

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The objective of IAS 36 standard is the reflection of the true value of a firm's assets on its balance sheet. More specifically, IAS 36 is designed to ensure that assets are carried at no more than their recoverable amount and to define how the recoverable amount is calculated. IAS 36 applies to most long term assets, including goodwill amongst others (Veress, 2006). According to the specification the assets under standard must be pointed out in accounting estimates. Goodwill as being a popular subject of research for decades is still a fairly topical subject of research, and their still contradictory views about goodwill and the consensus remains unachieved (Bugeja & Gallery 2006; Seetharaman, Balachandran & Saravanan 2004).

Specifically firms need to assess whether the carrying amount of goodwill, that is, the value on the balance sheet) does not exceed the true or real value. If the carrying value of goodwill exceeds the recoverable amount, impairment is necessary. However, IAS 36 provides managers with considerable discretion about how to assess the true value of the firm's goodwill (Beatty and Weber, 2006; Jahmani, Dowling and Torres 2010; Van de Poel, Maijoor and Vanstraelen, 2009).

Goodwill impairment is the reduction in value of goodwill asset and attracts customers thereby increases both revenue and profit (Zare, Mohsen, Ghamsem, 2012). Statement of Accounting Standard (SAS) 26 regulates goodwill asset in

Nigeria, and one of the provisions is that goodwill should be tested for impairment annually or more frequently. It also requires disclosure of information that enables users of an entity's financial statements to evaluate changes when there are changes in the carrying amount of goodwill in a particular period. For banks to make effective, accurate and qualitative decision on merger and acquisition, adequate information on goodwill impairment is required (Appah & Sphia 2011).

In 2004, the International Accounting Standard Board (IASB) revised International Accounting Standard (IAS) 36 - Impairment of assets, IAS 38 – Intangible assets and introduced International Financial Reporting Standards (IFRS) 3 – Business Combinations, which drastically altered the accounting procedures for goodwill (Sandra, 2013). On adopting IFRS 3 goodwill is no longer amortized but is subject to an annual impairment test in accordance with IAS 36. Therefore, the IASB's belief that goodwill does not necessarily decline in value on a routine basis but rather has an indeterminate life led to their conclusion in IFRS 3 that goodwill should not be amortized but instead must be tested at least annually for impairment.

Prior empirical-archival research has evaluated the impact of the new accounting regime on capital market variables and researchers seem to agree that the new standards gave management more discretion in areas such as recognition of intangible assets and accounting estimates related to impairment tests of goodwill. However, there are mixed conclusions as to whether the increased room for accounting choice by preparers have predominantly positive effects, in terms of

more private information provided by management to investors through the estimates made (Lee, 2011), or negative effects related to increased information uncertainty and lack of management accountability for acquisitions made (Jarva, 2009; Ramanna and Watts, 2012). Although, there is a long tradition of evaluating the impact of accounting choice on users' forecasts and valuation-judgments in behavioural accounting research (Libby, 2005), the number of such studies has decreased in recent years. In the specific area of acquisitions, there is one prior study by Hopkins, Houston and Peters (2000), pertaining to accounting methods used in the USA before the above mentioned changes, that is, in the late 1990s. The current study builds on the work of Hopkins *et al.* (2000), but evaluates the effect of corporate acquisitions on financial analysts' equity valuation judgements under the IFRS 3 setting and during a different time period (experiment conducted in 2011).

Since January 2005 all listed European companies are required to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) (Regulation, European Commission, 1606/2002). Therefore, Portuguese listed companies are required to use the IAS 36, IAS 38 and IFRS 3 to recognize the goodwill and to evaluate whether the goodwill have been impaired (Sandra, 2013).

Meanwhile, majority of prior empirical studies examining the impact of the amortization expense on share prices provide little evidence that it is of significant value to users. For example, Jennings, LeClere and Thompson (2001) examine

whether total earnings with goodwill amortization is more informative than total earnings before amortization. They found that earnings before goodwill amortization explain significantly more of the observed distribution of share prices than earnings after goodwill amortization, and that goodwill amortization adds “noise”, making it harder for investors to use the earnings measure to predict future profitability. Similarly, Moehrle, Reynolds-Moehrle and Wallace (2001) find little evidence that goodwill amortization contains value-relevant information, and suggest that the amortization disclosures were not.

Hayn and Hughes (2006) argue that the new goodwill impairment accounting practices under Statement of Financial Accounting Standards (SFAS) 142 put more responsibility on managers to determine the fair value of goodwill, suggesting that management plays an important role in the process of determining the fair value of goodwill and the magnitude of goodwill impairment losses if goodwill impairment exists.

Demerjian, Lev and McVay (2012) argued that more-able managers better foresee business opportunities, make better decisions, and better manage their firms to maximize shareholders' benefits, relative to lessable managers. Other studies on managerial ability document that more-able managers better smooth earnings to maximize shareholders' benefits (Demerjian, Lewis-Western, & McVay, 2015), engage in fewer tax-avoidance activities (Francis, Sun, & Wu, 2014) and fewer earnings-management activities (Demerjian, Lewis, Lev, & McVay, 2013), and better reduce audit fees (Krishnan & Wang, 2015). Taken together, the above

studies suggest that managers with greater ability better manage their companies. Goodwill impairment is viewed as negative news that signals declining firm performance (Hirschey & Richardson, 2002). Hence, companies have incentives to prevent or reduce goodwill impairment losses (Li, Venkataraman & Zhang, 2011). Whether more-able managers can better prevent or reduce goodwill impairment losses is an interesting question that has not been examined previously. Based on prior studies, the researcher posit that more-able managers better prevent or reduce goodwill impairment losses through more efficient management than less-able managers.

The impairment approach to goodwill was introduced with the intention of improving the information content of reported acquired goodwill and providing users of the financial statements with value-relevant information that more closely reflects the underlying economic value of goodwill. However, this approach has been criticized by practitioners, academics and dissenting IASB members based on the managerial discretion inherent in the impairment test. However, the standard setters suggest that managers will use the accounting discretion permitted by the impairment approach to provide their private information about future cash flows, resulting in impairments that better reflect the underlying performance of the firm (Naser, Osama & Ayman, 2012). Alternatively, managers may choose opportunistically to explore their accounting discretion, resulting in impairments that do not adequately reflect the firm's underlying economics, and hence the purported benefit of the impairment-only approach is merely an illusion shared among standard setters.

Studies of Jennings et al., 2001; Moehrle et al., 2001 provide empirical evidence that straight-line amortization of goodwill over an arbitrary period fails to provide useful information to the users of the financial statements and instead adds noise, making it harder for investors to use the earnings measure to predict future profitability. The impairment criteria provided by the standard are drafted in such a way that leave significant room for managerial discretion, interpretation, judgement and bias (Massoud & Raiborn, 2003). For example, Watts (2003) criticized the impairment approach and argued that “assessing impairment requires valuation of future cash flows because those future cash flows are unlikely to be verifiable and contractible.

The move towards a unified set of accounting standards could be traced to 1993, when about 16 professional accounting bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom, and the United States established the International Accounting Standards Committee (IASC), which was later changed to the International Accounting Standards Board (IASB) in 2001 (Herbart & Isegba, Ohaneta and Anyahara, 2013; Isennulla & Adeyemi, 2013; Barth, Landsman & Lang, 2007).

The primary goal of the IASB and its predecessor body, IASC was to evolve a globally acceptable set of high quality financial reporting standards (Okoye, 2014; Barth, Landsman and Lang, 2007). It was the primary duty of IASC to issue IASs, while the successor, the IASB issues the IFRS which included the adoption of the

IASs already issued by the IASC (subsequent to amendment) (Oyedele, 2011; Barth, Langsman and Lang, 2007).

IFRS is a set of International Accounting Standard (IAS) that state how particular transactions and events should be reported in the financial statement of the companies. The standard which replace the old IAS are issued by the International Accounting Standard Board (IASB) for the purpose of making comparison as easy as possible. IFRS remains as a standard with high quality accounting reporting framework. Thus, the users of financial statements can easily compare the entity's financial information between countries in different parts of the world. Implications of adopting IFRS mean adopting a global financial reporting language that would create a comprehensive financial statement (Fasina & Adegbite, 2014). To achieve full adoption of the IFRS in Nigeria, the NASB (now financial Reporting Council (FRC) established by FRC of Nigeria Act No 6, 2011) inaugurated a roadmap committee of stakeholders on the adoption (Okoye, 2014).

## **1.2 Statement of Problem**

The new accounting regime for business combinations and goodwill leads to changes in the range and scope of accounting choices available to managers. The acquirer's application of the recognition principle and conditions may result in recognize some assets and liabilities that the acquirer had not previously recognized as assets and liabilities in its financial statements. For example, the acquirer recognized the intangible assets, such as a brand name, a patent or a customer relationship, that the acquirer did not recognized assets in the financial

statements because these assets were developed them internally and charged the related costs to expense.

Prior studies were mainly conducted in foreign countries other than in the developing countries like Nigeria. the studies of Hellman, Andersson and Emelie (2015); Naser, Osama and Ayman (2012); Lapointe-Antunes, Cormier and Magnan (2009) and Chen, Kohlbeck and Warfield (2008) revealed a significant negative association between reported goodwill impairment losses and market value, suggesting that these impairments are perceived by investors to reliably measure a decline in the value of goodwill and incorporated in their firm valuation assessments. Elina (2015) show that the amount of the acquisition cost allocated to goodwill has decreased during the examined period and due to the fair value accounting, business acquisitions has made new intangible assets visible that otherwise would have not met the recognition criteria under IAS 38. Suvi (2016) indicates that banks' valuation of goodwill was not less value relevant than the pharmaceuticals' valuation of goodwill.

Though, few previous studies have examined value relevance of goodwill in recognition of new financial reporting standards, their results were contradictory, besides, there is a limited study on the relevance of goodwill measurement during the adoption of IFRS in Nigeria and most of these prior studies were carried out in foreign countries. Based on the above backdrop, this study set up to assess of the relevance of goodwill measurement in the adoption of IFRS in Nigerian banking sector.



### **1.3 Objective of the Study**

This study set up to assess the relevance of International Financial Reporting Standards (IFRS) on goodwill measurement in Nigerian deposit money banks.

Specifically, the study intends to achieve the followings:

1. To ascertain the extent the adoption of IFRS improves the value relevance of average profits of goodwill in deposit money banks in Nigeria.
2. To determine the extent the adoption of IFRS improves the value relevance of super profits of goodwill in deposit money banks in Nigeria.
3. To evaluate the extent the adoption of IFRS improves the value relevance of capitalized value of profits of goodwill in deposit money banks in Nigeria.

### **1.4 Research Questions**

1. To what extent does the adoptions of IFRS has improved the value relevance of average profits of goodwill in deposit money banks in Nigeria?
2. To what extent does the adoption of IFRS has improved the value relevance of super profits of goodwill in deposit money banks in Nigeria?
3. To what extent does the adoption of IFRS has improved the value relevance of capitalized value of profits of goodwill in deposit money banks in Nigeria?

### **1.5 Research Hypotheses (Null)**

**H<sub>01</sub>:** The adoption of IFRS has not improved the value relevance of average profits method of goodwill in deposit money banks in Nigeria.

**H<sub>02</sub>:** The adoption of IFRS has not improved the value relevance of super profits method of goodwill in deposit money banks in Nigeria.

**H<sub>03</sub>:** The adoption of IFRS has not improved the value relevance of capitalized value of profits method of goodwill in deposit money banks in Nigeria.

### **1.6 Significance of the Study**

This study will make contributions to various strands of the accounting literature.

Firstly, the paper contributes to the accounting choice literature by investigating how financial analysts are affected by preparers' allocation of acquisition premiums to goodwill versus identifiable intangibles.

This study will add more knowledge to academicians and researchers who will intend to use the finding of this study as a basis of their research to either fill research gaps or contribute to their learning process.

This study will enable both local and international investors to have more insight on the relationship between accounting information and stock prices hence make sound investment decisions on which stocks to purchase so as to achieve profitable returns on their investments.

Financial consultants and analysts will benefit from this study in that they will be able to identify firms which are performing well thus advise their potential clients on firms having high stock prices and returns which are good for investment.

A primary focus of the FASB and other standard setters is equity investment; this study will serve as proof of the quality of accounting standards, accounting practice.

### **1.7 Scope of the Study**

This study ascertains whether the value relevance of goodwill has improved after the adoption of IFRS. The study covered are average profits method, super profits method and capitalized value of profits method of goodwill of deposit money banks in Nigeria and covered over a periods of ten years (2007-2017), five years each of pre and post of IFRS adoption in Nigeria, the periods after the adoption of IFRS is five years as at the time of this study, hence giving the two periods equal years.

### **1.8 Limitation of the Study**

Though the study was intended to cover all deposit money banks in Nigeria, due to the unavailability of data for all the 21banks, the researcher limited the study to 15 deposit money banks quoted on the Nigerian Stock Exchange.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.1 Conceptual Review**

##### **2.1.1 Goodwill**

Prior to 2001, goodwill accounting in the United State was governed by Accounting Principles Board (APB) Opinion No. 16. Under APB 16, any excess of purchase price over the fair value of the acquired firm's net assets was recognized as goodwill. Goodwill was viewed as a depreciating asset. The value of goodwill in a purchase acquisition was then amortized over a period of up to 40 years (Li, 2016). To avoid the impact of goodwill amortization expenses on earnings, many firms chose the pooling of interest acquisition method in which purchased goodwill was not recognized and amortized.

Goodwill has been controversial concept within researchers and accountants for more than decades, and generally accepted definition and accounting treatment is still not reached (Seetharaman, Sreeivasan, Sudha & Yee, 2005). Some of the researchers define goodwill as a company asset, while some argue against that and refuse to accept goodwill as an asset. Also, divergent views about the correct accounting treatment for goodwill exist between researchers. According to IAS/IFRS, an asset can be defined as a resource that a company controls and assumes to receive economic benefits in the future (IAS 38). As Bugeja & Gallery (2006) have stated, goodwill is identified as an asset by the investors. Some studies recognize goodwill as an asset and some assert the opposite (Johnson & Petrone 1998).

Company can control and own tangible and intangible assets, which can be valued and recorded. According to IAS/IFRS tangible assets can be defined as items that are used during more than one year to produce goods and services or that are being used for administrative purposes (IAS 16.6). For example special knowledge, design and implementation of new processes or systems, licenses, intellectual property and trademarks are named as intangible resources that are determined as identifiable assets which are non-monetary and do not include physical substance (IAS 38). As Vance (2010) has demonstrated, goodwill is no different than other tangible or intangible assets but is valued as an asset like any other intangible or tangible assets.

Specifically, it stated that goodwill should be tested for impairment using a two-step process. In the first step, companies compare the carrying value of the reporting unit (including goodwill) to the estimated fair value of the reporting unit. If the carrying value of the reporting unit is less than the estimated fair value of the reporting unit, no impairment in goodwill exists. If the carrying value of the reporting unit exceeds the estimated fair value of the reporting unit, companies perform the second step: to determine and recognize the amount of goodwill impairment loss, which is recorded against earnings. The impairment loss is measured as the difference between the implied value and the carrying value of goodwill. In addition, any reversals of goodwill impairment losses are prohibited (Li, 2016).

Vance (2010) opined that goodwill can usually be interpreted to other intangible assets, such as trade names, trademarks and patents. Some researchers have also considered goodwill as an asset, and contemplated the substance of goodwill. Others have stated that goodwill should not be treated as an asset. For instance, Gore & Zimmerman (2010) explain goodwill as the generated synergy, when two companies combine into one.

Goodwill will only arise from a business combination as the difference between the fair value of the purchased company and fair value of the identifiable net assets (Gore & Zimmerman 2010). Net assets are the difference between the company's assets and liabilities. If the acquired assets and assumed liabilities compose an independent business, IAS/IFRS requires that it should be treated as business combination (IFRS 3). Transaction or other can be defined as business combination if the buyer achieves the control of one or more businesses (IFRS 3, B5). Goodwill can be defined as an intangible asset, which is arisen in business combination of two companies.

Since goodwill is measured as the difference between the consideration transferred and the fair value of the net of identifiable assets and liabilities, the acquirer's estimates according to paragraphs 13 and 18 will directly influence the goodwill amount. For example, if managers of the acquiring company interpret paragraph 13 in a very narrow sense and do not recognize identifiable intangible assets or underestimate the fair value according to paragraph 18, this will lead to a larger goodwill amount, all else being equal. In turn, this affects future income

statements in that intangible assets will be amortized over useful life in accordance with IAS 38 (Intangible Assets) 2 whereas goodwill shall not be amortized but periodically tested for impairment in accordance with IAS 36 (Impairment of Assets). The IASB expected the weaker recognition criteria referred to in paragraph 13 to enhance the decision-usefulness of financial statements, in that users to a greater extent would be able to distinguish identifiable intangible assets from goodwill (IFRS 3, BC 158). One theoretical argument in support of this view is that weaker recognition criteria (and increased use of fair value measurement, p. 18) will enable managers to provide more private information to investors about the quality of the net assets acquired through the business combination (Lee, 2011). Furthermore, Wyatt (2005) and Matolcsy and Wyatt (2006) offer some empirical support for the view that investors benefit from the reporting of identifiable intangibles rather than goodwill in that the former enhances their understanding of the underlying economics of the intangible assets.<sup>3</sup> A related view is offered by Shalev (2009), who finds that preparers seek to avoid transparency in their financial reporting when the acquisition premium is to a lesser extent allocated to identifiable intangible assets. Shalev argues that this is consistent with a behaviour where acquirers downplay ‘bad news’ for investors by trying to hide overstatement of goodwill in the purchase price allocation in order to avoid amortization.

### **2.1.2 Goodwill as an Asset**

Over the years, the accounting treatment of goodwill has created great dissent between scholars and practitioners as well as standard setters and financial

statement preparers. In the accounting literature, the most enduring debates have regarded whether goodwill is an asset that can be recognized on the balance sheet, and when recognized, how it should be accounted for (Bugeja & Gallery, 2006; Qasim, Haddad & AbuGhazaleh, 2013). Whereas some opponents argue that goodwill should not be recognized as an asset both the IASB and the FASB have decided that acquired goodwill, that is, goodwill generated in a business combination, meets the definitions of an asset (Gore & Zimmerman, 2010). In order to understand the current accounting treatment of acquired goodwill – and by that the issues related to it – one must be familiar with the reasoning behind this decision and with the overall concept of goodwill.

Storå (2013) defines goodwill as “the difference between the value of a firm’s assets in entity-specific use and the value of its assets in general use”. When the entity-specific value exceeds the general use value – i.e. when the firm’s market value as a going concern is higher than the sum of the fair values of its individual assets – the firm has goodwill. This means, that the firm is able to create more value from using its assembled assets than from selling its assets individually. According to Scott (2008), goodwill exists whenever an entity is able to earn something in excess of its cost of capital on its net assets.

Storå (2013) states that there are numerous factors that enable an entity to earn an excess return on its net assets, and that thereby contribute to goodwill. The author mentions factors such as benefits from advertising, research activities and customer service, all of which create expectations of future abnormal earnings for the entity. The value attributed to reputation, good stakeholder relations and a well-trained workforce is also often described as goodwill (Seetharaman,



Sreenivasan, Sudha & Yee, 2005). In the accounting standards, this value is referred to as *internally generated goodwill* (IFRS 38.49). Since internally generated goodwill is not an identifiable resource controlled by the entity that can be reliably measured at cost, it is explicitly prohibited to be recognized as an asset (IFRS 38.49). The costs that contribute to goodwill are, instead, expensed as incurred. Although internally generated goodwill is not measurable and cannot be acquired or sold as a separate item, it can be transferred together with other assets in a business combination. In an acquisition, the purchase price provides a measure of the cost of the acquiree's internally generated goodwill, and as follows, goodwill can be capitalized. (Scott, 2008; Storå, 2013) This thesis examines the accounting treatment of such *acquired goodwill*.

