1991

# Accounting for Goodwill: A Case Study of Sophisticated Users

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## Publication Details

This working paper was originally published as Greenway, MM and Tibbits, GE, Accounting for Goodwill: A Case Study of Sophisticated Users, Accounting & Finance Working Paper 91/23, School of Accounting & Finance, University of Wollongong, 1991.

UNIVERSITY OF WOLLONGONG

# DEPARTMENT OF ACCOUNTANCY

# ACCOUNTING FOR GOODWILL:

# A CASE STUDY OF SOPHISTICATED USERS

by

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December 1991

WORKING PAPER NO. 23

# ACCOUNTING FOR GOODWILL:

## A CASE STUDY OF SOPHISTICATED USERS

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The authors gratefully acknowledge the encouragement, assistance and support of Michael Gaffikin, as well as the helpful comments received from other colleagues in the Department of Accountancy at the University of Wollongong. The financial support of the public company involved in the survey and the co-operation of the finance director are gratefully acknowledged.

## ACCOUNTING FOR GOODWILL: A CASE STUDY OF SOPHISTICATED USERS

SYNOPSIS

This paper reports a case study of sophisticated users of financial statements in which the central question elicited the views of UK and Australian respondents regarding the preferred method of accounting for goodwill. Conclusions drawn from the study are that the one option allowed by the Australian legally-enforceable standard is not the preferred option. Secondary issues addressed include accounting for other intangibles and attitudes to various components of the annual report.

### INTRODUCTION

Accounting for goodwill is a topic that has received a great deal of attention in both the local and international press. This particular paper, which is part of a larger project, arose out of a decision to contact the finance director of a large Australian company. Newspaper reports in mid 1988 had indicated that this particular company did not comply with the accounting standard and further, that senior executives believed that the standard was seriously deficient. The requirement of the legally-enforceable Australian standard is that goodwill must be written off as an operating expense over the estimated useful life of the asset or twenty years (whichever is the shorter). In the initial contact with the finance director, the authors identified a desire to undertake research into the area of accounting for goodwill and invited the company to sponsor a survey of their shareholders' views on accounting for goodwill. At the arranged meeting between both authors and the finance director, a view was expressed by the finance director that shareholders generally were unlikely to be interested in the technical details of such a topic. However, the company was interested in sponsoring some research into the topic and proposed that the researchers survey a group of people that were considered by the company to be influential with respect to their shares. It was agreed that the researchers would proceed with drafting the questionnaire and that, in turn, the company would provide the names and addresses of the said group of people.

The initial purpose of the survey, then, was to attempt to generate some information which would be useful in contributing to the body of knowledge with respect to accounting for goodwill. It is common, particularly in conceptual framework projects, to assert that a user perspective should be taken in deciding the most appropriate methods of accounting. For example, the Australian Accounting Research Foundation's Statement of Accounting Concepts (SAC 2) defines a general purpose financial report as *a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs*

This appears to be a normative approach with the identification of what the users should need, but there is usually scant reference to actual users' information needs. Similarly, Boreham (1990) reported an accusation in Britain by the finance director of Fisons, Roy Thomas, that the voice of industry was not heard in the long-running accounting for goodwill debate. It would appear from newspaper reports that many who are concerned with such matters as accounting for goodwill in their daily activities, reportedly act as though the method chosen is important. A counter argument is that the method chosen is irrelevant so long as sufficient information is provided to allow adjustments to be made by those users who prefer an alternative treatment. However, the adjustment process is a resource consuming activity. It is contended, therefore, that it is still desirable that the method chosen be as compatible as possible with the needs of the majority of users who are most likely to be concerned about the method chosen. This implies that if a uniform approach to accounting for goodwill is going to be enforced, then it would/should be chosen after consideration of the information needs of the different classes of users, or at a minimum, the needs of the major users of financial information.

In studies of user information needs (see Courtis 1978) it is common to differentiate between naive and sophisticated users. In this particular study the potential respondents were most probably sophisticated users because they were chosen for their influential position in relation to the share price of a major company and because of the nature of their occupations (institutional investors, stockbrokers, financial analysts, and financial journalists).

