Illustration 1.

A, *B* and *C* sharing profits and losses in the ratio of 5 : 3 : 2 decide to share profits and losses equally with effect from 1st April, 2023. Goodwill of the firm is valued at ₹ 90,000. Pass Journal entries under each of the following alternative cases:

Case 1. When goodwill does not appear in the books.

Case 2. When goodwill appears in the books at ₹ 60,000 and they agree on the following:

(a) Existing goodwill is written off.

(b) Existing goodwill is not written off, *i.e.*, is carried in the books of the firm.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023	**Case 1**			
April 1	*B*'s Capital A/c (₹ 90,000 × 1/30) ...Dr.		3,000	
	C's Capital A/c (₹ 90,000 × 4/30) ...Dr.		12,000	
	To *A*'s Capital A/c (₹ 90,000 × 5/30) (WN)			15,000
	(Adjustment made for goodwill on change in the profit-sharing ratio)			
	Case 2			
2023	(a) *When existing goodwill is written off:*			
April 1	*A*'s Capital A/c (₹ 60,000 × 5/10) ...Dr.		30,000	
	B's Capital A/c (₹ 60,000 × 3/10) ...Dr.		18,000	
	C's Capital A/c (₹ 60,000 × 2/10) ...Dr.		12,000	
	To Goodwill A/c			60,000
	(Existing goodwill written off in the old ratio on change in profit-sharing ratio)			
	B's Capital A/c (₹ 90,000 × 1/30) ...Dr.		3,000	
	C's Capital A/c (₹ 90,000 × 4/30) ...Dr.		12,000	
	To *A*'s Capital A/c (₹ 90,000 × 5/30) (WN)			15,000
	(Adjustment made for goodwill on change in the profit-sharing ratio)			
	(b) *When existing goodwill is not written off:*			
	B's Capital A/c (₹ 30,000 × 1/30) ...Dr.		1,000	
	C's Capital A/c (₹ 30,000 × 4/30) ...Dr.		4,000	
	To *A*'s Capital A/c (₹ 30,000 × 5/30)			5,000
	(Adjustment for goodwill on change in profit-sharing ratio without affecting its book value)			

Working Note: *Calculation of Sacrificed/(Gained) Profit Share of each Partner:*

Sacrificing/(Gaining) Share = Old Profit Share – New Profit Share

	New Share	*A*	*B* *C*
(i) Old Profit Share	5/10	3/10	2/10
(ii) New Profit Share	1/3	1/3	1/3
(iii) Sacrificed/(Gained) Profit Share (i – ii)	5/30	–1/30	–4/30
	Sacrificing Partner	Gaining Partner	Gaining Partner

Negative result in the case of *B* and *C* means they are gaining partners and *A* is the sacrificing partner. *B* gains by 1/30th share, *C* gains by 4/30th share and *A* sacrifices by 5/30th share.

Illustration 2.

Aman, Chaman and Daman are partners sharing profits and losses in the ratio of 5 : 4 : 1. Their Balance Sheet as at 31st March, 2023 was as follows:

Liabilities		₹	Assets		₹
Sundry Creditors		1,10,000	Cash at Bank		2,10,000
Salaries Payable		30,000	Sundry Debtors	1,00,000	
Outstanding Expenses		10,000	*Less:* Provision for Doubtful Debts	10,000	90,000
General Reserve		40,000	Stock		50,000
Capital A/cs:			Furniture		40,000
Aman	3,00,000		Computers		2,00,000
Chaman	1,50,000		Car		2,00,000
Daman	1,50,000	6,00,000			
		7,90,000			7,90,000

Profit-sharing ratio *w.e.f.* 1st April, 2023 was decided to be equal. It was agreed among the partners to carry out following adjustments:

(i) Stock to be reduced to ₹ 40,000.
(ii) Provision for Doubtful Debts to be written back, since all debtors are good.
(iii) Computers to be reduced by ₹ 20,000.
(iv) Out of the Salaries Payable, ₹ 10,000 was not payable as the employee left without notice.
(v) Outstanding Expenses were not payable.
(vi) An unrecorded asset (Motor Cycle) valued at ₹ 10,000 to be accounted.
(vii) Goodwill of the firm was valued at ₹ 50,000.
(viii) Total capital of the firm ₹ 6,00,000 was to be in profit-sharing ratio, excess capital to be withdrawn and shortfall to be brought by the partner.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Stock A/c	10,000	By Provision for Doubtful Debts A/c	10,000
To Computers A/c	20,000	By Salaries Payable A/c	10,000
To Gain (Profit) transferred to:		By Outstanding Expenses A/c	10,000
Aman's Capital A/c	5,000	By Motor Cycle A/c	10,000
Chaman's Capital A/c	4,000		
Daman's Capital A/c	1,000		
	40,000		40,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Aman ₹	Chaman ₹	Daman ₹	Particulars	Aman ₹	Chaman ₹	Daman ₹
To Aman's Capital A/c	...	...	8,333	By Balance *b/d*	3,00,000	1,50,000	1,50,000
To Chaman's Capital A/c	...	...	3,334	By Revaluation A/c	5,000	4,000	1,000
To Bank A/c (Bal. Fig.)	1,33,333	...	...	By Daman's Capital A/c (WN 1 and 2)	8,333	3,334	...
To Balance *c/d* (WN 3)	2,00,000	2,00,000	2,00,000	By General Reserve A/c	20,000	16,000	4,000
				By Bank A/c (Bal. Fig.)	...	26,666	56,667
	3,33,333	2,00,000	2,11,667		3,33,333	2,00,000	2,11,667

BALANCE SHEET OF THE NEW FIRM *as at 1st April, 2023*

Liabilities		₹	Assets	₹
Sundry Creditors		1,10,000	Cash at Bank (WN 4)	1,60,000
Salaries Payable		20,000	Sundry Debtors	1,00,000
Capital A/cs:			Stock	40,000
Aman	2,00,000		Furniture	40,000
Chaman	2,00,000		Computers	1,80,000
Daman	2,00,000	6,00,000	Car	2,00,000
			Motor Cycle	10,000
		7,30,000		7,30,000

Working Notes:

1. *Calculation of Sacrificed/(Gained) Profit Share of each Partner:*

Particulars	Aman	Chaman	Daman
A. Old Profit Share	5/10	4/10	1/10
B. New Profit Share	1/3	1/3	1/3
C. Sacrificed/(Gained) Profit Share (A – B)	$= \frac{15-10}{30}$ $= \frac{5}{30}$ (Sacrifice)	$= \frac{12-10}{30}$ $= \frac{2}{30}$ (Sacrifice)	$= \frac{3-10}{30}$ $= \frac{-7}{30}$ (Gain)

2. *Adjustment of Goodwill:*

		₹	₹
Daman's Capital A/c (50,000 × 7/30)	...Dr.	11,667	
To Aman's Capital A/c (₹ 50,000 × 5/30)			8,333
To Chaman's Capital A/c (₹ 50,000 × 2/30)			3,334

3. Total Capital of the FIrm = ₹ 6,00,000
   Capital of each Partner in the new firm as per new profit-sharing ratio will be ₹ 2,00,000 (*i.e.*, ₹ 6,00,000 × 1/3).

4. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	2,10,000	By Aman's Capital A/c	1,33,333
To Chaman's Capital A/c	26,666	By Balance *c/d*	1,60,000
To Daman's Capital A/c	56,667		
	2,93,333		2,93,333

Illustration 3.

Parth, Raman and Zaisha are partners in a firm manufacturing furniture. They have been sharing profits and losses in the ratio of 5 : 3 : 2. From 1st April, 2022, they agreed to share future profits and losses in the ratio of 2 : 5 : 3. Their Balance Sheet showed a debit balance of ₹ 4,000 in Profit & Loss Account; balance of ₹ 36,000 in General Reserve and a balance of ₹ 12,000 in Workmen's Compensation Reserve. It was agreed that:

(i) The goodwill of the firm be valued at ₹ 76,000.

