



ACCOUNTANCY
CHAPTER – 3
RECONSTITUTION OF PARTNERSHIP

Meaning of Reconstruction

Any change in agreement of partnership or profit sharing ratio is called reconstitution of partnership firm. In

following circumstances a partnership firm may be reconstituted:

1. Change in Profit Sharing Ratio
2. Admission of a partner
3. Retirement/Death of a partner.

CHANGE IN PROFIT SHARING RATIO AMONG THE EXISTING PARTNERS

Meaning : A Change in profit sharing ratio means one or more partners acquires interest from another partner or partners. Here it share of profit of one or more partners increases then share of one or more partner decreases to same extent.

When all the partners of a firm agree to change their profit sharing ratio. the ratio may be changed

New profit sharing ratio : The ratio in which the partners are to share the profits in future on reconstitution is known as New profit sharing ratio.

Gaining Ratio : It is the ratio in which the profit sharing ratio of gaining partners increases. It is calculated by taking difference between New profit sharing ratio and old profit sharing ratio.

Sacrificing Ratio : It is the ratio in which the profit sharing ratio of sacrificing partners decreases. It is calculated by taking difference between old profit sharing ratio and new profit sharing ratio.

Note : If old ratio - new ratio is positive it means sacrifice and if it is negative it means gain.

Accounting Treatment of Goodwill

In case of change in profit sharing ratio, the gaining partner must compensate the sacrificing partner by paying the proportionate amount of goodwill.

Note :

(i) Increase in the value of an Asset and decrease in the value of a liability result in profit.

Assets A/c Dr.

To Revaluation

(ii) Decrease in the value of any asset and increase in the value of a liability gives loss.

Revaluation A/c Dr.

To Assets A/c

(iii) For increase in the value of liabilities.

Revaluation A/c Dr.

To Liabilities A/c

(Increase in value of Liability)

(iv) When Revaluation account shows profit Revaluation

A/c Dr.

To Partner's Capital A/c

(Profit credited to Partner's Capital A/c in old ratio)

(i) In case of Revaluation Loss

Partner's Capital A/c's Dr.

To Revaluation A/c

(Loss debited to Partner's Capital A/cs in old ratio)

SPECIMEN/PROFORMA OF REVALUATIONACCOUNT

Revaluation Account

| Particulars | (Rs.) | Particulars | (Rs.) |
|--|-------|--|-------|
| To Assets (individually) Decrease in value | | By Assets (individually) Increase in value of Asset | |
| To Liabilities increase On revaluation | | By Liabilities (individually) Decrease on revaluation | |
| To Unrecorded Liability | | By Unrecorded asset | |
| To profits transferred to Partner's capital A/c (in old ratio) | | By Loss transferred to partners Capital A/c (in oldratios) | |