



Q37. The firm of Harry, Porter and Ali, who have been sharing profits in the ratio of 2:2:1, have existed for same years. Ali wants that he should get equal share in the profits with Harry and Porter and he further wishes that the change in the profit sharing ratio should come into effect retrospectively were for the last three year. Harry and Porter have agreement on this account. The profits for the last three years were:

Rs.	
2013 - 14	22,000
2014 - 15	24,000
2015 - 16	29,000

Show adjustment of profits by means of a single adjustment journal entry.
Solution:

Old Ratio (2:2:1) Year	Harry	Porter	Ali		Total
2013 - 14	(8,800)	(8,800)	(4,400)		(22,000)
2014 - 15	(9,600)	(9,600)	(4,800)		(24,000)
2015 - 16	(11,600)	(11,600)	(5,800)		(29,000)
Total Profit of 3 years in old ratio	(30,000)	(30,000)	(15,000)		(75,000)
Distribution of 3 years profit in new Ratio (1:1:1)	25,000	25,000	25,000		75,000
Adjusted Profit	(5,000)	(5,000)	10,000		NIL

Adjusting entry

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
	Harry's Capital A/c	Dr.		5,000	
	Porter's Capital A/c	Dr.		5,000	
	To Ali's Capital A/c				10,000
	(Being profit adjusted due to change in profit sharing ratio)				

***** END *****