

CONCEPT

CH 3 Change in Profit Sharing Ratio (V.V.V. easy)

→ Change in P/S/R means "reconstitution of firm"

A B C
  

3 : 2 : 1

old Ratio



A B C
  

5 : 3 : 2

New Ratio

→ The partner whose share of profit decreases due to change in P/S/R is known as Sacrificing partner (नुकसान)

→ The partner whose share of profit increases due to change in P/S/R is known as GAINING partner (फायदा)

→ TOPICS

1. Sacrificing Ratio, Gaining Ratio & New Ratio
2. Treatment of Goodwill
3. Treatment of Reserves (including ② special Reserves)
 मंडका
 chocolate
4. Treatment of Accumulated Losses i.e. fictitious assets
 दूड़ा
5. Revaluation of Assets & liabilities
6. Preparation of Balance sheet (along with Capital A/c)

x — x — x — x — x — x — x — x

I. SACRIFICING & GAINING RATIO

	old share	-	New share	
A	xx	(-)	xx	= xx (Sacrifice)
B	xx	(-)	xx	= (-)xx (Gain)

$$c \quad \times \times \quad (-) \quad \times \times \quad = \quad \Delta \Delta \text{ (Sacrifice)}$$

eg ① A, B, C are 1:1:1 partners. They change the ratio to 3:2:1 find (i) Gaining Ratio
(ii) Sacrificing Ratio

Sol:-

	old share	-	New share	=	
A	$\frac{1}{3}$	(-)	$\frac{3}{6}$	=	$(-) \frac{1}{6}$ (Gain)
B	$\frac{1}{3}$	(-)	$\frac{2}{6}$	=	0
C	$\frac{1}{3}$	(-)	$\frac{1}{6}$	=	$\frac{1}{6}$ (Sacrifice)

- (i) Gaining Ratio $\Rightarrow$ Only (A) Gains
(ii) Sacrificing Ratio $\Rightarrow$ Only (C) sacrifices

eg ② A, B, C, D are 1:2:3:4 partners. They change the ratio to 1:4:2:3 find
(i) Gaining Ratio
(ii) Sacrificing Ratio

Sol:-

	old share	-	New share	=	
A	$\frac{1}{10}$	(-)	$\frac{1}{10}$	=	0
B	$\frac{2}{10}$	(-)	$\frac{4}{10}$	=	$(-) \frac{2}{10}$ (gain)
C	$\frac{3}{10}$	(-)	$\frac{2}{10}$	=	$\frac{1}{10}$ (sacr)
D	$\frac{4}{10}$	(-)	$\frac{3}{10}$	=	$\frac{1}{10}$ (sacr)

(i) Gaining Ratio $\Rightarrow$ Only (B) gains

(ii) Sacrificing Ratio $\Rightarrow$ $\frac{1}{10} : \frac{1}{10} = \frac{1:1}{10}$
 $= 1:1$

eg ③ X, Y, Z, W are 4:3:2:1 partners.

W acquires $\frac{1}{5}$ from Y. Find (i) New Ratio
(ii) Sacrificing

Q ~

W acquires $\frac{1}{5}$ from Y. Find (i) New Ratio
 (ii) Sacrificing Ratio

Sol:-

(X)	$\frac{4}{10}$	sacrifice	=	$\frac{4}{10}$ ✓
(Y)	$\frac{3}{10}$	(-) $\frac{1}{5}$	=	$\frac{3-2}{10} = \frac{1}{10}$
Z	$\frac{2}{10}$	Gain	=	$\frac{2}{10}$
W	$\frac{1}{10}$	(+) $\frac{1}{5}$	=	$\frac{1+2}{10} = \frac{3}{10}$

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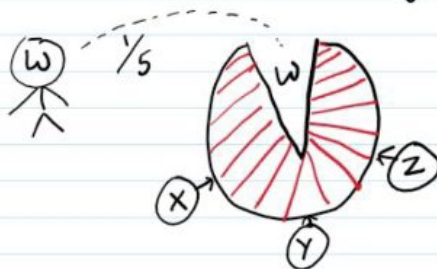
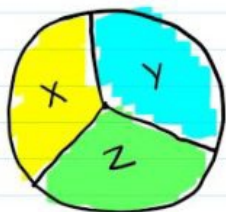
(i) New Ratio = $\frac{4}{10} : \frac{1}{10} : \frac{2}{10} : \frac{3}{10}$
 = $4 : 1 : 2 : 3$

(ii) Sacrificing Ratio = Only (Y) sacrifices

eg (4) X, Y, Z are equal partners. W is admitted
 for $\frac{1}{5}$ th share. Find (i) New Ratio
 (ii) Sacrificing Ratio.

Refer
CH-4

Sol:-



Let total share = 1

W's share = $\frac{1}{5}$

Remaining share (for X, Y, Z) = $1 - \frac{1}{5} = \left(\frac{4}{5}\right)$

X's New share = $\frac{4}{5} \times \frac{1}{3} = \frac{4}{15}$

Y's New share = $\frac{4}{5} \times \frac{1}{3} = \frac{4}{15}$

Z's New share = $\frac{4}{5} \times \frac{1}{3} = \frac{4}{15}$

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$$Z's \text{ New share} = \frac{4}{5} \times \frac{1}{3} = \frac{4}{15}$$

$$\begin{aligned} \text{(i) New Ratio } (x, y, z, w) &= \frac{4}{15} : \frac{4}{15} : \frac{4}{15} : \frac{1}{5} \\ &= \frac{4 : 4 : 4 : 3}{15} \\ &= 4 : 4 : 4 : 3 \end{aligned}$$

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(ii)

old share (-) New share

x	$\frac{1}{3}$	(-)	$\frac{4}{15}$	=	$\frac{5-4}{15} = \frac{1}{15}$ (sacr)
y	$\frac{1}{3}$	(-)	$\frac{4}{15}$	=	$\frac{5-4}{15} = \frac{1}{15}$ (sacr)
z	$\frac{1}{3}$	(-)	$\frac{4}{15}$	=	$\frac{5-4}{15} = \frac{1}{15}$ (sacr)
w	0	(-)	$\frac{3}{15}$	=	(-) $\frac{3}{15}$ (gain)

$$\begin{aligned} \text{Sacrificing Ratio } (x, y, z) &= \frac{1}{15} : \frac{1}{15} : \frac{1}{15} \\ &= 1 : 1 : 1 \end{aligned}$$

eg (5) x, y, z are 3:2:1 partners.

x acquires $\frac{1}{5}$ of z. Find New Ratio
लेता का...

Sol:-

$$\begin{aligned} x &: \frac{3}{6} (+) \left(\frac{1}{6} \times \frac{1}{5} \right) = \frac{15+1}{30} = \frac{16}{30} \\ y &: \frac{2}{6} = \frac{2}{6} \\ z &: \frac{1}{6} (-) \left(\frac{1}{6} \times \frac{1}{5} \right) = \frac{5-1}{30} = \frac{4}{30} \end{aligned}$$

60 chocolates

(x)	(y)	(z)
30	20	10
(+)2		(-)2

New Ratio $\frac{16}{30} : \frac{2}{6} : \frac{4}{30}$

(z) को जो मिलता है
में (x) उसका $\frac{1}{5}$

$$\frac{30 \quad 6 \quad 30}{16 : 10 : 4}$$

में (x) उसका $\frac{1}{5}$
लूंगा

$$= 16 : 10 : 4 \Rightarrow 8 : 5 : 2$$

eg ⑥ A, B, C, D, E are 1:2:3:4:5 partners.
A acquires $\frac{1}{5}$ of D. B acquires $\frac{1}{10}$ from
C and E in the ratio 3:2. Find New Ratio

Sol:-

A	$\frac{1}{15} + \left(\frac{4}{15} \times \frac{1}{5}\right)$	=	$\frac{5+4}{75} = \frac{9}{75}$
B	$\frac{2}{15} + \frac{1}{10}$	=	$\frac{4+3}{30} = \frac{7}{30}$
C	$\frac{3}{15} (-) \left(\frac{1}{10} \times \frac{3}{5}\right)$	=	$\frac{30-9}{150} = \frac{21}{150}$
D	$\frac{4}{15} - \left(\frac{4}{15} \times \frac{1}{5}\right)$	=	$\frac{20-4}{75} = \frac{16}{75}$
E	$\frac{5}{15} (-) \left(\frac{1}{10} \times \frac{2}{5}\right)$	=	$\frac{50-6}{150} = \frac{44}{150}$

$$\therefore NR = \frac{9}{75} : \frac{7}{30} : \frac{21}{150} : \frac{16}{75} : \frac{44}{150}$$

$$\frac{18 : 35 : 21 : 32 : 44}{150}$$

$$= 18 : 35 : 21 : 32 : 44$$

CONCEPT

Treatment of GOODWILL

Existing Goodwill

(i.e Goodwill already appearing in Balance Sheet)

B/S Asset			
		Goodwill	10,000

Non Existing Goodwill

(i.e Goodwill not appearing in Balance Sheet)

- Goodwill valued at -----

B/S			

--	--	--	--

Existing Goodwill is

ALWAYS ALWAYS ALWAYS

to be **WRITTEN OFF**

(B/S से हटाना है)

Partner's Capital/Current A/c Dr. ^{OLD Ratio} xx
To Goodwill A/c ^{asset (↓)} xx
(being existing Goodwill written off)

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→ Goodwill valued at ₹10,000

↓

Gaining P. Capital A/c Dr. xx
To Sacrificing P. Capital A/c - xx
(being Goodwill adjusted among partners)

* Goodwill × Gaining share

* Goodwill × Sacrificing share

Gaining Partner से उसे लेना
Sacrificing " को " देना

③

Treatment of Free Reserves ^{Chocolate}

{ General Reserve, Contingency Reserve,
Revenue Reserve, P+L A/c (credit) }

Those can be utilized in any manner i.e. no restriction

	B/S		
Chocolate - Free Reserve	10,000		

If Q is Silent

Partners want to **distribute** the reserve
(B/S से हटाओ)
↓

Free Reserve A/c Dr. xx
To Partner's Capital/Current A/c - **OLD Ratio**

(being F.R distributed)

Partners **do not** want to **distribute** the reserves i.e. they will continue to appear in B/S
↓

Gaining P. Capital A/c Dr. xx
To Sacrificing P. Capital A/c - xx
(being F.R adjusted among partners)

Treatment of Accumulated Losses

Treatment of Accumulated Losses

(Fictitious Assets - कृत्रिम)

{ Advertisement Suspense A/c , Deferred Revenue }
Expenditure , P & L A/c (Debit)

B/S		Asset	
		Fictitious asset	10,000

कृत्रिम
chocolate
का उलटा

If Q is Silent

Partners decide to write off the fictitious asset
(B/S से हटाना)



Partner's Capital/Current A/c Dr xx
To Fictitious Asset ——— xx
(being F. A written off)

OLD Ratio

Partners decide not to write off or not to disturb i.e. they will continue to appear in B/S



Sacrificing P. Capital A/c Dr xx
To Gaining P. Capital A/c — xx
(being F. A adjusted among partners)

x ————— x ————— x ————— x ————— x ————— x ————— x ————— x

PRACTICE

- ✓ 1. Om and Shyam are sharing profits and losses equally. With effect from 1st April, 2023, they agree to share profits in the ratio of 4:3. Calculate individual partner's gain or sacrifice due to the change in ratio.

