

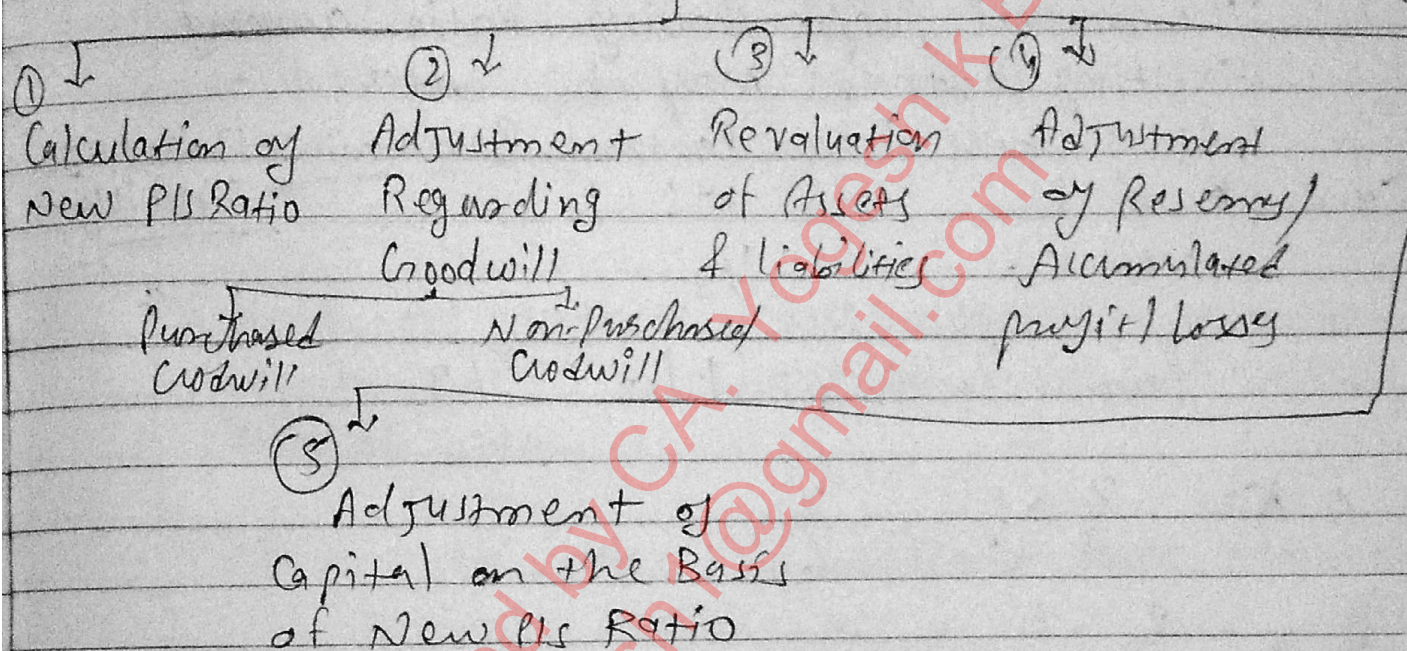
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## Admission of A Partner

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- Admit a new partner
- For → Additional Capital, technical skills
- To Increase Goodwill of Business By taking Reputed person into Partnership.

### Adjustment needed At Admission of Partner



### ① Calculation of New P/S Ratio

Situations →

(A) New Profit Sharing Ratio Given -  
→ No need to calculate.

(B) When Ratio of new Partner Given and After that mutual P/S Ratio among existing partners may remain Unaltered then -

Example - X, Y → 3:2  
new Z → 1/5  
Then for X & Y =  $1 - \frac{1}{5} = \frac{4}{5}$

$$X = \frac{4}{5} \times \frac{3}{5} = \frac{12}{25}$$

$$Y = \frac{4}{5} \times \frac{2}{5} = \frac{8}{25}$$

$$Z = \frac{1}{5} \times \frac{5}{5} = \frac{5}{25}$$

12:8:5

(c) The mutual profit sharing Ratio among Existing Partners may be altered  $\Rightarrow$   
(After share of new Partner - Remaining Share Equally)  
Ex. - A & B  $\rightarrow 2:1$   
new C  $\Rightarrow 1/3$

Remain for A & B =  $1 - 1/3 = 2/3$

$$A \Rightarrow \frac{2}{3} \times \frac{1}{2} = \frac{2}{6}$$

$$B \Rightarrow \frac{2}{3} \times \frac{1}{3} = \frac{2}{6}$$

$$C \Rightarrow \frac{1}{3} \times \frac{2}{2} = \frac{2}{6}$$

1:1:1

(d) If sacrifice made individually by the Existing Partners. then  
New Ratio = old Ratio - Sacrificing Ratio

