Chapter 3 Change in Profit – Sharing Ratio Among the Existing Partners

Question 1.
A and B are sharing profits and losses equally. With effect from 1st April, 2018, they agree to share profits in the ratio of 4 : 3. Calculate individual partner's gain or sacrifice due to the change in ration.
Solution:

Old Ratio (A and B) = 1 : 1
New Ratio (A and B) = 4 : 3
Sacrificing Ratio (or Gaining)=Old Ratio - New Ratio

$$A's\ Share = \frac{1}{2} - \frac{4}{7} = \frac{7}{14} - \frac{8}{14} = \frac{-1}{14}(Gain)$$

$$B's\ Share = \frac{1}{2} - \frac{3}{7} = \frac{7}{14} - \frac{6}{14} = \frac{1}{14}(Sacrifice)$$

∴ A's Gain = 1/14 and B's Sacrifice = 1/14

Question 2.
X, Y and Z are sharing profits and losses in the ratio of 5 : 3 : 2. With effect from 1st April, 2018, 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.
Solution:

OldRatio(X, Y and Z)=5 : 3 : 2
NewRatio(X, Y andZ)=5 : 2 : 3
Sacrificing(or Gaining)Ratio=Old Ratio – NewRatio

$$X's\ Share = \frac{5}{10} - \frac{5}{10} = Nil$$

$$Y's\ Share = \frac{3}{10} - \frac{2}{10} = \frac{1}{10}(Sacrifice)$$

$$Z's\ Share = \frac{2}{10} - \frac{3}{10} = -\frac{1}{10}(Gain)$$

∴ Z's Gain = 1 / 10 and Y's Sacrifice = 1 / 10

Question 3.
X, Y and Z are sharing profits and losses in the ratio of 5 : 3 : 2. With effect from 1st April, 2018, they decide to share profits and losses equally. Calculate each partner's gain or sacrifice due to the change in ratio.

Solution:

$$OldRatio(X, Y \text{ and } Z) = 5:3:2$$

$$NewRatio(X, Y \text{ and } Z) = 1:1:1$$

$$\text{Sacrificing (or Gaining) Ratio} = \text{Old Ratio} - \text{NewRatio}$$

$$X'sShare = \frac{5}{10} - \frac{1}{3} = \left(\frac{15}{30}\right) - \left(\frac{10}{30}\right) = \frac{5}{30}(\text{Sacrifice})$$

$$Y'sShare = \frac{3}{10} - \frac{1}{3} = \left(\frac{9}{30}\right) - \left(\frac{10}{30}\right) = \frac{-1}{30}(\text{Gain})$$

$$Z'sShare = \frac{2}{10} - \frac{1}{3} = \left(\frac{6}{30}\right) - \left(\frac{10}{30}\right) = \frac{-4}{30}(\text{Gain})$$

$$\therefore Y'sGain = 1/30,\ Z's\ Gain = 4/30 \text{ and } X's\ Sacrifice = 5/30$$

Question 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. C acquires 1/5th share from A.

Case 2. C acquires 1/5th share equally form A and B.

Case 3. A, B and C will share future profits and losses equally.

Case 4. C acquires 1/10th share of A and 1/2 share of B.

Solution:

Calculation of New Profit Sharing Ratio

Case.1: C acquires 1/5th Share from A.

Given Old Ratio between A : B : C = 5 : 4 : 1

C acquires $\frac{1}{5}$th from A

A's sacrifice $= \frac{1}{5}$

C's gain $= \frac{1}{5}$

$$A = \frac{5}{10} - \frac{1}{5} = \left(\frac{5}{10}\right) - \left(\frac{2}{10}\right) = \frac{3}{10}$$

$$B = \frac{4}{10}$$

$$C = \frac{1}{10} + \frac{1}{5} = \left(\frac{1}{10}\right) + \left(\frac{2}{10}\right) = \frac{3}{10}$$

A:B:C = 3:4:3

Case.2: C acquires 1/5th Share equally from A and B.

Given Old Ratio A : B : C = 5 : 4 : 1

C acquires $\frac{1}{5}$ th share equally from A and B.

A's sacrifice = $\frac{1}{10}$

B's sacrifice = $\frac{1}{10}$

C's gain = $\frac{1}{5}$

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

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

$$C = \frac{1}{10} + \frac{1}{5} = \left(\frac{1}{10}\right) + \left(\frac{2}{10}\right) = \frac{3}{10}$$

A : B : C = 4 : 3 : 3

Case: 3 A, B and C will share future profits and losses equally.

Given: Old Ratio A:B:C = 5:4:1

New Ratio A:B:C = 1:1:1

$$A = \frac{5}{10} - \frac{1}{3} = \left(\frac{15}{30}\right) - \left(\frac{10}{30}\right) = \frac{5}{30} \text{(Sacrifice)}$$

$$B = \frac{4}{10} - \frac{1}{3} = \left(\frac{12}{30}\right) - \left(\frac{10}{30}\right) = \frac{2}{30} \text{(Sacrifice)}$$

$$C = \frac{1}{10} - \frac{1}{3} = \left(\frac{3}{30}\right) - \left(\frac{10}{30}\right) = -\frac{7}{30} \text{(Gain)}$$

Case: 4 C acquires 1/10th Share of A and 1/2 share of B.

Given Old Ratio A:B:C = 5:4:1

$$A\text{'s sacrifice to C} = \frac{5}{10} \times \frac{1}{10} = \frac{1}{20}$$

$$B\text{'s scarifice to C} = \frac{4}{10} \times \frac{1}{2} = \frac{4}{20}$$

$$C\text{'s gain} = \frac{1}{20} + \frac{4}{20} = \frac{5}{20}$$

$$A = \frac{5}{10} - \frac{1}{20} = \left(\frac{10}{20}\right) - \left(\frac{1}{20}\right) = \frac{9}{20}$$

$$B = \frac{4}{10} - \frac{4}{20} = \left(\frac{8}{20}\right) - \left(\frac{4}{20}\right) = \frac{4}{20}$$

$$C = \frac{1}{10} + \frac{5}{20} = \left(\frac{2}{20}\right) + \left(\frac{5}{20}\right) = \frac{7}{20}$$

A:B:C=9:4:7

Question 5.

A, B and C shared profits and losses in the ratio of 3 : 2 : 1 respectively. With effect from 1st April, 2018, they agreed to share profits equally. The goodwill of the firm was valued at ₹ 18,000. Pass necessary Journal entries when:

(a) Goodwill Account is not opened; and

(b) Goodwill Account is opened.

Solution:

(a) Goodwill Account is not opened

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	C's Capital A/c Dr.		3,000	
	To A's capital A/c			3,000
	(Being adjustment of goodwill made on change in profit sharing ratio)			

(b) Goodwill Account is opened

Journal

Sr. No.	Particulars		L.F.	Debit Rs.	Credit Rs.
(i)	Goodwill A/c	Dr.		18,000	
	To A's capital A/c				9,000
	To B's capital A/c				6,000
	To C's capital A/c				3,000
	(Being the goodwill raised and distrusted old ratio)				
(ii)	A's capital A/c	Dr.		6,000	
	B's capital A/c	Dr.		6,000	
	C's capital A/c	Dr.		6,000	
	To Goodwill A/c				18,000
	(Being the goodwill distrusted on new ratio)				

Working Note:
Old Ratio (A, B and C) = 3 : 2 : 1

New Ratio (A, B and C) = 1 : 1 : 1
Sacrificing (or Gaining) Ratio = Old Ratio - New Ratio

$$A's\,Share = \frac{3}{6} - \frac{1}{3} = \left(\frac{3}{6}\right) - \left(\frac{2}{6}\right) = \frac{1}{6}(Sacrifice)$$

$$B's\,Share = \frac{2}{6} - \frac{1}{3} = \left(\frac{2}{6}\right) - \left(\frac{2}{6}\right) = Nil$$

$$C's\,Share = \frac{1}{6} - \frac{1}{3} = \left(\frac{1}{6}\right) - \left(\frac{2}{6}\right) = \frac{-1}{6} = (Gain)$$

Adjustment of Goodwill of the firm = ₹18,000

$$A\text{ will receive} = 18,000 \times \frac{1}{6} = ₹3,000$$

$$C\text{ will give} = 18,000 \times \frac{1}{6} = ₹3,000$$

Question 6.
X, Y and Z are partners sharing profits and losses in the ratio of 5 : 3 : 2 . From 1st April, 2018, they decided to share profits and losses equally.
The Partnership Deed provides that in the event of any change in the profit-sharing ratio, the goodwill should be valued at two years purchase of
the average profit of the preceding five years . The profits and losses of the preceding years are:

