

Does conditional capitalization of development expenditures stimulate enterprises' aspirations for innovation?

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ABSTRACT

China reformed its accounting standards in 2006 such that enterprises must now conditionally capitalize development expenditures, as specified in the International Financial Reporting Standards (IFRS). This study examines whether conditional capitalization, rather than expensing of development expenditures, stimulates enterprises' aspirations for innovation. Based on a sample of Chinese listed and non-listed companies, the results reveal that conditional capitalization of development expenditures does indeed increase research and development investment, particularly among non-state-owned, high-debt-level, and high-tech enterprises. This study enriches empirical evidence of the economic consequences of the reform of accounting standards in emerging economies, especially the outcomes of IFRS adoption.

Keywords: accounting standard; conditional capitalization; innovation; R&D expenditures; China