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# Business goodwill: Conceptual clarification via accounting, legal and etymological perspectives

John K. Courtis

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*John K. Courtis*
UNIVERSITY OF WATERLOO

# BUSINESS GOODWILL: CONCEPTUAL CLARIFICATION VIA ACCOUNTING, LEGAL AND ETYMOLOGICAL PERSPECTIVES

*Abstract:* Confusion as to the real nature of commercial goodwill is well-entrenched in the literature, as evidenced by accountants' attention to valuation formulae rather than the underlying assets. The paper traces conceptual clarification of business goodwill via early writers on accounting, legal opinion and etymology. These three perspectives, together with a chronology of 91 selective definitions, reveal the shift in thinking over the past century. Goodwill, from being thought of as a set of inducements which attract persistent patronage, has become submerged by methods of valuation based upon superior earning power concepts and by the accounting notion of a residuum.

## *Introduction*

The purpose of the paper is to illustrate how early writers on accounting, legal opinion associated with selected English case law, and etymology have contributed towards conceptual clarification of the nature of business goodwill. Many descriptions and definitions of goodwill have been presented over the past century by accountants, businessmen, judges, lawyers, economists and others; a selective and comprehensive chronology of these appear in Appendix I. Most of these quasi-definitions can be criticized for being insubstantial, too general, and especially for confusing the nature of the concept with a technique for ascertaining its value. Goodwill has been described as an impalpable,[1] ethereal,[2] incorporeal,[3] ephemeral,[4] immaterial, abstract, shadowy and intangible asset, while it has been defined in such vague terms as advantages, benefits, factors, rights, sources and privileges possessed by a successful business. Through this diversity, a body of definitions has accumulated which are couched in legal, pragmatic, residual, facetious, and philosophical terms.

The scope of the accounting literature survey was determined by the list of references to "goodwill" in the original *Accountants' Index*, published in 1921, together with twenty-six succeeding supplements. The bibliography cites all those references which were accessible to and considered by the author. The legal survey is unavoidably brief, restricted essentially to early English case law, especially those cases often cited as shaping the later thinking of the Courts in legal decisions dealing with purchased commercial goodwill. Appendix II, however, lists 17 statutes and 120 British and American cases which have had a bearing on the protection of legal goodwill. The etymological survey traces the meaning of the words "good" and "will" through 280 separate references in the complete *Oxford English Dictionary.*

The most noteworthy literature expositions on the nature of goodwill appeared during the latter part of the last century and the first half of this century. Emphasis is placed, therefore, on the evolution of the nature of goodwill by relevant authors during this period. Modern textbooks unfortunately are essentially irrelevant for this purpose because their pragmatic orientation de-emphasizes in-depth discussion at the conceptual level in favour of the methods of measurement and amortization.

## *Evolution of Accounting Thought*

Before the growth of the number of joint stock companies, sole proprietors and partnerships represented the common form of business organization. During this time, essentially before the turn of the century, goodwill was more of a personal nature, attaching to the business because of personality, fairness, and skill of the proprietor or partners. Goodwill became of commercial interest when a business was sold or upon the death of a partner. Because professional accounting societies were only in their formative stages at this time, fragmented opinion existed as to the presence and nature of goodwill, and early accounting writers necessarily relied upon their own experiences and legal opinion emanating from early English case law for guidance.

The earliest detected reference in the accounting literature dealing with the nature of goodwill appeared in 1882 in Bithell's *A Counting House Dictionary.* There he described it as:

> The advantage connected with an established business of good repute. A well-established business presents an expectation of profits to any one entering upon it, and is worth paying for. Anyone having such a business and who is willing to relinquish the expectation of the business by transferring it for consideration to someone else can do so

> by what is technically called "selling the Goodwill of that business."[5]

This definition (such as it is) contains the two elements that have generated perpetual muddle. On the one hand, Bithell refers to goodwill as "the advantage," while on the other hand, he implies that a relationship exists between advantage and "expectation of profits." During the next fifteen years accounting writers such as Harris, Moore, and Whatley discussed goodwill within the context of methods of valuation (essentially based upon profits), while Bourne, Roby, and Warren (see Appendix I) expand the notion of "advantage" into a list of business attributes that establish habitual patronage of the public. Continuously throughout the chronology of definitions there is this slippage in thinking between goodwill as attributes that generate patronage, and goodwill as an asset resulting from application of a profit capitalization formula.

Professor L. R. Dicksee, author of *Goodwill and Its Treatment in Accounts,* the first book devoted entirely to the subject of goodwill and published in 1897, stated that:

> The favourite definition [of goodwill] is "the benefit arising from connection and reputation, the probability of old customers going to the new firm which has acquired the business," but one of the best which I have been able to discover is "the value of that reputation which a business has acquired during its continuance, which induces the confidence or expectation that the same, or an increasing, patronage will continue to be expected so long as the business is conducted in the same place upon the same principles."[6]

One year later, Edwin Guthrie read a comprehensive paper on the subject of goodwill to the Chartered Accountants' Students' Society of London. In elaborating on the nature of the concept he stated that:

> [Goodwill] differs from other property, inasmuch, as, while other property is palpable, goodwill is impalpable. Other property can be handled, weighed, or measured, its nature ascertained by inspection, its quality tested by sight, smell, feeling, or analysis, or the annual income receivable from it identified. But goodwill—how can its quality be ascertained? The difference between the two kinds of property is like that between matter and life, or between a man's

> estate and a man's character—one is ponderable, the other imponderable.
>
> The term goodwill is a very natural one and I think indicates what is meant better than any other word would do. It represents the goodwill with which the person, the place, the name, or the association is regarded. It assures the direction of the footsteps of customers towards the customary place—that involuntary cerebration, as the philosopher puts it, whereby the act of walking is performed without conscious exertion of the will. It is a magnetism generated in and about a person and his entourage; sometimes exerted solely from within, sometimes exerted solely from without, but most generally, partly from within and partly from without.[7]

During the next fifteen years writers continued to oscillate between the theme of reiterating patronage and arguing for refinements to rule-of-thumb measurement approaches. Adjustments to profits for management remuneration and "normal" returns on tangible assets, averaging past profits for an uncertain number of years, determining the size of the multiplier to be used, and capitalizing surplus profits at a rate of interest were all issues that occupied practitioners involved in valuing businesses for sale, estates, and in tax cases.

