... of Years' Purchase
= ₹ 14,000 × 3 = ₹ 42,000.

Illustration 12 (*Super Profit Method and Past Adjustments*). Alok and Aakash are partners in M/s Mega Enterprises. They admit Ashish as partner *w.e.f.* 1st April, 2017. They agreed to value goodwill at 3 years' purchase by Super Profit Method for which they decided to take average of last 5 years profits. The profits for the last five years were:

Year ended	₹	
31st March, 2013	2,00,000	(Including gain of ₹ 25,000 from sale of fixed asset);
31st March, 2014	1,70,000	(Including abnormal loss of ₹ 50,000);
31st March, 2015	2,10,000;	
31st March, 2016	2,30,000;	
31st March, 2017	2,50,000.	

Capital employed in the firm is ₹ 15,00,000 and normal rate of return in similar business is 10%. Calculate value of goodwill.

Solution:

1. CALCULATION OF AVERAGE PROFIT

Year Ended	Profit (₹)	Adjustment (₹)	Normal Profit (₹)
31st March, 2013	2,00,000	(25,000)	1,75,000
31st March, 2014	1,70,000	50,000	2,20,000
31st March, 2015	2,10,000	...	2,10,000
31st March, 2016	2,30,000	...	2,30,000
31st March, 2017	2,50,000	...	2,50,000
			10,85,000

$$\text{Average Profit} = \frac{₹\ 10,85,000}{5} = ₹\ 2,17,000.$$

2. *Calculation of Normal Profit:*

Capital Employed = ₹ 15,00,000

Normal Rate of Return = 10%

∴ Normal Profit = ₹ 15,00,000 × 10% = ₹ 1,50,000.

3. *Calculation of Super Profit:*

Super Profit = Average Profit – Normal Profit

= ₹ 2,17,000 – ₹ 1,50,000 = ₹ 67,000.

4. *Value of Goodwill:*

Super Profit × Numbers of Years' Purchase

= ₹ 67,000 × 3 = ₹ 2,01,000.

28. Ayub and Amit are partners in a firm and they admit Jaspal into partnership *w.e.f.* 1st April, 2017. They agreed to value goodwill at 3 years' purchase by Super Profit Method for which they decided to average profit of last 5 years. The profits for the last 5 years were:

Year Ended	*Net Profit (₹)*	
31st March, 2013	1,50,000	
31st March, 2014	1,80,000	
31st March, 2015	1,00,000	(Including abnormal loss of ₹ 1,00,000)
31st March, 2016	2,60,000	(Including abnormal gain (profit) of ₹ 40,000) (–)
31st March, 2017	2,40,000	

The firm has total assets of ₹ 20,00,000 and Outside Liabilities of ₹ 5,00,000 as on that date. Normal Rate of Return in similar business is 10%.

Calculate value of goodwill.

Step 5: Value of Goodwill = Weighted Average Pro...

(ii) *Super Profit Method:* Under this method, Goodwill is valued on the basis of super profit earned by the firm. Following are the steps for valuation of Goodwill by Super Profit Method:

Step 1: Calculate the Capital Employed.

Step 2: Calculate the Normal Profit by multiplying capital employed with normal rate of return.

Step 3: Calculate the Average Profit earned by the firm.

Step 4: Calculate the difference between the Average Profit and Normal Profit. The difference is called **Super Profit** (if it is positive).

Step 5: Calculate the value of Goodwill as follows:
Goodwill = Super Profit × No. of Years' Purchase.

Capital Employed/Net Assets are total assets (excluding goodwill if existing in the Balance Sheet, Non-trade Investments and fictitious assets) *less* outside liabilities.

Normal Rate of Return refers to that rate of return normally earned by an average firm belonging to same industry.

3. Super Profit Method:

Steps → find out:

i) Average Profit: $\frac{\text{Total Profit}}{\text{No. of years}}$

ii) Normal Profit: Capital Employed × $\frac{\text{Normal rate of Return}}{100}$

where Capital employed = Net Assets

Fixed Asst. + Cur. Asst. − Outside Li...

iii) Super Profit: Average Profit − Normal Profit

iv) Goodwill = Super Profit × No. of years Pur...