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ACCOUNTING FOR INTANGIBLE ASSETS IN TECHNOLOGY COMPANIES: RECOGNITION, MEASUREMENT, DISCLOSURE AND VALUE RELEVANCE

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Abstract

Technology companies draw a significant share of their economic value from soft, in the form of software, patents and copyrights, licenses, trademarks, customers, databases, custom algorithms, in–house know–how, R & D and self–created technology. The established accounting rules are not always sufficient in capturing the value of these assets as a lot of internally–created intangibles are expensed than capitalized in the financial statements. This article investigates the accounting treatment of intangibles for technology firms, including its recognition, measurement, and subsequent accounting treatment, impairment testing, disclosures, and value relevance. The research employs an ex-post facto and suggests constructing a panel of data, comprising technology focused firm for the period 2015 to 2025. The intensity of intangibles, research and development (R&D) and spend on internally developed software are investigated in relationship with firm value and overall financial performance. Sample regression results, for example, show a tendency for the intangible-asset intensity to correlate positively with firms value (Tobin's Q). Nevertheless excessive expensing of research and development expenses reduce the accounting size of the asset base, causing a rift between value and market. Evidence recently examined for European listed firms demonstrate an affirmative association between intangible assets and firm values of the companies, and research confirms that the intensity of intangible assets shows a positive relationship (statistically significant) with the companies' Tobin's Q (Oh & Kim, 2025). We contend that the current accounting requirement as contained in IAS38 creates useful incentives toward recognition in this area, but fails to account completely for the economic activities of fast –changing tech businesses, and recommend greater disclosures of: in- house intellectual capital, R&D expenses, development activity of computer software, and key significant valuation assumptions that are used to estimate asset values.

Keywords: Intangible Assets, Technology Companies, IAS 38, Research and Development, Software, Intellectual Capital, Firm Value, Financial Reporting, Nigeria.

INTRODUCTION

Business has been transformed in the global economy from the production of physical goods to information-intensive technology driven businesses. Technology companies often compete on the basis of their touchless assets – software, patents, algorithms, databases, brands, licenses, customer relationships and proprietary technologies. For a number of these companies these assets may well be more central to future performance than traditional physical assets such as property, plant and equipment.

This then creates an accounting challenge.

Financial accounting has traditionally focused on tangible transactions and measurable assets. However, the internally created knowledge and technology may not easily be verifiable and measurable in an objective way, even when they will generate future benefit. In general, IAS 38, Intangible Assets is the principal international accounting standard relating to intangible assets. It defines an intangible asset as an identifiable non-monetary asset without physical substance.

Only if strict recognition criteria are met shall an intangible asset be recognized.

Research expenditure will usually be recognized as an expense, while development expenditure may be recognised as an intangible asset if appropriate criteria may be met. However, although billions of dollars have been invested in developing new technologies, platforms, and software, they will not necessarily be recognized on the Statement of Financial Position. This problem is of particularly importance in the "digital" economy where market values may be substantially in excess of book values.

Recent research has illuminated the increasing gap between the recognition of financial accounting and economic reality. Ibrahim, Bowden, Elmarzouky and Al-Kilani (2025) found that recognised intangible assets amount to a total of 32% of assets in acquisitive firms in the UK and 9% of assets in non-acquisitive firms, with disclosure of non-contractual intangibles being higher in non-acquisitive firms indicating they may use more disclosure to substitute for non-recognition. Accounting researchers explore the existing information gap and focus on firms that invest heavily in intangible assets.

The case for capitalization of R&D argues that expensing of R&D is the cause of the gap between firm values and books values of firms that invest in intangibles, with this issue becoming increasingly more prevalent in Nigeria as a result of the boom in technology, fintech, telecommunications etc businesses.

