

Chapter 3 · Change in Profit Sharing Ratio

CBSE Class 12 Accountancy (055) · Part A · Unit 1 = 36 marks · Ultimate Revision Sheet

60-SECOND RECALL

What happens	Existing partners change their ratio. No partner enters or leaves.
Sacrifice	Old Share – New Share (positive = sacrifice)
Gain	New Share – Old Share (positive = gain)
Total check	Total Sacrifice must equal Total Gain
5 adjustments	Goodwill → Reserves → Revaluation → Capitals → New Balance Sheet
Golden rule	Gaining partner Dr., Sacrificing partner Cr.

1. Meaning

CONCEPT A change in profit sharing ratio means the existing partners agree to share future profits in a new ratio. The firm is **reconstituted** — the old partnership ends and a new one begins — but the same partners continue.

Because one partner's share rises only if another's falls, the **gaining partner must compensate the sacrificing partner**.

2. Sacrificing and Gaining Ratio

THE TWO FORMULAS

Sacrificing Ratio = Old Share – New Share

Gaining Ratio = New Share – Old Share

Work out one subtraction per partner. A **positive** result is a sacrifice; a **negative** result is a gain.

WORKED EXAMPLE A, B, C share 3 : 2 : 1. New ratio 1 : 1 : 1.

A: $3/6 - 2/6 = +1/6$ sacrifice

B: $2/6 - 2/6 = 0$ — no change

C: $1/6 - 2/6 = -1/6 \rightarrow$ gain of $1/6$

Check: total sacrifice $1/6 =$ total gain $1/6 \checkmark$

So C compensates A for $1/6$ of the firm's goodwill.

TRAP Always bring both ratios to a **common denominator** before subtracting. And always run the check: **total sacrifice must equal total gain**. If it does not, you have mis-stated the new ratio.

3. The Five Adjustments — in this order

- SEQUENCE — do not reorder**
1. **Goodwill** — adjust through capital accounts (AS 26)
 2. **Reserves & accumulated profits/losses** — distribute in the **OLD ratio**
 3. **Revaluation of assets and liabilities** — Revaluation A/c, result in **OLD ratio**
 4. **Adjustment of capitals** (if required)
 5. **New Balance Sheet**

Adjustment 1 — Goodwill

THE ONLY ENTRY

Particulars	Dr	Cr
Gaining Partner's Capital A/c Dr. To Sacrificing Partner's Capital A/c (Goodwill adjusted on change in ratio)	...	...

$$\text{Amount} = \text{Firm's Goodwill} \times \text{Share Gained (or Sacrificed)}$$

TRAP — existing goodwill in the books If goodwill already appears in the balance sheet, write it off first, among all partners in the **OLD ratio**:

All Partners' Capital A/c Dr. (old ratio) To Goodwill A/c

Then pass the gaining/sacrificing entry. Two separate entries — never combine them.

Adjustment 2 — Reserves and Accumulated Profits

Item	Entry
General Reserve, Reserve Fund, P&L (Cr.), Workmen Compensation Reserve (excess)	Reserve A/c Dr. To All Partners' Capital A/c (old ratio)
P&L (Dr. balance), Advertisement Suspense, Deferred Revenue Expenditure	All Partners' Capital A/c Dr. (old ratio) To that A/c

TRAP Workmen Compensation Reserve (WCR):

- No claim → distribute the **whole** reserve in old ratio
- Claim **less** than reserve → distribute only the **excess**; keep the claim as a liability
- Claim **more** than reserve → the **shortfall is a loss**, debited to **Revaluation A/c**

Adjustment 3 — Revaluation Account

FORMAT — REPRODUCE EXACTLY Revaluation A/c

Particulars	₹	Particulars	₹
To Assets A/c (decrease in value)	...	By Assets A/c (increase in value)	...
To Liabilities A/c (increase)	...	By Liabilities A/c (decrease)	...
To Provision for Doubtful Debts (created/increased)	...	By Unrecorded Assets A/c	...
To Unrecorded Liabilities A/c	...		
To Profit transferred to Capital A/cs (old ratio)	...	By Loss transferred to Capital A/cs (old ratio)	...
	XXX		XXX

Memory hook: asset up or liability down → **Credit** (gain). Asset down or liability up → **Debit** (loss).

TRAP Revaluation profit/loss is **always shared in the OLD ratio**, because the change in value belongs to the period **before** reconstitution. Students routinely use the new ratio and lose the mark.

4. Alternative — Single Adjusting Entry

Some questions ask for **one entry** instead of full accounts. Build a table of net effects.

METHOD

Particulars	A	B	C
Goodwill adjustment	...	...	...
Reserves distributed (old ratio)	...	...	...
Revaluation profit/loss (old ratio)	...	...	...
Net effect → Dr / Cr	...	...	...

The net of all three columns must be **ZERO**. Then debit the partner(s) with a net gain and credit those with a net sacrifice.

5. Question Triggers what the wording is really asking

If the question says...	Do this
"decided to share future profits equally"	New ratio 1:1:1 → compute sacrifice/gain
"goodwill of the firm valued at ₹X"	Gainer's Capital Dr., Sacrificer's Capital Cr.
"goodwill appears in the balance sheet"	Write off first in old ratio, then adjust
"general reserve appears in the balance sheet"	Distribute in OLD ratio
"stock to be valued at ₹X" (lower)	Debit Revaluation A/c
"building to be appreciated by 10%"	Credit Revaluation A/c
"provision for doubtful debts to be created"	Debit Revaluation A/c
"a creditor of ₹X is not likely to claim"	Liability down → Credit Revaluation
"an unrecorded investment was found"	Asset up → Credit Revaluation
"claim on WCR is ₹X" (less than reserve)	Distribute only the excess ; keep claim as liability
"pass a single adjusting entry"	Net-effect table, then one entry
"assets and liabilities are to appear at old values"	Use Memorandum Revaluation A/c

MOST-ASKED BOARD QUESTIONS

- [6M]** Prepare Revaluation A/c, Partners' Capital A/cs and the new Balance Sheet.
- [3-4M]** Calculate the sacrificing / gaining ratio and pass the goodwill entry.
- [3-4M]** Pass a single adjusting entry for the change in ratio.
- [1M]** In which ratio is revaluation profit shared? → **Old ratio**

5. [1M] Give the formula for gaining ratio. → $\text{New share} - \text{Old share}$

THE HABIT THAT SCORES — Write the sacrifice/gain calculation as **WN1** with the common denominator visible, and run the **total sacrifice = total gain** check before going further. Every later figure depends on it, so an error here cascades through the whole 6-mark answer.