

The Investigation of the Right of Goodwill and the Right of Business, Vocation and Commerce in the Legal and Financial Scopes of Iran

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ABSTRACT

Two concepts of the right of goodwill and the right of business, vocation and commerce are prevalently used in the legal and financial area and these terms are repeatedly seen in specialized legal and financial texts so that they are sometimes conflated and used interchangeably. Therefore, the researchers are after responding this question that whether these two terms are different in the legal and financial insights of Iran or can be used interchangeably.

By reviewing the legal and financial books and compilations and benefiting from the viewpoints of law and finance experts and by referring to the researches done in Iran in this area during the recent years, it was revealed that goodwill and the right of business, vocation and commerce are legally and financially different concepts. From the legal viewpoint, the goodwill is defined as the right that the merchant or the trader has over a place due to precedence in leasing, reputation in attracting customers etc., while the right of business, vocation and commerce in a wider sense is defined as the right toward the permanent customers and the capital of the enterprise and in a narrower sense as the right by which the possessing lessor will be considered as having priority over the others to lease the venue of their business. There are objections and criticisms against these definitions and headlines; however, by the end of the day, the lawmaker has sacrificed the eloquence of expression for the sake of removing the ambiguities and looked into the issue from a large-scale viewpoint and separated the two terms from each other. The differences of these two terms are discussable in ten articles. Goodwill and the right of business, vocation and commerce are financially the intangible assets of the organization while the right of business, vocation and commerce is considered as the intangible and identifiable asset and the goodwill is introduced as the intangible, unidentifiable asset. As far as these rights are not bought as a fraction of the commercial unit, they won't be considered asset. According to the No. 17 accounting standard, the right of business and vocation won't be amortized and according to the No. 19 standard of accounting, the right of goodwill should be amortized. Accordingly, there's a refutable hypothesis which is presumed in Iran that the useful lives of an intangible asset should not exceed 20 years. Therefore, there's a striking and prominent difference between these two concepts in the legal viewpoint, even though it has emerged recently, and the financial viewpoint in Iran according to the experts and specialists and this will gradually pervade and become generalized.

KEYWORDS: goodwill, the right of business, vocation and commerce, intangible asset.

1- INTRODUCTION

In their conversations, people speak of the buying and selling the goodwill and the right of business, vocation and commerce is considered to be one of the assets of the organization and the Ministry of Commerce levies tax on the transaction of goodwill and the courts pass judgment on the obligation of lessor to the entrustment of the right of business, vocation and commerce of the lessee to the other parties (Keshavarz, 2009). In the financial reports and legal texts, the concepts of goodwill and the right of business, vocation and commerce are found recurrently and this shows the comprehensiveness of this issue in the legal and financial discussions.

The question which this article is trying to answer is that whether there is a difference between the two concepts of the right of goodwill and the right of business, vocation and commerce in the legal and financial insights of Iran or they can be used interchangeably?

Therefore, in the present article, these two concepts are studied from the legal and financial viewpoints and their positions have been defined. From the legal viewpoint, after identifying the concept of goodwill and the right of business, vocation and commerce and the differences between them, it will be concluded that although these two concepts are sometimes considered to be the same by the public, they have distinctive and identifiable differences from the viewpoint of experts and scholars.

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From the financial viewpoint, after identifying the concept of goodwill and the right of business, vocation and commerce as one of the intangible assets of the organization, it will be concluded that these concepts are reflected in the financial reports and inventories separately and as soon as they are bought as a fraction of the financial unit, they will be considered asset and treated as the asset of the organization.

2- The concept of goodwill and the right of business, vocation and commerce from a legal viewpoint

The conceptual definition of goodwill

In the Moin Persian dictionary, the goodwill is defined as the right which the merchant or trader possesses over the venue due to precedence in leasing, reputation, attracting customers etc.

In the Legal Encyclopedia, Dr. Ja'fari Langeroudi has written the following definition under the entry of goodwill: "the money which the second lessee (in the general sense) pays to the former lessee at the time of transferring the gratuitous lease and the money which the first lessee pays to the possessing lessor."

This expense is a manifestation of intangible asset and cannot be classified as accidental income as long as it's provided from the accumulation of customers and the labor of the lessee, otherwise the money which the possessor who constructs a shop and leases it receives as the goodwill will be considered his revenue and will be subject to tax.

