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Accounting of Intangible Assets under FVA

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Abstract

The review paper endeavours to bring out the fair value measurements with respect to the intangible assets, which are evaluated and accounted for the business combination under the Level 3 of fair value hierarchy. The faithful representation of intangibles in the financial statements can only be achieved by additional disclosure requirements under the fair value mechanism. The post amelioration of the fair value measurements by the two Boards, more empirical studies should to be carried out to determine the value relevance of intangibles. The paper presents an extant of analysis of the methods of valuation of intangible assets, the background why fair value is overpowering the historical method of accounting. The challenges and controversial issues which both the Boards need to foresee while structuring the fair value measurement pronouncement.

Key words: Fair value accounting, Relevance, Reliability, Intangible assets, Disclosure.

Introduction: The transition of accounting standards from Historical Cost Accounting (HCA) by Fair Value Accounting (FVA) has been a subject for debate in the accounting scenario with regard to paradigm usefulness initiated and recognized by accounting standards. The guidelines provided by the accounting standards, ASC 820 and IFRS 13, requires that the returns should be measured and reported according to Fair Value measurements, giving rise to the following questions: Does the disclosure point to a "full-proof" transparency? Which system of valuing firm assets and liabilities is ideal under fallout of the current financial crisis such as the present sub-prime crisis and the Enron case? Fair Value Accounting has effectually magnified presumptions of the accelerating negative trends in the market as it outweighs the Historical Cost Accounting measures. There is a need of ameliorating the accounting standards with respect to the fair value measurements. Certain issues that have come up are: a) reliability versus relevance b) prevalence of Mark to Model/Estimates from Mark to Cost/Market in the valuation of long term assets, securities and illiquid securities and c) the recognition of fair value from the income statement to the balance sheet for more information and decision making by different stakeholders as well as to shareholders and investors.

The fair value accounting imposes a new challenge to the corporate with its forward looking measurements. However, the historical cost accounting is unlikely to become a remedy. The main critique against the system of fair value accounting is that it is difficult to be validated since it is based on unreliable assumptions which may be an eyewash of the management in its disclosure and preparation of financial statements. An evolution of accounting principles versus rules in the new era of information technology is a comprehensive paradigm provided by the accounting framework ASC 820 "Fair Value Measurements". The IASB has also come up with an accounting standard to address the fair value measurement issues in May 2011. The IASB has endeavored to have a convergence with the US GAAP SFAS 157 since its initiation.

In order to eradicate the inconsistencies and comparability in the fair value measurements the IASB issued a disclosure for the fair value measurements. The Board came out with a single definition of fair value. This was expected to lead to more comparability of the fair value measurements and aimed at eliminating the differences and complexities existing formerly in the GAAP. Managers could be better equipped with information used to measure and recognize assets and liabilities, and develop measurements for a specified period. To address the corporate needs, the Fair value Accounting System for companies in the fiscal year had to be effective from 1st January 2013 or within the interim period. The review paper endeavours to bring out the fair value measurements with respect to the intangible assets and issues that should be improvised by the accounting standards. The first section, discusses the background of the accounting standards. The second section focuses on the fair value hierarchy. The third section explains the comparison of fair value accounting with the historical cost accounting method. In the fourth section, discusses the controversial issues related to fair value measurements and last section is covered by the future challenges and conclusion.

I. The Accounting Standards - A Background on Fair Value Measurements:

a) The FASB: The US GAAP had taken a keen interest in the financial reporting issues as early as 1978 with its conceptual frameworks by means of its Statements of Financial Accounting Concepts (SFAC) No. 1, (FASB, 1978), SFAC No. 2 (FASB, 1980), SFAC No. 5 (FASB,1984), SFAC No. 6 (FASB, 1985) and SFAC No. 7 (FASB, 2000) which furnish guidelines for assessing fair value of fixed assets contributing to the future stream of income. The implementation of the concepts had led to diversified means of approaches being carried out by the financial statement amounts. These approaches may be classified as historical cost, amortized historical cost, fair value accounting etcetera. (Barth, 2007).

