



The Acquisition and Valuation of Goodwill: A Comparison of the Regulations of Albania and the IFRS

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ABSTRACT

This study examines whether there are differences in accounting of goodwill among IFRS, SKK (Albanian Accounting Standards) which it is an adoption of IFRS and Albanian tax regulations. The study first presents general theory of intangible assets. This is followed by an elaborate explanation of goodwill which includes a deeper discussion about estimation and valuation and accounting treatment of goodwill. The accounting treatment of goodwill regarding to IFRS and local regulations is analyzed by a real case of purchased goodwill of Albtelecom Sh.A, a telecommunication company which provides fix telephony and internet service. The results of the case study indicate differences between IFRS and Albanian tax legislation in accounting treatment of goodwill, while between IFRS 3 and SKK 9 there is not any difference. According to both standards, goodwill is recognized by purchase method and it is subject to annual impairment test. However, instruction "On Income Tax" requires that, intangible assets such as purchased goodwill, amortized at a rate to allow for the fiscal effect of 15% which is applied on historical costs which may be added the costs of upgrading and renewal of the assets.

Keywords: Goodwill, Acquisition and Valuation of Goodwill, Impairment, IFRS3, Albania Tax Legislation.

JEL Classification: M41, M48.

Şerefiye'nin İktisabı ve Değerlemesi: UFRS ile Arnavutluk Mevzuatının Karşılaştırılması

ÖZ

Bu çalışma, şerefiye ile ilgili muhasebe işlemlerinde UFRS, SKK (Arnavutluk Muhasebe Standartları) UFRS'nin adaptasyonu ve Arnavutluk vergi mevzuatı açısından farklılıklar olup olmadığı incelemektedir. Çalışmanın ilk kısmı maddi olmayan duran varlıklar ile ilgili genel teori sunulmaktadır. Ardından şerefiyenin detaylı açıklamaları ile şerefiyenin hesaplanması, değerlendirilmesi ve muhasebesi daha ayrıntılı irdelenmektedir. Şerefiye ile ilgili muhasebe işlemleri UFRS ve yerel mevzuat açısından Albtelecom A.Ş. örnek çalışmasıyla analiz edilmektedir, bu işletme ülkenin sabit telefon sağlayıcısıdır ve internet hizmetleri sunmaktadır. Örnek çalışmadan elde edilen bulgular, şerefiye ile ilgili muhasebe işlemlerinde UFRS 3 ile SKK 9 arasında bir fark olmadığını ortaya koyarken UFRS ile Arnavutluk vergi mevzuatı açısından farklılıklar olduğunu ortaya çıkarmaktadır. UFRS ile Arnavutluk muhasebe standartları (SKK) açısından şerefiye, satın alma yöntemiyle muhasebeleştirilmeli, ve yıllık değer düşüklüğü testine tabidir. Ancak vergi mevzuatı şerefiyeyi diğer maddi olmayan duran varlıklar gibi yıllık %15 oranında amortismanına tabi tutmaktadır.

Anahtar Kelimeler: Şerefiye, Şerefiyenin İktisabı ve Değerlemesi, Değer Düşüklüğü, IFRS3, Arnavutluk Vergi Mevzuatı.

JEL Sınıflandırması: M41, M48.

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1. INTRODUCTION

The main purpose of this paper has been to study if there are differences in accounting treatment of goodwill between IFRS (International Financial Report Standards), SKK (Albanian Accounting Standards) which it is adoption of IFRS and Albanian Tax Legislation. The study contributes extensive information of goodwill and it provides information on acquisition and valuation of goodwill regarding IFRS, SKK and local tax regulations. The study will help interested groups to understand clearly and fully the accounting of goodwill, how it is recognized and presented in financial statement (balance sheet) according to different regulations.

Moreover, the study will be a guideline for Albanian researchers to gather information and understand the accounting treatment regarding IFRS and Albanian legislation to compare and understand differences between them. This study includes a comparison which it will also highlight level and status adoption of IFRS in post-communist Balkan country as a case of one standard; “IFRS 3 Business Combinations”.

