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Accounting for the Admissions and Retirements of Partners

By Eugene Nolan

II

Retirements

As compared with admissions, the accounting for withdrawals does not present as many complications. That seems reasonable when it is considered that for admissions the new partner is attempting to evaluate the future; withdrawals are concerned with the values of the past.

Moreover, when a partner withdraws from a partnership, financially there is but one source from which he can be paid off, and that source is the partnership assets. He has had an undivided interest in those assets and upon withdrawal he removes from the partnership assets equivalent to the value of his interest.

Contrasted with this, admissions are accomplished either by contributing to the partnership assets or not. Consequently, in dealing with withdrawals, the differentiation between buying an interest and making an investment is not to be considered. Moreover, when a partner retires from a business, it is possible to set up upon the books any excess of asset values in the exact amounts paid for them to the retiring partner.

Upon the retirement of a partner the amount paid to him for his capital interest should be based upon the actual present values of the net assets of the business, just as an incoming partner's payment should be based upon actual values at current rates. If real estate has appreciated beyond its cost as shown by the books, or if on the contrary its market value has depreciated below the book value, the fair present value of the property should govern in determining the value of the business. Similarly, all assets should be valued at their fair present values. That does not mean, however, that it is necessary to adjust the values on the books to agree with the basis. The basis may be used merely for the purpose of arriving at the contract price. Adjusting entries can be made to modify the book values sufficiently for purposes of admitting or retiring a partner. Something of such adjusting entries has already been demonstrated in the illustrations of admissions in which definite asset values were adjusted. In those instances in which an entire business is purchased for a given price and in which the contract fails to signify the agreed values of definite assets, some other means must be found to adjust the capital accounts to reflect the value of the basis. Sometimes a goodwill account is loosely set up for this purpose. If, however, the variation reflects modifications of definite asset values the extent of which is not known at the time of the transfers of interest, a better plan is to set up a suspense account. The object of such a suspense account is to delay a final determination of value. If buyer and seller cannot agree upon the value of certain assets, the transfers of interest may nevertheless be consummated at a tentative price, and the doubtful assets may be segregated until the time of their final disposition, at which time the final adjustments of payment would be completed. Such matters are considered to relate only remotely to

Note.—Part I of this article appeared in the February issue of The Journal of Accountancy.

this discussion in which it has been assumed throughout that definite contracts have been made based upon ascertainable values.

Retiring Partner Withdraws Assets Equal to Book Value of His Capital Account

The computations and the necessary entry upon the retirement of a partner who receives book value for his interest are shown below. D withdraws from the partnership and receives $10,000 for his interest.

Summary

	A	B	C	D	Total
Old capital balances.........	$5,000	$10,000	$15,000	$10,000	$40,000
Cash payment to D.........	......	....	....	10,000	10,000
New capital balances........	$5,000	$10,000	$15,000	$......	$30,000

D, Capital....................................	$10,000	
Cash....................................		$10,000

Retiring Partner Withdraws Assets in Excess of Book Value of His Capital Account

This situation is closely related to the admissions of partners for cost in excess of book values. It involves the valuation of assets that have not previously been valued on the books.

First Method

D withdraws from the partnership and receives $15,000 for his interest.

Summary

	A	B	C	D	Total
Old capital balances.......	$5,000	$10,000	$15,000	$10,000	$40,000
Goodwill established......	......	....	....	5,000	5,000
Cash payment to D.......	......	....	....	(15,000)	(15,000)
New capital balances......	$5,000	$10,000	$15,000	$......	$30,000

The necessary entry upon D's withdrawal is:

Goodwill....................................	$ 5,000	
D, Capital....................................	10,000	
Cash....................................		$15,000

Let us assume that by capitalizing the earnings over the past five years, the actual value of the business was found to be $60,000. The actual value of D's interest is therefore one-quarter of $60,000, or $15,000. Goodwill is accordingly set up on the books at $5,000 (actual value $15,000 minus book value $10,000). That is, the remaining partners intend to pay him $5,000 cash for the value of the goodwill attaching to his interest and accordingly set up that asset on the books as they would set up any other asset which they had bought and paid for. Simultaneously, they also pay him book value for the other assets he leaves in the business and thus D withdraws and is paid off by a total payment of $15,000. The assets of the partnership have been in-

creased by the goodwill which the business purchased from the retiring partner, then subsequently reduced by the payment to the retiring partner.

