



**GOODWILL ACCOUNTING UNDER
INTERNATIONAL FINANCIAL REPORTING
STANDARDS: THEORETICAL FOUNDATIONS AND
UZBEKISTAN PRACTICE**

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Abstract: *This article examines the economic substance of goodwill within the framework of International Financial Reporting Standards (IFRS), addressing its recognition, measurement, and impairment testing. Drawing on IFRS 3 Business Combinations and IAS 36 Impairment of Assets, the article analyzes the methodology for recognition and subsequent measurement of goodwill. The challenges and prospects of introducing goodwill accounting in Uzbekistan's transition to international standards are discussed. Using official statistical data, the article analyzes the relationship between the growing volume of foreign direct investment and goodwill accounting practices in the country.*

Keywords: *goodwill, IFRS, IFRS 3, IAS 36, business combinations, impairment of assets, foreign direct investment, accounting.*

INTRODUCTION

In the context of the rapid development of the global economy and the growing activity of transnational corporations, mergers and acquisitions (M&A) have become a major trend in world markets. As a result of these transactions, a distinctive intangible asset - goodwill - arises in financial statements. Goodwill represents the excess of the purchase price paid for an acquired company over the fair value of its net identifiable assets. In other words, the acquirer pays not only for tangible resources but also for the company's reputation, customer base, market position, and the potential to generate superior future returns. Under International Financial Reporting Standards (IFRS), goodwill accounting is governed by IFRS 3 Business

Combinations, which requires the asset to be subjected to annual impairment testing rather than amortized [1]. The question of goodwill is among the most debated topics in financial reporting theory and practice. Academic discourse between international accountants and scholars has been ongoing for years regarding whether goodwill should be amortized or subjected to impairment testing. The complexity lies in the fact that objectively determining the value of goodwill and confirming it within the scope of an audit presents serious practical difficulties. Unlike other intangible assets, goodwill cannot be sold separately or generate cash flows independently from other assets - it only holds value as part of the business as a whole.

In the context of Uzbekistan's rapid economic development and the growing interest of international investors in the country, studying the theoretical and practical aspects of goodwill accounting has become particularly relevant. The year-on-year increase in foreign direct investment (FDI), the expansion of privatization processes, and the trend toward commercialization of state-owned enterprises are intensifying the need for the correct application of goodwill rules in financial reporting. At the same time, as Uzbekistan's enterprises transition from national accounting standards to IFRS, numerous methodological and practical questions related to goodwill remain unresolved. This article is an attempt to fill this gap and present the current state of goodwill accounting in a systematic manner to the Uzbek academic community.

LITERATURE REVIEW

The scholarly foundations of the concept of goodwill and its historical development in international standards are well represented in the literature. IAS 36 Impairment of Assets is the primary international document requiring goodwill to be subjected to a separate impairment test. The standard sets out in detail the methodology for allocating goodwill to cash-generating units (CGUs) and requires that any resulting impairment losses be recognized immediately in profit or loss [2]. Many authors discussing the practical aspects of IAS 36 have addressed the quality

of reporting related to this standard, the boundaries of managerial discretion, and the economic relevance of the information provided to investors.

Damodaran (2012), in his foundational work on company valuation, interprets goodwill as “the tangible expression of corporate brand capital” and presents a methodology for determining its value using the discounted cash flows (DCF) approach [3]. In his view, goodwill is a financial category representing the future economic benefits of an asset, embodying both qualitative and quantitative dimensions of a company’s competitive advantages and strategic potential. Damodaran also pays particular attention to the central challenge of goodwill valuation: given the “invisible” nature of this asset, determining its true value is virtually impossible without market participation and expert judgment.

Henning, Lewis, and Shaw (2000), examining more than 1,000 mergers conducted between 1990 and 1994, separately analyzed four core components of goodwill - excess purchase price, management synergy, market synergy, and the additional value of consolidating dispersed assets [4]. Their research demonstrated that equity markets price these components differently, with market synergy constituting the most “valuable” portion of goodwill. This study remains a primary source of academic discussion on goodwill accounting methodology.

Ramanna and Watts (2012) examined the misuse of subjective managerial estimates in goodwill impairment testing through extensive quantitative analysis [5]. Testing compliance with SFAS 142 requirements among major U.S. companies, the authors found that many firms were deferring goodwill impairment recognition to later periods in order to artificially improve their financial performance. This phenomenon was particularly evident when a company’s market capitalization fell below its book value — meaning the market had already priced in the impairment while management had not yet reflected it in the accounting records.

Beatty and Weber (2006) empirically identified the factors influencing the recognition of goodwill impairment in 327 companies following the introduction of SFAS 142 in 2002 [6]. According to their findings, debt covenants, managerial

compensation systems, and the “big bath” reporting strategy of incoming management exert a strong influence on decisions concerning goodwill. These results raise fundamental questions about the degree to which the requirements of IFRS 3 and IAS 36 are being applied objectively in practice.

