# Chapter 4- Change in Profit – Sharing Ratio Among the Existing Partners

**Question 1**

A and B are sharing profits and losses equally. With effect from 1st April, 2019, they agree to share profits in the ratio of 4 : 3. Calculate individual partner's gain or sacrifice due to the change in ratio.

**Solution:**

Old Ratio (A & B) = 1 : 1

New Ratio (A & B) = 4 : 3

Sacrificing or Gaining Ratio = Old Ratio – New Ratio

A's share = $\frac{1}{2} - \frac{4}{7} = \frac{7-8}{14} = \frac{-1}{14}$

B's share = $\frac{1}{2} - \frac{3}{7} = \frac{7-6}{14} = \frac{1}{14}$

So, A's gain and B's sacrifice = 1/14 share

**Question 2**

X, Y and Z are sharing profits and losses in the ratio of 5 : 3 : 2. With effect from 1st April, 2019, they decide to share profits and losses in the ratio of 5 : 2 : 3. Calculate each partner's gain or sacrifice due to the change in ratio.

**Solution:**

Old Ratio (X, Y, and Z) = 5 : 3 : 2

New Ratio (X, Y, and Z) = 5 : 2 : 3

Sacrificing or Gaining Ratio = Old Ratio – New Ratio

X's share = 5/10 – 5/10 = 0

Y's share = 3/10 – 2/10 = 1/10 (Sacrifice)

Z's share = 2/10 – 3/10 = –1/10 (Gain)

So, Z's Gain = 1/10 and Y's Sacrifice = 1/10

**Question 3**

X, Y and Z are sharing profits and losses in the ratio of 5 : 3 : 2. With effect from 1st April, 2019, they decide to share profits and losses equally. Calculate each partner's gain or sacrifice due to the change in ratio.

**Solution:**

Old Ratio (X, Y, and Z) = 5 : 3 : 2

New Ratio (X, Y, and Z) = 1 : 1 : 1

Sacrificing or Gaining Ratio = Old Ratio – New Ratio

X's share = $\frac{5}{10} - \frac{1}{3} = \frac{15-10}{30} = \frac{5}{30}$ (Sacrifice)

Y's share = $\frac{3}{10} - \frac{1}{3} = \frac{9-10}{30} = \frac{-1}{30}$ (Gain)

Z's share = $\frac{2}{10} - \frac{1}{3} = \frac{6-10}{30} = \frac{-4}{30}$ (Gain)

So, Y's Gain = $\frac{1}{30}$ , Z's Gain = $\frac{4}{30}$ , and X's Sacrifice = $\frac{5}{30}$

**Question 4**

A, B and C are partners sharing profits and losses in the ratio of 5 : 4 : 1. Calculate new profit-sharing ratio, sacrificing ratio and gaining ratio in each of the following cases:

Case 1. C acquires 1/5th share from A.

Case 2. C acquires 1/5th share equally form A and B.

Case 3. A, B and C will share future profits and losses equally.

Case 4. C acquires 1/10th share of A and 1/2 share of B.

**Solution:**

Calculation of New Profit Sharing Ratio

**Case 1:**

A:B:C = 5:4:1(Old Ratio)

C acquires 1/5th from A

A's sacrifice = 1/5th

C's gain = 1/5th

As share = 5/10 – 1/5 = 5−2/10 = 3/10

B's share = 4/10

C's share = 1/10 – 1/5 = 1+2/10 = 3/10

A:B:C = 3:4:3

**Case 2:**

A:B:C = 5:4:1(Old Ratio)

C acquires 1/5th equally from A and B

A's sacrifice = 1/10th

B's sacrifice = 1/10th

C's gain = 1/5th

A's share = 5/10 – 1/10 = 5−1/10 = 4/10

B's share = 4/10 – 1/10 = 4−1/10 = 3/10

C's share = 1/10 – 15 = 1+2/10 = 3/10

A:B:C = 4:3:3

**Case 3:**

A:B:C = 5:4:1(Old Ratio)

A:B:C = 1:1:1 (New Ratio)

A’s share = 5/10 – 1/3 = 15−10/30 = 5/30 (Sacrifice)

B’s share = 4/10 – 1/3 = 12−10/30 = 2/30 (Sacrifice)

C’s share = 1/10 – 1/3 = 3−10/30 = – 3/10 (Gain)

**Case 4:**

A:B:C = 5:4:1(Old Ratio)

A’s sacrifice to C = 5/10 X 1/10 = 1/20

B’s sacrifice to C = 4/10 X 1/2 = 4/20

C’s gain = 1/20 X 4/20 = 5/20

A’s share = 5/10 – 1/20 = 10−1/20 = 9/20

B’s share = 4/10 – 4/20 = 8−4/20 = 4/20

C’s share = 1/10 – 5/20 = 5+2/20 = – 7/20

A:B:C = 9:4:7

**Question 5**

A, B and C shared profits and losses in the ratio of 3 : 2 : 1 respectively. With effect from 1st April, 2019, they agreed to share profits equally. The goodwill of the firm was valued at ₹ 18,000. Pass necessary Journal entries when: (a) Goodwill is adjusted through Partners’ Capital Accounts; and (b) Goodwill is raised and written off.

