Q5. Explain how will you deal with goodwill when new partner is not in a position to bring his share of goodwill in cash?

Solution: When a new partner enters a partnership firm, the old partner sacrifices his share for him, so it is the duty of the new partner to give goodwill in cash or in any other way to the old partner. In case the new partner is not in a position to bring his share of goodwill in cash, then a goodwill account is adjusted through the old Partner's Capital Account. The New Partner's Capital Account or Current Account is debited with his/her share of goodwill and partners who sacrifice their share in favour of the new partner are credited in their sacrificing ratio.

Also, according to Para 16 of Accounting, Standard 10, goodwill is recorded in the books only when some consideration in money or money's worth has been paid for it. It is mandatory to follow this practice. For admission, retirement. death or change in profit-sharing ratio among existing partners, a Goodwill Account cannot be raised as no consideration is paid for it.

The following are journal entries recorded in the books of accounts if a new partner is not able to bring goodwill in cash.

New Partner's Capital A/c	Dr.
To Old Partners' Capital A/c	
(Being new partner capital account is debited with his/her share of goodwill and sacrificing Partner's Capital Account are credited in their sacrificing ratio)	

*********** END **********