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Some thoughts on the recognition of assets, notably in respect of intangible assets

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ABSTRACT

The paper presents interview based research directed towards a four part proposition (in bold type), namely, that the accounting recognition of an asset is **rights-based,** . . . **separable in nature** and **capable of being measured financially**. When combined together the recorded financial picture is one that only **purports to represent economic reality**. The distinguishing feature from that which is contained in many conceptual frameworks is the centrality of a 'right to transfer' an asset in the asset recognition process.

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1. Introduction

In July 2006, a joint project was agreed between the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) for a revised conceptual framework (CF) addressing 'Objectives and Qualitative characteristics', 'Elements and Recognition', 'Measurement' and the 'Reporting Entity'. The last three phases of this four-phase project remain ongoing at the time of writing. As one would expect the CF epistemology is rule-based and principles-based, including the use of definitions. The related ontology, inherently so, is therefore a socially constructed one and one which is subject to political policy decision making. The IASB's political policy decision making in respect of the CF currently gives priority to the balance sheet. This priority is grounded on the Hicksian (1946, pp. 178–179) notion of changes in wealth plus what is consumed in a period, namely, between two balance sheet dates. As such, this approach makes no distinction between net income from operating or holding assets, whether realised or not, and gives rise to the fairly recent notion of 'comprehensive income' (see Barker, 2004; Bertoni & De Rosa, 2005; Cauwenberge & De Beelde, 2007; IASB, 2003; Newberry, 2003). In the paper we refer to this mainstream regulatory stance as the valuations-based-overview of accounting. However, this paper presents an alternative stance based on what we call a transfer-based-view of accounting, both stances being explored throughout the paper.

In common with the International Accounting Standards Board's (IASB) standard-setting process, a consultative stance is adopted in this paper towards the accounting recognition of assets on the balance sheet. In our case, the consultation was in the form of semi-structured interviews taken from a selection of those knowledgeable persons (Haas, 1992) who have been or who are currently involved with the IASB's conceptual framework (CF) project,[1] including some IASB board

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[1] CF's have previously been widely criticized as a 'functional failure' (Archer, 1992, 1993; Dean & Clarke, 2003; Gore, 1992; Loftus, 2003; Mozes, 1998; Page, 2005; Sundgaard, 2000; Walker & Jones, 2003; Walker, 2003). CFs have faced a number of specific criticisms: 'incompleteness', 'internal inconsistency', and 'unsubstantiated assertions' (see Agrawal, 1987; Bullen & Crook, 2005; Chambers, 1995; Dopuch & Sunder, 1980; Gerboth, 1987; Johnson, 2004a, 2004b, 2004c, 2005; Pacter, 1983; Peasnell, 1982; Potter, 2005; Samuelson, 1996; Schuetze, 1993, 2001; Solomons, 1986).

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members.[2] The content of the interviews were directed towards a four part proposition (in bold type), namely, that the accounting recognition of an asset is **rights-based,** ... **separable in nature** and **capable of being measured financially**. When combined together the recorded financial picture is one that only **purports to represent economic reality**. The distinguishing feature here from that which is contained in many conceptual frameworks (ASB, 1999; FASB, 1984, 1985; IASB, 2001) is the centrality of a 'right to transfer' an asset in the asset recognition process. In this context, we advance what we refer to as a transfer-based-overview of accounting, below. The paper therefore has a social constructionist dimension in its content (Hines, 1988).

The interviews were timely, occurring as they did during the Elements and Recognition phase of the IASB's CF project. As such, the interviewee responses (in italics throughout the paper) provide some interesting thoughts on the development of the IASB's CF and the separable recognition of an asset based on a 'capability to transfer' and the 'right' to do so.

