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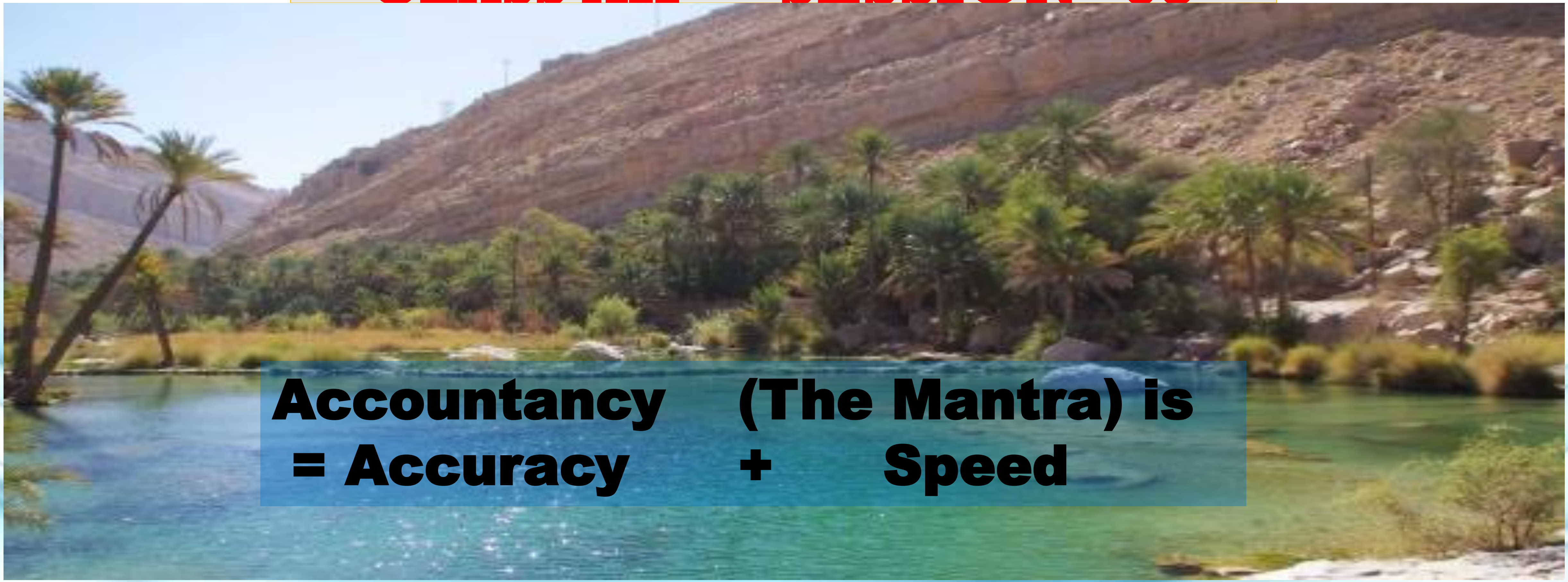
WEBINAR ON ACCOUNTANCY

CLASS XII- SESSION -65



Unit 3. Accounting for Companies – SESSION- 07

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Some Points to Remember……

- We are learning together, therefore give space for EACH other.
- Please always keep your MIC and WEBCAM in MUTE mode.
- Please take down notes. USE CHAT Box EFFECTIVELY ……..
- Don't post any non-academic matter in the chat box. Stringent action will be initiated.
- PARTICIPATE AS AND WHEN REQUESTED –

  Don't BE AFRAID of WRONG ANSWER.
- It is Important to clarify your Doubt INSTANTLY ..

  REMEMBER LEARNING Starts …. WHEN YOU TRY …
- Some times, Technology fails, don't panic, hold on - We will be back.

