

**Q21.** B & C are in partnership sharing profits and losses as 3:1. They admit D as partner in the firm, D pays premium of 15,000 for  $\frac{1}{3}$ <sup>rd</sup> share of the profits. As between themselves, B and C agree to share future profits and losses equally. Draft Journal entries showing appropriations of the premium money.

**Solution –**

**Journal Entry**

Date	Particulars	L.F.	DR	CR
	Cash A/c .....Dr To Premium for Goodwill A/c (Being D Brought his share of Goodwill in cash)		15,000	15,000
	Premium for Goodwill A/c .....Dr To B's Capital A/c (Being Premium for Goodwill transferred to B's Capital)		15,000	15,000
	C's Capital A/c .....Dr To B's Capital A/c (Goodwill charged from C's Capital Account due to his gain in profit sharing)		3,750	3,750

**Working Note 1:-**

**Calculation of Sacrificing Ratio:**

Let combined share of all partners after D's admission be – 1

Combined share of B & C after C's admission be –  $1 = 1 - \frac{1}{3} = \frac{2}{3}$

B & C each share of profit after D's admission will be –  $\frac{2}{3} \times \frac{1}{2} = \frac{2}{6} = \frac{1}{3}$  each

**Sacrificing Ratio = Old ratio – new ratio**

A's =  $\frac{3}{4} - \frac{1}{3} = \frac{5}{12}$  (Sacrifice)

B's =  $\frac{1}{4} - \frac{1}{3} = -\frac{1}{12}$  (gain)

**Q22.** Geeta and Sunita are partners in a firm sharing profits in the ratio of 3:2. They admit Anita as a new partner. The new profit-sharing ratio between Geeta, Sunita and Anita will be 5:3:2. Anita brought in 25,000 for her share of premium for goodwill. Pass necessary Journal entries for the treatment of goodwill.

**Solution –**

**Journal Entry**

Date	Particulars	L.F.	DR	CR
	Cash A/c .....Dr To Premium for Goodwill A/c (Being Anita Brought his share of Goodwill in cash)		25,000	25,000
	Premium for Goodwill A/c .....Dr To Geeta's Capital A/c To Sunita's Capital A/c (Being Anita's share of Goodwill distributed in Geeta and Sunita in their Sacrificing ratio)		25,000	12,500 12,500

**Working Note 1:-**

Calculating of Sacrificing Ratio

Sacrificing Ratio = Old ratio – new ratio

Geeta's =  $\frac{3}{5} - \frac{5}{10} = \frac{1}{10}$

$$\text{Sunita's} = 2/5 - 3/10 = 1/10$$

1:1

### Working Note 2:-

Distribution of Geeta's share of Goodwill:

Geeta and Sunita each will get =  $25,000 \times 1/2 = 12,500$

**Q24.** A & B are in partnership sharing profits and losses in the ratio of 5:3. C is admitted as a partner who pays 40,000 as capital and the necessary amount of goodwill which is valued at 60,000 for the firm. His share of profits will be  $1/5^{\text{th}}$  which he takes  $1/10^{\text{th}}$  from A and  $1/10^{\text{th}}$  from B. Pass Journal entries and also calculate future profit-sharing ratio of the partners.

Solution –

### Journal Entry

Date	Particulars	L.F.	DR	CR
	Cash A/c .....Dr To C's Capital A/c To Premium for Goodwill A/c (Being C Brought Capital and his share of Goodwill in cash)		52,000	40,000 12,000
	Premium for Goodwill A/c .....Dr To A's Capital A/c To B's Capital A/c (Being C's share of Goodwill distributed in A and B)		12,000	6,000 6,000

### Working Note:-

Sacrificing Ratio = 1:1

Calculation of new profit sharing ratio:-

Old ratio = 5:3

New ratio = old ratio – sacrificing ratio

A's =  $\frac{5}{8} - \frac{1}{10} = \frac{21}{40}$

B's =  $\frac{3}{8} - \frac{1}{10} = \frac{11}{40}$

New profit sharing ratio:-

X, Y and Z is 21/40: 11/40: 8/40

Distribution of C's share of Goodwill (in sacrificing ratio)

