INDIAN SCHOOL DARSAIT
DEPARTMENT OF COMMERCE

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I. Average Profits Method

1. The profit for the last five years of a firm were as follows – year 2014 ` 4,00,000; 2015 ` 3,55,000; year 2016 ` 6,00,000; year 2017 ` 4,45,000 and Year 2018 ` 5,00,000. Calculate goodwill of the firm on the basis of 4 years Purchase of 5 years average profits.

2. The Profits of a firm for the last five years were as follows:

2016–17	` 20,000 (including an abnormal loss of `10,000)
2017–18	` 24,000 (Including profit on sale of land `4,000)
2018–19	` (30,000) Loss (Excluding Insurance premium of `5,000
2019–20	` 25,000
2020–21	` 20,000

Calculate the value of goodwill on the basis of three years' purchase of
Average profits of last five years.

3. X sold his business to Y. calculate the value of Goodwill taking into consideration the following factors:
   a) Goodwill is valued at three years purchase of the average profits of the last four yea` Profits of the last four years were as : year 2009 – `40,000, year 2010 – `58,000, year 2011 – `53,000, year 2012 – `62,000
   b) Abnormal loss of `2000 due to theft has reduced the profits of the year 2009.
   c) Profits for the year 2010 include abnormal profit `4,000.
   d) A speculative and lottery profit of `5,000 was received during the year 2011 which was included in that year's profit.
   e) Profits of the year 2012 were reduced by `10,000 on such a machinery which was destroyed by fire during the year.

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 for 1/4th share on 1st April,2017. For this purpose, goodwill is to be valued at 3 times the average annual profits of the previous four or five years whichever is higher. The agreed profits for goodwill purpose of the past five years are as follows:

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Year ending on 31st March 2013	1,30,000
Year ending on 31st March 2014	1,20,000
Year ending on 31st March 2015	1,50,000

Year ending on 31st March 2016	1,10,000
Year ending on 31st March 2017	2,00,000

Calculate the value of Goodwill.

5. A, B, and C are partners sharing profits and losses equally. They agree to admit D for equal share. For this purpose, goodwill is to be valued at 3 year's purchase of average profits of last 5 years which were as follows:

	`
Year ending on 31st March 2013	60,000(profit)
Year ending on 31st March 2014	1,50,000(Profit)
Year ending on 31st March 2015	20,000(Loss)
Year ending on 31st March 2016	2,00,000(profit)
Year ending on 31st March 2017	1,85,000(profit)

On 1st October,2016 a computer costing `40,000 was purchased and debited to office expenses account on which depreciation is to be charged @ 25% p.a. calculate the value of goodwill.

6. Profit earned by the firm during the last four years were as follows:

Year ended 31st March	Profit(`)
2013	80,000
2014	1,00,000
2015	1,10,000
2016	1,50,000

Calculate the value of goodwill on the basis of three years purchase of weighted average profits. Weights to be used are 1,2,3 and 4 respectively to the profits for 2013, 2014, 2015and 2016.

7. Following information is available about the business firm:

a) Profits : in 2013, `40,000 ; in 2014, `50,000; in 2015, ` 60,000,
b) Non – recurring income of `1,000 is included in the profits of 2014,
c) Profits of 2013 have been reduced by `6,000 because goods were destroyed by fire.
d) Goods have not been insured but it is thought to insure them in future. The insurer premium is estimated at `400 per year.
e) Reasonable remuneration of the proprietor of business is `6,000 per year, but it has not been taken into account for calculation of above mentioned profits,

f) Profits of 2015 include `5,000 income on investment.

Goodwill is agreed to be valued at two years' purchase of the weighted average profits of the past three yea` The appropriate weights to be used are:-

2013: - 1; 2014:- 2; 2015:- 3.

8. Goodwill of the firm is valued at two years purchase of average profits of the last four years. The profits of the firm during the last four years are given below:

Year	Profit (`)
2013-14	3,50,000
2014-15	4,75,000
2015-16	6,70,000
2016-17	7,45,000

The following additional information is given:

(i) To cover the management cost, an annual charge of ` 56,250 should be made for the purpose of valuation of goodwill

(ii) The closing stock for the year ended 31-3-2017 was overvalued by ` 15,000. Calculate goodwill.

