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Accounting Treatment of Goodwill in IFRS and US GAAP

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The article presents an overview of the new accounting treatment of goodwill regarding International Financial Reporting Standards and American Generally Accepted Accounting Principles. Goodwill acquired through a business combination is no longer amortized but tested for impairment. Despite the fact that the objective of the new International Financial Accounting Standard has been to move towards international convergence; significant differences between standards still exist. The article presents the main changes of the regulation in the last years and the key differences between the two accounting treatments. In spite of the new accounting approach there are still lots of discussions, which indicate that the field is still not properly regulated. Finally, the article offers possible directions for future research and reporting practice.

Key words: goodwill treatment, impairment of goodwill, intangible assets

1 Introduction

We are facing a new era of economic development with a growing significance of intangible assets. Goodwill constitutes a significant asset for numerous companies, especially those which are operating in high technology industries. According to the growing importance of intangibles there has also been a significant change in standards associated with accounting for goodwill.

In 2004 International Accounting Standard Board (IASB) issued International Financial Reporting Standard (IFRS) 3-Business Combinations and revised International Accounting Standard (IAS) 36-Impairment of Assets and IAS 38-Intangible Assets, which provided a major change in accounting treatment of goodwill after many years. The new accounting standard made a significant change in the accounting rules for business combinations, intangible assets and goodwill. The new standard requires that all business combinations which initiated after March 2004 must be accounted by using the purchase method and goodwill is no longer amortized but has to be tested for annual impairment[1] (IFRS 3, 2007). The new accounting role moved ahead American Generally Accepted Accounting Principles (US GAAP), which introduced such approach a few years earlier. The Financial Accounting Standard Board (FASB) issued the Statement of Financial Accounting Standards (SFAS) 141-Business combinations and 142-Goodwill and Other Intangible Assets on July 20, 2001. The Statements changed the unit of account for goodwill and took a different approach on how the goodwill has to be subsequently accounted after its initial recognition.

The objective of the new IFRS 3 was to move towards international convergence, particularly with US GAAP. As a result of the new standard IFRS 3, the revised IAS 36 and IAS 38 eliminated a number of differences that had existed between IFRS and US GAAP in accounting for business combinations before the year 2004. The aim of these changes was to assure an increased comparability of financial statements and to improve the transparency of accounting and reporting of business combinations.

The aim of the article is to critically examine the changes in the new accounting role for goodwill regarding IFRS. The article compares and discuses the new IFRS with US GAAP. The comparison focuses on the main differences, which despite the new accounting role, still remain. The article highlights the advantages and potential problems of the new requirements which the preparers and users of financial statements can face. Finally, the article offers possible directions for future researches and reporting practice.

[1] The accounting treatment of goodwill in Slovenian Accounting Standards is in line with the International Financial Reporting Standards.

2 Reasons for issuing the new standard

Day after day we are faced with an increasing importance of intangible assets. Intangible assets have become important value creators in modern economy. According to the new characteristics of economy there was an increasing need for a more relevant approach. The value of goodwill is related to the future. It represents capabilities for the future growth and future earnings, but the accounting approach is primarily focused on past information. A more dynamic approach needs to be adopted. To bring that to the end it is extremely important that standard setters create an adequate approach of accounting for goodwill. After more than 30 years, in 2001 SFAS 141 and SFAS 142 significantly changed the accounting for goodwill. IFRS 3 was modified a few years later, in 2004.

Before the adoption of the new accounting rules business combinations were accounted by using one of the two methods; the pooling of interests method or the purchase method. Consequently, similar business combinations were accounted by the use of different methods, which lead to dramatically different results in the financial statements. The purchase method recognizes all intangible assets acquired in a business combination, while the pooling method recognizes only the intangible assets which were previously recorded by the acquired entity. Consequently the users of financial statements had difficulties to compare the financial results of entities because different methods were used. Subsequently the managers noticed that the difference between the methods affected the competition of the company in markets for mergers and acquisitions (SFAS 142, 2007).

