HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD30130 - Intangible assets: GAAP: conformity with: accounts intended to conform but may not do so: choosing cases for enquiry

Relevant pointers

Features which may justify enquiry

Examples of cases that may well justify enquiry include those:

- where an asset is written off more slowly in the consolidated accounts (drawn up under GAAP or foreign accounting practice which is similar in the relevant respects) than in the company-level accounts,
- where, in relation to the expected life or value of an asset, the company-level accounts are inconsistent with other published statements on behalf of a company or the group of which it is a part (for example in its annual report to its shareholders),
- where the only apparent explanation for the rapid write off of an asset (other than that the accounting treatment is not in accordance with GAAP) is that a company substantially overpaid for it and there is no other reason to suppose it did so (such as the discovery of unexpected problems with the business or assets acquired),
- where there has been a substantial change from one year to the next in the policy, estimation technique or useful economic life, and there is no obvious commercial explanation (such as unforeseen side-effects from a drug or the unexpected obsolescence of a product due to technological advances).
- Where, in relation to a business acquisition, there is a concern that the company has not adopted the fair value principles of FRS102 s19 (or IFRS3/FRS105 s14/FRS7).

Features unlikely to justify enquiry

On the other hand, there will be cases where the impact on profits or on a company’s balance sheet from the write down of intangible assets may have caused the company real commercial damage, for example by:

- depressing group profits and therefore the price of the company’s shares on a stock market,
- reducing its ability to borrow the funds it needs (for example by worsening its financial gearing), or

- otherwise causing it to reduce dividends to shareholders and bonuses to management.

It is distinctly less likely in those circumstances that the write down will turn out not to have been acceptable accounting.

Whether audit carried out

A further consideration relevant to smaller companies' accounts is whether they have been audited. If not, then the treatment adopted will lack any formal and independent endorsement of the relevant accounting judgements.

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