The fair value definition focuses on the "exit" price rather than the "entry" price which the assets or liabilities was paid or received at the time of acquisition. The perspective is that the market participant holds the asset or owns the liability. The Board outlines that all transactions need to be done on the exit price (Para 9, FAS 157, 2006). Likewise the IASB endorses the same view of fair value being an exit value in its Exposure Draft on Fair Value Measurement (Para BC15, ED 2009). Signaling the reforming change, the Statement emphasizes on "market based measurement" converse to the entity-specific measurement. The Statement provides in its guideline that the fair value measurements should be estimated as per the "assumptions" of market forces that would be vital in pricing the assets and liabilities. The Statement establishes a "fair value hierarchy" of three-tier levels that accounts and differentiates the assumptions of the market participants based on "observable" inputs and "unobservable" inputs. The Boards, IASB and FASB ensure that the "reliability" condition is satisfied at Level 1 by taking into account the "observed market price" of the fair value. Further, emphasizing on the importance of the "significance" and "relevance" from the "reliability", the Board States in FSP FAS 157-4: *"A reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of the evidence, there has been a significant decrease in the volume and level of activity for the asset or liability".* The FASB initially tried to implement the fair value concept with FAS 121, and later with FAS 142, "*…fundamental efficacy of SFAS 142 because the primary goal of the statement is to represent a better valuation of goodwill and intangible assets with indefinite lives by not only implementing the fair value impairment test but also by eliminating systematic amortization of those intangible assets*", (Lee, 2010). However, the evolution of the concept of "fair value" brought out in the Statement FAS 107 (1986) has been subsequently taken up in the Statements FAS 114 (1993), FAS 115 (1993), FAS 116 (1993), FAS 119 (1994), FAS 121 (1995), FAS 123 (1995), FAS 125 (1996), FAS 126 (1996) and FAS 133 (1998), superseded and preceded by the new improved version of the accounting standards issued by the FASB in the coming years. Additional work is being done under the up-gradation of Fair Value Measurement (FAS 157, 2006) that has been superseded by the Board. The objective is to improve the transparency and the quality of information being provided to the investors.

b) The IASB: With the lack of a framework that includes guidelines on measurement, the initiative taken by the IASB on measurement related issues conforming to the need of Fair Value Measurement, the IASB also came up with an Exposure Draft on May 2009. The IASB endeavored to maintain the convergence principle of the FASB Statement on Fair Value Measurement (SFAS 157) since its initiation and improve the consistency in the practice of fair value measurements. There has been considerable discussion of valuation technique using the "present value" for impairment of assets for cash generating units under the Framework IAS 36. The framework previously incorporated measurements on the basis of the future stream of cash flow with a discounted rate for its present value valuation. Thereby the motive of fair value measurements conforming to the criterion of financial reporting as outlined in the Statement, building on valuation theories, is ensured.

II. The Fair Value Hierarchy:

The FAS 157 forms a fair value hierarchy for an input valuation process which follows three tiers of inputs. The Level 1 inputs which use observable inputs such as quoted prices in active markets for identical assets or liabilities. The level 2 inputs which are observable inputs a) for quoted for similar assets and liabilities in active markets b) for assets and liabilities where market quotation does not exist c) inputs other than quoted market prices that are observable for assets or liabilities d) inputs comprised of quoted prices in active and less active markets for similar assets such as market comparables. The Level 3 inputs are unobservable inputs relating to assets and liabilities. They include the

market participants' own assumptions for pricing an asset or preparing their own data such as models. Intangible assets, private equity investments and certain derivatives fall in the Level 3 category (Ferguson, 2008). The unobservable inputs can be developed using the best information available that might be provided by the company's own database.

However there are few limitations in the fair value hierarchy under the FAS 157. It is indistinct to carry out the extant level 3 inputs to take precedence over level 2 inputs as the circumstances under which the lower level inputs can be preceded have not been enumerated by FAS 157. The second situation is whether the quoted price reflecting the binding offers or estimates should also be considered (Ferguson, 2008). In the endeavour of the IASB is to bring consistent convergence with FAS 157 there are a few differences noted between the two pointed out in the Exposure Draft on "Fair Value Measurement". To name a few are: a) while IFRS is silent on the unit of account for financial instruments, FAS 157 mentions the unit of account for financial instruments within level 1 of the fair value hierarchy (Para BC110e) b) another difference is that the gain and losses of day 1 are to be recognized even if the fair value technique applies to unobservable inputs c) where as the prominent difference is that FAS 157 provides limited guidelines in the measurement of liabilities. This limitation has been covered by the IFRS. The Exposure Draft further elaborates that the technique to measure the liability would be similar to the measurement of the corresponding asset. Ronen, (2008) suggested a comprehensive framework which should consist of historical qualifications, exit price and the discounted cash flow that can be used for the combination of assets within an organization.

