Q. 4. *X* purchased the business of *Y* from 1st April, 2023. For this purpose goodwill is to be valued at 100% of the average annual profits of the last four years. The profits shown by *Y*'s business for the last four years were :

Year ended		(₹)	
31st March, 2020	Profit	1,00,000	(after debiting loss of stock by fire ₹50,000)
" 2021	Loss	1,50,000	(includes voluntary retirement compensation paid ₹80,000)
" 2022	Profit	1,50,000	
" 2023	Profit	2,00,000	

Verification of books of accounts revealed the following :

(*i*) During the year ended 31st March, 2021, a machine got destroyed in accident and ₹60,000 was written off as loss in Profit & Loss Account.

(*ii*) On 1st July 2021, Two Computers costing ₹40,000 each were purchased and were debited to Travelling Expenses Account on which depreciation is to be charged @ 10% p.a. on Straight Line Method.

Calculate the value of goodwill.

[Ans. Goodwill ₹1,39,000.]

Hint. Profit for the year ended 31st March 2022 ₹2,24,000 and for 2023 ₹1,92,000.

Q. 5. *A*, *B* and *C* are partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. They decide to take *D* into partnership for 1/4th share on 1st April, 2022. For this purpose, goodwill is to be valued at 3 times the average annual profits of the previous four or five years whichever is higher. The agreed profits for goodwill purpose of the past five years are as follows :

	₹
Year ending on 31st March 2018	1,30,000
Year ending on 31st March 2019	1,20,000
Year ending on 31st March 2020	1,50,000
Year ending on 31st March 2021	1,10,000
Year ending on 31st March 2022	2,00,000

Calculate the value of Goodwill.

[Ans. Goodwill ₹4,35,000]

Q. 7. The profits earned by a firm during the last four years were as follows :

Year ended 31st March	*Profits (₹)*
2018	80,000
2019	1,00,000
2020	1,10,000
2021	1,50,000

Calculate the value of goodwill on the basis of three year's purchase of weighted average profits. Weights to be used are 1, 2, 3 and 4 respectively to the profits for 2018, 2019, 2020 and 2021.

[Ans. Goodwill ₹3,63,000.]

Q. 9. Calculate the value of goodwill on the basis of three year's purchase of the weighted average profits of the last five years. Profits to be weighted 1, 2, 3, 4 and 5, the greatest weightage to be given to last year. Profits of the last five years were :

Year ended			*(₹)*	
31st March,	2019 :	Profit	80,000	
,,	2020 :	Profit	1,05,000	(after considering abnormal loss of ₹41,500)
,,	2021 :	Loss	20,000	(after considering abnormal gain of ₹40,000)
,,	2022 :	Profit	1,80,000	
,,	2023 :	Profit	2,00,000	

Books of Accounts of the firm revealed that :

(*i*) Closing Stock as on 31st March, 2019 was overvalued by ₹40,000.

(*ii*) Repairs to Machinery ₹60,000 were wrongly debited to Machinery Account on 1st July, 2021. Depreciation was charged on Machinery @ 20% p.a. on diminishing balance method.

[Ans. Value of Goodwill ₹3,60,000.]

Hint : Weighted Profit for the year ended 31st March 2022 ₹5,16,000 and 2023 ₹10,51,000.

Super Profit Method :

Q. 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. *(C.B.S.E. Sample Question Paper, 2015)*

[Ans. Goodwill ₹1,35,000]

Q. 11. Capital invested in a firm is ₹3,00,000. Normal rate of return is 10%. Average profits of the firm are ₹41,000 (after an abnormal loss of ₹2,000). Calculate goodwill at five times the super profits.

[Ans. Goodwill ₹65,000.]

Q. 12. 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 ₹2,80,000, ₹3,80,000 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. *(C.B.S.E. 2019, M.P.)*

[Ans. Goodwill ₹1,80,000]

Q. 13. Find out the capital employed from the following information :

Normal rate of return :		12%
Profits : 2017-18	₹	80,000
2018-19	₹	1,30,000
2019-20	₹	1,56,000
Goodwill valued at 3 years purchase of Super Profits	₹	1,50,000

[Ans. Capital Employed ₹6,00,000]

Q. 14. *A* and *B* are partners. They admit *C* for $\frac{1}{4}$th share in profits. For this purpose goodwill is to be valued at three year's purchase of super profits.

Following information is provided to you :

	₹
A's Capital	5,00,000
B's Capital	4,00,000
General Reserve	1,50,000
Profit & Loss A/c (Cr.)	30,000
Sundry Assets	12,00,000

The normal rate of return is 15% p.a. Average Profits are ₹2,00,000 per year. You are required to calculate *C*'s share of goodwill.

[Ans. *C*'s share of goodwill ₹28,500.]

Hint. Sundry Assets will be ignored.

Q. 15. On 1st April, 2022, a firm had assets of ₹1,00,000 excluding stock of ₹20,000. Partners' Capital Accounts showed a balance of ₹60,000. The current liabilities were ₹10,000 and the balance constituted the reserve. If the normal rate of return is 8%, the 'Goodwill' of the firm is valued at ₹60,000 at four years purchase of super profit, find the average profit of the firm.

