

ASSESSMENT OF THE ECONOMIC ACTIVITY OF THE ENTITY THROUGH THE PRISM OF GOODWILL AND BADWILL TOOLS

Iulita BIRCA

Stefan cel Mare University of Suceava, 720229, Romania
iulitabirca2021@gmail.com

Abstract

Estimating the value of an economic entity is one of the most difficult financial problems. In this context, knowing the overall value of an entity is useful for buyers, investors, and owners. The most relevant indicator in this case is the value of Goodwill (which determines the sound management and performance of the entity) and Badwill (the indicator of the entity's unfavorable situation, respectively). The purpose of the present research consists in the fundamental analysis of the theoretical aspects with reference to the evaluation of the economic entity in terms of the Goodwill and Badwill instruments. The objectives of the research include: identifying the notions of Goodwill (positive and negative), presented by the scientists in the field and the specialized literature; defining the concepts and aspects of the Goodwill and Badwill instruments, identifying the methods of evaluating the economic entity with the help of the Goodwill tool, as well as establishing its place and role in the economic activity of the entity. The results obtained can serve as recommendations for managers in economic entities to understand and accept the need to estimate the overall value of the economic entity not only in the case of purchase-sale, but also to take remedial action in situations of uncertainty and risk.

Keywords: badwill; economic entity; goodwill; valuation; overall value;

JEL Classification: G32, P19, P40, P42, P49, F19, F60.

I. INTRODUCTION

Currently, the economic entity considers itself as a foundation of the economy and an essential benchmark for the sustainable development of the entire society. Contemporary life and social activity are directly related to the economic situation of the entities. If, let's look from a historical point of view, then a large part of the population relied on their own work in the personal household and on the accumulated fruits, but now people have become more comfortable, they have reoriented themselves towards the marketing networks, and these, in turn, are in a direct relation with the economic entities and their economic situation.

Hence, there is an interest in studying the state and value of the economic entities that reside in the need to know the possibilities of amplification, on the one hand of the scope of activity and, on the other hand, of identifying the possible ways of bypassing/avoiding risks and impediments, but also in the promptness in overcoming the critical periods.

The evaluation of an economic entity, in general, involves the estimation of its global value, which proves its estimation through certain instruments, such as: research, appraisals, reports, etc., being a rather complex process, in our view. Of course, one and the same economic entity can present different values in different periods, which allows the manager to compare successes and failures in order to remedy the shortcomings and focus on achieving the much better objectives. Therefore, estimating the overall value of the economic entity is essential, and the owner of the entity, knowing the fair value of Goodwill as part of the overall value, learns the most truthful information about its entity's performance in the valuation report. Through this study we intend to facilitate the understanding of what Goodwill is (positive and negative) and the need to identify the best ways to evaluate the economic entity through the prism of Goodwill, and in the case of Badwill – to take urgent remedial measures in situations of uncertainty and risk.

The truth is, in our view, that the evaluation of the economic entity is of increased interest to both internal and external users of these, offering solutions and answers related to their position in relation to the evaluated entity, but also based on the purpose and objectives pursued. All these, of course, will influence the evaluation process, the estimated value and the price of the transactions and depending on the *beneficiaries* of the valuation activity. The latter can take forms such as: capital investors, shareholders, banks, funds and financial institutions, insurance companies, suppliers, creditors, employees, individuals, etc.

At the same time, this situation can also be argued by the fact that "the enterprise is itself a changing entity, obliged to permanently improve and adapt the level, structure and quality of the transformations it produces on some input elements in order to meet the needs of the market, personnel, administration and to earn itself in terms

of profit, image, market share, extension capacity, resistance to competition, etc". (Bircă, 2011, p. 81).

Currently, knowing the value of Goodwill is an aspect that provokes a special interest, but also enough debates in the process of identifying the value of the economic entity, a fact also argued by the vision of researchers Cosmulese, Grosu, and Hlaciuc "there are entities in the market that have the same factors of production, but are valued and taken into account at different values due to the influence of the intangible values" of Goodwill (Cosmulese, 2017).

For these reasons, we set out to research the assessment of the economic entity through the prism of Goodwill and Badwill instruments. At the same time, in our vision, the revision of the specialized literature is imminent, which we will describe further in order to deepen and synthesize the existing information on the approached topic. In the process of evaluating the economic entity, in most cases, we will address the notion of "Goodwill", which is the subject of negotiations, directly related to the price at which it is agreed the partial or total award of the sale of a business, in our case of an economic entity, which implies a beneficial collaboration between both parties, both seller (owner) and buyer (customer). Otherwise, we will use the term "Badwill".

