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COMPARATIVE ANALYSIS-- A STUDY OF ACCOUNTING STANDARDS ON INTANGIBLE ASSETS OF FIVE COUNTRIES

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ABSTRACT: *The aim of this study is to prepare the comparative analysis of standards of five different countries on Intangible assets namely FRS-10(United Kingdom), AASB-138(Australia), FAS-142 (United States of America), AS-26 (India) and IAS-38 (International)***.** *The analysis has been done broadly on the following basis – accounting treatment of different types of goodwill, internally generated goodwill, internally generated intangible assets, how to subsequently recognize the intangible assets (amortization method, amortization period) and how to treat impairment loss.After each topic a comparative table has been prepared to have a quick view of differences between the standards. This difference analysis has helped in ascertaining the degree of harmonization of standards under discussion with respect to IAS-38 the international standard.*

KEY WORDS: *AASB- 138, AS-26, FAS-142, FRS-10, IAS-38, Intangible Assets.*

I. INTRODUCTION

An asset is an economic resource tangible or intangible that is being owned by an individual, company or country with the expectation of future benefits. The monetary value of the owned assets is depicted by the balance sheet of the firm. Two major classes of assets are tangible assets and intangible assets. Tangible assets include current assets (inventory, cash) and fixed assets (buildings). Intangible assets are non-physical resources and rights that have a value to the firm and give an additive advantage to the firm. Examples of Intangible Assets are patents, copyrights, goodwill, trademarks, human capital and computer programs. These Intangible Assets are rapidly capturing the center stage.

The presence of Intangible Assets can be traced even to the Stone Age. The invention of fire by rubbing two stones is an apt example. This invention could have been patented if laws of patent would have been there at that time. All this shows that the presence of Intangible Assets is not new rather it is the awareness and development of laws that has increased over time. In today's competitive world, Intangible Assets play an imperative role for the business in having competitive edge. They have become an indispensable part of the Balance sheet of the company's these days.Research **(Nakamura, 2003)** indicated that the annual US investment in Intangibles was almost equal ($ 1 trillion) to the total investment of the manufacturing sector in physical assets. This data points out that they have become an indispensable part of the balance sheet of the company's in today's world.

The revolution from industrial economy to the current knowledge economy started and demanded incessant innovation, buyer centricity and eminent customer services. This required companies to invest more and more in operative activities, brand building, strong customer relationship building and workforce training instead of execution assets. Besides, investment in intangibles which enables firms to innovate generated returns extensively elevated in comparison to the cost of capital and returns on fixed assets investments. All this arise the need of proper accounting and disclosure of intangible assets. The increasing importance and share of intangible assets in the balance sheet has increased the need of accurate accounting and disclosure of Intangible assets. Every country especially those with major amount of Intangible Assets have issued accounting standards for the accounting and disclosure of these assets on the basis of their economic and accounting environment. In India, accounting and disclosure of intangible assets is taken care by **Accounting Standard -26**. In United States of America, it is **Financial Accounting Standard-142** which takes care about this issue. In Australia, it is **Financial Reporting Standard-10** which is issued for the treatment of Intangible Assets. The international accounting body- **International Accounting Standard Board** issued **International AccountingStandard-38** for Intangible assets. At the international level World Intellectual Property Organization (WIPO) was established in 1967 to administer intellectual property rights. All the members of WIPO are required to bring their intellectual property laws in compliance with WIPO laws. Also at the international level **Agreement on Trade Related IntellectualProperty Rights (TRIPS)** was included in the Act of the Uruguay Round to give more importance to intellectual property rights.

