

CUET · ACCOUNTANCY · CLASS XII · CODE 301

Reconstitution of a Partnership Firm

CUET unit: Accounting for Partnership Firms — Reconstitution of Partnership (Admission of a Partner)

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Snapshot

- Reconstitution of a partnership firm covers admission, change in profit-sharing ratio, retirement and death; this chapter handles admission of a new partner, who acquires the right to share assets and profits in return for capital plus goodwill (NCERT §2.1-§2.2, p. 48-49).
- Admission triggers six adjustments: new profit-sharing ratio, sacrificing ratio, valuation and treatment of goodwill, revaluation of assets and reassessment of liabilities, accumulated reserves/losses, and capital adjustment (NCERT §2.2, p. 50).
- Covers three goodwill-valuation methods — **Average Profits, Super Profits** and **Capitalisation** (both of average and of super profits) — with worked illustrations (NCERT §2.5.4, p. 57-64).
- AS-26 treatment: existing goodwill in the books is written off in **old ratio** because self-generated goodwill cannot be recognised (NCERT box on AS-26, p. 72-73).
- CUET tests this chapter heavily — sacrificing-ratio computation, goodwill valuation, hidden goodwill, premium treatment, Revaluation Account direction, and reserve transfer in old ratio are recurring NTA themes.



Detailed Notes

2.1 Core concepts

Reconstitution (§ 2.1, p. 48-49). Any change in the existing partnership agreement amounts to reconstitution — the old agreement ends and a new agreement comes into being, even though the firm itself continues. NCERT names four modes: admission, change in profit-sharing ratio, retirement, and death of a partner. This chapter handles the first mode.

Admission of a new partner (§ 2.2, p. 49). Under the Partnership Act 1932, a new partner can be admitted only with the consent of all existing partners (unless the deed says otherwise). The incoming partner acquires (i) the right to share assets and (ii) the right to share profits — for which he brings (a) capital and (b) in an established profit-earning firm, a premium called goodwill. Admission triggers a **six-point checklist** of adjustments (§2.2, p. 50): (1) new profit-sharing ratio, (2) sacrificing ratio, (3) valuation

and treatment of goodwill, (4) revaluation of assets and reassessment of liabilities, (5) distribution of accumulated profits and reserves, (6) adjustment of partners' capitals.

New profit-sharing ratio (§ 2.3, p. 50-52). The new partner takes his share from the old partners. If the mode of acquisition is silent, it is assumed he gets the share from them in their old ratio. Each old partner's new share = old share – share surrendered to incoming partner. NCERT's Illustration 1 (p. 50) develops this: A and B at 3:2, admit C for $\frac{1}{6}$ — new ratio 3:2:1.

Sacrificing ratio (§ 2.4, p. 52-55). The ratio in which old partners forgo their profit shares in favour of the new partner: **Sacrifice = Old Share – New Share**. The premium for goodwill brought by the new partner is shared by old partners in this ratio. If the new ratio is silent, sacrifice = old ratio; if the new ratio is specified, sacrifice is recomputed and may differ from the old ratio. NCERT Illustration 6 (p. 53) shows that Rohit's sacrifice ($\frac{3}{56}$) is less than Mohit's ($\frac{5}{56}$) even though Rohit had the larger original share.

Goodwill – meaning (§ 2.5.1, p. 55-56). Goodwill is the monetary value of a firm's good name, reputation and business connections that enables it to earn **super profits** over and above the normal rate of return. It is an intangible asset and exists only when the firm earns super profits.

Factors affecting goodwill (§ 2.5.2, p. 56). Nature of business, location, efficiency of management, market situation (monopoly/limited competition), and special advantages such as licences, patents, trademarks and long-term contracts.

Need for valuation (§ 2.5.3, p. 56). Arises on change in profit-sharing ratio, admission, retirement, death, dissolution involving sale as a going concern, and amalgamation of firms.

Goodwill – Average Profits Method (§ 2.5.4.1, p. 57-59). **Goodwill = Average Profits × Number of years' purchase.** Weighted average (with weights 1, 2, 3, 4, 5 etc.) is used only when an increasing/decreasing trend exists and weights are specified.

