

Change in Profit-Sharing Ratio Among the Existing Partners

MEANING OF KEY TERMS USED IN THIS CHAPTER

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|--|---|
| 1. Reconstitution of Partnership | Reconstitution of Partnership means change in relationship among the partners. |
| 2. Change in Profit-sharing Ratio | Change in Profit-sharing Ratio means change in ratio in which profit or loss of the firm is shared by the partners. |
| 3. Sacrificing Partners | The partners whose shares decrease as a result of change in profit-sharing ratio are known as Sacrificing Partners . |
| 4. Gaining Partners | The partners whose shares increase due to change in profit-sharing ratio are known as Gaining Partners . |
| 5. Sacrificing Ratio | Sacrificing Ratio is the ratio with which the profit share of the partners decrease. |
| 6. Gaining Ratio | Gaining Ratio is the ratio with which the profit share of the partners increase. |
| 7. New Profit-sharing Ratio | It is the ratio in which all partners (including new or incoming partner) are to share future profits. |
| 8. Accumulated Profits | Accumulated Profits mean profits of the firm that have not been distributed among the partners. |
| 9. Reserve | Reserve means amount set aside out of profits to meet a contingency or to strengthen the financial position of the firm. |
| 10. Revaluation of Assets | Revaluation of Assets means change in value of assets, <i>i.e.</i> , present value being different from that of book value. |
| 11. Reassessment of Liabilities | Reassessment of Liabilities means reassessing the liabilities, <i>i.e.</i> , whether the liability is more or less than that shown in the books of account. |

CHAPTER SUMMARY

- **Meaning of the Reconstitution of a Firm:** Any change in existing agreement of partnership means the reconstitution of a firm.
- **Circumstances when Reconstitution of a Firm takes Place:**
 1. On change in the profit-sharing ratio of existing partners.
 2. On admission of a new partner.
 3. On retirement of an existing partner.
 4. On death of a partner.
 5. On amalgamation of two or more partnership firms.
- **Meaning of Change in Profit-Sharing Ratio:** A change in profit-sharing ratio implies acquiring the share of profit by one partner from another partner.
- **Sacrificing Partners:** The partners whose shares have decreased due to change in the profit-sharing ratio are known as **sacrificing partners**.

Solved Questions

Illustration 1.

Following is the Balance Sheet of X, Y and Z, who share profits and losses in the ratio of 2 : 3 : 1 as at 31st March, 2026:

BALANCE SHEET

Liabilities	₹	Assets	₹
X's Capital A/c	1,00,000	Goodwill	12,000
Y's Capital A/c	2,00,000	Land and Building	3,50,000
Z's Capital A/c	3,00,000	Investments (Market Value ₹ 96,000)	1,00,000
Workmen Compensation Reserve	30,000	Stock	80,000
Investments Fluctuation Reserve	10,000	Debtors	3,00,000
Creditors	5,00,000	Less: Provision for Doubtful Debts	10,000
			2,90,000
		Cash at Bank	2,96,000
		Advertisement Suspense A/c	12,000
	11,40,000		11,40,000

The partners changed their profit-sharing ratio to 3 : 2 : 1 *w.e.f.* 1st April, 2026. The following terms are agreed upon:

- (i) Goodwill is to be valued at two years' purchase of average profit of last three completed years. The profits were:
2023–24—₹ 45,000; 2024–25—₹ 90,000; 2025–26—₹ 1,35,000.
- (ii) Land and Building was found undervalued by ₹ 25,000 and Stock was found overvalued by ₹ 8,000.
- (iii) Provision for Doubtful Debts is to be made equal to 5% of the Debtors.
- (iv) Claim on account of Workmen Compensation is ₹ 18,000.

