

CHAPTER 3

GOODWILL METHODS OF VALUATION OF

1. Goodwill	A Goodwill IS the value of Reputation, Good name and wide business connections of a firm which enables it to earn higher profits in compare to the normal profit earned by the other firms in the same trade.
2. Features of Goodwill	Features of Goodwill are as under:- <ol style="list-style-type: none">1. It is valuable, Intangible Asset.2. It helps in earning, excess profit.3. It is valuable only when entire business is sold
3. Factors affecting the value of Goodwill	The main factors affecting the value of goodwill are as follows: <ol style="list-style-type: none">1. Nature of business2. Location3. Efficiency of Management4. Market Situations5. Special advantages like low rate and assured supply of electricity, long term contracts for supply of materials, well known collaborators, patents, trademarks, import, licences, etc., enjoy higher value of goodwill.
4. Categories of Goodwill	<ol style="list-style-type: none">1. Purchased Goodwill2. Self Generated Goodwill
5. Meaning of Features or Purchased Goodwill	Goodwill for which a consideration in money or money's worth has been paid in cash is called Purchased Goodwill. Features - <ol style="list-style-type: none">1 It arises on purchase of business or brand.2. Shown in Balance Sheet as asset.3. It is amortised (depreciated)

6. Meaning of Features or Purchased Goodwill	It is an internally generated Goodwill which arises from a number of factors that a running business possess. Features 1. It is generated over the years. 2. According to AS-26, it is not recorded in books of accounts. 3. It is also known as "INHERENT GOODWILL"
7. Meaning of Features of Self Generated Goodwill	GOODWILL needs to be valued in the following circumstances. 1. Change in Profit Sharing ratio among the existing partners 2. Admission of a New Partner 3. Retirement of a Partner 4. Death of a Partner 5. Dissolution of a firm involving Sale of business as a going Concern. 6. Amalgamation of a Partnership Firm