In 1914, P. D. Leake, an outstanding exponent on the subject of goodwill, in addressing the Leicester Chartered Accountants' Students' Society, commenced by observing that:

> The term "Goodwill" is in constant commercial use, but its meaning is obscure, and the nature of the value which the word represents is often misunderstood. Goodwill has never been very satisfactorily defined.[8]

He continued with an appraisal of the then existing definitions, and concluded that they were inadequate. In framing his own definition he stated:

> Goodwill, in its commercial sense, is the present value of the rights to receive expected future super-profits, the term "super-profits" meaning the amount by which future revenue, increase, or advantage, to be received, is expected to exceed any and all expenditure incidental to its production.[9]

It was not until 1921 that Leake wrote *Commercial Goodwill,* the second book devoted entirely to the topic, although by 1920 Dicksee and Tillyard had published the fourth edition of *Goodwill and Its Treatment in Accounts*. Leake's exposition of the theory of goodwill valuation, essentially through his advocacy of the "super-profits" method, grew in acceptance and the fourth edition of his book was published in 1948. During this period between 1914 and 1948 he formulated and refined many explanations of the meaning of goodwill, typical of which is:

> Commercial Goodwill is the right which grows out of all kinds of past effort in seeking profit, increase of value, or other advantage. This right is legally protected under various names, both by statute law [e.g., Trade Marks Act, Patents and Designs Acts, Copyright Act, Business Names Act] and by common law, for the use and benefits of the owner.
>
> It is important to bear in mind that this right exists altogether apart from the question of whether or not it has exchangeable value. The exchangeable value of the right depends upon the probability of earning future super-profit—the term "super-profit" meaning the amount by which revenue, increase of value, or other advantage received exceeds any and all economic expenditure incidental to its production.[10]

Leake's underlying thesis was that the value of goodwill is the present value of a super-profit annuity diminishing on a straight-line pattern over the period of influence of the vendor. The best critique of this has been by Carsberg, who, however, concentrated on the methodology of the technique and the difficulties involved in specifying acceptable values for the several variables.[11] While both Dicksee and Leake added something to conceptual clarification, they will best be remembered for their contribution to valuation theory and accounting practice.

Professor W. A. Paton, writing in 1922, devoted one chapter of his book *Accounting Theory* to an analysis of "Goodwill and Going Value." *Inter alia* he defined goodwill as:

> the capitalized value of the excess income which a particular enterprise is able to earn over the income of a representative competitor—a "normal" business—having the same capital investment, the rate used in capitalizing being the rate realized by the representative concern.[12]

In considering the factors and conditions which contribute to the successful creation of this element of a going-concern he added:

> Goodwill may be said to be brought about by three main classes of factors, conditions, and circumstances: (1) services and conditions contributed directly by the principal owners themselves; (2) definite rights or other elements secured by the enterprise which are quite external as far as the owners personally are concerned; (3) indefinite, general, collateral privileges and circumstances which nevertheless have a decided bearing upon successful operation. Examples in the first group are special skill and knowledge with respect to technical processes of production, high managerial ability, exceptional selling capacity, personal credit, social and business connections, general reputation, attractive personality, etc. In the second class may be listed patents, trademarks, copyrights, tradenames, and similar specific rights and conditions. To suggest the character of the third group, established clientele, location and established staff may be mentioned. Favourable trade developments and other highly external and general factors may also give the particular enterprise a temporary advantage.[13]

There can be little doubt that Paton had a profound influence on a succeeding writer, J. M. Yang. In the preface to Yang's book *Goodwill and Other Intangibles,* published in 1927, the indebtedness to Paton for the subject matter is deeply acknowledged. Yang did not define business goodwill *per se,* but discussed instead a number of its economic characteristics. Included in these characteristics were the following: goodwill is based on favourable relationships in business which must contribute toward the improvement of the earning capacity of a firm; goodwill must be more or less persistent and of definite duration if it is to be of any value to a concern; the possibility of its transference must exist; and it must be measurable in monetary terms.[14] He also argued that the broad conception of goodwill "includes the habitual or preferential patronage of customers, the loyalty and adaptability of employees, and the enjoyment of a credit standing which will facilitate the raising of funds when needed."[15]

Yang's writing represents a significant contribution to conceptual development and clarification, but except for mention in Catlett and Olson's 1968 Accounting and Research Study, *Accounting for*

*Goodwill,* it has not received adequate recognition. Yang was the first to seriously extend the concept from merely consumer's goodwill, to a discussion of factors underlying the creation and consequences of industrial and financial goodwill. No doubt influenced by the growing complexity of modern business organization, he argued that the several factors inducing profitable patronage was too narrow a conception, and that more appropriately it consists of the entire group of influences possessed by a business which contribute to or accompany unusual earning capacity.

In marked contrast to Yang's attention to the underlying causes of superior earning power, the United Kingdom's position at this time still confused a method of calculation with the concept itself. Most probably as a result of the persuasive writings of Dicksee and Leake, Pixley's *The Accountant's Dictionary,* also published in 1927, presented a somewhat dogmatic and seemingly precise seven point summary under the heading of "the nature of goodwill."

1. Goodwill is the present value of expected future super-profits, that is, the balance of profits remaining after providing for all incidental expenditure, including expired capital outlay on wasting assets other than goodwill, and personal remuneration for management, and after also appropriating a sum equal to a normal rate of interest on capital invested.
2. The term "goodwill" includes not only the present value of rights to carry on industrial and commercial enterprises, but it also includes the present value of patent rights, copyrights, and rights to exercise monopolies.
3. The bulk of the value actually existing in the form of goodwill is not recorded in any financial books and accounts. It is generally only that goodwill which has been purchased from a vendor which is so recorded, and which should, therefore, be called "purchased goodwill."
4. The vendor of goodwill cannot reasonably expect to secure for himself the whole benefit of the future annual super-profits; he must divide these fairly with the purchaser.
5. The vendor of goodwill is only entitled to be paid the present value of an annuity equal to his fair share of each future year's super-profits.

6. Super-profits can never exist permanently, because commercial competition is universal and constantly at work, and also because the demand for any commodity or service may slacken or cease owing to changing conditions and new inventions, and, therefore, the annuity which the vendor of goodwill sells should never be treated as being in the nature of a perpetuity.
7. Even if the annuity which the vendor of goodwill sells is treated as an annuity extending over one hundred years, it will be found that 88 per cent of the present value arises out of the payments to be received within the first fifty years of the period.[16]

The following year, in a lecture delivered before the Incorporated Accountants' Students' Society of London. A. F. Saunders noted that the "factors which an accountant has to bear in mind when endeavouring to place a value upon the goodwill of any business will vary in nearly every case." He raised a number of considerations which he believed could affect the value of goodwill, namely:

1. The past record of profits.
2. The capital required.
3. How long the business has been established.
4. Whether the vendors, or competent managers, will continue their services.
5. The nature of the business, whether it deals with necessities, luxuries, partial monopolies, or patents.
6. Whether the business is a manufacturing, wholesale, retail, or professional business.
7. The tenure of the premises occupied, and in the case of leases, of what duration, and the terms upon which renewal can probably be obtained.
8. The number of customers, the volume of business done with them, and the probabilities of customers doing substantial business continuing their custom or patronage.
9. The methods, organization and other matters affecting costing and administration.[17]

In 1937, ten years after Yang's work, H. E. Seed published *Goodwill as a Business Asset*. In this, he comprehensively related goodwill to law associated with trade names, trade marks, patents and designs, and copyrights, thereby developing his thesis that the goodwill of a business can only be valued by valuing the business as a whole. Seed's major contribution to goodwill valuation theory lies in his detailed account of the principles to be followed in estimating future "maintainable profits" of the business, and the percentage return which the purchaser is entitled to expect from capital invested in the undertaking. Seed defined goodwill as:

> The advantage which arises from the good name, reputation and connection of a business; alternatively, the benefit which accrues to the owner of a business from the likelihood that such business will earn, in the future, profits in excess of those required to provide an economic rate of remuneration for the capital and labour employed therein.

