

**INTERMEDIATE EXAMINATION****SET 1****MODEL ANSWERS****TERM – DEC 2025****PAPER – 6****SYLLABUS 2022****FINANCIAL ACCOUNTING****Time Allowed: 3 Hours****Full Marks: 100**

The figures in the margin on the right side indicate full marks.

SECTION – A (Compulsory)**1. Choose the correct option:****[15 x 2 = 30]**

- (i) _____ concept assumes that the infinite life of an organisation can be split into smaller periods of equal duration.
- Accounting Period
 - Entity
 - Going concern
 - Money Measurement
- (ii) _____ is a book of original entry which is meant for recording returns of goods purchased on credit from the supplier
- Return Inward Day Book
 - Purchase Day Book
 - Return Outward Day Book
 - None of these
- (iii) The Bank column of Cash Book shows 12,500 credit balance it indicates _____.
- Cash in hand
 - Bank Deposit
 - Bank Overdraft
 - Error in recording
- (iv) On 31st March, 2025, the debtors of a trader are 6,20,000 before writing off the bad debts of 15,000. The provision for bad and doubtful debts is 5% on debtors and provision for discount on debtors is 2%. The amount of provision for discount on debtors is _____.
- ₹ 12,400
 - ₹ 12,100
 - ₹ 11,495
 - ₹ 11,780
- (v) A bill of 30,000 is discounted with Bank at 10% p.a. for 3 months. What is the discount amount?
- ₹ 750
 - ₹ 900
 - ₹ 1,500
 - ₹ 3,000

**FINANCIAL ACCOUNTING**

- (vi) Goods sent on consignment is 1,20,000 (at invoice price), invoice price is 25% above cost. What is the loading?
- ₹ 20,000
 - ₹ 24,000
 - ₹ 25,000
 - ₹ 30,000
- (vii) What is the treatment of outstanding salary of ₹10,000 in financial statement?
- To be added to salary in trading account
 - To be added to salary in Profit and Loss account and to be shown in Balance Sheet as liability
 - To be shown as an asset in the Balance Sheet
 - To be deducted from salary in Profit and Loss account
- (viii) Mr. BB and Mr. CC entered into a joint venture sharing profit at 2:1. Mr. BB had incurred expenses of 24,000 and Mr. CC had incurred expenses of 12,000. Profit is 18,000. What is Mr. CC's share of profit?
- 6,000
 - 12,000
 - 4,000
 - 8,000
- (ix) X and Y were partners sharing profits and losses in the ratio of 4:3. They admit Z as a new partner, giving him 1/4th share of the future profits. What will be the new profit-sharing ratio between X, Y, and Z?
- 4:6:7
 - 12:9:7
 - 7:9:4
 - 5:5:4
- (x) The average profit of a firm for the last 4 years is ₹50,000. The normal rate of return is 10%, and the capital employed is ₹3,00,000. What is the value of goodwill using the super profit method for 3 years' purchase?
- ₹30,000
 - ₹45,000
 - ₹60,000
 - ₹1,50,000
- (xi) Advertisement expenses are apportioned among departments in the proportion of _____.
- sales of each department
 - purchases of each department
 - no. of units sold by each department
 - cost of sales of each department



- (xii) Arti Ltd. purchased a machine on hire purchase system for a cash price ₹5,00,000 to be paid as ₹ 78,700 cash down and the balance by three equal annual installment of ₹ 2,00,000 each. If interest is charged @ 20% per annum then amount of interest payable in second installment will be _____.
- a. ₹ 1,00,000
b. ₹ 61,112
c. ₹ 33,328
d. ₹ 84,260
- (xiii) Which of the following is not a principle that AS 1 requires for the disclosure of accounting policies?
- a. Accounting policies should be consistently followed in the preparation of financial statements.
b. Changes in accounting policies should be disclosed only if they affect the financial statements.
c. The financial statements should disclose all accounting policies applied.
d. If there is a change in accounting policy, the financial impact should be disclosed.
- (xiv) AS-12 does not apply to:
- a. Grants related to fixed assets
b. Grants related to promoter's contribution
c. Tax holiday benefits
d. Grants for revenue expenses
- (xv) Income and Expenditure Account shows subscriptions at 2,50,000. Subscriptions accrued in the beginning of the year and at the end of the year were 25,000 and 37,500 respectively. The amount of subscriptions received appearing in receipts and payments account will be
- a. ₹ 1,87,500
b. ₹ 2,75,000
c. ₹ 2,37,500
d. ₹ 2,62,500

