The Invitation to Comment sets out twenty-nine questions for respondents. Our goal in providing comments is to do so based on relevant academic literature. Thus, we have limited our comments to those questions for which there is relevant research. In our view, these are Question 1, Questions 3-4, Question 6, Question 8, Question 12, Questions 14-15, Question 17, and Question 22. We were unable to identify research that was directly relevant to the other questions in the Invitation to Comment.

We note that many of the questions in the Invitation to Comment focus on the net costs versus benefits of a given accounting treatment. In our comments below, we are often able to identify areas of cost and/or benefit, but we are not able to quantify whether the costs outweigh the benefits or vice versa. We reiterate this point in many of our responses to the Board’s questions.

Questions and Comments

**Question 1:** What is goodwill, or in your experience what does goodwill mainly represent?

We view recognized goodwill as having three components: (1) core goodwill, (2) errors in measuring acquired net assets, and (3) overpayment. Components (2) and (3) should not be
included in goodwill in theory, although in practice they may often be included in recognized goodwill. We discuss each component more fully below.

(1) Core goodwill includes the going concern element of the acquiree’s existing business and synergies from combining the acquirer’s and acquiree’s businesses (Johnson and Petrone 1998). The going concern element of the acquiree’s business might include employees in place, unique manufacturing processes, and other valuable items that do not qualify for asset recognition.

(2) Errors in measuring acquired net assets occur when the acquirer does not separately recognize certain acquired assets or liabilities as required under GAAP, or when recognized assets or liabilities are not measured appropriately (e.g., acquired tangible assets are not recorded at their appropriate fair values at the acquisition date). In this case, total assets are stated correctly, although other assets and goodwill might be stated incorrectly.

(3) Overpayment occurs when the acquirer pays more than is warranted for the business combination. This could result from overpayment in real terms or when the consideration paid by the acquirer is overvalued (Johnson and Petrone 1998). In this case, both goodwill and total assets are overstated because these items do not meet the definition of an asset.

Although somewhat dated, Henning et al. (2000) provide evidence on the relative proportions of these components of goodwill. They analyzed 1,576 purchase-method acquisitions between 1990 and 1994, and estimated that core goodwill comprises 69.4% of recognized goodwill, with 20.9% relating to the going concern component and 48.5% related to synergies. The authors attributed the remaining 30.6% of recognized goodwill to overpayment. However, the authors implicitly assumed no errors in the acquirers’ measurement of acquired net assets. To the extent that errors occurred, they would have been included in the authors’ measure of the going concern component of goodwill.

Further evidence that recognized goodwill includes more than just core goodwill can be found in studies on acquisition purchase price allocations and acquisition pricing. Zhang and Zhang (2017) examined 137 acquisitions between 2001 and 2007, and found evidence of an over-allocation of the acquisition purchase price into goodwill following SFAS 142 by companies with incentives to avoid the amortization expense associated with separately recognized intangible assets. de Bodt et al. (2018) reported evidence of significant overpayment by acquirers, which helps explain the negative stock returns to acquirers documented around many acquisition announcements (e.g., Fuller et al. 2002; Moeller et al. 2004; and others).

These studies support the idea that recognized goodwill represents more than just core goodwill in practice. However, other than Henning et al. (2000), we are not aware of empirical evidence on the relative magnitudes of specific components of core goodwill. In particular, although ASC Topic 805-30-50 requires disclosure of a qualitative description of factors that comprise goodwill, we are not aware of studies documenting the content or value of such disclosures.
Question 3: On a cost-benefit basis, relative to the current impairment-only model, do you support (or oppose) goodwill amortization with impairment testing? Please explain why in your response.

We do not have empirical data on the costs to preparers associated with either the current impairment-only model or the amortization-with-impairment model. Thus, we are not in a position to opine on the cost-benefit tradeoff for either model in isolation or in comparison. However, we will briefly discuss evidence on the potential costs to auditors and decrease in benefits to financial statement users under the current approach, with some of this research making explicit comparisons between the impairment-only and amortization-with-impairment models. Based on this research, we are inclined to support goodwill amortization with impairment testing over the current impairment-only model.

With respect to auditors, Ayers et al. (2019) found that the current impairment-only model creates friction between auditors and managers, and there is a positive association between material goodwill impairments and subsequent auditor dismissals. Carcello et al. (2019) found that goodwill impairments become less likely as clients’ non-audit fees increase, and that this is driven by clients who have the strongest incentives to exert influence over their auditors. This research suggests that the current impairment-only model may have implications for audit effectiveness.

