

CLASS XII

CHAPTER 2: VALUATION OF GOODWILL

- 1 A business has earned average profits of 100000 during the last few years and the normal rate of return in similar business is 10%. Find out the value of goodwill by:
(i) Capitalization of super profit method and
(ii) Super profit method if the goodwill is valued at 3 years purchase of super profit.
The assets of the business were 10,00,000 and its external liabilities 1,80,000.
- 2 A partnership firm earned net profits during the last three years as follows:
2007-2008 - 190000
2008-2009 - 220000
2009-2010 - 250000
The capital employed in the firm throughout the above mentioned period has been 4,00,000. Having regard to the risk involved, 15% is considered to be a fair return on the capital. The remuneration of all the partners during this period is estimated to be 1,00,000 p.a. Calculate the value of goodwill on the basis of (i) two years' purchases of super profits earned on average basis during the above mentioned three years (ii) by capitalization method.
- 3 What are the factors affecting goodwill?
- 4 Explain the various methods of valuing goodwill.
- 5 The profits for the last five years of a business are 4,000, 6,000, 8,000, 12,000 and 15000. Goodwill is 3 years purchase of the last five years average profits. Calculate goodwill based on average profit method.
- 6 The profits for the last five years of a business are 2010- 4,000, 2011- 6,000, 2012- 8,000, 2013 - 12,000 and 2014 - 15000. Goodwill is 3 years purchase of the last five years average profits. Calculate goodwill based on 3 years purchase of weighted

average profits after assigning weights 1,2,3,4 and 5 respectively to the profits for 2010, 2011, 2012, 2013 and 2014.

- 7 Calculate the value of goodwill as on 1.1.2007 on the basis of 3 years purchases of the Average profits of the last 5 years profits. The profits and losses for the years were- 2001- 30,000; 2002- 40,000 (loss); 2003- 92,000; 2004- 55000; 2005- 70000; 2006- 90000. Profit on sale of a fixed asset during 2002 amounted to 2,000, during 2004 amounted to 5000. Loss on sale of a fixed asset during 2006 amounted to 5,000.
- 8 Calculate the value of goodwill as on 1.1.2007 on the basis of 3 years purchases of the Average profits of the last 5 years profits. The profits and losses for the years were- 2001- 30,000; 2002- 40,000 (loss); 2003- 92,000; 2004- 55000; 2005- 70000; 2006- 90000
- 9 Calculate goodwill of a firm on the basis of three year' purchase of the weighted average profits of the last four years. The profit of the last four years was: 2011 20,200; 2012 . 24,800; 2013 20,000 and 2014 30,000. The weights assigned to each year are: 2011 – 1; 2012 – 2; 2013 – 3 and 2014 – 4.
You are supplied the following information:
 1. On September 1, 2013 a major plant repair was undertaken for 6,000, which was charged to revenue. The said sum is to be capitalized for goodwill calculation subject to adjustment of depreciation of 10% p.a. on reducing balance method.
 2. The Closing Stock for the year 2012 was overvalued by 2,400.
 3. To cover management cost an annual charge of 4,800 should be made for purpose of goodwill valuation.
- 10 A firm earned profits of 80,000, 1,00,000, 1,20,000 and 1,80,000 during 2010-11, 2011-12, 2012-13 and 2013-14 respectively. The firm has capital investment of 5,00,000. A fair rate of return on investment is 15% p.a. Calculate goodwill of the firm based on three years' purchase of average super profits of last four years.
- 11 From the figures given below, calculate goodwill according to the capitalization of Average Profit Method. Actual Average Profit 72000, Normal Profit @10%, Assets 970000 Liabilities 400000.
- 12 The average net profits Y Ltd. expected in the future are 54000 per year. The average capital employed in the business is 200000. The rate of interest expected

from capital invested in this class of business is 10%. The remuneration of the partners is estimated to be 10000 per annum. Find out the value of goodwill on the basis of three years purchase of super profits.

- 13 A firm earns 16200 as its annual profits, the rate of normal profit being 10%. The assets of the firm amounted to 150000. The value of goodwill is 45000. Find the value of outsider's liabilities.