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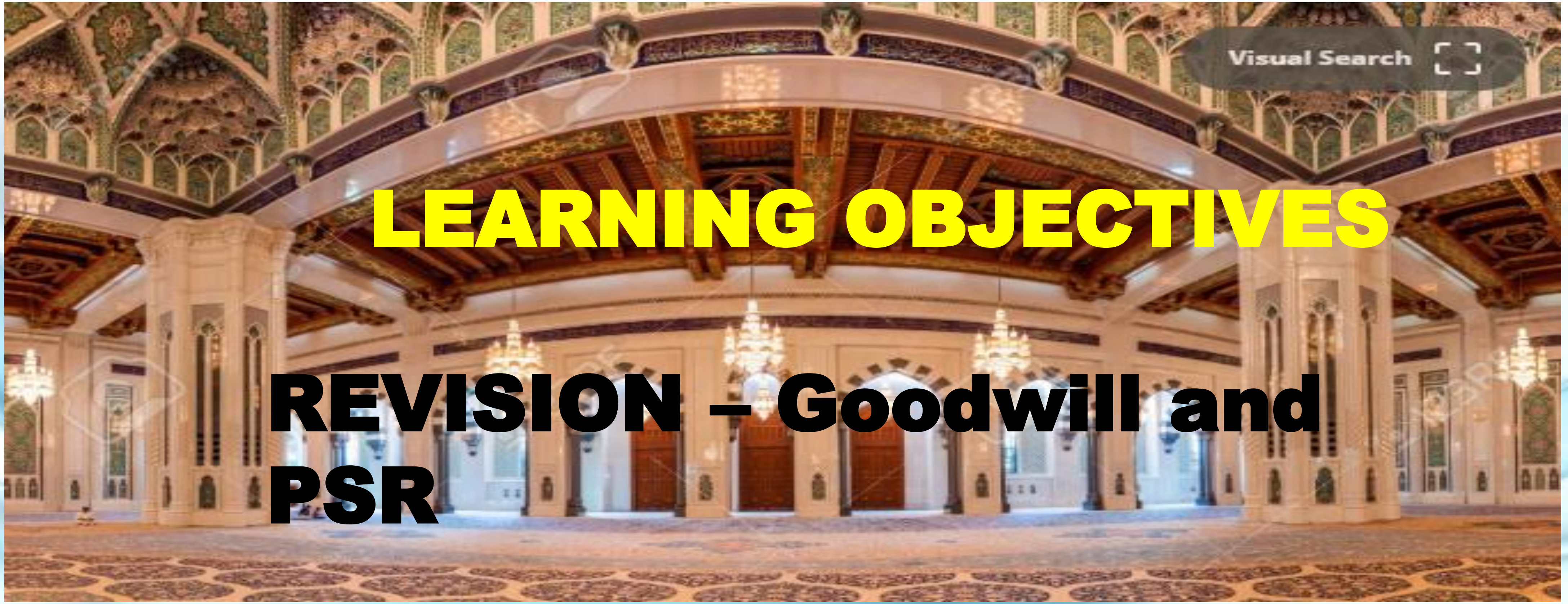
WEBINAR ON ACCOUNTANCY

CLASS XII- SESSION -64



LEARNING OBJECTIVES

REVISION – Goodwill and PSR

Unit 2. Revision Goodwill & Change in PSR

Goodwill – Definition and Meaning

Goodwill may be said to be that element arising from the reputation, connections or other advantages possessed by a business which enables it to earn greater profits than the returns normally to be expected on capital represented by the net tangible assets employed in the business.

Spicer and Pegler

Meaning of Goodwill

It is the value of quantifiable asset (reputation) of a business and calculated as part of its value when business is sold.

Types of Goodwill

Goodwill

Purchased Goodwill

It may be recognised in the books of account i.e., shown in the Balance Sheet.

AS 26, Intangible Assets allows the recognition of Purchased Goodwill in the books of account.

Self – generated Goodwill

It is not recognised in the books of account i.e. is not shown in the Balance Sheet.

AS 26, Intangible Assets does not allow to recognise Self-generated Goodwill in the books of account.

Accounting Standard – 26 Intangible Assets

Intangible Asset is an asset that lacks (i.e., does not have) physical existence.

AS 26, Intangible Assets prescribes:

An asset is not to be recognised in the books of accounts **unless money or money's worth** is paid for the asset.

Intangible Asset (Goodwill) should be written off in the **best estimate of useful life** but not later than **10 years** from the date it is acquired.

Intangible Asset (Goodwill) may be written off in a period of more than 10 years if the life of Goodwill is certified to have a longer life.

Meaning of Future Maintainable Business Profit

- The basis for valuation of **Goodwill is Future Maintainable Business Profits.**

  Why? Goodwill is paid because business is expected to earn that much profit in future without extra efforts. Since, it is for the business, it is based on profit it would have earned in the normal course of business.

- **Future Maintainable Business Profit** means profit that the business is likely to earn from its business activities.

