Accounting Treatment of Change in Ownership of Partnerships: A Comparative Analysis of the Goodwill Method and the Bonus Method in the Admission of Partners

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ABSTRACT
Changes in joint ownership are a frequent occurrence in business dynamics, especially through partner acceptance mechanisms. Objective: This study aims to analyze and compare the accounting methods used for changes in ownership in the fellowship, using the goodwill method and the bonus method. Methodology: This study applies a qualitative approach using a literature review, as well as analyzing Advanced Accounting textbooks and scientific journals related to goodwill assessment. Findings: The results of the study showed that there was a difference between the value of the deposit of the new ally and the proportion of ownership acquired, which resulted in two alternative accounting treatments. The goodwill method recognizes the added value of the alliance as an intangible asset distributed to an old ally, while the bonus method redistributes capital without recording new assets. Authenticity: This study offers a comprehensive analysis, showing that while accounting standards do not justify the recognition of internal goodwill, they remain important for maintaining economic fairness among allies as well as identifying gaps between the standard's provisions and practical needs in congressional accounting.

***Keywords**: Partnership, Partner Acceptance, Goodwill Method, Bonus Method, Partnership Accounting*

1. INTRODUCTION

A fellowship is a type of business established by two or more people with the intention of running a business and achieving mutual profits. In its application, the structure of the alliance's ownership can change because there can be the addition of new allies, the exit of existing allies, the transfer of ownership, or the dissolution of the alliance itself. This change that occurs is called the reconstitution of partnership and requires proper accounting treatment so that the economic interests of each ally are guaranteed, and financial statements can accurately show the actual conditions.

One type of change of ownership that often occurs is the acceptance of new allies, which is the process of bringing new members into an alliance. The presence of these new allies can be realized through direct capital deposits into the alliance or by purchasing a portion of the existing allies' ownership rights. This event not only had an impact on the composition of the existing allies, but also affected the capital structure, the proportion of profit sharing, and the value of the economic interests of each ally. Therefore, an accounting approach is needed that can accurately and fairly reflect these changes.

In the field of accounting, the presence of new allies often creates a difference between the value of the deposit given and the book value of the share of ownership acquired. These differences can trigger the recognition of goodwill or the implementation of bonus methods, depending on the agreement among the allies. Goodwill is interpreted as an intangible asset that reflects an entity's reputation, customer loyalty, management quality, and ability to generate profits above normal standards.

However, according to the provisions of Accounting Standard 26 and Indian Accounting Standard 38 which follow IFRS, internally acquired goodwill is not recognized in the financial statements as it does not qualify as an asset, especially related to reliable cost measurement capabilities [1]. Although internal goodwill is not officially recognized, in reality, the value of goodwill remains an important factor, especially when there is a new partner acceptance, resignation, death of a partner, or when a partnership is dissolved (Hoyle et al., 2017; [1]. This shows the difference between the rules of accounting standards and the practical need to maintain economic fairness among partners.

This study aims to analyze the accounting method in the change of partnership ownership through the partner acceptance mechanism using the goodwill method and the bonus method, as well as evaluate the impact of these two methods on economic justice between partners and their conformity with applicable accounting standards.

2. LITERATURE REVIEW

2.1. The Concept of Federations and Change of Ownership

A partnership can be defined as a group of two or more individuals who jointly run a business as joint owners with the aim of making a profit. The ownership structure in the alliance is flexible and can change at any time according to the agreement between the allies. Changes in the ownership of the alliance can be differentiated into the entry of new allies, the resignation of the allies, the death of the allies, and the dissolution of the alliance. Each of these types of changes requires proper accounting handling to ensure that the interests of all parties are fairly safeguarded

2.2. The Concept of Goodwill in Accounting

Goodwill is an intangible asset that reflects the value added of a company above the book value of its net assets [1]. According to Spicer and Peglar in a quote included by [1], goodwill arises from the reputation, relationships, or other advantages that the company has, which allows the company to earn higher profits compared to the usual rate of return on capital invested in net tangible assets

Goodwill can be divided into two categories: goodwill purchased through business acquisitions that can be recorded in financial statements, and internally generated goodwill that is formed through good business practices [1]. The process of forming internal goodwill involves various types of expenses such as promotional costs, employee training, after-sales service, and quality control [1].

Studies conducted by [1] highlighting the debate over how goodwill is assessed and the conditions for its recognition. Although internally generated goodwill plays an important role in increasing the ability to generate profits, accounting standards do not allow its recognition because expenses incurred are difficult to identify and measure precisely.

2.3. Accounting Standards for Intangible Assets

Under AS 26 and IND AS 38, an intangible asset must meet two conditions in order to be recognized: first, there is a high probability that the future economic benefits attributable to that asset will pass to the entity; Second, the cost of acquiring the asset must be accurately measured [1]. Goodwill that arises from within the organization does not meet the second requirement, because it cannot be separated as an independent resource and the cost of its formation is difficult to separate from the total cost of business development[1].

