Q15. The books of Ram and Bharat showed that the capital employed on 31.12.2016 was Rs.5,00,000 and I he profits for the last 5 years : 2015 Rs.40,000. 2014 Rs.50,000. 2013 Rs.55,000. 2012 Rs.70,000 and 2011 Rs.85,000. Calculate the value of goodwill on the basis of 3 years purchase of the average super profits of the last 5 years assuming that the normal rate of return Is 10%?

Solution:

$$\text{Average Actual Profit} = \frac{\text{sum of given year's profit}}{\text{number of given years}}$$

Year	Profit
2002	40,000
2003	50,000
2004	55,000
2005	70,000
2006	85,000
Sum of 5 years profit	3,00,000

$$\text{Average Actual Profit} = \frac{3,00,000}{5} = RS\ 60,000$$

Normal Profit

$$= \text{Capital Employed} \times \frac{\text{Normal Rate of Return}}{100}$$

$$= 5,00,000 \times \frac{10}{100}$$

$$= 50,000$$

Average Super profit = Actual Profit - Normal Profit
=60,000 - 50,000
= ₹10,000

Goodwill = Super Profit × Number of Years Purchase
=10,000 × 3
= ₹30,000

Q16. Rajan and Rajani are partners in a firm. Their capitals were Rajan Rs.3,00,000. Rajani Rs.2,00,000. During the year 2015 the firm carried a profit of Rs.1,50,000. Calculate the value of goodwill of the firm assuming that the normal rate of return is 20%?

Solution:

Rajan's Capital	3,00,000
Rajni's Capital	2,00,000
Total Capital Employed	5,00,000

Normal Rate of Return =20%

$$\text{Capitalised Valued} = \text{Actual profit} \times \frac{100}{\text{Normal Rate of Return}}$$

$$= 1,50,000 \times \frac{100}{20}$$

$$= 7,50,000$$

Goodwill = Capitalised Value - Capital Employed

=7,50,000 - 5,00,000

= ₹2,50,000

Alternative Method

$$\text{Normal Profit} = \text{Capital Employed} \times \frac{\text{Normal Rate of Return}}{100}$$

$$= 5,00,000 \times \frac{20}{100}$$

$$= \text{Rs } 1,00,000$$

Super profit = Actual Profit - Normal Profit

=1,50,000 - 1,00,000

=Rs 50,000

$$\text{Goodwill} = \text{Super Profit} \times \frac{100}{\text{Normal Rate of Return}}$$

$$= 50,000 \times \frac{100}{20}$$

$$= \text{Rs } 2,50,000$$

*********** END *********