The primary document governing accounting in Uzbekistan is the Law on Accounting No. 404-I, dated April 13, 2016 [7]. This law established the principles of bookkeeping, the composition of financial statements, and the applicable standards depending on the category of enterprise. Under the law, open joint-stock companies, banks, insurance companies, and participants in the securities market were made obligatorily subject to IFRS-based financial reporting. Thus, this law represents the primary source through which the concept of goodwill was formally introduced into the framework of Uzbek accounting law.

RESEARCH METHODOLOGY

This study employs a combination of theoretical and empirical research methods. The theoretical component draws on a systematic review and comparative analysis of international standards (IFRS 3 and IAS 36), scholarly literature, and regulatory documents. The empirical component is based on official statistical data from the State Statistics Committee of the Republic of Uzbekistan for the period 2021–2024. Data analysis methods include trend analysis, percentage growth calculations, and descriptive statistics. The study also applies a deductive approach — moving from the general principles of IFRS to the specific conditions of the Uzbek accounting environment.

ANALYSIS AND RESULTS

Methodology for Initial Recognition and Measurement of Goodwill

Under IFRS 3, goodwill is initially calculated using the following formula:

$$\text{Goodwill} = \text{Consideration Transferred} + \text{Non-Controlling Interests} + \text{Fair Value of Previously Held Interest} - \text{Net Fair Value of Identifiable Assets and Liabilities}$$

As can be seen from the formula, goodwill does not arise spontaneously - it only emerges when a business combination transaction occurs. This “excess payment” is typically justified by the following factors: a strong brand name and reputation, a loyal customer base, a cohesive and experienced workforce, technological capability, a monopolistic or dominant market position, strategic geographic location, and other similar advantages. Accordingly, goodwill represents the aggregate of factors that lie beyond measurable, tangible assets yet create real economic value. Pursuant to Decree No. PQ-3126 of the President of the Republic of Uzbekistan dated February 24, 2017, a program for the phased implementation of IFRS in the country was adopted and its framework clearly defined [8]. Under this decree, companies with shares listed on the stock exchange, certain banks, and large enterprises with a dominant state ownership share assumed the obligation to prepare their financial statements in accordance with international standards. This, in turn, created the need for these companies to properly organize goodwill accounting as well.

Investment Environment in Uzbekistan and Goodwill Accounting

The year-on-year increase in foreign direct investment (FDI) flowing into Uzbekistan is leading to a rise in mergers and acquisitions, and thus to a greater likelihood of goodwill appearing in financial statements. According to official data from the State Statistics Committee, FDI demonstrated a steady upward trend between 2021 and 2024 [9].

Table 1.

Foreign Direct Investment Inflows into Uzbekistan (2021–2024)

Year	FDI Volume (million USD)	Growth vs. Previous Year (%)	Share of GDP (%)	Foreign Capital Share (%)
2021	3,087	—	4.8	37.4
2022	4,305	39.5	6.1	40.2

Year	FDI Volume (million USD)	Growth vs. Previous Year (%)	Share of GDP (%)	Foreign Capital Share (%)
2023	5,023	16.7	6.7	43.1
2024	5,741	14.3	7.3	45.8

As shown by Table 1, FDI inflows into Uzbekistan grew from USD 3,087 million in 2021 to USD 5,741 million in 2024 — an increase of more than 86%. The year 2022 stands out particularly: the growth rate relative to 2021 reached 39.5%. This can be partly explained by the intensification of economic reforms, tax incentives for foreign investors, and the expanded activity of special economic zones. The rise in the FDI-to-GDP ratio from 4.8% to 7.3% serves as an important indicator of the effectiveness of economic policy. The steady increase in the foreign capital share (from 37.4% to 45.8%) also signals the growing share of foreign capital in the privatization and restructuring of enterprises in Uzbekistan.

Table 2.

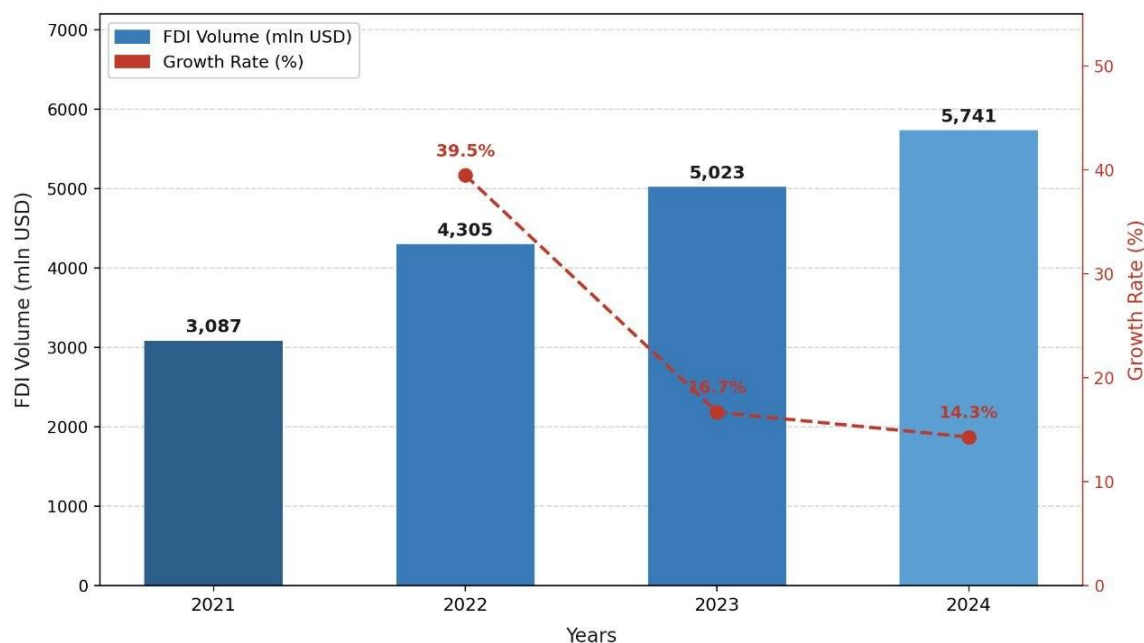
Number of Enterprises and IFRS Reporting Indicators in Uzbekistan (2021–2024)

