



Unrecorded Intangible Assets: Abnormal Earnings and Valuation

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Accounting Horizons (2007) 21 (1): 23–41.

<https://doi.org/10.2308/acch.2007.21.1.23>

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We use the unique banking industry setting to demonstrate the impact of unrecorded intangible assets on abnormal earnings and equity valuation in the context of the residual income valuation model. We show that the persistence of bank abnormal earnings and, consequently, the pricing multiples on bank abnormal earnings, vary with the level of unrecorded intangible assets. Our evidence suggests that unrecorded intangible assets are important in understanding the persistence and valuation of abnormal earnings in the banking industry. The analysis framework introduced in this paper could also be used to examine the valuation impacts of intangible assets in other industries.

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