DOI: 10.55643/fcaptp.4.57.2024.4449

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Received: 17/06/2024
Accepted: 06/08/2024
Published: 31/08/2024

THE ESSENCE OF GOODWILL IN DISCLOSING THE INTANGIBLE VALUE OF BUSINESS IN THE CONTEXT OF DIGITAL TRANSFORMATION

ABSTRACT

The intangible component of business value is increasing, yet remains inadequately disclosed in financial reporting. Current accounting standards have not fully developed the tools and methodologies for its comprehensive recognition, measurement, assessment, and full disclosure in reports. Discussions on the essence of goodwill have long been ongoing, and it's evident that this category extends beyond accounting and financial reporting. Digital transformation enhances the interest of researchers, scholars, and practitioners in the essence of goodwill, emphasizing the necessity to consider it as a means of disclosing the intangible value of business in modern conditions.

The methodological basis of the conducted research includes methods of analysis, synthesis, historical conceptual review, comparison, logical generalization, grouping, abstraction, and a systematic approach.

Studying the history of the development of the goodwill concept allowed identifying the main stages of its formation as an object of accounting, reporting, and management. An in-depth critical analysis of definitions supplemented economic, legal, and accounting approaches to understanding the essence of goodwill with new ones, such as marketing, branding, value, emotional, quantitative, and systemic. The developed classification allows considering all aspects of goodwill manifestation and the views of various assessment subjects on its essence and role in disclosing the intangible value of the business. It is proposed to define goodwill as the intangible value of a business reflecting its reputation, brand, customer loyalty, intellectual property, innovative and technological capabilities, digital user experience, online presence, and a set of other unique intangible assets, which together contribute to the sustainable growth of the company's market value and create competitive advantages, enabling adaptation to changes in the era of digital transformation.

Goodwill is a category that exists not only in consolidated reporting, as it characterizes the intangible components of business value and requires appropriate recognition and management.

Keywords: goodwill, brand, intangible asset, disclosure, business combination, disclosed goodwill, internal goodwill, consolidated financial statements, intangible business value, digital transformation

JEL Classification: M10, M14, M40

INTRODUCTION

The modern economy is focused on intangible assets [1]. Over the past two decades, there has been accelerated growth in the intangible value of businesses. According to research from Brand Finance Global Intangible Finance Tracker (GIFT™), the implementation of innovations and artificial intelligence has led to a significant increase in the global value of intangible assets over the last five years. Particularly noteworthy was the highest growth recorded in 2021, reaching USD 76 trillion [2]. Following a slight decline in 2022, further economic revitalization and investor sentiment contributed to the increase in the global value of intangible assets. Consequently, the growth in the intangible value of the world's largest companies in 2023 amounted to 8% compared to 2022. This was made possible by digital transformation, enhancement, and the increasing value of software, technological advancements in marketing, and customer relationships, which not only had individual impacts but also demonstrated synergy. Thus, out of the total value of intangible assets in 2023 amounting to USD 61.9 trillion, 74% or USD 45.7 trillion remains undisclosed, i.e., not presented in financial reports, which complicates the accurate assessment of companies' true value. This creates obstacles for investors in making informed decisions, reduces the transparency of financial reports, and may lead to undervaluation or overvaluation of companies in the market. The lack of precise and complete disclosure of intangible assets in financial reporting also limits opportunities for strategic planning and business management, impedes capital attraction, and may adversely affect business competitiveness in the digital transformation era.

Goodwill demonstrates the value of intangible assets, such as strong brands and innovative technologies, which can enhance productivity, growth potential, and competitive advantages of the enterprise [2]. Goodwill helps to evaluate and reflect the intangible value of the business during acquisitions and mergers, taking into account factors and expectations that existed at the time. Subsequently, disclosed goodwill is subject to assessment for indicators of impairment. However, internal undisclosed or internally generated goodwill, also known as internal goodwill, is not reflected in the reporting available to investors, creditors, and partners. Not all companies pay adequate attention to it, even in internal management reporting. There is no consensus on the nature of goodwill, as its relevance extends far beyond traditional recognition concepts. Its interpretation is influenced by cognitive aspects, economic interests, and crisis phenomena only intensify discussions motivated by concerns of stakeholders, regulators, and researchers [3]. Therefore, a thorough critical analysis of the essence of goodwill in disclosing the intangible value of companies is extremely important in modern digitalization conditions.

LITERATURE REVIEW

In literature, there is a problem defining the essence of goodwill due to the presence of significantly different views on understanding this concept, which is influenced by the evolution of the goodwill concept. Early definitions were simplistic, including aspects such as good reputation and customer loyalty. Notable authors of early scientific works in economics and accounting, such Dicksee L.R., Tillyard F. [4], Leake P.D. [5], Paton W.A. [6], Catlett G.R., Olson N.O. [7], Courtis J.K. [8], played a significant role in shaping the theory and practice of goodwill accounting, establishing fundamental principles for its recognition and disclosure in corporate financial reporting, which formed the basis for the subsequent development of relevant standards. The early publications on goodwill testify to the fact that even at the early stages of economic development, there was a need to define and measure the intangible benefits of business.

Despite discussions on the essence of goodwill spanning over a century, this controversial topic remains unresolved to this day. In literary sources, goodwill is defined as an intangible asset reflecting the commercial value of a company beyond its physical and financial assets. Moreover, as claimed by J.E. de S. Calado and J. Matias-Pereira [3], goodwill extends beyond recognition and measurement concepts and criteria. Goodwill encompasses aspects such as good reputation, customer loyalty, strong brand, effective management, good relationships with customers and suppliers [9], as well as the company's intellectual capital [10]. As S. Voloshenko notes, goodwill reflects the economic advantage that a company has compared to similar companies in the market [11]. According to M. Hargrave, M. James, and P. Williams [12], goodwill is a key asset that provides competitive advantages, and its proper understanding and assessment enable management to make informed strategic decisions [13].

In the work of Z. M. Zadorozhnyi, V. Yasyshena, V. Muravskyi, I. Ometsinska [14], the transformation of approaches to reflecting goodwill in accounting accounts is highlighted in accordance with the chronology of changes to the regulatory framework. The authors share the opinion that goodwill is an intangible asset and emphasize the need to account not only for external but also internal goodwill in their proposed sub-accounts. Particularly common among many scholars is the recommendation to develop analytical and off-balance sheet accounting of goodwill [14, 15, 16], as well as the necessity of accounting for internal goodwill [17]. Contemporary researchers K.V. Oliveira and P.R.B. Lustosa propose a quantitative interpretation and a new conceptual approach to goodwill accounting, taking into account elements of diffraction and internal interaction [18]. Thus, the essence of goodwill and the understanding of its nature remain relevant for researchers of the past and present. And it is evident that the discussion is not exhausted today.

The most comprehensive study of the process of goodwill evaluation and other intangible assets was conducted by H. Umantsiv, I. Shushakova [19], O.E. Lubenchenko [15], V.V. Yasishena [16], while the EU experience was described by O. Romashko, N. Melnyk, H. Moskaliuk, R. Volchek [20], and the impact of wartime was revealed in the work of M. Kuzub, O. Moshkovska, T. Ihnatenko, O. Kuzmenko [21]. The influence of digital transformation on the accounting of intangible assets and goodwill is elucidated by R. Moro-Visconti [22], L. Tiesheva, I. Smyrnov [23], A. Shapovalova, O. Prokopova,

V. Saienko, L. Lazebnyk [24]. The main problems of goodwill assessment at initial recognition are discussed by F. Lessambo [25], who also points out the subjectivity of subsequent goodwill impairment testing during each subsequent reporting consolidation. Risk-oriented strategic management accounting should reflect the components of enterprise value formation and consider goodwill among its intangible components - O. Fomina, V. Yevdoshchak, Y. Manachynska [26].

