Abstract

This study examines whether the introduction of SFAS 141 "Business Combinations" (2001) and SFAS 142 "Goodwill and other Intangible Assets" (2001) has led to more precise information about accounting goodwill in the financial statements of acquirers. Acquisitions in the period 1997-2005 between US stock exchange listed companies were studied. The results show that after the introduction of new regulation the relative amount of accounting goodwill (59,8% of the purchase price) is lower when compared to relative accounting goodwill in the period before (67,6% of the purchase price). Moreover, more acquiring companies reported on intangibles under the new regime. Correcting for industries of the target companies, the total combined effect of the new accounting regime and reporting on intangible assets on relative goodwill is significant and negative. However, the effect of the new regime is limited for companies that separately report on acquired intangible assets. Apparently, this type of company is already accurately reporting. The results indicate that the changes in regulation have made goodwill a more concise concept; thereby bringing accounting goodwill and economic goodwill closer together.