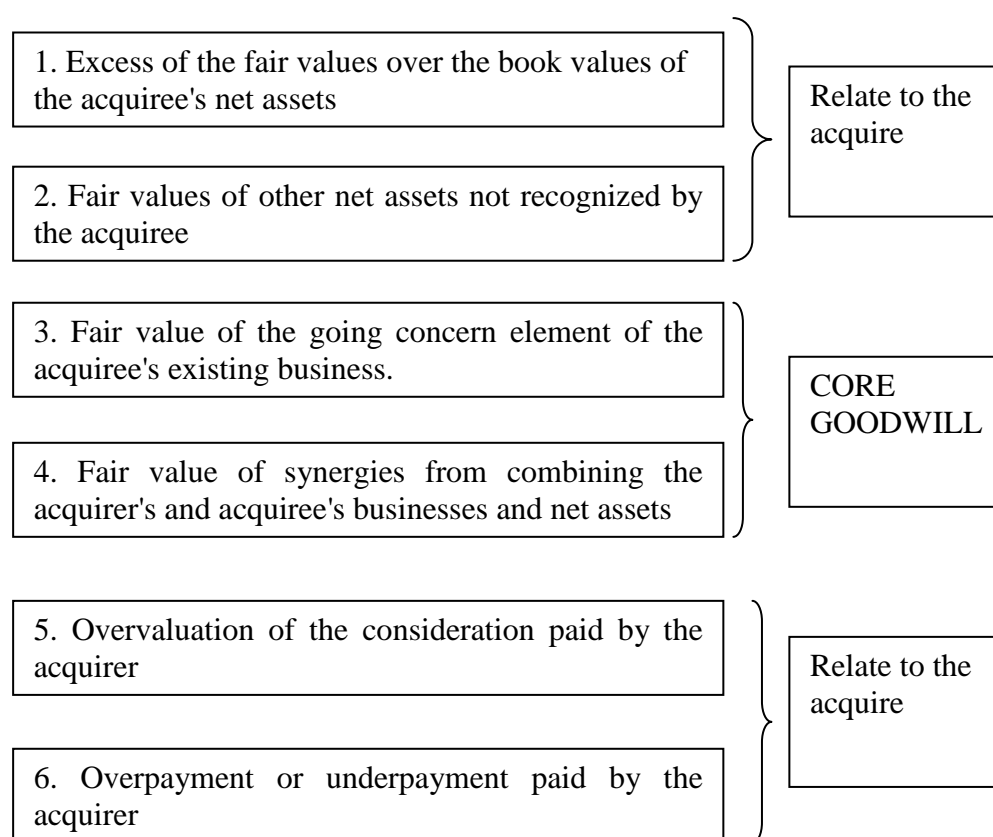
### **Acquired goodwill**

Goodwill, as a balance sheet item, is created in business combinations. When the transferred consideration, that is the purchase price, exceeds the fair value of the acquirer's identified net assets, goodwill equaling to that difference arises on the consolidated balance sheet (IFRS 3). Under the current accounting standards, goodwill is interpreted as an intangible asset that represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized (IFRS 3). Such economic benefits can either arise from synergies between the acquired identifiable assets or from assets that individually do not qualify for recognition in the financial statements (IAS 38). The standards setters have striven to retain the term goodwill as clean as possible, meaning that the goodwill asset should comprise nothing more than the going-concern element of the acquirer's existing business and

potential benefits from the synergies of the business combination (Troberg, 2013). The current view on goodwill and its accounting treatment is based on a concept of “core goodwill”, developed by Johnson and Petrone in the late 1990’s.

Johnson and Petrone (1998) present two alternative approaches to defining acquired goodwill. According to the authors, goodwill can either be viewed from a “top-down” perspective or from a “bottom-up” perspective. While goodwill under the top-down perspective is seen as a component integral to a larger asset, the bottom-up perspective views goodwill in terms of the different components it consists of. This latter perspective builds on the assumption that if an acquirer, in exchange for the acquiree’s net identifiable assets, is willing to pay a consideration that exceeds the fair value of those assets; the acquisition must also comprise other resources that are of value to the acquirer. There must in other words exist “something additional” outside the acquiree’s financial statements to explain the higher purchase price (Gore & Zimmerman, 2010). Johnson and Petrone (1998) attempt to explain this difference by identifying six components that might be included in the goodwill asset. According to the authors, the goodwill asset might comprise (1) the excess of the fair values over the book values of the acquiree’s recognized net assets; (2) the fair values of other net assets not recognized by the acquiree; (3) the fair value of the going concern element of the acquiree’s existing business; (4) the fair value of synergies from combining the acquirer’s and the acquiree’s businesses; (5) overvaluation of the consideration paid by the acquirer; and (6) overpayment by the acquirer.

Figure 1 below illustrates the six components of goodwill.



**Figure 1: The components of goodwill (according to Johnson and Petrone, 1998)**

Although components 1 and 2 are sometimes included in goodwill, the authors do not consider them to conceptually be a part of the goodwill asset. Component 1 reflects such gains on the acquiree's recognized net assets that have not been recognized by the acquiree, and should therefore be a part of those assets rather than a part of goodwill. Component 2 reflects assets that have not previously been recognized by the acquiree. Such assets might comprise various intangibles (e.g. brands and benefits from patents) that have not met the recognition criteria but could in fact be identified as separate assets (Troberg, 2013:87). Unlike components 1 and 2, components 5 and 6 are not considered as assets themselves. (Johnson & Petrone, 1998).

According to Johnson and Petrone (1998), only components 3 and 4 are conceptually a part of the goodwill asset. The authors therefore term these two components *core goodwill*. Component 3 reflects the going concern element of the acquiree's existing business. The going-concern goodwill is a pre-existing goodwill that represents the acquiree's ability to, as an established business, earn a higher return on its assembled net assets than would be expected if those assets had to be acquired separately. This value is determined by the acquiree's market value as a stand-alone business. Whereas component 3 existed prior to the business combination, component 4 did not. Component 4 represents the fair value of the synergies from combining the acquirer's and the acquiree's businesses and net assets. Such synergies might e.g. involve an increased market share, higher future sales, lower cost of capital, or cost savings from economies of scale (Gore & Zimmerman, 2010; Troberg, 2013). The value of this combination goodwill is based on the excess paid for the acquiree over its market value, and is always unique to the business combination in question. (Johnson & Petrone, 1998).

Core goodwill cannot be recognized as an asset on the consolidated balance sheet, unless it meets the general criteria that characterize an asset: (1) an asset embodies future economic benefits; (2) those benefits are controlled by an entity; and (3) the control over the future economic benefits results from a past transaction or event. To qualify for recognition, goodwill must also be relevant, reliable and measurable. Having considered goodwill in the light of these criteria, the FASB concluded that core goodwill meets the asset definition (EFRAG, 2014).

### **2.1.3 Accounting for Goodwill**

This chapter provides an overview of the current accounting treatment of acquired goodwill. In 3.1, the accumulation of goodwill under IFRS 3 is presented. In 3.2, the goodwill impairment test under IAS 36 is reviewed. Subsection 3.3 highlights the most notable differences between the IFRS and US GAAP frameworks with respect to goodwill accounting. In 3.4, some of the frequent criticism expressed towards the current impairment approach is briefly discussed (Jill, 2017).

#### **1. The accumulation of goodwill**

Under IFRS, the accounting for business combinations is regulated by IFRS 3 *Business Combinations*. The standard provides detailed guidance on the accounting and reporting requirements following business combinations. The International Accounting Standards Board (IASB) issued the standard on March 31, 2004, thereby superseding IAS 22 *Business Combinations*. A revised version of the standard was issued four years later, on January 10, 2008. The revised standard applies to business combinations for which the agreement date is on or after July 1, 2009 (EFRAG, 2014).

IFRS 3 requires entities to account for all business combinations by applying the acquisition method (IFRS 3.4). The pooling of interest method, under which the balance sheets of the combining entities were merely consolidated into one, was prohibited with the issuance of IFRS 3. When applying the pooling of interest method of accounting, the acquirer was not required to recognize the difference between the purchase price and the book value of the acquiree's assets. This meant that no goodwill was created in business combinations in which the pooling method was applied (Scott, 2008).

The acquisition method comprises the following four steps:

- (1) Identifying the acquirer;
- (2) Determining the acquisition date;
- (3) Recognizing and measuring the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; and
- (4) Recognizing and measuring goodwill or a gain from a bargain purchase. (IFRS 3.5).

The acquisition method is only applied by the acquiring entity. Using the guidance in IFRS 10 *Consolidated Financial Statements*, one of the combining entities must therefore be identified as the acquirer (IFRS 3). The acquirer is the entity that obtains control over the acquiree (IFRS 3). The circumstances under which an investor or acquirer is considered to have control over the investee or acquirer, are more precisely defined in the standard. The date on which the acquiring entity obtains control over the investee or acquirer is called the acquisition date. The acquisition date is generally the specified closing date, i.e. the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree. (IFRS 3)

When applying the acquisition method, the acquiring entity must – as of the acquisition date and separately from goodwill – recognise the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree (IFRS 3). The identified assets acquired and liabilities assumed must meet the recognition criteria in IFRS 3 at the acquisition date to qualify for recognition. Thus, only assets and liabilities that meet the definitions of assets and liabilities in the IFRS *Conceptual Framework* may be recognized as a part of applying the

acquisition method (IFRS 3). It should be noted that these assets and liabilities are not the same as those recognized in the acquirer's own financial statements. In addition, the assets and liabilities must be a part of what the acquirer and acquiree exchanged in the actual business combination (IFRS 3) and the consideration should only comprise amounts that the acquirer transferred in exchange for the acquiree (IFRS 3). The consideration transferred does not include elements such as transaction costs and should in other words not be confused with the contractual purchase price or the cost of investment (Grant Thornton International, 2011).

The accounting treatment of intangible assets acquired in a business combination is prescribed in more detail in IAS 38 *Intangible Assets*. For an intangible asset to be separable from goodwill and to individually qualify for recognition, it must be identifiable (IAS 38). An intangible asset is identifiable if it is either (a) separable or transferable from the acquiree or from other rights and obligations, or (b) arises from contractual or legal rights (IAS 38.12; IFRS 3.B32). When applying these recognition principles, the acquirer might end up recognizing assets that the acquiree itself had not previously recognized in its financial statements. Such assets are, for instance, patents and brand name and other internally developed intangible assets that had previously been expensed by the acquiree (IFRS 3).

Further, IFRS 3 requires the acquirer to measure the identifiable assets acquired and the liabilities assumed at their acquisition date fair values. IFRS 13 *Fair Value Measurement* defines fair value as “the price that would be received to sell an asset or transfer a liability in an orderly market transaction between market participants at the measurement date”. When quoted market prices are not available for identical or similar assets and liabilities, fair value must be estimated

using other valuation techniques, on which closer guidance can be found in IFRS 13.

The final step in accounting for a business combination involves the determination of either goodwill or a gain from a bargain purchase. In accordance with IFRS 3, the acquirer must recognize goodwill as of the acquisition date measured as follows:

(a) The aggregated amounts of:

(i) The consideration transferred, generally measured at fair value;

(ii) The amount of any non-controlling interest in the acquiree; and

(iii) The fair value of the acquirers' previously held equity interest in the acquiree *less* (b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill arises on the consolidated balance sheet if the aggregated amounts of (i) the transferred consideration; (ii) the non-controlling interest in the acquiree; and (iii) the acquirer's previously held equity interest in the acquiree *exceed* (b) the net of the identifiable assets acquired and the liabilities assumed. If (b) the net of the identifiable assets acquired and the liabilities assumed *exceed* the aggregated amounts in (a), the acquirer has made a bargain purchase. The gain resulting from the bargain purchase – sometimes referred to as “negative goodwill” – is not capitalized, but attributed to the acquirer and immediately recognized in profit and loss (IFRS 3). Any acquisition-related costs, such as advisory, legal and valuation fees, must be expensed in the period in which the costs have incurred (IFRS 3.53).



### 2.1.3.1 Testing goodwill for impairment

Acquired goodwill is regularly tested for impairment in accordance with IAS 36 *Impairment of Assets*. The standard prescribes the procedures that an entity must apply to ensure that its assets are carried at no more than their recoverable amounts (IAS 36.1). The revised standard applies to goodwill and other intangible assets acquired in business combinations for which the agreement date is on or after March 31, 2004.

The IAS 36 impairment test comprises the following four steps:

- (1) Identifying the cash-generating units;
- (2) Allocating all identifiable assets, including goodwill, to the cash-generating units;
- (3) Determining the carrying (*book value*) and the recoverable amounts (*value in use*) of the cash-generating units and testing goodwill for impairment by comparing the carrying amounts to the recoverable amounts; and
- (4) If impairment is at hand, recognizing an impairment loss. (Troberg, 2013)

Goodwill is an asset that does not generate cash flows independently of other assets or groups of assets. Instead, representing the future economic benefits arising from other assets, it contributes to the cash flows of individual or multiple cash-generating units. (IAS 36; Grant Thornton, 2014) For the purpose of impairment testing, goodwill acquired in a business combination must be allocated to each of the acquirer's individual cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination (IAS 36.80). IAS 36.6 defines a cash-generating unit as the smallest identifiable group of assets that generates cash inflows that are largely

independent of the cash inflows from other assets or groups of assets. Depending on the operational structure of the entity, a cash-generating unit could for instance be a division, a geographic location, a product line or a legal entity (IAS 36.69; Grant Thornton, 2014). Further, the cash-generating units must represent the lowest level within the entity at which goodwill can be monitored for internal management purposes, and must not be larger than an operating segment (IAS 36). Entities are under IAS 36 required to perform regular impairment tests on all of the cash-generating units, or groups of cash-generating units, to which goodwill has been allocated. A cash-generating unit is tested for impairment by comparing the carrying amount of the unit, including the goodwill, to its recoverable amount (IAS 36). The annual impairment test can be performed at any chosen time during the annual period, provided that the test is performed consistently at the same time every year. Different cash-generating units may also be tested at different times independently of each other. However, the cash-generating unit must be tested for impairment before the end of the current annual period when some or all of the goodwill allocated to it has been acquired in a business combination during the current period (IAS 36.96). In addition to the annual impairment test, a cash-generating unit containing goodwill must be tested for impairment whenever there is an indication that the unit might be impaired. IAS 36.12 provides a non-exhaustive list of external and internal information sources that the entity, at a minimum, should consider when assessing indications of impairment. Such information sources could e.g. reveal that an asset's economic performance is worse than expected, that significant negative changes have taken place in the entity's technological legal environment, or that market interest rates or rates of

returns on investments have increased. Another indication of impairment is that the carrying amount of the entity's net assets is higher than its market capitalization (IAS 36.12d).

In order to determine whether a cash-generating unit is impaired, the recoverable amount of that unit must be established. The recoverable amount of a cash-generating unit is defined as the higher of (a) its fair value less cost to sell, and (b) its value in use. Value in use represents the present value of the expected future cash flows of the cash-generating unit. (IAS 36.6) Since there most often are no active markets for cash-generating units, based on which a reliable estimate of the unit's fair value less cost to sell could be made, entities often use the unit's value in use as its recoverable amount (Troberg, 2013) Estimating the value in use of a cash-generating unit involves (a) estimating the future cash in- and outflows to be derived from continuing use of the asset and from its ultimate disposal; and (b) applying an appropriate discount rate to these cash flows. (IAS 36.31) As a measure, value in use differs from the market-based fair value in the sense that it reflects the particular entity's intentions as to how the asset or assets in question will be used (Grant Thornton, 2014).

The cash flow estimates that the entity uses when measuring value in use should be based on "reasonable and supportable assumptions that represent management's best estimates of the range of economic conditions that will exist over the remaining useful life of the asset" (IAS 36). These future cash flows must then be discounted using a pre-tax discount rate that reflects the current market assessments of both the time value of money and the risks specific to the asset (IAS 36). In practice, the discount rate is oftentimes determined as the asset's or

the unit's weighted average cost of capital (Saastamoinen & Pajunen, 2016). Since determining the recoverable amount of each cash-generating unit can be both time-consuming and complicated, entities are under certain circumstances allowed to use the most recent detailed recoverable amount calculations made in a preceding period when testing a unit to which goodwill has been allocated for impairment (IAS 36).

If the estimated recoverable amount of the tested cash-generating unit or group of cash-generating units *exceeds* its carrying amount, no impairment is at hand. If, and only if, the carrying amount of the cash-generating unit or group of cash-generating units exceeds its recoverable amount, an impairment loss equal to that difference must be recognized for the unit or group of units in question. (IAS 36.104)

The impairment loss is first allocated to reduce the book value of the goodwill allocated to the cash-generating unit or group of cash-generating units. Then, if the impairment loss is greater than the total amount of allocated goodwill, the remaining loss is allocated to reduce the book values of the other assets of the unit or group of units on a *pro rata* basis. (IAS 36) In order to prevent a loss assigned to a particular asset from being excessive or disproportionate, IAS 36.106 specifically states that when allocating the impairment loss, the carrying amount of an asset must not be reduced below the highest of (a) its fair value less cost to sell; (b) its value in use; and (c) zero (Haaramo, 2012). The reductions made in the assets' carrying amounts must be treated as impairment losses on individual assets and immediately recognized as losses in the income statement (IAS 36.104; 60).

Although IAS 36 requires impairment losses of assets other than goodwill to be reversed if the recoverable amount of these assets has increased, an impairment loss recognized for goodwill is *always* irreversible. It is not, in other words, under any circumstances possible to reverse a goodwill impairment loss in a subsequent period (IAS 36). Reversing an impairment loss recognized in a previous interim period is also prohibited (IFRIC 10). A subsequent increase in the recoverable amount of goodwill is considered to be an increase in internally generated goodwill, which, as discussed above, does not meet the recognition criteria in IAS 38 and must therefore not be recognized as an asset (IFRS 36).

Since the outcome of the impairment test to a great extent relies on projections made by the management, the IASB has also included rather extensive disclosure requirements in the standard regarding the impairment test. Such extensive disclosure is expected to improve the transparency and reliability of the impairment test, to decrease the scope of misleading information and alleviate possible problems associated with information asymmetry (IASB, 2008; Iatridis and Senftlechner, 2013; Saastamoinen and Pajunen, 2016).

### **2.1.3.2 Criticism towards the current impairment approach**

Ever since its introduction, the current approach to goodwill accounting has endured a great amount of criticism in the accounting literature. In addition to academics, also other non-preparers, such as auditors (Pajunen and Saastamoinen, 2013), regulatory oversight bodies and even members<sup>4</sup> of the standard setters themselves, have expressed their concerns towards the intricacy and costliness of the impairment test – and in particular, towards the subsequent credibility and

reliability of accounting information. (Qasim *et al.*, 2013) Unconvinced about the argued advantages of the current impairment approach, some academics (Saastamoinen and Pajunen, 2016; Storå, 2013; Troberg, 2013:101) have even suggested the reintroduction of systematic amortization.

One of the issues that arise from the current approach is the post-acquisition blending of internally generated and acquired goodwill. When conducting the impairment test, it is impossible to determine whether the goodwill included in the fair value measurement has been created in a business combination or through internal efforts. When a CGU to which goodwill is allocated generates goodwill internally, this new goodwill might thus compensate for value decreases in the old goodwill asset – meaning that goodwill impairments remain unrecognized and that internally generated goodwill is indirectly recognized as an asset (Troberg, 2013:99-101) Seetharaman *et al.* (2004) further argue that the inconsistencies in the accounting treatment of internally generated and acquired goodwill is likely to reduce the overall comparability between the financial statements of companies that have grown organically and companies that have grown through mergers and acquisitions.

Another more fundamental point of criticism concerns the way in which goodwill is valued. Even though fair value accounting may in many aspects be seen to have advantages over the historical cost alternative, the increasing emphasis on relevance has been argued to create tensions with respect to the *reliability* of accounting information (Bens, Heltzer & Segal, 2011). According to Lhaopadchan (2010), the benefits of fair value measurements are particularly reduced in situations where assets are not actively traded or when they are hard to separately

identify. As Lhaopadchan (2010) adds, this clearly is the case with acquired goodwill. What further complicates the accurate valuation of the goodwill asset is the vagueness of the accounting standards: according to IAS 36.33, the cash flow estimates used in the valuation should be based on “reasonable and supportable assumptions” representing “management’s best estimates” of future economic conditions. When then conducting the impairment test, the management is required to make a number of choices, many of which are not only decisive for current but also for future impairments. Watts (2003) even argues that “because those future cash flows are unlikely to be verifiable and contractible, they, and valuation based on them, are likely to be manipulated.” As will be seen in the following chapter, this concern has been validated in a number of empirical studies.

#### **2.1.4 Goodwill Valuation Approaches, Methods, and Procedures**

Robert (2015) stated different types of goodwill, including (1) business or institutional goodwill and (2) personal or professional goodwill. Financial advisers are often asked to value these different types of goodwill for transaction, taxation, financial accounting, litigation, and other purposes. This discussion describes the various components of goodwill and the various reasons why independent financial advisers may be asked to value goodwill.

Financial advisers are often asked to value goodwill within a corporate transaction environment. These goodwill valuations may be performed in the due diligence phase of the corporate transaction for transaction pricing and structuring purposes.

These goodwill valuations may be performed in the consummation phase of the

corporate transaction—as part of the preparation of a transaction fairness opinion or solvency opinion. And, these goodwill valuations may be performed within the controversy phase of the corporate transaction—to defend against dissenting shareholder appraisal rights claims or claims that the corporate transaction involved a fraudulent transfer.

### **Goodwill Valuation Methods**

Goodwill is a type of intangible asset — that is to say, an asset that is non-physical, and is often difficult to value. Along with goodwill, these types of assets can include intellectual property, brand names, location and a host of other factors. Goodwill refers to a premium over the fair market value of a company that a purchaser pays, and this premium can often be attributed to intangible items like reputation, future growth, brand recognition, or human capital. It is the portion of a business's value that cannot be attributed to other business assets. The methods of calculating goodwill can all be used to justify the market value of a business that is greater than the accounting value on a company's books. While there are many different ways to calculate goodwill, income-based methods are the most common. Keep in mind that goodwill exists only when a buyer pays more for an asset than the asset is worth, not before.

#### **1. Calculating Goodwill Using Average Profits**

*Understand how the average profits method is applied.* Under this method, Goodwill is equal to the average profits for a set time period, multiplied by the



number of years. This is the simplest and the most common method to calculate goodwill.

To summarize the formula:  $\text{Goodwill} = \text{Average Profits} \times \text{Number of Years}$ .

For example, if you used the average annual profits of the years 2010-14, you would multiply the average by 5.

***Adjust the numbers before you make the calculations.*** Make sure that you make the following adjustments before computing average profits:

Any abnormal profits should be deducted from the net profits in the year that they were earned.

Any abnormal losses should be added back to the net profits in the year they were incurred.

Non-operating incomes (e.g., income from investments) should be deducted from the net profits of the year that they were earned.

***Let's say there was a company that had these profits (in the associated years):***

2010: ₦200,000; 2011: ₦220,000; 2012: ₦190,000; 2013: ₦210,000. You would first add these numbers together to get ₦820,000.

