

ANSWERS

1. MULTIPLE CHOICE QUESTIONS

1. (4) **Explanation:** Profit earned by the firm over and above the normal business profit is Super Profit.
2. (2) **Explanation:** Goodwill is the value of share of profit sacrificed by the sacrificing partner. For example, when a new partner is admitted in a partnership firm, the existing partners sacrifice a part of their share of profit in favour of the new partner. The value of share of profit sacrificed by the sacrificing partner is termed as Goodwill.
3. (2) **Explanation:** Trade Investments are those investments that are made in another enterprise for the furtherance of own business.
4. (3) **Explanation:**
Goodwill is the capitalised value of super profit.
As a mathematical expression, it may be expressed as:
$$\text{Goodwill} = \text{Super Profit} \times 100 / \text{Normal Rate of Return}.$$
Application of above formula is Capitalisation of Super Profit Method.
5. (3) **Explanation:**
$$\text{Goodwill} = \text{Capitalised Value of Average Profit} - \text{Capital Employed, i.e., } ₹ 12,50,000 - ₹ 7,50,000^* = ₹ 5,00,000.$$
$$^* \text{Capital Employed} = ₹ 2,50,000 + ₹ 5,00,000 = ₹ 7,50,000.$$
6. (4) **Explanation:**
$$\text{Average Profit} = ₹ 3,20,000$$
$$\text{Normal Profit} = \text{Capital Employed} \times \text{NRR}/100 = ₹ 12,00,000^* \times 20/100 = ₹ 2,40,000$$
$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit} = ₹ 3,20,000 - ₹ 2,40,000 = ₹ 80,000$$
$$\text{Goodwill} = \text{Super Profit} \times 100 / \text{NRR} = ₹ 80,000 \times 100/20 = ₹ 4,00,000.$$
$$^* \text{Capital Employed} = ₹ 4,50,000 + ₹ 7,50,000 = ₹ 12,00,000.$$
7. (2) **Explanation:**
AS-26, Intangible Assets prescribes that goodwill should not be recognised in the books of account unless consideration is paid for it.
8. (2) **Explanation:** Self-generated Goodwill is the goodwill which is not purchased for a consideration in cash or kind but is earned by the efforts of the management (partners).
9. (3) **Explanation:** Purchased Goodwill is the Goodwill for which consideration is paid in cash or in kind. If consideration paid for taking over a business is more than the value of net assets (Assets – Liabilities), it shows excess payment is towards Goodwill.
10. (2) **Explanation:** When a firm has robust past performance, it results into higher sales and profit. As a result, it will have higher value of goodwill.
11. (3) **Explanation:**
$$\text{Actual Average Profit} = ₹ 65,000 + ₹ 35,000 \text{ (Undervalued Stock)} = ₹ 1,00,000$$
$$\text{Normal Profit} = \text{Capital Employed} \times \text{NRR}/100 = ₹ 8,00,000 \times 10/100 = ₹ 80,000$$
$$\text{Super Profit} = \text{Actual Average Profit} - \text{Normal Profit} = ₹ 1,00,000 - ₹ 80,000 = ₹ 20,000$$
$$\text{Goodwill} = ₹ 20,000 \times 4 = ₹ 80,000.$$
12. (3) **Explanation:**
$$\text{Actual Average Profit} = ₹ 56,000 + ₹ 25,000 \text{ (Undervalued Stock)} = ₹ 81,000$$
$$\text{Normal Profit} = \text{Capital Employed} \times \text{NRR}/100 = ₹ 5,00,000 \times 12/100 = ₹ 60,000$$
$$\text{Super Profit} = \text{Actual Average Profit} - \text{Normal Profit} = ₹ 81,000 - ₹ 60,000 = ₹ 21,000$$
$$\text{Goodwill} = \text{Super Profit} \times 100 / \text{NRR} = ₹ 21,000 \times 100/12 = ₹ 1,75,000.$$

13. (2) Explanation:

Actual Average Profit = ₹ 95,000 – ₹ 14,000 (Overvalued Stock) = ₹ 81,000

Normal Profit = Capital Employed × NRR/100 = ₹ 6,00,000 × 12/100 = ₹ 72,000

Super Profit = Actual Average Profit – Normal Profit = ₹ 81,000 – ₹ 72,000 = ₹ 9,000

Goodwill = Super Profit × 100/NRR = ₹ 9,000 × 100/12 = ₹ 75,000.

14. (1) Explanation: Investments that are invested to earn income by investing surplus funds and not for the purpose of furtherance of own business is termed as Non-trade Investments.

