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AGREEMENTS AND DISAGREEMENTS REGARDING THE DEFINITION AND DETERMIANTION OF GOODWILL

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Abstract
The development of technology has significantly contributed to changing the structure of a company's assets. If at the beginning they paid almost exclusive attention to fixed assets, we can see that for some time intangible assets, especially the unidentifiable ones that enter the structure of goodwill, are increasingly of interest to companies. The purpose of this paper is to analyze from a theoretical and legal point of view the way in which the commercial fund is defined and evaluated in order to identify the existing inaccuracies and to propose new solutions to improve the normative framework.

Key words: *added value; goodwill; intangible assets; resources management.*

JEL Classification: *M41*

I. INTRODUCTION

The fact that two companies possessing the same resources can achieve different results, the market value is in most cases higher than the book value, a company can be acquired at a price far above the book value of its assets, all these are current problems that stand at the basis for supporting the topicality of the theme. The concept of goodwill has changed significantly over time. Its component elements have been subject to change over time, along with the creation of accounting institutions or bodies that regulate their assessment. For a long time, goodwill was considered to be the good and valuable relationship of a business owner with its customers. It was used to reflect the value created through customer loyalty. Goodwill is seen as an important element in a business enterprise. It is perceived as an intangible asset that comes from other intangible assets of the company. Its presence can be indicated by relatively high levels of return on invested capital. Many researchers have defined goodwill as the company's ability to earn excess profit compared to another company. Excess profit is attributed to certain intangible elements of the company that are considered sources of goodwill. These intangible resources allow a company to realize revenue above expectations (Sacui, 2015, pp. 398-399).

Podhorska, Gajanova, Majerova, & Popescu, (2019) identified other elements to which we can link the notion of goodwill. Among these we can list: the company's reputation; The Company's name; the prestige; the brand. They argue that goodwill is reflected in the relationship between the company and other market participants, as well as the perception of the company in the eyes of its customers.

It can be easily seen that this concept, namely goodwill, has been and still is a topic of interest among economic researchers. Moreover, the multitude of definitions and attempts to clarify this notion, supports the fact that goodwill is a controversial subject.

For a clearer understanding of this concept, it is important to note that the term goodwill can refer to several types of goodwill. Confusion sometimes arises due to the translation from English, since in this language in which the international accounting standards were developed, a single term is used to express different concepts, namely goodwill.

II. THE DISTINCTION BETWEEN GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is viewed as the additional value generated by the company's internally generated unidentifiable intangible assets. In this case, it is necessary to answer the following question: what do the non-identifiable intangible elements of a company include?

Harner (2015) identified a number of items that are included in a company's unidentifiable intangible assets. Currently, goodwill is an invisible asset of the company. Even though it is likely to be present in most companies, it does not appear in the financial statements. From an accounting point of view, goodwill only arises in a business

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combination when the purchase price exceeds the sum of the fair value of the identifiable assets. Thus, acquired goodwill is recorded, while internally generated goodwill is not, but its economic nature is completely independent of a business combination. We agree with Cosmulese, Grosu, & Hlaciuc, (2017), who states that goodwill "plays a significant role in determining the value of an entity and has therefore become a very debated issue in recent years which the economic community has tried to delimit in terms of content and structure, apart from other intangible assets".

III. GOODWILL RECOGNITION AND VALUATION PRACTICES ACCORDING TO IAS 38

According to IAS 38, internally generated goodwill is not recognized as an intangible asset because it is not separable and does not arise from a contract. Goodwill is the result of expenses incurred to generate future economic benefits but does not meet the recognition criteria imposed by the standard. It is not a resource controlled by the entity that can be valued at a credible cost. The treatment of not recognizing internally generated goodwill is highlighted by other economists such as (Needles, Anderson, & Caldwell, 2000, p. 157).

The impossibility of isolating internally generated goodwill and the difficulty of making a correct assessment of it represent the most solid arguments for accounting standards to justify the lack of recognition of internally generated goodwill. Expenses involved in internal activities that generate goodwill are recorded as current expenses and are reflected in the profit and loss account.

