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Evaluaton of Goodwill in Accounting Practice

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EVALUATION OF GOODWILL IN ACCOUNTING PRACTICE

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ABSTRACT

The purpose of this independent research study is to evaluate the creation, write-off, and the presentation of the goodwill account in the corporate financial statements. By developing the evaluation around these areas, the problems of goodwill are discussed by comparing corporate practices against professional recommendations.

The difference between corporate practice and professional recommendations provide the basis for an evaluation of problems related to the goodwill account. The Accounting Trends & Techniques publication and professional journals provided the data regarding present business techniques. The American Institute of Certified Public Accountants, American Acccounting Association, and Securities and Exchange Commission recommendations provided the discussion for the theoretical treatment of the goodwill account in corporate financial statements.

This study indicates that a clear and comprehensive definition of the goodwill account is necessary to take the initial step in resolving the problems related to goodwill. The second step would be to convince the Internal Revenue Service to allow the amortization of the goodwill account for tax purposes. If the goodwill account could be amortized, it would be a major step in resolving the problems relating to write-off and presentation of the goodwill account.

INTRODUCTION

"The inability of the courts, the Internal Revenue Service, and accountants to develop a clear and comprehensive concept of the goodwill account has led to confusion and illogical treatment of the goodwill account in accounting practice."[1] This confusion about the goodwill account can be found in its creation, write-off, and presentation on the balance sheet and financial statements. Because goodwill is not a clear and comprehensive concept in accounting practice, this paper will be an academic discussion of the treatment of the goodwill account.

To be able to evaluate goodwill it is necessary to illustrate various methods for the creation and treatment of the goodwill account in accounting practice. Finally, it is important to list the recommendations of authoritative groups as to their views on the treatment of the goodwill account.

This paper will deal with goodwill as it pertains to the corporate balance sheet. The reason for this limitation is to narrow the field of study and to afford better coverage of the goodwill account in the corporate financial statements. One should note that the evaluation of the goodwill account in corporate business should be of value to partners, individual owners, and professional men, although these are not specifically included.

CHAPTER I

GOODWILL

Goodwill, though intangible in nature, may be the most important asset an enterprise may own. Yet, custom more than logic continues to influence the treatment of goodwill in accounts and financial statements. The intangibility of goodwill contributes to the relative ease with which this asset can be made to represent a number of other things than goodwill. For example, the goodwill account has commonly constituted such items as organization costs, trade names, customer lists and other intangible assets.

ORIGIN

Custom is not a satisfactory guide to the treatment of goodwill in accounts today because the concept of goodwill has not been static. Most of the erroneous applications in relation to goodwill in accounts can be traced to the failure to recognize the changing concept of the nature and meaning of goodwill.

Although the term goodwill had been in commercial use for centuries, it did not become an important commercial term until the nineteenth century. The concept of goodwill has developed and expanded simultaneously with the expansion of business units in size and complexity. The present concept of goodwill includes a much wider range of factors than was originally applied to it. At one time goodwill was presumed to exist only in connection with the customer. Later, the concept was expanded to include industrial and financial relations.

Goodwill, in an accounting sense, is now defined in terms of the estimated value of future profits in excess of a normal return and without any limitation as to the probable source of the expected profits. The present definition of goodwill given in A Dictionary for Accountants reads as follows:

> (Goodwill is) the present value of expected future income in excess of a normal return on the investment in tangible assets.
>
> (Goodwill is) the excess of the price paid for a business as a whole over the book value, or over the computed or agreed value of all tangible net assets purchased. Normally, goodwill thus acquired is the only type appearing on the books of accounts, and in financial statements not consolidated.[2]

Thus the definition of goodwill as used by accountants is built on the term "excess profits" or "super-profits". Without the expectation of excess profits, goodwill of any commercial value which deserves recognition in the accounts cannot be attached to the enterprise.

The accountant has placed no limitation as to how these excess earnings may arise. He regards them as goodwill profits whether they arise through the skill and ability of the manager, favorable location, monopolies, some fortuitous event, or any other factor which might tend to create excess profits. Determining the amount of these speculated excess profits is not the work of an accountant; rather, it is the work of an investment analyst. The accountant's job is to derive an appropriate method to handle the accounting aspect of these excess earnings for the corporate business.

NATURE

The definition and the origin of the goodwill account have been examined. Now an attempt will be made to determine the excess which the market includes in the value of a going concern over and above the fair value of its individual producing assets. Whatever this excess may be when buying a going concern, whether for cash or for stock, payment has to be made for the excess. It is essential to establish what this excess is before the proper accounting for it can be determined.

