1. *A* and *B* are partners sharing profits in the ratio of 4 : 3. Their Balance Sheet as at 31st March, 2022 stood as:

Liabilities		₹	Assets	₹
Sundry Creditors		28,000	Cash	20,000
Reserve		42,000	Sundry Debtors	1,20,000
Capital A/cs:			Stock	1,40,000
A	2,40,000		Fixed Assets	1,50,000
B	1,20,000	3,60,000		
		4,30,000		4,30,000

They decided that with effect from 1st April, 2022, they will share profits and losses in the ratio of 2 : 1. For this purpose they decided that:

(i) Fixed Assets are to be reduced by 10%.

(ii) A Provision for Doubtful Debts of 6% be made on Sundry Debtors.

(iii) Stock be valued at ₹ 1,90,000.

(iv) An amount of ₹ 3,700 included in Creditors is not likely to be claimed.

Partners decided to record the revised values in the books. However, they do not want to disturb the Reserve. You are required to pass Journal entries, prepare Capital Accounts of Partners and the revised Balance Sheet. [**Ans.:** *Gain (Profit) on Revaluation—₹ 31,500; Adjustment for Reserve: Dr. A's Capital A/c and Cr. B's Capital A/c by ₹ 4,000; Capitals: A—₹ 2,54,000; B—₹ 1,37,500 and Balance Sheet Total—₹ 4,57,800.*]

2. *X*, *Y* and *Z* share profits as 5 : 3 : 2. They decide to share their future profits as 4 : 3 : 3 with effect from 1st April, 2022. On this date the following revaluations have taken place:

	Book Values (₹)	*Revised Values* (₹)
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.

[**Ans.:** *Dr. Z's Capital A/c and Cr. X's Capital A/c—₹ 760.*]

3. *X, Y* and *Z* are partners in a firm sharing profits and losses as 5 : 4 : 3. Their Balance Sheet as at 31st March, 2022 was:

Liabilities		₹	Assets	₹
Sundry Creditors		40,000	Cash at Bank	40,000
Outstanding Expenses		15,000	Sundry Debtors	2,10,000
General Reserve		75,000	Stock	3,00,000
Capital A/cs:			Furniture	60,000
X	4,00,000		Plant and Machinery	4,20,000
Y	3,00,000			
Z	2,00,000	9,00,000		
		10,30,000		10,30,000

From 1st April, 2022 they agree to alter their profit-sharing ratio as 4 : 3 : 2. It is also decided that:

(a) Furniture be taken at 80% of its value.

(b) Stock be appreciated by 20%.

(c) Plant and Machinery be valued at ₹ 4,00,000.

(d) Outstanding Expenses be increased by ₹ 13,000.

Partners agreed that altered values are not to be recorded in the books and they also do not want to distribute the General Reserve.

You are required to pass a single Journal entry to give effect to the above. Also, prepare Balance Sheet of the new firm.

[**Ans.:** *Gain (Profit) on Revaluation—₹ 15,000; Adjustment for Revaluation and General Reserve: Dr. X's Capital A/c and Cr. Z's Capital A/c—₹ 2,500; Balance Sheet Total—₹ 10,30,000.*]

4. Jai and Raj are partners sharing profits in the ratio of 3 : 2. With effect from 1st April, 2022, they decided to share profits equally. Goodwill appeared in the books at ₹ 25,000. As on 1st April, 2022, it was valued at ₹ 1,00,000. They decided to carry goodwill in the books of the firm.

Pass the Journal entry giving effect to the above.

[**Ans.:** *Dr. Raj's Capital A/c—₹ 7,500; Cr. Jai's Capital A/c—₹ 7,500.*]

5. Following is the Balance Sheet of *A* and *B*, who shared Profits and Losses in the ratio of 2 : 1, as at 1st April, 2022:

BALANCE SHEET OF *A* AND *B as on 1st April, 2022*

Liabilities		₹	Assets	₹
Capital A/cs:			Land and Building	2,90,000
A	3,00,000		Furniture	80,000
B	2,00,000	5,00,000	Stock	2,40,000
General Reserve		1,50,000	Debtors	1,50,000
Creditors		2,00,000	Bank	60,000
			Cash	30,000
		8,50,000		8,50,000

On the above date, the partners changed their profit-sharing ratio to 3 : 2. For this purpose, the goodwill of the firm was valued at ₹ 3,00,000. The partners also agreed for the following:

(a) The value of Land and Building will be ₹ 5,00,000;

(b) General Reserve is to be maintained at ₹ 3,00,000.

