St. Lawrence High School

A Jesuit Christian Minority Institution

Study Material 3

Sub: ACCOUNTANCY Class 12

Chapter: Unit 2: Reconstitution of Partnership Date: 15/08/2020

Topic: Admission of Partner

ADMISSION OF PARTNER

In case of admission of partner the following adjustments are required:

1. Calculation of New Ratio and Sacrificing Ratio.
2. Accounting treatment for Goodwill.
3. Accounting treatment for capital brought by new partner.
4. Revaluation of assets and reassessment of liabilities.
5. Distribution of undistributed profits and reserves.

1. Calculation of New Ratio and Sacrificing Ratio.

Based on new partner's share of profit new ratio is to be determined as well as sacrificing ratio is as follows:

Sacrificing Ratio = Old Ratio – New Ratio

2. Accounting treatment for Goodwill

At the time of admission new partner suppose to bring his premium for goodwill. The following accounting treatments are required.

(i) If premium for goodwill is paid privately by new partner:

No entry is required.

(ii) If premium for goodwill is paid in cash by the new partner:

(a) Cash/ Bank A/C……………………………Dr.

To, Premium for Goodwill A/C

(b) Premium for Goodwill A/C…………..Dr.

To, Old Partners Capital A/c (Sacrificing Ratio)

(iii) If premium for goodwill is brought in kind (i.e. in the form of assets)

(a) Assets A/C………………………………………Dr.

To, New partners capital A/C

To, Premium for Goodwill A/C

.(b) Premium for Goodwill A/C…………..Dr

To, Old Partners Capital A/c (Sacrificing Ratio)

(iv) If new partner is unable to bring his premium for goodwill in cash

Incoming partners current A/C…………Dr

To,, Old Partners Capital A/C (Sacrificing Ratio)

(v) If new partner brings part of his premium for goodwill in cash

(a) Cash/ Bank A/C…………………………..Dr.

To, Premium for Goodwill A/C (**for portion paid)**

(b) Premium for Goodwill A/C…………Dr **(for portion paid)**

New Partners Current A/C………….Dr (**for portion unpaid)**

To, Old Partners Capital A/C **(total premium in sacrificing ratio)**

Accounting Standard-26 (AS-26) 'Intangible Assets' Issued by Institute of Chartered Accountant of India

AS-26 'Intangible Assets' deals with the measurement and accounting of intangible assets such as goodwill, research and development, etc. It requires that intangible assets should be recognized in the books of account only if:

(i) future economic benefits attributable to the intangible asset shall flow to the enterprise; and

(ii) the cost of the asset can be reliably measured.

Goodwill being an intangible asset, shall be recognized or recorded in the books of account only when consideration in money or money's worth has been paid for it i.e., it is a purchased goodwill. Thus, internally generated goodwill should not be recognized or recorded in the books of account because it cannot be reliably measured in money terms.

In case of admission or retirement/death of a partner or in case of change in profit-sharing ratio among the partners, goodwill should not be recorded in the books of the firm because it is internally generated goodwill, i.e., consideration in money or money's worth is not paid for it. If any partner brings any premium over and above his capital contribution at the time of admission, such premium should be distributed among sacrificing partners.

3. Accounting treatment for capital brought by new partner

Cash / Bank A/C ……………………..Dr

To, New Partners Capital A/C

4. Revaluation of assets and reassessment of liabilities

(i) Increase in assets and decrease in liabilities:

Assets A/C……………………………….Dr

Liabilities A/C…………………………Dr

To, Revaluation A/C

(ii) Decrease in assets and increase in liabilities:

Revaluation A/C……………………..Dr

To, Assets A/C

To, Liabilities A/C

(iii) Profit on revaluation:

Revaluation A/C……………………………Dr

To, Old partners capital A/C (Old Ratio)

(iv) Loss on revaluation:

Old partners capital A/C………………Dr (Old Ratio)

To, Revaluation A/C

5. Distribution of undistributed profit and reserves

(i) Distribution of undistributed profit:

General Reserve A/C……………………Dr

P/L (Cr.) A/C………………………………..Dr

To, Old Partners Capital A/C (Old Ratio)

(ii) Distribution of undistributed loss:

Old Partners Capital A/C …………..Dr (Old Ratio)

To, P/L (Dr) A/C

Steps of solution:

1) Journal Entries

2) Revaluation A/C

3) Partners Capital A/C

4) Balance Sheet of the reconstituted firm