

Steps - Super Profit Method

01

Find out **Average Profit**

02

Find out **Normal Profit** (capital x normal rate)

03

Find out **Super Profit** (average profit - normal profit)

04

Goodwill =
Super profits x No of years of purchase / value of annuity

PARTNERS CAPITAL ACCOUNT

Particulars	Amount	Particulars	Amount
To Drawings		By Balance b/d	
To Interest on Drawings		By Cash (Additional Capital)	
To P&L Account (Loss)		By P&L Account (Profit)	
		By General Reserve (Undistributed Profit)	
		By Interest on Capital	
		By remuneration (Salary, Commission, etc...)	
To Balance C/d			

Valuation of Goodwill Methods

Simple Avg. Method

Goodwill =
Average profit x No of years of purchase

Weighted Avg. Method

Goodwill =
Weighted average profit x No of years of purchase

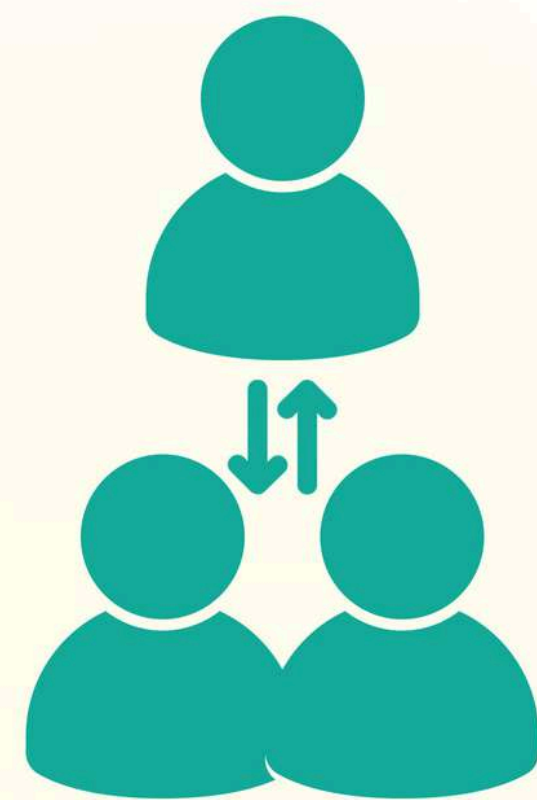
Weighted average profit = $\frac{\text{Total of product}}{\text{Total of weight}}$

Modes of Reconstructions

Change in
profit sharing
ratio

Eg.:
for A & B,
1:2 → 1:1

Admission of
a partner



Retirement of
a partner



Death of
a partner



Fluctuating Methods

- ★ Only **one** account (Capital A/c)
- ★ Amt. of capital is **fluctuating**
- ★ Capital A/c in **Balancesheet**
- ★ **Not necessary** to mention in **deed**

V/S

Fixed Methods

- ★ **Two** accounts (Capital A/c) & Current A/c)
- ★ Amt. of capital remains **same**
- ★ Both Current A/c & Capital A/c in **Balancesheet**
- ★ **Should** specify in **deed**
- ★ Drawings, interest on drawings, interest on capital
└──────────┘
in **Current A/c**

Admission; Accounting Treatments

- ▲ Capital of the new partner.
- ▲ Calculation of new profit sharing ratio.
- ▲ Calculation of sacrificing ratio.
- ▲ Treatment of Goodwill.
- ▲ Revaluation of Assets and Liabilities.
- ▲ Adjustment of reserves and other accumulated profits and losses.
- ▲ Adjustment of capital accounts of the partners.

Format; Revaluation Account

Particular	Amount	Particular	Amount
Decrease in asset Increase in liability Unrecorded liability		Increase in asset Decrease in liability Unrecorded asset	
Revaluation profit (bal fig) To old partners		Revaluation loss (bal fig) By old partners	

Sacrificing Ratio

(Admission)

Sacrificing ratio =
Old ratio - New ratio

Gaining Ratio

(Retirement & Death)

Gaining ratio =
New ratio - Old ratio

Rules Applicable in the Absence of Deed

**No Interest on Capital,
No Interest on Drawings,
No Remuneration for
Firm's Work**

**Profits and losses
are shared equally**

**6%p.a. Interest on loans
advanced by partners**