With respect to financial statement users, several academic studies have examined the change from an amortization-with-impairment model to an impairment-only model for goodwill. Bens et al. (2011) studied 338 goodwill impairments by publicly traded companies between 1996 and 2006 and found that the amount of new information provided to equity investors by goodwill impairments declined following SFAS 141/142. This finding could result from goodwill impairments becoming less timely under the impairment-only model, as shown by Li and Sloan (2017). Part of the delay in impairments can be attributed to managers’ incentives, with the literature documenting delayed impairments in response to managers’ own compensation and reputation concerns or in response to debt covenants and exchange listing requirements (Beatty and Weber 2006; Ramanna and Watts 2012).

SFAS 141/142 may have also affected managers’ purchase price allocations. For example, Zhang and Zhang (2017) documented an increase in purchase price allocations to goodwill following SFAS 141/142, presumably to avoid the amortization required for separately recognized, finite-lived intangible assets (see also Shalev et al. 2013). The authors found that purchase price allocations to goodwill increase with financial reporting incentives but decrease with the use of an external appraiser.1 A recent working paper by Koonce et al. (2019) report an experiment with experienced preparers that supports this view, in that acquirers allocate more to goodwill under an impairment-only model than under an amortization model. However, they also document that, as uncertainty about the fair value of other acquired assets increases, preparers use that

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1 Lynch et al. (2019) found that the financial reporting incentives to overstate goodwill can be offset by tax incentives in taxable asset acquisitions, as managers can increase the present value of future tax savings by allocating more of the purchase price to shorter-lived assets.
uncertainty to justify allocating less to goodwill under an amortization model.\textsuperscript{2} This finding suggests that the relative values of acquired assets may also be distorted under a goodwill amortization model.

Overall, the evidence suggests that under the current impairment-only model (as opposed to the amortization-with-impairment model), companies are more likely to respond to incentives to overstate the goodwill balance without recognizing impairments on a timely basis, which has led to less useful financial information for equity investors. As Koonce et al. (2019) highlight, however, the amortization-with-impairment model may result in understated goodwill balances. Thus, there is a concern that goodwill will be biased regardless of the reporting model.

**Question 4:** If the Board were to decide to amortize goodwill, which amortization period characteristics would you support? Please include all that apply in your response and explain why you did not select certain characteristics.

- a. A default period
- b. A cap (or maximum) on the amortization period
- c. A floor (or minimum) on the amortization period
- d. Justification of an alternative amortization period other than a default period
- e. Amortization based on the useful life of the primary identifiable asset acquired
- f. Amortization based on the weighted-average useful lives of identifiable asset(s) acquired
- g. Management’s reasonable estimate (based on expected synergies or cash flows as a result of the business combination, the useful life of acquired processes, or other management judgments).

We support setting a default period (option a) with the following conditions: (1) the default period should be kept reasonably short, and (2) public business entities (PBEs) should be given the option to depart from the default period to better convey information about the expected benefit period of goodwill. However, given the typically short lifespan of goodwill benefits, we also support having a cap on the amortization period when PBEs use the option to depart from the default period. In other words, we support a combination of options a, b, and d.

While academic evidence on the goodwill amortization period is fairly limited, there are two streams of research that lend support to our selected options. The first research stream provides evidence suggesting that the expected benefit of goodwill decays rapidly and that investors view goodwill as a wasting asset. One caveat, however, is that these studies do not provide evidence that distinguishes between the expected benefit period of core goodwill and that of other components of goodwill such as unrecognized acquired net assets.

Bugeja and Gallery (2006) studied a sample of 136 Australian firms that acquired goodwill between 1995 and 1999.\textsuperscript{3} The authors found that the net amount of purchased goodwill (that is,

\textsuperscript{2} As to why preparers might prefer to minimize the value of goodwill, abnormal amounts of goodwill on the balance sheet are suggestive of overpayment for an acquisition and are thus viewed negatively by the markets (e.g., Paugam et al. 2015). Consistent with this, the experienced participants in Koonce et al. (2019) believed that investors viewed goodwill more negatively than other intangible assets.

