

University of Technology Sydney
School of Accounting

Takeover Gains and the Recognition of Identifiable Intangible Assets

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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.

Signature of Student

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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.