15. (4) Explanation:

Average Profit = ₹ 1,26,000

Capital Employed = Total Assets – Outside Liabilities = ₹ 9,40,000 – ₹ 1,40,000 = ₹ 8,00,000

Normal Profit = Capital Employed × NRR/100 = ₹ 8,00,000 × 9/100 = ₹ 72,000

Super Profit = Average Profit – Normal Profit = ₹ 1,26,000 – ₹ 72,000 = ₹ 54,000

Goodwill = Super Profit × 100/NRR = ₹ 54,000 × 100/9 = ₹ 6,00,000.

16. (3) Explanation:

Average Profit = ₹ 9,00,000

Capital Employed = Total Tangible Assets – Outside Liabilities = ₹ 36,00,000 – ₹ 6,00,000 = ₹ 30,00,000

Normal Profit = Capital Employed × NRR/100 = ₹ 30,00,000 × 20/100 = ₹ 6,00,000

Super Profit = Average Profit – Normal Profit = ₹ 9,00,000 – ₹ 6,00,000 = ₹ 3,00,000

Goodwill = Super Profit × 100/NRR = ₹ 3,00,000 × 100/20 = ₹ 15,00,000.

17. (2) Explanation:

Goodwill = Capitalised Value of Average Profit – Capital Employed = ₹ 10,00,000* – ₹ 7,00,000** = ₹ 3,00,000.

*Capitalised Value of Average Profit = Average Profit × 100/NRR = ₹ 2,50,000 × 100/25 = ₹ 10,00,000.

**Capital Employed = Capitals of Partners = ₹ 4,50,000 + ₹ 2,50,000 = ₹ 7,00,000.

18. (2) Explanation:

Average Profit = ₹ 1,80,000

Normal Profit = Capital Employed × NRR/100 = ₹ 8,00,000 × 15/100 = ₹ 1,20,000

Super Profit = Average Profit – Normal Profit = ₹ 1,80,000 – ₹ 1,20,000 = ₹ 60,000

Goodwill = Super Profit × Number of Years' Purchase = ₹ 60,000 × 3 = ₹ 1,80,000.

19. (3) Explanation:

Goodwill = Capitalised Value of Average Profit – Capital Employed = ₹ 21,50,000 – ₹ 17,50,000* = ₹ 4,00,000.

*Capital Employed = ₹ 8,00,000 + ₹ 9,50,000 = ₹ 17,50,000.

20. (2) Explanation:

Goodwill = Capitalised Value of Average Profit – Net Assets = ₹ 18,50,000 – ₹ 15,50,000* = ₹ 3,00,000.

*Net Assets = ₹ 17,75,000 – ₹ 2,25,000 = ₹ 15,50,000.

21. (4) Explanation: Goodwill, Non-trade Investments and Fictitious Assets are excluded while calculating Capital Employed of the firm for the valuation of Goodwill.

22. (2) Explanation:

Goodwill = Capitalised Value of Average Profit – Capital Employed

= ₹ 90,00,000* – ₹ 58,00,000 = ₹ 32,00,000.

*Capitalised Value of Average Profit = Average Profit × 100/NRR = ₹ 13,50,000 × 100/15 = ₹ 90,00,000.

23. (4) Explanation:

Capital Employed = All Assets (except Goodwill, Non-trade Investments and Fictitious Assets) – Outside Liabilities.

Where Outside Liabilities are nil (zero), Capital Employed = All Assets (except Goodwill, Non-trade Investments and Fictitious Assets).

24. (2) Explanation:

Goodwill = Average Profit × No. of years' purchase;

Adjusted profits are as follows:

2018–19 : ₹ 3,00,000 – ₹ 90,000 = ₹ 2,10,000

2019–20 : ₹ 2,40,000 + ₹ 1,20,000 = ₹ 3,60,000

2020–21 : ₹ 3,60,000 – ₹ 1,20,000 = ₹ 2,40,000

Average Profit = (₹ 2,10,000 + ₹ 3,60,000 + ₹ 2,40,000)/3 = ₹ 8,10,000/3 = ₹ 2,70,000.

Value of firm's Goodwill = ₹ 2,70,000 × 4 = ₹ 10,80,000.

25. (3) Explanation: Normal rate of return is the rate of earning which is expected by the investors to be earned from their investment/capital employed.

26. (4) Explanation: If there is increasing or decreasing trend of profits, it is better to give more weight to the profits of recent years than those of earlier years. But if there is no trend of profits (increase or decrease), Weighted Average Method is not used, and in such cases, simple average is used to calculate goodwill.