2.4. Previous Research

Seetharaman, Balachandran, and Saravanan (2004) as conveyed by [1] criticize the different treatment of goodwill in different countries and remind the need for international agreements. Petrovic et al. (2014) in [1] stating that investors pay close attention to the value of goodwill that is formed internally because it is an indicator of the performance of a business. Shahwan (2011) quoted in [1] discuss various accounting policies related to goodwill from a historical perspective to the most recent, and emphasize the importance of having a more firm and consistent policy. Germany and Manzin (2008) as referenced by [1] Seeing the accounting treatment of goodwill as a controversial issue, despite many efforts, a global consensus on the definition of goodwill has not been reached.

3. METHODOLOGY

This study applies a qualitative approach using the literature study method. The choice of this method was taken because the focus of the research was to analyze the accounting concepts and treatments related to changes in the ownership of the fellowship through the acceptance of partners based on existing theories and literature.

3.1. Data Source

The data source used includes primary data in the form of an advanced accounting textbook entitled [2], which discusses Joint Accounting - Capital Account - Partner Receipt. In addition, there is also secondary data from scientific journals that discuss valuation and accounting treatment of goodwill, especially articles by [1] in the International Journal of Research and Analytical Reviews with the title "Issues Related to Goodwill Valuation and Its Accounting Treatment – A View".

3.2. Data Collection Techniques

Data collection is carried out using documentation techniques, namely by identifying, collecting, and analyzing documents such as textbooks and journal articles related to research topics. Each source is read thoroughly to understand the concept of changes in guild ownership, how new allies enter, and accounting treatment using goodwill and bonus methods.

3.3. Data Analysis Techniques

Data analysis is carried out with a descriptive-qualitative approach through three stages: data reduction (selecting relevant information), data presentation (compiling the results of the analysis in a systematic format), and drawing conclusions (formulating conclusions based on the results of the analysis).

3.4. Data Validity

The validity of the data is guaranteed by triangulating sources, namely by comparing concepts in the Advanced Accounting textbook [2] with research results from scientific journals on the goodwill method [1], so that the results of this study have a high level of reliability and can be accounted for academically.

4. RESULTS

4.1. Overview of Federal Ownership Changes

A change of ownership in an alliance through the acceptance of a new ally occurs when a new individual joins by depositing a sum of money or purchasing a portion of the ownership rights of an existing ally. This situation causes a shift in the proportion of ownership to the equity net worth and necessitates adjustments to capital accounts.

From the analysis carried out on the book [2], the presence of new allies not only led to changes in the composition of capital, but also had an impact on profit sharing as well as economic influence for all allies. Findings from the literature indicate that in practice, there are two main methods for recording the acceptance of new allies, namely the goodwill method and the bonus method [2]. Both methods are designed to resolve the difference between the value of a new ally's deposits and the book-value of the holdings it receives.

4.2. Application of the Goodwill Method

The goodwill method is used when the amount of a new partner's deposit is higher than the book value of the ownership received. This difference indicates the existence of additional value in the partnership that has not been registered, so it is recorded as goodwill [2]. This goodwill is then divided among the old partners according to the profit sharing ratio before the arrival of the new partner. From the analysis conducted, the application of the goodwill method has several main impacts:

a. Goodwill is recorded as an intangible asset in the common financial records, which increases the total assets and capital of the common common.
b. Recognized Old Partner Capital AdjustmentGoodwill is allocated to the existing partner's capital account, so that their capital balance increases prior to the recognition of new partner capital
c. Economic JusticeThis method is considered to be more representative of the real economic value of the commonwealth, as it takes into account reputation, consumer loyalty, and the potential to generate above-average profits [1].

However, the results of the study also indicate that the goodwill method has limitations, as the goodwill generated internally is not recognized according to current accounting standards [1]. Therefore, although it theoretically reflects economic value, this method cannot always be implemented in practices that follow IFRS [2].

Illustration of Calculating the Goodwill Method: Suppose that the partnership A and B have a capital of Rp 60 each. 000. 000 and IDR 40. 000. 000 with a profit sharing ratio of 3:2. Then, ally C joined by depositing Rp 40.

000. 000 to get ownership of 25%. Implicit value of the fellowship = Rp 40. 000. 000 / 25% = Rp 160. 000. 000Net asset book value before investment = IDR 100. 000. 000Goodwill = IDR 160. 000. 000 - IDR 100. 000. 000 = IDR 60. 000. 000Distribution of goodwill:Allied A: Rp 60. 000. 000 × 3/5 = IDR 36. 000. 000Ally B: IDR 60. 000. 000 × 2/5 = IDR 24. 000. 000Journal of Recordkeeping:
Goodwill Rp 60.000.000
Capital A IDR 36,000,000
Capital B IDR 24,000,000
Cash IDR 40,000,000
Capital C IDR 40,000,000