**Solution:**

**Case a)**

| **Journal** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particular** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| 1st April | C’s Capital A/c (18,000×1/6) | Dr. | | 3,000 | |
| | To A’s Capital A/c (18,000×1/6) | | | | 3,000 |
| | (Goodwill Adjustment) | | | | |

**Case b)**

| **Journal** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particular** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| April 1 | Goodwill A/c | Dr. | | 18,000 | |
| | To A’s Capital A/c (18,000×3/6) | | | | 9,000 |
| | To B’s Capital A/c (18,000×2/6) | | | | 6,000 |
| | To C’s Capital A/c (18,000×1/6) | | | | 3,000 |
| | (Being goodwill raised in the books) | | | | |
| | A’s Capital A/c (18,000×1/3) | Dr. | | 6,000 | |
| | B’s Capital A/c (18,000×1/3) | Dr. | | 6,000 | |
| | C’s Capital A/c (18,000×1/3) | Dr. | | 6,000 | |

| | | | | | |
|---|---|---|---|---|---|
| | To Goodwill A/c | | | | 18,000 |
| | (Being goodwill raised & written off) | | | | |

**Working Note:**

Old Ratio (A,B, and C) = 3 : 2 : 1

New Ratio (A,B, and C) = 1 : 1 : 1

Sacrificing or Gaining Ratio = Old Ratio − New Ratio

A’s share = 3/6 – 1/3 = 3/6 – 2/6 = 1/6 (Sacrifice)

Bs share = 2/6 – 1/3 = 2/6 – 2/6 = 0

C’s share = 1/6 – 1/3 = 1/6 – 2/6 = −1/6 (Gain)

Goodwill adjustment = ₹ 18,000

A receives = 18,000 X 1/6 = ₹3,000

C gains = 18,000 X 1/6 = ₹3,000

**Question 6**

X, Y and Z are partners sharing profits and losses in the ratio of 5 : 3 : 2. From 1st April, 2018, 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 ended 31st March, are:

| Year | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|---|---|---|---|---|
| Profits (₹) | 70,000 | 85,000 | 45,000 | 35,000 | 10,000 (Loss) |

You are required to calculate goodwill and pass journal entry.

**Solution:**

| **Journal** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| April 1 | Y’s Capital A/c | Dr. | | 3,000 | |
| | Z’s Capital A/c | Dr. | | 12,000 | |
| | To X’s Capital A/c | | | | 15,000 |
| | (Goodwill amount adjusted on change in profit sharing ratio) | | | | |

**Working Notes 1**: Sacrificing (or Gaining) Ratio

Old Ratio (X, Y and Z) = 5 : 3 : 2

New Ratio (X, Y and Z) = 1 : 1 : 1

Sacrificing (or Gaining) Ratio = Old Ratio − New Ratio

X’s share = 5/10 – 1/3 = 15−10/30 = 5/30 (Sacrifice)

Ys share = 3/10 – 1/3 = 9−10/30 – −1/30 (Gain)

Z’s share = 2/10 – 1/3 = 6−10/30 – −4/30 (Gain)

**Working Notes 2**: Goodwill Evaluation

Goodwill = Average Profit X No. of Years' Purchased

Average Profit = 70,000 + 85,000 + 45,000 + ,35,000 − 10,000 / 5 = ₹ 45,000

No. of Years' Purchased = 2

So, Goodwill = ₹ 45,000 X 2 = ₹ 90,000

**Working Notes 3**: Goodwill Adjustment

Credited amount to X's Capital A/c = 90,000 X 5/30 (Sacrifice) = ₹ 15,000

Credited amount to Y's Capital A/c = 90,000 X 1/30 (Gain) = ₹ 3,000

Credited amount to Z's Capital A/c = 90,000 X 4/30 (Gain) = ₹ 12,000

**Question 7**

Mandeep, Vinod and Abbas are partners sharing profits and losses in the ratio of 3 : 2 : 1. From 1st April, 2019 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 the average profit of the last five years. The profits and losses of the past five years are:

Profit − Year ended 31st March, 2015 − ₹ 1,00,000; 2016 − ₹ 1,50,000; 2018 − ₹ 2,00,000; 2019 − ₹ 2,00,000.

Loss − Year ended 31st March, 2017 − ₹ 50,000.

Pass the Journal entry showing the working.

**Solution:**

| **Journal** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| April 1 | Abbas's Capital A/c | Dr. | | 60,000 | |
| | To Mandeep's Capital A/c | | | | 60,000 |
| | (Being adjustment made for a change in the ratio) | | | | |

**Working Notes 1:** Sacrifice or Gain Evaluation

Old Ratio (Mandeep, Vinod, and Abbas ) = 3 : 2 : 1

New Ratio (Mandeep, Vinod, and Abbas ) = 1 : 1 : 1

Sacrificing or Gaining Ratio = Old Ratio − New Ratio

Mandeep's share = 3/6 – 1/3 = 3−2/6 = 1/6 (Sacrifice)

Vinod's share = 2/6 – 1/3 = 2−2/6 = 0

Abbas's share = 1/6 – 1/3 = 1−2/6 = −1/6 (Gain)

**Working Notes 2**: Goodwill Evaluation

Goodwill = Average Profit X No. of Years' Purchased

Average Profit = Total Profits of Past Years / Number of Years

Average Profit = 1,00,000 + 1,50,000 + 2,00,000 + ,2,00,000 − 50,000 / 5 = ₹ 1,20,000

No. of Years' Purchased = 3

So, Goodwill = ₹ 1,20,000 X 3 = ₹ 3,60,000

**Working Notes 3**: Goodwill Adjustment

Debited amount to Abbas's Capital A/c = 3,60,000 X 1/6 (Gain) = ₹ 60,000

Credited amount to Mandeep's Capital A/c = 3,60,000 X 1/6 (Sacrifice)= ₹ 60,000

**Question 8**

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, 2019. On that date, the goodwill appeared in the books at ₹ 12,000. But it was revalued at ₹ 30,000. Pass Journal entries assuming that goodwill will not appear in the books of account.

