

# GOODWILL AND CRITERIA FOR ITS RECOGNITION IN FINANCIAL STATEMENTS

Inga Bumane

Dr. Doc.  
The University of Latvia  
Faculty of Economics and Management  
Institute of Accountancy  
Aspazijas bulvāris 5, Rīga, LV – 1050 Latvia  
Tel.: (371) 7034771, (371) 7034633

*The article summarises a research on goodwill which is one of the most controversial assets. The research includes a comparison between the descriptions of the economic nature of goodwill and an analysis of various valuation methods and accounting policies. The article discusses the internationally recognised problem that there coexist several accepted methods of accounting for goodwill arising from the acquisition of an enterprise, as a result of which the accountancy data of different enterprises and countries are incomparable.*

## Introduction

Economic and political reforms have a profound influence on, among other things, the system of accountancy. The restoration of the Baltic states' independence brought along a fundamental reform of the national accountancy systems. Thus, the balance sheet was supplemented with a new item – goodwill. This item, which is filled as a result of an acquisition of an enterprise or in the process of preparing consolidated annual statements, must be classified in the group of intangible assets. It should be noted that in the soviet command economy intangible assets were not actually recognised as assets of an enterprise and, thus, no such accountancy object as goodwill existed. Accordingly, no extensive research on this subject was performed during the soviet period.

The aim of the present research was to study and analyse the methods and related problems of accounting for goodwill both on an international scale and in the accountancy of the Republic of Latvia. The main tasks of the research are:

- to analyse the economic nature of goodwill and the methods of its valuation;
- to assess the policy of accounting for goodwill accepted internationally and in Latvia;
- to develop suggestions for the elaboration of the policy of accounting for goodwill.

Limitation of the research: the article does not examine the methods of determining goodwill used in the preparation of consolidated annual statements, because this issue is rather broad, it involves highly specific consolidation

procedures and is dealt with by separate documents regulating accountancy.

The study exploits the generally accepted quantitative and qualitative research methods in economics, including classification, comparative analysis and synthesis.

### **The concept of goodwill and its economic nature**

Goodwill is one of the most contentious intangible assets, which is sometimes referred to as the reputation of an enterprise, its prestige or eminence.

A comparative study of the literature on the subject of economics finds that the most precise explanation of goodwill is provided in the International Accounting Standard No. 22 "Business Combinations" – any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction should be described as goodwill and recognised as an asset.

There are various explanations of the economic nature of goodwill:

- the Swiss academician B. Raffournier believes that goodwill characterises the current value of expected profit and also represents various assets that cannot be materialised in the balance sheet in terms of money (Raffournier B., 1998);
- the USA academicians M. F. van Breda and E. S. Hendriksen believe that it is the positive difference between the cost of acquisition of an enterprise and the fair value of its net assets (Хендриксен Э. С. ...., 1997, c. 339);
- the International Accounting Standards characterise the economic essence of goodwill as a payment made by the acquirer in anticipation of future economic benefits, which may result from synergy

between the identifiable assets acquired from assets that, individually, do not qualify for recognition in the financial statements but for which the acquirer is prepared to make a payment in the acquisition (IAS No. 22).

As a result of the research, the author concludes that these economic explanations of goodwill fit with its economic essence rather well, because it represents both the prospect of receiving economic goods in the future and the various elements that cannot be materialised in terms of money, and the value of goodwill is calculated by using an algorithm, which finds it as the leftover when the fair value of the identifiable net assets has been subtracted from the acquisition cost.

Goodwill can also be negative, which happens in case the acquisition cost is less than the fair value of identifiable net assets at the date of transaction, and internationally it is referred to as badwill.

The explanations of the economic nature of badwill are also different:

- the above-mentioned USA experts (Хендриксен Э. С. ...., 1997, c. 403) note that badwill is essentially a symmetric image of goodwill;
- experts from the United Kingdom (Chopping D. ...., 1995, 621 p.), however, believe that badwill is characteristic of a good acquisition made possible by an "obligatory" sale, special bargaining skills or management mistakes resulting in unsuccessful performance of an enterprise.

