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

Worksheet Goodwill Nature and Valuation-3

Practice Questions

Q.1) Profits of a firm for the year ended 31st March for the last five years were:

Year Ended	31st March, 2015	31st March, 2016	31st March, 2017	31st March, 2018	31st March, 2019
Profits ₹	20,000	24,000	30,000	25,000	18,000

Calculate the value of goodwill on the basis of three years' purchase of Weighted Average Profit after assigning weights 1, 2, 3, 4 and 5 respectively to the profits for years ended 31st March, 2015, 2016, 2017, 2018 and 2019.

Q.2) A and B are partners sharing profits and losses in the ratio of 5 : 3. On 1st April, 2019, C is admitted to the partnership for 1/4th share of profits. For this purpose, goodwill is to be valued at two years' purchase of the last three years' profits (after allowing partners' remuneration). Profits to be weighted 1: 2: 3, the greatest weight being given to last year. Net profit before partners' remuneration were: 2016-17 : ₹ 2,00,000; 2017-18 : ₹ 2,30,000; 2018-19 : ₹ 2,50,000. The remuneration of the partners is estimated to be ₹ 90,000 p.a. Calculate the amount of goodwill.

Q.3) Raman and Daman are partners sharing profits in the ratio of 60: 40 and for the last four years, they have been getting annual salaries of ₹ 50,000 and ₹ 40,000 respectively. The annual accounts have shown the following net profit before charging partners' salaries:

Year ended 31st March, 2017 – ₹ 1,40,000; 2018 – ₹ 1,01,000 and 2019 – ₹ 1,30,000.

On 1st April, 2019, Zeenu is admitted to the partnership for 1/4th share in profit (without any salary). Goodwill is to be valued at four years' purchase of weighted average profit of last three years (after partners' salaries); Profits to be weighted as 1: 2: 3, the greatest weight being given to the last year. Calculate the value of Goodwill.

Q.4) Dinesh and Mahesh are partners sharing profits and losses in the ratio of 3 : 2. They admit Ramesh into partnership for 1/4th share in profits. Ramesh brings in his share of goodwill in cash. Goodwill for this purpose shall be calculated at two years' purchase of the weighted average normal profit of past three years. Weights being assigned to each year 2017−1; 2018−2 and 2019−3. Profits of the last three years were:

2017 − Profit ₹ 50,000 (including profits on sale of assets ₹ 5,000).

2018 − Loss ₹ 20,000 (including loss by fire ₹ 35,000).

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 the goodwill brought in by Ramesh.

Q.5) Manbir and Nimrat are partners and they admit Anahat into partnership. It was agreed to value goodwill at three years' purchase on Weighted Average Profit Method taking profits of the last five years. Weights assigned to each year as 1, 2, 3, 4 and 5 respectively to profits for the year ended 31st March, 2015 to 2019. The profits for these years were: ₹ 70,000, ₹ 1, 40,000, ₹ 1, 00,000, ₹ 1, 60,000 and ₹ 1, 65,000 respectively.

Scrutiny of books of account revealed following information:

(i) There was an abnormal loss of ₹ 20,000 in the year ended 31st March, 2015.

(ii) There was an abnormal gain (profit) of ₹ 30,000 in the year ended 31st March, 2016.

(iii) Closing Stock as on 31st March, 2018 was overvalued by ₹ 10,000.

Calculate the value of goodwill.

Module-III Practice Question 3’s Solution

Calculate the goodwill of a firm on the basis of three years’ purchase of the Weighted Average Profit of the last four years. The profits of the last four financial years ended 31st March, were: 2016 – ₹ 25,000; 2017 – ₹ 27,000; 2018 – ₹ 46,900 and 2019 – ₹ 53,810. The weights assigned to each year are 2016 – 1; 2017 – 2; 2018 – 3; 2019 – 4. You are supplied the following information:

(i) On 1st April, 2016, a major plant repair was undertaken for ₹ 10,000 which was charged to revenue. The said sum is to be capitalised for goodwill calculation subject to adjustment of depreciation of 10% on Reducing Balance Method.

(ii) The Closing Stock for the years ended 31st March, 2017 and 2018 were overvalued by ₹ 1,000 and ₹ 2,000 respectively.

(iii) To cover management costs an annual charge of ₹ 5,000 should be made for the purpose of goodwill valuation.

Solution:

Particulars	Year	March 31st, 2016	March 31st, 2017	March 31st, 2018	March 31st, 2019
Profit		25,000	27,000	46,900	53,810
Add: Plant repair			10,000		
Less: Depreciation @10% W.D.V			1,000	900	810
Less: Closing Stock Overvaluation			1,000	2,000	
Add: Opening Stock Overvaluation				1,000	2,000
Less: Annual Charge		5,000	5,000	5,000	5,000
Normal Profit/Loss		20,000	30,000	40,000	50,000

Year	Normal Profits ₹	Weights	Weighted Profits ₹
31st March, 2016	20,000	1	20,000
31st March, 2017	30,000	2	60,000
31st March, 2018	40,000	3	1,20,000
31st March, 2019	50,000	4	2,00,000
Total		10	4,00,000

Weighted Average Profit = Weighted Average Profit = TotalProductProfitTotalofWeight
= 4, 00,000/10 = ₹ 40,000

Goodwill = Weighted Average Profit x No. of years' of Purchase

= 40,000 X 3 = ₹ 1, 20,000