Second Method

The second method is practically identical with the first. Indeed there is no essential difference. The apparent difference is that tangible assets are valued in this method, whereas the first method related to intangibles. But, as in the first method, only that part of the appreciated value attaching to the share of the retiring partner is capitalized on the books.

Suppose that $20,000 of excess value had been determined to exist, consisting of the following:

Excess of actual value over book value in real estate	$10,000
Excess of actual value over book value in inventories	5,000
Excessive depreciation previously charged against machinery	5,000
	$20,000

One-quarter of these excess values is allocable to D. Under the second method the necessary entry upon D's retirement would be:

Real Estate (¼ of $10,000)	$ 2,500	
Inventories (¼ of $5,000)	1,250	
Reserve for depreciation of machinery (¼ of $5,000)	1,250	
D, Capital	10,000	
Cash		$15,000

Third Method

SUMMARY

	A	B	C	D	Total
Old capital balances	$ 5,000	$10,000	$15,000	$10,000	$40,000
Goodwill established	5,000	5,000	5,000	5,000	20,000
Cash payment to D	......	......	......	(15,000)	(15,000)
New capital balances	$10,000	$15,000	$20,000	$......	$45,000

Goodwill	$20,000	
A, Capital		$ 5,000
B, Capital		5,000
C, Capital		5,000
D, Capital		5,000
D, Capital	15,000	
Cash		15,000

By this method the entire goodwill of the business is capitalized. In other words, if D's interest (which is one quarter of the total capital), carries with it $5,000 of goodwill, then the goodwill attaching to four quarters is $20,000. Goodwill in that amount is set up on the books. D's portion is purchased with cash and the other partners credit their shares of it to their capital accounts in their profit-sharing ratios, because it is assumed to represent earnings. D is paid cash for the assets including the goodwill which he leaves in the business and at their value as shown by the books.

The capitalizing of goodwill shown in this method is not so easily justified as in the preceding illustration. The business has not bought and paid for the

amount of goodwill distributed among the remaining partners.

Fourth Method

This method is essentially the same as the one immediately preceeding it. The apparent difference between the two is the same as that between the first and second methods. Assuming the same excess tangible asset values as in the second method the entries upon D's retirement would be:

Real Estate	$10,000	
Inventories	5,000	
Reserve for Depreciation of Machinery	5,000	
A, Capital		$ 5,000
B, Capital		5,000
C, Capital		5,000
D, Capital		5,000
D, Capital	15,000	
Cash		15,000

The same objection can be directed toward this method as was directed against the preceding method, namely, that asset values have been capitalized without having been paid for.

Fifth Method

D retires from the partnership and receives $15,000 for his interest.

	A	B	C	D	Total
Old capital balances	$5,000	$10,000	$15,000	$10,000	$40,000
Distribution of loss	(1,667)	(1,667)	(1,666)	5,000	....
Adjusted balances	$3,333	$ 8,333	$13,334	$15,000	$40,000
Cash payment to D	......	....	....	15,000	15,000
New capital balances	$3,333	$ 8,333	$13,334	$......	$25,000

A, Capital	$ 1,667	
B, Capital	1,667	
C, Capital	1,666	
D, Capital	10,000	
Cash		$15,000

By this method the remaining partners consider that the excess cash paid to D, over the book value of his interest, represents a loss to the business and they therefore distribute that loss among themselves in their loss-sharing ratios.

