CHAPTER-4 ADMISSION OF A PARTNER

concept no.

3 Accounting Treatment of Goodwill on the Admission of a New Partner

A. When Goodwill is already appearing in existing in Balance sheet

B. When New or Incoming Partner is not able to bring his Share of Premium for Goodwil

C. Raising and Writing off Goodwill

D. When new partner brings in only a part of his share of goodwill/premium

E. Hidden Goodwill

F. When Premium for Goodwill is brought in by New or Incoming Partner and is withdrawn by Old Partners Fully or Partly

G. Premium for Goodwill brought in Kind

concept no.3

Accounting Treatment of Goodwill on the Admission of a New Partner :

There may be 2 situations related to treatment of goodwill (premium) at the time of admission of a new partner :

(1) When the amount of goodwill (premium) is paid privately;
"**NO SUCH ENTRY IS REQUIRED**"

(2) When the new partner brings his share of goodwill (premium) in Cash;

- Bank a/c .....Dr.
  To Premium of Goodwill a/c

- Premium of Goodwill a/c .....Dr.
  To Sacrificing Partner's Capital a/c
  (In sacrificing ratio of old Partners)

COMMERCE RAMA

concept no.3

Question

Q.1) A and B are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. Their capitals are ₹ 1,80,000 and ₹ 1,40,000 respectively. They admit X in partnership on the conditions that he will bring ₹67,500 as goodwill and ₹ 1,50,000 as capital and will get 1/4 share in the profits of the firm. Assuming that the capital and goodwill have been brought in cash by the new partner, pass the necessary journal entries and also find out new profit sharing ratio of partners.

[Ans: The new profit sharing ratio of A, B & X will be 9 : 6 : 5.

(i) Dr. Bank a/c by ₹2,17,500 **& Cr. X's Capital a/c by ₹1,50,000**

; Cr. Premium for Goodwill a/c ₹67,500 **(ii) Cr. Premium for Goodwill a/c** ₹67,500 **& A's Capital a/c by ₹40,500; Cr. B's Capital a/c by ₹27.000]**

COMMERCE RAMA

concept no.3

Question

Q.2). X and Yare partners sharing profit and losses in the ratio of 2 : 1. They admit Z into partnership with 1/4th share in profits which he acquires equally from X and Y. Z brings in ₹ 1,65,000 as capital and ₹30,000 as goodwill in cash.

Pass entries and calculate new profit sharing ratios.

[ANS: The new profit sharing ratio of X, Y & Z will be 13 : 5 : 6.

(i) Dr. Bank a/c by ₹1,95,000 & Cr. Z's Capital a/c by ₹1,65,000; Cr. Premium for Goodwill a/c ₹30,000

(ii) Cr. Premium for Goodwill a/c ₹30,000 & X's Capital a/c by ₹15,000; Cr. Y's Capital a/c by ₹15,000]

COMMERCE RAMA

concept no.3 (Sub-Concept-A) When Goodwill is already appearing in existing in Balance sheet

- **Old Partner's Capital a/c.....Dr.**
  To Goodwill a/c
  (in already existing profit sharing ratio)

Question

Q.3). Arti and Bharti are partners in a firm sharing profits in 3 : 2 ratio. The admitted Sarthi as a new partner and the new profit-sharing ratio will be 2 : 1 : 1. Sarthi brought ₹ 1,00,000 for her share of goodwill. Goodwill already appeared in the books of Arti and Bharti at ₹60,000.
Pass the necessary Journal entries in the books of the new firm for the above transactions.

[Ans. (i) Dr. Arti's Capital a/c by ₹36,000 & Bharti's Capital a/c ₹24,000; Cr. Goodwill a/c by ₹60,000 (ii) Dr. Bank a/c by ₹1,00,000 ; Cr. Premium for Goodwill a/c by ₹1,00,000.]

COMMERCE RAMA

concept no.3 (Sub-Concept-B) When New or Incoming Partner is not able to bring his Share of Premium for Goodwil

- **New Partner's Currents a/c .....Dr.**
  To Old Partner's Capital a/c
  (In sacrificing ratio of old Partner)

Question

Q.4). X and Yare partners in a firm sharing profits in the ratio of 5 : 3. On March 1,2021 they admitted Z as a new partner. The new profit sharing ratio will be 4 : 3 : 2. Z brought in ₹ 1,00,000 in cash as his share of capital but could not bring any amount for goodwill in cash. The firm's goodwill on Z's admission was valued at ₹ 1,80,000. X and Y decided that Z can bring his share of premium for goodwill later or it can be adjusted against his share of profits. At the time of Z's admission goodwill existed in the books of the firm at ₹2,40,000.