[Ans.: Om gains and Shyam sacrifices 1/14th share.]

Sol:-

old share (-) New share

Om	$\frac{1}{2}$	(-)	$\frac{4}{7}$	=	(-) $\frac{1}{14}$	(gain)
Shyam	$\frac{1}{2}$	(-)	$\frac{3}{7}$	=	$\frac{1}{14}$	(sacr)

∴ Om Gains

Shyam Sacrifices

Shyam Sacrifices

- ✓ Ashok, Bhim and Chetan are sharing profits and losses in the ratio of **5 : 3 : 2**. With effect from 1st April, 2023, they decide to share profits and losses in the ratio of **5 : 2 : 3**. Calculate each partner's gain or sacrifice due to the change in ratio. [Ans.: Chetan gains 1/10th share and Bhim sacrifices 1/10th share.]

Sol:-

	old share	(-)	New share	
A	$\frac{5}{10}$	(-)	$\frac{5}{10}$	= 0
B	$\frac{3}{10}$	(-)	$\frac{2}{10}$	= $\frac{1}{10}$ (sacr)
C	$\frac{2}{10}$	(-)	$\frac{3}{10}$	= $(-)\frac{1}{10}$ (gain)

∴ B sacrifices
C gains

- ✓ 3. X, Y and Z are sharing profits and losses in the ratio of **5 : 3 : 2**. With effect from 1st April, 2023, they decide to share profits and losses **equally**. Calculate each partner's gain or sacrifice due to the change in ratio. [Ans.: Y gains 1/30th, Z gains 4/30th and X sacrifices 5/30th share.]

Sol:-

	old share	(-)	New share	
X	$\frac{5}{10}$	(-)	$\frac{1}{3}$	= $\frac{15(-)10}{30} = \frac{5}{30}$ (sacr)
Y	$\frac{3}{10}$	(-)	$\frac{1}{3}$	= $\frac{9(-)10}{30} = \frac{(-)1}{30}$ (gain)
Z	$\frac{2}{10}$	(-)	$\frac{1}{3}$	= $\frac{6(-)10}{30} = \frac{(-)4}{30}$ (gain)

X sacrifices, Y gains + Z gains.

- ✓ 4. A, B and C are partners sharing profits and losses in the ratio of **5 : 4 : 1**. Calculate new profit-sharing ratio, sacrificing ratio and gaining ratio in each of the following cases:

Case 1. As per new agreement, C acquires 1/5th share from A.

Case 2. As per new agreement, C acquires 1/5th share **equally** from A and B.

Case 3. As per new agreement, A, B and C **will share future profits and losses equally**.

Case 4. As per new agreement, C acquires 1/10th share of A and 1/2 share of B.

[Ans.: Case 1. New Profit-sharing Ratio—3 : 4 : 3; Sacrifice of A—1/5; Gain of C—1/5;
Case 2. New Profit-sharing Ratio—4 : 3 : 3; Sacrificing Ratio (A and B)—1 : 1; Gain of C—2/10;
Case 3. New Profit-sharing Ratio—Equal; Sacrificing Ratio (A and B)—5 : 2; Gain of C—7/30;
Case 4. New Profit-sharing Ratio—9 : 4 : 7; Sacrificing Ratio (A and B)—1 : 4; Gain of C—5/20.]

Case 2. New Profit-sharing Ratio—4 : 3 : 3; Sacrificing Ratio (A and B)—1 : 1; Gain of C—2/10;
 Case 3. New Profit-sharing Ratio—Equal; Sacrificing Ratio (A and B)—5 : 2; Gain of C—7/30;
 Case 4. New Profit-sharing Ratio—9 : 4 : 7; Sacrificing Ratio (A and B)—1 : 4; Gain of C—5/20.]

Sol:-

Case ①

	old share	Sacrifice		
A :	$\frac{5}{10}$	$(-) \frac{1}{5}$	$=$	$\frac{3}{10}$
B :	$\frac{4}{10}$	Gain	$=$	$\frac{4}{10}$
C :	$\frac{1}{10}$	$(+) \frac{1}{5}$	$=$	$\frac{3}{10}$

$\therefore \text{NR} = 3 : 4 : 3$
 SR = only A sacrifice
 GR = only C gains

Case ②

A :	$\frac{5}{10}$	$(-) \frac{1}{10}$	$=$	$\frac{4}{10}$	NR = 4 : 3 : 3
B :	$\frac{4}{10}$	$(-) \frac{1}{10}$	$=$	$\frac{3}{10}$	SR = 1 : 1 (A+B)
C :	$\frac{1}{10}$	$(+) \frac{1}{5}$	$=$	$\frac{3}{10}$	GR = only C gains

Case ③ old share (-) New share

A	$\frac{5}{10}$	(-)	$\frac{1}{3}$	$=$	$\frac{5}{30}$ (sacr)
B	$\frac{4}{10}$	(-)	$\frac{1}{3}$	$=$	$\frac{2}{30}$ (sacr)
C	$\frac{1}{10}$	(-)	$\frac{1}{3}$	$=$	$(-) \frac{7}{30}$ (gain)

SR = 5 : 2
(A & B)

GR = only C gains

Case ④

		A's sacrifice		New share
A	$\frac{5}{10}$	$(-) \left(\frac{5}{10} \times \frac{1}{10} \right)$	$=$	$\frac{45}{100}$
B	$\frac{4}{10}$	$(-) \left(\frac{4}{10} \times \frac{1}{2} \right)$	$=$	$\frac{4}{20} \times \frac{5}{5} = \frac{20}{100}$
C	$\frac{1}{10}$	$(+) \left(\frac{5}{10} \times \frac{1}{10} \right)$	$(+) \left(\frac{4}{10} \times \frac{1}{2} \right)$	$= \frac{35}{100}$
		C's Gain	C's Gain	

$\therefore \text{NR} = 45 : 20 : 35$

$$\therefore NR = 45 : 20 : 35$$

$$= 9 : 4 : 7$$

$$SR = A's \text{ sacrifice} : B's \text{ sacrifice}$$

$$(A \times B) = \frac{5}{100} : \frac{4}{20} \Rightarrow \frac{5 : 20}{100}$$

$$= 5 : 20 \Rightarrow 1 : 4$$

$$\therefore GR \Rightarrow \text{Only C gains}$$

100% NIL
5. Pranav, Karan and Rahim are partners sharing profits and losses in agreed ratio. With effect from 1st April, 2023, they agreed to share profit in the ratio of 3 : 3 : 4. To arrive at the new ratio, Rahim takes 1/5th share equally from Pranav and Karan. Calculate the old profit-sharing ratio. [Ans.: Old Ratio—2 : 2 : 1.]

$$\text{Sol:- } P \quad \text{old share } (-) \quad \frac{1}{10} = \frac{3}{10}$$

$$K \quad \text{old share } (-) \quad \frac{1}{10} = \frac{3}{10}$$

$$R \quad \text{old share } (+) \quad \frac{1}{5} = \frac{4}{10}$$

$$P's \text{ old share} = \frac{3}{10} + \frac{1}{10} = \frac{4}{10}$$

$$K's \text{ old share} = \frac{3}{10} + \frac{1}{10} = \frac{4}{10}$$

$$R's \text{ old share} = \frac{4}{10} (-) \frac{1}{5} = \frac{2}{10}$$

$$\therefore \text{Old Ratio} = 4 : 4 : 2$$

$$2 : 2 : 1$$

6. Asha, Nisha and Disha shared profits and losses in the ratio of 3 : 2 : 1 respectively. With effect from 1st April, 2023, they agreed to share profits equally. The goodwill of the firm was valued at ₹ 18,000. Pass necessary Journal entries to record the above change. Non Existing Goodwill
[Ans.: Dr. Disha's Capital A/c and Cr. Asha's Capital A/c by ₹ 3,000.]

Pass necessary journal entries to record the above change.

[Ans.: Dr. Disha's Capital A/c and Cr. Asha's Capital A/c by ₹ 3,000.]

Sol:-

Date	Particulars	Dr.	Dr (₹)	Cr (₹)
	D's Capital A/c To A's Capital A/c (being -----)	Dr.	3,000	3,000

WN:-

$$A : \frac{3}{6} (-) \frac{1}{3} = \frac{1}{6} \text{ (sacr)} \rightarrow \text{पैसे दे दोगें (Cr)}$$

$$N : \frac{2}{6} (-) \frac{1}{3} = 0$$

$$D : \frac{1}{6} (-) \frac{1}{3} = (-) \frac{1}{6} \text{ (gain)} \rightarrow \text{पैसे ले लेंगे (Dr)}$$

Goodwill = 18,000

8. Ram, Laxman and Bharat who were sharing profits and losses in the ratio of 5:3:2, decide to share profits and losses equally with effect from 1st April, 2023. Goodwill of the firm is valued at ₹ 4,50,000.

Goodwill is appearing in the books is at ₹ 75,000. Existing →

Nonexisting

Pass necessary Journal entries to record the above change.

[Ans.: For Goodwill Written off—Dr. Ram's Capital A/c by ₹ 37,500; Laxman's Capital A/c by ₹ 22,500; Bharat's Capital A/c by ₹ 15,000 and Cr. Goodwill A/c by ₹ 75,000.

For Adjustment of Goodwill—Dr. Laxman's Capital A/c by ₹ 15,000; Bharat's Capital A/c by ₹ 60,000 and Cr. Ram's Capital A/c by ₹ 75,000.]

Sol:-

(i)	R's Capital A/c L's Capital A/c B's Capital A/c To Goodwill A/c (being -----)	Dr. Dr. Dr.	37,500 22,500 15,000	75,000
(ii)	L's Capital A/c B's Capital A/c To R's Capital A/c (being -----)	Dr. Dr.	15,000 60,000	75,000

WN:-

$$R : \frac{5}{10} (-) \frac{1}{3} = \frac{5}{30} \text{ (sacr)}$$

$$L : \frac{3}{10} (-) \frac{1}{3} = (-) \frac{1}{30} \text{ (gain)}$$

$$B : \frac{2}{10} (-) \frac{1}{3} = (-) \frac{4}{30} \text{ (gain)}$$

Goodwill (Non Existing) = 450,000

$$b \quad \frac{1}{10} \quad \frac{1}{3} \quad - \quad \frac{1}{30} \quad (\text{gain})$$

✓ X, Y and Z are partners sharing profits and losses in the ratio of 5:3:2. From 1st April, 2023, they decided to share profits and losses equally. The Partnership Deed provides that in the event of any change in the profit-sharing ratio, goodwill is to be valued at two years' purchase of the average profit of the preceding five years. The profits and losses of the preceding years ended 31st March, are:

Year	2019	2020	2021	2022	2023
Profits (₹)	70,000	75,000	55,000	35,000	10,000 (Loss)

Calculate the value of goodwill and pass Journal entry.

[Ans.: Goodwill = ₹ 90,000; Dr. Y's Capital A/c by ₹ 3,000 and Z's Capital A/c by ₹ 12,000; Cr. X's Capital A/c by ₹ 15,000.]

