

# Discussion on intangible assets

Finance



Decision on intangible assets Concerns about intangible assets Intangible assets are resources with over year useful life but haveno definite value and physical substance as compared to tangible assets. The assets are classified into two categories namely limited intangible assets and unlimited intangible assets. Limited intangible assets include patents, copyrights, goodwill, reputation, and intellectual property while unlimited intangible assets include trademarks and business methodologies (Abdallah, 2004). Despite their nature, the assets are of significance to companies as they influence or contribute to exemplary performance in terms of financial growth and market share expansion. The assets have propelled various companies such as Coca-Cola to greater heights of performance and competitiveness globally. However, a number of concerns arise with respect to their value as estimated, amortization, and representation.

The first concern is that, intangible assets present immense challenges when financial statements of a company are prepared. The challenges emanate since the assets lack definite value compared to tangible assets. The issue leads to the realization of numerous gaps within the process that result to misrepresentation of the actual performance level of a company (Abdallah, 2004). Concerns also arise on whether the value of the intangible assets should be reported at their carrying amounts or fair value amounts. This is a major issue as evident various financial reports given that some assets such as goodwill carries some cost of impairment that affects the value. Likewise, most companies have failed to separate the value of acquired intangible assets in their books as required under GAAP regulations as established in various financial statements. They include the value of the acquired intangible assets in the value of goodwill (Abdallah, 2004). This poses a <https://assignbuster.com/discussion-on-intangible-assets/>

challenge of establishing the actual value of a company's goodwill that determines investment decisions.

Overstatement of values of intangible assets that is becoming common in most institutions also forms a significant cause of concern. This occurs due to inaccurate estimation of the useful life of an asset and the amortized value over the useful life period. Subsequently, the validity of the goodwill impairment tests has been raising systematic concerns especially at times of the financial crisis (Abdallah, 2004). The concern arises since the tests causes' acute increase or decreases in value of the carrying amount of the intangible asset hence affect the overall reliability of the value obtained. In conclusion, it is prudent for companies to adopt best accounting practices and standards to enable them calculate and report the intangible assets at their correct values.

#### References

Abdallah, W. M. (2004). Critical concerns in transfer pricing and practice. Westport, Conn: Praeger.