The paper presents general theory of intangible assets and followed notably by an explanation of goodwill which includes a deeper discussion about estimation and valuation and accounting treatment of goodwill in accordance with IFRS. International prior research on acquisition and valuation of goodwill, while in national context there is not any study on acquisition or valuation of goodwill. There is not any study on acquisition and valuation of goodwill in Albania literature. Therefore this study will be pioneer in this field and fill a gap in accounting literature for Albania.

A case study takes place in the paper and it demonstrates, accounting treatment of goodwill regarding Albanian Accounting Standards and Albanian Tax Legislation. In this real case a purchased goodwill of Albtelecom Sh.A, a telecommunication company which provides fix telephony and internet service in Albania was studied. It was explained the business combination between Albtelecom Sh.A and CT telecom and by an absorption of previous company (Albtelecom Sh.A). At the end of case study the changes before and after business combination were showed in the financial statements.

2. THEORETICAL FRAMEWORK

2.1. Intangible Asset Definition

Intangible assets are used in operation of the business but which have no physical substance and are noncurrent. (Meigs et al, 1996).

Regarding International Accounting Standards for Intangible Assets (IAS38) intangible asset is “*an identifiable, non-monetary asset without physical substance*”. Leading examples are goodwill, patents, copyrights, trademarks, leaseholds, etc. An intangible asset must be identifiable, IAS 38 states that to be identifiable, an intangible asset must be separable or must arise from contractual or other legal rights (IAS38). Intangible assets may have finite or indefinite useful (economical) lives, therefore; amortization cannot be implemented to every type of intangible asset (Mugan & Akman, 2005).

2.2. Recognition Criteria for Intangible Assets

The notable trait of an asset, to be considered as intangible one apart from it has not physical form, there must be ‘right to transfer’ in the financial system, and following criteria should be met:

- a) Intangible asset is separable from the other assets
- b) It must arise from a problem with the contractual fulfillment or with other legal rights.
- c) The possible future economic benefits of the asset will belong to the company,

d) The cost of intangible asset should be able to be measured reliably.

In some cases identification of an intangible asset can be difficult due to it has not physical form. (El-Tawy & Tollington, 2013; IAS 38).

2.3. Amortization and Impairment of Intangible Assets

An intangible asset useful life is defined by the period in which it contributes to the future cash flows of a business. There is a definite and an indefinite useful life of an intangible. (Needles et al, 2008). When an intangible has a foreseeable time limit which will come to an end, that is defined as a definite useful life. The cost of an intangible asset with a definite useful life should be allocated to expense through periodic amortization over the asset's useful life in the same way that a building is depreciated.

When the life of the asset is not limited by regulatory, legal, competitive, economic, contractual or other factors it is defined as an indefinite useful life. However, indefinite intangible assets should not be amortized; they should be calculated impairment and impairment reviews should be carried out annually. All intangible assets, whether definite or indefinite, are tested for annual impairment in order to determine if an asset justifies its value in producing future cash flows, it should be written down to its fair value if the recorded value is not currently same with the fair value. The amount of written down is shown on the profit-loss table. (Needles et al, 2008).

2.4. Goodwill

Goodwill in different fields has different meanings. One of the most used definitions of goodwill is the reputation that a business has in society. However in accounting the term goodwill has a special meaning.

“In theory, a business has an intangible asset called goodwill when its rate of expected future earnings is greater than the rate of earnings normally realized in its industry.” (Larson and Miller, 1993).

In another definition, *“Goodwill is the present value of future earnings in excess of the normal return on net identifiable asset.”* (Meigs et al, 1996)

When one business purchases another business then goodwill arises. It is the excess of the cost of the acquired company over the fair market value of its identifiable net assets. Goodwill arises from some reasons as follows; existed loyal customers, a preferred geographical location, the efficiency in the manufacturing process, the good reputation of the business, monopolistic market advantages and weak competition or a combination of these and other factors. (Horngrén et al, 2006).

