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Examining the Patterns of Goodwill Impairments in Europe and the US

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Abstract

We examine the patterns of goodwill impairments in Europe and in the US over the period from 2006 to 2015, for a sample of more than 35,000 firm-year observations. We define the timeliness of goodwill impairments as the frequency of accounting impairments conditional to indications of economic impairments. We measure indications of economic impairment with three metrics: equity market value minus equity b ... negative
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the median level of impairment by US firms was 63% of opening goodwill in 2008 and

40% in 2009, whereas median European write-downs were only 6% and 7% of opening goodwill, respectively. Even though European firms are more likely to impair over multiple years, the cumulative impairments never come close to the level of US firms, be it in a single year or cumulative over multiple years. We also find that the frequency of accounting impairment is small compared to the number of firms presenting evidence of economic impairment: only 20–25% of firms recognise impairments depending on the measure of economic impairment. This has often been interpreted by academics as a sign of untimely write-offs. Accounting differences between US Generally Accepted Accounting Principles and International Financial Reporting Standards are unlikely to explain our results. One caveat of our analysis is that it does not allow us to draw conclusions on whether the observed differences between US and European firms are driven by differences in conditional conservatism and/or big bath accounting practices.

Keywords: goodwill impairment IFRS 3 IAS 36 timeliness

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Disclosure statement

No potential conflict of interest was reported by the authors.

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Notes

1 See reference in Brief (1969)

2 Both set of slides are available for EAA members at http://eaa2016.eaacongress.org/r/symposia

3 We note that our sample suffers from survivorship bias but are unable to conjecture on how this might affect our results.

4 We acknowledge that the two groups have different starting points. US firms stop amortizing goodwill as early as 2001 whereas most European firms stopped amortizing goodwill when they adopted IFRS in 2005. Table 3 does indicate that US firms had significantly higher GDLW/TA in 2006 (11.9% vs. 9.5%) but there is no difference when looking at GDWL/EQ (around 26%).

5 Tsalavoutas et al. (2014) note the following: 'Out of the 76 companies for which acquisitions involve between 50% and 99% of the acquiree's assets, 33 remain silent on how the non-controlling interest is measured. Hence, users do not receive full information as IFRS 3 now offers two potential ways of measuring non-controlling interest. Additionally, only 11 companies (14.4%) explicitly state that they measure their non-controlling interest at fair value (full goodwill approach)'