27. (2) Explanation:

Normal Profit = Capital Employed × (Normal Rate of Return/100)

= ₹ 2,00,000 × 10/100 = ₹ 20,000;

Adjusted profits are:

2017–18 : (₹ 10,000) – ₹ 12,000 = ₹ (22,000)

2018–19 : (₹ 25,000) – ₹ 12,000 = ₹ (37,000)

2019–20 : ₹ 98,000 – ₹ 12,000 = ₹ 86,000

2020–21 : ₹ 76,000 – ₹ 12,000 = ₹ 64,000

Average Profit = [(₹ 22,000) + (₹ 37,000) + ₹ 86,000 + ₹ 64,000]/4 = ₹ 91,000/4 = ₹ 22,750

Super Profit = Average Profit – Normal Profit

= ₹ 22,750 – ₹ 20,000 = ₹ 2,750

Goodwill = Super Profit × No. of Years' Purchase

= ₹ 2,750 × 2 = ₹ 5,500.

28. (4) Explanation: Purchased Goodwill is the Goodwill for which consideration is paid in cash or kind.

If consideration paid for taking over a business is higher than the net assets (assets – liabilities), the excess is towards goodwill.

29. (4) Explanation: Two different types of goodwill are Purchased Goodwill and Self-Generated Goodwill. Self-Generated Goodwill is generated through efforts of the management and organisation. Purchased Goodwill is the goodwill for which consideration is paid.

30. (4) Explanation: First two entries (items) are abnormal losses of the firm while the third entry (item) leads to increased loss or decreased profit for the year. Hence, they are added to net profit to determine normal business profit.

31. (1) Explanation: Weighted Average Profit is calculated by assigning weight to each year, determining the weighted profit for each year. The weighted profits are added and divided by the total of weights. In effect,

Weighted Average Profit = Total Product of Weighted Profits/Total of Weights

32. (3) Explanation: AS 26, Intangible Assets, guides recognising Goodwill in the books of account. Accordingly, Goodwill is not recognised unless consideration is paid for it.

33. (4) Explanation: Goodwill is an intangible asset which means that it cannot be seen or felt but has realisable value, i.e., it can be sold.

34. (1) Explanation: Capitalised Value = ₹ 90,000 × 100/10 = ₹ 9,00,000

Goodwill = Capitalised Value – Net Assets

= ₹ 9,00,000 – (₹ 2,00,000 + ₹ 2,40,000 + ₹ 50,000 – ₹ 10,000) = ₹ 9,00,000 – ₹ 4,80,000 = ₹ 4,20,000.

35. (2) Explanation: It is calculation of Capital Employed from Liabilities Side Approach. Capital Employed means Firm's Capital left after deducting Goodwill, Fictitious Assets, Non-Trade Investments. Hence, it will be the balance of Partners' Capital + Credit Balance in Current Accounts (or – Debit balance of Current Accounts) + Free Reserves + Credit Balance of Profit & Loss Account (if any) (or – Debit Balance of Profit & Loss Account) – Goodwill – Non-Trade Investments – Fictitious Assets.

36. (4) Explanation: It is calculation of Capital Employed from Assets Side Approach. Capital Employed means Firm's Capital left after deducting Goodwill, Fictitious Assets, Non-Trade Investments. Hence, it will be the balance of Total Assets – Goodwill – Non-Trade Investments – Debit Balance in Current Account – Fictitious Assets – All Outside Liabilities.

37. (3) Explanation:

Capital Employed = Capitals of Partners + Balance of Current Accounts – Goodwill – Investments (Non-trade) – Fictitious Assets.

(ii) ₹ 5,00,000 + ₹ 5,00,000 + ₹ 50,000 + ₹ 40,000 – ₹ 50,000 – ₹ 25,000 – ₹ 15,000 = ₹ 10,00,000.

38. (4) Explanation:

Capital Employed = Total Assets – Debit Balances of Current Accounts – Bank Loan – Goodwill – Fictitious Assets (Profit & Loss Account (Debit)).

(i) ₹ 25,00,000 – ₹ 75,000 – ₹ 25,000 – ₹ 8,00,000 – ₹ 1,00,000 – ₹ 15,000 = ₹ 14,85,000.