Sol:- Goodwill = $\left(\frac{70000 + 75000 + 55000 + 35000 (-) 10000}{5} \right) \times 2$

$$= \left(\frac{225000}{5} \right) \times 2$$

$$= 45000 \times 2 \Rightarrow 90,000$$

NON existing

Y's Capital A/c	Dr 3000
Z's Capital A/c	Dr 12000
To X's Capital A/c	15,000

WN:-

$$X \quad \frac{5}{10} (-) \frac{1}{3} = \frac{5}{30} (\text{sacr})$$

$$Y \quad \frac{3}{10} (-) \frac{1}{3} = (-) \frac{1}{30} (\text{gain})$$

$$Z \quad \frac{2}{10} (-) \frac{1}{3} = (-) \frac{4}{30} (\text{gain})$$

9. A and B are partners in a firm sharing profits in the ratio of 2:1. They decided that with effect from 1st April, 2022 they would share profits in the ratio of 3:2. But, this decision was taken after the profit for the year ended 31st March, 2023 of ₹ 90,000 was distributed in the old profit-sharing ratio. **OMG !!** Firm's goodwill was valued on the basis of aggregate of two years' profits preceding the date decision became effective. Average - - - - -> plus करना

Profits for the years ended 31st March, 2021 and 2022 were ₹ 60,000 and ₹ 75,000 respectively. **Capital Accounts of the partners as at 31st March, 2023** stood at ₹ 1,50,000 for A and ₹ 90,000 for B.

Pass necessary Journal entries and prepare Partners' Capital Accounts.

[Ans.: Value of Goodwill—₹ 1,35,000; A's sacrifice—1/15 and B's Gain—1/15; For Adjustment of Profit: Dr. A's Capital A/c and Cr. B's Capital A/c by ₹ 6,000. For Adjustment of Goodwill: Dr. B's Capital A/c and Cr. A's Capital A/c by ₹ 9,000. Balances of: A's Capital A/c—₹ 1,53,000; B's Capital A/c—₹ 87,000.]

Sol:-

(i)
31 March
2023

B's Capital A/c ($135000 \times \frac{1}{15}$) Dr. 9000
To A's Capital A/c ————— 9000

(ii)
31 March
2023

A's Capital A/c Dr. 6000
To B's Capital A/c ————— 6,000

Dr				Capital A/c				Cr	
Date		A	B	Date		A	B		
31 March	To A's Capital A/c	-	9,000	31 March	By Balance b/d	150000	90000		
31 March	To B's Capital A/c	6,000	-	31 March	By B's Capital A/c	9000	-		
31 March	To Balance c/d (bal...)	153,000	87,000	31 March	By A's Capital A/c	-	6000		
		159000	96000			159000	96000		

WN:- $A : \frac{2}{3} (-) \frac{3}{5} = \frac{1}{15} \text{ (sacr)}$ $\times$ $G.W = 135000$
 $B : \frac{1}{3} (-) \frac{2}{5} = (-)\frac{1}{15} \text{ (gain)}$ $\times$

WN-2

	A	B
Wrong profit 90000 in 2:1 Dr	(-) 60000	(-) 30000
Correct profit 90,000 in 3:2 Cr	54000	36000
	(-) 6000	6000
	Dr	Cr

~~10, 11, 12~~ out of syllabus

3. Naman, Aman and Raman are partners sharing profits and losses in the ratio of 2:2:1. From 1st April, 2023, they decide to change the profit-sharing ratio. They pass the following adjustment entry for goodwill in the books:

JOURNAL

Date	Particulars	Goodwill	Gaining share	L.F.	Dr. (₹)	Cr. (₹)
2023						
April	1 Naman's Current A/c	(₹ 2,00,000) $\times \frac{3}{25}$	Dr. 24,000		24,000	
	Raman's Current A/c	(₹ 2,00,000) $\times \frac{2}{25}$	Dr. 16,000		16,000	
	To Aman's Current A/c	(₹ 2,00,000) $\times \frac{5}{25}$				40,000
	(Goodwill adjusted on change in profit-sharing ratio)					

Sacrificing share

Sacrificing share

Sacrificing partner

To Aman's Current A/c (₹ 2,00,000 × 5/25)
(Goodwill adjusted on change in profit-sharing ratio)

Sacrificing share

40,000

What will be the new profit-sharing ratio of partners assuming capital of partners are fixed?

[Ans.: New Profit-sharing Ratio—13 : 5 : 7]

Sol:-

Naman's Gaining share = $\frac{3}{25}$

Raman's Gaining share = $\frac{2}{25}$

Aman's Sacrificing share = $\frac{5}{25}$

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	old share			New share
N :	$\frac{2}{5}$	(+)	$\frac{3}{25}$	= $\frac{13}{25}$
A :	$\frac{2}{5}$	(-)	$\frac{5}{25}$	= $\frac{5}{25}$
R :	$\frac{1}{5}$	(+)	$\frac{2}{25}$	= $\frac{7}{25}$

∴ New Ratio = 13 : 5 : 7

14. Nitya and Anand are partners in a firm sharing profits and losses equally. With effect from 1st April, 2023, they decided to share future profits in the ratio of 3 : 2. On the date of change in the profit-sharing ratio, the Profit & Loss Account had a credit balance of ₹ 1,50,000. Pass the necessary Journal entry for the distribution of the balance in the Profit & Loss Account before the change in the profit-sharing ratio.

[Ans.: Dr. Profit & Loss A/c by ₹ 1,50,000; Cr. Nitya's Capital A/c by ₹ 75,000 and Anand's Capital A/c by ₹ 75,000.]

CHOCOLATE

Sol:-

P & L A/c

Dr. 150,000

To N's Capital A/c _____ 75,000

To A's Capital A/c _____ 75,000

OLP Ratio
1 : 1

18. Om and Shiv are partners in a firm sharing profits in the ratio of 4:1. They decided to share future profits in the ratio of 3:2 w.e.f. 1st April, 2023. On that day, Profit & Loss Account showed a debit balance of ₹ 1,00,000. Pass Journal entry to give effect to the above. क्या करना है? (कौनसा case?)

[Ans.: Dr. Om's Capital A/c by ₹ 80,000 and Shiv's Capital A/c by ₹ 20,000; Cr. Profit & Loss A/c by ₹ 1,00,000.]

कूड़ा

Old Ratio 4:1

Sol:-

Om's Capital A/c

Dr. 80,000

Shiv's Capital A/c

Dr. 20,000

To P & L A/c ————— 1,00,000

chocolate

21. Amar and Akbar are partners sharing profits in the ratio of 2:1. On 31st March, 2023, their Balance Sheet showed General Reserve of ₹ 60,000. It was decided that in future they will share profits and losses in the ratio of 3:2. Pass necessary Journal entry in each of the following alternative cases:

Case (i) When General Reserve is not to be shown in the new Balance Sheet. → Distribute

Case (ii) When General Reserve is to be shown in the new Balance Sheet. → Not to distribute (Adjust)

Case (i)

General Reserve A/c

Dr. 60,000

To Amar

————— 40,000

To Akbar

old Ratio 2:1

20,000

Case (ii)

Akbar's Capital A/c

Dr. 4,000

To Amar's Capital A/c

————— 4,000
(60,000 × 1/15)

WN

Amar :

$\frac{2}{3}$

(-)

$\frac{3}{5}$

=

$\frac{1}{15}$

(sacr)

Akbar :

$\frac{1}{3}$

(-)

$\frac{2}{5}$

=

$\frac{1}{15}$

(gain)

22. Mita, Gopal and Farhan were partners sharing profits and losses in the ratio 3:2:1. On 31st March, 2018 they decided to change the profit-sharing ratio to 5:3:2. On this date, the Balance Sheet showed Deferred Advertisement Expenditure ₹ 30,000 and Contingency Reserve ₹ 9,000.

Goodwill was valued at ₹ 4,80,000. Pass the necessary Journal entries for the above transactions in the

Deferred Advertisement Expenditure ₹ 30,000 and Contingency Reserve ₹ 9,000.

Goodwill was valued at ₹ 4,80,000. Pass the necessary Journal entries for the above transactions in the books of the firm on its reconstitution. (CBSE 2019)

		B	S		
Chocolate	Contingency Reserve	9,000	Deferred Adv. Exp	30,000	Dr. ST

Goodwill valued at ₹ 4,80,000

Case (i)

Contingency Reserve A/c	Dr. 9,000
To M	4,500
To G	3,000
To F	1,500

Old Ratio

Case (ii)

M	Dr. 15,000
G	Dr. 10,000
F	Dr. 5,000

To Deferred Advertisement expenditure — 30,000

Non Existing GW =

F's Capital A/c	Dr. 16,000
To G's Capital A/c	16,000

$(4,80,000 \times \frac{2}{60})$

WN :-

M	$\frac{3}{6}$	(-)	$\frac{5}{10}$	=	0
G	$\frac{2}{6}$	(-)	$\frac{3}{10}$	=	$\frac{2}{60}$ (sacr)
F	$\frac{1}{6}$	(-)	$\frac{2}{10}$	=	$(-)\frac{2}{60}$ (gain)

SUNIL
BODO
RAITO
919337668723

23. X, Y and Z are 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, 2023. They also decide to record the effect of the following accumulated profits, losses and reserves without affecting their book values by passing a single entry.

General Reserve
Profit & Loss A/c (Credit)
Advertisement Suspense A/c

DO NOT DISTURB

Case (2)

30,000

12,000

Book Values (₹)

6,000 - chocolate

24,000 - chocolate

12,000 - कूट

Pass an Adjustment Entry.

[Ans.: Dr. Z's Capital A/c and Cr. X's Capital A/c by ₹ 5,400.]

Case (2)

Net Amount = 30000 - 12000 = 18000

Sol:-

Z's Capital A/c (18000 × 3/10) Dr. 5400

To X's Capital A/c (18000 × 3/10) — 5400

WN:-

X $\frac{5}{10}$ (-) $\frac{2}{10}$ = $\frac{3}{10}$ (sacr)

Y $\frac{3}{10}$ (-) $\frac{3}{10}$ = 0

Z $\frac{2}{10}$ (-) $\frac{5}{10}$ = $(-\frac{3}{10})$ (gain)

*

Chocolate

Case (2)

Gaining P. Cap Dr. xx
To Sacrifying P. Cap xx

Chocolates > कूट

Net Amount

कूट

Case (2)

Sacrifying P. Cap Dr. xx
To Gaining P. Cap — xx

Chocolates < कूट

Net Amount

CONCEPT

Revaluation of Assets and liabilities

→ Whenever there is reconstitution of partnership firm (like change in PSR, admission of partner, retirement of partner or death of partner etc.) then revalue the

→ Whenever there is reconstitution of partnership firm (like change in PSR, admission of partner, retirement of partner or death of partner etc) then assets or liabilities may be revalued. We have to pass journal entries or prepare ledger A/c.

