Chapter 4- Change in Profit – Sharing Ratio Among the Existing Partners

Question 1

X and Y shared profits & loss in the ratio of 2:3. staring 1st April 2019, they agreed to distribute profits equally. The firm goodwill was valued at ₹ 60,000. The adjustment entry will be.

1) Dr. Y and Cr. X with ₹6,000

2) Dr. X and Cr. Y with ₹6,000

3) Dr. X and Cr. Y with ₹6,00

4) Dr. Y and Cr. X with ₹6,00

Answer: Dr. Y and Cr. X with ₹6,000

Question 2

X, Y, and Z are partners sharing profits in the ration of 5:3:2. They decided to share future profits in the ration of 2:3:5 starting 1st April 2019. They also decided to record the effect of the following revaluations without affecting the book values of assets and liabilities, by passing an adjusting entry:

	Book Values (₹)	Revised Values (₹)
Land and Building	3,00,000	4,50,000
Plant and Machinery	4,50,000	4,20,000
Trade Creditors	1,50,000	1,35,000
Outstanding Rent	1,35,000	1,80,000

The necessary adjustment entry will be:

1) Dr. Z and Cr. X by ₹ 27,000

2) Dr. X and Cr. Z by ₹ 27,000

3) Dr. Y and Cr. X by ₹ 27,000

4) Dr. X and Cr. Y by ₹ 27,000

Answer: Dr. X and Cr. Z by ₹ 27,000

Question 3

Define Sacrificing ratio.

Answer: Sacrificing ratios is the ratio in which one or more partners of a company sacrifice their share of profit in favor of one or more partners of the firm.

Question 4

How sacrificing the share of each partner is calculated.

Answer: The sacrificing share of each partner is calculated as follows:

Sacrificed Share= Old Share – New Share

Question 5

Define Gaining ratio.

Answer: Gaining ratios is the ratio in which one or more partners gain a share of profit as a result of sacrificed share in profits by one or more partners of a company.

Question 6

How gaining share of each partner is calculated.

Answer: The gaining share of each partner is calculated as follows:

Gaining Share= New Share – Old Share

Question 7

Anu and Bala distributed profits and losses in the ratio 3:2 starting 1st April 2019, they accepted to distribute profits evenly. Goodwill of the business was accounted for at ₹50,000. Prepare the journal for the accounting of goodwill:

(a) When the goodwill is adjusted through Partners' Capital Account

Answer:

Journal				
Date	**Particulars**	**L.F**	**Dr.(₹)**	**Cr. (₹)**
1st April 2019	Bala's Capital A/c (₹50,000 x 1/10) To Anu's Capital A/c (Being the goodwill adjusted on a change in profit-sharing ratio) (WN)		5,000	5,000

Working Note: Calculation of share of profit sacrificed/gained

Sacrificed Share/ Gaining Share= Old Share – New Share

Anu = 3/5- 1/2 = 6-5/10 =1/10 i.e. sacrifice made

Bala = 2/5 – 1/2 = 4-5/10 = -1/10 (being negative, it is a gain)

Question 8

A, B, and C are partners sharing profits in the ration of 5:3:2. They decided to share future profits in the ratio of 2:3:5. What will be the accounting treatment of the workmen compensation reserve appearing in the balance sheet on the date when no information is available for the same?

1) Distributed among the partners in their capital ratio

2) Distributed among the partners in their new profit-sharing ratio

3) Distributed among the partners in their old profit-sharing ratio

4) Carried forward to a new balance sheet

Answer: Distributed among the partners in their old profit-sharing ratio

Question 9

A, B, and C are partners sharing profits in the ratio of 5:3:2. They decided to share the profits in the ratio of 2:3:5. Starting 1st April, they decided to adjust the following accumulated profits, losses and reserves without affecting their book values, bypassing an adjustment entry.

	Book Values ₹
Profit and Loss Account General Reserve Advertising Suspense Account	15,000 60,000 30,000

The necessary adjustment entry will be:

1) Dr. C and Cr. A with ₹13,500

2) Dr. A and Cr. C with ₹13,500

3) Dr. B and Cr. A with ₹13,500

4) Dr. A and Cr. B with ₹13,500

Answer: Dr. C and Cr. A with ₹13,500

Question 10

Mention the points when a firm reconstitute.

Answer: A firm reconstituted in the event of.

- Change in the profit- sharing ratio among the existing partners
- Admission of a partner or partners
- The retirement of a partner
- Death of a partner
- The amalgamation of two or more partnership firms.

Question 11

State accounting treatment for transfer of Reserves and Accumulated profits

Answer:

Reserve A/c Dr.

Profit and Loss A/c (Cr. Balance) Dr.

Workmen Compensation Reserve A/c Dr. (Excess of reserve over liability)

Investments Fluctuation Reserve A/c Dr. (Excess of reserve over the difference

Between book value & Market value)

To all partners' capital reserve A/c (In old ratio)

Question 12

State accounting treatment for transfer of Accumulated losses

Answer:

All partners' capital (current) A/c Dr. (In old ratio)

To Profit and Loss A/c (Dr. Balance) Dr.

To Deferred Revenue Expenditure A/c Dr. (Say, advertisement suspense account)

Question 13

Define Investment Fluctuation Reserve

Answer: Investments are recorded in the book of a company at cost. However, in the market, it might change. It may be higher or lower than the book value. Investment fluctuation reserve is a reserve set aside out of profit to meet fall in the market value of the investment.

Question 13

Explain the two types of the accounting treatment of Investment Fluctuation Reserve

Answer: The three types of the accounting treatment of Investment Fluctuation Reserve are.

- **When the book value and market value of the investment are the same-** The amount of investment fluctuation reserve is transferred to partners' capital account in their old profit-sharing ratio.
- **When the market value of investments is less than the book value-** In this case, the treatment on investment fluctuation reserve depends on the amount of decrease.

- **When there is an increase in the market value of investment-** The amount of investment fluctuation reserve is distributed among partners and an increase in the value of the investment is credited to revaluation account.

Question 14

Hardeep and Sandeep are partners sharing profits in the ratio of 4:1. They decided to distributed profits equally starting 1st April 2019. Their balance sheet as on 31st March 2019 shows a balance of advertisement suspense of ₹20,000. Pass the journal entry at the time of change in profit-sharing ratio.

Answer:

Journal				
Date	**Particulars**	**L.F**	**Dr. ₹**	**Cr. ₹**
1st April 2019	Hardeep's Capital A/c Dr. Sandee's Capital A/c Dr. To Advertisement Suspense A/c (Being the advertisement suspense account written off)		16,000 4,000	20,000

QUESTION 15

X and Y are partners in firm sharing profits in the ratio 3: 2. hey decided to share future profit equally. On the date of a change in the profit-sharing ratio, profit and loss account showed a debit balance of ₹50,000. Pass journal entry for distribution of balance in profit and loss account immediately before the change in the profit-sharing ratio.

Answer:

Journal				
Date	**Particulars**	**L.F**	**Dr. ₹**	**Cr. ₹**
	X's Capital A/c Dr. Y's Capital A/c Dr. To Profit & Loss A/c (Being the undistributed loss transferred to the capital accounts of the partners on a change in the profit-sharing ratio.)		30,000 20,000	50,000