INDIAN SCHOOL AL WADI AL KABIR

Class: XII Accountancy	**Department: Commerce**
Worksheet No: 1	**Topic: Valuation of Goodwill**

1.Calculate the value of goodwill on the basis of 2 times the average profit of the last 4 years. The profits were:
2017-18 – ₹ 60,000
2018-19 – ₹ 1,00,000
2019-20 – ₹1,40,000
2020-21 – ₹1,00,000 (Loss)

2. A purchased B's business with effect from 1.4.2020. It was agreed that the fir's goodwill is to be valued at two years' purchase of normal average profit of the last three years. The profits of B's business for the last three years were:
2017-18: ₹ 80,000 (including an abnormal gain of ₹10,000)
2018-19: ₹1,00,000 (after charging an abnormal loss of ₹20,000)
2019-20: ₹90,000 (excluding ₹10,000 as insurance premium on firm's property)
Calculate the of the firm's goodwill.

3. Sumit purchased Amit's business on 1st April, 2020. 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:

Year Ended	31st March, 2017	31st March, 2018	31st March, 2019	31st March, 2020
Profit (₹)	80,000	1,45,000	1,60,000	2,00,000

Books of Account revealed that:
(i) Abnormal loss of ₹ 20,000 was debited to Profit and Loss Account for the year ended 31st March, 2017.
(ii) A fixed asset was sold in the year ended 31st March, 2018 and gain (profit) of ₹ 25,000 was credited to Profit and Loss Account.
(iii) In the year ended 31st March, 2019 assets of the firm were not insured due to oversight. Insurance premium not paid was ₹ 15,000.
Calculate the value of goodwill.

4. X and Y are partners in a firm. They admit Z into partnership for equal share. It was agreed that goodwill will be valued at three years' purchase of average profit of last five years. Profits for the last five years were:

Year Ended	31st March, 2016	31st March, 2017	31st March, 2018	31st March, 2019	31st March, 2020
Profit (₹)	90,000 (Loss)	1,60,000	1,50,000	65,000	1,77,000

Books of Account of the firm revealed that:
(i) The firm had gain (profit) of ₹ 50,000 from sale of machinery sold in the year ended 31st March, 2017. The gain (profit) was credited in Profit and Loss Account.
(ii) There was an abnormal loss of ₹ 20,000 incurred in the year ended 31st March, 2018 because of a machine becoming obsolete in accident.
(iii) Overhauling cost of second hand machinery purchased on 1st July, 2019 amounting to ₹ 1,00,000 was debited to Repairs Account.
Calculate the value of goodwill.

5.Doremon, Shinchan and Nobita are partners sharing profits and losses in the ratio of 3:2:1. With effect from 1st April, 2022 they agree to share profits equally. For this purpose, goodwill is to be valued at two year's purchase of the average profit of last four years which were as follows: Year ending on 31st March,2019 ₹ 50,000 (Profit) Year ending on 31st March,2020 ₹ 1,20,000 (Profit) Year ending on 31st March,2021 ₹ 1,80,000 (Profit) Year ending on 31st March,2022 ₹ 70,000 (Loss) On 1st April, 2021 a Motor Bike costing ₹ 50,000 was purchased and debited to travelling expenses account, on which depreciation is to be charged @ 20% p.a by Straight Line Method. The firm also paid an annual insurance premium of ₹ 20,000 which had already been charged to Profit and Loss Account for all the years. Calculate the goodwill of the firm.

6. Calculate goodwill of a firm on the basis of three years purchases of the Weighted Average Profits of the last four years.

Years (ending 31st march)	2020	2021	2022	2023
Amount	28,000	27,000	46,900	53,810

a) On 1st April, 2020 a major plant repair was undertaken for ₹10,000 which was charged to revenue. The said sum is to be capitalized for goodwill calculation subject to adjustment of depreciation of 10% on reducing balance method.
b) For the purpose of calculating Goodwill the company decided that the years ending 31.03.2020 and 31.03.2021 be weighted as 1 each (being COVID affected) and for year ending 31.03.2022 and 31.03.2023 weights be taken as 2 and 3 respectively.

