



ACCOUNTS

BOOKS - SULTAN CHAND & SONS ACCOUNTS (HINGLISH)

GOODWILL: NATURE AND VALUATION

Illustration

1. Amrit Daily Needs acquired the business of Shri Shivam for a purchase consideration of Rs. 5,00,000 payable by cheque. The assets acquired and liabilities taken over are:

Assets:	Rs.	Liabilities:	Rs.
Furniture	10,000	Creditors	5,20,000
Inventory	7,50,000	Salaries Payable	75,000
Debtors	1,50,000	Outstanding Expenses	15,000

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2. (Average Profit Method when Adjustments are Made).

Aman purchased Bharatendu's business with effect from 1st April, 2019. It was agreed that the firm's goodwill will be valued at two years' purchase of average normal profit of the last three years. Profits of Bharatendu's business for last three years ended 31st March, were:

2017 : Rs. 1,00,000 (including an abnormal gain of Rs. 10,000),

2018 : Rs. 1,10,000 (after charging an abnormal loss of Rs. 20,000),

2019 : Rs. 85,000 (including interest of Rs. 5,000 from non-trade investment).

Calculate value of the firm's goodwill.



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3. (Average profit Method when Past Adjustments are Made).

Simran purchased Anita's business on 1st April, 2019. It was agreed to value goodwill at three years' purchase of average normal profit of the last four years. The profits of Anita's business for the last four years were:

Year Ended	Rs.
31st March, 2016	90,000,
31st March, 2017	1,60,000,
31st March, 2018	1,80,000,
31st March, 2019	2,20,000.

Following further facts are noticed from the books of account that:

1. During the year ended 31st March, 2016, an asset was sold at a gain (profit) of Rs. 10,000.
2. During the year ended 31st March, 2017, a machine got destroyed in an accident and Rs. 30,000 was written off as loss in Profit and Loss Account.
3. During the year ended 31st March, 2018, firm's assets were not insured due to oversight. Insurance premium being Rs. 10,000.

Calculate the value of goodwill.



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4. (Average Profit Method when Past Adjustments are Made).

Om, Shanti and Namu are partners sharing profits and losses equally. They agree to admit Dev for an equal share. For this purpose, goodwill is to be valued at four years' purchase of average profit of last five years. Profits for the past five years were:



On 1st April, 2018, 5 cycles costing Rs. 20,000 were purchased and were wrongly debited to Travelling Expenses. Depreciation on cycles was to be charged @ 25 % Calculate value of good will.



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5. (Average Profit Method when Past Adjustments are Made).

Luve and Kush are partners sharing profits equally. They admit Shubh into partnership for equal share. Goodwill was agreed to be valued at two years' purchase of average profit of last four years. Profits for the last four years were:

Year Ended	Normal Profit/(Loss) (Rs.)
31st March, 2016	70,000,
31st March, 2017	1,00,000,
31st March, 2018	55,000(Loss),
31st March, 2019	1,45,000.

The books of Account of the firm revealed as follows:

1. Firm had abnormal gain of Rs. 10,000 during the year ended 31st March, 2016.
2. Firm incurred abnormal loss of Rs. 20,000 during the year ended 31st

March, 2017.

3. Repairs to car amounting to Rs. 50,000 was wrongly debited to vehicles on 1st May, 2017.

Depreciation was charged on vehicles @10 % on Straight Line Method.

Calculate the value of Goodwill.

A. Rs. 110000

B. Rs. 125000

C. Rs. 115000

D. Rs. 120000

Answer: C



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6. Sara, Tara and Zara are partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. They decide to take Dara into partnership from 1st April, 2019 for 1/4th share in the profits. For this purpose, goodwill is to be valued at twice the average annual profit of the previous three or four

years, whichever is higher.

The annual profits for the purpose of goodwill for the past four years were:

Year Ended	Rs.
31st March, 2019	48,000,
31st March, 2018	30,000,
31st March, 2017	31,200,
31st March, 2016	42,000.

Calculate value of goodwill.



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7. Profit of a firm for the last five years were:



Calculate value of goodwill on the basis of three years' purchase of the weighted average profit after assigning weights 1, 2, 3, 4 and 5 respectively to the profits for years ended 31st March, 2015, 2016, 2017, 2018 and 2019.



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8. (Weighted Average Profit Method when Past Adjustments are Made.)

Akhil and Nikhil are partners sharing profits equally. They admitted Dinesh into partnership. It was agreed to value goodwill at three years' purchase following Weighted Average Profit Method on the basis of past five years' profits. Weights assigned to each year would be - years ended 31st March, 2015 - 1, 2016 - 2, 2017 - 3, 2018 - 4 and 2019 - 5.