Dr. Katouzian defines the goodwill in its general and global context this way: "it's a right upon the permanent customers and the capital of the enterprise." He continues by saying that "this right can be translated as the "essence of commerce" in Persian."

However, goodwill does not have such an all-encompassing meaning in the Iranian law. The right of goodwill which the law of lessor and lessee has described as "the right of business, vocation and commerce" is a right by which the possessing lessee will be considered as having priority over the others to lease the venue of his business. In the convention of the market, when it is said that someone has sold the goodwill of his shop, it means that he has evacuated it and entrusted it to someone else. This concept never implies transferring the capital of the merchant or his trade mark (Eshraghi, 2011).

3- The conceptual definition of the right of business, vocation and commerce

We can't find any trace of the name of the right of business, vocation and commerce because the birth and emergence of this phenomenon in the economic and judicial system of Iran took place in the 1941 and prior to this date, whatever existed in the foreign legal systems was not acceptable in Iran at all.

The right of business, vocation and commerce can be interpreted in a wide sense as the "right upon the permanent customers and the capital of the enterprise" and in a narrower sense as "the right by which the possessing lessee will be considered as having priority over the others in leasing the venue of their business."

Some other people believe that "it's a right for the merchants and tradesmen and those who earn a living through leasing a shop even if they are not merchants and this is conceptually different from the goodwill because the reputation of trade and presence of customers are not among its constituents. The aforementioned right does not have asset value per se and cannot be transacted as such, meaning that the lessee cannot retain the actual profits and entrust the right of business, vocation and commerce to someone else and receive its recompense; rather, he should entrust both of them with each other and this means that the right of business, vocation and commerce is a subordinate asset, therefore the confiscation of super-ordinate without the confiscation of subordinate is meaningless (Eshraghi, 2011).

4- Objections to the definition of the right of business, vocation and commerce

Given the necessity of being comprehensive and clarified, there are some objections to these definitions:

a) If it's said that this is a "right upon the permanent customers and the capital of the enterprise", therefore the consequences of this right will not implicate the "venue of business." Because the permanent customers, with the presumption of the replacing of the venue of the enterprise will not abandon it, and the capital of the enterprise is not dependent on the venue and finally the venue of the enterprise cannot be a part of the capital if it is rental which means that it doesn't have an independent value.

b) The definition of the right of business, vocation and commerce: "a right by which the possessing lessee has priority over the others to lease the venue of his business." If this definition was acceptable at the time of the rule of landlord and lessee law of 1950, it's not such anymore with the ratification of the 1978 law. Because the presence of this law will not be realized only when we assume in the

position of legal analysis that the duration of lease has come to an end and the landlord intends to evacuate the object of lease and lease it once again and under this circumstance, the possessing lessee has priority over the other nominees for leasing the premise by the virtue of having the right of business, vocation and commerce. Instead, it will be perceivable under the circumstance that the lessee has the right to entrust his right in the object of lease to the other parties. In this situation, the lessee will entrust to the other parties the right which has come to effect for him with the consent of the landlord or the adjudication of court. Therefore, what matters here is not "priority in leasing the venue of business for oneself" but "the authority of transferring the premise to the other parties" is what is of high importance.

c) In the definition of legal terminology, there are some problems as well:

The clause that "... earns a living through leasing a shop ..." seems to be redundant because the mere conclusion of the lease agreement and the manipulation by the lessee of the object of lease causes the gradual realization of the right of business, vocation and commerce for the lessee, whether he practically attends to his business in the premise or leaves it hallowed; whether business in the premise is his way of earning a living or he earns a living through other ways.

Moreover, the explication that it is "conceptually different from the goodwill because the reputation of trade and presence of customers are not among its constituents" seems problematic because what the commercial reputation and presence of customers don't influence is goodwill, not the right of business, vocation and commerce and we should unquestionably state that the commercial reputation of the lessee and the number of his customers are among the constituents of the right of business, vocation and commerce and the elements which have an impact on it (Keshavarz, 2009).

