

Question 1 of 20

On January 2, Year 3, Paye Co. purchased Shef Co. at a cost of \$500,000 that resulted in recognition of goodwill of \$200,000. During the first quarter of Year 3, Paye spent an additional \$80,000 on expenditures intended to maintain goodwill. On December 31, Year 3, the fair value of the reporting unit with which the goodwill is associated was \$505,000. The change in fair value was attributed to the unidentifiable assets acquired from Shef. In its December 31, Year 3 balance sheet, what amount should Paye report as goodwill?

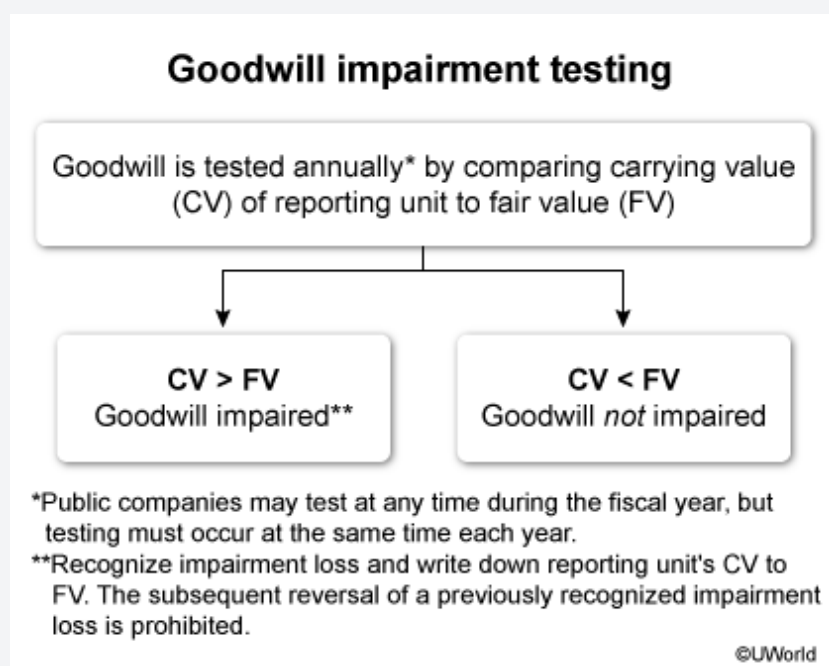
A. \$200,000 ✓

B. \$205,000

C. \$280,000

D. \$285,000

Explanation:



Goodwill is an intangible asset with an indefinite useful life that is generally **tested for impairment** rather than amortized. **Goodwill** is considered **impaired** when the **carrying value (CV)** of the reporting unit with which it is associated **exceeds** that reporting unit's **fair value (FV)**. Once an **impairment loss is recognized**, the **CV of goodwill is reduced** to FV and becomes the basis for all future impairment tests.

In this scenario, Paye Co. purchased Shef Co. for \$500,000; Paye recognized \$200,000 for the unidentifiable assets (ie, goodwill) and \$300,000 for the identifiable assets. As of December 31, Year 3, the goodwill's CV was *less than* its FV of \$205,000 (505,000 FV of reporting unit – 300,000 CV of identifiable assets), indicating that impairment has not occurred. Therefore, the **CV of goodwill** that Paye should report on December 31, Year 3, is **\$200,000**.

(Choice B) Goodwill of \$205,000 incorrectly assumes that the value of goodwill can be increased from changes in its FV. Due to conservatism, goodwill is *never written up* to FV, and subsequent recoveries of a previously recognized impairment loss are not recognized.

(Choice C) Goodwill valued at \$280,000 incorrectly includes the costs to maintain goodwill. These costs are expensed as incurred because (absent a purchase by another entity) it is impossible to objectively determine how much these expenditures increase the goodwill's value.

(Choice D) Goodwill of \$285,000 incorrectly includes the maintenance costs and increase in FV.

Things to remember:

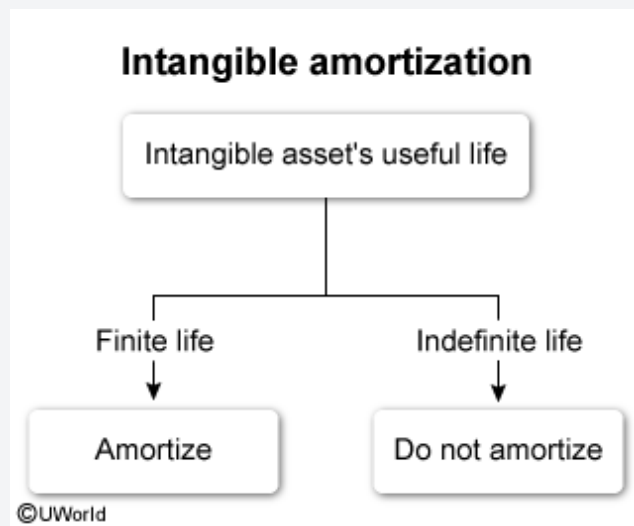
Goodwill has an indefinite useful life and is generally tested for impairment rather than amortized. If the carrying value of the reporting unit with which the goodwill is associated exceeds that reporting unit's fair value, the goodwill is considered impaired. Costs to maintain the value of goodwill are expensed as incurred.

Question 2 of 20

Tech Co. bought a trademark on January 2, Year 2. The intangible was being amortized over its useful life of 40 years. The carrying value at the beginning of Year 2 was \$38,000. It was determined during the current year that the cash flow from the trademark will be generated indefinitely at the current level. What amount should Tech report as amortization expense on its December 31, Year 4, income statement?

- A. \$0 ✓
- B. \$950
- C. \$1,000
- D. \$38,000

Explanation:



A **trademark** is an **intangible asset** that provides legal protection for the exclusive use to the identifying name of a product or process. Protection lasts 10 years and can be renewed an unlimited number of times. For accounting purposes, intangible assets with definite lives (including trademarks) are generally **amortized** over the **shorter** of their estimated **useful** or **legal lives**. However, if no legal, economic, or other factors limit useful life, the intangible may have an **indefinite** life. These assets are **not amortized** but are **tested** at least annually for **impairment**.

Although the trademark was previously amortized and had an original useful life of 40 years, new information suggested it will generate cash flows indefinitely. Therefore, absent any limiting information, the trademark should be accounted for as an intangible asset with an *indefinite* useful life. Tech Co. should report **\$0 of amortization expense** on its Year 4 balance sheet and instead test the intangible each year for impairment losses.

(Choices B and C) An expense of \$950 assumes the trademark is amortized over its originally assessed useful life. An expense of \$1,000 assumes amortization over the originally assessed *remaining* useful life.

(Choice D) An expense of \$38,000 implies the trademark is amortized entirely in one year.

Things to remember:

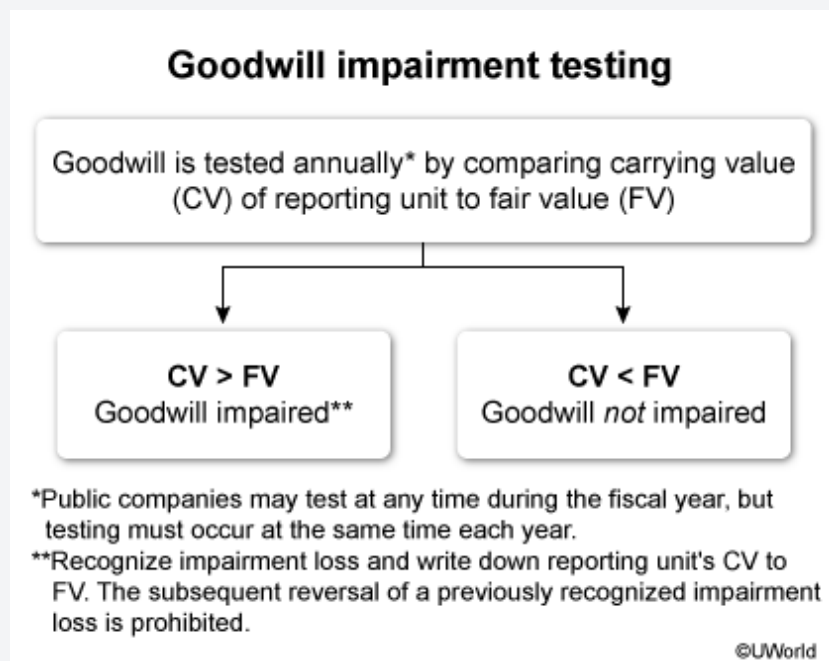
Intangible assets with *definite* lives are generally amortized over the shorter of their estimated useful or legal lives. Intangible assets with *indefinite* useful lives are not amortized but instead are tested annually for impairment.

