



Goodwill and Net-worth Covenants and SFAS 141 and 142

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Abstract: This paper studies the association between goodwill and net-worth covenants after the adoption of Statements of Financial Accounting Standards No. 141 and 142 (SFAS 141 and 142). Building on Frankel, Seethamraju, and Zack (2008)'s finding that the use of net-worth covenants that include goodwill in the net-worth calculation moderately declined after SFAS 141 and 142, this paper extends their sample period to a longer time-series to mitigate the concerns of compounding events in around year 2000 and also investigate the differential effect of SFAS 141 and 142 on firms with different levels of goodwill. The results show the standards do not have a negative impact on the use of net-worth covenants, suggesting that the standards do not reduce the usefulness of goodwill for debt-contracting purpose. The findings of this study should be informative to the U.S. and international accounting standard-setters that are working together on revising goodwill accounting.

Key words: Goodwill, SFAS 141 and 142, net-worth covenants, FASB, IASB

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