

● LIVE CLASS 12th ACCOUNTS

BACKLOG MARATHON

S E R I E S

1. Fundamentals of Partnership
2. Goodwill
3. Change in PSR
4. Admission of Partner





Aim 100/100

Welcome To **ROHI BHA'S** Class

NEXT 500

Class 12th

~~₹3499/-~~

₹2999/-

प्रारम्भ 2.0

COMMERCE

NEXT1000

Class 12th

~~₹4999/-~~

₹3999/-

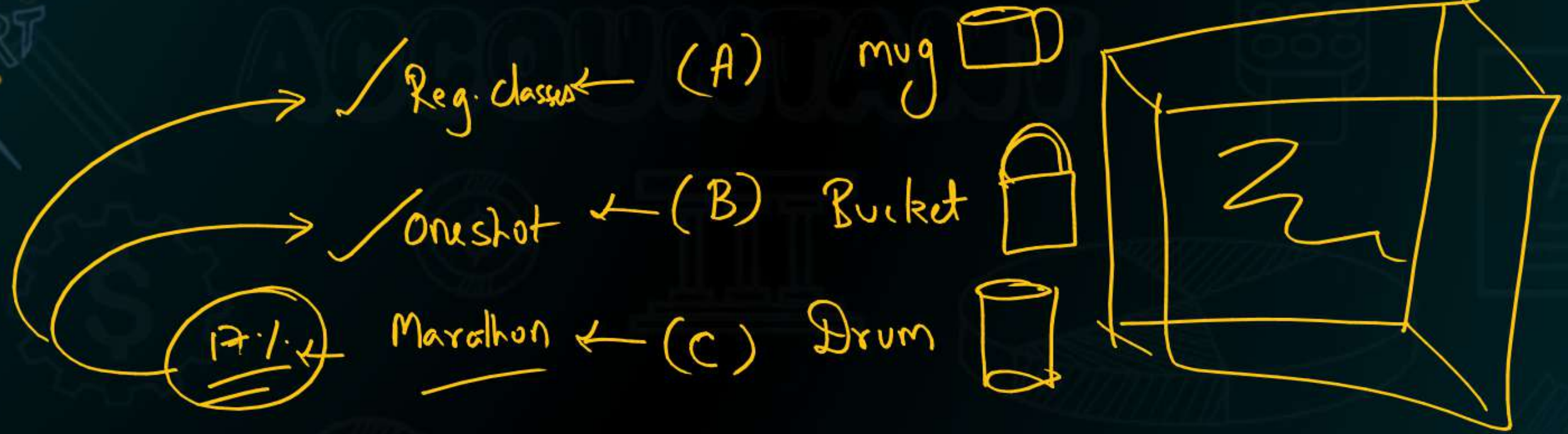


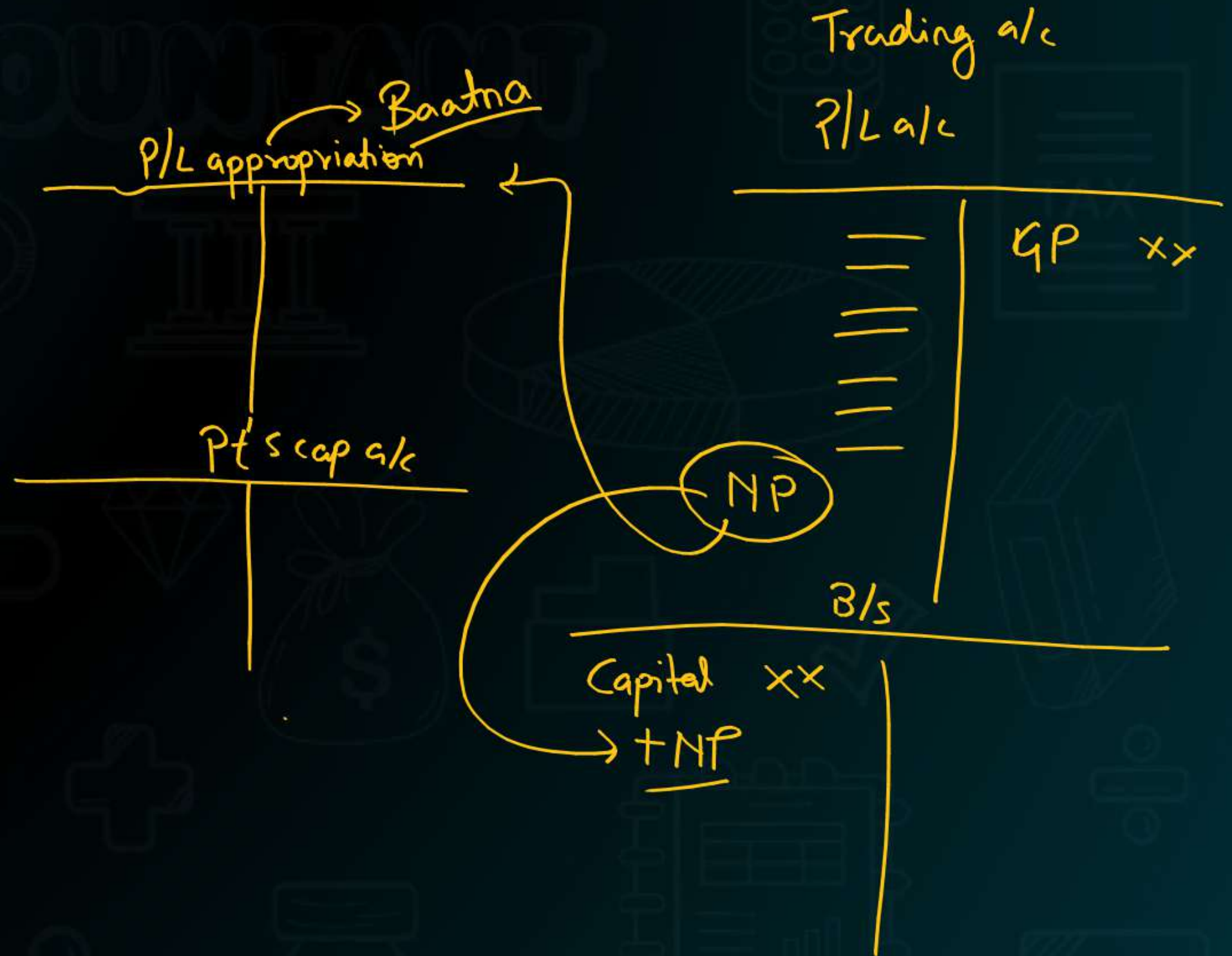
प्रारंभ 2.0

PRO

COMMERCE+CUET

→ CUET





Definition of Partnership

According to section 4 of Partnership Act, 1932 as

“Partnership is the relationship among two or more persons to share profits and losses of the business carried on by all or any of them acting for all.”



Business → Profit/Loss Share

Features of Partnership

Sani sir Saha parivar

50

Valid
ORAL
WRITTEN

An
agreement

Two or
More
Persons

Sharing of
Profits

Mutual
agency

Buiness &
profit
motive

Rohit owner
fixed → ₹ 50000

0	0
2	2

(B) → 0 2 Shaurya

A:B $\Rightarrow$ 3:2

A $\Rightarrow$ 10000 per month.

A & B pt. in firm

A is entitled to get sal of 10000/m

(B is entitled to com of 10% on NP
 $\rightarrow$ oral agreement)

$\Rightarrow$

Yes
 $\rightarrow$ A demands salary 10000/m

No B disagree.

$\rightarrow$ B demands salary of
10000/m.

$\rightarrow$ A disagree ✓

Partnership Deed

“Partnership deed” is a written document that contains all the terms and conditions regarding the conduct of the Partnership business. It helps in settling the disputes arising among the Partners in the general conduct of business.



Deed of Partnership

This deed of partnership is made on 06th Aug, 2019 between:

1. Mr. Amolak, son of Shri. Vidya Sagar, residing at 825, Sec-37, Faridabad, Haryana hereinafter referred to as FIRST PARTNER.
2. Mr. Supreet Singh, son of Shri. Mohinder Singh, residing at 2-c/66 NIT 2, Faridabad, Haryana hereinafter referred to as SECOND PARTNER.

Whereas, the parties hereto have agreed to commence business in partnership, which shall come into force from 10th Aug 2019, and it is expedient to have written instrument of partnership. Now this partnership deed witnesses as follows:

ARTICLE 1: NAME OF BUSINESS

- 1.1 The parties hereby mutually agreed, that the afore mentioned business shall formally be named as 'Stallion'

ARTICLE 2: PLACE OF BUSINESS

- 2.1 The principal place of the partnership business will be situated at Super Nova, Noida-2, 161202, Uttar Pradesh.

Rules in the absence of Partnership Deed

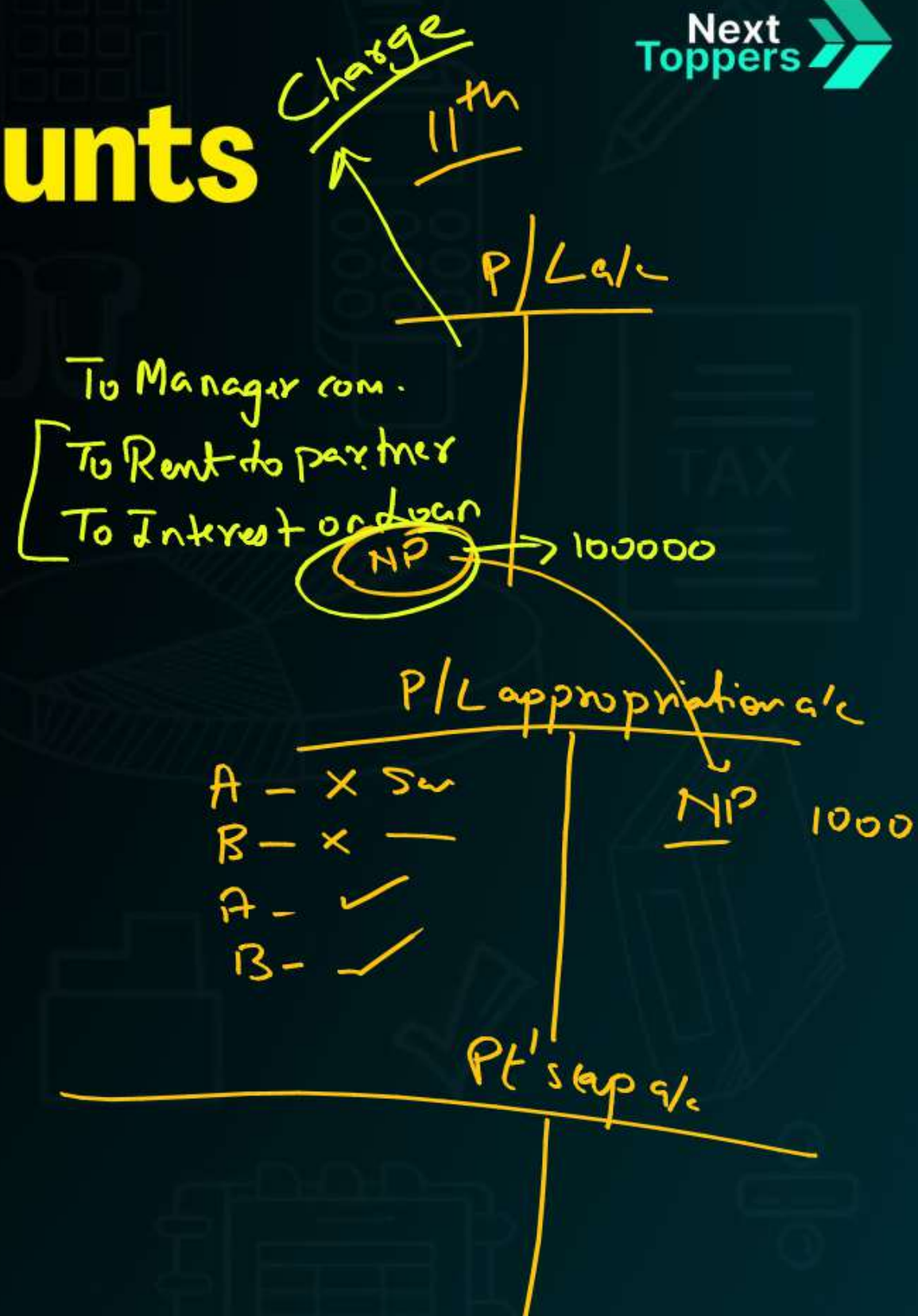
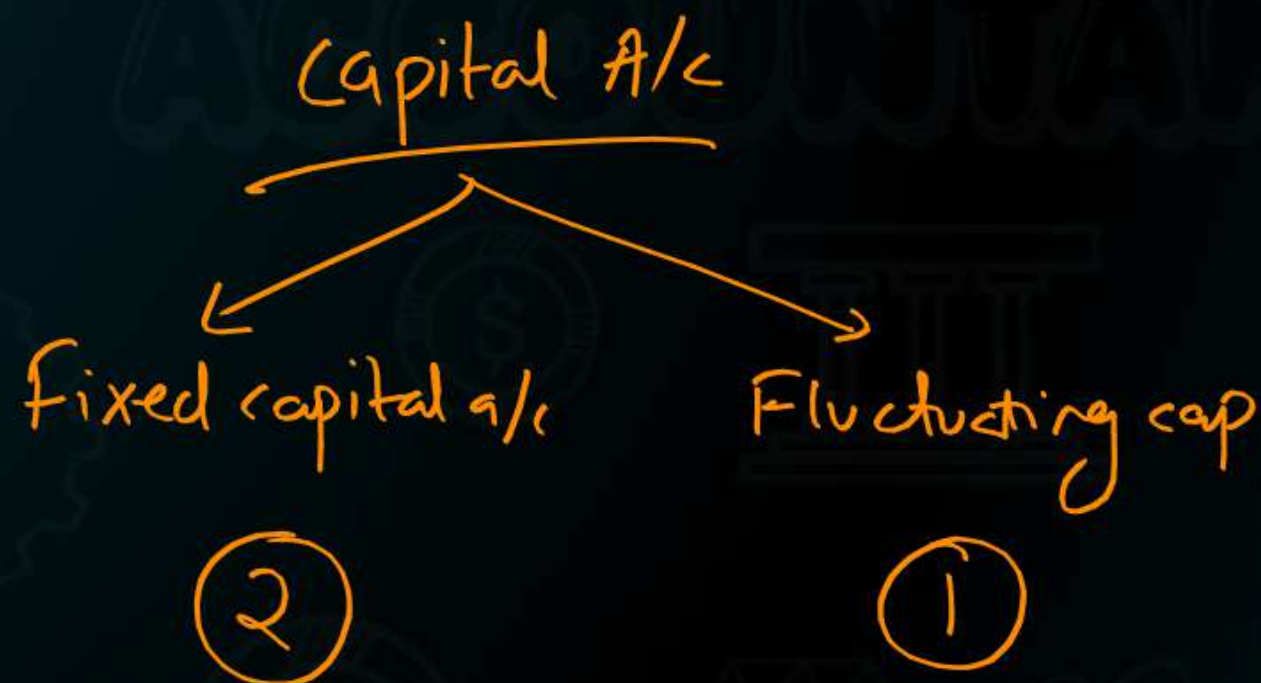
- ❖ No partner has the right to a salary,
- ❖ No interest is to be allowed on capital,
- ❖ No interest is to be charged on the drawings,
- ❖ Interest at the rate of 6% p.a is to be allowed on a partner's loan to the firm
- ❖ Profits and losses are to be shared equally.
- ❖ Without the consent of all existing partners no new partner can be admitted to the firm.

