



INDIAN SCHOOL AL WADI AL KABIR

Class: XII Accountancy	Department: Commerce
Worksheet: 1	Topic: Valuation of Goodwill

MCQs:

- Average profit method for goodwill multiplies past profits by:
(A) Rate of return
(B) Capital Employed
(C) Years' purchase
(D) No. of years for which the average profit is calculated.
- Super profit is calculated as:
(A) Average profit – Capital Invested profit
(B) Normal profit – Average profit
(C) Average profit – Normal profit
(D) Total Profit – Net assets
- Assertion(A): Both purchase and self-generated goodwill are accounted in the books of account.
Reason (R): According to AS-26 only purchase goodwill is accounted in the books of account. Self-generated goodwill is not accounted in the books of account
(A) A is correct but R is not correct
(B) R is correct but A is not correct
(C) Both A and R is correct
(D) Both A and R not correct
- Goodwill of the firm based on 2 years purchase of last 3 years average profit is 25,000. The average profit of the firm:
(A) ₹50,000 (B) ₹75,000 (C) ₹12,500 (D) ₹1,00,000
- If average capital employed in a firm is ₹8,00,000, average of actual profits is ₹1,80,000 and normal rate of return is 10%, then value of goodwill as per capitalization of average profits is:
(A) ₹10,00,000 (B) ₹18,00,000 (C) ₹80,00,000 (D) ₹78,20,000

Numerical:

- A purchased B's business with effect from 1.4.2025. It was agreed that the firm's goodwill is to be valued at two years' purchase of average profit of the last three years. The profits of B's business for the last three years were:
2022-23: ₹ 80,000 (including an abnormal gain of ₹10,000)
2023-24: ₹1,00,000 (after charging an abnormal loss of ₹20,000)
2024-25: ₹90,000 (excluding ₹10,000 as insurance premium on firm's property)
Calculate the of the firm's goodwill.
- Sumit purchased Amit's business on 1st April, 2025. 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, 2022	31st March, 2023	31st March, 2024	31st March, 2025
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, 2022.
- (ii) A fixed asset was sold in the year ended 31st March, 2023 and gain (profit) of ₹ 25,000 was credited to Profit and Loss Account.
- (iii) In the year ended 31st March, 2024 assets of the firm were not insured due to oversight. Insurance premium not paid was ₹15,000.
- Calculate the value of goodwill.

8. The total capital of the firm of Suhail, Manoj and Mahi 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.

9. 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.

10. The average net profits expected of a firm in future are ₹68,000 per year and capital invested in the business by the firm is ₹3,50,000. The rate of interest expected from capital invested in this class of business is 12%. The remuneration of the partners is estimated to be ₹8000 for the year. Calculate the value of goodwill on the basis of two years' purchase of super profits.

11. On April 1st 2025, 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.

12. Sujit and Ranjit were partners in a firm with a combined capital of ₹2,50,000. The normal rate of return was 10%. The profits of the last four years were as follows: 2019-20: ₹35,000 2020-21: ₹25,000, 2021-22: ₹ 32,000, 2022-23: ₹ 33,000 The closing stock for the year 2022-23 was overvalued by ₹5,000. Calculate goodwill of the firm based on three years purchase of last four years average super profit.

13. Goodwill of the firm was valued at ₹2,25,000, being valued at 3 years' purchase of Super profits. If Capital Employed was ₹10,00,000 and Average profits amounted to ₹1,25,000. What is the Normal rate of return?

14. The goodwill of a partnership firm was valued at ₹4,00,000 as per capitalization of average profit. The average profit was ₹60,000 The normal rate of return is 10%. What was the capital employed?

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

Year ended	Net Profit	
31.3.21	₹1,50,000	
31.3.22	₹1,80,000	
31.3.23	₹1,00,000	(Including abnormal loss of ₹ 1,00,000)
31.3.24	₹2,60,000	(Including abnormal gain (profit) of ₹ 40,000)
31.3.25	₹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.

17. 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.

18. On 1st April, 2025, 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 of the existing firm.

19 (a) Ahaan and Sayan are partners in a firm and they admit Jaspal into partnership w. e. f. 1st April, 2025. 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 profit for the last 5 years:

Year ended	Net Profit	
31.3.21	₹1,50,000	
31.3.22	₹1,80,000	
31.3.23	₹1,00,000	(Including abnormal loss of ₹ 1,00,000)
31.3.24	₹2,60,000	(Including abnormal gain (profit) of ₹ 40,000)
31.3.25	₹2,40,000	

(b) Calculate the Value of goodwill based on capitalization of Super profit.

20. 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.

21. Ganesh and Mahesh 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, 2019–1, 2020–2, 2021–3, 2022–4 and 2023–5.

Year Ended	31st March, 2019	31st March, 2020	31st March, 2021	31st March, 2022	31st March, 2023
Profit (₹)	90,000	80,000	1,25,000	1,50,000	1,75,000

Scrutiny of books of account revealed the following:

1. There was an abnormal loss of ₹15,000 during the year ended 31st March, 2019.
2. There was an abnormal gain of ₹10,000 during the year ended 31st March, 2021.
3. Closing Stock as on 31st March, 2022 was overvalued by ₹15,000.

Calculate value of goodwill.