5- Objections to the usage of the term "the right of business, vocation and commerce"

The selection of the term "the right of business, vocation and commerce" in the 1978 law was criticized by some of the authors and they have said that "... the lawmaker has abandoned the conventional word goodwill and used the unfamiliar words the right of business, vocation and commerce."

From the literary viewpoint and the implication of the right concept, this selection has the important defect that it doesn't provide a comprehensive term for the right of the merchants and tradesmen and doesn't imply their joint value. It seems that the right of business, vocation and commerce are three separate concepts which have some similarities in some of the verdicts, while the reality is different from this manifestation. The true nature and description of the right is the same in all the cases and the right of merchant or tradesmen are the different manifestations and variations of a single concept. Generally, the combination devised by the lawmaker is untrue and misleading in the area of law:

a) It's untrue, because according to the clause 1 of article 2 of the commerce law, tradesman is a merchant according to the concept which is at our disposal. According to our current law, the merchant is not known with the amount of his capital or the commercial identification card and whoever pursues a commercial career would be considered a merchant. Tradesman is also someone who purchases a commodity with the intention of selling it and making profits and sells it as it is or with some minor changes such as grocer, butcher or bookseller.

Those who are involved in these occupations are considered merchants because they buy and sell things, whether they are penniless peddlers or a prestigious commercial organization. Therefore, the right of vocation cannot have a meaning other than the right of commerce while in the words of the lawmaker, they are considered two separate concepts.

b) It's misleading, because the title "the right of vocation" leads to this ambiguity that the different workingmen such as physician, notary public and lawyer can also entrust the right of their vocation to other parties or ask for goodwill in place of the evacuation of the premise. The customers of the physicians or lawyers are dependent on those very people and are not related to their clinic or bureau, so the evacuation of the premise doesn't deprive him of any right nor does it add to the value of his profit.

It seems that the intention of the lawmaker is to address the tradesmen such as tailors or shoemakers who are considered to be merchants in terms of the regulations of leasing and goodwill, because the customers of the merchants come over to their venue of business on the basis of the credit of the institutions (Keshavarz, 2009).

6- Refusing to absolutely accept the objections

These objections and criticisms cannot be absolutely accepted because

a) Given the fact that the phenomenon discussed above is a new subject in our law, prudence demanded that the lawmaker should sacrifice the eloquence of expression for the sake of removing the ambiguities.

b) There's no consensus about whether the venue of business of the workingmen will be accrued to the right of business, vocation and commerce, even though it seems that the occupation of people such as the lawyers and physicians is dependent on themselves. However, this dependence does not totally deny the importance of the "venue" in such occupations. For example, a pediatrician with whom many people consult will lose many of its patients in favor of the transferee if he leaves his clinic to another physician.

c) Today, the concepts of goodwill and the right of business, vocation and commerce are inextricably intertwined with each other in the view of the public; therefore, it's evident that this mixture will not transform the distinct nature of these two concepts when we talk of the legal verdicts and judicial issue (Keshavarz, 2009).

7- The differences of goodwill and the right of business, vocation and commerce

1- According to the article 6 of the law of the relationships between the lessor and the lessee ratified in 1997 and based on credible jurisprudence sources, the right of goodwill is a commodity or an amount of money which the lessee pays to the lessor upon the conclusion of the lease agreement and thereby gets the merit of receiving its equitable equivalent upon evacuating the premise. However, the right of business, vocation and commerce actually implies the reputation and prosperity which has been created in the premise as a result of the action of the lessee, whether he has given the lessor any commodity or money or not.

2- The right of business, vocation and commerce is gradually obtained and there are chances that it might not be obtained at all and is dependent on the action of the lessee while the right of goodwill is definite and will be obtained immediately after the lessee pays the money or commodity to the lessor.

3- The amount and value of the right of goodwill is definite while the amount and value of the right of business, vocation and commerce is not calculable or predictable. It's possible that it may be totally discarded as a result of a transgression by the lessee or not be obtained at all.

4- The goodwill can be discarded because it will be realized when the lessee pays a certain amount of money, while the right of business, vocation and commerce is a non-existence obligation. However, some people believe that with the conclusion of the agreement, the cause will be created and the condition of liability is reputation.

5- The right of goodwill is warrantable while the right of business, vocation and commerce doesn't have the capability to be guaranteed.

