TS Grewal Solutions Class 12 Accountancy Vol 1 Chapter 3- Goodwill- Nature and Valuation

TS Grewal Solutions for Class 12 Accountancy Chapter 3- Goodwill- Nature and Valuation is contemplated to be a vital concept to be learnt completely by the students. Here, we have provided TS Grewal Accountancy solutions for class 12 in a simple and a step by step manner, which is helpful for the students to score well in their upcoming board examinations.

Board	CBSE
Class	Class 12
Subject	Accountancy
Chapter	Chapter 3
Chapter Name	Goodwill- Nature and Valuation
Number of questions solved	10
Category	TS Grewal

Chapter 3- Goodwill- Nature and Valuation explains the below-mentioned concepts:

- Meaning of Goodwill
- Factors affecting the value of Goodwill
- Need for valuing Goodwill
- Methods of valuing Goodwill

TS Grewal Solutions for Class 12 Accountancy Chapter 3- Goodwill- Nature and Valuation

Question 1

The gains for the 5 years on March 31st are mentioned below:

- 2014 - ₹. 5,00,000/-
- 2015 - ₹. 4,00,000/-
- 2016 - ₹. 6,00,000/-
- 2017 - ₹. 4,50,000/-
- 2018 - ₹. 6,00,000/-

Now, compute the goodwill of the enterprise on the basis of 4 years purchase of 5 years profit.

Solution:

$$Goodwill = Average\, Profits \times Number \, of \, years \, of \, purchase$$

Now, $$Average\, Profits = \frac{Total \, Profits}{Number \, of \, years}$$

$$Average \, Profits = \frac{5,00,000+4,00,000+6,00,000+4,50,000+6,00,000}{5}$$

= 5,10,000

Therefore, goodwill = 5,10,000 X 4 = ₹. 20,40,000/-

Question 2

Compute the value of the firm's goodwill on the basis of 18 months or a and half years purchase of the average gains of previous 3 years. The profit for the 1st year was ₹.1,50,000/-, profit for the 2nd year was twice the profir of the 1st year and the 3rd year profir was 1.5 times of the profit of the 2nd year.

Solution:

$$Goodwill = Average\, Profits \times Number \, of \, years \, of \, purchase$$

Goodwill = 3,00,000 X 1.5 = ₹. 4,50,000/-

Working Notes -

Calculation of profits (Previous 3 years)

Year	Profit
1st	1,50,000
2nd	1,50,000 X 2 = 3,00,000
3rd	3,00,000 X 1.5 = 4,50,000
TOTAL	9,00,000

Calculation of average profits:

Average profits = $$\frac{Total \, Profits \, for\, the\, previous \, years\,}{Number\, of\, years}\, =\, \frac{9,00,000}{3}$$

Therefore, Average profits = 3,00,000

Question 3

P and Q are partners in an enterprise, sharing profits and losses in the ratio of 3:2. Now, they decided to admit R into the partnership for 1/4th share on 1st of April, 2018. For this Objective, Goodwill is to be valued 4 times the average annual profit of the last 4 or 5 years whichever is higher. The agreed profits for goodwill purpose of the past 5 years are as follows:

Year	2013-14	14-15	15-16	16-17	17-18
₹ (Profits)	15,000	16,500	11,000	17,000	16,000

Solution:

Computation of Goodwill:

Goodwill = Average profit X number of years' purchase

= 15,125 X 4 = ₹. 60,500/-

Working Notes -

Calculation of profit for 5 years:

Year	Profit
2013-14	15,000
2014-15	16,500
2015-16	11,000
2016-17	17,000
2017-18	16,000
Total Profit	75,500

Average profit for 5 years = 75,500/5 = 15,100

Calculation of profit for 4 years:

Year	Profit

2014-15	16,500
15-16	11,000
16-17	17,000
17-18	16,000
Total Profit	60,500

Average profit for 4 years = 60,500/4 = ₹. 15,125/-

Average profits (4 years) > Average profits (5 years)

Accordingly, for goodwill valuation, average profit is ₹. 15,125/-

Question 4

Claire and Sophie are the partners sharing profits in the ratio of 3:4. They ascertained to admit Sharon as a partner from the 1st of April, 2018 on the following terms:

- Sharon will be given a 2/5th share of the profit
- Goodwill of the enterprise is valued at 2 years purchase of 3 years normal average profit of the enterprise. Gains of the previous 3 years ended March 31st were:

  → 2018 - Profit - ₹. 50,000/- (after debiting a loss of stock by fire ₹. 60,000/-)
  → 2017 - Loss - ₹. 1,00,000/- (involves voluntary retirement compensation pain ₹. 1,30,000/-)
  → 2016 - Profit of ₹. 1,30,000/- (including the gain of ₹. 50,000/- on the sale of fixed assets)

Now, evaluate the Goodwill.

