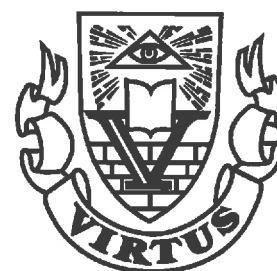


CORPORATE OWNERSHIP & CONTROL

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RECOGNITION AND DISCLOSURE OF IMPAIRMENT IN CHINA

Jenny Wang*, Keith Hooper**

Abstract

This paper aims to examine the extent of goodwill impairment in listed companies of China and the audited disclosure of goodwill. China is an important adopter of International Financial Standards but the question remains that, as a recent adopter, to what extent contentious issues such as goodwill impairment are implemented. The research analyzes the financial and share market information gathered from the top 50 companies listed on the Shanghai Stock Exchange. The findings reveal that goodwill amortization has been discontinued and replaced by goodwill impairment, but interestingly the Big Four firms seem more likely to recognize a goodwill impairment loss than smaller, local audit firms. This would imply that the Big Four Western audit firms with a plethora of clients are less likely to be intimidated by Chinese managers into ignoring impairment than small local firms, which may be more dependent on these large Chinese corporations for their existence. However, findings indicate that negative financial and share market information show some correlation with goodwill impairment where impairment occurs. The most significant finding is that the analysis reveals that there remains a wider problem with adequate disclosure in the notes to the accounts as to whether and why goodwill should be impaired or not.

Keywords: Disclosure, China, Listed Companies, International Financial Standards, Impairment

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Introduction

The financial crisis has affected the world's economies and produced significant effects on financial reporting in the last ten years (Laghi, Mattei, & Marcantonio, 2013). The "real value" of goodwill shown in the financial statements of listed companies has been one of the most controversial issues for the investors and analysts.

The International Financial Reporting Standards 3 (IFRS 3), Business Combinations provides specific guidelines on how to measure and recognize goodwill at acquisition date. The International Accounting Standards (IAS 38 & 36), also stipulate that goodwill should not be amortized. Instead, such assets should be tested for impairment annually or more frequently if events or changes in circumstances indicate a decline in value. The increasing demand for transparency and comparability from global business has made the convergence of accounting standards an irresistible historical trend, especially in China, which is now one of the world's major business drivers. With regard to convergence, Zhang and Liu (2010) comment that the issuance of a total of 38 new business accounting standards in China in 2006 has allowed substantial convergence with IFRS. Although there are a few remaining differences, China is

working on all accounting standards being convergent with IFRS such as business related parties.

With regard to the audit context of impairment, in late 2013, *The Economist* journal published an article entitled "Goodwill Hunting" which reported a conspicuous lack of impairment among public Indian companies and identified as a possible explanation "arm twisting" of auditors by powerful company executives – especially subjecting smaller, local firms to pressure (J. Wang & Hooper, 2014). To find out whether a similar situation exists in China, this paper sets out to examine the write-down practices of the top 50 public companies listed on the Shanghai exchange.

The aim of the paper is to conduct an empirical study with four main objectives. First, to examine the extent of disclosure of accounting policies by the listed companies as to the fair value of their goodwill. Second, to compare the goodwill treatment among companies audited by Big Four firms and companies audited by local firms. Third, is to identify if there are any companies that should have recognized any goodwill impairment and did not. Finally, to evaluate the extent of disclosure in the notes to the accounts as to whether or why there is impairment or not.

The paper is structured as follows. First, there is a literature review that discusses the amortization

versus impairment argument, which is followed by a review of the usefulness of the price-earnings ratio as a guide to possible impairment. Following the literature review, the paper outlines the research questions and method with the overall theme of asking: what is the case as to impairment in China? To fulfill this objective, three research questions are developed, followed by a description of the method of the empirical investigation. Next, the findings are identified from the study together with a discussion of the findings in relation to the research questions. Finally, a conclusion and suggestions for future research are discussed.

Literature Review

Amortization versus Impairment

According to IAS 22 Business Combination (issued in 1993 and superseded by IFRS 3 in 2004), goodwill should be capitalized and amortized over its useful life, which should not exceed five years unless a longer period of up to 20 years can be justified. However, this was conceptually inconsistent with US practice, which amortizes goodwill up to 40 years (Accounting Principles Board (APB) Opinion No.17). Later in 1998, IAS 22 was revised to require goodwill to be capitalized and amortized, given a presumption of useful life of up to 20 years, followed by annual impairment tests if a life of over 20 years was used.