A : B = 3 : 2  
new C =  $1/5^{th}$  share

$\frac{4}{25} \rightarrow A$   
 $\frac{2}{25} \rightarrow B$

(15)

$$NIR = OIR - SIR$$

$$A = \frac{3}{5} - \frac{4}{25} = \frac{15-4}{25} = \frac{11}{25}$$

$$B = \frac{8}{5} - \frac{1}{25} = \frac{10-1}{25} = \frac{9}{25}$$

$$C = \frac{1}{5} = \frac{5}{25}$$

$$\boxed{11:9:5}$$

(E) when old partners surrender a particular fraction of their share in favour of new partners then →

$$NIR = \text{old Ratio} - \text{Surrendering share (sacrificing share)}$$

$$\text{Sacrificing Ratio} = NIR - \text{old Ratio}$$

## ② Adjustment Regarding Goodwill → Premium

- ① When Amount of Goodwill paid privately  
↓  
No Entry
- ② When new partner brings Goodwill in Cash (Premium)

When Goodwill is not Apparent in Books

When Goodwill is Apparent in Books

- ① When brings Goodwill Cash/Bank a/c Dr  
To Goodwill a/c

- ① write off Goodwill a/c  
old partner's Cap. a/c Dr  
To Goodwill a/c (O/R)

- ② Divide in old partner's Goodwill a/c Dr (S/R)  
To old partner's Cap. a/c

→ 2, 3, 4

- ③ If Amount of Goodwill withdrawn by old partner →  
old partner's Cap. Dr  
To Cash/Bank a/c

When new partner brings in Cash only Part of Goodwill then →

- ① for bring Part/portion of Goodwill in Cash  
→ Cash/Bank a/c Dr  
To Goodwill a/c

- ② Goodwill a/c Dr (Part of Goodwill in Cash)  
New partner's Cap. Dr (Remaining Part of Goodwill)  
To old partner's Cap. a/c (S/R)

- ③ When new partner not brings Goodwill in Cash (Premium)
- ④ When new partner brings Goodwill in Cash (Premium)  
→ Incoming partner's Cap. & Reciprocal Share Capital in Share = xx  
less - total Capital of All partners (xx)  
Goodwill = xx

When Goodwill is not Apparent in Books

When Goodwill is Apparent in Books

- ① New partner's Cap. Dr  
(S/R) To old partner's Cap. a/c

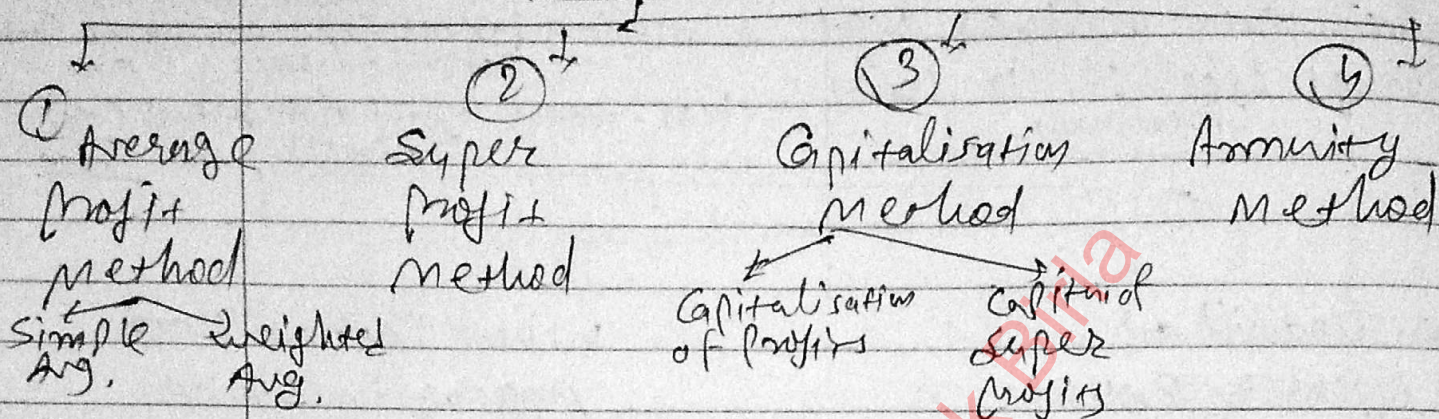
- ① write off Goodwill a/c  
old partner's Cap. Dr  
To Goodwill a/c (O/R)

