

ANSWERS

1. MULTIPLE CHOICE QUESTIONS

1. (3) **Explanation:** Sacrificing Ratio is the ratio in which one or more partners of the firm forego, *i.e.*, sacrifice their profit share(s) in favor of one or more partners of the firm. Since the profit share is reduced from the existing profit share, it is termed as Sacrificing Ratio. One or more partners may gain profit-share on sacrifice of profit-share by other partner or partners.
Thus, on change in profit-sharing both Sacrificing Ratio and Gaining Ratio are computed.
2. (4) **Explanation:** Assets sold at their book value does not result in gain (profit) or loss. Hence, it is not required to be addressed at the time of change in profit-sharing ratio amongst partners.
3. (3) **Explanation:** Sacrificing Ratio is the profit share foregone (sacrifice made) by one or more existing partners in favour of one or more existing partners. It is the difference between Old Profit Share and New Profit Share of the partners.
4. (3) **Explanation:** Gaining Ratio is the increase in profit share of one or more partners because of change in profit-sharing ratio that may have resulted due to change in profit-sharing ratio among partners, admission of a partner, retirement, or death of a partner.
Thus, it is the difference between New Profit-Sharing Ratio and Old Profit-Sharing Ratio.
5. (1) **Explanation:**
Anil's new Profit Share = $4/7$
Anil's old Profit Share = $1/2$
Difference between new Profit Share and old Profit Share = $4/7 - 1/2 = 1/14$
Hence, Anil's Gain = $1/14$.
6. (2) **Explanation:** Raj's new Profit Share = Old Profit Share – Profit Share sacrificed = $5/10 - 1/10 = 4/10$
Manoj's new Profit Share = Old Profit Share – Profit Share sacrificed = $3/10 - 1/10 = 2/10$
Sanjay's new Profit Share = Old Profit Share + Profit Share gained from Raj and Manoj
 $= 2/10 + 1/10 + 1/10 = 4/10$
Hence, New Profit-sharing Ratio = 4 : 2 : 4 or 2 : 1 : 2.
7. (2) **Explanation:** Saksham's Old Profit Share and new Profit Share is not affected, *i.e.*, is $3/10$.
8. (4) **Explanation:**
Old Profit Share (Raju : Gaurav) = 2 : 1
New Profit Share (Raju : Gaurav) = 1 : 1
Change in Profit Sharing Ratio:
Raju's Sacrifice/Gain = New Profit Share – Old Profit Share = $1/2 - 2/3 = -1/6$ or $(1/6)$ (Sacrifice)
Gaurav's Sacrifice/Gain = New Profit Share – Old Profit Share = $1/2 - 1/3 = 1/6$ (Gain)
Raju sacrifices $1/6$ share and Gaurav gains $1/6$ share.
9. (3) **Explanation:** Old Profit Sharing Ratio (Seema: Ritu) = 3 : 2
New Profit Sharing Ratio (Seema: Ritu) = 1 : 1
Change in Profit Sharing Ratio:
Seema = New Profit Share – Old Profit Share = $1/2 - 3/5 = -1/10$ (Sacrifice)
Ritu = New Profit Share – Old Profit Share = $1/2 - 2/5 = 1/10$ (Gain)
Seema sacrifices $1/10$ share and Ritu gains $1/10$ share.
10. (1) **Explanation:** Rajan's Gain = New Profit Share – Old Profit Share
 $= 1/3 - 1/4 = (4 - 3)/12 = 1/12$
11. (4) **Explanation:** Sacrifice/Gain = New Profit Share – Old Profit Share
Neha = $3/6 - 5/10 = \text{Nil}$
Nisha = $2/6 - 3/10 = 1/30$
Yamini = $1/6 - 2/10 = -1/30$
Thus, Neha neither sacrificed nor gained, Nisha gained $1/30$ th share and Yamini sacrificed $1/30$ th share.

2. Calculation of Sacrificed/Gained share of each Partner in General Reserve, Accumulated Profits and Fictitious Asset:

$$\text{Net Effect} = \text{Profit \& Loss A/c} + \text{General Reserve} - \text{Fictitious Asset (Advertisement Suspense)}$$

$$= ₹ 15,000 + ₹ 60,000 - ₹ 30,000 = ₹ 45,000.$$

$$\text{Good's Sacrificed share} = ₹ 45,000 \times 3/10 = ₹ 13,500;$$

$$\text{Best's Gained share} = ₹ 45,000 \times 3/10 = ₹ 13,500.$$

Note: When it is not mentioned in the question the balance of Profit & Loss A/c is debit or credit, it is assumed to be Credit balance.