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

Solution:

REVALUATION ACCOUNT			
Dr.	₹	Cr.	₹
Particulars		Particulars	
To Stock A/c	8,000	By Land and Building A/c	25,000
To Provision for Doubtful Debts A/c	5,000		
To Gain (Profit) transferred to:			
X's Capital A/c	4,000		
Y's Capital A/c	6,000		
Z's Capital A/c	2,000		
	12,000		
	25,000		25,000

PARTNERS' CAPITAL ACCOUNTS							
Dr.	X (₹)	Y (₹)	Z (₹)	Cr.	X (₹)	Y (₹)	Z (₹)
Particulars				Particulars			
To Goodwill A/c (Written off)	4,000	6,000	2,000	By Balance b/d	1,00,000	2,00,000	3,00,000
To Y's Capital A/c (WN 1 and 2)	30,000	...	...	By X's Capital A/c (WN 1 and 2)	...	30,000	...
To Advertisement Suspense A/c (Written off)	4,000	6,000	2,000	By Revaluation A/c	4,000	6,000	2,000
To Balance c/d	72,000	2,33,000	3,01,000	By Workmen Compensation Reserve A/c	4,000	6,000	2,000
				By Investments Fluctuation Reserve A/c	2,000	3,000	1,000
	1,10,000	2,45,000	3,05,000		1,10,000	2,45,000	3,05,000

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BALANCE SHEET as at 1st April, 2026

Liabilities	₹	Assets	₹
X's Capital	72,000	Land and Building	3,75,000
Y's Capital	2,33,000	Investments	96,000
Z's Capital	3,01,000	Stock	72,000
Creditors	5,00,000	Debtors	3,00,000
Workmen Compensation Claim	18,000	Less: Provision for Doubtful Debts	15,000
		Bank	2,96,000
	11,24,000		11,24,000

Working Notes:

1. Statement showing Sacrifice/(Gain) made by each partner:

	X	Y	Z
Old Profit Share	2/6	3/6	1/6
New Profit Share	3/6	2/6	1/6
Difference (Gain or Sacrifice)	-1/6	1/6	NIL
	Gaining Partner	Sacrificing Partner	

X gains 1/6th share and Y sacrifices 1/6th share.

2. Calculation of Goodwill:

$$(i) \quad \text{Average Profit} = \frac{\text{₹ } 45,000 + \text{₹ } 90,000 + \text{₹ } 1,35,000}{3} = \text{₹ } 90,000$$

$$(ii) \quad \text{Firm's Goodwill} = \text{₹ } 90,000 \times 2 = \text{₹ } 1,80,000$$

Y's Share of Goodwill = ₹ 1,80,000 × 1/6 = ₹ 30,000, which is compensated by X (being the gaining partner).

3. (i) For Workmen Compensation Reserve:

	₹	₹
Workmen Compensation Reserve A/c	...Dr.	30,000
To Workmen Compensation Claim A/c		18,000
To X's Capital A/c		4,000
To Y's Capital A/c		6,000
To Z's Capital A/c		2,000

(ii) For Investments Fluctuation Reserve:

Investments Fluctuation Reserve A/c	...Dr.	10,000
To Investments A/c		4,000
To X's Capital A/c		2,000
To Y's Capital A/c		3,000
To Z's Capital A/c		1,000

Illustration 2.

X, Y and Z are partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet as at 31st March, 2026 was as follows:

Liabilities		₹	Assets		₹
Sundry Creditors		50,000	Cash at Bank		1,01,000
General Reserve		50,000	Sundry Debtors		1,00,000
Capital A/cs:			Stock		2,10,000
X	3,00,000		Machinery		2,60,000
Y	3,00,000		Building		2,25,000
Z	2,00,000	8,00,000	Advertisement Suspense (Deferred Revenue Expenditure)		4,000
		9,00,000			9,00,000

Partners decided that with effect from 1st April, 2026 they would share profits and losses equally. It was agreed that:

- Stock is to be valued at ₹ 2,00,000.
- Value of Machinery is to be decreased by 10%.
- A Provision for Doubtful Debts is to be made on Sundry Debtors @ 5%.
- Building to be appreciated by ₹ 50,000.
- It was agreed that Z would carry out reconstituting the firm for which he will be paid remuneration of ₹ 5,000.

Partners agreed that revised (changed) values of assets and liabilities are to be recorded in the books. Pass necessary accounting entries and prepare Revaluation Account.

Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	Revaluation A/c ...Dr. To Stock A/c To Machinery A/c To Provision for Doubtful Debts A/c (Decrease in the value of assets and provision made for doubtful debts)		41,000	10,000 26,000 5,000
April 1	Building A/c ...Dr. To Revaluation A/c (Increase in the value of building)		50,000	50,000
April 1	Revaluation A/c ...Dr. To Z's Capital A/c (Z's remuneration for reconstituting the firm)		5,000	5,000
April 1	Revaluation A/c ...Dr. To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Transfer of gain (profit) on revaluation to the Capital Accounts of Partners in their old profit-sharing ratio)		4,000	1,600 1,600 800

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April 1	General Reserve A/c	...Dr.	50,000	
	To X's Capital A/c			20,000
	To Y's Capital A/c			20,000
	To Z's Capital A/c			10,000
	(General Reserve credited to the Partners' Capital Accounts in their old profit-sharing ratio)			
April 1	X's Capital A/c	...Dr.	1,600	
	Y's Capital A/c	...Dr.	1,600	
	Z's Capital A/c	...Dr.	800	
	To Advertisement Suspense A/c			4,000
	(Transfer of Advertisement Suspense Account to all partners in old profit-sharing ratio)			

REVALUATION ACCOUNT			
Dr.		Cr.	
Particulars	₹	Particulars	₹
To Stock A/c	10,000	By Building A/c	50,000
To Machinery A/c	26,000		
To Provision for Doubtful Debts A/c	5,000		
To Z's Capital A/c (Remuneration)	5,000		
To Gain (Profit) transferred to:			
X's Capital A/c (2/5)	1,600		
Y's Capital A/c (2/5)	1,600		
Z's Capital A/c (1/5)	800		
	4,000		
	50,000		50,000

Illustration 3.

Jaspal, Apoorv and Ankit are partners sharing profits and losses in the ratio of 5 : 3 : 2. Their Balance Sheet as at 31st March, 2026 was as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	1,50,000	Cash in Hand	75,000
Salaries Payable	50,000	Cash at Bank	1,50,000
General Reserve	2,00,000	Sundry Debtors	2,00,000
Capital A/cs:		Stock	50,000
Jaspal	5,00,000	Land and Buildings	5,00,000
Apoorv	3,00,000	Machinery	2,00,000
Ankit	2,00,000	Computers	1,75,000
	10,00,000	Furniture	50,000
	14,00,000		14,00,000

Profit sharing ratio *w.e.f.* 1st April, 2026 was decided to be 2 : 2 : 1. It was agreed by partners to carry out following adjustments:

- A computer for ₹ 25,000 was purchased on credit on 31st March, 2026 but was not recorded due to oversight.
- Stock is to be reduced by ₹ 10,000.
- Provision for Doubtful Debts is to be created @ 5%.

- (iv) Land and Buildings to be appreciated by 10% and Machinery to be reduced by 5%.
 (v) Goodwill of the firm is valued at ₹ 1,00,000.
 (vi) Total capital of the firm was to be ₹ 10,00,000 and is to be in their profit-sharing ratio.
 Excess or short capital is to be adjusted through their Current Accounts.

Pass the Journal entries and prepare Balance Sheet of the new firm.

Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	Computers A/c ...Dr. To Supplier's A/c (Computer purchased on credit remained unrecorded, now recorded)		25,000	25,000
	Revaluation A/c ...Dr. To Stock A/c To Provision for Doubtful Debts A/c To Machinery A/c (Decrease in value of assets recorded and provision made)		30,000	10,000 10,000 10,000
	Land and Buildings A/c ...Dr. To Revaluation A/c (Increase in value of land and buildings recorded)		50,000	50,000
	Revaluation A/c ...Dr. To Jaspal's Capital A/c To Apoorv's Capital A/c To Ankit's Capital A/c (Gain (profit) on revaluation credited to Partners' Capital Accounts in their old profit-sharing ratio)		20,000	10,000 6,000 4,000
	Apoorv's Capital A/c ...Dr. To Jaspal's Capital A/c (Jaspal's sacrificed share of goodwill adjusted by debiting Apoorv (gaining partner))		10,000	10,000
	General Reserve A/c ...Dr. To Jaspal's Capital A/c To Apoorv's Capital A/c To Ankit's Capital A/c (General Reserve credited to Capital Accounts)		2,00,000	1,00,000 60,000 40,000
	Jaspal's Capital A/c ...Dr. Ankit's Capital A/c ...Dr. To Jaspal's Current A/c To Ankit's Current A/c (Excess capital transferred to respective Partners' Current Accounts)		2,20,000 44,000	2,20,000 44,000
	Apoorv's Current A/c ...Dr. To Apoorv's Capital A/c (Shortfall in capital of Apoorv debited to his Current Account)		44,000	44,000