(ii) The Stock (book value of ₹ 40,000) was to be depreciated by 8%.

(iii) Creditors amounting to ₹ 900 were not likely to be claimed. Hence, be written back.

(iv) Claim on account of Workmen's Compensation was ₹ 20,000.

(v) Investments (book value ₹ 38,000) were revalued at ₹ 40,000.

Pass necessary Journal entries for the above.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2022					
April 1	Parth's Capital A/c	...Dr.		2,000	
	Raman's Capital A/c	...Dr.		1,200	
	Zaisha's Capital A/c	...Dr.		800	
	To Profit & Loss A/c				4,000
	(Balance of Profit & Loss Account distributed in old ratio)				
	General Reserve A/c	...Dr.		36,000	
	To Parth's Capital A/c				18,000
	To Raman's Capital A/c				10,800
	To Zaisha's Capital A/c				7,200
	(General Reserve distributed in old ratio)				
	Workmen Compensation Reserve A/c	...Dr.		12,000	
	Revaluation A/c	...Dr.		8,000	
	To Workmen Compensation Claim A/c				20,000
	(Liability of Workmen compensation created out of Workmen Compensation Reserve and Revaluation Account)				
	Revaluation A/c	...Dr.		3,200	
	To Stock A/c				3,200
	(Decrease in value of stock recorded through Revaluation Account)				
	Investments A/c	...Dr.		2,000	
	Creditors A/c	...Dr.		900	
	To Revaluation A/c				2,900
	(Increase in value of investments recorded and amount not likely to be claimed by creditors written off)				
	Parth's Capital A/c	...Dr.		4,150	
	Raman's Capital A/c	...Dr.		2,490	
	Zaisha's Capital A/c	...Dr.		1,660	
	To Revaluation A/c				8,300
	(Loss on revaluation of assets and reassessment of liabilities transferred to Partners' Capital Accounts in their old ratio) (WN 1)				
	Raman's Capital A/c	...Dr.		15,200	
	Zaisha's Capital A/c	...Dr.		7,600	
	To Parth's Capital A/c (₹ 76,000 × 3/10)				22,800
	(Adjustment made for goodwill due to change in profit-sharing ratio by debiting gaining partners and crediting sacrificing partner (WN 2 and 3)				

Working Notes:

1. *Dr.* REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Stock A/c	3,200	By Creditors A/c		900
To Workmen Compensation Claim A/c	8,000	By Investments A/c		2,000
		By Loss on Revaluation transferred to:		
		Parth's Capital A/c	4,150	
		Raman's Capital A/c	2,490	
		Zaisha's Capital A/c	1,660	8,300
	11,200			11,200

2. *Calculation of Gained/(Sacrificed) Profit Share of Each Partner:*

Particulars	Parth	Raman	Zaisha
(i) New Profit Share	2/10	5/10	3/10
(ii) Old Profit Share	5/10	3/10	2/10
(iii) Gained/(Sacrificed) Profit Share (i – ii)	–3/10	2/10	1/10
	Sacrificing Partner	Gaining Partner	Gaining Partner

3. *Adjustment of Goodwill:*

Parth alone sacrificed whereas Raman and Zaisha gained. Hence, Raman and Zaisha will compensate Parth for his sacrificed Share by paying Goodwill ₹ 22,800 (*i.e.*, ₹ 76,000 × 3/10) in their gaining ratio, *i.e.*, 2/10 : 1/10 or 2 : 1. Thus,

Compensation payable by Raman to Parth = ₹ 22,800 × 2/3 = ₹ 15,200;

Compensation payable by Zaisha to Parth = ₹ 22,800 × 1/3 = ₹ 7,600.

Illustration 4 (*Change in Profit-sharing Ratio and Valuation of Goodwill*).

