

Note : While calculating average, deduct losses.

3(B). The profits earned by a business during the last 3 years are ₹ 20,000 ; ₹ 30,000 and there is a loss of ₹ 5,000 in the third year. Calculate the value of goodwill if it is based on 2 years' purchase of the average profits of the last 3 years. [Ans. Valuation of Goodwill ₹ 30,000]

3(C). The profits earned by a business during the last five years are ₹ 10,000 ; ₹ 9,000 ; ₹ 8,000 ; ₹ 15,000 and ₹ 7,000 (loss). Find out the value of goodwill if it is based on 3 years purchase of the average profits of the last 5 years. [Ans. Value of Goodwill ₹ 21,000]

4. Calculate the amount of Goodwill by 3 years' purchase of the last four years' average profits. The profits and losses for the last 4 years were : 1st year ₹ 5,000 ; 2nd year ₹ 8,000 ; 3rd year ₹ 3,000 (Loss) and 4th year ₹ 6,000. [Ans. Value of Goodwill ₹ 12,000.]

5. Ram and Shyam are partners. They disclosed the profits for the last three years as follows :

2013 : ₹ 19,000 (Including an abnormal gain of ₹ 4,000)

2014 : ₹ 25,000 (After charging an abnormal loss of ₹ 2,000)

2015 : ₹ 33,000 (Excluding ₹ 3,000 as insurance premium of the firm)

Calculate the value of the firm's Goodwill on the basis of 2 years purchase of the average profits for the last 3 years. [Ans. Value of Goodwill ₹ 48,000.]

6. The profits of a firm for the year ended 31st March for the last four years were as follows— 2013 ₹ 15,400 ; 2014 ₹ 17,600 ; 2015 ₹ 23,400 and 2016 ₹ 24,620.

Calculate the value of goodwill on the basis of three years' purchase of weighted average profits after weights 1, 2, 3 and 4 respectively to the profits for 2013, 2014, 2015 and 2016.

(Based on N.C.E.R.T. Text Books)

[Ans. Weighted Average Profits ₹ 21,928 ; Goodwill ₹ 65,784]

(ii) Super Profit Method :

7. The average profit of a business over the five years amounted to ₹ 9,000. The normal commercial yield on capital invested in such a business is deemed to be 10% p.a. The net capital invested in the business is ₹ 60,000. Find out the value of goodwill of the business if it is based on three years' purchase of the average super profits of the last 5 years. [Ans. Value of Goodwill ₹ 9,000.]

8(A). The average net profits expected in the future by ABC firm are ₹ 36,000 per year. The average capital employed in the business by the firm is ₹ 2,00,000. The rate of interest expected from capital invested in this class of business is 10%. The remuneration of the partners is estimated to be ₹ 6,000 p.a. Find out the value of goodwill on the basis of two years purchase of super profits. [Ans. Value of Goodwill ₹ 20,000.]

8(B). The average profits of a firm is ₹ 60,000. The total Assets of the firm are ₹ 9,00,000 and value of other liabilities is ₹ 5,00,000. Normal rate of Return in the same business is 10% p.a. Find out the value of goodwill on the basis of three years purchase of super profits. [Ans. Goodwill ₹ 60,000.]

9. A Partnership firm earned net profits during the last 4 years as follows : 2013 ₹ 16,000 ; 2014 ₹ 12,000 ; 2015 ₹ 20,000 ; and 2016 ₹ 24,000.

The Capital investment in the firm throughout the above mentioned period has been ₹ 50,000. The normal rate of return on capital invested is deemed to be 16% p.a. Find out the value of goodwill of the business, if it is based on three year's purchase of the average super profits of the last 4 years. [Ans. Value of Goodwill ₹ 30,000]

[Ans. A : 2/75 (0-1)

Valuation of Goodwill

(i) Average Profit Method :

3(A). The profits earned by a business over the last 5 years are as follows : ₹ 10,000 ; ₹ 15,000; ₹ 12,000 ; ₹ 20,000 and ₹ 2,000 (Loss). Find out the value of Goodwill if it is based on 3 years' purchase of the last 5 years' profits.

[Ans. Value of Goodwill ₹ 33,000.]

2013 — ₹50,000 (after charging an abnormal loss of ₹10,000)

2014 — ₹45,000 (excluding ₹5,000 as insurance premium of this year)

Calculate the value of goodwill on the basis of two years' purchase of the average profit of the last three years. [Ans. ₹90,000]

Q. 3. Calculate the amount of goodwill at two years' purchase of the average profits of the last three years. The profits earned by the firm in the 1st and 2nd year were ₹1,05,275 and ₹30,000 respectively but there is a loss in the 3rd year of ₹5,000 due to strikes. [Ans. Goodwill ₹86,850]

Q. 4. Kaku purchased Polu's business on 1st Jan, 2014. The profits for the last five years are:

2009 — ₹37,000

2010 — ₹47,000 (after charging an abnormal loss of theft of ₹4,000)

2011 — ₹53,000 (including an abnormal gain of ₹5,000)

2012 — ₹60,000 (including a profit of lottery ₹6,000)

2013 — ₹70,000 (after charging ₹10,000 a loss of furniture destroyed by fire)

Calculate the value of goodwill on the basis of two years' purchase of the average profit of the last five years. [Ans. Goodwill ₹1,08,000]

► Super Profit Method

Q. 5. A partnership firm earned net profits during the last three years as follows:—2013 ₹17,000; 2014 ₹20,000 and 2015 ₹23,000. The capital investment in the firm throughout the above mentioned period has been ₹80,000. Having regard to the risk involved, 15% is considered to be fair return on capital. Calculate the value of goodwill on the basis of 2 years' purchase of average super profit earned during the above mentioned three years.

[Ans. Super Profit ₹8,000; Goodwill ₹16,000]

Q. 6. Calculate goodwill at three years' purchase of the super profit. The firm was established with a capital of ₹2,00,000. The normal rate of earning in such type of business is 15%. The firm earned ₹37,000 as profit during the year.

[Ans. Normal Profit ₹30,000; Super Profit ₹7,000; Goodwill ₹21,000]

Q. 7. A firm earned net profits during the last five years as follows: 2010 ₹24,000; 2011 ₹32,000; 2012 ₹22,000; 2013 ₹38,000 and 2014 ₹44,000.

The capital invested in the firm is ₹2,00,000. The fair return on capital in such type of business is 10%. Find out the value of goodwill, based on the four years' purchase of average super profit of the last five years.

[Ans. Goodwill ₹48,000]

Q. 8. The capital employed in a firm is ₹5,00,000. Average rate of return on capital is 15%. The expected net profit of the firm is ₹1,50,000 for the year. The remuneration of the partners is estimated to be ₹25,000 p.a. Calculate the value of goodwill on the basis of two years' purchase of super profit.

[Ans. Goodwill ₹1,00,000]

► Weighted Average Method

Q. 9. A partnership firm's profits for the last five years were ₹37,000; ₹48,000; ₹22,000; ₹65,000; and ₹30,000. Calculate goodwill on the basis of four years' purchase of average profit using the weights 1,2,3,4 and 5 respectively. [Ans. ₹

► *Average Profit Method*

Q. 1. Calculate the amount of goodwill at three years' purchase of the last four years' average profits. The profits and losses for the last four years were: 1st year ₹5,000; 2nd year ₹8,000; 3rd year (Loss) ₹3,000 and 4th year ₹6,000. [Ans. ₹12,000]

Q. 2. Karnail purchased Jarnail's business on 1st Jan., 2015. The profits for the last 3 years' are:
2012 — ₹40,000 (including an abnormal profit of ₹5,000)