ELITE COMMERCE MINDS
COMMERCE RAMA

Concept no.3

Deceased Partner's Share of Goodwill



When a partner dies, the partnership needs to compensate the deceased partner's legal heirs for their share of goodwill. Goodwill represents the firm's reputation and is an intangible asset. The deceased partner is entitled to their share of goodwill, which must be adjusted between the surviving partners in their gaining ratio.

(1) Calculate Total Goodwill of the Firm **(2)** Calculate Deceased Partner's Share of Goodwill;

Deceased Partner's Share of Goodwill = *Total Goodwill × Deceased Partner's Profit Share*

(3) Adjust Goodwill in the Gaining Ratio

(4) Journal Entry for Goodwill Adjustment;

- **Remaining Partners' Capital A/c Dr. (in gaining ratio)**
  To Deceased Partner's Capital A/c
  (Being deceased partner's share of goodwill adjusted)

Key Points:

- The deceased partner's share of goodwill is distributed among the remaining partners in proportion to their gaining ratio.
- No actual cash payment may be made immediately, but the adjustment is done in the partners' capital accounts.

Concept no.3

Question

Q.5) P, Q and R are partners, sharing profits in the ratio of 4 : 3 :1. It is provided in the Partnership Deed that, on the death of any partner, Deceased Partners' share of goodwill will be valued at half of the profits credited to his account during the previous four completed years. Q died on 1st April, 2023. The firm's profits/losses for the last four years ended 31st March, are: 2020—₹ 1,20,000; 2021-₹ 60,000; 2022-₹ 20,000 (loss): 2023-₹ 80,000.

(i) Determine the amount that is to be credited to Q's Capital Account as his share of goodwill.

(ii) Pass Journal entry for adjustment of goodwill if profit-sharing ratio between P and R in future will be 3 : 2.

[Ans: ₹45,000 adjusted by debiting P & R Capital a/c in gaining ratio, i.e., 4:11 and ₹45,000 crediting Q's Capital A/c]

COMMERCE RAMA

ELITE COMMERCE MINDS
COMMERCE RAMA

Concept no.3

Q.6) . X, Y and Z were partners in a firm sharing profit in the ratio of 3:2:1 .The firm closes its books on 31 st March every year. Y died on 30th June, 2023. On Y's death, goodwill of the firm was valued at ₹ 60,000. Ys share in the profit of the firm till the date of his death was to be calculated on the basis of previous year's profit which was ₹ 1,50,000. Pass necessary Journal entries for goodwill and V"s share of profit at the time of his death.

[Ans.: Gaining Ratio—3:1; Y's Share of Goodwill—₹ 20,000; Y's Share of Profit—₹ 12,500.
Journal Entry for Goodwill: Dr. X's Capital A/c by ₹ 15,000 and
Z's Capital A/c by ₹ 5,000; Cr. Y's Capital A/c by ₹ 20,000.
For Share of Profit: Dr. Profit & Loss Suspense A/c and Cr. Y's Capital A/c by ₹ 12,500.]

COMMERCE RAMA

Concept no.3

Q.7) .P,Q and R were partners in a firm sharing profits in 2:2:1 ratio. The Firm closes its books on 31st March every year. P died three months after the last accounts were prepared. On that date the goodwill of the firm was valued at ₹ 90,000. On the death of a partner his share of profit in the year of death was to be calculated on the basis of the average profits of the last four years. The profits of the last Four Years were:

Year Ended 31-03-24 ₹ 2,00,000 Year Ended 31-03-23 ₹ 1,80,000

Year Ended 31-03-22 ₹ 2,10,000 Year Ended 31-03-21 ₹ 1,70,000 (Loss)

Pass necessary journal Entries for the treatment of Goodwill and P's share of profit on his death

Show Clearly the calculation

[Ans.: Gaining Ratio—2:1 P's Share of Profit—₹ 10,500.

P's Share of Goodwill: ₹ 36,000.]

COMMERCE RAMA

END OF CONCEPT.NO-3

ELITE COMMERCE MINDS

COMMERCE RAMA

Concept no.

4 Calculation of Profit Share of a Deceased Partner