New Challenges of Economic
and Business Development – 2012

May 10 - 12, 2012, Riga, University of Latvia

GOODWILL AND GAIN FROM BARGAIN PURCHASE – THEORETICAL ANALYSIS OF ACCOUNTING POLICY

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Keywords: goodwill, bargain purchase, acquisitions accounting, accounting policy

Abstracts

In the accounting theory the goodwill is one of the most contradictory evaluated and specific accounting objects. Its value is determined by means of the calculation of residue as a result of an acquisition of an enterprise or in the process of preparing consolidated annual statements. There are many articles in the accounting literature with the discussions on the economic core of goodwill and gain from bargain purchase, and on their accounting methodology.

The paper presents the summary of the research on the economic content of goodwill and gain from bargain purchase, and the comparative analysis of their accounting policy. The paper deals with the internationally recognised problem that several accepted methods of accounting for goodwill arising from the acquisition of an enterprise coexist, as a result of which the accountancy data of different enterprises and also those of countries are incomparable.

The aim of the research is 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 research methodology is based on the comparative analysis of the requirements provided by the documents regulating accounting in Latvia, the International Accounting Standards and the documents regulating accounting in Great Britain and USA. The paper covers also the analysis of authors' conclusions, publications in the periodicals and other bibliographic sources.

Introduction

The accounting requirements for goodwill are the subject of debate. There are many articles in the accounting literature with the discussions on the economic core of goodwill and on such a specific type of goodwill as the gain from bargain purchase or the negative goodwill and on the accounting methodology of these objects.

The aim of the research is 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 core of goodwill;
- assess the accounting policy for goodwill adopted internationally and in Latvia;
- develop suggestions for the development of the accounting policy for goodwill in Latvia.

The first part of the paper provides the summary of research on the economic core of goodwill and negative goodwill, calculated as a result of an acquisition of an enterprise. The second part of the paper deals with the comparative analysis of the accounting policy for goodwill.

The limitation of the research: the article does not examine those methods of determining goodwill that are 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. Besides, when performing the comparative analysis of the recognition of goodwill and the accounting provisions on the international scale, there have been used International Accounting Standards, and the documents regulating accounting in the United Kingdom and USA.

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

1. The Concept of Goodwill and Its Core

Positive Goodwill

Goodwill is one of the most contentious intangible assets, which are sometimes referred to as the good reputation of an enterprise and strong customer relationships, its prestige or eminence. A comparative study of literature on the subject of economics finds that the most precise explanation of goodwill is provided in the International Financial Reporting Standard No.3 "Business Combinations" – goodwill is the excess of the consideration transferred over the net fair value of the identifiable assets acquired and liabilities assumed. [5]

There are various explanations of the core of goodwill. The Swiss academic B. Raffournier believes that goodwill characterizes the current value of expected profit and also represents various assets, which cannot be materialized in the balance sheet in money terms. [16] The USA academics 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. [17] According to French academics C. Pierrat and B. Martory, the goodwill indicates the part of the company's value which cannot be linked individually to the identifiable elements, but it does mean that it corresponds exactly to the value of the unidentifiable elements.[15] The international standards characterize the economic core of goodwill as an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. [5]

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

The economic literature provides some explanations on the components of goodwill.

The USA academics M. F. Johnson and K. R. Petrone identified the following six probable components of goodwill:

1. Excess of the fair values over the book values of the acquiree's recognised assets;
2. Fair values of other net assets not recognised by the acquiree;

3. Fair value of the "going concern" element of the acquiree's existing business;
4. Fair value from combining the acquirer's and acquiree's businesses and net assets;
5. Overvaluation of the consideration paid by the acquirer;
6. Overpayment (or underpayment) by the acquirer. [11]

In conformity with the Basis for Conclusions to IFRS 3, there are four probable components of goodwill:

1. Fair value of the "going concern" element of the acquiree;
2. Fair value of the expected synergies and other benefits from combining the acquiree's net assets with those of the acquirer;
3. Errors in measuring and recognising the fair value of either the cost of the business combination or the acquiree's identifiable assets, liabilities or contingent liabilities, or a requirement in an accounting standard to measure those identifiable items at an amount that is not fair value;
4. Overpayments by the acquirer. [5]

In relation to <u>the first probable component of goodwill</u> stating that goodwill is <u>the excess of the fair values over the book values of the acquiree's recognised assets</u>, it should be admitted that such a component of goodwill may emerge only in the case if an enterprise–acquirer shall initially evaluate the acquired assets and disclose them as a part of its assets according to their carrying amount. However, this evaluation policy contradicts the provision of IFRS 3 that the enterprise–acquirer shall do its best to recognise the identifiable net assets acquired at their fair values rather than their carrying amounts. Therefore IFRS 3 does not identify such a probable component of goodwill at all.