The formal definition of goodwill is given in standards as follows: *“An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized”* (IFRS3).

Goodwill allows a company earning a greater rate of return than normal and goodwill is an item that has highest frequency among the intangible asset disclosures of USA top five-hundred companies (Warren, Reeve, & Duchac, 2014).

Although many companies never acquire the goodwill by purchasing another company, they may develop goodwill attributes like good customer and supplier relations established in a long time, superior management, successful corporate culture. Developed goodwill qualities are known as internally generated goodwill and because there is not an objective way to determine the value of internally developed goodwill, it is not recognized and presented in financial statements (Williams, Haka, Bettner, & Carcello, 2010).

Though the companies recognition desire and report goodwill generated internally, fail to meet criteria needed to be recognized as a intangible assets. These criteria are; reliable measurement of cost, identity separation and control by reporting unit (Mackenzie, Coetsee, Nijikizana, Chamboko, Colyvas, & Hanekon, 2012).

According to Needles, when a purchaser pays more for a business than the fair market value of the business's total assets minus total liabilities, it is said to be characterized as goodwill. About 85 percent of 600 large companies separately report goodwill as an asset. Because much of the growth of these companies has come through purchasing other companies, goodwill as a percentage of total assets has also grown. For example for General Mills company goodwill has 36 percent of its total asset which in terms of numbers it is about \$ 6,684 billion (Needles et al, 2008).

2.4.1. Illustration of Purchased Goodwill

Purchased goodwill is formulated as follow: the goodwill is equal to deduction of net assets' fair value from the acquisition costin the business combination. The buyer is willing to pay more than the fair value because nearly every business may have goodwill such as; current customers and suppliers and reputation in the market. Purchased goodwill is recognized and presented in the balance sheet. In the formula above, the net assets are found as residual after deduction of total liabilities from total assets. The difference between the purchase price of a business and the fair value of the net assets acquired is the purchased goodwill. In calculation of the purchased goodwill, the fair value must contain all other identifiable assets of acquiree, in order to report goodwill correctly in the balance sheet (IFRS 3; Meigs et al, 2006). However there is one undeniable fact that the value of goodwill is confirmed only by the price that the seller is willing to accept and the buyer is willing to pay (Larson and Miller, 1993).

2.5. Accounting for Goodwill in accordance with IFRS

Goodwill is presented in balance sheet only when it is purchased. Goodwill is purchased when one business buys another business. A larger payment of acquirer than the net assests of the purchasing company goodwill arises and this difference is recognized as new asset item for the acquirer company, goodwill is recognized in financial statement because it has a measurable value (IFRS3).

Goodwill	\$ 2 million		
Total Assets	\$ 15 million		
		Total liabilities	\$ 11 million
		Cash	\$ 6 million

Figure 1: An Illustration of Journal Entry of Goodwill in a Business Combination

Here, net assets are simply computed as total asset minus total liabilities (\$ 15 million - \$ 11 = \$ 4 million). The total cash payment in combination of acquirer company with a purchased company is \$ 6 million. Additional amount paid to purchased company is calculated as difference of total paid amount minus net asset amount (\$ 6 million-\$ 4 \$ million =\$ 2 million) which is entitled goodwill.

2.6. The Method Recommended by IFRS3: “Acquisition Method”

According to IFRS3 business combinations recognized with acquisition method. It starts with the identification of acquirer whict it is the company which obtains control of acquiree.

Second step is the determination of the acquisition date. This is the date of acquirer transfers legally the assets and liabilities of acquiree. Third step is the measurement and recognition of assets and liabilities which it is very complex process. Fourth and fifth steps are accounting of the business combinations which consist of the identification and classification of assets and liabilities separately. Step sixth, recognition and measurement noncontrolling interest of acquiree. In step seven and eight, measurement and recognition of goodwill or gain from bargain purchase are prepared and process is concluded (Wiley, 2015).

