

Goodwill



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Goodwill (accounting Making comparison between International and UK Accounting Standard Goodwill is the difference between what a company pays for an acquisition and the book value of the net assets of the acquired company. USA and UK have adopted accounting treatments for Goodwill that have sometimes been similar, and sometimes markedly different. The synchronization of treatment with respect to Goodwill was initiated because of the fact of different treatment adopted under the two standards.

Prior to 2001, US companies were allowed to choose either of the two methods of accounting for Goodwill i. e. " Pooling of Interests" or " Purchase Accounting Method". Under the first method, the Goodwill acquired on account of merger and acquisitions use to get amortized in equal installments over a period of 40 years. Under the second method, the Goodwill was considered as a permanent asset, which would not reduce in value with the passing of years, thus enabling the companies to test the same for impairment on an annual basis in order to ensure that fair value of the Goodwill was equal to its book value. Apart from the annual review, the impairment could also be exercised in instances where it indicated that the carrying amount of Goodwill needs reassessment.

The process of assessment of impairment consists of two steps. Firstly it involves comparison of the intrinsic value of a business with its carrying amount including the Goodwill. Incase the book value exceeds the fair value, then nothing needs has to be done. On the other hand, if the fair value is lesser than the book value, impairment would be carried out. Under the US GAAP, the fair value of Goodwill is calculated by allocating fair values to unit assets and liabilities. In the case of impairment of Goodwill, same should be charged to the Profit and Loss Account. The International Accounting

Standards also followed the footsteps of US GAAP concept.

The basic difference between the UK and the International Accounting Standards is that in the former the Companies were allowed to opt either of the two options. The Companies could either choose the amortization method or exercise the systematic testing for impairment method. Under the latter, amortization of Goodwill was totally banned. Instead the same was required to be tested for impairment on an annual basis by comparing the fair value of the reporting unit with its carrying amount. Also in case of any event occurring which tend to have resulted in impairment of the Goodwill, immediately a review would required to be carried out. On the contrary, where there is a substantial excess of fair value over the carrying amount, the review would be deferred.

Under the new IFRS, the concept of purchase accounting has been adopted unlike the former system where Goodwill used to get amortized. At present, Goodwill is not eligible for amortization any more and is regarded as an asset with infinite life. It requires an impairment test to be carried out just like in case of US GAAP & International Accounting Standards on an annual basis or as and when required. Similarly the amount of the erosion in the value of Goodwill would be debited to Profit and Loss Account.

References

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