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BALANCE SHEET OF THE NEW FIRM as at 1st April, 2026

Liabilities	₹	Assets	₹
Sundry Creditors	1,50,000	Cash in Hand	75,000
Salaries Payable	50,000	Cash at Bank	1,50,000
Supplier's A/c (Computer)	25,000	Sundry Debtors	2,00,000
Capital A/cs:		Less: Provision for Doubtful Debts	10,000
Jaspal	4,00,000	Stock	40,000
Apoorv	4,00,000	Land and Buildings	5,50,000
Ankit	2,00,000	Machinery	1,90,000
Current A/cs:		Computers (₹ 1,75,000 + ₹ 25,000)	2,00,000
Jaspal	2,20,000	Furniture	50,000
Ankit	44,000	Current Account:	
		Apoorv	44,000
	14,89,000		14,89,000

Working Notes:

1. Dr. REVALUATION ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Stock A/c	10,000	By Land and Buildings A/c	50,000
To Provision for Doubtful Debts A/c	10,000		
To Machinery A/c	10,000		
To Gain (Profit) transferred to:			
Jaspal's Capital A/c	10,000		
Apoorv's Capital A/c	6,000		
Ankit's Capital A/c	4,000		
	20,000		
	50,000		50,000

2. Calculation of Sacrifice/(Gain) of each Partner:

	Jaspal	Apoorv	Ankit
Old Profit Share	5/10	3/10	2/10
New Profit Share	2/5	2/5	1/5
Sacrifice/(Gain) = Old Profit Share – New Profit Share	$= \frac{5-4}{10}$	$= \frac{3-4}{10}$	$= \frac{2-2}{10}$
	= 1/10	= -1/10	Nil
	Sacrifice	(Gain)	

Value of Goodwill = ₹ 1,00,000

∴ Apoorv will compensate Jaspal = ₹ 1,00,000 × $\frac{1}{10}$ = ₹ 10,000.

3. Total capital of the new firm = ₹ 10,00,000

Profit-sharing Ratio = 2 : 2 : 1

∴ Capital of Jaspal, Apoorv and Ankit will be ₹ 4,00,000; ₹ 4,00,000 and ₹ 2,00,000 respectively.

PARTNERS' CAPITAL ACCOUNTS							
Particulars	Jaspal ₹	Apoorv ₹	Ankit ₹	Particulars	Jaspal ₹	Apoorv ₹	Ankit ₹
To Jaspal's Capital A/c	...	10,000	...	By Balance b/d	5,00,000	3,00,000	2,00,000
To Partners' Current A/cs	2,20,000	...	44,000	By Revaluation A/c	10,000	6,000	4,000
To Balance c/d	4,00,000	4,00,000	2,00,000	By General Reserve A/c	1,00,000	60,000	40,000
				By Apoorv's Capital A/c	10,000	...	...
				By Partner's Current A/c	...	44,000	...
	6,20,000	4,10,000	2,44,000		6,20,000	4,10,000	2,44,000

Illustration 4 (Distribution of General Reserve and Accumulated Profits).

A, B and C are partners sharing profits in the ratio of 3 : 2 : 1. On 1st April, 2026, they decided to share the profits equally. On that date, there was a credit balance of ₹ 1,20,000 in their Profit & Loss Account and ₹ 60,000 in the General Reserve. Pass necessary Journal entry in the books of the firm.

Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026				
April 1	Profit & Loss A/c	...Dr.	1,20,000	
	General Reserve A/c	...Dr.	60,000	
	To A's Capital A/c			90,000
	To B's Capital A/c			60,000
	To C's Capital A/c			30,000
	(Undistributed profits and general reserve, transferred to Capital Accounts of the Partners in their old profit-sharing ratio)			

Illustration 5.

