



KEY FINDINGS

Accounting for Goodwill

EXECUTIVE SUMMARY

In July 2001, the Financial Accounting Standards Board (FASB) adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, that sets new rules for goodwill accounting. SFAS 142 eliminates goodwill amortization and instead requires companies to identify reporting units and perform goodwill impairment tests.¹

The following report identifies the three main drawbacks of SFAS 142, discusses the major challenges when implementing the new standards and highlights some specific implications of the accounting changes for the financial services industry. In addition, this report presents the results from an interview with two large companies that have started early adoption of SFAS 142.

DRAWBACKS OF FASB'S NEW ACCOUNTING RULES

- While the introduction of the new standards for goodwill accounting will presumably contribute to more meaningful financial statements, improved transparency and greater consistency among companies, experts recognize three drawbacks of SFAS 142:
 1. *Lack of International Convergence*: While International Accounting Standard (IAS) 22, *Business Combinations*, requires amortization of goodwill, SFAS 142 stipulates that companies test goodwill for impairment on an annual basis. In addition, FASB's new accounting rules allow companies to allocate negative goodwill as a pro rata reduction of the amounts that otherwise would be assigned to all of the acquired assets. Contrary to this, IAS 22 requires that negative goodwill be measured and initially recorded as the acquirer's interest in the fair value of the identifiable assets and liabilities acquired, minus the cost of the acquisition. The fact that SFAS 142 and IAS 22 differ significantly on these two issues may have a substantial negative effect on many multinational companies.²
 2. *Deferred Taxes*: Tax experts warn that while goodwill should now be tested for impairment for accounting purposes, it remains amortizable under the existing U.S. tax code. Due to these additional deferred taxes, SFAS 142 will help most companies achieve improvements in their cash flow but not earnings.³
 3. *Management Discretion*: Under the old accounting standards, management was obliged to recognize the amortization of goodwill in each reporting period and had no discretion over this expense. Analysts from credit rating agency Fitch, Inc., argue that SFAS 142 has removed some of the "discipline" imposed on company management by regular amortization.⁴

¹ Craig Schneider, "Cramming for the Final." *CFO.com Special Report* (June 2001).

² Robert N. Waxman, "Goodwill Convergence." *The CPA Journal* (October 2001).

³ Lisa Yoon, "Balancing Act: FAS 142 Has a Few Tax-Planning Implications for the Balance Sheet." *CFO Magazine* (October 16, 2001).

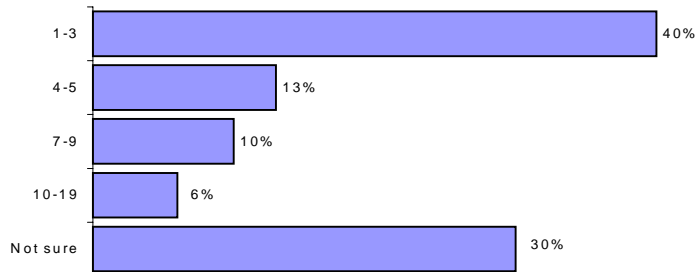
⁴ Julie A. Burke, Jim Moss and Eileen Fahey, "Fitch Reviews New Accounting Standards Related to Business Combinations, Goodwill." *Fitch Special Report* (October 10, 2001).

MAJOR CHALLENGES WHEN IMPLEMENTING SFAS 142

- A review of literature reveals that analysts and surveyed chief financial officers have identified three main challenges for companies that are implementing SFAS 142:
 1. *Identifying reporting units and allocating existing goodwill:* As the FASB provides only broad guidelines for the implementation process, companies will struggle to define the most appropriate reporting units and pick the most favorable allocation alternative. The choice of reporting units and goodwill allocation may significantly affect the amount of goodwill impairment that companies will have to write off. Mercer Capital cautions that companies will have to run through lengthy case scenarios to calculate how each reporting unit decision and allocation option affect their bottom line.⁵

