

## **Week 3 : Partnership Account – Goodwill, Admission & Retirement of Partners**

---

When a new partner joins in the successful business, existing partners will be treated unfairly if the business is running well for several years.

Why?

It is because *goodwill (reputation)*, *business network (well-established relationship with suppliers and customers)* and *management talent* have been built up before the new partner joins. It is necessary to have goodwill paid by the new partner to existing partners in order to enjoy all above-mentioned benefits that are not easily achieved.

## **Week 3 : Partnership Account – Goodwill, Admission & Retirement of Partners**

---

*3 accounts are required*

1] Bank / Fixed Assets 2] Goodwill 3] Capital Account

1] New partner buys into the partnership by introducing cash or other fixed assets

Dr: Bank / Fixed Assets

Cr: Capital Account (from new partner)

## Week 3 : Partnership Account – Goodwill, Admission & Retirement of Partners

---

*3 accounts are required*

1] Bank / Fixed Assets 2] Goodwill 3] Capital Account

2] Bring goodwill into the accounts as instructed

Dr: Goodwill

Cr: Capital Account (to old partners based  
on *old profit sharing ratio*)

## Week 3 : Partnership Account – Goodwill, Admission & Retirement of Partners

---

*3 accounts are required*

1] Bank / Fixed Assets 2] Goodwill 3] Capital Account

3] If goodwill is not to remain in the books then remove the above adjustment

Dr: Capital Account (to old & new partners based on *new profit-sharing ratio*)

Cr: Goodwill

## **Week 3 : Partnership Account – Goodwill, Admission & Retirement of Partners**

---

Sometimes, existing partner will decide to revalue the assets and liabilities. Look at the following:

Revaluation Account	
Decrease in assets value x Increase in liabilities x Profit on revaluation** x <hr style="width: 100%;"/> XX	Increase in assets value x Decrease in liabilities x  <hr style="width: 100%;"/> XX

\*\* Divide between partners in old profit-sharing ratio.

## **Week 3 : Partnership Account – Goodwill, Admission & Retirement of Partners**

---

Dr: Revaluation

Cr: Current Account (to old partners based on *old profit-sharing ratio*)

## **Week 3 : Partnership Account – Goodwill, Admission & Retirement of Partners**

---

When a partner retires from partnership, the objective is to calculate what the outgoing partner is entitled to.

- 1] Share of profits up to date of retirement
- 2] Share of goodwill
- 3] Share of any profits and losses on revaluation

## **Week 3 : Partnership Account – Goodwill, Admission & Retirement of Partners**

---

### *Steps & Double entry*

- 1] Calculate appropriations - split if retirement occurs sometime during the year
  
- 2] Open up a revaluation account
  
- 3] Adjust for goodwill

## **Week 3 : Partnership Account – Goodwill, Admission & Retirement of Partners**

---

### *Steps & Double entry*

4] Deal with assets to be taken over by the retiring partner

Dr: Current Account

Cr: Assets (agreed value)

5] Settle outgoing partner's balance

Dr: Current account

Cr: Cash / Fixed Asset / Loan

6] Carry down balances for remaining partners.