The developers of IFRS came to the conclusion not to recognize internally generated goodwill as an asset because of the wide range of elements it includes, including intellectual capital and know-how, brand names, skills and knowledge of personnel, etc. This allowed developers to define goodwill as an unidentifiable asset with a complex evaluation and therefore not be reflected in accounting and financial reporting. But the adoption of IAS/IFRS for all listed companies since 2005 in our country has allowed for wider measurement and disclosure of intangible assets (Grosu, Socoliuc, & Hlaciuc, 2017).

The evaluation of goodwill has generated numerous controversies both in the academic and professional environment, because there are still significant differences between the accounting policies related to goodwill resulting from consolidation and acquired goodwill. If in the case of the first one, the problem of applying the depreciation test arises, in the case of the acquired one, it can be amortized.

According to national and international accounting rules, goodwill is recognized as an intangible asset if all the following conditions are simultaneously met:

- is acquired for consideration (ie it derives from the acquisition of a company or business unit or from a transfer, merger or dissolution);
- has a quantifiable value as it is included in the consideration paid;
- it is generated as a result of some research and development expenses with deferred utility in time, which therefore guarantee future economic benefits;
- operates on the principle of the recovery of expenses if the conditions for recognition as an intangible asset are met.

Internally generated goodwill cannot therefore be capitalized to intangible assets. Although under IAS 38 the recognition of goodwill is not permitted due to the inability to measure its value reliably, why is so much attention paid to its value and what is the purpose of trying to determine it?

Goodwill cannot be assigned a defined lifespan, independent and separate from other intangible assets. It basically represents a quality of the company's manager and cannot be considered an intangible asset in itself. The value of goodwill is determined by the difference between the total price paid to acquire the company or branch of business and the current value attributed to the other assets and liabilities that are transferred.

Calculating goodwill for a particular company is a complex activity because quantifying the overall value of a company involves discretionary choices. Moreover, it should be considered that the assumed accuracy of a company's value today does not guarantee that it will be valid tomorrow. The most conclusive example is the value of listed companies that change every day.

In the case of listed companies, the value of the company is given by its capitalization, i.e. by the product between the number of shares and the price of the shares. The difference between book value and capitalization can be considered a kind of goodwill value. Therefore, companies have an interest in estimating the value attributed to goodwill.

Moreover, the valuation of goodwill can also be useful for internal users, especially for the management of the company. Managers often get additional benefits based on profit or share price growth over a period of time. The economic analysis of the degree of competition in a sector, usefully carried out with the help of market statistics, can allow a more meaningful identification of the competitive positioning, in absolute and relative terms, of the evaluated enterprise in the scope of its target market; this makes it possible to provide a strategic framework from which to derive additional and complementary considerations that facilitate an estimation of goodwill (Visconti, 2009).

The question that now arises is how we determine the value of this goodwill. This has to do with the amount

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of literature on the subject. In almost all papers we can only find the goodwill acquired in business combinations. But despite this problem, we can also find some relevant information that we can use in determining internally generated goodwill. It is difficult to define and determine the exact value of internally generated goodwill. One of the difficulties is the uncertainty related to future material effects.

Even if it were possible to define and assess the value of goodwill objectively, this assessment could only be made through the expected future impact on the future performance of the enterprise. Uncertain future benefits are not in accordance with accounting standards. Of course, internally generated goodwill does not represent the total amount of intangible assets of the company that are included in the market value. It only represents the amount of unidentifiable parts.

The literature was searched for articles referring to goodwill, and the original studies published in full in English from the Web of Science database were selected. The PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guideline was used to conduct this meta-analysis. All the studies included in this meta-analysis were published in English during 2021-2020, in accounting-specific journals, and again in Table no. 1 (Appendix A), which will illustrate some of the studies found in the Web of Science database.

According to SEV 210 paragraph 20.6, the value of goodwill is determined, in general, as the residual value remaining after the values of all tangible, intangible and monetary identifiable assets, adjusted with actual or potential liabilities, have been subtracted from the value of an enterprise.

We can conclude that, despite the fact that the accounting rules do not recognize this type of goodwill (internally generated), it is more and more relevant for a lot of users of accounting information.

