

# Accounting for Goodwill: amortization versus impairment only approach – a debate in academic research. A literature review

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**Abstract—** The paper addresses one of the most controversial issues in accounting: goodwill accounting. The ongoing debate in academia, the regulatory environment, and accounting practice has been present for at least three decades. Currently, the FASB and IASB are debating whether to reintroduce the amortization approach as an alternative or replacement for the impairment-only approach. The purpose of the study is to contribute to this debate by providing empirical evidence based on the literature review. Our study primarily analyzes the most recent empirical findings and offers a multifaceted perspective. We identified the most sensitive areas of goodwill accounting under IFRS, US GAAP, and Chinese regulations. We then selected nine empirical papers published in high-quality journals and analyzed their findings. There are at least four significant implications for goodwill accounting: (1) value-relevance of reported goodwill information, (2) goodwill accounting openness for managerial discretion, (3) CEOs personal traits and related to that ability to signal true performance through goodwill accounting, and (4) lack of usefulness of goodwill information for the analysts. Literature review analysis implies the superiority of the impairment-only approach; however, many studies recommend amendments to the existing regulations.

**Keywords—** goodwill impairment, financial reporting quality, value relevance, impairment test and amortization

## I. INTRODUCTION

Goodwill reporting is one of the most controversial areas of accounting regulations. In many companies, it constitutes the single largest item on the face of the balance sheet (European Financial Reporting Advisory Group, 2017, June), amounting to 1.397 trillion euros across the 307 largest European companies in 2015, which is almost 30% of their net assets (EFRAG, 2016). As of 2019, S&P 500 firms had \$35 trillion of

goodwill in the face of their balance sheets (Maurer M., 2019), which constitutes 6% of total assets. Goodwill, resulting from the acquisition, typically accounts for approximately 50–60% of the purchase price (Shalev, 2009; Giuliani & Brännström, 2011). The importance of goodwill and its accounting treatment in financial statements resulted in ongoing debate and changes in accounting regulations.

The US Financial Accounting Standard Board (FASB) introduced the impairment-only approach (IOA) in 2001, which was later followed by the International Accounting Standard Board (IASB) in 2003. According to many practitioners and scholars, IOA is considered controversial (Ramanna, 2008; Watts, 2003). Baboukardos and Rimmel (2014) points out that goodwill accounting is heavily influenced by fair value measurement for initial recognition and subsequent impairment testing. According to Flyvbjerg (2006) And Wines et al. (2007), it is highly subjective, especially concerning impairment testing, and has the potential to have negative consequences in financial reporting. Burger and Wen (2021) refer to agency theory, arguing that IOA increases management discretion combined with highly subjective and unverifiable estimates, which leads to distorted reported earnings. Ball (2006) argues that it is especially problematic for countries with weaker economic, legal, and institutional environments, where the relevance of accounting numbers measured at fair value is dubious. Empirical evidence supports this statement. For example, the manipulation of goodwill impairment is documented in countries with weak corporate governance systems, such as Spain (Giner & Pardo, 2015) or China (Han, Tang, & Tang, 2021). In response to criticism, the US GAAP and the IASB commenced efforts to revise the existing regulations (Amel-Zadeh, Glaum, & Sellhorn, 2023).



The ongoing debate over goodwill accounting has been one of the most contentious issues in accounting research for decades. The goal of this paper is to provide a systematic literature review on this debate, grounded in the most recent empirical studies. We follow the review focus, as outlined by Kraus et al. (2022) and Tranfield et al. (2003), starting with (1) the review focus, (2) selecting relevant papers, (3) evaluating the criteria for selection (i.e., quality and timeliness), (4) extracting and compiling data and finally (5) reporting main findings. The variety of studies, from both a methodological and a practical perspective, makes this task challenging. The accounting community faces a dilemma in choosing between the impairment and amortization approaches. The choice is visible at the regulatory level, and discussions are conducted within the IASB and the FASB. Firstly, we aim to contribute to these discussions, as well as present relevant academic arguments. Secondly, we aim to understand and explain the most contentious issues from the perspectives of standard setters, preparers of financial statements, and stakeholders. We employ the literature review approach to analyze the research designs, methods, and findings of the most relevant papers.

