COMMON ERRORS

1. Students get confused in the situations when general reserve, workmen's compensation fund and balance in profit and loss account is to be divided in OPSR and when it is to be adjusted in gaining and sacrificing ratio.

2. Students also get confused with the treatment of old goodwill and new goodwill.

3. Students prepare revaluation account in place of a statement showing calculation of profit or loss when profit and loss is to be adjusted without changing the value of assets and liabilities.

4. Many times students change the value of assets and liabilities in spite of passing adjustment entry for revaluation profit or loss.

QUESTIONS :

1. When is the firm said to be reconstituted ?
2. What is gaining ratio ?
3. What is sacrificing ratio ?
4. What adjustments are required during reconstitution ?
5. Why is it necessary to revalue assets and liabilities of the firm of its reconstitution ?
6. Who should compensate whom in case of reconstitution of the firm ?
7. State the ratio in which the reserves and surplus of the firm are distributed among Old Partners.
8. What journal entry is passed to distribute the profit of revaluation ?

9. A, B and C are partners sharing profits and losses in the ratio of 5 : 4 : 1. It was decided that with effect from 1st April 2011 the profit sharing ratio will be 9 : 6 : 5. Goodwill is to be valued at 2 year's purchase of average of 3 year's profits. The profits for the year ending 31st March 2009. 2010 and 2011 were Rs 48,000, Rs 42,000 and Rs 1 60,000 respectively.

10. X, Y and Z who are presently sharing profit & losses in ratio of 5 : 3 : 2, decide to share future profit & losses equally with effect from 1.4.2018. The goodwill of the firm has been valued at Rs 1,08,000. Show the necessary treatment under each of following alternative cases :
Case (a) when no goodwill appears in the books.
Case (b) when goodwill appears at Rs 1,08,000 in books.

11. 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, 2018. They also decide to record the effect of the following revaluations without affecting the book value of the assets and liabilities by passing a single adjusting entry :

	Book Figure (Rs)	**Revised Figure (Rs)**
Land and Building	5,00,000	5,50,000
Plant and Machinery	2,50,000	2,40,000
Trade Creditors	60,000	55,000

Outstanding Expenses	60,000	75,000

Pass the necessary single adjusting entry

12. X, Y and Z are sharing profits & losses in the ratio of 5 : 3 : 2. They decide to share future profits & losses in the ratio of 2 : 3 : 5 with effect from 1st April, 2018. They also decide to record the effect of the following accumulated profits, losses & reserves without affecting their book figures, by passing a single adjusting entry.

	Book Figure
General Reserve	Rs 24,000
Profit & Loss A/c	Rs 6,000
Advertisement Suspense A/c (Dr.)	Rs 12,000

13. A, B and C share profit and losses in the ratio of 3 : 3 : 2. ON 31st March, 2010 their balance sheet showed a General reserve of Rs 72,000. On this date they decided to share profits and losses equally. Instead of closing the Account they decided to pass an adjusting entry of show and record the effect ? Pass the Journal Entry ?

14. A, B and C share profit and loss in the ratio of 4 : 3 : 2 and decide to share the profits in ratio of 2 : 3 : 4 w.e.f. 1st April, 2019. The balance sheet on the date shows, Workmen Compensation Fund at Rs 90,000. Also information provided states there is a liability arising on the account amounting to Rs 45,000. Pass the required journal Entry.

15. X, Y and Z are partners sharing profits and losses in the ratio of 5 : 3 : 2, they decide to share future profits & losses in the ratio of 2 : 3 : 5. Their capitals remaining after adjustments relating to goodwill, profit/loss on revaluation and accumulated profits, losses & reserves are Rs 35,000, Rs 18,000 and Rs 6,000 respectively. They also decide that their capitals should also be in their new profit sharing ratio. Required calculate the amount of actual cash to be paid of or brought by the old partners for this adjustment and pass necessary journal entries.

16. A, B & C were partners sharing profits and losses in the ratio of 4 : 3 : 2 respectively. They changed their profit sharing ratio to 2 : 4 : 3 on 31st March, 2002 when the capitals of A, B and C after all necessary adjustments stood at Rs 19,650, Rs 19,800 & Rs 9,150 respectively. The entire capital of the newly constituted firm is fixed at Rs 54,000 as per new profit sharing arrangement. Calculate the actual cash to be paid off or to be brought in by the partners and pass the necessary journal entries.

17. B and C are partners in a firm, sharing profits or losses in the ratio of 5 : 3. Their Balance Sheet on 1.4.2018 was as follows :

Liabilitie	Rs	Assets	Rs
B’s Capital	32,000	Goodwill	8,000
C’s Capital	34,000	Machinery	38,000
General Reserve	4,800	Furniture	5,000
Bak Loan	6,000	Debtors	23,000
Creditors	5,000	Stock	7,000

Women Compensation Reserve	4,000	Advertisement Suspense A/C Bank	800 5,000
	86,800		86,800

They decided to change their profit sharing ratio to 3 : 5 and decided that :

(a) Goodwill be valued on the basis of 2 years' purchase of the average profits of the last three years. Average profits of the last three years are Rs 6,000.
(b) Machinery and stock be revalued at Rs 45,000 and Rs 8,000 respectively.
(c) Goodwill not to be shown in the books of the new firm.
Required: Prepare Revaluation Account and Partners' Capital Accounts and the Balance Sheet of the new firm.

