

Amortisation Versus Impairment of Goodwill and Accounting Quality

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Abstract

In this paper there has been made a comparison between the amortisation and the impairment methods for accounting for goodwill, with regards to their associated effects on accounting quality. Based on two qualitative characteristics of accounting information, as formulated by the International Accounting Standards Board (IASB), the effects of the new impairment method are examined using a value relevance and a timeliness model. The sample consists of European companies that adopted this new method of goodwill accounting, following the required adoption of the International Financial Reporting Standards (IFRS) in 2005. The results indicate that impairment of goodwill is actually less value relevant than amortisation, but that it does lead to more timely accounting information. It is concluded that the objective of the IASB in issuing a new accounting standard is not completely met and it only partially contributes to higher accounting quality.

Keywords: Amortisation, impairment, goodwill, value relevance, timeliness

JEL classification: M21, M41, M48

1. Introduction

The International Accounting Standards Board (IASB) issues new accounting standards with the objective to improve the quality of financial reporting. One example is IFRS 3 (IASB, 2005; 2008), which came in effect in 2005. This accounting standard radically changed the way companies account for goodwill. Following IFRS 3, amortisation of goodwill is no longer allowed. The useful life of goodwill and the pattern it diminishes

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