Answer:

i	ii	iii	iv	v	vi	vii	viii	ix	x
a	c	c	c	a	b	b	a	b	c
xi	xii	xiii	xiv	xv					
a	b	b	c	c					



Section – B

(Answer any five questions out of seven questions given. Each question carries 14 Marks)

[5 x 14 = 70]

2. (a) A machine is purchased for ₹7,00,000. Expenses incurred on its cartage and installation ₹ 3,00,000. Calculate the amount of depreciation @ 20% p.a. according to Straight Line Method for the first year ending on 31st March, 2025 if this machine is purchased on:

- (i) 1st April, 2024
- (ii) 1st July, 2024
- (iii) 1st October, 2024
- (iv) 1st January, 2025

[7]

- (b) Classify the following items as capital or revenue expenditure:

- (i) An extension of railway tracks in the factory area;
- (ii) Wages paid to machine operators;
- (iii) Installation costs of new production machine;
- (iv) Materials for extension to foremen's offices in the factory;
- (v) Rent paid for the factory;

Give reasons for your classification.

[7]

Answer:

- (a) Here, Total Cost of Asset = Purchased Price + Cost of Cartage and Installation

$$= ₹ 7,00,000 + ₹ 3,00,000 = ₹ 10,00,000$$

Amount of Depreciation:

$$= \text{Total cost of Asset} \times \text{Rate of depreciation} \times \frac{\text{Period from the date of purchase to date of closing accounts}}{12}$$

- (i) The machine was purchased on 1st April, 2024:
Amount of Depreciation = ₹ 10,00,000 × 20% × $\frac{12}{12}$ = ₹ 2,00,000
- (ii) 1st July, 2024
Amount of Depreciation = ₹ 10,00,000 × 20% × $\frac{9}{12}$ = ₹ 1,50,000
- (iii) 1st October, 2024
Amount of Depreciation = ₹ 10,00,000 × 20% × $\frac{6}{12}$ = ₹ 1,00,000
- (iv) 1st January, 2025
Amount of Depreciation = ₹ 10,00,000 × 20% × $\frac{3}{12}$ = ₹ 50,000



- (b)
- (i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period and it is non-recurring in nature.
 - (ii) Wages paid to machine operators should be treated as a Revenue Expenditure as it will yield benefit for the current period only and it is recurring in nature.
 - (iii) Installation costs of new production machine should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period and it is incurred for acquiring long term assets.
 - (iv) Materials for extension to foremen's offices in the factory should be treated as a Capital Expenditure because it will benefit the business for more than one accounting period.
 - (v) Rent paid for the factory should be treated as a Revenue Expenditure because it will benefit the Company only during the current period and it is recurring in nature.
3. (a) Mr. X sold goods for ₹15,000 to Mr. Y and immediately drew a bill upon him on Jan. 01, 2025 payable after 3 months. On maturity the bill was dishonoured and ₹50 were paid by the holder of the bill as noting charges. Show how the journal entries will be recorded in the books of Mr. X and Mr. Y, when the bill was endorsed by Mr. X in favour of his creditor Miss Z. [7]
- (b) PQ Ltd. sold machinery having WDV of ₹80 lakhs to BR Ltd. for ₹ 100 lakhs and the same machinery was leased back by BR Ltd. to PQ Ltd. The lease back is operating lease.
- Comment if –
- (i) Sale price of ₹100 lakhs is equal to fair value.
 - (ii) Fair value is ₹ 120 lakhs.
 - (iii) Fair value is ₹ 90 lakhs and sale price is ₹ 76 lakhs. [7]

Answer:

(a)

In the books of X

Journal

Date	Particulars	L.F.	Dr.	Cr.
2025 Jan. 01	Y's A/c Dr. To Sales A/c (Sold goods to Y)		15,000	15,000
Jan. 1	Bills Receivable A/c Dr. To Y's A/c (Received Y's acceptance)		15,000	15,000
Jan. 01	Z's A/c Dr. To Bills Receivable A/c (Y's acceptance endorsed in favour of Z)		15,000	15,000

