Firm, as on that date, has a Capital Employed of ₹4,40,000. The Normal Rate of Return expected from this kind of business is 13%.

What will be the value of goodwill under Capitalisation of Super Profits Method? *(ISC Competency Focused Question)*

Solution : **On the basis of Capitalisation of Average Profit Method:**

Goodwill = Capitalised Value of Average Profit – Actual Capital Employed

$$60{,}000 = \left(\text{Average Profit} \times \frac{100}{\text{Normal Rate of Return}}\right) - \text{Actual Capital Employed}$$

$$60{,}000 = \left(\text{Average Profit} \times \frac{100}{13}\right) - 4{,}40{,}000$$

$$\therefore \quad \text{Average Profit} = (60{,}000 + 4{,}40{,}000) \times \frac{13}{100} = ₹65{,}000$$

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

$$= 4{,}40{,}000 \times \frac{13}{100} = ₹57{,}200$$

$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit}$$

$$= 65{,}000 - 57{,}200 = ₹7{,}800$$

On the basis of Capitalisation of Super Profit Method:

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

$$= 7{,}800 \times \frac{100}{13} = \mathbf{₹60{,}000}$$

PRACTICAL QUESTIONS

(Question Nos. 1 to 45 are strictly in the serial order of Illustrations)

Sacrificing and Gaining Ratio

Q. 1. (*a*) *X* and *Y* were partners in a firm sharing profits in the ratio of 5 : 3. With effect from 1st April, 2023 they agreed to share profits equally. Calculate the individual partner's gain or sacrifice due to change in ratio.

[**Ans.** *X* sacrifices and *Y* gains $\frac{1}{8}$th share.]

Q. 1. (*b*) *A* and *B* were in partnership sharing profits equally. With effect from 1st April, 2023 they agreed to share profits in the ratio of 4 : 3. Calculate the individual partner's gain or sacrifice due to change in ratio.

[**Ans.** *A* gains and *B* sacrifices $\frac{1}{14}$th share.]

Q. 2. (*a*) *A, B* and *C* were in partnership sharing profits in the ratio of 4 : 3 : 1. The partners agreed to share future profits in the ratio of 5 : 4 : 3. Calculate each partner's gain or sacrifice due to change in ratio.

[**Ans.** *A* sacrifices $\frac{2}{24}$, *B* sacrifices $\frac{1}{24}$ and *C* gains $\frac{3}{24}$.]

Q. 2. (*b*) Mahesh, Naresh and Om were partners sharing profits in the 2 : 3 : 4. With effect from 1st April, 2023 they agreed to share profits in the ratio of 1 : 2 : 3. Calculate each partner's gain or sacrifice due to change in ratio.

[**Ans.** Mahesh sacrifices and Om gains $\frac{1}{18}$ th share.]

Q. 3. Madhur & Co. acquired the business of Vishu for a purchase consideration of ₹ 11,00,000 which was paid by cheque. The assets and liabilities taken over was as follows :

Particulars	*Book Value* ₹	Agreed ₹
Furniture	50,000	
Debtors	2,50,000	
Stock	10,00,000	
Bank Overdraft	20,000	
Creditors	1,80,000	

You are required to assertain the value of goodwill and pass necessary Journal entries.

[**Ans.** Goodwill ₹3,00,000.]

Valuation of Goodwill—Average Profit Method

Q. 4. The goodwill of a firm is valued at 4 years' purchase of average profits of last five years. The profits of the last five years were:

Year		*Profit* (₹)
2018–19	:	2,00,000
2019–20	:	(3,00,000)
2020–21	:	4,50,000 (including an abnormal gain of ₹50,000)
2021–22	:	3,50,000 (after charging an abnormal loss of ₹9[illegible])
2022–23	:	2,60,000

Calculate the amount of goodwill.

[**Ans.** Goodwill ₹8,00,000.]

Q. 5. *X* purchased the business of *Y* from 1st April, 2023. For this purpose goodwill is to be valued at 100% of the average annual profits of the last four years. The profits shown by *Y*'s business for the last four years were:

Year ended		(₹)	
31st March, 2020	Profit	1,00,000	(after debiting loss of stock by fire ₹50,000)
31st March, 2021	Loss	1,50,000	(includes voluntary retirement compensation paid ₹80,000)

31st March, 2022	Profit	1,50,000
31st March, 2023	Profit	2,00,000

Verification of books of accounts revealed the following:

(i) During the year ended 31st March, 2021, a machine got destroyed in accident and ₹60,000 was written off as loss in Profit & Loss Account.

(ii) On 1st July 2021, Two Computers costing ₹40,000 each were purchased and were debited to Travelling Expenses Account on which depreciation is to be charged @ 10% p.a. on Straight Line Method.

Calculate the value of goodwill.

[**Ans.** Goodwill ₹1,39,000.]

Hint: Profit for the year ended 31st March 2022 ₹2,24,000 and for 2023 ₹1,92,000.

Q. 6. *A*, *B* and *C* are partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. They decide to take *D* into partnership for 1/4th share on 1st April, 2022. For this purpose, goodwill is to be valued at 3 times the average annual profits of the previous four or five years whichever is higher. The agreed profits for goodwill purpose of the past five years are as follows:

	₹
Year ending on 31st March 2018	1,30,000
Year ending on 31st March 2019	1,20,000
Year ending on 31st March 2020	1,50,000
Year ending on 31st March 2021	1,10,000
Year ending on 31st March 2022	2,00,000

Calculate the value of Goodwill.

[**Ans.** Goodwill ₹4,35,000.]

Q. 7. *A*, *B* and *C* are partners sharing profits and losses equally. They agree to admit *D* for equal share. For this purpose goodwill is to be valued at 3 years' purchase of average profits of last 5 years which were as follows:

	₹
Year ending on 31st March 2018	60,000 (Profit)
Year ending on 31st March 2019	1,50,000 (Profit)
Year ending on 31st March 2020	20,000 (Loss)
Year ending on 31st March 2021	2,00,000 (Profit)
Year ending on 31st March 2022	1,85,000 (Profit)

On 1st October, 2021 a computer costing ₹40,000 was purchased and debited to office expenses account on which depreciation is to be charged @ 25% p.a. Calculate the value of goodwill.

