Multiple Choice Questions (MCQs)

1. Money value of the reputation of a firm measured in terms of its future earning capacity is known as

(a) Trade mark. (b) Goodwill.

(c) Brand Value. (d) Economic Value.

2. Goodwill is valued at the time of

(a) Change in Profit-sharing Ratio. (b) Retirement/death of a Partner.

(c) Admission of a new partner. (d) All of these.

3. When Goodwill is not purchased, Goodwill

(a) is not recognised in the Balance Sheet. (b) is recognised in the Balance Sheet.

(c) may or may not be recognised in the Balance Sheet. (d) is partly recognised in the Balance Sheet.

4. Assets of a firm including fictitious assets of ₹ 5,000 are ₹ 85,000. Liabilities of the firm are ₹ 30,000. Normal Rate of Return is 10% and the Average Profit of the firm is ₹ 8,000. Value of goodwill as per Capitalisation of Super Profit Method will be

(a) ₹ 20,000. (b) ₹ 30,000.

(c) ₹ 25,000. (d) ₹ 15,000.

5. Average Capital Employed of a firm is ₹ 4,00,000 and the Normal Rate of Return is 15%. Average profit of the firm is ₹ 80,000 per annum. If management cost is estimated at ₹ 10,000 per annum, then on the basis of two years' purchase of Super Profit, value of Goodwill will be

(a) ₹ 10,000. (b) ₹ 20,000.

(c) ₹ 60,000. (d) ₹ 80,000.

6. Net Profits during the last three years of a firm are:

Year	I	II	III
Profit (`)	18,000	20,000	22,000

The Capital investment of the firm is ₹ 60,000. Normal Rate of Return is 10%. Value of Goodwill on the basis of three years' purchase of the Super Profit for the last three years will be

(a) ₹ 21,000. (b) ₹ 42,000.

(c) ₹ 84,000. (d) ₹ 20,000.

7. Capital Employed in a firm is calculated from Liabilities Side Approach as follows:

(a) Partners' Capital – Credit balance in Current Account + Free Reserves + Credit Balance of Profit & Loss Account (if any) – Goodwill – Non-Trade Investments – Fictitious Assets – All Outside Liabilities.

(b) Partners' Capital + Credit Balance in Current Accounts (or – Debit balance of Current Accounts) + Free Reserves + Credit Balance of Profit & Loss Account (if any) – Goodwill – Non-Trade Investments – Fictitious Assets.

(c) Partners' Capital – Credit Balance in Current Accounts + Free Reserves + Credit Balance of Profit & Loss Account (if any) – Goodwill – Non-Trade Investments – Fictitious Assets – All Outside Liabilities.

(d) All Assets – Goodwill – Non-Trade Investments – Fictitious Assets – Debit Balance in Profit & Loss Account – All Outside Liabilities.

8. Capital Employed in a firm is calculated from Assets Side Approach as follows:

(a) All Assets – Goodwill – Non-Trade Investments – Fictitious Assets – Long-term Outside Liabilities.

(b) All Assets – Goodwill – Non-Trade Investments – Fictitious Assets – Credit Balance in Current Accounts – All Outside Liabilities.

(c) Partners' Capital – Credit Balance in Current Accounts + Free Reserves + Credit Balance of Profit & Loss Account (if any) – Goodwill – Non-Trade Investments – Fictitious Assets – All Outside Liabilities.

(d) All Assets – Goodwill – Non-Trade Investments – Fictitious Assets – Debit Balance in Profit & Loss Account – Debit Balance in Current Account – All Outside Liabilities.

9. In valuation of Goodwill, Average profit is determined considering
(a) Actual business profit for each year.
(b) Actual business profit for each year adjusting it for abnormal profits and losses, if any.
(c) Actual business profit for each year adjusting it for abnormal losses, if any.
(d) Actual business profit for each year adjusting it for abnormal profits, if any.