II. LITERATURE REVIEW

Scientific research offers the definition of the concept of Goodwill (positive and negative) and the multitude of aspects related to it, which we will examine further. It is worth mentioning that the interest in the studied theme, which refers to the evaluation of the value of the economic entity through the prism of Goodwill and Badwill instruments, has been the concern of many foreign and domestic researchers, including: Gynther R., Curtis M.E., De Minco L., Amodeo D., Bianchi M., Boisiso O., (Lawrence Robert Dicksee.), Tillyard F., Zanda G., Itami H., Nelson R., Lonergan W., Smith G., Parr R., Amaduzzi A., Hlaciuc E., Grosu V., Socoliuc M., Bucur V., Cosmulese L., Mateş D., David D., Anisie L., Anghel G., Cojuhari I., Tîrlea M.-R., Cobzari L., Ganea V., Mihăilă S., Buzu O., Băncilă N. and others. Researchers in the field approached this topic through definitions, visions and proposals for improvement at the time.

In the literature, the notion of "Goodwill" is defined quite arguably, along the way we have attested that most of the debates include the identification of methods for estimating the value of Goodwill in the case of an economic entity. Thus, De Minco L. and Amodeo D. define Goodwill as: "the ability of the enterprise to generate benefits to a greater extent than those considered normal, the so-called approach to excess profit" (De Minco, 1942).

In 1994, researchers Smith G. and Parr R. asserted that Goodwill was "the most intangible of the intangibles" (Smith, 1994). Researchers Anghel G. and Cojuhari I. define Goodwill as "part of the overall value of an enterprise that has as its source the good management and exploitation of the intangible elements available to the enterprise and can be determined by capitalizing the profit obtained by the enterprise above its profit threshold" (Anghel, 2010).

In the view of the scientists Mateş D., Cosmulese C. G., Anisie L., Goodwill is "the difference between the market value of the enterprise and the sum of the current values of the assets that make up the total value of the assets of the enterprise"; at the same time Goodwill represents "the entity's ability to generate future economic benefits, otherwise it will register a negative goodwill" (Mateş, 2016). "The notion of Goodwill corresponds to the difference between the return on capital invested and the return required by the buyer, and the overall value of the enterprise consists of two components: a static one related to the property value and a dynamic one related to Goodwill" say researchers Anghel G. and Cojuhari I. Goodwill purchased is "an element of balance between the purchase price of an acquired entity and the fair value of the acquired assets, both tangible and intangible, and short-term debt. However, Goodwill often accounts for more than half the purchase price, which is especially real when recognized intangible assets are undervalued. Thus, shareholders and business partners are interested in knowing what Goodwill represents and whether a fair price is to be paid for them" (Anghel, 2010).

The ANEVAR Valuation Standards, through EVS 5 "Enterprise Valuation", define the notion of Goodwill as follows: "intangible asset that arises as a result of the trade name, reputation, clientele, location, products and other similar factors which have not been identified and/or assessed separately, but which contribute to profit" (ANEVAR, 2020).

"Goodwill is a concept used in the valuation of undertakings which make a net profit higher than that obtained by competing firms. Goodwill reflects the overall value of the company's intangible elements (clientele, trade ford, brand, trade name, patents, etc.) that cannot be valued individually for inclusion in the balance sheet asset" (Dex, 2009).

In the study elaborated by Cosmulese C. G., Socoliuc M., Ciubotariu M. S. Grosu V. and Mateş D. mention "that the increased concern and interest in this topic in the academic environment are obvious, which is why they saw fit to continue these challenges by identifying new problems that remain unresolved and proposing appropriate solutions" (Cosmulese, 2021, p. 84).

Bianchi (1996) and Boisiso (1964) argue that "economic theory does not unanimously identify the accepted

definition of goodwill".

The study of several definitions, given by the researchers in the field, allowed us to report that each scholar approaches the notion of Goodwill in his own way, emphasizing different aspects. For example, we support the importance of the description through the over-profit approach highlighted by De Minco L. and Amodeo D. Smith G. and Parr R. have a different statement: "the most intangible of the intangibles", only, however, it is necessary to give priority and highlight certain intangible assets, since not all of them have the same contribution to the generation of Goodwill. We agree with researchers Anghel G. and Cojuhari I. which highlight good management. We consider that ANEVAR emphasizes very successfully the most valuable generators of Goodwill, as well as, as a result of the trade name, reputation, clientele, location. We also mention and appreciate the point of view of the scientists Mateş D., Cosmulese C. G., Anisie L., that Goodwill is "the entity's ability to generate future economic benefits that provide safety and profitable perspective".