Goodwill – Super Profits Method (§ 2.5.4.2, p. 60-62). **Normal Profit = Firm's Capital × Normal Rate of Return ÷ 100; Super Profit = Average Profit – Normal Profit; Goodwill = Super Profit × Number of years' purchase.** The firm's capital excludes goodwill and fictitious assets. NCERT Illustration 13 (p. 61-62) goes further — Normal Profit also includes notional partners' salary at market rates.

Goodwill – Capitalisation Method (§ 2.5.4.3, p. 62-64). Two sub-methods, both giving the same figure. (a) **Capitalisation of average profits:** Goodwill = (Average Profit × 100 ÷ Normal Rate) – Net Assets, where Net Assets = Total Assets (excluding goodwill) – Outside Liabilities. (b) **Capitalisation of super profits:** Goodwill = Super Profit × 100 ÷ Normal Rate.

Treatment of goodwill – premium in cash (§ 2.5.5.1, p. 64-69). Premium brought by the new partner is shared by old partners in sacrificing ratio. If goodwill already exists in the books, it is first written off in the old ratio among the old partners.

When goodwill is not brought (fully/partly). The new partner's Current A/c (not Capital A/c) is debited for his share of goodwill; sacrificing partners' Capital A/cs are credited in sacrificing ratio. If goodwill already appears in books, it is first written off in old ratio.

AS-26 (p. 72-73). Internally generated / self-generated goodwill cannot be recognised as an asset; only purchased goodwill may be shown and written off over a period not exceeding 10 years. Therefore goodwill appearing in the balance sheet at the time of reconstitution is written off because it is presumed self-generated.

Hidden goodwill (§ 2.5.5.2, p. 74-76). When goodwill of the firm is not stated, it is inferred from the capital arrangement: **Implied total capital = New Partner's Capital × (1 / his share); Goodwill of the firm = Implied Total Capital – Sum of all partners' capitals after admission.** The new partner's share of this goodwill is debited to his Current A/c if not brought in cash.

Accumulated profits and losses (§ 2.6, p. 76-77). General Reserve / credit balance of P&L are transferred to old partners' Capital A/cs in old ratio — Dr Reserve/P&L, Cr old capitals. Accumulated losses or debit balance of P&L are transferred the other way — Dr old capitals, Cr P&L.

Revaluation of assets and reassessment of liabilities (§ 2.7, p. 77-82). A **Revaluation Account** is prepared. Increase in asset and decrease in liability are credited (gain); decrease in asset and increase in liability are debited (loss). Unrecorded assets are credited; unrecorded liabilities are debited. The net gain/loss is transferred to old partners' Capital A/cs in old profit-sharing ratio — because the underlying changes relate to the period before admission.

Adjustment of capitals (§ 2.8, p. 83-93). Old partners' capitals may be adjusted to be proportionate to the new profit-sharing ratio. Using the new partner's capital as the base, total capital of firm = new partner's capital × reciprocal of his share. Each old partner's new capital = total × his new share. The partner with deficiency brings cash (or his Current A/c is debited); the partner with surplus withdraws cash (or his Current A/c is credited).

Change in profit-sharing ratio among existing partners (§ 2.9, p. 93-96). Without admission/retirement, the same six adjustments are needed. Gaining partners' Capital A/cs are debited and sacrificing partners' Capital A/cs are credited, in the ratio of gain/sacrifice multiplied by the firm's goodwill.