- Expenses, whether incurred or not *but would be incurred*, are deducted to determine likely business profit in future. *For example, Insurance premium to insure assets not taken into account should be considered, Management Cost.*

- Abnormal expenses and non – operating expenses are added to net profit. For example, Workmen Compensation debited to Profit and Loss Account.

- Abnormal incomes and non – operating incomes are deducted from net profit to determine normal business profit.

Meaning of Future Maintainable Business Profit

Adjustments are made for expenses that have not been incurred but agreed to be considered in net profit as per Profit and Loss Account.

Also, adjustments are made for **errors** that may have been committed in the past and have effect on net profit of that year.

Examples:

- **Overvaluation of Closing Inventory:** Overvaluation of Closing Inventory (Stock) leads higher Gross Profit and also higher Net Profit. Therefore, it is deducted from the Current Year's Net Profit. It also means Opening Stock of next year is higher. It leads to lower Gross Profit and also lower Net Profit. Therefore, it is added to Next Year's Net Profit.

  Undervaluation of Inventory: It will have the opposite effect.

- **Salary to Partners:** Salary to Partners or Management Cost agreed to be considered for valuation of Goodwill.

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Illustration (Computation of Future Maintainable Business Profit)

Calculate Normal Business Profit for the year ended 31st March, 2020 from the following information:

	Year Ended 31st March,			
Year	**2017**	**2018**	**2019**	**2020**
Profit (₹)	1,01,000	1,24,000	1,00,000	1,40,000

- On 1st December, 2018, a major repair was carried on Machinery incurring ₹30,000, which was debited to Repairs Account. It was to be capitalised (for Goodwill purposes) subject to depreciation @ 10% p.a. on WDV.
- Closing Stock for the year ended 31st March, 2018 was overvalued by ₹12,000.
- To cover management cost, an annual charge of ₹24,000 is to be made.
- On 1st April, 2017 a machine with book value of ₹10,000 was sold for ₹11,000 and the proceeds were wrongly credited to Profit and Loss Account. Depreciation is charged @ 10% p.a. on WDV Method.

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Calculation of Normal Business Profit (Future Maintainable Proft):

	Year Ended 31st			
Year	**2017**	**2018**	**2**	
Profit (₹)	1,01,000	1,24,000	1,	
Add: Machinery Repair			30,000	
Less: Depreciation (Note 1)			(1,000)	(2,900)
Less: Stock Overvalued		(12,000)	12,000	
Less: Management Cost	(24,000)	(24,000)	(24,000)	(24,000)
Less: Machine Sale (Note 2)		(11,000)		
Add: Depreciation Wrongly Charged		1,000	900	810
Normal Business Profit	77,000	78,000	1,17,900	1,13,910

Depreciation on ₹30,000 @ 10% p.a. for 4 Months.

Depreciation on ₹29,000 (₹30,000 – ₹1,000) @ 10% p.a. for 1 year.

Solution:

Depreciation on ₹10,000 @ 10% p.a. wrongly charged.

Depreciation on ₹9,000 (₹10,000 - ₹1,000 @ 10% p.a. wrongly charged.

Depreciation on ₹8,100 (₹9,000 - ₹900 @ 10% p.a. wrongly charged.

Methods of Valuation of Goodwill

Methods of Valuation

- **Average Method**
  - Simple Average Method
  - Weighted Average Method
- **Super Profit Method**
  - **Super Profit = Actual Average Profit – Normal Profit.**
- **Capitalisation Method**
  - Capitalisation of Average Profit
  - Capitalisation of Super Profit

Either Normal Rate of Return on Capital Employed or Normal Profit is given.

Weighted Average Method

1. Compute Normal Business Profit for each year.
2. Multiply each years profit with the assigned Weight.
3. Total the product and divide it by the total of the Weights.
4. Multiply it by the Number of Years Purchase.
5. It is the value of Goodwill.

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Illustration (Illustration on Slide 10 continued)

Calculation of Value of Goodwill:

	Year Ended 31st March,			
Year	**2017**	**2018**	**2019**	**2020**
Profit (₹)	1,01,000	1,24,000	1,00,000	1,40,000
Add: Machinery Repair			30,000	
Less: Depreciation (Note 1)			(1,000)	(2,900)
Less: Stock Overvalued		(12,000)	12,000	
Less: Management Cost	(24,000)	(24,000)	(24,000)	(24,000)
Less: Machine Sale (Note 2)		(11,000)		
Add: Depreciation Wrongly Charged		1,000	900	810
Normal Business Profit	77,000	78,000	1,17,900	1,13,910
Weights	1	2	3	4
Product	**77,000**	**1,56,000**	**3,53,700**	**4,55,640**
Total of Product / Weights		**10**		**10,42,340**
Average		**(₹10,42,340 / 10)**		**1,04,234**
Value of Goodwill at 3 Years Purchase		**(₹1,04,234 x 3)**		**3,12,702**

Super Profit Method

Super Profit is **excess** of **actual average** profit over **normal** profit.