Question 3 of 20

For a public business entity, the goodwill impairment test is required to be performed

- A. Only at the end of the fiscal year.
- B. Only at the beginning of the fiscal year.
- C. Any time during the last quarter of the fiscal year.
- D. Any time during the fiscal year, provided it is performed at the same time every year. ✓**

Explanation:



Goodwill is the future economic benefit from assets acquired in a business combination that are not individually identified (eg, brand name, existing customer relationships). It is an intangible asset that represents the excess amount over the fair value of the net identifiable assets a buyer is willing to purchase. Goodwill has an indefinite useful life and therefore is not amortized like intangibles with definite lives.

However, due to conservatism, goodwill is still tested for impairment. Impairment occurs when the carrying value of the reporting unit's net assets exceeds its fair value. Public companies can **test for impairment at any time** during the **fiscal year** (and as many times as needed) but must perform the test at the **same time** at least **annually (Choices A, B, and C)**.

Note: Nonpublic companies have an option to amortize goodwill over its useful life, not to exceed 10 years. However, they are still required to test for impairment at least annually by assessing triggering events (eg, increased competition) and, if necessary, quantitatively assessing if goodwill has been impaired.

Things to remember:

Goodwill is an intangible asset with an indefinite life that is tested for impairment rather than amortized. Public companies must test for impairment at least annually; the test

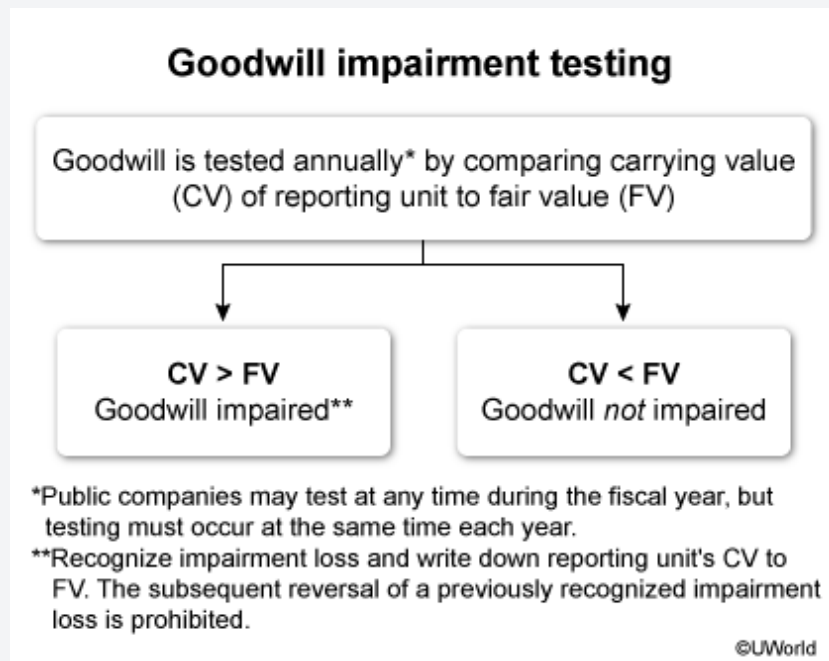
may be performed at any time during the fiscal year provided it is performed at the same time every year.

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After an impairment loss is recognized, the adjusted carrying amount of an intangible asset shall be its new accounting basis. Which of the following statements about subsequent reversal of a previously recognized impairment loss is correct?

- A. It is prohibited. ✓
- B. It is required when the reversal is considered permanent.
- C. It must be disclosed in the notes to the financial statements.
- D. It is encouraged, but not required.

Explanation:



Goodwill is an intangible asset that represents the excess amount a buyer is willing to spend over the fair value (FV) of a business's net identifiable assets. Goodwill is the value held by a company due to its brand name, customer base, proprietary technology, etc.

Although **goodwill** has an indefinite useful life and generally is not amortized, it is **tested for impairment** at least annually. Goodwill is considered impaired when the carrying value (CV) of the reporting unit with which it is associated exceeds that reporting unit's FV. Once an **impairment loss** is **recognized**, the **CV** of **goodwill** is **reduced** to FV and becomes the basis for all future impairment tests.

Due to conservatism, subsequent **recoveries** of a **previously** recognized **impairment loss** are **not recognized** even if the FV of goodwill is higher than its CV. **Increasing** the goodwill's value in this manner is **prohibited** to avoid subjectively overstating that value (**Choices B, C, and D**).

Things to remember:

Goodwill is an intangible asset that represents the excess amount a buyer is willing to spend over the fair value of a business's net identifiable assets. Goodwill is tested at

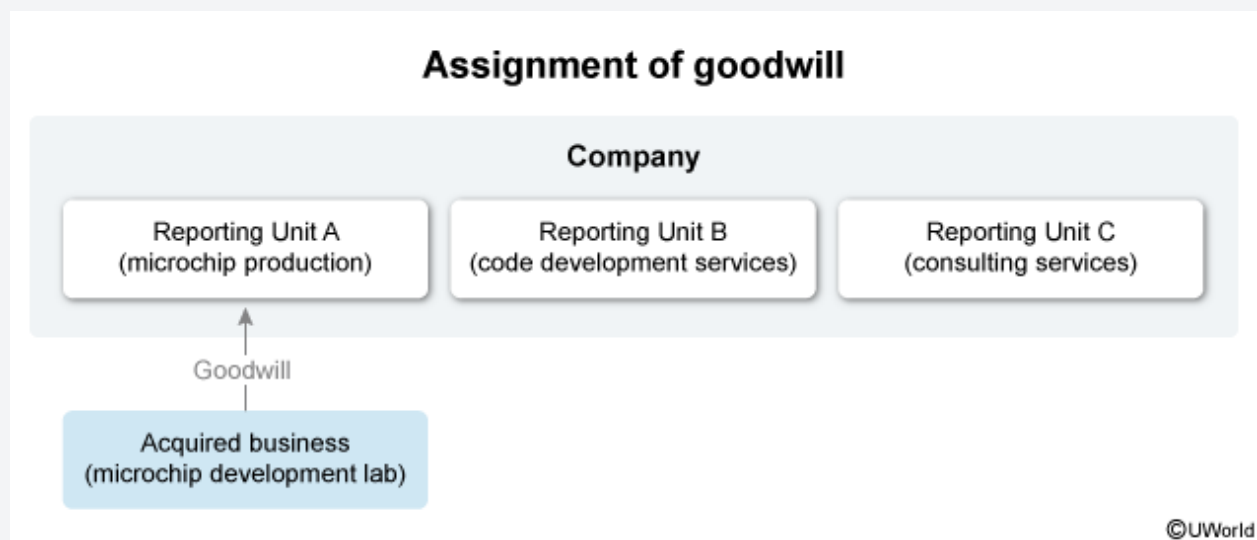
least annually to determine whether the carrying value of the reporting unit with which it is associated exceeds that reporting unit's fair value (ie, goodwill is impaired). Subsequent recoveries of a previously recognized impairment loss are prohibited.

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X Company, a public entity, has goodwill that consists of five reporting units from three acquisitions. In the first acquisition, the assets and liabilities of the subsidiary were integrated into X Company's books. The second acquisition involves an additional payment to the seller if certain results are achieved. As a result, separate books are maintained for the subsidiary. The third acquisition involves three separate managers, each running a different department. As a result, three separate sets of books and records are being maintained for this acquisition, one for each department, with goodwill separately allocated to each one. X Company is preparing financial statements and performing an impairment evaluation on its reported goodwill. How many separate impairment evaluations is X Company required to perform?