2.7. Accounting Treatment of Goodwill Regarding to Albanian Accounting Standards

According National Accounting Standards specifically SKK 9 (Standartet Kombetare te Kontabilitetit, Kombinimet e Bizneseve), Goodwill is the positive difference between the acquisition cost and fair value (carrying amount) before purchaser that the net assets acquired. Objective of SKK 9 is to establish rules and explanation accounting for business combinations, prepared in line with National Accounting and Reporting Standards that are accepted internationally, general requirements of which are described in Law No. 9228, For Accounting and Financial Statements issued in April 2004 (Ligji Nr 9228 per Kontabilitetin dhe Pasqyrat Financiare, Prill 2004).

SKK 9 is implemented to followings:

- 1) In the recognition of business combinations
- 2) Accounting treatment and recognition of positive or negative goodwill
- 3) Recognition in accounting the merger between the subsidiary and the parent company.

A merger of entities or businesses in a separate reporting businesses known as a business combination. After a business combination transaction, purchaser company becomes acquirer and it has the power of control the other company or companies. The purchase of net assets, including any goodwill, of another entity without the purchase of the equity of the other entity may be involved in the business combination. Business combination transaction is not the relationship of parent-subsidiary companies. Purchase method is valid for all business combination accounting in Albania (SKK9).

Implementation of purchase method is in following steps:

- a) The identification of an acquirer;

An acquirer must be determined in business combinations. The acquiring company takes the control of the other company or companies, and it is also known as the buyer or purchaser.

- b) Measuring the combination cost of business;
- c) On the acquisition date, the buyer distributes the business combination cost by recognizing the liabilities and identifiable assets acquired. Any difference between the fair value of identifiable assets and liabilities and purchased cost of business and shall be recognized as positive or negative goodwill (SKK9).

After the business combination, the acquirer measures and presents purchased goodwill in the balance sheet with it is recorded amount minus accumulated impairment losses. Purchased goodwill cannot be not amortized according to SKK 9. This standard put forwards very similar approach to "IAS 36 Impairment of Assets" and requires the recognition of impairment annually or if it is needed more frequent. If there is evidence that the value of goodwill has been reduced, then it must be an impairment test and the value should be reduced to its recoverable amount, if it is lower than the carrying amount. On the determination of the recoverable amount of the goodwill impairment test as it was described in another standard "SKK 5 Property, Plant and

Equipment and Intangible Assets” which it will be used as the basis. Accounted loss from impairment of goodwill will not be taken back (SKK5).

Overcoming the interest of buyers in the fair value of the identifiable assets and liabilities acquired at the cost of the purchaser, is a profit and is recognized in the result. This difference is not recognized in the balance sheet causes as negative goodwill. But before any gain recognized as above, the acquiring entity must reassess the cost of buying and values of the assets, liabilities and contingent liabilities recognized of the purchased entity (SKK9).

Negative goodwill is created when the acquisition cost is lower than fair value (book value) before the acquisition of the net assets. Such situations arises relatively rare transactions between independent parties. So, before recognized in the statement of the buyer, should be carefully noted that the negative goodwill does not come as a result of any of the following circumstances:

- 1) Relating to business combinations with entities under common control, as a result of which the purchase price does not reflect the fair value of the acquired entity. In such cases, would be used the pooling of interest method, instead of the purchase method.
- 2) In the analysis of the price the buyer is making a mistake in measuring the fair value of acquired assets or current liabilities and contingent liabilities recognized, or the cost of business combination is not defined correctly or carrying value before buyers that assets or acceptance of liability is over assessed. In such cases, it would first be adjusted purchaser price analysis or accounting value before buying (SKK9).