[**Ans.** Goodwill ₹3,66,000.]

Hint: Adjusted profit of 2022 will be: ₹1,85,000 + ₹40,000 – Depreciation ₹5,000 = ₹2,20,000.

Q. 8. The profits earned by a firm during the last four years were as follows:

Year ended 31st March	*Profits* (₹)
2021	80,000
2022	1,00,000

2023	1,10,000
2024	1,50,000

Calculate the value of goodwill on the basis of three years' purch... weighted average profits. Weights to be used are 1, 2, 3 and 4 respe... to the profits for 2021, 2022, 2023 and 2024.

[Ans. Goodwill ₹3,63,000.]

Q. 9. Following information is available about the business of a firm:

(i) Profits : In 2022, ₹40,000; In 2023, ₹50,000; In 2024, ₹6... (ii) Non-recurring income of ₹1,000 is included in the profits of ... (iii) Profits of 2022 have been reduced by ₹6,000 because goods... destroyed by fire, (iv) Goods have not been insured but it is thou... insure them in future. The insurance premium is estimated at ₹400 pe... (v) Reasonable remuneration of the proprietor of business is ₹6,000 pe... but it has not been taken into account for calculation of above me... profits, (vi) Profits of 2024 include ₹5,000 income on investment.

Goodwill is agreed to be valued at two years' purchase of the we... average profits of the past three years. The appropriate weights to b... are: 2022 — 1; 2023 — 2; 2024 — 3.

[Ans. Value of Goodwill ₹90,200.]

Q. 10. Calculate the value of goodwill on the basis of three years' purchase ... weighted average profits of the last five years. Profits to be weighted ... 3, 4 and 5, the greatest weightage to be given to last year. Profits of the five years were:

Year ended		(₹)	
31st March, 2019	Profit	80,000	
31st March, 2020	Profit	1,05,000	(after considering abnormal ... of ₹41,500)
31st March, 2021	Loss	20,000	(after considering abnormal ... of ₹40,000)
31st March, 2022	Profit	1,80,000	
31st March, 2023	Profit	2,00,000	

Books of Accounts of the firm revealed that:

(i) Closing Stock as on 31st March, 2019 was overvalued by ₹...

(ii) Repairs to Machinery ₹60,000 were wrongly debited to Ma... Account on 1st July, 2021. Depreciation was charged on Ma... @ 20% p.a. on diminishing balance method.

[Ans. Value of Goodwill ₹3,60,000.]

Hint: Weighted Profit for the year ended 31st March 2022 — ₹5,16,000 and ... ₹10,51,000.

Super Profit Method

Q. 11. A firm earned profits of ₹80,000, ₹1,00,000, ₹1,20,000 and ₹1,80,00... 2010–11, 2011–12, 2012–13 and 2013–14 respectively. The firm has...

investment of ₹5,00,000. A fair rate of return on investment is 15% p.a. Calculate goodwill of the firm based on three years' purchase of average super profits of last four years. *(C.B.S.E. Sample Question Paper, 2015)*

[**Ans.** Goodwill ₹1,35,000.]

Q. 12. Capital invested in a firm is ₹3,00,000. Normal rate of return is 10%. Average profits of the firm are ₹41,000 (after an abnormal loss of ₹2,000). Calculate goodwill at five times the super profits.

[**Ans.** Goodwill ₹65,000.]

Q. 13. The capital of the firm of Rajat and Karan is ₹15,00,000 and the market rate of interest is 12%. Annual salary or Rajat and Karan is ₹20,000 and ₹30,000 respectively. The profits for the last three years were ₹2,40,000, ₹2,80,000 and ₹3,20,000.

Goodwill of the firm is to be valued on the basis of two years purchase of last three years' average super profits. Calculate the goodwill of the firm.

(C.B.S.E. 2025, Delhi)

[**Ans.** Goodwill ₹1,00,000.]

Q. 14. Find out the capital employed from the following information:

Normal rate of return:		12%
Profits :	2021–22	₹ 80,000
	2022–23	₹ 1,30,000
	2023–24	₹ 1,56,000
Goodwill valued at 3 years purchase of Super Profits		₹ 1,50,000

[**Ans.** Capital Employed ₹6,00,000.]

Q. 15. Value of Goodwill of a firm at 3 years' purchase of Super Profits is ₹3,75,000. Average Capital Employed in the firm is ₹15,00,000. Profits of the last 3 years are :

2022-23	₹1,00,000	(Loss)
2023-24	₹5,35,000	Profit
2024-25	₹4,80,000	Profit

Find out the Normal Rate of Return.

[**Ans.** Normal Rate of Return 12%.]

Q. 16. *A* and *B* are partners. They admit *C* for $\frac{1}{4}$th share in profits. For this purpose goodwill is to be valued at three years' purchase of super profits. Following information is provided to you:

	₹
A's Capital	5,00,000
B's Capital	4,00,000
General Reserve	1,50,000
Profit & Loss A/c (Cr.)	30,000
Sundry Assets	12,00,000

The normal rate of return is 15% p.a. Average Profits are ₹2,00,000 per year. You are required to calculate *C*'s share of goodwill.

[**Ans.** *C*'s share of goodwill ₹28,500.]

Hint: Sundry Assets will be ignored.

Q. 17. On April 1st 2024, an existing firm had assets of ₹5,00,000 including cash of ₹20,000. The firm had a General Reserve of ₹90,000, Partners' Capital Accounts showed a balance of ₹3,80,000 and creditors amounted to ₹30,000. If the normal rate of return is 20% and the goodwill of the firm is valued at ₹64,000 at 4 years' purchase of super profit, find the average profits of the firm.

[**Ans.** ₹1,10,000.]

Q. 18. Following balances appeared in the books of a partnership firm:

	Capital Accounts	*Current Accounts*
	₹	₹
Monica	5,50,000	30,000
Nusrat	6,40,000	20,000 (Dr.)

Profit & Loss A/c (Debit) balance existed at ₹3,00,000. The normal rate of return for similar business is 10%.

If the goodwill of the firm is ₹60,000 at 4 years' purchase of super profit, find the *average profits* of the firm.

