# INDIAN SCHOOL DARSAIT
# DEPARTMENT OF COMMERCE

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| Subject : Accountancy | Topic : Reconstitution of Partnership- Change in Profit sharing Ratio of Existing Partners | Date of Issue:__/__/ 2018<br>Worksheet No.4 |
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| Name of the Student :__________________ | Class & Division : XII___ | Roll Number : __ |

1. **Define goodwill.**
   Ans. Goodwill is the value of the reputation of a firm in respect of profits expected in future, over and above the normal profits.
2. **What is Purchased Goodwill?**
   Ans. When one business is taken over by another business, the excess of purchase consideration over its net value (assets – liabilities) is termed as purchased goodwill.
3. **What is Non- Purchased Goodwill?**
   Ans. Non-Purchased Goodwill is an internally generated goodwill which arises because of favourable factors that a business possesses.
4. **Why is Goodwill considered as an Intangible Asset but not a Fictitious Asset?**
   **Ans**. It is not fictitious asset because it has a realizable value. It is an intangible asset because it cannot be seen and touched.
5. **State two occasions when there is a need of valuation of goodwill?**
   **Ans**. i) When a new partner is admitted.
   ii) When there is a change in the profit sharing ratio among the existing partners.
6. **How does location affect the Goodwill of a business?**
   Ans. If the business is located at a favourable and prominent location then it increases the value of Goodwill. It is the location of the business in the market which, to a great extent, helps in attracting the customers. Thus, a favourable location of business enhances its Goodwill.
7. **When will you record Goodwill in the book, as per Accounting Standard-10(AS-10)?**
   Ans. According to AS-10, Goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it.
8. **What is meant by reconstitution of a Partnership firm?**
   Ans. Any change in the relationship among the partners in a firm amounts to reconstitution of partnership firm. Eg; Admission of a new Partner, Retirement and death of a Partner and change in Profit sharing ratio.
9. **Distinguish between Sacrificing Ratio and Gaining Ratio.**

| Basis | Sacrificing Ratio | Gaining Ratio |
|---|---|---|
| When to Calculate | At the time of admission of a New Partner | At the time of Retirement and death of a Partner |
| How to Calculate | Old Ratio – New Ratio | New Ratio – Old Ratio |

10. **What is meant by change in profit sharing ratio among the existing partners?**
    Ans. Change in profit- sharing ratio means that one (or more) partner(s) acquires share of profit from another partner(s).
11. **When there is a change in the profit-sharing ratio among the existing partners, does it require revaluation of assets and reassessment of liabilities?**
    Ans. Yes. Because profit or loss up to the change in profit-sharing ratio, should be credited or debited to The accounts of the partners in their old profit-sharing ratio.
12. **Who should compensate in the case of change in profit-sharing ratio of existing partners?**
    Ans. The gaining partners should compensate the sacrificing partners in case of change in profit-sharing ratio of existing partners.

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1. A,B and C are partners sharing profits and losses in the ratio 3:2:1 respectively. W.e.f. 1st Jan.2014, they agreed to share profits equally. The goodwill of the firm is valued at ₹ 72,000. Make the necessary journal entry.

2. A,B and C are partners sharing profits and losses in the ratio 9:6:5 respectively. With effect from 1st Jan.2014, they agreed to share profits in the ratio3:5:2. The goodwill of the firm is valued at ₹ 1,00,000. Make the necessary journal entry.

3. P,Q and R are partners sharing profits and losses in the ratio 3:3:2. W.e.f. 1st Jan.2014, they agreed to share profits equally. On that date the profit and loss account showed a Credit balance of ₹ 48,000 and Advertisement Suspense account ₹12,000. It was decided to make an adjustment entry reflecting the change in the profit sharing ratio. Make the necessary journal entry.

4. X,Y and Z are partners sharing profits and losses in the ratio 3:2:1. With effect from 1st Jan.2014, they agreed to share profits equally. On that date the profit and loss account showed a Credit balance of ₹ 60,000 and a General Reserve of ₹30,000. Pass Journal entry in the following cases.
   (i) When partners decided to close the Profit and loss account and General Reserve a/c
   (ii) When partners decided to pass an adjustment entry without closing the Profit and loss account and General Reserve a/c.

5. X,Y and Z are partners sharing profits and losses in the ratio 3:2:1. With effect from 1st Jan.2014, they agreed to share profits equally. On that date the profit and loss account showed a Debit balance of ₹ 1,80,000 and a General Reserve of ₹90,000. Pass Journal entry in the following cases.
   (i) When partners decided to close the Profit and loss account and General Reserve a/c
   (ii) When partners decided to pass an adjustment entry without closing the Profit and loss account and General Reserve a/c.

6. Rajan and Suman are partners in a firm sharing profit in the ratio of 3:2. Their Balance Sheet as at March 31, 2013 was as follows:
   Balance Sheet of the firm as at March 31, 2013.

