

Elmahgoub, M., Smith, J., Elamer, A.A., & Abdelfattah, T., (2026) 'Expanded Audit Report and the Value Relevance of Goodwill Impairment, *Journal of Accounting Literature, Forthcoming*, (Accepted 08-Jan-2026). DOI (10.1108/JAL-01-2025-0041)

Expanded Audit Report and the Value Relevance of Goodwill Impairment

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Abstract

Purpose: This study investigates whether goodwill-related Key Audit Matter (GKAM) disclosures enhance the market's assessment of goodwill impairment losses. It examines whether enhanced auditor communication improves the informativeness of impairment reporting in a setting where managerial discretion in goodwill valuation has long been a regulatory concern.

Design/methodology/approach: Using data from UK premium-listed firms, the study applies a value-relevance framework based on Ohlson (1995) to compare the association between goodwill impairment losses and market value before and after EAR adoption. It further analyses whether the presence and extent of goodwill-related KAM disclosures strengthen this association.

Findings: The results indicate that goodwill impairments lacked value relevance before EAR adoption, as managerial opportunism led to delayed or understated impairments. Following EAR adoption, enhanced auditor disclosures reduced information asymmetry, aligning reported impairments more closely with economic realities and improving their value relevance. Entity-specific disclosures were found to be particularly effective in providing incremental information to investors compared to generic disclosures.

Practical implications: The evidence indicates that goodwill-related KAM disclosures provide decision-useful information to investors by clarifying auditor focus on complex valuation judgments. Regulators and standard setters may consider these findings when evaluating the effectiveness of expanded audit reporting in improving transparency and investor understanding.

Originality/value: This study advances theoretical understanding and practical application by addressing the persistent challenge of aligning goodwill impairments, an inherently subjective and discretion-prone accounting item, with economic realities. While prior research has broadly explored the implications of EAR, this study is among the first to isolate its effects on goodwill impairments, revealing the critical role of enhanced auditor transparency in mitigating managerial opportunism. Furthermore, by distinguishing the value of entity-specific disclosures versus generic disclosures, the findings provide new evidence that auditor transparency enhances the market's interpretation of impairment information.

Keywords: Goodwill Impairment; Expanded Auditor Reporting; Value Relevance; Audit Quality; Market Valuation; UK

1. Introduction

The primary goal of financial reporting is to provide decision-useful information to stakeholders, enabling efficient capital market functioning (*Barth et al., 2001*). Central to this objective is the value relevance of accounting figures, which reflects their ability to influence market participants' valuation decisions. While prior research has largely established the value relevance of accounting numbers such as earnings and book value of equity (*Francis & Schipper, 1999*), certain items, like goodwill impairments, remain controversial due to their subjectivity and managerial discretion (*Holthausen & Watts, 2001*). Goodwill impairments rely heavily on managerial estimates of future cash flows and fair value, rendering them susceptible to opportunistic reporting and delayed recognition (*Beatty & Weber, 2006; Li & Sloan, 2017*). This subjectivity can obscure the economic realities underlying goodwill, diminishing its value relevance and raising concerns over financial reporting quality.

In response to these concerns, the introduction of Expanded Audit Reporting (EAR) by global regulators marked a significant shift in audit communication. The Financial Reporting Council (FRC) in the UK led this movement in 2013, mandating auditors to disclose the most significant audit risks, known as Key Audit Matters (KAMs), that required substantial auditor judgment. Similarly, the Public Company Accounting Oversight Board (PCAOB) in the United States implemented a similar requirement in 2017 through the adoption of Auditing Standard 3101, requiring auditors to disclose Critical Audit Matters (CAMs) (*PCAOB, 2017*). The expanded audit report aims to enhance transparency by providing investors with insights into areas of high audit complexity, which are typically associated with subjective and material accounting figures like goodwill impairment.

Despite these regulatory advancements, the literature presents mixed findings regarding the effectiveness of expanded audit reports in enhancing financial reporting quality and decision usefulness. For instance, studies such as *Reid et al. (2019)* and *Burke et al. (2023)* provide evidence of incremental improvements in financial reporting quality following EAR adoption, particularly in terms of earnings management and discretionary accruals. Conversely, others argue that KAMs and CAMs fail to provide new or actionable information, as the risks disclosed are often already known to investors through other communication channels such as annual reports or conference calls (*Gutierrez et al., 2018; Lennox et al., 2023*). This inconsistency highlights the need for further investigation into whether EAR effectively

mitigates information asymmetry, particularly for accounting items that are prone to managerial discretion.

The role of goodwill impairments in this debate is especially salient. Goodwill represents a substantial portion of corporate assets, particularly in industries characterised by high merger and acquisition activity. However, its valuation involves significant subjectivity and managerial discretion, raising concerns about delayed recognition and earnings management (*Beatty & Weber, 2006; Ramanna & Watts, 2012*). Prior research highlights the crucial role of auditors in mitigating managerial opportunism, particularly when goodwill impairments are flagged as significant risk areas during the audit (*Jahan & Karim, 2024; Lei & Shu, 2024*). Expanded audit reporting (EAR), which mandates the disclosure of KAMs, represents a fundamental shift in the auditor's communicative role. By publicly identifying areas of significant risk and explaining how these were addressed, auditors make their professional judgment more transparent to external stakeholders. This enhanced visibility exerts pressure on both auditors and managers to ensure that accounting estimates, such as goodwill impairments, are more faithfully represented. From an agency perspective, EAR reduces information asymmetry and constrains opportunistic reporting by exposing subjective judgments to greater external scrutiny (*DeFond & Zhang, 2014; Jahan & Karim, 2024*). From a signaling perspective, entity-specific KAM disclosures serve as credible indicators of auditor diligence, signalling to investors that audit risks have been rigorously assessed (*Hope et al., 2016; Elsayed et al., 2023*). Consequently, EAR has the potential to improve goodwill impairment reporting by promoting auditor accountability, reducing managerial bias, and enhancing market confidence in the reliability of financial information. Despite these theoretical advancements, empirical evidence on the value relevance of goodwill impairment losses post-EAR adoption remains limited, especially in highly regulated markets like the UK.

Existing studies provide important theoretical and empirical insights into the role of audit disclosures in enhancing financial reporting quality. *Gambetta et al. (2023)* and *Rousseau & Zehms (2024)* emphasise that the specificity of audit disclosures is critical for their informativeness. Entity-specific KAMs; those tailored to the unique circumstances of the client; are more informative to investors than boilerplate disclosures that merely fulfil compliance requirements. For instance, a KAM that provides detailed insights into the assumptions and methodologies underlying goodwill impairment testing can signal the auditor's effort to scrutinise management estimates, thereby enhancing investor confidence.

Conversely, generic disclosures may fail to convey incremental information, rendering them unhelpful in mitigating information asymmetry.

However, several gaps remain in the literature. First, while prior studies examine the association between expanded audit reports and aggregate measures of financial reporting quality (*Reid et al., 2019; Gutierrez et al., 2018*), there is limited evidence on the specific effects of EAR on individual accounting items, such as goodwill impairments. Given the subjectivity inherent in goodwill accounting, it is crucial to investigate whether EAR enhances its value relevance by constraining managerial discretion and reducing information asymmetry. Second, the literature has largely overlooked the differential impact of generic versus entity-specific KAMs on market outcomes. This distinction is important because investors are more likely to respond to disclosures that provide detailed, company-specific insights into auditor judgments and risk assessments (*Gambetta et al., 2023; Lennox et al., 2023*). Finally, while the agency theory suggests that EAR can reduce information asymmetry and improve the credibility of financial statements (*DeFond & Zhang, 2014; Minutti-Meza, 2020*), empirical evidence on these mechanisms remains limited.

This study addresses these gaps by examining the value relevance of goodwill impairment losses in the UK market before and after the adoption of EAR. Specifically, we investigate three interrelated research questions:

1. Does EAR improve the value relevance of goodwill impairment losses?
2. How does the KAM disclosures influence the market valuation of goodwill impairments?

The UK provides a unique empirical setting for addressing these questions. As one of the earliest adopters of EAR, the UK offers a robust regulatory environment characterised by stringent audit standards and high levels of investor scrutiny (*FRC, 2013*). The London Stock Exchange (LSE), with its diverse institutional investor base and strong market discipline, serves as an ideal context for examining the market implications of audit transparency reforms. By using a dataset comprising 1,822 firm-year observations over a seven-year period (2010–2016), this study provides a comprehensive analysis of how EAR could affect the market valuation of goodwill impairments.

Overall, the empirical results reveal three key findings. First, goodwill impairment losses exhibit a significant negative association with firms' market value of equity, confirming

their role as signals of reduced economic value. Second, following the introduction of Expanded Audit Reporting (EAR), this association becomes more aligned with underlying economic impairments, indicating that enhanced auditor transparency mitigates information asymmetry and improves the credibility of impairment disclosures. Third, and most importantly, the informativeness of goodwill impairment reporting is driven by the specificity of auditor disclosures. Entity-specific KAMs, which provide detailed, tailored insights into goodwill impairment testing, significantly moderate the negative market reaction to impairment losses, while generic, boilerplate disclosures have no comparable effect. Collectively, these findings demonstrate that the EAR framework, particularly through entity-specific disclosures, enhances the market's ability to interpret and value goodwill impairments more accurately.

The findings contribute to the literature on financial reporting quality, audit transparency, and value relevance, extending the recent work on goodwill-related key audit matters (Ma et al., 2024; Jahan & Karim, 2024).. First, we show that goodwill impairment losses are significantly and negatively associated with market valuations, consistent with their role as indicators of diminished economic value. Importantly, this relationship becomes more representative of underlying economic impairment in the post-EAR period, suggesting that enhanced auditor communication mitigates information asymmetry and improves the credibility of reported impairments. Grounded in agency theory, this evidence supports the view that expanded audit disclosures strengthen monitoring mechanisms, promote more timely recognition of impairments, and enhance market efficiency by reducing investor uncertainty (DeFond & Zhang, 2014). Second, the study demonstrates that the informativeness of goodwill impairment disclosures depends on the specificity of audit reporting. Entity-specific KAMs, which convey detailed, firm-level insights, provide substantially greater informational value than generic or boilerplate descriptions. This result reinforces recent evidence that disclosure specificity enhances the communicative value of audit reports and facilitates more informed investor decision-making (Gambetta et al., 2023; Rousseau & Zehms, 2024). Finally, the results indicate that EAR contributes to constraining managerial discretion in goodwill impairment reporting. Firms exhibit timelier recognition of impairment losses and a stronger alignment between reported impairments and market valuations in the post-EAR regime. Collectively, these findings highlight the broader benefits of expanded audit reporting; improvements in audit quality, managerial accountability, and overall financial reporting credibility (Reid et al., 2019; Rousseau & Zehms, 2023; Elmahgoub et al., 2025).

From a practical perspective, the findings have significant implications for regulators, auditors, and investors. For regulators, the results provide empirical support for the continued adoption and refinement of EAR as a tool for enhancing audit transparency and financial reporting quality. Specifically, the findings underscore the importance of encouraging entity-specific KAM disclosures that provide meaningful insights about auditors' risk assessments and judgments. For auditors, the study highlights the critical role of KAMs in enhancing the credibility of accounting estimates and mitigating information asymmetry. Finally, for investors, the findings emphasise the value of detailed audit disclosures in improving their understanding of complex accounting figures and reducing uncertainty in valuation decisions.

The remainder of this paper is organized as follows. Section 2 reviews the relevant literature and develops the research hypotheses. Section 3 describes the research design, including the sample selection and methodology. Section 4 presents the empirical results, while Section 5 discusses the findings and their implications. The paper concludes with a summary of contributions, limitations, and directions for future research.

2. Literature Review and Hypotheses Development

2.1 Value relevance of goodwill impairment losses

The value relevance of goodwill impairment losses remains a topic of considerable debate due to its inherent subjectivity and reliance on managerial discretion. Goodwill, which arises from business combinations as the excess purchase price over the fair value of identifiable net assets, reflects the firm's expectation of future synergies and cash flows (*IASB, 2004; FASB, 2001*). However, the accounting treatment of goodwill, particularly the shift to the impairment-only approach, has been criticised for enabling opportunistic managerial behaviour, such as income smoothing and delayed impairment recognition (*Ibrahim et al., 2020; Li & Sloan, 2017; Ramanna & Watts, 2012*). This behaviour diminishes the reliability of reported goodwill impairment losses, raising concerns about their usefulness for market participants.

Empirical research has yielded mixed evidence regarding the value relevance of reported goodwill impairment losses. On one hand, studies such as *Chalmers et al. (2008)* report a significant negative association between goodwill impairment losses and market value, supporting the signalling role of impairments. Consistent with signalling theory (*Spence, 1973*), these findings suggest that impairments serve as credible indicators of deteriorating firm performance and reduced future cash flows. Similarly, *Hayn and Hughes (2006)* and *Martínez*

et al. (2014) find that goodwill impairments are informative to investors, particularly in periods of economic downturn, as they reflect management's reassessment of the firm's economic value.

On the other hand, other studies raise doubts about the reliability of goodwill impairments due to the substantial discretion managers exercise when conducting impairment tests. Agency theory (*Jensen & Meckling, 1976*) highlights the potential for conflicts of interest between managers and shareholders, where managers may delay or manipulate impairments to achieve earnings benchmarks or smooth income (*Bens et al., 2011; Ramanna & Watts, 2012*). For example, *Ji & Lu (2014)* and *Li & Sloan (2017)* document instances where reported impairments failed to align with firms' economic realities, undermining their perceived value relevance.

The divergence in findings may arise from the unverifiable assumptions inherent in impairment testing. Managers rely on subjective inputs, such as projected cash flows and discount rates, to determine the recoverable value of goodwill. These assumptions can be manipulated, leading to impairments that fail to reflect underlying economic conditions (*Hamberg & Beisland, 2014; Sahut et al., 2011*). Moreover, the value relevance of such impairments may vary across institutional and regulatory contexts. For instance, *Oliveira et al. (2010)* find that goodwill impairments exhibit higher value relevance in markets with robust regulatory enforcement, where managerial discretion is more effectively constrained. While prior studies document that expanded audit reporting improves overall market transparency (*Elsayed et al., 2023*) and constrains managerial discretion (*Jahan & Karim, 2024*), little is known about whether such communication enhances the market's interpretation of inherently subjective accounting estimates such as goodwill impairments. Building on recent insights from disclosure specificity research (*Hope, et al., 2016*), this study examines whether entity-specific auditor disclosures under the UK EAR regime improve the value relevance of goodwill impairment losses. In doing so, it provides new evidence on how audit communication quality interacts with managerial judgment to influence capital market outcomes.

Given the ongoing debate surrounding the value relevance of goodwill impairments, this study seeks to clarify whether such impairments provide decision-useful information to market participants. By focusing on a highly regulated environment like the UK, where auditors play a prominent role in overseeing impairment tests, this study aims to examine the

relationship between goodwill impairments and market valuations. Therefore, the first hypothesis is developed as follows:

H₁: Goodwill impairment losses are negatively associated with the company's market value of equity.

2.2 The role of Expanded Audit Reporting (EAR)

The Expanded Audit Reporting (EAR) regime enhances managerial accountability by increasing the transparency of audit processes. When auditors disclose KAMs, particularly those involving high managerial discretion such as goodwill impairment testing, they effectively extend monitoring beyond internal governance channels to capital market participants. This externalisation of audit risk reduces the scope for opportunistic reporting by aligning managerial incentives with the expectation of public scrutiny (*Elsayed et al., 2023*). Moreover, the identification of goodwill impairments as significant audit risks signals that auditors have applied heightened professional scepticism and substantive testing, reducing the likelihood that impairments reflect managerial opportunism rather than underlying economic decline (*Jahan & Karim, 2024*). From a signaling theory perspective, detailed entity-specific KAMs communicate auditor effort and competence, which the market interprets as signals of higher audit quality and credible assurance (*Hope et al., 2016; Camacho-Miñano et al., 2024*). Conversely, generic or boilerplate disclosures may be perceived as symbolic compliance, failing to reassure investors or constrain managerial discretion. Thus, EAR operates through a dual mechanism, enhancing accountability via monitoring (agency theory) and improving credibility via signaling (signaling theory), to strengthen the integrity of goodwill impairment reporting.

Recent international research continues to explore the broader institutional determinants of Expanded Audit Reporting (EAR) and its effectiveness across diverse settings. For instance, *Al-Asmakh, et al. (2024)* find that cultural factors and auditor tenure significantly influence the disclosure of Key Audit Matters (KAMs) in the Gulf Cooperation Council (GCC), suggesting that national culture and auditor-client dynamics shape audit transparency. Similarly, *Noureldeen et al. (2024)* report that board composition and oversight characteristics play a critical role in determining the scope and quality of EAR in China, highlighting governance mechanisms as an essential complement to audit regulation. In the UK context, *Elsayed, et al. (2023)* demonstrate that while the adoption of EAR has improved transparency, the informativeness of audit reports depends largely on the specificity and entity-level tailoring

of disclosures. Recently, *Elmahgoub et al (2025)* finds EAR strengthens the association between poor performance indicators and goodwill impairment. Collectively, these studies underscore that the impact of EAR is institutionally contingent, reinforcing the significance of examining its implications in the UK's stringent audit environment.

Research on the impact of EAR on investor decisions, however, has produced mixed findings, drawing insights from both experimental and archival studies. Experimental studies (e.g., *Christensen et al., 2014; Sirois et al., 2018; Köhler et al., 2020*) reveal that Key Audit Matters (KAMs), a core element of EAR, influence investor behaviour by directing attention to critical areas of financial statements. For instance, *Christensen et al. (2014)* find that nonprofessional investors adjust their decisions based on KAMs related to fair value audits, highlighting the credibility of auditors' disclosures over management footnotes. Similarly, *Sirois et al. (2018)* show that KAMs effectively guide investors' focus but caution that excessive KAMs can dilute their impact by overwhelming readers. In contrast, *Köhler et al. (2020)* demonstrate that the communicative value of KAMs benefits primarily professional investors, as non-professionals often struggle to interpret the nuanced information provided.

Archival studies also present divergent findings. While some studies (e.g., *Bédard et al., 2019; Gutierrez et al., 2018*) report limited market reaction to EAR, suggesting limited incremental informativeness, others (e.g., *Almulla and Bradbury (2022); Lennox et al. (2023); Smith, 2023*) find that EAR improves disclosure readability, reduces information asymmetry, and links financial information more closely to market prices. Recent studies have begun to investigate goodwill-related Key Audit Matters (GKAMs), which represent one of the most judgmental and frequently disclosed areas in expanded audit reports. For example, *Ma et al. (2024)* document that GKAM disclosures enhance the market's understanding of goodwill impairments by reducing information asymmetry and providing incremental informational value beyond financial statement disclosures. Similarly, *Jahan and Karim (2024)* show that goodwill-related CAMs (the U.S. equivalent of KAMs) constrain managerial discretion in impairment recognition and improve the timeliness of reporting. Together, these studies establish the emerging importance of GKAMs in shaping the informativeness of goodwill accounting. However, both studies focus on early or single-country implementations and do not explicitly examine the value relevance mechanism through which EAR enhances investor interpretation of goodwill impairments in the UK's regulatory and institutional context.