Accountants assign fair value to the producing assets acquired. These should include the fair value of intangible producing assets such as patents, fixed term franchises and other property rights.

Any excess cost remaining is what the buyer and seller are dealing with, and this is generally referred to as goodwill.

This goodwill may relate to or arise from countless factors and circumstances, such as: (1) public acceptance of a company's products, (2) the composition and skills of the management, (3) public relations, (4) the strength of research organization.[3] Goodwill may simply reflect the eccentricities of the stock market and the optimism, pessimism, or other emotions that pervade the market place. There is no explaining investors' opinions; nevertheless, it is a controlling factor for the corporate buyer who undertakes to acquire a going concern.

In simple language, goodwill is the valuation placed on the earning power of the going concern as a whole over the amount paid for the net assets necessary to produce, market, sell, and administer its products and services. Thus, it is a cost to the buyer of earnings over and above the cost of the assets required to produce those earnings.

LIFE

Of all the problems involved in the valuation of items appearing on the financial statements of a business concern, there is perhaps none more difficult than the presentation of that very intangible asset, goodwill. The life of goodwill can be evaluated by examining it when it is purchased. First, it is essential to examine what the accounting profession has stated as to the principles which apply to the recording of goodwill.

A generally accepted accounting principle for recording goodwill is to value it at acquisition cost. In the case of non-cash acquisitions the cost of goodwill may be considered as being either the fair value of the consideration given or the fair value of the property or right acquired, whichever is the more clearly evident.[4] A second accepted accounting principle for recording goodwill is that it should be shown on the books only when purchased.

It is important at this time to mention the fact that goodwill can result also from economic growth of the company's assets. This means that because of some exclusive right or grant either private or public the company's assets are worth more than formerly. For example, an exclusive right to mine coal in North Dakota could give a company added worth on its balance sheet. This kind of goodwill which is built up within the company should be capitalized to the goodwill account until the business is sold.

The following facts and figures have been taken from Accounting Trends and Techniques. This publication is a survey of 600 business corporations concerning their accounting techniques, conducted annually for comparative purposes by the American Institute of Certified Public Accountants.

TABLE 1[5]

GOODWILL ACCOUNTS

BALANCE SHEET VALUATION AND AMORTIZATION

Year	Total No. of Goodwill Accounts Found	Percentage Presented at Amortized Cost	Percentage Presented at Nominal Cost	Percentage Presented at Unamortized Cost	Number of Companies Surveyed
1963	121	27%	52%	21%	600
1962	128	25	55	20	600
1961	126	25	56	19	600
1960	132	20	62	18	600
1959	134	20	63	17	600
1958	140	17	66	20	600
1957	140	18	70	16	600
1956	152	19	75	11	600
1955	146	12	82	13	600
1954	146	6	84	12	600
1953	155	5	83	11	600
1952	153	10	82	7	600

(Excludes goodwill accounts arising from consolidated statements)

The results from the 600 corporations surveyed are shown in Table 1 which presents a statistical breakdown of the goodwill account between the years 1952 and 1963. Table 1 indicates that the majority of the companies surveyed do not have a goodwill acount on their balance sheets. It also indicates that over fifty percent of the companies having a goodwill account are carrying the account at a nominal value. Further, Table 1 shows that approximately forty percent of the companies are amortizing the life of goodwill, but it does not disclose whether the goodwill account is being systematically amortized or written-off directly to retained earnings or capital surplus.

CHAPTER II

ACCOUNTING METHODS FOR GOODWILL

Various methods exist for computing the purchase price of goodwill of a going concern. The actual price to be paid for goodwill usually results from bargaining and compromises between the parties concerned. A basis for negotiation in arriving at a price to be paid for goodwill normally involves some of the following steps: (1) projection of the level of future earnings, (2) determination of appropriate rate of return, (3) valuation of the net business assets other than goodwill, and (4) use of projected future earnings and rate of return in developing a value for goodwill.[6]

FINDING THE PURCHASE PRICE OF GOODWILL

Four guide lines have been given the seller and buyer of a going concern as a basis for computing the price of goodwill in accounting practice. By using these guide lines, it can be illustrated what factors are considered by the seller and buyer in arriving at a purchase price for goodwill. The four illustrations listed below are some of the methods used to obtain a price for goodwill.

