



Q7. How will you deal with the accumulated profit and losses and reserves on the admission of a new partner?

Solution: The profits or losses which have accumulated over the years and have not been credited or debited to the partners capital account are called accumulated or undistributed profits or losses. In case a new partner is admitted to the partnership firm, then all the past accumulated profits or losses and the reserves are to be distributed among all the old partners in their old profit-sharing ratio. This is because these profits and losses are attributable to the hardwork and labours of the old partners, and consequently, the old partners are liable to bear losses, if any. The new partner is not entitled to a share in these profits/losses as he/she was not part of such efforts or hard earned profits/losses and accordingly is not responsible for the past performance of the business.

Accounting Treatment of Accumulated Profits and Losses

i. Distributing Accumulated Profits and Reserves	
Profit and Loss A/c	Dr.
General Reserve A/c	Dr.
Reserve Fund A/c	Dr.
Workmen's Compensation Fund A/c	Dr.
Contingency Reserve A/c	Dr.
To Old Partner's Capital A/c	
(Being undistributed profits and reserves distributed among old partners in their old profit-sharing ratio)	
ii. Distributing Accumulated Losses	
Old Partners' Capital A/c	Dr.
To Profit and Loss (Debit balance) A/c	
To Deferred Advertisement Expenses A/c	
To Preliminary Expenses A/c	
(Being undistributed losses distributed among old partners in their old profit-sharing ratio)	

*****END*****