6- The right of goodwill is prone to be confiscated but the right of business, vocation and commerce cannot be confiscated.

7- The right of goodwill is prone to be leaved and entrusted to other parties while the right of business, vocation and commerce cannot be entrusted to other parties unless by the request of declaring as lawful the transferring of profits and the issuance of warrant in this regard or entrusting the transferring to other parties.

8- The right of goodwill cannot be discarded with transgression but the right of business, vocation and commerce will be discarded as soon as a transgression is made.

9- The right of business, vocation and commerce is of two types: a) The right of business, vocation and commerce which is the subject of the clause 3 of the article 5 of the bill of purchasing and giving possession to the lands and premises for carrying out general, constructional and military programs. As it is foreseen in the aforementioned clause, the word "people" is used instead of the words "lessee" or "lessees" which includes the lessee and the landlord. Therefore, it is different from the right of business, vocation and commerce as mentioned in the law of the relationship between the lessor and the lessee.

10- The right of goodwill is intrinsically can be discarded, confiscated, recorded and even guaranteed but these are not applicable to the right of business, vocation and commerce (Bahrami, 2008).

In this stage, we can answer one part of the question which was proposed earlier: there's a difference between the two concepts of goodwill and the right of business, vocation and commerce in the legal perspective of Iran and these two terms enter the legal texts with two different titles, two different natures and two different styles of identification. Although no a long time has passed since these two concepts have been differentiated with each other, they are distinctively separated from each other in the current legal perspective of Iran.

8- The concept of goodwill and the right of business, vocation and commerce from a financial viewpoint

As a term in accounting, goodwill means the value of a deposit beyond the value of the relevant possession. This concept is essentially used in accounting to express the intangible assets but with a calculable, precautionary value on the assets which may be accrued as a result of the credibility of the organization for its customers (Amortization of certain intangible assets, 2004).

In the financial reports, goodwill will be used when the company pays a just value for the identifiable assets. Actually, it's defined as the difference between the paid price and the sum of the just value of the relevant assets which will be included in the balance-sheet of the organization (Goodwill accounting, 2011).

9- The definition of the intangible assets

Like the assets such as the land and facilities, the intangible assets result in certain privileges in different time periods. The main difference between these two categories is that intangible assets lack a physical manifestation. Examples of intangible assets include patent, trademark and goodwill (Harrison, 1995).

Once they are purchased, they will be quoted in the financial reports and the expenses related to them will be amortized based on the expected useful life of these assets (James D, 2000).

Overall, the intangible assets are the properties with the following characteristics:

- a) Lack an observable and monetary nature
- b) Are kept in order to be used in producing or providing goods or services, implementing by others or for official purposes by the commercial unit.
- c) Are obtained with the purpose of using in more than a fiscal period by the commercial unit.
- d) It's difficult to measure their future economic profits and identifying their useful life (Meshki, 2006).

10- Variations of intangible assets

Intangible assets are basically divided into two categories:

1) Identifiable intangible assets: they are assets, the value of which is not dependent on the other assets of the commercial unit or the whole commercial unit and are purchasable separately such as patent, copyright, trademark, franchise and the goodwill of the venue of business (the right of business and vocation).

2) Unidentifiable intangible assets: they are assets which cannot be evaluated or transacted separately such as goodwill (Hemmati, 2004).

One of the identifiable intangible assets is the right of business and vocation which a commercial unit has over a certain venue due to precedence and priority in leasing, situating the venue or prosperity in attracting customers. The goodwill of the venue of business of venue of business and vocation can be considered an identifiable asset only once it is obtained in return for paying the money or a non-cash replacement for it. According to the No. 17 accounting standard, the goodwill of the venue of business is not usually amortizable and at the time of evacuation, it's necessary that its cost be received by the lessee (Meshki, 2006).

Goodwill is one of the unidentifiable intangible assets. The term goodwill refers to features which enable a commercial unit to achieve a profit more than the conventional output rate as a result of reputation, operational effectiveness, experience, dexterity and other elements. Although it's possible that with the passage of time, the right of goodwill be created for several financial institutes, the accountants don't register anything in this regard in their reports because they believe that identifying it implicates personal judgments and this is not in compliance with the accepted principles of accounting. Principally, as a rule of thumb, the goodwill is registered and recorded in the reports only provided that it is purchased as a fraction of a commercial unit. As to how the goodwill should be amortized and whether the amortization of goodwill is right or wrong, several arguments have been proposed by the experts of accounting. Some people are in favor of the amortization of goodwill and some people are against it. At the same time, no consensus and agreement can be seen among those who are in favor of the amortization of goodwill (ibid, 2006).