A and B =  $12,000 \times \frac{1}{2} = 6,000$

**Q24. Adil and Bhavya are partners sharing profits and losses in the ratio of 7:5. They admit Cris, their Manager, into partnership that is to get  $\frac{1}{6}$ <sup>th</sup> share in the business. Cris brings 1, 00,000 for his capital and 36,000 for the  $\frac{1}{6}$ <sup>th</sup> share of goodwill which he acquires  $\frac{1}{24}$ <sup>th</sup> from Adil and  $\frac{1}{8}$ <sup>th</sup> from Bhavya. Profit for the first year of the new partnership was 2, 40,000. Pass necessary Journal entries for Cris's admission and apportion the profit between the partners.**

**Solution – Journal Entry**

Date	Particulars	L.F	DR	CR
	Cash A/c .....Dr To Cris's Capital A/c To Premium for Goodwill A/c (Being Cris Brought Capital and his share of Goodwill)		13,6000	100,000 36000
	Premium for Goodwill A/c .....Dr		36000	

	To Adil's Capital A/c			9000
	To Bhavya's Capital A/c			27000
	(Being Cris's share of Goodwill transferred to Adil and Bhavya in their sacrificing ratio 3:1)			
	Profit and Loss Appropriation A/c ....Dr		240,000	
	To Adil's Capital A/c			130,000
	To Bhavya's Capital A/c			70,000
	To Cris's Capital A/c			40,000
	(Being Profit after Cris's admission distributed)			

### Working Note:-

Sacrificing Ratio:-

$$\text{Adil} - 1/24 = 1$$

$$\text{Bhavya} - 1/8 = 3$$

**Distribution of Cris's share of Goodwill (in sacrificing ratio):-**

$$\text{Adil} - 3,6000 \times 1/4 = 9000$$

$$\text{Bhavya} - 3,6000 \times 3/4 = 27000$$

### Calculation of New Profit Sharing Ratio

New ratio = old ratio – Sacrificing Ratio

$$\text{Adil's} = 7/12 - 1/24 = 13/24$$

$$\text{Bhavya's} = 5/12 - 1/8 = 7/24$$

**New profit sharing ratio:-**

$$\text{Adil} - 13/24 = 13/24 = 13$$

$$\text{Bhavya} - 7/24 = 7/24 = 7$$

$$\text{Cris} - 1/6 = 4/24 = 4$$

**Distribution of Profit earned after Cris's admission (in new ratio)**

$$\text{Adil} - 240,000 \times 13/24 = 130,000$$

$$\text{Bhavya} - 240,000 \times 7/24 = 70,000$$

Cris –  $240,000 \times 4/24 = 40,000$

**Q-25** Aayush and Aarushi are partners sharing profits and losses in the ratio of 3: 2. They admitted Naveen into partnership for 1/4th share. Goodwill of the firm was to be valued at three years' purchase of super profit .Average net profit of the firm was 20,000. Capital Investment in the business was 50,000 and Normal Rate of Return was 10%. Calculate the amount of Goodwill premium brought by Naveen

**Ans-**

Average net profit=20,000

Capital investment =50,000

NRR=10%

=50,000 x 10%=5000

Super profit=average profit -normal profit

20,000-5000

15000

Goodwill=super profit x number of year purchase

15000 x 3

45000

Naveen share=  $\frac{1}{4}$

Goodwill to be brought by Naveen=45000 x  $\frac{1}{4}$ =11250

**Q26.** A & B are partners in a firm sharing profits and losses in the ratio of 3:2. They admit C into partnership for 1/5<sup>th</sup> share. C brings 30,000 as capital and 10,000 as goodwill. At the time of admission of C, goodwill appeared in the Balance Sheet of A & B at 3,000. New profit-sharing ratio of the partners will be 5:3:2. Pass necessary Journal entries.

**Solution –**

**Journal Entry**

Date	Particulars	L.F.	DR	CR
	A's Capital A/c .....Dr		1,800	

	B's Capital A/c To Goodwill A/c (Being Goodwill written-off)		1,200	3,000
	Cash A/c .....Dr To C's Capital A/c To Premium for Goodwill A/c (Being C brought capital and his share of goodwill in cash)		40,000	30,000 10,000
	Premium for Goodwill A/c .....Dr To A's Capital A/c To B's Capital A/c (Being Premium for Goodwill distributed)		10,000	5,000 5,000