[Ans. Sacrificing ratio between X and Y = 13 : 3 (i) Dr. X's Capital a/c by ₹1,50,000 & Y's Capital a/c ₹90,000; Cr. Goodwill a/c by ₹2,40,000 (ii) Dr. Bank a/c by ₹1,00,000 ; Cr. Z's Capital a/c by ₹1,00,000. (iii) Dr. Z's Current a/c by ₹40,000 ; Cr. X's capital a/c by ₹32,500 & Y's capital by ₹7,500]

COMMERCE RAMA

concept no.3 (Sub-Concept-B) When New or Incoming Partner is not able to bring his Share of Premium for Goodwil

Question

Q.5). George and Henry are partners sharing profits in the ratio of 3 : 2. They decided to admit David as a new partner and to share future profits and losses equally.
David brings in ₹50,000 as his capital. Goodwill of the firm is valued at ₹60,000. Record the necessary journal entries :
(a) When no goodwill appears in the books
(b) When goodwill appears at ₹50,000, and
(c) When goodwill appears at ₹ 1,00,000.

[Ans. (a) (i) Dr. Bank a/c by ₹50,000; Cr. David's Capital a/c by ₹50,000. (ii) Dr. David's Current a/c by ₹20,000; Cr. George's Capital a/c by ₹16,000 & Henry's Capital a/c by ₹4,000.
(b) (i) Dr. George's Capital a/c by ₹30,000 & Henry's Capital a/c by ₹20,000; Cr. Goodwill a/c by ₹50,000. (ii) Dr. David's Current a/c by ₹20,000; Cr. George's Capital a/c by ₹16,000 & Henry's Capital a/c by ₹4,000.
(c) (i) Dr. George's Capital a/c by ₹60,000 & Henry's Capital a/c by ₹40,000; Cr. Goodwill a/c by ₹1,00,000. (ii) Dr. David's Current a/c by ₹20,000; Cr. George's Capital a/c by ₹16,000 & Henry's Capital a/c by ₹4,000.]

concept no.3 (Sub-Concept-C) Raising and Writing off Goodwill

- **Goodwill a/c.....Dr.**
  To Old Partner's Capital a/c
  (In already existing profit sharing ratio)
- **All Partner's Capital a/c .....Dr.**
  To Goodwill a/c
  (Including New Partner's Capital a/c in new profit sharing ratio)

Question

Q.6). A and B are partners sharing profits in the ratio of 3 : 2. They admit C into partnership. The new profit sharing ratio is agreed at 3 : 3 : 2. Firm's goodwill on C's admission is valued at ₹ 3,20,000 but C could not bring any amount of goodwill in Cash.

[Ans. (i) Dr. Goodwill A/c by ₹3,20,000; Cr. A's Capital a/c by ₹1,92,000 & B's Capital a/c ₹1,28,000 (ii) Dr. A's Capital a/c by ₹1,20,000, B's Capital a/c by ₹1,20,000 & C's Current a/c ₹80,000; Cr. Goodwill a/c by ₹3,20,000]

COMMERCE RAMA

concept no.3 (Sub-Concept-D) When new partner brings in only a part of his share of goodwill/premium

- **Bank a/c .....Dr.**
  To Premium of Goodwill a/c
- **Premium for Goodwill a/c.....Dr.**
  New Partner's Current a/c .....Dr.
  To Old Partner's Capital a/c.
  (In sacrificing ratio of old partners)

Question

Q.7). A and B are partners sharing profits in the ratio of 3 : 2. They admit C into the firm for l/4th share in profit which he takes 1/6th from A and 1/12th from B. C brings ₹ 50,000 as goodwill out of his share of ₹90,000. No goodwill account appears in the books of the firm. Pass necessary journal entries to record this arrangement.

[Ans. (i) Dr. Bank A/c by ₹50,000; Cr. Premium for Goodwill a/c by ₹50,000 (ii) Dr. Premium for Goodwill a/c by ₹50,000 & C's Current a/c by ₹40,000; Cr. A's Capital a/c ₹60,000 & B's Capital a/c by ₹30,000.]

