



Q5. How will you deal with a change in the profit sharing ratio among existing partners? Take imaginary figures to illustrate your answer?

Solution: Profit-sharing ratio may be changed due to admission, retirement or death of a partner or due to a general agreement between partners. Adjustment such as goodwill, reserves and accumulated profits, profit or loss on the revaluation of assets and liabilities and adjustment of capitals are to be considered during the change in the profit-sharing ratio. The general reserves and accumulated profits (if any) and the profit on revaluation of assets and liabilities should be credited and the loss on revaluation of assets and liabilities should be debited from the Partner's Capital Account in their old profit-sharing ratio.

However, if the existing partners decide to change the profit-sharing ratio, then some partners gain (gaining partners) at the cost of other partners (sacrificing partners). Thus, the gaining partner should compensate the sacrificing partner. Therefore, the gaining Partners' Capital Accounts are debited to the extent of their gain and sacrificing Partners' Capital Accounts are credited to the extent of their sacrifice. The following journal entry is passed:

Gaining Partner's Capital A/c **Dr.**
To Sacrificing Partner's Capital A/c
(Being adjustment entry passed)

Example:

A, B and C are partners in a firm sharing profit and loss in a 3:2:1 ratio. They decide to share the profit and loss equally in the future. On that date, the books of the firm show Rs.2,40,000 as general reserve and profit due to revaluation of the building as Rs.90,000. The following adjustment entry is passed through the capital accounts without affecting the books of accounts.

Particulars	A	B	C
Share of profit as per 3:2:1	1,20,000	80,000	40,000
Profit on revaluation of building	45,000	30,000	15,000
	1,65,000	1,10,000	55,000
Share of profit as per 1:1:1	1,10,000	1,10,000	1,10,000
Difference (Gain or loss)	55,000 (Loss)	-	55,000 (Gain)

Hence, in this example, C gains at the cost of A. So, partner A needs to be compensated by C with the amount of 55,000. The following

adjustment entry is passed.

Adjustment entry

C's Capital A/c	Dr.	55,000	
To A's Capital A/c			55,000

(Being adjustment entry passed)

***** END *****