Scrutiny of books of account revealed the following:

1. There was an abnormal loss of Rs. 15,000 during the year ended 31st March, 2015.
2. There was an abnormal gain of Rs. 10,000 during the year ended 31st March, 2017.
3. Closing Stock as on 31st March, 2018 was overvalued by Rs. 15,000.

Calculate value of goodwill.



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9. (Weighted Average Profit Method when Past Adjustments are Made.)

Sahil and Anupam are partners sharing profits in the ratio of 3 : 2. They admit Amit into partnership. It was agreed to value goodwill at three years' purchase on the basis of Weighted Average Profit of the past five years. Weights being assigned to each year were:

31st March, 2015 - 1, 31st March, 2016 - 2, 31st March, 2017 - 3, 31st March, 2018 - 4 and 31st March, 2019 - 5.

The profits for these five years were:

(Year Ended, Profits (Rs.)), (31st March, 2015, 1,80,000), (31st March, 2016, 2,50,000), (31st March, 2017, 3,20,000), (31st March, 2018, 4,00,000), (31st March, 2019, 3,50,000.)

Scrutiny of books of account revealed that:

1. An abnormal gain of Rs. 20,000 was earned in the year ended 31st March, 2016.
2. An abnormal loss of Rs. 10,000 was incurred in the year ended 31st March, 2017.
3. Expense of Rs. 50,000 incurred to overhaul a machinery Account. Depreciation is charged on Machinery @ 20% on Written Down Value Method.

4. Closing Stock as on 31st March, 2018 was undervalued by Rs. 20,000.

Calculate value of goodwill.

A. 777000

B. 857000

C. 864000

D. 858000

Answer: D



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10. (Weighted Average Profit Method when Past adjustments are Made)

Calculate goodwill of the firm on the basis of three years' purchase of weighted average profit of the last four years. Profits of these four years ended 31st March were:



The weights assigned to each year 31st March, are: 2016 - 1, 2017 - 2, 2018 - 3 and 2019 - 4.

You are provided with the following additional information:

- (i) On 31st March, 2018, a major plant repair was undertaken for Rs. 12,000 which was charged to revenue. The said sum is to be capitalised for goodwill calculation subject to adjustment of depreciation of 10 % p.a. on Reducing Balance. Method.
- (ii) The Closing Stock for the year ended 31st March, 2017 was overvalued by Rs. 4,800.
- (iii) To cover management cost an annual charge of Rs. 9,600 should be made for the purpose of goodwill valuation.



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11. (Super Profit Method).

A firm earned net profits during the last three years as:

Years	<i>I</i>	<i>II</i>	<i>III</i>
Profits(Rs.)	18,000	20,000	22,000

The capital investment of the firm is Rs. 60,000. Normal return on the capital is 10 %. Calculate value of goodwill on the basis of three years' purchase of the average super profit for the last three years.



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12. (Super profit Method when Past Adjustments are Made).

Alok and Aakash are partners in M/s Mega Enterprises . They admit Ashish as partner w.e.f. 1st April, 2019. They agreed to value goodwill at 3 years' purchase by Super Profit Method for which they decided to take average fo last 5 years profits. The profits for the last five years were:

Year Ended	Rs.	
31st March, 2015	2,00,000	(Including gain of Rs. 25,000 from sale of
31st March, 2016	1,70,000	(Including abnormal loss of Rs. 50,000),
31st March, 2017	2,10,000,	
31st March, 2018	2,30,000,	
31st March, 2019	2,50,000.	

Capital employed in the firm is Rs. 15,00,000 and normal rate of return in similar business is 10 % . Calculate value of goodwill.



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13. (Super Profit Method).

Average net profit of Home Depot expected in the future is Rs. 54,000 per year. The average capital employed in the business is Rs. 3,00,000. Normal

profit expected from capital invested in this class of business is 10%. The remuneration of the partners is estimated to be Rs. 9,000 p.a.

Find out the value of goodwill on the basis of two years' purchase of super profit.

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14. (Super Profit Method, Undervaluation of Stock).

Average profit earned by a firm is Rs. 75,000 which includes undervaluation of stock of Rs. 5,000 on average basis. The capital invested in the business is Rs. 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.

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15. (Super Profit, Overvaluation of Profit).

Average profit earned by a firm is Rs. 2,50,000 which includes overvaluation of stock of Rs. 10,000 on an average basis. Capital invested

in the business is Rs. 14,00,000 and the normal rate of return is 15 % .

Calculate goodwill of the firm on the basis of 4 times the super profit.

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16. (Calculation of Average Profit).

On 1st April, 2018, a firm had assets of Rs. 3,00,000 including cash of Rs. 5,000. The Partners' Capital Accounts showed a balance of Rs. 2,00,000 and the Reserve constituted the rest. If the normal rate Of return is 10 % and the goodwill of the firm is valued at Rs. 2,00,000 at four years' purchase fo super profit, find the average profit of the firm.