↳ No Agreement (Ox WX) → S.P.A, 1932
 ↳ Profit → Equally
 ↳ To Loan → 6% (p.a.)

Note: In the absence of an agreement, the interest and salary payable to a partner will be paid only if there is profit.

10 pts.
9 agree 1 disagree

Partnership Accounts



Format:

Rohit Clear

Profit & Loss Appropriation A/c

31/3

Particulars	₹	Particulars	₹
To Partner's salary A - xx B - <u>xy</u>	xx	By Net Profit trans from P/L a/c xxx	xxx
To Partner's commission		(-) Manager's com (xx)	
To Interest on Capital A - xy B - <u>xy</u>	xx	(-) Rent to partner (xx)	
To General Reserve	xx	(-) Interest on loan (xx)	xxx ✓
To Profit A - xy B - <u>xx</u>	xxx	By ZOD. A - xx B - <u>xy</u>	xx

Format of Capital Accounts

FLUCTUATING

Dr. Partner's Capital a/c Cr.					
Particulars	X	Y	Particulars	X	Y
To Drawings	xx	xx	By Opening cap	xx	xx
To Interest on Drawings	xx	xx	By Salary	xx	xx
To Permanent withdrawal	xx	xx	By Com.	xx	xx
To Closing capital	xx	xx	By F.O Capital	xx	xx
Rs			By Profit (App.)	xx	xx
			By Additional Capital	xx	xx

Format of Fixed Capital Accounts

Partner's Fixed capital a/c

Particulars	X	Y	Particulars	X	Y
To Permanent Withdrawal	xx	xx	By Op. cap	xx	xx
To Closing cap	xx	xx	By Additional cap	xx	xx

Dr. Partner's Current a/c Cr.

Particulars	X	Y	Particulars	X	Y
To op. Bal	xx	xx	By op. Bal	xx	xx
To Drawings	-	-	By Sal	-	-
To IOD	-	-	By IOD	-	-
To Closing cap.	xx	xx	By Com	-	-
			By Bonus	-	-
			By Profit (App)	-	-
			By Closing Bal.	-	-

INTEREST OF CAPITAL

1 Apr

1 Aug

31 Dec

Karan = 10,00,000

Divya = 15,00,000

+ 10,00,000

-

(5,00,000)

Apr May June July

1,66,666

LOC @ 10% p.a, on 31/3/2025

Karan = 1 April - 1 Aug (4 month) - $\frac{10,00,000}{100} \times \frac{10}{100} \times \frac{4}{12} = 33,333$

1 Aug - 31 March (8 month) - $\frac{20,00,000}{100} \times \frac{10}{100} \times \frac{8}{12} = 66,666$

1,66,665

INTEREST OF CAPITAL 1 Ap

CONCEPT

1 April

Karan = 10,00,000

Divya = 15,00,000

1 Aug	31 Dec
Addition 10,00,000	-
-	Withdrawal (5,00,000)

Loc @ ~~12%~~ 12% p.a, on 31/3/2025

Divya = 1 April - 31 Dec = (9 months) $\Rightarrow 15,00,000 \times \frac{9}{12} \times \frac{12}{100} \Rightarrow 135000$

Didi = 1 Jan - 31 March = (3 month) $\Rightarrow 10,00,000 \times \frac{3}{12} \times \frac{12}{100} \Rightarrow 30000$

165000

PARTNER'S SALARY

Apr. June July Aug Sep Oct N Dec Ji-M

CONCEPT

$$\text{Rukmani} = 10000 \text{ per quarter} \Rightarrow \underline{10000 \times 4} \Rightarrow 40000$$

$$\text{Abhishek} = 15000 \text{ per month} \Rightarrow \underline{15000 \times 12} \Rightarrow 180000$$

$$\text{Jaswinder} \Rightarrow 6000 \text{ per annum} \Rightarrow \underline{\underline{6000}}$$

PARTNER'S Commission

CONCEPT

Before $\Rightarrow \boxed{} \times \frac{\text{Rate}}{100}$

After $\Rightarrow \boxed{} \times \frac{\text{Rate}}{100 + \text{Rate}}$

Saifi was entitled to com. of @10% on HP after salary

~~NP $\Rightarrow$ 11,00,000~~

Saifi's salary $\Rightarrow$ 2,00,000

and commission
HP after Sal
13,00,000 - 2,00,000

case 1 $\boxed{\text{Com} = 11,00,000 \times \frac{10}{110}}$
NP $\Rightarrow$ 13,00,000

$\Rightarrow$ 11,00,000
 $\hookrightarrow$ 10%
 $\hookrightarrow$ 1,10,000

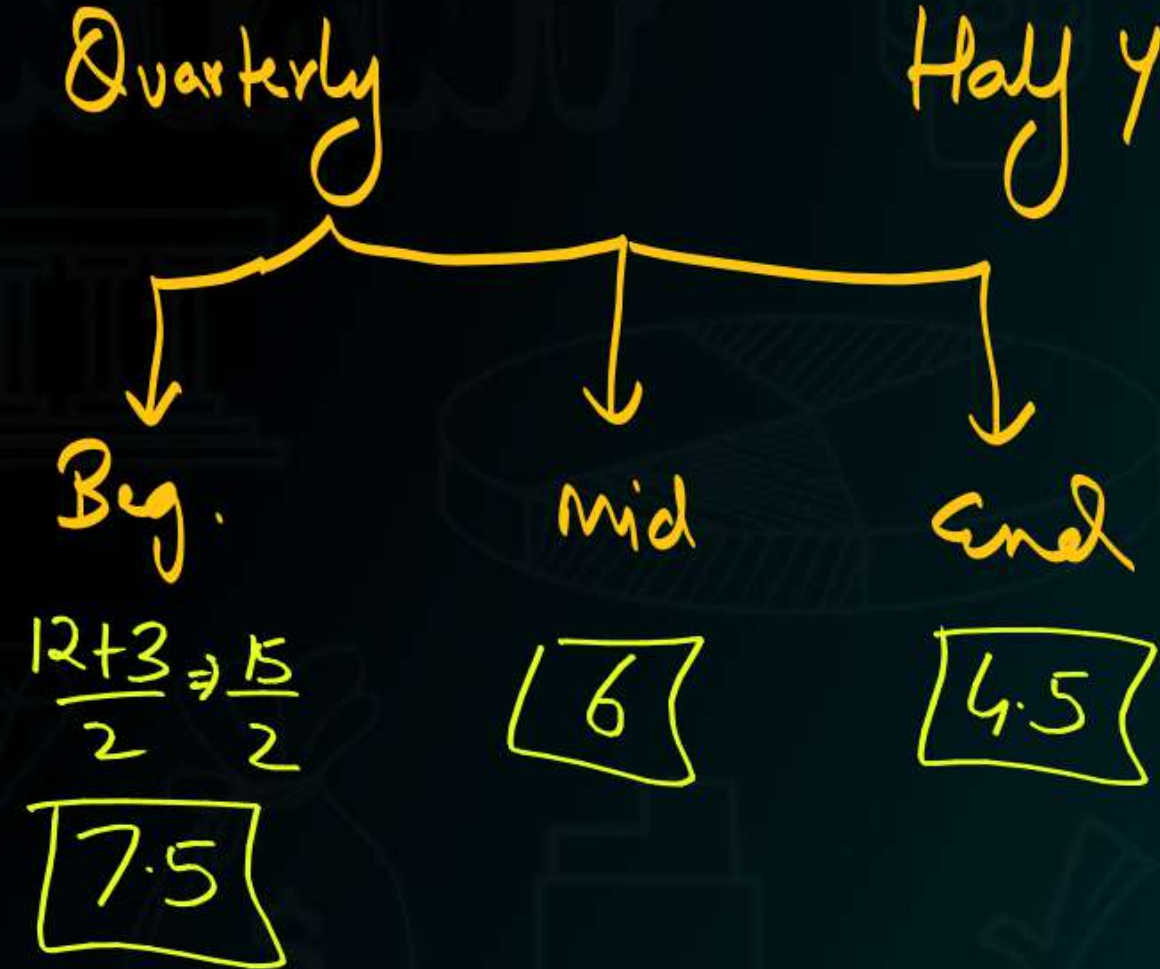
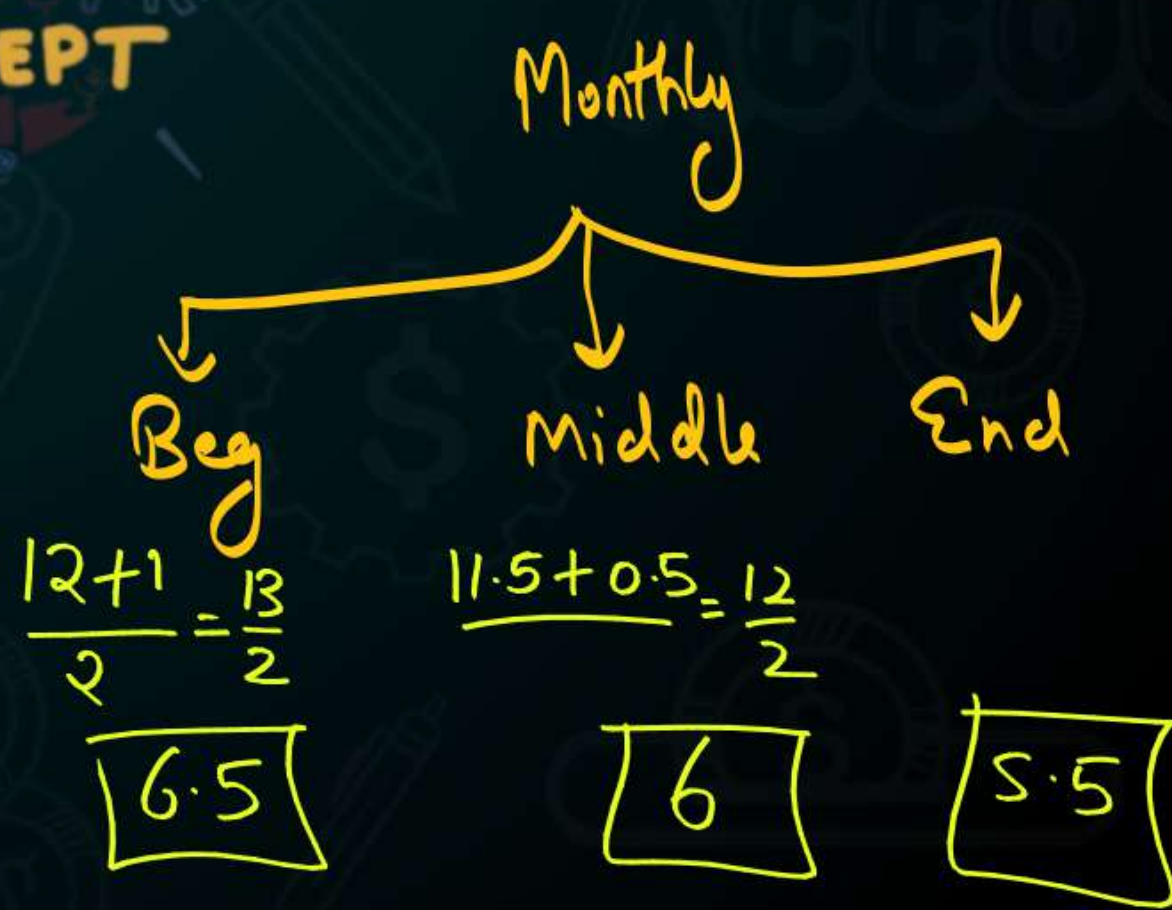
NP After salary & commission
13,00,000 - 2,00,000 - x
11,00,000

