

Solution-04

Goodwill = Simple Average Profit X Number of years purchased

Simple Average profit = Simple Average of pure profit of last few years

$$\text{Simple Average profit} = \frac{1,25,000 + 1,25,000 + 1,87,500 - 62,500 + 1,25,000}{5} = \frac{5,00,000}{5} = ₹ 1,00,000$$

$$\text{Goodwill} = 1,00,000 \times 3 = ₹ 3,00,000$$

Working Note:

Year	Reported Profit (₹)	Adjustment (₹)	Normal Business Profit (₹)
2020-21	1,25,000		1,25,000
2021-22	1,00,000	25,000	1,25,000
2022-23	1,87,500		1,87,500
2023-24	(62,500)		(62,500)
2024-25	1,25,000		1,25,000