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Goodwill in the Current Greek Accounting Environment

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***Abstract*—**The growing interest in the issue of intangible assets not only in the scientific community but also in some professional bodies internationally can be explained by several points of view. From the business perspective, enterprises are increasingly motivated by external and internal forces to measure and proactively manage their intangibles. With respect to the issue of intangibles, goodwill has been debated in many countries throughout the world. Despite the numerous efforts and the existence of international accounting standards there is not yet a common accepted accounting treatment for goodwill. This study attempts on the one hand to impress the accounting treatment of goodwill internationally, on the other hand analyses the major subjects in relation to the accounting treatment of goodwill in Greece, since 2005, year where the international accounting standards have been in use for the Greek listed companies. The results indicate that the accounting treatment for the goodwill in Greece, despite the effort for accounting harmonization in Europe from 2005, sustains many differences especially for the no listed companies.

***Keywords*—**Intangible Assets, Goodwill, International Accounting Standards, Greek Accounting System and Law

I. Introduction

NOWADAYS, the global economic and entrepreneurial environment characterized mainly by two discernible variables; diversification and volatility. Analyzing businesses' decisions, tactics and strategies we conclude that the objective of maximizing the business's value remains at the scope of their efforts. Enterprises considered as economic entities which are trying to combine effectively their own resources, tangibles and intangibles in order to participate effectively to the international competition and at the same time to enhance their profitability and value respectively. In accordance with the FASB's definition, assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events, additionally an asset has three essential characteristics: (a) it embodies a probable future benefit that involves a capacity singly or in combination with other assets to contribute directly or indirectly to future net cash inflows, (b) a particular entity can obtain the benefit and control others' access to it, (c) the transaction or other event giving rise to the entity's right to or control of the benefit has already occurred [14]. Others define assets as expenditures made with the intention of earning future benefits through enhanced profits and cash flows. We can easily identify tangible assets as well as financial items included as assets even though they are not tangible [27]. In addition to these resources, businesses may have expended funds to acquire a different category of assets known as intangibles. A typical and at the same time a specific definition of these is the follow: "an intangible asset is a claim to future benefits that does not have physical or financial embodiment" [26]. Externally acquired intangibles are purchased from outside the business and usually have identifiable costs and discernible benefits, among them we can recognize patents, brands, copyright agreements, research and development expenditures, franchises and mainly the payment for the goodwill. The issue of goodwill has been very controversial and seriously debated by academics and practicing accountants all over the word today. Despite numerous efforts and the existence of international accounting standards there is yet to be for this significant asset a universally accepted definition and at the same time a common accounting treatment [35]. Different countries have issued and implemented different types of the goodwill's treatment, a general truth which involves additional controversies and "problems" in relation to the financial statements' comparability. Our study is carried out with main objective to impress: (a) some representative definitions which have issued for the goodwill through the international literature, (b) the accounting treatment of goodwill in relation to its initial recognition, measurement and valuation with reference to International Financial Reporting Standards (IFRSs) from 2005, (c) the accounting treatment of goodwill in Greece, detecting and underlying the differences derived from Greek law, legislation and general accepted accounting principles for listed and no listed companies. Finally, an attempt to look into the prospect of the harmonization of the goodwill accounting treatment in Greece is given.

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II. Literature review

We are facing a new era of economic development with a growing significance of intangible assets. Intangible assets have become important value creators in modern economy. Goodwill constitutes a significant intangible asset for numerous companies, especially those which are operating in the industries based mainly in high technology and knowledge [20]. Accounting for goodwill has been proven one of the most contentious issues in the history of modern accounting. Only when we have a common understanding of what goodwill really is we can then address how to account for it. In this context, at this point of our study, we cite some representative definitions of the goodwill.

In accordance with one of the early definitions, goodwill can be described as a willingness of an owner of a business to relinquish the expectation of the business by transferring it for a consideration to someone else, which is known as "selling the goodwill of that business" [9].

