Unique Research Journals
Unique Journal of Business Management Research Vol. 3(1), pp. 022-031, April, 2016
Available online@http://www.uniqueresearchjournals.org/UJBMR
ISSN 2333-6935 ©2016 Unique Research Journals
Unique Journal of Business Management Research

Full Length Research Paper

Value Paradox: Accounting for intangible assets

Owolabi, Sunday Ajao and Aguguom Theophilus Anaekenwa

Department of Accounting Babcock University, Ilishan Remo Ogun State Nigeria

*Corresponding author. E-mail: emilagba05@yahoo.com

Accepted 26 March, 2016

In this paper we discuss the concept and accounting of intangible assets and goodwill as they are perceived among financial report preparers, the users and other stakeholders. The objective of International Accounting Standards (IAS) 38 has been to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another standard. Our paper highlights irrefutably that intangible assets and goodwill identification, management, measurement and reporting are key burners and center of discuss in the academic arena with important management and policy implications. We find that the issue of recognition, measurement, valuation of intangible assets and goodwill has been controversial and the IAS 38 clearly excludes internally generated intangibles by rule rather than applying its recognition and reliability test. The standard requires specific disclosures since accounting standard setters are aware of the deficiencies and weakness in the guidance given by IAS 38 and potential information gaps in the reporting of intangible assets and goodwill both before and after the adoption of IAS 38. We recommend a major focus be on improving reporting of intangibles in a more consistent, transparent and more acceptable manner to provide expected quality financial report and confident desirable.

Key words: Intangible assets, goodwill, valuation, firm, financial reporting, IAS, IFRS.

INTRODUCTION

The recognition of an item as an intangible asset requires an establishment to show that such item meets the definition and recognition criteria. Cost of initial acquisition or internally generated criterion is crucial. An intangible asset is an identifiable non-monetary asset without physical substance. It is a claim to future benefit that does not have physical assets financial embodiment. Patents, copyright agreements, brands, research and development expenditure, and franchises are in this category. Lev (1999) states that intangible expenditures and assets are germane to firm valuation, including research and development costs, patents (Griliches et al., 1991), brands and trademarks (Seethamraju 2000), customer satisfaction, and human resources. There have been difficulties in accounting for these assets, there seems a conservative tendency to expense many of the costs involved and for those capitalized, hence there have been inconsistent approaches to recognizing, recording, revaluing, and amortizing these assets.

The aim of IAS 38 is to prescribe the accounting treatment for recognizing, measuring and disclosing all intangible assets that are not dealt with specifically in International Financial Reporting Standards (IFRS). IAS 38 therefore applies to intangible assets acquired in business combination for which the agreement date, and to all other intangible assets prospectively for periods beginning on or after 31st March 2004.

The paper shall review the regulatory and harmonization standpoints from the IFRS and IAS standards perspective. It shall provide the theoretical considerations, reviews some related literature bordering on the recognition, measurement and specific regulations of intangible assets, considers the effects of IAS 38 adoption on intangible assets including Goodwill and Website development cost treatments and finally, it provides some findings, concluding comments and recommendations.

Definitions

Intangible asset

Under IAS 38, an intangible asset is defined as ‘an identifiable, non-monetary asset without physical substance’. Further, intangible asset must also fulfill the criteria of an ordinary asset as set out in the IASB Conceptual Framework of being ‘a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity’. According to Blair and Wallman (2003: 451),

“Intangibles are non-physical factors that contribute to, or are used in; the production of goods or the provision of services or that are expected to generate future productive benefits to the individuals or firms that control their use”.

Broadly, a typical intangible asset cannot be bought or sold in an organized market, the verification of its existence may be impossible, it may not have a finite life, its value can fluctuate (which means that it should be submitted to the impairment analysis) and sometimes it is strongly interlinked with a specific activity, product/ service or business.

Goodwill

Goodwill according to IFRS is an asset representing the future economic benefit arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill and the standards that regulate its measurement and reporting are commonly regarded as some of the most controversial aspects of financial reporting. One reason for this has been the diversity of practice in relation to goodwill accounting and reporting, both within and across jurisdictions.

