International Accounting Rule Levels Goodwill Playing Field

by Robert W. Wood • San Francisco

Beginning next year, new international accounting rules set by the International Accounting Standards Committee ("IASC") will force a variety of foreign companies to deduct from their profits the value of goodwill, something that American companies have been forced to do for years. The change is dramatic, in view of the practice of many European companies to deduct goodwill from their equity or net worth after making an acquisition. (See Berton and Steinmetz, "New Accounting Rules Spur Purchase Of U.S. Companies by Foreign Firms," *Wall St. J.*, 7/1/94, p. A5A.)

The deduction from equity or net worth is obviously less painful than a deduction from profits, putting American companies at a competitive disadvantage when it comes to acquisitions. Some say this has put American companies at a decided disadvantage in a number of recent acquisition contests.

The rules of the IASC are not universal. In fact, they are mandatory only for certain accepting nations, notably Switzerland and Italy. However, many individual companies outside these countries—in fact, all over the world—accept the rules of this body.

Substantial Change

The new rule calls for deducting goodwill over five to 20 years. The U.S. rules, in contrast, allow up to 40 years to deduct goodwill, which can obviously have a more diluted effect on earnings statements. The change is therefore a particularly draconian one from the perspective of the affected Europeans. The impending effective date of this rule has caused a number of foreign companies to close acquisitions of U.S. companies, much to the chagrin of U.S. companies that have lost out in competitive bidding.

For example, Gerber Products Co. was acquired by the Swiss drug company Sandoz Ltd., outdistancing the $35 per-share bid of domestic hopeful Quaker Oats Co. with a whopping offer of $53 per share. That made a total acquisition price of $3.7

Continued on Page 7

INTERNATIONAL ACCOUNTING Continued from Page 6

billion. Investment bankers attribute part of the large Swiss bid to the more favorable accounting rules that deal with the charge-off of goodwill.

Sandoz's representatives, on the other hand, have said that it was strategic considerations, rather than favorable accounting rules, that prompted the high offer for Gerber. Another Swiss drug company, Roche Holding Ltd., recently agreed to buy the Syntex Corp. pharmaceutical concern for $5.3 billion.

That impending foreign accounting rule changes may spark foreign acquisition interest in U.S. companies is clear from both the past and the present. More than five years ago, British accounting rules were slated to change to force British companies to deduct goodwill from profits, thus conforming the rules to U.S. accounting practice. Before the change could take effect, British companies made many acquisitions of U.S. companies, but the British rule change was never made. ■