GOODWILL ACCOUNTING: A CRITICAL EVALUATION OF EVOLVING INTERNATIONAL STANDARDS AND IMPLICATIONS FOR FINANCIAL REPORTING

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OPEN ACCESS

How to cite this paper: Lampiris, K., Balla, V., Ballas, P., & Hyz, A. (2025). Goodwill accounting: A critical evaluation of evolving international standards and implications for financial reporting. *Risk Governance & Control: Financial Markets & Institutions, 15*(3), 94–102.
https://doi.org/10.22495/rgcv15i3p7

ISSN Online: 2077-4303
ISSN Print: 2077-429X

Received: 21.01.2025
Revised: 30.03.2025; 25.06.2025
Accepted: 21.07.2025

JEL Classification: G32, E22, M41
DOI: 10.22495/rgcv15i3p7

Abstract

The accounting treatment of goodwill has been the subject of extensive discussion and disagreement among standard setters and financial statement preparers in the nations. There have been significant challenges in defining, measuring, and subsequently accounting for goodwill, especially when the accounting treatment depends on cultural issues, amongst others (Khlif, 2016). Nonetheless, goodwill remains a substantial asset in many companies, its preservation and value upheld through substantial annual expenditure. In Europe, accounting for goodwill has undergone numerous changes due to the combined impact of new international accounting standards, namely International Financial Reporting Standard (IFRS) 3 on Business Combinations, and International Accounting Standard (IAS) 36 on Impairment of Assets. This paper critically evaluates, drawing from accounting literature, the shift in goodwill accounting treatment following IFRS. It assesses and contrasts the previous policies with the new IFRS policies for goodwill accounting, presenting the benefits and drawbacks approach to goodwill. Providing an exhaustive review of the literature on goodwill accounting, this study holds implications for financial statement preparers and users by elucidating conceptual issues pertinent to the implementation of the impairment-only approach to goodwill.

Keywords: Goodwill, Intangible Assets, International Accounting Standards

Authors' individual contribution: Conceptualization — K.L.; Visualization — K.L.; Investigation — K.L.; Writing — Original Draft — V.B. and P.B.; Writing — Review & Editing — P.B. and A.H.; Supervision — A.H.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

1. INTRODUCTION

The debate over how to account for goodwill has been ongoing for many years. This issue has been widely debated and has created difficulties for both those who prepare financial statements and those who set accounting standards. It has also been the focus of significant lobbying, primarily driven by financial statement preparers (Bryer, 1995).

In 2004, a major review of International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs) took place. Listed companies in the European Union (EU) were required to prepare their consolidated financial statements in compliance with IFRS starting in 2005. However, the preparation and transition process began in 2004. Many companies were adapting to IFRS in 2004, revising their accounting processes to align with the new standards. Several major standards and amendments were issued, including IFRS 2 (Share-Based Payment) and IFRS 3 (Business Combinations), which came into effect in 2004. This review led to the introduction of IFRS 3 Business Combinations and revisions to IAS 36 Impairment of Assets and IAS 38 Intangible Assets. These changes notably altered the accounting treatment of goodwill after many years. Under IFRS 3, goodwill is recognized and measured as the difference between the acquisition cost and the acquirer's share of the fair value of identifiable assets, liabilities, and contingent liabilities. After 2004, a new era of the economy was developed with a growing interest in intangible assets. The formation and definition of goodwill is of greatest importance, especially in the technology industry sector. Jerman and Manzin (2008) suggest that the calculation of goodwill in the technological industry materially impacts the cost of investment of the acquiree. This critical review emphasizes that accounting for goodwill remains an imprecise process, and resolving uncertainties is particularly challenging, especially if the solution is limited to choosing between the amortization and impairment models. Martínez et al. (2023) reveal that using different accounting methods results in variations in the information reported. This is significant because such differences could undermine the comparability of financial statements across firms applying distinct practices. Moreover, certain factors influencing the choice of accounting policies must be considered to prevent discretionary behavior among firms.

The study of literature in goodwill accounting is essential to truly grasp the complexities surrounding this intangible asset. Goodwill, often regarded as the value that goes beyond tangible and measurable assets, holds significant weight in a company's financial statements, particularly during mergers and acquisitions. Delving into literature allows us to understand not just the technicalities of its valuation and impairment, but also the broader implications it has on financial transparency and corporate accountability.

