

REACTIONS TO REGULATION OF ACCOUNTING FOR GOODWILL

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Abstract:

Regulations designed to achieve “uniformity in practice” in Australian firms' reporting of goodwill were first adopted in 1985 with the introduction of AAS18. Because of the requirement to amortise purchased goodwill, a number of firms either did not comply or took evasive actions to mitigate the effects of the standard. This paper documents and explains the pre-regulation cross-sectional variation in accounting practices. Reactions to the set of regulations introduced between 1985 and 1989 are then described and explained through a longitudinal study of accounting policy choice. We develop hypotheses which explain why the goodwill accounting rules reversed relations between the accounting methods adopted by firms and both the earnings effect of compliance and the market value of the firm's goodwill. The results are confirmatory.

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