In order to identify the value of goodwill, we find that there are two different methods, more precisely the direct method, which consists in determining the value of the goodwill by updating a prospective flow of economic benefits, and the indirect method, which determines goodwill as the difference between two different types of capital, i.e. the economic and the operational. In other words, in valuation practice there are therefore two distinct ways to determine goodwill, the first method, which is identified in the valuation of the company through the mixed asset-income method with the independent estimation of goodwill, directly as if trying to evaluate an asset of the company; the second, the indirect method, as the difference between the total value of the company, through which it can be calculated, through the income method for example, and the value of the assets present in the company, signals the fact that goodwill represents a value that arises from the complex of economic values of the company and cannot be separated from them.

Therefore, the valuation of goodwill is very important because its value can have a significant impact on the value of other assets, especially after the adoption of IAS/IFRS in 2005, but it can give rise to confusion and mistrust among all categories of stakeholders if the chosen goodwill valuation method is not appropriate (Grosu, Hlaciuc, Mates, & Socoliuc, 2012).

IV. GOODWILL VALUATION PRACTICES ACCORDING TO ENTERPRISE VALUATION STANDARDS

There are opinions in the academic environment, as well as by evaluation practitioners, according to which the evaluation of this goodwill is mainly based on an estimate of the value of the brand, which is the most important element of goodwill. Creating a strong and successful brand requires a lot of funds and other resources, but it brings companies a higher profit than what would have been obtained if the brand had not been built. Investors' perception of the brand has more to do with realizing value than creating it. While it is the buying behavior of customers that brings revenue and profit to the business, the perception of investors will influence how this value is realized in the financial markets.

The ultimate meaning of value must be financial, of value for stakeholders - primarily for shareholders, but also for consumers and the community in general. Salinas & Ambler (2019) indicate at least four factors that determined the development of brand valuation methods, illustrated by figure no. 1.

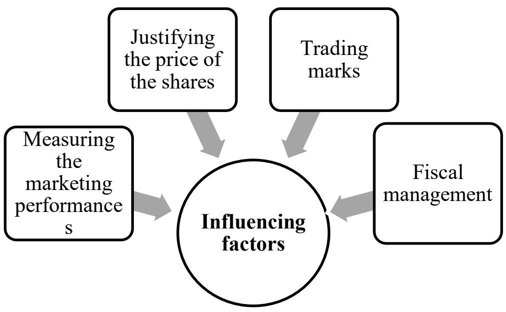

Figure 1. Determinants in the development of brand evaluation methods
Source: Adapted from Salinas & Ambler (2019)

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The simplest way to determine the value of goodwill is by calculating the difference between the market value of the firm and the book value. The choice of method for a particular event in a particular situation always depends on the circumstances. In most cases it is necessary to use several methods for evaluation due to the self-verification of the obtained results. Nor should the evaluator's possibilities to develop his own techniques and methods specific to a particular case, using elements of several methods, be regulated.

An analysis of these approaches that have certain advantages and disadvantages, and comprise, in turn, several methods, is described in Table no. 2.

Table 1. Approaches to determining brand value

Valuation method	*Explanation*
Cost approach, SEV 210 - paragr. 70.1-70.7	• Can be used when no other approach is possible. • Consists of two methods: o a replacement cost method; o a reconstruction cost method. • According to the cost approach, the brand should be valued based on the historical costs incurred in creating the brand or based on the estimated cost of creating a similar brand.
Market approach SEV 210 - paragr. 50.1-50.8	• This method should be used when it is possible to estimate the value of the brand based on a transaction in which the same brand was sold at a specific price. • This approach focuses on comparing the brand with a similar brand of another firm for which transaction price data is available and presents the following method: o Method of reference transactions. • The advantage of this approach comes from the fact that the valuation is done by comparing actual historical data, estimating the prices paid for the same or a similar brand. • The disadvantage is that there is not always information available regarding the selling price of a similar brand. Also, a difficulty in using this method is its application in determining the value of brands because they are not uniform and there are not enough transactions in the market that can be used for comparison.
Income approach SEV 210 - paragr. 60.1-60.8	• The income approach is based on the assumption that future cash flows attributable to the brand will determine its value. For this reason, it is necessary to determine the future revenues and profits that are directly related to the brand. In this sense, the most used methods are: o the method of excess economic benefits; o the method of avoiding the payment of the royalty; o the method of additional profit ("with and without"); o the method of initial investment; o the distributor method.