Revaluation A/c → **NOMINAL**
(P & L Adjustment A/c)

Dr				Cr
	₹	फायदा		₹
To decrease in Asset	xxx	By Increase in Asset	xxx	
To increase in liability	xxx	By decrease in liability	xxx	
To New liability	xxx	By new asset	xxx	
To Cash A/c (expenses)	xxx			
To GAIN on revaluation	(bal..)	By LOSS on revaluation	(bal..)	
	xxxx			xxxx

JOURNAL

(i) Revaluation A/c (नुकसान) ----- Dr xxx
 To Asset A/c (decrease) ----- (asset ↓)
 To liability A/c (increase) ----- (liability ↑)
 To liability A/c (New) ----- (liability ↑)
 To Cash A/c (expense) ----- (asset ↓)
 (being asset ↓, liab ↑) (cash)

(ii) Asset A/c (increase) Dr. Asset ↑
 liability A/c (decrease) Dr. liability ↓
 Asset A/c (New) Dr. Asset ↑
 To Revaluation A/c (फायदा) ----- xxx
 (being asset ↑, liability ↓)

* NOW WE HAVE TO READ Q V. Carefully

If Q is Silent

Partners want to show **revised (new)** values of assets & liabilities in revised

Partners don't want to show revised values i.e. **they want old values continued to appear**

show revised new,
values of assets &
liabilities in Revised
Balance Sheet

(i) GAIN on Revaluation

Revaluation A/c Dr XX
To Partner's Capital A/c - xx
OLD Ratio

(being Gain distributed among partners)

(ii) LOSS on Revaluation

Partner's Capital A/c Dr XX
To Revaluation A/c — xx
OLD Ratio

(being loss distributed among partners)

Balance Sheet (Revised)

Liabilities	xx	Assets	xx
↓		↓	
Revised values		Revised values	
(New)		(New)	

to show revised values
i.e. they want old values
continued to appear

(i) GAIN on Revaluation

chocolate

Gaining P. Capital A/c Dr xx
To Sacrificing P. Capital A/c - xx

(being Gain adjusted among partners)

(ii) Loss on Revaluation

QST

Sacrificing P. Capital A/c Dr xx
To Gaining P. Capital A/c - xx

(being loss adjusted among partners)

Balance Sheet (Revised)

Liabilities	xx	Assets	xx
↓		↓	
old values		old values	

→ Sometimes during Revaluation some expenses might be there, known as Revaluation Expenses

	BORNE / INCURRED	PAID
	Burden ultimately किसी ↓ <u>Debit</u>	पैसे देना ↓ <u>Credit</u>
FIRM	Revaluation A/c Dr.	To CASH A/c
PARTNER	Partner's Capital A/c Dr.	To Partner's Capital A/c

if Q is silent

(i) Expenses borne by firm and Paid by firm

Revaluation A/c Dr.
To Cash A/c ——— xxx

(ii) Expenses borne by firm and Paid by Partner

Revaluation A/c Dr.
To Partner's Capital A/c ——— xxx

(iii) Expenses borne by Partner and Paid by firm

Partner's Capital A/c Dr.
To Cash A/c ——— xxx

(iv) Expenses borne by Partner (A) and Paid by Partner (B)

A's Capital A/c Dr. xx
To B's Capital A/c ——— xx

* Sometimes firm agrees to pay remuneration or fixed commission to partner for his services then.

Firm → ₹ 5,000 (fixed) Rohit (partner)

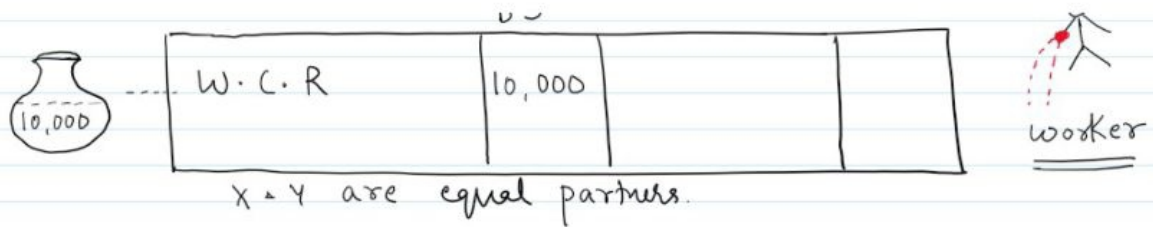
Additional entry :-

Revaluation A/c Dr. 5000
To Partner's Capital A/c — 5000
(being Remuneration due to Partner)

x ——— x ——— x ——— x ——— x ——— x ——— x

* Workmen's Compensation Reserve (WCR) *
(Workmen's Compensation Fund) ↓ मरका

BS		
W.C.R	10,000	



Case (i) NO additional Information (No workmen's Compensation claim)

Sol:- ~~W.C.R. A/c~~ Dr. 10,000

To X's Capital A/c 5000

To Y's Capital A/c 5000

(being WCR distributed)

Case (ii) Workmen's Compensation claim (or liability) - WCL

₹ 4000

(मिस्ट रेट ₹) New Liability

~~W.C.R. A/c~~ Dr. 10,000

To W.C.L creating new liability 4,000

To X's Capital A/c 3,000

To Y's Capital A/c 3,000

Case (3) Workmen's Compensation liability - ₹ 16,000

(WCL - ₹ 16,000)

~~W.C.R. A/c~~ Dr. 10,000

Revaluation A/c (मुकसान) Dr. 6,000

To W.C.L creating new liability 16,000

Dr. Revaluation A/c Cr.

To W.C.L 6,000

* In all the above (3) cases W.C.L (i.e. new

* In all the above (3) cases **W.C.L** (i.e new liability) will be shown on **liability side** in Revised Balance sheet

B/S (Revised)		
W.C.L	Nil/4000/16000	

* **Investment Fluctuation Fund (Reserve) - IFR** *

SUNIL
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RAITO
979337668723



B/S		Assets	
I.F.R	10,000	Investment (At Cost)	100,000

महका

→ अगर investment की value में गिरावट हो adjust कर लेगे

Case (i) No additional info'n OR Market Value is ₹ 100,000
गिरावट = 0

Sol:-



I.F.R A/c

B. 10,000

To X	_____	5000
To Y	_____	5000

Old Ratio

Case (ii) Market Value = ₹ 94,000

गिरावट = 6000

Sol:-



I.F.R A/c

B. 10,000

To Investment A/c	_____	6000
-------------------	-------	------

To X	_____	2000
------	-------	------

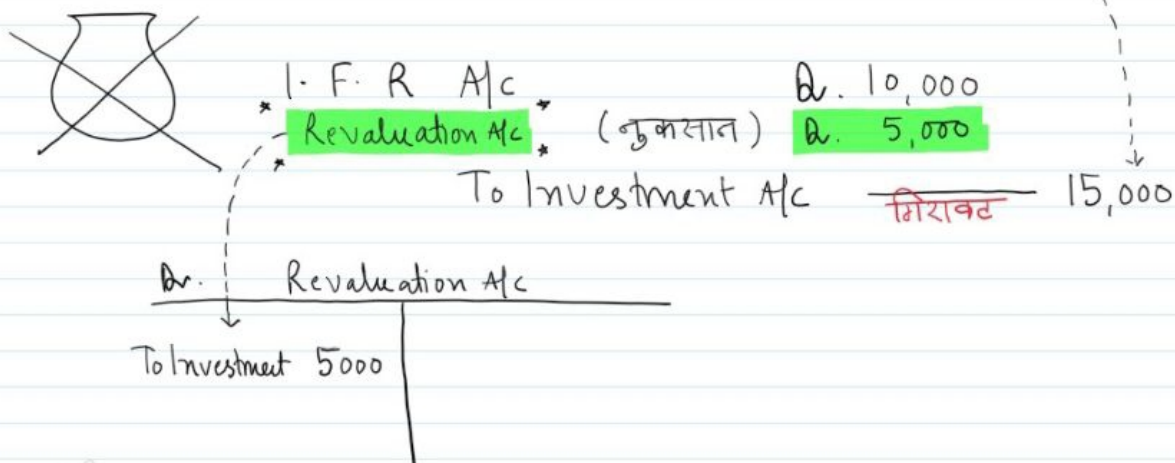
To Y	_____	2000
------	-------	------

Case (iii) Market Value ₹ 85,000

गिरावट = 15000

गिरावट = 15000

Sol:-

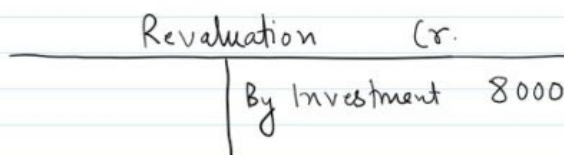
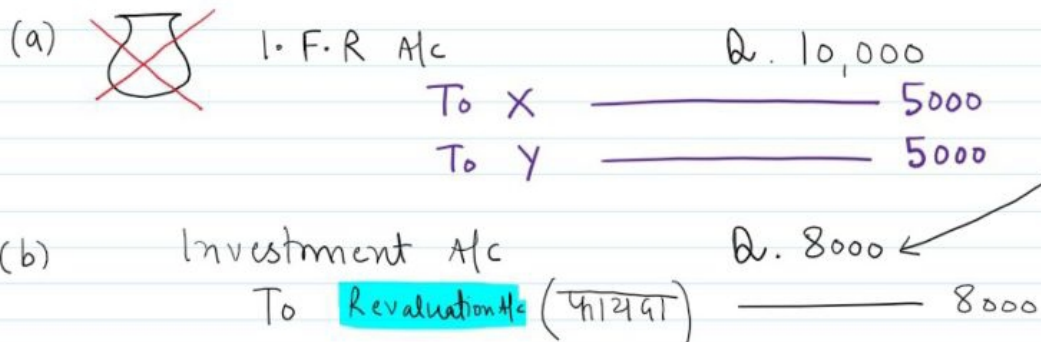


Case (iv) Market Value = ₹ 108,000

गिरावट = 0

Asset (↑) = 8000

Sol:-



* In all the above cases, Market Value of Investment is shown in Revised Balance Sheet.

PRACTICE

16. A, B and C who are presently sharing profits and losses in the ratio of 5:3:2 decide to share future profits and losses in the ratio of 2:3:5. Give the Journal entry to distribute 'Workmen Compensation Reserve' of ₹ 1,20,000 at the time of change in profit-sharing ratio, when:

(i) no other information is given;

(ii) there is no claim against it.



[Ans.: In both Cases: Dr. Workmen Compensation Reserve A/c by ₹ 1,20,000;
Cr. A's Capital A/c by ₹ 60,000; B's Capital A/c by ₹ 36,000 and C's Capital A/c by ₹ 24,000.]

Sol:-

W. C. R A/c

Dr. 120,000

Sol:-

W.C.R A/c	Dr. 120,000
To A's Capital A/c	60,000
To B's Capital A/c	36,000
To C's Capital A/c	24,000
(being WCR distributed)	

17. X, Y and Z who were sharing profits and losses in the ratio of 5:3:2 decided to share future profits in the ratio of 2:3:5. Give the Journal entry to distribute 'Workmen Compensation Reserve' of ₹ 1,20,000 at the time of change in profit-sharing ratio, when there is a claim of ₹ 80,000 against it.

[Ans.: Dr. Workmen Compensation Reserve A/c by ₹ 1,20,000; Cr. X's Capital A/c by ₹ 20,000; Y's Capital A/c by ₹ 12,000; Z's Capital A/c by ₹ 8,000 and Workmen Compensation Claim A/c by ₹ 80,000.]