II. RATIONAL OF THE PAPER

This paper tries to bring out the difference between the standards under discussion (FRS-10(United Kingdom), AASB-138(Australia), FAS-142 (United States of America), AS-26 (India) and IAS-38 (International) majorly on the basis of the following points:-

1) **Goodwill Treatment**
a. Positive Goodwill
b. Negative Goodwill
c. Internally Generated Goodwill

2) **Internally generated assets**
a. Research Cost
b. Development Cost

3) **Amortization Period**
4) **Amortization Method**
5) **Impairment Loss**

III. DEFINING ACCOUNTING STANDARD

Accounting standard is a statement that provides guidelines for preparing standardized financial statements by a firm. It provides rules of accounting and disclosure of incomes, expenses, assets and liabilities in financial statements. It helps in comparing financial statements of different companies as it brings uniformity in preparing financial statements.In the field of accounting, the group of widely accepted accounting standards is known as **GAAP (Generally Accepted Accounting principle).**

IV. COMPARATIVE ANALYSIS

Goodwill Treatment
There are different types of goodwill. Acquired goodwill is the goodwill generated due to acquisition. It can be positive (acquired price>net value of the assets) or negative (acquired price< net value of the assets). Internally generated goodwill is the goodwill generated by the business on its own. It is the excess of the market value of the business over the book value of the business. Accounting treatment of each type of goodwill is different from each other and from standard to standard. The accounting treatment of each type of goodwill is discussed below on the basis of five standards under discussion.

Positive Goodwill

- **FRS-10** **–** According to this standard positive goodwill is to be capitalized and classified as an asset in the balance sheet. This standard has specified **20 years** for which the goodwill is regarded as having a limited useful economic life. Beyond 20 years, goodwill is considered as having infinite life. Goodwill with limited life (not more than 20 years) is to be amortized on a systematic basis (depicting expected pattern of depletion) over its useful life. Also, standard has given conditions for impairment. Goodwill with life up to 20 years along with amortization should also be tested for impairment at the end of the first financial year and later only when the circumstances indicates that carrying value may not be recoverable. Goodwill with infinite life (more than 20 years) should not be amortized but only be tested for impairment at the end of each reporting period.

- **FAS-142** **–** Goodwill is to be capitalized and presented as a separate item in the statement of financial position. This standard has not divided the goodwill on the basis of useful economic life for subsequent recognition. According to this standard, goodwill is not to be amortized. It should be tested annually (after every reporting period) for impairment and be tested between annual tests depending on circumstances.

- **IAS-38** – Under this standard, goodwill is to be capitalized and shown on the asset side of the balance sheet as a separate item. This standard has also classified goodwill in two categories- one with limited useful economic life and one with infinite useful life. Goodwill with limited useful life is to be amortized on a systematic basis (reflecting the expected future economic benefits) over its useful life. The standard has specified that straight line method should be adopted unless it can be justified that other method is better than this method. The goodwill with infinite useful life is required to be tested for impairment according to **IAS-36 "Impairment of Assets"** annually or when there are indications.

- **AS-26** – Goodwill is to be capitalized and shown as an asset in the balance sheet. Under this standard, goodwill is to be tested for impairment annually with an exception of goodwill arising due to amalgamation. This goodwill is to be amortized over 3-5 years **(AS-14, Accounting for Amalgamation).**

- **AASB-138**– This standard does not cover accounting treatment for the purchased goodwill. The treatment is given by **AASB-1013 "Accounting for Goodwill"**. According to AASB-138, at the time of acquisition the positive goodwill is required to be recognized as a non-current asset. For subsequent recognition, goodwill is required to be amortized. The useful life of the goodwill shall not exceed **twenty years** from the date of acquisition.

The table depicting difference in accounting treatment of positive goodwill between the five under discussion standards is shown by table 1:

Table 1: Accounting Treatment of Positive Goodwill

Accounting Standard	Amortization	Impairment
FRS-10	Amortized if useful life is up to 20 years	Tested for impairment if useful life is more than 20 years.
FAS-142	Not amortized	Only to be tested for impairment annually and in-between the year if required.
IAS-38	Amortized when useful life is finite.	Tested for impairment when useful life is infinite annually or when there are indications.
AS-26	Not to be amortized with the exception of goodwill arising in amalgamation in which case is to be amortized in 3-5 years.	To be tested for impairment annually or when required.
AASB-138*	Amortized	Also to be tested for impairment at each reporting date.

