Accounting for goodwill: the pioneering thought of Gino Zappa (1910)

Abstract

The accounting treatment of goodwill is still debated in the academic and professional accounting environment in order to find the best approach applicable in a general accepted accounting standard for this particular item. From an examination of the accounting research on the goodwill it is possible to observe a strong historical analysis on the topic with different lines of research. Following the framework of Ding et al (2008) that analyze the different phases of the accounting treatment for goodwill in a period running from 1880 to the new century, this paper aims to highlight how the issue of the accounting treatment of goodwill had already been widely discussed in the first scientific work by Gino Zappa (1910), who is considered the father of the modern Italian "Economia Aziendale". Gino Zappa in his volume "Assessment of Financial Statements" presented concepts of the accounting treatment for goodwill basically in accordance with modern IAS 38, thus demonstrating the high level of progress of the first XX century Italian theoretical studies. This analysis shows the pioneeristic thoughts of the Author that influenced the Italian accounting up to today and how the social and economic environment have an impact on the lack of their application.

Keywords: assessment; fair value; goodwill; Zappa

1. Introduction

The accounting treatment of goodwill is still creating a lot of discussions and debates in the academic accounting environment. The controversial features of this particular intangible assets continue to be on the table of the international standard setters continue that try to define the best accounting treatment for this special item.

Among the broad accounting research activities on the identification, recognition and measurement of the goodwill we can observe a very qualified historic accounting research that has the aim to identify the evolution of the accounting for goodwill focused both on the accounting treatment of the item and on the main thought of the scholars during the century.

The historical interest on the goodwill is proven by the numerous historical reviews on the topic. Hughes (1982) affirmed that the accounting debate on goodwill is started in the late ninety century around the 1874, with the discussion in the periodical and newspaper.

The accounting literature analyzed in the historical studies emphasized the different thoughts, policies and methods for the purchased goodwill: recognition as an asset at cost and amortization over useful life; recognition as an asset and permanent retention in the balance sheet with impairment test a combination of the two first approaches; immediate or rapid expensive, and so on (Carsberg, 1966; Catlett and Olson, 1968;

Hughes, 1982; Arnold et al. 1994, Cooper, 2007, Ding et al. 2008; Dragomir et al, 2011).

In their reviews on the accounting for goodwill Ding et al .2008 applied to the major balance sheet theory the evolution of the thought on the accounting for goodwill and identified four historic phases: the statistic phase where the goodwill is a fictitious asset, and applies immediate expensing or rapid amortization (over 5 years); the weakened statistic phase where the approach is of non-recognition of goodwill, applying a write-off against equity, the dynamic phase where the goodwill is recognized as an asset, with application of amortization over a long period; and actuarial phase where the goodwill is recognized as an asset with impairment testing based on discounted (actuarial) cash flows (Ding et al., 2008).

The analysis of the different approach is still useful for the debate on the approach applied by the International Reporting Accounting Standard (IFRS) in the accounting rule issued for the goodwill (IAS36 and IAS 38). In fact the best practice applied by the IFRS follow the approach that characterizes the dynamic approach with recognition followed by the impairment test.

Despite the application of this approach in the international context the accounting treatment of goodwill continues to be a very strong argument in the international accounting debate (Nobes and Norton, 1996; Henning et al., 2000, Seetharaman et al, 2004, Andrews, 2006; Beatty and Weber, 2006; AbuGhazaleh et al, 2011; Ramanna and Watts, 2012).

As we stated above this international debate is significant by the historical point of view and this study fits in the historical review on goodwill in a particular way because our analysis is a depth examination of the thought of the main Italian author for the period running the first decades of 20 century, Gino Zappa.

The Author is world-wide known as the father of the Italian Business Administration as well as of the accounting system identified as the “income” system (Biondi, 2002; Guarini, Magli and Nobolo, 2013; Coronella, 2014, 368 ss).

Undoubtedly, the previous ones are his most relevant and famous “pioneering” thoughts which nowadays rule the pertinent field in the Italian studies scenery. Moreover, they are included in the international academic discussion concerning accounting (Zan, 1994, 285-298; Viganò, 1998; Galassi and Mattessich, 2004, 64-74; Mattessich, 2008, 87-95).

An in-depth analysis of the accounting concerns, which introduces some pioneering insights, is taken into account. Indeed, in his own first scientific work –unknown to the most and which will be further investigated – Gino Zappa provides a very modern concept of the financial statement as a set of disclosure requirements. Moreover, Zappa investigates in a real contemporary way some evaluative concerns which have been included in Italy only a century later thanks to the application of endorsed IAS-IFRS.

In fact, his work embodies the concept of goodwill impairment test and a wide discussion about what can be defined as “fair value”.

This paper starts with a brief literature review on the accounting for goodwill in order to identify the predominant doctrine during the period of our study. It continues with a brief Scholar’s biographical and scientific review and seeks to underline appropriate insights concerning the cultural, practical and juridical background where these ideas have been generated.

This demonstrates the thought of the Author who most of all influenced the Italian accounting research and practice, before to follow a statistic approach because influenced by the social and economic background of the period, had a very pioneering thought that became reality after one century.

2. Literature review

The accounting treatment of goodwill has always been a very interesting topic for the accounting research.

The recognition, measurement method and assessment criteria are still creating a lot of controversy in the accounting world and the international standard setters continue to debate on the best accounting treatment for this special item.

The significance of the topic have attracted numerous research activities and, among these, we can observe a very qualified historic accounting research that has the aim to identify the evolution of the accounting for goodwill focused both on the accounting treatment of the item and on the main thought of the scholars during the century.