(c) The total capital of the partners in the new firm will be ₹ 6,00,000, which will be shared by the partners in their new profit-sharing ratio.

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

[**Ans.:** *Gain (Profit) on Revaluation—₹ 2,10,000; Partners' Capital Accounts: A—₹ 3,60,000; B—₹ 2,40,000. Amount to be brought in by B—₹ 60,000 and Withdrawn by A—₹ 20,000. Balance Sheet Total—₹ 11,00,000.*]

[**Hint:** General Reserve appearing in the Balance Sheet before the change in the profit-sharing ratio will be distributed between *A* and *B* in their old ratio, *i.e.*, 2 : 1. When it is again brought back in the books the Partners' Capital Accounts will be debited in the new profit-sharing ratio, *i.e.*, 3 : 2. Thus, *A*'s Capital Account will be debited by ₹ 1,80,000 (*i.e.*, 3/5 of ₹ 3,00,000) and *B*'s Capital Account will be debited by ₹ 1,20,000 (*i.e.*, 2/5 of ₹ 3,00,000).]

6. *A*, *B* and *C* are partners sharing profits and losses in the ratio of 2 : 2 : 1. As a result of change in profit-sharing ratio to 1 : 1 : 1, following Revaluation Account and Capital Accounts were drawn, in which some values are missing:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Stock A/c		10,000	By Machinery A/c	?
To Provision for Doubtful Debts A/c		10,000	By Sundry Creditors A/c	10,000
To Outstanding Expenses A/c		?		
To Gain (Profit) transferred to:				
A's Capital A/c	?			
B's Capital A/c	?			
C's Capital A/c	?	?		
		50,000		50,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Advt. Susp. A/c	?	?	?	By Balance *b/d*	?	?	?
To Balance *c/d*	1,50,000	1,40,000	1,30,000	By Revaluation A/c	8,000	8,000	4,000
	1,54,000	1,44,000	1,32,000		1,54,000	1,44,000	1,32,000

You are required to complete the accounts.

Solution:

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Stock A/c		10,000	By Machinery A/c	**40,000**
To Provision for Doubtful Debts A/c		10,000	By Sundry Creditors A/c	10,000
To Outstanding Expenses A/c		**10,000**		
To Gain (Profit) transferred to:				
A's Capital A/c	**8,000**			
B's Capital A/c	**8,000**			
C's Capital A/c	**4,000**	**20,000**		
		50,000		50,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Advt. Susp. A/c	**4,000**	**4,000**	**2,000**	By Balance *b/d*	**1,46,000**	**1,36,000**	**1,28,000**
To Balance *c/d*	1,50,000	1,40,000	1,30,000	By Revaluation A/c	8,000	8,000	4,000
	1,54,000	1,44,000	1,32,000		1,54,000	1,44,000	1,32,000

7. Om, Ram and Shanti are partners sharing profits and losses in the ratio of 7 : 5 : 4. Their Balance Sheet as at 31st March, 2022 stood as:

Liabilities		₹	Assets	₹
Capital A/cs:			Sundry Assets	7,00,000
Om	2,10,000			
Ram	1,50,000			
Shanti	1,20,000	4,80,000		
General Reserve		65,000		
Profit & Loss A/c		25,000		
Creditors		1,30,000		
		7,00,000		7,00,000

Partners decided that *w.e.f.* 1st April, 2022, they will share profits and losses in the ratio of 3 : 2 : 1. For this purpose, goodwill of the firm was valued at ₹ 1,50,000. The partners neither want to record the goodwill nor want to distribute the General Reserve and profits.

Pass necessary Journal entry to record the change and prepare Balance Sheet of the reconstituted firm.

[**Ans.:** *Dr. Om's Capital A/c by ₹ 15,000 and Ram's Capital A/c by ₹ 5,000; Cr. Shanti's Capital A/c by ₹ 20,000. Balance Sheet Total—₹ 7,00,000.*]

8. Mandeep, Vinod and Abbas are partners sharing profits and losses in the ratio of 3 : 2 : 1. From 1st April, 2023, they decided to share profits equally. The Partnership Deed provides that in the event of any change in profit-sharing ratio, goodwill shall be valued at three years' purchase of average normal business profit of last five years. Normal business profits and losses of past five years are:

Profit—Year ended 31st March, 2019—₹ 1,00,000; 2020—₹ 1,50,000; 2022—₹ 2,00,000; 2023—₹ 2,00,000.

Loss—Year ended 31st March, 2021—₹ 50,000.

Pass the Journal entry showing the working.