2. CASE STUDY BASED MCQS

1. A. 2. **Explanation:** Goodwill = Average Profit × No. of Years' Purchase
= ₹ 1,20,000 × 4 = ₹ 4,80,000

Working Note:

Adjusted profits are:

1st Year = ₹ 2,00,000 – ₹ 60,000 = ₹ 1,40,000

2nd Year = ₹ 1,80,000 – ₹ 60,000 = ₹ 1,20,000

3rd Year = ₹ 1,60,000 – ₹ 60,000 = ₹ 1,00,000

Average Profit = Total Profits/Number of Years

= ₹ 1,40,000 + ₹ 1,20,000 + ₹ 1,00,000/3

= ₹ 3,60,000/3 = ₹ 1,20,000.

B. 3. **Explanation:** Goodwill = Super Profit × No. of Years' Purchase
= ₹ 60,000 × 4 = ₹ 2,40,000

Working Notes:

Adjusted profits:

1st Year = ₹ 2,00,000 – ₹ 60,000 = ₹ 1,40,000

2nd Year = ₹ 1,80,000 – ₹ 60,000 = ₹ 1,20,000

3rd Year = ₹ 1,60,000 – ₹ 60,000 = ₹ 1,00,000

Average Profits = Total Profits/Number of Years

Average Profits = ₹ 1,40,000 + ₹ 1,20,000 + ₹ 1,00,000 / 3

= ₹ 3,60,000/3 = ₹ 1,20,000

Normal Profit = Capital Employed × (Normal Rate of Return/100)

Capital Employed = Assets – Liabilities

= ₹ 7,00,000 – ₹ 1,00,000 = ₹ 6,00,000

Normal Profit = ₹ 6,00,000 × 10/100 = ₹ 60,000

Super Profit = Average Profit – Normal Profit

= ₹ 1,20,000 – ₹ 60,000 = ₹ 60,000

- C. 2. **Explanation:** Goodwill = Capitalised Average Profits – Actual Capital Employed
 $= ₹ 12,00,000 - ₹ 6,00,000 = ₹ 6,00,000$

Working Notes:

Capitalised Average Profit or Normal Capital = Average Profit \times 100/Normal Rate of Return

= Capitalised Average Profits = ₹ 1,20,000* \times 100/10 = ₹ 12,00,000

Actual Capital Employed or Net Asset of Business = Total Assets (excluding goodwill, non-traded investments and fictitious assets) – Outside Liabilities

= ₹ 7,00,000 – ₹ 1,00,000 = ₹ 6,00,000

Adjusted profits: Refer to Working Note under B.

- D. 3. **Explanation:** Goodwill by Capitalisation of Super Profit Method = Super Profit (As calculated above) \times 100/Normal Rate of Return
 $= ₹ 60,000 \times 100/10 = ₹ 6,00,000.$

Working Notes: Refer to Working Note under B.

2. A. 3. **Explanation:** Purchased Goodwill is the Goodwill for which consideration is paid in cash or in kind. If consideration paid for taking over a business is higher than the Net Assets (*i.e.*, Assets – Liabilities) of the business, it is towards Goodwill.

- B. 1. **Explanation:** Goodwill = Average Profit* \times No. of Years' Purchase
 $= ₹ 1,00,000 \times 4 = ₹ 4,00,000$

*Average Profit = Total Profits/Number of years

$= ₹ 75,000 + ₹ 1,00,000 + ₹ 1,25,000 + ₹ 85,000 + ₹ 1,15,000/5$

$= ₹ 5,00,000/5 = ₹ 1,00,000$

- C. 4. **Explanation:** Purchased Goodwill = Purchase Consideration – Net Assets
 $= ₹ 51,50,000 - (₹ 56,50,000 - ₹ 12,50,000)$
 $= ₹ 51,50,000 - ₹ 44,00,000$
 $= ₹ 7,50,000.$

- D. 3. **Explanation:** AS-26, Intangible Assets, prescribes that goodwill should not be recognised in the books of account unless consideration is paid for it. Hence, self-generated goodwill valued on the basis of average profits will not be recorded anywhere in the books of account.

3. A. 1. **Explanation:** Adjusted Profit = Profit + Capital expenditure charged to revenue, now reversed* – Depreciation on capital expenditure** – Overvaluation of closing stock
 $= ₹ 80,000 + ₹ 80,000 - ₹ 4,000 - ₹ 11,000 = ₹ 1,45,000$

*Capital Expenditure (Air Conditioning unit) was charged (debited) to Profit & Loss Account.

While valuing Goodwill, the said Air Conditioning unit is to be capitalised. This means the earlier debit to Profit & Loss Account shall be now reversed. Hence, a credit to profit is made at this stage by the amount capitalised earlier, *i.e.*, ₹ 80,000.