Year	2013-14	2014-15	2015-16	2016-17	2017-18
Profit	70,000	85,000	45,000	35,000	10,000(Loss)

You are required to calculate goodwill and pass journal entry.
Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Y's Capital A/c	Dr.		3,000	
	Z's Capital A/c	Dr.		12,000	
	To X's Capital A/c				15,000
	(Being amount of goodwill adjusted on change in profit sharing ratio)				

Working Notes:

1. Calculation of Sacrificing (or Gaining) Ratio

Old Ratio (X, Y and Z) = 5 : 3 : 2

New Ratio (X, Y and Z) = 1 : 1 : 1

Sacrificing (or Gaining) Ratio = Old Ratio - New Ratio

$$\text{X's Share} = \frac{5}{10} - \frac{1}{3} = \frac{15-10}{30} = \frac{5}{30}(\text{Sacrifice})$$

$$\text{Y's Share} = \frac{3}{10} - \frac{1}{3} = \frac{9-10}{30} = \frac{-1}{30}(\text{Gain})$$

$$\text{Z's Share} = \frac{2}{10} - \frac{1}{3} = \frac{6-10}{30} = \frac{-4}{30}(\text{Gain})$$

2. Calculation of Goodwill

$$\text{Average Profit} = \frac{70,000 + 85,000 + 45,000 + 35,000 - 10,000}{5} = ₹45,000$$

$$\text{Goodwill} = \text{Average Profit} \times \text{Number of Year's Purchase}$$

$$\therefore \text{Goodwill} = 45,000 \times 2$$

$$= ₹90,000$$

3. Adjustment of Goodwill

$$\text{Credited to X's Capital A/c} = 90,000 \times \frac{5}{30}(\text{sacrifice}) = ₹15,000$$

$$\text{Debited to Y's Capital A/c} = 90,000 \times \frac{1}{30}(\text{gain}) = ₹3,000$$

$$\text{Debited to Z's Capital A/c} = 90,000 \times \frac{4}{30}(\text{gain}) = ₹12,000$$

Question 7.

Mandeep, Vinod and Abbas are partners sharing profits and losses in the ratio of 3 : 2 : 1. From 1st April, 2018, they decided to share profits and losses equally. The Partnership Deed provides that in the event of any change in the profit-sharing ratio, the goodwill shall be valued at three years purchase of the average profit of last five years . The profits and losses of the past five years are:

Profit – Year ended 31st March, 2014 – ₹ 1,00,000; 2015 – ₹ 1,50,000; 2017 – ₹ 2,00,000; 2018 – ₹ 2,00,000;

Loss – Year ended 31st March, 2016 – ₹ 50,000.

Pass the journal entries showing the working.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Abbas's Capital A/c Dr.		60,000	
	To Mandeep's Capital A/c			60,000
	(Being adjustment entry made for change in ratio)			

Working notes:

1. Calculation of Sacrifice or Gain

Old Ratio between Mandeep, Vinod and Abbas = 3 : 2 : 1

New Ratio between Mandeep, Vinod and Abbas = 1 : 1 : 1

Sacrificing (or Gaining Ratio) = Old Ratio - New Ratio

$$\text{Mandeep's share} = \frac{3}{6} - \frac{1}{3} = \left(\frac{3}{6}\right) - \left(\frac{2}{6}\right) = \frac{1}{6}(\text{Sacrifice})$$

$$\text{Vinod's share} = \frac{2}{6} - \frac{1}{3} = \left(\frac{2}{6}\right) - \left(\frac{2}{6}\right) = \text{Nil}$$

$$\text{Abbas's share} = \frac{1}{6} - \frac{1}{3} = \left(\frac{1}{6}\right) - \left(\frac{2}{6}\right) = -\frac{1}{6}(\text{Gain})$$

2. Valuation of Goodwill

Goodwill = Average Profit × No. of years Purchase = 1,20,000 × 3 = Rs.3, 60,000

$$\text{Average Profit} = \frac{\text{Total profits of past years given}}{\text{Number of years}}$$

$$= \frac{1,00,000 + 1,50,000 + 2,00,000 + 2,00,000 - 50,000}{5} = ₹1,20,000$$

3. Adjustment of Goodwill

$$\text{Debited to Abbas's Capital A/c} = 3,60,000 \times \frac{1}{6}(\text{gain}) = ₹60,000$$

$$\text{Credited to Mandeep Capital A/c} = 3,60,000 \times \frac{1}{6}(\text{sacrifice}) = ₹60,000$$

Question 8.

X, Y and Z are partners sharing profits and losses in the ratio of 5 : 3 : 2 , decided to share future profits and losses equally with effect from 1st April, 2018. On that date , the goodwill appeared in the books at ₹ 12,000. But it was revalued at ₹ 30,000. Pass journal entries assuming that goodwill will not appear in the books of account.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	X's Capital A/c	Dr.		6,000	
	Y's Capital A/c	Dr.		3,600	
	Z's Capital A/c	Dr.		2,400	
	To Goodwill A/c				12,000
	(Being goodwill written off)				
	Y's Capital A/c	Dr.		1,000	
	Z's Capital A/c	Dr.		4,000	
	To X's Capital A/c				5,000
	(Being amount of goodwill adjusted on change in profit sharing ratio)				

Working Notes:

1. Calculation of Sacrificing (or Gaining) Ratio

Old Ratio (X, Y and Z) = 5 : 3 : 2

New Raito (X,Y and Z) = 1 : 1 : 1

Sacrificing (or Gaining) Ratio = Old Ratio - New Ratio

$$X's Share = \frac{5}{10} - \frac{1}{3} = \left(\frac{15}{30}\right) - \left(\frac{10}{30}\right) = \frac{5}{30} (Sacrifice)$$

$$Y's Share = \frac{3}{10} - \frac{1}{3} = \left(\frac{9}{30}\right) - \left(\frac{10}{30}\right) = \frac{-1}{30} (Gain)$$

$$Z's Share = \frac{2}{10} - \frac{1}{3} = \left(\frac{6}{30}\right) - \left(\frac{10}{30}\right) = \frac{-4}{30} (Gain)$$

2. Old Goodwill Written off

$$X's\ Share = 12,000 \times \frac{5}{10} = ₹6,000$$

$$Y's\ Share = 12,000 \times \frac{3}{10} = ₹3,600$$

$$Z's\ Share = 12,000 \times \frac{2}{10} = ₹2,400$$

3. Adjustment of Goodwill

$$\text{Amount to be credited to X's Capital A/c} = 30,000 \times \frac{5}{30} (Sacrifice) = ₹5,000$$

$$\text{Amount to be debited to Y's Capital A/c} = 30,000 \times \frac{1}{30} (Gain) = ₹1,000$$

$$\text{Amount to be debited to Z's Capital A/c} = 30,000 \times \frac{4}{30} (Gain) = ₹4,000$$

Question 9.

A and B are partners in a firm sharing profits in the ratio of 2 : 1 . They decided with effect from 1st

April, 2017, that they would share profits in the ratio of 3 : 2 . But, this decision was taken after the profit for the year 2017-18 amounting to ₹ 90,000 was distributed in the old ratio.
Value of firm's goodwill was estimated on the basis of aggregate of two years profits preceding the date decision became effective.
The profits for 2015-16 and 2016-17 were ₹ 60,000 and ₹ 75,000 respectively. It was decided that Goodwill Account will not be opened in the books of the firm and necessary adjustment be made through Capital Accounts which, on 31st March, 2018 stood, at ₹ 1,50,000 for A and ₹ 90,000 for B.
Pass necessary journal entries and prepare Capital Accounts.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	A's Capital A/c Dr. To B's Capital A/c (Being adjustment of profit for 2016-17 on change in profit sharing ratio)		6,000	 6,000
	B's Capital A/c Dr. To A's Capital A/c (Being adjustment of goodwill made on change in profit sharing ratio)		9,000	 9,000

Partner's Capital Accounts

Dr Cr

Particulars	A	B	Particulars	A	B
To B's Capital A/c (Adjustment of profit)	6,000		By Balance b/d	1,50,000	90,000
To A's Capital A/c (Adjustment of Goodwill)		9,000	By A's Capital A/c (Adjustment Profit)		6,000
To Balance c/d	1,53,000	87,000	By B's Capital A/c (Adjustment of Goodwill)	9,000	
	1,59,000	96,000		1,59,000	96,000

Working Notes:

1. Calculation of Sacrificing (or Gaining) Ratio

Old Ratio (A and B) = 2 : 1

New Ratio (A and B) = 3 : 2

Sacrificing (or Gaining) Ratio = Old Ratio - New Ratio

$$A's\ Ratio = \frac{2}{3} - \frac{3}{5} = \left(\frac{10}{15}\right) - \left(\frac{9}{15}\right) = \frac{1}{15}(Sacrifice)$$

$$B's\ Ratio = \frac{1}{3} - \frac{2}{5} = \left(\frac{5}{15}\right) - \left(\frac{9}{15}\right) = \frac{-1}{15}(Gain)$$

2. Adjustment of Profits for 2016-17

$$\text{Debited to A's Capital Account} = 90{,}000 \times \frac{1}{15}(Sacrifice) = ₹6{,}000$$

$$\text{Credited to B's Capital Account} = 90{,}000 \times \frac{1}{15}(Gain) = ₹6{,}000$$

3. Calculation of New Goodwill

Goodwill = Profit of (2016-17) + Profit of (2017-18)

= 60,000 + 75,000

= Rs.1,35,000

4. Adjustment of Goodwill

$$\text{Debited to A's Capital A/c} = 1{,}35{,}000 \times \frac{1}{15}(Sacrifice) = ₹9{,}000$$

$$\text{Debited to B's Capital A/c} = 1{,}35{,}000 \times \frac{1}{15}(Gain) = ₹9{,}000$$

Question 10.