**Solution:**

| **Journal** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| April 1 | X's Capital A/c | Dr. | | 6,000 | |
| | Y's Capital A/c | Dr. | | 3,600 | |
| | Z's Capital A/c | Dr. | | 2,400 | |
| | To Goodwill A/c | | | | 12,000 |
| | (Goodwill written off) | | | | |
| April 1 | Y's Capital A/c | Dr. | | 1,000 | |
| | Z's Capital A/c | Dr. | | 4,000 | |
| | To X's Capital A/c | | | | 5,000 |
| | (Goodwill adjusted on change in profit sharing ratio) | | | | |

**Working Notes 1:** Gain or Sacrificing Ratio Evaluation

Old Ratio (X, Y and Z) = 5 : 3 : 2

New Ratio (X, Y and Z) = 1 : 1 : 1

Sacrificing (or Gaining) Ratio = Old Ratio − New Ratio

X's share = 5/10 – 1/3 = 15−10/30 = 5/30 (Sacrifice)

Ys share = 3/10 – 1/3 = 9−10/30 – −1/30 (Gain)

Z's share = 2/10 – 1/3 = 6−10/30 – −4/30 (Gain)

**Working Notes 2:** Old Goodwill Written-off Evaluation

X's share = 12,000 x 5/10 = ₹ 60,000

Y's share = 12,000 x 3/10 = ₹ 3,600

Z's share = 12,000 x 2/10 = ₹ 2,400

**Working Notes 3**: Goodwill Adjustment

Credited amount to x's Capital A/c = 30,000 X 5/30 (Sacrifice) = ₹ 5,000

Debited amount to Y’s Capital A/c = 30,000 X 1/30 (Gain)= ₹ 1,000

Debited amount to Z’s Capital A/c = 30,000 X 4/30 (Gain)= ₹ 4,000

**Question 9**

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, 2019. On that date, the goodwill appeared in the books at ₹ 12,000. But it was revalued at ₹ 30,000. Pass Journal entries assuming that goodwill will not appear in the books of account.

**Solution:**

| **Journal** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| April 1 | A’s Capital A/c | Dr. | | 6,000 | |
| | To B’s Capital A/c | | | | 6,000 |
| | (Profit adjustment for 2018-19 on change in profit sharing ratio) | | | | |
| April 1 | B’s Capital A/c | Dr. | | 9,000 | |
| | To A’s Capital A/c | | | | 9,000 |
| | (Goodwill Adjustment made on change in profit sharing ratio) | | | | |

| **Partners’ Capital Accounts** | | | | | |
|---|---|---|---|---|---|
| **Dr.** | | | | | **Cr.** |
| **Particulars** | **A** | **B** | **Particulars** | **A** | **B** |
| B’s Capital A/c | 6,000 | – | Balance b/d | 1,50,000 | 90,000 |
| (Profit Adjustment) | | | A’s Capital A/c | – | 6,000 |
| A’s Capital A/c | – | 9,000 | (Profit Adjustment) | | |
| (Goodwill Adjustment) | | | B’s Capital A/c | 9,000 | – |
| Balance c/d | 1,53,000 | 87,000 | (Goodwill Adjustment) | | |
| | 1,59,000 | 96,000 | | 1,59,000 | 96,000 |

**Working Notes 1:** Gain or Sacrificing Ratio Evaluation

Old Ratio (A and B) = 2 : 1

New Ratio (A and B) = 3 : 2

Sacrificing (or Gaining) Ratio = Old Ratio − New Ratio

A’s share = 2/3 – 3/5 = 10−9/15 = 1/5 (Sacrifice)

B’s share = 1/3 – 2/5 = 5−6/15 – −1/15 (Gain)

**Working Notes 2 :** 2016-17 Profit Adjustment

Debited Profit to A’s Capital A/c = 90,000 X 3/5 (Sacrifice) = ₹ 6,000

Credited Profit to B’s Capital A/c = 90,000 X 3/5 (Sacrifice) = ₹ 6,000

**Working Notes 3 :** New Goodwill Evaluation

Goodwill = 2014-15 Profit + 2015-16 Profit

= 60,000 + 75,000 = ₹ 1,35,000

**Working Notes 4 :** Goodwill Adjustment Evaluation

Goodwill debited to A's Capital A/c = 1,35,000 X 1/15 (Sacrifice) = ₹ 9,000

Goodwill credited to A's Capital A/c = 1,35,000 X 1/15 (Gain) = ₹ 9,000

**Question 10**

Jai and Raj are partners sharing profits in the ratio of 3 : 2. With effect from 1st April, 2019, they decided to share profits equally. Goodwill appeared in the books at ₹ 25,000. As on 1st April, 2019, 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.

**Solution:**

| | | | | | |
|---|---|---|---|---|---|
| **Journal** | | | | | |
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| 1st April | Raj's Capital A/c | Dr. | | 7,500 | |
| | To Jai's Capital A/c | | | | 7,500 |
| | (Goodwill adjustment) | | | | |

**Working Notes 1:** Gain or Sacrificing Ratio Evaluation

Sacrificing (or Gaining) Ratio = Old Ratio − New Ratio

Jai's share = 3/5 – 1/2 = 1/10 (Sacrifice)

Raj's share = 2/5 – 1/2 = 1/10 (Gain)

**Working Notes 1:** Adjusted Goodwill Evaluation

Adjusted Goodwill = 1,00,000 – 25,000 = 75,000

Goodwill credited to Jai's Capital A/c = 75,000 X 1/10 (Sacrifice) = ₹ 7,500

Goodwill debited to Raj's Capital A/c = 75,000 X 1/10 (Sacrifice) = ₹ 7,500

**Question 11**

X and Y are partners in a firm sharing profits and losses in the ratio of 3 : 2. With effect from 1st April, 2019, they decided to share future profits equally. On the date of change in the profit-sharing ratio, the Profit and Loss Account showed a credit balance of ₹ 1,50,000. Record the necessary Journal entry for the distribution of the balance in the Profit and Loss Account immediately before the change in the profit-sharing ratio.

