# GOODWILL

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# MEANING OF GOODWILL

- Goodwill is an Intangible assets. It is the force of attracting the customers. It helps to earn more profits than the normal profit in future.

# FEATURES OF GOODWILL

- Quality of Product.
- Services
- HRM
- Brand Image
- Promote Services.

# When to calculate Goodwill

- When the Profit sharing Ratio is change.
- When a New partner admitted.
- When a Partner retires.
- When two firms Amalgamate / Merge.
- When a firm is Dissolved.

# BASIC METHODS OF VALUATION OF GOODWILL

- Average Profit Methods.
- Super Profit Methods.
- Capitalisation Methods.

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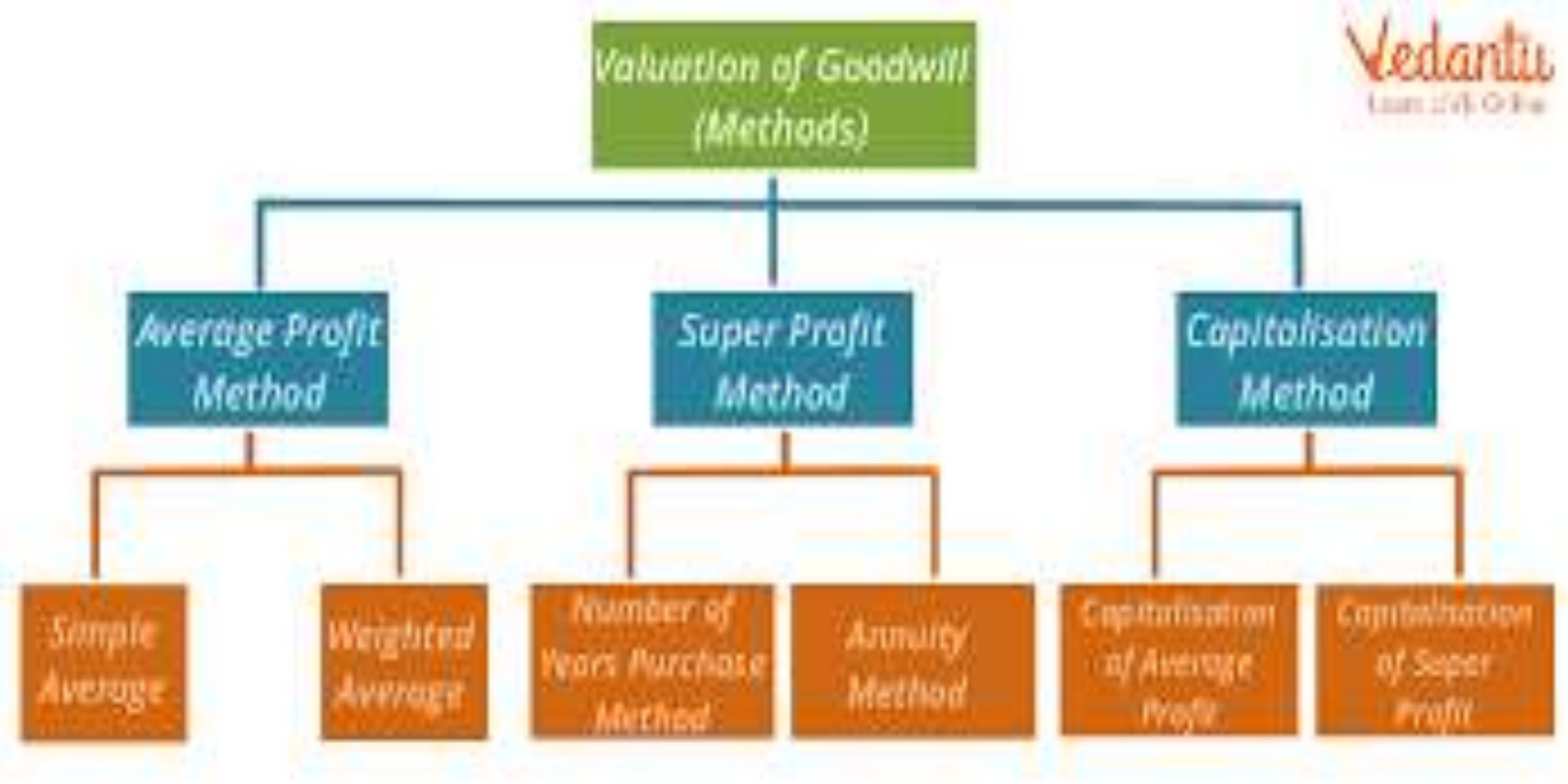
# METHODS OF VALUATION OF GOODWILL



**AVERAGE PROFITS METHOD** – This method is divided into two sub-division.

- **Simple Average** – In this process, goodwill evaluation is done by calculating the average profit by the number of years it is called years purchase. It can be calculated by using the formula.

Goodwill = Average Profit x No. of years' of purchase.

- **Weighted Average** – Here, last year's profit is calculated by a specific number of weights. It is used to obtain the value of goods, which is divided by the total number of weights for determining the average weight profit. This technique is used when there is a change in profits and giving high importance to the present year's profit. It is evaluated by using the formula.

Goodwill = Weighted Average Profit x No. of years' of purchase, where Weighted Average Profit = Sum of Profits multiplied by weights/ Sum of weights

**SUPER PROFITS METHOD** – It is a surplus of expected future maintainable profits over normal profits. The two methods of these methods are.

- **The Purchase Method by Number of Years –** The goodwill is established by evaluating super-profits by a specific number of the purchase year. It can be estimated by applying the below formula.

Super Profit = Actual or Average profit – Normal Profit

- **Annuity Method –**Here, the average super profit is taken as an annuity value over a definite number of years. A discounted amount of super profit calculates the current value of an annuity at the given rate of interest. The formula to be used here is.

Goodwill = Super Profit x Discounting Factor

**CAPITALISATION METHOD** – Under this method, goodwill can be evaluated by two methods.

- **Average Profits Method –** In this process, goodwill is measured by subtracting the original capital applied from the capitalised amount of the average profits based on the average return rate. The formula used is mentioned below.

Capitalised Average profits = Average Profits x (100/average return rate)

- **Super Profits Method-** Here, the super profit is capitalised, and the goodwill is calculated. The formula applied is.

Goodwill = Super Profits x (100/ Normal Rate of Return)

# THANK YOU