* Does not cover accounting treatment for the purchased goodwill. It is provided by AASB-1013

Negative Goodwill

- **FRS-10** – It is to be recognized and disclosed in the balance sheet immediately below the goodwill heading. At the end, the net amount of positive and negative goodwill/ is shown. If there is no positive goodwill present in the balance sheet then negative goodwill is to be shown on the liability side of the balance sheet. Negative goodwill which is up to the fair value of the non-monetary assets acquired should be credited in the profit and loss account in the recovery period of those assets whether the recovery is through depreciation or sale. Negative goodwill in excess of this fair value of the non-monetary assets should be credited in the profit and loss account up to the expected period of its benefit.

- **FAS-142** – Under this standard, negative goodwill is allocated on the pro-rata basis to reduce the value assigned to non-current assets. Any excess of negative goodwill left after reducing these assets to zero is to be considered as an extraordinary gain and recorded in the period in which the business combination is completed.

- **IAS-38** - Negative goodwill is not covered by this standard. Its treatment comes under IFRS-3. As per this standard, negative goodwill should be recognized in profit and loss account immediately.

- **AS-26** – Under this standard, negative goodwill is simply credited to the capital reserve account which is a part of shareholder's equity.

- **AASB-138** – Under this negative goodwill shall be eliminated by reducing proportionately the fair values of the acquired non-monetary assets. If after reducing non-monetary assets negative goodwill balance still exist then the remaining balance is to be recognized as revenue in the profit and loss account.

The table depicting difference in accounting treatment of negative goodwill between the five under discussion standards is shown by table 2:

Table 2: Accounting Treatment of Negative Goodwill

Accounting standard	**Negative goodwill up to non-monetary assets**	**Negative goodwill in excess of non-monetary assets**	**Other Treatment**
FRS-10	To be credited in the profit and loss account in the recovery period of those assets.	To be credited in the profit and loss account up to the expected period of its benefits.	–
FAS-142	Allocated on a pro-rata basis to reduce the value assigned to non-current assets up to zero.	Considered as an extra-ordinary gain in the period of completion of business combination.	–
IAS-38*	–	–	Immediately recognize in the profit and loss account.
AS-26	–	–	Credit the whole amount to the capital reserve account.
AASB-138	Eliminated by reducing proportionately the fair value of the acquired non-monetary assets.	Recognized as revenue in the profit and loss account.	–

*Does not provide accounting treatment of negative goodwill. It is provided by IFRS-3.

Internally Generated Goodwill

- **FRS-10** – It should not be capitalized.
- **FAS-142** – Internally generated goodwill is to be recognized as an expense.
- **IAS-38** – It is not to be recognized.
- **AS-26** – It is not to be recognized.
- **AASB-138** – It is not to be recognized as an asset.

The table depicting difference in accounting treatment of internally generated goodwill between the five under discussion standards is shown by table 3:

Table 3: Accounting Treatment of Internally Generated Goodwill

Accounting Standard	Accounting Treatment
FRS-10	Should not be capitalized.
FAS-142	Shall be recognized as an expense when incurred.
IAS-38	Should not be capitalized.
AS-26	Should not be capitalized.
AASB-138	Should not be capitalized.

Internally Generated Intangible Assets

Internally generated intangible assets are those assets which are created by the entity by undertaking the two phase process of research and development. In this process two types of costs are incurred- **research cost** and **development cost.** Now the question is about the accounting treatment of these two costs i.e. which cost to be capitalized and represented as an asset in the balance sheet and which cost to be charged from profit and loss account.

- **FRS-10 -** This standard does not provide accounting treatment for research and development cost. It is provided by **Statement of Standard Accounting Practice No.13 (SSAP-13) - "Accounting for Research and Development".** According to this standard, **Research Cost** is to be written off as they are incurred i.e. to be charged as an expense. **Development Cost** shall be capitalized up to the amount which satisfies the conditions of technical feasibility, commercial viability, clearly defined project, adequate resources exist etc. given in this statement.