Jai and Raj are partners sharing profits in the ratio of 3 : 2 . With effect from 1st April, 2018, they decided to share profits equally. Goodwill appeared in the books at ₹ 25,000 . As on 1st April, 2018, it was valued at ₹ 1,00,000 . They decided to carry goodwill in the books of the firm.

Pass the journal entry giving effect to the above.

Solution:

Journal

Date	Particulars		L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Raj's Capital A/c	Dr.		7,500	
	To Jai's Capital A/c				7,500
	(Being adjustment for goodwill)				

Working Notes:

Calculation of Gaining/Sacrificing Ratio

Sacrificing Ratio = Old Ratio — New Ratio

$$\text{Jai} = \frac{3}{5} - \frac{1}{2} = \frac{1}{10}(\textit{sacrifice})$$

$$\text{Raj} = \frac{2}{5} - \frac{1}{2} = -\frac{1}{10}(\textit{gain})$$

Goodwill to be adjusted = 1,00,000 — 25,000 = 75,000

$$\text{Jai's share} = 75,000 \times \frac{1}{10} = 7,500 \text{ (credit, since sacrificing)}$$

$$\text{Raj's share} = 75,000 \times \frac{1}{10} = 7,500 \text{(debit, since gaining)}$$

Question 11.

X and Y are partners in a firm sharing profits and losses in the ratio of 3 : 2 . With effect from 1st April, 2018, they decided to share future profits equally. On the date of change in the profit-sharing ratio, the Profit and Loss Account showed a credit balance of ₹ 1,50,000. Record the necessary journal entry for the distribution of the balance int he Profit and Loss Account immediately before the change in the profit-sharing ratio.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Profit andLoss A/c	Dr.		1,50,000	
	To X's Capital A/c				90,000
	To Y's Capital A/c				60,000
	(Being adjustment of balance in PandL A/c in old ratio)				

Working Notes:

1. Calculation of Share of Profit and Loss A/c

$$\text{Credited to X's share} = 1,50,000 \times \frac{3}{5} = ₹90,000$$

$$\text{Credited to Y's share} = 1,50,000 \times \frac{2}{5} = ₹60,000$$

Question 12.

A and B 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,2018 . On that day, Profit and Loss Account showed a debit balance of ₹ 1,00,000.Pass journal entry to give effect to the above.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	A's Capital A/c	Dr.		80,000	
	B's Capital A/c	Dr.		20,000	
	To Profit and Loss A/c				1,00,000
	(Being Profit and Loss distributed)				

Question 13.

X, Y and Z are sharing profits and losses in the ratio of 5 : 3 : 2 . They decided to share future profits and losses in the ratio of 2 : 3 : 5 with effect from 1st April, 2018. They also decided to record the effect of the following accumulated profits,losses and reserves without affecting their book values by passing a single entry.

	Book Value(₹)
General Reserve	6,000
Profit and Loss A/c (Credit)	24,000
Advertisement Suspense A/c	12,000

Pass an Adjustment Entry.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Z's Capital A/c Dr. To X's Capital A/c (Being adjustment for General Reserve, Profit and Loss account and Advertisement Suspense account made on change in PSR)		5,400	5,400

Working notes :

1.

Net amount to be adjusted = General Reserve + Profit and Loss A/c (Credit) - Adjustment Suspense A/c

Net amount to be adjustment = 6,000 + 24,000 - 12000 = Rs.18,000

2.

Calculation of Sacrificing (or Gaining) Ratio

Old Ratio (X, Y and Z) = 5 : 3 : 2

New Ratio (X, Y and Z) = 2 : 3 : 5

Sacrificing (or gaining) Ratio = Old Ratio - New Ratio

$$\text{X's Share} = \frac{5}{10} - \frac{2}{10} = \frac{3}{10} \text{ (Sacrifice)}$$

$$\text{Y's Share} = \frac{3}{10} - \frac{3}{10} = \text{Nil}$$

$$\text{Z's Share} = \frac{2}{10} - \frac{5}{10} = \frac{-3}{10} \text{(Gain)}$$

$$\text{Credited to X's Capital} = 18{,}000 \times \frac{3}{10} \text{(Sacrifice)} = ₹5,400$$

$$\text{Credited to Z's Capital} = 18{,}000 \times \frac{3}{10} \text{(Gain)} = ₹5,400$$

Question 14.

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 information is given.

(ii) there is no claim against it.

Solution:

Case : (i) and (ii)

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Workmen Compansation Reserve A/c	Dr.		1,20,000	
	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 Workmen Compensation Reserve distributed)				

Note: Workmen Compensation Reserve should be distributed in the old ratio i.e. 5 : 3 : 2 in both the cases (i) and (ii).

Question 15.

X, Y and Z 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 there is a claim of ₹ 80,000 against it.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Workmen Compensation Reserve A/c	Dr.		40,000	
	To X's Capital A/c				20,000
	To Y's Capital A/c				12,000
	To Z's Capital A/c				8,000
	(Being adjustment of balance in workmen composition reserve account in old ratio)				

Working Notes:

Calculation of Share (Workmen Compensation Reserve)

$$\text{Credited to X's share} = 40,000 \times \frac{5}{10} = ₹20,000$$

$$\text{Credited to Y's share} = 40,000 \times \frac{3}{10} = ₹12,000$$

$$\text{Credited to Z's share} = 40,000 \times \frac{2}{10} = ₹8,000$$

Question 16.

X, Y and Z 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 . with effect from 1st April, 2018. Workmen Compensation Reserve appears at ₹ 1,20,000 in the Balance Sheet as at 31st March, 2018 and Workmen Compensation Claim is estimated at ₹ 1,50,000. Pass journal entries for the accounting treatment of Workmen Compensation Reserve.

Solution:

Journal

Sr. No.	Particulars		L.F.	Debit Rs.	Credit Rs.
(i)	Workmen Compensation Reserve A/c	Dr.		1,20,000	
	Revaluation A/c	Dr.		30,000	
	To Provision for W.C. Claim A/c				1,50,000
	(Being provision created and shortfall charged to Revaluation account)				
(ii)	X's Capital A/c	Dr.		15,000	
	Y's Capital A/c	Dr.		9,000	
	Z's Capital A/c	Dr.		6,000	
	To Revaluation A/c				30,000
	(Being loss on revaluation transferred to Partner's Capital account)				

Question 17.

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 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.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Investment Fluctuation Reserve A/c	Dr.		5,000	
	To Investment A/c				5,000
	(Being adjustment for decrease in the value of investments)				
	Investment Fluctuation Reserve A/c	Dr.		15,000	
	To A's Capital A/c				7,500
	To B's Capital A/c				4,500
	To C's Capital A/c				3,000
	(Being adjustment of balance in Investment Fluctuation Reserve A/c in old ratio)				

Working Notes:

Calculation of Share of Investment Fluctuation Reserve

$$\text{Credited to A's share} = 15,000 \times \frac{5}{10} = ₹7,500$$

$$\text{Credited to B's share} = 15,000 \times \frac{3}{10} = ₹4,500$$

$$\text{Credited to C's share} = 15,000 \times \frac{2}{10} = ₹3,000$$

Question 18.

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, 2018. The extract of their Balance Sheet as at 31st March, 2018 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 given as ₹ 4,00,000;
(iii) When its Market Value is given as ₹ 4,24,000;
(iv) When its Market Value is given as ₹ 3,70,000;
(v) When its Market Value is given as ₹ 3,10,000.

