Assessing Goodwill in Hotel Business Case Study: Milcofil SA. Vrancea

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Abstract: This study focuses on the assessment of goodwill in the hotel business, an entity which brings together both tangible and intangible elements. Even though tangible elements are relatively easy to measure by typical accounting methods, the intangible part (which defines the most important feature of services) is rather difficult, if not impossible to measure. That is mainly the reason why the immaterial side, which defines famous businesses, brings the recognition of the image, advertisement, logo, emblem, fame or, in other words, all the elements that attract clients.

Keywords: goodwill; professional practices method; value in earning power method; updated financial flows method

JEL Classification: D12; L25; L83; M41

1. Introduction

We shall begin this paper with a defining quote from professor Lupu Nicolae³ “Defining (designing) the hotel product must be done for an exactly determined segment of clients, that is the dissatisfied ones...The sharp reduction of accommodation prices, even at a modest hotel, would rather raise suspicion from clients. If a big and famous hotel would reduce its prices to half, it would be in danger of remaining empty...while potential clients would still be inhibited by the hotel luxury and fame and they will not even step inside...” (Lupu, 2010)

Generally, speaking about the hospitality industry, we consider a certain standard with implications on the quality of the services offered, and the clients of the hotel “hope that hotel will be clean, comfortable, safe and secure. They expect to be furnished with hygienic conditions, good and sanitary food and beverage at a reasonable price.” (Gonenc Guler & Yukselen, 2010)

Therefore, the defining element of this industry is the intangible part because, since it is difficult to measure, having standardized elements for offering the service, elements which are limited in time, if

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³ Professor PhD. Nicolae Lupu, University of Economic Studies of Bucharest, Department of Tourism and Geography, skills and contributions regarding the management and technology in the field of hotels and restaurants.
an optimal marketing process is applied, it will bring fame, recognition, reputation which are essential elements in the clients choosing the hotel.

Services provided by hotels nowadays are designed for efficiency which, combined with the design elements, change clients’ perception. This new element, a fusion between the two dimensions, offers more than the quality provided by standards and goes up to a significant commitment of the employees, so the offered product, mixing luxury with experience, is exceptional, “a kind of unique art work”. (Michelli, 2008)

Implicitly, the hotel does not sell the basic product, accommodation, but much more than this, it will sell a commercial name, with emphasis on an identity, a success factor which will answer the question “How can we offer what people wish for?” (Diller, Shedroff, & Rhea, 2006)

2. Theoretical Concept

Hotels are enterprises whose financial assessment is relatively difficult to appreciate, this aspect being affected by a number of intangible factors, establishing the exact value being a process of making it tangible by means of common financial indicators such as turnover from accommodation and eating out, the rate of capitalization and updated financial flows.

The ability to produce profit depends on the ability to use tangible or intangible assets, but optimal performance management is put under the sign of the intangible assets, i.e., brand, the element that makes the difference, which ultimately translates into the total market value of the hotel.

Intangible assets can bring up to 70% of “the total value of the business “(Stanfield, 2005), however, despite their important role in financial performance they are not frequently used in common evaluation techniques.

In order to define intangible assets we can quote the International Accounting Standards Committee which defines intangible assets to be “assets that manifest themselves by their economic properties, they do not have physical substance, they grant rights and privileges to their owner; and usually generate income for their owner. Intangible Assets can be categorized as arising from Rights, Relationships, Grouped Intangibles, or Intellectual Property” (Mard et al., 2002).

As an element of accounting, goodwill is defined as a set of movable and immovable, tangible and intangible assets which a businessman provides for a business in order to attract customers and thereby to gain profit.

According to some authors, the intangible assets can be grouped according to the possibilities of identifying them (Isfanescu, Serban & Stanoiu, 2008), as follows:

1. Unrecognizable intangible assets of business - with indefinite life span (cannot be written off), as real estate property, machines and equipment, existing clients, location, local reputation;

2. Unrecognizable intangible assets of the person – with uncommercial untransferable value, staff reputation, skill, relations with clients, managerial spirit;

3. Unrecognizable intangible assets of the business-can be individually assessed with definite life span, such as: brand, product name, contracts, licenses, patents.

