Evaluation of the Reality of the Intangible Assets of Some Companies Listed in the Iraq Stock Exchange[1]

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ABSTRACT

The modern business environment witnessed many transformations during the nineties of the last century, most notably the increasing importance of the intangible elements represented in knowledge, technology, individual skills and other factors that have become the main source of wealth and income and the enhancement of the competitive advantages owned by business enterprises that help them survive and grow.

This was accompanied by an increase in the market value of business establishments in a manner that exceeds many times its book value, especially in knowledge and technology-intensive sectors such as communications, medicine and software. This made the financial statements lose a lot of their solvency and comparability.

Intangible assets are one of the contributing factors in determining the discrepancy between the company's value according to its accounting records, and the company's value according to its market value. With that argument in mind, it is necessary to understand the true nature of intangible assets from the point of view of financiers.

Intangible assets are important for many establishments in most industrial sectors such as patents, goodwill, and service sectors such as computer software development work.

Previous Studies

1 A study of Abdul Qayyum 2010 AD entitled Evaluating Methods of Measurement and Disclosure of Intangible Assets in Commercial Establishments: A Sample Study of Sudanese Banks.

The study concluded that the lack of consistency in the use of measurement methods and the disclosure of intangible assets makes the financial statements a source of doubt by the users of the financial statements.

2. A study of Al-Tamimi and Al-Saad, 2013 AD entitled Internally formed intangible assets and financial reporting requirements about them.

This study concluded that the accounting treatment of intangible assets raises many problems, which represent research and development expenses as its main pillar, as it differs from intangible assets whose cost is clear and drawn as an intangible asset, while the internally formed intangible assets are not acquired through a process. An exchange or transaction between two parties, because if it were so, it would be considered a clear and reliable evidence of the cost of the intangible asset. On the contrary, the transaction here is characterized by lack of clarity because it was formed through one party, and the accounting research that I dealt with the issue of investing in intangible assets, and I faced a dilemma in how to deal with them, due to the absence of a comprehensive accounting theory on which this research could be based.

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3. A study of (Othman 2015) entitled The Role of International Accounting Standards in Improving Measurement and Disclosure of Intangible Assets: An applied field study for companies listed on the Khartoum Stock Exchange.

The study concluded that the lack of objective verifiable evidence for a specific item leads to the difficulty of recognizing and measuring it as an intangible asset, despite the availability of the characteristics of intangible assets in this item, and that the value of licensing costs and concessions is recognized and disclosed if relatively large amounts are paid, while this is not recognized clause As an intangible asset only after the availability of the characteristics of intangible assets in it first, then the possibility of availability of evidence and objective verification in it secondly, and that the value of intangible assets generated internally, such as goodwill and commercial currencies, is initially measured by the difference between the market value and its book value.

Research Methodology

1. Research Problem

The value of intangible assets in the Iraqi companies listed on the Iraq Stock Exchange is so important that it contributes to determining the profitability of those companies, hence the problem of this study, which can be formulated in the following main question...

What is the extent of disclosure of intangible assets in the annual financial reports of companies listed on the Iraq Stock Exchange?

Research Objectives

The research aims to achieve the following:

1. Identify the economic and financial nature of intangible assets, their types and characteristics.

2. Shedding light on the accounting disclosure of tangible assets.

3. Identify the impact of accounting disclosure of intangible assets on the investor's judgments and decisions.

The Concept of Intangible Assets

The concept of intangible assets raises a wide controversy among researchers, so that when entering into the details of this concept, several concepts synonymous with it emerge, such as knowledge capital or (intellectual capital (intangibles) nontangible and (non-material)) Immaterial and hidden assets) invisible and (knowledge assets) knowledge assets and (success factors) and (knowledge property and knowledge assets) knowledge asset and that these concepts are united by a common characteristic that they do not have a material existence. However, despite this simplification of commonalities, entering into the details of talking about intangible assets has a lot of controversy due to the multiplicity and diversity of concepts.