As <u>the second probable component of goodwill</u> is identified the aspect that goodwill comprises <u>the fair values of other net assets not recognised by the acquiree.</u> It is most likely that such other assets are non-physical assets that do not meet the identifiability criteria for intangible assets. However, such a component of goodwill may be reduced, if the enterprise–acquirer observes the provision of IFRS 3 that the acquirer shall do its best to recognise all acquired intangible assets. Thus such a component of goodwill is not identified in the international standard.

The next probable components of goodwill are presented in both bibliographic sources. <u>The third probable component of goodwill</u> is that goodwill represents <u>the fair value of the "going concern" element of the acquiree.</u> In its turn, as <u>the fourth probable component of goodwill</u> is indicated the aspect that goodwill represents <u>the fair value of the expected synergies and other benefits from combining the acquiree's net assets with those of the acquirer</u>. IFRS 3 provides more detailed explanation of these components. The going concern element represents the ability of the acquiree to earn a higher rate of return on an assembled collection of net assets than would be expected from those net assets operating separately. That value stems from the synergies of the net assets of the acquiree, as well as from other benefits such as factors related to market imperfections, including the ability to earn monopoly profits and barriers to market entry. In its turn, the fair value of the expected synergies and other benefits from combining the acquiree's net assets with those of the acquirer are unique to each business combination, and different combinations produce different synergies and, hence, different values.

The author draws a conclusion that the third and fourth components are similar according to their content. They both envisage that goodwill represents both the ability of an enterprise–acquirer to gain higher profit that stems from the mutual synergy of combined net assets and other market factors (probable situation of monopoly in the market) and the fact that it represents the fair value of expected synergy and other benefits that stem from combining the business activities and net assets. The USA academics M. R. Johnson and K. R. Petrone identified these components as "going-concern goodwill" and "combination goodwill", and these specialists recognise that both components describe the economic core of goodwill. [11] IFRS 3 also observed that the third and fourth components conceptually are a part of goodwill, i.e., they describe the economic core of goodwill**.** Having compared the views, presented by the USA academics M. R. Johnson and K. R. Petrone, and the provisions of IFRS 3 on the economic core of goodwill with the explanations on this value, given by other accounting specialists (Raffournier [16]; M. F. van Breda, E. S. Hendriksen [17]; C. Pierrat, B. Martory [15]), the author draws a conclusion that the economic core of goodwill partially is described by Swiss academic B. Raffournier, who believes that goodwill characterizes the current value of expected profit.

As the fifth probable component of goodwill is indicated the aspect that goodwill represents the overvaluation of the consideration paid by the acquirer. The fifth probable component is more specifically characterized in IFRS 3, i.e., goodwill represents errors in measuring and recognising the fair value of either the cost of the business combination or the acquiree's identifiable assets, liabilities or contingent liabilities. [5] Thus this probable component could then relate to all errors in measuring the fair values in the business combination, i.e., it is related to the wrong consideration of a value and to the wrong consideration of the fair value of acquired net assets.

In relation to the content, the sixth probable component of goodwill is similar - goodwill represents the overpayment (or underpayment) by the acquirer. Such probable component of goodwill may occur, if the price is driven up in the course of bidding. Conversely, goodwill could be understated if the acquirer's net assets were obtained through a distress or fire sale; in this case the negative goodwill is formed.

It is recognised by the USA academics M. R. Johnson and K. R. Petrone, and also provided by IFRS 3 that the fifth and sixth components are not the parts of goodwill, but such overpayment is rather related to the enterprise–acquirer's measurement errors. Besides, it should be taken into account that IFRS 3 provides that the acquirer shall do its best to measure the consideration accurately, and thus eliminating or reducing the fifth and sixth components.

