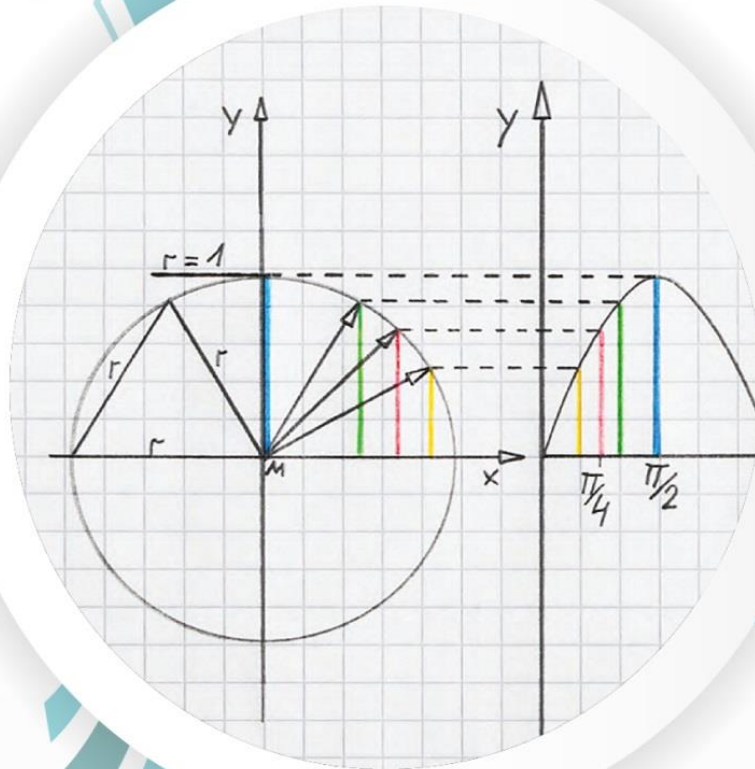


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THE ROLE OF THE DECISION MAKING PROCESS IN THE FORMATION OF GOODWILL

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Abstract. This article discusses the approaches of domestic and foreign scientists to the properties of goodwill. It is also based on the need for disclosures based on accounting and financial reporting data, considering the impact on the merger decision-making process.

Keywords: goodwill of domestic production, goodwill, acquired goodwill, acquisition and business combination, purchase method.

Introduction

In the context of globalization, many enterprises may be unable to compete and may lose their place in the market. Therefore, intangible assets such as goodwill, which are characteristic of these processes, are created as a result of mergers and acquisitions of enterprises. It should be noted that the value of business reputation varies depending on the sector of the economy concerning the book value of enterprise assets, sometimes exceeding 50%. Business reputation (goodwill) reflects an enterprise's invisible value, so studying these intangible assets is relevant for science and practice.

Materials and Methods.

One of the most pressing issues related to business reputation in the scientific literature is the possibility and necessity of reflecting information about domestic production goodwill in accounting and financial reporting. In the economics literature, there are two main views on business reputation: the registry and the economics approach.

The existing conceptual basis of accounting and financial reporting of goodwill was studied by many scientists, in particular Golov S.F., Gorodyanskaya L.V., Zanoni A., Catti J., Kostyuchenko V.N., Rizayev N.K., Davletov I.R., Urazov K.B.,



Nurmatov O., etc. However, economic policy measures: Bragg S., Vakun O.V., Duba V.M., Travin V.V. and other important points require the development of accounting rules that allow domestically produced goodwill to be included in assets rather than as a result of mergers and promotions.

Compared to the accounting approach to developing the concept of goodwill, the economic approach is broader, according to which goodwill is initially created by a company and can also arise during mergers and acquisitions. Therefore, according to representatives of the economic approach, such information should be disclosed in the company's report, because the main goal of accounting is to provide users of financial statements with relevant and reliable information for decision-making.

