concept no.5

Super Profit Method when Past Adjustments are to be Made

Before the calculation of the Actual or average profits, the profits earned in the past must be adjusted in the light of future expectations and the following factors should be taken into account while calculating the Actual or average profits :

(i) Abnormal income of a year should be deducted out of the net profit of that year.
(ii) Abnormal loss of a year should be added back to the net profit of that year.
(iii) Income from Investments should be deducted out of the net profits of that year, because this income is received from outside the business.

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concept no.5

Questions

Q.1).Capital invested in a firm is ₹3,00,000. Normal rate of return is 10%. Average profits of the firm are ₹41,000 (after an abnormal loss of ₹2,000). Calculate goodwill at five times the super profits.

[Ans. Goodwill ₹ 65,000]

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concept no.5

Questions

Q.2).A firm's average profits are ₹70,000. It includes an abnormal profit of ₹5,000. Capital invested in the business is ₹5,50,000 and the normal rate of return is 10%. Calculate goodwill at four times the super profit.
[Ans. Goodwill ₹ 40,000]

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END OF CONCEPT-5

concept no.

6 Capitalisation Method

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