In the No. 19 accounting standard, article 39, it's stated that goodwill should be amortized on a systematic basis during its useful life. The amortization period should be indicative of the best resultant of the time period of acquiring future economic profits by the commercial unit. There's a refutable hypothesis that the useful life of goodwill since its primary identification in Iran is around 20 years (ibid, 2006).

11- The final price of intangible asset

Since the final price of the assets will be recorded in financial reports, it's necessary that vital points regarding the style of evaluating them be taken into consideration. Given the separation and natural difference between the right of goodwill and the right of business, vocation and commerce, their style of evaluation can be expressed as follows:

Goodwill

- 1- The right of goodwill is an amount of money which is paid to the landlord upon the lease and it's intrinsically dependent on the venue and doesn't guarantee any commercial reputation or special and established consideration by the customers.
- 2- The highest amount and expense of the right of goodwill depends on the local situation, quality of construction and facilities of the object of lease.
- 3- The realization of the right of goodwill is a function of the rule of both sides' inclination.
- 4- Landlord or lessor specifies the amount of right of goodwill and the applicant for the right of goodwill is free to accept or reject the suggestion.
- 5- The right of goodwill will be paid to the landlord and not the first lessee, so commercial reputation and vocational prosperity and union credibility will not influence its amount.
- 6- What has been discussed in the 1941 and 1978 law about the relationship between the landlord and the lessee is not the right of goodwill as it is said, but it's merely the right of business, vocation and commerce.
- 7- The right of goodwill is dependent on and relevant to the venue.
- 8- No element is involved in specifying the amount of the right of goodwill but the will and inclination of the landlord.
- 9- The right of goodwill can be intrinsically abandoned and discarded.
- 10- The condition of realizing and evolving the right of goodwill does not rely on the lease agreement (peace contract or donation).
- 11- Transferring the right of goodwill upon the benefits of the object of lease is officially and normally plausible.
- 12- At the time of evacuation (article 15 and its three clauses) if the courts issue an order for satisfying the expert, they will not be bound to specify the amount of the right of goodwill.
- 13- The government and the legal regime of investigating the right of goodwill are not subject to imperative laws and according the recent opposing concept of the article 15, the courts are forbidden to issue expertise order as the right of business and vocation while issuing the writ of evacuation.
- 14- The right of goodwill during the lease agreement or outside it will be manifested in the right of the landlord only until the complete evacuation of the object of lease.
- 15- At the time of evacuating the object of the lease, the right of goodwill should be returned to the lessee with the full value of the day, even if the lessee does not carry out any commercial activities in the object of the lease. It's noteworthy that returning the full value of the day or the money which was paid at the time of concluding the agreement is subject to the rule of the inclination of the parties and the conclusion conditions.
- 16- The right of goodwill will not be eliminated in encroachment and dissipation.
- 17- The legitimacy of the right of goodwill results from the rules of conduct.

The right of business, vocation and commerce

- 1- The right of business and vocation is every benefit or advantage which a lessee has in a certain occupation in his relations with the customers and these gradually obtainable rights are merely supported for the lessee by the lawmaker and the public imperatively.
- 2- The amount and price of the right of business and vocation are dependent on the reputation of the lessee and the duration of possession and creating prosperity in the locality.
- 3- The right of business and vocation originate and emanate from the decision of the lawmaker, subject to imperative laws (the last part of the article 15 of the law of relationships between the lessor and the lessee ratified in 1978.)
- 4- In the right of business and vocation, on condition that a disagreement takes place between the landlord and the lessee, the court finally rules and specifies the amount of the right of business and vocation using a qualified expert (article 18 of the law of relationships between the lessor and the lessee ratified in 1978.)
- 5- The right of business and vocation is merely paid to the lessee while commercial reputation and prosperity is a remarkable determinant in specifying its amount (the clause 2 of the article 19 of the same law.)