The stated differences were adopted by IASB in the first phase of the business combination project. The convergence project did not end, it continued and in the second phase it was undertaken by FASB. As a result, we will be witnessing the revised SFAS 141 which will be effective for fiscal years beginning after December 15, 2008 and the revised IFRS 3 which will be effective after July 2009. The revised standards will put off the majority of remaining differences and assure more comparable financial statements.

The asset composition of companies has changed in the last decades. The role of intangible assets as value creators is rising and consequently also the needs for adequate information about them. In today's knowledge economy intangibles play an important role. Consequently they have to be properly identified, measured and managed. To bring that to the end there was also an increased need for better information about intangibles because they have an increasing importance for many companies and also an increasing proportion of the assets acquired in many business combinations. The new standard provides a new methodology based on the value of the business related to goodwill, giving an improved guidance to the impairment testing process.

2.1 Recognition, measurement and valuation of goodwill regarding IFRS and US GAAP

Intangible assets are a claim to future benefits that do not have physical or financial embodiment that generate cost savings (Lev, 2001). Goodwill can be recognized as an intangible asset only if it is acquired in a business combination. Internally generated goodwill can not be capitalized in the balance sheet. Goodwill can not be capitalized because it is not identifiable, it has an indeterminate useful life and it is not separable from other assets. Intangibles are identifiable when they result from contractual or legal rights or are separable. Intangibles that are not identifiable are recognized as part of goodwill (SFAS 142.39, 2007).

Intangibles can no longer be attributed to goodwill, but the acquired intangible assets which are identifiable and have infinite life must be recognized in the balance sheet and be amortized over their estimated useful life. Acquired identifiable assets in a business combination are valued at their fair values. The remaining value after the identification of all tangible and intangible assets is than assigned to goodwill.

IFRS (IFRS 3.51, 2007) claim that goodwill is initially measured as the difference between the cost of the acquisition over the acquirer's interest in the net fair value[2] of the identifiable assets, liabilities and contingent liabilities. Goodwill recognition requires the valuation of fair values of all identifiable intangible and tangible assets. Goodwill represents future economic benefits arising from assets which can not be recognized separately (they do not meet the criteria for recognition) and being individually identified. After the initial recognition of goodwill, it should be measured at the cost lowered by any accumulated impairment charge. Goodwill should be tested for impairment annually or more frequently if circumstances indicate that it might be impaired.

On the day of acquisition goodwill has to be allocated to cash-generating units. A cash generating unit is determined recording to IFRS 36.6 as the smallest identifiable group of assets that generates cash inflows that are largely independent from the cash inflows from other assets and group of assets (IFRS 36.6, 2007). The cash-generating units to which goodwill is allocated shall present the lowest level of the entity to which goodwill was allocated. The unit or group of units can not be larger than a segment as amended in IAS 14-Segment reporting (IFRS 36.80, 2007).

The discount on acquisition (previously named negative goodwill) occurs when the acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities

[2] Fair value is defined under IFRS "as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction".

and contingent liabilities exceeds the cost of acquisition. Discount on acquisition according to the new standard is now immediately recognized in the income statement for the period (IFRS 3.56, 2007). This also represents a significant change as amended in the new IFRS 3.

According to US GAAP (SFAS 141.43, 2007) goodwill is recorded as the excess of the cost of an acquisition price over the fair value of acquired net assets. It is written down only when the carrying amount of goodwill exceeds its implied fair value. To test goodwill for impairment, companies must first assign purchased goodwill to reporting units. Before the new accounting treatment, companies generally recorded goodwill in total and did not assign it to individual reporting units. A reporting unit regarding SFAS 142.30 is defined as an operating segment or one level below an operating segment (its component). Companies assign goodwill to reporting units by comparing the estimated fair value of the reporting unit with the fair values of the unit's identifiable net assets. According to SFAS 142.18 a two-step impairment shall be used to identify potential goodwill impairment and measure the amount of the impairment loss to be recognized (if any).