An analysis of the provided explanations of badwill reveals that the economic nature of badwill depends on each specific transaction. Thus, badwill may arise when the acquirer predicts a negative performance result after the acquisition or when he/she has made a bargain.

Yet, the author believes that the explana-

tions of goodwill and badwill alike disregard one important feature – both of them exist for as long as the enterprise is operating, and if since establishment the entity has never been sold, its steadily formed goodwill or badwill is not shown in accountancy registers. Hence, goodwill exists within the very enterprise and whether it is positive or negative depends on its operational success; in case this enterprise is acquired by another enterprise, goodwill is calculated for the acquirer's balance sheet but it does not arise anew.

### Valuation of goodwill

The valuation of goodwill is one of the most complicated subjects. The research shows that the internationally accepted practice is to determine it by drawing on the fair value of material assets or by using other methods. Goodwill can be calculated according to the master valuation approach, excess earning power approach, which is based on the calculation of unregistered net assets, or prognosticated excess earning power approach, which, in turn, is based on the number of years that excess earnings will be made.

The only method which eventuates in the recording of goodwill in the books of the acquiring enterprise is the master valuation approach, which treats goodwill as an estimation of an enterprise's reputation. This method calculates goodwill as the difference between the cost of acquisition and the fair value of the acquired enterprise's net assets. The author believes that the fair value of net assets must be determined in a special audit procedure or specified in a reasoned expert opinion. Also, the International Accounting Standards stipulate the usage of master valuation approach for determining the acquired goodwill.

According to the excess earning power approach, which is based on the calculation of unregistered net assets, goodwill is treated as

the earnings which exceed the industry's average. Meanwhile, the prognosticated excess earnings approach, which is based on the number of years that excess profits are generated, treats goodwill as future excess earnings expected to flow over a certain number of years, above the amount seen as the industry's average.

Opposite opinions exist about the usefulness of the latter two methods in the calculation of goodwill:

- the Russian academician O. V. Solovieva believes that it is more appropriate to determine goodwill according to these particular methods, because they show how much one must invest to earn more than the industry average (Соловьева О. В., 1998, с. 173);
- scientists M. F. van Breda and E. S. Hendriksen from the USA believe that any attempt to identify a separate part of enterprise's value, basing on the calculation of "excess earnings", is spurious (Хендриксен Э. С. ...., 1997, с. 402).

The goodwill calculated using either of the excess earnings methods is not disclosed in accountancy documents. This unequivocal stance can be explained by the fact that these methods yield a value of goodwill which may not be treated as an accountancy object either in Latvia or internationally. Besides, the calculations make use here of the industry's average earnings, even though it is not economically appropriate to apply them to the determination of any enterprise's goodwill, because the efficiencies of each are influenced by a variety of factors, and it is wrong to suggest that the assets of any enterprise must yield earnings equal to the industry's average.

### The policy of accounting for goodwill

The goodwill that has appeared as a result of an acquisition of an enterprise and has been

calculated according to the master valuation approach must be disclosed in the documents of the acquiring enterprise. Hence, a question arises – how should this amount be recorded in the accountancy and disclosed in the financial statements?

Three approaches exist to disclosing goodwill in the documents of the acquiring enterprise:

1) goodwill is treated as a “residue” of the accountancy system, which should be compensated as soon as possible, i. e. it should immediately be written off to the expenses part of the profit or loss statement or, alternatively, own capital should be decreased by a corresponding amount;

2) goodwill is treated as an element acquired in an economic transaction, and thus its amount is capitalised as an intangible asset with subsequent amortisation during its useful life, not exceeding a certain period from the moment of acquisition;

3) as above, goodwill is capitalised as an intangible asset, but is not subject to amortisation, because it is recognised as an asset without a definite useful life. Once a year its registered/carrying amount is tested for a possible decrease, which, if any, is written off to the profit or loss statement.