As illustrated in the graph below, almost one third of the participants in a live webcast conducted by *CFO Magazine* in October had trouble identifying the reporting units that are necessary for compliance with SFAS 142.⁶

NUMBER OF REPORTING UNITS THAT COMPANY HAS UNDER SFAS 142:



To alleviate confusion with interpreting the new accounting rules, FASB held a staff meeting in November 2001 that clarified the reporting unit guidelines in SFAS 142. According to this meeting’s minutes, “the determination of reporting units under Statement 142 begins with the definition of an operating segment in paragraph 10 of Statement 131 and considers *disaggregating* that operating segment into economically dissimilar components for the purpose of testing goodwill for impairment.” As most inquiries have focused on the meaning of the *discrete financial information* term, FASB indicated that companies should apply this term “in the same manner that it is applied in determining operating segments in accordance with paragraph 10 of Statement 131.” Thus, discrete financial information can constitute as little as operating information. Furthermore, FASB clarified that “components that share similar economic characteristics but relate to different operating segments may not be combined into a single reporting unit.”⁷

2. *Performing the goodwill impairment tests:* Estimating the fair value of goodwill and other intangibles is a very difficult and subjective process. A majority of companies rely on outside consultants to compute such estimates. In addition to the valuation and assessment fees, testing for impairment also involves legal costs and additional staff compensation.⁸ A recent poll by *CFO Magazine* indicates that 50 percent of the participants ranked the expensive fair-value appraisal of reporting units as the most troublesome aspect of SFAS 142.⁹

According to Valuation Research, a benchmark assessment costs between \$15,000 and \$20,000 per reporting unit.

⁵ Travis W. Harms and Andrew K. Gibbs, “Goodwill Hunting.” *Valuation Strategies* (January/February 2002); available from <http://www.mercercapital.com>.

⁶ Craig Schneider, “Goodwill Games II: Reports from the Field.” *CFO.com Live Webcast* (October 9, 2001).

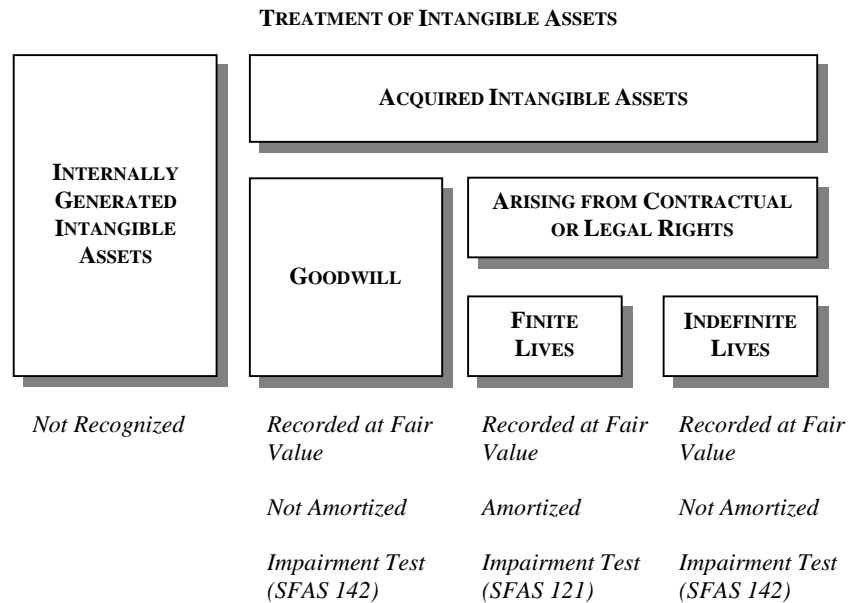
⁷ Financial Accounting Standards Board, “FASB Staff Announcement, Topic No. D-101.” *EITF Meeting Minutes* (November 14-15, 2001).

⁸ Craig Schneider, “Intangibles Revealed.” *CFO.com Special Report* (June 2001).