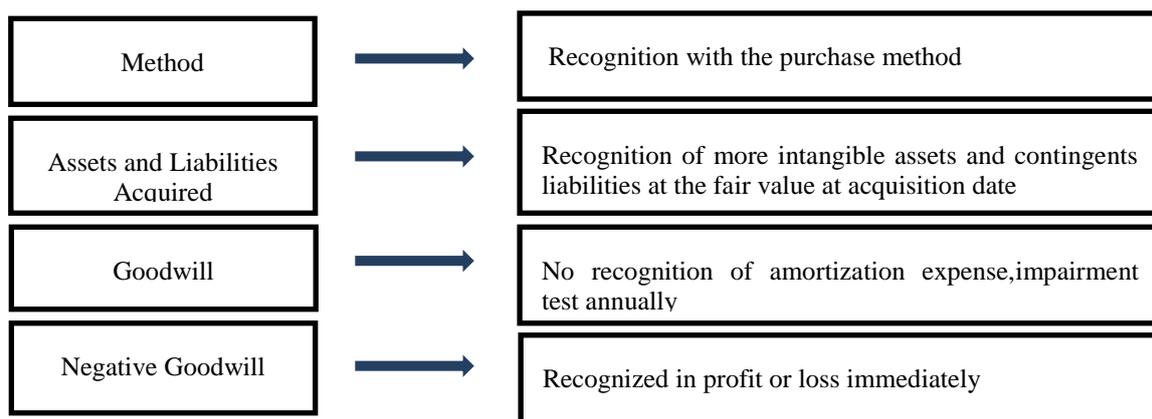


Figure 2: Summary of Albanian Accounting Standards (SKK 9)

2.8. Accounting Treatment of Goodwill Regarding the Albanian Tax Legislation

Law no. 9228, dated 29.04.2004 "On Accounting and Financial Statements" sets the basic principles of organization and functioning of the tax system in Albania, the procedures of the establishment, modification and removal of taxes, national and local taxes, to determine the legal status of taxpayers, tax authorities, tax agents other participants in relations governed by tax legislation, the fulfillment of tax obligations and the use of coercive measures (methods for promotion of national interests)for collection of national taxes and the basic conditions for the collection of local taxes, accounting for taxes, responsibility for tax violations and appeals against the actions (or inaction) of tax authorities and their employees.

All persons are required to pay taxes of the tax imposed by law and local government authorities (Tax procedures in the Republic of Albania - Law No. 8560, dated 22.12.1999).Tax legislation, specifically instruction no. 5, dated January 3, 2006"On Income Tax" intangible

assets such as patents, trademarks, start-up costs, purchased goodwill, etc, amortized at a rate to allow for the fiscal effect of 15% which is applied on historical costs which may be added the costs of upgrading and renewal of the assets. (Based in paragraph b of paragraph 3.7.2 of the Instruction no. 5, dated January 3, 2006 "On income tax")

The basis of calculation of amortization is initial value of the asset (historical cost). For the calculation of amortization is based on time (month) of the recognition of asset. Tax legislations have gone in line with International Accounting Standard IAS 22, in force at the time of its approval. But now that this standard has changed and been replaced with IFRS 3, the tax legislation has not reflected such a thing.

While Article 19 of the Law "On income tax" stipulates that profit for the taxable period is calculated based on the balance sheet and its annexes, which must be in accordance with the Law no. 9228, dated 29.04.2004 "On Accounting and Financial Statements", with the Law no 8438, dated 28.12.1998,"On income tax", as well as regulations issued by the Ministry of Finance. Under the light of the explanations above, all companies that are the subject of the regulations of Albanian tax legislation must be also subject to the IFRS.

