CHAPTER -4
CHANGE IN PROFIT SHARING RATIO AMONG THE EXISTING PARTNERS

Meaning of Reconstitution of Partenrship firm	Whenever old partnership deed comes to an end and a new partnership deed is formed, it is called reconstitution of partnership firm, In other words any change in existing agreement of partnerships is "Reconstitution of Partneship''vfvcvc c
When reconstitution of partnership takes place	Reconstitution of partnership takes place in the following circumstances: 1. Change in proft sharing ratio among existing partners. 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 in profit sharing ratio?	It leads to dissolution of partnership and not the dissolution of the firm because the existing partnership agreement ends and the new agreement comes into effect.
Issues which are to be dealt with at the time of change in profit sharing ratio	1. Determination of sacrificing ratio and gaining ratio. 2. Accounting treatment of Goodwill. 3. Accounting treatment of Reserves accumulated profits or losses. 4. Revaluation of Assests and reassessment liabilities. 5. Adjustment of Capital
Why do partner's change their profit sharing ratio?	This may happen on account of a change in the existing 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 computed?	1. In case of change in Profit sharing ratio 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

NEW PROFIT SHARING RATIO	The ratio in which the partners agree to share the profits in furture on reconstitution is known as new sharing ratio.
TREATMENT OF GOODWILL IN CASE OF CHANGE IN PROFIT SHARING RATIO	**A) WHEN GOODWILL IS ADJUSTED THROUGH PARTNER'S CAPITAL ACCOUNTS** **i) In case of Fluctuating Capitals** Gaining Partner's Capital Accounts Dr. To Sacrificing Partner's Capital Accounts (Being adustment made for goodwill on change in profit sharing ratio) **ii) In case of Fixed Capitals** Gaining Partner's Current Accounts Dr. To Sacrificing Partner's Current Accounts (Being adustment made for goodwill on change in profit sharing ratio) **B) WHEN GOODWILL IS RAISED & WRITTEN OFF** **i) In case of Fluctuating Capitals** Goodwill Account Dr. To Partner's Capital Accounts (Being the goodwill raised among partners 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 Partner's Current Accounts . (Being the goodwill raised among partner's in old ratio) Partner's Current Accounts Dr. To Goodwill Accout (Being the goodwill written off among partners in new ratio)

	C) WHEN EXISTING GOODWILL IS WRITTEN OFF All Partner's Capital Accounts/Current A/c Dr. To Goodwill Account (Being the goodwill written off among partners in old ratio)
TREATMENT OF RESERVES, ACCUMULATED PROFITS & LOSSES	Accumulate Profits include credit balance of P& L A/c, General Reserves, Resseve Fund, Workmen Compensation Reserve, Investment Fluctuation Reserve etc. Accumulated Losses include debit balance of P& L A/c, Deferred Revenue Expenditure i.e. Advertisement Suspense A/c. **A) WHEN QUESTION IS SILENT OR WHEN ACCUMULATED PROFITS OR LOSSES ARE TO BE DISTRIBUTED OR WHEN ACCUMULATAED PROFITS OR LOSSES ARE NOT TO BE SHOWN IN NEW BALANCE SHEET** Contengency Reserve A/c Dr. Reserve Ac/ Dr. P & L A/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& L A/c (Dr Balance) To Defered Revenue exp. A/c **B) WHEN ACCUMULATED PROFITS OR LOSSES ARE NOT TO BE DISTRIBUTED OR WHEN ACCUMULATAED PROFITS OR LOSSES ARE TO BE SHOWN IN NEW BALANCE SHEET AT SAME BOOK VALUE** Calculate the net effect of Reserfves, Accumulate 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 Accounts Dr. To Sacrificing Patner's Capital/Current Accounts **ii) In case the Net Effect is Negative** Sacrificing Partner's Capital/Current/Accounts Dr. To Gaining Patner's Capital/Current Accounts

TREATMENT OF WORKMEN 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 Partner's Capital/Current A/cs Dr.

CASE 3 BV > MV	**i) When Fall in value is less than investment Fluctuation 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 Fluctuation 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 stands for Book value of Investments
Mv Stands for Market vale of Investments

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 & LIABILITIES ARE TO BE RECORDED

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

Dr. Revaluation A/c Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
to Asset (decrease in value)	xxx	By Asset (increase in value)	xxx
To Liability (increase in value)	xxx	By Liability (decrease in value)	xxx
To Unrecorded liability	xxx	By Unrecorded asset	xxx
To Profit (transferred to partner's capital account in old ratio	xxx	By Loss (transferred to partner's capital account in old ratio)	xxx
Total	xxx	Total	xxx