Based on the respondents to ED 3, Business Combinations (IASB 2002), amortization was viewed as the only practical solution to the intractable problem on goodwill (IASB 2004d). Although the useful life of goodwill could not be reliably measured and predicted at a satisfactory level, it was a practical and well-established principle consistent with the accounting treatment taken to other tangible and intangible assets with finite useful lives. It also provided an appropriate balance between conceptual soundness and operationally at an acceptable cost (Wiese, 2005).

However, amortization ignores the fact that some forms of goodwill can have an indefinite useful life, or cannot be reliably measured and predicted at a satisfactory level. Thus, it introduces some problems with regard to the relevance of financial reporting and its usefulness. It may be argued that amortization may cause alarm among users of financial statements because it deducts from earnings and affects profits in subsequent periods (V. Wang, 2011). Also, prior studies (Jennings, LeClere, & Thompson, 2001; Moehrle, Reynolds-Moehrle, & Wallace, 2001) provide empirical evidence that systematic amortization of goodwill over an arbitrary period does not provide useful information to the users of the financial statements.

Amortization may make it more difficult for investors to use the measure of earnings and to predict future profitability. Moreover, goodwill does not

necessarily wear out and that an annual amortisation expense over an arbitrary life is a meaningless number. In 2001, the Financial Accounting Standards Board ("FASB") expressed its opinion that it is virtually impossible to predict accurately the useful life of goodwill and amortisation of goodwill is not a faithful representation of the true pattern of declining goodwill (FASB 2001b). Subsequently, FASB published the Statement of Financial Accounting Standards ("SFAS") 142, which prohibits the amortisation of goodwill. It requires instead annual impairment tests to reflect the true and fair view of the assets values. The purpose of this accounting rule is to encourage management to communicate privately held information about goodwill and provide stakeholders with better quality information to assess the performance and future cash flows of the company (AbuGhazaleh, Al-Hares, & Haddad, 2012; Kavcic, Jerman, & Kavcic, 2013; Li, Shroff, Venkataraman, & Zhang, 2011).

To seek convergence and global harmonisation, the International Accounting Standards Board (IASB) followed the FASB's approach in 2004 by replacing IAS 22 with IFRS 3, thereby converging with US GAAP. IFRS 3 states that from the beginning of the first annual period beginning on or after 31 March 2004, all entities must discontinue amortising goodwill and must test goodwill for impairment. In the same year, IASB issued IAS 36 Impairment of Assets, which provided a two-step approach for goodwill impairment testing as follows.

Step 1: Compare the carrying amount of the unit, including the goodwill, with its recoverable amount. The recoverable amount of such a unit should be measured, consistent with the requirements in IAS 36, as the higher of value in use and net selling price. If the recoverable amount of the unit exceeds its carrying amount, goodwill is not impaired. If not, then follow Step 2.

Step 2: Compare the implied value of goodwill with its carrying amount. Implied goodwill is the excess of the recoverable amount of the unit to which the goodwill has been allocated over the fair value of the net identifiable assets that the entity would recognise if it acquired that unit in a business combination on the date of the impairment test. Any excess of the carrying amount of goodwill over its implied value is recognised immediately, in profit or loss, as an impairment loss. Any remaining excess of the carrying amount of the unit over its recoverable amount is recognised as an impairment loss and allocated to the other assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit.

(V. Wang, 2011) found that the change from amortisation to impairment promotes and improves the investors' understanding of the components of companies' earnings and also removes their confusions as to the relevance and usefulness of goodwill amortisation information. Subsequently,

amortization of goodwill in most listed companies in Anglo-Saxon countries has been abandoned, and, in accordance with IFRS 3 there is testing for impairment annually or whenever there is an indication that the goodwill may be impaired. Companies must now recognise an impairment loss when the carrying amount exceeds the recoverable amount (Kavcic et al., 2013).

However, goodwill impairment loss among companies may show some correlation with performance and investor confidence (Li et al., 2011). First, the goodwill impairment may be found to be a leading indicator of a decline in prospective sales and operating profits, and a failure to realise the expected benefits from prior acquisitions. Second, overpayment for a prior acquisition could be another potential contributing factor causing companies to deplete the overpayment by impairment in subsequent periods. Third, the announcement of goodwill impairment could influence investors and financial analysts to revise their expectations of future company prospects.