Solution:

Journal

Sr. No.	Particulars		L.F.	Debit Rs.	Credit Rs.
(i)	Investment Fluctuation Reserve A/c	Dr.		60,000	
	To Nitin's Capital A/c				20,000
	To Tarun's Capital A/c				20,000
	To Amar's Capital A/c				20,000
	(Being Investment Fluctuation Reserve distributed)				
(ii)	Investment Fluctutation Reserve A/c	Dr.		60,000	
	To Nitin's Capital A/c				20,000
	To Tarun's Capital A/c				20,000
	To Amar's Capital A/c				20,000
	(Being Investment Fluctuation Reserve distributed)				
(iii)	Investment Fluctutation Reserve A/c	Dr.		60,000	
	To Nitin's Capital A/c				20,000
	To Tarun's Capital A/c				20,000
	To Amar's Capital A/c				20,000
	(Being Investment Fluctuation Reserve distributed)				
	Investments A/c	Dr.		24,000	
	To Revaluation A/c				24,000
	(Being investment revalued)				
	Revaluation A/c	Dr.		24,000	
	To Nitin's Capital A/c				8,000
	To Tarun's Capital A/c				8,000
	To Amar's Capital A/c				8,000
	(Being revaluation profit transferred to partners' Capital A/c)				
(iv)	Investment Fluctuation Reserve A/c	Dr.		60,000	
	To Investment A/c				30,000
	To Nitin's Capital A/c				10,000
	To Tarun's Capital A/c				10,000
	To Amar's Capital A/c				10,000
	(Being investment Fluctuation Reserve distributed)				
(v)	Investment Fluctuation Reserve A/c	Dr.		60,000	
	Revaluation A/c	Dr.		30,000	
	To Investment A/c				90,000
	(Being decrease in investment set off against IFR and balance debited to Revaluation A/c)				
	Nitin's Capital A/c	Dr.		10,000	
	Tarun's Capital A/c	Dr.		10,000	
	Amar's Capital A/c	Dr.		10,000	
	To Revaluation A/c				30,000
	(Being loss on revaluation transferred to Partner's Capital				

Question 19.

X, Y are partners sharing profits in the ratio of 2 : 1 . On 31st March, 2018, 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:

(i) If General Reserve is not to be shown in the new Balance Sheet.

(ii) If General Reserve is to be shown in the new Balance Sheet.

Solution:

Case: (i) If General Reserves are not to be shown in the new Balance Sheet

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	General Reserve A/c Dr. To X's Capital A/c (2/3rd) To Y's Capital A/c (1/3rd) (Being adjustment of balance in General Reserve account in old ratio)		60,000	 40,000 20,000

Case: (ii) If General Reserves are to be shown in the new Balance sheet

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Y's Capital A/c Dr. To X's Capital A/c (Being balance in General Reserve A/c adjusted in sacrificing gaining ratio)		4,000	 4,000

Working notes :

1. Calculation of Gain/Sacrifice

Sacrificing Ratio = Old Ratio - New Ratio

$$X=\frac{2}{3}-\frac{3}{5}=\frac{1}{15}\ \text{(sacrifice)}$$

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

2. Calculation of Compensation by Y to X

$$\text{Amount to be compensated} = 60,000 \times \frac{1}{15} = 4,000$$

Question 20.

X and Y are in partnership sharing profits in the ratio of 2 : 3 . With effect from 1st April, 2018, they agreed to share profits in the ratio f 1 : 2 . For this purpose, 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 decide to continue showing Reserves in the books . You are required to give effect to the change by passing a single journal entry.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Y's Capital A/c Dr. To X's Capital A/c (Being adjustment mode for goodwill and General Reserve)		30,000	 30,000

Working notes:

1. Calculation of Goodwill

Goodwill = Average Profit × Number of year's purchase

$$\text{Average Profit} = \frac{1,50,000 + 1,60,000 + 2,00,000}{3} = ₹1,70,000$$

∴ Goodwill = 1,70,000 × 2 = Rs.3,40,000

2. Calculation of sacrificing (or Gaining) Ratio

Old Ratio (X and Y) = 2 : 3

New Ratio (X and Y) = 1 : 2

Sacrificing (or Gaining) Ratio = Old Ratio - New Ratio

$$\text{X's ratio} = \frac{2}{5} - \frac{1}{3} = \left(\frac{6}{15}\right) - \left(\frac{5}{15}\right) = \frac{1}{15} \text{ (sacrifice)}$$

$$\text{Y's ratio} = \frac{3}{5} - \frac{2}{3} = \left(\frac{9}{15}\right) - \left(\frac{10}{15}\right) = -\frac{1}{15} \text{ (Gain)}$$

3. Adjustment of Goodwill

$$\text{Credit to X's Capital} = 3,40,000 \times \frac{1}{15} = ₹22,667$$

$$\text{Debit to Y's Capital} = 3,40,000 \times \frac{1}{15} = ₹22,667$$

4. Adjustment of General Reserve

$$\text{Credit to X's Capital} = 1,10,000 \times \frac{1}{15} = ₹7,333$$

$$\text{Debit to Y's Capital} = 1,10,000 \times \frac{1}{15} = ₹7,333$$

5. Net Adjustment of Goodwill and General Reserve

Particulars	X	Y
Adjustment of Goodwill	22,667 (Cr.)	22,667 (Dr.)
Add: Adjustment of General Reserve	7,333 (Cr.)	7,333 (Dr.)
Net Amount	**30,000 (Cr.)**	**30,000 (Dr.)**

Question 21.

X, Y and Z share profits as 5 : 3 : 2 . They decide to share their future profits as 4 : 3 : 3 with effect from 1st April, 2018. On this date the following revaluations have taken place :

	Book Value (₹)	Revised Value (₹)
Investments	22,000	25,000
Plant and Machinery	25,000	20,000
Land and Building	40,000	50,000
Outstanding Expenses	5,600	6,000
Sundry Debtors	60,000	50,000
Trade Creditors	70,000	60,000

Pass necessary adjustment entry to be made because of the above changes in the values of assets and liabilities. However, old values will continue in the books.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Z's Capital A/c Dr.		760	
	To X's Capital A/c			760
	(Being adjustment of revaluation profit made)			

Working Notes:

1. Calculation of Net Profit or Loss on Revaluation

Particulars	**(Rs.)**
Increase in Investment	3,000 (Cr.)
Increase in Land and Building	10,000 (Cr.)
Decrease in Trade Creditors	10,000 (Cr.)
Less: Decrease in Sundry Debtors	(10,000) (Dr.)
Less: Decrease in Plant and Machinery	(5,000) (Dr.)
Less: Increase in Outstanding Expenses	(400) (Dr.)
Profit on Revaluation	**7,600 (Cr.)**

2. Calculation of Sacrificing (or Gaining) Ratio:

Old Ratio (X,Y and Z)= 5:3:2

New Ratio (X,Y and Z)=4:3:3

Sacrificing (or Gaining) Ratio = Old Ratio - New Ratio

$$\text{X's share} = \frac{5}{10} - \frac{4}{10} = \frac{1}{10}\text{(Sacrifice)}$$

$$\text{Y's share} = \frac{3}{10} - \frac{3}{10} = \text{Nil}$$

$$\text{Z's share} = \frac{2}{10} - \frac{3}{10} = \frac{-1}{10}\text{(Gain)}$$

3. Adjustment of Revaluation Profit

$$\text{Credited to X's Capital} = 7{,}600 \times \frac{1}{10} = 760$$

$$\text{Debited to Z's Capital} = 7{,}600 \times \frac{1}{10} = ₹\ 760$$

Question 22.

Ashish, Aakash and Amit are partners sharing profits and losses equally. The Balance Sheet as at 31st March, 2018 was as follows:

Liabilities		₹	Assets	₹
Sundry Creditors		75,000	Cash in Hand	24,000
General Reserve		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	6,000
		10,40,000		**10,40,000**

The partners decided to share profits in the ratio of 2 ; 2 : 1 w.e.f. 1st April, 2018. They also decided that:

(i) Value of stock to be reduced to ₹ 1,25,000.
(ii) Value of machinery to be decreased by 10%.
(iii) Land and Building to be appreciated by ₹ 62,000.
(iv) Provision for Doubtful Debts to be made @ 5% on Sundry Debtors.
(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.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	General Reserve A/c	Dr.		90,000	
	To Ashish's Capital A/c				30,000
	To Akash's Capital A/c				30,000
	To Amit's Capital A/c				30,000
	(Being reserves distributed)				
	Ashish's Capital A/c	Dr.		2,000	
	Akash's Capital A/c	Dr.		2,000	
	Amit's Capital A/c	Dr.		2,000	
	To Advertisement Suspense A/c				6,000
	(Being advertisement Suspense Distributed)				
	Revaluation A/c	Dr.		54,000	
	To Stock A/c				15,000
	To Machinery A/c				25,000
	To Provision Doubtful Debts A/c				4,000
	To Akash's Capital A/c				10,000
	(Being assets revalued)				
	Land and Building A/c	Dr.		62,000	
	To Revaluation A/c				62,000
	(Being assets revalued)				
	Revaluation A/c	Dr.		8,000	
	To Ashish's Capital A/c				2,666
	To Akash's Capital A/c				2,667
	To Amit's Capital A/c				2,667
	(Being profits distributed)				

Question 23.