⁹ Author Unknown, “Worried about the New M&A Rules?” *CFO.com Poll* (June/July 2001).

SFAS 142 allows amortization only for finite-lived acquired intangible assets arising from contractual or legal rights.

- Determining the value and life span of intangible assets separate from goodwill:*
Under the new accounting rules, companies may have trouble determining which intangibles should be amortized. FASB now stipulates that intangible assets should be recognized separately from goodwill if the intangible asset “arises from contractual or other legal rights.” Furthermore, intangible assets recognized separately from goodwill must be classified as having either finite or indefinite useful lives. FASB requires that intangible assets with indefinite lives should not be amortized until an impairment test determines their lives to be finite. The following chart organizes intangible assets into four groups and indicates the proper accounting treatment for each category.¹⁰



Chief financial officers that have adopted the new accounting rules complain that even though Appendix A of SFAS 142 provides detailed guidelines on identifying intangible assets that are separable from goodwill, it does not instruct companies on how to value and determine the life of these intangibles.¹¹ A review of surveys and secondary literature indicates that corporate web sites and the professional skills of employees from acquired companies are two typical examples of intangibles with values and life spans that are difficult to calculate.^{12,13}

- Experts also think that the transition from amortization of goodwill to a complex impairment test may provoke inquiries and statements requests from the U.S. Securities and Exchange Commission (SEC). Specifically, the SEC is expected to scrutinize the allocation of purchase price to the reporting units and intangibles because this decision may offer companies the opportunity to shield themselves from future goodwill impairment.¹⁴

¹⁰ Travis W. Harms and Andrew K. Gibbs, “Goodwill Hunting.” *Valuation Strategies* (January/February 2002); available from <http://www.mercercapital.com>.

¹¹ Craig Schneider, “Goodwill Games II: Reports from the Field.” *CFO.com Special Report* (October 16, 2001).

¹² Author Unknown, “New Accounting Standards.” *CFO.com Poll* (September 2001).

¹³ Craig Schneider, “FASB’s Goodwill Proposal Confounds Experts.” *CFO.com Special Report* (March 9, 2001).

¹⁴ Craig Schneider, “How to Survive the SEC’s Second Guessing.” *CFO.com Special Report* (June 2001).

COMMON PRACTICE IN SOLVING CHALLENGES WHEN IMPLEMENTING SFAS 142

- *CFO Magazine* suggests four guidelines to ensure successful transition to the new accounting standards:¹⁵
 1. *Hire reputable valuation experts*: Choosing the right valuation experts is critical for each company because the appraisers' assessment of fair value has a direct impact on the size of the impairment loss. Reputable outside appraisers can often provide a company with a value that is better than the one provided by the market at any point in time.
 2. *Spread out the impairment test and annual review*: FASB requires companies to conduct an impairment test at least once a year but does not stipulate the exact period and allows for different periods for different reporting units. Consequently, accountants can structure a rolling impairment test throughout the year and thus make the process more efficient.
 3. *Assign ownership of the transition process to only one person*: Consultants warn that the transformation from amortization to impairment tests is strategically important to the entire company and therefore requires clear lines of responsibility and control. CFOs should therefore assign ownership of the implementation process to only one person.
 4. *Minimize the number of reporting units*: Companies' choices about reporting units determine the likelihood and the size of the impairment loss. To minimize the chance of writing off impaired goodwill, chief financial officers should try to have as few reporting units as possible.

Mark McDade from PricewaterhouseCoopers cautions that many CFOs underestimate the complexity of the new standard.