The recognition of acquired intangible assets apart from goodwill has been given a new lifeline to the accounting and valuation under the business combination. Therefore, the "separability" of intangible assets has become an important characteristic in defining and identifying intangible assets. Consequently, it has become imperative to initially assign the intangible assets based on their fair value. The compulsion of annual test is to determine the "useful life" of goodwill and intangible assets, ensure the measurement of fair value impairment in consistence with the following valuation methodologies such as the cost approach, the market comparison approach and the income capitalization approach. Consequently, over the past few decades, there has been a transformation in accounting and reporting. There has been a paradigm shift in the financial statements from historical based approaches to the more forward looking, market based approaches of valuation. Hence fair value accounting reflects this trend and renders an indication that the current value of assets and liabilities on the balance sheet have become all the more relevant. Statements FAS 142 and IAS 36 have specified the use of the quoted market price as the best evidence of the fair value. "*Quoted market prices in active markets are the best evidence of fair value and shall be used as the basis for the measurement, if available*" (SAFS No.142, 2001; Para 23). The Board refers to the FASB Statement No. 157, "Fair Value Measurement" for the valuation techniques to measure the fair value. The Statement further elaborates that the use of "multiple" valuation approach should be consistent with the market, income and cost approaches. The information should be easily available to practice the valuation approaches, without unnecessary "cost and effort" (FAS 157, 2006; Para C53).

1. The Cost Approach: The valuation technique recommended by the Statement 157 "mark-to-cost" is based on the amount that would be currently required to replace the service capacity of an asset usually known as the current replacement cost. The cost approach can be applied by using the quoted prices in active markets for identical assets. Usually, observable items in the Level 1 of the fair value hierarchy have been specified of the US GAAP. With the issue of the revised pronouncement FAS 141(R), there has been an important removal of the cost based approaches in the measurement of fair value (Silliman, 2008). In the US GAAP both the research and development costs are expensed as incurred, thereby making the recognition of internally generated intangible assets impossible. In IAS 38 framework the cost in the research phase is always expensed while in the development stages it needs to meet i) technical feasibility ii) intention for future use or sale as intangible assets iii) ability to generate future economic benefits iv) availability of adequate resources to complete the development and v) ability to measure the reliability of expenditure attributable to its development. The cost-to re-create is a common cost method carried out for the valuation of both software and assembled workforce by the companies.

2. The Market Approach: The market approach is based on the information on prices and other information generated by market transactions involving "identical" or "comparable" assets or liabilities. The valuation approaches

that are consistent with the market approaches include matrix pricing. The method suggested in the valuation of machines using market approach is using quoted prices for similar machines and accounting for the differences between customized machines and the similar ones (FAS 157, 2006; Para A15a). The marketing approach could include a valuation methodology based on multiples of earnings or revenue. "…*Use of multiples of earnings or revenue in determining the fair value of a reporting unit may be appropriate, for example, when the fair value of an entity that has comparable operations and economic characteristics is observable and the relevant multiples of the comparable entity are known* ", (FAS 142, 2001; Para 25). The valuation technique recommended by the Statement 157 "mark-to-market" include matrix pricing, a pricing model that values debt securities such as bonds using common elements for example earnings, leverage, marketability and security specifications (Kao 1993). The market approach can be applied by using quoted prices and observable Level 1 and Level 2 inputs of the fair value hierarchy as specified by the US GAAP. The market approach is based on the information on prices and other information generated by market transactions involving "identical" or "comparable" assets or liabilities. The valuation approaches that are consistent with the market approaches include matrix pricing. The example suggested in the valuation of machines using market approach is by using quoted prices for similar machines and accounting for the differences between customized machines and the similar ones (FAS 157, 2006; Para A15a).

