

Worksheet – 1

Average Profit Method

1. Goodwill is to be valued at three years' purchase of four years' average profit. Profits for last four years ending on 31st March of the firm were:
2016 – ₹ 12,000; 2017 – ₹ 18,000; 2018 – ₹ 16,000; 2019 – ₹ 14,000.

Calculate amount of Goodwill.

2. Profits for the five years ending on 31st March, are as follows:

Year 2016 – ₹ 4,00,000; Year 2017 – ₹ 3,98,000; Year 2018 – ₹ 4,50,000; Year 2019 – ₹ 4,45,000 and Year 2020 – ₹ 5,00,000.

Calculate goodwill of the firm on the basis of 4 years' purchase of 5 years' average profit.

3. Calculate value of goodwill on the basis of three years' purchase of average profit of the preceding five years which were as follows:

Year	2018-19	2017-18	2016-17	2015-16	2014-15
Profits (₹)	8,00,000	15,00,000	18,00,000	4,00,000 (Loss)	13,00,000

4. Calculate the value of firm's goodwill on the basis of one and half years' purchase of the average profit of the last three years. The profit for first year was ₹ 1,00,000, profit for the second year was twice the profit of the first year and for the third-year profit was one and half times of the profit of the second year.
5. Purav and Purvi are partners in a firm sharing profits and losses in the ratio of 2: 1. They decide to take Parv into partnership for 1/4th share on 1st April, 2019. For this purpose, goodwill is to be valued at four times the average annual profit of the previous four or five years, whichever is higher. The agreed profits for goodwill purpose of the past five years are:

Year	2014-15	2015-16	2016-17	2017-18	2018-19
Profits (₹)	14,000	15,500	10,000	16,000	15,000

Calculate the value of goodwill.

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