25. (2) **Explanation:** Partnership agreement defines the terms of relationship among the partners and whenever there is a change in the terms of partnership agreement, it results in reconstitution of the firm.
26. (4) **Explanation:** Profit shares of Raghu and Gagan are affected, and Dev's share remains unchanged. It is established from the following calculations:

Particulars	Raghu	Dev	Gagan
I. Old Profit Share	5/10	4/10	1/10
II. New Profit Share	1/10	4/10	5/10
III. Sacrifice/(Gain) (I – II)	4/10 (Sacrifice)	...	(4/10) (Gain)

27. (3) **Explanation:** New profit-sharing ratio is 8 : 5 : 7, calculated as follows:

Particulars	Amar	Manoj	Vivek
I. Old Profit Share	5/10	3/10	2/10
II. Sacrifice/Gain	(1/5 × 5/10), i.e., 1/10	(1/6 × 3/10), 1/20	(1/10 + 1/20), 3/20
III. New Profit Share (I –/+ II)	5/10 – 1/10, 4/10 or 8/20	3/10 – 1/20, 5/20	2/10 + 3/20, 7/20

28. (4) **Explanation:** New profit-sharing ratio among Naman, Suchi and Kamal will be 3 : 2 : 9, calculated as follows:

Particulars	Naman	Suchi	Kamal
I. Old Profit Share	4/9	3/9	2/9
II. Sacrifice/Gain	(1/9)	(1/9)	1/9 + 1/9
III. New Profit Share (I –/+ II)	3/9	2/9	4/9

29. (1) **Explanation:** Manya has sacrificed 1/14th profit share and Sanya has gained the sacrificed profit share. Hence, Sanya will compensate Manya by paying ₹ 12,500 (1/14 × ₹ 1,75,000). Sacrificing ratio is calculated as follows:

Calculation of Sacrifice/(Gain) of each Partner:

Particulars	Manya	Sanya
I. Old Profit Share	4/7	3/7
II. New Profit Share	1/2	1/2
III. Sacrifice/(Gain) (I – II)	1/14 (Sacrifice)	(1/14) (Gain)

30. (4) **Explanation:** Ankit has sacrificed 1/9th profit share and Harshit has gained while profit share of Anil has not changed. Hence, Harshit compensates Ankit by paying Goodwill of ₹ 12,000. Hence, the journal entry. Sacrificed and Gained profit share is calculated as follows:

Calculation of Sacrifice/(Gain) of each Partner:

Particulars	Ankit	Anil	Harshit
I. Old Profit Share	4/9	3/9	2/9
II. New Profit Share	1/3	1/3	1/3
III. Sacrifice/(Gain) (I – II)	1/9 (Sacrifice)	...	(1/9) (Gain)

31. (1) **Explanation:** It is written off by debiting Partners' Capital or Current Accounts in their Old Profit-Sharing Ratio because it is a loss (but written off in more than one accounting period) incurred before the change in profit-sharing ratio.

32. (1) **Explanation:** Chavi's Capital Account will be debited by ₹ 13,500 (3/10 × ₹ 45,000) as she has gained 3/10th profit share.

33. (4) **Explanation:** The changed values of assets liabilities are brought in the books of account through Revaluation Account, unless the partners decide not to affect the current values. If the partners decide not to affect the current values, it is adjusted by passing a single Journal entry for the net effect.