The International Accounting Standards Board (IASB) is presently updating their review process of IAS 38 in order to provide better useful information regarding intangible items reported in companies financial statements; they recently passed a resolution to establish which user reporting needs will guide the analysis on recognize and unrecognize intangibles and their related expenditures (IFRS Foundation, 2024). Such review is a consequence of the growing opinion that the standard which has existed for nearly 25 years is obsolete due to immense technological advancements in the Information Technology sector worldwide. Companies such as Spotify for instance, record 48 million dollars in intangibles against 12 billion dollars in total assets even with thousands of millions dollars in revenue.

Statement of the Problem

High R&D investment in tech firms translates into expenditures on intangible assets, the use of which may include software production, AI technologies, patents, proprietary algorithms, research and development processes, databases, digital platforms, customer relationships, licenses, trademarks, copyrights and cloud computing technology (e.g., Wu and Zhang 2017, Lev 2019). In many cases, the economic importance is not related to the accounting recognition, like technology firm investment of $5 billion for R&D of a new software platform could result in majority being expensed under the accrual accounting system due to different types and stages of the expenditure. As a result, a tech firm could have high economic investment but only low intangible assets in terms of accounting book values.

Thus, the book values are low and gap between book to market values is large, and financial statements can less well inform about the resource base of tech firms.

Difficulties to distinguish between R&D, the doubtfulness of future economic benefit, rapid tech innovation obsolescence, difficulties to measure internal brands and customers, uncertain useful lives, impairment issues and insufficient information disclosure in relation to intellectual capital can magnify this issue. Recent Chinese study supports that current treatment of IAS 38 is problematic to reflect innovation in high-tech industries, Ma and Zhang (2023) find that current recognition requirement would prevent firms to capitalize their internally generated intangibles to match costs against future revenue, having harmful effects to startups and innovative industries, such as medical devices and other sectors with long investment and innovation cycles where R&D activities are fundamental. For example, some Korean broadcasting media firms study finds that intangibles can be linked with firm value significantly positive (e.g., Oh & Kim 2025, lagged intangibles across almost all model specification were found to be positive significant).

Consequently, the core research question is: Do the existing accounting treatments to intangibles well present the economic value of tech companies?

Objectives of the Study

The main objective is to examine accounting for intangible assets in technology companies. The specific objectives are to:

i. Examine the recognition and measurement of intangible assets in technology companies;
ii. Determine the effect of intangible-asset intensity on firm value;
iii. Examine the relationship between R&D expenditure and financial performance;
iv. Assess the relationship between intangible-asset disclosure and value relevance;
v. Determine whether R&D capitalization improves the usefulness of financial statements;
vi. Examine the challenges associated with applying IAS 38 to technology companies.

Research Questions

i. How are intangible assets recognized and measured by technology companies?
ii. Does intangible-asset intensity affect firm value?
iii. Does R&D expenditure affect financial performance?

iv. Does intangible-asset disclosure improve value relevance?
v. Does capitalization of qualifying development expenditure improve financial reporting usefulness?
vi. What challenges do technology companies face in applying IAS 38?

Research Hypotheses

H_{01}: Intangible-asset intensity has no significant effect on firm value.

H_{02}: Research-and-development intensity has no significant effect on firm performance.

H_{03}: Intangible-asset disclosure has no significant effect on value relevance.

H_{04}: Capitalized development expenditure has no significant relationship with firm value.

H_{05}: Technology-company characteristics do not significantly influence intangible-asset reporting practices.

Concept of Intangible Assets

IAS 38 describes an intangible asset as an identifiable non-monetary asset without physical substance. Identifiability generally requires that the asset be separable or arise from contractual or other legal rights. Examples relevant to technology companies include:

Intangible Asset	Example
Software	Proprietary enterprise software
Patents	Technology patents
Copyrights	Software code and digital content
Licences	Software or technology licences
Trademarks	Technology brands
Customer relationships	Acquired customer databases
Development costs	Qualifying internally developed technology
Databases	Proprietary customer/transaction databases
Technology rights	Acquired technological know-how

Classification of Intangible Assets

Purchased Intangible Assets

Purchased intangible assets are generally easier to recognize because the purchase transaction provides evidence of cost. For example, a technology company purchases a patent for ₦500

million. The patent may be recognized at its cost, subject to the applicable recognition and measurement requirements. In business combinations, recognition criteria are considered fully met if the acquiring entity can measure the cost of the intangible assets reliably (IAS 38, para. 33).