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The accounting literature analyzed in the historical studies emphasized the different thoughts, policies and methods for the purchased goodwill: recognition as an asset at cost and amortization over useful life; recognition as an asset and permanent retention in the balance sheet with impairment test a combination of the two first approaches; immediate or rapid expensive, and so on (Carsberg, 1966; Catlett and Olson, 1968; Hughes, 1982; Arnold et al., 1994; Cooper, 2007; Ding et al. 2008; Dragomir et al, 2011).

Among the historical reviews on the accounting for goodwill we consider very useful to our study the framework presented in Ding et al. (2008).

The authors did an historical review of accounting for goodwill in four different countries and highlighted how the change in shareholders attitude influences the accounting treatment of goodwill. To do that, they extended the main balance sheet theories developed by European scholars (Schmalenbach, 1908, 1919) with the different accounting treatment for goodwill.

The European theories on balance sheet, in fact, appeared in the 19 century and were based on conflicting concepts: liquidation market value, the going concern concept and cost value, and finally on the value in use (Richard 2005a and Richard 2005c).

Following the Schmalenbach (1919) classification that identified two different approaches for the balance sheet, the dynamic approach based on the cost of value and the static approach based on the liquidation value and value in use, Richard (1996) highlighted the importance to distinguish the liquidation value from the value in use and added to the previous classification the third approach “actuarial” based on the value in use.

Ding et al. (2008) on the base of the Richard (Richard, 1996, p. 31, 33, 51, 61–62) classification of balance sheet schematically divided the history of accounting treatment for goodwill in four phases:

- The pure static phase: it implies that goodwill is a fictitious asset, and applies immediate expensing or rapid amortization (over 5 years).
- The weakened static phase: this is an adjusted form of non-recognition of

goodwill, applying a write-off against equity.

- The dynamic phase: this implies recognition of an asset, with application of amortization over a long period.
- The actuarial phase: this corresponds to the going concern assumption but without the idea that goodwill can ‘‘die’’, leading to recognition of an asset, with impairment testing based on discounted (actuarial) cash flows (Ding et al. 2008).

The first two historic phases covered the period of our analysis, from the 1880 until the middle of the twenty century. In the second part of the twenty century, in fact, the other two approaches (dynamic ad actuarial) became an important part of the debate on the accounting for goodwill with the arose of the International Accounting Standards.

The predominant doctrine and the standard practice up until the 1880–1905 supported the immediate expensing or rapid amortization approach, against current profits (Bourne, 1888, p. 604; Matheson, 1884; More, 1891, p. 286; Roby, 1892, p. 293; Knox in Guthrie, 1898, p. 430; Hamilton, 1914, p. 218, Lancaster, 1927, p. 146; Garke and Fell, 1922).

The major authors of the period did not consider the goodwill as an asset and should be immediately, or at least rapidly, expensed. Quoting the thought of Dicksee (1897), that is considered the fundamental author for the accounting study in the 20 century, the goodwill is an asset of ‘‘arbitrary’’ value (1897, p. 45) that can be considered equivalent in nature to ‘‘Establishment expenses’’(1897, p. 46) and must be treated with ‘‘the greatest caution’’ (1897, p. 46). He arrived at the conclusion that this asset should be eliminated ‘‘with all due speed’’ (1897, pp. 45–46).

The same opinion was expressed by Harris (1884, p. 11) that influenced the opinion of a lot of researchers stated that ‘‘accountants appeared in substantial agreement that amounts expended for goodwill should not be carried very long in the balance sheet’’ (Catlett & Olson, 1968, p. 38), for example Knight (1908, p. 197) defined the goodwill as an ‘‘uncertain value’’ and strongly supported the idea that ‘‘the best course is to dispose of such an account through a charge to depreciation’’, with writing off ‘‘encouraged’’.

Despite the predominant doctrine seems to have a lot of doubt on the opportunity to considered the goodwill as an asset in the writings of Gundry (1902, p. 663) we found the vision of goodwill as a valuable asset.

There was a strong opposition to the dominant doctrine that we can summarize in the two main views: the first one, followed the dynamic approach, was in favour of recognition of goodwill at cost with systematic amortization over its useful life or the period referred to for discounting to present value (Guthrie, 1898, p. 429; Gilman, 1916, p. 195; Hatfield, 1918, p. 117; Leake, 1921; Hatfield, 1927; Paton and Littleton, 1940, p. 92; Paton and Stevenson, 1922, p. 531); and the second one, followed the actuarial approach, that was in favour of recognition at cost with no systematic amortization (Bliss, 1924, p. 350; Dickinson, 1917, pp. 79–80; Esquerre´, 1927, p. 130; Freeman, 1921, p. 263).

The last one is the same approach applied by the International Reporting Accounting Standard in the accounting rule issued for the goodwill (IAS36 and IAS 38) that continues to be a very strong argument in the international accounting debate (Nobes and Norton, 1996; Henning et al., 2000; Seetharaman et al, 2004; Andrews, 2006; Beatty and Weber, 2006; AbuGhazaleh et al, 2011; Ramanna and Watts, 2012).

In this international context we analysed the thought of the main Italian author for the period running the first decades of 20 century and that became the “king” of Italian accounting research and professional application.

3. Gino Zappa and his contribution to the Italian scientific studies

In 1905 Gino Zappa (Milan, 1879; Venice, 1960) took his academic degree (university diploma) in accounting, that is the equivalent of the modern degree in Business Administration at the Business School of Venice (Ca’ Foscari) and in 1906 he was appointed Professor in Accounting in “Scuola Superiore di Applicazione per gli Studi Commerciali” (Business School) at Genoa for fifteen years. From 1920 to 1951 he taught at Bocconi University in Milan and since 1921 he took the chair of Fabio Besta[1], his Master, in General and Applied Accounting at Ca’ Foscari University in Venice[2].