Divide the sum (₦820,000) by the number of years, which in this case is four. The result is the average. In this case, the average profits equals ₦205,000.

As Goodwill is equal to the average profit over a given span of years multiplied by the number of years, Goodwill would equal ₦820,000. In this case, Goodwill was

really just the aggregated total of profits from the given years. In the real world, abnormal costs and profits would have altered the result.

## **2. Calculating Goodwill Using Super Profits**

***Establish your average profits.*** For this method, you will need to understand what your average profits from previous years are. Add together the profits of previous years, and divide by the total number of years. For example, you may have earned ₦200,000 in 2010, ₦220,000 in 2011, ₦190,000 in 2012, and ₦210,000 in 2013. Add these all up to get ₦820,000 and divide by four years. You will get ₦205,000, which is the average profit.

***Subtract your average profits from your actual profits.*** Super profits are the profits earned above the average profits. To learn what your super profits are, take this year's actual profits and subtract your average profits from them. For example, let's say the average profit for your business is ₦200,000. In one year you earned a net profit of ₦230,000. The excess of profits earned over the average profits — the super profit — is ₦30,000.

***Learn the super profits formula for goodwill.*** For calculating goodwill, the total super profits of a given number of years are multiplied by the agreed number of years of purchase. Put another way —  $\text{Goodwill} = \text{Super Profits} \times \text{Number of Years}$ . Let's say average profits had been ₦200,000, but the actual actual profits in a four year span were: 2010: ₦210,000; 2011: ₦230,000; 2012: ₦210,000; 2013: ₦200,000.

The super profits for each year are calculated by subtracting the average profit from the actual profit. For 2010, the super profit is 10,000; for 2011 it is 30,000, etc. The yearly super profits are then added together. For this example, you end up with  $\text{₦}10,000 + \text{₦}30,000 + \text{₦}10,000 + 0 = \text{₦}50,000$ .

Finally, the total super profit is multiplied by the number of years. In this case,  $\text{Goodwill} = \text{₦}50,000 \times 4$  or  $\text{₦}200,000$ .

***Add the Goodwill to the fair market value of the business.*** In this case, Goodwill would be reflective of a company/s ability to earn more than its average profits. By adding the super profits to the fair market value of the business, your purchase price reflects a company's earnings power.

### **3. Calculating Goodwill Using Capitalization of Profits**

***Understand the capitalization method.*** This method starts with the results of one of the other two methods. Beginning with average or super profits, the capitalization method determines how much capital is needed to produce those average or super profits, assuming the business earns a normal rate of return for the particular industry. This amount of capital is known as the capitalized value of profits, and the excess of this figure over the total capital employed can be considered goodwill.

***Calculate total capital employed.*** To find the capital employed, simply subtract the liabilities from the assets. It can also be represented as:  $\text{Capital Employed} = \text{Assets} - \text{Liabilities}$ .

**Learn how to calculate capitalized value of profits.** In order to use the capitalization method, you must know how to calculate the capitalized value of profits.

In order to find the capitalized value of profits, you must first multiply the average or super profit by 100 (either one works). The total must then be divided by the normal rate of return. The formula can also be represented as: Capitalized Value of Average/Super Profits = Average/Super Profits X (100 / Normal Rate of Return). This formula calculates how much capital is required to earn the average or super profits of the business, assuming it made a normal rate of return.

**Calculate goodwill.** Simply subtract capital employed from step 2, from capitalized value of average or super profits. The formula looks like this: Goodwill = Capitalized Value of Average/Super Profits - Capital Employed.

Consider an example. Let's say that firm has average profits of ₦40,000, in an industry where the normal rate of return is 10%. The firm also has ₦1,000,000 in assets and ₦500,000 in liabilities. The total capitalized value of the firm is  $₦40,000 \times 100/10$ , which is equal to ₦400,000. The capital employed = ₦1,000,000 – ₦700,000, which leaves ₦300,000. Finally, goodwill is equal to capitalized value of profits minus the capital employed, or ₦400,000 – ₦300,000. The goodwill is ₦100,000.

With this method, goodwill is reflective of the difference between the rate of return of the business in question, and the normal rate of return. For example, in this scenario, the business would earn a 13% return on capital employed (₦40,000/₦300,000). The normal return, however, is 10%. This method simply

takes that 3% premium, and "capitalizes" it, or determines how much capital employed would be required to produce that ₦40,000 return based on a 10% normal return. In this case, it would require ₦400,000, or ₦100,000 more than the actual fair value of the businesses assets. This ₦100,000 could be added to the fair value of the business when selling or purchasing it, as a reflection of the company's strong returns.

#### **2.1.4.1 Goodwill Components**

There are many interpretations of goodwill. These interpretations are generally grouped into two categories: residual interpretations and income interpretations. While income interpretations may be more common, financial advisers should be familiar with both categories of interpretations. Both interpretations agree on the components of (or the factors that create) goodwill and the types of goodwill (or situations in which goodwill arises).

There are three principal components of goodwill. Financial advisers consider these three components as either (1) the factors that create goodwill or (2) the reasons why goodwill exists in certain circumstances. The first and third components primarily relate to business goodwill. And, the second component relates to both business goodwill and personal goodwill.

The first goodwill component is the existence of operating business assets that are in place and ready to use. This component is sometimes referred to as the going-concern element of goodwill. The fact that all of the elements of a business enterprise are physically and functionally assembled creates intangible value.

These business enterprise elements include capital (e.g., equipment), labor (e.g., employees), and coordination (e.g., management).

Some financial advisers identify and measure this going-concern value as a separate intangible asset of a business. This separate identification may be appropriate for certain taxation or forensic analysis purposes (Robert, 2015).

Other financial advisers measure going-concern value as one component of the entity's business goodwill. This aggregate identification is appropriate for purposes of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, Business Combinations, and fair value accounting for business combinations. Either identification procedure may be appropriate depending on the purpose and objective of the goodwill analysis.

The second goodwill component is the existence of excess income (however measured). For a business entity, excess income is income generated by the entity that is greater than the amount needed to provide a fair rate of return on all of the entity's tangible assets and identifiable intangible assets.

This excess income component relates to the concept of goodwill as that portion of business enterprise value that cannot be specifically assigned to the entity's tangible assets or identifiable intangible assets. For an individual (e.g., professional practitioner, athlete, celebrity), excess income is the income generated by the individual that is greater than the amount that would be expected to be accrued by a comparably skilled individual working in comparable circumstances.

The third goodwill component is the expectation of future events that are not directly related to the entity's current operations. Goodwill may be created by the expectations of future capital expenditures, future mergers and acquisitions, future to-be-developed products or services, and future customers or clients. This future expectations component relates to the concept of goodwill as the current value of future assets (both tangible and intangible) that do not yet exist on the analysis date.

#### **2.1.4.2 The Residual Interpretation of Goodwill**

Under generally accepted accounting principles, the goodwill that an entity develops in the normal course of business is rarely recorded on the entity's financial statements. And, the accounting recognition for internally created goodwill is different than the accounting recognition for purchased goodwill.

Accountants often use a fairly broad definition of goodwill. This broad interpretation of goodwill is the residual value that is calculated by subtracting the fair value of all the acquired tangible and identifiable intangible assets from the acquired entity's total purchase price.

Sometimes this goodwill definition collectively quantifies all of the intangible value of the acquired company. This is the case when all of the identifiable intangible assets are not adequately identified and valued. This collective goodwill valuation may occur when the fair values of the individual identifiable intangible assets are immaterial compared to the total business purchase price. In this circumstance, this residual definition of goodwill may capture the total

intangible value of the acquired business entity, with little consideration of the identifiable intangible assets (Robert, 2015).

#### **2.1.4.3 The Income Interpretation of Goodwill**

The income interpretation of goodwill may be more conceptually robust than the residual interpretation of goodwill. As a result, the income interpretation of goodwill may be more useful to the financial adviser who is interested in the valuation of the entity's discrete goodwill—as opposed to the valuation of the entity's total intangible value.

First, the financial adviser typically quantifies all of the income of the entity. For purposes of this excess income analysis, income can be measured many different ways. The only requirement is that the measure of income is calculated on a basis consistent with the measure of the fair rate of return on the entity's operating assets.

Second, the financial adviser typically allocates (or assigns) some portion of this total income to each tangible and intangible asset category that contribute to the income production. These asset categories typically include working capital, tangible personal property, real estate, and identifiable intangible assets. This allocation of the entity's income is typically based on a fair rate of return on the asset category multiplied by the value of the asset category.

Third, the financial adviser typically quantifies the portion of the entity's income that cannot be associated with any other tangible or intangible asset. That residual income is often called excess income (or excess earnings). This excess income is then assigned to goodwill.



Fourth, goodwill value is typically quantified as this amount of excess income capitalized as an annuity in perpetuity. The excess income is capitalized by a risk-adjusted and growth-adjusted direct capitalization rate. The results of this direct capitalization procedure indicates the goodwill value.

### **2.1.5 Recording Goodwill**

**Internally Created Goodwill:** Goodwill generated internally should not be capitalized in the accounts, because measuring the components of goodwill is simply too complex and associating any costs with future benefits too difficult. The future benefits of goodwill may have no relationship to the costs incurred in the development of that goodwill. To add to the mystery, goodwill may even exist in the absence of specific costs to develop it. In addition, because no objective transaction with outside parties has taken place, a great deal of subjectivity—even misrepresentation—might be involved (Hellman, Andersson & Emelie, 2015).

**Purchased Goodwill:** Goodwill is recorded only when an entire business is purchased, because goodwill is a “going concern” valuation and cannot be separated from the business as a whole. To record goodwill, the fair market value of the net tangible and identifiable intangible assets is compared with the purchase price of the acquired business.

The difference is considered goodwill, which is why goodwill is sometimes referred to as a “plug,” or “gap filler,” or “master valuation” account. Goodwill is the residual: the excess of cost over fair value of the identifiable net assets acquired.

**Goodwill Write-off:** Goodwill acquired in a business combination is considered to have an indefinite life and therefore should not be amortized. The Board's position is that investors find the amortization charge of little use in evaluating financial performance. In addition, although goodwill may decrease over time, predicting the actual life of goodwill and an appropriate pattern of amortization is extremely difficult.

On the other hand, knowing the amount invested in goodwill is important to the investment community. Therefore, income statements are not charged unless goodwill has been impaired. This approach will have a significant impact on the income statements of some companies because goodwill often is the largest intangible asset on a company's balance sheet. Prior to the new IASB standard, companies were required to amortize this intangible (Hellman, Andersson & Emelie, 2015).

Some believe that goodwill's value eventually disappears and therefore that goodwill should be charged to expense over the periods affected. Amortizing goodwill, they argue, provides a better matching of expense with revenues. Others note that the accounting treatment for purchased goodwill and goodwill created internally should be consistent. Goodwill created internally is immediately expensed and does not appear as an asset; the same treatment, they argue, should be accorded purchased goodwill. Even though these arguments may have some merit, the FASB decided that no amortization of goodwill combined with an adequate impairment test provides the most useful financial information to the investment community.

## **Negative Goodwill—Bad will**

Negative goodwill arises when the fair value of the assets acquired is higher than the purchase price of the assets. This situation is a result of market imperfection, because the seller would be better off to sell the assets individually than in total. However, situations do occur in which the purchase price is less than the value of the net identifiable assets and therefore a credit develops. This credit is referred to as negative goodwill or, alternatively, as excess of fair value over the cost acquired, bad will, or bargain purchase.

The IASB requires that this remaining excess be recognized as an extraordinary gain. The Board noted that extraordinary gain treatment is appropriate in order to highlight the fact that an excess exists and to reflect the unusual nature and infrequent occurrence of the item. Some disagree with the approach, as it results in a gain at the time of the purchase. However, it appears that the Board took a practical approach, given that this transaction rarely occurs.

### **2.1.6 Goodwill impairment**

According to IAS/IFRS recognized goodwill is the difference between the acquisition-date fair value and the net identifiable assets, and is recorded on the balance sheet. Goodwill and the cash-generating unit it has been allocated, should be tested for impairment annually or frequently if there is an indication for impairment (IAS ). Impairment testing aims to examine whether the book value of an asset or cash-generating unit has declined. IAS/IFRS explains an impairment loss as the amount by which the carrying amount of an asset surpasses its recoverable amount, which is the higher of the following: an asset's fair value less

costs to sell and its value in use (IAS 16). According to the IAS 16, carrying amount can be defined as “the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses” (IAS 16.6). Giancomino and Akers (2009) explain that the objective of impairment testing is to find out whether the premium paid in business combination is yet appropriate or is goodwill impairment needed as an indicator of the overpayment. Goodwill impairment is usually seen as decrease in expected profits, whereas goodwill presents the positive future profits. Hirschey and Richardson (2003) studied goodwill and its information content, and they discovered that goodwill impairment typically causes 2-3 % reduction in stock price. They suggest that the negative effects of goodwill impairment embody the connection between accounting numbers and market value. Negative stock price reactions related to goodwill write-off decisions are significant indicators of changes in intangible assets (Hirschey & Richardson 2003). There are several reasons for goodwill impairments. Gore and Zimmerman (2010) explain that prior to the financial crisis; companies grew through acquisitions due to the available cheap loans, which sometimes resulted as an overpayment of the target company. Many difficulties exist related to the measurement of goodwill impairment.

Seetharaman, et al. (2005) emphasize that the valuation of goodwill write-off is controversial and complex, where comprehensive understanding of tangible and intangible asset valuation methodology and purchase price allocation is needed. IAS/IFRS recognizes external and internal sources of information, which are the two types of indicators identifying for assets that may be impaired (IAS 36). External factors include the declined market value of an asset during the period,

significant harmful changes in the market environment that have taken place during the period or that will take place in the near future, increased market interest rates or other market rates of return on investments that likely affect the discount rates and the carrying amount of the net assets is more than its market capitalization. Internal sources of information contains for example the obsolescence or physical damage of an asset, significant changes that have taken place during the period or are expected to take place, which will reform the way an asset is used or is expected to be used and indicators that show that the economic performance of an asset is, or will be, worse than expected.

#### **2.1.6.1 Goodwill impairment accounting rules on IFRS**

The IAS 36 standard is about the impairment accounting of assets and the objective is to ensure that “-- assets are carried at no more than their recoverable amount” (IAS 36.1). An asset can be defined as impaired if its carrying amount exceeds its recoverable amount, which is either the asset’s fair value less costs to sell or its value in use if the latter is higher (IAS 36.8 & IAS 16.6). The value in use of an asset is the present value of the future cash flows expected to be derived from an asset, which also includes choosing the appropriate discount rate for the future cash flows (IAS 36.6 & 36.30). According to IAS/IFRS, fair value less costs to sell is the amount available from the sale of an asset less costs of disposal (IAS 36)

Impairment loss should be recorded if the carrying amount of an asset or a cash-generating unit is more than its recoverable amount (IAS 36). Cash generating unit can be defined as the smallest identifiable group of assets identified consistently

that generate cash inflows and that are mostly independent of the other assets' or groups of assets' cash inflows (IAS 36 & 36). Goodwill should be allocated to the cash-generating units, because it does not generate cash flows independently of other assets or groups of assets and is often allocated to multiple cash-generating units (IAS 36). According to the IAS/IFRS, two different methods exist for impairment testing, which are the fair value less costs to sell and the value in use. If either of the amounts mentioned above exceeds the carrying amount of an asset, the asset is not impaired and the evaluation of the other amount is not necessary (IAS 36). If the estimation of the recoverable amount of the individual asset is impossible, a company should evaluate the recoverable amount of the cash-generating unit to which the asset belongs (IAS 36). As of the acquisition date, goodwill should be allocated to the cash generating units, or groups of cash-generating units in order to accomplish impairment testing. The chosen cash-generating units are expected to gain from the synergies of the business combination (IAS 36.80.) The cash-generating unit or group of units should embody the lowest level at which goodwill is monitored for internal management purposes and not to be greater than an operating segment as defined by IFRS 8 Operating Segments (IAS 36). Bloom (2009) criticizes the current goodwill impairment system and notes that allocating goodwill to cash-generating units is not unambiguous.

Sometimes goodwill can be only allocated to groups of cash-generating units rather than to individual cash-generating units (IAS 36.81). Also if the organization changes the composition of the cash-generating units goodwill has been allocated, goodwill should be reallocated to the units (IAS 36.87). Huikku

and Silvola (2012b) state that changes in organization structure can result as an impairment loss. On the other hand, organizational changes can prevent impairment of assets (Huikku & Silvola 2012a). The cash-generating units should be tested annually or frequently, if any indications for unit impairment are detected (IAS 36.90). The annual testing can be completed any time during an annual period, but it should be at the same time every year. Different cash generating units do not need to be tested simultaneously. Nevertheless, the cash-generating unit should be tested before the end of the annual period, if the goodwill allocated to the unit was acquired during the period in a business combination (IAS 36).

Johnson and Petrone (1998) explain that goodwill can be considered from either of two different perspectives, which are “top-down perspective” and “bottom-up perspective”. The former defines goodwill as a component or subset of something larger, which represents the future earnings from the business combination. Latter perspective determines that goodwill is the sum of the components and is the premium paid over the book value of the net assets of the purchased company (Johnson & Petrone 1998). The IAS/IFRS practice is an illustration of the bottom-up perspective made by Johnson & Petrone, because according to the IFRS 3 goodwill can be defined as an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

According to the bottom-up perspective, the acquirer presumes to gain resources that have value through business combination in addition to the net identifiable assets of the purchased company. The components of goodwill can be divided as follows:

- i. Excess of the fair values over the book values of the acquirer's recognized net assets"
- ii. Fair values of other net assets not recognized by the acquire
- iii. Fair value of the "going concern" element of the acquirer's existing business
- iv. Fair value of synergies from combining the acquirer's and acquirer's businesses and net assets
- v. Overvaluation of the consideration paid by the acquirer"
- vi. And the "overpayment (or underpayment) by the acquirer"
- vii. If all of the components mentioned were included in goodwill, it would represent the purchase premium and the top down perspective, not the bottom-up perspective (Johnson & Petrone 1998.)

Even though components 1 and 2 as well as 5 and 6 can sometimes be interpreted as a part of goodwill, Johnson & Petrone (1998) state that the core goodwill is formed by components 3 and 4. Going concern element of the existing business of the purchased company and the fair value of synergies deriving from the business combination are the only ones that are part of the goodwill. Also, the study of Henning, Lewis and Shaw (2000) shows similar results with the core goodwill view of Johnson and Petrone (1998) that the market values the going concern component and the synergy component of goodwill. Moreover, both of the



components are significantly positively related to the market value of a company. They also found that investors do not value the residual component of goodwill as an asset and will likely write off the portion of the residual during the year of the business combination (Henning et al. 2000.) Regardless of criticism, other components apart from the core goodwill may be also included to goodwill, because of the difficulties in measurement technologies, recognizing the gains and losses on purchase transactions or defining fair values (Johnson & Petrone 1998).

According to the IAS/IFRS, the recognized goodwill is the excess of the acquisition-date fair value and the amount of any non-controlling interest of the purchased company over the net of the acquisition-date amounts of the identifiable assets and liabilities (IFRS 3.32). Many researchers have reached consensus that goodwill is the excess price paid over the net identifiable assets of the purchased company (e.g. Gore & Zimmerman 2010; Vance 2010). Despite the consensus of goodwill, some have criticized the definition of the net assets. For example, Seetharaman et al. (2004) have argued that the explanation for net identifiable assets may not be relevant in the future, because of the significant changes in companies' assets and the increasing amount of intangible assets. Furthermore, consumer preferences change even faster and demand for new products grow, which will make the goodwill based on intangibles worthless (Seetharaman et al. 2004). Goodwill can be calculated as the sum of the intangible assets such as special skills and knowledge, high managerial ability, monopolistic situation, business connections, trade names and good reputation and others. The problem is that all of the intangibles cannot be identified and the net values of the identified intangible assets are disputable.

### **2.1.7 Goodwill value relevance and profitability**

In addition to investigating the relation between the market value of a company and goodwill, researchers have studied the market reactions for acquisitions and the relation between recorded goodwill and economic performance (Lys et al. 2012; Vance 2010). For example, Vance (2010) researched the goodwill contribution to performance and investigated whether the contribution of goodwill is measurable and the variation of contribution between different industries. Moreover, Lys et al. (2012) focused on examining the nature of accounting goodwill as an asset and stated that goodwill provides future economic benefits.