The goodwill impairment approach is not without its problems. Firstly, the impairment test may impose a significant cost on companies (Wiese, 2005). The valuation of goodwill is complex and unlikely to be verifiable, thus specialized experts and valuation techniques are often required for an impairment test (Kavcic et al., 2013). According to a survey conducted by Grant Thornton & NASDAQ Stock Market, Inc., 71% of selected CFOs in the survey would use "outside assistance" to perform the impairment test. Secondly, the impairment test may be liable to manipulation. The impairment criteria provided by the standard are drafted in such a way as to leave significant room for managerial discretion, interpretation, judgment and bias (Massoud & Raiborn, 2003). Companies may act opportunistically by using their greater managerial reporting discretion to avoid reporting an impairment loss (Li et al., 2011). Management may act for their self-interest at the expense of shareholders. Third, the uncertainty and subjective judgments involved in impairment tests may affect the reliability of the information provided by the disclosures demanded by users of financial statements to assess future cash flow (Kavcic et al., 2013; V. Wang, 2011). Such uncertainty and subjectivity may make it no less arbitrary than amortisation (Wiese, 2005). Lastly, there are possibilities for companies to enhance their earnings per share by avoiding any impairment on goodwill. This could deceive investors into believing that such companies are doing better than anticipated, thus increasing and overvaluing their stock prices (Basi & Penning, 2002). For this reason The Economist (2013) reports that managers may "twist the arms of auditors" to delay impairment. Wang & Hooper (2014) found that there is even more inconsistency around disclosure of impairment as nearly half of the top 50 companies analysed on the Bombay exchange fail to mention any write down of goodwill. Some

companies claim that they were testing for impairment but no case of actual impairment was reported. This, in spite of some companies, is reporting declining earnings and share price.

The accounting treatment of goodwill has been a long-standing issue of concern to accountants and accounting standards committees for more than a decade. Both amortization and impairment tests involve a certain degree of subjectivity, and have different drawbacks either in implementation difficulties or theoretical support. There is no perfect solution to satisfy everyone on the options of how to recognise a decline in the value of goodwill.

Although the impairment test is costly, time consuming and susceptible to manipulation, it is arguably better approach for reflecting future prospects of investments and gives a true and fair view of the business. It is worth noting that the IASB has recently decided to conduct a post-implementation review on IFRS 3, which introduces some possible solutions to address the existing issues encountered. This includes improving the existing impairment test rules and disclosure requirements (IAS 36) and possibly reintroducing goodwill amortisation in addition to the impairment test (Laghi et al., 2013).

Price earnings ratio

The price-earnings ratio (the "PE ratio") is one of the investment ratios used by investors for performance analysis of listed companies. As it measures trends, it may also have some bearing on whether a company's goodwill should be impaired. It is calculated by using the current share price divided by the earnings per share. The PE ratio reflects a fundamental relationship between a company's performance and its value (Cheng & Noland, 1995). The current share price in the numerator is the market's anticipation of the future earnings to be added from prospective sales and can be obtained from the stock market at any transaction date. The earnings per share in the denominator is the current earnings generated from the current sales and can be obtained from the annual report or earnings announcement. For example, the average trading share price for the Industrial and Commercial Bank of China (ICBC) in Shanghai Stock Exchange (SSE) on 31 December 2013 was RMB4.10, and its audited earnings per share as at 31 December 2013 was RMB0.68. Therefore, the PE ratio of ICBC at 31 December 2013 was 6.03.

The PE ratio expresses two different meanings for investors. It shows number of years companies would take to earn the equivalent amounts that investors paid for the shares and indicates average return rates based on a company's current level of profits (Shirley et al., 2012). In this example, the ICBC's shares sold for 6.03 times its earnings and at the current rate of earnings (RMB0.68), it shows that the ICBC would take about 6.03 years to earn the

equivalent of what an investor paid for the shares on 31 December 2013. In other words, investors who purchased one share in the ICBC at a market price (RMB4.10) can expect to earn an average return of 11% (RMB0.68/RMB4.10) at the current level of profit. The PE ratio can be interpreted as a composite measure of investor's hopes and fears (Wisniewski, Lightfoot, & Lilley, 2012), and reflect the anticipated earnings growth of the company. If the investors expect the company to have more future earnings than current earnings, the PE ratio should be high, or if the investors expect lower future earnings than current earnings, the PE ratio should be low. Moreover, the PE ratio is the most informative ratio when being applied in cross-sectional analysis. The investors also can evaluate the earnings growth prospects and risk by comparing a company's PE ratio to the industry average.

