QB365 Question Bank Software Study Materials

Goodwill In Partnership Accounts Important 2 Marks Questions With Answers (Book Back and Creative)

12th Standard

Accountancy

Total Marks : 40

2 Marks

20 x 2 = 40

1) The following are the profits of a firm in the last five years:

2014: Rs. 4,000; 2015: Rs. 3,000; 2016: Rs. 5,000; 2017: Rs. 4,500 and 2018: Rs. 3,500

Calculate the value of goodwill at 3 years purchase of average profits of five years.

Answer : Goodwill = Average profit $\times$ Number of years of purchase

Average profit = $\frac{Total\ profit}{Number\ of year}$

= $\frac{4{,}000+3{,}000+5{,}000+4{,}500+3{,}500}{5}$

= $\frac{20{,}000}{5}$= Rs. 4,000

Goodwill = Average profit $\times$ Number of years of purchase

= 4,000 $\times$ 3 = Rs.12,000

2) For the purpose of admitting a new partner, a firm has decided to value its goodwill at 3 years purchase of the average profit of the last 4 years using weighted average method. Profits of the past 4 years and the respective weights are as follows:

PARTICULARS	2015	2016	2017	2018
Profit (Rs.)	20,000	22,000	24,000	28,000
Weight	1	2	3	4

Compute the value of goodwill.

Answer :

YEAR	PROFIT (A) RS.	WEIGHTS (B)	WEIGHTED PROFITS (A X B) RS
2015	20,000	1	20,000
2016	22,000	2	44,000
2017	24,000	3	72,000
2018	28,000	4	1,12,000
Total		10	2,48,000

Calculation of weighted average profit

Weighted average profit = $\frac{Total\ of\ weighted\ profits}{Total\ of\ weights}$

=$\frac{2{,}48{,}000}{10}$=Rs.24,800

Goodwill = Weighted average profit × Number of years of purchase

= 24,800 x 3 = Rs.74,400

3) From the following information, find out the value of goodwill by capitalisation method:

(a) Average profit = Rs. 60,000

(b) Normal rate of return = 10%

(c) Capital employed = Rs. 4,50,000

Answer : Total capitalised value of the average profit = $\frac{Average\ profit}{Normal\ rate\ of\ return}\times 100$

=$\frac{60{,}000}{10}\times 100$

= Rs. 6,00,000

Goodwill = Total capitalised value of the average profit – Capital employed

= 6,00,000 – 4,50,000

= Rs. 1,50,000

4) The following are the profits of a firm in the last five years:

2014: Rs. 10,000; 2015: Rs. 11,000; 2016: Rs. 12,000; 2017: Rs. 13,000 and 2018: Rs. 14,000

Calculate the value of goodwill at 2 years purchase of average profit of five years.

Answer : Goodwill = Average profit $\times$ Number of years of purchase

Average profit $= \frac{Total\ profit}{Number\ of\ years}$

$\frac{10{,}000+11{,}000+12{,}000+13{,}000+14{,}000}{5}$

$= \frac{60{,}000}{5}$ = Rs. 12,000

Average profit = Rs. 12,000

Goodwill Average profit $\times$ Number of years of purchase

12,000 $\times$ 2 = 24,000

Goodwill = Rs. 24,000

5) What is goodwill?

Answer : Goodwill is the good name or reputation of the business which brings benefit to the business. It enables the business to earn more profit. It is the present value of a firm's future excess earnings. It is an intangible asset as it has no physical existence.

6) What is acquired goodwill?

Answer : Goodwill acquired by making payment in cash or kind is called acquired or purchased Goodwill when a firm purchase an existing business the price paid for purchase of such business may exceed the net assets (Assets - liabilities) of the business acquired.

7) What is normal rate of return?

Answer : Normal rate of return refers to the rate at which profit is earned by similar business entities in the industry under normal circumstances.

8) State any two circumstances under which goodwill of a partnership firm is valued.

Answer : i) When there is a change in the profit Sharing ratio.
ii) When a new partner is admitted into a firm.
iii) When an existing partner retires from the firm or when a partner dies.
iv) When a partnership firm is dissolved.

9) Compute average profit from the following information.
2016: Rs. 8,000; 2017: Rs. 10,000; 2018: Rs. 9,000

Answer : Average profit = $\frac{Total\ profit}{Number\ of\ years}$

Average profit = $\frac{8{,}000+10{,}000+9{,}000}{3}$

Average profit: Rs. 9,000

10) Calculate the value of goodwill at 2 years purchase of average profit when average profit is Rs. 15,000

Answer : Goodwill = Average profit x Number of years of purchase
= 15,000 $\times$ 2
= 30,000
Goodwill: Rs. 30,000

11) What is meant by number of years purchase at the time of valuation of goodwill?

Answer : Number of years purchase means for how many specific years the business will earn same amount of profits because of its past efforts.

12) Why is goodwill considered as an intangible asset but not a fictitious assets?

Answer : Goodwill cannot be seen and touched. It is invisible. Hence it is treated as intangible asset. But it is not a fictitious asset because goodwill has a value and it can be purchased or sold with any other asset.

13) How does the 'market situation' affect the value of goodwill of a firm?

Answer : The monopoly condition or limited competition enables the concern to earn high profits which leads to higher value of goodwill

14) Why is ''goodlwill" consiclered an "Intangible asset" but not a fictious asset'.

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15) How does the nature of a business affect the value of goodwill of a firm?

Answer : The firm that produces high value added products or has stable demand will be able to earn more profit and more Good will.

16) How dloes "efficiency of management" affect the goodwill of a firrn?

Answer : A well managed company enjoys high productivity and cost efficiency that leads to higher profits and more Good will.

17) Give the forrnula of good lwill by Capitalisation of Average profit.

Answer : Goodwill = Capitalised value of Average profit - Net Assets

Where,

Capitalised value of Average profit = $\frac{\text{Average Profit}}{\text{Normal rate of return}} \times 100$

Net assets = All assets (other than goodwill, Fictitious assets and non trading investments) at their current values less outside liabilities.

18) Can Goodwill be sold separately like other tangible assets?

Answer : No, Goodwill cannot be sold separately. It can be sold along with sale of the business itself. i.e. the excess of purchase consideration of its net assets (assets - liabilities). Sometimes, Goodwill has more value than tangible assets.

19) How does the market situation affect the value of Good will?

Answer : The monopoly condition or limited competition enable the concern to earn high profits which leads to higher value of Goodwill.

20) I and K partners capital Rs. 3,00,000 and Rs. 1,00,000 they earned profits ? Rs. 50,000. Assuming normal rate of return @ 20% Calculate the value of Goodwill.

Answer : $\text{Goodwill } = \frac{\text{Average Profit}}{\text{Normal rate of return}} \times 100 = 1,50,000 \times \frac{100}{20} = \text{ Rs. } 7,50,000$

Goodwill = Capitalised value of business - Capital employed

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

Good will = Rs. 2,50,000