The remainder of the paper is organized as follows. We begin by presenting the historical perspective of the regulatory framework for goodwill accounting. We aim to identify the key issues in financial reporting regulations, mainly addressing IFRSs and US GAAPs, with a minor reference to the Chinese regulatory framework. Thereafter, the method selection of the most relevant papers in the field is outlined, and a brief descriptions of the main findings are presented. The discussion follows the literature review section. Finally, the conclusions are provided.

## II. THE EVOLUTION AND CURRENT STATUS OF GOODWILL ACCOUNTING AND REGULATORY FRAMEWORK

The history of goodwill accounting is long and marked by many turning points. Before 2001, the FASB and IASB allowed for a choice between the pooling-of-interest method and the acquisition (purchase) method. The former applied in the case of a merger, and the latter in the case of a takeover. Only in the case of the acquisition method was the goodwill recognized. However, applying that method was not favorable for after-transaction earnings and profitability. It was due to the regulations in force at that time, which required goodwill to be amortized over a maximum of 20 years under IFRS and 40 years under US GAAP. As a result, the pooling-of-interest method was much more attractive, and the situation motivated managers to treat M&A transactions as mergers even though they were takeovers in an economic sense. This constituted the key driver of the regulatory shift, abandoning the pooling-of-interest method in favor of the acquisition method. However, to offset the lost advantages, FASB and IASB opted to treat goodwill as an asset with an indefinite useful life, which will not be amortized but tested for impairment. As a result of those regulatory changes, goodwill accounting has encountered several crucial issues, including recognition, the nature of

goodwill, purchase price allocation and related initial measurement, impairment testing and subsequent measurement, and presentation and disclosure.

From the start, there has been an ongoing debate over the IOA model. One side argues that impairment testing provides more up-to-date and useful information than the amortization plan scheduled at the inception date. The others claim that the impairment procedure allows for a discretionary approach and earnings management practices, resulting in inflated goodwill “untimely” or no necessary impairment (Li & Sloan, 2017; Ramanna & Watts, 2012). Many moments of goodwill accounting require a subjective approach. The goodwill must be identified, measured, and allocated to firms’ units (CGUs) at the acquisition date. At the reporting date, the recoverable amounts are estimated based on subjective assumptions, which are difficult to verify during the audit process. It all requires judgment and estimation, opening the doors to a discretionary approach.

The starting point – the initial accounting for a business combination is the first area of possible managerial mistreatment. IFRS 3 (par. 45) states that in the period in which the acquisition is concluded, the acquirer is obliged to recognize the provisional fair value of identifiable assets and liabilities. The acquirer has a measurement period, no longer than 12 months after the acquisition date, to retrospectively adjust the provisional amounts based on new information that existed at the acquisition date. This may result in the recognition of additional assets and liabilities, which in turn implies the necessity to adjust the goodwill amount. The difference between provisional and definitive fair values may be substantial. Roncagliolo & Avallone (2022) provide anecdotal evidence regarding AstraZeneca Plc, a UK pharmaceutical company that acquired another company from the same industry in 2015. AstraZeneca recognized a provisional goodwill of 456 million dollars. However, at the end of the measurement period, it was reduced to only 68 million dollars (together with related deferred tax liabilities). On the opposite angle, the acquisition deal made by French company Essilor International led to an increase in goodwill after the measurement period. There are many reasons behind the difference between provisional and definitive goodwill. The acquirer may recognize additional identifiable intangible assets, and there may be problems with fair value determination (i.e., for those assets for which there is no active market). Contingent liabilities may arise or be difficult to estimate. Roncagliolo & Avallone (2022) conclude that a choice to postpone the communication of the definitive goodwill is due to managerial opportunism. They note that a short period between the provisional and definitive goodwill reporting mitigates information asymmetry.

