Intangible assets recognition and measurement research paper

Business, Company

What are the conceptual motivations for NZIAS 38 ‘ Intangible Assets’?

The NZIAS 38 ‘ Intangible Assets’ came to be in the year 2004 when the Financial Reporting Standards Board of New Zealand issued it. Its baseline and concept of operation is to account for intangible assets during financial reporting. This followed the realization that some forms of assets could not be accounted for by other accounting standards, thus its establishment. This standard is motivated by the fact that intangible assets can be identified, controlled and consequently bring about economic benefits (Barry & Abbas, 2002). Identifying an intangible asset distinguishes it from goodwill while its control requires that the entity doing it be strong enough in order to realize full economic benefits of such procedures.

Briefly describe what has been achieved in financial reporting with the introduction of this standard. Provide examples where appropriate.

The introduction of this standard brought into focus aspects and concepts of intangible assets in the financial reporting arena. Through this standard, intangible assets can be accounted for and further provided in the financial reporting of an entity’s financial statements. Any entity, enterprise or company that engages the accounting standards in its operations can carry out costing of intangible assets as provided for by this standard, just like any other assets are dealt with. The advantage of this standard to these entities for example is that other accounting standards do not provide for this. Revaluation models are also characteristic in this standard. These models are by virtue of importance lacking in most other accounting standards, and where present, their account ability in addressing these matters are either unclear or incomplete (Steven & Bragg, 2010). For example, given an intangible asset that is classified among revalued assets and that revaluation for the intangible asset cannot take place due to lacking market for the asset, this intangible asset should be accounted for at its actual coast. However, losses associated with impairment as well as amortizations accumulated from by the asset should be deducted (Steven & Bragg, 2010). This financial reporting achievement has been put forward by the NZIAS 38 and not any other standard. Other financial reporting achievements of this standard relate to the usefulness of the intangible assets driven by their residual values over time as well as retiring and disposing of these assets by concerned entities.

Describe how recognition and measurement criteria have been applied in the accounting treatment of research and development expenditure in NZIAS 38 ‘ Intangible Assets’ to take account of this special class of assets. Provide examples where appropriate.

Recognition and measurement criteria in this standard seek to define and further lay down a protocol that leads to the identification of an intangible asset. In this regard, any entity that seeks to make a treatment of an intangible asset in its financial reporting should be aware of the definition and the procedure followed to identify and recognize such assets. Research and development expenditure are part and parcel of this standard, in that this standard identifies research and development expenditure as a special type intangible assets following the procedural protocol of its recognition. Measurement is carried out after an intangible asset has been recognized.

This standard allows for measurement of intangible assets by the method of revaluation (Barry & Abbas, 2002).

Aggregate research amounts and costs attributed to development are treated as an expense to an entity under this accounting standard. The expenditure amounts are known by whatever means that the specific entity concerned applies, but the most important consideration here is that research and development expenditure can actually be measured, as provided for by this standard. It is important to note that the measurement of an intangible asset only occurs after the asset has been recognized, through the relevant procedure and for a given accounting period.

Research and development activities attract costs of undertaking such procedures. These costs by recognition and measurement constitute the expenditure that this standard hereby treats as research and development expenditure (Editors of Perseus, 2002). For example, a company may want to get information on its sales level based on the demand of its products for the purposes of identifying its advantages or disadvantages in its market model. The information that this company gathers is intangible but resources have been utilized in order to get it. Consequently, this information can be used for the purposes of enhancing the operations of the company, thereby constituting its development over time. The research activities and the development hereby realized constitutes this special class of intangible assets defined by research and development expenditure, through recognizing and measuring of costs incurred in that process.

References

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Accounting Standards. California: John Wiley and Sons.

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