HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD30535 - Intangible assets: notes on accounting practice: definition and when to capitalise: goodwill

Definition

FRS102 defines goodwill as ‘future economic benefits arising from assets that are not capable of being individually identified and separately recognised’.

When goodwill should be capitalised

Under FRS102 s19, goodwill should only be capitalised when it is purchased as part of the acquisition of a business. Internally generated goodwill should not be capitalised.

The amount of purchased goodwill to be capitalised is calculated as the difference between the cost of the business acquisition and the aggregate fair value of the identifiable assets and liabilities acquired. In effect, goodwill is the residue of the surplus value of the business after identifying specific assets and liabilities to which a fair value can be attributed.

Negative Goodwill

In circumstances where the cost of the business is less than the aggregate fair value of the identifiable assets and liabilities acquired, negative goodwill will arise.

Negative goodwill is generally attributed to two possible causes. The first is where a genuine bargain has been obtained, for example as a result of a distress sale. The other is where the purchase price is reduced to take account of future costs or losses that are not yet sufficiently certain to be recognised as liabilities at the date of acquisition.

Where negative goodwill arises an entity should reassess the identification and measurement of assets, liabilities and provisions for contingent liabilities acquired and the measurement of the cost of the combination.

Negative goodwill should be recognised separately on the face of the balance sheet (immediately below positive goodwill) and credited to the profit and loss account in the periods in which the non-monetary assets acquired are recovered (for example, by sale or depreciation). Any negative goodwill in excess of the fair values of the non-monetary assets acquired should be recognised in the profit and loss account in the periods expected to be benefited.

If the treatment of negative goodwill is relevant to a tax computation, it is advisable to seek the advice of an HMRC advisory accountant.

IFRS3

The principle difference between IFRS3 and FRS102 s19 which may have an impact for Part 8 purposes is follows:

- Under IFRS3, negative goodwill is not capitalised and is instead recognised immediately in the profit and loss account. However, it should be noted that for companies within the scope of FRS101, the requirements of IFRS3 have been amended such that the treatment of negative goodwill is the same as that required by FRS102 s19.

FRS105 s14

The principle difference between between FRS105 s14 and FRS102 s19 which may have an impact for Part 8 purposes is as follows:

- As is the case under FRS102 s19, the amount of purchased goodwill to be capitalised under FRS105 s14 is calculated as the difference between the cost of the business acquisition and the aggregate fair value of the identifiable assets and liabilities acquired. However, FRS105 s14 prohibits certain assets and liabilities from being separately identified and recognised (for example, intangible assets and deferred tax assets or liabilities). In effect, such assets and liabilities will be subsumed within goodwill.

FRS7/FRS10

There are no significant differences between FRS7/FRS10 and FRS102 s19 which have been identified as having an impact for Part 8 purposes.

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