Accounting and Business Research
Publication details, including instructions for authors and subscription information:
http://www.tandfonline.com/loi/rabr20

Introduction

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Published online: 04 Jan 2011.

To cite this article: Robert Hodgkinson (2008) Introduction, Accounting and Business Research, 38:3, 169-170, DOI: 10.1080/00014788.2008.9663330

To link to this article: http://dx.doi.org/10.1080/00014788.2008.9663330

Introduction

The five papers in this issue of *International Accounting Policy Forum* address different aspects of the question of intangibles – a highly controversial subject in recent decades.

The points on which there is no dispute are that intangibles are extremely important, that nevertheless most intangibles do not appear in the balance sheet and that, with some exceptions, the minority of intangibles that do appear there are not reported at their current values. From this common starting-point people move on to arrive at widely differing conclusions.

In *New Reporting Models for Business* (2003), one of the first reports published by the Institute of Chartered Accountants in England and Wales (ICAEW) in its Information for Better Markets campaign, we looked at some of the most prominent calls for major reform in business reporting. We noted that those who called for reform typically:

- asserted that there had been a tremendous growth in the importance of intangibles and that they were now the key drivers of business success;
- argued that intangibles' absence from the balance sheet was a fundamental weakness in financial reporting, which meant that investors were being seriously misled; and
- concluded that the answer lay in the provision by businesses of more non-financial, qualitative, and forward-looking information (although there were also some calls for reform to financial reporting).

Hence – and for other reasons that had nothing to do with intangibles – the calls for a new business reporting model that would tell businesses what they should disclose.

There seemed to us to be a number of questions that deserved investigation. And so we commissioned the five papers that now appear here and which were first presented at the Information for Better Markets Conference held at the ICAEW in December 2007.

Without wishing to attempt a summary of the papers, there are one or two key points in each of them that are worth mentioning as particularly relevant to the issues raised by those who call for a new reporting model.

Sudipta Basu and Gregory Waymire's original and intriguing paper shows that intangibles have always been – and always will be – of essential importance to economic activity and also that tangibles and intangibles are often inextricably linked. In addition, the paper provides a helpful analysis of the reasons why intangibles might have become more (or less) important.

Douglas Skinner's paper provides a powerful defence of the current treatment of intangibles in the financial reporting model and explains why a balance sheet that attempted to incorporate all intangibles at current values would probably not provide useful information for investors. Further, it shows why there are good reasons to be sceptical of claims that intangibles' absence from the balance sheet has led to serious – or indeed any – economic harm. It also sets out a cogent argument against trying to develop a detailed model for useful disclosures about intangibles.

Anne Wyatt's paper is an extremely helpful review of the existing literature on value-relevance and intangibles. It demonstrates the almost incredible diversity of potentially relevant information on intangibles and, interestingly, draws attention to evidence that giving management discretion to report intangibles might facilitate more value-relevant disclosures.

In contrast to the preceding papers, Christopher Ittner's concentrates on measuring intangibles for management purposes. It exposes important weaknesses or limitations in much of the existing literature on this topic and shows the need for great caution in making statements about the purported link between measuring intangibles and improved performance. Professor Ittner does not address whether all this has any implications for external reporting, but I believe his paper will prove to be very useful from that point of view as well.

Andrew Stark's paper, as well as giving a valuable overview of the issues and drawing attention to some of the UK evidence, also has important conclusions on the desirability or otherwise of imposing a broad disclosure framework for intangibles. He notes that, at least in the UK, it is not clear that such a framework would be a useful addition to existing requirements.

Although there are substantial areas of agreement among the five papers published here, it would be foolish to imagine that the controversy about intangibles will now go away. Indeed, I am

pleased to see that Baruch Lev has contributed a rejoinder in this issue – and so to that extent the debate is not completely one-sided. There also remain important questions, not addressed here, about the recognition and measurement of intangibles that are candidates for inclusion on the balance sheet even under the existing financial reporting model.

All of the contributions to this publication – including the practitioner commentaries – will be most helpful to the ICAEW in our continuing work on the questions addressed in *New Reporting Models for Business*. And I have no doubt that our forthcoming follow-up report, *Developments in New Reporting Models*, will draw extensively on the material presented. I hope that this issue of *International Accounting Policy Forum* will also be of use to all those interested in the debate on intangibles and that it will stimulate further research.

I am grateful to all the distinguished academic and practitioner contributors to this publication and, once again, to Pauline Weetman for her support and hard work as editor. Finally, I must thank the ICAEW's charitable trusts, which generously provided funding to support the conference last December and the preparation of these academic papers, and the publishers, CCH, who have now assumed responsibility for financing the publication.

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March 2008