A preliminary stage of the research involved an attempt in October, 1988 to identify possible user information needs from a study of the written submissions to the Accounting Standards Review Board.

The Australian accounting profession had adopted a standard on goodwill in April, 1984. Australia is in the unique position of having professional standards which are not legally enforceable, as well as having the governmental standard setting body, the Accounting Standards Review Board (ASRB), whose standards have legal backing. In 1987 the ASRB was considering whether to adopt the profession's standard on goodwill. The Board requested written submissions on the key issues, rather than either duplicating the exposure procedures previously used by the accounting profession, or adopting the standard without further public input. Of the 29 submissions received, 7 were from academics, 8 were from the accounting profession, 7 were from preparers of accounts, and 2 were associated with company administration, and 3 were from possible user groups, with the remaining 2 unable to be classified.

The first of the possible users was the chief accountant of the Australian Mutual Provident Society, one of the largest assurance organisations in Australia. The views are summarised as preferring the recognition of both purchased and internally generated goodwill in the accounts, with amortisation only occurring when there was permanent diminution in the value of the asset. The second potential user was the Australian Bankers' Association - Accounting Principles Committee which favoured the identification of all separable assets, with the balance deemed to be goodwill to be immediately written off as an extraordinary item. The uncertainty associated with the above two submissions is that as such organisations represent both preparers and users it is not apparent as to what role the above views pertain, or whether they relate to both roles.

The third submission from a user came from a subcommittee of the Securities Institute of Australia. Selected quotations from their submission follow:

> *The Committee believes that goodwill relates to the value of the business as a whole and not to the value of specific assets, whether or not identifiable. The Committee rejects the view that goodwill, which is synonymous with such factors as market share and superior management, is an asset. ... In our view to record goodwill as an asset is to misunderstand the purpose of a balance sheet as a statement of the entity's financial position. ... We would have no objection to a separate statement being prepared by Directors on the value of the business (in which goodwill could be disclosed) but this should not be confused with the financial statements of the entity. ... In our opinion, goodwill should not be treated as an asset and if it arises, following a revaluation of fixed assets and other identifiable assets, then it should be written off immediately. In most cases it should be written off as an extraordinary item since it is material, non-recurring and not in the ordinary course of an entity's activities.*

The divergence of views above, which ranged from an immediate write-off as an extraordinary item to a writedown only if there was a permanent diminution in the asset, were mirrored in the financial press. It should be noted that now both Australian standard setting bodies allow only one option and require the annual amortisation as an operating expense over the estimated future useful life of the asset or 20 years, whichever is the shorter. Hence the above views as to the most appropriate method of accounting for goodwill would involve non-compliance, if these views prevailed. It was with this background that the questionnaire was constructed.

## METHOD

The construction of the questionnaire evolved with the recognition that questions on the technical detail of accounting for goodwill should be preceded by more general questions about the extent of readership of certain elements, e.g. profit statement, as well as questions about the degree of understandability of financial reports. The questionnaire was constructed by a process of drafting and re-drafting and testing with colleagues in the department. The company played little role in the construction of the questionnaire and suggested only minor changes to the final draft.

The completed six page printed-one-side questionnaire, along with a covering letter and either a Freepost return envelope or international reply coupons, was distributed to the potential respondents on 30 November 1988. (A copy of the questionnaire is available, on request, from the authors.) As noted earlier, the names of this group, provided by the sponsoring company, were said to be influential with respect to the company's shares. Of the original 92 people, 50 were in the United Kingdom, and the remainder were in Australia. Shortly after the distribution, two merchant bankers contacted the researchers and expressed an interest in participating, with the result that these two additional responses were included. A follow-up reminder was sent.

RESULTS

The overall response rate was 54%, after taking into account six undelivered and three returned, unanswered questionnaires. The response rate from the Australian respondents was 73% whereas the UK response rate was 40%. In terms of actual numbers of usable responses there were 27 and 19 from Australia and the UK respectively. However all respondents did not complete every question. The respondents were predominantly institutional investors in the UK and stockbrokers and financial journalists in Australia. Of the 46 respondents all except one indicated that they either have an accounting qualification (11) or have some formal accounting training and/or accounting experience (34).