3. The Income Approach: The income approach uses valuation approaches to convert future cash flows to a single present value thereby indicating the current market expectations about the future values attributable to an intangible asset. Other income valuation methodologies apart from the present value techniques include option-pricing models and multi period excess earning methods. The asset income approach is most suited for evaluating the acquired software, trade name and non-compete agreements technology. In the illustration stated by FAS 157 (2006, Para A18a), the cash flow denotes the income stream expected from the software assets. The FAS 142 adopts the framework provided in FAS 157, for valuing the fair value used in the measurement of goodwill and intangible assets for impairment. The statement further outlines the use of the income approach to estimate the fair value of intangible assets. "…*In determining the useful life of the intangible asset for amortization purposes, an entity shall consider the period of expected cash flows used to measure the fair value of the intangible asset adjusted as appropriate for the entity-specific factors in this paragraph*", (FAS 142, 2002; Para 11,). The valuation technique recommended by the Statement 157 "mark-to-model" include present value techniques (Uzma *et al*. 2010, Singh and Uzma 2010) option pricing model using the Black Scholes and binomial model, and the multi-period excess earnings method. The income approach can be applied by using unobservable Level 3 inputs of the fair value hierarchy as specified by the US GAAP. The IASB has issued an Exposure Draft on "Fair Value Measurement" (2009) on the framework similar to that provided by the US GAAP. Further, the methodology of income method is best described in the IAS 36 (Para 30-57). The statement specifically mentions the present value of future cash flow and uses the discounted approach in the estimation of the cash generating unit (CGU). With reference to the Business Combination, FAS 141 provides the application of the valuation methodologies outlined in the Statement are in convergence with the framework provided by FAS 157 on the methodologies of measuring the fair value of acquisition value and intangible assets. The framework provided by the Board is relevant and useful in evaluating both the transferee's interest and the transferor's. The fair value measurement should encompass assets and liabilities that account for contingencies reliable for recognition (FAS 141 R, 2007; Para B270). Therefore, the Fair Value Measurement furnishes options that can be evaluated by a firm's certain financial assets and liabilities and inclusions of intangible assets are projected to capture rent also (Watts 2006).

III. Comparison with Historical Cost Accounting:

Many studies (Barth and Landsman, 1995; Barth et al., 1995; Barth, 1994) conducted in the banking industry suggest that that the representatives were apprehensive and opposed to the fact that the fair value accounting concept presented more "volatile" bank earnings that is transaction pricing in the case of securities investments in comparison to the historical cost accounting (Barlev and Haddad, 2003). The historical cost accounting being more "reliable" as a measurement technique lacks the relevance of the current market information used by the investors whereas, fair value accounting provides the user of the financial statements more useful information in comparison to the historical cost based accounting method for their decision making on investments. In comparison with the historical cost method the fair value accounting has come up as a popular approach in the valuation of illiquid securities. "*The transparency of fair value accounting thus comes at a high price. It is one of those unanswerable "empirical" questions of whether the*

necessary biases of historic cost accounting are more or less damaging than the likely biases from fair value accounting. Neither system is error free", (Magan 2009). Both the fair value accounting and historical cost approach have come under the scanner. Under the historical cost accounting system, the management can conceal the true value of assets, whereas under the fair value approach this limitation can be overcome. On the other hand, fair value accounting which can cause fatal errors leading to the manipulation of financial reporting by the management is a veritable snake under the sleeve for the investors who are not provided with adequate correct information and are also unable to verify the disclosed values made available to them. "*In addition, financial information may be highly predictable without being relevant to users' assessments of the amounts, timing, and uncertainty of an entity's future cash flows...In such circumstances, historical cost depreciation may not be very helpful in assessing an entity's ability to generate net cash inflows*" (Para QC1, Financial Accounting Series, 2006). To forego the above limitation of historical cost accounting, the fair value accounting remains a substitute to the value measurement of assets and liabilities if there is no observable market price available. The historical cost accounting does not report the present value of expected cash flow of an entity. The inclination from the historical cost accounting to the fair value accounting has driven from income statement to balance sheet reporting. The fair value will be selected over the historical cost method for the measurement of assets and liabilities on the initial recognition that fair value can be estimated with accepted reliability and "faithfulness" which represents the relevance of the estimates in the present market conditions (Para 229, IASB, 2005).