III. DATA SOURCES AND USED METHODS

Based on the purpose of this study – the theoretical and empirical research of the specialized literature that addresses the definitions for Goodwill and Badwill, in the investigation we used the following research methods: analysis, synthesis, comparative analysis and predictive analysis, including: the analysis of the specialized literature, the study of the ANEVAR Valuation Standards, GEV 600, SEV 5 "Enterprise Evaluation", IFRS 3, Statement No. 141 of the Financial Accounting Standards Committee (SFAS 141 Business Combinations), FAS 141 Badwill, etc. In the practical part we focused on models of calculating Goodwill and Badwill based on the applicative study. We also examined primary sources, collected by authors from observations and case studies, but also secondary sources – we also collected data from easily accessible sources, such as: statistical publications, websites, books, articles, magazines, etc.

To achieve the proposed objectives, the following research hypotheses have been established:

1. The entity can be sold at a price higher than the market value when a high value of Goodwill is estimated, while Goodwill is an indicator of the performance of an economic entity that can justify but also continue economic activity safely.

2. The process of estimating Goodwill's value by an appraiser is expensive, so it is usually resorted to when managers are aware of the need for the most frequent and efficient valuation of the overall value of the entity.

IV. RESULTS AND DISCUSSION

The notion of Goodwill, offered by ANEVAR, previously described, in our view is quite objective, it includes an *intangible value of the business represented by unidentifiable assets*. At the same time, "The value of Goodwill is the same as the value defined from an accounting point of view, both representing a residual value after all the other assets have been taken into account, and this value is due to the calculation, indirectly, made when Goodwill is recorded in the buyer's accounts" (ANEVAR, 2020).

In our view, it is worth considering it essential and including in the definition that Goodwill is an intangible asset that arises as a result of a very obvious and current factor, such as advertising, because, today, it is one of the most effective generators of Goodwill. In this context, we mention that marketing companies play an essential role. The pandemic has conditioned and continues to condition the transition to new ways of promotion, so that the area of marketing tools has been enlarged. "In the current market conditions, the formation of the entity's competitiveness is impossible without the commercialization of the quality management services of the products. The marketing function plays a key role in determining the needs of the target customers and in making decisions on quality management products" (Gribincea, 2016, p. 20).

According to Gynther R., "Goodwill can be analyzed in two ways: Future excess profit concept: According to this view, goodwill is the present value of the excess of expected future profits over that considered to be a normal return on the total tangible assets. "Goodwill is the net present value of those assets difficult to list and value separately" (Goodwill and Performance, scienpress.com). Residuum concept: Intangibles are the residuum, the balance of the legitimate values attaching to an enterprise as a totality, over the sum of the legitimate values of the various tangible properties taken individually (Gynther, 1969).

To express in a more concise way the results obtained on the conducted study, we intend to synthesize the definition of the notion of Goodwill in the view of several scientists, Table 1.

Table 1. Goodwill in the vision of researchers in the field

Author	Period	Definition
De Minco L. Amodeo D.	1942	Goodwill – "the ability of the enterprise to generate benefits to a greater extent than those considered normal, the so-called approach to excess profit" (De Minco, 1942).
Zanda G.	1974	Goodwill – "an open system, particularly complex, equipped with specific forms of

		action and able to influence the environment in which it operates" (Zanda, 1974).
Curtis M.E.	1983	Goodwill – "a tangible, ethereal, intangible, immaterial, abstract, hidden and intangible immobilization that has been defined in vague terms as advantages, benefits, rights, sources and privileges that belong to a successful business" (Curtis, 1983).
Itami H.	1987	Intangible assets, including Goodwill – "resources based on the information they contain" (Itami, 1987).
Nelson R.	1953	Goodwill – "the location of the business and the reputation of the place, the reputation, personality and skill of the owner and his employees, the use of a name for the business, the quality of goods and services, the use of advertising especially when there is an agreement between the owner and the buyer" (Nelson, 1953).
Lonergan W.	1995	Goodwill – "aggregate of components and not as a residual value" (Lonergan, 1995).
Smith Parr	1994	Goodwill – "the most intangible of the intangibles" (Smith, 1994).
Baruch L.	2001	Goodwill – "non-material assets that are used to generate future economic benefits without having any material or financial support" (Baruch, 2001).
Fabris G. P. Minestrone L.	2004	Goodwill – "the strategy that should aim to create a consumer-friendly psychological behavior" (Fabris, 2004).
Amaduzzi A.	2005	Goodwill – "positive difference between the assets at fair value acquired and their carrying amount" (Amaduzzi, 2005).
Grosu V., Socoliuc M.	2016	Goodwill – "the entity's ability to generate profit, which derives from specific factors, capable of contributing positively to the generation of revenue (being obtained over time as consideration, not having an independent value) or by increasing the value for the entire set of assets that the entity holds in relation to the value of each asset" (Grosu, 2016).
Mateş D., Leliuc Cosmulese C., Anisie L.	2010	Goodwill – "the firm's ability to generate future economic benefits, otherwise it will register a negative goodwill; the difference between the market value of the enterprise and the sum of the current values of the assets that make up the total value of the assets of the enterprise" (Mateş, 2016).
Anghel G., Cojuhari I.	2010	The purchased Goodwill is "an element of balance between the purchase price of an acquired entity and the fair value of the acquired assets, both tangible and intangible, and of short-term liabilities" (Anghel, 2010).
Glade V.	2012	Goodwill "does not generate cash flows independently, but it helps to obtain these flows from several individual assets or cash generating groups. For these reasons, an impairment loss on a unit of cash production will be recognized if the recoverable amount of that unit is less than its carrying amount" (Bucur, 2012).
Needles et al.	2000 2004	Goodwill "generated internally is not an identifiable resource (which cannot be separable), therefore it cannot be reliably evaluated at cost" (Needles, 2000).