Table 1 reports the results of the enquiry into the extent of the readership of various items in the annual report.

**TABLE 1**
**THE EXTENT TO WHICH ITEMS ARE READ**

| | DO NOT READ | | | | READ THOROUGHLY | |
|---|---|---|---|---|---|---|
| | AUS | UK | AUS | UK | AUS | UK |
| Proxy documents | 18 | 12 | 7 | 2 | 1 | 4 |
| Profit & loss statement | 0 | 0 | 1 | 5 | 26 | 14 |
| Balance sheet | 0 | 0 | 2 | 6 | 25 | 13 |
| Funds statement | 0 | 2 | 4 | 4 | 23 | 13 |
| Notes to the accounts | 0 | 5 | 5 | 4 | 22 | 10 |
| Auditor's report | 7 | 8 | 8 | 2 | 12 | 9 |
| Chairman's report | 3 | 4 | 8 | 5 | 16 | 10 |
| Director's report | 3 | 6 | 7 | 4 | 17 | 9 |
| Statistical data | 4 | 6 | 6 | 2 | 17 | 11 |

The responses on a five point scale were collapsed with the columns at the extreme left indicating both 'do not read' responses and, say, 'read briefly' responses. An observation of the table indicates that, with the exception of proxy documents, the items are certainly read and largely to a great extent. The last four appear not to be read to the same extent as the main statements and notes.

Tables 2 and 3 report the results of the enquiry into one dimension of users' views, i.e., the attitude to the quantity of information contained in the main statements and notes. The question was posed in the manner reported in the tables, i.e., three response options. Table 3 reports on the responses of a subset of respondents, those who read the statements thoroughly, or say, to a great extent. The tables indicate that substantial numbers of respondents have the view that there is insufficient information in the statements.

**TABLE 2**
**ATTITUDES TO THE AMOUNT OF INFORMATION CONTAINED IN STATEMENTS - ALL RESPONDENTS**

| | TOO LITTLE | JUST RIGHT | TOO MUCH |
|---|---|---|---|
| Profit & loss statement | 21 | 24 | 0 |
| Balance sheet | 18 | 27 | 0 |
| Funds statement | 20 | 24 | 0 |
| Notes to the accounts | 26 | 18 | 1 |

**TABLE 3**
**ATTITUDES TO THE AMOUNT OF INFORMATION BY THOSE WHO READ THE STATEMENTS THOROUGHLY OR TO A LARGE EXTENT**

| | TOO LITTLE | JUST RIGHT | TOO MUCH |
|---|---|---|---|
| Profit & loss statement | 20 | 19 | 0 |
| Balance sheet | 16 | 21 | 0 |
| Funds statement | 19 | 15 | 0 |
| Notes to the accounts | 19 | 12 | 0 |

Table 4 reports on the second dimension under enquiry, that of understandability. It indicates that a substantial number of respondents who do read the statement either thoroughly or to a large extent have the view that the statements are only partly understandable. The question was posed in the manner reported in the table, that of three response options.

**TABLE 4**
**DEGREE TO WHICH ITEMS WERE UNDERSTANDABLE - BY THOSE WHO READ THE STATEMENT THOROUGHLY OR TO A LARGE EXTENT**

| | UNDERSTANDABLE | | |
|---|---|---|---|
| | FULLY | PARTLY | NOT |
| Profit & loss statement | 22 | 18 | 0 |
| Balance sheet | 21 | 17 | 0 |
| Funds statement | 16 | 16 | 3 |
| Notes to the accounts | 15 | 16 | 0 |

Table 5 reports all respondents views on the third dimension tested, that labelled complexity/simplicity. The question was again posed in the manner of the column labels in the table. Substantial numbers of the respondents had the view that the main statements and notes were too simple.

