ELITE VALUATION

Independent Valuation & Boutique Advisory | Pan-India

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The Ultimate Practitioner Guide to

# Goodwill Valuation

## — 2026 —

*Purchase price allocation, impairment, transactions, tax, disputes and defensible reporting*

**IND AS 103**
PPA and residual goodwill

**INTANGIBLES**
Brand, customers, technology

**IND AS 36**
CGUs and annual impairment

**GOODWILL VALUATION**

**TAX & LAW**
Current 2026 India position

**PRACTICAL CASES**
Illustrations and public cases

**DEFENSIBLE REPORTING**
Robust documentation
& audit readiness

BY

SAGAR SHAH

CA | CS | IBBI Registered Valuer | All India Rank Holder | Ex-EY

First Edition | 2026

# ABOUT THE AUTHOR


## Sagar Shah

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*Founder, Elite Valuation*


Sagar Shah is the Founder of Elite Valuation and leads the firm's Valuation and Advisory practice. A Chartered Accountant (All India Rank Holder), Company Secretary and IBBI Registered Valuer, he brings 15+ years of professional experience advising promoters, investors, listed companies, startups and multinational groups on complex valuation and transaction matters across India.

Before founding Elite Valuation, he spent 9 years at Ernst & Young across valuation, transaction advisory, transfer pricing and cross-border taxation. His work today spans financial reporting, M&A; and restructurings, intangible assets, ESOPs, FEMA, AIFs, securities, financial modelling and other regulator-facing assignments where the valuation must stand up to scrutiny from auditors, regulators, investors and boards.

| EXPERIENCE | CLIENT BASE | CREDENTIALS | BIG 4 FOUNDATION |
|---|---|---|---|
| **15+ Years** | **500+ Client Engagements** | **CA \| CS \| IBBI RV** | **9 Years at EY** |

## VALUATION & ADVISORY EXPERTISE

- Business & Company Valuation
- M&A, Merger, Swap Ratio & PPA Valuation
- Intangible Asset, Brand, Patent & IP Valuation
- ESOP, Sweat Equity & Share-Based Payment Valuation
- Ind AS / Financial Reporting Valuation
- Shares, Securities & Complex Instrument Valuation
- FEMA, FDI / ODI & Cross-Border Valuation
- Income Tax, Companies Act & SEBI Valuation
- AIF Valuation, Structuring & Compliance Support
- ESOP Structuring, Scheme Design & Implementation
- Financial Modelling, Fundraising & Transaction Support
- Due Diligence, Transfer Pricing & Cross-Border Advisory

Practice focus. Elite Valuation is built for assignments where financial judgement, regulatory interpretation and transaction context intersect. The team supports both one-time transactions and recurring reporting requirements, with an emphasis on independent analysis, clear documentation and execution that is practical for management and audit teams.

## HOW WE APPROACH ENGAGEMENTS

| 01 | 02 | 03 | 04 |
|---|---|---|---|
| **Clarify the purpose** | **Build from evidence** | **Document the judgement** | **Stay involved through review** |
| We start with the reporting, transaction or regulatory objective before selecting a method. | Assumptions are anchored to financials, market data, contractual terms and the economics of the business. | The report explains the why behind the number so that reviewers can follow and challenge it. | We support management through auditor, board, investor and regulator questions on the valuation. |

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# WHAT WE DO

Elite Valuation is an independent boutique Valuation and Advisory firm supporting listed companies, MNCs, businesses, startups, funds, investors, CFOs and transaction teams. Goodwill and intangible assignments form one important part of a wider practice that connects transaction value with accounting, tax, M&A;, cross-border and governance requirements.

**01**
**Goodwill, PPA & Intangible Valuation**
Goodwill analysis, purchase price allocation, brand, customer relationships, technology and impairment support.

**02**
**Business & Company Valuation**
Enterprise and equity valuation for strategic decisions, fundraising, shareholder matters and transaction negotiations.

**03**
**M&A, Merger & Swap Ratio Valuation**
Acquisition, merger, demerger, restructuring, share-exchange ratio and transaction valuation support.

**04**
**Purchase Price Allocation & Ind AS Valuation**
PPA, intangible assets, impairment, financial instruments and fair-value measurement for financial reporting.

**05**
**Intangible Asset & IP Valuation**
Brand, customer relationships, technology, patents, licences and other identifiable intangible assets.

**06**
**ESOP & Share-Based Payment Advisory**
Scheme valuation, option pricing, Ind AS 102, tax FMV, dilution and transaction treatment of employee awards.

**07**
**FEMA & Cross-Border Valuation**
FDI, ODI, share transfers, cross-border mergers and foreign-investment pricing support.

**08**
**Income Tax, Companies Act & SEBI Valuation**
Purpose-specific valuation for tax, corporate law, securities and transaction requirements.

**09**
**AIF & Portfolio Valuation**
Independent portfolio valuation, NAV support and valuation-policy implementation for funds and investors.

**10**
**Financial Modelling & Fundraising**
Integrated forecasts, scenario modelling, investor models and transaction decision support.

**11**
**Financial Due Diligence**
Quality of earnings, working capital, net debt, accounting risk and transaction support.

**12**
**Transaction & Strategic Advisory**
Structuring, valuation review, negotiation analytics, deal documentation support and board-ready decision material.

## ONE TEAM, MULTIPLE CONTEXTS

*A goodwill number can affect purchase price allocation, future amortisation, impairment, tax analysis, shareholder economics and deal documentation. Our work is designed around the complete decision - not one isolated calculation.*

| REPORTS | MODELS | ADVISORY | REVIEW SUPPORT |
|---|---|---|---|
| Valuation & PPA | DCF / MPEEM / RfR | Board & Deal Support | Audit / Tax / Regulator |

# WHO WE SERVE

We work with decision-makers who need a valuation, model or transaction analysis to be understandable, commercially useful and defensible before another stakeholder. The question may arise at acquisition, audit, business transfer, shareholder separation, tax review or a dispute.

## CLIENTS & STAKEHOLDERS

| | | |
|---|---|---|
| **Listed Companies** | **Promoters & Business Families** | **Independent Directors** |
| **MNCs & Private Companies** | **CFOs & Finance Teams** | **PE / VC & Strategic Investors** |
| **AIFs & Fund Managers** | **M&A / Corporate Development** | **Law Firms & Dispute Teams** |
| **Boards & Audit Committees** | **CA / CS / Audit Professionals** | **Founders & Startups** |

## WHEN CLIENTS TYPICALLY CALL US

| | | |
|---|---|---|
| **ACQUISITION / PPA**<br>Purchase consideration must be allocated and residual goodwill explained. | **IMPAIRMENT / AUDIT**<br>A CGU containing goodwill needs annual testing or has deteriorating performance. | **BUSINESS TRANSFER**<br>Value must be separated between tangible assets, identifiable intangibles and goodwill. |
| **PARTNER / SHAREHOLDER EXIT**<br>Transferable enterprise goodwill must be distinguished from personal goodwill. | **TAX / REGULATORY REVIEW**<br>Accounting value and tax or statutory treatment must be mapped separately. | **DISPUTE / NEGOTIATION**<br>Stakeholders disagree on sustainable earnings, key-person dependence or transferable value. |

## SECTORS WE WORK ACROSS

| | | | | |
|---|---|---|---|---|
| Technology & SaaS | Financial Services | Consumer & Retail | Manufacturing | Healthcare |
| Infrastructure | Renewables | Logistics | Real Estate | Funds & Investments |

## WHY CLIENTS WORK WITH US

| | |
|---|---|
| **INDEPENDENT JUDGEMENT**<br>We analyse the number, not a predetermined answer. | **VALUATION DEPTH**<br>Business value, intangibles and residual goodwill are reconciled together. |
| **TRANSACTION CONTEXT**<br>We translate technical valuation into pricing, P&L; and deal consequences. | **REVIEW SUPPORT**<br>Documentation is prepared for auditor, board and stakeholder challenge. |

## START A CONVERSATION

Share the transaction structure, valuation date, financials, purchase consideration, asset schedules, forecasts, customer and IP information, and the review context. We can map whether the exercise is a PPA, stand-alone goodwill valuation, impairment test or a broader business valuation.

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*DISCLAIMER*

# Important Information Before You Use This Guide

## General Disclaimer

This guide is for educational and informational purposes only and does not constitute valuation, accounting, legal, tax, investment, securities-law or transaction advice. Goodwill is purpose-specific: acquisition accounting goodwill, stand-alone commercial goodwill, partnership or dispute goodwill, tax cost and impairment headroom can involve different frameworks, dates and outputs.

## Current-Law Review Date

The technical position in this edition was reviewed through 26 August 2026. Primary references include the ICAI Compendium of Ind AS, the February 2026 ICAI Educational Material on Ind AS 36, the Companies (Registered Valuers and Valuation) Rules, 2017 as amended, and the Income-tax Act, 2025 as amended by the Finance Act, 2026. Current primary sources should be checked again before a live filing or transaction.

## Goodwill Is Not One Universal Number

Under Ind AS 103, goodwill is ordinarily a residual after consideration and relevant ownership components are compared with acquisition-date identifiable net assets. In a commercial dispute or partnership context, goodwill may instead be estimated from transferable excess earnings or another purpose-specific method. An accounting residual must not be presented as though it were automatically the tax, legal or negotiated value of goodwill.

## Professional and Regulatory Use

A valuation required under a particular statute or rule may prescribe a specific professional, asset class, report content or valuation date. A commercial goodwill analysis is not automatically a statutory certificate. Confirm the operative provision and signatory before relying on a report for Companies Act, tax, IBC, FEMA, SEBI or another regulated purpose.

## Illustrations, Public Cases and Tax Treatment

All numerical illustrations are simplified and independently checked and do not represent Elite Valuation client engagements. Public case snapshots are drawn only from identified public sources. Accounting recognition does not determine tax depreciation, tax basis or transfer consequences; historical judicial decisions are presented only with later legislative changes that affect their present relevance.

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*EXECUTIVE SUMMARY*

# Eight Rules That Prevent Most Goodwill Valuation Errors

Goodwill becomes confusing when one number is asked to serve several purposes. The control framework below separates transaction economics, accounting recognition, valuation method and tax treatment before the model begins.

**1** **GOODWILL IS A RESIDUAL IN PPA**

Under Ind AS 103, identify and measure the acquired assets and liabilities first. Goodwill is the residual, not a percentage applied to purchase price.

**2** **BRAND IS NOT GOODWILL**

A separable brand, customer relationship, technology or contract can be a separately identifiable intangible. Leaving it in goodwill can distort PPA and later earnings.

**3** **INTERNAL GOODWILL IS NOT BOOKED**

Ind AS 38 does not permit recognition of internally generated goodwill. Acquired goodwill and internally created reputation are accountingly different.

**4** **DIRECT METHODS ARE PURPOSE-SPECIFIC**

Super profits or capitalisation methods can help in partnership, dispute or commercial contexts; they are not the Ind AS 103 formula for acquisition goodwill.

**5** **DEFERRED TAX CAN INCREASE GOODWILL**

Fair-value recognition of acquired intangibles can create deferred tax liabilities. Those liabilities reduce net identifiable assets and can increase residual goodwill.

**6** **GOODWILL IS TESTED, NOT AMORTISED, UNDER IND AS**

Acquired goodwill is subject to annual impairment testing at the CGU or group-of-CGUs level and additionally when indicators arise.

**7** **IMPAIRMENT HITS GOODWILL FIRST**

A CGU impairment loss is allocated first to goodwill. A goodwill impairment recognised under Ind AS 36 is not reversed later.

**8** **TAX IS A SEPARATE WORKSTREAM**

Income-tax Act, 2025 section 33 excludes goodwill from depreciable intangibles. Purchased and self-generated goodwill also have different cost rules for capital gains.

**OUR INSIGHT**

*The most common goodwill error is not arithmetic. It is classification: a brand is treated as goodwill, a transaction premium is called goodwill before the PPA is done, or an accounting residual is used as though it were a commercial stand-alone value. Define the purpose before the number.*

*PART I - FOUNDATIONS*

# Chapter 1: What Goodwill Actually Is - Business Value, Intangibles & Residual Economics

Goodwill is the value that remains after separately identifiable assets and liabilities have been dealt with for the purpose at hand. The economic story may include assembled workforce, operating know-how, reputation, going-concern advantages and synergies, but the measurement mechanics depend on context.

## 1.1 Goodwill Is Not the Same as Business Value

Business value captures the value of the entire operating enterprise. Goodwill is only one component of that value. In a PPA, goodwill is the residual after tangible assets, identifiable intangible assets and liabilities are recognised at the amounts required by Ind AS 103. In a partnership or dispute, goodwill may instead be the transferable excess earning capacity above a normal return on identifiable assets.

| Concept | What it measures | Typical use |
|---|---|---|
| Enterprise value | Value of operating business before financing claims | M&A, strategy, DCF / multiples |
| Equity value | Enterprise value adjusted for debt, cash and other claims | Shareholder / transaction pricing |
| Identifiable intangible value | Value of separable or contractual non-physical assets | PPA, IP transfer, licensing |
| Goodwill | Residual or transferable non-identifiable business advantage | PPA, business transfer, disputes |

*Table 1.1: Business value, intangible value and goodwill answer different questions.*

## 1.2 What Typically Sits Inside the Goodwill Residual

The residual may reflect benefits that do not meet separate recognition criteria or cannot be valued independently without double counting. Common examples include the value of an assembled workforce, future synergies from combining operations, established operating processes, access to organisational knowledge, going-concern value and strategic optionality. The exact composition is transaction-specific.

