

# GOODWILL, ASSESSMENT AND RECOGNITION IN EUROPEAN RULES

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**Abstract:**

*The importance of the immaterial investments within companies nowadays urges the specialist in accounting to find the ways to present more and more in the elements. In their studies researchers face the controversy reinvestments, as an asset in the balance sheet or an expense in the profit or loss account. The main' goal of this paper is to analyze the difficulties in goodwill. In the first part we will analyze various definitions the .problems concerning goodwill recognition and valuation of the goodwill.*

**Key words:** *intangible investments, goodwill, recognition of goodwill, the group of companies goodwill impairment*

**JEL classification:** M41

In recent decades is a significant change as a result of increasing importance of intangible elements. Technology development, particularly in technology transfer and communications, reduce cycle time and technological competition from the more pronounced are some elements that attract the attention of enterprises on ways to remain competitive. If the past development of enterprises depends on the effectiveness with which assets were organized materials with physical existence today may not be the analysis and its future without a raise immateriality of business potential in terms of knowledge, information, technical progress, intelligence, how they manage that are essential can tell its competitors. The essence of the ability of a person, a company or an entire company to generate wealth is primarily in the specific knowledge in its possession. The ideas above induce that occurred the transition from industrial society, where the bill was occupied by material assets, the information society, where the role is played by human capital. The essential difference between organizations is the people rather than buildings or equipment.

Note that, in addition to the existing (working, tangible assets), its new form of presence felt increasingly in the business, such as intelligence, technical developments, information, knowledge. We now ask how he manages the accounts, with the usual system of representation. just what is concrete and verifiable, which is based on evidence, a document property, to capture in the enterprise of abstract elements, potential, such as intangible investments.

Although the intangible assets have become increasingly important in the modern economy, financial accounts produces insufficient information about them, with the result that investors are uninformed and managers leading the allegations. Together with its collaborators, Lev (2002) has argued grounds, showing that economic development requires that the intangible assets to be more recognized in the financial statements: "we use a system to take decisions than 500 years in a business complex, the essential assets that create value have fundamentally changed."

Lack of reliable information about non-tangible assets is a social and economic today (for example: if investors would have more reliable information about intangible assets of companies on the Internet, would be easier to assess their real value). But difficulties arise not only in terms of financial communication on intangible items, but based on the definition, classification, recognition and evaluation. Accounting practices

relating to intangible investment, however, is based on theoretical foundations and ambiguous types. the central theoretical ambiguous spaces whose borders are difficult to drawn, is goodwill (Malciu, 2002).

Controversy related to goodwill is a reference mainly to the recognition and evaluation.

1. The good will concept one of the first articles that make a reference to the commercial fund was published in the year 1884, although this concept is much older. Leake (1948 quoted by Bloom 2006) presents a discussion that took place in the year 1571 which utilize the expression good will. But he is also the one who claims that the first reference to the term good will MO in a class about which Lord Eldon commented : “the good will that was the subject of the sale is nothing more than the probability of a old client to come back.” Making a reference to one of the components of the good will, clients’ fidelity. Since then were written numerous articles and books about this subject, the same as generations of accountants were confronted with this problem.

On international level the good will is debated both in the domain of the norms regarding the immaterial resources as in the domain regarding the enterprises groups. By releasing the standards SFAS141 by the FASB in 2001 Enterprises groups and SFAS 142 the good will and other immaterial resources there were essential changes by accepting as a only way of registering the enterprises groups of the acquisition method and especially by changing the way of evaluation of the good will, by switching from the amortisment system to the depreciation test system. The international organism of accountants give up the IAS 22norm Enterprises groups and adopts in 2004 the international standard of financial reporting (IFRS) 3, combinations (groups) of enterprises, which imposes the same rules as the American standards. In the same project regarding the enterprise groups were changed the norm IAS 38 regarding the immaterial resources in 2004. the project’s objective was to improve the quality and obtaining the same international convergency in the accountancy in the domain of the enterprises groups and the following accountancy regarding the good will and the immaterial immobilizations, obtained from a enterprises group. By changing the IAS 38 immaterial immobilizations there was not wanted the reconstruction of all the requests of the norm. The modifications brought to the standard are mostly regarding the clarification of the notion used to identify regarding the immaterial immobilizations, duration of live and amortisment of the immaterial immobilizations and the accountancy of the research and development projects on the way to be finalized obtained by enterprises groups.