$\rightarrow 11,00,000 \times \frac{10}{110}$
 $\boxed{1,00,000}$

INTEREST ON DRAWINGS



CONCEPT



Half Yearly

INTEREST ON DRAWINGS $\Rightarrow$ 61. P. 9



CONCEPT

Diyot withdrew 4000 in end of every quarter

$$\Rightarrow 4000 \times 4 \times \frac{6}{100} \times \frac{45}{12}$$

$$\Rightarrow 8 \times 45$$

$$\Rightarrow \underline{360}$$

Quarterly $\times 4$

Half Yearly
(last 6 months)

Beg.

Mid

End

$$\frac{12+3}{2} = \frac{15}{2}$$

$$\boxed{6}$$

$$\boxed{4.5}$$

$$\boxed{7.5}$$

Ram withdrew 10000 per month in ~~middle~~ end of every month.

$$\hookrightarrow 10000 \times 12 \times \frac{6}{100} \times \frac{6}{12}$$

$$\underline{3600}$$

$$10000 \times 12 \times \frac{6}{100} \times \frac{5.5}{12} = 3300$$

INTEREST ON DRAWINGS

61 P.9

CONCEPT

Half yearly ^{x6}
(last 6 months)
[Oct - March]

* Anand withdrew ₹6000 in middle of every month, for last 6 months.

$$6000 \times \frac{6}{100} \times \frac{6}{12} \times \frac{3}{2} = 540$$

Beg
 $\frac{6+1}{2} \Rightarrow \frac{7}{2}$
 $\boxed{3.5}$

Mid.
 $\boxed{3}$

End
 $\boxed{2.5}$

$\Rightarrow 540$

QUESTION:

CONCEPT

Misthi & Rishu are partners in a firm.

3:2 Capitals

↳ Misthi: 10,00,000

↳ Rishu: 5,00,000

Net Profit $\Rightarrow$ 7,00,000

✓ Salary $\rightarrow$ Misthi: 3000 monthly
 $\rightarrow$ Rishu: 4000 Quarterly

✓ Commission $\rightarrow$ Misthi: 10% on net profit
 $\rightarrow$ Rishu: 2% on sales

✓ Interest on Drawings $\Rightarrow$ 6% p.a.

✓ Total sales $\Rightarrow$ 20,00,000 $\times$ 2% $\Rightarrow$

Drawings

↳ Misthi withdrew 6000 per month, end of every month $= 6000 \times 12 \times \frac{6}{100} \times \frac{515}{12} = 1980$

↳ Rishu withdrew 10000 in middle of every quarter $\Rightarrow 10000 \times 4 \times \frac{6}{100} \times \frac{515}{4} = 1200$

To Sal

M - $3000 \times 12 = 36000$

R - $4000 \times 4 = 16000$

52000

To Com

M - 70000

R - 40000

110000

To Profit

M - 324708

R - 216492

541180

703180

162000

541180

NP.

700000

By IOD

M - 1980

R - 1200

3180

703180

PAST ADJUSTMENTS :

→ पुराने पाप

CONCEPT

Wrong $\Rightarrow$ Dr

Correct $\Rightarrow$ Cr.

लेना है $\Rightarrow$ Dr.

देना है $\Rightarrow$ Cr.



Distribution of Profit in Wrong Ratio

X, Y and Z shared profits of ₹1,50,000 in the ratio of 2:2:1 but the Partnership Deed did not specify the profit-sharing ratio. Pass the necessary adjusting entry.

SOL.

	X	Y	Z	Total	
Wrong Profit to be Dr	(60000)	(60000)	(30000)	150000 Dr.	Wrong $\Rightarrow$ 2:2:1
Correct Profit to be Cr	50000	50000	50000	150000 Cr.	Correct $\Rightarrow$ 1:1:1

10000 Dr	10000 Dr	20000 Cr	X
X's cap a/c Dr	10000		
Y's cap a/c Dr	10000		
To Z's cap a/c		20000	



P and Q were partners in a firm sharing profits equally. Their fixed capitals were ₹1,00,000 and ₹50,000 respectively. The Partnership Deed provided for Interest on Capital at the rate of 10% per annum. For the year ended 31st March, 2016, profits of the firm were distributed without providing Interest on Capital. Pass necessary adjustment entry to rectify the error.

SOL.

	P	Q	Total
IOC to be Cr.	10000	5000	15000 Cr. ✓
Profit to be Dr.	(7500)	(7500)	15000 Dr.
	2500 Cr.	2500 Dr.	X
Q's current a/c Dr		2500	
To P's current a/c		2500	

Wrong $\Rightarrow$ Profit $\Rightarrow$ 1:1

Correct = IOC ✓
Profit ✓



LOC on higher Rate

Priya = 10,00,000

Ratnesh = 5,00,000

Case 2: LOC was provided 8% instead of 12%.

Wrong = 8%

Correct = 12%

	P	R	Total
Wrong Dr.	(80000)	(40000)	120000 Dr.
(12%) Correct Cr.	120000	60000	180000 Cr.
Loss to be Dr.	(30000)	(30000)	60000 Dr.
	10000 Cr.	10000 Dr.	X

Case 1 LOC was provided 10% instead of 8%.

Wrong = 10% X Correct = 8%

	Priya	Ratnesh	Total
(10%) Wrong LOC Dr.	(100000)	(50000)	(150000) Dr.
(8%) Correct LOC Cr.	80000	40000	120000 Cr.
Profit to be Cr.	15000	15000	30000 Cr.
	5000 Dr.	5000 Cr.	X

Priya 5000
To Rat. 5000

R 10K
To P 10K

$$A:B:C \Rightarrow 3:2:1$$

GUARANTEE OF PROFIT

CONCEPT

P/L app a/c

Net Profit $\Rightarrow$ 4,80,000

C was guaranteed that his profit must be 120000

A & B were to meet the

(WN.1) deficiency in ratio 2:3

$$40000 \text{ def} = 2:3 \text{ A:B}$$

$$A = 40000 \times \frac{2}{5} = 16000$$

$$B = 40000 \times \frac{3}{5} = 24000$$

To Profit (WN.1)	By Net Profit 480000
A = 240000	
Def. of C <u>(16000)</u>	224000
B = 160000	
Def. of C <u>(24000)</u>	136000
C = 80000	
Def. met By A = 16000	
" " B = <u>24000</u>	120000
	X

GUARANTEE OF PROFIT

A partner (or partners) may be guaranteed minimum profit from the business.

Minimum Earning
Guaranteed by a partner to
firm.

The profit may be guaranteed to an existing or incoming (new) partner by:

- all the remaining partners in an agreed ratio
- one or more of the existing or old partners, or
- the firm

When the guaranteed partner's share of profit is more than the guaranteed amount, his actual share of profit is given to him instead of the guaranteed amount of profit.

Monika, Bhoomika and Kamolika are partners sharing profits in the ratio of 6:4:1.

Kamolika is guaranteed minimum amount of ₹3,00,000 as her share in profits.

The firm earned net profit of ₹22,00,000 for the year ended 31st March, 2022.

Prepare Profit & Loss Appropriation Account of the firm for the year ended 31st March, 2022.

[illegible]



PROFIT & LOSS APPROPRIATION ACCOUNT
for the year ended 31st March, 2022

Dr.

Cr.

Particulars	₹	Particulars	₹
To Monika's Capital A/c (₹ 22,00,000 × 6/11) 12,00,000		By Profit & Loss A/c (Net Profit) 22,00,000	
Less: Deficiency (3/5 of ₹ 1,00,000) 60,000	11,40,000		
To Bhoomika's Capital A/c (₹ 22,00,000 × 4/11) 8,00,000			
Less: Deficiency (2/5 of ₹ 1,00,000) 40,000	7,60,000		
To Kamolika's Capital A/c (₹ 22,00,000 × 1/11) 2,00,000			
Add: Deficiency received from:			
Monika 60,000			
Bhoomika 40,000	3,00,000		
	22,00,000		22,00,000



The firm incurr loss

Maanika, Bhavi and Komal are partners sharing profits in the ratio of 6:4:1. Komal is guaranteed a minimum profit of ₹2,00,000. The firm incurred a loss of ₹22,00,000 for the year ended 31st March, 2018. Pass necessary Journal entry regarding deficiency borne by Maanika and Bhavi and prepare Profit & Loss Appropriation Account.

SOL.

Date	Particulars	L/F	Dr. ₹	Cr. ₹



JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018				
March 31	Maanika's Capital A/c ...Dr.		2,40,000	
	Bhavi's Capital A/c ...Dr.		1,60,000	
	To Komal's Capital A/c			4,00,000
	(Deficiency of Komal met by Maanika and Bhavi) (WN)			

PROFIT & LOSS APPROPRIATION ACCOUNT

for the year ended 31st March, 2018

Dr.		for the year ended 31st March, 2018		Cr.	
Particulars	₹	Particulars	₹		
To Profit & Loss A/c (Net Loss)	22,00,000	By Loss transferred to:			
		Maanika's Capital A/c	12,00,000		
		Bhavi's Capital A/c	8,00,000		
		Komal's Capital A/c	2,00,000		
	22,00,000		22,00,000		

Working Note:

Loss of the firm = ₹ 22,00,000

Komal's share of loss = ₹ 22,00,000 × 1/11 = ₹ 2,00,000

Guaranteed minimum profit = ₹ 2,00,000

Therefore, Komal's Capital Account is to be credited by the amount of deficiency ₹ 4,00,000 (i.e., ₹ 2,00,000: Share of Loss + ₹ 2,00,000 : Guaranteed Profit) which will be borne by Maanika and Bhavi in their profit-sharing ratio, i.e., 6 : 4 or 3 : 2.



Minimum Earning Guaranteed by a partner to the firm & minimum profit guaranteed by the firm to a partner

Jay, Vijay and Karan were partners of an architect firm sharing profits in the ratio of 2: 2: 1. Their Partnership Deed provided the following:

- A monthly salary of ₹15,000 each to Jay and Vijay.
- Karan was guaranteed a profit of ₹ 5,00,000 and Jay guaranteed that he will earn an annual fee of ₹2,00,000. Any deficiency arising because of guarantee to Karan will be borne by Jay and Vijay in the ratio of 3:2.

During the year ended 31st March, 2018, Jay earned fee of ₹1,75,000 and the profits of the firm amounted to ₹15,00,000.

Showing your workings clearly prepare Profit & Loss Appropriation Account and the Capital Accounts of Jay, Vijay and Karan for the year ended 31st March, 2018.



Minimum Earning Guaranteed by a partner to the firm & minimum profit guaranteed by the firm to a partner

$$\begin{array}{r} 500000 \\ 233000 \\ \hline 267000 \end{array} \rightarrow \text{Def.}$$

$$\text{Deficiency} \Rightarrow 267000 \begin{cases} \frac{3}{5} = 160200 \\ \frac{2}{5} = 106800 \end{cases}$$

Particulars	₹	Particulars	₹
To Sal		To Net profit	15,00,000
Jay - 15000×12	180000	(+) Jay's guarantee	25,000
Vijay	<u>180000</u>	* $(200000 - 175000)$	<u>25,000</u>
	3,60,000		15,25,000
To Profit			
J = $\frac{466000}{(160200)} = 305800$			
V = $\frac{466000}{(106800)} = 359200$			
K = $\frac{233000}{267000} = 500000$			
	11,65,000		



PROFIT & LOSS APPROPRIATION ACCOUNT
for the year ended 31st March, 2018

Dr.