### Working Note 1:-

Old Ratio = A: B: C – 3:2:3

New Ratio – A: B: C – 5:3:2

**Sacrificing Ratio = Old Ratio – New Ratio**

A's =  $\frac{3}{5} - \frac{5}{10} = \frac{1}{10}$

B's =  $\frac{2}{5} - \frac{3}{10} = \frac{1}{10}$

Sacrificing Ratio = X: Y – 1:1

**Distribution of Premium for Goodwill C's share of Goodwill:-**

A =  $10,000 \times \frac{1}{2} = 5,000$

B =  $10,000 \times \frac{1}{2} = 5,000$

**Goodwill written-off:-**

A's capital will be debited =  $3,000 \times \frac{3}{5} = 1,800$

B's Capital will be credited =  $3,000 \times \frac{2}{5} = 1,200$

**Q27.** Anu and Bhagwan were partners in a firm sharing profits in the ratio of 3:1. Goodwill appeared in the books at 4, 40,000. Raja was admitted to the partnership. New profit-sharing ratio among Anu, Bhagwan and Raja was 2:2:1.

Raja brought 1, 00,000 for his capital and necessary cash for his goodwill premium. Goodwill of the firm was valued at 2, 50,000.

Record necessary Journal entries in the books of the firm for the above transaction

**Solution –**

**Journal Entry**

Date	Particulars	L.F.	DR	CR
	Anu's Capital A/c .....Dr Bhagwan's Capital A/c .....Dr To Goodwill A/c (Being Old Goodwill written-off in old ratio)		3,30,000 1,10,000	4,40,000
	Cash A/c .....Dr To Raja's Capital A/c To Premium for Goodwill A/c (Being Capital and goodwill brought in by Raju)		1,50,000	1,00,000 50,000
	Premium for Goodwill A/c .....Dr Bhagwan's Capital A/c .....Dr To Anu's Capital A/c (Being Premium for Goodwill adjusted)		50,000 37,500	87,500

**Working Note:-**



### Calculation of Share in Old Goodwill

Anu's share =  $4, 40,000 \times \frac{3}{4} = 3, 30,000$

Bhagwan's share =  $4, 40,000 \times \frac{1}{4} = 1, 10,000$

Calculation of Raja's Share of Goodwill:-

Raja's Share of Goodwill = Firm's Goodwill x Raju's Profit Share  
 $= 2, 50,000 \times \frac{1}{5} = 50,000$

### Calculation of Sacrificing Ratio:-

Sacrificing Ratio = Old Share – New Share

Anu's =  $\frac{3}{4} - \frac{2}{5} = \frac{7}{20}$  (sacrifice)

Bhagwan's =  $\frac{1}{4} - \frac{2}{5} = -\frac{3}{20}$  (Gain)

### PREMIUM FOR GOODWILL BROUGHT IN KIND:-

**Q28.** Ram and Mohan are partners in a firm sharing profits in the ratio of 3:2. On 1<sup>st</sup> April, 2024, they admit Sohan as a partner for  $\frac{1}{4}$ <sup>th</sup> share in the profits. Sohan contributed following assets towards his capital and for his share of goodwill:

Stock 60,000; Debtor 80,000; Land 1, 00,000; Plant and Machinery 40,000.

On the date of admission of Sohan, the goodwill of the firm was valued at 600,000. Pass necessary Journal entries in the books of the firm on Sohan's admission if:

- I. Partners do not withdraw the share of goodwill.
- II. Partners withdraw half of their share of goodwill.

Case-I

**Solution – Journal Entry**

Date	Particulars	L.F.	DR	CR
2024				
Apr	Stock A/c .....Dr		60,000	
1	Debtors A/c .....Dr		80,000	
	Land A/c .....Dr		1,00,000	
	Plant and Machinery A/c .....Dr		40,000	
	To Sohan's Capital A/c			1,30,000

	To Premium for Goodwill A/c (Being Z brought assets for his share of goodwill and capital)			1,50,000
Apr 1	Premium for Goodwill A/c ....Dr To Ram's Capital A/c To Mohan's Capital A/c (Being Sohan's share of Goodwill distributed between Ram and Mohan in Sacrificing ratio)		1,50,000  90,000 60,000	