- **FAS-142 -** The treatment given by this standard is different from other standards. As per this standard, **all research anddevelopment cost** shall be charged to profit and loss account as when incurred. No cost is to be capitalized.

- **IAS-38 –** According to this standard, **Research Cost is** not to be recognized as an asset rather it is to be debited to profit and loss account (treating as an expense). **Development Cost** can be capitalized and recognized as an intangible asset if it satisfies the conditions of technical feasibility, intention to complete the project, availability of adequate resources for the project, demonstrate the existence of market for the output to be generated by this intangible asset. If all the conditions and recognition criteria's given in the standard (same as given under SSAP-13) are satisfied then development cost can be capitalized and recognized as an internally generated intangible asset. If development cost does not satisfy the recognition criteria then it is to be write-off from earnings immediately. The standard has not specified the maximum amortization period. The enterprise has to apply judgement for the selection of amortization period on the basis of the existing circumstances.

- **AS-26 -** According to this standard **Research Cost** cannot bestated as an intangible assets as no asset come into physical existence i.e. such cost to be charged from profit and loss account as and when it is incurred. As in case of **Development Cost, accounting** treatment is same as given in IAS-38. If all the conditions and recognition criteria's (same as under SSAP-13) are satisfied then development cost is to be recognized an internally generated cost. Amortization period is to be fixed by the enterprise by applying judgement on the basis of existing circumstances.

- **AASB-138 –** Under this standard alsono **Research Cost** shall be recognized as an intangible asset. Such expenditure shall be recognized as an expense when it is incurred. The treatment of **Development Cost** is same as in case of IAS-38 and AS-26. Development cost is to be capitalized as an internally generated Intangible Asset if it satisfies all conditions and recognition criteria (same as under SSAP-13). Here also amortization period is to be decided by the enterprise on the basis of the existing circumstances.

The table depicting difference in accounting treatment of research and development cost between the five under discussion standards is depicted by table 4:

Table 4: Accounting Treatment of Research and Development Cost

Accounting Standard	Research Cost	Development Cost
FRS-10	Charge as an expense.	Capitalize if it satisfies all conditions and recognition criteria.
FAS-142	Charge from profit and loss account as an expense.	Charge from profit and loss account as an expense.
IAS-38	Charge from profit and loss account as an expense.	Capitalize if it satisfies all conditions and recognition criteria.
AS-26	Charge from profit and loss account as an expense.	Capitalize if it satisfies all conditions and recognition criteria.
AASB-138	Charge from profit and loss account as an expense.	Capitalize if it satisfies all conditions and recognition criteria.

1) Amortization period

It is the estimated useful life of an intangible asset over which its depreciable amount (cost-scrap value) is to be allocated. Each accounting standard makes a presumption about the useful life of an intangible asset keeping in mind the factors like- the expected usage of an asset, technical obsolescence, expected actions by competitors, period of control over the asset, international trend etc. But useful life of those intangible assets which is determined by law shall not exceed the period of the contractual or legal rights. This section provides information about the amortization period assumed by the five under discussion standards.

- **FRS-10** – This standard has taken **20 years** amortization period. Intangible Assets with life up to 20 years are considered as **Intangible Assets withlimited useful life.** Intangible Assets with life more than 20 years are considered as **Intangible Assets with unlimited useful life.**

- **FAS-142** – This standard has not made any presumption about the useful life of an intangible asset. The enterprises themselves have to decide the useful life on the basis of the factors like- the expected usage of an asset, technical obsolescence, expected actions by competitors, period of control over the asset, international trend etc.

- **IAS-38** – Under this standard also, amortization period is assumed as **20 years.** Intangible Assets with useful life up to 20 years are amortized and those with useful life more than 20 years are tested for impairment.

- **AS-26** – This standard has presumed that amortization period shall not exceed **10 years**. However, useful life will be shorter of the useful life determined by economic and legal factors.

