DEFINITIONS ATTRIBUTED TO GOODWILL IN THE ECONOMIC LITERATURE AND CONCEPTUAL DELIMITATIONS REGARDING THE WAY OF VALUATION AND EXPOSURE OF THIS PATRIMONIAL COMPONENT IN THE BALANCE SHEET

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Abstract
The purpose of this paper is to provide an exhaustive perspective on the evolution over time of the definition of the goodwill. The present paper is part of the research done in the doctoral thesis and we consider it very important to have a complete understanding of the concept studied to develop it further. In our demarche we used a chronological analysis and we revised definitions from the late 1800s to today.
At the same time, it is desired to clarify and analyze the concept of goodwill both from the point of view of the accounting literature and the economic practice (regarding the evaluation and exposure of this patrimonial component in the balance sheet) and to a lesser extent in the legal aspect. Definitions are given by prominent researchers of time, published in magazines and books of a high rank or offered by international accounting commissions. In our opinion, this study is beneficial to researchers in the idea that it offers a complete picture of its concept and history, being a study focusing on the international accounting of goodwill in the past, present and future.
In Romania, goodwill is treated as an asset, but does the market perceive goodwill in the same way as it sees other assets? To clarify this question, this paper first looks at the perception of the goodwill market as an asset in determining an entity's valuation.

Key words: *intangible assets, goodwill, methods of valuing goodwill, international standards*

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I. INTRODUCTION

During the 20th century, the concept of goodwill changed significantly: if the goodwill was initially considered to be a good and valuable relationship between the business owner and his clients, the current concept is wider in that it includes several intangible economic factors of the enterprise. Now the accountants consider that goodwill results from the power of gain of the business by investors.

When a company decides to acquire another company, the counterpart paid will, in many cases, exceed the total value of the separate valuation of each of the assets and liabilities of the acquire. The coverage level of the paid premium sometimes depends on the growth potential of the company concerned. In other cases, the former is related to cost-cutting opportunities when exploiting synergies between existing and new companies. Occasionally, the fact that a company has a fixed reputation or established customer base will result in the payment of a considerable premium by the acquirer. The premium paid is referred to as commercial well, and the accounting treatment of this premium has been the focus of a controversy for some time.

As economic value, goodwill plays a significant role in determining the value of an entity and has therefore become a much debated issue in recent years which the economic community has tried to delimit in terms of content and structure, apart from other intangible assets. There are companies in the market that have the same production factors but are valued and considered at different values due to the influence of these intangible values.

Goodwill is one of the intangibles that has always presented a constant problem for the accounting and practitioners ever since it was recognized its first existence in the 1880s. Many authors have since defined the concept of goodwill (Dicksee and Tillyard, 1906; Gynther, 1969).

Despite numerous efforts and the existence of accounting standards and exposure projects issued by various professional bodies at international level, there is still no universally accepted accounting treatment for goodwill. The opinion on the subject differs and changes frequently. The dichotomy of preserving the prescribed recognition criteria, on the one hand, and the need to report useful and real information, on the other hand, has led to the many controversial issues debated on goodwill.

In September 1999, the FASB issued the exposure projects, business combinations and intangible assets, which proposes that only the acquisition method be used to account for business combinations and that the maximum amortization period of goodwill be 20 years. At the deliberations of the 1999 draft Exposure Draft, the FASB issued a revised Exposure Draft proposing changes to the project on goodwill accounting. In June 2001, the FASB issued SFAS no. 142, goodwill and other intangible assets that required goodwill to be recognized as an asset without allowing a reduction for systematic depreciation.

On the other hand, the IASB issued in March 2004, IFRS 3, Business Combinations. This implies that all business combinations within its scope are accounted for using the acquisition method and prohibit the amortization of goodwill acquired in a business combination. Instead, in accordance with IAS 36, Impairment of Assets, required goodwill to be tested for impairment annually or more frequently if events or circumstances indicate that the asset could be impaired.

II. Definition And Classification Of The Goodwill Concept - Chronological Approach

In the accounting practice, reference is always made to the need to pay close attention to the attribution of a fair definition of goodwill, ie it must represent the difference between the price paid for the acquisition of an entity and the value of each asset and liabilities assumed.