### Working Note:-

sohan's share of goodwill =  $6,00,000 \times \frac{1}{4} = 1,50,000$

Distribution of Z's Goodwill:-

Ram =  $1,50,000 \times \frac{3}{5} = 90,000$

Mohan =  $1,50,000 \times \frac{2}{5} = 60,000$

### Case II

Date	Particulars	L.F.	DR	CR
2021 Apr 1	Stock A/c ....Dr Debtors A/c ....Dr Land A/c ....Dr Plant and Machinery A/c ....Dr To Sohan's Capital A/c To Premium for Goodwill A/c		60,000 80,000 1,00,000 40,000	1,30,000 1,50,000

	(Being Z brought assets for his share of goodwill and capital)			
Apr 1	Premium for Goodwill A/c .....Dr To Ram's Capital A/c To Mohan's Capital A/c (Being Sohan's share of Goodwill distributed between Ram and Mohan in Sacrificing ratio)  Ram capital a/c Mohan capital a/c To cash a/c (being half of premium goodwill withdraw)		1,50,000      45000 30,000	90,000 60,000      75000

**WHEN PREMIUM FOR GOODWILL IS BROUGHT IN BY NEW OR INCOMING PARTNER AND IS WITHDRAWN BY OLD PARTNERS FULLY OR PARTLY:-**

**Q29. A & B are partners in a business sharing profits and losses in the ratio of  $\frac{1}{3}^{\text{rd}}$  and  $\frac{2}{3}^{\text{rd}}$ . on 1<sup>st</sup> April, 2024, their capitals were 8,000 and 10,000 respectively. On that date, they admit C in partnership and give him  $\frac{1}{4}^{\text{th}}$  share in the future profits. C brings 8,000 as his capital and 6,000 as goodwill. The amount of goodwill is withdrawn by the old partners in cash. Pass the Journal entries and show the capital Accounts of all the partners. Calculate proportion in which partners would share profits and losses in future.**

**Solution –**

**Journal Entry**

Date	Particulars	L.F.	DR	CR
2020 April 1	Cash A/c .....Dr  To C's Capital A/c  To Premium for Goodwill A/c  (Being C brought capital and his share of goodwill)		14,000	8,000 6,000
April 1	Premium for Goodwill A/c .....Dr  To A's Capital A/c  To B's Capital A/c  (Being C's share of goodwill distributed between A & B in sacrificing ratio 1:2)		6,000	2,000 4,000
	A's Capital A/c .....Dr B's Capital A/c .....Dr  To Cash A/c  (Being Amount of goodwill withdrawn by A & B)		2,000 4,000	6,000

Dr				Partners' Capital Accounts				Cr							
Particulars		A		B		C		Particulars		A		B		C	
Cash		2,000		4,000				Balance b/d		8,000		10,000		8,000	
								Cash							
										2,000					
										2,000		4,000			

Balance b/d	8,000	10,000	8,000	Premium for Goodwill			
	10,000	14,000	8,000		10,000	14,000	8,000

### Calculation of New (Future) Ratio:-

Old Ratio = A: B – 1:2

C is admitted for  $\frac{1}{4}$  share of profit

Let combined share of all partners after C's admission be = 1

Combined share of A & B after C's admission =  $1 - C's\ share = 1 - \frac{1}{4} = \frac{3}{4}$

**New ratio = Old ratio x Combined share of A & B in the new firm**

A's =  $\frac{1}{3} \times \frac{3}{4} = \frac{3}{12}$

B's =  $\frac{2}{3} \times \frac{3}{4} = \frac{6}{12}$

New profit sharing ratio = A: B: C – 1:2:1

### Distribution of Premium for Goodwill:-

A =  $6,000 \times \frac{1}{3} = 2,000$

B =  $6,000 \times \frac{2}{3} = 4,000$

**Q30. A & B were partners in a firm sharing profits and losses in the ratio of 3:2. They admitted C as a new partner for  $\frac{3}{7}^{th}$  share in the profit and the new profit-sharing ratio will be 2:2:3. C brought 2, 00,000 as his capital and 1, 50,000 as premium for goodwill. Half of their share of premium was withdrawn by A & B from the firm. Calculate sacrificing ratio and pass necessary Journal entries for the above transactions in the books of the firm.**

**Solution -**

### Journal Entry

Date	Particulars	L.F	DR	CR
	Cash A/c .....Dr		3,50,000	
	To C's Capital A/c			2,00,000
	To Premium for Goodwill A/c			1,50,000

