

SHORT AND MULTIPLE CHOICE QUESTIONS

ACCOUNTANCY

Goodwill: Nature and Valuation

MULTIPLE CHOICE QUESTIONS

1. Under average profit basis goodwill is calculated by :

- a) No of years purchased multiplied with average profits,.
- b) No of years purchased multiplied with super profits
- c) Summation of the discounted value of expected future benefits.
- d) Super profit divided with expected rate of return.

2. Under super profit goodwill is calculated by

- a) No of years purchased multiplied with average profits.
- b) No of years purchased multiplied with super profits.(R)
- c) Summation of the discounted value of expected future benefits.

3. Under annuity basis goodwill is calculated by :

- a) No of years purchased multiplied with average profits
- b) No of years purchased multiplied with super profits
- c) Summation of the discounted value of expected future benefits.
- d) Super profit divided with expected rate of return.

4. Under capitalization basis goodwill is calculated by :

- a) No of years purchased multiplied with average profits.
- b) No of years purchased multiplied with super profits.
- c) Summation of the discounted value of expected future benefits.
- d) Super profit divided with expected rate of return. .

5. Goodwill brought in by incoming partner in cash for joining in a partnership firm is taken away by the old partners in theirratio.

- a) Capital
- b) New Profit Sharing
- c) Sacrificing .
- d) Old Profit

6. Following are the factors affecting goodwill except :

- a) Nature of business,
- b) Efficiency of management
- c) Technical know how.
- d) Location of the customers .

7. Weighted average method of calculating goodwill should be followed when:

- a) Profit are uneven,
- b) Profit has increasing trend
- c) Profit has decreasing trend
- d) Either 'b' or 'c'.(R)

8. In the absence of any provision in the partnership agreement, profits and losses are shared

- a) In the ratio of capitals,
- b) Equally.
- c) In the ratio of loans given by them to the partnership firm.
- d) None of the above.

9. X,Y and Z are partners sharing profits and losses in the ratio 5:3:2 decide to share the future profits in the ratio 2:3:5. What will be the treatment for workmen

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compensation fund appearing in the balance sheet on the date if no information is available for the same?

- Distributed to the partners in old profit sharing ratio. .
- Distributed to the partners in new profit sharing ratio
- Distributed to the partners in capital ratio
- Carried forward to new balance sheet without any adjustment.

10. Match the following items from column A with column B

Sr. No.	Column A	Column B
1	Goodwill is the intangible assets of the concern which helps it to earn©	a) is the number of years for which the goodwill is expected to generate extra profits to the concern
2	Number of years purchased (a)	b) is the method for calculating goodwill.
3	Change in profit sharing ratio means(d)	c)super profits
4	Average profit Method(b)	d) Purchase of share of profits by one partner from another

11. What do you mean by Purchasing years?

- No of years in which goodwill is purchased.
- No of years the goodwill is expected to remain
- Both of these.
- None of these.

12. What do you mean by Super profit?

- Total Profit/No of years.
- Average profit- Normal profits.
- Weighted Profits/No of Weights.
- None of these.

13. Extra amount over and above the saleable value of the identifiable assets that could be fetches by selling an existing firm as a going concern.

- Goodwill.
- Revaluation Profit
- Super Profit
- Surplus

14. An asset which is not fictitious but intangible in nature, having realizable value.....

- Machinery

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- b. Building
- c. Furniture
- d. Goodwill

15. When there is no Goodwill Account in the books and goodwill is raised,.....account will be debited

- a. Partner's Capital A/c
- b. Goodwill A/c
- c. Cash A/c
- d. Reserve A/c

16. If old ratio between A & B is 1:1 & new ratio between A, B & C is 4:3:2 Recorded Goodwill of Rs90,000 appears in B/S. Which accounts will be effected if they decide to write off goodwill immediately?

- a. A A/c and B A/c
- b. A A/c and C A/c
- c. B A/c and C A/c
- d. None

17. What does not affect the goodwill of the firm?

- a. Better customers service
- b. Location of time
- c. Personal reputation
- d. None of these.

18. Goodwill is a

- a. Fictitious asset
- b. Current asset
- c. Wasting asset
- d. Intangible Asset

19. The excess amount which the firm can get on selling its assets over and above the saleable value of its assets is called

- (a) Surplus
- (b) Super profits
- (c) Reserve
- (d) Goodwill

20. Weighted average method of calculating goodwill is used when

- (a) Profits are not equal
- (b) Profits show a trend
- (c) Profits are fluctuating