1. The first step consists of estimating the fair value of the companies reporting unit and compares it with its carrying amount, including goodwill. When the fair value of the reporting unit is greater then its carrying amount, there is no impairment and the test is completed (the second step of the impairment is unnecessary). Otherwise when the fair value of the reporting unit is lower than its carrying value, the second step should be performed to measure the amount of impairment loss (if any).
2. In the second step the company shall compare the implied fair value of the reporting unit goodwill (by repeating the process performed at acquisition) with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in the amount that equals to the excess. The new accounting basis after the impairment is the adjusted carrying amount of goodwill.

Companies have to evaluate goodwill for impairment at least annually. If there are circumstances during the year that indicate additional impairment, the impairment test should be done more frequently. Goodwill impairment losses are included as a separate item in the income from continuing operating section of the income statement. After the completed impairment, subsequent reversals of recognized impairment losses are prohibited. The main characteristics of the impairment process regarding IFRS and US GAAP are presented in the Table 1.

Before the adoption of the new accounting treatment Accounting Principles Board Option number 17 (APB Option No. 17) from the late 1960s it was required that goodwill needs to be amortized over a period that can not exceed 40 years. Many companies adopted a 40-year period as useful life for the purpose of minimizing the periodic earnings effect. On the contrary the previous standard IAS 22 regarded a linear amortization of goodwill in its useful life that could not exceed 20 years.

Moving to the system of annual impairment tests instead of amortization a significant change was made in accounting for goodwill.

2. 2 The main differences between standards

One of the main objectives of the new IFRS 3 was to move towards the convergence with US GAAP. Despite eliminating a number of differences that existed between

Table 1: Goodwill treatment regarding IFRS and US GAAP Source: own research based on SFAS 141, SFAS 142, IFRS 3 and IAS 36.

Standard	IFRS	US GAAP
Goodwill is measured as	the difference between the cost of the acquisition over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities	the excess of the cost of an acquisition price over the fair value of acquired net assets
Impairment	annually or more frequently if circumstances indicate additional impairment	annually or more frequently if circumstances indicate additional impairment
The method of testing	two-step process is not in use	a two-step process
Elimination of impairment losses	reversals of impairment losses relating goodwill are not permitted (IAS 36 permits reversals of other intangibles)	reversals of impairment losses are not permitted in any circumstances
Negative goodwill	any discount on acquisition is taken to the profit and loss statement	any discount on acquisition is taken to the profit and loss statement

the two accounting treatments some significant differences still remain. The remaining distinctions remain a part of the continuing convergence project between IASB and FASB.

The first difference which has to be taken into consideration is the identification of cash-generating units (or reporting units under US GAAP). In the case of identification of cash-generating unit under IFRS more cash-generating units can be identified as reporting units in the case of SFAS 142. SFAS 142 claims that a reporting unit cannot be identified at a lower level than an operating segment. IAS 36-Impairment of Assets does not have such a limit. Consequently a cash-generating unit can be identified at a lower level and the impairment test would be done at a lower level in comparison with US GAAP.

The second significant difference relates to the impairment test of goodwill. The process of impairment of goodwill differs significantly between the two accounting requirements. According to SFAS 142.18 a two step process is regulatory. In the first step the fair value of the reporting unit is estimated. Subsequently the fair value of the reporting unit is compared with its carrying value. When the fair value is lower than its carrying amount the next step needs to be performed. In the second step the implied fair value needs to be determined. The fair value of the reporting unit needs to be allocated to all assets and liabilities, including unrecognizable assets. The implied fair value is then compared with the carrying amount to establish if impairment has occurred.

The main differences between the impairments test regarding IAS 36 and SFAS 142 as presented in the Table 2 are the following: under IAS 36 the liabilities of the cash-generating unit would not be included in the calculation of the carrying amount of the unit (unless they were unable to be factored out of the recoverable amount calculation). IAS 36 would also not proceed to step 2, but would calculate the write-down at the completion of the step 1. The write down under IFRS would amount to 300 current units-carrying amounts less the fair value of the cash generating unit (1.500 - 1.200). The fair value under IFRS is different in comparison with US GAAP because IFRS do not take into consideration the effect of the existing liabilities. As stated before in the second step SFAS 142 determines the fair value of reporting unit by determining fair values of all recognizable assets and liabilities as if the unit was acquired in a business combination on the day of impairment test. In the previous illustration IFRS did not take unrecognized trademarks (Deloitte, 2004) into consideration.