Marketing-related intangible assets

The Statement of Financial Accounting Standards (SFAS) No141 and 142 are relevant for the recognition of intangible assets. These statements recognize categories of intangible assets: Trademarks, trade names, ii) Service marks, collective marks, certification marks, iii) Trade dress (unique color, shape, or package design), iv) Newspaper mastheads, v) Internet domain names, vi) Non-competition agreements, vii) Customer-related intangible assets, viii) Customer lists, ix) Order or production backlog, x) Customer contracts and related customer relationships, xi) Non-contractual customer relationships.

Artistic-related intangible assets

Plays, ballets, Books, magazines, newspapers, other literary works, Musical works such as compositions, song lyrics, and advertising jingles, pictures, photographs, video and audiovisual material, including motion pictures, music videos, television programs, contract-based intangible assets, licensing, royalty, standstill agreements, advertising, construction, management, service or supply contracts, lease agreements, construction permits, franchise agreements, operating and broadcast rights, Use rights such as drilling, water, air, mineral, timber cutting, and route authorities, Servicing contracts such as mortgage servicing contracts, employment contracts.

Technology-based intangible assets

Patented technology, (Google, Face book), Computer software (Prof Enyi of Babcock University’s software work) and mask works, unpatented technology, Databases, including title plants, Trade secrets, such as secret formulas, processes, recipes.

Objective of the study

The objective of this paper is to examine the accounting of intangible assets and goodwill. The interest is to highlight and explain the contemporary trends in the global arena concerning recognition, valuation, and capitalization and expensing of intangible assets cost treatment.

METHODOLOGY

This paper adopted content analysis design while materials were sourced from scholarly journals, library sources and database and other reputable online resources relevant to this paper. The idea is to provide details on treatments of intangible assets and goodwill from the financial reporting standards perspectives.

THEORETICAL CONSIDERATIONS

Our discourse in theoretical consideration, we consider three theories: Imperfect management theory the concept this paper is aligned, Economic Theory of intangible assets and lastly the Market value Theory , Agency Theory and Fair Value Theory.

Imperfect measurement theory

According to imperfect measurement theory, goodwill arises because of the presence of a series of factors relating to the economic position and performance of a firm which are incapable of being measured and recognized individually. This theory has also been referred to by Beresford and Moseley (1983: 3) as the ‘unrecorded assets concept’, whereby the failure of accounting to measure certain assets (both tangible and intangible) often results in over or under valuations of those items listed as assets (Canning, 1929: 43). Gynther (1969) was positive that this theory would be displaced in the future because ‘rapid advances are being made in probability theory, sensitivity analysis, subjective probability and simulation techniques, and it is believed that these, will make possible the direct valuation of many entities and assets, with a much higher degree of precision than at present’ (Gynther, 1969: 255).

Economic theory of intangible assets

According to Cohen (2009), assets, whether tangible or intangible, are a means to the production of goods and services. Assets are thus an important element of economic analysis. It is suggested that the relevant characteristics can be estimated by the increase in the financial performance of the firm that employs such assets. The value of the intangible asset would then be the increase in the value of the firm that is due to enhanced performance. In this case the characteristics of the assets are not physical (as in diamonds or houses) but rather indirect. Intangible Assets is simply the sum of the products of the performance benefits and the market value of those benefits.

Market value theory

The underlying concept of goodwill in the market value theory is that goodwill may be approximated as the difference between the market value of equity at any given time, and the book value of equity.

According to MacNeal (1939), Raluca and Adriana (2013), argued that: the total value of a business as a whole is best expressed by the price of its equities in the market place. According to Spacek (1973) goodwill under this theory is the most economically defensible approach to rationalizing and understanding the value of goodwill. Bloom (2008), argued that goodwill is easily and objectively ascertained by reference to market capitalization, and he proposed the inclusion of a market capitalization statement within an annual report ‘to provide an objective, integrated and meaningful view of goodwill in the financial statements’ (Bloom, 2008: 3). The market capitalization statement identifies goodwill (both purchased and internally generated) as the difference between the market capitalization of the company and the ‘comparison value’ which would comprise the book value of shareholders equity less the cost of purchased goodwill.

