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This month's focus: "Goodwill Accounting Issues"

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This paper analyses some controversial issues related to goodwill arising from convergence between IFRS and Japanese GAAP. Goodwill in accounting is the excess of the purchase price over the fair value of an acquiree's identifiable net assets, and is recorded as an asset which is composed of intangible factors. In order to recognize a decrease in the value of goodwill, an entity should periodically test goodwill for impairment. The paper points out that, in addition to periodic impairment testing, Japanese GAAP requires systematic amortization of goodwill as traditional Japanese GAAP has emphasized 'normal earnings' rather than asset valuation. Also, the paper suggests that the difference between IFRS and Japanese GAAP would be limited to net income by reclassifying goodwill amortization to net income or other comprehensive income.

Practical Issues in Accounting for Goodwill	<i>Takafumi Oseko</i>	15
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The outstanding balance of the goodwill of listed entities in Japan is increasing, mainly due to the globalization of those companies and an increase in the number of companies voluntarily adopting IFRS in addition to those adopting US GAAP. Such trend is confirmed by an analysis of the disclosures of Japanese listed entities which shows that the outstanding balance of goodwill of companies using/planning to use IFRS and US GAAP is significant. Based on the comparison of accounting requirements for a business combination including subsequent accounting for goodwill under J GAAP, IFRS, and US GAAP, some analysis of the disclosure of the selected Japanese listed entities is performed.

The post implementation reviews of business combination standards by IASB and FASB, as well as monitoring review results summarized by regulatory authorities in Europe are analyzed to understand implications regarding practical issues in accounting for goodwill.

Review of Empirical Research on Goodwill under IFRS3 and SFAS142	<i>Kyoko Nagata</i>	26
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This paper discusses recent empirical research regarding goodwill under IFRS3 and SFAS142. Empirical goodwill research topics of current interest include (1) management

decision using discretion over purchase price allocation (PPA) and goodwill impairment reporting, (2) market participants' reaction to PPA and goodwill impairment reporting, and (3) effect of corporate governance on managements' opportunistic behavior. Evidence on these topics suggests that managers are more likely to exploit PPA and goodwill impairment testing under IFRS3 and SFAS142 as predicted by agency theory, while managers of firms with effective governance mechanisms are less likely to act opportunistically. These findings have some useful implications for investment decisions, accounting standard setting, and financial reporting decisions.

Goodwill Information from Viewpoint of Firm Value and Future Performance

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This article examines the usefulness of goodwill information (goodwill, goodwill amortization, and goodwill impairment) in financial statements from the viewpoint of firm value and future performance. Empirical results reveal that goodwill information has usefulness, and such usefulness differs between firms where impairment of goodwill is expected and other firms.

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Analysis of Relationship between Disclosure of Medium-term Management Plan and a Firm's Characteristics – An Empirical Study using medium-term management plan data
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In this paper, we study the relationship between disclosure of a medium-term management plan and a firm's characteristics with the cooperation of IFIS Japan Ltd. We find that low-growth firms disclose medium-term management plans to raise their stock prices and that high-revenue ones are reluctant to disclose in order not to reveal information. Also, we demonstrate that disclosure of a medium-term management plan under realistic business objectives leads to rising stock prices because of a reduction in agency costs.

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