CBSE Test Paper 01
Ch-3 Change in Profit sharing ratio of Partners

1. Annual profit shown by a business is Rs.20,000. Normal rate of return 10%. Total assets of the business firm Rs.2,40,000 and liabilities Rs.80,000. Value of Goodwill will be:
   a. Rs.40,000
   b. Rs.30,000
   c. Rs.20,000
   d. No Goodwill of Business
2. The partner whose share has increased as a result of change is called
   a. Gaining partner
   b. Sacrificing partner
   c. Sacrificing ratio
   d. Gaining ratio
3. AK, BK and CK are sharing profits in the ratio of 2:1:1. They have decided to share future profits in the ratio of 3:2:1. Find out the gainer partner.
   a. Both AK is the gainer partner and CK is the gainer partner
   b. CK is the gainer partner
   c. BK is the gainer partner
   d. AK is the gainer partner
4. If Assets are increasing but liabilities decreasing; in such a case Revaluation A/c will show_____
   a. Do not prepare Revaluation A/c
   b. Neither Gain or Loss
   c. Profit
   d. Net loss
5. A, B and C are partners sharing profits in the ratio of capitals (old 5:3:2 and new 2:3:5).Their capital after adjustment in new capital ratio are ` 20,000, ` 30000, ` 50000. Who will bring the amount of actual cash for adjustment?
   a. None of these
   b. C
   c. B

d. A

6. P and Q are sharing profit and losses equally .With effects from current year they decided to share profits in the ratio of 4:3.Calculate individual partner’s gain and Sacrifice
   a. P gains 1/12 th share and Q sacrifices 1/14 th share
   b. P gains 1/14 th share and Q sacrifices 1/14 th share
   c. P gains 1/10 th share and Q sacrifices 1/14 th share
   d. P gains 1/15th share and Q sacrifices 1/14 th share
7. State any two occasions on which a firm can be reconstituted.
8. What is meant by change in Profit-Sharing Ratio?
9. What do you understand by New Profit-Sharing Ratio?
10. Define Investment Fluctuation Reserve.
11. A and B are sharing profits and losses equally. With effect from 1st April, 2019, they agree to share profits in the ratio of 4 : 3. Calculate the individual partner's gain or sacrifice due to the change in ratio.
12. X,Y and Z share profits as 5 : 3 : 2. They decide to share their future profits as 4 : 3 : 3 with effect from April 1, 2019,. On this date the following revaluations have taken place:

	Book Value (Rs.)	**Revised Value (Rs.)**
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.

13. X and Y are partners in a firm sharing profits in the ratio of 3 : 2. They decided to share future profits equally. On the date of change in the profit-sharing ratio, the Profit and Loss Account showed a debit balance of Rs 50,000. Pass the necessary Journal entry for the distribution of the balance in the Profit and Loss Account

immediately before the change in the profit-sharing ratio.

14. Anant, Gulab and Khushbu were partners in a firm sharing profits in the ratio of 5 : 3 : 2. From 1st April, 2014, they decided to share the profits equally. For this purpose, the goodwill of the firm was valued at 2,40,000.
    Pass necessary journal entry for the treatment of goodwill on change in the profit sharing ratio of Anant, Gulab and Khushbu.
15. Ram, Shyam and Hari were in partnership sharing profits in the ratio of 3 : 2 : 1. The Balance Sheet as at 31.3.2013 was as follows :

BALANCE SHEET
as at 31.3.2013

Liabilities		**(Rs)**	**Assets**	**(Rs)**
Bills Payable		20,000	Cash	40,000
Creditors		20,000	Bills Receivable	5,000
General Reserve		30,000	Debtors	15,000
Capitals			Stock	50,000
Ram	50,000		Furniture	20,000
Shyam	30,000		Machinery	30,000
Hari	25,000	1,05,000	Goodwill	15,000
		1,75,000		1,75,000

On 1.4.2013 partners decided to share profits equally. For this purpose it was further agreed that.

1. Goodwill of the firm should be valued at Rs 30,000.
2. Furniture and Machinery is to be revalued at Rs 25,000 and Rs 35,000 respectively.
3. Value of Stock is to be reduced by Rs 4,000.

You are required to give necessary journal entries to give effect to the above arrangement and prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the firm after reconstitution.