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1 The International Accounting Standards Committee (IASC) was founded in June 1973 in London and was replaced by the International Accounting Standards Board on 1 April 2001. It was responsible for developing the International Accounting Standards and promoting the use and application of these standards.
In the field of goodwill assessment, it should be understood as follows:” beyond the market value of tangible assets and liabilities in the balance sheet, there may be an additional incorporeal value, (goodwill); its existence will be linked to the more or less effective use of the assets of the enterprise. If the assets are well managed and operated, so they bring out a higher expected return of the market, then you can get goodwill...” (Toma, 2011). Elements which generate this return refer to the reputation of the company, product quality, location, customers, and commercial competence of employees in relation to clients.

3. The Case Study: Assessing Goodwill within Fashion Center Hotel****, Focsani, Vrancea

3.1. Hotel’s General Presentation

The hotel belongs to Milcofil S.A company, registered at the Chamber of Commerce and Industry of Vrancea district, respectively at the Trade Register Office under registration number J19/228/1991.

- **The legal form** of the company is joint-stock.
- **Company headquarters** is in România, Focșani town, no.12 București Blvd; the phone number is 0237-613200 and fax number is 0237-613200
- **Identification data** is as follows: fiscal code R1450313;
- **Its branch** is to provide travel services, retail trade, catering services, exchange operations, promoting and contracting foreign tourist programs and their implementation. code CAEN 5510; CAEN 5610.
- **Social capital** in amount of 1516985.99 lei divided among the shareholders with a total of 686419 shares with a value of $ 2.21 per share. Shareholder structure is as follows:
  1. Sorste S.A. – main shareholder 91.32 %
  2. Other shareholders – 8.68%

The services are structured as follows:

- **basic service** - which is the core business of the company providing the service-accommodation and catering;
- **complementary services** are provided so that the core service can meet certain quality standards - telephone, telex, telegram, fax, room-service, guarded parking;
- **additional services** are activities that support the provision of basic service - check-in, information, luggage loading and unloading, storing valuable items, internet connection, air conditioning, theater tickets booking, shows, organized meals for groups, ironing, washing, in normal or emergency system, reception hall, gym.

3.2. Accommodation and prices

Fashion Hotel accommodation capacity expressed in rooms and number of existing places to stay is emphasized in the following chart:
Accommodation prices displayed represent the price of renting a room for 24 hours and one can differentiate among them according to: type of room, way of occupying a double room (by one or two people), type of clients (on their own or clients of travel agencies, among which some travel in groups or individually), time span (during tourist season or off-season) which generate a system of charges.

The prices charged at Fashion Hotel for the 25 rooms with 44 available accommodation places are presented in Chart 2.

### Chart 2. Prices charged at Fashion Hotel from 01.09.2013 to 30.04.2015

<table>
<thead>
<tr>
<th>No.</th>
<th>Existing rooms</th>
<th>Price expressed in lei (day/place)</th>
<th>Price expresses in EURO (day/room)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Single room</td>
<td>271</td>
<td>The price is according to the exchange rate. It uses the service Raiffeisen on line with the possibility of paying by card in currencies</td>
</tr>
<tr>
<td>2.</td>
<td>Double room</td>
<td>534</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Apartment</td>
<td>534</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Fashion Hotel, accommodation department

Prices for the accommodation of newly-arrived tourists are visibly displayed at the check-in desk and they are expressed in lei/day/place/room type; prices include breakfast. In order to encourage longer stays, they use long stay accommodation prices. Prices set by contracts for organized groups are not displayed.

### 3.3. Assessing Goodwill within Fashion Center Hotel****

In the category of S.C Milcofil S.A. tangible elements there are: materials, equipment, tools, buildings, that is the tangible goods that serve the merchant in order to operate the fund. These specialized tangible assets are in very good condition to attract clients.

Among the intangible assets of the company we can mention: company, logo, customer, top commercial location, industrial property law. The case law includes in the goodwill even the right of using the space in which one exploits goodwill.

The firm is the name used by the operator when carrying out the operations that are the subject of trade and under which they sign; this is S.C Milcofil S.A, the Fashion Center Hotel****. The logo is the sign which distinguishes a merchant from another (“shop-sign” in the English terminology). The emblems are representational (geometric shapes, plants, animals etc.), verbal (denominations, words, letters, numbers, etc.), or complex (combinations of the first two).