[**Ans.** Average Profits ₹1,05,000]

Capitalisation Method

Q. 19. The average profits of a firm is ₹48,000. The total assets of the firm are ₹8,00,000. Value of outside liabilities is ₹5,00,000. Average rate of return in the same business is 12%.

Calculate goodwill from capitalisation of average profits method.

[**Ans.** ₹1,00,000.]

Hint: Capital Employed = Assets – Outside Liabilities.

Q. 20. A firm's average net profits of last four years were ₹2,50,000. It includes an abnormal gain of ₹19,000 each year. The firm had assets of ₹15,50,000 including cash of ₹20,000, Debtors ₹2,35,000 and Stock ₹1,15,000. Its creditors were 3,00,000 and outstanding expenses ₹50,000. The value of the goodwill as per the capitalization of average profit method was valued at ₹4,50,000. Find out the Normal Rate of Return.

[**Ans.** Normal Rate of Return is 14%.]

Q. 21. Raju and Rinku were partners sharing profits and losses in the ratio 3 : 2. They admitted Sumit as a new partner for 1/3 share. On the date of admission Capitals of Raju and Rinku were ₹5,50,000 and ₹6,50,000 respectively, also, General Reserve of ₹3,00,000 and Profit and Loss (Dr.) balance of ₹1,00,000 were appearing in the books of accounts.

Firm made an average profits of ₹2,40,000 during the last few years and the normal rate of earning was expected to be 12%.

Calculate the Goodwill of the firm by Capitalisation Method.

(C.B.S.E. Practice Question Papers, 2024)

[**Ans.** ₹6,00,000]

Q. 22. Dipu and Raju were partners in a firm. Following balances were appearing in the books of the firms:

Particulars	₹
Dipu's Capital A/c	3,80,000
Raju's Capital A/c	2,90,000
Dipu's Current A/c (Dr.)	20,000
Raju's Current A/c	50,000
Profit & Loss A/c (Dr.)	10,000
Deferred Revenue Expenditure	15,000

Profits for last three years ended 31st March, were:

2024 ₹95,000 (including gain of ₹5,000 from sale of Machinery)

2025 ₹72,000 (including loss of a vehicle destroyed by an accident on 31st March, 2025, ₹24,000)

2026 ₹1,20,000 (includes overvaluation of stock by ₹12,000)

Calculate Goodwill of the firm by *Capitalisation of Super Profit Method;* if normal rate of return in the similar business is 8% p.a.

[**Ans.** Capital Employed ₹6,75,000; Average Profit ₹98,000; Super Profit ₹44,000; Goodwill ₹5,50,000.]

Q. 23. Jay and Vijay were partners sharing profits and losses equally. They decided to share future profits in the ratio of 3 : 2 w.e.f. 1st April, 2026.

From the following Balance Sheet as at 31st March, 2026, calculate the value of goodwill on the basis of Capitalisation of Super Profit Method if the normal rate of return is 10% and average profit is ₹1,80,000.

Liabilities		₹	*Assets*	₹
Capital Accounts:			Goodwill	2,30,000
Jay	8,15,000		Computers	3,40,000
Vijay	6,55,000	14,70,000	Furniture	2,00,000
Profit & Loss A/c		1,40,000	Investments (Non-trade)	1,65,000
Sundry Creditors		3,80,000	Stock	4,70,000
Outstanding Rent		1,10,000	Sundry Debtors	6,37,000
			Cash at Bank	23,000
			Advertisement Suspense	35,000
		21,00,000		21,00,000

[**Ans.** Capital Employed ₹11,80,000; Goodwill ₹6,20,000.]

[**Ans.** Case (*i*) Cr. *A*'s Capital A/c by ₹16,000 and *B*'s Capital A/c by ₹24,...
Case (*ii*) Cr. *A*'s Capital A/c by ₹6,000 and *B*'s Capital A/c by ₹9,00...
Case (*iii*) Entire amount of Workmen Compensation Reserve will be c...
to Provision for Workmen Compensation A/c
Case (*iv*) Loss on Revaluation ₹10,000; Debit *A*'s Capital A/c by ₹4,00... *B*'s Capital A/c by ₹6,000.]

Q. 32. *P, Q* and *R* were partners in a firm sharing profits in the ratio of ... On 31st March, 2018, their balance sheet showed a debit balance of ₹... in the profit and loss account and a Workmen Compensation Reserve ₹64,000. From 1st April, 2018 they decided to share profits in the ratio 2 : 2 : 1. For this purpose it was agreed that:

(*a*) Goodwill of the firm was valued at ₹4,00,000.

(*b*) A claim on account of workmen compensation of ₹30,000 was admitted.

Pass necessary journal entries on reconstitution of the firm.

(*C.B.S.E. 2019, M...*)

[**Ans.** Adjustment for Goodwill : Debit *P* and *Q* by ₹60,000 each and credit *R* ₹1,20,000. Excess Workmen Compensation Reserve ₹34,000 Credited ... partners' capital accounts in old ratio.]

Q. 33. *A, B* and *C* sharing profits and losses in the ratio of 4 : 3 : 2, decide... share profits and losses in the ratio of 2 : 3 : 4 with effect from 1st Apr... 2024. Following is an extract of their Balance Sheet as at 31st Marc... 2024:

Liabilities	₹	*Assets*	₹
Investment Fluctuation Reserve	54,000	Investments (At Cost)	6,00,000

Show the accounting treatment under the following alternative cases:

Case (*i*) If there is no other information.

Case (*ii*) If the market value of Investments is ₹6,00,000.

Case (*iii*) If the market value of Investments is ₹5,91,000.

Case (*iv*) If the market value of Investments is ₹5,28,000.

Case (*v*) If the market value of Investments is ₹6,60,000.

Ans. Case (*i*) and (*ii*) Credit *A*'s Capital A/c by ₹24,000; *B*'s Capital A/c by ₹18,000 and *C*'s Capital A/c by ₹12,000.

Case (*iii*) Credit *A*'s Capital A/c by ₹20,000; *B*'s Capital A/c by ₹15,000 and *C*'s Capital A/c by ₹10,000.

Case (*iv*) Loss on Revaluation ₹18,000.
Debit *A*'s Capital A/c by ₹8,000; *B*'s Capital A/c by ₹6,000 and *C*'s Capital A/c by ₹4,000.

Case (*v*) Entire amount of Investment Fluctuation Reserve credited to Parnters' Capital Accounts in 4 : 3 : 2 and profit on revaluation ₹60,000 also credited to Partners' Capital Accounts in 4 : 3 : 2.]

Q. 34. Samiksha, Ash and Divya were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. With effect from 1st April, 2019, they agreed to share future profits and losses in the ratio of 2 : 5 : 3. Their Balance Sheet showed a debit balance of ₹50,000 in the Profit and Loss Account and a balance of ₹40,000 in the Investment Fluctuation Reserve. For this purpose, it was agreed that:

(*i*) Goodwill of the firm be valued at ₹3,00,000.

(*ii*) Investments of book value of ₹5,00,000 be valued at ₹4,80,000.

Pass the necessary journal entries to record the above transactions in the books of the firm. *(C.B.S.E. 2020, Lucknow, Kolkata)*

[**Ans.** Excess Investment Fluctuation Reserve ₹20,000 credited to Partners' Capital Accounts in old ratio. Adjustment for Goodwill : Debit Ash by ₹60,000 and Divya by ₹30,000 and Credit Samiksha by ₹90,000.]

Q. 35. *P*, *Q* and *R* are partners in a firm sharing profits in the ratio of 2 : 2 : 1. On March 31, 2024, their Balance Sheet showed a general reserve of ₹3,00,000. On that date they decided to share future profits equally. Record the necessary journal entry in the books of the firm under the following circumstances:

(*i*) When they want to *transfer* the general reserve in their capital accounts.

(*ii*) When they *don't want to transfer* general reserve in their capital accounts and prefer to record an adjustment entry for the same.

[**Ans.** (*i*) General Reserve will be credited to Partner's Capital Accounts in old ratio.

(*ii*) Debit *R* by ₹40,000 and Credit *P* and *Q* by ₹20,000 each.]

Q. 36. Mahi and Neena are partners sharing profits and losses equally. From 1st April, 2026, they decided to share profits and losses in the ratio of 2 : 3. The firm's Balance Sheet shows *debit* balance of Profit and Loss Account of ₹40,000.

Partners decided to continue with the above balance in the books of the reconstituted firm.

Pass necessary adjustment entry.

[**Ans.** Debit Mahi and Credit Neena by ₹4,000.]

Hint: In this question, debit balance of Profit & Loss Account i.e., **loss** is to be adjusted. Hence, **sacrificing Partner** (Mahi) will be **debited** and **Gaining Partner** (Neena) will be **credited.**

Q. 37. *X*, *Y* and *Z* were sharing profits and losses in the ratio of 5 : 3 : 2. They decided to share future profits and losses in the ratio of 2 : 3 : 5 with effect from 1.4.2022. They decided to record the effect of the following, without effecting their book values:

(*i*) General Reserve ₹24,000

(*ii*) Profit and Loss Account (Dr.) ₹12,000

Pass the necessary adjusting entry.

[Ans. Debit Z by ₹3,600 and Credit X by ₹3,600.]

Q. 38. Rambha and Urvashi were partners in a firm sharing profits and losses in the ratio of 13 : 12. From 1st April, 2024, they decided to share future profits and losses in the ratio of 12 : 13.

On this date, their balance sheet showed a debit balance of ₹2,50,000 in Advertising Suspense Account and a balance of ₹5,00,000 in Contingency Reserve.

Partners decided to *write off* the balance of the Advertising Suspense Account but decided *not to distribute* Contigency Reserve.

Pass necessary journal entries for the above transactions on the reconstitution of the firm. Show your working clearly.

(CBSE 2025, U.P., Rajasthan)

[**Ans.** (*i*) Advertising Suspense A/c will be debited to Partners' Capital Accounts in old ratio;

(*ii*) For Contingency Reserve, adjustment entry passed will be:

Urvashi's Capital A/c	Dr.	20,000	
To Rambha's Capital A/c			
(In sacrificing gaining ratio)			20,000]

Q. 39. Tanvi, Rani and Divya are sharing profits and losses in an agreed ratio. They decide to share profits and losses in the ratio of 5 : 2 : 3 with effect from 1st April, 2026. They also decide to record the effect of the following *without affecting their book values* by passing a *single* adjustment journal entry:

(*a*) General Reserve	₹ 2,30,000
(*b*) Profit & Loss A/c (Cr.)	₹ 1,20,000
(*c*) Advertisement Suspense A/c	₹ 50,000

JOURNAL

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2026 April 1	Tanvi's Capital A/c Dr. To Divya's Capital A/c (Adjustment made for General Reserve, Profit & Loss A/c and Advertisement Suspense A/c due to change in profit sharing ratio)		60,000	60,000

Calculate each partner's *gain or sacrifice* due to change in profit sharing ratio and their *old profit sharing ratio.*

[**Ans.** Gain by Tanvi $\frac{1}{5}$; Sacrifice by Tanvi $\frac{1}{5}$; Old Profit Sharing Ratio of Tanvi, Ravi and Divya 3 : 2 : 5.]

Hint: *Old Profit Share = New Profit Share + Sacrificed Share* **or** *– Gained Share*

Q. 40. **(A)** *A*, *B*, *C* and *D* are partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1 : 1. They decided to share future profits and losses in the ratio of 3 : 2 : 2 : 3. For this purpose goodwill of the firm valued at ₹1,50,000. There was also a reserve of ₹60,000 in the books of the firm. Find out sacrifice ratio and gaining ratio and pass necessary journal entry assuming that reserve is not to be distributed.

[**Ans.** Debit *C* by ₹7,000 and *D* by ₹28,000; Credit *A* by ₹7,000 and *B* by ₹28,000.]

Q. 40. (B) Arun and Varun were in partnership sharing profits in the ratio of 2 : 3. With effect from 1st May 2025 they agreed to share profits in the ratio of 1 : 2. For this purpose the goodwill of the firm is to be valued at two years' purchase of the average profits of last three years, which were ₹1,50,000, ₹1,40,000 and ₹2,20,000 respectively. Reserves appear in the books at ₹1,10,000. Partners do not want to distribute the reserves. You are required to give effect to the change by passing a single journal entry.

[**Ans.** Debit Varun and Credit Arun by ₹30,000.]

Accounting for Revaluation of Assets and Liabilities when there is Change in the Profit Sharing Ratio of Existing Partners

Q. 41. *A*, *B* and *C* are partners in a firm sharing profits in the ratio of 3 : 2 : 1. Their Balance Sheet as at 31st March, 2026 is as under:

Liabilities		₹	*Assets*	₹
Sundry Creditors		2,00,000	Premises	3,00,000
General Reserve		1,20,000	Machinery	1,80,000
Capitals:			Stock	1,20,000
A	3,00,000		Debtors	2,50,000
B	1,50,000		Bank	20,000
C	1,00,000	5,50,000		
		8,70,000		8,70,000

From 1st April, 2026, the partners agreed to share future profits in the ratio of 4 : 3 : 3 and make the following adjustments:

(*i*) Premises will be appreciated by 10% and stock by ₹10,000.

(*ii*) A provision for doubtful debts is to be made on debtors @ 4%.

(*iii*) Sundry Creditors be reduced by ₹15,000.

(*iv*) Machinery will be depreciated by 5%.

(*v*) Goodwill of the firm is valued at ₹48,000.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the reconstituted firm.

[**Ans.** Profit on Revaluation ₹36,000; Balance of Capital Accounts : *A* ₹3,82,800, *B* ₹2,03,600 and *C* ₹1,19,600; Balance Sheet Total ₹8,91,000.]

Hint: *A* Sacrifices $\frac{3}{30}$, *B* Sacrifices $\frac{1}{30}$ and *C* gains $\frac{4}{30}$ th share.

Q. 42. *P*, *Q* and *R* were partners sharing profits in the ratio of 1 : 3 : 2. Following was their Balance Sheet as at 31st March, 2026:

Liabilities		₹	*Assets*	₹
Sundry Creditors		2,80,000	Land and Building	5,00,000
Outstanding Expenses		15,000	Investments	
Workmen Compensation Reserve		60,000	(Market Value ₹1,10,000)	1,25,000
Investment Fluctuation Reserve		45,000	Stock	2,20,000
Capital Accounts:			Sundry Debtors	3,20,000
P	2,00,000		Bank Balance	1,60,000
Q	5,00,000		Advertisement Suspense	75,000
R	3,00,000	10,00,000		
		14,00,000		14,00,000

On 1st April, 2026 they decided to share future profits in the ratio of 4 : 6 : 5. It was agreed that:

(*i*) Claim for Workmen Compensation has been estimated at ₹1,00,000.

(*ii*) A motor cycle valued at ₹30,000 was unrecorded and is now to be recorded in the books.

(*iii*) Outstanding expenses were not payable anymore.

(*iv*) Value of stock be increased to ₹2,90,000.

(*v*) A provision for doubtful debts be created @ 5% on Sundry Debtors.

(*vi*) Goodwill is valued at ₹1,00,000.

(*vii*) The work of reconstitution was assigned to firm's auditors. They were paid ₹20,000 for this work.

Pass journal entries and prepare Revaluation Account.

[**Ans.** Gain on Revaluation ₹39,000.]

Q. 43. *A*, *B* and *C* are partners sharing profits and losses in the ratio of 2 : 2 : 1. From 1st April, 2023 they decided to share future profits and losses equally. Following balances appeared in their books:

	₹
Profit and Loss A/c (Cr.)	20,000
Advertisement Suspense A/c (Dr.)	15,000
Workmen Compensation Reserve	60,000

It was agreed that:

(*i*) Goodwill should be valued at two years' purchase of super profits. Firm's average profits are ₹75,000. Capital invested in the business is ₹6,00,000 and normal rate of return is 10%.

(*ii*) Furniture (book value of ₹50,000) be reduced to ₹30,000.

(*iii*) Computers (book value of ₹40,000) be reduced by ₹10,000.

(*iv*) Claim on account of Workmen's Compensation amounted to ₹50,000.

(*v*) Investments (book value of ₹30,000) were revalued at ₹25,000.

Pass necessary journal entries for the above.

[Ans. Adjustment for Goodwill: Dr. *C* by ₹4,000 and Cr. *A* and *B* by ₹2,000 each, Revaluation Loss ₹35,000.]

Q. 44. Asha, Rina and Chahat were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet as at 31st March, 2019 was as follows:

BALANCE SHEET OF ASHA, RINA AND CHAHAT as at 31st March, 2019

Liabilities		₹	*Assets*		₹
Creditors		12,00,000	Plant and Machinery		14,80,000
General Reserve		2,00,000	Stock		2,20,000
Capitals:			Sundry Debtors	2,60,000	
Asha	3,00,000		*Less:* Provision for		
Rina	2,00,000		doubtful debts	20,000	2,40,000
Chahat	1,00,000	6,00,000	Bank		60,000
		20,00,000			20,00,000

Asha, Rina and Chahat decided to share future profits equally with effect from 1st April, 2019. For this, it was agreed that:

(*i*) Goodwill of the firm be valued at ₹1,50,000.

(*ii*) Bad debts amounted to ₹40,000. A provision for doubtful debts was to be made @ 5% on debtors.

Pass the necessary journal entries to record the above transactions in the books of the firm. *(C.B.S.E. 2020, Rajasthan)*

[Ans. Loss on Revaluation ₹31,000; Adjustment for Goodwill : Dr. Chahat by ₹20,000 and Cr. Asha and Rina by ₹10,000 each.]

Q. 45. *X* and *Y* are partners sharing profits and losses in the ratio of 4 : 3. Their Balance Sheet as at 31st March, 2026 stood as follows:

Liabilities		₹	*Assets*	₹
Sundry Creditors		28,000	Cash	20,000
Reserve		42,000	Sundry Debtors	1,20,000
Capital Accounts:			Stock	1,40,000
X	2,40,000		Fixed Assets	1,50,000
Y	1,20,000	3,60,000		
		4,30,000		4,30,000

They decided that with effect from 1st April, 2026, they will share profits and losses in the ratio of 2 : 1. For this purpose they decided that:

(*i*) Fixed assets are to be depreciated by 10%.

(*ii*) A provision of 6% be made on debtors for doubtful debts.

(*iii*) Stock be valued at ₹1,90,000.

(*iv*) An amount of ₹3,700 included in creditors is not likely to be claimed.

Partners decided to record the revised values in the books. However, they do not want to disturb the reserves. You are required to prepare journal entries, capital accounts of the partners and the revised balance sheet.

[Ans. Profit on Revaluation ₹31,500; Adjustment for Reserve : Dr. *X* by ₹4,000 and Cr. *Y* by ₹4,000; Capitals *X* ₹2,54,000 and *Y* ₹1,37,500; Balance Sheet Total ₹4,57,800.]

Q. 46. *P*, *Q* and *R* are in partnership sharing profits and losses in the ratio 5 : 4 : 3. On 31st March 2026, their balance sheet was as follows:

Liabilities		₹	*Assets*	₹
Sundry Creditors		50,000	Cash at Bank	40,000
Outstanding Expenses		5,000	Sundry Debtors	2,10,000
General Reserve		75,000	Stock	3,00,000
Capital Accounts:			Furniture	60,000
P	4,00,000		Plant and Machinery	4,20,000
Q	3,00,000			
R	2,00,000	9,00,000		
		10,30,000		10,30,000

It was decided that with effect from 1st April 2026, the profit sharing ratio will be 4 : 3 : 2. For this purpose the following revaluation were made:

(*i*) Furniture be taken at 80% of its value.

(*ii*) Stock be appreciated by 20%.

(*iii*) Plant and Machinery be valued at ₹4,00,000.

(*iv*) Create provision for doubtful debts for ₹10,000 on debtors.

(*v*) Outstanding expenses be increased by ₹3,000.

Partners agreed that altered values are not to be recorded in the books and they also do not want to distribute the general reserve.

You are required to post a single journal entry to give effect to the above. Also prepare the revised Balance Sheet.

[**Ans.** Profit on Revaluation ₹15,000. Adjustment for Revaluation and General Reserve : Debit *P* by ₹2,500 and Credit *R* by ₹2,500. Balance Sheet Total ₹10,30,000.]

Q. 47. *L*, *M* and *N* are partners sharing profits and losses in equal proportion. On 31st March 2026, their balance sheet was as follows:

Liabilities		₹	Assets		₹
Creditors		58,000	Cash		8,000
Reserve and Surplus		42,000	Debtors	75,000	
Capital Accounts:			*Less:* Provision for Doubtful Debts	3,000	72,000
L	2,00,000				1,80,000
M	1,00,000		Stock		2,20,000
N	80,000	3,80,000	Fixed Assets		
		4,80,000			4,80,000

The partners decided that with effect from 1st April 2026, they will share profits and losses in the ratio of 4 : 2 : 1. For this purpose goodwill is to be valued at 2 years' purchase of the average profits of the last three years, which were:

	₹
Year ending 31st March 2023	20,000 (Loss)
Year ending 31st March 2024	48,000 (Profit)
Year ending 31st March 2025	60,000 (Profit)
Year ending 31st March 2026	80,000 (Profit)

They further agreed that:

(*i*) Provision for doubtful debts be increased by ₹2,000.

(*ii*) Stock be appreciated by 20% and fixed assets be depreciated by 10%.

(*iii*) Creditors be taken at ₹49,000.

Partners *do not desire* to record the revised values of assets and liabilities in the books. They also desire *to leave* the reserve and surplus *undisturbed.*

You are required to give effect to the change in profit sharing ratio by passing a *single* journal entry. Also prepare the revised balance sheet.

[**Ans.** Value of Goodwill ₹84,000; Profit on Revaluation ₹21,000; Adjustment entry : Debit *L* by ₹35,000 and Credit *M* and *N* by ₹7,000 and ₹28,000 respectively. Total of Balance Sheet ₹4,80,000.]

Q. 48. Amit, Archit and Akshat are partners in a firm in the ratio of 3 : 2 : 1. On 1st April, 2026 they decided to share the profits in future in the ratio of 7 : 5 : 4. On this date General Reserve is ₹38,000 and profit on revaluation of assets and liabilities being ₹34,000. It was decided that adjustment should be made without altering the figures in the Balance Sheet. Make adjustment by one single journal entry.

[**Ans.** Akshat's Capital A/c	Dr.	6,000	
To Amit's Capital A/c			4,500
To Archit's Capital A/c			1,500]

ADDITIONAL QUESTIONS

Valuation of Goodwill

Q. 49. The average profit earned by a firm is ₹75,000 which includes undervaluation of stock of ₹5,000 on an average basis. The capital invested in the business is ₹7,00,000 and the normal rate of return is 7%. Calculate goodwill of the firm on the basis of 5 times the super profit.

[**Ans.** Adjusted Profit ₹80,000; Goodwill ₹1,55,000.]

Q. 50. A firm earns a profit of ₹37,000 per year. In the same business a 10% return is generally expected. The total assets of the firm are ₹4,00,000. The value of outside liabilities is ₹90,000. Find out the value of goodwill.

[**Ans.** Goodwill ₹60,000.]

Q. 51. Rishi and Suman were partners in a firm. Their capitals were : Rishi ₹1,20,000 and Suman ₹80,000. The normal rate of return in similar business is 12%.

The profits of the last four years were:

Year		₹
2019-20	—	33,000
2020-21	—	31,000
2021-22	—	25,000
2022-23	—	34,000

Calculate goodwill of the firm based on :

(*i*) Three years' purchase of the last three years' average profits.

(*ii*) Capitalisation of last 3 years' super profit.

(C.B.S.E. 2024, M

[**Ans.** Goodwill (*i*) ₹90,000 (*ii*) 50,000]

Hint: Average Profit of last 3 years is ₹30,000.

Q. 52. An existing firm had assets of ₹4,00,000 including cash of ₹15,000. creditors amounted to ₹20,000 on that date. The partner's capital accou showed a balance of ₹3,00,000 and reserves amounted to ₹80,000. If normal rate of return is 10% and the goodwill of the firm is valued ₹75,000 at 3 years' purchase of super profits, find the average profits the firm.

[**Ans.** ₹63,000.]