Cr.

Particulars		₹	Particulars	₹
To Partners' Salary:			By Profit & Loss A/c (Net Profit)	15,00,000
Jay's Capital A/c	1,80,000		By Jay's Capital A/c (₹ 2,00,000 – ₹ 1,75,000)	25,000
Vijay's Capital A/c	1,80,000	3,60,000	(Deficiency in Guaranteed Fees)	
To Profit transferred to:				
Jay's Capital A/c	4,66,000			
Less: Guaranteed (Profit to Karan)	1,60,200	3,05,800		
Vijay's Capital A/c	4,66,000			
Less: Guaranteed (Profit to Karan)	1,06,800	3,59,200		
Karan's Capital A/c	2,33,000			
Add: Deficiency met by Jay and Vijay	2,67,000	5,00,000		
		15,25,000		15,25,000



Dr.

PARTNERS' CAPITAL ACCOUNTS

Cr.

Particulars	Jay ₹	Vijay ₹	Karan ₹	Particulars	Jay ₹	Vijay ₹	Karan ₹
To Profit & Loss Appropriation A/c	25,000	...	...	By Partners' Salary A/c	1,80,000	1,80,000	...
To Balance c/d	4,60,800	5,39,200	5,00,000	By Profit & Loss Appropriation A/c—Profit	3,05,800	3,59,200	5,00,000
	4,85,800	5,39,200	5,00,000		4,85,800	5,39,200	5,00,000

Working Note: Calculation of Deficiency in Karan's share and its recovery:

Profit to be Distributed = ₹ 15,00,000 – ₹ 3,60,000 + ₹ 25,000 = ₹ 11,65,000.

Division of Profit: Jay's Share of Profit = ₹ 11,65,000 × 2/5 = ₹ 4,66,000;

Vijay's Share of Profit = ₹ 11,65,000 × 2/5 = ₹ 4,66,000;

Karan's Share of Profit = ₹ 11,65,000 × 1/5 = ₹ 2,33,000.

Karan's Deficiency = Guaranteed Profit – Karan's Share of Profit

= ₹ 5,00,000 – ₹ 2,33,000 = ₹ 2,67,000, which will be met by Jay and Vijay in the ratio of 3 : 2

Deficiency borne by: Jay = ₹ 2,67,000 × 3/5 = ₹ 1,60,200; Vijay = ₹ 2,67,000 × 2/5 = ₹ 1,06,800.

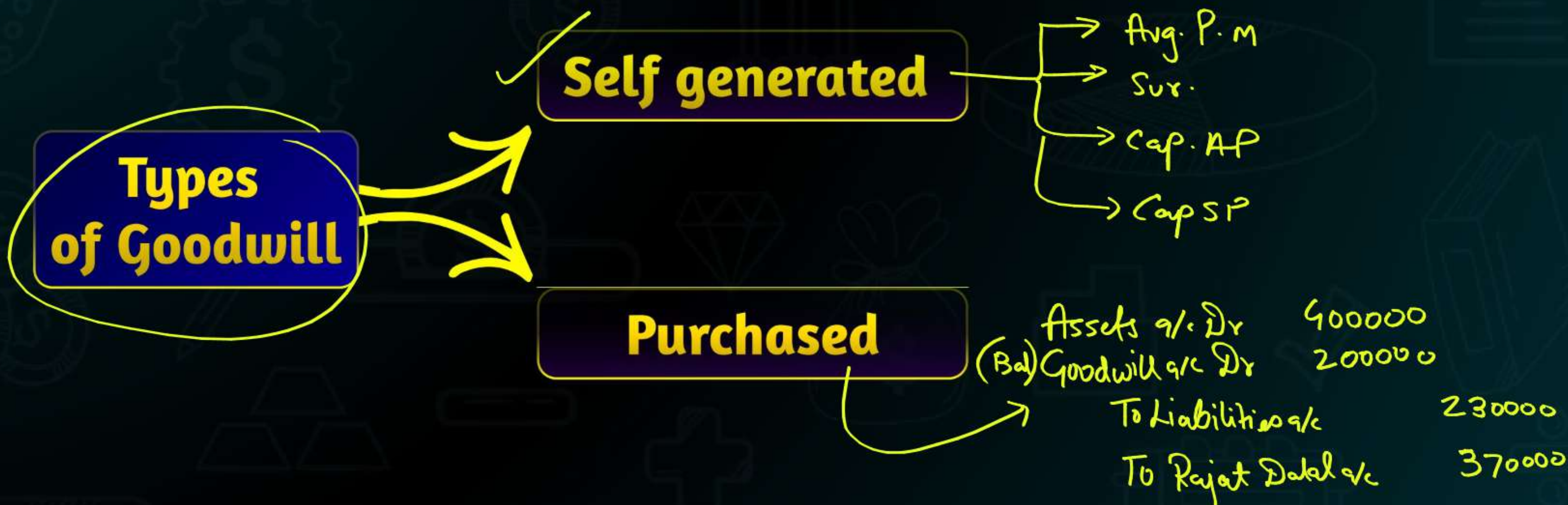
Goodwill

ACCOUNTANT

Goodwill Methods & Adjustments

Goodwill is the value of a business's reputation that helps attract and retain customers, leading to future profits.

It is treated as a fixed (Intangible) asset because it helps in earning more profits.



Need for valuation of goodwill

- 1 Change in the profit sharing ratio among the existing Partners
- 2 Admission of a new partner
- 3 Retirement of a Partners
- 4 Death of a Partners
- 5 Dissolution of a firm involving sale of business as a going concern
- 6 Amalgamation of Partners firms



[Purchased Goodwill]

H.W.

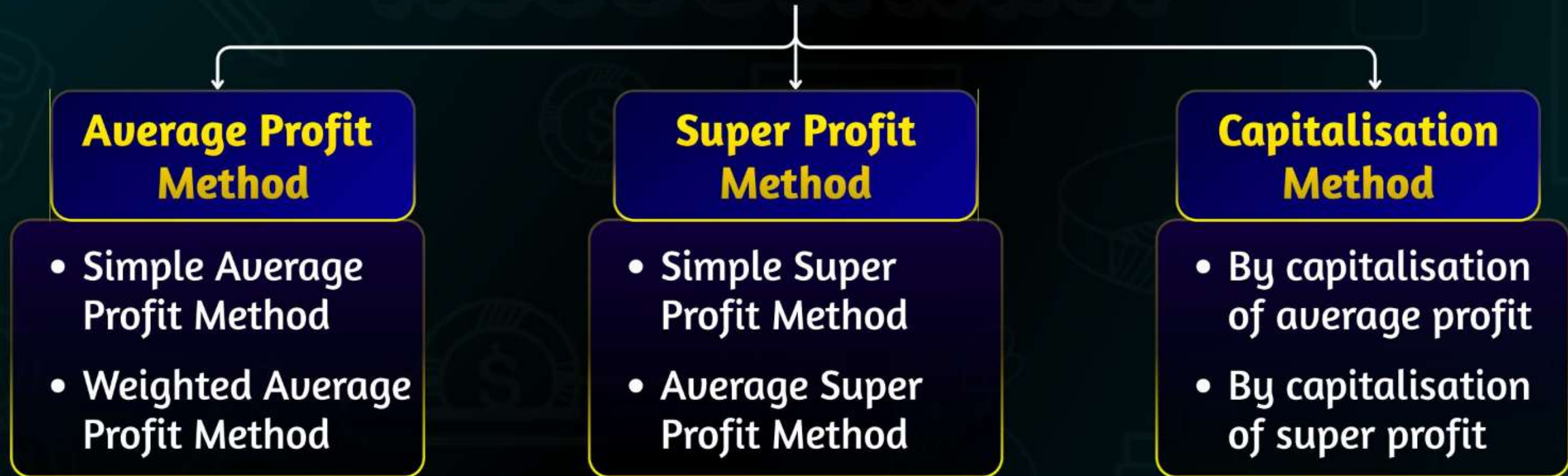
Amrit Daily Needs acquired the business of Shivam for net purchase consideration of ₹5,00,000 paid by cheque. The assets acquired and liabilities taken over are:

Assets:	₹	Liabilities:	₹
Furniture	10,000	Creditors	5,20,000
Inventory (Stock)	7,50,000	Salaries Payable	75,000
Debtors	1,50,000	Outstanding Expenses	15,000

Determine the value of goodwill and pass the necessary Journal entries.

Assets a/c Dr 9,10,000
 (Bal.) Goodwill a/c Dr 2,00,000
 To Liab. 6,10,000
 To Shivam 5,00,000

Methods use to calculate goodwill



Average profit Method

A. Simple Average Profit Method

Step for the calculation-

Step 1. Find the total of the profit of required number of Years.

Step 2. Divide the total profit by specified number of Years and find average profit.

Step 3. Multiply the average profit by specified number of times and get goodwill.

$$\textcircled{1} \text{ Avg Profit} \Rightarrow \frac{P + P + P}{\text{No. of yrs}}$$

$$\textcircled{2} \text{ Avg Profit} \times \text{No. of yrs} = G/W$$



Sara, Tara and Zara are partners in a firm sharing profits and losses in the ratio of 3:2:1. They admit Dara into partnership from 1st April, 2024 for 1/4th share in the profits. For this purpose, goodwill is to be valued at twice the average annual profit of the previous three or four years, whichever is higher.

Year Ended

31st March, 2024
31st March, 2023
31st March, 2022
31st March, 2021

Calculate value of Goodwill.

	₹
4 yrs Avg Profit	48,000; 30,300; 31,200; 42,200.
	$\frac{151700}{4} = 37925$
3 yrs Avg Profit	$\Rightarrow \frac{109500}{3} = 36500$

$$\begin{aligned}
 G/w &\Rightarrow AP(4 \text{ yrs}) \times \text{No. of Pcr yrs} \\
 &\Rightarrow 37925 \times 2 \\
 &\Rightarrow \underline{75850}
 \end{aligned}$$

Adjustment of Abnormal Profit & abnormal loss

Correct Avg Profit $\Rightarrow$ Avg Profit - Abnormal Profit + Ab. Loss



[Average Profit Method when Adjustments are Made]

Ramesh purchased Bharat's business with effect from 1st April, 2024. It was agreed that the firm's goodwill will be valued at two years' purchase of average normal business profit of the last three years. Profits for last three years ended 31st March, were:

2022 : ₹1,00,000 (including abnormal gain of ₹10,000); $= 100000 - 10000 \Rightarrow 90000$

2023 : ₹1,10,000 (after charging abnormal loss of ₹20,000); $110000 + 20000 \Rightarrow 130000$

2024 : ₹85,000 (including profit of ₹5,000 on sale of fixed asset). $85000 - 5000 \Rightarrow 80000$

Calculate value of the firm's goodwill.

300000

$$AP \Rightarrow \frac{300000}{3} = 100000$$

$$G/w \Rightarrow AP \times \text{No. of yrs}$$

$$\Rightarrow 100000 \times 2$$

$$\Rightarrow ₹200000$$



[Average Profit Method when Adjustments are Made]

A and B are partners sharing profits and losses in the ratio of 3: 2. They agree to take C into partnership for 1/3rd share. For this purpose, goodwill is to be valued at two year's purchase of the average profit of last four years which were as follows:

	(₹)
Year ending on 31st March 2019	50,000 (Profit)
Year ending on 31st March 2020	1,20,000 (Profit)
Year ending on 31st March 2021	1,80,000 (Profit)
⇒ Year ending on 31st March 2022	70,000 (Loss) + ^{Cap. exp.} 50,000 - ^{Dep.} 10,000 = 30,000 Loss

On 1st April, 2021 a Motor bike costing ₹50,000 was purchased and debited to travelling expenses account, on which depreciation is to be charged @ 20% p.a.

The firm also paid an annual insurance premium of ₹20,000 which had already been charged to Profit and Loss Account for all the years.

Calculate the value of goodwill.

$$\text{AP} \Rightarrow \frac{320000}{4} = 80000 \times 2 \Rightarrow \text{₹160000} \quad \text{APX No. of Yr} \quad \text{Goodwill}$$

Average profit Method

B. Weighted Average Profit Method

Step for the calculation-

- Step 1.** Picking up of the profit of the last year.
- Step 2.** Multiplying each Years profit by its weight and finding out product.
- Step 3.** Adding the product of all the given Years and ascertaining total of the product.
- Step 4.** Finding the total weights.
- Step 5.** Dividing total product by the total of weight and finding weighted average Profit.
- Step 6.** Multiplying weighted average profit with number of Years and finding goodwill.



The profits of a firm for the last five years were as follows:

Year ended 31st March	Profits (₹)
2020	43,000 $\times 1$
2021	50,000 $\times 2$
2022	52,000 $\times 3$
2023	65,000 $\times 4$
2024	85,000 $\times 5$

You are required to calculate the value of goodwill on the basis of two year's purchase of weighted average profits. The weights to be used are: 2020-1; 2021-2; 2022-3; 2023-4; 2024-5.



