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Intangible asset valuation's impact on Chinese stock market

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INTANGIBLE ASSET VALUATION'S IMPACT ON THE CHINESE STOCK MARKET

Abstract

Since the appearance of goodwill in China as an independent accounting subject in 2007, the goodwill of listed companies has become a higher proportion of the company's assets. As an intangible asset, excessive goodwill can lead to a lack of objectivity in the estimation of corporate assets and meanwhile, it will affect investor's judgment. To examine the relationship between goodwill and the Chinese company's stock price this paper uses Ohlson residual income valuation model as a basis to do the research. This paper selects the companies on CSMAR as objects and collects their data between 2012 to 2016. The empiric results prove that goodwill of listed companies in China has a significant positive correlation with the stock price. Based on the results of this research this paper will explain the meaningfulness of this study combined with China's national condition.

Keywords: Goodwill, Intangible Asset, Stock Price.

JEL Classification: M41; G34

I. Introduction

Since the merger goodwill was listed as a separate item on the balance sheet in 2007, the total assets of many listed companies in China have increased significantly. The book value of these intangible assets can predict the future performance of the company and has a greater impact on the valuation of the business combination. However, the identification and measurement of intangible assets are more difficult. Excessive goodwill makes the value of the company look higher and will mislead investors, and companies with good reputations occasionally make things that are harmful to society because of their interests. The purpose of this article is to confirm whether there is a relationship between goodwill and the company's stock price.

Back to 1993 when Baoan Group Co., LTD merged the Shanghai Yanzhong Industrial Co., Ltd, China is still in the early stage of economic development. This listing of mergers and acquisitions has opened the curtain for China's future development. In 2006, the Ministry of Finance issued the Accounting Standards for Business Enterprises No. 20-Business Consolidation (RPC ASBE), which provided a detailed definition and explanation of the accounting connotation recognition conditions and accounting practices of goodwill. Before this, goodwill was not treated as a separate subject under the accounting for intangible assets.

Since 2007, the merger of goodwill has emerged as an independent accounting subject. The merger of the goodwill of listed companies as a new subject in the financial statements has attracted the attention of many investors, and their funds as well. In 2008 most of the investors finally have a general idea of what goodwill is, so when they purchase stock they

prefer companies have higher goodwill because they believe the performance of these companies in the future is stable. However, there was a company called Sanlu Group that manufactures dairy products. The company was originally founded in 1956 and has been rated as one of the 500 most valuable brands in China after several generations of struggle. It has a high reputation and is quite popular among consumers. Its rich business results have envied other companies until its tainted milk powder incident was made public. A few days after the incident broke out, assets that once seemed to be quite large began to shrink and its most important billions of intangible assets are gone. The occurrence of this incident has caused investors to wake up from the blind pursuit of goodwill. The higher the proportion of goodwill, the greater the impact of its goodwill impairment on the company. Motivated by these actual events, whether goodwill will effect listed companies' stock price becomes the question to be solved in this paper. And our hypothesis is the company's goodwill has positive relationships with its stock price.

In 2014, the CSRC announced the revised Measures for the Management of Major Asset Reorganizations of Listed Companies and the Measures for the Administration of Acquisitions of Listed Companies. The management measures show that the CSRC will promote the mergers and acquisitions of listed companies from seven aspects. At the same time, some scholars pointed out that the goodwill confirmed after the Ministry of Finance's No. 20 Accounting Standards is the result of mergers and acquisitions. The confirmed goodwill of the merger also includes the overestimation of the target asset by the acquirer. Therefore, the correlation between the combined goodwill and corporate stock prices needs our test.

This paper focus on the impact of goodwill on the stock price of listed companies using Ohlson's residual income valuation model (1993). And select listed companies' data during 2012 to 2016 from China Stock Market Financial Statement Research Database(CSMA) After screening, this paper selected the financial data of 14072 small and medium-sized listed companies as research sample. Multiple regression analyses in Stata is also conducted and obtained the following results: the combined goodwill and the company's stock price were significantly positive at 1%. Correlation, net assets per share and earnings per share are also significantly positively correlated with stock prices, and equity is significantly negatively correlated with the company's stock price. While the coefficient of financial leverage is negative, there is no significant relationship with the company's stock price in our analysis. Through the analysis of the results, it shows that in most cases, companies with a good reputation will have a higher value in the future, but goodwill is only one of the reference factors of the company's stock price. The company's stock price will be affected by government policies, the micro-industry within the company, and the supply and demand of stocks. Goodwill represents the confidence of the society in the enterprise and can better reflect the value of the enterprise in a strong efficient market