Goodwill can also be defined through the excess profit approach. In this approach, goodwill is: the present value of a number of years of abnormal expected returns for the type of business concerned. In this view, the total value of a business is the sum of the present values of the normal returns from the identifiable net assets, and the present value of the super-normal returns [11].

As a significant asset can be also defined as the present value placed on anticipated future earnings in excess of a reasonable return on producing assets. Thus, it is the cost to the buyer of earnings over and above the cost of the assets required to produce these earnings [37].

In the framework of capitalized value, goodwill defined as the present value of the future stream of superior earnings of the business to be acquired. Under this approach, earnings are determined and recorded as goodwill [28].

Under a different point of view, in relation to its measurement, goodwill is defined as the difference between the fair market value of a company's assets (less its liabilities) and the market price or asking price for the overall company. In other words, goodwill is the amount in excess of the company's book value that a purchaser would be willing to pay to acquire it. A combination of advertising, research, management talent, and timing may give a particular company a dominant market position for which another company is willing to pay a high price. This ability to command a premium price for a business is the result of goodwill [5].

Goodwill can also be considered from a general perspective, a “top-down” perspective which views it as being a component or subset of something large. A component of the acquirer’s investment in the acquire, which is based on the acquirer’s expectations about future earnings from the acquire and the combination. If the larger item, the investment, qualifies as an asset then the components integral to it viewed as subsets and the same time accounted for assets themselves. That larger asset, the investment is broken down into its constituent parts, and after the various identifiable net assets acquired are recorded, the remainder is assigned to goodwill [21]. As such, goodwill is what is “left over”, which is essentially how the Accounting Principle Board described it in Opinion No. 16, “Business Combinations” in 1970, namely as the excess of the cost of the acquired company over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed [1]. In the same framework an opposite approach, the bottom-up perspective, views goodwill in terms of the components that make it up. Specifically, if the price paid by the acquirer exceeds the fair value of the net identifiable assets of the acquired, obviously some other resources were acquired that have value to the acquirer. Accordingly to this perspective, goodwill can be interpreted as the purchase premium which is paid by the acquirer over the book value of the acquired net assets. This interpretation reflects how goodwill is calculated in practice, particularly in cases where obtaining reliable fair value measures for the net assets acquired is difficult [21].

In relevance to the nature and the accounting treatment of the goodwill, the UK Accounting Standards Board in 1997 issued the Financial Reporting Standard - 10 “Goodwill and Intangibles Assets”. Pursuant to this standard, goodwill arising on an acquisition is neither an asset like other assets nor an immediate loss in value. Rather, it forms the bridge between the cost of an investment shown as an asset in the acquirer’s own financial statements and the values attributed to the acquired assets and liabilities in the consolidated financial statements. Purchased goodwill is defined as the difference between the cost of an acquired entity and the aggregate fair values of that entity’s identifiable assets and liabilities. It is discerned between positive and negative goodwill. Positive goodwill arises when the acquisition cost exceeds the aggregate fair values of the intangible assets and liabilities. Negative goodwill arises when the aggregate fair values of the identifiable assets and liabilities of the entity exceed the acquisition cost [2].

In 2001, the new international accounting role and the reporting requirements moved ahead American Generally Accepted Accounting Principles (US GAAP). The Financial Accounting Standard Board (FASB) issued the Statement of Financial Accounting Standards (SFAS) 141-Business combinations and 142-Goodwill and Other Intangible. The Statements changed the unit of account for goodwill and took a different approach on how the goodwill has to be subsequently accounted after its initial recognition. According to SFAS 141, goodwill is defined and recorded as the excess of the cost of an acquisition price over the fair value of acquired net assets [38].

In 2004 International Accounting Standard Board (IASB) issued the International Financial Reporting Standard (IFRS) 3-Business Combinations and the revised International Accounting Standard (IAS) 36-Impairment of Assets and (IAS) 38-Intangible Assets, which provided a major change in accounting treatment of goodwill after many years. The new accounting standard made a significant change in the accounting rules for business combinations, intangible assets and goodwill. IFRS 3 claims that goodwill is initially defined and 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 [19],[13].

