

DOES THE VALUE-RELEVANCE OF GOODWILL DECLINE WITH AGE?

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ABSTRACT

The FASB in 2001 mandates a two-step process of impairment testing. One interesting phenomenon observed here is that while the UK standard-setter mandates companies to capitalize purchased goodwill and amortize it over its useful life, the US counterpart has moved in the other direction. In 1970, the US was the first country to require systematic amortization of goodwill over an arbitrary maximum useful life of 40 years. 30 years later, it changed its regime to another extreme. So why the change? The recognition of amortization is an issue which led to the research questions asked in this paper: Does amortization provide useful information for investors? This paper aims at investigating whether the value of goodwill decline over time, hence it is expected that the empirical results are able to provide feedback to standard-setters.