Valuation of Goodwill

- Understanding the concept and methods of valuing goodwill in business.

Dr.Rajendra Kumar Shukla
assistant professor commerce
Durga mahavidyalay Raipur

Introduction

- Goodwill represents the reputation and earning capacity of a business.
- It arises when purchase price exceeds net asset value.

Need for Valuation

- 1. Admission or retirement of partner
- 2. Sale or purchase of business
- 3. Amalgamation of companies
- 4. Taxation and legal requirements

Methods of Valuation

- 1. Average Profit Method
- 2. Super Profit Method
- 3. Capitalization Method

Average Profit Method

- Goodwill = Average Profits × Number of Years' Purchase

Super Profit Method

- Goodwill = Super Profits × Number of Years' Purchase
- Where, Super Profit = Actual Profit – Normal Profit

Capitalization Method

- Goodwill = Capitalized Value – Net Assets
- Capitalized Value = Average Profits × 100 / Normal Rate of Return

Summary

- Goodwill reflects intangible value.
- Methods differ in approach but aim to find fair worth.
- Important for fair business transactions.