Year	Total Number of Enterprises	With Foreign Capital Participation	Share of Foreign Capital Participants (%)	IFRS Reporting Enterprises
2021	485,321	6,523	1.34	2,047
2022	518,640	7,108	1.37	2,783
2023	553,287	7,846	1.42	3,512
2024	591,432	8,594	1.45	4,208

The figures in Table 2 reflect several important trends. First, the total number of enterprises grew from 485,321 in 2021 to 591,432 in 2024 — representing growth

of 21.9%. Second, the number of enterprises with foreign capital participation also increased significantly, rising from 6,523 to 8,594. Third, and most importantly, the number of enterprises reporting under IFRS doubled — from 2,047 to 4,208. This indicator confirms that international reporting practices in Uzbekistan are developing in parallel with the growth of FDI and the overall number of enterprises. At the same time, the level of IFRS adoption remains low — only about half of enterprises with foreign capital participation are reporting under international standards. This is the core problem in the introduction of goodwill accounting, as enterprises in this gap are often at risk of improperly accounting for goodwill or failing to account for it altogether.

Figure 1. Dynamics of FDI Inflows and Growth Rates in Uzbekistan (2021-2024)



Source: Statistical Committee of the Republic of Uzbekistan (stat.uz), 2024

Figure 1 clearly illustrates the stable upward trend of foreign direct investment inflows and the gradual stabilization of growth rates. Following the sharp surge in 2022 (39.5%), the growth rate declined to 16.7% in 2023 and 14.3% in 2024, respectively — indicating that investment flows have entered a normal cycle and the market is cooling from “overheating”. This steady growth in FDI volume, particularly in an environment conducive to M&A-type investments, implies that

goodwill values in financial statements will also increase, thereby enhancing the importance of impairment testing.

Practical Challenges in Goodwill Impairment Testing

Conducting goodwill impairment tests in practice requires numerous subjective assessments: identifying cash-generating units (CGUs), forecasting future cash flows, determining the discount rate, and calculating terminal value. For Uzbekistan's enterprises, this problem is even more profound: market prices for comparable assets in the domestic market are frequently unavailable, qualified valuers are in short supply, and the experience of audit firms is limited. Furthermore, many joint ventures and privatized state enterprises in Uzbekistan have been observed to either disregard the initial calculation of goodwill entirely during the merger process or to amortize it based on an approach from national accounting standards. Such an approach contradicts IFRS requirements, provides misleading information to financial statement users, and negatively affects the quality of investment decisions. Addressing this problem requires not only the improvement of the legal and regulatory framework, but also the enhancement of professional competence among accountants and the strengthening of audit institutions.

CONCLUSION

This study was aimed at providing a comprehensive analysis of the theoretical foundations of goodwill accounting under IFRS and its current state in Uzbekistan's practice. The findings lead to the following important conclusions: First, goodwill is not merely a numerical figure but a complex financial category that represents a company's strategic potential and competitive advantages in monetary terms. The annual impairment test required under IFRS 3 is a considerably more complex approach than the amortization of goodwill and is more dependent on managers' subjective assessments, potentially exerting a dual effect on the quality of financial reporting; Second, the growth of FDI inflows into Uzbekistan by more than 86% between 2021 and 2024 and the rise in the number of enterprises with foreign capital participation to 8,594 elevate the need for goodwill accounting to an objective

necessity. However, the still inadequately low share of enterprises reporting under IFRS demonstrates the scope of reforms that need to be undertaken in this area in our country; Third, the full application of goodwill accounting in Uzbekistan requires systematic action in several priority directions: the continuous alignment of the legal framework with IFRS requirements; the enhancement of the professional qualifications of accountants and auditors; the formation of a national institution of experts specializing in goodwill valuation; and the further clarification of issues relating to the recognition of goodwill amortization and impairment in tax legislation. Overall, goodwill accounting serves as an important bridge in the integration of Uzbekistan's economy into international capital markets. Resolving the theoretical and practical problems in this area will make a significant contribution to increasing the transparency of the investment environment, strengthening the confidence of foreign investors, and further enhancing the international competitiveness of enterprises in our country.

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