Regardless of the fact whether in practice the method of capitalisation or of writing off is used, the aggregate influence on own capital of an enterprise will be the same, the only difference being in the time period in which that influence is felt. The method of writing off will immediately reduce own capital, while the application of the capitalisation method will result in a gradual reduction over a certain period. Meanwhile, the application of the third method, which requires testing goodwill for a reduction at least once a year, will have a fluctuating effect on own capital, as reductions of goodwill may occur irregularly and in varying amounts.

After examining the rules contained in the Latvian normative documents regulating accountancy, which relate to the treatment of goodwill obtained in acquisitions, it has been found that two of the methods described above – writing off and capitalising goodwill – are mentioned as alternatives, while the third is not provided for. Since 1995, the rules of the Latvian tax accountancy contain a regulation stipulating that goodwill has no impact on the calculation of an enterprise's taxable income, i. e. the amount subject to the enterprise income tax is increased by the value of write-off.

A comparative analysis has shown that in various countries the national regulations of accounting for goodwill are different.

In Australia, Belgium, Canada, Estonia, Japan, Lithuania, the Netherlands, Portugal and Spain only the capitalisation method with regular amortisation is allowed.

In Denmark, France, Greece, Italy, Luxembourg, Switzerland and Sweden it is allowed to either capitalise goodwill and amortise it regularly or write it off, however, the former is seen as the benchmark method. In Germany, too, both methods are allowed, however, it is recommended to use the latter.

Only in the USA, the UK and Ireland a different method of treating goodwill has been accepted, viz., to recognise it as an intangible asset with an indeterminate useful life. As a result, amortisation is not calculated, but, instead, at least once a year goodwill is tested for a decrease.

It should be noted that this method is to be applied in the accountancy of the USA enterprises starting from 2002. Before that date the USA rules required using the capitalisation approach with a subsequent amortisation of goodwill in a period not exceeding 40 years from the moment of capitalisation.

Likewise, until 2002 the Irish and British accountancy regulations did not touch upon

the former method, but, instead, it was regarded that goodwill should be immediately written off to reserves (the recommended treatment) or be recognised as an intangible asset to be amortised (an alternative approach).

The International Accounting Standards mention only the capitalisation of goodwill with its subsequent amortisation.

The research shows that in Latvian accountancy there exists a problem which is characteristic of accounting for goodwill on an international scale: several methods of treating the goodwill of an acquired enterprise have been laid out, and as a result the accountancy data in this respect cannot be compared.

When enterprises choose to capitalise goodwill and to amortise it subsequently, it should be kept in mind that the method and period of amortisation must correspond to the model which describes the expectations of receiving future economic goods embodied in the acquired identifiable assets. A comparative analysis of internationally known methods of amortisation reveals that priority is given to the linear method, whereas such an unequivocal stance does not exist as to what regards the period of amortisation – significant differences can be found.

In Canada the allowed period of amortisation is 40 years; a similar approach is practised in Germany, where the law sets the limits from 4 to 40 years, and France, where enterprises can choose their accountancy policy freely, and in the case of capitalisation the maximum amortisation period is 40 years.

In Australia this period is 20 years, in Portugal 5 years, but it can be extended to a maximum of 20 years.

In Sweden amortisation is allowed in 10 years and in Spain in 5 years, which can be extended to 10.

In Belgium, Denmark, Estonia, Greece,

Italy, Japan, Lithuania, Luxemburg and the Netherlands the maximum period is 5 years.