Goodwill allocation to a specific CGU is an example of potential accounting discretion. Managers may opt for selecting CGUs with a low probability of impairment in the nearest period window. It is because those CGUs themselves contain internally generated goodwill – so-called “headroom,” which, according to regulations (i.e., IAS 38), is not allowed to be recognized in the balance sheet. Therefore, if goodwill from an

economic perspective should be impaired, in practice, it is not due to the compensation effect of the internally generated goodwill. In accounting practice, it is referred to as shielding (Linsmeier & Wheeler, 2021). It also raises additional concerns about CGUs' impairment testing, which is already considered a discretionary earnings management tool. It refers to the estimation of the value in use, the issue of the discount rate, and other related factors.

The IOA approach raises many doubts about how it impacts the reliability of financial statements. The 2008/2009 global financial crisis raised expectations that many corporations would report goodwill impairment, which did not occur (Ford, 2018). In later years, the bankruptcies of well-known companies like Carillion in 2018 and Thomas Coos in 2019, which reported substantial amounts of goodwill and no impairments, provided other concerns in the debate (Alshehabi et al., 2024). It forced the IASB and FASB to reconsider the existing accounting treatment of goodwill. The FASB is heading toward reintroducing amortization, while the IASB does not share this view. Instead, it considers relief from annual testing if there is no impairment indication (Amel-Zadeh et al., 2023). This would benefit companies due to the complex and expensive procedure of goodwill impairment testing (Chatterjee, Shroff, & Sivaramakrishnan, 2022), especially when firms rely heavily on external experts in this matter (Reason, 2003). The FASB's decision to reintroduce

amortization with a periodic assessment for impairment is not straightforward, as there remains no consensus within the Board on key issues, such as the amortization period or the frequency of impairment tests (Burger & Wen, 2021). To sum up, the fundamental question is whether the recognition of goodwill in the balance sheet is justified and, if so, what the measurement process should be. The IASB's preliminary view on measurement is that neither the IOA nor the amortization approach is optimal (IASB, 2020).

### III. THE LITERATURE REVIEW – METHOD, FINDINGS AND DISCUSSION

Our literature review is based on the selection of the most relevant papers addressing the issue of goodwill impairment and amortization. Searching the databases renders a vast number of papers. For example, using the keyword “goodwill impairment + amortization”, extract 618 (Wiley), 457 (ScienceDirect), 223 (Emerald), and 51 (JSTOR) results, respectively. We selected nine papers by adopting the criteria of the quality (high-ranking journals), geographic scope (including different country settings), and timeliness (most recent studies). Table 1 presents the description and main findings of those papers).

TABLE 1: THE DESCRIPTION AND MAIN FINDINGS OF THOSE PAPERS

Authors	Sample	Main findings
Baboukardos & Rimmel (2014).	76 companies listed in the Athens Stock Exchange from the year 2008 (Greece)	The study demonstrates that the use of the IOA approach ('mark to model' estimations) generates relevant accounting numbers even in unfavorable Greek settings. However, the positive association between accounting and market numbers holds when a company exhibits a high level of compliance with IFRS disclosure requirements. This effect deteriorates with the lowering level of compliance.
Ferramosca & Allegrini (2021)	352 CFOs preparing financial statements under IAS/IFRS or US GAAP in private or public companies. The data was collected through LinkedIn.	CFOs with educational backgrounds in accounting and finance-related fields tend to prefer the IOA approach. CFOs exhibit confidence in the auditors' ability to detect a discretionary misuse of impairment testing for earnings management. Ultimately, CFOs believe that economic and financial conditions influence goodwill impairment. The audit quality (the auditor and his expertise in the industry) also plays an important role in this regard.
Burger & Wen (2021).	56,002 firm-year observations from 1988 to 2017 (30 years). Two-time windows – 14 years before and 16 years after the adoption of SFAS 142. (US)	The Authors adopted a unique approach to examine the value relevance of goodwill. In this case, it is analyzed from the perspective of the incremental relevance of goodwill over that of long-lived assets. As a result, the proxy is robust to temporal changes in the value relevance of accounting information in general. The findings suggest that the explanatory power of goodwill beyond other accounting information increased after the adoption of the IOA.
Chatterjee, Schroff & Sivaramakrishnan (2022).	3,194 firm-year observations from 1987 to 2017 (1,799 pre and 1,395 post-SFAS 142 implementation). The sample is based on the US setting.	The study contributes to the ongoing discussion on the dilemma of whether to reintroduce amortization or maintain the IOA approach. The findings show that the explanatory power of goodwill in determining covenant choice increases under the IOA approach. Furthermore, the adoption of SFAS 142 benefited the process of debt contracting by enhancing the value relevance of goodwill.
Iatridis, Pappas & Walker (2022).	8,614 firm-year observations of 1,347 UK-listed companies covering the period 2002-2014.	The findings suggest that companies with low-quality disclosures report less timely goodwill impairments compared to those with high-quality disclosures. Furthermore, more timely goodwill impairments signal a higher quality of financial reporting, which in turn translates into less adverse market response. Overall, the study recommends that the current standard based on the IOA approach is correct and should not be abandoned.
Roncagliolo & Avallone (2022).	110 business combinations completed from 01.01.2014 to 31.12.2015, mainly from Germany, France, and the UK as acquirers, and most target companies from the US.	The study focuses on the difference between the amount of the provisional and definitive goodwill. The findings suggest that overvalued acquirers have no incentive to mitigate information asymmetry by postponing the disclosure of the definitive goodwill amount. Therefore, the relationship between provisional and definitive goodwill in terms of time and amounts may serve as a proxy for managerial opportunism.

