

2012

## Measuring and recognizing the value of purchased goodwill: A note on market value measurement method

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### Recommended Citation

Abeysekera, Indra: Measuring and recognizing the value of purchased goodwill: A note on market value measurement method 2012, 57-65.  
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Through a review of literature and with conceptual underpinnings, this paper demonstrates that relying on the market value measurement method to ascertain value of purchased goodwill does not contribute to more accurate value of the financial worth of the firm. It argues that the use of market value for the measurement of purchased goodwill for recognition in financial statements is a mere artifact and a response to the contemporary paradigm rather than a measure of the accurate financial worth of purchased goodwill. It demonstrates the need to seek a measurement method that does not impose a transaction as a necessary precondition for ascertaining the financial value of goodwill.

### Keywords

purchased, measuring, goodwill, recognizing, note, market, measurement, method, value

### Disciplines

Business | Social and Behavioral Sciences

### Publication Details

Abeysekera, I. (2012). Measuring and recognizing the value of purchased goodwill: A note on market value measurement method. *Academy of Taiwan Business Management Review*, 8 (3), 57-65.

# Measuring and recognizing the value of purchased goodwill: A note on market value measurement method

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## Abstract

Through a review of literature and with conceptual underpinnings, this paper demonstrates that relying on the market value measurement method to ascertain value of purchased goodwill does not contribute to more accurate value of the financial worth of the firm. It argues that the use of market value for the measurement of purchased goodwill for recognition in financial statements is a mere artifact and a response to the contemporary paradigm rather than a measure of the accurate financial worth of purchased goodwill. It demonstrates the need to seek a measurement method that does not impose a transaction as a necessary precondition for ascertaining the financial value of goodwill.

Key words: goodwill, market value, measurement, recognition

## **1. Introduction**

Purchased goodwill is a topic worthy of investigation to enhance the transparency of financial worth of assets in financial reporting, helping users to make better-informed decisions about resource allocation (Masters-Stout et al., 2008). Purchased goodwill that generally does not appear on individual entities financial statements is a highlight in the group balance sheet. Two problems have confronted the accounting profession in accurately measuring the financial worth of firms: (a) the difficulty of identifying the value of discrete items recognized in financial statements, and (b) dealing with changes in the value of such items after their recognition in financial statements. Amongst the most difficult item being the accounting for goodwill as discrete items and dealing with the changes in the value of goodwill. Accounting researchers have devised various measurement methods to deal with the problem of measuring goodwill (Gynther, 2001; Hughes, 1982). However, the measurement methods in general constitute the least explored area in the International Accounting Standards Board (IASB) framework. The market value, a fair value (paragraph 32 of IFRS 3), is central to determining the value of purchased goodwill in contemporary accounting standards (IAS 36, 2008; IFRS 3, 2008).

Restricting the discussion to purchased goodwill only, this paper argues that relying on the market value measurement method to ascertain the value of purchased goodwill does not contribute to measuring more accurately the financial worth of the firm in financial statements. To substantiate, Section 2 outlines how reliance on transactions to measure and recognize purchased goodwill hinders accurate determination of the financial worth of goodwill. Section 3 examines the market value method for measuring the financial worth of purchased goodwill. Section 4 outlines how relying on the market value measurement method to value the purchased goodwill and its recognition in group financial statements have facilitated the establishment of a classification that does not necessarily reflect the financial worth of purchased goodwill.

## **2. Establishing a classification through recognition and responding to the contemporary paradigm**

The recognition of assets begins with satisfaction of the criteria for the definition of an asset in the conceptual framework of accounting, followed by the measurement of its value due to a past transaction or event. However, purchased goodwill challenges this stereotypical sequence. First, unlike direct measurement, firms' measure purchased goodwill indirectly, in relation to the market value of the identifiable net assets value of an entity. Second, unlike measuring a single asset, firms measure and recognize goodwill as a composite asset. Recognition of purchased goodwill therefore becomes a vessel that contains measurement errors of other assets.<sup>1</sup> Although the accounting standards require the distinguishing of other assets from purchased goodwill on the basis that they are identifiable and measurable, those accounting standards apply diverse measurement methods to assets, and often the differences in measurement methods used for recognition of identifiable assets arise from whether similar assets are exchanged in a liquid market or not, as if the identifiable assets will be liquidated in the market place. In such measurement methods, the liquidation of identifiable assets is not required, but is rather a necessary condition of identifiable assets, identified as exchangeability.