II Super Profits Method

1. The capital employed on December 31, 2018, ` 5,00,000 and the profits for the last five years were: 2014–` 40,000: 2015-` 50,000; 2016-` 55,000; 2017-`70,000 and 2018-` 85,000. You are required to find out the value of goodwill based on 3 years purchase of the super profits of the business, given that the Normal rate of return is 10%.

2. The capital of the firm of Anu and Benu is ` 1,00,000 and the market rate of interest is 15%. Annual salary to partners is ` 6,000 each. The 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' average super profits.

3. The capital employed of the firm is ` 1,00,000 and normal rate of return is 8%, the average profits for last 5 years are ` 12,000 and goodwill is to be worked out at 3 years' purchase of super profits.

4. On 1st April, 2018, a firm has assets of `1,00,000 excluding stock of `20,000. Partners' Capital Accounts showed a balance of `60,000. The current liabilities were `10,000 and the balance constituted the reserve. If the normal rate of return is 8%, the 'Goodwill' of the firm is valued at `60,000 at four years purchase of super profit, and the average profit of the firm.

5. On April 1st 2018, an existing firm had assets of `5,00,000 including cash of `20,000. The firm had a reserve Fund of `90,000, partner's capital accounts showed a balance of `3,80,000 and creditors amounted to `30,000. If the normal rate of return is 20% and the goodwill of the firm is valued at `64,000 at 4 years purchase of super profit. Find the average profits of the firm.

6. On 1st April 2018 an existing Firm had assets of `75,000 including cash of `5,000. Its Creditors amounted to `10,000 on that date. The firm had a Reserve fund of `5,000 while partners Capital account showed a balance of `60,000. If the normal rate of return is 20%, and the goodwill of the firm is valued at `48,000 at four years purchase of super profit, calculate average profit.

III Capitalization Methods

1. A business has earned average profits of ` 1,00,000 during the last few years and the normal rate of return in a similar business is 10%. Ascertain the value of goodwill by capitalization average profits method, given that the value of net assets of the business is ` 8,20,000.

2. Rama Brothers earn an average profit of ` 30,000 with a capital of ` 2,00,000. The normal rate of return in the business is 10%. Using capitalization of super profits method work out the value the goodwill of the firm.

1. A, B and C are partners in a firm. Their capitals are A `2,50,000, B ` 2,00,000 and C `1,50,000. Their business earned average profits of `96,000 and the normal rate of return in a similar business is 12%. Ascertain the value of goodwill by capitalization of average profits method.

2. The following information relates to a partnership firm:

   a) Profits / Losses for the last six years:

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1st year	20,000(profit)
2nd year	60,000(profit)
3rd year	10,000(Loss)
4th year	60,000(profit)
5th year	50,000(profit)
6th year	72,000(profit)

   b) Average Capital Employed is `2,00,000.

   c) Rate of normal profit is 15%

   Find out the value of goodwill on the basis of:

   i) Four years purchase of average profits.

ii) Four years purchase of super profits.

iii) Capitalization of super profits.

IV. Hidden Goodwill

1. A and B are Partners with capitals of `40,000 and `30,000 respectively. C was admitted for 1/4th share. C brought `40,000 as Capital. Calculate the goodwill of the firm.

2. X and Y are partners in a firm, sharing profits in the ratio of 3:2.They admit Z as a partner for 1/4th share. Z brings `2,00,000 as his share of capital. The value of the total assets of the firm was `4,00,000 and outside liabilities were valued at `50,000 on that date. Calculate the goodwill.

3. X and Y are partners in a firm, sharing profits in the ratio of 3:2.They admit Z as a partner for 1/5th share. Z brings `80,000 as his share of capital. The value of the total assets of the firm was `2,00,000 and outside liabilities were valued at `40,000 on that date. Value the goodwill.

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