Q17. A business has earned average profits of Rs.1,00,000 during the last few years. Find out the value of goodwill by capitalisation method, given that the assets of the business are Rs.10,00,000 and its external liabilities are Rs.1,80,000. The normal rate or return is 10%?

Solution:

$$\text{Capitalised Valued} = \text{Actual profit} \times \frac{100}{\text{Normal Rate of Return}}$$

$$\text{Capitalised Valued} = 1,00,000 \times \frac{100}{10}$$

$$= \text{Rs } 10,00,000$$

Goodwill = Capitalised Value - Capital Employed

=10,00,000 - 8,20,000

= ₹1,80,000

Alternative Method

Capital Employed = Assets - External Liabilities

= 10,00,000 - 1,80,000

= ₹8,20,000

$$\text{Normal Profit} = \text{Capital Employed} \times \frac{\text{Normal Rate of Return}}{100}$$

$$= 8,20,000 \times \frac{10}{100}$$

$$= \text{Rs. } 82,000$$

Super profit = Actual Profit - Normal Profit

=1,00,000 - 82,000

= ₹18,000

$$\text{Goodwill} = \text{Super Profit} \times \frac{100}{\text{Normal Rate of Return}}$$

$$= 18,000 \times \frac{100}{10}$$

$$= \text{Rs. } 1,80,000$$

Q18. Verma and Sharma are partners in a firm sharing profits and losses in the ratio of 5:3. They admitted Ghosh as a new partner for 1/5 share of profits. Ghosh is to bring in Rs.20.000 as capital and Rs.4.000 as his share of goodwill premium. Give the necessary journal entries:

1.When the amount of goodwill is retained in the business.

2.When the amount of goodwill is fully withdrawn.

3.When 50% of the amount of goodwill is withdrawn.

4.When goodwill is paid privately.

Solution:

Journal Entries

Sr. No.	Particulars		L.F.	Dr. Rs.	Cr. Rs.
Case a.	Cash A/c	Dr.		24,000	
	To Ghosh's Capital A/c				20,000
	To Premium for Goodwill A/c				4,000
	(Being capital and goodwill brought by Ghosh)				
	Premium for Goodwill A/c	Dr.		4,000	
	To Verma's Capital A/c				2,500
	To Sharma's Capital A/c				1,500
	(Being goodwill brought by Ghosh credited to old partners in Sacrificing ratio)				
Case b.	Cash A/c	Dr.		24,000	
	To Ghosh's Capital A/c				20,000
	To Premium for Goodwill A/c				4,000
	(Being capital and Goodwill brought by Ghosh for his (1/5) share of profit)				
	Premium for Goodwill A/c	Dr.		4,000	
	To Verma's Capital A/c				2,500
	To Sharma's Capital A/c				1,500
	(Being goodwill brought by Ghosh credited in old partners in Sacrificing ratio)				
	Verma's Capital A/c	Dr.		2,500	
	Sharma's Capital A/c	Dr.		1,500	

	To Cash A/c				4,000
	(Being amount of premium for Goodwill withdrawn by Old Partners)				
Case c.	Cash A/c	Dr.		24,000	
	To Ghosh's Capital A/c				20,000
	To Premium for Goodwill A/c				4,000
	(Being capital and Goodwill brought by Ghosh for his (1/5) share of profit)				
	Premium for Goodwill A/c	Dr.		4,000	
	To Verma's Capital A/c				2,500
	To Sharma's Capital A/c				1,500
	(Being premium for goodwill credited to old partner's Capital Account in sacrificing ratio)				
	Verma's Capital A/c	Dr.		1,250	
	Sharma's Capital A/c	Dr.		750	
	To Cash A/c				2,000
	(Being 50% of the amount of premium for goodwill withdrawn by old partners)				
Case d.	No entry because Goodwill was not brought in to firm				

*********** END **********