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17. (Calculation of Average Profit).

M/s Hi-Tech India has assets of Rs. 5,00,000 whereas liabilities are: Partners' Capitals - Rs. 3,50,000, General Reserve - Rs. 60,000 and Sundry Creditors - Rs. 90,000. If normal rate fo return is 10 % and goodwill of the

firm is valued at Rs. 90,000 at 2 years' purchase of super profit, find average profit of the firm.

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18. (Capital Employed and Valuation of Goodwill When Trade Investments are given).

Balance Sheet of Grand Sales as at 31st March, 2019 was as follows:



Average Profit of the firm for the year was Rs. 1,75,000. Calculate the value of goodwill of the firm by Super Profit Method at 2 years' purchase of Super Profit, if the Normal Rate of Return is 20 % .

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19. (Capital employed and Valuation of Goodwill when Non-trade Investments are given).

Balance Sheet for M/s Super Stores as at 31st March, 2019 was as follows:



Average Profit was Rs. 1,25,000. You are to calculate goodwill at 3 years' purchase of Super Profits, if the Normal Rate of Return is 15 % Of Capital Employed.

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20. (Capitalisation Method).

A firm earned Rs. 60,000 as profit, the normal rate of return being 10 % . Assets of the firm are Rs. 7,20,000 (excluding goodwill) and Liabilities are Rs. 2,40,000. Find the value of goodwill by Capitalisation of Average Profit Method.

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21. Puneet and Trun are in restaurant business having credit balance in their fixed Capital Account as Rs. 2,50,000 each. They have credit balances in their Current Accounts of Rs. 30,000 and Rs. 20,000 respectively. The firm does not have any liability. They are regularly earning profits and their average profit fo last 5 years is Rs. 1,00,000. If the normal rate of

return is 10 % find the value of goodwill by Capitalisation of Average Profit Method.

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22. Bharat and Bhushan are partners in a retail business. Balances in Capital and Current Accounts as on 31st March, 2019 were:

	Capital Account	Current Account
Bharat	Rs. 2,00,000	Rs. 50,000
Bhushan	RS. 2,40,000	Rs. 10,000(Dr.)

The firm earned an average profit of Rs. 90,000. If the normal rate of return is 10 % find the value of goodwill.

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23. Average profit of the firm is Rs. 1,50,000. Total tangible assets in the firm are Rs. 14,00,000 and outside liabilities are Rs. 4,00,000. In the same type of business, the normal rate of return is 10 % of the capital employed.

Calculate value of goodwill by Capitalisation of Super Profit Method.



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24. A business has earned average profit of Rs. 1,00,000 during the last few years and the normal rate of return in similar business is 10 % . Find out the value of Goodwill by:

- (i) Capitalisation of Super Profit Method, and
- (ii) Super Profit Method if the goodwill is valued at 3 years' purchase of super profit.

Assets of the business were Rs. 10,00,000 and its external liabilities Rs. 1,80,000.



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25. J and K are partners in a firm. Their capitals are: j Rs. 3,00,000 and K Rs. 2,00,000. During the year ended 31st March, 2010 the firm earned a profit of Rs. 1,50,000. Assuming that the normal rate of return is 20 % , calculate the value of goodwill of the firm:

- (i) By Capitalisation Method: and

(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of super profit.

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26. Form the following Balance Sheet of Vinod Enterprises as at 31st March, 2019, calculate the value of goodwill by capitalisation of Super Profits, if the normal rate of return is 20 % of the Capital Employed and Average Profit is Rs. 1,50,000:



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27. From the following information, calculate value of goodwill of M/s Sharma & Gupta:

- (i) At three Years' purchase of Average Profit.
 - (ii) At three years' purchase of Super Profit.
 - (iii) On the basis of Capitalisation of Super Profit.
- On the basis of Capitalisation of Average Profit.

information:

- (a) Average Capital Employed - Rs. 10,00,000.
- (b) Net Profit/Loss of the firm for the past years: 2017 - Rs. 1,60,000 (Profit), 2018 - Rs. 1,40,000 (Profit), 2019 - Rs. 2,70,000 (Profit).
- (c) Normal Rate of Return on Capital is 11 % .
- (d) Remuneration to each partner for his service to be treated as a charge on Profit - Rs. 2,500 per month.
- (e) Assets (excluding goodwill) - Rs. 11,00,000, Liabilities - Rs. 1,00,000.



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Example


1. (When Trade Investments are Given) .

Calculate capital employed by the above two approaches with the help of following Balance Sheet:



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2. (When Non-trade Investments are Given).

Calculate capital employed by Liabilities Side Approach and Assets Side Approach from the following Balance Sheet: 

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Questions

1. Define Goodwill.

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2. State any three circumstances other than (i) admission of a new partner, (ii) retirement of a partner and (iii) death of a partner, when need for valuation of goodwill of a firm may arise.