**TABLE 5**
**VIEWS ON THE COMPLEXITY/SIMPLICITY OF STATEMENTS**

| | TOO COMPLICATED | JUST RIGHT | TOO SIMPLE |
|---|---|---|---|
| Profit & loss statement | 3 | 24 | 18 |
| Balance sheet | 5 | 25 | 15 |
| Funds statement | 7 | 19 | 18 |
| Notes to the accounts | 4 | 24 | 16 |

Tables 6 to 9 inclusive, report the results of cross-tabulations in order to clarify the interactions of the two dimensions, complexity/simplicity and understandability. It can be seen that the partial understandability appears to be linked with the simplicity of reporting in all the main statements and the notes.

**TABLE 6**
**VIEWS ON COMPLEXITY AND UNDERSTANDABILITY OF THE PROFIT & LOSS STATEMENT**

| | TOO COMPLICATED | JUST RIGHT | TOO SIMPLE |
|---|---|---|---|
| Fully understandable | 0 | 20 | 7 |
| Partly understandable | 3 | 4 | 11 |
| Not understandable | 0 | 0 | 0 |
| TOTAL | 3 | 24 | 18 |

**TABLE 7**
**VIEWS ON COMPLEXITY AND UNDERSTANDABILITY OF THE BALANCE SHEET**

| | TOO COMPLICATED | JUST RIGHT | TOO SIMPLE |
|---|---|---|---|
| Fully understandable | 2 | 20 | 5 |
| Partly understandable | 3 | 5 | 10 |
| Not understandable | 0 | 0 | 0 |
| TOTAL | 5 | 25 | 15 |

**TABLE 8**
**VIEWS ON COMPLEXITY AND UNDERSTANDABILITY OF THE FUNDS STATEMENT**

| | TOO COMPLICATED | JUST RIGHT | TOO SIMPLE |
|---|---|---|---|
| Fully understandable | 1 | 13 | 6 |
| Partly understandable | 6 | 6 | 9 |
| Not understandable | 0 | 0 | 3 |
| TOTAL | 7 | 19 | 18 |

| TABLE 9<br>VIEWS ON COMPLEXITY AND UNDERSTANDABILITY OF THE NOTES TO THE ACCOUNTS | | | |
|---|---|---|---|
| . | TOO COMPLICATED | JUST RIGHT | TOO SIMPLE |
| Fully understandable | 0 | 14 | 5 |
| Partly understandable | 4 | 10 | 11 |
| Not understandable | 0 | 0 | 0 |
| TOTAL | 4 | 24 | 16 |

Table 10 reports the results of the enquiry into the relative importance placed by respondents on the method chosen to account for goodwill. The question was posed using a five-point scale and the results have been collapsed in the same manner as in Table 1.

| TABLE 10<br>EXTENT OF IMPORTANCE PLACED ON THE METHOD CHOSEN TO ACCOUNT FOR GOODWILL | | | |
|---|---|---|---|
| | UNIMPORTANT | | VERY IMPORTANT |
| Australia | 6 | 6 | 15 |
| United Kingdom | 5 | 4 | 10 |
| TOTAL | 11 | 10 | 25 |

Table 11 presents the results of the central question posed in the questionnaire. The respondents had six options in this question, five detailed methods followed by an 'other' category.

**TABLE 11**
**PREFERRED METHOD OF ACCOUNTING FOR PURCHASED GOODWILL - ALL RESPONDENTS**

| | AUSTRALIA | UNITED KINGDOM |
|---|---|---|
| Full amount written off as an operating expense in the financial year of purchase | 0 | 0 |
| Full amount written off as an extraordinary expense in the financial year of purchase | 8 | 5 |
| Taken up as an asset at cost and then amortised (as an operating expense) to the profit and loss statement over its estimated useful life | 1 | 1 |
| Taken up as an asset at cost and then amortised (as an operating expense) to the profit and loss statement over its estimated useful life, or twenty years, whichever is the shorter | 2 | 3 |
| Taken up as a non-current asset, at cost, without annual amortisation | 2 | 2 |
| Other | 9 | 2 |
| TOTAL | 22 | 13 |

Of the 11 respondents who indicated the "other" preference, seven indicated that there was no one appropriate treatment, and that there should be a choice, to reflect differing circumstances. The remaining responses were one, there may be no diminution in the value of goodwill and hence there should be no compulsory write-off, two, that the full amount should be written off to reserves, three, that the annual amortisation should be an extraordinary item, and fourthly, that ten years and not 20 years should be the maximum write-off period.