Sol:-

W.C.R A/c	Dr. 120,000
To W.C.L	80,000
To X	20,000
To Y	12,000
To Z	8,000

40000
in
old Ratio

18. Ashok, Bhim and Chetan who were sharing profits in the ratio of 5:3:2, decided to share profits in the ratio of 2:3:5 with effect from 1st April, 2023. Workmen Compensation Reserve existed at ₹ 1,20,000 in the Balance Sheet as at 31st March, 2023 and Workmen Compensation Claim of ₹ 1,50,000 exists. Pass Journal entries for the accounting treatment of Workmen Compensation Reserve.

[Ans.: (a) Dr. Workmen Compensation Reserve A/c by ₹ 1,20,000 and Revaluation A/c by ₹ 30,000; Cr. Workmen Compensation Claim A/c by ₹ 1,50,000. (b) Dr. Ashok's Capital A/c by ₹ 15,000; Bhim's Capital A/c by ₹ 9,000

Sol:-

a)	W.C.R A/c	Dr. 120,000
	Revaluation A/c (हुकसान)	Dr. 30,000
	To W.C.L A/c	150,000
	(being W.C.L due)	
b)	A	Dr. 15,000
	B	Dr. 9,000
	C	Dr. 6,000
	To Revaluation A/c	30,000
	(being loss distributed in old Ratio)	

19. A, B and C who are sharing profits and losses in the ratio of 5:3:2 decide to share future profits in the ratio of 2:3:5. Give the Journal entry to distribute 'Investments Fluctuation Reserve' of ₹ 20,000 at the time of change in profit-sharing ratio, when investment (market value ₹ 95,000) appears in the books at ₹ 1,00,000. Cost ∴ गिरावट = ₹ 5,000

[Ans.: Dr. Investments Fluctuation Reserve A/c by ₹ 20,000; Cr. A's Capital A/c by ₹ 7,500; B's Capital A/c by ₹ 4,500; C's Capital A/c by ₹ 3,000 and Investment A/c by ₹ 5,000.]

Sol:-

I.F.R A/c	Dr. 20,000
To Investment A/c	5,000

Sol:-

I.F.R A/c

Dr. 20,000

To Investment A/c	5000
To A	7500
To B	4500
To C	3000

15,000
In Old Ratio

20. Nitin, Tarun and Amar are partners sharing profits equally and decide to share profits in the ratio of 2 : 2 : 1 w.e.f. 1st April, 2023. The extract of their Balance Sheet as at 31st March, 2023 is as follows:

Liabilities	₹	Assets	₹
Investments Fluctuation Reserve	60,000	Investments (At cost)	4,00,000

Pass the Journal entries in each of the following situations:

- (i) When its Market Value is not given; (ii) When its Market Value is ₹ 4,00,000;
(iii) When its Market Value is ₹ 4,24,000; (iv) When its Market Value is ₹ 3,70,000;
(v) When its Market Value is ₹ 3,10,000

Case (i) and Case (ii)

I.F.R A/c

Dr. 60,000

To N	20,000
To T	20,000
To A	20,000

Case (iii)

Imp.

a) I.F.R A/c

Dr. 60,000

To N	20,000
To T	20,000
To A	20,000

b) Investment A/c

Dr. 24,000

To Revaluation A/c (फायदा)	24,000
----------------------------	--------

c) Revaluation A/c

Dr. 24,000

To N	8,000
To T	8,000
To A	8,000

OLD Ratio

Case (iv)

IFR A/c

Dr. 60,000

To Investment A/c (मिराबट)	30,000
To N	10,000
To T	10,000
To A	10,000

Case (v) a)

IFR A/c

Dr. 60,000

Revaluation A/c

Dr. 30,000

To Investment (मिराबट) — 90,000

नुकसान

b) N
T
A

Dr. 10,000
Dr. 10,000
Dr. 10,000

b) N
T
A

Dr 10,000
Dr 10,000
Dr 10,000

To Revaluation A/c ————— 30,000

24. Bhavya and Sakshi are partners in a firm, sharing profits and losses in the ratio of 3:2. On 31st March, 2018, their Balance Sheet was as under: B/S कसम खा लो - Chocolate, कूडा, Goodwill

BALANCE SHEET OF BHAVYA AND SAKSHI as at 31st March, 2018 मटका

Liabilities	₹	Assets	₹
Sundry Creditors	13,800	Furniture	16,000
General Reserve	23,400	Land and Building	56,000
Investment Fluctuation Fund - I.F.R.	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:

- (i) Investments to be valued at ₹ 20,000. मिरावट = 10,000 मटका - (C)
- (ii) Goodwill of the firm be valued at ₹ 24,000. (Non Existing) - (C) G To S
- (iii) General Reserve not to be distributed between the partners. Case (2) G To S

You are required to pass necessary Journal entries in the books of the firm. Show workings.

(CBSE Sample Paper 2018)

[Ans.: For Investment: Dr. Investment Fluctuation Fund A/c by ₹ 20,000; Cr. Investment A/c by ₹ 10,000; Bhavya's Capital A/c by ₹ 6,000; and Sakshi's Capital A/c by ₹ 4,000.

For Goodwill: Dr. Sakshi's Capital A/c and Cr. Bhavya's Capital A/c by ₹ 2,400.

For General Reserve: Dr. Sakshi's Capital A/c and Cr. Bhavya's Capital A/c by ₹ 2,340.]

Sol:-

(i) I.F.R. A/c (मटका फौड़ा) Dr. 20,000
To Investment A/c (मिरावट) — 10,000
To B ————— 6,000
To S ————— 4,000

(ii) S's Capital A/c Dr 2,400
To B's Capital A/c ————— 2,400
{ 24,000 × 1/10 }

(iii) S's Capital A/c Dr 2,340
To B's Capital A/c ————— 2,340
{ 23,400 × 1/10 }

WN

old share (-) New share

Bhavya $\frac{3}{5}$ (-) $\frac{1}{2}$ = $\frac{1}{10}$ (sacr)

$$\frac{0}{5} \quad (-) \quad \frac{1}{2} = \frac{-1}{10} \text{ (gain)}$$

Sakshi $\frac{2}{5} \quad (-) \quad \frac{1}{2} = \frac{-1}{10} \text{ (gain)}$

X ————— X ————— X ————— X

① 100%

25. Ashish, Aakash and Amit are partners sharing profits and losses **equally**. The Balance Sheet as at 31st March, 2023 was as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	1,35,000	Cash in Hand	84,000
General Reserve ①	90,000	Cash at Bank	1,40,000
Capital A/cs:		Sundry Debtors	80,000
Ashish 3,00,000		Stock	1,40,000
Aakash 3,00,000		Land and Building	4,00,000
Amit 2,75,000	8,75,000	Machinery	2,50,000
		Advertisement Suspense (कूड़ा) ②	6,000
	11,00,000		11,00,000

The partners decided to share profits in the ratio of **2 : 2 : 1** w.e.f. 1st April, 2023. They also decided that:

- (i) Value of stock to be reduced to ₹ 1,25,000. गिरावट = 15,000 (नुकसान)
- (ii) Value of machinery to be decreased by 10%. गिरावट = 25,000 (नुकसान)
- (iii) Land and Building to be appreciated by ₹ 62,000. बढ़ा दो (फायदा) — ④
- (iv) Provision for Doubtful Debts to be made @ 5% on Sundry Debtors. = 4,000 (नुकसान)
- (v) Aakash was to carry out reconstitution of the firm at a remuneration of ₹ 10,000.

Pass necessary Journal entries to give effect to the above.

Revaluation A/c Dr
To A's Capital A/c
[Ans.: Revaluation Profit—₹ 8,000.]

(i) General Reserve A/c Dr. 90,000
To Ashish's Cap A/c 30,000
To Aakash's Cap A/c 30,000
To Amit's Cap A/c 30,000

(ii) Ashish's Cap A/c Dr. 2,000
Aakash's Cap A/c Dr. 2,000
Amit's Cap A/c Dr. 2,000
To Advertisement Suspense A/c 6,000

(iii) Revaluation A/c Dr. 54,000
नुकसान To Stock A/c 15,000
नुकसान To Machinery A/c 25,000
नुकसान To Provision for doubtful debts A/c 4,000

नुकसान To Provision for doubtful debts A/c — 4000
(last point) To Aakash's Capital A/c — 10,000

(iv) Land & Building A/c (फायदा) Dr. 62000
To Revaluation A/c — 62000

(v) Revaluation A/c Dr. 8000
To Ashish — 2666
To Aakash — 2667
To Arnit — 2667

OLD Ratio

Dr.	Revaluation	Cr
	54,000	62,000
GAIN (bal.)	8,000	
	62,000	62,000

chocolate

26. Hari, Kunal and Uma are partners in a firm sharing profits and losses in the ratio of 5:3:2. From 1st April, 2018 they decided to share future profits and losses in the ratio of 2:5:3. Their Balance Sheet showed a balance of ₹ 75,000 in the Profit & Loss Account and a balance of ₹ 15,000 in Investment Fluctuation Fund. For this purpose, it was agreed that:

- G.T.S. (i) Goodwill of the firm was valued at ₹ 3,00,000. (if it is silent then chocolate)
(ii) That investments (having a book value of ₹ 50,000) were valued at ₹ 35,000. गिरावट = 15,000
(iii) That stock having a book value of ₹ 50,000 be depreciated by 10%. गिरावट = 5000 (नुकसान)
Pass the necessary Journal entries for the above in the books of the firm. (CBSE 2019)

Sol:- (i) P & L A/c Dr. 75000
To H — 37500
To K — 22500
To U — 15000

(ii) I. F. R A/c Dr. 15000
To Investment A/c — 15000

(iii) K (300000 × 2/10) Dr. 60000
U (300000 × 1/10) Dr. 30000
To H (300000 × 3/10) — 90,000

(iv) Revaluation A/c Dr. 5000
To Stock A/c — 5,000

(v) H Dr. 2500
K Dr. 1500
U Dr. 1000
To Revaluation A/c — 5000

WN :- H : 5/10 (-) 2/10 = 3/10 (sacr)
K : 3/10 (-) 5/10 = (-) 2/10 (gain)

WN :-

$$K : \frac{3}{10} (-) \frac{5}{10} = (-) \frac{2}{10} \text{ (gain)}$$

$$U : \frac{2}{10} (-) \frac{3}{10} = (-) \frac{1}{10} \text{ (gain)}$$

27. A, B and C are sharing profits and losses in the ratio of 2 : 2 : 1. They decided to share profit w.e.f. 1st April, 2023 in the ratio of 5 : 3 : 2. They also decided **not to change the values of assets and liabilities** in the books of account. The book values and revised values of asset and liabilities as on the date of change were as follows:

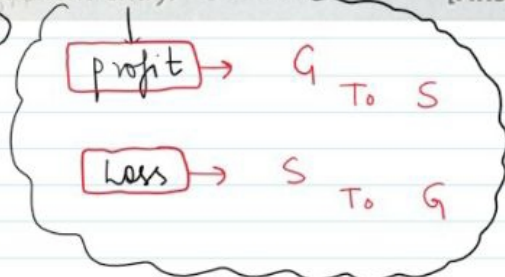
Case (2)

	Book Values (₹)	Revised Values (₹)	
Machinery — Asset	2,50,000	3,00,000	फायदा 50000
Computers — Asset	2,00,000	1,75,000	नुकसान 25000
Sundry Creditors — liability	90,000	75,000	फायदा 15000
Outstanding Expenses — liability	15,000	25,000	नुकसान 10000

Pass an adjustment entry.