The next difference refers to recognition of potential liabilities. In accordance with IFRS 3.51 goodwill recognition requires valuation of the fair values of the assets, liabilities and contingent liabilities. Contingent liabilities can be recognized separately only when the fair value can be measured reliably. Goodwill recognition regarding SFAS 141 does not permit the recognition of contingent liabilities (SFAS 141.43). At this point an important difference occurs. In the case of the recognition of the contingent liabilities the initial value of goodwill on the date of acquisition will be higher than in the other case, when contingent liabilities would not be recognized as an item in the balance sheet.

The following illustration (in the Table 3) is assumed to expose the difference between the mentioned roles of accounting for goodwill.

We assume that a company acquires another company for 400 000 €. Goodwill regarding IFRS is measured as follows: goodwill is measured as the excess of the cost of acquisition over the acquirer's fair value of assets, liabilities and contingent liabilities acquired. The difference between the acquisition cost (400 000 €) and the net asset acquired (540 000 € - 260 000 € = 280 000 €) amounts to 120 000 €. Regarding IFRS this amount would be recorded as goodwill in the balance sheet.

In the second case (regarding US GAAP treatment) the acquired company can not recognize contingent liabilities (contingent obligations) as a separate item in the balance sheet. In this case goodwill would amount to 90 000 €. It results as the difference between the cost of acquisition (400 000 €) and the acquired fair value of

Table 2: Comparative illustration of US GAAP methodology for impairment

Step 1	US GAAP current units	Step 2		US GAAP current units
Purchase price	1.100	Purchase price		1.200
Carrying amount	1.500	Trademark (unrecognized)		50
Goodwill	400	Carrying amount		1.250
Liabilities	(200)	Liabilities		(200)
Carrying amount	1.300	Carrying amount		1.050
Fair value of reporting unit	1.200	Fair value of reporting unit		1.200
Fail step 1	(100)	Implied fair value of goodwill	150	
		Carrying amount of goodwill		400
		Impairment loss	250	

Table 3: Illustration of the impact of the recognition of contingent liabilities

IFRS treatment		US GAAP treatment	
Acquired asset		**Acquired asset**	
Cash	90 000 €	Cash	90 000 €
Short-term investments	100 000 €	Short term investment	100 000 €
Accounts receivable	150 000 €	Accounts receivable	150 000 €
Inventories	200 000 €	Inventory	200 000 €
Total assets	540 000 €	Total assets	540 000 €
Acquired liabilities		**Acquired liabilities**	
Accounts payable	100 000 €	Accounts payable	100 000 €
Notes payable	100 000 €	Notes payable	100 000 €
Accruals	30 000 €	Accruals	30 000 €
Contingent obligations	*30 000 €*	Total liabilities	230 000 €
Total liabilities	260 000 €		

the net assets-without taking the contingent liabilities (540 000 € - 230 000 € = 310 000 €) into consideration.

In January 2008 IASB completed the second phase[3] of business combination project by issuing a revised IFRS 3 which will take effect in July 2009 to replace IFRS 3 from the year 2004. The project was undertaken jointly with the FASB. The main objective was to ensure that the accounting for business combination will be the same, whether applying IFRS or US GAAP. FASB has also published a revised FASB 141 on December 4, 2007, which will be effective for fiscal years beginning after December 15, 2008 (IFRS, 2007). Changes made to US GAAP are more fundamental than to IFRS. The main differences were eliminated[4], but small differences still remain because boards had to assure consistency also with other accounting standards in use. Both standards were designed to improve and converge the accounting for business combinations. The remaining differences will be considered in additional projects of convergence.