**GOODWILL ECONOMICS - ASK WHAT IS ACTUALLY BEING PAID FOR**

- Expected cost or revenue synergies that arise only after combining the businesses.
- An assembled workforce that allows immediate operation but is not recognised as a separate intangible under Ind AS 103.
- Going-concern value from having systems, suppliers, licences and organisational routines already functioning.
- Strategic market access or scale benefits not attributable to a separately identifiable right.
- Other residual benefits after brands, customers, technology and contracts are separately assessed.

## 1.3 Brand Value, Customer Value and Goodwill Must Be Separated

A brand can be valuable and still be separate from goodwill. Customer relationships may be separately identifiable because they arise from contractual rights or are separable. Technology, licences and non-compete agreements may also qualify. The practical PPA question is not whether these items were on the target's balance sheet; it is whether they meet the acquisition-date recognition criteria.

| Economic benefit | Usually separate from goodwill? | Why |
|---|---|---|
| Brand / trade name | Often yes | Can be separable and valued through market-participant royalty economics. |
| Customer relationships | Often yes | Contractual or separable relationships can create identifiable cash flows. |

| Economic benefit | Usually separate from goodwill? | Why |
|---|---|---|
| Technology / software / patents | Often yes | Legal rights or separability support separate recognition. |
| Assembled workforce | Generally no as separate PPA asset | The workforce is valuable, but usually fails the control / separability test for separate recognition. |
| Buyer-specific synergies | No | They arise from the combination and are normally part of goodwill, not an acquiree-controlled asset. |

**OUR INSIGHT**

*If a PPA starts with a target goodwill percentage, the logic is backwards. Start with consideration, the acquisition perimeter and a complete intangible-asset identification exercise. Goodwill should be what remains after the identifiable economics have been valued - not the amount management hopes to leave unamortised.*

## 1.4 Acquired Goodwill vs Internally Generated Goodwill

Ind AS 38 prohibits recognition of internally generated goodwill as an asset. Expenditure on building reputation, customer loyalty, employee capability or internally generated brands may create economic value, but accounting recognition follows specific rules. By contrast, goodwill recognised in a qualifying business combination arises through the acquisition accounting model and is subsequently subject to Ind AS 36 impairment testing.

Source note: ICAI FRRB materials quote Ind AS 38 paragraph 48: internally generated goodwill shall not be recognised as an asset. ICAI Ind AS 36 material confirms annual impairment testing for goodwill acquired in a business combination.

## Practical Classification Test - Before Calling Something Goodwill

| Question | If yes, the next step |
|---|---|
| Can the benefit be separated, licensed, sold or traced to contractual / legal rights? | Assess whether it is an identifiable intangible before leaving it in goodwill. |
| Does the value depend mainly on a named founder, doctor, adviser or salesperson? | Separate personal / key-person economics from transferable enterprise goodwill. |
| Does the benefit arise only because this specific buyer combines the businesses? | Treat it as buyer-specific synergy rather than an acquiree-controlled intangible. |
| Is the amount merely the difference between deal price and book net assets? | Do not call it goodwill until acquisition-date fair values and liabilities have been completed. |
| Is management trying to recognise reputation it created internally? | Economic value may exist, but Ind AS 38 does not permit recognition of internally generated goodwill. |

## 1.5 Enterprise Goodwill vs Personal Goodwill

In owner-led professional practices, family businesses and relationship-driven enterprises, not all goodwill is equally transferable. Enterprise goodwill attaches to the business: brand, systems, location, team, recurring contracts, institutional relationships and operating processes. Personal goodwill depends materially on an individual's reputation, personal relationships or continued involvement.

| Indicator | Enterprise goodwill | Personal goodwill |
|---|---|---|
| Customer ownership | Contracts and relationships belong to the organisation | Customers follow a named individual |
| Delivery capability | Team, process and systems are institutionalised | Founder or partner is personally critical to delivery |
| Brand | Business brand drives demand | Individual reputation drives demand |

| Indicator | Enterprise goodwill | Personal goodwill |
|---|---|---|
| Transferability | Can continue after ownership change | May fall sharply if person departs |
| Valuation response | Value sustainable business earnings | Apply key-person / attrition scenarios or isolate non-transferable earnings |

## Practical Illustration - Transferability Changes the Goodwill Answer

A consulting practice earns normalised post-tax profit of Rs. 12 crore. If Rs. 4 crore of that profit depends on the founder personally and would not transfer without a long retention agreement, a goodwill method based on the full Rs. 12 crore can materially overstate enterprise goodwill. The earnings base should first be normalised to the profit that a market participant can realistically retain.

**PRO TIP**

*Before valuing goodwill in a dispute, partner exit or family settlement, prepare a transferability map: which customers, staff, licences, systems and earnings stay with the business if the key person leaves tomorrow? The answer often matters more than the chosen multiple.*

**PRACTITIONER CHECKLIST**

- Define the exact goodwill purpose and valuation date.
- Separate business value, identifiable intangibles and residual goodwill.
- Test whether the economic benefits are transferable to a buyer.
- Identify key-person dependency and buyer-specific synergies.
- Do not recognise internally generated goodwill merely because economic value exists.
- Document which benefits were valued separately to prevent double counting.

## 1.6 When a Goodwill Number Should Be Kept Low - or Not Used at All

A high residual is not a sign of a strong valuation. In some businesses, most of the transferable economics can be explained by identifiable assets, contractual rights or tangible operating assets. In other situations, the apparent excess earning power belongs substantially to a founder or rainmaker and may not transfer. The valuation should allow goodwill to be low or even nil if that is what the evidence supports.

| Value source | Primary analytical treatment | Effect on residual goodwill |
|---|---|---|
| Owned brand / trade name that is separable | Assess separately under an appropriate intangible-asset method | Usually reduces residual goodwill |
| Contractual customer relationships | Assess customer economics separately where recognition / purpose requires | Usually reduces residual goodwill |
| Assembled workforce and going-concern organisation | Normally remains part of the residual economics rather than a separately recognised PPA asset | Can support residual goodwill |
| Founder-dependent relationships | Test transferability and replacement / retention assumptions | May reduce enterprise goodwill materially |
| Buyer-specific synergy | Keep separate from acquiree-controlled identifiable assets | May explain part of the acquisition residual |

## 1.7 The Transferability Stress Test

Before concluding on stand-alone goodwill, ask what a market participant actually receives on day one after the transfer. If the buyer receives the brand, systems, customer contracts, trained team, licences and operating processes, a significant part of the excess earning capacity may be transferable. If customers are free to leave with one individual, key staff have no retention mechanism and the business has no institutional sales process, the transferable earnings base should be adjusted before a goodwill multiple is applied.

*PART I - FOUNDATIONS*

# Chapter 2: Where Goodwill Valuation Is Used - Transaction, Accounting, Tax & Dispute Contexts

The phrase goodwill valuation can describe several different assignments. A reliable scope identifies the event, framework, decision-maker and output before a method is selected.

## 2.1 The Goodwill Trigger Map

| Context | Primary question | Typical output |
|---|---|---|
| Business combination / PPA | What residual goodwill arises after acquisition-date allocation? | Ind AS 103 PPA and goodwill bridge |
| Impairment | Is recorded goodwill recoverable through the CGU? | Ind AS 36 recoverable amount / headroom |
| Business transfer / slump transaction | How is business value allocated between assets and residual goodwill? | Purpose-specific allocation / valuation |
| Partner admission, retirement or dispute | What transferable goodwill exists at the valuation date? | Stand-alone goodwill value or range |
| Tax analysis | What is the current tax basis / depreciation / transfer treatment? | Tax-specific analysis, separate from accounting |
| Corporate / legal process | Does the governing provision require an independent valuation and by whom? | Statutory or governance report |

## 2.2 Goodwill Valuation vs Goodwill Impairment

A valuation asks what value exists at a particular transaction, transfer or dispute date. An impairment test starts from goodwill already recognised in the accounts and asks whether the CGU carrying amount is supported by recoverable amount. The model inputs overlap - forecasts, risk, market evidence - but the measurement objective and accounting consequences are different.

| Parameter | Goodwill Valuation | Goodwill Impairment Testing |
|---|---|---|
| Starting point | Business value, consideration, identifiable net assets and transferable earnings | CGU carrying amount including allocated goodwill |
| Core comparison | Value attributable to goodwill under the selected purpose | Carrying amount vs higher of VIU and FVLCD |
| Typical date | Transaction / transfer / dispute date | Annual consistent date plus indicator-based testing |
| Output | Goodwill value or residual reconciliation | Headroom or impairment loss |

## 2.3 Acquisition Accounting: The PPA Question

For Ind AS 103, the sequence is controlled. The acquirer identifies the business combination and acquisition date, measures consideration and relevant ownership components, recognises identifiable assets acquired and liabilities assumed, and then determines goodwill or a bargain purchase. A separate stand-alone goodwill method is not a substitute for that acquisition method.

## PPA WORKFLOW

| 01 | 02 | 03 | 04 |
|---|---|---|---|
| **Map the deal** | **Identify assets** | **Measure fair value** | **Reconcile residual** |
| Identify the acquirer, acquisition date and consideration perimeter. | Surface tangible and unrecorded identifiable intangible assets. | Apply Ind AS 113-consistent fair value techniques and recognise related tax effects. | Compute goodwill or bargain purchase only after the preceding steps. |

## 2.4 Disputes, Partnership Changes and Family Business Contexts

In disputes and partner changes, there may be no acquisition accounting framework that produces goodwill as a residual. The focus may instead be transferable earning capacity, contractual terms, partnership deed provisions, key-person dependence and the economic value that remains after a normal return on identifiable capital. Classical super-profit or capitalisation techniques may therefore be useful if their assumptions match the facts.

### QUESTIONS TO ASK BEFORE YOU ACT

- Is the number required for accounting, negotiation, tax, a contract or a statutory process?
- Does the governing document prescribe a formula for goodwill?
- Is the business expected to continue with substantially the same people and customers?
- Are separately identifiable brands, technology or customer relationships being valued elsewhere?
- Is the value being measured on a controlling / entire-business basis or only for a partner's interest?
- Does a statutory report require a registered valuer or another specified professional?

### OUR INSIGHT

*When a partnership deed prescribes a formula - for example, three years' purchase of average profits - that contractual formula may control the settlement even if a market-participant valuation would produce a different number. Do not replace a binding contractual mechanism with a theoretically better model without first resolving the legal purpose.*

## 2.5 Non-Ind AS and Legacy Accounting Contexts

Non-Ind AS entities can encounter different accounting outcomes. Under the traditional AS 14 amalgamation framework, goodwill arising on amalgamation under the purchase method is amortised over its useful life, generally not exceeding five years unless a longer period can be justified. That is materially different from Ind AS goodwill, which is not amortised and is instead tested for impairment.

| Framework | Initial goodwill | Subsequent treatment |
|---|---|---|
| Ind AS 103 + Ind AS 36 | Residual after acquisition-date identifiable net assets | No amortisation; annual and indicator-based impairment testing |
| AS 14 purchase-method amalgamation | Excess of consideration over net assets acquired | Systematic amortisation over useful life; generally not more than five years unless longer justified |
| Commercial / dispute valuation | Purpose-specific value of transferable goodwill | No accounting answer unless separately required by applicable framework |

## 2.6 Scope the Report Before You Scope the Model

A good engagement note should say what the number is, what it is not, who will use it, the valuation date, the governing framework, the unit of account, the standard or basis of value, the information cut-off date and the expected review process. These points prevent a commercial number from later being used as a statutory or accounting number without rework.

**PRO TIP**

*Write the first page of the eventual report before building the model: purpose, valuation date, subject asset, standard of value, intended use and signatory. If those six fields are not clear, the assignment is not yet ready for Excel.*

**PRACTITIONER CHECKLIST**

- Classify the assignment: PPA, impairment, transfer, dispute, tax or statutory.
- Identify the accounting framework - Ind AS or applicable Accounting Standards.
- Read partnership deed / SPA / scheme terms before selecting a method.
- Confirm valuation date and information cut-off date.
- Confirm required professional and report format under the governing provision.
- Keep accounting goodwill, tax basis and commercial value in separate workstreams.

## 2.7 One Transaction Can Create Several Goodwill Questions

A single acquisition can create a transaction valuation, a purchase price allocation, a future impairment model, a tax-basis analysis and a board / audit documentation requirement. These workstreams may use overlapping forecasts and market data, but they should not be collapsed into one report without considering the purpose of each conclusion.

| Question | Measurement focus | Why a separate workstream may be needed |
|---|---|---|
| What is the business worth? | Enterprise / equity economics at the transaction date | Supports negotiation or fairness, not necessarily accounting allocation |
| What goodwill is recognised? | Acquisition-date consideration and identifiable net assets | Follows the business-combination accounting model |
| Is goodwill impaired later? | CGU carrying amount versus recoverable amount | Uses a later testing date and different unit of account |
| What is the tax consequence? | Tax basis, transfer rules and current tax law | Accounting goodwill does not determine tax treatment |
| What value applies in a partner / family settlement? | Transferable earning capacity and governing agreement | May require a commercial stand-alone goodwill analysis |

## 2.8 Scope the Deliverable Before the Model

The engagement scope should state the subject asset or business, valuation date, purpose, basis of value, intended users, information cut-off, relevant framework and the form of output. This prevents a common failure: a technically sound analysis being reused for a purpose it was never designed to satisfy.