**Depreciation = ₹ 80,000 \times 20/100 \times 3/12 = ₹ 4,000

- B. 1. **Explanation:** Adjusted Profit = Profit + Overvaluation of Opening Stock* – Depreciation on Capital Expenditure**
 $= ₹ 44,200 + ₹ 11,000 - ₹ 15,200 = ₹ 40,000$

*Since closing stock of the last financial year was overvalued, the opening stock of the current year will also be overvalued. Closing stock of last year becomes the opening stock of current year. Further, since opening stock appears at the debit side of the Profit & Loss Account (it is an expense), and if the expense is overvalued, the profits will have to be increased to nullify the overvaluation in expense.

**Depreciation = Written Down Value of Air-Conditioning unit ₹ 76,000 \times Rate of Depreciation 20/100
 $= ₹ 15,200$

Written Down Value = ₹ 80,000 (Book Value) – ₹ 4,000 (Depreciation for the year ended 31st March, 2020)
 $= ₹ 76,000.$

- C. 1. **Explanation:** Adjusted Profit for 2017-18 is same as given = ₹ 1,00,000
 Adjusted Profit for 2018-19 = Profit + Abnormal loss due to loss of stock by theft
 $= ₹ 1,50,000 + ₹ 50,000 = ₹ 2,00,000$
 Yearly Adjusted Profits \times Weights = Weighted Profit
 2017-18: ₹ 1,05,000 \times 1 = ₹ 1,05,000
 2018-19: ₹ 2,00,000 \times 2 = ₹ 4,00,000
 2019-20: ₹ 1,45,000 \times 3 = ₹ 4,35,000
 2020-21: ₹ 40,000 \times 4 = ₹ 1,60,000
 Total Weights = 4 + 3 + 2 + 1 = 10
 Total Weighted Profits = ₹ 11,00,000
 Weighted Average Profit = Total of Weighted Profits/Total Weights
 $= ₹ 11,00,000/10 = ₹ 1,10,000.$
- D. 2. **Explanation:** Goodwill = Weighted Average Profit \times No. of Years' Purchase
 $= ₹ 1,10,000 \times 3 = ₹ 3,30,000$

3. SEQUENCE BASED MCQS

1. 4. **Explanation:**

- A. There may be some unusual profits or losses that have occurred to the business which do not occur in the normal course of the business. So, adjustments have to be done in order to get a true picture of the average profit of the business.
- B. Average Profit = Sum of Profits/Number of years
- C. 'Number of years' purchase is the number of years for which the firm will expect to earn the same amount of profit because of the past efforts of the firm after change of ownership.
- D. Goodwill = Average Profit \times No. of Years' Purchase

2. 2. **Explanation:**

- A. There may be some profits earned or losses incurred in the business which do not occur in the normal course of the business. Adjustments are made in each year's profit to determine the actual profit earned.
- B. Select the weights to be assigned to each year's profit.
- C. Determining Weighted Average Normal Profit is the next step, which is determined.
- D. Thereafter, the value of Goodwill is determined.

3. 4. **Explanation:**

- A. Adjustments are made in profits for profits and losses that are not associated with normal course of business to determine normal business profit for each year. It is also termed as Adjusted Business Profit. It is the first stage of calculating the value of Goodwill by Super Profit Method.
- B. After calculating Adjusted Average Profit, Normal Profit is required. For Normal Profit, Capital Employed is calculated. Therefore, determining Capital Employed is the second stage.
- C. Next stage is to determine expected normal profit based on capital employed. Normal Profit
 $= \text{Capital Employed} \times (\text{Normal Rate of Return}/100)$
- D. Next stage is to determine Super Profit. Super Profit = Actual or Average profit – Normal Profit.
- E. Last stage in the valuation of Goodwill is to determine the value of Goodwill.
 Goodwill = Super Profit \times No. of years' purchase

4. 2. Explanation:

- A. Adjustments are made in profits for profits and losses that are not associated with normal course of business to determine normal business profit for each year. It is also termed as Adjusted Business Profit. It is the first stage of calculating the value of Goodwill by Super Profit Method.
- B. After calculating Adjusted Average Profit, Normal Profit is required. For Normal Profit, Capital Employed is calculated. Therefore, determining Capital Employed is the second stage.
- C. Next stage is to determine normal profit on the basis of Capital Employed.
- D. Next stage is to determine Super Profit. $\text{Super Profit} = \text{Actual or Average Profit} - \text{Normal Profit}$.
- E. Last stage in the valuation of Goodwill is to determine the value of Goodwill. $\text{Goodwill} = \text{Super Profit} \times 100 / \text{Rate of Return}$.