Until 2001, a limit of 40 years for the amortisation of goodwill was set in the USA as well, since this accountancy object was regarded as an amortisable intangible asset. Since 1 June 2001, when the Financial Accounting Standards Board adopted Statement No. 142 "Goodwill and Other Intangible Assets", there have been considerable changes in how goodwill is interpreted and accounted for. It is now treated as a non-amortisable intangible asset, for it is believed that goodwill has an indeterminate useful life. Instead of calculating amortisation, once a year goodwill must be tested for a decrease, and, if one is found, the respective amount must be written off to the expenses part of the profit or loss statement. Thus, in the financial accountancy of the USA goodwill is no longer subject to the calculation of amortisation, and hence the timeframe and calculation method of amortisation are not fixed.

The research suggests that according to the generally accepted practice of treating goodwill and the recommendations contained in International Accounting Standard No. 22 "Business Combinations", the unamortised part of goodwill must be reviewed on a regular basis, i. e. on each date of balance sheet – this remaining part must be tested because of the contingency that the goodwill, which has appeared as a result of an acquisition, in defiance of previous expectations may not generate economic goods. Likewise, according to the method of treating goodwill accepted in the financial accountancy of the USA, the United Kingdom and Ireland, at least once a year (in author's view, exactly before drafting the annual report) goodwill must be tested for a possible decrease in value.

The decrease can be caused by economic trends adverse to an enterprise, unexpected

changes in the competition environment, a rapid decrease in demand, as well as contractual and legislative amendments. In such cases the remaining part of goodwill must immediately be written off to the expenses part of the profit or loss statement. Furthermore, any such write-off is irreversible, i. e. the value of goodwill which has been written off cannot be re-introduced to the accountancy registers and disclosed in the balance sheet once more.

Thus, according to the currently accepted practice of accounting for goodwill, it is capitalised in the balance sheet of the acquiring enterprise among its other intangible assets, and subsequently amortised over the acquired asset's useful life, which does not exceed a certain period of time since the moment of its appearance.

The Swiss scientist B. Raffournier is critical of this dominant practice and questions the conformity of goodwill with the generally accepted criteria for recognising an element of an economic transaction as an asset.

Regarding the first criterion of recognition – the possibility that any future economic goods related to the respective element of an economic transaction will flow to the enterprise – the scientist believes that it is mostly impossible and at best very difficult to estimate the period of time over which the flow of economic goods can be expected. The reason behind this inference is that goodwill itself represents various elements with varying useful lives. As to the second criterion of recognition – the element of an economic transaction has a cost or value, which can be reliably determined – the scientist insists that the value of goodwill cannot be determined with sufficient reliability, because its essence is that of a “residue” of certain calculations. Consequently, the Swiss scientist believes that these arguments are a sufficient reason to immediately write off goodwill to the expenses part of

the profit or loss statement (Raffournier B., 1998).

The author, too, believes that the goodwill calculated as a result of an acquisition is characterised by a high degree of uncertainty and that it is difficult to estimate the future economic goods related to it. And yet, one may not accept as unequivocal the stance that goodwill does not conform to the criteria for recognising it as an asset and hence must be written off to the profit or loss statement, for the origin (basis for calculation) of this value is a transaction of sale and purchase, motivated by the willingness to make profit. In such a case one should draw upon the traditional accounting method, because resources have been expended in order to gain economic goods, and thus these expenses must be entered in the accountancy registers of the acquiring enterprise as acquisition cost, capitalised and recognised as expenses in the reporting periods to follow.

Yet, as a result of the research, the author concludes that another question of treating goodwill after its initial recognition as an intangible asset is of importance: should it be recognised as an amortisable or non-amortisable intangible asset, and is it characterised by a determinate useful life?

The author believes that goodwill is a non-amortisable intangible asset and it should not be subject to a regular calculation of amortisation costs. This can be explained by the fact that it is unfeasible to determine its precise period of existence. It is next to impossible for the management of an enterprise to define how long an environment beneficial to the business would exist: demand, competition, monopoly advantages and other factors all have an influence on a company's market reputation.

Thus, for goodwill it is reasonable to use the accountancy method that treats it as an intangible asset with an indeterminate useful life.