Source: Developed by the author.

The international standards FASB-SFAS 141, IASB-IFRS 3 and OMFP 1802/2014 with reference to Goodwill reflect that "it is recognized only when a so-called combination of entities, without any possibility of accounting for the domestically generated good, as determined by the synergy of production or activities in progress. When acquiring enterprises, goodwill takes place if the value of the good is paid for purchase higher than the value of assets taken separately" (Standards, 2020). IFRS 2009 also describes Goodwill as "the market-friendly attitude towards the entity, being the expression of the reasons justifying the attribution of an overall value higher than its revalued net asset, and from an accounting point of view, Goodwill (the added value or overprofit) corresponds to the difference between the price paid by a buyer for a company and its net assets" (IFRS, 2008). Goodwill is "the payment made by the buyer to obtain future economic benefits derived from assets that cannot be separately identified and recorded. Goodwill is, in fact, the value of the expected synergies in the reputation, experience, professionalism, enhanced procedures, location of the business and other factors of the entity" (IFRS 3-IAS, 2005).

From the above definitions, we will mention the most obvious statements in our vision that describe the notion of Goodwill. They are offered by: Grosu V., Socoliuc M.: the entity's ability to generate profit; Nelson R.: the focus is on location and reputation; Curtis M.E.: vague terms that belong to a successful business. We also appreciate the statement of the researchers Cosmulese C., Grosu V., Hlaciuc E., who point out that: "in the age of knowledge, intangible assets have a greater strategic importance than tangible assets. It was found that the market value of the entity is often higher than its carrying amount, the difference being due to intangible elements. As for intangible assets, their measurement, although subject to many scientific studies, is quite controversial. Thus, any evaluation methodology may, in certain respects, be challenged" (Cosmulese, 2017).

Therefore, we conclude that Goodwill is made up of intangible elements that make up the goodwill, such as: the clientele, suppliers, staff, bankers, competition, quality of relations with insurance and social protection, quality of relations with the tax authorities, quality of relations with trade unions, etc. Goodwill is a component part of the trade fund.

At the same time, we will highlight some intangible elements, which, in our view, currently constitute the

most efficient generators of Goodwill in the process of estimating its value, which we include in Figure 1.

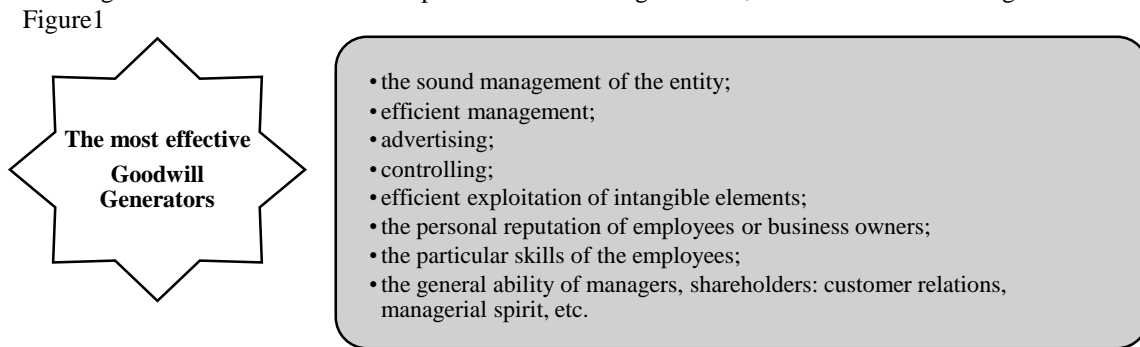


Figure 1 – Goodwill Generators

Source: Developed by the author.

Goodwill is usually calculated in the case of the purchase, sale, or contribution of a trade fund. During the period of activity, intangible items relating to a trade fund created by an entity have no value and are not accounted for. They result from the entity's actual activity, without requiring any expense. However, certainly the intangible elements of the entity supplement its value with an excess value, which is represented by Goodwill at the time. Although they have no value and are not accounted for, the intangible elements have an unwritten weight, evident by the Goodwill generators.