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3. Give any two features of Goodwill.

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Exercise

1. Goodwill is to be valued at three years' purchase of four years' average profit. Profits for last four years ending on 31st March of the firm were:

2016 - Rs. 12,000, 2017 - Rs. 18,000, 2018 - Rs. 16,000, 2019 - Rs. 14,000.

Calculate amount of Goodwill.

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2. Profit for the five years ending on 31st March, are as follows:

Year 2015 -Rs. 4,00,000, year 2016 - Rs. 3,98,000, Year 2017 - Rs. 4,50,000,

Year 2018 - Rs. 4,45,000 and Year 2019 - Rs. 5,00,000.

Calculate goodwill of the firm on the basis of 4 years' purchase of 5 years' average Profit.

A. Rs. 17,54,400

B. Rs. 17,55,000

C. Rs. 18,54,000

D. Rs. 19,55,500

Answer: A



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3. Calculate value of goodwill on the basis of three years' purchase of average profit of the preceding five years which were as follows:



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4. Calculate the value of firm's goodwill on the basis of one and half years' purchase of the average profit of the last three years. The profit for first year was Rs. 1,00,000, Profit for the second year was twice the profit of the

first year and for the third year profit was one and half times of the profit of the second year.

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5. Purav and Purvi are partners in a firm sharing profits and losses in the ratio of 2: 1. They decide to take parv into partnership for $\frac{1}{4}$ th share on 1st April, 2019. For this purpose, goodwill is to be valued at four times the average annual profit of the previous four or five years, whichever is higher. The agreed profits for goodwill purpose of the past five years are:



Calculate the value of goodwill.

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6. Annu, Baby and Chetan are partners in a firm sharing profits and losses equally. They decide to take Deep into partnership from 1st April, 2019 for $\frac{1}{5}$ th share in the future profits. For This purpose, goodwill is to be valued at 100 % of the average annual profits of the previous three or

four years, whichever is higher.

The annual profits for the purpose of goodwill for the past four years were:

Year Ended	Profits (Rs.)
31st March, 2019	2,88,000,
31st March, 2018	1,81,800,
31st March, 2017	1,87,200,
31st March, 2016	2,53,200.

Calculate the value of goodwill.

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7. Devya purchased Joyti's business with effect from 1st April, 2019. Profits shown by Jyoti's business for the last three financial years were:

2016 - 17 : Rs. 1,00,000 (including an abnormal gain of Rs. 12,500).

2017 - 18 : Rs. 1,25,000 (after charging an abnormal loss of Rs. 25,000).

2018 - 19 : Rs. 1,12,500 (excluding Rs. 12,500 as insurance premium on firm's property - now to be insured).

Calculate the value of firm's goodwill on the basis of two years' purchase of the average profit of the last three years.

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8. Abhay, Babu and Charu are partners sharing profits and losses equally. They agree to admit Daman for equal share of profit. For this purpose, the value of goodwill is to be calculated on the basis of four years' purchase of average profit of last five years. These profits for the year 31st March, were:



On 1st April, 2018, a car costing Rs. 1,00,000 was purchased and debited to Travelling Expenses Account, on which depreciation is to be charged @ 25 % . Interest of Rs. 10,000 on Non-trade investments is credit to income for the year ended 31st March, 2018 and 2019.

Calculate the value of goodwill after adjusting the above.



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9. Bharat and Bhushan are partners sharing profits in the ratio of 3 : 2 . They decided to admit Manu as a partner from 1st April, 2019 on the following terms:

(i) Manu will be given $\frac{2}{5}$ th share of the profit.

(ii) Goodwill of the firm will be valued at two years' purchase of three years' normal average profit of the firm.

Profits of the previous three years ended 31st March, were:

2019 - Profit Rs. 30,000 (after debiting loss of stock by fire Rs. 40,000).

2018 - Loss Rs. 80,000 (Includes voluntary retirement compensation paid Rs. 1,10,000).

2017 - Profit Rs. 1,10,000 (Including a gain (profit) of Rs. 30,000 on the sale of fixed assets).

Calculate the value of goodwill .



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10. Bhaskar and Pillal are partners sharing profits and losses in the ratio of 3 : 2. They admit Kanika into partnership for $\frac{1}{4}$ th share in profit. Kanika brings in her share of goodwill in cash. Goodwill for this purpose is to be calculated at two years' purchase of the average normal profit of past three years. Profits of the last three years ended 31st March, were:

2017 - Profit Rs. 50,000 (including profit on sale of assets Rs. 5,000).

2018 - Loss Rs. 20,000 (including loss by fire Rs. 30,000).

2019 - Profit Rs. 70,000 (including insurance claim received Rs. 18,000 and interest on investments and Dividend received Rs. 8,000).