Girish, Manish and Harish were partners in a firm sharing profits and losses equally. Because of increased business and Manish devoting more time, he demanded that his share in the profits be increased, to which Girish and Harish agreed. New profit-sharing ratio was agreed to be 1 : 2 : 1. For this purpose, goodwill of the firm was valued at two years' purchase of the average profit of last five years. The profits of the last five years were as follows:

Year	I	II	III	IV	V
Profit (₹)	4,00,000	4,80,000	7,33,000	(33,000) Loss	2,20,000

You are required to:

(a) Calculate the goodwill of the firm.

(b) Pass necessary Journal entry for the treatment of goodwill on change in profit-sharing ratio of Girish, Manish and Harish.

Solution:

(a) Average Profit = $\dfrac{₹(4,00,000 + 4,80,000 + 7,33,000 - 33,000 + 2,20,000)}{5}$ = ₹ 3,60,000

Goodwill of the Firm = Average Profit × No. of Years' Purchase

= ₹ 3,60,000 × 2 = ₹ 7,20,000.

(b) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Manish's Capital A/c ...Dr.		1,20,000	
	To Girish's Capital A/c			60,000
	To Harish's Capital A/c			60,000
	(Adjustment of goodwill among partners on change in profit-sharing ratio)			

Working Note:

Calculation of Sacrifice/(Gain) of Each Partner Due to Change in Profit-sharing Ratio:

Particulars	Girish	Manish	Harish
(i) Old Profit Share	1/3	1/3	1/3
(ii) New Profit Share	1/4	2/4	1/4
(iii) Sacrificed/(Gained) Profit Share [(i) – (ii))]	1/3 –1/4 = (4 – 3)/12 = 1/12 (Sacrifice)	1/3 – 2/4 = (4 – 6)/12 = –2/12 (Gain)	1/3 – 1/4 = (4 –3)/12 = 1/12 (Sacrifice)

Manish has gained, so he will be debited by 2/12 of ₹ 7,20,000 = ₹ 1,20,000.

Girish and Harish have sacrificed, thus their Capital Accounts will be credited by 1/12 of ₹ 7,20,000 = ₹ 60,000 (each).

Illustration 5.

Ashish, Aakash and Amit are partners sharing profits and losses equally. The Balance Sheet as at 31st March, 2024 was as follows:

Liabilities		₹	Assets	₹
Sundry Creditors		1,35,000	Cash in Hand	84,000
General Reserve		90,000	Cash at Bank	1,40,000
Capital A/cs:			Sundry Debtors	80,000
Ashish	3,00,000		Stock	1,40,000
Aakash	3,00,000		Land and Building	4,00,000
Amit	2,75,000	8,75,000	Machinery	2,50,000
			Advertisement Suspense	6,000
		11,00,000		11,00,000

The partners decided to share profits in the ratio of 2 : 2 : 1 *w.e.f.* 1st April, 2024. They also decided that:

(i) Value of stock to be reduced to ₹ 1,25,000.

(ii) Value of machinery to be decreased by 10%.

(iii) Land and Building to be appreciated by ₹ 62,000.

(iv) Provision for Doubtful Debts to be made @ 5% on Sundry Debtors.

(v) Aakash was to carry out reconstitution of the firm at a remuneration of ₹ 10,000.

