Chapter - 3

Change in Profit-Sharing Ratio Among the Existing Partners

Sacrificing and Gaining Share

Q1 A and B are sharing profits and losses equally. With effect from 1st April, 2015, they agree to share profits in the ratio of 4:3. Calculate individual partner's gain or sacrifice due to the change in ratio.

Q2 X, Y and Z are sharing profits and losses in the ratio of 5:3:2. With effect from 1st April, 2012, they decide to share future profits and losses in the ratio of 5:2:3. Calculate each partner's gain or sacrifice due to the change in ratio.

Q3 X, Y and Z are sharing profits and losses in the ratio of 5:3:2. With effect from 1st April, 2015, they decide to share future profits and losses equally. Calculate each partner's gain or sacrifice due to the change in ratio.

Accounting Treatment of Goodwill

Q4 A, B and C shared profits and losses in the ratio of 3:2:1 respectively. With effect from 1st April, 2015, they agreed to share profits equally. The goodwill of the firm was valued at `18,000. Pass necessary Journal entry.

Q5 X, Y and Z are partners sharing profits and losses in the ratio of 5:3:2. From 1st April. 2015, they decided to share profits and losses equally. The Partnership Deed provides that in the event of any change in the profit-sharing ratio, the goodwill should be valued at two years' purchase of the average profit of the preceding five years. The profits and losses of the preceding years are:

Year	2010-11	2011-12	2012-13	2013-14	2014-15
Profit (`)	70,000	85,000	45.000	35.000	10,000 **(LOSS)**

It is the practice of the firm not to show goodwill in the books.
You are required to calculate goodwill and pass Journal entry.

Q6 X, Y and Z are partners sharing profits and losses in the ratio of 5:3:2, decided to share future profits and losses equally with effect from 1st April. 2015. On that date, the goodwill appeared in the books at `12,000. But it was revalued at `30,000. Pass Journal entries assuming that no goodwill will appear in the books of accounts.

Q7 A and B are partners in a firm sharing profits in the ratio of 2:1. They decided with effect from 1st January, 2015, that they would share profits in the ratio of 3:2. But, this decision was taken after the profit for the year 2015 amounted to `90,000 has been distributed in the old ratio.
Value of firm’s goodwill was estimated on the basis of aggregate of two years' profits preceding the date decision became effective.
The profits for 2014 and 2015 were `60,000 and `75,000 respectively. It was decided that no Goodwill Account will be opened in the books of the firm and necessary adjustment be made through Capital Accounts which, on B 1st December stood, at `1,50,000 for A and `90-000 for B.Pass necessary Journal entries and prepare Capital Accounts.

Accounting Treatment of Reserves and Accumulated Profits

Q8 X and Y are partners in a firm sharing profits in the ratio of 3:2. On 31st March, 2015, their Balance J Sheet showed a General Reserve of `54,000. On 1st April, they decided to admit Z as a new partner,

The new profit-sharing ratio between X, Y and Z will be 4:3:2; Record the necessary Journal entry in the books of the firm under the following circumstances:

a) When they want to transfer the General Reserve in their Capital Accounts.
b) When they don't want to transfer General Reserve in their Capital Accounts and prefer to record an adjustment entry for the same.

Q9 X and Y are in partnership sharing profits in the ratio of 2:3. With effect from 1st April, 2015, they agreed to share profits in the ratio of 1:2. For this purpose, the goodwill of the firm Is to be valued at two years' purchase of the average profit of last three years, which were `1,50,000; `1,60,000 and `2,00,000 .respectively. The reserves appear in the books at `1,10,000. Partners neither want to show the goodwill in the books nor want to distribute the reserves. You are required to give effect to the change by passing a single Journal entry.

Q10 X, Y and Z are sharing profits and losses in the ratio of 5:3:2. They decide to share future profits and losses in the ratio of 2:3:5 with effect from 1st April, 2015. They also decide to record the effect of the following accumulated profits, losses and reserves without affecting their book figures by passing a single entry.