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	**Gain/Loss**

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

$A = \frac{5}{10} - \frac{2}{5} = \frac{5-4}{10} = \frac{1}{10}$ Sacrifice

$B = \frac{3}{10} - \frac{2}{5} = \frac{3-4}{10} = \frac{-1}{10}$ Gain

$C = \frac{2}{10} - \frac{1}{5} = \frac{2-2}{10} = 0$

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 A/C**

Average Profit $= \dfrac{₹\,42{,}000 + ₹\,48000 + ₹\,60{,}000}{3}$

= **₹ 50,000**

Goodwill = **₹ 50,000** x 2 = **₹ 1,00,000**

Sacrificing/ Gaining Ratio

A $= \dfrac{5}{10} - \dfrac{9}{20} = \dfrac{10-9}{20} = \dfrac{1}{20}$ (Sacrifice)

B $= \dfrac{4}{10} - \dfrac{6}{20} = \dfrac{8-6}{20} = \dfrac{2}{20}$ (Sacrifice)

C $= \dfrac{1}{10} - \dfrac{5}{20} = \dfrac{2-5}{20} = \dfrac{-3}{20}$ (Gain)

Journal

Date	Particulars	l.f	Dr.	
1st April 2019	A' Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Goodwill A/c (Being existing goodwill written off)		5000 4000 1000	 10,000

Journal

Date	Particulars	l.f	Dr.	
1st April 2019	C's Capital A/c Dr. To A's Capital A/c To B's Capital A/c (Being goodwill adjusted due to change in profit sharing ratio)		15000	 5,000 10,000

WHEN GOODWILL IS RAISED & WRITTEN OFF

Journal

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

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)

Journal

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

ii) ADJUSTMENT ENTRY

1st April 2019	Z's Capital A/c Dr.	22,500	
	To x's Capital A/c		22,500
	(Being adjustment madr for net reserves & losses)		

Here, Reserves & Losses will appear in Balance Sheet of New Firm as their old values

Working Notes

1) Calculation of Net Effect of Reserves & Profit

General Reserve	75,000
Workmen Compensation Resrve	12500
Profit & Loss A/c	37500
	1,25,000
Less: Advertisement Suspense A/c (Dr).	(50,000)
	75,000

2) Calculation of Sacrificing/Gaining Ratio

X + $\frac{5}{10} - \frac{2}{10} = \frac{3}{10}$ Sacrifice

Y = $\frac{3}{10} - \frac{3}{10} = 0$ Sacrifice

Z = $\frac{2}{10} - \frac{5}{10} = \frac{-3}{10}$ Gain

REVALUATION OF ASSETS & LIABILITIES

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 creditors 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 A/c Dr. To Stock To Machinery To Provision for doubtful debts A/c (Revaluation of assets)		56,200	 20,000 31,800 4,400
1st April 2019	Building A/c Dr. Sundry creditor A/c Dr. To Revaluation A/c (Revaluation of assets and liabilities)		80,000 5,000	 85,000
1st April 2019	Revalutin A/c Dr. To Piyush's capital A/c To Pooja's capital A/c To Praveen's capital A/c (Profit on revaluation)		28,000	 10,800 10,800 7,200

Dr

Relaluation Account

Liabilities		(₹)	Assets	(₹)
To Stock		20.,000	By Building	80,000
To Machinery			By Sundry creditors	5,000
To Provision for doubtful debts		31,800		
To profits transferred to capital accounts of:		4,400		
Piyush	10,800			
Pooja	10,800	28,800		
Praveen	7,200	85,000		85,000

Partner's Capital A/cs

Particulars	Piyush	Pooja	Praveen	Particulars	Piyush	Pooja	Praveen
To balance	4,10,800	3,10,800	3,07,200	By bal. b/d by Revaluation A/c	4,00,000 10,800	3,00,000 10,800	3,00,000 7,200
	4,10,800	3,10,800	3,07,200		4,10,800	3,10,800	3,07,200

Balance Sheet

As on April 1,2019

Liabilities		(₹)	Assets		(₹)
Sundry creditiors		43,000	Cash at bank		74,000
Bank Loan		72,000	Sundry debtors	88,000	83,600
Capital acconts:			Less: provision 5%	(4,400)	
Piyush 4,10,800			Stock		2,20,000
Pooja	3,10,800		Machninery		2,86,200
Praveen	307200	1028800	Building		4,80,000
		11,43,800			**11,43,800**

Illustration 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 Apr.1	Piyush's capital A/c Dr.		2,000	
	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 Capital A/c	1,200			By Balance b/d	4,00,000	3,00,000	3,00,000
To Praveen Capital A/c	800			By Piyush's Capital A/c		1,200	800
To Balance c/d	398,000	3,01,200	3,00,800				
	4,00,000	**3,01,200**	**3,00,800**		**4,00,000**	**3,01,200**	**3.00,800**

Balance Sheet

As on April 1 ,2019

Balance Sheet of Piyush, Pooja and Praveen

Liabilities		(₹)	Assets	(₹)
Sundry creditiors		48,000	Cash at bank	74,000
Bank Loan		72,000	Sundry debrors	88,000
Capital account			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		**11,20,000**

W.Note-1 Calculation of Gain due to revaluation

Building	80,000
Sundry Creditors	5,000
Total	85,000
Less Loss due to revaluation	
Of Stock	(20,000)
Machinery	(31, 800)
Provision for Doubtfurl Debts	(4,400)
Net Gain	**28,800**