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Answer

1. a. Rs.40,000, **Explanation:** Follow these steps to calculate the value of goodwill:
    i. Calculation of Capital Employed : 2,40,000 – 80,000 = 1,60,000
    ii. Normal Profit = 1,60,000 × 10/100 = 16,000
    iii. Super Profit = 20,000 – 16,000 = 4,000
    iv. Goodwill = 4,000 × 100/10 = 40,000
2. a. Gaining partner, **Explanation:** The partner who is getting more because of change in profit sharing ratio is called a gainer partner. That is why gainer partner is debited and sacrificing partner is credited while adjustment is made for goodwill or reserves and profits etc.
3. c. BK is the gainer partner, **Explanation:** Calculation of gain or sacrifice: Formula : Old Share – New Share
    AK = 2/4 – 3/6 = No Sacrifice/ No Gain
    BK = 1/4 – 2/6 = 1/12 Gain
    CK = 1/4 - 1/6 = 1/12 Sacrifice
4. c. Profit, **Explanation:** Increase in assets will be recorded in the credit side of revaluation account and decrease in liabilities will also be recorded in the revaluation account credit side. In both cases, there will be increase in profit, hence, revaluation account will show profit.
5. b. C, **Explanation:** Adjustment of amount shall be made as follows:
    i. Total Capital = 20,000 + 30,000 + 50,000 = 1,00,000
    ii. Capitals before adjustments were : 50,000; 30,000 and 20,000 (5:3:2)
    iii. After adjustment = Rs.20,000, 30000,and 50000 (2:3:5)
    iv. C will bring amount = old capital 50,000 – New capital 20,000 = 30,000
6. b. P gains 1/14 th share and Q sacrifices 1/14 th share
    Explanation: Calculation of gain or sacrifice:
    Formula: Old Share – New Share
    P = 1/2 – 4/7 = 1/14 Gain

Q = 1/2 – 3/7 = 1/14 Sacrifice

7. A firm can be reconstituted on the following occasions (any two)
    i. When there is a change in the profit-sharing ratio of existing partners
    ii. Admission of a new partner
    iii. Death of partner
    iv. Amalgamation of two or more partnership firms
    v. Retirenment of existing partner
8. A change in profit-sharing ratio among partners means sharing the profits or losses in a new ratio in place of the old ratio. It implies the purchase of share of profit by one partner from another partner. It is called reconstitution of the existing partnership firm.
9. New Profit-Sharing Ratio is the ratio in which all the partners, including new or incoming partner, will share future profits and losses of the firm.
10. Investment fluctuation reserve is a reserve set aside out of profit to meet fall in the market value of the investment.
11. Calculation of gain or sacrifice due to the change in ratio:

    Sacrifice = **Old Ratio - New Ratio**

    A = 1/2 - 4/7 = (7 - 8)/14 = -1/14 (Gain)

    B = 1/2 - 3/7 = (7 - 6)/14 = 1/14 (Sacrifice)

12. **Adjusting Journal Entry**

Date	Particulars		L.F.	Dr.	Cr.
	Z's Capital Account (7,600 $\times$ 1/10)	Dr.		760	
	To X's Capital Account				760
	(Being revaluation of assets and liabilities adjusted)				

Working Note: Old Ratio of X, Y and Z = 5 : 3 : 2, and their New Ratio = 4 : 3 : 3

X = 4/10 - 5/10 = -1/10 (Sacrifice)

Y = 3/10 - 3/10 = 0

Z= 3/10 - 2/10 = 1/10 (Gain)

Calculations for Net Increase/Decrease

Items	Book Value in Rs.	Revised Value in Rs.	Increase/Decrease in Rs.
Investments	22,000	25,000	3,000
Plant and Machinery	25,000	20,000	-5,000
Land and Building	40,000	50,000	10,000
Outstanding Expenses	5,600	6,000	-400
Sundry Debtors	60,000	50,000	-10,000
Trade Creditors	70,000	60,000	10,000
			Increase = 7,600

13. **Journal**

Date	Particulars		L.F.	Dr. (Rs)	Cr. (Rs)
	X's Capital A/c	Dr.		30,000	
	Y's Capital A/c	Dr.		20,000	
	To Profit and loss A/c (Being the undistributed loss transferred to the Capital Accounts of the Partners on change in the profit-sharing ratio)				50,000

Note: At the time of change in profit sharing ratio, reserves and accumulated profits and losses exist in the books of the firm will be distributed in their old profit sharing ratio.

14.