This is the most conservative manner in which to record the facts, although not necessarily the most preferable. If these entries reflect the facts, then D may have succeeded in driving a hard bargain with the other partners. On the other hand, however, perhaps the other partners were anxious to be rid of D even at the cost of paying him for his interest more than its actual value would otherwise be worth. Unfortunately, in partnerships such a state of affairs occasionally presents itself.

Retiring Partner Withdraws Assets of Less Value Than The Book Value of His Capital Account

First Method

D withdraws from the partnership and receives $7,500 for his interest.

SUMMARY

	A	B	C	D	Total
Old capital balances.........	$5,000	$10,000	$15,000	$10,000	$40,000
Distribution of profit........	833	833	834	(2,500)	......
Adjusted balances..........	$5,833	$10,833	$15,834	$ 7,500	$40,000
Cash payment to D.........	.....	......	......	7,500	7,500
New capital balances........	$5,833	$10,833	$15,834	$......	$32,500

D, Capital....................................	$10,000	
Cash....................................		$7,500
A, Capital....................................		833
B, Capital....................................		833
C, Capital....................................		834

The excess of book value over the price paid to D for his interest is considered to be a profit to the remaining partners to be distributed among them in their profit-sharing ratio. This would be the case if the remaining partners had driven a sharp bargain with D upon his withdrawal. If the entries truly reflect that fact, it seems rather naïve to put the chicanery on record by giving notice to all and sundry having access to the books.

On the other hand, however, that is not the only reason which might prompt a sale by a partner for less than book value.

The retiring partner might be very anxious to be in possession of cash for a different venture or to take care of some pressing emergency. In such circumstances it is conceivable that he would urge the purchase of his interest even in the face of the reluctance of his partners to buy it.

Another possibility is the business acumen of the retiring partner, who might foresee just ahead a period of small returns or actual losses for the business. In order not to suffer such an experience, he might be glad of the opportunity to sell his interest for less than book value. His partners might be aware of the discouraging possibilities of the future and be willing to take the risks or they might be totally unaware of them.

Second Method

D withdraws from the partnership and receives $7,500 for his interest.

SUMMARY

	A	B	C	D	Total
Old capital balances.........	$5,000	$10,000	$15,000	$10,000	$40,000
Write down of assets........	2,500	2,500	2,500	2,500	10,000
Adjusted balances..........	$2,500	$ 7,500	$12,500	$ 7,500	$30,000
Cash payment to D.........	.....	......	....	7,500	7,500
New capital balances........	$2,500	$ 7,500	$12,500	$......	$22,500

A, Capital	$2,500	
B, Capital	2,500	
C, Capital	2,500	
D, Capital	2,500	
Assets (segregated)		$10,000
D, Capital	7,500	
Cash		7,500

These entries indicate that the reason D did not receive book value for his capital account is that his capital account was not worth book value. Some of the assets were overvalued and before paying off D the assets had to be written down to their true value in order that D's capital account would reflect its true value. When book value and actual value coincide, D is paid off by an entry that extinguishes his capital account by payment to him, out of the business, in assets of the same value.

There can be no third method to account for the withdrawal of a partner if he is paid less than book value upon withdrawal. Obviously, under such conditions there are only two assumptions to be made; either he sold out at a loss to himself or the assets were overvalued. It is manifest that there is no goodwill to be considered.

Arbitrary Write-Up of Assets

The question of the writing up of assets arises rather frequently in accounting for admissions and retirements of partners, and its association with those events is of such an essential and intimate character that it appears advisable to make reference to it in this discussion. The writing up of goodwill furnishes a good example of this general subject. Under certain conditions the existence of the excess value represented by goodwill can be demonstrated as a fact. Its existence having been established and its value determined by an actual payment for it, the inclusion of its value in the accounts is perfectly justified by all the recognized accounting principles. Granting its existence, however, whether the inclusion of it in an amount greater than the price paid for it can be justified is open to serious question.

