

Valuation of Goodwill

1) Average profit

$$\text{Average profit} = \frac{\text{Total Profit}}{\text{no of years}}$$

$$\text{Goodwill} = \text{Average profit} \times \text{No of year purchase}$$

2) Super profit

$$\text{S.P} = \text{Average profit} - \text{Normal profit}$$

$$\text{Super profit} \times \text{No of year of purchase}$$

3) Capitalisation

$$= \frac{\text{Normal profit}}{\text{Rate of return}} \times 100$$

4) Annuity

$$= \text{Profit} \times \text{Annuity value}$$

- 1) Mohan and Company desire to purchase a for 80000. The profit for last 4 years 2001 - 20000, 2002 - 25000, 2003 - 24000, 2004 - 23000. The business look of by the management remuneration from alternative employment. If not engaged in business for management ₹ 3000 p.a. find Goodwill if years of purchase ₹ 3 year.

Valuation of Goodwill

$$\text{Average profit} = \frac{\text{Total profit}}{\text{No of years}}$$

Profit	2001	-	20000		
	2002	-	25000		
	2003	-	24000		
	2004	-	<u>23000</u>	→	<u>92000</u>
					4
					= 23000
					<u>3000</u>
					20000

$$\text{Goodwill} = \text{A.P} \times \text{No of years purchase}$$

$$20000 \times 3 = \boxed{60000}$$

- 2) The following particulars are available in respect of RN Ltd capital invested 50000, Trading business 2000 - 12200, 2002 - 15000, 2003 - Loss 2000, 2004 - profit 21000.

Market rate of investment 8%, risk on capital investment 2%, remuneration in business 3600 p.a. compute the Goodwill on the basis of 3 years of purchase of superprofit. Taking the average of 4 years.

Valuation of Goodwill

Average profit

profit	=	2001	12200
profit	=	2002	15000
Loss	=	2003	(-) 2000
profit	=	2004	21000

$$\frac{46200}{4} = 11550$$

$$\text{A.P} = \frac{\text{Total profit}}{\text{No of years}}$$