Abstract
US Generally Accepted Accounting Principles (GAAP) require that in an acquisition, the purchaser must record a premium when the purchase price exceeds the net fair value of the target's identifiable net assets (both tangible and intangible). This premium lives on the balance sheet as an intangible asset called goodwill. Goodwill has an indefinite life, but over time it may become impaired due to overpayment of the original acquisition, unrealized synergies, changes in the business, legal issues, etc., and as a result, require a write-down. This impairment not only impacts the acquirer’s balance sheet but can also impact the market value of the entity's shares. Both recorded goodwill and impairments are material amounts on the financial statements of publicly traded companies, and as a result, receive attention from companies, audit firms, investors, and regulators. Given the importance of goodwill impairment, insights into factors that may increase their likelihood warrant exploration. In the context of US publicly traded companies, this study reviews how audit quality proxies of a target company at the time of acquisition impact the likelihood of the acquirer’s future impairment related to the transaction. Results suggest that the goodwill related to an acquisition of a target who used a Big 4 audit firm at the time of acquisition is less likely to be impaired. On the other hand, goodwill from purchases of targets with higher non-audit non-tax service fees and longer tenure had an increased likelihood of impairment.