The Evidence of Goodwill Disclosure at Indonesia's Listed Company and Goodwill Relationship with Future Earnings

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Abstract

While goodwill had clearly met the two characteristics of an asset (i.e. the occurrence of past transaction and the rights to control the assets), the “future economic benefits” of goodwill is often debatable. This paper attempts to study the existence of goodwill benefits in the company's actual earnings. Investigating all companies in the Jakarta Stock Exchange for the period 2005, we find that 62 companies disclose goodwill in their financial reports. Four hypotheses are developed to indicate any positive relationship between goodwill and the company's earnings. The research finds that there is a positive relationship between the amount of goodwill and the company's earnings. It then explains as to the size of goodwill and its influence on a business's capacity to earn higher profits. The research proves that goodwill possesses future economic benefits that contribute to the actual earnings of a company, which is derived optimally in the early years subsequent to the business combinations. The research also revealed that the disclosure compliance of Indonesian listed companies in regards to goodwill disclosure requirements is still low with 47% of the sample companies failed to comply all disclosure requirements.

Keywords: *Goodwill, Future Economic Benefits, Amortization, Disclosure, Earnings, Matching Principles, Intangible assets, Indonesia*

INTRODUCTION

Current Accounting practice for goodwill in Indonesia is in line with the Statement of Financial Accounting Standard, PSAK1 No. 22 – *Accounting for Business Combinations*. Under the standard, goodwill is recognized as an asset because it represents a purchase of economic benefit that is expected to be received in the future. Moreover, goodwill should be amortized as an expense over its benefit periods using a straight-line method, except there is another method considered more appropriate for certain conditions. Amortization period for goodwill should not exceed five years, except for longer period but not exceed 20 years with justifiable reasons. This standard is similar to the International Accounting Standard (IAS) 22, which has been amended with the International Financial Reporting Standards (IFRS) 3 – *Business Combinations* in 2004

Most financial analysts find a solution on whether goodwill is an asset simply through the conceptual definition of an asset. FASB's Concept Statement No. 6 – *Elements of Financial Statements* (1985) states that an asset should meet three essential characteristics: (a) it represents future economic benefits, (b) the entity has control over those benefits, and (c) it arises from past transactions or events. While goodwill had clearly met the latter two characteristics, the “future economic benefits” of goodwill is often debatable. Some argues that the intangibility and the

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vagueness of goodwill result in its incapability of transfer in the goods and service market. Moreover, it is difficult to measure the contributions of goodwill to current or future cash flows (Archel 2000). Thus, the phrase “future economic benefit” may not practically take place in the case of goodwill.

Goodwill amortization essentially acts in accordance with the “matching concept”. According to this concept, costs should be related to revenue realized within a specific period due to certain apparent positive correlation of those costs with the recognized revenues (Johnson, 1993). Thus, the goodwill amount should be amortized as a means of relating costs to benefits. Still, the benefits of goodwill cannot be determined with certainty. The phrase “future economic benefits” often mentioned as correspond to goodwill is in fact very difficult to estimate. Accordingly, its amortization periods which are based on managerial judgments, appear to be less accurate.

The main issue of this thesis covers the extent to which purchased goodwill that is presented as an asset, influences earnings for certain periods after its occurrence in the financial report. Purchased goodwill which often mentioned as having “future economic benefits” is to be analyzed for whether it actually contributes to earnings. A population of 342 companies listed in the Jakarta Stock Exchange for the period 2005 is investigated for whether they present goodwill in their financial reports. The result finds that only 62 companies from that population disclose goodwill in their Financial Statements. Thus, a sample of 62 companies is to be analyzed in this study

METHOD

Hypothesis Development

The study analyzes goodwill accounting by companies listed in the Jakarta Stock Exchange. There are some foundations for treating goodwill as an asset and amortizing it against earnings. First, goodwill meets the three essential characteristics of asset. However, it is often debatable that goodwill has met the “future economic benefits” characteristic of an asset. It is difficult to measure the contributions of goodwill to current or future performance of a business. Goodwill by nature is indefinite, in form or in value, and thus its capacity to influence earnings cannot be easily determined. Second, amortization of goodwill is based on the “matching concept”, which expects benefits be matched with its related costs. Again, whether those benefits really exist is uncertain, thus need further investigation. The main focus of the research is to analyze the existence of the element “future economic benefits” of goodwill.