IMPLICATIONS FOR FINANCIAL SERVICES ORGANIZATIONS

- Working Council research has revealed that the new accounting rules have several important regulatory implications for organizations in the financial services industry:
 1. *SFAS 142 vs. SFAS 72*: Paragraph 5 of SFAS 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions*, which applies to the acquisition of a commercial bank, a savings and loan association, a mutual savings bank or a credit union, requires that "any excess of the fair value of the liabilities assumed over the fair value of the tangible and recognized intangible assets acquired be recognized as an unidentifiable intangible asset."¹⁶ Despite requests by constituents, FASB decided to exclude the unidentifiable intangible asset recognized under SFAS 72 from the scope of SFAS 142 and continue to require companies to amortize that asset after the inception of SFAS 142. Even so, FASB has commenced initial research in order to determine whether the unidentifiable intangible asset is in fact similar to goodwill and should therefore be accounted by a nonamortization method. According to Brian Degano, Practice Fellow at FASB, issuance of a final Statement on this question is expected in the fourth quarter of 2002.¹⁷
 2. *Capital Requirements*: An issue of concern to banking institutions is SFAS 142's impact on compliance with the capital requirements for banks established under Title 12 of the U.S. Code (USC). These institutions must perform periodic checks of their mandatory minimum capital while complying with FASB standards for reporting their financial position and performance. Since USC treats goodwill as a special item, a change in accounting for goodwill that keeps it on the books indefinitely could adversely affect the calculation of minimum capital and cause banks to change their capital management strategies.¹⁸

¹⁵ Craig Schneider, "Four Ways to Say Goodbye to Goodwill Amortization." *CFO.com Special Report* (June 2001).

¹⁶ Financial Accounting Standards Board, "FASB Staff Announcement, Topic No. D-100." *EITF Meeting Minutes* (November 14-15, 2001).

¹⁷ Brian Degano, "FASB to Reconsider the Accounting for 'Statement 72 Goodwill.'" *FASB Status Report* (December 2001/January 2002).

¹⁸ Eric E. Lewis, Jeffrey W. Lippitt and Nicholas J. Mastracchio, Jr., "Users' Comments on SFAS 141 and 142 on Business Combinations and Goodwill." *The CPA Journal* (October 2001).

“The end of pooling accounting would create a greater likelihood or greater susceptibility to hostile transactions.”

H. Rodgin Cohen,
Chairman of law firm
Sullivan & Cromwell

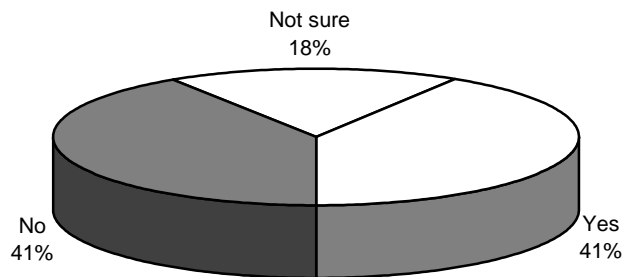
3. *Not-for-Profit.* In mutual bank and credit union mergers, the prohibition against pooling, coupled with the extraordinary gain provision for non-apportioned negative goodwill prescribed in SFAS 142, will result in the elimination of all of the assets and equity of at least one of the mutual entities involved in a merger. This is counter to FASB’s transparency objective because as there is no purchase price and really no acquiring entity in many of these combinations, one entity must simply be chosen as the survivor and the other’s net assets must be given negative goodwill treatment at their entire market value. While insisting that SFAS 142 will apply to mutual banks and credit unions, FASB has suspended implementation of the new accounting rules for these enterprises until it is able to provide more guidance. As academics point out, this gives mutual banks and credit unions a temporary reprieve and provides incentive to consummate any planned mergers before FASB folds them into the new standards.¹⁹

- In addition to regulatory considerations, experts also argue that the elimination of goodwill amortization and pooling-of-interests (stipulated in FASB’s new accounting rules) will eliminate cross-option agreements and other similar tactics that banks have effectively developed as financial barriers to hostile acquisitions. As new strategies against such takeovers may take years to prepare, merger lawyers predict a rise in hostile bidding, which has traditionally been rare in the financial services industry.²⁰ To illustrate this trend, the banking sector recently witnessed two major takeover battles: North Folk Bancorp Inc.’s hostile bid for Dime Bancorp Inc. and SunTrust Banks Inc.’s unsolicited offer for Wachovia Corp.