In computing values of goodwill upon the admissions and withdrawals of partners, recognized accounting practice tolerates a wide latitude in acknowledging this asset. The recording of goodwill among the assets is, under some circumstances, permissible on the balance-sheets of partnerships, which would be denounced as heresy if displayed in the financial statement of a corporation or a group of corporations under similar circumstances.

Previously there was illustrated the only recognized method of recording goodwill where an interest was purchased at a price in excess of book value. The price paid for the goodwill was multiplied by the number of partners both old and new, and the goodwill was written into the records at the value of the product. If goodwill is to be set up on the books at all, it must be set up in that manner. Goodwill cannot be set up on the books in the exact amount of the excess of the newcomer's payment over the book value of the capital he acquires. It may be argued that all admissions of partners can be reflected on the books without a recorded recognition of goodwill. Although that practice may represent the most conservative treatment, it is not necessarily the most preferable. The problem states that the new partner paid more than book value. If goodwill is among the assets and was fully paid for there can be no valid objection to recording it. The objections under the given facts would appear to relate to the establishment upon the records of an asset which has

not been paid for. Goodwill was set up at a value of $10,000. It may be worth that amount but only one-quarter of it was paid for by the incoming partner. Another objection may be raised because the amount paid for the goodwill is not contributed to the total assets of the new partnership; the former partners have taken the proceeds into their own private funds to be dissipated if they please. Nevertheless, they have caused it to be included among the assets of the partnership. In view of the questionable stability of goodwill and its possible future loss of value, to bring its present value upon the books without having received payment may be open to logical criticism. The recognized treatment under these circumstances is probably the least conservative treatment of goodwill in all of partnership accounting.

The generally accepted accounting principles establish that goodwill should not be recorded upon the books except when it has been bought and paid for. But in the problems in which a new partner has paid more than book value for his proprietorship interest, goodwill cannot be brought upon the books in the amount paid for it and at the same time fulfill the conditions of the problems. Up to the present time there has been devised no acceptable method by which that can be accomplished. The limitation applies whether the newcomer buys an interest or makes an investment in the business, if he pays more than book value.

The following computations will show what happens when an attempt is made to establish goodwill in the amount of the excess of the incoming partner's payment over book value in those cases in which the newcomer is buying an interest:

In the illustration previously given it was assumed that the capital accounts of a partnership were: A, $5,000, B, $10,000, C, $15,000. D buys a one-quarter interest for $10,000.

	A	B	C	Total
Old capital balances	$5,000	$10,000	$15,000	$30,000

Value of ¼ interest in partnership (¼ of 30,000)		$ 7,500
Price paid by D for ¼ interest in partnership	$10,000	
Goodwill (excess of price paid over book value)		2,500
	$10,000	$10,000

To bring goodwill upon the books in the amount paid for it the entry must be as follows:

Goodwill	$ 2,500	
A, Capital		$ 833
B, Capital		833
C, Capital		834

Following this entry there must be an entry to admit the new partner. What can it be?

A, Capital	$ 1,458	
B, Capital	2,708	
C, Capital	3,959	
D, Capital		? ? ? ?

	A	B	C	D	Total
Old capital balances..........	$5,000	$10,000	$15,000	$.....	$30,000
Goodwill distribution.........	833	833	834	.....	2,500
Balances before D's admission.	$5,833	$10,833	$15,834	$.....	$32,500
To admit D (¼ of balances)...	(1,458)	(2,708)	(3,959)	8,125	......
New capital balances.........	$4,375	$ 8,125	$11,875	$ 8,125	$32,500

It will be observed that the attempt fails to fulfill the requirements in accordance with the stated conditions. D would not own a one-quarter interest in the business. D's capital cannot be computed to represent a one-quarter of the new capital if goodwill of $2,500 is established. The goodwill must be distributed among the capital accounts of the former partners before D is admitted. After posting the entry which distributes the goodwill, the total capital amounts to $32,500, of which one-quarter is $8,125; or, stated in a different way, if each partner transfers to D, one-quarter of his capital, the total amount transferred will be $8,125. That amount is in excess of the capital which is to be allocated to D, and therefore the terms have not been fulfilled.

