Chapter 2 Change in Profit Sharing Ratio Among the Existing Partners

Question 1

Charu and Divya are partners in a firm. Charu was to get a commission of 10% on the net profits before charging any commission. However, Divya was to get a commission of 10% on the net profits after charging all commissions. Fill in the missing figure in the following Profit and Loss Appropriation Account of the year ended 31st March 2018.

Solution:

Dr.	Profit and Loss Appropriation Account For the year ended 31st March 2018		Cr.
Particular	₹	Particular	₹
To Charu's Commission (₹....x 10 / 100)	44,000		
To Divya's Commission			
To Profit transferred to: Charu's Capital A/c Divya's Capital A/c			

Solution:

Dr.	Profit and Loss Appropriation Account For the year ended 31st March 2018		Cr.
Particular	₹	Particular	₹
To Charu's Commission (₹4,40,00 x 10 / 100)	44,000	By Profit & Loss A/c	4,40,000

To Divya's Commission (₹3,96,00 x 10 / 100)	36,000		
To Profit transferred to:			
Charu's Capital A/c 1,80,000 Divya's Capital A/c 1,80,000	3,60,000		

Working Notes:

1. Calculation of profit before charging any commission

Charu'scommission @ 10% on the net profits charging any commission = 44,000

Therefore, total profit before charging any commission = ₹44,000 x 100 / 10 – ₹4,40,000

2. Calculation of Divya's Commission

Profit after charging Charu's commission= ₹3,96,000 (₹4,40,000 – ₹44,000)

Commission of Divya = ₹ 3,96,000 x 10/ 110 = ₹36,000

Question 2

The total capital of the firm od Saurabh, Mohit and Nikhil was ₹1,00,000. The net profits for the last 3 years were: 2013-14 ₹40,000; 2014-15 ₹46,000 and 2015-16 ₹52,000. There was an abnormal loss of ₹3,000 in 2014-15. Goodwill of the firm was to be valued at 2 years purchase of the average profits of the last three years. Calculate the goodwill of the firm.

Solution:

Total Profits of last years	₹
2013- 14	40,000
2014-15 (₹46,000 + Abnormal Loss ₹ 3,000)	49,000
2015-16	52,000

Average Profit = ₹1,41,000 / 3 = ₹47,000

Goodwill = Average Profit x Number of year's purchase

= ₹47,00 x 2 = ₹94,000

Question 3

X, Y, and Z sharing profits and losses in the ratio 1:2:2, decided to share future profits equally with effect from 1st April 2016. On that date, the Profit and Loss

Account showed a credit balance of ₹1,20,000. Partners do not want to distriv=bute the profit but prefer to record the change in the profit-sharing ratio by passing an adjustment entry. Yo are required to give the adjusting entry.

Solution:

Old Ration od X, Y, and Z 1/5: 2/5: 2/5

New Ration od X, Y, and Z 1/3: 1/3: 1/3

Sacrifice or Gain:

X= 1/5 – 1/3 = 3-5 / 15 = 2/15 (Gain)

Y= 2/5 – 1/3 = 6-5/ 15 = 1/ 15 (Sacrifice)

Z= 2/5 – 1/3 = 6-5/15 = 1/15 (Sacrifice)

Date	Particular		L.F	Dr. (₹)	Cr. (₹)
	X's Capital A/c (2/15 of 1,20,000)	Dr.		16,000	
2016	To Y's Capital A/c (1/5 of 1,20,000)				8,000
April 1	To Z's Capital A/c (1/5 of 1,20,000) (Adjustment for Profit and Loss Account balance on change in profit sharing ratio.)				8,000

Question 4

A, B, C, and D are partners in firm sharing profits and losses in the ratio of 2:2:1:1. They decided to share profits in future in the ratio of 4:3:2:1. For this purpose goodwill of the firm was valued at ₹1,80,000. There was also a reserve of ₹60,000 in the books of the firm.

Find out the sacrifice and gaining ratio and pass necessary journal entry assuming that partners do not want to distribute the reserve.

Solution:

Value of Goodwill	₹ 1,80,000
Reserve	₹ 60,000
	2,40,000

Old Ratio of A, B, C and D 2:2:1:1

New Ratio of A, B, C and D 4:3:1:1

Sacrifice or Gain:

A= 2/6 – 4/10 = 10-12 / 30 = 2/30 (Gain)

B= 2/6 – 3/10 = 10-9/ 30 = 1/30 (Sacrifice)

C= 1/6 – 2/10 = 5-6/ 30 = 1/30 (SAcrifice)

D= 1/6 – 1/10 = 5-3/ 30 = 2/30 (Sacrifice)

Date	Particular		L.F	Dr. (₹)	Cr. (₹)
	A’s Capital A/c (2/30 of 2,40,000)	Dr.		16,000	
	C’s Capital A/c (1/30 of 2,40,000)	Dr.		8,000	
	To B’s Capital A/c (1/30 of 2,40,000)				8,000
	To D’s Capital A/c (2/30 of 2,40,000) (Adjustment for Goodwill and reserve on change in profit sharing ratio.)				16,000