Notes

1 See P. Healy, S. Myers, and C. Howe, "R&D Accounting and the Tradeoff Between Relevance and Objectivity," *Journal of Accounting Research* 40 (June 2002): 677–711, for analysis of the value of capitalizing R&D and then annually assessing impairment.

2 V. Beattie, K. Edwards, and A. Goodacre show that adjustments to capitalize operating leases have a significant impact on leverage and other key financial ratios of UK firms. See "The Impact of Constructive Operating Lease Capitalisation on Key Accounting Ratios," *Accounting and Business Research* 28 (Autumn 1998): 233–254.

3 Some research suggests that the distinction between finance and operating lease obligation is not arbitrary. In their study "Recognition Versus Disclosure: An Investigation of the Impact on Equity Risk Using UK Operating Lease Disclosures," *Journal of Business Finance and Accounting* 27 (November/December 2000): 1185–1224, V. Beattie, A. Goodacre, and S. Thomson find that UK investors interpret the operating lease obligation as an obligation that increases a firm's equity risk but less so than ordinary debt.

4 P. Healy, S. Myers, and C. Howe, "R&D Accounting and the Tradeoff Between Relevance and Objectivity," *Journal of Accounting Research* 40 (June 2002): 677–711, show that the magnitude of this bias is sizable.

5 See, e.g., B. Bublitz and M. Ettredge, "The Information in Discretionary Outlays: Advertising, Research and Development," *The Accounting Review* 64 (1989): 108–124; M. Hirschey and J. Weygandt, "Amortization Policy for Advertising and Research and Development Expenditures," *Journal of Accounting Research* 23 (1985): 326–335;

B. Lev and T. Sougiannis, "The Capitalization, Amortization, and Value-Relevance of R&D," *Journal of Accounting and Economics* 21 (1996): 107–138; P. Green, A. Stark, and H. Thomas, "UK Evidence on the Market Valuation of Research and Development Expenditures," *Journal of Business Finance and Accounting* 23 (March 1996): 191–216; D. Aboody and B. Lev, "The Value-Relevance of Intangibles: The Case of Software Capitalization," *Journal of Accounting Research* 36 (1998): 161–191; and M. Ballester, M. Garcia-Ayuso, and J. Livnat, "The Economic Value of the R&D Intangible Asset," *European Accounting Review* 12 (2003): 605–633.

6 J. Francis, D. Hanna, and L. Vincent find that management is more likely to exercise judgment in its self-interest for goodwill write-offs and restructuring charges than for inventory or PP&E write-offs. See "Causes and Effects of Discretionary Asset Write-Offs," *Journal of Accounting Research* 34 (Supplement, 1996): 117–134.

7 P. Healy, K. Palepu, and R. Ruback find that acquisitions add value for only one-third of the 50 largest acquisitions during the early 1980s, suggesting that acquirers frequently do not recover goodwill. See "Which Takeovers Are Profitable – Strategic or Financial?" *Sloan Management Review*, Summer 1997. Studying a sample of 519 UK acquirers between 1983 and 1995, S. Sudarsanam and A. Mahate find in their study "Glamour Acquirers, Method of Payment and Post-acquisition Performance: The UK Evidence," *Journal of Business Finance and Accounting* 30 (January 2003): 299–341 that the risk of not recovering goodwill is especially large for glamour acquirers, who have experienced a large share price run-up prior to the acquisition.

8 J. Elliott and D. Hanna find that the market anticipates large write-downs by about one quarter, consistent with managers being reluctant to take write-downs on a timely basis. See "Repeated Accounting Write-Offs and the Information Content of Earnings," *Journal of Accounting Research* 34 (Supplement, 1996): 135–155.

9 Mary E. Barth and Maureen McNichols discuss ways for investors to estimate the value of environmental liabilities. See "Estimation and Market Valuation of Environmental Liabilities Relating to Superfund Sites," *Journal of Accounting Research* 32 (Supplement, 1994): 177–209.

10 Defined contribution plans, where companies agree to contribute fixed amounts today to cover future benefits, require very little forecasting to estimate their annual cost since the firm's obligation is limited to its annual obligation to contribute to the employees' pension funds.

11 E. Amir and E. Gordon show that firms with larger post-retirement benefit obligations and more leverage tend to make more aggressive estimates of post-retirement obligation parameters. See "A Firm's Choice of Estimation Parameters: Empirical Evidence from SFAS No. 106," *Journal of Accounting, Auditing and Finance* 11(3) (Summer 1996).

12 The Black-Scholes option pricing model estimates the value of an option as a nonlinear function of the exercise price, the remaining time to expiration, the estimated variance of the underlying stock, and the risk-free interest rate. Studies of the valuation of executive stock options include T. Hemmer, S. Matsunaga, and T. Shevlin, "Optimal Exercise and the Cost of Granting Employee Stock Options with a Reload Provision," *Journal of Accounting Research* 36 (No. 2, 1998): 231–255; C. Cuny and P. Jorion, "Valuing Executive Stock Options with Endogenous Departure," *Journal of Accounting and Economics* 20 (September 1995): 193–206; and S. Huddart, "Employee Stock Options," *Journal of Accounting and Economics* 18 (September 1994): 207–232.