Calculate the value of goodwill. Also, calculate goodwill brought in by Kanika.



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11. Sumit purchased Amit's business on 1st April, 2019, Goodwill was decided to be valued at two years' purchase of average normal profit of last four years. The profits for the past four years were:



Books of Account revealed that:

- (i) Abnormal loss of Rs. 20,000 was debited to Profit and Loss Account for the year ended 31st March, 2016.
- (ii) A fixed asset was sold in the year ended 31st March, 2017 and gain (Profit) of Rs. 25,000 was credited to profit and Loss Account.
- (iii) In the year ended 31st March, 2018 assets of the firm were not insured

due to oversight. Insurance premium not paid was Rs. 15,000.

Calculate the value of goodwill.



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12. Geet and Meet are partners in a firm. They admit Jeet into partnership for equal share. It was agreed that goodwill be valued at three years' purchase of average profit of last five years. Profits for the last five years were:



Books of Account of the firm revealed that:

- (i) The firm had gain (profit) of Rs. 50,000 from sale of machinery sold in the year ended 31st March, 2016. The gain (profit) was credited in Profit and Loss Account.
- (ii) There was an abnormal loss of Rs. 20,000 incurred in the year ended 31st March, 2017 because of a machine becoming obsolete in accident.
- (iii) Overhauling cost of Second hand machinery purchased on 1st July, 2017 amounting to Rs. 1,00,000 was debited to Repairs Account.

Depreciation is charged @ 20 % p.a on Writtern Down Value Method.

Calculate the value of goodwill.

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13. Profits of a firm for the year ended 31st March for the last five years were:



Calculate value of goodwill on the basis of three years' purchase Weighted Average Profit after assigning weights 1, 2, 3, 4 and 5 respectively to the profits for years ended 31st March, 2015, 2016, 2017, 2018 and 2019.

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14. A and B are partners sharing profits and losses in the ratio of 5 : 3. ON 1st April, 2019, C is admitted to the partnership for 1/4th share fo profits. For this purpose, goodwill is to be valued at two years' purchase of last three years' profits (after allowing partners' remuneration). Profits to be

weighted 1 : 2 : 3, the greatest weight being given to last year. Net profit before partners' remuneration were: 2016 - 17 : Rs. 2,00,000, 2017 - 18 : Rs. 2,30,000, 2018 - 19 : Rs. 2,50,000. The remuneration of the partners is estimated to be Rs. 90,000 p.a. Calculate amount of goodwill.

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15. Raman and Daman are partners sharing profits in the ratio of 60 : 40 and for the last four years they have been getting annual salaries of Rs. 50,000 and Rs. 40,000 respectively. Their annual accounts have shown the following net profit before charging partners' salaries:

Year ended 31st March , 2017 - Rs. 1,40,000, 2018 - Rs. 1,01,000 and 2019 - Rs. 1,30,000.

On 1st April, 2019, Zeenu is admitted to the partnership for 1/4th share in profit (without any salary). Goodwill is to be valued at four years' purchase of weighted average profit of last three years (after partners' salaries), Profits to be weighted as 1 : 2 : 3, the greatest weight being given to the last year.

Calculate the value of Goodwill.



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16. Calculate goodwill of a firm on the basis of three Years' purchase of the Weighted Average Profit of the last four years. The profits of the last four financial years ended 31st March, were: 2016 - Rs. 25,000, 2017 - Rs. 27,000, 2018 - Rs. 46,900 and 2019 - Rs. 53,810. The weights assigned to each year are: 2016 - 1, 2017 - 2, 2018 - 3, 2019 - 4. You are supplied the following information:

- (i) On 1st April, 2016, a major plant repair was undertaken for Rs. 10,000 which was charged to revenue. The said sum is to be capitalised for goodwill calculation subject to adjustment of depreciation of 10 % on Reducing Balance Method.
- (ii) The Closing Stock for the years ended 31st March, 2017 and 2018 were overvalued by Rs. 1,000 and Rs. 2,000 respectively.
- (iii) To cover management cost an annual charge of Rs. 5,000 should be made for the purpose of goodwill valuation.



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17. Dinesh and Mahesh are partners sharing profits and losses in the ratio of 3 : 2. They admit Ramesh into partnership for $\frac{1}{4}$ th share in profits. Ramesh brings in his share of goodwill in cash. Goodwill for this purpose shall be calculated at two years' purchase of the weighted average normal profit of past three years. Weights being assigned to each year 2017 - 1, 2018 - 2, 2018 - 2 and 2019 - 3. Profits of the last three years were:

2017 - Profit Rs. 50,000 (including profits on sale of assets Rs. 5,000).

2018 - Loss Rs. 20,000 (including loss by fire Rs. 35,000).

2019 - Profit Rs. 70,000 (including insurance claim received Rs. 18,000 and interest on investments and dividend received Rs. 8,000).

