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School of Accounting

Takeover Gains and the Recognition of Identifiable Intangible Assets

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A thesis submitted in fulfillment of the requirements for the degree of Doctor of Philosophy (Accounting)

Year of Submission 2011

CERTIFICATE OF AUTHORSHIP/ORIGINALITY

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

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ACKNOWLEDGEMENTS

I thank the contribution of my supervisors, Associate Professor Peter Wells and Professor Greg Clinch. Without their guidance, tolerance and encouragement this thesis would not have been completed.

I am grateful for the comments of visiting professors and fellow students at the School of Accounting. To the 2009 AFAANZ Conference participants, discussants and chairs, for your critical analysis, and comments, thank you. To specifically nominate the many to whom I owe thanks would inevitably leave some out; so to almost all who will bother to pick this thesis up, if we know each other, I am almost certainly thanking you, and to the many who won't pick it up, thank you also.

I acknowledge financial support from the UTS Faculty of Business and the School of Accounting. Data has been supplied by the Securities Industry Research Centre Asia-Pacific on behalf of the ASX and Aspect Financial.

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ABSTRACT

This thesis investigates a number of issues surrounding the recognition of identifiable intangible assets consequent to business acquisitions in Australia. There is a body of research that evaluates a firm's decision to allocate acquisition premiums to identifiable intangible assets, rather than goodwill, and this behaviour is commonly labelled opportunistic (e.g. Walker 1989; Woolf 1989; Carlin & Finch 2007). This thesis extends this literature in two ways. First, it evaluates the association between identifiable intangible assets recognised in a business combination and acquisition premiums paid in Australia. Second, it evaluates the relation between amounts recognised as identifiable intangible assets and post-acquisition performance. Of particular interest is whether the recognition of identifiable intangible assets encourages 'overpayment' and as a consequence is associated with poor post-acquisition performance. This evaluation is also undertaken across periods before and after the introduction of International Financial Reporting Standards (IFRS) in 2005, which changed the accounting treatments for identifiable intangible assets and goodwill. In the period prior to the transition to IFRS, there is evidence that firms recognising identifiable intangible assets made acquisitions with higher acquisition premiums. However, this did not persist subsequent to the transition to IFRS when the opportunistic incentive to avoid recognising goodwill ceased. There is also evidence of firms recognising identifiable intangible assets reporting poorer post-acquisition performance. These results are consistent with the ability to recognise identifiable intangible assets encouraging overpayment, and firms attempting to obscure this through making opportunistic accounting choices.