5. 1. Explanation:

- A. First stage is to determine average profit. $\text{Average Profit} = \text{Sum of Profits} / \text{Number of years}$.
- B. Next stage is to determine capitalised value of business. $\text{Capitalised value of Business} = \text{Average Profit} \times 100 / \text{Rate of Return}$.
- C. Next stage is to determine net assets which is deducted from Capitalised value of business. $\text{Net Assets} = \text{All Assets (except goodwill, non-trade investments and fictitious assets)} - \text{Outside Liabilities}$.
- D. Last stage is to determine value of Goodwill. $\text{Goodwill} = \text{Capitalised Value of Business} - \text{Net Assets}$.

5. MATCHING QUESTIONS

1. 1. Explanation:

- A. $\text{Assets} = \text{Capital Employed} + \text{Liabilities}$
 $= ₹ 5,00,000 + ₹ 1,20,000 = ₹ 6,20,000$
- B. $\text{Average Profit} = \text{Super Profit} + \text{Normal Profit}$
 $\text{Super Profit} = \text{Goodwill} (\₹ 2,50,000) \times \text{Rate of Return} / 100$
 $= ₹ 2,50,000 \times 8 / 100 = ₹ 20,000$
 $\text{Average Profit} = ₹ 20,000 + ₹ 40,000 (\text{Normal Profit}) = ₹ 60,000$
- C. $\text{Normal Profit} = \text{Rate of Return} (8\%) \times \text{Capital Employed} (\₹ 5,00,000)$
 $= 5,00,000 \times 8\% = ₹ 40,000$
- D. $\text{Super Profit} = ₹ 20,000$ (As calculated in B above).

2. 3. Explanation: The question is associated with determining normal business profit.

- A. Abnormal business loss is added to net profit which is the profit earned before abnormal loss.
- B. Abnormal business profit is deducted from net profit which is the profit earned before abnormal profit.
- C. Partners' remuneration has no effect since it is cost of managing the business.

3. 1. Explanation:

- A. Gain on sale of fixed assets is an abnormal gain. It will be deducted from profit to determine normal profit.
- B. Purchase of Furniture recorded as purchases reduced profit as capital expenditure is recorded as revenue expense. Hence, it will be added to profit.
- C. Income from Non-trade investments will be deducted from profit because it is not a business income.
- D. Partners' Remuneration, if not paid earlier, will be deducted from profit being a cost of management.
- E. Loss by fire is an abnormal loss thus, will be added to profit.

4. 4. Explanation:

- A. Undervaluation of Closing Stock leads to lower profit for the year. It will be added to profit to determine normal business profit for the year.
- B. Overvaluation of Closing Stock leads to higher profit for the year. It will be deducted from profit to determine normal business profit for the year.
- C. Undervaluation of Opening Stock leads to higher profit for the year. It will be deducted from the profit to determine normal profit for the year.
- D. Overvaluation of Opening Stock leads to lower profit for the year. It will be added to the profit to determine normal profit for the year.

5. COMBINATION WITH SINGLE ANSWER QUESTIONS

1. 3. **Explanation:** As per Capitalisation Method, goodwill can be calculated using two methods and answer will be the same.
2. 3. **Explanation:** Purchase of Furniture recorded as purchases are added as it is a capital expenditure wrongly taken as revenue expenditure and Undervaluation of Closing Stock are both added as they would have reduced the profits.
3. 4. **Explanation:**
 - A. Gain on sale of Motor Vehicle owned by the Business is deducted as it is an abnormal income.
 - B. Income from Non-Trade Investment is deducted as it is not related to normal business activities.
 - C. Remuneration of partners is deducted since it is normal business expenditure.
4. 4. **Explanation:** Goodwill is an intangible asset and not a fictitious asset.
5. 1. **Explanation:** Goodwill is not valued at the time of dissolution, *i.e.*, when firm comes to an end but goodwill is valued when there is reconstitution of the firm.
6. 2. **Explanation:** Intangibility is a feature of Goodwill and not a factor affecting goodwill. Remaining are the factors that affect value of goodwill.
7. 4. **Explanation:** Recognition of goodwill as an asset is guided by AS 26, Intangible Assets. It is recognised if consideration is paid for it, *i.e.*, is purchased goodwill.