Source: SEV 210 – Intangible assets

An inescapable question would be why companies would try to value an asset that does not occupy any position within the financial statements?

The estimation of the value of goodwill has always been central to both professional and academic applications in the field of company valuation. The formula recommended today is the classic mixed income-asset method with the stand-alone estimate of goodwill. In the economic sense, goodwill represents that asset with characteristics that reflects the quality of the human resource and the value of the intellectual capital attributed to the management of the company due to which the global value of the company is not formed only by a simple aggregate of accounting values attributed to the assets, but a much higher value, generated directly by these quality requirements of human capital.

A clear, unanimously accepted, and exhaustive definition of goodwill, that would include all factors, which cannot be reconstructed individually, but which, taken together, explain why the company has a market value greater than its book value, does not exist yet because goodwill represents more than a set of intangible values and legal relationships. The specialized literature is more oriented on the origin of goodwill, seen as a set of resources that cannot be purchased separately by the company, of distinctive skills and capabilities from which they practically derive their origin.

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V. CONCLUSION

Among the many measures by which investors can evaluate companies, two tools are particularly important: book value and market value. One is an approach that includes balance sheets and financial statements – the accounting books. The other is a more subjective approach that takes into account the sometimes irrational sentiments of the stock market.

Market value depends on what people are willing to pay for a company's stock. Book value is similar to a firm's net asset value, which increases much less than the stock price. Both values are useful for calculating whether a share is valued fairly, overvalued or undervalued, investors using them to achieve their financial goals.

The book value of a share is the amount of money that would be paid to shareholders if the company were liquidated and all liabilities paid. Book value is therefore equal to the difference between a company's total assets and total liabilities. In other words, this is literally the value of the company according to its books (balance sheet) once all liabilities are subtracted from assets. Book value is a reflection of a company's equity – what it owns. To be used as a decision-making tool, it must be compared to market value before an investor determines whether to buy or sell a stock.

Market value is the value of a company according to the stock exchange. It is the price an asset would fetch in the market. In the context of companies, market value equals market capitalization. This is calculated by multiplying the current share price by the number of outstanding shares being traded in the market. Market value can be a volatile figure. It changes throughout the day because a company's stock price is constantly fluctuating as investors and traders buy and sell the stock. In most cases, this value does not change very drastically. This only happens if there is good news or bad news with a strong impact related to the company or the industry in which it operates. Total shares outstanding almost never change, only on rare occasions does the company adopt share buybacks or issue more shares.

Book value represents the financial strength of a company based on its assets, an objective number. Instead, the market value represents the attractiveness of a company's share on the market, a more subjective number, both of which are fundamentally different calculations that project the value of the company from several perspectives, both financial strength, performance and sustainability.

VI. APPENDIX A

Table 2. Meta-analysis of specialized literature on the topic of goodwill

Year	*Authors*	*Title of paper*	*Purpose, Objectives*	*Results*	*Recommendations/Conclusions/Solutions*
2022	Roncagliolo, E., Avallone, F.	Recognition of provisional goodwill: Real need or communication strategy?	The purpose of the article is to examine whether the choice of provisional goodwill is motivated by market imperfections rather than by the actual difficulty in estimating the assets and liabilities acquired. Essentially, this study is based on IFRS 3, "Business Combinations" from the perspective of recognising goodwill on a provisional basis as permitted by this Standard.	The research results suggest that the decision to account for goodwill on a provisional basis is due to the specific timing of the acquisition. In addition, the coexistence of stock market overvaluation and strong investor protection at the time of M&A announcement is a significant determinant of the choice of provisional goodwill. The results were based on a sample of business combinations concluded over the period 2014-2015 involving European companies and accounted for according to IFRS 3.	This study highlights the relevance of factors affecting the initial determination of goodwill value. Even so, it is emphasized that the results of the study are important for external users, especially when taking into account the discussion taking place in the IASB about Goodwill.
2021	Nobes, C	On Translating Goodwill	The IASB plans to reform goodwill accounting drive the discussion in this paper regarding the translation of the meaning of "goodwill" (and the related terms: impairment, amortization and depreciation). The paper includes a study of national regulations and	The discussion is extended to include the approaches in different languages on whether or not to distinguish between depreciation and amortization and how it's translated as "depreciation". Implications for researchers and standard setters are drawn. This includes the need for terms that are accurately defined and have	In early 2021, the IASB begins processing comments received on its *discussion paper* (IASB (TAGLIAVIA, 2020) on the reform of goodwill accounting, which includes the consideration of amortization and impairment.