\textsuperscript{3} The applicable Australian accounting standard (AASB 1013 Accounting for Goodwill) required the amortization of purchased goodwill over a period not exceeding 20 years on a straight-line basis.
the gross amount of goodwill acquired less any amortization) was significantly associated with firms’ market value of equity, but only in the year of the acquisition and in the two years following the acquisition. The net amount of purchased goodwill from ‘older’ acquisitions was not associated with firms’ equity values. Li et al. (2010) found similar evidence in the U.K. setting. In the U.S. context, McInnis and Monsen (2019) found that purchased goodwill from acquisitions between 2003 and 2014 was significantly associated with future operating income for up to five years. Brown and Kimbrough (2011) also found that, while purchased goodwill contributed to a firm’s ability to generate a unique stream of economic earnings, this relation was substantially lower compared to that for separable recognized intangible assets, suggesting that the economic value of goodwill was less persistent than identifiable intangibles.

The second stream of research examines more closely the length of the amortization period for goodwill. The evidence suggests that shorter amortization periods better reflect the short-lived benefits of purchased goodwill. In particular, the results in Henning and Shaw (2003) and Ojala (2007) suggest that goodwill information is more relevant to investors when the amortization period is sufficiently matched with the short economic life of goodwill.

In a study of Finnish firms, Ojala (2007) concluded that information about the goodwill balance, goodwill amortization expense, and any related impairment losses were more value relevant to investors when the firm applied an amortization period less than five years.4 Henning and Shaw (2003) reached a similar, but more nuanced, conclusion using a sample of purchase-method acquisitions by U.S. firms between 1990 and 1994.5 The authors noted that firms were more likely to select a shorter goodwill amortization period (i.e., less than the maximum period of 40 years) when they expected to derive substantial synergies from the acquisition. They also found that the length of the selected amortization period is predictive of future abnormal earnings and abnormal stock returns after the acquisition. Firms that opted for a shorter amortization period experienced stronger growth in abnormal earnings that presumably compensated for the faster write-down of goodwill. On the other hand, firms that selected the maximum 40-year amortization period experienced significant declines in earnings and stock returns after the acquisition. Henning and Shaw (2003) interpreted this finding as evidence of management’s strategic use of long amortization periods to mask the expected performance of less successful acquisitions.

We note that, contrary to the evidence discussed above, a few studies suggest that systematic amortization of goodwill reflects arbitrary allocations that are irrelevant for investor decisions. Using a sample of U.S. firms from 1993 to 1998, Jennings et al. (2001) found no difference in the value relevance of earnings after adjusting for goodwill amortization charges. Thus, it appears that investors pay little or no attention to goodwill amortization charges and their effect on earnings. Moehrle et al. (2001) studied this same issue and arrived at a similar conclusion—goodwill amortization charges are not decision-useful. The non-GAAP reporting literature also sheds light on this issue as studies using pre-SFAS 142 data find that many firms and equity

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4 This study was conducted on a sample of Finnish firms that applied Finnish accounting standards stipulating a goodwill amortization period of up to 20 years.

5 The applicable U.S. accounting standard during this time period (APB Opinion No. 17 Intangible Assets) required firms to amortize goodwill over a period not to exceed 40 years.
analysts opted to exclude goodwill amortization charges when deriving adjusted earnings metrics.

Collectively, the academic evidence indicates that shorter amortization periods better reflect the short-lived nature of purchased goodwill. While some studies suggest that financial statement users gain little information from goodwill amortization, these studies do not differentiate between goodwill allocations that are spread over shorter versus longer periods. Thus, it is possible that the evidence in Jennings et al. (2001) and Moehrle et al. (2001) are attributable to firms that select longer amortization periods.

We understand the difficult balance the Board faces regarding an amortization period based solely on management’s reasonable estimate of the expected benefit period of goodwill (option g). While management’s own estimate could provide useful information to financial statement users, we share some of the concerns raised by constituents regarding possible strategic behaviors by management, especially in light of the evidence in Henning and Shaw (2003). In addition, the literature provides evidence suggesting that the audit of goodwill and other fair value accounts can be challenging, leading to a number of audit judgment deficiencies (see literature review and discussion in Bratten et al. 2013). We, therefore, encourage the Board to carefully consider whether the potential benefits of this option are likely to outweigh the potential costs. We are however unable to offer a definitive opinion on this cost-benefit trade-off given the current state of the literature.

