Illustration 6

Keshav, Nirmal and Pankaj are partners sharing profits and losses in the ratio of 4 : 3 : 2. Nirmal retires and the goodwill is valued at Rs. 72,000. Keshav and Pankaj decided to share future profits and losses in the ratio of 5 : 3. Record necessary journal entries (a) when goodwill is raised at its full value and written off immediately (b) when goodwill is not to appear in firms books at all

Solution

(a)   When Goodwill is raised and written-off

Journal

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
(i)	Goodwill A/c Dr.		72,000	
	To Keshav's Capital A/c			32,000
	To Nirmal's Capital A/c			24,000
	To Pankaj's Capital A/c			16,000
	(Goodwill raised at its full value in old profit sharing ratio)			
(ii)	Keshav's Capital A/c Dr.		45,000	
	Pankaj's capital A/c Dr.		27,000	
	To Goodwill A/c			72,000
	(Goodwill written off in the new profit sharing ratio)			

(b)   When goodwill is not to appear in firm's books at all

Journal

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Keshav's Capital A/c Dr.		13,000	
	Pankaj's Capital A/c Dr.		11,000	
	To Nirmal's Capital A/c			24,000
	(Nirmal's share of goodwill adjusted to Keshav and Pankaj in their gaining ratio of 13:11)			

Working Notes

1. Vimal's share of Goodwill = Rs. $72,000 \times \frac{3}{9}$ = Rs. 24,000
2. Calculation of Gaining Ratio
   Gaining Share $\qquad$ = New Share – Old Share

   Keshav's Gaining Share = $\frac{5}{8} - \frac{4}{9} = \frac{13}{72}$

   Pankaj's Gaining Share = $\frac{3}{8} - \frac{2}{9} = \frac{11}{72}$

   Hence, Gaining Ratio between Keshav and Pankaj is 13:11 i.e. $\frac{13}{24} : \frac{11}{24}$

Illustration 7

Jaya, Kirti, Ekta and Shewata are partners in a firm sharing profits and losses in the ratio of 2 : 1 : 2 : 1. On Jaya's retirement, the goodwill of the firm is valued at Rs. 36,000. Kirti, Ekta and Shewata decided to share future profits equally. Record the necessary journal entry for the treatment of goodwill without opening 'Goodwill Account'.

Solution

Books of Kirti, Ekta and Shewata
Journal

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Kirti's Capital A/c Dr.		6,000	
	Shewata's Capital A/c Dr.		6,000	
	To Jaya's Capital A/c			12,000
	(Jaya's share of goodwill adjusted to remaining in their gaining ratio)			

Working Notes

1. Jaya's Share of Goodwill

$$= Rs.\ 36,000 \times \frac{2}{6} = Rs.\ 12,000$$

2. Calculation of Gaining Ratio
   Gaining Share = New Share – Old Share

   Kirti's Gain $= \dfrac{1}{3} - \dfrac{1}{6} = \dfrac{2-1}{6} = \dfrac{1}{6}$

   Ekta's Gain $= \dfrac{1}{3} - \dfrac{2}{6} = \dfrac{2-2}{6} = \dfrac{0}{6}$ (Neither Gain nor Sacrifice)

   Shewata's Gain $= \dfrac{1}{3} - \dfrac{1}{6} = \dfrac{2-1}{6} = \dfrac{1}{6}$

   Hence, Gaining ratio between Kirti and Shewata $\dfrac{1}{6} : \dfrac{1}{6}$ = 1:1

Illustration 8

Deepa, Neeru and Shilpa were partners in a firm sharing profits in the ratio of 5 : 3 : 2. Neeru retired and the new profit sharing ratio between Deepa and Shilpa was 2 : 3. On Neeru's retirement, the goodwill of the firm was valued at Rs. 1,20,000. Record necessary journal entry for the treatment of goodwill on Neeru's retirement.

Solution

Books of Deepa and Shilpa
Journal

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Shilpa's Capital A/c Dr.		48,000	
	To Neeru's Capital A/c		36,000	
	To Deepa's Capital A/c			12,000
	(Shilpa compensated Neeru for her share of goodwill and to Deepa for the sacrifice made by her on Neeru's retirement)			

Working Notes

1. Calculation of Gaining Ratio
   Gaining Share = New Share – Old Share

   Deepa's Gaining Share $= \dfrac{2}{5} - \dfrac{5}{10} = \dfrac{4-5}{10} = -\dfrac{1}{10} = \left(\dfrac{1}{10}\right)$ i.e., Sacrifice.

   Shilpa's Gaining Share $= \dfrac{3}{5} - \dfrac{2}{10} = \dfrac{6-2}{10} = \dfrac{4}{10}$ i.e., Gain

2. Hence, Shilpa will compensate both Neeru (retiring partner) and Deepa (continuing partner who has sacrificed) to the extent of their sacrifice worked out as follows:

   Deepa's Sacrifice = Goodwill of the firm × Sacrificing Share

   $$= \text{Rs. } 1,20,000 \times \dfrac{1}{10} = \text{Rs. } 12,000$$

   Neeru's (Retiring partner's sacrifice) $= \text{Rs. } 1,20,000 \times \dfrac{3}{10} = \text{Rs. } 36,000.$