Goodwill's value, as a rule, refers to the buyer's interest (1) in calculating this value, but we are convinced that investors (2) and sellers (3) also benefit, so they are all equally interested in the fair evaluation of this value for certain purposes: 1. achieving quality and image, 2. sustainability and 3. financial gain/profit/added value.

Confirming this hypothesis, we bring the opinion of some notorious scientists in the field, such as Mateš D. and David D., who state that the decision-making role in obtaining a high value of the entity belongs to the management, which "must analyze the activity carried out in order to adopt the necessary measures to reduce expenses, etc. The importance of knowing the cost of production is given by the direct link between cost and profitability. An increased level of cost imposes a selling price to cover these expenses, and in the conditions of a free competitive market, the reduction in costs ensures the profitability and profitability of the activity" (Mateš, 2018).

The study of the literature allowed the synthesis of the content, in our view, also of the meaning of Goodwill, which we present in Figure 1

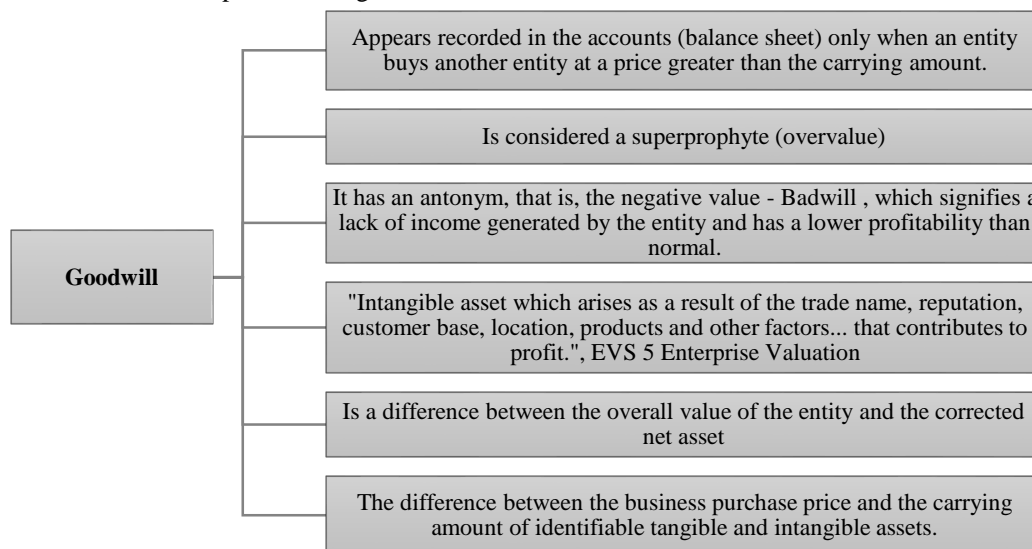


Figure 2 – The significance of Goodwill

Source: Developed by the author.

We must also relate that Goodwill can be positive – called Goodwill positive, "to the extent that the aforementioned elements allow obtaining profit above the remuneration of the capital committed (used) and/or capital necessary for the proper functioning of the entity, but it can also be negative – called Badwill (Goodwill negative), when it represents the antonym of the positive situation".

Broadly speaking, Goodwill (GW) is the positive result obtained from the difference between the financial value (FV) and the economic value (EV).

In conclusion, we report that we support the idea mentioned in the specialized literature that Goodwill is an intangible asset and we consider that it has the role of increasing the value of other assets of the business, created by the effort of the management of the economic entity to manage the means of production (production and marketing of products), but also the ability, which confers superiority in relation to the sector of activity of the entity, being present on the most important place – on the market and recognized by the market.

As a result of the investigation, it becomes possible to supplement the definition of Goodwill (GW): they are non-material assets, which cannot be valued for inclusion in the balance sheet asset, but which contribute to obtaining profit, created as a result of reputation, trade name, clientele, management, skilled personnel, etc., is part of the overall value, identifier of a successful business with added value to comparable entities in the market, result of generators, such as: advertising and marketing, etc., favorable indicator showing the achievement of future economic benefits, with increased interest for the buyer, investor, but also for the seller, all having the same interests for the fair assessment of this value (GW): quality, image, sustainability and added value/profit.

In conclusion, we note that there are cases when the (economic) market value does not coincide with the carrying amount of the economic entity. Thus, Goodwill appears in the records, which, through its generators, adds economic value to the entity, which convinces that making the assessment of the value of the intangible asset is very useful and favorable. Goodwill confirms that the entity has the capabilities to create profits that exceed the economic value. At the same time, we affirm that Goodwill's value depends very much on the method of determination applied that corresponds to the evaluated entity and, of course, on the capacities of the assessor, without having put into question the direct interest of the beneficiary of the valuation.

