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## शक्ति उत्थान आश्रम लखीसराय बिहार

class 12 commerce   Sub. ACT.   Date 7.6.2020

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## Reconstitution of a Partnership Firm –Admission of a Partner

### Hidden Goodwill

Sometimes the value of goodwill is not given at the time of admission of a new partner. In such a situation it has to be inferred from the arrangement of the capital and profit sharing ratio. Suppose, A and B are partners sharing profits equally with capitals of Rs. 45,000 each. They admitted C as a new partner for one-third share in the profit. C brings in Rs. 60,000 as his capital. Based on the amount brought in by C and his share in profit, the total capital of the newly constituted firm works out to be Rs.1,80,000 (Rs. 60,000 × 3). But the actual total capital of A, B and C works out as Rs. 1,50,000 (Rs. 45,000 + Rs. 45,000 + Rs. 60,000). Hence, it can be inferred that the difference is on account of goodwill i.e., Rs. 30,000 (Rs. 1,80,000 – Rs. 1,50,000). Which is to be shared equally (old ratio) by A and B. This shall raise their capital accounts to Rs. 60,000 each and total capital of the firm to Rs. 1,80,000. Alternatively, if goodwill account is not to be raised, C's capital account can be debited by Rs. 10,000 (his share of goodwill) and A and B's Capital accounts credited by Rs. 5,000 each, and firm's total capital remains Rs. 50,000.

**Illustration 22**

Hem and Nem are partners in a firm sharing profits in the ratio of 3:2. Their capitals were Rs. 80,000 and Rs. 50,000 respectively. They admitted Sam on Jan. 1, 2007 as a new partner for 1/5

***Solution***

**Value of Firm's Goodwill**

Sam's capital = Rs. 60,000

Sam's share = $\frac{1}{5}$

Total capital of new firm = 5 × Rs.60,000 = Rs. 3,00,000

Hem's+Nem's+Sam's = Rs.80,000 + Rs. 50,000 + Rs.60,000 = Rs.1,90,000

Goodwill of the firm = Rs.1,10,000 (Rs. 3,00,000 – Rs.1,90,000)

Sam's share = $\frac{1}{5}$ × Rs.1,10,000 = Rs. 22,000

**Books of Hem, Nem and Sam**
**Journal**

| Date 2007 | Particulars | L.F. | Debit Amount (Rs.) | Credit Amount (Rs.) |
|---|---|---|---|---|
| 1. | Bank A/c Dr.<br>To Sam's Capital A/c<br>(Cash brought by Sam for his capital) | | 60,000 | 60,000 |

share in the future profits. Sam brought Rs. 60,000 as his capital. Calculate the value of goodwill of the firm and record necessary journal entries on Sam's admission.

| | | | | | |
|---|---|---|---|---|---|
| 2. | Goodwill A/c<br>To Hem's Capital A/c<br>To Nem's Capital A/c<br>(Credit given for goodwill to Hem and Nem on Sam's admission) | Dr. | | 1,10,000 | <br>66,000<br>44,000 |

Alternatively, if goodwill account is not to be raised, the second journal entry passed for goodwill shall be as fallows.

| | | | | | |
|---|---|---|---|---|---|
| | Sam's Capital A/c<br>To Hem's Capital A/c<br>To Nem's Capital A/c | Dr. | | 22,000 | <br>13,200<br>8,800 |

## Adjustment for Accumulated Profits and Losses

Sometimes a firm may have accumulated profits not yet transferred to capital accounts of the partners. These are usually in the firm of general reserve, reserve fund and/or Profit and Loss Account balance. The new partner is not entitled to have any share in such accumulated profits. These are distributed among the partners by transferring it to their capital accounts in old profit sharing ratio. Similarly, if there are some accumulated losses in the form of a debit balance of profit and loss account appearing in the balance sheet of the firm. A remote possibility, the same should also be transferred to the old partners' capital accounts (see Illustration 23).

**Illustration 23**

Rajinder and Surinder are partners in a firm sharing profits in the ratio of 4:1. On April 15, 2007 they admit Narender as a new partner. On that date there was a balance of Rs. 20,000 in general reserve and a debit balance of Rs. 10,000 in the profit and loss account of the firm. Pass necessary journal entries regarding adjustment of a accumulate a profit or loss.

**Solution**

**Books of Rajinder,Surinder and Narender**
**Journal**

| Date 2007 | Particulars | | L.F. | Debit Amount (Rs.) | Credit Amount (Rs.) |
|---|---|---|---|---|---|
| Apr.15 | General Reserve A/c<br>To Rajinder's capital A/c<br>To Surender's capital A/c<br>(General Reserve balance transferred to the capital account of Rajinder and Surinder on Narender's admission) | Dr. | | 20,000 | <br>16,000<br>4,000 |
| | Rajinder's Capital A/c<br>Surender's Capital A/c<br>To Profit and Loss A/c<br>(Debit balance of Profit and Loss A/c transferred to old partners' capital accounts) | Dr.<br>Dr. | | 8,000<br>2,000 | <br><br>10,000 |