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7. A, B and C are equal partners. D is admitted to the firm for one-fourth share. D brings Rs. 20,000 capital and Rs. 5,000 being half of the premium for goodwill. The value of goodwill of the firm is.
- a. Rs. 10,000. b. Rs. 40,000,. c. Rs. 20,000. d. None of the above.
8. The profits for 1998-99 are Rs. 2000; for 1999-2000 is Rs. 26,100 and for 2000-01 is Rs. 31,200. Closing stock for 1999-2000 and 2000-01 includes the defective items of Rs 2200 and Rs. 6,200 respectively which were considered as having market value NIL. Calculate goodwill on average profit method.
- a. Rs. 23,700. b. Rs. 17,700,. c. Rs. 13,700. d. Rs.17,300
9. A and B are partners with capitals of Rs. 10,000 and Rs. 20,000 respectively and sharing profit equally. They admitted C as their third partner with one-fourth profits of the firm, on the payment of Rs. 12,000. The amount of hidden goodwill is.
- a) 6,000, b) 10,000 c) 8,000 d) None of the above
10. X and Y share profits and losses in the ratio of 2:1. They take Z as a partner and the new profit sharing ratio becomes 3:2:1. Z brings Rs. 4,500 as premium for goodwill. The full value of goodwill will be
- a) Rs. 4,500 b) Rs. 18,000 c) Rs. 27,000, d) Rs.24,000
11. The following particulars are available in respect of the business carried on by a partnership firm :
- Trading Results :**
- | | | |
|------|--------|------------|
| 2001 | Loss | Rs. 5,000 |
| 2002 | Loss | Rs. 10,000 |
| 2003 | Profit | Rs. 75,000 |
| 2004 | Profit | Rs. 60,000 |
- You are required to compute the value of goodwill on the basis of 5 year's purchase of average profit of the business.
- a) Rs. 1,25,000 b) Rs. 1,50,000. c) Rs. 10,000 d) Rs. 1,20,000
12. The profits and losses for the last years are 2001-02 Losses Rs 10,000; 2002-03 Losses Rs. 2,500 2003-04 Profit Rs. 98,000 & 2004-05 Profits Rs. 76,000. The average capital employed in the business is Rs. 2,00,000. The rate of interest expected from capital invested is 12%. The remuneration of partners is estimated to be Rs. 1,000 per month. Calculate the value of goodwill on the basis of two years purchase of super profits based on the average of four years.
- a) Rs. 9,000 b) Rs. 8,750. c) Rs. 8,500 d) Rs. 8,250

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13. The profits for the last three years are 2002-03 Rs. 42,500 2003-04 Profits Rs. 56,000 & 2004-05 Profits Rs. 68,000. The total assets of the firm are Rs. 11,52,500 and the total outsiders liabilities is Rs. 5,00,000. The rate of interest expected from capital invested is 10%. Calculate the value of goodwill on capitalization basis.

- a) Rs. 97,000 b) Rs. 97,250 c) Rs. 97,500 d) Rs. NIL

14. The profits and losses for the last years are 2001-02 Losses Rs. 10,000; 2002-03 Losses Rs. 2,500, 2003-04 Profits Rs. 98,000 & 2004-05 Profits Rs. 76,000. The average capital employed in the business is Rs. 2,00,000. The rate of interest expected from capital invested is 12%. The remuneration of partners is estimated to be Rs. 1000 per month. Calculate the value of goodwill on the basis of four years purchase of super profits based on the annuity of the four years. Take discounting rate as 10%.

- a) Rs. 13,500 b) Rs. 13,568 c) Rs. 13,668 d) Rs 13,868.

15. A, B and C are partners sharing profits and loss in the ratio 3:2:1. They decide to change their profits sharing ratio to 2:2:1. To give effect to this new profit sharing ratio they decide to value the goodwill at Rs. 30000. Pass the necessary journal entry if Goodwill not appearing in the old balance sheet and should not appear in the new balance sheet.

- a) .
- | | | |
|--------------------------|-----|-------|
| B's Capital Account----- | Dr. | 2000 |
| Cs Capital Account ----- | Dr. | 1000 |
| To A's Capital Account | | 3,000 |
- b)
- | | | |
|------------------------|-----|--------|
| Goodwill Account ----- | Dr. | 30,000 |
| To A's Capital Account | | 15,000 |
| To B's Capital Account | | 10,000 |
| To C's Capital Account | | 5,000 |
- c)
- | | | |
|---------------------------|-----|--------|
| A's Capital Account ----- | Dr. | 12,000 |
| B's Capital Account ----- | Dr. | 12,000 |
| To Goodwill Account | | 30,000 |
- d)
- | | | |
|---------------------------|-----|-------|
| A's Capital Account ----- | Dr. | 3,000 |
| To B's Capital Account | | 2,000 |
| To C's Capital Account | | 1,000 |

16. A & B are partners sharing profits and losses in the ratio 5:3. On admission C brings Rs. 70,000 cash and Rs. 48000 against goodwill. New profit sharing ratio between A, B and C are 7:5:4. Find the sacrificing ratio as A:B