Where two purposes are being addressed in parallel - for example, commercial negotiation and acquisition accounting - the common data set can be coordinated, but the conclusion sections should remain purpose-specific. The reader should be able to see which assumptions are shared and which are required only by one framework.

*PART II - PURCHASE PRICE ALLOCATION*

# Chapter 3: PPA under Ind AS 103 - From Consideration to Goodwill

Ind AS 103 turns goodwill into a reconciliation problem. The accuracy of goodwill depends on the accuracy of the consideration perimeter, acquisition date, identifiable assets and liabilities, NCI, previously held interests and tax effects.

## 3.1 The Core Goodwill Formula

**KEY DECISION**

*Goodwill = Consideration transferred + NCI + fair value of any previously held equity interest - acquisition-date amount of identifiable net assets. The exact components depend on the transaction structure. A negative result requires reassessment before a bargain purchase is recognised.*

## 3.2 What Belongs in Consideration

Consideration can include cash, fair value of shares or other assets transferred, liabilities incurred to former owners and acquisition-date fair value of contingent consideration. Acquisition-related professional fees are generally not purchase consideration; they are accounted for separately under the applicable rules. Share-based replacement awards, pre-existing relationships and settlement items require careful classification.

| Item | Goodwill formula treatment | Control point |
|---|---|---|
| Cash paid at closing | Included at amount transferred | Tie to SPA and bank / completion statement |
| Equity issued | Included at acquisition-date fair value | Do not use face value merely because shares were issued at par |
| Earn-out / contingent consideration | Included at acquisition-date fair value | Use probability-weighted / option logic as appropriate |
| Acquisition fees | Generally outside consideration | Do not inflate goodwill with transaction costs |
| Previously held stake in step acquisition | Include acquisition-date fair value | Remeasure and reconcile separately |

## 3.3 Acquisition Date Matters

The acquisition date is the date on which control is obtained, not automatically the signing date, payment date or legal merger date. Market data, discount rates, foreign exchange, contingent consideration and fair values should be aligned to the acquisition date. A one-month mismatch can be material in volatile transactions.

## 3.4 Practical Illustration - Simple 100% Acquisition

Assume Buyer Ltd acquires 100% of Target Ltd for Rs. 120 crore. At acquisition date, the fair value of identifiable assets is Rs. 160 crore and identifiable liabilities are Rs. 70 crore. Net identifiable assets are therefore Rs. 90 crore.

| Rs. crore | Amount |
|---|---|
| Consideration transferred | 120.0 |
| Fair value of identifiable assets | 160.0 |
| Less: identifiable liabilities | 70.0 |
| Net identifiable assets | 90.0 |
| Goodwill = 120.0 - 90.0 | 30.0 |

*Illustration 3.1: In a simple 100% acquisition, goodwill is the residual after net identifiable assets.*

The Rs. 30 crore result should not be described as brand value or customer value. If Target has an unrecorded brand or customer relationship that meets the recognition criteria, that asset must be valued separately. The additional intangible value would ordinarily reduce pre-tax goodwill, subject to the related deferred-tax effect.

## 3.5 Measurement Period Is Not a Licence to Delay

Ind AS 103 permits provisional amounts when the initial accounting is incomplete, with retrospective adjustments during the measurement period as new information about facts and circumstances existing at the acquisition date becomes available. The period cannot exceed one year from the acquisition date. This is not permission to treat the initial PPA as a placeholder without a defensible identification and valuation process.

**PPA DATA ROOM - CORE INPUTS**

- Signed SPA / scheme / completion statement and consideration mechanics.
- Acquisition date and evidence of when control transferred.
- Opening balance sheet and detailed asset / liability schedules.
- Customer, product, brand, technology, licence and contract information.
- Forecasts and business plan used by the acquirer to price the transaction.
- Tax bases of assets and liabilities for deferred-tax analysis.
- Cap table and NCI terms, including any put / call arrangements.
- Earn-out or contingent consideration terms and probability evidence.

## 3.6 Why PPA Quality Determines Goodwill Quality

The PPA is a closed reconciliation: consideration and relevant ownership components must equal the fair value of identifiable net assets plus residual goodwill, subject to the accounting requirements for specific items. Any omission in the identifiable asset set mechanically migrates into goodwill. That is why audit scrutiny often focuses on asset identification before it focuses on the goodwill number itself.

| Weak PPA signal | Why it matters | Better response |
|---|---|---|
| Large goodwill with no asset-identification memo | May indicate that customer, brand or technology value was not tested separately | Prepare an acquisition-specific intangible identification matrix |
| Book values reused as fair values | Can ignore acquisition-date market-participant economics | Fair value material tangible and intangible items |
| Tax effect ignored | Net identifiable assets may be overstated and goodwill understated | Model deferred tax under Ind AS 12 |
| Earn-out booked at maximum face value | May overstate consideration and goodwill | Fair value probability and timing at acquisition date |
| Goodwill described as a balancing figure only | Does not explain transaction economics | Reconcile residual to synergies, workforce and strategic benefits |

**OUR INSIGHT**

*A high goodwill percentage is not automatically wrong. It can be rational in acqui-hires, network businesses or acquisitions driven by buyer-specific synergies. What is weak is a high goodwill number with no evidence that the identifiable intangible assets, consideration mechanics and deferred tax were tested first.*

## 3.7 Reporting the Residual

A defensible report explains the business rationale for the acquisition and links that rationale to the residual goodwill without pretending that goodwill itself has been separately observable. It should state which intangibles were identified, which were excluded and why, the material valuation methods, deferred-tax treatment, NCI basis, provisional items and measurement-period limitations.

**PRACTITIONER CHECKLIST**

- Freeze acquisition date and consideration perimeter.
- Identify all unrecorded intangible assets before calculating goodwill.
- Fair value material assets and liabilities using acquisition-date assumptions.
- Model NCI and any previously held interest correctly.
- Model deferred tax on fair-value adjustments.
- Reassess a negative residual before recognising bargain purchase.
- Document what the goodwill is expected to represent economically.
- Keep the PPA reconciliation mathematically closed.

## 3.7 Reconcile Consideration to the Transaction Documents

The goodwill bridge can only be as reliable as the consideration perimeter. Cash paid at completion is not always the entire accounting consideration. Share consideration, contingent payments, pre-existing relationships, replacement awards and amounts that relate to post-combination services can require separate analysis. The PPA file should reconcile the final consideration used in the model to the signed transaction documents and completion statement.

| Consideration item | Evidence to inspect | Control question |
|---|---|---|
| Cash / closing payment | SPA, closing statement, bank / settlement support | Does the amount relate to the acquisition itself? |
| Equity consideration | Issue terms, share data, valuation-date market / fair-value evidence | Is the correct acquisition-date measurement used? |
| Contingent consideration | Earn-out clauses and probability / valuation model | Is the payment consideration or remuneration for future service? |
| Pre-existing relationship settlement | Contracts, claims and settlement clauses | Should any amount be accounted for separately from the combination? |
| Replacement awards | Employee award terms and service conditions | What portion relates to pre-combination service versus future service? |

## 3.8 Close the PPA as a Reconciliation, Not as Independent Schedules

The final PPA should contain one master bridge that ties consideration, NCI and any previously held interest to the fair value of identifiable assets, liabilities and residual goodwill. Each intangible valuation should feed that bridge once. Deferred tax should be reconciled asset by asset where relevant, and every late adjustment should flow through the same control schedule. A closed bridge makes later audit review, measurement-period updates and future impairment allocation materially easier.

*PART II - PURCHASE PRICE ALLOCATION*

# Chapter 4: Identify Intangibles Before Goodwill - Brand, Customers, Technology & Deferred Tax

The best goodwill model often starts with the assets that are not goodwill. Ind AS 103 can require the acquirer to recognise acquired intangible assets that the target never recorded because they were internally generated.

## 4.1 The Identifiability Test

An acquired intangible asset is recognised separately from goodwill when it is identifiable - broadly, when it is separable or arises from contractual or legal rights - and the applicable recognition requirements are met. This is why brands, customer relationships, technology, licences and contractual rights can appear in the acquirer's PPA even though the target expensed the cost of developing them internally.

| Intangible | Recognition logic | Typical technique |
|---|---|---|
| Brand / trade name | Separable / legal rights; market-participant licensing economics | Relief-from-Royalty |
| Customer relationships | Contractual or separable relationships with expected attrition | Multi-Period Excess Earnings |
| Technology / software | Legal rights or separability; forecast benefit stream | Relief-from-Royalty / excess earnings / cost |
| Non-compete | Contractual restriction creates measurable incremental benefit | With-and-Without |
| Order backlog / contracts | Contractual rights with finite delivery economics | Excess earnings / contract cash flows |

## 4.2 Assembled Workforce Usually Stays in Goodwill

An assembled workforce can be economically valuable because the acquirer avoids recruitment and training cost and obtains a functioning organisation on day one. However, it is generally not recognised as a separate intangible asset in a PPA. Its value is often part of goodwill, while workforce cost may still be relevant as a contributory asset charge or reasonableness check in other intangible valuations.

## Practical Asset-Identification Interview

A PPA team should interview the commercial, sales, product, legal and finance teams before finalising the asset list. The objective is to trace why customers buy, what rights prevent competitors from copying the economics, and which assets a market participant would pay to access separately.

**QUESTIONS TO ASK BEFORE YOU ACT**

- Which names, marks, domains or licences could be licensed independently?
- Which customer contracts, order books or recurring relationships generate measurable future cash flows?
- What proprietary software, data, algorithms, patents or technical know-how are controlled by the acquiree?
- Are there non-compete, franchise, distribution or supply rights that create separable economics?
- Which benefits depend on the workforce or buyer combination and therefore belong in residual goodwill rather than a separate asset?

## 4.3 Deferred Tax Can Move Goodwill Materially

Fair-value recognition of an acquired intangible asset can create a temporary difference when its accounting carrying amount exceeds its tax base. A deferred tax liability reduces net identifiable assets and therefore increases the residual goodwill. Ignoring this step is one of the easiest ways to produce a PPA that does not reconcile with the accounting entries.

## Practical Illustration - Same Brand Value, Different Goodwill

Assume a 100% acquisition for Rs. 520 crore. Tangible net identifiable assets are Rs. 240 crore. The PPA identifies a brand at Rs. 110 crore, customer relationships at Rs. 70 crore and technology at Rs. 30 crore. Assume, only for this illustration, that these fair-value step-ups have nil tax base and a 25% applicable tax rate.

| Rs. crore | Amount |
|---|---|
| Tangible net identifiable assets | 240.0 |
| Brand | 110.0 |
| Customer relationships | 70.0 |
| Technology | 30.0 |
| Net identifiable assets before DTL | 450.0 |
| Deferred tax liability: 25% x Rs. 210 crore | 52.5 |
| Net identifiable assets after DTL | 397.5 |
| Consideration | 520.0 |
| Residual goodwill | 122.5 |

If the deferred-tax liability were omitted, the model would show goodwill of only Rs. 70 crore. The Rs. 52.5 crore difference is not a new economic asset; it is the mechanical effect of recognising the tax consequence of the fair-value step-ups in this simplified example.

**PRO TIP**

*Never infer the tax base of an intangible from the accounting PPA alone. Tax basis depends on transaction structure and tax law. The accounting valuer and tax adviser should reconcile the asset-by-asset tax basis before the goodwill bridge is finalised.*

## 4.4 Avoid Double Counting Between Intangibles and Goodwill

The same earnings cannot support customer relationships, brand and goodwill without appropriate contributory charges or allocation logic. For example, a customer-relationship MPEEM should charge for use of the brand, technology, working capital and fixed assets that contribute to customer cash flows. Otherwise the customer asset captures returns that belong to other assets and artificially compresses goodwill.

| Risk | Example | Control |
|---|---|---|
| Double counted revenue | Brand royalty is applied to revenue already fully attributed to customer relationships | Use method-consistent contributory charges and reconcile cash-flow ownership |
| Buyer synergy embedded in target intangible | Customer asset includes buyer cross-sell that did not exist at acquisition date for market participants | Separate market-participant asset value from buyer-specific synergy |
| Indefinite life assumed casually | Brand is given perpetual life despite planned rebranding | Align useful life with legal, economic and strategic evidence |
| Technology and workforce confused | Replacement cost includes ongoing team payroll as though the team is owned | Separate technology asset from assembled workforce / future operating cost |

## 4.5 Public-Company Reality: Goodwill Can Coexist with Very Large Intangibles

A high-value brand does not eliminate goodwill. A transaction may contain both separately identifiable assets and a substantial residual for synergies and growth opportunities. The Capital Foods case discussed later in this guide is a strong public example: Tata Consumer separately reported brand and distribution-network values and still recognised material goodwill.

**PRACTITIONER CHECKLIST**

- Prepare an intangible identification memo before valuation begins.
- Test both separability and contractual / legal rights.
- Match each asset to the method that best captures its economics.
- Apply contributory asset charges where an excess-earnings method is used.
- Separate buyer-specific synergies from market-participant intangible value.
- Model useful life, amortisation consequences and tax bases alongside fair value.
- Reconcile all identified assets back to the goodwill bridge.

Source note: ICAI Ind AS 103 educational material and ICAI Valuation Standards Board material on PPA; Ind AS 38 recognition principles; Ind AS 12 for deferred tax.

