Reconstitution of a partnership Firm:

1 Marks Questions

1. Give the meaning of 'reconstitution of a partnership firm'. (All India; Delhi2014)

Ans Change in the existing agreement of partnership is considered as reconstitution of a partnership firm. Due to this, existing agreement comes to an end and the new agreement comes into existence and the firm continues.

2. State the ratio in which the partners share the accumulated profits when there is a change in the profit sharing ratio amongst existing partners. (All India 2013)

Ans. Accumulated profits are distributed in old profit sharing ratio, at the time of change in profit sharing ratio amongst the existing partners.

3.State the ratio in which the partners share profits or losses on revaluation of assets and liabilities, when there is a change in profit sharing ratio amongst existing partners. (Delhi 2013)

Ans. Revaluation profits or losses are distributed in old profit sharing ratio, at the time of change in profit sharing ratio amongst the existing partners.

4. State any two occasions on which a firm can be reconstituted.
(Delhi 2012,2008; All India 2011)

Ans. A firm can be reconstituted on the following occasions (Any two)
(i) When there is a change in the profit sharing ratio of existing partners.
(ii) When a new partner is admitted.
(iii) When an existing partner retires.
(iv) When an existing partner dies.

5. Why are 'reserves and surplus' distributed at the time of reconstitution of the firm? (Delhi, All India 2010)

Ans. At the time of reconstitution of the firm, reserves and surplus should be transferred to old partners' capital/current accounts in their old profit sharing ratio because the new partner is not entitled to any share in such undistributed profits or losses as these are earned/accrued by the old partners.

4 Marks Questions

6. Anita, Asha and Amrit are partners sharing profits in the ratio of 3:2:1 respectively From 1st January, 2010, they decided to share profits in the ratio of 1:1:1. The partnership deed provided that in the event of any change in profit sharing ratio, the goodwill should be valued at three years' purchase of the average of five years' profits. The profits and losses of the preceding five years are

Year	Profit
2005	₹ 1,20,000
2006	₹ 3,00,000
2007	₹ 3,40,000
2008	₹ 3,80,000
	Loss
2009	₹ 1,40,000

Showing the working clearly, give the necessary journal entry to record the above change

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Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Asha's Capital A/c	Dr		1,00,000	
	Amrit's Capital A/c	Dr		1,00,000	
	To Anita's Capital A/c				2,00,000
	(Being adjustment entry passed)				

Working Note

(*i*) **Calculation of Goodwill**

$$\text{Average profit} = \frac{1,20,000 + 3,00,000 + 3,40,000 + 3,80,000 - 1,40,000}{5}$$

$$= \frac{10,00,000}{5} = 2,00,000$$

$$\text{Goodwill} = \text{Average Profit} \times \text{Number of Years' Purchase}$$

$$= 2,00,000 \times 3 = ₹\ 6,00,000$$

(*ii*) **Calculation of Sacrificing or Gaining Ratio**

Anita $\frac{3}{6} - \frac{1}{6} = \frac{2}{6}$ i.e. sacrifice

Asha $\frac{2}{6} - \frac{3}{6} = -\frac{1}{6}$ i.e. gain

Amrit $\frac{1}{6} - \frac{2}{6} = -\frac{1}{6}$ i.e. gain

(*iii*) Anita's share of goodwill i.e. $6,00,000 \times \frac{2}{6} =$ ₹ 2,00,000 will be contributed by Asha and Amrit in their gaining ratio i.e. 1 : 1.