	Book Figure (`)
General Reserve	6,000
Profit and Loss A/c (Credit)	24,000
Advertisement Suspense A/c	12,000

Pass necessary Single Adjusting Entry.

Accounting for Revaluation of Assets and Reassessment of Liabilities

Q11 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, 2015. On this date the following revaluations have taken place:

	Book Value (`)	Revised Value (`)
Investments	22,000	25,000
Plant & Machinery	25,000	20,000
Land & Building	40,000	50,000
Outstanding Exp.	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.

Preparation of Balance Sheet

Q12 X, Y and Z are partners sharing profits and losses in the ratio of 7:5:4. Their Balance Sheet as at 31st March, 2015 stood as:

Liabilities		`	Assets	`
General Reserve		65,000	Sundry Assets	2,00,000
Profit & Loss A/c		25,000		
Creditors		1,30,000		
Capital A/c's:				
P	2,10,000			
Q	1,50,000			
R	1,20,000	4,80,000		
		7,00,000		**7,00,000**

Partners decided that with effect from 1st April, 2015, 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 a Journal entry to record the change and prepare revised Balance Sheet

Q13 A and B are partners sharing profits in the ratio of 4:3. Their Balance Sheet as at 31st March, 2015 stood as:

Liabilities		`	Assets	`
Sundry Creditors		28,000	Cash	20,000
Reserve		42,000	Sundry Debtors	1,20,000
Capital A/c's:			Stock	1,40,000
X	2,40,000		Fixed Assets	1,50,000
Y	1,20,000			
		3,60,000		
		4,30,000		**4,30,000**

They decided that with effect from 1st April, 2015, they will share profits and losses in the ratio of 2:1. For this purpose they decided that

I. Fixed Assets are to be depreciated by 10%.
II. A Provision of 6% be made on Debtors for Doubtful Debts.
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 Reserves. You are required to pass Journal entries, prepare Capital Accounts of Partners and the revised Balance Sheet.

Q14 X Y and Z are partners in a firm sharing profits and losses as 5:4:3. Their Balance Sheet as at 31st March, 2015 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/c's:			Furniture	60,000
X	4,00,000		Plant & Mach.	4,20,000
Y	3,00,000			
Z	2,00,000	9,00,000		
		10,30,000		**10,30,000**

From 1st April, 2015, 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 revised Balance Sheet.

Q15 Balance Sheet of X and Y, who share profits and losses as 5:3, as at 1st April, 2015 is:

Liabilities	`	**Assets**	`
X's Capital	52,000	Goodwill	8,000
Y's Capital	54,000	Machinery	38,000
General Reserve	4,800	Furniture	15,000
Sundry Creditors	5,000	Sundry Debtors	33,000
Employees' Provident Fund	1,000	Stock	7,000
Workmen Compensation Reserve	10,000	Bank	25,000
		Advertisement Suspense A/c	800
	1,26,800		**1,26,800**

On the above date, they decided to change their profit-sharing ratio to 3:5 and agreed upon:

a) Goodwill be valued on the basis of two years' purchase of the average profit of the last three years. Profits for **2012-13**—` 7,500; **2013-14**—` 4,000; **2014-15**—`6,500.
b) Machinery and Stock be revalued at `45,000 and `8,000 respectively.
c) Claim on account of workmen compensation is `6,000.

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

Q16 Balance Sheet of P, Q and R who share profits in the ratio of 2:2:1 as at 31st March, 2015 is:

Liabilities		`	**Assets**	`
Creditors		55,000	Land	2,00,000
Bills Payable		17,000	Building	80,000
General Reserve		48,000	Plant	1,60,000
Capital A/c's:			Stock	2,10,000
P	2,00,000		Debtors	60,000
Q	2,40,000		Cash	10,000
R	1,60,000	6,00,000		
		7,20,000		**7,20,000**

From 1st April, 2015 the partners decided to share the profits equally. For this purpose, the following adjustments were agreed upon:

a) The Goodwill of the firm should be valued at `60,000.
b) Land should be valued at `3,00,000 and Building and Plant should be depreciated by 5%. Stock be valued at `2,25,000.
c) Creditors amounted to `2,000 were not likely to be claimed and hence should be written off.

