**CLASS : XII**

**SUBJECT :Accountancy**

**VALUATION OF GOODWILL**

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| **Sr. No.** | **Knowledge Based** | **Marks** |
| 1. | What is goodwill? What factors affect goodwill? |  |
| 2. | Explain various methods of valuation of goodwill. |  |
| 3. | Explain the characteristics of Goodwill |  |
| **S. No.** | **Understanding Based** |  |
| 1. | The profit for the five years of a firm are as follows – year 2009 Rs. 4,00,000;  year 2010 Rs. 3,98,000; year 2011 Rs. 4,50,000; year 2012 Rs. 4,45,000 and  year 2013 Rs. 5,00,000. Calculate goodwill of the firm on the basis of 4 years  purchase of 5 years average profits |  |
| 2. | The Profits of firm for the five years are as follows:  *Year Profit*  2008–09 20,000  2009–10 24,000  2010–11 30,000  2011–12 25,000  2012–13 18,000  Calculate the value of goodwill on the basis of three years’ purchase of  weighted average profits based on weights 1,2,3,4 and 5 respectively. |  |
| 3. | The books of a business showed that the capital employed on December  31, 2012, Rs. 5,00,000 and the profits for the last five years were: 2008–  Rs. 40,000: 2009-Rs. 50,000; 2010-Rs. 55,000; 2011-Rs.70,000 and  2012-Rs. 85,000. You are required to find out the value of goodwill based  on 3 years purchase of the super profits of the business, given that the  normal rate of return is 10%. |  |
| 4. | A business has earned a average profits of Rs. 1,00,000 during the last few years  and the normal rate of return in a similar business is 10%. Ascertain the value  of goodwill by capitalisation average profits method, given that the value of net  assets of the business is Rs. 8,20,000. |  |
| **S. No.** | **Application** |  |
| 1. | **.** The following were the profits of a firm for the last three years.  **Year ending March 31** **Profit (Rs.)**  2001 5,00.000 (including an abnormal gain of Rs. 1,50,000)  2002 4,00,000 (after charging an abnormal loss of Rs. 2,00,000)  2003 6,00,000 (Excluding Rs. 2,00,000 payable on the insurance of plant and machinery)  Calculate the value of firm’s goodwill on the bests of four years’ purchase of the average profits for the last three years. |  |
| 2. | A purchased B’s business with effect from 1st January, 2010. 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:  2007 – Rs. 80,000 (including an abnormal gain of Rs. 10,000).  2008 – Rs. 1,00,000 (after charging an abnormal loss of Rs. 20,000).  2009 – Rs. 90,000 excluding Rs. 10,000 as insurance premium of firm’s property now to be insured).  Calculate the value of the firm’s goodwill. |  |
| 3. | From the following information, calculate the value of goodwill of M/s. Sharma and Gupta:  (i) At three years’ purchase of Average Profits. 4,12,200  (ii) At three years’ purchase of Super Profits. 34,200  (iii) On the basis of capitalization of Super Profits. 63,333  (iv) On the basis of capitalization of Average Profits. 39,900  **INFORMATION:**  Average Capital employed in the business – Rs. 7,00,000.  Net Trading results of the firm for the firm for the past years: Profit 2003 – Rs. 1,47,600; Loss 2004 Rs. 1,48,100; Profit 2005 Rs. 4,48,700.  Rate of interest expected from capital having regard to the risk involved – 18 per cent.  Remuneration to each partner for his service – Rs. 500 per month.  Assets (excluding goodwill) – Rs. 7,54,762. Liabilities Rs. 31,329 |  |
| **S.No.** | **Value Based** |  |
| 1. | A and B are partners in a firm. A manages all business as a  representative of firm. For execution of a sales order a valuable  customer A incurred Rs. 5,000 for delivery in quick time. B does not  agree to reimburse the above expenses from the firm‘s accounts. Explain  the treatment of above expense and describe which value is violated by  the partners. |  |
| 2. | A, B and C are partners in a firm. C used firm‘s money to buy shares  without disclosing it to other partners. Which value C is violating and  what will be treatment of profit earned by doing so? |  |
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| **S.No.** | **HOTS** |  |
| 1. | 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 were: 2003  Rs. 20,200; 2004 Rs. 24,800; 2005 Rs. 20,000 and 2006 Rs. 30,000. The weights  assigned to each year are : 2003 – 1; 2004 – 2; 2005 – 3 and 2006 – 4.  You are supplied the following information:  1. On September 1, 2005 a major plant repair was undertaken for Rs. 6,000,  which was charged to revenue. The said sum is to be capitalised for  goodwill calculation subject to adjustment of depreciation of 10% p.a.  on reducing balance method.  2. The Closing Stock for the year 2004 was overvalued by Rs. 2,400.  3. To cover management cost an annual charge of Rs. 4,800 should be  made for purpose of goodwill valuation. |  |
| 2. | What is self generated goodwill? Explain with example .At what value it is recorded? |  |
| 3. | What is purchased goodwill? At what value it is recorded? |  |