

Calculation of Normal Profit

Year	Reported profit (Rs.)	Adjustments (Rs.)	Normal profit (Rs.)
2013-14	50,000		50,000
2014-15	40,000	10,000	50,000
2015-16	75,000		75,000
2016-17	(25,000)		(25,000)
2017-18	50,000		50,000
Total Normal profit			2,00,000

$$\text{Average Profits} = \frac{2,00,000}{5} = \text{Rs. } 40,000$$

Goodwill = Average Profit X Number of years' purchase

$$\text{Goodwill} = 40,000 \times 3 = \text{Rs. } 1,20,000$$

