	2017 April 1	By Balance b/d	90,000	60,000
	To Gupta's Capital A/c	16,000	—		By Jain's Capital A/c	—	16,000
	To Balance c/d	80,000	85,000		By General Res. (2 : 3)	8,000	12,000
		98,000	88,000			98,000	88,000

(iii) Balance Sheet of the Reconstituted Firm

Liabilities	₹	₹	Assets	₹
Jain's Capital	80,000		Land	60,000
Gupta's Capital	85,000	1,65,000	Building	50,000
Creditors		40,000	Plant	95,000
		2,05,000		2,05,000

Note : General Reserve and balance of Profit & Loss A/c (loss) have been distributed in old ratio.

Problem 22

Dinesh, Ramesh and Suresh are partners in a firm sharing profits and losses in the ratio of 3 : 3 : 2. They decided to share the profits equally *w.e.f.* April 1, 2017. Their Balance Sheet as on March 31, 2017 was as follows :

Liabilities	₹	Assets	₹
Sundry Creditors	1,50,000	Cash at Bank	40,000
General Reserve	60,000	Bills Receivable	50,000

Partners' Loan :	₹		Sundry Debtors	60,000
Dinesh	40,000		Stock	1,20,000
Ramesh	30,000	70,000	Fixed Assets	2,80,000
Partners' Capitals :				
Dinesh	1,00,000			
Ramesh	80,000			
Suresh	70,000	2,50,000		
		5,50,000		5,50,000

It was also decided that :

1. The fixed assets should be valued at ₹ 3,31,000.
2. A provision of 5% on sundry debtors be made for doubtful debts.
3. The value of stock be reduced to ₹ 1,12,000.

Pass the necessary Journal entries and prepare the revised Balance Sheet of the firm. (N.C.E.R.T.)

Solution

In the Books of Dinesh, Ramesh and Suresh

Journal Entries

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
2017 April 1	Fixed Assets A/c	Dr.		51,000	
	To Revaluation A/c				51,000
	(Being increase in value of the fixed assets)				
	Revaluation A/c	Dr.		11,000	
	To Stock A/c				8,000
	To Provision for Doubtful Debts A/c				3,000
	(Being decrease in value of stock and creation of provision of doubtful debts)				
	Revaluation A/c	Dr.		40,000	
	To Dinesh's Capital A/c				15,000
	To Ramesh's Capital A/c				15,000
	To Suresh's Capital A/c				10,000
	(Being profit on revaluation transferred to Partners' Capital A/cs in old profit-sharing ratio)				
	General Reserve A/c	Dr.		80,000	
	To Dinesh's Capital A/c				30,000
	To Ramesh's Capital A/c				30,000
	To Suresh's Capital A/c				20,000
	(Being general reserve transferred to Partners' Capital A/cs in old profit-sharing ratio)				

Working Note :

1. *Calculation of Gain or Sacrifice of Partners :*

	Dinesh	Ramesh	Suresh
(A) Old Share	3/8	3/8	2/8
(B) New Share	1/3	1/3	1/3
Difference (A – B)	1/24 (Sacrifice)	1/24 (Sacrifice)	(–) 2/24 (Gain)

Dr. **Revaluation Account** Cr.

Particulars	Amount	Particulars	Amount
	₹		₹
To Stock	8,000	By Fixed Assets	51,000
To Provision for Doubtful Debts	3,000		
To Profit transferred to : ₹			
Dinesh's Capital A/c 15,000			
Ramesh's Capital A/c 15,000			
Suresh's Capital A/c 10,000	40,000		
	51,000		51,000

Existing Partners' Capital Accounts

Particulars	Dinesh	Ramesh	Suresh	Particulars	Dinesh	Ramesh	Suresh
	₹	₹	₹		₹	₹	₹
To Balance c/d	1,45,000	1,25,000	1,00,000	By Balance b/d	1,00,000	80,000	70,000
				By Revaluation A/c	15,000	15,000	10,000
				By General Reserve A/c	30,000	30,000	20,000
	1,45,000	1,25,000	1,00,000		1,45,000	1,25,000	1,00,000

Balance Sheet of the Reconstituted Firm

(*as on April 1, 2017*)

Liabilities		Amount	Assets		Amount
		₹			₹
Sundry Creditors		1,50,000	Cash at Bank		40,000
Partners' Loan :	₹		Bills Receivable	₹	50,000
Dinesh	40,000		Sundry Debtors	60,000	
Ramesh	30,000	70,000	Less : Prov. for Doubtful Debts	3,000	57,000
Capitals :			Stock		1,12,000
Dinesh	1,45,000		Fixed Assets		3,31,000
Ramesh	1,25,000				
Suresh	1,00,000	3,70,000			
		5,90,000			5,90,000

