

SELECTED AREAS OF COST

Chapter 30 – Goodwill

Authoritative Sources

[FAR 31.205-49](#) Goodwill

[FAR 31.205-10](#) Cost of Money

[FAR 31.205-52](#) Asset valuations resulting from business combination

[FAR 52.242-3](#) Penalties for Unallowable Costs

This chapter provides supplemental guidance on auditing costs related to goodwill and contains the following topics:

30-1 [General Information](#)

30-2 [Relevant Cost Principles](#)

30-3 [General Audit Guidelines](#)

30-1 General Information

Goodwill is an unidentifiable intangible asset that originates during the business combination of two or more companies using the purchase method of accounting. It is the excess of the amount paid by the acquiring company over the fair value of the assets acquired less the liabilities assumed (see Selected Areas of Cost Guidebook Chapter 52 Business Combination Costs for more information). Goodwill does not include identifiable assets that are capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract. *“Any costs for amortization, expensing, write-off, or write-down of goodwill (however represented) are expressly unallowable.”* See [DCAA CAM Appendix A-100](#) for more information on expressly unallowable costs.

30-2 Cost Principles

- **31.205-10, Cost of Money** – Permits the imputed facilities capital cost of money or the cost of money as an element of the cost of capital assets as long as it is measured, assigned and allocated in accordance with CAS 414 or CAS 417.
- **31.205-52, Asset Valuations Resulting from Business Combinations** – When the purchase method of accounting is used for a business combination, limits amortization and cost of money of intangible assets to the total amounts that would have been allowed had the combination not taken place.

30-3 General Audit Guidelines

The audit team should remain alert to the potential existence of goodwill costs in contractor billings, claims, and proposals. Under FAR 52.242.3, when a contractor has included expressly unallowable costs (e.g. goodwill), the unallowable costs in the proposal may be subject to penalties.