Moreover, goodwill as an object of study goes beyond the understanding of an asset. V. Kostyuchenko, A. Fesenko, I. Tsybanyuk, A. Klymenko consider it as a component of intellectual, human, social capital, and relationships [27]. Accordingly, this forms a demand for disclosing more complete information in integrated reporting, and requires the development of professional judgement in the field of business, accounting, and reporting [28] and managerial accounting principles [29]. The impact of intangible value factors on enterprise resilience is highlighted in the works of I. Kovova, O. Malyshkin, V. Vicen, S. Shuliarenko [30], H. Jhavary, D. Ecim, W. Van Zijl [31], O. Shpyrko, T. Bukoros [32].

As authors O.A. Thakur, M.B. Tunde, B.-A.A. Noordin, M.K. Alam and M.A. Prabowo [1] assert, the impact of goodwill on capital structure and the financial market is increasing, especially in developing countries, where goodwill is considered as collateral during business lending. Countries like Singapore, the United Kingdom, and the USA are already exploring ways to unlock intangible assets, particularly for investment and financing through loans secured by intellectual property [2].

Contemporary studies do not delve into the historical genesis of the essence of the "goodwill" concept, disregarding the evolutionary development of this term. They also do not consider the types and forms of goodwill manifestation, which is important for a more complete understanding, recognition, evaluation, and disclosure of goodwill information for management and decision-making. This leads to a limited understanding of the significance of goodwill in disclosing the intangible value of companies, its impact on transparency and completeness of reporting, financial condition, and competitiveness of companies. The lack of a comprehensive approach to analyzing goodwill reduces the effectiveness of financial planning, complicates merger and acquisition processes, and may result in improper management of intangible assets. Therefore, to achieve greater transparency and accuracy in financial reporting, as well as to ensure effective business management, more attention needs to be paid to studying the aspects of the formation of the goodwill concept, its types, and manifestations.

AIMS AND OBJECTIVES

The aim of the article is to form a comprehensive approach to understanding the essence of goodwill, taking into account the historical origins of this concept, the influence of modern conditions of digital transformation, and the specifics of forming and disclosing the intangible value of the business. To achieve the outlined goal, the following tasks have been identified:

1. Investigate the evolution of the concept of "goodwill", and highlight the main stages of historical development of approaches to understanding its essence.
2. Analyze key definitions and views of past and present researchers, practitioners, and legislators on defining the essence of goodwill.
3. Identify key approaches to interpreting the concept of "goodwill".
4. Develop a classification of goodwill, and demonstrate the relationship between externally disclosed goodwill and internally generated goodwill for a more complete understanding of the role of goodwill in disclosing the intangible value of business.
5. Present the dynamics of the global value of disclosed goodwill and disclosed intangible assets under the influence of digital transformation, as well as undisclosed intangible value in the largest intangible sectors of the modern economy.

METHODS

During the research, general scientific and specialized methods of scientific cognition of processes and phenomena in their interrelation and development were used, namely: analysis and synthesis - in the study of goodwill definitions in scientific sources, standards, and legislation; historical conceptual and comparative review - to identify stages of development and key approaches to understanding the essence of goodwill; logical generalization, grouping - for critical analysis of the conceptual-categorical apparatus regarding the identification of goodwill classification features; abstraction and a systematic approach in defining the nature and sources of goodwill, the relationship between internally generated goodwill and externally disclosed goodwill realized during company mergers and acquisitions; systematic analysis - for developing a

DOI: 10.55643/fcaptp.4.57.2024.4449

proposal for interpreting the essence of goodwill in disclosing the intangible value of business in modern conditions of digital transformation.

RESULTS

The historical development of goodwill as an accounting, reporting, and management object began with the development of trade relations and financial systems when companies began to realize that in addition to tangible assets, there are intangible values that affect the value of the business. This became particularly evident during mergers and acquisitions when the value of a company often exceeded the sum of its tangible assets. The first mentions of goodwill date back to the 16th century. The establishment of the first joint-stock companies, particularly in Amsterdam, Netherlands, contributed to the increased demand for insurance of ships and cargo transported by sea, which was extremely important for the trade and maritime development of that time. This prompted companies to pay more attention to assessing factors influencing the value of the business, including its reputation and customer relations. This period was also characterized by significant economic growth, the opening of new markets, and the emergence of new business practices that required more accurate accounting and valuation of enterprises. Significant changes in the economic environment, and the emergence of the intellectual capital market, stimulated the need for recognition and measurement of such a concept as goodwill. According to business demands, scholars showed significant interest in researching the intangible value components of companies. Goodwill was then considered as the reputation of the enterprise and its owners, as well as the embodiment of the quality of products or services it offers. Thus, in the late 16th century, the first mentions of goodwill associated with commercial practices and insurance operations appeared, laying the groundwork for further development of this concept in accounting and reporting.

The first fixation of the concept of "goodwill" in judicial practice in Great Britain dates back to 1620 in the case of "Broad v Jolyffe". In this case, Kramer Broad, who was a buyer of the business, sued Jolyffe, who acted as the seller, because Jolyffe, contrary to the terms of the contract, changed the location of his business activities, resulting in Broad losing most of his clients. The court recognized that business reputation, known as goodwill, was lost along with the location of the shop, as the change in the location of the business directly affected its popularity and customer favour, and therefore, the amount of goodwill [16]. Thus, goodwill became an object of protection in legal relations, which contributed to the formation of a legal approach to understanding this concept. R. Dicksee Lawrence (1906) [4] pointed out that the term "goodwill" has more economic than legal significance. During legal proceedings, judges are often satisfied with the definition of goodwill, which is considered sufficient for the fair resolution of a particular dispute. Therefore, high accuracy in its definition should not be expected at that time.

In the work "Goodwill and its Treatment in Accounts", published in 1906, R. Dicksee Lawrence and Tillyard Frank [4] focused on exploring the concept of goodwill as a special asset arising from the acquisition or merger of businesses. The scholars proposed considering goodwill as an advantage derived from the likelihood of customers continuing to purchase the products and services of a specific enterprise and showing future loyalty. They advocated for writing off goodwill from the balance sheet through adjustments to the company's net profit reserves using an adjusting coefficient inversely related to the central bank's accounting rate. Alternatively, they even recommended not accounting for goodwill, suggesting that shareholders should receive compensation in the form of a premium from the issuance of shares to incentivize their participation in the business. The scholars also emphasized the possibility of manipulation in assessing the value of goodwill, including during legal disputes. Thus, over a century ago, researchers pointed out the subjectivity in understanding, recognizing, and assessing goodwill.

In the work "Commercial goodwill: its history, value, and treatment in accounts", published in 1921, Percy Dewe Leake [5] examined the significance of goodwill as a combination of various elements or assets such as patents, copyrights, trademarks, and others. He defined goodwill as the present value of the right to receive future supernormal profits. As supernormal profits are not constant, an investor can only rely on the market value of the business share that can be sold in the future. A relatively new approach was the definition of market factors affecting the value of goodwill and analyzing how investors perceive and assess it. Additionally, P. D. Leake considered the legal and accounting aspects of recognizing goodwill, describing their impact on businesses. He highlighted the challenges in valuing goodwill, particularly in determining the duration of the period during which the benefits from goodwill realization should be expected. Thus, P. D. Leake proposed a more comprehensive approach to determining the value of commercial goodwill, considering its components and factors influencing its assessment.