- Raise Goodwill → (O/R)  
Goodwill a/c Dr  
(O/R) To old partner's Cap. a/c

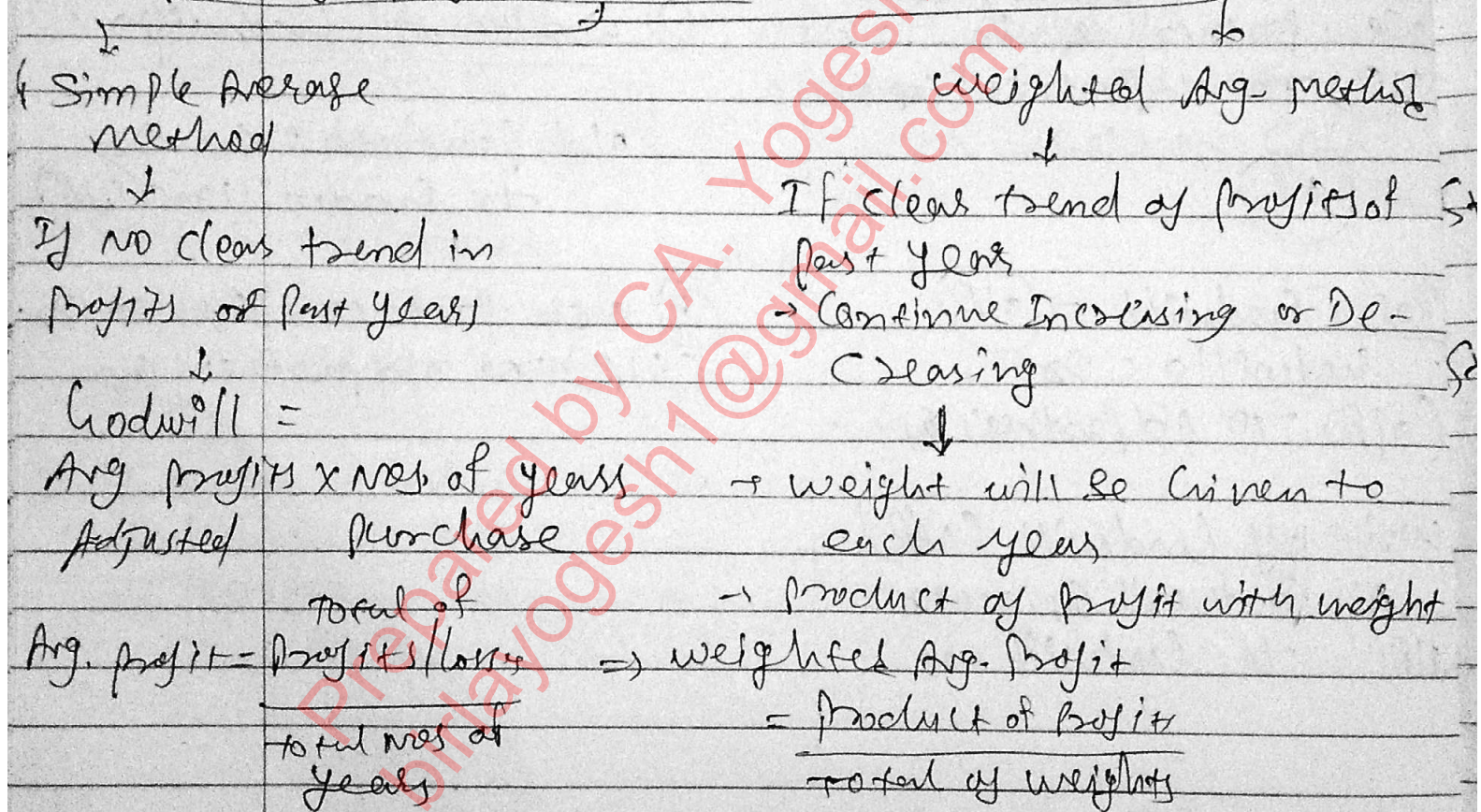
- ② New partner's Cap. a/c Dr  
(S/R) To old partner's Cap. a/c

- Write off Goodwill (N/R)  
All partner's Cap. a/c Dr  
(S/R) To Goodwill a/c

# ⑧ Revaluation Valuation of Inherent or Non-Purchased Goodwill Methods



## (1) Average Profit Method →



If there is adjustments in past years profits then calculate Average maintainable profits.