From the empirical results of this paper, the merger goodwill and the company's stock price are related at the 1% level. Therefore, the paper makes the following recommendations for business managers, accounting firm, external investors as well as government departments: To listed companies, they should increase their emphasis on the merger of

goodwill, and senior managers in the company should raise their awareness of goodwill. Regularly train employees in the finance department to master the method of amortization of goodwill. Hiring a professional asset assessment team when conducting business mergers so that the true value of goodwill can be reflected in the financial statements. To investors, they should understand the true meaning of goodwill and judge the future trend of the company's stock price from multiple angles. It is also very important to have their analytical ideas in the investment and try to make investment decisions from a global perspective. The government should strengthen the supervision of the merger goodwill generated in the business combination. Adjust accounting standards to adapt to changes in social development. At the same time, the country should unify the evaluation criteria for the merger of goodwill, learn from and learn from other countries' experience in the valuation of intangible assets. Accounting firms should assess the objectiveness and impartiality of the merger of goodwill and enhance the training of employees' professional ethics. Strengthen the supervision of asset valuation of large enterprises is also necessary, making the evaluation process more open and transparent during the process. In the mean, while they should also punish employees who intentionally disclose false information in partnership with the company during asset valuation.

Since the Chinese economic reform, China's transition from a planned economy to a market economy has brought about tremendous changes in social development. After the 21st century, with the wave of economic globalization, its economic structure has unique characteristics. As an important part of the Chinese economy, the capital market is affected by many factors. Goodwill has been a separate accounting subject for more than 10 years, but

there are still some differences in the criteria for impairment and valuation of goodwill. The empirical results show us that goodwill is positively correlated with the company's stock price, but the whole story can not be seen if investors only focus on the perspective of goodwill. This paper assumes that the Chinese market is efficient, however, in the real world the situation is more complex.

The paper is organized as follows. In the literature review, it will show some previous studies and research papers talking about intangible assets. Based on their theory, hypothesis and research design of this paper will follow one of the previous research models, using Ohlson's model(1993) as the basis to do the empiric analysis. The result of our study is in the empirical result and detailed information is in conclusion and appendix.

II. Literature review

The theoretical analysis in this paper has some relevance with the research on intangible assets in some literature. Kings, Linsmeier and Wangerin (2019) explore the increasing economic significance of intangible assets and explain the relationship of post-merger share price and intangible assets. McInnis and Monsen (2019) explore the uncertainty of intangible asset valuation and provide a better model for assessing the value of goodwill. Bhagat and Obreja (2013) explore the factors that may affect future cash flow and their relationship to tangible and intangible assets in the company. Marzo (2005) evaluate the real options theory-based valuation model and discuss its feasibility and difference with the real society. Kohlbeck, Cohen, and HolderWebb (2009) explore the impairment of franchise rights using The Roman Holiday Pizza Paradise as an example. Finally, the theory of Mingyuan (2017)

further confirms the subject of this paper.

The above studies all involve the impact of intangible asset valuation on enterprises. Intangible assets have a positive relationship with post-acquisition share prices (King, Linsmeier, and Wangerin , 2019). However, it is also a good idea to identify different kinds of intangible assets during the acquisition because customer-related identifiable intangibles are more related to a company's future performance. In their theory, they divide intangible assets into two parts. “some identifiable intangible assets require future ongoing expenditures to maintain or enhance their value. These expenditures create uncertainty about the amount and timing of future cash flows, and therefore diminish the relation between future cash flows and acquisition date fair values. Other intangible assets have identifiable revenue streams that do not require future investment and often have definite lives that are legally or contractually determined. Compared to organically replaced intangibles, there is less uncertainty about the amount and timing of future cash flows associated with these assets, including those related to future revenue streams.”(King, Linsmeier, and Wangerin, 2019).

Another research examines the relation between acquired intangible assets and future operating performance. “Despite concerns about measurement uncertainty, they find that the operating returns to acquired intangible assets are greater than the operating returns to acquired tangible assets, and that this stronger association is concentrated in goodwill. Measurement uncertainty does, however, play a role in moderating these associations, as indicated by the higher correspondence between intangibles and future operating income in settings characterized by relatively lower measurement uncertainty” (McInnis and Monsen, 2019).