These inconsistencies may, in part, stem from variations in the financial reporting contexts examined across studies. One critical area where EAR could have significant value relevance is goodwill impairment testing. Goodwill impairment testing is inherently subjective, requiring substantial managerial judgment, and thus poses unique challenges to transparency and credibility. Drawing on both agency and signaling theories, we propose that the Expanded Audit Reporting (EAR) regime enhances the informativeness of goodwill impairment disclosures through complementary mechanisms. From an agency perspective, goodwill impairment testing is susceptible to opportunistic discretion due to unverifiable managerial assumptions (*Ramanna & Watts, 2012*). By mandating disclosure of audit judgments in high-risk areas, EAR externalises part of the auditor–manager interaction, thereby improving monitoring transparency and reducing information asymmetry (*Elsayed et al., 2023; Jahan & Karim, 2024*). From a signaling perspective, detailed and entity-specific KAMs represent credible signals of auditor effort and scrutiny. These disclosures convey that the auditor has engaged deeply with firm-specific risks and exercised higher professional scepticism, enhancing the perceived credibility of reported impairments (*Camacho-Miñano et al., 2024; Hope et al., 2016*). Generic or boilerplate disclosures, by contrast, fail to convey meaningful signals of audit quality and may perpetuate investor uncertainty. Accordingly, we expect that entity-specific auditor communication under EAR improves market participants’ ability to interpret goodwill impairments as faithful representations of economic value. By focusing on this area, the current study aims to contribute to the understanding of divergent results in prior EAR research by examining whether the inherent subjectivity of goodwill impairment disclosures amplifies the benefits of EAR in enhancing reliability and value relevance. Based on the above discussion, this study proposes following hypothesis:

H2: The adoption of EAR enhances the value relevance of reported goodwill impairment losses.

2.3 The impact of goodwill impairments related audit disclosures in the EAR

While the primary objective of EAR is to provide decision-useful information, the effectiveness of EAR is not uniform, as the extent to which this objective is achieved depends on the quality and detail of the disclosures. Generic disclosures, which rely on standardised language, often fail to provide incremental insights into auditors’ risk assessments and procedures, limiting their utility for investors (*Lennox et al., 2023; Paugam & Ramond, 2015*). In contrast, entity-specific disclosures, that capture the firm’s unique circumstances, are more likely to improve transparency, reduce information asymmetry, and enhance stakeholder

confidence (*Gambetta et al., 2023; Rousseau & Zehms, 2023*). From a signalling theory perspective (*Spence, 1973*), detailed KAM disclosures signal the auditor's effort and scepticism in scrutinising managerial estimates, thereby reinforcing the credibility of reported figures. For example, disclosures that provide granular insights into the assumptions and methodologies used in impairment testing can reassure investors of the rigor and objectivity of the audit process. Conversely, generic disclosures of KAMs risks dilute this signal and may fail to address investors' concerns about the reliability of impairment figures (*Paugam & Ramond, 2015; Köhler et al., 2020*).

The distinction between generic and entity-specific KAMs is critical in determining their communicative value. *Lennox et al. (2023)* caution that generic disclosures, which merely fulfil regulatory requirements, often fail to convey new information to investors. In contrast, detailed KAMs that provide insights into audit procedures and risk mitigation strategies are more likely to reduce uncertainty and improve market participants' understanding of complex accounting items (*Rousseau & Zehms, 2023; Christensen et al., 2014*). Similarly, *Gambetta et al. (2023)* emphasise that entity-specific KAMs, those tailored to the firm's unique risks, are more informative than generic, boilerplate disclosures. These findings suggest that detailed and specific KAMs provide incremental information that enhances the value relevance of goodwill impairments.

Experimental studies provide consistent evidence supporting the superiority of detailed KAMs. *Christensen et al. (2014)* and *Sirois et al. (2018)* demonstrate that entity-specific disclosures guide investors' attention to key financial statement areas, reducing uncertainty and improving decision-making. Tailored disclosures also increase investor confidence in financial statements, particularly when they highlight audit procedures addressing complex and high-risk areas. These findings align with archival evidence showing that detailed audit disclosures reduce firms' cost of capital and enhance the perceived reliability of financial reporting (*Reid, 2015; Gambetta et al., 2023*).

Consistent with agency theory, the introduction of EAR should reduce information asymmetry between managers and investors by requiring auditors to disclose key areas of audit risk and judgment. Consistent with signaling theory, the specificity of these disclosures signals higher auditor effort, thereby increasing users' confidence in reported figures. Hence, goodwill impairments accompanied by entity-specific audit disclosures are expected to be more value relevant than those disclosed under generic or non-informative audit language. Building on the

literature on audit communication quality (Rousseau & Zehms, 2024; Gambetta et al., 2023), we posit that not all KAM disclosures exert uniform effects on market perceptions. Specific, entity-tailored disclosures are more likely to reduce information asymmetry and enhance the market's interpretation of accounting judgments than generic, boilerplate narratives. Therefore, the informativeness of Expanded Audit Reporting depends on the *specificity and contextual depth* of auditor communication. If EAR improves managerial accountability and audit transparency, then goodwill impairments reported under this regime should better reflect underlying economic conditions rather than managerial discretion. Moreover, the specificity of KAM disclosures should amplify this effect by signaling higher auditor scrutiny and effort. Therefore, we hypothesise that the association between goodwill impairments and market valuation is stronger when auditors provide detailed, entity-specific disclosures, consistent with enhanced accountability and information credibility. Accordingly, we propose the following related hypotheses:

H_{3a}: The association between goodwill impairments and market value is stronger when the auditor provides entity-specific KAM disclosures.

H_{3b}: Generic KAM disclosures do not significantly affect the association between goodwill impairments and market value.

3. Research Methods

To investigate the value relevance of goodwill impairment losses, this study adopts the value relevance model, consistent with the framework proposed by Barth et al. (2001) and Ohlson (1995). Value relevance is measured as the extent to which accounting numbers—such as goodwill impairment—are associated with equity market values, reflecting the usefulness of financial statements to investors.

3.1 Value Relevance Model

The value relevance of accounting measures is typically evaluated using two methodological approaches: the information content approach and the long-term association approach. The former captures short-term market reactions to new disclosures, while the latter investigates sustained associations between accounting figures and equity prices over extended periods. Given the characteristics of EAR and prior evidence suggesting its limited immediate market impact (Almulla & Bradbury, 2022; Lennox et al., 2023), this study adopts the long-term association approach. This choice is further justified by PCAOB (2017), which notes that

expanded audit disclosures may reiterate information already available to the market, reducing their potential for short-term informativeness.

Consistent with the literature on the value relevance of goodwill impairment (e.g., Baboukardos and Rimmel, 2014; Hamberg and Beisland, 2014; Al Jifri and Citron, 2009), an adaptation of Ohlson's (1995) model is estimated. Equation (1) is the basic value relevance model, and it is used to test the first hypothesis. Then, Equation (2) introduces the EAR to test the second and third hypotheses. Dummy variables are included for each industry (using the Industry Classification Benchmark) and year to control for any other effects that might be specific to certain industries or years. To lessen potential heteroscedasticity problems, which is one of the common limitations of the price-level regressions, all the following regression models are estimated on a per share basis (Barth and Clinch, 2009)².

The value relevance model operationalizes Ohlson's (1995) equity valuation framework, incorporating both basic and interaction terms to capture the hypothesised moderating effect of EAR on goodwill impairment. The primary regression equations are as follows:

$$PR_i = \alpha_0 + \alpha_1 BV_GWS + \alpha_2 GWS + \alpha_3 EPS_IMP + \alpha_4 IMP + \alpha_5 LOSS + \alpha_6 \text{Industry fixed effect} + \alpha_7 \text{Year fixed effect} + u_i \quad (\text{Equation 1})$$

$$PR_i = \alpha_0 + \alpha_1 BV_GWS + \alpha_2 GWS + \alpha_3 EPS_IMP + \alpha_4 IMP + \alpha_5 EAR + \alpha_6 IMP*EAR + \alpha_7 LOSS + \alpha_6 \text{Industry fixed effect} + \alpha_7 \text{Year fixed effect} + u_i \quad (\text{Equation 2})$$

Where: PR_i is the market value of equity per share³; IMP is goodwill impairment loss per share; EAR is the expanded audit report that is measured using four proxies ($POST$, $ADIS$, $DescDIS$ and $SpecDIS$); BV_GWS is the book value of equity per share; GWS is goodwill per share; EPS_IMP is the earnings per share; $LOSS$ is the firm's net loss.

Audit disclosure variables were manually extracted from auditors' expanded reports and measured using a content analysis approach consistent with prior EAR studies (e.g., Lennox et al., 2023; Gambetta et al., 2023). Specifically, $ADIS$ represents the total number of words auditors used to describe goodwill impairment risks and related procedures; $DescDIS$

² Barth and Clinch (2009) show that per share specifications of Ohlson's (Ohlson, 1995) model outperform other 5 alternative estimation models specifications in mitigating size effects and heteroscedasticity problems. They suggest that per share specifications attenuate such problems as it yields more stable and less biased estimates of the coefficients' p-values and regression explanatory power.

³ Since the whole value relevance model is estimated on a per share basis, the dependent variable (market value of equity per share) is known in prior studies as the share price (PR). Therefore, the two terms 'market value of equity per share' and 'share price' are used interchangeably in this study.

captures the length of the descriptive (non-firm-specific) narrative explaining the impairment testing process; and SpecDIS quantifies the number of words reflecting entity-specific details, such as unique valuation assumptions, audit responses, or sensitivity analyses. The word-count-based approach follows established practice in the EAR literature (e.g., Hope et al., 2016; Elsayed et al., 2023; Jahan & Karim, 2024) and provides an objective, replicable method of quantifying disclosure intensity and specificity. We distinguish between *entity-specific* and *generic* goodwill-related KAMs based on the disclosure's linguistic specificity, whether the auditor provides firm-specific information (e.g., referencing cash-generating units, discount rate sensitivity, or forecast methodology) or uses standard, boilerplate language. This approach does not conflate KAM topic level (account vs. entity), as all GKAMs are account-level by definition; rather, it assesses the *communication quality* within that account-level disclosure. Even within goodwill-related KAMs, significant variation exists in disclosure precision across audit reports. Our manual coding distinguishes GKAMs that include company-specific data, figures, or assumptions (entity-specific) from those using broad, templated descriptions (generic). This approach aligns with prior textual analyses of KAM disclosure quality (Hope et al., 2016; Camacho-Miñano et al., 2024). These measures capture both the intensity and specificity of audit disclosures. Table 1 provides the definitions of these variables and the main source of data for each one of them.