- 34. (1) Explanation:** If Revaluation Account is not prepared, it means an adjustment entry is passed for the net effect of the change in values of assets and liabilities by debiting (Gaining Partners' Capital Accounts) and crediting (Sacrificing Partners' Capital Accounts) Capital Accounts of partners. As a result, assets and liabilities are shown in the books of the firm at their original values.
- 35. (2) Explanation:** When Partners decide to give effect of revaluation of assets and reassessment of liabilities without changing the values of assets and liabilities, they may prepare either a statement to determine the net effect of change in values of assets and liabilities or prepare Memorandum Revaluation Account. Memorandum Revaluation Account has two parts, first part shows the gain (profit) or loss which is shared by the partners in their old profit-sharing ratio and the second part the entries passed in the first part of Memorandum Revaluation Account are reversed, which is shared by the partners in their new profit-sharing ratio.
- 36. (1) Explanation:** Sashi has gained 2/6th profit share while Mona has sacrificed it. The net effect of the above three entries (₹ 30,000) loss. Hence, Mona's Capital Account will be debited and Sashi's Capital Account will be credited. The Gaining/Sacrificing Ratio is calculated as follows:

Particulars	Sashi	Shakti	Mona
I. Old Profit Share	1/6	2/6	3/6
II. New Profit Share	3/6	2/6	1/6
III. Sacrifice/(Gain) (I – II)	(2/6) (Gain)	...	2/6 (Sacrifice)

- 37. (4) Explanation:** Journal entry will not be passed since the net effect of the three entries is nil.
- 38. (3) Explanation:** Maaz's Capital Account will be debited by ₹ 8,000 (2/24 of ₹ 96,000) and Capital Accounts of Raaz and Naaz will be credited by ₹ 4,000 each since Maaz has sacrificed and Advertisement Suspense Account is a loss. Gaining / Sacrificing Ratio is calculated as follows:

Particulars	Raaz	Naaz	Maaz
I. Old Profit Share	1/3	1/3	1/3
II. New Profit Share	3/8	3/8	2/8
III. Sacrifice/(Gain) (I – II)	3/8 – 1/3	3/8 – 1/3	2/8 – 1/3
	1/24 (Gain)	1/24 (Gain)	(2/24) (Sacrifice)

- 39. (1) Explanation:** Provision for Doubtful Debts has credit balance. It will be debited by ₹ 12,000 when it is brought down to ₹ 20,000. Revaluation Account will be credited since Provision for Doubtful Debts is Written Back.
- 40. (3) Explanation:** Calculation of Total Capital of the new firm:

$$\text{Total Capital} = ₹ 1,47,500 + ₹ 75,000 + ₹ 27,500 = ₹ 2,50,000$$

Calculation of New Capital of all Partners:

$$\text{Parth} = ₹ 2,50,000 \times 2/10 = ₹ 50,000$$

$$\text{Raman} = ₹ 2,50,000 \times 3/10 = ₹ 75,000$$

$$\text{Zaisha} = ₹ 2,50,000 \times 5/10 = ₹ 1,25,000$$

- 41. (4) Explanation:** Calculation of Total Capital of the new firm:
- (i) Total Capital of New Firm = ₹ 3,54,000 + ₹ 1,80,000 + ₹ 66,000 = ₹ 6,00,000
- (ii) Calculation of New Capitals of the Partners:
- Nirmal: ₹ 6,00,000 X 2/10 = ₹ 1,20,000
- Rajeev: ₹ 6,00,000 X 3/10 = ₹ 1,80,000
- Rajesh: ₹ 6,00,000 X 5/10 = ₹ 3,00,000
- (iii) Calculation of (Actual cash to be paid off) or brought in by partners:

	Nirmal (₹)	Rajeev (₹)	Rajesh (₹)
New Capitals	1,20,000	1,80,000	3,00,000
Adjusted Capitals	3,54,000	1,80,000	66,000
Amount brought/(Paid)	(2,34,000)	Nil	2,34,000

