

Economic consequences of SFAS 142 goodwill write-offs

Henry Jarva

First published: 01 August 2012

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

Citations: 15

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.

References

Basu, S., 1997, The conservatism principle and the asymmetric timeliness of earnings, *Journal of Accounting and Economics* 24, 3-37.

[Web of Science®](#) | [Google Scholar](#)

Beatty, A., and J. Weber, 2006, Accounting discretion in fair value estimates: an examination of SFAS 142 goodwill impairments, *Journal of Accounting Research* 44, 257-288.

[Web of Science®](#) | [Google Scholar](#)

Bens, D. A., W. Heltzer, and B. Segal, 2011, The information content of goodwill impairments and SFAS 142, *Journal of Accounting, Auditing and Finance* 26, 527–555.

[Google Scholar](#)

Bradshaw, M. T., S. A. Richardson, and R. G. Sloan, 2001, Do analysts and auditors use information in accruals? *Journal of Accounting Research* 39, 45–74.

[Web of Science®](#) | [Google Scholar](#)

Caliendo, M., and S. Kopeinig, 2008, Some practical guidance for the implementation of propensity score matching, *Journal of Economic Surveys* 22, 31–72.

[Web of Science®](#) | [Google Scholar](#)

Dechow, P. M., and W. Ge, 2006, The persistence of earnings and cash flows and the role of special items: implications for the accrual anomaly, *Review of Accounting Studies* 11, 297–303.

[Web of Science®](#) | [Google Scholar](#)

Dehejia, R. H., and S. Wahba, 2002, Propensity score-matching methods for nonexperimental causal studies, *The Review of Economics and Statistics* 84, 151–161.

[Web of Science®](#) | [Google Scholar](#)

Dichev, I. D., 2008, On the balance sheet-based model of financial reporting, *Accounting Horizons* 22, 453–470.

[Web of Science®](#) | [Google Scholar](#)

Easton, P., 2004, PE ratios, PEG ratios, and estimating the implied expected rate of return on equity capital, *The Accounting Review* 79, 73–95.

[Web of Science®](#) | [Google Scholar](#)

Financial Accounting Standards Board, 2001, *Statement of Financial Accounting Standards No. 142: Goodwill and Other Intangible Assets* (FASB, Norwalk, CT).

[Google Scholar](#)

Francis, J., J. D. Hanna, and L. Vincent, 1996, Causes and effects of discretionary asset write-offs, *Journal of Accounting Research* 34, 117–134.

[Web of Science®](#) | [Google Scholar](#)

Godfrey, J. M., and P. S. Koh, 2009, Goodwill impairment as a reflection of investment opportunities, *Accounting and Finance* 49, 117-140.

[Web of Science®](#) | [Google Scholar](#)

Gu, Z., and T. Chen, 2004, Analysts' treatment of nonrecurring items in street earnings, *Journal of Accounting and Economics* 38, 129-170.

[Web of Science®](#) | [Google Scholar](#)

Gul, F. A., C. J. P. Chen, and J. S. L. Tsui, 2003, Discretionary accounting accruals, managers' incentives, and audit fees, *Contemporary Accounting Research* 20, 441-464.

[Web of Science®](#) | [Google Scholar](#)

Hayn, C., and P. J. Hughes, 2006, Leading indicators of goodwill impairment, *Journal of Accounting, Auditing and Finance* 21, 223-265.

[Google Scholar](#)

Holthausen, R. W., and R. L. Watts, 2001, The relevance of the value-relevance literature for financial accounting standard setting, *Journal of Accounting and Economics* 31, 3-75.

[Web of Science®](#) | [Google Scholar](#)

Jarva, H., 2009, Do firms manage fair value estimates? An examination of SFAS 142 goodwill impairments, *Journal of Business Finance and Accounting* 36, 1059-1086.

[Web of Science®](#) | [Google Scholar](#)

Kothari, S. P., K. Ramanna, and D. J. Skinner, 2010, Implications for GAAP from an analysis of positive research in accounting, *Journal of Accounting and Economics* 50, 246-286.

[Web of Science®](#) | [Google Scholar](#)

Lee, C., 2011, The effect of SFAS 142 on the ability of goodwill to predict future cash flows, *Journal of Accounting and Public Policy* 30, 236-255.

[Web of Science®](#) | [Google Scholar](#)

Li, K. K., and R. G. Sloan, 2011, Has goodwill accounting gone bad? Working paper (University of California at Berkeley).

[Google Scholar](#)

Li, Z., P. K. Shroff, R. Venkataraman, and I. X. Zhang, 2011, Causes and consequences of goodwill impairment losses, *Review of Accounting Studies* 16, 745–778.

[Web of Science®](#) | [Google Scholar](#)

Muller, K. A., M. Neamtiu, and E. J. Riedl, 2010, Information asymmetry surrounding SFAS 142 goodwill impairments, Working paper (Harvard Business School).

[Google Scholar](#)

Parsons, L. S., 2001, Reducing bias in a propensity score matched-pair sample using greedy matching techniques, Proceedings of the 26th Annual SAS Users Group International Conference.

[Google Scholar](#)

Ramanna, K., and R. L. Watts, 2011, Evidence on the use of unverifiable estimates in required goodwill impairment, Working paper (Harvard Business School and MIT).

[Google Scholar](#)

Rosenbaum, P. R., and D. B. Rubin, 1983, The central role of the propensity score in observational studies for causal effects, *Biometrika* 70, 41–55.

[Web of Science®](#) | [Google Scholar](#)

Sloan, R. G., 1996, Do stock prices fully reflect information in accruals and cash flows about future earnings? *The Accounting Review* 71, 289–315.

[Web of Science®](#) | [Google Scholar](#)

Watts, R. L., 2003, Conservatism in accounting – part I: explanations and implications, *Accounting Horizons* 17, 207–221.

[Google Scholar](#)

Citing Literature



Download PDF

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

[Developing World Access](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

CONNECT WITH WILEY

[The Wiley Network](#)

[Wiley Press Room](#)

Copyright © 1999-2025 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY