

Title The Relationship between Goodwill from Business Combinations and Financial Ratios of the Companies in Service Industry Group Listed on the Stock Exchange of Thailand (SET)

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Academic year 2015

Abstract

The purpose of this research is to study the relationship between goodwill from business combinations and financial ratios of the companies in service industry group listed on the Stock Exchange of Thailand. Under the concept that goodwill is an asset which represents the interests a company will receive in the future from other assets acquired from business combinations. Moreover, it is an indication that the acquired company has effective operation and has the ability to increase profitability in the future.

From the study and data collection from secondary sources of the companies in service industry group listed on the Stock Exchange of Thailand during 2008-2010, 50 samples were found using two types of statistical analysis i.e. (1) Descriptive statistics is data testing in the form of frequency distribution, percentage, minimum value, maximum value, mean and standard deviation (2) Inferential statistics is a hypothesis testing using partial correlation analysis at the 95% confidence level to explain the relationship between goodwill and four groups of financial ratios: liquidity ratios, asset management ratios, leverage ratios, profitability ratios, with other net assets as control variables.

The results show that the goodwill from business combinations has a positive relationship with asset management ratios i.e. account receivable turnover, total assets turnover, and non-current assets turnover also has a positive relationship with profitability ratios: return on equity (ROE) and has a negative relationship with leverage ratios: debt to asset ratio and debt to equity ratio. However, the goodwill from business combinations has a relationship with no statistical significance with liquidity ratio: current ratio and quick ratio. Therefore, it can be concluded that goodwill from business combination is important to the users of financial statements because it can be used to assess the effectiveness of risk management and profitability of the business.

Keywords: goodwill, business combinations, financial ratios