REVISTA AMBIENTE CONTÁBIL
Universidade Federal do Rio Grande do Norte
ISSN 2176-9036
Vol. 18, n. 1, Jan./Jun., 2026
Sítios: https://periodicos.ufrn.br/index.php/ambiente
http://www.atena.org.br/revista/ojs-2.2.3-06/index.php/Ambiente
Article received in: February, 26th, 2025. Reviewed by pairs in: July, 22th, 2025. Reformulated in: August, 27th, 2025. Evaluated by the system double blind review.

DOI: 10.21680/2176-9036.2026v18n1ID42511

Reflections on the impact of informational asymmetry on goodwill

Reflexiones sobre el impacto de la asimetría de información en el goodwill

Reflexões sobre o impacto da assimetria de informação no goodwill

Authors

Ana Clara Gonçalves Calaça Costa
Master in Accounting (UnB). Address: Campus Universitário Darcy Ribeiro – Prédio da FACE – Sala BT2 47/7 – Asa Norte. CEP 70910-900 - Brasília, DF - Brasil. Telefone: (61) 3107.0795. Identifiers (ID):
ORCID: https://orcid.org/0009-0007-4969-3142
Lattes: http://lattes.cnpq.br/2412499325310041
E-mail: macedogoncalvesana@gmail.com

Jomar Miranda Rodrigues
PhD in Accounting (UnB/UFPB/UFRN) – Adjunct Professor in the Department of Accounting and Actuarial Sciences at the University of Brasília. Address: Campus Universitário Darcy Ribeiro – Prédio da FACE – Sala BT2 47/7 – Asa Norte. CEP 70910-900 - Brasília, DF - Brasil. Telefone: (61) 3107.0795. Identifiers (ID):
ORCID: https://orcid.org/0000-0001-5961-243X
Research Gate: https://www.researchgate.net/profile/Jomar-Rodrigues-2
Lattes: http://lattes.cnpq.br/4371492514010904
E-mail: jomar@unb.br

Jorge Katsumi Niyama
PhD in Controllership and Accounting (USP), Post-Doctorate from the University of Otago – Full Professor at the University of Brasília – Department of Accounting and Actuarial Sciences. Address: Universidade de Brasília, FACE, Faculdade de Economia, Administração e Contabilidade. Campus Universitário Darcy Ribeiro - Prédio da FACE - 2º Andar - Salas B1-02 - Asa Norte, 70910-900 - Brasília, DF – Brasil. Telefone: (61) 31070798. Fax: (61) 31070800. Identifiers (ID):
ORCID: https://orcid.org/0000-0002-8738-3838
Lattes: http://lattes.cnpq.br/8414181237081323
E-mail: jkatsumi@unb.br

César Augusto Tibúrcio Silva
PhD in Controllership and Accounting (USP) – Full Professor in the Department of Accounting and Actuarial Sciences at the University of Brasília. Address: Universidade de Brasília, FACE, Faculdade de Economia, Administração e Contabilidade. Campus Universitário Darcy Ribeiro - Prédio da FACE - Salas A1-112, Asa Norte, 70910-900 - Brasília, DF – Brasil. Telefone: (61) 32731105. Fax: (61) 33497388. Identifiers (ID):
ORCID: https://orcid.org/0000-0002-5717-9502
Lattes: http://lattes.cnpq.br/5727021339190342
E-mail: cesartiburcio@unb.br

(Article presented at the 3rd UFG Congress of Accounting, Controllership and Finance)

Abstract

Purpose: This theoretical essay aims to discuss and present the disclosure of informational asymmetry in transactions related to goodwill and their effects on information users.

Methodology: A theoretical essay explores the discussions in the academic field concerning transactions and operations involving goodwill. Because of its unique intangible nature, goodwill allows a high level of managerial discretion, as granted by regulations. This situation can create an environment where some agents possess more information in a transaction, due to informational asymmetry. These factors can lead to market issues and even earnings management.

Results: The literature analysis identified informational asymmetry in goodwill and its consequences for the institution's stakeholders, such as a lack of knowledge about organizational movements related to this asset and its impact on decision-making.

Contributions of the Study: The study contributes to the academic discussion on the specific aspects of goodwill and its impact on accounting. Furthermore, it reveals important discussion topics for a better consolidation of accounting practice.

Keywords: Goodwill; Information Asymmetry; Earnings Management; Future Profitability.

Resumen

Objetivo: El objetivo de este ensayo teórico es discutir y presentar la revelación de situaciones de asimetría informativa en las transacciones relacionadas con el goodwill y sus impactos sobre los usuarios de la información.

Metodología: Se lleva a cabo un ensayo teórico sobre las discusiones presentadas en el ámbito académico sobre las transacciones y operaciones que involucran el goodwill. Debido a su naturaleza intangible y única, el goodwill presenta un alto grado de discrecionalidad en la actuación de los gestores, situación que se ve conferida por las normativas. Esta situación puede favorecer un entorno con una mayor concentración de información entre algunos agentes de la transacción, derivada de la asimetría informacional. Estos factores pueden propiciar la aparición de problemas de mercado e incluso de problemas en la gestión de resultados.