**INTERMEDIATE EXAMINATION****SET 1****MODEL ANSWERS****TERM – DEC 2025****PAPER – 6****SYLLABUS 2022****FINANCIAL ACCOUNTING**

Apr. 04	Y's A/c Dr. To Z's A/c (Y dishonoured his acceptance on maturity and Z paid ₹50 as noting charges)		15,050	15,050
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**In the books of Y
Journal**

Date	Particulars	L.F.	Dr.	Cr.
2025, Jan. 01	Purchases A/c Dr. To X's A/c (Purchase goods from X)		15,000	15,000
Jan. 01	X's A/c Dr. To Bills Payable A/c (Accepted X's draft)		15,000	15,000
Apr. 04	Bills Payable A/c Dr. Noting Charges A/c Dr. To X's A/c (Acceptance in favour of X dishonoured)		15,000 50	15,050

(b) Following will be the treatment in the given cases:

- (i) When sales price of ₹100 lakhs is equal to fair value, PQ Ltd. should immediately recognise the profit of ₹20 lakhs (i.e. 100 - 80) in its books.
- (ii) When fair value is ₹120 lakhs then also profit of ₹20 lakhs should be immediately recognised by PQ Ltd.
- (iii) When fair value of leased machinery is ₹ 90 lakhs & sales price is ₹ 76 lakhs, then loss of ₹4 lakhs (80 – 76) to be immediately recognised by PQ Ltd. in its books provided loss is not compensated by future lease payment, otherwise it can defer and amortise the loss.

FINANCIAL ACCOUNTING

- 4. (a) From the following Trial Balance of Mr. A as on 31st March, 2025, prepare Trading Account and Profit and Loss Account for the year ending 31st March, 2025.**

Particulars	₹	Particulars	₹
Drawings	50,000	Capital	7,00,000
Plant	3,00,000	Creditors	80,000
Debtors	1,80,000	Returns	24,000
Returns	20,000	Discount	8,000
Discount	10,000	Provision for Doubtful Debts	24,000
Commission	16,000	Sales	
Interest on Bank Loan	44,000	10% Bank Loan	9,60,000
Furniture	68,000	(as on 31-3-2024)	4,40,000
Wages	96,000		
Salaries	1,20,000		
Advertisement	54,000		
Purchases	4,80,000		
Stock (31-3-2024)	1,00,000		
Carriage Inwards	24,000		
Land & Buildings	6,00,000		
Cash and Bank	74,000		
	22,36,000		22,36,000

The following additional information is given:

- (i) Closing Stock, ₹ 92,000.
- (ii) Wages and Salaries outstanding were Rs 10,000 and ₹ 8,000 respectively as on 31-3-2025
- (iii) Depreciate Plant and Furniture @ 15%, and 15% respectively.
- (iv) Depreciated value of Land & Building as on this date comes to ₹5,85,000
- (v) Provision for Doubtful Debts as on this date 31-3-25 ₹6,000.

[7]

(b) P Limited gives you the following information to find out Total Sales and total Purchases:

Particulars	₹	Particulars	₹
Debtors as on 1 st April (Opening Balance)	80,000	Discount allowed by Suppliers	7,000
Creditors as on 1 st April (Opening Balance)	91,000	Discount allowed to Customers	9,000
Bills Receivable received during the year	47,000	Endorsed Bills Receivable dishonoured	3,000
Bills Payable issued during the year	53,000	Sales Return	11,000
Cash received from Customers	1,56,000	Bills Receivable Discounted	8,000
Cash paid to Supplies	1,72,000	Discounted bills Receivable dishonoured	2,000
Bad Debts Recovered	16,000	Cash Sales	1,68,500



INTERMEDIATE EXAMINATION

SET 1

MODEL ANSWERS

TERM – DEC 2025

PAPER – 6

SYLLABUS 2022

FINANCIAL ACCOUNTING

Bills Receivables endorsed to Creditors	27,000	Cash Purchases	1,97,800
Bills Receivables dishonoured by Customers	5,000	Debtors on 31 st March (Closing Balance)	82,000
		Creditors as on 31 st March (Closing Balance)	95,000

[7]

Answer:

(a)

Trading and Profit & Loss Account

Dr. for the year ended 31st March 2025 Cr.