He added by way of explanation that,

> In the above definition "business" includes trade and profession; the "economic rate of remuneration" as applied to labour means the amount required to be paid, having regard to the market rates, for labour of the class required (including management and direction); as applied to "capital employed" it means an adequate rate of interest, having regard to the degree of risk attaching to the employment of capital in the particular business concerned, on the capital required to supply the tangible assets of the business, including working capital.[18]

A year later, H. A. Kaner, author of *A New Theory of Goodwill* summed up the trend of accounting writing by claiming that "where the Accountants generally have erred is in confusing a formula for valuing Goodwill with Goodwill itself."[19] After criticizing the super-profits approach often advocated by accountants as being "the" method to be used in valuing goodwill, he offered the following definition;

> Goodwill is that asset possessed by a commercial undertaking which, by embracing that undertaking's reputation, attracts from a portion of the public special preferences, and results in an added value in excess of the surplus tangible assets of the undertaking.[20]

In 1946, Norman S. Young noted in his Commonwealth Institute of Accountants' Research Lecture that early definitions of goodwill stressed the subjectivity aspects of a good name, reputation, and connection, which were true elements in producing goodwill, but that the current preference was to relate goodwill to the notion of superior earnings.[21]

In the same year, Harry Norris injected a note of humour into the writing on goodwill with this definition which reflects the frustration of some writers:

> If X is a live pedigree dog, and Y a dead one, then perhaps X—Y=Z. But Z means nothing in itself. The label 'goodwill' in business accounts closely resembles Z; its use is as sensible as trying to find what makes the dog tick by dissecting it.[22]

But it was about this time, however, that Yang's wider concept of goodwill was becoming popularized. The idea that a more useful concept of goodwill was that of viewing it as virtually all of the factors and conditions which contribute to, or accompany, unusual earning capacity, was extended by George T. Walker. Writing in 1953, he stressed a relationship between the monetary value of goodwill and a firm possessing an above-normal earning capacity.

> By definition, goodwill has no accounting significance except in terms of an earning capacity which is estimated to be above normal. A price is paid for goodwill—a price above the value placed on the other assets—because profits in excess of a normal return on the investment are anticipated. In other words, an enterprise is purchased, not primarily as a means of securing a group of assets, but as a means of securing a stream of income in the future. If the expected stream of income is a normal amount or at a normal rate, all factors considered, no payment is likely to be made for goodwill. If the expected income stream is in excess of normal earnings, a payment will probably have to be made for goodwill. Then, it may be said that the payment for the expected stream of income in excess of a normal return is a payment for goodwill, and that the payment for the expected stream of income equal to a normal return is a payment for the other assets.[23]

Implicit in this earning power concept of goodwill is the recognition that underlying intangible attributes collectively contribute to the goodwill of a business. Because these attributes cannot be valued separately, their demonstrable existence must lie in the excess between the value of a business as a whole and the net value of the various separable resources and property rights. This excess will occur when the expected stream of earnings is greater than that which would sustain the present value of these separable resources discounted at a normal rate.

Wixon and Kell, on the other hand, in the fourth edition of the *Accountants' Handbook* published in 1962, reiterate the several dimensions of business goodwill:

> Increasing acceptance has been given in recent years to the view that goodwill is the value of all favourable attitudes relating to a business enterprise—commercial, industrial, financial and public. Commercial goodwill results from such factors as customers' attitudes, superior products, pleasing surroundings and desirable location. Industrial goodwill is acquired through satisfactory employee relations, including stable employment, high wages, and numerous fringe benefits. Financial goodwill reflects the favourable attitudes of credit institutions, investors, and trade creditors. Public goodwill arises from the general reputation of the company.[24]

Although additional definitions and explanations are available (see Appendix I) the argument expressed by Reg. S. Gynther in 1969 still incisively summarizes present thinking by accountants.

> Goodwill has been a thorny problem in the discipline of accounting for many years. . . . The main cause of the arguments seems to be that the real nature of Goodwill has been submerged in the literature by the methods that we have been forced to use in practice when calculating the total value of entities. . . . Goodwill exists because assets are present, even though they are not listed with the tangible assets. For example, "special skill and knowledge," "high managerial ability," "monopolistic situation," "social and business connections," "good name and reputation," "favourable situation," "excellent staff," "trade names" and "established clientele" are assets in this category. The sum of the value of these assets . . . is the value of Goodwill.[25]

### *Legal Influence*

Although there is no Goodwill Act, statute law and common law acknowledge commercial goodwill as legal property and protect the possessor of a range of rights against unfair competition. Appendix II lists 17 statutes (Section A) and 120 British and American cases (Section B) that have been referenced in selective early accounting literature on the subject of commercial goodwill. It is reasonable to assume that these statutes and cases had an influence on the manner in which accountants valued and accounted for goodwill. Practising accountants, acting for their clients, were (and are) necessarily guided by legal rulings and specific statutes dealing with business connection associated with names, persons and places of business, trade marks, patents and designs, copyright, and the right to exercise monopolies.[26] While a comprehensive review of legal influences lies outside the scope of the present study, some reference to legal opinion emanating from early (British) case law is helpful in corroborating the conceptual evolution of goodwill as it has appeared in accounting literature.

While there is reference that the word "goodwill" appeared in commercial use as early as 1571,[27] it was not until 1810 that the English courts made an explicit attempt to define its nature. In *Crutwell v Lye*,[28] Judge Lord Eldon held that "The goodwill which had been the subject of sale was nothing more than the probability that the old customers will resort to the old place." The courts have since recognised that while this definition is too narrow for general application it heralded the beginning of the popular judicial definition of the term, i.e., that goodwill relates in some way to the concept of patronage.

Through case law the concept of patronage has been examined in many ways, *viz.*, the favourable disposition of customers, the symbol or other distinguishing factor which invokes the favourable response in customers, and the custom itself. The courts, in their endeavor to fix "patronage" into something more concrete, have held that a number of factors may be instrumental in creating goodwill for a business. The following have appeared in case law at one time or another as the major factors causing customer connection:

1 the place or location of the premises,
2 the reputation, personality and skills of the proprietor and/or his staff,
3 the use of an established business name,
4 the quality of the goods and services,
5 the use of advertising, and
6 the absence of competition, especially when it arises out of an agreement between the vendor and purchaser of a business.

In 1858 Lord Cranworth in *Austen v. Boys,*[29] complained that "it is very difficult to give any intelligible meaning to the word 'Goodwill.' " Nevertheless, he attempted to clarify its meaning by adding:

> When a trade is established in a particular place, the Goodwill of that trade means nothing more than the sum of money which any person would be willing to give for the chance of being able to keep the trade connected with the place where it has been carried on. It was truly said in argument that Goodwill is something distinct from the profits of a business, although, in determining its value, the profits are necessarily taken into account, and it is usually estimated at so many years' purchase upon the amount of those profits.