Although the pooling of interest method has been replaced by the purchase accounting method, giving rise to recognition of goodwill in group financial statements around the world, the purchase accounting method still leaves the profession far from being able to state the accurate value of purchased goodwill. Rather, it has resulted in an exercise of seeking verification by reference to figures stated in the group balance sheet. The market value as an indirect measurement method of purchased goodwill allows the creation of a classification through verification with reference to the market, leading to the new label called *goodwill* included through purchase accounting in group accounts. Verification of accounting numbers is dependant on the ability to identify them either individually or collectively, and is the reason why purchased goodwill represents a 'collection' of assets, because when treated thus they are identifiable for verification as an accounting number.

Although the conceptual framework of accounting does not advocate a preferred measurement method, for assets the revisions to the contemporary accounting standards tend to favor the market value of measurement method with exchangeability as a necessary condition. This method is portrayed as displaying objectivity of measurement, and hence objectivity of recognition. Objectivity and accuracy of measuring financial worth are nevertheless two different attributes of measurement that lead to the recognition of

identifiable assets in the financial statements. Objectivity of measurement may not necessarily lead to accuracy of measurement of financial worth, and vice versa. Less than fully efficient market measure assets with incomplete information, leading to measurement errors and financial statements reproduce these measurement errors through recognition. Firms' measure purchased goodwill in relation to the market value of the identifiable net assets value of the firm. The market value in a less than fully efficient market becomes a contributor of errors in the measurement and recognition of purchased goodwill. The individual asset measurement value representing the identifiable net assets value similarly becomes a contributor of errors.

Purchased goodwill is recognized in group accounts due to a business combination on the basis that it is brought into being by the combination of two entities. However, the parent entity pays for purchased goodwill in the subsidiary at the date of acquisition. The purchased goodwill therefore resides in the subsidiary entity, and if group accounts are prepared at the date of acquisition, the group recognizes purchased goodwill in its accounts because the parent entity paid for that purchased goodwill in the subsidiary entity. Thus the purchased goodwill has not arisen due to synergy, as there has been scarcely any time for the new business combination to create any financial value for the goodwill. Therefore the argument that purchased goodwill is a result of synergy is contestable. The entity which recognizes the purchased goodwill, due to synergy or lack of synergy, depends on the entity controlling that goodwill. In a business combination there are three entities: two legal entities—the parent and subsidiary entities—and a fictitious entity from a legal perspective, the group. The purchased goodwill exists in the subsidiary entity prior to the business combination, and is the reason why the parent entity decided to pay an excess for it as an asset. If the purchased goodwill existed prior to the business combination, the subsidiary entity then controlled purchased goodwill prior to the parent entity gaining control over the subsidiary. However, the subsidiary entity cannot recognize purchased goodwill, because there has been no transaction to bridge the gap between the market value of identifiable net assets and the market value of the subsidiary entity. Yet the absence of a transaction does not alter the composition of goodwill or the fact that it exists in the subsidiary. It also does not alter the fact that the subsidiary entity controls the purchased goodwill. Inasmuch as the subsidiary entity recognizes other assets, it must then surely recognize purchased goodwill that it controls, but the absence of a transaction precludes such recognition.

When a parent entity gains control over the assets of a subsidiary entity, the parent entity recognizes its control over the assets of the subsidiary entity. The parent entity shows that control not by recognizing individual assets in its financial statements, but by substituting a single label covering all the assets, called *investment in the subsidiary entity*. This label disguises the fact that the control by the parent entity of the subsidiary entity's assets creates a new classification of financial reporting communication. According to Grojer (2001), the purpose of categorizing accounting elements (i.e. assets, liabilities, equity, revenue, and expenses) in financial statements is to communicate a classification that purports to be objective.

If a transaction were a necessary condition then the parent entity would recognize purchased goodwill, as it could identify and differentiate identifiable assets from unidentifiable assets. The accounting regulation mediates the recognition of purchased goodwill by the way it mandates the entity having control over such goodwill, and by the way it foresees the establishment of classification through the process of labeling accounting elements for interpretation. The category used for presenting financial information about purchased goodwill therefore is different among subsidiary entity, parent entity and the group. Had measurement using market value to establish verification of accounting numbers been employed, then all three entities would be in a position to recognize purchased goodwill. The subsidiary could measure goodwill as the difference between the market value and fair value of identifiable net assets at the time of reporting. The parent entity could dichotomize investment in the subsidiary as investment in identifiable net assets and purchased goodwill, in its recognition in financial statements. Additionally, the parent entity could recognize its own goodwill using the same criteria applied in measuring goodwill of the subsidiary entity. But it is the group that recognizes goodwill as a residual in the business combination. The classification of the accounting regulation is therefore that purchased goodwill becomes a seriously measurable asset in business combinations only. Thus a conception of organizational reality shapes organizational participants' views about organizational functioning and financial discourse. The group, a fictitious construct with no legal personality, recognizes purchased goodwill originating elsewhere in an entity with a legal personality.