Besides his extensive teaching, Gino Zappa founded and chaired research laboratories as well as he carried out professional and consultancy activities in public and private entities.

His works have first created the basis (Zappa, 1927a) and then gave real expression to the Italian Business Administration (Zappa 1956; Zappa 1957a; Zappa 1957b) thus stressing the one and only (coherent) rationalization of the several aspects of a firm’s life.

“Economia Aziendale” (Business Administration) is the one and wide discipline including (tiding up with) accounting, management and operations and organization as well, where each of them was necessary to the correct and complete comprehension of the firm “phenomenon”.

The economic and business-related “science” studied “the existence and life of firms” and portrayed itself as “scienza dell’amministrazione economica delle aziende” “science of the enterprise administration and operations” (Zappa, 1927a, p. 30).

In depth, accounting involved the collection of data that is to single out, to interpret

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[1] Fabio Besta was the greatest accounting scholar among those operating at the turn of the XIX and XX centuries, as well as leader of the Italian accounting of all times (Antoni, 1970; Sargiacomo, Servalli, Andrei, 2012). From 1872 to 1920, he was appointed to the Chair of accounting at the Business School of Venice. Gino Zappa was Fabio Besta’s scholar and he presented his thesis with him. Fabio Besta mentioned him for his hire at the Business School of Genua

[2] Gino Zappa was the son of an entrepreneur from Milan who had spent several years in Argentina. He attended schools in Milan, up to the high school, when he left and attended the C. Cattaneo Royal School for bookkeepers and accountants as auditor, thus earning the diploma in accounting in 1898. After completing the military service, he held professional experience with no upside. Actually, he preferred to work together with Professor Giovanni Cova and Clitofonte in the C. Cattaneo Royal School for bookkeepers and accountants. Professor Bellini appreciated and took advantage of Zappa’s outstanding talent, thus driving him to attend Fabio Besta’s lessons in Ca’ Foscari secondary school teachers of economics, law and accounting – that is an academic training ground for future instructors - where, two years later, in 1905, he received training as a gym teacher and took the diploma in primary school teaching. Two years after in the 1905 he got a Diplom of Accounting, - equivalent to our accounting degree- called “Studi per l’insegnamento della ragioneria”. Following, for a short time, Gino Zappa taught at the Technical Institute (high school) in Rovigo and, then, thanks to Fabio Besta’s mention, he was placed in charge of the teaching of bookkeeping and accounting at the High School of Applications for Business of Genoa, where he held continuously his position from 1906 to 1921, although in 1920 he was appointed to the Chair of Accounting in Bocconi University of Milan. From 1920 to 1951, Zappa taught in Bocconi. In 1921, he replaced Fabio Besta, who had been teaching *general and applied Accounting* at Ca’ Foscari, thus spending his years, during his career, by commuting between the two cities. Then, in 1929, he transferred his Venetian Chair to Bocconi, while still commuting between Milan and Venice, where, in 1935, he finally moved. During the Second World War, he began suffering of impaired vision and he ends up blind in the late 1950s. Due to this, he retired and, in 1951, at the age of 71, he left his university teaching, whilst continuing to work on scientific publications. Gino Zappa died in Venice on 14 April 1960 (Biondi, 2002, 9-27; Coronella, 2014, 368-369).

and to translate firm phenomena into numbers at the aim of identifying its developments, its results and trends accounting also provided the tenets to decision-making process in operations and management as well. So, its task was to observe operations and to analyze the reported accounting data. Finally, the management task was to investigate the corporate structure to carry out its business in order to single out the best possible solution in terms of economy and efficiency.

As a scholar, other important innovations characterize Zappa's life. In particular, it is worth noting:

- the conception of the "income system" (Zappa 1920-29; 1937) which revolutionized the rules concerning the entries in the accounts, up to then based on the "patrimonialist" approach. The income system completely subverted the perspective of transaction records from an accounting point of view. The patrimonialist approach aimed to set the amount of the net worth and, indirectly, the connected profit or loss as its increasing or decreasing change. On the contrary, the income system fulfilled the goal to quantify the profit or loss for the accounting period and, indirectly, traced the net worth whose value would increase in revenue created or decreases in losses incurred, with respect to the beginning of the reporting period. Among other things, the financial statement appealed to the assessment of the expected income foresights of the enterprise, thus deserving attention due to this interpretative shift;

- the development of a modern definition of a business, which would have been set out first as a *system*, defined as an "ongoing economic coordination, which is set up and is supported for the satisfaction of human needs"[3] (Zappa, 1927a, p. 30, Zappa, 1920-29; Zappa, 1937). Following, the idea of business has been interpreted as *economic institution*, more precisely as an "economic institution intended to endure over time, for the satisfaction of human needs that works in continuous in order to do a production or the procurement and the consumption of wealth"[4] (Zappa, 1956, p. 37; Zappa, 1962). From his first definition leads to some related corollaries, which have represented the key-stone of the development of the next Italian business economic studies: the complexity within unity, the assignation to the enterprise of the holistic property, the change as physiological condition in a firm's life. The second definition leads to the dynamic and solidarity nature of the enterprise;

- the interpretation of the capital in the economic sense. It comes directly from both the above-mentioned income accounting system approach and from the enterprise system vision. Therefore, this means capital is a unique value, resulting from the capitalization of future income. In detail, following this thought, the value of the capital could not been simply recorded as the sum of current values of each single element that composed it. Indeed, capital was the result of intrinsically linked and coordinated factors, encompassing the intertwining of its closely interdependent. The related assessment of accounts capital appears as united and deals with a functioning whole which also embraces intangible values too;

- the employment of inductive-deductive research method. Zappa was strictly convinced that there were no immutable laws as traditionally maintained by scholars. This is why the research should start from the observation of reality which elicits the necessary deductions to solve specific problems. In other words, the starting point of the business-economics investigation should be portrayed by *experience*, that is with regard

[3] Original text: "coordinazione economica in atto, che è istituita e retta per il soddisfacimento di bisogni umani".
[4] Original text: "un istituto economico atto a perdurare che, per il soddisfacimento dei bisogni umani, ordina e svolge in continua coordinazione la produzione, o il procacciamento e il consumo della ricchezza".

to the cases study (inductive method); following, it should turn into the formulation of theories, that is generalizations applicable to all forms of reality (deductive method). It was an important evolution because, at that time, scholars used to employ either the inductive method applied to natural sciences, as far as business disciplines belonged to them, or, at least, Fabio Besta's historic-inductive method (Besta, 1880, 73-75).
Among his scientific thoughts, several pioneeristic features are granted, in Zappa's cultural, economic and social background.
Among his huge scientific references, the 1910 volume "Assessment of Financial Statements, with particular focus on the Joint Stock Company Financial Statements"[5] (Zappa, 1910) is one of the less known works but it is a forerunner of some IAS-IFRS contents. Thus proving that theoretical Italian studies of the first XX century were definitely at the forefront on the matter.

Specifically, the 1910 volume, reprinted in 1927 too (Zappa, 1927b), is extremely interesting for its complete and detailed analysis of the so-called "fair value" in IASB principles and its specific insights of "goodwill" phenomenon, and also for its connected accounting treatment. Thus demonstrating quite closely to the current IAS-IFRS reports.

It is worth noting that this volume has provided a remarkable contribution to the discussion concerning the reform of the Italian Commercial Code (dealing with its part devoted to financial statement). The discussion begun at the end of the XIX century but it got to its climax in particular after the second decade of the XX century (Coronella, 2008a).

The considerations on fair value depict a perfect synthesis of the thinking already expressed to a large extent by other scholars (Villa, 1850, 43-45; Gavazzeni, 1876, 8 ss; Massa, 1883, 1883, 23-24; Rossi, (1891-1905), 963 ss Besta, 1891, 254 ss; Besta, 1909, 232 ss; Bellini, 1901, 55 ss; Ravenna, 1909, 129 ss), therefore it focused the attention of Italian scholars on the subject. Notwithstanding, they appealed to the "cost" as the key - criterion of valuation (Gonnella, 2010), thus proving an in-depth knowledge of the phenomenon. Replacing costs with fair value from a theoretical (and then juridical) point of view has been a conscious and reasonable choice once the pros and cons of the different approaches have been accounted for.

As far as fair value is concerned, Zappa deserves credits for having systematized and shed light on a less debated subject up to then. His contributions about goodwill are extremely original according to the best practice of that time.

4. Italian background at the beginning of XX century

In order to appreciate Zappa's innovative thought about goodwill, his reflections have to be set within the proper context.

Zappa's work **"Assessment of Financial Statements"** was the first to be wholly devoted to the valuation issues by an accountant in Italy. Otherwise, the first work on financial statements was written by the jurist De Gregorio and, consequently, it introduced a "legal" point of view about the issue and it was edited two years before Zappa's edition (De Gregorio, 1908).

[5] Original text: "Le valutazioni di bilancio con particolare riguardo ai bilanci delle società per azioni".

The remarkable importance of the work clearly emerges if it is taken into account that in Italy:

- the dominant legal framework was extremely weak;
- the "technical" perspective of the issue was extremely confused and broadly at the mercy of the company statutory requirements.

One current example of this can be found in the lack of any general or specific criterion of valuation within the Commercial Code.

This kind of gap could be somewhat closed by article 89, first paragraph, n° 6, Commercial Code, which obliged to set out rules in the shareholders' agreement of both Stock and Anonyms' Companies in respect of which financial statements have to be laid down and profits would be calculated and distributed.

Basically, until the entry into force of the 1942 Civil Code, the Italian legislator still left that the professional accountants solve the problem, setting a few general and weak guidelines.

Since 1894, the serious failures of the legal regulation about financial statements laid to the appointment of specific government commissions whose task was to propose improvements and reforms on the Commercial Code. But no concrete achievement had been obtained until 1942.

Otherwise, up to 1861, Prussian Commercial Code (into force since 1865) provided proper analytical criteria of valuation. The latter approach has been emulated in many other States. Indeed, at the beginning of the XX century, Swiss, Hungarian, Serbian, Austrian and Japanese legislation retained specific valuation criteria for the main accounting items.

In Italy, the lack in the legislation of analytical valuative criteria was "replaced" by practice. Actually, it was just an irresponsible reference, since the above-mentioned rule hinted that any valuative criterion could be considered licit on condition that complied with the provisions set out in the constituent act (and in the Statute too).

As proof of this, we need to consider Besta's theorizations about the different techniques of depreciation of firms at that time (Besta, 1909, pp. 305-308).

Thus laid to increase Management's broad discretion up to irresponsible effects, for the lack of appropriate institutions of regulation and arrangement of accounting standards and the basic concept that the financial statement addressed only to internal disclosure.

The main problems basically dealt with single items "valuations", since equity has always played a guarantee role towards third parties.

Within his 1910 work, Gino Zappa's reflections are gathered to draft a proposal to amend the Italian Civil Code about how to draw on financial statements and the associated valuation criteria, which Zappa quotes in the fourth and last part of his volume.

Nevertheless, some of the Author's reflection have been summarized and added to the amend proposal. Consequently, Zappa's most daring considerations have not been taken into account.