Authors	Sample	Main findings
Yang & Zhu (2023).	24,909 up to 34,630 firm-year observations of companies listed in the Shanghai and Shenzhen Stock Exchanges from the period 2007–2020 (China).	In the research design, the Authors decompose goodwill into initial and new components. The former is positively associated with firm performance, whereas the latter is negatively correlated. Furthermore, the longer the non-zero years of goodwill, the more damaging the impact on performance. Investors capture the effect, and it influences their behavior.
Runesson & Samani (2023).	909 firm-year observations (CEO letters) of non-financial companies listed in the Stockholm Stock Exchange covering the period 2005–2011, with an extension to 2014 in the case of delayed goodwill impairment.	The research design focuses on the textual analysis of CEO letters, aiming to identify hubristic language. The Authors conclude that a hubristic tone is positively and significantly correlated with the allocation of purchase price to goodwill. Furthermore, hubristic managers tend to overestimate future cash inflows generated by recognized goodwill and are less prone to goodwill impairment. Overall, the study provides empirical evidence suggesting that personal CEO traits and cognitive biases influence managerial discretion in the context of goodwill accounting.
Alshehaby, Halabi, Adwan & Boubaker (2024).	21,224 firm-year observations covering the period 2005–2018 from 21 countries (i.e., Australia, Austria, Belgium, Denmark, France, Germany, Greece, Hong Kong, Italy, Norway, Poland, South Africa, Spain, Sweden, the UK)	The findings suggest that industry-level competition has a positive impact on the value relevance of goodwill impairments. In other words, companies facing intense sector competition report goodwill impairments, which are negatively associated with market capitalization (share price). Therefore, they are value-relevant. The Authors argue that market exposure deters managers from opportunistic behavior. Furthermore, this effect is more pronounced for companies headquartered in countries with less secretive cultures and higher levels of social trust.

Source: Authors' own elaboration based on the literature review

From the investors' perspective, the important question is whether goodwill should be treated like other classes of assets (e.g., property, plant & equipment). Therefore, it should fulfill the asset definition stated in the IASB's Conceptual Framework, defining it as a resource controlled by the entity from which future economic benefits are expected to flow to the entity. It implies that assets should be associated with future cash flows. In a more general sense, a strand of research emerged, addressing the relationship between goodwill balances and/or goodwill write-offs and corporate performance (i.e., stock returns). In the US setting, studies focus on pre- and post-SFAS 142 periods. Some studies compare the two-time windows. For example, the study by Li et al. (2011) demonstrates that investors and analysts revise their expectations following the announcement of an impairment loss, concluding that the impact is higher in the pre-SFAS 142 period than in the post-SFAS 142 period. The findings suggest no change in the information content after the adoption of SFAS 142. On the other hand, the study by Lee (2011) provides empirical evidence suggesting that, under IOA, the predictive ability of goodwill recognized in the balance sheet regarding cash flows has increased. Following this line of reasoning, Lee and Yoon (2012) conclude that the informativeness of earnings in terms of predicting future operating cash flows and earnings persistence increased. In a similar vein, Jarva (2009), using the US setting, demonstrates that significant goodwill impairment charges translate into lower operating cash flows over the next two years. Guler (2018) considers additional factors in his research design, such as the level of discretion over the financial reporting process or the willingness to recognize existing goodwill impairment. The findings suggest that the greater the discretion and the less the willingness, the lower the association between market capitalization and accounting goodwill reported in the financial statements. Those studies indicate that investors value information on goodwill carrying amounts and goodwill impairment, and this is reflected in stock prices. There