## 4.6 Intangible Identification Is an Interview Process, Not Only a Balance-Sheet Review

A target balance sheet rarely identifies the full set of acquisition-date intangibles. The identification process should therefore combine document review with interviews of commercial, product, technology, legal and finance teams. The purpose is to understand what drives customer choice, retention, pricing, delivery and future cash flow - and then determine whether any of those benefits meet the relevant recognition criteria.

| Workstream | Questions to ask | Typical evidence |
|---|---|---|
| Customers | Why do customers stay, renew or expand? Are relationships contractual? | Contracts, cohorts, churn, renewal history, pipeline |
| Brand / market | Does the name influence demand or pricing? Is rebranding planned? | Marketing data, brand studies, pricing evidence, legal registrations |
| Technology | What code, platform, patents or know-how drive the product? | Product roadmap, architecture, IP records, development history |
| Contracts / rights | Are there licences, exclusivity, permits or non-competes? | Executed agreements, legal register, regulatory approvals |
| Workforce / operations | Which capabilities are embedded in the organisation rather than one person? | Organisation chart, tenure, key-person map, process documentation |

## 4.7 Useful Life, Amortisation and Goodwill Should Tell One Economic Story

The valuation method and useful-life conclusion should be internally consistent. A customer asset cannot be valued on the assumption that customers persist for many years and then be assigned a much shorter accounting life without explanation. Likewise, a technology asset expected to be replaced quickly should not absorb long-duration cash flows that economically belong to successor technology or goodwill.

The most useful review is a bridge from the transaction thesis to the intangible lives: which benefits are contractual, which decay with customer attrition, which require reinvestment, and which residual synergies are expected to persist through the combined organisation. This makes the resulting amortisation profile and residual goodwill easier to explain to the board and auditor.

*PART III - VALUATION METHODS*

# Chapter 5: Direct Goodwill Valuation - Super Profits, Capitalisation & Transferable Earnings

Outside acquisition accounting, goodwill may need a direct estimate. The correct method depends on the legal / commercial purpose, the quality of earnings and how much of the earning capacity can transfer to a market participant.

## 5.1 Super-Profit Logic

The super-profit method compares maintainable earnings with a normal return on identifiable capital employed. The excess is treated as an economic return attributable to goodwill and other residual advantages. The method can be useful in partnership settlements, professional practices and certain dispute contexts, particularly where the governing agreement itself refers to years' purchase of profits.

**PRACTICAL ILLUSTRATION**

*Super profit = maintainable earnings - normal return on capital employed. Goodwill under a years-purchase convention = super profit x agreed / supportable years of purchase. The method is not prescribed by Ind AS 103 for acquisition accounting.*

## 5.2 What Is Maintainable Profit?

Maintainable profit is not simply last year's reported profit. It should reflect sustainable earnings available to the business after normalising one-off items, owner remuneration, related-party pricing, abnormal expenses, non-operating income and temporary disruption. If key-person earnings will not transfer, the earnings base should be adjusted before goodwill is computed.

| Adjustment | Why it may be needed | Example |
|---|---|---|
| Owner compensation | Replace discretionary draw with market remuneration | Add back excess salary, then deduct market replacement cost |
| One-off litigation / closure | Remove non-recurring distortion | Normalise a one-time Rs. 2 crore settlement |
| Related-party rent | Move to market terms | Replace below-market rent with arm's-length rent |
| Non-operating investment income | Not generated by operating goodwill | Exclude treasury / investment return |
| Founder-dependent revenue | May not transfer | Apply retention probability or remove non-transferable customers |

## 5.3 Practical Illustration - Years' Purchase of Super Profits

Assume a mature service business has normalised post-tax maintainable profit of Rs. 18.0 crore and identifiable operating capital employed of Rs. 90.0 crore. A 12% normal post-tax return on that capital is considered supportable for the assignment. The governing settlement convention uses four years' purchase of super profits.

| Rs. crore | Amount |
|---|---|
| Maintainable post-tax profit | 18.0 |
| Capital employed | 90.0 |
| Normal return at 12% | 10.8 |
| Super profit | 7.2 |

| Rs. crore | Amount |
|---|---|
| Years' purchase | 4.0x |
| Goodwill = Rs. 7.2 crore x 4 | 28.8 |

The arithmetic is straightforward. The judgement sits in the normalised profit, capital base, normal-return rate and the four-year period. A different normal return or years-purchase factor can change the result materially; those inputs must come from the contract, market evidence or an explainable valuation rationale.

## 5.4 Capitalisation of Super Profits

A capitalisation variant divides super profit by an appropriate capitalisation rate. Conceptually, this treats residual excess earnings as a perpetuity or long-duration stream. It should be used cautiously where earnings are cyclical, key-person dependent or expected to fade. A finite-life years-purchase framework may be more credible when the excess economics are not perpetual.

**OUR INSIGHT**

*Classical goodwill formulas are most useful when the economics are simple and the purpose is narrow. They become weak when the business contains material brands, customer contracts, technology or growth options that can and should be valued separately. In those cases, start with business value and an asset-by-asset residual bridge.*

## 5.5 With-and-Without and Excess-Earnings Concepts

A with-and-without analysis can help when goodwill is linked to a specific transferable advantage that cannot easily be separated as an identifiable asset in the governing context. The business is valued under a base case with the advantage and under a scenario in which the advantage is absent or decays. The difference must be adjusted for transition costs, replacement actions and probability.

An excess-earnings concept can also be used to isolate returns above normal charges for tangible and identifiable intangible assets. However, once the analysis becomes asset-specific, it begins to resemble a PPA / MPEEM framework. The report should be explicit about whether it is valuing a specific intangible, residual goodwill or the entire enterprise.

| Method | Useful when | Main risk |
|---|---|---|
| Years' purchase of super profits | Contract / partnership convention or stable mature earnings | Arbitrary years-purchase factor |
| Capitalisation of super profits | Residual earnings are sustainable for a long period | Perpetuity assumption can overstate value |
| With-and-without | A specific transferable advantage can be isolated through scenarios | Scenario may capture multiple assets / double count |
| Residual from business value | Enterprise value is reliable and identifiable net assets can be measured | Quality depends on completeness of asset identification |

**PRO TIP**

*Do not label a business-value residual as goodwill until you have reconciled debt, surplus assets, tangible assets, identifiable intangibles and liabilities consistently. The residual is only as good as the bridge that precedes it.*

**PRACTITIONER CHECKLIST**

- Normalise earnings before any goodwill formula is applied.
- Match profit measure and normal-return rate on a consistent pre-tax / post-tax basis.
- Use market remuneration for owners / key people.
- Test transferability of customers and relationships.
- Avoid perpetual capitalisation where excess earnings are expected to fade.
- Do not use direct goodwill methods as a substitute for Ind AS 103 PPA.
- Run sensitivity on normal return, years purchase and maintainable profit.

## 5.7 Normalised Earnings Are the Core of a Direct Goodwill Method

Super-profit and capitalisation techniques appear simple because the final formula is short. The difficult part is producing a maintainable earnings base. The valuer should remove non-recurring items, separate non-operating income, adjust owner / partner remuneration to a market level where appropriate, consider under-maintenance or unusual cost deferrals and test whether recent growth is sustainable.

| Adjustment area | Why it matters | Typical direction of review |
|---|---|---|
| Owner / partner remuneration | Reported profit can include below-market or above-market compensation | Replace with market-participant remuneration where relevant |
| One-off income / expense | Can distort maintainable earnings | Remove items that are not expected to recur |
| Non-operating assets / income | May belong outside operating goodwill | Separate investment / surplus-asset returns from business earnings |
| Customer concentration | Historic profit may not be sustainable after a major customer loss | Scenario-weight or adjust maintainable earnings where evidence supports |
| Key-person dependency | Part of profit may not transfer to a buyer | Isolate or probability-adjust non-transferable earnings |

## 5.8 Use Scenarios When Transferability Is Uncertain

A single maintainable-profit number can create false precision when the business depends on founder transition, client retention or key staff. In that situation, a base case can be supplemented with a transition case and a downside case. The resulting goodwill range should be linked to observable retention, notice periods, customer concentration and replacement costs rather than to an arbitrary percentage discount.

This is also why a direct goodwill method should not be used mechanically for every business. If the underlying enterprise value is more reliably observed through a DCF, market transaction or asset approach, the goodwill analysis should reconcile to that broader business value rather than create a separate answer that cannot be bridged.

*PART III - VALUATION METHODS*

# Chapter 6: Enterprise Value to Goodwill Bridge - DCF, Multiples, NAV & Residual Cross-Checks

A reliable stand-alone goodwill estimate often begins with the value of the operating business. DCF, market multiples or asset approaches establish the broader enterprise economics; goodwill is then isolated only after financing claims and identifiable assets are reconciled.

## 6.1 DCF Values the Business, Not Goodwill Directly

A DCF capitalises future free cash flow generated by the business as a whole. It captures the combined contribution of tangible assets, identifiable intangibles, workforce, organisation and residual advantages. Goodwill cannot be extracted from DCF simply by calling the present value of future profits goodwill. The enterprise value must first be bridged to equity and then to identifiable net assets.

### ENTERPRISE-TO-GOODWILL BRIDGE

| 01 | 02 | 03 | 04 |
|---|---|---|---|
| **Value operations** | **Bridge financing** | **Measure identifiable net assets** | **Isolate residual** |
| DCF or market approach produces enterprise value. | Adjust debt, cash and other non-operating claims / assets. | Fair value tangible assets, identifiable intangibles and liabilities. | Only then describe the remaining transferable value as goodwill for the purpose. |

## 6.2 Market Multiples as a Cross-Check

Trading and transaction multiples can test whether the overall business value is reasonable. They do not provide a direct goodwill multiple. A peer company's EV/EBITDA already reflects its own asset mix, growth, capital intensity and unrecognised intangibles. Applying a peer enterprise multiple directly to goodwill would mix units of account and can double count value.

| Approach | What it values well | How it helps goodwill |
|---|---|---|
| DCF | Business-specific future cash flows | Sets enterprise value from which residual may be bridged |
| Trading multiples | Market pricing of comparable business models | Corroborates enterprise value and growth / margin assumptions |
| Transaction multiples | Observed control transactions | Tests acquisition-level value and strategic premiums |
| NAV / asset approach | Asset-heavy or investment businesses | Provides explicit identifiable asset base and downside check |

## 6.3 Practical Illustration - Business Value Residual

Assume a private operating business has an enterprise value of Rs. 300 crore under a reconciled DCF / market approach. Net debt is Rs. 40 crore, producing equity value of Rs. 260 crore. Suppose the fair value of tangible net operating assets attributable to equity is Rs. 150 crore and separately identifiable intangible assets are Rs. 55 crore, after considering related liabilities on a consistent basis.

| Rs. crore | Amount |
|---|---|
| Enterprise value | 300 |
| Less: net debt | 40 |
| Equity value | 260 |

| Rs. crore | Amount |
|---|---|
| Less: fair value of tangible net assets | 150 |
| Less: identifiable intangible assets | 55 |
| Residual transferable goodwill | 55 |

This illustration is a commercial residual bridge, not an Ind AS 103 acquisition accounting calculation. In a real PPA, the formula would use consideration, NCI / previously held interests as applicable and acquisition-date identifiable net assets, including the relevant deferred-tax effects.

## 6.4 NAV Can Matter Even in an Earnings Business

For asset-heavy businesses, the normal return on land, plant, working capital or investments can explain a large share of profits. A goodwill model that ignores the economic return required on those assets can overstate residual earnings. Conversely, a strong service or technology business can have modest tangible capital and therefore a higher share of enterprise value attributable to intangible economics.

**OUR INSIGHT**

*Goodwill should not be used to hide a weak enterprise-value conclusion. If DCF and market multiples disagree materially, resolve the business-value question first. A residual goodwill number derived from an unstable enterprise value only compounds the uncertainty.*

## 6.5 Reconcile the Units of Account

The most frequent residual error is mixing enterprise and equity measures. Debt-funded tangible assets may be included in net assets while the numerator is still enterprise value, or cash is subtracted twice. The bridge must use one consistent unit of account from top to bottom.

| Common error | What goes wrong | Correction |
|---|---|---|
| Enterprise value less book equity | Financing and asset bases are mixed | Bridge EV to equity using net debt and other claims first |
| Subtracting gross assets from equity value | Liabilities embedded in asset base are ignored | Use identifiable net assets on a consistent basis |
| Including surplus cash in operating assets and EV bridge | Cash counted twice | Classify operating vs non-operating cash once |
| Adding synergy to DCF then retaining full PPA goodwill | Buyer-specific synergy may be double counted | Clarify market-participant vs buyer-specific assumptions |

## 6.6 Sensitivity Is Essential for a Residual Number

A residual is more sensitive than the headline business value because it is the difference between large numbers. A 5% change in enterprise value can create a much larger percentage change in goodwill. The report should therefore show how goodwill moves with the key drivers: revenue growth, margin, discount rate, normal return on capital, customer retention and identifiable intangible values.

**PRO TIP**

*Present a waterfall, not just a final number: enterprise value -> equity value -> tangible net assets -> identifiable intangibles -> goodwill. Reviewers can challenge each bridge item without reopening the entire model.*

**PRACTITIONER CHECKLIST**

- Use consistent enterprise or equity units throughout the bridge.
- Reconcile debt, cash, minority claims and surplus assets once.
- Fair value the identifiable net assets appropriate to the purpose.
- Do not apply enterprise multiples directly to goodwill.
- Separate market-participant assumptions from buyer-specific synergy.
- Show residual sensitivity to both business value and identifiable intangible values.
- Explain whether the residual is accounting goodwill or commercial transferable goodwill.