Having performed research on the probable components of goodwill, the author draws a conclusion that the third and fourth components are considered to be the economic core of goodwill. Therefore, taking into account that goodwill is recognised as the enterprise–acquirer's asset, it is important to evaluate the conformity of its economic core to the criteria for the recognition of assets.

An asset is defined in the Conceptual Framework for Financial Reporting as:

1. A resource controlled by the entity;
2. A result of past events; and
3. From which future economic benefits are expected to flow to the entity. [8]

Having considered the conformity of the core of goodwill to the first criterion for the recognition of assets, it should be pointed out that it is difficult for the enterprises to prove the existence of control over this unique asset that is formed by means of calculation as a residue. As it is established above, the core of goodwill represents the ability of an enterprise–acquirer to gain higher profit from the mutual synergy of the combined set assets and from other factors, obtained as a result of business combination. Therefore it could be considered that the management of the enterprise–acquirer controls this asset, because it manages, coordinates and controls all the business activities, thus creating the positive results of business – the profit. It is provided by IFRS 3 that the control of core goodwill is provided by means of the acquirer's power to direct the policies and management of the acquiree.

The goodwill is in compliance with the second criterion for the recognition of assets, because the existence of the business combination is seen as a past event. The goodwill is in conformity also with the third criterion for the recognition of assets, as this is evidenced by the fact that the acquirer has been prepared to pay extra consideration over and above as amount equal to the fire value of the acquiree's identifiable net assets. Therefore it is possible to draw a conclusion that the core of goodwill meets the definition of an asset.

Gain from Bargain Purchase or Negative Goodwill

Goodwill may be also negative, which happens, if the consideration transferred is less than the net fair value of the identifiable assets acquired and liabilities assumed. Internationally it is referred to as "a gain on a bargain purchase" (Pahler [14]; IFRS 3 [5]) or as "negative goodwill" (Melville [12]; Comiskey, Clarke, Mulford [10]; Morris [13]; and other specialists), or sometimes also as "badwill".

In the studied accounting literature there are the following explanations of the core of negative goodwill.

The USA academics M. F. van Breda and E. S. Hendriksen note that negative goodwill is essentially a mirror image of goodwill. [17] Academics from the UK Chopping D. and Skerratt L. believe that negative goodwill is characteristic to a bargain purchase made possible by an "obligatory" sale, special bargaining skills or management mistakes resulting in unsuccessful performance of an enterprise. [9] IFRS 3 also, when characterizing such excess, provides terms "bargain purchase" and "a gain on a bargain purchase"; thus there is also defined the economic core of this negative value – the result of a bargain purchase.

Besides, a view has been expressed in the international standard, that the existence of a bargain purchase is considered (by the preparers of the standard) as an anomalous transaction as parties to the business combination do not knowingly sell assets at amounts lower than their fair value. [5]

However, because the acquirer has excellent negotiation skills, or because the acquiree has made a sale for other than economic reasons or is forced to sell owing to specific circumstances such as cash flow problems, such situations do arise.

Having analyzed the view of the USA academics on the core of negative goodwill (i.e., the negative goodwill is essentially the mirror image of goodwill), it is possible to draw a conclusion that the above mentioned specialists describe this negative difference as the enterprise–acquirer's expected amount of losses due to the business combination and the assembled collection of the mutual synergy of net assets.

Melville A. believes that this situation (negative difference – auth.) could arise for two main reasons:

1. Errors might have been made when determining the cost of the business combination or the fair values of the identifiable assets and liabilities acquired;
2. The acquirer may have made a "bargain purchase". [12]

It should be noted that the first reason for the arise of such negative value as identified by Melville A.– determination errors is eliminated, if an enterprise–acquirer observes the provisions of IFRS 3. The international standard provides that before recognising a gain on a bargain purchase, the acquirer shall reassess whether:

1. It has correctly identified all the assets acquired and liabilities assumed;
2. It has correctly measured at fair value all the assets acquired and liabilities assumed;
3. It has correctly measured the consideration transferred. [5]

Thus, in the most of the above cited sources a view prevails that the economic core of negative goodwill is the aspect that it describes the gains from the bargain purchase.