The Financial Accounting Standards Board (FASB) examined two methods of accounting for business combinations, namely the purchase method and the pooling of interest method, and then issued a special report stating that the existence of the two methods to account for identical transactions can lead to firms managing accounting for the transaction with the method that produces desirable results for them (FASB, 1997). Evidence suggests that under the pooling of interest method, firms are prepared to make a significant wealth transfer to target shareholders. Firms prefer using the pooling of interest method to report higher earnings, avoiding amortization and depreciation expenses that otherwise reduce earnings (Ayers et al., 2002; Weber, 2004); managers, deriving benefits from stock-based compensation, may act opportunistically to structure acquisitions to increase earnings (Aboody et al., 2000; Robinson and Shane, 1990).<sup>2</sup> The preference for the purchase accounting method appeared as an acknowledgement of the financial worth of goodwill, but it is merely a shift from no verification of purchased goodwill to verification of purchased goodwill with reference to the market. Guthrie and Petty (2000) point out that firms are sold at prices different from their market price prior to initiation of their sale, and this fact challenges the validity of recognition of the financial worth of purchased goodwill based on market value, as the residual between market value of the subsidiary entity and fair value of its net identifiable assets when the cash generating unit is the entire entity. The value of goodwill after accounting for the business combination can increase over time, and whether to attribute an increase (or decrease) in the value of goodwill to synergy (or problems) of the business combination is a grey area. The issue is whether the change in goodwill is attributable to the business combination. None of the three entities (parent, subsidiary entity or group) recognizes an increase in the financial value of goodwill on the basis that entities cannot link that increase to identifiable transactions or events. The accounting regulation does not deny the increase in the financial worth of goodwill, but the rules for goodwill interpretation facilitate re-classification. Lack of recognition of any increase in the financial worth of purchased goodwill challenges the regulator's approach of recognizing purchased goodwill as the difference between the market price of the subsidiary entity and market value of identifiable net assets, especially where firms can establish market value through a liquid share price. In one context, the financial worth of the purchased goodwill is hidden (in the parent entity), whereas in the other context it is disclosed (in the group entity) in the financial statement. Consistent with the accounting framework, the parent entity has an opportunity to recognize the purchased goodwill of the subsidiary entity in its own financial statements, as the purchaser of goodwill resulting from a past transaction, but does not do so. Further, the conceptualization of goodwill drives the recognition of purchased goodwill in business combination with the entity and parent-entity concept of consolidation and the proprietary entity concept of consolidation, resulting in recognition of two different amounts of the same purchased goodwill.

The classification of purchased goodwill is manifested in three different ways. First, it establishes goodwill as an asset that is objectively measurable with reference to market value. Second, a transaction is a prerequisite for recognition of purchased goodwill. Third, the conceptualization of purchased goodwill determines its recognition, that is, whether it should be embedded in another asset or shown separately. The three different ways of manifesting classification are independent of ascertaining the financial worth of purchased goodwill, but they determine the world view communicated to stakeholders through recognition or non-recognition of purchased goodwill. Surveying four Western countries (Great Britain, the U.S., Germany and France), Ding et al. (2007) argue that over the past century the treatment of purchased goodwill has moved from a stakeholder model (an era dominated by family-owned entities) to a shareholder model (an era where ownership of firms is dominated by non-family shareholder owners). This trend may have contributed to the present movement towards objective verification of purchased goodwill in relation to the marketplace, due to the greater proportion of non-family shareholders in listed firms and the devolving public accountability demanded from the accounting profession. As an example of Kuhn's (1996) conception of paradigm shift, the stakeholder model displayed anomalies in the treatment of purchased goodwill in the shareholder dominated environment, and a shift was required to appear objective to shareholders and investors, where market values were a better proposition.