Particulars	₹	Particulars	₹
To Opening Stock	1,00,000	By Sales 9,60,000	
To Purchases 4,80,000		Less: Returns 20,000	9,40,000
Less Returns 24,000	4,56,000		
		By closing Stock	92,000
To Wages 96,000			
Add: Outstanding 10,000	1,06,000		
To Carriage Inward 24,000			
To Gross Profit cld 3,46,000			
	10,32,000		10,32,000
To Discount 10,000		By Gross Profit bld 3,46,000	
To Commission 16,000		By Discount 8,000	
To Int on Bank loan 44,000		By Provision for doubtful debts 6,000	
To Salaries 1,20,000			
Add Outstanding 8,000	1,28,000		
To Advertisement 54,000			
To Depreciation on:			
-- Plant 45,000			
-- Furniture 10,200			
-- Land & Building 15,000	70,200		
To Net Profit transferred to Capital A/c 37,800			
	3,60,000		3,60,000

(b)

1. Total Debtor Account

Dr. Particulars	₹	Cr. Particulars	₹
To Balance b/d (given)	80,000	By Cash /Bank A/c (Cash Received)	1,56,000
To bills Receivable A/c (Dishonoured)	5,000	By Discount Allowed A/c	9,000



INTERMEDIATE EXAMINATION

SET 1

MODEL ANSWERS

TERM – DEC 2025

PAPER – 6

SYLLABUS 2022

FINANCIAL ACCOUNTING

To Creditors A/c (Dishonour of endorsed B/R)	3,000	By Bills Receivable A/c (B/R Received)	47,000
To Bank A/c (Discounted B/R dishonoured)	2,000	By Sales Returns A/c	11,000
To Sales A/c (bal. fig. = Credit Sales)	2,15,000	By balance c/d (given)	82,000
Total	3,05,000	Total	3,05,000

2. Total Creditors Account

Dr.			Cr.
Particulars	₹	Particulars	₹
To Cash/Bank A/c (Payment)	1,72,000	By balance b/d	91,000
To Discount Received A/c	7,000	By Debtors A/c (Dishonour of endorsed B/R)	3,000
To Bills Payable A/c (Issued)	53,000	By Purchase A/c (bal. fig. = Credit Purc.)	2,60,000
To Bills Receivable (Endorsement)	27,000		
To balance C/d (given)	95,000		
Total	3,54,000	Total	3,54,000

1. Total Sales = Credit Sales ₹2,15,000 + Cash Sales ₹1,68,500 = ₹3,83,500

2. Total Purchases = Credit Purchases ₹2,60,000 + Cash Purchases ₹1,97,800 = ₹ 4,57,800

5. Following is the Balance Sheet of X and Y as at 31.3.2025 who are partners in a firm sharing profits and losses in the ratio of 2:1 respectively:

Liabilities	(₹)	Assets	(₹)
Capital: X	46,000	Land and Building	30,000
Y	34,000		
Creditors	20,000	Plant and Machinery	35,000
		Stock	12,000
		Debtors	11,400
		Investments	3,600
		Bank	8,000
	1,00,000		1,00,000

Z is admitted as a new partner on 1.4.2024 for 1/3rd share on the following terms –

- (1) Z is to bring in ₹ 20,000 as capital;
- (2) An amount of ₹ 2,000 included in debtors is to be written-off as no longer receivable ;
- (3) Investments are taken over by yat their market value of ₹ 3,000 ;
- (4) Stock is to be increased by ₹ 3,100; and ,
- (5) Plant and machinery is to be decreased by 10%.

**INTERMEDIATE EXAMINATION****SET 1****MODEL ANSWERS****TERM – DEC 2025****PAPER – 6****SYLLABUS 2022****FINANCIAL ACCOUNTING**

You are required to prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm [14]

Answer:**In the books of the Firm**

Dr. Revaluation Account Cr.

Particulars	(₹)	Particulars	(₹)
To Debtors A/c (Bad debts)	2,000	By Stock A/c	3,100
To Investments A/c (Note 1)	600	By Partners' Capital A/cs: Loss on revaluation (X – ₹ 2,000; Y – ₹ 1,000)	3,000
To Plant and Machinery A/c	3,500		
	6,100		6,100

Dr. Partners' Capital Accounts Cr.