Agency theory

Agency theory concept was initially developed by Berle and Means (1932) who contended that due to a continuous attenuation of equity ownership of large corporation ownership and control become more separable in other words, the agency theory is a supposition that explains the relationship between principals and agents in business. An agency relationship arises when one or more principals (e.g. an owner) engage another person as their agent (or steward) to perform a service on their behalf. Performance of this service results in the delegation of some decision-making authority to the agent. This delegation of responsibility by the principal and the resulting division of labour are helpful in promoting an efficient and productive economy. However, such delegation also means that the principal needs to place trust in an agent to act in the principal’s best interests. What happens when concerns arise over the motives of agents and cause principals to question the trust they place in them? Agency theory is a useful economic theory of accountability, which helps to explain the likely trust and confidence on how the issue of intangible assets cost are treated in terms of, costs capitalization or expensed, when to recognition and derecognize and making sure that the value of intangible investments is widely recognized uniformly by firms, and not undercharge investors, and any of the stakeholders.

Fair value theory

According to IFRS, Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, it is not an entity-specific measurement. As a result, the entity’s intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value. Intangible assets are usually measured using the cost model. An entity may choose to revalue (measure the asset at fair value), only if fair value can be determined by reference to an active market. If an intangible asset is revalued, all assets within that class of intangible assets must be revalued. The principles of the revaluation model in IAS 16 apply to IAS 38. It is clear from the standard that intangible asset with a finite useful life is amortized, while intangible asset with an indefinite useful life is not amortized rather is tested annually for impairment. It is important to state here categorically that section 18 Intangible Assets of the IFRS for Small Medium Enterprises (SMEs) does not permit the use of a revaluation model for intangible assets; there are no indefinite useful life intangible assets in the IFRS for SMEs. Fair value accounting concept is in doubt, firms assuming values seems a product of unreliable assumptions, leaving the firm with discretion to change amounts reported in the financial statements. Reliability is more of a "faithful representation" of amounts to be projected in the financial reports which is questionable in this instance.

The discussion is situated on Imperfect Measurement Market theory (IMMT). It shares the views of Beresford and Moseley (1983: 3) that intangibles' value are based on 'unrecorded assets concept', the failure of accounting to properly measure intangible assets often results in over or under valuation when listed as among other assets (Canning, 1929: 43). We reiterate our position that, the process linking the underlying standards of fair value valuation concept to the reported valuation in management reports is devoid of any degree of precision. The position of Gynther (1969) is helpful here from the angle that there is need to have a valuation guild line, the direct valuation of many entities intangible assets is questionable.

The term "Intangible" is as concept to which no consensus exists on its definition. We believe that historically, intangibles have been treated as an aggregated amount (goodwill), which in nature, represents a residual, which incorporates all intangibles that cannot be measured separately. As mentioned earlier, intangible asset cannot be bought or sold in an organized market, hence the verification of its existence may be impossible, its value can fluctuate, meaning that it should be submitted to the impairment analysis periodically.

LITERATURE REVIEW

The issue of accounting for intangible assets and goodwill has been seriously debated by both academic and practicing accountants. There is little agreement as to the rights and wrongs of managerial discretion around treatment of intangible assets and goodwill recognition, measurement and impairment treatment. We review some related literature bordering on controversies in accounting for intangible assets and goodwill and consider the fair value positions in line with the standards.

The value paradox of intangible assets

Accounting for intangible assets within the firm confronts the Value Paradox in terms of a problem of capture and accounting. Is it possible to capture the value of such assets, and if so, how? Is it desirable to measure their value? Who actually requires such measurement, and to what end? Once again, the Value Paradox is this: intangible assets have evident value, yet this consist inadequate measure capture.

Watts (2003) identifies the unreliable nature of fair-value goodwill accounting in Statement of Financial Accounting Standards (SFAS) No. 142 and indicates these fair-value estimates can even lead to fraud. In many instances, it may not be possible to distinguish the acquired goodwill from the internally developed goodwill. Managers can arbitrarily assign assets and liabilities among reporting units in efforts to maintain particular accounting treatment. In large companies, managers can use transfer-pricing and corporate reorganizations to create goodwill in different reporting units. In addition, managers can use overhead allocation or major outsourcing agreements to reallocate assets and liabilities to acquired companies and manipulate goodwill.

Ramanna (2006) examines whether the firm's motivation potential determines its position to support or to oppose the goodwill impairment proposal in SFAS No.142. The results suggest that opponents of abolishing pooling-of-interests method (pro-pooler) tend to support goodwill impairment because the paradigm of the fair value estimates facilitates manipulation opportunity.

