

## Goodwill in Accounting

Goodwill is a special type of asset in accounting that isn't something you can see or touch, like cash or buildings. Instead, it represents the extra value of a business beyond its physical assets. This extra value comes from things like the company's good reputation, loyal customers, strong brand, and positive relationships with suppliers.

Goodwill is good name or the reputation of the business, which is earned by a firm through the hard work and honesty of its owners. If a firm renders good service to the customers, the customers who feel satisfied will come again and again and the firm will be able to earn more profits in future.

Thus, goodwill is the value of the reputation of a firm which enables it to earn higher profits in comparison to the normal profits earned by other firms in the same trade.

### Features of Goodwill

1. **It is an intangible asset:** Goodwill cannot be seen or touched, it does not have any physical existence, thus it belongs to the category of intangible assets such as patents, trade-marks, copy rights, etc.
2. **It is a valuable asset.**
3. **It is helpful in earning excess profits.**
4. **Its value is liable to constant fluctuations:** While goodwill does not depreciate, its value is liable to constant fluctuation, its value is liable to constant fluctuations. It is always present as a silent asset in a business where there are super profits (i.e. more than the normal) but declines in value with the decline in earnings.
5. **It is valuable only when entire business is sold :** Goodwill cannot be sold in part. It can be sold with the entire business only. The only exception is at the time of admission or retirement of the partner.

### Factors Affecting the Value of Goodwill

1. **Efficient management:** If the business is run by experienced and efficient management, its profits will go on increasing, which results in increase in the value of goodwill.
2. **Quality of products:** If the firm is supplying good quality of products, then the customer will come again and again for the same and thus will create the goodwill and brand name for the same.
3. **Location of business:** If the business is located at a convenient or prominent place, it will attract more customers and therefore will have more goodwill.

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4. **The Longevity of the business:** An older business is better known to its customers; therefore it is likely to have more goodwill. When a business enterprise has built up good reputation over a period of time, the number of customers will be more in comparison to the customers of new entrants. Number of customers is an indicator of profit earning capacity of a business.

5. **Monopolistic and other Rights:** If a business enjoys monopoly market, it will have assured profits. Similarly, if it holds some special rights such as patents, trademarks, copyrights or concessions, etc, it will have more goodwill.

