

**CHAPTER- 7 /CHANGE IN PROFIT SHARING RATIO; PARTNERSHIP ACCOUNTING**

**EXAMPLE-1** The balance sheet of A, B & C partnership sharing ratio 2:2:1 is as follows :

BALANCE SHEET AS ON 31.3.20

Capital Account-A	20000	Land & building	20000
B	10000	Plant & machinery	8000
C	6000	Stock	11000
General Reserve	10000	Debtors	6200
Creditors	5000	Bills receivable	4000
		Cash at bank	1800
	51000		51000

The partners agreed to change their profit sharing ratio to 3:2:1 with the following effect:-

- Revaluation of land & building 29000, stock 10000, sundry debtors 5400, plant & machinery 7000. The goodwill of the firm is valued at 30000.
- Policy value of JLP 30000 being surrender value 7800.
- The partners do not want to alter the book value of the assets but record the change by passing single journal entry through capital account.

**SOL.** Working -1,

Memorandum Revaluation A/c

To stock	1000	By land & building	9000
To provision for doubtful debt	800		
To Plant & machinery a/c	1000		
To profit on revaluation	6200		
	9000		

Working 2.... Amount available for capital adjustment= profit on revaluation + general reserve + S.V of JLP +value of goodwill = 6200+10000+7800+30000=54000

Working -3

Right for adjustment before changes (psr=2:2:1)-----54000	21600	21600	10800
Share for adjustment after changes (new psr; 3:2:1---54000	27000	18000	9000
Balance [+] gain /[-] loss	5400	-3600	-1800

**JOURNAL** A's capital account Dr. ..5400 To Y'capital...3600 To Z' capital ....1800