6- Given the imperativeness of the 1978 law and the necessity of observing the principle of narrow interpretation, paying the right of goodwill by the lessee upon the conclusion of the lease agreement or separated from it cannot be considered even one of the elements contributing to the specification of the amount of right of business and vocation. In this regard, the owner of the right of goodwill should take necessary actions to call for it according to the articles 2 and 48 of the Law of Civil Procedure by taking into consideration the natural difference and separation of these two rights and through submitting an independent petition and its implied conditions.

7- The right of business and vocation is dependant on and relevant to the lessee (clause 2 of article 19).

8- If the parties to the dispute don't reach an agreement in specifying the amount of the right of business and vocation, the competent court will intervene and solve the dispute (article 18 of the same law).

9- Having in mind the imperative laws of the law of relationships between the lessor and the lessee ratified in 1978, discarding the right of business and vocation at the beginning of the lease leads to disruption in public order and the nullification of the articles 15 and 19 of the aforesaid law. Accordingly, discarding it by referring to the article 30 of the law of relationships between the lessor and the lessee ratified in 1978 would be null and void.

10- Realizing and evolving the right of business and vocation is dependent on the establishment of a rental relationship (the article 1 of the same law).

11- Transferring the right of business and vocation during the rental relationship is only permissible by preparing an official note and failing to adhere to this kind of official transfer will penalize the transgressor with guaranteeing the fulfillment of the law made by the lawmaker (article 19 and clauses 1 and 2 of the same law).

12- Upon evacuation, the courts are obliged to issue the order of satisfying the expert in specifying the amount of the right of business and vocation at the same time as issuing the writ.

13- The government and the legal regime attending to the right of business and vocation are function to the imperative laws and the principle of narrow interpretation, so the courts should only use the title "the right of business and vocation" for evaluation in the expertise order in addition to issuing the evacuation order according to the recent opposing concept of the article 15.

14- The right of business and vocation will be realized in the ownership of the lessee gradually.

15- Derived from the concept of the right of business and vocation and the main elements affecting it, the condition of liability of paying it will be reliant on the legitimate and lawful commercial activity of the lessee in the object of lease.

16- The right of business and vocation will be eliminated by the encroachment and dissipation of the lessee.

17- The legitimacy of the right of business and vocation originates from secondary rules (Mansourian, 2011).

These concepts are taken into consideration under the title of intangible assets from the financial perspective, so if the intangible assets are obtained separately, its equivalent is usually specified given the notes mentioned above; therefore, the final price can be reliably measured. The final price of an intangible asset which is reflected in the financial reports includes the cost of purchase and other directly relevant expenses which are imposed for the preparation of the asset to be used (Lanny G., Richard E., 1998).

The final price of the intangible assets can be measured using the following methods:

a) The amount of money paid to the conventional value of the rest of entrusted assets in place for the obtainment of intangible assets.

b) The current value of the debts which are charged for the obtainment of intangible assets.

c) The conventional value of the intangible assets obtained in place for the circulation of the shares.

The final price of the unidentifiable intangible assets will be measured by calculating the balance of amount of the final price of the group of assets or obtained commercial units from one hand, and the summation of the items of the final price dedicated to the obtained identifiable assets minus the debts charged from the other hand (The guidebook of applying the accepted principles of accounting, 1988).

12- Method of Valuation of Good will

(Method of evaluation Goodwill, 2011)

1- Average profit method, under this method goodwill is calculated on the basis of the average profit of previous years. The average profit is multiplied by the number of year's purchase.

Formula: Goodwill= Average profit × Number of years purchase

2- weighted Average profit Method, this method is modified version of the average profit method. Under this method the respective number of weights i.e. 1, 2, 3, 4 multiplies profit of every year, in order to find out value product and the total of products is then divided by the total of weights in order to ascertain the weighed average profit.

Formula: Goodwill= weighted Average profit \times No. of year purchase.

Weighted Average profit= total of products of profit/ total of weights.

3- Super profit Method, when the actual profit is more than the expected profit or normal profit of firm, it is called super profit. Under this method goodwill is to be calculate of on the following manner.

4- Capitalization of Average Profit method, under this method goodwill is difference between the total capitalizes value of the firm and the net assets of the firm.