Intangible assets are characterized by two main needs identified by Kieso and others. The first is that it does not have a physical existence, as the physical assets represented by machinery, equipment, etc. have a physical existence, while intangible assets derive their value from the rights and privileges granted for their use, and the other characteristic is that they are not considered financial instruments. Assets such as bank deposits, accounts receivable, and long-term investments in stocks and bonds do not have a physical existence, but they are not classified as intangible assets.

These assets are financial instruments whose value is derived from requests to receive cash or its equivalent in the future. (Al-Saad, 81: 2012)

As for the International Accounting Standards Board (IASB) in Standard No. (38) which came under the title of intangible assets, it defined them as identifiable, intangible or cash assets that are kept for use in the production or processing of goods and services or for leasing to others, for administrative purposes, and specified the standard A narrow view to include the element within the intangible assets by setting two basic conditions:

1. To be controlled by the company as a result of previous events such as purchase or internal development.

2. It is expected that future economic benefits will flow to the company through it. (Jaber, 25:2010)

Measurement and Disclosure of Intangible Assets

Intangible assets are among the most valuable assets in the third millennium, because they represent a group of forces capable of making fundamental adjustments to all activities of economic units. It is clear from the above studies that there has become a need to disclose intangible assets in the financial reporting reports, in order to make them more transparent, which helps the unit in attracting competencies and enhancing the company's reputation in the market.

The most important thing from the point of view of Ramadan is to highlight the real value of the economic unit, and the financial statements that include information about intangible assets are trusted and approved by investors for the purpose of making various investment decisions, and that the disclosure of intangible assets in financial reporting reports in light of the palm market theory works to save the costs of benefiting from information, because investors and other relevant parties do not resort to financial analysts and accounting and financial consulting offices (Ramadan, 28: 2014)

There are some negative effects resulting from the reporting of tangible assets.

1. The disclosure of some information related to intangible assets may benefit competitors and harm the competitive position of the economic unit.

2. There is a responsibility on the unit towards third parties with regard to decisions that depend on the values of the elements of knowledge capital that are reported on, especially since this evaluation is carried out in conditions characterized by uncertainty.

3. The cost that the company may bear to evaluate the elements of intangible assets, prepare and publish the financial statements including those values, in addition to the area of personal diligence in evaluating the information related to the company.

4. The disclosure of intangible assets in the financial statements is noted with general acceptance under the traditional accounting system, in addition to the contradiction with the requirements of external auditing, and then the auditors' opposition to adopting reports outside the traditional accounting system.

Difficulties Facing the Measurement of Intangible Assets:

The process of measuring intangible assets reveals many difficulties, because it is related to intangible things that do not have a physical existence. For example, knowledge is always changing and depends on intangibles, and therefore it takes a great effort to measure in order to reach the true knowledge that distinguishes the company from others. Also, many companies may be prevented from disclosing intangible assets despite their awareness of their importance, because they may not have the efficient and qualified accounting staff to measure these assets objectively, which the researchers disagreed about and has changes, for example that Belk has put the following changes about objective measurement (Al-Saad 96, 2012).

1. An objective measurement is an impersonal measurement, in the sense that the measurement is devoid of personal distinction from those who make it, that is, objectivity refers to an external reality that is independent of the people who perceive it.

2. Objective measurement is a variable measurement in its dependence on evidence.

3. Objective measurement is that measurement based on a consensus among a group of experts or those who carry out the measurement.

4. The magnitude of the dispersion of the measurement distribution can be used as a justification for the degree of objectivity of a particular measurement system.

The intangible assets that are of great value and important to an economic unit and what may not be the case in relation to another economic unit of a different nature than the previous one, and this results in different measurement systems that make it difficult to compare between economic units and even sectors. We have summarized the difficulties of measurement with the aforementioned points. Starovic and Marr went further than that, as he dealt with the difficulties in a more detailed manner, as follows: (Ramadan 33: 2014).