Resultados: El análisis de la literatura permitió identificar la asimetría informacional en el goodwill y sus consecuencias para los stakeholders de la institución, como el desconocimiento de los movimientos organizacionales vinculados a este activo y su impacto en la toma de decisiones.

Contribuciones del Estudio: El estudio contribuye a la discusión académica sobre las particularidades del goodwill y su impacto en la contabilidad. Además, revela temas de debate importantes para una mejor consolidación de la práctica contable.

Palabras clave: Goodwill; Asimetría de Información; Gestión de Resultados; Prima por Rentabilidad Futura;

Resumo

Objetivo: O objetivo desse ensaio teórico é discutir e apresentar situações de assimetria informacional nas transações relacionadas ao goodwill e seus impactos sobre os usuários da informação.

Metodologia: Realiza-se um ensaio teórico sobre as discussões no meio acadêmico acerca das transações e operações envolvendo o goodwill. Devido à sua natureza intangível e única, o ágio por rentabilidade futura confere um alto grau de discricionariedade à atuação dos gestores, o que é reconhecido pelos normativos. Essa situação pode favorecer um ambiente de maior concentração de informação em alguns agentes da transação, decorrente da assimetria informacional. Esses fatos podem ser propícios à ocorrência de problemas de mercado e, inclusive, de gerenciamento de resultados.

Resultados: A análise da literatura permitiu identificar uma assimetria informacional no goodwill e suas consequências para os stakeholders da instituição, como o desconhecimento de movimentos organizacionais relacionados a esse ativo e o impacto na tomada de decisões.

Contribuições do Estudo: O estudo contribui para a discussão acadêmica sobre as particularidades do goodwill e seu impacto na contabilidade. Além disso, revela importantes tópicos de discussão para a melhor consolidação da prática contábil.

Palavras-chave: Goodwill; Assimetria da Informação; Gerenciamento de Resultados; Ágio por Rentabilidade Futura.

1 Introduction

Goodwill can be defined as the excess amount paid over the fair value of assets acquired in a business combination. This asset is generated by a profit-generating capacity that exceeds the entity's normal range, due to the combined effect of multiple assets that must be identified jointly. This conceptualization is the result of numerous discussions and disagreements in accounting circles, due to its abstract nature (Wen & Moerlhe, 2016; Martins et al., 2010).

Goodwill for future profitability is recognized at the acquisition date and is defined as the difference between the net acquisition value of the identifiable assets acquired and liabilities assumed, and the total consideration transferred, including the value of the non-controlling interests, in a business combination carried out in stages. Thus, the acquirer establishes the goodwill value based on the use of fair value (IASB, 2008).

The measurement of goodwill is still subject to some controversial debate due to its vague nature and the difficulty in achieving a verifiable value. For goodwill for future profitability to be adequately recorded as an asset, it must have been acquired; that is, there must have been a business combination (Martins et al., 2010).

Some situations related to goodwill still present gray areas. Due to its intangible nature, its ownership and use depend on a high degree of discretion. Because explicit management action is required for its accounting, transactions involving goodwill are susceptible to decisions that may not be made available to information users (Cappellesso & Niyama, 2022; Niyama et al., 2015).

In a contractual environment, where one party has more information about the product being traded than the other, it is possible to infer that there is a problem of information asymmetry; this mainly constitutes an exploitation of informational disadvantages by one of the parties to the transaction (Stiglitz, 2017).

Although some managers target information asymmetry for economic gain, it can pose considerable problems in the financial market (Stiglitz, 2017). This would be detrimental to external users of the disclosed information, as they would be affected by the lack of accurate information on the observed object. Furthermore, the information presented could be influenced by accounting management, given managers' desire to maximize returns (Cappellesso et al., 2017; Vogt et al., 2016).

The aforementioned characteristics corroborate the relevance of the proposed study. Due to its abstract nature, the structuring of goodwill allows for a series of possibilities that directly impact accounting information and the presentation of results to users. The objective of this theoretical essay is to discuss and present situations of information asymmetry in transactions related to goodwill and their impacts on users of the information. Furthermore, the work proposes a list of effects of using goodwill for future profitability, which can be generated for users of financial information.

To understand this desire, we used scientific research addressing the topics of premium for future profitability and information asymmetry to identify scenarios where both concepts intersect.

2 Literature review

2.1 Conceptualization of Goodwill

Goodwill can be characterized by the difference between the acquisition price of an asset and the identifiable value of that asset (Higson, 1998). The representation of future economic benefits derived from acquiring other assets, resulting from a business combination where they are not individually identified or separately recognized, corresponds to the IASB's definition of goodwill for future profitability (IASB, 2008).

The meaning of goodwill is the subject of numerous discussions in accounting theory. Among the possible definitions of goodwill, some authors define it as the difference between the amount paid for the acquisition of the asset and its fair value. In contrast, others interpret it as the amount paid for excess profits generated (Jahmani et al., 2010).

Martins et al. (2010) consider goodwill as "an intangible asset that arises when an entity can generate profits above the normal level for the sector in which it operates, due to the combined effect of various intangible assets that cannot be individually identified" (Martins et al., 2010, p. 5). This asset originates not only from assets recorded in accounting books, but also from assets not accounted for in the balance sheet (Martins et al., 2010).