Through the lens of past research, we uncover how goodwill accounting serves as a window into the behavior of firms and their managers. The discretion inherent in impairment testing reveals the subtle interplay between managerial judgment and financial outcomes. Literature exploring these dynamics sheds light on how goodwill impairments may be influenced by factors such as earnings management, chief executive officer (CEO) compensation structures, or even economic pressures. This narrative helps us see goodwill as more than a line item — it becomes a reflection of corporate decision-making, strategic intent, and audit timeliness (Ghosh & Xing, 2021). Furthermore, examining the existing body of work allows us to appreciate the regulatory frameworks that govern goodwill accounting. The differences in enforcement across countries, as highlighted in prior studies, reveal the critical role that both public and private monitoring mechanisms play in curbing opportunistic behavior. By studying these aspects, we gain insight into how accounting standards like IFRS are implemented in practice and the challenges they face in ensuring reliability and consistency (Balla et al., 2025).

Ultimately, the literature on goodwill accounting provides a foundation for addressing pressing questions about transparency, investor protection, and the evolving role of accounting standards in a globalized economy. It reminds us that studying goodwill is not just about numbers — it is about understanding the stories behind them and the implications for stakeholders in the financial ecosystem.

The rest of the paper is structured as follows. Section 2 presents the research framework of the study, analyzing the literature in goodwill accounting and research methodology. Section 3 provides and discusses the results. Section 4 concludes the paper.

2. RESEARCH FRAMEWORK: GOODWILL ACCOUNTING

Since this study is conceptual and focuses on investigating the current literature on goodwill accounting, the research methodology follows a structured literature review approach. The study systematically examines existing academic work, regulatory reports, and industry insights to develop a comprehensive understanding of goodwill accounting's complexities. Therefore, the goal is to synthesise existing knowledge on goodwill accounting, emphasizing key themes such as valuation, impairment, managerial discretion, and regulatory frameworks.

The data for this study comes from a systematic review of peer-reviewed papers from leading accounting, finance, and business journals, as well as regulatory frameworks from standard-setting bodies like the IFRSs, Generally Accepted Accounting Principles (GAAP), and Financial Accounting Standards Board (FASB).

2.1. Chronological evolvement of goodwill

Under the current section, the evolution of accounting practices for goodwill will be highlighted, showing how standards have shifted from amortization to annual impairment testing. It demonstrates the impact of regulatory changes on corporate financial reporting and valuation practices. The updates reflect stakeholder concerns about the cost and difficulty of goodwill impairment tests. This is significant for research analyzing the balance between accurate reporting and practical application for companies. By simplifying the process, companies now have a clearer and less costly approach to testing for impairment. However, in the academic stance, researchers can explore whether these changes might affect the accuracy or timeliness of recognizing impairment losses.

Including these updates, a historical timeline of goodwill accounting under U.S. GAAP will be provided. Researchers can compare these changes with international standards (e.g., IFRSs) to evaluate global consistency in goodwill treatment. For practitioners and policymakers, understanding these changes is critical for assessing the financial health of companies, as goodwill often represents a large portion of their intangible assets.

Table 1 in the Appendix captures the historical evolution of goodwill evaluation and how it has shifted to balance accuracy in reporting with the need to reduce costs and complexity. It also emphasizes the conceptual progression of goodwill as an asset linked to future economic benefits. Throughout the years, there has been a significant focus on the way goodwill is perceived. The first effort was made by Bithell (1893), who was the first to publicize the meaning of goodwill as:

"The advantage connected with an established business of good repute. A well-established business presents an expectation of profits to any one entering upon it, and is worth paying for. Anyone having such a business and who is willing to relinquish the expectation of the business by transferring it for consideration to someone else can do so by what is technically called "selling the Goodwill of that business" (pp. 2–3).

As stated by Ma and Hopkins (1988), if there is agreement on the expected cash flows, the minimum amount the shareholders of the potential acquisition target are willing to accept is the sum of the fair values of the identifiable tangible and intangible net assets, combined with the present value of the synergistic benefits at the initial stage of interaction. Bryer (1995) refers to goodwill can be seen as "supernormal profits" that the buyers of a business must be persuaded to purchase. These supernormal profits are the current value of the unnatural expected earnings of some years for the type of business being reported. Therefore, the total value of the enterprise is the sum of current values from normal returns from recognizable net worth and current value from ultra standard returns.

The next effort to approach this significant issue comes from the United Kingdom, where in 1997, the issuing of Financial Reporting Standard (FRS) 10 Goodwill and Intangible Assets[1]. According to this standard, goodwill cannot be seen as an asset or as an asset that loses its value. It is measured as the difference between investment cost and all the attributable acquired assets and liabilities in consolidated statements. In this way, goodwill has a positive or a negative sign. In the case of a positive sign, the acquisition costs exceed the overall fair values of intangibles and liabilities, whereas in the case of a negative sign, the opposite occurs. Johnson and Kimberly (1998) introduced the top–down perspective where goodwill is a big asset that is an integral part of its sub-assemblies. The larger the investment, the larger the remainder which is allocated to assets and therefore to goodwill. The bottom-up perspective says that goodwill is comprised of various components. As a result, goodwill is understood as the surplus paid by the acquirer over the carrying amount.

From a different perspective, goodwill can be understood as the difference between the fair value of a company's net assets and its market value. In essence, goodwill represents the premium a prospective buyer is willing to pay above the company's book value. Factors such as advertising, research, and effective management can position a company as a market leader, making it more attractive to buyers and justifying a higher purchase price. This premium is what constitutes goodwill for a company (Anthony & Pearlman, 2003). Goodwill signifies the current value of anticipated future advantages stemming from intangible assets that are not individually identifiable and thus not acknowledged separately. The prevailing agreement has been that self-generated goodwill should not be acknowledged due to the difficulty in both identification and quantification (Bloom, 2009).

Previously, goodwill was gradually expensed (spread out) over several years. The updated standards removed this practice and required annual checks (called impairment tests) to see if goodwill had lost value. Under the older Statements of Financial Accounting Standards (SFAS) 141 and 142, goodwill was tested for impairment in two steps (FASB, 2001). In the first step, the fair value (market value) of the company or reporting unit was compared to its book value (carrying amount). If the fair value was higher, no further action was needed. In the following step, if the fair value was lower, all assets and liabilities within the unit were reassessed to estimate the goodwill's implied fair value. If goodwill's implied fair value was less than its carrying amount, an impairment loss was recorded. To reduce costs and complexity for companies, the FASB introduced the following updates. Under the 2011 update, companies could first conduct a qualitative assessment (a simpler, high-level evaluation) to decide if a full impairment test was necessary. If it is unlikely that the goodwill value has dropped, they could skip the detailed test. Under the 2018 update, the two-step process was simplified into one step. Companies only needed to compare the fair value of a reporting unit to its carrying amount. If the carrying amount was higher, the difference was recorded as an impairment loss. There was no longer a need to calculate goodwill's implied fair value.

2.2. Geographical interest

Different regions apply varying standards for goodwill recognition and impairment testing. Researchers examine how cultural dimensions, such as risk aversion and uncertainty avoidance (as described by Hofstede's framework[2]), impact goodwill recognition and impairment decisions. Institutional factors like enforcement levels, legal systems (common law vs. civil law), and investor protection also create geographical variations.

Also, goodwill impairment often involves significant managerial judgment, which can lead to variations across countries. In countries with weaker enforcement mechanisms, managers might delay or avoid impairment to maintain reported earnings, or alternatively, in regions with strong investor protection, goodwill impairments are more likely to be timely and reflective of economic reality. In some markets, goodwill impairments might lead to a sharp decline in stock prices, reflecting their signaling value, while in others, impairments may be less impactful due to varying investor expectations or understanding of goodwill accounting.

[1] https://stevecollings.co.uk/frs-10-goodwill-and-intangible-assets/

[2] Hofstede's cultural dimensions may be useful in explaining other accounting phenomena (Khlif, 2016).

In July 1987, the Malaysian Institute of Accounting (MIA) and the Malaysian Association of Certified Public Accountants (MACPA) held discussions on the treatment of goodwill. They sought input from members, accounting firms, companies listed on the Kuala Lumpur Stock Exchange (KLSE), regulatory authorities, statutory bodies, and other stakeholders. The feedback highlighted a shared agreement on the need for accounting guidelines for goodwill related to acquisitions. The proposed approach recommended recognizing goodwill using an amortization method, allocating its cost over its estimated useful life, and deducting it from pre-tax profits.

By early 1991, MIA and MACPA presented a revised joint paper on goodwill accounting, supporting the recognition of purchased goodwill as an asset while excluding internally generated goodwill. The paper proposed two options for addressing purchased goodwill: systematic amortization over its useful life or treating it as a permanent asset subject to periodic reassessment (Seetharaman et al., 2004).

The next effort to approach this significant issue comes from the United Kingdom, where in 1997 through the issuing of IFRS 10 was issued. According to this standard, goodwill cannot be seen as an asset or as an asset that loses its value. It is measured as the difference between investment cost and all the attributable acquired assets and liabilities in consolidated statements. In this way, goodwill has a positive or a negative sign. In the case of a positive sign, the acquisition costs exceed the overall fair values of intangibles and liabilities, whereas in the case of a negative sign, the opposite occurs.

In 2002, under the Australian Financial Reporting Standards (AASB) 3 Business Combinations, goodwill is described as "future economic benefits arising from assets that are not capable of being individually identified and separately recognized" (AASB, 2002, p. 13).

2.3. Goodwill in the year of the pandemic

Goodwill, as an intangible asset, plays a significant role in the financial reporting and valuation of companies, particularly in the context of mergers and acquisitions (M&As). The COVID-19 pandemic, an unprecedented global crisis, has added another layer of complexity to how goodwill is assessed and reported. The pandemic led to significant economic upheaval, causing changes in market conditions, business operations, and financial performance across industries.

Research on the impact of COVID-19 on goodwill disclosures and impairments spans various sectors, including technology, energy, construction, and more. While some studies focus on the effects of the pandemic on financial performance and the resultant need for goodwill impairments, others explore how managerial discretion in reporting goodwill can influence financial outcomes. Some studies emphasize the precautionary motives behind cash holdings and how goodwill impairment can restrict a company's ability to secure financing during times of economic uncertainty. Furthermore, research also examines how companies navigate the complexities of goodwill reporting and impairment tests in line with IAS/IFRS guidelines, which may require reassessment in light of the pandemic's effects.

This section brings together insights from multiple studies to examine the nuanced relationship between COVID-19 and goodwill impairment across different sectors. It will explore how the pandemic has influenced goodwill reporting, the impact of goodwill impairment on financial performance, and the challenges companies face in navigating goodwill disclosures amidst the economic turmoil caused by COVID-19. The research also highlights the need for enhanced transparency and potential revisions to accounting standards to better reflect the realities of the post-pandemic business environment.

Qin et al. (2020) provide evidence about the level of COVID-19 pandemic influence on cash holding levels in listed Chinese companies. They find that firms increased cash holdings to mitigate systemic risks, driven by the precautionary motive. However, goodwill and its impairment limited financing capacity, restricting some companies' ability to raise cash. The pandemic's disruptions, including cash flow shortages, supply chain imbalances, and increased prevention costs, emphasized the importance of cash reserves for business survival. To address these challenges, companies should focus on increasing cash holdings, controlling costs through cost leadership strategies, and expanding financing sources. Effective communication with shareholders and strategic financing efforts are essential to maintaining liquidity and managing risks during uncertain times.

Another study investigating the post-COVID era examines whether goodwill impairments in European companies during 2020 were primarily driven by COVID-19's economic impact or managerial discretion. Dicken and Unger (2021) claim that while most firms-based impairments on future earnings assessments rather than "big bath" earnings management, companies with negative pre-impairment earnings showed evidence of using impairments opportunistically. Despite this, impairments were generally understated in 2020 compared to predictions. The study highlights challenges with the discretion allowed under IFRS goodwill accounting rules and emphasizes the need for stricter regulations, enhanced disclosure requirements, and robust enforcement to improve transparency and reliability. Future research could explore the impact of governance factors, such as board diversity, and compare discretionary goodwill impairments across different regions, such as the U.S.

The impact of the COVID-19 pandemic on goodwill and its impairment in the energy, fuel, and mining sectors in Poland is reflected in the paper of Gierusz et al. (2022). The research finds that, despite the pandemic, there was no significant increase in goodwill impairment losses in 2020. It also reveals that the quality of goodwill disclosures slightly improved, but this was not linked to the pandemic. The study highlights the issue of retaining goodwill on balance sheets for extended periods, which conflicts with the economic nature of the asset and IASs/IFRSs. The authors suggest that revisions to IASs/IFRSs are needed to better address goodwill impairment testing. The study shows that the pandemic did not significantly affect impairment losses, even in vulnerable sectors, and that goodwill is often kept on balance sheets much longer than other assets. Limitations of the study include its short time frame and the lack of comparable research. Future research will focus on expanding this analysis to the energy sector in EU countries to gain further insights into goodwill impairment.

Webster (2023) examines the effects of COVID-19 on M&As, goodwill, and goodwill impairment in the tech industry. While overall M&A activity declined during the pandemic, tech-specific M&As remained stable, with an increase driven by opportunistic acquisitions of struggling companies. Goodwill continued to rise until 2021 but declined in 2022 due to fewer M&As, goodwill impairments, and reduced business combinations. Goodwill impairments spiked in 2020 and 2022, influenced by major companies like Fidelity and Global Payments. The findings suggest that while the tech industry shows resilience during the early stages of a crisis, it faces challenges from prolonged impacts, as seen in 2023 layoffs by major tech firms. This highlights the industry's vulnerability to the long-term effects of the pandemic.

Jamil et al. (2024) examine the impact of COVID-19 on the financial performance of Malaysian construction companies, focusing on valuations and goodwill disclosures under the Malaysian Financial Reporting (MFRS) 136. It finds mixed valuation trends, with some companies facing significant declines suggesting impairment, while others experienced growth. The study highlights the importance of regular impairment testing and ensuring valuation changes are based on sustainable asset recovery rather than market fluctuations. Goodwill disclosures showed both consistency and variability, with increased reporting on contingent liabilities and risks, reflecting heightened caution post-pandemic. The findings emphasize the dynamic nature of financial reporting, the need for adaptability alongside MFRS 136 compliance, and the importance of professional guidance for accurate reporting in a changing economic environment.

2.4. Public sector

Jørgensen and Isaksson (2015) explore how public and private sectors differ in communicating values to their stakeholders. The public sector emphasizes goodwill and compassion, reflecting traditional welfare state principles, while the private sector focuses on expertise to build confidence. The study introduces a model with three goodwill dimensions, attention, devotion, and concord, showing that public organizations favor a collaborative "we-attitude" to strengthen shared responsibility. Despite challenges in balancing traditional values with efficiency, public sector messaging has remained less market-driven than assumed.

Paolone and Pozzoli (2018) conceptually examine International Public Sector Accounting Standard (IPSAS) 40 on public sector business combinations, emphasizing its role in fostering harmonization in accounting practices for combinations under the accrual basis. The findings suggest that IPSAS 40 introduces valuable guidelines, particularly supporting the pooling of interest method for combinations under common control. However, achieving full international harmonization remains challenging due to structural differences in public sector operations, variations in historical and contextual factors, and the influence of private sector accounting standards. These challenges may lead to divergence in practice, even where IPSAS 40 serves as the basis for the accounting model. The study highlights the need for further exploration of these complexities to advance consistent application.

Glaum et al. (2018) explore the factors influencing goodwill impairment decisions by firms applying IFRSs, based on data from 21 countries. It finds that goodwill impairments are linked to economic performance and managerial incentives. Firms in high enforcement countries respond more promptly to declines in asset value, while those in low enforcement countries show delayed responses. In low enforcement settings, CEO compensation structures significantly influence impairment decisions, whereas this is not the case in high enforcement countries. Both high and low enforcement countries exhibit managerial preferences for smoothing earnings and protecting CEO reputations. Institutional investors in low-enforcement countries can act as substitutes for stricter regulations, aligning impairment decisions with those in high-enforcement contexts. The study underscores how the strength of public and private enforcement systems affects the timeliness and motivations behind goodwill impairments, while also highlighting the persistent influence of managerial discretion.

2.5. Goodwill and external audit

Goodwill accounting and external audit are deeply interconnected, as goodwill is a highly subjective and complex asset that requires rigorous verification to ensure transparency and reliability in financial reporting. Given that goodwill represents future economic benefits derived from intangible factors such as brand reputation, customer relationships, and synergies from acquisitions, its valuation and impairment testing involve significant managerial discretion. This discretion creates opportunities for earnings management, where firms may delay recognizing goodwill impairments to maintain a more favorable financial position. External auditors, particularly those from Big 4 firms, play a crucial role in mitigating these risks by ensuring that goodwill is reported in accordance with accounting standards such as IFRS 3. Through independent verification, robust audit procedures, and professional skepticism, auditors help validate the assumptions used in goodwill valuation, assess the appropriateness of impairment decisions, and enhance the overall credibility of financial statements.

