

# INTRODUCTION

## VALUATION OF GOODWILL

Goodwill is defined as advantage benefit or reputation of a good name in connection to a business activity.

## WHEN GOODWILL IS CALCULATED

- **ADMISSION OF PARTNER**
- **RETIREMENT /DEATH OF A PARTNER**
- **AMALGAMATION OF PARTNERSHIP FIRM**
- **CONVERSION OF PARTNERSHIP FIRM INTO A LIMITED COMPANY**
- **AMALGAMATION ABSORPTION AND EXTERNAL RECONSTRUCTION OF A COMPANY**
- **INTERNAL RECONSTRUCTION OF A COMPANY**
- **PROFIT PRIOR TO INCORPORATION**

# STEPS TO CALCULATE GOODWILL

- Average Profit
- Future maintainable profit
- Capital employed
- Normal rate of return (NRR)
- Normal Profit
- Super Profit
- Calculation of Goodwill
  - 1) No of year purchase of Avg Profit = no of Yrs X Avg Profit
  - 2) No of Years Purchase of Super Profit = No Of Yrs X S.P
  - 3) Capitalisation of Super profit = super profit/NRR X 100
  - 4) Capitalisation of F M P = (F M P /NRR X 100) – Avg Cap Emp

# VALUATION OF SHARES