IV. Controversial Issues related to Fair Value Measurements:

Good Corporate governance and fair value accounting complement each other, but it does not remain above controversies that fair value is the most pertinent to the accounting and reporting of the firms. Today, the Financial Statements are moving away from the traditional practices of historical cost accounting and giving room to fair value accounting. The first issue of relevance versus reliability we draw that "…*value relevance implies that accounting conservatism a remnant of the past*" (Magnan, 2009). The second issue is the representation of fair value in the income statement or the balance sheet leading to different interpretations by the need based shareholders. The third issue is related to the mark-to-market or the mark-to-model, with the "bubble" effect in the global economy where both the approaches have come under increasing scrutiny and criticism.

a) Relevance *versus* Reliability: The prologue of the concept of "relevance" and "reliability" has come about in the Concept No. 2 (1980). The "faithful" representation of information and its "verifiability", "neutral" and "complete" is more than a passé. The "timeliness" and "predictability" has led to more acceptance of relevance and replaces reliability among the accounting fraternity (Shortidge and Smith, 2009). The FASB defines relevance as "*information having predictive or feedback value to users and being timely*" whereas, reliability represents "*the degree of which information faithfully represents the firm's economic activity, and can be verified*" (SFAC 2, 1980). Research shows that studies conducted in the valuation of financial instruments, show that although fair value accounting has its share whole new gamut to of limitations, there is a need to explore relatively the fair value of assets and liabilities. One of the recent studies undertaken by Landsman, (2007) pointed out precisely that: "*A cost to investors of fair value measurement is that some or even many recognised financial instruments might not be measured with sufficient precision to help them assess adequately the firm's financial position and earnings potential. This reliability cost is compounded by the problem that in the absence of active markets for a particular financial instrument, management must estimate its fair value, which can be subject to discretion or manipulation*". It could be concluded in the words of Alee *et al*. (2008) " …*relevance and reliability of financial information could lead to additional financial reporting problems, which have negative effects far exceeding those of any unintended consequence of standards*" and therefore, a substitute method should be undertaken with the view of the economic implications of the accounting standards. Pertaining to today's situation "model-based fair value" may be increasingly relevant in certain conditions while it may have its share of limitations as manipulation. This redundancy may sometimes be reduced by the "market prices" models (Levels 2 and 3), which are easily verifiable and more consistent (Power, 2010, Laux and Leuz, 2009). Finally, fair value accounting is difficult to verify as it may be a product of unreliable assumptions, leaving the firm with discretion to change amounts reported in the financial statements.

In the context of the predictive aspect of relevance of financial reporting, the FASB pointed out that, "*The predicted useful life of a long-lived asset is used in determining depreciation amounts, and the expected return on a financial*

instrument is used in estimating its fair value" (Para QC11, Financial Accounting Series, 2006). In this contrast the reliability is more of a "faithful representation" of amounts to be projected in the financial reports "…*representations of fair values should change when the values change, and the changes should reflect the degree of volatility in those changes. To depict a lack of volatility of the values are, in fact, volatile would not faithfully represent the economic phenomenon*" (Para BC2.28, Financial Accounting Series, 2006). Hence, the reporting endeavours to present the real world trends and incorporate the changes thereof. Therefore, both the Boards - FASB and IASB are working towards the improvement of the reporting of measurements and the disclosures in terms of fair value recognition of assets and liabilities. Research needs to examine how the relevance and reliability of disclosed and reported fair value amounts of assets and liabilities impact the fair value estimates (Landsman, 2007). More empirical evidence is needed in this area of study to determine whether or not ACS 820 disclosures are useful to the shareholders. The fair value accounting values are relatively more relevant for the investors' decision making and the extent of information they can extract from financial reporting draws a halo around the fair value estimation.

