ELITE COMMERCE MINDS
COMMERCE RAMA

concept no.3

Accounting of Goodwill

The purpose of Accounting of Goodwill is to determine also on that basis the amount of compensation to be paid by the gaining partner (i.e., the partner whose share has increased as a result of change) to the sacrificing partner (i.e., the partner whose share has decreased as a result of change) in there Sacrificing & Gaining ratio respectively. Such compensation is usually paid on the basis of proportionate amount of goodwill.

COMMERCE RAMA

ELITE COMMERCE MINDS
COMMERCE RAMA

concept no.3

Question

Q.1) A and B are partners sharing profits and losses in the ratio of 3 : 1. It was decided that with effect from 1st April, 2021 the profit sharing ratio will be 5 : 3. Goodwill is to be valued at 2 year's purchase of average of 3 year's profits. The profits for the years ending 31st March 2019, 2020 and 2021 were ₹36,000, ₹32,000 and ₹40,000 respectively.
Pass the necessary journal entry for the treatment of goodwill.

[Ans. Debit B by ₹9,000 and Credits by ₹9,000]

COMMERCE RAMA

concept no.3

Question

Q.2). P, Q and R are partners sharing profits equally. They decided that in future R will get 1/7 share in profits. On the day of change, firm's Goodwill is valued at ₹42,000. Give Journal Entries arising on account of change in profit sharing ratio.

[Ans. Debit P and Q by ₹4,000 each and credit R by ₹8,000.]

COMMERCE RAMA

ELITE COMMERCE MINDS
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concept no.3

Question

Q.3). Naman, Aman and Raman are partners sharing profits and losses in the ratio of 2 : 2 : 1. From 1st April, 2023, they decide to change the profit-sharing ratio. They pass the following adjustment entry for goodwill in the books:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023				
April 1	Naman's Current A/c (₹ 2,00,000 × 3/25) ...Dr,		24,000	
	Raman's Current A/c (₹ 2,00,000 × 2/25) ...Dr.		16,000	
	To Aman's Current A/c (₹ 2,00,000 × 5/25)			40,000
	(Goodwill adjusted on change in profit-sharing ratio)			

What will be the new profit-sharing ratio of partners assuming capital of partners are fixed?

[Ans.: New Profit-sharing Ratio—13 : 5 : 7.]

COMMERCE RAMA

END OF CONCEPT NO-3

COMMERCE RAMA

CHAPTER-3 CHANGE IN PROFIT-SHARING RATIO AMONG THE EXISTING PARTNERS

concept no.

4 Adjustment of Goodwill by Raising&Writing off Goodwill