Internally Generated Intangible Assets

These create greater accounting difficulties. Technology companies often generate proprietary software; algorithms; platforms; databases; and technical knowledge. IAS 38 distinguishes between the research phase and development phase. Research expenditure is generally expensed as incurred. Development expenditure is capitalized only when the entity can demonstrate all the required criteria, including technical feasibility, intention and ability to complete and use or sell the asset, probable future economic benefits, availability of resources and reliable measurement of expenditure (IAS 38, paras. 57–59).

Research and Development Accounting

R&D is central to technology companies. Research involves investigation undertaken to obtain new scientific or technical knowledge. Development involves applying research findings or other knowledge toward a plan or design for producing new or substantially improved products, processes or systems. This distinction is important because:

Research Expenditure → Expense

while:

Qualifying Development Expenditure → Capitalize

KPMG guidance emphasizes that distinguishing development from research activities is one of the two key complexities in applying IFRS Accounting Standards, alongside analyzing whether and when the criteria for capitalizing development expenditures are met (KPMG, 2024). In the pharmaceutical industry, establishing technical feasibility may involve considering results of clinical trials and regulatory approval history, while in the software industry, the development of a product is not typically subject to regulatory approval and is more dependent on technical milestones.

This accounting treatment can produce significant differences between companies depending on whether their expenditure falls within research or development. Research demonstrates that the consistency of R&D capitalization ratio is critical for value relevance, with firms showing high consistency in their capitalization ratio providing more useful information about future earnings to market participants. The positive effect of consistent capitalized R&D ratios on value relevance and stock price informativeness is more pronounced after IFRS implementation.

Measurement of Intangible Assets

Initial Measurement

A recognized intangible asset is initially measured at cost under IAS 38. Cost may include purchase price; directly attributable costs; employee costs directly attributable to preparing the asset; professional fees; and testing costs.

Subsequent Measurement

IAS 38 permits a cost model and, in certain circumstances, a revaluation model.

Cost Model:

Carrying Amount = Cost − Accumulated Amortization − Accumulated Impairment

Revaluation Model: The revaluation model may be used when an active market exists. However, active markets for many technology-related intangible assets are uncommon. This means technology companies will frequently use the cost model.

Useful Life and Amortization

Intangible assets may have either finite useful lives or indefinite useful lives. An intangible asset with a finite useful life is amortized systematically over its useful life. For example, if software development costs of ₦600 million have a useful life of five years:

Annual Amortization = ₦600m / 5 = ₦120m

An asset with an indefinite useful life is not amortized but must be assessed for impairment in accordance with applicable requirements.

Impairment

Technology assets can become obsolete very quickly. For example, new software may replace an existing platform; a patent may become commercially irrelevant; a cybersecurity technology may become outdated; or an AI model may be replaced by a superior model. IAS 36 requires impairment testing when applicable indicators exist and requires annual impairment testing for certain assets, including intangible assets with indefinite useful lives and intangible assets not yet available for use (IAS 36, paras. 9–10).

Intangible Assets and Firm Value

A major research issue is whether accounting information adequately reflects the value of intangible-intensive companies. Consider two companies:

Company	Physical Assets	Intangible Assets
Company A	₦10 billion	₦1 billion
Company B	₦3 billion	₦8 billion

Traditional accounting measures may give Company A a larger asset base even though Company B may possess greater technological capability and growth potential. This demonstrates the potential disconnect between book value and economic value.

Recent empirical evidence supports the value relevance of intangible assets. Research on European-listed firms in the tourism industry demonstrates that intangible-asset intensity is positively associated with Tobin's Q, a widely recognized indicator of firm value. Similarly, research on Korean broadcasting media firms finds that intangible assets positively

influenced firm value, with lagged intangible assets showing consistent positive effects across most model specifications (Oh & Kim, 2025). Ibrahim et al. (2025) found that disclosure reduces the value relevance of earnings in acquisitive firms but increases the value relevance of book value more so in non-acquisitive firms, highlighting the complex role of disclosure in conveying intangible value.

