

A Study of Intangible Asset Valuation: Issues and Opportunities for Businesses

1. Introduction and Objectives

In today's knowledge-based economy, companies are in the process of becoming light on tangible assets and heavy on Intellectual Property Rights (IPRs). IPRs and intangible assets (IAs) had increased from 38% to 85% of enterprise value in the S&P 500 firms between 1982 and 1998. As these IAs formed an increasingly important part of businesses, their valuations were vital as they could have an impact on profitability and taxation as well as playing a significant role in business transactions such as mergers & acquisitions, joint ventures, and funding through Initial Public Offerings (IPOs) or securitisation.

This research identified and analysed critical IA valuation issues to achieve the following objectives:

- Assessment of the importance & impact of IA valuations on the daily business operations (resource & profitability management) and in major transactions such as mergers & acquisitions, securitisation and IPOs, drawing experiences from Singapore as well as scholarly works from overseas.
- Evaluation of current IA valuation methods used across a representative spectrum of industries while analysing the problems and common mistakes affecting the IA valuation methods with reviews from the global best practices.
- Understanding the impact of the new accounting standards on IA valuation and disclosure standards.
- Discussion of issues & opportunities drawing from US experiences and their implications for the businesses in Singapore with respect to the existing & future applications of the new accounting standards.
- Highlighting IA valuation problems with opportunities that are based on the lessons learned from overseas as well as suggesting areas for improvements based on the research findings.

2. Research Findings, Current Views and Future Trends

The research findings revealed that the desire for financial statements with extensive disclosures about IAs has been building up for some time. Worldwide interests, if not strong concerns, about the valuation of IAs have been growing as the character of international business changes.

Current views expressed from the research participants, as they related to the needs to appraise IAs, showed that the current-day financial reporting standards were high. The participants believed that the survival of businesses depended on the free and economical access to worldwide financial markets. They also felt that internationally acceptable financial statements were the passports to those markets.

Several future trends were observed from the research. One important trend was towards having universal accounting and financial reporting standards. Business and professional communities should participate in this evolution. Another trend identified was towards greater disclosure. The business community should keep abreast of this and have a voice in how far it was willing to go in this direction. A third future trend was towards having more regulated professional services and valuation specialisations. The business community would increasingly require the support of a body of independent valuation professionals.

3. Conclusion

A local and independent professional service capability was identified as a need to specifically support the IA valuation and the management needs of the local enterprise managers who would not have access to a local body of independent valuation professionals.

This would suggest the formation of a professional organisation to provide training, certification and to enforce professional competency & ethics. Professional valuation & accounting standards bodies and potentially valuation-relevant associations, such as quantity surveyors, should be involved in the planning & establishment of such a general valuation organisation.

Another identified need was to recognise & enforce a split between 'audit' and 'appraisal/valuation' services. This should be reflected in the regulatory and professional body standards to establish a "healthy scepticism" between the auditing and valuation functions.

Finally, the research recommended supporting local and regional enterprise managers in meeting their management representation obligations. A starting point would be coming up with a management checklist that could act as a process guide as well as design & delivery of targeted training.

For more information, please visit www.ipacademy.com.sg

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