2.2 Definitions to memorise

Term	Definition	Page
Reconstitution of a firm	Any change in the existing partnership agreement; old agreement ends, new comes into being, firm continues (NCERT §2.1).	48
		50

Term	Definition	Page
New Profit-Sharing Ratio	The ratio in which profits and losses are shared after admission (NCERT §2.3).	
Sacrificing Ratio	Ratio in which old partners agree to sacrifice their share in favour of the incoming partner; Sacrifice = Old – New (NCERT §2.4).	52
Goodwill	Monetary value of reputation/connections that enables a firm to earn profits above the normal rate of return (NCERT §2.5.1).	55-56
Normal Profit	Firm's Capital \times Normal Rate of Return \div 100 (NCERT §2.5.4.2).	60
Super Profit	Average Profit – Normal Profit (NCERT §2.5.4.2).	60
Average Profits Method	Goodwill = Average Profit \times Years' purchase (NCERT §2.5.4.1).	57
Super Profits Method	Goodwill = Super Profit \times Years' purchase (NCERT §2.5.4.2).	60
Capitalisation of Average Profits	Goodwill = (Average Profit \times 100 \div Normal Rate) – Net Assets (NCERT §2.5.4.3).	62
Capitalisation of Super Profits	Goodwill = Super Profit \times 100 \div Normal Rate (NCERT §2.5.4.3).	63
Firm's Capital / Net Assets	Total Assets (excluding goodwill and fictitious assets) – Outside Liabilities (NCERT §2.5.4.2).	62
Hidden Goodwill	Goodwill inferred from gap between implied total capital and aggregate of partners' capitals (NCERT §2.5.5.2).	74
Premium for Goodwill	Amount brought by the new partner to compensate old partners for share in super profits (NCERT §2.5.5.1).	49, 64
Revaluation Account	Nominal account to record gain/loss on revaluation; balance transferred to old partners in old ratio (NCERT §2.7).	77
Unrecorded Asset / Liability	Asset or liability existing but not earlier shown in books; credited / debited to Revaluation (NCERT §2.7).	78
Memorandum Revaluation Account	Variant used when assets/liabilities are not actually altered in the books (NCERT §2.7 note).	82
Gaining Ratio	Ratio in which remaining partners gain a share — relevant on retirement or change in ratio without admission (NCERT §2.9).	93
AS-26 Intangible Assets	Standard prohibiting recognition of self-generated goodwill; existing goodwill written off (NCERT box, p. 72-73).	72
Adjustment of Capitals	Bringing partners' capitals into the new profit-sharing ratio using the new partner's capital as base (NCERT §2.8).	83
Reserve		76

Term	Definition	Page
	Pre-admission accumulated profit transferred to old capitals in old ratio (NCERT §2.6).	
Fictitious Asset	Item such as deferred revenue expenditure or accumulated losses, treated as nil for net-assets purposes (NCERT §2.5.4.2).	60
Goodwill brought in kind	Goodwill paid through non-cash assets — recorded by debiting the asset and crediting Premium A/c (NCERT §2.5.5.1).	67
Premium for Goodwill A/c	Temporary account to receive cash brought by new partner before transfer to sacrificing partners (NCERT §2.5.5.1).	64

2.3 Diagrams / processes to remember

Six-step admission checklist box (NCERT § 2.2, p. 50). New ratio → sacrificing ratio → goodwill valuation and treatment → revaluation → reserves → capital adjustment. Memorise the order — CUET asks "which is the first step on admission" frequently.

Revaluation Account Format (NCERT § 2.7, p. 77-78). Dr side: fall in assets, rise in liabilities, unrecorded liabilities, profit transferred to old capitals (if credit balance). Cr side: rise in assets, fall in liabilities, unrecorded assets, loss transferred to old capitals (if debit balance).

Partners' Capital Accounts Layout (NCERT Illus. 23, p. 80-81). Each old partner's capital A/c shows transfer of goodwill, revaluation profit / loss, reserve transfer, premium received, and balance c/d after admission. The new partner's capital A/c shows capital introduced and goodwill premium (if not brought in cash, his Current A/c is debited).

AS-26 Callout Box (NCERT p. 72-73). Only purchased goodwill may be recognised; self-generated goodwill cannot. Existing goodwill in books on reconstitution is written off in old ratio.

Process — Computing new ratio when surrender is in old ratio. (i) Compute the new partner's share. (ii) Remaining share = $1 - \text{new partner's share}$. (iii) Multiply each old partner's old share by the remaining share. (iv) Express the result in lowest integers.