Theoretical Framework

The Resource-Based View

The Resource-Based View (RBV) posited that a firm achieves a sustainable competitive advantage from possessing valuable, rare, inimitable, and non-substitutable resources (Barney, 1991). Firms in technology industries frequently obtain their competitive advantages from precisely these characteristics. Examples include a proprietary algorithm; a patent; a software program; specialised knowledge; and a network of customers.

For technology companies, the core of competitiveness is, thus, linked to intangible assets.

On the Malaysian context, the RBVis extended to the mix of intangible assets and abilities, confirming the significant impact that intangible assets have on financial performance (Abdullah & Mohamed et al., 2020). Information Asymmetry Theory Investors may lack the same information as the management concerning internal technologies. A situation where parties to a transaction have different information is called information asymmetry (Akerlof, 1970). Consequently, a higher level of disclosures should reduce information asymmetry and support decision-making by the investors.

Recent studies found that firms that do not acquire intangibles, may cover non-recognition of the former through higher disclosures on its intangible assets so as to lower the information asymmetry (Ibrahim et al., 2025).

Signaling Theory Internal technology might signal innovation ability; future growth opportunities; technological leadership; and investment potential through disclosures of intangible assets.

The Empirical review

There has continued to be a growing body of literature on the importance of intangible assets and R&D. There are studies that advocate that the immediate expensing of the reported R&D costs can underestimate the assets and equity of the innovative firms and hence create comparison discrepancies on their financial performance.

Ma and Zhang (2023) suggest developing an approach to IAS 38 based on major development stages that could allow firms capitalizing costs earlier than they currently do with IAS38 in order to get them to match with key points of R&D process, and hence their financial report better reflects their value. Recent research also explored the association between intangible assets and firms' values, especially in the context of knowledge-intensive industries where the economic value is extensively composed of intangible capital (Oh & Kim, 2025). Oh and Kim (2025) performed an empirical analysis on the influencing factors on Tobin's Q for public broadcasting media firms in South Korea and documented a positive

relation of intangible assets and its lag effects with firms value in their entire model specification.

Existing research has presented evidence showing consistency in capitalization ratio under IAS38.

Evidence demonstrates that firms with higher consistent capitalization ratio in IAS 38 are more truthful about accounting information relative to the anticipated success of R&D projects, whereas their managers tend to neutralize the discretion by applying rigid requirements under IAS 38. Relevance of the issue has the most power in the context of technology companies as many of their key resources that can provide a competitive advantage cannot meet the criteria of IAS 38 in accounting and measurement requirements. Within the IAS38 itself, the conceptual debate for the accounting recognition of internallly-generated intangibles is explicitly mentioned, with the problem of meeting the criteria of reliable measure and probable future economic benefits.

Research Methodology

Research Design

The study adopts an ex-post facto research design using secondary data.

Population

The population comprises publicly listed technology-oriented companies. For a Nigerian study, the sample could include companies operating in telecommunications; fintech; information technology; digital services; and technology-enabled financial services. For an international study, technology companies could be selected from major stock exchanges.

Study Period

A 2015–2025 period is recommended. This provides sufficient observations for panel-data analysis.

Variables and Measurement

Variable	Symbol	Measurement
Firm Value	FV	Tobin's Q
Intangible Asset Intensity	IAI	Intangible assets / total assets
R&D Intensity	RDI	R&D expenditure / total assets
Capitalized Development	CD	Development assets / total assets
Intangible Disclosure	IDI	Disclosure index
Firm Size	SIZE	Natural log of total assets

Variable	Symbol	Measurement
Leverage	LEV	Total liabilities / total assets
Profitability	ROA	Profit after tax / total assets
Growth	GROWTH	Annual revenue growth

Model Specification

The first model is:

$$FV_{it} = \beta_0 + \beta_1 IAI_{it} + \beta_2 RDI_{it} + \beta_3 CD_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \varepsilon_{it}$$

The second model is:

$$ROA_{it} = \beta_0 + \beta_1 IAI_{it} + \beta_2 RDI_{it} + \beta_3 CD_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \varepsilon_{it}$$

Intangible Asset Disclosure Index

A disclosure index can be constructed from annual reports. Possible items include software; patents; licenses; copyrights; trademarks; development costs; useful lives; amortization methods; impairment; R&D expenditure; additions; disposals; accumulated amortization; carrying amounts; and reconciliation of opening and closing balances.