Goodwill is often defined as a premium for expected future profitability, which corresponds to the total of the entity's expected future profits above what would be considered normal. Some criteria may also be regarded as relevant in determining returns that are considered above normal, such as organizational management, sales force, distribution capacity, location, and customer loyalty (Martins et al., 2010).

Goodwill will appear on the balance sheet as a result of business combinations. Therefore, it will only appear on the balance sheet of the acquired company, not the acquiring company. Currently, some studies address internally generated goodwill, but it should not yet be recognized in the entity's financial statements (Martins, 2020).

Goodwill for future profitability is the result of transactions known as M&As (Mergers and Acquisitions). Over the past few years, the exponential growth of these transactions has led to an increase in goodwill transactions. This asset can be considered strategic for the preparation of institutional statements (Xie et al., 2020; Wang & Zhang, 2024).

Mergers and Acquisitions (M&A) are essential economic movements that enable the integration of capital resources. These results are achieved due to the potential of M&A to improve capital allocation, leading to a rapid expansion in the scale and competitiveness of organizations in the market (Xie et al., 2020).

The growth in transactions that result in goodwill creates some challenges related to this asset. M&A transactions can present some uncertainties due to the opacity of information disclosure and deviations in goodwill measurement methods. Therefore, many of the values shown as premium on future profitability may not be true, generating consequences, including on the value of the entity's shares (Xie et al., 2020).

Xie et al. (2020) analyze the impact of goodwill resulting from mergers and acquisitions on the risk of stock price decline. Among their results, they found that entities are more susceptible to share price declines as the amount of goodwill recorded in their financial statements increases. The authors note that the more hidden the disclosed financial information is, the more susceptible the entity becomes to manipulation of goodwill. Thus, information asymmetry is related to the impact of M&A on share price decline risk (Xie et al., 2020).

The complexity of adding value to an M&A process can also result in information asymmetry. A lack of preparation and knowledge by someone conducting a business combination has numerous consequences for the process. Suppose this person believes they are sufficiently qualified to proceed with the negotiation, even if they are not. In that case, the goodwill generated in this transaction may not truly reflect its economic value (Oliveira, 2022).

These potential differences in goodwill value due to future profitability can be observed among the components of goodwill. The stock market usually views the potential for future value generation that goodwill presents positively. However, it negatively views the component of the asset related to an acquisition value that is greater than its actual value (Henning et al., 2000).

Throughout the development of accounting literature, goodwill has been treated differently across countries. In Brazil, it was first addressed in CVM Normative Instruction (IN) 01/1978, and its amortization was defined as a maximum period of 10 years by CVM Normative Instruction 247/1996, before the accounting convergence process. In the United States, the amortization period was up to 40 years. Before the adoption of IFRS, some countries, such as England, charged goodwill directly to equity (Martins, 2020).

In 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 142, which addresses the accounting for goodwill and other intangible assets. SFAS 142 was met with some dissatisfaction, as it provided little information about the determination and measurement of impairment tests (Jahmani et al., 2010).

In 2005, IFRS 3 established the mandatory disclosure of goodwill as an asset based on expected future profitability. Furthermore, it eliminated amortization applied to these assets, requiring periodic impairment testing. Some authors oppose the use of impairment testing to update the value of goodwill, believing that amortization would be more favorable (Johansson et al., 2016).

Scholars in favor of amortization highlight the short lifespan of goodwill and the need for new expenditures on the asset to maintain it. However, those who advocate for impairment testing emphasize the occurrence of two distinct expenses when amortizing an asset: the amortization expense of the acquired asset itself and the costs associated with creating new goodwill. Furthermore, the high variability in the amortization period creates uncertainty about selecting an acceptable period (Martins, 2020).

However, the adoption of impairment tests creates an inflationary scenario for goodwill and allows for untimely results (Li & Sloan, 2017). This issue arises from the granting of high discretion to organizational managers, who can use this method to manipulate or communicate private information (Cappellesso & Niyama, 2022).

Thus, it is observed that the goodwill scenario can lead to adverse information, as one party may have more details on the measurement than the other (Stiglitz, 2017). Lack of knowledge about the M&A operator and overvaluation of the transaction value can lead to goodwill with unrealistic values , thereby generating exploitation of informational advantages (Stiglitz, 2017; Oliveira, 2022; Xie et al., 2020).

2.2 Characteristics of Information Asymmetry

The term "information asymmetry" emerged in the 1970s with George A. Akerlof's work, "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." In this study, the author examines the emergence of information asymmetry in the automotive market. The general premise is that the only way a buyer can evaluate a product they wish to purchase is by evaluating similar purchases made by others. In this scenario, the seller has greater knowledge of the product being offered and can use this information to their advantage in the negotiation. The seller has a particular advantage in selling products of lower quality than the market average, without the buyer noticing (Auronen, 2003).

Information asymmetry is defined as the fact that one agent possesses information that is not available to another. This scenario creates a series of market problems due to the exploitation of informational advantages. Thus, one of the market's most significant challenges is to reduce these disadvantages to improve information and reduce, or even eliminate, the asymmetry (Stiglitz, 2017).

However, profit growth from exploiting information asymmetry is targeted by some market players. Therefore, these market participants continue to strive to maintain these differences, despite their negative impact on the economy (Stiglitz, 2017).

