34. AZAD AND BABLI ARE PARTNERS IN A FIRM SHARING PROFITS AND LOSSES IN THE RATIO OF 2:1. CHINTAN IS ADMITTED INTO THE FIRM WITH 1/4 SHARE IN PROFITS. CHINTAN WILL BRING IN **RS.**30,000 AS HIS CAPITAL AND THE CAPITALS OF AZAD AND BABLI ARE TO BE ADJUSTED IN THE PROFIT SHARING RATIO. THE BALANCE SHEET OF AZAD AND BABLI AS ON DECEMBER 31, 2015 (BEFORE CHINTAN'S ADMISSION) WAS AS FOLLOWS:

Balance Sheet of A and B as on 31.12.2015				
Dr.				**Cr.**
Liabilities		**Rs.**	**Assets**	**Rs.**
Creditors		8,000	Cash at Hand	2,000
Bills Payable		4,000	Cash at Bank	10,000
General Reserve		6,000	Sundry Debtors	8,000
Capital Accounts:			Stock	10,000
Azad	50,000		Furniture	5,000
Babli	32,000	82,000	Machinery	25,000
			Buildings	40,000
		1,00,000		**1,00,000**

Chintan will bring in **Rs.**12.000 as his share of goodwill premium.It was agreed that:

i. Buildings were valued at **Rs.**45,000 and Machinery at **Rs.**23.000.
ii. A provision for doubtful debts is to be created 6% on debtors.
iii. The capital accounts of Azad and Babli are to be adjusted by opening current accounts.

Record necessary journal entries. Show necessary ledger accounts and prepare the Balance Sheet after admission.

Solution:

Books of Azad, Babli and Chintan Journal Entries				
Date	Particulars	L.F.	Dr. **Rs.**	Cr. **Rs.**

2015					
Dec 31	Bank A/c	Dr.		42,000	
	To Chintan's Capital A/c				30,000
	To Premium for Goodwill A/c				12,000
	(Being Chintan brought capital and premium for Goodwill for 1/4 share of profit)				
	Premium for Goodwill A/c	Dr.		12,000	
	To Azad's Capital A/c				8,000
	To Babli's Capital A/c				4,000
	(Being goodwill brought by Chintan transferred to old partners capital account in their sacrificing ratio i.e., 2:1)				
	General Reserve A/c	Dr.		6,000	
	To Azad's Capital A/c				4,000
	To Babli's Capital A/c				2,000
	(Being general reserve distributed between old partners)				
	Building A/c	Dr.		5,000	
	To Revaluation A/c				5,000
	(Being increase in value of Building adjusted)				
	Revaluation A/c	Dr.		2,480	
	To Machinery A/c				2,000
	To Provision for Doubtful Debt A/c				480

	(Being decrease in value of machinery adjusted and Provision for Doubtful Debt created)				
	Revaluation A/c	Dr.		2,520	
	To Azad's Capital A/c				1,680
	To Babli's Capital A/c				840
	(Being profit on Revaluation transferred to Azad and Babli capital Account)				
	Azad's Capital A/c	Dr.		3,680	
	To Azad's Current A/c				3,680
	(Being excess of capital transferred to current account)				
	Babli's Capital A/c	Dr.		8,840	
	To Babli's Current A/c				8,840
	(Being excess of capital transferred to current account)				

Books of Arun, Bablu, Chetan and Deepak

Profit and Loss Adjustment Account

(Revaluation Account)

Dr.				Cr.
Particulars		**Amount Rs.**	**Particulars**	**Amount Rs.**
To Machinery A/c		2,000	By Buildings A/c	5,000
To Provision for Doubtful Debt A/c		480		
To Profit transferred to:				
Azad's Capital A/c	1,680			
Babli's Capital A/c	840	2,520		
		5,000		**5,0000**

Partners' Capital Account

Dr.							Cr.
Particulars	**Azad**	**Babli**	**Chintan**	**Particulars**	**Azad**	**Babli**	**Chintan**
To Current A/c	3,680	8,840		By Balance b/d	50,000	32,000	
To Balance c/d	60,000	30,000	30,000	By Bank A/c			30,000
				By Premium for Goodwill A/c	8,000	4,000	
				By General Reserve A/c	4,000	2,000	
				By Revaluation A/c	1,680	840	
	63,680	**38,840**	**30,000**		**63,680**	**38,840**	**30,000**

Balance Sheet as on December 31, 2015					
Dr.					Cr.
Liabilities		Rs.	Assets		Rs.
Creditors		8,000	Cash at Hand		2,000
Bills Payable		4,000	Cash at Bank		52,000
Current Accounts:			Sundry Debtors	8,000	
Azad	3,680		Less: Provision for Doubtful Debt	480	7,520
Babli	8,840	12,520	Stock		10,000
Capital Accounts:			Furniture		5,000
Azad	60,000		Machinery		23,000
Babli	30,000		Buildings		45,000
Chintan	30,000	1,20,000			
		1,44,520			**1,44,520**

Working Note:

1. Calculation of New profit sharing Ratio

$$\text{Chintan's Shares} = \frac{1}{4}$$

$$\text{Remaining share of firm} = 1 - \frac{1}{4} = \frac{3}{4}$$

$$\text{Azad's new share} = \frac{2}{3} \times \frac{3}{4} = \frac{6}{12}$$

$$\text{Babli's new share} = \frac{1}{3} \times \frac{3}{4} = \frac{3}{12}$$

New Profit sharing ratio of Azad, Babli and Chintan

$$= \frac{6}{12} : \frac{3}{12} : \frac{1}{4}$$

$$= \frac{6}{12} : \frac{3}{12} : \frac{3}{12}$$

$$= 6 : 3 : 3$$

i.e., $2 : 1 : 1$

2. New capital of Azad, and Babli

Chintan bring ₹30,000 for $\frac{1}{4}$ share of profit.

$$\text{Hence total capital of firm} = 30,000 \times \frac{4}{1} = 1,20,000$$

$$\text{Azad's Capital} = 1,20,000 \times \frac{2}{4} = 60,000$$

$$\text{Babli's Capital} = 1,20,000 \times \frac{1}{4} = 30,000$$

*********** END **********