10. Weighted Average Profit Method of calculating goodwill is useful when
(a) Profits are not similar over the years.
(b) Profits show a trend either rising or falling.
(c) Profits are higher in one year and lower in another.
(d) Profits are similar in all the years.

11. Arrange the following steps involved for the Valuation of Goodwill by Average Profit Method:
1. Goodwill = Average Profit × No. of Years' Purchase.
2. Average Profit = Total Profits/No. of Years.
3. Calculate normal profit or loss for each of the past year, after adjusting any abnormalities.
4. Calculate total profits by adding each relevant year's past profits.

(a) 4 , 2, 3, 1.
(b) 1, 3, 4, 2.
(c) 2, 3, 1, 4.
(d) 3, 4, 2, 1.

12. Chetan and Dhruv were partners in a restaurant business sharing profits and losses in ratio of 5 : 3. Their restaurant has dine in and take away facilities, and the food from their restaurant is also available in online food delivery apps. Their initial fixed capital contribution was ₹ 12,00,000 and ₹ 8,00,000 respectively.

Their business is earning steady profits. For better growth prospects, they decided to expand the area of operations. In the beginning of the financial year ending 31st March, 2024, they took over running business for ₹ 51,50,000, whose assets and outsider liabilities were valued at ₹ 56,50,000 and ₹ 12,50,000 respectively. This decision yielded results and profits increased manifold. In the beginning of the financial year ending 31st March, 2025, they decided to change their profit-sharing ratio from 5 : 3 to 3 : 2 and for this purpose, goodwill was to be valued at 4 years' purchase of average profit of last 5 years which were as follows:

Year	2020–21	2021–22	2022–23	2023–24	2024–25
Profit	₹ 75,000	₹ 1,00,000	₹ 1,25,000	₹ 85,000	₹ 1,15,000

Based on the above information, answer the following questions.

A. When a business is purchased, and the amount of consideration is paid in excess of net assets, *i.e.*, Sundry Assets *less* Sundry Liabilities, the consideration is towards
1. Existing Goodwill.
2. Self-generated Goodwill.
3. Purchased Goodwill.
4. Hidden Goodwill.

B. Goodwill of the firm on the basis of 4 years' purchase of Average Profit of last 5 years is
1. ₹ 4,00,000.
2. ₹ 3,00,000.
3. ₹ 15,00,000.
4. ₹ 1,00,000.

C. The value of Purchased Goodwill is
1. ₹ 3,00,000.
2. ₹ 5,00,000.
3. ₹ 15,00,000.
4. ₹ 7,50,000.

D. As per which Accounting Standard, Goodwill valued on the basis of average profits will not be recorded in the books of account?
1. AS-3
2. AS-10
3. AS-26
4. AS-4

[**Ans.: 1.** (b); **2.** (d); **3.** (a); **4.** (b); **5.** (b); **6.** (b); **7.** (b); **8.** (d); **9.** (b); **10.** (b); **11.** (d); **12. A**—3, **B**—1, **C**—4, **D**—3.]

Assertion-Reason Based MCQs

1. **Assertion (A):** Value of goodwill is subjective and not an exact value.

   Reason (R): Goodwill is based on accepted principles of valuation which are time tested. Hence, it is not subjective.

   In the context of above two statements, which of the following is correct?

   (a) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A).

   (b) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

   (c) Assertion (A) is correct but the Reason (R) is not correct.

   (d) Both Assertion (A) and Reason (R) are incorrect.

2. **Assertion (A):** Normal profit is determined to value goodwill because goodwill valued is that of the business and therefore, abnormal incomes and losses are deducted from or added to the net profit.

   Reason (R): Abnormal incomes or losses may or may not happen in future, therefore, they are adjusted.

   In the context of above two statements, which of the following is correct?

   (a) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A).

   (b) Both, Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

   (c) Assertion (A) is correct but the Reason (R) is not correct.

   (d) Both Assertion (A) and Reason (R) are incorrect.

3. **Assertion (A):** Value of Goodwill calculated on Average Profit Method or Super Profit Method is same.