The effectiveness of external audits in goodwill accounting, however, depends on the audit firm's quality, regulatory oversight, and litigation risks. Al-Hiyari et al. (2016) suggest that firms audited by Big 4 auditors exhibit higher goodwill reporting quality, as these firms have the expertise and resources to handle the complexities associated with goodwill impairment testing. Moreover, increased regulatory scrutiny, such as that imposed by Malaysia's Audit Oversight Board (AOB), further compels auditors to enforce strict compliance with accounting standards, reducing opportunistic behavior in goodwill reporting. However, challenges remain, as subjectivity in goodwill impairment testing continues to pose risks to financial statement reliability, and even high-quality audits cannot fully eliminate the potential for earnings management. This underscores the need for strong corporate governance, enhanced disclosure requirements, and continuous audit improvements to ensure that goodwill accounting serves its intended purpose, providing investors with accurate and decision-useful financial information. These findings highlight the importance of auditor quality in goodwill accounting and suggest that audit oversight and enforcement mechanisms influence financial reporting practices.

While Al-Hiyari et al. (2016) focus on regulatory oversight and litigation risks, Ranga and Pathak (2023) highlight the disciplinary role of analyst coverage in enhancing goodwill impairment disclosures. In more detail, Ranga and Pathak (2023) found that firms with higher audit quality and greater analyst coverage tend to have significantly higher goodwill impairment disclosure scores (DS). Additionally, audit quality positively influences a firm's level of disclosure, suggesting that clients of Big 4 audit firms demonstrate stronger compliance with accounting standards. Furthermore, the results highlight that an increase in analyst coverage acts as a disciplinary mechanism for managers, ensuring better adherence to disclosure requirements. The conclusions remain consistent across alternative measures of key variables, firm-level controls, and different estimation techniques, reinforcing the robustness of the findings.

2.6. Limitations in appraising the accurate amount of goodwill

The intangible assets and the goodwill created by business combinations constitute very important components of published consolidated balance sheets. Despite the fact that today the businesses use the IASs and the IFRSs to prepare and accounting treatment for their financial statements because of globalization, the problems do not disappear. Lhaopadchan (2010) suggests that there are problems arising from the accounting treatment of IFRS 3. In particular, although fair value accounting is believed to offer various benefits, evidence suggests that in practice, goodwill impairment decisions are often influenced by managerial self-interest and concerns about earnings management. However, since investors and analysts could always adjust or even disregard reported accounting figures, it is less clear whether such reporting practices genuinely mislead users or substantially diminish the reliability and relevance of financial statements. Wines et al. (2007) emphasize that identifying and valuing cash-generating units and goodwill involve making numerous assumptions to estimate fair value, value in use, and recoverable amounts. The IFRS requirements inherently contain significant levels of ambiguity and subjectivity.

Seetharaman et al. (2004) focus on the international treatment of goodwill, examining its past, present, and future. They highlight the various challenges faced in goodwill accounting, including issues that have persisted over time. Additionally, the study explores the potential future of goodwill accounting in the context of the cyberspace era and the rise of the knowledge-based economy. The findings confirm that the debate over goodwill accounting continues internationally, with no resolution likely in the near future. Wines et al. (2007) compare the previous accounting treatment with the new International Accounting Financial Report 3 in Australia. They emphasize that identifying and valuing cash-generating units and goodwill involve making numerous assumptions when estimating fair value, value in use, and recoverable amount. The IFRS requirements inherently include a significant level of ambiguity and subjectivity.

Goodwill represents the future economic benefits derived from assets that cannot be individually identified or separately recognized. It encompasses elements such as customer relationships, business reputation, trademarks, and other intangible factors. Due to the varied nature of these components, valuing goodwill poses significant challenges. One of the most debated issues is whether goodwill truly qualifies as an asset in the full sense of the term, with expert opinions diverging significantly. The treatment of goodwill depreciation has a substantial impact on financial results, and as a result, companies often exploit the theoretical ambiguities. In cases where managerial compensation is involved, methods that avoid affecting financial results or balance-sheet ratios are frequently preferred (Victor et al., 2012).

