View metadata, citation and similar papers at core.ac.uk
brought to you by CORE
provided by Brunel University Research Archive

Differentiating brand assets from goodwill assets: The artefact based approach to the accounting recognition of marketing related assets.

Nevine El Tawy
PhD student
+44(0)189565486
Nevine.Eltawy@brunel.ac.uk
Brunel Business School
Brunel University
Uxbridge, London
UB8 3PH
United Kingdom

Tony Tollington
Senior Lecturer
+44(0)1895267238
Tony.Tollington@brunel.ac.uk
Brunel Business School
Brunel University
Uxbridge, London
UB8 3PH
United Kingdom

Differentiating brand assets from goodwill assets: The artefact based approach to the accounting recognition of marketing related assets.

Abstract:

The International Accounting Standards Board is currently reviewing its conceptual framework and, as regards assets, the epistemological focus is upon revisions to the definition of an asset. The criteria presented in this paper break free from this narrow definitional perspective to offer an alternative view based on the recognition of artefacts and the related notion of separability. The transactions-based initial asset recognition trigger is inappropriate for the recognition of non-transactions-based intangible assets, which we instead address here through the medium of artefact-based asset recognition criteria. As primacy now appears to be given to balance sheet values and to the notion of recording comprehensive income, it may now be time to consider a broader artefact basis for the accounting recognition of assets.

Keywords: Assets, Intangible assets, Artefacts.

Introduction

The epistemological basis for the financial accounting recognition of assets is rule-based. Those rules should, in principle, be grounded on an overarching conceptual framework (ASB, 1999; FASB, 1984, 1985; IASB, 2001) of which the definition of an asset is a key feature (see IASB, 2007 re proposed amendments). That definition is sufficiently flexible to permit a rule change in 2003 that, for instance, in the UK, allowed the purchased goodwill previously written-off to become an asset, instead (IASB, 2004a). The lesson to be learnt is that the status of assets is not immutable nor is that status informed with any precision by the conceptual frameworks. So, for example, a key feature of the definition of an asset (ASB, 1999, para4.7-23; FASB, 1985, para6.25-33; IASB, 2001, paragraph 49, 53-59) is that an asset produces "future economic benefits", yet, for example, some previously expensed advertising campaigns would qualify on those grounds. The result is that the regulatory bodies of accounting possess a formidable power to shape and reshape their dominant portrayal of financial reality as they see fit (see Tollington, 2006). So, for example, at the same time that purchased goodwill[1] becomes an asset, the above rule change also dictated (IAS38, para.63) that brands should not become an asset (IASB revised 2004b).

In the financial accounting domain the central reliance on transactions-based measurement is one that accountants are most reluctant to see weakened through the use of valuations independently of that basis (see Tollington, 2001a). So, for example, the reason why brand valuations are not recognised as assets is because they are unique and, therefore, the existence of supporting transactions-based records is, at best, thin. Yet, at the same time, accountants are not ignorant of the trade-off between more relevant (but difficult to verify) valuations-

based information and the greater reliability (but easier to verify) afforded by transactions-based information. And to be fair, this concern is receiving some attention in the recent 'fair value' (Alexander and Jermakowicz, 2006) and 'conceptual framework' developments (IASB, 2006a,b,c). But, of course, not every asset, notably the internally generated or 'home grown' intangible asset, is necessarily derived from a transaction. So, for example, the patent for an innovative cyclonic vacuum cleaner may never be recognised as an asset for as long as the patent holder and majority shareholder of the business chooses not to sell or licence it, that is, it is not transacted. So, at last, we come to the specific focus of this paper: to present artefact-based criteria for the recognition of assets as an alternative to transactions. We say "alternative" but actually, since most transactions possess an artefact, for example, an invoice, the two approaches: artefact-based and transactions-based are not necessarily mutually exclusive. Nevertheless, we can use artefacts to demonstrate the opposite situation to the regulatory stance presented above, specifically, purchased goodwill is not an asset whereas brands are assets. That is clearly of interest to marketers whilst also acknowledging that the subject matter remains strictly within the accounting domain (see Samuelson, 1996; Schuetze, 1993; Weetman, 1989). The application of the criteria affects all assets not just the marketing related ones, which we use here by way of example.

We will also include advertising in this assessment as an example of a marketing expense so that one can compare, practically, 'what an asset is not' vis-à-vis purchased goodwill.

Structure of the paper

The paper is normative and centres around the tripartite structure of Figure1, specifically, that an asset should be functional, separable and measurable. It is at the intersections between these three characteristics that the asset recognition criteria are developed and applied to goodwill, brands and advertising. These intersections constitute the next three sections of the paper before presenting a summary and a contribution to the literature sections. But first, we need to introduce Figure 1.

Insert Figure One

The square boundary in Figure 1 encompasses all business assets and within it the three intersecting circles represents the business asset element for accounting purposes. The space between the circles and the square boundary represents those inseparable assets the recognition and measurement of which are indeterminate for accounting purposes. The development of the asset recognition criteria is based upon a considerable extension of work initially conducted by Honoré (1961).

The term 'separable' also requires some explanation, as follows: All the individual assets of a business, whether intangible or not, are separable from each other when it is possible to aggregate or disaggregate them (Li, 2002) without loss or gain in the recognition and measurement of those individual assets such that the sum of them would always be equal to the whole of the assets of the business (see also IASB 2005b, CL8). The 'whole' in this case would only comprise those business assets possessing the features of the three circles in

Figure 1. This notion is supported, in part, by the legal view of a separable function, explored next.

Separable Function (Figure 1)

Determining a separable function for an intangible asset is inherently problematic. For example, consider the legal view (Companies Act 1985 Sch.4A,9(2)) of

"assets capable of being disposed of or discharged separately without disposing of a business of the undertaking".

How does one dispose or discharge that which is intangible? In this regard an artefact may substitute for recognition purposes and in most cases the artefact will be documentary: an invoice, receipt, court order, patent letters, trademark registration, EU quota document, copyrighted document and so on (see Upton, 2001, p69 for list of separable intangible assets, also, Seetharaman et al, 2004, p525 for a list of separable and inseparable intangible assets). The use of artefacts represents an expanded recognition boundary for accountants because they are not necessarily linked to a transaction but still a restrictive one to other interest groups (see Hall, 1991, 1992). For example, as any marketer will tell you, the artefact of a registered trademark document (see Tollington, 2001b) is but one element of wider function concerning brand equity (see Aaker, 1991, 1992).

The following criteria are pertinent to the establishment of a separable function:

(a) The right to control an asset

Control of a business asset is usually for the purposes of appropriation and is typically, though not exclusively, accompanied by the legal right to do so or to prevent others from doing so (see also IASB, 2001, para56/57). Appropriation is usually associated with income creation but not always. One can just to hold an asset with or without a view to capital gains, or lend it without recompense, or, to repeat, prevent others from exercising control. Also, appropriation

can be particularly problematic in the absence of a supporting artefact, for example, where the investment in an intangible asset by one business is subsequently appropriated by another business (see Lev, 2001, p52).