[Ans.: Dr. A's Capital A/c and Cr. B's Capital A/c by ₹ 3,000.]

Case (2)



Sol:- A's Capital A/c $(30,000 \times \frac{1}{10})$ Dr 3000
To B's Capital A/c $(30,000 \times \frac{1}{10})$ — 3000

WN :-

Machinery	+ 50,000
Computer	- 25,000
Creditors	+ 15,000
O/S expense	- 10,000
Revaluation PROFIT	30,000

$$A : \frac{2}{5} - \frac{5}{10} = (-) \frac{1}{10} \text{ (gain)}$$

$$B : \frac{2}{5} - \frac{3}{10} = \frac{1}{10} \text{ (sacr)}$$

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

28. Ajeet, Vijeet and Sujeet are partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. They decide to share profits and losses in the ratio of 2 : 5 : 3 with effect from 1st April, 2023. **Land (having book value of ₹ 1,00,000) was found undervalued by ₹ 2,50,000** and **stock (having book value of ₹ 4,00,000) was found overvalued by ₹ 3,00,000.**

Case (2)

Pass the necessary adjusting entry **without affecting the existing book value.**

[Ans.: Dr. Ajeet's Capital A/c by ₹ 15,000; Cr. Vijeet's Capital A/c by ₹ 10,000; and Sujeet's Capital A/c by ₹ 5,000.]

Pass the necessary adjusting entry (without affecting the existing book value.)

[Ans.: Dr. Ajeet's Capital A/c by ₹ 15,000; Cr. Vijeet's Capital A/c by ₹ 10,000; and Sujeet's Capital A/c by ₹ 5,000.]



∴ Land की value बढ़ा दो 250,000 (फायदा)

∴ Stock की value कम कर दो 300,000 (नुकसान)

Sol:- Land + 250,000
Stock (-) 300,000
(-) 50,000

Revaluation

Loss = 50,000

A		R. 15,000
To V		10,000
To S		5,000

WN

A $\frac{5}{10}$ (-) $\frac{2}{10}$ = $\frac{3}{10}$ (sacr)

V $\frac{3}{10}$ (-) $\frac{5}{10}$ = (-) $\frac{2}{10}$ (gain)

S $\frac{2}{10}$ (-) $\frac{3}{10}$ = (-) $\frac{1}{10}$ (gain)

* 29. Rajesh and Mahesh are partners in a firm sharing profit in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2023 was as follows:

Liabilities	₹	Assets	₹
Rajesh's Capital A/c	54,000	Cash	18,000
Mahesh's Capital A/c	36,000	Machinery	36,000
Creditors	36,000	Building	72,000
	1,26,000		1,26,000

Goodwill of the firm is valued at ₹ 36,000 and the building at ₹ 90,000 on 31st March, 2023. The partners decide to share profits equally with effect from 1st April, 2023.

Pass the necessary accounting entries (without affecting the existing figure of building.) → Case ②

[Ans.: (a) For Adjustment of Goodwill: Dr. Mahesh's Capital A/c and Cr. Rajesh's Capital A/c by ₹ 3,600;
(b) For Appreciation in Value of Building: Dr. Mahesh's Capital A/c and Cr. Rajesh's Capital A/c by ₹ 1,800 (1/10 of ₹ 18,000.)]

Sol:- (i) M To R Dr. 3600 3600

1800

R : $\frac{3}{5} (-) \frac{1}{2} = \frac{1}{10}$ (salt)

$$M : 2/5 \quad (-) \quad 1/2 = (-) 1/10 \text{ (gain)}$$

③

* 30. A, B and C were partners in a firm sharing profits in the ratio of 3 : 2 : 1. Their Balance Sheet as on 31st March, 2015 was as follows: B/S (given)

Liabilities		₹	Assets		₹
Creditors		50,000	Land		50,000
Bills Payable		20,000	Building		50,000
General Reserve (1)		50,000	Plant	$50,000 \times \frac{6}{100} = 3000$	1,00,000
Capital A/cs: (given)			Stock		40,000
A	1,00,000		Debtors		30,000
B	50,000		Bank		5,000
C	25,000	1,75,000			
		2,75,000			2,75,000

From 1st April, 2015, A, B and C decided to share profits **equally**. For this it was agreed that:

Goodwill of the firm will be valued at ₹ 1,50,000. → C.T.S

Land will be revalued at ₹ 80,000 and building be depreciated by 6%.

~~(iii)~~ Creditors of ₹ 6,000 were not likely to be claimed and hence should be written off. = 441

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the reconstituted firm.

(Delhi 2016)

[Ans.: Gain (Profit) on Revaluation—₹ 33,000; Partners' Capital Accounts: A—₹ 1,56,500; B—₹ 71,000 and C—₹ 10,500; Balance Sheet Total—₹ 3,02,000.]

Sol:-

2

Revaluation A/c

1 April 2015

6a

To Building	3,000	By Land A/c	30,000
		By Creditor	6,000
To GAIN (bal..)	33,000		
OLD Ratio A - 16,500 B - 11,000 C - 5,500	36,000		36,000

Q

Partner's Capital A/c

1 April 2015

6a

	A	B	C		A	B	C
To A's Capital A/c	-	-	25,000	By Balance b/d	100,000	50,000	25,000
				By General Reserve	15,000	10,000	5,000
				By C's Capital A/c	25,000	-	-

				By General Reserve	15,000	10,000	5,000
				By C's Capital A/c	25,000	—	—
				By Revaluation A/c (gain)	16,500	11,000	5,500
To Balance dd	156,500	71,000	10,500				
	156,500	71,000	35,500		156,500	71,000	35,500

जिस दिन Reconstitution हुआ Balance Sheet (Revised) as at 1 April 2015

Liabilities	₹	Assets	₹
Creditors (50000 - 6000)	44,000	Land	80,000*
A's Capital	156,500	Building (50000 - 3000)	47,000*
B's Capital	71,000	Plant	100,000
C's Capital	10,500	Stock	40,000
Bills payable	20,000	Debtors	30,000
		Bank	5,000
	3,02,000		3,02,000

WN:-

A $\frac{3}{6} (-) \frac{1}{3} = \frac{1}{6}$ (sacr)

B $\frac{2}{6} (-) \frac{1}{3} = 0$

C $\frac{1}{6} (-) \frac{1}{3} = (-)\frac{1}{6}$ (gain)

(i) General Reserve A/c Dr. 30,000
 To A's Capital A/c 15,000
 To B's Capital A/c 10,000
 To C's Capital A/c 5,000

(ii) C's Capital A/c Dr. 25,000
 To A's Capital A/c $(150,000 \times \frac{1}{6})$ — 25,000

Goodwill X Gaining/sacrificing share

C 100%*

Employees Provident Fund (EPF) = प्रविधि = Creditor

31. Balance Sheet of X and Y, who share profits and losses as 5:3, as at 1st April, 2022 is:

Liabilities	₹	Assets	₹
X's Capital	52,000	Goodwill - EXISTING	8,000
Y's Capital	54,000	Machinery	38,000
General Reserve — chocolate	4,800	Furniture	15,000
Workmen Compensation Reserve	10,000	Sundry Debtors	33,000

Y's Capital	54,000	Machinery	30,000
General Reserve — chocolate	4,800	Furniture	15,000
Workmen Compensation Reserve 38	10,000	Sundry Debtors	33,000
XXXXXXXXXX Creditor	1,000	Stock	7,000
Sundry Creditors	5,000	Bank	25,000
		Advertisement Suspense A/c — दुई	800
	1,26,800		1,26,800

On the above date, they decided to change their profit-sharing ratio to 3:5 and agreed upon the following:

CH2/12/1) Goodwill be valued on the basis of two years' purchase of the average profit of the last three years. Profits for the years ended 31st March, are: 2020—₹ 7,500; 2021—₹ 4,000; 2022—₹ 6,500.

(2) Machinery and Stock be revalued at ₹ 45,000 and ₹ 8,000 respectively.

(3) Claim on account of workmen compensation is ₹ 6,000.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm.

[Ans.: Gain (Profit) on Revaluation—₹ 8,000; Capitals: X—₹ 60,000; Y—₹ 54,000]

Balance Sheet Total—₹ 1,26,000.

Sol:-

Revaluation A/c			
		By Machinery	7,000
		By Stock	1,000
To GAIN (bal..)	8,000		
X - 5,000			
Y - 3,000	8,000		8,000

Partners' Capital A/c					
	X	Y		X	Y
To X's Capital A/c	-	3,000	By Balance b/d	52,000	54,000
To Advertisement Suspense	500	300	By Y's Capital A/c	3,000	-
To Goodwill	5,000	3,000	By Revaluation A/c	5,000	3,000
			By W. C. R A/c	2,500	1,500
			By G. R	3,000	1,800
To bal c/d	60,000	54,000			
	65,500	60,300		65,500	60,300

Balance Sheet			
Liabilities	₹	Assets	₹
Workmen's Compensation claim*	6,000*	Machinery	45,000*
X's Capital	60,000	Stock	8,000*

	0,000	15,000
X's Capital	60,000	8,000*
Y's Capital	54,000	15,000
EPF	1,000	33,000
Sundry Credits	5,000	25,000
	126,000	126,000

WN:-

$$\begin{array}{lcl}
 X & 5/8 & (-) \quad 3/8 = 2/8 \text{ (sacr)} \\
 Y & 3/8 & (-) \quad 5/8 = (-) 2/8 \text{ (gain)}
 \end{array}$$

Point (a) Goodwill = $\left(\frac{7500 + 4000 + 6500}{3} \right) \times 2$

$$= \frac{18000}{3} \times 2 = 12,000$$

Y's Capital A/c Dr. 3000
To X's Capital A/c ————— 3000

Point (c) W.C.R A/c Dr. 10,000

3 To W.C.L — (new liability) — 6000
To X's Capital — OLD Ratio — 2500
To Y's Capital — 1500

Balance Sheet items

(i) General Reserve A/c Dr. 4800
= To X ————— 3000
To Y ————— 1800

(ii) X Dr. 500
= Y Dr. 300
To Advertisement Suspense A/c — 800

(iii) X Dr. 5,000
= Y Dr. 3,000
To Goodwill A/c ————— 8,000

CONCEPT

* Adjustment of Capital * - IMP..

→ The partners sometimes decide to adjust their capitals after reconstitution, according to their new profit sharing ratio.

