

- Goodwill can be simply defined as the reputation of the business which helps the business to gain more profit than others.
- By nature it is an intangible asset which do not have the physical existence but still assure the extra profit in future.
- Generally the valuation of goodwill is done in case of admission/ retirement/ death of a partner, sale/ amalgamation of the firm etc.
- There are 5 methods for valuation of the goodwill:

Sr. No.	Method	Here, goodwill is valued on the basis of :
1	Simple Average Method (SAM)	Simple average of the past profits. Here, Goodwill = Simple average profit X number of years purchase.
2	Weighted Average Method (WAM)	Weighted average of the past profits. Here, Goodwill = Weighted average profit X number of years purchase. It is used when the profit is in increasing or decreasing trend.
3	Super Profit Method	Extra profit our client earns than others called as the "Super Profit". Here, Goodwill = Super profit X number of years purchase.
4	Capitalization method	The savings in capital employed. Here Goodwill = Expected Capital Employed – Actual Employed
5	Annuity Method	Discounted value (Present Value) of the super profits in future Here, Goodwill = Super profit X Annuity Rate. It is an extended method to super profit method.

- **Practical problem covering all 5 methods: (Best for revision). Find goodwill by all 5 methods:**

Particulars	I	II	III
Capital of Mr. A	90	80	60
Capital Of Mr. B	70	40	80
Current Account of Mr. A (Credit)	30	20	50
Current Account of Mr. B (Debit)	10	20	10
General Reserve	90	70	60
Number of years purchase	4	4	5
Normal rate of return (NRR)	10%	12%	15%
Past profit of last 3 years	70, 120, 180	60, 90, 140	90, 100, 150
Lottery Gain in the 1 st year	Rs.20	Rs.10	Rs.30
Fire loss in 3 rd Year	Rs.30	Rs.40	Rs.60
Manger to be removed having salary p.a.	Rs.300	Rs.400	Rs.600
Salesman to be appointed with salary p.m.	Rs.10	Rs.20	Rs.40

- **Finding out new ratio and treatment of goodwill at the time of admission of a partner:**

Particulars	I	II	III
Old PSR of A & B	3:2	2:3	2:1
C Admitted to get	1/4	1/5	1/6
Goodwill of the firm valued @	Rs.600	Rs.300	Rs.900
Situation 1: A will sacrifice for C, 2 : B will sacrifice for C, 3. : Both will sacrifice for C Equally , 4: Both will sacrifice for C in the ratio 3:1, 5 : Both will sacrifice for C but sacrifice ratio not given			
Find the new ratio and show the goodwill adjustment in all the situations.			