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Rajan's Capital<br>Suman's Capital<br>Creditors | 45,000<br>30,000<br>30,000 | Cash<br>Plant<br>Building | 15,000<br>30,000<br>60,000 |
| | **1,05,000** | | **1,05,000** |

   The goodwill of the firm has been valued at ₹30,000 and the building at ₹ 75,000 on March 31, 2013. The partners decide to share profits equally with effect from April 1, 2013. You are required to record the necessary adjusting entries to be made in the books of the firm on account of change in the profit sharing ratio.

7. A,B and C are partners in a firm sharing profits in the ratio 2:2:1. Their Balance sheet as at 31st March,2013 was as follows:
   Balance sheet as on 31st March, 2013

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Creditors | 50,000 | Furniture | 50,000 |
| Bills Payable | 25,000 | Building | 50,000 |
| General Reserve | 20,000 | Machinery | 1,00,000 |
| A's Capital | 1,00,000 | Stock | 50,000 |
| B's Capital | 50,000 | Debtors | 15,000 |
| C's Capital | 25,000 | Bank | 5,000 |
| | 2,70,000 | | 2,70,000 |

   On 1st April 2013, they have decided to change the profit sharing ratio in to 1:1:1. (a) The goodwill is valued at ₹30,000 (b) Furniture should be revalued at ₹80,000 and Building should be depreciated at 6%. (c) Creditors not likely to be claimed ₹400. Answer the question in the following cases:-

I. Prepare Revaluation A/c, Capital A/c and Balance sheet

**Or**

Partners **decided to show the altered Value of Assets and liabilities** in the Balance Sheet.

II. Record necessary journal entries **without opening revaluation account,** Prepare Capital account and the new Balance sheet.

**Or**

Partners decided **NOT to show the altered Value of Assets and liabilities** in the Balance Sheet.

8. A ,B and C are partners sharing profits and losses in the ratio of 5:3:2. Their balance sheet as on 31st March 2013 was as follows:

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Sundry Creditors | 46,000 | Cash at Bank | 37,000 |
| **General Reserve** | **48,000** | Sundry Debtors 47,000<br>Less Provision 3,000 | 44,000 |
| **Profit and Loss Account** | **12,000** | **Investments** | **40,000** |
| **Employees Compensation Fund** | **16,000** | Stock | 1,20,000 |
| **Investment Fluctuation Fund** | **10,000** | Machinery | 1,59,000 |
| Capital Accounts ; | | Building | 2,00,000 |
| A 2,00,000 | | **Goodwill** | **20,000** |
| B 1,50,000 | | **Deferred Revenue Expenditure.** | **4,000** |
| C 1,50,000 | 5,00,000 | **Advertisement Suspense A/c** | **8,000** |
| | 6,32,000 | | 6,32,000 |

Partners decided that with effect from 1st April 2013, they would share profits and losses in the ratio of 2:2:1. It was agreed that:

- Stock be valued at ₹ 1,10,000.
- Investments were valued at ₹28,000.
- There was a claim for employees Compensation amounted to ₹ 6,000
- Machinery is to be depreciated by 10%.
- Sohan who owed us ₹ 1,000 became insolvent.
- A provision for doubtful debts is to be made on debtors @5%.
- Building to be appreciated by 20%.
- A liability for ₹ 2,500 included in sundry creditors is not likely to arise.

Partners agreed that the revised values of assets and liabilities are to be recorded in the books. Prepare the revised balance sheet.

9. A and B were partners in a firm sharing profits in the ratio of 3:1. With effect from 1st January 2013 they agreed to share profits in the ratio of 2:1. For this purpose the goodwill of the firm was valued at ₹ 50,000. General reserves appear in the books at ₹ 40,000. Partners neither want to show goodwill in the books nor want to distribute the reserves. You are required to record the change by passing a single journal entry.

10. A,B and C are partners in a firm sharing profits and losses in the ratio of 4:2:1. Their Balance Sheet as on 31st March 2013 stood as follows.

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Sundry Creditors | 80,000 | Land and Building | 5,00,000 |
| Reserves | 2,60,000 | Machinery | 4,00,000 |
| Profit &Loss A/c (Profits) | 1,00,000 | Furniture | 3,00,000 |
| Capital Accounts : | | Debtors | 1,20,000 |
| A 4,00,000 | | Bill Receivable | 80,000 |
| B 4,00,000 | | Cash | 40,000 |

| | | | |
|---|---|---|---|
| C 2,00,000 | 10,00,000 | | |
| | 14,40,000 | | 14,40,000 |

From 1st April 2013, the partners decided to change their profit sharing ratio to 5:3:2. For this purpose goodwill was valued at ₹2,00,000. The partners do not want to record the goodwill and also do not want to distribute the reserves and profits. You are required to record the change by passing adjusted journal entries. Also prepare the revised balance sheet.