18. X, Y and Z are partners sharing profits and losses in the ratio of 5 : 3 : 2. Their position on 31st March, 2019 was as follows :

		Rs			Rs
Sundry Creditors		44,000	Cash in Hand		8,000
Outstanding Expenses		10,000	Cash at Bank		22,000
Capital :			Debtors		
X	2,80,000		56,000		50,000
Y	2,80,000		Less : Provision	6,000	2,80,000
Z	1,00,000	6,60,000	Stock		1,54,000
			Machinery		
		7,14,000			7,14,000

It was decided that with effect from 1st April, 2019, profit and loss sharing ratio will be 3 : 3 : 1. They agreed on the following terms :

(i) Goodwill of the firm be valued at two year's purchase of the average super profits of last three years. Average profits of the last three years are Rs 1,18,000, while the normal profits may be taken at Rs 66,000.
(ii) Provision on debtors be reduced by Rs 2,000.
(iii) Value of stock be increased by 10% and machinery be valued at Rs 1,00,000.
(iv) An item of Rs 3,000 included in sundry creditors is not likely to be claimed.
Partners do not want to record the altered values of assets and liabilities in the books and also do not want to record the goodwill. Pass an entry to give effect to the above and prepare the revised balance sheet.

FILL IN THE BLANKS QUESTIONS

Q1.P and N are partners in a firm sharing profits in the ratio of 4:3 .With effect from 1st April 2018 ,They agreed to share profits in the ratio of 5:3 .For this purpose the goodwill of the firm is valued at 5,60,000.You are required to fill up the following missing figures .

Ans.

Date	Particulars	L.F	Dr.	Cr.
2018 April 1	………………………… dr. To ………………………. (Being adjustment made for goodwill on change in the profit sharing ratio)		…………	 ………….

Ans1

Date	Particulars	L.F	Dr.	Cr.
2018 April 1	P's Capital a/c dr. To N's Capital a/c (Being adjustment made for goodwill on change in the profit sharing ratio)		30,000	30,000

Q2.John ,Jaya and Prachi are partners in a firm sharing profits in the ratio of 2:2:1 .They decide to share profits equally with effect from April 1,2018. On that date ,the general reserve shows a balance of 45,000.They want to keep General reserve as it is. You are required to fill up the following missing entries and figures.

Date	Particulars	L.F	Dr.	Cr.
2018 April 1	………………………… dr. To John's Capital a/c To ………………………. (Being adjustment made for General reserve on change in the profit sharing ratio)		…………	 …………. ……………

Ans2.

Date	Particulars	L.F	Dr.	Cr.
2018 April 1	Prachi's Capital a/c dr. To John's Capital a/c To Jaya's Capital a/c (Being adjustment made for General reserve on change in the profit sharing ratio)		6,000	 3,000 3,000

Q3. Lata,Sahil and Kashi are partners in a firm profits in the ratio of 5:4:3 .They decide to share profits in the ratio of 4:5:3 with effect from April 1,2017. For this purpose ,The goodwill should be valued at three year's purchase of the average profits and losses of the preceding five years are:

Year	2012-13	2013-14	2014-15	2015-16	2016-17
Profit/Loss	2,70,000	6,75,000	7,65,000	8,55,000	3,15,000(loss)

Date	Particulars	L.F	Dr.	Cr.
2017	………………………… dr.		…………	

April 1	To ……………………….. (Being adjustment made for goodwill on change in the profit sharing ratio)			………….

You are required to complete the above journal entry.

Ans3.

Date	Particulars	L.F	Dr.	Cr.
2017 April 1	Sahil's Capital a/c dr. To Lata's Capital a/c (Being adjustment made for goodwill on change in the profit sharing ratio)		1,12,500	 1,12,500

ANSWERS

Ans9.Debit C ₹₹ 15,000, Credit A- ₹₹ 5,000 & B ₹₹ 10,000

Ans11. Debit Z' ₹₹ 9,000 & Credit X' ₹₹ 9,000
Ans12. Debit Z and Credit X with ₹₹ 5,400
Ans13. Dr. C & Credit A & B ₹₹ 3,000)
Ans14.C Dr., A Cr. by ₹₹ 10,000
Ans15. Z brings in ₹₹ 23,400, X withdraw ₹₹ 23,400
Ans16. A withdraws ₹₹ 7,650, B brings in ₹₹ 4,200, C brings in ₹₹ 8,850
Ans17. Profit on Revaluation ₹₹ 8,000, Total of B/s ₹₹ 86,000]
Ans18. Debit Y ₹₹ 8,100, Credit X ₹₹ 4,500 + Z' ₹₹ 3,600, B/S ₹₹ 7,14,000]