Behavior finance shows that individuals may not necessarily make decisions based on the rational analysis of all the information. This can lead to movements away from a fair price for an individual company's shares, and the market stock price during that time can be extremely high or low. The stock price can be influenced by market imperfection (Zaremba, Mikutowski, Szczygielski and Karathanasopoulos, 2018). Their study shows a period of rising share price may result in a feeling of optimism that price will continue to rise and an increased willingness to invest in companies that show prospects for growth. This is similar to how goodwill influence investors' decisions. And if this kind of situation exists, it is likely to lengthen the period of stock market boom or bust.

This paper focuses on the influence of the proportion of intangible assets, total assets(including the proportion of goodwill in intangible assets) on the stock price of enterprise and investor's preference. There are four main differences between this paper and the studies above. First, this paper studies on Chinese stock market whose mode of operation is different from the American Stock Exchange (e.g. the Chinese 'stock market's price declining and price increase will be no more 10% of the closing stock price). Second, the valuation of intangible assets in China is different from other countries which means the result of this paper may have its particularity compared to other research papers. Third, market inefficiency (e.g. herding, noise traders and loss aversion) will be involved in this paper. Finally, the stock price in the Chinese stock market is more likely to be influenced by the government's policy and speculation behavior of securities dealers so the result may only be reasonable in China.

For investors' reaction to the information, this paper considers the theory of investor

preference (Godfrey, 2001). Investors placed greater value on goodwill than other capitalized items on the balance sheet. However in China, a company Changchun chang sheng biotechnology co. LTD's shares will exit the market on Oct 16, 2019, due to the fake vaccines. Its investors almost lost all the money they invest and they are unlikely to obtain compensation. However, before whistleblowing, this company's goodwill is quite stable and it's hard for an investor to predict the future performance of this company. The main purpose of this paper is to guide investors so that in the future possibility of a situation like ST Changsheng investment failure will decrease. Before Changchun chang sheng biotechnology co. LTD's behavior was disclosed, it sold millions of its vaccines to the hospital and its reputation is quite stable. Their high R&D investment makes people believe this company has a good future. If investors can have an idea of whether the intangible asset can have a positive impact on the company's future performance and what kind of intangible asset are most valuable rather than choose a company that seems has unpredictable goodwill.

There is also a paper written by Mingyuan (2017) who is graduated from Southwest Jiaotong University, in his paper he discusses the relevance about goodwill and stock price by combining China's actual economic and policy conditions, and it provides a more detailed explanation of the valuation of the goodwill of small and medium-sized enterprises. Their research found that the correlation between the goodwill and stock price of listed companies is related to the size of the company and the shareholding ratio of major shareholders. It is expressed in the form of a higher shareholding ratio of shareholders, the stronger the correlation between goodwill and stock price, and the greater the company's future share price performance. For listed companies with different concentrations of equity, they selected

companies other than the financial industry as research samples and concluded that the merger goodwill of the company with the large shareholding ratio is more significant and the company's stock price is more significant.

In the paper written by Mingyuan (2017), he mentioned the impairment of goodwill and confirmation of self-made goodwill. In his research, he finds a considerable number of listed companies have conducted goodwill impairment tests, but only a few have confirmed goodwill impairment. “On the one hand, because goodwill must depend on certain types of assets to bring a certain amount of cash flow to listed companies, the value test of goodwill must combine the combined goodwill with the asset portfolio that can bring synergy to the company. It is difficult to reasonably divide the cash flow into the portfolio when measuring the asset portfolio. On the other hand, when a listed company withdraws goodwill impairment, its total assets decrease its asset-liability ratio rises, and the pressure on the listed company's debt increases. The confidence of a listed company in its normal operations has caused creditors to worry about the ability of the listed company to assume its debts.” (Mingyuan, 2017).

In response to this phenomenon, he suggested that enterprises should strengthen accounting self-discipline and adopt a reasonable method to conduct an impairment test on the combined goodwill so that the year-end net amount of the goodwill subjects can truly reflect the value of the combined goodwill. Before the impairment of goodwill, listed companies should formulate a goodwill crisis management plan.

Mingyuan's insights on self-made goodwill also help to establish the research theme of this article. “Goodwill is a resource that enables companies to gain an advantage in

competition and obtain excess returns. Merge goodwill and self-made goodwill are essentially the same” (Mingyuan, 2017). Merged goodwill is just a manifestation of the self-made goodwill of the acquired company. However, since the cost and value of self-made goodwill cannot be measured reliably, the new accounting standards in China only stipulate the recognition and measurement methods of consolidated goodwill that are not under the same control, and the self-made goodwill is not recognized. This approach does not truly reflect the goodwill resources held by the enterprise, nor does it meet the fundamental characteristics of goodwill. Therefore, it is recommended that the financial statements be reformed to recognize the created goodwill and reflect it in the balance sheet.