Asymmetric information can vary according to market movements. Halov (2006) believes that information asymmetry can be reduced through increased information production about an entity or by historically mapping its stock prices. However, the author notes that older firms may still suffer from significant information asymmetries when seeking shareholders for capital increases (Halov, 2006).

The cost of capital is affected by information asymmetry, even after accounting for the information provided to investors. Market competition can be observed, which impacts the relationship between the cost of capital and asymmetric information (Lambert et al., 2012). Lambert et al. (2012) conclude that information asymmetry in illiquid markets can influence an increase in the cost of capital.

2.2 Situations of Information Asymmetry in Goodwill

Based on the scenario outlined, it is possible to conclude that information asymmetry can contribute to difficulties in estimating goodwill. This situation occurs mainly due to its subjective formation. Thus, several constituent components of such an asset may be compromised.

To aggregate situations in which information asymmetry may impact goodwill, the following topics were separated, chosen due to their importance in determining goodwill for future profitability: Discretion in Determining Fair Value; Impacts of Using the Impairment Test on Goodwill; Amortization or Impairment Test; and Information Asymmetry in Goodwill and Earnings Management.

2.2.1 Discretion in determining fair value

Goodwill is recognized upon the acquisition of one entity by another. The value of this asset, to be recognized by the acquiring entity, derives from the difference between the acquired company's value and its equity measured at fair value. This difference corresponds to the total expected future profits above the entity's usual profitability (Martins et al, 2010).

Fair value is defined as the price received to sell an asset or paid to transfer a liability at the measurement date. It must occur between market participants in an orderly transaction (IASB, 2018). This conceptualization presents some difficulties, including (Iudícibus & Martins, 2007):

. Fair value is the total value at which an asset "could" be transacted: the verbal form used provides the assessment in an undefined situation (Iudícibus & Martins, 2007).

. Fair value calculation has been performed by applying market value, so the term in the definition could be replaced by the previous one. However, some assets do not have a market value and can still be measured at fair value (Iudícibus & Martins, 2007).

Lustosa (2017) analyzes the level of adherence of implicit and explicit measurement concepts expressed in SFAS 157 - Fair Value Measurements. The definition of "value" is always related to unpredictability, an uncertain future. Thus, the term "fair" differs from the imprecise nature of "value" and should be associated with the proper application of measurement concepts (Lustosa, 2017).

In addition to the need to imagine a standard transaction scenario between market participants, some items must be observed to define a fair value measurement framework (Lustosa, 2017):

. Consideration of specific attributes of assets and liabilities.
. Exit price of the good.
. Central market, the one with the most significant commercial activity of the item, or most advantageous, where the asset would obtain the highest price, or the payment for the transfer of the asset would be the lowest.
. Market participants, buyers, and sellers must be independent, knowledgeable about the business, able, and willing to transact.
. Valuation techniques are used when it is not possible to establish fair value through characterization in an active market (market approach, income approach, and cost approach).

The exclusive choice of exit prices to define fair value may contradict the economic definition, which is incorporated into accounting theory, of defining assets as probable future economic benefits; this occurs because the reality of assets in use, which have a value equal to the entry price and a replacement cost of services, is not consistent with the exit price (Lustosa, 2017).

Thus, Lustosa (2017) states that, although it is necessary to observe a market to establish fair value, it is usually the result of the imagination of those responsible for the financial statements, who establish highly subjective parameters for the future expectations of the assessed asset. Furthermore, these same evaluators consider the value at which market participants could sell the asset or their dispositions for the transfer of liabilities (Lustosa, 2017).

Given the definition of information asymmetry, which refers to the situation in which one agent possesses information that is not available to another (Stiglitz, 2017), it is possible to associate this phenomenon with discretion in determining the fair value of an asset and, consequently, goodwill. The calculation of fair value directly impacts the measurement of goodwill, which is achieved through the difference between the value of the acquired entity and its equity measured at fair value (Martins et al, 2010).

Once the authority to assess fair value is granted to those responsible for financial statements, a scenario may arise in which these agents have more information about the motivation behind the choice of measurement method, which may have been used to meet organizational purposes. This may result in an "unfair" value for the physical asset (Lustosa, 2017) and also for the goodwill achieved in the transaction.

Thus, granting this choice to financial managers could lead to a scenario of asymmetric information, where the preparers of financial statements have more information than the users. This could generate a series of market problems, given the exploitation of informational advantages (Stiglitz, 2017).

2.2.2 Impacts of Using Impairment to Revalue Goodwill

Throughout the development of accounting standards, the method for updating goodwill based on future profitability has undergone some changes. One of the first standards addressing this asset class was Accounting Principles Board (APB) No. 17, which established the need for periodic amortization of goodwill over a period not to exceed 40 years (Andrews Jr., 1981).

Subsequently, SFAS (Statement of Financial Accounting Standards) No. 141 eliminated the centralization of interests method, used in M&A transactions, for the application of the business combination methodology. Thus, goodwill should be recognized as an intangible asset when there is an acquisition with consideration greater than the fair value of the net assets of the acquired entity (Cappellesso & Niyama, 2022; Jahmani et al., 2010).