IMPAIRMENT WRITE-OFFS

- Depending on the results from the impairment tests specified in SFAS 142, companies should write off goodwill whose book value exceeds its fair value. Firms will also have to record amortization charges for all intangible assets that arise from contractual and other legal rights and have finite lives.
- According to an ongoing poll on *CFO Magazine’s* web site, respondents are almost equally split in their expectations for goodwill write-offs:²¹

PERCENTAGE EXPECTING AN IMPAIRMENT CHARGE DURING THE FIRST YEAR OF ADOPTING SFAS 142:*



* 215 votes counted as of January 4, 2002.

¹⁹ Eric E. Lewis, Jeffrey W. Lippitt and Nicholas J. Mastracchio, Jr., “Users’ Comments on SFAS 141 and 142 on Business Combinations and Goodwill.” *The CPA Journal* (October 2001).









²⁰ David Boraks, “Hostile Bids, Still Rare for Financials, May Grow More Common.” *American Banker* (December 31, 2001).

²¹ Craig Schneider, “Goodwill Impairment?” *CFO.com Poll*; available from <http://community.cfo.com/4/OpenTopic?q=Y&a=tpc&s=550293835&f=439298945&m=2484008241&showpollresults=Y>

SIZE OF THE WRITE-OFFS

- The size of the impairment charge depends on how companies organize their reporting units and allocate goodwill to each unit. Based on their history of acquisitions, some firms may write off much larger portions of goodwill than others. Some analysts contend that goodwill charges occur in larger amounts for companies that have acquired other companies in times of higher valuations than present.²² The examples of eight prominent companies that have recently incurred goodwill charges illustrate the significant fluctuation in the size of these write-offs.^{23,24,25,26,27}

M-Cam, Inc. has tracked more than \$229 billion in goodwill write-offs as of October 2001.

	In January 2002, AOL Time Warner Inc. announced that it would take a first-quarter goodwill charge of up to \$60 billion because of SFAS 142.
	In July 2001, JDS Uniphase wrote down \$44.8 billion in goodwill to report a quarterly loss of \$50.6 billion.
	Nortel Networks announced a \$12.3 billion charge in the second quarter of 2001 to reflect the write-off of goodwill associated with the acquisitions of Alteon WebSystems, Xros and Qtera.
	In the second quarter of 2001, VeriSign reported a \$9.9 billion charge that relates to goodwill.
	In 2001, Corning recorded a \$4.8 billion pre-tax second-quarter charge for impairment of goodwill and other intangible assets.
	In January 2001, Excite@Home wrote off \$4.6 billion in goodwill to account for the acquisitions of Excite.com and Blue Mountain Arts.
	In April 2001, Cisco announced a \$3.7 billion charge to earnings that comprised a \$200 million goodwill write-off.
	At the end of Q1 2001, KPMG Consulting took a non-cash transitional impairment charge of \$80 million pertaining to recorded goodwill and workforce intangibles.

According to M-Cam, Inc., a company that specializes in intellectual property, goodwill write-offs exceeded \$229 billion as of October 2001.²⁸ Nevertheless, experts warn that impairment charges can potentially reach more than a trillion dollars in value.²⁹

²² Kathleen Pender, "More about JDS Uniphase and that Goodwill Write-down." *The San Francisco Chronicle* (August 7, 2001).

²³ Author Unknown, "AOL to Take up to \$60 Billion Charge." *Chicago Tribune* (January 8, 2002).

²⁴ Peter G. Miller, "Goodwill Turns Costly as Wall Street Values Change." *Realty Times* (July 31, 2001).

²⁵ Corey Grice and Jim Hu, "Write-offs Point to Content Sector Struggles." *CNET New.com* (January 30, 2001).

²⁶ Adam Lashinsky, "For Cisco, Today's Write-off May Be Tomorrow's Free Ride." *TheStreet.com* (April 18, 2001).