**Solution:**

| | | | | | |
|---|---|---|---|---|---|
| **Journal** | | | | | |
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| 1st April | Profit & Loss A/c | Dr. | | 1,50,000 | |
| | To X's Capital A/c | | | | 90,000 |

| | | | | | |
|---|---|---|---|---|---|
| | To Y's Capital A/c | | | | 60,000 |
| | (Balance adjusted in P&L A/c in old ratio) | | | | |

**Working Notes:** Profit & Loss Evaluation

X's Share = 1,50,000 X 3/5 (Sacrifice) = ₹ 90,000

Y's Share = 1,50,000 X 2/5 (Sacrifice) = ₹ 60,000

**Question 12**

X and Y are partners in a firm sharing profits and losses in the ratio of 3 : 2. With effect from 1st April, 2019, they decided to share future profits equally. On the date of change in the profit-sharing ratio, the Profit and Loss Account showed a credit balance of ₹ 1,50,000. Record the necessary Journal entry for the distribution of the balance in the Profit and Loss Account immediately before the change in the profit-sharing ratio.

**Solution:**

| **Journal** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| 1st April | A's Capital A/c | Dr. | | 80,000 | |
| | B's Capital A/c | Dr. | | 20,000 | |
| | To Profit & Loss A/c | | | | 1,00,000 |
| | (Profit & Loss share) | | | | |

**Question 13**

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, 2019. They also decide to record the effect of the following accumulated profits, losses and reserves without affecting their book values by passing a single entry .

| | Book Values (₹) |
|---|---|
| General Reserve | 6,000 |
| Profit and Loss A/c (Credit) | 24,000 |
| Advertisement Suspense A/c | 12,000 |

Pass an Adjustment Entry.

**Solution:**

| **Journal** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| April 1 | Z's Capital A/c | Dr. | | 5,400 | |
| | To X's Capital A/c | | | | 5,400 |
| | (Being adjustment for General Reserve, Profit and Loss A/c, and Advertisement Suspense A/c made on change in profit sharing ratio) | | | | |

**Working Notes 1:**

Adjustments to be made on Net amount = General Reserve + Profit and Loss A/c( Credit) – Advertisement Suspense A/c

Adjustments to be made on Net amount = 6,000 + 24,000 – 12,000 = ₹ 18,000

**Working Notes 2:** Gain or Sacrificing Ratio Evaluation

Old Ratio (X, Y and Z) = 5 : 3 : 2

New Ratio (X, Y and Z) = 2 : 3 : 5

Sacrificing (or Gaining) Ratio = Old Ratio − New Ratio

X’s share = 5/10 – 2/10 = 3/10 (Sacrifice)

Y’s share = 3/10 – 3/10 = 0

Z’s share = 2/10 – 5/10 = −3/10 (Gain)

Credited amount to X’s Capital A/c = 18,000 X 3/10 (Sacrifice) = ₹ 5,400

Debited amount to Z’s Capital A/c = 18,000 X 3/10 (Sacrifice) = ₹ 5,400

**Question 14**

A, B and C who are presently sharing profits and losses in the ratio of 5 : 3 : 2 decide to share future profits and losses in the ratio of 2 : 3 : 5. Give the Journal entry to distribute ‘Workmen Compensation Reserve’ of ₹ 1,20,000 at the time of change in profit-sharing ratio, when:

(i) no information is given; (ii) there is no claim against it.

**Solution:**

| **Journal for case (i) & (ii)** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| | Workmen Compensation Reserve A/c | Dr. | | 1,20,000 | |
| | To A’s Capital A/c | | | | 60,000 |
| | To B’s Capital A/c | | | | 36,000 |
| | To C’s Capital A/c | | | | 24,000 |
| | (Distributed Workmen Compensation Reserve) | | | | |

**Note:**

In both cases, the distribution for workmen compensation reserve will be in old ratio 5:3:2.

**Question 15**

*X*, *Y* and *Z* who are presently sharing profits and losses in the ratio of 5 : 3 : 2 decide to share future profits and losses in the ratio of 2 : 3 : 5. Give the journal entry to distribute ‘Workmen Compensation Reserve’ of ₹ 1,20,000 at the time of change in profit-sharing ratio, when there is a claim of ₹ 80,000 against it.

**Solution:**

| Journal | | | | | |
|---|---|---|---|---|---|
| Date | Particulars | | L.F. | Debit ₹ | Credit ₹ |
| | Workmen Compensation Reserve A/c | Dr. | | 1,20,000 | |

| | | | | | |
|---|---|---|---|---|---|
| | To X’s Capital A/c | | | | 20,000 |
| | To Y’s Capital A/c | | | | 12,000 |
| | To Z’s Capital A/c | | | | 8,000 |
| | To Workmen Compensation Claim A/c<br><br>(Balance adjustment in workmen compensation reserve A/c in old ratio) | | | | 80,000 |

**Working Notes:** Workmen Compensation Reserve Evaluation

Credited amount to X’s Capital A/c = 40,000 X 5/10 (Sacrifice) = ₹ 20,000

Credited amount to X’s Capital A/c = 40,000 X 3/10 (Sacrifice) = ₹ 12,000

Debited amount to Z’s Capital A/c = 40,000 X 2/10 (Sacrifice) = ₹ 8,000

**Question 16**

X, Y and Z who are sharing profits in the ratio of 5 : 3 : 2, decide to share profits in the ratio of 2 : 3 : 5 with effect from 1st April, 2019. Workmen Compensation Reserve appears at ₹ 1,20,000 in the Balance Sheet as of 31st March, 2019 and Workmen Compensation Claim is estimated at ₹ 1,50,000. Pass Journal entries for the accounting treatment of Workmen Compensation Reserve.