[Insert Table 1 here]

The regression models are estimated on a per-share basis to mitigate potential heteroscedasticity, as recommended by Barth and Clinch (2009). White's heteroscedasticity-consistent standard errors are used to address variance inconsistency (White, 1980). Fixed effects for industries and years control for unobserved heterogeneity that may influence market value. To mitigate the influence of extreme observations, all continuous variables were winsorised at the 1st and 99th percentiles. This approach ensures that results are not driven by outlier effects, consistent with prior value relevance studies (e.g., Barth & Clinch, 2009; Baboukardos & Rimmel, 2014).

Although firm fixed effects and industry-year controls are included to mitigate unobserved heterogeneity, the potential for self-selection bias cannot be fully eliminated. Firms with weaker performance, higher leverage, or governance deficiencies may be more likely to delay goodwill impairments or provide less informative disclosures. These same firms may also attract auditors who issue more standardized or defensive KAMs, potentially biasing the

estimated relationships. Therefore, our results should be interpreted as conditional associations rather than causal effects.”

3.2 Sample and Data Sources

The initial sample includes all non-financial firms listed on the London Stock Exchange (LSE) FTSE All-Shares Index with a premium listing for the period 2010–2016, spanning three years before and after the EAR implementation to ensure a balanced sample. The sample period 2010–2016 was chosen to capture a balanced pre- and post-EAR window. The Financial Reporting Council (FRC, 2013) mandated the inclusion of Key Audit Matters (KAMs) in audit reports for financial periods ending on or after October 2013. Accordingly, the 2010–2012 period represents the pre-EAR phase, while 2014–2016 reflects the post-adoption phase. This six-year window enables the assessment of changes in the value relevance of goodwill impairments attributable to the introduction of EAR, while avoiding contamination from subsequent regulatory reforms.

Financial firms are excluded due to their distinct regulatory environment, along with firms not reporting goodwill or adhering to IFRS during the sample period. This results in a final sample of 1,822 firm-year observations for the value relevance analysis. Primary data sources include Worldscope (Datastream), Fame, and company annual reports. Financial variables such as market capitalization and book value are obtained from Worldscope, while detailed EAR disclosures are manually extracted from annual reports. Table 2 presents sample selection procedures.

[Insert Table 2 here]

4. Empirical Analysis and Discussion

4.1 Descriptive Statistics

Table 3 presents descriptive statistics for the variables used, covering the period 2010–2016. Continuous variables have been deflated by the number of outstanding shares to mitigate scale effects, following Barth and Clinch (2009). Outliers and missing observations have been excluded to ensure robustness and reliability of the results. The dependent variable, market value of equity per share (PR), has a mean of £6.37 and a median of £3.67, indicating substantial variation across the sample. This reflects the diversity in firm size and market performance within the FTSE All-Shares index. The book value of equity excluding goodwill (BV_GWS) averages £1.20 per share (median: £0.63), illustrating the significant role of

goodwill in determining overall equity values. Recorded goodwill (GWS) contributes an average of £1.19 per share to equity, with considerable variability across firms (S.D. = 1.67).

Notably, goodwill impairment losses (IMP) show a mean of £0.02 per share and a median of zero, indicating that most firms did not record impairments during the sample period. Only 20.64% of firm-year observations reported goodwill impairments, consistent with the view that impairments are infrequent but economically significant events. Earnings per share before goodwill impairment (EPS_IMP) averages £0.51 (median: £0.31), with 9.17% of firms (167 observations) reporting negative net income (LOSS). The auditor disclosure variables reveal significant heterogeneity. For instance, auditor disclosure intensity (ADIS) averages 317 words, with a standard deviation of 144 words (range: 39–915 words). Descriptive auditor disclosures (DescDIS) average 133 words (median: 122), whereas entity-specific disclosures (SpecDIS) average 183 words (median: 161). This difference underscores the added granularity in entity-specific disclosures, which auditors employ to provide targeted insights into goodwill impairments.

[Insert Table 3 here]

Panel A of Table 4 contrasts firms that recorded goodwill impairments with those that did not. Statistically significant differences in mean values exist for BVS, GWS, LOSS, and auditor disclosure variables (ADIS, DescDIS, SpecDIS). Firms reporting impairments exhibit higher book equity values and goodwill balances, alongside greater instances of negative net income (24% vs. 9% in non-impairment firms). Notably, auditors identified goodwill impairment as a KAM in 81% of impairment cases, compared to 59% for non-impairment firms. This reinforces the notion that greater auditor focus and disclosure intensity are associated with impairment reporting. Panel B examines differences before and after EAR adoption. Market value of equity per share (PR) is significantly higher ($p < 0.10$) in the post-EAR period. Conversely, EPS_IMP is significantly lower ($p < 0.01$), with a rise in negative net income observations post-EAR (12% vs. 6%; $p < 0.01$). These findings suggest increased scrutiny and conservative reporting in the post-EAR regime. Panel C focuses on firms where auditors identified goodwill impairment as a KAM versus those where it was not. BV_GWS, GWS, and IMP exhibit significant mean differences ($p < 0.01$) between the groups. Furthermore, firms with goodwill impairment flagged as a KAM show higher goodwill balances (£1.484 per share) and greater impairment losses (£0.039 per share), supporting the

notion that flagging goodwill impairment as a KAM is associated with significant goodwill balances and related impairment losses.

[Insert Table 4 here]

4.2 Correlation Matrix

Table 5 presents the Pearson and Spearman correlation matrices for all variables. BV_GWS, GWS, and EPS_IMP exhibit strong positive correlations with the market value of equity (PR) at the 1% significance level. In contrast, net loss (LOSS) shows a negative correlation with PR, consistent with prior literature. The goodwill impairment variable (IMP) exhibits a significant positive Pearson correlation with PR, likely reflecting the positive association between goodwill balances and firm value. However, the Spearman correlation between IMP and PR is negative and insignificant, suggesting the need for multivariate analysis to control for confounding factors. Importantly, correlations between the auditor disclosure variables (ADIS, DescDIS, SpecDIS) and PR are positive but not statistically significant. However, all three variables are significantly correlated with goodwill impairments (IMP) at the 1% level, supporting the hypothesis that enhanced auditor disclosures accompany larger impairment losses. Notably, no independent variable pair exhibits correlations exceeding 0.80, indicating that multicollinearity is unlikely to bias the subsequent regression analyses. Variance Inflation Factors (VIFs) were computed to assess potential multicollinearity among explanatory variables, particularly those involving interaction terms (e.g., IMP×POST, IMP×SpecDIS). The highest VIF recorded across models was 7.45, well below the critical threshold of 10 (Petersen, 2009), indicating that multicollinearity does not pose a significant concern.

[Insert Table 5 here]

4.3 Findings and Discussion of the Main Analysis

4.3.1 Value relevance of goodwill impairment

Table 6 presents the results of testing H1, which hypothesises a negative association between goodwill impairment losses and the market value of equity. The Ordinary Least Squares (OLS) regression results, based on Equation (1), are presented across three columns. Column (1) shows the regression results for the full research sample (N=1,822). Column (2) focuses on a sub-sample of firm-year observations where goodwill is material, defined as cases

where the ratio of goodwill to book value of equity exceeds 5% (Mazzi et al., 2017). This subsample consists of 1,645 firm-year observations. Finally, column (3) presents results for a subsample of companies that recognised non-zero goodwill impairment losses, resulting in a smaller sample of 376 firm-year observations. The regression model is highly significant across all three tested samples. The adjusted R² values of 72%, 73%, and 74%, respectively, highlight the strong explanatory power of the model in capturing variations in equity valuations.

The results confirm a significant negative association between goodwill impairment losses and market value, as expected under H1. Across all models, the coefficients for IMP (-5.59, -5.84, and -4.81, respectively) are statistically significant at the 5% level. These findings provide robust evidence that goodwill impairment losses are value-relevant, as they signal reductions in firms' underlying economic value.

Given that the regression coefficients are significantly lower than -1 across all the three regressions, it can be concluded that the average economic losses realised in companies' market value, as perceived by market participants, exceed the recorded goodwill impairment losses. A possible explanation for this discrepancy is that recorded goodwill impairment losses are systematically understated. Previous research suggests that the recording of goodwill impairment losses may be opportunistically manipulated by managers—either delayed or understated—to inflate earnings and overstate assets (Ramanna & Watts, 2012; Li & Sloan, 2017). In such cases, and considering the UK's semi-strong efficient market, it is likely that market participants are not misled by these practices. Instead, they recognise larger economic losses in market values, reflecting the true economic impairment rather than the understated reported figures. In other words, if the capital market perceives that goodwill impairment reporting is untimely and often delayed, investors may overreact to reported impairment losses, anticipating that the actual economic losses are greater than those disclosed.

[Insert Table 6 here]

Control variables show expected associations: BV_GWS, GWS, and EPS_IMP are positively and significantly related to PR, consistent with the notion that these variables capture information about net asset value, expected future synergies, and earnings quality, respectively. Loss-making firms (LOSS) display a positive association with PR in one regression ($p < 0.10$), consistent with prior research (e.g., Aharony et al., 2010; Baboukardos and Rimmel, 2014) suggesting heterogeneous valuation effects for loss-making versus profitable firms.

4.3.2 Value relevance of goodwill impairment loss: Impact of EAR

Table 7 presents the results for H2, testing whether EAR enhances the value relevance of goodwill impairment losses. The analysis incorporates the interaction term ($IMP \times POST$), where $POST$ indicates the post-EAR adoption period.

