concept no.4

Super Profit Method

Super Profit Method : In this method goodwill is calculated on the basis of surplus (excess) profits earned by a firm in comparison to average profits earned by other firms. If a business has no anticipated excess earnings, it will have no goodwill. Such excess profits are called super profits and the goodwill is calculated on the basis of super profits.

Goodwill = Super profit x No. Year of Purchase

Super Profit=Actual or Average Profit- Normal Profit

Normal Profit = $\frac{Capital\ invested \times Normal\ rate\ of\ return}{100}$

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concept no.4

Questions

Q.1). A firm earned profits of ₹ 80,000, ₹ 1,00,000, ₹ 1,20,000 and ₹ 1,80,000 during 2020-21, 2021-22, 2022-23 and 2023-24 respectively. The firm has capital investment of ₹5,00,000. A fair rate of return on investment is 15% p.a. Calculate goodwill of the firm based on three years' purchase of average super profits of last four years. (C.B.S.E. Sample Question Paper)

[Ans. Goodwill ₹ 1,35,000]

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Questions

Q.2). The capital of the firm of Anuj and Benu is ₹ 10,00,000 and the market rate of interest is 15%. Annual salary to the partners is Rs.60,000 each. The profit for the last three years were ₹2,80,000, ₹3,80,000 and ₹4,20,000. Goodwill of the firm is to be valued on the basis of two years purchase of last three years average super profits. Calculate the goodwill of the firm.

[Ans. Goodwill ₹1,80,000]

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Questions

Q.3). Find out the capital employed from the following information :

Normal rate of return :		12%
Profits: 2017-18	₹	80,000
2018-19	₹	1,30,000
2019-20	₹	1,56,000
Goodwill valued at 3 years purchase of Super Profits	₹	1,50,000

[Ans. Capital Employed ₹6,00,000]

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END OF CONCEPT-4

concept no.

5 Super Profit Method when Past Adjustments are to be Made