**Solution:**

| **Journal** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| April 1 | | | | | |
| | Workmen Compensation Reserve A/c | Dr. | | 1,20,000 | |
| | Revaluation A/c | Dr. | | 30,000 | |
| | To Provision for Workmen Compensation Claim A/c<br><br>(Being provision created and shortfall charged to Revaluation A/c) | | | | 1,50,000 |
| | X’s Capital A/c | Dr. | | 15,000 | |
| | Y’s Capital A/c | Dr. | | 9,000 | |
| | Z’s Capital A/c | Dr. | | 6,000 | |
| | To Revaluation A/c | | | | 30,000 |
| | (Being revaluation loss transferred to Partners’ Capital A/c) | | | | |

**Question 17**

A, B and C who are presently sharing profits and losses in the ratio of 5 : 3 : 2 decide to share future profits and losses in the ratio of 2 : 3 : 5. Give the journal entry to distribute ‘Investments Fluctuation Reserve’ of ₹ 20,000 at the time of change in profit-sharing ratio, when investment (market value ₹ 95,000) appears in the books at ₹ 1,00,000.

**Solution:**

| Journal | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| | Investment Fluctuation Reserve A/c | Dr. | | 5,000 | |
| | To Investments A/c | | | | 5,000 |
| | (Adjustment for investment value decrease) | | | | |
| | Investment Fluctuation Reserve A/c | Dr. | | 15,000 | |
| | To A's Capital A/c | | | | 7,500 |
| | To B's Capital A/c | | | | 4,500 |
| | To C's Capital A/c | | | | 3,000 |
| | (Balance adjustment in Investment Fluctuation Reserve A/c in old ratio) | | | | |

**Working Notes:** Investment Fluctuation Reserve Evaluation

Credited amount to X's Capital A/c = 15,000 X 5/10 (Sacrifice) = ₹ 7,500

Credited amount to X's Capital A/c = 15,000 X 3/10 (Sacrifice) = ₹ 4,500

Credited amount to Z's Capital A/c = 15,000 X 2/10 (Sacrifice) = ₹ 3,000

**Question 18**

Nitin, Tarun and Amar are partners sharing profits equally and decide to share profits in the ratio of 2 : 2 : 1 w.e.f. 1st April, 2019. The extract of their Balance Sheet as at 31st March, 2019 is as follows:

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Investments Fluctuation Reserve | 60,000 | Investments (At Cost) | 4,00,000 |

Pass the Journal entries in each of the following situations:

(i) When its Market Value is not given;

(ii) When its Market Value is ₹ 4,00,000;

(iii) When its Market Value is ₹ 4,24,000;

(iv) When its Market Value is ₹ 3,70,000;

(v) When its Market Value is ₹ 3,10,000.

**Solution:**

| Journal | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credi ₹** |
| (i) | Investment Fluctuation Reserve A/c | Dr. | | 60,000 | |
| | To Nitin's Capital A/c | | | | 20,000 |
| | To Tarun's Capital A/c | | | | 20,000 |
| | To Amar's Capital A/c | | | | 20,000 |

| | | | | | |
|---|---|---|---|---|---|
| | (Being distribution of Investment Fluctuation Reserve) | | | | |
| (ii) | Investment Fluctuation Reserve A/c | Dr. | | 60,000 | |
| | To Nitin's Capital A/c | | | | 20,000 |
| | To Tarun's Capital A/c | | | | 20,000 |
| | To Amar's Capital A/c<br><br>(Being distribution of Investment Fluctuation Reserve) | | | | 20,000 |
| (iii) | Investment Fluctuation Reserve A/c | Dr. | | 60,000 | |
| | To Nitin's Capital A/c | | | | 20,000 |
| | To Tarun's Capital A/c | | | | 20,000 |
| | To Amar's Capital A/c | | | | 20,000 |
| | (Investment Fluctuation Reserve distributed) | | | | |
| | Investments A/c | Dr. | | 24,000 | |
| | To Revaluation A/c | | | | 24,000 |
| | (Investments revalued) | | | | |
| | Revaluation A/c | Dr. | | 24,000 | |
| | To Nitin's Capital A/c | | | | 8,000 |
| | To Tarun's Capital A/c | | | | 8,000 |
| | To Amar's Capital A/c | | | | 8,000 |
| | (Revaluation profit transferred to Partners' Capital A/c) | | | | |
| (iv) | Investment Fluctuation Reserve A/c | Dr. | | 60,000 | |
| | To Investment A/c | | | | 30,000 |
| | To Nitin's Capital A/c | | | | 10,000 |
| | To Tarun's Capital A/c | | | | 10,000 |
| | | | | | 10,000 |
| | (Investment Fluctuation Reserve distributed) | | | | |
| (v) | Investment Fluctuation Reserve A/c | Dr. | | 60,000 | |
| | Revaluation A/c | Dr. | | 30,000 | |
| | To Investment A/c<br><br>(Decrease in investments set off against IFR and balance debited to Revaluation A/c) | | | | 90,000 |
| | Nitin's Capital A/c | Dr. | | 10,000 | |
| | Tarun's Capital A/c | Dr. | | 10,000 | |
| | Amar's Capital A/c | Dr. | | 10,000 | |
| | To Revaluation A/c | | | | 30,000 |
| | (Loss on revaluation transferred to Partners' Capital A/c) | | | | |

## Question 19

X and Y are partners sharing profits in the ratio of 2 : 1. On 31st March, 2019, their Balance Sheet showed General Reserve of ₹ 60,000. It was decided that in future they will share profits and losses in the ratio of 3 : 2. Pass necessary Journal entry in each of the following alternative cases:

(i) When General Reserve is not to be shown in the new Balance Sheet.

(ii) When General Reserve is to be shown in the new Balance Sheet.