The first British and North American publications help clarify the concept of goodwill. Goodwill is "a tangible, ethereal, intangible, immaterial, abstract, hidden and intangible asset that has been defined in vague terms as advantages, benefits, rights, sources, and privileges that belong to a successful business," is how Curtis (1983) summarizes the description of goodwill in the early literature. For a long time, the definition and clarification of goodwill was predominant in the literature. Subsequently, authors Nelson (1953) and Lonergan (1995) began to build up the theories of goodwill valuation, especially as the goodwill began to be the main subject in many court processes "the location of the business and the reputation of the place", "the reputation, the personality and the skill of the owner and his employees", "the use of a name for the business", "the quality of the goods and services", "the use of advertising" especially when there is an agreement between the owner and the buyer. "At that time, the opinions on goodwill were different, but what they shared was the constructive perspective of looking at goodwill as an aggregate of components and not as a residual value.

Goodwill is defined as the entity's ability to generate profit, which derivate from specific factors, capable of contributing positively to revenue generation (being obtained over time with the title of consideration, having no independent value), or by increasing the value for the entire set of assets which entity holds in relation to the value of each asset (Grosu, Socoliuc, 2016, pp. 71-72). In essence, the concept of goodwill can be characterized as a "walkway" linking the patrimonial approach with the prospective approach to enterprise value (Tchemeni, 1993, pp. 19-21). It is a very used notion for mergers, cession, consolidation and even taxation.

Economists, lawyers, businessmen have attempted to define this asset as "the most intangible of intangible" (Smith, Parr, 1994, p. 94).

In the economic doctrine, there is still no unanimously accepted definition of the goodwill concept (Bianchi, 1996; Boisiso, 1964). The concept of goodwill is closely related to the characteristics of the company in its continuity, (Zanda, 1974, p. 222) being an open system, particularly complex, endowed with specific forms of action and capable of influencing the environment in which it operates. The concept of goodwill has aroused great interest in marketing theories, which are no longer focused on the ratio between production/sales and profit. In this respect, goodwill is defined as the strategy that should aim to create consumer-friendly psychological behavior (Fabris, Minestrone, 2004, p. 224).

The definitions attributed to goodwill in the economic literature are numerous and different, both in quantitative and qualitative terms. Among the most recognized and accepted qualitative theories are:

a) The theory of benefits or extra-profits. It defines goodwill as the firm's ability to generate future economic benefits, otherwise it will registered a negative goodwill (Mateș et al., 2010, pp. 15-17);
b) Plus-value theory generated by the organization. It is based on a different definition of goodwill, which is determined as the difference between the market value of the firm and the sum of the current values of the assets that make up the total value of the firm's assets.

As regards the nature of goodwill, it is defined as follows (Amaduzzi, 2005, p.75):

1. Goodwill is the positive difference between 'fair value assets' acquired and their carrying amount'.
2. The nature of goodwill is represented by "fair value assets" that are not reported in the entity's annual financial statements (intangible assets);

3. The fair value of elements that work on the principle of business continuity; (going concern element);
4. "Fair value" of "developed synergies" - similar actions;
5. Overvaluation of paid price (shares);
6. Overlay due to negotiation phases.

The most recent definitions of intangible assets (including goodwill) describe them as resources based on the information they contain (Itami, 1987) or as non-material assets that are used to generate future economic benefits without having any material or financial support (Lev, 2001).

III. PRINCIPLES AND POLICIES CONCERNING THE ACCOUNTING OF THE GOODWILL

In line with the international standards FASB-SFAS 141, IASB-IFRS 3 and OMFP 1802/2014, goodwill is recognized only on the occasion of a so-called combination of entities, without any possibility of accounting for internally generated good, determined by the synergy of production or ongoing activities. When purchasing businesses, goodwill occurs if the amount of the good is paid out for the acquire greater than the value of the assets taken separately.

Thus, in accordance with IAS 38 "Intangible Assets", internally generated goodwill is not recognized as an intangible asset (IAS/IFRS, IAS 38, 2013, p. A970). The same treatment is highlighted by other economists such as Needles et al. (2000, p. 517), Bank, Covaliova (2004, p. 40) and others. As arguments in favor of this statement are called: internally generated goodwill is not an identifiable resource (not separable) therefore can not be credibly evaluated at cost. We do not intend to argue for the need to recognize internally.