An amortization period with a floor or minimum (option c) could pose similar issues regarding strategic behaviors and auditability, as firms would not be precluded from selecting long amortization periods that do not reflect the short-lived nature of goodwill benefits. While managerial discretion still plays a role in our selected options, we believe that strategic behaviors likely would be less pervasive if the Board selects a short maximum cap or a short default period. We also believe that the option to select a period shorter than the maximum cap (or to depart from the default period) provides some added benefit to financial statement users. Whether this added benefit outweighs the potential costs is again a matter that we are unable to opine on given scant empirical evidence on the range of costs associated with goodwill amortization.

Lastly, we are least in favor of an amortization period that is based on either the useful life of the primary identifiable asset or a weighted average of the identifiable assets (options e and f). As noted in our response to Question 1, purchased goodwill is comprised of multiple elements, and the characteristics of these elements could depart substantially from the characteristics of the net assets identified in the acquisitions. On the other hand, we acknowledge that the exact make-up of goodwill is unknown and as such, options e and f could be viable alternatives if the components of goodwill and the associated benefits are correlated with the benefits to be derived from the identifiable assets.

**Question 6:** Regarding the goodwill amortization period, would equity investors receive decision-useful information when an entity justifies an amortization period other than a default period? If so, does the benefit of this information justify the cost (whether operational or other types of costs)? Please explain.
As with many of our responses, the academic literature does not allow us to opine on whether the benefits outweigh the costs in this situation. However, we note that the evidence in Henning and Shaw (2003) indicates that the selection of an amortization period that is shorter than the default period (or the maximum cap of 40 years in their setting) conveys a signal of positive expected synergies from the acquisition. More broadly, we believe that a default period creates a norm or expectation for the firm’s amortization period. Although not in the context of goodwill amortization, there is experimental accounting research that documents meaningful investor reactions when firms’ accounting choices deviate from norms or expectations (e.g., Clor-Proell 2009; Koonce et al. 2015).

We, however, note that Henning and Shaw (2003) did not expressly examine management’s justifications for selecting an amortization period other than the maximum cap. Similarly, neither Clor-Proell (2009) nor Koonce et al. (2015) examined management’s justifications for their accounting choices. Thus, we are unable to speak directly to whether disclosures of management’s justifications provide decision-useful information to investors.

There is one additional issue that the Board may wish to consider. Requiring managers to justify an amortization period other than the default period does not ensure that managers would select an unbiased amortization period. Research in psychology suggests that if managers have directional preferences, they will subjectively justify their preferred outcome as long as they can appear reasonable while doing so (see Kunda 1990 for a review). In the case of goodwill amortization, there is likely enough uncertainty to enable managers to reasonably justify their preferred amortization period. Indeed, in an accounting context, Kadous et al. (2003) found that requiring justification can amplify the effects of a directional goal. Inasmuch as managers’ justifications could be biased in favor of a preferred alternative, this could harm the decision-usefulness of the information. Again, however, we note that there is no existing research that directly examines this possibility.

**Question 8:** Do the amendments in Update 2011-08 (qualitative screen) reduce the cost to perform the goodwill impairment test? Do the amendments in Update 2011-08 reduce the usefulness of financial reporting information for users? Please explain and describe any improvements you would recommend to the qualitative screen.

We do not have empirical data on whether the qualitative screen in the goodwill impairment test has reduced the cost to preparers. Thus, we are not in a position to opine on the first part of Question 8. However, two recent working papers address the effect of the qualitative screen on financial reporting outcomes, and they reach quite different conclusions.

Adame (2019) reported the following empirical findings:

1. Firms that rely on a qualitative screen have less complex goodwill.
2. The likelihood of “large” future goodwill impairments (i.e., impairments greater than 10% of original goodwill balance) is lower when firms rely on a qualitative screen.
3. Investors place a higher value on goodwill when firms rely on a qualitative screen rather than a quantitative test. In other words, goodwill is more value relevant for firms that rely on a qualitative screen.
Black et al. (2019) reported the following results:

1. Firms that perform a qualitative screen face lower impairment risks and higher costs of implementing a quantitative test.
2. Firms that perform a qualitative screen have a higher incidence of goodwill impairments.
3. Performing a qualitative screen does not adversely affect impairment timeliness or financial reporting risk.

The two papers reach different conclusions regarding the association between the qualitative screen and future goodwill impairments. Adame (2019) provides a useful appendix in which she discusses the differences between her study and Black et al. (2019) that could have led to the different conclusions. The differences in the two studies are substantial, including sample formation, data collection, variable measurement, and research design.