Process — Computing sacrificing ratio. (i) Identify each old partner's new share (given or derived). (ii) Sacrifice = Old – New for each. (iii) Divide each sacrifice by total sacrifice to express the ratio.

Process — Goodwill by Super Profits Method. (i) Compute average profit over the agreed years. (ii) Compute normal profit = $\text{Firm's Capital} \times \text{Normal Rate} / 100$ (add notional partners' salary if specified). (iii) Super profit = Average – Normal. (iv) Goodwill = Super profit \times years' purchase.

Process — Hidden Goodwill. (i) Compute implied total capital of new firm = New partner's capital \times (1 / his share). (ii) Subtract sum of all partners' capitals after admission (including new partner's). (iii) Result is goodwill of firm. (iv) New partner's share = his profit-share \times goodwill.

Process — Treatment of existing goodwill on admission. (i) Write off existing goodwill in old ratio: Dr each old partner's Capital A/c, Cr Goodwill A/c. (ii) Then proceed with sacrificing-ratio treatment for the new goodwill brought / not brought.

2.4 Common confusions / NTA trap points

1. **Sacrificing ratio vs old ratio.** Equal only when the mode of acquisition is silent; if a new ratio is given, sacrifice = old – new and must be recomputed (NCERT §2.4, p. 52).
2. **Gain ratio = Sacrifice ratio?** No — when existing partners change ratio inter se, some gain (debit their capital) and others sacrifice (credit their capital) (NCERT §2.9, p. 93).
3. **Writing off existing goodwill in NEW ratio.** Wrong — AS-26 requires it to be written off in the old profit-sharing ratio (NCERT box, p. 72-73).
4. **Revaluation gain/loss transferred in NEW ratio.** Wrong — it belongs to old partners and is shared in old ratio (NCERT §2.7, p. 81).
5. **Including goodwill / fictitious assets in firm's capital for super-profits method.** Both are excluded (NCERT §2.5.4.2, p. 60).
6. **When goodwill is not brought.** Use new partner's Current A/c (not Capital A/c) — debited against sacrificing partners' capitals (NCERT §2.5.5.1, Illus. 19, p. 70).
7. **Hidden goodwill formula.** Implied total capital = New capital \times reciprocal of new share; subtract sum of all partners' capitals (NCERT §2.5.5.2, p. 74-76).
8. **Distribution of reserves in NEW ratio.** Wrong — reserves belong to old partners in old ratio (NCERT §2.6, p. 76).
9. **Debit balance of P&L is a loss.** Distributed to old partners in old ratio (Dr their capitals) (NCERT §2.6, Illus. 22).
10. **Goodwill brought in kind.** Debit the asset, credit Premium for Goodwill A/c — then distribute as usual (NCERT §2.5.5.1, p. 67).
11. **Notional salary in normal profit.** Some illustrations (Illus. 13, p. 61) add a notional partners' salary at market rates to normal profit — easy to miss.
12. **Adjustment of capitals — which figure is base.** Use the new partner's capital as the base for computing total firm capital — not the average of old capitals (NCERT §2.8, Illus. 25, p. 83).

2.5 Journal entry templates

(a) Premium for goodwill brought in cash, distributed in sacrificing ratio (NCERT §2.5.5.1, p. 65)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	Bank A/cDr.		30,000	
	To Premium for Goodwill A/c			30,000
	(Being premium for goodwill brought by C)			
	Premium for Goodwill A/cDr.		30,000	
	To A's Capital A/c			18,000
	To B's Capital A/c			12,000
	(Being premium distributed in sacrificing ratio 3:2)			

(b) Goodwill not brought — debit to new partner's Current A/c (NCERT § 2.5.5.1, Illus. 19, p. 70)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	Chaudhary's Current A/cDr.		6,000	
	To Ahuja's Capital A/c			3,000
	To Barua's Capital A/c			3,000
	(Being Chaudhary's share of goodwill ₹6,000 — $1/5 \times 30,000$ — not brought; credited to sacrificing partners equally)			