As regards control over purchased goodwill much depends on its constituent nature. For example, if one speculates that the purchased goodwill comprises intangible attributes such as reputation and repeat custom then control of its appropriating capabilities appears to be inextricably linked to the control of the other assets of a business, that is, they are inseparable. In contrast, if one speculates that purchased goodwill simply arises from a mismatch of measurement bases, or that the above defined "excess" represents an overpayment to acquire a business, then there is no power to appropriate and, therefore, there is nothing to control.

As regards a brand, control over its appropriating capabilities may be established through custom and practice and be accepted as such without challenge. However, constructive control is over the legal property rights, which can be established by trade marking or by a successful action for the tort of 'passing-off'.

As regards advertising, control can be exercised over the campaign, which may or may not result in the appropriation of additional income to the business. A feature though is that, unlike a brand, control is likely to be short-lived

(b) The right to future use

The term 'use' can have a broad or narrow interpretation, with the interpretation here pertaining to the business entity's future use and enjoyment of the asset for business related purposes, notably, for its appropriating capabilities. With a broad interpretation it is possible to have the use of an asset that is in many hands at the same time where the asset is available for anyone to use, for example, as with seawater or atmospheric nitrogen. *Control* over future

use[2]is therefore typically exercised only over scare resources, rather than the plentiful ones (see Ijiri, 1975, p. 52). For example, in some arid regions of the world there may be relatively unrestricted *use* of land assets with *control* being exercised only over the water wells present within it. With a narrow interpretation the *control* over an asset may rest in more than one hands but the *use* of it is in the hands of one business entity at any point in time, for example, as with a lessor/lessee situation. The narrow interpretation of 'use' is probably pertinent here.

With regards to purchased goodwill the right to future use it (whatever 'it' is) is not conditional upon it being recognisable in terms of its nature and/or as a resource. Nor is it necessary to recognise purchased goodwill as a separable asset in order to use it. If, for example, goodwill comprises as yet unidentifiable wealth creating assets, such as brand assets, then these can be used in addition to the other wealth creating assets of a business.

With regards to a brand, since it is possible to franchise it, there is a right to future use subject to contractual conditions. The related aspect of control is conditioned thereby. 'Use' is a separate criterion because the absence of use can, for example, be the basis for the expiration of the registration of a trademark or a domain name, that is, the loss of the supporting artefact.

With regards to advertising there is no future use because once the advertising campaign is finished nothing remains apart from the copyright. This copyright, unlike the copyright on a book, is very unlikely to be transferred (though, it is possible) and used by anyone other than the originating business and they have already used it.

(c) The right to security

An asset users' expectation is that the rights attached to an asset, typically for the purpose of appropriation, shall run in perpetuity unless determined otherwise, for example, by statute. The right to security also assumes solvency and behaviour that is consistent with accepted social norms, for example, the legal documentation for the securitisation of David Bowie's music copyright: the artefact that secures for the lending institution the sole access to future royalty income.

Contrast the security vested in such artefacts with the security vested in purchased goodwill. No one in their right mind would seek security in this 'asset' independently of the other assets of a business.

Again, contrast the security vested in such artefacts with the security vested in a brand. It would probably be possible to securitise, for example, against the income streams arising from, say, the Cadbury brand but doing so independently of the chocolate product to which it would normally be linked would undoubtedly effect the amount of those income streams. Nevertheless, franchising, for example, in respect of cakes and drinks, shows that this is always a possibility.

As regards advertising, there is no security in the lingering impact of an advertising campaign on buyer behaviour.

(d) The capability of transference (including disposal)

The transference of an intangible asset assumes the existence of an artefact so that the business entity acquiring it can demonstrate that the right to control its use has passed to them. However, transference does not necessarily mean that it has to occur as with a business transaction. The transference of an asset possessing a separable function can be based on the capability of transference as well as actual transference. Thus, valuations (a separable measurement - Figure 1) can be entertained based on this capability, and, indeed, may well be mandatory where a related tax liability is involved.

As regards purchased goodwill, according to Chambers (1966), it has no exchange value to a going concern. Yet, since many parties are clearly prepared to pay a premium to acquire a business, we return to the issue of what exactly is being transferred or exchanged? In the absence of assets recognised by the criteria presented herein then all one can say is that a premium or “excess” has been paid to acquire and transfer a business. That said, the “excess” could be specifically mentioned in a contract thereby attract a supporting artefact. Transference though, such as it is, would always be linked to the transfer of the other assets of a business – never separable.

As regards a brand, transference can occur contractually and may or may not be supported by transference of a trademark registration document – both artefacts. Transference can occur independently of the other assets to which it may have been originally tied, for instance, the ‘Virgin’ brand.

As regards advertising, there is nothing to transfer once the campaign is over except the copyright. However, it is very unlikely that anyone other than the originating business would want the copyright. Perhaps it could be included in an educational film about advertising so, reluctantly, it should be listed as transferable in Figure 2.

(e) The absence of a duration

The interest of the user of a business asset is best served by a determinable time horizon for planning purposes where longer is usually more valuable than shorter.

Where the function of an intangible asset can be separated from the human being and is vested in an artefact the duration is determined by social norms, notably legalistic ones.

As regards purchased goodwill, as one can see from endnote [1], it arises from an operating rather than a constitutive definition, which simply tells one what to do, not what constitutes its nature or why it should be accounted in a particular way, that is, asset or non-asset. According to Chambers (1966) purchased goodwill is so susceptible to variation as to have no enduring quality. Yet, from the accounting viewpoint, purchased goodwill can stay on the books for a very long time and is only reduced or eliminated when the other assets to which it is linked are similarly reduced or eliminated in value (IASB, 2004a, para55). Categorising its 'duration' is therefore a problematic exercise, but perhaps only where one accepts its inseparable nature. These criteria, though, are grounded on 'separability' and the reality is that, as a separable function, purchased goodwill would probably expire rather quickly.

As regards brands, some can disappear quickly, as with Ratners, others can disappear slowly and never be seen again, as with Woodbine cigarettes. Others can disappear and reappear many years later, such as Triumph motorcycles. Others, like Heinz, have very long lives indeed. It follows to some extent that the absence of visual awareness is no guarantee that the brand is 'dead'. And a trademark may be renewably long-lived even where exposure to the brand is minimal. In view of this latter point brands will be listed as having no duration (in Figure 2) but not in every case, particularly where businesses permanently remove them from the public domain.

As regards advertising, a successful campaign can be remembered and affect consumer behaviour long after it is over. Indeed, it may be possible to affect behaviour on a semi-permanent basis: some new products being rejected in favour of a 'trusted' brand, such as Heinz baked beans. Similarly, advertising straplines such as 'Beanz Means Heinz' can linger in the minds of customers for decades after the campaign has ceased. Advertising is therefore a difficult one to categorise in terms of duration because it depends on the 'success' of the campaign and that is subjectively determined in the minds of individuals. That said, it is highly unlikely that there will a complete absence of duration (who remembers an advert from fifty years ago? – very few) and so it is listed as 'no' in Figure 2.