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

8. The average profits of firm were ₹ 16,000. The normal rate of return in the industry is 15%. Goodwill is to be valued at four years' purchase of super profits. The total assets of firm is 1,50,000 and outside liabilities were 50,000. Calculate the value goodwill.

9. The capital of the firm of Anuj and Benu is ₹10,00,000 and the market rate of interest is 15%. Annual salary to the partners is ₹60,000 each. The profit for the last three years were ₹3,00,000, ₹3,60,000 and ₹4,20,000. 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.

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

11. On 1st April, 2020, an existing firm had assets of ₹ 75,000 including cash of ₹ 5,000. Its creditors amounted to ₹ 5,000 on that date. The firm had a Reserve of ₹ 10,000 while Partners' Capital Accounts showed a balance of ₹ 60,000. If Normal Rate of Return is 20% and goodwill of the firm is valued at ₹ 24,000 at four years' purchase of super profit, find average profit per year of the existing firm.

12. The average profit earned by a firm is ₹ 80,000 which includes undervaluation of stock of ₹ 8,000 on an average basis. The capital invested in the business is ₹ 8,00,000 and the normal rate of return is 8%. Calculate the goodwill on the basis of 7 times the super profit.

13. A business has earned average profit of ₹ 1,00,000 during the last few years. Find out the value of goodwill by capitalization of super profit method, given that the assets of the business are ₹ 10,00,000 and its external liabilities are ₹ 1,80,000. The normal rate of return is 10%.

14. Form 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: 2021–₹ 54,000; 2020–₹42,000; 2019–₹ 39,000; 2018–₹ 67,000 and 2017–₹ 59,000
(ii) Capitalisation rate 20%.
(iii) Net assets of the firm ₹ 2,00,000.

15.Calculate the goodwill of firm on the basis of capitalization of average profits.
The profit for the last 5 years were:

Year ended	Net Profit	
31.3.17	₹1,50,000	
31.3.18	₹1,80,000	
31.3.19	₹1,00,000	(Including abnormal loss of ₹ 1,00,000)
31.3.20	₹2,60,000	(Including abnormal gain (profit) of ₹ 40,000)
31.3.21	₹2,40,000	(excluding insurance premium ₹ 40,000)

The firm has total assets of ₹ 20,00,000 and Outside Liabilities of ₹ 5,00,000 as on that date. Normal Rate of Return in similar business is 10%.

16. The average profit for last five years of a firm of Suman and Dhawan was ₹6,00,000. The normal rate of return in a similar business is 10%. Goodwill of the firm is valued at ₹40,00,000 calculated by capitalisation of super profit. Find out the amount of capital employed by the firm.

1 MARK BOARD QUESTIONS (OTQs)

1. If average capital employed in a firm is ₹8,00,000, average of actual profits is ₹1,80,000 and normal rate of return is10%, then value of goodwill as per capitalization of average profits is _____

2. The goodwill of the firm was valued on the basis of three years purchase of average profits of the last four years. The profits of the last four years were:

Year	Profit/Loss (₹)
2018 – 19	(14,500)
2019 – 20	15,400
2020 – 21	32,900
2021 – 22	16,800

The value of the goodwill of the firm was _____

3. A business earned an average profit of Rs. 60,000 during the last three years. The normal rate of return on similar business is 12%. The value of net assets of the business is Rs. 4,00,000. Its goodwill by capitalization of average profit method is _____

4. The profit earned by a firm after retaining ₹15,000 to its reserve was ₹ 75,000. The firm had total tangible assets worth ₹ 10,00,000 and outside liabilities ₹ 3,00,000. The value of the goodwill as per capitalization of average profit method was valued as ₹ 50,000. Determine the rate of Normal Rate of Return.

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a 10 %
b. 5 %
c.12%
d. 8%