3. RESEARCH METHODOLOGY: ALBTELECOM SH.A (JOINT STOCK COMPANY), REAL CASE OF PURCHASED GOODWILL

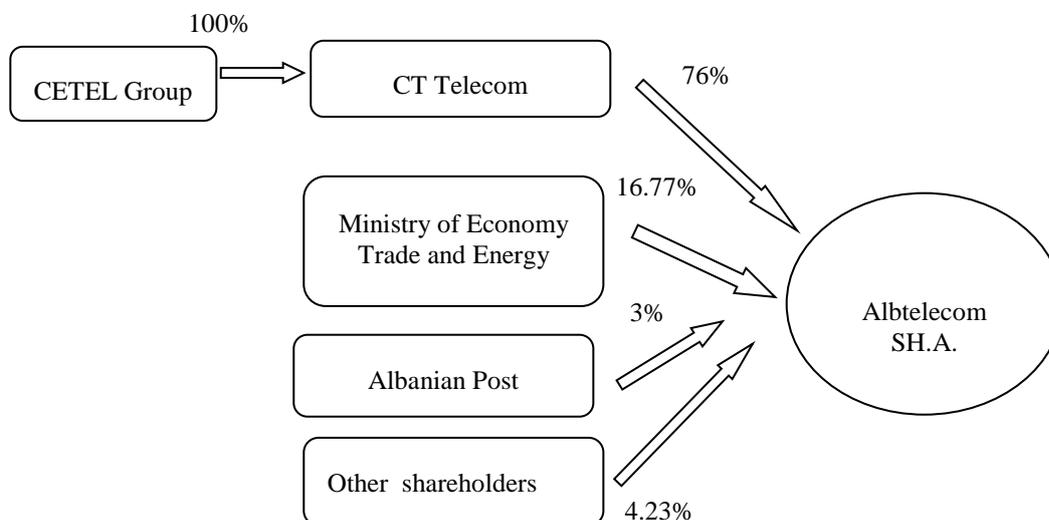
To support theoretical discussions above, a qualitative approach adopted in the research part of this study, and a case study is presented here. This case study methodologically has a descriptive characteristic which it means that a current practice is described in terms of the procedures adopted (Smith, 2011). Meanwhile the case may not present the procedures in a best way. Therefore, we aim to use this case only to convey a piece of information from real business practice in Albania.

ALBtelecom was established in 1912, after the independence of Albania. After the communist regime collapse it was licensed in 1992 by the Entity of Telecommunication Regulation (ERT) to provide fixed telephony and internet services. It offers qualified communication of fixed telephony, ADSL, Dedicated Internet Access, Dial-up, Intranet, ISDN service, Prepaid Cards etc. The privatization of ALBtelecom started in 2005 and was finalized on 28 September 2007 when Cetel Telekom, purchases 76% of ALBtelecom shares. Cetel Telekom's shares belong to, Çalik Group by 80% and Turk Telekom by 20%, respectively. The other 24% of shares belong to the Albanian government and other shareholders. (16.77 % Ministry of Economy, 3% Albanian Post and other 4.23% belong to physical persons). ALBtelecom owns 100% of Eagle Mobile shares a GSM company, as a part of privatization package (www.albtelecom.al).

3.1. Purchasing of Albtelecom Sh.A and Merger of it with CT Telecom

As explained above Çalik Group by 80% and Turk Telekom by 20%, which is called Cetel Group, purchased 76% of ALBtelecom shares. This purchase CETEL group did by creating an Albanian company named Ct Telecom. That was subsidiary company of CETEL Group, which was created by the Albanian tax legislation. Ct Telecom purchased 76% shares of Albtelecom Sh.A.

The graphic below illustrate the relative ownerships of each shareholder.



From the viewpoint of the buyer, this is to purchase of the net assets of a company from one another, giving in exchange cash money. The difference between the purchase cost of the acquisition and the book value of the net assets and liabilities acquired is goodwill and it is recorded in balance sheet of CT Telecom as a positive goodwill. So as a result of the merger operation by applying the purchase has resulted as an active, positive goodwill with a value of 27.916.000 euro and after that Ct Telecom absorbed by Albtetecom Sh.A.

According to International Accounting Standards, rather paragraph 51 of IFRS no. 3 "Business Combinations", goodwill is the positive difference between acquisition cost and fair value prior to acquisition of assets of a company. In this case, goodwill is created in the acquisition of Albtetecom by CT Telecom. In a second moment, CT Telecom and Albtetecom Sh.A legally joined in a single company. Management of Albtetecom Sh.A has concluded that after the moment of merger, goodwill continues to be maintained as such in the balance of companies already acquired.