Vance (2010) defined the measurement of goodwill contribution to performance as difficult, because of the residual nature of goodwill. His aim was to examine whether goodwill contributes to performance and analyze the divergence between different industries. Previous studies (e.g. Jennings et al. 1996; McCarthy & Schneider 1995) indicated that goodwill is valued as high as other assets by the market, except in the manufacturing industry. Vance (2010) presented some criticism regarding to goodwill capitalization. Yet, he stated that goodwill should be treated as a rent-generating asset, if goodwill contributes to profitability. Vance (2010) studied the goodwill contribution to performance by investigating return on assets (ROA) in US companies with goodwill and without booked goodwill during a ten-year period in 1995-2004. The dependent variable tested was ROA defined as operating income before depreciation and amortization scaled by average assets, while the independent variables included industry, companies with goodwill, companies without goodwill and with high goodwill. Then, the mean and standard deviation of ROA were calculated by the independent variables and

tested for statistically significant differences. As a result, Vance (2010) concludes that goodwill can be interpreted as a rent-generating asset and that on average companies with goodwill performed at least as well as companies without goodwill. Also, he found that most of the companies with a high amount of booked goodwill performed at least as well as companies without goodwill. Furthermore, the rate of return on assets varied between different industries. (Vance 2010.) In addition to Vance (2010), Lys et al. (2012) also studied goodwill from the perspective of the contribution of goodwill to performance. Lys et al. (2012) examined if goodwill provides future economic benefits to the combined company. They studied US companies that had acquired majority interest during a five-year period in 2002-2005. The basis of their research related to three streams of prior studies, which included for example examining the relation between the acquisition goodwill and both the valuation implications and the information content of goodwill write-offs. The second stream of studies included the research focused on the valuation implications of components of goodwill. The third viewpoint expanded the perspective to investigating the valuation implications of goodwill impairment charges and considering whether or not goodwill is an asset. Lys, Vincent and Yehuda (2012) questioned the consistent results indicating that goodwill is regarded as an asset by the investors, because of the inadequate connection between accounting goodwill and economic profit. They studied the correlations between recognized accounting goodwill and expected economic profit or loss from the transaction and found a positive correlation with recognized goodwill only when there was an expected economic profit. Also, they found a negative correlation between transactions with expected economic losses and

future company performance. Moreover, they concluded that recognized accounting goodwill and the expected economic loss are both connected to the future impairment charges. Lys et al. (2012) argue that companies with an expected economic loss from the business combination should write down the goodwill, because mostly it does not present an asset.

### **2.1.8 The Origin of IFRS Adoption in Nigeria**

It is generally believed that accounting history can be traced to Luca Pacioli in 1494, however, the history of accounting dates back to period before the advent of the concept of money which is before Luca Pacioli Era (Jayeoba & Ajibade, 2016). Although, the formal book keeping and accounting process was first documented by Luca Pacioli in 1494. The evidence of accounting's existence before the advent of the concept of money was supported by archaeologists and historians who discovered the oldest city of Jericho as a trade centre for salt. It was evidenced in this city that no complete accounting was there but the artifacts revealed remains of a temple priest taking inventory of the village livestock using tokens to keep track of the herd size and count the grain harvest (Mattessich, 1989). Through fossils and records discovered not only in Jericho but other parts of the world, it can be concluded that before men knew the concept of money, the process of stewardship was known.

The move for the adoption of IFRS in Nigeria started 2010 following the Federal Executive Council's approval of the road map for the adoption of the standards. This was followed with the enactment of Financial Regulation Council of Nigeria

Act in 2011 which led to the transformation of the NASB to Financial Regulation Council (FRC). The FRC among other things is charged with the responsibility of implementing the roadmap for the adoption of IFRS in Nigeria.

Sani and Umar (2014) stated that to allow for effective implementation of IFRS adoption in Nigeria, the former regulatory body in charge of monitoring the reporting system was in 2011 restructured from Nigerian Accounting Standards Board (NASB) to Financial Reporting Council of Nigeria (FRC). Financial Reporting Council of Nigeria is now the body corporate solely responsible for the issuance, monitoring and review of Accounting and Auditing Standards in Nigeria. The council is empowered under section 52(1) of the Act to adopt and keep up-to-date accounting and auditing standards, and ensure consistency between Standards issued under International Financial Reporting Standards as provided under Part VII of FRC Act 2011 which dealt with review and monitoring of standards. The major developments that facilitated the enactment of FRCN Act No 6, 2011 was the Federal Executive Council approval to adopt IFRS as the reporting framework for publicly listed entities by 2012 in Nigeria (Latifat, 2015).

The strategic attribute is a major material for IFRS adoption, Nigeria is situated in Western Africa, bordering the Gulf of Guinea, between Benin and Cameroon. It has an estimated population of over 175 million; it has the largest market for goods and services in Africa. Its gross domestic product (purchasing power parity) is N444.3 billion (2012 est) Fact book (2014). It has an active Nigerian Stock Exchange which has 257 listed companies with a combined market capitalization of Nigerian Naira (NGN) 18.949 trillion (about US\$115.68 billion) (NSE, 2014).

The practice of Accountancy worldwide is guided by sets of guidelines and rules. The rules and guidelines are compiled into accounting standards. They are statements of principle that discusses the accounting treatment and disclosure of a particular item or group of items. Before 2012, the Statements of Accounting Standards was used in accounting practice in Nigeria. The local accounting standards are issued in Nigeria by the Nigerian Accounting Standard Board (NASB) till 2011. NASB was established in 1982 as a private sector initiative and became a government agency in 1992, reporting to the Federal Minister of Commerce. The NASB was given a legal backing by its inclusion in Section 335(1) of the Companies and Allied Matters Act of 1990 which mandates all companies to prepare financial statements that complies with the Statement of Accounting Standards (SAS) as developed and issued by NASB from time to time. The NASB in 2003 was given the full autonomy as a legal entity with the enactment of the NASB Act of 2003. The Nigerian Accounting Standards Board Act of 2003 provided the legal framework under which NASB set accounting standards. The primary functions as defined in the Act of 10 July 2003 were to develop, publish and update Statements of Accounting Standards to be followed by companies when they prepare their financial statement, and to promote and enforce compliance with the standards. In the wake of financial crises in late 1990s, the international community emphasized the major role that the observance of international standards and codes of best practices in order to strengthen global financial systems. The international community called for the preparation of Reports on the Observance of Standards and Codes (ROSC), an assessment of the degree to which an economy observes internationally recognized standards and

codes. It was observed by the World Bank about Nigeria, that the NASB lacks the financial and human resources as well as the infrastructure for monitoring and enforcing compliance with its standards. The ROSC team observed from a review of published financial statements that there are compliance gaps between the SAS and actual practice (Adebimpe & Ekwere, 2015).

The ROSC team recommended the creation of a new independent oversight body called the Financial Reporting Council which would monitor and enforce accounting and auditing requirements. This was signed into law on 20 July 2011. The FRC is a unified independent regulatory body for accounting, auditing, actuarial, valuation and corporate governance. It is expected that more meaningful and decision enhancing information can now be arrived at from financial statements issued in Nigeria because accounting, actuarial, valuation and auditing standards, used in the preparation of these statements, shall be issued and regulated by this Financial Reporting Council (Adebimpe & Ekwere, 2015).

Although the Nigerian Statements of Accounting Standards (SAS) are similar to IFRS in certain respects, many differences exist. SAS promulgated by NASB were largely based on past IAS promulgated by IASC. Due to the increasing complexity of financial reporting requirements, some of the original IASs were reviewed resulting in their amendment or withdrawal. Adebimpe and Ekwere (2015) stated that the SASs were not reviewed or updated with the IASs/IFRSs. The significant disparities between the Nigerian SASs and IFRSs have resulted in the SAS being regarded as outdated and incomplete as an authoritative and internationally

accepted guide to the preparation of financial statements. This has significantly diminished the degree of confidence on Nigerian Standards especially by international users of financial statements produced in Nigeria. The Nigerian SAS seems to be sub-standard in that the requirement of many SASs accords substantially with the requirement of its equivalent IFRSs that had been withdrawn or outdated. Some SASs does not have equivalent IASs/IFRSs. For example SAS 1 (Disclosure of Accounting Policies) accords substantially with IAS 1 (Disclosure of Accounting Policies) which had been reformatted in 1994. Also, SAS 2 (Information to be disclosed in Financial Statements) agrees with IAS 5 (Information to Be Disclosed in Financial Statements) originally issued October 1976, which has been superseded by IAS 1, Presentation of Financial Statements in 1997. Another example is SAS 9 (Accounting Depreciation) which is in accord with IAS 4 (Depreciation Accounting) which has been withdrawn in 1999. There are sixteen (16) IFRSs/IASs with no equivalent SASs: IFRS 1 (First time Adoption of International Financial Reporting Standards), IFRS 2 (Share-based Payment), IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), IFRS 7 (Financial Instruments: Disclosures), IFRS 9 (Financial Instruments), IFRS 13 (Fair Value Measurement), IFRS 14 Regulatory Deferral Accounts, IFRS 15 Revenue from contracts with customers, IAS 18 (Revenue), IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance), IAS 23 (Borrowing Costs), IAS 24 (Related Party Disclosures), IAS 29 (Financial Reporting in Hyperinflationary Economies), IAS 32 (Financial Instruments: Presentation), IAS 36 (Impairment of Assets) and IAS 41(



Agriculture). Also SICs (1-33) and IFRICs (1-21) have no equivalent Nigerian interpretations (Adebimpe & Ekwere, 2015).

Based on the premise of NASB to promote general acceptable published financial reports and high quality accounting standards that are consistent with international practices, inaugurated a Stakeholders' Committee on the Roadmap to the Adoption of IFRS in Nigeria on October 22, 2009. In July 2010, the Nigerian Federal Executive Council approved the Roadmap to the Adoption of IFRS in Nigeria (NASB, 2010). It was reiterated in the report that, that it will be in the interest of the Nigerian economy for reporting entities in Nigeria to adopt globally accepted, high-quality accounting standards by fully converging Nigerian national accounting standards with International Financial Reporting Standards (IFRS) by following a Phased Transition effective January 1, 2012. It is a three phase transition programme. Phase 1 relates to the publicly listed entities and significant public interest entities. They are to prepare their financial statements using applicable IFRS by January 1, 2012. Phase 2 relates to other public interest entities, which are expected to mandatorily adopt IFRS, for statutory purposes, by January 1, 2013. Phase 3 relates to Small and Medium-Sized Entities (SMEs) which are expected to mandatorily adopt IFRS for SMEs by January 1, 2014.

### **2.1.9 Present Status of Nigerian Accounting Standards and IFRS**

The Nigerian Accounting Standard Board (NASB) formulates Accounting Standards (ASs) based on the IFRSs keeping in view the local conditions including legal and economic environment, which have recently been notified by

the Companies and Allied Matters Act 1990. In some cases, departures are made on account of conceptual differences with the treatments prescribed in the IFRSs. The term IFRS consists of IFRS issued by IASB; International Accounting Standard (IAS) issued by International Accounting Standard Committee (IASC); and interpretations issued by the standard interpretations Committee (SIC) and the International Financial Reporting Interpretation Committee. IFRS is issued by the International Accounting Standard Board. The International Accounting Standard states how particular types of transactions and other events should be reported in financial statements. The standards issued by IASC were known as IAS. In 2000, IASC Members bodies approved the restructuring of IASC's foundation and in March 2001, the new IASB took over the responsibility of setting the international Accounting Standards from IASC. IASB adopted the standards set by IASC and continued to develop new standards and called the new standards – IFRS. Both IFRS and IAS are equally enforceable because there is no difference between the two.

#### **2.1.9.1 Major Differences in Nigeria SAS and IFRS**

The major difference between IFRS and the local statement of Accounting Standards (SAS) is that the former is a more robust and principle based set of accounting standards with detailed disclosure requirements. For instance, the IASB Framework states that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. In order to meet the objective, the framework requires financial statements to possess certain qualities which are understandability, relevance,

reliability, and comparability (Ikpefan & Akande, 2012). Other key areas of differences include extensive use of fair values for financial instruments, more prescriptive and comprehensive guide for revenue recognition, a more rigorous process for determining goodwill in a business combination, change in format, components and nomenclature of certain items of financial statements. Table below are some the differences;

**Table 2.1: Difference between IFRS and Nigerian SAS**

<b>Items</b>	<b>IFRS</b>	<b>Nigerian SAS</b>
Components of Financial Statement	Comprises of Statements of Financial Position: -Statement of Comprehensive Income (e.g revaluation gains, foreign exchange etc), -Statement of Cash flow and -Notes to Accounts.	Comprises of • Balance sheet, • Profit and loss • Cash flows statement • Notes to Accounts
Format of Income Statement	IAS 1 prescribes the format of income statement.	According to the format prescribed in the CAMA 1990, Banking Regulation Act for Banks etc
Statement of Cash Flows	Mandatory for all entities	Not applicable for Non listed Companies
Property, plant and equipment	Measured using cost model with detailed guidance regarding; Componentization Useful life Residual value Impairment calculations and identifying cash generating unit.	Measured using cost model.
Goodwill	Goodwill is not amortized under IAS 38 but is subject to annual impairment test under IAS 36	SAS 9 provides that goodwill arising on amalgamation in the nature of purchase is amortized over a period of 5years.
Measurement of Intangible Assets	Can be measured at cost or revalued.	Are measured at cost only
Presentation of Extraordinary Items	IFRS prohibits the presentation of extraordinary items in statement of comprehensive income or in the notes	Nigerian GAAP requires extraordinary items to be presented in the profit and loss statement of the entity distinct from the ordinary income and expenses for the period. They are considered in determining the profit and loss for the period.
Change in the Depreciation Method	Treated as a change in the accounting estimate and hence is accounted for prospectively.	Treated as a change in the accounting policy and is accounted for retrospectively (i. for all the relevant

		previous years).Any excess/deficit in the case of this kind of recalculation must be adjusted in the period in which the change is affected.
Dividends Proposed After the end of the Reporting Period	Dividends declared after the end of the reporting period but before the financial statements are authorized for issue are not recorded as liability in the financial statements.	Dividends declared after the end of the reporting period but before the financial statements are approved and recorded as liabilities in the financial statements
Entire Class to be Revalued	If an item of property, plant and equipment is revalued, the entire class of assets to which that asset belongs should be revalued.	An entire class of assets can be revalued, or selection of assets for revaluation can be made on a systematic basis.
Actuarial Gain or Loss	IAS 19 gives three choices for the treatment of actuarial gains or losses arising on measurement of employee benefits.	Actuarial gains and losses should be recognized immediately in the statement.
Functional and Foreign Currency	Functional currency is the currency of the primary economic environment in which the entity operates. Functional and presentation currencies may be different. The standard contains detailed guidance on this	No concept of functional Currency

Source: Ikpefan and Akande, (2012).

### **2.1.9.2 Reason for IFRS Adoption in Nigeria**

The story of the tower of Babel signified that anything can be achieved when there is uniformity in language. In this same vein, the evolution of accounting (seen as the language of business) strives towards “a uniform language” which is the adoption of International Financial Reporting Standards in many countries of the world. Regulation of accounting information is aimed at ensuring that users of financial statement receive a minimum amount of information that will enable them make meaningful decisions regarding their interest in a reporting entity (Jayeoba & Ajibade, 2016). Accounting standards, as explained by Okaro (2002), are authoritative statements aimed at narrowing the areas of differences and varieties in accounting practice. Accounting standards are not only seen as

important regulatory devices but also act as a unifying template connecting the interest of the users of financial statement.

It will not be totally wrong to conclude that the adoption of IFRS and the enactment of the Financial Reporting Council Act, 2011 were triggered by the nation's sense of belonging since IFRS has already been embraced by over 122 countries. This sense of belonging and not feeling left out can be seen as positive when the growth and development of the nation is at stake. According to Asein (2011), it was expedient and in the best interest of the nation to raise and benchmark the quality of its financial reporting on current global best practices by adopting IFRS in order to achieve its goal of becoming one of the twenty largest economies of the world by year 2020 (vision 20:2020 goals). It can be deduced from Obazee (2011), that the move towards adopting the IFRS was majorly triggered by the nation's objective to realize the full gains of cross border listing.

Since the 1960s, businesses have become more global and thus lost a significant part of their national identities. Nigeria's global players are reporting to global finance market, therefore it justifies the need to have global financial reporting benchmarks. Nigerian businesses are making more international transactions, cross border listing is now common place, accounting firms are beginning to follow their growing corporate clients into other countries in order to maintain services and governments are engaging in wide range reviews that recognize the importance of reassuring the markets and the public at large that corporate reporting and governance frameworks are sufficiently robust (Josiah, Okoye & Adediran 2013). This rapid growth of international trade and internationalization

of firms, developments of new communication technologies, and the emergence of international competitive forces have disturbed the financial environment largely. Under this global business scenario, the residents of the business community are badly in need of a common accounting language that should be spoken by all of them across the globe. A financial reporting system of global standard is a prerequisite for attracting foreign as well as present and prospective investors at home alike that should be achieved through convergence of accounting standards. It has been observed that people who invest overseas naturally want to be able to keep track of the financial health of the securities issuers. Convergence of accounting standards is seen as the only means to achieve this. Only by talking the same language one can understand each other across borders (Nikhil, Bhagaban, & Alok, 2009).

Today, global commerce is increasingly polarized into Multi-National Corporations (MNCs) and national companies. Clearly, financial reporting is responding to this business dynamics by following in this direction. However, most national companies do not have foreign subsidiaries while their financial statements are mainly for tax assessment purposes and possibly to provide information to local banks in order to secure credit facilities; whereas, MNCs play in different jurisdictions through their subsidiaries which prepare financial reports in compliance with various local GAAPs. This entails huge conversion costs of their financial statements during consolidation. Since these MNCs often seek finance from various capital markets, comparability of financial reports was a huge problem leading, in many cases, to inefficient and sub-optimal investment decisions (Asein, 2011).

The development and adoption of the IFRS (International Financial reporting standards) is a major development across the Globe. The operation which arises from the need for better comparability and relevance of accounting statements across the Globe has changed the face of financial reporting within and amongst countries (Phang & Mahzan, 2013). The use of IFRS in preparing financial statements globally is maturing. This is not surprising given the pains associated with the low quality financial reports which witnessed an unprecedented growth in the recent past (Isabel & Mariela, 2009).

Globalization of capital market and internationalization has come to stay. The need for harmonization of financial statements and single set of consistent high quality financial reporting standard gained wide spread acceptance amongst policies makers, standard setters and preparers (Godfrey, Hodgson, Tarca, Hamilton, & Holmes, 2010). The need for quality and uniformity in the preparation and presentation of financial statements gave birth to International Financial Reporting Standards (IFRS). Before the adoption in Nigeria, there was legal and regulatory framework of accounting in respect to preparation of financial report in Nigeria (Abdulkadir, 2013). The Company and Allied Matter Act (CAMA'90) prescribe some format and content of company financial statement disclosure requirements and auditing. It requires that the financial statement of all corporate organizations comply and adhere with the Statement of Accounting Standards (SAS) issued from time to time by the Nigerian Accounting Standard Board (NASB). This also requires that audit be carried out in accordance to with the General Auditing Standards. Therefore, the adoption of IFRS in Nigeria was

launched in September, 2010 by the then Minister of Commerce and Industry. The adoption was organized in such that the entire stakeholders that prepare and present financial statement use it by the beginning of 2014. the adoption was made in such a way that all the first tier companies listed on the stock exchange and are of public interest use it by 2012, all other company of public interest but not first tier are to adopt in 2013 and all small and medium scale entity use it by January, 2014. Financial reporting standard exists because it serves as stewards to the owner of firms as ownership is divorced from controlling the activities of the business (Phang & Mahzan, 2013).

In addition, Internationalization and globalization of business has given reason for harmonized financial statement preparation and presentations (Isabel & Mariela, 2009). Companies compete globally for limited resources, shareholders, potential investor and creditors as well as multinational enterprises are required to bear the cost of adopting financial statement that are prepared using national standards (Abdulkadir, 2013). It is expected that the move towards IFRS convergence will enhance capital market performance and ginger global business expansion in Nigeria. In the view of this development all corporate organization are expected to adopt and comply with IFRS in preparation and presentation of their financial statement (Oghoma & Iyoha, 2006).

There is wide spread adoption and compliance by other country of the world. In a survey conducted by Manuel, (2008) on Spanish stock market, on how to hedge disclosures, today firms face several financial risks in their daily business



activities due to global, international trading and transactions. One way to cope with this kind of risk is to use hedging because of its lower cost and good solution to solving risks in business entity (Leonard & Jan, 2012). Additionally, Inwinkl (2010) conducted a survey on reclassifications of financial instruments in Nordic countries on the effect of reclassification amendments on Nordic banks financial statement. Quantitative survey was conducted on these Nordic banks and the results are as follows. 47% of sampled Nordic banks reclassified financial instrument in 2008 and 12% in 2009. All the banks increased their net profit as a result of reclassifying their financial instrument in 2008 and 2009. On the influence of IFRS implementation on business management, the finding of the study shows that there are positive effects from the adoption of the IFRS by Finnish companies (Jonna, 2009). IFRS are seen as a comprehensive information package where the management gets improved financial information easier for their decision making and judgement. In another research conducted by Jonna, (2009) mandatory IFRS contributes and improve business environment. The study was a survey report. He also found out that after mandatory IFRS adoption, the quality of information in accounting and business environment increased significantly more for mandatory adopters.

Conclusively, IFRS is a set of International Accounting Standard (IAS) that state how particular transactions and events should be reported in the financial statement of the companies. The standard which replace the old IAS are issued by the International Accounting Standard Board (IASB) for the purpose of making comparison as easy as possible. IFRS remains as a standard with high quality

accounting reporting framework. Thus, the users of financial statements can easily compare the entity's financial information between countries in different parts of the world. Implications of adopting IFRS means adopting a global financial reporting language that would create a company globally understood financial statement (Oghoma & Iyoha, 2006). The impact of inclusion of IFRS in schools and colleges curriculum will enable the potential accountants to be well trained before joining the accounting and auditing profession (Daske, Hail & Leuz, 2006).

#### **2.1.10 Consequences of the adoption of the new accounting treatment of goodwill**

Goodwill is no longer amortized, but it is tested for impairment annually, or more frequently if events indicate it might be impaired. Any determined impairment loss is reported currently in the income statement. This represents a significant change from the accounting required under IAS 22 as amortization of goodwill is no longer permitted. Because goodwill is not going to be amortized any more, the reported amounts of goodwill will not decrease at the same time as under the previous regulation (Mateja & Massimo, 2008).