[Insert Table 7 here]

Column (1) shows that the interaction term ($IMP \times POST$) is positive and highly significant (7.639, $p < 0.01$), confirming that EAR moderates the negative association between impairments and market value. The combined effect of IMP and $IMP \times POST$ ($-8.507 + 7.639$) is close to -1, indicating that, post-EAR, recorded goodwill impairment losses are perceived as more reliable and reflective of actual economic declines. This suggests that market participants view recorded impairments as credible and less understated. Columns (2) and (3) present similar results for sub-samples with material goodwill balances and non-zero impairment losses, respectively, further supporting the robustness of these findings. These results imply that post-EAR, goodwill impairments are better recognised and less understated, and market participants are less likely to overreact to reported impairment losses. These findings are consistent with agency theory (Jensen & Meckling, 1976), which suggests that the auditor's role in providing enhanced transparency reduces information asymmetry, strengthens the credibility of financial disclosures, and ensures that reported impairments more accurately reflect economic reality. The finding that goodwill impairments became more value-relevant following the introduction of Expanded Audit Reporting (EAR) is consistent with the reform's objective to improve audit transparency and investor confidence. However, the strength of this effect likely reflects several UK-specific institutional factors. The UK's stringent audit oversight framework, led by the FRC, places greater accountability on auditors for the communicative value of their reports (Elsayed et al., 2023). The country's concentrated ownership structure and strong presence of sophisticated institutional investors—such as pension funds and asset managers—also facilitate the assimilation of detailed audit information into market prices (Noureldeen et al., 2024). These features create an environment where enhanced auditor disclosures are more likely to be scrutinized, interpreted, and priced efficiently.

4.3.3 Value relevance of goodwill impairment loss: Impact of auditor disclosures

H3 examines how auditor disclosures about goodwill impairments influence their value relevance. Table 8 Panel A presents regression results for the full sample. Column (1) show results for firms where goodwill impairment was not disclosed as a KAM (337 firm-year observations), while Column (2) focuses on firms where goodwill impairment was reported as a KAM (610 firm-year observations). The association between goodwill impairments and market value is significant only when auditors disclosed it as a KAM (Column 2, $p < 0.05$), emphasising the role of auditor recognition in signalling the materiality of impairments to investors.

Columns 3–5 examines the moderating effects of auditor disclosure length (*ADIS*) and its components (*DescDIS* and *SpecDIS*). The interaction term (*IMP*ADIS*) in column (3) shows a marginally significant positive coefficient (3.525, $p < 0.10$), suggesting that firms with longer goodwill impairment disclosures experience less pronounced market value losses. Columns (4) and (5) support H3b, as entity-specific disclosures (*SpecDIS*) significantly moderate the negative impact of impairments on market value (interaction term = 4.212, $p < 0.05$). In contrast, descriptive disclosures (*DescDIS*) show no significant effect, indicating that generic, standardised disclosures fail to provide value-relevant information.

For firms with high entity-specific disclosures, the combined coefficient ($-5.146 + 4.212 = -0.934$) approaches -1, suggesting that detailed, tailored disclosures enhance the perceived reliability of goodwill impairments, reduce information asymmetry, and lower investor uncertainty. By mitigating agency costs and addressing information gaps, these disclosures reduce the negative market valuation to reported impairments. Additionally, more comprehensive auditor disclosures decrease the likelihood of investor overreaction, further moderating the impact of impairments on market value.

Panels B and C present results for sub-samples of firms with material goodwill balances and non-zero impairments, respectively. The findings align with the main results, showing that entity-specific disclosures significantly moderate the negative market valuation of goodwill impairments, while descriptive disclosures remain insignificant. These results contribute to the

literature on audit quality and financial reporting transparency, demonstrating that EAR enhances the informativeness of financial statements and reduces information asymmetry⁴.

Entity-specific disclosures have an incremental effect because they act as credible signals of auditor diligence and engagement quality in an institutional context that rewards transparency. UK auditors face relatively higher reputational and regulatory costs for inadequate communication, given the FRC's robust inspection and sanctioning regime. As a result, detailed, firm-level KAMs—especially those referencing goodwill impairment testing methods or assumptions—signal deeper auditor involvement and professional scepticism. Investors, particularly institutional ones, interpret such disclosures as assurance-enhancing indicators, leading to stronger market responses. This interpretation aligns with signaling theory, which posits that credible, costly signals, such as tailored audit explanations, enhance the perceived reliability of financial information (Hope et al., 2016; Camacho-Miñano et al., 2024). Our findings complement those of Ma et al. (2024) and Jahan and Karim (2024) by demonstrating that goodwill-related KAMs (GKAMs) not only influence managerial reporting behaviour but also enhance the market's interpretation of goodwill impairments. While Ma et al. show that GKAMs improve disclosure transparency and Jahan and Karim find that goodwill CAMs curb managerial discretion, our results indicate that these effects translate into greater *value relevance*, that is, markets incorporate impairment losses more accurately when accompanied by informative GKAMs. This highlights the dual role of GKAMs as both governance-enhancing and information-signaling mechanisms under the EAR regime.

The UK's institutional architecture provides fertile ground for audit disclosure reforms to influence capital markets. The dominance of Big 4 auditors, coupled with the FRC's stringent inspection system, enhances reputational incentives for auditors to produce meaningful KAMs. Moreover, the UK's deep and analytically active institutional investor community ensures that audit disclosures, particularly entity-specific ones, are interpreted and incorporated into pricing decisions. These factors jointly strengthen the signaling and monitoring channels through which EAR enhances the credibility of goodwill impairment

⁴ A limitation of the current approach is that our classification of entity-specific versus generic disclosures relies primarily on word counts and coding thresholds. Although this method provides a transparent and replicable proxy for disclosure specificity, it does not fully capture the qualitative aspects of communication, such as tone, sentiment, readability, or contextual nuance. For instance, a lengthy disclosure may still be vague, while a shorter one could be highly informative. Therefore, while our results demonstrate that entity-specific disclosures improve informativeness, future studies could complement this approach with more nuanced textual analyses that assess linguistic complexity and sentiment tone.

reporting. It is important to recognize, however, that the incremental effect of entity-specific disclosures observed in the UK may not generalize to all institutional settings. In jurisdictions with weaker audit oversight or less active investor monitoring, such disclosures may be less scrutinized and therefore less value relevant. This highlights that the effectiveness of EAR depends not only on disclosure content but also on the surrounding governance and enforcement environment (Noureldeen et al., 2024).

[Insert Table 8 here]

Our results support the premise that EAR enhances managerial accountability and mitigates opportunistic behaviour. The stronger value relevance of goodwill impairments post-*EAR* indicates that these losses are now more closely aligned with economic reality rather than discretionary timing. This suggests that auditors' public disclosure of KAMs has heightened both internal and external oversight, reducing the scope for managerial bias. Importantly, we find that the effect is driven by entity-specific disclosures, which convey higher auditor engagement and effort. These findings underscore *EAR*'s role as both a monitoring and signaling mechanism, improving the credibility of financial reporting through increased audit transparency and external scrutiny.

4.4 Robustness Analysis

To enhance the robustness and reliability of the main findings, this section provides additional analyses by testing alternative model specifications, variable definitions, and methodologies. These tests ensure that the conclusions regarding the value relevance of goodwill impairment losses and the moderating role of *EAR* remain consistent across different contexts and assumptions.

4.4.1 Different model specifications

To ensure the robustness of the main results, we re-estimate the baseline models using alternative market value measures. Following prior research (e.g., Baboukardos & Rimmel, 2014; Chalmers et al., 2008; Sahut et al., 2011), we use two alternative dependent variables: the market value of equity 4 months and 6 months after the year-end. These timeframes account potential accelerated/delayed market reaction to financial disclosures and expanded audit reporting.

Table 9 - Panel A presents the results for H1. Column (1) uses the market value of equity 4 months after the year-end, while column (2) uses the 6-month measure. The negative

association between goodwill impairment losses (IMP) and market value of equity remains significant at the 5% level across both specifications. The coefficients' magnitude is consistent with the main findings, confirming the value relevance of goodwill impairment losses and their role as decision-useful signals for market participants.

Table 9 - Panel B presents the results for H2. Column (1) uses the 4-month market value, and column (2) uses the 6-month market value. The interaction term ($IMP \times POST$) remains positive and highly significant ($p < 0.01$), reinforcing the conclusion that EAR adoption enhances the credibility and perceived reliability of goodwill impairment disclosures. The combined coefficients of goodwill impairments (IMP) and the interaction term ($IMP \times POST$) approach -1, aligning reported impairments more closely with investors' expectations of economic reality.

Table 9 - Panel C shows the results for the interaction term ($IMP \times SpecDIS$), representing entity-specific disclosures. The term remains positive and significant ($p < 0.10$), underscoring that detailed, tailored disclosures provide incremental value to market participants. These findings highlight how entity-specific information reduces information asymmetry and conveys greater assurance, further supporting the importance of disclosure specificity in financial reporting⁵.

[Insert Table 9 here]

4.4.2 Sub-Sample and Alternative Methodology Analyses

Sub-sample analysis:

To isolate the effects of EAR and test its value relevance, a balanced sub-sample⁶ of 806 firm-year observations is analysed. Table 10 examines the interaction term $IMP*POST$, which captures the incremental impact of EAR adoption while goodwill impairment is recognised as a KAM. The results reveal a significant positive coefficient (8.501, $p < 0.01$) for the interaction term, indicating that EAR adoption enhances the value relevance of goodwill impairment when disclosed as a KAM. This finding suggest that goodwill impairment-related auditor disclosures provide market participants with valuable insights into the impairment test,

⁵ To ensure the robustness of the findings, we re-estimated all models using alternative scaling approaches (e.g., total assets and lagged market value of equity). The unreported results remain consistent in both magnitude and significance.”

⁶ The balanced sample only considers companies in which auditors have considered goodwill impairment as a KAM across the whole period since the standard was adopted.

compared to the period before EAR implementation. Additionally, market participants interpret the disclosure of goodwill impairment as a KAM as a signal that the issue has been rigorously audited, reducing uncertainty and mitigating the negative impact of goodwill impairment losses on market value.

[Insert Table 10 here]

The robustness checks confirm that the key hypotheses are supported across different model specifications, dependent variable measures, and methodological adjustments. These findings underscore the reliability of the study's conclusions regarding the value relevance of goodwill impairment losses and the incremental value of detailed, entity-specific audit disclosures provided under EAR⁷.