[Ans. Average Profit ₹23,800.]

Hint : Capital Employed = Total Assets – Current Liabilities
= ₹1,20,000 – ₹10,000 = ₹1,10,000

Q. 16. On April 1st 2020, an existing firm had assets of ₹5,00,000 including cash of ₹20,000. the firm had a General Reserve of ₹90,000, partner's capital accounts showed a balance of ₹3,80,000 and creditors amounted to ₹30,000. If the normal rate of return is 20% and the goodwill of the firm is valued at ₹64,000 at 4 year's purchase of super profit, find the average profits of the firm.

[Ans. ₹1,10,000.]

Capitalisation Method :

Q. 17. The average profits of a firm is ₹48,000. The total assets of the firm are ₹8,00,000. Value of other liabilities is ₹5,00,000. Average rate of return in the same business is 12%.

Calculate goodwill from capitalisation of average profits method.

[Ans. ₹1,00,000.]

Hint : Capital Employed = Assets – Liabilities.

Q. 20. The following information relates to a partnership firm :

(*a*) Profits/Losses for the last six years :

1st year	₹20,000 Profit	4th year	₹60,000 Profit
2nd year	₹60,000 Profit	5th year	₹50,000 Profit
3rd year	₹10,000 Loss	6th year	₹72,000 Profit

(*b*) Average Capital Employed is ₹2,00,000.

(*c*) Rate of normal profit is 15%.

Find out the value of goodwill on the basis of :

(*i*) Four year's purchase of average profits.

(*ii*) Four year's purchase of super profits.

(*iii*) Capitalisation of super profits.

[**Ans.** (*i*) On the basis of average profits ₹1,68,000
(*ii*) On the basis of super profits ₹ 48,000
(*iii*) On the basis of capitalisation of super profits ₹ 80,000.]

Q. 22. P, Q and R are partners sharing profits equally. They decided that in future R will get 1/7 share in profits. On the day of change, firm's Goodwill is valued at ₹42,000. Give Journal Entries arising on account of change in profit sharing ratio.

[**Ans.** Debit P and Q by ₹4,000 each and credit R by ₹8,000.]

Hint.: New Ratios $\frac{3}{7}:\frac{3}{7}:\frac{1}{7}$. P and Q gain $\frac{2}{21}$ each and R sacrifices $\frac{4}{21}$.

Q 26. *A* and *B* sharing profits and losses in the ratio of 2 : 3, decide to share future profits and losses equally with effect from 1st April, 2021. An extract of their Balance Sheet as at 31st March, 2021 is as follows :

Liabilities	₹	*Assets*	₹
Workmen Compensation Reserve	40,000		

Show the accounting treatment under the following alternative cases :

Case (*i*) If there is no other information.

Case (*ii*) If a claim on account of workmen's compensation is estimated at ₹25,000.

Case (*iii*) If a claim on account of workmen's compensation is estimated at ₹40,000.

Case (*iv*) If a claim on account of workmen's compensation is estimated at ₹50,000.

[**Ans.** Case (*i*) Cr. *A*'s Capital A/c by ₹16,000 and *B*'s Capital A/c by ₹24,000

Case (*ii*) Cr. *A*'s Capital A/c by ₹6,000 and *B*'s Capital A/c by ₹ 9,000

Case (*iii*) Entire amount of Workmen Compensation Reserve will be Credited to Provision for Workmen Compensation A/c

Case (*iv*) Loss on Revaluation ₹10,000; Debit *A*'s Capital A/c by ₹4,000 and *B*'s Capital A/c by ₹6,000.

Q. 28. *A*, *B* and *C* sharing profits and losses in the ratio of 4 : 3 : 2, decide to share profits and losses in the ratio of 2 : 3 : 4 with effect from 1st April, 2021. Following is an extract of their Balance Sheet as at 31st March, 2021 :

Liabilities	₹	*Assets*	₹
Investment Fluctuation Reserve	54,000	Investments (At Cost)	6,00,000

Show the accounting treatment under the following alternative cases :

Case (*i*) If there is no other information.
Case (*ii*) If the market value of Investments is ₹6,00,000.
Case (*iii*) If the market value of Investments is ₹5,91,000.
Case (*iv*) If the market value of Investments is ₹5,28,000.
Case (*v*) If the market value of Investments is ₹6,60,000.

[**Ans.** Case (*i*) and (*ii*) : Credit *A*'s Capital A/c by ₹24,000, *B*'s Capital A/c by ₹18,000 and *C*'s Capital A/c by ₹12,000.

Case (*iii*) : Credit *A*'s Capital A/c by ₹20,000, *B*'s Capital A/c by ₹15,000 and *C*'s Capital A/c by ₹10,000.

Case (*iv*) : Loss on Revaluation ₹18,000.
Debit *A*'s Capital A/c by ₹8,000, *B*'s Capital A/c by ₹6,000 and *C*'s Capital A/c by ₹4,000.