→ Any surplus or deficiency is adjusted through CASH A/c or Partner's Current A/c

→ Journal entries

a) For adjustment of Deficiency i.e. Shortage
 Cash A/c or Partner's Current A/c Dr. xx → **ASSET**
 To Partner's Capital A/c ——— xx

b) For adjustment of Surplus
 Partner's Capital A/c Dr. xx
 To Cash A/c or Partner's Current A/c — xx → **LIABILITY**

If Q is silent then use CASH A/c

100%

Practice

32. Ram, Mohan, Sohan and Hari were partners in a firm sharing profits in the ratio of 4 : 3 : 2 : 1. On 1st April, 2016, their Balance Sheet was as follows:

BALANCE SHEET OF RAM, MOHAN, SOHAN AND HARI as on 1st April, 2016

Liabilities	₹	Assets	₹
Capital A/cs:		Fixed Assets →	9,00,000
Ram →	4,00,000	Current Assets →	5,20,000
Mohan →	4,50,000		
Sohan →	2,50,000		
Hari →	2,00,000		
	13,00,000		
<u>Workmen Compensation Reserve</u> -----	<u>1,20,000</u>		
	14,20,000		14,20,000

From the above date, the partners decided to share the future profits in the ratio of 1 : 2 : 3 : 4. For this purpose the goodwill of the firm was valued at ₹ 1,80,000. The partners also agreed for the following:

- (a) The claim for workmen compensation has been estimated at ₹ 1,50,000.
- (b) "Adjust the capitals" of the partners according to new profit-sharing ratio by opening Partners' Current Accounts.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.

(Delhi 2017)

[Ans.: Revaluation Loss — ₹ 30,000; Partners' Capital Accounts: Ram — ₹ 1,27,000; Mohan — ₹ 2,54,000; Sohan — ₹ 3,81,000 and Hari — ₹ 5,08,000. Partners' Current Accounts: Ram — ₹ 3,15,000 (Cr.); Mohan — ₹ 2,05,000 (Cr.); Sohan — ₹ 1,55,000 (Dr.); Hari — ₹ 3,65,000 (Dr.);

[Ans.: Revaluation Loss—₹ 30,000; Partners' Capital Accounts: Ram—₹ 1,27,000, Mohan—₹ 2,54,000, Sohan—₹ 3,81,000 and Hari—₹ 5,08,000. Partners' Current Accounts: Ram—₹ 3,15,000 (Cr.); Mohan—₹ 2,05,000 (Cr.); Sohan—₹ 1,55,000 (Dr.); Hari—₹ 3,65,000 (Dr.); Total of Balance Sheet—₹ 19,40,000.]

Sol:-

Revaluation A/c			
To W.C.L	30,000	By Loss (bal..)	30,000
		R - 12,000	
		M - 9,000	
		S - 6,000	
		H - 3,000	
	30,000		30,000

P. Capital A/c					G				
	R	M	S	H		R	M	S	H
To R & M	-	-	18000	54000	By Bal b/d	400000	450000	250000	200000
To Revaluation A/c	12000	9000	6000	3000	By S & H	54000	18000	Shortage	-
	<u>Surplus</u>	<u>Surplus</u>							
To Current A/c (bal..)	315000	205000	-	-	By Current A/c (bal..)	-	-	155000	365000
To balance f/d	127000	254000	381000	508000					
	454000	468000	405000	565000		454000	468000	405000	565000

नीचे
फिसल
जाते हैं

Balance Sheet

नीचे फिसल गया

Liabilities	₹	Assets	₹
W.C. claim R.	1,50,000	S's Current A/c (Dr)	1,55,000
R's Current A/c (Cr)	3,15,000	H's Current A/c (Dr)	3,65,000
M's Current A/c (Cr)	2,05,000	Fixed assets	9,00,000
Partners' Capital		Current assets	5,20,000
R: 1,27,000			
M: 2,54,000			
S: 3,81,000	12,70,000		
H: 5,08,000	19,40,000		19,40,000

WN:-

$$R : \frac{4}{10} - \frac{1}{10} = \frac{3}{10} \text{ (sacr)}$$

$$M : \frac{3}{10} - \frac{2}{10} = \frac{1}{10} \text{ (sacr)}$$

$$S : \frac{2}{10} - \frac{3}{10} = (-)\frac{1}{10} \text{ (gain)}$$

$$H : \frac{1}{10} - \frac{4}{10} = (-)\frac{3}{10} \text{ (gain)}$$

S's Capital A/c

Dr 18,000

S's Capital A/c
H's Capital A/c

To R's Capital 18,000
To M's Capital 54,000
54,000
18,000

Step 1 :- Total Capital = R's Capital Balance + M's Cap bal
+ S's Cap bal + H's Cap bal
= 442,000 + 459,000 + 226,000 + 143,000
= 12,70,000

Step 2 :- Divide total Capital i.e. 12,70,000 in New Ratio (1:2:3:4)

हीनी चादिप्र
R → 1,27,000
M → 2,54,000
S → 3,81,000
H → 5,08,000

To Balance dd

33. Suresh, Ramesh, Mahesh and Ganesh were partners in a firm sharing profits in the ratio of 2:2:3:3. On 1st April, 2016, their Balance Sheet was as follows:

BALANCE SHEET OF SURESH, RAMESH, MAHESH AND GANESH
as on 1st April, 2016

Liabilities	₹	Assets	₹
Capital A/cs:		Fixed Assets	6,00,000
Suresh 1,00,000		Current Assets	3,45,000
Ramesh 1,50,000			
Mahesh 2,00,000			
Ganesh 2,50,000	7,00,000		
Workmen Compensation Reserve	75,000		
Sundry Creditors	1,70,000		
	9,45,000		9,45,000

WCR Dr. 75,000
Reval Dr. 25,000
To WCL 1,00,000

G To S

From the above date, the partners decided to share the future profits equally. For this purpose, the goodwill of the firm was valued at ₹ 90,000. It was also agreed that:

✓ Claim against Workmen Compensation Reserve will be estimated at ₹ 1,00,000 and fixed assets will be depreciated by 10%. (नुकसान = 60,000)

④ The Capitals of the partners will be adjusted according to the new profit-sharing ratio. For this, necessary cash will be brought or paid by the partners as the case may be.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.

(AI 2017)

[Ans.: Revaluation Loss: ₹ 85,000; Capital of each partner in the new firm—₹ 1,53,750;

From the above date, the partners decided to share the future profits equally. For this purpose, the goodwill of the firm was valued at ₹ 90,000. It was also agreed that:

- ✓ (a) Claim against Workmen Compensation Reserve will be estimated at ₹ 1,00,000 and fixed assets will be depreciated by 10%. (नुकसान = 60,000)
- ✓ (b) The Capitals of the partners will be adjusted according to the new profit-sharing ratio. For this, necessary cash will be brought or paid by the partners as the case may be.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.

(AI 2017)

[Ans.: Revaluation Loss: ₹ 85,000; Capital of each partner in the new firm—₹ 1,53,750; Total Capital of the new firm—₹ 6,15,000; Cash to be brought in: Suresh—₹ 75,250; Ramesh—₹ 25,250; Cash Withdrawn by: Mahesh—₹ 25,250; Ganesh—₹ 75,250; Total of Balance Sheet—₹ 8,85,000.]

Sol:-

Revaluation A/c			
To WCL	25000		
To fixed asset	60000	By Loss (bal.)	85000
		S - 17,000	
		R - 17,000	
		M - 25,500	
		G - 25,500	
	85000		85000

P. Capital A/c									
	S	R	M	G		S	R	M	G
To M & G	4500	4500	-	-	By bal b/d	100000	150000	200000	250000
To Revaluation	17000	17000	25500	25500	By S & R	-	-	4500	4500
To CASH (bal.)	-	-	25,250	75,250	By (ASH) (bal.)	75,250	25,250	-	-
To bal c/d*	153750	153750	153750	153750					
	175250	175250	204500	254500		175250	175250	204500	254500

B/S

W.C.L	100,000	Fixed assets (600,000 - 60,000)	5,40,000
Capitals		Current assets	3,45,000
S - 153750			
R - 153750			
M - 153750			
G - 153750	615,000		
Sundry Creditors	170,000		

G - 153,750	615,000	
Sundry Creditors	170,000	
	885,000	8,85,000

WN:-

$$S: \frac{2}{10} - \frac{1}{4} = (-)\frac{1}{20} \text{ (gain)}$$

$$R: \frac{2}{10} - \frac{1}{4} = (-)\frac{1}{20} \text{ (gain)}$$

$$M: \frac{3}{10} - \frac{1}{4} = \frac{1}{20} \text{ (sacr)}$$

$$G: \frac{3}{10} - \frac{1}{4} = \frac{1}{20} \text{ (sacr)}$$

G.W = 90000

S	D. 4500
R	D. 4500
	To M - 4500
	To G - 4500

Total Capital = 78500 + 128500 + 179000 + 229000 = 615,000

Divide in New Ratio i.e. 1:1:1:1

To bal c/d हौनी चाहिद	S - 153,750
	R - 153,750
	M - 153,750
	G - 153,750

Illustration 25 v. Imp.

Amar, Tarun and Akhil are partners sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet as at 31st March, 2023 was as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	- Same - 1,90,000	Cash in Hand	Same - 25,000
General Reserve	- Same - 80,000	Bank Balance	Same - 2,25,000
Profit & Loss A/c	- Same - 30,000	Sundry Debtors	- Same - 1,10,000
Capital A/cs:		Less: Provision for Doubtful Debts	10,000
Amar	319,200	Stock	- Same - 2,00,000
Tarun	160,800	Furniture	- Same - 50,000
Akhil	1,20,000	Computers	- Same - 3,00,000
	6,00,000		9,00,000
	9,00,000		

Profit-sharing ratio among the partners was agreed to be 2:2:1 w.e.f. 1st April, 2023. They agreed to the following:

- Stock to be increased to ₹ 2,20,000. (Fayda 20,000)
- Provision for Doubtful Debts to be reduced by ₹ 2,000. (Liability कम हुई) फायदा
- Furniture to be reduced by 20%. नुकसान 10,000

Rev Loss

- (ii) Provision for Doubtful Debts to be reduced by 20%. नुकसान 10,000
 (iii) Furniture to be reduced by 20%. नुकसान 30,000
 (iv) Computers to be reduced to ₹ 2,70,000. नुकसान 30,000
 (v) Goodwill of the firm is valued at ₹ 1,00,000. → G To S

Rev Loss = 18,000

Case 2

The partners decided to carry the assets, liabilities, General Reserve and Profit & Loss Account at the same values in the Balance Sheet of the new firm. S To G

Pass an adjustment entry giving effect to the above arrangement and prepare Balance Sheet after adjustments. Only (1) Journal entry

- 1) Chocolate
 a) General Reserve 80,000 } → G To S
 b) P & L A/c 30,000 }
 2) Goodwill (Non-existing) 1,00,000 } → G To S
 3) Revaluation loss 18,000 } → S To G

Net amount 1,92,000 → G To S

A : $\frac{5}{10} - \frac{2}{5} = \frac{1}{10}$ (sacr)
 T : $\frac{3}{10} - \frac{2}{5} = -\frac{1}{10}$ (gain)
 A : $\frac{2}{10} - \frac{1}{5} = 0$

T Dr 1,92,000
 To A — 1,92,000

XII - Accounts

Worksheet - (Change in PSR)

Q1:- Ram, Mohan and Sohan share profits in the ratio 5:3:2. It is now agreed that they will share profits in the ratio of 5:4:3. Goodwill is valued at ₹ 2,40,000. Also the following balances are appearing in the books which the firm decided not to disturb (Case 2) → G To S

P & L A/c (Dr.) — कूटा — 40,000 → S To G

Advertisement suspense A/c — कूटा — 48,000 → S To G

General reserve — Chocolate — 8,000 → G To S

Pass single journal entry.