The research process is conducted in accordance with prior research by Pablo Archel, *On the Nature of Goodwill and Its Amortization Policy Effects* (Spain, 1999). Archel conducted an empirical study toward a broad sample of business groups which lodged consolidated accounts with the Spanish Securities and Exchange Commission (CMNV) during the period 1992-1996. In Spain, the Decree on Standards for the Preparation of Consolidated Annual Accounts (NFCAC) was approved at the end of 1991, resulted in the generalization of the practice of consolidation for all those business groups to prepare such accounts. On the subject of goodwill, Pablo assumed that the positive relationship between goodwill and profits of the entity can support the theory of goodwill being an element that generates and contributes to the company's earnings, and thus an asset item.

Is there any positive correlation between goodwill amount and earnings? Goodwill is considered as one of the elements that contribute to the company's earnings. One way to prove the idea is through a correlational study between the amount of goodwill and the company's earnings. If the amounts of goodwill move in line with the company's earnings, or statistically regarded as “positively correlated”, then there is a possibility that goodwill amount in fact relates to the company's earnings.

H1: There is a positive relationship between net goodwill and the company's earnings presented in the financial statements at the same accounting periods.

Does the size of goodwill have an effect on a business's capacity to earn higher profits? The size of goodwill and its influence to the company's earnings can be an indicator of the existence of goodwill's benefits. The author anticipates that the higher the proportion of goodwill that a company holds, the higher its contributions to earnings.

H2: There is a positive relationship between net goodwill and earnings achieved by the grouped sample companies at the same respective periods.

Does goodwill really contribute to the future performance of a business? The term "future economic benefits" most likely refers to the returns that a company achieves after an investment is made. The returns on goodwill (investment) will appear during the periods subsequent to its recognition in the financial statements. Thus, it is important to see the relationship of goodwill with the future benefits of a company.

H3: There is a positive relationship between net goodwill and earnings achieved during the following years

When does the optimum synergy of goodwill arise? If goodwill in fact contributes to the future benefits of a company, it is then interesting to see when the optimum synergy of goodwill arises. Generally, the usefulness of an asset reaches its maximum in the first years of its utilization. The author anticipates that the company is able to derive the synergy from the Business Combinations at the early years. Thus, the maximum benefits of goodwill may arise at the first years after its initial recognition on the Balance Sheet.

H4: There is a positive relationship between the initial goodwill amount and earnings achieved during a period after the initial recognition of goodwill.

Data Collection Method

All data are obtained from secondary sources. The author needs the Audited Financial Statements of all companies listed in the Jakarta Stock Exchange to examine the level of goodwill disclosure of Indonesian companies and to obtain the required data for hypotheses testing. Those Financial Statements are provided by the Jakarta Stock Exchange in its databases.

Data Sampling

From a population of 342 companies listed in the Jakarta Stock Exchange, the author examined their Financial Statements for the year ended 31 December 2005, as to whether they disclose goodwill. The data of 2006 is not examined because by the time the data were collected, the audited Financial Statements for 2006 of those companies were not yet available. It was found that 62 companies disclose goodwill in their Financial Statements. Those companies became the sample of this study. The selection of listed companies as sample was based on the fact that those companies are required to follow the most recent accounting standards applicable in Indonesia. Since the study wants to examine Indonesian accounting standard for goodwill, it is important that the sample companies applying those standard.

Data Analysis Method

Four hypotheses have been developed to support the correlational analysis. There are two methods to be used for testing the hypotheses:

Pearson's Correlation method is used to analyze the degree to which the independent variable (goodwill) and dependent variable (profits) are related to each other. Specifically, the approach shows the degree of linear relationship between the two variables, by measuring the tendency (r) of the variables to increase or decrease at the same time. The Pearson's Correlation is defined by:

$$r = \frac{\sum z_x z_y}{n - 1}$$

Where: x = goodwill
 y = net income

Spearman Rank Correlation Coefficient

Spearman's Correlation method is used to further analyze the significance of the correlations between the two variables. It presents an R-estimate ($\tilde{r}$ or ρ) to support the Pearson's correlation result, and therefore lessen any misleading outcome. The Spearman's Correlation is defined by:

$$\rho = 1 - \frac{6 \sum d_i^2}{n(n^2 - 1)}$$

Where: d_i = the difference between each rank of corresponding variables

FINDINGS AND DISCUSSIONS

Goodwill Disclosures in Indonesia

It was found that from a population of 342 companies, 62 companies (18%) disclosed goodwill under the non-current asset section in the balance sheet of 2005. The majority of goodwill disclosure is from trade, service and investment industry (27.4%). Both basic industry and chemicals, and the consumer goods industry take the second place at 14.5%. General observation, goodwill is not a material asset in most of the companies in Indonesia. As much as 87.1% listed companies only have goodwill less than 5% from their total assets. In fact, 59.68% listed companies only have goodwill of less than 1% from their total assets. Only about 13% companies have goodwill of more than 5% of their total assets and these companies came from various industries such as advertising, printing and media, mining, and telecommunication.

The most popular terminology used by 50% of firm observation is "net goodwill" or "goodwill after accumulated amortization". The next popular terminology used is a simply "Goodwill", which is adopted by 19% of the 62 companies. Although these companies do not describe the net amount of goodwill after accumulated amortization, the term "goodwill" actually represents so. Another 18% companies use the term "excess gain of investment over net assets of subsidiaries". These companies typically own less than 1% goodwill over total assets. However, the latter term represents the same meaning as goodwill. The rational of "hiding" the word goodwill behind other term probably because that the goodwill amount is not material. Lastly, 6% companies use the account "intangible assets" and 6% companies use other terms, such as "goodwill and other intangible assets" and "other assets".

The compliance rate of goodwill disclosure in Indonesia is considerably low. From 62 sample companies, there are 33 companies (53.23%) that have met *all* the disclosure requirements of goodwill as stated in the PSAK 22 article 66. It means

that almost a half of those companies failed to meet the standard. The similar result also founded in US in 1988, when the accounting standard of goodwill was still amortization. Duval, et.al (1992) conducted a survey in 1988 among 621 firms of New York and American Stock Exchange. Twenty-one percent did not disclose net goodwill, 58 percent did not disclose accumulated goodwill amortization and 76 percent did not disclose goodwill amortization expense.

In regards of negative goodwill, from a population of 342 listed companies, 23 companies disclose negative goodwill in their financial statement. Those 23 companies have complied with Indonesia's standard which requires Indonesian companies recognize negative goodwill in the section after non-current liabilities, before equity. However, just like positive goodwill, Indonesian accounting standard for negative goodwill is different from that standard. Under the PSAK No. 22 article 46, negative goodwill should be treated as the following:

"If the cost of acquisition is lower than the fair value of identifiable assets and liabilities at the date of transaction, then the fair value of the acquired non-monetary assets should be eliminated in a proportional manner, until all the residual amount is eliminated. If after all the fair value of the non-monetary assets is eliminated, still there is residual amount that has not been eliminated, then the remaining residual amount is considered as negative goodwill and treated as deferred income, and be recognized as revenue systematically over a period not less than 20 years" (IAI 2004, freely translated by author).

Hypotheses Tested

Relationship between Goodwill and the Company's Earnings

Spearman correlation is used to investigate if the goodwill amount is significantly related with earnings presented in the financial statements at the same accounting periods.

Year	Correlation Coefficient	Sig. (2-tailed)	N
2001	0.380 [*]	0.013	42
2002	0.636 ^{**}	0.000	47
2003	0.509 ^{**}	0.000	52
2004	0.444 ^{**}	0.000	59
2005	0.384 ^{**}	0.002	62

^{*}. Correlation is significant at the.05 level (2-tailed)

^{**}. Correlation is significant at the.01 level (2-tailed)

Table 1 Relationship of Goodwill and Earnings at the Same Year

Table 2 summarizes the results of Spearman correlation test of goodwill and earnings for the year 2001 to 2005. The sample sizes (N) are different as goodwill acquisition increased each year. According to the table, all correlation coefficients show positive figures at the significant level of 0.05 and 0.01. This allows us to verify that net goodwill amount presented in the financial statements positively and significantly related to a company's earnings at the same respective period. These findings are similar to Archel's study, in which he reported the existence of strong relationship between goodwill and profits from a sample ranges from 42 to 48 groups of companies, listed in the Spanish Stock Exchange, for the year 1992 to 1996.

Does the size of goodwill have an effect on a business's capacity to earn higher profits?

