



NEW PROFIT T SHARING RATIO AND SACRIFICING RATIO

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New profit t sharing ratio:

It is necessary to determine the new profit sharing ratio at the time of **admission of a partner** because the new partner is entitled to share the **future profits** of the firm.

New profit sharing ratio is the **agreed proportion** in which future profit will be distributed to **all the partners** including the new partner. If the new profit sharing ratio is **not agreed**, the partners will share the **profits and losses equally**.

Sacrificing ratio

The old partners may **sacrifice a portion** of the share of profit to the **new partner**.

The sacrifice may be made by **all the partners or some of the partners**.

Sacrificing ratio is the proportion of the profit which is sacrificed or foregone by the old partners in favor of the new partner.

Purpose:

The sacrificing ratio is to share the goodwill brought in by the new partner.

Calculation:

Share sacrificed = Old share - New share

Sacrificing ratio = Ratio of share sacrificed by the old partners

Calculation of sacrificing ratio and new profit sharing ratio under different situations

1. When new profit sharing ratio is given”

When new profit sharing ratio is given, sacrificing ratio has to be calculated as follows:

Sacrificing ratio = Ratio of share sacrificed by the old partners

Share sacrificed = Old share - New share

$$\text{Old ratio of Anbu and Raju} = 3:2 \text{ that is, } \frac{3}{5} : \frac{2}{5}$$

$$\text{New ratio of Anbu, Raju and Akshai} = 5:3:2 \text{ that is, } \frac{5}{10} : \frac{3}{10} : \frac{2}{10}$$

$$\text{Share sacrificed} = \text{Old share} - \text{New share}$$

$$\text{Anbu} = \frac{3}{5} - \frac{5}{10} = \frac{6-5}{10} = \frac{1}{10}$$

$$\text{Raju} = \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$$

Sacrificing ratio of Anbu and Raju is $\frac{1}{10} : \frac{1}{10}$ that is 1:1

**2. When new profit sharing ratio is not given****(a) When share sacrificed is given**

When new profit sharing ratio is not given, but the share sacrificed by the old partner(s) is given, new profit sharing ratio is calculated as follows:

New share of old partner = Old share - Share sacrificed

Share of new partner = Sum of shares sacrificed by old partners

$$\text{Hari} = \frac{1}{8}$$

$$\text{Saleem} = 0$$

$$\text{Sacrificing ratio} = 1:0$$

Old ratio of Hari and Saleem is 5:3 that is $\frac{5}{8} : \frac{3}{8}$

New share of old partner = Old share - Share sacrificed

$$\text{Hari} = \frac{5}{8} - \frac{1}{8} = \frac{5-1}{8} = \frac{4}{8}$$

$$\text{Saleem} = \frac{3}{8}$$

Share of new partner

$$\text{Joel} = \frac{1}{8}$$

New profit sharing ratio of Hari, Saleem and Joel is $\frac{4}{8} : \frac{3}{8} : \frac{1}{8}$ that is, 4:3:1

(b) When proportion of share sacrificed is given**(i) When share sacrificed is given as a proportion on old partners' share**

When new profit sharing ratio is not given, but the share sacrificed is given as a proportion on old partners' share, new profit sharing ratio is calculated as follows:

Share sacrificed by old partner = Old share x Proportion of share sacrificed

New share of old partner = Old share - Share sacrificed

Share of new partner = Sum of shares sacrificed by old partners

(ii) When proportion of share sacrificed on new partner's share is given

When new profit sharing ratio is not given, but the proportion of share sacrificed on new partner's share is given, new profit sharing ratio is calculated as follows:

New share of old partner = Old share - Share sacrificed

Share sacrificed = New partner's share x Proportion of share sacrificed

**Arun's share**

$$= \frac{1}{4}$$

Proportion of share sacrificed

$$= 1:1(\text{equally}) \text{ i.e. } \frac{1}{2} : \frac{1}{2}$$

Share sacrificed
$$= \text{New partner's share} \times \text{Proportion of share sacrificed}$$
Mahesh

$$= \frac{1}{4} \times \frac{1}{2} = \frac{1}{8}$$

Dhanush

$$= \frac{1}{4} \times \frac{1}{2} = \frac{1}{8}$$

Sacrificing ratio of Mahesh and Dhanush is $\frac{1}{8} : \frac{1}{8}$ that is, 1:1**New share of old partner**
$$= \text{Old share} - \text{Share sacrificed}$$
Mahesh

$$= \frac{2}{3} - \frac{1}{8} = \frac{16-3}{24} = \frac{13}{24}$$

Dhanush

$$= \frac{1}{3} - \frac{1}{8} = \frac{8-3}{24} = \frac{5}{24}$$

Share of new partner**Arun**

$$= \frac{1}{4}$$

In order to equate, multiply and divide Arun's share by 6

$$= \frac{1}{4} \times \frac{6}{6} = \frac{6}{24}$$

New profit sharing ratio of**Mahesh, Dhanush and Arun**

$$= \frac{13}{24} : \frac{5}{24} : \frac{6}{24} \text{ that is, } 13:5:6.$$

(c) When share sacrificed and proportion of share sacrificed is not given

When new profit sharing ratio, share sacrificed and the proportion of share sacrificed is not given, but only the share of new partner is given, new profit sharing ratio is calculated by assuming that the share sacrificed is the proportion of old share. New profit sharing ratio is Calculated as follows:

Share sacrificed = New partner's share x Old share**New share of old partner = Old share - Share sacrificed**



Old ratio of Anil, Sunil and Hari = 4:3:3 or $\frac{4}{10} : \frac{3}{10} : \frac{3}{10}$

Raja's share of profit = 20% or 20/100 or 1/5

Let the total share be 1

$$\begin{aligned}\text{Remaining share} &= 1 - \frac{1}{5} = \frac{5-1}{5} \\ &= \frac{4}{5}\end{aligned}$$

New share of old partners = Remaining share \times Old share

$$\text{Anil} = \frac{4}{5} \times \frac{4}{10} = \frac{16}{50}$$

$$\text{Sunil} = \frac{4}{5} \times \frac{3}{10} = \frac{12}{50}$$

$$\text{Hari} = \frac{4}{5} \times \frac{3}{10} = \frac{12}{50}$$

Share of new partner

$$\text{Raja} = \frac{1}{5}$$

In order to equalise the denominator, multiply and divide Raja's share by 10

$$\text{Raja's share} = \frac{1}{5} \times \frac{10}{10} = \frac{10}{50}$$

New profit sharing ratio of Anil, Sunil, Hari and Raja = $\frac{16}{50} : \frac{12}{50} : \frac{12}{50} : \frac{10}{50}$ that is, 8:6:6:5.

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