2. CASE STUDY BASED MCQS

1. A. 2. Sacrificing Ratio = Old Profit Share – New Profit Share
 Rana = $5/10 - 1/3 = 5/30$ (Sacrifice)
 Manas = $3/10 - 1/3 = -1/30$ (Gain)
 Sanya = $2/10 - 1/3 = -4/30$ (Gain)
- B. 4. **Explanation:** General Reserve will be distributed among all partners in their old profit-sharing ratio, it will be credited to their Capital Accounts as follows:
 Rana = ₹ 4,50,000 × 5/10 = ₹ 2,25,000
 Manas = ₹ 4,50,000 × 3/10 = ₹ 1,35,000
 Sanya = ₹ 4,50,000 × 2/10 = ₹ 90,000
- C. 2. **Explanation:** Since there is no claim on account of Workmen Compensation, the Workmen Compensation Reserve is distributed among all partners in their old profit-sharing ratio.
 Rana = ₹ 1,80,000 × 5/10 = ₹ 90,000
 Manas = ₹ 1,80,000 × 3/10 = ₹ 54,000
 Sanya = ₹ 1,80,000 × 2/10 = ₹ 36,000
- D. 1. **Explanation:** Goodwill valued at the reconstitution of firm is adjusted among the partners in Sacrificing/Gaining Ratio by Crediting the Sacrificing Partner and Debiting the Gaining Partner.
 Manas's Capital A/c = ₹ 6,00,000 × 1/30 = ₹ 20,000 Dr.
 Sanya's Capital A/c = ₹ 6,00,000 × 4/30 = ₹ 80,000 Dr.
 Rana's Capital A/c = ₹ 6,00,000 × 5/30 = ₹ 1,00,000 Cr.
2. A. 1. **Explanation:** Goodwill = Average Profit* × No. of Years' Purchase
 Goodwill = ₹ 1,00,000 × 3 = ₹ 3,00,000.
 *Average Profit = Total Profits/Number of Years
 Average Profit = (₹ 75,000 + ₹ 1,00,000 + ₹ 1,25,000 + ₹ 85,000 + ₹ 1,15,000)/5
 = ₹ 5,00,000/5 = ₹ 1,00,000.
- B. 1. **Explanation:** Since the partners have decided to carry forward the Workmen Compensation Reserve in the Balance Sheet of the reconstituted firm, it is adjusted among the partners in their Sacrificing/Gaining ratio by Crediting the Sacrificing Partner and Debiting the Gaining Partner. The same will be as follows:
 Seema's Capital A/c = ₹ 5,00,000 × 1/10 = ₹ 50,000 Cr.
 Reema's Capital A/c = ₹ 5,00,000 × 1/10 = ₹ 50,000 Dr.
Sacrificing/Gaining Ratio:
 Seema = $1/2 - 2/5 = 1/10$ (Sacrifice)
 Reema = $1/2 - 3/5 = -1/10$ (Gain)
- C. 4. **Explanation:** If the Question is silent, Advertisement Suspense A/c is written off, i.e., debited to Capital Accounts of partners in old profit-sharing ratio.
The working shall be as follows:
 Seema's Capital A/c = ₹ 2,00,000 × 1/2 = ₹ 1,00,000;
 Reema's Capital A/c = ₹ 2,00,000 × 1/2 = ₹ 1,00,000.
- D. 3. **Explanation:** Goodwill valued at the reconstitution of the firm is adjusted among the partners in Sacrificing/Gaining ratio by Crediting the Sacrificing Partner and Debiting the Gaining Partner.
 Reema's Capital A/c = ₹ 3,00,000 × 1/10 = ₹ 30,000 Dr.
 Seema's Capital A/c = ₹ 3,00,000 × 1/10 = ₹ 30,000 Cr.
3. A. 4. **Explanation:** Advertisement Suspense Account is written off, i.e., debited among partners in old profit-sharing ratio, it being a loss for the period before the change in profit-sharing ratio.
 Thus,
 Manikandan's Capital A/c will be debited by ₹ 45,000 (₹ 1,20,000 × 3/8 = ₹ 45,000) and
 Sundaram's Capital A/c will be debited by ₹ 75,000 (₹ 1,20,000 × 5/8 = ₹ 75,000).