Goodwill amortization under prior accounting standard was a constant and relatively small charge over an extended time period (over its useful life period). The new accounting approach is based on the premise that very rarely goodwill declines in value on the straight-line basis. In contrast to goodwill amortization, goodwill impairment loss can be relatively large (Duangploy, Shelton, & Omer 2005). As follows we can expect more volatility in reported income, because

impairment losses could occur irregularly and in different amounts. As stated impairment write-offs create earnings volatility, although they do not have effects on the cash flow. Nevertheless the impairment amounts are signal of a loss in economic value. They have a significant effect on assets and the income.

The previous requirement to amortize goodwill over its useful economic life reduced reported profit and the earnings per share indicator (Dunse, Hutchison & Goodacre, 2004). The consequence of the new accounting treatment is higher net income (without amortization) considering discrete write-offs which lower assets and equity. Consequently the ratios return on assets and return on equity should increase. Lower assets and liabilities will have effect also on debt ratios, which will consequently increase (Mateja & Massimo, 2008).

An important change of significantly importance for users of financial statements was also the cessation of the pooling-of-interests method of accounting for business combinations which until that moment avoided recognizing and amortizing goodwill (and the replacement of goodwill amortization with testing for impairment). Since the adoption of the new standard all business combinations are accounted by using the same method.

#### **2.1.11 Recognition, measurement and valuation of goodwill regarding IFRS and SAS**

Intangible assets are a claim to future benefits that do not have physical or financial embodiment that generate cost savings (Lev, 2001). Goodwill can be recognized as an intangible asset only if it is acquired in a business combination.

Internally generated goodwill cannot be capitalized in the balance sheet. Goodwill cannot be capitalized because it is not identifiable, it has an indeterminate useful life and it is not separable from other assets. Intangibles are identifiable when they result from contractual or legal rights or are separable. Intangibles that are not identifiable are recognized as part of goodwill (SFAS 142.39, 2007).

Intangibles can no longer be attributed to goodwill, but the acquired intangible assets which are identifiable and have infinite life must be recognized in the balance sheet and be amortized over their estimated useful life. Acquired identifiable assets in a business combination are valued at their fair values. The remaining value after the identification of all tangible and intangible assets is then assigned to goodwill.

IFRS 3.51, (2007) claim that goodwill is initially measured as the difference between the cost of the acquisition over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill recognition requires the valuation of fair values of all identifiable intangible and tangible assets. Goodwill represents future economic benefits arising from assets which cannot be recognized separately (they do not meet the criteria for recognition) and being individually identified. After the initial recognition of goodwill, it should be measured at the cost lowered by any accumulated impairment charge. Goodwill should be tested for impairment annually or more frequently if circumstances indicate that it might be impaired.

On the day of acquisition goodwill has to be allocated to cash-generating units. A cash generating unit is determined according to IFRS 36.6 as the smallest

identifiable group of assets that generates cash inflows that are largely independent from the cash inflows from other assets and group of assets (IFRS 36.6, 2007). The cash-generating units to which goodwill is allocated shall present the lowest level of the entity to which goodwill was allocated. The unit or group of units cannot be larger than a segment as amended in IAS 14-Segment reporting (IFRS 36.80, 2007).

The discount on acquisition (previously named negative goodwill) occurs when the acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities

Discount on acquisition according to the new standard is now immediately recognized in the income statement for the period (IFRS 3.56, 2007). This also represents a significant change as amended in the new IFRS 3.

According to GAAP (SFAS 141.43, 2007) goodwill is recorded as the excess of the cost of an acquisition price over the fair value of acquired net assets. It is written down only when the carrying amount of goodwill exceeds its implied fair value. To test goodwill for impairment, companies must first assign purchased goodwill to reporting units. Before the new accounting treatment, companies generally recorded goodwill in total and did not assign it to individual reporting units. A reporting unit regarding SFAS 142.30 is defined as an operating segment or one level below an operating segment (its component). Companies assign goodwill to reporting units by comparing the estimated fair value of the reporting unit with the fair values of the unit's identifiable net assets. According to SFAS 142.18 a two-step impairment shall be used to identify potential goodwill

impairment and measure the amount of the impairment loss to be recognized (if any).

1. The first step consists of estimating the fair value of the companies reporting unit and compares it with its carrying amount, including goodwill. When the fair value of the reporting unit is greater than its carrying amount, there is no impairment and the test is completed (the second step of the impairment is unnecessary). Otherwise when the fair value of the reporting unit is lower than its carrying value, the second step should be performed to measure the amount of impairment loss (if any).
2. In the second step the company shall compare the implied fair value of the reporting unit goodwill (by repeating the process performed at acquisition) with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in the amount that equals to the excess. The new accounting basis after the impairment is the adjusted carrying amount of goodwill.

Companies have to evaluate goodwill for impairment at least annually. If there are circumstances during the year that indicate additional impairment, the impairment test should be done more frequently. Goodwill impairment losses are included as a separate item in the income from continuing operating section of the income statement. After the completed impairment, subsequent reversals of recognized impairment losses are prohibited.

Before the adoption of the new accounting treatment Accounting Principles Board Option number 17 (APB Option No. 17) from the late 1960s it was required that goodwill needs to be amortized over a period that cannot exceed 40 years. Many

companies adopted a 40-year period as useful life for the purpose of minimizing the periodic earnings effect. On the contrary the previous standard IAS 22 regarded a linear amortization of goodwill in its useful life that could not exceed 20 years (Mateja & Massimo, 2008).

Moving to the system of annual impairment tests instead of amortization a significant change was made in accounting for goodwill.

### **2.1.12 Future Development of Accounting for Goodwill**

So far accounting for goodwill has significantly changed. Previously goodwill was amortized in its useful life; today it is tested for impairment. Related to the new treatment, as mentioned previously, there could be a lot of subjective decision regarding the measurement of goodwill. Concerning the previous approach and different useful life between different standards prove that there is no market evidence about the useful life of purchased goodwill. What evidence was there, that its useful life could not exceed 40 years (or 20 years regarding IFRS)? Despite the fact that the accounting treatment has changed and goodwill is no longer amortized, an appropriate approach for measurement of goodwill still does not exist. There is still the lack of an adequate approach for measuring the intangibles (Banegil & Sanguino, 2007). We are living in an intangible economy where intangible assets play a more important role day after day. In the last decades the importance of intangibles has been rising. Unless we are able to appropriately recognize and measure intangibles (including goodwill) we will not be able to manage them efficiently.

Until today little has been written about internally generated goodwill, in spite of the fact that companies generate goodwill with their growth, development, reestablishing relationships with their suppliers and employees. Goodwill is recognized only in the case when it is purchased in a business combination. Purchased goodwill could be defined also as internally generated goodwill which is on the day of acquisition objectively measured from the point of view of the acquirer. As stated in SFAS 142 (SFAS142.B84, 2007), internally generated goodwill cannot be recognized as an asset because it does not have any set of cash flows uniquely associated with it. As stated in IFRS (IAS 38.50, 2007), the differences between the market value of an entity and the carrying amount of its identifiable net assets do not represent intangible assets controlled by a company (the difference may capture different factors that affect the value of the company). Unfortunately, there still does not exist a generally accepted definition of goodwill. Kristandl and Bontis (2007) indicate that researches with reference to intangibles suffer from one fundamental problem, which is the lack of common terminology. All the definitions define that goodwill as immaterial, as it does not generate cash flows individually and it represents future benefits. But there exists still no generally accepted definition as to what the “components” of goodwill are (Mateja & Massimo, 2008).

## **2.2 Theoretical Framework**

### ***2.2.1 Ohlson Clean Surplus Theory***

In the 1960s, the emphasis of capital market research in accounting (of which value relevance of accounting information is a branch) was on usefulness of



accounting to individual users- which is also synonymous with information perspective. This perspective was pioneered by Ball and Brown in 1968. Ball and Brown (1968) who are the first to attempt a value relevance test do not make any reference to theory (Klimczak, 2009). Despite the difficulties of designing experiments to test the implications usefulness, they established that security market prices do respond to accounting information (Scott, 2003). However, their study was based on capital market theories prevalent at the time. Ball and Brown assume that the Efficient Market Hypothesis is maintained.

However, in mid-1990 the emphasis was shifted from information perspective to measurement perspective - that is, stock market reaction to the aggregate stock market (Bernard, 1995; Feltham and Ohlson, 1995; & Beisland, 2009). The Ohlson clean surplus theory also referred to as Residual Income Valuation Model (RIVM) provides a framework consistent with this measurement perspective known as balance sheet approach (Ohlson, 1995). The theory shows that the market value of the firm can be expressed in terms of fundamental financial position and comprehensive income components (Scot, 2003).

This anchored on Ohlson's clean surplus theory; the theory is consistent with the emphasis of capital market research in accounting of which value relevance of accounting information is a branch and was on usefulness of accounting to individual users. In addition, market value (MV) of the firm (hence security returns) can be expressed in terms of financial position and comprehensive income components. The theory assumes ideal conditions in which market value of a firm = net book value of the firm's net assets + present value of future earnings

(goodwill), and this allows reading the firm's value directly from the financial position which is the purpose of this study.

### **2.3 Review of Related Studies**

Hoegh-Krohn and Knivsflå (2000) have examined accounting for intangible assets in Scandinavia, the UK, and the USA. They conclude that in order to improve value relevance of financial statements all types of intangible assets need to be capitalized and subsequently amortized over their useful lives. They also state that some of the previously expensed costs should be reversed and capitalized in the balance sheet, which also will improve the value--relevance.

Wong and Wong (2001) examining how firms allocate the cost of their investments in subsidiaries between net tangible assets and acquired goodwill, find this decision is associated with the firm's IOS. They argue that their finding of a negative association between reported purchased goodwill and leverage arises because managers of acquiring firms with high levels of growth options will prefer to allocate a high proportion of the acquisition price to purchased goodwill to signal the firm's IOS to capital markets. Analogous to this, greater flexibility permitted under an impairment regime allows managers to better communicate firms' future investment opportunities to capital markets.

Hirschey and Richardson (2003) examine the stock market reactions to discretionary goodwill write-off announcements made during the five-year period 1995-1999 to investigate the information contents of goodwill. The study is an

event study and comprises 80 listed U.S. companies. The results provide evidence to support the notion that goodwill write-off announcements do convey meaningful information about the deteriorating future performance of the company. The authors find an immediate negative stock market reaction to goodwill write-off announcements that amounts 2,94-3,52 % of the company's stock price. Moreover, in the one-year period preceding the write-off announcement the average abnormal return for all companies is -41,77 %. This indicates that investors are to some extent able to anticipate forthcoming goodwill write-offs. Investors also appear to initially underreact to write-off announcements. Since no significant association between the stock returns and the size of the write-offs can be found, Hirschey and Richardson (2003) conclude that it is the incident of a write-off itself that is important from an investor's perspective.

Goodwin and Ahmed (2006) examine the value--relevance of intangibles in Australia between 1975 and 1999 using regression analysis. Even though they do not find clear evidence of the decreased value relevance they, find that the value relevance of earnings in those firms, which capitalize intangibles has increased more than in those firms that do not capitalize intangibles. In general, the results indicate that the value relevance of earnings and book values has increased for those companies, which capitalize intangibles.

Hayn and Hughes (2006) study acquisitions made in the U.S. in 1988-1998 to examine whether auditors and investors are able to predict goodwill impairments based on the disclosure on the acquired entities' performance. In addition to

finding that the information communicated through the disclosure is insufficient for this purpose, the authors note that goodwill write-offs lag behind the economic impairment of goodwill by approximately 3-4 years. In a third of the sample companies, this time lag extends up to 6-10 years. A similar time lag, albeit shorter, is also found by Chen, Kohlbeck and Warfield (2008). The authors examine a sample of U.S. companies that reported goodwill at the end of 2001, to examine whether the new accounting standards influenced the timeliness of accounting information. Even though the impairments are found to lag behind prior to SFAS 142, the impairment losses appear to be recognized on a timelier basis in the post-142 period.

Ojala (2007) studies the timeliness of goodwill impairments under SFAS 142. The author uses a reverse regression model, in which recognised goodwill impairments are regressed on market adjusted contemporaneous share returns and annual lagged returns. The research sample comprises 605 firm-year observations of U.S. companies from the time period 2001-2006. The study was unable to find an association between contemporaneous share returns and reported goodwill impairments. Instead, the empirical results reveal significant associations between goodwill impairments and annual lagged returns, indicating that the recognition of impairment losses lags behind the economic impairment of goodwill by an average of one to two years.

Bens, Heltzer and Segal (2007) examine the information content of goodwill write-offs recorded before, during, and after the adoption of SFAS 142, and report a significant negative stock market reaction to the announcements of goodwill

write-offs before and after the adoption of SFAS 142. However, they also conclude that the market reaction to goodwill impairments recorded in the transition period is significantly less negative than the reaction to impairments recorded in later periods, clearly suggesting that the market believes managers have acted strategically in the transition year by writing off goodwill that was not yet impaired in order to take advantage of the one-time below-the-line treatment, and to present a more conservative balance sheet.

Similarly, Jordan, Clark and Vann (2007) find that U.S managers have “cherry picked” the adoption year to aggressively recognize goodwill impairment losses so that operating income in future years would not be burdened with these charges.

Haman and Jubb (2008) examine earnings management behaviour surrounding the change to the treatment of goodwill upon adoption of IFRS. Using a sample of listed Australian companies, they find that discretionary accruals of goodwill firms are higher than non-goodwill firms in the adoption year of the new goodwill rule.

Using the association approach, Chen et al. (2008) examine the value relevance of goodwill impairments reported during and subsequent to the first year of SFAS 142 adoption. They find that both the adoption and first year impairments provided new information to the market. They therefore conclude that SFAS 142 is “net beneficial”, consistent with the objectives laid out by FASB when developing the standard.

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Li and Sloan (2009) investigate the impact of SFAS 142 on goodwill accounting and valuation. The authors examine both the correlations between goodwill impairments and pre-goodwill impairment operating margins, as well as the market responses goodwill impairment announcements generate. Their research sample consists of 23,334 firm-year observations of both impairing and non-impairing U.S. companies from the period 2000-2007. The results suggest that the recognition of goodwill impairment losses lags behind the economic impairment of goodwill – i.e. deteriorating operating performance and stock returns – by at least two years. The authors also find goodwill impairments to be higher when pre-goodwill impairment operating margins are low, indicating that impairment losses are not recognized until it becomes obvious that the value of goodwill has been exhausted. Li and Sloan (2009:19) thus argue that “goodwill impairments reflect a lagged indicator of goodwill expiration rather than a leading indicator of expected future cash flows.” Moreover, the negative abnormal stock returns suggest that investors are not able to fully anticipate predictable goodwill overstatements. The authors conclude that managers do exploit the discretion inherent in SFAS 142 to overstate goodwill, current earnings and share prices.

Mattias, Mari and Jiri (2009) document the accounting consequences of the adoption of IFRS 3 and the stock market’s reaction using data from Sweden. After

the adoption of IFRS 3 in January 2005 the amount of capitalized goodwill has increased substantially. Goodwill impairments under IFRS are considerably lower than goodwill amortizations and impairments made under Swedish GAAP. An analysis of economic incentives influencing the impairment decision at the initial adoption of IFRS 3 show some evidence that tenured management is negatively associated with the impairment decision. However, most firms did not reclassify goodwill or make additional impairments. Firms with substantial amounts of goodwill yielded abnormally high returns despite that they earned abnormally low earnings. Investors seem to, correctly or incorrectly, have viewed the IFRS 3 related boost in earnings as an indication of higher future cash flows.

With a sample of Canadian firms, Lapointe-Antunes et al. (2009) examine the value relevance and timeliness of transitional SFAS 142 goodwill impairments recorded by these firms and find a negative relationship between reported impairment losses and share price. They then interpret their results as evidence that fair value measurements can be relevant, even when the financial statement elements are inherently bound to measurement error and subject to significant managerial discretion. Studies from both strands produced evidence to suggest that goodwill write-offs convey economically meaningful information to the investors about the firm's future profitability. One important implication to be drawn from these studies is that the impairment-only approach has improved the quality of reported information on goodwill (as predicted by the standard setters) by providing managers with a framework to convey their private future-cash-flow information to markets (Note 9) (Note 10) However, it has to be noted that results of studies using US and Canadian data from the transition period have to be

interpreted with caution and may lack generalizability since managers, in recording transitional write-offs, may have had incentives to act strategically by increasing the amount of write-offs that are treated as merely an accounting change or charged to retained earnings, thereby decreasing the probability and amount of future impairments that would be, if recorded, included in income from continuing operations (Beatty and Weber, 2006).

Godfrey and Koh (2009) investigate whether managers of US firms use their goodwill impairment write-off discretion to reflect firms' underlying investment opportunities (IOS). They find a negative association between goodwill impairment losses and firms' IOS during 2002–2004. In particular, firms with greater (lower) investment opportunities maintain higher (lower) amounts of goodwill in their balance sheet, reflecting higher (lower) levels of economic goodwill. This suggests that in the initial years of the SFAS 142 impairment regime, firms' goodwill accounting approaches reflect the underlying economic attributes of their unidentifiable assets. Their study examines whether the US findings from the study generalize to the Australian impairment regime. Importantly, they also examine the association between firms' goodwill accounting treatment and IOS in the previous (AGAAP) amortization regime as well as utilizing a sample that includes firms recognizing goodwill regardless of whether they impaired it. The study are able to directly compare the two reporting regimes and assess whether goodwill accounting under the IFRS impairment regime is more strongly associated with firms' underlying economic attributes than under the previous amortization regime.



Van de Poel, Maijoor and Vanstraelen (2009) study whether the IFRS goodwill impairment test is used as tool to manage earnings. Using a sample of listed companies in 15 EU countries, preparing financial statements under IFRS in the period 2005-2006, their findings support that companies typically take their impairments when earnings are unexpectedly high (smoothing) or when they are unexpectedly low (big bath accounting). Also Verriest and Gaeremynck (2009) highlight the importance of effective corporate governance mechanisms in ascertaining high quality financial reporting. The authors examine the drivers of goodwill impairment decisions in a sample consisting of 47 European companies in 2005-2006. Based on the difference between their market value and book value, all the studied companies are expected to recognize goodwill impairment losses. The authors interpret untimely goodwill impairments as an indicator of poor reporting quality, and hence predict effective corporate governance mechanisms, measured amongst others by the amount of independent board members, to lead to a larger probability of impairment. The regression analysis confirms this hypothesis. The study found better performing companies and companies with stronger corporate governance mechanisms to be more likely than other companies to recognize goodwill impairment losses in a timely manner.

Bens *et al.* (2011) analyse the information content of goodwill impairments before and after the adoption of SFAS 142 in a sample of companies belonging to the business services industry. Their research period covers the combined financial years 1996-2001 and 2003-2006. The authors seek to determine whether the value relevance of goodwill impairments varies with respect to three different firm characteristics: the structural complexity of the firm, the firm's ability to conduct

efficient impairment tests (measured as firm size), and the level of existing information asymmetries between the firm and the market. The results show that, on average, the markets do react negatively to goodwill impairments. However, over the full observation period, the market reaction appears to be less significant for smaller companies and for companies with low information asymmetry, i.e. companies with higher analyst following.

Milena (2011) provide a more insightful and comprehensive understanding of the goodwill impairment process. The first empirical essay explores the role of goodwill write-downs in the rating assessment process. It aims to uncover rating agencies' perception of goodwill using an accounting predictive model on *ex post* basis and comparing accounting treatments of goodwill as currently or recently applicable under UK GAAP. Results suggest that raters ignore goodwill and its write-downs in their annual rating analyses. While this evidence is consistent with pre- FRS 10 business reality in the UK, it raises questions about the efficiency of impairment regulations on national and international level. The second empirical essay investigates managerial choices related to goodwill impairment in the UK. Findings suggest that while managers are likely to base the decision whether to impair goodwill on financial performance indicators, they might adjust the amount of the impairment charge at their discretion for reporting purposes. The third empirical essay investigates two of the drivers of financial performance (industrial regulation and competition) and their relation to goodwill using a case study approach. The evidence suggests that these two phenomena could provide an early warning indicator to regulators, auditors and financial statement users about

goodwill impairment potential of the individual firm or an industry sector. Furthermore, the room for managerial discretion provided by the discount rates in the impairment calculation is explored. Results show that discount rates can be adjusted using commonly accepted parameters in practice to justify a wide range of discount rates and, consequently, a variety of impairment opportunities at the discretion of management.

Li, Shroff, Venkataraman and Zhang (2011) on the information content of transitional goodwill impairments following the adoption of SFAS 142. Using a sample of US firms, these two studies are able to conclude that negative abnormal returns are reported following the announcement of goodwill write-offs. Furthermore, they find that financial analysts revise their short-term and long-term earnings forecasts downwards following the announcements of goodwill impairment losses.

Chalmers, Godfrey and Webster (2011) investigate this claim by comparing the association between goodwill accounting charges against income and firms' economic investment opportunities in amortization and impairment regimes. A sample from all firms listed on the Australian Securities Exchange (ASX) with recognized goodwill during the period 1999–2008 (n = 4991 firm-year observations). The study finds that the association between firms' goodwill charges against income and the firms' investment opportunities is stronger during the IFRS regime than the AGAAP regime. This indicates that, as claimed,

impairment charges better reflect the underlying economic attributes of goodwill than do amortization charges.