- A. One.
- B. Three.
- C. Four.
- D. Five. ✓

Explanation:



An **operating segment** within a company has **discrete financial information** (ie, its own books and records) and operating results that are regularly reviewed by company management. An operating segment may consist of **one or multiple reporting units** that further segregate the financial reporting activities of the segment.

Goodwill is an intangible asset resulting from the acquisition of a business. It represents what a buyer paid for a business above the value of the net identifiable assets of the acquired company. **Goodwill is assigned to the reporting unit** (ie, **operating segment** or one level below) that **receives the benefit** of the **acquired business**. In public companies, goodwill assigned to each reporting unit must be tested for impairment at least annually.

In this scenario, X Company has goodwill from three acquisitions:

- The 1st acquisition assigned goodwill to X Company.
- The 2nd acquisition assigned goodwill to the acquired subsidiary.
- The 3rd acquisition assigned goodwill to three departments, each with its own set of books and records.

The acquisitions resulted in five sets of discrete financial information (ie, five sets of books and records) that are reviewed by management. X Company assigned goodwill to five different reporting units and must perform **five** separate **impairment evaluations** in each reporting period (**Choices A, B, and C**).

Things to remember:

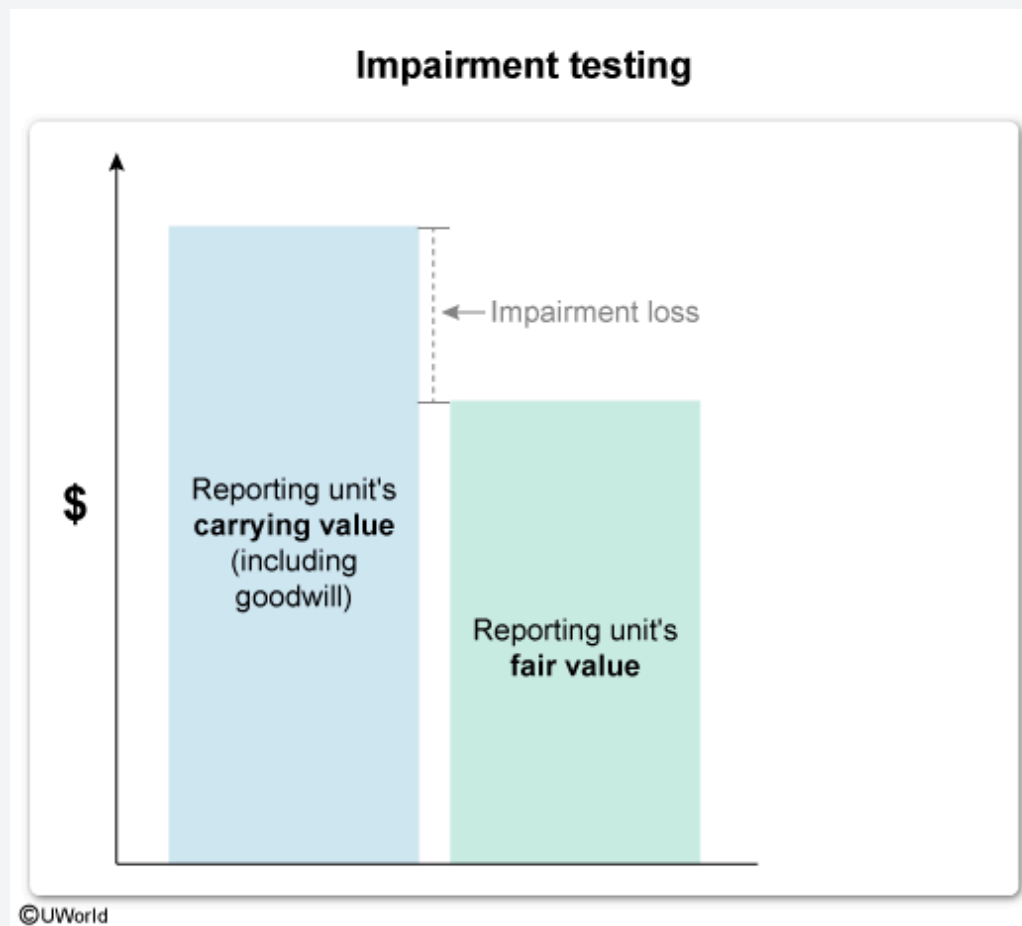
Operating segments have separate business activities with discrete financial information that is reviewed by management. Goodwill is assigned (and impairment of goodwill must be evaluated) to any reporting unit (ie, operating segment or one level below) that receives a benefit from the acquired business.

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A company reported \$6 million of goodwill in last year's statement of financial position. How should the company account for the reported goodwill in the current year?

- A. Determine the current year's amortizable amount and report the current-year's amortization expense.
- B. Determine whether the fair value of the reporting unit is greater than the carrying amount, including goodwill, and report any gain on goodwill in the income statement.
- C. Determine whether the fair value of the reporting unit is less than the carrying amount, including goodwill, and report any impairment loss on goodwill in the income statement. ✓**
- D. Determine whether the fair value of the reporting unit is greater than the carrying amount, including goodwill, and report the recovery of any previous impairment in the income statement.

Explanation:



Like other intangibles with *indefinite* useful lives, goodwill is not amortized (**Choice A**). Instead, it is tested annually or more often for impairment using the qualitative assessment and/or the quantitative impairment test.

In the quantitative impairment test, **testing** goodwill for impairment **involves comparing** a reporting unit's **fair value against the carrying amount** (ie, book value), **including goodwill**. If a reporting unit's fair value is less than the carrying amount, including goodwill, an impairment loss on goodwill must be reported in the income statement.

(Choices B and D) Accounting standards prohibit recognizing unrealized gain or recovering previous impairment on goodwill.

Things to remember:

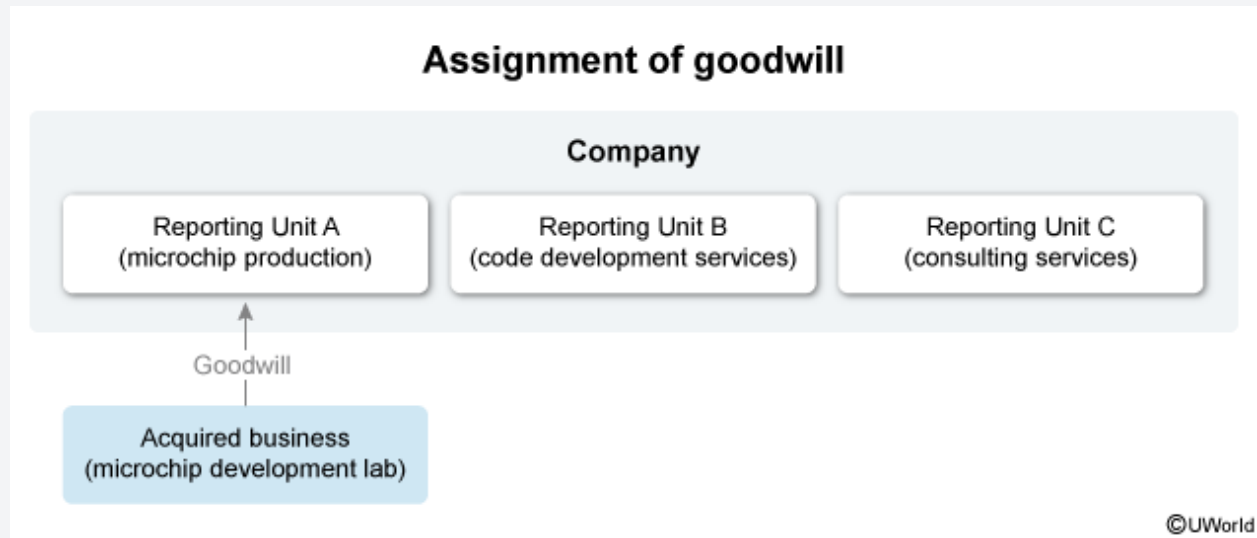
At least annually, entities must test goodwill for impairment by comparing a reporting unit's fair value against the carrying value, including goodwill. If fair value is less than the carrying value, an irreversible impairment loss must be recorded.

