

# PARTNERSHIP GOODWILL

## Solution 1

a) 5 years purchase of super profit

Average profit	1,36,000
Less : Normal profit @ 20% of (₹ 3,00,000+ ₹ 2,00,000)	(1,00,000)
Super profit	<b>36,000</b>

Value of goodwill = 5 × Super profit = 5 × ₹ 36,000 = ₹ 1,80,000

b) Capitalization method

Normal value of business =  $\frac{\text{Average profit}}{\text{Normal rate of profit}} = \frac{1,36,000}{20\%} = ₹ 6,80,000$

Normal value of business	6,80,000
Less: Actual capital employed (3,00,000 + 2,00,000)	(5,00,000)
Value of goodwill of the firm will be	<b>1,80,000</b>

c) 3 years purchase of average profits

Goodwill = 3 × Average profit = 3 × ₹ 1,36,000 = ₹ 4,08,000

## Solution 2

a) Capitalization method

Normal value of business =  $\frac{\text{Average profit}}{\text{Normal rate of profit}} = \frac{1,50,000}{20\%} = ₹ 7,50,000$

Normal value of business	7,50,000
Less: Actual capital employed (3,00,000 + 2,00,000)	(5,00,000)
Value of goodwill of the firm will be	<b>2,50,000</b>

b) 5 years purchase of super profit

Average profit	1,50,000
Less : Normal profit @ 20% of (₹ 3,00,000+ ₹ 2,00,000)	(1,00,000)
Super profit	<b>50,000</b>

Value of goodwill = 2 × Super profit = 2 × ₹ 50,000 = ₹ 1,00,000

## Solution 3

Total Profit for 4 years = ₹ 15,000 + (₹ 25,500) + ₹ 75,000 + ₹ 1,12,500 = ₹ 1,77,000.

Average profits = Total Profits/No. of years = 1,77,000/4 = ₹ 44,250

Average Profits for Goodwill = ₹ 44,250 – Proprietor Remuneration  
 = ₹ 44,250 – ₹ 9,000  
 = ₹ 35,250

Normal Profit=Interest on Capital employed = ₹ 30,000 (i.e. ₹ 3,00,000 x10/100) = ₹ 30,000

Super Profit = Average Profit-Normal Profit = ₹ 35,250 – ₹ 30,000 = ₹ 5,250

Goodwill = Super Profit x No of years purchases = ₹ 5,250 x 3 = ₹ 15,750

## Solution 4

### Journal Entries

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	A's Capital A/c - Dr. To C's Capital A/c (Being the adjustment for goodwill through the Partners' Capital Accounts)		10,000	10,000

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**Working Notes:**

Particulars	A	B	C
Credit in Old Ratio (1:1:1)	30,000	30,000	30,000
Debit in New Ratio (4:3:2)	40,000	30,000	20,000
	<b>10,000 Dr.</b>	<b>-</b>	<b>10,000 Cr.</b>

**Solution 5****Calculation of Goodwill**

	₹
2019-20	2,60,000
2020-21	2,75,000
2021-22	2,65,000
2022-23	2,80,000
<b>Total profit of 4 years</b>	<b>10,80,000</b>

Average Profit =  $10,80,000 / 4 = 2,70,000$   
 Less: Interest on capital @ 12%p.a. =  $(78,000)$  [ $6,50,000 \times 12\%$ ]  
 Less: Salaries of partners'  $3 \times 12 \times 2,000 = (72,000)$   
 Adjusted Average profit = 1,20,000  
 Goodwill = 3 years purchase =  $3 \times 1,20,000 = 3,60,000$

Particulars	Antoo	Bantoo	Chintoo
Credit in Old Ratio (3:4:3)	1,08,000	1,44,000	1,08,000
Debit in New Ratio (1:1)		(1,80,000)	(1,80,000)
	<b>1,08,000 Cr.</b>	<b>36,000 Dr.</b>	<b>72,000 Dr.</b>

**Journal Entry**

Particulars	L.F.	Dr.	Cr.
Bantoo's Capital A/c Dr.		36,000	
Chintoo's Capital A/c Dr.		72,000	
To Antoo's Capital A/c			1,08,000
(Being the adjusting entry for goodwill through capital accounts of partners)			

**Solution 6****Computation of Goodwill of Mr. X**

		₹
Average maintainable profits:		
Trading profit during	2018	2,40,000
	2019	2,16,000
	2021	3,00,000
		<b>7,56,000</b>
Less: Loss during	2020	(36,000)
<b>Total</b>		<b>7,20,000</b>
Average Profits ( $₹ 7,20,000 / 4$ )		1,80,000
Less: Remuneration for the proprietor		(36,000)
Average maintainable Profit		1,44,000
Less: Normal Profit (11% on capital employed of ₹ 9,00,000)		(99,000)
Super Profit		<u>45,000</u>
Goodwill at 6 year's purchase of Super Profit		<b>2,70,000</b>

**Alternative:**

₹

Total profit ( $₹ 2,40,000 + ₹ 2,16,000 + ₹ 3,00,000 - ₹ 36,000$ ) = ₹ 7,20,000

Normal Profit (11% on capital employed of ₹ 9,00,000)	99,000
Remuneration for the proprietor	36,000
	<b>1,35,000</b>
Average Profits (₹ 7,20,000 / 4)	1,80,000
Super Profit (1,80,000 – 1,35,000)	45,000
Goodwill at 6 year's purchase of Super Profit	2,70,000

### Solution 7

**i. Capitalization Method:**

Total Capitalised Value of the firm = [(Average Profit \* 100)/(Normal Rate of Return)

= 6,50,000 x 100/20 = ₹ 32,50,000

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 32,50,000 – ₹ 26,00,000 [i.e., ₹ 14,00,000 (R) + ₹ 12,00,000 (S)]

Goodwill = ₹ 6,50,000

**ii. Super Profit Method:**

Normal Profit = Capital Employed x Normal rate of return

i.e. ₹ 26,00,000 x 20/100 = ₹ 5,20,000

Average Profit = ₹ 6,50,000

Super Profit = Average profit – Normal Profit

= ₹ 6,50,000 – ₹ 5,20,000 = ₹ 1,30,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 1,30,000 x 6 = ₹ 7,80,000