The index can be calculated as:

IDI = Number of items disclosed / Total applicable disclosure items

Under IAS 38, firms are required to disclose the aggregate amount of R&D expenditure recognized as an expense (para. 126), but are only *encouraged* (not required) to disclose "a brief description of significant intangible assets … not recognised as assets because they did not meet the recognition criteria" (para. 128). This creates a significant gap in mandatory disclosure that companies should address voluntarily.

Illustrative Descriptive Statistics

The figures below are illustrative and should be replaced with actual observations before journal submission.

Variable	Mean	Std. Dev.	Minimum	Maximum
Tobin's Q	1.842	0.913	0.512	5.284
Intangible Asset Intensity	0.318	0.186	0.021	0.821
R&D Intensity	0.074	0.069	0.000	0.391
Capitalized Development	0.096	0.081	0.000	0.418

Variable	Mean	Std. Dev.	Minimum	Maximum
Disclosure Index	0.684	0.147	0.311	0.944
Firm Size	14.92	1.71	11.18	18.87
Leverage	0.487	0.211	0.052	0.901
ROA	0.091	0.079	-0.104	0.372

The illustrative results indicate that intangible assets represent approximately 31.8% of total assets on average. The relatively high standard deviation suggests considerable variation among technology companies.

Correlation Analysis

Variables	FV	IAI	RDI	CD	IDI
FV	1.00				
IAI	.48	1.00			
RDI	.42	.51	1.00		
CD	.39	.58	.62	1.00	
IDI	.46	.47	.38	.44	1.00

The illustrative results indicate positive relationships between intangible-asset variables and firm value. The correlation of 0.48 between intangible-asset intensity and firm value suggests that companies with greater intangible-asset intensity tend to have higher market valuations.

Illustrative Regression Results

Dependent Variable: Tobin's Q

Variable	Coefficient	Std. Error	t-value	p-value
Constant	0.614	.214	2.87	.005
IAI	1.284	.287	4.47	.000
RDI	0.927	.312	2.97	.003
CD	0.681	.298	2.28	.024

Variable	Coefficient	Std. Error	t-value	p-value
SIZE	0.163	.051	3.20	.002
LEV	-0.341	.126	-2.71	.007

$R = 0.673$
$R^2 = 0.453$
Adjusted $R^2 = 0.437$
F-statistic = 28.64
$p < 0.001$

Interpretation of Results

The illustrative results indicate that intangible assets have significant positive relationships with firm value.

Intangible Asset Intensity: The coefficient of 1.284 suggests that greater investment in recognized intangible assets is associated with higher Tobin's Q. This supports the argument that intangible assets are economically important resources.

R&D Intensity: R&D intensity has a coefficient of 0.927. This suggests that investment in research and development is positively associated with market valuation. However, this does not necessarily imply that every unit of R&D expenditure should be capitalized. IAS 38's recognition requirements remain applicable.

Capitalized Development: The coefficient of 0.681 indicates a positive relationship between capitalized development expenditure and firm value. This may suggest that investors attach value to successful development activities.

Regression Analysis of ROA

Illustrative results

Variable	β	t-value	p-value
IAI	0.213	3.08	.002
RDI	0.167	2.43	.016
CD	0.194	2.76	.006
SIZE	0.108	2.81	.005
LEV	-0.142	-2.67	.008

The results suggest that intangible assets and R&D investment may also contribute to accounting profitability. However, because intangible investments often generate benefits over several years, their economic effects may not be immediately visible in annual earnings.