Sol.

*Year ended
31st March*

2020
2021
2022
2023
2024

*Profits
(₹)*

43,000
50,000
52,000
65,000
85,000

Weight

1
2
3
4
5
15

Products

43,000
1,00,000
1,56,000
2,60,000
4,25,000
9,84,000

$$\text{Weighted Average Profit} = \frac{\text{Product}}{\sum W} = \frac{9,84,000}{15} = ₹65,600$$

$$\text{Goodwill} = \text{WAP} \times \text{No. of PY} = ₹65,600 \times 2 = ₹1,31,200$$

Super Profit Method

A. Simple Super Profit Method

Step for the calculation-

Step 1. Calculate Normal Profit - Normal Profit = Capital Employed x Normal Rate of return.

Step 2. Picking up of the profit of the last year (Actual Profit).

Step 3. Calculate Super Profit → Super Profit = Normal Profit – Actual Profit.

Step 4. Multiplying Super profit with number of Years and finding goodwill.

$$\underline{AP} \quad \text{Normal Profit} = \text{Capital} \times \text{NRR}$$

$$\text{Super Profit} \Rightarrow AP - NP$$

$$G/W = SP \times \text{No. of P.Y}$$

Adjustment of Closing Stock



Overvalued = minus —

Undervalued = plus +



Average profit earned by a firm is ₹75,000 which includes undervaluation of stock of ₹5,000 on average basis. Capital invested in the business is ₹7,00,000 and the normal rate of return is 7%. Calculate goodwill of the firm on the basis of 5 times the super profit.

$$\textcircled{1} \text{ Correct AP} \Rightarrow 75000 + \overset{\text{under}}{5000} = 80000$$

$$\textcircled{2} \text{ NP} \Rightarrow \text{Capital} \times \text{NRR}$$

$$700000 \times 7\% \Rightarrow 49000$$

$$\textcircled{3} \text{ SP} = \text{AP} - \text{NP}$$

$$= 80000 - 49000$$

$$= 31000$$

$$\textcircled{4} \text{ G/W} \Rightarrow \text{SP} \times \text{No. of Py}$$

$$\Rightarrow 31000 \times 5 \longrightarrow \text{₹155000}$$

Super Profit Method

B. Average Super Profit Method

Step for the calculation-

- Step 1.** Calculate Normal Profit— $\text{Normal Profit} = \text{Capital Employed} \times \text{Normal Rate of return}$.
- Step 2.** Picking up of the profit of the last Years.
- Step 3.** Calculate Average Profit.
- Step 4.** Calculate Super Profit $\rightarrow \text{Super Profit} = \text{Normal Profit} - \text{Average Profit}$.
- Step 5.** Multiplying Super profit with number of Years and finding goodwill.



A firm earned net profits during the last three years as:

Year	Profits (₹)
I	18,000
II	20,000
III	22,000

The capital investment of the firm is ₹60,000. Normal return on the capital is 10%. Calculate value of goodwill on the basis of three years' purchase of the average super profit for the last three years.

$$AP = 20000$$

$$NP = 60000 \times 10\% \Rightarrow 6000$$

$$SP = AP - NP \\ = 20000 - 6000 \Rightarrow 14000$$

$$G/W = SP \times \text{No. of PY} \\ = 14000 \times 3 \\ \Rightarrow \underline{42000}$$



A firm's average profits are ₹70,000. It includes an abnormal profit of ₹5,000. Capital invested in the business is ₹5,50,000 and the normal rate of return is 10%. Calculate goodwill at four times the super profit.

$$AP = 65000$$

$$NP = \underline{55000}$$

$$SP = 10000 \times 4$$

$$\Rightarrow 40000$$



Average profit earned by a firm is ₹75,000 which includes undervaluation of stock of ₹5,000 on average basis. Capital invested in the business is ₹7,00,000 and the normal rate of return is 7%. Calculate goodwill of the firm on the basis of 5 times the super profit.



Sol.

Actual Average Business Profit = ₹ 75,000 + ₹ 5,000 (undervalued stock) = ₹ 80,000

Normal Business Profit = Capital Employed (Investment) × Normal Rate of Return/100
= ₹ 7,00,000 × 7/100 = ₹ 49,000

Super Profit = Actual Average Business Profit – Normal Business Profit
= ₹ 80,000 – ₹ 49,000 = ₹ 31,000

Goodwill = ₹ 31,000 × 5 = ₹ 1,55,000.

Note: Undervaluation of stock decreases net profit. Hence, it is added to determine average business profit.

Capitalisation Method

A. By capitalisation of Average Profit

Step for the calculation-

Step 1. Goodwill = Capitalised value of Average Profit – Actual capital Employed.

Step 2. Actual Capital Employed : Total assets except goodwill – Outside Liabilities.

Step 3. Capitalised value of Average Profit = $\frac{\text{Average Profit}}{\text{Normal/Average rate of Return}} \times 100$

① AP

② Capital Emp

③



A firm earned ₹60,000 as profit, the normal rate of return being 10%. Assets of the firm are ₹7,20,000 (excluding goodwill) and Liabilities are ₹2,40,000. Find the value of goodwill by Capitalisation of Average Profit Method.

$$AP = 60000$$

$$NRR = 10\%$$

$$A = 720000$$

$$L = 240000$$

$$\text{Capital Employed} = 480000$$

$$\text{Goodwill} = \text{Capitalised value of AP} - \text{Actual Capital Emp}$$

$$\frac{AP}{NRR} \times 100$$

$$= \frac{60000}{10} \times 100 - 480000$$

$$= 600000 - 480000$$

$$G/w = ₹ 120000$$



Sol.

$$\text{Total Capitalised Value of the Firm} = \frac{\text{Average Normal Business Profit} \times 100}{\text{Normal Rate of Return}}$$

$$= \frac{\text{₹ } 60,000 \times 100}{10} = \text{₹ } 6,00,000$$

$$\text{Net Assets} = \text{Total Assets} - \text{Liabilities}$$

$$= \text{₹ } 7,20,000 - \text{₹ } 2,40,000 = \text{₹ } 4,80,000$$

$$\text{Goodwill} = \text{Total Capitalised Value of the Firm} - \text{Net Assets}$$

$$= \text{₹ } 6,00,000 - \text{₹ } 4,80,000 = \text{₹ } 1,20,000.$$



A and B were partners in a firm with capitals of ₹ 3,00,000 and ₹ 2,00,000 respectively. The normal rate of return was 20% and the capitalised value of average profits was ₹ 7,50,000. Calculate goodwill of the firm by capitalisation of average profits method.

Capital Emp $\Rightarrow$ 500000
X TIR $\Rightarrow$ 20%.

$$\begin{aligned} G/W &= \text{Cap value of AP} - \text{Actual Cap Emp} \\ &= 750000 - 500000 \end{aligned}$$

$$\underline{G/W = 250000}$$



From the following particulars, calculate value of goodwill of a firm by Capitalisation of Average Profit Method:

- (i) Profits of last five consecutive years ending 31st March, are:
2024—₹ 54,000; 2023—₹ 42,000; 2022—₹ 39,000; 2021—₹ 67,000 and 2020—
₹ 59,000.
- (ii) Capitalisation rate 20%.
- (iii) Net assets of the firm ₹ 2,00,000.

$$\frac{AP}{HRR} \times 100 - 200000$$

Capitalisation Method

B. By capitalisation of Super profit

Step for the calculation-

Step 1. Calculate Normal Profit → Normal Profit = Capital Employed X Normal Rate of return.

Step 2. Picking up of the profit of the last Years.

Step 3. Calculate Average Profit

Step 4. Calculate Super Profit → Super Profit = Normal Profit – Average Profit

Step 5. Goodwill = $\frac{\text{Super Profit } 100}{\text{Normal rate of Return}}$



Average business profit of the firm is ₹1,50,000. Total tangible assets in the firm are ₹14,00,000 and outside liabilities are ₹4,00,000. In the same type of business, the normal rate of return is 10% of the capital employed. Calculate value of goodwill by Capitalisation of Super Profit Method.

$$\underline{AP} = 150000$$

$$\underline{NP} = 10,00,000 \times 10\% \Rightarrow 1000000$$

$$\begin{aligned} \text{Capital} &= A - L \\ &\Rightarrow 10,00,000 \\ \text{NRR} &\Rightarrow 10\% \end{aligned}$$

$$\begin{aligned} \text{Super Profit} &= AP - NP \\ &= 150000 - 100000 \\ &= ₹50000 \end{aligned}$$

$$\begin{aligned} * \textcircled{1} \text{ Goodwill} &\Rightarrow \frac{SP}{\text{NRR}} \times 100 \\ &= \frac{50000}{10} \times 100 \\ &= 500000 \end{aligned}$$



Sol.

$$\begin{aligned}\text{Capital Employed} &= \text{Total Tangible Assets} - \text{Outside Liabilities} \\ &= ₹ 14,00,000 - ₹ 4,00,000 = ₹ 10,00,000\end{aligned}$$

$$\begin{aligned}\text{Normal Business Profit} &= \text{Capital Employed} \times \text{Normal Rate of Return}/100 \\ &= ₹ 10,00,000 \times \frac{10}{100} = ₹ 1,00,000\end{aligned}$$

$$\begin{aligned}\text{Super Profit} &= \text{Average Business Profit} - \text{Normal Business Profit} \\ &= ₹ 1,50,000 - ₹ 1,00,000 = ₹ 50,000\end{aligned}$$

$$\text{Goodwill} = \frac{\text{Super Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹ 50,000 \times 100}{10} = ₹ 5,00,000.$$



Raja Brothers earn an average profit of ₹ 30,000 with a capital of ₹ 2,00,000. The normal rate of return in the business is 10%. Using capitalisation of super profit method, workout the value of the goodwill of the firm.

$$\text{Super Profit} = \text{AP} - \text{NP}$$

$$30000 - 20000$$

$$\text{SP} \Rightarrow 10000$$

$$\text{G/W} = \frac{\text{SP}}{\text{NRR}} \times 100$$

$$= \frac{10000}{10} \times 100$$

$$\Rightarrow ₹ 1,00,000$$

Meaning of Reconstitution of Partnership

Whenever there is a change in relationship of partners, i.e., in the terms of agreement, it results in **reconstitution of the firm**.

As a result, existing partnership agreement comes to an end and new partnership agreement comes into existence. **However, the firm continues.**



Meaning of Reconstitution of Partnership

A firm is reconstituted on occurrence of any of the event below:

- ◆ Change in the profit-sharing ratio among the existing partners.
- ◆ Admission of a new partner or partners.
- ◆ Retirement of a partner or partners.
- ◆ Death of a partner.
- ◆ Amalgamation of two or more partnership firms.

Change in the Profit-Sharing Ratio Among the Partners

Existing partners may agree to share profits and losses in a ratio that is different from the earlier agreed profit-sharing ratio.

As a result of **change in the profit-sharing ratio** among partners, the firm is reconstituted.



Adjustment for Change in Profit-Sharing Ratio

The issues that need to be addressed at the time of change in the profit-sharing ratio are:

- Determining of **Sacrificing Ratio** and **Gaining Ratio**,
- Accounting of **Goodwill**,
- Accounting of **Reserves, Accumulated Profits** and **Losses**,
- **Revaluation** of Assets and Reassessment of Liabilities,
- Adjustment of Capital.