2.3 Disclosures

The users of financial information feign more and more information about the financial results of companies day after day. Transparent financial information also includes disclosures related to goodwill. According to the new goodwill treatment there were changes also regarding the requested disclosures about goodwill. The new accounting treatment at the individual reporting unit (or cash-generating unit) is an opportunity to provide a more transparent financial disclosure about goodwill impairment losses. GAAP require following disclosures. For goodwill impairment losses the following shall be disclosed (SFAS 142.44-142.47, 2007):

- specification of the circumstances that lead to the impairment,
- the amount of the recognized impairment loss and the methodology of determining the fair value of the associated unit,
- any impairment loss shall be disclosed as a separate item on the income statement,
- total amount of goodwill needs to be disclosed as a separate item in the balance sheet.

The circumstances that will lead to impairment of goodwill are such as (Seetharaman et al., 2005)
external indicators:

- significant adverse changes in legal factors and business environment,
- unanticipated competition,
- loss of key customers,
- possibility of business contract with major suppliers and distributors,
- adverse action by regulator bodies,

internal indicators:

- loss of key employees,
- failure in budget forecasting,
- failure in managing acquisition.

The fair value may be determined by using different approaches such as using available market prices, present value techniques, prices for similar assets and other valuation techniques. Users of financial information should consider that market values are not always on disposal. Consequently fair value estimates are based on subjective

[3] In the first phase of the project added to IASB agenda in the year 2001 pooling of intersts method and amortization of goodwill was eliminated.
[4] The revised SFAS 141 converge to IFRS also by recording contingent liabilities at their fair value at the acquisition date.

judgment. The valuation methods have to be applied properly and reflect the economic circumstances.

The new financial disclosures about goodwill should improve financial reporting transparency. Requirements also provide more information for assessing the future cash flows. In spite of the new standards which require more disclosures, researches (Sevin et al., 2007) indicate that supplied impairment information could be considerably improved.

3 Does the new accounting treatment provide a higher information content of impairment charges or it is an opportunity of creative accounting?

Accounting for goodwill has been a controversial debate for many years. Points of view differ mostly regarding whether goodwill should be recognized as an asset, why do not we recognize also internally generated goodwill and whether the amount of purchased goodwill should be the subject of amortization or a different approach. The new accounting treatment has significantly changed the accounting approach for goodwill. Changes have met a different acceptance and opinions about such an approach. Financial report preparers, users of financial statements, auditors and researchers have different opinions about the adoption of the new standard.

Sevin et al. (2007: 676) state that the new accounting standard will improve financial reporting transparency by reflecting accounting for goodwill more clearly, which should lead to better understanding by financial statement users of the expectations regarding the assets. Requirements of the new standard are an opportunity to provide more transparent financial information regarding goodwill write-offs and disclosures about the reasons which lead to impairment.

The new accounting approach requires reporting units to conduct an annual valuation of their business. This process shall be an ideal source to determine the amount of shareholder value generated in the period for value-based management control systems. Concerning the subjectivity of the process and the variables used in the valuation process, no reliable measures can be derived from the test (Schultze, 2005: 279). Problems are related also with the fact that goodwill does not generate cash flows independent from other assets.

Testing goodwill for impairment is not simple. It requires detailed understanding of methodology for measurement (valuing) assets and liabilities. The best evidence of fair value, a quoted market price (in the active market) should be used for the measurement. Bens (2006) states that fair values are not readily available for many of the reporting units to which goodwill was assigned; managers enjoy a certain amount of discretion when applying the new role. Applying the concept of fair value for assets and liabilities that are not actively traded influence the growing subjectivity in accounting reports. If quoted market prices are not available, estimates of fair value should be based on the best available information, considering prices for similar assets and liabilities and using appropriate valuation techniques, such as the present value, option-pricing models, matrix pricing, option adjusted spread model and fundamental analysis (Lander and Reinstein, 2003: 228). Managers using the new accounting treatment make a significant number of subjective decisions when reporting accounting information to investors. The absence of market-based values is likely to increase subjectivity and uncertainty and this is presumed to reduce the usefulness of information (Dunse et al., 2004: 241). Sevin and Schroeder (2005: 48) presume that the estimates of fair value require from the management to make a number of assumptions and projections, such as future revenues, future earnings and probability of outcomes in contingency situations which lead to possible earnings manipulations.