Table 12 and 13 report the results of cross-tabulations with Table 12 matching the understandability of the Profit & Loss Statement to the preferred method of accounting for goodwill responses. Table 13 reports the results of the matching with the accounting qualification/background of the respondents.

**TABLE 12**
**PREFERRED METHOD OF ACCOUNTING FOR PURCHASED GOODWILL - RESPONDENTS WHO INDICATED THE PROFIT & LOSS STATEMENT IS FULLY UNDERSTANDABLE**

| | |
|---|---|
| Full amount written off as an operating expense in the financial year of purchase | 0 |
| Full amount written off as an extraordinary expense in the financial year of purchase | 10 |
| Taken up as an asset at cost and then amortised (as an operating expense) to the profit and loss statement over its estimated useful life | 2 |
| Taken up as an asset at cost and then amortised (as an operating expense) to the profit and loss statement over its estimated useful life, or twenty years, whichever is the shorter | 2 |
| Taken up as a non-current asset, at cost, without annual amortisation | 2 |
| Other | 6 |
| TOTAL | 27 |

**TABLE 13**
**PREFERRED METHOD OF ACCOUNTING FOR PURCHASED GOODWILL AND ACCOUNTING BACKGROUND**

| | ACCOUNTING QUALIFICATION | BACKGROUND |
|---|---|---|
| Full amount written off as an operating expense in the financial year of purchase | 0 | 0 |
| Full amount written off as an extraordinary expense in the financial year of purchase | 4 | 8 |
| Taken up as an asset at cost and then amortised (as an operating expense) to the profit and loss statement over its estimated useful life | 1 | 1 |
| Taken up as an asset at cost and then amortised (as an operating expense) to the profit and loss statement over its estimated useful life, or twenty years, whichever is the shorter | 0 | 5 |
| Taken up as a non-current asset, as cost, without annual amortisation | 0 | 4 |
| Other | 5 | 6 |
| Not answered | 1 | 10 |
| TOTAL | 11 | 34 |

Respondents were asked to rate their knowledge of ASRB 1013, the legally enforceable accounting for goodwill standard, and Table 14 reports the results. The responses on a five point scale were collapsed in the same manner as in Table 1.

**TABLE 14**
**DESCRIPTION OF KNOWLEDGE OF ASRB 1013 ACCOUNTING FOR GOODWILL (AUSTRALIA'S LEGALLY ENFORCEABLE STANDARD)**

| | KNOWLEDGE | | |
|---|---|---|---|
| | NONE | | DETAILED |
| Australia | 3 | 8 | 15 |
| United Kingdom | 15 | 4 | 0 |
| TOTAL | 18 | 12 | 15 |

The final question on the questionnaire asked respondents their views on the accounting for other intangibles relative to their preferred method of accounting for goodwill. As can be seen in Table 15, the results from this question were quite mixed.

**TABLE 15**
**SIMILARITY OF METHOD TO THAT USED FOR GOODWILL - ALL RESPONDENTS (& AUSTRALIAN)**

| | YES | NO | UNCERTAIN |
|---|---|---|---|
| Mastheads | 22 (9) | 15 (13) | 7 (3) |
| Trademarks | 23 (9) | 15 (13) | 6 (3) |
| Patent rights | 20 (11) | 18 (11) | 6 (3) |

DISCUSSION OF RESULTS

It is believed that the high response rate was indicative of the amount of interest that potential respondents had in the issue of accounting for goodwill as well as accounting for other intangibles. Further it is suggested that this interest indicated a degree of dissatisfaction by both UK and Australian respondents with the current state of the Australian mandatory requirement.