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Goodwill should be tested for value impairment at which of the following levels?

- A. Each identifiable long-term asset.
- B. Each reporting unit. ✓**
- C. Each acquisition unit.
- D. Entire business as a whole.

Explanation:



Segmented reporting involves assigning income, expenses, assets, and liabilities to operating segments (ie, separate business activities with discrete financial information) to provide financial statement users with further insight into how an entity produces income and spends resources.

To comply with segmented reporting requirements, goodwill is *assigned* to the reporting unit (ie, operating segment or one level below) that *receives* the *benefit* (eg, name recognition, customer loyalty) of an acquired business. Entities are required to test goodwill at least annually to confirm that it continues to provide a benefit to the reporting unit. If the reporting unit no longer receives a benefit from the acquisition, goodwill must be impaired by recognizing an impairment loss on the income statement and reducing goodwill's book value.

(Choices A, C, and D) Because **goodwill provides a benefit specific to a reporting unit**, it is required to be tested at the reporting unit level.

Things to remember:

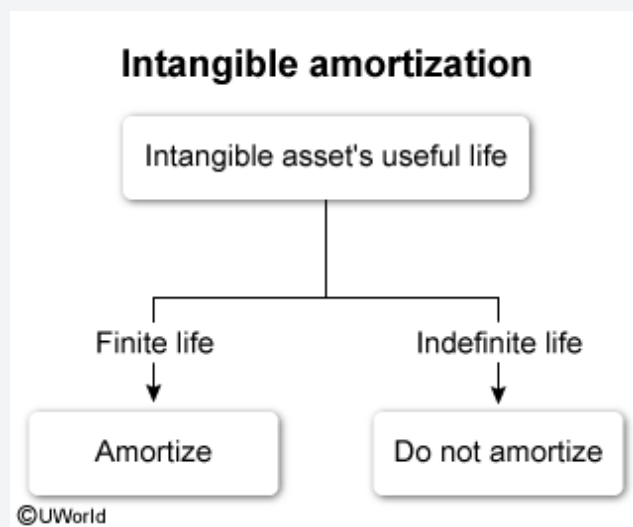
Goodwill is assigned to the reporting unit that receives the benefit (eg, name recognition, customer loyalty) of an acquired business. When goodwill no longer provides a benefit to the reporting unit to which it was assigned, goodwill must be impaired and an impairment loss must be recognized.

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Northstar Co. acquired a registered trademark for \$600,000. The trademark has a remaining legal life of five years, but can be renewed every 10 years for a nominal fee. Northstar expects to renew the trademark indefinitely. What amount of amortization expense should Northstar record for the trademark in the current year?

- A. \$0 ✓
- B. \$15,000
- C. \$60,000
- D. \$120,000

Explanation:



A **trademark** is an **intangible asset** that provides legal protection for the exclusive use of an identifying word, phrase, symbol, or design associated with goods or services. The protection afforded by a trademark must be maintained at regular intervals and can be **renewed every 10 years** in perpetuity.

If there are no legal or economic factors that limit the use of the trademark, it may have an indefinite life. Intangible assets with **indefinite lives** are not subject to amortization. Instead, these intangible assets are **tested** at least annually for **impairment** and written down if the value is deemed unrecoverable.

In this case, Northstar Co. will extend the legal life of the trademark beyond the stated five-year period by **renewing** the registration **indefinitely**. Therefore, the trademark would be considered an intangible asset with an indefinite life and would not be subject to amortization. **No amortization expense** would be recorded (**Choices B, C, and D**).

Things to remember:

A trademark (ie, an intangible asset) may have an indefinite life if the registration is maintained and renewed every 10 years. An intangible asset with an indefinite life is *not* amortized but is tested at least annually for impairment.

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Which of the following is an intangible asset that is subject to the recoverability test?

A. A patent. ✓

B. Goodwill.

C. R&D costs for a patent.

D. A trademark with indefinite useful life.

Explanation:

Determining if intangible asset is impaired

	Intangible asset with indefinite life	Intangible asset with finite life
Impairment test	<ul style="list-style-type: none">• Quantitative impairment test• Asset impaired if $CV > FV$	<ul style="list-style-type: none">• Recoverability test*• Asset impaired if $CV > CF$
Frequency	<ul style="list-style-type: none">• At least annually	<ul style="list-style-type: none">• As needed
Examples	<ul style="list-style-type: none">• Goodwill• Trademark renewed indefinitely	<ul style="list-style-type: none">• Patent• Copyright

CV = carrying value; FV = fair value; CF = cash flows (future)

*Test determines if asset is impaired but does not determine the amount of impairment loss

Impairment testing on intangible assets is performed to properly match expenses with related benefits and avoid overstating assets. The frequency of this testing depends on the type of intangible:

- Intangibles with *indefinite lives*: tested at least *annually*
- Intangibles with *finite lives*: tested when a review of circumstances indicate the asset's carrying value (CV) may not be *recovered* during its useful life

If a review indicates potential impairment of a finite-lived intangible, the **recoverability test** is applied. This test **confirms if** (but not by how much) **impairment has occurred** by comparing an asset's expected future net cash flows with its CV. The recoverability test is used only with **finite-lived intangibles** (eg, patents) because they have a defined period or timeline of cash flows.

(Choices B and D) The recoverability test does not apply to intangibles with indefinite lives (eg, goodwill, trademark with indefinite life). These assets have separate guidance for impairment because it is impossible to calculate the expected future net cash flows if those cash flows extend for an indefinite period.

(Choice C) Most R&D costs for a patent would be expensed, not capitalized, and would not be tested for impairment.

Things to remember:

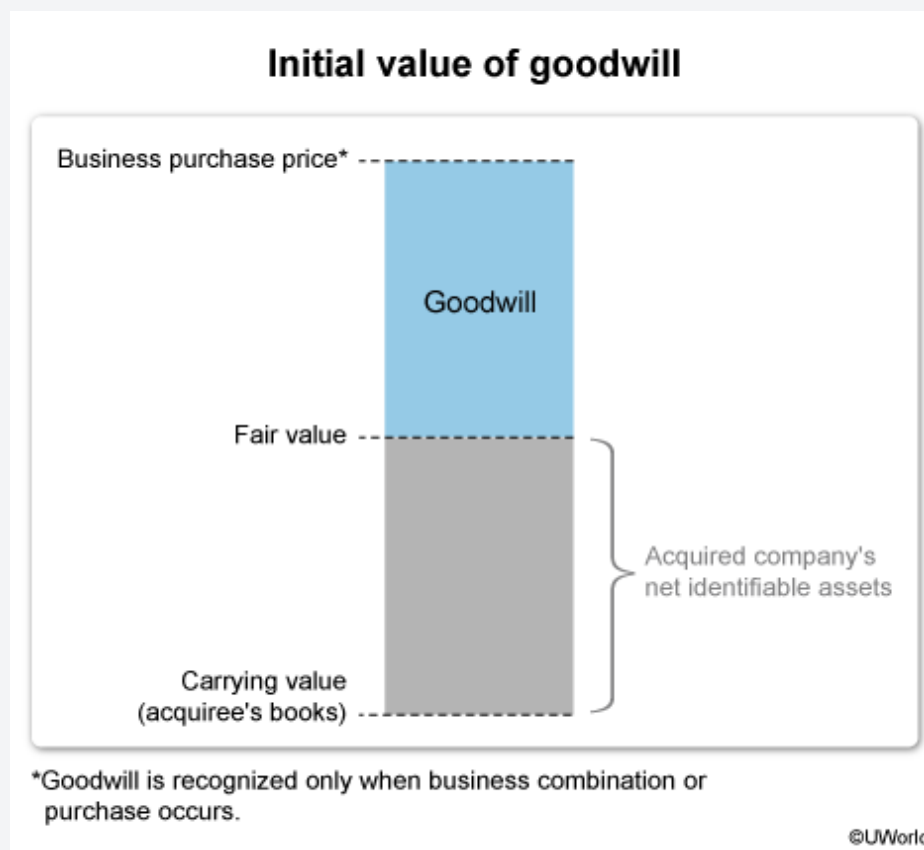
The recoverability test determines if (but not how much) intangibles with finite lives (eg, patents) have been impaired by comparing an asset's expected future net cash flows with its carrying value. The test is used only with finite-lived intangibles because they have a defined period or timeline of cash flows.