Hunter, Weber and Wyatt (2005) argue that Intangible assets, by their very nature, are not a good fit for traditional models of accounting. Hunter et al state that tangible assets are a better fit, as firms control such assets, future benefits are probable and these cannot be reliably measured. For intangibles investments, however, these investments are not 'immediately embodied in physical matter' and it is not certain that the firm can identify, separate and control them. As such, any future economic benefit remains uncertain Hunter et al (2005). The differing economic traits of tangible and intangible assets effectively split academic research. However, treating them like any other asset confronts difficulties or separation; hence intangible assets do not generally have alternative uses Hendrikson (1982). Skinner (2008) does not believe in mandatory rules because he claims that measures must be different in different industries (or even companies) and therefore difficult to standardize. If standards are written they must be on a high level of generality to cover the wide variation necessary and because of that we will have implementation problem with a risk that preparers circumscribe the standards and make vague, uninformative disclosures.

Beatty and Weber (2005) find evidence that managers time goodwill impairments only where the loss is reported in the income statement. For firms that have earnings related bonuses within executive remuneration, or are listed on an exchange with delisting requirements, or have debt covenants that are affected by impairments, then the impairment of goodwill is less likely to occur.

Powell (2003) has investigated how intangibles are regulated in different countries and found that policy is very different but he believes that the IASB will sort things out and that the differences will disappear eventually. The complexity of the issue for standard setters is clearly demonstrated by the investigation conducted by Stolowy and Jeny-Cazavan (2001) that illustrated a considerable lack of consistency among 21 national and two international standard setters. The study of intangible assets" definition and recognition criteria in those nationals and international standards showed that there is no any generally accepted conceptual framework.

On another opinion, Basu and Waymire (2008) do not believe that intangibles can be separated from tangibles in the production of wealth or that companies could claim the right to intangibles valuable to them. However Roos and Roos (1997) are of the opinion that it is increasingly important for all companies - irrespective of their industry, size, location or ownership structure to take a systemic approach to the recognition and valuation of intellectual capital. Since it is obvious that the valuation of intangible assets is often a complex process full of uncertainty.

Basu and Waymire (2008) considers that financial measurement of intangible assets constitute the main barrier to accounting valuation: Although outside the company (economy), money is not the only means to measure value, accounting is only capable of recognizing resources and benefits which can be measured in monetary terms for any quality financial reporting.

Recognition and measurement

An intangible asset acquired in a business combination is normally recognized as an asset because its fair value can be measured with sufficient reliability. However, an intangible asset acquired in a business combination is not recognized when it arises from legal or other contractual rights and its fair value cannot be measured reliably because the asset either (a) is not separable from goodwill, or (b) is separable from goodwill but there is no history or evidence of exchange transactions for the same or similar assets, and otherwise estimating fair value would be dependent on immeasurable variables.

According to IASB, IAS 38 recognizes an item as an intangible asset requires an entity to demonstrate that the item meets: (a) the definition of an intangible asset; and (b) the recognition criteria. This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it. An asset is identifiable if it either: (a) is separable, that is is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations. An intangible asset shall be recognized if, and only if: (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and (b) the cost of the asset can be measured reliably. The probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in a business combination. An intangible asset shall be measured initially at cost. The cost of a separately acquired intangible asset comprises: (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and (b) any directly attributable cost of preparing the asset for its intended use. IAS 38 provides that intangibles can be obtained by the firm in a number of ways: by separate purchase, by self-creation, that is internally generated by the firm, by an exchange of assets and as part of a business combination.

In accordance with IFRS 3 Business Combinations, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. If an asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset.

In accordance with this Standard and IFRS 3 (as revised in 2008), an acquirer recognizes at the acquisition date, separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognized by the acquiree before the business combination. This means that the acquirer recognizes as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset

Specific regulations of intangible assets

Specific accounting regulations tend to focus on four broad classifications of intangible assets:

Acquired intangible assets

This includes acquired identifiable intangible assets (IIA) such as acquired patents and trademarks, brands, and purchased goodwill that is acquired in business combinations. Acquired intangible assets have received significant attention as part of the International Accounting Standards Board's (IASB) deliberations for the IAS 38 Intangible Assets standard issued in 1998, and the Financial Accounting Standard Board's (FASB's) business combinations project completed in 2001. Under IAS 38, "acquired intangibles" are separately purchased or purchased as part of a business combination, by a government grant, or by exchange of assets (paras. 23-35.). According to IAS 38, these items will meet the asset recognition criteria if a price exists from an exchange transaction, or for business combination related items if fair value can be estimated using valuation techniques and prices from current transactions in the relevant industry.