Frii (2011) test whether the value relevance of banks' valuation of goodwill was affected differently than other industries during the financial turmoil. To do so, the study uses the value relevance of the pharmaceutical industry's valuation of goodwill as a control group for banks. The study hypothesizes that (1) banks' valuation of goodwill was value irrelevant since investors should have impounded the information of the analysts in the stock price; (2) pharmaceutical industry's valuation of goodwill was value relevant since the financial turmoil did not severely affect its core business. The empirical result of the study suggests that the goodwill valuation of both banks and pharmaceuticals was value relevant. Moreover, the empirical result indicates that banks' valuation of goodwill was not less value relevant than the pharmaceuticals' valuation of goodwill. In summary, banks' valuation of goodwill seems to have been value relevant during the financial turmoil.

Using value relevance and timeliness as measures for accounting quality, Van Hulzen *et al.* (2011) investigate whether the change from goodwill amortization to IFRS 3 goodwill impairment has improved the quality of accounting information in Dutch, German, French and Spanish companies. The research sample comprises 1,289 firm-year observations from the period 2001-2004, and 802 firm-year observations from the period 2005-2010. Prior to 2005 all of the studied companies had amortised goodwill in accordance with their own local GAAP. The results reveal that the amortisation expenses are more value relevant than the

impairment losses, indicating that investors find goodwill amortisation more useful when evaluating share prices and making investment decisions. However, compared to the amortisation method, the impairment method is found to improve the timeliness of accounting information and reduce the gap between the economic impairment of goodwill and its recognition. They thus conclude that the new accounting standard has only partially met its objectives in improving the quality of accounting information. Investors also appear to have difficulties in assessing the implications of goodwill impairments.

Chalmers, Godfrey, J.M. and Webster (2012) examined Australian companies and their accounting treatment of goodwill before and after the adoption of IFRS to investigate whether the new impairment approach reflects the underlying economic value of goodwill better than the old amortization approach. The research sample comprises 4,310 firm-year observations of Australian listed companies with recognized goodwill on their balance sheets during the period 1999-2008. The observations are divided into those in the pre-IFRS (i.e. AGAAP) regime (1999-2005) and those in the IFRS regime (2006-2008). For the empirical tests, the authors estimate two regression models, in which goodwill reductions are regressed on proxies for earnings, investment opportunities (“IOS”), stock returns, leverage and size. The results show that compared to goodwill amortizations, impairments are more strongly related to the companies’ investment opportunities and accounting based performance. No association is, however, found between goodwill impairments and the current stock market returns. Based on the overall findings the study concluded that the impairment approach has enhanced the decision-usefulness of financial statements as it enables companies with greater

investment opportunities to maintain their goodwill balances and allows firms with less investment opportunities to reduce goodwill accordingly.

Amiraslani, Iatridis and Pope (2012) investigated the timeliness of asset impairments – including goodwill impairments – in a sample of 4,474 European companies during the years 2010 and 2011. The authors also assess the degree of compliance with IFRS by analyzing the impairment-related disclosure of 324 companies. In order to examine the variation in IFRS compliance across Europe, the authors group companies into three institutional clusters depending on the predicted stock market development and ownership structure, and on the level of investor protection and enforcement in their countries of domicile. The authors use a reverse regression model similar to that applied by Ojala (2007) to measure the association between stock market returns and asset impairments. The overall findings indicate that the quality of impairment reporting varies considerably across European countries and the timeliness of asset impairments seems to be dependent on the quality of the companies' institutional environment. Timeliness is particularly pronounced in countries characterised as outsider economies with strong outsider protection and enforcement, such as Ireland and the U.K., and significantly weaker in Southern European and Eastern European countries.

Muller, Neamtiu and Riedl (2012) examined a sample of 653 firms listed on AMEX, NASDAQ and NYSE in 2002-2007 to investigate whether managers use their private information regarding forthcoming goodwill impairments to strategically trade their own company's stock prior to the recognition of impairment losses. They expect managers to have incentives to sell their stock

holdings prior to making impairment announcements in situations where the economic impairment of goodwill is not reflected in the share prices. However, due to litigation concerns, insiders are expected to distance their abnormal trading activities farther away from the actual recognition date. The authors thus examine insider trading activities during the two years preceding each impairment announcement. The results show that corporate insiders of companies recognising goodwill impairment losses sell their shares more frequently than their counterparts in non-impairment companies. The abnormal selling activities are pronounced 24 to 6 months prior to the goodwill impairment announcement. The results also reveal a negative association between insider selling and subsequent abnormal returns. Muller *et al.* (2012) argue that the overall findings thus indicate that managers benefit from delayed goodwill impairments and provide evidence on the information asymmetries that exist between managers and investors regarding goodwill impairments.

Naser, Osama and Ayman (2012) Using a sample of 528 firm-year observations, drawn from the top 500 UK listed firms for 2005 and 2006, this study employs a multivariate ordinary least squares regression to assess the value relevance of goodwill impairment losses following the adoption of IFRS No. 3 “*Business Combinations*”. Empirical results reveal a significant negative association between reported goodwill impairment losses and market value, suggesting that these impairments are perceived by investors to reliably measure a decline in the value of goodwill and incorporated in their firm valuation assessments. The study provides evidence consistent with IASB’s objectives in developing the

impairment-only standard and reinforces the argument that, through IFRS 3, managers are more likely to use their accounting discretion to convey privately held information about the underlying performance of the firms.

Storå (2013) focuses on different earnings target-related incentives as he studies whether companies with different levels of pre-impairment earnings engage in earnings management through IFRS goodwill impairment accounting. The author uses regression analysis to examine both upwards and downwards earnings management. The research sample comprises 19 846 firm-year observations from the period 2005-2010 of companies from 40 jurisdictions facing a goodwill impairment test in the observation year. According to the empirical results, companies tend to avoid recognising such impairment losses that would prevent them from reaching certain earnings targets. The results also indicate that impairments are, instead, recognised when pre-impairment earnings either clearly exceed or fall short of targets. Storå (2013) thus concludes that managers to some extent do use the discretion inherent in IFRS to manage earnings.

Sandra (2013) investigates whether Portuguese listed companies use goodwill impairment loss to manage earnings. Using a sample of 33 Euro next Lisbon non-financial firms over a period of 6 years, from 2005 through 2010, we find that the goodwill impairment amount is significantly positively related to earnings management, suggesting that IAS 36 provides managers with discretion for goodwill write-off.



Okoh, Muhamad and Azeez (2013) assess the impact of information disclosure on goodwill impairment in merger and acquisition decision in Nigerian banks. Questionnaires were administered to the bank staff and preparers of financial statements for banks. 10 banks were selected for the study. Chi-square was used as a statistical tool from the data analysis. From the study it was found that financial reporting in Nigerian universal banks recognized goodwill impairment in a low term for merger and acquisitions. The quality of accounting information disclosure in respect of goodwill has been low.

Iatridis and Senftlechner (2014) investigated whether managerial changes are associated with higher goodwill impairments, as suggested by prior literature. The authors also test for the relationship between goodwill and cost of capital. The research sample comprises all non-financial companies listed on the Vienna Stock Exchange during 2006-2011. The study tested their hypotheses with three different regression models, in which goodwill and goodwill impairment are regressed on proxies for net income and CEO change, and WACC-based discount rates and discounted free cash flows. The results reveal no significant differences between tenured CEOs and CEOs in their early tenure, and show no indications of big bath accounting during CEO changes. It concluded that Austrian CEOs do not use goodwill impairment accounting in an opportunistic manner. Moreover, the significant positive association found between goodwill and cost of capital in companies with goodwill impairment and the notion that that being audited by a Big 4 auditor tends to lower the cost of capital, does, according to the authors,

reflect the assurance auditors provide investors and highlight the importance of detailed disclosure.

Hamberg and Beisland (2014) provide further evidence on the effects the changes in goodwill accounting has had on the value relevance of accounting information. The authors focus on Swedish listed companies and compare a sample of 899 pre-IFRS firm-year observations with a sample of 1,163 post-IFRS firm-year observations from the periods 2001-2004 and 2005-2010, respectively. Under the Swedish GAAP, according to which all sample companies reported during 2001-2004, goodwill reductions could consist of both amortizations and impairments. Although the regression results reveal that goodwill amortizations were not value relevant in the pre-IFRS period, the impairments reported in addition to these are found to be value relevant. The association between goodwill impairments and stock returns is, however, much weaker after the adoption of IFRS, indicating that the impairments lost their value relevance in the change from Swedish GAAP to IFRS. Still, the goodwill balance has according to the authors remained as an equally significant determinant of value under both regimes. The authors hence consider it possible that the value relevance of goodwill impairments has diminished due to untimeliness.

Elina (2015) find out how the new accounting standard for business combinations, IFRS 3, has affected the accounting treatment for identifiable intangible assets and goodwill in the examined media companies between 2005 and 2014. The most significant reforms introduced by IFRS 3 have been goodwill impairment test and the fair value accounting for acquired intangibles. This study is conducted by

using a descriptive analysis and the empirical data consists of financial statement information of listed Finnish and international media companies. The results of this study show that the amount of the acquisition cost allocated to goodwill has decreased during the examined period and due to the fair value accounting, business acquisitions have made new intangible assets visible that otherwise would have not met the recognition criteria under IAS 38.

Paul, Andrei and Luc (2015) study the effect of mandatory adoption of International Financial Reporting Standards (IFRS) in Europe in 2005 on conditional conservatism. The study capture conditional conservatism with a modified version of the Khan and Watts measure (C Score) that also controls for potential shifts in unconditional conservatism and cost of capital. From a sample of 13,711 firm-year observations drawn from 16 European countries spanning the 2000–2010 period, they document an overall decline in the degree of conditional conservatism after the adoption of IFRS. The study show that the decline in conditional conservatism is less pronounced for countries with high quality audit environments and strong enforcement of compliance with accounting standards using the Brown et al. audit and enforcement index. As asset impairment tests are a key mechanism ensuring conditional conservatism in the IFRS framework.

Giner and Pardo (2015) examined the determinants of goodwill impairments in Spanish listed companies Given the characteristics of the Spanish reporting environment, using a sample of 1,003 firm-year observations from the period 2005-2001, the authors expect the managers of Spanish companies to behave in an

unethical manner when making decisions on goodwill impairments. Following Saastamoinen and Pajunen (2016), the authors use a logit and an OLS regression model to test their hypotheses. The empirical results indicate that larger companies and companies with lower market-to-book ratios are more likely to recognize impairment losses than other sample companies. The results also reveal significant associations between managers' impairment decisions and proxies for both earnings bath and income smoothing.

Glaum, Landsman and Wyrwa (2015) study the determinants of goodwill impairment decisions under IFRS. The authors are interested in whether impairment decisions can be explained through managerial incentives or actual declines in the economic value of goodwill. Glaum *et al.* (2015) also examine the timeliness of goodwill impairments and explore cross-country differences in impairment decisions. The research sample comprises 8,110 non-financial and 1,358 financial firm-year observations from 21 IFRS-applying countries – including Finland – for the period 2005-2011. The regression analysis reveals that the goodwill impairment incidence is negatively associated with market and accounting-based measures of performance, but also shows a statistically significant relationship between goodwill impairments and proxies for managerial incentives, such as CEO tenure, income smoothing and a greater number of operating segments. The results reveal that whereas the impairments in high-enforcement countries are more strongly related with contemporaneous stock market returns than lagged returns, the impairments in low-enforcement countries are more likely to be delayed. The authors thus stress that a strong national

auditing and accounting enforcement is a critical determinant in the timeliness of IFRS goodwill impairments.

André *et al.* (2016) provide further evidence on international differences in the accounting treatment of goodwill. The authors compare a sample of 18,538 European firm-year observations with a sample of 16,525 U.S. firm-year observations from the period 2006-2015 to investigate differences in the frequency and magnitude of goodwill impairments under IFRS and US GAAP, with respect to indications of goodwill impairment. André *et al.* (2016) measure economic impairment with three separate metrics: market-to-book value less than one, negative EBITDA, and equity market value minus equity book value less than one. Although the median and mean levels of goodwill to both total assets and equity are similar in Europe and the U.S., the empirical results reveal significant differences in the frequencies and magnitudes of reported impairments.

Saastamoinen and Pajunen (2016) examine goodwill impairment decisions in Finnish listed companies. The authors examine the financial statements of 116 Finnish non-financial companies over the years 2005-2009 to determine how managerial reporting incentives and the stock markets influence both the likelihood of goodwill impairment recognition as well as the size of the recognized impairment losses. To test their hypotheses, the authors use a logit regression model and an OLS regression model, in which goodwill impairment losses are regressed on proxies for CEO change and compensation, big bath, stock liquidity and impairment propensity. The authors also control for how firm size, leverage

and government ownership affect managers' decisions to impair goodwill. The empirical results reveal a significant positive association between CEO changes and the likelihood of goodwill impairments. Even though the authors fail to find evidence on the notion that negative earnings would increase the likelihood of goodwill impairment, the results suggest that reported impairment losses are significantly greater for companies with negative pre-impairment earnings. The overall results thus indicate that the managers of Finnish companies use their discretion in goodwill impairment accounting to avoid the recognition of impairment losses.

Suvi (2016) examine whether capitalized goodwill is value relevant and how the amount of recorded goodwill has changed during the eight-year period from 2007 to 2014. Moreover, one objective is to explore what has been the market reaction for goodwill impairments. The research approach applied is quantitative study, with some characteristics from field study approach. Apart from literature, data used consists of annual reports and other financial information e.g. data of the stock price development. The financial statement analysis showed that the amount of goodwill decreased substantially from 2007 to 2014. Also, the correlation analysis resulted as strong relationships between goodwill and companies' liquidity and profitability. With the relations to goodwill, these correlations indicate that goodwill is certainly related to the performance of a company. The regression analysis had statistically significant results showing that liquidity and solvency had the highest explanatory power. All in all, fundamental variables were connected with goodwill as the research results displayed in the correlation and

regression analysis. The correlation analysis resulted a strong correlation between goodwill and market beta, but no connection with change in stock exchange price was found.

Fei (2016) study uses an experiment to test the impact of preparers' accounting choices about goodwill on analysts' valuation judgments. The finding suggests that analysts perceive the acquisition to be value-enhancing when the premium was allocated to goodwill but value-reducing when allocated to identifiable intangible assets. The effect of accounting choice is reduced by the additional information about the DCF analysis.

Hellman, Andersson and Fröberg (2016) investigate how professional financial analysts evaluate a corporate acquisition announced by an IFRS preparer in Sweden. While the information about Ericsson was actual and current, and realistic in that the company regularly makes acquisitions, the details about the fictitious firm were made-up. The experiment involved one between-subjects factor, which concerned whether the acquisition premium was allocated to either goodwill or amortizable intangibles, and one within-subjects factor related to the amount of information given to the participants (Stage 1 and Stage 2 in the experiment). Participants are 40 financial analysts<sup>8</sup> who participated in the web-based experiment in February and April 2011 as part of an education in finance and accounting for professionals. The findings suggest that professional analysts are affected by preparers' acquisition premium allocations in a potentially misleading way as the participants considered the acquisition to be value-

enhancing when the premium was allocated to goodwill, but value-reducing when allocated to identifiable intangible assets.

Li (2016) examined the relationship between managerial ability and goodwill impairment. predict a negative relationship because prior studies suggest that more-able managers better prevent or reduce goodwill impairment, relative to less-able managers. Regression analysis reveals a significant and negative relationship between managerial ability and goodwill impairment measured as the likelihood of goodwill impairment and the magnitude of goodwill impairment losses. Overall, evidence suggests that managers with greater ability play an important role in preventing or reducing goodwill impairment.

Sven-Erik, Tomas and Niclas (2016) developed a theoretical model of the initial and subsequent accounting for goodwill that is usable for evaluating the relevance of different standard-setting solutions in this area. The model indicates that the current impairment-only approach creates a buffer that protects accounting goodwill from impairment. The buffer is created as a result of both internally generated core goodwill and the fair value of assets/liabilities not recognized on the statement of financial position. In turn, the impairment test will understate the economic loss and serve as a weak indicator of acquisition success/failure. Based on our model, the propose changing the impairment test procedure so that the same measurement and recognition criteria are employed as at initial recognition. Consequently, the representation of goodwill on the statement of financial



position, and the effectiveness of goodwill impairment losses as an indicator, would improve.

Jill (2017) investigate whether goodwill impairments recognized by Finnish listed companies are driven by managerial reporting incentives or actual economic conditions, as intended by the standard setting authorities. Although data on Finnish companies have been included in previous studies, there exists only one paper in which these firms are separately studied. This thesis builds on that paper, providing new evidence on goodwill impairment accounting in the Finnish reporting environment. The research sample comprises 609 firm-year observations of 98 OMXH listed non-financial companies from the period 2010-2016. Using logistic and multiple linear regression, this study separately examines the decision to impair and the size of the reported impairment loss. To test the research hypotheses, the two dependent variables are regressed on proxies for managerial reporting incentives, economic factors and control variables for firm size and industry membership. The results reveal a significant positive association between recognized impairments and recent, year  $t$ , CEO changes, which suggests that tenured managers are more reluctant to impair goodwill than their newly appointed counterparts. The empirical results also provide evidence on big bath accounting behaviour among Finnish managers: impairments are both more frequent and larger in size when the firms' pre-impairment earnings would have been negative in the observation year. In addition, although leverage does not appear to influence the impairment decision as such, the reported impairment

losses are found to be significantly smaller for more indebted companies. These results are believed to relate to managers' debt contracting concerns.

Alain, Fabio and Pietro (2017) assessed the level of compliance of mandatory disclosure concerning the impairment of goodwill under IFRS and its determinants. The examined sample is composed of 145 Italian listed entities. Size variables, performance variables and amortization of goodwill variables were tested in order to verify the determinant of the compliance with mandatory disclosure of the impairment of goodwill. We have run an ordinary least square (OLS) regression model: results show that the weight of goodwill, the way entities amortize goodwill and the size of the firm are positively associated with the mandatory disclosure requested by IAS 36. We have contributed to previous studies by providing findings on the role of mandatory disclosure, which is a fundamental characterization in accounting and extremely current after the publication of the Discussion Paper by the international accounting standards board (IASB). The contribution to current literature is to provide findings on the determinants of mandatory disclosure of goodwill in Italy.

Chukwu and Salifu (2018) investigated the effect of purchased goodwill on return on assets, return on equity and earnings per share of banks in Nigeria. Listed banks were classified into goodwill sample and non-goodwill sample, depending on whether or not the banks had purchased goodwill in their financial statements. Data from annual reports of the goodwill sample from 2012 to 2016 were collated

and analyzed; and firm performance data from the two samples were compared to determine whether profitability in any sample was significantly higher than the other sample. Results from regression analysis of data from the goodwill sample showed that goodwill was significantly but negatively related to returns of asset, returns on equity, and earnings per share, suggesting that acquisitions in the Nigerian banking sector may have been detrimental to profitability. Comparison of the two samples showed that profitability was not significantly higher in any of the samples.

**Table 2.2: Summary of the Review**

<b>Author(s)</b>	<b>Years</b>	<b>Objectives</b>	<b>Methodology</b>	<b>Findings</b>
Hoegh-Krohn and Knivsfla	(2000)	Examined accounting for intangible assets in Scandinavia, the UK, and the USA.		They conclude that in order to improve value relevance of financial statements all types of intangible assets need to be capitalized and subsequently amortized over their useful lives.
Wong and Wong	(2001)	Examined how firms allocate the cost of their investments in subsidiaries between net tangible assets and acquired goodwill, find this decision is associated with the firm's IOS.		They found a negative association between reported purchased goodwill and leverage arises because managers of acquiring firms with high levels of growth options.

**Table 2.2 Continue**

Goodwin and Ahmed	(2006)	Examined the value-relevance of intangibles in Australia between 1975 and 1999.	Used regression analysis.	They, find that the value relevance of earnings in those firms, which capitalize intangibles has increased more than in those firms that do not capitalize intangibles. In general, the results
Bens, Heltzer and Segal	(2007)	Examined the information content of goodwill write-offs recorded before, during, and after the adoption of SFAS 142.		They report a significant negative stock market reaction to the announcements of goodwill write-offs before and after the adoption of SFAS 142
Haman and Jubb	(2008)	Examined earnings management behaviour surrounding the change to the treatment of goodwill upon adoption of IFRS.	Using regression and a sample of listed Australian companies.	They found that discretionary accruals of goodwill firms are higher than non-goodwill firms in the adoption year of the new goodwill rule.
Using the association approach, Chen et al.	(2008)	Examined the value relevance of goodwill impairments reported during and subsequent to the first year of SFAS 142 adoption.		They found that both the adoption and first year impairments provided new information to the market. They therefore conclude that SFAS 142 is “net beneficial”, consistent with the objectives lay out by FASB when developing the standard.
Lapointe-Antunes et al.	(2009)	Examined the value relevance and timeliness of transitional SFAS 142 goodwill impairments recorded by these firms	With a sample of Canadian firms,	The study finds a negative relationship between reported impairment losses and share price.