   Reason (R): Value of Goodwill on Average Profit Method and Super Profit Method cannot be same as the basis of valuation is different.

   In the context of above two statements, which of the following is correct?

   (a) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A).

   (b) Both, Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

   (c) Both Assertion (A) and Reason (R) are not correct.

   (d) Assertion (A) is not correct but the Reason (R) is correct.

4. **Assertion (A):** Average Profit of a firm is ₹ 5,00,000. Capital employed in the business is ₹ 50,00,000. If Normal rate of Return is 8%, Super Profit will be ₹ 1,00,000.

   Reason (R): Super Profit is the excess of Average Profits over the Normal Profits. Capital employed is ₹ 50,00,000 and 8% is the expected return, expected normal profit will be ₹ 4,00,000. Since, normal profit is ₹ 5,00,000, Super Profit will be ₹ 1,00,000.

   In the context of above two statements, which of the following is correct?

   (a) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A).

   (b) Both, Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

   (c) Assertion (A) is correct but the Reason (R) is not correct.

   (d) Both Assertion (A) and Reason (R) are incorrect.

5. **Assertion (A):** Average Profit of a business is ₹2,00,000, Assets of the business are ₹ 20,00,000 and Outside Liabilities are ₹ 3,60,000 and Normal Rate of Return is 10%. Value of Goodwill by Capitalisation of Super Profit is ₹ 3,60,000.

   Reason (R): Capital employed is ₹ 16,40,000 (₹ 20,00,000 – ₹ 3,60,000) Normal Profit is ₹ 1,64,000 (₹ 16,40,000 × 10%). Actual Average Profit is ₹ 2,00,000. Thus, Super Profit is ₹ 36,000. Capitalised it at 10%, value of Goodwill comes to ₹ 3,60,000.

   In the context of above two statements, which of the following is correct?

   (a) Both, Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

   (b) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A).

   (c) Only Assertion (A) is correct.

   (d) Assertion (A) is not correct but the Reason (R) is correct.

6. **Assertion (A):** Capital Employed in a firm is ₹ 5,00,000 and rate of return is 10%. Average profit of the firm is ₹ 50,000. As a result, Goodwill valued at 3 years purchase of Super Profit will be nil whereas value of Goodwill at three years purchase of Average Profit will be ₹ 1,50,000.

   Reason (R): Super profit of the firm is nil because average profit is ₹ 50,000 and expected return on capital employed is ₹ 50,000. Since both average profit and Return on Capital Employed is same, super profit is nil. Thus, value of Goodwill by Super Profit Method is nil. Value of Goodwill at 3 years purchase of average profit will be ₹ 1,50,000 (₹ 50,000 x 3).

   In the context of above two statements, which of the following is correct?

   (a) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A).

   (b) Both, Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

   (c) Assertion (A) is correct but the Reason (R) is not correct.

   (d) Both Assertion (A) and Reason (R) are incorrect.

7. **Assertion (A):** Goodwill is valued on the basis of normal business profits.

   Reason (R): Valuation is made that of business and therefore, normal business profits are considered.

   In the context of above two statements, which of the following is correct?

   (a) Assertion (A) and Reason (R) are correct but Reason (R) is not the correct explanation of Assertion (A).

   (b) Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

   (c) Assertion (A) is false and Reason (R) is true.

   (d) Assertion (A) is true and Reason (R) is false.

8. **Assertion(A):** Recent year's profit is assigned higher weight as compared to earlier years' profits.

   Reason (R): Earlier years' profits are assigned higher weights because earliest performance is important to assess future performance.

   In the context of above two statements, which of the following is correct?

   (a) Assertion (A) and Reason (R) are correct but Reason (R) is not the correct explanation of Assertion (A).

   (b) Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

   (c) Assertion (A) is false and Reason (R) is true.

   (d) Assertion (A) is true and Reason (R) is false.

[**Ans.: 1.** (c); **2.** (b); **3.** (d); **4.** (b); **5.** (a); **6.** (b); **7.** (b); **8.** (d).]