



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 four years purchase of average profit of the last five years. The profits were:

- 2016-17 – ₹ 30,000
- 2017-18 – ₹ 70,000
- 2018-19 – ₹ 1,00,000
- 2019-20 – ₹ 1,40,000
- 2020-21 – ₹ 1,20,000 (Loss)

2. 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.

3. A purchased B's business with effect from 1.4.2020. It was agreed that the firm'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 value of the firm's 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. 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.

6. 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.

7. 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.

8. 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.

9. A business earned an average profit of ₹ 8,00,000 during the last few years. The normal rate of profit in the similar type of business is 10%. The total value of assets and liabilities of the business were ₹ 22,00,000 and ₹ 5,60,000 respectively. Calculate the value of goodwill of the firm by super profit method if it is valued at 2¹/₂ years' purchase of super profits.

10. 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.

11. Ayub and Amit are partners in a firm and they admit Jaspal into partnership w. e. f. 1st April, 2021. 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 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	

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%. Calculate value of goodwill.

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. From the following information, calculate value of goodwill of the firm by applying Capitalisation of Super profit:

Total Capital of the firm ₹ 16,00,000.

Normal rate of return 10%.

Profit for the year ₹ 2,00,000.

14. Average profit of a firm during the last few years is ₹1,50,000. In similar business, the normal rate of return is 10% of the capital employed. Calculate the value of goodwill by capitalisation of super profit method if super profits of the firm are ₹ 50,000.

15. 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%.

16. 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.

17. 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%.

18. Jai and Kishan are partners their capital are ₹3,00,000 and ₹2,00,000 respectively. During the year ended 31.3.2021 the firm earned a profit of ₹1,50,000. Assuming the normal rate of return as 20%. Calculate goodwill:

(i) On the basis of 2 years purchase of super profit.

(ii) On the basis of capitalization of super profit.

(iii) On the basis of capitalization of average profit.