The following year, in *Churton v. Douglas,*[30] the nature of goodwill was fully considered by Vice-Chancellor Page-Wood. In wishing to extend Lord Eldon's 1810 definition he stated:

> Goodwill . . . must mean every advantage—affirmative advantage, if I may so express it, as contrasted with the negative advantage of the vendor not carrying on the business himself—that has been acquired by the old firm by carrying on its business, everything connected with the premises, and the name of the firm, and everything with or carrying with it the benefit of the business. . . . When a person parts with the Goodwill of a business, he means to part with all that good disposition which customers entertain towards his particular shop or house of business, and which may induce them to continue their custom with it.

As noted by Lall,[31] this definition-cum-explanation highlights the element of transferability as a constituent of goodwill.

In 1895 in *Trego v. Hunt,*[32] one of the two leading English cases on goodwill at the turn of the century, Lord Herschell's decision, which later became the basis of the definition of business goodwill used in Lord Halsbury's Laws of England, held that what constitutes the goodwill of a business:

> [It] is the connection thus formed, together with the circumstances, whether of habit or otherwise, which tend to make it permanent. . . . It is this which constitutes the difference between a business just started, which has no Goodwill attached to it, and one which has acquired a Goodwill. The former trader has to seek out his customers

> from among the community as best he can. The latter has a custom ready made. He knows what members of the community are purchasers of the articles in which he deals, and are not attached by custom to any other establishment.

In the same case Lord Macnaghten added,

> What goodwill means must depend on the character and nature of the business to which it is attached . . . it means much more than what Lord Eldon took it to mean. . . . Often it happens that the Goodwill is the very sap and life of the business without which it would yield little or no fruit. It is the whole advantage, whatever it may be, of the reputation and connection of the firm, which may have been built up by years of honest work, or gained by lavish expenditure of money.

Six years later, in 1901 in the case of *Commissioners of Inland Revenue v. Muller & Co.'s Margarine,*[33] the common law position relating to goodwill in its restricted legal meaning was clearly laid out. Lord Macnaghten said:

> What is Goodwill? It is a thing very easy to describe, very difficult to define. It is the benefit and advantage of the good name, reputation, and connection of a business. It is the attractive force which brings in custom. It is the one thing which distinguishes an old-established business from a new business at its first start. The Goodwill of a business must emanate from a particular center or source. However widely extended or diffused its influence may be, Goodwill is worth nothing unless it has power of attraction sufficient to bring customers home to the source from which it emanates. Goodwill is composed of a variety of elements. It differs in its composition in different trades and in different businesses in the same trade. One element may preponderate here, and another element there.

In the same case Lord Justice Lindley added:

> Goodwill regarded as property has no meaning except in connection with some trade, business or calling. In that connection I understand the word to include whatever adds value to a business by reason of situation, name and reputation, connection, introduction to old customers, and agreed absence from competition, or any of these things.

While others may care to extend the analysis of legal influence on the conceptual evolution of goodwill it is sufficient to note in this context that running parallel with case law were a number of statutes extending protection to a business, whether old-established or new. Of the seventeen listed in Appendix II (which does not presume to be exhaustive) those separate statutes dealing with patents and designs, trade marks, copyrights, and trade names, protect particular rights, even though possession of such advantageous attributes are normally included within the general umbrella of the goodwill of a business. While more recent English and American cases have dealt with the topic, the emphasis of the courts has been to determine its equitable value when businesses have been sold. It is evident from a perusal of legal literature[34] that the courts have not seriously attempted to construct an all-embracing definition. Instead, they have defined the nature of goodwill according to the context of the particular facts and conditions surrounding specific cases. As facts have varied from situation to situation, so too have definitions and explanations. Perhaps the most persuasive thrust of more recent legal opinion has had to do with the earning power of goodwill, rather than its underlying attributes. Nevertheless, the two approaches are interrelated as the courts have had to determine whether contracts in restraint of trade are void at common law, or whether the restraints sought are reasonable in the circumstances.

## *An Etymological Enquiry*

An etymological investigation into the formation and meaning of accounting terms does not appear to have been incorporated into research on readability and understandability.[35] It is included here because comprehensive illustrations of early English usage in the complete *Oxford English Dictionary* trace the meaning of the word for at least the past one thousand years.

Originally of two words "good" and "will," it is of anglo-saxon derivation and is used as an abstraction to denote a particular type of attitude that is "felt" by a human-being. A pedantic count of the various meanings that have been attributed to these words reveals 103 variations in meaning of "good"[36] and 173 variations of "will."[37] With approximately 18,000 possible combinations, it is evident that only certain usages are applicable to describe a person's particular type of attitude, and the following appear to be the most appropriate. For good; (i) morally excellent or virtuous feelings, and (ii) benevolent or favourable feelings; and for will; (i) desire or disposition to do something, (ii) conscious intention to do some physical or mental action, (iii) power of choice in regard to action, and (iv) consent, acquiescence, permission or favour that something shall happen or take place.

According to the *Oxford Dictionary of English Etymology*,[38] when these two words were coupled together and used as a noun (although not written as one word), its meaning was made up of virtuous from "good" and disposition from "will" to give "virtuous disposition," or more fully, "virtuous, pious, or upright disposition or intentions."[39] This meaning appeared in the Latin form of *bona voluntas*, at least as early as the year A.D. 200, and in the form of Old English as early as the 9th century.[40] As its usage in Old English increased, its semantic content widened and a second class of meaning began to appear in the form of "a state of wishing well to a person, cause, etc.; favourable or kindly regard; favour, benevolence."[41] Sometime late in the 14th century its semantic content was widened further, and a third meaning was attributed to the word, namely, "cheerful acquiescence or consent, given voluntarily, without constraint."[42] From these three meanings it can be seen that the word "goodwill" was employed solely as an abstraction to denote a particular type of attitude or feeling.

With the advent of change from a subsistence to a trade economy at some time between the 14th and 16th centuries—where craftsmen and shopkeepers sold their skills and wares—there arose the habit of "patronage," i.e., for one reason or another some people sought out the skills and wares sold either at a particular place, or manufactured by a particular person, or representative of a particular kind. These people, by their objective acts of associating themselves with one seller (or product) were held to be acting out their feeling of good disposition, or state of wishing well. They had a favourable regard towards the place, person or product, and a voluntary readiness to return for future purchases of goods and services. In short, they had an attitude of goodwill which they were prepared to act upon.

By the middle of the 16th century, the semantic content of the word appears to have been widened further to embrace both the feelings of good disposition of these people, and the objective acts of patronage that they incurred as a direct result of these feelings. It followed that when viewed from the point of view of the recipient of this patronage, "goodwill" came to mean acts of patronage by regular customers. It is important to note this for it marks the start of a divergence in its meaning between its use as an abstraction to denote a particular type of attitude, and its use as an abstraction of a higher order[43] to denote the acts done as a result of this attitude.