- a) 3:1. b) 4:7 c) 5:4 d) 2:1

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17. A and B are partners with the capital Rs. 50,000 and Rs. 40,000 respectively. They share profits and losses equally. C is admitted on bringing Rs. 50,000 as capital only and nothing was bought against goodwill. Goodwill in Balance Sheet of Rs. 20,000 is revalued as Rs. 35,000. What will be value of goodwill in the books after the admission of C ?
- a) Rs. 55,000 b) Rs. 35,000. c) Rs. 20,000 d) Rs. 15,000
18. Capital employed in a business is Rs.1,50,000. Profits are Rs50,000 and the normal rate of profit is 20%. The amount of goodwill as per capitalization method will be:
- a) Rs2,00,000 b) Rs1,50,000 c) Rs3,00,000 d) Rs1,00,000
19. A firm has an average profit of Rs60,000. Rate of return on Capital employed is 12.5% p.a. Total capital employed in the firm was Rs4,00,000. Goodwill on the basis of two years purchase of super profits is:
- a) Rs20,000 b) Rs15,000 c) Rs10,000 d) None
20. X and Y are partners in a firm with capital of Rs18,000 and Rs20,000. Z was admitted for $\frac{1}{3}$ rd share in profits and brings Rs24,000 as capital. Calculate the amount of goodwill:
- a) Rs24,000 b) Rs20,000 c) Rs15,000 d) Rs10,000
21. Goodwill is to be calculated at 1.5 years of purchase of average profit of last 6 years. Profit earned during the first 3 years is Rs30,000, Rs20,000 and Rs20,000 and losses suffered of Rs5,000, Rs3,000 and Rs2,000 in the last three years. Goodwill will be:
- a) Rs10,000 b) Rs15,000 c) Rs20,000 d) Rs25,000
22. A firm earned net profits during the last 3 years as follows:
- | | |
|------|----------|
| 2001 | Rs15,000 |
| 2002 | Rs20,000 |
| 2003 | Rs25,000 |
- The capital investment in the firm is Rs1,00,000. Having regard to risk involved 15% is the fair return on capital employed. Goodwill on basis of 2 years purchase of average super profits earned during 3 years is:
- a) Rs8,000 b) Rs10,000 c) Rs12,000 d) Rs15,000
23. The profits of last four years are:
- | | |
|------|----------|
| 2000 | Rs40,000 |
| 2001 | Rs50,000 |
| 2002 | Rs60,000 |
| 2003 | Rs50,000 |
- The value of goodwill on the basis of three years purchase of average profits based on last four years:

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- a) Rs1,00,000 b) Rs1,50,000 c) Rs2,00,000 d) None
24. **Goodwill is to be calculated at one and half years purchase of average profit of last 5 years. The firm earned profits during first 3 years Rs20,000, Rs18,000 and Rs9,000 and suffered losses of 2,000 and 5,000 in last 2 years. Goodwill amount will be:**
- a) Rs12,000 b) Rs10,000 c) Rs15,000 d) None
25. **A firm earned net profits during last 3 years:**
- | | |
|------|----------|
| 2004 | Rs17,000 |
| 2005 | Rs20,000 |
| 2006 | Rs23,000 |
- The capital employed Rs80,000. Return on capital employed 15% calculate the value of goodwill on the basis of two years purchase of average super profits earned:**
- a) Rs16,000 b) Rs20,000 c) Rs30,000 d) Rs40,000
26. **Profits of last three years were Rs6,000, Rs13,000 and Rs8,000. Calculate goodwill for two years of purchase.**
- a) Rs81,000 b) Rs27,000 c) Rs9,000 d) Rs18,000
27. **Ravi and Suraj are partners having the profit sharing ratio 3:2 in a firm. They admitted Tarun in partnership and new profit sharing ratio of Ravi, Suraj and Tarun was decided at 2:2:1 respectively. Tarun brings in Rs30,000 as goodwill. What would be the share of Ravi in goodwill?**
- a) Rs30,000 b) Rs18,000 c) Rs6,000 d) None

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SHORT QUESTIONS (2-3 LINES)

- Q.1 Explain Goodwill.
- Q.2 Explain the Features of Goodwill.
- Q.3 List any four factors that help in enhancing the value of goodwill.
- Q.4 What are the factors affecting the value of Goodwill?
- Q.5 Enumerate the methods for valuation of goodwill.
- Q.6 What do you understand by 'Super Profits'?
- Q.7 What do you understand by 'Normal Profits'?
- Q.8 What do you understand by Capitalisation of Profit?
- Q.9 How do you value goodwill under the super profits method?
- Q.10 How do you value goodwill under the average profits method?
- Q.11 Difference between Average Profits and Super Profits.
- Q.12 What is Purchased Goodwill?
- Q.13 What is Non-Purchased Goodwill?
- Q.14 Give important features of Purchased Goodwill.
- Q.15 Give important features of Non-Purchased Goodwill.
- Q.16 How do you value the goodwill under the capitalisation of Average Profits Method?
- Q.17 How do you value the goodwill under the capitalisation of Super Profits Method?
- Q.18 On what occasion does the need for valuation of Goodwill arise?.
- Q.19 How does nature of business affect the value of goodwill of a firm?
- Q.20 How does the market situation affect the value of goodwill of a firm?
- Q.21 How does the factor 'quality of product' affect the goodwill of a firm?
- Q.22 How does the factor 'efficiency of management' affect the goodwill of a firm?
- Q.23 How does the factor location affect the goodwill of a firm?