Academic Pahler A. notes that the presence of a bargain purchase element clearly suggests that the assets are worth more individually than as a part of a going business. If this was true, the previous owners of the acquired business would have been better off to liquidate the company by selling its individual assets than by selling the business as a whole. Because they did not do this, the initially determined current values must have been overstated to the extent of the bargain purchase elements. [14]

Several specialists recognise that conceptually, negative goodwill does not make sense, because in efficient markets there are few bargains (Morris [13]) or over the years, the recurring theme surrounding discussions of negative goodwill is that a bargain purchase is not plausible in efficient markets (Comiskey, Clarke, Mulford, [10]).

Having performed analysis of the provided explanations of negative goodwill, the author draws a conclusion that the economic core of negative goodwill depends on each specific transaction. Thus, negative goodwill may arise as a result of a bargain purchase or when the enterprise–acquirer predicts a negative performance result after the acquisition.

2. The Accounting Policy for Goodwill

Positive Goodwill

The goodwill that has appeared as a result of an acquisition of an enterprise 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 "a residue" of the accountancy system, which should be compensated as soon as possible, i.e., it should be immediately written off to the expenses part of the income statement or, alternatively, equity 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 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 asset, but is not a subject to amortisation because it is recognised as an asset for an indefinite useful life. At the end of each accounting period, the annual impairment test is carried out for such goodwill, as a result of which, if the impairment is found, it is written off to the income statement.

Regardless of the fact whether in practice the method of capitalisation or of writing off is used, the aggregate influence on equity 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 equity 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 providing for carrying out the annual impairment test for goodwill will have a fluctuating effect on equity capital, since the reductions of goodwill may occur irregularly and in varying amounts.

When the comparative analysis of the provisions of documents regulating accounting in the USA, United Kingdom and Latvia and the International Accounting Standards was performed, it was found out that there are differences in relation to the accounting approach to goodwill (See Table 1).

Table 1

The Comparative Analysis of the Accounting Approaches to Goodwill provided on the International Scale and in Latvia

General accounting approaches to goodwill	Regulatory accounting approaches to goodwill			
	USA	UK	IAS	Latvia
1. Goodwill is immediately written off to the income statement or directly to the decrease of the equity capital				
2. Goodwill is capitalised as an asset and recognised as the subject to amortisation		X		X
3. Goodwill is capitalised and recognised as not to be the subject to amortisation (annual impairment test)	X	X	X	X

As we can see in Table 1, at present, the first possible accounting approach to goodwill − an immediate writing off − is not envisaged in the countries under research and in the International Accounting Standards.

However, it should be also pointed out that in the United Kingdom before 1998, under SSAP 22, goodwill was either written off against reserves (the recommended treatment) or it was capitalised and amortised (an alternative approach). At present, in the United Kingdom, in conformity with the provisions of FRS 10 “Goodwill and Intangible Assets”, it is permitted to apply both the second and the third accounting approach of this positive difference. [3] If it is chosen to recognise goodwill as an asset that is the subject to amortisation, then goodwill is amortised under a rebuttable presumption that it has a useful economic life of 20 years or less. This presumption may be overcome; however, if it is estimated that the useful life is more than 20 years, or even indefinite, and the goodwill is capable of continued measurement in the future such that an annual impairment review can be performed. If goodwill is not amortised, or is amortised over a period of more than 20 years, then an impairment review must be performed each tear. In addition, an indication of impairment requires an impairment review without regard to the amortisation period. Where goodwill is amortised over 20 years or less, impairment reviews must be performed only at the end of the first full year after initial recognition and at other times, if circumstances indicate that it is carrying value may not be fully recoverable.

After examining the provisions of the normative documentation of Latvia, regulating accountancy, that are related to the treatment of goodwill obtained in acquisitions, it was established that, like in the United Kingdom, in Latvia there are also provided both approaches of the capitalisation of goodwill, i.e., it is recognized as an asset to be amortised or vice versa – as an asset not to be amortised. In conformity with the provisions of "Annual Accounts Law" of the Republic of Latvia, if it is impossible to determine the useful period for this specific asset, it shall be valued according to the acquisition costs from which there are deducted the accumulated losses from the reduction in value. [1] Whereas, if it is possible to determine the useful period for the goodwill, it shall be amortised, i.e., it shall be systematically written off over the time of useful life. It should be pointed out that there are no particular time-limits of useful period for goodwill provided by the legislation of Latvia.

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.

