

CHAPTER-4 ----ADMISSION OF PARTNER/

1/// Introduction – Section 31(1) of Indian Partnership Act 1932, deals with the admission of a partner i.e. a person can be admitted as new partner only with the consent of all other partners, unless otherwise agreed upon.

When a new partner is admitted to a firm it brings the partnership between the existing partners to an end and marks the beginning of new partnership.

2/// ACCOUNTING TREATMENT :- The accounting for admission involves the following adjustment

a. Calculation of new profit sharing ratio – on the basis of the share of profit to be given to new partner new profit sharing ratio can be calculated unless it is given in question.

b. distribution of reserve and accumulated profit and loss – The profit/loss or and reserve created out of profit or any fictitious asset earned or created before the admission of partner should be distributed among the old partners in the old ratio for the closing of the same

c. revaluation of asset and liabilities – In the event of admission of partner certain assets and liabilities are required to be revalued for unearthing the secret profit or loss existing in the books of accounts. It is fact that profit earned or loss suffered by the entity because of either increase in value of asset and liabilities is not reflected in the books and this secret profit or loss on revaluation of asset and liabilities is distributed among old partners in the old ratio .

d. adjustment of goodwill – As new partner enjoys the goodwill of the existing business by getting a fixed share of profit without putting any efforts he may have to pay certain amount of premium for goodwill or raised of goodwill in the case of non-payment for goodwill by new partner which will be distributed among partners in the sacrificing ratio or old and new ratio as the case maybe.

e. adjustment life policy – The surrender value of ILP or JLP which is taken for making good the financial problem due to the constitutional change of business firm is distributed among the old partners in the old ratio.

f. introduction of capital—It is brought in by the incoming partner as per agreement made in this respect.

g. adjustment of partners capital accounts—Considering all the changes effecting and relating to capital of the partners a columnar capital account is to be opened for deriving the closing balance of capital of the partners after admission of the same.

h. Apart from necessary journal entries generally two accounts are opened as

1/ REVALUATION ACCOUNT/PROFIT AND LOSS ADJUSTMENT ACCOUNT –being nominal account in nature the increase in value of asset or decrease in value of liabilities are

CREDITED while decrease in value of asset and increase of value of liabilities is DEBITED for finding out the profit or loss on Revaluation of asset and liabilities.

EXAMPLE-1 A & B are two partners sharing profit and loss in the ratio 3:2 .They admitted Mr. C as new partner for $\frac{1}{5}$ th share of profit to bring share of goodwill Rs.15000 and capital equal to 20% of adjusted capital of A & B. Before admission of C the balance of A & B was as follows:-

BALANCE SHEET AS ON 31.12.19

Capital A-	15000	Land & building	12000
B	12000	Plant & machinery	15000
S/creditors	18000	Stock	18000
General Reserve	24000	S/Debtors	16000
Workmen's compen. fund	6000	Cash	14000
	75000		75000

Other information : a. New profit sharing ratio=2:2:1 b. Revaluation of asset –land and building increased by 15000 and stock by 6000 c. workmen's compensation liability limits to Rs. 3000. Show necessary A/cs and Balance sheet after C' admission .

SOLUTION

Revaluation A/c

A' capital A/c $\frac{3}{5}$	12600		By Land & Building	15000
B' capita A/cl $-\frac{2}{5}$	8400		By Stock	6000
		21000		

Working-1 share of goodwill before C's admission with full value= $15000 \times \frac{5}{1} = 75000$

In the old profit ratio= A= $\frac{3}{5}$ th of 75000=45000 & B's share= $\frac{2}{5}$ th of 75000=30000

After C's admission A' share= $\frac{2}{5}$ th of 75000=30000 & B's share $\frac{2}{5}$ th of 75000=30000

C's share = $\frac{1}{5}$ th of 75000=15000

Working no.2 --Cash is to be brought in by C= 20% of $58800 + 31200 = 18000$.