(1) <u>Capitalization of average net earnings.</u> Using this method, the amount to be paid for a business may be determined by

capitalizing expected future earnings at a rate that represents the required return on the investment. Capitalization of earnings as used in this sense means calculation of the principle value which will yield the stated earnings at the specific rate. The difference between the amount to be paid for the business as thus obtained and the appraised value of the individual property items may be considered the price paid for goodwill.[7]

(2) Years' purchase of average earnings. By this method, the amount to be paid for goodwill is figured by finding the average past earnings for the business over a stated number of years purchased by the buyer as shown by the following illustration:

Average earnings per year for last 5 years	$10,000
Multiply by number of years purchased	3
Price to be paid for goodwill	$30,000

(3) Years' purchase of excess earnings. In this method the buyer and seller assign a specific rate of return on the net assets which they establish as a normal return on investment of the particular business. Then, the difference between the actual earnings of the business and the earnings found by taking specific rate times net assets is the amount of the excess earnings assigned to goodwill. The buyer and seller decide how many years of past excess earnings are to be assigned to the purchase price of goodwill as shown by the following illustration:

Year Preceding Sale	Net Income	12.5% of Net Assets	Excess Earnings
Third	$19,000	$12,500	$ 6,500
Second	21,500	12,500	9,000
First	21,000	12,500	8,500
Price to be paid for goodwill			$24,000

(4) Present value method. This method can be explained by the use of an illustration: Company B's normal excess earnings on net identifiable assets are $20,000 per year found by the use of method 3, assuming that these excess earnings are to continue at a designated 8% for the next five years. The amount to be paid for goodwill, then, is the present value of 5 annual payments of $1 each at the designated rate of 8% and this figure is found to be 3.992.[8] The present value of five payments of $20,000 each would then be calculated at $20,000 times 3.992 or $79,840--the amount to be paid for goodwill.

These four methods for calculating the purchase price of goodwill are illustrations of methods being used in accounting practice. Each method for calculating goodwill gives the buyer and seller a basis for establishing a purchase price for goodwill. The drawback of method 1 is that it gives no consideration to the extent to which the earnings are attributable to net identifiable assets and the extent to which the earnings were attributable to goodwill. Methods 2 and 3 are illogical because the basis of the calculation in each is on the past earnings of the business, and they do not give any recognition to the anticipated duration of excess earnings which was discussed in the "Nature" of goodwill section. Method 4 does give explicit recognition to the anticipated duration of excess earnings which achieves a more realistic purchase price for goodwill as explained in the earlier sections on origin and nature of goodwill.

From the foregoing methods of computing the purchase price of goodwill, a general journal entry can be made to record goodwill as follows:

Other assets	$150,000	
Goodwill	30,000	
Cash		160,000
Stock		10,000
Property		10,000
(to record the purchase of goodwill at cost)		

The above journal entry could be comprised of any one of the cited credits either individually or in any combination with amounts being established by the seller and buyer.

GOODWILL WRITE-OFF

Accountants, because of their obligation to report to readers interested in measuring and comparing actual performance by and among companies, should establish recognized principles for the accounting of goodwill. Once these principles for recording and write-off of the goodwill account are standardized, the practice in all businesses should follow suit with that of the accounting profession.

In the evaluation of the accounting principles involved in the treatment of goodwill, it is essential that the principles agreed upon by the accountants be stated and a comparison be made with those principles used in accounting practice. The following are the principles generally agreed upon by accountants for recording and writing-off the goodwill account as described by Mr. Robert L. Virgil, Jr. in the April 1963 issue of the National Accounting Association Bulletin:[9]

(1) A cardinal principle in the accounting for goodwill is that it should be shown on the books only when purchased and then at no more than such purchase price.

(2) It should never merely be written up as an asset by the company that builds up the goodwill.

(3) The goodwill account, once recognized, should not be utilized as an intermediary for arbitrary re-evaluation of tangible fixed properties.

(4) If goodwill is to be eliminated from asset accounts, in whole or in part, the charge should not be to capital surplus.

