

Recognition and Disclosure of Intangibles under International Financial Reporting Standards

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- **IASB/Abacus Forum November 2024**
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Overall comments

- Paper surveys trends in intangible asset recognition and disclosure practices under IAS 38 in large sample of UK companies 2017-2021
- More acquisitive firms (engage in acquisitions) recognise more intangible assets (32% of total assets) than non-acquisitive firms (do not engage in acquisitions) (8.8% of total assets)
- Non-acquisitive firms disclose more information about intangibles, especially non-contractual intangibles – suggesting increased disclosure to supplement non-recognition of intangibles.
- Disclosure levels of intangibles are low compared to total disclosures by sample firms.

Assessment - strengths

- A carefully done and very thorough description of recognition and disclosure practices for intangibles in UK 2017-2021
- Word count measurements of disclosure in table 2
- Multivariate analyses in tables 5 – 6 showing determinants of INT_{rec} and of INT_{DIS} comprising Dis_all and three components - DisA (contractual intangibles), DisB (non-contractual intangibles) and DisC (broad intangibles)
- Presentation of trends in Recognition and Disclosure in figures 1-3
- Well written and clearly presented
- Results should be of interest to IASB in their review of IAS 38.

Suggestions

- Paper remains largely descriptive.
- Does not address whether intangible asset recognition and disclosure practices are useful to investors.
- Testing usefulness should be of interest to standard setters
- Could be improved by examining:
 - whether the intangibles recognised vs disclosed are value relevant
 - and whether recognised intangibles are more value relevant than disclosed intangibles in your sample.

Suggestions

- Measure value relevance using augmented Ohlson (1995) model
- $P_i = a + b_1 \text{EPS}_i + b_2 \text{BVE}_i + \text{error}$.
- $P_i = a + b_1 \text{EPS}_i + b_2 \text{Tangible Assets}_i + b_3 \text{Rec Intangible Assets}_i - b_4 \text{Liabilities} + b_5 \text{Dis_All} + \text{error}$.
- Where all variables (except Dis_All) are on per share basis
- Price is 3 months after balance date
- Test whether $b_3 \text{Rec Intangible Assets}_i$ and $b_5 \text{Dis_All}$ are priced.
- Break Dis_All down into Dis_A, Dis_B and Dis_C.
- Test which Dis measure has highest value relevance, and whether it is more value relevant than Rec_Intangible Assets.

Minor matters

- Make consistent the presentation of percentages and decimals in text and tables, e.g. tables have results to three decimal places, but text often does not and rounds to nearest percentage.
- Paper is not paginated
- Page 7 (?) – sample 306 firms should be 360 firms
- Page 8 (?) – “Most firms do not report a breakdown of intangible assets and therefore the number of observations for all variables other than net intangible assets are much lower than 3,475” Is Should first “intangible” in sentence be “tangible”?