On the other hand, the PE ratio is not without its limitations when applied in fundamental analysis. First, it is difficult and expensive to collect accurate and reliable data from companies, stock markets and government institutions, especially in some countries such as China and India. The trends and indications derived from those estimated PE ratios might misdirect investors' decision making. Second, the PE ratios may vary between industries and reflect a strong relationship with the business life cycle. For example, financially strong, or 'blue chip' companies and companies experiencing substantial growth (e.g. internet business) may have higher PE ratios while companies in mature or declining phases of the business life cycle tend to have lower PE ratios. Last, the PE ratio reflects not so much the earnings generated by companies, but more the prospects for future earnings. The bubble phenomenon in the late 1990s is a good example, the share prices of some dot com companies, particularly those with meager earnings, were selling at levels that resulted in high PE ratios, and consequently attracted a large number of irrational investors. Some observers expressed their concerns that these PE ratios could only be sustained for a short period of time but not in the long run. As it turned out the share prices of almost all dotcom companies subsequently crashed and investors suffered losses. Although there are some limitations in relation to inaccurate data, different business life cycles and certain economic phenomenon, the PE ratio is one of the more useful investment ratios used in fundamental analysis of inefficient markets to identify mispriced shares and guide investment decision making. It also reflects the level of confidence expressed by investors in a company's prospective earnings growth, and mirrors a fundamental relationship between a company's performance and its value. Thus, a falling PE ratio may signal a need for impairment testing.

Summary

The literature shows that on average the market revises its expectations downward on the announcement of goodwill impairment and the downward revision is related to the magnitude of the impairment loss. Overall, the evidence suggests that the announcement of goodwill impairment reveals negative information about the firm to the market (AbuGhazaleh et al., 2012; Laghi et al., 2013; Li et al., 2011).

Research Questions and Method

The aim of the paper is to examine the extent of goodwill impairment in listed companies of China and the extent of the audited disclosure of goodwill. To do this, the following research questions are asked of the top 50 companies listed on the SSE:

- 1) How many SSE 50 companies recognise goodwill and what accounting policies are disclosed to measure goodwill?
- 2) How many SSE 50 companies have recognised goodwill impairment?
- 3) How many SSE 50 companies have suffered declining share price and price/earnings ratios, and how many of those have recognized impairment?

Method

The present study covers the only listed companies in the Shanghai Stock Exchange (SSE). It includes both government and private sector companies. The enterprises are chosen on the basis of market capitalization. The top fifty corporate enterprises are considered because of their size, SSE listing and because their accounting and market data are publicly available. The period covered is centered around the year 2012 as it is considered a reasonably good year to analyze goodwill due to number of acquisitions by Chinese companies. The data analysed from annual reports of the companies involves the notes of goodwill in the financial statements, minority interest, profit, auditors, earning per share and notes on account of goodwill.

By the end of 2012, there were 998 listed stocks on the SSE with a combined total market capitalization of RMB 16 billion (US\$2,645 billion), which accounted for over 30% of China's GDP in 2012. There are two types of tradable shares on the SSE: A-shares and B-shares. A-shares are RMB denominated ordinary shares and sold to Chinese citizens and qualifying foreign institutions. B-shares are US dollar denominated and sold to foreign investors. The A-shares include state shares, legal entity shares, employee shares and public shares. The public shares are freely tradable shares on the SSE and held by general investors. Since 1996, general investors have been able to subscribe to new issues of

public shares through a lottery mechanism (Wong et al., 2006; Jiang & Leger, 2010).

All the share information of SSE 50 companies is based on the RMB denominated A-shares. The share price and the earnings per share for the respective SSE 50 companies in 2011 and 2012 were gathered from the SSE website. The respective PE ratios in 2011 and 2012 were calculated by using the share price divided by the earnings per share. In addition, the share price as at June 2013 was also collected to calculate the estimated interim PE ratio as at June 2013 based on the earnings per share in 2012. All the financial and share market information were incorporated in a spreadsheet for comparison and correlated analysis.