However, in accounting practice, the following journal entries can be found for recording and writing-off the goodwill account. The recording of goodwill on the books would be the same as used in the section concerning purchase price of goodwill. The write-off of goodwill in accounting practice can be found as follows, assuming the goodwill account was recorded at $30,000 when purchased:

(1)	Operating income	$ 3,000	
	Goodwill		$ 3,000
	(to record amortization of goodwill over 10 years)		
(2)	Retained earnings	$ 1,500	
	Operating income	1,500	
	Goodwill		$ 3,000
	(to record amortization of goodwill to retained earnings and operating income over a 10 year period)		
(3)	Retained earnings	$ 3,000	
	Goodwill		$ 3,000
	(to record amortization of goodwill over 10 years)		
(4)	Retained earnings or Contributed capital	$30,000	
	Goodwill		$30,000
	(to record direct write-off of goodwill)		

(5) Permanent account for goodwill (no write-off)

The individual corporation would generally use only one of the above journal entries to record the amortization of the goodwill account.

If a company can qualify to use the pooling of interest method to acquire another business, it is viewed as an alternative method to recording purchased goodwill. Pooling of interest as used in accounting practice resulted because businesses were looking for a solution to a dilemma; that is, they were looking for a method where they would not have to record a large sum of goodwill on their books. Under the pooling treatment, the assets, liabilities, and stockholders' equity account are brought into the acquiring company at the amount at which they were carried on the books of the acquired company; and any excess at the fair value of the stock issued over the previously established book values is not recorded or accounted for. The net effect is that no goodwill is recorded as an asset by the acquiring company. It becomes charged off against the stockholders' equity in setting up the combined business that emerges. This method has been used primarily to avoid the recording of large sums of goodwill on the acquiring corporate statements.[10] The pooling of interest has caused two problems. First, the direct write-off of goodwill against contributed capital is not in agreement with Principle 4 under the section "Goodwill Write-off." Secondly, the producing assets of the acquired company are recorded on the books of the acquiring company at their previous book values without any regard to their current fair market values.

Accountants do not agree with accounting practice on methods 4 and 5 listed under "Goodwill Write'off". Method 4 is a direct write-off of the goodwill account to retained earnings or combined capital immediately after acquisition. Accounting Research and Terminology Bulletin states that a lump sum write-off of intangibles should not be made to earned surplus immediately after acquisition, nor should intangibles be charged against capital surplus.[11]

Method 5, referred to earlier in this section, is not contrary to accepted accounting principles. However, the general reason given to not write off the goodwill account is unsound. The reason for this lies in the fact that there is no scientific way to write it off because of the indefinite duration of its life. Can this be sound reasoning when many phases of the accountant's work involve the making of arbitrary decisions? Determining the length of the time for goodwill write-off should afford no more problems than any other depreciation estimates.

CHAPTER III

FINDINGS AS TO VALUATION AND AMORTIZATION OF GOODWILL

The following facts and figures have also been taken from Accounting Trends and Techniques. Table 1 (page 8) shows percentages for the treatment of the amortization of the goodwill account on the corporate balance sheet. It shows that the majority of companies surveyed between 1952 and 1963 are carrying their goodwill account at a nominal value. However, the trend seems to be developing toward a systematic amortization of goodwill over its calculated useful life. About one-fifth of the companies are carrying the goodwill account at acquisition cost.

Table 3 shows which account is being charged with the amortization of goodwill. Table 3 also illustrates the divergence of opinion among accountants over the locus of amortization charges; it can be concluded from this table that the majority of companies favor charging current income. The significance of the information presented is reduced by the proportion of companies not reporting the treatment accorded their amortization charges. It also is apparent that increased tendency to charge current income has been caused by an increase in the companies' practice of reporting the treatment of the goodwill account. Analysis of annual reports shows that direct write-off in lump sum transactions is rare in accounting practice.

TABLE 2[12]

LOCUS OF CHARGES FOR GOODWILL AMORTIZATION

Year	Number of Goodwill Accounts Amortized	Percentage Amortized of Current Income	Percentage Amortized to Retained Earnings	Percentage of Companies Not Disclosing Locus but Indicating the Presence of Amortization
1963	30	70	0%	30%
1962	32	69	0	31
1961	32	69	0	31
1960	27	70	0	30
1959	27	44	0	56
1958	24	58	4	38
1957	25	52	4	44
1956	29	52	7	41
1955	17	6	23	71
1954	9	78	11	11
1953	8	75	0	25
1952	15	27	40	33

(Excludes goodwill accounts arising from consolidated statements)

The goodwill account can be shown at its nominal cost, at cost less amortization, or at acquisition cost. The goodwill account can be shown separately or grouped with other intangible assets on the balance sheet. The following methods for presentation are shown separately in the non-current asset section.