Goodwill is the difference between the fair value paid to acquire a company and the amount of assets acquired excluding obligations acquired. The acquirer must recognize goodwill in the accounts at the acquisition date.

The positive difference (goodwill) is treated as a price premium in anticipation of future economic benefits. Negative goodwill occurs when the selling price of a company is less than the value of its net assets. In this case, the acquirer must recognize the income received as part of profit or loss at the acquisition date.

In the case of a business merger, the company must:

- Identify the buyer;
- Determine the date of acquisition;
- Recognize and measure identifiable assets and liabilities, as well as uncontrolled interests;
- Recognize and measure the remuneration paid for the acquired business;
- Recognize and measure goodwill or profit from a purchase at a price below market price.

Goodwill is recorded as an asset that is tested for impairment at least annually, or more frequently when there is an indication that it may be impaired. The goodwill recognized during the initial accounting of a business merger is allocated to the cash-generating units or their groups that are expected to benefit from the combination.



For most companies, goodwill (the business reputation of the company) is the most significant asset, which is not identifiable and detached. Goodwill facilitates the manipulation of the company's assets, while neither the company's management nor its accountants can correctly evaluate goodwill since its real value can only be measured at the time of sale of the company.

Acquired business reputation is recorded on the balance sheet and amortized over 20 years, but not longer than the activity of the organization. If the acquired business reputation of the company is negative, it is evenly applied to the company's financial results as operating income.

In accordance with national accounting standards, business reputation (goodwill) is defined as the difference between the purchase price of an organization (as an acquired property complex as a whole) and the balance sheet value of all its assets and liabilities.

Goodwill is treated as capital with a depreciation period over its entire estimated useful period.

Today, among specialists in the formation of goodwill, there is an opinion that, unfortunately, there are no reliable and established methods for the monetary valuation of an intangible asset. However, despite all the difficulties, in world practice, there is a whole set of methods that make it possible to carry out a monetary valuation of a brand with some errors. Contingently, brand meters can be divided into three categories: expert, cost and market. The first are based on expert opinions of specialists, the second are based on the costs incurred to maintain the brand, and the third are associated with the market price of the company that owns well-known brands.

The main types of receipt of intangible assets are their acquisition, creation (by the enterprise or third-party contractors on a contractual basis), receipt as a contribution to the authorized capital of the enterprise, gratuitous receipt, and implementation of joint activities. At the same time, the intangible asset obtained as a result of development is not necessary, but it is possible and desirable to display it on



the balance sheet. Why and in what cases does it make sense to do this? If the company has:

- intention, technical ability and resources to bring the intangible asset to a state in which it is suitable for sale and use;
- the possibility of obtaining future economic benefits from the sale or use of an intangible asset;
- information for reliable determination of costs associated with the development of an intangible asset.

There is another common definition of goodwill - as “the excess of the cost of an acquisition made by the buyer at a fair valuation over the accounting value of the organization.” This definition effectively means that the goodwill of a brand or enterprise can only arise if there is a sale or purchase of an asset or an entire enterprise. A brand assessment occurs in the situation of selling a trademark, and an assessment of an enterprise’s goodwill occurs at the end of trading with a potential buyer of the company.

Results

The accounting approach to the concept of goodwill is disclosed in the International Financial Reporting Standards (IFRS), according to which the final step in applying the goodwill acquisition method is the residual value. IFRS 3 defines goodwill in Business Consolidation as an undisclosed asset arising from other assets acquired in a business combination that will produce future economic benefits. In accordance with current legislation, accounting records do not reflect internally generated goodwill because it does not comply with the recognition principles set out in IFRS 38 «Intangible Assets».

It is impossible to identify domestically produced goodwill in accordance with accounting requirements and reflect it as an asset on the company’s balance sheet since it is impossible to reliably determine its value and recognize it separately from other sources and control it on the part of the company.