Contributing to the development of accounting theory, including intangible assets and goodwill, was William Paton [6]. In 1922, William Paton published "Accounting Theory, with special reference to the corporate enterprise". In this book, William

Paton discussed accounting, reporting, and management, including the impact of intangible assets and goodwill on the financial stability of enterprises. William Paton believed that goodwill as an economic asset has a specific value. He emphasized that goodwill is not just a moral or psychological phenomenon but has real economic value for the enterprise. William Paton believed that goodwill reflects immeasurable and additional value arising from the reputation of the enterprise, customer relationships, location advantages, and so on. William Paton emphasized the need for the development of accounting standards that would help more accurately reflect the value of goodwill, its impact on financial reporting, and the financial position of enterprises.

At the beginning of the 20th century, goodwill was primarily seen as the advantages, reputation, and connections held by a business, and its value in buying or selling was determined by how much the purchasing company could leverage these advantages or contacts. As an asset, goodwill was viewed through the lens of business consolidation, manifesting in various forms and garnering increasing interest among scholars and practitioners.

The work of Catlett G. and Olson N. titled "Accounting for Goodwill" [7] holds significant importance. Published in 1968 by the American Institute of Certified Public Accountants (AICPA), their work outlined perspectives on the accounting issues of goodwill during business combinations, acquisitions, mergers, and takeovers. While in 1968 there was no unified approach to defining the essence or accounting for goodwill as an intangible asset, the necessity of forming such a concept was undeniable. Accordingly, G. Catlett and N. Olson proposed a systematic approach to goodwill accounting involving initial capitalization and subsequent amortization over the expected period of its useful life. This approach aimed to align accounting methods with economic reality and differed from the traditional practice of immediately writing off goodwill to profit. G. Catlett and N. Olson [7] provided detailed recommendations for the recognition, measurement, and amortization of goodwill, which had practical value in enhancing the reliability and relevance of financial reporting for companies during business combinations, acquisitions, and mergers. However, not everyone supported the contemporaneous idea of goodwill amortization. Specifically, L. R. Dicksee [4] argued against the notion of amortizing goodwill, stating it was impractical to do so and advocated for continued representation of goodwill on the balance sheet at its original cost.

From the 1970s to the 2000s, discussions among various authors in academic and professional circles focused on the necessity of influential regulators and the development of unified accounting and reporting rules to expand capital markets. At this stage, goodwill became a subject of regulation in relevant standards. Initially, discussions related to goodwill, its amortization, and subsequent impairment testing were primarily discussed in the context of developing rules and requirements in individual countries, then at regional and international levels. With the introduction of the International Financial Reporting Standards (IFRS) in 2001, discussions began on a draft standard for regulating business combinations, consolidation of financial statements, and recognition of goodwill. As a result, in 2004, IFRS 3 [34] was officially adopted. It underwent several revisions in 2008 and 2020, impacting approaches to the assessment and accounting of goodwill during business combinations. Changes to IFRS 3 included refining the definition of mergers and acquisitions to provide clearer distinctions between these two types of combinations. Amendments were made to the purchase accounting method, taking into account the structure of transactions and conditions that could affect the valuation and assessment of a company's assets and liabilities. A section was also added to define the stages of combinations and the accounting requirements for each. IFRS 3 prohibits the amortization of goodwill for economic reasons due to the lack of useful life and expectations of impairment of this asset. However, the standard defined a methodology for the annual assessment or impairment testing of goodwill.

Changes made to IFRS 3 reflect the ongoing need for improvement in approaches laid out in international accounting and reporting standards for recognizing and assessing goodwill during business combinations, identifying signs of impairment, taking into account the impact of contemporary business environments, and addressing information needs to ensure accuracy and transparency in corporate reporting. In Ukraine, companies applying national standards for goodwill accounting follow the requirements of National Accounting Standard 19 "Business Combinations" [35].

At the European level, legislation of EU member states must align with Directive 34/2013/EU [36] on annual financial statements, consolidated financial statements, and related reports of certain types of companies, which, among other things, defines the essence of goodwill and the disclosure procedure in reporting. It is important to note that many countries adapt IFRS to local and national rules. However, even with such convergence and harmonization efforts over the past decades, many contentious aspects remain. Recent discussions have included questions about returning to amortization, as goodwill impairment testing has faced criticism from various stakeholders. Thus, based on source analysis, five key stages of the formation and development of the concept of "goodwill" can be identified (Figure 1):

- the initiation of the term's usage in the 16th century;
- formation of the essence of the concept in legal practice;

DOI: 10.55643/fcaptp.4.57.2024.4449

- utilization in accounting and reporting in the 19th century;
- consolidation in standards in the 20th century;
- the modern stage of the concept's development, characterized by awareness of the multifaceted nature of goodwill, its types, manifestations in business value management, brand value enhancement, intellectual and consumer capital accumulation, and competitive advantages.

This implies that goodwill is used to assess consumer trust, corporate reputation, and performance. In modern conditions, goodwill also reflects a company's ability to adapt and implement cutting-edge digital technologies, providing not only a competitive edge but also fostering sustainable company growth, enabling rapid responses to changes in the digital environment, and maintaining its market position.