Findings

The findings from the financial and share market information are presented below in relation to the research questions that guided this study.

Research question one

How many SSE 50 companies recognise goodwill and what accounting policies are employed to measure goodwill?

According to the collected financial information all companies show a minority interest in their balance sheets as at 31 December 2012, while only 33 out of 50 companies (66%) were found to have goodwill in their balance sheets as at 31 December 2012. This means 17 companies had a minority interest but no goodwill. The explanation for this must be that goodwill has been amortised to zero. Nonetheless, a note to this effect in the annual reports would have been useful as it would be useful information for users. It is worth noting, in the light of this finding that all the SSE 50 companies claim to have discontinued goodwill amortisation and adopted goodwill impairment testing on annual basis.

The main impairment test method employed by the companies, that disclosed a method, is to calculate the present value of the future cash flows in the next five years based on a market discount rate and compare it with the carrying amount of goodwill then identify if there is any impairment to be recognised. The policy adopted appears in notes to financial statement of the annual report as exemplified in Table 1.

Table 1. The sample note in relation to goodwill

Code	Name	Auditor	Note ref.	Notes
600585	Anhui Conch Cement Company Limited	KPMG	2(17)	No goodwill amortization.
			2(18)	Annual goodwill impairment test.
			5(15)	The cash generating amount from goodwill is

It is worth noting that discount rate adopted may affect the accuracy of the projected future cash flow generated from goodwill, which may affect their testing and impairment recognition (Wang, 2011). Although impairment testing has its disadvantages, the accounting policies disclosed in notes to financial statements of the annual report in relation to goodwill measurement support the view that the current set of accounting standards issued in China in 2006 has reached substantial convergence with IFRS (Zhang & Liu, 2010). On the other hand, the remaining 17 companies (34%) not showing any goodwill balance as at 31 December 2012 in annual reports may indicate that the original goodwill has already been amortized or impaired to zero in prior years. This conjecture reveals the uncertainty surrounding the

treatment of goodwill in the absence of any disclosure in the notes to the accounts.

Research question two

How many SSE 50 companies recognise goodwill impairment?

Among the 33 companies with a goodwill balance as at 31 December 2012, a total of nine companies (18% of SSE 50) have disclosed some goodwill impairment, of which four companies recognised the impairment in prior years and five companies made the impairment in the current year of 2012. The information from the 9 companies is shown in Table 2 below.

Table 2. The sample note in relation to goodwill

Code	Name	Auditor	Goodwill impairment		Note	Note
			Prior	Current Year		
600028	Sinopec	KPMG	1,955m	-	(15)	No detail
600036	China Merchants	KPMG	-	579m	(19)	No detail
600104	SAIC Moto	Deloitte	2.9m	-	6(20)	No detail
600123	Shanxi Lanhua	Xinhua CPAs	-	21m	5(14)	Internal
600383	Gemdale Corp.	Deloitte	-	7.6m	6(12)	No detail
600999	China Merchants	Shingwing	22.9m	-	(14)	No detail
601318	Ping An Group	EY	-	48m	7(19)	No detail
601818	China Everbright	KPMG*	4,738m	-	(19)	No detail
601899	Zijin Mining	EY	-	1.6m	5(16)	No detail

Table 2 above shows that seven out of nine companies (78%) were audited by Big Four firms and the other two companies were audited by local firms. As more than half of the 33 companies that disclosed goodwill were audited by firms other than the Big Four, it may be considered that companies audited by Big Four firms are more likely to impair goodwill. In other words, of the 33 companies with goodwill for testing, 39% of those audited by Big Four firms were impaired, while only 13% of companies audited by smaller firms were impaired.

According to the notes to accounts in the annual report of China Merchants Security, goodwill impairment amounted to RMB22.9 million, which came about from two loss making businesses acquired by the company in August 2006 and June 2007 respectively. The account notes reveal that both businesses were unable to generate superior returns from the original recognised goodwill totaling RMB22.9 million based on current business operations. Therefore the entire goodwill balance totaling RMB22.9 million was fully impaired. This finding also supports the view that the companies should recognise an impairment loss when the companies failed to realise the expected benefits from prior acquisitions (Kavcic et al., 2013).

