concept no.6

Revaluation of Assets and Reassessment of Liabilities



Assets and liabilities of a firm must also be revalued at the time of change in profit sharing ratio of existing partners. The reason is that the realisable or actual value of assets and liabilities may be different from those shown in the Balance Sheet.Revaluation of assets and liabilities becomes necessary because the change in the value of assets and liabilities belongs to the period prior to change in profit sharing ratio and hence must be shared by the partners in their old profit sharing ratio. Revaluation of assets and liabilities may be given effect to in two different ways :

(a) When revised values are to be recorded in the books :

In such a case revaluation of assets and liabilities is done with the help of a new account called 'Revaluation Account.' or 'Profit & Loss Adjustment A/c' This account is a nominal account in nature. Therefore, if there is a loss due to revaluation, revaluation account is debited and if the revaluation results in a profit, the revaluation account is credited.Following entries are passed for the purpose of revaluation :

(i) For decrease in the value of assets :

Revaluation A/c Dr.
To Assets A/c
(Decrease in the value of assets)

concept no.6

Revaluation of Assets and Reassessment of Liabilities



(ii) For increase in the value of assets

Assets A/c Dr.
To Revaluation A/c
(Increase in the value of assets)

(iii) For increase in the value of liabilities :

Revaluation A/c Dr.
To Liabilities A/c
(Increase in the value of liabilities)

(iv) For decrease in the value of liabilities :

Liabilities A/c Dr.
To Revaluation A/c
(Decrease in the value of liabilities)

On the basis of above entries a Revaluation Account or P & L Adjustment A/c is prepared. If the credit side of this account is in excess, it reveals a profit and if the debit side is in excess, it will reveal a loss. Such profit or loss will be divided between all the partners in their old profit sharing ratio. Following entries are passed for this purpose :

(a) When revaluation account shows profit:

Revaluation A/c Dr.
To Partner's Capital A/cs
(Profit on revaluation credited to Partner's Capital A/cs)

(b) Above entry is reversed when revaluation account shows loss

Partner's Capital A/cs Dr.
To Revaluation A/c
(Loss on revaluation debited to Partner's Capital A/cs)

COMMERCE RAMA

ELITE COMMERCE MINDS
COMMERCE RAMA

concept no.6

Revaluation of Assets and Reassessment of Liabilities



Proforma of Revaluation account is given below :

Dr. REVALUATION ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Decrease in value of assets	.....	By Increase in value of assets	.....
To Increase in value of liabilities	.....	By Decrease in value of liabilities	.....
To Unrecorded liabilities	.....	By Unrecorded assets	.....
To Profit on Revaluation trans-		By Loss on Revaluation	
ferred to partner's capital/		transferred to partner's capital/	
current accounts (in old ratio)	.....	current accounts (in old ratio)	.....
	.....		.....

COMMERCE RAMA

concept no.6

Questions

Q.1.). A, B and C are partners in a firm sharing profits in the ratio of 3 : 2 : 1. Their Balance Sheet as at 31 st March, 2024 is as under :

Liabilities		₹	Assets	₹
Sundry Creditors		2,00,000	Premises	3,00,000
General Reserve		1,20,000	Machinery	1,80,000
Capitals:			Stock	1,20,000
A	3,00,000		Debtors	2,50,000
B	1,50,000		Bank	20,000
C	1,00,000	5,50,000		
		8,70,000		8,70,000

From 1st April, 2024, the partners agreed to share future profits in the ratio of 4:3:3 and make the following adjustments :

(i) Premises will be appreciated by 10% and stock by Rs.10,000

(ii) A provision for doubtful debts is to be made on debtors @4%.

(iii) Sundry Creditors be reduced by ₹ 15,000.

(iv) Machinery will be depreciated by 5%.

(v) Goodwill of the firm is valued at ₹48,000.

Prepare Revaluation Account.

[Ans. Profit on Revaluation ₹36,000]

COMMERCE RAMA

concept no.6

Questions

Q.2.).X and Y are partners sharing profits and losses in the ratio of 4 : 3. Their Balance Sheet as at 31st March, 2024 stood as follows :

Liabilities		₹	Assets	₹
Sundry Creditors		28,000	Fixed Assets	1,50,000
General Reserve		42,000	Stock	1,40,000
Capitals:			Debtors	1,20,000
X	2,40,000		Bank	20,000
Y	1,20,000	3,60,000		
		4,30,000		4,30,000

They decided that with effect from 1st April, 2021, they will share profits and losses in the ratio of 2 : 1. For this purpose they decided that:

(i) Fixed assets are to be depreciated by 10%.

(ii) A provision of 6% be made on debtors for doubtful debts.

(iii) Stock be valued at ₹ 1,90,000.

(iv) An amount of ₹3,700 included in creditors is not likely to be claimed.

Partners decided to record the revised values in the books. However, they do not want to disturb the reserves. You are required to prepare journal entries and Revaluation Account

[Ans. Profit on Revaluation ₹31,500 Rs.4000 as Reserve Adjustment X;s Capital A/c Dr TO Y;S Capital A/C]

END OF CONCEPT N0-6

COMMERCE RAMA

CHAPTER-3 CHANGE IN PROFIT-SHARING RATIO AMONG THE EXISTING PARTNERS

concept no.

7 Partners' Capital A/c