Given that neither of these working papers has yet undergone rigorous peer review (i.e., for journal publication), it is difficult to draw firm conclusions on this issue. However, there is some agreement between the papers regarding the overall effect of the qualitative screen on future financial reporting quality. Neither paper concludes that the additional discretion afforded by the qualitative screen has had an overall negative effect on financial reporting quality. Indeed, Adame (2019) concluded that “managers are not using the discretion in ASU 2011-08 opportunistically.” Using almost identical language, Black et al. (2019) concluded that “managers are not using the discretion inherent in ASU 2011-08 opportunistically” [emphasis in original]. Based on this convergent evidence, we are inclined to conclude that the qualitative screen has not resulted in a reduction in the overall usefulness of financial reporting information for users.

**Question 12:** The possible approaches to subsequent accounting for goodwill include (a) an impairment-only model, (b) an amortization model combined with an impairment test, or (c) an amortization-only model. In addition, the impairment test employed in alternative (a) or (b) could be simplified or retained as is. Please indicate whether you support the following alternatives by answering “yes” or “no” to the questions in the table below. Please explain your response.

From a conceptual standpoint, it is difficult to determine a single best accounting treatment for goodwill as an aggregate whole because goodwill is comprised of a variety of components with different characteristics (see the response to Question 1 above). Whereas some components of goodwill may be finite-lived, others may be indefinite-lived. Other components of recognized goodwill (i.e., overpayment) are not assets at all. The accounting treatment that reflects the underlying economics for one company can differ from that of another company (or for the same company at a different point in time). That is, what might be “right” for one company could be “wrong” for another.

In theory, goodwill could be split into its separate components and accounted for as appropriate. However, this is not likely to be feasible in practice (see SFAS 142, B73). If limited to a choice between the impairment-only model and the amortization-with-impairment model, we would
look to the (albeit incomplete) evidence discussed in response to prior questions to support the amortization-with-impairment model (option b).

Again, we emphasize the caveat that the academic literature does not provide definitive answers regarding the decision-usefulness of the impairment-only model relative to the amortization-with-impairment model. However, to the extent that the impairment-only model has resulted in delayed impairments and over-allocations of the purchase price to goodwill, then the Board should consider this evidence in its deliberations.

**Question 14:** Please describe what, if any, decision-useful information would be lost if certain recognized intangible assets (for example, non-compete agreements or certain customer-related intangible assets, or other items) were subsumed into goodwill and amortized. Please be as specific as possible. For example, include specific analyses you perform that no longer would be possible.

Unfortunately, academic research in this area does not provide direct evidence concerning specific intangible assets, such as non-compete agreements and customer-related intangibles. However, prior research has generally documented that separate recognition of intangible assets provides decision-useful information about the amount, timing, and uncertainty of future cash flows (King et al. 2019; McInnis and Monsen 2019; Bauman and Shaw 2018). Further, the relevance and reliability of this information differs depending on the type of intangible asset recognized, meaning that there would be a loss of information about future cash flows if certain intangible assets were subsumed into goodwill and amortized.

With respect to the specific analyses that would become more difficult without the separate recognition of intangible assets, information about future cash flows is useful for valuation and security pricing tasks, and is also useful in lending decisions.

**Question 15:** How reliable is the measurement of certain recognized intangible assets (for example, non-compete agreements or certain customer-related intangible assets)?

Unfortunately, academic research in this area does not provide direct evidence concerning non-compete agreements and customer-related intangibles. However, there is indirect evidence, which we believe is worth bringing to the Board’s attention. That is, academic research tends to examine broad classes of intangibles that include different types of intangibles with similar properties, rather than examining individual types of intangible assets.

For example, King et al. (2019) examined two classes of intangible assets—wasting intangibles (which include contract-related intangibles, such as non-compete agreements) and organic intangibles (which include customer-related intangibles). They examined the association between each class of intangible asset and stock price, which provides a joint test of the relevance and reliability of these asset classes. They concluded that both broad classes significantly explain stock price, with wasting intangibles exhibiting a stronger association than do organic intangibles.

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6 Much of the academic literature has focused on the value-relevance of research and development and intellectual property. See Wyatt (2008) for a review.
intangibles. Further, these relationships only hold when the intangible assets are strategically important to the acquisition (i.e., they represent a primary source of future economic benefit). This suggests that there is likely sufficient reliability for these broad classes, but there is more likely to be sufficient relevance to investors when the intangibles represent a meaningful component of the acquisition price.