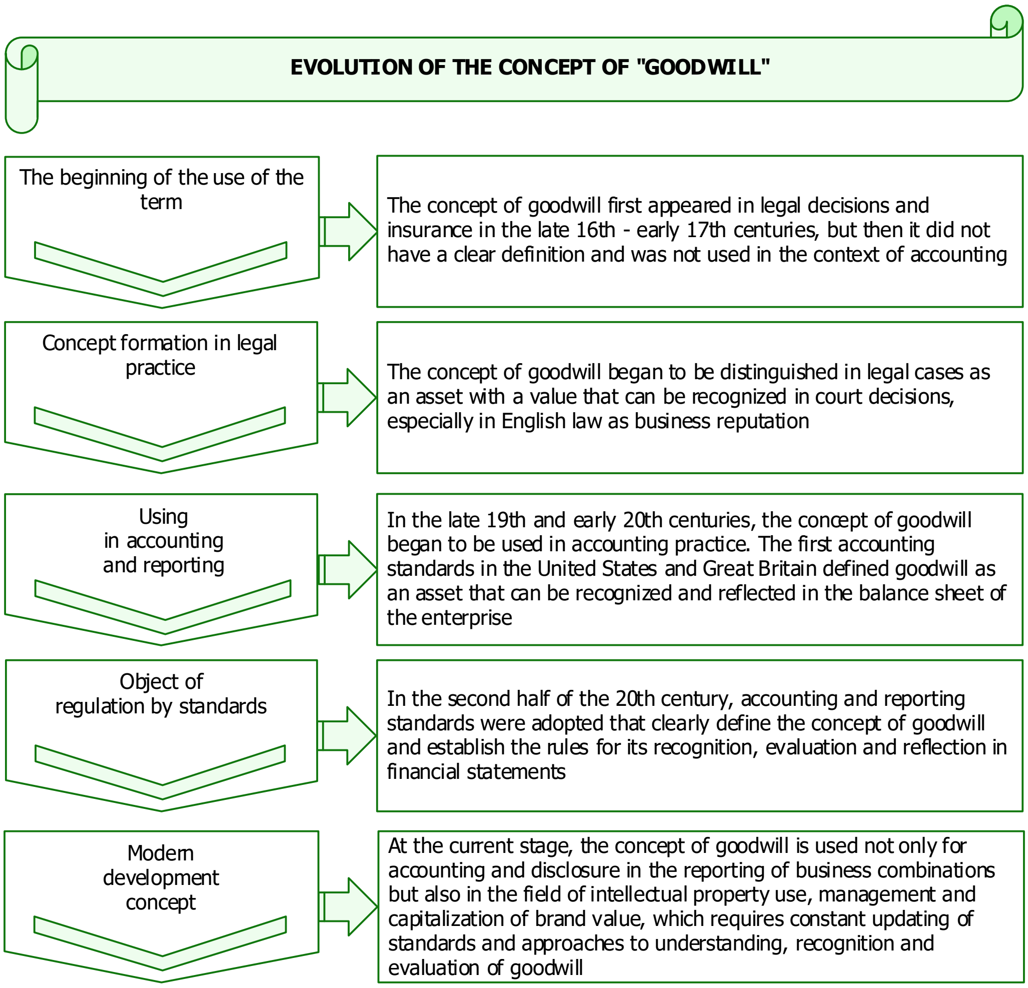

Figure 1. The fundamental stages of the development of the concept of "goodwill". *(Source: compiled on the basis of and processing [3, 4, 5, 6, 7, 8, 14, 16, 34, 35, 36])*

According to the evolution of perceptions regarding goodwill and how this term was defined and interpreted by early researchers, contemporary scholars and practitioners, and current regulatory acts, Table 1 has been compiled, gathering key definitions of this concept.

Table 1. Definition of the essence of the concept of "goodwill" in regulatory documents and scientific sources. *(Source: compiled based on [1, 2, 3, 4, 5, 6, 8, 9, 11, 12, 14, 15, 16, 18, 22, 27, 34, 35, 36, 37])*

Source / Author	Definition of the concept of "goodwill"
IFRS 3 "Business Combinations"	Goodwill is an asset that embodies future economic benefits arising from other assets acquired in a business combination that cannot be individually identified and separately recognized.
Directive 2013/34/EU	Any remaining difference when the carrying amount of shares in the equity of consolidated entities is offset proportionally to their share in the equity and reserves of these entities is reflected as goodwill.
National Accounting Standard 19 "Enterprises Combinations"	Goodwill is the excess of the purchase price over the buyer's share in the fair value of acquired identifiable assets, liabilities, and contingent liabilities at the acquisition date.
Tax Code of Ukraine	Goodwill (reputation value) is an intangible asset, the value of which is determined as the difference between the market price and the book value of the assets of an enterprise as a whole property complex. It arises from the use of superior management qualities, a dominant market position in goods and services, new technologies, etc. The value of goodwill is not subject to amortization and is not considered in determining the taxpayer's expenses related to the assets from which such goodwill arises.
Global Intangible Finance Tracker (GIFT™)	Goodwill is the reputation of the company, calculated at the time of acquisition, and identified as a component of intangible assets alongside elements such as franchise agreements, copyrights, trademarks, licenses, government grants, internet domain names, trade secrets, know-how, research and development, and more.
L.R. Dicksee, F. Tillyard	Goodwill as an asset represents the advantages gained based on the assumption that customers will continue to patronize the business in the future. When a business relies on its reputation, goodwill includes the benefits the owner receives as a representative of that business. When the value of a business depends on its business connections, goodwill acquired during the purchase of the business consists of the right to use these connections.
P.D. Leake	Goodwill is the right which grows out of all kinds of past efforts in seeking profit, increase of value, or other advantage
William Paton	"Goodwill" in its broadest sense, indicates the estimated value of future additional income. Understanding goodwill provides a convenient starting point, and the first step in working with it involves considering the phrase "additional income". Goodwill results from the excess amount paid for a business over its net value.
J. E. de S. Calado, & J. Matias-Pereira	The essence of the concept of goodwill goes far beyond the recognition and measurement criteria. The nature of goodwill should be considered outside the objectives of financial reporting. Goodwill, its amortization, or impairment testing are complex issues, and consensus will not be achieved due to the influence of crisis scenarios, economic, political, and regulatory interests, as well as behavioural and cognitive aspects of understanding.
K. V. Oliveira, & P. R. B. Lustosa	Goodwill is a set of value factors associated with other assets to create value for organizations. Intangible capital (goodwill) and physical capital are "entangled" and this entanglement forms the company's economic value.
J. K. Courtis	Goodwill is an impalpable, ethereal, incorporeal, ephemeral, immaterial, abstract, shadowy and intangible asset, it has been described in such vague terms as advantages, benefits, factors, rights, sources and privileges possessed by a successful business.
O.A. Thakur, M.B. Tunde, B.-A.A. Noordin, M.K. Alam, M.A. Prabowo	Goodwill is an identifiable asset that influences and defines the capital structure. It serves as additional collateral for securing debt financing, informing business managers and policymakers about the necessity of recognizing it to obtain debt capital.
M. Hargrave, M. James, P. Williams	Goodwill is an intangible asset associated with the acquisition of one company by another. It represents value that can give the acquiring company a competitive advantage.
S. Voloshenko	Goodwill is a competitive resource for the company. By its nature, goodwill is a dynamic characteristic of a company's behaviour, formed over a long period within society and constituting its reputation. The term "goodwill" is used in the balance sheet to reflect the monetary value of a business reputation as an intangible asset.
R. Moro-Visconti	Goodwill is a residual intangible since it incorporates all the added value that cannot be directly allocated to any other specific immaterial asset. The customers' portfolio is one of the most critical components of goodwill. Digital goodwill refers to the scalable properties of innovative intangibles.
V. Kostyuchenko, A. Fesenko, I. Tsybanyuk, A. Klymenko	Goodwill is a component of intellectual, human, and social capital, and relationships. Goodwill, which is reflected in the financial (consolidated) statements, is a specific asset that arises only during the purchase, merger, or consolidation of companies and has a valuation of business reputation.
Z.-M. Zadorozhnyi, V. Yasyshena, V. Muravskyi, I. Ometsinska	Internal goodwill can be understood as a set of intellectual assets (human, customer, organizational, social, environmental, personal internal goodwill of the head, intangible assets related to contracts), economic and other benefits of the entity that affect the efficiency of running its business and competitiveness, are used in current activities in order to gain future benefits and additional profits.
M. Kiriiia, O. Razborska	The accounting category of "goodwill" represents business reputation that creates added value for business participants. Goodwill is part of the enterprise's value, which the seller receives for successfully managing the company, giving up some portion of excess profits in favour of the buyer.
O. Lubenchenko	Goodwill provides users with information about the price paid by the buyer and their expectations, which do not match the actual value of the acquired business. Goodwill is recognized as an intangible asset in financial statements when a company is acquired and is inseparable from it. Goodwill, which provides competitive advantage and investment attractiveness, requires annual assessment by management.
V. Yasishena	Goodwill is an integral part of the brand and affects its rating. By nature, goodwill arises not only during the sale or merger of enterprises but also exists as unaccounted intangible assets throughout the ongoing operations of the enterprise.

 DOI: 10.55643/fcaptp.4.57.2024.4449

Therefore, the interpretation of goodwill is quite diverse, explaining the multifaceted nature of this concept, its manifestations, and significance. In scholarly sources, three main approaches to defining the essence of goodwill are distinguished: economic, legal, and accounting [15, 16], but it is evident that they require significant supplementation.