Case (*v*) : Entire amount of Investment Fluctuation Reserve credited to partner's capital accounts in 4 : 3 : 2 and profit on revaluation ₹60,000 also credited to partner's capital accounts in 4 : 3 : 2.

Q. 32. *X*, *Y* and *Z* were sharing profits and losses in the ratio of 5 : 3 : 2. They decided to share future profits and losses in the ratio of 2 : 3 : 5 with effect from 1.4.2022. They decided to record the effect of the following, without effecting their book values :—

(*i*)	Profit and Loss Account	₹24,000
(*ii*)	Advertisement Suspense Account	₹12,000

Pass the necessary adjusting entry.

[**Ans.** Debit *Z* by ₹3,600 and Credit *X* by ₹3,600.]

Q. 37. *A*, *B* and *C* are partners sharing profits and losses in the ratio of 2 : 2 : 1. From 1st April, 2023 they decided to share future profits and losses equally.

Following balances appeared in their books :

	₹
Profit and Loss A/c (Cr.)	20,000
Advertisement Suspense A/c (Dr.)	15,000
Workmen Compensation Reserve	60,000

It was agreed that :

(*i*) Goodwill should be valued at two year's purchase of super profits. Firm's average profits are ₹75,000. Capital invested in the business is ₹6,00,000 and normal rate of return is 10%.

(*ii*) Furniture (book value of ₹50,000) be reduced to ₹30,000.

(*iii*) Computers (book value of ₹40,000) be reduced by ₹10,000.

(*iv*) Claim on account of Workmen's Compensation amounted to ₹50,000.

(*v*) Investments (book value of ₹30,000) were revalued at ₹25,000.

Pass necessary journal entries for the above.

[**Ans.** Adjustment for Goodwill : Dr. *C* by ₹4,000 and Cr. *A* and *B* by ₹2,000 each; Revaluation Loss ₹35,000.]

Q. 42. *L*, *M* and *N* are partners sharing profits and losses in equal proportion. On 31st March 2021, their balance sheet was as follows :

Liabilities		₹	*Assets*		₹
Creditors		58,000	Cash		8,000
Reserve and Surplus		42,000	Debtors	75,000	
Capital Accounts :			*Less* : Provision for Doubtful Debts	3,000	72,000
L	2,00,000		Stock		1,80,000
M	1,00,000		Fixed Assets		2,20,000
N	80,000	3,80,000			
		4,80,000			4,80,000

The partners decided that with effect from 1st April 2021, they will share profits and losses in the ratio of 4 : 2 : 1. For this purpose goodwill is to be valued at 2 year's purchase of the average profits of the last four years, which were :

	₹	
Year ending 31st March 2018	20,000	(Loss)
Year ending 31st March 2019	48,000	(Profit)
Year ending 31st March 2020	60,000	(Profit)
Year ending 31st March 2021	80,000	(Profit)

They further agreed that :

(*i*) Provision for doubtful debts be increased by ₹2,000.

(*ii*) Stock be appreciated by 20% and fixed assets be depreciated by 10%.

(*iii*) Creditors be taken at ₹49,000.

Partners do not desire to record the revised values of assets and liabilities in the books. They also desire to leave the reserve and surplus undisturbed.

You are required to give effect to the change in profit sharing ratio by passing a single journal entry. Also prepare the revised balance sheet.

[**Ans.** Value of Goodwill ₹84,000; Profit on Revaluation ₹21,000; Adjustment entry : Debit *L* by ₹35,000 and Credit *M* and *N* by ₹7,000 and ₹28,000 respectively. Total of Balance Sheet ₹4,80,000.]

Q. 44. Anshu, Anju and Anupma are partners in a firm sharing profit in the ratio of 2 : 2 : 1. Their Balance Sheet as at March 31, 2023 was as follows :

BALANCE SHEET

as at March 31, 2023

Liabilities		₹	*Assets*	₹
Creditors		65,000	Land	2,00,000
Bills Payable		7,000	Building	80,000
General Reserve		48,000	Plant	1,60,000
Capital :			Stock	2,10,000
Anshu	2,40,000		Debtors	50,000
Anju	2,00,000		Cash	20,000
Anupma	1,60,000	6,00,000		
		7,20,000		7,20,000

Anshu, Anju and Anupma decided to share the profit equally, w.e.f. April 1, 2023. For this purpose it was agreed that :

(*i*) The goodwill of the firm should be valued at ₹60,000.

(*ii*) Land should be revalued at ₹3,00,000 and building and plant should be depreciated by 5%. Stock be valued at ₹2,25,000.

(*iii*) Creditors amounting to ₹2,000 were not likely to be claimed and hence should be written off. You are required to :

(*a*) Record the necessary journal entries to give effect to the above agreement, without opening revaluation account;

(*b*) Prepare the capital accounts of the partners; and

(*c*) Prepare the balance sheet of the firm after reconstitution.

Partners decide that General Reserve is to be transferred to Capital Accounts whereas revised values of assets and liabilities are not to be recorded in the books.

[**Ans.** Capitals : Anshu ₹2,70,200; Anju ₹2,30,200 and Anupma ₹1,47,600. Balance Sheet Total ₹7,20,000.