²⁷ Randolph Blazer and Robert Lamb, "September Quarter 2001." *KPMG Consulting Earnings Call* (November 5, 2001).

²⁸ M-Cam, Inc.'s corporate web site; available from <http://www.m-cam.com/goodwill.html>; accessed October 2001.

INVESTORS' REACTION

FASB believes that SFAS 142 will provide investors with greater transparency regarding the economic value of goodwill and the amount and timing of its impact on earnings.

- While investors have historically been focused on quarterly earnings, the stock market is gradually shifting its spotlight to cash earnings. Since cash earnings are derived by adding goodwill charges back to net income, they are believed to provide a truer representation of a company's profitability than current reported earnings.³⁰ Experts expect companies that have significant goodwill charges to place more emphasis on cash EPS to differentiate pre-SFAS 142 and post-SFAS 142 results.³¹
- Unless there is an impairment charge, cash EPS should go up with non-amortization of goodwill. As earnings increase due to the SFAS 142 change in accounting standards, the market multiple (P/E ratio) will temporarily decrease. In theory, it is expected that investors will try to adjust to the previous P/E ratio by driving the stock price up.³²
- The changed environment, in which companies do not reduce earnings systematically through goodwill amortization but are still potentially exposed to impairment charges, provides two scenarios for reactions from investors:³³
 1. If investors perceive drastic goodwill write-offs as an indication that the company overpaid for previous acquisitions and overstated prior period earnings, they will expect more impairment charges in the future and will reduce their estimates for cash earnings. This is likely to drive the price of the stock down.
 2. If investors consider these impairment losses as a one-time noncash charge that has no impact on the size of the company's cash-flow streams or tangible assets, they will not change their estimates for cash earnings and will therefore maintain the market multiple and the stock price constant.
- Analysts maintain that companies that have traditionally been valued on a P/E basis are likely to experience the most significant fluctuations. Those that are valued on an EBITDA or cash-flow basis are least likely to see a change.³⁴
- In addition to valuation methods, investors' reaction will depend on the particular proportion of goodwill charges to market capitalization. According to a study that followed 19 companies across industries that wrote off goodwill until July 2001, impairment charges below 100 percent of market capitalization resulted in an average drop of one percent in stock price, while write-offs larger than market capitalization caused stock prices to drop an average of five percent.³⁵
- According to the Institute of Management and Administration (IOMA), analysts and investors will eventually realize that the fluctuations in earnings and the P/E ratio are due to an accounting change only. Therefore while short-term stock prices may fluctuate, it is expected that investors will ignore the effects of the new accounting rule in the longer term.³⁶

²⁹ Steven Pearlstein, "Goodwill Haunting." *The Washington Post* (July 28, 2001).

³⁰ Anthony F. Cocco, "An Examination of the Financial Statement Effects of the New Exposure Draft on Business Combinations." *The Ohio CPA Journal* (July/September 2001).

³¹ Richard J. Wayman, "A Rose Is a Rose but, EPS..." *ResearchStock.com Commentary* (August 30, 2001); available from <http://researchstock.com>.

³² Anthony F. Cocco, "An Examination of the Financial Statement Effects of the New Exposure Draft on Business Combinations." *The Ohio CPA Journal* (July/September 2001).

³³ Ibid.

³⁴ Jennifer Caplan, "Investors Can See Clearly Now. The Market May React Strongly to Future Charges for Impairment of Intangible Assets." *CFO Magazine* (October 16, 2001).

³⁵ Ibid.

³⁶ Author Unknown, "Bottom Lines at Nine Companies to Get Boost from FASB Goodwill Rule." *Financial Analysis, Planning & Reporting* (October 1, 2001).

