



Q6. Explain various methods for the treatment of goodwill on the admission of a new partner?

Solution: Two methods for the treatment of goodwill at the admission of a new partner include

1. Premium Method

2. Revaluation Method

Any of the two methods can be adopted, but before that it is necessary that if any goodwill already appears in the old books of the firm, then first, that should be written off among all the old partners in their old profit-sharing ratio. The following journal entry is passed to distribute the goodwill:

Old Partners' Capital A/c

Dr.

To Goodwill A/c

(Being goodwill written off among the old partners in their old profit-sharing ratio)

Treatment of Goodwill

1. Premium Method: It is used when the new partner pays his or her share of goodwill in cash. The accounting treatment under this depends on the situation and scenarios which include

- i. If the new partner privately pays his/her share of goodwill to the old partners: No accounting treatment is required to be done as the goodwill is privately paid.
- ii. When the new partner brings his/her share of goodwill in cash and the goodwill is retained in the business.

Accounting Entries

a. For premium or goodwill brought in cash by the new partner	
Cash/Bank A/c	Dr.
To Premium for Goodwill A/c	
(Being amount of goodwill brought in by the new partner)	
b. For transferring of new partner's goodwill among the old partners, i.e. if goodwill is retained in the business.	
Premium for Goodwill A/c	Dr.
To Sacrificing Partner's Capital A/c	

(Being goodwill brought in by the new partner distributed among the old partners in their sacrificing ratio)	
c. If the new partner's share of goodwill is withdrawn by the old partner, then	
Sacrificing Partner's Capital A/c	Dr.
To Cash A/c	
(Being amount of goodwill withdrawn by the old partners)	

iii. If the new partner partly brings his/her share of goodwill

a. For bringing goodwill in cash		
Cash A/c	Dr.	
To Premium for Goodwill A/c		
(Being amount of goodwill brought in cash by the new partner)		
b. For transferring goodwill to the old partners		
Goodwill A/c	Dr.	(With the amount of goodwill brought in by the new partner)
New Partner's Capital A/c	Dr.	(With the amount of goodwill <u>not</u> brought in by the partner)
To Sacrificing Partner's Capital A/c		
(Being goodwill amount of the new partner distributed among the old partners in their sacrificing ratio)		

2. Revaluation Method: This method is adopted when the new partner is not able to bring goodwill in cash at all.

New Partner's Capital A/c	Dr.	(With the whole amount of goodwill that is <u>not</u> brought in by the new partner)
To Old Partner's Capital A/c		
(Being amount of goodwill brought in cash by the new partner)		

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