

Economic consequences of SFAS 142 goodwill write-offs

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First published: 01 August 2012

<https://doi.org/10.1111/j.1467-629X.2012.00495.x>

I appreciate the helpful comments from Peter Clarkson, Seppo Ikäheimo, Juha Joenväärä, Juha-Pekka Kallunki, Petri Kyröläinen, Petri Sahlström, Richard Sloan, Mikko Zerni, the anonymous referees and seminar participants at the University of Oulu and the University of Eastern Finland. I gratefully acknowledge financial support from the Tauno Tönning Foundation, the Foundation for Economic Education and the Jenny and Antti Wihuri Foundation. All errors are my own.



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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