**Table 2.2 Continue**

Godfrey and Koh	(2009)	Investigated whether managers of US firms use their goodwill impairment write-off discretion to reflect firms' underlying investment opportunities (IOS).		They find a negative association between goodwill impairment losses and firms' IOS during 2002–2004.
Van de Poel, Maijoor and Vanstraelen	(2009)	Studied whether the IFRS goodwill impairment test is used as tool to manage earnings.	Using a sample of listed companies in 15 EU countries, preparing financial statements under IFRS in the period 2005-2006.	Their findings support that companies typically take their impairments when earnings are unexpectedly' high (smoothing) or when they are unexpectedly' low (big bath accounting).
Milena	(2011)	It aims to uncover rating agencies' perception of goodwill. Provide a more insightful and comprehensive understanding of the goodwill impairment process.	Using an accounting predictive model on <i>ex post</i> basis and comparing accounting treatments of goodwill as currently or recently applicable under UK GAAP.	Results suggest that raters ignore goodwill and its write-downs in their annual rating analyses. While this evidence is consistent with pre- FRS 10 business reality in the UK, it raises questions about the efficiency of impairment regulations on national and international level.
Li, Shroff, Venkataraman and Zhang,	(2011)	On the information content of transitional goodwill impairments following the adoption of SFAS 142.	Using a sample of US firms	Conclude that negative abnormal returns are reported following the announcement of goodwill write-offs.

**Table 2.2 Continue**

Chalmers, Godfrey and Webster	(2011)	Investigated this claim by comparing the association between goodwill accounting charges against income and firms' economic investment opportunities in amortization and impairment regimes.	A sample from all firms listed on the Australian Securities Exchange (ASX) with recognized goodwill during the period 1999–2008 (n = 4991 firm-year observations).	The study finds that the association between firms' goodwill charges against income and the firms' investment opportunities is stronger during the IFRS regime than the AGAAP regime.
Frii	(2011)	Test whether the value relevance of banks' valuation of goodwill was affected differently than other industries during the financial turmoil.	The study uses the value relevance of the pharmaceutical industry's valuation of goodwill as a control group for banks.	The empirical result of the study suggests that the goodwill valuation of both banks and pharmaceuticals was value relevant. Moreover, the empirical result indicates that banks' valuation of goodwill was not less value relevant than the pharmaceuticals' valuation of goodwill.
Naser, Osama and Ayman	(2012)	This study employs a multivariate ordinary least squares regression to assess the value relevance of goodwill impairment losses following the adoption of IFRS No. 3 " <i>Business Combinations</i> ".	Using a sample of 528 firm-year observations, drawn from the top 500 UK listed firms for 2005 and 2006,	Empirical results reveal a significant negative association between reported goodwill impairment losses and market value, suggesting that these impairments are perceived by investors to reliably measure a decline in the value of goodwill and incorporated in their firm valuation assessments.

**Table 2.2 Continue**

Sandra	(2013)	Investigated whether Portuguese listed companies use goodwill impairment loss to manage earnings.	Using a sample of 33 Euro next Lisbon non-financial firms over a period of 6 years, from 2005 through 2010,	They find that the goodwill impairment amount is significantly positively related to earnings management, suggesting that IAS 36 provides managers with discretion for goodwill write-off.
Okoh, Muhamad and Azeez.	(2013)	assessed the impact of information disclosure on goodwill impairment in merger and acquisition decision in Nigerian banks	Questionnaires were administered to the bank staff and preparers of financial statements for banks. 10 banks were selected for the study. Chi-square was used as a statistical tool from the data analysis.	Form the study it was found that financial reporting in Nigerian universal banks recognized goodwill impairment in a low term for merger and acquisitions. The quality of accounting information disclosure in respect of goodwill has been low.
Elina	(2015)	Find out how the new accounting standard for business combinations, IFRS 3, has affected the accounting treatment for identifiable intangible assets and goodwill.	Used media companies between 2005 and 2014.	The most significant reforms introduced by IFRS 3 have been goodwill impairment test and the fair value accounting for acquired intangibles.

**Table 2.2 Continue**

Paul, Andrei and Luc	(2015)	Studied the effect of mandatory adoption of International Financial Reporting Standards (IFRS) in Europe in 2005 on conditional conservatism.	The study capture conditional conservatism from a sample of 13,711 firm-year observations drawn from 16 European countries.	The study show that the decline in conditional conservatism is less pronounced for countries with high quality audit environments and strong enforcement of compliance with accounting standards using the Brown et al. audit and enforcement index.
Suvi	(2016)	Examined whether capitalized goodwill is value relevant and how the amount of recorded goodwill has changed during the eight-year period from 2007 to 2014.	The research approach applied is quantitative study, with some characteristics from field study approach. using correlation and regression analysis	Resulted a strong relationships between goodwill and companies' liquidity and profitability. The correlation analysis resulted a strong correlation between goodwill and market beta, but no connection with change in stock exchange price was found. The regression analysis had statistically significant results showing that liquidity and solvency had the highest explanatory power.
Fei	(2016)	Tested the impact of preparers' accounting choices about goodwill on analysts' valuation judgments	study uses an experiment to test the impact of preparers'	The finding suggests that analysts perceive the acquisition to be value-enhancing when the premium was allocated to goodwill but value-reducing when allocated to identifiable intangible assets.



**Table 2.2 Continue**

Hellman, Andersson and Fröberg	(2016)	Investigated how professional financial analysts evaluate a corporate acquisition announced by an IFRS preparer in Sweden.	The study involved 40 financial analysts who participated in the web-based experiment in February and April 2011	The findings suggest that professional analysts are affected by preparers' acquisition premium allocations in a potentially misleading way as the participants considered the acquisition to be value-enhancing when the premium was allocated to goodwill, but value-reducing when allocated to identifiable intangible assets.
Li	(2016)	Examined the relationship between managerial ability and goodwill impairment. relative to less-able managers.	Regression analysis	Predict a negative relationship because prior studies suggest that more-able managers better prevent or reduce goodwill impairment. Regression analysis revealed a significant and negative relationship between managerial ability and goodwill impairment measured as the likelihood of goodwill impairment and the magnitude of goodwill impairment losses.
Chukwu and Salifu	(2018)	Investigated the effect of purchased goodwill on return on assets, return on equity and earnings per share of banks in Nigeria.	Data from annual reports of the goodwill sample from 2012 to 2016 were collated and analyzed and tested with regression.	Results from regression analysis of data from the goodwill sample showed that goodwill was significantly but negatively related to returns of asset, returns on equity, and earnings per share, suggesting that acquisitions in the Nigerian banking sector may have been detrimental to profitability.

## **2.4 Gap in Literature**

Among the studies that focus specifically on goodwill write-offs, Hirschey and Richardson (2003) find that the stock market reaction to 80 goodwill write-offs reported prior to the adoption of SFAS 142 is negative and material. Hellman, Andersson and Emelie (2015) analysts are affected by preparers' acquisition premium allocations in a potentially misleading way as the participants considered the acquisition to be value-enhancing when the premium was allocated to goodwill, but value-reducing when allocated to identifiable intangible assets. Naser, Osama and Ayman (2012) and Chen et al. (2008) revealed a significant negative association between reported goodwill impairment losses and market value, suggesting that these impairments are perceived by investors to reliably measure a decline in the value of goodwill and incorporated in their firm valuation assessments. Lapointe-Antunes et al. (2009) and Li et al., (2011) find a negative relationship between reported impairment losses and share price. Elina (2015) show that the amount of the acquisition cost allocated to goodwill has decreased during the examined period and due to the fair value accounting, business acquisitions have made new intangible assets visible that otherwise would have not met the recognition criteria under IAS 38. Suvi (2016) empirical result indicates that banks' valuation of goodwill was not less value relevant than the pharmaceuticals' valuation of goodwill. In summary, banks' valuation of goodwill seems to have been value relevant during the financial turmoil. However, there is a limited study on the relevance of goodwill measurement during the adoption of IFRS in Nigeria and most of these prior studies were carried out in foreign countries, this form the significant of this study.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Research Design**

Ex-post facto research design was adopted for the study. This is appropriate because the study aims at measuring the relevant of one variable and another, in which the variables involved are not manipulated by the researcher.

#### **3.2 Population of the Study**

The population of the study consists of fifteen quoted deposit money banks on the Nigerian stock exchange, namely: Access bank plc, Diamond bank plc, Eco bank plc, First bank plc, Fidelity bank plc, FCMB, GTB bank plc, Stanbic IBTC bank plc, Sterling bank plc, Skye bank plc, UBA bank plc, Union bank plc, Unity bank plc Wema bank plc, and Zenith bank plc,

#### **3.3 Sample size and Sampling Technique**

Since the population of the study is not too large, the researcher used all the population size (15) deposit money banks quoted on the Nigerian Stock Exchange for the study.

#### **3.4 Source of Data Collection**

To obtain reliable information that helped the researcher to ensure the effectiveness of the study, data was collected from only secondary sources. The data sourced from the annual reports and accounts of the sampled deposit money banks.

### **3.5 Operating Variables**

#### ***Calculating Goodwill Using Average Profits***

How the average profits method is applied. Under this method, Goodwill is equal to the average profits for a set time period, multiplied by the number of years. This is the simplest and the most common method to calculate goodwill.

To summarize the formula:  $\text{Goodwill} = \text{Average Profits} \times \text{Number of Years}$ . For example, if you used the average annual profits of the years (2007-2011) and (2013-2017), you would multiply the each average by 5

#### ***Calculating Goodwill Using Super Profits***

Establish your average profits. For this method, the average profits from previous years should determine. Add together the profits of previous years, and divide by the total number of years.

Subtract your average profits from your actual profits. Super profits are the profits earned above the average profits. To learn what your super profits are, take this year's actual profits and subtract your average profits from them. For example, if the average profit for the business is 200,000. In one year you earned a net profit of 230,000. The excess of profits earned over the average profits — the super profit — is 30,000.

For calculating goodwill, the total super profits of a given number of years are multiplied by the agreed number of years of purchase. Put another way —  $\text{Goodwill} = \text{Super Profits} \times \text{Number of Years}$ .

### *Calculating Goodwill Using Capitalization of Profits*

Understand the capitalization method; this method starts with the results of one of the other two methods. Beginning with average or super profits, the capitalization method determines how much capital is needed to produce those average or super profits, assuming the business earns a normal rate of return for the particular industry. This amount of capital is known as the capitalized value of profits, and the excess of this figure over the total capital employed can be considered goodwill.

In calculating total capital employed, subtract the liabilities from the assets. It can also be represented as:  $\text{Capital Employed} = \text{Assets} - \text{Liabilities}$ .

In calculate capitalized value of profits and In order to use the capitalization method, capitalized value of profits should be determine.

In calculating goodwill, subtract capital employed from capitalized value of average or super profits. The formula looks like this:  $\text{Goodwill} = \text{Capitalized Value of Average/Super Profits} - \text{Capital Employed}$ .

### **3.6 Method of Data Analysis**

Regression analysis and Chow test statistical tools were used to test the structural change between pre IFRS and post-IFRS on value relevance of goodwill in Nigerian deposit money banks. The study covered a period of eight years from 2007 to 2017. The period was be divided into pre-IFRS adoption in Nigerian deposit money banks (2007-2011) and post-IFRS adoption in Nigerian deposit money banks (2013-2017), 2012 was the year of IFRS adoption.

## Model Specification

The researcher adopted Ohlson (1995) price model from two financial reports indicators (financial position and comprehensive income) is being used to test the value relevance of financial reporting. This was used to explore the relationship between market value with two main financial reporting variables; the book value per share which represents financial position and earnings per share which represents comprehensive income.

By the Ohlson (1995) Model:

$$MKTP_{jt} = \beta_0 + \beta_1 BVSH_{jt} + \beta_2 EPS_{jt} + e_{jt}$$

Where:  $MKTP_{jt}$  = the market price per share (SP) of firm j at time t

$BVSH_{jt}$  = Book value per share of firm j at time t

$EPS_{jt}$  = Earnings before extraordinary items per share of firm j at time t

$\beta_0$  = Constant or intercept.

$\beta_1-3$  = Coefficients of explanatory variables.

$e_{jt}$  = Error term.

The modified Ohlson (1995) Model:

$$GDWL_{jt} = \beta_0 + \beta_1 AVPM_{jt} + \beta_2 SUPM_{jt} + \beta_3 CAVPM_{jt} + e_{jt}$$

Where:  $GDWL_{jt}$  = the goodwill of firm j at time t

$AVPM_{jt}$  = Average profit method of firm j at time t

$SUPM_{jt}$  = Super profit method of firm j at time t

$CAVPM_{jt}$  = Capitalized value of profits method of firm j at time t

$\beta_0$  = Constant or intercept.

$\beta_1-3$  = Coefficients of explanatory variables.

$e_{jt}$  = Error term.

Chow test structural stability version of the ordinary least square method of econometric regression is used to test the formulated hypotheses. Chow test is a special kind of F-test propounded by Chow and it based on the idea that a series of

data can contain a structural break. In this case we are interested in finding out whether the series of data in our variables had a structural break following the adoption of IFRS in 2012.

The method uses a F-test to determine whether the perceived structural change has a measurable effect on the study periods and aim is to determine whether a single regression covering the periods before and after the adoption of IFRS in 2012 is more efficient than two separate regression involving splitting of data into two samples, one representing the period before 2012 and the other for the period after 2012.

### **Chow Specification**

- a) A single or pooled regression to fit the whole series of data (before and after IFRS adoption)

$$Y_1 = a_i + b_i X_1 + u_i$$

Where  $Y_1$  = Goodwill (GDWIL)

$X_1$  = Average value profit method (AVPM), Super profit method (SUPM) and capitalized value profit method (CVPM)

- b) Regression for the period before 2012 adoption of IFRS

$$Y_2 = a_i + b_i X_2 + u_i$$

Where  $Y_2$  = Goodwill (GDWIL)

$X_2$  = Average value profit method (AVPM), Super profit method (SUPM) and capitalized value profit method (CVPM)

- c) Regression for the periods after the 2012 adoption of IFRS;

$$Y_3 = a_i + b_i X_3 + u_i$$

Where  $Y_3$  = Goodwill (GDWIL)

$X_3$  = Average value profit method (AVPM), Super profit method (SUPM) and capitalized value profit method (CVPM)

Chow test statistics is obtained as follows;

$$F = \frac{RSS_1 - (RSS_2 + RSS_3) / k}{RSS_2 + RSS_3 / n - 2k}$$

Where: RSS = Sum of Square residual

k = Total number of variable included

n = Total sample size

**Decision Rule:**

If the Chow test statistics is greater than the tabulated F-value, then the null hypothesis that is no structural break of change (that is there is no significant change) is rejected and vice versa



## CHAPTER FOUR

### PRESENTATION AND ANALYSIS OF DATA

#### 4.1 Data Presentation

**Table 4.1: The goodwill of Nigerian deposit money banks for pre-IFRS adoption**

Deposit Money Banks	2011 (000)	2010 (000)	2009 (000)	2008 (000)	2007(000)	Goodwill	Ave. Profit
Access bank plc	16,016,762	17,668,584	28,105,815	13,413,000	11,371,000	86,575,161	18,801,040
Diamond bank plc	-27,297,647	9,468,016	8,343,738	15,059,114	9,818,447	15,391,668	1,393,305.3
First bank plc	17,637,486	17,080,829	16,336,750	38,020,000	32,498,000	121,573,065	22,268,766
GTB bank plc	62,080,206	46,275,192	36,102,904	27,198,704	20,879,221	192,536,227	42,914,252
UBA bank plc	-37,292,000	3,693,000	22,989,000	54,637,000	29,065,000	73,092,000	11,006,750
Wema bank plc	-7,649,477	12,964,108	-3,309,254	-19,436,874	-13,489,112	-30,920,609	-4,357,874.3
Uni on bank plc	-102,633,000	47,438,000	-279,786,000	52,343,000	44,891,000	-237,747,000	-70,659,500
Sterling bank plc	3,459,744	3,688,251	-9,072,908	7,789,724	6,230,332	12,095,143	1,466,203
FCMB	-13,935,966	7,564,888	3,979,274	18,437,711	13,567,891	29,613,798	4,011,477
Zenith bank plc	51,141,000	42,957,000	31,753,000	48,939,000	25,689,000	200,479,000	43,697,500
Fidelity bank plc	8,325,000	8,221,000	4,569,000	15,797,000	98,215,000	135,127,000	9,228,000
Skye bank plc	8,022,000	11,445,000	2,148,000	16,340,000	12,677,000	50,632,000	9,488,750
Stanbic IBTC bank plc	9,976,000	13,028,000	9,860,000	76,616,651	51,322,811	160,803,462	27,370,163
Unity bank plc	3,457,682	13,409,900	-20,970,488	-13,154,073	-11,981,003	-29,237,982	-4,314,245
Eco bank plc	18,023,000	2,120,000	2,098,000	1,157,622	3,256,900	26,655,522	5,849,656
<b>Total</b>							<b>161333648</b>

**Table 4.2: The goodwill of Nigerian deposit money banks for post IFRS adoption**

Deposit Money Banks	2017(000)	2016(000)	2015(000)	2014(000)	2013(000)	Goodwill	Ave. Profit
Access bank plc	91,870,320	80,579,576	65,177,914	46,142,422	31,365,396	315,135,628	55816327
Diamond bank plc	5,901,000	3,291,000	22,681,846	22,299,017	33,250,474	87,423,337	20380584
First bank plc	58,092,000	53,545,000	2816000	92,884,000	91,337,000	298,674,000	60145500
GTB bank plc	190,875,005	154,005,487	113,027,057	110,367,851	100,461,729	668,737,129	119465531
UBA bank plc	61,945,000	57,649,000	50,735,000	56,200,000	43,428,000	269,957,000	52003000
Wema bank plc	4,871,334	3,276,365	3,045,528	3,093,940	1,947,308	16,234,475	2840785.3
Union bank plc	21,768,000	16,053,000	18,141,000	20,691,000	4,201,000	80,854,000	14771500
Sterling bank plc	4,009,600	2,805,000	11,016,301	10,747,985	9,310,198	37,889,084	8469871
FCMB	4,391,877	3,749,611	2,548,286	23,942,893	18,184,399	52,817,066	12106297
Zenith bank plc	175,916,000	139,927,000	115,220,000	107,849,000	94,108,000	633,020,000	114276000
Fidelity bank plc	18,761,000	11,061,000	205,799,000	13,389,000	13,659,000	262,669,000	60977000
Skye bank plc	18,467,000	15,460,000	17820000	10,474,000	17,136,000	79,357,000	11357500
Stanbic IBTC bank plc	2,178,000	1,501,000	9,899,000	12,898,000	94,740,000	121,216,000	29759500
Unity bank plc	2,465,474	1,816,431	2,342,667	13,639,390	-33,639,369	-13,375,407	3960220.3
Eco bank plc	7801000	5842000	205,239,000	28,663,000	10,533,000	258,078,000	62569250
							<b>633737262</b>

## 4.2 Test of Hypotheses

### Hypothesis One

**Ho<sub>1</sub>:** The adoption of IFRS has not improved the value relevance of average profits method of goodwill in deposit money banks in Nigeria.

**Table 1: Separate regression (before IFRS adoption for AVPM)**

Method: Ordinary Least Square (OLS)

Sample: 5YEAR

Included Observation: 15

VARIABLE	Coefficient	Std.Error	t-Statistic	Prob
AVPM	2012563.57	6950966.942	-.2.320	0.00
R <sup>2</sup>	.936	Mean dependent Var		7877616.
Adjusted R <sup>2</sup>	.931	S.D Dependent Var		25595421.89
RSS <sub>1</sub>	<b>10798768143095088.000</b>	Durbin-Watson Statistics		2.620
F	189.829			
d.f	3			
n	15			

Source: Regression Data Analysis (2018)

**Table 2: Separate regression (After IFRS adoption for AVPM)**

Method: Ordinary Least Square (OLS)

Sample: 5YEARS

Included Observation: 15

VARIABLE	Coefficient	Std.Error	t-Statistic	Prob
AVPM	2105238.74	.017	2.980	0.000
R <sup>2</sup>	0.979	Mean dependent Var		41926591.04
Adjusted R <sup>2</sup>	0.978	S.D Dependent Var		37330635.08
RSS <sub>2</sub>	<b>12785904959039510.000</b>	Durbin-Watson Statistics		1.893
F	612.688			
d.f	2			
n	15			

Source: Regression Data Analysis (2018)

**Table 3: Pooled regression (before and after IFRS adoption for AVPM)**

Method: Ordinary Least Square (OLS)

Sample: 5YEAR

Included Observation: 15

VARIABLE	Coefficient	Std.Error	t-Statistic	Prob
<b>AVPM</b>	0.990	8686493.48	-0.669	0.815
<b>R<sup>2</sup></b>	.979	Mean dependent Var		49804207.24
<b>Adjusted R<sup>2</sup></b>	.978	S.D Dependent Var		57775345.70
<b>RSS<sub>3</sub></b>	<b>25099596241831292.000</b>	Durbin-Watson Statistics		1.629
<b>F</b>	619.333			
<b>d.f</b>	8			
<b>N</b>	15			

Source: Regression Data Analysis (2018)

To compute the Chow Test using the formula thus;

$$F_{\text{cal}} = \frac{RSS_1 - (RSS_2 + RSS_3) / k}{RSS_2 + RSS_3 / n - 2k}$$

( )- t-value, RSS – Residual Sum of Squares, \*\* - (p<0.05) – significant at  $\alpha = 0.05$

The tables above shows that;

Sum of Square residual for periods before and after IFRS adoption

=25099596241831292.000.