Neha, Anita and Aqsa are partners sharing profits and losses in the ratio 4 : 4 : 2. Their Balance Sheet as at 31st March, 2026 was as follows:

Liabilities	₹	Assets	₹
Capital A/cs:		Buildings	2,00,000
Neha	3,50,000	Machinery	3,00,000
Anita	3,00,000	Computers	50,000
Aqsa	2,50,000	Investments (Market Value ₹ 1,10,000)	1,50,000
Investments Fluctuation Reserve	50,000	Sundry Debtors	2,00,000
Sundry Creditors	60,000	Cash in Hand	15,000
Outstanding Liabilities	5,000	Cash at Bank	85,000
		Advertisement Suspense	15,000
	10,15,000		10,15,000

They decided to share profits and losses equally *w.e.f.* 1st April, 2026. They agreed that:

- (i) The value of Buildings be brought down by 10%.
- (ii) The value of Machinery be brought down by 5%.
- (iii) A Provision for Doubtful Debts be created @ 5% on Sundry Debtors.
- (iv) An unrecorded asset (computer) of value ₹ 15,000 be brought into books.

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- (v) Outstanding liabilities were no longer payable.
- (vi) Goodwill is to be valued at 3 years' purchase of average profit of last 5 years. The profits for the last 5 years were 2025–26—₹ 1,00,000; 2024–25—₹ 90,000; 2023–24—₹ 20,000 (Loss); 2022–23—₹ 60,000 and 2021–22—₹ 60,000.
- (vii) Aqsa was to carry out the reconstitution of the firm at a remuneration of ₹ 5,000, including expenses. Expenses came to ₹ 2,000.

Pass the Journal entries and prepare Revaluation Account.

Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	Revaluation A/c ...Dr. To Buildings A/c To Machinery A/c To Provision for Doubtful Debts A/c (Fall in value of buildings and machinery recorded and provision for doubtful debts made)		45,000	20,000 15,000 10,000
	Computers A/c ...Dr. Outstanding Liabilities A/c ...Dr. To Revaluation A/c (Unrecorded asset accounted and liability not payable written off)		15,000 5,000	20,000
	Revaluation A/c ...Dr. To Aqsa's Capital A/c (Remuneration of Aqsa credited to her account)		5,000	5,000
	Neha's Capital A/c ...Dr. Anita's Capital A/c ...Dr. Aqsa's Capital A/c ...Dr. To Revaluation A/c (Loss of Revaluation Account debited to Partners' Capital Accounts in their old profit-sharing ratio)		12,000 12,000 6,000	30,000
	Investments Fluctuation Reserve A/c ...Dr. To Investments A/c To Neha's Capital A/c To Anita's Capital A/c To Aqsa's Capital A/c (Fall in value of investments adjusted against reserve and the balance reserve credited to Partners' Capital Accounts)		50,000	40,000 4,000 4,000 2,000
	Aqsa's Capital A/c ...Dr. To Neha's Capital A/c To Anita Capital A/c (Adjustment of goodwill made by debiting Aqsa (gaining partner) and crediting Neha and Anita (sacrificing partners))		23,200	11,600 11,600

REVALUATION ACCOUNT			
Dr.	₹	Cr.	₹
Particulars		Particulars	
To Buildings A/c	20,000	By Computers A/c	15,000
To Machinery A/c	15,000	By Outstanding Liabilities A/c	5,000
To Provision for Doubtful Debts A/c	10,000	By Loss transferred to:	
To Aqsa's Capital A/c (Remuneration)	5,000	Neha's Capital A/c	12,000
		Anita's Capital A/c	12,000
		Aqsa's Capital A/c	6,000
	50,000		30,000
			50,000

Working Notes:

1. Value of Goodwill = Average Profit × Number of Years' Purchase

$$\text{Average Profit} = \frac{\text{₹ } 1,00,000 + \text{₹ } 90,000 - \text{₹ } 20,000 + \text{₹ } 60,000 + \text{₹ } 60,000}{5} = \text{₹ } 58,000$$

Value of Goodwill = ₹ 58,000 × 3 = ₹ 1,74,000.