A, B and C are partners sharing profits and losses in the ratio of 5 : 3 : 2 . Their Balance Sheet as at 31st March, 2017 stood as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Land and Building	3,50,000
A	2,50,000		Machinery	2,40,000
B	2,50,000		Computers	70,000
C	2,00,000	7,00,000	Investments(Market value ₹ 90,000)	1,00,000
General Reserve		60,000	Sundry Debtors	50,000
Investments Fluctuation Reserve		30,000	Cash in Hand	10,000
Sundry Creditors		90,000	Advertisement Suspense	5,000
		8,80,000		**8,80,000**

They decided to share profits equally w.e.f 1st April, 2017. They also agreed that:
(i) Value of Land and Building be decreased by 5%.
(ii) Value of Machinery be increased. by 5%.
(iii) A Provision for Doubtful Debts be created @ 5% on Sundry Debtors.
(iv) A Motor Cycle valued at ₹ 20,000 was unrecorded and is now to be recorded in the books.
(v) Out of Sundry Creditors, ₹ 10,000 is not payable.
(vi) Goodwill is to be valued at 2 years purchase of last 3 years profits. Profits being for
2016-17 – ₹ 50,000 (Loss);
2015-16 – ₹2,50,000 and
2014-15 – ₹ 2,50,000.
(vii) C was to carry out the work for reconstituting the firm at a remuneration (including expenses) of ₹ 5,000. Expenses came to ₹ 3,000.
Pass journal entries and prepare Revaluation Account.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	General Reserve A/c	Dr.		60,000	
	To A's Capital A/c				30,000
	To B's Capital A/c				18,000
	To C's Capital A/c				12,000
	(Being reserve distributed)				
	A's Capital A/c	Dr.		2,500	
	B's Capital A/c	Dr.		1,500	
	C's Capital A/c	Dr.		1,000	
	To Advertisement Suspense A/c				5,000
	(Being advertisement Suspense distributed)				
	Investment Fluctuation Reserve A/c	Dr.		30,000	
	To Investment A/c				10,000
	To A's Capital A/c				10,000
	To B's Capital A/c				6,000
	To C's Capital A/c				4,000
	(Being Investment Fluctuation Reserve distributed)				
	Machinery A/c	Dr.		12,000	
	Motorcycle A/c	Dr.		20,000	
	Creditors A/c	Dr.		10,000	
	To Revaluation A/c				42,000
	(Being the assets revalued)				

	Revaluation A/c Dr. To Land and Building A/c To Provision for Doubtful Debts A/c To Bank A/c (Remuneration) (Being the assets revalued)		25,000	 17,500 2,500 5,000
	Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being profit on revaluation transferred to Partner's Capital A/c)		17,000	 8,500 5,100 3,400
	B's Capital A/c Dr. C's Capital A/c Dr. To A's Capital A/c (Being goodwill adjusted)		10,000 40,000	 50,000

Revaluation Account

Dr. **Cr.**

Particulars		Rs.	Particulars	Rs.
To Land and Building A/c		17,500	By Machinery A/c	12,000
To Provision for Doubtful Debts A/c		2,500	By Motorcycle A/c	20,000
To Bank A/c (Remuneration)		5,000	By Creditors A/c	10,000
To Profit transferred to				
A A/c	8,500			
B A/c	5,100			
C A/c	3,400	17,000		
		42,000		42,000

Working Notes :

1. Calculation of sacrifice or gain

Old Ratio between A, B and C = 5 : 3 : 2

New Ratio between A, B and C = 1 : 1 : 1

Sacrificing (or Gaining Ratio) = Old Ratio - New Ratio

$$\text{A's share} = \frac{5}{10} - \frac{1}{3} = \left(\frac{15}{30}\right) - \left(\frac{10}{30}\right) = \frac{5}{30}(\text{Sacrifice})$$

$$\text{B's share} = \frac{3}{10} - \frac{1}{3} = \left(\frac{9}{30}\right) - \left(\frac{10}{30}\right) = -\frac{1}{30}(\text{Gain})$$

$$\text{C's share} = \frac{2}{10} - \frac{1}{3} = \left(\frac{6}{30}\right) - \left(\frac{10}{30}\right) = -\frac{4}{30}(\text{Gain})$$

2. Valuation of Goodwill

Goodwill = Average profit × No. of year's Purchase = 1,50,000 × 2 = Rs.3,00,000

3. Adjustment of Goodwill

$$\text{Credited to A's Capital A/c} = 3{,}00{,}000 \times \frac{5}{30} = ₹50{,}000$$

$$\text{Debited to B's Capital A/c} = 3{,}00{,}000 \times \frac{1}{30} = ₹10{,}000$$

$$\text{Debited to C's Capital A/c} = 3{,}00{,}000 \times \frac{4}{30} = ₹40{,}000$$

Question 24.

A, B and C are partners sharing profits and losses in the ratio of 2 : 2 : 1 . They decided to share profit w.e.f 1st April, 2018 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 assets and liabilities as on the date of change were as follows:

	Book value (₹)	Revised value (₹)
Machinery	2,50,000	3,00,000
Computers	2,00,000	1,75,000
Sundry Creditors	90,000	75,000
Outstanding Expenses	15,000	25,000

Pass an adjustment entry.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	A' s Capital A/c To B's Capital A/c (Adjustment entry made for change in ratio)		3,000	3,000

Working Notes :

1. Calculation of Sacrifice or Gain

Old Ratio between A, B and C = 2 : 2 : 1

New Ratio between A, B and C = 5 : 3 : 2

Sacrificing (or Gaining Ratio) = Old Ratio - New Ratio

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

$$\text{B's share} = \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}\ (\text{Sacrifice})$$

$$\text{C's share} = \frac{1}{5} - \frac{2}{10} = \frac{2-2}{10} = 0$$

Adjustment Entry

$$\text{A's Capital A/c} = 30{,}000 \times \frac{1}{10} = 3{,}000\ (\text{Dr.})$$

$$\text{B's Capital A/c} = 30{,}000 \times \frac{1}{10} = 3{,}000\ (\text{Cr.})$$

2. Calculation of Profit or Loss on Revaluation

Revaluation Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Computers A/c	25,000	By Machinery A/c	50,000
To Outstanding expenses A/c	10,000	By Creditors A/c	15,000
To Profit on Revaluation A/c	30,000		
	65,000		65,000

Question 25.

X, Y and Z are partners sharing profits and losses in the ratio of 7 : 5 : 4 . Their Balance Sheet as at 31st March, 2018 stood as:

Liabilities		₹	Assets	₹
Capital A/cs:			Sundry Assets	7,00,000
X	2,10,000			
Y	1,50,000			
Z	1,20,000	4,80,000		
General Reserve		65,000		
Profit and Loss A/c		25,000		
Creditors		1,30,000		
		7,00,000		**7,00,000**

Partners decided that with effect from 1st April, 2018 , they will share profits and losses in the ratio of 3 : 2 : 1. For this purpose, goodwill of the
firm was valued at ₹ 1,50,000. The partners neither want to record the goodwill nor want to distribute the General Reserve and profits.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	X's Capital A/c	Dr.		15,000	
	Y's Capital A/c	Dr.		5,000	
	To Z's Capital A/c				20,000
	(Being adjustment made for Goodwill, General Reserve and Profit and Loss A/c on change in PSR)				

New Balance Sheet (i.e. after change in PSR)

Liabilities		Rs.	Assets	Rs.
Capital			Sundry Assets	7,00,000
X	1,95,000			
Y	1,45,000			
Z	1,40,000	4,80,000		
General Reserve		65,000		
Profit and Loss A/c		25,000		
Creditors		1,30,000		
		7,00,000		**7,00,000**

Working Notes:

1. Calculation of Sacrificing (or Gaining) Ratio

Old Ratio between X, Y and Z = 7 : 5 : 4

New Ratio between X, Y and Z = 3 : 2 : 1

Sacrificing (or Gaining) Ratio = Old Ratio - New Ratio

$$\text{X's Share} = \frac{5}{16} - \frac{2}{6} = \left(\frac{21}{48}\right) - \left(\frac{24}{48}\right) = \frac{-3}{48}\text{(Gain)}$$

$$\text{Y's Share} = \frac{5}{16} - \frac{2}{6} = \left(\frac{15}{48}\right) - \left(\frac{16}{48}\right) = \frac{-1}{48}\text{(Gain)}$$

$$\text{Z's Share} = \frac{4}{16} - \frac{1}{6} = \left(\frac{12}{48}\right) - \left(\frac{8}{48}\right) = \frac{4}{48}\text{(Sacrifice)}$$

2. Adjustment of General Reserve, Profit and Loss Account and Goodwill

Total Amount for Adjustment = General Reserve + Profit and Loss Account + Goodwill

= 65,000 + 25,000 + 1,50,000 = Rs. 2,40,000

$$\text{Debited to X,s Capital} = 2{,}40{,}000 \times \frac{3}{48}\text{(Gain)} = ₹15{,}000$$

$$\text{Debited to Y's Capital} = 2{,}40{,}000 \times \frac{1}{48}\text{(Gain)} = ₹5{,}000$$

$$\text{Credited to Z's Capital} = 2{,}40{,}000 \times \frac{4}{48}\text{(Sacrifice)} = ₹20{,}000$$

3.