**The number of clients** is represented by all natural and legal persons who hold relations with S.C Milcofil S.A and from an accounting point of view they are expressed as a figure. The factors influencing the number of clients are either internal factors (objective – headquarters, the quality of productive fixed assets, the quality of products, or subjective – connected to the staff: loyalty, quality
of service, advertising) or external factors which influence the number of clients and the company’s
overvalue: elements connected to competition and the held market.

**The commercial location** represents the power or capacity of the company to attract clients. The
clients of Fashion Center Hotel **** are represented mostly by business people, but not only them,
who are attracted by the quality of products or services and by the quality of the employed staff.

The most commonly used assessing methods of goodwill are grouped into two main categories, as
follows:

- traditional assessing methods (goodwill value is determined by the market price);
- financial methods (hotel industry productiveness value is sought out).

However, the assessing methods can be grouped according to the size of the hotel, that is hotels
belonging to a hotel chain or individual hotels (Stanciulescu, et.alli., 2003). In the case of the latter, we
can distinguish a series of characteristic methods which assess the hotel according to its size.

According to this criterion, we can distinguish:

- **professional practice method** – mainly used in the case of evaluating individual hotels, but it can
  also be used in the case of medium-sized hotels which belong to a chain of hotels. The method is
  based on determining goodwill on the base of a multiplication factor. “k” (defined by the evaluator
  according to the financial analysis and diagnosis, which can have values between 1.5 and 5) , applied
to the company’s beneficiary capacity. In the case of Fashion Center Hotel****, which also owns a
  restaurant, the multiplication factor can have the following values (Lupu, 2010)
  - 1 – 2.5 times the turnover from accommodation services;
  - 0.5 – 1 times the turnover from food services.

- **the method of profitability value** – or the method of capitalization of the result, is based on a future
evaluation of the hotel in generating net flows of liquid assets (net profit, net cash-flow, gross
overpayment from operations (EBE – from Romanian – excedentul brut din exploatare) in a sure
environment.

Evaluating goodwill using this method starts from a multiplication factor applied to the net result of
operations.

The multiplication factor (k) depends on the risk of the business (sure or unsure environment), on the
yearly rate of inflation and on the rate of interest on bonds issued by the State.

This is calculated as proportion

\[ k = \frac{1}{t} \]

where t is the capitalization rate (t) previously established, which is calculated according to the
formula:

\[ t = (r - f)(1 + R) \]

where:

- \( r \) = rate of interest for bonds (the state bonds (state titles) issued in Romania are financial tools which
  confirm the public debt of the issuing entity (Ministry of Economy Finance) on short, average (1 - 5
  years) and long term (over 5 years);
Performance and Risks in the European Economy

f = Inflation rate %

c) the method of updated financial flows– or the updated liquid assets flow (DCF), is based on the estimated cash-flow on long term.

\[ V_f = \sum_{i=1}^{n} \frac{C_{fi}}{(1+t)^i} + \frac{V_r}{(1+t)^n} \]

where:

- \( V_f \) = goodwill value
- \( C_{fi} \) = cash-flow anticipated for the year \( i \) (\( i = 1,2,3,......10 \)). It is made for a limited period of time, 10-20 years, usually 10 years.
- \( t \) = capitalization rate
- \( V_r \) = updated residual value of goodwill
- \( n \) = number of years

The main point of the method is the assessment of the hotel “...which is done according to the development prospects. The method uses the financial principle according to which the value of an asset is equal to the present value of the net liquid asset flow (cash-flow) possible of being generated in the future by that asset”. (Toma, 2011)

3.3.1. Evaluating by Professional Practice Method

Fashion Center Hotel**** is a hotel with a restaurant so we will apply the multiplication factors on the two categories of the turnover, obtained from accommodation and food:

- 1 – 2.5 times the turnover generated by the accommodation
- 0.5 – 1 times the turnover generated by food services.

The turnover considered is an average of the turnovers from the last 2-3 years.