Calculate the value of goodwill. Also, calculate the goodwill brought in by Ramesh.



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18. Mambir and Nimrat are partners and they admit Anahat into partnership. It was agreed to value goodwill at three years' purchase on Weighted Average Profit Method taking profits of last five years. Weights

assigned to each year as 1, 2, 3 and 5 respectively to profits for the year ended 31st March, 2015 to 2019. The profits for these years were: Rs. 70,000, Rs. 1,40,000, Rs. 1,00,000, Rs. 1,60,000 and Rs. 1,65,000 respectively.

Scrutiny of books of account revealed following information:

(i) There was an abnormal loss of Rs. 20,000 in the year ended 31st March, 2015.

(ii) There was an abnormal gain (profit) of Rs. 30,000 in the year ended 31st March, 2016.

(iii) Closing Stock as on 31st March, 2018 was overvalued by Rs. 10,000.

Calculate the value of goodwill.



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19. Mahesh and Anuresh are partners and they admit Naresh into partnership. They agreed to value goodwill at three years' purchase on Weighted Average Profit Method taking profits for the last five years. They assigned weights from 1 to 5 beginning from the earliest year and onwards. The profits for the last five years were as follows:



Scrutiny of books of account revealed the following:

- (i) A second-hand machine was purchased for Rs. 5,00,000 on 1st July, 2017 and Rs. 1,00,000 were spent to make it operational. Rs. 1,00,000 were wrongly debited to Repairs Account. Machinery is depreciated @ 20 % p.a. on Written Down Value Method.
- (ii) Closing Stock as on 31st March, 2018 was undervalued by Rs. 50,000.
- (iii) Remuneration to partners was to be considered as charge against profit and remuneration of Rs. 20,000 p.a. for each partner was considered appropriate.

Calculate the value of goodwill.



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20. Calculate the goodwill of a firm on the basis of three years' purchase of the weighted average profit of the last four years. The appropriate weights to be used and profits are:



On a scrutiny of the accounts, the following matters are revealed:

- (i) on 1st December, 2017, a major repair was made in respect of the plant

incurring Rs. 30,000 which was charged to revenue. The said sum is agreed to be capitalised for goodwill calculation subject to adjustment of depreciation of 10 % p.a. on Reducing Balance Method. (ii) The closing stock for the year 2016 - 17 was overvalued by Rs. 12,000.

(iii) To cover management cost, an annual charge of Rs. 24,000 should be made for the purpose of goodwill valuation.

(iv) On 1st April, 2016, a machine having a book value of Rs. 10,000 but the proceeds were wrongly credited to Profit and Loss Account. No effect has been given to rectify the same. Depreciation is charged on machine @ 10 % p.a. on reducing balance method.

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21. Average profit earned by a firm is Rs. 80,000 which includes undervaluation of stock of Rs. 8,000 on an average basis. The capital invested in the business is Rs. 8,00,000 and the normal rate of return is 8 %.

Calculate goodwill of the firm on the basis of 7 times the super profit.

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22. Gupta and Bose had a firm in which they had invested Rs. 50,000. On an average, the profits were Rs. 16,000. The normal rate of return in the industry is 15%. Goodwill is to be valued at four years' purchase of profits in excess of profits@15% on the money invested. Calculate the value goodwill.



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23. The total capital of the firm of Sakshi, Mehak and Megha is Rs. 1,00,000 and the market rate of interest is 15%. The net profits for the last 3 years were Rs. 30,000, Rs. 36,000 and Rs. 42,000. Goodwill is to be valued at 2 years' purchase of the last 3 years' super profits. Calculate the goodwill of the firm.



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24. Rakesh and Ashok earned a profit of Rs. 5,000. They employed capital of Rs. 25,000 in the firm. It is expected that the normal rate of return is 15 % of the capital. Calculate the goodwill if goodwill is valued at three years' purchase of super profit.



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25. Average net profit expected in future by XYZ firm is Rs. 36,000 per year. Average capital employed in the business by the firm is Rs. 2,00,000. The normal rate of return for capital invested in this class of business is 10 % . Remuneration of the partners is estimated to be Rs. 6,000 p.a. Calculate the value of goodwill on the basis of two years' purchase of super profit.



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26. A partnership firm earned net profits during the last three years ended 31st March, as follows: 2017 - Rs. 17,000, 2018 - Rs. 20,000, 2019 - Rs. 23,000.

The capital investment in the firm throughout the above-mentioned period has been Rs. 80,000. Having regard to the risk involved, 15 % is considered to be a fair return on the capital. Calculate value of goodwill on the basis of two years' purchase of average super profit earned during the above-mentioned three years.

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27. A partnership firm earned net profits during the past three years as follows:



Capital investment in the firm throughout the above-mentioned period has been Rs. 4,00,000. Having regard to the risk involved 15 % is considered to be a fair return on the capital. The remuneration of the partners during this period is estimated to be Rs. 1,00,000 p.a.

