

# VIDYA BHAWAN BALIKA VIDYA PITH

शक्ति उत्थान आश्रम लखीसराय बिहार

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## Reconstitution of a Partnership Firm – Admission of a Partner

Illustration 22

Hem and Nem are partners in a firm sharing profits in the ratio of 3:2. Their capitals were Rs. 80,000 and Rs. 50,000 respectively. They admitted Sam on Jan. 1, 2007 as a new partner for  $\frac{1}{5}$  share in the future profits. Sam brought Rs. 60,000 as his capital. Calculate the value of goodwill of the firm and record necessary journal entries on Sam's admission.

### Solution

#### Value of Firm's Goodwill

Sam's capital	= Rs. 60,000
Sam's share	= $\frac{1}{5}$
Total capital of new firm	= $5 \times \text{Rs. } 60,000 = \text{Rs. } 3,00,000$
Hem's+Nem's+Sam's	= Rs. 80,000 + Rs. 50,000 + Rs. 60,000
	= Rs. 1,90,000
Goodwill of the firm	= Rs. 1,10,000 (Rs. 3,00,000 - Rs. 1,90,000)
Sam's share	= $\frac{1}{5} \times \text{Rs. } 1,10,000 = \text{Rs. } 22,000$

#### Books of Hem, Nem and Sam Journal

Date 2007	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
1.	Bank A/c To Sam's Capital A/c (Cash brought by Sam for his capital)	Dr.	60,000	60,000

2.	Goodwill A/c To Hem's Capital A/c To Nem's Capital A/c (Credit given for goodwill to Hem and Nem on Sam's admission)	Dr.	1,10,000	66,000 44,000
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Alternatively, if goodwill account is not to be raised, the second journal entry passed for goodwill shall be as follows.

	Sam's Capital A/c To Hem's Capital A/c To Nem's Capital A/c	Dr.	22,000	13,200 8,800
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#### Do It Yourself

1. A firm's profits for the last three years are Rs. 5,00,000; Rs. 4,00,000 and Rs. 6,00,000. Calculate value of firm's goodwill on the basis of four years' purchase of the average profits for the last three years. (Ans : Rs. 20,00,000)
2. A firm's profits for the last five years were Rs. 20,000, Rs. 30,000, Rs. 40,000, Rs. 50,000 and Rs. 60,000. Calculate the value of firm's goodwill on the basis of three years' purchase of weighted average profits after using weight of 1,2,3,4 and 5 respectively.
3. A firm's profits during 2003, 2004, 2005 and 2006 were Rs. 16,000; Rs. 20,000; Rs. 24,000 and Rs. 32,000 respectively. The firm has capital investment of Rs. 1,00,000. A fair rate of return on investment is 18% p.a. Compute goodwill based on three years' purchase of the average super profits for the last four years. (Ans : Rs. 15,000)
4. Based on the data given in the above question, calculate goodwill by capitalisation of super profits method. Will the amount of goodwill be different if it is computed by capitalisation of average profits? Confirm your answer by numerical verification.
5. Giri and Shanta are partners in a firm sharing profits equally. They admit Kachroo into partnership who, in addition to capital, brings Rs. 20,000 as goodwill for 1/5th share of profits in the firm. What shall be journal entries if:
  - (a) no goodwill appears in the books of the firm.
  - (b) goodwill appears in the books of the firm at Rs. 40,000.
6. A and B are partners in a firm sharing profits in the ratio of 3:2. They admit C into partnership for 1/5th share of profits in the firm. The goodwill of the firm is valued at Rs. 1,00,000. He is unable to bring in his share of goodwill. What will be the journal entries if:
  - (a) Goodwill is raised at full value and then written off.
  - (b) Goodwill is not raised.

### 3.6 Adjustment for Accumulated Profits and Losses

Sometimes a firm may have accumulated profits not yet transferred to capital accounts of the partners. These are usually in the form of general reserve, reserve

fund and/or Profit and Loss Account balance. The new partner is not entitled to have any share in such accumulated profits. These are distributed among the partners by transferring it to their capital accounts in old profit sharing ratio. Similarly, if there are some accumulated losses in the form of a debit balance of profit and loss account appearing in the balance sheet of the firm. A remote possibility, the same should also be transferred to the old partners' capital accounts