INDIAN SCHOOL NIZWA
ACCOUNTANCY WORKSHEET-6
CH 2 Change in Profit Sharing Ratio Among Existing Partners

DATE: _____ NAME: _____ CLASS: XII

Accounting Treatment of Reserves and Accumulated Profits or Losses

Their treatment may be studied under two heads as given below:

I. **Transfer to Partners' Capital Accounts**: When it has been decided to transfer the reserves and accumulated profits to partners' capital accounts (when capitals are fluctuating) or current accounts (when capitals are fixed),it is done in **the old profit sharing ratio**, if reserves and accumulated profits /losses exist in the books at the time of change in profit sharing ratio

a) Transfer of Reserves and Accumulated profits

General Reserve A/c	Dr	
Profit and loss A/c	Dr	
Workmen's Compensation Reserve A/c	Dr	(Surplus reserve over liability)
Investment Fluctuation Reserve A/c	Dr	(Surplus reserve over difference between market and book value)
To All Partners' capital/Current A/c s		

(Being reserves and accumulated profits transferred in the old profit-sharing ratio)

b) Transfer of Accumulated losses

All Partners' Capital/ Current A/c	Dr	
To Profit and Loss A/c		
To Deferred Revenue Expenditure A/c		

(Being accumulated losses transferred in the old profit sharing ratio)

Note: If the question is silent about treatment of reserves, accumulated profits/losses, they should always be transferred to partners' capital accounts

II. **No Transfer to Partners' Capital Accounts:** There are reserves and accumulated profits appearing in the Balance Sheet at the time of change in profit sharing ratio and all the partners decide not to change the existing portions of the reserves and undistributed profits/ losses or not to close these accounts. In such a situation it is necessary to pass an adjustment entry for the gain/ sacrifice of the partners

Q 1.Ram and Shyam are partners in a firm sharing profits in the ratio 3:2.They decided to share future profits equally with effect from 1st April 2017.On the date of change in the profit sharing ratio ,the profit & loss A/c showed a debit balance of ₹ 20,000 and a general reserve account of ₹ 5,000.Record the necessary journal entry for the distribution of the balance in the Profit & Loss A/C and general reserve before the change in the profit sharing ratio.

Q.2 Sunil and Anil are partners sharing profits in the ratio of 3:2.Their Balance sheet showed a balance of ₹50,000 in the general reserve A/c and ₹ 40,000 in the profit and Loss A/c .They now decided to share the future profits equally. Instead of closing the general reserve account and profit &loss account , it is decided to pass an adjustment entry for the same. You are required to record the necessary adjustment entry to give effect to the above arrangement