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शक्ति उत्थान आश्रम लखीसराय बिहार

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Reconstitution of a Partnership Firm –Admission of a Partner

Illustration 18

Srikant and Raman are partners in a firm sharing profits and losses in the ratio of 3:2. They decide to admit Venkat into partnership with 1/3 share in the profits. Venkat brings in Rs 30,000 as his capital. He also promises to bring in the necessary amount for his share of goodwill. On the date of admission, the goodwill has been valued at Rs 24,000 and the goodwill account already appears in the books at Rs 12,000. Venkat brings in the necessary amount for his share of goodwill and agrees that the existing goodwill account be written off. Record the necessary journal entries in the books of the firm.

Solution

Books of Srikant and Raman
Journal

Date	*Particulars*		*L.F.*	*Debit (Rs.)*	*Credit (Rs.)*
1.	Cash A/c	Dr.		38,000	
	To Venkat's Capital A/c				30,000
	To Goodwill A/c				8,000
	(Amount brought in by Venkat as his capital and his share of goodwill)				
2.	Goodwill A/c	Dr.		8,000	
	To Srikant's Capital A/c				4,800
	To Raman's Capital A/c				3,200
	(Goodwill brought in by Venkat shared by old partners in their ratio of sacrifice)				
3.	Srikant's Capital A/c	Dr.		7,200	
	Raman's Capital A/c	Dr.		4,800	
	To Goodwill A/c				12,000
	(Goodwill already appearing in books written-off in the old ratio)				

Note: Since nothing is given about the ratio in which the new partner acquires his share of profit from Srikant and Raman, it is implied that they sacrifice their share of profit in favour of Venkat in the old ratio i.e., 3:2.

3.5.5.2 Revaluation Method

This method is followed when the new partner does not bring in his share of goodwill in cash. In such a situation, the goodwill account is raised in the books of account by crediting the old partners in the old profit sharing ratio. When goodwill account is to be raised in the books of account there are two possibilities,

(a) No goodwill appears in books at the time of admission, and

(b) Goodwill already exists in books at the time of admission.

(a) When no goodwill exists in the books: When no goodwill exists in the books at the time of the admission of a new partner, the goodwill account must be raised at its full value. This can be done by debiting goodwill account with its full value and crediting the old partners' capital accounts in their profit sharing ratio. The journal entry will be:

Goodwill A/c Dr.

To Old Partners' Capitals A/c (individually)

(Goodwill raised at full value in the old ratio)

The goodwill thus raised shall appear in the balance sheet of the firm at its full value.

Illustration 19

Ahuja and Barua are partners in a firm sharing profits and losses in the ratio of 3:2. They decide to admit Chaudhary into partnership for 1/5 share of profits, which he acquires equally from Ahuja and Barua. Goodwill is valued at Rs. 30,000. Chaudhary brings in Rs. 16,000 as his capital but is not in a position to bring any amount for goodwill. No goodwill account exists in books of the firm. Goodwill account is to be raised at full value. Record the necessary journal entries.

Solution

Book of Ahuja and Barua
Journal

Date	*Particulars*	*L.F.*	*Debit (Rs.)*	*Credit (Rs.)*
1.	Cash A/c Dr. To Chaudhary's Capital A/c (Amount brought for capital)		16,000	 16,000
2.	Goodwill A/c Dr. To Ahuja's Capital A/c To Barua's Capital A/c (Goodwill raised at full value in old ratio)		30,000	 18,000 12,000

Note: **Goodwill shall appear in the balance sheet at Rs. 30,000**

Sometimes, a partner may bring in a part of his share of goodwill. In such a situation, after distributing the amount brought in for goodwill among the old partners in their sacrificing ratio, the goodwill account is raised in the books based on the portion of premium not brought by the new partner. For example, Pooja and Sandeep are partners sharing profits in ratio of 3:3. They admit Tushar as a new partner for $\frac{1}{3}$ share in profits. Tushar is to bring in Rs. 30,000 as his

share of goodwill as the total value of goodwill is estimated at Rs. 90,000. But he brings Rs. 15,000 only (half of what is due) on this account. In this case, after due credit for Rs. 15,000 to Pooja's and Sandeep's capital accounts in their sacricifing ratio, goodwill account will be raised by Rs. 45,000 (half of its total value) by crediting their old profit sharing ratio.