Hence, as the capitalised intangible value has no limited useful life, it should not be subject to the calculation of amortisation. Instead, goodwill should be tested for a decrease before each annual report, and any reduction should immediately be written off to the expenses part of the profit or loss statement.

Results of the comparative analysis allow concluding that the method accepted by the author does not contradict the one recommended by the International Accounting Standards. This is so because, when using the International Accounting Standards method, valuation of the carrying amount of goodwill must be tested on each date of financial statement. On finding that the non-amortised part of goodwill will not generate a future flow of economic goods to the acquiring enterprise, it must be written off immediately, which is an irreversible action. In a similar way, the method accepted by the author stipulates that, before completing a financial statement, goodwill must be tested for a decrease, which, if found, is to be written off immediately. Thus, regardless of the fact whether goodwill is seen as an amortisable or non-amortisable intangible asset, the part of its value that is written off must be the same in any accounting period. The difference between both methods is that the International Accounting Standards stipulate a limitation to the amortisation period (5 to 20 years), while no such restraint exists if goodwill is recognised as a non-amortisable intangible asset.

Regarding the treatment of negative goodwill or badwill, there are two approaches to accounting for its value:

- 1) the fair value of the acquired identifiable non-cash assets is decreased by the calculated amount of the negative difference. In case it is not possible to fully compensate for this difference by decreasing the value of the acquired non-cash assets, the remaining differ-

ence is treated as a deferred income, which must be regularly included in the income part of the profit or loss statement in the period in which badwill is expected to have an effect;

- 2) badwill is immediately recognised as a deferred income, which must be regularly included in the income part of the profit or loss statement in the period in which badwill is expected to have an effect.

For a long time the International Accounting Standards accepted both treatments of badwill, stating the first as the benchmark approach and the second as an allowed alternative. Since 1999 these Standards allow only the second treatment, stipulating that the negative difference must be systematically recognised in the income part of the profit or loss statement in the following way:

- 1) when badwill or part of it is associated with predictable losses or expenses implicit in the plans of the acquiring enterprise, and their value can be estimated with a reasonable precision, even though on the date of acquisition they do not appear among liabilities, badwill should be recognised as an income of the period when the losses or the expenses are predicted;

- 2) when badwill or part of it is associated with expected future losses or expenses, its value, not exceeding the fair value of the acquired identifiable non-cash assets, must be recognised as an income on a systematic basis proportional to the useful lives of acquired identifiable amortisable/depreciable assets, and the rest should be treated as an income immediately.

As a result of the research, the author finds that badwill is treated as a deferred income, which must be recognised in the profit or loss statement either in the reporting period in which the associated losses and expenses will be recognised, or over the useful lives of the acquired identifiable non-cash assets, during

which amortisation/depreciation expenses of these assets will be recorded in the expenses part of the profit or loss statement. Furthermore, the part of goodwill that exceeds the fair value of the acquired identifiable non-cash assets, and its full value in cases when as a result of the transaction only cash assets (cash, securities, debts) have been acquired, is immediately recognised as an income.

A comparative analysis of the policies of writing off positive and negative goodwill finds that, except in the USA, the UK and Ireland, this is done basing on its useful life (the International Accounting Standards recommend a period of 5 to 20 years). As mentioned above, in the USA, the UK and Ireland the writing off of goodwill that is capitalised in the financial accountancy depends on the annual test for a decrease. Badwill, in contrast, is written off proportionally to the amortisation/depreciation costs of the identifiable non-cash assets or proportional to recognised losses or expenses (no time limit is set).

The author explains this situation by the fact that determining the useful life of positive goodwill is associated with a number of uncertainties and that essentially it is characterised by an indeterminate useful life. However, the management can adequately estimate the useful life of the identifiable assets or recognise losses or expenses that serve as the basis for writing off badwill. Therefore, positive goodwill has a set maximum useful life or is annually tested for a decrease, while badwill has no such limitation.

