Valuation of Intangible Asset - Goodwill

Presented By

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Introduction:

**Tangible Asset:**
These assets which can be seen and felt.

**Intangible Asset:**
These are fictitious assets which cannot be seen and touched.
Fixed Asset

Tangible Assets
- Building
- Land
- Plant
- Machinery
- Furniture & Fixtures
- Vehicles
- Premises

Intangible Assets
- Goodwill
- Brands
- Patents
- Copyrights
- Trade mark
**GOODWILL**

- Goodwill is the most important and valuable asset for each and every business or any organization, if the firm is profitable.

- It is related with the value of reputation or name of a business.
# FACTORS AFFECTING VALUATION OF GOODWILL

## Internal Factors
- Established reputation
- More profits
- Quality of Goods
- Relation between employee & employers
- Efficient Management
- Profits of the past years
- Increasing trend of profit

## External Factors
- Customers profit of view is good
- Relations to its competitors.
- Popularity of product.
- Availability of Raw material
- Good Industrial relations
- Effective Government policies.
- Time dimension.
- Effective advertisement
METHODS OF VALUATION OF GOODWILL

Methods

- Average Profit Method
- Annuity Method of Super profit
- Capitalization of Profit Method
- Super Profit Method
FORMULAS OF METHODS OF VALUATION OF GOODWILL

1) Average Profit Method

\[
\text{Average Profit} = \frac{\text{Total Profits} - \text{(Loss if any)}}{\text{Number of Years}}
\]

2) Super Profit Method

a) \[
\text{Average Profit} = \frac{\text{Total Profits} - \text{(Loss if any)}}{\text{Number of Years}}
\]

b) \[
\text{Normal Profit} = \text{Capital employed} \times \text{Normal Rate of Returns.}
\]

c) \[
\text{Super Profit} = \text{Average profit} - \text{Normal profit}
\]

d) \[
\text{Valuation of Goodwill} = \text{Super profit} \times \text{Number of years purchase}
\]
3) **Capitalization of Profit Method**

Total Profits – (Loss if any)

a) Average Profit = \[ \frac{\text{Total Profits}}{\text{Number of Years}} \]

b) Normal Profit = Capital employed \times \text{Normal Rate of Returns.}

c) Super Profit = Average profit – Normal profit

d) Valuation of Goodwill = (Capitalized value of Super Profit at Normal rate of return) \[
\frac{100}{\text{Normal Rate of Return}} \]

\[ \frac{\text{Normal Rate of Return}}{\text{Super Profit}} \]
4) **Annuity Method of Super Profit**

   Total Profits – (Loss if any)

   a) **Average Profit** = \[
   \frac{\text{Total Profits} - \text{Loss if any}}{\text{Number of Years}}
   \]

   b) **Normal Profit** = Capital employed \times \text{Normal Rate of Returns}.

   c) **Super Profit** = Average profit – Normal profit

   d) **Valuation of Goodwill** = (Annuity of Super Profit method)

      \[= \text{Super profit} \times \text{Annuity Value}\]
Thank you ....