**Goodwill**

- When in a business combination, if purchase price is greater than the fair market value of net tangible and identifiable intangibles, the difference is goodwill.
  - Associated with the total company only on purchase
  - No such thing as internally-generated goodwill
  - Reevaluate liabilities at present value if rates change
  - Change estimates and reevaluate replacement cost for assets
- Why goodwill?
  - Established reputation, good credit rating, top management team, well-trained employees, future earning potential & asset structure
- When do we write off goodwill?
  - Goodwill has an indefinite life and should be reevaluated periodically and charged to income statement if impaired
    - Impairment is when future cash flows (undiscounted) plus the disposition cost is less than carrying value
- Negative goodwill
  - When the fair value of assets exceeds the purchase price
    - Excess allocated pro-rata to non-financial assets
    - Remaining excess is an extraordinary gain

**Research and Development**

- Always expensed when incurred
- Research: planned search or critical investigation aimed at discovery
- Development: translate research findings or knowledge into a plan or design for new or improved product or process.
- Materials, equipment & facilities: expensed unless useful for alternate purpose
- Personnel: salaries and wages are expensed
- Purchased intangibles: expensed (or capitalized if other uses)
- Contract services from others: expensed
- Indirect costs must be related
- Similar to R&D
  - Start-up costs: organization, legal, accounting- expensed
  - Initial operating losses: FASB 7 gives no special treatment to new companies—losses have no future service potential
  - Advertising costs: expensed as incurred or when advertising shows
  - Computer software is special
    - R&D is expensed until technological feasibility
    - After feasibility costs capitalized and amortized
      - Greater of current revenues to current and anticipated