COMMERCE RAMA

concept no.3 (Sub-Concept-E) Hidden Goodwill

Hidden Goodwill = *Value of Business - Total Capital*
Value Of Business = *Capital of New Partner x Reciprocal of his share of profit*

- **Bank a/c .....Dr.**
  To Premium of Goodwill a/c
- **Premium for Goodwill a/c.....Dr.**
  To Old Partner's Capital a/c.
  (In sacrificing ratio of old partners)

Question

Q.8) Hemant and Nishant were partners in a firm sharing profits in the ratio of 3 : 2. Their capitals were ₹1,60,000 and ₹ 1,00,000 respectively. They admitted Somesh on 1st April, 2021 as a new partner for 1/5 share in the future profits. Somesh brought ₹ 1,20,000 as his capital. Calculate the value of goodwill of the firm and record necessary journal entries for the above transactions on Somesh's admission.
[Ans. Hidden Goodwill ₹2,20,000; Somesh's Current A/c will be debited by ₹44,000 and Capital Accounts of Hemant and Nishant will be credited by ₹26,400 and ₹ 17,600 respectively.]

COMMERCE RAMA

ELITE COMMERCE MINDS
COMMERCE RAMA

concept no.3 (Sub-Concept-E)

Question

Q.9) Asin and Shreya are partners in a firm. They admit Ajay as a new partner with 1/5th share in the profits of the firm. Ajay brings ₹5,00,000 as his share of capital. The value of the total assets of the firm was ₹ 15,00,000 and outside liabilities were valued at ₹5,00,000 on that date. Give the necessary Journal entry to record goodwill at the time of Ajay's admission. Also show your workings.

[Ans. Hidden Goodwill ₹ 10,00,000; Ajay's Current Account will be debited by ₹2,00,000 and Capital Accounts of Asin and Shreya will be credited by ₹ 1,00,000 each]

COMMERCE RAMA

concept no.3 (Sub-Concept-F)

When Premium for Goodwill is brought in by New or Incoming Partner and is withdrawn by Old Partners Fully or Partly

- **Bank a/c .....Dr.**
  To Premium of Goodwill a/c
- **Premium for Goodwill a/c.....Dr.**
  To Old Partner's Capital a/c.
  (In sacrificing ratio of old partners)
- **Partner's Capital a/c .....Dr.**
  To Bank a/c
  (Whoever & however is withdraw)

Question

Q.10) X and Y are partners sharing profits and losses in the ratio of 2 : 1. They agree to admit Z into partnership who gets 1/3rd share in the profits. Z brings in ₹50,000 for his capital and the necessary amount for goodwill in cash. Goodwill of the firm is valued at ₹36,000. X, Y and Z agree to share future profits equally. The amount of goodwill is withdrawn from the business. Pass entries.

[Ans. Premium for goodwill brought in by Z ₹ 12,000 will be credited to X's Capital A/c, as he alone has sacrificed]

© COMMERCE RAMA

concept no.3 (Sub-Concept-G) Premium for Goodwill brought in Kind

- **Old Partner's Capital a/c.....Dr.**
  To Goodwill a/c
  (In already existing profit sharing ratio)

Question

Q.11) Ram and Mohan are partners in a firm sharing profits in the ratio of 3 : 2. On 1st April, 2022, they admit Sohan as a partner for 1 /4th share in the profits. Sohan contributed following assets towards his capital and for his share of goodwill:
Stock ₹ 60,000; Debtors ₹ 80,000; Land ₹ 1,00,000, Plant and Machinery ₹ 40,000.
On the date of admission of Sohan, the goodwill of the firm was valued at ₹ 6,00,000.
Pass necessary Journal entries in the books of the firm on Sohan's admission if:
(i) Partners do not withdraw the share of goodwill.
(ii) Partners withdraw half of their share of goodwill.

[Ans. (i) Goodwill Brought by Sohan—₹ 1,50,000 and Capital—₹ 1,30,000;
Share in Goodwill: Ram—₹ 90,000; Mohan—₹ 60,000.
(ii) Goodwill withdrawn: Ram—₹ 45,000; Mohan—₹ 30,000]

COMMERCE RAMA

END OF CONCEPT NO-3

COMMERCE RAMA