### **3. Purchased goodwill recognition and measuring the nature of goodwill**

The role of financial statements has been to recognize identifiable assets in a transaction, either through direct or indirect measurement. Purchased goodwill is recognized in group financial statements for the same reason, because group financial statements can refer to a transaction that took place to show all

possible net assets of two entities (i.e. the parent and subsidiary entities) in a single financial statement. That is a plausible reason why the acquired entity (i.e. the subsidiary entity) does not recognize purchased goodwill in its financial statement—there is no transaction by which to refer to it directly or indirectly. If financial statements represent transaction-based items only, then purchased goodwill has little place in single legal entities in the business combination. Even when purchased goodwill is recognized because it is triggered by a transaction, the financial statement does not reveal the composition of the bundle of assets within it, and that bundle remains a mystery. Whether a firm should identify any asset individually or collectively is irrelevant to the transaction-based financial statement; the only necessary condition is a transaction, and for purchased goodwill, the transaction becomes the verification for measurement referenced to market value. If a firm has a transaction involving an asset (individual or collective), that asset is given a label (i.e. ‘goodwill’ or any other) to display in the body of the financial statement. The labels have little to do with the financial worth of assets but they are assigned to build a classification into the financial statement.

Hence, in the context of business combination, the problem with recognition of purchased goodwill relates to imposition of the necessary condition of a transaction for it to be recognized as an item in financial statements. Measurement methods that require a transaction as a precondition for measurement do not measure purchased goodwill in a single entity, but in the group entity only. This is the reason that historical cost and market-selling price accounting do not recognize purchased goodwill as an asset in a single entity, only in a group entity. Further, when a business combination acquires purchased goodwill by virtue of a transaction, that purchased goodwill relates to a bundle of assets that are individually unidentifiable, and the transaction model has little capacity to untangle the bundle and recognize those assets separately. All the above measurement methods entail the bold assumption that purchased goodwill can be measured in a similar manner to measuring identifiable tangible and identifiable intangible assets. But this assumption ignores the fact that purchased goodwill is an unidentifiable bundle, albeit a real one. All this time, an assumption is made that purchased goodwill comprises a bundle of assets, and that there are no liabilities involved. When there is a drop in the value of purchased goodwill, it is attributed to the drop in value of the bundle of assets. However, the bundle of purchased goodwill can comprise both assets and liabilities. For instance, if an acquirer purchases a firm for a value less than its fair value of identifiable net assets, the discount on goodwill (or negative goodwill) should be attributable to unidentifiable non-tangible liabilities, because the unidentifiable ‘assets’ have a negative value, and assets do not generate negative net cash flows. The concept of purchased goodwill as comprising assets only is more for convenience of fitting into a mathematical equation than warranted by evidence-based research.

#### **4. Market value as a measurement method**

Purchased goodwill comprises a bundle of unidentifiable non-tangibles which partly represents the financial value of a firm (Basis for Conclusions 10, 2008). Purchased goodwill exists because there is a set of assets that are present in the firm. These additional assets include the knowledge of staff, the educational qualifications of staff, corporate reputation, customer loyalty, and distribution channels. The sum of these assets comprises goodwill. Assets have financial value that brings future economic benefits to the firm, such as rights to future economic benefits, or the potential for such economic benefits (Chauvin and Hirschey, 1994; French et al., 1965). The recognition of purchased goodwill has value relevance to investors (Amir et al., 1993; Bugeja and Gallery, 2006; Godfrey and Koh, 2001; Gynther, 1969), but investors experience difficulty in understanding the implications of goodwill accounting (Duvall et al., 1992).

Purchased goodwill exists before a firm, part of a firm, or an asset is sold as unpurchased goodwill, and not recognized prior to the sale transaction. Firms recognize goodwill only after purchasing another firm or part of another firm or an asset. If the purchased goodwill originates in a subsidiary entity in a business combination, then the subsidiary controls the purchased goodwill, although the purchased goodwill is not recognized in its financial statement. The reason for non-recognition is the absence of a past event or past transaction. If goodwill is measurable in relation to the market value of the subsidiary entity at the date of acquisition for a business combination, then the subsidiary entity could measure the purchased goodwill using the same approach for recognition. The conceptual framework of accounting further supports the view that ownership of an asset is not conclusive for recognition of that asset, but helps to support its case. If so, the subsidiary entity is more qualified than the parent entity or the group entity to recognize its own

goodwill (purchased by the parent entity) as the difference between the market value and the net book value of assets in the subsidiary.