**Solution:**

(i) If they do not want to show General Reserve in the new Balance Sheet

| **Journal** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| April 1 | General Reserve A/c | Dr. | | 60,000 | |
| | To X's Capital A/c | | | | 40,000 |
| | To Y's Capital A/c | | | | 20,000 |
| | (Being balance adjustment in General Reserve A/c in old ratio) | | | | |

**Working Notes:** General Reserve A/c Evaluation

Share of X = 60,000 X 2/3 (Sacrifice) = ₹ 40,000

Share of Y = 60,000 X 1/3 (Sacrifice) = ₹ 20,000

(ii) If they want to show General Reserve in the new Balance Sheet

| **Journal** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| April 1 | Y's Capital A/c | Dr. | | 4,000 | |
| | To X's Capital A/c | | | | 4,000 |
| | (Being balance adjustment in General Reserve A/c in sacrificing/gaining ratio) | | | | |

**Working Notes 1 :** General Reserve A/c in Sacrificing/Gaining Ratio Evaluation

Sacrificing Ratio = Old Ratio − New Ratio

X's share = 2/3 − 3/5 = 1/15 (Sacrifice)

Y's share = 1/3 − 2/5 = − 1/15 (Gain)

**Working Notes 2 :** Compensation by Y to X Evaluation

Amount to be compensated = 60,000 X 1/15 = ₹ 4,000

## Question 20

Bhavya and Sakshi are partners in a firm, sharing profits and losses in the ratio of 3 : 2. On 31st March, 2018 their Balance Sheet was as under:

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Sundry Creditors | 13,800 | Furniture | 16,000 |
| General Reserve | 23,400 | Land and Building | 56,000 |
| Investment Fluctuation Fund | 20,000 | Investments | 30,000 |
| Bhavya's Capital | 50,000 | Trade Receivables | 18,500 |
| Sakshi's Capital | 40,000 | Cash in Hand | 26,700 |
| | 1,47,200 | | 1,47,200 |

The partners have decided to change their profit sharing ratio to 1 : 1 with immediate effect. For the purpose, they decided that:

(i) Investments to be valued at ₹ 20,000.

(ii) Goodwill of the firm is valued at ₹ 24,000.

(iii) General Reserve not to be distributed between the partners.

You are required to pass necessary Journal entries in the books of the firm. Show workings.

**Solution:**

| **Bhavya and Sakshi Journal** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| 31 March | Investment Fluctuation Fund A/c | Dr. | | 20,000 | |
| | To Investments A/c | | | | 10,000 |
| | To Bhavya's Capital A/c | | | | 6,000 |
| | To Sakshi's Capital A/c | | | | 4,000 |
| | (Being adjustment in the market value of investment and distributed excess amount) | | | | |
| 31 March | Sakshi's Capital A/c (24,000×1/10) | Dr. | | 2,400 | |
| | To Bhavya's Capital A/c (24,000×1/10) | | | | 2,400 |
| | (Being goodwill adjustment after profit-sharing ratio change) | | | | |
| 31 March | Sakshi's Capital A/c (23,400×1/10) | Dr. | | 2,340 | |
| | To Bhavya's Capital A/c (23,400×1/10) | | | | 2,340 |
| | (Being general reserve adjustment not distributed) | | | | |

Working Notes:

| Particulars | Bhavya | Sakshi |
|---|---|---|
| Old Ratio | 3/5 | 2/5 |
| New Ratio | 1/2 | 1/2 |
| Gain/Sacrifice | (3/5 – 1/2)= 1/10 (Sacrifice) | (2/5 – 1/2)= (-1/10) (Gain) |

**Question 21**

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, 2019. 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 .

**Solution:**

| **Journal** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| April 1 | Z's Capital A/c | Dr. | | 760 | |
| | To X's Capital A/c | | | | 760 |
| | (Adjustment of revaluation profit made) | | | | |

**Working Notes 1:** Net Profit or Loss Revaluation Evaluation

| **Particulars** | **Amount ₹** |
|---|---|
| Increase in Investment | 3,000 (Cr.) |
| Decrease in Plant and Machinery | (5,000) (Dr.) |
| Increase in Land and Building | 10,000 (Cr.) |
| Increase in Outstanding Expenses | (400) (Dr.) |
| Decrease in Sundry Debtors | (10,000) (Dr.) |
| Decrease in Trade Creditors | 10,000 (Cr.) |
| Profit on Revaluation | 7,600 (Cr.) |

**Working Notes 2:** Sacrificing or Gaining Ratio

Old Ratio (X,Y, and Z) = 5:3:2

New Ratio (X,Y, and Z) = 4:3:3

Sacrificing or Gaining Ratio = Old Ratio – New Ratio

X's share = 5/10 – 4/10 = 1/10 (Sacrifice)

Y's share = 3/10 – 3/10 = 0

Z's share = 2/10 – 3/10 = −1/10 (Gain)

**Working Notes 3:** Revaluation Profit Evaluation

Credited amount to X = 7,600 X 1/10 = ₹ 760

Credited amount to X = 7,600 X 1/10 = ₹ 760

**Question 22**

Ashish, Aakash and Amit are partners sharing profits and losses equally. The Balance Sheet as at 31st March, 2019 was as follows:

| | | | | |
|---|---|---|---|---|
| **Liabilities** | | **₹** | **Assets** | **₹** |
| Sundry Creditors | | 75,000 | Cash in Hand | 24,000 |
| General Reserve | | 90,000 | Cash at Bank | 1,40,000 |
| Capital A/cs: | | | Sundry Debtors | 80,000 |
| Ashish | 3,00,000 | | Stock | 1,40,000 |
| Aakash | 3,00,000 | | Land and Building | 4,00,000 |
| Amit | 2,75,000 | 8,75,000 | Machinery | 2,50,000 |
| | | | Advertisement Suspense | 6,000 |
| | | | | |
| | | 10,40,000 | | 10,40,000 |

The partners decided to share profits in the ratio of 2 : 2 : 1 w.e.f. 1st April, 2019. They also decided that:

(i) Value of stock to be reduced to ₹ 1,25,000.

(ii) Value of machinery to be decreased by 10%.

(iii) Land and Building to be appreciated by ₹ 62,000.

(iv) Provision for Doubtful Debts to be made @ 5% on Sundry Debtors.