D's capital account cannot be increased to represent an amount in excess of the $7,500. In this case it would need to be increased to $8,125. If it were, the excess of $625 would have to be offset by other assets. If D supplied the assets, his payment price would thus be increased beyond the stated condition of the problem—$7,500.

Goodwill represents a value which the purchaser recognizes by his payment as existing. When buying into a business, the measure of value of the purchase is the measure of the income which the invested funds are expected to produce. Obviously, the purchaser made no contribution whatever to the creation of this excess value which he is purchasing. It was created during the past history of the business. Since it was created by the former proprietorship, it belongs to the former proprietorship, and when the excess value is sold, the proceeds from the sale belong to the former proprietors. For that reason the value of the goodwill which is purchased, as determined by the price which is being paid for it, if set up on the books at all is always set up before passing the entry which admits the new partner. The recording of the goodwill is not mandatory.

This excess value when realized upon at its sale is considered to be an earned increment, which, in spite of its intangible character, is real and existing. A gain becomes realized. This gain is identical with a gain realized from the sale of a piece of machinery. Like every other earning or profit which may be reflected by an excess of assets, the excess is distributed among the individuals composing the proprietorship in the ratio in which each shares in any other earnings, namely, in his profit-sharing ratio. Such excess is never distributed in the capital ratios.

Without doubt goodwill can be set up on the books in the amount paid for it, and an allocation of the capital interests, arbitrarily agreed upon, can be achieved. But the only manner in which it can be accomplished is by a special agreement among the partners to accept the unorthodox allocations. Such an agreement would constitute a different contract, but partners may agree to anything they wish. Nevertheless, the provisions of the stated problem cannot be fulfilled in that manner. Similarly, when an incoming partner makes an investment in the partner-

ship in return for a share in it, if his investment is in excess of the fractional book value, the goodwill cannot be brought upon the books in the measure of that excess.

That excess in the illustration previously submitted amounts to $5,000. The problem stated that the capital accounts of a partnership were: A, Capital, $5,000; B, Capital, $10,000; C, Capital, $15,000; and that D invested $15,000 for a one-quarter interest. D therefore paid $5,000 for goodwill.

The entry to place $5,000 goodwill upon the books would have to be:

Goodwill	$5,000	
A, Capital		$1,666
B, Capital		1,667
C, Capital		1,667

This entry would be in error as indicated by the following summary:

SUMMARY

	A	B	C	D	Total
Old capital balances	$5,000	$10,000	$15,000	$......	$30,000
Goodwill established	1,666	1,667	1,667	......	5,000
Balances before D's admission	$6,666	$11,667	$16,667	$......	$35,000
D's investment	.....	......	......	15,000	15,000
New capital balances	$6,666	$11,667	$16,667	$ 15,000	$50,000

D does not have a one-quarter interest if the entries are made in this manner and the stipulations of the problem have not been complied with.

These objections leveled at the prevailing practice of appraising goodwill and writing the appraised value into the accounts apply with equal force to the arbitrary writing up of the tangible assets as well, if effected under similar circumstances.

Probably the most impelling cause of the setting up of these appreciated values in the cases of admissions is the preference of the new partner. It is easier to induce another to join a partnership if his capital account shall reflect his capital contribution than if it would reflect an amount less than his contribution. This matter assumes importance in the event of the subsequent retirement of the new partner, or of the liquidation of the business. This cause, however, cannot be said to influence the decision to write up asset values upon the event of the retirement of a partner. Writing them up to the extent of the excess paid for them to the retiring partner is unquestionably fully justified. Justification for writing them up beyond that value is open to doubt.