5. Conclusion

This study investigated the value relevance of goodwill impairment losses and examined whether the introduction of EAR under ISA 701 enhanced the market perception of these impairments. Specifically, it assesses how EAR moderates the relationship between goodwill impairment losses and the market value of equity and explored the impact of auditors' disclosure specificity on the informativeness of these impairments. By addressing these questions, the study contributes to the literature by shedding light on the broader implications of EAR adoption for financial reporting quality, managerial behaviour, and investor decision-making.

The findings confirm the hypotheses related to the value relevance of goodwill impairment losses and the impact of EAR. First, goodwill impairment losses were found to have a significant negative relationship with the market value of equity, indicating their value relevance in conveying reductions in the economic value of goodwill. However, the stronger-than-expected reduction in the market valuation suggest that reported impairments are often understated, aligning with concerns about managerial discretion in goodwill reporting.

⁷ To partially mitigate potential self-selection, all models include firm fixed effects, controlling for unobservable, time-invariant firm characteristics (e.g., governance structure, reporting culture) that may jointly influence goodwill recognition and disclosure quality. Moreover, by lagging key independent variables and clustering standard errors at the firm level, we reduce the risk that contemporaneous market shocks drive both audit disclosure and valuation outcomes. However, given the observational nature of our data, self-selection cannot be fully ruled out.

Second, the adoption of EAR enhances the value relevance of goodwill impairment losses. The moderating effect of EAR brings reported impairment losses more in line with the economic impairments perceived by the market. This improvement reflects higher audit quality, reduced information asymmetry, and greater investor confidence in financial statements. Finally, the findings highlight the critical role of disclosure specificity. Entity-specific disclosures about goodwill impairments significantly mitigates the negative market impact of impairment losses, whereas generic, boilerplate disclosures fail to provide the same benefit. This underscores the importance of tailored, detailed audit reporting in enhancing the informativeness and transparency of financial disclosures.

This study makes theoretical, empirical, and methodological contributions. Theoretically, it extends the understanding of how external auditors mitigate agency problems through improved disclosures. By demonstrating the role of EAR in enhancing the value relevance of goodwill impairments, the study contributes to the literature on audit quality and regulatory reform. Empirically, the study provides evidence of the impact of EAR on financial reporting quality, particularly in high-discretion areas such as goodwill impairments. By distinguishing between descriptive and entity-specific disclosures, the research highlights the critical role of tailored audit reporting in reducing information asymmetry and fostering investor confidence. Methodologically, the study advances the use of price-level regression models to assess the value relevance of audit disclosures. This approach offers a robust framework for capturing the long-term association between accounting metrics and market valuations, addressing limitations in prior studies that relied on short-term event studies.

The findings carry important implications for regulators, audit standard-setters, and market participants. For regulators and standard-setting bodies such as the Financial Reporting Council (FRC) and the International Auditing and Assurance Standards Board (IAASB), the evidence highlights the critical need to encourage entity-specific KAM disclosures that go beyond compliance-driven, boilerplate reporting. The results suggest that audit reports containing detailed, firm-level explanations of impairment testing assumptions, audit procedures, and outcomes substantially improve investors' ability to assess reporting credibility and firm performance. This supports ongoing regulatory initiatives aimed at enhancing the communicative value of the auditor's report (FRC, 2024). For auditors, the study underscores that the informativeness of the audit report depends not merely on the presence of KAMs but on their quality and specificity. By providing granular, contextualised disclosures, auditors can strengthen perceptions of audit diligence, mitigate information asymmetry, and enhance the

perceived reliability of management's accounting judgments. These insights echo recent findings in Gambetta et al. (2023) and Rousseau and Zehms (2024), which emphasise that detailed KAMs reinforce audit credibility and stakeholder trust. For investors, the results provide a practical framework for interpreting goodwill impairment-related disclosures. Detailed, entity-specific KAMs act as credibility signals, helping investors discern the robustness of impairment testing and the reliability of reported figures. This enables investors to better evaluate firms' economic performance and adjust valuation assessments accordingly. The evidence also suggests that markets respond less strongly to impairments accompanied by high-quality, entity-specific audit disclosures, reflecting reduced uncertainty and improved informational precision. Collectively, these insights highlight that audit transparency reforms are most effective when they promote depth, specificity, and contextual relevance in auditor communication. The results therefore provide actionable guidance for ongoing international efforts to refine EAR standards, bridging the gap between audit regulation, financial reporting quality, and investor decision-making.

Despite its contributions, the study has several limitations. First, the analysis is confined to the UK context, where EAR adoption was mandated in 2013. As such, the findings may not generalise to jurisdictions with different regulatory frameworks or market conditions. Second, the study relies on archival data, which limits the ability to capture qualitative aspects of audit disclosures or investor interpretations. Future research could expand on this study in several ways. Comparative analyses across jurisdictions with varying levels of audit regulation could provide deeper insights into the global implications of EAR. One limitation of this study is the relatively short post-EAR observation period (2014–2016), which captures only the initial years following the implementation of the UK's expanded audit reporting requirements. While this design is consistent with early post-reform analyses (e.g., Elsayed et al., 2023; Camacho-Miñano et al., 2024), it may not fully reflect how the communicative value of KAMs evolved as auditors and firms adapted to the new reporting regime. Future research could extend the analysis to a longer post-EAR window to capture potential learning effects, disclosure standardization, and shifts in investor interpretation over time. Additionally, experimental or qualitative methods could be employed to explore how investors interpret and respond to different types of audit disclosures. Finally, future studies could investigate the long-term effects of EAR adoption on other high-discretion accounting items, such as deferred tax assets or revenue recognition, to provide a broader perspective on the impact of audit reform on financial reporting quality.

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Tables

Table 1 Summary of variables definition and sources of data

<i>Dependent variable</i>	<i>PR_i</i>	Continuous variable: the market value of equity per share five months after the year-end (Worldscope).
	<i>IMP</i>	Continuous variable: recorded goodwill impairment loss in year t , deflated by the number of shares t (Annual report).
	<i>EAR-POST</i>	Indicator variable: equal 1 if the auditor issued an expanded audit report (Annual report).
	<i>EAR-ADIS</i>	Indicator variable: equal 1 if goodwill impairment-related auditor's disclosure is higher than the median level of the industry distribution at the end of year t , 0 otherwise (Annual report).
	<i>EAR- DescDIS</i>	Indicator variable: equal 1 if the auditor's disclosure of the goodwill impairment risk description is higher than the median level of other auditors' disclosure of the same information at the end of year t , 0 otherwise (Annual report).
<i>Main Independent Variables of Interest</i>	<i>EAR- SpecDIS</i>	Indicator variable: equal 1 if the auditor's disclosure of the goodwill impairment entity-specific audit procedures is higher than the median level of other auditors' disclosure of the same information at the end of year t , 0 otherwise (Annual report).
	<i>BV_GWS</i>	Continuous variable: firm's book value of equity excluding goodwill in year t deflated by the number of shares t (Worldscope).
	<i>GWS</i>	Continuous variable: goodwill before impairment in year t deflated by the number of shares t (Annual report).
<i>Control variables</i>	<i>EPS_IMP</i>	Continuous variable: earnings before goodwill impairment deductions in year t deflated by the number of shares t (Worldscope).
	<i>LOSS</i>	Indicator variable: equal 1 if the firm recognised a net loss (Worldscope).
<i>Fixed Effect variables</i>	<i>INDUSTRY</i>	Dummy variable for each industry based on ICB (Datastream)
	<i>YEAR</i>	Dummy variable for each fiscal Year

Table 2 Sample selection procedures

Sample Procedures	No. of Firm	Firm-year observations
UK companies listed in FTSE ALL Shares index with a premium listing	634	4,438
(-) Financial companies	287	2,009
(-) Firm-year observations with no goodwill		342
(-) Firm-year observations not following IFRS		85
(-) Observations with missing control variables		180
Firm-year observations		1822

Table 3. Descriptive statistics.

Variables	N	Mean	Median	SD	Min	Max
<i>Dependent variable</i>						
PR	1822	6.37	3.67	6.64	0.05	43.11
<i>Independent variables</i>						
BVS	1822	2.39	1.53	2.70	0.00	29.67
BV_GWS	1822	1.20	0.63	2.36	-6.24	29.24
GWS	1822	1.19	0.65	1.67	0.00 ⁸	13.00
EPS_IMP	1822	0.51	0.31	0.74	-2.36	8.92
IMP	1822	0.02	0.00	0.12	0.00	3.28
LOSS	1822	0.09	0.00	0.29	0.00	1.00
<i>Auditor's disclosure related variables</i>						
GI_KAM	947	0.64	1.00	0.48	0.00	1.00
ADIS	607	316.48	291.00	144.43	39.00	915.00
DescDIS	607	132.86	122.00	71.92	8.00	385.00
SpecDIS	607	183.19	161.00	84.83	25.00	501.00

Notes: t statistics in parentheses * p<0.10, ** p<0.05, *** p<0.01. *PR* is the market value of equity per share. Independent variables include goodwill impairment per share (*IMP*), auditor's disclosure of goodwill impairment as a KAM (*GI_KAM*), the extent of auditor disclosure (*ADIS*), descriptive auditor disclosure (*DesDIS*), and Entity specific auditor disclosure (*SpecDIS*). Control variables include the book value per share (*BVS*), book value excluding goodwill per share (*BV_GWS*), goodwill per share (*GWS*), earnings per share excluding impairment (*EPS_IMP*), and firm net loss (*LOSS*). See Table 1 for the definition of each variable.

⁸ The minimum goodwill per share (GWS) is .0007505, which is round to 0.00.

