VIDYA BHAWAN BALIKA VIDYA PITH

शक्ति उत्थान आश्रम लखीसराय बिहार

Class 12 commerce   Sub. ACT.   Date 25.6.2020

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Reconstitution of a Partnership Firm –Admission of a Partner

Question 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, 2016 (before Chintan's admission) was as follows:

Balance Sheet of A and B as on 31.12.2016

Liabilites		**Amount (Rs)**	**Assets**	**Amount (Rs)**
Creditors		8,000	Cash in 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		Funiture	5,000
Babli	32,000	82,000	Machinery	25,000
			Buildings	40,000
		1,00,000		1,00,000

It was agreed that:

i) Chintan will bring in Rs 12,000 as his share of goodwill premium.

ii) Buildings were valued at Rs 45,000 and Machinery at Rs 23,000.

iii) A provision for doubtful debts is to be created @ 6% on debtors.

iv) 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.

ANSWER:

Books of Azad, Babli and Chintan

Journal

Date	Particulars	L.F.	Amount Rs	Amount Rs
2016 Dec 31	Bank A/c Dr.		42,000	
	To Chintan's Capital A/c			30,000
	To Premium for Goodwill A/c			12,000
	(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
	(Goodwill brought by Chintan transferred to old partners capital account in their sacrificing ratio, 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
	(General reserve distributed between old partners)			
	Building A/c Dr.		5,000	
	To Revaluation A/c			5,000
	(Increase in value of Building adjusted)			
	Revaluation A/c Dr.		2,480	
	To Machinery A/c			2,000

	To Provision for Doubtful Debt (Decrease in value of machinery adjusted and Provision for Doubtful Debt created)			480
	Revaluation A/c Dr. To Azad is Capital A/c To Babli's Capital A/c (Profit on revaluation transferred to Azad and Babli's Capital Account)		2,520	 1,680 840
	Azad's Capital A/c Dr. To Azad's Current A/c (Excess of Capital transferred to current account)		3,680	 3,680
	Babli's Capital A/c Dr. To Babli's Current A/c (Excess of Capital transferred to current account)		8,840	 8,840

Revaluation Account

Dr. **Cr.**

Particulars		**Amount Rs**	**Particulars**	**Amount Rs**
To Machinery		2,000	Building	5,000
To Provision for Doubtful Debt		480		
To Profit transferred to				
Azad's Capital	1,680			
Babli's Capital	840	2,520		
		5,000		5,000

Partner's Capital Account

Dr.

Particulars	Azad	Babli	Chintan	Particulars	Azad	Babli
Current A/c	3,680	8,840		Balance b/d	50,000	32,000
Balance c/d	60,000	30,000	30,000	Bank		
				Premium for Goodwill	8,000	4,000
				General Reserve	4,000	2,000
				Revaluation	1,680	840
	63680	38,840	30,000		63680	38,840

Balance Sheet as on December 31, 2006

Liabilities		Amount (Rs)	Assets		Amount (Rs)
Creditors		8,000	Cash in Hand		2,00
Bills Payable		4,000	Cash at Bank		52,00
Current Accounts:			Sundry Debtors	8,000	
Azad	3,680		*Less*: Provision for Doubtful debt	480	7,52
Babli	8,840	12,520	Stock		10,00
Capital Accounts:			Furniture		5,00
Azad	60,000		Machinery		23,00
Babli	30,000		Building		45,00
Chintan	30,000	1,20,000			
		1,44,520			1,44,52

Working Note:

1) Calculation of New Profit Sharing Ratio

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

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

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

$$\text{Babli's New Share} = \frac{1}{3} \times \frac{3}{4} = \frac{3}{12}$$

New Profit sharing ratio of Azad, Babli and Chintan

$$= \frac{6}{12} : \frac{3}{12} : \frac{1}{4} \text{ or } \frac{6}{12} : \frac{3}{12} : \frac{3}{12} \text{ or } 6:3:3 \text{ or } 2:1:1.$$

2) New Capital of Azad, and Babli

Chintan bring Rs 30,000 for $\frac{1}{4}$ share of profit. Hence total capital of a firm = 30,000× $\frac{4}{1}$ =1,20,000

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

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