2. Sacrificing/(Gaining) Share:

Particulars	Neha	Anita	Aqsa
A. Old Profit Share	2/5	2/5	1/5
B. New Profit Share	1/3	1/3	1/3
C. Sacrifice/(Gain) (A – B)	$= \frac{2}{5} - \frac{1}{3} = \frac{6-5}{15}$ $= \frac{1}{15}$ (Sacrifice)	$= \frac{2}{5} - \frac{1}{3} = \frac{6-5}{15}$ $= \frac{1}{15}$ (Sacrifice)	$= \frac{1}{5} - \frac{1}{3} = \frac{3-5}{15}$ $= -\frac{2}{15}$ (Gain)

3. Aqsa will compensate both Neha and Anita ₹ 11,600 each.

4. Expenses of ₹ 2,000 for reconstitution of the firm will not be recorded as these were to be borne by Aqsa and are also paid by her. In case, the expenses were paid by the firm, following additional entry will be passed:

Aqsa's Capital A/c	...Dr.	₹ 2,000	
To Cash/Bank A/c			₹ 2,000
(Expenses to be borne by Aqsa paid by the firm)			

Illustration 6.

Vijay, Sanjay and Ajay are partners sharing profits in the ratio of 3 : 2 : 1 respectively. From 1st April, 2026, they decided to share profits in the ratio of 2 : 3 : 1. The Partnership Deed provides that in the event of any change in profit-sharing ratio, the goodwill should be valued at three years' purchase of the average of five years' profits. The profits and losses of the preceding five years are:

Year	2021-22	2022-23	2023-24	2024-25	2025-26
Profit/Loss (₹)	?	9,00,000	10,20,000	11,40,000	4,20,000 (Loss)

JOURNAL ENTRY ON CHANGE IN PROFIT-SHARING RATIO

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	Sanjay's Capital A/c To Vijay's Capital A/c (Adjustment made for goodwill on change in profit-sharing ratio)	...Dr.	3,00,000	3,00,000

Calculate the profit for 2021-22.

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Solution: Calculation of Gain or Sacrifice of Partners:

	Vijay	Sanjay	Ajay
(i) Their New Profit Shares	2/6	3/6	1/6
(ii) Their Old Profit Shares	3/6	2/6	1/6
(iii) Difference (i) – (ii)	-1/6	1/6	?
	(Sacrifice)	(Gain)	

Thus, Vijay is a sacrificing partner and Sanjay is a gaining partner.

- Compensation payable as goodwill by Sanjay to Vijay for 1/6th share = ₹ 3,00,000.
- Goodwill of the firm = ₹ 3,00,000 (Compensation) × 6/1 = ₹ 18,00,000.
- Average Profit = ₹ 18,00,000/3* = ₹ 6,00,000
*Goodwill = Average Profit × 3 years' purchase.

• **Profit for 2021–22**

Let the profit for 2021–22 = X

$$₹ 6,00,000 \text{ (Average Profit)} = \frac{X + ₹ 9,00,000 + ₹ 10,20,000 + ₹ 11,40,000 - ₹ 4,20,000}{5}$$

$$₹ 30,00,000 = X + ₹ 9,00,000 + ₹ 10,20,000 + ₹ 11,40,000 - ₹ 4,20,000$$

Hence, X = ₹ 3,60,000.

Illustration 7.

Neha, Alka and Nimrat are partners sharing profits in the ratio of 2 : 2 : 1. They decided to share profits equally *w.e.f.* 1st April, 2026. On that date, value of goodwill is determined at ₹ 75,000. Following Revaluation Account and Capital Accounts were drawn giving effect to the agreed adjustments:

REVALUATION ACCOUNT			
Dr.		Cr.	
Particulars	₹	Particulars	₹
To Computers A/c	10,000	By Land and Buildings A/c	15,000
To Provision for Workmen Compensation Claim A/c	50,000	By Provision for Doubtful Debts A/c	5,000
To Stock A/c	10,000	By Loss transferred to:	
		Neha's Capital A/c	20,000
		Alka's Capital A/c	20,000
		Nimrat's Capital A/c	10,000
	70,000		70,000

PARTNERS' CAPITAL ACCOUNTS							
Dr.				Cr.			
Particulars	Neha ₹	Alka ₹	Nimrat ₹	Particulars	Neha ₹	Alka ₹	Nimrat ₹
To Revaluation A/c	20,000	20,000	10,000	By Balance b/d	2,00,000	1,50,000	1,00,000
To Neha's Capital A/c	...	...	5,000	By Profit & Loss A/c	8,000	8,000	4,000
To Alka's Capital A/c	...	...	5,000	By Nimrat's Capital A/c	5,000	5,000	...
To Balance c/d	1,93,000	1,43,000	84,000				
	2,13,000	1,63,000	1,04,000		2,13,000	1,63,000	1,04,000

From the above information, identify six adjustments made.