Defining an operating unit (under US GAAP) or a cash generating unit (under IFRS) is also an issue of subjective judgment. Instead, the new standard requires the assignment of goodwill to reporting units which shall improve financial reports, a subjective decision of defining reporting units should also be taken into consideration. Managers can use subjective judgment in assigning goodwill to reporting units because if a business combination provides synergies and benefits to other operations, managers can assign some of its goodwill into other reporting units (Zang, 2008: 39). Companies could have difficulties with defining appropriate units, or even more, there is also the possibility that the units are created in the way to hide a possible impairment. Management can define the unit on a high level to hide possible impairments on lower levels. Testing goodwill for impairment requests the estimation of fair values for assets and liabilities of the defined unit. Testing goodwill for impairment for the units which were created on lower levels means more detailed measurements of assets and liabilities of that unit. Estimating fair values is also related with high costs. To bring that to the end we can expect that in some cases the reporting units will be defined on as high a level as possible. Both IAS 36 and SFAS 142 do not permit that reporting units under US GAAP and cash-generated unit under IFRS can be identified at a higher level than reportable segment.

The new accounting treatment abounds in subjective decisions. The passage on estimating fair values for assets and liabilities additionally upgrade the possibility of creative accounting. In spite of the fact that some researchers state that the principal result of application of the new accounting treatment is better information for users of financial statements the stated problems concerning the new accounting approach should be taken into consideration. The reason for the adoption of the new standard was to improve the information content about the goodwill write-offs. At this point it is worth to consider if the new accounting approach really provides better information about goodwill or is a new possibility of creative accounting.

4 Consequences of the adoption of the new accounting treatment of goodwill

Goodwill is no longer amortized, but it is tested for impairment annually, or more frequently if events indicate it might be impaired. Any determined impairment loss is reported currently in the income statement. This represents a significant change from the accounting required under IAS 22 as amortization of goodwill is no longer permitted. Because goodwill is not going to be amortized any more, the reported amounts of goodwill will not decrease at the same time as under the previous regulation.

Goodwill amortization under prior accounting standard was a constant and relatively small charge over an extended time period (over its useful life period). The new accounting approach is based on the premise that very rarely goodwill declines in value on the straight-line basis. In contrast to goodwill amortization, goodwill impairment loss can be relatively large (Duangploy et al., 2005: 23). As follows we can expect more volatility in reported income, because impairment losses could occur irregularly and in different amounts. As stated impairment write-offs create earnings volatility, although they do not have effects on the cash flow. Nevertheless the impairment amounts are signal of a loss in economic value. They have a significant effect on assets and the income.

The previous requirement to amortize goodwill over its useful economic life reduced reported profit and the earnings per share indicator (Dunse et al., 2004: 239). The consequence of the new accounting treatment is higher net income (without amortization) considering discrete write-offs which lower assets and equity. Consequently the ratios return on assets and return on equity should increase. Lower assets and liabilities will have effect also on debt ratios, which will consequently increase.

An important change of significantly importance for users of financial statements was also the cessation of the pooling-of-interests method of accounting for business combinations which until that moment avoided recognizing and amortizing goodwill (and the replacement of goodwill amortization with testing for impairment). Since the adoption of the new standard all business combinations are accounted by using the same method.

