



ACCOUNTANCY

CH:3 Change in profit sharing ratio

Name: _____

Date: _____

Class: XII Sec: ____

1. X, Y and Z are sharing profit and loss in the ratio of 5:3:2. They decide to share future profit and losses in the ratio of 2:3:5 with effect from 1.4.2013. They also decide to record the effect of the following accumulated profits, losses and reserves without affecting their book figure by passing a single entry. Pass the necessary Journal Entry. General Reserve 6000, Profit and Loss a/c 24000, Advertisement Suspense a/c 12000
2. X, Y and Z are partners sharing profits and losses in the ratio of 4:3:2. Goodwill does not appear in the books but it worth 72000. The partners decide to share future profits in equal proportions. Give a journal entry to record the above change without opening goodwill account. Also indicate the individual partner's gain or loss due to change in the ratio.
3. P, Q and R are partners sharing profits and losses in the ratio of 3:2:1. It is now agreed that they will share profits equally in future. Goodwill of the firm is valued at 90,000. There is no goodwill account in the books. Pass necessary journal entry to give effect the above change, when goodwill account is not raised.
4. P, Q and R sharing profits in the ratio of 3:1. R is admitted as a partner for which he pays 60,000 for goodwill in cash. P, Q and R decided to share future profits in equal proportions. You are required to pass a single journal entry to give effect to this change.
5. P, Q and R are partners sharing profits equally. They decided that in future R will get $\frac{1}{5}$ th share in profits and remaining profits will be shared by P and Q equally. On the day of change, firm's goodwill is valued at 30,000. Give journal entries arising on account of change in profit-sharing ratio.
6. A, B and C were partners sharing profits and losses in the ratio of 3:2:1. On 1.1.2014, they decided in future they will share profits in the ratio of 2:2:3. Calculate sacrificing and gaining ratio.
7. A, B and C are partners sharing profits and losses in the ratio of 3:2:1. On 1.1.2014, they decided to share profits and losses equally in future profits. The goodwill of the firm is valued at 72000. Give necessary journal entry
8. X and Y are partners in a firm sharing profits and losses in the ratio of 3:2. They decided to that w.e.f April 1, 2014, they shared the profits equally. The Balance Sheet of X and Y as at



31.3.14 and the terms of reconstitution are given below:

BALANCE SHEET AS AT 31.3.2014

Liabilities	Amount	Assets	Amount
Creditors	60,000	Cash	40,000
Outstanding expenses	15,000	Debtors	36,000
Capitals		Stock	84,000
X 3,00,000		Furniture	62,000
Y 3,00,000	6,00,000	Machinery	4,53,000
	6,75,000		6,75,000

- a) Capital of the firm was fixed at 800000 to be contributed by partners in the profit sharing ratio. The difference will be adjusted in cash.
- b) Goodwill of the firm is to be valued on the basis of two years' purchase of super profit. The average net profit expected in future by the firm is 100000 per year. The normal rate of return on capital in similar business is 10%.
- Prepare partners' capital accounts and Balance sheet of the reconstituted firm.

9. The goodwill of the firm is estimated at two years' purchase of the average profit of the last three years. The profits are as under:
- 2014-15 ---₹20,000(including an abnormal gain of ₹5,000)
- 2015-16----₹40,000(after changing an abnormal loss of ₹10,000)
- 2016-17 ----₹42,000(excluding ₹2,000 as insurance premium of property now to be insured)
- Calculate the amount of goodwill.

- 10 Kumar, Gupta and Kavita were partners in a firm sharing profits and losses equally. The firm was engaged in the storage and distribution of canned juice and its godowns were located at three different places in the city. Each godown was being managed individually by Kumar, Gupta and Kavita. Because of increase in business activities at the godown managed by Gupta, he had to devote more time. Gupta demanded that his share in the profits of the firm be increased, to which Kumar and Kavita agreed. The new profit-sharing ratio was agreed to be 1 : 2 : 1 . For this purpose, the goodwill of the firm was valued at two years' purchase of the average profits of last five years . The profits of the last five years were as follows:

Year	Profit ₹
I	4,00,000
II	4,80,000
III	7,33,000
IV(Loss)	33,000
V	2,20,000



You are required to

- i. Calculate the goodwill of the firm
 - ii. Pass necessary journal entry for the treatment of goodwill on change in profit-sharing ratio of Kumar, Gupta and Kavitha
- 11 A firm's profits for the last five years were ₹20,000; ₹30,000, ₹40,000; ₹50,000 and ₹60,000 Calculate the value of firm's goodwill on the basis of three years' purchase of weighted average profits after using weight of 1, 2, 3, 4 and 5 respectively.
- 12 A business has earned average profits of ₹1,00,000 during the last few years and the normal rate of return in similar business is 10%. Find out the value of goodwill by:
 (a) Capitalisation of Super Profit Method and (b) Super Profit Method if the goodwill is valued at 3 years' purchase of super profit.
 The assets of the business were ₹10,00,000 and its external liabilities ₹ 1,80,000.

REVALUATION OF ASSETS AND REASSESSMENT OF LIABILITIES

ACCOUNTING ENTRIES TO RECORD THE REVALUATION OF ASSETS AND REASSESSMENT OF LIABILITIES.