(f) The prohibition of harmful use

An asset is more than a set of institutional arrangements defining who may use, control and benefit from an asset because an asset is also the ability, sometimes a legally sanctioned ability, to impose costs on others. In addition, since the rights structure of modern assets

indicates who must pay to have their interests protected against the costs imposed by another party, improper use of an asset is often prohibited. For example, the right of car manufacturers to pollute the atmosphere is partly passed on to the customer in terms of the increased expense of catalytic converters and stringent gas emissions tests. Conversely, in future, customers may be able to pass the cost of recycling used vehicles back to the manufacturer. Also, in future, the prohibition of harm in this regard has also led to the creation of 'carbon credits' (documented artefacts) where pollution quotas may be traded within and between countries, in the same manner as fishing quotas, in order to sustain life.

It is hard to see how this criterion would apply to purchased goodwill, brands and advertising except in the minds of customers. And only a fool would deliberately set out to instigate a hostile response to them – a self-imposed prohibition (and therefore listed as Yes in Figure 2). That said, 'harmfulness' is a matter of social judgement. So, for example, a 'Auschwitz' brand would probably regarded as being harmful, at least to the Jewish community, whereas, the 'FCUK' brand might be regarded a being clever, rather than harmful, through its similarity to a sexual swearword.

(g) Liability to execution

This criterion is linked to the right to capital, below, in that it comprehends a particular separable function: the use of an asset in settling debt. In respect of any intangible assets their use in this regard is dependent on the existence of an artefact and its sufficiency for the stated purpose, the latter being a matter of agreement between the parties. The artefact is important otherwise the intangible asset could potentially become a vehicle for defrauding creditors, and

national income would suffer accordingly as those with liquid capital would be wary of lending it to those with assets lacking this proviso.

As regards purchased goodwill, no self-respecting lender would accept it in settlement as alternative to physical assets even if it could be separated from the other assets of a business. The same applies to advertising. However, a high profile trademarked brand may well be accepted in settlement of a debt. Anyone with enough money can create a luxury car but there is only one Rolls Royce brand and it clearly had worth to BMW or they would not have bought it. A lender would know this too.

(h) The right to residuary character.

This criterion refers to a situation where the rights to the artefact lapse, for example, through the statutory expiration of a trademark. There must be social rules for deciding what to do, for whatever reason, where the pre-existing legal rights to an intangible asset are no longer present. So, for example, brands may still be protected under the tort of passing off, whereas, patents simply expire.

Contrast this residuary character with purchased goodwill, which from the outset of its indeterminate 'life' is a residuary character: an "excess"[3]. It has no discernable residuary character because <u>recognition</u> of that character is paradoxically on the basis of <u>measured</u> excess. There are some early 'asset' recognition studies that suggest a hidden residuary character within this excess (see Catlett and Olson, 1968; Falk and Gordon, 1977; Nelson, 1953; Tearney, 1973) but much of the recent accounting debate takes for granted that the

excess exists. But it only exists because accountants created it through their rule making. And just as it can be created it can be unmade as has happened in the past under their, now defunct, merger or pooling of interest rules.

With regards to advertising there may be a residuary character remaining in the minds of potential customers but there is no right to it.

Measurable Function (Figure 1)

It is not assets per se that are measurable, rather, their function, in particular, in creating income (criterion k, below), and whether the measurement of that income leads to an increase or decrease in the capital of a business. The interrelated nature of the two means that measurable income depends on one's view of how capital is to be maintained (see Hicks, 1939; Pigou 1935; Gynther, 1970; Revsine, 1981; Tweedie and Whittington, 1984; Guttierrez and Whittington, 1997; Arden, 2005). Two views are pertinent and they are briefly explored, next, before introducing more criteria in this section of the paper that are conditioned by the second viewpoint.

The historical, legalistic foundations of accounting are transactions-based and they rely upon the matching of income and expenses in a period of account, including any adjustments to the value of assets (see Paton and Littleton, 1940). Were it not for the periodic revaluations of assets, the balance sheet would simply become a residue from this matching process, the income statement being the dominant statement. The alternative approach is to hold the balance sheet as the dominant statement, specifically, that it should reflect the increase in total

value of assets between two balance sheet dates. The differences between the two balance sheets should theoretically be reflected in the income statement "…for the year ended…", but, of course, this viewpoint offers the possibility of reflecting other differences too, for example, gains from holding assets as well as from numerous internally generated intangible assets both of that may by-pass the income statement and for which a recognisable transaction is often missing. This would, in principle (but only in principle), include brand assets. And so there appears to be a recent general move towards the related notion of recording 'comprehensive income' (Bertoni and De Rosa, 2005; Cauwenberge and De Beelde, 2007; IASB, 2003; Newberry, 2003; Barker, 2004) between two balance sheet dates. This notion is grounded on Hicksian economics (Hicks, 1946, pp178-9): changes in wealth plus what is consumed in a period. However, as Bromwich et al (2005, p3) points out, whilst a Hicksian stance supports the above balance sheet dominant viewpoint it also excludes human capital. We, instead, include human capital through the medium of artefacts, that is, what human beings create rather than human beings themselves (see advertising under criterion (i)).

(i) The right to capital

Fisherian economics (Fisher, 1906, p52) refers to capital as "a stock of wealth existing at an instant in time", which in accounting terms may be interpreted as a positive difference of assets over liabilities at the year-end. This in turn is dependent on one's view of capital maintenance, as outlined previously, as well as the measurement basis used to measure the amount of that "stock of wealth". Salvary (1997), for example, refers instead to a "stock of money" expressed in nominal terms.

As regards the capital in purchased goodwill, Henning, Lewis and Shaw (2000, p375/6) argue that it comprises the following components:

"(1) the write-up of the target firm's assets to fair value…(2) the value of the target as a going concern or stand alone entity…(3) the market's valuation of the synergistic value created by the acquisition…(4) any overvaluation of consideration and/or overpayment for the target…"

Similarly, Arnold, et al (1992, p21) and Johnson and Petrone (1998, p295) also refer to the component parts of goodwill. However, the constituent 'nature' of purchased goodwill, if one exists, is not actually addressed. Indeed, in respect of (1) to (4) above, the measurements (not recognition of a nature, per se) appear to be related to the acquisition of a firm as a whole rather than any particular 'component' as a separable asset. Prima facie, there does appear from these studies to be a stock of wealth (or capital) in purchased goodwill (see also McCarthy and Schneider, 1995, p80), but, as has already been discussed, purchased goodwill is just a label for a defined "excess". Further, since it is well known that the market value of many companies, notably the hi-tech ones, is often much greater than their book values, it is not entirely surprising that the market is valuing something extra that is not necessarily captured by the rules of accounting. But what is that "something"?, that "excess"? There is no recognisable artefact here, just measurement after measurement when one looks, for instance, at the above quotation. What we are left with in respect of purchased goodwill is what we see, not what we think we might be seeing in terms of hidden wealth creating intangibles, specifically, a defined "excess", a significant part of which is highly likely to in respect of an overpayment or "excess" paid to acquire a business (see Higson in ASB, 1995, p171). And in the absence of the recognition of something specific no *right* to the capital in purchased

goodwill exists because it may actually relate to something or many things so far not recognised by accountants, for example, brand assets. We visit this point again in the summary section.