are many studies demonstrating a strong positive association between goodwill and market capitalization or stock prices (Bugeja & Gallery, 2006; Dahmash, Durand, & Watson, 2009; Henning, Lewis, & Shaw, 2000; Ritter & Wells, 2006). To sum up, there is much empirical evidence indicating that the carrying amount of goodwill reflects future economic benefits and is value-relevant. However, some studies did not find an expected association between goodwill and goodwill impairment and stock prices (Hamberg & Beisland, 2014; Ji & Lu, 2014).

The issue of purchase price allocation after the acquisition is another area of accounting judgment. More or fewer assets may be identified during the acquisition process; as a result, the goodwill arising from the transaction will be adequate and of lower or higher value. The findings of Zhang and Zhang (2017) suggest that managers of companies with a high-to-book ratio tend to allocate a high proportion of the purchase price to goodwill. As a consequence, the probability of subsequent goodwill write-downs is low. Other studies show that the proportion of the purchase price is associated with CEO traits and bonuses (Shalev, Zhang, & Zhang, 2013), which in turn suggests opportunistic managerial behavior.

CFOs provide an important voice in the debate. Ferramosca and Allegrini (2021) present an insightful survey conducted among 352 managers, investigating their areas of expertise, educational backgrounds, ages, countries of origin, and characteristics of auditors. Their findings suggest that CFOs with accounting and finance educational backgrounds tend to prefer the IOA approach. They argue that it allows to provide a faithful representation of the underlying economic firm's condition. At the same time, they express the conviction that financial auditors can detect misuse and discretion in impairment testing, assuring high-quality reporting. This finding aligns with the results of Aharony et al. (2010) and Chalmers et al. (2011), who suggest that goodwill is more value-relevant under IOA when managers have greater

discretion over goodwill derecognition. At the ownership level, the CEOs of companies with dominant governmental shareholders prefer IOA, arguing that it is a party capable of monitoring and curbing unfavorable managerial actions. Finally, at the country level, Ferramosca and Allegrini (2021) demonstrate that CFOs from optimistic accounting cultures prefer IOA. In a similar vein, Durocher and Georgiou (2022) interviewed 22 buy-side and sell-side analysts, mainly operating in the UK. Surprisingly, the study shows that users (analysts) of financial statements ignore goodwill accounting information. The models they use are unable to track each acquisition and determine resulting synergies. Information on goodwill impairment usually does not adjust future cash flow projections. However, they are treated as ‘interesting data points.’ More importantly, the reintroduction of goodwill amortization will not change this situation.

The concept of value relevance is frequently employed in the literature regarding the impairment of goodwill. On the conceptual level, value relevance is defined as the statistical association between accounting information and a firm’s market outcomes (i.e., market capitalization, share price, etc.) Burger and Wen (2021) explore this lens from a broader perspective, encompassing not only goodwill but also its relative value relevance to other assets. The study period utilizes data from both pre- and post-SFAS 142. Their findings demonstrate that goodwill is value-relevant; however, the explanatory power of goodwill beyond other accounting information has increased following the adoption of SFAS 142. Additionally, the incremental sensitivity of market values to changes in goodwill to changes in PPE is greater after IAO adoption.