Research and development (R&D)

Accounting standards for R&D presents still further complexities. R&D is risky, with highly uncertain payoffs. Consequently, many accounting regulators argue that research and development should be expensed.34 However, there is substantial evidence to show that R&D frequently results in future economic benefits to the firm (Hirschey and Weygandt, 1985; Lev and Sougiannis, 1996) and this suggests that the inclusion of R&D as a value creating asset would increase the value relevance of financial accounts (Elliot and Jacobson, 1991).

This includes expenditures associated with R&D activities performed within the firm. Expenditures for exploration, evaluation and development costs in mining and other resource-based firms are usually accounted for separately to R&D because of the specific risk profile of these expenditures. Expenditure on R&D and internally generally intangible assets are generally not recognized as assets because future benefits are uncertain and/or an identifiable 'cost' from an external party transaction does not exist.

Internally generated intangible assets (IGI)

This includes identifiable intangible assets produced by the firm, and internal goodwill that is not easily attributable as to its source of value. Identifiable intangible assets and internal goodwill relate to such things as the firm's information systems, its administrative structures and processes, market and technology knowledge, trade secrets, customer and supplier networks.

Intellectual property

Regulatory frameworks typically treat intellectual property in the same way as they treat acquired intangible assets and internally generated assets. While these assets have contract and legal rights the accounting standards do not make this distinction. These are a sub-set of acquired and internally generated intangible asset classifications that have legal or contractual rights (i.e. patents, trademarks, designs, licenses, copyrights, firm rights, mastheads)

Measurement after recognition

An entity shall choose either the cost model or the revaluation model as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

Cost model: After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses. Revaluation model: After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses.

For the purpose of revaluations under this Standard, fair value shall be measured by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value. An active market is a market in which all the following conditions exist: (a) the items traded in the market are homogeneous; (b) willing buyers and sellers can normally be found at any time; and (c) prices are available to the public. If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset.

Revaluing intangible assets

Externally acquired and internally generated intangible assets can initially be recognized at cost (apart from those recognized as part of a business combination, which are recognized at fair value) and this is the benchmark position for most intangibles. To qualify for revaluation, IAS 38 imposes an extra requirement on intangible assets which do not apply to tangible assets, that is, the fair value must be obtained with reference to an active market for the asset.

Reasons for valuing intangible assets

Since there is no universally accepted methodology for valuing intangible assets, the technique adopted in any particular instance is based on the reason that the valuation is required. The following are the major reasons for valuing intangible assets:

Management of the firm

Management needs to measure the performance of each aspect of the business. Ignoring either the benefits or cost of intangible assets would lead to sub-optimal decision making. Activities such as investment in new productive capacity or formulating strategy are examples of such management activities.

Mergers and acquisitions

When entire business or stand-alone subsidiaries are bought or sold, the value of the intangible assets must be taken into account.

Reporting to stakeholders

Management's responsibility to report to stakeholders often extends beyond the requirements of GAAP statements. It is common to report the impact of the firm on the environment and the community within which the firm operates. The impact of the firm on the human capital and health of both its employees and the local community is often considerable and it may be desirable to include these effects in the firm's reporting objectives. The acquisition of productive intangible assets, whether through purchase or internal development, should be reported in a manner that is both transparent and reliable.

Amortization and impairment

Amendments classifying acceptable methods of immortalization are effective 1st January 2016 with earlier applications permitted.

IAS 38 requires an entity to assess the useful life of its intangibles into those with finite and those with indefinite lives. Amortization applies to those with finite lives and requires an estimate of the useful life of the asset. There is a rebuttable presumption that the maximum amortization period is 20 years. Those with indefinite lives are not systematically amortized but must be assessed at least annually for possible impairment adjustments. According to IAS 38, intangible assets have an indefinite life when "there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the entity". Another accounting standard IAS 3 Business Combinations prohibits the amortization of goodwill.

