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Economic consequences of SFAS 142 goodwill write-offs

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Abstract

This paper examines the economic consequences of goodwill write-offs under Statement of Financial Accounting Standards No. 142 (SFAS 142). Although write-off firms have performed poorly, it is evident that deteriorating economic performance explains only a small proportion of write-offs. After controlling for endogeneity of write-off choice, I fail to find evidence that investors and analysts fixate on SFAS 142 goodwill write-offs. I also provide evidence that write-off firms pay higher audit fees, suggesting that auditors charge higher fees in response to extra audit effort. These results are consistent with the principles of market efficiency, analyst-forecast rationality and efficient audit pricing.

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