ACCOUNTS

BOOKS - ARYA ACCOUNTS (HINGLISH)

ACCOUNTING TREATMENT OF GOODWILL

Illustration 1

1. A and B were partners in a firm sharing profits in the ratio 3 : 2. With effect from 1st

April 2016 they agreed to share profits equally. For this purpose the goodwill of the firm was valued at Rs. 30,000. Pass the necessary journal entry.

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Illustration 2

1. A, B and C are partner sharing profits and losses in the ratio of 5 : 4 : 1. It was decided that with effect from 1st April, 2016 the profit sharing ratio will be 9 : 6 : 5. Goodwill is to be valued at 2 year's purchase of average of 3 year's profits. The profits of 2013-14, 2014-15 and 2015 -16 were Rs. 48,000, Rs. 42,000 and Rs. 60,000 respectively.

Pass the necessary journal entry for the treatment of goodwill.

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Illustration 3

1. A and B are partners sharing profits in the ratio of 3:2 . They admit C into the partnership with 1/4th share in future profits. The new profit. The new profit sharing ratio is 5 : 4 : 3. C brings into the business Rs.50,000 for his capital but could not brings any amount for goodwill. The firm's goodwill on C's admission was valued at Rs.48,000 . Pass journal entries.

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Illustration 4

1. X and Y are partners in a firm sharing profits in the ratio of 5 : 3. On March 1, 2017 they admitted Z as a new partner. The new profit sharing ratio will be 4 : 3 : 2. Z brought in Rs. 1,00,000 in cash as his share of capital but could not bring any amount for goodwill in cash. The firm's goodwill on Z's admission was valued at Rs. 1,80,000. At the time of Z's admission goodwill existed in the books of the firm at Rs. 2,40,000.

You are required to pass necessary journal entries in the books of the firm on Z's admission.

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Illustration 5

1. A and B are partners sharings sharing profits in the ratio of 3 : 2. They admit C into the firm for 1/4th share in profit which he takes 1/6th from A and 1/12th from B . C brings Rs. 90,000 as goodwill out of his share of Rs. 1,20,000. No goodwill account appears in the books of the firm. Pass necessary journal entries to record this arrangement.

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Illustration 6

1. P, Q and R are equal partners in a firm. R retires and the goodwill of the firm is valued at Rs. 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.

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