Partners Capital Accounts

Dr | Cr

Particulars	X	Y	Z	Particulars	X	Y	Z
To Z's Capital A/c	15,000	5,000		By Balance B/d	2,10,000	1,50,000	1,20,000
To Balance c/d	1,95,000	1,45,000	1,40,000	By X's Capital A/c			15,000
				By Y's Capital A/c			5,000
	2,10,000	1,50,000	1,40,000		2,10,000	1,50,000	1,40,000

Question 26.

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:

Liabilities		₹	Assets	₹
Creditors		50,000	Land	50,000
Bills Payable		20,000	Building	50,000
General Reserve		30,000	Plant	1,00,000
Capital A/cs:			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:
(i) Goodwill of the firm will be valued at ₹ 1,50,000.
(ii) 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.
Prepare Revaluation Account , Partners Capital Accounts and Balance Sheet of the reconstituted firm.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars		Rs.	Particulars	Rs.
To Building A/c		3,000	By Land A/c	30,000
To Revaluation profit			By Creditors A/c	6,000
A's A/c	16,500			
B's A/c	11,000			
C's A/c	5,500	33,000		
		36,000		36,000

Partners Capital Account

Dr. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To A's Capital A/c			25,000	By Balance b/d	1,00,000	50,000	25,000
To Balance c/d	1,56,500	71,000	10,500	By R/v Profit A/c	16,500	11,000	5,500
				By General Reserve A/c	15,000	10,000	5,000
				By C's Capital A/c	25,000		
	1,56,500	**71,000**	**35,500**		**1,56,500**	**71,000**	**35,500**

Balance Sheet

as on 31st March 2018

Liabilities		Rs.	Assets		Rs.
Capital:			Land	50,000	
A	1,56,500		*Add:* Increase	30,000	80,000
B	71,000		Building	50,000	
C	10,500	2,38,000	*Less:* Depreciation	(3,000)	47,000
Creditors	50,000		Plant		1,00,000
Less: Written off	(6,000)	44,000	Bank		5,000
Bills Payable		20,000	Stock		40,000
			Debtors		30,000
		3,02,000			**3,02,000**

Working Note

Old Ratio : 3 : 2 : 1

New Ratio: 1 : 1 : 1

$$\text{Sacrifice of A} = \text{Old Ratio-New Ratio} = \frac{3}{6} - \frac{1}{3} = \frac{3-2}{6} = \frac{1}{6}(\text{sacrifice})$$

$$\text{Sacrifice of B} = \text{Old Ratio-New Ratio} = \frac{2}{6} - \frac{1}{3} = \frac{2-2}{6} = \text{Nil}$$

$$\text{Sacrifice of C} = \text{Old Ratio - New Ratio} = \frac{1}{6} - \frac{1}{3} = \frac{1-2}{6} = -\frac{1}{6}(\text{Gain})$$

C will compensate A:			
C's Capital A/c	Dr.	25,000	
To A's Capital A/c			25,000

Question 27.

A and B are partners sharing profits in the ratio of 4 : 3 . Their Balance Sheet as at 31st March, 2018 stood as:

Liabilities		₹	Assets	₹
Sundry Creditors		28,000	Cash	20,000
Reserve		42,000	Sundry Debtors	1,20,000
Capital A/cs:			Stock	1,40,000
A	2,40,000		Fixed Assets	4,20,000
B	1,20,000	3,60,000		
		4,30,000		**4,30,000**

They decided that with effect from 1st April, 2018, they will share profits and losses in the ratio of 2 : 1 . For this purpose they decided that:

(i) Fixed Assets are to be depreciated by 10%.

(ii) A Provision for Doubtful Debts of 6% be made on Sundry Debtors.

(iii) Stock be valued at ₹ 1,90,000.

(iv) An amount of ₹ 3,700 included in Creditors is not likely to be claimed.

Partners decided to record the revised values in the books. However, they do not want to disturb the Reserve. You are required to pass journal entries , prepare Capital Accounts of Partners and the revised Balance Sheet.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	A's Capital A/c	Dr.		4,000	
	To B's Capital A/c				4,000
	(Being adjustment of General Reserve on change in PSR)				

Partners Capital Accounts

Dr | Cr

Particulars	A	B	Particulars	A	B
To B's Capital A/c	4,000		By Balance b/d	2,40,000	1,20,000
To Balance c/d	2,54,000	1,37,500	By Revaluation A/c	18,000	13,500
			By A's Capital A/c		4,000
	2,58,000	1,37,500		2,58,000	1,37,500

Balance Sheet

Liabilities		`	Assets		Rs.
Sundry Creditors(28,000 - 3,700)		24,300	Cash		20,000
General Reserve		42,000	Sundry Debtors	1,20,000	
Capital			Less: Provision for Doubtful Debts	(7,200)	1,12,800
A	2,54,000		Stock		1,90,000
B	1,37,500	3,91,500	Fixed Assets(1,50,000 - 15,000)		1,35,000
		4,57,800			4,57,800

Working Notes:

1. Calculation of Sacrificing (or Gaining) Ratio

Old Ratio between A and B = 4 : 3

New Ratio between A and B = 2 : 1

Sacrificing (or Gaining) Ratio = Old Ratio - New Ratio

$$\text{A's Share} = \frac{4}{7} - \frac{2}{3} = \left(\frac{12}{21}\right) - \left(\frac{14}{21}\right) = \frac{-2}{21}\text{(Gain)}$$

$$\text{B's Share} = \frac{3}{7} - \frac{1}{3} = \left(\frac{9}{21}\right) - \left(\frac{7}{21}\right) = \frac{2}{21}\text{(Sacrifice)}$$

2. Adjustment of General Reserve

$$\text{Debited to A's Capital} = 42{,}000 \times \frac{2}{21}\text{(Gain)} = ₹4{,}000$$

$$\text{Credited to B's Capital} = 42{,}000 \times \frac{2}{21}\text{(Sacrifice)} = ₹4{,}000$$

3.

Revaluation Account

Dr | Cr

Particulars		Rs.	Particulars	Rs.
To Fixed Assets A/c		15,000	By Stock A/c	50,000
To Provision for Doubtful Debts A/c (1,20,000 × 6%)		7,200	By Creditors A/c	3,700
To Profit transfer to:				
A's Capital A/c	18,000			
B's Capital A/c	13,500	31,500		
		53,700		53,700

Question 28.

X, Y and Z are partners in a firm sharing profits and losses as 5 : 4 : 3 . Their Balance Sheet as at 31st March, 2018 was:

Liabilities		₹	Assets	₹
Sundry Creditors		40,000	Cash at Bank	40,000
Outstanding Expenses		15,000	Sundry Debtors	2,10,000
General Reserve		75,000	Stock	3,00,000
Capital A/cs:			Furniture	60,000
X	4,00,000		Plant and Machinery	4,20,000
Y	3,00,000			
Z	2,00,000	9,00,000		
		10,30,000		10,30,000

From 1st April, 2018, they agree to alter their profit-sharing ratio as 4 : 3 : 2 .It is also decided that:

(a) Furniture be taken at 80% of its value.

(b) Stock be appreciated by 20%.

(c) Plant and Machinery be valued at ₹ 4,00,000.

(d) Outstanding Expenses be increased by ₹ 13,000.

Partners agreed that altered values are not to be recorded in the books and they also do not want to distribute the General Reserve.

