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Accounting Discretion in Fair Value Estimates: An Examination of SFAS 142 Goodwill Impairments

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ABSTRACT

This study examines Statement of Financial Accounting Standards 142 adoption decisions, focusing on the trade-off between recording certain current goodwill impairment charges below the line and uncertain future impairment charges included in income from continuing operations. We examine several potentially important economic incentives that firms face when making this accounting choice. We find evidence suggesting that firms' equity market concerns affect their preference for above-the-line vs. below-the-line accounting treatment, and firms' debt contracting, bonus, turnover, and exchange delisting incentives affect their decisions to accelerate or delay expense recognition. Our study contributes to the accounting choice literature by examining managers' use of discretion when adopting a mandatory accounting change and by developing and testing explicit cross-sectional hypotheses of the determinants of firms' preferences for immediate below-the-line versus delayed above-the-line expense recognition.

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