Super Profit = Actual / Average Profit – Normal Profit.

Normal profit may be given or may have to be computed as a percentage of **Capital Employed**. For example, Normal Rate of Return is 20% of Capital Employed, Capital Employed being ₹10,00,000. Thus, normal profit is ₹2,00,000.

Capital Employed means capital invested in the business by the partners. It may also be termed as '**Firm's Capital**'.

Goodwill = Super Profit x Number of Years Purchase.

How to Compute Capital Employed or Firm's Capital?

Assets Approach

All Assets (Except Goodwill,
Non – trade Investments and
Fictitious Assets
Less
Outside Liabilities.

Liabilities Approach

Capitals of Partners +	
Reserves	
Less	
Goodwill ,	*Fictitious Assets, and*
Non – trade Investments.	

Trade Investments and Non-trade Investments

Trade Investments

Trade Investments are the investments made by the enterprise (firm) in another enterprise for the furtherance or for better operations of own business.

Non-trade Investments

Non-trade Investments are the investments made with the purpose to earn income from it.

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Calculate Capital Employed from the following Balance Sheet:

Illustration (Capital Employed)

Liabilities		₹	Assets	₹
Capital A/cs			Land and Building	5,50,000
Ankur	5,00,000		Machinery	2,50,000
Bimal	5,00,000	10,00,000	Goodwill	90,000
General Reserve		1,50,000	Investments (Trade)	3,00,000
Bank Loan (Long – term)		3,50,000	Investments (Non – trade)	1,00,000
Sundry Creditors		90,000	Sundry Debtors	1,40,000
Outstanding Expenses		10,000	Cash at Bank	90,000
			Cash in Hand	30,000
			Deferred Revenue Expenditure (Advertisement)	50,000
		16,00,000		16,00,000

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Illustration (Capital Employed)

Assets Side of Balance Sheet:

Assets	₹
Land and Building	5,50,000
Machinery	2,50,000
Goodwill	90,000
Investments (Trade)	3,00,000
Investments (Non – trade)	1,00,000
Sundry Debtors	1,40,000
Cash at Bank	90,000
Cash in Hand	30,000
Deferred Revenue Expenditure (Advertisement)	50,000
	16,00,000

Outside Liabilities	₹
Bank Loan	3,50,000
Sundry Creditors	90,000
Outstanding Expenses	10,000

Assets Approach:

Particulars	₹	₹
Total Assets		16,00,000
Less:		
Goodwill	90,000	
Non – trade Investments	1,00,000	
Fictitious Assets (Def. Rev. Exp.)	50,000	
Bank Loan	3,50,000	
Sundry Creditors	90,000	
O/s Expenses	10,000	6,90,000
Capital Employed		**9,10,000**

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Illustration (Capital Employed)

Liabilities side of the Balance Sheet:

Capital A/cs		
Ankur	5,00,000	
Bimal	5,00,000	10,00,000
General Reserve		1,50,000
Bank Loan (Long – term)		3,50,000
Sundry Creditors		90,000
Outstanding Expenses		10,000
		16,00,000

Assets	**₹**
Goodwill	90,000
Non – trade Investments	1,00,000
Deferred Revenue Expenditure	50,000

Liabilities Approach: Liabilities ₹

Particulars	**₹**	**₹**
Capitals		
Ankur	5,00,000	
Bimal	5,00,000	10,00,000
General Reserve		1,50,000
		11.50,000
Less:		
Goodwill	90,000	
Non – trade Investment	1,00,000	
Deferred Rev. Expenditure)	50,000	2,40,000
Capital Employed		**9,10,000**

Calculate Capital Employed from the following Information:

Illustration (Capital Employed)

Liabilities	₹	Assets	₹
Bank Loan (Long – term)	3,50,000	Land and Building	5,50,000
Sundry Creditors	90,000	Machinery	2,50,000
Outstanding Expenses	10,000	Goodwill	90,000
		Investments (Trade)	3,00,000
		Investments (Non – trade)	1,00,000
		Sundry Debtors	1,40,000
		Cash at Bank	90,000
		Cash in Hand	30,000
		Deferred Revenue Expenditure (Advertisement)	50,000

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Assets Side of Balance Sheet (Given):

Assets	₹
Land and Building	5,50,000
Machinery	2,50,000
Goodwill	90,000
Investments (Trade)	3,00,000
Investments (Non – trade)	1,00,000
Sundry Debtors	1,40,000
Cash at Bank	90,000
Cash in Hand	30,000
Deferred Revenue Expenditure (Advertisement)	50,000
	16,00,000

Outside Liabilities

	₹
Bank Loan	3,50,000
Sundry Creditors	90,000
Outstanding Expenses	10,000

Calculation of Capital Employed

Particulars	₹	₹
Total Assets		16,00,000
Less:		
Goodwill	90,000	
Non – trade Investments	1,00,000	
Fictitious Assets (Def. Rev. Exp.)	50,000	
Bank Loan	3,50,000	
Sundry Creditors	90,000	
O/s Expenses	10,000	6,90,000
Capital Employed		**9,10,000**

Illustration

(Super Profit Method with Past Adjustment)

Ayub and Amit are partners in a firm and they admit Jaspal into partnership w.e.f. 1st April, 2020. Goodwill is to be valued at 3 years purchase of Super Profit taking average of last 5 years.

Profit for the past 5 years were as follows:

Year ended 31st March,	Net Profit (₹)	Remarks
2016	1,50,000	
2017	1,80,000	
2018	1,00,000	Including Loss due to fire of ₹1,00,000
2019	2,60,000	Including profit on sale of asset ₹40,000
2020	2,40,000	

Total assets of the firm were ₹ 20,00,000 and Outside Liabilities were ₹ 5,00,000. Normal Rate of Return in similar business is 10%. Find the value of Goodwill.

Determine Normal Average Profit:

Year Ended	31st March,				
	2016 (₹)	**2017 (₹)**	**2018 (₹)**	**2019 (₹)**	**2020 (₹)**
Profit	1,50,000	1,80,000	1,00,000	2,60,000	2,40,000
Add (Less) Adjustments			1,00,000	(40,000)	
Adjusted Profit	1,50,000	1,80,000	2,00,000	2,20,000	2,40,000

$$\text{Average Profit} = \frac{₹1{,}50{,}000 + ₹1{,}80{,}000 + ₹2{,}00{,}000 + ₹2{,}20{,}000 + ₹2{,}40{,}000}{5}$$

= **₹1,98,000**

Normal Profit = 10% of ₹15,00,000 (₹20,00,000 – ₹5,00,000) i.e. ₹1,50,000.

Super Profit = Average Profit – Normal Profit = ₹1,98,000 – ₹1,50,000 = **₹48,000**

Goodwill = Super Profit x Number of Years Purchase = ₹48,000 x 3 = **₹1,44,000**

Capitalisation of Average Profit

Under this method, Goodwill is calculated by deducting Capital Employed (i.e., Net Assets) from the Capitalised value of Average Profit.

Value of Goodwill, by this method, is determined as follows:

Average profit is multiplied by inverse of Normal Rate of Return (NRR). It is termed as '**Capitalised Value of Business**'. For example, Average profit of a firm is ₹1,00,000 and Normal Rate of Return is 20%. Capitalised Value of business will be ₹ 5,00,000 (₹1,00,000 x 100 / 20).

Determine **Net Assets** (Total Assets ***except*** Goodwill, Non – trade Investments, Fictitious Assets ***less*** Outside Liabilities).

Goodwill = Capitalised Value of Business *less* Net Assets

Illustration
(Capitalisation of Average Profit)

Ayub and Amit are partners in a firm and they admit Jaspal into partnership w.e.f. 1st April, 2020. Goodwill is to be valued by Capitalisation of Average Profit, Normal Rate of Return being 10%.

Profit for the past 5 years were as follows:

Year ended 31st March,	Net Profit (₹)	Remarks
2016	1,50,000	
2017	1,80,000	
2018	1,00,000	Including Loss due to fire of ₹1,00,000
2019	2,60,000	Including profit on sale of asset ₹40,000
2020	2,40,000	

Illustration
(Capitalisation of Average Profit)

Balance Sheet of the firm as at 31st March, 2020 is as follows:

Liabilities		₹	Assets	₹
Capital A/cs			Land and Building	5,50,000
Ayub	3,00,000		Machinery	2,50,000
Amit	3,00,000	6,00,000	Goodwill	90,000
General Reserve		1,00,000	Sundry Debtors	1,40,000
Bank Loan (Long – term)		3,50,000	Cash at Bank	90,000
Sundry Creditors		90,000	Cash in Hand	30,000
Outstanding Expenses		10,000		
		11,50,000		11,50,000

Solution:

Determine Normal Average Profit:

Year Ended	**31st March,**				
	2016 (₹)	**2017 (₹)**	**2018 (₹)**	**2019 (₹)**	**2020 (₹)**
Profit	1,50,000	1,80,000	1,00,000	2,60,000	2,40,000
Add (Less) Adjustments			1,00,000	(40,000)	
Adjusted Profit	1,50,000	1,80,000	2,00,000	2,20,000	2,40,000
Average Profit = (₹1,50,000 + ₹1,80,000 + ₹2,00,000 + ₹2,20,000 + ₹2,40,000) / 5 = **₹1,98,000**					

Capitalised Value (@ 10%) = ₹1,98,000 x 100/10 = ₹19,80,000

Net Assets = Total Assets (Except Goodwill) – Outside Liabilities
= ₹11,50,000 - ₹90,000 - ₹3,50,000 - ₹90,000 - ₹10,000 = **₹6,10,000**

Goodwill *= Capitalised Value – Net Assets = ₹19,80,000 - ₹6,10,000 =* ***₹13,70,000***

Capitalisation of Super Profit

Under this method, Goodwill is calculated by capitalising super profit at normal rate of return.

Value of Goodwill, by this method, is determined as follows:

Calculate Capital Employed;

Calculate Normal Profit on Capital Employed; Calculate

Average Profit of agreed years;

Calculate Super Profit i.e., Average Profit *less* Normal Profit;

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

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QUIZ QUESTION 1

Sparrow & Co. CAs accepted an assignment on to prepare Accounts Manual of a company for a fee of ₹5,00,000 on 1st April, 2017. The company paid advance payments of ₹ 1,87,500 each on 1st April, 2017 and 2018. Final 25% payment will be received on successful completion of the assignment.

The assignment was completed by 30th September, 2019.

It purchased 2 (two) Laptops for ₹1,00,000 to be used exclusively for the project. It incurred expenses as follows:

	Year ended 31st March			**Total**
Heads	**2018 (₹)**	**2019 (₹)**	**2020(₹)**	**(₹)**
Salaries	1,00,000	1,00,000	50,000	2,50,000
Stationery	5,000	5,500	3,000	13,500
Conveyance Expenses	15,000	20,000	8,000	43,000
Amount Received	1,87,500	1,87,500	1,25,000	5,00,000

Laptops were to be depreciated @ 20% p.a. on SLM. Laptops were sold for ₹50,000 on 30th September, 2019.

Determine the profit for each year and how?

Reconstitution of Partnership:

Change in Profit – sharing Ratio

Reconstitution of Partnership

Reconstitution of partnership means **change in the economic relationship of the partners**.

Economic Relationship changes

(i) when the profit – sharing ratio among the existing partners changes;

(ii) when a partner (or partners) is admitted;

(iii) when a partner retires;

(iv) when a partner dies;

(v) when two or more partnership firms amalgamate.

Change in Profit – Sharing Ratio

Change in profit – sharing ratio means profit share of one (or more) partners(s) decrease while that of one of the partner (or partners) increases without admission or retirement or death of a partner.

It also changes on admission of a partner, retirement and death of a partner. All the actions that are done on Change in Profit-sharing Ratio are also done on admission, retirement and death of a partner.

At the time of Change in Profit – sharing ratio:

- Sacrificing Ratio and Gaining Ratio is determined;
- Goodwill is valued and adjusted by crediting Sacrificing Partners and debiting to Gaining Partners;
- Reserves, Accumulated profits and losses are distributed;
- Assets are revalued and Liabilities are reassessed;
- Capitals are adjusted.

1. Sacrificing Ratio and Gaining Ratio

Sacrificing Ratio is the ratio in which one or more partners forego i.e., sacrifice their profit share(s) in favour of one or more partners of the firm.

Sacrificed Profit Share *= Old Profit Share* ***less*** *New Profit Share.*

Gaining Ratio is the ratio in which one or more partners gain profit share(s) being sacrificed by one or more partners of the firm.

Gained Profit Share *= New Profit Share* ***less*** *Old Profit Share.*

Why Sacrificing / Gaining Ratio is computed? Sacrificing Partner(s) is to be compensated for the sacrifice made by the Gaining Partner(s) for the share gained.

Purpose of Calculating Sacrificing / Gaining Ratio

It is the principle that a partner should not be at an advantage or disadvantage whenever a change takes place in their economic relationship.

Sacrificing Partner foregoes a part of his share in future profits forever in favour of the **Gaining Partner**.

Gaining Partner is placed at an advantageous position i.e., his share in future profits stands increased.

Gaining Partner compensates the **Sacrificing Partner** for the sacrifice in profit – share, by paying him Premium for Goodwill or Goodwill valued by any of the agreed methods.

1. Sacrificing Ratio and Gaining Ratio

Sacrificing Ratio (Gaining Ratio)

- May be given
- May have to be calculated
  - New Profit – sharing Ratio is given.
    - Old Profit – sharing Ratio **_minus_** *New Profit – sharing Ratio* = *Sacrificing Ratio*.
  - New Profit – sharing Ratio is not given.
    - It is presumed that Old Partners have sacrificed in their Old Profit – sharing Ratio.

Accounting of Goodwill

Goodwill existing in the Books of Account is written off in Old Profit-sharing Ratio.

Goodwill Payable by the Gaining Partner
= Value of Goodwill x Gained Profit Share

Gaining Partner may bring his or her share in the Premium for Goodwill **or** it may be debited to his Capital Account or Current Account.

Sacrificing Partners' Capital Accounts are credited by their respective share in Premium for Goodwill in their Sacrificing Ratio.

Distribution of Reserves, Accumulated Profits and Losses

Reserves, Accumulated Profits and Losses, including Deferred Revenue Expenditure are distributed in their Old Profit – sharing Ratio of the partners.

Why? Because the profit was accumulated or loss is for the period prior to profit-sharing ratio changed. The accumulations are out of profits earned before the change in profit-sharing ratio. Similar is the position for accumulated losses.

In case, Partners decide to retain the balances in the books of account: The net effect of reserves, accumulated profits and losses is determined. It is debited and credited to Gaining and Sacrificing Partners respectively (if net effect is positive). It is credited and debited to Gaining and Sacrificing Partners respectively (if net effect is negative).

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Workmen Compensation Reserve

Liability Does not Exist

Trf .Reserve to Partners in their Old Profit sharing Ratio

Workmen Comp. Res. A/c ...Dr.
To Partners' Capital A/cs.
(Old Profit – sharing Ratio)

Liability is for Part of Reserve

Transfer Reserve up to Liability to Workmen Compensation Claim A/c and **balance** to Partners in their Old Profit – sharing Ratio

Workmen Comp. Res. A/c ...Dr.
To Workmen Comp. Claim A/c
(Amount of Claim)
To Partners' Capital A/c
(Balance in Old PSR)

Liability is up to the Reserve

Transfer Reserve to Workmen Compensation Claim A/c.

Workmen Comp. Res. A/c ...Dr.
To Workmen Comp. Claim A/c
(Amount of Claim)

Liability is more than the Reserve

Transfer Reserve to Workmen Compensation Claim A/c.
Amount of liability in **excess** of Reserve is debited to Revaluation A/c, crediting Workmen Compensation Claim A/c.

Workmen Comp. Res. A/c ...Dr.
Revaluation A/c ...Dr.
To Workmen Comp. Claim A/c

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Investments Fluctuation Reserve

Situation	Treatment	Journal Entry
If Book Value and Market Value are same	Distribute Investment Fluctuation Reserve among Partners in their Old Profit – sharing Ratio.	Invest. Fluctuation Res. A/c …Dr. To Partners' Capital A/cs. (In Old Profit – sharing Ratio)
If fall in Market Value is less than Reserve.	Transfer Reserve up to fall in Market Value to Investment Account. Distribute balance Reserve among Partners in their Old Profit – sharing Ratio.	Invest. Fluctuation Res. A/c …Dr. To Investments A/c (Amount of fall in Value) To Partners' Capital A/c (Balance in Old PSR)
If fall in Market Value is equal to Reserve	Transfer Reserve to Investment Account.	Invest. Fluctuation Res. A/c …Dr. To Investment A/c
If fall in Market Value is more than Reserve	Transfer Reserve + fall in the value of investment in excess of Reserve to Investment Account.	Invest. Fluctuation Res. A/c …Dr. Revaluation A/c …Dr. To Investment A/c