Determination of Sacrificing Ratio and Gaining Ratio

$$\text{Sac Ratio} = \text{Old} - \text{New}$$

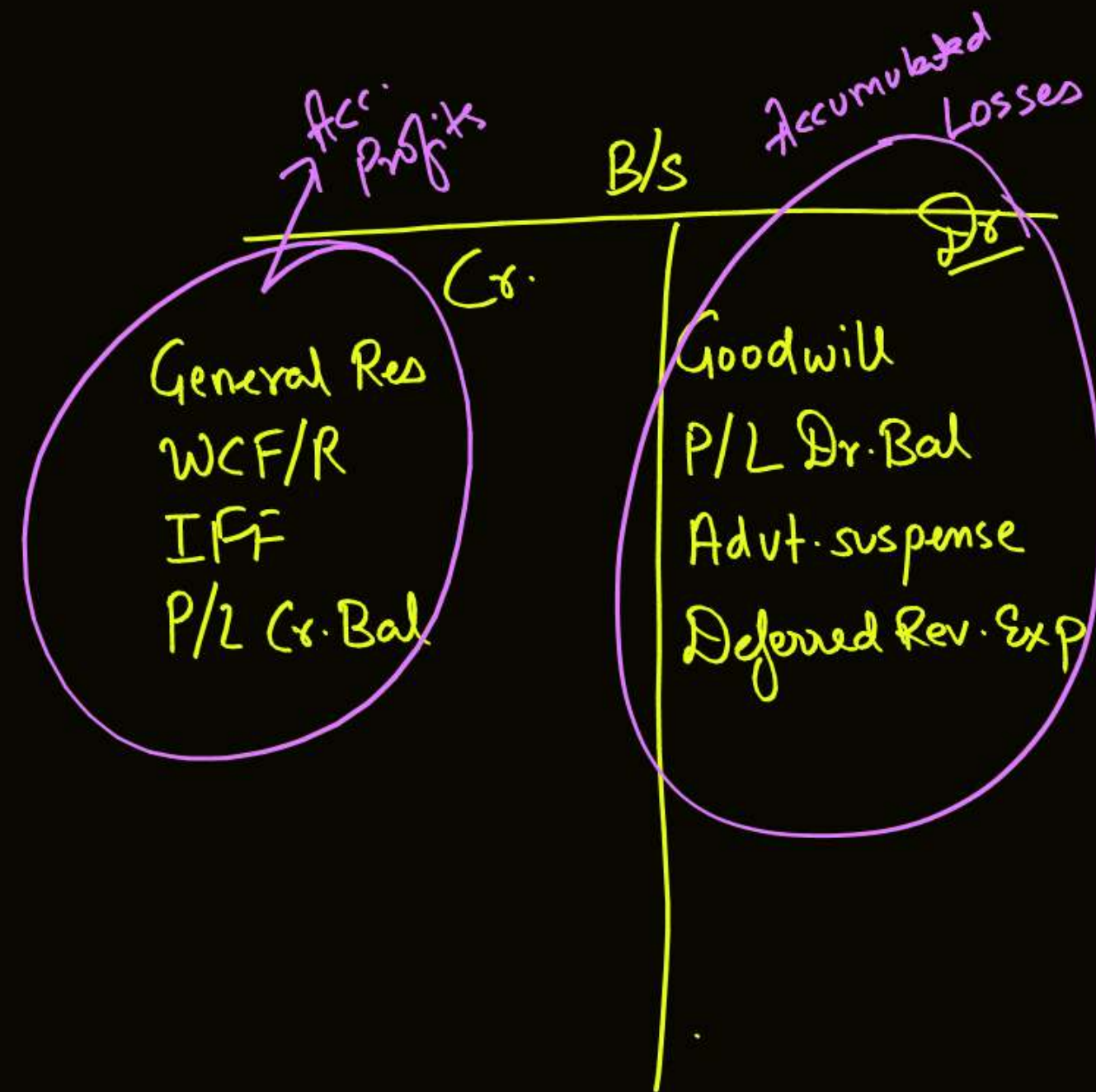
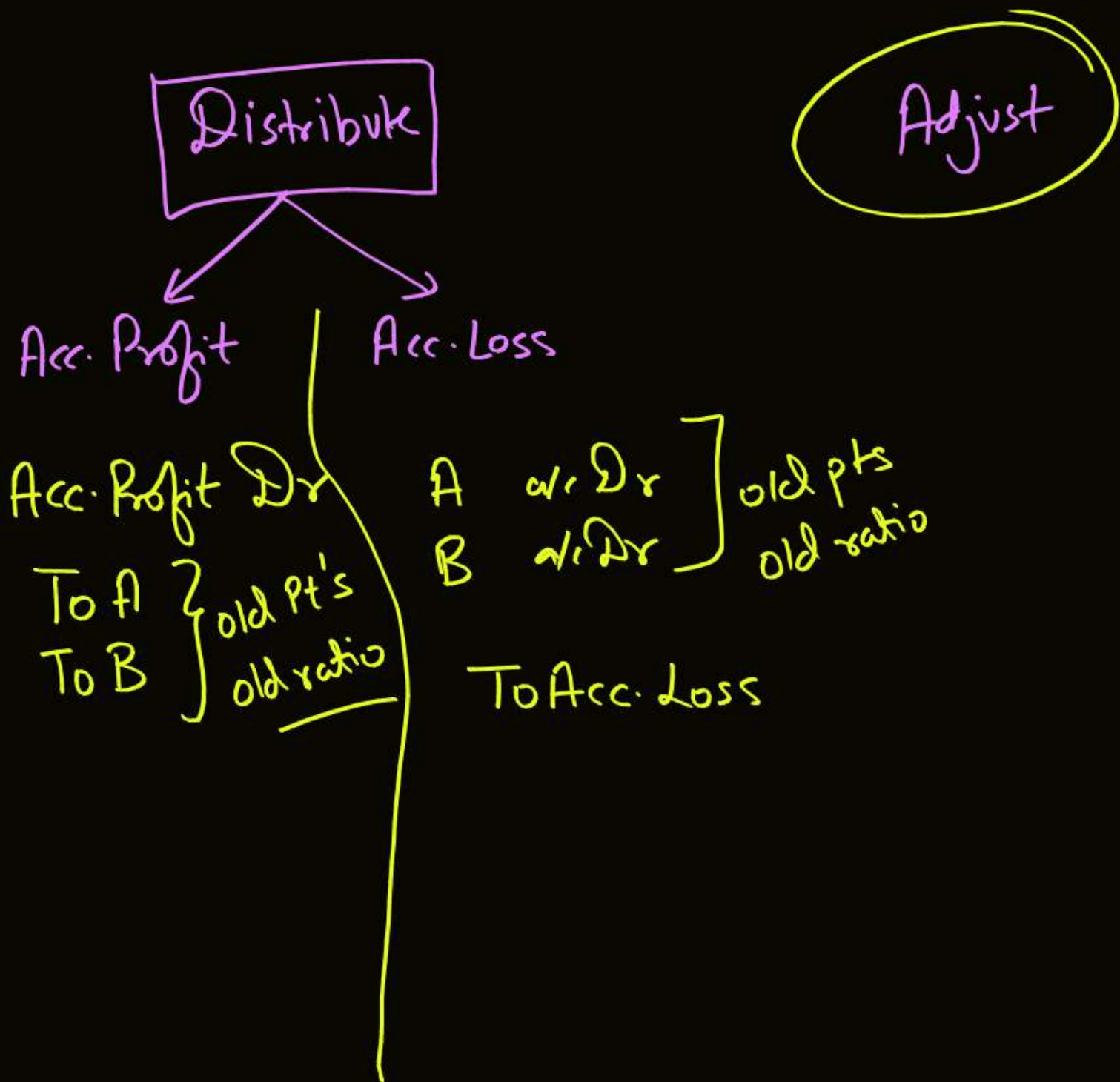
$$\text{Old} \Rightarrow 3:2:1$$

$$\text{New} \Rightarrow 1:1:1$$

$$A = \frac{3}{6} - \frac{1}{3} = \frac{3-2}{6} = \frac{1}{6} \quad \text{Sac}$$

$$B = \frac{2}{6} - \frac{1}{3} = \frac{2-2}{6} = 0$$

$$C = \frac{1}{6} - \frac{1}{3} = \frac{1-2}{6} = -\frac{1}{6} \quad \text{gain}$$



ADJUSTMENT

Dr
Acc. Loss

Cr.
Acc. Profit

Sac Pt a/c Dr
To Gaining Pt.

Gaining Partner a/c Dr
To Sac Partner

Self gen / Valued Goodwill

General Res
WCF/R
IFF
P/L Cr. Bal.

B/s

Goodwill
P/L Dr. Bal
Advt. suspense
Deferred Rev. Exp.

Acc. Profits

Accumulated Losses

Cr.

Dr



[Sacrificing and Gaining Share]

Om and Shyam are sharing profits and losses equally. With effect from 1st April, 2024, they agree to share profits in the ratio of 4: 3. Calculate individual partner's gain or sacrifice due to the change in ratio.

$$\text{Old} \Rightarrow 1:1$$

$$\text{New} \Rightarrow 4:3$$

Old - New

$$O_M = \frac{1}{2} - \frac{4}{7} = \frac{7-8}{14} = -\frac{1}{14}$$

$$S = \frac{1}{2} - \frac{3}{7} = \frac{7-6}{14} = \frac{1}{14}$$

Accounting of Goodwill

Accounting Standard-26 (AS-26), 'Intangible Assets'

- ◆ According to AS-26, 'Intangible Assets', Goodwill should be recognised in the books only when consideration in money or money's worth has been paid for it.
- ◆ Thus, in case of change in the profit-sharing ratio among partners or admission or retirement/death of a partner, goodwill is not recognised in the books of the firm because consideration in money or money's worth is not paid for it.
- ◆ Goodwill should be **adjusted** through Partners' Capital Accounts.



Accounting of Goodwill

Gaining partner compensates the sacrificing partner(s).

The compensation payable by the gaining partner for his gain to the sacrificing partner or partners is known as '**Goodwill**' or '**Premium for Goodwill**'.

It is paid by the gaining partners for their gained profit share to the sacrificing partners in their sacrificing ratio.

Amount of Compensation Payable = Value of Firm's Goodwill x Gained Profit Share

Purchased Glw $\Rightarrow$ B/s $\rightarrow$ Asset $\Rightarrow$ Dis / Adj

Self Gen $\Rightarrow$ Adjust $\rightarrow$ Gain
To S.



Anil, Sunil and Ramesh are partners sharing profits in the ratio of 5: 3: 2. They decide to share profits equally with effect from 1st April, 2024. Goodwill of the firm is valued at 1,08,000.
(Q) Goodwill exists in the books at ₹18,000. Pass the Journal entries to record the above change

Old $\Rightarrow$ 5:3:2

New $\Rightarrow$ 1:1:1

A	a/c	9000
S	a/c	5400
R	a/c	3600

To G/w. 18000

S a/c Dr 3600
R a/c Dr 14400

To A a/c 18000

Adjust $\Rightarrow$ 108000 $\rightarrow$ G To S

$$A = \frac{5}{10} - \frac{1}{3} = \frac{15-10}{30} = \frac{5}{30} \times \frac{3600}{108000} = 18000$$

$$(Q) S = \frac{3}{10} - \frac{1}{3} = \frac{9-10}{30} = -\frac{1}{30} \times \frac{3600}{108000} = 3600$$

$$(Q) R = \frac{2}{10} - \frac{1}{3} = \frac{6-10}{30} = -\frac{4}{30} \times \frac{108000}{108000} = 14400$$



Sol.

If capitals are fluctuating:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2024 April 1	Anil's Capital A/c (₹ 18,000 × 5/10) ...Dr. Sunil's Capital A/c (₹ 18,000 × 3/10) ...Dr. Ramesh's Capital A/c (₹ 18,000 × 2/10) ...Dr. To Goodwill A/c (Existing goodwill written off in old ratio)		9,000 5,400 3,600	18,000
	Sunil's Capital A/c (₹ 1,08,000 × 1/30) ...Dr. Ramesh's Capital A/c (₹ 1,08,000 × 4/30) ...Dr. To Anil's Capital A/c (₹ 1,08,000 × 5/30) (Adjustment made on change in profit-sharing ratio)		3,600 14,400	18,000



Sim, Shwe and Meg are partners in a firm sharing profits in the ratio of 5:3:2. They decided to share profits, w.e.f., 1st April, 2024 in the ratio of 2:3:5. On the date of change in profit-sharing ratio, the firm had balance in General Reserve of 1,00,000. Pass the Journal entry for distributing General Reserve on change in profit-sharing ratio.

General Res a/c Dr 100000

To Sim

50000

To Shwe

30000

To Meg

20000



Maira, Sara and Praneeti are partners in a firm sharing profits in the ratio of 5: 3 : 2. They decided to share profits, in the ratio of 2: 3: 5 w.e.f., 1st April, 2024. On the date of change in profit-sharing ratio, the firm had balance in General Reserve of 1,00,000. It was agreed by the partners that out of General Reserve 50,000 be transferred to Workmen Compensation Reserve to meet a claim of workers, if any. Pass the Journal entry for distributing General Reserve on change in profit-sharing ratio.

General Res a/c Dr	100000
To WCR a/c	50000
To M	25000
To S	15000
To P	10000



Sangeeta, Deepa, Ajay and Lalit were partners in a firm sharing profits and losses in the ratio of 3:2:4:1. They decided to share profits and losses in the ratio of 5: 1: 2: 2 with effect from 1st April, 2022. On this date, goodwill of the firm was valued at 5,20,000. ^{H.W.} ^{Adjust}
General Reserve appeared in the books at 1,00,000. ^{→ Pi}
Pass necessary Journal entries for the above transactions. Show your working clearly.



