

ATOMIC ENERGY CENTRAL SCHOOL -3, RAWATBHATA
ACCOUNTANCY
CLASS XII-2020-2021

Worksheet Goodwill Nature and Valuation-2

Q.1 Abhay, Babu and Charu are partners sharing profits and losses equally. They agree to admit Daman for an equal share of profit. For this purpose, the value of goodwill is to be calculated on the basis of four years' purchase of the average profit of the last five years. These profits for the year ended 31st March, were:

Year	2015	2016	2017	2018	2019
Profit/(Loss) (₹)	1,50,000	3,50,000	5,00,000	7,10,000	(5,90,000)

On 1st April, 2018, a car costing ₹ 1, 00,000 was purchased and debited to Travelling Expenses Account, on which depreciation is to be charged @ 25%. The interest of ₹ 10,000 on Non-trade Investments is a credit to income for the year ended 31st March, 2018 and 2019.

Calculate the value of goodwill after adjusting the above.

Q.2 Bharat and Bhushan are partners sharing profits in the ratio of 3: 2. They decided to admit Manu as a partner from 1st April, 2019 on the following terms:

(i) Manu will be given 2/5th share of the profit.

(ii) Goodwill of the firm will be valued at two years' purchase of three years' normal average profit of the firm.

Profits of the previous three years ended 31st March, were:

2019 – Profit ₹ 30,000 (after debiting loss of stock by fire ₹ 40,000).

2018 – Loss ₹ 80,000 (includes voluntary retirement compensation paid ₹ 1, 10,000).

2017 – Profit ₹ 1, 10,000 (including a gain (profit) of ₹ 30,000 on the sale of fixed assets).

Calculate the value of goodwill.

Q.3 Bhaskar and Pillai are partners sharing profits and losses in the ratio of 3 : 2. They admit Kanika into a partnership for 1/4th share in profit. Kanika brings in her share of goodwill in cash. Goodwill for this purpose is to be calculated at two years' purchase of the average normal profit of the past three years. Profits of the last three years ended 31st March, were:

2017 – Profit ₹ 50,000 (including profit on the sale of assets ₹ 5,000).

2018 – Loss ₹ 20,000 (including loss by fire ₹ 30,000).

2019 – Profit ₹ 70,000 (including insurance claim received ₹ 18,000 and interest on investments and Dividend received ₹ 8,000).

Calculate the value of goodwill. Also, calculate goodwill brought in by Kanika.

Q.4 Sumit purchased Amit's business on 1st April, 2019. Goodwill was decided to be valued at two years' purchase of the average normal profit of the last four years. The profits for the past four years were:

Year Ended	31st March, 2016	31st March, 2017	31st March, 2018	31st March, 2019
Profits (₹)	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, 2016.

(ii) A fixed asset was sold in the year ended 31st March, 2017 and gain (profit) of ₹ 25,000 was credited to Profit and Loss Account.

(iii) In the year ended 31st March, 2018 assets of the firm were not insured due to oversight. Insurance premium not paid was ₹ 15,000.

Calculate the value of goodwill.

Q.4 Normal Profits Evaluation

Year	Profit/(Loss) ₹	Adjustment	Normal Profit ₹
March 31st, 2016	80,000	20,000	1,00,000
March 31st, 2017	1,45,000	(25,000)	1,20,000
March 31st, 2018	1,60,000	(15,000)	1,45,000
March 31st, 2019	2,00,000	—	2,00,000
Total			5,65,000

Average Profit = Total Profits for past given years x Number of Years

= 5,65,000 / 4 = ₹ 1,41,250

Goodwill = Average Profit × No. of years' purchase

= 1,41,250 × 2 = ₹ 2,82,500