Economic vs. accounting goodwill

Berkshire letters: 1983, 1999, 2015 · Difficulty: Intermediate

> *"We own several businesses that possess economic Goodwill ... far larger than the accounting Goodwill that is carried on our balance sheet." (1983)*

1. A company pays $500 million for another company whose identifiable net assets have a fair value of $380 million. How much goodwill does it record ($ millions)? **120**

2. Why can a business's economic goodwill be far larger than the goodwill on its balance sheet?

   A. Goodwill is always amortized to zero within one year

   B. Auditors require goodwill to be recorded at half its value

   C. Goodwill is a liability, not an asset

   D. Goodwill is recorded only when a business is purchased; goodwill a company builds internally is never recorded

Source: Warren E. Buffett, Letters to Berkshire Hathaway Shareholders: 1983, 1999, 2015 (berkshirehathaway.com/letters). Quotation © Berkshire Hathaway Inc., all rights reserved; reproduced in part for non-commercial teaching. Numbers in the questions are made up unless stated.