China is another important country with a huge impact on the global economy. In 2006, the Ministry of Finance of China replaced the goodwill amortization approach with the impairment approach, requiring at least one impairment test per year. The issue of goodwill accounting became more pronounced with the increasing volume of mergers and acquisitions (M&A). Since 2014, the total number of yearly M&A transactions involving listed companies in China has averaged over 900, except for the COVID-2020 year. The second tendency was that many listed companies recognize goodwill in large amounts, often around 90% of the purchase price or merger cost. No sufficient disclosure of goodwill impairment-related information accompanies it. Between 2014 and 2020, the average book value of goodwill accounted for 5.5% of total assets. Li et al. (2011) demonstrate that managers are reluctant to report goodwill impairments in time to prevent bad news from being transferred to the market. As a result, goodwill is inflated and impaired later on. The goodwill impairment cannot be fully predicted, which causes market turbulence (Li & Sloan, 2017). The study by Ma et al. (2024) adopts a financial auditor’s perspective, with a special emphasis on Key Audit Matters (KAMs). In China, KAMs were introduced in 2016 by the Ministry of Finance by CSACOA1504 regulation. Ma et al. (2024) show that in 2016, almost 19% of KAMs addressed the issue of goodwill impairment. They conjecture that larger audit firms have the

power to compel companies to impair goodwill, while the smaller firms are reluctant to do so, due to the threat of losing the client. In that case, a higher level of negative press coverage may compensate for it and persuade management to impair the goodwill. In a similar vein, Xu et al. (2025) investigated the relationship between the carrying amount of goodwill and the probability of addressing the goodwill impairment in KAMs. They provide empirical evidence supporting this association. Furthermore, companies for which a goodwill issue was communicated as a KAM in the audit report are more likely to impair goodwill. In the same Chinese setting, Yan and Zhu (2023) made a distinction between initial goodwill (at the beginning of the year) and new goodwill (acquired during the year). Based on the large sample of Chinese companies from the 2007–2020 period and more than 30,000 firm-year observations, they show that initial goodwill is negatively related to a firm’s performance, while new goodwill is positively related. They introduce another parameter, a non-zero years of goodwill. Therefore, initially, the newly acquired goodwill has a positive impact on the firm’s goodwill; however, over time, it has an adverse effect on the firm’s performance. Yan and Zhu (2024) conclude that goodwill causes long-term damage to a company’s profits.

#### IV. CONCLUSIONS

Our study aims to shed light on the discourse between proponents and adversaries of goodwill impairment. There are at least several standpoints in this debate. Firstly, the issue of value relevance. The empirical research provides mixed results; however, most of them imply that the goodwill carrying amount or goodwill impairment is value-relevant. In other words, it is correlated with the firms’ future cash flows and/or market capitalization. Secondly, many scholars and commentators accuse existing regulations of being open to managerial discretion, which leads to earnings management practices and a deterioration in financial reporting quality. It refers to aspects such as the allocation of the purchase price to a specific CGU and the difference between provisional and definitive fair values in goodwill estimation, and finally, the timing of goodwill impairment (i.e., untimely or delayed). Thirdly, the perspective of the preparers. The study by Ferramosca and Allegrini (2021) suggests that more experienced and educated CEOs tend to prefer the IOA approach. Furthermore, the CEO’s personal traits play a significant role in estimating goodwill or potential misuse of goodwill accounting (i.e., a hubristic tone in the CEO’s letters). Fourthly, the study by Durocher and Georgiou (2022) yields a surprising result, suggesting that analysts do not consider goodwill information reported in financial statements as relevant. Overall, we conclude that most empirical studies support the IOA approach; however, some recommendations for amendments are warranted.

The quality of goodwill reporting is also dependent on other firm and country-level factors. These factors include cultural background (i.e., less secretive and more optimistic cultures), institutional setting, industry affiliation, market exposure, audit

quality, etc. Analyzed studies refer to different reporting regimes (IFRS, US GAAP, Chinese GAAP) and country settings. Therefore, the generalizability of the results is always a sensitive issue.

Our study has several limitations. Firstly, we analyzed only a small fraction of studies, while other potentially significant studies are outside the scope of our analysis. Secondly, we focused on the latest period, taking into account expected changes in reporting regulations. Thirdly, our analysis model is straightforward, focusing primarily on the findings and the study sample of analyzed papers. At the same time, our analysis does not consider the research methods, data sources, relevant theories, and key descriptive variables.

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