5 Future development of accounting for goodwill

So far accounting for goodwill has significantly changed. Previously goodwill was amortized in its useful life[5], today it is tested for impairment. Related to the new treatment, as mentioned previously, there could be a lot of subjective decision regarding the measurement of goodwill. Concerning the previous approach and different useful life between different standards prove that there is no market evidence about the useful life of purchased goodwill. What evidence was there, that it useful life could not exceed 40 years (or 20 years regarding IFRS)? Despite the fact that the accounting treatment has changed and goodwill is no longer amortized, an appropriate approach for measurement of goodwill still does not exist. There is still the lack of an adequate approach for measuring the intangibles (Banegil and Sanguino, 2007). We are living in an intangible economy where intangible assets play a more important role day after day. In the last decades the importance of intangibles has been rising. Unless we are able to appropriately recognize and measure intangibles (including goodwill) we will not be able to manage them efficiently.

Until today little has been written about internally generated goodwill, in spite of the fact that companies generate goodwill with their growth, development, reestablishing relationships with their suppliers and employees. Goodwill is recognized only in the case when it is purchased in a business combination. Purchased goodwill could be defined also as internally generated goodwill which is on the day of acquisition objectively measured from the point of view of the acquirer. As stated in SFAS 142 (SFAS142.B84, 2007), internally generated goodwill can not be recognized as an asset because it does not have any set of cash flows uniquely associated with it. As stated in IFRS (IAS 38.50, 2007), the differences between the market value of an entity and the carrying amount of its identifiable net assets do not represent intangible assets controlled by a company (the difference may capture different factors that affect the value of the company). There has not been a progress yet in this field.

Unfortunately, there still does not exist a generally accepted definition of goodwill. Kristandl and Bontis (2007) indicate that researches with reference to intangibles suffer from one fundamental problem, which is the lack of common terminology. All the definitions define that goodwill as immaterial, as it does not generate cash flows individually and it represents future benefits. But there exists still no generally accepted definition as to what the “components” of goodwill are.

6 Conclusion

We are living in a knowledge economy with a rising importance of intangible assets. Goodwill as an intangible asset for companies represents a future benefit, to end that it should be appropriately recognized, measured and managed. The new accounting treatment of goodwill significantly changed the accounting for goodwill. Goodwill is no longer amortized but is tested for impairment. With the introduction of the IFRS 3 a major step was made towards American standards. The implementation of the new accounting standard made two significant changes: goodwill is no longer amortized and pooling of interest

[5] Regarding US GAAP its useful life could not exceed 40 years, under IFRS 20 years

method is not in use any more. To end that business combination will be accounted by using the same method-only purchased method.

Although IFRS has moved towards US GAAP some significant differences still remain. The project of convergence between Boards still continues and soon the revised standard will be in use, which will put off the majority of remaining differences and assure more comparable financial statements.

In spite of the new accounting treatment there are many discussions about this purpose. Points of view differ concerning the information content of impairment charges and the subjective part of the new accounting treatment. Not withstanding better information content of superior disclosures of write-offs, the problems concerning the measurement of goodwill and the consequences of the adoption of the new standards on financial statements should also be always taken into consideration.

The issue of goodwill has been a controversial debate for many years. Despite numerous efforts made, there still does not exist a generally accepted definition of goodwill around the world. In spite of the efforts of FASB and IASB there is yet no universally accepted accounting treatment. The article confirms that goodwill treatment will remain a controversial debate between academics, financial report preparers and auditors also in the future.

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Računovodsko obravnavanje dobrega imena po MSRP in US GAAP

Prispevek predstavlja pregled nad računovodenjem dobrega imena med Mednarodnimi standardi računovodskega poročanja ter ameriškimi standardi. Dobro ime, pridobljeno s poslovno združitvijo ni več predmet amortizacije, temveč se po novih standardih testira za oslabitev. Kljub dejstvu, da je bil cilj novih Mednarodnih standardov računovodskega poročanja harmonizacija z ameriškimi standardi, pomembne razlike še vedno ostajajo. Prispevek predstavlja glavne spremembe na obravnavanem področju v zadnjih letih ter ključne razlike med obravnavanima ureditvama. Številne diskusije na to temo, ki postavljajo dvome v tovrstno ureditev, dokazujejo da področje še zmeraj ni ustrezno urejeno.

Ključne besede: računovodenje dobrega imena, oslabitve dobrega imena, neopredmetena sredstva