- A recent report from Bear, Stearns & Co. indicates that the transition from goodwill amortization to the new SFAS 142 rules may take up to 21 months and may cause considerable market confusion in the meantime.³⁷ Analysts from Deloitte & Touche caution that stockholders may want to know how these new standards affect the financial reporting process and what the impact will be on the information presented. According to Deloitte & Touche, executives will have to provide thorough answers to the following two questions at stockholders' meetings:³⁸
 1. How does the company currently evaluate goodwill for impairment?
 2. Does the company plan to account for any acquisitions as a pooling of interests before such accounting is prohibited?
- Indeed, since investors and credit agencies believe that many management teams will attempt to present as simply accounting adjustments many write-downs that are based on true decline in economic valuations relative to the original purchase price for an acquisition, providing supplementary data will be a critical factor in companies' successful transition to the new accounting standards. As Fitch indicates, before adjusting their ratings, credit agencies will critically evaluate the circumstances leading to the goodwill impairment, the methods and detailed assumptions used in the impairment tests and the expectations for future performance.³⁹

COMPANY EXAMPLES

In October 2001, Working Council conducted primary research, interviewing large multinational corporations about their particular views on SFAS 142. The following two cases represent some key findings about companies' current challenges in implementing the new accounting rules, their expectations for impairment charges and their general perceptions about investors' potential reaction to goodwill write-offs.⁴⁰

<p>Company A</p>	<p><i>Industry:</i> Diversified Chemicals <i>2000 Sales:</i> \$28.3 billion <i>2000 Employees:</i> 93,000 <i>Respondent's Title:</i> Manager of Accounting Policy</p>
<ul style="list-style-type: none"> • <i>Issues:</i> Company A considered the clarifications from FASB's staff meeting in November 2001 (see topics No. D-100 and D-101) as helpful in identifying reporting units. According to the respondent, developing the methodology to determine the fair value of reporting units was especially challenging. Company A was also concerned about the prospect of hiring outside appraisal experts to determine the fair value of specific assets and liabilities as this was a potential added cost that the company and the rest of the industry did not need. • <i>Write-offs:</i> Given the effect of September 11 and the overall economic conditions, Company A expected to take some write-offs. The respondent could not provide a specific number because the reporting units had not yet started the impairment test. • <i>Stock Market's Reaction:</i> The respondent believed that investors had most likely already reflected this potential in the stock price and therefore did not expect the stock market to have a significant reaction to the impairment charges. 	

³⁷ Author Unknown, "Pooling Change Pains Investors: Staggered Schedule Could Affect Reporting Until 2003." *Investor Relations Business* (September 17, 2001).

³⁸ Author Unknown, "Questions at Stockholders' Meetings." *Deloitte & Touche* (2001).

³⁹ Julie A. Burke, Jim Moss and Eileen Fahey, "Fitch Reviews New Accounting Standards Related to Business Combinations, Goodwill." *Fitch Special Report* (October 10, 2001).

⁴⁰ Respondents provided information on condition of anonymity. Company identities were disguised under pseudonyms.

Company B

Industry: Banking
2000 Sales: \$22.6 billion
2000 Employees: 53,000
Respondent's Title: Director of Corporate Accounting

- *Issues:* **Company B's** current challenges centered around:
 - Determining the presence of separately identifiable intangibles that were previously included in goodwill and now need to be broken out.
 - Allocating goodwill and identifiable intangibles in connection with a proposed acquisition of another entity.
 - Estimating the impact of future realignment of reporting units.

Company B did not consider identifying the reporting units an issue because it would use the same units that it viewed and reported internally. Allocating goodwill to reporting units was not a challenge as **Company B** had historically allocated all goodwill and intangibles to the various reporting units.

Company B had already developed an approach for performing the first part of the impairment test (comparing fair value to book value) and currently did not anticipate any problems. As of October 2001, the company had still not completed the development of a methodology for the second step of the impairment test and was in the initial stages of examining any potential issues around other intangibles.

- *Stock Market's Reaction:* **Company B** could not assess the investors' reaction to impairment charges as no write-offs had yet been disclosed. However, according to the respondent, investment analysts were interested in how the elimination of goodwill amortization would affect 2002 EPS numbers.