[**Ans.:** *Dr. Abbas's Capital A/c by ₹ 60,000 and Cr. Mandeep's Capital A/c by ₹ 60,000.*]

9. Karim, Rehman and Navel are partners sharing profits and losses in the ratio of 5 : 3 : 2. Their Balance Sheet as at 31st March, 2022 was as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Building	3,50,000
Karim	2,50,000		Machinery	2,40,000
Rehman	2,50,000		Computers	70,000
Naval	2,00,000	7,00,000	Investments (Market Value ₹ 90,000)	1,00,000
General Reserve		60,000	Sundry Debtors	50,000
Investments Fluctuation Reserve		30,000	Cash in Hand	10,000
Sundry Creditors		90,000	Cash at Bank	55,000
			Advertisement Suspense	5,000
		8,80,000		8,80,000

They decided to share profits equally *w.e.f.* 1st April, 2022. They also agreed that:

(i) Value of Building be decreased by 5%.
(ii) Value of Machinery be increased by 5%.
(iii) A Provision for Doubtful Debts be created @ 5% on Sundry Debtors.
(iv) A Motor Cycle valued at ₹ 20,000 was unrecorded and is now to be recorded in the books.
(v) Out of Sundry Creditors, ₹ 10,000 is not payable. Hence, is to be written back.
(vi) Goodwill is to be valued at 2 years' purchase of last 3 years profits. Profits being for year ended 31st March, 2022—₹ 50,000 (Loss); 2021—₹ 2,50,000 and 2020—₹ 2,50,000.
(vii) Naval was to carry out the work for reconstituting the firm at a remuneration (including expenses) of ₹ 5,000. Expenses came to ₹ 3,000.

Pass Journal entries and prepare Revaluation Account. [**Ans.:** *Gain (Profit) on Revaluation—₹ 17,000.*]

Missing Value Questions

10. Sonu and Monu are partners in a firm sharing profits in the ratio of 3 : 2. With effect from 1st April, 2022, they agreed to share profits equally. For this purpose, goodwill of the firm is valued at ₹ 75,000. You are required to fill up the following Journal entry:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022				
April 1	Monu's Capital A/c ...Dr.		?	
	To Sonu's Capital A/c			?
	(?)			

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022				
April 1	Monu's Capital A/c (₹ 75,000 × 1/10) ...Dr.		**7,500**	
	To Sonu's Capital A/c			**7,500**
	(**Adjustment made for goodwill on change in the profit-sharing ratio**)			

Working Note:

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

	Sonu	Monu
(i) Old Profit Share	3/5	2/5
(ii) New Profit Share	1/2	1/2
(iii) Sacrificed/(Gained) Profit Share (i) – (ii)	$\frac{3}{5}-\frac{1}{2}=\frac{1}{10}$; **Sacrifice**	$\frac{2}{5}-\frac{1}{2}=-\frac{1}{10}$ **(Gain)**

Thus, Sonu Sacrifices 1/10th share and Monu gains 1/10th share in profits.

11. Ramesh, Mahesh and Suresh are partners in a firm sharing profits in 3 : 3 : 2 ratio. They decide to share profits equally *w.e.f.* April 1, 2022. On that date, the Profit & Loss Account shows the credit balance of ₹ 60,000. They decide that Profit & Loss Account will remain as it is. You are required to fill up the following Journal entry:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022				
April 1	? ...Dr.		?	
	To ?			?
	To ?			?
	(Adjustment made for credit balance of Profit & Loss Account due to change in profit-sharing ratio)			

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2022					
April 1	**Suresh's Capital A/c (₹ 60,000 × 2/24)**	...Dr.		**5,000**	
	To **Ramesh's Capital A/c (₹ 60,000 × 1/24)**				**2,500**
	To **Mahesh's Capital A/c (₹ 60,000 × 1/24)**				**2,500**
	(Adjustment made for credit balance of Profit & Loss Account due to change in profit-sharing ratio)				

Working Note:

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

	Ramesh	Mahesh	Suresh
(i) Old Profit Share	3/8	3/8	2/8
(ii) New Profit Share	1/3	1/3	1/3
(iii) Sacrificed/(Gained) Profit Share [(i) – (ii)]	$\frac{3}{8}-\frac{1}{3}=\frac{1}{24}$;	$\frac{3}{8}-\frac{1}{3}=\frac{1}{24}$;	$\frac{2}{8}-\frac{1}{3}=-\frac{2}{24}$;
	Sacrifice	**Sacrifice**	**(Gain)**