III. Hypothesis Development

According to the efficient market hypothesis, in an efficient market, all the information obtained by a listed company will be fully reflected in the stock price of the listed company. Financial statement information is an important part of company information. Investors will evaluate the company's reasonable market value based on the financial statement information disclosed by the listed company, compare it with the company's existing market value, and conduct stock trading methods to achieve the growth of their wealth.

According to the theory of goodwill excess income theory, in the process of a listed company's M & A and reorganization, the acquire will be paid a consideration that exceeds the fair value of the company's net assets because of its special value and competitive advantage. Part of the consideration will be recorded in the acquirer's balance sheet, which is the goodwill of the accounting account on the non-current assets side of the balance sheet.

Therefore, the combined goodwill can reflect the excess returns of the enterprise to a certain extent. As a result, goodwill has become good news for investors to increase the value of listed companies, and the robe affects investors' stock trading behavior, which ultimately affects the stock prices of city companies.

Prior studies have conflicts about whether intangible assets can realize its value. In common view, scholars prefer the idea that strategically important intangible asset are more likely to have positive impact on post-acquisition share prices (King, Linsmeier, and Wangerin, 2019). Although the number of unethical companies in China is not small, China also has continuous improvement of business philosophy of integrity and securities-related provisions of the improvement, the following hypothesis is made:

The company's goodwill has positive relationships with its stock price.

IV. Research Design

Because of the particularity of China's national conditions, this paper will study the correlation between goodwill and its stock price with the small and medium-sized companies as the research object. To test our hypothesis, our research design draws on a previous research paper that examines the value relevance of identifiable intangible assets. They choose capture earnings, book values, acquired identifiable intangibles and goodwill as their variables and show a result that intangibles are positively associated with equity prices after the merge, but compared to wasting intangibles, organically replaced intangibles have a less positive relationship with the stock price.(King, Linsmeier and Wangerin, 2019).

The empirical analysis in our paper is closely related to the works of another prior research that measures the cash flow uncertainty in the data, they divide their model into two steps, in the first step they use the dynamic panel model of firm cash flows with control of other variables, and in the second step they projected the squared residuals from the first step on variables that contain information about cash flow uncertainty. To do this study, this paper will use secondary research methods to demonstrate the hypothesis that was put forward. Some investment in intangible assets such as goodwill or patent can be capitalized but other intangible assets such as Research& Development can only be expensed so it is necessary to measure the book value of intangible assets that are not on the balance sheet (Bhagat and Obreja, 2013). To ensure the rigor of the article, this paper excludes stocks that are not listed, stocks that are misleading due to excessive speculation, and stocks that are reported to be incompletely disclosed.

The model of Ohlson(1995) has made a great contribution to the field of accounting and is one of the most widely used models. To test the relevance of net goodwill and share price this paper, it is necessary to consider the company's asset and debt and stock circulation so the deformed model of Ohlson's model in Mingyuan's paper will be used:

$$P = \partial + \beta_1 GW + \beta_2 BPS + \beta_3 EPS + \beta_4 LEVERAGE + \beta_5 SHARECAPITAL + \varepsilon$$

P: share price

GW: In this article, GW=net goodwill from consolidated statement/ share capital

BPS: Net assets per share

In this article, BPS= Shareholder's equity/share capital-net goodwill/share capital

EPS: Earning per share, data of EPS are download from the CSMAR

LEVERAGE: total liability/total asset

CS: Share capital, data of share capital are download from CSMAR

The data about companies and the Chinese stock market will be collected from CS-MAR (China Stock Market & Accounting Research Database). And the variables include Net assets per share after deducting goodwill, leverage, net goodwill, earning per share, share capital. In the data analysis and processing stage, this paper will use Stata to explain the relationship between those variables because compared to other technology, Stata operates more flexibly, and it can simplify some complex data operations with the command key.

V. Empirical results

Before performing regression analysis, a correlation test is performed to confirm the intrinsic relationship between variables, and also to prevent the rigor and feasibility of affecting the conclusion of the study due to the lack of correlation between variables.

To ensure the rigor of the research, this paper uses the same measure as Mingyuan's model. This paper chose stock price on the closing date of December at the end of each year, the goodwill is net goodwill divided by share capital; the leverage used is the total liabilities divided by total assets; the share capital is the nature logarithm of the listed companies; the earning per share is directly from the database CSMAR and the net asset per share is the net assets after deducting goodwill divided by share capital.