PARTNERS' CAPITAL A/C

	A	B	C		A	B	C
To Balance c/d	58800	31200	15000	Balance b/f	15000	12000	
				General Reserve	14400	9600	
				3:2 on 24000			
				Revaution profit	12600	8400	
				Workmen c.fund	1800	1200	
				Cash for goodwill	15000	x	18000
	58800	31200	15000	Cash –w.note-2			
					58800	31200	18000

BALANCE SHEET AS ON 31/12/19

Capital-A	58800		Land & Building	27000
B	31200		Plant & machinery	15000
C	15000	108000	Stock	24000
S/creditors		18000	Sundry Debtors	16000
Workmen'compensation fund		3000	Cash (14000+15000+18000)	47000
		129000		129000

Example-2---A and B are partners in a firm sharing profit and losses in the ratio 3:2 and they admitted Mr. C for 1/5th share of profit for which he had to bring capital 50000 but could not pay any amount for goodwill of Rs.12000 and it would not appear in the books of account. You are given the information for preparing necessary accounts and balance sheet after admission of mr.C:-

1.Machinery purchased on HP basis Rs.15000 of which 500 remained due but not appeared in the books. 2. There was a JLP for Rs. 75000 the surrender value of which was 12000. 3. Accrued interest not appearing in the books 500 4. Market value of investment 23900 5.Claim for an compensation dues 750. 6. An amount Rs. 1750 was received from a customer against a liability which was written off earlier. 7. Provision for doubtful debts 3000.

Balance sheet as on 31/3/2020

CAPITAL A	30000				
B	24500	54500	Goodwill		4980
Compensation Fund		6000	Investment		25000
General Reserve		10500	Stock	(Provision	15000
Investment provision		2000	Debtors less provision	2500)	17500
Creditors		7000	Bills Receivable		12500
			Bank		5020

Solution:-

Books of Firm

REVALUATION A/C

(due)		500	By	150
doubtful debt			Machin	00
		500	ery (HP)	120
Capital—profit			By Joint	00
3/5*29150	174		life	500
	90			

	116 60	291 50	policy (sv) By Accrued interest By Investment provision (25000-2000)- 23900 By Debtors (Bad debt recovery)	900 175 0 301 50
		301 50		

Partners' Capital Account

	A	B	C		A	B	C
To Goodwill (3:2)	2988	1992	7200	By Balance b/f	30000	24500	
To A' capital			4800	By Reserve (3:2)	6300	4200	
To B' capital	61152	45268	38000	By Bank A/c			50000
To balance c/d				By C' capital (w.n.1)	7200	4800	
				By Comp. fund (3;2) (6000-750)	3150	2100	
				By Revaluation profit	17490	11660	
					64140	47260	50000
	64140	47260	50000				

Balance Sheet As on 31/03/2020

Capital-A	61152		Machinery	15000
B	45268		Investment	23900
C	38000	144420	25000-(2000-900) or	
		750	25000-(25000-23900)	
Compensation Fund		500	Joint life policy (S.V)	12000
HP Vendors		7000	Stock	15000
Creditors			Sundry Debtors	
			(20000+recovery1750-provision	18750
			3000)	
			Bills Receivable	12500
			Accrued Interest	500
			Bank (5020+50000)	55020
		152670		152670

Working-1---new profit sharing ratio=A--- $\frac{4}{5} \times \frac{3}{5} = \frac{12}{25}$ B= $\frac{2}{5} \times \frac{4}{5} = \frac{8}{25}$. C= $\frac{1}{5} = \frac{5}{25}$.
Or A:B:C= 12:8:5.

Working-2... Adjustment of goodwill due to non-payment by C (full value of goodwill= $\frac{5}{1} \times 12000 = 60000$)

details	Goodwill	A	B	C
Right to goodwill before admission 3:2	60000	36000	24000	
Less : Right to goodwill after admission (12:8:5)	60000	28800	19200	12000
Net effect (+) gain (-) sacrifice		-7200	-4800	+12000

Notes: If business wants not to show the value of JLP in the books of account then the similar table for goodwill adjustment of capital as in 2 above is to be made by the way distribution of surrender value in the ratio old and new as before and after admission of Mr. C . It will be for A= $12000 \times \frac{3}{5} - 12000 \times \frac{12}{25} = 7200 - 5760 = 1440$

B= $12000 \times \frac{3}{5} - 12000 \times \frac{8}{25} = 4800 - 3840 = 960$.

C= $12000 \times \frac{1}{5} = 2400$ i.e (1440+960=2400)