Taking a different approach that does not rely on an association with stock price, McInnis and Monsen (2019) examined whether two classes of intangible assets—customer-related and non-customer-related—are predictive of future operating income. The idea behind this approach is that the more reliably intangible assets are measured, the stronger association they will have with future profits. The authors found that customer-related intangibles are more reliably measured than are non-customer-related intangibles (which presumably includes non-compete agreements). Specifically, customer-related intangibles are significantly associated with operating income over one-, three-, and five-year horizons, whereas non-customer-related intangibles are not significantly associated with operating income regardless of the time horizon.

Overall, all three studies described above support the notion that customer-related intangibles are measured with a reasonable level of reliability. With respect to non-compete agreements, the answer is less clear because both King et al. (2019) and McInnis and Monsen (2019) combine non-compete agreements with other types of intangible assets when conducting their analyses and each author team uses a different approach for its analysis.

**Question 17:** Of the possible approaches presented, which would you support on a cost-benefit basis? Please rank the approaches (1 representing your most preferable approach) and explain why you may not have selected certain approaches.

- **a. Approach 1: Extend the Private Company Alternative to Subsume Certain CRIs and all NCAs into Goodwill**
- **b. Approach 2: Apply a Principles-Based Criterion for Intangible Assets**
- **c. Approach 3: Subsume All Intangible Assets into Goodwill**
- **d. Approach 4: Do Not Amend the Existing Guidance.**

While we do not have a specific ranking with respect to the cost-benefit tradeoff for each of the approaches listed above, we would like to note that there are potential benefits to financial statement users that could be lost if the Board selected either Approach 1 or Approach 3.

In both cases (Approach 1 and Approach 3), potential benefits to users will be lost if the intangible assets that are subsumed into goodwill exhibit different properties than does goodwill. McInnis and Monsen (2019) found that goodwill exhibits a stronger association with future operating income than do identified intangible assets. Thus, subsuming all intangible assets into goodwill (Approach 3) would make it more difficult for users to estimate future cash flows. Similarly, King et al. (2019) found that organic intangibles (which include customer-related intangibles) have an association with stock price that is similar to that of goodwill whereas wasting intangibles (which include non-compete agreements) have a stronger association with stock price than does goodwill. Thus, subsuming non-compete agreements (NCAs) into goodwill

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7 Bauman and Shaw (2018) also show a significant association between customer-related intangible assets and stock price.
(part of Approach 1 and Approach 3) would result in a loss of value-relevant information for investors.

**Question 22:** What is your assessment of the incremental costs and benefits of disclosing quantitative and qualitative information about the agreements underpinning material intangible items in (a) the period of the acquisition and (b) any changes to those agreements for several years post-acquisition? Please explain.

As noted, academic research generally does not address the cost-benefit tradeoff of providing disclosures, and we are unaware of any research that documents the costs associated with disclosing information about intangibles. However, we believe there may be a benefit to providing additional disclosures, particularly in the period of acquisition. Specifically, if the Board decides to adopt a model in which some or all intangibles are subsumed into goodwill, there may be benefits to disclosure of the individual assets that comprise goodwill. The evidence for this comes from a recent working paper, which is the only study we are aware of on this issue. Leitter (2019) found that “separately identifying intangibles helps investors more easily envision how an acquiring company can benefit from an acquisition.” This process flows through to affect investors’ evaluations of the acquiring firm’s future prospects, and ultimately, the firm’s value and investment potential. Notably, Leitter (2019) found that merely identifying the individual assets subsumed by goodwill has benefits for investors, even when no information about the relative values of the assets is provided. Thus, such an approach could provide benefits without the need to estimate the fair value of individual assets subsumed by goodwill, a process that often involves considerable uncertainty.

While we believe the approach outlined above could have benefits, we would like to add a caveat. There is a large body of research which suggests that footnote disclosure is unlikely to be a complete substitute for clear presentation on the balance sheet (e.g., Aboody 1996; Barth et al. 2003; Ahmed et al. 2006; Frederickson et al. 2006). Thus, when practical, presentation on the face of the balance sheet is preferable to footnote disclosure as a means for communicating effectively to users. In this context, presentation could include, for example, parenthetical disclosure of the individual assets subsumed into goodwill on the face of the balance sheet.
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