You are required to:

I. Record necessary Journal entries to give effect to the above agreement, without opening the Revaluation Account;
II. Prepare Capital Accounts of the Partners and
III. Prepare Balance Sheet of the firm after reconstitution.

CLASS XII

Holiday Homework

CHAPTER 2: ACCOUNTING FOR PARTNERSHIP - FUNDAMENTALS

Q.1 X is a partner who used the stock of the firm worth ` 10,000 and suffered a loss of` 2,000. He went the firm to bear the loss. How much ‘X’ is liable to pay to firm.

Q.2 Rajesh and Rakesh two partners draw for private use ` 1,28,000 and ` 86000 .Interest is chargeable at 6% per annum on drawings .What is the interest?

Q.3 A and B contribute ` 80,000 and ` 40,000 respectively by way of capital on which they agree to pay interest @ 6% p.a. Their respective share of profit is 2:3 and the business profit (before interest) for the year is 6,000. Show the relevant account to allocate interest about the treatment of interest on capital.

Q.4 It was discovered that in arriving at the profit for 2014, the following two items have been ignored.

(i) Outstanding expenses of ` 3500 and

(ii) Accurate interest on investment of ` 2,000

Make journal entries relevant to adjustments.

Q.5 A, B and C shared the profit of ` 9,00,000 in the ratio of 2:2:1 without providing for interest on B’s loan, B granted a loan of ` 4,00,000 in the beginning of accounting year. Whereas the partnership deed is silent on the interest on loan and the profit sharing ratio. Give adjusting entry.

Q.6 Calculate interest on X’s drawings @ 12% if he withdraws ` 2,000 per month during the year.

Q.7. Calculate interest on X’s drawings @ 12% p.a if he withdraws ` 2,000 per month during the year.

Q.8. Is a partner entitled to salary if he works more than others if partnership deed is silent?

Q.9 Distinguish between drawings against profit and drawings against capital. (Any two)

Q.10 There is no agreement regarding sharing of profits (or) partnerships salary. Rose is a whole-time partner whereas Lilly does not attend business regularly. Rose claims `3,000 salary a month and 60% of balance profits `24,600 Lilly advanced ` 10,000as loan and now she claims 10% interest. State how you will settle the accounts.

Q.11 Tariq and Bilal are partners in a firm. Their capital contribution were `6,00,000 and `4,00,000 respectively. The terms of the Partnership agreement are as follows.

(I) 20% of the profit should be transferred to General Reserve.

(ii) Interest on capital @ 12% p.a and Interest on drawings @ 10% p.a.

(iii)Tariq and Bilal to get a monthly salary of `3,000 and `4,000 respectively.

(iv)Bilal is entitled to a commission of `14,000

(v)Sharing profits and losses will be in the capital ratio.

The profit for the year ended 31st December, 2014 before making above appropriations was `4,80,000/-. The drawings of Tariq and Bilal were ` 80,000 and `60,000 respectively. Prepare Profit and loss appropriation account.

Q12.On 1st April 2014 A and B entered into partnership contributing `4,00,000 and `3,00,000 respectively. They agreed to share profits and losses in the ratio 3:2. B is allowed a salary of `4,000 per quarter. Interest on capital is to be allowed @10%p.a. During the year A withdrew `18,000 and B `36,000 as drawings. Interest on drawings of A and B was `600 and `1,200 respectively. Profit as on 31st December 2014 before the adjustment were `1,25,000. Prepare profit and loss Appropriation Account and Capital account of partner.