As regards a brand, the notion of brand capital or brand equity (Aaker, 1991, p16) is more broadly based than in respect of the artefact based focus of this paper. To the marketer, brand equity will embrace attributes such as brand loyalty, brand name awareness, perceptions as to quality, brand associations, as well as the trademark artefact. Wood (1995, p550), in referring to de Chernatony and McDonald (1992), adopts the 'stock of wealth' stance presented here, specifically, that brands represent a source of "added value" (Wood, 1996). However, where marketers and accountants differ would undoubtedly be in the recognition of the added value from such abstract sources, at least from an accounting perspective (see Keller, 1993 about the different motivations of accountants and marketers). From the accounting perspective the only physically verifiable attribute from the above list of attributes is in respect of the trademark. The point, though, is that the capital exists and the artefact, in this paper, is the vehicle by which asset recognition could occur in the accounting domain despite the observation that in the marketing domain 'assetness' is more broadly based.

With regards to advertising, there may be a stock of wealth present in the people who create the successful advertising campaign. For advertising companies such as WPP Plc and research led companies such as GSK Plc this is undoubtedly reflected to some extent in their market value. The stock of wealth is in the exercise of intellectual creativity but for as long as that creativity remains tacit there is no supporting artefact. Where the advertising campaign is

created the tacit knowledge is made explicit and a supporting artefact is present in terms of copyright protection. The real issue though is where Fisher's "stock of wealth" (the capital) is: in the capitalised salary inputs or in the artefact-based copyrighted output? We advance the case for the latter. One cannot regard both as an asset because that would amount to double counting. As regards the input there is no capital in a person who decides to not be creative or who becomes incompetent, sick or even dies. Also, whilst the person is clearly separable there is no control over someone who resists control and any usage cannot be compelled unless one believes in slavery. So, if we make the comparison with the salaries of those working towards the creation of a successful film (the inputs), it is, nevertheless, in the copyrighted film rights (the artefact based output) that the stock of wealth lies[3] because that it what the distributors purchase together with the film. The same can, therefore, be said in respect of the copyrighted output of an advertising campaign, the only difference being that is very unlikely that anyone other than the originating business would want to buy or use it (see criterion (d)). In both cases the artefact establishes the measurable function [4].

(j) The right to discharge capital

The 'right to income' comprehends the 'right to control' and the 'right to future use' of an asset for the purpose of appropriation (criterion a and b, previously). However, the opposite is also true: the right to discharge capital and thereby deny oneself the right to appropriate. This right comprehends the power instead to alienate an asset, or to consume it, or to destroy or waste it, or by any other means, discharge it. So, for example, the oil rich owners of a patent for a safe, cheap, compact and highly efficient source of generating electricity may, in their own interest, simply not use it. Thus it may exist as an artefact and it may have the potential

to produce great wealth and yet, in practice, never do so. This represents a departure from the definition of an asset in that firstly, assets do not necessarily have to produce income, though this is a desirable characteristic. Secondly, the action of alienating, consuming or destroying specific assets typically assumes that they have a separable function from the other assets of a business unless this action occurs collectively. Thirdly, this right is the antithesis of a market-based view because the free movement of the capital typically associated with such assets is deliberately constrained by an entity-specific policy decision (see IASB, 2005b, p51).

With regards to the right to discharge purchased goodwill the capital has to exist in first place (see criterion (i)). Even if, alternatively, one adopts the layman's view of goodwill as reputation, repeat custom, future profits and so on then it defies logic that anyone would deliberately wish to behave in a manner that led to their discharge.

With regards to a brand, one can eliminate some of capital inadvertently, for example, Gerald Ratner of Ratners jewelleries talking about his "crap products" and the immense damage that the televising of those comments did to name awareness, perceptions of quality and the loyalty of customers. On the other hand, a damaged brand like John West can successfully reappear on retail shop shelves many years after it was first withdrawn. It is hard to establish a norm but that would not remove the right to eliminate a brand, and thereby any capital in it, simply by permanently removing it from public attention.

As regards advertising, it seems perverse that having invested money in a campaign a business they would then wish to discharge any capital created thereby. Equally perverse, the business would probably have to spend more money to undo what they had done in the first place. There is a right to eliminate any capital that may exist but it is unlikely to be exercised. The only situation where we can envisage this happening is where the original campaign presents a false claim that needs correction.

(k) The right to income from an asset

The right to income is linked to the right to capital, as outlined previously in the balance sheet dominant view of capital maintenance (see, for example, Whittington, 1974, 1981).

Consider the right to income derived from purchased goodwill. In layman's terms it is tautological to determine a right to income when the 'asset' in question is sometimes described in terms of future profits (two effects, no cause and effect). Also, that income, such as it is, is inextricably tied to the other assets of a business and therefore fails to meet the separability requirements of Figure 1. The right to income in this case therefore suffers from the same criticism in respect of the right to capital: the recognition of the source of the income is logically a-priori to the measurement of it [5] otherwise we do not know what we are measuring. Yet, the literature presented in criterion (i), clearly shows that income exists even if the linkage to capital is tenuous at best. It is a rather bizarre situation: if the literature is to be believed, the market appears to be placing a value on the extra income generated from an indeterminate source of capital.

Consider the right to income from a brand. The measurable function is in respect of the premium income attributable to the brand but separating it from the income attributable to product to which it is attached is difficult. This may be done, for example, by comparison with a generic product where this is available. Also, these premiums are often expressed in terms of cash flows that inevitably include an element of crystal ball gazing. However, it is entirely possible to reconstruct charts of accounts away from the usual functional approach to accounting to one that is market and brand orientated, instead. So, prima facie, there can be a reasonable attempt to establish brand related net incomes if there was the political will to do so.

With regards to advertising, the right is self-evident because the investment would not be incurred without a reasonable prospect of creating income in excess of the costs of the campaign.

