

## Admission of a Partner

### Meaning

*According to Section 31 of Indian Partnership Act 1932 "A Partner can be admitted only consent of all the Existing Partners."*

### Adjustments required when a New Partner is Admitted

- a. Calculation of New Profit Sharing Ratio / Sacrificing Ratio.
- b. Valuation and Treatment of Goodwill.
- c. Revaluation of Assets and Liabilities.
- d. Adjustment of accumulated Profits, Reserve and Losses.
- e. Necessary Adjustment of Capital Accounts of Partners.

### Change in Profit Sharing Ratio

*A New Partner Acquires his share from the Old Partner in any of the following Manners;*

*(i) In their old Profit Selling Ratio*

*(ii) In a Particular Ratio or Surrendered Ratio*

*(iii) In a particular fraction from some of the partner*

## Accounting Treatment of Goodwill

<b>1. When Goodwill (Premium) is paid by the New Partner Privately</b>	No Entry	
<b>2. When Goodwill brought in Cash by the New Partner</b>	(i) Cash/Bank A/c	...Dr.
	To Premium for Goodwill A/c	
	(ii) Premium for Goodwill A/c	... Dr.
	To Sacrificing Partners' Capital A/c	
	(In Sacrificing Ratio)	
	To Sacrificing Partners' Current A/c s	
	(When Capital is Fixed)	
<b>3. Goodwill Withdrawn by the Sacrificing (Old) Partners</b>	Sacrificing Partners' Capital A/c s	...Dr.
	To Cash/Bank A/c	
<b>4. Goodwill not brought in Cash</b>	New Partner's Capital or Current A/c	... Dr.
	To Sacrificing Partners' Capital or current A/c	
	[Sacrificing Ratio]	
<b>5. Goodwill brought in Kind</b>	Assets A/c ...Dr.	
	To Premium for Goodwill A/c	

## Hidden or inferred goodwill

Sometimes the value of goodwill is not given at the time of admission of a new partner. In such a situation, goodwill is calculated on the basis of net worth of the business. Hidden goodwill is the excess of desired total capital of the firm over the actual combined capital of all partners'.

### For Example

Capital of L and M are ₹ 2,00,000 and ₹ 1,50,000 respectively. They admit N as a Partner for 1/5 share with ₹ 1,00,000 as his Capital.

On the basis of N's Capital, total Capital of the Firm should be ₹ 5,00,000 (1,00,000 × 5/1). But the actual Capital of the Firm is ₹ 4,50,000 (2,00,000 + 1,50,000 + 1,00,000). Hence, Hidden Goodwill:

$$\begin{aligned} &= ₹ 5,00,000 - ₹ 4,50,000 \\ &= ₹ 50,000 \end{aligned}$$

## Revaluation of Assets and Reassessment of Liabilities

### Accounting Entries

(i) For increase in the value of Assets	Assets A/c (Individually) .... Dr. To Revaluation (or P & L Adjustment) A/C
(ii) For a decrease in the value of Assets	Revaluation A/c ....Dr. To Assets A/c (Individually)
(iii) For an increase in the amount of Liabilities	Revaluation A/c ....Dr. To Liabilities A/c (Individually)
(iv) For a decrease in the amount of Liabilities	Liability A/c (Individually) ....Dr. To Revaluation A/c
(v) For an accounting unrecorded Assets	Assets A/c (Individually) ....Dr. To Revaluation A/c
(vi) For accounting unrecorded Liabilities	Revaluation A/c ....Dr. To Liability A/c (Individually)

### Revaluation Account

Particulars	₹	Particulars	₹
To Decrease in value of assets	.....	To increase in value of liabilities	.....
By Increase in value of assets	.....	By Decrease in value of liabilities	.....
To Unrecorded liabilities	.....	By Unrecorded assets	.....
To Profit transfer to the old Partner's	.....	By Loss transfer to the old Partner's	.....
Capital A/c s (in the old ratio)	.....	Capital A/c s (in the old ratio)	.....

## RESERVES AND ACCUMULATED (UNDISTRIBUTED) PROFITS /LOSSES

### *Accounting Entries*

#### *(i) For transfer of Reserves and Accumulated Profits:*

Profit and Loss	...Dr.	
Reserve Fund A/c or General Reserve	...Dr.	
Workmen Compensation Reserve	...Dr. [Excess of Reserve	over Actual Liabilities]
Investment Fluctuation Reserve A/c	...Dr. [Excess of Reserve over the difference between Book Value and market Value]	
To Old Partners' Capital A/c s	[In old Ratio]	

(Being the reserve and profit transferred to old partners in their old ratio)

#### *(ii) For transfer of Reserves and Accumulated Losses:*

Old Partners' Capital A/c s	..... Dr.	
To Profit and Loss A/c	[In old Ratio]	
To Deferred Revenue Expenditure A/c		

(Like Advertisement Expenditure)

(Being the accumulated losses transferred to old partners in their old ratio)

### *Adjustment of Partners' Capital*

#### **Case 1. Calculation of New Partner's Capital on the basis of Old Partners**

**Step 1.** Calculate the adjustment closing capitals of old Partners (after all adjustments have been made)

**Step 2.** Calculate the total closing Capital of New Firm as under:

Total capital of New Firm = Combined adjusted Closing Capitals of Old Partners X Reciprocal of remaining share of profit of old partners.

**Step 3.** Calculate the proportionate Capital of New Partner as under:

New Partner's Capital = Total capital of new firm x New partner's proportion of share of profit.

#### **Case 2. Adjustment of Old Partners' Capital on the basis of New Partner's Capital**

**Step 1.** Calculate total capital of new firm on the basis of new partner's capital i.e. new partner's capital X Reciprocal of proportion of share profit of new partner.

**Step 2.** Calculate the new capital of old partners by dividing the total capital in their new profit sharing ratio.

**Step 3.** Calculate the adjusted closing capitals of old partners (i.e. after all adjustments have been made)

**Step 4.** Calculate the surplus /deficiency in each of the old partner's capital account by comparing the new capital with their adjusted old capital which is adjusted through cash or transferred to their Current A/c

***Adjustment of Surplus/Deficiency through Cash:***

**(a) If Capital of Old Partners falls short (Deficit), bring in cash:**

Cash/Bank A/c .....Dr.

To Partners' Capital A/c s

**(b) If capital of old partner has a surplus, withdraw cash:**

Partners' Capital A/cs .....Dr.

To Cash/Bank A/c

***Adjustment of Surplus/Deficiency through Partner's Current Account:***

**(a) If the existing capital is more than his required capital (surplus)**

Partner's Capital A/c .....Dr.

To Partner's Current A/c

**(b) If the existing capital is less than his required capital (deficit)**

Partner's Current A/c .....Dr.

To Partner's Capital A/c

If Current Account shows a Credit Balance, it is taken to the Liabilities side of the Balance Sheet. However, if Current Account shows a Debit Balance, it is placed on the Assets side of the Balance Sheet.