Miscellaneous and Boards' Questions

Problem 23

X, Y and Z are partners sharing profits and losses in the ratio of 4 : 3 : 2. Goodwill does not appear in the books, but its worth is ₹ 36,000. The partners decide to share future profits in equal proportion. Give a Journal entry to record the above change. Also indicate the individual partner's gain or loss due to change in ratio. Show your working notes clearly. (B.S.E.B., 2013)

Solution

Calculation of Gain or Sacrifice

Old Ratio : X : Y : Z = 4 : 3 : 2 or 4/9 : 3/9 : 2/9

New Ratio : X : Y : Z = 1 : 1 : 1 or 1/3 : 1/3 : 1/3

	X	Y	Z
Sacrifice = Old Share – New Share	$\frac{4}{9}-\frac{1}{3}$	$\frac{3}{9}-\frac{1}{3}$	$\frac{2}{9}-\frac{1}{3}$

$= \frac{4-3}{9}$ $= \frac{3-3}{9}$ $= \frac{2-3}{9}$

$= \frac{1}{9}$ $= 0$ $= (-)\left(\frac{1}{9}\right)$

Sacrifice Nil Gain

So, X Sacrifices $\frac{1}{9}$th share in favour of Z.

Journal Entry

Date	Particulars		L.F.	Dr. Amount ₹	Cr. Amount ₹
	Z's Capital A/c	Dr.		4,000	
	To X's Capital A/c				4,000
	(Goodwill accounted for on change in profit-sharing ratio)				

Working Note :

Goodwill = ₹ 36,000

Z's Gain = $\frac{1}{9}$ × 36,000 = ₹ 4,000

X's Sacrifice = $\frac{1}{9}$ × 36,000 = ₹ 4,000

Problem 24

P, Q and R are partners sharing profits and losses in the ratio of 3 : 3 : 2. Their Balance Sheet as on 31st March, 2017 was as follows :

Liabilities		₹	Assets	₹
Creditors		6,000	Cash	3,700
Capital :	₹		Debtors	4,400
P	20,000		Stock	12,000
Q	15,000		Machinery	15,900
R	15,000	50,000	Building	20,000
		56,000		56,000

Partners decided that with effect from 1st April, 2017 they would share profits and losses in the ratio of 4 : 3 : 2. It was agreed that :

(i) Stock to be valued at ₹ 11,000.

(ii) Machinery to be depreciated by 10%.

(iii) Building to be appreciated by 20%.

Pass necessary Journal entries. (J.A.C., 2014)

Solution

Journal Entries

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
2017 April, 1	Revaluation A/c	Dr.		2,590	
	To Stock A/c				1,000
	To Machinery A/c				1,590
	(Being the decrease in the value of assets)				

Particulars		L.F.	Dr. ₹	Cr. ₹
Building A/c	Dr.		4,000	
To Revaluation A/c				4,000
(Being appreciation in the value of building)				
Revaluation A/c			1,410	
To P's Capital A/c				528.75
To Q's Capital A/c				528.75
To R's Capital A/c				352.50
(Being transfer of profit on revaluation to the Capital A/cs of partners in old profit-sharing ratio)				

Working Note :

Revaluation Account

Particulars		₹	Particulars	₹
To Stock A/c		1,000	By Building A/c	4,000
To Machinery		1,590		
To Profit on Realisation transferred to :	₹			
P's Capital (3/8)	528.75			
Q's Capital (3/8)	528.75			
R's Capital (2/8)	352.50	1,410		
		4,000		4,000

Problem 25

The Balance Sheet of P, Q and R sharing profits and losses in the ratio of 2 : 2 : 1 as on 31st March, 2017 is as follows :

Liabilities		₹	Assets	₹
Creditors		30,000	Cash	3,300
Capital :	₹		Bank	12,500
P	60,000		Debtors	25,200
Q	60,000		Stock	30,000
R	30,000	1,50,000	Fixed Assets	1,09,000
		1,80,000		1,80,000

From 1st April, 2017, they decide that profit-sharing ratio among them and their capital should be equal. The total capital of the firm is to remain at ₹ 1,50,000. Any deficiency in the capital of a partner is to be brought in cash and any surplus in capital to be paid in cash. Pass Journal entries to record the above. (J.A.C., 2015)

Solution

Total Capital of the Firm = ₹ 1,50,000

∴ Capital Contribution by each Partner = ₹ 1,50,000 × $\frac{1}{3}$ = ₹ 50,000

	P (₹)	Q (₹)	R (₹)
(A) Capital now required	50,000	50,000	50,000
(B) Old Capital	60,000	60,000	30,000
Excess Capital to be Withdrawn (B – A)	10,000	10,000	—
Capital Deficiency to be brought in (A – B)	—	—	20,000