Solution:

Goodwill = Normal average profit X Number of years of purchase

= Normal average profit = ₹. 73,333/-

Number of years of purchase = 2

Therefore, Goodwill = 73,333 X 2 = 1,46,666/-

Working Notes -

Year	Actual Profit	+	Abnormal loss non-recurring	-	Abnormal gain non-recurring	=	Normal Profit
2018	50,000	+	60,000	-	Nil	=	1,10,000
2017	(1,00,000)	+	1,30,000	-	Nil	=	30,000
2016	1,30,000	+	Nil	-	50,000	=	80,000
Normal profits for the last 3 years							2,20,000

Normal average profit = Normal profit for last 3 years / 3

= 2,20,000/3 = ₹. 73,333/-

Question 5

Profits of a firm for the year ended March 31st, for the last 5 years were -

Year ended	31st March 2014	31st March 2015	31st March 2016	31st March 2017	31st March 2018
₹ (Profits)	30,000	34,000	40,000	35,000	28,000

Now, compute the value of goodwill on the basis of 3 years purchase of weighted average profit after assigning weights 1,2,3,4 and 5 respectively to the profits for the years ended 31st March - 2014, 2015, 2016, 2017 and 2018.

Solution:

Goodwill = Weighted average profit X Number of years purchase

= 33,200 X 3 = ₹. 99,600/-

Working Notes -

Year	Profit	X	Weight	=	Product
2014	30,000	X	1	=	30,000
2015	34,000	X	2	=	68,000
2016	40,000	X	3	=	1,20,000
2017	35,000	X	4	=	1,40,000

2018	28,000	X	5	=	1,40,000
			15		4,98,000

Weighted Average Profit = Total product of profits / Total number of weights

= 4,98,000/15

= ₹. 33,200/-

Question 6

Compute the goodwill of an enterprise on the basis of 3 years purchase of the weighted average profit of the last 4 years. The appropriate weights to be used and the profits are:

Year	2014-15	2015-16	2016-17	2017-18
Profit in ₹	1,11,000	1,34,000	1,10,000	1,50,000
Weight	1	2	3	4

On the analysis of accounts, the following matters are disclosed:

- On December 1st, 2016, a major repair was made in respect with the plant incurring ₹. 40,000/- which was charged to the revenue.
- The closing stock for the year 2015-16 was overvalued by ₹. 22,000/-.
-
- To cover management cost, an annual charge of ₹. 34,000/- must be made for the purpose of goodwill valuation.
- In 2015-16, a machine possessing a book value of ₹. 20,000/- was sold @ ₹. 21,000/-, but the proceeds were incorrectly credited to the Profit and Loss account. No effect has been given to rectify the same. Depreciation is charged on the machine @ 10% per annum on reducing balance method.

Solution:

Particulars	2014-15	2015-16	2016-17	2017-18
Profits	1,11,000	1,34,000	1,00,000	1,50,000
Repair capitalised			+40,000	

Depreciation			(1,333)	(3,866)
Overvaluation of closing stock		(22,000)	22,000	
Management cost	(34,000)	(34,000)	(34,000)	(34,000)
Sale proceeds		(20,000)		
Adjusted profits	77,000	58,000	1,26,667	1,21,134
Weights	1	2	3	4
Product	77,000	1,16,000	3,80,001	4,48,536

Working Notes -

Goodwill = Weighted average profit X Number of years purchase

Weighted average profit = Total of product / Total of weights

= 77,000+1,56,000+3,80,001+4,48,536 / 10

= 1,02,153

Therefore, Goodwill = 1,02,153 X 3 = ₹. 3,06,459

Note 1

Depreciation on ₹. 40,000/- machinery is charged for only 4 months on the year 2016-17

Note 2

Sale proceeds incorrectly credited in 2015-16 have been deducted after adjusting for the profit of ₹. 1,333/-. No depreciation is charged, since the date of sale is not given (presumed that the machinery is sold during the end of the year)

Question 7

The average net profit in the future by ABC enterprise is ₹. 50,000/- per annum. Average capital employed in the business by the enterprise is ₹. 3,00,000/-. The normal rate of return from the capital invested in this class of business is 10%. Remuneration of the partners is estimated to be @ ₹. 5,000/- per annum. Find out the value of goodwill on the basis of 2 years purchase of super profit.