Goodwill may be accounted for in several ways: amortization of goodwill, impairment of goodwill and disposal after full amortization.

If goodwill is subject to depreciation, it is considered to be an asset that incorporates future economic benefits. Goodwill is considered to be a cost of resources that will be consumed and should, therefore, be systematically depreciated against earnings. Within this approach, it is possible to take separate account of:

a) Revenues generated as a result of the business combination; and

b) Amortization costs of goodwill.

Given that goodwill is part of the cost of acquisition, the systematic depreciation method would be consistent with the principle that a recovered amount in addition to a purchase cost should be accounted for as a profit. In addition, since purchased goodwill may be replaced over time with internally generated goodwill, and goodwill acquired, if not amortized, may itself generate internal goodwill, so amortization may effectively prevent the inclusion of the internally generated goodwill in assets. Contrary to IAS / IFRS and FASB, in accordance with national accounting rules, where goodwill is treated as an asset, it is systematically amortized over a period of up to five years, provided that this period is does not exceed 10 years.

Under the depreciation approach, goodwill is capitalized and impaired when the amount of goodwill indicates signs of depreciation. This approach is adopted by FASB, SFAS 142 and IASB, IFRS 3. The approach to depreciation is supported by the following reasons (FASB, SFAS 142, 2001, B75 and B79):

(a) The useful life of goodwill and the model in which it is reduced is difficult to predict, but its depreciation depends on such forecasts;

(b) There is no rule of goodwill to decrease in value and when it decreases, this is rarely a linear amortization basis;

(c) Linear depreciation of goodwill within an arbitrary period does not reflect economic reality and therefore does not provide useful information.

With regard to goodwill acquired on a business combination, it should not be depreciated but subject to an annual impairment test. This procedure replaces the systemic depreciation (the annual percentage value determined by fiscal impositions) with the economic amortization that virtually reflects the real evolution of the value.

The IAS 36-Impairment of Assets standard broadly describes the procedures to be followed for the impairment test. The key element of differentiation is the transition from the historical cost to the fair value of the acquired assets and liabilities by which it is intended to give greater economic relevance to accounting information and a conciliation of the prudence principle with the fair recording of economic events.

It is considered that goodwill does not generate independently cash flows. He helps to obtain these flows from multiple individual assets or cash generating groups. For these reasons, an impairment loss for a cash-generating unit will be recognized if the recoverable amount of that unit is less than its carrying amount. This loss will be allocated to reduce the assets of the cash-generating unit in the following order (Bucur, 2012, pp. 203-210):

a) First of all is reduced the goodwill, allocated to the cash-generating unit;

b) The difference (if any) is allocated proportionally based on the weight of the accounting value of each asset in the cash-generating unit.

Under the write-off approach, goodwill is not considered as an asset, therefore it is immediately removed. Goodwill cannot be separated or performed independently but exists only by virtue of an assessment of the company or as a whole. It is not a consumed or consumed resource similar to other productive resources. The reason behind this approach and the preference in the past for SSAP 22 for this method was: (a) consistency with the treatment of not purchased goodwill; (b) the write-off should not go through the profit and loss account because the goodwill is canceled for accounting reasons and not due to the diminution of the asset's value; and (c) the waiver is unrelated to the results of the year (Pierce and Brennan 2003, p. 378). The main reason for this accounting approach was that, since goodwill is not normally treated as an asset on the balance sheet, it would be inappropriate to consider goodwill as an asset simply because it was purchased. When using this method, goodwill does not appear as an asset in the balance sheet, and profit in subsequent years is not affected.

Goodwill is included in the consolidated balance sheet at a size equal to the difference between the acquisition cost and the share of the buyer in the fair value of the assets, debts and any purchased identifiable debts. Asset accounting is carried out at the overall level of the surplus, even if some of the components of this surplus are not themselves assets.