**Chart 3. Turnover structure on categories**

<table>
<thead>
<tr>
<th>Years</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Arithmetic average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation</td>
<td>3.433.359</td>
<td>3.224.676,7</td>
<td>3.096.623,4</td>
<td>3.251.553</td>
</tr>
<tr>
<td>Food turnover</td>
<td>2.288.906</td>
<td>1.382.004,3</td>
<td>1.667.412,6</td>
<td>1.779.441</td>
</tr>
</tbody>
</table>

*Source: processed by author according to data about S.C. Milcofil S.A.*

Applying the maximal values of the two factors we get the value of goodwill:

**Chart 4. Calculating goodwill for S.C Milcofil S.A**

<table>
<thead>
<tr>
<th>Structure of goodwill</th>
<th>Applied factor</th>
<th>Average turnover</th>
<th>Goodwill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation</td>
<td>2.5</td>
<td>3.251.553</td>
<td>8.128.882,5</td>
</tr>
<tr>
<td>Food</td>
<td>1</td>
<td>1.779.441</td>
<td>1.779.441</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>9.908.323,5</td>
</tr>
</tbody>
</table>

*Source: processed by author according to data about S.C. Milcofil S.A.*
Turnover – independent variable in the financial analysis is the determinant characteristic of S.C Milcofil S.A. value. Its level at the time of analyzing the company covers the expenses, the point when the company starts making a profit, except the year 2008, when the company management made the decision to modernize the accommodation places. As a matter of fact, one can notice that once work finished, the turnover of the company started to grow, which generated the growth of the profit and the market value of the company as well.

3.3.2. Method of Profitability Value

It allows the assessing of goodwill in a sure environment for an indefinite time, on the one hand, and for a definite period of time for which there is the certainty of getting the wished result, on the other hand. Determining the value of goodwill in a sure environment for an indefinite period of time is carried out by applying a multiplication factor calculated according to the capitalization rate:

\[ k = \frac{1}{i} \]

\[ t = (r - f)(1 + R) \]

An important issue in estimating the profitability value is taking into account the inflation and the interest rate for loans.

Chart 5. Average rate of yearly interest for loans from 2007 to 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate %</td>
<td>6.10</td>
<td>10.25</td>
<td>8.50</td>
<td>7.47</td>
<td>6.25</td>
<td>5.50</td>
</tr>
</tbody>
</table>


Establishing the average rate of loan interest (r) during the analyzed period of time using the arithmetical average of the figures above we get the value of 7.4%, yearly average rate of interest.

In order to determine the yearly rate of inflation, we are going to calculate the arithmetic average of inflation rate values during the last 10 years.

Chart 6. Consumer price index and inflation rate from 2003 to 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumer price index %</th>
<th>Inflation rate % (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>103.7</td>
<td>3.7</td>
</tr>
<tr>
<td>2004</td>
<td>102.9</td>
<td>2.9</td>
</tr>
<tr>
<td>2005</td>
<td>102.2</td>
<td>2.2</td>
</tr>
<tr>
<td>2006</td>
<td>101.3</td>
<td>1.3</td>
</tr>
<tr>
<td>2007</td>
<td>104.8</td>
<td>4.8</td>
</tr>
<tr>
<td>2008</td>
<td>107.8</td>
<td>7.8</td>
</tr>
<tr>
<td>2009</td>
<td>105.5</td>
<td>5.5</td>
</tr>
<tr>
<td>2010</td>
<td>106</td>
<td>6</td>
</tr>
<tr>
<td>2011</td>
<td>105.7</td>
<td>5.7</td>
</tr>
<tr>
<td>2012</td>
<td>103.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Average</td>
<td>104.32</td>
<td>4.32</td>
</tr>
</tbody>
</table>

Source: INS, Romania statistical directory, 2013

Consumer price index measures the overall evolution of prices for a cart of products and for the specialized services used by population. Yearly rate of inflation is calculated by subtracting 100 from the yearly index of consumer prices.

For S.C Milcofil S.A the value of the capitalization rate is:
\( t = 9.02\% \)

R = risk; in the case of hotels it is seen as low or medium and its values are 25 – 50%

\[ k = \text{multiplication factor}; k = \frac{1}{t} = \frac{1}{0.09} = 11.1 \]

Applying this factor to the value of net profit of the company, we get the net profit capitalization for a definite time, which represents the assessing of goodwill for S.C Milcofil S.A.