In 1996, the Australian Standards Board specified the definition and the treatment of the goodwill. Specifically, goodwill was defined as "future benefits from unidentifiable assets" [6]. The standard explained that these future benefits, because of their nature, were not normally individually recognized, with examples of these unidentifiable assets being market penetration, effective advertising, good labor relations and a superior operating team. In 2002, the Australian Financial Reporting Council formalized its support for the Australian adoption of international financial reporting standards from 1 January 2005.

According to Australian Financial Reporting Standards, (AASB) 3 – Business Combinations, goodwill is defined as "future economic benefits arising from assets that are not capable of being individually identified and separately recognized" [7]. Goodwill can only be recognized when an entity has acquired another entity or part thereof, as goodwill cannot be purchased or sold as a separate item [17]. Goodwill recognition requires the valuation of all identifiable assets, both tangible and intangible at fair value [29]. Goodwill then becomes a balancing item, the difference between the purchase consideration given (cost of the business combination) and the fair value of the identifiable net assets acquired [15].

In Greece, accordingly to the general accounting plan which constitutes one of the most important subject of the Greek General Accounting Principles, the goodwill of an economic entity is based on an assessment of its ability to achieve high profits due mainly to its good reputation, extensive customer base, market creditworthiness, good organization, particular specialization in the production of certain goods, the positive growth prospects of the industry to which it belongs, the exceptional advantages of the location where it is established, the high level of staff employed (scientific training, and experience) and the prestige, dynamism and efficiency of its administrative and managerial mechanism [31]. It is worth to be noted that Greece as a member of the European Union has adopted the mandatory implementation of the international financial reporting standards since 1 January 2005 but only for its listed companies. The great majority of Greek businesses, in a percentage which exceeds the 90%, has not still adopted the use of the international financial reporting standards and remains adherent of the Greek General Accounting Principles. Comparing the definition given by the General Greek Accounting Plan (G.G.A.P) with that adopted and cited previously by the IFRS 3, we conclude that in both cases goodwill is considered as an estimation of future benefits. However, although the IFRS 3 determines that future benefits come from assets that cannot be individually identified and reliably valuated, the G.G.A.P avoid the use of the term "assets" instead, it enumerates the characteristics leading to increased future profits. The reason for this variation can be sought in the differences of the two accounting systems in relation to the identification and the treatment of goodwill.

It is very important to be noted that the lack of agreement in the definition of goodwill has been followed by the lack of agreement in how to determine its measurement and treatment in the financial accounts. Particularly when financial statements of no listed companies compared with those of listed companies. In the following paragraphs of our study, the accounting measurement and treatment of goodwill is cited with reference to the IFRSs and the Greek General Accounting Principles focusing on the accounting disharmony observed in the Greek current accounting environment in the case of the goodwill.