1. For increase in the value of an asset	Asset A/c (Individually) To Revaluation A/c	...Dr
2. For decrease in the value of an asset	Revaluation A/c To Asset A/c (Individually)	...Dr
3. For increase in the amount of a liability	Revaluation A/c To Liability A/c (Individually)	...Dr
4. For decrease in the amount of liability	Liability A/c (Individually) To Revaluation A/c	...Dr
5. For recording an unrecorded asset	Unrecorded Asset A/c To Revaluation A/c	...Dr
6. For recording an unrecorded liability	Revaluation A/c To Unrecorded Liability	...Dr
7. For transfer of balance in Revaluation A/c : (a) If credit side exceeds debit side (Net Gain) (b) If debit side exceed credit side (Net Loss)	Revaluation A/c To Partners' capital (or current) A/c	...Dr [Individually in old profit sharing ratio]
	Partners' Capital (or current) A/c To Revaluation A/c	...Dr [Individually in old profit sharing ratio]



SPECIMEN OF REVALUATION ACCOUNT

Dr	REVALUATION ACCOUNT		Cr
Particulars	Rs	Particulars	Rs
To Assets (Individually) - Decrease in the value on revaluation		By Assets (Individually) - Increase in value on revaluation	
To Liabilities (Individually) - Increase in amount on reassessment		By Liabilities (Individually) - Decrease in amount on Reassessment	
To unrecorded liabilities A/c		By unrecorded Assets A/c	
To Partners' capital A/c (Remuneration)		By loss on revaluation transferred to Partners' capital (or current) A/cs *	
To Cash/Bank A/c (Expenses)	_____		_____
To Gain (Profit) on revaluation transferred to Partners' capital (or current) A/cs*	_____		_____

*Only one will appear at a time

- 13 Anil, Manvi and Payal are partners sharing profits and losses in the ratio 5:3:2. Their balance sheet as at 31st March 2018 stood as follows:

Liabilities	Rs	Assets	Rs
Capital A/cs:		Land and building	2,60,000
Anil 3,50,000		Machinery	3,50,000
Manvi 2,50,000		Stock	90,000
Payal 3,00,000		Bills Receivable	70,000
	9,00,000	Sundry debtors	1,00,000
General Reserve	20,000	Cash in Hand	25,000
Workmen Compensation Reserve	30,000	Cash at Bank	1,05,000
Sundry Creditors	50,000		
	10,00,000		10,00,000

They decided to share profits and losses in the ratio of 2:2:1 *w.e.f.* 1st April 2018. They agreed that:

- (i) Land and building be appreciated by 10%
- (ii) Machinery be depreciated by 15%
- (iii) Stock be increased to Rs 1,00,000.
- (iv) A Provision for doubtful debts be created @ 5% on sundry debtors
- (v) A creditor of Rs 5,000 is not to claim the debts
- (vi) A claim on account of workmen compensation is estimated at Rs 10,000.
- (vii) An expense of Rs 2,000 was paid by the firm for getting the value of Land and building certified from a Chartered Engineer.



Pass the Journal entries and prepare Revaluation Account.

- 14 Ashok, Bhim and Chetan were partners in a firm sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2015 was as follows:

BALANCE SHEET OF ASHOK, BHIM AND CHETAN as on 31st March, 2015

Liabilities	Rs	Assets	Rs
Creditors	1,00,000	Land	1,00,000
Bills Payable	40,000	Building	1,00,000
General Reserve	60,000	Plant	2,00,000
Capital A/cs: Ashok		Stock	80,000
2,00,000		Debtors	60,000
Bhim		Bank	10,000
1,00,000	3,50,000		
Chetan			
50,000	5,50,000		5,50,000

Ashok, Bhim and Chetan decided to share profits equally, *w.e.f.* 1st April, 2015. For this it was agreed that:

- (a) Goodwill of the firm be valued at Rs 3,00,000.
 - (b) Land be revalued at Rs 1,60,000 and building be depreciated by 6%.
 - (c) Creditors of Rs 12,000 were not likely to be claimed and hence be written off.
- Prepare Revaluation Account, Partners' Capital Accounts and Balance sheet of the reconstituted firm.

- 15 Amar, Tarun and Akhil are partners sharing profits and losses in the ratio of 5:3:2. Their balance sheet as at 31st March, 2018 was as follows:

Liabilities	Rs	Assets	Rs
Sundry Creditors	1,60,000	Cash in hand	25,000
Salaries payable	30,000	Bank Balance	1,25,000
Reserves	80,000	Bills Receivable	10,000
Profit and Loss A/c	30,000	Sundry debtors	1,00,000
Capital A/cs:		Less: Provision for	
Amar 3,00,000		doubtful Debts	10,000
Tarun 1,80,000			90,000
Akhil 1,20,000		Stock	2,00,000
-----	6,00,000	Furniture	50,000
-----		Computers	3,00,000
		Air-Conditioners	1,00,000



	<u>9,00,000</u>		<u>9,00,000</u>
--	-----------------	--	-----------------

Profit sharing ratio among the partners was agreed to be 2:2:1 *w.e.f.* 1st April, 2018. They agreed to the following:

- (i) Stock to be increased to Rs 2,20,000
- (ii) Provision for doubtful debts to be reduced by Rs 2,000
- (iii) Furniture to be reduced by 20%
- (iv) Computers to be reduced to Rs 2,70,000
- (v) Goodwill of the firm is valued at Rs 1,00,000

The partners decided to carry the assets and liabilities at their existing values. They also decided that Reserves and Profit and Loss Account balance be carried at the same values. Pass an adjustment entry giving effect to the above arrangement and prepare balance sheet after adjustments.