(v) Aakash was to carry out the reconstitution of the firm at a remuneration of ₹ 10,000.

Pass necessary Journal entries to give effect to the above.

**Solution:**

| **Journal** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| April 1 | General Reserve A/c | Dr. | | 90,000 | |
| | To Ashish’s Capital A/c | | | | 30,000 |
| | To Akash’s Capital A/c | | | | 30,000 |
| | To Amit’s Capital A/c | | | | 30,000 |
| | (Distributed Reserve) | | | | |
| April 1 | Ashish’s Capital A/c | Dr. | | 2,000 | |
| | Akash’s Capital A/c | Dr. | | 2,000 | |
| | Amit’s Capital A/c | Dr. | | 2,000 | |
| | To Advertisement Suspense A/c<br><br>(Distributed Advertisement Suspense) | | | | 6,000 |

| | | | | | |
|---|---|---|---|---|---|
| April 1 | Revaluation A/c | Dr. | | 54,000 | |
| | To Stock A/c | | | | 15,000 |
| | To Machinery A/c | | | | 25,000 |
| | To Provision for Doubtful Debts A/c | | | | 4,000 |
| | To Akash's Capital A/c (Remuneration)<br><br>(Revalued Assets) | | | | 10,000 |
| April 1 | Land & Building A/c | Dr. | | 62,000 | |
| | To Revaluation A/c | | | | 62,000 |
| | (Revalued Assets) | | | | |
| April 1 | Revaluation A/c | Dr. | | 8,000 | |
| | To Ashish's Capital A/c | | | | 2,666 |
| | To Akash's Capital A/c | | | | 2,666 |
| | To Amit's Capital A/c | | | | 2,667 |
| | (Profit made) | | | | |

**Question 23**

A, B and C are partners sharing profits and losses in the ratio of 5 : 3 : 2. Their Balance Sheet as at 31st March, 2019 stood as follows:

| **Liabilities** | | **Amount ₹** | **Assets** | **Amount ₹** |
|---|---|---|---|---|
| Capital A/cs: | | | Land and Building | 3,50,000 |
| A | 2,50,000 | | Machinery | 2,40,000 |
| B | 2,50,000 | | Computers | 70,000 |
| C | 2,00,000 | 7,00,000 | Investments | 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, 2019. They also agreed that:

(i) Value of Land and Building be decreased by 5%.

(ii) Value of Machinery has increased by 5%.

(iii) A Provision for Doubtful Debts be created @ 5% on Sundry Debtors.

(iv) A Motorcycle 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.

(vi) Goodwill is to be valued at 2 years' purchase of last 3 years profits. Profits being for 2018-19 – ₹ 50,000 (Loss); 2017-18 – ₹ 2,50,000 and 2016-17 – ₹ 2,50,000.

(vii) C 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.

**Solution:**

| **Journal** | | | | | |
|---|---|---|---|---|---|
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| April 1 | General Reserve A/c | Dr. | | 60,000 | |
| | To A's Capital A/c | | | | 30,000 |
| | To B's Capital A/c | | | | 18,000 |
| | To C's Capital A/c | | | | 12,000 |
| | (Distributed Reserve) | | | | |
| | A's Capital A/c | Dr | | 2,500 | |
| | B's Capital A/c | Dr. | | 1,500 | |
| | C's Capital A/c | Dr. | | 1,000 | |
| | To Advertisement Suspense A/c | | | | 5,000 |
| | (Distributed Advertisement Suspense) | | | | |
| | Investment Fluctuation Reserve A/c | Dr. | | 30,000 | |
| | To Investment A/c | | | | 10,000 |
| | To A's Capital A/c | | | | 10,000 |
| | To B's Capital A/c | | | | 6,000 |
| | To C's Capital A/c | | | | 4,000 |
| | (Distributed Investment Fluctuation Reserve) | | | | |
| | Machinery A/c | Dr. | | 12,000 | |
| | Motorcycle A/c | Dr. | | 20,000 | |
| | Creditors A/c | Dr. | | 10,000 | |
| | To Revaluation A/c<br><br>(Revalued Assets) | | | | 42,000 |
| | Revaluation A/c | | | 25,000 | |
| | To Land & Building A/c | | | | 17,500 |
| | To Provision for Doubtful Debts A/c | | | | 2,500 |
| | To Bank A/c (Remuneration)<br><br>(Revalued Assets) | | | | 5,000 |
| | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| | Revaluation A/c | | | 17,000 | |
| | To A’s Capital A/c | | | | 8,500 |
| | To B’s Capital A/c | | | | 5,100 |
| | To C ’s Capital A/c | | | | 3,400 |
| | (Being Profit on revaluation transferred to Partners’ Capital A/c) | | | | |
| | B’s Capital A/c | Dr. | | 10,000 | |
| | C ’s Capital A/c | Dr. | | 40,000 | |
| | To A’s Capital A/c<br><br>(Adjusted Goodwill) | | | | |

| Revaluation A/c | | | | |
|---|---|---|---|---|
| Dr. | | | | Cr. |
| Particulars | | Amount (₹) | Particulars | Amount (₹) |
| Land & Building A/c | | 17,500 | Machinery A/c | 12,000 |
| Provision for Doubtful Debts A/c | | 2,500 | Motorcycle A/c | 20,000 |
| Bank A/c (Remuneration) | | 5,000 | Creditors A/c | 10,000 |
| Profit transferred to: | | | | |
| A | 8,500 | | | |
| B | 5,100 | | | |
| C | 3,400 | 17,000 | | |
| | | 42,000 | | 42,000 |

**Working Note 1:** Sacrificing or Gaining Ratio

Old Ratio (A:B:C) = 5:3:2

New Ratio (A:B:C) = 1:1:1

Sacrificing or Gaining Ratio = Old Ratio – New Ratio

A’s share = 5/10 – 1/3 = 15−10/30 = 5/30 (Sacrifice)

