

Chapter 2 Change in profit sharing ratio

ONE MARK QUESTION

1. At the time of change in profit sharing ratio among the existing partners, where will you record an unrecorded liability?

Ans. Revaluation Account-Debit side

2. Anand, Bhutan and Chadha are partners sharing profits in ratio of 3:2:1. On 1st April 2007, they decided to share profits equally. Name the partners who is gaining on consequence of such change.

Ans. Chadha.

3. Give two characteristics of goodwill.

Ans. (i) it is an intangible asset having a definite value.
(ii) It helps in earning more profit.

4. Name any two factors affecting goodwill of a partnership firm.

Ans. (i) Favorable location (ii) Time period

5. In a partnership firm assets are Rs.5, 00,000 and liabilities are Rs. 2, 00,000. The normal profit rate is 15%. State the amount of normal profits.

Ans.Rs. 45,000

6. State the amount of goodwill, if goodwill is to be valued on the basis of 2 years' purchase of last year's profit. Profit of the last year was Rs.20, 000.

Ans. Rs. 40,000

7. P,Q and R are partners in a firm sharing profits in the ratio of 2:2:1 on 1.4.2007 the partners decided to share future profits in the ratio of 3:2:1 on that day balance sheet of the firm shows General Reserve of Rs. 50,000. Pass entry for distribution of reserve.

| | | | | | |
|------|-----------------|-----|-----|--------|--------|
| Ans. | General Reserve | A/c | Dr. | 50,000 | |
| | To P's Capital | A/c | | | 20,000 |
| | To Q's Capital | A/c | | | 20,000 |
| | To R's Capital | A/c | | | 10,000 |

(Being Reserve distributed)

THREE AND FOUR MARKS QUESTIONS.

1. P, Q and R sharing profits and losses in the ratio of 3:2:1, decided to share future and losses in the ratio of 4:3:2 with effect from 1st April 2014. Following an extract of their balance sheet as at 31st March, 2014.

| Liabilities | Amount Rs. | Assets | Amount Rs. |
|---------------------------|---------------|--------|------------|
| Workmen compensation fund | 60000 | | |

Show the accounting treatment under the following cases.

- If there is no other information.
- If a claim on account of workmen's compensation is estimated at Rs. 24000.
- If a claim on account of workmen's compensation is estimated at Rs.96000.

ANS.i. workmen compensation fund distributed in old ratio between all three partner.

ii. Rs. 36000 workmen compensation fund distributed in old ratio between all three partner.

iii. 36,000 debited to revaluation account.

2. Kartik and Aroha are partners in a firm sharing profits in the ratio of 2:3. The balance sheet of the firm as on 31st March 2016 is given below. Balance sheet as at 31st March 2016

| Liabilities | Amount | Assets | Amount |
|---------------|--------|-------------------|--------|
| Creditors | 6200 | Bills receivable | 3600 |
| Bills payable | 1800 | Stock | 16000 |
| Capital A/cs | | Machinery | 18400 |
| Kartik | 16000 | Land and Building | 10000 |
| Aroha | 24000 | | |
| | 48000 | | 48000 |

The partners decided to share profits in equal ratio with effect from 1st April 2016. The following adjustments were agreed upon.

1. Land and building was valued at 16000 and machinery at 16400 and were appear at revalued amount in the balance sheet.
2. The goodwill of the firm was valued at 800 but was not to appear in the books.

Pass necessary journal entries to give effect the above.

Ans.

| S.N. | PARTICULAR | D R . AMT. | C R . AMT |
|------|-------------------------|---------------|--------------|
| 1 | Land and building ac dr | 6000 | |
| | To revaluation ac | | 6000 |
| 2. | Revaluation ac dr | 2000 | |

| | | | |
|----|---|------|------|
| | To machinery ac | | 2000 |
| 3. | Revaluation ac dr | 4000 | |
| | To kartik's capital ac | | 1600 |
| | To Aroha's capital ac | | 2400 |
| 4. | Kartik's capital ac dr | 80 | |
| | To Aroha's capital ac | | 80 |
| | Sacrifice ratio= old ratio-new ratio Kartik=(1/10)Aroha=1/10 | | |