

1 Profits for the last 4 years

2020	12000
2021	18000
2022	16000
2023	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

2019	400000	Year ending 31-Mar-2019
2020	398000	Year ending 31-Mar-2020
2021	450000	Year ending 31-Mar-2021
2022	445000	Year ending 31-Mar-2022
2023	500000	Year ending 31-Mar-2023
Total profits	2193000	1 year 1 times 100%
Average profits of last 5 years	438600 (2193000/5)	2 Years 2 times 200%
No of years purchase	4	3 years 3 times 300%
Value of Goodwill	1754400 (438600*6)	4 years 4 times 400%

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	Average last 3 years	Average last 4 years
2020		253200
2021	187200	187200
2022	181800	181800
2023	288000	288000
Total profits	657000	910200
Average profits	219000 (657000/3)	227550 (910200/4)

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 (227550*1)

4

	Average last 4 years	Average last 5 years
2019		14000
2020	15500	15500
2021	10000	10000
2022	16000	16000
2023	15000	15000
Total profits	56500	70500
Average profits	14125 (56500/4)	14100 (70500/5)

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

5 Calculation of average profits

	Actual Profits	Adjustment	Adjusted Profits
31-Mar-19	125000		125000
31-Mar-20	100000	25000	125000
31-Mar-21	187500		187500
31-Mar-22	-62500		-62500
31-Mar-23	125000		125000
Total			500000
Average profits			100000 (500000/5)
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.

6 Calculation of average profits

	Actual Profits	Adjustment	Adjusted Profits
31-Mar-21	110000	30000	80000
31-Mar-22	-80000	110000	30000
31-Mar-23	30000	40000	70000
Total profits			180000
Average profits for last 3 years			60000 (180000/3)
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

7 Calculation of average profits

	Actual Profits	Adjustment	Adjusted Profits
31-Mar-21	100000	12500	87500
31-Mar-22	125000	25000	150000
31-Mar-23	112500	12500	100000
Total profits			337500
Average profits			112500 (337500/3)
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

8 Calculation of average profits

	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23
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 (1175000/5)
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

9 Calculation of average profits

	31-Mar-21	31-Mar-22	31-Mar-23
Actual Profits	50000	-20000	70000
Less - Profit on sale of assets	5000		
Add - Loss by Fire		30000	
Less - Insurance Claim			18000
Less - Interest on Investments and Dividends			8000
Adjusted Profits	45000	10000	44000
Total Profits			99000
Average profits for last 3 years			33000 (99000/3)
No of years purchase			2

Value of Goodwill	66000
Share of Kanika	1/4
Value of Goodwill brought by Kanika	16500

Note :

Profit on sale of assets is a non recurring income and hence deducted
 Loss by fire is an abnormal and non recurring loss and hence added
 Insurance claim received is a non recurring income and hence deducted
 Interest on investment and dividend is not an income from business and hence deducted

10 Calculation of average profits

	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23
Actual Profits	80000	145000	160000	200000
Add - Abnormal Loss	20000			
Less - Gain on sale of Fixed Assets		25000		
Less - Insurance Premium			15000	
Adjusted Profits	100000	120000	145000	200000
Total Profits				565000
Average profits				141250 (565000/4)
No of years purchase				2
Value of Goodwill				282500

Note :

Abnormal loss is non recurring and hence added

Profit on sale of assets is a non recurring income and hence deducted

Insurance premium omitted is actually an expense for business and should be deducted to find real profits