The method of accounting for badwill accepted in Latvia contradicts the internationally practised approach to the recognition of and accounting for this object. This can be explained by the fact that in Latvia a regulation exists stipulating that the value of the acquired enterprise's property should be decreased by the amount of negative goodwill, if one is

found. In case part of badwill remains even after this operation, it must be recognised as a deferred income. Consequently, items in the closing balance sheet are not disclosed in their fair value, but, instead, they are adjusted according to the negative goodwill, which does not appear in the balance sheet of the acquiring enterprise.

Due the findings of the research the author suggests an alteration of Latvian regulations of accounting for negative goodwill, which currently demand that the value of acquired non-cash assets be adjusted (decreased) by its amount. Acquired assets as well as liabilities must be disclosed in the balance sheet of the acquiring enterprise in their fair value, and any adjustments are unacceptable. Of course, badwill must be registered in the accountancy and recognised in the income part of the profit or loss statement. In Latvia, it would be proper to accept the method of badwill accountancy according to which it is recognised as a deferred income to an extent which is not greater than the fair value of amortisable/depreciable assets and expected losses. The remaining part of badwill should be included in the income part of the profit or loss statement.

### ***An example (simplified)***

Enterprise A acquires enterprise B for 14 relative units and in the acquisition prospectus predicts losses of 1 relative unit. Enterprise A takes over from enterprise B the following identifiable assets and liabilities (fair value, relative units):

- fixed assets – 19,
- debtor debts – 7,
- cash – 20,
- amounts payable – 10.
- hence, badwill – 22.

The badwill calculated in this simplified example (22 relative units) must be recognised



*Table 1. Balance sheet of enterprise A (simplified) before acquisition (relative units)*

<i>Assets</i>	<i>Value</i>	<i>Liabilities</i>	<i>Value</i>
Fixed assets	100	Share capital	120
Debtor debts	30	Earnings	10
Cash	50	Creditors	50
Balance	180	Balance	180

*Table 2. Balance sheet of enterprise A (simplified) after acquisition (relative units)*

<i>Assets</i>	<i>Value</i>	<i>Liabilities</i>	<i>Value</i>
Fixed assets	119	Share capital	120
Debtor debts	37	Earnings	12
Cash	56	Creditors	60
		Deferred income	20
Balance	212	Balance	212

*Table 3. Calculation of balance sheet items for enterprise A after the acquisition of enterprise B (relative units)*

<i>Balance sheet items</i>	<i>Calculation of value</i>
1. Fixed assets	$100 + 19 = 119$ ;
2. Debtor debts	$30 + 7 = 37$ ;
3. Cash	$50 - 14 + 20 = 56$ ;
4. Share capital	constant = 120;
5. Earnings	$10 + 2 = 12$ , where:
• amount of badwill recognised as an income	2;
6. Creditors	$50 + 10 = 60$ ;
7. Deferred income	20, where:
• amount of badwill recognised within the limits of the true value of acquired fixed assets	19,
• amount of badwill recognised to the extent of expected losses	1.

as a deferred income and/or included in the income part of the profit or loss statement. This value can be recognised as a deferred income to the extent that does not exceed the fair value of the acquired fixed assets (19 relative units) and expected losses (1 relative unit). Hence, the negative difference is recognised as a deferred income to the extent of 20 relative units

(19 + 1) and the remainder, i. e., 2 relative units (22 – 20) is included in the income part of the profit or loss statement.

Returning back to the noted problem of accounting for goodwill, it must be conceded that there is little wonder that in Latvia and other countries there exist various accountancy methods, because the economic nature of

goodwill can be very different in each particular case. And yet, the author regards as inappropriate the method of disclosing adjusted items in the closing balance sheet of the acquired enterprise, and hence believes that the current treatment of goodwill cannot be justified.