Furthermore, SFAS No. 142 was issued, superseding the guidance provided by APB No. 17 and clarifying how intangible assets should be recorded upon acquisition, whether acquired individually or as a group of assets. This document also changed the approach to updating the value of amortized intangible assets for impairment testing (Jahmani et al., 2010).

Thus, after the issuance of SFAS No. 142, it became necessary to test goodwill for its recoverable amount, following the guidelines established by IAS (International Accounting Standard) 36. The recoverability test must be applied annually. The IASB believes that this method of updating the value of goodwill would contribute to the delivery of more useful information to information users (Cappellesso & Niyama, 2022).

According to IAS 36, the impairment test, or recoverability test, aims to calculate the recoverable amount, which corresponds to the higher of the asset's fair value or value in use. Thus, the carrying amount is compared with the recoverable amount of the asset's expected future cash flows. If the recoverable amount is less than its carrying amount, the difference must be recorded as an impairment loss (IASB, 2013).

Impairment testing should be performed at least annually or whenever there are indications of internal or external impairment. Impairment testing may occur when market interest rates rise and other investment market rates increase, affecting the discount rate used to calculate the asset's value-in-use. Significant changes that adversely affect the entity, particularly in technology and the economic or legal market, may also necessitate impairment testing (Niyama et al., 2015).

The components of goodwill for future profitability can generate cash flows independently, provided they function in conjunction with each other or with other assets. The recoverability test is used to assess whether there have been impairment losses in cash-generating units, in which economic benefits are generated (Costa et al., 2023).

One concern about the quality of the information presented in goodwill is its future benefits. Calculating these estimates is highly difficult, since these benefits may be embedded in different cash-generating units. Performing the test requires the use of several variables determined by professional judgment: the cash-generating units to be used, which assets should be included in the calculation, the method for estimating future cash flows, and the discount rate to be applied (Niyama et al., 2015; Vogt et al., 2016).

Some situations arising from the application of the impairment test to goodwill may reflect scenarios of asymmetric information. Shielding, which may generate a risk that the carrying value of goodwill is overstated, can be characterized as a situation of informational disadvantage (Costa et al., 2023).

The shield can be identified when the recoverability test is performed jointly, that is, when the acquired business is integrated into the acquirer's business. Thus, a margin is created by the acquirer's company, which can hide the impairment loss that would exist if the goodwill for future profitability were assessed separately (Costa et al., 2023).

With the emergence of this shield, the acquisition may underperform its acquirer, even if impairment losses were not recorded (Costa et al., 2023). This situation results from the exploitation of informational advantages held by the entity's managers, which can lead to a series of market problems (Stiglitz, 2017).

Another underlying issue regarding goodwill is whether impairment test results are disclosed on time to users of the information. Cappellesso and Niyama (2022) discuss this phenomenon in Brazil, noting the high degree of discretion in impairment testing, the low level of enforcement, and weak investor protection, which allow it to be used opportunistically. The authors conclude that there is a failure to provide timely information, since the timing of goodwill loss recognition changes (Cappellesso & Niyama, 2022).

Thus, it is clear that applying recoverability tests to goodwill can generate various scenarios of asymmetric information. Whether through the need to employ professional judgment to define criteria, the application of shielding in business combinations, or the timing of the method, the market scenario is vulnerable to the consequences of information asymmetry (Stiglitz, 2017).

2.2.3 Amortization or Impairment Test?

Goodwill amortization in Brazil was adopted through Decree-Law No. 1,598/77 and corroborated by CVM Instructions No. 01/78 and No. 247/96. Thus, Brazil determined 10 years to amortize goodwill based on future profitability. In the United States, the amortization determined by the FASB comprised 40 years (Martins, 2020).

Through studies, the FASB determined that applying a mandatory 10-year period for goodwill amortization was not feasible. Amid the difficulties in establishing a fixed goodwill amortization period, the board observed that most assets classified as goodwill did not have a total useful life of 10 years. Furthermore, the applicability of this procedure was compromised: many U.S. investors did not consider this amortization expense important (Martins, 2020).

To address these issues, the adoption of the impairment test to update the value of goodwill was proposed in 2008. This way, the asset's value would only be updated if the test identified a loss in value. This new approach was proposed with the arguments of avoiding arbitrariness and promoting a closer approximation to reality (Martins, 2020).

In this context, several authors advocate for the return of amortization to update the value of goodwill. Among them, Martins (2020) lists arguments related to the short lifespan of goodwill, which always requires new expenditures to maintain over time. Consequently, not applying amortization would be unfeasible, since the agreement between accounting and the actual assets would not be maintained.

Niyama et al. (2015) and Vogt et al. (2016) highlight the difficulty of impartiality in applying the impairment test. Due to its complex and subjective nature, the test performer must exercise judgment to define the variables to be used.

In 2020, IFRS prepared Discussion Paper 2020/1 to provide commentary on disclosure, goodwill, and impairment testing for business combinations. The primary objective of this document was to develop a discussion on the need to disclose more useful information in M&A processes through reasonable values (DP/2020/1).

The quality of the information disclosed is crucial for investors to analyze the performance of the acquired entity in a business combination. Furthermore, improving this characteristic impacts decision-making in M&A transactions (DP/2020/1).