There are several indicators in the responses to confirm the view that the respondents were sophisticated users. The extent of thorough readership or readership to a large extent is one (see table one). In order to make a comparison with other research in readership certain percentages were calculated. The percentage of respondents who read the profit and loss statement, the balance sheet, the notes to the accounts and the auditors' report thoroughly were 71, 76, 53 and 27% respectively. This compares with surveys of shareholders in the United Kingdom (Lee & Tweedie, 1975) where the figures were 47, 34, 29 and 17% respectively. Therefore, it can be asserted that compared to shareholders generally, the respondents in this study do read these items more thoroughly. The low comparative readership of the auditors' report compared with the statements may well be a reflection of the fact that sophisticated readers may be able to tell at a glance whether the report is qualified or not. Another indicator of user sophistication is the number of the respondents having either an accounting qualification, and some accounting training and/or experience. A third indicator is the fact that the majority of respondents did understand the term goodwill as used in accounting. While it should be remembered that the potential group of respondents were considered to be influential with respect to, at least, one company's shares, there is no evidence to suggest that the respondents are only involved in this one company's shares.

Attitudes to the amount of information (see table two), indicate that these users are not suffering from information overload. Table three presented the attitudes of those who read the said statements either thoroughly or to a large extent. It was considered that this subset of the responses would be useful, on the basis of greater familiarity and interest in accounting. A statistical analysis of the responses in table three was not performed because of the absence of any a priori expectations about the nature of the distributions in the table. Certainly, there was no expectation that the response patterns would be the same across all items of study.

Respondents were almost evenly divided on the understandability attribute between either having the view that the statements were fully or partly understandable. Three respondents had the view that the funds statement was not understandable, and these respondents did read the statement either thoroughly or to a large extent. Of those who found the reports only partly understandable, almost all persisted in significant reading of the profit and loss statement and balance sheet, but the significant readership proportion diminished with the funds statement and the notes to the accounts. Table five reports the views on the complexity/simplicity dimension. Observation of the table indicates that a larger proportion of the respondents had the view that the statements were just right. However, a meaningful proportion did indicate that the statements were too simple. It is in the cross-tabulation of responses that more detailed information is evident. Table six, referring only to the profit and loss statement, indicates that the majority fully understood the statement, and that it was just right in terms of complexity/simplicity. However, there were some who had the view that, although it was fully understandable, it was too simple. The dispersion of the partly understandable responses was more broad, although the majority had the view that it was too simple. This suggests that the extent to which accounts are only partially understandable, sophisticated users are more likely to associate this with too much simplicity rather than too little.

Observation of table seven indicates that the majority who fully understood the balance sheet considered that, on the complexity/simplicity dimension, it was just right. The dispersion of the partly understood responses was again more broad, although the majority considered that the balance sheet was too simple. Similar views were expressed regarding the funds statement and the notes to the accounts as can be seen from observation of table eight, and table nine respectively.

Table 10 reports the results of the views with respect to the importance placed on the method chosen to account for goodwill, and more considered it was very important than unimportant. Table 11 indicates that the respondents had a wide range of views, with the most common response being the write-off of the full amount as an extraordinary item in the financial year of purchase. The next most common response was those seven who indicated that a choice should be available to reflect differing circumstances. Even when the views of those who considered that the profit and loss statement was fully understandable were taken into account, (see table 12) the write-off as an extraordinary item was still the favoured response. It should be noted that approximately only ten percent of the Australian respondents, and approximately only 25 percent of the U K respondents preferred the method required by the accounting standards in Australia. Table 13 was constructed to compare the responses of those with an accounting qualification to those with accounting knowledge gained through training or experience with the result that the majority of those who chose the most common preference were not formally qualified. However of the five who chose the method required by the standard, none were formally qualified. In an expansion of this question respondents were asked the reasons for their preferred method of accounting for goodwill and were also invited to identify any qualifications that they wished to make. This open-ended question was obviously appreciated by the respondents because of the 35 who answered the question about their preferred method, 32 responded to the invitation for further comment. The overwhelmingly response was that there was a need for a choice of methods and that the standard-setters should set the ground rules for the divergent approaches that were being used. Further there was a call on the part of several for greater explanation and disclosure (generally to be in the notes) and that consistency and clarity, not merely conformity should be the aim. Several made the following points with respect to the detail of the requirement: a), that the write-off to operating profit distorts this profit, b), that confusion regarding the life-time of goodwill would be lessened by the reduction of the limit from twenty to ten years, and c), that the standard adversely affects the ability of Australian companies to compete with their United Kingdom counterparts. The revision of the United Kingdom standard now makes the latter comment obsolete.