## 6.7 Residual Goodwill Is Highly Sensitive to the Bridge

Because goodwill is the difference between large numbers, a modest change in enterprise value, debt or identifiable intangibles can create a much larger percentage change in the residual. The sensitivity should therefore be shown on the bridge itself, not only inside the DCF.

| Scenario | Enterprise value | Net debt | Tangible net assets | Identifiable intangibles | Residual goodwill |
|---|---|---|---|---|---|
| Base | 300 | 40 | 150 | 55 | 55 |
| Enterprise value -5% | 285 | 40 | 150 | 55 | 40 |
| Net debt +10 | 300 | 50 | 150 | 55 | 45 |
| Identifiable intangibles +10 | 300 | 40 | 150 | 65 | 45 |

Rs. crore. Each row uses the same equity-value bridge: enterprise value less net debt, then less tangible net assets and identifiable intangibles. The table shows why the residual should never be reviewed in isolation.

## 6.8 Low or Nil Residual Goodwill Can Be a Valid Outcome

If the enterprise value is fully explained by tangible net assets and separately identifiable intangibles, there may be little residual goodwill for a commercial allocation. That does not mean the business lacks strategic value; it means the identified value sources already explain the economics. Conversely, a large residual should be accompanied by a clear explanation of the unidentifiable benefits, synergies or going-concern advantages that remain after the bridge.

*PART IV - IMPAIRMENT*

# Chapter 7: Goodwill Impairment under Ind AS 36 - CGUs, Recoverable Amount & Annual Testing

Goodwill does not generate cash flows independently. Ind AS 36 therefore tests it at the cash-generating unit or group-of-CGUs level to which the acquisition synergies are expected to contribute.

## 7.1 Annual Testing Is Mandatory for Acquired Goodwill

ICAI's February 2026 Educational Material on Ind AS 36 states that goodwill acquired in a business combination is tested for impairment at least annually irrespective of whether there is an impairment indicator. A CGU containing goodwill is also tested whenever an indication of impairment arises. The annual test may be performed at any time during the annual period if performed at the same time every year.

## 7.2 Allocate Goodwill to the Right CGU

From the acquisition date, goodwill is allocated to each CGU or group of CGUs expected to benefit from the synergies of the combination. The allocation should be at the lowest level at which goodwill is monitored for internal management purposes and should not be larger than an operating segment before aggregation under Ind AS 108.

### THE ANNUAL GOODWILL IMPAIRMENT TEST

| 01 | 02 | 03 | 04 |
|---|---|---|---|
| **Allocate** | **Estimate** | **Compare** | **Recognise** |
| Assign goodwill to the CGU(s) expected to benefit from acquisition synergies. | Determine recoverable amount - higher of VIU and FVLCD. | Compare recoverable amount with carrying amount including goodwill. | Book shortfall as impairment; reduce goodwill first. |

| Red flag | Why it matters |
|---|---|
| Goodwill left at legal-entity level although business is monitored by divisions | May test at a level too high and mask underperformance |
| CGUs changed after performance deteriorates | Can appear outcome-driven unless operational change supports the new structure |
| Acquisition synergy sits in multiple units but all goodwill assigned to one | May misalign goodwill with where benefits are monitored |
| Unallocated goodwill remains at year-end without explanation | Triggers disclosure and governance questions |

## 7.3 Recoverable Amount: Higher of VIU and FVLCD

Recoverable amount is the higher of value in use and fair value less costs of disposal. If either measure clearly exceeds carrying amount, it may not be necessary to calculate the other. VIU is entity-specific within the constraints of Ind AS 36; FVLCD is a market-participant fair value measurement less direct disposal costs.

| Measure | Perspective | Key controls |
|---|---|---|
| Value in use (VIU) | Future cash flows expected from continuing use by the entity | Current-condition cash flows, approved budgets, pre-tax discount rate, no financing or income-tax cash flows |
| Fair value less costs of disposal (FVLCD) | Market-participant sale value less direct disposal costs | Ind AS 113 market assumptions, comparable evidence / DCF, direct disposal costs |

## 7.4 VIU Forecast Discipline

Ind AS 36 requires reasonable and supportable assumptions, giving greater weight to external evidence. The most recent budgets / forecasts approved by management generally cover a maximum period of five years unless a longer period can be justified. Cash flows beyond that period are extrapolated using a steady or declining growth rate unless an increasing rate is supportable; long-term growth should not exceed the relevant market or industry long-term average without justification.

**VIU CASH FLOW CONTROLS**

- Use the asset / CGU in its current condition.
- Exclude cash flows from a future restructuring to which the entity is not yet committed.
- Exclude future enhancements that improve asset performance beyond current condition.
- Exclude financing cash flows and income tax receipts / payments from VIU cash flows.
- Use a pre-tax discount rate consistent with the risk already reflected in cash flows.
- Reconcile the forecast to the board-approved plan and actual recent performance.

Source note: ICAI Educational Material on Ind AS 36, February 2026, summary pages covering annual testing, CGUs, VIU and recoverable amount.

## 7.4A When the Model Should Be Challenged

| Red flag | Review response |
|---|---|
| Budget is materially above current run-rate without operating bridge | Rebuild revenue from volume, price, capacity, retention or other observable drivers. |
| Terminal margin is higher than mature peers without structural reason | Explain competitive advantage or reduce the terminal assumption. |
| Discount rate is lower than comparable business risk despite weaker performance | Reconcile risk inputs and avoid using rate as a balancing figure. |
| Restructuring / expansion cash flows assume actions not yet committed | Remove them from VIU until the Ind AS 36 conditions are met. |
| Headroom depends on one assumption within a very narrow range | Quantify break-even sensitivity and elevate it to audit committee / board review. |

**KEY DECISION**

*A VIU model should explain the path from current performance to the forecast. If the first forecast year cannot be reconciled to current run-rate, order book, capacity, customer retention or a documented management action, the terminal value is not the first problem - the base year is.*

## 7.5 Impairment Loss Is Allocated to Goodwill First

When a CGU's carrying amount exceeds recoverable amount, the impairment loss is allocated first to reduce goodwill. Any remaining loss is allocated pro rata to other CGU assets, subject to the floor restrictions in Ind AS 36. This ordering is important because goodwill absorbs the first loss and has no separate recoverable amount.

## Practical Illustration - Simple Goodwill Write-Down

A CGU has carrying amount of Rs. 100 crore, including Rs. 20 crore of goodwill. Recoverable amount is Rs. 82 crore. The impairment loss is Rs. 18 crore. Because the loss is less than the goodwill carrying amount, the full Rs. 18 crore is allocated to goodwill and the goodwill balance falls to Rs. 2 crore.

| Rs. crore | Before | Impairment | After |
|---|---|---|---|
| Goodwill | 20 | 18 | 2 |
| Other CGU assets | 80 | - | 80 |

| Rs. crore | Before | Impairment | After |
|---|---|---|---|
| Total CGU | 100 | 18 | 82 |

## 7.6 The Reversal Asymmetry

Ind AS 36 permits reversal of certain impairment losses when estimates improve, subject to limits. It specifically prohibits reversal of an impairment loss recognised for goodwill. The accounting effect is therefore asymmetric: a weak year can permanently write down goodwill, while a later recovery does not restore it.

**OUR INSIGHT**

*Because a goodwill impairment cannot be reversed, management and auditors focus heavily on CGU definition, forecast evidence and discount rates. The answer should be conservative only to the extent supported by the standard; it should not be engineered upward or downward to target an earnings outcome.*

**PRACTITIONER CHECKLIST**

- Test goodwill annually even without indicators.
- Test earlier when indicators arise.
- Keep CGU allocation consistent with internal management monitoring.
- Use the higher of VIU and FVLCD as recoverable amount.
- Allocate impairment to goodwill first.
- Do not reverse a goodwill impairment later.
- Prepare disclosure sensitivity when reasonably possible changes could eliminate headroom.

## 7.7 Build an Annual Impairment Governance Calendar

The annual test is more reliable when the process begins before year-end. Management can freeze the CGU structure, reconcile goodwill allocation, compare prior forecasts with actual performance, obtain the latest board-approved budgets and identify external market indicators before the valuation model is finalised. This avoids using the impairment workbook as the first place where deteriorating performance is formally analysed.

| Stage | Key action | Review evidence |
|---|---|---|
| Before forecast approval | Confirm CGUs and where acquisition synergies are monitored | Management reporting structure, acquisition papers, prior-year allocation |
| Forecast approval | Reconcile budget to actual run-rate and operating drivers | Board-approved budget, MIS bridge, pipeline / capacity data |
| Valuation build | Prepare VIU and consider whether FVLCD may be higher | Model, market evidence, discount-rate support |
| Sensitivity review | Identify assumptions that eliminate headroom | Break-even growth / margin / discount-rate analysis |
| Final sign-off | Reconcile carrying amount, recoverable amount and disclosures | Financial statement note, model version, review memo |

## 7.8 Back-Test the Prior-Year Forecast

A recurring impairment model should show how the prior-year forecast performed against actual results. Persistent misses in revenue, margin, customer retention or capex weaken the credibility of a new forecast unless management can demonstrate why the drivers have changed. Back-testing is not a mechanical penalty; it is evidence about forecasting reliability and should influence the level of corroboration required for the current assumptions.

*PART IV - IMPAIRMENT*

# Chapter 8: Building the Impairment Model - VIU, FVLCD, Discount Rates & Sensitivity

Impairment models are valuation models with an accounting rulebook. The technical result depends as much on forecast architecture and CGU consistency as on the discount rate.

## 8.1 Start from the Carrying-Amount Perimeter

The CGU carrying amount being tested must be comparable with the cash flows used to measure recoverable amount. Assets and liabilities included in carrying amount should correspond to the operating cash flows in the valuation. Corporate assets that contribute to the CGU must be allocated on a reasonable and consistent basis where possible, or tested through the relevant larger group of CGUs.

## 8.2 The Forecast Should Explain the Recovery Story

A CGU that missed budget materially cannot simply reset to the original acquisition plan. The model should reconcile historical actuals to the new forecast, identify the operational actions behind margin or growth recovery, and compare those assumptions with external market evidence. The bigger the forecast inflection, the stronger the evidence required.

| Forecast issue | Weak assumption | Stronger evidence |
|---|---|---|
| Revenue recovery | Returns to 25% growth because market is large | Pipeline conversion, capacity, contracted customers and market data |
| Margin expansion | Margin reaches peer median by Year 3 | Headcount, pricing, procurement and operating leverage bridge |
| Terminal growth | Growth set to 6% to preserve headroom | Long-term industry / country evidence and mature-state rationale |
| Capex | Minimal capex despite growth | Capacity and maintenance capex linked to operational drivers |

**OUR INSIGHT**

*The impairment model should tell a business story that management already manages to. If the valuation forecast exists only in the impairment workbook and cannot be reconciled to the operating plan, the audit challenge usually starts before the discount rate is even discussed.*

## 8.3 Practical Illustration - Value in Use

Assume a CGU is expected to generate pre-tax operating cash flows of Rs. 20, 22, 24, 26 and 28 crore over Years 1-5. A 14% pre-tax discount rate and 4% terminal growth rate are used for this simplified illustration. The terminal value at the end of Year 5 is Rs. 291.2 crore: Rs. 28 x 1.04 / (14% - 4%).

| Rs. crore | Amount |
|---|---|
| PV of Years 1-5 cash flows | 80.6 |
| Terminal value at end of Year 5 | 291.2 |
| PV of terminal value | 151.2 |
| Value in use | 231.8 |

If FVLCD is Rs. 220 crore, recoverable amount is Rs. 231.8 crore because the higher measure is used. If the CGU carrying amount including goodwill is Rs. 240 crore, the impairment loss is Rs. 8.2 crore. The illustration uses rounded values; the underlying arithmetic is based on annual end-of-period discounting.

## 8.4 Discount Rate: Avoid the Plug

For VIU, the discount rate is pre-tax and should reflect current market assessments of the time value of money and asset-specific risks not already reflected in the cash flows. In practice, the analysis often begins from observable market return inputs and is reconciled to a pre-tax rate. Company-specific execution risk should not be counted both in probability-weighted cash flows and again as an unexplained discount-rate premium.

**DISCOUNT-RATE REVIEW QUESTIONS**

- Is the starting capital structure consistent with the CGU / market participants being considered?
- Are risk-free rate, equity risk premium and beta contemporaneous with the test date?
- Is country / size / specific risk already reflected in cash-flow scenarios?
- Does the rate reconcile sensibly with observable transaction and company returns?
- Can the pre-tax rate be reconciled to the model rather than merely labelled pre-tax?

## 8.5 Sensitivity Should Focus on Headroom Destruction

Sensitivity is most useful when it shows how much a key assumption can move before recoverable amount equals carrying amount. A two-way WACC / terminal-growth table is common, but it should be supplemented with operational sensitivities when growth, churn, pricing or margin are the real drivers.

| Scenario | VIU (Rs. crore) | Headroom vs Rs. 220 carrying amount |
|---|---|---|
| Base: 14% / 4% | 231.8 | 11.8 |
| Higher discount rate: 15% / 4% | 210.2 | (9.8) VIU shortfall |
| Lower terminal growth: 14% / 3% | 216.8 | (3.2) VIU shortfall |
| Operational downside: 10% lower annual cash flows | 208.7 | (11.3) VIU shortfall |

The sensitivity values are illustrative and rounded. Their purpose is to demonstrate the shape of risk: a CGU with thin headroom can move into impairment with a modest rate or growth change. That should influence disclosure, audit committee discussion and forecast governance.