It was understood that the case of Albtetecom Sh.A, goodwill is not bought by the latter, but is created as a result of the acquisition of Albtetecom Sh.A by CT Telecom and by a combination of the previous businesses. While Article 19 of the Law "On income tax" stipulates that profit for the taxable period is calculated based on the balance sheet and its annexes, which must be in accordance with the law "On accounting and financial statements, with the law "On income tax", as well as regulations issued by the Ministry of Finance. This means that Albtetecom Sh.A, is obliged to prepare annual financial statements under the law "On Accounting" and also observes the International Accounting Standards. In these circumstances, Albtetecom Sh.A has recognized the goodwill for amortization, because acquired goodwill in a business combination in accordance with international accounting standards, which is bound to respect Albtetecom Sh.A, is not amortized. On the other hand, if economic situation requires that impairment could be necessary, in accordance with IAS 36 "Impairment of Assets", Albtetecom Sh.A chooses to test good will annually or more frequent if the economic situation requires.

3.2. Valuation of Goodwill for Albtetecom Sh.A

Before business combination occurred, some major balance sheet items of Albtetecom Sh.A on 30 September 2007 are given below. The statements are given here, publicly available

on the web site of National Registration Center (Qendra Kombetare e Regjistrimit). Moreover, to increase the understanding of the statements, they were summarized and translated to English. To provide full confidentiality, all the figures in financial statements have been changed by a coefficient.

Table 1: Balance Sheet of CT Telecom before Business Combination

<u>CT TELECOM BALANCE SHEET(Before Business Combination)</u>			
<u>SEPTEMBER 30, 2007</u>			
ASSETS		LIABILITIES & OWNERS EQUITY	
<i>Participation in AT</i>	300.000.000	<i>Current Liabilities</i>	7.815.022
<i>Deferred ex.(EBRD&BSTDB FEE)</i>	2.801.060	<i>Owner Equity</i>	300.000.000
		<i>Loss of CT 2007</i>	(5.013.962)
TOTAL ASSET	302.801.060	TOTAL LIABILITIES & OWNERS EQUITY	302.801.060

In table two some major balance sheet items of Albtelecom Sh.A before business combination presented as follow;

Table 2: Balance Sheet of Albtelecom Sh.A, before Business Combination

<u>ALBTELECOM sha BALANCE SHEET (Before Business Combination)</u>			
<u>SEPTEMBER 30, 2007</u>			
ASSETS		LIABILITIES & OWNERS EQUITY	
<i>Current assets</i>	172.281.340	<i>Current liabilities</i>	97.386.532
<i>Property, machinery and equipment</i>	243.360.440	<i>Loan Italian Government</i>	15.347.332
		<i>Owners Equity</i>	302.907.915
TOTAL ASSETS	415.641.780	TOTAL LIABILITY & OWNERS EQUITY	415.641.780

The total assets of the company consist of 300.000.000 euro participation in Albtelecom Sh.A (the amount that CT telecom will pay in purchasing %76 of Albtelecom Sh.A) and 2.801.060 euro deferred expenses, while total liabilities and owners equity consist of 7.815.022 euro current liabilities, 300.000.000 euro owners equity and – 5.013.962 euro loss of 2007 .

Goodwill is calculated as the difference of acquired cost minus net assets. The acquired cost is 300.000.000 euro, and here is the amount of net assets is computed as;total assets less total liabilities.

Goodwill = Acquired Price – Net Assets

Goodwill =300.000.000 – (415.641.780 – 112.733.865)* %76 of shares

Goodwill =69.790.000 euro

After acquisition of Albtelecom Sh.A by CT Telecom and absorption of the previous businesses the balance sheet of Albtelecom Sh.A is shown as below.