In the 1998 conference of the European Accounting Association, the Swedish academician S. A. Nilsson asked: "Is it necessary to spell out a single method of treating goodwill in a unified standard?" He went on to predict the future possibility that as increasingly precise conceptual methods of valuing goodwill are invented and applied, the goodwill calculated for a certain acquisition transaction will no longer satisfy the criteria for its recognition as an asset; he also noted that despite the evidently observable global process of harmonising accountancy standards, currently carried out by the International Accounting Standards Board and other international bodies, it would not be appropriate to define a unified policy of accounting for goodwill (Nilsson S. A., 1998).

The author, in contrast, believes that it is necessary to create a single international policy of recognising and treating goodwill. This would enable financial analysts, managers and other users of financial statements to compare the information disclosed in the documents of various enterprises, even across borders, and thus make adequate decisions. The only way to invent a unified treatment of goodwill in Latvia and abroad is for international accountancy standards organisations and their national counterparts to accept a single approach on this issue. Besides, it is possible to quote the example of the USA, where standardisation organisations harmonised the various opinions step by step, until the method of capitalising goodwill and annually testing it for a decrease remained the only one.

## Conclusion and Recommendations

The research has led to the following main conclusions:

1. Goodwill represents both the prospect of receiving economic goods in the future and various elements that cannot be materialised in terms of money, and the value of goodwill is calculated by using an algorithm which finds it as the leftover when the fair value of identifiable net assets has been subtracted from the acquisition cost.

2. The economic nature of goodwill depends on each specific transaction. Thus, goodwill may arise when the acquirer is predicting a negative performance result after the acquisition or when a bargain has been made.

3. Goodwill exists within the very enterprise and whether it is positive or negative depends on its operation; in case this enterprise is acquired by another enterprise, goodwill is calculated for the acquirer's balance sheet but it does not arise anew.

4. There exist several methods of valuing goodwill. However, only the master valuation approach yields a value of goodwill that makes an economic sense to be recorded in the accountancy documents of the acquiring enterprise.

5. Three approaches exist to disclosing goodwill in the documents of the acquiring enterprise. According to the first of these methods, goodwill is treated as a "residue" of the accountancy system, which should be compensated for as soon as possible, i. e. it should immediately be written off to the expenses part of the profit or loss statement or, alternatively, own capital should be decreased by a corresponding amount. When applying the second method, goodwill is treated as an element acquired in an economic transaction, and thus its amount is capitalised as an amortisable intangible asset with a set useful life. According to the third version of treatment, goodwill is

capitalised as an intangible asset without a definite useful life, and once a year its registered/carrying amount is tested for a possible decrease, which, if one is found, is written off to the profit or loss statement.

6. Regarding the treatment of negative goodwill or badwill, there are two approaches to accounting for this value. The fair value of the acquired identifiable non-cash assets is decreased by the calculated amount of the negative difference. In case it is not possible to fully compensate for this difference by decreasing the value of the acquired non-cash assets, the remaining difference is treated as a deferred income, which must be regularly included in the income part of the profit or loss statement in the period in which badwill is expected to have an effect. Alternatively, badwill is immediately recognised as a deferred income, which must be regularly included in the income part of the profit or loss statement in the period in which badwill is expected to have an effect.

7. In the documents regulating Latvian accountancy, both the methods of writing goodwill off and of capitalising it are mentioned as alternatives. Thus, in Latvian accountancy there exists a problem which is characteristic of accounting for goodwill on an international scale – several methods of treating the goodwill of an acquired enterprise have been laid out and, as a result, the accountancy data in this respect cannot be compared among companies and countries.

8. In Latvia, it would be proper to accept the method of badwill accountancy according to which it is recognised as a deferred income to an extent which is not greater than the fair value of amortisable/depreciable assets and expected losses. The remaining part of badwill should be included in the income part of the profit or loss statement.