The IASB presents several reasons for reintroducing amortization as a method for updating goodwill. These include the feasibility of reducing the cost of performing impairment testing and the possibility that a simpler mechanism, such as amortization, could generate greater stakeholder confidence (IASB, 2020).

Furthermore, several points favor the use of amortization over impairment testing, including the current lack of management liability for overstating goodwill in acquisitions, the reduction in the accounting value of this asset, and a better adaptation to the asset's finite useful life through amortization. These arguments reiterate IFRS's intention to address an issue that is not proceeding as intended (DP/2020/1).

After evaluating the feedback generated by the publication of Discussion Paper 2020/1, the IASB included this proposal in its standard-setting study. A meeting was held in July 2023 to discuss changes to IAS 36, Impairment of Assets, and proposals for IFRS 3, Business Combinations (IASB, 2023).

Although the debate is still in its infancy, the arguments presented clearly indicate that a return to the amortization regime could help mitigate information asymmetry. By assigning a fixed value to an asset's update, the asset is less susceptible to the discretion of its managers. Thus, the information passed on to users would have a greater degree of verifiability.

However, even when using amortization or impairment testing, good conduct by those responsible for the financial statements is highly essential. Achieving this requires upright moral conduct combined with sound accounting techniques. This approach can improve the quality of the information disclosed and increase stakeholders' confidence in the institution.

2.2.4 Information Asymmetry in Goodwill and Earnings Management

The quality of accounting information can be measured by the level of earnings management in an entity. This concept refers to the judgment that managers can employ in preparing financial statements. This practice may occur for the personal gain of an institution's managers (Yang & Han, 2025).

The entity's management bodies possess more information about its operations than external users. Thus, there is a discrepancy between the information used by those who can influence the financial results data for internal decision-making and the information used by external users who need the reports for decision-making (Niyama et al., 2015).

Furthermore, regulatory markets are not effective in ensuring that information is disseminated equally among market participants; this provides an incentive for managers to increase their returns and well-being. Thus, financial statements are susceptible to the actions of managers, who can use them to ensure a greater return on their investment. They may also be beneficiaries of privileged information, confirming the information asymmetry that exists in their relationships with external users (Niyama et al., 2015).

Niyama et al. (2015) emphasize the need to pay attention to transactions involving goodwill, given its potential to generate capitalization or losses in the period. The credibility of the information disclosed in financial reports may be undermined due to the lack of definition of the accounting treatment of these assets.

In this scenario, the proper measurement and disclosure of goodwill for future profitability is highly relevant, since its values tend to have a high degree of significance. Since there is a notable difficulty in defining goodwill, the standards focus less on its economic-financial essence and more on its method of calculation (Niyama et al., 2015).

As noted, professional judgment regarding transactions involving goodwill is highly discretionary. The quality of an entity's earnings can be affected by these management actions, potentially leading to earnings management. This phenomenon has several causes, usually triggered by management actions, such as profit maximization, personal advancement, and increased share price (Jahmani et al., 2010).

Cappellesso et al. (2017) analyze the use of earnings management methods in managers' decisions about recognizing impairment losses. Using econometric models, logistic regression, and multiple regression, the authors conclude that the recoverability test on goodwill indicates earnings management (Cappellesso et al., 2017).

Earnings management can be observed when calculating losses derived from goodwill impairments due to the subjectivity and complexity involved. Vogt et al. (2016) provide an example of this situation, where larger amounts of Cash Generating Units are used to manage the allocation of goodwill based on future profitability. In this way, the manager would be able to control the amount of the loss that will be recognized (Vogt et al., 2016).

Vogt et al. (2016) assess the occurrence of earnings management by examining the determining factors for the recognition of losses due to impairment testing on goodwill. Economic factors are crucial for the recognition of such losses. Furthermore, through a quantitative analysis, the authors conclude that the performance of managers is relevant for recognizing impairment losses, which helps understand the presence of earnings management in the entity (Vogt et al., 2016).

Pajunen and Saastamoinen (2013) analyze Finnish auditors' perceptions of earnings management in goodwill accounting under international standards (IFRS). Auditors agree that the procedures established by the IASB for accounting for goodwill may encourage earnings management. Not surprisingly, auditors from the Big 4 believe that IFRS rules on goodwill are being correctly applied, given that the companies studied are important clients (Pajunen & Saastamoinen, 2013).

Filip et al. (2014) investigated whether the recognition of goodwill impairment testing is delayed through cash flow manipulation. The authors found that managers use cash flow manipulation to support their decisions not to disclose impairment losses. Thus, cash flows exhibit several discretionary characteristics resulting from management manipulation, which can impact future organizational performance (Filip et al., 2014).

In view of the above, it is possible to verify that a large part of the transactions and accounting movements involving goodwill indicate that one party holds more information. This situation can affect the efficiency of the economic market, since users outside the organization will have less access to the organizational reality (Mishkin, 1990).

3 Critical Reflective Analysis

The existence of goodwill sparks numerous academic discussions, not only because of its intangible nature but also because of its unique characteristics, which differentiate it from any other type of asset. Due to its ethereal nature, scenarios involving its occurrence, including those related to measurement and disclosure, can result in an informational imbalance between the parties involved in the financial statements.