As we can see in the table of comparative analysis, at present, there is one accounting approach to goodwill provided in the USA and in the International Accounting Standards, i.e., it is recognised as an asset not to be amortised for which the annual impairment test is carried out. It should be noted that this method is to be applied in the accountancy of the USA enterprises starting form 2002, when SFAS 142 "Goodwill and other Intangible Assets" came into effect. 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.

It should be pointed out that there were amendments made in the International Accounting Standards regarding the goodwill accounting methods. Before IFRS 3 "Business Combinations" came into effect (March 31, 2004), the IAS 22 "Business Combinations" provided only for the capitalisation of goodwill with its subsequent amortisation.

The research shows that in Latvian accountancy there exists a problem, which is characteristic to accounting for goodwill in the United Kingdom – 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.

The author believes that goodwill is a non-amortisable asset and it should not be the 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 which treats it as an asset with an indefinite useful life. Hence, as the capitalised value has no limited useful life, it should not be the 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 income statement.

Gain from Bargain Purchase or Negative Goodwill

Regarding the treatment of gain from bargain purchase or negative goodwill, there are three general approaches to accounting for its value:

1. The fair value of the acquired non-monetary assets is decreased by the calculated amount of the negative difference; in case it is not possible to compensate fully for this difference by decreasing the value of the acquired non-monetary assets, the remaining difference is treated as a deferred income. Or it is immediately recognised as a deferred income. Such deferred income must be regularly included in the income statement in the period in which the negative goodwill is expected to have an effect;
2. Before recognising the negative difference, the acquire shall reassess the 'fair value of assets acquired and liabilities assumed, as well as reassesses the consideration transferred. The value of negative goodwill is recalculated for the differences (if there are such) found during the control. If the negative goodwill still exists after these actions, it shall be recognised immediately as gain in the income statement;
3. Like in the second accounting approach, the reassess of assets acquired, liabilities assumed and consideration transferred is performed. If the negative goodwill still exists after the reassess, it shall be capitalised in the balance sheet below the goodwill caption and gradually written off to the income statement.

While performing the comparative analysis of the documentation regulating accountancy in the USA, the United Kingdom and Latvia, and the provisions of the International Accounting Standards, it was established that there is no uniform accounting approach in relation to the accounting of negative goodwill (see Table 2).

Table 2

The Comparative Analysis of the Accounting Approaches to Negative Goodwill provided on the International Scale and in Latvia

General accounting approaches to negative goodwill	Regulatory accounting approaches to negative goodwill			
	USA	UK	IAS	Latvia
1. negative goodwill is capitalised in the balance sheet as the deferred income				
2. negative goodwill is recognised as gain in the income statement	X		X	X*
3. negative goodwill is capitalised below the goodwill caption		X		

* only in the consolidated income statement

As we can see in Table 2, at present, the first possible accounting approach to the negative goodwill – its recognition in the balance sheet as the deferred income, is not provided in the countries under research and by the International Accounting Standards. Although it should be pointed out that this method for the accounting of negative goodwill was permitted both in the USA (until January 1, 2002) and by the IAS (until March 31, 2004).

Thus, it was provided in the USA that the negative goodwill was disclosed as a deferred credit (deferred income − auth.) after reducing proportionately to zero the values of assets that would have otherwise been assigned to non-current assets (except long-term investments in marketable securities). Since 1999 it was also provided by the IAS that the negative goodwill shall be recognised as deferred income, providing that the negative difference must be systematically recognised in the income part of the income statement in the following way:

1. When negative goodwill or a 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, negative goodwill should be recognised as an income of the period when the losses or the expenses are predicted;
2. When negative goodwill or a part of it is associated with expected future losses or expenses, its value, not exceeding the fair value of the acquired identifiable non-monetary 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.

At present, in conformity with the provisions of the USA SFAS 142 "Goodwill and Other Intangible Assets", negative goodwill is disclosed in the income statement as extraordinary gain to the extent that it exceeds allocations to certain assets. [7] As we can see in Table 2, the International Accounting Standards (IFRS 3 "Business Combinations") also provide for the immediate recognition of negative difference as gain in the income statement. [5]

