

"Valuation of Goodwill"

classmate

Date

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1. Avg. Profit method :-
- (i) Simple Avg.
 - (ii) Weighted Avg.

$$\text{Goodwill} = \text{Avg. Profit} \times \text{Purchasing years}$$

(with simple Avg.)

$$= 10600 \times 3 = \boxed{31800}$$

$$\text{Avg. Profit} = \frac{\text{Total Profits}}{\text{No. of years}} = \frac{50000 - 5000}{5} = 10600$$

$$\text{Goodwill} = \text{Weighted Avg. Profit} \times \text{Pur. years}$$

$$\text{Weighted Avg. Profit} = \frac{\sum wx}{\sum w}$$