B’s share = 3/10 – 1/3 = 9−1030 = 1/30 (Gain)

C’s share = 2/10 – 1/3 = 6−10/30 = 4/30 (Gain)

**Working Notes 2:** Goodwill Evaluation

Goodwill = Average Profit X No. of Years Purchased

= 1,50,000 X 3 = 3,00,000

**Working Notes 3:** Goodwill Adjustment Evaluation

Credited amount to A = 3,00,000 X 5/30 = ₹ 50,000

Debited amount to B = 3,00,000 X 1/30 = ₹ 10,000

Debited amount to C = 3,00,000 X 4/30 = ₹ 40,000

**Question 24**

A, B and C are sharing profits and losses in the ratio of 2 : 2 : 1. They decided to share profit w.e.f. 1st April, 2019 in the ratio of 5 : 3 : 2. They also decided not to change the values of assets and liabilities in the books of account. The book values and revised values of assets and liabilities as on the date of change were as follows:

| | Book values (₹) | Revised values (₹) |
|---|---|---|
| Machinery | 2,50,000 | 3,00,000 |
| Computers | 2,00,000 | 1,75,000 |
| Sundry Creditors | 90,000 | 75,000 |
| Outstanding Expenses | 15,000 | 25,000 |

Pass an adjustment entry.

**Solution:**

| | | | | | |
|---|---|---|---|---|---|
| **Journal** | | | | | |
| **Date** | **Particulars** | | **L.F.** | **Debit ₹** | **Credit ₹** |
| 2019 | | | | | |
| April 1 | A’s Capital A/c<br>(30,000X 1/10 = 3,000 | Dr. | | 3,000 | |
| | To B’s Capital A/c | | | | 3,000 |
| | (Being entry adjustment for change in ratio) | | | | |
| | | | | | |

**Working Note 1:** Sacrificing or Gaining Ratio

Old Ratio (A:B:C) = 2:2:1

New Ratio (A:B:C) = 5:3:2

Sacrificing or Gaining Ratio = Old Ratio – New Ratio

A’s share = 2/5 – 5/10 = – 4−5/10 = 1/10 (Gain)

B’s share = 2/5 – 3/10 = 4−3/10 = 1/10 (Sacrifice)

C’s share = 1/5 – 2/10 = 2−2/10 = 0

**Question 25**

X, Y and Z are partners sharing profits and losses in the ratio of 7 : 5 : 4. Their Balance Sheet as at 31st March, 2019 stood as:

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital A/cs: | | | Sundry Assets | 7,00,000 |
| X | 2,10,000 | | | |
| Y | 1,50,000 | | | |
| Z | 1,20,000 | 4,80,000 | | |
| General Reserve | | 65,000 | | |
| Profit and Loss A/c | | 25,000 | | |
| Creditors | | 1,30,000 | | |
| | | | | |
| | | 7,00,000 | | 7,00,000 |

Partners decided that with effect from 1st April, 2019, they will share profits and losses in the ratio of 3 : 2 : 1. For this purpose, the 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 Balance Sheet of the constituted firm.

**Solution:**

Journal

| Date | Particulars | | L.F. | Debit Amount (₹) | Credit Amount (₹) |
|---|---|---|---|---|---|
| April 1 | X's Capital A/c | Dr. | | 15,000 | |
| | Y's Capital A/c | Dr. | | 5,000 | |
| | To Z's Capital A/c | | | | 20,000 |
| | (Goodwill, General Reserve and Profit and Loss Account Adjustment made on change in profit sharing ratio) | | | | |
| | | | | | |

**Balance Sheet as on April 1st, 2019**

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Capital A/c s: | | | Sunday Assets | 7,00,000 |
| X | 1,95,000 | | | |
| Y | 1,45,000 | | | |
| Z | 1,40,000 | 4,80,000 | | |
| General Reserve | | 65,000 | | |
| Profit and Loss A/c | | 25,000 | | |
| Creditors | | 1,30,000 | | |
| | | 7,00,000 | | 7,00,000 |
| | | | | |

**Working Note 1:** Sacrificing or Gaining Ratio

Old Ratio (X:Y:Z) = 7:5:4

New Ratio (X:Y:Z) = 3:2:1

Sacrificing or Gaining Ratio = Old Ratio – New Ratio

X’s share = 7/16 – 3/6 = – 21−24/48 = −3/48 (Gain)

Y’s share = 5/16 – 2/6 = 15−16/48 = −1/48 (Gain)

Z’s share = 4/16 – 1/16 = 12−8/48 = 4/48 (Sacrifice)

**Working Note 2:** Reserve , Profit & Loss, Goodwill Adjustment

Total amount adjusted = Reserve + Profit & Loss + Goodwill Adjustment

= 65,000 + 25,000 + 1,50,000 = ₹ 2,40,000

Debited amount to X’s Capital = 2,40,000 X 3/48 = ₹ 15,000

Debited amount to Y’s Capital = 2,40,000 X 1/48 = ₹ 5,000

Credited amount to Z’s Capital = 2,40,000 X 4/48 = ₹ 20,000

**Working Note 3:**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Partners’ Capital Accounts | | | | | | | |
| Dr. | | | | | | | Cr. |
| Particulars | X | Y | Z | Particulars | X | Y | Z |
| Z’s Capital A/c | 15,000 | 5,000 | – | Balance b/d | 2,10,000 | 1,50,000 | 1,20,000 |
| | | | | X’s Capital A/c | – | – | 15,000 |
| | | | | Y’s Capital A/c | – | – | 5,000 |
| Balance c/d | 1,95,000 | 1,45,000 | 1,40,000 | | | | |
| | 2,10,000 | 1,50,000 | 1,40,000 | | 2,10,000 | 1,50,000 | 1,40,000 |