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Do differences in financial reporting attributes impair the predictive ability of financial ratios for bankruptcy?

Published: 03 April 2012

Volume 17, pages 969–1010, (2012) [Cite this article](#)



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Notes

1. McNichols ([2000](#)) and Dechow and Schrand ([2004](#)) provide reviews of this literature.

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6. We assume there is no tax benefit associated with interest for loss firms. For firms that are profitable, the tax benefit for a given year is calculated based on the maximum statutory tax rate for that year.
7. Woodruff-Sawyer is a full-service insurance brokerage and consulting firm based in San Francisco.
8. Given that our sample period begins in 1962 and therefore that cash flow statement information is not available for most of the sample, we compute current accruals using a balance sheet approach. In particular, current accruals are equal to the change in current assets minus change in current liabilities and in cash plus the change in short term debt (i.e. $\text{Compustat Adata4}_t - \text{Adata5}_t - \text{Adata1}_t + \text{Adata34}_t$).

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13. We assess the significance of the difference using a χ^2 test. In all further comparisons, we refer to a subsample as having higher or lower predictive ability if the difference is significant with $p < 0.01$.
14. In untabulated analysis we use the “untainted” coefficients to predict the hazard for the entire sample. This doesn’t change our results.
15. In the basic specification that merely includes the BSM score and the annual bankruptcy rate, both variables have magnitudes that are comparable to Hillegeist et al. ([2004](#)). In particular, the coefficient on the BSM score is 0.31 (vs. 0.27) and on the annual rate 0.43 (vs. 0.54)

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Appendix

Variable definitions and data sources (Tables [11](#), [12](#)).

Table 11 Panel A: variable definitions

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