Information asymmetry, when considering goodwill, is expressed in the disparity in knowledge of the full details of the transaction. This essay lists some situations that can lead to inequalities and a lack of knowledge between the parties to a transaction, potentially generating market problems. Specific agents are required to reverse this situation.

3.1 Discretion in Determining Fair Value

To prevent discretion in determining fair value from creating asymmetric information, financial reports must present complete details related to the measurement criteria used to measure assets. Therefore, the calculation methods and managers' motivations for their actions must be listed in reports disclosed to external users. These actions provide a more equitable information landscape between those responsible for the financial statements and the users of the financial reports.

3.2 Impacts of Using the Impairment Test on Goodwill

The use of impairment tests can generate a series of exploitations of informational advantages, as explained above. Therefore, there must be ethical alignment among managers to ensure the proper application of this methodology. Furthermore, it is always necessary to ensure timely information disclosure and clarity in selecting the criteria used in test applications, aiming to create a more stable scenario for user decision-making.

3.3 Amortization or Impairment Test?

Although discussions about the application of amortization or impairment testing have begun, it is still crucial that this movement expand and be based on a clear and accurate decision. For this to be viable, discussions must take place broadly among managers and professionals working directly in the area so that a solution can be presented to resolve the issue at hand. Furthermore, behavioral analysis studies of managers can help identify potential trends in the preparation of financial statements, as well as their primary motivations and consequences. This approach, combined with theory, can improve communication between stakeholders and facilitate the application of regulations.

3.4 Information Asymmetry in Goodwill and Earnings Management

Earnings management can lead to the concealment of relevant information related to the measurement of accounting information. Therefore, this situation can lead to the concealment of some important information for a better understanding of goodwill. Improving the provision of information would clearly be useful to external users, enabling them to make better-informed decisions.

Furthermore, greater homogeneity in valuation methods for this asset could contribute to greater capital market stability, given the impact of information asymmetry on the cost of capital (Lambert et al., 2012). Despite the highly intangible characteristics of goodwill, action is needed to organize better the rules and standards that must be followed. This would encourage more verifiable and timely accounting, reducing information asymmetry and benefiting external users.

4 Final Considerations

When examining goodwill issues, it becomes clear that there is a broad scope for managers to express opinions and act at their discretion. This can lead to a situation where internal users, especially managers and those responsible for preparing financial statements, possess a significant portion of the relevant information about their intangible assets.

This broad information possession by only a portion of stakeholders results in less access to the entity's reality for external users. With less access to accurate information, stakeholders are likely to make biased decisions, possibly different from those they would have made if they had full access to the data.

Having considered the above issues, it is possible to conclude that the transaction, recognition, and measurement of goodwill for future profitability may generate asymmetric information for its users. If not remedied, this situation may create an environment that undermines the reliability of the organization's accounting information and cause problems in the economic market.

However, this informational asymmetry in goodwill is also not easily resolved, and a change in the attitude of organizational managers alone is not sufficient. The standards and procedures adopted for measuring and accounting for goodwill for future profitability have such a wide range of possibilities that it is difficult for all entities to come together and establish a single procedure. An example of this is the calculation of fair value, from which goodwill is derived.

Thus, this situation of information asymmetry can be decisive in creating an environment conducive to earnings management. Disclosing information inefficiently and without informing external users about what is happening creates an incentive for managers to act to increase their returns, even if it is through accounting management.

Given the issues presented, managers still need to act to reduce this information vacuum among their users. One measure to alleviate this situation is to increase the disclosure of information in explanatory notes related to the calculation, recognition, and measurement of these intangible assets.

Therefore, this discussion needs to be emphasized in the economic market, as it is one of the main factors influenced by information asymmetry regarding goodwill and its impact on future profitability. Furthermore, external users should also play a role in ensuring the accuracy and completeness of the data presented in the financial reports of the institutions they are part of. These actions can contribute to reducing information asymmetry regarding goodwill disclosure, thus improving stakeholder relations and strengthening the institution.

References

Andrews Jr, W. T. (1981). The evolution of APB Opinion No. 17 accounting for intangible assets; A study of the U.S. position on accounting for goodwill. *The Accounting Historians Journal*, 37–49.

Auronen, L. (2003). Asymmetric information: theory and applications. In *Seminar of Strategy and International Business as Helsinki University of Technology* (Vol. 167, pp. 14-18).

Cappellesso, G., & Niyama, J. K. (2022). Tempestividade da perda por redução ao valor recuperável do goodwill em empresas brasileiras. *Revista Contabilidade & Finanças*, *33*.

Cappellesso, G., Rodrigues, J. M., & Prieto, M. F. (2017). Redução ao valor recuperável do goodwill: evidências do gerenciamento de resultados em sua determinação. *Advances in Scientific and Applied Accounting*, 286–303.

Costa, L., Lustosa, P. R. B., & Niyama, J. K. (2023). A redução do valor contabilizado do goodwill: uma análise à luz do Iasb Discussion Paper/2020/1. *Revista de Educação e Pesquisa em Contabilidade (REPeC)*, 17(1).

Filip, A., Jeanjean, T., & Paugam, L. (2015). Using real activities to avoid goodwill impairment losses: Evidence and effect on future performance. *Journal of Business Finance & Accounting*, *42*(3-4), 515-554.