**Chart 7. Assessing goodwill in a sure environment**

<table>
<thead>
<tr>
<th>Years</th>
<th>Net profit</th>
<th>Multiplication rate</th>
<th>Yearly goodwill</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>309,220</td>
<td></td>
<td>3,432,342</td>
</tr>
<tr>
<td>2007</td>
<td>3,278,657</td>
<td>11.1%</td>
<td>36,393,092</td>
</tr>
<tr>
<td>2008</td>
<td>-267,471</td>
<td>-</td>
<td>-2,968,928,1</td>
</tr>
<tr>
<td>2009</td>
<td>373,624</td>
<td></td>
<td>4,147,226,4</td>
</tr>
<tr>
<td>2010</td>
<td>334,889</td>
<td></td>
<td>3,717,267,9</td>
</tr>
<tr>
<td>Total goodwill for the 5 years</td>
<td></td>
<td></td>
<td>44,721,000</td>
</tr>
<tr>
<td>Goodwill average</td>
<td></td>
<td></td>
<td>8,944,200</td>
</tr>
</tbody>
</table>

*Source: Data processed by author using the accounting balance of S.C Milcofil S.A*

Assessing goodwill can also be done by capitalizing the result for a limited period of time for which it is certain to obtain that result. The period of time taken into account is of 10 – 20 years, usually 10 years.

In this case, capitalization is done by applying a multiplication factor (the factor of the present value of an annuity) calculated according to the formula:

\[
1 - \left(1 + \frac{t}{n}\right)^{-n} = \frac{1}{t}
\]

Taking into account the capitalization rate determined previously, which is 9%, the multiplication factor gets the value:

\[
1 - \left(1 + 0.09\right)^{-10} = 0.09 = 6.41
\]

The value of goodwill obtained by the capitalization of yearly net profit is:

**Chart 8. Evaluating goodwill by the capitalization of net profit**

<table>
<thead>
<tr>
<th>Years</th>
<th>Net profit</th>
<th>Multiplication factor</th>
<th>Yearly goodwill</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>309,220</td>
<td>6.41</td>
<td>1,982,100,2</td>
</tr>
<tr>
<td>2007</td>
<td>3,278,657</td>
<td></td>
<td>21,016,191</td>
</tr>
<tr>
<td>2008</td>
<td>-267,471</td>
<td>-</td>
<td>-1,714,489,1</td>
</tr>
<tr>
<td>2009</td>
<td>373,624</td>
<td></td>
<td>2,394,929,8</td>
</tr>
<tr>
<td>2010</td>
<td>334,889</td>
<td></td>
<td>2,146,638,4</td>
</tr>
<tr>
<td>Total goodwill for the 5 years</td>
<td></td>
<td></td>
<td>25,825,370</td>
</tr>
<tr>
<td>Goodwill average</td>
<td></td>
<td></td>
<td>5,165,074</td>
</tr>
</tbody>
</table>

*Source: Data processed by author using the accounting balance of S.C Milcofil S.A*

The higher the number of years, the more the value of goodwill tends to the one associated to the indefinite time (infinite). For a period of 20 years, the multiplication factor is 9.13, and goodwill is estimated at 7,356,805.8 lei.
Loan interest rate represents the minimum limit of the profitability of the indebted company. Comparing loan interest rate to the economic profitability of the company during the analyzed time, one can notice that the latter has considerably decreased. An economic profitability rate lower than the average loan interest rate emphasizes the fact that the company is going through a hard time, and its market value is getting lower.

We can notice from analyzing goodwill by profit capitalization that at a high rate of interest during the observed time, inflation gets lower after the year 2010, which generates a higher rate of unemployment on labor market and to a reduction of staff within companies. Analyzing the evolution of positions within S.C Milcofil S.A, we observe a reduction of jobs in 2009, even if in 2008, when the modernization of the hotel finished, workforce considerably rose from 36 to 55 positions. Thus, in 2010 there were 29 workers (in 2014 the company has the same number of workers, respecting the manning rate for mandatory services for a four-star category).

3.3.3. The Method of Updated Financial Flows (Updating Future Cash Flows)

This method is based on the net cash flow estimated for a period of time of 8 to 15 years. Usually, a period of 10 years is adopted since it is considered that estimations are random for longer periods of time.

The updating rate \( t \) applied is similar to the capitalization rate, this model using present prices and calculating a yearly rate of future inflation.

Goodwill value \( V_f \) is given by the 10 – year addition of updated cash-flow to which the updated out-of-balance value of goodwill \( VR \) is added:

\[
V_f = \sum_{i=1}^{n} \frac{C_i}{(1 + t)^i} + \frac{1}{(1 + t)^{10}} VR
\]

\[
VR = V_f (1 + f)^{n}
\]

Cash-flows are calculated starting from yearly net profit and rectifying it with all the operations that affect in one way or another the cash flow. Since we are interested in future cash flows, that means the availability of prognoses for balance which are practically absent. Moreover, theoretically we need very detailed data on the company’s activity and its accounting procedures in order to carry out the necessary changes.