The author categorized the sample companies by goodwill proportion to total assets into three different groups. It is then interesting to investigate further if the goodwill size will bring a significant difference on the result findings. As the sample companies are separated by groups, the sample sizes for each test reduce. The ranges of sample sizes for Group 1 are between 21 and 37 companies. Group 2

Table 2 Relationship
of Goodwill and
Earnings at the
Same Year
Classified by Groups)

requires sample size of 14 to 21 companies. And Group 3, the smallest group, only has sample size of 7 to 9 companies. As small number of the company samples may affect the accuracy and consistency of results, two correlation test methods are used. Both Pearson and Spearman Correlation Tests are conducted to indicate positive correlation between net goodwill and earnings at the same respective accounting period.

Year	Correlation Method	Group 1 (goodwill <= 1% TA)			Group 2 (Goodwill <= 1% - 5% TA)			Group 3 (Goodwill <= > 5% TA)		
		Correlation	Sig. (2-tailed)	N	Correlation	Sig. (2-tailed)	N	Correlation	Sig. (2-tailed)	N
2001	Pearson	0.664**	0.001	21	0.882*	0.000	14	0.870*	0.011	7
	Spearman	0.118	0.610	21	0.191	0.513	14	0.750	0.052	7
2002	Pearson	0.747**	0.000	23	0.974**	0.000	17	0.652	0.113	7
	Spearman	0.498*	0.016	23	0.863**	0.000	17	0.750	0.052	7
2003	Pearson	0.658**	0.000	28	0.568*	0.022	16	0.548	0.159	8
	Spearman	0.478*	0.010	28	0.653*	0.006	16	0.714*	0.047	8
2004	Pearson	0.525**	0.003	29	0.882**	0.000	21	0.887**	0.001	9
	Spearman	0.156	0.419	29	0.729**	0.000	21	0.767*	0.016	9
2005	Pearson	0.231	0.169	37	0.965**	0.000	17	0.875**	0.004	8
	Spearman	0.486**	0.002	37	0.794**	0.000	17	0.833*	0.010	8

*. Correlation is significant at the.05 level (2-tailed)

**. Correlation is significant at the.01 level (2-tailed)

Relationship between Goodwill and Earnings in 2001

Pearson Correlation Coefficients for Group 1, Group 2, and Group 3 show positive and high figures (close to +1.000). On the other hand, Spearman results for the same variables show small and insignificant figures (Group 1: 0.118, Group 2: 0.191, and Group 3: 0.750). The inconsistency of results generated from the two tests basically influenced by several negative numbers in the earnings data. During the period, Indonesia experienced an economic recession causing many businesses to collapse. We might say that the sample data for 2001 are not considered as “normal data” because of the bizarre economic conditions.

Relationship between Goodwill and Earnings in 2002

Pearson and Spearman Correlation Coefficients for 2002 show positive figures, and some even show high and significant figures (Group 1, Pearson: 0.747; Spearman: 0.498 and Group 2, Pearson: 0.974, Spearman: 0.863). This might allow us to confirm that the amount of goodwill and a company’s earnings are positively correlated.

Relationship between Goodwill and Earnings in 2003

Pearson and Spearman Correlation Coefficients for 2003 show positive results. Notice that the Spearman tests generated higher correlation coefficient for groups with higher proportion of goodwill (Group 1: 0.478, Group 2: 0.653, and Group 3: 0.714). We can possibly say that *the higher the proportion of goodwill that a company holds, the higher its contributions to earnings*.

Relationship between Goodwill and Earnings in 2004

Pearson correlation coefficients for all groups show positive and significant figures (Group 1: 0.525, Group 2: 0.882, and Group 3: 0.887). Spearman correlation also yields positive and significant figures, except for Group 1 ($r = 0.156$). This might suggest that, for a group of “small-goodwill” companies, the amount of goodwill does not significantly affect earnings.

Relationship between Goodwill and Earnings in 2005

Pearson and Spearman Correlations for Group 2 and Group 3 show that goodwill and earnings are positively and significantly related (Group 2, Pearson: 0.965;

Spearman: 0.794 and Group 3, Pearson: 0.875, Spearman: 0.833). However, Spearman's and Pearson's results are inconsistent for Group 1 (Pearson: 0.231 and Spearman: 0.486, significant at the 0.01 level). This might indicate that the amount of goodwill does not consistently contribute to company's earnings for Group 1.