1. The absence of suitable markets to determine the prices of some elements of intangible assets such as employee competence and customer satisfaction, and there is difficulty in evaluating each of these elements separately due to the large overlap between these components, and this does not meet the requirements of International Standard No. 38, which emphasized that the capitalization of assets is intangible Concreteness entails distinguishing each existing separately.
2. Increasing the degree of uncertainty about the expected benefits, which results in the possibility of the values of the elements of intangible assets increasing or decreasing to zero at a certain moment, such as the patent of invention, in addition to the difficulty of unifying the measurements of the elements of intangible assets in all economic units due to their different forms and the specificity of some of its elements from one economic unit to another.
3. There is no direct causal relationship between the cost of the elements of intangible assets and the benefits arising from them because the value of these elements is represented in their use and not in their cost, meaning that the cost of the elements may be low, but they are used extensively, or that this use is a direct or indirect reason for generating a great value. Not commensurate with its cost.
4. When measuring the elements of intangible assets (in light of the traditional budget indicators), it makes it present only values at a specific moment, and this is not consistent with the dynamic nature of the elements of intangible assets.

The Impact of Disclosure of Intangible Assets on the Judgments and Decisions of Investors

The investment decision is certainly considered one of the most important and dangerous decisions taken by investors, and it has become important, after a review of the importance of accounting for intangible assets, that the establishments seek to carry out a process of continuous development to build an information base that helps them obtain a competitive advantage over other establishments by possessing good information that It helps them increase their profits (Academic, 2008). Through what was previously presented about intangible assets and disclosure, the researcher finds that intangible assets have a significant impact in determining the value of the establishment and, accordingly, their impact on rationalizing the judgments and decisions of investors, because intangible assets are considered an essential part of the assets, which must be disclosed within the financial statements and reports and thus is an important source of information for investors.

It is noted from the data of the sample included in the financial investment paragraph that the companies listed in the Iraq Stock Exchange disclosed and disclosed the details of the investments, offset by the lack of disclosure of the accounting method used in evaluating and presenting investments and the market value of each investment as in the Iraq Stock Exchange and the difference between the nominal value of the investment The market value also did not indicate the total amounts of profits or interest on these investments, except for one company.

While the sample disclosed well the capital in terms of the nominal capital, the source, the nominal value of the capital and its distribution according to the sectors, and there was no movement on the capital during the year under study, offset by the lack of commitment to disclose the market value of the capital as in the prevailing price in the Iraqi stock exchange.

It was committed to providing basic information in reducing management well. As for general indicators, financial indicators, and sectoral indicators, the sample did not disclose them well.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions:

1. The stock exchange sectors that disclosed intangible assets in their financial statements are banks, financial services, investment, industry and no insurance intangible assets appeared.

2. The commitment of most of the companies listed on the Iraq Stock Exchange to the applicable disclosure requirements represented in the daily essential information, the annual financial reports - the attached clarifications - the electronic disclosure.

3. Intangible assets in the investment sector (goodwill, the right to bus services, trademarks) occupied the highest value disclosed in the companies' financial statements.

4. The effect of disclosing intangible assets over the years (2011-2014) for all sectors on the statement of the extent of change in the values of those assets and the results of the amortization expense of these assets.

5. The companies listed on the Stock Exchange that disclosed their intangible assets in their financial statements followed the international accounting standards in dealing with intangible assets and disclosed that within the accounting policies shown in the clarifications attached to the financial statements.

Recommendations:

1. The need for the companies listed on the Iraq Stock Exchange to disclose their intangible assets in the financial statements in a clear and independent manner so that the users of those lists, including shareholders and other investors, cannot be misled.

2. The need for companies listed on the stock exchange to disclose the accounting treatment of their intangible assets and amortization expenses in terms of the accounting policies used within the clarifications attached to the lists.

3. The stock exchange management urged all listed companies to abide by the disclosure requirements used within them, which serves the investors and their dealers.

4. The interest of local professional bodies and institutions in addition to intangible assets in terms of working to develop local accounting standards that help accountants and those interested in dealing with the intangible assets of Iraqi companies.

5. The interest of local academic institutions, including universities and colleges, in addition to the intangible assets within their academic curricula, especially in the applied aspect and related standards.

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