We consider it important to conclude that between the two methods (patrimonial and profitable) there are differences that belong to different unaccountable patrimonial elements (prestige, name, trademark, etc.), known as Goodwill or Badwill. Next, we believe it is reasonable to describe the notion of Badwill for a better understanding of the topic put forward for research.

Badwill or Negative Goodwill (NGW) is the negative intangible value that diminishes the overall value of the entity. As we have previously reported, Badwill is the goodwill antonym and both are intangible assets. For precision: "tangible assets have physical form and hold monetary value, the main examples include property, plant and equipment. Intangible assets do not have a physical form, do not hold monetary and sometimes unidentified value, examples of intangible assets include intellectual property (patents, copyrights), trademark recognition, etc." (Казин, 2004).

Badwill is recorded in the acquisition of an asset or entity with a value less than its net market value, which represents the unfavourable financial situation of the entity that assumes downward developments. In fact, the unfavourable financial situation of the entity, i.e. the presence of Badwill, is a circumstance which, at a certain point, benefits the buyer, since the asset can be bought at a lower price, although it leaves its quality desirable.

Badwill accounting is regulated in Statement No. 141 of the Financial Accounting Standards Committee (SFAS 141 Business Combinations). FAS 141 Badwill is "the difference between the market fair value of an asset and the price paid to purchase it, where the price paid is less than the fair market value (the current price of a given asset in a particular market), that is to say, it differs from the market value".

The fair market value of a good or service in return is attributed at the price at which both trading parties have independently agreed: the buyer and the seller. Fair market value is the exact measurement of exchanged goods that embody certain conditions:

- ✓ the parties must be equally and reasonably aware of the asset or property in question, i.e. the existence of the information without deviating from the norm;
- ✓ the parties must be perfect logisticians and economic agents, they must behave in their own interest;
- ✓ the parties must be free from any undue pressure to execute the transaction;
- ✓ reasonable time must be available to execute the transaction.

Outside of the United States, Badwill is recognized in International Financial Reporting Standards (IFRS) 3. IFRS 3 treats Badwill accounting in the same way as SFAS 141.

Badwill "is not recognized as active. Therefore, the repeated valuation of assets, current and contingent liabilities, acquisition value of the purchased enterprise takes place. If after this, however, the difference appears, it is immediately settled at profit (loss). The amount in question may not serve as a basis for paying dividends to shareholders or taken into account in the calculation of income tax". "Exceeding the acquirer's share in the fair value of identifiable net assets, current liabilities, and contingent liabilities over the sum of expenses for combining entities" (IFRS 3, 2005).

According to GAAP (USA) and IFRS, both Goodwill and Badwill must be recognized and accounted for "in the financial statements of acquiring undertakings. In the financial statements of the acquirer, badwill value is recorded to reduce the cost of non-current assets that have been acquired to zero. Once non-current assets have been reduced to zero by the value of Badwill, any remaining Badwill is marked as an extraordinary gain in the profit and loss account".

So, when an asset or entity is acquired at a price lower than the fair market price due to financial difficulties, the balance sheet records the difference between the entity's market fair value and the price paid as Badwill, which is attributed to intangible assets. Goodwill (GW) is recorded on the balance sheet as an asset and Badwill (NGW) as a liability because it reduces valuation. Kazin A.V. believes that Badwill is "the price reduction offered to the buyer due to the lack of stable buyers, business reputation" (Казин, 2004, p 60). Nedeřiřa A. considers that "the discount granted occurs due to the lack of stable customers, marketing and sales skills, business relations, managerial experience, respectively because of the low level of qualification of the staff of the purchased enterprise" (Nedeřiřa, 2007, p 53).

So, Badwill, in the cash flow statement, is usually recorded as "gain on purchase" or "gain on purchase at reduced price" to indicate the additional value acquired in the form of Badwill. In conclusion, we can state that it has been successful in confirming the validity of the two hypotheses of the research that the entity can be sold at a price higher than the market value when a high value of Goodwill is estimated, while we assume that Goodwill is an indicator of the performance of an economic entity, which can justify, but also continue economic activity safely. In other words, the process of estimating goodwill's value by an appraiser is expensive, so it is usually resorted to when the sale-purchase process takes place, but we assume that the simple practical examples presented will contribute to the managers' awareness of the need for the most frequent and efficient assessment of the overall value of the entity.

Analyzing the definitions described by the specialized literature, we report that each author defines Badwill very specifically, giving importance to a certain aspect of the notion, so at the end of this study, we will present a complete definition of the Badwill tool. Based on the literature, in Figure3 we have made a synthesis of the notion of Badwill.