In accordance with IFRS 3 and IAS 36, goodwill is the payment made by the buyer in order to obtain future economic benefits derived from assets that cannot be separately identified and recorded. Goodwill is, in fact, the value of expected synergies in the entity's reputation, experience, professionalism, consolidated procedures, location of activity and other factors.

The amount of goodwill acquired corresponds to the difference between the price paid and the fair value of the purchased assets and liabilities (including intangibles and potential liabilities that could not previously have been accounted for, but with characteristics that do not make it possible to put them on the balance sheet).

The most used formula for the management of goodwill in accounting practice is the following (Grosu et al., 2012, p. 10711):

$$Goodwill = (V - i\ x\ APR)a_{n-i'}$$

Where: **V -** annual revenues;

APR - adjusted equity, equal to the difference between assets and liabilities items, expressed in net current value and taking into account the identifiable and measured assets and liabilities items;

i - rate of return, defined as indicator of the minimum revenue required by real and potential investors in order to invest it into a certain entity performing in a certain sector;

n - number of years (assumed) when certain excess profits may occur (the so-called useful life of goodwill);

i’ - discount rate of the added value.

IV. METHODS FOR ASSESSING GOODWILL

From a quantitative point of view, however, there are many impediments to determining a concrete value of goodwill and an autonomous (direct) valuation. Methods of direct assessment of goodwill, considered to be an independent asset, can be carried out by identifying and determining each element that can generate a goodwill, or by updating future economic benefits. In the first case, the goodwill of the good can be obtained by calculating the sum of the values for each component that compose it; in the latter case, goodwill is defined as the ability of the firm to generate benefits to a higher extent than those considered normal, the so-called excess profit approach (De Minco & Amodeo, 1942, pp.77-81). However, it is not necessary to ignore the variant when investors distinguish between identified components belonging to "goodwill" that were acquired in the respective year for evaluation purposes (Henning, Levis & Shaw, 2000, p. 375).

The most commonly used goodwill valuation methods in the accounting practice are those that calculate goodwill as the difference between the acquisition price of the company and the fair market value of the company's assets (Chirichiagno and Segre, 2011, pp. 9-16). A second method does not take into account the net fair value of identifiable assets, but only the adjusted assets. The latter is a value that results from the total value of the assets and liabilities that make up the share capital. Therefore, the first method represents a certain value of a company's economic capital, while the second represents the value of the operational capital - the so-called residual approach (Grosu, 2013, p. 411).

In terms of cost-based approaches and market comparisons, they are less commonly used in the measurement of goodwill, thus the income-based measurement methods are more commonly used in the goodwill analysis. The income approach is more often used, being represented by the methods proposed by Reilley and Schweihs (1998, pp. 363-388, p. 405), the residual value method, the method of capitalization of the revenue in excess, the updated cash flow method (DCF).

We believe that legislators and chartered accountancy standards have been concerned over time with the question of substantiating the most appropriate methods and tools for defining and quantifying as accurately as possible goodwill (Mateş, Cosmulese, Anisie, 2016). Many of these theories have been promoted due to advanced solutions, and some practices have been tested, rejected, and/or tried again.

Schematically the most common methods for assessing goodwill can be illustrated in Figure 1:

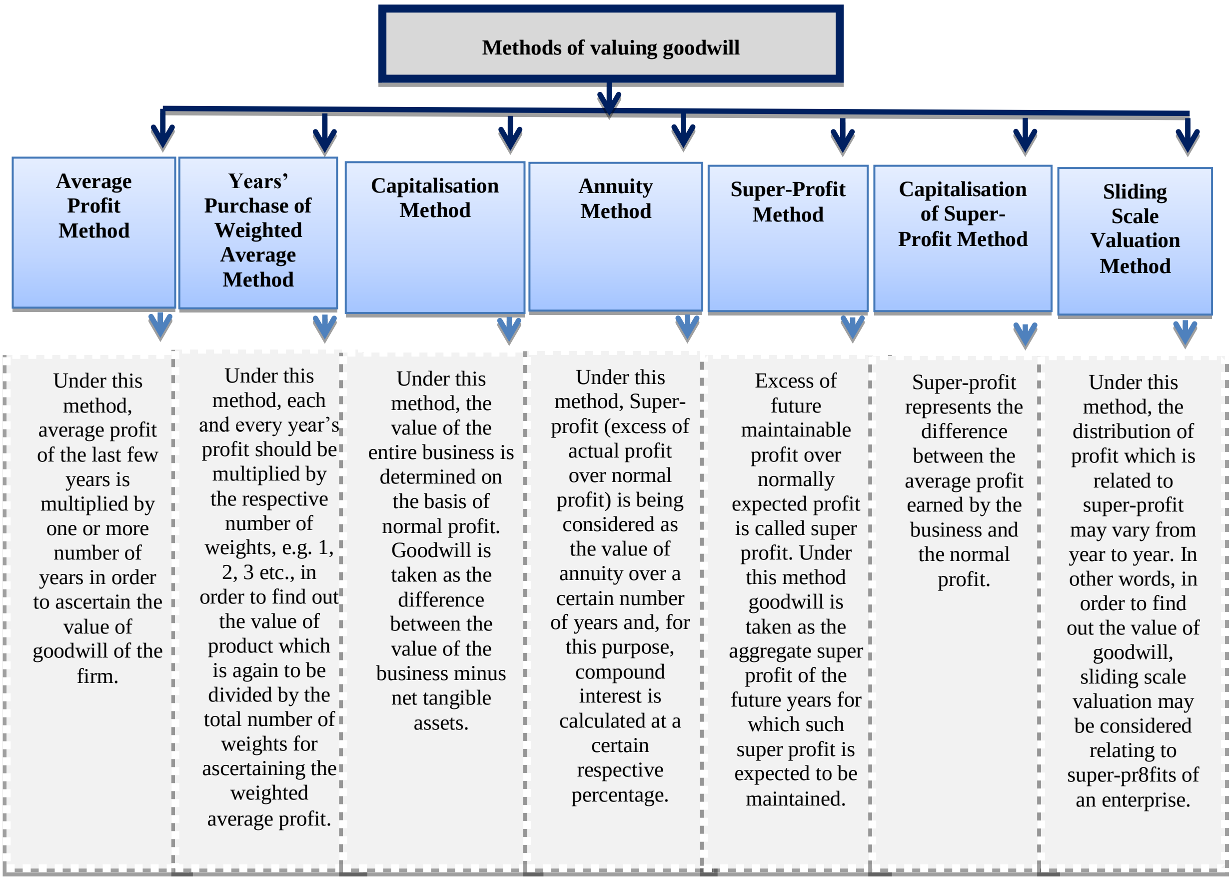

Figure 1 - Methods of valuation of goodwill

Source: Adaptation after Swayamjit - Methods of Valuing Goodwill of a Company (7 Methods), 2015, available at: http://www.yourarticlelibrary.com/accounting/goodwill/methods-of-valuing-goodwill-of-a-company-7-methods/58717/

V. CONCLUSION

Non-recognition of internally generated goodwill is a questionable issue, as even when purchasing an entity or business combination, the factors that cause the firm's reputation are also unidentifiable. The only factor influencing the problem - the impossibility of determining the cost of internally generated goodwill.

In order to determine the positive goodwill and the company's price, it is reasonable to apply the Super-Profit Method. It expresses the calculation of over profit (exceeded profits) over the average expected to be obtained by the acquirer over a period set by the seller and the buyer.

Most often, goodwill is recognized using terms as surplus value or acquisition difference. There is also controversy over the possibility of amortization of goodwill, in this respect IFRS 3 Business Combinations, however, stating unequivocally that it is not amortized but subject to depreciation tests in accordance with IAS 36 Impairment of Assets.

The evaluation methods developed so far are inefficient to obtain a complete representation of all the elements owned by a firm, regardless of their nature; what is missing from these methods is that there is no harmonization between the methods proposed by the accounting doctrine, which are still fragmented, and in some cases overlapping and obviously resulting in data and information with certain limitations.

We think that every companies should independently determine and evaluate existing components of internal goodwill after recognition and fair evaluation of all other tangible and intangible assets, their impact on the amount received in cash flow and earnings. The received information will become the foundation of assessing the quality of management and influence on their decisions, the financial results and the increasing the competitiveness of the enterprises.

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