- B. 2. **Explanation:** Goodwill = Average Profits × No. of Years' Purchase
Average Profits = Total Profits/No. of years
Average Profits = $(-₹ 10,000 + ₹ 75,000 + ₹ 55,000 + ₹ 35,000 + ₹ 70,000)/5$
 $= ₹ 2,25,000/5 = ₹ 45,000$, Goodwill = $₹ 45,000 \times 2 = ₹ 90,000$.
- C. 1. **Explanation:** Goodwill valued at the reconstitution of the firm is adjusted among the partners in Sacrificing/Gaining Ratio by Crediting the Sacrificing Partner and Debiting the Gaining Partner. Sacrificing/Gaining Ratio is determined by applying the formula:
New Profit Share – Old Profit Share
Manikandan's Gain = $2/5 - 3/8 = 1/40$
Sundaram's Sacrifice = $3/5 - 5/8 = (1/40)$
Thus,
Manikandan's Capital Account is debited by ₹ 2,250 ($₹ 90,000 \times 1/40 = ₹ 2,250$), and
Sundaram's Capital Account is credited by ₹ 2,250.
- D. 1. **Explanation:** When partners decide to carry the General Reserve forward in the Balance Sheet of the reconstituted firm, it means it will be adjusted among the partners in Sacrificing/Gaining Ratio by Crediting the Sacrificing Partner and Debiting the Gaining Partner.
4. A. 2. **Explanation:** If no claim exists against Workmen Compensation Reserve, total amount of the Reserve is transferred to the Partners' Capital Accounts in their old profit-sharing ratio.
- B. 1. **Explanation:** If no claim exists against Workmen Compensation Reserve, the total amount of the Reserve is transferred to the Partners' Capital Accounts in their old profit-sharing ratio (*i.e.*, 3 : 5).
Rayudu = $₹ 2,00,000 \times 3/8 = ₹ 75,000$
Rao = $₹ 2,00,000 \times 5/8 = ₹ 1,25,000$.
- C. 4. **Explanation:** It is a gain (profit) for the firm, hence will be credited to Revaluation Account. The Journal entry for recording an unrecorded asset (furniture) shall be:

Computer Equipment A/c	...Dr.	₹ 75,000
To Revaluation A/c		₹ 75,000
- D. 2. **Explanation:** It is a loss for the firm hence, will be debited to Revaluation Account. The Journal entry for recording an unrecorded liability (outstanding salary) shall be:

Revaluation A/c	...Dr.	₹ 30,000
To Outstanding Salary A/c		₹ 30,000

3. SEQUENCE BASED MCQS

1. 4. **Explanation:** The correct order or sequence is as follows:
- Step 1:** Calculate the net effect of Reserves, Accumulated Profits and Losses, since this net amount is to be adjusted.
- Step 2:** Calculate the Gaining/Sacrificing ratio of each partner, *i.e.*, Sacrificing/(Gaining) Share = Old Share – New Share, since the net amount (as per Step 1) is debited/credited in Gaining/Sacrificing Ratio.
- Step 3:** Calculate share of Gaining/Sacrificing partners in net amount of Reserves, Accumulated Profits and Losses.
For Gaining Partner = Net effect in Step 1 × Gained Share
For Sacrificing Partner = Net effect in Step 1 × Sacrificed Share
- Step 4:** Pass the Following adjustment entry:

Gaining Partners' Capital/Current A/cs	...Dr.	
To Sacrificing Partners' Capital/Current A/cs		
(In Gaining Ratio)		

4. MATCHING QUESTIONS

1. 1. **Explanation:**

- A. General Reserve is accumulated profit since it is set aside from profits which belong to the partners in their old profit-sharing ratio. **[List II, Option (III)]**
- B. Employees Provident Fund is a liability of the firm and not a reserve. **[List II, Option (IV)]**
- C. Depreciation is provision since it is provided on estimate basis. **[List II, Option (II)]**
- D. Advertisement Suspense is Deferred Revenue Expenditure, it being an expense but written off in more than one accounting period. **[List II, Option (I)]**

2. 2. **Explanation:**

- A. Goodwill valued at the time of change in profit-sharing ratio is adjusted in Sacrificing Ratio because the Gaining Partners compensate the Sacrificing Partner or Partners. **[List II, Option (II)]**
- B. Goodwill existing in the books at the time of change in profit-sharing ratio is written off in the old profit-sharing ratio. **[List II, Option (I)]**
- C. Purchased goodwill is recognised in the books of accounts based on AS 26, Intangible Assets. **[List II, Option (IV)]**
- D. Self-generated goodwill not recognised in the books of accounts based on AS 26, Intangible Assets. **[List II, Option (V)]**

3. 4. **Explanation:**

- A. Provision for doubtful debts no longer required is credited to Revaluation Account, it being excess provision. **[List II, Option (III)]**
- B. Investment Fluctuation Reserve, when the book value and the market value of investment is same is credited to Partners' Capital Accounts in their old profit-sharing ratio. **[List II, Option (IV)]**
- C. Unrecorded bill for Damages being unrecorded loss is debited to Revaluation Account. **[List II, Option (I)]**
- D. Workmen compensation Reserve, when there is no claim is credited to Partners' Capital Accounts in their old profit-sharing ratio. **[List II, Option (IV)]**