11. B , C and D are partners sharing profits and losses in the ratio of 3:2:1. Their balance sheet as on 31st December 2015 was as follows:

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Creditors | 87,000 | Cash | 30,000 |
| Reserves | 42,000 | Debtors 62,000<br>Less Prov. 2,000 | 60,000 |
| Profit & Loss A/c (Profits) | 21,000 | | |
| Capital Accounts: | | | |
| B 3,00,000 | | Stock | 1,80,000 |
| C 3,00,000 | | Furniture | 30,000 |
| D 50,000 | 6,50,000 | Plant | 2,00,000 |
| | | Building | 3,00,000 |
| | 8,00,000 | | 8,00,000 |

The partners agreed that w.e.f 1st January 2016 they will share profits and losses in the ratio of 2: 2:1. It was agreed that:

- Stock is to be valued at 20% less.
- Provision for doubtful debts to be increased by ₹1,500.
- Furniture is to be depreciated by 20% and plant by 15%.
- ₹3,500 are outstanding for salaries.
- Building is to be valued at ₹ 3,50,000.
- Goodwill is valued at ₹ 45,000.

Partners do not want to record the altered values of assets and liabilities in the books and want to leave the reserves and profits undisturbed .They also decided not to show goodwill in the books .You are required to pass a single journal entry to give effect to the above. Also prepare the revised balance sheet.

## Capital Adjustment

12. A,B and C were partners sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet as on 1st January, 2015 was as follows: They have decided to change the profit sharing ratio into 2:2:1 from 1st January 2015.

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Sundry Creditors | 10,000 | Cash | 2,000 |
| Employee's Provident Fund | 5,000 | Sundry Debtors | 8,000 |
| Reserve Fund | 6,000 | Stock | 40,000 |
| **Workmen's Compensation Fund** | **2,000** | Furniture | 13,000 |
| **Capitals:** | | Patents | 4,000 |
| A 50,000 | | Buildings | 60,000 |
| B 35,000 | | Goodwill | 6,000 |
| C 25,000 | 1,10,000 | | |
| | 1,33,000 | | 1,33,000 |

(i) Goodwill is to be valued at two year's purchase of the average profits of last four years Profits were: 2011- ₹ 14,400, 2012-₹ 20,000, 2013- ₹ 10,000 (Loss), 2014- ₹ 15,600.
(ii) 5% provision for doubtful debts to be made on debtors.
(iii) Stock be appreciated by 10%.
(iv) Patents are valueless.

(v) Buildings be appreciated by 20%.
(vi) Sundry Creditors to be paid ₹ 2,000 more than the book value.
**Adjust the Capital account of the partners according to the new profit sharing ratio.**
Pass Journal entries and prepare Revaluation Account, Capital Accounts and the Balance Sheet.

13. A,B and C were in partnership sharing profits and losses in the proportions of 3:2:1. On 1st January, 2015, On that date, they have decided to change the profit sharing ratio in to 5:3:2.Their Balance Sheet was as follows:

| | ₹ | | ₹ |
|---|---|---|---|
| Trade Creditors | 3,000 | Cash in hand | 9,000 |
| Bills Payable | 2,700 | Debtors 16,000 | |
| Expenses owing | 4,500 | Less:Provision1,000 | 15,000 |
| Reserve Fund | 10,500 | Stock | 12,000 |
| Workmen's Compensation Fund | 4,800 | Factory Premises | 22,500 |
| **Capitals:** | | Investments | 8,000 |
| A 20,000 | | Loose Tools | 4,000 |
| B 15,000 | | | |
| C 10,000 | 45,000 | | |
| | 70,500 | | 70,500 |

The terms were:

(a) Goodwill of the firm to be valued at 2 times of Average Super Profits of last three years . Taking into consideration the risk of the business , normal profits of the firm are estimated at ₹ 50,000 every year. But actual profits of last three years were as 2012-₹ 60,000, 2013-₹ 55,000 , 2014- ₹57,500.
(b) Expenses owing to be brought down to ₹ 3,750.
(c) Investments are revalued at ₹7,200 . A took over investments at this value.
(d) Factory premises is to be revalued at ₹24,300; and Loose tools at ₹ 3,600.
(e) Provision for Doubtful Debts to be increased by ₹ 1,950.
(f) Claim on account of Workmen's Compensation is ₹ 1,800.

**Adjust the capital of the partners according to the new profit sharing ratio.**
Show Journal entry for goodwill adjustment; prepare necessary ledger accounts and the Balance sheet.

14. Balance sheet of X, Y and Z who were sharing profits and losses in the ratio of 3:2:1 respectively. On 01-04-2016, they have decided to change the profit sharing ratio into 2:1:1.

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Bills Payable | 6,400 | Cash | 25,650 |
| Sundry Creditors | 12,500 | Bills Receivable | 5,400 |
| Capital<br>X 40,000<br>Y 25,000<br>Z 20,000 | 85,000 | Debtors<br>Stock<br>Furniture<br>Plant and Machinery | 17,800<br>22,300<br>5,500<br>7,750 |
| Profit and Loss a/c | 4,500 | Building | 24,000 |
| | 1,08,400 | | 1,08,400 |

They have decided to revalue the assets and reassessed the liabilities as follows:
Stock ₹ 20,000, Furniture ₹ 3,000. Plant and Machinery ₹9,000, Building ₹ 20,000. ₹ 850 was to be provided for doubtful debts.
The goodwill of the firm was valued at ₹ 6000.
**Adjust the Capital of the partners in to the new profit sharing ratio and partners decided not to alter the value of assets and liabilities.** Prepare Revaluation A/c, Capital A/cs and the Balance sheet

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