Equalization of Accounts

Frequent reference has been made throughout this discussion to the equalization of partners' accounts. The capital accounts of the former partners may remain as they appear in the ledger after having posted the entry which admits the new partner. Or the partners may agree to any other compensating arrangement so long as the interest of the new partner remains in conformity with the contract relating to his admission. There may be a number of reasons for such an agreement among former partners. For example, the various transfers of interest may, in certain instances, leave some of the partners with greatly diminished credits to their

capital accounts. The insufficiency may be so unbalanced as to endanger the continued prosperity of the enterprise, because the benefits, burdens, and responsibilities of proprietorship may have become inequitably distributed. In many partnerships the mere possession of capital is the most important income-producing factor. In such an enterprise it is natural that profits should be divided in a ratio that either coincides with capital ratios or very closely approximates those ratios. It cannot reasonably be expected that a partner with a relatively small capital in such a business would dedicate the same amount of time, effort, attention, and devotion to the business as another with a relatively large investment. If he did, the effect would be that the other partner with the higher profit-sharing ratio would benefit from the contributions of his thought and energy to an unwarranted degree. And yet, the wholehearted coöperation of the partner with less capital, though it would not be the most important factor in the business, might nevertheless be very important and perhaps essential.

Incidentally, the writing up of assets preparatory to admitting a new partner will have an effect upon the capital ratios. As an example, reference may be made to the illustration previously made in which a newcomer purchased an interest for a payment in excess of book value. The capital accounts of a partnership were, A, Capital, $5,000; B, Capital, $10,000; and C, Capital, $15,000. D purchased a one-quarter interest for $10,000. The following table will illustrate:

Capital balances	A	B	C	D	Total
Original balances	$5,000	$10,000	$15,000	$......	$30,000
No goodwill set up	3,750	7,500	11,250	7,500	30,000
Goodwill set up	6,250	10,000	13,750	10,000	40,000
Capital ratios					
Original balances	16⅔%	33⅓%	50%	....	100%
No goodwill set up	12½%	25%	37½%	25%	100%
Goodwill set up	15⅝%	25%	34⅜%	25%	100%

If the partners had agreed to equalize their capital accounts (no goodwill having been set up) instead of passing the entry to admit the new partner as shown under the illustration for that problem, the entry would have been:

	Debit	Credit
C, Capital	$7,500	
B, Capital	2,500	
A, Capital		$2,500
D, Capital		7,500

After posting this entry each partner's capital account will show a credit balance of $7,500, the combined capital will still remain at $30,000, and each partner will have an equal one-quarter interest in the capital of the partnership.

	A	B	C	D	Total
Original balances	$5,000	$10,000	$15,000	$.....	$30,000
Adjusting entry	2,500	(2,500)	(7,500)	7,500	......
New balances	$7,500	$ 7,500	$ 7,500	$ 7,500	$30,000

This entry reflects a set of facts different from those shown when the accounts were not equalized. In both instances D paid $10,000 which was distributed privately among the former partners as follows:

Distribution of D's payment to:	A	B	C	Total
Share of $7,500 book value..............	$1,250	$2,500	$3,750	$ 7,500
Share of $2,500 excess..................	833	833	833	2,500
Totals...........................	$2,083	$3,333	$4,583	$ 10,000

The previous entry reflected the reduction of each partner's capital account by his share of that part of D's payment allocable to the book value of the business, to wit: A, 1,250; B, 2,500; C, 3,750.

	A	B	C	D	Total
Original balances............	$5,000	$10,000	$15,000	$.....	$30,000
Transfers to D..............	1,250	2,500	3,750	7,500	......
New capital balances.........	$3,750	$ 7,500	$11,250	$ 7,500	$30,000

But the entry last shown discloses the fact that the new partnership agreement requires that all the capital accounts be equalized. Therefore, after each former partner has received his cash, instead of all of the capital accounts being reduced, they are equalized. These equalizations are always made privately among the partners. The capital accounts are equalized by exchanges of whatever compensating medium they agree to among themselves. In the following table it is assumed that the compensating medium agreed upon was cash:

	Former capitals	Present capitals	Variation	Cash paid by A for capital transfer	Transfers from capital accounts		Cash received from A and D
					To A	To D	
A.....	$ 5,000	$ 7,500	$ 2,500				
B.....	10,000	7,500	(2,500)	⅖–$1,000	⅖–$1,000	⅖–$3,000	$ 4,333
C.....	15,000	7,500	(7,500)	⅗– 1,500	⅗– 1,500	⅗– 4,500	6,083
Total..	$30,000	$22,500	$ 7,500 22,500	$2,500	$2,500	$7,500	$10,416
	$30,000		$30,000				

	A	B	C	Total
Cash received from A.................	$	$1,000	$1,500	$ 2,500
Cash received from D.................	2,083	3,333	4,583	10,000
Total cash received..................	$2,083	$4,333	$6,083	$12,500

Before the journal entry was passed equalizing the capital accounts, A must have paid to B and C jointly $2,500 because his capital account must be increased $2,500 and that amount is his payment for the increase. The increase in A's account must result in the combined reduction of the accounts of B and C by the same amount. The $2,500 is more than the entire proceeds received by A from the sale of the portion of his interest. But he sold only $1,250 of his share of the share of the partnership and received $2,083 for it. Now he gives $2,500, but he received a capital credit in the same amount.

When the capital accounts are equalized, the adjustments are made according to the capital ratios of the partners. There is now no adjustment of the profit; that adjustment has already been made in the profit-sharing ratio. The problem at this point is to distribute capital so that all of the capital accounts shall be equal. It has to do with the component part representing the book value of the capital accounts and that is the reason the equalization must be based upon the capital ratios.

At this point A has settled according to the contract relating to the equalization of the accounts, but it now remains for B and C to settle between them the division of A's $2,500 and the capital credit to D. The capital ratios of B and C to each other are as 2 is to 3 (B's capital $10,000 and C's capital $15,000). So they divide between them the $2,500 paid to them by A in that ratio.

B gets ⅖ of $2,500 or $1,000
C gets ⅗ of $2,500 or $1,500

And B and C transfer to A's capital account these identical amounts from their own.

B and C are now required to transfer $7,500 to D's capital account and each transfers his prorata share.

B transfers ⅖ of $7,500 or	$3,000
C transfers ⅗ of $7,500 or	$4,500
Transferred to D, Capital	$7,500

The result is that all four capital accounts are equalized at $7,500. The former partners may agree to share profits in any manner by mutual agreement. D's profit-sharing ratio is fixed by contract at one-quarter. Capital accounts of partners may be equalized in similar manner under all conditions of admissions or withdrawals.

Conclusion

The purpose of the foregoing discussion has been to present the problems which arise in accounting for the admissions and the retirements of partners. Contemporaneously with the presentations there have also been submitted discussions intended to be in sufficient detail to show that the methods of accounting for the changes in personnel develop naturally as the circumstances of each particular case become revealed.

Due to its essentially intangible character, the treatment of goodwill often involves a degree of obscurity and for that reason the subject has been stressed at every point where the necessity of accounting for it has arisen.

Classification of book entries to record the admissions and retirements of partners indicate altogether twenty different methods. A synopsis of these methods by way of a summary is as follows:

Admissions

For book value
  For payment in excess of book value
Book values of assets unchanged
Book values of tangible assets appreciated
Book values of intangible assets appreciated
  For payment less than book value

Book value in excess of actual value
Corrected book values previously valued in error
Goodwill supplied by newcomer

NOTE.—There is a method to account for each of the above situations if the new partner has bought an interest, and another and different method if he made an investment.

RETIREMENTS

Equal to book value
In excess of book value
Capitalize retiring partner's share of excess values
Capitalize all partners' shares of excess values
Payment for excess values distributed as a loss
Less than book value
A profit to the surviving partners
Corrected book values previously valued in error

Thus, in a variety of ways may the admissions and retirements of partners be accounted for, but in all ways limited by the facts and by the law.