ACCOUNTING FOR INTANGIBLE ASSETS
A REVIEW OF PRACTICE IN THE UNITED KINGDOM

(A LONGITUDINAL APPROACH)

MD SUHAIMI MD SALEH

SUBMITTED IN PART FULFILMENT
OF THE DEGREE OF MACC IN THE
UNIVERSITY OF GLASGOW

NOVEMBER
1997
Acknowledgements.

A lot of people involved in making this research a reality. Whilst no amount of words could express my appreciation and gratitude, I wish that this would go a little way towards it.

I am indebted to Professor John B. Holland for his guidance, supervision and patient assistance.

I wish to thank Mr G. Harte, Prof. C.R Emmanuel, Prof. W.P Rees, Ms. C. Adams, Mr J.F McKernan, Mr C.W Ironside, Mr. J.K Shackelton, Dr K. MacPhail, Dr. D. Hillier, Prof. S.M Keane “for showing me how to fish, instead of providing fish to me.” Many thank to Ms J. Maden, Ms K. MacCallum, Ms M. Morgan, Mrs E. Laing, Mrs V. Smillie and Mrs J. Brooker. Sincere appreciation goes to the researchers whose literatures I consulted.

I would like to thank my brother in-law who provide a noninterest bearing loan for me to complete my dissertation.

I wish to place my appreciation to my employer, the Universiti Utara Malaysia for giving me the “once in a life time” opportunity and awarding this fellowship to undertake this programme in the University of Glasgow.

My love and appreciation to my spouse Hadijah, and my children Muhammad Daniel Khalilullah and Muhammad Luqman Haqim who cheer up my life in good and bad times.

Many thoughts to my parents, Haji Md Saleh and Hajjah Wan Sopiah and my sisters, and Salina, Suriani and my brother, Suhairil whom I owe my life for.

Finally, to those whose contributions, I have not mentioned, however small that may have been, I would like to thank you from the bottom of my heart.
“Corporate” investment in intangibles, such as R&D, franchise and brand development and human capital enhancement, is growing at a substantially faster rate than tangible investment throughout all developed economies. They may be the primary contributor to the earnings’ power of an enterprise. Intangible assets are present in every business enterprise, yet only tangible assets and intangible assets purchased in an acquisition appear on the company’s balance sheet. The accounting treatment of intangible investments -- generally immediate expensing -- has an even greater impact on the income statement. This makes it practically impossible for investors and practitioners to:

1) Assess the rate of return (productivity) of investment in intangibles, and changes over time in the efficiency of the firm’s investment activity.
2) Evaluate shifts in the characteristics of intangible investments, such as from long-term (basic) research to short-term development, or from product development to “process (cost reducing) R&D.
3) Determine the value of the firm’s intangible capital, and the expected lives (benefit duration) of such assets.

Thus, both internal and external performance evaluation and monitoring of investment in intangibles are hampered by the absence of adequate information. Because the valuation and disclosure issues related to intangibles are complex and little understood, accounting standard-setters around the world encounter great difficulties in attempting to improve disclosures about intangibles. Research and fact-finding on the various aspects of intangibles and intellectual capital is needed.”

(www.stern.nyu.edu/ross/ProjectInti/about.html)
Abstract

This study was conducted to address changes in practice regarding accounting for intangibles between 1987 and 1996. This research adopts a longitudinal approach as to observe reporting of accounting for intangibles. We studied the companies who had reported intangibles other than goodwill on balance sheet.

Data was obtained from annual reports that are available in the Ward’s Library Archive. Extel Financial Services and internet were used to collect certain information that was not available elsewhere. We separated findings in two groups to constitute the change of standards regarding intangibles, other than goodwill. The first group consisted of reports from 1987-1990, and the second group for reports from 1991-1996. Before 1990, it was found that companies used various types of bases for valuation. Some companies complied with the standards but to a minimal level of compliance. Most companies failed to report and disclose information regarding intangibles as the standards required. These practice made comparability between companies in the same industry impossible.

Academics admitted that issues regarding intangible assets are complex and little understood. A group of accounting academics and business experts in the US is working together to crack this problem. They are developing a new way of measuring and reporting intangibles. Service sectors are now valuing their non tangible assets and present them in the financial reports.
# Table of Contents

<table>
<thead>
<tr>
<th>Chapter One</th>
<th>Introduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Background</td>
<td></td>
</tr>
<tr>
<td>1.2 Research Question</td>
<td></td>
</tr>
<tr>
<td>1.3 Method of Study</td>
<td></td>
</tr>
<tr>
<td>1.4 Limitations and Weaknesses of the Study</td>
<td></td>
</tr>
<tr>
<td>1.5 Organisation of the Research</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter 2</th>
<th>Literature Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Introduction</td>
<td>6</td>
</tr>
<tr>
<td>2.2 Previous Studies</td>
<td>7</td>
</tr>
<tr>
<td>2.21 Problem Definition</td>
<td>7</td>
</tr>
<tr>
<td>2.22 Recognition Issue</td>
<td>10</td>
</tr>
<tr>
<td>2.23 Requirement of the Standards</td>
<td>11</td>
</tr>
<tr>
<td>2.23a SSAP 22</td>
<td>11</td>
</tr>
<tr>
<td>2.23b ED 52</td>
<td>12</td>
</tr>
<tr>
<td>2.23c FRED 12</td>
<td>14</td>
</tr>
<tr>
<td>2.3 Summary</td>
<td>17</td>
</tr>
<tr>
<td>2.4 Conclusion</td>
<td>19</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter 3</th>
<th>Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1 Introduction</td>
<td>20</td>
</tr>
<tr>
<td>3.2 Research Problem</td>
<td>20</td>
</tr>
<tr>
<td>3.3 Methodology</td>
<td>21</td>
</tr>
<tr>
<td>3.4 Data Collection</td>
<td>25</td>
</tr>
<tr>
<td>3.5 Weaknesses and Limitations</td>
<td>25</td>
</tr>
<tr>
<td>3.6 Conclusion</td>
<td>27</td>
</tr>
</tbody>
</table>
Chapter 4
Findings