Sol.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022				
April 1	General Reserve A/c ...Dr.		1,00,000	
	To Sangeeta's Capital A/c			30,000
	To Deepa's Capital A/c			20,000
	To Ajay's Capital A/c			40,000
	To Lalit's Capital A/c			10,000
	(General Reserve distributed among partners in their old profit-sharing ratio)			
April 1	Sangeeta's Capital A/c (₹ 5,20,000 × 2/10) ...Dr.		1,04,000	
	Lalit's Capital A/c (₹ 5,20,000 × 1/10) ...Dr.		52,000	
	To Deepa's Capital A/c (₹ 5,20,000 × 1/10)			52,000
	To Ajay's Capital A/c (₹ 5,20,000 × 2/10)			1,04,000
	(Adjustment made for goodwill on change in the profit-sharing ratio)			

Working Notes:

Calculation of Gain/Sacrifice of Partner:

Sacrificed Profit Share = Old Profit Share – New Profit Share

Sangeeta = $3/10 - 5/10 = (2/10)$ (i.e., Gain);

Deepa = $2/10 - 1/10 = 1/10$ (i.e., Sacrifice);

Ajay = $4/10 - 2/10 = 2/10$ (i.e., Sacrifice);

Lalit = $1/10 - 2/10 = (1/10)$ (i.e., Gain).



Param, Karan and Pawan sharing profits and losses in the ratio of 4:3:2, decide to share profits and losses in the ratio of 2:3:4 with effect from 1st April, 2024. An extract of their Balance Sheet as at 31st March, 2024 is:

Liabilities	₹	Assets	₹
Workmen Compensation Reserve	90,000		

Show the accounting treatment under the following alternative cases:

Case 1. When no information as to claim is given. ✓

Case 2. When there is no claim. ✓

Case 3. When a claim on account of workmen compensation is ₹45,000. ✓

Case 4. When a claim on account of workmen compensation is ₹99,000. ✓

Case 5. When a claim on account of workmen compensation is ₹90,000. ✓



Sol.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2024 April 1				
Case 1	Workmen Compensation Reserve A/c ...Dr. To Param's Capital A/c To Karan's Capital A/c To Pawan's Capital A/c (Transfer of Workmen Compensation Reserve to Partners' Capital Accounts in their old profit-sharing ratio)		90,000	40,000 30,000 20,000
Case 2	Same entry as given in Case 1 .			
Case 3	Workmen Compensation Reserve A/c ...Dr. To Workmen Compensation Claim A/c To Param's Capital A/c To Karan's Capital A/c To Pawan's Capital A/c (Transfer of surplus Workmen Compensation Reserve to Partners' Capital Accounts in their old profit-sharing ratio)		90,000	45,000 20,000 15,000 10,000
Case 4	Workmen Compensation Reserve A/c ...Dr. Revaluation A/c ...Dr. To Workmen Compensation Claim A/c (Shortfall debited to Revaluation Account)		90,000 9,000	99,000



Sol.

Case 5	Param's Capital A/c Karan's Capital A/c Pawan's Capital A/c To Revaluation A/c (Transfer of loss on revaluation to Partners' Capital Accounts in their old profit-sharing ratio)	...Dr. ...Dr. ...Dr.	4,000 3,000 2,000 9,000
	Workmen Compensation Reserve A/c To Workmen Compensation Claim A/c (Workmen Compensation Claim accounted)	...Dr.	90,000 90,000



Radha, Gauri and Kabir sharing profits and losses in the ratio of 4:3:2, decide to share future profits and losses in the ratio of 2:3:4 with effect from 1st April, 2024. An extract of their Balance Sheet as at 31st March, 2024 is:

Liabilities	₹	Assets	₹
Investments Fluctuation Reserve	18,000	Investments (At cost)	2,00,000

Show the accounting treatment under the following alternative cases:

Case 1. When there is no other information.

Case 2. When market value of investments is ₹2,00,000.

Case 3. When market value of investments is ₹1,91,000.

Case 4. When market value of investments is ₹2,18,000.

Case 5. When market value of investments is ₹1,73,000.

IFR Dr 18000

Rev Dr 9000

To Inv.

27000

IFR a/c Dr 18000

To Inv. 9000

To R
G
K } 9000



Sol.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2024 April 1				
Case 1	Investments Fluctuation Reserve A/c* To Radha's Capital A/c To Gauri's Capital A/c To Kabir's Capital A/c (Transfer of Investments Fluctuation Reserve to Partners' Capital Accounts in their old profit-sharing ratio)	...Dr.	18,000	8,000 6,000 4,000
Case 2	Same entry as given in Case 1 .			
Case 3	Investments Fluctuation Reserve A/c To Investments A/c To Radha's Capital A/c To Gauri's Capital A/c To Kabir's Capital A/c (Transfer of excess Investments Fluctuation Reserve to Partners' Capital Accounts in their old profit-sharing ratio)	...Dr.	18,000	9,000 4,000 3,000 2,000



Sol.

Case 4	Investments Fluctuation Reserve A/c ...Dr.	18,000	
	To Radha's Capital A/c		8,000
	To Gauri's Capital A/c		6,000
	To Kabir's Capital A/c		4,000
	(Transfer of Investments Fluctuation Reserve to Partners' Capital Accounts in their old profit-sharing ratio)		
	Investments A/c ...Dr.	18,000	
	To Revaluation A/c		18,000
	(Value of investments brought up to market value)		
	Revaluation A/c ...Dr.	18,000	
	To Radha's Capital A/c		8,000
	To Gauri's Capital A/c		6,000
	To Kabir's Capital A/c		4,000
	(Transfer of gain (profit) on revaluation)		
Case 5	Investments Fluctuation Reserve A/c ...Dr.	18,000	
	Revaluation A/c ...Dr.	9,000	
	To Investments A/c		27,000
	(Fall in value of investments adjusted through Investments Fluctuation Reserve and shortfall charged to Revaluation Account)		
	Radha's Capital A/c ...Dr.	4,000	
	Gauri's Capital A/c ...Dr.	3,000	
	Kabir's Capital A/c ...Dr.	2,000	
	To Revaluation A/c		9,000
	(Transfer of loss on revaluation to Partners' Capital Accounts in the old profit-sharing ratio)		

Revaluation of Assets & Reassessment of Liabilities

Revaluation means changing the book value of assets and liabilities to reflect their current market value.

- It is done when the profit-sharing ratio changes among partners.
- Gain or loss from revaluation is transferred to partners' capital accounts in their old profit-sharing ratio.
- This ensures fairness, as changes in values belong to the period before the new ratio applies.

Assets → Dr
Liab → Cr.

Accounting Entries

1. For increase in the value of an asset

Asset a/c Dr
To Revaluation

2. For decrease in the value of an asset

Rev a/c
To Asset a/c

3. For increase in the amount of a liability

Revaluation a/c
To Liability a/c

4. For decrease in the amount of a liability

Liab a/c Dr
To Rev

Accounting Entries

5. For recording an unrecorded asset

Unr. Asset a/c Dr
Rev a/c

6. For recording an unrecorded liability

Rev a/c Dr
To Liability (unrec)

7. Revaluation Expense

Rev a/c Dr
To Cash / Partner a/c

8. For transfer of Balance in Revaluation Account

Net Gain

Rev gain Dr
To Old Pts.

Net Loss

Old Pt's Dr
To Rev Loss.

Revaluation Account

Dr.	A ↓ L ↑			A ↑ L ↓	Cr.
Particulars	₹		Particulars	₹	
To Inc in Liab			By Inc in Asset		
To Dec in Assets			By Dec in Liab		
To Unrec Liab			By Unrec Assets		
To Rev. Exp (Cash/Pt)			By Rev. Loss		
To Rev gain			A -		
A -			B -		
B -					



Anil, Manvi and Payal are partners sharing profits and losses in the ratio of 5: 3: 2. Their Balance Sheet as at 31st March, 2024 stood as follows:

Liabilities	₹	Assets	₹
Capital A/cs:		Land and Building	2,60,000
Anil 3,50,000		Machinery	3,50,000
Manvi 2,50,000		Stock	90,000
Payal 3,00,000	9,00,000	Bills Receivable	70,000
General Reserve	20,000	Sundry Debtors	1,00,000
Workmen Compensation Reserve	30,000	Cash at Bank	1,05,000
Sundry Creditors	50,000	Cash in Hand	25,000
	10,00,000		10,00,000

WCR Dr

To WCR Claim

To A

M

P

They decided to share profits and losses in the ratio of 2:2:1 w.e.f. 1st April, 2024 on the following terms:

1. Land and Building be appreciated by 10%.
2. Machinery be reduced by 15%. —
3. Stock be increased to ₹1,00,000.
4. Provision for Doubtful Debts be created @ 5% on Sundry Debtors.
5. A Creditor of ₹5,000 is not to claim the dues. Hence, it is to be written back.
6. A claim on account of Workmen Compensation is ₹10,000. ✗
7. An expense of ₹2,000 was paid by the firm for getting the value of Land and Building certified from a Chartered Engineer.

Pass the Journal entries and prepare Revaluation Account.



Sol.

Revaluation Account

Dr. $\downarrow \uparrow$		$\uparrow \downarrow$	Cr.
Particulars	₹	Particulars	₹
To Machine a/c	52500	By L & B	26000
To Prov for DD	5000	By stock	10000
To Cash a/c (Rev Exp)	2000	By Creditor	5000
		By Rev. Loss transfr P/L cap.	
		A - 9250	
		M - 5550	
		P - 3700	
			18500
	59500		59500

$$\begin{array}{r}
 59500 \\
 41000 \\
 \hline
 18500 \\
 \downarrow \\
 5:3:2
 \end{array}$$



Sol.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2024 April 1	General Reserve A/c ...Dr. To Anil's Capital A/c To Manvi's Capital A/c To Payal's Capital A/c (General Reserve credited to Partners' Capital Accounts in their old profit-sharing ratio)		20,000	10,000 6,000 4,000
	Workmen Compensation Reserve A/c ...Dr. To Workmen Compensation Claim A/c To Anil's Capital A/c To Manvi's Capital A/c To Payal's Capital A/c (Workmen Compensation Reserve, after adjusting claim, credited to Partners' Capital Accounts in their old profit-sharing ratio)		30,000	10,000 10,000 6,000 4,000
	Land and Building A/c ...Dr. Stock A/c ...Dr. To Revaluation A/c (Increase in value of land and building and stock recorded)		26,000 10,000	36,000
	Revaluation A/c ...Dr. To Machinery A/c To Provision for Doubtful Debts A/c (Decrease in value of Machinery recorded and provision for doubtful debts made)		57,500	52,500 5,000



Sol.

Sundry Creditors A/c To Revaluation A/c (Amount not payable written back)	...Dr.	5,000	5,000
Revaluation A/c To Cash/Bank A/c (Expense for valuation of Land and Building)	...Dr.	2,000	2,000
Anil's Capital A/c Manvi's Capital A/c Payal's Capital A/c To Revaluation A/c (Loss on revaluation debited to Partners' Capital Accounts in their old profit-sharing ratio)	...Dr. ...Dr. ...Dr.	9,250 5,550 3,700	18,500

REVALUATION ACCOUNT			
Dr.			Cr
Particulars	₹	Particulars	₹
To Machinery A/c	52,500	By Land and Building A/c	26,000
To Provision for Doubtful Debts A/c	5,000	By Stock A/c	10,000
To Cash/Bank A/c (Expenses)	2,000	By Sundry Creditors A/c	5,000
		By Loss transferred to:	
		Anil's Capital A/c	9,250
		Manvi's Capital A/c	5,550
		Payal's Capital A/c	3,700
			18,500
	59,500		59,500



Pass entries in the firm's journal for the following on admission of a partner:

- Machinery be reduced by ₹ 16,000 and Building be appreciated by ₹ 40,000.
- A provision be created for Doubtful Debts @ 5% of Debtors amounting to ₹ 80,000.
- Provision for warranty claims be increased by ₹ 12,000.
- Furniture (Book Value ₹ 50,000) is to be reduced by 40%. →
- Furniture (Book Value ₹ 50,000) is to be reduced to 40%. →

(i) Rev Dr 16000
To Machine 16000

Building a/c Dr 40000
To Rev a/c 40000

(ii) Rev a/c Dr 4000
To Prov. for dd a/c 4000

(iii) Rev a/c Dr 12000
To Prov. for w.c. a/c 12000

(iv) Rev a/c Dr 20000
To Furniture 20000

(v) Rev Dr 30000
To Fur 30000

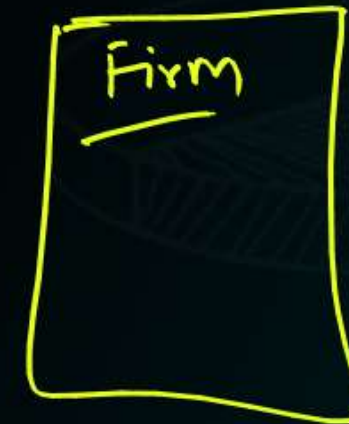
50000	20000
100%	40%

$$\frac{50000}{100} \times 40 = 20000$$

Admission of a Partner

Admission of a partner is **reconstitution** of the firm because with the admission of a partner, existing partnership deed or agreement ends and new agreement among all the partners (including incoming or new partner) comes into force.

Bank a/c Dr
To Prem of G/W
To New pt's cap.