Sum of Square residual for periods before IFRS adoption =10798768143095088.000

Sum of Square residual for periods after IFRS adoption =12785904959039510.000

Following the  $F$  distribution with  $(n - 2k)$  df in the numerator and the denominator respectively, in this study,  $k = 2$ , since there are only two parameters in each sub-regression and  $n = n - 2k = 15 - 4 = 11$

Therefore,

$$\begin{aligned} F_{\text{cal}} &= \frac{RSS_1 - (RSS_2 + RSS_3) / k}{RSS_2 + RSS_3 / n - 2k} \\ &= \frac{(25099596241831292.000 - (10798768143095088.000 + 12785904959039510.000)) / 2}{10798768143095088.000 + 12785904959039510.000 / 15 - 2 \times 2} \\ &= \frac{1366287561922}{11961123937} \\ &= 114.227 \end{aligned}$$

$$F_{\text{tab}} = F_{\alpha, [k, (n - 2k)]} = F_{0.05, [2, 8]} = 5.143$$

From the results Chow Test computed above, at  $\alpha=0.05$ ,  $F_{cal}= 114.227 > F_{tab}= 5.143$  at (2, 8) degree of freedom. We therefore accept the alternative hypothesis ( $H_1$ ) and conclude that there is no structural change on organizational AVPM after adoption of IFRS method on 0.05 level of significance. This implies that since adoption of IFRS in the firms at 0.05 level of significance there is a structural change in the AVPM. We therefore conclude that the adoption of IFRS has significantly improved the value relevance of goodwill using average profits method along with the adoption of IFRS in deposit money banks in Nigeria.

### Hypothesis Two

**Ho<sub>2</sub>:** The adoption of IFRS has not improved the value relevance of super profits method of goodwill in deposit money banks in Nigeria.

**Table 4: Separate regression (before IFRS adoption for SUPM)**

Method: Ordinary Least Square (OLS)

Sample: 5YEAR

Included Observation: 15

ARIABLE	Coefficient	Std.Error	t-Statistic	Prob
SUPM	-.382	136912892.34	.459	0.526
R <sup>2</sup>	0.146	Mean dependent Var		43.000
Adjusted R <sup>2</sup>	-0.139	S.D Dependent Var		84064129.62381
RSS <sub>1</sub>	<b>980917198648863.50</b>	Durbin-Watson Statistics		2.452
F	0.512			
d.f	3			
N	15			

Source: Regression Data Analysis (2018)

**Table 5: Separate regression (After IFRS adoption for SUPM)**

Method: Ordinary Least Square (OLS)

Sample: 5YEARS

Included Observation: 15

VARIABLE	Coefficient	Std.Error	t-Statistic	Prob
SUPM	.830	.198988886.60	-2.364	0.082
R <sup>2</sup>	0.688	Mean dependent Var		33270317.20
Adjusted R <sup>2</sup>	0.584	S.D Dependent Var		103209075.46
RSS <sub>2</sub>	19299620842745864.000	Durbin-Watson Statistics		1.791
F	6.623			
d.f	3			
N	15			

Source: Regression Data Analysis (2018)

**Table 6: Pooled regression (before and after IFRS adoption for SUPM)**

Method: Ordinary Least Square (OLS)

Sample: 5YEAR

Included Observation: 15

VARIABLE	Coefficient	Std.Error	t-Statistic	Prob
SUPM	.891	31820945.84	-2.132	0.042
R <sup>2</sup>	0.795	Mean dependent Var		43.40
Adjusted R <sup>2</sup>	0.726	S.D Dependent Var		94576081.47
RSS <sub>3</sub>	9242778419663016.000	Durbin-Watson Statistics		1.581
F	11.613			
d.f	8			
N	15			

Source: Regression Data Analysis (2018)

To compute the Chow Test using the formula thus;

$$F_{cal} = \frac{RSS_1 - (RSS_2 + RSS_3) / k}{RSS_2 + RSS_3 / n - 2k}$$

( ) - t-value, RSS – Residual Sum of Squares, \*\* - (p<0.05) – significant at α= 0.05

The tables above shows that;

Sum of Square residual for periods before and after IFRS adoption

=9242778419663016.000

Sum of Square residual for periods after IFRS adoption =19299620842745864.000

Sum of Square residual for periods before IFRS adoption =980917198648863.500

Following the  $F$  distribution with  $(n-2k)$  df in the numerator and the denominator respectively, in this study,  $k = 2$ , since there are only two parameters in each sub-regression and  $n = 15 - 4 = 11$

Therefore,

$$\begin{aligned}
 F_{\text{cal}} &= \frac{RSS_1 - (RSS_2 + RSS_3) / k}{RSS_2 + RSS_3 / (n-2k)} \\
 &= \frac{9242778419663016.000 - (19299620842745864.000 + 980917198648863.500) / 2}{19299620842745864.000 + 980917198648863.500 / (15-2 \times 2)} \\
 &= \frac{3607362307762}{134368527649} \\
 &= \underline{26.847}
 \end{aligned}$$

$F_{\text{tab}} = F_{\alpha, [k, (n-2k)]} = F_{0.05, [2, 8]} = 5.143$   
 From the results, Chow Test computed above, at  $\alpha=0.05$ ,  $F_{\text{cal}} = 26.847 > F_{\text{tab}} = 5.143$  at  $(2, 8)$  degree of freedom. We therefore accept the alternative hypothesis ( $H_1$ ) and conclude that there is a structural change on SUPM after adoption of IFRS on 0.05 level of significance. This implies that since adoption of IFRS has improved value relevance of goodwill using Super Profits method with the adoption of IFRS in deposit money banks in Nigeria.

### Hypothesis Three

**H<sub>03</sub>:** The adoption of IFRS has not improved the value relevance of capitalized value of profits method of goodwill in deposit money banks in Nigeria.

### Table 7: Separate regression (before IFRS adoption for CAPM)

Method: Ordinary Least Square (OLS)

Sample: 5YEAR

Included Observation: 15

VARIABLE	Coefficient	Std.Error	t-Statistic	Prob
CVPM	-.091	158910560.48	10.221	0.884
R <sup>2</sup>	0.008	Mean dependent Var		1608513186.200
Adjusted R <sup>2</sup>	-0.322	S.D Dependent Var		21925479.697
RSS <sub>1</sub>	<b>230505818054131456.000</b>	Durbin-Watson Statistics		1.732
F	0.025			
d.f	3			
N	15			

Source: Regression Data Analysis (2018)

**Table 8: Separate regression (After IFRS adoption for CVPM)**

Method: Ordinary Least Square (OLS)

Sample: 5YEARS

Included Observation: 15

VARIABLE	Coefficient	Std.Error	t-Statistic	Prob
CVPM	-.759	.340048912.198	12.453	0.137
R <sup>2</sup>	0.576	Mean dependent Var		3805345069.000
Adjusted R <sup>2</sup>	0.434	S.D Dependent Var		598201058.188
RSS <sub>2</sub>	<b>1055502223580841340.000</b>	Durbin-Watson Statistics		1.242
F	4.068			
d.f	3			
n	15			

Source: Regression Data Analysis (2018)

**Table 9: Pooled regression (before and after IFRS adoption for CAPM)**

Method: Ordinary Least Square (OLS)

Sample: 10YEAR

Included Observation: 15

VARIABLE	Coefficient	Std.Error	t-Statistic	Prob
CVPM	.548	8760467776.126	1.432	0.339
R <sup>2</sup>	0.300	Mean dependent Var		18760707068.800
Adjusted R <sup>2</sup>	0.067	S.D Dependent Var		8662828969.559
RSS <sub>3</sub>	<b>700536818588096400000.000</b>	Durbin-Watson Statistics		2.661
F	1.285			
d.f	8			
n	15			

Source: Regression Data Analysis (2018)

To compute the Chow Test using the formula thus;

$$F_{cal} = \frac{RSS_1 - (RSS_2 + RSS_3) / k}{RSS_2 + RSS_3 / n - 2k}$$

( ) - t-value, RSS – Residual Sum of Squares, \*\* - (p<0.05) – significant at  $\alpha = 0.05$

The tables above shows that;

Sum of Square residual for periods before and after IFRS adoption=

700536818588096400000.000

Sum of Square residual for periods after IFRS adoption = 1055502223580841340.000

Sum of Square residual for periods before IFRS adoption = 230505818054131456.000

Following the *F* distribution with (n - 2k) df in the numerator and the denominator

respectively, in this study,  $k = 2$ , since there are only two parameters in each sub-

regression and  $n = 15 - 4 = 11$

Therefore,

$$\begin{aligned}
 F_{cal} &= \frac{RSS_1 - (RSS_2 + RSS_3) / k}{RSS_2 + RSS_3 / n - 2k} \\
 &= \frac{700536818588096400000 - (1055502223580841340.000 + 230505818054131456.000) / 2}{1055502223580841340.000 + 230505818054131456.000 / 15 - 2 \times 2} \\
 &= \frac{2859680072123.5}{116909821966.7} \\
 &= \frac{24.461}{F_{tab} = F_{\alpha, [k, (n-2k)]} = F_{0.05, [3, 8]} = 5.143}
 \end{aligned}$$



From the results, Chow Test computed above, at  $\alpha=0.05$ ,  $F_{cal}= 24.461 > F_{tab}= 1.143$  at (3, 8) degree of freedom. We therefore accept the alternative hypothesis ( $H_1$ ) and conclude that there is a structural change on capitalized value of profit method after adoption of IFRS on 0.05 level of significance. This implies that since adoption of IFRS has improved value relevance of goodwill using capitalized value of profit method with the adoption of IFRS in deposit money banks in Nigeria.

### **4.3 Discussion of Result**

Based on the analysis and the three hypotheses tested, the hypothesis one result showed that the value relevance of goodwill has improved using average profits method along with the adoption of IFRS in deposit money banks in Nigeria. Hypothesis two indicates that value relevance of goodwill has not improved Using Super Profits with the adoption of IFRS in deposit money banks in Nigeria. While hypothesis three also showed that value relevance of goodwill has improved using capitalized value of profits with the adoption of IFRS in deposit money banks in Nigeria.

This result is in line with Godfrey and Koh (2009) who show that goodwill accounting under the IFRS impairment regime is more strongly associated with firms' underlying economic attributes than under the previous amortization regime. Chalmers, Godfrey and Webster (2011) found that the association between firms' goodwill charges against income and the firms' investment opportunities is stronger during the IFRS regime than the AGAAP regime. This indicates that, as claimed, impairment charges better reflect the underlying economic attributes of

goodwill than do amortization charges. Elina (2015) results of this study show that the amount of the acquisition IFRS 3, cost allocated to goodwill has decreased during the examined period and due to the fair value accounting, business acquisitions have made new intangible assets visible that otherwise would have not met the recognition criteria under IAS 38. Paul, Andrei and Luc (2015) show that the decline in conditional conservatism is less pronounced for countries with high quality audit environments and strong enforcement of compliance with accounting standards using the Brown et al. audit and enforcement index. As asset impairment tests are a key mechanism ensuring conditional conservatism in the IFRS framework.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary of Findings**

Based on the analysis results, the following summaries were made;

1. The study revealed that the adoption of IFRS has improved value relevance of goodwill using average profits method in Nigerian deposit money banks.
2. The study revealed that the adoption of IFRS has improved value relevance of goodwill using Super Profits method in Nigerian deposit money banks.
3. The study revealed that the adoption of IFRS has improved value relevance of goodwill using capitalized value of profit method in Nigerian deposit money banks.

#### **5.2 Conclusion**

IFRS adoption transformed the accounting treatment for goodwill in many countries. Instead of amortizing goodwill, firms now test for its impairment and write off impairment losses against income. Accounting standard-setting bodies claim that an impairment regime better reflects the underlying economic value of goodwill than systematic amortization.

Results indicate that the value relevance of goodwill has improved with the adoption of IFRS in deposit money banks in Nigeria. The study revealed that the adoption of IFRS has improved value relevance of goodwill using average profits, Super Profits method and capitalized value of profit methods in Nigerian deposit money banks.

Meanwhile replacing systematic amortization of goodwill with mandatory tests for goodwill impairment loss recognition provides an opportunity to investigate the IASB and FASB claims that a goodwill impairment regime better reflects firms' underlying economic value than an amortization regime.

### **5.3 Recommendations**

Based on the findings, the study recommended that:

1. Managers take this opportunity under the IFRS impairment regime to improve the alignment of goodwill reporting with the firms' underlying economic circumstances.
2. Nigerian deposit money banks should ensure there is enough information in respect of goodwill impairment before taking decision as this will foster quality decision.
3. Nigerian deposit money banks should providing adequate and accurate information in foot notes of financial statement in respect of goodwill impairment.

### **5.4 Contribution to Knowledge**

This study was able to bridge the gap by domesticates the value relevance of goodwill following the adoption of IFRS in Nigeria, hence employed additional statistical tool (Chow test) to test the structural changes between the pre and post IFRS adoption in Nigeria using the three methods of calculating Goodwill.

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## APPENDIX 1

### PREAVPM

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.967 <sup>a</sup>	.936	.931	6950966.94245	2.620

a. Predictors: (Constant), GDWILPRE

b. Dependent Variable: AVPMMPRE

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	917175870293404 8.000	1	917175870293404 8.000	189.829	.000 <sup>b</sup>
	Residual	628107238654552 .500	3	48315941434965. 580		
	Total	979986594158860 0.000	4			

a. Dependent Variable: AVPMMPRE

b. Predictors: (Constant), GDWILPRE

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4669671.287	2012563.574		-2.320	.037
	GDWILPRE	.233	.017	.967	13.778	.000

a. Dependent Variable: AVPMMPRE

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-60140044.0000	42105448.0000	7877616.2000	25595421.88826	15
Residual	-17629730.00000	7526095.00000	.00000	6698119.34509	15
Std. Predicted Value	-2.657	1.337	.000	1.000	15
Std. Residual	-2.536	1.083	.000	.964	15

a. Dependent Variable: AVPMMPRE

### POST AVPM

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.990 <sup>a</sup>	.979	.978	5642996.10857	1.893

a. Predictors: (Constant), GDWILPOST

b. Dependent Variable: AVPMPOST

**ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	195100691877914 60.000	1	195100691877914 60.000	612.688	.000 <sup>b</sup>
	Residual	413964266057939 .440	3	31843405081379. 957		
	Total	199240334538494 00.000	4			

a. Dependent Variable: AVPMPOST

b. Predictors: (Constant), GDWILPOST

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4313029.876	2105238.735		2.049	.061
	GDWILPOST	.178	.007	.990	24.753	.000

a. Dependent Variable: AVPMPOST



**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	1931459.2500	123385648.0000	41926591.0400	37330635.81774	15
Residual	-7085515.00000	12303899.00000	.00000	5437727.11222	15
Std. Predicted Value	-1.071	2.182	.000	1.000	15
Std. Residual	-1.256	2.180	.000	.964	15

a. Dependent Variable: AVPMPOST

**POOL AVPM**

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.990 <sup>a</sup>	.979	.978	8686493.48856	1.629

a. Predictors: (Constant), GDWILPOOL

b. Dependent Variable: AVPMPOOL

**ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	467318679958614 00.000	1	467318679958614 00.000	619.333	.000 <sup>b</sup>
	Residual	980917198648863 .500	13	75455169126835. 660		
	Total	477127851945102 64.000	14			

a. Dependent Variable: AVPMPOOL

b. Predictors: (Constant), GDWILPOOL

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-32742292.0000	166458352.0000	49804207.2400	57775345.70328	15
Residual	-23145708.00000	14758532.00000	.00000	8370514.57135	15
Std. Predicted Value	-1.429	2.019	.000	1.000	15
Std. Residual	-2.665	1.699	.000	.964	15

a. Dependent Variable: AVPMPOOL

**PRE SUPM**

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.382 <sup>a</sup>	.146	-.139	234937682.76592	2.452

a. Predictors: (Constant), GDWILPRE

b. Dependent Variable: SUPMPRE

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	282671115576322 64.000	1	282671115576322 64.000	.512	.526 <sup>b</sup>
	Residual	165587144350255 232.000	3	551957147834184 08.000		
	Total	193854255907887 488.000	4			

a. Dependent Variable: SUPMPRE

b. Predictors: (Constant), GDWILPRE

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	62820697.534	136912892.338		.459	.678
	GDWILPRE	-11.784	16.466	-.382	-.716	.526

a. Dependent Variable: SUPMPRE

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-149558688.0000	49179516.0000	43.0000	84064129.62381	5
Residual	-346285120.00000	148235792.00000	.00000	203462001.58153	5
Std. Predicted Value	-1.779	.585	.000	1.000	5
Std. Residual	-1.474	.631	.000	.866	5

a. Dependent Variable: SUPMPRE

**SUPMPOST**

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.830 <sup>a</sup>	.688	.584	80207274.90435	1.791

a. Predictors: (Constant), GDWILPOST

b. Dependent Variable: SUPMPOST

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	426084530286768	1	426084530286768	6.623	.082 <sup>b</sup>
		24.000		24.000		
1	Residual	192996208427458	3	643320694758195		
		64.000		5.000		
1	Total	619080738714226	4			
		88.000				

a. Dependent Variable: SUPMPOST

b. Predictors: (Constant), GDWILPOST

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-470450423.356	198988886.603		-2.364	.099
	GDWILPOST	.795	.309	.830	2.574	.082

a. Dependent Variable: SUPMPOST

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-49166780.0000	201594992.0000	33270317.2000	103209075.45933	5
Residual	-54548348.00000	116017056.00000	.00000	69461537.63549	5
Std. Predicted Value	-.799	1.631	.000	1.000	5
Std. Residual	-.680	1.446	.000	.866	5

a. Dependent Variable: SUPMPOST

**SUPMPOOL**

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.891 <sup>a</sup>	.795	.726	55506091.01610	1.581

a. Predictors: (Constant), GDWILPOOL

b. Dependent Variable: SUPMPOOL

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	357785407480724	1	357785407480724	11.613	.042 <sup>b</sup>
		88.000		88.000		
1	Residual	924277841966301	13	308092613988767		
		6.000		2.000		
1	Total	450213191677355	14			
		04.000				

a. Dependent Variable: SUPMPOOL

b. Predictors: (Constant), GDWILPOOL

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-67846944.309	31820945.844		-2.132	.123
	GDWILPOOL	.126	.037	.891	3.408	.042

a. Dependent Variable: SUPMPOOL

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-127048456.0000	101770528.0000	43.4000	94576081.47422	5
Residual	-50093316.00000	67077488.00000	.00000	48069684.88471	5
Std. Predicted Value	-1.343	1.076	.000	1.000	5
Std. Residual	-.902	1.208	.000	.866	5

a. Dependent Variable: SUPMPOOL

**CVPM PRE**

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.091 <sup>a</sup>	.008	-.322	277191761.57438	1.732

a. Predictors: (Constant), GDWILPRE

b. Dependent Variable: CVPMPRE

**ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	192290663982937 9.000	1	192290663982937 9.000	.025	.884 <sup>b</sup>
	Residual	230505818054131 456.000	3	768352726847104 80.000		
	Total	232428724693960 832.000	4			

a. Dependent Variable: CVPMPRE

b. Predictors: (Constant), GDWILPRE

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1624242086.450	158910560.483		10.221	.002
	GDWILPRE	-.029	.185	-.091	-.158	.884

a. Dependent Variable: CVPMPRE

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	1584919808.0000	1637966720.0000	1608513186.2000	21925479.69730	5
Residual	-270668544.00000	330928736.00000	.00000	240055107.24318	5
Std. Predicted Value	-1.076	1.343	.000	1.000	5
Std. Residual	-.976	1.194	.000	.866	5

a. Dependent Variable: CVPMPRE

**CVPM POST**

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.759 <sup>a</sup>	.576	.434	593156028.82121	1.242

a. Predictors: (Constant), GDWILPOST

b. Dependent Variable: CVPMPPOST

**ANOVA<sup>a</sup>**

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	143137802406756 1980.000	1	143137802406756 1980.000	4.068	.137 <sup>b</sup>
Residual	105550222358084 1340.000	3	351834074526947 140.000		
Total	248688024764840 3500.000	4			

a. Dependent Variable: CVPMPOST

b. Predictors: (Constant), GDWILPOST

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	4234482533.884	340048912.198		12.453	.001
GDWILPOST	-.799	.396	-.759	-2.017	.137

a. Dependent Variable: CVPMPOST

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3161638912.0000	4608936960.0000	3805345069.0000	598201058.18770	5
Residual	-604793856.00000	726549312.00000	.00000	513688189.36706	5
Std. Predicted Value	-1.076	1.343	.000	1.000	5
Std. Residual	-1.020	1.225	.000	.866	5

a. Dependent Variable: CVPMPOST

**CAPM POOL**

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.548 <sup>a</sup>	.300	.067	15281108364.994 30	2.661

a. Predictors: (Constant), GDWILPOOL

b. Dependent Variable: CVPMPPOOL

**ANOVA<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	300178423023330 600000.000	1	300178423023330 600000.000	1.285	.339 <sup>b</sup>
Residual	700536818588096 400000.000	13	233512272862698 800000.000		
Total	100071524161142 7000000.000	14			

a. Dependent Variable: CVPMPPOOL

b. Predictors: (Constant), GDWILPOOL

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	12546166970.895	8760467776.126		1.432	.248
GDWILPOOL	11.570	10.205	.548	1.134	.339

a. Dependent Variable: CVPMPPOOL

**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	7123521024.0000	28082518016.000 0	18760707068.800 0	8662828969.5591 1	5
Residual	14918184960.000 00	18819250176.000 00	.00000	13233828042.067 95	5
Std. Predicted Value	-1.343	1.076	.000	1.000	5
Std. Residual	-.976	1.232	.000	.866	5

a. Dependent Variable: CVPMPPOOL