Before analyzing the valuative criteria, it is worth noting that several reflections on financial statements "in general" in his volume put in evidence innovative tracks. We can quote the provision of an *accompanying report* (explanatory notes) to the balance sheet to "clear up the economic situation of the social enterprise"[6] (Zappa, 1910, p. 223), which can be considered a forerunner of the current *notes to the financial state-*

[6] Original text: "che chiarisca la situazione economica dell'impresa sociale".

ment required by IAS 1.

As Masini notes, Zappa's proposal of a review by management (administration report) to be attached was already based on "[…] the dominance of the future principle, according to a forward and forecasting sight, through the assessment of year-end accounting documents". Precisely, the Author goes on: "[…] the administration report has to clear up «the economic situation of the undertaken», that is its expected income capacity" (Masini, 1966, p. 5).

Zappa also appeals for a proper overview of the ongoing commitments and risks - which have not been hinted in the balance sheet yet - to be attached (Zappa, 1910, pp. 223-224). This is another example of what IAS-IFRS require for "notes to the financial statements" (IAS 1, § 105).

Finally, the Author suggests to prepare financial statements according to the following rules: "1. all the elements of the capital, assets and liabilities, must be separately recorded in the inventories, according to their different categories, without any balance among entries. Secured debts, which have to be separated in different classes, must be entered in the inventory, separated from the other debts"[7]. At the end he also declares that: "7. the parts of net worth, stock equity, reserves, losses incurred in previous years, profits or losses for the accounting period have to be entered in the inventory separately from assets and liabilities"[8] (Zappa, 1910, p. 224).

Also in this case, basic rules of drawing on financial statements emerge. They are not given for granted according to the rules and practices of that time.

So, we will outline Zappa's innovative cues at that time but contemporary actual nowadays. That is to say his thoughts on valuation criteria which are embodied in both the *fair value* concept and the goodwill valuation, thus suggesting the *impairment test* logic nearly a century ahead of its time.

5. The 1910 volume "Assessment of Financial Statements": general insights

This paper deals with Zappa's 1910 volume and, before delving deeper into concerns about "specific" valuation criteria, Zappa reflects on the "general" rules to which the assessment of the accounting items has to be submitted.

He polemically stated that: "the inadequacy of our code concerning the drawing-up financial statements and its total lack of rules which regulate the inventory valuations have had as effect, on behalf of practitioners for the report drafting, the application of the most diverse, changing and creative criteria. For this reason, we feel the need of a general doctrine about it, whereas the laws in other Countries settle the attribution of inventory values with detailed requirements. While studying and elaborating this doctrine, I cannot rely on the answers of Jurisprudence, which – rarely asked to decide about the accuracy of valuations only when financial statement drafters may incur a civil or criminal liability – in Italy only suggested solutions to issues on some specific items (patrimonialist elements) and never tracked down the general considerations about valuative criteria, which alone at least could take place of those standards that our

[7] Original text: "1.° Tutti gli elementi del patrimonio, attività e passività, debbono distintamente essere inscritti in inventario, secondo le loro diverse categorie, senza compensi di partite. I debiti garantiti, distinti nelle diverse loro classi, debbono anch'essi essere inscritti in inventario separatamente dagli altri debiti".

[8] Original text: "7.° Le quote di netto patrimoniale, capitale sociale, riserve, perdite di esercizi precedenti, profitti o perdite dell'esercizio cui il bilancio si riferisce, devono essere inscritte in inventario ben distinte delle attività e dalle passività".

legislator neglected”[9] (Zappa, 1910, p. 24).

Therefore, Zappa devotes an entire part– the second one – of his volume “General rules on the assessment”; where he explicitly takes into account the different “key” criteria available within patrimonialist valuations, thus underlining their pros and cons (Zappa, 1910, 23 f.f.)

At first, Zappa clears up that capital valuation – as a result of the evaluation of each element which makes up it – often leads to arbitrary assessments, because a split of a complex entity which stems from an aggregation of complementary factors is performed. Then, the Author observes the following “generic” criteria:

- current prices;
- discounted expected exchange values;
- single values;
- future earning effective values;
- nominal values;
- costs.

It is an extremely detailed and in-depth analysis, whose conclusions

far as the current prices criterion is concerned, or rather market-prices, Zappa states that they cannot be deemed as general criteria of valuation because “[…] they are more than an uncertain index of the enterprise actual situation”[10], moreover “[…] they are not to be trusted against the possible distribution of merely hoped-for profits”[11] (Zappa, 1910, p. 61). It prepares the ground for the problem about the valuation of those assets which, because of their nature are not either marketable (for instance, certain assets) or haven’t specific target market.

This achievement seems obvious, above all if we consider that, at that time, the economic situation in general and that of the enterprises in particular in Zappa’s analysis, was far more different than the present one: markets were often closed and limited and even those in competition regime frequently little.

The Author achieves to similar conclusions as far as the criterion of the *discounted expected exchange values* is concerned.

Those criteria are rejected by the Author because they are opposite to the fundamental principle of “prudence” and moreover lack of “objectivity”. Actually, they assume a winding-up logic which runs counter to the purpose of the enterprise and to its financial statements for the accounting period.

The criteria of current prices and discounted expected exchange values are basically linked to the *fair value*, set out by IAS-IFRS Standards with respect to those companies compelled to, as base (or alternative)-criteria for several entries. In the next paragraph, we will perform an in-depth survey on these two criteria (considered as “twins”-

[9] Original text: “L’insufficienza del nostro diritto in materia di formazione di bilanci e la mancanza assoluta in esso di norme che disciplinino le valutazioni di inventario, hanno avuto come conseguenza, da parte dei pratici nella compilazione dei bilanci, l’applicazione dei più svariati, mutevoli e fantastici criteri. Più sentito, che negli Stati nei quali le leggi regolano con dettagliate prescrizioni le attribuzioni dei valori di inventario, è quindi da noi il bisogno di una teorica generale in proposito. Nello studiare e nel formulare detta teorica ben poco mi potrò avvalere dei responsi della giurisprudenza, la quale – chiamata, e non di frequente, a decidere sulla correttezza delle valutazioni sol quando i compilatori del bilancio potevano incorrere in responsabilità civili o penali – si è limitata in Italia a dare ffsoluzione alle questioni riflettenti alcuni particolari elementi patrimoniali senza mai risalire alla considerazione di generali criteri di valutazione, che soli avrebbero potuto, in parte almeno, sostituirsi a quel sistema di norme che il nostro legislatore non ha voluto dare”.

[10] Original text: “[…] sono indice più che malsicuro della situazione attuale dell’impresa”.

[11] Original text: “[…] essi non presentano garanzia alcuna contro la eventuale distribuzione di utili puramente sperati”.

criteria), with reference to “goods-to-sell”, that is the only ones fit to the above mentioned criteria.

As far as the *single value*-criterion is concerned, Zappa ascertains that it stands as a vague theoretical approach, at least referring to the part dealing with fixed asset. So, this criterion is not unlikely to be employed in asset valuations, because an effective principle of application is not deemed to be detectable in a rational way.

As far as the future earnings effective value-criterion, Zappa notices that, since it deals with fixed assets, we encounter the same disadvantages found in the present (discounted) exchange value-criterion that is opposition to both the principles of prudence and objectivity. This kind of hurdle even occurs with reference to market-goods, whilst Zappa asserts that “[…] their in-advance-count is necessary to provide a very important element for the keen judgment about the economic situation of a specific enterprise”[12] (Zappa, 1910, p. 70). Moreover, this criterion does not fit to some entries within the asset side of balance sheet.

Referring to *nominal value*-criteria, Zappa ascertains that it must not be applied to all the elements in the balance sheet, during the assessments. This is not because it is not reliable, instead because “[…] its application ought to lead to an exemption to the only main criterion which has to be borne in mind in the assessment of all values within a set inventory”[13] (Zappa, 1910, p. 72).

Finally, Zappa focuses on *cost*-criterion*.* After much consideration about its different definitions, typologies and scopes, the Author gains the conclusion that the cost – despite its limitations – is the best available criterion for both the assessment of fixed assets and goods. This is because, besides limiting the arbitrariness in valuations, cost-criterion is the most suitable to fixed assets and appeals for a weaker effort compared to any other criterion. Moreover, referring to goods, it allows data gathering for a “wise stewardship”.

Definitively, Zappa states that, despite cost-criterion is not untouchable since the numerous disadvantages it unveils, “[…] anyway, it is the less imperfect among those spread or suggested up to today”[14] (Zappa, 1910, p. 117).

Actually, Zappa himself reminds us that the cost-criterion does not allow either to take into account the value of the economic entity or to reflect the business financial potentiality. Moreover, it can raise arbitrariness concerns about the recognition of the outputs and it employs an unequal treatment between supposed losses and hoped-for-earnings, it does not prevent the risk of shame earnings distribution. Indeed it fulfills the principle of prudence, it is easily determinable and it gives less changing options to the board of Directors.

Thus, it was introduced in the Italian Civil Code in 1942 as “base”criterion of valuation and nowadays it is steel deemed to be like this even by the National accounting practice for business which is not compelled to IAS-IFRS Standards.

6. The criterion of “current prices” and the criterion of “discounted expected exchange values” as valuative criteria of goods “for sale”

[12] Original text: “[…] la loro precalcolazione è necessaria allo scopo di fornire un elemento importantissimo per la formulazione di un retto giudizio sulla situazione economica di una determinata impresa”.
[13] Original text: “[…] l’applicazione sua costituirebbe spesso una deroga non plausibile a quell’unico principale criterio che deve aversi presente nella determinazione di tutti i valori di un dato inventario”.
[14] Original text: “[…] tuttavia è pur sempre il meno imperfetto tra quanti sino ad oggi si sono applicati o suggeriti”.

Zappa's volume enshrines a detailed analysis on the "current prices" criterion and on the –basically similar – "discounted exchange values" criterion, which both embrace the modern meaning of fair value.

Even if the above mentioned criteria were not originally crafted by Zappa, it is worth noting his brilliant synthesis of what was discussed both in theory and in accounting practice at his time, which were deemed to be closely addressed to "cost" valuations.

In particular, both "current prices" and "discounted expected exchange values" criteria are firstly depicted as "general" criteria of valuation (although they are unreliable because of the above mentioned reasons) and, then – in the third part of Zappa's volume under investigation – they are "rejected" with the reference to the single entries within the asset part of the balance sheet, for which, on the contrary, they might have been employed.

These two criteria are deemed to be relevant to goods and products and, more in general, to the entire positive element which are subject of a transfer of ownership (Zappa states: "which belong to wealth …..which are parts of the current assets").

These criteria, mainly addressed to the warehouse to the "market liquidity" perspective, are branched out to:

- land intended for selling (Zappa, 1910, pp. 120-121);
- buildings intended for selling (Zappa, 1901, p. 129). But in this case, for prudence, the Author suggests to enter within a specific provision for price fluctuations the highest (extra-) value to be traced compared to the historical cost;
- marketable securities stock and shares (for instance, securities or debts that are to be sold or redeemed within a year (p. 169 f.f.)

the grounds - set out for using these criteria - claim (appeal for) the balance sheet (profits alone) to be used as a mean to keenly assess management performances (on the basis that trading values could be sold at the current prices, as well as they can be considered at their repurchase price (that is their market price) at the date when balance sheet was drawn up (Zappa, 1910, p. 49).