(1) Nominal method

Neptune Meter Company
Intangible assets
Goodwill $1

(2) Amortization method

Universal Match Corporation
Intangible assets, at cost less amortization
Goodwill $921,903

(3) Footnote method

General Plywood Corporation
Intangible assets
Goodwill (Note 1) $2,160,684

Note 1: Goodwill represents the excess of the cost of the capital stock of Kockton Plywood & Veneer Co., Inc. purchased in February, 1962, over the net book amount of the underlying assets.[13]

These illustrations show where goodwill is carried in the balance sheet. Method 1, the nominal value method, is the most frequent way of presenting the goodwill account on the corporate balance sheet. The trend for corporations to show goodwill at its nominal value is decreasing and the trend to amortize the goodwill account is increasing as shown in Table 1.

RATIOS

The goodwill account should be studied by accountants because many investment analysts do not use it in their computation of the financial ratios, for example, the ratios of return on investment and debt to net worth. To reiterate, the accounting profession because of its obligation to report to readers interested in measureing and comparing actual performance by and among companies, should eliminate the suspicion and uncertainty surrounding the meaning and value of the goodwill account. Then, it would illustrate to investment analysts that the intangible asset, goodwill, stands beside producing assets in determining the potential earning power of the company's investment. Thus, the company's balance sheet would look stronger to investors and possible creditors.

Management computes the return on investment by taking operating income, which is earnings before interest, taxes, and other income, divided by tangible assets, which are assets less goodwill. Debt to net worth is figured by taking total debt and dividing it by tangible net worth, which means net worth less goodwill.[14] Management practice of reducing assets by the amount of goodwill should indicate to the accounting profession that the statements are not serving their full purpose to the investors or readers.

CHAPTER IV

RECOMMENDATIONS OF AUTHORITIES

The most authoritative statement of standards of practice relating to the accounting treatment of goodwill is undoubtedly Accounting Research Bulletin No. 43 issued by the American Institute of Certified Public Accountants.

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA)

The AICPA makes the following points which are the more important aspects of goodwill in accounting practice:

(1) Goodwill should be established according to its cost only. This would seem to rule out the possibility of merely writing goodwill into the accounts.

(2) Because of its rather vague nature, it is more likely that goodwill will not be subject to a fixed or restricted useful lifetime. In that case, the management of a company may, at its discretion, either amortize the goodwill to income or carry it indefinitely on the books as an asset. If it appears that goodwill has a limited period of usefulness, it should be charged against income systematically over that period.

(3) In the event that it becomes reasonably evident that goodwill has become worthless, it should be written-off. This may be accomplished by a charge against income unless the size of the write-off would seriously distort the results in which case retained earnings should absorb the reduction.

(4) In no case should a lump sum be written-off immediately after acquisition. If goodwill is originally established, it should either be written-off against income on a regular basis or carried as an asset until its value is brought into question as mentioned above.[15]

AMERICAN ACCOUNTING ASSOCIATION (AAA)

The American Accounting Association goes along with the generally accepted accounting principles as set forth by the AICPA on the treatment of goodwill in the corporate financial statements. Purchased goodwill should be stated at cost at the time when it is acquired. In the case of non-cash acquisition, as for example, where intangibles are acquired in exchange for securities, cost may be considered as being the fair value of the consideration given or the fair value of the property or right acquired, whichever is the more clearly evident.

The general practice of showing goodwill at the initial cost, or showing goodwill at the unamortized amount, or at a nominal value, whichever the management can justify, also is agreeable to the AAA.

The AAA feels that amortization of goodwill is within the discretion of the company and is not to be regarded as obligatory. They feel that the plan should be reasonable, and it should be based on all the surrounding circumstances, including the basic nature of goodwill. The procedure should be formally approved; and the reason for amortization, the rate used, and the shareholders' or directors' approval thereof should be disclosed in the financial statements.

The AAA agrees that lump sum write-off of intangibles should not be made to retained earnings immediately after acquisition, nor should intangibles be charged against capital surplus. To reiterate, they feel that if goodwill is not amortized systematically, intangibles should be carried at cost until an event has taken place which indicates a loss or a limitation of the useful life of the intangible.

SECURITIES AND EXCHANGE COMMISSION (SEC)

The attitude of the Securities and Exchange Commission on the initial cost of goodwill is to accord the cost of the intangible at the time of aquisition. The SEC has generally followed the pattern set by the AICPA and AAA as far as the proper treatment of goodwill in the corporate financial statements is concerned.