## 8.6 FVLCD Is Not Automatically a Market Multiple

FVLCD can be measured using a market approach, DCF or other technique consistent with Ind AS 113. A single observed EV/EBITDA multiple may require adjustments for growth, margins, control, liabilities and the exact unit being sold. Direct disposal costs are deducted only if they are incremental costs directly attributable to disposal.

**PRO TIP**

*Archive the impairment model as a reproducible annual process: carrying amount bridge, board-approved forecast version, market data date, discount-rate build, sensitivity and prior-year reconciliation. A model that cannot be reproduced one year later is not audit-ready.*

**PRACTITIONER CHECKLIST**

- Reconcile CGU carrying amount to the same perimeter as valuation cash flows.
- Bridge actual performance to forecast recovery assumptions.
- Use board-approved forecasts and justify periods beyond five years.
- Build the discount rate from current observable inputs.
- Avoid double counting risks in both cash flows and rate.
- Calculate FVLCD where it may exceed VIU.
- Disclose sensitivity when reasonably possible changes can remove headroom.

## 8.7 Practical Illustration - The Higher-of Test Can Change the Conclusion

Assume a CGU has a carrying amount of Rs. 220 crore. The base VIU is Rs. 231.8 crore and FVLCD is Rs. 225 crore. Recoverable amount is therefore Rs. 231.8 crore and headroom is Rs. 11.8 crore. Now consider two downside cases.

| Scenario | VIU | FVLCD | Recoverable amount | Headroom / (impairment) |
|---|---|---|---|---|
| Base | 231.8 | 225.0 | 231.8 | 11.8 |
| Downside | 214.0 | 225.0 | 225.0 | 5.0 |
| Severe downside | 205.0 | 210.0 | 210.0 | (10.0) |

Rs. crore. In the downside case, VIU falls below carrying amount but no impairment arises because FVLCD remains higher and still exceeds carrying amount. In the severe downside, both measures are below carrying amount and the shortfall is Rs. 10 crore. This is why the impairment conclusion should not be drawn from VIU alone when a supportable FVLCD is available.

## 8.8 Headroom Should Be Explained as a Bridge

The most useful audit-committee presentation starts with carrying amount, shows base recoverable amount and then explains how headroom changes under the assumptions that actually matter. A thin-headroom CGU should be accompanied by break-even analysis - for example, the discount-rate increase, margin reduction or revenue shortfall that would eliminate headroom.

## 8.9 Keep Valuation Inputs and Accounting Perimeter Aligned

The cash flows used in VIU, the assets included in the CGU carrying amount and the discount-rate risks must describe the same economic perimeter. If working capital, leases, corporate assets or restructuring effects are treated inconsistently between numerator and denominator, the apparent precision of the model is misleading. A final cross-check should therefore reconcile the valuation model to the accounting carrying amount line by line.

## 8.10 Final Model Review Questions

| Review question | What the file should demonstrate |
|---|---|
| Does the carrying amount match the cash-flow perimeter? | A line-by-line bridge from financial statement balances to the CGU tested. |
| Can Year 1 of the forecast be reconciled to current run-rate? | Operational bridge for customers, price, capacity, margin and committed actions. |
| Are risks counted once? | Cash-flow scenarios and discount-rate adjustments are not both penalising the same uncertainty. |
| Which assumption removes headroom first? | Break-even sensitivity for the variable that genuinely drives the conclusion. |
| Would FVLCD change the answer? | A documented decision on whether market-participant evidence provides a higher recoverable amount. |

*PART V - SPECIAL SITUATIONS & LAW*

# Chapter 9: Partial Acquisitions, NCI, Step Acquisitions & Bargain Purchase

Goodwill becomes more technical when the acquirer buys less than 100%, already owns an interest, or obtains a bargain purchase. These cases require the formula to be applied to the full transaction perimeter rather than merely subtracting net assets from cash paid.

## 9.1 Non-Controlling Interest Can Change Goodwill

For present ownership interests that entitle holders to a proportionate share of the entity's net assets on liquidation, Ind AS 103 permits NCI to be measured either at fair value or at the proportionate share of the acquiree's identifiable net assets. The choice is made for each business combination. The fair-value option recognises full goodwill; the proportionate option recognises only the acquirer's share of goodwill.

## Practical Illustration - Full vs Partial Goodwill

Buyer acquires 80% of Target for Rs. 144 crore. The fair value of Target's identifiable net assets is Rs. 150 crore. Assume the fair value of the 20% NCI is Rs. 36 crore.

| Rs. crore | Fair-value NCI | Proportionate NCI |
|---|---|---|
| Consideration for 80% | 144 | 144 |
| NCI | 36 | 30 |
| Less: identifiable net assets | 150 | 150 |
| Goodwill | 30 | 24 |

Under fair-value NCI, total goodwill is Rs. 30 crore. Under proportionate NCI, recognised goodwill is Rs. 24 crore. The difference is not an arithmetic error; it reflects the NCI measurement choice permitted for qualifying present ownership interests.

Source note: ICAI Ind AS 103 materials describe NCI measurement at fair value or proportionate share for qualifying present ownership interests, with the choice made per business combination.

## 9.1A NCI Measurement - What Must Stay Consistent

**NCI CONTROL POINTS**

- Use the acquisition-date ownership percentage and the correct class rights, not a later cap table.
- For qualifying present ownership interests, document whether fair-value or proportionate-share NCI is selected for that business combination.
- Do not combine fair-value NCI with proportionate-share goodwill logic in the same calculation.
- Reconcile consideration, NCI and identifiable net assets on the same acquisition perimeter.
- If NCI has different economic rights, ensure the valuation input reflects those rights rather than simply applying the controlling share price pro rata.

## 9.2 Step Acquisitions

If control is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest is included in the goodwill formula. The previously held interest is remeasured in accordance with Ind AS 103, and resulting effects are accounted for as required by the standard. Using its historical carrying amount can misstate goodwill.

| Component | Why it matters in a step acquisition |
|---|---|
| New consideration | Acquisition-date fair value of what is transferred to obtain control |

| Component | Why it matters in a step acquisition |
|---|---|
| Previously held interest | Remeasured to acquisition-date fair value and included in goodwill formula |
| NCI | Measured under the applicable Ind AS 103 basis |
| Identifiable net assets | Measured at acquisition-date amounts required by Ind AS 103 |
| Goodwill / bargain purchase | Residual after all four components are aligned to acquisition date |

## 9.3 Contingent Consideration Can Move Goodwill on Day One

Earn-outs often depend on revenue, EBITDA, customer retention or milestones. The acquisition-date fair value is included in consideration. Future remeasurement depends on how the contingent consideration is classified. The key goodwill control is to avoid using the maximum contractual payout without probability and timing analysis unless that is genuinely its acquisition-date fair value.

**OUR INSIGHT**

*Complex goodwill often comes from transaction terms, not the valuation method. A put over NCI, earn-out, rollover equity or pre-existing relationship can change the consideration perimeter. The PPA team should read the full transaction documents, not only the headline purchase price.*

## 9.3A Read the Consideration Perimeter Before Valuing Goodwill

| Transaction term | Goodwill question |
|---|---|
| Earn-out / contingent payment | What is its acquisition-date fair value and is it consideration or remuneration for future service? |
| Rollover equity | What portion is part of consideration and how is it measured at acquisition date? |
| Pre-existing relationship | Does settlement of an existing contract need separate accounting from the combination? |
| Replacement employee awards | Which portion relates to pre-combination service and forms part of consideration? |
| Put / call over NCI | How do the contractual terms affect NCI and the acquisition accounting perimeter? |

**KEY DECISION**

*A headline enterprise value is not the goodwill formula. Acquisition accounting starts with the consideration and ownership components recognised by Ind AS 103. The transaction agreement should therefore be read before the PPA model is built.*

## 9.4 Bargain Purchase under Ind AS 103 Is an Exception, Not Negative Goodwill

If acquisition-date identifiable net assets exceed the aggregate of consideration, NCI and any previously held interest, the acquirer first reassesses the identification and measurement. In extremely rare circumstances, a genuine bargain purchase remains. Under the Ind AS 103 carve-out, where there is clear evidence of the underlying reasons for the bargain purchase, the gain is recognised in other comprehensive income on the acquisition date and accumulated in equity as capital reserve. In other cases, it is recognised directly in equity as capital reserve.

| Sequence | Control |
|---|---|
| 1. Reassess | Recheck asset / liability identification, consideration, NCI and previously held interest. |
| 2. Confirm reason | Assess whether clear evidence exists for the underlying bargain-purchase reason. |
| 3. Recognise correctly | Apply the Ind AS 103 OCI / capital reserve treatment; do not use IFRS 3 profit-or-loss treatment by default. |

## 9.5 Common-Control Combinations Are Different

Appendix C to Ind AS 103 requires common-control combinations to use pooling-of-interests accounting. In such combinations, the conventional acquisition-method goodwill / bargain-purchase model is not applied in the same way. A report should confirm whether the transaction is under common control before a PPA is commissioned.

**PRO TIP**

*If the model produces a bargain purchase, stop and reassess before celebrating a gain. Negative residuals often reveal an error in acquisition date, consideration, NCI, deferred tax or asset identification. Genuine bargain purchases are expected to be rare.*

**PRACTITIONER CHECKLIST**

- Identify whether control is obtained in one step or stages.
- Determine the appropriate NCI measurement basis.
- Fair value previously held interests where required.
- Read earn-out, put / call and rollover-equity terms.
- Reassess all components before recognising bargain purchase.
- Apply the Ind AS carve-out for bargain purchase, not IFRS profit-or-loss treatment.
- Check whether the transaction is a common-control combination.

Source note: ICAI Educational Material on Ind AS 103; ICAI overview materials on the Indian bargain-purchase carve-out and common-control Appendix C.

## 9.6 Partial Acquisitions Require a Full Transaction-Perimeter Reconciliation

When less than 100% of a business is acquired, the goodwill calculation should not be reduced to cash paid less a proportionate slice of book net assets. The model must align consideration, the permitted measurement basis for NCI and acquisition-date identifiable net assets. If a previously held interest exists, that component must also be dealt with consistently under the applicable business-combination requirements.

| Situation | Control question | Why it matters |
|---|---|---|
| 80% acquisition | How is NCI measured for this transaction? | The recognised goodwill amount can differ depending on the permitted NCI measurement basis. |
| Step acquisition | Is the previously held interest aligned to acquisition-date measurement? | Ignoring it leaves the goodwill bridge incomplete. |
| Earn-out / contingent payment | Is the payment acquisition consideration or linked to future service? | Misclassification can overstate goodwill and understate future remuneration expense. |
| Common-control transaction | Does Appendix C rather than the acquisition method apply? | A conventional acquisition-method goodwill model may be the wrong accounting framework. |

## 9.7 Reperform the Acquisition-Date Bridge Before Sign-Off

The final review should recompute the goodwill or bargain-purchase result from the signed consideration schedule, NCI basis, prior interest and fair-value net-asset register rather than relying on linked model tabs alone. This independent bridge is especially important in step acquisitions and partial acquisitions because a single omitted component can move the residual materially.

*PART V - SPECIAL SITUATIONS & LAW*

# Chapter 10: Tax, Companies Act & Regulatory Overlays in India - Current 2026 Position

Goodwill accounting and goodwill tax treatment are deliberately separated in this guide. The same transaction can recognise accounting goodwill while producing a very different tax basis, depreciation outcome or statutory valuation requirement.

## 10.1 Income-tax Act, 2025: Goodwill Is Not a Depreciable Intangible

Section 33 of the Income-tax Act, 2025 allows depreciation on specified tangible and intangible assets but expressly excludes goodwill of a business or profession from depreciable intangible assets. This continues the post-Finance Act 2021 position. A PPA goodwill balance therefore does not create a tax depreciation deduction merely because it is recognised in the financial statements.

| Tax point | Current 2026 principle |
|---|---|
| Depreciation | Section 33 excludes goodwill of a business or profession from depreciable intangible assets. |
| Purchased goodwill cost | Section 90 generally uses purchase price, subject to the statutory rules and reduction for certain pre-April-2020 depreciation claimed under the 1961 Act. |
| Self-generated goodwill cost | Section 90 generally takes cost of acquisition as nil in cases not acquired by purchase / specified predecessor purchase. |
| Accounting PPA | Does not itself determine tax basis or tax deductibility; transaction structure must be reviewed separately. |

Source note: Income-tax Act, 2025 (as amended by Finance Act, 2026), sections 33 and 90; Income Tax Department 2026 Capital Gains guidance.