Pass necessary Journal entries to give effect to the above.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2024	General Reserve A/c	...Dr.		90,000	
April 1	To Ashish's Capital A/c				30,000
	To Aakash's Capital A/c				30,000
	To Amit's Capital A/c				30,000
	(General Reserve distributed)				
	Ashish's Capital A/c	...Dr.		2,000	
	Aakash's Capital A/c	...Dr.		2,000	
	Amit's Capital A/c	...Dr.		2,000	
	To Advertisement Suspense A/c				6,000
	(Advertisement suspense adjusted)				
	Revaluation A/c	...Dr.		40,000	
	To Stock A/c				15,000
	To Machinery A/c				25,000
	(Decrease in value of stock and machinery recorded)				
	Revaluation A/c	...Dr.		4,000	
	To Provision for Doubtful Debts A/c				4,000
	(Provision for doubtful debts created)				
	Revaluation A/c	...Dr.		10,000	
	To Aakash's Capital A/c				10,000
	(Remuneration payable to Aakash credited to his Capital A/c)				
	Land and Building A/c	...Dr.		62,000	
	To Revaluation A/c				62,000
	(Increase in value of Land and Building recorded)				
	Revaluation A/c	...Dr.		8,000	
	To Ashish's Capital A/c				2,667
	To Aakash's Capital A/c				2,667
	To Amit's Capital A/c				2,666
	(Revaluation gain (profit) transferred to Partners' Capital A/cs)				

Working Note:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Stock A/c		15,000	By Land and Building A/c	62,000
To Machinery A/c		25,000		
To Provision for Doubtful Debts A/c		4,000		
To Aakash's Capital A/c (Remuneration)		10,000		
To Gain (Profit) transferred to:				
Ashish's Capital A/c	2,667			
Aakash's Capital A/c	2,667			
Amit's Capital A/c	2,666	8,000		
		62,000		62,000

Illustration 6.

Vinay, Naman and Prateek are partners sharing profits and losses in an agreed ratio. With effect from 1st April, 2025, they agreed to share profits equally. On that date, their Balance Sheet showed:

(i) Profit & Loss A/c (Cr.) ₹ 1,75,000

(ii) Advertisement Suspense Account ₹ 25,000

Following Journal entry is recorded in the books to give effect to the adjustment for accumulated profits, losses and reserve:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2025				
April 1	Prateek's Capital A/c ...Dr.		25,000	
	To Vinay's Capital A/c			25,000
	(Adjustment made for accumulated profits, losses and reserve)			

Calculate each partner's gain or sacrifice due to change in profit-sharing ratio and old profit-sharing ratio.

Solution: *Calculation of Net Effect of Accumulated Profits, Losses and Reserves:*

	₹
Profit & Loss A/c	1,75,000
Less: Advertisement Suspense A/c	(25,000)
Net Effect	1,50,000

Calculation of Gain and Sacrifice of Partners:

Prateek has gained 1/6 share (₹ 25,000/₹ 1,50,000) as he has been debited and Vinay has sacrificed 1/6 share (₹ 25,000/₹ 1,50,000) as he has been credited.

Calculation of Old Profit-sharing Ratio:

Particulars	Vinay	Naman	Prateek
New Profit Share (Given)	1/3	1/3	1/3
Profit Share Sacrificed/Acquired (Note)	1/6 (Sacrifice)	...	–1/6 (Gain)
Old Profit Share	1/3 + 1/6 = 3/6	1/3 or 2/6	1/3 – 1/6 = 1/6

Sacrifice is added in new share for getting old share and gain is deducted from the new share for getting old share.

Old Profit-sharing Ratio = 3/6 : 2/6 : 1/6 or 3 : 2 : 1; Vinay's sacrifice = 1/6; Prateek's gain = 1/6.

Illustration 7.

Anil, Manvi and Payal are partners sharing profits and losses in the ratio of 5 : 3 : 2. Their Balance Sheet as at 31st March, 2025 stood as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Land and Building	2,60,000
Anil	3,50,000		Machinery	3,50,000
Manvi	2,50,000		Stock	90,000
Payal	3,00,000	9,00,000	Bills Receivable	70,000
General Reserve		20,000	Sundry Debtors	1,00,000
Workmen Compensation Reserve		30,000	Cash at Bank	1,05,000
Sundry Creditors		50,000	Cash in Hand	25,000
		10,00,000		10,00,000

They decided to share profits and losses in the ratio of 2 : 2 : 1 *w.e.f.* 1st April, 2025 on the following terms:

(i) Land and Building be appreciated by 10%.
(ii) Machinery be reduced by 15%.
(iii) Stock be increased to ₹ 1,00,000.
(iv) Provision for Doubtful Debts be created @ 5% on Sundry Debtors.
(v) A Creditor of ₹ 5,000 is not to claim the dues. Hence, it is to be written back.
(vi) A claim on account of Workmen Compensation is ₹ 10,000.
(vii) An expense of ₹ 2,000 was paid by the firm for getting the value of Land and Building certified from a Chartered Engineer.