Q. 53. Yash and Karan were partners in an interior designer firm. Their fixed capi were ₹6,00,000 and ₹4,00,000 respectively. There were credit balances their current accounts of ₹4,00,000 and ₹5,00,000 respectively. The fi had a balance of ₹1,00,000 in General Reserve. The firm did not have liability. They admitted Radhika into partnership for 1/4th share in profits of the firm. The average profits of the firm for the last five years w ₹5,00,000. Calculate the value of goodwill of the firm by capitalization average profits method. The normal rate of return in the business is 10

(C.B.S.E. 2020, Lucknow, Kol

[**Ans.** Goodwill ₹30,00,000.]

Q. 54. A partnership firm earned net profits during the last three years as follo

Years	Net Profits ₹
2023–24	1,90,000
2024–25	2,20,000
2025–26	2,50,000

The capital employed in the firm throughout the above mentioned period been ₹4,00,000. Having regard to the risk involved, 15% is considered be a fair return on the capital. The remuneration of all the partners dur this period is estimated to be ₹1,00,000 per annum.

Calculate the value of goodwill on the basis of (*i*) two year's purchase super profits earned on average basis during the above mentioned three y and (*ii*) by capitalisation of average profits method.

[Ans. (*i*) As per Super Profits ₹1,20,000.
(*ii*) As per Capitalisation of Average Profits ₹4,00,000.]

Q. 55. Average profit of the firm is ₹3,00,000. Total assets of the firm are ₹24,00,000 whereas Partners' Capital is ₹20,00,000. If normal rate of return in a similar business is 12% of the capital employed, what is the value of goodwill by Capitalisation of Super Profit?

[Ans. Value of Goodwill ₹5,00,000.]

Q. 56. The following information relates to a partnership firm:

(*a*) Sundry Assets of the firm ₹6,80,000. Outside Liabilities ₹60,000.

(*b*) Profits and losses for the past years : Profit 2021 ₹50,000; Loss 2022 ₹10,000; Profit 2023 ₹1,64,000 and Profit 2024 ₹1,80,000.

(*c*) The normal rate of return in a similar type of business is 12%.

Calculate the value of goodwill on the basis of:

(*i*) Three years' purchase of average profits.

(*ii*) Three years' purchase of super profits.

(*iii*) Capitalisation of average profits, and

(*iv*) Capitalisation of super profits.

[Ans. (*i*) ₹2,88,000; (*ii*) ₹64,800; (*iii*) ₹1,80,000 and (*iv*) ₹1,80,000.]

Accounting Treatment of Goodwill

Q. 57. *X, Y* and *Z* are partners sharing profits in the ratio of 5 : 4 : 1. It is now agreed that they will share future profits in the ratio of 3 : 3 : 4. Goodwill is valued at ₹1,00,000. You are required to pass a single journal entry for the treatment of goodwill.

[Ans. Debit *Z* by ₹30,000 and Credit *X* and *Y* by ₹20,000 and ₹10,000 respectively.]

Q. 58. Charu and Dinesh have been sharing profits in the ratio of 3 : 1. The net profits for the past four years have been ₹60,000; ₹50,000; ₹90,000 and ₹1,20,000 respectively. It is now agreed that in future Dinesh is to have 2/5th share in profits and for that purpose goodwill is to be valued on the basis of $2\frac{1}{2}$ years' purchase of average profits of the past four years. Give journal entry for the treatment of goodwill.

[Ans. Debit Dinesh by ₹30,000 and Credit Charu by ₹30,000.]

Q. 59. *P, Q* and *R* are partners sharing profits and losses in the ratio of 5 : 3 : 2. From 1st April, 2024, they decide to share profits and losses in equal proportions. The partnership deed provides that in the event of any change in profit sharing ratio, the goodwill should be valued at three years' purchase of the average of five years' profits. The profits and losses of the preceding five years ending 31st March are:

Profits: 2020 : ₹60,000, 2021 : ₹1,50,000, 2022 : ₹1,70,000, 2023 : ₹1,90,000.

Journalise the transaction along with the working notes.

(C.B.S.E. Sample Question Paper 2023)

[**Ans.** Value of Goodwill ₹1,60,000; Debit Nobita's Capital A/c by ₹26,667 and Credit Doremon's Capital A/c by ₹26,667.]

Note: Since Annual Insurance premium of ₹20,000 charged to Profit & Loss Account is a normal business expenses, no treatment is needed for this.

LATEST C.B.S.E. EXAMINATION QUESTIONS

Q. 1. Jeevan and Kavi were partners in a firm with capitals of ₹12,00,000 and ₹15,00,000 respectively. Annual salary of the partners was ₹2,00,000 each. The market rate of interest was 10%. During the previous three years the profits were ₹8,00,000, ₹9,00,000 and ₹7,00,000. The goodwill of the firm is to be valued at 2 years' pruchase of last 3 years' average super profits. Calculate the goodwill of the firm. *(C.B.S.E. 2025; Chennai, Haryana, Assam)*

[**Ans.** Value of Goodwill ₹2,60,000.]

Q. 2. Reeha, Meenu and Sara were partners in a partnership firm sharing profits and losses in the ratio of 2 : 2 : 1. With effect from 1st April, 2023, they agreed to share profits and losses equally. On that date, there was a General Reserve of ₹50,000 in the books of the firm. It was agreed that:

(*i*) Goodwill of the firm be valued at ₹3,00,000.

(*ii*) Profit on revaluation of assets and re-assessment of liabilities amounted to ₹30,000

Pass necessary journal entries for the above transactions in the books of the firm. *(C.B.S.E., 2024, Delhi, UP)*

Solution:

JOURNAL

Date	*Particulars*	*L.F.*	*Dr. ₹*	*Cr. ₹*
(*i*)	General Reserve A/c Dr.		50,000	
	To Reeha's Capital A/c			20,000
	To Menu's Capital A/c			20,000
	To Sara's Capital A/c			10,000
	(General Reserve distributed in old ratio)			
	Sara's Capital A/c $\left(3,00,000 \times \frac{2}{15}\right)$ Dr.		40,000	
	To Reeha's Capital A/c $\left(3,00,000 \times \frac{1}{15}\right)$			20,000
	To Menu's Capital A/c $\left(3,00,000 \times \frac{1}{15}\right)$			20,000
	(Goodwill adjusted in Sacrificing/Gaining ratio)			

Revaluation A/c Dr. To Reeha's Capital A/c To Menu's Capital A/c To Sara's Capital A/c (Profit on revaluation credited in old ratio)		30,000	 12,0 12,0 6,0

Q. 3. *A* and *B* were partners in a firm sharing profits equally. Their capitals we *A* ₹1,20,000 and *B* ₹80,000. The annual rate of interest is 20%. The pro of the firm for the last three years were ₹34,000; ₹38,000 and ₹30,0 They admitted *C* as a new partner. On *C*'s admission the goodwill of firm was valued at 2 years purchase of the super profits. Calculate the value of goodwill of the firm on C's admission.