5.1 Correlation test

When one variable in the model changes, the other variable also changes. The internal

connection is called correlation. Positive correlation refers to the change of the two variables in the same direction. When the two variables change in the opposite direction, it is called a negative correlation. Correlation analysis is to analyze whether there is some internal connection between variables and judge the strength and direction of the internal connection.

The correlation test is performed for the following reasons: From the perspective of the interaction of two variables, to prevent each variable in the model from affecting the accuracy of empirical research results because it does not correlate.

Matrix of correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1)yclsprc	1.000					
(2) gw2	0.187 0.000	1.000				
(3) csln	-0.378 0.000	-0.034 0.000	1.000			
(4) eps	0.458 0.000	0.051 0.000	-0.008 0.364	1.000		
(5) bps	0.077 0.000	0.039 0.000	0.259 0.000	0.307 0.000	1.000	
(6) lev	-0.108 0.000	-0.022 0.009	0.127 0.000	-0.123 0.000	0.116 0.000	1.000

From the matrix of correlations, goodwill and stock price are positively correlated, which initially verified hypothesis 1. The coefficient of bps is 0.077 and is also positively correlated with the stock price. Earning per share has the largest coefficient which means listed companies' stock price is based on their performance. The financial leverage's coefficient is

-0.108 because investors will lose confidence if a company carries a lot of debt. The coefficient of share capital is -0.378 and it is negatively correlated with the stock price. One explanation of this situation is that companies have a smaller size, their stock price is more likely to increase due to the shortage of equity.

5.2 Descriptive data analysis

After the correlation test, the relationship between stock price and goodwill, earning per share, share capital, leverage and net asset per share is examined using the multiple regression. This paper selects data between 2012-2016, and use three tables to show the data selection:

Table 1 Annual release of all samples

Year	Freq.	Percent
Dec-12	2,574	18.29
Dec-13	2,621	18.63
Dec-14	2,736	19.44
Dec-15	2,924	20.78
Dec-16	3,217	22.86
Total	14,072	100.00

**Table 2 All sample release
Descriptive Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
gw2	14072	.202	.785	0	23.438
csln	14072	20.062	1.114	17.237	26.599
bps	14072	10.688	16.829	.007	449.154
eps	14072	.347	.632	-14.54	14.58
lev	14072	.452	.627	-.195	63.971

From table 2, the minimum of $gw2$ which is the net goodwill divided by share capital is 0, mean is 0.202, the maximum is 23.438. This is because in 2012 the item goodwill has only be listed as an independent variable for five years, some companies do not have goodwill in their financial statements. The average share capital of the city company is 20.062, the standard deviation is 1.114, the minimum value is 17.237. The maximum value is 26.599, indicating that the listed companies selected in the sample have certain differences in the size of their equity. The average stock return is 0.347, and the minimum value of earnings per share is -14.54, the maximum value is 14.58. It shows that the profitability of listed companies on the SME Board and GEM is generally better, but some companies have made losses in a certain fiscal year. Net assets per share after deducting goodwill, minimum for 0.007, the maximum is 449.154, indicating that some listed companies' owners' equity have been compressed by liabilities, the state of debt repayment has a heavy business operation burden. Both the earnings per share and the difference in net assets per share after deducting goodwill indicate that although the listed companies in the sample have undergone mergers and acquisitions, the motivations for mergers and acquisitions are not exactly the same. Some listed companies have restructured to get rid of the company's operating difficulties, and some listed companies have restructured the company to make it bigger and stronger and achieve leapfrog development.

To see the differences between 2012 to 2016, this paper calculate the average of all the variables:

Table 3 Annual analysis of mean values of all samples

	2012	2013	2014	2015	2016
yclsprc	10.865	12.683	15.969	24.331	20.326
gw2	0.056	0.081	0.168	0.290	0.369
csln	19.860	19.953	20.039	20.173	20.230
bps	10.243	10.499	10.902	10.647	11.054
eps	0.354	0.354	0.341	0.302	0.382
lev	0.471	0.454	0.477	0.439	0.425

From table 3, listed companies' goodwill is increased from 0.056 in 2012 to 0.369 in 2016. During these five years, net goodwill has been increasing, the company's stock price has recovered after rising from 2012 to 2015, and other variable indicators show a range fluctuation trend, it shows that the listed companies that recognize goodwill in the balance sheet have different operating conditions in different years. To identify the relationship between goodwill and stock price this paper runs the multiple linear regression, and the result will be shown in table 4.