Calculate value of goodwill on the basis of two years' purchase of average super profit earned during the above-mentioned three years.

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28. Ideal Marketing earned an average profit of Rs. 4,00,000 during the last five years. Normal rate of return on capital employed is 10 % . Balance Sheet of the firm as at 31st March, 2019 was as follows:



Calculate the value fo goodwill, if it si valued at three years' purchase of Super Profits.



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29. Varuna and Karuna are partners for equal shares. They admit Lata into partnership for 1/4th share. It was agreed to value goodwill fo the firm at 4 years' purchase fo super profit. Normal rate of return is 15 % of the capital employed. Average profit of the firm is Rs. 4,00,000. Balance Sheet of the firm as at 31st March, 2019 was as follows:



Calculate the value of goodwill.



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30. A business has earned average profit of Rs. 8,00,000 during the last few years. The normal rate of profit in the similar type of business is 10 % .The total value fo assets and liabilities of the business were Rs. 22,00,000 and Rs. 5,60,000 respectively. Calculate the value of goodwill of the firm by super profit method if it is valued at $2\frac{1}{2}$ years' purchase of super profits.

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31. Capital of the firm fo Sharma and Verma is Rs. 2,00,000 and the market rate of interest is 15 % . Annual salary to partners is Rs. 12,000 each. The profits for the last three years were Rs. 60,000, Rs. 72,000 and Rs. 84,000. Goodwill is to be valued at 2 years' purchase of last 3 years' average super profit.

Calculate goodwill of the firm.

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32. Supreet and Subham are equal partners. They decide to admit for 1/3rd share. For the purpose of admission of Akriti, goodwill of the firm is to be valued at four years' purchase of super profit. Average capital employed in the firm is Rs. 1,50,000. Normal rate of return may be taken as 15 % p.a. Average profit of the firm is Rs. 40,000. Calculate value of goodwill.



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33. On 1st April, 2019, an existing firm had assets of Rs. 75,000 including cash of Rs. 5,000. Its creditors amounted to Rs. 5,000 on that date. The firm had a Reserve of Rs. 10,000 while Partners' Capital Accounts showed a balance of Rs. 60,000. If Normal Rate of Return is 20 % and goodwill of the firm is valued at Rs. 24,000 at four years' purchase of super profit, find average profit per year of the existing firm.



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34. Average profit earned by a firm is Rs. 1,00,000 which includes undervaluation of stock of Rs. 40,000 on an average basis. The capital invested in the business is Rs. 6,30,000 and the normal rate of return is 5 %.

Calculate goodwill of the firm on the basis of 5 times the super profit.



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35. Average profit earned by a firm is Rs. 7,50,000 which includes undervaluation of stock of Rs. 30,000 on an average basis. The capital invested in the business is Rs. 42,00,000 and the normal rate of return is 15 %.

Calculate goodwill of the firm on the basis of 3 times the super profit.



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36. Ayub and Amit are partners in a firm and they admit Jaspal into partnership w.e.f. 1st April, 2019. They agreed to value goodwill at 3 years'

purchase of Super Profit Method for which they decided to average profit

of last 5 years. The profits for the last 5 years were:

Year Ended	Net Profit (Rs.)
31st March, 2015	1,50,000
31st March, 2016	1,80,000
31st March, 2017	1,00,000 (Including abnormal loss of Rs. 1,00,000)
31st March, 2018	2,60,000 (including abnormal gain (profit) of Rs. 40,000)
31st March, 2019	2,40,000

The firm has total assets of Rs. 20,00,000 and Outside Liabilities of Rs.

5,00,000 as on date. Normal Rate of Return in similar business is 10 % .

Calculate value of goodwill.



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37. From the following information, calculate value of goodwill of the firm

by applying Capitalisation Method:

Total Capital of the firm Rs. 16,00,000.

Normal rate of return 10 % . Profit for the year Rs. 2,00,000.



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38. A business has earned average profit of 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 of return is 10 % .



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39. From the following particulars, calculate value of goodwill of a firm by applying Capitalisation of Average Profit Method:

(i) Profits of last five consecutive years ending 31st March are: 2019 - Rs. 54,000, 2018 - Rs. 42,000, 2017 - Rs. 39,000, 2016 - Rs. 67,000 and 2015 - Rs. 59,000.

(ii) Capitalisation rate 20 % .

(iii) Net assets of the firm Rs. 2,00,000.



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40. A business has earned average profit of Rs. 4,00,000 during the last few years and the normal rate of return in similar business is 10%. Find value of goodwill by:

(i) Capitalisation of Super Profit Method, and

(ii) Super Profit Method if the goodwill is valued at 3 years' purchase of super profits.

