# What is Goodwill in Accounting?

Worksheet

Goodwill is the excess of the purchase price over the fair value of net identifiable assets acquired in a business combination; it is not amortized but tested at least annually for impairment, while intangible assets with finite useful lives are amortized.

$$G = P - FV$$

G = Goodwill
P = Purchase Price
FV = Fair Value of Net Assets

## Questions

1. How often must goodwill be tested for impairment?
A) Never, once recognized
B) At least annually, or more often if indicators exist
C) Only when the company changes auditors
D) Every 5 years

2. If the recoverable amount of a cash-generating unit exceeds its carrying amount, the impairment loss is:
A) Positive
B) Zero
C) Equal to carrying amount
D) Equal to recoverable amount

3. Which intangible asset is amortized over its useful life?
A) Goodwill
B) A patent with a 10-year legal life
C) An indefinite-life trademark
D) Neither

4. Internally generated goodwill is:
A) Recognized at fair value
B) Never recognized as an asset
C) Amortized over 40 years
D) Recognized only if positive

5. The carrying amount of goodwill is 10,000,000; the recoverable amount is8,500,000. Find the impairment loss.

6. Carrying amount is 6,000,000; recoverable amount is7,200,000.

7. A patent is purchased for $600,000 with a 10-year useful life, amortized straight-line. Find the annual amortization.

8. Define: What is goodwill?

9. Define: Is goodwill amortized?

10. Define: Impairment loss formula?

# Answer Key

1. B) At least annually, or more often if indicators exist — Goodwill is not amortized but must be tested for impairment at least annually and whenever indicators of impairment exist.

2. B) Zero — No impairment is recognized when recoverable amount is at or above carrying amount.

3. B) A patent with a 10-year legal life — Finite-life intangibles like patents are amortized; goodwill and indefinite-life intangibles are tested for impairment instead.

4. B) Never recognized as an asset — Accounting standards prohibit recognizing internally generated goodwill; it only arises from a business combination.

5. Impairment = max(0, 10,000,000 −8,500,000) = $1,500,000

6. RA (7,200,000) > CA (6,000,000) → no impairment, loss = $0

7. Annual amortization = 600,000 / 10 =60,000

8. The excess of purchase price over the fair value of net identifiable assets acquired in a business combination.

9. No — it's tested for impairment at least annually instead of being amortized.

10. Impairment loss = max(0, Carrying amount − Recoverable amount).