(C.B.S.E. 2023; Rajasthan

Solution:

$$\text{Average Profit} = \frac{34{,}000 + 38{,}000 + 30{,}000}{3} = \frac{1{,}02{,}000}{3} = ₹34{,}000$$

Normal Profit = 20% of Capital Employed

= 20% of (1,20,000 + 80,000) = ₹40,000

Super Profit = Average Profit – Normal Profit

= ₹34,000 – ₹40,000 = (–) ₹6,000

Since there is no super profit, the firm does not have any goodwill.

Q. 4. Calculate goodwill of a firm on the basis of three years purchases of Weighted Average Profits of the last four years. The profits of the last years were:

Year (ending 31st March)	*2020*	*2021*	*2022*	*2023*
Amount (₹)	28,000	27,000	46,900	53,8

(*a*) On 1st April, 2020 a major plant repair was undertaken for ₹10, which was charged to revenue. The said sum is to be capitalized goodwill calculation subject to adjustment of depreciation of 10% on reducing balance method.

(*b*) For the purpose of calculating Goodwill, the company decided the years ending 31.03.2020 and 31.03.2021 be weighted as 1 (being COVID affected) and for year ending 31.03.2022 and 31.03. weights be taken as 2 and 3 respectively. *(C.B.S.E. Sample Paper*

Solution:

Adjusted Profits	*2020*	*2021*	*2022*	*2023*
	₹	₹	₹	₹
Given Profits	28,000	27,000	46,900	53,8
Add: Capital Expenditure charged to Revenue		10,000		
Less: Unprovided Depreciation		(1,000)	(900)	(
Adjusted Profits	28,000	36,000	46,000	53,

Year (ending 31st March)	*Adjusted Profit* ₹	*Weights*	*Product* ₹
2020	28,000	1	28,000
2021	36,000	1	36,000
2022	46,000	2	92,000
2023	53,000	3	1,59,000
Total		7	3,15,000

$$\text{Weighted Average Profit} = \frac{3,15,000}{7} = ₹45,000$$

$$\text{Goodwill} = 45,000 \times 3 = ₹1,35,000$$

Notes to Solution:

(*i*) Depreciation of 2021 = 10% of 10,000 = ₹1,000

(*ii*) Depreciation of 2022 = 10% of 9,000 = ₹900

(*iii*) Depreciation of 2023 = 10% of 8,100 = ₹810

Q. 5. On 1st April, 2023, a partnership firm has assets of ₹2,00,000 including cash ₹6,000 and bank balance of ₹14,000. The partner's capital accounts showed a balance of ₹1,90,000 and reserves constituted the rest. If the normal rate of return is 10% p.a. and the goodwill of the firm is valued at ₹60,000 at 4 years purchase of super profits, find the average profits of the firm.

(C.B.S.E. 2024, Mumbai, South India)

Solution:

Goodwill = Super Profits × No. of years' Purchase

60,000 = Super Profits × 4

$$\text{Super Profits} = \frac{60,000}{4} = ₹15,000$$

Since there is no liability,

Capital Employed = Assets *i.e.*, ₹2,00,000

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

$$= ₹2,00,000 \times \frac{10}{100} = ₹20,000$$

Hence, Average Profits = Super Profits + Normal Profits

= ₹15,000 + ₹20,000 = ₹35,000

QUESTIONS BASED ON INCOMPLETE INFORMATION

(Strictly as per Sample Paper Issued by CBSE)

PROBLEM 1.

A, *B* and *C* were partners sharing profits and losses in the ratio of 7 : 5 : 4. From 1st April, 2026, they decided to share profits and losses in the ratio of 3 : 2 : 1. You are required to fill up the following journal entry:

JOURNAL

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
2026 April 1	*A*'s Capital A/c	Dr.		—	
	B's Capital A/c	Dr.		—	
	To *C*'s Capital A/c				7,20
	(Adjustment for goodwill due to change in profit sharing ratio)				

PROBLEM 2.

A, *B* and *C* are partners sharing profit and loss in the ratio of 2 : 5 : 5. From 1 January, 2026, they decided to share profit and loss in the ratio of 3 : 5 : 7. You are required to fill up the following journal entry:

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
2026 Jan. 1	*A*'s Capital A/c				
	C's Capital A/c	Dr.		—	
	To *B*'s Capital A/c	Dr.		90,000	
	(Adjustment for goodwill due to change in profit sharing ratio)				—

SOLUTION TO PROBLEM 1:

Old Ratio of *A*, *B* and *C* = 7 : 5 : 4

New Ratio of *A*, *B* and *C* = 3 : 2 : 1

Sacrifice or Gain =

$$A = \frac{7}{16} - \frac{3}{6} = \frac{21-24}{48} = \frac{3}{48} \text{ (Gain)}$$

$$B = \frac{5}{16} - \frac{2}{6} = \frac{15-16}{48} = \frac{1}{48} \text{ (Gain)}$$

$$C = \frac{4}{16} - \frac{1}{6} = \frac{12-8}{48} = \frac{4}{48} \text{ (Sacrifice)}$$

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
2026 April 1	*A*'s Capital A/c	Dr.		5,400	
	B's Capital A/c	Dr.		1,800	
	To *C*'s Capital A/c				7,20
	(Adjustment for goodwill due to change in profit sharing ratio)				

Working Note:

C's Capital A/c is credited with ₹7,200 and he has sacrificed $\frac{4}{48}$ share.