Assets of the business were Rs. 40,00,000 and its external liabilities Rs. 7,20,000.

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41. A firm earns profit of Rs. 5,00,000. Normal Rate of Return in a Similar type of business is 10%. The value of total assets (excluding goodwill) and total outsiders' liabilities as on the date of goodwill are Rs. 55,00,000 and Rs. 14,00,000 respectively. Calculate value of goodwill according to Capitalisation of Super Profit Method as well as Capitalisation of Average Profit Method.

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42. On 1st April, 2018, a firm had assets of Rs. 1,00,000 excluding stock of Rs. 20,000. The current liabilities were Rs. 10,000 and the balance consisted Partners' Capital Accounts. If the normal rate of return is 8% , the Goodwill of the firm is valued of Rs. 60,000 at four years' purchase of super profit, find the actual profits of the firm.

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43. Average profit of the firm is Rs. 2,00,000. Total assets of the firm are Rs. 15,00,000 whereas Partners' Capital is Rs. 12,00,000. If normal rate of return in a similar business is 10% of the capital employed, what is the value of goodwill by Capitalisation of Super Profit?

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44. Rajan and Rajani are partners in a firm. Their capitals were Rajan Rs. 3,00,000, Rajani Rs. 2,00,000. During the year 2018 - 2019, the firm earned

a profit of Rs. 1,50,000. Calculate the value of goodwill of the firm by capitalisation of super profit assuming that the normal rate of return is 20 % .

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45. Average profit of GS & Co. is Rs. 50,000 per year. Average capital employed in the business is Rs. 3,00,000. if the normal rate of return on capital employed is 10 % , calculate goodwill of the firm by:

- (i) Super Profit Method at three years' purchase, and
- (ii) Capitalisation of Super Profit Method.

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46. A business has earned average profit of Rs. 8,00,000 during the last few years and the normal rate of return in similar business is 10 % . Find value of goodwill by:

- (i) Capitalisation of Super Profit Method, and
- (ii) Super Profit Method if the goodwill is valued at 3 years' purchase of

super profit.

assets of the business were Rs. 80,00,000 and its external liabilities Rs. 14,40,000.



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47. Ajeet and Baljeet are partners in a firm. Their capitals are Rs. 9,00,000 and Rs. 6,00,000 respectively. During the year ended 31st March, 2019 the firm earned a profit of Rs. 4,50,000. Assuming that the normal rate of return is 20 % , calculate value of goodwill of the firm:

(i) By Capitalisation Method, and

(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of super profit.



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48. From the following information, calculate value of goodwill of the firm:

(i) At three years' purchase of Average Profit.

(ii) At three years' purchase of Super Profit.

(iii) On the basis of Capitalisation of Super Profit.

(iv) On the basis of Capitalisation of Average Profit.

Information:

(a) Average Capital Employed is Rs. 6,00,000.

(b) Net Profit/(Loss) of the firm for the last three years ended are:

31st March, 2018 - Rs. 2,00,000, 31st March, 2017 - Rs. 1,80,000, and 31st March, 2016 - Rs. 1,60,000.

(c) Normal Rate of Return in similar business is 10 % .

(d) Remuneration of Rs. 1,00,000 to partners is to be taken as charge against profit.

(e) Assets of the firm (excluding goodwill, fictitious assets and non-trade investments) is Rs. 7,00,000 whereas Partners' Capital is Rs. 6,00,000 and Outside Liabilities Rs. 1,00,000.



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1. Goodwill of the firm is valued at Rs. 5,00,000 at 2 years' purchase of average profit.

Determine the missing values:

$$\text{Total Normal Profit} = \text{Rs. } 2,50,000 + \text{Rs. } \hat{\text{€}} + \text{Rs. } 3,00,000 - \text{Rs. } 1,00,000 +$$

$$\text{Rs. } 3,50,000 = \text{Rs. } \hat{\text{€}}$$

$$\text{Average Profit} = \frac{\text{Total Normal Profit}}{\text{Number of Years}} = \frac{\text{Rs. } \dots}{5} = \text{Rs. } \dots$$

$$\text{Goodwill} = \text{Rs. } \dots \times 2 = \text{Rs. } 5,00,000.$$



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2. The goodwill of a firm is valued at Rs. 1,35,000 at 3 years' purchase of super profit. Determine the missing values:

$$\text{Average Profit} = \frac{\text{Rs. } 3,60,000}{3} = \text{Rs. } 1,20,000$$

$$\text{Normal Profit} = \text{Rs. } \hat{\text{€}} \times \frac{15}{100} = \text{Rs. } \hat{\text{€}}$$

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

$$= \text{Rs. } 1,20,000 - \text{Rs. } \dots = \text{Rs. } \dots$$

$$\text{Goodwill} = \text{Super Profit} \times \text{No. of Years' Purchase.}$$



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