Formula: Goodwill = Capitalizes value firm- Net Assets.

Capitalized value of the firm= Average profit \times 100/ Normal Rat of Return.

Net Assets= total Assets- External Liabilities.

5- Capitalization of super profit Method , Calculated Capitalized value of the firm calculate required profit on capital employed by using the following formula.

Formula : Normal profit= Capital Employed \times Required Rat of Return / 100

Goodwill = super profit \times 100/ Normal Rat of Return.

13- The amortization of intangible assets

The methods through which intangible assets are amortized should be appropriately revealed (Izaz, Ali, 2009). It's noteworthy that according to the No. 17 accounting standard, the right of business and vocation is not usually amortizable and upon the evacuation of the premise, it's necessary that its price be received by the lessee and according to the No. 19 accounting standard, the right of goodwill should be systematically amortized based on its useful life.

Conventionally, the entire methods of amortization of goodwill are criticized and considered to be optional because the age of the goodwill is unspecific and its exploitation period is immeasurable.

Although the amortization of the final price of the intangible asset in an optional way may lead to the identification of the expenses or the reduction of the value of the asset, the postponement of the amortization until the decrease of the value of asset is assured won't be a correct option and will be considered identification after realization (The guidebook of applying the accepted principles of accounting, 1998). There's this refutable hypothesis that the useful life of the intangible asset since its establishment would not exceed 20 years.

Principally, the estimation of the useful life of intangible asset for more than 20 years is not sufficiently reliable for justifying the longer amortization period. Therefore, it's assumed in Iran's accounting standards that the useful life of the aforementioned assets does not surpass 20 years.

With regards to intangible assets, generally the value of amortization is not taken into consideration unless such a value is reliably measurable or a third party guarantees buying it for a certain price after its useful life has come to an end. In order to amortize the intangible assets, direct methods, descending methods and units of production are foreseen in the standards; however, the direct method is used more than the other methods.

If it's specified that the asset has lost its economic profit during the useful life of the intangible asset, it is necessary that its recorded value be removed from the accounts and transferred to the expenses (Jalali Chimeh, 2000).

Like the tangible assets, the amortization of the intangible assets can be recorded in the register of deeds by indebting the account of the cost of amortization and make creditor the account of accumulated amortization. However, the majority of accountants prefer to directly make creditor the account of relevant intangible asset instead of making creditor the account of accumulated amortization (James, D., 2000). In order to specify the cost of amortization using the direct method, the following equation is used:

$$\text{The cost of amortization} = \frac{\text{Value of amortization} - \text{final price of the asset}}{\text{useful life}}$$

In this stage, we can answer the other part of the question proposed earlier which is that there's a difference between the two concepts of goodwill and the right of business, vocation and commerce in the financial perspective of Iran and these two concepts enter the financial reports with two different titles, different evaluation methods and as two different assets.

14- Conclusion

Although the two concepts of goodwill and the right of business, vocation and commerce are intermingled with each other, from the legal viewpoint and the perspective of financial profits, differences can be found between them which find their appropriate position.

From a legal viewpoint, these two concepts were interchangeably used under the title of goodwill in the past; however, after the identification of the different nature of the right of business, vocation and commerce, they were separated from each other and according to specific legal verdicts, the way of identifying and evaluating each of them is separately reviewable.

Having in mind the legal documents, goodwill and the right of business, vocation and commerce are evaluated separately and once they are purchased as a fraction of the commercial unit, they will be recorded in the financial reports and register of deeds. These concepts which are considered as intangible assets are placed in the category of the assets of the organization and according to the accounting standard they will be treated as assets, meaning that their final price would be recorded in the reports and should be amortized through the best assessment of their useful life.

According to the No. 17 accounting standard, the right of business and vocation as an identifiable intangible asset will not be amortized while the right of goodwill will be amortized as an unidentifiable intangible asset according to the No. 19 accounting standard using the appropriate method of measuring the amortization (direct method) and a suitable assessment of the useful life (20 years in Iran).

Therefore, there's an apparent and evident difference between these two concepts from a legal perspective, even though it has been recognized just recently, and from a financial perspective among the experts and scholars in Iran and it will pervade and become generalized progressively.

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