III. Greek Listed Companies And Ifrss Goodwill Accounting Treatment

The importance of intangible assets has recognized during the last two decades. They constitute important value creators in the modern economy which is based mainly on the knowledge. The characteristics of the modern economy required in relation to intangibles a more adequate and dynamic approach. Goodwill is related to the future. It represents a business capability for future benefits and growth. Past recorded information based on the cost approach proved inconsistent despite its measurement advantages and objectivity. Hence standards setters in cooperation with international profession accounting bodies created internationally a specific and at the same time adequate approach of the goodwill accounting. Since 1 January 2005 all European listed companies, among them Greek listed companies have been required to adopt and prepare their financial statements in accordance with International Financial Reporting Standards (IFRSs) including International Accounting Standards (IAS) [33],[16],[39]. Three standards determine the accounting treatment of intangible assets and goodwill, namely IFRS 3 Business Combinations, IAS 38 Intangible assets and IAS 36 Impairment of Assets. Companies in a number of other jurisdictions, notably Australia, Canada and New Zealand, Sweden and Israel have also adopted IFRSs in a similar timeframe. Pursuant to these standards goodwill can be recognized as an intangible asset only if it is acquired in a business combination. The IFRS 3 requires that all business combinations which initiated after March 2004 must be accounted by using the purchase method [13]. Goodwill is the balancing item between the cost of acquisition and the fair value of the identifiable net assets acquired. Additionally in accordance with IFRS 3, contingent liabilities of the acquired are required to be included when considering the identifiable net assets acquired [19],[13]. These contingent liabilities are to be recognized at their values at the acquisition date. Previous accounting standards prohibited the recognition of contingent liabilities. It is worth to be noted that where contingent liabilities of the acquired entity or operation are recognized, higher initial value for goodwill will be recorded [40]. The initial recognized amount of the goodwill is not to be amortized but will be tested for impairment annually or whenever events or circumstances indicate its value may have been impaired. The carrying amount of goodwill will then be written down to the extent of any impairment and the impairment loss will be recognized in the calculation of the net profit. According to the new accounting treatment, an asset is considered to have been impaired if its carrying amount exceed its recoverable amount. If no impairment loss is to be recognized, the goodwill balance remains unaltered in the entity's balance sheet from year to year. A significant problem in determining whether goodwill has been impaired derived from the fact that goodwill does not produce profit in isolation. Rather, the profits produced from a parcel or package of net assets of which goodwill is the residual and not capable of separate identification [18]. In circumstances, where it not possible for the recoverable amount of an individual asset to be estimated, this being the case with goodwill, the allocation of its amount to cash-generating units is required [32]. A cash generating unit is determined recording to IFRS 36 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. 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 [18]. An impairment loss is recognized for that unit if its recoverable amount is less than its carrying amount. The carrying amount for a cash-generating unit is represented by the carrying amount of the individual assets (including goodwill) and applicable liabilities pertaining to that unit [40]. Recoverable amount is defined as the higher of the cash-generating unit's "fair values less cost to sell and its value in use". Fair value less cost to sell is defined as the "amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal". While value in use is defined as "the present value of the future cash flows expected to be derived from an asset or cash generating unit" [18],[32]. If recognition of an impairment loss is required that is, where the carrying amount of the cash-generating unit's net assets exceeds the unit's recoverable amount, that loss is firstly written off against the value of the goodwill allocated to that cash-generating unit and cannot be reversed in a subsequent reporting period [40],[32]. If the amount of the impairment loss exceeds the carrying amount of the goodwill, the excess is allocated to other assets of the unit on a pro-rata basis based on their carrying amounts [32].