Table 3: Balance Sheet of Albtelecom Sh.A, after Business Combination

<i>ALBTELECOM sha BALANCE SHEET (After Business Combination)</i>			
<i>OCTOBER 01. 2007</i>			
<i>ASSETS</i>		<i>LIABILITIE&OWNERSEQUITY</i>	
<i>Current asset</i>	<i>172.281.340</i>	<i>Reevaluation of asset</i>	<i>158.527.362</i>
<i>GOOD WILL</i>	<i>69.790.000</i>	<i>Loan Italian Government</i>	<i>15.347.332</i>
<i>Property, machinery and equipment</i>	<i>243.360.440</i>	<i>Current Liabilities</i>	<i>105.201.555</i>
<i>Revaluation of assets</i>	<i>158.527.362</i>	<i>Owners Equity</i>	<i>372.697.915</i>
	<i>2)Deferred ex.(EBRD&BSTDB FEE) 2.801.060</i>	<i>Loss of CT 2007</i>	<i>(5.013.962)</i>
<i>TOTAL ASSETS</i>	<i>646.760.202</i>	<i>TOTAL LIABILITIES & OWNERS EQUITY</i>	<i>646.760.202</i>

The total assets of the company are increased from 415.641.780 euro into 646.760.202 euro. Here we can see the goodwill amount and also the management of the company has revaluated assets of the company. If we look carefully owners equity is increased as the amount of goodwill. There is a controversy on the time of revaluation of the assets of the Albtelecom. The assets of the company were revalued and showed with fair value after acquisition whereas; the assets must have been revalued and presented with their fair values before the acquisition, according to IFRS 3.

4. CONCLUSIONS

The results of the study indicate differences between IFRS and Albanian legislations (National Accounting Standard 9 and tax regulations) in accounting treatment of goodwill, while between IFRS 3 and SKK 9 there are not significant differences but tax regulations has difference. Recognized for using purchase method, assets and liabilities acquired must be recognized at the fair value and it must be tested for impairment at least annually, in order to be recognized in a standard goodwill. According to instruction "On Income Tax" intangible assets such as purchased goodwill, amortized at a rate to allow for the fiscal effect of 15% which is applied on historical costs which may be added the costs of upgrading and renewal of the assets.

Regarding IFRS 3 and SKK 9, which both have same approach; the valuation of goodwill is different from other fixed assets even some intangible assets and it is not subject to amortization. Therefore, goodwill will be tested for impairment annually or more frequently if the economic conditions change and requires additional impairment. However, goodwill will not be amortized unlikely to the requirement of current tax regulations of Albania.

IAS 22 which is repealed and is replaced by IFRS 3 requires that the purchased goodwill has to be amortized systematically over its useful life. It was this standard where Albanian tax legislation was based. Therefore, Albanian tax legislation allows the amortization of goodwill while IFRS 3 and SKK 9 do not allow. On the other hand the Albanian tax law provides that companies would be obliged to use international accounting standards for local reporting purposes. This means that these international standards will be applied in the preparing of financial statements and will be in accordance with IFRS. But this implies that current tax legislation provides no action space and is not in convergence with the IFRS and remains only a theoretical notion and not practical. Moreover this situation is resulted with keeping the

accounting in the companies both according to IFRS and local tax regulations or making some reconcillations on the financial statements if they preparedby IFRS before submit tax authorities.

Under these circumstances, Albtelecom Sh.A has not recognized any amortization expense for goodwill, because acquired goodwill in a business combination in accordance with international and national accounting standards, which is bound to respect Albtelecom Sh.A, is not amortized. Therefore, for impairment if economic situations requires a loss in the value of goodwill, it may be impaired, in accordance with IAS 36 "Impairment of Assets", Albtelecom Sh.A chooses to test goodwill annually or more frequent if economic situations change.

However it will be recommended for further studies, to take more sample companies operating in different sectors and review the implementation of other IFRS, into the National Accounting standards and comparison with local regulations.

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