The author has devised the following recommendations:

1. The author regards as acceptable the treatment of goodwill according to which the calculated intangible value of an enterprise, is capitalised as a non-amortisable intangible asset of the acquiring enterprise, and has no set useful life, thus its carrying amount must be tested for a possible decrease on the date of the financial statement, and such a decrease is written off to the expenses part of the profit or loss statement. This stance can be explained by the fact that it is unfeasible to determine the precise period in which goodwill would exist. It is next to impossible for the management of an enterprise to predict for how long an environment beneficial to the business would exist: demand, competition, monopoly advantages and other factors all have an influence on a company's market reputation.

2. In Latvia, it would be proper to accept the method of badwill accountancy according to which it is recognised as a deferred income to an extent that is not greater than the fair value of amortisable/depreciable assets and expected losses. The remaining part of badwill should be included in the income part of the profit or loss statement.

3. The author believes that it is necessary to create a single international policy of recognising and treating goodwill. This would enable financial analysts, managers and other users of financial statements to compare the information disclosed in the documents of various enterprises, even across borders, and thus make adequate decisions. The only way to invent a unified treatment of goodwill in Latvia and abroad is for international accountancy standards organisations and their national counterparts to accept a single approach on this issue.

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## PRESTIŽAS IR JO PRIPAŽINĪMO FINANSINĒJE ATSKAITOMYBĒJE KRITERIJAI

Inga Bumane

Santrauka

Straipsnīje apibendrinātas vienas īs labiausiai polemiskų turto rūšių – prestižo tyrimas.

Tyrimas atliktas trimis pagrindinēm kryptīm. Pirmoji kryptis – tai prestižo sąvokos ekonominės priegimties palyginimas, antroji – prestižo įvertinimo metodų peržvalga ir trečioji – prestižo apskaitos politika. Straipsnīje gvildenama problema aktuali tarptautiniu mastu. Taikant skirtingus visuotinai pripažintus prestižo apskaitos metodus, įvairių šalių įmonių prestižo apskaitos duomenys tampa nebepalyginami. Priklausomai nuo įmonės veiklos prestižas gali būti pozityvus ar negatyvus. Kai viena įmonė įsigyja kitą, įgijęjos balanso atspindimas prestižas, nors tuo metu jis īs naujo neatsiranda.

Nors yra keletas prestižo įvertinimo metodų, tačiau tik turto vertintojas gali nustatyti prestižo vertę, ji turi būti atspindėta įmonės įgijęjos apskaitos dokumentuose. Yra trys prestižo atskleidimo dokumentuose kryptys.

Taikant pirmąją kryptį, prestižas traktuojamas kaip likutis, apskaičiuotas īs apskaitos duomenų. Jis turi būti

neatidėliotina nurašytas į sąnaudas ir parodytas pelno (nuostolio) atskaitoje arba padidinant nuosavą kapitalą. Taikant antrąjį metodą, prestižas traktuojamas kaip ekonominio sandorio dalis, o jo suma kapitalizuojama ir amortizuojama per nematerialaus turto naudojimo amžių. Pagal trečiąją versiją prestižas kapitalizuojamas kaip materialus turtas, neapibrėžiant naudojimo laiko, tačiau vieną kartą per metus nustatant galimą vertės sumažėjimą ir atspindint jį pelno (nuostolio) atskaitoje.

Negatyvaus prestižo vertė gali būti nustatyta taikant du apskaitos metodus. Tikroji įsigyto prestižo vertė mažinama, atėmus neigiamą skirtumą. Kai šis skirtumas didelis ir jo negalima īskart nurašyti mažinant prestižo vertę, likutis apskaitomas kaip atidėtosios pajamos ir reguliariai parodomos pelno ir nuostolio atskaitoje per visą tą laiką, kurį tikimasi negatyvaus prestižo poveikio. Latvijoje taikomi abu metodai.

Siūloma taikyti bendrą tarptautinę prestižo pripažinimo ir atspindėjimo atskaitomybėje politiką.

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