(\*) nos of years purchase → probability of new business to catch up with an existing business

## ② Super Profit Method -

Steps to be followed -

- ① Calculate Avg. Profit (method 1) (Adjusted)
- ② Calculate future maintainable profits
- ③ Calculation of Capital Employed / Avg. Capital Employed
- ④ Calculate Normal Rate of Return (NRR) on Capital Employed
- ⑤ Calculate Normal Profit
- ⑥ Calculate Goodwill Super Profit
- ⑦ Calculate Goodwill

Step (1) Calculate Avg Profit / Adjusted Avg Profit (method 1)  
→ Normal (as per method 1)

Step (2) Calculate future maintainable profits -

|                                            |      |
|--------------------------------------------|------|
| Avg. Annual profits (Step 1) (Adjusted)    | xx   |
| Add - Tax Already Made provision           | xx   |
| Less - Exceptional (Casual income)         | (xx) |
| Add - Abnormal loss                        | xx   |
| Add - income to be earned in future        | xx   |
| Less - Expense to be paid in future        | (xx) |
| Add - Casual Expenses                      | xx   |
| Less - Provision for Tax (As required)     | (xx) |
| future maintainable profits<br>(After tax) | xx   |

Step ③ Calculate Capital ~~Em~~ Employed / Average Capital Employed  $\rightarrow$

Sundry Assets xx  
(Exclude Goodwill (non purchased)  
Fictitious Assets & Non trading Assets)

less = Current liabilities & provision (xx)  
 $\rightarrow$  Contingent & Probable liabilities (xx)

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(Closing) Trading Capital Employed xxx

less  $\rightarrow$   $\frac{1}{2}$  of profits ~~Re~~ of Current  
Year Retained (undistributed) (xx)

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Average Cap. Employed  $\Rightarrow$  xxx

Step (4) Calculate NRR

→ As Given in question or May be Assumed if not Given

Step (5) Calculate Normal Profit

Capital Employed  $\times$  NRR

Step (6) Calculate Super profits

Step (2) - Step (5)

or FmP - Normal profit

Step (7) Goodwill = Super profits  $\times$  nos. of years purchase

## Method (3) Capitalisation method

↓ ①  
Capitalisation of profits

- (1) Calculate Annual Maintainable Profit  
(2) Normal Capital Employed  
⇒  $\frac{\text{Maintainable Profit}}{\text{NRR}} \times 100$

(3) Calculate Actual Capital Employed

(4)  $\text{Goodwill} = \text{Step (2)} - \text{Step (3)}$

②  
Capitalisation of Super Profits

↓  
(1) Calculate Super Profits (As Method 2)

(2)  $\text{Goodwill} = \frac{\text{Super Profit}}{\text{NRR}} \times 100$

## Method (4) - Annuity method -

Super profit expected to continue uniformly over next years

$\text{Goodwill} = \text{Annual Super Profits} \times \text{Present value of Annuity of ₹ 1 @ Rate (NRR)}$

① Annual Super profits  $\times$  Cumulative Annuity factor of ₹ 1 at n years @ NRR %

$$\text{PV Factor} = \frac{₹ 1}{(1 + \text{Rate})^n}$$

### III Revaluation of Assets & Liabilities

#### ① Revaluation of Assets

#### ② Revaluation of Liab.

##### ① Increase in Assets

Assets are Dr  
to Revaluation ac

##### ② Increase in Liabilities

Revaluation ac Dr  
to Liabilities ac

##### ② Decrease in Assets

Revaluation ac Dr  
to Assets ac

##### ③ Decrease in Liabilities

Liabilities are Dr  
to Revaluation ac

##### ③ Any Unrecorded Assets

Assets are Dr  
to Revaluation ac

##### ③ If Unrecorded Liabilities

Revaluation ac Dr  
to Liabilities ac

If Revaluation ac shows profit or loss -

(Profit or loss divided into old partners in old ratio)

If Profit → Revaluation ac Dr

to old partner's Cap ac (OIR)

If Loss → old partner's Cap ac Dr

to Revaluation ac (DIR)

Revaluation ac

If Adjustment in B/L

If NO Adjustment / Change in B/L

Prepare Revaluation ac

Single Entry

Prepare memorandum Re ac  
1st Rev Profit/Loss in old partner's 2nd Reverse in All (OIR) partners

#### (IV) Accounting treatment of Reserves & Accumulated profits or losses →

① for distributing reserves & accumulated profits →

General Reserves are Dr

P&L (Cr. Bal.) Dr

to old partner's Capital acc (O/P)

② distributing Accumulated losses (if) →

old partner's Capital acc Dr

to Accumulated Losses  
(P&L Dr. Bal.)

### ⑤ Adjustment in Capital Accounts As per new Profit-sharing Ratio →

↓  
fixed old Partner's Capital  
Based on Capital of  
New Partner's & his  
Share

↓  
fixed new Partner's Cap.  
on Basis of share of  
old Partner's Capital

Diff Amount of ~~Cap~~ Capital →

If Excess - withdrawn By old Partner

If deficiency Bring in Cash in Capital