Sol:-
 M's Capital A/c Dr. 5,333
 S's Capital A/c Dr. 8,000
 To R's Capital A/c 13,333

WN:-
 R : $\frac{5}{10} (-) \frac{5}{12} = \frac{10}{120}$ (sacr) ✗
 M : $\frac{3}{10} (-) \frac{4}{12} = (-)\frac{4}{120}$ (gain) ✗
 S : $\frac{2}{10} (-) \frac{3}{12} = (-)\frac{6}{120}$ (gain) ✗

Goodwill = 2,40,000

Goodwill = 240,000
 General Reserve = 8,000
 P & L (Dr) = 40,000
 Adv Suspense = 48,000

Net Amount 160,000 → G.T.S }

Q2 :- P, S and D are partners sharing profits in the ratio of 3:2:1 respectively. From 1.1.2010 they decided to share profits in the ratio of 2:3:1. The Goodwill was to be valued at three years' purchase of average five years profits which are:-

2005 - ₹ 1,20,000 2006 - ₹ 3,00,000
 2007 - ₹ 3,40,000 2008 - ₹ 3,80,000
 2009 - ₹ 1,40,000 (Loss)

Partners do not want to show goodwill but want to distribute reserve and advertisement suspense A/c balance which are ₹ 14,500 and ₹ 8,500 respectively. Pass Journal entries.

Sol:- (i) Reserve A/c Dr. 14,500

To P	7,250
To S	4,833
To D	2,417

(ii) P Dr. 4,250
S Dr. 2,833
D Dr. 1,467

To Advertisement Suspense A/c — 8,500

(iii) S Dr. 100,000
To P — 100,000

$$G.W = \frac{(120000 + 380000 + 300000 + 340000 - 140000)}{5} \times 3 = 600,000$$

P: $\frac{3}{6} (-) \frac{2}{6} = \frac{1}{6}$ (sacr)
 S: $\frac{2}{6} (-) \frac{3}{6} = (-) \frac{1}{6}$ (gain)
 D: $\frac{1}{6} (-) \frac{1}{6} = 0$

Q3 :- Pratap, Om and Shyam are partners in a firm in the ratio of 3:2:1. On 1st April, 2009 they decided to share the profits in future in the ratio of 7:5:4. On this date, general reserve in ₹ 34,000 and loss on revaluation of assets and liabilities being ₹ 38,800. It was decided that adjustment should be made without altering figures in the balance sheet. Make adjustment by making single journal entry.

Case (2)

S To G

G To S

Sol:- P Dr. 300
O Dr. 100

To S — 400

WN :- P $\frac{3}{11} - \frac{7}{11} = \frac{3}{11}$ (sacr) ←

WN :-

P	$\frac{3}{6}$	-	$\frac{7}{16}$	=	$\frac{3}{48}$	(sacr)
O	$\frac{2}{6}$	-	$\frac{5}{16}$	=	$\frac{1}{48}$	(sacr)
S	$\frac{1}{6}$	-	$\frac{4}{16}$	=	$(-\frac{4}{48})$	(gain)

General Reserve = 34000
 Revaluation loss = 38800
 Net Amount = 4800

Q4 :- X and Y are in partnership sharing profits in the ratio of 2:3. With effect from 1st April, 2012, they agreed to share profits in the ratio of 1:2. For this purpose, the goodwill of the firm is to be valued at two years purchase of the average profit of last three years, which were ` 1,50,000, ` 1,60,000 and ` 2,00,000 respectively. The reserves appear in the books at ` 1,10,000. Partners neither want to show the goodwill in the books nor want to distribute the reserves. You are required to give effect to the change by passing a single Journal entry.

Case (2) G To S

Goodwill = $\left(\frac{150000 + 160000 + 200000}{3} \right) \times 2 = 340,000$

Reserve = 1,10,000

Net Amount = 4,50,000

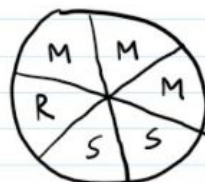
X : $\frac{2}{5} - \frac{1}{3} = \frac{1}{15}$ (sacr)

Y : $\frac{3}{5} - \frac{2}{3} = (-\frac{1}{15})$ (gain)

Y's Capital A/c Dr. 30,000
 To X's Capital A/c - 30,000

Q5 :- Mamta, Seema and Rakhee are in partnership sharing profits in the ratio 3:2:1. There is no goodwill account in the books of the firm. As from 01 April, 2016 it was agreed that Seema should give only part of time to the business and as a consequence she should receive in future only one half of previous share, remaining half being divided equally between Mamta and Rakhi. For this purpose goodwill was valued at 60,000. $\rightarrow G To S$
 Calculate new profit sharing ratio and give necessary journal entry for the above arrangement.

M $\frac{3}{6}$ (+) $\frac{1}{12}$ = $\frac{7}{12}$ (New share)
 S $\frac{2}{6}$ (-) $\frac{1}{6}$ = $\frac{1}{6}$ or $\frac{2}{12}$ (New share)
 R $\frac{1}{6}$ (+) $\frac{1}{6}$ = $\frac{3}{6}$ (New share)



$$R \quad \frac{1}{6} (+) \frac{1}{12} = \frac{3}{12} \text{ (New share)}$$

New Ratio
7 : 2 : 3

Gaining share (M) = $\frac{1}{12}$

Gaining share (R) = $\frac{1}{12}$

Sacrificing share (S) = $\frac{1}{6}$

Goodwill = 60,000

M	Dr. 5000		
R	Dr. 5000		
	To S		10,000

✓ Q6 :- A, B and C are partners in a firm sharing profits and losses in the ratio of **3 : 2 : 1**. Their Balance Sheet as at 31st march, 2013 was:

Liabilities		Assets	
Creditors	1,08,750	Cash	37,500
Profit & Loss	26,250	Debtors	77,500
General Reserve	52,500	Less : Provision	(2,500)
Capital A/c's		Stock	2,25,000
A	3,75,000	Plant	2,50,000
B	3,75,000	Building	3,75,000
C	62,500	Furniture	37,500
	8,12,500		

From 1st April, 2013 the partners decided to share the profits **4:4:1**. For this purpose the following adjustment were agreed upon:

1. The Goodwill of the firm should be valued at ₹ 56,250 → G To S
2. Building to be valued at ₹ 4,37,500 (F) 62,500
3. Furniture and plant to be depreciated by 20% and 15% (N) 7500 (N) 37500
4. Provision for doubtful debts to be increased by ₹ 1,875 (L↑) (N)
5. Stock to be reduced by 20% (N) 45000
6. ₹ 4,375 are outstanding for salaries. (N) (L↑) (case 2)

Partners do not want to record the altered values of assets and liabilities in the books and want to leave the reserves and profits undisturbed. You are required to pass single journal entry to give effect to the above. Also prepare the revised balance sheet.

Sol:-

	Dr. 11,250		
To A		5625	
To C		5625	

R/c

To C

5625

B/S			
Creditors	108750	Cash	37500
P & L	26250	Debtor	77500
General Reserve	52500	(-) P.D.D (2500)	75,000
Capitals :-		Stock	225,000
A : 375000 (+) 5625		Plant	250,000
= 380,625		Building	375,000
B : 375000 (-) 11250		Furniture	37,500
= 363,750	812,500		
C : 62500 (+) 5625			
= 68,125	10,00,000		10,00,000

WN:-

Point 2, 3, 4, 5, 6

Revaluation of Assets & Liab.

62500 - 7500 - 37500 - 1875 - 45000

- 4375 = 33,750 (Rev Loss)

G To S ← General Reserve 52,500 S To G
 G To S ← P & L A/c 26,250
 G To S ← Goodwill valued at 56,250
 Net Amount 101,250

A : $\frac{3}{6} - \frac{4}{9} = \frac{3}{54}$ (sacr)B : $\frac{2}{6} - \frac{4}{9} = \frac{-6}{54}$ (gain)C : $\frac{1}{6} - \frac{1}{9} = \frac{3}{54}$ (sacr)

Q7 :- P, Q and R are partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet as at 31st march, 2013 was:

Liabilities		Assets	
Creditors	55,000	Land	2,00,000
Bills Payable	17,000	Building	80,000
General Reserve - chocolate	48,000	Plant	1,60,000
Capital A/c's		Stock	2,10,000
P → 2,40,000		Debtors	60,000
Q → 2,00,000		Cash	10,000
R → 1,60,000	6,00,000		
	7,20,000		7,20,000

From 1st April, 2013 the partners decided to share the profits equally. For this purpose the following adjustment were agreed upon:

- The Goodwill of the firm should be valued at 60,000 (N) 4000 (F) 15,000
- land should be valued at 3,00,000 and Building and Plant should be depreciated by 5% stock be valued at 2,25,000. (F) 8000
- Creditors amounted to 2,000 were not likely to be claimed and hence should be written off.

You are required to:

3. Creditors amounted to ₹ 2,000 were not likely to be claimed and hence should be written off.

You are required to:

1. Record the necessary **Journal entries** to give effect to the above agreement, **without opening the Revaluation Account** i.e. make adjustments among partners; → **Case (2)**
2. prepare the **Capital Accounts** of the Partners and
3. prepare the **balance sheet** of the firm after reconstitution.

Sol:- (i) See WN ✓

(ii) See WN ✓

Capital A/c							
	P	Q	R		P	Q	R
To P	-	-	4000	By bal b/d	240000	200000	160000
To Q	-	-	4000	By R	4000	4000	-
To P	-	-	7000	By General Reserve	19200	19200	9600
To Q	-	-	7000	By R	7000	7000	-
To bal c/d	270,200	230,200	147,600				
	270,200	230,200	169,600		270,200	230,200	169,600

B/S			
P's Capital	270,200	Land	200,000
Q's Capital	230,200	Building	80,000
R's Capital	147,600	Plant	160,000
Creditors	55,000	Stock	210,000
B/P	17,000	Debtor	60,000
		Cash	10,000
	720,000		720,000

WN:-

$$\begin{array}{lcl}
 P & \frac{2}{5} (-) \frac{1}{3} & = \frac{1}{15} \text{ (sacr)} \\
 Q & \frac{2}{5} (-) \frac{1}{3} & = \frac{1}{15} \text{ (sacr)} \\
 R & \frac{1}{5} (-) \frac{1}{3} & = (-) \frac{2}{15} \text{ (gain)}
 \end{array}$$

$$R \quad \frac{1}{5} (-) \frac{1}{3} = (-) \frac{2}{15} \text{ (gain)}$$

Sol: -

R		Dr. 8000	
	To P	<u>4000</u>	
	To Q	<u>4000</u>	

Land	100,000
Plant	(-) 4,000
Stock	(+) 15,000
Creditor	(+) 2000
Building	(-) 8000
Rev Profit	<u>105,000</u>

Sol: -

R		Dr. 14000	
	To P	<u>7000</u>	
	To Q	<u>7000</u>	