

ABSTRACT

Göteborgs Universitet
School of Business Economics and Law
Dept. of Business Administration
PO Box 600, SE-405 30 Göteborg
Sweden

Author: Pernilla Rehnberg
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Identifying Intangible Assets in connection with Purchase Price Allocation

Principle-based accounting and relevance

In recent decades we have moved into an economy that is both knowledge-driven and technology-based. This has resulted in intangible assets representing an increasingly larger proportion of total investments carried out by companies. The development has led to questions about how intangible assets should be reported, and this is discussed by standard-setters, accounting professionals and researchers. There are different views on how such assets should be recognized, and we lack a uniform opinion. A new accounting standard for business combinations, IFRS 3, was introduced in 2005. The introduction of this standard aimed to finally settle the issue of how goodwill should be reported in a company's financial statements. This thesis presents a study of how companies report intangible assets in business combinations when applying the acquisition method based on IFRS 3 and how company incentives affect a faithful representation in the identification of intangible assets. Furthermore, the relevance for the user is examined. The effect on relevance of intangible assets reported separately from goodwill is studied. All business combinations carried out by listed Swedish companies for the period 2005 – 2007 have been studied. The relations have been tested empirically using statistical models.

Results show that companies are influenced by political costs and contract costs. Small companies and companies that are not heavily indebted identify a smaller proportion of intangible assets. This implies that large companies and high debt companies apply principle-based rules in a better way. This is possibly a logical conclusion. Large companies have a broader circle of interested parties, and high debt companies are under the control of capital providers. This in turn leads to these companies also taking the identification of intangible assets more seriously and they do make a greater effort. On the other hand, small low debt companies seem to make use of the possibility to influence the accounts based on their incentives. This situation could be problematic from a user perspective. The study shows, however, that relevance for the financial statement user does not increase by separating intangible assets from goodwill. A final solution to the question of how goodwill should be reported has therefore not been found either. However, the study indicates that companies that have a greater tendency to identify intangible assets also are companies with more relevant financial statements overall. The results in this study may be helpful to standard-setting bodies in their development of future accounting standards in the area.

Key words: Intangible assets, purchase price allocation, principle-based accounting, relevance, accounting choices, IFRS 3

Redovisning av immateriella tillgångar i samband med förvärvskalkylering

- principbaserade redovisningsregler och relevans

Pernilla Rehnberg

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