An analysis of the usefulness to investors of managers' fair value estimates of firm assets: Evidence from IAS 36 "Impairment of Assets" and IAS 40 "Investment Property"

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Firms’ adoption of the International Financial Reporting Standards (IFRS) has been increasing worldwide. Even the U.S. Securities and Exchange Commission is considering direct incorporation of IFRS into the U.S. financial reporting regime in the foreseeable future. With the adoption of IFRS, reports of managers’ fair value estimates of a firm’s assets in financial statements became more pervasive than under local generally accepted accounting principles (GAAPs) and is likely to become increasingly important over the coming years. However, managers’ fair value estimates are subject to measurement errors that might reduce the faithful representation of accounting numbers. Using publicly available managers’ fair value estimates of cash generating units and investment properties, this empirical study analyzes the usefulness to investors of these estimates. The analysis is based on two standards of the International Accounting Standards Board (IASB): International Accounting Standard (IAS) 36 “Impairment of Assets” and International Accounting Standard (IAS) 40 “Investment Property.”