

1 Profits for the last 4 years

2019	12000
2020	18000
2021	16000
2022	14000
Total profits	60000
Average profits of last 4 years	15000
No of years purchase	3
Value of Goodwill	45000

2 Profits for the last 5 years

2018	400000
2019	398000
2020	450000
2021	445000
2022	500000
Total profits	2193000
Average profits of last 5 years	438600
No of years purchase	4
Value of Goodwill	1754400

3 Profits for the last 5 years

2018	1300000
2019	-400000
2020	1800000
2021	1500000
2022	800000
Total profits	5000000
Average profits for last 5 years	1000000
No of years purchase	3
Value of Goodwill	3000000

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	Average last 3 years	Average last 4 years
2019		253200
2020	187200	187200
2021	181800	181800
2022	288000	288000
Total profits	657000	910200
Average profits	219000	227550

**Note : Since average profits for last 4 years is higher so we will value Goodwill based on it**

No of years purchase (100%)	1
Value of Goodwill	227550

5	Profits for Year 1	100000
	Profits for Year 2	200000 (Profits for Year 1 X 2 times)
	Profits for Year 3	300000 (Profits for Year 2 X 1.5 times)
	Total profits	600000
	Average profits for last 3 years	200000
	No of years Purchase	1.5
	Value of Goodwill	300000

6		Average last 4 years	Average last 5 years
	2018		14000
	2019	15500	15500
	2020	10000	10000
	2021	16000	16000
	2022	15000	15000
	Total profits	56500	70500
	Average profits	14125	14100

**Note : Since average profits for last 4 years is higher so we will value Goodwill based on it**

No of years purchase	4
Value of Goodwill	56500

## 7 Calculation of average profits

	Actual Profits	Adjustment	Adjusted Profits
31-Mar-18	125000		125000
31-Mar-19	100000	25000	125000
31-Mar-20	187500		187500
31-Mar-21	-62500		-62500
31-Mar-22	125000		125000
Total			500000
Average profits			100000
No of years purchase			3
Value of Goodwill			300000

**Note :** The abnormal loss of goods by fire has reduced the profits for 2018-2019.  
If this incident had not happened then the profits for 2018-2019 would have been higher  
Goodwill is based on profits that are projected to be earned in future.

## 8 Calculation of average profits

	Actual Profits	Adjustment	Adjusted Profits
31-Mar-20	110000	30000	80000
31-Mar-21	-80000	110000	30000
31-Mar-22	30000	40000	70000
Total profits			180000
Average profits for last 3 years			60000
No of years purchase			2
Value of Goodwill			120000

**Note :**

Gain on sale of fixed assets is an abnormal profit hence deducted

Payment of voluntary retirement compensation is an abnormal non recurring expense and hence added back

Loss of stock by fire is an abnormal non recurring expense and hence added back to find normal profits

9 Calculation of average profits

	Actual Profits	Adjustment	Adjusted Profits
31-Mar-20	100000	12500	87500
31-Mar-21	125000	25000	150000
31-Mar-22	112500	12500	100000
Total profits			337500
Average profits			112500
No of years purchase			2
Value of Goodwill			225000

**Note :**

Abnormal gain is non recurring profits and hence deducted

Abnormal loss is non recurring expense and hence added back

Insurance premium is a new expenditure to be incurred in future and hence deducted

10 Calculation of average profits

	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	#####
Actual Profits	150000	350000	500000	710000	-590000
Add - Incorrect Travel Exp					100000
Less - Depreciation					25000
Less - Income on Non Trade Inv				10000	10000
Adjusted Profits	150000	350000	500000	700000	-525000

Total Profits	1175000
Average profits	235000
No of years purchase	4
Value of Goodwill	940000

**Note :**

- 1) Purchase of car is a capital expenditure. It was wrongly charged to revenue and hence added back
  - 2) Since Car is a capital expenditure so depreciation should be provided on it every year from year of purchase
  - 3) Interest on non trade investments is not a business profit. Hence this is to be excluded while finding profits for the purchase of finding goodwill
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