Solution:

Adjustments made are:

- (i) Value of Computers is reduced by ₹ 10,000.
- (ii) A claim on account of Workmen Compensation is estimated at ₹ 50,000.
- (iii) Value of Stock is reduced by ₹ 10,000.
- (iv) Value of Land and Buildings is increased by ₹ 15,000.
- (v) Provision for Doubtful Debts amounting to ₹ 5,000 is written back.
- (vi) Balance of Profit & Loss Account of ₹ 20,000 is credited to Partners' Capital Accounts in their old profit-sharing ratio.
- (vii) Nimrat is the Gaining Partner. Her Capital Account is debited by ₹ 10,000 (*i.e.*, 2/15 of ₹ 75,000) and Neha's Capital Account and Alka's Capital Account is credited by ₹ 5,000 each for goodwill in their sacrificing ratio, *i.e.*, 1 : 1.

Illustration 8 (*Change in Profit-sharing Ratio and Valuation of Goodwill*).

Sohan and Ram are partners sharing profits and losses in the ratio of 3 : 1. Their capitals were ₹ 60,000 and ₹ 40,000 respectively. From 1st April, 2026, it was agreed to change the profit-sharing ratio to 3 : 2. According to the Partnership Deed, goodwill is to be valued at three years' purchase of the average of five years' profits. The profits of the previous five years were: 2021–22—₹ 30,000; 2022–23—₹ 40,000; 2023–24—₹ 50,000; 2024–25—₹ 60,000 and 2025–26—₹ 70,000 respectively.

Pass necessary Journal entry to give effect to the above arrangement through Capital Accounts.

Solution:(i) *Valuation of Goodwill:*

$$\text{Average Profit} = \frac{\text{₹ } 30,000 + \text{₹ } 40,000 + \text{₹ } 50,000 + \text{₹ } 60,000 + \text{₹ } 70,000}{5} = \text{₹ } 50,000$$

$$\begin{aligned} \text{Goodwill} &= \text{Average Profit} \times \text{Number of Years' Purchase} \\ &= \text{₹ } 50,000 \times 3 = \text{₹ } 1,50,000. \end{aligned}$$

Effect of Change in Profit-sharing Ratio (i.e., Gain or Sacrifice of partners):

Sacrifice/(Gain) = Old Profit Share – New Profit Share

$$\text{Sohan} = 3/4 - 3/5 = 3/20 \text{ (Sacrifice)}$$

$$\text{Ram} = 1/4 - 2/5 = -3/20 \text{ (being negative, it is a gain).}$$

Compensation (Goodwill) payable by Ram to Sohan = 3/20 of ₹ 1,50,000 = ₹ 22,500.

(ii) *The Journal Entry to adjust Goodwill is:*

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	Ram's Capital A/c ...Dr. To Sohan's Capital A/c (Amount of goodwill credited to Sohan for his sacrificed share)		22,500	22,500

3.14 Double Entry Book Keeping—CBSE XII

Illustration 9.

X, Y and Z are partners sharing profits in the ratio of 3 : 2 : 1. From 1st April, 2026, Y decided to devote only part of time to the business and accepted to receive one half of his previous share of profits. Sacrificed share of Y is taken equally by X and Z. For this purpose, goodwill of the firm was valued at ₹ 3,00,000. Calculate new profit-sharing ratio and pass an adjustment entry for treatment of goodwill due to change in the profit-sharing ratio.

Solution:

Y's Sacrificed Share = $2/6 \times 1/2 = 1/6$, which is distributed equally between X and Z.

$$\begin{aligned} \text{X's New Profit Share} &= \text{Old Share} + \text{Acquired Share} \\ &= 3/6 + (1/6 \times 1/2) = \frac{3}{6} + \frac{1}{12} = \frac{6+1}{12} = \frac{7}{12} \end{aligned}$$

$$\begin{aligned} \text{Y's New Profit Share} &= \text{Old Share} - \text{Sacrificed Share} \\ &= \frac{2}{6} - \frac{1}{6} = \frac{1}{6} \text{ or } \frac{2}{12} \end{aligned}$$

$$\text{Z's New Profit Share} = 1/6 + (1/6 \times 1/2) = \frac{1}{6} + \frac{1}{12} = \frac{2+1}{12} = \frac{3}{12}$$

Hence, New Profit-sharing Ratio of X, Y and Z = $7/12 : 2/12 : 3/12 = 7 : 2 : 3$.

