



ACCOUNTANCY

CH.2-Goodwill – Nature and Valuation

Name: _____

Date: _____

Class: XII

1. (Purchased Goodwill) Amrit Daily needs acquired the business of Shri Shivam for a net consideration of ₹5,00,000 payable by cheque. The assets acquired, and liabilities taken over are:

Assets	₹	Liabilities	₹
Furniture	10,000	Creditors	5,20,000
Inventory	7,50,000	Salary Payable	75,000
Debtors	1,50,000	Outstanding expenses	15,000

Pass the necessary journal entries

Self-Generated Goodwill:

Average Profit Method: $\text{Goodwill} = \text{Average profit} \times \text{Number of years' purchase}$

2. Goodwill of the firm is to be valued at three years' purchase of four years' average profit. The profits earned by the firm in the previous four years were ₹15,000, ₹11,000, ₹18,000 and ₹16,000. Calculate Goodwill
3. (Average Profit method when past adjustments are made): Simran purchased Anita's Business on 1st April 2018. 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	(₹)
31 st March 2015	90,000
31 st March 2016	1,60,000

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31 st March 2017	1,80,000
31 st March 2018	2,20,000

It was observed from the books of accounts that:

1. During the year ended 31st March 2015 an asset was sold at a gain (profit) of ₹10,000
 2. During the year ended 31st March 2016 a machine got destroyed in accident and ₹30,000 was written off as loss in Profit & Loss Account.
 3. During the year ended 31st March 2017, firm's assets were not insured due to oversight Insurance Premium being ₹10,000
4. 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 from 1st April, 2018 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 profit for the purpose of goodwill for the past four years were:

Year ended	(₹)
31 st March, 2018	48,000
31 st March, 2017	30,300
31 st March, 2016	31,200
31 st March, 2015	42,200

Calculate value of goodwill.

Weighted Average profit method:

1. Calculate normal business profit
2. Calculate weighted profit for each of the past years by multiplying normal profit by the respective assigned weight
3. Calculate the total of the product and also weights.
4. Calculate weighted average profit as follows:

$$\text{Weighted Average Profit} = \frac{\text{Total of Weighted Profit}}{\text{Total of Weights}}$$



Total of Weights

5. Goodwill = Weighted Average Profit x Number of Year's Purchase.

Super Profit Method:

1. Calculate average capital Employed:

Opening Capital Employed + Closing Capital Employed

2

Capital employed= Capital + reserve- non-trade investments-fictitious assets (if any)

Or All assets – Liabilities

2. Calculate adjusted average profit

3. Calculate normal profit or return on average capital employed

Normal profit= Average capital employed x Normal Rate of Return

100

Normal rate of return means the rate of return normally earned by other firms in the same industry.

4. Calculate super profit ie; Adjusted Average Profit – Normal Profit.

5. Calculate value of goodwill as follows:

Goodwill = Super profit x Number of years' purchase

5. Weighted average Profit Method: The profits of a firm for the last five years were:

Year ended	31 st Mar 14	31 st Mar15	31 st Mar16	31 st Mar 17	31 st Mar18
Profit (₹)	40,000	48,000	60,000	50,000	36,000

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 2014,2015,2016,2017 and 2018.

6. Super Profit Method: A firm earned net profits during the last three years as

Year	I	II	III
Profit (₹)	18,000	20,000	22,000

The capital investment of the firm is ₹60,000. Normal return on the capital is 10%.

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Calculate value of goodwill on the basis of three years' purchase of the average super profit for the last years.

7. Alok and Akash are partners in M/s Mega enterprises .They admit Ashish as partner *w.e.f* 1st April 2018.They agreed to value goodwill at 3yrs purchase by Super Profit Method for which they decided to take average of last 5years profits.The profits for the last five years were :

Year ended	(₹)
31 st March 2014	2,00,000(including gain of ₹25,000 from sale of FA)
31 st March 2015	1,70,000(including abnormal loss of ₹50,000)
31 st March 2016	2,10,000
31 st March 2017	2,30,000
31 st March 2018	2,50,000

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

Capitalisation Method;

$$\text{Capitalised value of Business} = \frac{\text{Average Profit} \times 100}{\text{Normal rate of Business(Profit)}}$$

For calculating goodwill under this method, the steps are:

1. Calculate average normal profit earned
2. Calculate capitalized value of the firm by using the above formula
3. Determine the value of net assets, on the date of valuation of Goodwill.
4. Goodwill = Capitalized value (as per step 2)- Net assets

- 8 (capitalisation method) A firm earned 60,000 as profit ,the normal rate of return being 10%.Assets of the firm are ₹7,20,000(excluding goodwill) and Liabilities are ₹2,40,000.Find the value of Goodwill by Capitalisation Method of Average profit method
9. Puneet and Tarun are in restaurant business having credit balance in their fixed capital accounts as ₹2,50,000 each. They have credit balances in their current accounts of ₹30,000 and ₹20,000 respectively. The firm does not have any liability. They are regularly earning profits and their average profits of last five years is ₹1,00,000.If the normal rate of return is

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10%, find the value of goodwill by capitalisation of average profit method.

10. Average Profit of the firm is ₹1,50,000. Total tangible assets in the firm are ₹14,00,000 and outside liabilities are ₹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
11. A business has earned average profit of ₹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
1. Capitalisation of super profit method. 2. Super profit method if the goodwill is valued at three years purchase of super profit.
Assets of the business were ₹10,00,000 and its external liabilities ₹1,80,000.