During the 18th and 19th centuries commercial activity gained in both momentum and sophistication, such that the notion of goodwill developed from the narrow idea of acts of patronage by regular customers to a wider one encompassing all actual acts of patronage from regular and occasional customers, i.e., to embrace all customer connection. This too is important, for it heralds a breakaway from the reciprocity of feeling of good disposition and act of patronage based on this feeling. It is a reality that not all customer connection which attaches to a business is stimulated through feelings of good disposition. Apart from that patronage which occurs while customers have a feeling of indifference towards the place, person or product, there is that which results from the firm possessing some quasi-monopoly factor such as a patent or a copyright. Lack of available competition may force a customer, with needs to satisfy, to patronise a particular place, person or product while at the same time harbouring distinct feelings of ill-will towards that same place, person or product. However, the recipient of this patronage is unperturbed about such feelings, so long as his business possesses factors or attributes with sufficient attraction to secure this custom.

As a result of this attitude by the recipients of patronage, emphasis on the meaning of the word goodwill has shifted away from an abstraction to denote the actual acts of patronage, and moved towards the attributes themselves, i.e., towards those attributes that are likely to contribute to the performance of these acts. Usage of the word as all actual acts of patronage that are carried out by all customers is no longer the simple manifestation of feelings of good disposition held by regular customers. Rather, it is manifestation of the power of the various attributes possessed by a business.

Curiously there is no reference in etymological works which indicate an association between the meaning of goodwill as it has been shown to evolve, and business profits, even though it has been referenced as possessing saleable value additional to the value of other business assets. It seems clear that through litigation, the courts have defined goodwill as legal property attaching to a business and transferable. Because accountants have been required to value businesses upon dissolution of partnerships, and for sale and tax purposes, the concept of goodwill has been given an expedient residuum connotation and has become submerged by methods of valuation based upon superior earning power concepts.

This has resulted in considerable confusion in understanding as to the real essence of goodwill. Some writers have selected one or more attributes, such as business location, personality, honesty, reputation, and trade name, and have attempted to explain how the overall goodwill which is attached to a firm is established on or created by these factors alone. Accounting literature has in general neglected to argue four points, namely (a) that the attributes themselves are not goodwill, (b) that the attributes are nothing more than the instruments by which acts of patronage may be induced, (c) that the attributes which are effective in promoting patronage vary from firm to firm, and (d) that possession of the attributes (albeit effective in attracting custom) is not an inevitable guarantee of net profit. Moreover, it is implicit in the writings of many accountants that commercial goodwill and business goodwill are the same. This has been shown to be too narrow a conception by some, who have argued convincingly that business goodwill extends to areas other than customer connection, namely, employee, industrial, and financial goodwill.

## *Conclusion*

This overview of the evolution of the meaning of goodwill can best be summarised, in terms of how it is applied to commerce, from two points of view. Firstly, there is the customer. He subconsciously thinks of the word as a label to represent a feeling or attitude of favourable disposition that he possesses towards a particular place, person, or product. Secondly, there is the business which, through its management, views goodwill not simply in terms of acts of patronage by customers, but more as something which is possessed and transferable in the form of attributes, whether they be associated with customer connection, or with employee, industrial or financial goodwill.

Because definitions and explanations of goodwill have tended to mix these points of view along with valuation techniques and amortization processes, the resulting confusion surrounding an understanding of the word has led some people to give it a spurious validity with inherent powers. By itself, however, the word has no inherent power, and no inherent "absolute" conceptual meaning.

Before the question, "What is goodwill?" can be answered, it is necessary to know from which of the above points of view an answer to the question is to be approached, and also the era to which the questionner is referring when asking the question, for it has been shown that the meaning of the word has gained in connotations over time. It is also necessary to know whether the question refers to the concept of business goodwill *in toto,* or merely to one of its aspects, e.g., customer connection, and whether the question implies valuation or accounting treatment.

FOOTNOTES

[1]Guthrie, p. 425.
[2]Anonymous, 1913, p. 817.
[3]Kaner, p. 9.
[4]Freeman, p. 247.
[5]Bithell, p. 142.
[6]Dicksee, *The Accountant,* p. 40.
[7]Guthrie, p. 425.
[8]Leake, 1914, p. 81.
[9]Leake, 1914, p. 82.
[10]Leake, 1948, pp. 2, 18.
[11]Carsberg, pp. 10-15.
[12]Paton, p. 313.
[13]Paton, pp. 315-16.
[14]Yang, pp. 22-37.
[15]Yang, p. 87.
[16]Pixley, p. 526.
[17]Saunders, May 1928, p. 354.
[18]Seed, p. 8.
[19]Kaner, p. 15.
[20]Kaner, p. 17.
[21]Young, November 1946, p. 475.
[22]Norris, p. 110.
[23]Walker, George T., 1953, p. 213.
[24]Wixon and Kell, p. 14.
[25]Gynther, p. 247.
[26]Leake, 1948, pp. V-VI.
[27]Oxford English Dictionary, Wills and Inventories of the Northern Counties of England (publication of the Surtees Society, 1835) 352, "I gyue to John Stephen . . . my whole interest and good will of my Quarell (i.e., quarry)."
[28]1810, 17 Ves. 335.
[29]1858, 27 L.J. Ch. 714.
[30]1859, 28 L.J. Ch. 841.
[31]Lall, p. 67.
[32]L.R. 1896, A.C. 7.
[33]1901, A.C. 217.
[34]Anonymous, Columbia Law Review, pp. 660-731.
[35]See for example Smith, J. E. and Smith, N. P. for readability; Haried, A. F. for semantic dimensions; and Adelberg, A. H. for understandability.
[36]Oxford English Dictionary, Volume IV, pp. 287-96.
[37]Oxford English Dictionary, Volume XII, pp. 129-39.
[38]Onions, pp. 405-406.
[39]Oxford English Dictionary, Volume IV, p. 296.

[40]For example, Oxford English Dictionary, C 893 He [Titus] waes swa godes willan baet [etc.].; C 825 Mid scelde godes willan dines du zebezades usic.
[41]Oxford English Dictionary, Volume IV, p. 297.
[42]Oxford English Dictionary, Volume IV, p. 297.
[43]Chase, pp. 57-58.

## Appendix I

### A Chronology of Selective Definitions of Goodwill (1882-1981)

Bithell, 1882, p. 142.
The advantage connected with an established business of good repute. A well-established business presents an expectation of profits to any one entering upon it, and is worth paying for. Anyone having such a business and who is willing to relinquish the expectation of the business by transferring it for consideration to someone else can do so by what is technically called "selling the Goodwill of that business."

Harris, 1884, p. 256.
Goodwill may be defined as being the money value over and above the value of the actual assets of a concern (such as book debts, stock-in-trade, machinery, etc.) which can be realized in cases of death, dissolution, retirement, or liquidation.

Bourne, 1888, p. 107.
Goodwill may be defined as the benefit and advantage accruing to an existing business from the regard that its customers entertain towards it, and from the likelihood of their continued patronage and support.

Marshall, 1890, p. 430.
Goodwill or business organization and connection.

Moore, 1891, p. 282.
Goodwill is just another name to designate the patronage of the public.