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On December 31, Year 2, Company X paid \$360,000 for 100% of the stock of Company Y. On the purchase date, the fair value of Company Y's assets and liabilities were \$320,000 and \$40,000, respectively. On January 10, Year 3, Company X paid \$24,000 for an advertising campaign to maintain the newly acquired goodwill from the purchase. How much will be reported as goodwill on Company X's December 31, Year 3 balance sheet?

- A. \$40,000
- B. \$64,000
- C. **\$80,000** ✓
- D. \$104,000

Explanation:



Goodwill is the future economic benefit from assets acquired in a business combination that are not individually identified (eg, brand name, proprietary processes). It is an intangible asset and represents the **excess** amount over the **fair value** (FV) of the **net identifiable assets** (assets minus liabilities) of a business that a buyer is willing to purchase.

An item must be capable of being *objectively measured* in *monetary terms* in order to be recognized; therefore, **goodwill** is **only recorded** on the balance sheet when a **purchase** of another entity occurs. A company may not capitalize the internal costs of developing or maintaining goodwill.

Company X will report **goodwill** of **\$80,000** in Year 3, calculated as follows:

\$360,000 Purchase price

(280,000) FV of net identifiable assets (\$320,000 – \$40,000)

\$80,000 Goodwill

Note: No impairment information was provided; therefore, it is assumed that goodwill was not impaired during Year 3.

(Choice A) Goodwill of \$40,000 assumes the FV of Company Y's assets (not its *net* assets) is used to calculate goodwill.

(Choice B) Goodwill of \$64,000 is incorrectly calculated by subtracting Company Y's assets from the purchase price and capitalizing the advertising costs.

(Choice D) Goodwill of \$104,000 incorrectly assumes Company X can capitalize the advertising costs.

Things to remember:

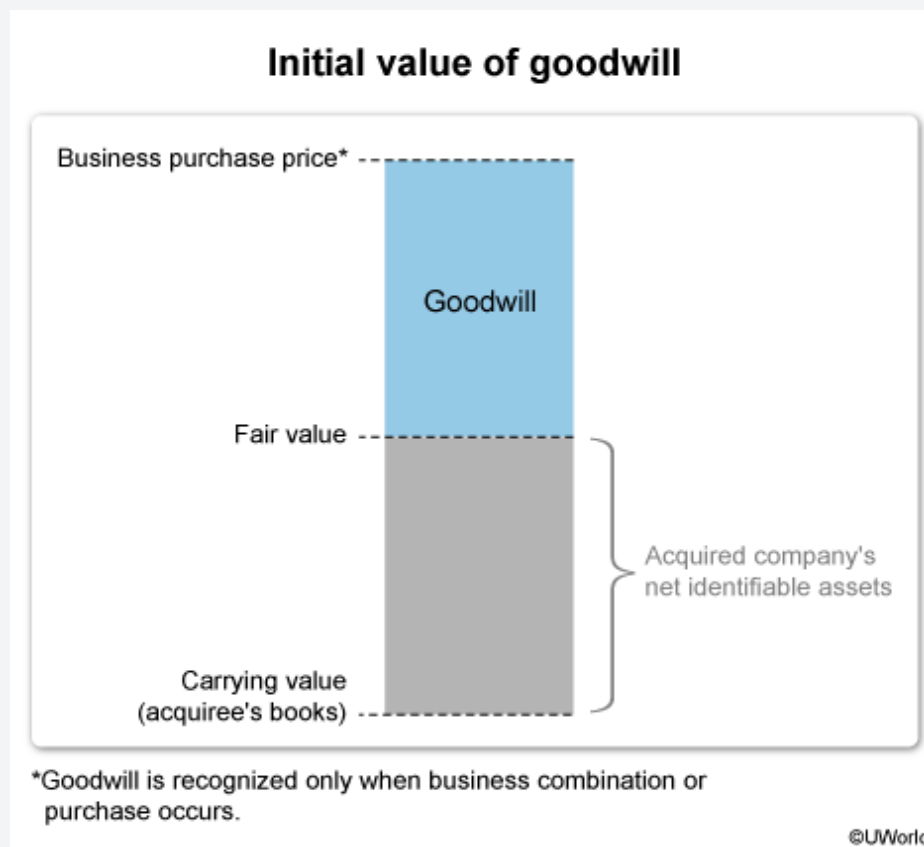
Goodwill is the excess amount over the fair value of the net identifiable assets of a business a buyer is willing to purchase. Goodwill is only recorded when it results from the purchase of another entity; costs to develop or maintain goodwill cannot be capitalized.

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A company should recognize goodwill in its balance sheet at which of the following points?

- A. Costs have been incurred in the development of goodwill.
- B. Goodwill has been created in the purchase of a business. ✓**
- C. The company expects a future benefit from the creation of goodwill.
- D. The fair value of the company's assets exceeds the book value of the company's assets.

Explanation:



Goodwill is the future economic benefit from assets acquired in a business combination that are not individually identified (eg, workforce knowledge, brand name). It is an intangible asset and represents the excess amount over the fair value of the net identifiable assets of a business that a buyer is willing to purchase. **Goodwill is recorded** on the balance sheet **only** when it results from the **purchase of another entity** because it is **impossible** to objectively **verify** its **value** in the **absence** of an actual **transaction**.

(Choices A and C) A company may not capitalize the internal costs of developing or restoring goodwill. In addition, the expectation of a future economic benefit does not trigger goodwill recognition. An item must be capable of being *objectively measured in monetary terms* to be recognized.

(Choice D) Goodwill is tested at least annually for impairment. Impairment occurs when the *carrying value* of the specific reporting unit's net assets *exceeds* its *fair value*.

Goodwill is never written up to fair value and recoveries are not recognized, even if the *fair value* of goodwill is *higher* than its *carrying value* (ie, conservatism).

Things to remember:

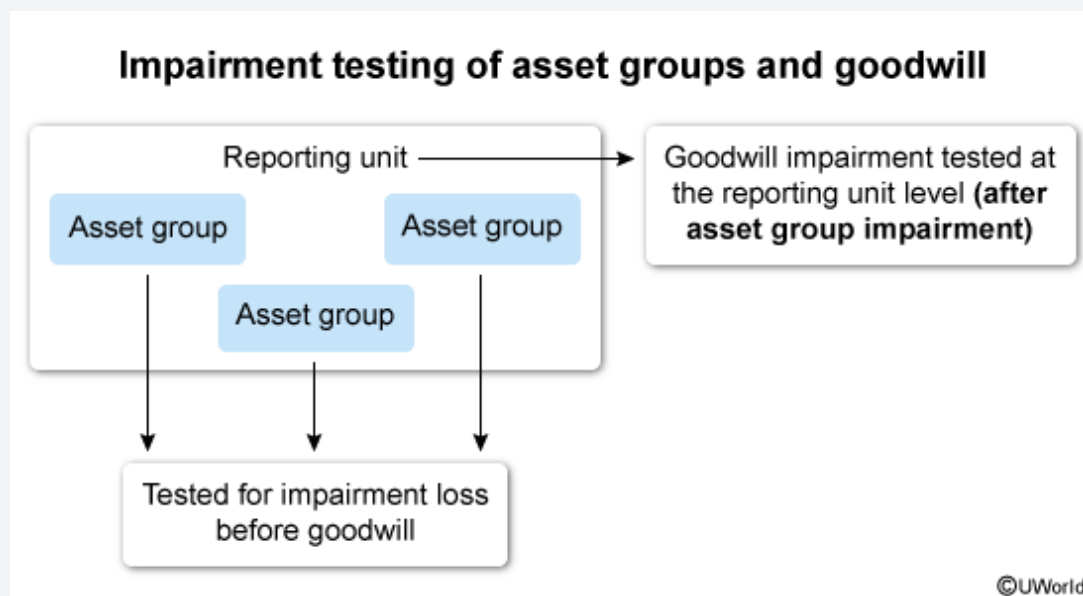
Goodwill is recognized only when it results from a company's purchase of another business. An entity may not recognize the internal costs of developing goodwill or the entity's expectation of future benefits because it is impossible to objectively verify the value of goodwill in the absence of an actual transaction.