4.3. Application of Bonus Methods

The bonus method is applied when the difference between the new ally's contribution and the value of the received ownership book is not considered goodwill [2]. This difference is seen as a bonus given by one of the parties, either by the old ally to the new ally or vice versa.
The results of the analysis show that the bonus method has the following characteristics:

a. No Recognition of GoodwillNo recording for intangible assets. The total capital in the partnership is fixed, there is only a change in the allocation between capital accounts
b. If the contribution of a new ally is lower than the book value of the ownership received, then the difference is considered a bonus for the new ally to be borne by the old ally. On the other hand, if the contribution is larger, the difference becomes a bonus for the old allies
c. Compliance with Accounting StandardsThis method is more in line with accounting provisions that do not recognize internal goodwill because they do not add intangible asset accounts [1]. Thus, the bonus method is more often used in practice because it does not conflict with the rules of accounting standards [2]

Illustration of Bonus Method Calculation: Using the same information, ally C makes a deposit of IDR 40. 000.000 to get 25% of the ownership. The total amount of capital after investment is IDR 100. 000. 000 plus IDR 40. 000. 000 to Rp 140. 000. 000.Right C is 25% of Rp 140. 000. 000 which makes Rp 35. 000. 000.Bonus for old allies is calculated as Rp 40. 000. 000 minus IDR 35. 000. 000, which is Rp 5. 000. 000.Bonus distribution: Ally A receives Rp 5. 000.000 multiplied by 3/5, so that it becomes Rp 3. 000. 000.Ally B gets Rp 5. 000. 000 multiplied by 2/5, which is Rp 2. 000. 000.Recording journal:
Cash IDR 40,000,000
Capital C IDR 35,000,000
Capital A IDR 3,000,000
Capital B IDR 2,000,000

4.4. Comparison of Goodwill Method and Bonus Method

The analysis between the goodwill method and the bonus method reveals a fundamental difference in perspective on the difference between the investment value of the new ally and the book value of the share of ownership taken. The goodwill method sees the difference as a representation of the added value of the alliance that was not previously recorded, so it is recognized as an intangible asset and distributed to the old ally in proportion to the profit sharing. As a result, the total capital of the partnership increased and the composition of the company's assets changed due to the recognition of goodwill.

In contrast, the bonus approach does not recognize the existence of new intangible assets, but rather sees the difference as a redistribution of capital among allies. In this approach, if the new ally's deposit is less compared to the book value of the acquired holding, then that difference is considered a bonus given by the old ally to the new ally, and vice versa.

Therefore, the bonus approach does not change the total capital of the alliance, but only affects the proportion of ownership of each ally [2]. From the perspective of compliance with accounting standards, the bonus approach is considered more appropriate because it does not recognize the goodwill obtained internally [1], while the goodwill approach emphasizes more on the representation of the economic value of the community at the conceptual level.

4.5. Implications for Economic Justice Among Allies

Changes in alliance ownership have a direct impact on economic justice between allies. The goodwill method recognizes the economic value of the partnership that has not yet been seen in the accounting records [1], so that allies who have played a role in building the reputation and value of the alliance are compensated through an increase in their capital balances [2]. This reflects the principle of distribution fairness, where all parties acquire a share according to their respective contributions. On the other hand, the bonus method focuses on fairness by distributing capital without adding to the value of the asset [2]. This approach prioritizes simplicity and conformity with accounting standards [1], although conceptually it may not fully reflect the true economic value of the alliance.

Thus, the findings of this study emphasize that the accounting of changes in partnership ownership is not only related to technical aspects, but also reflects the dimensions of ethics and fairness in the distribution of economic interests. The choice of method needs to pay attention not only to compliance with accounting guidelines, but also to agreement between partners and fairness in the sharing of economic value.

5. CONCLUSION

Based on the findings and analysis, it can be concluded that the change of ownership in the alliance through the acceptance of new allies requires correct accounting treatment to ensure that the economic interests of all allies are maintained. There are two main approaches to recording these transactions, namely the goodwill approach and the bonus approach.

The goodwill approach recognizes the added value of the alliance as an intangible asset given to an existing ally, so that the total capital and assets of the alliance increase. This approach better illustrates the real economic value of the alliance by considering factors such as reputation, customer loyalty, and the ability to generate higher-than-usual profits. However, this approach is not in accordance with accounting principles that do not allow recognition of goodwill obtained internally.

Meanwhile, the bonus approach does not recognize the existence of goodwill and only redistributes the capital balance between allies. The total capital of the alliance only increases in accordance with the investment of new allies, without the addition of intangible assets. This approach is easier to implement and conforms to existing accounting provisions, although it may not fully reflect the economic value of the fellowship.

The selection of an approach must take into account the agreement between the allies as well as the applicable accounting provisions. Although the goodwill generated internally is not recognized according to accounting standards, it still has conceptual significance in reflecting the economic conditions of the alliance and maintaining loyalty among allies. Therefore, a deep understanding of these two approaches becomes crucial in ensuring the fairness and accuracy of the alliance's financial statements.

This research contributes to understanding the differences between the provisions of accounting standards and the practical need for maintaining economic fairness among allies, as well as recommending the need for a balance between compliance with standards and distribution fairness in common accounting practices.

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