Obviously, in such individual cases, these criteria are an alternative to "cost" criterion, which furthermore is the preferred one because of it is more objective and prudent too.

Indeed, current prices and discounted expected exchange values criteria are deemed not particularly reliable in case of evaluating goods without any market of reference. When it occurs, the current price should be decided "on a theoretical level" which might not be true thus reprehensible. Even if exchanges exist, difficulties in valuation may arise (for instance referring to securities or commodities – goods) when goods are not under daily negotiations or when the stock-exchange prices of shares show strong fluctuations. Moreover, book values should undergo speculative operations (Zappa, 1910, 51 ss).

This is because, later, both current price and discounted expected exchange values criteria are disappeared to leave room for the confirmation of the cost criterion, in the following practice and in the Italian Code developments (article 2426 of 1942 Civil Code which enshrines valuative criteria of the balance sheet items of capital companies (stock companies). Nevertheless, they are still applied in case of valuations of both inventories and trading bonds (securities), (according to a prudential view as a third-party creditors guarantee), but only as maximum value to attribute to the registered items, in case of their purchase or production cost goes beyond (exceeds, surpasses) the market one.

7. The particular "vision" of the valuation of goodwill

Having illustrated the "general" valuative criteria in the third part of his volume, Gino Zappa analyses each patrimonial item, specifying the analytic criterion of evaluation to be applied time after time.

Among these elements, goodwill stands out. Indeed, Zappa's vision about it proves the most emblematic portrayal of his modernity thought, also considering the recent developments of IAS-IFRS standards.

Zappa states that "thus, in order to be entered in the inventory, goodwill must have a cost both because it has already been traded and because it has indirectly involved expenses. The total amount of real charged expenses - which follow the rise or the purchase of goodwill – identifies its maximum inventory value"[15] (Zappa, 1910, 143).

From a literally interpretation of this quotation, according to Zappa, goodwill should be entered among the assets when an amount of money in this respect has been paid (that is when a disposal of the enterprise for a value occurs, when an enterprise has been transferred against payment) but also when it has indirectly risen expenses for its formation.

So, besides the currently "recognized" case of amortization acquired upon payment (acquired for valuable consideration!), according to Zappa, some costs can be recognized in the asset side of balance sheet under "goodwill" item, although nowadays they are considered aside, for instance the costs of setting up enterprises. It isn't necessary the fact that a real amount of money has been paid for goodwill in when a disposal of the enterprise for a value occurs.

This is also because Zappa considers some expenses which nowadays have a proper configuration as specific costs of setting up. It follows that, according to this approach, it might be possible its own goodwill (that is the "starting" "original" one) to be entered, or, at least, its part made up by the real charged costs for the start-up company and not only the one originated from the purchase of a working business ("derivative" "unoriginal" goodwill).

In our opinion, it is just a theoretical hypothesis, since the Author soon after (Zappa, 1910, 146) analyses the "start-up" costs in their "traditional" meaning.

Having said that, carrying on reading his 1910 volume, we are amazed by the extreme modernity of Zappa's thought.

Differently from both practice and theoretical approach, which writes off goodwill expenses in the shortest time as possible, Zappa states that "if it were to proceed in a rational way, goodwill would be entered in the balance-sheet inversely proportional to the amount of the realized extra profits; in the event that extra profits were not gained, the cost of goodwill should be deleted from assets and countered as a loss"[16] (Zappa, 1910,

[15] Original text: "per poter essere inscritto in inventario dunque l'avviamento deve avere un costo, sia perché ha già costituito oggetto di scambio, sia perché ha occasionato indirettamente delle spese. Il complesso delle spese effettivamente sostenute per l'acquisto o per il sorgere dell'avviamento, costituisce quindi il suo massimo valor d'inventario".

[16] Original text: "dovrebbe invece l'ammortamento, se razionalmente si procedesse, essere computato in ragione inversamente proporzionale all'ammontare dei sopraredditi realizzati; nel caso poi in cui non si conseguissero extra-

144).

From Zappa's proposal, it is clear that, if a constant flow of extra profits incurs, goodwill should be kept recognized in the asset side of balance-sheet and left unamortized. It occurs because, in this case, it would not have been impinged (should not reveres any impairment loss).

On the contrary, whereas goodwill decreases its flow of future economic benefits, Zappa suggests to amortize it according to its loss of expected future extra profits, as far as to delete it from accounting when goodwill is deemed entirely depreciated by allocating the relative cost to profit and loss report.

It is apparent how Zappa's vision is extremely close to that currently lied down by the IASB Standards, in particular regarding IAS 36 and 38. In fact, the last states that the amortization of goodwill is prohibited (IAS 38, § 107) and it is required to follow *impairment* regime (IAS 38, § 108). In case of detecting a depreciable amount (a total impairment loss of goodwill), the amount to charge for write-down to the profit and loss account shall be consequently undertaken (IAS 36, § 104) (Amaduzzi, 2004, 182 f.f.; Migliori, 2007, 39 f.f.; Beatty, A., & Weber, J. 2006; AbuGhazaleh et al, 2011; Ramanna and Watts, 2012).

Therefore, the only differences between Zappa's insight and that of IAS-IFRS Standards lay in the fact that the former deals with *amortization* as a technical tool (for the accounting period) to reduce the carrying amount of goodwill allocated in the balance-sheet, except for detecting a total impairment loss which leads to write-down the amount to the profit and loss account. Whilst IAS-IFRS Standards suggest ascribing to the profit and loss account the impairment loss each time the *impairment test* detects it. The *impairment* test has to be performed on an annual basis but also when there is some kind of clue predicting an effective enduring impairment loss of the factor.