The economic approach to understanding the essence of goodwill is based on interpreting it as a certain economic value that arises when the purchase price of a company exceeds the fair value of its net assets as a result of favourable circumstances or competitive advantages that provide the company with additional opportunities or income. In this aspect, the economic approach is very close to the accounting one. However, the main essence of the economic approach to recognizing goodwill relies on defining the market value of the company, its economic potential, and profitability. Goodwill can be considered a source of competitive advantage, as a well-known brand or reputation can provide attractiveness to the company for customers, and investors, and generate a higher value of goodwill. In this aspect, the economic approach somewhat intersects with marketing.

The marketing approach to defining the essence of goodwill emphasizes how consumers perceive and react to the brand, reputation, and other factors that influence a positive attitude towards the company. Thus, goodwill is not only a financial asset but also a marketing resource, characterized by elements such as brand, image, trust, and customer loyalty, reputation, which collectively determine the success of the company in the market. Quite often, goodwill is equated with the value of the brand, so within the marketing approach, the brand approach can be distinguished.

The legal approach to understanding goodwill was one of the first. Lawyers long before the 20th century sought to protect the benefits created by goodwill in monetary terms, taking into account consumer behaviour psychology. During legal disputes or contract negotiations, lawyers aim to protect the advantages provided by goodwill, its capitalization, and support of ownership [3]. The legal approach allows considering goodwill as an important legal object, which is significant in the business environment, subject to evaluation, becomes an object of legal disputes, and can be recognized and protected according to the requirements of the law.

By etymology, the term "goodwill" originates from the English word "goodwill", consisting of two parts: "good" (well) and "will" (desire, wish). Accordingly, "goodwill" may connote, on one hand, the favorability of customers, consumers, and buyers towards a particular brand (business, product), a certain emotional connection, and loyalty. On the other hand, goodwill reflects the investor's agreement – the parent company's willingness to pay more in anticipation of a higher return on investment in the subsidiary company, and additional future economic benefits from the investment object [17]. Additionally, the style and hubristic management also influence the communication of goodwill [33]. Consequently, it is necessary to emphasize *the emotional approach*, which views goodwill as a psychological phenomenon related to emotions, perceptions, associations, and behavioural, and psychological aspects of interaction between the enterprise and its consumers, clients, employees, and other stakeholders.

The accounting approach to understanding the essence of goodwill is regulated by the requirements of current accounting and reporting standards. Thus, according to NAS 19 [35] and IFRS 3 [34], goodwill is defined as the excess of the purchase price over the fair value of the acquired net assets at the acquisition date and as an asset that does not have a physical form, embodying future economic benefits arising from other assets acquired in a business combination that cannot be individually identified and separately recognized. According to the accounting approach, goodwill is a full-fledged accounting object and is disclosed in consolidated financial statements precisely during a business combination, i.e., when the parent and subsidiary form a group. Therefore, based on the accounting approach, it is appropriate to distinguish between the concept of external "disclosed goodwill", presented in the consolidated balance sheet (financial position statement), and "undisclosed" internally generated goodwill, the information about which is recorded in the company's management reporting.

According to IFRS 3 [34], the buyer discloses information about each business combination that occurs during the reporting period, including the factors forming goodwill – expected synergy of the acquired and buyer entities, intangible assets that do not qualify for separate recognition or other factors. Accordingly, it is necessary to adopt *the systematic approach* to understanding the essence of goodwill, under which goodwill embodies synergy from combining resources, advantages, and opportunities during the entry of the subsidiary – the acquisition object into the consolidated group. A relatively new approach is *the quantitative approach* [18], which rightly considers goodwill inseparable from other assets that generate it. However, it is worth adding that not only assets defined in the traditional sense of IFRS are capable of generating goodwill. Goodwill can also be seen as a component or result of the interaction of different types of capital (intellectual, human, organizational, consumer, and social capital), as it embodies various aspects of value that are quite challenging to objectively and reliably measure with the current methodology. Therefore, it is appropriate to highlight *the value approach* to understanding the essence of goodwill.

Thus, based on the systematization of existing definitions and concepts, nine approaches to understanding the essence of the term "goodwill" have been identified (Figure 2).

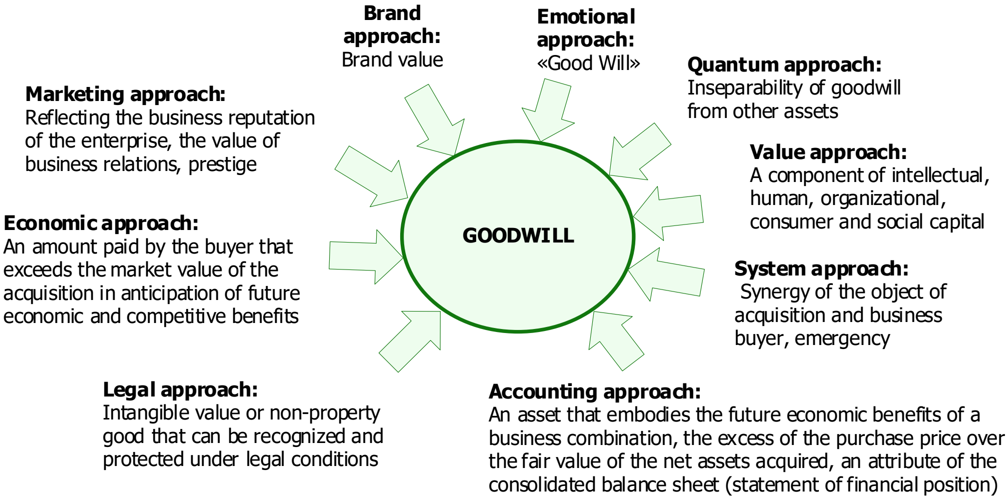

Figure 2. Approaches to understanding the essence of the concept of "goodwill". *(Source: supplemented and improved by the authors based on [2, 3, 8, 9, 14, 16, 18, 19, 23, 27, 31, 33, 34, 35, 36, 37])*

So, the detailed elaboration of approaches to interpreting the essence of goodwill underscores the complexity of this concept. Therefore, for a better and more comprehensive understanding of this category, let's consider the possible types of goodwill. The systematic and enhanced classification of goodwill types comprises five characteristics, the description of which is presented in detail in Table 2.

Table 2. Classification of goodwill by types. *(Source: compiled on the basis of and processing [2, 3, 9, 14, 16, 17, 22, 23, 27, 34, 35])*

№	Criteria	Classification elements
1	By nature of origin	▪ Self-generated Goodwill – this type, although not reflected in financial statements, directly impacts the financial performance of the enterprise. ▪ Purchased Goodwill – recorded in the financial statements as an asset arising from the acquisition or merger of businesses. ▪ Hidden Goodwill – arises when a company is acquired at a price lower than the market value of its net assets, often due to undervaluation of assets or failure to consider the company's potential profitability.
2	By the sphere of operation	▪ Industry Goodwill – arises from the specific functioning of an enterprise within a particular industry or economic sector (e.g., IT, pharmaceuticals, innovation, media, etc.). ▪ Location Goodwill – goodwill that results from the advantageous location of an enterprise, such as being close to the city centre or in a popular shopping area. ▪ Inherited Goodwill – based on the reputation and achievements the enterprise has gained through its past activities. ▪ Professional Goodwill – a type of goodwill derived from the professional qualities, abilities, experience, and motivation of individual employees (managers) of the enterprise. This type of goodwill arises from the personal reputation and skills of the employee and can be a significant asset in the event of a job change. ▪ Property Goodwill – a type of goodwill associated with the enterprise's existing assets, such as a trademark or production facilities. ▪ Commercial Goodwill – goodwill related to the company's image and reputation, and its ability to attract and retain customers. ▪ Technological Goodwill – goodwill that arises from technological innovations or unique technological developments of the enterprise. ▪ Digital Goodwill – the intangible value a company gains through its presence and activities in the digital environment

