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Accounting for Partnership : **Admission of a Partner**

Question 1:

Identify various matters that need adjustments at the time of admission of a new partner.
ANSWER:

The following are the various items that need to be adjusted at the time of admission of a new partner.

1. **Profit Sharing Ratio**: Calculation of new profit sharing ratio.

2. **Goodwill**: Valuation and adjustment of goodwill among the sacrificing old partners.

3. **Revaluation of Assets and Liabilities**: Assets and liabilities are revalued to ascertain the current value of the assets and liabilities of the partnership firm. Moreover, the profit or loss due to the revaluation need to be distributed among the old partners.

4. Accumulated profits, losses and reserves are distributed among the old partners in their old ratio.

5. **Adjustment of capital of the partners**

Question 2:

Why i is it necessary to ascertain new profit sharing ratio even for old partners when a new partner is admitted?
ANSWER:

When new partner/s is/are admitted, then the old partners in the partnership firm need to sacrifice their share of profit in favour of the new partner/s. This reduces the share of profit of the old partners ,hence, it is necessary to ascertain the new profit sharing ratio even for the old partners in the event of admission of new partner/s

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Question 3:

What is sacrificing ratio? Why is it calculated?
ANSWER:

Sacrificing ratio refers to the ratio in which the old partners of a partnership firm surrender their share of profit in favour of the new partner/s. It is calculated as a difference between the old ratio and the new ratio of the old partners.

Sacrificing Ratio = Old Ratio − New Ratio

It is very important to calculate this ratio, as the new partner need to compensate the old partners for sacrificing their share of profit. The new partner compensates the old partners by making payment to them in the form of goodwill that is transferred among the old partners in their sacrificing ratio.

Question 4:

On what occasions sacrificing ratio is used?
ANSWER:

The following are the different situations when sacrificing ratio is used.

1. When the existing partners of a partnership firm agree to change the share of profit among themselves.

2. When a new partner is admitted in the partnership firm and the amount of the goodwill brought by him/her is transferred among the old partners in sacrificing ratio of the old partners.

Question 5:

If some goodwill already exists in the books and the new partner brings in his share of goodwill in cash, how will you deal with existing amount of goodwill?
ANSWER:
If goodwill already appears in the books of old firm (before the admission of new partner), then this should be written off among the old partners in their old profit sharing ratio. The following Journal entry is passed.

Old Partner's Capital A/c	Dr.
To Goodwill A/c	

(Goodwill written off in old ratio among the old partners)

Question 6:

Why is there need for the revaluation of assets and liabilities on the admission of a partner?

ANSWER:

At the time of admission of a new partner, it becomes very necessary to revalue the assets and liabilities of a partnership firm for ascertaining its true and fair values. This is done because the value of assets and liabilities may have increased or decreased and consequently their corresponding figures in the old balance sheet may either be understated or overstated. Moreover, it may also be possible that some of the assets and liabilities are left unrecorded. Thus, in order to record the increase and decrease in the market value of the assets and liabilities, Revaluation Account is prepared and any profits or losses associated with this increase or decrease are distributed among the old partners of the firm.