You are required to pass a single journal entry to give effect to the above . Also, prepare Balance Sheet of the new firm.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	X's Capital A/c Dr.		2,500	
	To Z's Capital A/c			2,500
	(Being revaluation profit and General reserve adjusted on change in profit sharing ratio)			

Balance Sheet

Dr Cr

Liabilities		Rs.	Assets	Rs.
Sundry Creditors		40,000	Cash at Bank	40,000
Outstanding Expenses		15,000	Sundry Debtors	2,10,000
General Reserve		75,000	Stock	3,00,000
Capital A/c			Furniture	60,000
X	3,97,500		Plant and Machinery	4,20,000
Y	3,00,000			
Z	2,02,500	9,00,000		
		10,30,000		10,30,000

Working Notes:

1. Calculation of Sacrificing (or Gaining) Ratio

Old Ratio between X, Y and Z = 5 : 4 : 3

Old Ratio between X, Y and Z = 4 : 3 : 2

Sacrificing (or Gaining) Ratio = Old Ratio - New Ratio

$$\text{X's Share} = \frac{5}{12} - \frac{4}{9} = \left(\frac{15}{36}\right) - \left(\frac{16}{36}\right) = \frac{-1}{36}(\text{Gain})$$

$$\text{Y's Share} = \frac{4}{12} - \frac{3}{9} = \left(\frac{12}{36}\right) - \left(\frac{12}{36}\right) = \text{Nil}$$

$$\text{Z's Share} = \frac{3}{12} - \frac{2}{9} = \left(\frac{9}{36}\right) - \left(\frac{8}{36}\right) = \frac{1}{36}(\text{Sacrifice})$$

2. Calculation of Profit or Loss on Revaluation

Particulars	Amount (Rs.)
Increase in Stock	60,000 (Cr.)
Less: Decrease Furniture	12,000 (Dr.)
Less: Decrease in Plant and Machinery	20,000 (Dr.)
Less: Increase in Outstanding Expenses	13,000 (Dr.)
Profit on Revaluation	**15,000(Cr.)**

3. Adjustment of Profit on Revaluation and General Reserve

Amount for Adjustment = Profit on Revaluation + General Reserve = 15,000 + 75,000 = Rs 90,000

$$\text{Debited to X's Capital} = 90{,}000 \times \frac{1}{36}(\text{Gain}) = ₹2{,}500$$

$$\text{Credited to Z's Capital} = 90{,}000 \times \frac{1}{36}(\text{Sacrifice}) = ₹2{,}500$$

4.

Partner's Capital Accounts

Dr Cr

Particulars	X	Y	Z	Particulars	X	Y	Z
To Z's Capital A/c	2,500			By Balance B/d	4,00,000	3,00,000	2,00,000
To Balance c/d	3,97,500	3,00,000	2,02,500	By X's Capital A/c			2,500
	4,00,000	3,00,000	2,02,500		4,00,000	3,00,000	2,02,500

Question 29.

Balance Sheet of X and Y, who share profits and losses as 5 : 3 , as at 1st April, 2017 is :

Liabilities	₹	Assets	₹
X's Capital	52,000	Goodwill	8,000
Y's Capital	54,000	Machinery	38,000
General Reserve	4,800	Furniture	15,000
Sundry Creditors	5,000	Sundry Debtors	33,000
Employees' Provident Fund	1,000	Stock	7,000
Workmen Compensation Reserve	10,000	Bank	25,000
		Advertisement Suspense A/c	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:

(a) Goodwill be valued on the basis of two years purchase of the average profit of the last three years.

Profits for 2014-15 : ₹ 7,500; 2015-16 : ₹ 4,000; 2016-17 : ₹ 6,500.

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

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

Prepare Revaluation Account Partners Capital Accounts and the Balance Sheeet of the new firm.

Solution:

Revaluation Account

Dr. **Cr.**

Particulars		Rs.	Particulars	Rs.
To Profit transferred to:			By Machinery A/c	7,000
X's Capital A/c	5,000		By Stock A/c	1,000
Y's Capital A/c	3,000	8,000		
		8,000		**8,000**

Partner's Capital Account

Dr Cr

Particulars	X	Y	Particulars	X	Y
To Advertisement Suspense A/c	500	300	By Balance b/d	52,000	54,000
To Goodwill A/c	5,000	3,000	By General Reserve A/c	3,000	1,800
To X's Capital A/c		3,000	By WCF A/c	2,500	1,500
To Balance c/d	60,000	54,000	By Revaluation A/c (Profit)	5,000	3,000
			By Y's Capital A/c	3,000	
	65,500	60,300		65,500	60,300

New Balance Sheet as on 1st April 2018

(after Change in Profit Sharing Ratio)

Liabilities	Rs.	Assets	Rs.
X's Capital	60,000	Machinery	45,000
Y's Capital	54,000	Furniture	15,000
Sundry Creditors	5,000	Sundry Debtors	33,000
Employee's Provident Fund	1,000	Stock	8,000
Workmen Compensation Reserve	6,000	Bank	25,000
	1,26,000		**1,26,000**

Working Notes:

1. Calculation of Sacrificing (or Gaining) Ratio

Old Ratio (X and Y) = 5 : 3

New Ratio (X and Y) = 3 : 5

Sacrificing (or Gaining) Ratio = Old Ratio - New Ratio

$$\text{X's Share} = \frac{5}{8} - \frac{3}{8} = \frac{2}{8}\text{(Sacrifice)}$$

$$\text{Y's Share} = \frac{3}{8} - \frac{5}{8} = \frac{-2}{8}\text{(Gain)}$$

2. Calculation of Goodwill

Goodwill = Average Profit × No. of Years Purchase

$$\text{Average Profit} = \frac{7,500 + 4,000 + 6,500}{3} = ₹6,000$$

$$\therefore \text{Goodwill} = 6,000 \times 2 = ₹12,000$$

3. Adjustment of Goodwill

$$\text{Credited to X's Capital} = 12,000 \times \frac{2}{8} = ₹3,000$$

$$\text{Debited to Y's Capital} = 12,000 \times \frac{2}{8} = ₹3,000$$

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Workmen's Compensation Reserve A/c	Dr.		10,000	
	To Workmen's Compensation Claim A/c				6,000
	To X's Capital A/c				2,500
	To Y's Capital A/c				1,500
	(Being workmen's compensation claim distributed among partners in their old ratio i.e.5:3)				
	X's Capital A/c	Dr.		5,000	
	Y's Capital A/c	Dr.		3,000	
	To Goodwill A/c				8,000
	(Being goodwill written off among partners in their old ratio)				
	X's Capital A/c	Dr.		500	
	Y's Capital A/c	Dr.		300	
	To Advertisement suspense A/c				800
	(Being advertisement suspense written off among partners in their old ratio)				
	General Reserve A/c	Dr.		4,800	
	To X's Capital A/c				3,000
	To Y's Capital A/c				1,800
	(Being general reserve distributed among partners in their old ratio)				
	Revaluation A/c	Dr.		8,000	
	To X's Capital A/c				5,000
	To Y's Capital A/c				3,000
	(Being revaluation profit distributed among partners in their old ratio)				
	Y's Capital A/c	Dr.		3,000	
	To X's Capital A/c				3,000
	(Being adjustment of goodwill made)				

Question 30.

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		
Workmen Compensation Reserve		1,20,000		
		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 the new profit-sharing ratio by opening Partners Current Accounts.

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

Solution:

Revaluation Account

Dr. **Cr.**

Particulars	(Rs.)	Particulars		(Rs.)
Provision for Workmen Compensation Claim	30,000	Revaluation Loss		
		Ram's Capital A/c	12,000	
		Mohan's Capital A/c	9,000	
		Sohan's Capital A/c	6,000	
		Hari's Capital A/c	3,000	30,000
	30,000			30,000

Partners' Capital Account

Dr. **Cr.**

Particulars	Ram	Mohan	Sohan	Hari	Particulars	Ram	Mohan	Sohan	Hari
Revaluation A/c	12,000	9,000	6,000	3,000	Balance b/d	4,00,000	4,50,000	2,50,000	2,00,000
Ram's Capital A/c			13,500	40,500	Sohan's Capital A/c	13,500	4,500		
Mohan's Capital A/c			4,500	13,500	Hari's Capital A/c	40,500	13,500		
Current A/c	3,15,000	2,05,000			Current A/c			1,55,000	3,65,000
Balance c/d	1,27,000	2,54,000	3,81,000	5,08,000					
	4,54,000	4,68,000	4,05,000	5,65,000		4,54,000	4,68,000	4,05,000	5,65,000