The analysis makes a difference between the two periods in the future activity of the company: the near future, 5 to 10 years, considered a growth period, and the time after the growth, when the company reaches a certain stage of maturity.

Concerning S.C Milcofil S.A, we started off from a statement made by the company in 2010 when it was setting as target to reach a turnover of 10,000,000 lei in a 10 year span. Thus, we considered the period from 2011 to 2020 as being the growth period and we estimated a yearly growing turnover to reach 10,000,000 lei. For each year during this period we estimated the necessary balance sheet elements and we calculated the cash flows to be obtained by the company. The formula is as follows:

\[
\text{Cash Flow} = \text{Net Profit} + \text{Amortization} - \text{Fixed assets expenses} - \text{Growth of working capital}
\]
Anticipating future cash flows for S.C Milcofil S.A

<table>
<thead>
<tr>
<th>Years</th>
<th>Anticipated cash-flow</th>
<th>Updating factor (1/(1+r))</th>
<th>Cash-flow updated in 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>401.800</td>
<td>0.91</td>
<td>365.638</td>
</tr>
<tr>
<td>2012</td>
<td>423.000</td>
<td>0.84</td>
<td>355.320</td>
</tr>
<tr>
<td>2013</td>
<td>445.000</td>
<td>0.74</td>
<td>342.205</td>
</tr>
<tr>
<td>2014</td>
<td>465.000</td>
<td>0.71</td>
<td>329.685</td>
</tr>
<tr>
<td>2015</td>
<td>480.000</td>
<td>0.65</td>
<td>311.520</td>
</tr>
<tr>
<td>2016</td>
<td>515.000</td>
<td>0.60</td>
<td>306.425</td>
</tr>
<tr>
<td>2017</td>
<td>533.000</td>
<td>0.55</td>
<td>291.018</td>
</tr>
<tr>
<td>2018</td>
<td>561.000</td>
<td>0.50</td>
<td>281.622</td>
</tr>
<tr>
<td>2019</td>
<td>585.000</td>
<td>0.46</td>
<td>269.100</td>
</tr>
<tr>
<td>2020</td>
<td>615.000</td>
<td>0.42</td>
<td>259.530</td>
</tr>
<tr>
<td>Total</td>
<td>5,023.800</td>
<td></td>
<td>3,112.063</td>
</tr>
</tbody>
</table>

Source: Data processed by author

\[V_f = 3.112.063 + \frac{1}{(1 + 0.09)^{10}}V_f (1 + 0.014)^{10}\]

\[0.517V_f = 3.112.063\]

\[V_f = 6.019.464.2\text{lei}\]

Cash flow analysis is used when evaluating some complex tourist structures with diversified and numerous activities that need some yearly investments of high values in order to maintain or grow service potential and keep the clients. Falling into the category of commercial risks, the risk of losing clients is higher and higher within the company, once its spaces are getting more and more worn out. That is the reason why the management of S.C Milcofil S.A has carried out refurbishing and restyling works from 2006 to 2008.

4. Conclusions

The research has been implemented in order to verify the originality of the theoretical methods under debate in the already published papers. Even if the accounting data is not up-to-date (there is no accounting data available covering the time after 2010 since the company is under control carried out by state authorities), we can estimate the average of goodwill with the help of the used methods.

If using the first two methods leads to similar results, the third one shows a low value of goodwill. The causes of this considerable change based on future estimations show that location is not exactly an advantage, even if we talk about business tourism (far from downtown, on the outskirts of Focsani), it does not offer an attractive overall image (the building is redone in an industrial area with no pleasant view), and the proportion quality/price is very high compared to the offer of the other market competitors (Fashion Center Hotel**** does not post its prices on different booking sites unlike its competitors). Even in a positioning research (Accommodation Facilities Positioning, European Economic, Issue 2(33)/2014 ISSN: 1582-8859), the hotel offers only comfort and the complexity of services (ordinary for the category it belongs to) in contradiction to its reputation and positioning on the market in Focsani.
4. Bibliography


*** The International Accounting Standards Committee (IASC).