## 10.1A Transaction Structure Matters More Than the Accounting Label

A share acquisition, slump sale, itemised asset transfer and partnership settlement can produce very different tax consequences even when the commercial enterprise value is similar. The accounting PPA should therefore contain an asset-by-asset tax-basis schedule rather than assuming that fair-value recognition creates a tax deduction.

| Transaction lens | Practical tax question |
|---|---|
| Share acquisition | Does the buyer obtain any tax basis in the target's underlying brand, customer assets or goodwill merely because they are recognised in consolidated PPA? |
| Business / asset transfer | Which assets legally transfer, what tax basis arises and which statutory cost / depreciation rules apply? |
| Later sale of goodwill | What is the statutory cost of acquisition under section 90, considering how the goodwill arose and any historical depreciation adjustment? |
| Internal reputation / self-generated goodwill | Accounting recognition is prohibited under Ind AS 38 and tax cost rules may treat self-generated cost differently from purchased goodwill. |

**OUR INSIGHT**

*The safest tax workflow is to run a parallel tax-basis bridge next to the accounting PPA. That bridge prevents a fair-value step-up from being mistaken for deductible tax basis and makes deferred-tax assumptions easier to audit.*

## 10.2 Historical Case - Smifs Securities and the 2021 Legislative Change

The Supreme Court decision in CIT v. Smifs Securities Ltd. (2012) held, under the then-existing Income-tax Act, 1961 framework, that goodwill could fall within depreciable business or commercial rights. The Finance Bill 2021 explanatory memorandum expressly discussed that decision and the law was subsequently amended so goodwill would no longer be treated as a depreciable asset. The case remains important historically, but it should not be cited as though the old depreciation benefit continues in 2026.

**KEY DECISION**

*Historical judicial treatment and current tax law are not the same thing. For current transactions, start with the Income-tax Act, 2025 and current rules; use Smifs Securities only to explain the legislative history.*

## 10.3 Companies Act and Registered Valuer Regime

Section 247 of the Companies Act and the Companies (Registered Valuers and Valuation) Rules apply where a valuation is required under the Act. The rules require the registered valuer to comply with notified valuation standards; until such standards are notified or modified by the Central Government, Rule 8 permits internationally accepted valuation standards or standards adopted by a registered valuer organisation. The 1 June 2026 amendment changed RVO requirements, not the core goodwill methodology.

| Report question | Practical control |
|---|---|
| Is valuation required under the Companies Act / Rules? | Identify the exact section / rule before assuming a registered-valuer report is mandatory. |
| Which asset / right is being valued? | Confirm the relevant asset class and whether other expert inputs are needed. |
| What must the report contain? | Rule 8 requires purpose, valuation date, information sources, procedures, standards, factors, conclusion and limitations, among other matters. |
| Can another expert provide an input? | Yes, but the registered valuer retains responsibility for the resultant valuation and must disclose the other valuer input. |

## 10.3A What a Registered-Valuer Goodwill File Should Show

**RULE 8 REPORT DISCIPLINE**

- Purpose of valuation and identity of the appointing authority.
- Identity of the valuer, relevant asset class, conflicts and interest disclosures.
- Appointment date, valuation date and report date clearly distinguished.
- Nature and sources of information, investigations and procedures performed.
- Valuation standards / approach applied, major factors considered and rationale for methodology.
- Restrictions on use, material caveats and limitations stated clearly without obscuring the conclusion.
- Use of another expert or valuer disclosed while responsibility for the resultant valuation remains clear.

For goodwill assignments, this report discipline is especially important because the conclusion may depend on business valuation, intangible-asset work and legal / tax inputs. The report should make the boundaries between those workstreams visible.

## 10.4 Accounting Value, Tax Basis and Statutory Value Can Diverge

A buyer may recognise an accounting brand and goodwill in a share acquisition while obtaining no corresponding tax basis in those underlying assets. An asset or business transfer may produce different tax consequences. A partnership deed may prescribe a goodwill settlement formula that is unrelated to Ind AS fair value. The report should therefore identify the purpose-specific number rather than forcing convergence.

| Purpose | Measurement focus | Do not assume |
|---|---|---|
| Ind AS 103 PPA | Acquisition-date identifiable net assets and residual goodwill | Tax depreciation or statutory transfer value follows automatically |
| Ind AS 36 impairment | Recoverable amount of CGU containing goodwill | Impairment equals tax deduction or sale value |
| Income tax | Statutory depreciation / cost / transfer provisions | Accounting goodwill determines tax treatment |

| Purpose | Measurement focus | Do not assume |
|---|---|---|
| Companies Act / legal process | Exact statutory or contractual requirement | Every goodwill exercise requires same professional / method |

## 10.5 IBC and Distressed Context

In distress, the going-concern assumptions supporting goodwill can weaken quickly. If a goodwill-related valuation is undertaken within an IBC process, the applicable insolvency valuation framework, standards and registered-valuer requirements must be mapped separately. IBBI issued a circular on 1 April 2026 concerning valuation standards for IBC valuations; that development should not be treated as a blanket standard mandate for every Companies Act goodwill assignment.

**PRO TIP**

*Keep a one-page regulatory map in the file: purpose, statute / standard, valuation date, unit of account, signatory, tax overlay and intended use. This prevents a PPA number from being copied into a tax or legal document without checking whether it answers the same question.*

**PRACTITIONER CHECKLIST**

- Confirm current Income-tax Act treatment before assuming goodwill depreciation.
- Separate purchased goodwill cost from self-generated goodwill cost.
- Use Smifs Securities only as historical context, not current depreciation law.
- Identify the exact Companies Act trigger before commissioning a statutory report.
- Follow Rule 8 report requirements where a registered valuer is engaged.
- Map IBC standards only when the valuation is actually under the insolvency framework.
- Document accounting, tax and legal values separately.

## 10.6 Keep Purpose-Specific Values in Separate Lanes

The same transaction may generate several numbers that are all valid for their own purposes. The risk arises when a reader assumes they are interchangeable. A valuation report should therefore identify which value is being concluded, which framework governs it and which other values may still require separate analysis.

| Purpose | Typical measurement focus | Do not automatically substitute |
|---|---|---|
| Acquisition accounting | Consideration and acquisition-date identifiable net assets | Commercial stand-alone goodwill or tax basis |
| Tax analysis | Current tax cost / basis and applicable transfer rules | Accounting goodwill recognised in consolidated financial statements |
| Companies Act / statutory process | The specific valuation requirement in the governing provision | A PPA prepared solely for financial reporting |
| Partner / shareholder settlement | Transferable earnings and contractual / commercial rights | An acquisition-accounting residual |
| Impairment | CGU recoverable amount compared with carrying amount | Original transaction price or original goodwill amount |

## 10.7 The Report Should State Its Regulatory Perimeter Explicitly

Where a goodwill-related analysis may be relied on in more than one legal or accounting context, the report should state what it does and does not conclude. That includes the valuation date, subject interest, basis of value, governing framework, professional capacity and any separate tax or accounting workstream. Clear perimeter language is more useful than a generic disclaimer because it tells the reader exactly which decision the number is designed to support.

*PART VI - PRACTICAL CASES & DEFENSIBILITY*

# Chapter 11: Practical Illustrations - PPA, Super Profits, Deferred Tax & Impairment

This chapter consolidates the mechanics through four compact cases. Each case is illustrative, arithmetic-checked and designed to show what changes the result rather than merely present a formula.

## 11.1 Case A - PPA Goodwill with Deferred Tax

Buyer acquires 100% of a consumer business for Rs. 520 crore. Tangible net assets at fair value are Rs. 240 crore. Brand, customer relationships and technology are valued at Rs. 110 crore, Rs. 70 crore and Rs. 30 crore respectively. Assume nil tax bases for those fair-value step-ups and a 25% illustrative tax rate.

| Step | Rs. crore |
|---|---|
| Tangible net assets | 240.0 |
| Identifiable intangibles | 210.0 |
| Net identifiable assets before DTL | 450.0 |
| DTL on Rs. 210 crore at 25% | 52.5 |
| Net identifiable assets after DTL | 397.5 |
| Consideration | 520.0 |
| Goodwill | 122.5 |

Decision point: the DTL increases goodwill by Rs. 52.5 crore compared with a model that recognises the intangibles but omits their illustrative tax effect. The actual tax base must be determined from the transaction facts; the 25% rate here is not a market convention.

## 11.2 Case B - Partial Acquisition and NCI

Buyer pays Rs. 144 crore for 80%. Identifiable net assets are Rs. 150 crore. Fair value of 20% NCI is Rs. 36 crore. Fair-value NCI gives goodwill of Rs. 30 crore; proportionate NCI of Rs. 30 crore gives goodwill of Rs. 24 crore. The measurement choice changes recognised goodwill even though the operating business is identical.

## 11.3 Case C - Transferable Goodwill Using Super Profits

A partner-exit agreement calls for four years' purchase of super profits. Normalised post-tax maintainable profit is Rs. 18 crore, identifiable capital employed is Rs. 90 crore and normal post-tax return is 12%.

| Calculation | Amount |
|---|---|
| Normal return: Rs. 90 crore x 12% | Rs. 10.8 crore |
| Super profit: Rs. 18.0 - Rs. 10.8 | Rs. 7.2 crore |
| Goodwill: Rs. 7.2 x 4 years | Rs. 28.8 crore |

Decision point: before using Rs. 18 crore, the valuer should test whether customer relationships and earnings transfer after the departing partner exits. If Rs. 3 crore of profit is personal to that partner and not transferable, maintainable enterprise profit may be only Rs. 15 crore, reducing super profit to Rs. 4.2 crore and goodwill to Rs. 16.8 crore under the same formula.

## 11.4 Case D - Goodwill Impairment

A CGU carries Rs. 20 crore of goodwill and Rs. 80 crore of other net assets. Recoverable amount is Rs. 82 crore. The impairment is Rs. 18 crore and is allocated entirely to goodwill, reducing goodwill to Rs. 2 crore. No portion is allocated to other assets because the loss is smaller than the goodwill balance.

| Rs. crore | Carrying amount | Loss | Post-test |
|---|---|---|---|
| Goodwill | 20 | 18 | 2 |
| Other assets | 80 | - | 80 |
| CGU total | 100 | 18 | 82 |

**OUR INSIGHT**

*These four cases illustrate why goodwill is not a single method. Case A is an Ind AS 103 residual, Case C is a direct commercial formula, and Case D is an Ind AS 36 recoverability test. Using the same label does not make the measurement objective the same.*

## 11.5 Case E - VIU Sensitivity with Thin Headroom

Using the Chapter 8 VIU example, base VIU is approximately Rs. 231.8 crore. If the CGU carrying amount is Rs. 220 crore, headroom is only Rs. 11.8 crore. A 1 percentage point increase in discount rate or 1 percentage point reduction in terminal growth can move VIU below carrying amount. This sensitivity isolates VIU; the final impairment conclusion must still use the higher of VIU and FVLCD.

| Scenario | VIU | Headroom / (shortfall) |
|---|---|---|
| 14% discount / 4% terminal growth | 231.8 | 11.8 |
| 15% discount / 4% terminal growth | 210.2 | (9.8) |
| 14% discount / 3% terminal growth | 216.8 | (3.2) |

## 11.6 Case Review - What a Senior Reviewer Should Recalculate

**RECALCULATION CONTROLS**

- Check every total in the purchase-price allocation bridge.
- Recompute DTL from the stated tax rate and fair-value step-up.
- Recompute NCI and goodwill under each permitted measurement basis.
- Tie maintainable profit adjustments to source financials.
- Recompute normal return and years-purchase goodwill.
- Recompute terminal value and present values in the impairment model.
- Check the direction of every residual: higher liabilities should reduce net assets and usually increase PPA goodwill.
- Check that impairment is allocated to goodwill first and not reversed later.

**PRO TIP**

*For every valuation table, include a one-line directional sanity check. Examples: recognising more identifiable net assets should generally reduce pre-tax goodwill; adding a DTL should reduce net identifiable assets and increase goodwill; raising the discount rate should reduce VIU. Directional checks catch spreadsheet errors that formula audits sometimes miss.*

**PRACTITIONER CHECKLIST**

- Label every example as PPA, commercial goodwill or impairment.
- Use consistent pre-tax / post-tax earnings and rates.
- State whether tax rates are illustrative or entity-specific.
- Recompute all residuals independently.
- Document the decision learning, not just the arithmetic.
- Do not present an illustrative formula as a legal safe harbour.

## 11.6 Case F - Partner Retirement Where Personal Goodwill Must Be Removed

An illustrative professional practice reports maintainable post-tax profit of Rs. 10.0 crore after normal operating adjustments. Analysis of client origination and delivery shows that Rs. 2.0 crore of annual profit is attributable to relationships that are expected to leave with the retiring partner and are not transferable to the continuing practice. Transferable maintainable profit is therefore Rs. 8.0 crore.

Assume the fair value of operating capital employed is Rs. 40.0 crore and an appropriate post-tax normal return for this illustration is 12%. Normal profit is therefore Rs. 4.8 crore. Transferable super profit is Rs. 3.2 crore. If the governing commercial approach uses three years purchase, illustrative enterprise goodwill is Rs. 9.6 crore.

| Rs. crore | Amount |
|---|---|
| Maintainable post-tax profit | 10.0 |
| Less: non-transferable partner-dependent profit | 2.0 |
| Transferable maintainable profit | 8.0 |
| Normal return on Rs. 40.0 crore at 12% | 4.8 |
| Transferable super profit | 3.2 |
| Years purchase | 3.0x |
| Illustrative transferable goodwill | 9.6 |

Decision learning: applying the same three-year factor to the full Rs. 10.0 crore profit would have valued personal economics as though they transferred with the business. The critical step is the evidence-based earnings adjustment, not the multiplication at the end. This is a commercial illustration only and is not presented as a statutory formula or an Ind AS 103 goodwill calculation.

