

DO FIRMS PURCHASE THE POOLING METHOD?

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ABSTRACT

We investigate two related questions. Are firms willing to incur higher acquisition premiums to use the pooling-of-interests accounting method and what factors influence firms' use of purchase versus pooling-of-interests accounting? We analyze a comprehensive sample of nontaxable corporate stock-for-stock acquisitions occurring over the period 1990 through 1996. We use a two-stage, instrumental variables estimation method that explicitly allows for simultaneity in the choice of accounting method and acquisition premiums. After controlling for economic differences across pooling and purchase transactions, evidence suggests that firms pay a premium to use the pooling method. Our analysis also indicates that financial reporting incentives (i.e., the non-recognition of the step-up in target book value and the reporting of target earnings in the acquisition year) influence acquiring firms to structure transactions as pooling-of-interests.