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

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Notes

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

2. The effect of expensing intangibles on profitability depends on the growth of the firm. The effect of unrecognized assets unambiguously increases the leverage ratio.

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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. Compustat Δdata4-Δdata5-Δdata1+Δdata34).

9. Our results are robust to an alternative specification of the accrual model, which includes a proxy for the change in cash flows, following Kasznik (1999).

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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

Table 12 Panel B: data sources for the restatement variable

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