ADMISSION OF A PARTNER

Issues Arising on Admission

New PSR Given

Yes

- Find Sacrificing/ Gaining Ratio
  - Sacrificing Ratio = **Old Ratio *minus* New Ratio**
  - Gaining Ratio = **New Ratio *minus* Old Ratio**

No

- Sacrificing Ratio Given
  - **Find New PSR:** Old Ratio *minus* Sacrificing Ratio
- Gaining Ratio Given
  - **Find New PSR:** Old Ratio *plus* Gaining Ratio

Goodwill

- Valuation of Goodwill (Refer to Chapter - 2)
- Accounting Treatment of Goodwill
  - Brought in Cash
    - **Yes**
      - Cash A/c ...Dr.
        To Premium for Goodwill A/c
      - Premium for Goodwill A/c ...Dr.
        To Sacrificing Partners' Capital/Current A/cs
    - **No**
      - Adjust new partner's share of goodwill giving credit to Sacrificing Partner and debit to Gaining Partner
  - Goodwill exists in books
    - **No**
      - Adjust new partner's share of goodwill giving credit to Sacrificing Partner and debit to Gaining Partner
    - **Yes**
      - Write off existing Goodwill
      - Old Partners' Capital/ Current A/cs (In old ratio) ...Dr.
        To Goodwill A/c (with existing value of Goodwill)
      - Adjust Current value of goodwill giving credit to Sacrificing Partner and debit to Gaining Partner
      - Gaining Partners' Capital/Current A/cs ...Dr.
        New Partner's Current A/c ...Dr.
        To Sacrificing Partners' Capital/Current A/cs

Reserves and Accumulated Profits or Losses

- Same values to be carried forward
  - **Yes**
    - Determine the net effect and adjust through Partners' Capital/Current Accounts using Sacrificing and Gaining Ratio
    - **In Case of Reserves and Accumulated Profits:** Gaining Partners' Capital/ Current A/cs ...Dr.
      To Sacrificing Partners Capital A/cs
      In Case of Accumulated Loss: Reverse Entry of the above is passed
  - **No**
    - Distribute in Old PSR
    - **In Case of Reserves and Accumulated Profits:** Reserves/Accumulated Profits A/c ...Dr.
      To Old Partners' Capital/ Current A/cs
      In Case of Accumulated Loss: Reverse Entry of the above is passed

Revaluation of Assets and Reassessment of Liabilities

- Same values to be carried forward
  - **Yes**
    - Determine the net effect of Increase/Decrease and adjust net effect through Partners' Capital/Current A/cs using Sacrificing and Gaining Ratio
    - Gaining Partners' Capital/ Current A/cs ...Dr.
      To Sacrificing Partners' Capital A/cs
  - **No**
    - Prepare Revaluation A/c
    - **Debit it by:** Decrease in value of Assets and Increase in amount of Liabilities
      Credit it by: Increase in value of Assets and Decrease in amount of Liabilities
    - Determine Gain/Loss
    - Distribute Gain (Profit) or Loss among old partners in Old PSR
    - **In case of Gain (Profit):** Revaluation A/c ...Dr.
      To Old Partners' Capital/Current A/cs
      In Case of Loss: Old Partners' Capital/Current A/cs ...Dr.
      To Revaluation A/c

Adjustment of Capital

- **A.** Adjustment of old Partners' Capital Accounts on the basis of the New or Incoming Partner's Capital
- **B.** Calculate the capital of New Partner on the basis of the Old Partners' Capitals
- Determine Capital of each partner after all adjustments
- **In case Capital of an individual partner after adjustments is *less* than his New Capital:**
  Cash/Bank A/c or Concerned Partners' Current A/c ...Dr.
  To Concerned Partner's Capital A/c
- **In case Capital of an individual Partner after adjustments is *more* than his New Capital:**
  Concerned Partner's Capital A/c ...Dr.
  To Cash/Bank A/c or Concerned Partner's Current A/c
- Total capital of the New firm = Total adjusted capital of old partners
  Combined share of profit of old partners
  Capital of New partner = Total capital of the New firm × Share of New partner

Abbreviation Used:

PSR—Profit-sharing Ratio