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Concept no.3 Accounting Treatment of Goodwill on the Rertirement of a Partner :

There may be 2 situations related to treatment of goodwill at the time of retirement of a partner :

- When the Goodwill Account is already appearing in the books :
  All Partner's Capital a/c .....Dr.
  To Goodwill a/c
  (In Old Profit Sharing Ratio of Old Partners)

- **Continuing Partner's Capital a/c .....Dr.**
  To Retiring Partner's Capital a/c
  (In Gaining Ratio of Continuing Partners)

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Concept no.3

Question

Q.5) P, Q and R are equal partners in a firm. R retires and the goodwill of the firm is valued at ₹3,60,000. No goodwill account appears as yet in the books of the firm. P and Q agree to share future profits in the ratio of 3 : 2. Pass necessary journal entry for goodwill.

[Ans. R's capital a/c is credited by ₹1,20,000 ; P & Q capital a/c is debited by ₹96,000 & ₹24,000 respectively]

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Concept no.3

Questions

Q.6) X, Y and Z were partners in a firm sharing profits in the ratio of 3 : 2 : 1. Z retired and the new profit sharing ratio between X and Y was 1 : 2. On Z's retirement the goodwill of the firm was valued at ₹30,000. Pass necessary journal entry for the treatment of goodwill on Z's retirement.

[Ans. Only Y gains 2/6. X has also sacrificed 1/6. Hence Y will be debited by ₹60,000 and X and Z will be credited by ₹5,000 each.]

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Concept no.3

Question

Q.7) A, B and C are sharing profits in the ratio of 3 : 2 : 1. Goodwill is appearing in the books at a value of ₹2,40,000. B retires and on the day of B's retirement Goodwill is valued at ₹6,00,000. A and C decided to share future profits in the ratio of 3 : 2. Pass the necessary Journal entries.

Ans. Goodwill is Debited to old Partner's Capital a/c in old ratio

B's capital a/c is credited by ₹1,20,000 ; A & B capital a/c is debited by ₹60,000 & ₹1,40,000 respectively

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Concept no.3

Questions

Q.8) A, B and C were partners sharing profits in the ratio of 6 : 4 : 5. Their capitals were A – ₹1,00,000, B – ₹80,000 and C–₹60,000 .On 1st April 2023, B retired from the firm and the new profit sharing ratio between A and C was decided as 11 : 4. On B's retirement the goodwill of the firm was valued at ₹ 1,80,000. Showing your calculations clearly pass necessary journal entry for the treatment of goodwill on B's retirement.

[Ans. Only A gains 5/15. C has also sacrificed 1/15. Hence A will be debited by ₹60,000 and B and C will be credited by ₹48,000 and ₹ 12,000 respectively.]

END OF CONCEPT.NO-3

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Concept no.

4 Raising and Writting off Goodwill