



Q3. Explain the treatment of goodwill at the time of retirement or on the event of death of a partner?

Sol: Generally, in accounting terms, the retiring or deceased partner's capital account is credited with his share of goodwill and continuing partner's capital accounts are debited from the gaining ratio. This treatment is based on Para 16 of Accounting Standard 10, which states that it is mandatory to record goodwill in the books only when consideration in money or money's worth has been paid for it.

In case of retirement and death of a partner, goodwill account cannot be raised. There are namely two probable situations on which the treatment of goodwill rests.

If goodwill already appears in the books of the firm

If no goodwill appears in the books of the firm

The treatment of goodwill in the above two scenarios is discussed below.

Scenario 1: Goodwill already appears in the books of the firm

Step 1: Write off the existing goodwill

The goodwill already appearing in the old balance sheet of the firm (if mentioned in the question), is first written off and is to be distributed among all partners of the firm including the retiring or deceased partner in their old profit-sharing ratio. The following journal entry is passed to write off the old/existing goodwill:

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
	Partner's Capital A/c	Dr.			
	To Goodwill A/c				
	(Being goodwill written off among all partners in their old ratio)				

Step 2: Adjusting goodwill through partner's capital account

After writing off the old goodwill, the goodwill needs to be adjusted through the partner's capital account with the share of the goodwill of the retiring or the deceased partner. The following journal entry is passed:

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
	Remaining Partner's Capital A/c	Dr.			

	To Retiring/Deceased Partner's Capital A/c				
	(Being gaining partner's capital A/c debited from gaining share and retiring/deceased partner's capital account credited for share of goodwill)				

Scenario 2: No goodwill appears in the books of the firm

In case no goodwill appears in the books of the firm, the goodwill is adjusted through the partner's capital account with the share of the goodwill of the retiring or deceased partner.

The following is the journal entry which is passed to give the required effect:

Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
	Remaining Partner's Capital A/c	Dr.			
	To Retiring/Deceased Partner's Capital A/c				
	(Being gaining partner's capital A/c debited from gaining share and retiring/deceased partner's capital account credited for share of goodwill)				

***** END *****