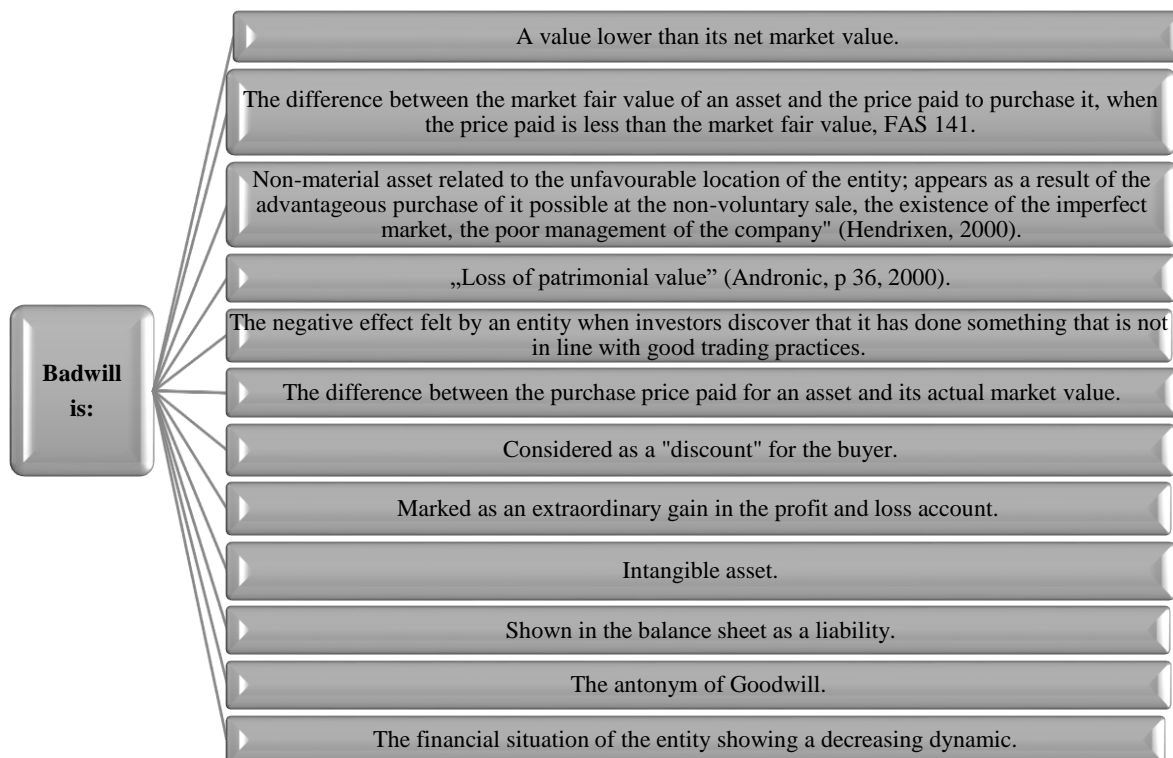


Figure3 The significance of the Badwill instrument

Source: Developed by the author.

So, when the net carrying asset is greater than the profit, a negative Goodwill is obtained, and when the overall value of the entity is less than the asset value, we have a liquidation value.

We also point out that Badwill occurs when the price paid for an entity is lower than the market value and is valued by the buyer as a "discount", and in the income statement, Badwill should be recognised as the acquirer's "gain on purchase" and "loss", in non-cash sources of income.

In conclusion, it becomes possible to propose an addition from the author's view of the definition: the Badwill instrument can be considered a non-material asset; the difference between the purchase price paid for an asset and its actual market value, considered as a "discount" for the buyer; the situation in which the cost of the entity is lower than the balance sheet value of the assets, which presents a negative effect that an entity incurs as a result of certain

adverse situations and causes, such as: an improper reputation of the entity, a temporary financial crisis of the seller, an incapable management, material damage (income), large debts, loss of customers, suppliers, market share, image, etc., results with a decreasing dynamic, which can result in bankruptcy or legal action.

However, we want to highlight the place and role of the methods of evaluating the Goodwill instrument in the life of the economic entity and to answer the question: Is Goodwill an indicator of performance and/or alarm? The accumulated knowledge allows us to answer in the following way: Yes, it is, both performance and alarm, what we will argue in Figure 34.



Figure 4 – Goodwill as performance and alarm indicator

Source: Developed by the author.

Finally, I would like to argue by an applicative illustration the foregoing with reference to the fact that a more frequent estimate of the overall value can help both the buyer and the seller, due to knowing the actual situation about the value of the entity, specified as Goodwill or Badwill. The assessor, following an expertise, presents the assessment report of the entity, in which its overall value is identified. The valuation itself is an expensive process, which is usually resorted to only when the sale-purchase procedure of the economic entity takes place. In this context, we consider a first way – the presentation of simple practical examples, which will contribute to the awareness by the managers of the need for a more frequent assessment of the overall value of the entity in order to achieve a high level in time of the Goodwill indicator.