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If both an asset group in a company and goodwill in one of its reporting units have to be tested for impairment, which of the following statements is correct regarding impairment testing and impairment losses?

- A. **The other asset group should be tested for an impairment loss before goodwill is tested.** ✓
- B. Impairment testing may be conducted concurrently for the other asset group and goodwill.
- C. If the other asset group is impaired, the loss should *not* be recognized prior to goodwill being tested for impairment.
- D. If goodwill is impaired, the loss should be recognized prior to testing the other assets for impairment.

Explanation:



Impairment of assets (eg, building, equipment) **held for use** in a company can occur for various reasons (eg, technological advancements). GAAP requires **impairment testing** whenever events or changing circumstances indicate the **carrying value (CV)** of an asset or asset group (eg, factory, retail store) is **not recoverable**.

Goodwill is considered impaired when the CV of the reporting unit with which it is associated exceeds that unit's fair value (FV) (ie, FV of its underlying net identifiable assets or asset groups). Goodwill is tested at least annually for impairment, and a loss is recorded if the reporting unit's FV is *less* than its CV.

In determining the FVs of a reporting unit's assets or asset groups, any impaired assets must **first be written down** to their FVs. Therefore, if an asset or asset group is impaired, the impairment loss would be recognized **prior** to goodwill being tested for impairment (**Choices C and D**).

GAAP requires impairment testing for goodwill *after* the CVs of the reporting unit's other assets or asset groups are tested. Therefore, if both an asset group and goodwill require

impairment testing, the **asset group** is **tested before** goodwill (**Choice B**).

Things to remember:

Goodwill is considered impaired if the carrying value of a reporting unit exceeds the fair value (FV) of its underlying assets or asset groups. In determining the FVs of the unit's assets or asset groups, any impaired assets must first be written down to their FVs. An asset group is tested for impairment *before* goodwill.

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A private company that reports goodwill on its balance sheet is

Exempt from goodwill impairment testing Allowed to amortize the goodwill

- | | | |
|----|-----|-----|
| A. | Yes | Yes |
| B. | Yes | No |
| C. | No | Yes |
| D. | No | No |



Explanation:

Goodwill accounting alternatives for nonpublic entities

	 Public companies	 Nonpublic entities
Permitted to amortize goodwill		
Permitted to conduct impairment testing once per period		

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To reduce the cost and complexity of frequent impairment testing, **private companies** and **not-for-profit organizations** may elect to follow simpler **GAAP alternatives** for recognizing goodwill. Eligible entities are permitted to use one or both alternatives.

- The first option allows eligible entities to **amortize goodwill** on a **straight-line basis** over its useful life, not to exceed **10 years**. If the amortization option is elected, goodwill is still tested for impairment. However, because goodwill is amortized, its carrying value decreases each period, making it less likely that impairment will actually occur in this situation.
- The second option reduces the frequency with which eligible entities must test for impairment. Ordinarily, triggering events must be monitored and evaluated continually throughout the reporting period. However, by electing this alternative, eligible entities are allowed to **test for triggering events** and impairment only **once**, as of the end of **each reporting period** (eg, annually, quarterly).

Therefore, a private company is allowed to amortize goodwill but is not exempt from goodwill impairment testing. However, private companies are allowed to test for impairment *less frequently* than public companies.

Note: Election of either or both accounting alternatives is disclosed in the Summary of Significant Accounting Policies.

Things to remember:

There are two alternative approaches to accounting for goodwill that are available to private companies and not-for-profit organizations. Eligible entities may elect to amortize goodwill and/or test for impairment only once at the end of each reporting period.

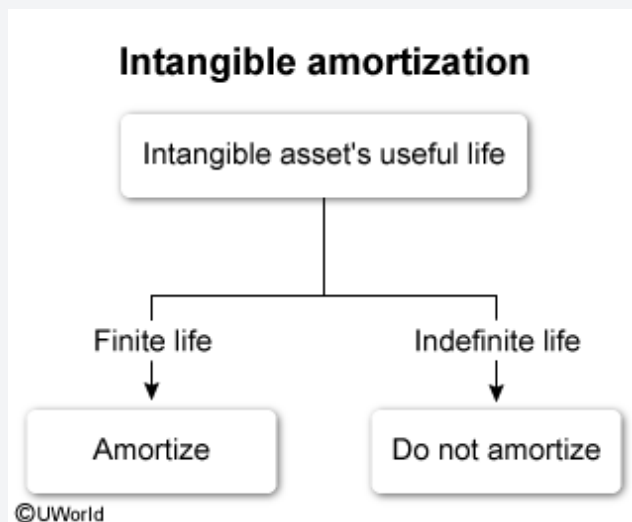
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Maple Co. has a patent on its primary product, and Pine Co. has goodwill associated with a recent acquisition. Which company should report amortization in its financial statements?

Maple Pine

- A. Yes Yes
- B. **Yes** **No**
✓
- C. No Yes
- D. No No

Explanation:



Intangible assets (eg, trademarks, copyrights) lack physical substance but provide an economic benefit. Intangibles providing a benefit over a *finite* (ie, determinable) useful life are amortized over their *estimated* life in accordance with the matching principle. However, intangibles expected to provide an *indefinite* benefit (eg, goodwill) are *not* amortized, but rather are evaluated at least annually for impairment.

Since Maple's patent, an **intangible**, has a **finite** useful **life**, Maple's patent **must be amortized**, and the amortization must be reported on the financial statements. Conversely, Pine's **goodwill** should **not** be **amortized**.

Things to remember:

Intangible assets with finite (ie, determinable) useful lives are amortized, while intangible assets with indefinite lives (eg, goodwill) are not.

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On September 29, Year 5, Wall Co. paid \$860,000 for all the issued and outstanding common stock of Hart Corp. On that date, the carrying amounts of Hart's recorded assets and liabilities were \$800,000 and \$180,000, respectively. Hart's recorded assets and liabilities had fair values of \$840,000 and \$140,000, respectively. In Wall's September 30, Year 5, balance sheet, what amount should be reported as goodwill?

- A. \$20,000
- B. \$160,000 ✓**
- C. \$180,000
- D. \$240,000

Explanation:



Goodwill is the future economic benefit from assets acquired in a business combination that are not individually identified (eg, workforce knowledge, existing customer relationships). Goodwill is recorded on the balance sheet only when it results from the purchase of another entity.

The acquiring company records the **acquired company's net identifiable assets** at **fair value** (FV) rather than the carrying value on the acquiree's books. FV is used because it is a more faithful representation of what the acquirer agreed to purchase. Anything paid in **excess** of the **FV** of the net identifiable assets (assets minus liabilities) is for the **unidentified assets** of the business (ie, **goodwill**).

At the acquisition date, the FV of Hart Corp.'s net identifiable assets is \$700,000 (\$840,000 assets – \$140,000 liabilities). Therefore, Wall Co. will recognize **\$160,000** (\$860,000 purchase price – \$700,000) in **goodwill** on the Year 5 balance sheet.

(Choice A) Goodwill of \$20,000 assumes the FV of Hart's *assets* (not *net assets*) is used to calculate goodwill.

(Choice C) The carrying value of Wall's liabilities is \$180,000.

(Choice D) Goodwill of \$240,000 is erroneously calculated by subtracting the *carrying value* of both assets and liabilities from the purchase price.