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			specific IFRS translation issues.	been chosen with an eye to potential translation problems.	
2021	Frii, P; Hamberg, M	What motives shape the initial accounting for goodwill under IFRS 3 in a setting dominated by controlling owners?	It investigates how different motives shape initial goodwill accounting in a setting dominated by controlling owners, using data from 1112 acquisition reviews reported by Swedish listed acquisition firms.	In contrast to previous studies, no evidence was found that earnings-based compensation affects the proportion of the purchase price accounted for as goodwill. In contrast, it is found that when a family firm is the acquirer, a greater proportion of the purchase price is accounted for as goodwill than as specific assets and liabilities. These two findings indicate that controlling owners can reduce managerial motives, while controlling family owners apply IFRS 3 discretion according to their motives, and also that acquisition motives have a significant impact on the proportion of the purchase price accounted for as goodwill	As a conclusion, it is indicated that the reasons that shape the accounting choices regarding the goodwill depend on the institutional framework.
2021	He, ZY; Chen, D; Tang, JX	Do goodwill impairments affect audit opinions? Evidence from China	There has been a steady increase in goodwill impairment in China's stock market since the adoption of the impairment approach to accounting. The influence of goodwill impairment on a firm's financial position and profitability gives reason to doubt its current and future performance. The purpose of the paper is to examine the possibility that auditors, as an essential external monitor, identify information risks related to goodwill impairment and express concerns about the quality of financial reporting in their audit opinions.	Using a sample of firms listed on China's A-share market from 2007 to 2017, the association between goodwill impairment and the type of audit opinion received in the same financial period is tested. The results of the study are as follows. -First, the probability of receiving a modified opinion increases with the value of the goodwill impairment; - the positive association between goodwill impairment and modified audit opinions is primarily driven by earnings management risks; - this positive association is more evident when the auditors are industry experts and there is no auditor-client mismatch; -auditors are more sensitive to the amount of goodwill depreciation than to their mere existence. In this study, the relationship between goodwill, impairments, and altered views and the mechanisms underlying this association were studied. The results of the study imply that auditors perceive goodwill impairment as a signal of informational risks and focus more on "procedural justice" (whether the client engages in earnings management) than on "substantive justice" (there are systemic risks related to economic fundamentals).	This paper examines the relationship between goodwill impairment and modified audit opinions from the perspective of investors. Auditors must have a comprehensive understanding of the industry environment and historical performance of their clients prior to the audit and also maintain a high level of professional skepticism in the audit. A limitation of this research is that it does not examine negotiations between auditors and clients regarding goodwill impairment prior to issuing audit opinions. Future research could provide more analysis in this area.
2020	Garcia, IAS; Lucena,	Cognitive Dissonance or	This study uses a theory of psychology, Cognitive Dissonance Theory, to try	A sample composed of publicly traded Brazilian non-financial companies was used. The	It contributes to the literature to associate the decisions made by

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	WGL; Gomes, AKDJ	Agency Theory, what Explains the Loss of Impairment of Goodwill?	to explain the occurrence of goodwill impairment loss. The purpose of this research is to analyze the goodwill impairment loss in companies listed in Brazil, Bolsa, Balcao from the perspective of Agency Theory and Cognitive Dissonance Theory.	analysis was performed by logistic regression, considering an unbalanced panel data set for the period 2010-2016. The results point to Cognitive Dissonance Theory as the theory that explains the goodwill impairment loss because managers tend to record a goodwill impairment loss in the current year when there was already a loss recorded in the previous year as a way to reduce the mental discomfort caused between their cognitions.	managers with a psychological behavioral theory that has so far not received prominence in attempts to justify the decisions of agents. The profit from this research is also directed to investors, as it allows them to make decisions not only based on what the accounting reports say, but taking into account other aspects, such as the behavior and cognitions of managers.

Source: Own processing

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