Example of calculation by applying the Goodwill tool. The accounting goodwill comes from previous acquisitions, in which the buyer paid a price that exceeded the value of the entity's net assets (the net asset value is total assets minus total liabilities), being designed to assign a value to assets such as: employee/management capacity, customer loyalty, reputation, etc., which do not appear in the balance sheet of the acquired firm.

As a result of the applicative study, conducted within entity A of the Republic of Moldova, we communicate that Entity A sold Entity B at a purchase price of EUR 15,000 million. At the time of sale, the fair market value of Entity B was EUR 12,000 million, because the purchase price was above fair market value. Thus, we have the formula:

$$\text{Sale Price} - \text{Fair Market Value} = \text{Goodwill}$$

$$\text{Respectively: } 15.000 - 12.000 = \text{EUR } 3.000 \text{ million.}$$

We attest, that the difference between the sale price and the fair market value is Goodwill, which is EUR 3,000 million. Thus, the amount of EUR 3,000 million is marked as an extraordinary income, plus value.

At the same time, we would like to point out that at the time of purchase, in the case of Goodwill's high value, the buyer offers a higher price, but, in our view, without being at a loss, because it certainly gains quality and a well-known and ranked brand on the market with a safe perspective.

Badwill indicator calculation example. Entity A procures Entity B at a purchase price of EUR 1200 million. At the time of acquisition, the fair market value of Entity B is EUR 1500 million. Entity A was able to procure Entity B at an advantageous price because the purchase price was below fair market value.

$$\text{Fair Market Value} - \text{Price Paid} = \text{Goodwill}$$

$$1500 - 1200 = \text{EUR } 300 \text{ million}$$

The difference between the price paid and the fair market value is Badwill, which is EUR 300 million. Thus, €100 million is used to reduce assets to zero, and the remaining balance of EUR 200 million is marked as a credit, as extraordinary income for the buyer, although entity A will still identify the quality of entity B's acquisition and the prospects for growth.

V. CONCLUSION

The study of the notion of Goodwill and Badwill allowed us to compare their impact on the value of the entity versus its market value. Therefore, Goodwill is the situation when an entity or asset is purchased at a price higher than its fair market value, because the price also includes the positive brand name and other equally qualitative factors.

As mentioned, Goodwill (GW) is a part of the overall value of an entity (OV) plus its patrimonial value

(OV= Net Patrimony + GW), the essential role being due to the Goodwill generators mentioned in the paper. Goodwill embodies the entity's possibilities to achieve overprofit, that is, an additional profit, which is obtained due to intangible assets.

The value of Goodwill also depends a lot on the method of determination applied, it must be as close as possible to the specifics of the evaluated entity, which, in our opinion, is the method of comparison. It gave good results when we practically applied the method of comparison in the market valuation of the entity, establishing the statistical indicators that consisted in the calculation of the median and the arithmetic mean (Birca, 2021, p. 39).

One of the main positive results that has been achieved during the study and the most essential thing that we want and highlight is that due to a high value of Goodwill, the owner can sell the economic entity at a price higher than the market value, but at the same time, can continue its economic activity safely, because Goodwill is an indicator of the performance of an economic entity. that can contribute to stability, sustainability and increased visibility-image.

In fact, an entity acquired at a price that includes Badwill, in our view, is in a very complicated and unfavorable situation due to several reasons: financial problems, increased selling pressures, large debts, etc., which reduces the real price of the economic entity.

The performed researches have highlighted relevant results materialized in: the amplification and theoretical-scientific systematization of the notion of Goodwill and Badwill; the conviction that in the process of estimating the value of the economic entity, the decision-making function belongs to the selected method and to the evaluator, and the evaluation of the global value and the knowledge of the Goodwill value have a great importance and an ascending effect of performance.

We would like to highlight some proposals to increase the quality of the economic entity's evaluation activity by:

- multilateral depletion of the situation on the domestic and foreign markets, in particular with regard to supply and demand;
- requesting open access to the necessary information and the possibility of its examination;
- strict compliance with the normative acts in force regarding the assessment of the global value of economic entities (VGEE);
- adjusting and offering proposals for remediation as appropriate;
- direct support from the state and the creation of a more effective collaboration;
- the foundation of the Agency for Land Relations and Cadastre with all the representatives in the field of evaluation concerning the Republic of Moldova.

In this context, if we refer to the existing situation in the field in the Republic of Moldova, we report, with regret, that it is complicated to evaluate an economic entity, because there are still many gaps, such as: the lack of National Standards for Enterprise Evaluation; limited access to information, lack of professional evaluators, appropriate support from the authorities, etc. We believe that solving them would lead to increased profit of the economic entity, reputation, which implies, at the same time, the increase of the global value, thanks to goodwill generators, the expansion of international relations, the completion of the list of customers and partners, foreign investors and others.

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