2. The research approach

Three rounds of semi-structured interviews were conducted as part of a grounded theory approach, which is not explored in this paper at the reviewers' behest. This was preceded by a pilot interview with two Canadian accounting professors whose equivocation in their responses showed us that only those interviewees with an interest in the field of asset recognition possessed 'the necessary expertise'. As such, it became necessary to target those parties who were involved with the IASB's conceptual framework or who had published in response to the development of this framework. It follows that the selection of potential interviewees was not random for the reason given. In total, twelve interviews were conducted: two with Canadian Accounting Standards Board (CaSB) members (in May 2008 at the CAAA conference in Winnipeg, Canada), five with IASB members (in June, 2008 at the IASB head office, London, UK), three with senior accounting academics (at their offices in September 2008), one senior accounting practitioner who has experience in this area (at his office in October 2008) and, finally, a UK Accounting Standards Board (ASB) member (by telephone in the UK in September 2009). The interviews, which on average took about 1hr 30 min to conduct, were electronically recorded and subsequently transcribed by one of the authors. None of the interviewees were given any information in advance other than in respect of the general subject area, namely, asset recognition.

Researcher bias is an unavoidable feature of this research, for example, in the selection of the questions asked at interview. Our bias lies in the logical premise that unless one can recognise an asset on a separable basis one cannot be too sure of what one is subsequently measuring. We therefore start from the position that the words identification (Napier & Power, 1992) and recognition (IASB, 2001) in the accounting literature are variations on an overall "process of seeing" assets Gröjer (2001, p. 700) which requires sight of something physical for asset recognition to occur (see Wand & Weber's, 1995 "fundamental premise" and Tollington & Spinelli, 2012). Recognition in this context means recognition as an asset on the balance sheet which, in the case of intangible assets, would therefore have to be on the basis of a physical surrogate or artefact.

The above logical premise is based on the following view of separability, which was submitted to the interviewees for their comments:

> All the individual assets of a business, whether intangible or not, are separable from each other, when it is possible to aggregate or disaggregate them without loss or gain in the recognition and measurement of those individual assets such that the sum of them would always be equal to the whole of the assets of the business (El-Tawy & Tollington, 2008).

It follows that asset recognition on the basis of a measurement alone, for example, purchased goodwill, is an incomplete process. Yet, perhaps the prevailing norm in respect of separability is the Napier and Power (1992) notion of "measurement separability", in effect, if one can reliably measure an item, de facto, one has simultaneously recognised it – and a purchased goodwill 'asset' is 'recognised' on that basis, specifically, as a 'measured' excess per IFRS3. Likewise, in respect of other intangible assets, it is currently possible to recognise them on a non-transferable-rights basis providing a separable measurement can be reliably provided (IASB, 2004, para. 12b). Measurement separability is also, to some extent, supported by the existing asset definitions with their "economic" perspective: "economic resource" (IASB, 2001) or "economic benefits" (ASB, 1999).[3] In general, an "economic" perspective is essentially a measurement based one, specifically, to measure the increases or decreases in a business entity's wealth between two balance sheet dates.

Consider the centrality of asset values in the above perspective, a perspective that will embrace measured synergistic gains from bundles of assets as well as individual ones. With this perspective it is a mistake to assume that the asset definition can be used as a device for determining the asset status of individual expenditures because those expenditures, whilst not producing income in themselves, such as aircraft landing rights, may produce some form of economic benefits in concert with other assets. We call this measurement-centred economic perspective a 'value-based-overview' of accounting. Given

[2] The views expressed in this paper have been anonymised, except for review purposes, because some of the interviewee' views may not necessarily coincide with those expressed in the revised IASB CF and/or they do not wish to be identified. The persons interviewed (excluding the pilot responses) were Ian Hague, Thomas Scott, Jim Leisenring, Mary Barth, Hilary Eastman, Warren McGregor, Wayne Upton, Geoffrey Whittington, Richard Barker, Steinar Kvifte, David Bence, Andrew Lennard.

[3] See Gerboth (1987) on the weaknesses of definitions generally and Schuetze (1993, 2001) on the weaknesses of the asset definition specifically.

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