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There are increasing concerns about the true value of the firm mostly due to intangibles. “A growing number of investors and regulators see the lack of information and financial management focus on intangible assets as a major deficiency.”(Austrian CPA,2002) This has called for changes in the traditionally financial reporting system. The issue of accounting for intangibles is quite controversial and provides lots of challenges for management accountants, given their role in communicating company's value to outside world. Such challenges not only can motivate new thinking about accounting practice, but also can improve accounting system that can give investors an accurate picture about a company's financial health and future prospects.

As the economy becomes more knowledge and service-based, the sources of companies' value has largely shifted from tangibles to intangibles which reflects the core value of the company--its intellectual capital

including brands, market dominance, competitive advantage, patents, trade marks, customer relationships, R&D, human capital etc. “The present financial accounting framework is criticised, especially in the US and Europe, as inadequate and failing to communicate the most important assets and resources of today's business, known as intangible assets or intellectual capital.”(Bradford, 2002) As a result, there will be a big difference between how investors evaluate a company's value according to its balance sheets and the true value of the company. At this stage, finding a good way to account for intangibles will be the greatest challenge for accounting profession.

To account for intangibles is not an easy task because “value can only be recognized on the books when an asset is bought or sold” (Millman,2002) under present accounting system. Although accounting professions have made some proposals for treating intangibles, problems are still existing. Nowadays, “more and more businesses are placing greater reliance on intellectual capital to create new competitive advantages and innovate for future growth, rather than relying on physical assets. This means that

more money would be "invested" on intangibles development."(Bradford,2002) However, the accounting profession does not classify them as assets and require them to be expensed in a period even though these intangibles do generate future economic benefits for the company in the long term. R&D is an obvious example. Neither can this give investors a good understanding about where the company is going, nor can this justify accounting profession as the professional advisors on business financial matters. Therefore, " working to identify best practices, debate existing concepts and test new approaches to meeting the needs of users of accounting statements"(Millman,2002) can be seen as challenges to accountants.

With the rapid development of economy and technology, the world has transferred from an industrial age to a knowledge age. In an industrial age, "the economy wealth production factors are physical assets such as land, labour, money, machines, etc. The mix of these economy factors generates wealth for the economy. The use of knowledge as a production factor was quite small. Nowadays, however, knowledge or intellectual capital as an economy wealth

production factor takes precedence compared to physical assets."(Bradford,2002) This indicates that traditional measurement systems resulting from industrial age are no longer enough to deal with today's complex situation. More and newer information including both tangibles and intangibles, both financial and non-financial should be provided to users. More attention has been paid to intellectual capital. Also, all kinds of channels can be used as vehicles to better communicate information with users, for example, financial reports, web sites, press releases ect..

Although how to change traditional accounting system to deal with intangibles and give investors a true value about a firm has made today's accountants face lots of challenges, this is a really good way to increase transparency and consistency of accounting information and improve accounting system to guide better accounting practice. Although the road is tough, "whatever you do in managing intangibles will be an improvement over the misleading picture painted by traditional financial measures." Economist John Maynard Keynes once said, "I would rather be vaguely right than precisely

wrong."(Morristoryn,2002)

Reference:

Gregory J Millman, 2002, *Concerns about value prompt new thinking*, Financial Executive

Bradford, 2002, *Intellectual capital accounting and reporting in the knowledge economy*, Journal of Intellectual Capital

Australian CPA , 2002,*Hidden value*, Melbourne

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