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ISSUES OF IMPROVING THE ACCOUNTING FOR INTELLECTUAL PROPERTY IN ACCORDANCE WITH THE REQUIREMENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS.

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Abstract: This article provides extensive information on how important intellectual property is for a company, which are non-physical resources that hold value for a company. This article examines the recognition, valuation, and reporting of these assets in financial statements, emphasizing the difficulties in appropriately expressing their value because they are intangible. In particular, IAS 38, which offers recommendations for the recognition and value of intangible assets, is discussed in relation to accounting rules and practices.
Key words: intellectual property, intangible assets, know – how, patent, trademarks, goodwill, accounting standards, IAS 38.

Introduction:

An asset without physical substance is called an intangible asset. Patents, copyright, franchises, goodwill, trademarks, trade names, reputation, R&D, expertise, organizational capital, and any type of digital asset, including data and software, are good examples of intangible assets. This contrasts with financial assets and physical assets. Valuing intangible assets is typically very challenging. They suffer from non-excludability, which means it is costly or impossible for one user to exclude others from using a good. Today, a considerable part of the corporate economy consists of intangible assets, reflecting the expansion of information technology (IT) and organizational capital.

One potential cause of the similaity between "company value as per their accounting records" and "company value as per their market capitalization" could be intangible assets. In light of this argument, it's critical to discuss what an accountant actually views as an intangible asset. There have been several attempts to define intangible assets:

An intangible asset is defined as "an identifiable non-monetary asset without physical substance" by International Accounting Standards Board standard 38. This definition is in addition to the standard definition of an asset, which means a past event that gave rise to a resource that the entity controls and from which future economic benefits are anticipated to flow. Accordingly, identifiability is an additional requirement for an intangible asset under IAS 38, which specifies that the asset must be separable from the entity or that it must result from a contractual or legal right.

An intangible asset is recognized if and only if it satisfies the recognition criteria, which include that the asset is identifiable (meets the definition of an intangible asset), that the company has control over it, that future economic benefits from it are likely, and that the asset's value can be reliably estimated. If the costs do not meet the recognition criteria, they are included in the financial result as expenses of the period.

Literature review:

As stated by Nichita there are several discussions among researchers and users of accounting financial reports in terms of the lack of inclusive reporting mechanisms to capture the value of intangible assets (Jeny and Moldovan, 2016). Many intangible assets are still not recognized or may not even be mentioned in the financial statements, despite the fact that their role in the modern economy is growing (OECD, 2011). Traditional reporting is also unable to give a thorough representation of this class of assets (Lev, 2000; Stolowy and Jeny-Cazavan, 2001). According to Mazzi, F., Tsalavoutas, I., Slack, R., & Tsoligkas, F. (2022). Investors strongly against a US expense-all treatment, like the idea of the mandated capitalization of development expenses, subject to certain restrictions, and find R&D accounting information helpful for decision-making. They do not believe that these assets give them a sufficient indication of future value development, as the standard setters had hoped. This is because the present standard's conditions are thought to be subjective and ambiguous. Stolowy, H., Haller, A., & Klockhaus, V. (1999, August) affirm this accounting for intangible assets is one area where this conflicting link between relevance and reliability is very evident. Changes in the financial and economic landscape have made this field even more fascinating by making intangibles—including brands—more crucial components of business success and riches.

Methodology:

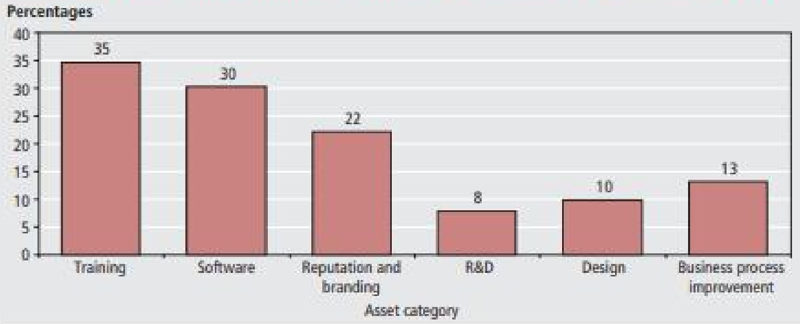
The company can carry intangible assets at cost or at a revalued amount on the balance sheet after they are categorized into the proper classes. With the exception of those recognized as part of a business combination, which are recognized at fair value, both internally generated and externally acquired intangibles are initially recognized at cost. This is the standard position for the majority of intangibles. In order for intangible assets to be eligible for revaluation, IAS 38 adds a criteria that does not apply to tangible assets. The asset's fair value must be determined using an active market.
An entity must determine whether its intangibles have a finite or indefinite useful life in accordance with IAS 38. Assets with finite lifespans are subject to amortization, which necessitates an assessment of the asset's useful life. The maximum amortization period of 20 years is a rebuttable presumption. Although they are not routinely amortized, people with indefinite lives need to have their impairments evaluated at least once a year.

IAS 38 states that when "there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the entity," then an intangible asset has an unlimited life. The amortisation of goodwill is prohibited under another accounting guideline, IAS 3 Business Combinations. In reality, well-known brand assets are frequently thought to have endless lifespans.

Analysis:

Figure 1 provides information about the percentage of firms conducting activity by asset categories. The most highest one is training which accounts for 35 %, while the R&D is 8%. The second place on the graph is the indicator for software which made up 30%. The indicator for design and business process improvement accounted for 10 and 13 % respectively**.** It means the weighted percentage of firms reporting that only a very small percentage of enterprises are found to be solely engaged in R&D. In other words, practically every company that engages in R&D also engages in one or more other intangible asset categories, while the opposite is not true. According to the survey's findings, 42% of businesses engage in one or more other categories of intangible spending but not R&D.

Figure 1
Percentage of firms conducting intangible activity by asset category



We can also take "Microsoft " company as an example, its intangible assets are subject to amortization and are amortized using the straight-line method over their estimated period of benefit, ranging from 1 to 20 years. They evaluate the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired. Table 1 shows the allocation of the purchase price to goodwill was completed as of December 31, 2022. The major classes of assets and liabilities to which we have allocated the purchase price were as follows:

(In millions)		
Goodwill (a)	$	16,326
Intangible assets		4,365
Other assets		42
Other liabilities (b)		(1,972)
Total	$	18,761

Following are the details of the purchase price allocated to the intangible assets acquired:

(In millions, except average life)		Amount	Weighted Average Life
Customer-related	$	2,610	9 years
Technology-based		1,540	5 years
Marketing-related		215	4 years
Total	$	4,365	7 years

As it is visible, the most common intangible asset for Microsoft is customer related ones, which accounts for 2,610 million dollars and with the most weighted average life. Intangible assets made up 4,365 in first table, and second table shows the allocation of this 4.365 into different sectors including customer-related, technology-based and marketing-related.

Conclusion:

To conclude, intangible assets are an important part of the company but frequently disregarded part of contemporary organizations, and a true assessment of a company's value depends on their appropriate identification. Even while current accounting standards offer a framework for identifying these assets, it is nevertheless difficult to completely capture their worth. Companies and regulators must endeavor to create more efficient reporting systems as intangible assets continue to influence the corporate environment in order to guarantee that the financial benefits these assets provide are appropriately represented in financial statements.

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