Q13.What entries will you pass to record the following transactions in the books of the firm A and B before distributing the profits earned?

(a) Commission of `50,000 payable to B

(b) Interest on capital: A `16,000 and B `10,000.

(c) Interest on drawings A `4,000 and B `3,000.

(d) Salary payable to A `3,000 per month.

(e) Transfer to General Reserve `20,000

Q14. A is a partner in a firm. A has withdrawn `12,000 during the year 2014.
(a)Calculate interest on drawings @12% when period is not given.

(b)Calculate interest on drawings @12% irrespective of the period.

(c)Calculate interest on drawings @12% when A has withdrawn the money on 1st Sep.2014.

(d) Calculate interest on drawings @12% when A has withdrawn the money on 15th Nov.2014.

Q15. A is a partner in a firm. A's drawings during the year 2014-15 were as follows: Accounts are closed on 31st March every year.

1st May 14	`1,000
30th June 14	`1,250
1st September14	` 500
1st November 14	` 750
31st December14	` 500
1st March 2015	`1,000

Interest on drawings is charged @10% p.a. Calculate interest on drawings of A.
Q16. A, and B were partners sharing profits and losses in the ratio of 2:1.The drawings of the partners were:-

(i) `1,200 per month by A throughout the year

(ii) `600 per month by B for 6 months.

Calculate interest on drawing @6% p.a in the following cases. When drawings are made (a) In the beginning of every month, (b) In the middle of every month and (c) At the end of every month.

Q17. M and N are partners in a firm. M has given a loan of `8,000 to the firm on 1st April, 2011.
The partnership deed is silent upon the question of provision of interest on partner's loan. Compute the amount of interest payable on the loan advanced by M to the firm assuming the books are closed on 31st December every year.

Q18. A and B are partners sharing profits in proportion of 3:2 with capitals of `80,000 and `60,000 respectively. Interest on capital is agreed at 5%p.a. B is to be allowed an annual salary of `6,000 which has not been withdrawn. During 2011, the profits for the year prior to calculation of interest on capital but after charging B's salary amounted to `24,000. A provision of 5%of this amount is to be made in respect of commission to the manager. Prepare P&L Appropriation a/c.

Q.19. A, B and C were partners in a firm having capitals of `80,000, 80,000 and 1,40,000 respectively. According to partnership deed the partners were entitled to interest on capital @ 5% p.a B was also entitled annual salary of `6,000. The profits were to be divided as follows:

(i) The first 30,000 in proportion to capitals of partner.
(ii) Next `30,000 in the ratio of 5:3:2.
(iii) Remaining profits to be shared equally.
During the year the firm made a profit of `1,56,000 before charging any of the above items. Prepare the profit & loss appropriation A/c.
Q20. A and B are partners in a firm. Their fixed capitals as on 1st Jan.2009 were `2,10,000 and `90,000 respectively. They share profits in the ratio2:1. On 1st May 2009, They decided that their capitals should be readjusted according to their profit sharing ratio. The necessary adjustments in the capitals were made by withdrawing and introducing cash. Interest is allowed
on capital @ 12%p.a. Prepare Fixed Capital Account and Compute interest on capital for the year 2009.

Q.21 The Capitals of A,B and C stood at `60,000. `40,000 and `30,000 respectively after the necessary adjustment in respect of Drawings and Net profits. Subsequently it was discovered that interest on capital @ 10% p.a and interest on drawings `130, `90 and `50 respectively have been ignored. Profits for the year `20,000 was already adjusted. The drawings of the partners were `1,500, `1,000 and `500 respectively. They share profits and losses in the ratio 2:2:1. Give necessary adjustment journal entry and prepare Profit and Loss adjustment account.

Q22. A, B and C were partners in a firm. On 1stJan.2012 their capital stood at `1,00,000, `50,000 and `50,000 respectively. As per the provisions of the deed:

(a) C was entitled for a salary of `2000 per month.

