

The problems encountered while accounting for intangibles are accurately identi...

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PROBLEMS IN ACCOUNTING FOR INTANGIBLE ASSETS Intangible assets as the suggests are those assets that cannot be physically identified. This nature of this nature, the assets are difficult to prove their existence and therefore hard to recognize when accounting. There are numerous problems encountered in accounting for these assets. Examples include goodwill, research cost, copyrights, and patents.

First, IASB define an intangible asset are those with expected future economic benefits. It is normally difficult and hard to determine whether future economic benefit are expected to be generated hence there will be uncertainty in our judgment (Spiceland, 2009). For example expenditures in research and marketing will generate cash flows but quantifying the amount of the cash is normally difficult hence their omission in the balance sheet.

Secondly, recognition of assets in the balance sheet requires the ability to measure the value or the cost reliably. In the case of intangible assets like marketing or research, reliable measure of value or cost cannot be made because of the uncertainty in the amount of cash flows to be generated is very high (Spiceland, 2009). Further, it may be difficult to determine which assets the expenditures have contributed value for.

Moreover, IASB requires that for an asset to be recognized in the balance sheet, control must be determined. The enterprise must have the rights on the assets or control that gives the exclusive benefits to the organization. Skilled staff may thus not be classified as intangible assets because the organization does not own the employees. This makes it difficult to account for the intangible assets especially when there are no legal rights.

Finally, assets must result from previous transactions or past events for them

to be recognized and classified. This does not pose a very big problem since the purchase price can always be determined if the asset was obtained. Problems normally arise only when the assets are produced by the organization. Internally generated assets cause a problem of determining their existence from a single transaction hence difficult to measure.

Organizations must therefore ensure that they account for intangible assets in conformity to the IASB so as to prevent overstating or understating the financial statements.

Reference

Spiceland, J. D. (2009). *Intermediate accounting* (5th ed.). Boston: McGraw-Hill/Irwin.