ACCOUNTING FOR INTANGIBLE ASSETS

A REVIEW OF PRACTICE IN THE UNITED KINGDOM

(A LONGITUDINAL APPROACH)

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"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/ProjectInt/i/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 intemet 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 practise 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.

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List of Abbreviations;.

Auditing Practice Committee	APC
Accounting Standards Committee	ASC
Accounting Standards Board	ASB
Carrying Value	c v
Exposure Draft	ED
Financial Reporting Exposure Draft	FRED
Financial Reporting Standard	FRS
Intellectual Capital	IC
Institute of Chartered Accountants in England and Wales	ICAEW
Institute of Chartered Accountants of Scotland	ICAS
London Business School	LBS
Net Realisable Value	NRV
Statement of Standards for Accounting Practice	SSAP

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 tc 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 de tailed 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

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