

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)	
To Balance C/d		By Interest on Capital	
		By remuneration (Salary, Commission, etc...)	

Valuation of Goodwill Methods

Simple Avg. Method

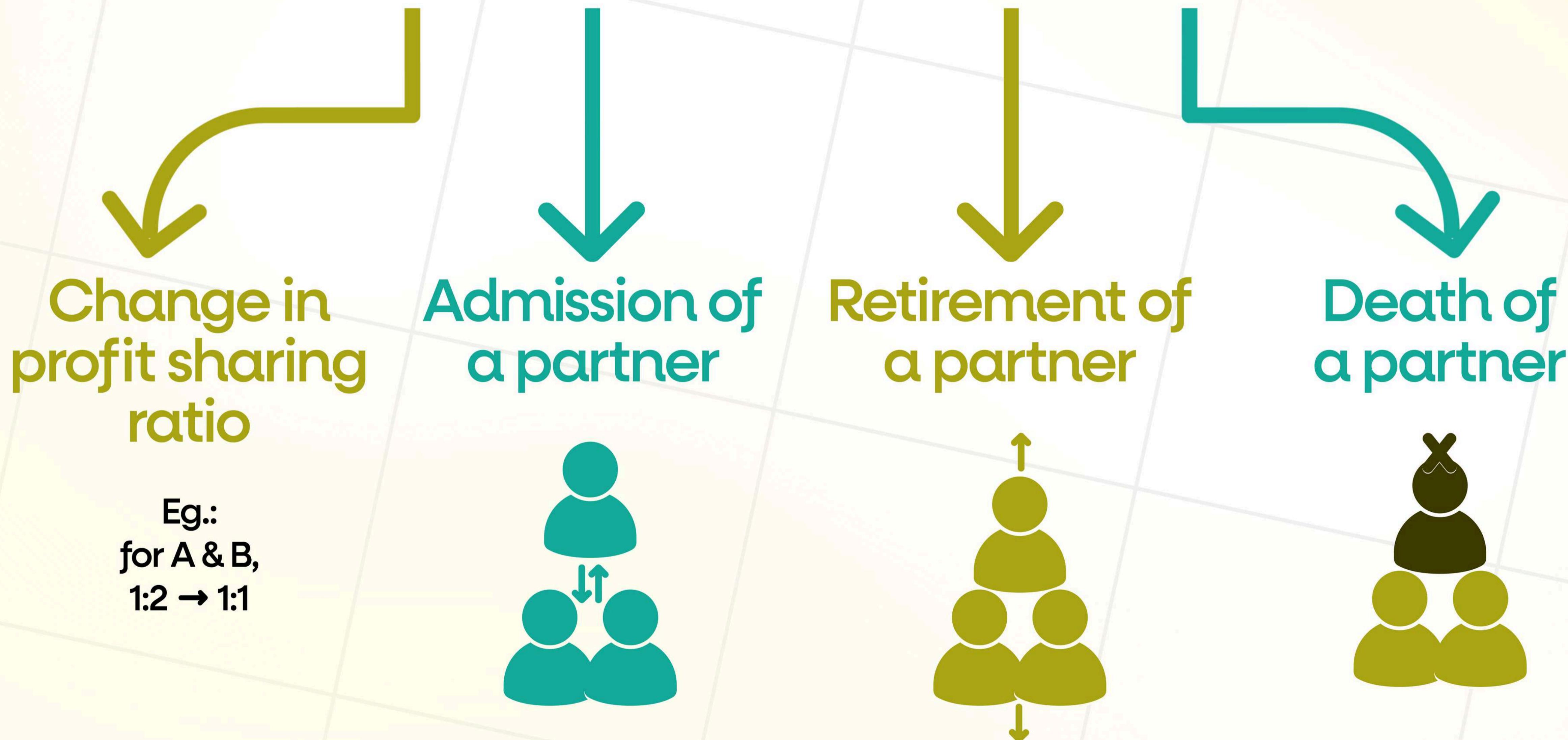
Goodwill =
Average profit x No of years of purchase

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



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

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

Profits and losses
are shared equally