Table 15, which reports the responses to the question about the similarity of accounting for goodwill with accounting for other intangibles, indicates a range of views, with the majority of all respondents suggesting that the method should be the same. However the majority of the Australian respondents (see the bracketed figures in table 15), had the view that the treatment should not generally be the same. Respondents, who had indicated that the preferred treatment for other intangible assets, like mastheads, trademarks, and patent rights was different to the method preferred for accounting for goodwill, were also invited to describe and provide the reason for the difference. Of the 15 who responded differently in respect of accounting for mastheads, ten had the view that the asset should not be amortised but should be regularly revalued. Several bases for the valuation were suggested including a multiple of maintainable earnings, and market position adjusted for the level of industry growth and the funds applied to promotion. Two other respondents had the view that amortisation should be made only in response to a diminution in the value, and one of these had the view that the amortisation should be an extraordinary item. The remaining three respondents had the view that the asset should be capitalised at cost, expensed in the year of purchase, and finally that revaluation was too subjective and that the rationale for the recognition and valuation of the asset was primarily to circumvent the standard for accounting for goodwill. The responses for accounting for trademarks and patent rights were similar. It should be noted that in August 1989 an exposure draft on accounting for other intangibles was issued. The draft requires an annual write-off to operating expenses. However, a substantial difference between the draft and the goodwill standard is that there is no upper limit to the time scale in which the write-off is to be undertaken.

## CONCLUSION

It will be recalled that the initial purpose of this study was to attempt to generate some information which would be useful in contributing to the body of knowledge concerning accounting for goodwill. This evolved from the conceptualised user perspective to a consideration of what the users' information needs might be.

During this process of discovery very basic questions arose such as the extent of readership and attitude toward various statements. Conclusions drawn from these more general questions are that this group of potential users are, in fact, users who predominantly read the main statements, either thoroughly or to a large extent, and who find the statements either partly or fully understandable. The respondents who only partly understood appeared to associate the simplicity dimension of the statements with this partial lack of understandability. The conclusion drawn from this is that some important users' needs are not being met, and there appears to be a need for more detailed disclosure of accounting methods and more sophisticated reporting.

There are also implications in the study for international accounting. The lack of awareness of the Australian accounting standard by influential U K analysts would support claims that there should be effective international accounting standards which apply to companies whose shares are traded internationally. However, before promulgating international standards more understanding is required as to why countries with similar commercial environments such as Australia and the United Kingdom, have generated different attitudes to issues such as accounting for other intangibles. Alternatively, the desire for more flexibility in standards to allow for differing circumstances would suggest that those standards should be drawn up on a contingency basis. The greater use of contingencies however, the more difficult the audit function becomes.

The conclusion to be drawn from the variety of responses to the accounting for goodwill question is that the Australian standard, by requiring one method in all situations, is too inflexible. Of course, there is an overriding requirement to present a true and fair view of profit and financial position. It could be argued that this allows a variety of methods to accounting for goodwill, as well as other intangibles. However, there is concern on the part of some companies to avoid the appearance of a qualified audit report which would be a probable result of non-compliance. This may be because of unfavourable publicity and potential investor resistance. Hence, the existing allowance for flexibility in the accounting regulations in Australia may be more apparent than real, but that is another paper.

## FURTHER RESEARCH

The researchers recognise that only one small, but important, group of users has been surveyed. However, it will be recalled that this study is part of a larger project. In another part of this project, shareholders of a large Australian public company have been surveyed and responses of in excess of 5 000 are currently in process. Preliminary analysis suggests that shareholders have a different viewpoint. The challenge is to identify an appropriate means of satisfying all groups simultaneously.

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