However, generally among the SSE 50 companies there is inadequate disclosure on goodwill testing and as the literature reveals, the quality of impairment reporting is lower where regulatory and institutional infrastructure is weaker. A lack of adequate disclosure among the nine companies that recognized impairment is revealed by the analysis. The relevant national regulatory authorities should take appropriate enforcement actions to improve the quality of impairment reporting (Graham, 2013).

Research question three

How many SSE 50 companies should have tested for possible goodwill impairment?

The Table 3 below shows the 24 (out of 33) companies with goodwill balance as at 31 December 2012 that have not recognized any goodwill impairment for the year. Eleven of these companies

used Big Four audit firms, while the remainder (13) used second tier or local audit firms. The share market and financial information of the 24 companies is shown above in terms of share price, price/earnings trends, and goodwill. Although all the 24 companies should have gone through impairment tests, 12 companies (50%) were found with decreased profit after tax in 2012 compared with 2011 and 23 companies (96%) decreased their PE ratio and share price as at June 2013 compared with 2012.

The decreases in share price, profit and PE ratios for 12 companies suggest that some impairment of goodwill may be warranted to reflect the deteriorating financial performance and declining confidence expressed by investors in relation to prospective earnings growth. For example, Zhongin Gold's share price fell from Y16.63 to Y9.29 and its PE ratio fell from 31.38 to 17.53 between 2012 and 2013. Xiamen Tungsten also reports drops in share price and PE ratio from 2012 to 2013, while many of the companies in Table 4 that reported impairment experienced smaller declines in share price and PE ratios. Of course, these indicators do not tell the whole story but the analysis of trends do highlight the issue, particularly when Zhongin Gold and Xiamen Tungsten are audited by smaller local firms. Such trends would be consistent with Li et al.'s (2011) study that found correlations between goodwill impairment and share price, PE ratios and investor confidence. However, some companies may be reluctant to recognise impairment because it would influence investor behavior and further bring down the share price and PE ratios.

Table 3. Companies (24) that did not impair

Name	Auditor	Share price		PE Ratio		RMB Profit		Goodwill			
		RMB						Change	Amount		
		2011	2012	2013'06	2011	2012	2013'06	2011 (m)	2012 (m)		(m)
CITIC Securities	EY	9.71	13.36	10.13	7.89	35.16	26.66	12,604	4,307	-65.8%	501
Anhui Conch Cement	KPMG	15.65	18.45	13.38	7.15	15.50	11.24	11,824	6,462	-45.3%	212
Xiamen Tungsten	Fujian Huaxing CPAs	29.67	38.35	26.70	19.78	49.81	34.68	1,493	881	-41.0%	16
China Pacific Insurance	EY	19.21	22.50	15.93	19.80	38.14	27.00	8,393	5,130	-38.9%	962
Shanxi Lu An Environmental	BDO	21.16	21.78	11.96	12.67	19.45	10.68	3,339	2,050	-38.6%	133
SANY	RSM	12.54	10.57	7.51	11.00	14.09	10.01	9,361	6,011	-35.8%	41
Everbright Securities	BDO	10.20	14.10	10.20	22.67	48.62	35.17	1,595	1,033	-35.2%	233
Yang Quan Coal	BDO	15.18	14.16	9.04	12.97	14.91	9.52	2,711	2,246	-17.2%	51
Zhongjin Gold	RSM	17.51	16.63	9.29	18.24	31.38	17.53	2,490	2,087	-16.2%	643
PetroChina	PwC	9.74	9.04	7.61	13.34	14.35	12.08	146,007	130,618	-10.5%	7,582
Huatai Securities	Tianjian CPAs	7.82	9.80	8.06	24.44	33.79	27.79	1,821	1,661	-8.8%	51
HaiTong Securities	BDO	7.41	10.05	9.38	19.50	30.45	28.42	3,282	3,234	-1.4%	697
China Southern Railway	EY	4.33	4.96	3.60	13.12	16.53	12.00	4,743	4,852	2.3%	97
Guanghui Energy	Da Hua CPAs	20.58	16.39	12.96	40.35	58.54	46.29	963	985	2.3%	111
Sinohydro	Zhongtianyun CPAs	4.09	3.79	2.88	8.35	8.81	6.70	3,941	4,361	10.7%	350
Shan Dong Gold	Beijing Tianyuanquan	28.39	37.75	32.13	21.19	24.67	21.00	1,983	2,217	11.8%	665
China Northern Railway	KPMG	4.25	4.50	3.76	11.81	13.24	11.06	3,105	3,536	13.9%	14
ICBC	EY	4.24	4.10	4.02	7.07	6.03	5.91	208,445	238,691	14.5%	8,821
Bank of Communications	Deloitte	4.48	4.94	4.07	5.46	5.61	4.63	50,817	58,476	15.1%	322
China Construction	PwC	2.91	3.90	3.27	6.47	7.50	6.29	19,446	22,777	17.1%	1,917
Agricultural Bank of China	Deloitte	2.62	2.80	2.46	6.89	6.22	5.47	121,956	145,131	19.0%	1,381
POLY Real Estate	BDO	10.00	13.60	9.91	9.09	11.53	8.40	7,367	9,979	35.4%	10
Industrial Bank	Deloitte	12.52	16.69	14.77	5.31	5.18	4.59	25,597	34,927	36.4%	446
Kangmei Pharmaceutical	GP CPAs	11.22	13.21	19.23	23.87	20.02	29.14	1,005	1,441	43.4%	170