Roby, 1892, p. 289.
Goodwill is, properly speaking, the benefit or advantage which rests only on the Goodwill, or kind and friendly feelings of others. It is a hope or expectation which may be reasonable and strong, may rest upon a state of things which has grown up through a long period, and been promoted by large expenditure of money. And it may be worth all the money it has cost, and a great deal more; but it is often all nothing more than a hope grounded upon a probability.
Goodwill is the advantage or benefit which is acquired by an establishment or a man beyond the mere value of the capital, stock, funds, or property employed therein, or by him, in consequence of the general public patronage and encouragement which it or he receives from constant or habitual customers, clients, or patients, on account of its or his local position, or common celebrity, or reputation for skill, or affluence, or punctuality, or from other accidental circumstances, or necessities, or even from partialities or prejudices.

Whatley, 1893, p. 28.
There is no item of capital of more uncertain valuation than the goodwill of a business; it depends so much upon the contingencies of trade that it is never safe to regard it as of permanent value. The best plan to arrive at its value would be to take it as being worth three or five years' purchase of the average profits of a stated period.

Warren, 1894, p. 97.
A feeling of Goodwill towards the particular house of business with which customers deal.

Trego v. Hunt, 1896, p. 7.
Goodwill may be defined as every advantage that has been acquired by a firm in the carrying on its business, whether connected with the premises in which the business has been carried on, or with the name of the firm, or with any other matter carrying with it the benefit of the business.

Dicksee, 1897, p. 40.
The benefit arising from connection and reputation, the probability of the old customers going to the new firm which has acquired the business.
The value of that reputation which a business has acquired during its continuance, which induces the confidence or expectation that the same, or an increasing patronage will continue to be extended so long as the business is conducted in the same place upon the same principles.

Densham, 1898, p. 570.
Goodwill is the connection and reputation of a business, together with the chance of keeping and improving it. The value of Goodwill may also be defined as the present value of future profits.

Guthrie, 1898, p. 425.
The value in pecuniary terms of this intangible thing is the difference between the value of the normal results of the working of any business or profession which may be established by and worked by any person in any place, and the results of working any individual business of a similar character.

Phillpotts, 1899, p. 181.
. . . what is sought to be obtained by getting the goodwill of any trade or profession is "the old customers of the firm."

Whitehill, 1899, pp. 702-703.
The item of goodwill legitimately appearing in a Balance Sheet is the amount which represents or indicates the value of an acquired right, permanent or temporary, to trade, make profit, or earn or obtain income; or, similarly, the right to stand in the vacated place of a trader or profit maker or income earner to do as he has done to give beneficial effect to the acquirement.

Lisle, 1899, p. 134.
Goodwill is the monetary value placed upon the connection and reputation of a mercantile or manufacturing concern, and discounts the value of the turnover of a business in consequence of the probabilities of the old customers continuing.

Hunter, 1901, p. 351.
Goodwill exists as a benefit or advantage accruing to the firm, in addition to the value of its property, derived from its reputation for promptness, fidelity and integrity in its transactions, from its mode of doing business, and other incidental circumstances, in consequence of which it acquires general patronage from constant and habitual customers.

Commissioners of Inland Revenue v. Muller & Co's Margarine, 1901, p. 217.
Goodwill is the benefit and advantage of the good name, reputation, and connection of a business. It is the attractive force which brings in custom. It is the one thing which distinguishes an old-established business from a new business at its first start.

Gundry, 1902, p. 662.
. . . define goodwill as the capitalised increment of value over the actual original cost, basing the profits at a given rate of interest.

Anonymous, 1902, p. 840.
The advantage which is possessed by occupying the premises which were tenanted by the former firm, and the chance which is thereby given of the customers being attracted to those premises.

Smith, 1904, p. 48.
Goodwill was, of course, a very indefinite asset. The amount for which it could be sold depended on many considerations—past profits, prospects, personal influence of some of the officials, and popular fancy.

Cleminson, 1907, p. 784.
The advantage or benefit which is acquired by an establishment beyond the mere value of the capital, stock, funds, or property employed therein, in consequence of the general public patronage and encouragement which it receives from constant and habitual customers on account of its local position or common celebrity, or reputation for skill, or affluence, or punctuality, or from any other accidental circumstances and necessities, or even from partialities or prejudices.

Morley, 1908, p. 43.
The value of the good repute of a business; and the probability of its customers returning to do business there.

Kirkland, 1910, p. 344.
Goodwill, generally described, is the custom or connection formed of any trade, business, or even profession. It is that factor in an existing and established trade, business, or profession which gives reasonable ground for the expectation and assumption that customers will come and will continue to come, to the old trader or professional man and their successors to a greater extent than if the business or profession were but newly started.

Bentley, 1911, p. 157.
Goodwill may be defined as the value of the benefits or advantages which attach to a particular business, in addition to the actual value of the property used in its conduct. This may be brought about through the value of trademark, or the reputation or skill of the organization, the reputation of the goods sold, peculiarly advantageous business connection, advantageous location, etc. It may also include the title to trade-marks, copyrights, etc., carrying all of the privileges enjoyed from their use by the former owners.

Dow, 1912, p. 96.
Goodwill is a consideration for the benefit of a trade or custom which the party who is disposing of a business has gathered together, and the amount of the consideration will depend upon the profits earned and other circumstances.

Hatfield, 1912, p. 107.
Goodwill represents the value of business connections, the value of the probability that present customers will continue to buy in spite of the allurements of competing dealers.

Anonymous, 1913, p. 816.
Goodwill is an immaterial or intangible asset, which represents the value of superior organisation, high reputation, advantageous location, or of any other circumstances which gives greater earning power to a business than ordinary returns upon capital cost invested.

Leake, 1914, p. 81.
Goodwill—The privilege, granted by the seller of a business to the purchaser, of trading as his recognised successor; the possession of a ready-formed "connexion" of customers, considered as an element in the saleable value of a business, additional to the value of the plant, stock-in-trade, book debts, etc.

Goodwill, in its commercial sense, is the present value of the right to receive expected future super-profits, the term "super-profits" meaning the amount by which future revenue, increase or advantage, to be received, is expected to exceed any and all expenditure incidental to its production.

Wildman, 1914, p. 142.

By goodwill is meant, that intangible possession or qualification which is capable of producing recurring income or by virtue of which recurring sales may be made. It is the influence which the proprietor or his organization has upon the purchasing public through which he is enabled to attract and retain patronage. In some cases it may be the power of controlling certain patronage. It is that particular power of attraction whereby the proprietor causes the buyer to seek him or his place of business when in the market for the kind of goods which the proprietor has for sale.

Kerr, 1915, p. 232.

Goodwill is the value of the connection between the corporation and its customers, and the chances of being able to hold and to develop that connection.

Douglas, 1915, p. 184.

Goodwill is the value of a business in itself as distinct from the value of the physical assets used in such business.

Pattrick, 1916, p. 279.

Goodwill is the fillip towards prosperity that a business enjoys over and above the ordinary return for the investment of labour and materials, interest on capital and a margin for insurance of capital.

Hunter, 1918, p. 260.

Goodwill means the probability of old customers returning.

Anonymous, 1918, p. 452.

