What is the Admission of a Partner?

A business firm seeks new partners with business expansion being one of the driving motives. As per the Partnership Act, 1932, a new partner can be admitted into the firm with the consent of all the existing partners, unless otherwise agreed upon.

With the admission of a new partner, there is a reconstitution of the partnership firm and all the partners get into a new agreement for carrying out the business of the firm.

The following conditions led to the addition of a new partner:

1. When the firm is in an expansion mode and requires fresh capital.
2. When the new partners possesses expertise which can be beneficial for the business expansion of the firm.
3. When the partner in question is a person of reputation and adds goodwill to the firm.

The following adjustments need to be made at the time of admission of a new partner

1. Calculating the new profit sharing ratio along with the sacrificing ratio.
2. Accounting for goodwill.
3. Revaluation of assets and liabilities.
4. Adjustment of capital as per new profit sharing ratio.

With the admission of a new associate, the partnership enterprise is restructured and a new agreement is entered into; to carry on the trading concern of the enterprise. A newly added partner obtains 2 primary rights in the enterprise:

- Right to share the assets of the partnership firm
- Right to share the profits of the partnership firm

Treatment of Goodwill in the Admission of a Partner

A new partner is entitled to be a part of the future profits of the firm upon being added to the firm. The act of admitting new partner also leads to the reduction in the future profit sharing ratio of the existing partners. For this reason a new partner has to bring extra value apart from capital, this is known as Premium for Goodwill.

Treatment of goodwill on admission of a new partner will be based on the following conditions:

1. When the amount for goodwill is paid privately
2. When the amount necessary for paying the share of goodwill is brought as cash.
3. When share of goodwill is not brought as cash.

Adjustment of Capital and Change in Profit Sharing Ratio among Existing Partners

Few significant points which require observation during the admission of a new partner are mentioned below:

- Sacrificing ratio
- New profit sharing ratio
- Revaluation of assets and Reassessment of liabilities
- Valuation and adjustment of goodwill
- Adjustment of partners' capitals
- Distribution of accumulated profits (reserves)

What is Retirement of a Partner?

A partner may ascertain to either withdraw or retire from the enterprise due to certain reasons such as his bad health, his age, change in enterprise's nature of a business, etc., In the Partnership at Will, a partner might retire at any time. Retirement leads to a reconstitution of an enterprise where the partners' contribution ratio and the profit sharing ratio change. The retiring partner is given his share of capital, revaluation profit or loss and goodwill.

Let us now understand each concept of Reconstitution of a Partnership Firm – Retirement/Death of a Partner in detail:

- Ascertaining the Amount Due to Retiring/Deceased Partner
- Gaining Ratio
- Treatment of Goodwill
- Adjustment for Revaluation of Assets and Liabilities
- Adjustment of Accumulated Profits and Losses
- Disposal of Amount Due to Retiring Partner
- Adjustment of Partner's Capital
- Death of a Partner

Death of a Partner

A partnership firm is a type of organisation that is established by two or more individuals with a common objective of revenue generation. The organisation witnesses changes in certain events such as admission of a new partner, retirement or death of an existing partner. In the event of death of a partner, the structure of the partnership is changed in the same way as when a partner retires. The impact of such a change is discussed in this article.

Treatment of Reserves, Accumulated Profits and Accumulated Losses in the Case of Death of a Partner	
Reserves, Existing Goodwill, accumulated profits/losses appearing in the Balance Sheet of the firm at the time of death of a new partner belong to all partners including the retiring or deceased partner. Hence these should be distributed among all the partners in their old profit sharing ratio.	
Following Journal Entries Are Required to Be Passed:	
(1) Distribution of Existing Goodwill	*All Partners' Capital A/c Dr.* *To Goodwill A/c*
(2) Distribution of Reserves	*Reserve fund/General Reserve A/c Dr.* *To All Partners' Capital A/c*
(3) Distribution of Accumulated Losses	*All Partners' Capital A/c Dr.* *To Profit & Loss A/c*
(4) Distribution of Accumulated Profits	*Profit & Loss A/c Dr.* *To All Partners' Capital A/c*

What is Deceased Partner?

According to the Indian Partnership Act, 1932. Deceased partner is one who has discontinued the partnership due to his death. A contract between the partners of the enterprise is not dissolved by the death of a partner, the estate of a dead partner is not responsible for any act of the enterprise done after his death.

The accounting treatment in the occurrence of death of a partner is :

- Similar to that, when a partner retires and that in case of deceased partner his belonging is transferred to his legal enforcers and settled in a similar way as that of the partner who retires
- However, there is one primary distinction, the retirement usually takes place during the closure of an accounting period or financial year, the death of a partner may take place any time
- Therefore, in the case of a partner, his rights shall also incorporate his share of gains or loss, interest on drawings (if any), interest on capital from the last date of the Balance Sheet to the date of his death of these, the main issue associates to the computation of profit for a moderate period
- Since, it is contemplated burdensome to close the books and outline final a/c, for the period, the dead partner's share of profit may be computed on the ground of previous year's gain (or aggregate of past few years) or on the base of sales