Different accounting approach to the intangible goodwill has been accepted in the United Kingdom. FRS 10 "Goodwill and Intangible Assets" provides that, if negative goodwill is created in an acquisition, the fair values of the assets must be tested for impairment and the liabilities examined for understatement or omission. Negative goodwill is not allocated proportionately to reduce the values assigned to non-current assets. This negative difference is separately classified just below the goodwill caption in the balance sheet, and the subtotal shows the positive and negative goodwill. Negative goodwill, up to the fair values of the acquired non-monetary assets, is recognised in the income statement in the periods when the non-monetary assets are recovered, whether through depreciation or sale. Any remaining negative goodwill is disclosed in the income statement over the future periods of expected benefit. [3]

While examining the provisions of the normative documentation regulating accountancy in Latvia, which are related to the treatment of negative goodwill obtained in acquisitions, it was established that there were no indications in any of the documents how this negative difference shall be recognised in the acquirer's accountancy. The legislation of Latvia regulates only the procedure of the recognition of negative goodwill, when preparing the consolidated annual accounts. "Law on Consolidated Annual Accounts" of the Republic of Latvia provides that, when preparing such an account, the negative goodwill, which has emerged after the specific consolidation procedure, is immediately included into the consolidated profit or loss statement.

[2] However, as it was mentioned in the introduction of this article, the author does not study the specificity of the recognition of goodwill in the consolidated annual accounts.

As a result of research performed, the author finds that, at present, in the countries under research (except for the United Kingdom) and in the International Accounting Standards the negative goodwill is defined as gain from bargain purchase, which, after the reassess of net assets acquired and consideration transferred, shall be immediately recognised in the income statement.

Conclusions

There are different explanations of the economic core of goodwill and negative goodwill in the accounting literature. At present there prevails a view that the core of goodwill describes the ability of an enterprise–acquirer to gain higher profit that stems from the mutual synergy of combined net assets and other market factors, as well as it describes the fair value of the expected synergy and other benefits as a result of business and the combination of net assets. Besides, only if the core of goodwill represents the above mentioned, it may be recognised as an asset in the balance sheet of the enterprise–acquirer. Whereas the prevailing view concerning the core of negative goodwill is that it describes the result of a bargain purchase.

The author believes that the explanations of goodwill and negative goodwill alike disregard one important peculiarity – 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 negative goodwill is not shown in the accountancy registers. Hence, goodwill exists within every enterprise and whether it is positive or negative depends on its operational success; and as a result of an acquisition of an enterprise, goodwill is calculated for the acquirer's balance sheet but it does not arise anew.

When identifying the core of goodwill, the problem is that it is a unique item, emerging as a residue. Thus it is possible to state that the core of this difference depends on the specificity of the acquisition of a particular enterprise. Therefore it is very unlikely that there exists the only, uniform explanation of the core of goodwill that would correspond to the peculiarities of the acquisition of any enterprise.

The performed research shows that there are different accounting methods of goodwill, calculated as a result of the purchase of an enterprise, simultaneously accepted on the international scale and in Latvia. Thus in the United Kingdom and Latvia there are two accounting methods of positive goodwill permitted at the same time – to recognise this specific asset in the balance sheet as an object to amortisation or vice versa – as an object not to be amortised. Whereas in the USA and in the International Accounting Standards it has been provided that this item shall be recognised in the balance sheet only as an asset not to be amortised. In relation to the gain from bargain purchase or negative goodwill accepted accounting policy it should be pointed out that, according to the sources studied, there is only in the United Kingdom provided a different accounting method for this item, i.e., it shall be capitalised below the goodwill caption and gradually written-off in the income statement. The rest of the sources (it concerns the International Accounting Standards, USA and relatively also Latvia) provide for the uniform accounting policy of this negative difference, i.e., it shall be recognised as gain in the income statement.

The author suggests making amendments to the documentation regulating accounting in Latvia that would provide for the recognition of goodwill, calculated as a result of purchase of an enterprise, only as an asset with indefinite useful life. As well as it is necessary to include the accounting policy of negative goodwill in the legislation of Latvia that, according to the performed research, at present is prevailing on the international scale, i.e., it shall be immediately recognised as gain in the profit or loss statement.

The author believes − there is no surprise that there are different accounting methods for this value on the international scale, because the economic core of an intangible value differs considerably depending on a particular case and period of time. The author, in contrast, believes that it is necessary to have 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 how to achieve the uniform accounting policy for goodwill is the accept of the uniform accounting policy of this specific value by the organisations passing the International Accounting Standards and by the organisations passing the local standards.

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