(c) Writing off existing goodwill in old ratio (NCERT § 2.5.5.1, p. 68; AS-26 box)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	A's Capital A/cDr.		12,000	
	B's Capital A/cDr.		8,000	
	To Goodwill A/c			20,000
	(Being existing goodwill in books written off in old ratio 3:2 before admission)			

(d) Transfer of General Reserve to old partners (NCERT § 2.6, Illus. 22, p. 77)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	General Reserve A/cDr.		20,000	
	To Rajinder's Capital A/c			16,000
	To Surinder's Capital A/c			4,000

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	(Being general reserve transferred to old partners in old ratio 4:1)			

(e) Transfer of debit balance of P&L (accumulated loss) (NCERT § 2.6, p. 77)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	Rajinder's Capital A/cDr.		8,000	
	Surinder's Capital A/cDr.		2,000	
	To Profit and Loss A/c			10,000
	(Being debit balance of P&L distributed in old ratio 4:1)			

(f) Increase in value of an asset on revaluation (NCERT § 2.7, p. 78)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	Land and Building A/cDr.		50,000	
	To Revaluation A/c			50,000
	(Being land and building appreciated by ₹50,000)			

(g) Bringing in an unrecorded liability (NCERT § 2.7, p. 78)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	Revaluation A/cDr.		4,000	
	To Outstanding Salary A/c			4,000
	(Being unrecorded liability for outstanding salary brought into the books)			

(h) Distribution of revaluation profit / loss to old partners (NCERT § 2.7, p. 81)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	Revaluation A/cDr.		30,000	
	To A's Capital A/c			18,000
	To B's Capital A/c			12,000
	(Being revaluation profit ₹30,000 transferred to old partners in old ratio 3:2)			

 **PYQ Alignment**

Admission of a partner is one of the highest-weight chapters in CUET 301 Accountancy — roughly 15–20 MCQs every year across CUET 2023-25. NTA mixes direct conceptual recall (definitions of sacrificing ratio, goodwill, Revaluation A/c direction) with numerical questions on goodwill valuation (average / super / capitalisation), hidden goodwill, new-ratio and sacrificing-ratio computation, treatment of accumulated reserves in old ratio, and journal-entry identification when the incoming partner does or does not bring his share of goodwill in cash. See [/pyq/accountancy](#) for drill sets.

CUET 2025 — Actual PYQs from this chapter

Q.4 (CUET 2025) A, B and C are partners in a firm. If D is admitted as a new partner, what will be its effect?

- A) Old firm is dissolved B) Old firm and partnership are dissolved C) Old partnership is dissolved D) Firm will lose its existence **Tests:** §1 Modes of Reconstitution — admission dissolves the old partnership, not the firm. **Answer:** Not in extracted key

Q.6 (CUET 2025) A business earned average profits of ₹1,00,000 and the normal rate of return is 25%. Capital employed = ₹3,20,000. Calculate goodwill using capitalisation of average profit method.

- A) ₹80,000 B) ₹2,40,000 C) ₹40,000 D) ₹2,60,000 **Tests:** §3 Valuation of Goodwill — Capitalisation of Average Profit method. **Answer:** Not in extracted key

Q.10 (CUET 2025) Hemant and Naman are partners sharing profits 3:2 with capitals ₹80,000 and ₹50,000. Samrat admitted for $\frac{1}{5}$ share for ₹60,000. Value of goodwill:

- A) ₹1,20,000 B) ₹1,10,000 C) ₹1,30,000 D) ₹1,40,000 **Tests:** §3.6 Hidden / Inferred Goodwill on admission. **Answer:** Not in extracted key

Q.19 (CUET 2025) A and B share profits 2:1. C admitted for $\frac{1}{4}$ share for ₹20,000 goodwill. Capitals of A and B after adjustment = ₹45,000 and ₹15,000. Find the new profit sharing ratio.

- A) 6 : 5 : 3 B) 2 : 1 : 1 C) 1 : 1 : 1 D) 1 : 2 : 1 **Tests:** §2 New Profit Sharing Ratio and Sacrificing Ratio. **Answer:** Not in extracted key

Q.24 (CUET 2025) Which factor does NOT affect goodwill?