Things to remember:

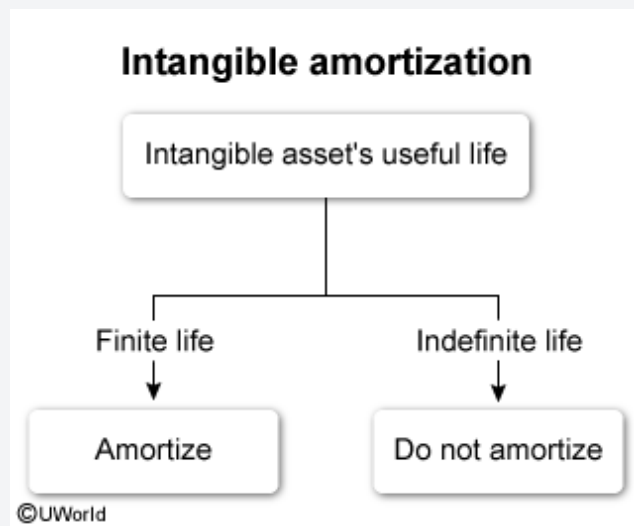
The acquiring company in a purchase records the acquired company's net identifiable assets at fair value. Anything paid in excess of the fair value of the net identifiable assets is considered goodwill and is for the *unidentified* assets of the business (eg, workforce knowledge).

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Tech Co. bought a trademark on January 2, two years ago. The intangible was being amortized over 40 years. The carrying value at the beginning of the current year was \$38,000. It was determined that the cash flow will be generated indefinitely at the current level for the trademark. What amount should Tech report as amortization expense for the current year?

- A. \$0 ✓
- B. \$922
- C. \$1,000
- D. \$38,000

Explanation:



Intangible assets lack physical substance but provide an economic benefit. Intangibles providing a benefit over a *finite* (ie, determinable) useful life are amortized over their *estimated* life in accordance with the matching principle. However, intangibles expected to provide an *indefinite* benefit are *not* amortized, but rather are evaluated at least annually for impairment.

A **trademark** is an **intangible asset** that provides legal protection for the exclusive use of an identifying word, phrase, symbol, or design associated with goods or services. It can have either a finite or indefinite life, depending on the circumstances.

In this scenario, there is a change in the assessment of an intangible asset's useful life (ie, cash flow will be generated indefinitely, not limited to 40 years). Therefore, the trademark now has an indefinite life and is no longer amortized. Such changes are treated prospectively. As a result, the current amortization on this asset will be zero **(Choices B, C, and D)**.

Things to remember:

A trademark is an intangible asset that provides legal protection for the exclusive use of an identifying word, phrase, symbol, or design associated with goods or services. If

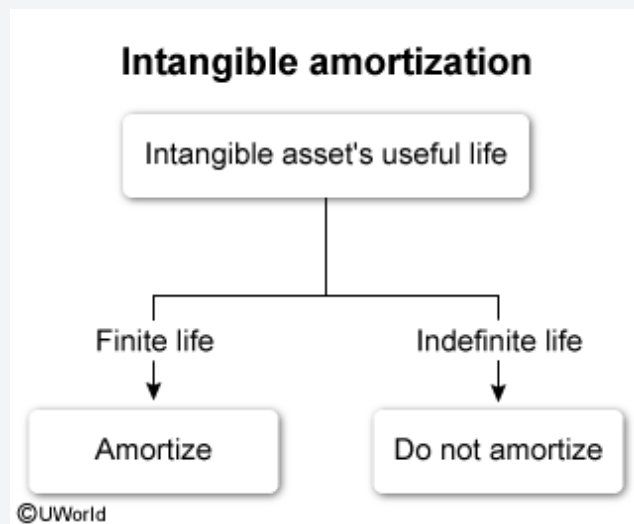
there are no legal or economic factors that limit the use of the trademark, it will have an indefinite life and should be tested at least annually for impairment.

Question 17 of 20

In which of the following circumstances would a trademark acquired by an entity most likely be deemed to have an indefinite useful life?

- A. The entity pays substantial amounts of money to renew the trademark.
- B. The entity operates in an industry with a rapidly changing regulatory environment governing trademarks.
- C. The entity plans to use the trademark until the planned phase-out date of the underlying asset.
- D. The entity's trademark has a remaining legal life of five years but is renewable at very little cost. ✓**

Explanation:



Intangible assets lack physical substance but provide an economic benefit. Intangibles that provide a benefit over a *finite* (ie, determinable) useful life (eg, patents) are amortized over their *estimated* life. However, intangibles expected to provide an *indefinite* benefit are *not* amortized but are evaluated at least annually for impairment.

A **trademark** is an **intangible asset** that provides legal protection for the exclusive use of an identifying word, phrase, symbol, or design associated with goods or services. If there are no legal or economic factors that *limit* the use of the trademark, it will have an indefinite life.

Given that the trademark here is renewable at very little cost, one can assume that the trademark has an indefinite life. As such, it is not subject to amortization. Instead, it is tested at least annually for impairment and written down if the value is deemed unrecoverable (**Choices A, B, and C**).

Things to remember:

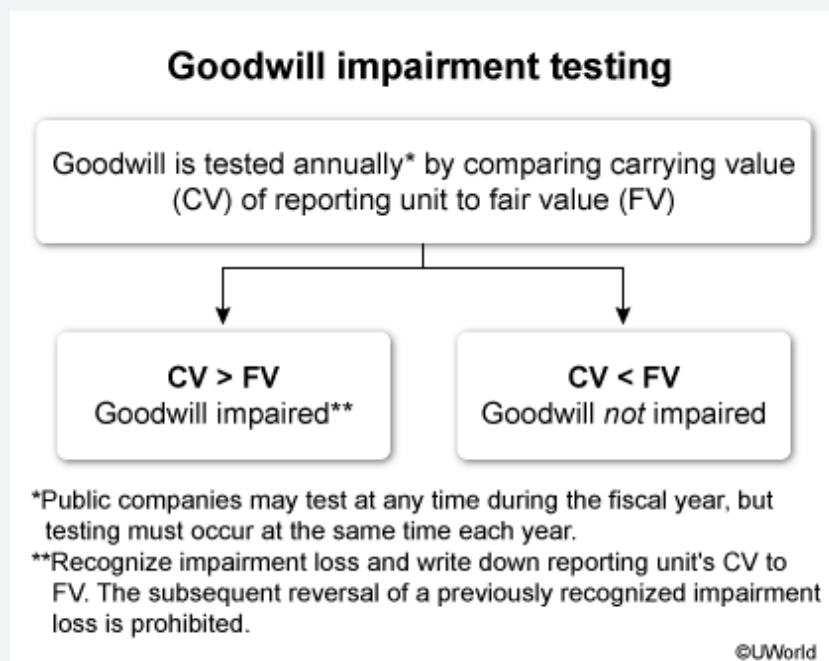
A trademark is an intangible asset that provides legal protection for the exclusive use of an identifying word, phrase, symbol, or design associated with goods or services. If there are no legal or economic factors that limit the use of the trademark, it will have an indefinite life and should be tested at least annually for impairment.

Question 18 of 20

A public business entity recorded goodwill as a result of purchasing an existing business. In addition to capitalizing the goodwill, the entity should account for it with which of the following accounting treatments?

- A. Expense the goodwill over 20 years.
- B. Expense the goodwill over its estimated useful life.
- C. Recognize a loss on the goodwill when annual testing indicates impairment. ✓
- D. Expense the goodwill over the useful life of the assets of the acquired business.

Explanation:



Goodwill is the future economic benefit from assets acquired in a business combination that are not individually identified (eg, workforce knowledge, location, brand name). It is an **intangible asset** and represents fair value in excess of the identifiable *net assets* acquired (ie, assets less liabilities).

Goodwill is capitalized and **tested at least annually** for impairment. If the carrying value (CV) of the reporting unit's net assets *exceeds* its FV, then an *impairment loss is reported in the income statement* in the period it is identified (**Choices A, B, and D**). Goodwill is never written up to FV and recoveries are not recognized, even if the FV of goodwill is greater than its CV (ie, conservatism).