4. 3. **Explanation:**

- A. Bad Debts Recovered is an income for the firm and therefore It is credited to Revaluation Account. **[List II, Option (III)]**
- B. Claim of Workmen Compensation if more than the Workmen Compensation Reserve, is debited to revaluation Account, it being a loss to the firm. **[List II, Option (I)]**
- C. General Reserve appearing in the books is credited to Partners' Capital Accounts, it being set aside from profits before the change in profit-sharing ratio. **[List II, Option (IV)]**
- D. Investment Fluctuation Reserve, when fall in market value of investment is same as Investment Fluctuation Reserve is transferred to Investment Account. **[List II, Option (V)]**

5. COMBINATION WITH SINGLE ANSWER QUESTIONS

1. 2. **Explanation:**

- A. Goodwill appearing in the books at the time of change in profit sharing ratio is written off by debiting Capital Account of Partners. Thus, it is not shown in Revaluation Account.
- B. Bad Debts Recovered is an increase in asset. It results in gain (profit) for the firm. Thus, it is credited to Revaluation Account.
- C. Provision for doubtful debts is an increase in liability. It results in loss to the firm. Thus, it is debited to Revaluation Account
- D. Unrecorded creditors is an increase in liability. It results in loss to the firm. Thus, it is debited to Revaluation Account.

2. 4. **Explanation:**

- A. Goodwill appearing in the books at the time of change in profit sharing ratio is written off by debiting capital accounts of partners. Thus, it will be appearing in Partner's Capital Account in the debit side.
- B. Accrued Income is an increase in asset. It is credited to Revaluation Account. Hence, it will not appear in the Partner's Capital Account.
- C. Investment Fluctuation Reserve, when the market value of investment is more than the book value as Investment Fluctuation Reserve becomes free reserve and will be credited to capital accounts of all partners in old ratio. Hence, it will appear in the Partner's Capital Account in the credit side.
- D. Unrecorded claim for damages is an increase in liability and a loss to the firm. It will not appear in Partner's Capital Account but will be debited to Revaluation Account.

3. 2. **Explanation:**

- A. Goodwill appearing in the books at the time of change in profit-sharing ratio will appear in Partner's Capital Account and not in Revaluation Account.
- B. Investment Fluctuation Reserve, when the book value and the market value of investment is same will appear in Partner's Capital Account and not in Revaluation Account.
- C. Investment Fluctuation Reserve, when the market value of investment is more than the book value as Investment Fluctuation Reserve becomes free reserve and will be credited to capital accounts of all partners in old ratio. Hence, it will appear in the Partner's Capital Account in the credit side and increase in market value over book value will be credited to revaluation Account.
- D. Claim of Workmen Compensation more than the Workmen Compensation Reserve will be shown in Revaluation Account. Excess claim over the reserve will be debited to Revaluation Account being a loss.

4. 2. **Explanation:** Debit balance in Profit & Loss Account is accumulated loss. General Reserve is amounts set aside out of profits, Goodwill valued at the time of change in profit-sharing ratio is for the purposes of compensation payable by the Gaining Partners to the Sacrificing Partner or Partners and Workmen Compensation Reserve is a reserve to be distributed among partners in their old profit-sharing ratio as there is no claim against the reserve.

5. 1. **Explanation:**

- A. General Reserve is set aside out of profits to meet any loss or to strengthen the financial position of the firm. Hence, it is not a loss to meet loss of particular nature.
- B. Deferred Revenue Expenditure is an expense that is written off in more than one accounting period. Hence, it is not a reserve.
- C. Debit balance in Profit & Loss Account is accumulated loss.
- D. Investment Fluctuation Reserve is set aside from profits to meet fall in the market value of investments. Thus, is a reserve to meet a loss of particular nature, *i.e.*, fall in the market value of investments.

6. 2. **Explanation:** All entries except (B), *i.e.*, Advertisement Suspense Account are reserves. Since they have credit balances, they are transferred to the credit of Partners' Capital Accounts.