In practice recognized brand assets are also often assumed to have indefinite lives. Because the cash flows generated by goodwill attach to the other assets rather than goodwill, its impairment is more complex. The test for goodwill impairment compares the current market value of the subsidiary's equity with the balance sheet value of its equity plus the goodwill arising on the original acquisition.

If the current market value is below the balance sheet value of the equity (plus goodwill) then the value of the investment in the subsidiary has fallen and the goodwill is impaired. For the purpose IFRS, all intangible assets shall be considered to have a finite useful life.

The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

EFFECTS OF ADOPTING IAS 38

Although IAS 38 was issued in 1998, it did not have an immediate effect on accounting practice as most countries were not bound by its provisions. However, the move by regulators to adopt international accounting standards means that many countries have adopted IAS 38 for financial years starting in 2005. An immediate effect of adopting IAS 38 is being felt by firms that previously capitalized internally generated brands and other intangibles like mastheads, publishing titles and customer lists, which are specifically excluded from recognition by IAS 38. These firms are required to "de-recognize" these assets when IAS 38 is adopted, sometimes with.

In addition, adjustments need to be made to the previously recognized intangible assets like goodwill and most acquired intangibles that remain in the balance sheet after the adoption of IAS 38. As goodwill (and some other assets) has indefinite lives, amortization on these assets will cease with a consequent rise in income. This factor could be overshadowed by the possible impairment of these assets.

In Another longer term effect may be a further increase and reliance on the use of non-financial indicators (NFI). These are, as the name suggests, measures of performance that do not rely overly on financial data. One commentator has observed "investors are likely to find NFIs particularly helpful when appraising companies rich in intangibles.

Accounting for goodwill

Goodwill is observable where mergers have occurred and the estimated value of goodwill is readily available in a company's balance sheet. Goodwill thus circumvents many of the issues surrounding other intangibles, such as the complexities of arriving at an appropriate estimate of brand value, and so on. Although much of the academic literature that examines goodwill focuses on the value impact of goodwill impairment, there are a number of academic papers that analyze the causes of goodwill impairment loss. Research suggests that in respect of goodwill, there is an overriding tendency for acquiring firms to overpay for target acquisitions based on inflated values of goodwill in the acquired company. The over-riding conclusion in the literature is that firms over-pay for the target. Henning, Lewis and Shaw (2000) demonstrate that the market value of acquirers is lower post acquisition where the estimated overpayment of goodwill is higher, implying the acquirer overpaid for the target firm.

Accounting for website development cost

Certain initial infrastructure development and graphic design costs incurred in web site development are capitalized. When accounting for internal expenditure on the development and operation of an entity's own web site for internal or external access, the issues are: 1) whether the web site is an internally generated intangible asset that is subject to the requirements of IAS 38 *Intangible Assets. 2)* The appropriate accounting treatment of such expenditure and/or cost involved.

According to BDO (2015), an entity's own web site that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of IAS 38. 2) Any internal expenditure on the development and operation of an entity's own web site is accounted for in accordance with IAS 38. 3) The nature of each activity for which expenditure is incurred (e.g. training employees and maintaining the web site) and the web site's stage of development or post-development are evaluated to determine the appropriate accounting treatment. 4) Cost incurred is only capitalized if the criteria in IAS 38.57 are all met. 5). The best estimate of a website's useful life should be short. Kim (2007) suggests that there are concerns that will need to be addressed when accounting for the true value of intangible assets:

Depreciation

Little is known about the depreciation pattern of intangibles. Moreover, intangible capital depreciates both internally and externally. So, for example, the appearance of a new technology may lead to the depreciation of an old technology at an irregular and unexpected speed. How and how much intangibles depreciate (or, put differently, how fast they become obsolete) is often simply assumed rather than underpinned by rigorous evidence.

Human capital

While firm specific human capital should be treated as an intangible assets belonging to the firm, the general skills embodied in a person can leave the company when that person leaves. However, how human capital which is firm specific can be separated from other general skills in micro-level valuation exercises.