5.3 Multiple regression analysis

Table 4 Regression results

Variables	(1) yclsprc
gw2	3.151*** (7.941)
csln	-5.588*** (-38.830)
eps	11.377*** (12.475)
bps	0.035** (2.298)

lev	-0.195 (-0.316)
Constant	124.383*** (42.620)

Observations	14,072
R-squared	0.374
Year FE	YES
Industry FE	YES
Adj. R-sq	0.374

Robust t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

From table 4, the R-squared and Adj. R-sq is 0.374 which means the model I select has certain rationality. The regression coefficient between gw2 and stock price of the listed company is 3.151 and the T value is 7.941, its coefficient is significant at the level of 1% which indicates that goodwill has a significant positive impact on stock prices. This demonstrates the hypothesis purposed before: Company's goodwill has positive relationships with its stock price. The average value of goodwill per share in the past 5 years has been increasing, which indicates that due to the economic downturn in the Western countries such as the United States and Europe and the entry of the domestic economy into a new normal, the operating conditions of some listed companies have been deteriorating, and the development of enterprises On the question of choice, the way to get the listed company out of its operating difficulties through mergers and acquisitions was chosen. The regression coefficient between bps and stock price is 0.035 and the T value is 2.298 which means listed companies' stock price is connected with net asset per share. Earning per share has the largest coefficient with the stock price which is 11.377, and the T value is 12.475. It means that stock price is fundamentally based on companies' specific revenue performance. The regression

coefficient between financial leverage and stock price is -0.195 and the T value is -0.316 it means investors prefer companies that have small liabilities. The greater the financial leverage, the more debt costs and debt interest the listed company will return in the future, which will bring huge cash flow pressure to the company, causing investors to worry that the listed company will not be able to repay the principal and interest on time. If investors are worried about a company's ability to repay its debt, they are more likely to sell their stocks and the stock price will fall very quickly. Share capital's coefficient is -5.588 and the T value is -38.830. It shows the negative correlation at 1%. It is because investors in China believe companies with small equity have more room to grow in the future.

According to the efficient market theory assumption, investors in the capital market are reading listed companies in the financial statements, you will find the excess return signal sent by this asset in the financial statements, and analyze the future profitability of the company based on the signal, make a rational investment judgment, and cause a large number of investors to buy the company's stock, so it can to some extent affect the stock price of listed companies.

VI. Conclusion

Since the 21st century, China's economy has achieved great development. After the economic crisis of 2008-2009, many enterprises urgently need to upgrade their industries to face the situation of economic globalization. Goodwill has a great influence on the evaluation of corporate value in the merger and reorganization of enterprises. In recent years, investors of listed companies and other stakeholders including shareholders have paid more and more

attention to goodwill.

This article takes the listed company in 2012-2016 as the research object, and combines the confirmation of the merger goodwill of Chinese enterprises, Ohlson's residual income valuation model is used for the empirical research on goodwill and company stock price, the paper obtained the following results through empirical analysis:

The listed company's combined goodwill and the company's share price are positively correlated. Merger goodwill is included as a separate item in the consolidated statement of the listed company. Under the assumption of market effectiveness, investors in the capital market will find the information expressed in this item when reading the financial statements, analyze the company's future operating conditions and make a reasonable investment judgment. In addition to goodwill, earnings per share and net assets per share are also significantly positively correlated with the company's stock price, the share capital and financial leverage are negatively correlated with the company's stock price. Companies with good reputations will be more satisfied with their future share price performance, which is consistent with current research in academia at home and abroad.

Since the implementation of goodwill as a separate account in the financial statement, China's accounting standards have become more and more international. However, in China, there are still companies that lack professional ethics to mislead investors through high goodwill. Because the accuracy of the information disclosed by these companies cannot be ensured, and the popularity of goodwill in China is only just beginning. The balance sheet does not include the impairment of goodwill and the goodwill that presents a negative value. Therefore, the results of this paper are only available for companies with stable performance.

The significance of this study is to explore the relationship between merger goodwill and corporate stock prices, and reputation research provides relevant theoretical and empirical data. At the same time, companies, especially small and medium-sized enterprises, are made aware of the importance of goodwill management, more effectively manage their goodwill and the economic benefits it brings, and formulate merger and reorganization plans, evaluate and determine consolidated goodwill in the future. Finally, hoping this paper can provide a reference for investors to better grasp accounting information and understand the supervision and decision-making of enterprises and relevant government departments.

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