4.1 Introduction 28
  a) Dalgety Plc 29
  b) Cadbury Schweppes Plc 30
  c) Grand Metropolitan Plc 32
  d) Guinness Plc 34
  e) SmithKline Beecham Plc 36
  f) Reed International Plc 38
  g) Maxwell Communications Corporation Plc 40
  h) Reckitt & Colman Plc 42
  i) Rank Hovis McDougall Plc 44
  j) Lonrho Plc 46
  k) United Biscuits Plc 47
  l) United Newspaper Plc 48
  m) WPP Group Plc 49

4.2 Summary of Findings 50
  a) Initial Recognition 50
  b) Amortisation 50
  c) Disclosures 51

Chapter 5
Conclusion

5.1 Introduction 58
5.2 Discussion of Findings 58
5.3 Critical Perspective 63
5.4 New Development on Intangibles 67
5.5 Conclusion 69
5.6 Direction of Future Research 70

Appendices

Bibliography xxi
## Table Content

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 2.1</td>
<td>Accounting Standards regarding Intangible Fixed Assets</td>
<td>18</td>
</tr>
<tr>
<td>Table 3.1</td>
<td>List of Companies who adopt Intangibles on Balance Sheet</td>
<td>22</td>
</tr>
<tr>
<td>Table 3.2</td>
<td>List of Samples Chosen</td>
<td>23</td>
</tr>
<tr>
<td>Table 4.1</td>
<td>Overall Accounting Treatment for Intangible Assets</td>
<td>52</td>
</tr>
<tr>
<td>Table 4.2</td>
<td>Overall Accounting Treatment for Intangible Assets</td>
<td>53</td>
</tr>
<tr>
<td>Table 4.3</td>
<td>Overall Accounting Treatment for Intangible Assets</td>
<td>54</td>
</tr>
<tr>
<td>Table 4.4</td>
<td>Accounting Treatment for Initial Recognition According to Industry</td>
<td>55</td>
</tr>
<tr>
<td>Table 4.5</td>
<td>Accounting Treatment for Amortisation According to Industry</td>
<td>56</td>
</tr>
<tr>
<td>Table 4.6</td>
<td>Accounting Treatment for Disclosures Requirement According to Industry</td>
<td>57</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Auditing Practice Committee</td>
<td>APC</td>
<td></td>
</tr>
<tr>
<td>Accounting Standards Committee</td>
<td>ASC</td>
<td></td>
</tr>
<tr>
<td>Accounting Standards Board</td>
<td>ASB</td>
<td></td>
</tr>
<tr>
<td>Carrying Value</td>
<td>CV</td>
<td></td>
</tr>
<tr>
<td>Exposure Draft</td>
<td>ED</td>
<td></td>
</tr>
<tr>
<td>Financial Reporting Exposure Draft</td>
<td>FRED</td>
<td></td>
</tr>
<tr>
<td>Financial Reporting Standard</td>
<td>FRS</td>
<td></td>
</tr>
<tr>
<td>Intellectual Capital</td>
<td>IC</td>
<td></td>
</tr>
<tr>
<td>Institute of Chartered Accountants in England and Wales</td>
<td>ICAEW</td>
<td></td>
</tr>
<tr>
<td>Institute of Chartered Accountants of Scotland</td>
<td>ICAS</td>
<td></td>
</tr>
<tr>
<td>London Business School</td>
<td>LBS</td>
<td></td>
</tr>
<tr>
<td>Net Realisable Value</td>
<td>NRV</td>
<td></td>
</tr>
<tr>
<td>Statement of Standards for Accounting Practice</td>
<td>SSAP</td>
<td></td>
</tr>
</tbody>
</table>
Chapter 1

INTRODUCTION.

1.1 Background.

Accounting is a medium that provides financial information to the interested parties regarding an economic entity, some of which to be used to assist them in decision making. It is very difficult indeed to identify the users’ needs. It is even more difficult to satisfy their needs. Foster, 1986 discussed in detail the users and their needs.

The Institute of Chartered Accountants of Scotland (1988) states that Directors are required to annually present a financial statement before the shareholders. Unfortunately, it points out that the process “has evolved slowly over a long time and invariably lagged behind the current needs of their users”. The directors also highlight that their published reports have failed to present useful information to assist the users. They believe their reported assets are undervalued and simultaneously the company’s value could have been understated.

Accounting for brand is an extension of goodwill accounting. The major reason for creating these types of assets is to avoid writing off goodwill immediately to the reserves. The treatment has a direct consequence of depleting shareholders’ funds (Rutteman, 1989). The standards at that particular time require all goodwill to be written-off immediately to the reserves. Among the issues addressed are their
The contents of the thesis is for internal user only
Bibliography


64. Annual Reports, Dalgety Plc, From 1987-1996.


77. Sources from internet http://www.nyu.edu/ross/