(continued on next page)

DOI: 10.55643/fcaptp.4.57.2024.4449

Table 2. Continued

№	Criteria	Classification elements
3	By source of generation	▪ Internal Goodwill – goodwill that is formed by the internal factors of the enterprise, such as reputation, brand, business advantages, and specific features inherent to the enterprise itself. It arises as a result of the company's long-term efforts to create a positive image, which helps attract and retain customers, develop technologies, and more. ▪ Market Goodwill – goodwill formed by external factors, such as market position, regional or industry-specific features, brand popularity, contracts with customers, etc. It arises due to the influence of external factors, such as competitive advantage, demand for the company's goods or services, and other market conditions. ▪ Social Goodwill – goodwill that arises from positive relationships with the community, including charitable activities and support for community initiatives.
4	By method of representation in reporting	▪ Disclosed Goodwill – goodwill that arises upon the acquisition of an enterprise, with its value clearly defined and reflected in the consolidated financial statements. Disclosed goodwill is also known as external goodwill. It is included in the consolidated balance sheet (statement of financial position) as part of non-current assets and is disclosed in the financial statements as a separate indicator. ▪ Undisclosed Goodwill – goodwill that is not reflected in the consolidated financial statements and may arise during internal reorganizations or restructurings of the enterprise. However, it is not disclosed in the financial statements and remains an unofficial indicator. Undisclosed goodwill can also be considered internally generated goodwill, with information only presented in the company's internal management reports for managers and owners, and not intended for external disclosure.
5	As an object of accounting	▪ Goodwill Recognized on the Acquisition Date – This goodwill is initially recognized in the consolidated financial statements in accordance with the rules set out in IFRS 3. The acquirer recognizes goodwill as of the acquisition date, measured as the excess of (a) over (b) as follows: (a) The aggregate of: (i) The consideration transferred, measured at fair value as of the acquisition date; and (ii) The amount of any non-controlling interest in the acquiree, measured at fair value; (b) The balance of the acquisition-date amounts of the identifiable acquired assets and the assumed liabilities, measured at fair value. ▪ Goodwill Subsequent to the Acquisition – This is the goodwill that the acquirer subsequently measures at the amount recognized on the acquisition date, less any accumulated impairment losses. ▪ Aggregated Goodwill – The combined goodwill amounts from individual acquired companies within a group that prepares consolidated financial statements. ▪ Off-balance Sheet Goodwill – Goodwill or its components (off-balance sheet intangible value factors of the business) related to the formation of internal goodwill, which cannot be presented as traditional accounting objects and disclosed in the financial statements, but require the accumulation of information for decision-making in off-balance sheet accounts

The classification of goodwill is based not only on the characterization of its manifestations and a component-based approach. It is important to distinguish between the goodwill that should be recognized and disclosed in financial reporting as acknowledged in business combinations, and the goodwill that is formed but remains off the books and is not presented in financial statements, yet requires recognition for management purposes, such as off-balance sheet, undisclosed, internal goodwill.

Through the analysis conducted, it becomes clear that the concepts of trademark, brand, and corporate image, while closely related to goodwill, do not provide an exhaustive definition of its essence. Unlike these concepts, which primarily constitute components of a company's marketing policy, goodwill is subject to valuation, characteristic of accounting objects.

According to current standards, goodwill emerges as a full-fledged accounting object only on the acquisition date during business combinations. The buyer recognizes and assesses goodwill acquired during business combinations only regarding those assets or activities that constitute the business (IFRS 3). Therefore, it is advisable to distinguish between goodwill recognized by the buyer on the acquisition date during the initial consolidation of financial statements and goodwill after subsequent assessment, which takes into account the consequences of its impairment testing and is presented during balance sheet consolidations in subsequent reporting periods.

Interestingly, in Ukrainian legislation, specifically in the Instructions for Applying the Chart of Accounts of Accounting, two separate subaccounts are provided: 191 "Goodwill upon acquisition" of another enterprise and 192 "Goodwill upon privatization (corporatization)" of state-owned and municipal enterprises, which is associated with the national specifics of the privatization period. It should be noted that there is a gap in the current accounting system, which does not yet recognize internal goodwill as an accounting object. Therefore, many researchers suggest expanding and supplementing the system of synthetic and analytical accounts for accounting for internally generated goodwill [14, 16, 19].

Defining the components of internal goodwill allows for a thorough analysis of the intangible value created by a company in its operations, evaluating off-balance sheet factors of enterprise value that may be considered in acquisitions, and overall characterizing the ability to generate goodwill. The uniqueness of goodwill lies in its reflection of intangible aspects of business value, the expected added value of the company, which serves as an investment object [17].

The intangible value of a business consists of both disclosed and undisclosed value. Not all intangible assets generated and owned by a company constitute fully recognized accounting objects and are disclosed in financial statements according to current IFRSs. However, for business management, they require proper recognition, understanding, and evaluation. Internally generated intangible assets are the basis for generating internal goodwill, which is not fully reflected in financial accounting and reporting. Thus, according to IFRS 3 [34], only intangible assets acquired during business combinations can be separately disclosed in the consolidated balance sheet of the acquiring company, referred to as disclosed intangible assets [2].

Thanks to research and innovation, the value of disclosed goodwill and intangible assets is increasing (Figure 3). The slowdown in dynamics in 2023 was caused by significant goodwill impairment, especially in the telecommunications sector, due to economic uncertainty over the past year. These losses were offset by new business combinations and goodwill recognition due to significant acquisitions in the Pharma, Tobacco and E-Cigarettes sectors.

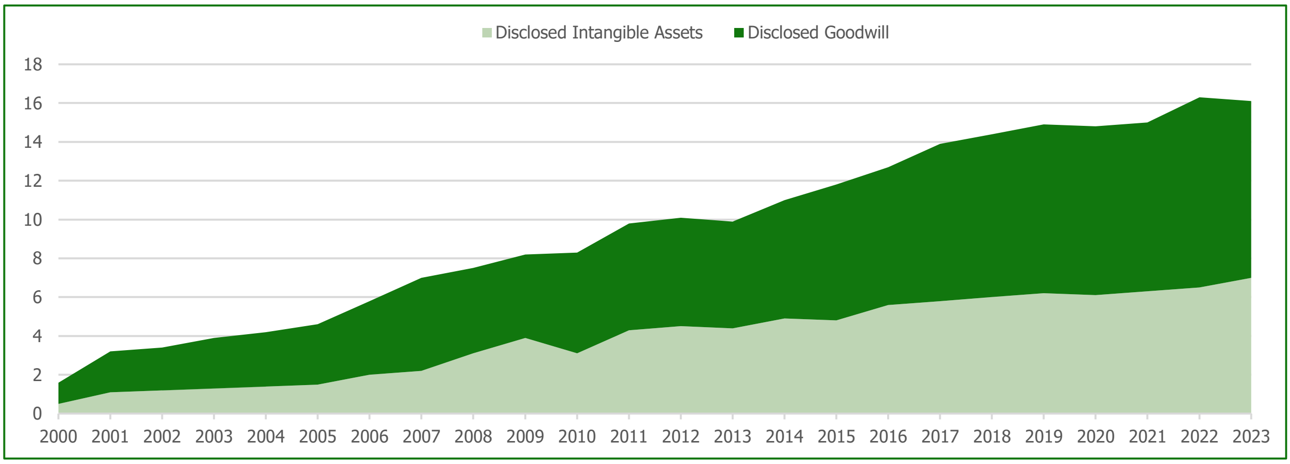

Figure 3. Disclosed intangible value: Goodwill and Intangible Assets, USD trillion. *(Source: compiled according to [2])*