Separable Measurement (Figure 1)

The principal feature of a 'separable measurement' is that any asset measurement should be both individual and additive so that, in principle, the measurement of 'the whole' disclosed picture of financial reality, however that is represented, is equal to the 'sum of its individual disclosed parts', whether aggregated or disaggregated. That is the principle but as Barth (2007, p12) rightly points out in respect of market based fair value measurements the sum of the assets less liabilities is unlikely to equal the market value of the equity because not every 'asset' is recognisable. Nevertheless, consider the following criteria in respect of measurement in principle:

(l) A measurement method should be additive

A Canadian Accounting Standards Board report recently argued (IASB, 2005a) that at the initial recognition stage of an asset it should be disclosed at its observable market price or at an estimated market price in the absence of an observable one or at its current cost (that is, replacement cost or reproduction cost or historical cost) failing the ability to estimate the market price or, where all else fails, at a value derived from an accepted model or valuation technique. There are four hierarchical levels of measurement here (a subsequent FASB report recommended three levels - see IASB, 2006a) which, as you move down them, the focus of observation switches from being market focused to entity-specific focused together with an increasing use of unobserved inputs to the measurement process. Capital is therefore maintained and measured on the basis of mixed measurement methods (ASB, 1999, p79; IASB, 2001, para.100) rather than a single method. The use of multiple measurement methods means that the accounts are not strictly comparable when one set of accounts is constructed using measurement methods that are different to another set for the same type of asset element. Yet, for this criterion to hold, the measurement of an asset on one scale: nominal money, should ideally be fixed in relation to measurement on another scale: time. Of course, this can never be the case in practice if only because inflationary and deflationary effects on asset values are unavoidable. That said, it may be argued that this inherent lack of additivity in this mix of money and time (nominal and real) should not be compounded through the policy led use of multiple measurement methods applying different time frames at any one point in time.

Let us apply this last assertion to purchased goodwill. As was pointed out in endnote [1], the defined "excess" that constitutes purchased goodwill is the difference between the transactions-based cost to acquire a business and the fair value (current market value) of the individual assets, that is, two measurement methods. It follows, if there was only one measurement method in accounting, purchased goodwill would not exist. So, for example, one could take the cost to acquire a business and split that cost over all the individual assets so acquired. Some assets may be over or under valued according to current market prices. Nevertheless, there would be no "excess" and no purchased goodwill. This point tends to reinforce the earlier as to no capital too. The excess exists because of an accounting rule and, as the American Accounting Association readily acknowledges, "…the rules employed need not be good ones and observations made need not be correct to qualify as accounting measurement" (AAA, 1971, p1, 46-47). The very nature of purchased goodwill is not additive.

With regards to brands, various measurement methods are employed (price premium, royalty payments, P/E multipliers etc) and therefore they are not additive. The methods themselves often rely on subjective future projections of income or cash flows. Also, according to Napier and Power (1992, p90), the use of such valuation methods "determine, rather than depend upon, separability", that is, the measurement of current and future income or cash flows is the basis for asset recognition and then capitalisation. However, this income or cash flow-centred stance can only be supported, perhaps, if one ignores an asset's functionality other than in respect of the right to income (but see endnote 4 again). In contrast, we show that there are many attributes listed in this paper that should be taken into account.

With regards to advertising expenditures these are transactions based and the cost of campaigns may be added to another. The method is additive apart from the impact of inflation between two points in time.

Whether one nevertheless supports this multi-measurement stance depends to some extent on the economic ‘relevance’ of the measurement methods vis-à-vis their comparative ‘reliability’ with, say, a pure transactions based cost approach. However, it is not as simple as that because even within a pure, rather than modified, transactions-based cost approach there is a mixture of historical prices and current prices depending on when the transaction occurred (IASB, 2006c), and, the cost may not always be readily identifiable where, for example, the asset is self-constructed or acquired as a bundle (but see criterion n, below).

(m) Measurements should be based on observation

An asset’s separable and measurable function should be capable of being observed otherwise there is potentially nothing to measure. The obvious problem of observing something that is intangible is obviated in this paper through the use of physical substitutes: artefacts. However, the key issue concerns the separable measurement and how much measurement uncertainty one is prepared to accept in the measurement of what has been observed. Clearly one can observe a transaction based cost or a readily ascertainable market value or an event such as a court order where the damages are known or can be reasonably estimated. However, whether, politically, one would be prepared, for example, to accept the observed securitisation of a music copyright or the observed royalties paid for the use of a brand as a valid measurement

approach for all such assets is currently unlikely. But it is not beyond the ‘wit of man’ to make it so through the accounting regulatory process so that what is socially constructed may be subsequently observed on the basis of regulatory compliance in practice. Arthur Andersen & Co. (1992, p11), for example,

“…believes that it is possible to codify the valuation methodologies and improve the general understanding of the valuation process, such that users and preparers of accounts can have more confidence in the incorporation of intangible assets into financial statements. This view is supported by the considerable consensus within the business and professional community regarding valuation methodologies…”

The observation process then becomes one of verifying regulatory compliance without material error in the way the measurement is conducted – a process of indirect verification. Of course, the unresolved problem that has vexed accounting for decades is the observation of current practice and selection of what subjectively constitutes ‘the best’ measurement method in the first place – a process of direct verification (see IASB, 2006b), which Barth (2007, p14) argues should be grounded in economic theory and research.

The key point, though, is that our observations are restricted to the past and the present. Anything which is future based is predictive rather than observable. Even the qualitative time bases: ‘for the year ended’ and ‘as at’ implies that future based measurements (more accurately, ‘predictions’) have no place in terms of accounting disclosure (see Aitken, 1990, p229 for further reasons). The implications for future based valuations such as value-in-use,

forecasts, some allocations and even some accounting standards (for example, cash generating units as part of impairment reviews) are extensive.

As regards the three asset examples, purchased goodwill and advertising expenditures are based on observation whereas most brand valuations, apart from where the brand is purchased, are predictive, not observed.

(n) The measurement of bundles of assets should be avoided (wherever possible)

A separable measurement using any method should, in principle, exclude the idea of aggregating and measuring bundles of assets or a portfolio of assets. This is because if the measurement is not tied to individual assets, rather than as a bundle, it may be possible to inadvertently dispose of or discharge individual assets, notably the intangible ones, whilst leaving the measurement of the bundle intact. The danger, particularly in respect of intangible assets, is that one ends up disclosing the measurement of something that has little or no function let alone a separable function.

This is perhaps the most controversial criterion of all because some assets, such as financial instruments, may be naturally bundled together as part of an overall transaction. For example, as when the risk of one financial instrument is partly offset by another or many others. The circumstances are many and various and deciding on an appropriate lowest level of aggregation or, perhaps more appropriately, disaggregation will probably involve an element of professional judgement. We cannot provide a definitive solution to this conundrum which is why we added 'wherever possible' at the end of the criterion n.

Consider, for example, purchased goodwill. Two levels of aggregation exist in the one ‘asset’: the cost of acquisition is applied to the business as a whole whereas the fair value measurement is applied to the individual assets. It is the individual assets that are disclosed on the balance sheet together with the purchased goodwill as a reconciling “excess”, as discussed previously. But, of course, if the highest level of aggregation had been disclosed instead, that is, the cost of the business as a whole, then there would be no purchased goodwill at all. If purchased goodwill exists at all it would then have been part of the disclosed investment in a business.