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Investments A/c	-	3,000	-	By Balance b/d	46,000	34,000	-
To Revaluation A/c (Loss)	2,000	1,000	-	By Bank A/c	-	-	20,000
To Balance c/d	44,000	30,000	20,000				
	46,000	34,000	20,000		46,000	34,000	20,000

Balance Sheet of the New Firm as at 1st April, 2024

Liabilities	(₹)	Assets	(₹)
Capital Accounts: X	44,000	Land and Buildings	30,000
Y	30,000		
Z	20,000		
Creditors	20,000	Plant and Machinery (₹ 35,000 – 3,500)	31,500
		Stock (₹ 12,000 + 3,100)	15100



INTERMEDIATE EXAMINATION

SET 1

MODEL ANSWERS

TERM – DEC 2025

PAPER – 6

SYLLABUS 2022

FINANCIAL ACCOUNTING

		Debtors (₹ 11,400 – 2,000)	9,400
		Bank (₹ 8,000 + 20,000)	28,000
	1,14,000		1,14,000

Working Note: (1) Book value of investments is ₹ 3,600. But, it is taken over by Y at ₹ 3,000. Therefore, ₹ 600 will be treated as a loss and is to be debited to revaluation Account. The journal entry for investment taken over by Y will be as follows:

Y Capital Account	Dr. ₹ 3,000
Revaluation Account	Dr. ₹ 600
To Investments Account	₹ 3,600

6. (a) HP Pvt. Ltd. Opened a new branch at Delhi. HP Pvt. Ltd. Sent goods costing ₹50,000 to Delhi branch. Delhi branch sold entire goods in cash at ₹80,000. Branch paid expenses of ₹7,000. No other transaction occurred at the branch. Prepare branch account in HO Books and find out the profit. [7]

- (b) A Fire occurred on the premises of a Merchant on 15th June and a considerable part of the Stock was destroyed. The value of Stock saved was ₹9,000. The books disclosed that on 1st April, Stock was valued at ₹73,500, purchases to the date of fire amounted to ₹2,09,980 and Sales ₹3,13,000. On investigation, it was found that during the past five years, the average Gross Profit on Sales was 36%. Prepare a statement showing the amount, the Merchant should claim from the Insurance Company in respect of Stock destroyed by fire. [7]

Answer:

(a)

We Know that branch earned net profit of ₹23,000 (i.e. Gross Profit ₹30,000 less expense 7,000), Let's see how same can be find out by branch account:

Branch Account

Particulars	Amount ₹	Particulars	Amount ₹
To Opening branch assets	Nil	By Closing branch assets	
To Goods sent to branch	50,000	Stock Nil	
To Net Profit transferred to General P&L A/c	23,000	Debtor Nil	
		Cash <u>73,000</u>	73,000
	73,000	(80,000 - 7000)	
			73,000



INTERMEDIATE EXAMINATION

SET 1

MODEL ANSWERS

TERM – DEC 2025

PAPER – 6

SYLLABUS 2022

FINANCIAL ACCOUNTING

(b)

Dr. 1. Memorandum Trading Account (1st Apr to 15th Jun) Cr.

Particulars	₹	Particulars	₹
To Stock in the beginning	73,500	By Sales	3,13,000
To Purchases	2,09,980	By Stock on the date of Fire (balancing figure)	83,160
To gross Profit on Sales(3,13,000 × 36%)	1,12,680		
Total	3,96,160	Total	3,96,160

2. Statement of Insurance Claim

Particulars	₹
Value of Stock Lost on 15 th June (WN 1)	83,160
Less: Salvaged Stock (Saved)	(9,000)
Net Claim	74,160

Note: Since Policy Amount is not given, the issue of Average Clause is not considered.

- 7.(a) On December 1,2024, Arjun Co. purchased 2,00,000 worth of land for a factory site. Arjun razed an old building on the property and sold the materials it salvaged from the demolition. Arjun incurred additional costs and realized salvage proceeds during December 2024 as follows:

Particulars	₹
Demolition of old building	25,000
Legal fees for purchase contract and recording ownership	5,000
Title guarantee insurance	6,000
Proceeds from sale of salvaged materials	4,000

In its December 31,2024 Balance Sheet, PP Ltd. should report a balance in the land account.