The Commission has adopted no general rules as to the amortization of goodwill. However, in those cases in which a registrant has retained goodwill indifinitely in its accounts, the staff has inquired of this accounting treatment. As a result of an analysis of the nature of the account a number of registrars have undertaken programs of amortization which will result in charging the goodwill to income, or, in some cases, retained earnings over a reasonable number of years. Otherwise, the Commission has not made a rule for the handling of the goodwill account in the registrant's statements.

INTERNAL REVENUE SERVICE (IRS)

The courts and the Internal Revenue Service feel that accounting for goodwill should be shown on the books only when purchased, and then at no more than purchased price. It should never merely be written up as an asset by the corporate enterprise that builds up the goodwill.

The federal courts in interpreting the IRS statutes have held that goodwill which these statutes authorize to be included in computing invested capital is that for which payment has been made specifically as such, or goodwill "bona fide" purchased.[16]

Accounting opinion can be found on both sides of the question of whether the cost of extensive advertising, expected to yield benefits for a long period, and the operating deficits of the early years of a business, may be capitalized as an asset and regarded as constituting a cost for creating goodwill. In the cases involved, the court refused to allow the capitalization of the advertising expenses in the goodwill account. Thus, it has given strength to the theory that value of goodwill must be the initial purchase price of goodwill at the time of the acquisition of the business.

As far as the write-off of goodwill is concerned, the IRS has made it clear that the write-off for tax purposes is not acceptable. The corporations have responded to this decision by charging goodwill off in lump sum to retained earnings and now about 70% of them as shown in Table 1 are carrying the goodwill account at a nominal value.

CHAPTER V

CONCLUSIONS

The goodwill account, as used by accountants, tax lawyers, and the Internal Revenue Service, needs additional study by the accounting profession. The study should be made as to the proper treatment of the goodwill account's creation, write-off, and presentation on the corporate financial statements.

A big problem exists because goodwill is intangible. It can be made to represent a number of things other than goodwill as discussed under the section "Origin" of goodwill. Even if there are numerous types of corporations and various aspects of the goodwill account, the accounting profession should push for a clear and comprehensive definition of the goodwill account on the corporate statements. By taking this first step the accounting profession will have taken one step toward clearing the problems surrounding the goodwill account.

If a clear meaning of the goodwill account can be resolved, alternative methods (such as pooling of interest) will not continue to occur as a means of hopeing to solve the problems surrounding the goodwill account. Perhaps the pooling of interest does avoid the immediate problems surrounding the goodwill account as to its treatment on the corporate financial statements. At least, the corporate executives are able to avoid recording large sums of goodwill on their books by using the pooling of interest method.

When practitioners and corporate executives avoid the direct problems facing goodwill, they are not solving the situation by deriving new methods which side-step the problems facing the capitalized goodwill account. They are just avoiding facing the problem squarely. For instance, pooling of interest does not become involved in handling the goodwill account. It does, however, compound the problems surrounding the goodwill account by adding an additional method to handle the situation, by failure to record acquired assets at market value as is generally accepted in accounting principles,[17] and by reducing the stockholders' equity by the amount of goodwill that should have been recorded without informing the stockholders.

Another controversial area in the treatment of the goodwill account is the write-off of this account. The AICPA, AAA, and SEC basically agree as to the acceptable procedures to be followed in handling the write-off of goodwill. The IRS has hindered progress by stating that the goodwill account for tax purposes is nondepreciable. Thus, corporate executives are discouraged in advancing systematic methods for the amortization of the goodwill account, but they prefer to write-off goodwill in lump sums, or carry it at acquisition cost indefinitely.

All in all, the attitude taken by most practitioners toward goodwill write-off can best be summarized by a quote from Sanders, Hatfield and Moore:

> The writing off of such intangible assets as goodwill evokes scarcely any protest, even when it is recognized that substantial goodwill exists. The general distrust of goodwill and the knowledge that it has been widely used to capitalize exaggerated expectations of future earnings leave an almost universal feeling that the balance sheet looks stronger without it. When actual consideration has been paid for goodwill, it should appear on the company's balance sheet long enough to create a record of that fact in the history of the company as presented in the series of its annual reports. After that, nobody seems to regret its disappearance when accomplished by methods which fully disclose the circumstances.[18]

To emphasize again, the accounting profession, because of its obligation to report to readers interested in measuring and comparing actual performance by and among companies, should establish recognized principles for the accounting of goodwill on the corporate financial statements. It would seem logical to conclude that the problems accruing to the proper presentation of the goodwill account on the balance sheet and other statements will resolve themselves once the problems facing its creation and write-off are solved.

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