Halov, N. (2006). Dynamics of asymmetric information and capital structure. *Unpublished working paper. New York University*.

Henning, S. L., Lewis, B. L., & Shaw, W. H. (2000). Valuation of the components of purchased goodwill. *Journal of Accounting Research*, *38*(2), 375–386.

Higson, C. (1998). Goodwill. The British Accounting Review, 30(2), 141–158. Iasb - International Accounting Standard Board. (2023). Business Combinations - Disclosures, Goodwill and Impairment. Recuperado de: https://www.ifrs.org/projects/work-plan/goodwill-and-impairment/

IASB - International Accounting Standards Board. (2008). *IFRS 3: Combinações de negócios*. Londres, Reino Unido: IFRS Foundation.

IASB - International Accounting Standard Board. (2020). Discussion Paper DP/2020/1 - Business Combinations - Disclosures, Goodwill and Impairment. Recuperado de: https://www.masb.org.my/pdf.php?pdf=DP20201.pdf&file_path=pdf_file. Iasb - International Accounting Standard Board. (2020). IAS 36 - Impairment of Assets. Recuperado de: https://www.ifrs.org/issued-standards/list-of-standards/ias-36-impairment-of-assets. Iasb - International Accounting Standard Board. (2020). IFRS - Fair Value Measurement. Recuperado de: https://www.ifrs.org/issued-standards/list-of-standards/ifrs-13-fair-value-measureent/#:~:text= IFRS%2013%20defines%20fair%20value%20as%20the%20price%20that%20would,date%20(an%20exit%20price).

Iudícibus, S. D., & Martins, E. (2007). Uma investigação e uma proposição sobre o conceito e o uso do valor justo. *Revista Contabilidade & Finanças*, *18*, 09–18.

Jahmani, Y., Dowling, W. A., & Torres, P. D. (2010). Goodwill impairment: A new window for earnings management? *Journal of Business & Economics Research (JBER)*, *8*(2).

Johansson, S. E., Hjelström, T., & Hellman, N. (2016). Accounting for goodwill under IFRS: A critical analysis. *Journal of international accounting, auditing and taxation*, *27*, 13-25.

Lambert, R. A., Leuz, C., & Verrecchia, R. E. (2012). Information asymmetry, information precision, and the cost of capital. *Review of finance*, *16*(1), 1–29.

Li, K. K., & Sloan, R. G. (2017). Has goodwill accounting gone bad? *Review of Accounting Studies*, *22*, 964–1003.

Löfgren, K. G., Persson, T., & Weibull, J. W. (2002). Markets with asymmetric information: the contributions of George Akerlof, Michael Spence, and Joseph Stiglitz. *The Scandinavian Journal of Economics*, 195-211.

Lustosa, P. R. B. (2017). A (in?) justiça do valor justo: SFAS 157, Irving Fisher e Gecon. *Revista Evidenciação Contábil & Finanças*, *5*(1), 5-21.

Martinez, A. L. (2013). Gerenciamento de resultados no Brasil: um survey da literatura. *BBR-Brazilian Business Review*, *10*(4), 1–31.

Martins, E. (2020). Goodwill: Baixa, Amortização ou Impairment? E quando originado do passivo? *Revista Fipecafi de Contabilidade, Controladoria e Finanças (RFCC)*, *1*(1), 5-19.

Martins, E., Almeida, D. L. D., Martins, E. A., & Costa, P. D. S. (2010). Goodwill: uma análise dos conceitos utilizados em trabalhos científicos. *Revista Contabilidade & Finanças*, *21*, 1–25.

Mishkin, F. S. (1990). Asymmetric information and financial crises: a historical perspective.
Niyama, J. K., Rodrigues, A. M. G., & Rodrigues, J. M. (2015). Algumas reflexões sobre contabilidade criativa e as normas internacionais de contabilidade. *Revista Universo Contábil*, *11*(1), 69–87.

Pajunen, K., & Saastamoinen, J. (2013). Do auditors perceive that there exists earnings management in goodwill accounting under IFRS? Finnish evidence. *Managerial Auditing Journal*.

Oliveira, K. V. D. (2022). The nature of accounting goodwill: an interdisciplinary theoretical–empirical approach.

Stiglitz, J. E. (2017). *The revolution of information economics: the past and the future* (No. w23780). National Bureau of Economic Research.

Vogt, M., Pletsch, C. S., Morás, V. R., & Klann, R. C. (2016). Determinantes do reconhecimento das perdas por impairment do goodwill. *Revista Contabilidade & Finanças*, *27*, 349–362.

Wang, M., & Zhang, Y. (2024). Excess goodwill and enterprise litigation risk. *Finance Research Letters*, *67*, 105819.

Wen, H., & Moehrle, S. R. (2016). Accounting for goodwill: An academic literature review and analysis to inform the debate. *Research in Accounting Regulation*, *28*(1), 11–21.

Xie, W., Ye, C., Wang, T., & Shen, Q. (2020). M&A goodwill, information asymmetry, and stock price crash risk. *Economic research-Ekonomska istraživanja*, *33*(1), 3385-3405.

Yang, Z. & Han, Y. (2025). Literature Review on Earnings Management. *International Journal of Global Economics and Management*. 7. 87-91. 10.62051/ijgem.v7n3.08.