With regards to brand assets, in principle, they do not need to be bundled with any other asset. When BMW purchased the Rolls Royce brand in 1998 it was for the brand alone. That said, the brand valuation is in many cases is materially affected by the close association it has with the product itself.

Finally, there is no need to bundle advertising expenditures at all.

Summary

The three previous headings have addressed the central intersecting feature of Figure 1.The applied criteria within these three headings can now be summarised in Figure 2.

Insert Figure 2 here

The results show that in respect of a brand as an asset the only negative feature is in respect of establishing a separable measurement. In the UK, this has not prevented a few notable

companies, such as Cadbury Schweppes Plc and Deagio Plc, from disclosing brand values on their balance sheet despite the existence of the previously mentioned IFRS3 international accounting rule to the contrary. However, in every case, the brand value is extracted from the transactions-based purchased goodwill and is thereby capped by that amount. In other words, the recognition of one asset, brand assets, is peculiarly dependent on the existence of another 'asset': purchased goodwill. So, for example, a business is purchased for £10m, comprising separately valued assets of £7m and, therefore, purchased goodwill is £3m. But one can then look at the purchased (but not recognised) business brands and value them up to a maximum of £3m thus replacing the purchased goodwill. Regardless of what the brand valuation report says, the disclosed brand value cannot exceed £3m but it can be less, for example, £2m goodwill and £1m brands. We would argue that this linkage is nonsensical particularly when one looks at the asset status of purchased goodwill according to Figure 2 – it is not an asset. Asset linked to non-asset! And, of course, what about the internally created or 'home grown' brands that arise outside this context: they are not recognised at all despite being owned and used by the same company. Yet, they could possibly be recognised as assets if the artefact-based criteria were applied, instead.

If one looks at Figure 2, advertising has a better asset status in comparison to purchased goodwill. Yet, in the accounting domain, advertising is an expense and purchased goodwill is an asset for disclosure purposes.

What is not clear from this assessment is whether all the boxes in Figure 2 have to be labelled 'Yes' for an asset to be confirmed. If that was the case then, in respect of brands, the

challenge lies in respects of criteria (l) and (m). And, in this regard, consider again the earlier controversial comments of Arthur Andersen (1992). The observation of compliance with a valuation method established by an accounting rule may well satisfy criterion (m) but any valuation-based measurement is still likely to be non-additive (criterion (l) except where the brand is purchased on its own.

The contribution to the literature

As we write the International Accounting Standards Board is reviewing its conceptual framework. As regards assets, the epistemological focus is, to repeat, upon revisions to the definition of an asset. The criteria presented in this paper break free from this narrow perspective to offer an alternative view based on artefacts. For many in the business community, though, this 'alternative' will still be too restrictive if only because of its central reliance on separability. And they would be correct to some extent because some intangibles may need to be bundled or teamed together in order to produce wealth – the opposite of criterion n. However, the boundary line has to drawn somewhere (see Lev and Zarowin, 1999), in this case, using artefacts. Others may wish to draw this boundary line differently and we welcome that contribution providing the measurement method is still based on money or a money hybrid where the measurement scale is uniform, for example, money/time or perhaps, money/units of carbon.

This normative paper offers considerable scope for future debate. For example, we are also not too happy about the 'prohibition to harmful use' (criterion f) because it seems to us that the answer may always be 'Yes'. Nevertheless, we think that this criterion may be of

increasing importance if the issue of sustainable growth comes to dominate the way assets are recognised and utilised. This ‘opens up’ the possibility of further criteria on this point alone. There may be more!

Endnotes:

[1] The layman’s understanding of purchased goodwill is typically expressed in terms of reputation, repeat custom and future profits. However, from an accounting perspective purchased goodwill is created according to the following rule:

“…the excess of the cost of the business combination over the acquirer’s interest in the net fair value of the identified assets, liabilities and contingent liabilities…” (IASB, 2004a in *IFRS3*, para 51(b)).

The existence and value of purchased goodwill is therefore entirely dependent upon the circumstances of a transaction for the purchase of a business rather than being based upon recognition of its nature and/or resource. These circumstances mean that recognition is based upon a definitional or rule driven measurement exercise that, unusually, is capable of producing a negative (fair value > cost) as well as a positive goodwill asset (cost > fair value). Up until 2003 this “asset” could have appeared on either side of the balance sheet (a positive asset or the bizarre concept of a negative asset) simply because of the way “the excess” had been measured.

[2] There is a little bit of a contradiction here because it may be argued that control can only be exercised in the present because the actions of human beings are limited to the present.

Therefore, there is no control over the future use of assets. But what one can do is to exercise control now in a manner where the effect is long lasting or even permanent. It is axiomatic that if you shoot someone dead for using your well-water you have exercised control now and the future effect will be permanent for that person alone.

[3] It is acknowledged though that this output orientation cannot be completely divorced from an input orientation because there is an obvious 'chicken and egg' type argument here: without the human being in the first place there is no thought, no purpose and no possibility of action.

[4] One should not confuse a 'measurable function' based on the physical recognition of an artefact with the subsequent 'separable measurement'. It is obviously possible to project cash flows from an advertising campaign and capitalise them but in that case the measurement becomes the basis for asset recognition. We argue that asset recognition (recognition of the stock of wealth) is logically a-priori to the measurement of that wealth, assuming it also complies with the other criteria.

[5] An often quoted and humorous analogy used to refute the need to recognise an intangible asset, other than on the basis of a measurement, is that if a thing has some of the characteristics of a dog, for instance, it barks like a dog, then it must be a dog. One does not need to see or physically touch it to be able to recognise it as a dog! However, this is a far from satisfactory way of recognising a dog, let alone the type of dog. What is required is a more precision so that the separable recognition of a dog, according to some definition or

criteria, cannot be confused say, with the separable recognition of a wolf. Worst still, what if it turned out to be a man-made recording of a dog and there was no animal at all. One cannot imagine, for example, the medical profession adopting a similar stance: the illness has some of the characteristics of influenza but then it turns out to be meningitis! The medical profession is able to support operational definitions and assessment criteria for the diagnosis of illnesses through scientific testing, however, in accounting such procedures appear to be less well articulated.

References:

Aaker DA (1991), *Managing Brand Equity*, The Free Press, p15

Aaker DA (1992), The Value of Brand Equity, *Journal of Business Strategy*, Vol 13, No 4, July/Aug, pp 27-32.

Aitken M (1990), A general theory of financial reporting: Is it possible?, *International Journal of Accounting*, Vol.25. No.4, pp221-233

Alexander D, Jermakowicz E (2006), A True and Fair View of the Principles/Rules Debate, *ABACUS*, Vol.42, No.2, pp132-163

American Accounting Association (AAA, 1971), Report on the Committee on Foundations of Accounting Measurement, *The Accounting Review*, Supplement to Vol. XLVI

Arden D (2005), An accounting history of capital maintenance: Legal precedents for managerial autonomy in the United Kingdom, *Accounting Historians Journal*, pp1-25

Arnold J, Egginton D, Kirkham L, Macve R, Peasnell K (1992), *Goodwill and Other Intangible Assets*, ICAEW Research Board, pp1-93.