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				Amount	Amount

Date	Particulars		LF	(Dr)	Cr
2014 Apr 1	Gulab's Capital A/c	Dr		8,000	
	Khushbu's Capital A/c	Dr		32,000	
	To Anant's Capital A/c (Being the adjustment of goodwill among partners on the change in profit-sharing ratio)				40,000

Working Note

i. Calculation of Sacrifice/gain of each partner Due to Change in Profit Sharing ratio of Partners

   Sacrificing/(Gaining) Share = Old Share - New Share

   Anant's Sacrific/(Gaun) $= \frac{5}{10} - \frac{1}{3} = \frac{15-10}{30} = \frac{5}{30}$ Sacrifice

   Gulab's Sacrific/Gain) $= \frac{3}{10} - \frac{1}{3} = \frac{9-10}{30} = \left(\frac{1}{30}\right)$ Gain

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

ii. Calculation of Share of Goodwill

   Anant $= 2,40,000 \times \frac{5}{30} = Rs.40,000$

   Gulab $= 2,40,000 \times \frac{1}{30} = Rs.8,000$

   Khushbu $= 240,000 \times \frac{4}{30} = Rs.32,000$

iii. Gulab and Khushbu have gained, so they will be debited by 8,000 and 32,000 respectively and Anant has sacrificed so he will be credited by 40,000

15. **In the Books of Ram, Shyam and Hari**

Journal

Date	Particulars		L.F.	Dr. (Rs)	Cr. (Rs)
2013 April 1	Hari's Capital A/c	Dr.		5,000	
	To Ram's Capital A/c				

	(Being compensation given by Hari due to change in profit sharing ratio)				5,000
April 1	Ram's Capital A/c	Dr.		7,500	
	Shyam's Capital A/c	Dr.		5,000	
	Hari's Capital A/c	Dr.		2,500	
	To Goodwill A/c (Being old goodwill written off between old partners in their old ratio)	Dr.			15,000
April 1	General Reserve A/c	Dr.		30,000	
	To Ram's Capital A/c				15,000
	To Shyam's Capital A/c				10,000
	To Hari's Capital A/c ((Being general reserve distributed among all partners in their old ratio)				5,000
April 1	Machinery A/c	Dr.		5,000	
	Furniture A/c	Dr.		5,000	
	To Revaluation A/c (Being increase in value of assets recorded)				10,000
April 1	Revaluation A/c	Dr.		4,000	
	To Stock A/c (Being decrease in value of assets recorded)				4,000
April 1	Revaluation A/c	Dr.		6,000	
	To Ram's Capital A/c				3,000
	To Shyam's Capital A/c				2,000
	To Hari's Capital A/c (Being revaluation profits distributed among all partners in their old ratio)				1,000

Revaluation Account

Dr.				Cr.
Particulars		(Rs)	Particulars	(Rs)
To Stock A/c		4,000	By Machinery A/c	5,000
To Profit transferred to:			By Furniture A/c	5,000
Ram's Capital A/c	3,000			
Shyam's Capital A/c	2,000			
Hari's Capital A/c	1,000	6,000		
		10,000		10,000

Partner's Capital Account

Dr.							Cr.
Particulars	Ram(Rs)	Shyam(Rs)	Hari(Rs)	Particulars	Ram(Rs)	Shyam(Rs)	Hari(Rs)
To Goodwill A/c	7,500	5,000	2,500	By Balance b/d	50,000	30,000	25,000
To Ram's Capital A/c	--	--	5,000	By General Reserve A/c	15,000	10,000	5,000
To Balance c/d	65,500	37,000	23,500	By Hari's Capital A/c	5,000	--	--
				By Revaluation A/c (Profits)	3,000	2,000	1,000
	72,000	42,000	31,000		73,000	42,000	31,000
				By Balance b/d	65,500	37,000	23,500

BALANCE SHEET

as at 1.4.2013

Liabilities		(Rs)	Assets	(Rs)
Bills Payable		20,000	Cash	40,000
Creditors		20,000	Bills Receivable	5,000
Capitals			Debtors	15,000
Ram	65,500		Stock	46,000
Shyam	37,000		Furniture	25,000
Hari	23,500	1,26,000	Machinery	35,000
		1,66,000		1,66,000

Working notes: Calculation of partners' gain or sacrifice

Sacrificing Ratio = Old Ratio - New Ratio

Ram's gain/sacrifice =$\frac{3}{6}-\frac{1}{3}=\frac{1}{6}$ (sacrifice)

Shyam's gain/sacrifice = $\frac{2}{6}-\frac{1}{3}$ = Nil

Hari's gain/sacrifice = $\frac{1}{6}-\frac{1}{3}=(-)\frac{1}{6}$ (gain) Note:

i. When Revaluation account is prepared, assets and liabilities appear in the balance sheet of the reconstituted firm at their revised (changed) values.
ii. Reconstitution of the firm results in a change in the capital of partners and in the value of assets and amount of liabilities. This shall also require preparation of balance sheet of the new firm.
iii. Sacrifing ratio is the ratio in which one or more partners of the firm sacrifice their share of profits in favour of one or more partners of the firm.
iv. At the time of change in profit sharing ratio, reserves, accumulated profits and losses exist in the books of the firm, they are transferred to the partners capital accounts in their old profit sharing ratio.