IV. Greek No Listed Companies And Goodwill Accounting Treatment

Even though Greek legislation does not use the broader term "Business Combination" to identify the union of two or more financial entities into one referred financial entity, preferring instead the more common terms "Acquisition" and "Merger", it does provide a multifaceted legal framework in order to determine the terms, procedures and accounting treatment of such actions. Greece has created an accounting system heavily influenced by stakeholder interests (e.g. powerful political groups, banks, workers' unions, business associations) and thus directly dependent on its tax and commercial legislation [30],[12]. The above have also led to the fragmentation of the Greek accounting regulations into a plethora of laws, interpretation circulars, case laws and guidelines, which often create confusion in relation to the appropriate accounting treatment of these actions [4],[8]. In accordance with accounting theory, Greek legislation recognizes as an acquisition the act through which the acquirer entity buys upon compensation all the entity's rights belonged to the shareholders of the acquired. In the sane framework, a merger defined as the act through which two or more financial entities unite their equities, in this case, their previous owners exchange their up to then rights with those of the new entity created due to the merger. It is emphasized that Greek legislation in relation to the accounting treatment of business combinations has adopted the two basic methods issued by international literature. Therefore, the Greek G.A.A.P. recognize, per case, both the "Purchase Method" provided for business combinations by the IFRS 3, and the "Pooling of Interest Method" recognized by the previous IAS 22. Nonetheless, the "Pooling of Interest Method" is not applied to all business combinations, since it is applied only under specific conditions, while the "Purchase Method" is applicable to all others [34],[4].The basic legislative regulations governing the issue of businesses mergers and acquisitions and by extension goodwill in Greece are; the Codified Law 2190/1920 "On Companies Limited by Shares" as amended by Law 3604/2007, as well as the law 2166/1993 and the legislative decree 1297/1972 including a series of tax incentives for business combinations and have an important effect thereon [36],[3]. In relation to the mergers the key law C.L 2190/1920 and more specifically its articles 68-79 defines that a merger of two or more companies may be realized either through the absorption of one or more companies by another existing company, or through the establishment of a new company, which acquires the total assets and liabilities of the merged companies [24]. Concerning the subject of the valuation of the assets and liabilities of the merging entities, two different approaches are identified originating from the tax regulations, that as mentioned above substantially influence business mergers in Greece. Accordingly with the Law 2166/1993, article 2, par.1, in the framework of businesses mergers, the assets and the liabilities of the merged companies are valuated at their book values which may not be readjusted in any way [23]. On the other hand, both article 71 of Codified Law 2190/1920 and article 8 of legislative decree 1297/1972 provide that, during the merger, the assets of the merging businesses are evaluated by a valuation committee as defined by Article 9 of Codified Law 2190/1920. The above committee valuates the assets according to the accepted valuation methods described in article 43 of this law and certifies that the nominal value of the new shares corresponds to the fair value of the merging companies. Studying the article 43 of the C.L 2190/1920 is clear that, the valuation principles laid down by the Greek legislation for mergers are considerably more conservative than those of the IFRS, since they are dominated by the principle of historical cost [25],[23]. However, it should be noted that the concept of fair value is included in the valuation of certain items, such as tangible assets.Furthermore, the subject of the preparation and presentation of the consolidated financial statements follows the regulations of the valuation process. Hence, if Law 2166/1993 is used for the valuation of net assets and liabilities of the merging companies, the consolidated financial statements based on the book values and the method of "Pooling of Interests" is applied. On the other hand, if the valuation of the net assets and liabilities of the merging companies based on the fair values derived from the use of the C.L 2190/1920 and the Legislative Decree 1297/1972, the consolidated financial statements of the merging companies accounted using the "Purchase Method" [34],[4]. A common point in both methods is the recognition in the consolidated results of the merging companies of their aggregate results in the fiscal year in which the merger take place, as well as the fact that in both cases the net assets value of the merged companies must be equal to the nominal value of the newly issued shares, prohibiting the recognition of goodwill [34],[3]. The C.L 2190/1920 also includes the main legislative provisions related to the case of acquisitions. It should be noted that the provisions of the law concern specifically the case where an individual entity ceases its operation and is completely acquired by the acquirer entity. In accordance with article 80 of the C.L 2190/1920, the act of acquisition is equated to the act of the merger through absorption and is determined by the same legal framework. Hence, in acquisitions, the assets and the liabilities of the acquired entity are valuated at the book values if the L. 2166/1993 is applied or at the current values if the C.L 2190/1920 or the P.D 1297/1972 is used in accordance with the article 9 of the C.L 2190/1920. However, although in the case of the mergers the law provides that the total nominal value of the compensation (i.e. shares) must be equal to the real value of the merged entity's equity, in the case of acquisitions, it acknowledges that the amount of the compensation may be different. Additionally, in the case of the acquisitions the compensation is usually paid in cash, although the payment of other assets as compensation is also possible [24],[25],[23],[4].