Table 4. Univariate analysis

Panel A – Impairment sample & control sample						
	Impairment Sample		Control Sample		Diff.	t-test
	N	Mean	N	Mean		
PR	376	6.423	1446	6.355	0.068	-0.17
BVS	376	2.902	1446	2.256	0.646**	-3.26
BV_GWS	376	1.287	1446	1.172	0.115	-0.64
GWS	376	1.616	1446	1.084	0.532***	-4.63
EPS_IMP	376	0.477	1446	0.524	-0.048	1.00
LOSS	376	0.239	1446	0.053	0.186***	-8.16
GI_KAM	221	0.810	726	0.594	0.216***	-6.73
ADIS	179	361.045	428	297.846	63.20***	-4.60
DescDIS	179	208.106	428	172.766	35.34***	-4.27
SpecDIS	179	152.939	428	125.079	27.86***	-4.05

Panel B – Before and after the expanded audit report						
Expanded Audit Report (POST)	Yes (N = 947)		No (N = 875)		Diff.	t-test
	Mean	Mean	Mean	Mean		
PR	6.687	6.025	6.687	6.025	0.662*	-2.13
BVS	2.404	2.373	2.404	2.373	0.031	-0.25
BV_GWS	1.208	1.182	1.208	1.182	0.026	-0.23
GWS	1.196	1.191	1.196	1.191	0.005	-0.07
EPS_IMP	0.448	0.586	0.448	0.586	-0.138***	3.92
IMP	0.027	0.019	0.027	0.019	0.008	-1.33
LOSS	0.119	0.062	0.119	0.062	0.058***	-4.33

Panel C – Goodwill impairment is a KAM & control sample						
Goodwill Impairment is a KAM (GI_KAM)	Yes (N = 610)		No (N = 337)		Diff.	t-test
	Mean	Mean	Mean	Mean		
PR	6.671	6.717	6.671	6.717	-0.047	0.10
BVS	2.443	2.334	2.443	2.334	0.109	-0.56
BV_GWS	0.959	1.658	0.959	1.658	-0.699***	3.93
GWS	1.484	0.676	1.484	0.676	0.808***	-8.32
EPS_IMP	0.436	0.471	0.436	0.471	-0.035	0.69
IMP	0.039	0.005	0.039	0.005	0.035***	-6.52
LOSS	0.134	0.092	0.134	0.092	0.042*	-2.02

Notes: t statistics in parentheses * p<0.10, ** p<0.05, *** p<0.01. *PR* is the market value of equity per share. Independent variables include goodwill impairment per share (*IMP*), the auditor's disclosure of goodwill impairment as a KAM (*GI_KAM*), the extent of auditor disclosure (*ADIS*), descriptive auditor disclosure (*DesDIS*), and Entity specific auditor disclosure (*SpecDIS*). Control variables include the book value per share (*BVS*), book value excluding goodwill per share (*BV_GWS*), goodwill per share (*GWS*), earnings per share excluding impairment (*EPS_IMP*), and firm net loss (*LOSS*). See Table 1 for the definition of each variable.

Table 0. Pearson / Spearman correlation matrix

	PR	BV_GWS	GWS	EPS_IMP	IMPAIR	LOSS	ADIS	DescDIS	SpecDIS
PR	1	0.421***	0.395***	0.805***	-0.015	-0.253***	0.038	0.005	0.005
BV_GWS	0.469***	1	-0.192***	0.383***	-0.060	-0.086***	-0.024	-0.039	-0.058
GWS	0.565***	-0.132***	1	0.364***	0.156***	-0.075**	0.052	0.056	0.028
EPS_IMP	0.847***	0.435***	0.460***	1	-0.047	-0.469***	0.017	-0.031	-0.035
IMP	0.0878**	0.082**	0.228***	0.168***	1	0.294***	0.183***	0.177***	0.159***
LOSS	-0.225***	-0.034	-0.073*	-0.294***	0.230***	1	0.049	0.057	0.065
ADIS	0.054	0.008	0.068	0.013	0.092	0.049	1	0.734***	0.698***
DescDIS	0.039	-0.012	0.065	-0.002	0.033	0.057	0.734***	1	0.472***
SpecDIS	0.024	0.008	0.045	-0.012	0.119	0.065	0.698***	0.472***	1

Notes: t statistics in parentheses * p<0.10, ** p<0.05, *** p<0.01. *PR* is the market value of equity per share. Independent variables include goodwill impairment per share (*IMP*), the auditor's disclosure of goodwill impairment as a KAM (*GI_KAM*), the extent of auditor disclosure (*ADIS*), descriptive auditor disclosure (*DesDIS*), and Entity specific auditor disclosure (*SpecDIS*). Control variables include the book value per share (*BVS*), book value excluding goodwill per share (*BV_GWS*), goodwill per share (*GWS*), earnings per share excluding impairment (*EPS_IMP*), and firm net loss (*LOSS*). See Table 1 for the definition of each variable.

Table 6. Value relevance of goodwill impairment (H1)

$$PR_{it} = \alpha_0 + \alpha_1 BV_GWS_{it} + \alpha_2 GWS_{it} + \alpha_3 EPS_IMP_{it} + \alpha_4 IMP_{it} + IndustryFE + YearFE + u_{it}$$

<i>OLS Regression Analysis</i>	(1)	(2)	(3)
<i>BV_GWS</i>	0.729*** (9.12)	0.868*** (9.64)	0.848*** (5.86)
<i>GWS</i>	1.126*** (10.37)	1.105*** (9.94)	1.445*** (7.88)
<i>EPS_IMP</i>	5.124*** (12.77)	5.232*** (11.74)	3.577*** (4.79)
<i>IMP</i>	-5.588** (-2.18)	-5.841** (-2.13)	-4.807** (-2.51)
<i>LOSS</i>	0.624* (1.68)	0.599 (1.49)	0.304 (0.55)
<i>CONSTANT</i>	0.052 (0.12)	-0.019 (-0.04)	0.435 (0.46)
Year FE	Included	Included	Included
Industry FE	Included	Included	Included
N	1,822	1,645	376
F-value	76.24***	78***	27.85***
Adj. R ²	0.72	0.73	0.74
Max VIF	2.21	2.26	2.63

Notes: t statistics in parentheses * p<0.10, ** p<0.05, *** p<0.01. *PR* is the market value of equity per share. Independent variables include goodwill impairment per share (*IMP*). Control variables include the book value per share (*BVS*), book value excluding goodwill per share (*BV_GWS*), goodwill per share (*GWS*), earnings per share excluding impairment (*EPS_IMP*), and firm net loss (*LOSS*). See Table 1 for the definition of each variable.

Table 7. The moderating effect of EAR adoption (H2)

$$PR_{it} = \alpha_0 + \alpha_1 BV_{GWS_{it}} + \alpha_2 GWS_{it} + \alpha_3 EPS_IMP_{it} + \alpha_4 IMP_i + \alpha_5 Post_t + \alpha_6 (IMP_i \times Post_t) + IndustryFE + YearFE + u_{it}$$

<i>OLS Regression Analysis</i>	(1)	(2)	(3)
<i>BV_GWS</i>	0.717*** (8.90)	0.853*** (9.24)	0.824*** (5.95)
<i>GWS</i>	1.083*** (10.61)	1.055*** (10.38)	1.355*** (7.64)
<i>EPS_IMP</i>	5.244*** (13.19)	5.379*** (12.26)	3.906*** (5.12)
<i>IMP</i>	-8.507*** (-3.76)	-8.878*** (-3.48)	-7.240*** (-3.52)
<i>IMP*POST</i>	7.639*** (3.02)	7.941*** (2.89)	6.270*** (2.60)
<i>LOSS</i>	0.539 (1.59)	0.507 (1.38)	0.356 (0.63)
<i>CONSTANT</i>	0.001 (0.00)	-0.078 (-0.18)	0.420 (0.44)
Year FE	Included	Included	Included
Industry FE	Included	Included	Included
N	1822	1645	376
F-value	70.29***	72.02***	28.41***
Adj. R ²	0.72	0.73	0.74
Max VIF	6.01	5.93	7.45

Notes: t statistics in parentheses * p<0.10, ** p<0.05, *** p<0.01. *PR* is the market value of equity per share. Independent variables include goodwill impairment per share (*IMP*) and EAR adoption (*POST*). Control variables include the book value per share (*BVS*), book value excluding goodwill per share (*BV_GWS*), goodwill per share (*GWS*), earnings per share excluding impairment (*EPS_IMP*), and firm net loss (*LOSS*). See Table 1 for the definition of each variable.

Table 8. The moderating effect of auditors' related disclosures (H3)

$$PR_i = \alpha_0 + \alpha_1 BV_GWS + \alpha_2 GWS + \alpha_3 EPS_IMP + \alpha_4 IMP + \alpha_5 ADIS + \alpha_6 IMP*ADIS + \alpha_7 LOSS + \alpha_8 Industry\ fixed\ effect + \alpha_9 Year\ fixed\ effect + u_i$$

Panel A – Full Sample

<i>OLS Regression Analysis</i>	(1)	(2)	(3)	(4)	(5)
<i>BV_GWS</i>	0.744*** (5.40)	0.662*** (4.52)	0.648*** (4.37)	0.655*** (4.43)	0.650*** (4.36)
<i>GWS</i>	1.343*** (5.05)	1.312*** (10.02)	1.284*** (9.69)	1.289*** (9.73)	1.298*** (9.82)
<i>EPS_IMP</i>	5.162*** (9.89)	7.506*** (12.32)	7.586*** (12.26)	7.568*** (12.19)	7.541*** (12.22)
<i>IMP</i>	4.660 (0.33)	-2.900** (-2.02)	-5.334*** (-3.26)	-5.072** (-2.50)	-5.146*** (-3.57)
<i>IMP*ADIS</i>			3.525* (1.65)		
<i>IMP*DescDIS</i>				2.847 (1.14)	
<i>IMP*SpecDIS</i>					4.212** (2.00)
<i>LOSS</i>	2.676*** (3.48)	1.140*** (2.84)	1.145*** (2.88)	1.127*** (2.84)	1.076*** (2.72)
<i>CONSTANT</i>	0.698 (0.83)	0.604 (0.80)	0.571 (0.76)	0.507 (0.66)	0.648 (0.86)
Year FE	Included	Included	Included	Included	Included
Industry FE	Included	Included	Included	Included	Included
N	337	610	610	610	610
F-value	31.82***	85.10***	74.96***	76.55***	76.34***
Adj. R ²	0.74	0.81	0.81	0.81	0.81
Max VIF	1.89	2.58	3.33	4.51	2.59