Durocher and Georgiou (2022) investigated the disputes between financial statement users and standard setters by employing the framing theory to analyze standard-setting issues, particularly regarding goodwill accounting treatment. They utilized this theoretical framework to contrast the perspectives of financial statement users and standard setters. Gathering additional empirical data, they conducted 19 semi-structured interviews involving 22 participants from February to April 2017. Their findings were very interesting. The divergence between users and standard setters is the connection for recognition issues. As concerns the criterion "recognition asset", which is suggested by standard setters, it does not reflect the more practical requirement that financial statement users want. The criterion "shrinking goodwill vs other intangible assets", the financial user finds the shrinking of the amount recognized as goodwill is a hopeless and very costly exercise. According to the criterion "measurement issues — goodwill amortization vs good impairment", the study showed that the financial statement users do not see no immediate benefits in goodwill amortization or impairment. The final criterion, "presentation and disclosure issues", the standard setter's choice of technical information to be disclosed about acquisitions often prioritize other information that could be more significant for users, such as the impacts of these acquisitions on them.

3. RESULTS

The treatment of goodwill in financial reporting remains a subject of considerable debate, largely due to the inherent challenges in its recognition, measurement, and disclosure. Despite the widespread adoption of IFRS 3 and the principles of fair value accounting, issues surrounding goodwill accounting have not been fully resolved. Scholars have long questioned whether the theoretical benefits of these standards are realized in practice, particularly given the considerable managerial discretion involved in goodwill impairment decisions.

A central concern is the extent to which goodwill impairment decisions reflect genuine economic deterioration versus strategic financial management. While fair value accounting is designed to provide more accurate and timely financial information, empirical evidence suggests that impairment decisions are frequently influenced by managerial incentives, such as earnings management and the desire to present a more favorable financial position. This raises broader questions about whether investors and analysts are genuinely misled by reported goodwill figures or whether they can effectively adjust for managerial bias when assessing financial statements.

The challenge of valuing cash-generating units (CGUs) further complicates goodwill accounting. Estimating fair value, value in use, and recoverable amounts involves a high degree of subjectivity. The discretion afforded to managers in determining these values creates opportunities for opportunistic financial reporting, where firms may delay or avoid impairment charges to maintain financial stability. Given that goodwill often constitutes a significant portion of a company's intangible assets, the impact of these accounting choices on reported earnings and investor perceptions can be substantial.

The debate over goodwill accounting is not a recent phenomenon. Seetharaman et al. (2004) trace the evolution of goodwill accounting from its early foundations to the present, highlighting how persistent challenges continue to fuel discussions on its appropriate treatment. With the rise of the knowledge-based economy and the increasing role of intangible assets in corporate valuation, the difficulty of measuring goodwill has only intensified. The study suggests that a universally accepted resolution remains unlikely in the foreseeable future, as differing perspectives on recognition and valuation create ongoing tensions between standard setters, firms, and financial statement users.

Beyond the technical challenges, goodwill accounting is also shaped by managerial incentives and strategic financial considerations. Victor et al. (2012) argue that firms often manipulate goodwill accounting to achieve more favorable financial outcomes, particularly in contexts where executive compensation is tied to reported earnings. Rather than reflecting economic realities, impairment decisions may be influenced by a desire to protect financial ratios, maintain investor confidence, or smooth earnings over time. This reinforces concerns that goodwill, rather than serving as a reliable indicator of future economic benefits, is sometimes used as a tool for financial engineering.

Perhaps the most striking divergence in perspectives arises between financial statement users and standard setters. Durocher and Georgiou (2022) reveal significant gaps between the technical accounting frameworks established by regulatory bodies and the practical information needs of investors and analysts. Their findings highlight several key areas of contention. First, standard setters' criteria for recognizing goodwill as an asset do not always align with the practical expectations of financial statement users, leading to disagreements over its conceptual validity. Second, investors express scepticism about the value of goodwill impairment testing, viewing it as a costly and largely ineffective exercise. Third, the debate over amortization versus impairment remains unresolved, with financial users seeing no clear benefits to either approach in terms of enhancing decision-useful information. Finally, disclosure practices often prioritize technical compliance over meaningful insights into how acquisitions impact company performance, leaving investors with an incomplete picture of financial health.