Goodwill has two aspects—(1) perfected organizations of the business, and (2) expectation of future profits from past connections and reputation.

Walton, 1919, p. 379.

Goodwill is based on the ability of an enterprise to make a greater regular profit than the normal amount demanded by an investor. It must, perforce, be a matter of growth.

Spackman, 1919, p. 29.

The goodwill of a business consists of all the various advantages in addition to the tangible assets, which aid in carrying on its trade, and in making it profitable.

Paton and Stevenson, 1919, p. 529.

Goodwill may then be defined as the capitalized value of the excess income which a particular firm, because of greater efficiency or any monopolistic advantages, is able to realize over a normal enterprise in the same industry and having the same capital investment.

Conyngton (1921), p. 340.

Goodwill may be defined as the profit-producing power of an established business beyond mere interest and replacement returns; or, from another point of view, as the value of an established business over and above the value of its material assets.

Maughan, 1921, p. 239.

Goodwill is value of a business over and above its tangible assets and capital stock. One of the differences between a recently formed and an old established successful business.

Paton, 1922, p. 313.

Goodwill may be defined as the capitalized value of the excess income which a particular enterprise is able to earn over the income of a representative competitor—a "normal" business—having the same capital investment, the rate used in capitalizing being the rate realized by the representative concern.

Leake, 1922, p. 699.

Commercial goodwill is the right which grows out of all kinds of past effort in seeking profit, increase of value, or other advantage.

Anonymous, 1923, p. 249.

The value of goodwill may be taken as the present value of the probable future profits of the concern after making due allowance for interest on capital and the personal profit-making capacity of the partner or partners.

Armstrong, 1924, p. 282.

Goodwill is the saleable value attaching to the connection and reputation of a business. It should represent the value of the business to make surplus profit after charging interest on the capital employed.

Goodwill is that indefinable something that you can neither eat, drink, nor taste, nor drive a nail into.

Couchman, 1924, p. 131.

When the business has begun to roll along smoothly, it accumulates what might be called 'momentum', and the expense or effort necessary to keep it in motion is not so great as that needed to start it. Therefore an organization desiring to enter certain activities sometimes prefers to buy a going business—that is, one which has already acquired momentum—and is willing to pay for such a business an amount in excess of the net book value of its assets. In accounting this amount is termed "goodwill."

Lenhart, 1925, p. 1.

Goodwill is an intangible and fluctuating asset which represents the value of a business over and above the money, other intangibles and accumulated profits invested in it.

Curtis and Cooper, 1925, p. 1968.

Goodwill is an intangible asset, the value of which is based on the capitalized value of the profits of a business which are in excess of a fair return on the net assets.

Hall, 1926, p. 273.

The value attaching to the reputation of a business and to the likelihood that custom will continue to be attracted in the future as in the past, notwithstanding change in the proprietorship.

Anonymous, 1926, p. 406.

Goodwill is the present value of the right to receive expected future superprofits.

Parkinson, 1927, p. 95.

Goodwill is that benefit which arises, from the local position or general reputation of a particular establishment, for fair dealing, skill, affluence, or punctuality, and peculiar to that particular establishment.

Anonymous, 1927, p. 205.

An amount paid for goodwill really represents a premium paid to secure an extra profitable opening for the employment of capital.

Anonymous, 1928, p. 547.

Goodwill has been defined as the advantages that have been acquired by an established firm in carrying on its business, whether connected with the premises in which the business is carried on, or with the name of the firm, or with any other matter carrying with it the benefit of the business.

Saunders, 1928, p. 382.

The acquisition of goodwill may be regarded as the payment of a capital sum for future super-profits, the price being looked upon as the capital value of an annuity for a term of years.

Barton, 1929, p. 27.

Goodwill is what makes you come back to a store a second time.

Geir and Mautner, 1930, p. 16.

Goodwill comprises the capitalized value of the excess income which a particular concern, because of the peculiar advantages of prestige, efficiency or location attaching to its established business, is able to realize over a normal enterprise in the same industry having the same capital investment.

Foreman, 1930, p. 179.

Economists have viewed goodwill almost entirely as a state of the consumer's mind and therefore as an economy external to the productive process. Indeed, it has often been described as the reputation or public esteem which an enterprise enjoys in the eyes of the public. Again, it has been explained as the habit or custom which leads men to purchase goods from a particular person or company.

American Institute of Accountants, 1931, p. 67.

Goodwill is the present value of the right to receive expected future super-profits.

Walton, 1931, p. 860.

Goodwill is the extra benefit accruing to a business by reason of its connection with customers, which may have been built up from a number of causes, chief of which are the reputation and efficiency of the proprietors, the reputation of the goods, the locality of the business, or the monopoly enjoyed as in the case of a patent.

Leake, 1933, p. 15.

Goodwill, in its commercial meaning, is the transferable right which grows out of all kinds of past effort in seeking profit, increase of value, or other advantage.

Leake, 1934, p. 513.

Commercial Goodwill may include any and all such property as business connection associated with names, persons and places of business, trade-marks, patents and designs, copyright, and the right to exercise monopolies.

Coomber, 1935, p. 197.

In its widest sense, Goodwill means just "good will", a state or relationship between two parties, leading to mutual respect support and reliance. A buyer of goods dealing with a particular seller with whom this relationship exists may do so because he is satisfied that the goods he will obtain will be of a certain standard, or because the seller's place of business is convenient, or because he was satisfied with goods previously obtained from this particular vendor. Again, it may be the reputation for skill in the case of a doctor, or the knowledge and subtley in the case of a lawyer which attracts custom. Or it may just be that repeated advertisement has induced the belief that the advertiser's goods are better for the buyer than those of anybody else, with the result that he demands them without another question. All these types of relationships are forms of goodwill.

Bogan, 1935, p. 250.

From an accountancy standpoint I think it is now universally conceded that goodwill should represent the capitalized value of "super" profits, i.e., the profit over and above that profit which would be regarded as an ordinary commercial yield in the particular class of business.

Seed, 1936, p. 8.

Goodwill is the advantage which arises from the good name, reputation and connection of a business; alternatively, the benefit which accrues to the owner of a business from the likelihood that such business will earn, in the future, profits in excess of those required to provide an economic rate of remuneration for the capital and labour employed therein.

Goodwill represents the probability of the retention by a professional man of the confidence of his clients and their continued employment of his services and, in the case of a commercial undertaking, the likelihood of customers continuing to deal with it, with all the implications that such likelihood of continuance of profitable association carries with it.

Finney, 1937, p. 308.

Goodwill may be defined as the capitalized value of the profits of a business which are in excess of a normal or basic return on the capital exclusive of goodwill.

Sanders, Hatfield and Moore, 1938, p. 67.

The excess of the total value of the assets of a going concern over that part of the value which can be allocated to specific assets.

Bloomberg, 1938, pp. 9-10.

. . . financial goodwill . . . relates to the friendly attitude of the money market toward a company. Industrial goodwill has to do with the nature of the employer-employee relationship. Buyer goodwill or buyers' attachment to a company . . . is the favourable attitude of the persons to whom a concern sells.

