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# Institute of Certified Public Accountants of Kenya

**27th March 2003**

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International Accounting Standards Board
30Cannon Street, London EC4MXH, United Kindom.

Dear Annette

**RE: COMMENTS ON ED 03 BUSINESS COMBINATIONS**

Following our review of the Exposure Draft stated above we wish to make the following comments.

Question 8
We agree that goodwill acquired in a business combination should be recognised as an asset but we do not agree that goodwill should be accounted for after initial recognition at cost less accumulated impairment losses.

We still hold the view that acquired goodwill should be amortised on a systematic basis over the best estimate of its useful life but with an impairment test whenever there is an indication that the goodwill might be impaired. We support this view with the arguments stated under BC106 that;

(a) conceptually, amortisation is a method of allocating the cost of goodwill over the periods it is consumed, and is consistent with the approach taken on other intangible and tangible fixed assets that do not have indefinite useful lives.

(b) acquired goodwill is an asset that is consumed and replaced with internally generated goodwill. Amortisation therefore ensures that the acquired goodwill is written off and no internally generated goodwill is recognised in its place, consistently with the general prohibition on the recognition of internally generated goodwill.

Other arguments are that;

(c) The test of impairment when the recoverable amount of a cash generating unit in not readily available is based on estimates of cash flows and risks associated with the cash generating unit. It is therefore our view that the arbitrariness resulting for estimating the useful life of acquired goodwill and the pattern in which the goodwill diminishes ( BC106(c ) & BC 107) is not eliminated by the proposed measurement.

**Question 9**

We do agree that the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost of the business combination should be recognised in the profit and loss. We are however of the view that this should not be immediate but the amount involved should instead be recognised over some specified period of time based on the managements assessment of the circumstances. The arguments we advance for this are that:

a) there could be some hidden costs not known to the acquirer at the time of the transaction which may not come to light on the immediate reassessment of the fair values. It would be appropriate to extend the reassessment over some time to ensure no such cost existed.

b) One of the reasons advanced for recognizing goodwill is the acquirer expects economic benefits embodied in the goodwill to flow to the entity in the future. In the same way an entity may expect to incur future losses and it only right that any such profit be carried forward and matched against the future losses.

We hope the above comments will be considered.

James Mburu