In summary, the findings strengthen previous conclusion that there is a positive relationship between net goodwill and the company's earnings presented in the financial statements at the same accounting periods. Moreover, based on the 2003's, 2004's and 2005's results, the correlation coefficients are higher and more significant for groups with larger proportion of goodwill. Thus, the proportion of goodwill that a company holds relates to its contributions to the company's earnings. In other words, the size of goodwill has an influence on a business's capacity to earn higher profits.

Is Goodwill an Asset?

The term "future economic benefits" most likely refers to the returns that a company achieves after an investment is made. The returns on goodwill (investment) will appear during the periods subsequent to its recognition in the financial statements. Hence, the study will test net goodwill and its relation with the future benefits of a company, in this case, earnings achieved during the following accounting periods. A Spearman correlation test is done to indicate the existence of positive relationship between net goodwill and the company's earnings during the following three accounting periods.

Year	Correlation Coefficient	Sig. (2-tailed)	N
2001/2002	0.568**	0.000	42
2002/2003	0.571**	0.000	47
2003/2004	0.381*	0.005	52
2004/2005	0.316*	0.015	59

*. Correlation is significant at the.05 level (2-tailed)

**. Correlation is significant at the.01 level (2-tailed)

Table 3 Relationship of Goodwill and Earnings (1 Year Later)

All results presented in Table 4.3 are positive, at the significant level of 0.05 and 0.01. Thus, there is a positive and significant relationship between net goodwill and earnings achieved at the following accounting period.

Year	Correlation Coefficient	Sig. (2-tailed)	N
2001/2003	0.503**	0.001	42
2002/2004	0.485**	0.001	47
2003/2005	0.269*	0.054	52

**. Correlation is significant at the.01 level (2-tailed)

Table 4 Relationship of Goodwill and Earnings (2 Years Later)

Table 4 shows positive and significant correlation coefficients for the year 2001/2003 and 2002/2004. Consider that the coefficients are declining gradually (0.503 to 0.485) and the 2003/2005's result is low and insignificant (0.269). To conclude, the goodwill contribution to the company's ability in generating profits is decreasing along the lines of its benefits lives.

Year	Correlation Coefficient	Sig. (2-tailed)	N
2001/2004	0.443**	0.003	42
2002/2005	0.417**	0.004	47

**. Correlation is significant at the.01 level (2-tailed)

Table 5 Relationship of Goodwill and Earnings (3 Years Later)

All results show positive and significant figures (0.443 and 0.417) at the significant level of 0.01. Hence, there is a positive relationship between net goodwill and earnings achieved at the following periods. Based on the result findings, we might suggest that goodwill possesses future economic benefits that contribute to the actual earnings of a company. Thus, together with the two other essential characteristics of asset, the findings may verify the nature of goodwill as meeting the definition criteria of an asset. However, it is important to notice that from the result above, the positive correlation coefficients between the initial goodwill amount and the company's earning generating ability are gradually decreasing every year. This supports the idea that the contribution's level of goodwill to earnings decreases corresponding to its benefits lives.

Is the company able to raise synergy in the early years of business combinations?

The previous test focuses on the amount of net goodwill and its effect to the company's earnings during the following three periods. However, the test does not consider the acquisition date as well as the initial amount of goodwill. Hence, we might fail to see the information regarding the contribution of goodwill at the early stages of its benefits life. Basically, the usefulness of an asset reaches its maximum in the first years of its utilization. We want to see whether the company is able to raise synergy in the early years of business combinations.

Pearson correlation test is done to identify the existence of relationship between the initial goodwill amount and earnings achieved after goodwill is recognized in the financial statements. The sample sizes of each test are 20 and below, which might be insufficient to generate accurate and consistent results. Subsequently, Spearman correlation test is done to examine the significance and the consistency of correlations and support Pearson test results

Table 6
Relationship of
Goodwill and
Earnings (1 Years
Later)

Correlation Method	Correlation Coefficient	Sig. (2-tailed)	N
Pearson	0.984**	0.000	20
Spearman	0.662**	0.001	20

** . Correlation is significant at the.01 level (2-tailed)

Both correlation tests generate positive and significant figures (0.984 and 0.662) at the significant level of 0.01. Thus, there is a positive and significant relationship between the initial amount of goodwill and earnings achieved one year after the initial recognition of goodwill.