Table 4. Companies that impaired goodwill

Name	Auditor	RMB Share Price			PE Ratio			Goodwill Amount (RMBm)	Impt Amounts (RMBm)
		2011	2012	2013	2011	2012	2013		
Sinopec	KPMG	7.18	6.8	4.18	8.65	9.32	5.73	6,257	1,955
China Merchants Bank	KPMG	11.47	13.75	11.6	7.11	6.55	5.52	9,598	579
SAIC Moto	Deloitte	14.14	17.1	13.21	7.73	9.1	7.03	85	3
Sharui Lanhua Science	Xinghua CPA	30.44	20.1	12	20.36	12.37	7.7	174	21
Gemdale Corporation	Deloitte	4.95	6.74	6.86	7.39	8.87	5.03	8	8
China Merchants Securities	Shinwing CPA	10.18	10.55	10.4	23.67	10.14	29.71	10	23
Ping An of China	EY	14.44	45.29	34.76	13.78	17.9	13.74	11,769	48
China Everbright Bank	KPMG	2.88	3.05	2.85	6.45	5.2	4.98	1,281	4,718
Zijin Mining	EY	1.82	3.83	2.39	14.69	15.96	9.96	497	2

Table 4 shows that as at June 2013, the share price and PE ratio decreased for companies, which disclosed goodwill impairment in 2012. This could mean that impairment once announced pushes a share price slide further, or it could be that the share price

and PE ratio merely reflects the need for impairment. Either way, it supports the conclusion that PE ratios can reflect investors' hopes and fears (Wisniewski et al., 2012) and that market information spreads very quickly and is incorporated into the share prices

(Malkiel, 2003). On the other hand, some companies may exert greater influence over the local audit firms to maintain their earnings per share at a satisfactory level without taking any goodwill impairment in order to affect investor behavior and prevent share prices sliding further (Basi & Penning, 2002). The latter could apply to companies like Zhongin Gold and Xiamen Tungsten.

Conclusions

The paper investigates goodwill recognition and measurement in SSE 50 companies in China, and suggests a correlation between SSE 50 companies, their auditors and impairment. It also explores the linkage between goodwill impairment and share market information. First, all SSE 50 companies have discontinued goodwill amortization and adopted goodwill impairment testing which is in line with IFRS and with the literature in relation to goodwill amortization versus goodwill impairment. Second, it appears from the literature and from this investigation that the Big Four auditors are in a stronger position to drive SSE 50 companies to recognise or disclose goodwill impairment based on changes in operational earnings, financial performance and investor confidence. Third, and perhaps most importantly these SSE 50 companies disclose very little information around goodwill in their notes to accounts.

The findings of this study point to some interesting topics for future research. First, most SSE 50 companies disclosed goodwill impairment losses in annual reports without providing any explanations in the notes. Future research could therefore examine the circumstances by which goodwill impairment is recognized in Chinese listed companies with particular emphasis on size and reputation of the audit firm engaged by company. This last point is of significance because from this preliminary investigation it would seem that small local audit firms are more beholden to their clients and less likely to push for recognition of impairment. The paper is inconclusive as to whether declining share price and PE ratios drive are a cause or an effect of impairment or both.

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