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Journal Entries

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
	Bank A/c	Dr.		20,000	
	To R's Capital A/c				20,000
	(Being the amount brought in by R to meet capital deficiency)				
	P's Capital A/c	Dr.		10,000	
	Q's Capital A/c			10,000	
	To Bank A/c				20,000
	(Being the excess capital withdrawn by P and Q)				

Problem 26

The Balance Sheet of V, N and K sharing profits and losses in the ratio 3 : 2 : 1 as on 31st March, 2015 is as follows :

Liabilities		₹	Assets	₹
Creditors		2,10,000	Cash	50,000
Capital :	₹		Stock	1,50,000
V	1,50,000		Machinery	2,00,000
N	1,00,000		Building	1,10,000
K	50,000	3,00,000		
		5,10,000		5,10,000

Partners decided that with effect from 1st April, 2015 they would share profits and losses in the ratio of 3 : 2 : 2. It was agree that :

(a) Stock to be valued at ₹ 1,30,000.

(b) Machinery to be depreciated by 10%.

(c) Building to be appreciated by 25%.

Pass necessary Journal entries. (*J.A.C.*, 2016)

Solution

Journal Entries

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
	Revaluation A/c	Dr.		40,000	
	To Stock A/c				20,000
	To Machinery A/c				20,000
	(Being decrease in the value of stock and depreciation on machinery)				
	Building A/c	Dr.		27,500	
	To Revaluation A/c				27,500
	(Being appreciation in the value of building)				
	V's Capital A/c	Dr.		6,250	
	N's Capital A/c	Dr.		4,167	
	K's Capital A/c	Dr.		2,083	
	To Revaluation A/c				12,500
	(Being loss on revaluation transferred to Partners' Capital A/cs in old profit-sharing ratio)				

Working Note :

Loss on Revaluation A/c = ₹ 40,000 (Dr.) – 27,500 (Cr) = ₹ 12,500.

Problem 27

R, S and T were in partnership in a firm sharing profits in the ratio of 1 : 2 : 3. Their Balance Sheet as on 31.3.2015 was as follows :

Balance Sheet of R, S and T (*as on* 31.3.2015)

Liabilities		Amount ₹	Assets	Amount ₹
Creditors		50,000	Land	50,000
Bills Payable		20,000	Building	50,000
General Reserve		30,000	Plant	1,00,000
Capital :	₹		Stock	40,000
R	1,00,000		Debtors	30,000
S	50,000		Bank	5,000
T	25,000	1,75,000		
		2,75,000		2,75,000

R, S and T decided to share the profits equally with effect from 1.4.2015. For this it was agreed that :

(a) Goodwill of the firm be valued at ₹ 1,50,000.

(b) Land be revalued at ₹ 80,000 and building be depreciated by 6%.

(c) Creditors of ₹ 6,000 were not likely to be claimed and hence be written off.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the reconstituted firm. (*C.B.S.E. A.I.*, 2016)

Solution

Revaluation Account

Dr. Cr.

Particulars		₹	Particulars	₹
To Building A/c		3,000	By Land A/c	30,000
To Profit transferred to			By Creditors A/c	6,000
Capital A/cs :	₹			
R	5,500			
S	11,000			
T	16,500	33,000		
		36,000		36,000

Partners' Capital Accounts

Particulars	R ₹	S ₹	T ₹	Particulars	R ₹	S ₹	T ₹
To T's Capital A/c	25,000	—	—	By Balance b/d	1,00,000	50,000	25,000
To Balance c/d	85,500	71,000	81,500	By Revaluation A/c (Profit)	5,500	11,000	16,500
				By General Reserve A/c	5,000	10,000	15,000

				By R's Capital A/c	—	—	25,000
	1,10,500	71,000	81,500		1,10,500	71,000	81,500

Balance Sheet of the Reconstituted Firm

Liabilities	₹	₹	*Assets*	₹	₹
Creditors	50,000		Land		80,000
Less : Unclaimed Creditors	6,000	44,000	Building	50,000	
Bills Payable		20,000	*Less* : Depreciation	3,000	47,000
Capital :			Plant		1,00,000
R	85,500		Stock		40,000
S	71,000		Debtors		30,000
T	81,500	2,38,000	Bank		5,000
		3,02,000			3,02,000

Working Notes :

1. *Calculation of Sacrifice or Gain* :

$R = \frac{1}{6} - \frac{1}{3} = \frac{1}{6}$ (Gain); $S = \frac{2}{6} - \frac{1}{3} =$ (Nil); $T = \frac{3}{6} - \frac{1}{3} = \frac{1}{6}$ (Sacrifice).

Share of Goodwill credited to T = ₹ 1,50,000 × $\frac{1}{6}$

= ₹ 25,000

2. Since R gains and T sacrifices, R will Compensate T.

R's Capital A/c	Dr.	25,000	
To T's Capital A/c			25,000