[7]

(b) <u>Particulars</u>	<u>Exchange Rate</u>
Goods purchased on 24.02.2024 of US\$ 10000	₹76.60
Exchange rate on 31.03.2024	₹77.00
Date of actual payment 5.06.2025	₹77.50
Calculate the loss / gain for the financial years 2023-24 and 2025-26	[7]

**Answer:****(a)**

As per AS-10, the cost of land should include all expenditure incurred preparing it for its ultimate (such as factory size) is considered part of the cost of land. Before the land can be used as a building site, it must be purchased (involving costs such as purchase price, legal fees, and title insurance) and the old building must be razed (cost of demolition less proceeds from sale of scrap). The total balance in the land account should be 2,32,000.

Particulars	₹
Purchase price	2,00,000
Legal Fees	5,000
Title Insurance	6,000
Net cost of demolition (₹25,000 – ₹4,000)	21,000
	2,32,000

(b) As per AS-11 all foreign currency transactions should be recorded by applying the exchange rate at the date of transaction. Therefore goods purchased on 24.02.2024 and corresponding creditor would be recorded at ₹76.60 = US\$1, i.e. $10,000 \times 76.60 = ₹7,66,000$

As per AS-11 at the balance sheet date all monetary items should be reported using the closing rate therefore creditors of US\$10000 outstanding on 31.3.2025 will reported. $10,000 \times ₹77.00 = ₹7,70,000$

Exchange loss $₹(7,70,000 - 7,66,000)$ i.e. ₹4,000 should be debited in profit and loss account for 2023-24.

As per As-11 exchange difference on settlement on monetary items should be transferred to profit and loss account as gain or loss therefore $10000 \times ₹77.50 = ₹7,75,000 - ₹7,70,000 = ₹5000$ will be be debited to profit or loss for the year 2025-26.

8. Short Questions:

- (a) Explain the methods/criteria for the selection and application of Accounting Policies. [5]**
- (b) On 31st March 2024, a club had subscription in arrears of ₹ 28,000 and in advance ₹ 4,000. During the year ended 31st March 2025, the club received subscription of ₹ 2,08,000 of which ₹ 12,500 was related to 2025-26. On 31st March, 2025, there were 5 members who had not paid subscription for 2024-25 @ ₹ 1,600 per person. Prepare the Subscription Account for the year 2024-25. [5]**
- (c) S and N are partners sharing Profit (Loss) in the ratio of 5:3. They admit J into partnership for 3/10th in the Profit/(Loss) in which J acquired 1/5th share from S and 1/10th share from N respectively. Calculate the new profit and loss sharing ratios of the partner. [4]**

Answer:

- (a)** The major considerations governing the selection and application of accounting policies are:

Prudence – Generally maker of financial statement has to face uncertainties at the time of preparation of financial statement. These uncertainties may be regarding collectability of recoverable, number of warranty claims that may occur. Prudence means making of estimates that are required under conditions of uncertainty.

**INTERMEDIATE EXAMINATION****SET 1****MODEL ANSWERS****TERM – DEC 2025****PAPER – 6****SYLLABUS 2022****FINANCIAL ACCOUNTING**

Substance over form – It means that transaction should be accounted for in accordance with actual happening and economic reality of the transactions not by its legal form.

Materiality – Financial Statement should disclose all the items and facts which are sufficient enough to influence the decisions of reader or/ user of financial statement.

(b)**Subscription Account**

Dr.

Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d (arrears)	28,000	By Balance b/d (advance)	4,000
To I & E A/c (income for 2024-25)[B/fig]	1,79,500	By R & P A/c (received)	2,08,000
To Balance c/d (advance)	12,500	By Balance c/d (arrears- ₹1600 × 5)	8,000
	2,20,000		2,20,000

(c) S's new share = $\left[\frac{5}{8} - \frac{1}{5} \right] = \frac{25-8}{40} = \frac{17}{40}$

N's new share = $\left[\frac{3}{8} - \frac{1}{10} \right] = \frac{15-4}{40} = \frac{11}{40}$

J's new share = $\left[\frac{3}{10} - \frac{12}{40} \right]$

Hence New profit/loss sharing ratios of the partners = 17:11:12