When examining measurement methods for purchased goodwill, a pertinent question is whether the method measures the essential qualities or character of goodwill accurately without errors. The composition of purchased goodwill is such that it requires measurement of a bundle of heterogeneous assets rather than of a single, homogeneous asset. Determining the financial worth of purchased goodwill using market value can be approached via two perspectives<sup>3</sup>: (a) determining the market value of the firm's assets other than purchased goodwill and subtracting them from the market value of the firm to ascertain the value of the purchased goodwill (i.e. purchased goodwill as a residual value), or (b) ascertaining the value of purchased goodwill in its own right; however the consequences of each these two perspectives are different.

Although market price is conceptually appealing as a way of measuring purchased goodwill, it has three problems. The first is the inability to calculate directly the net present value of all assets of the acquired firm. The composition of goodwill is such that it is difficult to identify the assets comprising it, and hence it is difficult to measure them as single assets. Thus, a compromise is struck to measure purchased goodwill as a residual bundle of assets - the difference between the market value of the acquired firm and the net present value of its identifiable assets.

The second problem is the assumption that the earning potential of each asset is equal, thus applying the same discount rate to all assets, being aware that some assets have a higher earning potential and others a lower earning potential than the uniform discount rate. These differences in earning potential that can exist among assets that belong to purchased goodwill, intangible assets and tangible assets. The errors in earning potential give rise to errors in identifiable assets, and since purchased goodwill (i.e. unidentifiable assets) becomes the difference between market value and the net present value of identifiable assets (erroneously valued), the errors in valuation become embedded in purchased goodwill as the residual valuation. Additionally, human intervention by setting market values on identifiable net assets to reduce purchased goodwill that may later dilute earnings, is unavoidable (Schocker et al., 1994).

The third problem is the assumption that the market value represents the net present value of the firm, i.e. the financial worth of the firm, and if that were correct, the financial value of the firm should not change with the vagaries of market volatility. Other forces, not all of which are controllable by the acquired firm, affect the financial worth of the firm. Changes in uncontrollable forces such as inflation, customer preferences and the regulatory environment change the financial worth of the firm. In short, the firm operates in a contingent, semi-efficient market, and errors in valuing the financial worth of the acquired firm hence become embedded in the purchased goodwill of the firm. In other words, the market price measurement method reinforces the 'excess profit concept' (Salop, 1979), and the purchased goodwill is an asset that gives rise to profits that are in excess of what the acquired firm could earn from its identifiable assets, although this contention is disputed by some (Ritter and Wells, 2006).

Bryer (1995), referring to the Marxian tradition, argues that the underlying reality of profits is surplus value for unpaid labor time, and any distortion may well be in the collective interests of the capital providers. Purchased goodwill is a purchase of surplus future profits and is no different from tangible assets. The Marxian tradition, however, disregards the fact that goodwill is a composite heterogeneous asset, and hence has a less regard for the composition of purchased goodwill. According to the conceptual framework of accounting, market value originates when an asset is exchangeable—but that is not possible with goodwill as it is not separately identifiable for sale (Scheutze, 2004), and this argument has been used to assert that purchased goodwill is not an asset. However, the purchased goodwill could remain within a firm, and not necessarily be sold or exchanged to generate future economic benefits.

According to the continuously contemporary accounting proposed as a workable solution to the problems of market value measurement method, firms should state all assets at their cash amount or cash equivalent upon sale.<sup>4</sup> It has been suggested that the current selling price be verified by auditors for accuracy (Chambers, 1976; Clarke and Dean, 2007). Continuously contemporary accounting by implication eliminates the necessity to reverse intra-group transactions and fair value adjustments to assets and



liabilities of the subsidiary entity in the preparation of consolidated financial statements by restating assets at the current selling price of both parent entity and subsidiary entity. However, it does not attempt to address measurement of the future financial worth of assets in the firm. Further, it restricts the measurement to financial exit value rather than financial worth, assuming that all assets will have accurate market selling prices. Such a notion becomes less feasible for firms located in developing countries that have imperfect markets and for assets held by the public sector.

It is futile to claim that purchased goodwill must be exchangeable for cash, because that necessarily equates financial value to an exchange value.<sup>5</sup> This necessary exchange value concept can be traced back to transaction-based accounting, in which a transaction is a necessary condition for recognizing items in financial statements, a necessary condition for financial value. To transact an asset, it needs to be identifiable, and identifiability becomes a precondition for measuring the financial worth of the asset in its own right. Further, exchangeability is not an attribute noted in the conceptual framework of accounting in the measurement of financial worth. Nevertheless, the concept of exchangeability is inconsistent with the composition of goodwill, being a bundle of unidentifiable non-tangibles contributing to the financial value of a firm.