As shown in Figure 4, in relative terms, the largest share of intangible assets comprises 91%, including disclosed goodwill of 30% in the Tobacco & E-Cigarettes sector [2]. Compared to other sectors, such as healthcare, where goodwill value accounts for 19% of the total business value, aerospace and defence - 16%, and commercial services - 14%, this sector demonstrated significant growth in 2023. This is because companies actively invest in their own technologies and patented intellectual property, stimulating their development, as well as the absence of strict regulatory rules and marketing restrictions. The largest corporations, such as the China National Tobacco Corporation, BAT, and Philip Morris, have accumulated substantial intangible assets and goodwill through business consolidation.

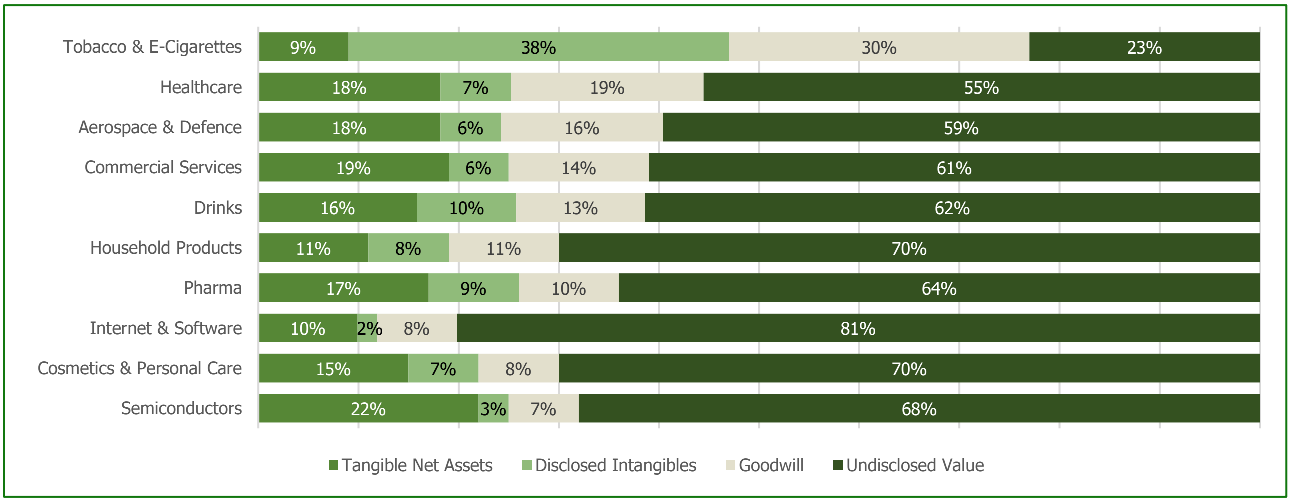

Figure 4. Most Intangible Sectors 2023, %. *(Source: compiled according to [2])*

DOI: 10.55643/fcaptp.4.57.2024.4449

Internet & Software is the second most intangible sector - up to 90% of the total enterprise value, including 8% goodwill. The next is Household Products, which account for 89% of intangible value, with 11% attributed to goodwill. However, in terms of absolute indicators, Pharma had the highest level of intangible value (USD 6.07 trillion), followed by Internet & Software (USD 5.73 trillion), Engineering & Construction (USD 5.41 trillion), Technology & IT (USD 4.38 trillion), Media (USD 4.37 trillion), and Oil & Gas (USD 4.00 trillion). The rest of the sectors have a value of less than USD 4.00 trillion. The pharmaceutical sector and Engineering & Construction demonstrated the highest growth, partly due to Siemens acquiring Varian Medical Systems in 2022 and Schneider acquiring Aveva Group Plc [2].

Based on the conducted research, a definition is formulated: goodwill is the intangible value of a business that reflects its reputation, brand, customer loyalty, intellectual property, innovative and technological capabilities, digital user experience, online presence, and a combination of other unique intangible assets, which together contribute to sustainable growth in the company's market value and create competitive advantages, enabling adaptation to rapid changes in the era of digital transformation.

Understanding the essence of goodwill is crucial in revealing the intangible value of a business in the conditions of digitalization. Goodwill reflects a company's ability to innovate and quickly adapt to changes, which is key to its success and helps investors and partners understand the company's potential to remain competitive. Investors use goodwill information to make informed investment decisions, assessing the company's market position and its growth potential. In merger and acquisition processes, goodwill assessment is important for determining the fair value of the company. It helps identify potential synergy and determine how integrating intangible assets can improve overall business efficiency. Managers who understand the entire intangible value of the business can better build their own financial strategies aimed at developing and strengthening goodwill in the conditions of digital transformation.

DISCUSSION

In academic circles, a relatively new quantum concept has emerged, which insists on the physical and economic inseparability of goodwill from other company assets. K. V. Oliveira and P. R. B. Lustosa [18] proposed viewing the nature of goodwill as a set of forces, the so-called value factors, related to other assets for creating value for organizations. This new alternative approach to explaining the essence of goodwill, based on the combination of concepts from quantum physics, economics, and psychology, indicates a new theoretical and empirical stage in the scientific discussion of this concept. Assets are considered part of a quantum economy and are essentially not limited exclusively to a material or physical form [3]. The rate of profit depends not only on the presence of certain assets but on a complex and interrelated set of factors that lead to business success. This highlights the growing relevance and interest in the nature of goodwill in managing the intangible value of business in the context of digital transformation.

The interpretation of goodwill as an intangible asset remains controversial, although most scholars tend to equate the two, while standards do not support this. According to J. E. de S. Calado and J. Matias-Pereira, goodwill is considered within the group of intangible assets and consists of intangible elements from which future benefits are expected and which cannot be autonomized [3].

In the study [2], intangible assets are grouped into three categories: (1) Rights, including licenses, certificates, franchises, financing arrangements, supply contracts, distributor and employment agreements; (2) Relationships, which encompass trained and assembled workforce, customer and supplier relationships; (3) Intellectual Property, comprising patents, trademarks, copyrights, proprietary technology (such as formulas, recipes, specifications, training programs, marketing strategies, artistic techniques, customer lists, demographic studies, product testing results), business know-how (trade secrets, cost and pricing data, supplier analysis). Each of these components can characterize goodwill and the nature of its generation.

The value of "Undisclosed Intangible Assets" is often more significant than disclosed intangible assets because this category includes "internally generated goodwill" and accounts for it as the difference between the fair market value of the business and the value of its identified tangible and intangible assets [2]. Therefore, we agree with the opinion that goodwill cannot be strictly equated with an intangible asset in its classical interpretation [2], as laid down in the International Financial Reporting Standards. In accounting, an asset is defined as a controlled resource expected to bring future economic benefits. An intangible asset must be non-monetary, without physical substance, and identifiable, which means it must be separable from the enterprise so that it can be sold, transferred, or licensed, or it must arise from contractual or legal rights. Hence, the intangible assets that can be recognized in accounting and disclosed in financial statements constitute only a part of the broader concept of "intangible assets" [2], the so-called intangible value of a business generated by internal goodwill. It remains debatable whether internal goodwill generates the intangible value of a business or, conversely, the intangible value of a business determines goodwill. In any case, these two categories are closely related.