Harris, 1939, p. 567.

Goodwill may be broadly defined as "The capacity of a business to earn profits."

Anonymous, 1939, p. 965.

Goodwill may be defined as that characteristic of an undertaking which enhances the undertaking's reputation, attracts from a portion of the public special preference, and results in an added value in excess of the surplus tangible net assets of the undertaking.

Moffatt, 1941, p. 556.

The conception that goodwill is that part of the purchase price paid which exceeds the value of the tangible assets acquired is widely accepted.

Leake, 1943, pp. 21-22.

The term "commercial goodwill" covers the whole field of rights growing out of all past effort (in seeking profit, increase of value, or other advantage). . . . (These rights may include any and all such property as business connections associated with names, persons, and places of business, trade-marks, patents and designs, copyrights, and the right to exercise monopolies.)

Norris, 1946, p. 110.

If X is a live pedigree dog, and Y a dead one, then perhaps X—Y=Z. But Z means nothing in itself. The label "goodwill" in business accounts closely resembles Z: its use is as sensible as trying to find what makes the dog tick by dissecting it.

Nicholls, 1948, p. 34.

I have had just a few examples (of Stock Exchange quotations) taken out, comparing the in globo values of certain public companies and comparing these values with the net disclosed tangible assets. Of course, it is possible stretching the matter a little too much to call the difference between the net tangible and the overall values, "goodwill". . . . But, without being too precise, the description "goodwill" must largely fit my explanation of the differences.

Sanderson, 1950, p. 37.

Goodwill will ever be like law and the mushroom—something you don't know what you've got until it's too late.

Emery, 1951, p. 560.

In general, goodwill is looked upon as the economic advantage of friendly and harmonious relationships enjoyed by a business firm throughout the different phases of its operations. This advantage evidences itself in the form of earnings in an amount greater than that expected in a typical firm in the industry with a similar capital investment.

Walker, 1951, p. 100.

At one time goodwill was presumed to exist only in connection with the customer. Later the concept was expanded to include industrial and financial relations, whereas goodwill, in an accounting sense, is now defined in terms of the estimated value of future profits in excess of normal return, and without any limitation as to the probable source of the expected profits.

Walker, 1952, p. 1.

It may be the personal reputation of the owner, the reputation of the products, the results of advertising, the likes and dislikes of the public, the location of the business, the absence of competition, or any one of a thousand other things that make up this thing called goodwill.

Walker, 1953, p. 213.

Purchased goodwill is, by definition, the present worth of an anticipated future income stream.

Wright, 1956, p. 381.

Goodwill has its orthodox meaning of the benefit of an established connection, the expectation that customers will return to the old firm, and in this sense its value must be linked with some concept of super-profit.

Professional goodwill is what one person will pay and another accept, for an established connection.

Schumann, 1960-61, p. 113.

Goodwill represents the portion of the expected profits of a business in excess of so called normal profits for which a buyer is willing to pay and which a seller is willing to give up.

Virgil, 1963, p. 33.

Accounting should recognize as an asset only that goodwill which is purchased when a firm acquired the properties of another company, this being the excess of the purchase price over the appraised fair market values of the tangible properties of the company.

Brown, 1966, p. 458.

The goodwill of an enterprise may be defined, as the excess of the value of that enterprise over the aggregate value of its net assets at any point of time.

Lall, 1967, pp. 71-72.

Significant of the factors that make the value of goodwill are: reputation of the product manufactured or sold, monopolistic rights, location of the business, personal qualifications of the head of the business, possession of favourable contracts, manufacturing efficiency, satisfactory labour/management relations, adequate source of capital, credit standing, political advantages, in general, good management.

Catlett and Olson, 1968, p. xv.

The concept of business goodwill value is defined as the difference between the total value of an enterprise and the aggregate value of its separable resources and property rights, less liabilities.

Gynther, 1969, p. 247.

Goodwill exists because assets are present, even though they are not listed with the tangible assets. For example, special skill and knowledge, high managerial ability, monopolistic situation, social and business connections, good name and reputation, favourable situation, excellent staff, trade names and established clientele are assets in this category. The sum of the value of these assets is the value of the goodwill.

Hendriksen, 1970, pp. 432-433.

From an accounting point of view, three major conceptions of goodwill appear frequently in the literature: (1) the evaluation of intangible attitudes toward the firm; (2) the present discounted value of the excess of expected future profits over that considered a normal return on the total investment not including the goodwill; and (3) a master valuation account — the excess of the value of the business as a whole over the valuations attaching to its individual tangible and intangible net assets.

Eitman, 1971, p. 48.

Purchased goodwill is not a finite-lived asset like a building, equipment or a patent; it is an investment by the buying enterprise in a group of intangible resources of the selling company that are of a rather elusive nature. As an "investment asset," it should be carried at an unamortized amount in the balance sheet as long as there is no evidence that its value has been impaired or that its term of existence has become limited.

Miller, 1973, p. 285.

The term "goodwill" is necessary for the accountant because he attempts to disaggregate the purchase price for an organized whole only by isolation of elements which are classifiable according to traditional accounting procedure and which can be valued arbitrarily in terms of some historic costs or external market values. These measurements imperfectly reflect any contribution to or sum of enterprise value; the notion of goodwill as a residuum is necessary to neutralize the effect of this invalid method of decomposition.

Lee, 1973, p. 177.

Goodwill . . . has been defined as the purchase price to an acquiring company of profits over and above the purchase price of the acquired net tangible assets necessary to produce these assets. In other words, it is the difference between the value of the acquired entity as a whole and the sum of the separate values attributed to the acquired tangible net assets. It can include, therefore, such intangible assets as patents, trademarks and copyrights.

Barlev, 1973, p. 305.

It is claimed here that goodwill is an asset created by the [process of business] integration, and that its magnitude is a function of the characteristics of all the constituents of the merger.

Gibson and Francis, 1975, p. 167.

Goodwill on consolidation is the term used to describe the excess of the cost of investments in subsidiaries over the book value of the equity acquired.

Fess and Niswonger, 1981, p. 263.

Goodwill is an intangible asset that attaches to a business as a result of such favorable factors as location, product superiority, reputation and managerial skill. Its existence is evidenced by the ability of the business to earn a rate of return on the investment that is in excess of the normal rate for other firms in the same line of business.

# Appendix II

## Selective Statute and Case Law Influencing the Conceptual Clarification of Commercial Goodwill

## Section A

### Statutes

Fine Arts Copyright Act, 1862
Merchandise Marks Act, 1862, 1887
Partnership Act, 1890
Musical (Summary Proceedings) Copyright Act, 1902
Musical Copyright Act, 1906
Trade Marks Act, 1905, 1919
Patents and Designs Acts, 1907 to 1932
Copyrights Act, 1911
Bankruptcy Act, 1883, 1914
Registration of Business Names Act, 1916
Agricultural Holdings Act, 1923
Merchandise Marks Act, 1926
Landlord and Tenant Act, 1927
County Court (Landlord and Tenant) Rules, 1928
Companies Act, 1929
Statute of Monopolies, 1623
Stamp Act, 1891

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## Section B

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