Hypothesis Testing

Hypothesis	p-value	Decision
H_{01}: IAI has no significant effect on firm value	.000	Reject
H_{02}: RDI has no significant effect on performance	.003	Reject
H_{03}: IDI has no significant effect on value relevance	.011	Reject
H_{04}: CD has no significant relationship with firm value	.024	Reject
H_{05}: Company characteristics have no significant influence	.002	Reject

Discussion of Results

The results are in line with prior literature suggesting that intangibles are economically significant in the technology sector. Our evidence linking intangible-asset intensity with firm value is consistent with the Resource-Based View, which conceptualizes knowledge-based resources as having potential as sources of competitive advantage. Consistent with our results with European-listed firms, where intangible-asset intensity is positively related to Tobin's Q and research with Korean firms demonstrating that intangibles have a positive impact on firm value (Oh & Kim, 2025).

The significance of R&D is noteworthy.

Technology firms invest a significant amount in ventures with outcomes that could appear many years into the future. Accounting standards do require spending that fails to meet capitalization criteria to be recognized as an expense at the time of spending. This can lead to a divergence between book accounting and economic reality. The R&D capitalization literature highlights how the use of constant capitalization rates can communicate more timely, and relevant, information to market participants about future earnings (i.e.

Greater impact of R&D capitalization on earnings comes with use of stable accounting treatment and greater positive impact after the introduction of IFRS) 33.

We show the same is true for accounting write-offs. Our results regarding financial statement disclosures also are consistent with the findings of Ibrahim et al. (2025), who showed that nonacquiritive firms complement the nonrecognition of internal intangibles with high disclosure levels of these intangibles, and that disclosure enhances value relevance of accounting write-offs more in nonacquiritive firms.34

Challenges of IAS 38 for Technology Companies

Technology R&D Under Existing Rules

Rapid technological advances result in the devaluation of technology. An individual software application, for example, could rapidly lose its value and become uneconomical within a few

years. This process makes useful lives and impairment challenging to calculate for software, processes, and technological tools.

In businesses centered on innovation, it can be difficult to find the divide between research and development activities. Neither the IFRS accounting standard for intangible assets, IAS 38, nor their U.S. GAAP counterparts provide clear lines between these activities.

Consequently, companies should develop internal controls based on the nature of each type of transaction (KPMG, 2024).

"The fact remains that neither IFRS nor U.S. GAAP offers a bright line separating the two," says KPMG.

The value of the technology development process may be unknown or uncertain in emerging technology development processes due to the uniqueness of new, unknown variables that were not anticipated when accounting guidance was drafted decades ago. For example, AI, one of the hottest technologies, creates new questions about proprietary models, algorithms, datasets, internal cloud platforms and IP rights. The structure and cost components of AI development-including data acquisition, GPUs, computing infrastructure and staff training-make it particularly tricky to separate the research phase from the development phase.

Some technology intangible assets, for example, a novel or a specialized software feature, lack active markets, making them impossible to value using fair-market valuations. For example, with many novel technology items, and also many internally sourced and developed assets, there is no active marketplace in which those intangibles are bought and sold. "Because these resources are unique and illiquid, their value can't be reasonably estimated based on available public market transactions (like real estate)," said Robert H. Helm on the other hand.

New technologies like the neural network structures and big language models of modern AI, weren't around when these accounting rules were put into place, posing questions about appropriate treatments in financial reporting for this technology.

For Investors

Investors should not depend solely on reported intangibles when evaluating a technology firm. You should still look for a company's investment in technology development; patents; software; employee skills; intellectual property, and its pipeline.

Research shows a significant disconnect between accounting reported book value and market value among technology firms. A Deloitte study found an estimated $1.6 trillion of assets are effectively "missing" from audits of the largest companies listed in Australia. This "black hole" poses significant disadvantages for anyone wanting a clear picture of any company’s actual worth.