✱
Premium of G/W
Capital

Key points on Admission

New partner gets share in future profits (sacrificed by old partners)

Sacrificing partners are compensated by goodwill/premium

New partner brings capital to gain rights in firm's assets

Effect of Admission of a Partner

- ◆ Old partnership ends
- ◆ New partner gets profit share
- ◆ Brings in capital
- ◆ Gets rights in assets & liabilities
- ◆ Adjust reserves & accumulated profits
- ◆ Revalue assets & liabilities
- ◆ Pay goodwill to sacrificing partners

Adjustments on Admission of a Partner

- ◆ **Profit-sharing ratios** – determine new & sacrificing ratios
- ◆ **Goodwill** - valuation and accounting
- ◆ **Revaluation** - adjust gain/loss on assets & liabilities
- ◆ **Deferred revenue expenses** – write-off (e.g. advertisement suspense)
- ◆ **Reserves & accumulated P/L** - transfer in old ratio or Adjustment
- ◆ **Capital adjustments** – rebalance capitals per new ratio

Change in Profit Sharing Ratio

Situation 1

When new or incoming partner gets his/her share from old or existing partners in their old profit-sharing ratio.

Situation 2

When new or incoming partner gets his/her share from old or existing partners in a particular ratio.

Situation 3

When new or incoming partner gets his/her share in a particular fraction (part) from old or existing partners.

Situation 4

When one of the existing partners retains his/her original share of profit on admission of a new partner.

Situation 1

When new or incoming partner gets his/her share from old or existing partners in their old profit-sharing ratio.



Case - 1

When profit share of new or incoming partner is given but sacrificed share by the old partners is not given.

Case - 2

When share of new partner is given and also new profit-sharing ratio of old partner is given.

Case - 3

When the new or incoming partner get his/her share from the old or existing partners equally.

**Situation - 1**

Case - 1 When profit share of new or incoming partner is given but sacrificed share by the old partners is not given.

P, Q and R were partners in a firm sharing profits in the ratio of 3:2:1. They admitted X for 10% share in profits. Calculate New Profit-sharing Ratio.

3:2:1

$$\left(\frac{1}{10}\right)^X$$

$$\frac{10\%}{10\%}$$

$$\text{Rem Ratio} = 1 - \frac{1}{10} = \frac{9}{10}$$

$$P - \frac{9}{10} \times \frac{3}{6} = \frac{27}{60}$$

$$Q - \frac{9}{10} \times \frac{2}{6} = \frac{18}{60}$$

$$R - \frac{9}{10} \times \frac{1}{6} = \frac{9}{60}$$

$$X - \frac{1}{10} \times \frac{6}{6} = \frac{6}{60}$$

27:18:9:6

9:6:3:2



**Situation - 1**

Case - 2 When share of new partner is given and also new profit-sharing ratio of old partner is given.

Rohit and Sandhya are partners. They admit Kullu for $\frac{1}{4}$ th share. In future, profit-sharing ratio between Rohit and Sandhya would be 2:1. Calculate New Profit-sharing Ratio.

$$\text{Rem} \Rightarrow 1 - \frac{1}{4} = \frac{3}{4}$$

$$R = \frac{3}{4} \times \frac{2}{3} = \frac{6}{12}$$

$$S = \frac{3}{4} \times \frac{1}{3} = \frac{3}{12}$$

$$K = \frac{1}{4} \times \frac{3}{3} = \frac{3}{12}$$

$$6:3:3$$

$$\underline{2:1:1}$$

**Situation - 1**

Case - 3 When the new or incoming partner get his/her share from the old or existing partners equally.

Lord and Puneet are partners sharing profits in the ratio of 5:4. They admit Boss for $\frac{1}{10}$ th share of profits which he acquires equally from both. Find the new profit-sharing ratio

$$\begin{aligned} & \text{Boss} = \frac{1}{10} \quad \begin{array}{l} \nearrow \frac{1}{10} \times \frac{1}{2} = \frac{1}{20} \\ \searrow \frac{1}{10} \times \frac{1}{2} = \frac{1}{20} \end{array} \\ L &= \frac{5}{9} - \frac{1}{20} = \frac{100-9}{180} = 91 \\ P &= \frac{4}{9} - \frac{1}{20} = \frac{80-9}{180} = 71 \\ B &= \frac{1}{10} \times \frac{18}{18} = \frac{18}{180} \end{aligned}$$

$$91:71:18$$

**Situation - 2**

Nandu and Bandhu are partners sharing profits in the ratio of 2:1. They admit Chandu into partnership for 25% share of profits. Chandu acquired the profit share from old partners in the ratio of 3:2.

Calculate the New Profit-sharing Ratio.

$$\begin{aligned} & \frac{2}{3} - \frac{3}{20} = \frac{40-9}{60} = \frac{31}{60} \\ & \frac{1}{3} - \frac{2}{20} = \frac{20-6}{60} = \frac{14}{60} \end{aligned}$$

Handwritten calculations for the new profit-sharing ratio:

Old ratio: 2:1

Chandu's share: $\frac{25}{100} = \frac{1}{4}$

Ratio of acquisition: 3:2

Chandu's share from Nandu: $\frac{1}{4} \times \frac{3}{5} = \frac{3}{20}$

Chandu's share from Bandhu: $\frac{1}{4} \times \frac{2}{5} = \frac{2}{20}$

$$C = \frac{1}{4} \times \frac{15}{15} = \frac{15}{60}$$

$$\underline{31:14:15}$$

**Situation - 3**

A and B are partners in a firm sharing profits and losses in the ratio of 3:2. A gives $\frac{1}{5}$ th of his share, whereas B gives $\frac{2}{5}$ th of his share to C, the new partner. Calculate new profit-sharing ratio

$$A:B \Rightarrow 3:2$$

$$A = \frac{3}{5} - \frac{3}{25} = \frac{12}{25}$$

$$B = \frac{2}{5} - \frac{4}{25} = \frac{6}{25}$$

$$C = \frac{3}{25} + \frac{4}{25} = \frac{7}{25}$$

$$A's \text{ sac} = \frac{3}{5} \times \frac{1}{5} = \frac{3}{25}$$

$$B's \text{ sac} = \frac{2}{5} \times \frac{2}{5} = \frac{4}{25}$$

$$12:6:7$$



Situation - 4

X, Y and Z are partners sharing profits in the ratio of 2:2:1. W is admitted as a new partner for $\frac{1}{6}$ th share. Z is to retain his share. Calculate new profit-sharing ratio.

$$\begin{array}{ccc} X & Y & Z \\ 2 & 2 & 1 \\ \hline 1 & 1 & \end{array}$$

$$W \Rightarrow \frac{1}{6}$$

$$Z = \frac{1}{5} \quad (W) \quad (Z)$$

$$\text{Remaining share} = \frac{1}{1} - \frac{1}{6} - \frac{1}{5} = \frac{30 - 5 - 6}{30} = \frac{19}{30}$$

$$X = \frac{19}{30} \times \frac{1}{2} = \frac{19}{60}$$

$$Y = \frac{19}{30} \times \frac{1}{2} = \frac{19}{60}$$

$$Z = \frac{1}{5} \times \frac{12}{12} = \frac{12}{60}$$

$$W = \frac{1}{6} \times \frac{10}{10} = \frac{10}{60}$$

$$19:19:12:10$$

Valuation in Accounting of Goodwill

AS-26 Rule

Goodwill is recorded only when paid in money; not recorded on admission/retirement if no payment is made.

Self-generated Goodwill
Arises from past efforts of existing partners, not purchased.

Premium for Goodwill
New partner compensates old (sacrificing) partners for sharing future profits.

$$C = \frac{1}{5}$$

$$G/W \Rightarrow 500000$$

$$500000 \times \frac{1}{5}$$

$$\Rightarrow 100000$$

Accounting of Goodwill at the time of Admission of a Partner

There can be following five situations for accounting of goodwill:

- Goodwill (Premium for Goodwill) is paid privately; → No Entry
- Goodwill (Premium for Goodwill) is brought in cash or by cheque by the new or Incoming Partner and is retained in business;
- Goodwill (Premium for Goodwill) is brought in cash or by cheque by the new or Incoming Partner and is withdrawn by Sacrificing Partners fully or partly;
- Goodwill (Premium for Goodwill) is brought in kind; → Asset
- When a part of Goodwill (Premium for Goodwill) is brought;
- When the new partner does not bring his/her share of goodwill.

→ Current a/c

Bring in cap & g/w

① Bank/Cash a/c Dr
To New Pt's cap.

② Cash/Bank/Asset/Current a/c Dr
To Premium of G/w

③ Distribution: [Sacrificing Ratio]
Premium of G/w a/c Dr
To Sacrificing Pt's cap a/c

④ Withdraw

Partner's cap a/c Dr
To Cash a/c



When Premium for Goodwill is paid privately

X and Y are partners in a firm sharing profits and losses in the ratio of 5:3. They admit Z as a partner for $\frac{1}{4}$ th share. Z paid ₹80,000 privately to X and Y as his share of goodwill.

Pass the necessary Journal entries on Z's admission.

5:3

$z = \frac{1}{4}$



When Premium for Goodwill is brought in cash and is retained in business

Rajat and Dalal are partners in the firm sharing profits in the ratio of 3:2. They both give $\frac{1}{2}$ of their respective shares to L-wish. L-wish brings her share of premium for goodwill in cash. Goodwill of the firm is valued at ₹40,000. Pass Journal entries for goodwill in the above case.

$$R:D \Rightarrow 3:2$$

$$\text{Rajat's sac} = \frac{3}{5} \times \frac{1}{2} = \frac{3}{10}$$

$$\text{Dalal's sac} = \frac{2}{5} \times \frac{1}{2} = \frac{2}{10}$$

$$\text{Sac Ratio} = 3:2$$

$$\begin{aligned} \text{Premium of G/w} &\Rightarrow \text{Total G/w} \times \text{New Pt's share} \\ &\Rightarrow 40000 \times \frac{1}{2} = 20000 \end{aligned}$$

$$L = \frac{3}{10} + \frac{2}{10} = \frac{5}{10} = \frac{1}{2}$$

① Cash a/c Dr 20000
To Premium of G/w 20000

② Premium of G/w a/c Dr 20000
To Rajat 12000
To Dalal 8000

When Premium for Goodwill is brought in Cash

A and B are partners in a firm sharing profits in the ratio of 2:1. On 1st April, 2023, their capitals were ₹4,00,000 and ₹2,00,000 respectively. On that date, they admitted C as a partner for $\frac{1}{5}$ th share in profits. New profit-sharing ratio of A, B and C is to be 3:1:1.

C brought in ₹1,00,000 as his capital and ₹21,000 as his share of premium for Goodwill. Pass Journal entries and show Capital Accounts of all the Partners.



Goodwill Existing in the Books at the Time of Admission and written off

X and Y are partners in a firm sharing profits in the ratio of 4:3. On 1st April, 2024, they admitted Z as a partner. Z brought ₹1,00,000 for his capital and ₹21,000 for 1/3rd share of goodwill premium.

On Z's admission, goodwill existed in the books of the firm at ₹28,000.

Pass necessary Journal entries on Z's admission.

Cash a/c Dr 1,21,000

To Z's cap 1,00,000

To Prem of G/W 21,000

Prem of G/W Dr 21,000

To X

To Y

12,000

9,000

X 16,000
Y 12,000

To G/W 28,000



$$C = 3/7 \quad \text{New} = 2:2:3$$

$$A:B \Rightarrow 4:3$$

Premium for Goodwill withdrawn Partially

A and B were partners in a firm sharing profits in the ratio of 4:3. They admitted C as a new partner for $3/7$ th share in the profits of the firm. New profit-sharing ratio will be 2:2:3. C brought ₹2,00,000 as his capital and ₹60,000 for his share of premium for goodwill, half of which was withdrawn by A and B from the firm.

Calculate sacrificing ratio and pass Journal entries in the books of the firm for the above transactions.

$$Sac = O - N$$

$$A = \frac{4}{7} - \frac{2}{7} = \frac{2}{7}$$

$$B = \frac{3}{7} - \frac{2}{7} = \frac{1}{7}$$

$$C = 0 - \frac{3}{7} = -\frac{3}{7}$$

2:1

Cash a/c Dr 260000
To C's cap a/c 200000
To Prem of g/w 60000

Prem of G/w a/c Dr 60000
To A's cap 40000
To B's cap 20000

A's cap Dr 20000
B's cap Dr 10000
To Cash a/c 30000

	X	X
Sal.	30000	20000
Com	10000	-
Payment	<u>40000</u>	<u>20000</u>

~~40000~~ : ~~20000~~

2 : 1

20000 10000

Profit $\Rightarrow$ 30000

Profit Inadequate

THANK YOU

Stay Connected
KEEP LEARNING



@NEXTTOPPERS_COMMERCE1



@NextToppers11thCommerce