Since Y has sacrificed $1/6$ th share, he will be compensated with ₹ 50,000 (i.e., ₹ 3,00,000 × $1/6$) for goodwill by X and Z equally because they have gained in equal proportion.

ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2026 April 1	X's Capital A/c (₹ 50,000 × 1/2) Z's Capital A/c (₹ 50,000 × 1/2) To Y's Capital A/c (Adjustment made for goodwill)	...Dr. ...Dr.	25,000 25,000	50,000

Illustration 10.

Ashish, Aakash and Akhil are partners sharing profits in the ratio of 5 : 3 : 2. They decided to share profits in future in the ratio of 2 : 2 : 1 w.e.f. 1st April, 2026. Calculate the Sacrificing and Gaining Ratio.

Solution:

Sacrificed Share = Old Profit Share – New Profit Share

$$\text{Ashish} = \frac{5}{10} - \frac{2}{5} = \frac{5-4}{10} = \frac{1}{10} \text{ (i.e., Sacrifice)}$$

$$\text{Aakash} = \frac{3}{10} - \frac{2}{5} = \frac{3-4}{10} = -\frac{1}{10} \text{ (i.e., Gain)}$$

$$\text{Akhil} = \frac{2}{10} - \frac{1}{5} = \frac{2-2}{10} = 0.$$

Unsolved Questions

1. Nardeep, Hardeep and Gagandeep were partners in a firm sharing profits in 2 : 1 : 3 ratio. Their Balance Sheet as on 31st March, 2015 was as follows:

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
Nardeep	2,00,000	Debtors	60,000
Hardeep	1,00,000	Bank	10,000
Gagandeep	50,000		
	3,50,000		
	5,50,000		5,50,000

From 1st April, 2015 Nardeep, Hardeep and Gagandeep decided to share the future profits equally. For this purpose it was decided that:

- Goodwill of the firm be valued at ₹ 3,00,000.
- Land be revalued at ₹ 1,60,000 and building be depreciated by 6%.
- Creditors of ₹ 12,000 were not likely to be claimed and hence be written off.

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

[Ans.: Gain (Profit) on Revaluation—₹ 66,000; Partners' Capital Accounts: Nardeep—₹ 2,42,000; Hardeep—₹ 71,000; Gagandeep—₹ 1,63,000. Balance Sheet Total—₹ 6,04,000.]

2. X, Y and Z are partners sharing profits in the ratio of 2 : 2 : 1. Their Balance Sheet as at 31st March, 2026 stood as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	1,20,000	Cash in Hand	55,000
Outstanding Expenses	15,000	Cash at Bank	2,10,000
General Reserve	75,000	Bills Receivable	20,000
Profit & Loss A/c	50,000	Sundry Debtors	1,10,000
Capital A/cs:		Less: Provision for Doubtful Debts	10,000
X	3,00,000	Stock	2,00,000
Y	2,80,000	Machinery	3,50,000
Z	2,20,000	Computers	1,00,000
	8,00,000	Furniture	25,000
	10,60,000		10,60,000

3.16 Double Entry Book Keeping—CBSE XII

The partners agreed to share profits *w.e.f.* 1st April, 2026 in the ratio of 5 : 3 : 2. They also agreed to the following:

- (i) Value of stock be increased to ₹ 2,25,000.
- (ii) Provision for Doubtful Debts be written back, all debtors being good.
- (iii) Value of Machinery be reduced by 5%.
- (iv) Value of Computers be reduced to ₹ 82,500.
- (v) Goodwill of the firm for the purpose was valued at ₹ 1,00,000.

Pass an adjustment entry giving effect to the above arrangement and prepare Balance Sheet of the firm after adjustments when:

- (i) The partners decide to carry the assets and liabilities at their revised values and General Reserve and Profit & Loss Account at their existing values.
- (ii) The partners decide to carry assets and liabilities including General Reserve and Profit & Loss Account at their existing values by passing a single adjustment entry.

[Ans.: In Both the Cases: Balance Sheet Total—₹ 10,60,000.]


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