Large Answers.

Q1. Do you advise that assets and liabilities must be revalued at the time of admission of a partner? If so, why? Also, describe how is this treated in the book of account?

Solution: Revaluation means valuation of assets and liabilities at the time of reconstitution of the firm. The reasons for the revaluation of assets and liabilities at the time of admission of a partner are

i.The book values of assets and liabilities may have changed over a period of time since the firm was doing its operations.

ii.The admitted partner may be of the opinion that the firm has exaggerated the value of assets or shown the liabilities at a lower value.

iii.Old partners may think that the value of assets has increased over a period of time and are being shown at a lower value.

Accounting Entries in the Books of Accounts:

The following journal entries are recorded in the Revaluation Account on the date of admission of a new partner:

| | |
|---|---|
| i. For increase in value of assets: | |
| Assets A/c | Dr. |
| To Revaluation A/c | |
| (Being increase in the value of assets) | |
| | |
| ii. For decrease in value of assets: | |
| Revaluation A/c | Dr. |
| To Asset A/c | |
| (Being decrease in the value of assets) | |
| | |
| iii. For increase in liabilities: | |
| Revaluation A/c | Dr. |

| | |
|---|---|
| To Liabilities A/c | |
| (Being increase in the value of liabilities) | |
| | |
| iv. For decrease in liabilities: | |
| Liabilities A/c | Dr. |
| To Revaluation A/c | |
| (Being decrease in the value of liabilities) | |
| | |
| v. For recording of unrecorded assets: | |
| Unrecorded Assets A/c | Dr. |
| To Revaluation A/c | |
| (Being recording of unrecorded assets) | |
| | |
| vi. For recording of unrecorded liabilities: | |
| Revaluation A/c | Dr. |
| To Unrecorded Liabilities A/c | |
| (Being recording of unrecorded liabilities) | |
| | |
| vii. For transfer of credit balance of Revaluation Account | |
| Revaluation A/c | Dr. |
| To Old Partner's Capital A/c | |
| (Being profit on revaluation transferred to the Old Partner's Capital Account in their old profit-sharing ratio) | |
| | |

| | |
|---|---|
| OR | |
| vii. For transfer of debit balance of Revaluation Account: | |
| Old Partner's Capital A/c | Dr |
| To Revaluation A/c | |
| (Being loss on revaluation transferred to the Old Partner's Capital Account in their old profit-sharing ratio) | |

Q2. What is goodwill? What are the factors that affect goodwill?
Solution. Goodwill is an intangible asset which represents the value of a firm's reputation and its good brand name in the market. A firm earns goodwill by its hardwork and thereby wins the blind trust and faith of customers by fulfilling their demands in both qualitative and quantitative aspects. Positive goodwill helps a firm to earn supernormal profits compared to its competitors which earn normal profits (as their goodwill is zero). In other words, goodwill ensures greater future profits as there will be greater number of satisfied customers in the future. Goodwill is nothing more than the probability that the old customer is retained.
Characteristics of Goodwill

The following are the characteristics of goodwill:
1.Is an intangible asset
2.Is not a fictitious asset
3.Ascertaining the exact value of goodwill is difficult
4.Enhances the future and present earning capacity of a business
5.Helps a firm earn supernormal profits
6.Assists the business to enjoy its upper hand over its competitors

Factors Affecting Goodwill

Important factors which affect the goodwill of a firm:
1.Quality of Products: A company producing best quality or superior quality products in large scale earns more goodwill.
2.Location: If a business is located at easy to reach and convenient place, it provides an access to more number of consumers who will be attracted again and will lead to increase in sales over a period of time. Therefore, in some time, the firm will earn higher goodwill.
3.Efficient Management: Efficient management leads to cost efficiency and increases productivity. Efficient management means superior quality products at lower cost or which can be sold at lesser price. Superior quality at lower price enables a firm to earn higher goodwill.
4.Market Structure: If a firm is operating in a monopoly market with no close substitutes, then there will be more goodwill of the firm.
5.Special Advantages: A firm enjoying privileges such as continuous supply of power, fuel and raw materials at a low price enjoys higher value of goodwill.

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