Pass the Journal entries and prepare Revaluation Account.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2025				
April 1	General Reserve A/c ...Dr.		20,000	
	To Anil's Capital A/c			10,000
	To Manvi's Capital A/c			6,000
	To Payal's Capital A/c			4,000
	(General Reserve credited to Partners' Capital Accounts in their old profit-sharing ratio)			
	Workmen Compensation Reserve A/c ...Dr.		30,000	
	To Workmen Compensation Claim A/c			10,000
	To Anil's Capital A/c			10,000
	To Manvi's Capital A/c			6,000
	To Payal's Capital A/c			4,000
	(Workmen Compensation Reserve, after adjusting claim, credited to Partners' Capital Accounts in their old profit-sharing ratio)			

	Land and Building A/c ...Dr.		26,000	
	Stock A/c ...Dr.		10,000	
	To Revaluation A/c			36,000
	(Increase in value of land and building and stock recorded)			
	Revaluation A/c ...Dr.		57,500	
	To Machinery A/c			52,500
	To Provision for Doubtful Debts A/c			5,000
	(Decrease in value of Machinery recorded and provision for doubtful debts made)			
	Sundry Creditors A/c ...Dr.		5,000	
	To Revaluation A/c			5,000
	(Amount not payable written back)			
	Revaluation A/c ...Dr.		2,000	
	To Cash/Bank A/c			2,000
	(Expense for valuation of Land and Building)			
	Anil's Capital A/c ...Dr.		9,250	
	Manvi's Capital A/c ...Dr.		5,550	
	Payal's Capital A/c ...Dr.		3,700	
	To Revaluation A/c			18,500
	(Loss on revaluation debited to Partners' Capital Accounts in their old profit-sharing ratio)			

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Machinery A/c	52,500	By Land and Building A/c		26,000
To Provision for Doubtful Debts A/c	5,000	By Stock A/c		10,000
To Cash/Bank A/c (Expenses)	2,000	By Sundry Creditors A/c		5,000
		By Loss transferred to:		
		Anil's Capital A/c	9,250	
		Manvi's Capital A/c	5,550	
		Payal's Capital A/c	3,700	18,500
	59,500			59,500

Illustration 8.

Radhika, Bani and Chitra were partners in a firm sharing profits and losses in the ratio of 2 : 3 : 1. With effect from 1st April, 2018, they decided to share future profits and losses in the ratio of 3 : 2 : 1. On that date their Balance Sheet showed a debit balance of ₹ 24,000 in Profit & Loss Account and a balance of ₹ 1,44,000 in General Reserve.

It was also agreed that:

(a) The goodwill of the firm be valued at ₹ 1,80,000.

(b) The Land (having book value of ₹ 3,00,000) will be valued at ₹ 4,80,000.

Pass the necessary Journal entries for the above changes. (*CBSE 2019*)

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
April 1	Radhika's Capital A/c	...Dr.		8,000	
	Bani's Capital A/c	...Dr.		12,000	
	Chitra's Capital A/c	...Dr.		4,000	
	To Profit & Loss A/c				24,000
	(Undistributed loss transferred to Partners' Capital Accounts)				
	General Reserve A/c	...Dr.		1,44,000	
	To Radhika's Capital A/c				48,000
	To Bani's Capital A/c				72,000
	To Chitra's Capital A/c				24,000
	(General Reserve transferred to Partners' Capital Accounts)				
	Radhika's Capital A/c	...Dr.		30,000	
	To Bani's Capital A/c				30,000
	(Adjustment entry made for goodwill) (WN)				
	Land A/c	...Dr.		1,80,000	
	To Revaluation A/c				1,80,000
	(Land revalued)				
	Revaluation A/c	...Dr.		1,80,000	
	To Radhika's Capital A/c				60,000
	To Bani's Capital A/c				90,000
	To Chitra's Capital A/c				30,000
	(Gain on Revaluation transferred to Partners' Capital Accounts)				