FINDINGS

All tangible or intangible assets are acquired by a firm globally to generate future economic benefits, yet there seems conflicting treatments and opinion on the measurement, recognition of physical and intangible assets in the financial statements of the firms, hence the conservative treatment of non-physical assets is a rational response to measurement and verifiability. Croes (1999) posit that firms currently do not have sufficient sophisticated information system to capture data associated with intangible cost. The purpose of developing reporting framework is to address the information gap that we argue arises in part from the transaction and imprecise control elements of existing assets definition and recognition principles. It is the opinion of this paper in course of our review, that one of the reasons for not recognizing internally generated brands is that they cannot be separately identified. They are not frequently traded on a stand-alone basis and therefore no active market is created for them that can be used to assess the value of them in the balance sheet. More so, many of them are unique and have some ambiguity assessing their value hence appropriate valuation methods are not generally understood and accepted.

Conclusion

Despite decades of debate and effort, it has not proved possible to find a way of accounting for such assets in the same way as, say, investment in a machine. This is what we call in this report the 'value paradox' - recognizing the value of such assets but being unable to account for them through conventional accountancy rules. Investors, shareholders, and managers will in consequence make less well-informed decisions. Companies with large purchased goodwill do not appear to be better than companies without goodwill since the purchased goodwill does not represent better earnings performance, an immediate write-off of purchased goodwill will be consistent with the accounting policy for Research & Development (R&D) cost. Generally Accepted Accounting Principles (GAAP) requires the internally developed intangibles such as R&D cost to be expensed but allow the internally developed intangibles to be assigned to goodwill in the subsequent impairment valuation. Such inconsistencies present a challenge to an analyst trying to compare company's performance. Capitalizing purchased goodwill with implied exchange price under the new standards may further inflate the goodwill value and make it more difficult to identify the revenues generated specifically by the goodwill. Since impairment loss is not reliable and it opens the window for earnings management, the immediate expense method at least creates a degree of consistency between internally developed and purchased goodwill and increases the comparability across firms. The non-physical nature of these assets has, however, continued to impede efforts to measure their exact value. Again, the Value Paradox is not something that can be 'solved.' Financial statements and reports of physical assets no longer provide comprehensive analyses of knowledge-based firms, and this is certainly challenging for investors, accountants, shareholders, management and policy-makers alike (Blaug and Lekhi, 2009)

RECOMMENDATIONS

We recommend that the primary focus must be to improve company reporting of intangibles in a more consistent and comprehensive way. Accounting information regulators must brace up and come up with all compassing and unifying method of recognition and measurement of intangible assets and Goodwill. In additional, other business organizations have a role in encouraging greater consistency and making sure that the value of intangible investments is widely recognized uniformly by firms, investors, and stakeholders. The challenge is the will to scale up the an acceptable uniform regulatory framework for valuation of intangible assets.

REFERENCES

Basu, S., & Waymire, G. (2008). Has the importance of intangibles really grown? And if so,

BDO (2015). IFRS at a Glance. www.bdointernational.com - Accessed 2/02/16

Beatty, A., & J. Webber, (2005). Accounting Discretion in Fair Value Estimates: An Examination of SFAS142 Goodwill Impairments, Journal of Accounting Research, 44,257-288.

Beresford, D. R. & Moseley, R. H., (1983). Goodwill and Other Intangibles, in Davidson, S. & Weil, R. L. (eds.), *Handbook of Modern Accounting,* Third edition, McGraw Hill, New York.

Berle, A. A., & Messner, M., (1932). The Modern Corporation and private property, New York, Macmillan

Blair, M., & Wallman, S., (2003). "The Growing Intangibles Reporting Discrepancy", Intangibles:Management, Measurement, and Reporting, Washington: Brooking Institution Press, John Hand and Baruch Lev(Ed.), p.:449-468

Blaug, R., and Lekhi, R., (2009). Accounting for intangibles: Financial reporting and value

Bloom, M., (2008). *Double Accounting for Goodwill: A Problem Redefined,* Routledge, London.

Canning, J., (1929). *The Economics of Accountancy.* The Ronald Press Company, New York.