Arthur Andersen (1992), *The Valuation of Intangible Assets*, Economist Intelligence Unit, pp1-104

ASB (1995), *Responses to the Working Paper on Goodwill & Intangible Assets*, Accounting Standards Board, pp1-359 plus late responses.

ASB (1999), *Revised Financial Reporting Exposure Draft: Statement of Principles for Financial Reporting*, Accounting Standards Board, March, pp1-108.

Barker R (2004), Reporting Financial Performance, *Accounting Horizons*, Vol.18, No.2

Barth ME (2007), Standard-setting measurement issues and the relevance of research, *Accounting and Business Research*, Special Issue: International Accounting Policy Forum, pp7-15

Bertoni M, De Rosa B (2005), *Comprehensive income, fair value, and conservatism: A conceptual framework for reporting financial performance*, A paper for the 5th International Conference on European Integrations, Competition and Cooperation (Lovran, April 22-23, 2005, Contact: Michele.Bertoni@economia.unitn.it)

Bromwich M, Macve R, Sunder S (2005), *FASB/IASB Revisiting the Concepts: a comment on Hicks and the concept of 'income' in the conceptual framework*, A comment letter sent to International Accounting Standards Board as part of their "new conceptual framework project", 24 July, pp1-6

Catlett RC, Olson NO (1968), *Accounting for Goodwill*, AICPA Accounting Research Study No.10, AICPA, New York, pp17-18

Cauwenberge PV, De Beelde I (2007), On the IASB Comprehensive Income Project: An Analysis of the Case for Dual Income Display, *ABACUS*, Vol.43, No.1, pp1-26

Chambers RJ (1966), *Accounting Evolution and Economic Behavior*, Prentice Hall.

De Chernatony L and McDonald M (1992), *Creating Powerful Brands*, Oxford, Butterworth Heinemann, p9.

Falk H, Gordon LA (1977), Imperfect Markets and the Nature of Goodwill, *Journal of Business Finance & Accounting*, April, p450.

FASB (1984), Recognition and measurement in financial statements of business enterprises, *Statement of Financial Accounting Concepts No.5,* Financial Accounting Standards Board

FASB (1985), Elements of financial statements, *Statement of Financial Accounting Concepts No.6,* Financial Accounting Standards Board

Fisher I (1906), *The Nature of Capital and Income*, Reprints of Economic Classics, Augustus M Kelly Publisher, New York, reprinted 1965.

Guttierrez JM, Whittington G (1997), Some formal properties of capital maintenance and revaluation systems in financial reporting, *The European Accounting Review*, Vol.6, pp439-464

Gynther RS (1970), Capital maintenance, price changes and profit determination, *The Accounting Review*, Vol.45, pp712-730

Hall R (1991), The Contribution of Intangible Resources to Business Success, *Journal of General Management*, Vol.16, No.4, Summer, pp41-51

Hall R (1992), The Strategic Analysis of Intangible Resources, *Strategic Management Journal*, Vol.13, pp135-144.

Henning SL, Lewis BL, Shaw WH (2000), Valuation of the Components of Purchased Goodwill, *Journal of Accounting Research*, Institute of Professional Accounting, Vol.38, No.2, pp375-386

Hicks JR (1939), *Value and capital*, Oxford, UK: Clarendon Press

Hicks JR (1946), 'Income' + Chapter XIV of *Value and Capital* (2nd edition: Clarendon Press, 1946) reprinted in Parker RH, Harcourt GC, and Whittington G, *Readings in the Concept and Measurement of Income* (2nd edition: Philip Allan, 1986) as cited by Bromwich et al (2005), above.

Honoré AM (1961) Ownership. In Guest AG (ed) *Oxford Essays in Jurisprudence*, Oxford University Press, Ch.5.

IASB (2001), Framework for the Preparation and Presentation of Financial Statements, *International Financial Reporting Standards*, International Accounting Standards Board, April.

IASB (2003), *Reporting Comprehensive Income*, International Accounting Committee Foundation.

IASB (2004a), IFRS3 Business Combinations in *International Financial Reporting Standards 2004*, International Accounting Standards Board, pp291-370.

IASB (2004b), IAS38 Intangible Assets in *International Financial Reporting Standards 2004*, International Accounting Standards Board, para63.

IASB (2005a), *Measurement Bases For Financial Accounting – Measurement On Initial Recognition*, A discussion paper prepared by the Canadian Accounting Standards Board for the International Accounting Standards Board, November, pp1-146

IASB (2005b), Comment letters CL1 to CL82 on a discussion paper prepared by the Canadian Accounting Standards Board for the International Accounting Standards Board (IASB) on *Measurement Bases For Financial Accounting – Measurement On Initial Recognition*, obtained from IASB website www.iasb.org

IASB (2006a), Discussion Paper on *Fair Value Measurements Part2: SFAS157 Fair Value Measurements*, International Accounting Standards Board, November, pp1-pp1-96

IASB (2006b), *Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and the Qualitative Characteristics of Decision-Useful Financial Reporting Information*, International Accounting Standards Board

IASB (2006c), *World Standard Setters Meeting: Agenda Paper 1B*, Conceptual Frame work Project, International Accounting Standards Board, September, pp1-6.

IASB (2007), Information for Observers on Phase B Elements: Definition of an Asset (Agenda Paper 3), International Accounting Standards Board, www.iasb.org

Ijiri, Y (1975), *Theory of Accounting Measurement* (Evanston, Illinois: American Accounting Association).

Johnson LT, Petrone KR (1998), Is Goodwill an Asset?, *Accounting Horizons*, American Accounting Association, Vol.12, No.3, pp293-303

Keller KL (1993), Conceptualising, Measuring, and Managing Customer-Based Brand Equity, *Journal of Marketing*, Vol 57, Jan, pp1-22

Lev B (2001), *Intangibles – Management, Measurement, and Reporting*, Brookings Institution Press, Washington, pp1-213.

Lev B, Zarowin P (1999), The Boundaries of Financial Reporting and How to Extend Them, *Journal of Accounting Research*, Institute of Professional Accounting,Vol.37, No.2, pp353-385

Li SK (2002), Aggregating Capacity-Limiting Separable Inputs, *Southern Economic Journal*, Vol.69, No.2, pp470-478

McCarthy MG, Schneider DK (1995), Market perception of Goodwill: Some Empirical Evidence, *Accounting and Business Research*, Vol 26, No 1, pp69-81.