Solution:

Goodwill = Super profit X number of years purchase

Normal profit = Expected capital employed X Normal rate of return / 100

= 3,00,000 X 10/100 = 30,000/-

Actual expected profit = 50,000 - 5,000 = 45,000/-

Super profit = Actual expected profit - Normal expected profit

Super profit = 45,000 - 30,000 = 15,000/-

Number of years of purchase = 2

Super profit = 15,000/-

Therefore, goodwill = Super profit X Number of years of purchase

Hence, goodwill = 15,000 X 2 = ₹. 30,000/-

Question 8

Maaya and Maanav are partners in an enterprise and they admit Jai into the partnership with effect from 1st of April, 2018. They agreed to value goodwill at 3 years purchase of super profit method for which they determined to an average profit of the last 5 years. The profit for the last 5 years was:

Year ended	Net Profit (₹)	
31st March 2014	1,50,000	
31st March 2015	1,80,000	
31st March 2016	1,00,000	Including the abnormal loss ₹. 1,00,000/-
31st March 2017	2,60,000	Including the abnormal gain ₹. 50,000/-
31st March 2018	2,40,000	

The enterprise has total assets of ₹.25,00,000/- and outside liabilities of ₹. 10,00,000/- as on that date. The normal rate of return in a similar business is 10%. Compute the value of goodwill.

Solution:

Calculation of Normal Profits (31st March)

Years	2014	2015	2016	2017	2018
Profit and Loss	1,50,000	1,80,000	1,00,000	2,60,000	2,40,000
Adjustments	-	-	1,00,000	(50,000)	-
Normal Profit	1,50,000	1,80,000	2,00,000	2,10,000	2,40,000

- **Total Normal Profit:**

  1,50,000+1,80,000+2,00,000+2,10,000+2,40,000

  = ₹. 9,80,000/-

- **Calculation of capital employed:**

  Calculation of capital employed = Total assets - Outside Liabilities

  Calculation of capital employed = 25,00,000 - 10,00,000

  Calculation of capital employed = ₹. 15,00,000/-

- **Calculation of Super Profits:**

  Average Profit = Total profit of the previous years / Number of years

  Average Profit = 9,80,000/5

  Average Profit = 1,96,000

Normal Profit = Capital employed X Normal rate of returns / 100

15,00,000 X 10/100 = ₹. 1,50,000/-

Super profit = Average profit - Normal profit

Super profit = 1,96,000 - 1,50,000 = 46,000

Goodwill = Super profit X Number of years of purchase

Therefore, Goodwill = 46,000 X 3 = ₹. 1,38,000/-

Question 9

From the following data, compute the value of goodwill of the enterprise by applying
Capitalisation Method: Total capital of the enterprise - ₹. 20,00,000/-. Normal rate of return -
10%. Profit of the year - ₹. 3,00,000/-.

Solution:

Goodwill = Capitalised value of profit - Actual Capital

Capitalised value of profit = Profit X 100 / Net rate of return

= 3,00,000 X 100/10 = 30,00,000/-

Total Capital = ₹. 20,00,000/-

Therefore, Goodwill = 30,00,000 - 20,00,000

Goodwill = ₹. 10,00,000/-

Question 10

X and Y are partners in an enterprise. Their capitals were, X - ₹. 4,00,000, Y - ₹. 3,00,000/-. During the year 2017-18, the enterprise earned a profit of ₹. 2,00,000/-. Compute the value of goodwill of the enterprise by capitalisation method of super profits assuming that the normal rate of return is 20%.

Solution:

Goodwill = Super profit X 100 / Normal rate of return

Super Profits = Average profit - Normal Profit

Average Profit = 2,00,000 (given)

Normal profit = Capital employed X Normal rate of return

Normal profit = [4,00,000+3,00,000] X 20%

Normal profit = 7,00,000 X 20%

Normal profit = 1,40,000/-

Super Profit = 2,00,000 - 1,40,000 = 60,000/-

Goodwill = 60,000 X 100/20 = 3,00,000/-

The above-provided solutions are considered to be the best solutions for 'Accounts Class 12 TS Grewal Solutions for Chapter 3- Goodwill- Nature and Valuation'. Stay tuned to BYJU'S to learn more and score well in the upcoming board examinations.