Cohen, M. (2009). The valuation of intangible assets and hedonic pricing models" Paper delivered at 36th Australian Conference of Economists, 24-26 September 2009, Hobart.

creation in the knowledge economy,The Work Foundation 21 Palmer Street London SW1H 0AD

Croes, M., (1999). (Statistics Netherlands): Intangible Investments: Measuring for SBS, Study Commissioned from EUROSTAT SUPCOM Project

Elliott, R., & Jacobson, P., (1991). US Accounting: A National Emergency, Journal of Accountancy, 172, 54-58

Financial Accounting Standard Board (FASB), (2007). Statement of Financial Accounting Standards No. 160, Noncontrolling Interest in Consolidated Financial Statements, an Amendment of ARB No. 51, Norwalk, CT: FASB

Francis, J., Hanna, J. D., & Vincent, L., (1996). Causes and Effects of Discretionary Asset Write-Offs, Journal of Accounting Research, 34, 117-134

Griliches, Z., Hall, B. H. & Pakes, A., (1991). Research and Development, Patents, and Market Value Revisited: Is there evidence of a second technological opportunity related factor? NBER reprints 1624 (also, Working Paper N.2624), National Bureau of Economic Research.

Gynther, R., (1969), "Some Conceptualising on Goodwill", *The Accounting Review,* vol. 44, April, pp. 247 – 55.

Hayn, C. & P. J. Hughes, (2006). Leading Indicators of Goodwill Impairment, Journal of Accounting, Auditing & Finance, 21, 223-265

Hendrikson, E. S., (1982). Accounting Theory, 4th Edition Burr Ridge Irwin

Henning, S., B. Lewis, & W. Shaw, 2000, Valuation of the Components of Purchased Goodwill, Journal of Accounting Research, 38, 375-386

Hirschey, M., & Weygandt,J, (1985). Amortization Policy for Advertising and Research and Development Expenditures, Journal of Accounting Research, 23, 326-335

Hunter, L., Webster, E., & A. Wyatt, A., (2005). Measuring Intangible Capital: A Review of CurrentPractice, Working Paper, Intellectual Property Research Institute of Australia

IAS 36, Impairment of Assets, International Accounting Standards Board, London IAS 38, Intangible Assets, International Accounting Standards Board, London

IFRS, Business Combinations, International Accounting Standards Board, London

International Accounting Standards Board, (1998). IAS 38 Intangible Assets. New York.

Kim Y, (2007). 'A Survey on Intangible Capital', Centre for Economic Institutions (Tokyo)

Lev, B., & Sougiannis, T., (1996). The Capitalization, Amortization, and Value-Relevance of R&D, Journal of Accounting & Economics, 21 107-138

Lev, B., (1999). Research and Development and Capital Markets, Journal of Applied Corporate Finance, 11, 4, 21-35.

MacNeal, K., (1939), *Truth in Accounting,* university of Pennsylvania Press, Pennsylvania.

Planning, Vol. 30 No. 3, pp. 413-426

Powell, S., (2003). Accounting for intangible assets: current requirements, key players and future directions. *European Accounting Review,* December, vol 12, no 4, pp 797-811

Raluca V,R., and Adriana T, T., (2013). The Theoretical foundation of Goodwill- A Chronological Overview. Procedia- Social and Behavioral Science. ELSERVIER: www.sciencedirect.com

Ramanna, K., (2006). The Implications of Fair-Value Accounting: Evidence from the Political Economy of Goodwill Accounting, *Working Paper Series*, Available at ssrn.com.

Roos, G., and Roos, J., (1997), Measuring your company's intellectual performance, Long Range

Seethamraju, C., (2000). The Value relevance of Trademarks and working paper. New York University.

Skinner, D., (2008). Accounting for intangibles – a critical review of policy recommendations. *Accounting and business research,* 38:3, pp 191-204.

Spacek, L., (1973). The Merger Accounting Dilemma – Proposed Solutions, in (eds.), *A Search For Fairness in Financial Reporting to the Public – Volume II,* Arthur Andersen & Co, Chicago.

Stolowy, H., & Jeny-Cazavan, A. (2001). International accounting disharmony: the case of intangibles. *Accounting, Auditing and Accountability Journal,* vol 14, no 4, pp 477-496.

Watts, R., (2003). Conservatism in Accounting Part II: Evidence and Research Opportunities, Accounting Horizons, 17, 287–301 www.ifrs.org (Accessed 10.02.2016)

why? *Accounting and business research,* 38:3, pp 171-190.

Working Paper Series, No. 2007-10

www.bdointernational.com/Services/Audit/IFRS/IFRS Country Leaders (Accessed on 13.02.2016).