2. Calculation of Sacrificing / Gaining Ratio -

Piyush = $\frac{3}{8} - \frac{4}{9} = \frac{27-32}{72} = \frac{5}{72}$ (Gain)

Pooja = $\frac{3}{8} - \frac{3}{9} \quad \frac{27-24}{72} = \frac{3}{72}$ (Sacrifice)

Praveen = $\frac{2}{8} - \frac{2}{9} \quad \frac{18-16}{72} = \frac{2}{72}$ (Sacrifice)

Amount Sacrificed/Gained-

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 Dr		20.000	
	To Investment			6,000
	To Bhavya's Capital A/c			6,000
	To Sakshi's Capital A/c			4,000
	(Being Investment Fluctuation Fund adjusted against the Fluctuations in market Value and balance was distributed anongst partners)			
31.3.18	Sakshi's Capital A/c Dr		2,400	
	To Bhavya's Capital A/c			2,400
	(Being adjustment of goodwill made betwen partners due to change in profit sharing ratio between partners)			
31.3.18	Sakshi's Capital A/c Dr		2,340	
	To Bhavya's Capital A/c			2,340
	(Being Genrral Reserve adjusted among the partners without writing it off)			

Sacrificing ratio = old ratio- new ratio

Bhavya'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
A	50,000		Current Assets	35,000
B	40, 000			
C	30,000	1,20,000		
Reserve Fund		18,000		
Creditors		27,000		
Employees Pereovident 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. Amounts (Rs)	Cr. Amount (Rs)
	C's Capital Account Dr.		50,000	
	To A's Capital Account			50,000
	(Treatment of goodwill due to change in profit sharing ratio)			
	Reserve Fund Account Dr.		18,000	
	To A's Capital Account			
	To B's Capital Account			9,000
	To C's Capital Account			6,000
	(Reserve Fund transferred to partners' capital acconts in their old profit sharing ratio)			3,000
	Rervaluation Account Dr.		18,000	
	To Fixed Assets Account			18,000
	(Revaluation of Fixed assets on change in profit sharing ratio)			
	A's Capital Account Dr.		9,000	
	B's Capital Account Dr.		6,000	
	C's Capital Account Dr.		3,000	
	To Revaluation Acount			
	(Loss on revaluation transrerred to partners' capital acconts)			18,000
	A's Capital Account Dr.		60,000	
	To A's Current Account			60,000
	(Adjustment of capital by opening of currentg acconts			
	C's Current Account Dr.		60,000	
	To C's Capital Account			60,000
	(Adjustment of capital by opening of currentg acconts			

Practice Exercise

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 1/5th 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
P	200000		Current Assets	5,30,000
Q	300000			
R	400000			
S	500000	14,00,000		
Sundry Creditors		2,30,000		
Workman Compensation Reserve		1,70,000		18,00,000
		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 th be 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 ₹ 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
	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 liablities 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	Revalutution A/c To Stock To Machinery A/c		(a)	(b)
April	Dr			(c)
1	To Provision for Doubtful Debit A/c			(d)
	(For Decrease in the value of assets and pro-		(e)	
	visions made for D/D)		3000	43000
April	Building A/c Dr.		(f)	(g)
1	Creditors A/c Dr.			(h)
	To Revaluation A/c			(i)
	(For increase in the value of assets and de-			
	crease in the value of liablities)			(k)
				(i)
April	P's Capital A/c Dr.		(j)	
1	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		(m)	
April	To Q's Capital A/c		(n)	
1	To R's Capital A/c		(o)	
	To (P)			
	(For tranfer of advertisement expenditure to all partners on (q)			

CHAPTER-4 CHANGE IN PROFIT SHARING RATIO

MCQs AMONG THE EXISTING PARTNERS

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	7,00,000	8,50,000
Stock	2,50,000	2,20,000
Sundry Crditor's	3, 50,000	3, 35, 000
Outstanding Rent	2,35,000	2,80,000

The Single Adjustment entry will be

a) Dr. C by (₹) 27000; Cr. A by (₹) 27000;
b) Dr A by (₹) 27000; Cr. C by (₹) 27000;
c) Cr. B by (₹) 27000; Cr. A by (₹)27000;
d) Dr A by (₹) 27000; Cr. B by (₹) 27000;

Answers to MCQ

1. d
2. b
3. a
4 b
5. a

Answers to Practice Exercise

Q. B's Capital A/c Dr 3000

C' s Capital A/c Dr 12000
To A's Capital Ac 15,000

Q. 2. Keshav's Capital A/c Dr. 32000
To Meenakshi's Capital A/c 16000
To Mohit's Capital A/c 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 = ₹ 30, 000
P' s Current A/c (Dr) ₹ 18600
Q's Current A/c) (Dr) ₹ 14000;
R's Current A/c ₹ 38000;
R's Current A/c ₹ 1,62,000

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	g) 5,475	h) 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	