Concerning the consolidation process, if the 100% of a company is acquired by the application of L. 2166/1993, then the Pooling of Interests Method is applied, whereas the Purchase Method applied to any other situation. A significant deviation related to the application of the Purchase Method in the case of mergers and acquisitions in Greece concerns the consolidation of the sum of fiscal year companies' results and not only those arising after the date of the acquisition. Nevertheless, the possibility of paying for compensation an amount bigger or smaller than the real value of the acquired entity results in a difference between the acquisition cost and the real value of the company's rights acquired at the date of the consolidation. This difference may be positive (debit) or negative (credit). In accordance with the provisions of the law L. 2166/1993 the debit difference is not recognized as goodwill, instead is recognized in the fixed assets of the consolidated balance sheet and specifically in the account "Establishment Costs". If the valuation of the acquired business and consequently the consolidation realized in accordance with the C.L 2190/1920 or the P.D 1297/1993 the debit difference is recognized as goodwill. On the other hand, the possible credit difference is recognized as negative goodwill and is depicted on the company's equity [24],[34],[4]. Moreover, the IFRS – 3 provides that the essential feature for recognizing an action as business combination is the acquisition of the acquired company's control by the acquirer and not necessarily the acquisition of the 100% of the acquired company's rights. This approach necessitates the analysis of a specific case of business combinations termed by Greek legislation and accounting system as "Stocks in Associated Companies". In accordance with the C.L 2190/1920, article 42 e, par. 5, the associated companies characterized by the existence of a parent-subsidiary relationship [13]. One of the most significant qualifications which must take place for recognizing this relationship is the existence of "significant influence" by the parent company in some important, operational functions of the subsidiary company. In the case of the associated companies or associates, accordingly with the article 103, par. 2 of the C.L 2190/1920, if a difference arises during the valuation of the compensation amount between the acquisition cost of the acquired company's rights and the proportion of the acquirer ratio on the acquired business equity, then it is recognized in the consolidate balance sheet as "Consolidation Differences". In turn, if the consolidation difference is debit, it is accounted in a separate line of intangible assets and if it is credit in a line of the equity. As mentioned previously in our study, the identification of the goodwill in accordance with the Greek law and accounting principles is not possible in the case of mergers either through the absorption of one or more businesses by another existing or by the establishment of a new company. From this general rule exists a deviation, it is the case of merger with absorption where prior to the merger the acquirer participated in the acquired company's equity and consolidated differences were recorded. In this case, the previously amount identified as "Consolidation Differences" now can be recognized as goodwill under the assumption that the valuation of the assets and the liabilities of the acquired company took place using the regulations of the C.L 2190/1920 or the L.D 1297/1993 and not the L. 2166/1993. Finally in relation to the goodwill amortization Greek legislation imposes the general rule that it is amount must be amortized at most five years after its initial recognition [4],[12].

V. Conclusions

The growing interest in the issue of intangible assets not only in the scientific community but also in some professional bodies internationally can be explained by several points of view. From the business perspective, enterprises are increasingly motivated by external and internal forces to measure and proactively manage their intangibles. With respect to the issue of intangibles, goodwill has been debated in many countries throughout the world.

In accordance with the FASB's definition, assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events, additionally an asset has some specific characteristics.

The issue of goodwill has been very controversial and seriously debated by academics and practicing accountants all over the word today. Despite numerous efforts and the existence of international accounting standards there is yet to be for this significant asset a universally accepted definition and at the same time a common accounting treatment. Comparing and analyzing these definitions one essential characteristic is revealed in relation to this intangible asset; its ability to contribute to the production of future business economic benefits.

Different countries have issued and implemented different types of the goodwill's treatment, a general truth which involves additional controversies and "problems" in relation to the financial statements' comparability. This reality is obvious among other jurisdictions in the case of Greece and its accounting system where different laws and different accounting approaches are applied for the initial recognition of the goodwill and its subsequent treatment in relation to the business combinations, mergers and acquisitions. Even though many difficulties detected in relation to the comparability between listed and no listed companies in relation to the recognition and the term used for the accounting of the difference between the acquisition cost and the real value of an acquired business equity, Greek legislation recognizes goodwill as an intangible asset, which characterized mainly by its ability to contribute to the production of future economic benefits.

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