

# VIDYA BHAWAN BALIKA VIDYA PITH

शक्ति उत्थान आश्रम लखीसराय बिहार

class 12 commerce Sub. ACT. Date 2.6.2020

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

(b) When goodwill already exists in the books : If the books already show some balance in the Goodwill Account, the adjustment for goodwill in the old partner's capital accounts shall be made only for the difference between the agreed value of goodwill and the amount of goodwill appearing in books. The amount of goodwill appearing in the books may be less than its agreed value or it may be more than the agreed value. If it is less than the agreed value, the difference between the agreed value of goodwill and the amount of goodwill appearing in the books will be debited to goodwill account and credited to old partner's capital accounts in their old profit sharing ratio. If, however, it is more than the agreed value, the difference will be debited to the old partners' capital accounts in their old profits sharing ratio and credited to the goodwill account. Thus, the journal entries will be as under:

(a) When the value of goodwill appearing in the books is less than the agreed value.

Goodwill A/c Dr.

To Old Partners' Capital A/c (individually)

(Goodwill raised to its agreed value)

(b) When the value of goodwill appearing in the books is more than the agreed value.

Old Partners' Capital A/c (individually) Dr.

To Goodwill A/c

(Goodwill brought down to its agreed value)

### Illustration 20

Ram and Rahim are partners in a firm sharing profits and losses in the ratio of 3:2. Rahul is admitted into partnership for  $\frac{1}{3}$  share in profits. He brings in Rs. 10,000 as capital, but is not in a position to bring any amount for his share of goodwill which has been valued at Rs. 30,000. Give necessary journal entries under each of the following situations:

(a) When there is no goodwill appearing in the books of the firm;

(b) When the goodwill appears at Rs 15,000 in the books of the firm; and

(c) When the goodwill appears at Rs. 36,000 in the books of the firm.

(a) When no goodwill appears in the books

**Books of Ram and Rahim  
Journal**

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1.	Cash A/c Dr. To Rahul's Capital A/c (Amount brought by Rahul as Capital)		10,000	10,000
2.	Goodwill A/c Dr. To Ram's Capital A/c To Rahim's Capital A/c (Goodwill raised at full value in the old profit sharing ratio)		30,000	18,000 12,000

(b) When goodwill appears in the books at Rs 15,000

**Journal**

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1.	Cash A/c Dr. To Rahul's Capital A/c (Amount brought by Rahul as capital)		10,000	10,000
2.	Goodwill Dr. To Ram's Capital A/c To Rahim's Capital A/c (Goodwill raised to its agree value)		15,000	9,000 6,000

(c) When the goodwill appears in the books at Rs 36,000

**Journal**

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1.	Cash A/c Dr. To Rahul's Capital (Amount brought by Rahul as capital)		10,000	10,000
2.	Ram's Capital A/c Dr. Rahim's Capital A/c Dr. To Goodwill A/c (Goodwill brought down to its agreed vlaue)		3,600 2,400	6,000

Normally, when goodwill is raised in the books of the firm, it will be shown in the balance sheet at its agreed value. If, however, the partners decide that after necessary adjustments have been made in the old partners' capital accounts, the goodwill should not appear in the firm's balance sheet, then it has to be written off. This is done by crediting the goodwill account and debiting the capital accounts of all the partners (including the new partner) in the new profit sharing ratio. The net effect of such treatment will be that the new partner's capital account stands debited to the extent of his share of goodwill and the old partners capital accounts credited in the ratio of their sacrifice, and the goodwill shows nil balance.