ANNOTATED BIBLIOGRAPHY

ENCLOSED MATERIAL

Julie A. Burke, Jim Moss and Eileen Fahey, "Fitch Reviews New Accounting Standards Related to Business Combinations, Goodwill." *Fitch Special Report* (October 10, 2001).

- This special report by Fitch, Inc., highlights the differences between pooling-of-interests and purchase accounting and discusses the advantages and drawbacks of pooling. The report further reviews FASB's new accounting rules and discusses some of the most significant issues in SFAS 141 and SFAS 142. The authors of the report also present Fitch's views on goodwill and the new standards and analyze the effect of these accounting changes on the credit agency's rating decisions.

Craig Schneider "The Goodwill Games." *CFO.com Special Report* (June 2001).

- This special report consists of four articles that were cited in the key findings: "How to Survive the SEC's Second Guessing," "Cramming for the Final," "Intangibles Revealed" and "Four Ways to Say Goodbye to Goodwill Amortization." The author indicates the most significant challenges that confront chief financial officers and other executives during the implementation of the new accounting rules. The report also provides tactics for the completion of the impairment test.

Travis W. Harms and Andrew K. Gibbs, "Goodwill Hunting." *Valuation Strategies* (January/February 2002).

- This study provides a comprehensive overview of SFAS 141 and SFAS 142 and indicates the similarities and differences in defining and treating intangibles that are separable from goodwill. The authors outline the steps that companies need to take in implementing the new accounting rules and suggest alternative ways of defining reporting units, allocating goodwill and determining fair value. The study provides a sample company case study to illustrate the effects of different allocation decisions on the size of the impairment charge.

Anthony F. Cocco "An Examination of the Financial Statement Effects of the New Exposure Draft on Business Combinations." *The Ohio CPA Journal* (July/September 2001).

- This paper examines the effect of SFAS 142 on a company's cash earnings and investors' potential reactions. The author provides numerical comparison of pre-SFAS 142 and post-SFAS 142 financial results by calculating the effects of goodwill amortization and nonamortization on EPS, "cash EPS" and the P/E ratio. The paper suggests that the market will try to keep the P/E ratio constant and will most likely view impairment losses as one-time noncash charges that have no impact on the size of the companies' cash-flow streams or tangible assets.

Author Unknown, "Bottom Lines at Nine Companies to Get Boost from FASB Goodwill Rule." *Financial Analysis, Planning & Reporting* (October 1, 2001).

- This article argues that most of the improvements in income for U.S. companies in 2002 will come from SFAS 142 accounting changes rather than an economic upturn. The article cites the examples of seven prominent corporations including AOL Time Warner, Procter & Gamble and Bank of America that witnessed improvements in their EPS numbers through the shift from goodwill amortization to regular impairment tests. The author expects that the new rules will not affect stock prices in the long term because investors will realize that the increases in earnings are primarily due to the accounting change.

ADDITIONAL SOURCES

Robert N. Waxman, "Goodwill Convergence." *The CPA Journal* (October 2001).

David Boraks, "Hostile Bids, Still Rare for Financials, May Grow More Common." *American Banker* (December 31, 2001).

Eric E. Lewis, Jeffrey W. Lippitt and Nicholas J. Mastracchio, Jr., "Users' Comments on SFAS 141 and 142 on Business Combinations and Goodwill." *The CPA Journal* (October 2001).

Jennifer Caplan, "Investors Can See Clearly Now. The Market May React Strongly to Future Charges for Impairment of Intangible Assets." *CFO Magazine* (October 16, 2001).

Craig Schneider, "Goodwill Games II: Reports from the Field." *CFO.com Special Report* (October 2001).

Stephanie Harper, "Impairment Test Offers Clearer Picture of Goodwill." *California CPA* (August 2001).

Author Unknown, "Pooling Change Pains Investors: Staggered Schedule Could Affect Reporting Until 2003." *Investor Relations Business* (September 17, 2001).