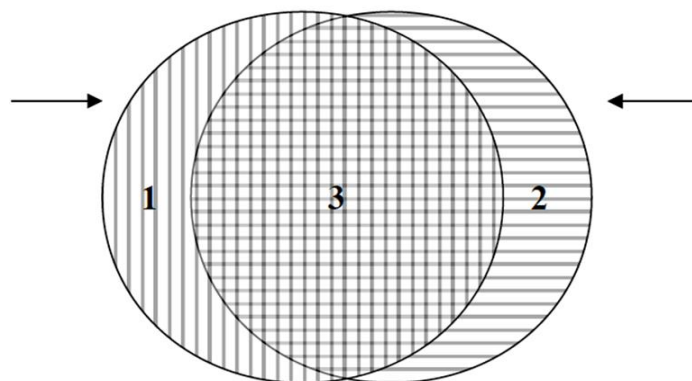


It should be noted that business reputation (goodwill) has a significant impact on the value of the organization. Many foreign scientists in their studies consider the possibility of showing goodwill of domestic production as information necessary for users of financial statements to make decisions and argue that goodwill is primarily associated with the development of intellectual capital. Scientists offer different methods for estimating goodwill of domestic production: the excess profit method, the alternative method, the commodity value method, the valuation method using an indicator of business activity, and the residual method. However, these methods allow one to estimate the value of internally generated goodwill only for its individual elements.

In our opinion, to reflect goodwill created within an enterprise in accounting, it is necessary to apply an approach that provides for the capitalization of goodwill with the subsequent calculation of its depreciation. We also believe it is necessary to change the disclosure of expenses recorded in domestic goodwill assets and liabilities to be consistent with the current accounting methodology. First, the idea implies that economic and other benefits, business image (created by staff), and costs associated with acquiring, expanding and improving business relationships will have a long-term impact. Therefore, such costs cannot be written off as current expenses.

However, it should be noted that the value of domestically produced goodwill is difficult to measure in terms of the cost of production. Total cost: The costs of training and retraining of personnel, market research and the creation and development

of trademarks,
brands, first
expected
enterprise
expected
influence of
therefore the



of trademarks,
of all, gives the
effect, but the
may not achieve the
results under the
investments,
predicted intrinsic



value of the generated goodwill is assessed. This assessment is likely to be significantly influenced by the subjective factor.

Scheme 1. The ratio of the value of domestically produced goodwill to goodwill.

Where 1 and 2 are parts of the value of goodwill that arise during assessment under the influence of a subjective factor;

3 represents the proportion of the value of goodwill that can be determined using internal goodwill and the acquired goodwill valuation method. While the existence of internal goodwill and its impact on revenue can be determined, it is difficult or impossible to estimate the costs associated with its creation. Therefore, one way to solve the problem of disclosing domestic goodwill in the financial statements is to correct and collect information about such expenses in the notes to the financial statements, the impact of which should be assessed in terms of its impact on the profitability of the enterprise.

It is necessary to create and develop an accounting and analytical model to reflect information about the elements of business reputation as an asset in accounting and financial reporting. This is especially true for business reputation, which arises during the acquisition and merger of enterprises and provides users with complete information about the sustainability and prospects of individual and joint ventures. It is now necessary to develop requirements for disclosing the effect of internally generated goodwill in the comments to the financial statements. If the business is merged, it must be registered along with the acquired goodwill.

Discussion

As a result of studying the goodwill account identified during mergers and acquisitions of enterprises, we came to the following conclusions.

1. General business reputation determined during mergers and acquisitions of enterprises includes the business reputation of domestic manufacturers, and business reputation (goodwill) arising as a result of synergies and overpayments.

2. The conceptual framework of accounting does not provide for the disclosure of internally generated goodwill; it is necessary to develop a universal approach to



the recognition and measurement of part of the (aggregate) internal goodwill of enterprises for accounting and reporting of goodwill data.

3. Since business reputation (goodwill) affects the value of enterprises, information about the business reputation of domestic production must be disclosed in financial statements. We believe that the first step in addressing this issue should be to include such information in the notes to the financial statements.

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