

# The Talbots, Inc., and Subsidiaries: Accounting for Goodwill

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### Goodwill Creation

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- Goodwill is the established reputation of a business regarded as a quantifiable asset
- Goodwill is the excess of the purchase price over the fair market value of the purchased company.
- Companies often pay more to acquire another company than the fair value of tangible assets purchased because trademarks, existing leases, customer loyalty, or other intangible assets such as reputation have value.

### Background Information

- On May 3, 2006, Talbots will acquire J.Jill for \$518 million in cash.
- This amount exceeds the fair market value of the net physical assets Talbots will acquire from J.Jill.
- Talbots will need to recognize the excess paid over fair market value as goodwill, trademarks, and other intangible assets.

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### Agenda

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- Background Information
- Goodwill Creation
- Purchase Details
- Journal Entries to Record
- Goodwill Amortization Calculations
- Conclusion
- Questions & Answers

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<table border="1"> <tr><td>Acquisition Price</td><td>518,000,000</td></tr> <tr><td>Less: Net Physical Assets</td><td>(218,125,000)</td></tr> <tr><td>Goodwill</td><td>299,875,000</td></tr> </table>	Acquisition Price	518,000,000	Less: Net Physical Assets	(218,125,000)	Goodwill	299,875,000	<table border="1"> <tr><td>Net Physical Assets</td><td>218,125,000</td></tr> <tr><td>Goodwill</td><td>299,875,000</td></tr> <tr><td>Total</td><td>518,000,000</td></tr> </table>	Net Physical Assets	218,125,000	Goodwill	299,875,000	Total	518,000,000
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### Fiscal Year 2007

#### Intangible Asset Amortization Calculations

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### Questions & Answers

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- A company creates goodwill when it acquires another company for more than the fair market value of the assets received.
- To record the purchase entry of an acquisition, Talbots will debit the assets received, credit the assets given up, and credit the liabilities received.
- Talbots will amortize the intangible assets, except trademarks and goodwill, over their estimated life and will write-off the assets upon impairment.
- Talbots will review trademarks and goodwill for impairment annually and write them off upon impairment.

By: Michelle German

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<b>Cash Paid to Shareholders:</b> \$518,120,000	<b>Fair Market Value of Acquired J. Jill Assets:</b> \$687,572,000	<b>Liabilities Assumed by Acquirer (J. Jill):</b> \$251,530,000
<b>Value of Goodwill:</b> 21,551,767		

### Journal Entries to Record

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ASSETS RECEIVED (DEBIT)	DEBIT	CREDIT
Cash	518,120,000	
Deferred Income Taxes	13,475,000	
Other Current Assets	92,487,000	
Property and Equipment	254,153,000	
Goodwill	21,551,767	
Trademarks	79,188,000	
Other Intangible Assets	100,188,000	
<b>ASSETS GIVEN UP (CREDIT)</b>		
Cash on Hand		128,120,000
ACQUISITION COSTS		4,570,000
Cash Received Through Debt Financing		485,430,000
<b>LIABILITIES RECEIVED (CREDIT)</b>		
Current Liabilities		50,000,000
Deferred Income Taxes		13,475,000
Other Long-Term Liabilities		11,825,000

### Questions & Answers

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### Fiscal Year 2007 Intangible Asset Amortization Calculations

<b>Trademark Amortization:</b> 79,188,000 / 10 = 7,918,800	<b>Goodwill Amortization:</b> 21,551,767 / 10 = 2,155,176.7	<b>Other Intangible Assets Amortization:</b> 100,188,000 / 10 = 10,018,800	<b>Trademark Amortization:</b> 7,918,800	<b>Goodwill Amortization:</b> 2,155,176.7	<b>Other Intangible Assets Amortization:</b> 10,018,800
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## *Agenda*

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- **Goodwill Creation**
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*Cash Paid to Shareholders*

**\$518,320,000**

*Fair Market Value of Acquired  
J. Jill Assets*

**\$687,572,000**

*Liabilities Assumed in  
Acquisition of J. Jill*

LIABILITIES RECEIVED	
Current Liabilities	55,662,000
Deferred Income Taxes	95,699,000
Other Long-Term Liabilities	11,820,000
Debt Acquisition Loan	400,000,000
<b>Total Liabilities Received</b>	<b>563,181,000</b>

*Shares Purchased*

**21,551,767**

# *Journal Entries to Record*

## **Thecasesolutions.com**

<b>ASSETS RECEIVED (DEBIT)</b>	<b>DEBIT</b>	<b>CREDIT</b>
Cash	30,445,000	
Deferred Income Taxes	19,475,000	
Other Current Assets	91,837,000	
Property and Equipment	154,553,000	
Goodwill	211,977,000	
Trademarks	79,100,000	
Other Intangible Assets	100,185,000	
<b>ASSETS GIVEN-UP (CREDIT)</b>		
Cash on Hand		118,320,000
Acquisition Costs		6,071,000
Cash Obtained Through Debt Financing		400,000,000
<b>LIABILITIES RECEIVED (CREDIT)</b>		
Current Liabilities		55,662,000
Deferred Income Taxes		95,699,000
Other Long-Term Liabilities		11,820,000

## Fiscal Year 2007

# Intangible Asset Amortization Calculations

### Customer Relationships

Fair Market Value \$84,200,000  
Estimated Life 12 Years

Fiscal Year 2007 Amortization =  $\frac{\$84,200,000}{12 \text{ Years}} \times \frac{9}{12} = \$5,262,500$

### Favorable Leasehold Interests

Fair Market Value \$11,085,000  
Estimated Life 8 Years

Fiscal Year 2007 Amortization =  $\frac{\$11,085,000}{8 \text{ Years}} \times \frac{9}{12} = \$1,039,219$

### Trademarks and Goodwill

Trademarks Fair Market Value \$79,100,000  
Goodwill Fair Market Value \$211,977,000  
Estimated Life Indeterminable

- Not amortized
- Reviewed for impairment on an annual basis

### Non-Compete Agreements

Fair Market Value \$4,900,000  
Estimated Life 20 months

Fiscal Year 2007 Amortization =  $\frac{\$4,900,000}{20 \text{ months}} \times 9 = \$2,205,000$

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