- **AASB-138** – This standard has not presumed any limit for the useful life of intangible assets. The enterprise has to decide on the basis of the factors affecting the useful life like expected usage of the asset, economic factors, legal factors, technical obsolescence etc. The useful life of those intangible assets which arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights.

The table depicting difference in assumption of amortization period between the five under discussion standards is depicted by table 5:

Table 5: Assumption of Accounting Period

Accounting Standard	**Amortization Period**
FRS-10	20 years
FAS-142	Not specified. To be based on economic and legal factors.
IAS-38	20 years
AS-26	10 years
AASB-138	Not specified. To be based on economic and legal factors.

4) Amortization Method

Amortization method is the method by which the depreciable amount of the intangible asset is allocated over the amortization period. Amortization method must reflect the pattern in which the asset's economic benefits are to be consumed by the enterprise. This will help in matching the revenue earned with the corresponding cost of the asset. This section discusses various amortization methods permissible under the five under discussion standards.

- **FRS-10** – As per this standard, amortization method must reflect the expected pattern of depletion of intangible asset. This standard has provided straight line method unless another method demonstrates more appropriateness. This standard has specifically given that interest methods such as the reverse sum of digits method are not appropriate methods of amortizing goodwill as they do not reflect the pattern of depletion of goodwill.

- **FAS-142** – According to this standard amortization method must reflect the pattern of economic benefits of the intangible asset. Under this standard no method has been specified as factors affecting it will differ from asset to asset and from company to company. If pattern of the future economic benefits cannot be determined reliably then straight line method shall be used.

- **IAS-38** – Under this standard also, no amortization method has been specified but it must reflect the pattern of future economic benefits arising from intangible asset. If the pattern cannot be determined then straight line method shall be used.

- **AS-26** – This standard has specified the following methods which can be used for amortizing intangible assets:-

[1] Straight Line Method
[2] Diminishing Balance Method
[3] Production Method

Whatever method selected should be consistent with the pattern of consumption of economic benefits and should be consistently followed.

- **AASB-138** - Under this standard the rule is same as in case of IAS-38 and AS-26. Amortization method must reflect the pattern of consumption of future economic benefits. But if pattern cannot be determined reliably then straight line method should be followed.

The table depicting difference between the amortization methods to be followed provided by the five under discussion standards are depicted by table 6:

Table 6: Amortization Methods

Accounting Standard	**Amortization Method**
FRS-10	Not specified. Use straight line method unless other is more appropriate.
FAS-142	Not specified. Use straight line method unless other is more appropriate.
IAS-38	Not specified. Use straight line method unless other is more appropriate.
AS-26	Straight Line Method, Diminishing Balance Method, Production Unit Method.
AASB-138	Not specified. Use straight line method unless other is more appropriate.

V. CONCLUSION

With the help of above analysis, points of difference emerged among standards under discussion. The difference analysis has been done on the basis of first version of the standards under study. Some amendments have taken place since their issue. Following section discuss those amendments and standards under discussion status with respect to IAS-38.

Accounting Standard-26

The Institute of Chartered Accountants of India issued AS-26 in 2002. In 2010, ICAI came out with an exposure draft pointing out the major differences between AS-26 and the proposed AS-26(Considered points for harmonization with IAS-38) but no amended standard has been issued. Therefore, India has not started harmonization of AS-26 with IAS-38 (the international standard).

Financial Accounting Standard-142

Financial Accounting Standard Board of United States of America issued FAS-142 in June 2001. Later, FASB came out with four amendments. All amendments are related with goodwill impairment testing. Other points of difference between IAS-38 and FAS-142 have not been covered by the amendments.

Australian Accounting Standard -138

Australian Accounting Standard Board issued the first version of AASB-138 in 1996. Board came out with two amended versions of AASB -138 in 2005 and 2013. With these amendments, AASB-138 is now fully compliant with IAS-38.

Financial Reporting Standard -10

Accounting Standard Board of United Kingdom issued FRS-10 in 1997. No amendment has been made in FRS-10 till date.

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