1. **How do you define goodwill ?**

ANS. Goodwill is the value of reputation, connection or other advantages possessed by a business with the help of which it can earn super-profits.

2. **How is super-profits calculated ?**

ANS. It is calculated by deducting the following two from the average profits : *(a)* Reasonable managerial remuneration. *(b)* An amount by way of reasonable return on the invested capital.

3. **How does the factor 'location' affect the goodwill of a firm ?**

ANS. Location of the premises at which the business of a firm is carried on highly influences the value of its goodwill, e.g. a good position on a busy high street will attract more customers and enhance business.

4. **Name any two methods of valuation of goodwill.**

ANS. *(a)* Average profits method, and *(b)* Super-profits method.

5. **How does the factor 'quality of products' affect the goodwill of a firm ?**

ANS. Better quality of products increases customers' confidence. As a result, volume of sales increases and so also the volume of profit. This influences the value of goodwill significantly.

6. **How does the market situation affect the value of goodwill of a firm ?**

ANS. Market situation plays a significant role in the value of goodwill of a business. In a monopoly market or where there is no hard competition a firm earns high profit leading to high value of goodwill.

7. How does the nature of business affect the value of goodwill of a firm ?

ANS. The nature of goods dealt with, the risks attached, the competition involved, certain special privileges enjoyed by the firm such as special licences, franchise, etc. influence the value of goodwill of a firm.

8. How does the factor 'efficiency of management' affect the goodwill of a business ?

ANS. A business with an efficient management will have planned production, distribution and highly successful marketing leading to better profits and higher value of goodwill.

9. What is meant by number of years' purchase in the valuation of a firm's goodwill ?

ANS. "Number of years' purchase" in the context of valuation of goodwill means the number of times the amount of average profits or super-profits is to be taken for calculating the value of goodwill.

10. Apart from location and profitability, list any two other factors contributing to goodwill of a firm.

ANS. *(a)* Excellent reputation of products sold.
(b) Superior management team.

11. Why is goodwill considered as an intangible asset but not a fictitious asset ?

ANS. Goodwill is an intangible asset, because it has no physical existence and hence it cannot be seen or touched. Goodwill is not a fictitious assets ; while a fictitious asset cannot be realised, goodwill can be realised, i.e., sold.

12. State one characteristic of goodwill.

ANS. Goodwill is a real asset because its existence can be felt through superior earning capacity ; but it is intangible, because it has no physical existence and hence it cannot be seen or touched.

13. What do you mean by normal profits ?

ANS. The term **normal profits** refers to the profits which an average business in the same industry expects to earn by employing the same amount of capital.

14. When does a purchased goodwill aris

ANS. Purchased goodwill arises when enterprise acquires another as a going con

15. Is purchased goodwill recognised a asset in the books of accounts ?

ANS. Purchased goodwill is recognised a asset in the books of accounts or finan statements because consideration has been for it.

16. What is purchased goodwill ?

ANS. Purchased goodwill is the differe between the fair value of the considera given and the sum of the fair value of identifiable net assets of the business acqu (both tangible and intangible but exclud goodwill).

17. What is internally generated goodwill non-purchased goodwill) ?

ANS. Non-purchased or internally genera goodwill is the inherent goodwill generated an enterprise in the process of doing busin

18. Is internally generated goodw recognised as an asset in the books accounts ?

ANS. It is not recognised in the books of accou or financial statements as an asset.

19. Distinguish between profits and sup profits.

ANS. Excess of revenues over expen represents profits. It is the net result operating activities carried out during accounting period. Excess of actual profits o the normal profits represents super-profits.

20. Distinguish between average profits a super-profits.

ANS. The term 'average profits' is used to me the average of the profits of past few years. T term 'super-profits' is used to mean the exc of average profits over normal profits.

21. Distinguish between normal profits a super-profits.

ANS. The term 'normal profits' refers to t profits which an average concern in the simi line of business expects to earn by employi the same amount of capital. The term 'supe profits' refers to the excess profits earned by concern over and above the normal return on investment in similar line of business.

22. What is super-profits method of valuing goodwill ?

ANS. Under this method, the amount of super-profits is calculated first and then the same is multiplied by a number of years to get the value of goodwill.

23. How is goodwill valued by capitalisation of super-profits ?

ANS. Under this method, the average super-profit is capitalised at a certain rate of interest and this capitalised amount becomes the value of goodwill.

24. State any two occasions when the question of goodwill is required to be considered.

ANS. (*a*) When a new partner is admitted.

(*b*) When an existing partner retires or dies.

25. How is goodwill valued by capitalisation of average profits ?

ANS. Under this method, the average annual profit is capitalised at the rate of reasonable return to find out the total value of the business. From the total value thus derived, the amount of net tangible assets is deducted to ascertain the value of goodwill.