4. CONCLUSION

This paper critically examines the change in accounting treatment for goodwill under international IFRSs by reference to the other countries' accounting standards. It discusses and compares IFRS policies for goodwill. The rising interest in the realm of intangible assets has captured not only the attention of the academic community but also various professional bodies on a global scale. This surge in interest can be attributed to multiple perspectives. From a business standpoint, both external pressures and internal motivations are increasingly prompting companies to delve deeper into this area. The concept of goodwill has become a focal point of considerable controversy and extensive debate among scholars and practicing accountants worldwide. Despite numerous endeavors and the presence of IASs, a universally accepted definition for this significant asset, along with standardized accounting treatment, remains elusive. However, through the comparative analysis of these definitions, a fundamental characteristic emerges regarding the capacity of this intangible asset to contribute to the future generation of economic benefits for businesses. In summary, the accounting treatment of goodwill has undergone notable changes and controversies over time. From the traditional method of amortization to the more recent adoption of impairment-only testing, the handling of goodwill reflects an ongoing effort to comply with IFRSs while grappling with the complexities of assessing intangible assets. Although the transition to impairment testing aims to enhance transparency in financial reporting, it also introduces managerial discretion and the potential for manipulation. Looking ahead, it is essential for stakeholders to persist in monitoring and evaluating the efficacy of accounting standards in accurately representing the value of goodwill and fostering transparency in financial disclosures. Moreover, further research is necessary to explore the long-term effects of these accounting methodologies on financial statement users and decision-making processes.

The existing body of literature underscores the complexity and subjectivity inherent in goodwill accounting. While regulatory frameworks such as IFRS 3 seek to improve transparency and comparability, significant ambiguities in valuation, managerial discretion, and stakeholder expectations continue to challenge their effectiveness. The divergence between theoretical accounting principles and real-world financial decision-making remains evident, reinforcing the need for ongoing research and potential reforms in the treatment of goodwill. Ultimately, goodwill accounting is not merely a technical issue, it is a reflection of the broader dynamics of corporate governance, financial reporting integrity, and investor protection in an increasingly intangible-driven global economy.

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APPENDIX

Table 1. Chronological evolvement of goodwill evaluation

Time period/source	***Key development***	***Description***	***Implication***
Bithell (1893)	Initial definition of goodwill	Defined goodwill as the expectation of future profits tied to an established business of good repute.	Established the conceptual foundation of goodwill as a purchasable asset in business transactions.
Ma and Hopkins (1988)	Synergistic benefits and expected cash flows	Goodwill reflects the present value of synergistic benefits and expected cash flows beyond the identifiable net assets.	Connected goodwill valuation to future economic benefits and shareholder expectations.
Bryer (1995)	Supernormal profits	Defined goodwill as "supernormal profits", representing the premium for expected above-normal earnings in a business transaction.	Positioned goodwill as a measure of anticipated exceptional returns on investment.
UK FRS 10 (1997)	Goodwill as a difference in consolidated financial statements.	Measured goodwill as the difference between acquisition cost and attributable assets and liabilities, allowing for positive or negative goodwill values.	Introduced a more structured framework for goodwill valuation in financial reporting.
Johnson and Petrone (1998)	Top-down and bottom-up perspectives	Top-down: Goodwill is a large asset resulting from allocation to sub-assets. Bottom-up: Goodwill is the excess paid by the acquirer over the carrying value.	Highlighted different methods for understanding and allocating goodwill.
Anthony and Pearlman (2003)	Goodwill as a premium	Goodwill is the difference between a company's fair value (market value) and its net assets. Linked to factors like advertising, research, and management.	Reinforced goodwill as a premium tied to intangible competitive advantages.
Bloom (2009)	Intangible future advantages	Goodwill represents intangible, not individually identifiable, and emphasizes the difficulty in quantifying self-generated goodwill.	Underlined the challenges in accounting for self-generated goodwill.
FASB (2001)	Gradual amortization of goodwill	Goodwill was gradually expensed over time, typically amortized over a set number of years.	Treated goodwill as a depreciating asset, similar to tangible assets.
FASB (2001)	Shift to annual impairment testing	Introduced a two-step impairment testing process: comparing fair value to carrying value and recalculating goodwill's implied value if necessary.	Improved accuracy but added complexity and cost to goodwill evaluation.
FASB (2011)	Introduction of qualitative assessment	Allowed companies to perform a qualitative assessment first to determine whether a full impairment test was necessary.	Reduced costs and administrative burden for companies.
FASB (2018)	Simplification to one-step impairment testing	Companies only compare the fair value of a reporting unit to its carrying amount, eliminating the need to calculate the implied goodwill value.	Further simplified the impairment process, balancing accuracy and practicality.