b) Representation of fair value, income statement *versus* balance sheet: With the endeavour of the FASB to focus on the need based change in the corporate, there has been renewed emphasis on principle-based accounting rather than rule-based accounting. To incorporate the changes and collaborate with the FASB, the IASB is also working towards fair value accounting. The FASB also eliminated the concept of historical cost with the issue of the pronouncement of 141R (2007) and encouraged the adoption of the fair value model. In its summary statement it stated:"*The result of applying Statement 141's guidance on recognizing and measuring assets and liabilities in a step acquisition was to measure them at a blend of historical costs and fair values—a practice that provided less relevant, representationally, faithful, and comparable information than will result from applying this Statement*", (FAS 141R, 2007). Moreover the historical cost is improbable of a remedy in the prevalence of accounting crises such as the Enron case. Under both the Statements of the FASB and IASB, the fair value has become a prerequisite for measuring assets and liabilities. The need of the day is to propagate increasing timeliness of information but contrary to the argument about the fair value accounting, it's failing contribution to do the needful in terms of "transparency" in the corporate reporting firms. The increasing financial debacle has led to the apprehension of its relevance and misleading reports of long term assets held by the investors. Another divergence is shown with the fair value based models which may come with failing inconsistency, hugely with the biases and manipulation of accounting and reporting.

Companies are using a balance sheet approach rather than the income approach by adopting fair value accounting for measuring assets or liabilities (Lee, 2010). Intangible assets represent the core economic value of a firm which may have been off and on omitted in its representation on the balance sheet. Moreover; the reported fair value may be inclined to increase its biases. Therefore the "crunch" of the issue is the "reliability" of the reported fair value when the quoted market prices are not easily available and need to be estimated. The fair value hierarchy has a three tier approach outlined by the Statement's present fair value reporting methods draws observable market prices on the top (Level 1) and when market prices are not available at the bottom then is the Level 3 is assumed. The Level 3 can be denoted as the model based fair value accounting which calls for the "reliability" and "accuracy" of the reported fair value. However, their amount needs to be verified in order to overcome its subjectivity of manipulation and measurement error. Research has validated that the fair value of financial instruments should be incorporated in the balance sheet while the changes in the fair value of those instruments should be included in the income statement (AAAFASC, 1998). The crux of the issue remains with the recognition of intangible assets under business combination that whether fair value and its amount rather than residual should be reflected in the balance sheet or its changes in the income statement.

c) Mark to Market *or* Mark to Model: There are limitations that surround internal valuation models, mark-to-market and mark-to-model under the fair value accounting. Models are widely used, when observable market prices are not easily available for the valuation of financial instruments and intangible assets. In a situation when non-financial instruments and illiquid securities are not assessable, "market-to-model" approach can be assumed. Mark-to-market accounting supports any price variation that can be projected immediately on the balance sheet (Plantin et al., 2008), "*...lack of sensitivity to price signals induces inefficient decisions because the measurements regime does not reflect the most recent fundamental value of the assets"*. The emphasis on shifting to the mark-to-market approach would reflect the current value of the transaction prices recorded on asset values (Plantin et al., 2008). With the adaptation of

the mark-to-market on the balance sheet, the increase in the price of the assets has positive repercussions on purchase of assets. This is very much applicable in business combinations. In the case of Enron, it may be a bad example of adaptation of "mark-to-market" accounting in lieu of "conservatism" that led to the capitalization of unverifiable cash flow into the balance sheet causing a lot of "noise" in the financial reporting structure (Magnan, 2009).

It is imperative for the investors to have their own analysis of valuation of assets to arrive at the firm's valuation. Mark-to-Estimate or mark-to-model used may amount to have the potential for manipulation and biases owing to the financial crisis in the past few years. A measurement approach of fair value should take into consideration the firm's ability to generate future cash flow by using assets or liabilities within a business. It becomes relatively synonymous that "fair value" accounting is a "market-based" method owing to improved application and practice related to the Level 2 and Level 3 estimates where of market for intangible items are illiquid.

V. Future Challenges:

With the increasing probability of including the future estimates in the financial statements and the methodology how we can bring assets and liabilities used for financial reporting of the "fair value" estimation has become invariably important. To address the fair value vitality the financial reporting is subject to the principles of "relevance", "comparability", "consistency" and "timeliness" (Barth, 2006). The benefit drawn in fair value accounting depicts the present financial condition, which thereby making decisions possible. "*Fair values enhance the consistency because they reflect the same type of information in every period. Fair values are timely because they reflect changes in economic conditions when conditions change. In addition, fair values can be viewed as fulfilling a stewardship role of financial reporting because the financial statements reflect the values of assets at the entity's disposal*", (Barth, 2006). On the contrary, though US GAAP and IASB have tried to modify the statements in the recent years specifically pointed out by Benston (2008) "*eventual adoption of fair value for all assets and liabilities accords with the FASB's shift towards a balance sheet rather than an income statement approach to financial reporting*", there is still the scope of ambiguity in the measurement and valuation of intangible assets. The standards leave it to the company to choose the valuation methods.

