REPORTING INTANGIBLE ASSETS

Companies will be forced to place new intangible assets such as customer lists and customer back orders in their financial statements under proposals released last week by the International Accounting Standards Board.

The IASB proposed standard dealing with business combinations outlines requirements that will force companies to be more conscientious about the way they value companies they acquire.

It will also create pressure on companies to ensure all purchased intangible assets that are either separable from the business or are a part of contractual conditions are reflected in the accounts.

This is to achieve two objectives: to properly identify all purchased intangible assets as well as to avoid companies classifying assets they could identify individually as goodwill to eliminate the need to write them off.

Goodwill will not have to be written off systematically under the proposed accounting rules, with a write-down of goodwill needing to occur only when a company assesses its operations have been impaired.

“A number of items, some not traditionally thought of as identifiable intangible assets, are now candidates for recognition. This includes things such as customer lists and back orders. It will have an impact on takeovers and initial public offerings because acquisition accounting will need to take into account these particular items,” said Colin Parker, head of accounting policy for Stockford Limited.

He said the more conservative approach to revaluing assets will mean companies will be unable to place contemporaneous values on assets where there is no active market.

“Present accounting practice in Australia allows companies to use fair value look-a-likes rather than an active market to give a more current value to assets,” Mr Parker said.

While the proposed accounting rules require the recognition of intangible assets acquired in a merger or acquisition, the same set of amendments to accounting standards will cause companies to write off internally generated intangible assets.

Ernst & Young partner Ruth Picker — a member of the Australian Accounting Standards Board — said this requirement will cause some companies to drop from their financial statements things they have regarded as being genuine assets.

“Internally generated intangibles can’t be recognised. It’s worse than that. They’ll have to go back and take them off the balance sheet,” Ms Picker said.

“Transitional provisions in first-time adoption standard provide no relief from this requirement.”

Ms Picker said the requirement to write off internally generated assets creates a further question about whether the same items could reappear on balance sheets in five or 10 years time when the IASB comes to terms with valuing and accounting for internally generated intangible assets such as brand names.

“This would result in a ‘now you see it, now you don’t and now you see it again’ effect,” she said.

KPMG partner Kris Peach said the exposure draft on business combinations has an added significance for Australia because of the absence of detailed recognition and measurement rules for intangible assets.

She said companies needed to understand the existing international standard before they could understand the full consequences of the proposals.
“We’ve got to catch up with the existing IAS 38 [the current intangibles standard] before we can appreciate the consequences of the amendments suggested by the IASB in the exposure draft released lat week,” said Ms Peach.

This article was supplied by Tom Ravlic. Tom is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.