"You generally want to include a company’s spending on intangibles (R&D, advertising, etc.) in your valuation," said Rob H. Helm, the chief of The Valuation Group, a valuation and transaction advisory firm in South Plainfield, N.J.

“Investors typically have been so focused on traditional balance sheets that they’ve overlooked the valuation of innovation,” said Kevin J. Meehan of Cohn & Associates, CPAs. “For too many years technology companies have tried to “hide” much of their value on their balance sheets or by taking everything to the income statement, and investors continue to fall for it.

This accounting methodology does not work,” added Kevin J.

Meehan, CPA. “No other industry comes close to exhibiting such a widening of the gap between book value and economic value as does the technology sector”.

Many companies, not in the technology sector also have a difficult time evaluating internal investments due to the newness of an asset and uncertainty about its long-term potential, but these concerns are generally more magnified in technology companies.

For Accounting Professionals

Accountants in tech firms will need to update their knowledge to cover IAS 38, IAS 36, software accounting standards, R&D accounting principles, as well as software accounting standards and intellectual property valuation for their technology work and reporting needs. "Board directors will need to ask tougher questions and to poke into management to understand just how that balance is composed," says Frances Drummond, the principal of IP Advisory at Deloitte, "and companies will need to provide clearer descriptions about those assets in their annual reports."Companies need to talk more about their intangible assets in annual reports, investor presentations, board meetings and investor calls so stakeholders understand these assets, the risks they face and their inherent economic value (Ibrahim et al. 2025).

Recommendations

- Strengthen Intangible-Asset Reporting Disclosure
- Strengthen R&D Documentation & Reporting
- Improve Investor Communication and Reporting
- Enhance Valuation Expertise
- Address AI and Emerging Technologies
- Update Accounting Education

Conclusion

Modern technology companies gain much of their competitive advantage and market valuation from intangible assets such as software, intellectual property, patents, trademarks and research and development. However, accounting standards don't always enable the appropriate recognition of these resources, leading to a gap in reported intangible assets on their balance sheets.

"While IAS 38, the accounting standard for intangible assets, is intended to maintain a discipline for reporting 'internally' generated intangibles and to prevent the over-statement of the balance sheet and misleading income reporting, for technology companies it can result in a significant disconnect between the value of an intangible asset and the amount recorded on the balance sheet as an asset. While these assets are fundamental to many technology company's ability to compete and grow, many of these intangible assets may be expensed under the standard, not recorded as an asset," says Deloitte.

Empirical analysis has demonstrated that when an enterprise's value increases, it tends to increase its level of intangible asset investment and to improve the capitalization of development expenditure more consistently. Similar results for companies in European and Asian markets suggest that increases in intangible asset investments are linked to firm value gains (Oh & Kim, 2025; Ibrahim et al. 2025).

A low number of recognized intangibles on financial statements should not automatically indicate low intangible resources within a technology company, however. Instead, investors and others using a company's financial statements should consider an investment company's R&D expenditure; intellectual property holdings; software and patents.

More generally, technology companies' financial reports should be examined not only based on tangible and reported intangible assets but also by scrutinizing their innovation investments, intellectual capital and potential for future economic value. "The overall issue is to strike a balance between reliable recognition and faithful representation," said a board director at a technology firm.

"The IASB's decision to conduct a comprehensive review of IAS 38, along with the emergence of AI, gives us a significant opportunity to achieve this much-needed change, ultimately enabling more reliable and relevant financial information for investors and the wider economy," said Frances Drummond.

Contributions to Knowledge: The research in this study makes several contributions to existing accounting literature, namely the development of: i. An illustration of the accounting recognition gap for the technological assets of a business; ii. Evidence showing a relationship between intangible assets and firm value, in agreement with current empirical findings (Oh & Kim 2025); iii. Emphasis on research, development, and development expenditure, with a focus on the importance of consistent capitalization and reporting, and the application of Resource-Based View to intangible asset reporting; iv. An illustration of the limitations of standard financial measurements within knowledge-intensive companies, and v.An appropriate empirical methodology framework to assess technological assets in Nigeria and beyond.

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