Panel B – Material Goodwill

<i>OLS Regression Analysis</i>	(1)	(2)	(3)
<i>BV_GWS</i>	0.770*** (6.14)	0.781*** (6.25)	0.765*** (6.11)
<i>GWS</i>	1.168*** (8.82)	1.173*** (8.90)	1.178*** (8.95)
<i>EPS_IMP</i>	8.421*** (14.12)	8.404*** (14.10)	8.387*** (14.16)
<i>IMP</i>	-5.578*** (-3.41)	-5.417*** (-2.65)	-5.265*** (-3.36)
<i>IMP*ADIS</i>		3.471 (1.62)	
<i>IMP*DescDIS</i>			2.875 (1.14)
<i>IMP*SpecDIS</i>			
<i>LOSS</i>		1.355*** (3.72)	1.334*** (3.66)
<i>CONSTANT</i>		0.651	0.506
			0.732

	(0.83)	(0.64)	(0.93)
Year FE	Included	Included	Included
Industry FE	Included	Included	Included
N	592	592	592
F-value	109.41***	111.60***	112.15***
Adj. R ²	0.83	0.83	0.83
Max VIF	3.34	4.53	2.53

Panel C – Impairment Sample

<i>OLS Regression Analysis</i>	(1)	(2)	(3)
<i>BV_GWS</i>	0.987***	1.002***	0.991***
	(7.68)	(7.85)	(7.70)
<i>GWS</i>	1.233***	1.222***	1.279***
	(5.94)	(5.78)	(6.19)
<i>EPS_IMP</i>	7.192***	7.155***	7.018***
	(6.76)	(6.70)	(6.56)
<i>IMP</i>	-6.012***	-6.006**	-5.634***
	(-2.91)	(-2.56)	(-2.83)
<i>IMP*ADIS</i>	4.130		
	(1.65)		
<i>IMP*DescDIS</i>		3.956	
		(1.28)	
<i>IMP*SpecDIS</i>			4.391*
			(1.72)
<i>LOSS</i>	0.855	0.789	0.701
	(1.54)	(1.42)	(1.25)
<i>CONSTANT</i>	1.956	1.571	1.931
	(1.24)	(0.99)	(1.20)
Year FE	Included	Included	Included
Industry FE	Included	Included	Included
N	179	179	179
F-value	42.37***	42.49***	46.99***
Adj. R ²	0.86	0.86	0.86
Max VIF	3.88	5.46	3.19

Notes: t statistics in parentheses * p<0.10, ** p<0.05, *** p<0.01. *PR* is the market value of equity per share. Independent variables include goodwill impairment per share (*IMP*), the extent of auditor disclosure (*ADIS*), descriptive auditor disclosure (*DescDIS*), and Entity specific auditor disclosure (*SpecDIS*). Control variables include the book value per share (*BVS*), book value excluding goodwill per share (*BV_GWS*), goodwill per share (*GWS*), earnings per share excluding impairment (*EPS_IMP*), and firm net loss (*LOSS*). See Table 1 for the definition of each variable.

Table 9. Robustness analysis – Different market value measures

Panel A – Value relevance of goodwill impairment (H1)

$PR_i = \alpha_0 + \alpha_1 BV_GWS + \alpha_2 GWS + \alpha_3 EPS_IMP + \alpha_4 IMP + \alpha_5 LOSS + \alpha_6 \text{Industry fixed effect} + \alpha_7 \text{Year fixed effect} + u_i$		
<i>OLS Regression Analysis</i>	(1)	(2)
<i>BV_GWS</i>	0.730*** (9.19)	0.731*** (9.13)
<i>GWS</i>	1.084*** (10.06)	1.126*** (10.37)
<i>EPS_IMP</i>	5.237*** (13.07)	5.116*** (12.76)
<i>IMP</i>	-4.850** (-2.16)	-5.583** (-2.18)
<i>LOSS</i>	0.566 (1.59)	0.615* (1.66)
<i>CONSTANT</i>	0.101 (0.24)	0.049 (0.12)
Year FE	Included	Included
Industry FE	Included	Included
N	1822	1822
F-value	74.01***	78***
Adj. R ²	0.73	0.72

Panel B – The moderating effect of EAR adoption (H2)

$PR_i = \alpha_0 + \alpha_1 BV_GWS + \alpha_2 GWS + \alpha_3 EPS_IMP + \alpha_4 IMP + \alpha_5 POST + \alpha_6 IMP*POST + \alpha_7 LOSS + \alpha_8 \text{Industry fixed effect} + \alpha_9 \text{Year fixed effect} + u_i$		
<i>OLS Regression Analysis</i>	(1)	(2)
<i>BV_GWS</i>	0.720*** (8.98)	0.718*** (8.90)
<i>GWS</i>	1.045*** (10.04)	1.083*** (10.61)
<i>EPS_IMP</i>	5.348*** (13.30)	5.236*** (13.18)
<i>IMP</i>	-7.431*** (-3.80)	-8.496*** (-3.76)
<i>IMP*POST</i>	6.529*** (2.80)	7.643*** (3.02)
<i>LOSS</i>	0.494 (1.47)	0.529 (1.56)
<i>CONSTANT</i>	0.057 (0.13)	-0.002 (-0.01)
Year FE	Included	Included
Industry FE	Included	Included
N	1822	1822
Adj. R ²	0.73	0.72

Panel C - The moderating effect of auditor-related disclosures (H3)

$$PR_i = \alpha_0 + \alpha_1 BV_GWS + \alpha_2 GWS + \alpha_3 EPS_IMP + \alpha_4 IMP + \alpha_5 ADIS + \alpha_6 IMP*ADIS + \alpha_7 LOSS + \alpha_8 \text{Industry fixed effect} + \alpha_9 \text{Year fixed effect} + u_i$$

	Market Value 4 Months			Market Value 6 Months		
<i>OLS Regression Analysis</i>	(1)	(2)	(3)	(4)	(5)	(6)
<i>BV_GWS</i>	0.660*** (4.53)	0.667*** (4.59)	0.662*** (4.51)	0.649*** (4.37)	0.656*** (4.42)	0.651*** (4.35)
<i>GWS</i>	1.310*** (9.85)	1.316*** (9.87)	1.323*** (9.97)	1.284*** (9.67)	1.288*** (9.70)	1.297*** (9.80)
<i>EPS_IMP</i>	7.434*** (11.87)	7.413*** (11.79)	7.393*** (11.83)	7.569*** (12.20)	7.551*** (12.14)	7.524*** (12.16)
<i>IMP</i>	-5.154*** (-3.11)	-4.972** (-2.45)	-5.043*** (-3.51)	-5.308*** (-3.24)	-5.052** (-2.49)	-5.123*** (-3.55)
<i>IMP*ADIS</i>	3.292 (1.52)			3.536* (1.65)		
<i>IMP*DescDIS</i>		2.790 (1.12)			2.864 (1.15)	
<i>IMP*SpecDIS</i>			4.090* (1.95)			4.234** (2.01)
<i>LOSS</i>	1.079*** (2.69)	1.065*** (2.67)	1.010** (2.53)	1.124*** (2.82)	1.107*** (2.78)	1.055*** (2.66)
<i>CONSTANT</i>	0.543 (0.73)	0.531 (0.70)	0.623 (0.84)	0.568 (0.75)	0.504 (0.66)	0.646 (0.86)
Year FE	Included	Included	Included	Included	Included	Included
Industry FE	Included	Included	Included	Included	Included	Included
N	610	610	610	610	610	610
Adj. R ²	0.80	0.80	0.80	0.81	0.81	0.81

Notes: t statistics in parentheses * p<0.10, ** p<0.05, *** p<0.01. *PR* is the market value of equity per share. Independent variables include goodwill impairment per share (*IMP*), the extent of auditor disclosure (*ADIS*), descriptive auditor disclosure (*DesDIS*), and Entity specific auditor disclosure (*SpecDIS*). Control variables include the book value per share (*BVS*), book value excluding goodwill per share (*BV_GWS*), goodwill per share (*GWS*), earnings per share excluding impairment (*EPS_IMP*), and firm net loss (*LOSS*). See table 1 for the definition of each variable.

Table 10. Value relevance of goodwill impairment loss: The impact of EAR – Balanced sample

$PR_i = \alpha_0 + \alpha_1 BV_GWS + \alpha_2 GWS + \alpha_3 EPS_IMP + \alpha_4 IMP + \alpha_5 EAR + \alpha_6 IMP*POST + \alpha_7 LOSS + \alpha_8 \text{Industry fixed effect} + \alpha_9 \text{Year fixed effect} + u_i$	
<i>OLS Regression Analysis</i>	Balanced Sample
<i>BV_GWS</i>	0.576*** (4.81)
<i>GWS</i>	1.192*** (7.67)
<i>EPS_IMP</i>	5.994*** (6.16)
<i>IMP</i>	-10.259*** (-3.99)
<i>EAR</i>	1.757*** (4.28)
<i>IMP*POST</i>	8.501*** (2.99)
<i>LOSS</i>	0.517 (0.82)
<i>CONSTANT</i>	0.548 (0.83)
Year FE	Included
Industry FE	Included
N	806
Adj. R ²	0.76

Notes: t statistics in parentheses * p<0.10, ** p<0.05, *** p<0.01. *PR* is the market value of equity per share. Independent variables include goodwill impairment per share (*IMP*) and EAR adoption (*POST*). Control variables include the book value per share (*BVS*), book value excluding goodwill per share (*BV_GWS*), goodwill per share (*GWS*), earnings per share excluding impairment (*EPS_IMP*), and firm net loss (*LOSS*). See table 1 for the definition of each variable.