As G. R. Catlett and N. O. Olson [7] state, the accounting of goodwill pertains only to business combinations. This is more of an accounting than a managerial approach. It is important to remember that under IFRS 3, in the classical sense, goodwill is presented in the consolidated balance sheet of the parent company, where the financial results of all group companies are consolidated. The purchaser categorizes goodwill as the value of the acquired intangible asset that cannot be separately identified at the acquisition date or as the value allocated to items that do not even qualify as assets [34]. Thus, current accounting practices for goodwill allow recognizing and disclosing only the value of acquired intangible value or business value, not internally generated. Meanwhile, internal sources of generating goodwill and creating intangible value for companies remain undisclosed to stakeholders.

Digital transformation changes traditional business models by emphasizing intangible assets. For example, companies that successfully integrate digital technologies can increase their market value by enhancing customer interactions, improving business process efficiency, and implementing innovations. These changes contribute to the growth of goodwill, as they reflect the company's ability to adapt to new conditions and use technologies to create additional value. However, evaluating goodwill in the context of digital transformation becomes more complex due to the need to consider new aspects, such as digital platforms, data and analytics, and the impact of social media and online reputation. Companies must develop new methods for measuring and managing goodwill, taking these factors into account.

CONCLUSIONS

In the context of digital transformation, the essence of goodwill acquires special significance. It serves as a key element in revealing a company's intangible value. Goodwill, which includes components such as brand, reputation, customer loyalty, innovative potential, and other intangible assets, becomes increasingly important in determining a business's market value. Modern accounting practices currently do not allow the representation of internally created intangible assets, intangible value, and so-called off-balance sheet factors of business value on the balance sheet. However, their existence is evident and undeniable, especially when evaluating goodwill during business combinations. Therefore, in the digital age, there is a growing need to develop approaches to recognizing and understanding goodwill, disclosing and accounting for all intangible assets, and finding objective methods for valuing the intangible worth of enterprises. This includes recognizing not only external goodwill calculated at the time of acquisition during business combinations but also internally generated goodwill.

A thorough analysis of sources has identified the fundamental stages of the historical development of the concept of goodwill. Based on the systematization of existing definitions and terms in scientific literature and regulatory frameworks, nine key approaches to understanding the essence of goodwill have been identified: economic, accounting, legal, marketing, brand, emotional, quantum, value, and systemic. A new definition of the essence of goodwill is proposed, along with an expanded classification by highlighting the following characteristics: by nature of origin (Self-generated Goodwill, Purchased Goodwill, Hidden Goodwill), by sphere of operation (Industry Goodwill, Location Goodwill, Inherited Goodwill, Professional Goodwill, Property Goodwill, Commercial Goodwill, Technological Goodwill, Digital Goodwill), by source of generation (Internal Goodwill, Market Goodwill, Social Goodwill), by method of representation in reporting (Disclosed Goodwill, Undisclosed Goodwill), and as an object of accounting (Goodwill recognized on the acquisition date, Goodwill subsequent to the acquisition, Aggregated Goodwill, Off-balance sheet Goodwill). Specifically, to more fully disclose the intangible value of a business, new types such as disclosed goodwill, divided into goodwill at the acquisition date, post-acquisition goodwill, and aggregated goodwill, as well as Undisclosed Goodwill, which is accounted for as internally generated off-balance sheet goodwill, have been proposed. Goodwill is a category that should extend beyond consolidated reporting. Discussions on the definition of the essence of goodwill will undoubtedly continue, forming new approaches. Already, significant attention is being paid to digital goodwill in creating added business value. Therefore, in the context of digital transformation, the essence of goodwill lies in a business's ability to reveal and enhance its intangible value using modern digital tools and adapting to rapidly changing market conditions. This underscores the importance of goodwill as a strategic asset that promotes long-term development and competitiveness.

The prospects for further research lie in defining the forms and types of reporting that will disclose not only goodwill from business combinations but also show the generation of internal goodwill in creating the intangible value of a business. Going beyond the consolidated statement of financial position and notes in disclosing goodwill will allow for the presentation of information about the components of goodwill formation, its varieties not only in internal management reporting but also in non-financial, integrated reporting, management reports, intangible asset reports, brand value reports, and

DOI: 10.55643/fcaptp.4.57.2024.4449

more, to meet the informational needs of modern users. This will also contribute to the development of accounting and reporting standards, integrated thinking, and management.

ADDITIONAL INFORMATION

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FUNDING

The Authors received no funding for this research.

CONFLICT OF INTEREST

The Authors declare that there is no conflict of interest.

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СУТНІСТЬ ГУДВІЛУ В РОЗКРИТТІ НЕМАТЕРІАЛЬНОЇ ВАРТОСТІ БІЗНЕСУ В УМОВАХ ЦИФРОВОЇ ТРАНСФОРМАЦІЇ

Нематеріальна складова вартості бізнесу зростає, проте залишається недостатньо розкритою у фінансовій звітності. Чинні стандарти обліку досі не напрацювали всього інструментарію та методичної бази для її всебічного визнання, вимірювання, оцінки й повного розкриття у звітах. Обговорення сутності гудвілу ведуть давно, і очевидно, що ця категорія виходить за межі обліку й фінансової звітності. Диджитал-трансформація посилює інтерес дослідників, науковців і практиків до сутності гудвілу й підкреслює необхідність розгляду його як способу розкриття нематеріальної вартості бізнесу в сучасних умовах.

Методологічною основою проведеного дослідження є методи аналізу, синтезу, історичний концептуальний огляд, порівняння, логічне узагальнення, групування, абстрагування, системний підхід.

Вивчення історії розвитку поняття «гудвіл» дозволило виділити основні етапи становлення гудвілу як об'єкта обліку, звітності, управління. Поглиблений критичний аналіз дефініцій дозволив доповнити економічний, юридичний і бухгалтерський підходи до розуміння сутності гудвілу новими, такими як: маркетинговий, брендовий, вартісний, емоційний, квантовий, системний. Розроблена класифікація дозволяє врахувати всі аспекти проявів гудвілу та погляди різних суб'єктів оцінювання на його сутність і роль у розкритті нематеріальної вартості бізнесу. Запропоновано визначати гудвіл як нематеріальну цінність бізнесу, яка відображає його репутацію, бренд, прихильність клієнтів, інтелектуальну власність, інноваційні й технологічні можливості, цифровий досвід користувачів, онлайн-присутність і сукупність інших унікальних нематеріальних активів, які разом сприяють стійкому зростанню ринкової вартості компанії й створюють конкурентні переваги, дозволяючи адаптуватись до змін в епоху цифрової трансформації. Гудвіл є категорією, яка існує не лише в консолідованій звітності, оскільки характеризує нематеріальні складові вартості бізнесу й потребує відповідного визнання та управління.

Ключові слова: гудвіл, бренд, нематеріальний актив, розкриття, об'єднання бізнесу, розкритий гудвіл, внутрішній гудвіл, консолідована фінансова звітність, нематеріальна вартість бізнесу, цифрова трансформація

JEL Класифікація: M10, M14, M40