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Revaluation of Assets and Reassessment of Liabilities

Assets are revalued and liabilities are reassessed at the time of change in Profit – sharing Ratio and Admission of a partner

Revised Values of Assets and Liabilities

If recorded in the Books of Account

Increase in Assets and Decrease in Liabilities is credited to Revaluation Account.

Liabilities A/c (Individually) …Dr.
Assets A/c (Individually) …Dr.
To Revaluation A/c

Decrease in Assets and Increase in Liabilities is debited to Revaluation Account.

Revaluation A/c …Dr.
To Liabilities A/c (Individually)
To Assets A/c (Individually)

Revaluation Account is balanced and difference amount is distributed among old partners in their Old Profit – sharing Ratio.

If not recorded in the Books of Account

Difference between the changed values of assets and liabilities is determined; **and Debited / credited in the Capital Accounts of Gaining / Sacrificing Partners.**

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Book Value of Land & Building is ₹ 4,00,000
Additional Information:

(i)	Land & Building is to be **APPRECIATED** BY Rs. 1,00,000.
(ii)	Value of Land & Building is to be **INCREASED** BY 25%.
(iii)	Value of Land & Building is to be **INCREASED** TO Rs. 5,00,000.
(iv)	Land & Building is to be **INCREASED** TO 125%.
(v)	Land & Building is **VALUED** AT Rs. 5,00,000.
(vi)	Land & Building is **UNDERVALUED** BY Rs. 1,00,000
(vii)	Land & Building is **UNDERVALUED** BY 20%.

In All the Above Statements LANGUAGE IS DIFFERENT
But Accounting Treatment is EXACTLY SAME

INDIAN SCHOOL MUSCAT

Book Value of Plant & Machinery is ₹ 1,00,000

Additional Information:

(i)	Plant & Machinery is to be **DEPRECIATED** by ₹ 20,000.
(ii)	Plant & Machinery is to be **DECREASED** by 20%.
(iii)	Value of Plant & Machinery is to be **DECREASED** to ₹ 80,000
(iv)	Value of Plant & Machinery is to be **DECREASED** to 80%.
(v)	Plant & Machinery is **VALUED** at ₹ 80,000.
(vi)	Plant & Machinery is **OVERVALUED** by ₹ 20,000
(vii)	Plant & Machinery is **OVERVALUED** BY 25%.

In All the Above Statements LANGUAGE IS DIFFERENT
But Accounting Treatment is EXACTLY SAME

INDIAN SCHOOL MUSCAT

TRANSACTIONS/EVENTS WHICH ARE NOT RECORDED IN REVALUATION ACCOUNT		
1.	**Liabilities paid at par i.e. the amount given in Balance Sheet**	* Bank Loan Paid * Bank Overdraft Paid * External Loan Paid * Partner’s Loan Paid
2.	**Assets sold at par**	* Investments sold at Book Value or at Par * Any Other Tangible or Intangible Asset SOLD at Book Value
3.	**Assets taken over by partner at par**	* **Asset (Tangible or Intangible)** taken over by one or more partners at Book Value
4.	**Asset given to creditors or lenders at par**	* Any Asset is Given at Book Value to Creditors or Lenders in Full or Part Settlement of their claim & there is NO GAIN
5.	**Bills Receivable Dishonoured** (unless Drawee is declared insolvent)	* Bill Receivable Retained and Dishonored * Bill Receivable Discounted and Dishonored * Bill Receivable Endorsed and Dishonored
6.	**Special Transactions**	* Decrease in Value of Investments if firm has Sufficient IFR * Provision for Claim of Workmen Compensation if we have WCR
7.	**Typical**	* Bad Debts, if **Adequate** Provision for Doubtful Debts is there Provision for Doubtful Debts.

INDIAN SCHOOL MUSCAT

TOPIC –REVISION GOODWILL & PSR

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DOUBT CLARIFICATION SESSION…

THANKS FOR PARTICIPATING
Mr. SATPAL M & Ms. SUDESHNA C.V