There is evidence, however, to suggest that the indirectly calculated figure for purchased goodwill as a residual includes other unidentifiable assets and liabilities for following five reasons. First, investors have not perfected the valuation of assets including purchased goodwill in the market (Lev et al., 2005), with the result that firms are often bought at prices far exceeding market capitalisation (Guthrie and Petty, 2000). Second, the financial, social and political environment of a country influences the market value of a firm. For instance, the market value of a firm in an emerging economy may be different from that of a similar firm in a developed economy. Research demonstrates that among stock markets in developed economies that have strong public investor property rights there is a higher firm-specific market value (Morck et al., 2000). Third, both the psychology of the share market and forecasts of a company's financial potential above and beyond its regular business contribute to the market value of a firm (Tissen et al., 2000). Fourth, the use of market value to measure the identifiable net assets of an entity relates to present financial benefits under a ceasing concern. Fifth, the concept of a cash-generating unit to measure goodwill as a residual suffers from ambiguity in relation to the determination of the business segment and the method employed to determine recoverable value (Carlin et al., 2007).

Seeking a measurement method that does not impose a transaction as a necessary precondition for ascertaining the financial value of purchased goodwill deserves consideration as an alternative to measurement methods that rely on a transaction or an event to assign a value to purchased goodwill. This paper, through examination of measurement methods of purchased goodwill, has prompted two research propositions. Firstly, future research can examine the use of the market value measurement method of purchased goodwill and its influence on the control of labor in achieving financial goals of firms. Ezzamel and Hart (1987, p. 107) suggest that the role of accounting in organizational control is little understood, although Marx's analysis of capitalist labor processes challenges that view (Bryer, 2006). Secondly, future research can engage in the debate about internally generated goodwill where Bryer (1995) argues that capitalizing internally generated goodwill is capitalizing fictitious capital, an approach consistent with the contemporary accounting standard on the treatment of goodwill. The Marxian tradition, however, demonstrates a contradiction here. When an acquirer entity pays excess capital to acquire goodwill which is internally generated by an acquired entity, it is treated as productive capital. On the other hand, when the acquired entity has generated a market price in excess of its fair value of net assets after acquisition, it is treated as fictitious capital. The Marxian argument is extended to counter the notion of productive capital, as firms incur expenditure to generate surplus profits in a period, not to 'purchase' expected surplus profits. The Marxian tradition takes the position that expenditure cannot produce or 'purchase' expected surplus profits and must be consumed in the period in which it is incurred. This argument becomes inconsistent when applied to purchased goodwill because it is the expenditure of the acquired entity that has produced or 'purchased' expected surplus profits giving rise to purchased goodwill, for which the acquiring entity has paid.

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<sup>1</sup> Errors in measuring acquired goodwill as a residual could include overpayments by the acquirer and errors in measuring and recognizing fair values of identifiable assets acquired and liabilities assumed (IFRS 3, 2008). A parent entity may overpay to acquire a subsidiary merely to gain control over it (Weston and Halpern, 1983), or to offer shares of the parent entity that the parent entity believes to be overvalued (Mayers and Majluf, 1984), and a parent entity may attempt to manipulate its share price upwards during the bidding process to gain control over the a subsidiary entity (Erickson and Wang, 1999).

<sup>2</sup> However, there is evidence indicating that the pooling criteria under APB Opinion No. 16 have been manipulated by firms to avoid amortization of goodwill (Robinson and Shane, 1990). Discussion of the implications of amortization of acquired goodwill is beyond the scope of this paper.

<sup>3</sup> The IASB definition of *fair value* is "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction". Upon investigating fair value accounting for investment property (IAS 40), it was found that there is considerable misunderstanding about the application of fair value in practice, with firms using open market value, market value for existing use, most likely value, and most probable price (IVSC, 2007).

<sup>4</sup> Bloom (2008) proposes an additional financial statement called a market capitalization statement as a way of applying continuously contemporary accounting, and also recognizing the current level of information relating to goodwill in the financial statement of listed firms. This approach relies on market value and calculation of goodwill as a residual.

<sup>5</sup> Another view is that the immediate writing off of goodwill is consistent with non-recognition of internally generated goodwill (Ma and Hopkins, 1988).