IAS 38 immaterial immobilizations says that the good will is studied by the international standard of financial reporting (IFRS) 3, enterprises groups representing the unidentifiable part of the payment made by the buyer.

According to IFRS 3 the good will obtained in the enterprises group is determined as a difference between the acquisition count of the owners and the part that belongs to the buyer in the just value of the actives, debts and the future debts indentifiable of the entity. The good will represents an advanced payment made by the buyer in the count of the future economical benefits which can result from the combining the indentifiable actives and the actives which individually analyzed do not fulfill recognition criteria in individually situations but for which the buyer is willing to made a payment in the buying process. (Feleaga, Malciu, 2004).

The measurement of the good will as a residual value is consequent with the “top to bottom“ approach, according to which the good will is vued as a investment part which is based on the buyers expectance regarding the future economical benefits resulted from the enterprises group. The investment is regarded as an active ( large active, the entire company) then this is divided in the components and after the different element are accounted the remaining is the good will.

In contrast the “the bottom to top” approach refers to the fact that in the situation in which the acquisition cost is higher than the true value of the net actives, probably some resources were gained by the buyer. This point of view is more based on the good will’s components more than on its measurement.( Johnson and Petrone, 1998)

The approach of the good will as a residual unit is recognized by all the representative referentials (international, American, British, Australian, the 7<sup>th</sup> European Directive). The good will is accountably determined as a remain as a difference between the global value of the company ( its true value as an entity) and the reference value ( the true value of the indentifiable actives) ( Bloom, 2006). This method is an subtractive preferred in the accountancy but that represents the inconvenient that it does not explain the elements of the immaterial capital. The good will can also be determined by using an additive way, starting with the direct evaluation of it’s components (liceence. Trade marks). Still this method is rarely utilized because it does not take into accountance the dependence of the active components and their effects. (Feleaga, Malciu, 2004)

2. Is the good will a active or not.

In order to establish the arguments for and against the recognition of the good will as an active, we will analyze the definition of the immaterial actives established by the International Organism of accountancy normalization and problems in identifying the immaterial actives which it faced.

The previous version of the IAS 38 defined the immaterial imoization as an indentifiable imobilization not monetary without phisic substance to be utilised in the production or delivery of goods and services to rent or use in administrative aims. The definition in the reviwed standard eliminate the requirement for the immobilization to be owened to be used in the production or delivery of goods and services to rent or for administrative services. The council noticed that the immaterial immobilizations have the following essential features.: they are resources that are controlled by the enterprise from which they estimate the obtaining of future economical benefits, don’t have phisic substance and they are indentifiable. In this way it was reached the conclusion that the goal for which an entity has an element with these features it is not relevant for its classification as an immaterial imobilization and that all these element should be in the area of aplicability of this standard. In this way an immaterial immobilization is an indentifiable mmobilization not monetary without phisic substance.

The accountance of an element in the immaterial immobilizations category requires that an enterprise to demonstrate that the element fulfills the definition of an immaterial immobilization and the criteria to recognice the active (it is probably that the enterprise is to obtain future economical advantages due to the active and if its costs can be evaluated.).

In order for an immaterial element to fulfill the definition of an immaterial mobilization must have the following features:

- indentifiable
- the control of a resource
- the existence of future benefits

An element that is not monetary without phisic substance must be indentifiable in order to fulfill the definition of immaterial immobilization. The last version of IAS 38 did not define de indentifiable characteristic but said that a immaterial immobilization can be clearly differenced from the good will if it is separable meaning.

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