The Statement ASC 820/IFRS 13 "Fair Value Measurements" have increased the relevance and usefulness of the financial statement for the managers but there are limitations to the fact that the mechanical application of whichever valuation technique may be inappropriate taking into consideration the market input that exists. Therefore, it has become imperative for the managers as prevalent in the Enron case to be more cautious about the relevance and the reliability of reporting (Gwilliam and Jackson, 2008). Except for the Level 1, the "fair value" determined by the analyst are prone to manipulation and not easy to verify (Benston, 2008). Critics have observed that in the absence of active traded market the fair value approaches are "less reliable" and "more subjective" which results in volatility in the reported earnings which become apparent barriers to the measurement and audit (Ferguson, 2008). Therefore the disclosure under ASC 820/IFRS 13 though being comprehensive has become more complex in comparison to the past. There is inconsistency in the measurement of fair value of a reporting with GAAP. With no prevailing market price of a reporting unit, the use of present value models (DCF and Residual Income Model) as a substitute could be a paradigm to the valuation issues (Eckstein, 2004, Singh and Uzma 2010). Conversely, fair value accounting using the present value techniques is liable to produce fallacies which result in widening the gap of gain and losses of reported assets and liabilities which result in expectations and assumptions that are false (Rayman, 2007).

The scope of relevance and reliability of reporting of range of intangible assets including acquired goodwill, identifiable assets, R&D assets and internally generated identifiable intangible assets have different parameters of valuation and recognition. Studies conducted to review the limitation in the reporting of these assets. In a study on the evolution of FAS 142 undertaken by Ramanna (2008) using unverifiable fair value evaluate for acquiring goodwill, the impact of the impairment provided by FAS 142 framework to enhance financial reporting and usefulness is encompassed "*… because I am not aware of any method to measure the benefits of the improved financial reporting under SFAS 142*". Identifiable intangible assets are more likely to correlate with a firm's underlying economic factors than intangible assets as purchased goodwill and R&D assets where management has less discretion (Wyatt, 2005). Wyatt (2005), study further concluded that reporting of intangible assets is more probable "to reduce" relatively than improve the quality of balance sheet reporting. The reporting of identifiable assets under the IAS may "reduce the

usefulness of information" thus making goodwill reporting "conservative" while the former is reported more "aggressively" limiting the recognition of internally generated identifiable assets and the revaluation of identifiable assets (Dahmash et al. 2009).

Conclusion: The lack of accounting recognition of intangibles for the value-relevance of financial information is a consequence of non-disclosure of these in financial statements (Zeghal, D. and Maaloul, 2011) and adopting fair value estimates in order to improve the '*representational faithfulness*' of intangibles (Lee, 2011). The fair value accounting for intangible assets other than goodwill provided by the Statement FAS 142 (2001) reinforces that goodwill shall no longer be amortized and shall be tested for impairment in a two step procedure, according to the "fair value" of a reporting unit. If the reporting unit exceeds the "carrying cost," the goodwill will not be considered for impairment; *vis-a-vis* the second step shall be conducted using Level 3 if no market quoted prices are available to determine the impairment loss. The question of which of the two processes, the one-step process according to the IASB or the two step procedure with the Statement FASB guidelines will be the most inclusive and suitable method for the fair value accounting. One of the contentious issues highlighted is whether the asset cost under the "business combination" should come under the paradigm of fair value measurements (IASB Staff Paper, agenda paper 2A, 2009). The debate continues with the current financial crisis and in the light of concern breeding frauds and abuse of financial reporting. Subsequent to the amelioration of the fair value accounting standard with additional disclosure requirements, the value relevance of intangibles should be a subject of more empirical research by the regulatory bodies, academicians and corporate.

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