Table 7
Relationship of
Goodwill and
Earnings (2 Years
Later)

Correlation Method	Correlation Coefficient	Sig. (2-tailed)	N
Pearson	0.955**	0.000	17
Spearman	0.591**	0.013	17

*. Correlation is significant at the.05 level (2-tailed)

** . Correlation is significant at the.01 level (2-tailed)

Pearson test generates a correlation coefficient of 0.955 at the significant level of 0.01, while Spearman test generates a correlation coefficient of 0.591 at the significant level of 0.05. Hence, there is a positive and significant relationship between the initial amount of goodwill and earnings achieved two years after the initial recognition of goodwill. However, compared to previous test results (i.e. correlation tests between the initial amount of goodwill and earnings achieved one year after the recognition of goodwill), the Pearson and Spearman correlation coefficients are smaller. This signifies that the contribution level of goodwill is greater at the first year, rather than at the second

Correlation Method	Correlation Coefficient	Sig. (2-tailed)	N
Pearson	0.672**	0.000	10
Spearman	0.636**	0.048	10

*. Correlation is significant at the.05 level (2-tailed)

Both Pearson and Spearman test results show positive and significant figures of 0.672 and 0.636 respectively, at the significant level of 0.05. Thus, there is a positive and significant correlation between the initial amount of goodwill and earnings achieved three years after the initial recognition of goodwill. Again, compared to the previous two correlation tests (one year and two years after the initial recognition of goodwill), the correlation coefficients are smaller and the correlation significances are much weakened. This specifies that the contribution level of goodwill is greater at the first year and second year, rather than at the third year.

In conclusion, the correlation coefficients between the initial goodwill amount and earnings are higher and also more significant at the first years after the initial recognition of goodwill. The results may reflect that companies are able to derive the synergy from Business Combinations in the early years. Nonetheless, the effect of Business Combinations to the company's ability in generating profit is declining through times.

Table 8
Relationship of
Goodwill and
Earnings (3 Years
Later)

CONCLUSION

The study has been conducted to analyze the nature of goodwill with reference to its accounting treatment applicable in Indonesia. Having analyzed the level of goodwill disclosures in Indonesia in year 2005, it is found that from a population of 342 companies listed in the Jakarta Stock Exchange, 62 companies (18%) disclosed goodwill in their Financial Statements. However, the compliance rate to the goodwill disclosure in Indonesia is relatively low. Almost a half of sample companies (46.77%) failed to meet *all* the disclosure requirements of goodwill as stated in the PSAK No. 22 article 66. Moreover, from the author's observation, goodwill is not a material asset on the Balance Sheets of the 62 sample companies. As much as 87.1% listed companies only have goodwill less than 5% from their total assets. In fact, 59.68% listed companies only have goodwill of less than 1% from their total assets. The most popular terminology used to represent the account of goodwill is "net goodwill" or "goodwill after accumulated amortization", which is adopted by 50% of firm observation. The next popular terminology used by 19% of the 62 companies is a simply "goodwill". Another 18% companies used the term "excess gain of investment over net assets of subsidiaries", 6% companies use the account "intangible assets", and 6% companies use other terms, such as "goodwill and other intangible assets" and "other assets".

Spearman correlation test has been conducted and proved the existence of a positive relationship between the amount of goodwill and earnings from the 62 sample companies listed in the Jakarta Stock Exchange. The conclusion is based on the findings of relatively high and significant coefficient correlations between net goodwill and earnings at the same respective years of 2001 to 2005. The result findings may support the idea that goodwill is an element that contributes to the company's ability in generating profits.

Further research findings indicated to the size of goodwill has an influence on a business's capacity to earn higher profits. The assumption was based on the correlation test results, in which the author classified the sample companies into three different groups by goodwill proportion to total assets. The results show higher correlations for groups of companies with greater proportion of goodwill.

For Indonesia's case, goodwill possesses future economic benefits that contribute to the actual earnings of a company. A correlation test has been conducted to prove the existence of positive relationship between goodwill and the company's future earnings, in this case earnings achieved during the following accounting periods. Together with the two other essential characteristics of asset, the findings may verify the nature of goodwill as meeting the definition criteria of an asset.

The research discovered that companies are able to derive the synergy from Business Combinations in the early years. Nonetheless, the effect of Business Combinations to the company's ability in generating profit is declining through times. This conclusion is indicated by higher and more significant correlation results between the initial goodwill amount and earnings at the first years after the initial recognition of goodwill.

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