**Summary of Week 7 Seminar Notes**

**Abstract**The Week 6 seminar focused on the challenges of recognizing intangible assets under IAS 38. The standard prioritizes reliability over relevance, often causing intangible-intensive businesses, such as technology companies, to appear undervalued in financial statements. This inadequate accounting treatment diminishes the relevance of financial information and distorts market valuations by failing to align costs with future revenues. Such misrepresentation leads to resource allocation inefficiencies and undervaluation of firms with substantial intangible assets (Zeghal & Maaloul, 2011). The seminar also highlighted the role of voluntary disclosure as a potential remedy to bridge the gaps in financial reporting for intangibles (Lev & Zarowin, 1999). In industries like technology, pharmaceuticals, and media, intangible assets like software, R&D investments, and intellectual property are essential for creating value, but they are often undervalued under IAS 38 because these costs are expensed rather than capitalized (IAS Plus. (n.d.).

**Group Question and Answer  
Question posed to the opposing group:***"How does immediate expensing of intangible investments distort the matching principle in accounting?"*

**Answer provided by the other group:**Expensing immediately goes against the matching principle by recognizing costs for intangibles in the current period, even though the related revenues are realized later. This results in underestimated profits and asset values, causing inaccuracies in financial statements (Lev, 2001).

**Other Observations from the Debate**

1. **Conservative values and the incorrect assessment of value:**The accounting principle of conservative value, which places a higher emphasis on reliability than relevance, consistently underestimated the value of companies with heavy investments in research and development (Lev et al., 2005).
2. **Socio-Economic Consequences:**Misallocation of resources and higher costs of capital were linked to the lack of intangibles recognition in financial statements, as discussed by Lev and Zarowin (1999).
3. **Advantages of Voluntary Disclosure:**Increased openness via optional provision of information, like sharing details on research and development, was emphasized to enhance the effectiveness of the market and boost investor trust (Zeghal & Maaloul, 2011).

**Personal Reflection on the Conclusion**Zeghal and Maaloul's (2011) finding highlights the varied results regarding the importance of financial information in the absence of sufficient intangible accounting. I concur those voluntary disclosures act as a temporary solution; however, a permanent fix involves updating IAS 38 to reflect the characteristics of a knowledge-driven economy**.**

**References**

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5. IAS Plus. (n.d.). *IAS 38 — Intangible Assets Overview*. Retrieved from [IAS Plus](https://www.iasplus.com/en/standards/ias/ias38). Accessed on 17/11/2024.