Napier C, Power M (1992) Professional Research, Lobbying and Intangibles: A Review Essay, *Accounting and Business Research*, Vol.23, No.89, pp85-95

Nelson RH (1953), The momentum theory of goodwill, *Accounting Review*, Oct, pp494-97

Newberry S (2003), Reporting Performance: Comprehensive Income and its Proponents, *ABACUS*, Vol.39, No.3

Paton WA, Littleton AC (1940), *An Introduction to Corporate Accounting Standards*, Ann Arbor, American Accounting Association Monograph No.3

Pigou AC (1935), Maintaining capital intact, in *Readings in the concept and measurement of income*, edited by Parker RH and Harcourt GC (1969), Cambridge University Press

Revsine L (1981), A capital maintenance approach to income measurement, *The Accounting Review*, Vol.56, No.2, pp383-389

Salvary SCW (1997), On Financial Accounting Measurement: A reconsideration of SFAC5 by the FASB is needed, *Journal of Applied Business Research*, Vol.13, No.3, pp89-104

Samuelson RA (1996), The Concept of Assets in Accounting Theory, *Accounting Horizons*, American Accounting Association, Vol.10, No.3, pp147-157

Schuetze WP (1993), What is an asset, *Accounting Horizons*, American Accounting Association, Vol.7, No.3, Sept, pp66-70.

Seetharaman A, Low KLT, Saravanan AS, (2004), Comparative justification on intellectual capital, *Journal of Intellectual Capital*, Vol.5, No.4, pp522-539

Tearney MG (1973), Accounting for goodwill: A realistic approach, *Journal of Accountancy*, July, pp44-45.

Tollington T (2001a), UK brand asset recognition beyond transactions or events, *International Journal of Strategic Management* (Long Range Planning), Elsevier Science Ltd., 2001, Vol.34, No.4, pp463-488.

Tollington T (2001b), The separable nature of brands as assets: The UK legal and accounting perspective, *European Intellectual Property Review*, Sweet and Maxwell, Vol. 23, No.1, pp1-13

Tollington T (2006), UK goodwill and intangible asset structuration: The FRS10 rule creation cycle, *Critical Perspectives on Accounting*, Vol.17, No.1, pp799-826

Tweedie DP, Whittington G (1984), *Capital maintenance concepts: The choice*, London UK: Accounting Standards Committee

Upton S (2001), *Business and Financial Reporting, Challenges from the New Economy*, Financial Accounting Series Special Report No.219-A, Financial Accounting Standards Board, April, pp1-135

Weetman P. (1989), *Assets and Liabilities: Their definition and Recognition*, ACCA Research Report No. 14, Certified Accountant Publications Ltd, London,

Whittington G (1974), Asset Valuation, Income Measurement and Accounting Income, *Accounting and Business Research*, Spring, pp96-101.

Whittington G (1981), The British contribution to income theory, in (eds) *Essays in British Accounting Research*, Chapter one, Pitman

Wood L (1995), Brands: The Asset Test, *Journal of Marketing Management*, The Dryden Press, Vol 11, No 6, Aug, pp547-570.

Wood L (1996), Added Value: Marketing Basics?, *Journal of Marketing Management*, The Dryden Press,Vol 12, pp735-755

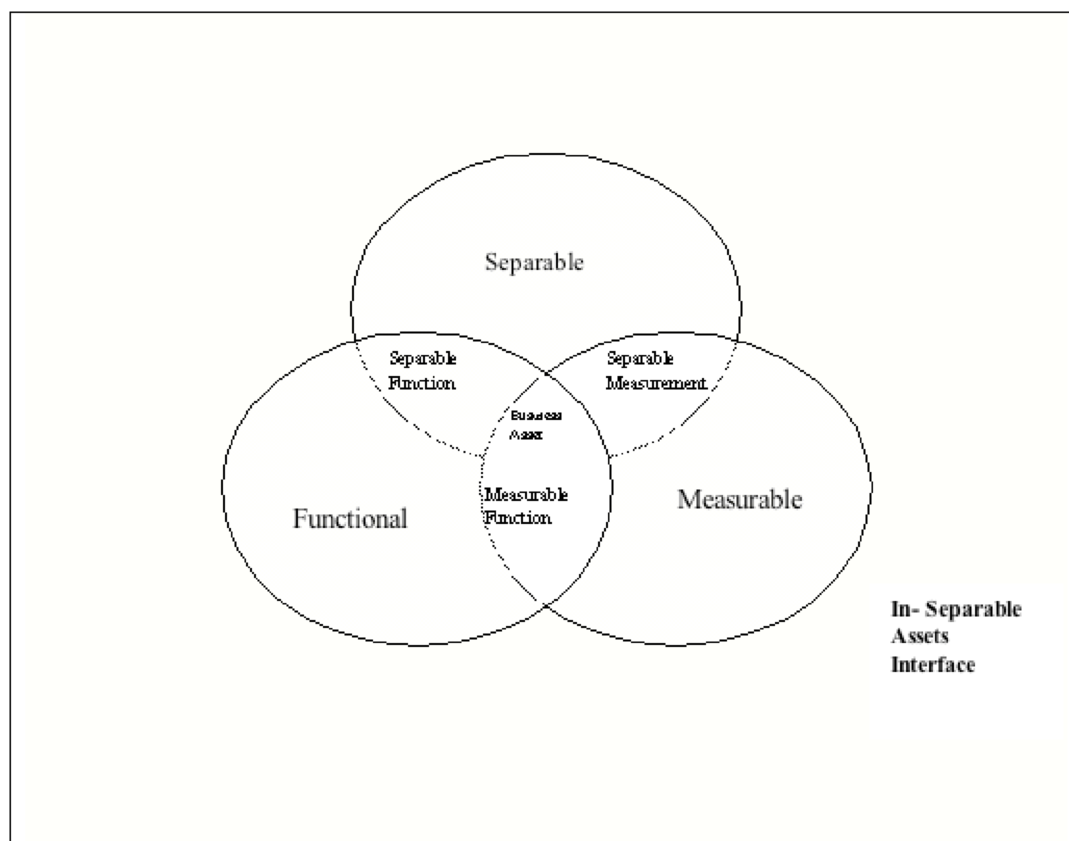

Figure1: The Boundary for the Recognition of Business Assets

Figure 2: The application of the asset criterion to the type of expenditure			
Criterion	**Purchased goodwill**	**Trademarked brand**	**Advertising**
Separable Function:			
a. Right to control	No	Yes	Yes
b. Right to future use	Yes	Yes	No
c. Right to security	No	Yes	No
d. Capability of transference	No	Yes	Yes
e. The absence of a duration	No	Yes	No
f. The prohibition of harmful use	Yes	Yes	Yes
g. The liability to execution	No	Yes	No
h. The right to a residuary character	No	Yes	No

Measurable Function:			
i. The right to capital	No	Yes	Yes
j. The right to discharge capital	No	Yes	Yes
k. The right to income	Yes	Yes	Yes
Separable Measurement:			
l. Additive measurement method	No	No	Yes
m. Observed measurements only	Yes	No	Yes
n. Bundles of assets disallowed	No	Yes	Yes