(b) Partners were entitled to interest on Capital@ 10% p.a.

(c) Profits were to be shared in the ratio of Capital.

The net profits for the year 2012 of `90,000 was divided equally without providing for the above terms. Pass an adjustment entry to rectify the above errors.

Q23. The partners of a firm distributed the profits for the year ended 31st March , 2013, `3,00,000 equally without providing for the following adjustments:

(i) A and C were entitled to a salary of `10,000 each per annum .

(ii) B was entitled to a commission of `10,000

(iii) A and C had guaranteed a minimum profit of `1,20,000 p.a. to B.

(iv) Profits were to be shared in the ratio of 2:2:1.

Pass necessary journal entries for the above adjustments in the books of the firm and Prepare Profit and Loss appropriation Account.

Q24. The following is the Balance sheet of X and Y as on 31st December 2014. You are required to pass an adjustment entry for the omission of interest on capital @10% p.a.

Liabilities	`	Assets	`
X's Capital	20,000	Sundry Assets	41,000
Y's Capital	16,000	X's Drawings	2,000
Profit and Loss App.-2014	8,000	Y's Drawings	1,000
	44,000		44,00

During the Year 2014, X's drawings were `5,000 and Y's drawings were `3,000. Profit during
the year 2014 were `12,000.

Q25. A & B are partners sharing profits and losses in the ratio 3 : 2. At the end of the year, i.e.
31st Dec. 2011, they decided to take their Manager C into partnership. As manager C was getting annual salary of `9,000. He had also advanced `60,000 to the firm by way of a loan on which he is getting interest @ 10% P.a. During the three years, firm's profit after adjusting salary to C, interest on loan and interest on capital of the partners were –

2009	Profit	`80,000
2010	Loss	`40,000
2011	Profit	`1,20,000

According to the new agreement, C is to be given annual salary of `7,000 and 1/5th share in
the profits of the firm. C's loan shall be treated as his capital from the beginning and similar to other partners, his capital will carry interest @6% P.a. Record the necessary entries.

Q.26. A,B and C are sharing profits in the ratio of 3:2:1 respectively. C wants that profits be
shared equally and it should be applicable retrospectively for the last three year. Other partners have no objection to this. Profits for the last three years were `1,20,000, `94,000 and `1,10,000 respectively. Record adjustment by means of a journal entry and show the working notes.

Q27.A, B and C are partners sharing profits and losses in the ratio of 3:2:1 respectively with a
minimum profit of `20,000 for C. The profit for the year ended 31st March 2002 amounted to `90,000. Pass journal entries and prepare Profit and Loss Appropriation account.

Q28. A,B and C entered into partnership on 1st Jan 2013 to share profits and losses in the ratio 5:3:2. A however, personally guaranteed that C's share of profits, after charging interest on capital @ 5 % p.a would not less than `15,000 in any year.The capital was provided as follows:

A ` 1,60,000

B ` 1,00,000

C ` 80,000

The profit for the year ended 31st Dec.2013 amounted to `77,000.before providing interest on capital. Show Profit and Loss appropriation account.

Q29. The partners of a firm distributed the profits for the year ended 31STMarch 2006 `3,00,000 equally without providing for the following adjustments:
(i) Seema and Rita were entitled to a salary of ` 5,000 per annum.
(ii) Nega was entitled a Commission of ` 5,000
(iii) Seema and Rita had guaranteed a minimum profit of ` 1,20,000 per annum to Nega
(iv) Profit were to be shared in the ratio of 2:2:1
Prepare necessary journal entries.

Q.30. A,B and C shared the profits of ` 15,00,000 in the ratio of 2:2:1 without providing for interest on B's loan . B granted a loan of` 10,00,000 in the beginning of accounting year
whereas the partnership deed is silent on interest on loan and the profit sharing ratio. Give necessary adjusting entrie.