## 11.7 What the Practical Cases Are Designed to Show

| Case | Primary lesson |
|---|---|
| A - PPA residual | Goodwill is the residual after the complete acquisition-date bridge, not a target percentage. |
| B - Deferred tax | A fair-value step-up can create a deferred-tax liability that changes net identifiable assets and residual goodwill. |
| C - Super profits | The formula is simple; maintainable earnings and the normal-return assumption drive the conclusion. |
| D - Impairment allocation | The impairment loss is allocated to goodwill first within the CGU rules. |
| E - Thin headroom | The higher-of VIU / FVLCD test and break-even sensitivity matter more than a single base-case value. |
| F - Partner retirement | Personal earnings must be removed before transferable enterprise goodwill is capitalised. |

*PART VI - PRACTICAL CASES & DEFENSIBILITY*

# Chapter 12: Public Cases, Review Challenges & the Practitioner Master Checklist

Public filings and professional review material show how goodwill works outside the textbook: it can be substantial even after large intangible values are identified, and weak impairment governance can become a financial-reporting finding.

## 12.1 Public PPA Case - Tata Consumer / Capital Foods

Tata Consumer Products disclosed that it acquired 75% of Capital Foods Private Limited on 1 February 2024. In its published business-combination note, it reported fair value of consideration of Rs. 5,175.05 crore including fair value of NCI, identified net assets at fair value of Rs. 2,948.83 crore and goodwill of Rs. 2,226.22 crore.

| Published PPA item | Rs. crore |
|---|---|
| Brands | 3,541.60 |
| Property, plant & equipment and ROU asset | 188.72 |
| Distribution network | 63.40 |
| Total identified net assets at fair value | 2,948.83 |
| Goodwill | 2,226.22 |
| Fair value of consideration incl. NCI | 5,175.05 |

The arithmetic reconciles exactly: Rs. 5,175.05 crore less Rs. 2,948.83 crore equals Rs. 2,226.22 crore goodwill. The company stated that goodwill reflected growth opportunities and synergy benefits that were not separately identifiable. The note also disclosed a material deferred-tax balance. No tax rate should be inferred from that balance without analysing the full tax-basis schedule.

Why this case matters: a PPA can recognise a very large brand value and still produce substantial goodwill. Goodwill is not the alternative to brand valuation; it is what remains after all identifiable net assets and relevant transaction components are dealt with.

Source note: Tata Consumer Products Limited, Notes to Consolidated Financial Statements for year ended 31 March 2024, Note 40 - Acquisition of Capital Foods Private Limited.

## 12.2 Public Legal History - Smifs Securities

The Finance Bill 2021 explanatory memorandum records that the Supreme Court in Smifs Securities Ltd. (2012) held goodwill to be a depreciable asset under the then section 32 framework. The same memorandum explained the policy decision to change that treatment. Current Income-tax Act, 2025 section 33 now expressly excludes goodwill of a business or profession from depreciable intangible assets.

| Period | Position to remember |
|---|---|
| Pre-2021 judicial position | Smifs Securities supported depreciation on acquired goodwill under the then law. |
| Finance Act 2021 change | Legislature amended the law to remove goodwill depreciation. |
| 2026 current position | Income-tax Act, 2025 section 33 expressly excludes goodwill from depreciable intangibles. |

## 12.3 Public Financial-Reporting Review - ICAI FRRB

ICAI Financial Reporting Review Board material has highlighted a case in which substantial goodwill was presented without the expected goodwill impairment accounting policy / disclosure and was also presented incorrectly within property, plant and equipment rather than as a separate goodwill line item. The review referenced Ind AS 38's prohibition on internally generated goodwill and Ind AS 36's annual impairment requirement.

**OUR INSIGHT**

*Public review material shows that goodwill risk is not confined to the valuation date. Classification, CGU allocation, annual testing, accounting policy and disclosure can all be challenged later. The best acquisition-date file therefore creates a clean baseline for every future impairment test.*

Source note: ICAI Financial Reporting Review Board, Study on Compliance of Financial Reporting Requirements - Ind AS framework; observations on goodwill presentation and impairment.

## 12.3A What These Public Cases Prove - and What They Do Not

| Public evidence | Useful learning | Do not infer |
|---|---|---|
| Tata Consumer / Capital Foods PPA | Large identifiable brand value and large residual goodwill can coexist when the bridge reconciles. | That the same asset mix or goodwill percentage is appropriate for another acquisition. |
| Smifs Securities history | Judicial treatment under the old law explains why the 2021 amendment mattered. | That goodwill depreciation remains available under current 2026 law. |
| ICAI FRRB observation | Presentation, impairment policy and annual testing are review-sensitive after acquisition. | That one anonymous review finding creates a universal numerical threshold for goodwill. |

**PUBLIC-CASE USE RULES**

- Use primary company filings for transaction facts and arithmetic.
- Use court / legislative material for the law applicable to the period actually decided.
- State later amendments whenever they change the present conclusion.
- Do not convert one company's PPA allocation into a market benchmark or safe-harbour percentage.
- Do not describe an anonymous regulatory / professional review observation as a named enforcement case.

## 12.4 The Practitioner Master Checklist

**BEFORE THE VALUATION**

- Define purpose, valuation date and intended users.
- Confirm accounting / tax / legal framework and professional eligibility.
- Map acquisition perimeter, consideration, NCI and ownership terms.
- Collect financials, forecasts, asset schedules, tax bases and transaction documents.
- Identify brand, customer, technology, contracts and other intangibles before goodwill.
- Test key-person dependency and transferability for stand-alone goodwill.

**DURING THE VALUATION**

- Use a method that answers the stated purpose.
- Keep enterprise value, equity value and net assets on consistent units.
- Normalise earnings and owner compensation.
- Model contributory charges and avoid double counting.
- Reconcile deferred tax and its direction on goodwill.
- Run sensitivity on the assumptions that drive the residual.
- Recompute every table and directional sanity check.

**BEFORE THE REPORT IS SIGNED**

- Reconcile the goodwill bridge to the transaction / balance sheet.
- Explain what the residual goodwill economically represents.
- State which intangibles were included or excluded and why.
- Confirm impairment CGU allocation where PPA goodwill is created.
- Keep accounting and tax conclusions explicitly separate.
- Include information reliance, limitations and source dates without disclaiming professional responsibility.
- Archive source data, model version, review notes and final assumptions.

## 12.5 Primary Source Register - Reviewed to 26 August 2026


1. ICAI Compendium of Indian Accounting Standards 2025-26: Ind AS 103, Ind AS 36, Ind AS 38, Ind AS 12 and Ind AS 113.
2. ICAI Educational Material on Ind AS 36, Impairment of Assets, February 2026.
3. ICAI Educational Material on Ind AS 103, Business Combinations, and ICAI Valuation Standards Board PPA materials.
4. Companies (Registered Valuers and Valuation) Rules, 2017 and Companies (Registered Valuers and Valuation) Amendment Rules, 2026.
5. Income-tax Act, 2025 as amended by Finance Act, 2026 - sections 33 and 90; Income Tax Department Capital Gains guidance, 2026.
6. Finance Bill 2021 Explanatory Memorandum - legislative change relating to goodwill depreciation and Smifs Securities.
7. Tata Consumer Products Limited, FY2023-24 business-combination note for Capital Foods.
8. ICAI FRRB studies / observations on goodwill presentation and impairment.


## 12.6 Reviewer Red-Flag Matrix

| Red flag | Why a reviewer will challenge it | What a defensible file should show |
|---|---|---|
| Goodwill is a target percentage of deal value | Suggests asset identification was reverse-engineered | Independent identification of intangibles followed by a closed residual bridge |
| Brand and customer assets are omitted without analysis | Can overstate goodwill and distort future amortisation | Recognition assessment, method selection and exclusion rationale |
| Founder-dependent earnings are fully capitalised | May value personal goodwill as enterprise goodwill | Transferability map, retention evidence and adjusted maintainable earnings |
| Impairment forecast resets after repeated misses | Weakens forecast credibility | Prior-year back-test and driver-based recovery bridge |
| Accounting goodwill is reused for tax / dispute purposes | Different frameworks answer different questions | Purpose-specific conclusion and explicit perimeter statement |

## 12.7 Board and CFO Sign-Off Questions

Before the report is approved, the decision-makers should be able to answer five questions without reopening the model: What exactly does the goodwill number represent? Which identifiable assets were considered first? Which assumptions create the greatest movement in the residual or impairment headroom? What portion of earnings or synergy is genuinely transferable? And which accounting, tax or legal conclusions still require a separate workstream? If those answers are clear, the report is much more likely to remain understandable when it is reviewed months or years later.

## 12.8 Final Review Sequence

| Sequence | Final control |
|---|---|
| 1. Reperform | Recalculate the key bridges, residuals and sensitivity tables independently from source data. |
| 2. Reconcile | Tie consideration, net assets, tax effects, CGU carrying amounts and report tables to the signed / approved source documents. |
| 3. Challenge | Ask what assumption a reasonable reviewer is most likely to dispute and show the evidence supporting it. |
| 4. Separate | Keep accounting, tax, statutory and commercial conclusions clearly identified rather than forcing one number across purposes. |
| 5. Archive | Retain the final source register, model version, management inputs and review changes used for the signed conclusion. |

*CLOSING*

# Conclusion - The Board-Level Goodwill Valuation Framework

Goodwill is easiest to defend when the analysis is built as a sequence rather than as a plug. The board, CFO and reviewer should be able to move from transaction purpose to business economics, identifiable assets, tax effects, residual goodwill and future impairment without changing definitions along the way.

## THE SIX-STEP GOODWILL CONTROL FRAMEWORK

| Step | Board-level question | Required discipline |
|---|---|---|
| 1. Map the purpose | Is this PPA, impairment, transfer, dispute, tax or statutory valuation? | Freeze framework, date and intended use. |
| 2. Value the right unit | Are we valuing the enterprise, equity, a specific intangible or goodwill? | Do not mix units of account. |
| 3. Identify what is separable | Which brands, customer relationships, technology and contracts are identifiable? | Value separately before residual goodwill. |
| 4. Reconcile tax and liabilities | Do fair-value step-ups create deferred tax or other liabilities? | Close the net-asset bridge. |
| 5. Explain the residual | What synergies, workforce, going-concern or strategic benefits remain? | Describe economics without pretending they are separately observable. |
| 6. Prepare for the next test | Where will goodwill be allocated and how will impairment be monitored? | Create the CGU and disclosure baseline at acquisition date. |

**FINAL PRINCIPLE**

*A defensible goodwill conclusion is not the largest number the model can support or the smallest number accounting can tolerate. It is the number or residual produced by the correct purpose, complete asset identification, internally consistent assumptions and a transparent reconciliation.*

## Ten Questions for the CFO / Board

**QUESTIONS TO ASK BEFORE YOU APPROVE**

- What exact purpose does this goodwill number serve?
- What identifiable intangibles were tested and which were excluded?
- How does consideration reconcile to the PPA and completion statement?
- What deferred-tax effects changed net identifiable assets?
- How much of the residual is expected synergy vs existing business capability?
- Is any material earning capacity dependent on one individual?
- Which CGU(s) will carry the goodwill after acquisition?
- How much impairment headroom exists under current forecasts?
- Which assumptions would eliminate that headroom?
- Is anyone using this accounting number for tax or legal purposes without a separate analysis?

If these questions can be answered from the report and supporting model without reopening the entire file, the goodwill analysis is doing its job.

*ONE LAST THING BEFORE YOU CLOSE THIS GUIDE*

# If the number matters, make sure it can be defended.

Goodwill is rarely challenged because someone forgot a valuation formula. It is challenged because identifiable intangibles were missed, the acquisition-date bridge did not reconcile, forecast recovery was unsupported, personal goodwill was mixed with enterprise goodwill, or an accounting residual was used for the wrong legal or tax purpose. Those are preventable problems.

You do not need to know the valuation method before calling us.
Send us the transaction structure, financials, purchase consideration, forecast and review context. We will map whether the requirement is PPA, stand-alone goodwill, impairment or a wider business / intangible valuation - and which accounting, tax or statutory workstreams need to be coordinated.

## CALL US WHEN YOU ARE DEALING WITH

- An acquisition or PPA with material goodwill and intangible assets.
- A brand, customer relationship or technology value that must be separated from goodwill.
- An annual Ind AS 36 goodwill impairment test or auditor challenge.
- A business transfer or allocation of enterprise value.
- Partner retirement, shareholder separation or family-business settlement.
- A dispute over transferable versus personal goodwill.
- A tax question where accounting goodwill and tax basis diverge.
- A Companies Act or other statutory valuation requiring purpose-specific professional support.

| EXPERIENCE | CLIENT ENGAGEMENTS | CREDENTIALS | BIG-4 FOUNDATION |
|---|---|---|---|
| 15+ Years | 500+ | CA \| CS \| IBBI RV | 9 Years at EY |

## WHAT HAPPENS IN THE FIRST CONVERSATION

**01**

**Map the purpose**

We identify what the number will be used for and which accounting, transaction or regulatory framework controls.

**02**

**Map the evidence**

We identify consideration, assets, customer / IP data, forecasts, tax bases and contractual information required.

**03**

**Map the deliverables**

You get the method, document list, timeline, dependencies and review-ready output plan.

## BOOK A 15-MINUTE INTRODUCTORY CALL

A short conversation before the report is commissioned can prevent the wrong purpose, method, valuation date or deliverable being built into the assignment.

| PHONE | EMAIL | WEBSITE |
|---|---|---|
| +91 9879557558 | sagarrvshah@elitevaluation.in | www.EliteValuation.in |

*The best time to discover that goodwill cannot be reconciled is before the financial statements, transaction or dispute file depends on it.*

**Elite Valuation | Independent Valuation and Boutique Advisory | Pan-India**