Balance Sheet

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital A/c			Fixed Assets		9,00,000
Ram	1,27,000		Current Assets		5,20,000
Mohan	2,54,000		Current A/c		
Sohan	3,81,000		Ram	3,15,000	
Hari	5,08,000	12,70,000	Mohan	2,05,000	5,20,000
Current A/c					
Sohan	1,55,000				
Hari	3,65,000	5,20,000			
Claim against WCF		1,50,000			
		19,40,000			19,40,000

Working Notes

***WN*1**: *Calculation of Gaining/Sacrificing Ratio*

Old Ratio New Ratio

4:3:2:1 1:2:3:4

Sacrificing Ratio = Old Ratio – New Ratio

$$\text{Sacrificing Ratio of Ram} = \frac{4}{10} - \frac{1}{10} = \frac{3}{10}(\textit{sacrificing})$$

$$\text{Sacrificing Ratio of Mohan} = \frac{3}{10} - \frac{2}{10} = \frac{1}{10}(\textit{sacrificing})$$

$$\text{Sacrificing Ratio of Sohan} = \frac{2}{10} - \frac{3}{10} = -\frac{1}{10}(\textit{gaining})$$

$$\text{Sacrificing Ratio of Hari} = \frac{1}{10} - \frac{4}{10} = -\frac{3}{10}(\textit{gaining})$$

(a) Sohan will compensate Ram and Mohan in the ratio 3 : 1
(b) Hari will compensate Ram and Mohan in the ratio of 3 : 1

Adjustment for Goodwill

Sohan's Capital A/c	Dr.		18,000	
Hari's Capital A/c	Dr.		54,000	
To Ram's Capital A/c				54,000
To Mohan's Capital A/c				18,000
(Sohan and Hari will compensate Ram and Mohan in their gaining ratio)				

***WN*2**: *Calculation of Adjusted Capital*

Ram = 4,54,000 - 12,000 = Rs.4,42,000
Mohan = 4,68,000 - 9,000 = Rs.4,59,000
Sohan = 2,50,000 - 24,000 = Rs.2,26,000
Hari = 2,00,000 - 57,000 = Rs.1,43,000
Total Combined Capital = 12,70,000

***WN*3**: *Calculation of New Capital*

$$\text{Ram} = 12,70,000 \times \frac{1}{10} = 1,27,000$$

$$\text{Mohan} = 12,70,000 \times \frac{2}{10} = 2,54,000$$

$$\text{Sohan} = 12,70,000 \times \frac{3}{10} = 3,81,000$$

$$\text{Hari} = 12,70,000 \times \frac{4}{10} = 5,08,000$$

Question 31.

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		
Sundry Creditors		1,70,000		
Workmen Compensation Reserve		75,000		
		9,45,000		**9,45,000**

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

Solution:

Revaluation Account

Dr. Particulars	(Rs.)	Particulars		Cr. (Rs.)
Depreciation on Fixed Assets A/c	60,000	Revaluation Loss		
Provision for Claim against WCF	25,000	Suresh's Capital A/c	17,000	
		Ramesh's Capital A/c	17,000	
		Mahesh's Capital A/c	25,500	
		Ganesh's Capital A/c	25,500	85,000
	85,000			**85,000**

Partners' Capital Account

Dr. Particulars	Suresh	Ramesh	Mahesh	Ganesh	Particulars	Suresh	Ramesh	Mahesh	Cr. Ganesh
Revaluation A/c	17,000	17,000	25,500	25,500	Balance b/d	1,00,000	1,50,000	2,00,000	2,50,000
Mahesh's Capital A/c	2,250	2,250			Suresh's Capital A/c			2,250	2,250
Ganesh's Capital A/c	2,250	2,250			Ramesh's Capital A/c			2,250	2,250
Cash A/c			25,250	75,250	Cash A/c	75,250	25,250		
Balance c/d	1,53,750	1,53,750	1,53,750	1,53,750					
	1,75,250	1,75,250	2,04,500	2,54,500		1,75,250	1,75,250	2,04,500	2,54,500

Balance Sheet

Liabilities		(Rs.)	Assets	(Rs.)
Capital A/c			Fixed Assets (*Less depreciation*)	5,40,000
Suresh	1,53,750		Current Assets	3,45,000
Ramesh	1,53,750			
Mahesh	1,53,750			
Ganesh	1,53,750	6,15,000		
Claim against WCF		1,00,000		
Sundry Creditors		1,70,000		
		8,85,000		8,85,000

Working Notes

WN1: *Calculation of Gaining/Sacrificing Ratio*
Adjustment for Goodwill

Suresh's Capital A/c	Dr.		4,500	
Ramesh's Capital A/c	Dr.		4,500	
To Mahesh's Capital A/c				4,500
To Ganesh's Capital A/c				4,500
(Gaining partners compensate sacrificing partners)				

WN2: *Calculation of Adjusted Capital*
Suresh = 1,00,000 - 21,500 = Rs.78,500
Ramesh = 1,50,000 - 21,500 = Rs.1,28,500
Mahesh = 2,04,500 - 25,500 = Rs.1,79,000
Ganesh = 2,54,500 - 25,500 = Rs.2,29,000
Total Combined Capital = 6,15,000

WN3: *Calculation of New Capital*

$$\text{Suresh} = 6,15,000 \times \frac{1}{4} = 1,53,750$$

$$\text{Ramesh} = 6,15,000 \times \frac{1}{4} = 1,53,750$$

$$\text{Mahesh} = 6,15,000 \times \frac{1}{4} = 1,53,750$$

$$\text{Ganesh} = 6,15,000 \times \frac{1}{4} = 1,53,750$$

Question 32.
Following is the Balance Sheet of A and B, who shared Profits and Losses in the ratio of 2 : 1 , as at 1st April, 2018:

BALANCE SHEET OF A AND B as on 1st April, 2018

Liabilities		₹	Assets	₹
Capital A/cs:			Land ad Buildings	2,90,000
A	3,00,000		Furniture	80,000
B	2,00,000	5,00,000	Stock	2,40,000
Reserve		1,50,000	Debtors	1,50,000
Creditors		2,00,000	Bank Cash	60,000 30,000
		8,50,000		8,50,000

On the above date , the partners changed their profit-sharing ratio to 3 : 2 . For this purpose, the goodwill of the firm was valued at ₹ 3,00,000 . The partners also agreed for the following:

(a) The value of Land and Building will be ₹ 5,00,000;

(b) Reserve is to be maintained at ₹ 3,00,000.

(c) The total capital of the partners in the new firm will be ₹ 6,00,000, which will be shared by the partners in their new profit-sharing ratio.

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

Solution:

Revaluation Account

Dr. **Cr.**

Particulars		(Rs.)	Particulars	(Rs.)
Revaluation Profit			Land and Building	2,10,000
A's Capital A/c	1,40,000			
B's Capital A/c	70,000	2,10,000		
		2,10,000		2,10,000

Partners' Capital Accounts

Particulars	A	B	Particulars	A	B
Reserve	1,80,000	1,20,000	Balance b/d	3,00,000	2,00,000
Cash A/c (*bal. fig.*)	20,000		Reserve	1,00,000	50,000
A's Capital		20,000	B's Capital A/c	20,000	
Balance c/d	3,60,000	2,40,000	Revaluation A/c	1,40,000	70,000
			Cash A/c (*bal. fig.*)		60,000
	5,60,000	3,80,000		5,60,000	3,80,000

Balance Sheet

Liabilities		Amount (Rs.)	Assets	Amount (Rs.)
Capital A/c			Land and Building	5,00,000
A	3,60,000		Furniture	80,000
B	2,40,000	6,00,000	Stock	2,40,000
Reserve		3,00,000	Debtors	1,50,000
Creditors		2,00,000	Bank	60,000
			Cash (30,000 + 60,000 - 20,000)	70,000
		11,00,000		11,00,000

Working Notes

WN1: *Calculation of New Capital*

$$A = 6,00,000 \times \frac{3}{5} = 3,60,000$$

$$B = 6,00,000 \times \frac{2}{5} = 2,40,000$$

WN2: *Calculation of Gaining/Sacrificing Ratio andAdjustment for Goodwill*

Old Ratio New Ratio

2:1 3:2

Sacrificing Ratio = Old Ratio − New Ratio

$$\text{Sacrificing Ratio of A} = \frac{2}{3} - \frac{3}{5} = \frac{1}{15}(sacrificing)$$

$$\text{Sacrificing Ratio of B} = \frac{1}{3} - \frac{2}{5} = -\frac{1}{15}(gaining)$$

$$\text{A's sacrifice} = 3,00,000 \times \frac{1}{15} = 20,000$$

$$\text{B's gain} = 3,00,000 \times \frac{1}{15} = 20,000$$

Adjustment for Goodwill

B's Capital A/c	Dr.	20,000	
To A's Capital A/c			20,000
(B will compensate A to the extent of his gain)			