

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

ANNE BEATTY, JOSEPH WEBER

First published: 22 February 2006

<https://doi.org/10.1111/j.1475-679X.2006.00200.x>

Beatty thanks Deloitte & Touche for financial support. The authors would like to thank Jennifer Altamuro, Ray Ball, Mary Barth, Dan Bens, Phil Berger, John Core, Ellen Engel, Merle Ericson, Rich Frankel, Rebecca Hann, S. P. Kothari, Richard Leftwich, Steve Monahan, Joe Piotroski, Jonathon Rogers, Abbie Smith, Suraj Srinivassen, K. R. Subramanyam, Andy Van Buskirk, Ross Watts, participants at the 2005 Journal of Accounting Research Conference, and seminar participants at the University of Chicago and the University of Southern California for helpful comments. We also thank Hal White for his hard work and capable research assistance.

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.

REFERENCES



This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

- Manage Preferences
- Accept All
- Reject Non-Essential

Bens , D. A. , AND W. Heltzer . “ The Information Content and Timeliness of Fair Value Accounting: An Examination of Goodwill Write-offs Before, During, and After the Implementation of SFAS 142 .” Working paper , University of Chicago , 2004 .

[Google Scholar](#) 

Dechow , P. ; M. Huson ; AND R. Sloan . “ The Effects of Restructuring Charges on Executives Cash Compensation .” *The Accounting Review* **69** (1994): 138 – 56 .

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

Dechow , P. ; A. Hutton ; AND R. Sloan . “ Economic Consequences of Accounting for Stock Based Compensation .” *The Journal of Accounting Research* **34** (1996): 1 – 20 .

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

D'Souza , J. “ Rate-Regulated Enterprises and Mandated Accounting Changes: The Case of Electric Utilities and Postretirement Benefits Other than Pensions (SFAS No. 106) .” *The Accounting Review* **73** (1998): 387 – 410 .

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

D'Souza , J. ; J. Jacob ; AND K. Ramesh . “ The Use of Accounting Flexibility to Reduce Labor Renegotiation Costs and Manage Earnings .” *Journal of Accounting & Economics* **30** (2000): 187 – 208 .

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

El-Gazzar , S. “ Stock Market Effects of the Closeness to Debt Covenant Restrictions Resulting from Capitalization of Leases .” *The Accounting Review* **68** (1993): 258 – 72 .

[Google Scholar](#) 

Elliott , J. A. , AND J. D. Hanna . “ Repeated Accounting Write-Offs and the Information Content of Earnings .” *Journal of Accounting Research* **34** (Supplement 1996): 135 – 55 .

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

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Web of Science®](#) 

[Google Scholar](#) 

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) . *Statement of Financial Accounting Standards 142: Goodwill and Other Intangible Assets* . Norwalk , CT : FASB , 2001 .

[Google Scholar](#) 

Francis , J. ; J. D. Hanna ; AND L. Vincent . “ Causes and Effects of Discretionary Asset Write-Offs .” *Journal of Accounting Research* 34 (Supplement 1996): 117 – 34 .

[Web of Science®](#) 

[Google Scholar](#) 

Frank , R. , AND R. Sidel . “ Firms That Live by the Deal in the '90s Now Sink by the Dozen .” *The Wall Street Journal* , June 6, 2002 : Section J , p . A1 .

[Google Scholar](#) 

Gaver , J. , AND K. Gaver . “ The Relation Between Nonrecurring Accounting Transactions and CEO Cash Compensations .” *The Accounting Review* 73 (1998): 235 – 54 .

[Web of Science®](#) 

[Google Scholar](#) 

Harris , R. , AND J. Caplan . “ Coming Into Focus: New Merger-Accounting Rules May Sharpen Investors' Views of Intangibles, but CFOs Should Also Consider the Impact of Write-offs .” *CFO* 18 (January 2, 2002): 53 .

[PubMed](#) 

[Google Scholar](#) 

Healy , P. , AND K. Palepu . “ Effectiveness of Accounting-Based Dividend Covenants .” *Journal of Accounting & Economics* 12 (1990): 97 – 124 .

[Web of Science®](#) 

[Google Scholar](#) 

Hepburn , B. “ A Necessary Evil .” *Marketing Management* 11 (November 1, 2002): 34 .

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Lewis , E. E. ; J. W. Lippitt ; AND N. J. Mastracchio Jr . “ Users' Comments on SFAS 141 and 142 on Business Combinations and Goodwill .” *The CPA Journal* 71 (2001): 76 .

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

Lys , T. “ Mandated Accounting Changes and Debt Covenants: The Case of Oil and Gas Accounting .” *Journal of Accounting & Economics* 6 (1984): 39 – 65 .

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

Maddala , G. S. *Limited Dependent and Qualitative Variables in Econometrics* . Cambridge: Cambridge University Press , 1986 .

[Google Scholar](#) 

Mohrman , M. “ Debt Contracts and FAS 19: A Test of the Debt Covenant Hypothesis .” *The Accounting Review* 68 (1993): 273 – 88 .

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

Mohrman , M. “ The Use of Fixed GAAP Provisions in Debt Contracts .” *Accounting Horizons* 10 (1996): 78 – 91 .

[Google Scholar](#) 

Ramesh , K. , AND L. Revsine . “ The Effects of Regulatory and Contracting Costs on Banks' Choice of Accounting Method for Other Postretirement Employee Benefits .” *Journal of Accounting & Economics* 30 (2000): 159 – 86 .

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

Rees , L. S. ; S. Gill ; AND S. Gore . “ An Investigation of Asset Write Downs and Concurrent Abnormal Accruals .” *Journal of Accounting Research* 34 (Supplement 1996): 157 – 69 .

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

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Segal , B. “ Goodwill Write-Downs and the Adoption of SFAS 142 .” Working paper , University of California–Davis , 2003 .

[Google Scholar](#)

Sweeney , A. “ Debt-Covenant Violations and Managers' Accounting Responses .” *Journal of Accounting & Economics* 17 (1994): 281 – 308 .

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

Tergesen , A. “ How Much Is the Goodwill Worth? ” *Business Week* 16 (September 2002): 83 – 84 .

[Google Scholar](#)

Watts , R. “ Conservatism in Accounting Part I: Explanations and Implications .” *Accounting Horizons* 17 (2003a): 207 – 23 .

[Google Scholar](#)

Watts , R. “ Conservatism in Accounting Part II: Evidence and Research Opportunities .” *Accounting Horizons* 17 (2003b): 287 – 301 .

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

Watts , R. , AND J. L. Zimmerman . *Positive Accounting Theory* . Englewood Cliffs , NJ : Prentice Hall , 1986 .

[Google Scholar](#)

Watts , R. , AND J. L. Zimmerman . “ Positive Accounting Theory: A Ten Year Perspective .” *The Accounting Review* 65 (1990): 131 – 56 .

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

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

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

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

[Sitemap](#)

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

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



Manage Preferences

Accept All

Reject Non-Essential