VALUE RELEVANCE OF ACCOUNTING INFORMATION AND INTANGIBLE INTENSITY: EVIDENCE FROM INDIA

ABSTRACT

The primary focus of capital market based accounting research is the market response to reported accounting information. Value relevance of accounting information as a line of research comes under capital market based accounting research approach. Prior literature based on developed markets, shows that the value relevance of accounting information is declining overtime, due to increasing intangible intensity of the firms. Whereas, in emerging markets the impact of intangible intensity on the value relevance of accounting information is unexplored. This study examines the impact of increasing intangible intensity on the value relevance of accounting information in an emerging market.

Specifically, this study investigates the impact of intangible intensity on the value relevance of accounting information in India in four different aspects, viz. 1) long-term change in value relevance of accounting information with accounting regulation reforms and intangible intensity, 2) Incremental value relevance of research and development R&D outlay and intangible intensity, 3) Incremental value relevance of disaggregated earnings over aggregated earnings and intangible intensity, and 4) The difference in value relevance of accounting information between profit and loss reporting firms and intangible intensity. The generalized model specification of Ohlson (1995) has been applied in this study to investigate the above stated objectives.

The study finds that the total value relevance of earnings and book value of equity increases overtime with accounting regulation reforms and the incremental value relevance of earnings is substituted by the incremental value relevance of book value with increment in intangible intensity. The study also indicates that the incremental value relevance of R&D expenditure is higher in intangible intensive firms compared to non-intangible intensive firms. In addition, the study observes higher incremental value relevance of disaggregated earnings over aggregated earnings in intangible intensive firms compared to non-intangible intensive firms. Further, the study finds that the nature of intangible intensity of the firm is creating a significant difference in value relevance of earnings and book value between profit and loss reporting firms.

JEL classification: M40, M41, G10, G12

Keywords: Value relevance; Earnings; Book value of Equity; Intangible intensity; Emerging Market;