IFRS, FINANCIAL REPORTING APPROACH, EARNINGS ATTRIBUTES AND VALUE RELEVANCE OF INTANGIBLE ASSETS: EMPIRICAL EVIDENCE FROM THE U.K.

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This thesis is the result of the author’s original research. It has been composed by the author and has not been previously submitted for examination which has led to the award of a degree.

Signed:

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ABSTRACT

This study might interest academics, researchers, accounting regulators, practitioners and investors. Its main objective is to provide empirical evidence on how IFRS has affected earnings, intangible assets, financial reporting approach and the value relevance of intangible assets. This study hypothesises that the IFRS adoption would; increase earnings and intangible assets; have further shifted financial reporting approach towards a valuation approach; increase earnings volatility (reduce earnings persistence) and consequently increase the value relevance of intangible assets. The main methods of investigation are regression analysis. In accounting, reporting intangible assets remain controversial and challenging. IFRS to some degree would benefit U.K. investors if it increases reporting of intangible assets, particularly of different classes of intangible assets. However, existing research offers very little empirical evidence as most value relevance studies focus on earnings and book value of equity. This study reveals several key findings. First, earnings are significantly greater under IFRS but not at all different profit levels, which suggests that IFRS brings offsetting effects on earnings. However, IFRS produces mixed effects on earnings volatility and earnings persistence. Earnings are slightly more volatile but no significant impact on earnings persistence. Second, intangible assets are higher under IFRS and reporting of different classes of intangible assets is increasing. Third, this study documents broadly classified intangible assets are not value relevant which signifies the importance of specific classifications of intangible assets. Fourth, IFRS has minimal impact on the value relevance of intangible assets but intangible assets have significantly greater predictive value under IFRS. This study contributes to the existing literature by providing new findings on the impact of IFRS on accounting information in general and on intangible assets in specific. This study differs from prior study by several aspects. First, financial companies were not excluded but were separately analysed. Second, it further investigates the impact of IFRS on the two primary qualities for relevant information (informative and predictive values). Third, this study contributes to the literature by providing new empirical evidence on the value relevance of intangible assets and different classes of intangible assets. In the future, researchers can investigate the impact of adopting IFRS on the reliability of accounting information as reliability is the other specific quality for producing decision-useful information.