ANSWERS

1. (a) if it is a Purchased Goodwill.

2. (b) It is a fictitious asset.

3. (d) All of these.

4. (b) ₹ 10,000.

5. (b) ₹ 50,000.

Working Note:

Average Profit for Goodwill = Average Profit – Remuneration of Partners
= ₹ 1,00,000 – ₹ 25,000 = ₹ 75,000

Normal Profit = Average Capital Employed × Normal Rate of Return
= ₹ 5,00,000 × ₹ 10/100 = ₹ 50,000.

Super Profit = Average Profit – Normal Profit
= ₹ 75,000 – ₹ 50,000 = ₹ 25,000

Goodwill = Super Profit × No. of Years' Purchase
= ₹ 25,000 × 2 = ₹ **50,000**.

6. (d) Super Profit divided with Expected Rate of Return.

7. (a) No. of years' purchase *multiplied with* average profit.

8. (c) ₹ 1,50,000.

Working Note:

Year	Profit/(Loss) (₹)	
2020–21	30,000	
2021–22	70,000	
2022–23	1,00,000	
2023–24	(1,20,000)	
2024–25	1,70,000	(Note)
	2,50,000	

$$\text{Average Profit} = \frac{₹\,2,50,000}{5} = ₹\,50,000$$

Goodwill = ₹ 50,000 × 3 = ₹ **1,50,000.**

Note: After rectification, the final profit of 2024–25 will be:

₹ 1,40,000 + ₹ 40,000 (Motor-cycle purchased debited to travelling expenses) – ₹ 10,000 (*i.e.*, Depreciation: 25% of ₹ 40,000) = ₹ 1,70,000.

9. (c) 12%.

Working Note:

$$\text{Net Assets} = \text{Total Assets (excluding goodwill)} - \text{Outsiders' Liabilities}$$

$$= ₹\,10,00,000 - ₹\,3,00,000 = ₹\,7,00,000$$

$$\text{Goodwill} = \text{Total capitalised value of Business} - \text{Net Assets}$$

$$₹\,50,000 = \text{Total capitalised value} - ₹\,7,00,000$$

$$\text{Total Capitalised value} = ₹\,7,00,000 + ₹\,50,000 = ₹\,7,50,000$$

$$\text{Total Capitalised value of the firm} = \frac{\text{Average Profit}}{\text{Normal Rate of Return}} \times 100$$

$$₹\,7,50,000 = \frac{₹\,90,000\,(₹\,75,000 + ₹\,15,000)}{\text{Normal Rate of Return}} \times 100$$

$$\frac{₹\,7,50,000}{100} = \frac{₹\,90,000}{\text{Normal Rate of Return}}$$

$$\textbf{Normal Rate of Return} = \frac{₹\,90,00,000}{₹\,7,50,000} = 12\%.$$

10. (c) Only Reason (R) is correct.

11. (a) ₹ 40,00,000

Working Note:

$$\text{Total Capitalised Value of Firm} = \frac{\text{Average Profit}}{\text{Normal Rate of Return}} \times 100$$

$$= \frac{₹\,8,00,000}{20} \times 100 = ₹\,40,00,000.$$

12. CALCULATION OF ADJUSTED AND WEIGHTED PROFIT

Year	Profit before Adjustment (₹)	Adjustment (₹)	Profit after Adjustment (₹)	Weights	Weighted Profit (₹)
2020–21	20,000	...	20,000	1	20,000
2021–22	24,000	...	24,000	2	48,000
2022–23	30,000	– 2,000*	28,000	3	84,000
2023–24	25,000	+ 2,000**	27,000	4	1,08,000
2024–25	18,000	...	18,000	5	90,000
				15	3,50,000

$$\text{Weight Average Profit} = \frac{\text{Total of Weighted Profit}}{\text{Total of Weights}} = \frac{₹\,3,50,000}{15} = ₹\,23,333$$

$$\text{Goodwill} = \text{Weighted Average} \times \text{No. of Years' Purchase}$$

$$= ₹\,23,333 \times 3 = ₹\,70,000.$$

*Overvaluation of closing stock would have increased the profit of 2022–23. So, the overvalued amount of ₹ 2,000 will be subtracted from the profit of 2022–23.

**Overvaluation of closing stock of 2022–23 would lead to overvaluation of opening stock of 2023–24. As overvaluation of opening stock would have reduced the profit of 2023–24, so the overvalued amount of ₹ 2,000 would be added to the profit of 2023–24.

13. Average Profit (Given) = ₹ 2,50,000

$$\text{Normal Profit} = (₹\ 27,50,000 - ₹\ 7,00,000) \times \frac{10}{100} = ₹\ 2,05,000$$

$$\text{Super Profit} = ₹\ 2,50,000 - ₹\ 2,05,000 = ₹\ 45,000$$

$$\text{Goodwill} = ₹\ 45,000 \times \frac{100}{10} = ₹\ 4,50,000.$$

14. Capital Employed = ₹ 15,00,000 – ₹ 12,00,000 = ₹ 3,00,000

Normal Profit = 10% of ₹ 3,00,000 = ₹ 30,000

Goodwill = ₹ 18,000

$$\text{Super Profit} = \frac{₹18,000}{4} = ₹\ 4,500$$

Average Business Profit = Normal Profit + Super Profit

= ₹ 30,000 + ₹ 4,500 = ₹ 34,500.