- A) Nature of business B) Location C) Market situation D) Efficiency of management of non-competitive firms **Tests:** §3.1 Factors Affecting the Value of Goodwill. **Answer:** Not in extracted key

Q.32 (CUET 2025) Arrange the admission procedure in correct sequence: (A) Giving share to new partner (B) Treatment of Goodwill (C) Calculating new PSR and sacrificing ratio (D) Preparation of Revaluation A/c (E) Preparing Partners' Capital A/c and Balance Sheet

- A) (A),(B),(C),(D),(E) B) (A),(C),(D),(B),(E) C) (A),(D),(C),(B),(E) D) (A),(B),(D),(E),(C) Tests: Procedural sequence on admission — §2 to §5. Answer: Not in extracted key

Q.35 (CUET 2025) Steps in Goodwill — Super Profit Method: (A) Super profits = avg – normal (B) Normal profit on capital at NRR (C) Average profit (D) Multiply super profit by years' purchase

- A) (A),(B),(C),(D) B) (A),(C),(B),(D) C) (C),(B),(A),(D) D) (C),(D),(B),(A) Tests: §3.3 Super Profit Method of goodwill valuation. Answer: Not in extracted key

Q.49 (CUET 2025) Goodwill represents:

- A) Reputation of the firm B) Excess earning capacity of the firm C) Intangible asset D) All of the above Tests: §3 Meaning and nature of Goodwill. Answer: Not in extracted key

CUET 2023 — Actual PYQs from this chapter

Q.2 (CUET 2023) Average Capital Employed ₹9,00,000; Average Profits ₹2,80,000; NRR 20%. Goodwill as per capitalisation of super profits is:

- A) ₹1,24,000 B) ₹50,000 C) ₹4,50,000 D) ₹36,000 Tests: §3.4 Capitalisation of Super Profit Method. Answer: Not in extracted key

Q.25 (CUET 2023) A, B and C share profits 3:2:1. They decide to share equally. General reserve ₹60,000. Goodwill valued ₹1,20,000. Adjustment entry is:

- A) A's Capital A/c Dr ₹1,80,000 B) A's Capital A/c Dr ₹1,80,000 C) C's Capital A/c Dr ₹30,000 D) C's Capital A/c Dr ₹1,80,000 Tests: §2 Change in PSR — single adjustment entry through gaining partner's capital. Answer: Not in extracted key

Q.27 (CUET 2023) Sequence for goodwill under super profit method: (A) Super Profit (B) Capital Employed (C) Normal Profit (D) Average Profit (E) Goodwill

- A) D, C, A, B, E B) D, B, C, A, E C) D, A, C, B, E D) D, C, B, A, E Tests: §3.3 Super Profit Method — step sequence. Answer: Not in extracted key

Q.41 (CUET 2023) Amrita and Kalyani share 3:2. They admit Suraj for 1/4 share. Suraj's goodwill = ₹90,000. Goodwill distributed as:

- A) ₹54,000 and ₹36,000 B) ₹2,16,000 and ₹1,44,000 C) ₹18,000 and ₹72,000 D) ₹72,000 and ₹18,000 Tests: §3.7 Treatment of Goodwill — sharing in sacrificing ratio. Answer: Not in extracted key

Q.42 (CUET 2023) Share of revaluation profit of Amrita and Kalyani is:

- A) ₹24,000 and ₹16,000 B) ₹16,000 and ₹24,000 C) ₹8,00,000 and ₹32,00,000 D) ₹20,00,000 and ₹20,00,000 Tests: §4 Revaluation A/c — profit distribution in old ratio. Answer: Not in extracted key

Q.43 (CUET 2023) Amrita's share in Workmen Compensation Fund?

- A) ₹3,00,000 B) ₹1,80,000 C) ₹1,20,000 D) ₹1,00,000 Tests: §5 Adjustment of accumulated reserves and Workmen Compensation Reserve in old ratio. Answer: Not in extracted key