Things to remember:

Goodwill is an intangible asset and represents the excess amount of consideration over the fair value (FV) of the net identifiable assets of the acquired business. Goodwill is tested at least annually for impairment. If the carrying value (CV) of the reporting unit's net assets exceeds its FV, then an impairment loss is reported in the income statement.

Question 19 of 20

Which of the following intangible assets is subject to the recoverability test?

- A. Goodwill.
- B. A trademark with indefinite useful life.
- C. A copyright. ✓
- D. A broadcast license that may be renewed indefinitely.

Explanation:

Determining if intangible asset is impaired

	Intangible asset with indefinite life	Intangible asset with finite life
Impairment test	<ul style="list-style-type: none">• Quantitative impairment test• Asset impaired if $CV > FV$	<ul style="list-style-type: none">• Recoverability test*• Asset impaired if $CV > CF$
Frequency	<ul style="list-style-type: none">• At least annually	<ul style="list-style-type: none">• As needed
Examples	<ul style="list-style-type: none">• Goodwill• Trademark renewed indefinitely	<ul style="list-style-type: none">• Patent• Copyright

CV = carrying value; FV = fair value; CF = cash flows (future)

*Test determines if asset is impaired but does not determine the amount of impairment loss

Impairment testing on intangible assets is performed to *properly match expenses* with related benefits and to avoid overstating assets. The frequency of this testing depends on the type of intangible asset:

- Intangibles with *indefinite lives* are tested at least *annually*
- Intangibles with *finite lives* are tested when a review of circumstances indicates that the asset's carrying value (CV) may not be *recovered* during its useful life

If a review indicates potential impairment of a finite-lived intangible, the **recoverability test** is applied. This test **confirms whether impairment has occurred** (but not the amount of impairment) by comparing the asset's expected future net cash flows with its CV. The recoverability test is used only with **finite-lived intangibles** (eg, patents) because they have a defined period or timeline of cash flows.

A **copyright** protects original works of authorship (like books, music, or software) for a **specific legal period** (ie, a finite period), often the life of the author plus 70 years, or a fixed period for corporate works.

(Choices A, B, and D) The recoverability test does not apply to intangibles with *indefinite lives* (eg, goodwill, trademarks with indefinite lives, broadcasting licenses). These assets have separate guidance for impairment because it is impossible to reliably calculate expected future net cash flows.

Things to remember:

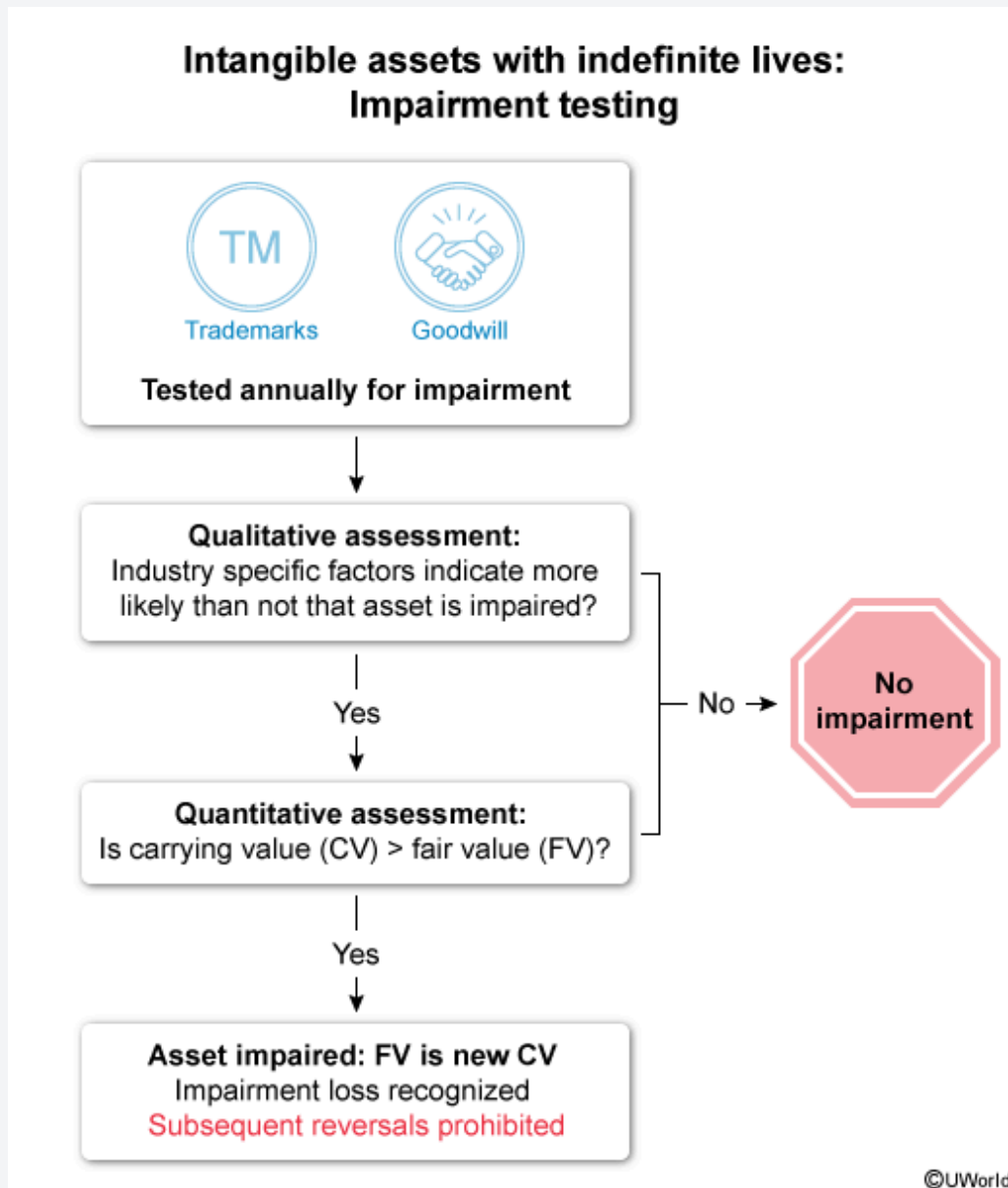
The recoverability test determines whether (but not the amount by which) intangibles with finite lives (eg, patents) have been impaired by comparing an asset's expected future net cash flows with its carrying value. The test applies only to finite-lived intangibles because they have a defined cash flow timeline.

Question 20 of 20

Which of the following is a pair of values that are compared to determine the amount of a possible impairment loss on an intangible asset, with an indefinite life, other than goodwill?

- A. Fair value, present value.
- B. Carrying value, book value.
- C. Future value, carrying value.
- D. Fair value, carrying value. ✓

Explanation:



Indefinite-lived intangible assets, like **trademarks**, are nonphysical assets that are expected to generate economic benefits for an indefinite period, with **no foreseeable limit** to their useful life. Unlike finite-lived intangibles, indefinite-lived intangibles are not amortized but must be tested for impairment at least annually, or when there is an indication of impairment.

When testing for impairment of an indefinite-lived intangible asset, the asset's **fair value** is compared to the **carrying value**. If the fair value is less than the carrying value, an impairment loss is recognized for the difference. The fair value determined becomes the new carrying value. An increase to the carrying value is prohibited even if the fair value increases subsequently.

(Choice A) Present value is a derived discounted cash flow measure that is not relevant for testing for impairment, even though present value concepts may be used to *estimate the fair value*.

(Choice B) Carrying values and book values are the same thing.

(Choice C) Since impairment testing focuses on current recoverability, future value is not of any relevance.

Things to remember:

Indefinite-lived intangible assets are nonphysical assets that are expected to generate economic benefits for an indefinite period, with no foreseeable limit to their useful life. Unlike finite-lived intangibles, indefinite-lived intangibles are not amortized but must be tested for impairment at least annually.