We don't acknowledge these differences to be decisive. Notwithstanding, the issue about terminological discrepancies, IAS 38 approach is practically adherent to that of Zappa. However, at the beginning of the XX century, this particularly innovative and daring "vision" would have never been welcomed by other Scholars, since it crushed against the principle of prudence to which both Italian thought and practice had in-depth bonds. It is no accident that, nowadays, goodwill is deemed to be amortized, regardless of its future economic benefits, in a short time lag.

One soon realizes why the young Scholar Zappa quitted to hold his own vision and, soon after its utterance, he stated that: "the fast amortization of the cost of goodwill is highly considered appropriate by the doctrine and by me too."[17] (Zappa, 1910, 144).

Then, looking for a compromise between the two approaches, soon after Zappa remarks: "but the result of the inquiry claims that goodwill doesn't necessarily decrease as time passes, moreover it can gain a possible superior exchange value gradually. Consequently, goodwill shall not be amortized in accordance with the dominant methods, but, on the contrary, a reserve– of the same amount to the cost which is surmised by the asset side of balance-sheet – should be allocated, thus avoiding any consequences of a possible depreciation"[18] (Zappa, 1910, 144).

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profitti dovrebbe il costo dell'avviamento depennarsi dagli elementi patrimoniali attivi e conteggiarsi come una perdita".

[17] Original text: "Il rapido ammortamento del costo di avviamento è anche consigliato dalla dottrina ed è da me pure creduto opportuno".

[18] Original text: "Si è però osservato che l'avviamento non deperisce di necessità per effetto del decorrer del tempo, e che esso può anzi assumere progressivamente un eventuale maggior valore di scambio: di conseguenza si è consigliato per l'avviamento di procedere non all'ammortamento secondo i metodi consueti, ma invece alla

We assume that Zappa's vision of the issue dies not decrease its significance. Otherwise, the background at Zappa's time was utterly different from the present one and his young age (he was only 31 when the volume was released) prevented him to maintain his non-conformist thought which would have been surely interpreted as an accounting "heresy".

However, it is proved that his contribution – even if brief – about the issue has an outstanding modernity.

8. Conclusion

The identification, recognition and assessment of the goodwill are still a topic of great interest for the accounting research and professional practice.

The literature review shows the efforts made by accounting researchers to identify the main characteristics of this particular intangible asset during the time. A lot of the studies regarding the goodwill, in fact, analyzed the topic with an historical approach and tried to find the social and economic reasons for the predominant doctrine on its accounting treatment (Carsberg, 1966, Catlett and Olson, 1968; Hughes, 1982; Arnold et al., 1994; Cooper, 2007; Ding et al. 2008; Dragomir et al, 2011).

Following the framework identified in Ding et al (2008) in which they classified different phases of accounting treatment of goodwill over different period we contextualized our examination in the static/weakened static phase, running from the late part of ninety century to the middle of twenty century.

During these phases the main accounting treatment for the goodwill was the very quickly amortization or the write off approach.

There were a different thought on the accounting for goodwill but the main history accounting research focused on the dominant doctrine and their Authors (Harris, 1884; Dicksee, 1897). On this basis we analysed the thoughts of the major Italian author Gino Zappa, to highlight its pioneristic and modern thought on the topic that he did not support in his following work for the social and economic reasons, well explained in the Italian background.

Zappa's volume "Assessment", released a century ago, is imbued by contents of amazing modernity, if we compare his idea with the approach of IFRS.

He analyses, among all, the different general criteria of evaluation and then those applied to single items. On this subject, it is worth noting the wide inquiry of the criteria – current prices and discounted expected exchange values – which nowadays are ascribable to the fair value within IAS-IFRS Standards.

However, Zappa discarded them as key criteria since, at that time, they could not "work" because of the inadequate anaclitic method of the juridical discipline on evaluation. Thus the "cost" criterion has been preferred due to its prudential nature. Although several hesitations still remained, these "market" criteria were more or less accepted as specific criteria for single good "for sailing". In any case, during the following decades, also according to the Legislator's will (guarantee of third-party creditors with the relative prudential approach towards valuations), their use gradually decreased till their complete disappearance.

Then, fair value was reintroduced Italia as a criterion applicable to specific goods

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costituzione di una riserva di montare uguale al costo che appare in attivo, e tale quindi da poter ovviare alle conseguenze di ogni possibile deprezzamento".

and assets, but only to the enterprises compelled to IAS-IFRS Standards or which chose to apply them, since 2005-2006.

Moreover, the latest events linked to the global crisis have brought to prominence, not only in Italy, the very question about the adequacy and reliability of *fair value*, at least *sic et simpliciter* intended as criterion of valuation.

Proof of this, for instance, IAS 39 emendation thanks to No 2008/1004 European Regulations (Guidelines, Rules) which actually has limited the fair value employ with reference to the portfolio evaluations (Coronella, 2008b).

Indeed, in crisis periods, like the present one, *fair value* limits, already detected by Zappa 100 years ago, are clearly brought to light.

As far as the analytic criteria of valuation by Zappa are concerned, his "vision" on goodwill accounting treatment deserves credits. In fact, if the considerations about the other criteria of valuation were drawn from the pre-existent theory and best practice, in a more or less remarkable way, *goodwill* conception is the result of Zappa's personal thought. It completely moves away from the Italian practice and theory at that time and it brings forward nearly a century the IAS-IFRS approach based on the *impairment test*. Undoubtedly, this remarks the most modern insight of Zappa's work, one century later its release. This proves that an in-depth analysis together with the scientific method can stimulate thoughts and outcomes, lasting in time and sometimes bringing forward the future developments of a discipline.

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