ELITE COMMERCE MINDS
COMMERCE RAMA

concept no.4

Adjustment of Goodwill by Raising & Writing off Goodwill

Sometimes, partners decide that Goodwill is raised and then written off. In such a case the goodwill account is closed immediately.

(i)	**In Case of Fluctuating Capitals :**		
	(a) Goodwill A/c	Dr.	[Full Value of Goodwill]
	To Partners' Capital A/cs		[In Old Profit-sharing Ratio]
	(Goodwill raised in Old Profit- sharing Ratio)		
	(b) Partners' Capital A/cs	Dr.	[In New Profit-sharing Ratio]
	To Goodwill A/c		
	(Goodwill written off in New Profit- sharing Ratio)		
(ii)	**In Case of Fixed Capitals :**		
	(a) Goodwill A/c	Dr.	[Full Value of Goodwill]
	To Partners' Current A/cs		[In Old Profit-sharing Ratio]
	(Goodwill raised in Old Profit- sharing Ratio)		
	(b) Partners' Current A/cs	Dr.	[In New Profit-sharing Ratio]
	To Goodwill A/c		
	(Goodwill written off in New Profit-sharing Ratio)		

concept no.4

Questions

Q.1). X and Y were partners sharing profits and losses in the ratio of 3 : 1. They decided that with effect from 1st April 2023, they would share profits and losses in the ratio of 5.3. The partnership deed provides that in the event of any change in profit sharing ratio, the goodwill should be valued at the total of two year's profits preceding the date the decision became effective. The profits for 2020-21, 2021-22 and 2022-23 were ₹60,000, ₹70,000 and ₹90,000 respectively. Pass the necessary Journal entries when goodwill is raised and written off.

[Ans. (i) Dr. Goodwill A/c by ₹1,60,000 and Credit X and Y in 3 : 1, (ii) Dr. X and Y in 5 : 3 and Credit Goodwill A/c by ₹1,60,000.]

COMMERCE RAMA

concept no.4

Questions

Q.2). A, B and C were partners sharing profits and losses in the ratio of 7 : 3 : 2. From 1st April 2023, they decided to share profits and losses in the ratio of 8 : 4 : 3. Goodwill is to be valued at the average of three year's profits preceding the date of change in profit sharing ratio. The profits for the years ending 31 st March 2020,2021, 2022 and 2023 were ₹52,000, ₹48,000, ₹60,000 and ₹90,000 respectively. Give the necessary journal entries when goodwill is raised and written off.

[Ans. Value of Goodwill ₹66,000; (i) Dr. Goodwill A/c by ₹66,000 and Credit A, B and C in 7 : 3 : 2, (ii) Dr. A, B and C in 8 : 4 : 3 and Credit Goodwill A/c by ₹66,000.]

COMMERCE RAMA

END OF CONCEPT NO-4

COMMERCE RAMA

concept no.

5 Reserves, Accumulated Profits and Losses