

## RECONSTITUTION OF PARTNERSHIP

### ADMISSION OF A PARTNER

Admission of a partner means inclusion of a new person as a partner to an existing firm is called admission of a partner for the right to share profit of the partnership firm, the new partner is required to bring some amount which is known as premium or his share of goodwill.

### ADJUSTMENTS AT THE TIME OF ADMISSION OF A PARTNER

- Calculation of new profit sharing ratio
- Calculation of sacrificing ratio
- Accounting treatment of goodwill
- Accounting treatment of accumulated profits and losses
- Accounting treatment of revaluation of assets and liabilities
- Adjustment of partners capital

### CALCULATION OF NEW PROFIT SHARING RATIO

(NEW SHARE = OLD SHARE – SACRIFICE SHARE)

### SACRIFICING RATIO

Sacrificing ratio is the ratio where the old partners give their consent to forego their share of gains into the new partner. Sacrificing ratio is computed during the time of addition or admission of a new associate partner.

### SACRIFICE RATIO = OLD RATIO - NEW RATIO

### ACCOUNTING TREATMENT OF GOODWILL

1. Private distribution of goodwill

- No entry required

2. Goodwill is given in cash form by new partner

- Cash / Bank Account.....Debit           xxx  
    To Goodwill / Premium Account               xxx
  
- Premium for Goodwill account .....debit           xxxx  
    To old partner's capital account                               xxxx

3. When new partner bring goodwill in cash in business and taken by old partner and then withdraw by old partner

*Above two entries will pass as same as*

- Old partner's capital account..... Debit           xxx  
    To cash / bank account                               xxx

4. When new partner do not bring goodwill in cash form

- New partner's capital / current account..... debit           xxx  
    To old partner's capital account                               xxx



[7] For transferring Profit on Revaluation

➤ Revaluation A/c .....Dr. xxxxx  
To Old Partners' Capital A/c (Individually) xxxxx

[8] For transferring Loss on Revaluation

➤ Old Partners' Capital A/c (Individually)..... Dr. xxxxx  
To Revaluation A/c xxxxx

## WORK SHEET

Q1. A and B are partners in a firm their share is 5:3 respectively C enters in this firm for  $\frac{1}{4}$ <sup>th</sup> share in profit. Find out a new profit sharing ratio?

Q2. A and B are partners in a firm sharing profits and losses in the ratio of 4:3 they admit C and D with  $\frac{1}{5}$ <sup>th</sup> and  $\frac{1}{10}$ <sup>th</sup> share respectively. Calculate new profit sharing ratio of A, B, C and D.

Q3. P, Q and R are the partners sharing profit in the ratio 3:2:1 they admit S into partnership .The new ratio is 5:3:2:2 calculate the sacrificing ratio.

Q4. X and Y are partners sharing profits and losses in the ratio of 7:5 .They admit Z as a new partner who acquires  $\frac{1}{12}$ <sup>th</sup> share from X and  $\frac{1}{6}$ <sup>th</sup> from as his share calculate the new profit sharing ratio and the sacrificing ratio.

Q5. X and Y are the partners in a firm sharing profits and losses in the ratio of 2:1 their capital are Rs 80000 and Rs 40000 respectively they admit Z into partnership on the condition that he will bring in Rs 30000 as goodwill and Rs 50000 as capital and will get  $\frac{1}{3}$ <sup>rd</sup> share in the profits of the firm assuming that the premium for goodwill and capital have been brought in cash by the new partner pass the necessary entry when

- Amount of goodwill is paid privately to sacrificing partners
- Amount of goodwill is retained in the business by sacrificing partners
- Amount of goodwill is withdrawn by sacrificing partners

Q6. Amit and Sumit share profits and losses in the ratio of 5:3 Lucky joined on 1<sup>st</sup> April 2019 the following revaluations were made

1. Increase the value of building by Rs 10000
2. Reduce the value of debtors by Rs 2000
3. Interest due on overdraft Rs 300 was not shown in the balance sheet
4. Prepaid Insurance premium Rs 300 omitted

Give journal entries and prepare Revaluation Account