Working Note: *Calculation of Sacrificed or Gained Profit Share of each Partner:*

Sacrificed Profit Share = Old Profit Share – New Profit Share

Radhika = 2/6 – 3/6 = (1/6) (*i.e.*, gain); Bani = 3/6 – 2/6 = 1/6 (*i.e.*, sacrifice); Chitra = 1/6 – 1/6 = 0.

Radhika is a gaining partner and Bani is a sacrificing partner.

Illustration 9.

Ashok, Bhim and Chetan were partners in a firm sharing profits in the ratio of 3 : 2 : 1. Their Balance Sheet as on 31st March, 2025 was as follows:

BALANCE SHEET OF ASHOK, BHIM AND CHETAN *as on 31st March, 2025*

Liabilities		₹	Assets	₹
Creditors		1,00,000	Land	1,00,000
Bills Payable		40,000	Building	1,00,000
General Reserve		60,000	Plant	2,00,000
Capital A/cs:			Stock	80,000
Ashok	2,00,000		Debtors	60,000
Bhim	1,00,000		Bank	10,000
Chetan	50,000	3,50,000		
		5,50,000		5,50,000

Ashok, Bhim and Chetan decided to share the future profits equally, *w.e.f.* 1st April, 2025. For this it was agreed that:

(a) Goodwill of the firm be valued at ₹ 3,00,000.

(b) Land be revalued at ₹ 1,60,000 and building be depreciated by 6%.

(c) Creditors of ₹ 12,000 were not likely to be claimed and hence be written off.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the reconstituted firm. (*Delhi 2016, Modified*)

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Building A/c		6,000	By Land A/c	60,000
To Gain (Profit) transferred to Partners' Capital A/cs:			By Creditors A/c	12,000
Ashok	33,000			
Bhim	22,000			
Chetan	11,000	66,000		
		72,000		72,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Ashok (₹)	Bhim (₹)	Chetan (₹)	Particulars	Ashok (₹)	Bhim (₹)	Chetan (₹)
To Ashok's Capital A/c	...	...	50,000	By Balance *b/d*	2,00,000	1,00,000	50,000
To Balance *c/d*	3,13,000	1,42,000	21,000	By General Reserve A/c	30,000	20,000	10,000
				By Revaluation A/c	33,000	22,000	11,000
				By Chetan's Capital A/c	50,000	...	...
	3,13,000	1,42,000	71,000		3,13,000	1,42,000	71,000

BALANCE SHEET OF RECONSTITUTED FIRM *as at 1st April, 2025*

Liabilities		₹	Assets	₹
Capital A/cs:			Land	1,60,000
Ashok	3,13,000		Building	94,000
Bhim	1,42,000		Plant	2,00,000
Chetan	21,000	4,76,000	Stock	80,000
Creditors		88,000	Debtors	60,000
Bills Payable		40,000	Bank	10,000
		6,04,000		6,04,000

Working Notes:

1. *Calculation of Sacrificed/(Gained) Profit Share of each Partner:*

	(A) Old Profit Share	(B) New Profit Share	(A – B) Sacrificed/(Gained) Profit Share
Ashok	3/6	1/3	1/6 (Sacrifice)
Bhim	2/6	1/3	...
Chetan	1/6	1/3	–1/6 (Gain)

2. Value of Firm's Goodwill = ₹ 3,00,000.
   Since, Chetan is gaining and Ashok is sacrificing, Chetan will compensate Ashok by paying ₹ 50,000 (*i.e.*, 1/6th of ₹ 3,00,000).